

Staff Report

2024-165 - Financial/ IT Services Department



To: Mayor Koetsier and Members of Council
From: Jasvinder Rattigan, Director of Financial Services / Treasurer
Date: August 12, 2024
Subject: Budget Preparation 2025

Report Highlights

- The purpose of this report is to provide Council with information regarding the 2025 budget process, key financial highlights, and create an opportunity for Council to provide direction early in the process on expectations, service level adjustments, key priorities, and specific capital interests.
- Any service enhancements, reductions, or new proposals will be presented as "Service Enhancements" to allow Council to evaluate each on its own merit.
- The 2025 Budget is proposed to be tabled on November 4, 2024 and adopted on December 9, 2024.

Recommendation

BE IT RESOLVED THAT the report from the Director of Finance regarding Budget Preparation 2025, dated August 12, 2024, be received; and,

THAT Council approve the timelines for developing and approving the 2025 Budget as follows:

Draft Budget Tabled	November 4, 2024
Staff/Council Information Sessions	November 12 – 15, 2024
Boards and Agency Presentations	November 19, 2024 * Optional
Draft Budget Public Deliberations	November 26, 2024
Budget Adoption/Approval	December 9, 2024

Background

As required by sections 289 and 290 of the Municipal Act, 2001, a municipality must prepare and adopt an annual budget that includes estimates of all of the municipality's financial needs during the year. In addition, the development of a budget is beneficial for the following reasons:

- It provides a financial roadmap to deliver on Township priorities and services.
- Identifies whether existing resources are sufficient to meet spending needs.
- It is a communication tool both internally and within the community.

The purpose of this report is to provide Council with information regarding the 2025 budget process, key financial highlights, and create an opportunity for Council to provide direction early in the process on expectations, service level adjustments, key priorities, and specific capital interests. Proposed high-level budget assumptions and a preliminary assessment of factors influencing the Township's 2025 Budget have been outlined for the development of the 2025 draft budget.

The budget process concentrates on required changes to budget requirements, service levels, and financial challenges/constraints. This process assists Council in focusing on policy setting and service-level decisions to ensure Council is prepared to make decisions at a strategic level to move the Township forward. Detailed analysis is delegated to staff. Staff conducts an extensive line-by-line review and research on all budgets. The emphasis will be on describing plans and priorities with financial information presented at a summary level focused on issues impacting the budget, sufficient for Council to consider its strategic intent and expected outcomes.

2025 Budget Process

Over the next several months, staff will be working on budget submissions with the focus on refining their operating and capital budgets and consideration of priorities from the Strategic Plan. The Budget will be prepared to consider:

1. The cost of maintaining existing programs/services at current levels;
2. A reasonable estimate of assessment growth (taxation);
3. Contractual agreements including union negotiations;
4. The Township's Asset Management Plan and lifecycle management requirements of the Township's assets;
5. Township's Strategic Pillars/goals;
6. Anticipated 2025 workloads;
7. The costs associated with infrastructure that is operated and maintained by the Township; and,
8. The financial viability/affordability for the Township.

Staff are planning to follow a collaborative and consultative process in developing the 2025 Budget. The major steps include:

a) Department Business Plans:

Each department will develop a business plan that details its responsibilities, planned activities, and projected outcomes for 2025.

b) Base Operating Budgets:

The base Operating Budget is the annual spending and financing plan for the Township's recurring expenses. The base operating budget is the primary means by which most of the financing acquisitions, operational spending, and service delivery activities of the Township are controlled.

The 2025 base Operating Budgets reflect the costs that are required to maintain existing programs and services, based on anticipated workloads for the year.

c) Service Enhancements:

Service Enhancements provide detailed justifications regarding the need for a change in program direction or staff resources. Departments requesting a change in program direction or new staffing in 2025 will be required to complete a Service Enhancement Request detailing the needs and justification for Council approval.

d) Capital Plan:

The Capital Plan outlines the annual expenditures for the acquisition, repair, or replacement of tangible capital assets (TCA) for the Township. Capital justification requests will form part of the 2025 capital budget; these capital justification sheets will be provided for all capital requests to ensure transparency and a better understanding of capital plans/needs.

