

To: SPECIAL COUNCIL

Meeting Date: 5/31/2022

Subject: 2023 Budget and Business Plan Timeline and Guidelines

Submitted By: Sheryl Ayres, Chief Financial Officer

Prepared By: Katie Fischer, Deputy Treasurer

Report No.: 22-030-CRS

File No.: C1101

Wards Affected: All Wards

RECOMMENDATION(S):

THAT Report 22-030-CRS 2023 Budget and Business Plan Timeline and Guidelines be received;

AND THAT staff prepare the 2023 budget including operating forecasts for years 2024 through 2026 and capital forecasts for years 2024 through 2032;

AND THAT staff be directed to prepare the 2023 tax-supported operating budget with a target base budget increase generally in line with the Consumer Price Index inflation rate;

AND THAT any impacts from approved capital projects, growth and new service level initiatives be submitted as part of the budget for consideration;

AND THAT staff be directed to prepare the 2023 water utility budget consistent with the water and wastewater fees and charges forecast through the approved 2022 budget and in accordance with the approved long-range financial plan;

AND THAT in accordance with the Downtown Business Improvement Area (BIA) By-Law 21-016, each BIA submit its 2023 budget to City staff by October 1, 2022;

AND FURTHER THAT the 2023 budget and business plan timeline as set out in report 22-030-CRS be approved.

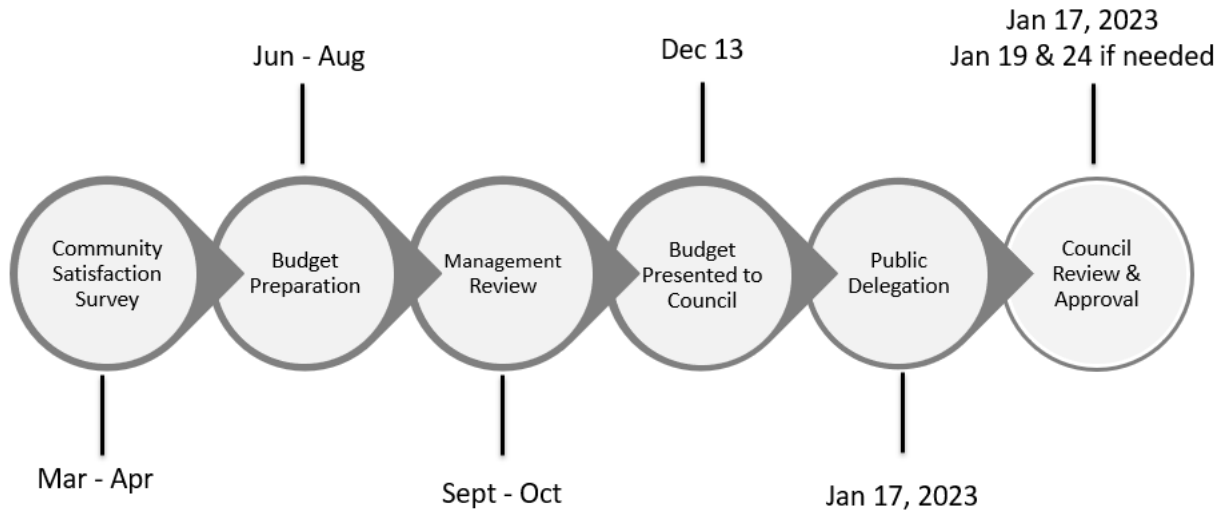
EXECUTIVE SUMMARY:

Purpose

- The City of Cambridge prepares an annual budget in accordance with section 290 of the *Municipal Act, 2001* as amended. This report identifies the timeline and guidelines for staff preparing the 2023 Budget and Business Plan.

