



ADMINISTRATIVE REPORT

Report Date: September 20, 2012
Contact: Neal Stratton
Contact No.: 604.673.8243
RTS No.: 9781
VanRIMS No.: 08-2000-20
Meeting Date: October 3, 2012

TO: Standing Committee on Planning, Transportation and Environment
FROM: Director of Finance
SUBJECT: 2013 Budget Outlook

RECOMMENDATIONS

THAT Council receive for information, the 2013 Budget Outlook as outlined in Appendix 1.

COMMENTS OF THE CITY MANAGER AND DIRECTOR OF FINANCE

The Budget Outlook provides the context and factors that will influence the creation of the 2013 operating and capital budget to be presented to Council in December. The Budget Outlook also describes the intended approach to budgeting and its anticipated direction, all of which will be reviewed by Council and the public prior to Council passing the final budget.

Between now and the beginning of December 2012, under the direction of Council, staff will continue to refine estimates, undertake a public engagement process to seek input on the 2013 Operating and Capital Budgets, and develop strategies to achieve Council's priorities within available resources.

The final Budget will be presented to Council in December, 2012.

COUNCIL POLICY

The Vancouver Charter requires the Director of Finance to present the estimates of revenues and expenditures to Council no later than April 30th of each fiscal year and that Council adopt a resolution approving the budget and a rating bylaw establishing general purpose tax rates as soon thereafter as possible.

PURPOSE

The purpose of this report is to present the 2013 Budget Outlook to Council. The final budget strategy along with the results of the public engagement process will be presented to Council in early December 2012, when Council will deliberate on the 2013 Operating and Capital Budget.

BACKGROUND

On March 5th, 2012, Vancouver City Council approved the 2012 operating budget. At that meeting, Council directed Staff to:

"...Report back, in advance of or concurrent to the initiation of the 2013 Budget process, on best practices in Canadian cities for budget process in relation to both robust public consultation and ensuring council members are adequately equipped to discharge their fiduciary responsibilities."

Separately, the Vancouver Services Review (VSR) program identified the Budget process as one of the Financial Shared Services' transformation initiatives, recognizing that the current budget process was both time intensive and limited in its strategic value. Council's request to report on budget best practices provided an opportunity to accelerate the Budget transformation initiative to meet Council's request and the VSR project goals.

In July, staff provided Council with the following findings of the budget review:

Leading Practices

Staff engaged PricewaterhouseCoopers' (PwC) public sector practice to identify leading practices in public sector budgeting. PwC is a global professional services firm with more than 169,000 people in 158 countries.

PwC examined over 100 leading practice documents and material from the following sources:

- PwC best practice database
- PwC subject matter advisors
- Canadian municipal, provincial and federal governments
- American municipal, state and federal governments
- Public sector organizations
- Private sector organizations
- Third-party best practice documentation

The work of PwC established that, while we are not yet leaders in our budget practices, we are primed to move ahead quickly given the work we have done in our VSR program and improvements in our financial reporting and rigour. Other municipalities are already moving ahead. A summary of leading budget practices identified by PwC included:

1. Linking Budget to Strategy
 - Performance-based budget decisions informed by service plans aligned to the City's strategic goals
 - Use of a financial framework which outlines the City's financial health, sets financial goals and guides budget allocation in advance of the budget process
2. Enhancing Public Consultation
 - Public consultation in advance of the budget process every three years versus annual
 - Consultation informs strategic goals and goals inform the budget
3. Providing relevant Budget Information
 - Performance metrics aligned to the City's strategic goals
 - Align operating and capital budget information
 - Budget for all City funds and entities
 - Budget and financial statements aligned in an understandable way
 - User-friendly information tailored to the needs of each audience (Council, Management, Public)
4. Streamlining the Budget Process
 - Minimize budget versions and reviews
 - Integrate operating and capital budget processes
 - Integrate the budget process with the other corporate planning and performance management processes

STRATEGIC ANALYSIS

Budget Process Changes

Staff is moving forward over the next few budget cycles with process changes aligned to these leading practices in 4 key areas:

1. Public Engagement
2. Budgeting for Results
3. Budget information for Council
4. Streamlining the budget process

Key changes for the 2013 budget year include:

1. Public Engagement

Council has directed staff to enhance and improve public engagement, and this includes discussing the City's budgets.

Articulating our priorities ensures that we're spending tax dollars on services and investments that matter most to our tax payers. We recognize the need to keep property and business taxes in line with inflation, and balance economic and

population growth along with an increasing demand for services. The City is seeking public input to determine the best way to achieve our common goals.

Best practices

Research conducted by Price Waterhouse Coopers has gleaned best practices information on public outreach and engagement regarding municipal budgeting from across North America, the UK and Europe. The diverse ways that different cities talk with the public about their finances is highly dependent on available resources and timelines, but some consistent standards have emerged. After a careful review of options and resources, we have developed a thoughtful and effective approach to engaging Vancouverites on the City's new integrated budget.

A New Approach

Our new budgeting process will include a robust and strategic public consultation once every three years, following municipal elections, to discuss financial trends, strategic objectives, public values, relative importance of services, and areas of concern for the public. The broad consultation will be designed next year for implementation in early 2015 (after the fall 2014 election).

In between those in-depth consultations, there will be annual engagement programs to check in on the public's satisfaction with service levels and to highlight any areas of concern. For the 2013 budget this will happen over the coming weeks.

Throughout the year, the City has other engagement and consultation processes that are critical in informing our priorities and resource allocation. Examples of these over the last couple of years include:

- Extensive engagement on affordable housing and homelessness
- Broad public, stakeholder and business consultation related to development of our upcoming Transportation Plan
- Public consultation on the Cambie Corridor Plan
- Four neighbourhood plans in West End, Marpole, DTES and Grandview Woodland are now underway using diverse engagement and consultation tools
- Public engagement in 2012 by the Vancouver Public Library
- The development of the Park Board Strategic Plan
- The 2011 Vancouver Economic Development Action Plan which undertook extensive engagement with the business community
- Extensive consultation in regard to the Greenest City Action Plan

It is important to note that in our own past surveying on a variety of programs—from transportation to sustainability to housing—the public has consistently told us that their preference is to be engaged using online methods. This is also consistent with best practices uncovered by the PWC research.

Next Steps

October and November 2012

Staff will provide the first Budget Outlook report to the public and survey public opinion using a variety of methods (in person and online) to check satisfaction with service levels and monitor areas of concern. Metrics will be collected on engagement input as well as levels of participation via the various channels. Combined with past years' consultation metrics, this year's surveying results will help inform the design of the final 2013 budget and the larger once-every-three-years consultation program for execution in 2015.