The 10-Year Capital Plan will also be provided for Council review. The long-range capital plan will be revised based on the Asset Management Plan as well as immediate capital requirements. The 10-Year Capital Plan is guided by the direction set by the Asset Management Plan; however, will be updated annually to be responsive and practical. The Annual Capital Plan is, in turn, directed by the 10-Year Capital Plan and capital projects are prioritized through a multiple bottom-line analysis that considers economic, social and environmental factors.

e) Budget Tabled:

The tabling of the budget refers to the commencement of budget deliberations. The 2025 Budget is proposed to be tabled on Monday, November 4, 2024.

f) Staff/Council Information Sessions and Public Deliberations:

Staff are proposing to hold information sessions and public deliberation sessions in November 2024. Staff/Council Information Sessions are for the benefit of individual Members of Council, whereby Council will have the opportunity to discuss/review in greater detail the draft budget with individual members of the Senior Management Team. During the Public Deliberation meetings, staff will present draft budget details to Members of Council and the public for their consideration and comment.

g) Boards and Agency Presentations are scheduled for November 19, 2024. This date has been provided as an option for Members of Council to provide direction. In prior years, this meeting has taken place subsequent to budget approval and Council has set aside maximum funds to allocate/distribute as grants.

This special budget meeting of Council will be solely set aside for Boards, such as the Public Library, the Severn Sound Environmental Association, as well as for various agencies requesting grants from the Township that will form part of the 2025 Budget.

h) Budget Approval:

Budget approval refers to the date when Council approves the annual operating and capital budgets. The 2025 Budget is proposed for Council approval on December 9, 2024.

2025 Draft Budget Timelines - Proposed

Draft Budget Tabled	November 4, 2024
Staff/Council Information Sessions	November 12 – 15, 2024
Boards and Agency Presentations	November 19, 2024 *Optional
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Analysis and Options

Optimization and continuous improvement is an ongoing process, it should be mentioned, staff will also undertake the following fiscally prudent actions:

- Investigate opportunities for new revenue streams and savings.
- Increase fees and charges in line with the Revenue Optimization and Fees Review.
- Continuously improve services and processes to maximize efficiency.
- Utilize procurement methods to ensure competitive pricing.
- Consider historical spending or revenue trends in budget development.
- Work within available funding levels.
- Prioritize initiatives, projects, and key financial pressures.

Based on a preliminary analysis, staff have identified the following budget pressures for the development of the 2025 draft budget. In addition to these pressures, consideration should be given to ongoing financial pressures resulting from inflation remaining at higher than historical averages and continued high interest rates. Note, this is not intended to be an exhaustive list of budget pressures, however, those that are anticipated to be of significance to the Township:

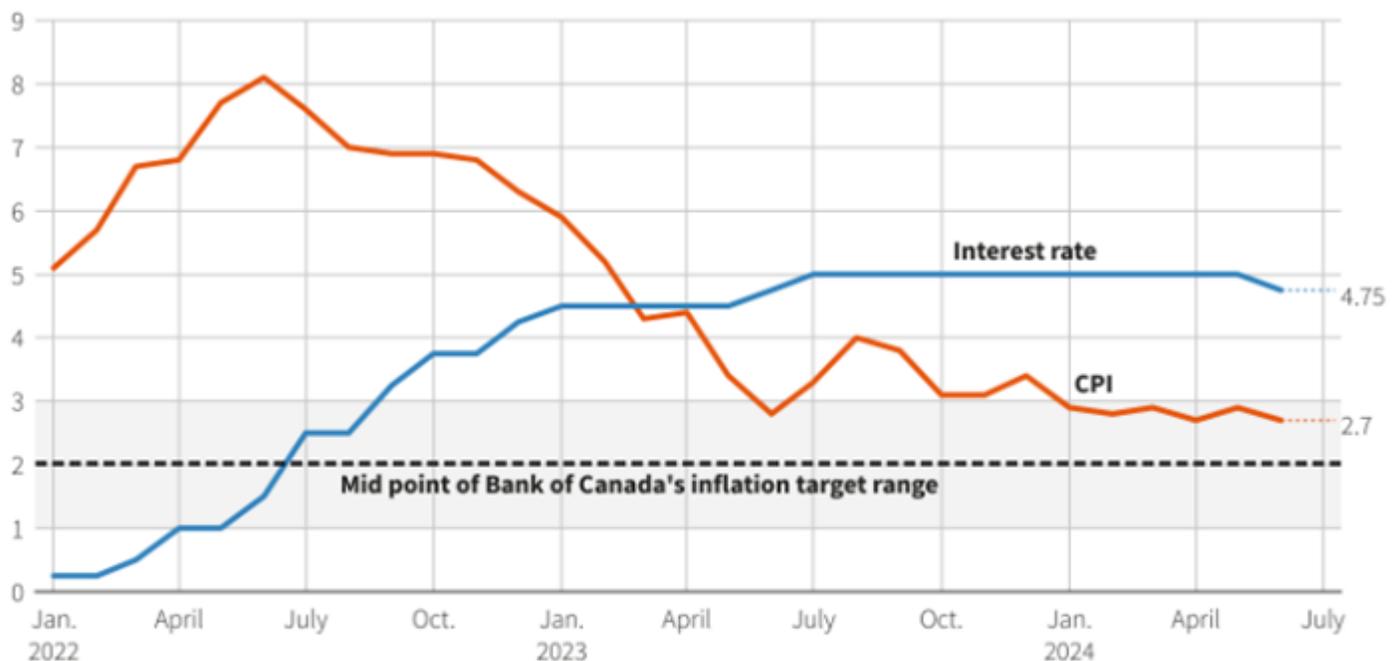
- Inflationary base increases for utilities including electricity, natural gas and water; diesel and gasoline inflationary increases and contract cost increases due to the current economic climate.
- Investment income realized is expected to decrease slightly in response to recent and expected interest rate reductions, however, this is not anticipated to have a negative budget impact. The 2025 Budget will be updated to reflect a more accurate rate of return on the Township's investments.
- Employee compensation and additional staffing requirements, including cost-of-living allowance, annual step increases, collective agreement impacts and group benefit renewals.
- Insurance costs 2025.
- Existing infrastructure replacement and rehabilitation.
- Contribution to asset lifecycle reserves.

