

# Charting our Course

## Long Term Financial Planning Strategy April 2013



# Long Term Financial Planning Strategy

The Long Term Financial Planning Strategy applies a disciplined and integrated financial planning approach that identifies and manages risks to the Region of Peel's long-term financial sustainability and credit rating. The Strategy also prioritizes the resources needed to achieve strategic objectives and supports the cost-efficient delivery of Regional services.

The Long Term Financial Planning Strategy directly supports one of the seven goals of the Strategic Plan:

■ **Environment**

*Strategic Plan Goal:* Protect, enhance and restore the environment

■ **Social Development**

*Strategic Plan Goal:* Build a community that is stable, responsive and adaptable.

■ **Community Health**

*Strategic Plan Goal:* Maintain and improve the health of Peel's community.

■ **Transportation**

*Strategic Plan Goal:* Support and influence sustainable transportation systems.

■ **Cultural Development**

*Strategic Plan Goal:* Build a cohesive Peel community

■ **Public Safety**

*Strategic Plan Goal:* Ensure a safe Peel community.

■ **Service Excellence**

*Strategic Plan Goal:* Strive for continued excellence as a municipal government  
*Strategic Alignment:* Ensure the financial sustainability of Regional services, demonstrate accountability by making evidence-informed decisions, measure performance and reporting outcomes, and manage growth through long-term integrated planning.

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## Charting our Course

The Region of Peel invests in an integrated approach to planning to best serve the needs of our citizens.

At the core of our planning process is our Strategic Plan, Term of Council Priorities, Budget and Performance Reporting. Together these work to chart our course and help us deliver the most citizen-focused and cost-effective programs and services.

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## Introduction

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In 2011, Regional Council approved the development of a Long Term Financial Planning Strategy as one of its Term of Council Priorities. The purpose of the Strategy is to ensure the long-term financial sustainability of Regional services and maintain the Region of Peel's high quality credit rating.

Peel Region is facing a changing environment with slow economic growth; continued population growth; changing demographics, specifically the aging population; changing land use through intensification; and increased regulation and legislation that is putting pressure on program and service delivery. This is occurring at the same time as taxpayers are looking to governments to do more with fewer resources, creating an environment in which there is little appetite for tax increases.

To address the increasing financial pressure that Peel Region's growing and evolving community is putting on Region of Peel services and programs, the Long Term Financial Planning Strategy was developed. The Strategy builds on existing financial planning practices and applies a more disciplined, comprehensive and integrated approach that identifies and manages the risks to the Region of Peel's long-term financial sustainability.

## Background

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The Region of Peel provides community and infrastructure services to more than 1.3 million people and over 89,000 businesses in Brampton, Caledon and Mississauga. The Region of Peel is part of a two-tier municipal structure that provides a range of municipal services to residents and businesses. Peel Region is made up of three diverse area municipalities and many more cultural, economic and social communities. The Region of Peel works closely with its area municipalities and other levels of government to ensure services are delivered effectively.

Region of Peel services fall within six themes, which are outlined in the *Strategic Plan*:

- Environment — Protect, enhance and restore the environment
- Social Development — Build a community that is stable, responsive and adaptable
- Community Health — Maintain and improve the health of Peel's community
- Transportation — Support and influence sustainable transportation systems
- Cultural Development — Build a cohesive Peel community
- Public Safety — Ensure a safe community

Delivering value for money to tax and utility rate payers is at the heart of the Region of Peel's goal in achieving service delivery excellence. This excellence is measured in a number of ways including maintaining the Region of Peel's Triple-A (AAA) credit rating; a high level of customer satisfaction; trust and confidence from citizens; an engaged, dedicated and outcome-oriented workforce; and a continuous quest for alternative service delivery methods to improve cost-effectiveness and quality of services.

Resources are required to support the Region of Peel's investment in region-wide infrastructure, currently valued at \$19.8 billion, such as the Regional road network and essential water and wastewater systems. It also includes services related to the health and well-being of its citizens and community, including accessible transportation; child care; affordable housing; long term care; the Peel Art Gallery, Museum and Archives (PAMA); paramedic services; policing; public health; social assistance; and waste management services.

