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**REPORT TITLE:    Approach to the Development of the 2021 Budget**

**FROM:                Stephen Van Ofwegen, Commissioner of Finance and Chief Financial Officer**

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## **RECOMMENDATION**

**That the 2021 Budget for Regionally Controlled Services and External Agencies be planned and developed in recognition of the economic challenges being faced by taxpayers;**

**And further, that staff work with the external agencies to meet the proposed 2021 budget timelines as outlined in the report from the Commissioner of Finance and Chief Financial Officer, titled “Approach to the Development of the 2021 Budget”;**

**And further, that the external agencies be requested to report to Regional Council in June 2020 on risks associated with achieving the 2021 budget directions;**

**And further, that the timelines for the 2021 Budget deliberations, as outlined in Appendix I of the subject report, be approved.**

## **REPORT HIGHLIGHTS**

- A net tax levy increase of 4.3 per cent was forecast for 2021 during the 2020 Budget.
- The blended inflation rate (capital and operating) is estimated to be 2.6 per cent.
- The Region of Peel’s long term financial planning strategy recommends that tax increases be in line with inflation to demonstrate respect for the taxpayer.
- There remains significant uncertainty of the economic impact resulting from the COVID-19 pandemic.
- Peel is seeing increased financial pressure on residents and businesses who are facing income uncertainty.
- Given the economic uncertainty, planning for the 2021 Budget should take into account the fiscal pressures faced by property taxpayers, therefore a budget target is not recommended at this time.
- Managing in times of economic uncertainty will require participation of all services funded by the net tax levy: Regionally Controlled Services (55 per cent) and Regionally Financed External Agencies (45 per cent)
- As information is released on both the economy and as federal/provincial funding announcements are made, updates will be provided on service funding, service levels, and service delivery models.
- As directed by Council, the 2021 budget will be deliberated earlier with a proposed date of November 12, 2020.

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- Staff have worked with the external agencies (Peel Regional Police, Ontario Provincial Police, Credit Valley Conservation, Toronto and Region Conservation Authority and Conservation Halton) to obtain approval from their respective boards prior to presenting to Regional Council on November 19, 2020.
- Timing of the Provincial budget in the fall of 2020 will be too late to inform Council's 2021 budget decision making.
- Staff will provide Council with the budget information three weeks prior to the deliberation of the 2021 Budget.

## **DISCUSSION**

### **1. Background**

The Region of Peel's Long Term Financial Planning Strategy provides a long term perspective to guide decision making in support of the Region's overall financial condition. The Strategy demonstrates the required balance between financial sustainability, financial vulnerability and financial flexibility. In the Strategy, the financial principle of "Respect for the Taxpayer" is measured by budget tax increases in line with inflation, which have historically been in the range of one to three per cent per Bank of Canada.

The annual budget provides the resources to enable the policy decisions Council makes throughout the year. The focus of the 2021 Budget will be to enable the priorities identified by Council through its vision of a Community for Life.

Part of this process includes establishing timelines in order to provide Council with the required materials such as the budget document and budget presentations prior to the budget meeting. A critical part of the process is making improvements based on feedback. During the 2020 budget deliberation, Councilors directed staff to commence 2021 budget deliberations earlier so that local municipalities will have an approved Regional net tax levy to take into account when finalizing their respective budgets.

On December 19, 2019 when the 2020 Budget was approved, a budget target for 2021 was not recommended to Council as in previous years due to the risk and impact of provincial funding changes. Establishing a net tax levy target increase is part of the annual budget process and therefore, is outlined in this subject report. Since the approval the 2020 Budget, the Region of Peel along with the rest of the world, is assessing and adapting to the impacts of the constantly evolving circumstances due to the COVID-19 pandemic.

### **2. Impact of Provincial Budget/Economic Statement**

The Region of Peel is required to provide many cost shared programs mandated by the Province. When the Province released its 2019 Budget, with additional details in the months that followed, there were significant funding reductions for several programs. Some of these reductions were planned to take effect in 2021 and were incorporated into the 2021 Forecast included in the 2020 Budget.

With the onset of the COVID-19 pandemic, some funding changes and freezes that were announced in 2019, such as the cost sharing increase for Public Health, have been deferred or delayed until further notice. The 2020 Provincial Budget has been delayed until the fall of 2020. As details of the Provincial budget are released, staff will assess the impacts to

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funding, service levels, and service delivery models. Unfortunately, the timing of the Provincial budget in the fall of 2020 will be too late to inform Council's 2021 budget decision making, based on the proposed timelines.

