

Report

Date June 15, 2022
Subject 2023 Budget Timeline and Direction

File:

PURPOSE

This report provides a draft timeline of the 2023-2027 financial plan for consideration and recommended 2023 budget direction to assist Council with setting expectations for 2023 budget preparation.

BACKGROUND

Municipal budgeting is a year-round process. Every year Council and staff work together to develop an annual budget which outlines how the money that comes into the Municipality should be spent to maintain and improve the community. The budget aims for a balance between setting a reasonable tax rate and delivering services expected by residents and businesses. It is developed to align with and support Council's Strategic Plan goals, to align with and support Council's policies with respect to revenues, taxation and budgets, to maintain service levels, and to create an infrastructure renewal plan that is proactive to achieve the best value for money.

Staff spend several months on detailed development of the budget. Thus, while 2022 is an election year, and in early November a new Council will be sworn in, the budget timing and direction for the next year cannot wait until this occurs.

DISCUSSION

Budget Timeline/Public Consultation

The proposed timeline enables staff to take advantage of the business planning presentation process as an opportunity to provide the newly sworn in Council with an overview of each department, and a briefing on the department's activities to meet the strategic goals currently in place.

The proposed timeline anticipates the adoption of the financial plan bylaw early in the new year so that staff can begin tendering projects and undertaking actions approved by Council as early as possible to help ensure these items can be completed in a timely way.

DATE	TYPE	ITEM
November 22, 2022	COW	Business Plan Review
November 29, 2022	COW	Business Plan Review Part 2
December 13, 2022	COW	Operating and Capital Financial Plan Review
January 10, 2023	COW	Grant-in-Aid and Utility Rate Review
January 18, 2023	Council	Financial Plan Bylaw 3 Readings
February 1, 2023	Council	Financial Plan Bylaw Adoption

The public will be engaged in two processes throughout the summer and leading up to the election that will impact the budget: the Alternative Approval Process related to the Crofton Fire Hall and the referendum regarding Regional Recreation.

In addition to these public processes, people will be invited to participate in each of the Council and Committee of the Whole budget meetings and encouraged to provide feedback at those meetings or through direct communication with staff. A *ConnectNorthCowichan* page will also be created to inform the public about the budget and receive any feedback.

Cost Drivers

Council made a number of changes to the 2022 budget to reduce the impact on taxpayers as the effects of COVID-19 continued. The 2023 budget includes the reinstatement of all of these one-time reductions:

- Taxation for RCMP contract reduced from 95% to 90% for 2021 (\$312,000)
- Reserve contributions to agriculture and insurance reserves suspended for 2021 (\$80,000)
- Parks Capital contribution postponed to a future year (\$195,000)
- Employee travel curtailed, and Council travel funded from surplus (\$73,000)

In addition to these one-time items, the 2023 budget includes debt servicing for approximately half of the cost of the new RCMP building and the Crofton Fire Hall. It also includes taxation to offset some forestry operations as the reserve fund is anticipated to be fully depleted.

Lastly, the 2023 budget takes into account the negotiated 2% increase in staff wages, inflation, and an increase in the contribution to capital expenditures approved during the 2022 budgeting to help Council eventually achieve the goal of 15% of taxation being allocated towards capital projects each year.

Budget Projections

With all of these items, the preliminary tax increase for 2023 is 9.26% net of new investment.

	2022	2023	2024	2025	2026
Gross tax increase	5.77%	10.51%	5.39%	5.33%	3.21%
Less: Growth	(2.00%)	(1.25%)	(1.25%)	(1.25%)	(1.25%)
Net Tax Increase	3.77%	9.26%	4.14%	4.08%	1.96%

Additional Budget Considerations

For the last few years, Council has allocated some of the COVID-19 Recovery Funding that was received from the Province to offset costs related to changing service levels required by the pandemic. These include two bylaw enforcement positions as well as an additional staff person to assist with IT client support. Council will need to consider the benefits received from the services provided by these positions versus the cost of funding them through taxation. Continuing with all three positions could result in a 1% tax increase.

The 2023 budget also does not currently include any supplemental operating or capital items. During 2022, staff presented operating increases to help ensure service levels could be maintained (for instance, adding funding to pest control as a result of Council policy changes regarding anticoagulant rodenticide). Requests of a similar nature may be brought forward during budget deliberations.

In addition to potential expenses, there are also revenue items not currently reflected in the 2023 budget. Staff have been advised of a new Climate Action Program in replacement of the former Climate Action Revenue Incentive Plan that could provide as much as \$180,000 per year for the next three years. Revenue may also be impacted by new investment. Still, the current budget estimate is conservative at 1.25%, and the 1% utility tax revenue was substantially reduced for 2021 primarily due to the temporary closure of the Crofton Mill at the beginning of the pandemic. If operations were fully resumed at the mill during 2021, utility revenues may see an increase, but again, conservative estimates have been used at this time.

