

Continuous Improvement Considerations

Annual Internal Continuous Improvement Review

The Administration's budgeting, review and allocation process has changed significantly over the past number of years. Prior to the 2015 Business Plan and Budget process, the Administration employed a mandate process in which departments were allocated a set percentage target for expenditure changes, typically calculated around inflation (municipal price index) plus growth. Divisions were required to come within this mandate range and any additional requests were vetted and reviewed on an individual basis.

In recent years, the Administration has employed a much more detailed and thorough review process. The starting point for all divisions is a 0% expenditure increase. Any requests for increases are thoroughly reviewed on an individual basis by the internal Budget Committee, comprised of the City Manager, General Managers, City Solicitor, City Clerk and select Finance Division staff. Through this review, the following considerations were made:

- reviews of historical results;
- opportunities for absorption within existing budgets; and
- if the request was a direct result of:
 - a contractually obligated inflationary increase; or
 - an increase in inventory (roadways, park space, etc.).

Through the administrative review process, the internal Budget Committee removed over \$2.0 million in divisional expense requests related to growth and inflation pressures that will be addressed through continuous improvement. This was completed through a variety of strategies, including reviewing and adjusting of assumptions used in budget preparation, challenging of requests to find efficiencies and savings, and the acceptance of a reasonable amount of operating risk into the budget estimates.

Continuous Improvement

Outside of the budget process, the City's culture of "continuous improvement" is embedded in everything the Administration does. Continuous improvement can take many forms, including:

- identifying operational efficiencies to lower costs or save time;
- looking at new ways to do business in order to avoid future costs; or
- identifying and utilizing new sources of funding or revenue.

In 2016 alone, the Administration identified operational efficiencies, additional funding and revenues of over \$65 million as outlined on the following page. Additionally, the Administration continues to apply for infrastructure and other grants, allowing the City to work towards meeting service levels for preservation and maintenance of assets. These grants also support enhanced programs and services for citizens and help support the Administration to achieve the City's Strategic Goals. On average, the City's

continuous improvement (CI) initiatives have reduced property tax by approximately one percentage point every year as outlined in the following graphic and included in the 2016 Saskatoon Strides report.

\$5.828

million
Operational
Efficiencies and
Additional Revenue

\$309

thousand
Saved in Roadways
& Operations

TOTAL IDENTIFIED

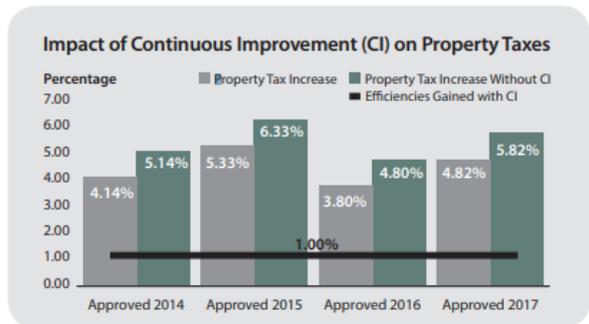
| | |
|--|----------------------|
| Operational Efficiencies and Additional Revenue | \$ 5,828,000 |
| Total Financial Returns - Saskatoon Land | \$ 6,650,000 |
| Infrastructure Grants | \$ 53,000,000 |
| TOTAL | \$ 65,478,000 |

\$170

thousand
Saved through internal
process and civic
service reviews

\$6.65

million
Total Financial Returns
- Saskatoon Land



Preliminary results for 2017 indicate over \$2 million in operational efficiencies were identified as a result of CI initiatives across the corporation. In addition to hard and soft dollar savings identified, CI initiatives enhance employee engagement, reduce absenteeism, improve productivity and further improve service to citizens.

While CI initiatives have proven to be effective in addressing financial pressures facing the City the past several years, any hard dollar savings are already included in the indicative budget estimates. Continuing to rely on additional CI measures to significantly reduce indicative budget figures within a short time period on an annual basis is beginning to become more challenging.

CI, by its nature, is exceedingly more effective in the initial years as initiatives with larger financial impacts are easier to identify and implement. However, as time goes on, this process becomes increasingly difficult as higher yielding improvements and efficiencies are more challenging to find. This creates a situation of diminishing returns as additional CI initiatives would have minimal impact on the preliminary budget estimates.

However, this is not to say that the Administration is not committed to continuing a culture of CI. In fact, the Administration continues to implement several initiatives aimed at reducing expenditures, deferring costs and recognizing new revenues. Some of these initiatives include:

- introduction of additional Performance Improvement Coordinators to assist divisions in identifying and implementing efficiencies and redefined processes;
- implementation of an enterprise resource planning (ERP) system in order to enhance the corporation's use of technology;
- adoption of IT initiatives such as a managed print service and renewed cell phone management in order to minimize costs;
- energy performance contracting to modernize and reduce the energy consumption of civic facilities; and
- continued investigation into satellite yards for Parks and Public Works to ensure the most effective deployment of staffing resources.

Although these initiatives require larger up-front expenditures, they are longer term investments that are expected to yield substantial future benefits to the City's culture of CI through either reductions to budgets or avoidance of future budget requests. The results of these CI initiatives will be factored into future years' budgets as they are realized.

2017 Actual Results

While setting a targeted CI figure is always an attractive option to lower annual budget requirements, it is important to recall that the City recorded a \$3.1 million deficit in 2017 largely due to revenue shortfalls as outlined in Attachment 1. While both the 2018 budget and 2019 Indicative Budget include adjustments to correct a portion of the underlying revenue issues, there is a risk that this trend may continue in 2018 and 2019.

Given this reality, placing additional burden on the operating budget at this point in terms of a targeted reduction to base budgets to incentivise CI, as has been done in the past, is not recommended for 2019. As substantial pressure currently exists based on revenue and other base budget shortfalls, it is recommended that funds linked to additional CI initiatives be utilized to address existing risks in the budget.