York Region

Office of the Commissioner
Finance Department

MEMORANDUM

To: Members of Committee of the Whole

From: Laura Mirabella
Commissioner of Finance and Regional Treasurer

Date: January 30, 2023

Re: Inflation Measures for Regional Budgeting

The Region's operating and capital budgets are experiencing inflationary pressures not seen in decades. Statistics Canada reported annual Consumer Price Index (CPI) inflation for the Toronto CMA in 2022 was 6.5%. Capital inflation, measured by the non-residential building construction price index (NRBCPI), is tracking above 16%. Regional staff also prepare a municipal price index (MPI) that uses internal data to estimate inflationary pressures based on the Region's specific spending pattern.

Each of these measures are used to inform budgeting and long-term financial planning.

The Consumer Price Index (CPI) provides a good measure of price increases faced by consumers

The Consumer Price Index (CPI) is an estimate produced by Statistics Canada that tracks the price of a typical basket of consumer goods. It uses a constant basket of goods and weighs the prices of each good according to their proportion of total consumer spending.

The CPI basket currently includes eight major components, with weighting as follows: shelter (31%); transportation (17%); food (16%); household operations, furnishings, and equipment (14%); recreation, education, and reading (10%); clothing and footwear (4%); health and personal care (4%); and alcoholic beverages, tobacco products, and recreational cannabis (4%).

While this basket of goods is accurate in representing the purchases of a typical consumer, municipalities are not an average consumer. Municipalities deliver a unique set of programs and services, and many costs are driven by negotiated agreements spanning several years.

A Municipal Price Index (MPI) more accurately reflects the Region's spending patterns

Like the Consumer Price Index (CPI), the Region's Municipal Price Index (MPI) uses a fixed basket of goods to estimate inflationary pressures over time. The MPI considers inflationary pressures on the Region's existing programs and service levels. In other words, it does not incorporate the changes to program costs resulting from changes to the program itself, or how much of the program is delivered.

Each component of the basket is weighted according to its share of total expenditures. The MPI basket has 35 items categorized in six main components, weighted as follows: salaries and benefits (55%); program specific expenses (25%); professional and contracted services (8%); general expenses (6%); insurance and occupancy costs (4%); and government transfers and minor capital (2%).

Each component of the MPI basket is assigned an inflation factor. For example, salaries and benefits are inflated using information from collective agreements, and program specific expenses are mostly inflated using the most relevant component of CPI. Regional staff use information on current and projected CPI and MPI to support the budget development process.

Table 1 shows recent and forecasted estimates of CPI and the Region's MPI.

Table 1

Annual CPI and MPI Growth Rates

Index	2019	2020	2021	2022	2023	2024	2025	2026
CPI *	2.0%	0.3%	2.9%	6.5%	3.5%	2.3%	2.0%	2.0%
MPI	2.0%	1.4%	2.9%	4.5%	3.5%	2.4%	2.1%	2.1%

* CPI (Toronto CMA) from Statistics Canada, 2023 to 2026 based on the September 2022 forecast from Conference Board of Canada

Municipal price indices and similar measures are used by other municipalities in Ontario including, Ottawa, Waterloo, Brampton, Whitby and Milton, and across Canada including Calgary, Edmonton and Halifax.

High levels of capital inflation (NRBCPI) required additional review and prioritization of projects to remain within available funding room

Capital inflation is commonly measured using Statistics Canada's non-residential building construction price index (NRBCPI), which measures the change in contractor prices for six non-residential structures like office buildings and schools. Capital inflation is reviewed annually as project costs are updated for the 10-year capital plan. The Region's capital program competes with private companies for limited construction inputs, like labour and material, so a Region-specific capital inflation measure is not needed.

Inflation can affect the timing, scope and prioritization of projects within the capital plan, as the need to accommodate higher project costs due to inflation can reduce the available room for other projects within an overall fiscal constraint. During the development of the 2023 budget, capital inflation was tracking at over 16% and cost pressures were expected to remain elevated. The size of the capital plan is limited by available funding sources, and these sources have generally not kept pace with recent growth in capital inflation. For the development of the 2023 capital plan, an initial adjustment based on the 10-year historical NRBCPI average was provided to departments to offset some of the impact of higher capital inflation.

Capital inflation also puts pressure on the operating budget since it is a key driver for required contributions to reserves. As current and future estimates of NRBCPI rise, the cost of delivering capital projects is projected to rise, and that requires an increase to planned contributions to capital reserves.

For more information on the memo, please contact Kelly Strueby, Director of the Office of the Budget, at 1-877-464-9675 ext. 71644.

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