
REPORT TITLE: Approach to the Development of the 2024 Budget

FROM: Patricia Caza, Chief Financial Officer and Commissioner of Corporate Services

RECOMMENDATION

- 1. That the 2024-2027 Business Plan and 2024 Budget (“2024 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 22, 2023 Regional Council agenda titled “Approach to the Development of the 2024 Budget”; and**
- 2. That staff work together and with the external agencies to develop 2024 budgets reflecting the direction outlined in the subject report; and**
- 3. That the timelines for the 2024 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 the elevated price levels expected for 2024.**

REPORT HIGHLIGHTS

- The Region of Peel’s Long-Term Financial Planning strategy recommends that tax increases be sustainable and demonstrate respect for the taxpayer.
- Managing the 2024 budget increase will require participation of all services funded by the net tax levy: Regionally Controlled Services (55 per cent) and Regionally Financed External Agencies (45 per cent) as based on the 2023 budget.
- It is proposed the 2024 Budget be deliberated starting November 16, 2023.
- A preliminary increase in the range of 3.0 to 3.7 per cent is forecasted for the 2024 Budget based on the Region’s average share of the property tax bill.
- The estimated budget increases reflect the principles to maintain Regional services through the transition period and prepare for the 2024 Budget as approved through the Council report from the Chief Administrative Officer titled, “Bill 112 – Managing Through the Transition”.
- Key drivers of the forecasted net tax levy included:
 - Increased pressure on Housing Support
 - Addressing increased call volume for Paramedic Services
 - Meeting the Provincial Public Health mandate
 - Inclusion of an infrastructure levy to ensure the state of good repair of assets
 - Increased community safety from Police Services
 - Creating programs that address systemic discrimination
 - Setting plans to manage climate change and declared emergencies in Peel
 - Introducing initiatives that support residents’ health and well-being

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- Staff will be analyzing options to mitigate the property tax impact including cost containment measures.
 - The 2024 Budget will be planned and developed for a more normal post-COVID service delivery year. However, there will be indirect post-COVID impacts that will influence the budget such as:
 - Economic uncertainty and elevated price levels
 - Income uncertainty for residents and businesses
 - Services to address the backlog of work, many of which slowed down due to the redeployment of staff to support the COVID-19 response
 - Both Regionally Controlled programs and the external agencies will work towards minimizing proposed budget increases and seeking efficiencies.
 - A utility rate increase of 6.8 per cent is forecast for the 2024 Budget including an infrastructure levy of five per cent for the state of good repair of water and wastewater assets.
 - Staff will continue to work through the summer to refine the numbers and assumptions.
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DISCUSSION

1. Background

The Region of Peel's Long-Term Financial Planning Strategy 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. In the Strategy, the financial principle of "Respect for the Taxpayer" is measured by budget tax increases in line with inflation, which have historically been in the range of one to three per cent as per Bank of Canada's target. Inflation as measured by the Consumer Price Index (CPI) accelerated to exceed the target range in 2021 and 2022 at 2.5 per cent and 3.5 per cent respectively. Price changes for capital input as captured by the Non-residential Construction Price Index also accelerated to multi-year highs in 2021 and 2022. The rate of inflation is slowing down and is expected to return to targeted levels by the end of 2024.

The annual budget provides the resources to advance the priorities identified by Council through its vision of a Community for Life and to enable the policy decisions Council has made prior to the budget. The focus of the 2024 Budget will be to ensure the provision of critical services and balance it with the goal to keep increases as low as possible.

Historically, budget targets for the following year have been recommended. However, in 2021, 2022 and 2023, no budget targets were provided due to significant events occurring such as the COVID-19 pandemic, post-pandemic recovery, and heightened geopolitical tensions. These events contributed to significantly higher inflation and elevated uncertainty.

Recently, the inflation rate has slowed following an increase in interest rates however, the average price level remains high. Higher prices and rising interest rates have increased recession risks and added to the level of economic uncertainty. Therefore, no budget target is recommended for the 2024 Budget. In this environment, the budget must be flexible to adapt to any of several possible outcomes.

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2. Findings

Staff are developing the 2024 Budget in alignment with the principles to maintain Regional services through the transition period and prepare for the 2024 Budget as approved through the Council report from the Chief Administrative Officer titled, “Bill 112 – Managing Through the Transition”. While staff will continue to refine assumptions and estimates over the summer, the preliminary estimate is for an increase in the range of 3.0 to 3.7 per cent on the Region’s share of the property tax bill and a utility rate increase of 6.8 per cent for the 2024 Budget. The Region represents, on average, 42 per cent of the property tax bill.

a) Net tax levy

There are many components and drivers behind the forecasted net tax levy increase.

