

The Regional Municipality of York

Committee of the Whole
Finance and Administration
May 5, 2022

Report of the Commissioner of Finance

2023 Budget Directions

1. Recommendations

Council endorse the proposed timeline for the development of the 2023-2026 Budget and approval of the 2023 Budget as outlined in Table 3.

2. Summary

The purpose of this report is to provide information on issues that impact the development of the 2023 Budget and Outlook for the following three years, and to seek Council endorsement of the proposed budget development timelines.

Key Points:

- The 2023-2026 Budget will be developed in an environment of continued service and financial impacts from the COVID-19 pandemic
- Resource requirements are driven by factors that ensure programs, services and infrastructure keep pace with the Region's growing economy and population
- Recent high rates of inflation and other economic factors are expected to contribute to significant cost pressures
- It will be important to identify areas for potential savings and cost adjustments that will help minimize tax levy increases and service impacts
- To ensure alignment with Council priorities, the Budget will be developed together with the new *2023 to 2027 Strategic Plan*
- To support the new term of Regional Council following the municipal elections in October 2022, the 2023-2026 Budget is proposed to be tabled with Council in January 2023, with consideration of approval in February 2023
- Program or service areas with governing boards will be required to finalize their budgets to meet the proposed timeline for the Region's 2023-2026 Budget
- Should Council members wish to discuss specific budget priorities as department budget submissions are being developed, they are encouraged to reach out to senior management in late May – early July.

3. Background

A 2023-2026 multi-year budget that aligns with the term of Council is proposed

This report is an important step in the budget process to provide Council and the public with information that impact the budget development process and on the proposed timing. Since 2015, the Region has adopted a multi-year budget that includes an approved budget and a three-year outlook aligned with the term of Council. To help guide the budget process in non-election years, the Budget Directions report typically includes the budget outlook from the preceding budget and associated tax levy increase. A similar process is proposed for the 2023 budget, as shown in Table 1.

Table 1
Annual Operating Budget Approval

Annual Budget Year	Years of Approved Outlook
2023	3
2024	2
2025	1
2026	0

A multi-year budget provides several advantages:

- Enables better coordination of budgeting and strategic priorities
- Provides greater certainty for departments in managing their expenditures
- Supports long-term financial sustainability, through the implementation of the fiscal strategy

A multi-year budget approval does not eliminate the annual budget process. It also recognizes that circumstances may change over time and the outlook is revisited every year and adjusted as necessary. This was the case for the 2021 and 2022 budget, where the outlook was adjusted to reflect impacts of the COVID-19 pandemic.

Development of the *2023 to 2027 Strategic Plan* will help guide the Budget process

The 2023-2026 Budget is being developed alongside the new *2023 to 2027 Strategic Plan* and will be tabled at the same time as the 2023-2026 Budget in January 2023. As the Strategic Plan guides the multi-year business planning and budgeting process, many

priorities outlined in the Strategic Plan will be reflected in the 2023-2026 and future Regional budgets. Anchoring the Strategic Plan in core services ensures the Region continues to meet its legislative obligations while remaining flexible and responsive to the changing needs of our residents.

The 2023-2026 Budget will continue to focus on long-term financial sustainability

The Region's Fiscal Strategy, first adopted by Council for the 2014 Budget, is updated and approved annually alongside the budget. The Fiscal Strategy consists of three related elements: capital management, reserve management, and debt management, and is guided by the principles of long-term financial sustainability and inter-generational equity. Achieving the principles and objectives of the Fiscal Strategy include, among other things, ensuring that capital spending is aligned with the expected timing of growth. It also requires reserve contributions that allow the Region to meet growing asset management needs without issuing new debt.

Determining the appropriate level of reserve contributions includes an assessment of long-term needs and development of a plan to spread the contributions over the life of capital assets. This helps ensure costs are shared between current and future users of the asset base. Since 2019, growth in capital reserve contributions accounted for approximately 1.25% to 1.54% of the annual tax levy increase. Annual reserve contribution needs are expected to continue to increase to rehabilitate and replace aging infrastructure, support growth, and to meet the other fiscal strategy objectives.

