



STAFF REPORT ACTION REQUIRED

7.

2013 Operating Budget Submission

Date:	September 12, 2012
To:	Budget Committee
From:	City Librarian

SUMMARY

The purpose of this report is to present to the Budget Committee the 2013 operating budget submission of \$164.917 million net (\$180.370 million gross), which represents a 0.3% increase over the 2012 budget and includes:

- a) cost pressures of \$2.729 million gross and net, which represent a 1.7% increase from the 2012 operating budget;
- b) additional revenues, efficiencies and other savings totalling \$2.299 million net, which represent a 1.4% decrease; and
- c) a budget shortfall of \$0.430 million net or 0.3% required to meet the target of 0% increase.

The Toronto Public Library Program Overview and Performance Measures are also provided in this report.

RECOMMENDATIONS

The City Librarian recommends that the Budget Committee recommends that the Toronto Public Library Board:

1. approves the 2013 operating budget submission of \$164.917 million net (\$180.370 million gross), which represents a 0.3% net increase over the 2012 budget.

FINANCIAL IMPACT

The Library's 2013 operating budget funding request is \$164.917 million net (\$180.370 million gross), which represents a 0.3% increase over the 2012 budget and includes cost pressures of \$2.729 million net (1.7%), offset by savings from additional revenues, efficiencies and other reductions totalling \$2.299 million net (1.4%).

The 2013 operating budget submission exceeds the City's target of 0% increase by \$0.430 million net or 0.3% and if other savings cannot be found, then this may result in a reduction to the collections budget to meet target.

As per City guidelines, the operating budget submission does not include any provision for the cost of the non-union market rate adjustment for 2013. The guidelines also state that the 1.5% lump sum in 2013 for bargaining unit staff, at a cost of \$1.5 million, will be budgeted corporately at the City.

The Director, Finance and Treasurer has reviewed this financial impact statement and is in agreement with it.

DECISION HISTORY

The budget guidelines received from the City specify a 2013 budget increase target of 0%, which means that savings need to be found to offset cost pressures.

At the meeting on May 28, 2012, the Board adopted the following recommendation:

That the Toronto Public Library Board requests a report regarding increasing the Library collections annual draw from the development charges reserve of up to \$250,000 per year and how this might be incorporated into the capital plan and the operating budget to accommodate a potential expansion in open hours starting in 2013.

This 2013 *Operating Budget Submission* report includes additional revenues of \$250,000 resulting from increasing the annual draw from the development charges reserve from \$1.750 million to \$2.000 million to fund Library materials to meet the service needs of population growth.

BACKGROUND

In 2012, City Council launched a series of service reviews and Toronto Public Library (TPL) participated in the Core Services Review, Service Efficiency Studies and User Fee Review, the outcome of which has been reported to the Board and is reflected in the 2012 approved budget and 2013 budget submission.

During the 2012 operating budget process, TPL identified a multi-year budget reduction program that included the elimination of 107 full-time equivalent positions (FTEs) and the 2012 impact is summarized below:

BUDGET REDUCTIONS Efficiencies and Revenue Increases	2012				
	APPVD	GROSS	REVENUE	NET DECREASE	
	STAFF	\$000s	\$000s	\$000s	%
Detailed Budget Review / Capital Budget Adjs.	2.0	865.7	0.0	865.7	0.5%
Revenue Increases	0.0	(19.0)	1,524.0	1,505.0	0.9%
Service Consolidations	17.2	1,704.9	0.0	1,704.9	1.0%
Technology Driven Efficiencies	33.8	2,082.8	0.0	2,082.8	1.2%
Business Process Re-engineering Using Lean Six Sigma	45.0	3,147.7	0.0	3,147.7	1.8%
Management and Support Staff Reductions	9.0	764.1	0.0	764.1	0.4%
	107.0	8,546.2	1,524.0	10,070.2	5.9%

A total of 107 FTEs were eliminated under the terms of the Voluntary Separation Program (VSP). The technology-driven efficiencies were to be implemented over 2012 and 2013, with full savings to be achieved by 2014.

