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REPORT TO THE FINANCE COMMITTEE MEETING OF WEDNESDAY, MAY 2, 2018

SUBJECT 2019 Service and Financial Planning Guidelines

ISSUE

This report outlines the service planning and financial planning process for 2019 and outlines key budget drivers for consideration.

BACKGROUND

The Capital Regional District (CRD) 2019 service and financial plan process is set to begin in May, 2018. The 2019 planning process marks the final year of the four-year service planning cycle. Following the 2018 municipal elections, staff will assist the new Board of Directors through strategic planning and priority setting. Appendix A highlights the overall planning process: from strategic to corporate planning, through service and financial plans.

The current Service Plans approved for 2018 will remain the foundation for the 2019 financial planning process with updates for changes both internal and external to the organization. The service plan update summary captures changes in assumptions and trends, outlines issues, highlights anticipated performance to budget, updates division initiatives, and outlines required service adjustments and staffing levels.

The updated service plans and service plan summaries will be presented to a Committee of the Whole meeting on September 5, 2018, together with an overview of financial implications and budget recommendations that would be presented to the Board for consideration on September 19, 2018. This process and these dates are being proposed in consideration of feedback from the Board on the Service and Financial Planning process, as well as the UBCM convention during the second week of September and the election period. See Appendix B for the timetable of the 2019 Financial Planning Process.

Staff will be preparing service plan summaries and budget estimates for 2019 starting in June through August to be reviewed corporately by the Executive Leadership Team in consideration of service plan objectives and financial guidelines. To proactively influence service and financial planning, this report explores financial plan guidelines along with key trends, assumptions and drivers to be used in the 2019 financial planning process.

Financial Guidelines

Financial plan guidelines are the policies and assumptions by which CRD Board and CRD staff determine the most appropriate allocation of CRD resources in developing the financial plan.

The financial guidelines are based on the following major areas:

1. Financial Management Strategies
2. Base Service Levels and Infrastructure Funding
3. Changes to Status Quo
4. Board and Public Preferences

1) 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 guide financial planning:

- Optimize fee for service revenues and stabilize tax rates to fund operations, maintenance, growth and asset depletion.
- Limit transfers to/from operating reserves, transferring only to fund one-time projects or with the intent of stabilizing revenue requirements.
- Levels of transfers to/from capital reserves are to be supported through development of life cycle funding requirements.
- One-time variances resulting in surplus should be transferred to reserve to fund future capital liabilities or reduce future revenue requirements and only be applied to reduce tax rates in rare circumstances where the offset is sustainable and stable.

2) Base Service Levels and Infrastructure Funding

The 2018-2022 Financial Plan Bylaw approved by the CRD Board in March, 2018, included provisions for service level adjustments in response to social, economic and environmental trends both internal and external to the organization. The 2019 budget is expected to reflect the continued deployment of those approved service level enhancements and to include core inflation aligned with market trends.

The 2018 budget will be used as a starting point to develop the projections for the next five years. Any ongoing service level enhancements already approved in the 2018 service planning process, that were for implementation in 2019, will be included. The proposed budget will also include funding to incorporate adjustments for inflation and cost escalation reflected in the market.

Key Drivers

The largest costs to deliver services are debt servicing, capital savings, salary and benefits, materials and equipment, and administrative expenses. Changes in these costs are driven by economic conditions such as unemployment, supply and demand, inflation, federal and provincial tax changes, employee contract rates and benefit contract rates.

Given the higher inflationary environment, changing tax regulations and escalating costs due to the demand for labour, the organization will continue to rigorously review service plans for opportunities to reduce or reallocate resources in order to reduce costs and mitigate revenue requirements.

Infrastructure

Each service is responsible for funding their infrastructure life cycle funding gap. The gap is the difference between the amount the CRD service holds in reserves for infrastructure maintenance and replacement and the amount required to fund these assets as they deplete without incurring debt beyond the optimal level.

The CRD's financial management strategy is to support the objective to achieve full annual infrastructure lifecycle funding, setting transfers to reserve/savings to meet asset replacement

costs into the future. The asset management framework and policy for the organization are currently being developed and look to further inform financial management practices in the future.

3) Changes to Status Quo

While service planning has not been completed for 2019, there are a number of expanded programs, which are expected to be included in the budget, over and above the status quo. These specific programs have been triggered by grant opportunities and provide ongoing new Fee for Service revenues; although they may also require fixed term resources and ongoing service adjustments, new revenue will offset costs.

Department	Project/Service	Comments
Regional Housing	Regional Housing First Program	Increases in operating costs to support service delivery of the Regional Housing First Program
SEAPARC	Facility Expansion	Increases in operating costs to operate the facility expansion, expected completion in late 2019-2020.

4) Board and Public Preferences

The 2019 financial planning process is based on the corporate planning cycle and will reflect direction from Commissions, Committees and the Board. The public will be invited to engage throughout the planning process with a communications and public input strategy similar to the 2018 planning process. There are also ongoing opportunities for public input directly through individual service activities at the Committee and Commission level.

ALTERNATIVES

Alternative 1

That the Finance Committee recommend to the Capital Regional District Board:

That the financial plan guidelines be approved as presented and that staff be directed to prepare the draft financial plan review based on the timeline presented.

Alternative 2

That the financial plan guidelines be approved as amended.

FINANCIAL IMPLICATIONS

Alignment of the financial plan with strategic priorities and financial management strategies supports efficient and effective service delivery. Prudent financial management of surpluses, reserves, debt levels, and rigour over spending levels enables the organization to optimize revenue requirements and minimize requisition increases. The guidelines to maintain core service levels and incorporate adjustments for inflation and market cost escalations, as detailed in this report for the 2019 budget, looks to minimize financial implications for the 2019 budget year in preparation for the next four-year planning cycle.

CONCLUSION

The 2019 service and financial planning year marks the final year of the current four-year planning cycle. The service levels as approved in the 2018 Service Plans form the basis of the baseline budget for 2019. Incorporated into the baseline are assumptions for inflation, market cost escalation, salary contract rates, benefit rates and utility rates.

RECOMMENDATION

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

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Attachments

Appendix A – CRD Board Strategic and Corporate Planning Framework
Appendix B – 2019 Financial Planning Timetable