Highlights include the following.

i) Economic

A key driver of the budget includes pressure from economic adjustments which in 2024, are shaped by a changed economic environment. The post-pandemic economic rebound was interrupted in 2022 by heightened geopolitical uncertainties, which along with supply chain challenges, resulted in higher inflation. Interest rates rose to contain inflationary pressures. Inflation for the 2024 operating budget is currently set at 2.5 per cent. For the capital budget and capital plan, a 5.0 per cent for inflation will be applied.

Elevated prices stemming from the 40-year high inflation rate experienced in 2022 will significantly impact Regional costs in 2024. 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) Priorities

Several key priorities have been reflected in the pre-liminary budget estimate.

For Regionally-controlled services, the priorities include:

- Increasing affordable housing options
- Maintaining the state of good repair of Peel’s affordable housing stock including Peel Housing Corporation;
- Ensuring that Paramedic Services can meet the call volume from a growing population;
- Advancing the Climate Change Masterplan with capital investments; and,
- Supporting Diversity, Equity, and Inclusion.

There are other significant pressures such as the need to address Peel’s technical debt and addressing the ongoing residual impacts of the COVID-19 pandemic including the recovery of staff.

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iii) Ensuring the Capital Plan is Sustainable

The forecasted increase also reflects a one per cent infrastructure levy to fund the replacement of existing infrastructure as it reaches the end of its life cycle. Through the 2024 Budget process, the infrastructure levy will be required for 2024 and beyond to fund the \$3.2 billion shortfall in the capital reserves forecasted over the next 20 years. This forecast does not reflect any potential financial impacts of Bill 23 as the details were not known at the time of the writing of this report.

iv) Provincial Funding

As in prior years, a key risk for the 2024 Budget will relate to whether the provincial funding for programs in Health and Human Services will keep pace with the forecasted higher inflation rates and population growth.

v) External Agencies

In addition, the external agencies (Peel Regional Police, Ontario Provincial Police, and the three conservation authorities) represent approximately 45 per cent of the total net tax levy. The budget submissions for the external agencies are approved by separate boards so there is limited ability for staff to influence these. As seen in the 2023 budget, increased community safety through the Peel Regional Police will continue to be a significant driver of the 2024 budget with a forecasted increase equivalent to an increase of 1.5 per cent on the Region's share of the property tax bill.

In June 2019, the Province introduced changes to the *Conservation Authorities Act* through the *More Homes, More Choice Act, 2019*. Subsequent amendments to legislation made further changes to the services provided by conservation authorities and how they are funded. These changes include a requirement for the conservation authorities to establish Memorandums of Understanding (MOUs) with the Region to establish service levels and costs for services that are no longer considered mandatory, where such services are permitted. For the purposes of the 2024 Budget, staff has assumed no change to the services or service levels that have been provided historically by the conservation authorities as the report for Council's decisions had not been presented yet at the time of the writing of this report.

Staff are currently working through options to mitigate the financial impact of these budget pressures. Staff are also actively working on cost containment opportunities using approaches including line-by-line reviews of budgets, implementing continuous improvement initiatives including LEAN to drive savings and, in the longer term, undertaking service reviews. However, as mentioned in earlier years, staff have continued to be pushed to the limit over the last few years and capacity is still a concern.

b) Utility rate

The forecasted utility rate increase for the 2024 Budget is 6.8 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 2023 Budget, to have sufficient capital reserves to fund the forecasted 20-year capital plan, a five per cent infrastructure levy is required for an additional four years (2024 to 2027) to meet the \$2.6 billion reserve

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shortfall estimated over the next 20 years. However, asset management plans will continue to evolve and staff will provide updates on a regular basis.

3. Proposed Direction

a) Principles

Staff are developing the 2024 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 16, 2023.

c) 2024 Budget Presentations

In a continuation to its response to feedback received through the 2022 Budget deliberations, staff will present an overview of the Region's budget followed by a presentation from the Peel Regional Police at an established time of 1:00 p.m.

Unlike prior years, staff are proposing that the Ontario Provincial Police (OPP) not formally present to Regional Council. As OPP presents its budget to the Town of Caledon Council prior to budget deliberations at the Region of Peel, 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. However, if Council later decides it would like to ask questions of the OPP or have the budget presentation delivered, that could still be done.

The second day of budget deliberations has been reserved for the presentations of Regionally Controlled services. As in 2023, staff will recommend specific key services with material changes and/or impacts to the budget for presentation to Council in 2024. 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.