The Library is participating in a City-wide service review program to look at examining opportunities for increasing shared service approaches for human resources / labour relations, information technology, purchasing and materials management and real estate services. The City Manager has engaged an external consultant, KPMG, to perform the review, and a report on the findings is expected later this year.

City Council also requested the City Manager to undertake a study of community infrastructure provided through the City's libraries, community centres, community hubs, related agencies and organizations, and report to Executive Committee on a plan that maximizes the use of the City's assets, and enhances service system coordination. As more information becomes available on this study, the Board will be updated.

COMMENTS

Context of Budget Request

Increasing Demand

Over the past ten years, 2002 – 2011, total library usage has increased by 19.7% from 82,346,318 million to 98,606,786 million uses. Total usage is comprised of circulation, program attendance, in library use, reference requests, visits, workstation users, wireless use, electronic reference requests, licensed database searches and virtual visits.

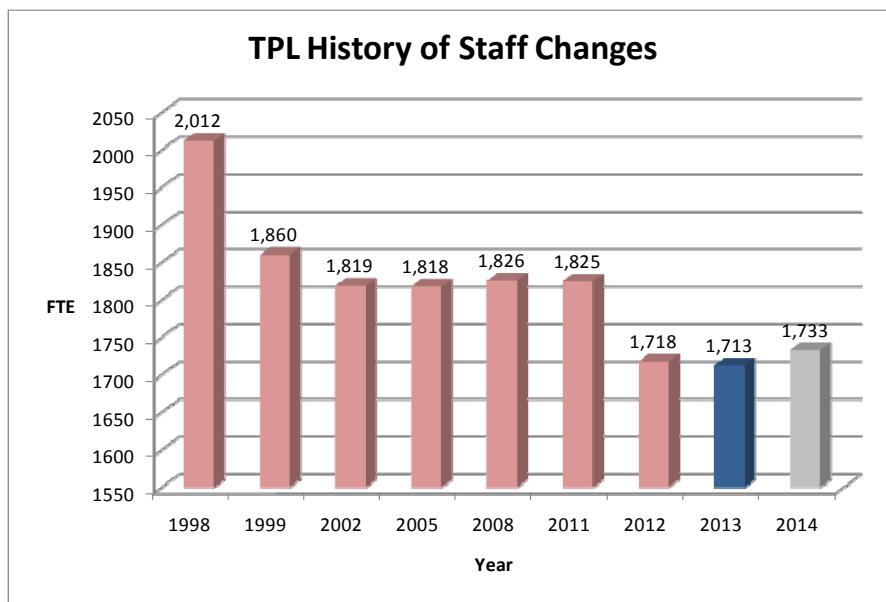
Patterns of use have shifted over time in response to residents' needs; many indicators have increased while a few have decreased. Circulation has increased 13.8% and visits to Library branches have also increased by 4.9% while use of Library collections in branches and the number of reference questions have declined.

Traditional services have grown and evolved while use of newer services, including access to the Library's website, circulation of ebooks and access to computer workstations and wireless service have increased dramatically.

The introduction of new technologies, including RFID self-service circulation and more online services has enabled the Library to manage growth in usage efficiently, while demand for traditional and new services continues to grow.

History of Staff Changes

Through its commitment to continuous improvement and service efficiencies, the Library has managed the increased service demand while reducing staff by 15% since amalgamation, including the elimination of 107 FTEs in 2012 and a further 4.5 FTEs in 2013, which was previously approved.



The chart above shows the historic staffing trend as well as the anticipated impact in 2014 from the opening of the two new branches, Fort York and Scarborough Civic Centre.

2013 Operating Budget Submission

The 2013 operating budget guidelines for the Library include an operating budget target of 0% increase.

The Library's 2013 operating budget funding request is \$164.917 million net (\$180.370 million gross), which represents a 0.3% increase over the 2012 budget and includes cost pressures of \$2.729 million net (1.7%), offset by savings from additional revenues, efficiencies and other reductions totalling \$2.299 million net (1.4%). The additional revenues include \$0.250 million resulting from increasing the annual draw from the

development charges reserve from \$1.750 million to \$2.000 million to fund Library collections to meet the service needs of population growth.

