

BUDGET PLANNING PROCESS



Every four years, the Board sets the strategic priorities, policy and direction that guide the activities of the organization. Board members, other elected officials and, in some cases, First Nations and ratepayers sit on various committees and commissions that receive public input.



Public input happens throughout the planning cycle, through customer satisfaction surveys, financial plan consulting, user statistics, advisory body reports and other public engagement activities. This input drives the Board’s strategic priorities.

REPORT TO THE FINANCE COMMITTEE MEETING OF WEDNESDAY, MAY 05, 2021

SUBJECT 2022 Service and Financial Planning Guidelines

ISSUE SUMMARY

This report outlines the service and financial planning process for 2022 including key budget drivers for consideration.

BACKGROUND

The Capital Regional District (CRD) 2022 service and financial planning processes have begun. Board Priorities, Corporate Initiatives, and Core Service Delivery form the foundation of the 2022–2026 five-year financial plan. Appendix A highlights the overall planning process while Appendix B is more prescriptive with a timeline.

The 2022 planning cycle marks the final year of both the CRD Board term and the 2019-2022 Corporate Plan. As in prior years, the Board has a scheduled Committee of the Whole meeting where staff will report on progress and check in for strategic priority feedback. The 2021 meeting is scheduled for May 12. Heading into 2022, the organization will continue to action initiatives advancing strategic and corporate priorities while balancing service delivery pressures brought on by continued population growth, increased utilization of services, COVID-19 and economic uncertainty.

2022 service plans will continue to take the form of Initiative Business Cases (IBCs) that will propose action on priorities and initiatives in the corporate plan. IBCs will convey the human resource, financial, organizational and strategic impacts associated with delivering each initiative over the plan period.

As staff prepare and evaluate IBCs through the summer, the Executive Leadership Team (ELT) will consider and make recommendations through committees and to the Board in the fall. Impacts, along with an overview of financial implications and budget recommendations, will be summarized and presented at the Committee of the Whole meeting scheduled for October 27, 2021.

As in prior years, 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.

ALTERNATIVES

Alternative 1

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.

Alternative 2

That this report be referred back to staff for additional information.

IMPLICATIONS

Financial Implications

Alignment of the financial plan with strategic priorities supports efficient and effective service delivery. Prudent financial management of surpluses, reserves, debt levels, and rigor over expenditures enables the organization to optimize revenue requirements and minimize requisition impacts.

Guidelines establish how management will respond on core service levels, new initiatives, adjustments for inflation and market cost escalations in preparation of the budget each year.

Financial Guidelines

The financial guidelines are the policies and assumptions by which CRD Board and staff determine the most appropriate allocation of resources by initiative.

The financial guidelines are based on the following:

- 1) Economic Conditions
- 2) Base Service Levels and Infrastructure Funding
- 3) Board Input
- 4) Financial Management Strategies

1) Economic Conditions

With COVID-19 declared as a pandemic by the World Health Organization in March 2020, there has been significant economic and social impacts locally, domestically, and internationally. Multiple waves, variants of concern, and vaccination rollout have driven uncertainty in resolution of the pandemic, and may impact future cash flow, service delivery and ultimately, short and long-term financial planning.

To support due diligence through the planning process, monitoring of economic and social conditions will continue with conservative drivers and assumptions forming the basis of the financial plan. The organization's foundation will be to maintain existing services and advance essential initiatives directly identified in the corporate plan in consideration of economic conditions.

2) Base 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 budget will also include core inflation and cost escalation linked to market conditions, and related funding.

Key Drivers

The most significant costs to service delivery are salaries and benefits, debt servicing, materials and equipment. Changes in these expenditures can be influenced by uncontrollable economic conditions such as unemployment rates, supply and demand, tax changes, and contractual agreements.

Infrastructure

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. A priority action from the asset management strategy is to develop Sustainable Service Delivery Plans and, as they are compiled, to integrate risk assessments, as well as climate adaption, which will ultimately further inform financial implications in the future.

In response to the corporate plan priority to develop triple bottom line sustainable budget practices, a review of capital reserve balances and funding status was completed in Q4 2020. The review included assessment of internal practices, existing bylaws, reserve levels against industry benchmark and a comparison to other local governments. A report back to committee is planned for July. As a result of the review work, a guideline was established to introduce a standard approach in setting optimal levels of reserve, debt and grant funding to minimize lifecycle costs within a long term funding strategy. The guideline establishes a common practice and aligns funding strategies with asset lives, enabling a balancing of revenue needs through the life of the asset.

3) Board Input

The 2022 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. In addition, the Board will be completing their annual check-in on Strategic Priorities and any new direction will be incorporated into the service planning process. 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 service activities at committee and commissions of the CRD.

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 2022 budget, aim to minimize financial implications for the 2022 budget year.

4) 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 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.

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

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: 2022 CRD Financial Planning Timetable