Operating Risks/Opportunities

- *Regional Recreation Referendum*

As mentioned in the Budget Timeline/Public Consultation section, there will be a referendum on Regional Recreation during the 2022 election. The outcome of this referendum could have significant implications on the budget for North Cowichan.

If successful, the initiative will be implemented over three years, representing a decrease in total taxation for North Cowichan taxpayers. Taxpayers would see a decrease in municipal taxation with an increase in Regional District taxation but an overall decrease in total.

If the referendum is unsuccessful, staff will bring forward options for changes to the user fee structure that could result in additional user fees being collected, enabling the reduction of taxation towards the facilities.

- *Fee Changes*

Council's Revenue, Tax and Budget Policy notes that "it is generally preferable to charge a user fee for services that are identifiable to specific users, instead of levying a general tax to all property owners" and that "fees shall be established to recover 100% of the Cost of Services unless Council clearly sets fees using a different basis."

Staff are currently reviewing fees for a number of services in the Development and Engineering Departments and anticipate bringing forward reports for Council's consideration prior to budget deliberations. Should increases be suggested and approved, increased fee revenue could be used to enhance service provision and potentially decrease tax contributions for these services.

- *Other unknown costs*

The forestry review is not complete and may not be prior to budget deliberations. At this time, there is a small amount of taxation allocated towards forestry operations in 2023 as the reserve is expected to be depleted. The 2024 budget currently funds all of the forestry operations from property taxation.

Staff were recently advised of a six-year pay package for Commissioned Members of the RCMP. No estimate of the impact on North Cowichan has been provided as of yet.

Council has a number of adopted plans that have unknown implementation costs. Depending on timelines for implementation, the budget could be impacted in order to achieve Council's implementation goals.

In the fall, Council will consider a report on garbage collection automation. Direction coming from this report may affect the budget. Generally, this service operates on a full cost recovery basis, so there should not be an impact on taxation, but there may be an impact on user fees as a result of Council's decisions.

Staff are actively working on asset management planning and implementation. This work could demonstrate a need to increase funding towards asset maintenance and replacement in order to address current and future priorities as well as the potential for systems improvements to support efficient use of asset management information for project planning purposes.

OPTIONS

1. **(Recommended Option)** THAT Council approve the budget timeline included in the June 15, 2022 report from the Director, Financial Services;

AND THAT Council direct staff to work towards ensuring the budget increase for 2023 does not exceed the forecasted 9.26% increase by:

1. Limiting resource requests for supplemental operating budgets to address only critical capacity issues in core service delivery and advancement of adopted Council plans;
 2. Leveraging grant opportunities and budget reallocations to advance Council Strategic Plan priorities;
 3. Reviewing all departmental budgets to identify possible cost savings and best value for money;
 4. Considering revenue generation options for services that are identifiable to specific users; and,
 5. Limiting capital expenditures funded from current taxation revenue to 10.4% of taxes.
- This option provides the necessary information for staff to begin detailed 2023 budget planning and preparation. It helps ensure that further tax increases are mitigated and that the financial plan bylaw is adopted early in the year so that work may begin.

2. THAT Council amend the budget timeline and direction by [*Council to indicate changes*].

- This option allows Council to change the timelines and provide additional direction for staff when creating the 2023 budget.

IMPLICATIONS

Budgeting is a continual process, but by providing clear direction and timelines with respect to the 2023 budget, staff can ensure that the budget is complete in a timely fashion and that Council's direction has been followed.

While the budget itself will be considered by a new Council, the detailed budget work must begin as soon as possible in order to ensure service provision continues smoothly and legislated timelines can be met.

RECOMMENDATION

THAT Council approve the budget timeline included in the June 15, 2022 report from the Director, Financial Services;

AND THAT Council direct staff to work towards ensuring the budget increase for 2023 does not exceed the forecasted 9.26% increase by:

1. Limiting resource requests for supplemental operating budgets to address only critical capacity issues in core service delivery and advancement of adopted Council plans;
2. Leveraging grant opportunities and budget reallocations to advance Council Strategic Plan priorities;
3. Reviewing all departmental budgets to identify possible cost savings and best value for money;
4. Considering revenue generation options for services that are identifiable to specific users; and,
5. Limiting capital expenditures funded from current taxation revenue to 10.4% of taxes.

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Attachment: Budget Overview – June 15