	STAFFING FTE	GROSS	REVENUE	NET BUDGET	
				\$000s	%
2012 Approved Budget	1,717.9	179,414.3	14,927.3	164,487.00	
2013 Pressures					
Staffing costs		1,752.6		1,752.6	1.1%
Economic adjustments and other		976.6		976.6	0.6%
	0.0	2,729.2	0.0	2,729.2	1.7%
Revenues, Efficiencies and Other Reductions					
Incr. development charges for collections		(250.0)		250.0	0.2%
Other revenue increases		(276.0)		276.0	0.2%
Technology efficiencies	4.5	562.5		562.5	0.3%
Additional cost savings		1,211.0		1,211.0	0.7%
	4.5	1,773.5	(526.0)	2,299.5	1.4%
2013 Net Budget Increase	(4.5)	955.7	526.0	429.7	0.3%
2013 Operating Budget Request	1,713.4	180,370.0	15,453.3	164,916.7	0.3%
2013 Operating Budget Target - 0% increase				-	0.0%
Shortfall from 0% target				429.70	0.3%

The 2013 operating budget submission exceeds the City's target of 0% increase by \$0.430 million net or 0.3%, and if additional other savings cannot be found, then this may result in a service reduction to meet target.

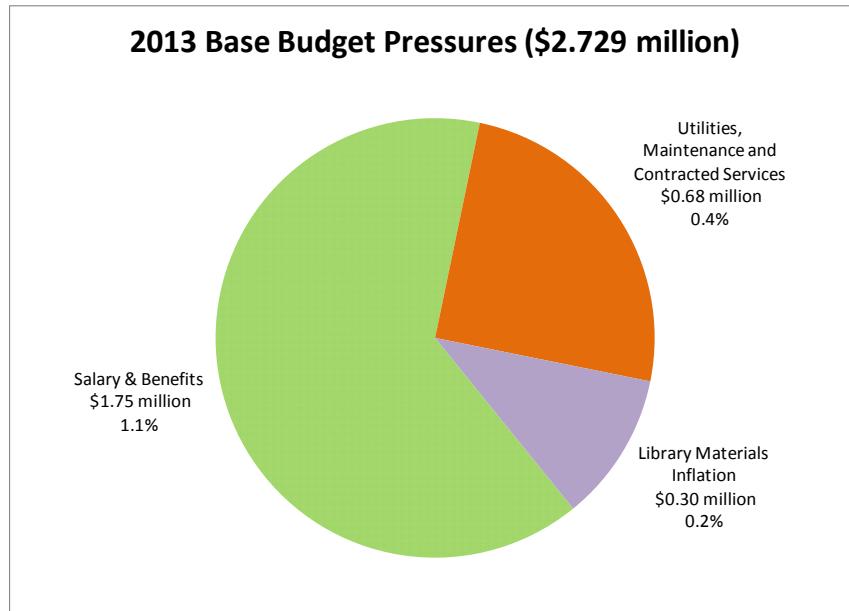
2013 Operating Budget Pressures

The 2013 budget submission includes budget pressures of \$2.729 million (Attachment 1) or 1.7%, comprised of:

- salary and benefits increases of \$1.753 million, comprised of a \$0.948 million increase for the OMERS contribution rate, other benefits increases of \$0.215 million and salary costs of \$0.590 million;
- cost increases totalling \$0.678 million comprised of utilities (\$0.321 million), building maintenance, contracted services and supplies;
- \$0.299 million for the estimated inflationary increase for Library collections.

As instructed by the City, the 2013 operating budget request does not include any provision for the cost of the non-union market rate adjustment.

The following chart highlights the cost pressures in the 2013 base budget increase.



Attachment 1 also shows the budget outlook for 2014 and 2015, which includes the operating impact of the two new branches amounting to \$0.973 million in 2014 and an additional \$1.018 million in 2015.