Key Findings

- The 2023 budget will be the first budget approved under the new term of Council. It will be prepared based on existing strategic priorities and service levels due to the timing of budget processes relative to the Strategic Plan update. Future budgets will address the updated strategic priorities of the new term of Council.
- To maintain existing service levels, which is defined as the “base budget”, the City faces rising costs due to inflation. Staff recommend that the 2023 tax-supported operating budget be prepared with a target base budget tax levy increase generally in line with the Consumer Price Index (CPI), a measure of inflation, currently forecast to be between 4.7% to 5.3% in 2022 and 2.5% to 2.8% in 2023. During preparation of the budget staff will consider current levels of service and make recommendations as required to ensure City services are being delivered most efficiently to meet the community’s needs. All impacts from capital projects, growth and new service level initiatives will be submitted as part of the 2023 budget process for consideration by Council.
- Staff recommend that the 2023 water utility budget be prepared consistent with the forecast water and sewer combined rate increase of 3.57% approved through the 2022 budget process and in accordance with the Council approved long-range financial plan.
- With Council direction, the City requests the Downtown BIA’s to deliver their 2023 budgets to staff by October 1, 2022. This will allow City staff the opportunity to incorporate the BIA funding requests into the City’s overall budget documents.
- The proposed timeline for the 2023 budget process is as follows:



Financial Implications

- Staff will prepare the 2023 tax-supported operating budget with a target base budget increase generally in line with the Consumer Price Index inflation rate. During preparation of the budget staff will consider current levels of service and make recommendations as required to ensure City services are being delivered most efficiently to meet the community's needs. All impacts from capital projects, growth and new service level initiatives will be submitted as part of the 2023 budget process for consideration by Council.
- The 2023 water utility budget will be prepared consistent with the forecast rate increase approved through the 2022 budget and taking into consideration the approved water and wastewater long-range financial plan in accordance with O. Reg. 453/07.

STRATEGIC ALIGNMENT:

- ☐ Strategic Action; or
☒ Core Service

Objective(s): Not Applicable

Strategic Action: Not Applicable

Program: Finance

Core Service: Financial Planning

The 2023 budget process enables staff to focus on responsible financial management while maintaining transparency and accountability to management, Council and the public.

BACKGROUND:

The City of Cambridge prepares an annual budget in accordance with section 290 of the *Municipal Act, 2001* as amended. The City ensures it follows best practices in municipal budgeting, including:

- Approving the budget in December, except in election years as required by the Municipal Act, to ensure any budget changes are incorporated into operations at the beginning of the year, ensure competitive pricing on procurement solicitations and ensure staff are properly equipped with Council direction towards providing City services. In election years such as 2022, the budget will be approved as early as possible in the following calendar year to meet the legislative requirements in the Municipal Act while still providing these benefits.
- Providing for public engagement.
- Preparing multi-year budget forecasts (4-year operating and 10-year capital), allowing Council to make informed decisions and ensuring continued responsible financial management.
- Identifying the operating impacts of capital projects.
- Separately identifying new or enhanced service levels, new programs, or funding required due to growth.
- Incorporating business plans for comprehensive budget and business planning.

In recognition that the City's Budget and Business Plan meets the highest quality level, the City has won the Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA) for two years in a row with its 2020 and 2021 budgets. The 2022 Budget and Business Plan was also prepared utilizing these same standards, and staff await the results on receiving this award for a third year in a row. This award is the highest form of recognition in governmental budgeting. To earn recognition, budget documents must meet program criteria and excel as a policy document, financial plan, operations guide, and communication tool. The City is committed to continued excellence in its financial budgeting, business planning and reporting.

ANALYSIS:

Economic Update

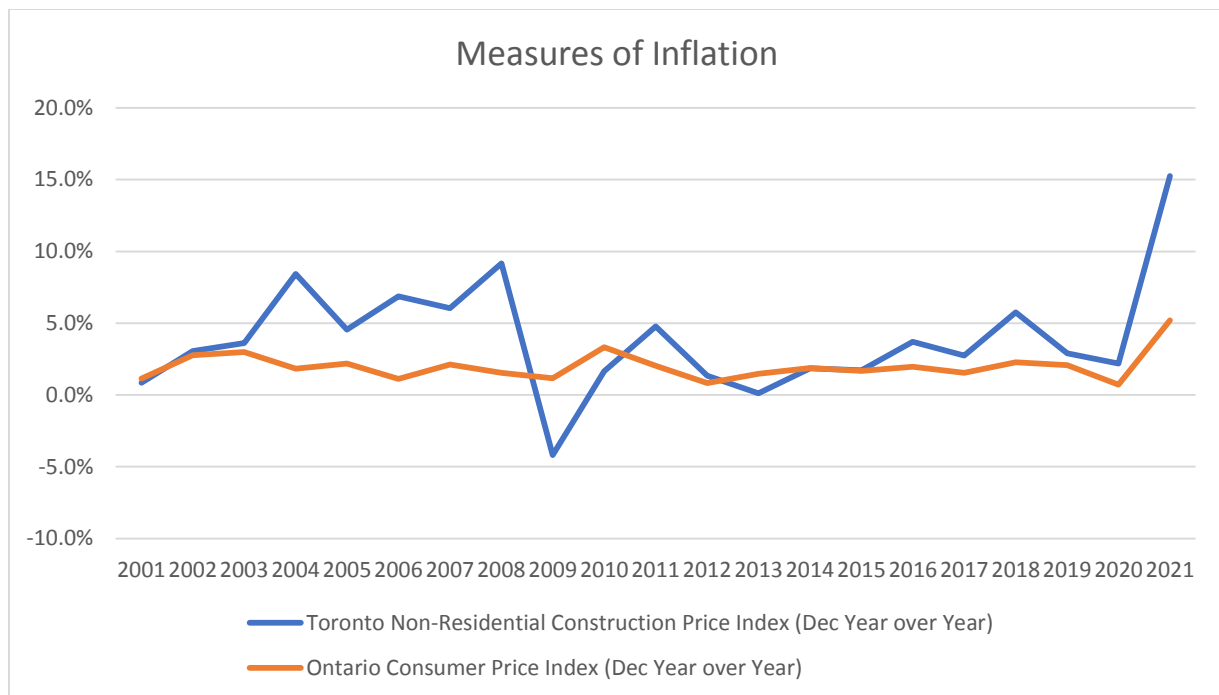
In its latest Monetary Policy Report from April 2022¹, the Bank of Canada reports that the Canadian economy has strong momentum, with robust employment, strengthening household consumption spending, and strong foreign demand of exports. However, the war in Ukraine has also resulted in greater volatility in financial markets, has pushed commodity prices higher, and has further disrupted supply chains not yet recovered from the COVID-19 pandemic. These factors have all led to high levels of inflation in most economies, including Canada's.

Inflation is the measure of increase in the prices of goods and services. The consumer price index ("CPI") estimates inflation for a standard basket of goods commonly purchased by consumers. While a municipality's "basket of goods" that go into delivering municipal services differs from those included in the consumer price index, CPI can be used as a guide for how inflation impacts the cost to simply maintain existing services in the City's operating budget.

Meanwhile, there is another index called the Non-Residential Building Construction Price Index which is a measure of inflation on the "basket of goods and services" that go into non-residential construction. This measure of inflation is more reflective of the City's capital portfolio.

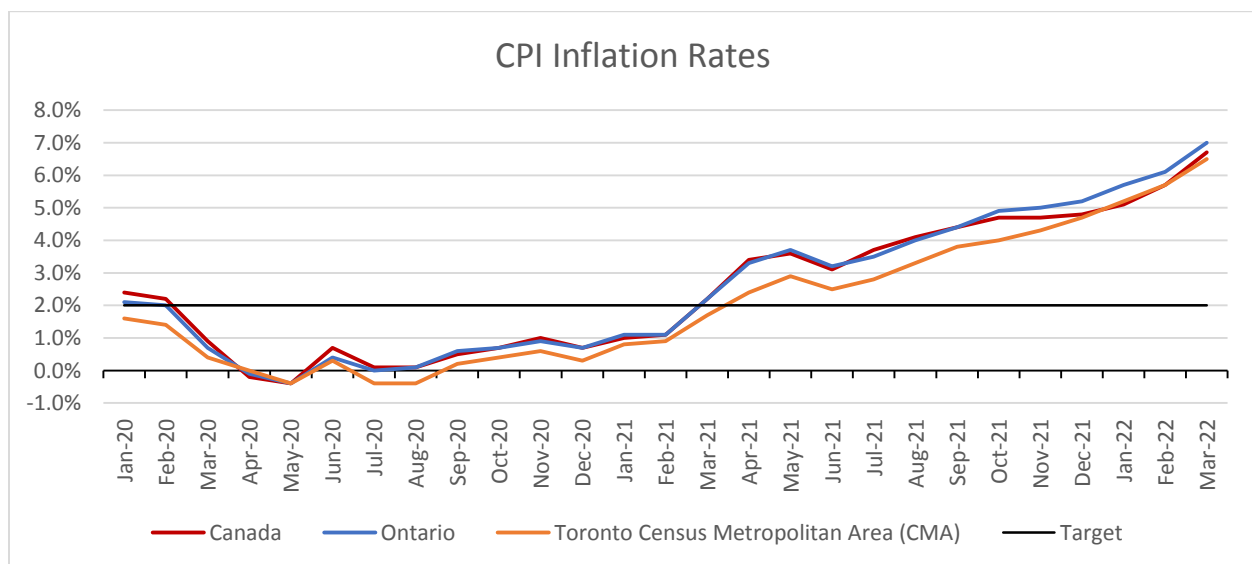
As reported in staff report 22-032-CRS Inflationary Impact Strategy, both these measures of inflation are exceptionally high at present time, as shown in the graph below.

