Region of Peel
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Regional Municipality of Peel

Long Term Financial Planning Strategy

2019

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Message from the
Commissioner of Finance and Chief Financial Officer

The Region of Peel provides critical services to its residents with a strategic goal of building a Community for Life. In 2013, we adopted our first Long Term Financial Planning Strategy (the "Strategy") to ensure the long-term financial sustainability of these services to best serve the residents and businesses in Peel. Since then, the Strategy has guided our fiscally responsible and evidence-driven decision making. We improved service excellence and maintained our Triple-A credit rating, all these years as one of only twelve municipalities in Canada to achieve that benchmark.

In the past five years, Peel Region has evolved and grown considerably: almost 100,000 more people live in Peel, with a total population of 1,481,400. In addition, 173,000 businesses operate in the region and the changing economy is impacting the nature of employment and how land is used. These trends are expected to continue going forward.

To withstand the increased financial pressure of these changes on services and programs, we have refreshed our Long Term Financial Planning Strategy to ensure Peel remains financially sustainable and is able to manage and mitigate risks impacting our fiscal health.

As a financial lens to be applied to planning, the Strategy supports Term of Council priorities, the Region's strategic objectives, and critical initiatives across the Region.

The updated strategy will continue guiding our decision making and further strengthen our ability to deliver value to the taxpayers of Peel today and into the future.

Stephen VanOfwegen
Commissioner of Finance, CFO

Background

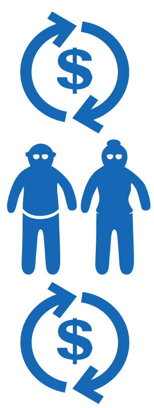
The Region of Peel (the "Region") is recognized as a leader among Canadian municipalities in delivering effective and efficient services and is the only municipality to achieve the Platinum Excellence, Innovation and Wellness Award from Excellence Canada for outstanding end-to-end achievements of its systems of management and public service delivery. Through its "Community for Life" vision, the Region has made a commitment to work with its residents and businesses to create a healthy, safe, and connected community. The Region provides community and infrastructure services to almost 1.5 million people and over 173,000 businesses in Brampton, Caledon and Mississauga. Peel is made up of three diverse local municipalities and many more cultural, economic and social communities. The Region works closely with its local municipal partners and various levels of government to ensure services are delivered effectively.

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.

Introduction to the Long Term Financial Planning Strategy

Since 2013, the Region of Peel has been guiding their policy decisions based on fundamentals set out in its Long Term Financial Planning Strategy. 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.

Over the past seven years, Peel Region has changed substantially, as indicated by six key macro trends:



- **Rapidly growing and aging population (The Region's population is expected to grow at the rate of 20,000 per year)**
- **Aging infrastructure currently valued at almost $28 billion and growing**
- **Adverse effects of climate change and changing weather patterns**
- **Changing economy that impacts employment**
- **Constantly evolving legislation and regulatory environment**
- **Rapidly changing technology which impacts how the Region connects with residents and delivers services**

These challenges are poised to place increased financial pressures on the Region to continue delivering its targeted outcomes and maintain desired service levels. With this in mind, an independent assessment was undertaken in 2018 to review the change in the Region's financial health, and review its 2013 Long Term Financial Planning Strategy. The review included the fundamental principles of the Strategy, and its performance and application, to ensure that it reflects the current and foreseeable economic realities of the Region.

As an outcome of the review process, it was noted that the Strategy and its underlying pillars and principles have served the Region well over the years. Amendments have been made to align the Strategy with the current Strategic Plan, the changing trends affecting the Region, and the changing needs of its residents and businesses.

In order to help Peel maintain its excellent financial health, updates to the Strategy considered the current challenges faced by the Region and lessons learned from impacted stakeholders. The updates reinforce a proactive approach to financial management, increasing the understanding of the impact of decisions made by the Region and have the foresight to prepare for the impacts of external influences, so that planning for programs, services and financial needs can be done accordingly.

LTFPS Purpose and Outcome

The Region of Peel has consistently managed its finances well, which has been reflected in its consistently high credit ratings. The Strategy is intended to serve as a guide for the Region's services in developing financial plans, budgets, and service strategies that optimally balance target outcomes with fiscal prudence. The Strategy is a financial lens that is applied in undertaking a disciplined approach to managing risk and preparing for the future.