Economic Outlook

Inflation has been easing since inflation in Canada hit a high of 8.1% in June 2022. The Bank of Canada (BOC) aggressively tightened monetary policy in response to heightened inflation, raising the key interest rate from the effective lower bound of 0.25% to 5% since March 2022. Through monetary policy, the BOC aims to target inflation at the 2% mid-point of its 1%-3% target range, with the goal of providing price stability and maximum sustainable employment. Higher interest rates have been working their way through the economy, resulting in lower economic growth and inflation. Inflation declined to 3.4% in December 2023 and has been slightly below 3% year over year throughout the first quarter of 2024. This recent string of lower inflation levels has confirmed that broad-based easing in inflation is underway, and that the BOC may lower interest rates even further. While most major categories are easing, it is expected that energy and shelter prices (rents and mortgage interest) will keep inflation close to 3%. The BOC is anticipating a return to the 2% inflationary target by the end of 2025.

Overall, the economy is stabilizing, and economists are projecting the BOC to continue cutting interest rates. It is expected the BOC will ease into rate cuts and monitor the economy to continue on the path towards the 2% inflation target. Heightened inflation experienced over the past years, as well as expectations for continued inflation above the 2% target, have applied significant pressure to the Township's operating and capital budgets for goods and services. There remains uncertainty and upside risk to inflation due to factors such as the carbon tax, ongoing wage increases to catch up with prior years of high inflation, and global disruptions related to geopolitical conflicts.

Interest Rate and CPI



Note: All numbers in percentage
Source: Statistics Canada

Financial Considerations

There are no direct financial implications to the Township as a result of this report. With that said, the Budget will establish expenses and funding for the provision of Township services in 2025. Confirmation of budget direction and timelines will ensure a streamlined and effective budget review process at both the staff and Council levels.

Conclusion

The budget process is focused on balancing economic pressures the Township is facing, while continuing to plan and move forward strategic and operational objectives into the future, all within the context of community affordability.

This report sets out the budget process, timetable and illustrates high level operating pressures. Staff's intent is to seek Council input and direction early in the process to aid in the development of the Draft 2025 Budget.

As illustrated within the report, the Township will continue to see financial pressure related to maintaining service levels, managing growth, and new initiatives. Departments will do their best to mitigate these pressures; however, some pressures are outside the Township's control such as legislation, inflation, and contractual obligations, while other pressures are within Council's discretion, such as initiatives, service levels, and asset renewal funding timing.

Report Supported By

This recommendation report is in alignment with the following strategic pillars:

- Environmental Protection
- Fiscal Responsibilities and Technology Efficiencies
- Streamline Planning Policies and Procedures
- Customer Experience and Community Engagement
- District and Township Relationship
- Engage with Indigenous Communities

Reviewed By/Collaborated With:

- Chief Administrative Officer
- Chief Building Official
- Director of Corporate Services / Clerk
- Director of Finance / Treasurer
- Director of Fire and Emergency Services / Fire Chief
- Manager of Human Resources

- Director of Operations
- Director of Planning
- Director of Sustainability
- Other

Reviewed By

Greg Mariotti, Chief Administrative Officer

Status:

Approved - 31 Jul 2024