# Overview

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The Long Term Financial Planning Strategy provides Regional Council with a tool to help make decisions about policies, services and other significant matters — using a common agreed-upon understanding anchored by nine financial principles (see *page 4*) — to help the Region of Peel stay financially healthy.

The Strategy provides Council with better long-term financial information when it considers significant policy decisions that have an impact on services such as the Long Term Affordable Housing Strategy, Accessible Transportation, and Energy from Waste Facilities. It ensures that factors such as tax/utility rate impact to the resident, debt and reserve levels, and value for money are considered when making these decisions.

When Council is making decisions on the Region of Peel's \$1.9 billion annual Operating Budget\*, the Long Term Financial Planning Strategy provides a consistent lens to help evaluate the long-term financial impact of proposed changes to services and service levels to the community. Below are highlights of some the services that the Region of Peel provided through its Operating Budget\*:

- 17,000 Ontario Works cases per month
- 49 ambulances on the road at peak times to respond to 90,228 9-1-1 calls annually
- 500,000 Accessible Transportation Trips
- 17,766 social housing units/beds/homes
- 4,420 subsidized child care spaces with 800 spaces for children with special needs
- 1,643-lane kilometres of roads, 169 structures and 437 signalized intersections
- More than 500,000 tonnes of waste managed per year
- 703 beds available or 256,595 resident days of care in five long term care homes
- 50,000 children provided with dental screening, 11,000 in need of urgent treatment
- 242,932 immunization records reviewed
- 9,840 health inspections at 5,517 food premises
- 6,000 individuals educated and outreach to 6,300 seniors on Peel's cultural heritage through the Peel Art Gallery, Museum and Archives
- 600 million litres per day of wastewater collected and treated for approximately 300,000 customer accounts
- 570 million litres per day of municipal water treated, transmitted, and distributed to over 301,400 retail and wholesale customer accounts
- Effective and visible policing services that respond to more than 231,000 calls by Peel Regional Police in Mississauga and Brampton and 8,000 by Ontario Provincial Police in Caledon annually
- Through Conservation Authorities, responsible management of Peel's water, land and natural habitats more than 1,254-square kilometres

\*Figure is based on the 2013 Approved Budget

## Long Term Financial Planning Strategy

With a \$6.0 billion\* Capital Plan, the Long Term Financial Planning Strategy helps to ensure that the Region of Peel appropriately maintains its assets so services to its residents are not disrupted and that enough money is put away to replace its long-term assets when they reach the end of their life cycles. Long-term assets include Peel's roads, affordable housing, ambulances, long term care homes, water and wastewater systems, and buildings.

The Capital Plan also supports infrastructure requirements to service Peel Region's growing population and businesses. The Peel Region's population will grow to 1.64 million by 2031 and employment is expected to increase from 730,000 in 2011 to 870,000 in 2031. To finance Peel Region's long-term growth-related infrastructure the Region of Peel has, as of December 2012, issued \$1 billion in debt to cash flow development charges. Infrastructure, such as water and wastewater systems, are required prior to new development occurring.

Council recognizes that its residents and communities need critical services to thrive and that its residents are trying to manage their homes with limited dollars. The Strategy provides Council with financial principles to help find the appropriate balance to serve its residents and communities.