Actions include:

Advertising and Promotion

- To raise awareness with residents and business owners (using Facebook, community papers) and direct them to the various ways they can take part in the engagement program.

City Website

- Easy-to-read content will include the Budget Outlook and information on how tax dollars are spent. Content will be optimized and tagged and contain explanatory text, infographics (data visualization), and hyperlinks to other pertinent web pages and documents.
- A short video will be produced to introduce visitors to the web page and explain the variety of ways the public can provide input.

In Person

- Workshop(s) will be held with representatives from 14 City Advisory Committees to review the Budget Outlook and public survey so that staff can receive feedback on satisfaction with service levels and areas of concern from those committees' particular perspectives.
- 311 survey with callers - after a caller's specific query has been answered by 311, the caller will be asked if they are willing to participate in a quick two-question survey. We will ask about satisfaction with overall service levels on a scale of 1 to 5, and ask about callers' top three areas of concern.

Online

- Community Panel, statistically relevant public opinion survey and ideas collection
- PlaceSpeak initiative page with budget outlook information, survey and ideas collection
- City facebook page and twitter accounts will be used to ask about satisfaction with service levels and top three areas of concern, and also direct people to the city web page

- Public input will also be collected via a specific email account

2. Budget for Results

The purpose of the City's budget is to achieve Council's goals while sustaining the City's long-term financial health. One of the key best practice recommendations of PWC is linking the budget to strategy, through performance metrics. A results-based budget links measurable results to dollars spent. It is one of the most effective tools that Council can use to achieve its goals because it enables Council to effectively leverage the City's financial resources to meet its responsibilities and achieve its goals for Vancouver. This practice assumes constant attention to business transformation to drive value for investment while ensuring that the organization is accountable for the goals of resource allocation.

This is a major shift in our process, and will take time to develop. The first step in moving to a results based budget is establishing *Service Plans and Metrics*. We have initiated a process with General Managers to provide our first basic examples of service plans and metrics for our largest service areas as part of the 2013 budget. Over time, these service plans and metrics will play a larger part in our decision making process for the budget.

3. Budget Information for Council

Based on best practice information from PWC, the budget process will include 2 reports:

3.1 Budget Outlook

The Budget Outlook report provides Council with an overview of the external environment impacting the City's budget, an outlook for the 2013 budget position for both Capital and Operating budgets, and advises Council about the next steps in the 2013 budget process. The intent of this report is to highlight key challenges and pressures and initial direction for funding of Council priorities and opportunities for transformation. The outlook will be presented in a new format which is easier to read for both Council and the public.

3.2 Budget Report

In December, a budget report will be presented to Council. The 2013 Budget Report will provide a recommendation to Council for both the 2013 Operating and Capital Budgets, will summarize the results of the Public engagement, and outline the proposed budget strategies developed by the Corporate Management Team to finalize the estimates and bring the 2013 Budget into balance. It will include, for the first time, preliminary Service plans for our major services, and will look out to a 3 year budget window. In order to improve the user-friendliness of the Budget, a new, easier to read budget format will be created for Council and the public.

4. Streamlining the Budget process

PWC identified a number way to streamline the budget process. Leading practices show that organizations which streamline the budget process can accomplish their goals in less time, at lower cost, and with fewer disruptions to their core, value-added services. It was noted that shortening the budget cycle does not negatively affect the quality of the budget, and instead focuses managers on the most significant issues.

For the 2013 budget, one significant change is to align capital and operating budget information. Another is to provide the budget information in a more public friendly format. As well, the process will be streamlined, and the number of reports reduced.

The new budget timeline for the 2013 Operating and Capital Budget process reflects these changes to the City's budget process:

- **October 2, 2012:** The Budget Outlook report provides Council with an overview of the external environment impacting the City's budget, an outlook for the 2013 budget position for both Capital and Operating budgets, and advises Council about the next steps in the 2013 budget process.
- **December 2012:** The 2013 Budget Report provides a recommendation to Council for the 2013 Operating and Capital Budgets, and summarizes the results of the Public engagement and the proposed budget strategies developed by the Corporate Management Team to finalize the estimates and bring the 2013 Budget into balance.
- **May 2013:** Council Report with 2012 Property Taxation Bylaws and Averaging Resolution.

CONCLUSION

The 2013 Budget Outlook in Appendix 1 is based on the budget best practices identified by PWC and is an important change to our 2013 budget process.

The Budget Outlook identifies the potential revenue and expenditure changes for the 2013 year. Over the next 2 months, the public engagement activities will give citizens an opportunity to provide feedback on their priorities and concerns. As well, the Corporate Management Team will continue to look for opportunities to bring the budget into balance, and prioritize funding for capital projects and ongoing operations. The 2013 Operating and Capital Budget will be presented to Council in December, 2012.

* * * * *



2013 BUDGET OUTLOOK

LOOKING TO 2013

Vancouver is one of the world's most beautiful and livable cities, diverse in nature and demographics, and attractive to residents and businesses from around the world. More than 600,000 people call it home, and even more enjoy and rely on the services our city provides. Such a great city does not happen by accident. It happens through careful planning and investment.

The 2013 Budget Outlook provides the context and factors that will influence the creation of the 2013 budget to be released in coming months. The Budget Outlook also describes the intended approach to budgeting and its anticipated direction, all of which will be reviewed by Council and the public prior to Council passing the final budget.

The intent for the 2013 budget is to use a responsible and balanced approach that maintains a focus on the long term. The City will align spending with Council's and

residents' priorities to provide services that Vancouverites value and deliver them as efficiently as possible.

LONG-TERM PRIORITIES

Council has supported the City's mission "to create a great city of communities that cares about its people, its environment, and the opportunities to live, work and prosper," by aligning spending with programs that support Vancouver's people, environment, and prosperity. Key plans that represent these priorities inform the budget direction. Public consultation conducted during

*City of Vancouver's Mission:
"to create a great city
of communities that
cares about its people,
its environment, and the
opportunities to live, work
and prosper."*

development of these plans informs the budget and is designed to help direct spending towards the services that Vancouverites want and need.

CONTENTS

Looking to 2013	1
Fiscally Responsible, Balanced, and Focused on the Long Term	4
Economic Context	5
Reporting on the 2012 Budget	6
Spending to Support Valued Services	10
City Pulse	12
What Can We Expect in 2013?	12
Budget Outlook Summary.....	14

PEOPLE

City's Goal: Cultivate and sustain vibrant, creative, safe and caring communities for the wide diversity of individuals and families who live in, work in and visit Vancouver.

