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## **REPORT TO COMMITTEE OF THE WHOLE MEETING OF WEDNESDAY, NOVEMBER 29, 2017**

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### **SUBJECT     2018 Financial Plan Provisional Approval**

### **ISSUE**

This report presents the Capital Regional District (CRD) 2018 Financial Plan for review and preliminary approval.

### **BACKGROUND**

Annually, the CRD must develop a financial plan representing the operating and capital expenditure plans for the next five years. The financial plan is developed to ensure consistency and alignment with the legislative authority of the various CRD services which, upon approval, provide the expenditure authority for the operations of the CRD. Final budget approval is required no later than March 31 of each year.

The CRD develops a provisional financial plan to allow for the budget implications of individual service plans to be incorporated into a comprehensive budget document. The provisional financial plan is given approval before year end to determine the revenue requirements, enable public consultation, engage with service participants and bring forward any amendments to fees and charges bylaws coincident with final approval of the budget. A preliminary budget is also developed well before the legislated deadline of March 31 to allow service participants and local rate payers to be informed about revenue requirements, including proposed adjustments to fees and charges. In addition, a number of services have capital programs or new initiatives that are proposed to commence at the beginning of the calendar year and requiring expenditures or proposed changes to fees and charges to be implemented prior to the approval of the new financial plan. The provisional approval will be subject to changes as a result of final year-end adjustments, revised assessment information and any other amendments prior to final approval. It is also noted that the Capital Region Housing Corporation undertakes a provisional budget planning process coincident with the CRD and that the Capital Regional Hospital District financial plan must have final approval before year end.

The CRD budget consists of more than 200 individual budgets. More than half of the 200 budgets are reviewed and recommended directly through standing committees, commissions or other boards. Collectively, the CRD service and budget planning process includes input and direction from over 60 commissions and advisory committees as well as the Capital Regional Hospital District and Capital Region Housing Corporation Boards which are all administered by the CRD.

### **2018 Planning Process**

The CRD follows a four year planning cycle to ensure alignment with the election terms. The CRD's 5 year Financial Plan establishes a longer-term perspective of the allocation of resources required to deliver the programs and services needed by the community, and to accomplish Board priorities. The budget planning cycle is linked to the statutory five year financial plan, which shows projected revenues and expenditures, and the planned contribution of operating revenue required to fund proposed capital projects, together with planned borrowing and anticipated grants.

The financial plans that are brought forward are the products of a rigorous strategic, corporate and financial planning process spanning many months, starting in May of the preceding year. Refer to Appendix 1 for the 2018 financial planning process timeline.

### **Approval Process**

Under the direction provided by the Board, review and recommendation for approval for all electoral area-only service budgets was delegated to the Electoral Area Services Committee (EASC) including the review of Local Service Commission budgets. Review and recommendation to the Board of all regional and sub-regional budgets is to be made by the Committee of the Whole (COW). The EASC recommended approval of electoral area only budgets on November 1, 2017. Immediately following the COW meeting on November 29, all budgets are forwarded to the Board for provisional approval.

### **2018 Financial Plan Approach**

Service plans drive the financial planning process and provide necessary information to evaluate overall organizational requirements, new initiatives, proposed service levels and implications for the budget and financial plan. Service plans were presented to all relevant committees and various commissions to allow for a more detailed assessment of service delivery and programs in October and November 2017. This process provides committees and commissions the opportunity to review work programs, make service level amendments as necessary, and approve service plans.

All Standing Committees recommended approval of the service plans to the Board; the Finance Committee highlighted that they have taken no position on the proposals contained within the plans. Furthermore, the Environmental Services Committee supported the service plans presented as a basis to form the creation of the budget. A consolidated report on the highlights of service plans presented is included as a separate item on the agenda.

The financial indicators relate directly to the CRD and the services provided to the communities in which the CRD operates. While relating these ratios to similar service providers will be difficult due to varying size and standards of local governments, the ratios and complementary indicators included identify trends on some of the key financial metrics relevant to the CRD. Ongoing work on asset management will complement the work done on financial indicators via setting up of policies around debt and reserve levels. It will also enable a better monitoring of CRD spending patterns and investments in light of the continued service delivery demands. Please refer to Appendix 8 for a list of financial indicators.