¹ <https://www.bankofcanada.ca/wp-content/uploads/2022/04/mpr-2022-04-13.pdf>



Source: Statistics Canada. [Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted](#) and [Table 18-10-0135-02 Building construction price indexes, percentage change, quarterly](#)

The Government of Canada and Bank of Canada have a joint inflation target of 2%, as a mid-point of a 1%-3% control range. The following chart illustrates how much inflation has increased from its initial lows early in the pandemic, and how much it is above that 2% target range at present time².



² <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1810000413>

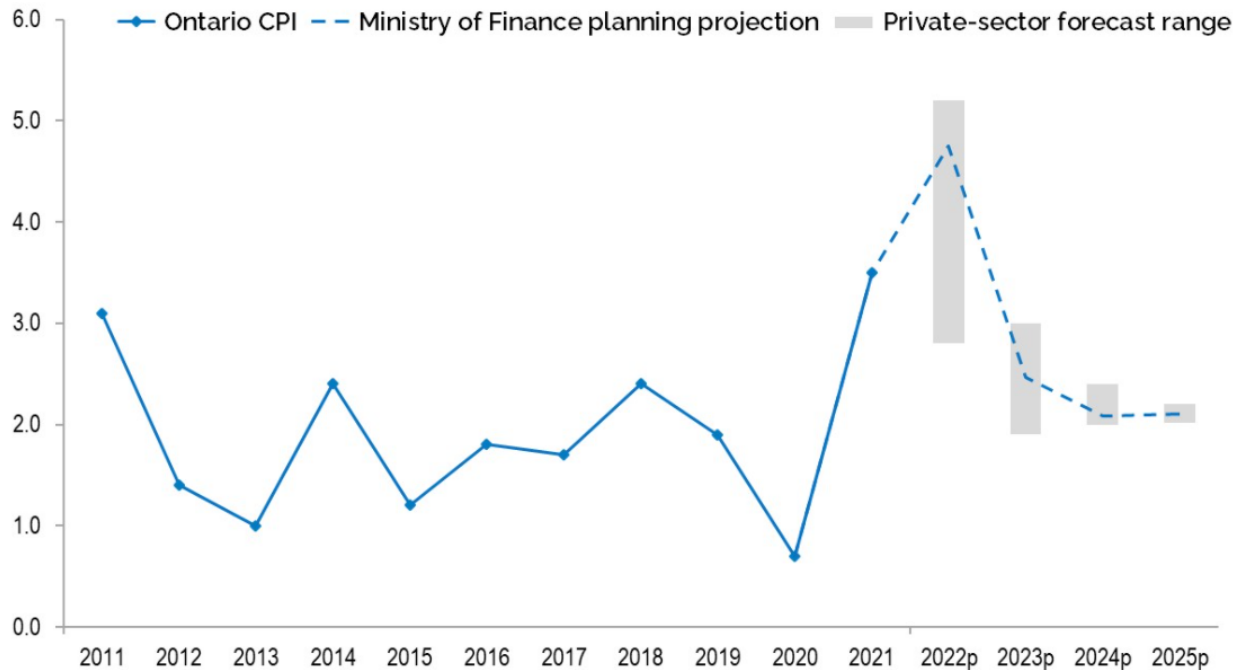
Source: Statistics Canada. [Table 18-10-0004-13 Consumer Price Index by product group, monthly, percentage change, not seasonally adjusted, Canada, provinces, Whitehorse, Yellowknife and Iqaluit](#)