Purpose

To guide fiscally responsible, evidence-driven decision making and ensure long-term financial sustainability of Regional service outcomes to best serve the residents and businesses in Peel.

Outcome

Regional services are financially sustainable.

Pillars of the Strategy

The Long Term Financial Planning Strategy is founded on balancing the following three pillars.

Each of the pillars is defined below:

1. **Financial Sustainability:**

   The Region's ability to provide and maintain planned service levels and infrastructure assets without unplanned increases in rates or disruptive cuts to services.

2. **Financial Vulnerability:**

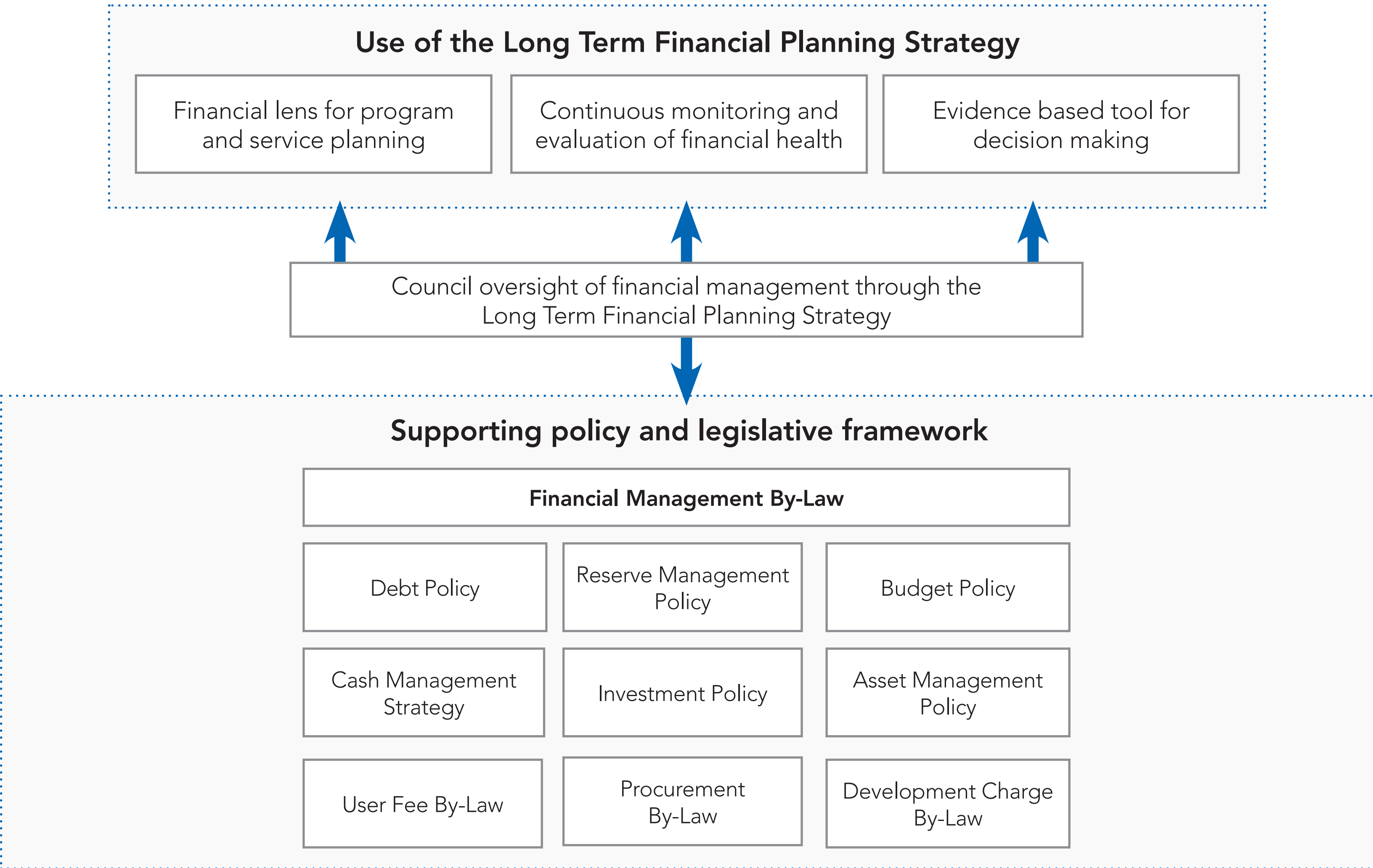
   The degree to which the Region is dependent on external funding sources that it cannot control; it is the level of risk that could impact the ability to meet existing financial obligations and commitments, including the delivery of Regional services.

