

## Potential Operating Budget Cost Savings

<b>Date:</b>	December 15, 2014
<b>To:</b>	Toronto Public Library Board
<b>From:</b>	Acting City Librarian

### **SUMMARY**

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The purpose of this report is to respond to the Toronto Public Library Board motion to undertake a further review of potential operating budget cost savings that do not affect service levels.

Toronto Public Library (TPL) continues to improve services and respond to increasing, changing and new service demands, while controlling costs through the implementation of efficiencies, innovation and new technology.

A modern efficient public service which is flexible and responsive to the needs of residents and communities is achieved through strategic service plans that are specific and measurable, innovative and efficient. A number of initiatives are in progress with a view to enhancing services while maximizing efficiency and effectiveness of operations, with potential savings for the 2016 budget.

### **RECOMMENDATION**

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**The Acting City Librarian recommends that the Toronto Public Library Board;:**

1. approves staff to continue working on initiatives to improve operational efficiency and effectiveness, and incorporate any savings as part of the 2016 operating budget process.

### **FINANCIAL IMPACT**

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A number of initiatives are in progress with a view to maximizing efficiency and effectiveness of operations, with potential savings for the 2016 budget.

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

## DECISION HISTORY

At the meeting on November 17, 2014, the Library Board approved the 2015 Operating Budget Submission and adopted the following motion:

*requests the City Librarian to undertake a further review of potential operating budget cost-savings that do not affect service levels, and report to the Board at the December meeting.*

## BACKGROUND

### Efficiencies and Increased Revenues

Toronto Public Library (TPL) continues to improve services and respond to increasing and changing service demands, while controlling costs and reducing staff through the implementation of efficiencies, innovation and new technology. TPL has experienced a significant increase in use, improved services and expanded open hours, including the opening of three branches by 2015, while reducing staff by 14%. Including the approved 2015 budget submission, over the past four years, TPL's net budget has remained virtually flat with a 0.2% increase, which is 93% below the rate of inflation. TPL has also successfully leveraged external partnerships and financial support from the TPL Foundation to extend and enhance library services in a fiscally responsible and operationally effective manner.

Some of the more significant efficiencies achieved to date include:

- In 1999 and 2000, 199 positions were deleted;
- Through efficient scheduling, 155.5 hours of weekly service were added with no increase in staffing;
- 111 positions reduced in 2012 and 2013 from efficiency initiatives:
  - the introduction of self-service technology at all branches and automated sorters at 13 branches, and a central sorter at 1076 Ellesmere resulted in efficiencies which were reinvested in expanding open hours by 177.5 hours per week at 29 branches with no additional funding, and also used to reduce the operating budget by \$2.7 million and eliminating 38 staff positions;
  - Utilizing Lean Six Sigma techniques, reengineered business processes in Procurement and Inventory Management, and Holds Efficiency Project eliminating approximately 45 positions;
  - Service consolations for the Urban Affairs Library, distribution hubs, mobile library service and various departments in the Toronto Reference Library reducing approximately 19 positions;
  - Reviewed and restructured management and support staff reducing nine positions.
- Justified higher development charges (DC) funding from developers for collections and certain IT infrastructure as part of the DC background study and By-law. This increased DC funding has offset the collections economic adjustment budget pressure and allowed reduced funding from the operating budget for the Technology Asset Management Program, which has also provided operating budget relief;

- By leveraging its considerable purchasing power and participating in provincial consortiums, TPL obtains preferential pricing for collections and electronic databases;
- Expenditure reductions from open competitive procurement processes and by taking advantage of City and Provincial contracts with preferential pricing. Examples of contracts that experienced a significant cost decline are wifi service, Internet service provider and library cards;
- Annual line-by-line review of budget spending to identify areas for savings;
- Increased revenues, including new and higher fines, higher tenant revenue, advertising revenue, more stringent collection agency measures, additional donations of saleable materials, and new sources of revenues such as the café, gift shop and self-publishing at Toronto Reference Library;
- TPL has a number of strategic partnerships that provide grant funding and other trained resources to extend as well as offer new services. For example, in 2015 the Toronto Arts Council will provide \$200,000 for the Artist in the Library program and Toronto Public Health will support health information in the Library with \$50,000 of funding;
- The TPL Foundation has increased its support for collections, programs and facilities, including the Toronto Reference Library Revitalization, which expands and enhances services.

