
REPORT TITLE: Approach to the Development of the 2023 Budget

FROM: Gary Kent, CPA, CGA, ICD.D, Chief Financial Officer and Commissioner of Corporate Services

RECOMMENDATION

- 1. That the 2023 Budget be developed to ensure the long term sustainability of services, as outlined in the report of the Chief Financial Officer and Commissioner of Corporate Services, listed on the June 23, 2022 Regional Council agenda titled “Approach to the Development of the 2023 Budget”; and**
- 2. That staff work with the external agencies to develop 2023 budgets reflecting the direction outlined in the subject report; and**
- 3. That the timelines for the 2023 Budget deliberations as outlined in Appendix I of the subject report be approved; and**
- 4. That the Region of Peel continue to advocate to the Province to ensure that funding for mandated programs keep pace with the elevated inflation rates forecasted for 2023.**

REPORT HIGHLIGHTS

- The Region of Peel’s Long-Term Financial Planning strategy recommends that tax increases be sustainable and demonstrate respect for the taxpayer.
- Managing the 2023 budget increase 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 based on the 2022 budget.
- As it is an election year, it is proposed the 2023 Budget be deliberated starting January 19, 2023.
- A preliminary property tax increase of two per cent is estimated for the 2023 Budget (equivalent to a Regional net tax levy increase of five per cent).
- Staff will continue to work though the summer to refine the numbers and assumptions.
- Key risks and trends that will inform the development of the budget include economic and market volatility driving heightened inflation rates, and addressing the state of good repair of Peel’s aging infrastructure.
- Key drivers of the forecasted net tax levy included:
 - o \$8.1 million loss in Payments In Lieu of Taxes revenue from the Greater Toronto Airport Authority
 - o Increased pressure on Housing Support
 - o Addressing increased call volume for Paramedic Services
 - o Inclusion of an infrastructure levy to ensure the state of good repair of assets
 - o Increased community safety from Police Services

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- Staff will be analyzing options to mitigate the property tax impact including cost containment measures.
 - The 2023 Budget will be planned and developed for a more normal post-COVID service delivery year. However, there will be indirect post-COVID impacts that will influence the budget such as:
 - Economic uncertainty and heightened inflation levels
 - Income uncertainty for residents and businesses
 - Restart of services, many of which that have slowed down due to the redeployment of staff to support the COVID-19 response
 - Both Regionally Controlled programs and the external agencies will work towards minimizing proposed budget increases.
 - A utility rate increase of 5.8 per cent is forecast for the 2023 Budget including an infrastructure levy of five per cent for the state of good repair of water/wastewater assets
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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. However, over the past year, inflation has been steadily increasing for both operating and capital costs with Consumer Price Index at 6.8 per cent and the Non-Residential Construction Price Index at 17.3 per cent in Q1 2022.

The annual budget provides the resources to advance the priorities identified by Council through its vision of a Community for Life and to enable the policy decisions Council has made prior to the budget. The focus of the 2023 Budget will be to ensure the provision of critical services and balance it with the goal to keep increases as low as possible.

In prior years, budget targets for the following year have been recommended. However, similar to the 2022 Budget, no budget target is recommended for the 2023 Budget due to the volatile inflation rate and the upcoming municipal election.

2. Findings

A property tax increase of two per cent and a utility rate increase of 5.8 per cent are estimated for the 2023 Budget. The property tax increase is based on a preliminary Regional net tax levy increase of five per cent and that the Region represents, on average, 42 per cent of the property tax bill.

a) Net tax levy

There are many components and drivers behind the forecasted net tax levy increase.

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Highlights include the following.

i) Economic

A key driver of the budget includes pressure from economic adjustments. Inflation for the 2023 operating budget is likely going to remain heightened ranging from of 2.5 per cent to three per cent. For the capital budget and capital plan, double digit inflation is projected for the Non-Residential Construction Price Index. These pressures are partially offset by annual adjustments to external revenue from upper levels of government. Additional information on the impacts of inflation are provided in the June 23, 2022, report of the Chief Financial Officer and Commissioner of Corporate Services titled "Overview and Impacts of Heightened Inflation on Regional Services".

ii) Priorities

A number of key priorities have been reflected in the pre-liminary budget estimate. The priorities include:

- Maintaining the state of good repair of Peel's affordable housing stock including Peel Living;
- Ensuring that Paramedic Services can meet the call volume from a growing population; and,
- Expansion of the EarlyON program.

