



Regional Board Report

TO: Regional Board

FROM: Lyle Smith, Director of Financial Services

DATE: December 6, 2021

SUBJECT: Financial Planning Guidelines for the 2022 – 2026 Financial Plan

Voting Entitlement: All Directors – Unweighted Corporate Vote – Simple Majority – LGA 208

Purpose: To seek board approval on the proposed financial planning process for developing the 2022 – 2026 Financial Plan.

Executive Summary:

Board Priorities, Corporate Initiatives, and Core Service Delivery will form the basis for the 2022– 2026 five-year financial plan. As in prior years, the Board has a scheduled meeting where staff will present a draft financial plan and look for strategic priority feedback. The first 2022 meeting is scheduled for February 17, 2022. Heading into 2022, the Regional District of Central Okanagan (RDCO) 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.

Proposed tax impacts will be summarized for Board discussion and public input at the February 17, 2022, Board meeting. During the financial planning process, staff will strive to keep tax rates as low as possible, while balancing inflationary pressures, any effects of the pandemic, and carrying out initiatives in the Board's Strategic Plan. Budgets will convey the human resource, financial, organizational, and strategic impacts associated with delivering each service over the plan period.

To facilitate the financial planning process, this report explores financial plan guidelines along with key trends, assumptions, and drivers to be used.

RECOMMENDATION:

THAT the Regional Board approve the Financial Planning Guidelines as presented in the report from the Director of Financial Services dated December 6, 2021;

AND THAT staff be directed to prepare the draft 2022 – 2026 Financial Plan based on the Financial Planning Guidelines for the 2022 – 2026 Financial Plan.

Respectfully Submitted:

A handwritten signature in blue ink, appearing to read "Lyle Smith".

Lyle Smith
Director of Financial Services

Approved for Board's Consideration

A handwritten signature in black ink, appearing to read "Brian Reardon".

Brian Reardon, CAO

Attachment:

1. PowerPoint - Financial Planning Guidelines

Implications of Recommendation:

Strategic Plan:	Development of the Financial Plan supports implementation of the Board's Strategic Plan.
General:	Approval of the Financial Planning Guidelines provides staff with direction for developing the 2022 – 2026 Five Year Financial Plan
Organizational:	The Financial Planning process identifies proposed sources and uses of funding for the RDCO to provide services.
Financial:	The Financial Plan Bylaw provides the RDCO legislative authority to make expenditures.
Legal/Statutory Authority:	Local Government Act, Part 11, Division 1, Section 374

Background:

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

Financial Planning Guidelines establish how management will address core service levels, new initiatives, adjustments for inflation and market cost escalations while developing the RD's budget each year.

Financial Guidelines

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

The financial guidelines are based on the following:

- 1) Macroeconomic Environment
- 2) Core Service Levels and Infrastructure Funding
- 3) Board Input
- 4) Financial Management Strategies

1) Macroeconomic Environment

On a macroeconomic level, the impact of the COVID-19 pandemic is still being determined. The outcome for the Central Okanagan economy, further yet provincially, federally, and globally, remains unclear. However, the Organization for Economic Co-operation and Development (OECD) has indicated that the broader economy will rebound in 2021 and 2022 due to reduced COVID-19 restrictions in the second half of 2021. This rebound could result in inflationary pressures and increased interest rates which could negatively impact the overall operations of the Regional District of Central Okanagan (RDCO). Atmospheric weather events have compounded supply chain pressures and put a further strain on financial and human resources.

Administration continues to look at strategies to lessen inflationary impacts. In Spring 2021, the Consumer Price Index (CPI) exceeded 3% for the first time in a decade. The Bank of Canada

aims to keep inflation at the 2% midpoint of an inflation-control target range of 1 to 3%. However, higher prices will affect the RDCO in the interim and beyond if prices for items such as contracted services increase. Administration also incorporates construction and municipal pricing indexes into budgets, which are significantly impacted by changes to inflation, to reduce the impact of escalating construction costs.

To address this uncertainty throughout the planning process, staff will monitor economic and social conditions and incorporate realistic cost drivers and assumptions that will form the financial plan's basis. The organization's top priority will be to maintain existing services and advance essential initiatives identified throughout the financial planning process by the Board and staff.