### **2018 Financial Plan Overview**

The service planning process is a means of aligning operational service requirements and recommendations to Board strategic priorities and the corporate plan. Service plans drive the financial planning process and provide necessary information to evaluate overall organizational requirements, new initiatives, proposed service levels and implications for the budget and financial plan.

The 2018 Financial Plan has been developed based on the resources required for delivery of core services, the cost of new initiatives, proposed capital programs, debt servicing and any new direction from the committees and commissions from the service planning review process.

The Financial Plan includes operating, capital and reserve funds. The operating budget identifies the revenues and expenditures of each service. Budgeted revenues are primarily derived from

sale of services, fees and charges, requisition, and grants. Expenditures are determined through application of a variety of assumptions and agreements, some of which the Board considers directly, and others that are recommended locally by participants or local service commissions.

Various external pressures influence the budget, many of which are uncontrollable. Cost drivers such as 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, natural gas, and vehicles and equipment are subject to inflationary changes that influence the cost of service delivery.

External increases are partially mitigated by new revenue sources, grants and cost containment efforts by staff. 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 of existing funding sources and workforce.

Changes in service levels incorporated into the plan are highlighted to ensure the Board can exercise oversight control over the cost impact of these service level changes. The requests are referred to as one-time or ongoing items and all departments are required to detail changes and show the impact on the expenditure levels in the budget.

### **Assumptions and Drivers**

The assumptions and drivers incorporated into the service planning and financial planning process are focused on:

1. Alignment to regulatory or legislative compliance,
2. Response to external situational factors; and
3. Internal organizational impacts.

#### Alignment to regulatory or legislative compliance

As the organization realizes continued growth, there is a need to realign the organization to reflect the scope and scale of similar local governments in administrative oversight, controls, regulatory and legislative frameworks. Regulatory changes related to environmental monitoring, reporting related to liquid and solid waste management, discharges and emissions, operations and site safety, cyber security, as well as internal performance measures require new effort and resources.

#### External situational factors

The organization can experience both positive and negative impacts through external factors such as a strong and vibrant local economy increasing both revenue and expenses at Hartland landfill and wholesale water distribution. The recent increase in the population growth rate and the resulting surge in development activity has led to the need for additional short and long term capital investment including improvements to existing infrastructure and upgrades to maintain adequate levels of service throughout the Capital Region.

Internal organizational impacts

As the CRD has grown into a \$500M organization, it is well positioned to drive a renewed internal focus on organizational resilience in alignment with corporate and strategic priorities for effective and efficient service delivery.

The CRD's Organizational Development Plan, introduced earlier this year, supports the strengthening of the foundational core of the organization with enhancements to policies, systems and practices and through employee development, communication and engagement. As such, the plan was a key driver in the development of divisional service and financial plans.

Implementation of Board Priorities is also a significant driver for forming the provisional financial plan. As managed through the priorities dashboard, Board endorsed initiatives such as climate action, risk and asset management are having an impact on resource allocation and are driving review and revision of corporate practice to align with these principles.

**ALTERNATIVES**

Alternative 1

That the Committee of the Whole recommend to the Capital Regional District Board:

- 1) That the 2018 Financial Plan be given preliminary approval as presented; and
- 2) That the new initiatives and capital identified in Appendix 10 for January 1 implementation be approved for expenditure.

Alternative 2

That the Committee of the Whole recommend to the Capital Regional District Board:

- 1) That the 2018 Financial Plan be given preliminary approval with specific directions on amendments; and
- 2) That the new initiatives and capital identified in Appendix 10 for January 1 implementation be approved as amended for expenditure.

**IMPLICATIONS**

**Budget Overview**

The 2018 plan includes operating revenues and expenditures of \$248 million, an increase of \$9.4 million or 3.9% as compared with the 2017 budget.