There are other emerging pressures such as the need for increased housing options and responding to the climate change emergency that are not reflected yet in the pre-liminary net tax levy.

iii) Ensuring the Capital Plan is Sustainable

The forecasted increase also reflects a one per cent infrastructure levy to fund the replacement of existing infrastructure as it reaches the end of its life cycle. Through the 2023 Budget process, the infrastructure levy will be required for eight additional years including 2023 to fund the \$2 billion shortfall in the capital reserves forecasted over the next 20 years.

iv) Payments In Lieu of Taxes (PILT)

As a result of the COVID-19 pandemic, there was a significant reduction in the passenger volume at the Lester B. Pearson International Airport in both 2020 and 2021. The decreased passenger volume in 2021 will result in an estimated reduction in PILTs revenue of over \$8 million due to the two-year funding lag as currently prescribed in the funding formula. Last year, through advocacy efforts, the Province removed the cap on the annual PILT increase from the Lester B. Pearson International Airport enabling the revenue to increase at the pace at which passenger volume increases (with a two year lag).

v) Provincial Funding

As Council will recall, during the 2022 Budget deliberations, there was a continuation of the reduction in administration funding for Early Years and Child Care. However,

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this decrease was offset by a last minute one-time \$5 million grant from the Province. A key risk for the 2023 Budget will be if Provincial funding for programs in Health and Human Services will keep pace with the forecasted higher inflation rates.

vi) External Agencies

In addition, the external agencies (Peel Regional Police, Ontario Provincial Police, and the three conservation authorities) represent approximately 45 per cent of the total net tax levy. The budget submissions for the external agencies are approved by separate boards so there is limited ability for staff to influence these. As in prior budgets, increased community safety is a key driver within the Peel Regional Police 2023 forecast.

Staff are currently working through options to mitigate the financial impact of these budget pressures. Staff are also actively working on cost containment opportunities using approaches including line-by-line reviews of budgets, implementing continuous improvement initiatives including LEAN to drive savings and, in the longer term, undertaking service reviews. However, as mentioned earlier in the year, staff have been pushed to the limit over the last two years and capacity is a concern.

b) Utility rate

The forecasted utility rate increase for the 2023 Budget is 5.8 per cent which includes a five per cent infrastructure levy. The infrastructure levy increase is to ensure there are sufficient funds to replace infrastructure when it is required to ensure service levels are maintained. As presented to Council through the 2022 Budget, in order to have sufficient capital reserves to fund the forecasted 20-year capital plan, a five per cent infrastructure levy is required for an additional three years (2023, 2024 and 2025) to meet the currently \$1.6 billion reserve shortfall estimated over the next 20 years. However, asset management plans will continue to evolve and staff will provide updates on a regular basis.

c) COVID-19 will have minimal impact

At the time of the writing of this report, Peel is experiencing the sixth wave of the pandemic with this one being driven by Omicron. However, it is expected that the wave will wane towards the end of 2022. As such, the plan for the 2023 Budget is for more normal levels of service and service delivery with minimal impacts from COVID-19.

For the Health Services and especially Public Health, the pandemic may continue to influence program delivery but Public Health is currently assessing how COVID-19 will impact future service delivery.

For the budget, all incremental costs driven by COVID-19 will be managed through the balance sheet (rate stabilization reserves and/or Provincial Safe Restart Funding). This approach will ensure that COVID-19 will not drive increases to either the net tax levy or the utility rate.

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3. Proposed Direction

a) Timelines

A best practice, as articulated by the Municipal Finance Officers Association, is to obtain budget approval prior to the start of the fiscal year. However, as the 2023 Budget represents an election budget, the Regional budget cannot be approved until after December 31, 2022. Therefore, the first date for budget deliberation be January 19, 2023.

b) Changes for the 2023 Budget Presentations

In response to feedback received through the 2022 Budget deliberations, staff are proposing some changes to how the 2023 Budget will be presented.

Historically, on the first day of budget deliberations, the budget overview would be presented followed by presentations of the Regionally Controlled Services. On the second day of budget deliberations, the external agencies would present their budgets; Peel Regional Police, Ontario Provincial Police, and the three conservations authorities (CAs). However, this has sometimes resulted in having less time available for discussion on the CA budgets and the challenges they are facing.