2013 Operating Budget Reductions

The 2013 budget submission includes annual budget reductions totalling \$2.299 million (1.4%) and the elimination of 4.5 full-time equivalent positions (FTEs) previously approved, which do not impact service. These budget reductions are summarized below:

2013 OPERATING BUDGET REDUCTIONS

	2013 Savings		
	FTEs	\$000s	%
Revenue increases		526.0	0.3%
Technological efficiencies (approved in 2012 budget)	4.5	562.5	0.3%
Additional cost savings		1,211.0	0.7%
	<u>4.5</u>	<u>2,299.5</u>	<u>1.4%</u>

Revenue Increases

In 2012, TPL implemented significant increases to nearly every fine and user fee, including lowering the thresholds for using the collection agency, and introduced a new fine for holds not picked up. Fines and fees were increased by \$0.600 million, which represents an increase of 19%. Partly due to the labour disruption in March 2012, and also due to the scope and nature of the changes being implemented in 2012, it is difficult to predict the full impact of the changes on future revenues and whether the budget will

be achieved. The full impact of the changes on revenues will not be known until after the 2012 year-end. Staff has identified \$0.526 million (0.3% of the total net budget) of additional revenues for 2013.

Revenue increases	2013 Incremental revenues		
	FTEs	\$000s	%
Increase development charges draw for collections		250.0	0.1%
Room rentals rate increase - annualization		50.0	0.0%
TRL café lease		20.0	0.0%
Parliament St. branch leases		65.0	0.1%
On-line books sales and advertising revenue		100.0	0.1%
Provincial Basic Skills grant		41.0	0.0%
		276.0	0.2%
		526.0	0.3%

Increased revenue opportunities have been identified in the following areas:

- the additional revenues include \$0.250 million resulting from increasing the annual draw from the development charges reserve from \$1.750 million to \$2.000 million. Development charges are fees imposed on new residential and non-residential development in the City, in order to partially pay for the capital costs required to provide municipal services to the new development and population growth. Under the Development Charges By-law, development charges can be used to partially fund Library collections to meet the service needs of population growth. Based on current revenue projections and future draws for growth-related capital projects, a financial analysis of the adequacy of the development charges reserve shows that the higher annual development charges draw of \$2 million is sustainable. The adequacy of the development charges reserve is reviewed annually during the budget process, and all draws from reserves require Council approval;
- the room and theatre rental rates were increased during 2012, which will also generate additional revenues in 2013 for the full year impact;
- an increase in the cafe lease at TRL will generate \$0.020 million of additional revenues in 2013;
- Two leases were signed with not-for-profit organizations located at the Parliament Street Branch, for total revenues of \$0.060 million;
- In 2012 TPL will be entering into affiliate programs with retail book sellers for on-line book sales. A TPL customer will have access to purchasing a book on-line from the Library's website and a fee will be earned by the Library. In addition, TPL is expanding its advertising program, including advertising in What's On and on the back of date due slips. While it is difficult to estimate the revenue potential from these areas, the 2013 revenue budget has been increased by \$0.100 million;
- A \$0.041 million increase in a Provincial grant for literacy will become permanent funding.

Technological Efficiencies

Technology efficiencies were approved in 2012, comprised of implementing self-service technology (RFID) and automated sorters at a number of locations, to be implemented over 2012 to 2013. The total 2013 net savings from technology-driven efficiencies is \$0.562 million (0.3%), including the elimination of 4.5 FTEs previously approved.

	2013 Incremental savings		
	FTEs	\$000s	%
Technological Efficiencies			
2012 Implementation			
Installation of Sorters		342.9	
Self Check-out (RFID)		59.6	0.0%
	0.0	402.5	0.2%
2013 Implementation			
Fairview sorter		4.5	0.1%
	4.5	160.0	
		562.5	0.3%

Technology savings arise in the following areas:

- the 2012 budget included the implementation of sorters at several locations and some of the net savings impact 2013;
- similarly, the implementation of self service check-out RFID in a number of branches resulted in savings, which impact 2013;
- the Fairview sorter, which was approved as part of the 2012 budget process, is planned for implementation in 2013 and will result in the elimination of 4.5 FTEs. The total net savings will be \$0.262 million of which \$0.160 million will impact 2013.

Additional Cost Savings

Staff has undertaken a detailed line-by-line budget review and analyzed all significant contracts in order to find additional savings. Based on current spending and projections to year-end, staff has identified additional savings totalling \$1.211 million (0.7%) in 2013, which will be used to reduce the budget.