CPI in Canada averaged 3.4% in 2021, and based on the Bank of Canada's April 2022 Monetary Policy Report it is forecasted to average just below 6% for the first half of 2022 and remain well above the control range through the rest of the year. Overall, the Bank of Canada is forecasting CPI inflation to average 5.3% for 2022 and 2.8% for 2023.³

Similarly, the Provincial government is also forecasting CPI inflation for Ontario of 4.7% in 2022 and 2.5% in 2023.

³ <https://www.bankofcanada.ca/wp-content/uploads/2022/04/mpr-2022-04-13.pdf>

Ontario CPI Inflation



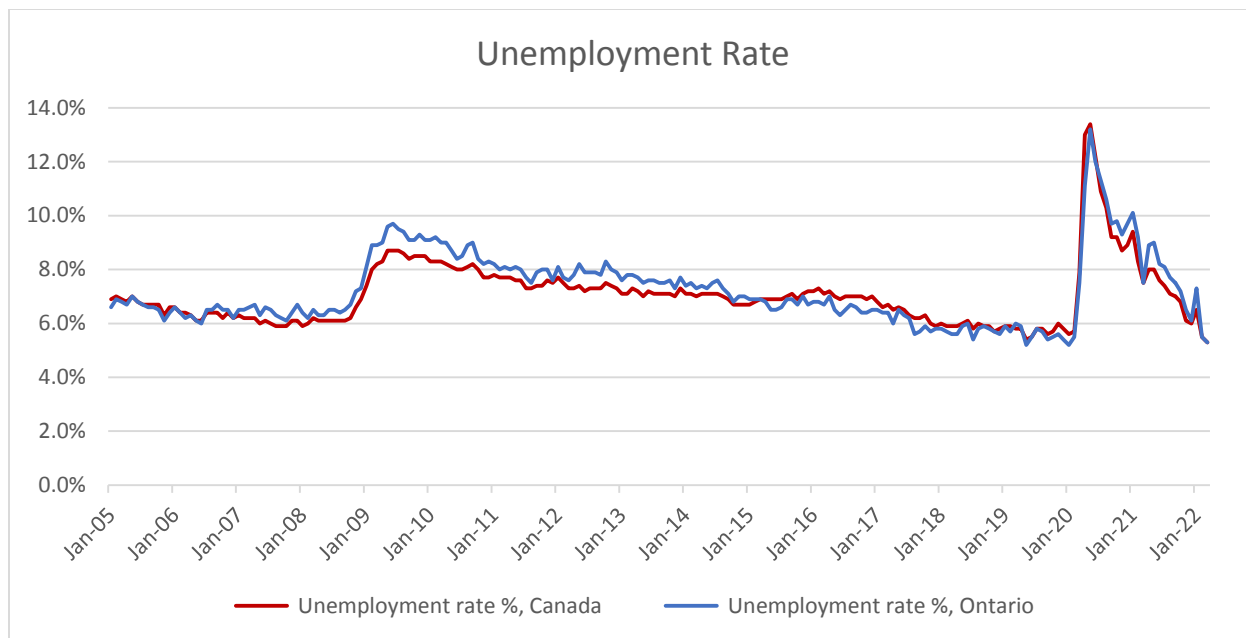
p = Ontario Ministry of Finance planning projection and private-sector forecasts.

Source: 2022 Ontario Budget: *Ontario's Plan to Build*, Chapter 2: Economic Performance and Outlook

<https://budget.ontario.ca/2022/chapter-2.html>

Beyond inflation, the overall economies in Ontario and Canada are also showing strong signs of rebound from the pandemic. Ontario's unemployment rate was 5.3% in March, the lowest recorded rate since January 2020 and comparable to pre-pandemic levels. For Canada, the unemployment rate was 5.3% in March, which was not only below its pre-pandemic rate but was at its lowest level since comparable data became available in 1976.⁴

⁴ <https://www.ontario.ca/page/labour-market-report-march-2022#section-4>



Source: Statistics Canada. [Table 14-10-0287-01 Labour force characteristics, monthly, seasonally adjusted and trend-cycle, last 5 months](#)

Consideration of the Election

With an election occurring in October 2022, the 2023 budget will be the first budget approved under the new term of Council. Given the timing of budget processes, the budget preparation and approval will be completed prior to any refinement or changes to the Corporate Strategic Plan by the new term of Council. As such, staff will prepare the budget based on existing strategic priorities and service levels. The Strategic Plan update process will be getting underway in 2022 leading up to the new term of Council to approve in 2023, and therefore future budgets will address the updated strategic priorities of the new term of Council.