To enable more dedicated and focused time on the budgets of the CAs, staff propose the order of the budget presentations be modified. On the first day of budget deliberations, an overview of the Regional budget will be provided followed by presentations from the Peel Regional Police and the Ontario Provincial Police at set times. On the second day of budget deliberations, all the Regionally Controlled services will be presented and on the third day, the entire day will be available for discussion of the CA budgets. Table 1 below summarizes the proposed presentation order for 2023. A more detailed budget timeline is presented in Appendix I.

Table 1: Proposed Dates for 2023 Budget Deliberations

Date	Presentations
January 19, 2023	Corporate Budget Overview Peel Regional Police, Ontario Provincial Police
January 26, 2023	Regionally Controlled Service Budget Presentations
February 2, 2023	Conservation Authorities
February 9, 2023	Held for additional Council debate

In addition to the changes to the order of the presentations, staff are also proposing to streamline the delivery of the budget to Council. In the past, the departmental commissioners presented the budgets for all of their respective services regardless of the budget increase or if there were any budget requests. For the 2023 Budget, staff will recommend key services with material changes and/or impacts to the budget for presentation to Council. Council will have the option to identify any other service presentation(s) for which they would like presented. This change is intended to enable Council to place additional focus on key services and service changes.

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c) Changes to the Budget Document

In addition to the changes to streamline budget deliberations, Council will also see some significant changes to the structure and content of the budget document. The key outcomes of these changes are to provide more information about each service, increase transparency on budget requests through additional information and to provide stronger linkage between the service business plans and the budget requests.

For each service, a four-year business plan along with a two-page budget request for any new proposed investments will now be included.

d) No Budget Target

As mentioned earlier in the report, past practice has been to establish a budget target to guide the development of the budget. For the 2023 Budget, given the uncertainty related to the economy, volatile inflation rate, and that there is an upcoming municipal election, no budget target is recommended.

However, staff proposes that both Regionally Controlled programs and the external agencies work towards developing a responsible and sustainable 2023 Budget recognizing the economic impact the pandemic has had on the incomes of both residents and businesses in the Peel community. Staff will also continue to work with the external agencies to provide guidance and support to achieve this goal.

e) Treatment of COVID-19 Costs

While it is expected that the COVID-19 pandemic will have minimal impact to service delivery, with possible exception of the health services, there may still be some temporary incremental costs associated with COVID-19. These costs will be borne on the balance sheet using any remaining broad municipal recovery funding (e.g. Safe Restart) or through the use of rate stabilization reserves. Therefore, there will be no net impact on the net tax levy increase or utility rate increase due to temporary COVID-19 related costs.

RISK CONSIDERATIONS

Balancing a budget increase and the needs of the community is challenging as minimizing budget increases may result in increased risk to fully addressing service demand pressures and service risks. To help mitigate this risk, staff will be reviewing Regional services for cost containment options that have minimal impact on service delivery and any significant risks would be highlighted to Council through the budget process. In addition, the net tax levy forecast reflects what is known at the time of the writing of the report and does not reflect pressures from policy changes that Council may approve subsequent to the report.

With the upcoming provincial election, there may be significant changes to provincially funded programs such as Public Health which could impact the 2023 Budget. However, staff will use the best information available to make appropriate assumptions in the development of the budget. While the legacy impacts of COVID-19 on service demand are expected to be much less than they were for 2022, there may be a recovery period as services return back to normal service levels.

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In addition, heightened inflation is expected to continue into 2023 and likely 2024. This will put additional pressure on the operating budget, capital budget and capital plan. At this point, staff plan on budgeting for 2.5 per cent inflation in the operating side for two years then two per cent ongoing and on the capital side at five per cent for the first three years then three per cent thereafter.

Staff will use the best available information to develop the budget recognizing that inflation is very volatile and could shift significantly.

CONCLUSION

The proposed approach to developing the 2023 Budget is consistent with the Long-Term Financial Planning Strategy and best practices recommended by the Municipal Finance Officers Association. Council's guidance on the 2023 Budget will assist in service planning, inform the priority setting of Strategic Plan outcomes, community risks and the impacts of the provincial election. Regional staff will continue to work with external agencies to facilitate Council's direction for a responsible and sustainable 2023 Budget.

APPENDICES

Appendix I – Proposed Timelines

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