

The Regional Municipality of York

Committee of the Whole
Finance and Administration
May 13, 2021

Report of the Commissioner of Finance

2022 Budget Direction

1. Recommendations

Council endorse a timeline for the development and approval of the 2022 Budget, and a tax levy increase target of 1.96%

2. Summary

This report seeks Council endorsement of the proposed timeline for the 2022 Budget. It also outlines general guidelines for budget development.

Key Points:

- As part of the 2021-22 Multi-year Budget, Council directed staff to undertake strategies and processes to reduce the 2022 tax levy increase below the previously endorsed outlook of 2.96%.
- In response to the direction provided by Council, a tax levy increase for 2022 that is 1% less than the previous outlook would be used as a target for development of the 2022 budget.
- A framework based on efficiencies, service level and risk tolerance considerations will be used to identify actions required to achieve a reduced tax levy increase. Potential implications for programs and services, financial risks and the achievement of the strategic plan objectives will be identified.
- It is proposed that the 2022 Budget be tabled with Council in November 2021, with consideration of approval in December 2021.

3. Background

The 2022 Budget will be the fourth year of the 2019-2022 Multi-year Budget cycle

In [February 2019](#), Council approved the first year of the Multi-year Budget and an outlook for the following three years, covering the period of this Council term. Generally, a multi-year

budget provides several advantages, including: enabling better coordination of budgeting and strategic priorities, providing greater certainty for departments in managing their expenditures, and improving fiscal discipline.

A multi-year budget process also recognizes that circumstances may change over time and the outlook is revisited every year and adjusted as necessary. This was the case for the 2021 budget, which was adjusted to reflect the impact of the COVID-19 pandemic.

The outlook for the last three years in the 2019-2022 Multi-year budget included a 2.96% tax levy increase. This outlook formed the basis for budget development the following year. The 2022 Budget will be the last year of the current Multi-year Budget.

On [March 25, 2021](#), Council approved the third year of the Multi-year Budget. The 2021 Budget was approved with a tax levy increase after assessment growth of 1.54%, lower than the 2.96% outlook approved as part of the 2020 Budget as a result of additional provincial pandemic funding and organization-wide mitigations to offset cost pressures.

Council directed staff to undertake strategies and processes to reduce the tax levy increase for 2022 below the previously endorsed outlook of 2.96%

As noted above, an outlook for 2022 was included as part of the 2021-22 Multi-year Budget that was tabled on February 25, 2021. The outlook of 2.96% captured budget pressures, ongoing savings and contributions for future infrastructure needs.

Table 1 shows the gross expenditures, revenues and net expenditures that were included in the 2021 approved budget and outlook. The 2021 Budget included \$2.59 billion in gross operating costs, growing to \$2.60 billion by 2022. The tax levy funds almost half of the total operating spending, with non-tax revenues funding the other half. Non-tax revenues include grants and subsidies, recovery from user rates, development charge reserve draws and other fees and charges.

**Table 1
2021-2022 Budget**

	2021 Approved Budget	2022 Outlook (as tabled on February 25, 2021)
Tax Increase	1.54%	2.96%
Gross Expenditures	\$2.6B	\$2.6B
Revenues	\$1.4B	\$1.3B
Net Expenditures	\$1.2B	\$1.3B

The budget tabled on February 25, 2021 included a tax levy increase outlook for 2022 of 2.96%. At its meeting on March 25, 2021, Regional Council directed staff to “undertake strategies and processes to reduce the 2022 operating outlook as tabled on February 25, 2021.” Building on Council’s direction, this report outlines a process involving a comprehensive savings exercise to help achieve a proposed 2022 tax levy increase that is 1% below the outlook, while also ensuring that contributions to reserves are maintained at levels that safeguard the Region’s financial sustainability.

Any reduction of the tax levy increase would require adjustments to expenditures and/or revenues included in the outlook.