2) Core Service Levels and Infrastructure Funding

The RDCO Board's 2019–2022 strategic priorities inform the development of the financial plan. These priorities are foundational to each service's work plans, and the 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, contract servicing, and materials and equipment. These expenditures can be influenced by uncontrollable economic conditions such as unemployment rates, supply and demand, tax changes, and contractual agreements.

Infrastructure

To manage the RDCO's assets in the most efficient manner possible, the RDCO continues to work on its Corporate Asset Management Strategy to better understand its infrastructure deficit and how it will fund the deficit in the future in a strategic, sustainable manner. This direction will ensure the RDCO can maintain sustainable service levels and infrastructure at the lowest cost possible.

Staff will review capital reserve balances and funding status in future years to support financial sustainability around asset management. The review will include assessing internal practices, existing bylaws, reserve levels against industry benchmark and comparison to other local governments. As a result of the review work, a guideline will be established to introduce a standard approach in setting optimal reserve, debt, and grant funding levels to minimize lifecycle costs within a long-term funding strategy. The guideline will establish a common practice and align 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 will reflect direction from Commissions, Committees, and the Board, including feedback, received in prior financial planning cycles. In addition, if the Board has any new direction impacting service levels, it will be incorporated into the budget process. As in prior years, staff will continue to engage the public throughout the financial planning process with an established communications and feedback strategy.

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 thoroughness in monitoring spending levels enable the RDCO to minimize revenue requirements and requisition increases. The guidelines to maintain core

service levels, incorporate new initiatives and adjust for inflation and market cost escalations aim to minimize financial implications for the 2022 budget year.

4) Financial Management Strategies

Financial management strategies will ensure critical financial objectives are integrated into organizational decision-making and operations. The following outlines the financial management strategies that will guide the RDCO's financial planning for the 2022 – 2026 Financial Plan:

- Goal of reducing reliance on one-time variances resulting in a surplus. Where possible, these funds will be transferred to reserves to fund future capital expenditures or reduce future revenue requirements. The intent is only to utilize surplus to reduce tax rates to offset one-time expenses or revenue loss (i.e., develop structurally balanced budgets with ongoing revenues and expenses).
- Optimize fee for service revenues and stabilize tax rates to fund operations, maintenance, and growth.
- Limit transfers to/from operating reserves, transferring only to fund one-time projects or stabilize revenue requirements.
- Goal of justifying levels of transfers to/from capital reserves by developing life cycle funding requirements and optimal debt levels.

Financial Implications

Budget impacts are not calculated at this time as information to perform detailed calculations and analysis is not yet available:

- The surplus or deficit for each service may affect the tax rate and amounts available for operating reserves. This information is not known until the year-end is complete.
- Calculations for tax rates by area are complex and, in some cases, have an interdependency between services being provided.
- Changes in annual assessment values have not been released, so the impact of market and non-market change on electoral areas and member municipalities cannot be incorporated at this time.
- Reserve and Capital Transfer amounts are reassessed and updated each year by staff and may affect tax rates. Recommendations are currently being developed based on long-term capital needs, which may change based on revised long-term capital plans.

Potential Impacts on Regional Services

Tax rates vary in part due to the funding partners participating in the service. The number of funding partners and the type of funding can vary between services as well. For these reasons, the financial implications shown below are for illustration purposes only. Staff will develop the 2022 – 2026 Draft Financial Plan and calculate the associated financial impacts between now and the February 17, 2022, Board meeting.

The estimated cost to a Regional Service Function for certain expense levels per \$100,000 of residential assessment and average home, using the 2021 Revised Assessment Roll, are presented in the table below.

Expense	2021 Regional Converted Revised Assessment	Residential Tax Rate per \$1,000 of assessment	Cost per \$100,000	Cost for 2021 Average Regional \$751,500 Home
\$ 50,000	\$ 7,317,286,310	\$ 0.0007	\$ 0.07	\$ 0.51
\$ 100,000	\$ 7,317,286,310	\$ 0.0014	\$ 0.14	\$ 1.03
\$ 500,000	\$ 7,317,286,310	\$ 0.0068	\$ 0.68	\$ 5.14

Financial Considerations:

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

External Considerations:

The RDCO's Five Year Financial Plan Bylaw will impact all taxpayers in the regional district through tax requisition. There is also implication to external groups via grants and fees.

Organizational Considerations:

The Financial Planning Guidelines presented in this report will inform how staff develop the 2022 – 2026 Five Year Financial Plan.

Considerations not applicable to this report:

- *Alternative recommendation*