



# Regional Board Report

## Information

**To:** Regional Board

**From:** Director of Financial Services

**Date:** February 2, 2023

**Subject:** 2023-2027 Five-Year Financial Plan - Draft

***Voting Entitlement:*** All Directors – Weighted Corporate Vote – Majority (LGA s.210)

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**Purpose:** To present the Regional District of Central Okanagan's draft 2023-2027 Five-Year Financial Plan for review.

### **Executive Summary:**

This Regional District of Central Okanagan's (RDCO's) draft 2023-2027 Five-Year Financial Plan (Plan) ensures that the RDCO continues to deliver effective services for residents by bolstering the regional emergency management program, building on important infrastructure, and increasing operating costs to keep pace with growth and inflation.

The financial plan also advances the Regional Board's strategic objectives (Environment, Economic Development, Sustainable Communities, Transportation and Mobility) with a focus on adding resources to meet growing pressures on RDCO services, addressing infrastructure deficits and enhancing the RDCO parks system.

The Plan presents an overall increase in operating revenues and expenditures for 2023 of \$2 million, or 3.4%. The 2023 tax requisition increase is \$3.4 million or 14.3%. Because of assessment growth in 2023, the increase for the average residential property owner will be 6.8%. The impact on each property owner varies depending on where they live and the value of their property. For the average residential property owner in the Central Okanagan, whose home is assessed at \$897K, their share of the total tax requisition for 2023 is \$320, or \$27/month.

The capital plan portion of the Plan is \$18.1 million, representing a 4% increase. The spending in this plan is funded predominantly through reserves, with funding from debt where reserves are insufficient.

Overall, reserve levels are projected to decrease at the end of 2023. The goal is to build the reserves up in the coming years to support future asset replacement and renewal plans and to ensure there are sufficient funds to cover unplanned expenditures.

### **Recommendation(s):**

**THAT** the Regional Board receive for information the draft 2023-2027 Five-Year Financial Plan;

**AND THAT** any recommended amendments be incorporated into the 2023-2027 Five-Year Financial Plan and brought to the Regional Board meeting on February 16, 2023.

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Approved by:



Tania McCabe, CPA, CA, Director of Financial Services

Attachment(s):   Appendix A – Financial Plan Summary  
                          Appendix B – Financial Plan Summary by Department  
                          Appendix C – Year-Over-Year Financial Plan Changes  
                          Appendix D – Proposed Staffing Resourcing  
                          Appendix E – Capital Plan Summary  
                          Appendix F – Capital Plan Funding Summary  
                          Appendix G – Projected Operating Reserves Summary by Service  
                          Appendix H – Projected Capital Reserves Summary by Service

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### **Strategic Plan Alignment:**

Priorities:       Sustainable Communities, Choose an item.

Values:         Good Governance, Resiliency

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### **BACKGROUND:**

Annually, the RDCO must develop a five-year financial plan inclusive of funding and expenditures for both operating and capital financial plans. The financial plan is developed in alignment with legislation and, upon approval, provides authority for the operations of the RDCO for the five years of the financial plan. Final financial plan approval is required before March 31 of each year.

A draft financial plan is developed to allow service participants and local ratepayers to comment on and make recommendations to programming, funding requirements, and initiatives. The draft financial plan will be subject to changes due to final year-end adjustments, revised assessment information, and any other amendments from the Board before final approval.

### **OVERVIEW**

#### **Financial Planning Process**

An overview of the highlights of financial planning for a Regional District was provided at the Board's meeting on December 15, 2022. In the overview, several key goals & considerations that need to be kept in mind when preparing a financial plan were identified. The goals were:

- Making the best use of resources
  - Based on the Board's & community's priorities
- Achieving financial stability
  - To allow for more predictable requirements over the years
- Maintaining a transparent process
  - Stakeholders know when and how to provide input
- Creating a document that is understandable
  - The impact on stakeholders is clear

The key considerations identified were:

- The Board's strategic priorities
- The economic environment
  - Inflation & interest rates
  - Supply chain challenges
  - Contractual requirements
- Existing and planned service levels
  - The resources needed to deliver core services,
  - The impact of new initiatives,
- Infrastructure needs
  - Proposed & required capital programs

With these goals and considerations in mind, the financial plan is developed and includes operating and capital financial plans, changes in reserve funds and impacts on tax requisitions and user fees.