Did you know...

Vancouver was ranked Most Liveable City in the World Economist Intelligence Unit (2011)

Vancouver is the eighth largest city in Canada. Our city is remarkable for its diverse population, in which fully half of our residents speak English as a second language. The health and vitality of Vancouver's communities and the celebration of the diversity of our residents makes the city a magnet for people from around the world, bringing creativity and cultural richness as well as significant economic opportunity in a global economy.

With 5,249 people per square kilometre, Vancouver is one of the most densely populated cities in the country. Our limited land base and growing population have given rise to unique issues related to affordability and the availability of land for housing and a full range of economic activity.

Council has prioritized the issues of housing and sustainability and is working to ensure a safe, inclusive and creative community. Key plans that support the people of our city and provide direction to policy development and resource allocation include:

- 2012-2021 Housing and Homelessness Strategy
- 2012 Report on Mayor's Taskforce on Housing Affordability
- Greenest City 2020 Action Plan
- Transportation 2040
- 2011 Regional Growth Strategy
- Long-Term Cultural Plan
- Urban Health Strategy
- Park Board Strategic Plan
- Library Board Strategic Plan
- Police Board Strategic Plan

ENVIRONMENT

City's Goal: Protect and enhance Vancouver's climate, ecology, natural resources and connections to the city's remarkable natural settings for future generations.

Vancouver is home to world-class parks and green spaces and the wealth that stems from our abundant natural setting. Council supports the protection and enhancement of Vancouver's climate, ecology, and natural resources for future generations, and has prioritized the goal to become the world's greenest city.

The Greenest City 2020 Action Plan was launched in 2011 with measurable and attainable targets for reducing carbon and waste and improving ecosystems. This key plan addresses goals and issues across diverse areas and has put Vancouver on the path to sustainability in all aspects of life and work in the city.

In our efforts to become the greenest city, we have already achieved a great deal. Some recent results include: residential water consumption is down 11% since 2006, waste going to landfill is down 4% since 2008, and the number of trees planted each year on City land is up 50% since 2010.

Did you know...
Vancouver is the:

Most Sustainable City in Canada
Corporate Knights (2011)

Most Walkable City in Canada
Up! Magazine (2010)

#2 Green City in North America
Economist Intelligence Unit (2010)

PROSPERITY

City's Goal: Provide and enhance the services, infrastructure and conditions that sustain a healthy, diverse and resilient local economy.

A thriving, diverse economy is the foundation of a livable city. Besides the robust resource sector, our growing digital media and clean technology sectors and our strong tourism and international education sectors all contribute to the city's economic growth and prosperity. As North America's gateway to Asia and a regional transportation hub, Vancouver is home to Port Metro Vancouver—the busiest and largest port in Canada, and is in close proximity to the Vancouver International Airport. Our well-educated, highly skilled and culturally diversified labour force further reinforces our competitive position in the global market.

Council has prioritized economic development by promoting and strengthening local businesses while also making the city an attractive destination for businesses from around the world. The Vancouver Economic Action Strategy, launched in 2011, is the first economic development strategy developed in the city's history.

The plan focuses on changes that will improve Vancouver's business climate, support existing local business, facilitate new investment, and attract the human capital essential to our future. It places particular emphasis on our global leadership in clean technology and creative industries and opportunities for greening our local business sector.

In support of this strategy, City staff will be reporting to Council soon on our long-term transportation plan, Transportation 2040, which will guide decisions over the next 30 years on people and goods movement, with a focus on promoting sustainable transportation modes (walking, cycling, and transit).

The City worked hard to leverage the opportunities presented by hosting the 2010 Olympic Winter Games. Two years after the Games, PricewaterhouseCoopers pegged direct foreign investment resulting from the Metro Vancouver Commerce Program at \$194 million, generating \$350 million in economic impact and benefits, and \$179 million in GDP growth. The Program will result in nearly 3,000 new jobs throughout Metro Vancouver.

The Vancouver Economic Commission's strategy to boost economic activity also includes an expedited review of the City's regulatory framework on job spaces, taxes and regulatory burden on business; a Green and Smart Enterprise Zone that showcases and nurtures innovation in globally emerging sectors such as clean tech and green buildings; working with partners to develop a technology incubation centre in the city; and increased trade with new global markets, targeting Asia and South America.

FISCALLY RESPONSIBLE, BALANCED, AND FOCUSED ON THE LONG TERM



Did you know...
Canadian cities receive 8% of total tax revenues, yet are responsible for 60% of the country's infrastructure

Vancouver, like other Canadian cities, offers a broad range of services but has only a narrow revenue stream. For every tax dollar collected in Vancouver, the federal government receives 60 cents, the provincial government receives 32 cents, and the City of Vancouver receives 8 cents.

The Vancouver Charter is legislation that prohibits the City from running a deficit, so we rely on careful planning and prudent fiscal stewardship to balance the budget each year and live within our means. This means balancing short-term operating needs with long-term capital and infrastructure requirements.

BUDGETING WITHIN A LONG-TERM FRAMEWORK

Long-term financial planning is a vital discipline for achieving financial sustainability. It requires a shift from the short-term perspective associated with annual budgeting to the proper blending of short-term (1-2 years), medium-term (3-5 years) and long-term (10+ years) perspectives.

The City has recently put in place a multi-year planning horizon, which provides a structure to help contain expenses within available revenues. Financial decisions are now made under the guidance of a strategic ten-year financial planning framework, a three-year financial plan, and annual operating and capital budgets. Aligning the capital and operating budgets within this longer framework has improved accountability and enabled a strategic view across all City expenditures. Quarterly reporting has added additional rigour to the oversight of our operating and capital budgets.



Financial Sustainability Guiding Principles

These principles, combined with a long-term view of our overall financial planning, will be the platform on which the 2013 and future budgets are built.