(in \$ millions)

<b>Expenditure Type</b>	<b>2018 Financial Plan \$</b>	<b>2017 Financial Plan \$ *</b>	<b>\$ Change</b>	<b>% Change</b>
Operations	156.9	146.6	10.3	7.0%
Debt Servicing	36.8	38.5	(1.7)	(4.4%)
Capital Funding	41.2	41.6	(0.4)	(1.0%)
Transfers to Reserves	13.1	11.9	1.2	10.1%
<b>Total</b>	<b>\$248.0</b>	<b>\$238.6</b>	<b>\$9.4</b>	<b>3.9%</b>

\* Includes amendments and restatement of comparative figures.

The increase includes the funding for the Core Area Wastewater Treatment Project (CAWTP) as it enters into the construction phase. The CAWTP increase is largely offset by a reduction in operating funding to capital for Environmental Resource Management, leaving the remaining net increase attributable to core inflation and new one-time and ongoing service requirements.

The 2018 CRD Financial Plan provides for the resources to support ongoing core operations and reflects the priorities of the CRD. The total ongoing or one-time service level requests are identified in each the service plan and budget for each service. Detailed budgets by service area are in Appendix 9.

The total change in budget as a result of the service level adjustments from new initiatives, including staff, is \$5.3 million or 2.2% increase over the total 2017 expenditure plan. Wage and step increases total \$1.2 million or 0.5% of the remaining increase while inflation on goods and services and any service level adjustments net to a total \$2.9 million or 1.2% of the remaining increase. The Staff Establishment chart is attached for reference as Appendix 2.

(in \$ millions)

Cost Driver	\$ Ongoing	\$ One-Time	\$ Total	% of Total Change
Core Salary Rate & Step	1.2	-	1.2	0.5%
Core Inflation	2.9	-	2.9	1.2%
New Initiatives	3.2	2.1	5.3	2.2%
<b>Total Change</b>	<b>\$7.3</b>	<b>\$2.1</b>	<b>\$9.4</b>	<b>3.9%</b>

The staffing requests arise from the service planning process that communicates the required realignment and required resources that are needed to meet objectives. Of the total new initiatives, half relate to staffing costs and the remainder are for operating requirements. Overall, new initiatives reflect requirements to address organizational alignment to regulation and legislation, evolve organizational resiliency and respond to external economic and regional factors driving activity.

## Revenue

The sources of funding vary by service. The various funding sources are sales of service, which includes fees and charges, requisition to municipalities, recovery from other departments, reserve transfers, grants, and other revenue.

A comparison of the revenue totals by source show consistent portions coming from requisition, sales of service and surplus. The notable shift year over year was in a reduced portion of revenue coming from reserves.

(in \$ millions)

Sources of Revenue	2018 Financial Plan \$	2017 Financial Plan \$*	\$ Change	% Change
Sale of services	116.4	106.1	10.3	9.7%
Requisitions	64.3	60.9	3.4	5.6%
Allocation to other services	34.2	31.8	2.4	7.5%
Municipal Debt	14.7	14.5	0.2	1.4%
Rentals and other revenue	7.9	4.2	3.7	88.1%
Grants	4.9	5.8	(0.9)	(15.5%)
Surplus	3.9	4.4	(0.5)	(11.4%)
Transfer from reserve	1.7	10.9	(9.2)	(84.4%)
<b>Total</b>	<b>\$248.0</b>	<b>\$238.6</b>	<b>\$9.4</b>	<b>3.9%</b>

\*Includes amendments and restatement of comparative figures.

Please refer to Appendix 3 for an operating budget overview infographic.

### Requisition

The total requisition, excluding Municipal debt for 2018, is \$64.3 million, an increase of 5.5% over 2017. The total electoral area requisitions make up \$13.2 million or 21% of the total \$64.3 million. The individual impact to the municipalities and electoral areas will vary based on the services they receive through the CRD and the changes in the cost-sharing basis (i.e. assessment).

(in \$ millions)

Description	2018 Requisition	2017 Requisition	\$ Change	% of Total Change
Total Electoral Areas Only	13.2	12.9	0.3	0.4%
Regional / Sub Regional	51.1	48.0	3.1	5.1%
<b>Total</b>	<b>\$64.3</b>	<b>\$60.9</b>	<b>\$3.4</b>	<b>5.5%</b>

The primary drivers behind the increase in requisition is CAWTP funding as well as a portion of the increase in costs for new staffing and operating initiatives. The remainder of the costs for new initiatives is funded through a combination of user fees, grants and reserves. The total requisition increase of \$ 3.4M or 5.5% is composed of 1.3% for CAWTP, 1.3% for core inflation and 0.8% for new staff.