As mentioned earlier, the outcome of the Strategy is to ensure long-term financial sustainability of Regional services and continuation of the Region of Peel's high quality credit rating. The Long Term Financial Planning Strategy is founded on balancing the three pillars of sustainability that are supported by the Canadian Institute of Chartered Accountants:

1. Financial Sustainability
2. Financial Vulnerability
3. Financial Flexibility

These fiscal pillars are taken into consideration by agencies such as Moody's Investors Service and Standard & Poor's Rating Services to determine the Region of Peel's credit rating. These credit agencies provide third-party validation of the Region of Peel's financial condition. Collectively, these pillars will provide a holistic perspective of the Region of Peel's financial condition. Each of the pillars of sustainability is defined below:

1. **Financial Sustainability** is the Region of Peel's ability to provide and maintain planned service and infrastructure levels without resorting to unplanned increases in rates or disruptive cuts to services. Financial sustainability is the Region of Peel's stability.
2. **Financial Vulnerability** is the amount in which the Region of Peel is dependent on external funding sources that it cannot control; it is the level of risk that could impact the ability to meet existing financial obligations and commitments, including the delivery of Regional services. Financial vulnerability is how vulnerable the Region of Peel is to other sources of funding.
3. **Financial Flexibility** is related to debt and taxes; it is the Region of Peel's ability to change either debt levels or taxes to meet financial obligations. Flexibility is whether or not the Region of Peel has the ability to issue debt responsibly without impacting the credit rating or the ability to generate needed revenues.

The Region of Peel's strong financial position is maintained when a balance among financial sustainability, financial vulnerability and financial flexibility is achieved. To implement the pillars of sustainability, nine financial principles have been developed.

\*Figure is based on the 2013-2022 Capital Plan

# Financial Principles

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Each financial principle addresses a specific financial aspect such as debt, reserve adequacy and investments. No attempt has been made to prioritize the principles. These are to be used in an integrated fashion to achieve overall financial health and sustainability.

These principles will guide Regional Council and staff when making decisions related to service and program planning, will be used in an integrated fashion to help balance the three fiscal pillars and are reflective of direction provided by Regional Council over the past few years.

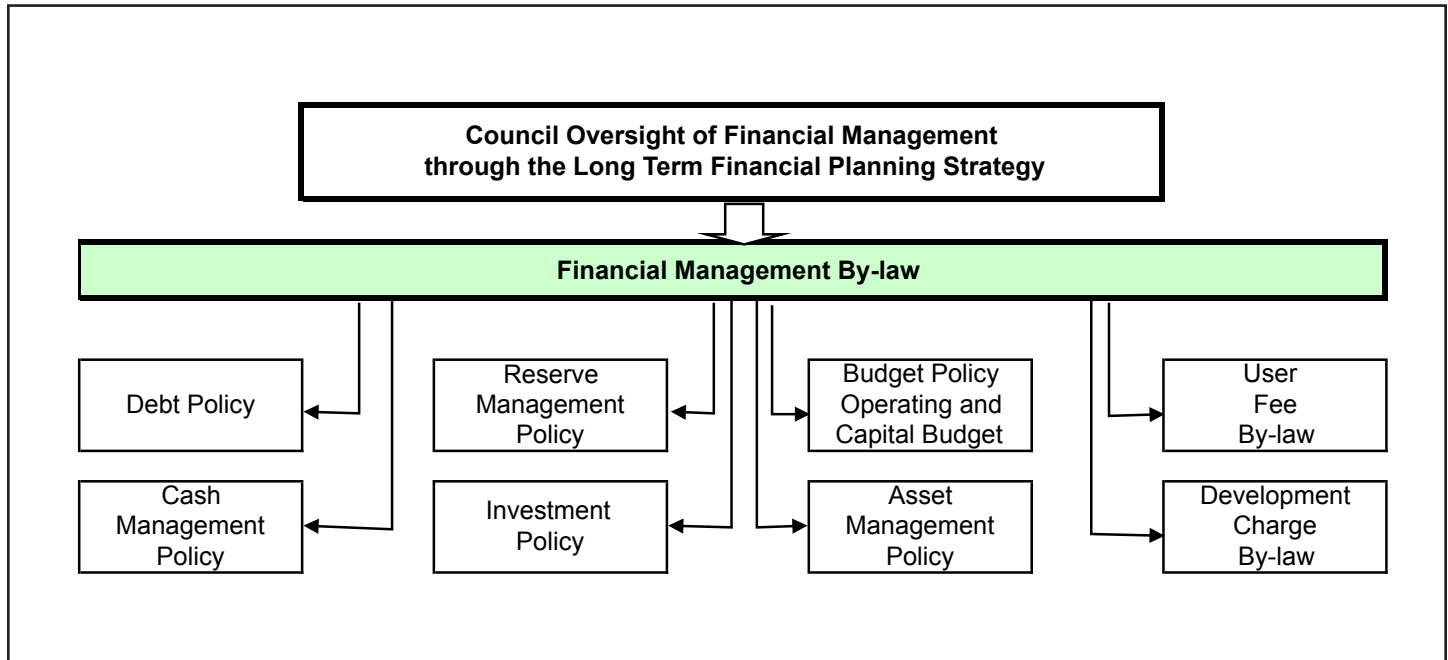
The following is a detailed description of the nine financial principles:

1. **Respect the tax and utility rate payer** – meaning the Region of Peel will strive to achieve reasonable and responsible tax and utility rates and ensure Regional Council’s highest priority programs (both capital and operating) are maintained
2. **Ensure the Capital Plan is sustainable** – where reserves and reserve funds should be funded to the levels required for their purposes, capital expenditures are reviewed in context of affordability, and the operating impact of capital is sustainable and affordable
3. **Maintain assets** – refers to infrastructure being replaced when it can be demonstrated that the replacement cost and subsequent maintenance cost are less expensive than maintaining the existing asset in a state of good repair over the same period of time
4. **Deliver value for money** – is a principle that will push the Region of Peel to continuously find efficiency and quality improvements in the way it manages and delivers services, and to seek out innovative approaches to financing services, like the use of public–private partnerships (P3s) and shared services, including outsourcing
5. **Users pay where appropriate** – this principle is focused on how and when user fees are utilized and the principle of ‘growth pays for growth’
6. **Work with area municipalities to support economic viability of the community** – to ensure that the Region of Peel continues to be a desirable area to live, work and play
7. **Make prudent investments** – the Region of Peel will maintain a conservative portfolio that does not compromise safety of principal and maintenance of liquidity in order to maximize investment returns
8. **Mitigate significant fluctuations in tax and utility rates** – through the use of the working funds the Region of Peel can implement techniques to smooth and maintain our tax and utility rates
9. **Borrow only for substantial long-term assets at affordable levels** – this principle is related to debt, how the Region of Peel services its debt, what debt can be issued for and ensuring actions do not negatively affect the credit rating

To ensure that the financial policies are aligned to the principles in the Long Term Financial Planning Strategy, a new Financial Management By-law was developed. The nine financial principles were placed in the Financial Management By-law and will be used to guide the development of new financial policies and future changes to existing financial policies, keeping a focus on the Region of Peel’s long-term financial sustainability.

## Long Term Financial Planning Strategy

The figure below provides a visual of the Oversight of Peel's Financial Policies and Strategies.



To support the Strategy, a financial model has been developed that allows staff to forecast 10-year tax and utility rate impacts. The model reflects the Region of Peel's existing financial policies, the operating impacts of future capital projects, planned debt levels and is driven by forecasts for population growth, employment and demographic changes.

The Strategy and model will enhance Regional Council's ability to make difficult decisions on policies, services and service levels by:

- Providing the long-term financial impact of these decisions
- Identifying emerging trends earlier; and
- Understanding how and when decisions and/or events may change the organization's financial condition

Utilization of the Strategy and model will assure the residents of Peel that Council and staff continue to take a disciplined approach to managing risk and maintaining the Region of Peel's long-term financial condition.