Fiscal Prudence

- live within our means
- consider long-term implications in all decisions
- maintain a stable and predictable revenue stream
- keep debt at a manageable level
- build in flexibility and contingencies for emerging priorities and opportunities

Affordability and Cost Effectiveness

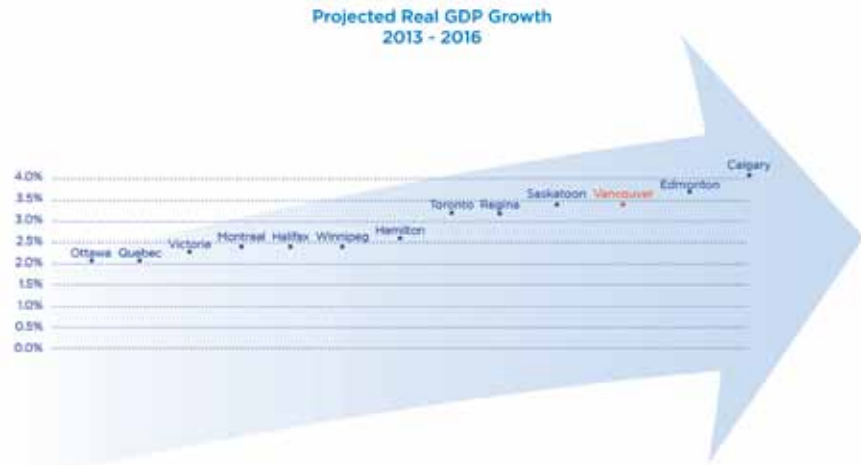
- deliver services that are relevant and result in desired public outcomes
- ensure value for money through productivity and innovation
- keep property tax and fees affordable (in line with inflation)

Asset Management

- maintain assets in a state of good repair
- optimize capital investments to meet public and economic needs while achieving value for the investment

ECONOMIC CONTEXT

How we plan and manage our finances is influenced, in part, by external factors. The world economy is an interconnected web of smaller economies that are in a constant state of change. We must make our financial planning decisions with an understanding of how Vancouver's economy is affected by larger forces. This provides us with the necessary context to plan for known risks and focus on long-term financial sustainability.



GLOBAL, NATIONAL, AND PROVINCIAL CONTEXTS

The global economy remains fragile and uncertain. Slowing economic and employment growth in the United States, slowing growth in emerging economies, and the European Union's ongoing financial crisis can all potentially have an impact on Vancouver's economy.

Canada is also experiencing a slowing of economic and employment growth, and the high Canadian dollar may drag down export-based activity. The possibility of a housing market correction in major cities like Toronto and Vancouver has been suggested; there are fewer housing starts, the new and resale markets are slowing, and prices have been flat or slightly reduced compared to recent years.

High household debt coupled with tighter mortgage lending rules and an expected increase in interest rates will likely limit future consumer spending. Financial constraints at the federal and provincial government levels are putting more pressure on local governments. The recent announcements, for example, of the Canadian Coast Guard's closure of its Kitsilano Base and the federal

government's elimination of funding to Heavy Urban Search and Rescue teams across Canada will put pressure on the City to address the need to be prepared for and mitigate any potential impacts to local citizens.

The economic outlook for B.C. is slightly better than the rest of Canada. The province has a diversifying economy and growing business ties with Asian economies, although these markets have also recently experienced some slowing of growth.

VANCOUVER CONTEXT

Population growth in Vancouver is projected to continue, but at a slower pace than over the last decade. Unemployment has remained stable at about 7% and is showing signs of improvement. Property values in Vancouver have hit a national high in recent years and, even with a possible market correction, housing affordability will remain a concern for the foreseeable future. Personal income is expected to grow only slightly; with mortgage rule changes impacting housing affordability, discretionary household income will continue to be under pressure.

Vancouver's business environment is continuing its recovery from the 2008 economic downturn. Our gross domestic product (GDP) is one of the highest in Canada and is projected to continue this trend. Retail sales are slowing, but this is offset by fewer retail lease turnovers, which lowers vacancy rates. Office space vacancies have also been declining, development permit activity in 2012 has been strong, and the number of new businesses is growing and approaching pre-2008 levels.

TAX SHIFT

Vancouver has benefited from an increasingly competitive business environment due in part to the last five years of municipal tax shift. At the direction of Council, the City implemented a five-year plan to reduce the share of taxes paid by businesses. Compared to the 1980s when non-residential properties carried 60% of the property tax burden in Vancouver, businesses now pay 47% of property tax collected. The City's intent has been to ensure that taxes and fees are competitive, while enabling a vibrant city for businesses and the public.

REPORTING ON THE 2012 BUDGET

The City has a long history of strong fiscal management and well-maintained civic infrastructure, and has demonstrated consistent, positive financial results. The City's high credit ratings (Aaa/AA) are among the best for Canadian municipalities, and are supported by a low debt service ratio, a diverse economy, and a strong and stable tax base.

Revenues by Source



The City's annual budget has two elements:

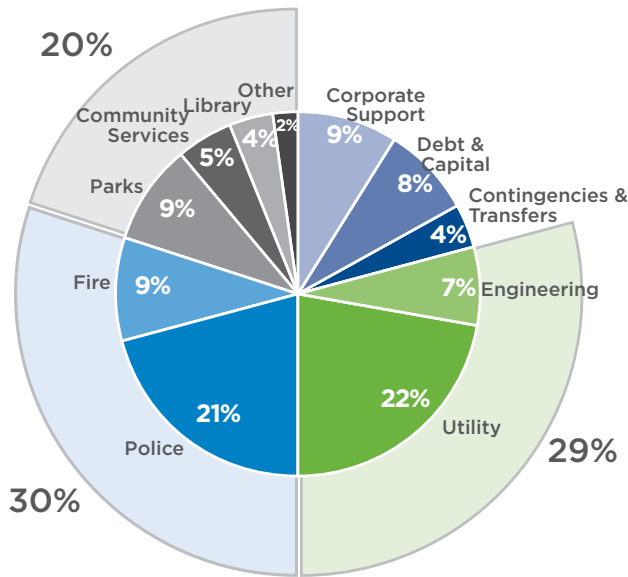
1. **Operating budget** - sets the spending targets for day-to-day operations of the City such as policing, fire and rescue services, street cleaning, Park Board recreation programs, and library services
2. **Capital budget** - sets the spending targets for major capital projects such as building a new facility (recreational, cultural, or other civic use), upgrading sewer and water infrastructure, major bridge and street repair, and information technology to enhance our business operations

ANNUAL OPERATING REVENUES 2012 - \$1,127 MILLION

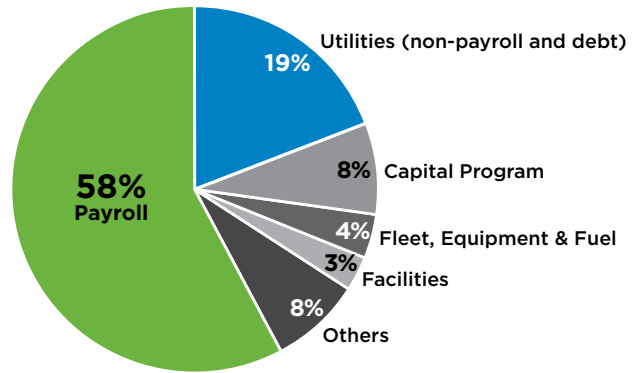
The City has a stable and predictable revenue base. Funds for the operating budget come from several sources, but property tax is the primary source of revenue for the City. User fees, such as recreation program fees, parking meters, and business licenses and permits provide additional sources of funds. Property development-related fees and permits are the most variable and account for only 4% of our revenue base. Utility fees are influenced to a large extent by Metro Vancouver decisions, since much of the planning and delivery for public works and utilities are integrated with the regional district.

