BUDGET PLANNING PROCESS

Every four years, the Board sets the strategic priorities, policy and direction that guide the activities of the organization. Board members, other elected officials and, in some cases, First Nations and ratepayers sit on various committees and commissions that receive public input.

Public input happens throughout the planning cycle, through customer satisfaction surveys, financial plan consulting, user statistics, advisory body reports and other public engagement activities. This input drives the Board's strategic priorities.

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REPORT TO THE FINANCE COMMITTEE
MEETING OF WEDNESDAY, MAY 03, 2023

SUBJECT **2024 Service and Financial Planning Guidelines**

ISSUE SUMMARY

This report outlines the service and financial planning process for 2024 including key budget drivers for consideration.

BACKGROUND

The Capital Regional District (CRD) 2024 service and financial planning processes have begun. Board Priorities, Corporate Plan initiatives and core service delivery form the foundation of the 2024–2028 five-year financial plan. Appendix A highlights the overall corporate planning process while Appendix B details the timeline specific to the planning cycle.

The 2024 planning cycle marks the first year of the implementation of the Board approved 2023-2026 CRD Corporate Plan. The Corporate Plan identifies the initiatives that will progress service delivery in alignment with the Board Priorities. The Corporate Plan also includes initiatives that deliver on core service mandates, are necessary to meet regulatory requirements and help the organization keep pace with population growth and community expectations.

Impacts for initiatives will be summarized and presented with the 2024 service plans, known as Community Need Summaries, and the provisional budget will be presented at the Committee of the Whole meeting scheduled for October 25, 2023. As in prior years, to proactively influence the planning process, this report recommends planning guidelines in the context of observed trends, assumptions and drivers impacting the organization.

ALTERNATIVES

Alternative 1
The Finance Committee recommends to the CRD Board:
That the service and financial planning guidelines as presented be approved and that staff be directed to prepare the draft financial plan review based on the timeline presented.

Alternative 2
That this report be referred back to staff for additional information.

IMPLICATIONS

The guidelines are the policies and assumptions by which CRD Board and staff determine the most appropriate allocation of resources to deliver the Corporate Plan. Additionally, the guidelines inform decision making in consideration of the macro-economic environment and financial health of the organization.

Governance Implications

Alignment of the financial plan with strategic priorities and financial management strategies supports efficient and effective service delivery. The 2024 financial planning process will reflect feedback from various Commissions.

In 2024, staff will prioritize programs and initiatives that:
- Advance Board priorities or Corporate Plan initiatives;
- Operationalize capital investments; and/or
- Are necessary to maintain a core service level following a regulatory change or where there is a safety risk to customers, communities, or staff.

As in prior years, the public will continue to be engaged throughout the process with the established communications and feedback strategy. There are also ongoing opportunities for public input through committee, commission and CRD Board meetings. New for 2024, there will be a review of service and financial plans by committees for services with annual operating plans greater than $5 million ahead of provisional budget approval scheduled for October 25, 2023. Plans presented to committees will total nearly two thirds of the operating budget.

Financial Implications

Financial Planning Guidelines

The financial planning guidelines advise the organization on internal and external drivers to influence management practices with respect to surpluses, reserves, debt and cost containment measures. This will enable the organization to optimize revenue requirements and minimize requisition increases. Analysis of the following areas influence the guidelines:

1) Economic Conditions
2) Core Service Levels and Infrastructure Investment
3) Financial Management Strategies

1) Economic Conditions

The financial plan relies on ongoing analysis and monitoring by staff of economic drivers and assumptions, with a focus on understanding their impact on both service delivery and financial performance. In the past year, three key interrelated economic indicators that remain under watch for their impact on service delivery are inflation, unemployment and interest rates.

Since the start of 2022, borrowing rates have undergone significant changes. Due to low unemployment rates and supply chain disruptions, inflation reached a 30-year high, prompting national policymakers to act. In response, the Bank of Canada (BOC) has increased the key overnight lending rate eight times between March 2022 and January 2023 in an effort to slow inflation and attain their 2% target. The overnight lending rate now sits at to 4.5%[1], increasing short- and long-term borrowing costs significantly higher than the year before. Despite the rate increase, inflation remains above BOC target currently. Rate increases do have a lagging affect on inflation, reducing economic activity over time as more business and consumers are exposed to higher rates. Market expectations are that inflation will decline nationally in the coming months

[1] https://www.bankofcanada.ca/2023/04/fad-press-release-2023-04-12/

however, other factors like unemployment levels also influence inflation. The BOC will continually re-assess the adequacy of its existing measures and is willing to further raise the rate if necessary.

Rising market rates have increased the long-term borrowing rates offered by the Municipal Finance Authority of BC, causing local governments across British Columbia to reevaluate and increase project budgets. The CRD is addressing these challenges through cost containment within the financial planning process and through effective use of financing strategies aimed at optimizing value for money by lowering overall borrowing costs.

Inflation in Canada has decreased since last summer's peak of 8.1%, with annual national Consumer Price Index inflation falling to 5.2% in February[2]. Core inflation was just below 5%, due to a drop in the price of goods, energy prices and decreased spending brought about through monetary policy on the overnight rate. However, inflation remains higher in most provinces and regions, including 6.2% in British Columbia, 6.0% in Victoria, and 5.9% in Vancouver as of February 2023[3]. Although the British Columbia (BC) provincial budget, which was recently approved, assumes an inflation rate of 3.9% for forecasting, the Executive Leadership Team is setting a service planning cap of 3.5%.