Using the same rationale for the presentation of service presentations, it is recommended that the two largest conservation authorities be presented (i.e. Credit Valley Conservation and Toronto and Region Conservation Authority) on 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.

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Table 1 below summarizes the proposed presentation order for 2024. A more detailed budget timeline is presented in Appendix I.

Table 1: Proposed Dates for 2024 Budget Deliberations

| Date | Presentations |
|-------------------|---|
| November 16, 2023 | Corporate Budget Overview, Peel Regional Police |
| November 23, 2023 | Regionally Controlled Service Budget Presentations |
| November 30, 2023 | Credit Valley Conservation, Toronto and Region Conservation Authority |
| December 7, 2023 | Held for additional Council deliberations |

d) 2024 Budget Document

Council saw some significant changes to the structure and content of the 2023 budget document. The key outcomes of those changes were to provide more information about each service, increased transparency on budget requests through additional information and to provide stronger linkage between the service business plans and the budget requests. In some instances, a video was presented to further describe the services we provide.

For each service, a four-year business plan along with a two-page budget request for any new proposed investment was included. Staff will continue to deliver the budget document in this revised format for 2024.

e) No Budget Target

As mentioned earlier in the report, past practice has been to establish a budget target to guide the development of the budget. For the 2024 Budget, given the uncertainty related to the economy, no budget target is recommended. The budget material will include two-page budget requests for the proposed incremental changes to services/service levels to enable to Council's budget deliberations.

To reiterate, the budget will need 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 2024 Budget. Staff will also continue to work together and with the external agencies to provide guidance and support to achieve this goal.

f) COVID-19 Residual Costs

While it is expected that the recovery of the COVID-19 pandemic will have negligible impact to service delivery, any costs will be borne from the remaining \$21.3 million in Provincial COVID-19 Recovery Funding, the Region's COVID-19 Recovery Reserve created from 2021 surpluses or using the Rate Stabilization reserves. 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.

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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 plan, 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.

BILL 112 RISKS AND IMPLICATIONS

On June 8, 2023, the *Hazel McCallion Act* (Bill 112), received royal assent. At the time of writing this report, the Ministry of Municipal Affairs and Housing was developing the Terms of Reference and in the process of appointing the Transition Board.

Under Bill 112, recognizing that no details have been provided yet, the Transition Board, once in place, will ensure that transactions and/or decisions after May 18, 2023, are done in the public interest having regard to the municipal restructuring, and are done in a manner that does not unreasonably impact another municipality.

On June 8, 2023, Regional Council approved principles to maintain Regional services through the transition period and prepare for the 2024 Budget, as outlined in the report from the Chief Administrative Officer titled, "Bill 112 – Managing Through the Transition". For the purposes of the 2024 Outlook and Budget, staff will develop the budget in alignment with these principles and include strategies to ensure that the budget remains flexible to mitigate any risks involved with an uncertain external environment and adapt to any subsequent direction provided by Council or the Province related to Bill 112.

CONCLUSION

The proposed approach to developing the 2024 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 2024 Budget will assist in service planning, inform the

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priority setting of Strategic Plan outcomes and community risks. Regional staff will continue to work together and with external agencies to facilitate Council's direction for a responsible and sustainable 2024 Budget.

APPENDICES

Appendix I - Proposed Timelines



Patricia Caza, Chief Financial Officer and Commissioner of Corporate Services

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| PROPOSED TIMELINES | |
|---|-------------------|
| Activity | Date |
| Approach to the Development of the 2024 Budget - Council Report | June 8, 2023 |
| Electronic Copy and/or Hard Copy of the 2024 Budget Document to be distributed to Councillors | October 26, 2023 |
| Notice to the Public | November 2, 2023 |
| Budget Document available on the Region of Peel’s website | November 2, 2023 |
| 2024 Budget Deliberations | |
| Regional Budget Corporate Overview Presentation Police Services Budget Presentation: Peel Regional Police | November 16, 2023 |
| Five Reports to Council to support Budget Deliberations: <ol style="list-style-type: none"> 1. 2024 Operating and Capital Budget 2. Continuous Improvement Update 3. Enterprise Asset Management Update 4. Overview and Update on the Status of Reserves 5. 2024 Fees and Charges | November 16, 2023 |
| Regionally Controlled Service Budget Presentations | November 23, 2023 |
| Conservation Authorities Service Budget Presentations: Credit Valley Conservation Toronto and Region Conservation Authority | November 30, 2023 |
| Held for Additional Budget Deliberations | December 7, 2023 |