
REPORT TITLE: Approach to the Development of the 2025 Budget

FROM: Davinder Valeri, Chief Financial Officer and Commissioner of Corporate Services

RECOMMENDATION

- 1. That the 2025-2028 Business Plan and 2025 Budget (“2025 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 13, 2024 Regional Council agenda titled “Approach to the Development of the 2025 Budget”; and**
- 2. That staff work together and with the external agencies to provide guidelines and timelines for the 2025 Budget reflecting the direction outlined in the subject report; and**
- 3. That the timelines for the 2025 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 inflation and population growth.**

REPORT HIGHLIGHTS

- The Region of Peel’s Long-Term Financial Planning strategy recommends that tax increases be sustainable and demonstrate respect for the taxpayer.
- The 2025 Budget will be developed in alignment with the principles to maintain Regional services through the transition period approved through the Council report from the Chief Administrative Officer titled, “Bill 112 – Managing Through the Transition”.
- It is proposed the 2025 Budget be deliberated starting November 21, 2024. If significant changes are made by the province as part of Bill 185, staff will report back to Council with any proposed changes to its budget approach.
- Managing the 2025 Budget increase will require participation of all services funded by the net tax levy: Regionally Controlled Services (54 per cent) and Regionally Financed External Agencies (46 per cent).
- For Region Controlled programs, a net tax levy increase of 2.9 per cent is forecast, based on estimates provided through the 2024-2027 Business Plan and 2024 Budget document.
- Key drivers of the forecasted increase include:
 - Addressing increased call volume for Paramedic Services
 - Increased pressure on Housing Support
 - Meeting the Provincial Public Health mandate
 - Inclusion of an infrastructure levy to ensure the state of good repair of assets
 - Setting plans to manage climate change and declared emergencies in Peel
 - Improving residents’ health and well-being

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- Staff are also assessing the increasing costs of infrastructure which are not yet factored in the projected net tax levy increase.
 - As in prior years, staff will be analyzing options to mitigate the property tax impact including cost containment measures.
 - For External Agencies, a net tax levy increase of 5.6 per cent is forecast based on estimates provided through the 2024-2027 Business Plan and 2024 Budget document. The forecasted increase is largely driven by the need for increased community safety from Police Services.
 - A utility rate increase of 5.6 per cent is forecast for the 2025 Budget including an infrastructure levy of five per cent for the state of good repair of water/wastewater assets.
 - Staff will continue to work through the summer to refine the numbers and assumptions.
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DISCUSSION

1. Background

- a) The Region of Peel's Long-Term Financial Planning Strategy (LTFPS) 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.

The development of the Region's Budget is guided by the 2015-2035 Strategic Plan. The annual Budget names and provides available resources to advance priorities identified by Regional Council through its vision of a Community for Life and to enable the policy decisions Council has made prior to the budget.

As in prior years, the planning process began with holistic view of major trends and risks and their respective impacts on Peel's services. These trends and risks included:

- Economic uncertainty and market volatility (inflation),
- Income uncertainty and affordability challenges for residents and businesses,
- Provincial funding changes,
- Changing legislation and regulations,
- Evolving technology, and
- Aging infrastructure.

The focus of the budget development process is to ensure the provision of critical services and balance it with the goal to keep increases as low as possible in keeping with Peel's financial principle to "Respect for the Taxpayer" as measured by budget tax increases being in line with inflation.

The starting point of the 2025 Budget development is the forecast for 2025 as outlined in the 2024-2027 Business Plan and 2024 Budget document. The forecast of the net tax levy and utility rate increases are based on a number of components and assumptions including inflation, estimated population growth, known legislative changes, external funding increases/shortfalls, and key priorities directed by Council. The 2025 Forecast was also developed assuming Peel's services would continue to be provided. These assumptions, along with the trends and risks, are updated as part of the 2025 Budget process.

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b) Peel continues to Recover from the Pandemic and Recent Legislation

In addition to the factors normally considered through the budget process, the Peel organization is still recovering from its efforts to manage the COVID-19 pandemic. As services have gradually returned to normal operations, staff have continued to catch up on back logged work and advance on work that could not be done during the pandemic. In some programs such as Affordable Transit and TransHelp, trip demand is only just returning to pre-COVID levels.

