



STAFF REPORT ACTION REQUIRED

2013 Operating Budget Surplus

Date:	May 27, 2013
To:	Toronto Public Library Board
From:	City Librarian

SUMMARY

The purpose of this report is to respond to the Toronto Public Library Board's request for options for spending the potential 2013 operating budget surplus. As a result of this request, staff has undertaken a review of policies and practices related to operating surpluses.

The expectation by the City and long-standing practice at TPL has always been to return operating surpluses to the City, given that the City funds 92% of the Library's operating budget and has provided extraordinary funding to cover specific requirements. Operating surpluses can be used by the City to balance the next year's budget. In addition, in 2004, Council adopted a *City Policy on Managing Operating Budget Surpluses* that is applied to any portions of the City's surplus that is in excess of the amount required to balance the budget.

The Public Libraries Act requires the Board to submit its budget in a form as specified by Council, and the Council-approved budget must be adopted by the Board. The Board is required to spend the budget as approved; the only way for the Board to vary in the spending of its budget is to request Council approval to do so.

The Library is expected to manage in-year budget pressures within the approved budget. Since the Library is only in the second quarter of the fiscal year, it is difficult to anticipate the extent of pressures for the remainder of the year. Based on all these considerations, it is recommended that the Board consider the options for spending the potential surplus and defer any request for City Council approval to later in the year when the second quarter variance results are available.

RECOMMENDATIONS

The City Librarian recommends that the Toronto Public Library Board:

1. considers the options for spending the potential operating budget surplus; and
2. defers any request for City Council approval to later in the year when the second quarter variance results are available.

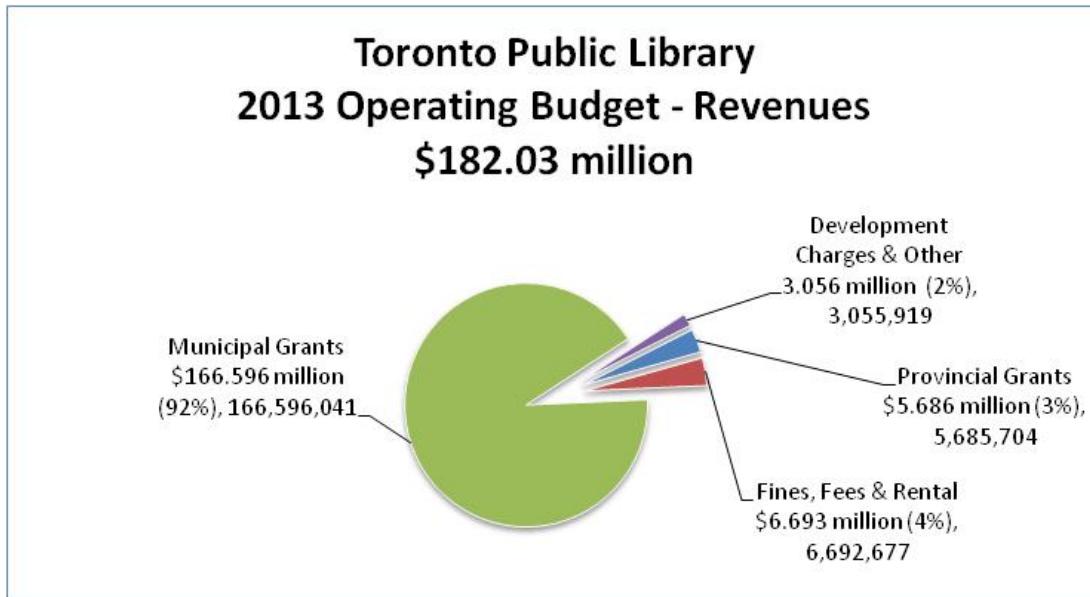
FINANCIAL IMPACT

The Library is currently projecting a year-end operating surplus of \$0.250 million primarily as a result of staffing cost savings. The surplus may increase towards the end of the year, and if the Board wishes to spend any portion of the projected surplus on additional or enhanced services, a request to seek Council approval would be required.

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

BACKGROUND

The City funds the majority (92%) of TPL's operating budget.



In addition, the City issues debt to fund approximately 60% to 80% of the Library's capital program each year.

DECISION HISTORY

At its meeting on April 29, 2013, the Board reviewed the *Operating Budget Monitoring Report – March 31, 2013* and approved a motion that:

requests staff to report back to the next meeting on the options, including e-book access, for spending potential surpluses from savings and efficiencies identified in the Operating Budget Monitoring Report – March 31, 2013.