Tax-Supported Operating Budget Forecast

On December 2, 2021, Council approved the 2022 tax-supported operating budget and the forecast tax levy increases of 3.82% in 2023, 3.62% in 2024, and 2.89% in 2025.

The forecast tax levy increase of 3.82% in 2023 was prepared based on inflationary factors and forecasts from 2021, assuming CPI of 2-3%. It is based on previously approved levels of service, ongoing financial impacts of capital projects and programs and services required to maintain consistent levels of service to the growing community, offset by assessment growth revenue. The operating forecast includes the following key drivers:

- To maintain existing services, the base budget is forecast to increase 2.61%;
- One-time only costs, such as Cambridge's 50th anniversary celebration, minor capital items and Fire training, is expected to increase the tax levy by 0.27%;
- Increasing budgets to meet the needs of the City as it continues to grow and expand is referred to as "growth" in the budget. This is forecast to increase the tax levy by 0.32%;
- The forecasted impacts from capital projects include debt financing, setting aside funds for future rehabilitation and replacement of new assets, modernizing the City's technological platforms, and a half year of operations of the Cambridge Sports Park expansion. These were forecast to increase the tax levy by 1.62%;
- Offsetting the growth items in the budget and the impacts from capital as a result of a growing City is assessment growth, which was forecasted at 1.00%.

A breakdown of the projected tax levy increases is shown in the following table.

TAX-SUPPORTED OPERATING BUDGET PROJECTIONS			
Budget component	2023	2024	2025
Base Budget	2.61%	2.19%	1.82%
One-Time	0.27%	0.14%	0.05%
Growth	0.32%	0.24%	0.22%
Impacts from Capital - Debt Costs	0.04%	0.74%	0.64%
Impacts from Capital - Contribution for Rehabilitation & Replacement of Growth Assets	0.61%	0.77%	0.23%
Impacts from Capital - Technology Services	0.61%	0.10%	0.00%
Impacts from Capital - Cambridge Sports Park Expansion	0.33%	0.32%	0.00%
Impacts from Capital - Recreation Complex	0.00%	0.00%	0.76%
Impacts from Capital - Other	0.03%	0.12%	0.17%
Assessment Growth	-1.00%	-1.00%	-1.00%
Forecasted Tax Rate Increase	3.82%	3.62%	2.89%

Staff recommend that the 2023 budget be prepared with a target base budget tax levy increase generally in line with CPI, currently forecast to be between 4.7% to 5.3% in 2022 and 2.5% to 2.8% in 2023. During preparation of the budget staff will consider current levels of service and make recommendations as required to ensure City services are being delivered most efficiently to meet the community's needs. All impacts from capital projects, growth and new service level initiatives will be submitted as part of the 2023 budget process for consideration by Council.

This guidance allows for flexibility to present a base budget in line with inflation but recognizing that certain growth and service level commitments may not be able to be absorbed within an overall inflationary budget. Staff will endeavour to minimize the tax rate increase with the aim for it to be within inflationary targets as a whole, including growth and impacts from capital. However, to achieve this target, further efficiencies and/or service level impacts may be required.

Water Utility Budget

In accordance with provincial legislation O. Reg. 453/07, the City completed an update to its water and wastewater long-range financial plan in 2019. This update reviewed the sustainability of the City's water and wastewater infrastructure, and set the target for annual revenue increases of 3.9% over the next 10 years. Since the completion of the long-range financial plan, the City has identified efficiencies during the budget review through continuous improvement, as well as lower than forecast Regional water and sewer treatment rates, resulting in rate increases below this 3.9% target.

On December 2, 2021, Council approved the 2022 water utility budget and the projected water utility rate increases of 3.57% in 2023, 3.23% in 2024, and 3.53% in 2025.

