

**REPORT TO THE CAPITAL REGIONAL DISTRICT BOARD  
MEETING OF WEDNESDAY, MARCH 13, 2019**

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**SUBJECT     2019 Financial Plan Process**

**ISSUE**

This report provides background on the Capital Regional District (CRD) 2019 Final Budget and the process for final approval before March 31.

**BACKGROUND**

Annually, the CRD must develop a financial plan representing the operating and capital expenditures for the next five years. The financial plan is developed in alignment with the legislative authority of various CRD services which, upon approval, provides expenditure authority. Final budget approval is required no later than March 31 of each year. See Appendix 1 for the current corporate and financial planning activities timeline.

Consistent with previous years, a preliminary budget (the provisional financial plan) was developed and approved in the fall of the preceding year to meet requirements of various fees and charges bylaws which set rates as of January 1. In addition, expenditure authority for various capital projects and operating initiatives is required to ensure uninterrupted delivery of services.

The provisional financial plan, approved by the Board on September 5, 2018, formed the foundation of materials used in public consultation to engage with service participants on service levels and planned spending before final approval. This year's open public feedback period concluded on February 15<sup>th</sup>, but comments continued to be received up to February 17<sup>th</sup>. All comments will also be included in the final budget package on March 20 (Appendix 3).

The provisional financial plan is subject to changes as a result of year-end adjustments, payments in lieu of taxes, revised assessment information, and other committee or commission-directed amendments prior to final approval. Both the Capital Region Housing Corporation (CRHC) and Capital Regional Hospital District (CRHD) undertake a budget planning process concurrently with the CRD. The only variation is final approval of the 2019 CRHC Financial Plan was completed in December 2018.

The 2019 Financial Plan marks the final year of the four-year service planning cycle aligned to the Strategic Plan set by the outgoing Board. Following the election in October 2018, the next planning cycle began with a new 2019-2022 Strategic Plan recently developed and approved by the incoming Board.

The 2019 Budget has been adjusted to respond to Committee directions to address priorities identified through the Board's new Strategic Plan. A Corporate Plan will be brought to the Board in April. The Corporate Plan will identify additional initiatives that will be taken to support Board Priorities in 2020 and beyond. The Corporate Plan will also capture work necessary to deliver on the CRD's service mandates, approved plans and corporate priorities. Through the service/financial planning process, staff will, in fall 2019 and annually thereafter, identify the most sustainable and affordable ways to deliver on the work noted in the Corporate Plan. Referencing this information, the Board will determine new initiative timing and resource funding.

## **2019 Planning Process and Approvals to Date**

The 2019 provisional financial plan is the product of a rigorous strategic, corporate, and financial planning process spanning many months, beginning in May 2018 with the Finance Committee and Board's adoption of the 2019 Service and Financial Planning Guidelines (Appendix 2), and ending in September 2018 with approval of a budget based on the following:

- Core Operating – optimize service delivery levels approved in the service plan process, and rebalance work and priorities where necessary to mitigate cost increases in 2019 ahead of a new Strategic Plan by incoming Board;
- Inflation – limit inflationary impacts to Consumer Price Index (CPI) indicators, and manage cost escalation related to service contracts and construction pricing;
- Salary, Benefits, Administration – manage cost implications of legislative and regulatory changes such as the employer health tax, adjustments to offset the elimination of the 1/3 elected officials expense allowance, and renewals of collective agreements;
- New Initiatives - limited to only service-level enhancements already approved in the 2018 service planning process, for implementation in 2019.

Under the direction provided by the Board, review and recommendation for approval of all electoral area-only service budgets was delegated to the Electoral Area Committee (EAC), including the review of Local Service Commission budgets. Review and recommendation to the Board of all preliminary regional and sub-regional budgets was made by the Committee of the Whole.

The Board approved all budgets, inclusive of early approvals, on September 5, 2018.

Early approvals are required where the commencement of work before March 2019 is considered necessary to address operational needs for meeting service plans or efficiency of executing approved initiatives. These are often related to items that have regulatory compliance implications or grant deadlines, or to capital projects where a delay can have a negative impact on schedule, scope, and/or budget.

Section 374 of the Local Government Act requires final budget approval by the Board before March 31. The scheduled meeting for this is March 20.