For those services funded through tax requisitions, the costs are apportioned on an assessment basis. Historical growth trends have been positive on an aggregate regional basis but can vary significantly on a participant basis. These differences will have an impact on the increases an individual resident may experience.

It's important to note that existing and planned service levels are the main driver of the costs in the financial plan. These drivers are a product of the needs and wants of the community, the priorities of the Board, and regulatory requirements. Major initiatives affecting the organization across its services are addressed through service planning to coordinate an organizational response.

## **2023 Financial Plan**

This year's financial plan advances the Regional Board's strategic objectives (Environment, Economic Development, Sustainable Communities, Transportation and Mobility) and ensures that the RDCO continues to deliver effective services for residents by:

- Bolstering the regional emergency management program through investments in staffing, fire apparatus and facilities for search and rescue,
- Builds on important infrastructure in parks, water systems, liquid waste systems and fire and protective services,
- Provides additional staffing to address the demand for increased services in the areas of communications, parks, and bylaw enforcement,

- Increases operating costs to keep pace with growth and inflation.

## OPERATING PLAN

The 2023 RDCO financial plan includes operating revenues and expenditures of \$61.5 million, an increase of \$2 million or 3.4% compared to the 2022 plan.

Appendix A (Financial Plan Summary) presents a high-level summary of the total 2023 financial plan, including gross expenditures and revenue sources, in addition to the 2022 financial plan for comparison. Appendix B (Financial Plan Summary by Department) provides the same summary, but on a departmental basis.

### Expenditures

The following table summarizes the operating expenditures of the RDCO into four key components:

<i>Table 1: Summary of Financial Plan Operating Expenditures</i>				
Expenditure Type	2023	2022	Change \$	Change %
Operations	\$ 39,599,193	\$ 38,367,292	\$ 1,231,901	3%
Debt servicing	13,567,904	13,232,691	335,213	3%
Capital funding	-	187,050	(187,050)	-100%
Transfers to reserves	8,294,863	7,628,997	665,866	9%
<b>TOTAL</b>	<b>\$ 61,461,960</b>	<b>\$ 59,416,030</b>	<b>\$ 2,045,930</b>	<b>3%</b>

The RDCO provides a multitude of services with annual expenditures ranging from \$1,000 to over \$9 million. These services are provided on a regional, sub-regional and local level and the participants for each are different. For the lower cost services, a small change in dollar value can result in a significant change on a percentage basis. As a result, this report focuses on those services with significant changes. A significant change was determined to be a change greater than 5% and \$10,000. Appendix C (Year-Over-Year Financial Plan Changes) provides a summary of the reasons for changes in operating costs for each service, where there is a significant change. Overall, the key areas where costs have increased for all services are:

*Table 2 – Expenditure Changes*

Type of Cost	Reason for Change
Transfers to reserves – capital	Increases are made to planned transfers to capital reserves, where required, to ensure there are sufficient reserves to fund identified capital expenditures over the years of the plan and into the future.
Transfers to reserves – operating	For services that have large operating expenditures that happen on an irregular basis, annual contributions to operating reserves are planned to reduce the need for large increases in the year the expenditure is incurred. This approach keeps requisitions consistent and predictable on an annual basis.
Salaries & benefits	Beyond the annual wage rate increase required by the collective agreement, some services see an additional increase for increased staffing to meet increased demands for services.

Type of Cost	Reason for Change
Contracted services	For some services, these have increased. For others they have decreased. These changes can be in response to special projects, or cyclical activities.
Supply & equipment maintenance costs	For those services with significant expenditures on supplies or maintenance, increasing cost pressures are being reflected in their financial plans.
COVID expenses	With the pandemic hopefully behind us, additional expenditures related to this are removed. Where there are permanent changes in expenditures they are built into the base financial plan because they are no longer short term in nature.

