Regional Board Report

Information

To: Regional Board

From: Director of Financial Services

Date: December 15, 2022

Subject: Financial Planning Highlights

Voting Entitlement: *All Directors - Unweighted Corporate Vote - Simple Majority (LGA s.208)*

Purpose: To inform the Board of the financial planning highlights that will be considered as part of the preparation of the 2023-2027 Five-Year Financial Plan.

Executive Summary:

The financial plan (Plan) is built on the strategic priorities of the Board as well as corporate initiatives and core service levels. It is a living document that is reviewed, updated, and approved each year. The maintenance of the Plan reflects the best practices of financial planning goals, financial considerations, asset management and long-term financial planning.

This report will clarify what each of these means as well as review the planning process and timeline. It will also touch on some key differences and similarities between the financial planning process for Regional Districts and Municipalities.

Heading into 2023, the Regional District of Central Okanagan (RDCO) staff will continue their work to draft a budget for Board consideration that balances pressures on service delivery such as population growth and utilization, inflation, and asset renewal requirements. This is a challenge that must be met following the best practices identified.

Recommendation(s):

THAT the Board receive the report on Financial Planning Highlights from the Director of Financial Services, dated December 15, 2022, for information

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Approved by:

Tania McCabe, CPA, CA, Director of Financial Services

Strategic Plan Alignment:

Priorities: Sustainable Communities, Choose an item.

Values: Resiliency, Good Governance

Background:

For local governments, the financial planning process is a continuous one that goes on throughout the year. Information is added, revised, and updated, as it is acquired, and then incorporated into the next version of the Plan when it is adopted or amended.

A good Plan will not be a perfect prediction of what the future of the government will be. Instead, it is a tool used to establish a reasonable understanding of what the future may look like. This is then used to determine a path forward to achieve the goals of the organization in that future environment. Plans are tools to help identify the known issues that can then be prepared for.

Goals and Considerations

When preparing a Plan there are key goals and considerations that need to be kept at the forefront. The key goals are:

- Best use of resources
    - This requires a clear understanding of the strategic priorities of the organization to allow for the proper allocation of resources to achieve those goals.
    - The strategic priorities are determined through a consensus driven process of the Board that considers input from staff and the public.
- Financial stability
    - This involves spending within the means of the organization to achieve the strategic priorities.
    - To do this, an organization must match the duration of its expenditures to a funding source that is of the same duration. In other words, short term funding is not used for expenditures that are long-term in nature.
    - The matching of the duration of expenditures and revenues helps provide for stable and predictable tax requisitions and fees
- Transparent
    - When a planning process is transparent, the stakeholders understand how the Plan will help the organization achieve its strategic priorities and what the financial impact of those priorities will be on the taxpayers
- Understandable
    - A Plan that is understandable is one that provides an appropriate level of detail for the stakeholders. A Plan with too much detail can be overwhelming, while one that doesn't contain enough detail can result in confusion because the information and impacts are not clear.

Key considerations are:

- Strategic priorities
  - These are set by the Board and are used by staff to determine the services to provide
- Economic environment
  - Inflation impacts the costs of providing services. It also impacts the residents' ability to pay for those services
- Service levels
  - The level of service provided directly impacts the costs. The costs of providing a level of service need to be weighed against the desire and ability of residents to pay for that level of service
- Infrastructure needs
  - These are influenced by all the above considerations. Strategic priorities may require an investment in infrastructure. The economic environment impacts the cost of acquiring, maintaining, and replacing infrastructure. And service levels dictate the infrastructure required.

Five-Year Financial Plan

A five-year financial plan is a legislative requirement. The Regional District must prepare and adopt this Plan by March 31st each year. The process to do so involves the identification of revenues and expenditures for each of the Regional District's services. Revenues can include user fees, tax requisitions, and external funding sources such as cost sharing agreements and grants. There is a focus on using non-tax revenue sources, where appropriate, to fund a service and reduce the impact on the tax requisition required. Expenditures include the ongoing operating costs as well as the purchase and replacement of the assets used to provide the services.

A key component to preparing a financial plan is public consultation. While it is a legislative requirement, the legislation leaves the determination of the best process to the local government. For the Regional District financial planning process, public consultation will include the opportunity for the public to provide written comments via email or through the Regional District's public engagement platform YourSay starting in January, after the draft plan is presented to the Board, and continuing until the end of February. The public will also be able to provide comments, in person, at the first Regional District Board meeting in February.

Differences & Similarities

It's important to touch on the key areas where there are differences and similarities between the financial planning process for Regional Districts and Municipalities. The key differences are:

1. Regional Districts do not issue property tax notices
2. Regional Districts must account for each service independently because each service will have different users paying for the costs of that service.
3. Regional Districts determine separate tax requisitions for each service based on who is paying for that service.
4. Regional Districts have an earlier adoption deadline – March 31st instead of May 15th.

There are some similarities to be noted:

1. The financial plan must balance. The funding coming in must equal the expenditures going out. For local governments, funding can include transfers from reserves and proceeds from debt as well as fees, taxes, and grants. Expenditures will include capital asset purchases, principal and interest payments on debt, and operating expenses such as wages and supplies.
2. Both municipalities and regional districts must adopt a five-year financial plan
3. Both are required to provide the public with the opportunity to provide feedback as part of their financial planning process.

Asset Management & Long-Term Financial Planning

Financial planning is ideally done using a long-term view. Legislatively, local governments must adopt a five-year financial plan. However, a longer time frame is important to ensure the sustainable delivery of services over the long-term. A key component of this is asset management. A strong asset management plan identifies all the costs associated with owning capital assets. This includes the initial purchase, the ongoing maintenance costs, and the eventual replacement costs.

Understanding these costs allows an organization to plan for the related cash outflows in its financial plan. The purchase and replacement of capital assets requires large, sporadic, cash outflows. Understanding when these will be required allows an organization to build up reserves. Reserves are the government form of a savings account. With regular contributions to reserves, the reserves can then be utilized to fund the capital expenditure without significant fluctuations in either tax requisitions or fees. Where a larger expenditure is required and sufficient reserves are not available, then debt is used to pay for the expenditure.

Financial Planning Timeline

The financial plan is a living document undergoing continuous improvement as information such as new priorities or changing costs are learned. There are several stages in the process. The process appears linear; however, it will move back into previous stages when required. The stages are:

- Department preparation:
  - This starts in earnest in the June that precedes the first year of the plan.
  - Department staff review the financial details of the services they manage and identify the changes that are required.
  - This is a detailed review that occurs over several months.
- Finance Review
  - When the departments have finalized their financial plans, the Finance department begins its review.
  - The Finance review is also a detailed review with the goal of ensuring the reasonableness of the financial assumptions and data used by the departments.
  - A higher-level review is also completed by the Chief Administrative Officer as part of this process
- Board review
  - The draft financial plan is presented to the Board for its review, feedback, and input.
  - Updates are made to the Plan to reflect this feedback.
- Public consultation

  - This stage runs concurrently with the Board review stage so that the Board can consider the public's input into the process
- Board approval

Specific dates for the 2023-2027 Five-Year Financial Plan were provided at the Board's meeting on December 1st.

Considerations:

Organizational/External:
All departments in the organization are involved in the financial planning process.

Financial:
Assumptions on inflation and supply chain impacts, contractual commitments, and known cost increases are incorporated into the plan

Legal/Statutory Authority:
The Local Government Act, Section 374(1) requires the adoption of a financial plan, by bylaw, by March 31st of the first year of the plan.

Approved for agenda

Corie Griffiths, Deputy CAO