### **2015 Operating Budget Submission**

At its meeting on November 17, 2014, the Board approved a 2015 Operating Budget Submission, which represents a 2.0% increase and would: maintain existing services and service levels (with reduced security guard service); introduce a number of efficiencies, cost control measures and revenue increases; and respond to increasing demands – in particular, for electronic services – and make progress on a number of important strategic priorities, including:

- Opening the Scarborough Civic Centre library;
- Implementing programs that support the early and middle childhood initiatives;
- Launching several new Digital Innovation Hubs along with maker programming at various branches;
- Expanding access to more e-content;
- Launching a redesigned web presence for young children and parents;
- Supporting the Pan Am / Para Pan Am games through major program initiatives;
- Streamlining the use of barcode labels and RFID tags;
- Increasing efficiencies and cost control measures in services, materials processing, supplies and licences;
- Increasing revenues from self-publishing printing, and development charges.

## 2015 OPERATING BUDGET SUBMISSION

Board Approved - November 17, 2014

(\$000s)

	<u>Gross</u>	<u>Revenue</u>	<u>Net</u>	<u>%</u>
<b>2014 Approved budget</b>	<b><u>184,220.1</u></b>	<b><u>16,582.7</u></b>	<b><u>167,637.4</u></b>	
Budget pressures				
Cost increases	5,074.3	24.0	5,050.3	3.0%
Fines revenue shortfall		(775.0)	775.0	0.5%
	<u>5,074.3</u>	<u>(751.0)</u>	<u>5,825.3</u>	<u>3.5%</u>
Budget reliefs				
Efficiency and expense savings	(898.4)	(16.6)	(881.8)	-0.5%
Revenue increases	-	520.0	(520.0)	-0.4%
	<u>(898.4)</u>	<u>503.4</u>	<u>(1,401.8)</u>	<u>-0.9%</u>
Subtotal Budget Increase before other reliefs	4,175.9	(247.6)	4,423.5	2.6%
Other budget reliefs				
Reduce security guard budget to \$1 million	(513.0)		(513.0)	-0.3%
Incr. draw from development charges for collections		507.0	(507.0)	-0.3%
<b>Subtotal Budget Increase</b>	<b><u>3,662.9</u></b>	<b><u>259.4</u></b>	<b><u>3,403.5</u></b>	<b><u>2.0%</u></b>
<b>Board approved 2015 operating budget submission</b>	<b><u>187,883.0</u></b>	<b><u>16,842.1</u></b>	<b><u>171,040.9</u></b>	<b><u>2.0%</u></b>

The Board-approved budget submission has been communicated to the City and the City Manager will be making his recommendations regarding TPL's budget in early 2015. Indications are that the \$0.507 million additional draw from the development charges reserve for collections may not be recommended.

## COMMENTS

Staff are working on a number of initiatives with a view to maximizing efficiency and effectiveness of operations. Any potential savings will likely impact the 2016 budget year or later, but will need to be balanced within the context of continuing budget pressures related to collections and revenues, and with TPL's ability to respond to the changing nature of library services, new service demands and strategic plan priorities.

### Workflow Efficiencies

Self-service circulation using RFID technology has contributed significantly to increased efficiency at TPL, allowing for a reduction in positions at the same time that hours have been expanded. Self-service check-out is available at all TPL branches and all circulating library materials have been RFID tagged. Capital funding for an automated materials handling system at the Ellesmere sorting hub included the elimination of two positions. The sorter builds on the initial investment in RFID tagging to allow greater efficiencies at the sorting hub and in the branches. The system will shorten delivery cycle time, improve accuracy, and reduce materials handling and sorting. Following the installation of the hub sorter in late 2014, a review of its operational impact on workflow throughout TPL will be undertaken to optimize efficiency and identify any further potential savings. This work will be undertaken during the first half of 2015 and may have implications for the 2016 budget.

Other self-service options for customers are also being investigated to further increase efficiency and contain costs. Initiatives include the promotion of the recently implemented online fine payment service; development and implementation of online registration; and the introduction of online room booking. As with self-service circulation, a capital investment will be required to achieve increased efficiency and contain costs in future budget years.

### **Changing Nature of Library Service**

A modern efficient public service that is flexible and responsive to the needs of residents and communities is achieved through strategic service plans that are specific and measurable, innovative and efficient. The ability to adapt and change will continue to be integral to the Library's success as work begins on the next strategic plan in 2015. Many changes that affect the way TPL delivers its core services and moves forward with its strategic initiatives are underway. Circulation of e-collections is growing at the same time that physical materials remain in demand. Reference service is changing as customers seek assistance accessing digital information, including ebooks. Computers and wireless remain popular in library branches, while interest in mobile access grows. Programming for all ages is popular, especially Ready for Reading and middle childhood programming, digital innovation programming and programs for seniors.

