



**FINANCE DEPARTMENT
MEMORANDUM**

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TO: ACTING MAYOR, B. WARD AND MEMBERS OF COUNCIL

FROM: J. KUEHL, MANAGER OF BUSINESS PLANNING AND BUDGET
C. GILLESPIE, SENIOR MANAGER OF CORPORATE FINANCE AND INVESTMENTS

NOTED: C. MILLAR, DIRECTOR OF FINANCE AND TREASURER
D. MCALPINE, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES
M. PROWSE, CHIEF ADMINISTRATIVE OFFICER

RE: 2023 BUSINESS PLAN AND BUDGET

DATE: MAY 9, 2022

The purpose of this Memorandum is to provide members of Council with an update on the proposed 2023 Budget and Business Plan process, including timelines, principles and guidelines to be followed by staff, and updates on some identified pressures for the 2023 Budget.

Guidelines: Operating and Capital Budgets

Staff will be guided by the following items when building the operating and capital budgets:

- Staff will develop one budget year and three forecast years;
- The budget will present the cost of maintaining current service levels and the annualization of prior period decisions,
- The budget will include an estimate of assessment growth based on the value of newly assessed property throughout 2022;
- Contributions to reserves will be consistent with the Financial Policies Framework;
- User fees will be assessed to strive for reduced taxpayer subsidy and full cost recovery where appropriate;
- The Water and Wastewater budgets will be prepared with rates that are sufficient to accommodate capital reserve contributions, such that they are in line with the findings from the 2021 Long-Range Financial Plan. The rates will be at a level that will meet the City's capital commitments, after considering operational needs;
- A Stormwater Climate Action fund was approved by Council (motion 22-G-018) to pay for the City's operating and capital stormwater infrastructure beginning in 2023. Past Council direction identifies that the Storm Water rate will be approved as part of the 2023 budget at existing service levels;
- Staff will develop an updated 10-year capital plan consisting of a 1-year budget, 4-year forecast, and 5-year outlook addressing both growth and renewal of infrastructure, with consideration to the maintenance of the City's AA credit rating and fiscal health;



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- Staff will first look to fund projects using external opportunities, such as grants or development related funding wherever possible, and then the City’s own reserves; and
- Capital projects are being budgeted with schedule and cost certainty.

Principles: Guided by the Financial Policy Framework

Staff will prepare the annual Business Plan and Budget guided by the key principles included in the City’s Financial Policy Framework including:

Principle	Meaning
Respect for the taxpayer	<ul style="list-style-type: none"> • Constant search for excellence and value with due regard to economy, efficiency and effectiveness • A City that lives within its means, with predictable tax levels
Maintain and enhance the City’s financial condition	<ul style="list-style-type: none"> • Sufficient revenues are raised to fund operations, while maintaining appropriate levels of reserves and debt • Credit ratings sustained and/or improved • “User pay” is an operating principle considered for all program areas • Identify new funding sources/financing methods • Maintain assets
Pursue innovation	<ul style="list-style-type: none"> • Continuously find efficiency and quality improvements in the way we manage and deliver services

The 2023 Business Plan and Budget will continue to focus on implementing the growth framework and investment in renewing the City’s current infrastructure to the greatest extent feasible, given the status of reserve levels and inflationary pressures.

Timelines: 2023 Business Plan begins in May with final approval set for February 2023

Date	Activity
May - December 2022	Staff produce work plans; draft operating, capital, and rate budgets as well as proposed user fees; executive management review; public engagement; production of budget and business plan materials.
January 2023	2023 Business Plan presentation and binder distribution to Council
February 2023	Committee/Council review and approval



Budget Pressures: City faces a greater number of pressures this year, particularly from inflation

There are a number of pressures which the City currently faces, from both a macro- and a microeconomic lens. This section highlights the main contributors:

Inflation is at a 30-year high, which will flow through to contracts the City has with various vendors. Three large contracts, which the City deals with are Transit, Winter Control and Waste Collection, which generally have provisions tying increases to inflation. The Capital project budgets will also feel pressured as the construction prices index has seen a double-digit increase in inflation.

Interest rates have increased by 75 basis points in the last few months and are forecast to increase by at least the same, again, before the year is out. This will impact the financing costs of any new debt that the City takes on, particularly compared to the recent City issuances.

As identified in the update to the City's Long Range Financial Plan (Motion 21-G-258), the City's reserves are under pressure financing growth investments, asset management needs, and Councils strategic priorities. Staff will prepare the 2023 draft budget incorporating the approved Council recommendation with the Dedicated Infrastructure and Renewal Funding (DIRF) at 1 per cent.

Union negotiations are currently ongoing between the City and its unionized workforce. Salaries and benefits are a significant portion of the City's operating expenses.

Service Partners will be facing many of the pressures that the City is facing. It is too early to get accurate budget information from partners at this time, however, it is expected that it will be a challenge for some Service Partners to meet lower than average rate increases. City staff will forward a letter to Service partners sharing this Memorandum and identifying the City of Barrie approved budget tax increases over the last few years.

Summary

There are a number of internal and external pressures, which will make this budget year more challenging than recently experienced. Given the information discussed earlier in this memo, staff will not be identifying a target percentage for the 2023 Budget, at this time.

Staff are cognizant of the difficulties many in the community have faced in the last year and are working hard to ensure that the City maintains the services that it provides, whilst also staying within the affordability thresholds established in the City's Financial Policies Framework.