## Staffing Compliment

Appendix D (2023 Proposed Staffing Resources) presents the proposed staffing requests for 2023. Staff are proposing the addition of the following positions:

- Communications Supervisor (Regional Emergency)
  - This position will provide much needed communications support to the Regional Emergency program and has been requested by the manager of that program.
- Communications Advisor (Parks/Community Services)
  - A need for additional communications support has also been identified by the Parks & Community Services departments. While the position will be part of the Communications department, the funding for it will be provided by these two services on a shared basis. For the Community Services department, this position will develop the communications and promotional materials in relation to community safety and the Safe Neighbourhoods program. In the Parks Services department, they will have similar duties, but in relation to communications for Parks facilities and programs
- Bylaw Enforcement Officer
  - The Bylaw Officer is being requested to better position staff to respond to the increasing calls for service. This position will be focused on the operational requirements of the department allowing them to investigate complaints of bylaw infractions in a professional and fair manner.
- Building Inspector – Relief
  - The high demand for building inspections is expected to remain above average for 2023. To support that, a relief position is being created. Because this position is not permanent in nature, it will be funded from operating reserves.
- Utility Tech Summer Student
  - This position will help the department deal with a backlog of low-priority maintenance needs that exist across all utilities. It will also provide additional resources for the Source Control program.
- Park Ranger
  - With the continued growth in visitors to parks, this position will focus on compliance education and balancing the need for conservation and the interest of multiple recreational users.
- Administrative Assistant (Economic Development)
  - In the past, the work this position will do was provided by staff in the Corporate Services department. As the Economic Development (EDC) department grows, their need for

administrative support has outpaced the support that can be provided by Corporate Services. Creating this position will remove the need for other EDC staff to also do administrative duties and allow them to focus on their core duties instead.

In addition, the three term positions from 2023 will continue, along with the funding to support those positions.

## Funding

Sources of funding vary by service and include the following:

- sale of services (various fees),
- property tax requisitions (including parcel taxes) charged to member municipalities and electoral areas,
- recovery from other departments,
- reserve transfers,
- grants, and
- other revenue.

The main source of funding for services is tax requisitions (including parcel taxes) charged to member municipalities and electoral areas and user fees. The other sources of funding are used to reduce the need for these. Changes in these other funding sources have a direct impact on the amount of tax requisition, or user fees, required.

The Table 3 outlines the year-over-year change in revenue by source.

<i>Table 3: Summary of Financial Plan Operating Funding</i>				
Sources of Revenue	2023	2022	Change \$	Change %
Sale of service	\$ 31,029,591	\$ 28,365,177	\$ 2,664,414	9%
Tax requisition	27,155,962	23,758,127	3,397,835	14%
Parcel taxes	900,002	859,518	40,484	5%
Rentals and other revenue	190,577	264,301	(73,724)	-28%
Grants	1,130,276	2,376,345	(1,246,069)	-52%
Transfer from reserves	1,055,553	3,792,562	(2,737,009)	-72%
<b>TOTAL</b>	<b>\$ 61,461,960</b>	<b>\$ 59,416,030</b>	<b>\$ 2,045,930</b>	<b>3%</b>

## Tax Requisition

Revenue raised through tax requisition (excluding parcel taxes) totals an estimated \$27.2 million (excluding municipal debt), an increase of 14% from 2022. Table 4 summarizes the change in requisition from 2022 categorized by regional, sub-regional, and electoral areas.

*Table 4 - Tax Requisition by Service Type*

Expenditure Type	2023	2022	Change \$	Change %	% of Total Change
Regional	22,141,143	19,588,730	2,552,413	13%	11%
Sub-regional	930,388	788,148	142,240	18%	1%
Local	4,084,431	3,381,247	703,184	21%	3%
<b>TOTAL</b>	<b>\$ 27,155,962</b>	<b>\$ 23,758,126</b>	<b>\$ 3,397,836</b>	<b>14%</b>	<b>14%</b>

For a detailed breakdown of the local area share of the tax requisition, please refer to Appendix A. Table 5 provides a summary of what is behind the increase in the tax requisition:

*Table 5 - Impact of Year Over Year Changes on Tax Requisition*

Expenditure Type	Year Over Year Change
Gross expenditures	Increase \$ 2,045,932
Rental & other revenue	Decrease 73,724
Transfers from operating reserves	Decrease 2,737,009
Grants	Decrease 1,246,069
Parcel taxes	Increase (40,484)
<b>SUBTOTAL</b>	<b>\$ 6,062,250</b>
Change in sales of service fees	Increase (2,664,414)
<b>Change in Tax Requisition</b>	<b>Increase \$ 3,397,836</b>