The criteria below will help determine whether a scenario should be "run through" the model. The criteria are as follows:

- Change in service delivery
- Change in service level
- New service
- Cancellation of a service



# Mandate

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To protect the long-term financial sustainability of Regional services through evidence-informed decision-making

Outcome

To ensure long-term financial sustainability of Regional services and continuation of the Region's high quality credit rating

# Objectives and Actions

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**Objective #1:**

Ensure financial sustainability of the Region of Peel's services and infrastructure

**Actions:**

- I.1 Implement strategies to achieve reasonable and responsible tax and utility rates
- I.2 Ensure the Capital Plan is sustainable
- I.3 Maintain existing assets to protect service delivery
- I.4 Deliver value for money through innovation and continuous improvement

**Objective #2:**

Minimize the Region of Peel's financial vulnerability to external funding sources

**Actions:**

- 2.1 Ensure users pay where appropriate
- 2.2 Collaborate with area municipalities to support economic viability of the community
- 2.3 Manage investments in accordance with the Municipal Act and the Region's investment policy

**Objective #3:**

Manage the Region of Peel's overall financial flexibility

**Actions:**

- 3.1 Mitigate significant fluctuations in tax and utility rates
- 3.2 Borrow only for substantial long-term assets at affordable levels

# Measurement

Monitoring and reporting are critical elements of the execution of a strategy. As mentioned earlier, long-term sustainability is achieved when the pillars of financial sustainability, financial vulnerability and financial flexibility are balanced. To determine if the pillars are in balance, the Region of Peel's current state will be assessed against desired states for the nine financial principles. The actions in the Strategy are based on the nine financial principles and the chart below outlines the indicators used to measure the actions.

Strategic Actions	Indicator
<b>Sustainability</b>	
<ul style="list-style-type: none"> <li>▪ Implement strategies to achieve reasonable and responsible tax and utility rates</li> </ul>	<ul style="list-style-type: none"> <li>▪ Tax rate in line with inflation</li> </ul>
<ul style="list-style-type: none"> <li>▪ Ensure Capital Plan is sustainable</li> <li>▪ Maintain existing assets to protect service delivery</li> </ul>	<ul style="list-style-type: none"> <li>▪ Adequate Capital Reserves - Tax</li> <li>▪ Adequate Capital Reserves - Utility</li> </ul>
<ul style="list-style-type: none"> <li>▪ Deliver value for money through innovation and continuous improvement</li> </ul>	<ul style="list-style-type: none"> <li>▪ Focus GTA Survey - Value for Tax</li> </ul>
<b>Vulnerability</b>	
<ul style="list-style-type: none"> <li>▪ Ensure users pay where appropriate</li> </ul>	<ul style="list-style-type: none"> <li>▪ Less than 20% DC rate increase required</li> <li>▪ Less than 50% of Budget funded by property tax</li> </ul>
<ul style="list-style-type: none"> <li>▪ Collaborate with area municipalities to support economic viability of the community</li> </ul>	<ul style="list-style-type: none"> <li>▪ Non-residential tax revenue - 35% to 45%</li> </ul>
<ul style="list-style-type: none"> <li>▪ Manage investments in accordance with the Municipal Act and the Region's investment policy.</li> </ul>	<ul style="list-style-type: none"> <li>▪ 100% compliance with investment policy</li> </ul>
<b>Flexibility</b>	
<ul style="list-style-type: none"> <li>▪ Mitigate significant fluctuations in tax and utility rates</li> </ul>	<ul style="list-style-type: none"> <li>▪ Adequate working fund reserves - 5% to 10%</li> <li>▪ Adequate stabilization reserves - 5% to 10%</li> </ul>
<ul style="list-style-type: none"> <li>▪ Borrow only for substantial long-term assets at affordable rates</li> </ul>	<ul style="list-style-type: none"> <li>▪ Adequate cash to fund 12-month debt payments</li> <li>▪ Annual debt payments &lt;25% own source revenue</li> </ul>

A Financial Condition Scorecard (Appendix I) has been developed to assess the Region of Peel's financial condition by using key financial performance indicators for each desired state. The Scorecard uses the same indicators used to measure the actions to implement the Strategy. The Scorecard shows three key pieces of information:

- The indicator for each financial principle
- How the Region of Peel's current state compares to each indicator
- If any actions or mitigation strategies are proposed

Results of the financial condition assessment will identify the need to review the financial strategy and policies that Regional Council has put in place for either adjustments or confirmation. It may also identify the need to develop new policies and/or conduct process and/or service reviews.