Staff recommend that the 2023 water utility budget be prepared consistent with the forecast and the approved long-range financial plan, while factoring in any adjustments possible as a result of further efficiencies that may be identified. The City's plan supports financial sustainability with the ability to meet existing financial obligations throughout the forecast and sufficient flexibility to respond to changing circumstances.

Capital Plan

The 10-year capital plan as part of the 2022 Budget and Business Plan included \$575 million in funded capital projects. However, it also included 36 unfunded projects totalling \$38 million of funding needs.

The capital plan from the 2022 Budget and Business Plan was based on typical construction inflation assumptions at the time of 2%-3%. As noted above, the actual construction price index has been much higher than this, at a rate of 15.3% as of

December 31, 2021. As staff roll forward these forecasted projects and prepare the 2023 Draft Budget and Business Plan, the projects' estimated costs will need to be inflated based on the construction price index at the time of preparing the draft budget. This will drastically drive cost increases in the capital budget. This may result in an increase needed to the capital levy and/or an increase in the number of unfunded projects over the ten-year forecast period.

Through the capital budget process, the City uses a prioritization model to aid in balancing the capital projects within available funding constraints. This model focuses on ensuring the City's existing assets are maintained, while also providing for strategic initiatives and projects that will realize a return on investment. It uses nine factors in determining the priority score of a project:

1. Project Category (i.e. mandatory, efficiency, strategic etc.)
2. Alignment with Corporate Strategic Direction
3. Operating Budget Impact
4. Risk Assessment
5. Public Value
6. Service Levels
7. Infrastructure Impact
8. Community Impact
9. Economic Impact

As a result of the prioritization model, projects are presented in the Capital Budget in priority sequence within each service area. This prioritization model will continue to be used as part of the 2023 Capital Budget process to ensure priority work proceeds within constrained funding limits.

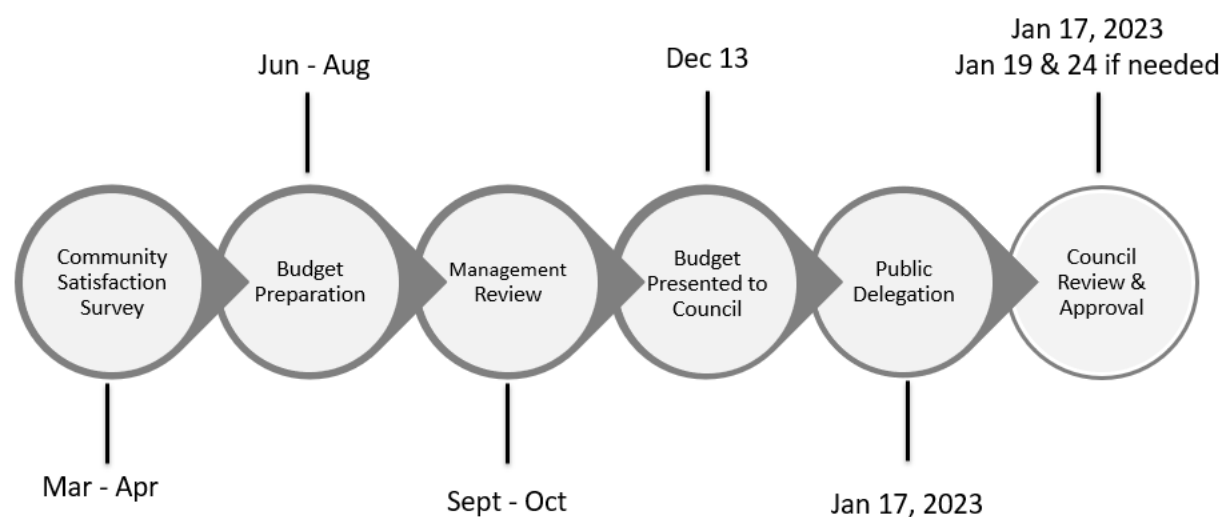
Business Improvement Area (“BIA”) Budgets

With Council direction, the City requests the Downtown BIA's to deliver their 2023 budgets to staff by October 1, 2022. This is in accordance with the BIA By-Law 21-016 and will allow City staff the opportunity to incorporate the BIA funding requests into the City's overall budget documents.