Explanations of the primary drivers for these changes are outlined in Table 6, below:

*Table 6 – Tax Requisition Changes*

Type of Funding	Reason for Change
Transfers from operating reserves	In prior years' operating reserves were used to fund ongoing expenditures in some instances. For 2023, that practice is being substantially reduced for either or both of the following reasons. <ol style="list-style-type: none"> <li>1. To better reflect best practices for achieving long-term financial stability, which requires the matching of the duration of revenues with the duration of expenditures.</li> <li>2. The service no longer has sufficient operating reserves to be drawn from.</li> </ol>
Expenditure changes	Where there has been an increase in the ongoing costs to provide a service that is not funded by user fees or other sources of funding, the tax requisition must be increased to fund the additional costs

The impact of the financial plan on each property owner will vary depending on where they live and the value of their property. The Table 7 provides the average assessed value and the estimated 2023 share of the tax requisitions, by area:

*Table 7 - Estimated Property Taxes for Average House*

	Average House Value	Annual Tax per House	Monthly Tax per House	\$ Change per Avg House over 2022	% Change per Avg House over 2022
<b>Kelowna</b>	\$951,000	<b>\$188</b>	\$16	<b>\$15</b>	<b>8.5%</b>
<b>Peachland</b>	914,000	<b>\$209</b>	17	<b>\$10</b>	<b>4.9%</b>
<b>Lake Country</b>	1,029,000	<b>\$231</b>	19	<b>\$10</b>	<b>4.4%</b>
<b>West Kelowna</b>	1,012,000	<b>\$219</b>	18	<b>\$14</b>	<b>7.0%</b>
<b>Electoral Area West</b>	566,000	<b>\$478</b>	40	<b>\$59</b>	<b>14.0%</b>
<b>Electoral Area East</b>	912,000	<b>\$595</b>	50	<b>\$15</b>	<b>2.6%</b>
<b>AVERAGE</b>	<b>897,333</b>	<b>\$320</b>	<b>27</b>	<b>\$20</b>	<b>6.8%</b>

\* average house values as provided by BC Assessment

## CAPITAL PLAN

The capital plan advances the Regional Board's strategic objectives (Environment, Sustainable Communities, Transportation and Mobility) with a focus on addressing infrastructure deficits and enhancing the RDCO parks, sewer and fire services.

The proposed 2023 capital plan is \$18.1 million, an increase of \$651 thousand or 4% from 2022. The largest spending area is in Parks Services at \$7.5M. This represents 41% of the total plan and includes projects in seven different regional and community parks.

The next largest areas are Sewer Services (\$3.4M) and Fire Services (\$2.9M). These make up 18% and 16% of total spending, respectively. The spending for Sewer Services involves upgrades to lift stations and the wastewater treatment plant. Spending for Fire Services includes the purchase of key fire apparatus for servicing residents in both Electoral Area East and Electoral Area West.

## Expenditures

The 2023 - 2027 Capital Plan is shown in Appendix E (Capital Plan Summary). Capital financial plans are developed through the service planning and financial planning processes and consider:

- status of projects already in progress
- condition of existing assets and infrastructure
- regulatory, environmental, risk, and health and safety factors
- new or renewal projects prioritized by the commissions, committees, or local service areas.

Table 8 summarizes the capital plan by service area.



**Table 8 - Capital Plan by Department**

Department	2023 Capital Plan \$	2022 Capital Plan \$	Change \$	Change %
Administrative Services	\$ 978,308	\$ 717,000	\$ 261,308	36%
Bylaw Services	317,458	253,945	63,513	25%
Engineering Services	18,000	11,500	6,500	57%
Fire Services	2,921,902	2,379,737	542,165	23%
Fleet Services	56,650	56,650	-	0%
Inspection Services	170,425	105,263	65,162	62%
Parks Services	7,506,625	7,470,457	36,168	0%
Protective Services	112,280	71,320	40,960	57%
Sewer Services	3,401,485	4,354,973	(953,488)	(22%)
Solid Waste Management Services	906,150	428,323	477,827	112%
Water Services	1,748,945	1,638,008	110,937	7%
<b>TOTAL</b>	<b>\$ 18,138,228</b>	<b>\$ 17,487,176</b>	<b>\$ 651,052</b>	<b>4%</b>