## **Public Consultation**

Section 375 of the Local Government Act stipulates the following process for a financial plan:

1. A Board must undertake a process of public consultation regarding the proposed financial plan before it is adopted;
2. The designated regional district officer must send a copy of the financial plan to each municipality in the regional district and to the inspector.

The Act does not specify or provide any information on the scope or type of public consultation that must be carried out and, given the diversity of services, the CRD utilizes a variety of mediums.

With CRD Commissions and Committees providing oversight and guidance on many of the CRD services, public input is received leading up to the preparation of budgets through these bodies during the annual service planning review process. Local and sub-regional Commissions include elected representatives and often rate-payer representatives as well.

The provisional financial plan along with service plans and feedback forms have been posted on the CRD's public website and promoted through CRD media releases and social media channels including Facebook and Twitter. In addition, the consultation process, which ran from the

beginning of January through late February, is continually being improved to increase awareness and public engagement. Additionally, complementary materials and infographics designed to increase the understanding of the CRD's financial position have recently garnered national and international awards and recognition. Public feedback received during this consultation period is included in Appendix 3.

Public feedback will be considered alongside the financial plan at the March 20, 2019, open CRD Board meeting. The date and time of the meeting is advertised in local newspapers and through the aforementioned CRD channels.

### **2019 Provisional Financial Plan Overview**

On May 9, 2018, through Finance Committee recommendation, the Board approved the 2019 Service and Financial Planning Guidelines (the Guidelines). The Guidelines supported financial management strategies related to revenue, reserves, and debt management. The Guidelines also directed staff to prepare the upcoming 2019 service and financial plans and budget to reflect continued deployment of previously approved service levels with minor adjustments in program delivery as directed, while also incorporating inflation, salaries and wage rates, benefit rates, and administration rate impacts.

Service plans drive the financial planning process and provide necessary information to evaluate overall organizational requirements, initiatives, service levels, and resulting implications for the financial plan.

Within the financial plan, the operating budget identifies revenues and expenditures of each service. Budgeted revenues are primarily derived from sale of services, fees and charges, requisitions, and grants. Expenditures are determined through application of a variety of assumptions and agreements, some of which the Board considers directly, and others which are recommended through committees, or locally by participants and service commissions.

Various external pressures influence the budget, many of which are uncontrollable. Cost drivers such as employment rates, construction activity, inflation forecasts, and interest rate changes have a direct and sometimes significant impact on the overall budget. Items such as wages and benefits, materials and supplies, utilities such as electricity and natural gas, and vehicles and equipment are subject to pressures that influence the cost of service delivery.

External increases are partially mitigated by new revenue sources, grants, cost containment, and optimization efforts by staff. Increases in requisition costs to municipalities may also be distributed across a larger local tax base resulting from increased development and construction activity, or be impacted by shifts in the growth of the tax base in other parts of the region. The external factors are incorporated across the organization but given the diverse nature of services and service areas, consideration is given for applicability within a given service area.

In addition to external factors, service level change requests come as a result of Board priorities, community need, and corporate or service planning. The requests are highlighted in the service plans and financial plan documentation. Overall, every effort has been made to accommodate additional resource requirements through the reallocation and reprioritization of existing funding sources and workforce.

On September 5, 2018, the Board approved the 2019 Provisional Financial Plan. The plan included operating revenues and expenditures of \$260.6 million, an increase of \$12.1 million or 4.9% as compared with the 2018 budget.

### Expenditures

| Summary of Expenditures (\$M) | 2019 Provisional | 2018 Final <sup>1</sup> | Change        | % Change    |
|-------------------------------|------------------|-------------------------|---------------|-------------|
| Operations                    | 163.1            | 156.9                   | 6.2           | 4.0%        |
| Debt Servicing                | 37.4             | 37.1                    | 0.3           | 0.8%        |
| Capital Funding               | 42.9             | 40.6                    | 2.3           | 5.7%        |
| Transfers to Reserves         | 17.2             | 13.9                    | 3.3           | 23.4%       |
| <b>Total</b>                  | <b>\$260.6</b>   | <b>\$248.5</b>          | <b>\$12.1</b> | <b>4.9%</b> |

<sup>1</sup> Based on Amended Operating Budget (Bylaw No. 4245)

The increase of \$12.1 million is driven by \$6.1 million for CAWTP, \$3.4 million for wages and benefits, and \$2.6 million for core inflation.