Regional Council has a track record of strong financial management and has put in place a number of elements to protect the Region of Peel's financial sustainability and maintain its Triple-A credit rating. Decisions such as the 1% infrastructure levy, the recent introduction of an annual assessment of the adequacy of Development Charges (DC) rates and the decision to undertake a study of employment trends in Peel are some examples of how Council's decisions are contributing to maintaining the Region of Peel's financial condition. Performance metrics may evolve over time and staff will continue to work with area municipalities in developing financial indicators that strive for consistency when measuring overall financial condition.

## Reporting

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Staff will report annually on the Region of Peel's overall financial condition and request Council's endorsement of the recommended actions to ensure the desired state is met and the risk to the credit rating is mitigated. This report will be presented to Regional Council each spring and can serve as an input into the program and budget planning cycle.

Throughout the year, significant policy reports dealing with service or service-level changes are brought before Regional Council. Staff will provide an assessment of the impact of the Strategy on the recommendations in those reports including a forecast of the long-term financial impact, the potential risk to the Region of Peel's credit rating, if any, and if there are any approved policies with significant financial impacts occurring at the same time. The Strategy itself will be reviewed every four years to align with the new term of Council and the refresh of the Strategic Plan and Term of Council Priorities.

## High-Level Implementation Plan/Work Plan

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Staff will develop an annual work plan that includes the approved recommended actions to ensure the Region of Peel's financial condition is sustained. The work plan will include owners, timelines and measures for each action and will be monitored throughout the year by senior management to ensure progress is made and that expected outcomes are achieved.

### Benefits

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The Long Term Financial Planning Strategy supports financial policies and strategies and provides a financial lens in making effective long-term decisions by Council and staff on Regional programs and services.

As of December 31, 2012, the Region of Peel's current financial condition is healthy based on its Triple-A credit rating. The Long Term Financial Planning Strategy has been developed to manage and mitigate the risk to the Region of Peel's financial condition. Taking a proactive approach to financial management with a Long Term Financial Planning Strategy can help to reduce the risk of changes to the current credit rating and increase the understanding of decisions that may impact the Region of Peel's overall long-term financial condition and fiscal health.

The Long Term Financial Planning Strategy will identify and prioritize the resources needed to achieve strategic objectives by managing the Region of Peel's financial sustainability, financial vulnerability, financial flexibility, and will support efficient and effective delivery of programs and services.

The key benefit of the Long Term Financial Planning Strategy is to integrate the financial plan with the organization's strategic objectives and priorities to ensure financial sustainability of Regional programs, services and projects. The Long Term Financial Planning Strategy will enhance trust and confidence in the Region of Peel's financial management; integrate and keep current the relevant existing and new financial management policies, by-laws and strategies; and provide guidance to inform Council and staff. The strategy will ensure financial outcomes related to the Region of Peel's financial condition are defined, measured, monitored and managed.

### Connections to Other Planning Efforts

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The Long Term Financial Planning Strategy supports integrated long-term financial planning at the Region of Peel and the outcomes of its Strategic Plan.

As a financial lens to be applied to planning efforts, the Long Term Financial Planning Strategy will be a consideration as Program Plans and Enabling Strategies are developed to help align strategic outcomes and ensure that operational plans are financially sustainable. The Long Term Financial Planning Strategy is a fundamental input into the strategic planning process. It provides an overview of the Region of Peel's financial condition and will inform the organization's strategic goals, actions and program plans, while maintaining financial sustainability for Regional programs and services.

The annual evaluation of the Region of Peel's financial condition will provide additional assurance to the public and credit rating agencies of the strong focus by both Regional Council and senior management on the organization financial sustainability and overall financial condition.