(in \$ millions)

Requisition Drivers	\$ Total	% of Total Change
CAWTP	1.3	2.1%
Core Inflation and New Initiatives	1.4	2.3%
New Initiatives-Staff	0.6	1.1%
<b>Total Change</b>	<b>\$3.4</b>	<b>5.5%</b>

Appendix 4 (the Financial Plan and Municipal/EA Summaries) shows a high level summary of the overall 2018 budget, including gross expenditures and revenue sources to fund the expenditures, along with the 2017 finalized budget for comparison. The cost to individual municipalities and Electoral Areas is shown in the schedules attached to Appendix 4 (based on 2017 cost sharing data).

### Capital Budget

The 2018 Capital Plan overview is shown in Appendix 5, a high level overview of capital infrastructure activities in Appendix 6, and the list of projects over \$500,000 in Appendix 7.

Detailed capital plans are included in the financial plans for each individual service. Capital plans are determined through a rigorous process of reviewing:

- Projects already in progress
- Condition of existing assets and infrastructure
- Regulatory, environmental, and health and safety factors
- New or renewal projects prioritized by the communities

The proposed 2018 Capital Plan increase of \$54.8 million from 2017 brings the total capital plan to \$213 million. The increase is primarily driven by the continued implementation of the CAWTP with similar increases planned through 2020. Beginning in 2021, total planned capital will return to levels below \$100 million.

(in \$ millions)

Department	2018 Capital Plan \$	2017 Capital Plan \$	\$ Change	% Change
Sanitary Sewer	143.7	77.7	66.0	84.9%
Drinking Water	29.3	28.3	1.0	3.5%
Protective Services	14.5	16.5	(2.0)	(12.1%)
Regional Parks	7.9	8.9	(1.0)	(11.2%)
Solid Waste	6.5	15.8	(9.3)	(58.9%)
Recreation & Culture	6.3	6.7	(0.4)	(6.0%)
General Gov, Planning & Dev, & Other	5.1	4.6	0.5	10.9%
<b>Total</b>	<b>\$213.3</b>	<b>\$158.5</b>	<b>\$54.8</b>	<b>34.6%</b>

Capital plan highlights, beyond the CAWTP capital plan of \$134 million, are:

- Drinking water infrastructure projects totalling \$29 million for the Regional Water Supply service, Juan de Fuca Water Distribution service, Saanich Peninsula Water Supply and electoral area local services.
- Additional wastewater infrastructure totalling \$9 million in the Saanich Peninsula Wastewater service, Core Area Trunk Sewer services and in the electoral area local services.
- Additional investment, including carry forward and work-in-process projects for the 911

Unified Building, Elk/Beaver lake washroom replacement, and facility expansion for SEAPARC.

Capital projects are typically funded by annual contributions from operating, grants, reserves and/or by long term debt. Grant funding can have a significant impact on implementation of the capital plan depending on if the grant applications are successful.

### Capital Funding

The capital plan funding profile maintains approximately 20% in grant funding overall for proposed 2018 capital projects. Every effort is made to leverage senior government funding, internal capacity to deliver projects and programs, and the ability to enable business transformation by improving operations through capital investments.

Beyond grant funding, there is a notable shift to 48% of the capital plan to be funded via debt. This is due to the CAWTP where debt will be leveraged to fund the portion of the project not covered by cash on hand and grants.

See Appendix 5 for the capital budget overview, including the capital funding profile.

(in \$ millions)

Funding Sources	2018 Capital Plan \$	% of Total Funding	2017 Capital Plan \$	% of Total Funding
Operating & WIP	20.2	9%	76.2	48%
Grants	44.3	21%	31.5	20%
Debenture Debt	102.7	48%	20.9	13%
Reserve Funding	20.3	10%	21.0	13%
Donations & 3rd Party	25.8	12%	8.9	6%
<b>Total</b>	<b>\$213.3</b>	<b>100%</b>	<b>\$158.5</b>	<b>100%</b>

### Reserves

Reserves reflect the funds retained by the organization to fund future capital and operating activities. The CRD currently manages over 70 individual capital reserves, reserve schedules are included in the budget packages for the individual services. The attached budgets include capital reserve schedules for all services.