The Library as a physical location with long hours and attractive and welcoming spaces is important to many customers. Other customers access the service virtually. For example, reference services traditionally delivered over the desk are now transitioning to online channels, as staff offer readers advisory service and literary programming online at Book Buzz on the TPL website as well as in person in the branches; digital media skills are used to support customers seeking information and to connect with communities through blogging and social media; and open hours have been extended by adjusting staffing levels following the implementation of self-service check-out.

The Library's capacity to respond to change and take on new initiatives depends to some extent upon the availability of resources, including staff, for new service areas. All of these changes require staff to acquire new skills and adapt to new service roles. As library service continues to evolve, opportunities for both savings and innovation will be assessed. Increasing efficiency is part of the strategy as it offers the opportunity to reinvest in new services. To give an example, new positions have been created to support the Digital Innovation Hubs at the Toronto Reference Library and Fort York branch by reassigning existing positions. To add more digital innovation hubs in the future, TPL requires the flexibility to continue to reallocate resources. The TPL Workers Union Local 4948 will continue to be consulted as appropriate.

### **Shared Services**

At its meeting on June 23, 2014, the Board reviewed a report which included the City of Toronto's Shared Services Project Update report from the Deputy City Manager & Chief Financial Officer and also an update about the TPL's involvement in discussions about shared services opportunities.

TPL continues to participate on the Shared Services Project. As the various working groups proceed with their investigations of the feasibility and value of individual projects, TPL will consider and assess the full-range of impacts that may result from participation in shared services opportunities. Implementation of some shared services, in particular in information technology, will require significant upfront investment. Additional resources that may be required to implement shared services will be included in the budget process for future years, as necessary. Cost saving and cost avoidance strategies, and other related benefits will be dependent on the viability of the opportunities, and TPL will evaluate and report out on these matters to the Board. The Shared Services Project team expects to provide a status report to Council in mid-2015. Current shared services initiatives that impact TPL are long-term in nature and will not provide any savings for the 2015 budget.

## **Other Considerations Impacting Potential Budget Reductions**

### **Collections**

Demand for the Library's collections in physical formats remains strong, while significant growth continues for e-collections. Circulation of e-collections such as e-books, e-magazines, e-audiobooks, music and video increased 100% each year from 2011 - 2013. Torontonians borrowed more than two million e-titles in 2013, representing approximately 6.5% of total circulation, forecast to be over three million in 2014 representing 10% of total circulation.

With TPL taking a lead advocacy role, some progress is being made with more publishers making their content available. However, publishers' terms and conditions for public library access to e-collections place significant pressures on TPL's collections budget. Some major publishers charge unreasonably high prices. Content cannot be purchased; only licensing is offered. Some vendors require libraries to re-purchase content when it expires one year later. For instance, TPL recently lost access to 1,400 e-titles purchased a year ago, and a decision had to be made about whether re-purchasing content was affordable.

Compounding this pressure is the declining value of the Canadian dollar and the fact that circulating e-content is mainly purchased in the United States. Conversion costs have placed significant pressures on the collections budget this year. In 2013, TPL spent \$85,000 in conversion costs; to the end of October 2014, over \$276,000 has already been spent. If the value of the Canadian dollar continues at its current levels and demand continues for more and more e-content, TPL's buying power will be challenged going forward, resulting in fewer collections.

### **Revenues**

The 2015 budget submission includes a reduction in fines revenue of \$0.775 million, which represents a 21% decrease of the fines budget, and is reflective of TPL's experience in 2014, and similar to many other libraries. Falling fines revenue is due to a number of factors, including the availability of pre-date due email notifications, increasing use of e-collections which incur no fines, new and higher fines rates, which result in greater customer attention, and service improvements that allow customers to manage their accounts more effectively. The trend of lower fines revenue will continue to be monitored and is expected to present a further budget pressure in 2015. Other opportunities to generate additional revenues will

continue to be assessed, including sales of donated materials, self-publishing and the retail spaces at Toronto Reference Library as well as tenant spaces at Northern District and Deer Park branches, and other opportunities for facilities rental.

## **CONCLUSION**

TPL consistently delivers excellent, innovative and cost effective library services in a dynamic and increasingly complex environment. Critical to the Library's success is its ability to continually innovate and respond to customer demand while maximizing the efficiency and effectiveness of its operations. Now and into 2015, staff are working on a number of initiatives that are intended to identify opportunities for budget savings, cost containment and operational efficiencies that will inform the Board's next strategic plan and could be incorporated into the 2016 operating budget.

## **CONTACT**

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## **SIGNATURE**

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