### 3. Proposed Direction

A best practice, as articulated by the Municipal Finance Officers Association, is to obtain budget approval prior to the start of the fiscal year. Under the proposed timeline (Appendix I), the first date for budget deliberation is November 12, 2020 where Council will be presented the 2021 Budget Overview by the Chief Financial Officer followed by the service budget presentations for Regionally Controlled services.

The external agencies (Peel Regional Police, Ontario Provincial Police, Credit Valley Conservation, Toronto and Region Conservation Authority, and Conservation Halton) will present their respective budgets to Regional Council on November 19, 2020. November 26 and December 3 are held as budget meeting dates for further deliberations, if required.

Consistent with the Long Term Financial Planning Strategy, Regional Council direction is required to develop the 2021 Budget which reflects Council's financial principle of "Respect for the Taxpayer". As seen in the table 1 below, the net tax levy forecasted in 2020 Budget for 2021 was 4.3 per cent which included 2.7 per cent to maintain existing service levels, 0.6 per cent for provincial funding impact and 1.0 per cent for the infrastructure levy.

Table 1

	2021 Forecast
Base – Maintain Existing Service Levels*	2.7%
Provincial Funding Impact	0.6%
Infrastructure Levy	1.0%
<b>Total Net Tax Levy Increase</b>	<b>4.3%</b>

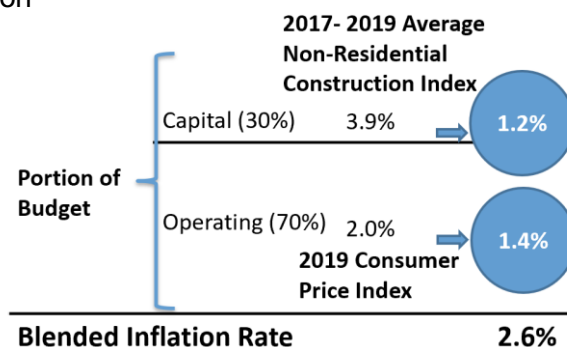
\*Assumes assessment growth 1.0%

The 2.7 per cent forecast to maintain existing service levels is at the upper end of the Bank of Canada inflation target range of 1 to 3 per cent. The forecasts were developed using global and service specific assumptions, such as service demand, labour costs, Consumer Price Index (CPI) on contracts, operating impact of new capital, provincial funding increases for inflation and service demand, and previous Council approved tax strategies.

As an infrastructure intensive organization, increases to the infrastructure levy are influenced by rising costs for construction. The inflation indices for capital investments are generally higher than CPI. CPI is estimated to be 2.0 per cent while the average non-residential construction index has been 3.9 per cent. As seen in the graphic below, a blended inflation rate (using the 2021 forecasts for the operating budget and capital budget) indicates an overall impact of inflation of 2.6 per cent.

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Graph 1: Blended Inflation



The Region of Peel is continually implementing process improvements to deliver operational efficiencies to ensure the best value for money for tax and utility rate payers.

Since the beginning of 2020, the Region of Peel along with the rest of world has been significantly impacted by the COVID-19 (COVID) pandemic. COVID has put a great deal of pressure on Peel's critical services such as Paramedic Services, Long Term Care, Public Health, Housing, Income Support, Housing and Homelessness. COVID has also significantly impacted the economy with many individuals, families and businesses experiencing decreased income. The duration and severity of the possible economic recession will be hugely dependent on how long the COVID pandemic will last which, at this point, is very uncertain.

Managing in times of economic uncertainty will require participation of all services funded by the net tax levy. Regionally Controlled Services comprise 55 per cent and Regionally Financed External Agencies 45 per cent of the net tax levy.

Staff have worked with the external agencies (Peel Regional Police, Ontario Provincial Police, Credit Valley Conservation, Toronto and Region Conservation Authority and Conservation Halton) to obtain approval from their respective boards in order to meet the proposed 2021 Budget timelines.

Additionally, for external agencies, Peel's Council dictates their available operating funding envelope through agency-specific targets. For Toronto and Region Conservation Authority, this approach is a consistent practice with their other partner municipalities and Toronto and Region Conservation Authority budgets accordingly based on the determined funding. Due to growth rate differences from Toronto and Region Conservation Authorities' partner municipalities, this funding approximates the Current Value Assessment (CVA) formula that Toronto and Region Conservation Authority is expected to follow. Municipal funding provided in excess of the ratio is delineated as 'non-CVA' levy, in an effort to be open and transparent with Toronto and Region Conservation Authorities' partner municipalities. Toronto and Region Conservation Authorities' board has initiated discussions with the Province and municipal stakeholders on how to address the growing non-CVA component. Toronto and Region Conservation Authority has committed to working with the City of Toronto to eliminate the non-CVA amount by 2021 which will ultimately reduce Peel's tax burden.