The City has four utility services that are operated on a user-pay basis—water, sewers, solid waste, and neighbourhood energy utilities (NEU). The water, solid waste (garbage, compost, recycling, and landfill) and NEUs are fully funded by the fees paid by consumers who use the services. Increased expenditures are matched by increased fees so there is no impact on property tax. The sewer utility is funded by approximately 60% user fees and 40% property taxes. Council sets the rates and budgets every fall, incorporating input from Metro Vancouver.

Expenditures by Department (2012)



Expenditures by Cost Category (2012)



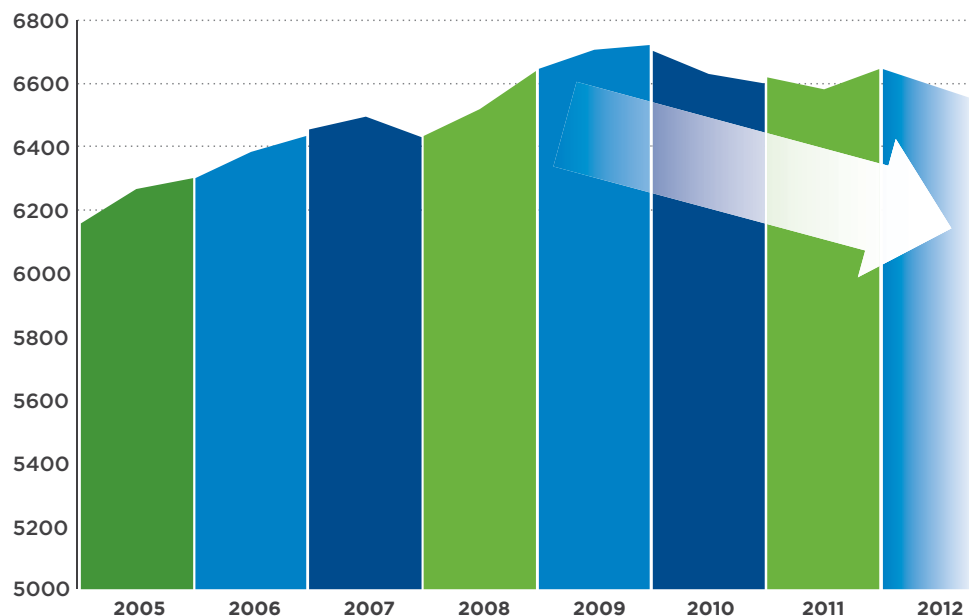
OPERATING BUDGET EXPENDITURES

The City's expenditure profile is also relatively stable and predictable. Public safety (police and fire) account for 30% of expenses. Engineering works and utilities, which cover transportation planning, sewer and water operations, and sanitation services, account for 29%. Park services, community programs, libraries, and community grants (in "other") account for 20% of operating expenses, and corporate support (overhead, human resources, finance, legal, risk management, information technology, city clerks, etc.) together account for 9% of expenses. Debt for capital is 8% of expenses.

Utility expenditures (water, sewer, solid waste, NEU) account for about 22%, but over 60% of the costs for water and sewer represent Metro Vancouver costs that are set at the regional level. Generally, utility expenses have grown at a higher rate than other areas due to the need for heavy capital investments to replace aging infrastructure across the region.

Wages and benefits are the largest driver of the City's cost structure, representing 58% of expenses. By streamlining the way we do business with our residents and business community we have managed to slow down the growth of the organization without affecting the quality of service. Over the last three years, through the optimal use of vacancy and retirement headcount, staffing has been reduced with minimal disruption.

Active Regular Full Time Staff



2012 Budget Public Opinion Survey: Satisfaction with Overall Quality

2012

- Public - 84% somewhat or very satisfied
- Businesses - 71% somewhat or very satisfied

2011

- Public - 81% somewhat or very satisfied
- Businesses - 85% somewhat or very satisfied

2010

- Public - 84% somewhat or very satisfied
- Businesses - 68% somewhat or very satisfied

INCREASING THE VALUE

The City has undertaken a number of business and service transformation activities over the past three years. The Vancouver Services Review has identified significant long-term productivity savings that have allowed us to better serve residents and businesses and to become a more efficient and innovative organization. Transformational activities have included introducing a new 311 phone service, greening our fleet for sustainability with smaller police vehicles and new medical response vehicles for our fire department, a more efficient planning process, and generally streamlining how we do business.

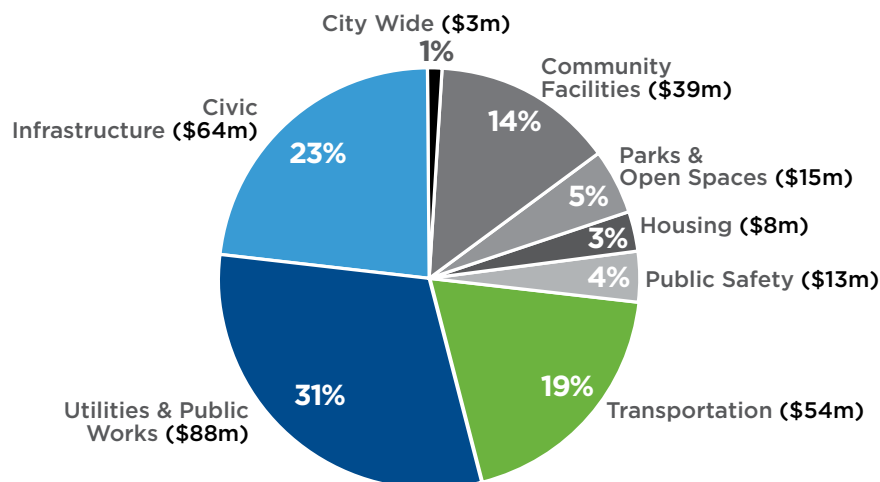
Property taxes in the past three years have seen a modest increase, aligned generally with inflation. During this period the City has enhanced services to the public through new libraries,

community centres, an increase in supportive housing services, and significant investment in police and fire facilities. We have invested in core infrastructure such as continuing with the sewer separation program (to separate stormwater and sanitary sewers), upgrading transportation infrastructure for pedestrians, bikes, and vehicles, all while absorbing above-inflation wage increases.