3. **Financial Flexibility:**

   The Region's ability to change either debt levels or taxes and utility rates to meet financial obligations and ensure intergenerational equity.

How the Strategy Guides the Financial Policy Framework

The Strategy guides the Region's financial by-laws and policies to ensure a holistic and integrated fiscal management approach. The table below provides an overview of the framework.



The Strategy, policies, by-laws and financial tools will continue to enhance Regional Council's ability to make decisions on policies, services and service levels by:

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

Financial Principles of the Strategy

The Strategy is built on nine financial principles, grouped under one of the three financial pillars. Each principle governs a specific financial aspect and the principles collectively address how the Region manages its fiscal health. No attempt should be made to prioritize the principles, but instead, they should be used in an integrated fashion to achieve a balance amongst the financial pillars. These principles guide Regional Council and staff when making decisions related to service and program planning. Long-term, short-term, in-year planning and ad-hoc decisions will be evaluated on financial terms to ensure adherence to these principles. The following is a detailed description of each financial principle:

Financial Sustainability

Respect the tax payer – Achieve reasonable and responsible tax rates to ensure that Regional Council's highest priority services are maintained. The Region will strive to deliver its desired service outcomes without placing undue financial pressures on its tax payers.

Ensure the Capital Plan is sustainable – Capital reserves and reserve funds are funded to levels to enable the Capital Plan. Capital expenditures should be continually reviewed in the context of affordability, and the operating impact of capital should be sustainable and affordable.

Manage assets – Replace or maintain assets over their lifecycle in a timely manner to enable service delivery.

Deliver value for money – Continuously find efficiency and quality improvements to manage and deliver services.

Financial Vulnerability

Users pay where appropriate – Ensure that the users of services pay for the services, and balance growth-related investments with revenue to achieve intergenerational equity where possible.

Work with local municipalities to manage growth and support economic viability of the community – Work together with local municipalities to ensure that the Region continues to be a desirable area to live, work, and play.

Make responsible investments – Maintain an investment portfolio that balances the safety of principal and maintenance of liquidity while striving to obtain returns that benefit residents and businesses.

Financial Flexibility

Mitigate significant fluctuations in tax and utility rates – Implement ways to smooth and maintain tax and utility rates to provide financially stable and predictable environments for residents and businesses.

Borrow when appropriate for capital infrastructure – Maintain an affordable level of debt required to achieve desired service levels while minimizing the impact of borrowing to the tax payer and ensuring intergenerational equity.

Implementation and Integration of the Strategy

The Region of Peel employs an Integrated Planning Framework for the development of long and short terms plans. As illustrated, the framework covers Strategic Planning (20-year Regional Strategic Plan, Term of Council Priorities), Service Planning (Service Plans or Master Plans with a 5- to 10-year horizon), and Operational Planning (1- to 2-year plans).

The Strategy will be used to inform all plans, and policies, developed by the Region so that decisions include a financial impact evaluation. This will ensure that, to the extent possible, only plans that adhere to the Strategy's principles will be considered.

The Region of Peel has also adopted new policies and strategies across various domains since the implementation of the Long Term Financial Planning Strategy, examples are:

- In 2013, Peel established the Growth Management Program to reduce the risk to the financial sustainability of the Development Charge Program. As identified in the Term of Council priorities in 2013, the objective of this program is to manage Peel's financial risk associated with servicing growth

- In 2017, the Corporate Social Responsibility Strategy was developed, which put additional emphasis on environmental sustainability. The Term of Council priorities includes a commitment to "Adapt to and Mitigate the Effects of Climate Change" as improving resiliency to climate change has increasingly become more important to Peel

- In 2017, the Cash Management Strategy was approved by Council. Through the implementation, the Region will actively manage its investment portfolio to optimize investment returns and will continue to use debt efficiently to provide greater flexibility while minimizing borrowing costs

Monitoring and Reporting

Monitoring and reporting are critical elements of the execution of a strategy. Long-term financial health is achieved when the financial pillars are balanced. Performance indicators allow the Region to track the extent to which these pillars are in balance.