Capital plan highlights include those in Table 9, below:

**Table 9 – Key Capital Plan Projects**

Department	Project	Description	Cost (thousands)
Administrative Services	Server refresh	Including servers, storage, and licensing	\$309
	Building renovations	LED lighting and general renovations to KLO offices	\$253
	Computer equipment upgrades	Ongoing replacement of workstations which are replaced every four years	\$145
Fire and regional rescue services	Ellison Firehall	Replacement of the bush truck with either a tender or interface truck	\$722
	Regional Rescue	Replacement of the marine rescue boat used by the City of Kelowna	\$502
	Joe Rich Firehall	Replacement of one of two tenders with a new interface truck.	\$571
Parks Services	Land acquisition	Two purchases are currently in process, but details relating to ongoing negotiations cannot be disclosed publicly	
	Mission Creek Regional Park	Replacement of the playground, grading & resurfacing the trail, repairs to the Casorso viewing platform, and work on the scenic switchbacks.	\$695
	Westside Community Parks	Upgrades to trails, access, and playgrounds as well as the addition of a pickleball court	\$344
	Black Mountain/ Sntsk'il'nten Park	Inclusiveness, stewardship & connectivity project (73% funding from senior government)	\$389

Department	Project	Description	Cost (thousands)
	Woodhaven Nature Conservatory Park	Phase I of the management plan. See page 43 of the <a href="#">document</a> for details.	\$273
	Bertram Creek Park	Picnic shelter, turf & beach, irrigation system upgrades; bridge & pier repairs	\$206
	Hardy Falls Park	Entrance improvements	\$182
	Scenic Canyon Park	Cabin removal and trail improvements	\$162
Solid Waste	Curb Side Organics	The Food Waste Feasibility Study recommended a co-mingled curb side food and waste collection system. The 2023 project will include public education & outreach as well as service design.	\$450
Sewer	East Trunk Lift Station	Engineering & land purchases prior to initiating construction in 2024	\$955
	Casa Loma Lift Station	Upgrades. Engineering assumptions to be reviewed before project commences.	\$160
	Headworks	Contingency for unplanned work within the headworks of the wastewater treatment plant, if required.	\$105
	Wastewater Treatment Plant	Blower replacement (2022 project delayed to 2023 because of supply chain challenges and increasing costs). BC Hydro grants will cover \$130K of this project	\$600
		Bioreactor pump replacements	\$340
		HVAC upgrades (2022 project delayed to 2023 because of supply chain challenges and increasing costs).	\$280
		Start of phase 4 upgrades	\$174
Water	Killiney Beach	Design & plan for regional water system (with Westshore, total costs = \$412K)	\$206
	Westshore	Design & plan for regional water system (with Westshore, total costs = \$412K)	\$206
		Expansion of the system to new customers. Funded entirely by new customers	\$207
	Falcon Ridge	To repair intake access road and mitigate the impact of future changes from climate	\$200
		Pump repairs.	\$134

## Funding

The funding profile for 2023 shows a firm reliance on reserves for capital investment reflecting a “save now” versus “pay later” approach. There is also a slight increase in funding from grants. This reduces the need to rely on transfers from reserves. 2023 sees increases in debt proceeds and donations as well. The 2023 planned use of development cost charges, donations & third-party contributions and other sources account for less than 10% of all capital funding.

*Table 10 - Capital Plan Funding Profile*

Funding Sources	2023 Capital Plan \$	% of Total Funding	2022 Capital Plan \$	% of Total Funding
Reserves	\$ 14,684,519	81%	\$ 15,885,707	91%
Grants	1,310,899	7%	666,917	4%
Debt	501,250	3%	500,000	3%
Development Cost Charges	1,257,260	7%	-	0%
Donations & 3rd Party	215,800	1%	257,000	1%
Operating	-	0%	107,050	1%
Sale of redundant assets	168,500	1%	70,500	0%
<b>TOTAL</b>	<b>\$ 18,138,228</b>	<b>100%</b>	<b>\$ 17,487,174</b>	<b>96%</b>

Staff continue to be proactive in leveraging senior government funding, internal capacity to deliver projects and programs, and enabling business transformation by continuously improving operations through prioritized capital investment. See Appendix F (Capital Plan Funding Summary) for a details of how each funding source is being used.