Transformational change will continue to be a key part of the planning and budgeting process. As part of the 2013 budget process, the City is introducing Service Plans, which will change the view of our business from a strictly departmental view to a service-oriented view. Future budget decisions will be based on an improved understanding of the service delivery models and priority outcomes for Vancouver taxpayers.

Capital Budget by Service Category (2012)

(Total \$284m)



ANNUAL CAPITAL BUDGET 2012 - \$284 MILLION

Investment in capital projects varies from year to year depending on funding availability and capital needs. In recent years, significant investment was required to host the 2010 Olympic Winter Games. This placed extra pressure on the operating budget and the City's overall debt profile. In response to this, the 2012-2014 Capital Plan has stabilized the total capital spend and has deliberately reduced funding from debt and from our operating budget, both of which are supported by taxes. We have increased the focus on securing non-property tax funded sources such as Development Cost Levies and Community Amenity Contributions as well as senior government and external partnership funding.

One of the most critical activities for staff is to optimize access to external sources for capital

and ensure these opportunities align with our priorities. Having a ten-year capital strategic outlook greatly enhances our ability to achieve this goal as we take advantage of partnership opportunities with senior levels of government and others that are aligned with our infrastructure requirements.

CAPITAL BUDGET EXPENDITURES

The City's recent capital review program was aimed at bringing more rigour to the capital planning process, resulting in a ten-year strategic outlook, a three-year plan, and an annual budget with quarterly reports at the project level.

Capital investment grew in advance of the 2010 Olympic Winter Games, but the trend for capital expenditures has been gradually reduced over the past three years. The 2012 capital program is

estimated to be under budget by \$40 million, in part through enhanced project management and in some cases due to delays in the start of projects. The latter expenditures will likely be carried over into 2013.

In 2012, utilities and public works will have accounted for the largest share of planned capital investments at about 31%. Civic infrastructure will make up nearly 23%, and transportation investments will make up approximately 19%.

Community facilities (14%), parks and open space (5%), housing (3%) and public safety (4%) together account for a quarter of expenses. Though only 3% of the capital budget is designated for housing, the City leverages these housing investments and, in some cases, our land to a high degree, to meet our housing targets as outlined in the 2011-2021 Housing and Homelessness Strategy.

SPENDING TO SUPPORT VALUED SERVICES

The City has been working within budgets defined by modest tax increases, yet we have made significant progress in advancing Council and community priorities on housing and ending homelessness, economic development, becoming the greenest city, and ensuring a safe, inclusive and creative community. While reshaping the organization to provide services more efficiently, we have maintained and increased the quality of service, initiated new programs, and demonstrated leadership as a sustainable and livable city.

What do these results look like? The following is a selection of the investments and achievements accomplished in recent years.

The City of Vancouver provides over \$10 million in operating grants to cultural organizations annually, which is two thirds what the provincial government spends across B.C., and is the highest per capita of the major municipalities in Canada.



HOUSING

In partnership with BC Housing, the City committed \$500,000 to support approximately 500 shelter beds (year-round beds plus Winter Response beds), and has designated 14 City sites for permanent supportive housing (with a City of Vancouver land value contribution of over \$64 million); 630 of the 1500 units are completed.

Based on the *2012-2021 Housing and Homelessness Strategy*, \$42.2 million in capital has been set aside in the 2012-2014 Capital Plan to leverage other funds to enable nearly 2000 new social and supportive housing units.

This year to date, the City has committed funds to enable a permanent shelter for Aboriginal street homeless and a new permanent shelter for women in the Downtown Eastside, while 530 social housing units and 120 more supportive housing units are in progress.

To help meet the City's social housing targets and encourage creative housing solutions, the City recently issued a Request for Expressions of Interest (RFEOI More Homes, More Affordability) for non-traditional forms of construction, including modular, prefabricated and container forms, as well as traditional construction, which would reduce costs allowing for lower-than-market rents.

As of this year, an unprecedented 2000 new purpose-built rental units have been created or are in progress due to policy changes around Secondary Suites, Laneway Housing, and the STIR (short term incentive for rental) initiative.



SAFETY, INCLUSIVITY, AND CREATIVITY

Over \$80 million has been spent on facilities for public safety over the last four years, including new buildings for the police to train in and store evidence, renovations on fire halls, and upgrades to the Emergency Operations Center. The new Fire Hall Number 15 was recently opened in Renfrew.

Vancouver citizens are joining our new Neighbourhood Emergency Assistance Team. They will receive training to deploy as volunteers to assist the public at major events such as the Celebration of Light, and in emergency situations such as a natural disaster.

The City has opened a new community library at Hillcrest and new community centres at Hillcrest, Mount Pleasant, Trout Lake and Creekside. Three new rinks were opened at Killarney, Hillcrest and Trout Lake and a new pool at Hillcrest.

The people of Grandview-Woodlands, Marpole and the West End are helping City staff to develop *new community plans* for their neighbourhoods. These will more effectively balance citywide challenges with neighbourhood perspectives, offer deeper and more diverse forms of public engagement, and help manage development pressures and priority setting for public amenities.

The City contributes over \$6.5 million annually in operating grants to social non-profit organizations that support inclusion and belonging and help address critical needs for children and families, at-risk youth, seniors, homeless, and other vulnerable populations. The City's investment leverages an additional \$24 million from senior governments and other funding partners.



The City has doubled its investment in economic development over the last four years from \$1.5 million in 2008 to \$2.7 million in 2012. Vancouver's first-ever *Economic Action Strategy*, focused on creating a climate for growth, supporting business investment and trade, and attracting and retaining talent was developed by the Vancouver Economic Commission.

Vancouver's ability to attract businesses to locate here saw over 6,000 construction and related spin-off jobs created in Vancouver's housing and commercial/industrial sector last year. Building permit values reached \$1.1 billion during the first half of 2012, which is a 39% increase over the same period last year and 16% higher than pre-recession levels in 2008.

Transportation 2040 envisions a smart and efficient transportation system that supports a thriving economy while increasing affordability. This will enable the exchange of goods, services, and ideas throughout the city and region. It will foster a quality of life that retains and attracts businesses and employees while enhancing the city's global image, supporting the city's continued role as an international tourist destination, major port, and Asia-Pacific gateway. The plan provides inexpensive transportation options that make it easier for households to go car-light or car-free—resulting in more money that can be spent on housing or in the local economy,



Vancouver's *Greenest City 2020 Action Plan* outlines how Vancouver will work towards becoming the greenest city in the world by 2020. We have already accomplished a great deal, some of which is discussed below.