Based on all the above factors, the following is proposed:

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- a) That given the economic uncertainty, planning for the 2021 Budget should consider the fiscal pressures faced by property taxpayers, a budget target is not recommended at this time.
- b) That Peel Regional Police; (PRP), Credit Valley Conservation (CVC), and Toronto and Region Conservation Authority (TRCA) be requested to report to Regional Council in June 2020 on risks associated with achieving the 2021 budget directions considering the economic uncertainties facing taxpayers.

Ontario Provincial Police (OPP) and Conservation Halton (CH) make up a very small proportion of the Region's net tax levy and as such will be asked to present their service implications at the time they deliver their budget to Regional Council.

- c) That decisions made in developing the 2021 Budget and forecast consider tax and utility rate implications on future years.
- d) That Regional budget deliberations commence two weeks earlier starting November 12, 2020. The primary benefit in advancing the timelines for discussion of the Regional Budget is that the local municipalities will have an approved Regional net tax levy to inform their respective budgets.
- e) That Council will be provided with printed versions of the budget document and presentations. Staff have utilized digital versions for budget development and reviews.
- f) That, as in past years, staff provide Council with the budget information three weeks prior to the deliberation of the 2021 Budget.

### **4. Utility Rate Supported Budget**

The 2020 Budget included a forecast utility rate increase of 6.0 per cent for 2021. Because the water and wastewater services are infrastructure intensive, a 5 per cent infrastructure levy is required to maintain the state of good repair of its \$24 billion in assets. The remaining 1.0 per cent is required to maintain existing service levels and includes inflation. Staff will develop the budget, identifying opportunities to manage costs, and will be brought back for further Council consideration as part of the regular budget review process. This increase would still leave utility rates in Peel well below those of other municipalities in the Greater Toronto Area. However, recognizing the economic impact of the COVID 19 pandemic, staff are investigating the impact of spreading out the infrastructure levy required to sustain the water and wastewater infrastructure plan over a longer period of time.

## **RISK CONSIDERATIONS**

While there are benefits in advancing the timelines for discussion of the Regional Budget, there are some risks and logistical challenges associated with the proposed earlier date (see Table 2 below). However, staff believes the risks are minimal and can be mitigated appropriately.

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Table 2

<b>Risk</b>	<b>Description</b>	<b>Risk Assessment/Mitigation</b>
Alignment of the external agencies' board approvals	The PRP, CVC, TRCA and Conservation Halton would need to adjust their timelines to obtain approval from their respective Boards in order to meet the timeline	Staff will work with key members of the external agencies on the proposed timelines and/or make appropriate assumptions.
Provincial Funding	The Provincial Budget has been delayed until Fall 2020	External funding represents about 25% of Peel's overall revenue. The timing of the Provincial budget will be too late to inform Council's 2021 budget decision making
New CA Funding model	CVC, TRCA, and Conservation Halton may not have their Memorandums of Understanding drafted in time for budget deliberations	Staff will work with key members of the external agencies on the proposed timelines and/or make appropriate assumptions
New OPP Funding model	OPP may not have their new external funding finalized in time for the budget documents	Assumptions can be made in partnership with the Town of Caledon which can be incorporated prior to presentation of the budget
Changes in information	The budget is built around assumptions and existing information	If there is newer information that would cause a material impact on the budget prior to the budget dates, Council will be informed of the impact of these changes
Impact of COVID-19	Has significantly impacted the economy which will have many financial and non-financial impacts on Peel's services	The duration and the full extent of the impact on the economy is unknown at this time and will continue to evolve

## CONCLUSION

The proposed approach to developing the 2021 Budget is influenced by the economic effects of the COVID-19 pandemic. The Region and externally financed organizations will be required to develop a budget which reflects these challenging times. Regional staff will continue to work with external agencies to facilitate Council's direction for a responsible and sustainable 2021 Budget.

## APPENDICES

Appendix I – Proposed Timelines

## **Approach to the Development of the 2021 Budget**

*For further information regarding this report, please contact Norman Lum, Director, Business & Financial Planning at extension 3567 or via email at [Norman.Lum@peelregion.ca](mailto:Norman.Lum@peelregion.ca).*

*Authored By: Norman Lum, Director, Business & Financial Planning*

*Reviewed and/or approved in workflow by:*

Department Commissioner and Division Director.

Final approval is by the Chief Administrative Officer.

A handwritten signature in black ink, reading "Nancy Polsinelli". The signature is written in a cursive style with a large initial "N" and a small dot above the "i".

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N. Polsinelli, Interim Chief Administrative Officer