The reserve schedules provide detailed information on the overall proposed reserve activity for the next five years in alignment with the operating budgets and capital expenditure. The schedules also assist in evaluating proposed transfers to reserves from the current operating budget, and the impact of prior year surpluses and deficits. The following table provides high level information on the projected 2018 reserve activity:



(in \$ millions)

Capital Reserve Activity	2018 Financial Plan \$	2017 Forecast \$
Opening balance	68.7	71.0 <sup>3</sup>
Transfers from operating	12.9	13.2
Interest income <sup>1</sup>	1.3	1.4
Transfers out (Capital Plan)	-15.7	-16.9 <sup>2</sup>
<b>Ending balance</b>	<b>\$67.2</b>	<b>\$68.7</b>

<sup>1</sup> Interest calculation based on a one year time horizon.

<sup>2</sup> 2017 revised for capital plan amendments.

<sup>3</sup> Revised based on 2016 Audited Financials

Staff will continue to monitor and report on the balances of the reserve funds going forward. The CRD manages its level of reserves relative to the capacity for debt financing and current requisition levels within each service. Based on a high level review of other regional districts, the CRD's reserve balances are relatively low; however, debt servicing capacity is considered to be adequate in consideration of proposed capital expenditures included in the 5 year Capital Plan. As debt retirements take place in the future, there may be opportunities to move additional funding to reserves to improve the health of these reserve accounts.

### Advance Approvals

Advance approval is requested in specific situations where the commencement of work before March 2018 is considered necessary to address operational needs for meeting work plans or efficiency of work plans. These are often related to items that have regulatory compliance implications, grant deadlines and capital projects for which tenders have to be issued and where a delay in commencement of work can have a negative impact on service delivery timing and effectiveness. Items identified as necessary activities to begin in advance of the March 31 deadline are listed in Appendix 10. The requests are primarily centered on the required staffing to meet objectives and initiatives as included in the service plans. Implementation as early as January 1 supports progress before March 2018.

### SUMMARY

The attached 2018 budget package in Appendix 9, which includes operating and capital, is provided for preliminary approval. Appendix 10 contains items that, as a result of business requirements, need to be implemented as early as January 1 in advance of the March 31 approval.

The provisional budget is subject to change as a result of final 2017 surplus/deficits, receipt of revised assessment and any adjustments recommended by the respective Commissions and the Electoral Area directors and the Board prior to final approval of the Financial Plan bylaw by March 31, as outlined in the *Local Government Act*.

The EASC reviewed and provided preliminary approval with some amendments to the 2018 Electoral Area-only budgets on November 1, 2018 (see EASC Staff Report attached as Appendix 11). The regional and sub regional budgets, once approved by the COW, together with the EASC budgets will be presented to the CRD Board for preliminary approval.

## **CONCLUSION**

The 2018 CRD Financial Plan is now ready for review and preliminary approval. The Financial Plan will be subject to change as a result of the final 2017 surplus/deficits, revised assessment information and any directed amendments, prior to final approval by the Board as part of the Financial Plan bylaw by March 31, 2018.

## **RECOMMENDATION**

That the Committee of the Whole recommend to the Capital Regional District Board:

- 1) That the 2018 Financial Plan be given preliminary approval as presented; and
- 2) That the new initiatives and capital identified in Appendix 10 for January 1 implementation be approved for expenditure.

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 Planning Process

Appendix 2: CRD Staff Establishment

Appendix 3: CRD 2018 Operating Budget Overview

Appendix 4: CRD 2018 Preliminary Financial Plan Summary

Appendix 5: CRD 2018 Capital Budget Overview

Appendix 6: CRD Service Activity & Investment

Appendix 7: CRD 2018 Major Capital Projects

Appendix 8: CRD 2018 Financial Indicators

Appendix 9: Budget Review Package

Appendix 10: January Approvals

Appendix 11: 2018 Electoral Area Budget Review (November 1, 2017)