

ITEM 2  
MANAGER'S REPORT NO. 41  
COUNCIL MEETING 88/06/13

RE: PLANNING CHALLENGE STATEMENT FOR 1989 OPERATING BUDGET

MUNICIPAL MANAGER'S RECOMMENDATION

1. THAT the attached Municipal Manager's Challenge Statement be approved by the Municipal Council for use in the planning process for the 1989 Operating Budget.

REPORT

We are now starting to prepare the 1989 Operating Budget. An integral part of that planning process is the utilization of a "Challenge Statement". The Challenge Statement, as a key element of the planning process, sets out a number of areas to be carefully considered by managers at all levels in the organization as they go through the objective setting process.

The purpose of the Challenge Statement is to do what the words imply: to challenge the staff to come up with ways and means of doing a better job with limited resources. The challenge allows for the process of dialogue amongst the Council, Management Committee and staff to discover the most effective and efficient means of meeting our objectives.

The attached draft Challenge Statement is one which sets out the circumstances which have become a way of life. It will be necessary for Council to give careful consideration to it, since it does indeed guide the planning and budgeting processes which will follow in the weeks and months to come. In that vein, any additions or changes which members of Council wish to put forward would be most welcome.

It is recommended that the attached Manager's Challenge Statement be approved by Council for use in the 1988/1989 Performance Planning and Measurement process. The Statement has been discussed and approved by the members of the Management Committee.

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PLANNING CHALLENGE STATEMENT FOR 1989 OPERATING BUDGET

A Review of 1987 and 1988 to Date

Real Gross National Product growth for the Canadian economy was 3.9% in 1987 with a 3.3% increase forecast for 1988. The 1987 growth was higher than most economists had predicted, with the growth in eastern Canada again outpacing that in the West. Unemployment has continued to decline nationally, standing at 8.9% at the end of 1987, with a rate of 7.7% predicted by the end of 1988. Control over inflation continues to be the bright spot in 1987 and 1988 to date. The Consumer Price Index rose 4.4% during 1987 and is expected to decrease slightly to 4.1% through 1988.

In 1987 the real growth in the B.C. economy was 4% and unemployment decreased from 12.6% to 12.0%. Capital investment increased by a significant 20.2% after a decline of 21.3% in the previous five year period, and the Consumer Price Index rose 3.1%. 1988 forecasts indicate a 3.4% real growth in the B.C. economy, an 11% unemployment rate at year end, a 15% increase in capital investment and a 4% increase in the Consumer Price Index.

As for Burnaby, the 1988 budget target of a 5.9% tax increase was easily met, as the increase was only 2.6% after allowance for new taxes from new assessment growth. Service levels for 1988 were held constant for the most part, with some slight increases in a few areas, such as the opening of the new Bonsor Recreation Centre.

What Can We Expect For 1989?

Most projections indicate that the Canadian economy will slow down in 1989. The B.C. economy, which is expected to grow at a slower pace in 1988 compared to 1987, is also expected to continue to slow down in 1989, reflecting the slower anticipated growth in the U.S. and the rest of Canada. However, some economists currently foresee no recession for Canada or for the U.S. in 1989.

In 1989 the economic growth in the U.S. is expected to be 2.0% (3.0% in 1988), in Canada to be 2.2% (3.3% in 1988), and in B.C. to be 2.4% (3.4% in 1988).

Inflation levels in 1989 are anticipated to continue at slightly higher than 1988 levels, in spite of the lower economic growth levels in 1989. In 1989 the consumer price level is expected to rise by 4.2% in the U.S. (4.0% in 1988), by 4.5% in Canada (4.0% in 1988), and by 4.5% in B.C. (4.0% in 1988).

Canadian tax reform, by eliminating the present sales tax and replacing it with a more comprehensive tax, most likely a business transfer tax, may be a source of added inflation.

Unemployment is expected to decline gradually, and on a national basis it is expected that the jobless rate will continue to fall and reach 7.2% at the end of 1989 for Canada, but remain at 11% for B.C.

Interest rates in Canada are expected to increase slightly in the second half of 1988 and stay up until the second quarter of 1989 before dropping back to lower than current levels by the end of 1989. In 1990 we could be seeing lower rates than those experienced at mid-1988. The interest rates in the U.S. are also expected to be lower by the end of 1989 compared to mid-1988 levels.

As for B.C. in 1989, the economy is forecast to grow by 2.4%, unemployment to remain basically unchanged at 11%, capital investment to increase by about 8%, and the Consumer Price Index to rise by 4.5%.