COMMENTS

Public Libraries Act

Section 24 of the Public Libraries Act (PLA) deals with the process for budget approval and expenditure. Section 24(1) requires the Board to submit its budget in the form specified by Council in respect to all sums required by the Board during the year. Under subsection 24(2) Council can approve the budget as submitted but it can also amend the budget. Subsection 24(3) provides that the Library Board “shall apply the money paid to it...in accordance with the estimates as approved, subject to subsection 24(4)”.

Subsection 24(4) provides that, in approving the Board’s budget or when requested by the Board, Council may “authorize the board to apply a specified amount or percentage of the money paid to it otherwise than in accordance with the estimates as approved”.

As part of the annual budget submission process, the City provides forms and templates that need to be completed with detailed budget information including: salaries of each position in the workforce; expenditure categories including salaries, benefits, utilities, contracted services, etc.; expenditures by service; and business cases to support cost and revenue changes. A program map is also produced that identifies TPL’s service lines and related activities.

Extensive details are contained in the Financial Analyst Notes that are part of the Council approval process. The Service Overview and Plan section includes the program map and identified services and activities, as well as service levels for open hours, collections and programs. A copy of the TPL 2013 Analyst Notes for the operating budget can be found at:

http://www.toronto.ca/budget2013/pdf/op13_an_tpl.pdf

The PLA states that the Board is required to expend funds in accordance with the budget as approved and can only vary with Council’s permission. The Library also cannot establish reserve funds or contribute an operating surplus to a reserve fund without City Council approval.

Service Levels

In 2007, the City introduced a new financial planning process that includes the service plan, operating budget and capital budget. The service plan is intended to be a tool that supports informed decisions around: services and service levels; best use of available resources to achieve corporate goals; and cost effective delivery approaches.

Library services and service levels are part of the operating budget submission and are approved by Council. Furthermore, as part of Council approval for the 2013 operating budgets, a recommendation was added for each department and agency that approved identified services and staffing levels. For TPL, the wording of the recommendation was:

City Council approve Toronto Public Library's services as outlined on page 3 of the 2013 Recommended Operating Budget (Operating Budget Analyst Notes) for Toronto Public Library, and the associated staff complement of 1,713.4 positions...

City Policy on Managing Operating Budget Surpluses

Subsection 228(5) of the City of Toronto Act allows the City to use the surplus from the previous year as part of estimated revenues for balancing the current year's budget. If a portion of the prior year's surplus is not required to balance the current year's budget, the *City Policy on Managing Operating Budget Surpluses* is applied.

At the meeting on September 28, 29, 30 and 31 and October 1, 2004, Council adopted a *City Policy on Managing Operating Budget Surpluses* report that included the following recommendation:

Starting with fiscal 2005, for any surplus, the Chief Financial Officer and Treasurer be authorized....to apply any additional surplus, in priority order to:

- a) Capital Financing Reserve Fund (at least 75% of the additional surplus); and*
- b) The remainder to fund any under-funded liabilities, and/or reserves/reserve funds as determined by the Chief Financial Officer and Treasurer.*

Any annual TPL operating surplus is returned to the City and applied as described above.

Options for Spending Surplus

The Library is expected to manage in-year budget pressures within the approved budget. Such pressures may include higher than expected utility costs due to weather conditions and unanticipated emergency repairs such as elevator repairs. Since the Library is only in the second quarter of the fiscal year, it is difficult to anticipate the extent of pressures for the remainder of the year. It is recommended that the Board consider the options for spending the potential surplus and defer any request for City Council approval to later in the year when the second quarter variance results are available. A request to Council for approval to spend the potential surplus, should be for a one-time cost that would not create a budget pressure in the following year. One-time expenditures that would advance the Board's approved strategic objectives are:

- \$0.100 to \$0.500 million to acquire additional e-collections in 2103, which is experiencing a high growth rate in usage, and increasing the availability of e-book titles from major publishers.
- \$0.100 million to acquire equipment for print-on-demand services for self-publishing. A print on demand service is another Board strategic objective that supports writers and responds to the growing demand for self-publication. It also has potential to create an alternate revenue stream to support sustainable library services. Using 2013 surplus funds for the investment in the necessary equipment, (the book maker, printer, five year license, delivery, installation and training) would allow the new service to begin to generate net revenue in its first year following implementation.

CONCLUSION

There is an expectation by the City and a long-standing practice at the Library to return operating budget surpluses to the City. The City uses the operating surplus to balance the next year's budget, and for any remaining budget surplus, the *City Policy on Managing Operating Budget Surpluses* is applied.

The PLA requires the Board to submit its budget in a form as specified by Council. The Board is required to spend the budget as approved, which includes specified services and service levels. The only way for the Board to vary in the spending of its budget, is to request Council approval to do so.

It is recommended that the Board consider the options for spending the potential surplus and defer any request for City Council approval to later in the year when the second quarter variance results are available.

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SIGNATURE

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