Budget Timeline

Through best practices in municipal finance and budgeting, budgets are recommended to be approved in December except in years of election. Under subsection 290 (1.1) of the Municipal Act, a budget for the year immediately following an election year may only be adopted in the year to which the budget applies. This means that since 2022 is an election year, the 2023 budget must be approved in 2023 and cannot be approved in

December 2022. As such, staff recommend the following timeline for the 2023 budget process:



This proposed timeline provides for:

- Public engagement occurring early on in the process through the Community Satisfaction Survey, so that feedback received can be built right into the budget preparation by staff. The results of the survey are anticipated to be released in June.
- Budget preparation will commence in June with management review to take place throughout September and October.
- Public participation to hear delegations regarding the proposed budget, allowing members of the public to provide their feedback on the draft budget to Council.

EXISTING POLICY / BY-LAW(S):

BMA Management Consulting Inc. previously completed a corporate financial review. The purpose of the review was to evaluate the City's financial policies and procedures to ensure they reflect the best practices in municipal finance. There were 22 recommendations resulting from the corporate financial review that were presented and approved by Council. The recommendations focused on the following areas:

- Budget Format, Layout and Content
- Budget Timetable
- Budget Control
- Financial Policies

Following the review, Council approved the City's Budget Control By-law and related financial policies.

FINANCIAL IMPACT:

Staff will prepare the 2023 tax-supported operating budget with a target increase generally in line with the Consumer Price Index inflation rate. During preparation of the budget staff will consider current levels of service and make recommendations as required to ensure City services are being delivered most efficiently to meet the community's needs. All impacts from capital projects, and requests for growth related and new service level initiatives will be submitted as part of the 2023 budget process for consideration by Council.

The 2023 water utility budget will be prepared consistent with the forecast rate increase approved through the 2022 budget and taking into consideration the approved water and wastewater long-range financial plan in accordance with O. Reg. 453/07.

PUBLIC VALUE:

The 2023 budget process enables staff to focus on sustainable financial management while maintaining transparency to the public through the development of detailed Budget and Business Plan document. It also provides for engagement through the Community Satisfaction Survey and hearing of delegations at Council.

ADVISORY COMMITTEE INPUT:

Advisory Committees Consulted:

Not Applicable.

PUBLIC INPUT:

The City undertook a community satisfaction survey in March and April 2022, with the results anticipated to be reported in June. Part of this statistically significant survey included questions relating to the City's budgets and taxes. Having the survey completed prior to the launch of the 2023 budget process allows staff and management time to incorporate and be responsive to the feedback. This feedback will help directly inform staff on preparing their budget submissions, and is a proactive form of feedback that seeks public input upfront.

A budget public participation meeting to hear delegations regarding the proposed budget will occur as part of Council's review and approval of the budget, allowing members of the public to provide their feedback on the draft budget to Council.

INTERNAL / EXTERNAL CONSULTATION:

The 2023 budget timetable has prepared with input from the Office of the City Clerk, Corporate Strategy, and the Project Management Office.

CONCLUSION:

The City of Cambridge prepares an annual budget in accordance with section 290 of the *Municipal Act, 2001* as amended. This report identifies the timeline and guidelines for staff preparing the 2023 budget. Staff will prepare the 2023 tax-supported operating budget with a target base budget increase generally in line with the Consumer Price Index inflation rate.

All impacts from capital projects, growth and changes to service levels will be submitted as part of the 2023 budget process for consideration by Council.

The 2023 water utility budget will be prepared consistent with the forecast rate increase approved through the 2022 budget and taking into consideration the water and wastewater long-range financial plan approved in accordance with O. Reg. 453/07.

The City requests the Downtown BIA's to deliver their 2023 budgets to staff by October 1, 2022. This will allow City staff the opportunity to incorporate them into the final budget documents.

REPORT IMPACTS:

Agreement: **No**

By-law: **No**

Budget Amendment: **No**

Policy: **No**

APPROVALS:

This report has gone through the appropriate workflow and has been reviewed and or approved by the following as required:

Director

Deputy City Manager
Chief Financial Officer
City Solicitor
City Manager

ATTACHMENTS:

Not applicable