4. Analysis

The 2022 Budget will address needs related to typical budget drivers and those related to the pandemic

While pressures related to the pandemic were a focus of the Region’s 2021 budget, increases associated with traditional budget drivers were also accommodated. This included inflationary pressures, legislated and contractual commitments, additional costs related to new capital assets entering service, and higher contributions to reserves for growth capital and asset management needs. These increases were not a major factor in the 2021 tax levy increase because of savings targets and other temporary savings measures implemented as part of the budget. In addition, pressures related to growth were largely offset by assessment growth revenues.

However, these increases are more prominent in the 2022 outlook because COVID-19 related pressures and temporary savings are lower than in 2021, and because of lower forecasted assessment growth revenues.

Most forecasts expect inflation to return to about 2% in 2022. However, the standard measure of inflation – the consumer price index, or CPI – does not always reflect the goods and services that the Region purchases. The Region’s cost pressures are better captured by a municipal price index, which staff estimate to be about 0.5% higher than CPI in 2022.

The Region’s budget will also have to adapt to potential broader changes resulting from economic and demographic factors, and to senior government policy and funding decisions.

The 2022 Budget will also continue to focus on long-term fiscal sustainability. The Region’s fiscal strategy consists of three related elements: capital management, reserve management, and debt management, and it is guided by the principle of intergenerational equity. Achieving the principles and objectives of the fiscal strategy requires careful management of the capital plan, including aligning the timing of capital spending with the expected timing of growth. It also requires reserve contributions that allow the Region to meet growing asset management needs without issuing new debt.

Reduction options are expected to focus on service adjustments and increased risk tolerance, as opportunities for further efficiency improvements are limited

The 2022 budget process will include a framework to identify savings to help achieve a lower tax levy increase. The framework will be similar to the approach used in the 2020 and 2021 budgets that grouped savings into three categories: efficiencies, service reductions and risk tolerance. The tabled budget will identify the proposed actions in each category required to achieve the tax levy savings.

Due to the savings exercises undertaken as part of the 2020 and 2021 budgets, including actions taken to redeploy resources to help offset COVID-19 related costs, reductions in 2022 are expected to focus on the Region's services and exposure to risk.

Department programs and budgets are reviewed for potential efficiencies each year and a similar exercise will be undertaken as part of the 2022 budget. The goal of this exercise is to identify savings to help offset the underlying year-to-year increases mentioned earlier in this report, such as inflation and other non-discretionary increases. However, given the savings already built into the 2022 outlook, further efficiency savings are expected to be limited.

Finding the savings required to meet a target tax levy increase of 1.96% for 2022 may affect the Region's ability to carry out key activities and Strategic Plan priorities. Potential impacts on Regional priorities will be a key consideration throughout the budget development process.

Potential reductions will need to consider pressures and risks that are already reflected in the 2022 outlook

Potential options to identify further savings in the 2022 budget will need to consider existing savings measures and risk management strategies. For example, the 2022 outlook currently accommodates estimated pressures of \$62 million. These pressures are being accommodated in part, through savings initiatives, including program spending deferrals and savings targets. Any new program savings options would need to be in addition to existing program savings, which increases the likelihood of program and service impacts.

The projected draw of \$56.5 million from the Pandemic Management Reserve, including \$17.4 million to offset the pressure resulting from the reduction in the 2021 tax levy increase from 2.96% to 1.54%, represents a risk for the 2022 and future budgets. The one-time nature of the draw creates a structural gap, or a pressure, in 2023 and in future years, as a permanent funding source will need to be identified for any ongoing costs. Any further reserve draws to help reduce the tax levy increase in 2022 would add to the structural gap in subsequent years.

In the risk tolerance category, projected contributions to capital reserves will be reviewed to identify whether reductions could be implemented while minimizing potential risks to the Region's financial sustainability. A key risk would be the need for higher contributions and a resulting tax levy pressure in the future.

This would be in addition to the existing risk associated with the need to increase reserves to accommodate the Yonge North Subway Extension project. While the Region's contribution to this project is not yet known, and project expenditures or funding were not included in the 2021 budget, a significant contribution is expected.