# Glossary of Terms

Term	Definition
By-law	A private law or regulation made by a corporation for its own government
Enabling Strategy	A long-term plan intended to chart the course for the service that supports external-client-facing programs
Financial Condition	The status of the Region of Peel's assets, liabilities and overall financial position at a specific point in time.
Peel's Financial Condition Scorecard	An analysis of the trends — using key performance indicators — that have an impact on the Region of Peel's financial condition
Financial Flexibility	Degree to which we can change our debt or tax burden to meet existing financial obligations
Financial Principles	Will guide and help with decision making for staff and Council on decisions related to service and program planning. These principles will inform Regional Policies and Actions and be used in an integrated fashion to achieve an appropriate balance between overall financial health and service sustainability
Financial Sustainability	Degree to which planned service and infrastructure levels can be met without resorting to unplanned increases in rates or disruptive cuts to services
Financial Vulnerability	Degree to which we are dependent on sources of funding outside of our control or influence or are exposed to risks that could impair our ability to meet existing financial obligations and commitments
Input	A unit of resource used to generate outputs; e.g., full-time equivalent (FTE) staff, equipment, space, technology, funds, etc.
Integrated Planning	A co-ordinated and client-centred approach to planning at the Region of Peel; it creates a stronger link between the Region's Strategic Plan, program planning, operations, measurement and annual budget to ensure strong fiscal and administrative responsibility
Outcome	A desired change in the level of need (e.g., intended result, effect, or consequences) attributable in part or fully to the execution of a program or project
Output	A unit of product or service delivered directly to an individual or a client group. Outputs are the immediate products of a service
Performance Management	A process of gathering information to make evidence-informed decisions and to monitor progress toward a desired result or goal
Performance Management Framework	A Region of Peel resource guide intended to provide guidance for performance management at the enterprise, program, projects, services and processes level; users of this guide will learn techniques for developing suitable performance measures, establishing performance targets, understanding performance reporting and using these measures for decision-making
Policies	A plan of action adopted or pursued by an individual, government, party, business etc.
Performance Measure	A particular value or characteristic that describes inputs, processes, outputs and outcomes in a tangible way
Program	A set of related services that all contribute to a common outcome
Program Plan	A long-term plan intended to chart the course for a program that impacts external clients and the community
Service	Provision of outputs that both satisfy a client need and contribute to achieving program outcomes
Target	The numerical value of a performance metric that is to be achieved by a given date; both the metric and the schedule need to be specified for targets; e.g., increase satisfaction rate from 75% to 85% by 2013

# Appendix I – Region of Peel’s Financial Scorecard

Financial Principles	Indicator	Assessment	Detail on Action
<b>Overall Financial Condition</b>	<b>High level credit rating</b>		
<b>Sustainability</b>			
<ul style="list-style-type: none"> <li>■ Respect the tax payer</li> </ul>	Tax rate in line with inflation		
<ul style="list-style-type: none"> <li>■ Maintain Assets</li> <li>■ Ensure Capital Plan is sustainable</li> </ul>	Adequate Capital Reserves - Tax		
	Adequate Capital Reserves - Utility		
<ul style="list-style-type: none"> <li>■ Deliver value for money</li> </ul>	Focus GTA Survey - Value for Tax		
<b>Vulnerability</b>			
<ul style="list-style-type: none"> <li>■ Users pay where appropriate</li> </ul>	Less than 20% DC rate increase required		
<ul style="list-style-type: none"> <li>■ Work with area municipalities to support economic viability of the community</li> </ul>	Less than 50% of Budget funded by property tax		
	Non-residential tax revenue - 35% to 45%		
<ul style="list-style-type: none"> <li>■ Prudently invest</li> </ul>	100% compliance with investment policy		
<b>Flexibility</b>			
<ul style="list-style-type: none"> <li>■ Mitigate significant fluctuations in tax and utility rates</li> </ul>	Adequate working fund reserves - 5% to 10%		
	Adequate cash to fund 12 month debt payments		
	Adequate stabilization reserves - 5% to 10%		
<ul style="list-style-type: none"> <li>■ Borrow only for substantial long term assets at affordable rates</li> </ul>	Annual debt payments <25% own source revenue		



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