| Expenditure Cost Driver (\$M) | Total         | % of Total Change |
|-------------------------------|---------------|-------------------|
| CAWTP                         | 6.1           | 2.5%              |
| Wage and Benefits             | 3.4           | 1.4%              |
| Core Inflation                | 2.6           | 1.0%              |
| <b>Total Change</b>           | <b>\$12.1</b> | <b>4.9%</b>       |

The requisition increase of \$3.4 million is funding \$1.7 million of the CAWTP increase, \$1.1 million of the wages and benefit increases, and \$0.6 million of the core inflation.

| Requisition Drivers | Total \$     | % of Total Change |
|---------------------|--------------|-------------------|
| CAWTP               | 1.7          | 2.7%              |
| Wages and Benefits  | 1.1          | 1.7%              |
| Core Inflation      | 0.6          | 1.0%              |
| <b>Total Change</b> | <b>\$3.4</b> | <b>5.4%</b>       |

### Revenue

The increase of \$12.1 million is balanced through \$8.1 million in Fees and Charges Revenue, \$3.4 million in Requisitions and \$0.6 million in Rental and Other Revenue such as surplus and reserve transfers.

| Summary of Revenue (\$M)          | 2019 Provisional | 2018 Final <sup>1</sup> | Change        | % Change    |
|-----------------------------------|------------------|-------------------------|---------------|-------------|
| Sale of services                  | 124.3            | 116.2                   | 8.1           | 7.0%        |
| Requisitions                      | 67.1             | 63.7                    | 3.4           | 5.3%        |
| Rental, Grants, Surplus and Other | 54.3             | 53.9                    | 0.4           | 0.7%        |
| Municipal Debt                    | 14.9             | 14.7                    | 0.2           | 1.4%        |
| <b>Total</b>                      | <b>\$260.6</b>   | <b>\$248.5</b>          | <b>\$12.1</b> | <b>4.9%</b> |

<sup>1</sup> Based on Amended Operating Budget (Bylaw No. 4245)

## **Financial Plan Bylaw**

The upcoming final budget reflects all known factors to date since provisional financial plan approval in September 2018, including updates to incorporate both year-end adjustments and committee recommendations.

Since the approval of the provisional budget, a number of service plan adjustments and, as a result, financial plan adjustments are being proposed through standing committees for consideration by the Board. In order to evaluate these recommendations holistically, they will be included in the final 2019 Financial Plan Bylaw presentation on March 20.

A sample of directed changes being included are, but not limited to:

- Climate Action - On February 27, 2019, the Parks and Environment Committee approved a recommendation to the CRD Board that a \$95,000 increase in requisition funding be considered as part of the 2019 final budget approval for the CRD Climate Action service, to undertake a regional greenhouse gas emissions inventory and modelling exercise, and pursue a BC Hydro grant for staff support and, if successful, amend the staff establishment chart to hire a Community Energy Manager for a two-year term;
- First Nations - On February 20, 2019, the First Nations Relations Standing Committee approved a recommendation to the Board to amend the 2019 Service Plan to undertake the work recommended by the Special Task Force on First Nations Relations. The additions to be considered include increases for a Forum of All Councils, special projects, meeting costs, and 1.5 FTE for a program administration and a community liaison;
- Greater Victoria Coalition to End Homelessness - A requested increase to support core services and extend services by the Youth Project Coordinator;
- Electoral Area: Specific increases as recommended through director and/or commissions.

Staff have been evaluating all changes including each of these initiatives and recommendations. Staff are rebalancing work plans, and in some cases recommending deferring elements of committee direction to mitigate financial impacts. The resulting changes on the 2019 budget and future years will be presented on March 20 for consideration.

## **RECOMMENDATION**

That the Capital Regional District Board receive this report for information.

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| Submitted by: | Rianna Lachance, BCom, CPA, CA, Senior Manager, Financial Services |
| Concurrence:  | Nelson Chan, MBA, CPA, CMA, Chief Financial Officer                |
| Concurrence:  | Robert Lapham, MCIP, RPP, Chief Administrative Officer             |

Attachments:

Appendix 1: [CRD Budget Process Timeline](#)

Appendix 2: [Service and Financial Planning Guidelines Report, May 2, 2018](#)

Appendix 3: [CRD Public Feedback](#)