Current projections suggest contributions to capital reserves are not expected to be sufficient to meet all needs (i.e., growth capital, asset management and the subway), while also achieving the fiscal strategy objectives of long-term sustainability and intergenerational equity.

If the Region is required to draw on stabilization reserves to mitigate potential over-budget expenditures in 2021, a strategy would need to be developed to rebuild those reserves in the future.

COVID-19 is a key risk for the 2022 budget

Financial challenges related to the COVID-19 response and recovery are expected to continue in 2022. Any potential new cost pressures related to the emergency response or recovery phase would make it more challenging to reduce the tax levy increase below the previous 2022 outlook of 2.96%. In the absence of further funding commitments from senior governments, these impacts would add pressure to the tax levy.

In 2020, the impact of the COVID-19 response totaled \$186.5 million. In 2021, the full-year impact of the COVID-19 response is estimated to be over \$200 million. Most of these costs, including all known costs impacting the tax levy, are reflected in the 2021 budget. Key risks include higher costs due to the length and severity of the pandemic, higher than expected costs associated with the immunization roll-out and uncertainty regarding potential further financial assistance from senior levels of government. Additional details on preliminary 2021 financial impacts of COVID-19 are included in the [April 20 Memorandum](#).

December 2021 approval of the 2022 Budget is proposed

The 2021 Budget was approved in March 2021, which reflected the delayed timing of the provincial budget and uncertainty about the impacts of COVID-19. For the 2022 Budget, it is proposed that budget tabling with Council take place in November 2021, as is typically the case for non-election years. Departmental budget reviews are proposed to take place at the Committee of the Whole meetings in December 2021, followed by final budget approval considered by Council at its December meeting.

Table 2 summarizes the key dates in the proposed 2022 Budget process.

Table 2
Proposed 2022 Budget Timeline

Key Activities/ Milestones	Date
Budget direction report to Committee of the Whole	May 13, 2021
Departmental budget submission to Finance, and identification of pressures/risks	July/August
Senior management reviews, staff deliberation and development of recommendation to Council	August – October
Table Budget with Council	November 2021
Committee of the Whole reviews – Departments	December 2021
Tentative Budget approval	December 2021

While the 2022 Budget process will focus on the last year of the Multi-year Budget, preliminary information will also be collected and analysed to identify potential pressures and budget requirements for the next Council term.

The Multi-year Budget process supports the 2019 to 2023 Strategic Plan

The *2019 to 2023 Strategic Plan* guides the multi-year business planning and budgeting process. Many priorities outlined in the Strategic Plan will be reflected in the 2022 and future Regional budgets. Anchoring the Strategic Plan in core services ensures the Region continues to meet its legislative obligations while remaining flexible and responsive to the changing needs of our residents. The impacts of COVID-19 on York Region’s ability to achieve the *2019 to 2023 Strategic Plan* objectives will be reflected in next year’s Progress Report demonstrating 2021 results on performance measures.

5. Financial

The direction provided by this report will inform the development of the 2022 Budget, which will establish expenditures and funding for the provision of Regional services in 2022.

6. Local Impact

There is no direct local municipal impact associated with this report. The 2022 budget will endeavor to fund required services and capital infrastructure for residents and businesses in all local municipalities within York Region. Certainty and discipline in the budget help local municipalities with their budget planning.

7. Conclusion

This report seeks Council endorsement of the timeline for development and approval of the 2022 Budget and a target tax levy increase of 1.96% for 2022, in response to the Council's direction to undertake strategies and processes to reduce the 2022 operating outlook.

The budget will also continue to address the impacts of the COVID-19 pandemic and the risks and uncertainty in revenues and cost impacts, as well as addressing potential impact of the Yonge North Subway Extension project.

It is proposed that the 2022 Budget be tabled with Council in November 2021, with consideration of approval in December 2021.

For more information on this report, please contact Kelly Strueby, Director, Office of the Budget, at 1-877-464-9675 ext. 71611. Accessible formats or communication supports are available upon request.

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