The duration of recuperating from the pandemic and the uncertainty surrounding provincial funding during that period have been exacerbated by the unexpected announcement of Bill 23 - *More Homes Built Faster, 2022*, Bill 112 – *Hazel McCallion Act (Peel Dissolution), 2023*, and Bill 185 - *Cutting Red Tape to Build More Homes Act*.

The announcement of the dissolution of Peel resulted in some short-term decisions made in 2023 which have put additional pressure on Peel's long term financial plan. In the short and medium term, including the 2025 Budget, staff will undertake actions to stabilize Peel's overall long term financial sustainability and health.

2. Findings

While Peel awaits the Province's decisions regarding Bill 185, staff will continue to develop the budget with the same thoughtfulness and thoroughness to ensure services are maintained as directed by Council through the principles approved through the report from the Chief Administrative Officer titled, "Bill 112 – Managing Through the Transition".

As mentioned earlier, the 2025 Budget is facing multiple challenges such as heightened inflation, external funding shortfalls, ongoing recovery from the pandemic, recently announced legislations and increased demand for services from the community. Staff, as part of the planning and budget process, are currently working through the update and refinement of the 2025 forecast including the following key areas of note that will influence the proposed 2025 Budget:

- Economic pressures,
- Strategic investments, and
- External funding shortfalls.

i) Economic Pressures

A key driver of the budget includes pressure from economic adjustments which in 2025, are shaped by a changed economic environment. Despite several challenges, the Canadian economy remained resilient in 2023, registering a growth of 1.1 per cent. However, heightened geopolitical uncertainties, above target inflation rate, and high interest rates aimed at reducing inflation, have helped to lower growth expectations for 2024 and increase economic risks. Inflation is expected to continue to trend down but at a slower pace than previously expected. Inflation for the 2025 Operating Budget is currently estimated at 2.5 per cent. 4.0 per cent inflation will be applied to the 2025 Capital Budget and a 3.0 per cent inflation will be applied for the remaining nine-year Capital Plan.

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The shift to higher inflation beginning with the 40-year high inflation rate experienced in 2022 will significantly impact Regional costs in 2025. Higher cost pressures will be partially offset by annual adjustments to external revenue from upper levels of government and utilization of the rate stabilization reserves will be available to smooth out any significant fluctuations.

ii) Making Strategic Investments

Peel is confronted with broader societal and economic challenges that currently preoccupy every level of government. With the continued growth in Peel, the following lists some of the challenges Peel is facing:

- Housing affordability crisis
- Ongoing influx of asylum seekers
- Rising Ontario Works caseloads
- Aggressive provincial housing targets that require aggressively updated infrastructure targets
- Shelters at overcapacity
- Increasing food insecurity
- Elevated unaffordability for some residents
- Public Health and community safety concerns
- Climate Change Emergency

To address these challenges, Peel is focused on making strategic investments that ultimately save money and provide maximum long-term benefits for the community. This includes:

- Investing in Public Health Services is essential for preventing disease, reducing health disparities, and improving the health of the population, and
- Providing residents with quality, affordable housing is the cornerstone of vibrant, healthy neighbourhoods that promote the environmental and economic health of the city, the region, and the nation.
- Tackling the Climate Change Emergency by ensuring that:
 - All new buildings are designed to be net zero, and
 - Updating affordable housing buildings to reduce their carbon footprint, and
 - Electrifying Peel's fleet by increasing access to electric vehicle (EV) charging infrastructure.

The 2025 Budget will include strategic investments that position Peel services and resources to make positive and measurable impacts on Peel's communities.

iii) External Funding Shortfalls Continue

Peel, similar to other municipalities, has played a crucial role in providing essential services and infrastructure to ensure the safety and well-being of our community. For years, the Region has faced chronic underfunding for these services by both federal and provincial governments.