4. Analysis

The ongoing impacts of the pandemic continue to affect costs and services

The 2023 Budget will be developed in an environment of continued uncertainty regarding future COVID-19 impacts. While there are many positive signs about the recovery from COVID-19, service and financial impacts are expected to continue beyond 2022. Risks related to the resurgence and further variants of the virus may affect ongoing costs and services, particularly in the areas of Public Health, long-term care and transit services. Temporary funding initiatives from senior levels of government helped offset pandemic-related costs incurred by the Region over the last two years. However, potential extension of these funding initiatives beyond 2022 is not yet clear.

The 2022 Budget included a draw of almost \$60 million from the Pandemic Management Reserve to help manage the financial impacts of COVID-19 and address a \$17.4 million 'structural gap' resulting from the use of one-time revenues in 2021 to help reduce the tax levy increase. In the absence of renewed senior government funding commitments and a permanent funding source for the structural gap, these types of pressures will persist to varying degrees through the budget and outlook period.

Budget drivers such as inflation and fuel prices are expected to result in cost pressures

The pandemic's impact on the economy and the war in Ukraine have contributed to the inflationary pressure in 2022 and added uncertainty for future costs. Current inflation as measured by the consumer price index, or CPI, is over 6%. While most forecasters expect CPI to fall to around 3% in 2023, many areas of the budget may face higher prices. This is because CPI does not always reflect the goods and services that the Region purchases as some expenses grow at a higher rate.

For example, sustained fuel price increases would result in a significant pressure. Based on the Region's current annual consumption of approximately 20 million litres of fuel, every 10 cent/litre increase represents an additional \$2 million in direct cost. In addition, growth in fuel prices could also drive higher contract costs, especially where fuel is consumed by third parties that provide goods and services to the Region.

Population growth is another key cost driver as demand for Regional services rises with the growing number of residents. Population growth in the Region is expected to average 2% per year over the next four years. Historically, combined growth in inflation and population represented a rough approximation of increased expenditures.

Potential pressures associated with other budget drivers include growing reliance and costs associated with information technology and modernization, and market-driven pressures related to insurance and procurement-related activities.

Policy and funding decisions by senior governments could have significant budget impacts

Programs and services that are linked to legislated and contractual commitments could be affected by any policy or funding changes by senior governments. Changes to cost-sharing arrangements for Public Health and potential changes to service delivery models for Public Health and paramedic services were delayed by the COVID-19 pandemic. Resumption of these initiatives by the Province could create budget impacts. Changes to the delivery of Ontario Works and Employment Services, the shift towards producer responsibility for the blue box program, and long-term care system reforms could also create financial impacts.

Consideration of expected policy priorities, such as transit and affordable housing, will be a key factor for budget development

The 2023 Budget is expected to include a provision to help fund the Region's share of the Yonge North Subway Extension. The 2022 Budget included a new 1% annual Rapid Transit Infrastructure Levy. Further incremental levies are expected to be required to raise the required tax levy funding contribution for the Yonge North Subway Extension and could help fund the Region's share of potential future Bus Rapid Transit (BRT) projects.

To help achieve Council's goal of providing additional affordable housing units, the 2023 Budget process may consider potential new investments to be added to the 10-year capital plan. This could include investments identified in the 2022 Development Charge Background

Study that are also expected to be included in the Affordable Housing Master Plan. Securing increased and more predictable funding from the Federal and Provincial governments will also be critical to support the continued growth of the Region’s affordable housing portfolio.

A framework to assess potential savings will guide development of the 2023-2026 budget

To help manage potential pressures and minimize impacts on programs and services, an important part of the annual budget process is the review of base budget items for cost savings, reductions and other efficiencies. In recent years, reviews such as these identified significant savings that are now incorporated in the base budget. This will make it more difficult to find additional savings without considering options for potential adjustments to services. Review of these options and any proposed changes would be communicated to Council as part of the budget process.

Development of the 2023-2026 Budget will continue to include the framework introduced as part of the 2020 Budget to assess savings based on three categories: efficiencies, potential service adjustments and increased risk tolerance. The framework will help identify potential savings initiatives and key implications, including program and service impacts, financial risks, and the impact on achievement of the Strategic Plan objectives.

Table 2 shows the savings framework and approaches that were considered as part of development of previous budgets and may be considered as part of the 2023-2026 Budget development process.

