

**REPORT TO THE GOVERNANCE AND FINANCE COMMITTEE  
MEETING OF WEDNESDAY, JUNE 5, 2019**

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**SUBJECT    2020 Service and Financial Planning Guidelines**

**ISSUE**

This report outlines the service and financial planning process for 2020 and outlines key budget drivers for consideration.

**BACKGROUND**

The Capital Regional District (CRD) 2020 financial plan process has begun. Board Priorities, Corporate Priorities and Service plans form the foundation of the five-year financial plan for the years 2020–2024. Priority is given to Board and Corporate Priorities in planning core service levels. Appendix A highlights the overall planning process, from strategic to corporate planning, through service and financial plans.

In the 2020 planning cycle, service plans will take the form of Initiative Business Cases (IBCs) that will propose operational responses to Board and Corporate Plan priorities as well as related initiatives. The IBCs will convey the human resource, financial, organizational and strategic impacts associated with delivering on each Corporate Plan initiative and Board Priority over the 2020–2022 period.

Complementing the IBCs, there will be summaries with outcome performance indicators documenting how effectively the CRD is addressing community needs identified in the Corporate Plan.

The IBC's will be presented at the Committee of the Whole meeting scheduled for October 30, 2019, along with an overview of financial implications and budget recommendations.

The proposed process and dates are included in this report for consideration and feedback from the Board through Committee. See Appendix B for the timetable of the 2020 Planning Process.

Staff will be preparing IBCs and budgets starting in June and will continue through the summer. In early September, the Executive Leadership Team will prioritize new initiatives in preparation for recommendations to the Board. Initiatives will be evaluated based on Board and Corporate Priorities, approved strategies, cost-effectiveness, and those that have the most significant impact on addressing community needs. An ELT-prioritized list with associated impacts will be presented to the Board for consideration.

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 planning process.

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 rigor over spending levels enables the organization to optimize revenue requirements and minimize requisition increases. The guidelines to maintain core service levels and incorporate new initiatives from the Strategic and Corporate Plans adjustments for inflation

and market cost escalations, as detailed in this report for the 2020 budget, looks to minimize financial implications for the 2020 budget year.

Services will build work plans and five-year financial plans to plan for and carry out the identified priorities. Assumptions for inflation, market cost escalation, salary contract rates, benefit rates and utility rates will also be taken into account when developing the financial plans.

## **ALTERNATIVES**

### **Alternative 1**

That the Governance and 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**

### **Financial Guidelines**

Similar to the preparation of the 2019 financial plan, staff are advancing guidelines for the 2020 planning process. The financial guidelines are the policies and assumptions by which CRD Board and CRD staff determine the most appropriate allocation of resources by initiative.

The financial guidelines are based on the following major areas:

1. Financial Management Strategies
2. Service Levels Driven by Strategic and Corporate Priorities
3. 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 utilization.
- Limit transfers to/from operating reserves, transferring only to fund one-time projects or intended to stabilize 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 in order 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 Board developed 2019–2022 strategic priorities which served as the guide in establishing the CRD's Corporate Plan; these priorities will be the basis for establishing work plans for the

services. Service priorities and work plans are prepared and aligned with the Board and Corporate Priorities through Service Planning for the period of 2019-2022.

The rolling five-year financial plan (this year 2020–2024) will reflect estimated costs related to the deployment of the established priorities through the work plans which will be developed. The budget will also include core inflation and cost escalation reflected in market conditions, and related funding.

### **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, and employee 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 corporate asset management policy and strategy for the organization have been endorsed by the Board. These documents are well aligned with other strategic documents; specifically, to the Corporate Plan, climate action strategy and the risk management policy. The priority action from the asset management strategy is to develop Sustainable Service Delivery Plans (previously called asset management plans) for 2020, and, as they are developed, to integrate risk assessments, climate lens and adaption, which will ultimately further inform financial management practices in the future. The financial implications of this work will be considered as part of the 2020 financial planning process.

## **3) Board and Public Preferences**

The 2020 financial planning process is based on the corporate planning cycle and will reflect direction from Commissions, Committees and the Board, inclusive of feedback received in the last planning cycle. The public will again be invited to engage throughout the planning process with a communications and public input strategy similar to the 2019 planning process. There are also ongoing opportunities for public input directly through individual service activities at the Committee and Commission level.

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 rigor over spending levels enables the organization to optimize revenue requirements and minimize requisition increases. The guidelines to maintain core service levels and incorporate new initiatives from the Strategic and Corporate Plans adjustments for inflation

and market cost escalations, as detailed in this report for the 2020 budget, looks to minimize financial implications for the 2020 budget year.

### **CONCLUSION**

Services will build work plans and five-year financial plans to plan for and carry out the identified priorities. Assumptions for inflation, market cost escalation, salary contract rates, benefit rates and utility rates will also be taken into account when developing the financial plans.

### **RECOMMENDATION**

That the Governance and 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 – 2020 Financial Planning Timetable