	2013 Incremental savings		
	FTEs	\$000s	%
Additional Cost Savings			
Additional staff cost savings resulting from VSP		400.0	0.2%
SOLS consortium purchasing - collections savings		300.0	0.2%
Savings in library material processing and supplies		215.0	0.1%
Security guard contract - one-time saving		170.0	0.1%
Lower janitorial contract		86.0	0.1%
Lower telecommunications cost due to staff reductions		20.0	0.0%
Lower mileage/TTC/parking due to staff reductions		10.0	0.0%
Cataloguing support - international consortium membership		10.0	0.0%
		1,211.0	0.7%

The \$1.211 million of budget reductions are comprised of:

- to assist with achieving the 5.9% budget reduction in 2012, City Council agreed to fund a Voluntary Separation Program (VSP) for the Library. In total, 112 voluntary separations were approved, which represented 107 FTEs, including 10 non-union positions, and staff left the Library by the end of March 2012 under the terms of the VSP. To manage the departing staff and eliminate the 107 positions, a number of departments were restructured and the redeployment provision under the collective agreement was invoked. With redeployment completed in August 2012 and the salary distortions caused by the March labour disruption, the full impact of the VSP will not be known until later in the year. Early indications are that salary savings are greater than expected, mainly because staff at higher salary grades left the organization. The 2013 budget is being reduced by additional VSP-related savings of \$0.400 million;
- as a member of the Southern Ontario Library Services (SOLS) consortium for purchasing of electronic materials leveraged by Provincial funding, TPL will be able to save \$0.300 million on the purchase of electronic databases;
- for the 2012 budget, staff received training in Lean Six Sigma methodologies and applied them to find process improvements in the procurement and inventory management processes resulting in significant budget savings. Through the line-by-line budget review and lower cost of RFID tags, additional 2013 savings of \$0.215 million have been identified in the Library materials processing and supplies;
- at the meeting on June 25, 2012, the Library Board approved a security guard contract and resolution of confidential matters that resulted in a one-time budget relief of \$0.170 million in 2013;
- a new janitorial contract was awarded towards the end of 2011, which will result annual savings of \$0.086 million;
- there are savings in telecommunication costs due to reduced staffing levels;
- travel costs (mileage, TTC and parking) mainly for relief staff travelling between branches, will be reduced due to lower staffing levels;
- TPL is a member of an international cataloguing consortium which will result in savings in cataloguing support.

2012 Operating Budget Target – 0% Increase

After applying the \$2.299 million (1.4%) of revenue increases, technology efficiencies and other cost savings described above, a further budget reduction of \$0.430 million (0.3%) is required to meet the target of 0% increase. Staff will continue to seek additional budget savings to meet the target.

If additional savings cannot be identified and a service reduction is required, it is recommended that there be a reduction to the collections budget. The 2013 budget pressures include a \$0.299 million economic adjustment for collections, therefore, a \$0.430 million reduction would result in a net decrease to the collections budget of \$0.131 million, which represents 0.1% of the \$17.4 million budget. Any reduction to the 2013 collections budget will be allocated to minimize the impact on the public.

Because the budget target of 0% increase has not been met, no expansion of open hours is proposed at this time.

2013 Program Overview

The 2013 Program Overview is a requirement for the budget submission and is included as Attachment 2, comprised of:

- mission statement;
- program map;
- key services;
- 2013 program strategic directions;
- key challenges and opportunities;
- 2012 key accomplishments;
- performance measures;
- benchmarking; and
- service outcomes.

Performance measures charts describe the results and targets for key indicators such as visits and use per capita and also contextual information comparing Toronto Public Library results with results from other Ontario municipalities.

Timetable

The timetable for the review of the 2013 operating budget is shown on Attachment 3. The budget will be launched by Budget Committee on November 29, 2012, with Council approval on January 15 - 17, 2013.

CONTACT

Larry Hughsam; Director, Finance & Treasurer; Tel: 416-397-5946; Fax: 416-393-7115; E-mail: lhughsam@torontopubliclibrary.ca

SIGNATURE



Jane Pyper
City Librarian

ATTACHMENTS

- Attachment 1: Preliminary 2013 - 2015 Operating Budget Pressures
- Attachment 2: 2013 Program Overview
- Attachment 3: 2013 Operating Budget Timetable