Table 2
Framework to Assess Potential Savings

1. Efficiencies	2. Service Level Adjustment	3. Risk Tolerance and Other
Identify programs and services for efficiencies, and other cost-savings	Adjust programs and service levels to reduce costs	i. Address time-limited pressures through Pandemic Management/other reserves ii. Review reserves/reserve contributions iii. Review revenue forecasts iv. Defer growth-related expenditures

The 10-year capital plan will be updated as part of the 2023 Budget

The 10-year capital plan approved as part of the 2022 Budget will be updated as part of the 2023 Budget development. The update will include the new 10th year of 2032 and is expected to include revisions to costs and timing for previously approved projects, and requests for new projects proposed to be added to the plan. New projects may include those identified in

the 2022 Development Charge Background Study, a new Affordable Housing Master Plan, updates to the Transportation Services and Environmental Services Master Plans, or could relate to identified Council priorities such as expanding the Region's Bus Rapid Transit network and achieving net-zero greenhouse gas emissions by 2051.

Council will also be asked to approve the 2023 single-year capital expenditures and 2023 Capital Spending Authority (CSA), which is the authority from Council to commit multi-year funding to a capital project.

The 2023-2026 Budget is proposed to be tabled in January 2023, and considered for approval in February 2023

The 2023-2026 Budget is proposed to be tabled with Council in January 2023, as is typically the case for election years. In non-election years, the Budget is usually tabled in November and approved in December. Tabling the Budget in January would allow additional time for Council transition and orientation prior to reviewing the proposed 2023-2026 Budget. Departmental budget reviews would take place at the Committee of the Whole meetings in February 2023, followed by final budget approval considered by Council at its February meeting.

Development of the 2023-2026 Budget will be reviewed by the CAO and the Chair in the Fall of 2022, in advance of tabling the budget with the new Council in January, 2023. Senior management will also meet periodically throughout the remainder of 2022 to discuss the development of the budget and to track progress.

Table 3 summarizes the key dates in the proposed 2023-2026 Budget process.

Table 3
Proposed 2023-2026 Budget Timeline

Key Activities/ Milestones	Date
Budget Directions Report to Committee of the Whole	May 5, 2022
Departmental budget submission to Finance	August – September 2022
Senior management reviews, staff deliberation and development of recommendation to Council	September – October 2022
YRRTC Budget - Board review	September 2022
Chair briefing	October – November 2022
York Regional Police Budget – Board review	November 2022
Council Education Session – potential budget process briefing	December 2022
Housing York Inc. Budget – Board review	January 2023
YorkNet Budget – Board review	January 2023
Table Budget with Council	January 2023
Committee of the Whole reviews – Departments	February 2023
Tentative Budget approval	February 2023

Program or service areas with governing boards (York Regional Police, York Region Rapid Transit Corporation, Housing York Inc. and YorkNet) will be required to finalize their budgets to meet the proposed timeline for the Region's 2023-2026 Budget, including review and approval of budgets to be consolidated as part of the Region's budget.

Should Council members wish to discuss specific budget priorities as department budget submissions are being developed, they are encouraged to reach out to senior management in late May – early July.

5. Financial

While there are no direct financial implications associated with this report, the direction provided by this report will inform the development of the 2023-2026 Budget, establishing expenditures and funding for the provision of Regional services in 2023 and the outlook for 2024-2026 will form the basis of the budget process in those years.

6. Local Impact

There is no direct local municipal impact associated with this report. The 2023-2026 budget will endeavor to fund required services and capital infrastructure for residents and businesses in all local municipalities within York Region. Certainty and discipline in the budget help local municipalities with their budget planning.

7. Conclusion

This report seeks Council endorsement of the proposed timeline for development and approval of the 2023-2026 Budget.

The budget will also continue to address the impacts of the COVID-19 pandemic and the risks and uncertainty in revenues and cost impacts, as well as addressing potential impact of the Yonge North Subway Extension project.

It is proposed that the 2023-2026 Budget be tabled with Council in January 2023, with consideration of approval in February 2023.

For more information on this report, please contact Joe Iannace, Acting Director, Office of the Budget at 1-877-464-9675 ext. 71631. Accessible formats or communication supports are available upon request.



Recommended by:

Kelly Strueby

Acting Commissioner of Finance and Regional Treasurer



Approved for Submission:

Bruce Macgregor

Chief Administrative Officer

April 22, 2022

eDOCS#13665481