## RESERVES

Reserves are a government's way of saving for future capital activities as well as one-time or limited duration operating activities. There are currently 77 capital and 78 operating reserve accounts for the various services. There are also two reserves for Development Cost Charges and four for future park land purchased for a total of 160 individual reserves.

### Operating Reserves

As noted in the financial planning overview section, one of the key goals of financial planning is creating financial stability. To achieve this goal, it is important to match the duration of expenditures to the sources of funding for them. One tool the Regional District uses to manage this is operating reserves. When there is a large operating expenditure in a future year, operating reserves are built up in anticipation of this and then used to fund all or a portion of the expenditure. Operating reserves are also used to fund unexpected expenditures.

A shift in the RDCO's financial planning strategy was made in 2022, as the first step towards this goal. Beginning with 2021, year-end operating surpluses are being transferred to operating reserves, where available, at the service level. This approach ensures that the requisition funds collected for a service are used for that service. These reserves will then be used, where available, to fund infrequent or unexpected expenditures, helping to achieve the goal of financial stability. Over time this approach will create a structurally balanced financial plan that facilitates financial sustainability in the RDCO's financial plan and operations.

What is considered a reasonable amount to hold in operating reserves varies from organization to organization. Some financial guidelines suggest a minimum threshold for operating reserves of an amount equivalent to three months of operating expenditures, and a maximum threshold of six months. For the Regional District, that would set the minimum threshold at \$12M and the maximum at \$24M. Based on the following table, the Regional District is close to the recommended minimum:

*Table 11 - Operating Reserve Activity Forecast (in \$ millions)*

Activity	2023 Plan	2022 Projected
Opening balance	9.26	8.06
Transfers in	0.78	1.41
Transfers out	(1.06)	(0.37)
Interest	0.19	0.16
<b>Ending balance</b>	<b>9.18</b>	<b>9.26</b>

A summary of the projected balance for each operating reserve is included in Appendix G (Operating Reserves Summary). The schedule assists to determine if there is a need for planned transfers to operating reserves from the current financial plan. With a few exceptions, based on the draft financial plan presented, this is not currently required as the operating reserves of the Regional District will grow over the years to the minimum threshold.

### Capital Reserves

Capital spending, by its nature, is a limited duration expenditure with each capital project being identified along with its funding sources. The key funding source for most capital projects is reserves. Because of this, capital reserves are used in the same way as operating reserves. Regular, annual contributions are made into the reserves and then the reserves are drawn from when the funding is needed. This balancing of annual contributions into a reserve against the sporadic withdrawals is another tool the Regional District uses to achieve stability in tax requisitions.

It is also important to set minimum thresholds for capital reserves. Financial guidelines recommend using the average planned spending over the next five years. However, if there is a large capital outlay expected in the future, efforts should be made to build the reserves in the intervening years to be sufficient to fund the specific project.

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A summary of the projected balance for each operating reserve is included in Appendix H (Capital Reserves Summary). Table 12 provides a summary of the forecasted capital reserve activity for 2023:

*Table 12 - Capital Reserve Activity Forecast (in \$ millions)*

Activity	2023 Plan	2022 Projected
Opening balance	29.20	24.40
Transfers in	5.63	6.80
Transfers out	(11.27)	(2.49)
Interest	0.58	0.49
<b>Ending balance</b>	<b>24.15</b>	<b>29.20</b>

Based on the financial plan, \$5.8 million will be transferred into the various capital reserves and \$11.3 million will be transferred out, in 2023, which will draw down the reserves at the end of 2023. For the remaining four years of the plan, however, the planned transfers into capital reserves will exceed the planned transfers out for capital projects, allowing the reserves to grow over time. This will improve the

RDCO's financial sustainability, which will in turn give the RDCO the ability to fund future capital projects without the need for other funding sources.