The indicators and their respective targets reflect the changing economic, political, and demographic climate in the Region. In-year monitoring and reporting will measure the performance of implementing the Strategy, identify risks and corrective actions as required.

Pillar 1: Financial Sustainability

The Region's ability to provide and maintain planned service levels and infrastructure assets without unplanned increases in rates or disruptive cuts to services.

Principle	Indicator	Description	Target
• Respect the tax payer • Ensure the Capital Plan is sustainable • Manage assets • Deliver value for money	Tax rate increase	Measures if the tax rate increases are reasonable for residents.	1–3%
	Capital reserves as a % of 20 year Capital Plan (tax and utility rate)	Identifies if financing the Region's asset portfolio is sustainable through sufficient tax and rate supported reserves. A higher percentage implies higher adequacy of capital reserves to fund the capital plan.	100%
	Asset Health Score	Measures asset health to Council's approved level of service.	Good

Pillar 2: Financial Vulnerability

The degree to which the Region 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.

Principle	Indicator	Description	Target
• Users pay where appropriate • Work with local municipalities to manage growth and support economic viability of the community • Make responsible investments	Reduction in growth related risk	Measures the amount of debt risk that has been mitigated through revenue or expenditure management.	Increasing
	Reliance on external funding	Measures external funding and grants as a percentage of the Region's total revenue. A lower percentage implies that the Region is less reliant on external funds (e.g. provincial and federal grants and transfers) and is able to manage its operations through its own source revenue thereby reducing its vulnerability to the unpredictable nature of these external funds.	TBD
	Proportion of non-residential tax revenue	Measures property tax revenues from the Industrial, Commercial, and Institutional sector as a % of the total operating tax revenue. A decreasing percentage will cause a shift in taxes to the residential sector.	35%-45%
	Investment returns	Measures the earned income on the General Fund Portfolio generated through investing activities. The goal is to meet or exceed the "target return" in order to improve Reserves and Reserve Funds.	Above inflation

Pillar 3: Financial Flexibility

The Region's ability to change either debt levels or taxes and utility rates to meet financial obligations and ensure intergenerational equity.

Principle	Indicator	Description	Target
• Mitigate significant fluctuations in tax and utility rates • Borrow when appropriate for capital infrastructure	Debt capacity	Measures the ratio of net Regional debt charges to own-source revenue. A lower ratio implies lesser risk for the Region.	<25%
	Reserve adequacy	Measures the number of months the Region can meet its expenses through its reserves. A higher ratio implies that the Region's reserves can sustain its operations for a longer period of time without revenue inflow.	5%-10%
	Liquidity	Measures if the Region has enough liquidity to pay off its debt obligations. A higher ratio implies that the Region is better equipped to meet its liabilities.	>120%

These indicators and their targets will not be static and will be reviewed and revised as needed to ensure the indicators provide proactive measures of the Region's fiscal health. Events including, but not limited to, change in Term of Council priorities, socio-economic or political risks, changes to external funding may trigger a review of the Long Term Financial Planning Strategy to assess the validity of these indicators. This may lead to indicators or targets being added, removed, or modified as required to ensure they provide an accurate representation of the financial health of the Region.

Long Term Financial Planning Strategy Overview

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PURPOSE

To guide fiscally responsible, evidence-driven decision making and ensure long term financial sustainability of Regional service outcomes to best serve the residents and businesses in Peel.

OUTCOME

Regional services are financially sustainable.

Financial Pillars	Financial Principles		Indicators
Financial Sustainability	Respect the tax payer Manage assets	Ensure the Capital Plan is sustainable Deliver value for money	• Tax rate increase • Capital Reserves as a % of 20 Year Capital Plan (tax and utility rates) • Asset Health Score
Financial Vulnerability	Users pay where appropriate Make responsible investments	Work with local municipalities to manage growth and support economic viability of the community	• Reduction in growth related risk • Reliance on external funding • Proportion of non-residential tax revenue • Investment returns
Financial Flexibility	Mitigate significant fluctuations in tax and utility rates	Borrow when appropriate for capital infrastructure	• Debt capacity • Reserve adequacy

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