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**2013.1 RR TREAD.22.1 Reference: Review of Insurance Corporation of British Columbia (Review) August 2012**  
**Internal Audit & Advisory Services**  
**Ministry of Finance**  
**Operations – Other Expenses**  
**Ex. A2-9, PDF p. 42 - 44**

*“The corporate budgeting process is decentralized leading to inconsistent practices across the organization. ICBC’s use of an incremental approach to budgeting is not challenging the organization to reduce costs and, as a result, inflated budgets continue, allowing divisions to easily achieve favourable results.”*

*“Setting budgets that are too easily met does not sufficiently challenge ICBC, at an organizational level, to find savings. Introducing the rigor of a zero-based budget would help detect inflated budgets and assist with finding cost-effective ways to deliver operations.”*

*“ICBC’s expense policies are generous when compared to the se Public Service and are deemed to be guidelines with exceptions approved by senior management. A culture of cost-containment and financial discipline has been lacking in recent years.” (emphasis added)*

**“Recommendations:**

**ICBC should regularly conduct detailed reviews of the budget to ensure costs are contained and aligned with the Province of British Columbia’s priorities. ICBC should strengthen their oversight of the corporation’s expenses to instill a culture of cost containment and financial discipline.”**

**In light of the Ministry’s findings does ICBC acknowledge there are major flaws in its budgeting processes? Please explain.**

**Response:**

No, ICBC does not agree. There are generally two approaches to budgeting: incremental (also known as traditional) or zero-based budgeting. Incremental budgeting typically uses the prior year’s budget or actual results as a basis for determining the upcoming year’s budget by making incremental adjustments. Zero-based budgeting, on the other hand, starts with a blank slate and the budget is determined from the “ground up” based on justifiable needs. There are pros and cons to either approach, primarily in consideration of simplicity, efficiency, and comprehensiveness of the budget.

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ICBC has historically used a combination of incremental and modified zero-based budgeting approaches with top-down targets set at both divisional and corporate levels, typically within inflationary rates. ICBC's budgeting approach has been an iterative process, improving and evolving as corporate objectives are set and directed by the Board of Directors each year. In managing the development of ICBC's annual budget, a balance needs to be maintained between the efficiency of the process, simplicity versus comprehensiveness, and the ultimate achievement of ICBC's corporate objectives.

In August 2012, ICBC expanded the use of zero-based budgeting for fiscal 2013; focusing on areas in response to the 2012 Government Review of ICBC (the 2012 Government Review). ICBC conducted functional and other detailed budget reviews to determine how best to ensure efficient service delivery. The end result was a corporate-wide restructure, which reduced staffing (mostly of senior management, management, and confidential positions), reduced the number of divisions from 10 to 8, and centralized a number of key functions. The reduction of over 260 staff positions served to reduce compensation costs and overall staffing levels are more consistent with 2008 levels. The reorganization of ICBC served to improve operations and to deliver efficiencies. ICBC has also delivered on the commitment, in response to the 2012 Government Review, to reduce 2013 forecast operating expenses by \$50 million from its 2011 original plan.

The Claims Division is the largest division in ICBC and contains the highest number of FTEs. With the advent of Claims Transformation, ICBC has had the opportunity to assess and modify Claims' service delivery model, hierarchy, and claims handling processes. In determining Claims Division staffing, ICBC thoroughly re-evaluated, starting from the zero base, the resources it required to support the claims function. ICBC estimates a reduction of 341 FTEs when the Claims Transformation is fully implemented. As discussed in the response to information request 2013.1 RR BCUC.115.2, the compensation savings arising from Claims Transformation is expected to be realized gradually over time, with an estimated favourable impact to corporate operating expenses in 2014 of ~~\$2.2~~ \$4.5 million, which equates to approximately ~~\$1.3~~ \$2.7 million to the benefit of Basic insurance policyholders.

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ICBC has continued its focus on cost containment that began in 2011 in response to rising bodily injury claims costs (discussed in the response to information request 2013.1 RR TREAD.22.6). ICBC continues to maintain cost control and containment tactics and to re-evaluate planned expenditures, especially as regards to non-compensation-related expenses, through:

- Vacancy management to ensure new staff are only hired to fill critical positions or in response to business demands.
- Discretionary spending curtailment to reduce employee-related and discretionary expenses.
- Project governance to incorporate a more stringent and strategic approach to prioritizing projects and managing project scope and costs.
- Detailed budget reviews to search for cost savings opportunities, identify potential efficiencies, and align with the Province of British Columbia's priorities.

ICBC continues to maintain an accountability and oversight framework which serves to guide its assessment of business needs and achievement of corporate objectives relative to its expenditure requirements.