We expect the municipal tax revenue from new construction in Burnaby to amount to about \$2.5 million in 1989. Expenditures will likely rise in line with or slightly above the rate of inflation.

Summary of 1986, 1987, 1988 and 1989

The following table summarizes the above statistics and highlights the Canadian and B.C. trends (% change per year, except unemployment which is % unemployed):

	1986	1987	1988	1989
	<u>Actual</u>	<u>Actual</u>	<u>Projected</u>	<u>Forecast</u>
	%	%	%	%
Real Gross National Product				
- Canada	3.1	3.9	3.3	2.2
- B.C.	3.5	4.0	3.4	2.4
Consumer Price Index				
- Canada	4.2	4.4	4.1	4.2
- B.C.	3.3	3.1	4.0	4.5
Unemployment				
- Canada	9.6	8.9	7.7	7.2
- B.C.	12.6	12.0	11.0	11.0
Capital investment				
- Canada	11.5	14.8	13.4	5.0
- B.C.	-8.2	20.2	15.0	8.0

Major Issues for 1989

The major issues that need to be addressed in 1989 are as follows:

- active development and implementation of the Metrotown Plan,
- continuing implementation of the Transportation Plan,
- economic development in the community and our role in the stimulation of it,
- continuing implementation of the Strategic Plan for the Management of Information,
- continuing implementation of the \$20.9 million capital program for recreation and cultural services,
- development of the Cariboo area.

In the process of preparing the budget we must ask ourselves how we measure the efficiency and the effectiveness of the programs we deliver. We must continuously monitor our performance so that we can maintain our pursuit of excellence.

Summary

Although our budget will increase in 1989, the needed revenues and a reasonable tax increase to our taxpayers will not be sufficient to allow us to expand our programs beyond our existing services and previous commitments, in spite of a record anticipated new tax revenue from new assessments.

The economists forecast an inflation rate of 4.5%, which will affect all our payments for wages, salaries, services, supplies, outside contracts, etc. While inflation affects most of our costs, at least to the extent forecast and more in some cases, the required revenue increases have to be absorbed by our tax base, which is about half of the total revenues, thereby translating into a much higher than inflation percentage escalation on the tax base. In addition, we will generate a higher debt load repayment resulting from the continuing capital program for recreation and cultural services, major roads, Metrotown civic square and public parking developments, and from the recently constructed local improvements. There will also be increases in costs for our police and fire protective services as approved by Council, as well as the annualized operating costs of the recently constructed facilities.

In short, it is expected that the 1989 operating budget will see pressure to increase the tax draw over 1988 in a range of around 9-10%. The major influencing factors are:

	%
. Inflation - 4.5%, offset in part by service fee increases. Because inflation affects most of our costs, and because only about half of municipal revenue comes from taxation, the increase in taxation is higher than the inflation rate	6 - 7
. New programs introduced in 1988 or part way through 1988 which need to be paid for in 1989. These include - increases in Fire and Police; operating costs of recently constructed parks and recreation facilities; increased debt from capital programs	6 - 7
. New construction added to the assessment roll for the first time. For example, new construction in Metrotown and all other areas of the community will generate new tax revenue which will be used to finance new or expanded programs	<u>(3 - 4)</u>
Potential increase in 1989 tax levy	9 - 10%
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Municipal Manager's Challenge

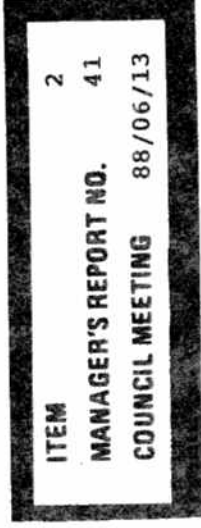
The potential tax draw increase in the range of 9% to 10% at best is only an estimate and could vary from this range because there are many unknowns at this stage of planning for 1989. However, I believe the 9% to 10% range of increase is higher than can be reasonably recommended, and therefore we must have a target that is lower than that.

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My challenge to the organization, then, is to plan for a budget that calls for an increase of no more than 6 3/4% in the tax levy for 1989, after allowance for tax growth from new construction. Without your help, this challenge cannot be met.

At the service level, with current commitments, the challenge results at best in a zero increase in current program expenditures after allowance for specified inflationary increases and salary increments, and increases to protective and other services as previously approved by Council. We will still need to continue to look for ways to do more for less. New programs can only be initiated if they are matched by an equivalent value of existing program reductions or deletions. Generally speaking, we should be able to afford to deliver the same relative level of services as we did in 1988.

I know that we can together meet the challenge.



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