According to the report to Council from Metamorphosis on May 23, 2024, compared to the Ontario average, Peel is underfunded by \$868.5 million or \$578 per capita. For Social programs specifically, Peel receives \$145 per capital less or \$215 million less. For the purposes of the Metamorphosis report, Social programs include Public Health, Social Assistance (and Other Family Services), Senior Support, Childcare, Social

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Housing and other services such as Transit which is provided at the local municipal level.

Staff will be presenting a report to Council in the coming weeks, on the estimated impact of funding shortfalls on services specific to the Region of Peel that the province has mandated that Peel provide highlighting the cumulative funding gaps over the past five years. For the 2025 Budget, this trend of requiring Peel taxpayers to fund shortfalls to ensure the financial sustainability of provincially mandated programs will continue.

Peel continues to call on the provincial and federal governments to provide a fair and appropriate funding allocation for social services and supports and we look forward to working with the community and the provincial and federal governments to build a common understanding of the numbers.

3. Forecasted Net Tax Levy Impact

There are two general parts of the net tax levy. The first part relates to services and programs under Council's direct authority or Region Controlled services. The second part relates to services provided through External Agencies whose budgets are directly guided by their respective boards.

While there are many components and drivers behind the forecasted budget including areas mentioned earlier in the report such as inflation and external funding shortfalls, key strategic investments to address community issues form a critical part of the forecasted budget.

a) Region Controlled Services – Forecasted 2.9% Net Tax Levy Impact

Based on the information and analysis done last year on the 2025 forecast and updates as staff develop the budget in detail, the net tax levy increase forecasted for Region Controlled services is 2.9 per cent which has an estimated property tax impact of 1.2 per cent. The preliminary budget estimate reflects the impact of inflation, external funding shortfalls, cost containment measures, providing service to a growing population and making strategic deliberate investments in the following key areas:

- Enabling the achievement of the accelerated housing targets as directed through the *More Homes Built Faster Act*,
- Increasing affordable housing options,
- Maintaining the state of good repair of Peel's infrastructure assets,
- Enhancing safety and well-being through Public Health programs,
- Addressing increased service demand driven by population growth,
- Advancing the Climate Change Masterplan with capital investments; and,
- Supporting Diversity, Equity, and Inclusion.

In addition, there are other significant pressures such as the need to address Peel's technical debt, which includes stabilizing Peel's core information technology systems and enhancing cyber security. It is also anticipated that the impact of the asylum seekers to Peel will be addressed through the budget. Staff are also assessing the increasing costs of infrastructure which are not yet factored in the projected net tax levy increase.

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b) External Agencies – Forecasted 5.6% Net Tax Levy Impact

Based on the information provided last year from the external agencies (Peel Regional Police, Ontario Provincial Police, three conservation authorities and the Municipal Property Assessment Corporation) on the 2025 forecast, a net tax levy increase of 5.6 per cent which has an estimated property tax impact of 2.4 per cent is forecast for 2025. 5.5% of the forecasted increase, as per the 2024-2027 Business Plan and Budget document, is driven for the need to improve community safety through police services.

Peel staff will continue to work with the external agencies as they refine their budgets with their respective boards and, subsequently, for Council's approval.

c) Utility Rate – Forecasted 5.6% rate Impact

The forecasted utility rate increase for the 2025 Budget is 5.6 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 2024 Budget, to have sufficient capital reserves to fund the forecasted 20-year capital plan, a 5.3 per cent infrastructure levy was required for 2024 and a five per cent infrastructure levy is required for an additional three years (2025 to 2027) to meet the \$1.8 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.

4. Proposed Direction

a) Principles

Staff are developing the 2025 Budget in alignment with the principles to maintain Regional services through the transition period as approved through the June 8, 2023, Council report from the Chief Administrative Officer titled, "Bill 112 – Managing Through the Transition".

b) 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. Therefore, the Regional Budget deliberations will commence on November 21, 2024. If the Province makes any decisions that significantly impact Peel's services as part of Bill 185, staff may return to Council with an update on the approach to the 2025 Budget including adjustments to timelines.

c) 2025 Budget Presentations

Day 1 – November 21, 2024

Staff will present an overview of the Region's Budget followed by a presentation from Peel Regional Police on the first day of Budget deliberations. For the 2025 Budget, Peel Regional Police will present to Council at an established time of 11:00 a.m.

