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REPORT TO THE FINANCE COMMITTEE MEETING OF WEDNESDAY, MAY 01, 2024

SUBJECT 2025 Service and Financial Planning Guidelines

ISSUE SUMMARY

This report outlines the service and financial planning annual process and approach for 2025 including key budget drivers for consideration.

BACKGROUND

The Capital Regional District (CRD) 2025 service and financial planning processes have begun. Board Priorities, Corporate Plan initiatives and core service delivery form the foundation of the 2025 to 2029 five-year financial plan. Appendix A highlights the overall corporate planning process while Appendix B details the timeline specific to the planning cycle.

The 2025 cycle plans year three of the Board approved CRD Corporate Plan. The Corporate Plan identifies 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 maintain service levels.

New for 2025, as actioned in the corporate initiative CRD Evolves 2024 to 2025, core services will undergo review and realignment aimed at addressing duplication, centralization and opportunities to scale existing services. Cross functional teams will plan and execute this work for implementation in 2025 and beyond.

Impacts for initiatives will be summarized and presented with the 2025 service plans, also known as Community Need Summaries, and the provisional budget will be presented at the Committee of the Whole meeting scheduled for October 30, 2024. As in prior years, to proactively influence the planning process, this report recommends planning guidelines in consideration of various trends, assumptions and drivers impacting the organization.

ALTERNATIVES

Alternative 1

The Finance Committee recommends to the Capital Regional District Board:

That the service and financial planning guidelines 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

Alignment with Board & Corporate Priorities

The guidelines are the policies, practices and assumptions by which the CRD Board and staff determine the most appropriate allocation of resources to deliver the Corporate Plan. The guidelines are reviewed and tailored to current economic trends and in support of financial health targets for the organization.

The alignment of the financial plan with strategic priorities and financial management strategies, provides a delivery of service that is efficient and effective. The 2025 financial planning process will reflect feedback from various commissions, committees and the Board.

In 2025, staff will prioritize programs and initiatives that:

- Advance Board priorities or Corporate Plan initiatives;
- Operationalize capital commitments and 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.

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: Economic Conditions, Core Service Levels and Infrastructure Investment and Financial Management Strategies.

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. Highlights of key interrelated economic indicators in this report include interest, inflation and unemployment rates, and population growth.

In January 2024, Canada's gross domestic product (GDP) displayed a strong rebound, easing pressure on the Bank of Canada (BoC) for an early rate cut. Further GDP¹ expansion is expected which is impacting financial markets to lower expectations for a 0.25% rate cut in June 2024. So far, Canada's economy has managed to steer clear of a technical recession despite elevated interest rates. Higher rates continue to place upward pressure on costs in capital investment compounding inflationary cost pressures in local, provincial and national Consumer Price Indices.

¹ <https://globalnews.ca/news/10389121/canada-economy-gdp-january-2024/>

Through February 2024, the Greater Victoria average annual inflation rate was 3.1%, provincially the value was 3.4%, while Vancouver measured 3.8%². The recently approved BC provincial budget assumes an inflation rate of 2.7%³ in 2024 in comparison to 2023 actuals of 3.9%. Given historical planning guidelines for the CRD and the economic trends the Executive Leadership Team is setting the target for service and financial planning at 3.0%. This represents the target percentage increase over 2024 budgets; the increase will reflect the change for the consolidated requisition per household excluding municipal debt. As shown in Appendix D, the five-year consolidated requisition forecast includes multi-year projects, programs, and initiatives already underway. Through service optimization and rationalization, staff look to achieve the 2025 planning target.

The CRD continues to address rising costs through core service continuous improvement and optimization. Additionally, the effective use of financing strategies such as revenue diversification, asset leverage and reserve management support the organization in meeting annual budget targets. The CRD polices and strategies on operating and capital reserves monitor funded status and inform debt capacity through uncertain interest rate periods.

Persistent regional challenges in housing availability, transportation and overall affordability directly impact recruitment and retention for the CRD. In February 2024, the Greater Victoria unemployment rate was 4.3%, well below the provincial, national and Vancouver rates of 5.4%, 5.8% and 5.6% respectively⁴.

Population growth (3.3% in 2023) compounds regional challenges in addition to driving higher utilization of CRD services. Operational results through early 2024 reflect higher volumes and variable costs of service delivery in water, parks and recreation.

Financial Capacity

Equally pervasive to planning, organizational capacity correlates to the current and forecasted financial capacity of the organization. Based on recently developed CRD financial management strategies, capacity is regularly reviewed informing targets and managing upper bounds on financial implications. While growth continues to place upward pressure on service delivery, forecasts provide visibility on related implications to mitigate and reduce financial risk.

Recognizing the complexity and variability of factors influencing revenue projections, sensitivity analysis is used to inform the executive of approximate financial capacity in future years. The 2025 requisition increase is forecasted to be 6%, with a potential range from 5% to 8%. This uncertainty underscores the need for adaptability in operations and financial management support throughout the cycle.

Debt management is a critical tool of our financial strategy, encompassing a thorough review of operational needs in alignment with asset management performance. Overall debt loads and the availability of borrowing capacity under existing loan authorization bylaws provide the ability to react to the changing environment.

² BC Stats CPI report at: https://www2.gov.bc.ca/assets/gov/data/statistics/economy/cpi/cpi_highlights.pdf

³ BC 2024 Inflation Forecast (Page 93): https://www.bcbudget.gov.bc.ca/2024/pdf/2024_Budget_and_Fiscal_Plan.pdf

⁴ Table 14-10-0380-01 Labour force characteristics, three-month moving average, seasonally adjusted: [Labour force characteristics, three-month moving average, seasonally adjusted \(statcan.gc.ca\)](https://www150.statcan.gc.ca/n1/pub/28-601-x/2024001/article/00001-eng.htm)

Core Service Levels

The CRD Board's 2023 to 2026 strategic priorities form the basis of the Corporate Plan and related service 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 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 of goods and services, as well as contractual agreements.

The organization has experienced growth in many core services in the past five years, driven by community needs in the Corporate Plan. Service Delivery reviews are an effective tool to evaluate efficacy while priorities continue to evolve.

Financial Management Strategies

Financial management strategies ensure critical financial objectives are integrated into organizational decision making and operations. Appendix C provides a summary of current financial management strategies published for corporate planning.

Infrastructure Funding

Community approved master plans are either in place or are under development across the CRD, reflecting a long-term service delivery view for investment in assets and service levels. The Board approved Corporate Asset Management Strategy and Policy set activities and actions required in planning and managing critical assets of the organization.

Initiatives include development and completion of:

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

Public Engagement

As in prior years, public engagement on the financial plan is considered an integral part of the process. The CRD continually seeks to improve on this process by developing a plan reflective of community desired methods of engagement. Ongoing opportunities for public input through committee, commission and CRD Board meetings will be available throughout the year.

CONCLUSION

Board Priorities, Corporate Plan initiatives, and core service delivery form the foundation of the 2025 to 2029 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 the CRD Board and staff determine the most appropriate allocation of resources to deliver the Corporate Plan.

RECOMMENDATION

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

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ATTACHMENTS

- Appendix A: Capital Regional District Corporate Planning Framework
- Appendix B: 2025 Capital Regional District Financial Planning Timetable
- Appendix C: Financial Management Strategies
- Appendix D: Five-Year Consolidated Requisition Forecast