The City spends an average of \$50 million purchasing, managing, and operating its fleet each year, and we have begun greening that fleet as vehicles get replaced. Our fleet now includes 24 smart cars, 22 hybrids, and 17 electric vehicles. Portions of the fleet now run on biodiesel and much of the fleet uses 10% ethanol fuel.

Diverting food scraps from garbage for beneficial use is a core strategy within our Greenest City 2020 Action Plan and specifically contributes towards the City's Zero Waste and Climate Leadership targets. In 2010, the City launched a series of programs to capture food scraps for composting. As of September 2012, all single-family home and duplex residents can now recycle all food scraps with their yard trimmings.

This program has the potential of diverting an additional 25,000 tonnes of organic materials from disposal annually, and preventing the generation of about 3,000 tonnes per year of greenhouse gas emissions. Developing strategic options for increasing the diversion of food scraps from multi-family and commercial sources is the next area of focus.

The City has also budgeted \$22 million to cap and close filled sections of the Vancouver Landfill and capture and use the methane gas the decaying material in the landfill produces instead of flaring it to the atmosphere and creating more pollution.

Vancouver is the first Canadian municipality to adopt a comprehensive *climate change adaptation strategy*. Projects include sewer separation and water conservation initiatives, flood-proofing guidelines for new developments, and health and refuge-related hot weather preparedness strategies.

The Neighbourhood Energy Utility (NEU) in Southeast False Creek has supplied more than 70% of the neighbourhood's total thermal energy demand since 2010, using sewage heat recovery (with solar power and efficient natural gas boilers making up the balance); expansion of the NEU will soon serve the new Great Northern Way Campus.

Did you know...
Vancouver has the Most Competitive Business Tax Environment compared to 41 large international cities (KPMG (2010))

CITY PULSE

The City tracks a number of metrics to help inform the planning process and measure progress toward goals. These three broad areas represent the City's mission to support people, prosperity, and the environment.

PEOPLE

Population

- 11% increase over 10 years

Median Age

- 7% increase over 10 years

Residents with Higher Education (post-secondary and higher)

- 7% increase over 5 years

Crime Rate

- 37% reduction in property crime over 5 years
- 15% reduction in violent crime over 5 years

ENVIRONMENT

Cycling on Separated Bike Lanes

- 26% increase since 2009

Trees Planted Each Year on City Land

- 50% increase since 2009

Community Garden Plots and Orchards

- 12% increase since 2010

Waste Going to Landfill

- 4% reduction since 2008

Residential Water Consumption

- 11% reduction over 5 years

PROSPERITY

Unemployment

- 12% reduction over 10 years

Average After-Tax Household Income

- 34% increase over 10 years
(but relatively flat over last 3 years)

Percentage of After-Tax Household Income Necessary for Shelter Costs

- 25–28% of income over 10 years

Low-Income Households

- 9% reduction over 10 years

WHAT CAN WE EXPECT IN 2013?

Over the last three years, Council has approved a modest annual property tax increase that has aligned with inflation. This reflects the City's desire to continue providing valued services to the community while keeping taxes reasonable. This approach has enabled Council to continue to address specific priorities such as housing, public safety, economic development, and the environment. Grants to community non-profit organizations in the areas of arts and culture and social services have been maintained, which has provided important stability during a time of senior government cutbacks in these areas.

The budget for 2013 will continue these trends. The City will continue to look for productivity improvements and improve the value for money to align the cost of existing services with revenue from existing services. New and enhanced services will be aligned with Council priorities.

In preparing the budget, there are a number of financial risks and uncertainties that will not be fully known at the time the budget is set, so these must be managed through the coming year. Contingencies are budgeted and other expenditures will be adjusted to compensate for unanticipated events.

Looking ahead, we already know which factors will affect the 2013 operating and capital budgets. Some factors are more certain than others, however, and the final budgets will ultimately depend on direction from Council and feedback from Vancouver residents and business owners.

2013 OPERATING BUDGET - INFLUENTIAL FACTORS

The expenditure outlook anticipates \$3-5 million for new programs and services. A number of programs will be recommended by staff to council and may include: additional policing, fire prevention, public safety unit, increased recreation programs at Hillcrest Community Centre, new cultural facilities, and supportive housing, to name a few.

Costs for providing existing services are expected to increase, including rises in fuel costs, lease rates, utility and insurance costs. Increased supportive housing expenses and maintenance also puts pressure on overall city costs. Maintaining core services and support for community programs and grants will be a cornerstone of the 2013 budget.

Funding for capital work, and costs such as software maintenance and increased credit card fees (due to increased use of web-based payment options) will add to our costs. Utility revenues are anticipated to increase by 6% to address rising costs of local and regional infrastructure and regulatory requirements in our water, sewer, solid waste and NEU utilities. A number of civic facilities are very old and require maintenance over the next several years. These cost pressures are anticipated to exceed general inflation and will continue to push the City to look for innovative ways to transform service delivery to keep the expenditures in line with revenues.

Projecting compensation costs is a significant issue with the 2013 budget. With the exception of police officers, all of the collective agreements covering the City's

unionized employees expired at the end of 2011 and have not yet been renewed. As well, the current agreement between the Vancouver Police Department and the Vancouver Police Union will expire on December 31, 2012.

As context for our ongoing negotiations, the wage increases received by City employees over the past five years have significantly exceeded the rate of general inflation. In most instances, those increases were provided under collective agreements that were negotiated in 2007 in the lead-up to the 2010 Olympic Winter Games and, accordingly, did not anticipate the 2008 financial crisis and subsequent economic downturn. On an ongoing basis, the discrepancy between the growth in the City's compensation costs and the rate of inflation presents a financial sustainability challenge.

While contingencies are in place to manage one-time risks, the budget outlook anticipates that continued business transformation and rationalization will be required to offset the range of costs unknown at this time. As additional information is received through the budget process, refinements to these estimates will be made and brought forward with the 2013 budget.

The budget outlook anticipates a continued trend of the modest tax increases of the past three years as a general principle for our planning. We anticipate a 2% increase in user fees to align with inflation.

New property taxes generated from an increased tax base (a greater number of properties)

We anticipate a 2% increase in user fees to align with inflation.

are expected to be in the range of \$3 million, and higher numbers of development-related permits would provide a projected additional \$2 million in revenue.

Overall, revenues in Parks and Recreation are projected to be stable, with golf revenues declining slightly and revenues for our new community centres at Hillcrest, Trout Lake, and Creekside projected to increase. City parking revenue will remain fairly stable. Utility revenues are anticipated to increase 6%, approximately \$14 million, to reflect higher costs.