Following Peel Regional Police's presentation, time permitted, it is recommended that the two largest conservation authorities (i.e., Credit Valley Conservation and Toronto and Region Conservation Authority) be presented in the afternoon on the first day of

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Budget deliberations. If this proposal is not feasible on the day, the two Conservation Authority presentations will be deferred to the third day of Budget deliberations. As Conservation Halton has a minor impact on Peel's Budget, it is not recommended that a presentation be given. Regional Council is welcome to ask questions on all three Conservation Authorities.

Day 2 – November 28, 2024

The second day of Budget deliberations has been reserved for the presentations of Regionally Controlled services. As in 2023 and in 2024, staff will recommend specific key services with material changes and/or impacts to the Budget for presentation to Council in 2025. Council will also have the option to identify other services which they would like to be presented. This enables Council to place additional focus on key services and service changes. In addition, Council will have every opportunity to ask questions for all Regionally Controlled Services regardless as to whether the service is being presented to Council.

As Ontario Provincial Police (OPP) presents its Budget to the Town of Caledon Council prior to Budget deliberations at the Region of Peel. As practiced last year, it is not considered necessary to have their Budget presented again to Regional Council given it does not impact the Cities of Brampton and Mississauga. If Council later decides it would like to ask questions of the OPP or have the Budget presentation delivered, this could still be carried out. Table 1 below summarizes the proposed presentation order for 2025. A more detailed budget timeline is presented in Appendix I to this report.

Table 1: Proposed Dates for 2025 Budget Deliberations

Date		Presentations
November 21, 2024	First Day	Corporate Budget Overview, Peel Regional Police, *Credit Valley Conservation, *Toronto and Region Conservation Authority
November 28, 2024	Second Day	Regionally Controlled Service Budget Presentations
December 5, 2024	Third Day	*If time does not permit for presentations for Credit Valley Conservation, and Toronto and Region Conservation Authority on the first day, presentations will be given on the third day.
December 12, 2024	Fourth Day	Held for additional Council deliberations

d) 2025 Budget Document

For increased transparency, a four-year business plan together with a two-page budget request for each proposed incremental change to services/service levels will be included in the Budget document to enable Council's Budget deliberations. As in recent years, a video will be presented to Council to further describe the services Peel provides.

Peel will continue to use environmentally friendly paper which is manufactured from recycled materials in a sustainable manner.

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e) No Budget Target

Historically, past practice has been to establish a budget target to guide the development of the budget. For the 2025 Budget, given the uncertainty related to the economy and the unpredictable environment we are in, no budget target is recommended.

To reiterate, the budget needs to be flexible to adapt to any of several possible outcomes in this current environment. Staff proposes that both Regionally Controlled programs and the external agencies work towards developing a responsible and sustainable 2025 Budget. Staff will also continue to work together and with the external agencies to provide guidance and support to achieve this goal.

f) Remaining COVID-19 Costs

Ongoing support for Public Health is required to support operational needs and catch-up from the COVID-19 pandemic. We anticipate any ongoing support for Public Health Services to be funded from reserves set aside for that purpose and as a result, there will be no net impact on the net tax levy increase or utility rate increase due to any residual 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. As in prior years, staff will continue to seek efficiencies, a practice particularly optimal in this current economic environment. In addition, the net tax levy forecast reflects what is known at the time of the writing of the report and it does not reflect pressures from policy changes that Council may approve subsequent to this report.

Staff will make appropriate assumptions in the development of the budget, given the best information available at the time. While the legacy impacts of COVID-19 on service demand are expected to be much less than they were in the past, there will continue to be residual effects as staff continue to address the backlog of work.

In addition, although the inflation rate is expected to slow, prices are expected to remain elevated given high inflation rates over the past two years. This will put additional pressure on the Operating Budget and three year outlook, Capital Budget and Capital Plan. At this point, staff plan on budgeting for 2.5 per cent inflation in the operating side for one year then two per cent ongoing and on the capital side at five per cent for one year, four percent for the following year and three per cent for the eight years thereafter.