## OVERHEAD RATES

The Regional District has several administration functions. The costs of providing these functions are covered through overhead rates that are included in the financial plans for most of the services. How this is determined is laid out in Finance policy 7.19. This policy identifies two pools of costs that are recovered from the operational cost centres:

1. Engineering
2. Administration

The Engineering cost pool is the costs for the Engineering department.

The Administration cost pool includes the following departments:

1. Corporate Services
2. Communications
3. Finance
4. Human Resources
5. Information Services

Capital overhead is charged out at three levels on total capital costs based on the level of administrative support.

Overhead rates are based on the service level provided and the total cost of the administration cost pool. The rates are charged based on the prior year operating financial plans for each cost centre. This means that the impact of changes in the financial plans of the different services will have a delayed impact on the amount of overhead charged to each service.

For 2023, the overall overhead rate is 15% (2022 = 12%). This is then broken down into different rates based on service levels. The service level rates are set to ensure the recovery from the administrative overhead fees is sufficient to cover all the costs for the year. Like the operating financial plans, the increase in the overhead rate is predominantly impacted by the reduction in the use of operating reserves to fund ongoing operating costs. This impact will be a one-time occurrence and has resulted in an increase in the total administrative overhead recovery required by \$1.1 million.

Table 13 identifies the year-over-year changes to the cost recovery amount in each Administration Overhead financial plan line and explains the reasons for the changes:

Table 13 - Changes to Overhead Services

Overhead Services	Net Costs				Funding From Reserves				Overhead Recovery			
	Financial Plan		Change		Financial Plan		Change		Financial Plan		Change	
	2022	2023	\$'s	%	2022	2023	\$'s	%	2022	2023	\$'s	%
<b>002 - Corporate Services and Administration</b>												
* FTE changes & salary increases												
* COVID expenditures removed												
* Governance study complete												
* Reduced transfers to reserves	\$ 1,610	\$ 1,699	\$ 89	6%	\$ 423	\$ -	\$ 423	100%	\$ 1,186	\$ 1,699	\$ 513	43%
* Reduced funding from operating reserves												
* Reduced grant revenue												
<b>003 - Financial Services</b>												
* Increases in audit fees for new auditing standards												
* Timesheet software												
* FTE changes	\$ 1,321	\$ 1,389	\$ 68	5%	405	12	\$ 393	97%	\$ 915	\$ 1,377	\$ 462	50%
* Reduced funding from operating reserves												
<b>005 - Human Resources</b>												
* FTE changes												
* Contract for CAO search												
* Reduced transfers to reserves	\$ 435	\$ 517	\$ 82	19%	46	-	\$ 46	100%	\$ 389	\$ 517	\$ 128	33%
* Reduced funding from operating reserves												
<b>006 - Information Services</b>												
* Transfer to capital reserves for future capital projects												
* Increases in software licensing fees	\$ 1,135	\$ 1,363	\$ 228	20%	129	-	\$ 129	100%	\$ 1,006	\$ 1,363	\$ 357	35%
* Reduced service fee income												
* Reduced funding from operating reserves												
<b>070 - Communications</b>												
* FTE changes are offset by reductions in the contracted services budget	\$ 662	\$ 661	\$ (1)	(0%)	113	-	\$ 113	100%	\$ 550	\$ 661	\$ 111	20%
* Reduced funding from operating reserves												
	\$ 5,163	\$ 5,629	\$ 467	9%	\$ 1,116	\$ 12	\$ 1,104	99%	\$ 4,047	\$ 5,617	\$ 1,571	39%

An administrative overhead rate of 15% (or overhead base rate – whichever is higher) continues to be levied on any work provided by RDCO staff to external clients.

### Considerations:

#### Organizational/External:

Financial impacts resulting from approval of the 2023 – 2027 Financial Plan in terms of property value taxes, parcel taxes and service contracts will affect all municipal and electoral area funding partners.

#### Financial:

The report and associated appendices identify the financial impacts of the draft 2023 – 2027 Financial Plan.

#### Legal/Statutory Authority:

Section 374 of the *Local Government Act* requires that a regional district must adopt, by bylaw, a financial plan by March 31. Division 1 of Part 11 of the *Local Government Act* fully describes the components and requirements of this process.

**Approved for Agenda**



**Corie Griffiths, Deputy CAO**