Meanwhile, Victoria has the lowest unemployment rate in BC, and the second-lowest rate among Canadian urban centers. According to Statistics Canada, the city's jobless rate fell slightly to 3.2% last month, from 4.5%[4] in August 2022, while Vancouver's unemployment rate rose slightly to 4.9%[5]. The provincial and national rates were 4.5% and 5.0% respectively. The tight conditions of the local employment market pose ongoing recruitment and retention challenges for CRD.

Service delivery and infrastructure investment will be affected by pricing and labor pressures. The increased utilization of CRD services, driven by population growth and local economic activity, leads to higher volumes and costs of delivery. To ensure optimal levels of service, the staff continuously monitors these costs. In response to increased uncertainty, conservative planning assumptions are recommended.

2) Core Service Levels and Infrastructure Funding

The CRD Board’s 2023-2026 strategic priorities formed the basis of the Corporate Plan. These priorities are foundational to each service’s work plans. The rolling five-year financial plan will reflect updated assumptions in timing, scope and cost estimates.

The most significant costs of service delivery are costs of capital and operating expenses such as salaries and benefits, debt servicing, materials and equipment. Changes in these expenditures will be influenced to a greater degree by uncontrollable economic conditions such as unemployment rates, supply and demand, surcharges and contractual agreements.

The organization has experienced growth in many core services within the past five years driven by community need and guided by the Corporate Plan. Service delivery review is an effective tool to evaluate efficacy of existing service delivery while priorities continue to evolve. The

[2] https://www2.gov.bc.ca/gov/content/data/statistics/economy/consumer-price-index
[3] https://www2.gov.bc.ca/gov/content/data/statistics/economy/consumer-price-index
[4] https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410038001
[5] https://vancouverisland.ctvnews.ca/b-c-adds-14-000-jobs-with-second-lowest-unemployment-rate-in-canada-1.6345791

organization's approach has been and will continue to include annual Board reviews to prioritize existing services and advance essential initiatives directly identified in the Corporate Plan.

Prioritization will focus on mitigating cost impacts where possible while still balancing essential services and initiatives. To exercise constraint and cost containment, the core inflationary adjustment will be kept to 3.5% in the planning process. Mitigation of inflationary pressures through retraction of auxiliary, delayed staffing and optimal levels of resourcing can aid the organization in absorbing cost pressures.

Also supporting the response to growth, more informed infrastructure investment planning has proceeded through the Board approved corporate asset management policy and strategy. Operationalized initiatives including reserve fund policies, maintenance intervention and a risk-based approach to asset renewal, have contributed to operating and capital cost reductions.

Additional asset management financial based initiatives include development and completion of:

- Sustainable Service Delivery plans to maintain and replace existing assets in short, medium and long-term horizons;
- Lifecycle Costing Framework integrating quantitative, qualitative, social, environmental and economic measures such as climate action and risk management; and
- Library of Financial Guidelines aimed at optimizing financial position, reserves and borrowing capacity while lowering current costs and current revenue.

3) Financial Management Strategies

Financial management strategies ensure critical financial objectives are integrated into organizational decision making and operations. The following outlines the financial management strategies that will generally guide financial planning:

- Optimize fees for service revenues and stabilize tax rates to fund operations, maintenance, growth and asset utilization
- Limit transfers to/from operating reserves, transferring only to fund one-time projects or to stabilize revenue requirements
- Levels of transfers to/from capital reserves supported through development of life cycle funding requirements and optimal levels of debt and debt terms
- One-time variances resulting in surplus transferred to reserve in order to fund future capital liabilities or reduce future revenue requirements and only applied to reduce tax rates in rare circumstances where the offset is sustainable and stable

Board approved financial policies and guidelines such as the asset management policy, capital reserve guideline and debt term guideline inform financial planning in a standard way at a service level whereas the strategies given above provide general corporate direction. Additional service level guidelines are under development including operating reserve guidelines and utility rate model guidelines.

CONCLUSION

Board Priorities, Corporate Plan initiatives and core service delivery form the foundation of the 2024–2028 five-year financial plan. To proactively influence the planning process, this report recommends planning guidelines in the context of observed trends, assumptions and drivers impacting the organization. The guidelines are the policies and assumptions by which CRD Board and staff determine the most appropriate allocation of resources to deliver the Corporate Plan. In response to a high degree of economic uncertainty, more conservative planning assumptions are recommended. Prioritization will focus on balancing cost pressures with ensuring essential service delivery.

RECOMMENDATION

The Finance Committee recommends to the CRD Board:
That the service and financial planning guidelines as presented be approved and that staff be directed to prepare the draft financial plan review based on the timeline presented.

Submitted by:	Rianna Lachance, BCom, CPA, CA, Senior Manager, Financial Services
Concurrence:	Nelson Chan, MBA, FCPA, FCMA, Chief Financial Officer
Concurrence:	Kevin Lorette, P. Eng., MBA, General Manager, Planning & Protective Services
Concurrence:	Ted Robbins, B. Sc., C. Tech., Chief Administrative Officer

ATTACHMENTS

Appendix A: CRD Corporate Planning Framework
Appendix B: 2024 CRD Financial Planning Timetable

Capital Regional District

Service and Financial Planning Guidelines

CRD Timetable for 2024-2028 Financial Plan

Month	Description
June	Executive Leadership Team - Review and Prioritize initiative Business Cases Financial Plan Guidelines
June - August	Staff - Service Planning and Budget Preparation
September - October	Executive Leadership Team, Committees & Commissions - Review of Budgets, including Initiative Business Cases
October	Electoral Area Committee - Budgets and Intiative Business Cases (Oct 23) Committee of the Whole - Financial Plan and Intiative Business Cases (Oct 25) Board - Approval Provisional Financial Plan (Oct 25)
January	Surplus/Deficits - Budget Recast
March	Board - Final Bylaw Approval
April	Requisition