Staff will use the best available information to develop the budget recognizing that inflation levels continue to remain high.

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BILL 112/BILL 185 RISKS AND IMPLICATIONS

On January 25, 2024, the Minister of Municipal Affairs and Housing shared with Peel the new mandate and scope of the Transition Board. An update on the Transition Board's new mandate and Peel's commitment to supporting the new scope, our employees, local municipalities and the Peel community were provided to Council through the February 8, 2024, report titled "Update on the Provincial Transition Board's New Mandate". The review of water/wastewater, regional roads, and waste management continues to be underway, and staff continue to work through the Transition Board process.

On April 10, 2024, Bill 185, *Cutting Red Tape to Build More Homes Act* was tabled to amend various acts including the *Hazel McCallion Act (Peel Dissolution), 2023*. Bill 185 amends the *Hazel McCallion Act (Peel Dissolution), 2023*, confirming that Peel will not be dissolved, and includes a recalibrated focus on options to support building more housing faster. Within Bill 185, it was mandated that Peel's land use planning and development responsibilities move to the lower tiers effective July 1, 2024. This change will be reflected through the proposed 2025 Budget in coordination with the local municipalities.

The other services within Public Works under review remain as an ongoing part of the Region of Peel's budget development pending decisions from the Province and staff. However, Bill 185 has created challenges with capacity. The Roads program within the Transportation service is only able to hire additional individuals on a contract basis as it remains uncertain about their future while they continue to wait for the results from the Transition Board. As a result of this, the Roads program will not be submitting any requests for additional resources for the 2025 Budget.

Over the past year, in alignment with the legislation and Council direction, decisions have been made and will continue to be made in the public interest ensuring that Peel residents, businesses and the community can expect to rely on the seamless delivery of high quality, efficient services. There remains the risk that the 2025 Budget could be impacted by any Transition Board decisions as they arise. It is unknown the extent of the potential impact until further details are identified and provided to staff. However, in the interim, staff will continue to develop the 2025 Budget in alignment with the principles to maintain Regional services through the transition period and prepare for the 2025 Budget as approved through the Council report from the Chief Administrative Officer titled, "Bill 112 – Managing Through the Transition" notwithstanding any governance decisions resulting from Bill 112.

If the province makes changes to the services that Peel provides through Bill 185, staff may report back to Council on amendments to the budget approach including timelines for budget deliberations.

CONCLUSION

The proposed approach to developing the 2025 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 2025 Budget will assist in service planning and inform the priority setting of Strategic Plan outcomes and community concerns. Regional staff will continue to work together and with external agencies to facilitate Council's direction for a responsible and sustainable 2025 Budget.

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APPENDICES

Appendix I - Proposed Timelines



Davinder Valeri, Chief Financial Officer and Commissioner of Corporate Services

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Appendix I
 Approach to the Development of the 2025 Budget

PROPOSED TIMELINES	
Activity	Date
Approach to the Development of the 2025 Budget - Council Report	June 13, 2024
Electronic Copy and/or Hard Copy of the 2025 Budget Document to be distributed to Councillors	October 30, 2024
Notice to the Public	November 7, 2024
Budget Document available on the Region of Peel’s website	November 7, 2024
2025 Budget Deliberations	
Regional Budget Corporate Overview Presentation	November 21, 2024
Police Services Budget Presentation: Peel Regional Police	
*Conservation Authorities Service Budget Presentations: Credit Valley Conservation Toronto and Region Conservation Authority	
Five Reports to Council to support Budget Deliberations: 1. 2025 Operating and Capital Budget 2. Continuous Improvement Update 3. Enterprise Asset Management Update 4. Overview and Update on the Status of Reserves 5. 2025 Fees and Charges	November 21, 2024
Regionally Controlled Service Budget Presentations	November 28, 2024
Held for Additional Budget Deliberations	December 5, 2024
Held for Additional Budget Deliberations	December 12, 2024

*If time does not permit for presentations for Credit Valley Conservation, and Toronto and Region Conservation Authority on November 21, 2024, presentations will be on December 5, 2024.