Objectives of capital investments:

- maintain existing assets
- meet basic infrastructure needs for growth
- advance/adjust to priorities of Council and the community

2012 Budget Public Opinion Survey: Possible Cost-Saving Measures

Most supported by residents and business

- Reduce enforcement of nuisance or minor bylaws
- Hold fewer public consultations and hearings
- Reduce hours of operation at City facilities

Least supported by residents and business

- Reduce public safety services
 - Reduce road and building maintenance
 - Reduce park and recreation programs
-

2013 CAPITAL BUDGET - INFLUENTIAL FACTORS

The preliminary target for the 2013 capital budget is \$250 million. The budget will be based on the three-year Capital Plan, which outlines key projects across City departments for 2012–2014. Specific projects will be prioritized based on need, the opportunity to leverage senior government funding, and enable business transformation by improving operations through capital investments. Utilities maintenance and upgrading remain a critical mandate.

Some of the of capital investments that are planned for 2013 include:

COMMUNITY FACILITIES

Construction will begin on a new Strathcona Library, and community and childcare facilities are planned for Citygate, Kensington and Downtown South Gathering Place. The Hastings Park Master Plan at the PNE is being implemented, including major renovations and maintenance to the Livestock Building at the PNE. The Bloedel Conservatory will receive a new roof.

PARKS AND PUBLIC OPEN SPACES

Capital plans include the restoration of the Vancouver Art Gallery North Plaza and the Empire Fields restoration at Hastings Park. The Trillium Park extension in Strathcona will get underway in 2013, and the Park Board will be planting 1,100 new trees.

PUBLIC SAFETY

Work will begin on the design and construction of Fire Hall Number 5, continuing the multi-year program to upgrade and replace the City's fire halls.

HOUSING

The City will continue to work for new social and supportive housing development by leveraging our land and capital grants. Subject to the current rezoning process, construction on the Taylor Manor supportive housing project will begin in 2013, creating 56 new units.

TRANSPORTATION

Work on the new Comox-Helmcken Greenway will take place in 2013, as will upgrades to the Adanac bikeway near Chinatown. Powell Street will be realigned to improve rail traffic, and environmental, seismic and structural repairs are planned for Granville and Burrard bridges.

BUDGET OUTLOOK SUMMARY

As we look to 2013, the City will continue to be influenced by the uncertain and unpredictable world economic environment and the changing demographics and public needs in the City. The organization will continue to focus on achieving Council, Board, and public priorities while adapting to these external drivers and maintaining a cautious approach to our plans and budgets.

Through the 2013 operating and capital budgets, the City will look to allocate limited increased revenues to the priority areas. The Budget Outlook provides this initial picture for the public and Council to begin the discussion regarding the 2013 budget. At this time, the outlook for 2013 reflects the following key elements.

Staff will recommend to Council the use of modest tax increases as seen in the past three years as a general principle in our planning. Staff will also continue to refine and confirm revenue and expense estimates and pressures, and look for opportunities to bring the budget into balance through transformation of operations.



OPERATING BUDGET OUTLOOK

POTENTIAL REVENUE CHANGES:

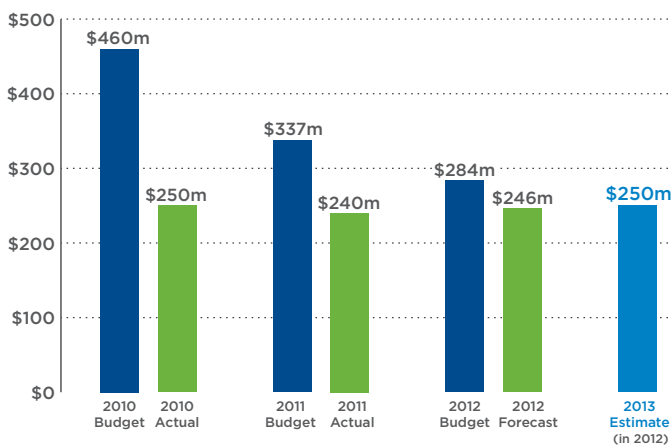
New tax revenue from new construction	+ \$3 million
Higher revenue from development permits and licenses	+ \$2 million
Increased user fees (est. at a 2% increase)	+ \$3 million
Increased property taxes (est. at a 2% increase)	+ \$12 million
Increased utility revenue (est. at a 6% increase)	+ \$14 million

POTENTIAL EXPENDITURE CHANGES:

Cost of new services and programs (e.g. Recreation, Public Safety)	+ \$3 to 5 million
Other service pressures	+ \$10 million
Increase in capital program cost and fixed costs (e.g. fuel, leases, insurance)	+ \$8 million
Increase in known wage and benefit costs	+ \$7 million
Wage increases from collective agreements	(currently unknown)
Utility costs	+ \$15 million

Over the next several months, the City will look at opportunities to bring the budget into balance by refining the estimates, and by looking for opportunities to continue to transform the organization and find innovative ways to deliver on the increasing demand for services while maintaining a reasonable cost structure.

Capital Expenditure Trend Comparison



CAPITAL BUDGET OUTLOOK

ANNUAL CAPITAL BUDGET ESTIMATE (250 MILLION):

Current projects continuing into 2013	\$100 million (est.)
New projects in 2013 (from the three-year capital plan)	\$150 million (est.)

Capital funds will be directed towards the most critical infrastructure and asset management programs, and the highest priority projects to meet Council and Board direction and the public's needs. Continuing to deliver projects on time and on budget while looking for opportunities to increase the value for money of these large investments will be the focus of the organization.

For more information on the City of Vancouver's priorities and actions, visit:

HOUSING STRATEGY

<http://vancouver.ca/people-programs/vancouver-housing-strategy>

COMMUNITY PLANS

<http://vancouver.ca/home-property-development/neighbourhood-planning-projects>

ECONOMIC ACTION STRATEGY

<http://www.vancouvereconomic.com>

TRANSPORTATION

<http://vancouver.ca/streets-transportation>

PARK BOARD STRATEGIC PLAN

<http://vancouver.ca/files/cov/park-board-strategic-plan-presentation-20120627.pdf>

GREENEST CITY

<http://vancouver.ca/green-vancouver/greenest-city-2020-action-plan>

CLIMATE CHANGE ADAPTATION STRATEGY

<http://former.vancouver.ca/ctyclerk/cclerk/20120724/documents/rr1.pdf>

To learn more about the City of Vancouver's budget, visit:
vancouver.ca/your-government/budgets

or call: 311

© City of Vancouver
September 2012

