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REPORT TO THE FINANCE COMMITTEE MEETING OF WEDNESDAY, MAY 04, 2022

SUBJECT 2023 Service and Financial Planning Guidelines

ISSUE SUMMARY

This report outlines the service and financial planning process for 2023 including key budget drivers for consideration.

BACKGROUND

The Capital Regional District (CRD) 2023 service and financial planning processes have begun. Board Priorities, Corporate Initiatives, and Core Service Delivery form the foundation of the 2023–2027 five-year financial plan. Appendix A highlights the overall corporate planning process while Appendix B details the timeline specific to the planning cycle.

As in prior years, staff will report progress and seek feedback on strategic priorities at the Committee of the Whole meeting scheduled for May 11. The 2023 planning cycle marks the final year of the CRD Board term and ensures organizational continuity through the development of the next Corporate Plan. Given the transition year, staff aim to limit Initiative Business Cases (IBCs) to supporting approved initiatives and critical prioritized programs.

Impacts for initiatives will be summarized and presented with the 2023 service plans and provisional budget at the Committee of the Whole meeting scheduled for September 21, 2022. 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 Capital Regional District Board:

That the service and 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

Board Input

Alignment of the financial plan with strategic priorities and financial management strategies supports efficient and effective service delivery. Upon completion of the annual Board strategic check-in, any new direction will be incorporated into the planning process. The 2023 financial planning process will also reflect feedback from various Commissions. As the final year of the corporate plan, staff will prioritize critical programs and initiatives only.

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.

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

Economic drivers and assumptions form the basis of the financial plan. Staff continuously analyze and monitor the impact of various drivers on service delivery and financial performance. Effective management limited cash flow and service impacts through the COVID-19 pandemic, where service delivery and operations are returning to pre-pandemic levels.

Various indicators through 2021 and into early 2022 signal regional economic activity has, in many ways, surpassed pre-pandemic measures. The Bank of Canada is forecasting domestic growth at 4.25% in 2022, 3.25% in 2023 and 2.25% in 2024¹. In BC, strong labour market conditions continued through March 2022 where provincial employment has increased 3.5%, outpacing all other provinces².

The Consumer Price Index (CPI), provincially, as of February 2022, was +4.7% higher year over year where the cost of food increased +5.8%, cost of homeownership increased +8.2%, while rent prices rose +5.1%. The price of gasoline climbed +25.2%, while public transportation rates increased +1.8%. The 12-month annual average is 3.0% in Victoria, 3.4% in BC and 4.1%

¹ Global Growth & CPI data sourced from Bank of Canada April 13, 2022 Press Release: <https://www.bankofcanada.ca/2022/04/fad-press-release-2022-04-13/>

² BC labour market data sourced from Central 1 B.C. Economic Briefing, Volume 28, Issue 14: https://www.central1.com/wp-content/uploads/2022/04/ECON_WEB_BC_20220408.pdf

nationally³. The benchmark home value in March 2022 increased by 27.4 % to \$1,233,700, up from \$1,196,300 in February 2022⁴, increasing demand for higher labour market wage rates.

To address inflation, the Bank of Canada has increased the overnight interest rate by 0.75% since January 2022 with further rate hikes expected throughout the year to achieve a target inflation rate of 2%. There are many possible direct and indirect impacts including cost of borrowing, cost of living, construction and overall economic activity in the region.

Pricing and labour pressures will also impact service delivery and infrastructure investment. While population growth and high levels of local economic activity drive higher volume and utilization of CRD services, staff continually monitor cost of delivery to optimize levels of service. In response to a higher degree of uncertainty, more conservative planning assumptions are recommended.

2) Core Service Levels and Infrastructure Funding

The CRD Board's 2019–2022 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 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 retraction of activities where possible while still balancing essential services and initiatives. To exercise constraint and cost containment, the core inflationary adjustment will be kept to 3% in the planning process. Retraction of auxiliary, delayed staffing, and optional 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,

³ BC CPI data sourced from BC Stats Consumer Price Index report released March 16, 2002:
https://www2.gov.bc.ca/assets/gov/data/statistics/economy/cpi/cpi_highlights.pdf

⁴ At: [VREBNewsReleaseFull.pdf](#) – March Report

- Life-Cycle 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 Initiatives, and Core Service Delivery form the foundation of the 2023–2027 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 Capital Regional District Board:
That the financial planning guidelines as presented be approved and that staff be directed to prepare the draft financial plan review based on the timeline presented.

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ATTACHMENT(S)

- Appendix A: CRD Corporate Planning Framework
- Appendix B: 2023 CRD Financial Planning Timetable