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**Subject:** Budget 2022 Schedule and Direction

**Department:** Corporate Services

**Division:** Finance

**Report #:** CPS-2021-064

**Meeting Date:** 2021-09-13

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### Recommendations

That report CPS-2021-064 dated September 13, 2021, Budget 2022 Schedule and Direction, be received;

And that Council endorse receiving a 5-year budget outlook for Operating Budget and a 10-year budget outlook for Capital Budget deliberations;

And that Council approve maintaining of the cost-of-living allowance equivalent to the same level as 2020 of 2% as a guideline to report a budget for non-union staff salary and benefits in the proposed 2022 budget.

### Background

Each year, Council and municipal staff work to balance the cost of providing Town services with existing resources. The primary purpose of this report is to provide Council with parameters on which staff will prepare the Budget 2022 framework outlining principles that have been recognized by Council as important policy decisions, as well as highlight budget drivers that will impact the next budget cycle. As Council is aware, with the adoption of multi-year budget process, each year, a new multi-year budget outlook is provided with only the first year being approved by a by-law (i.e., Council will continue to have full discretion on a year-to-year basis). Providing a Multi-Year Budget Outlook provides several significant benefits including:

- Providing a longer-term funding plan so that longer-term goals can be identified and achieved.
- Understanding the impacts of decisions made in the current year on future years.
- Ensuring the Town budget and outward looking plan are consistent with Council's priorities.

- Ensures the connection between capital project approvals and their operating budget impacts is consistent with the careful planning and improved forecasts of costs and revenues associated with multi-year budgeting.
- Provides citizens with more certainty about the direction for the Town's services, finances, and future tax levels.
- Makes more strategic use of Council's time in reviewing budgets and the administration's time in preparing them.
- Instills discipline to control spending plan changes.

On February 2nd, 2021, Council approved 2021 multi-year operating and capital budget, with the first year in the multi-year budget being approved by a by-law and the subsequent years being adopted in principle. For the 2022 budget season, it is being proposed that Council will be provided for considerations with another 5-Year Budget Outlook, covering 2022 to 2026 for Operating budget and a 10 year outlook covering 2022-2031 for Capital budget as mandated by [O.Reg 588/17](#).

As with any financial modeling tool, the model forecast has the greatest precision in the first year. It provides an outlook of what the future financial picture for the Town of Orangeville may look like, help assess financial risks and the affordability of existing services and capital investments and provides an opportunity to analyze sensitivities to assumptions. When forecasting into the future, it is difficult to predict with hundred percent accuracy given ongoing uncertainties around:

- Magnitude and duration of Covid\_19 impacts
- Changes in market demands and economic conditions
- Fluctuations in citizen expectations
- Changes in legislation
- Changes in Senior Government Grant Programs
- Changes in Property Reassessments
- Business process improvements
- Climate change impacts
- Unforeseen operating impacts from approved capital initiatives

This report is divided in 4 broader sections: 1) Budget 2022 Strategy, 2) Budget 2022 Design, 3) Budget 2022 Timeline and 4) Budget 2022 Drivers; that will be considered in the development of the proposed Budget 2022 and seeks Council's direction on guidelines to ensure a proposed budget that is in keeping with Council's objectives. Council can provide direction for Budget 2022 development, including confirmation of the 2022 Council priorities and early guidance.

## **Analysis**

### **Section 1: Budget 2022 Strategy**

Budget 2022 will likely be our second pandemic budget. The impact of COVID-19 is universal to all Town's services and will require us to assess the permanency of its social and legislative impacts, and plan for an extended recovery period that may take us beyond 2022. For this reason, the 2022 budget does not consider budget changes for COVID-19. Staff is proposing to continue managing variances related to COVID-19 through expense mitigation strategies, shifting work plan priorities, and temporary reductions in service to offset the revenue loss. In addition, funds received through the Safe Restart Funding for both Operating Stream and Transit Stream, in 2020 and 2021, have mitigated in-year deficits leaving the Town's contingency reserves intact for the long-term recovery period.

## **Section 2: 2022 Budget Design**

Budget 2022 will be presented as a consolidated document of capital and operating budgets in a hybrid Service/Performance-based format (same as 2020 and 2021). A combined format such as this allows for the consideration of operating impacts at the same time as capital investments. Each service area (division) will have the following:

- An overview of service goals and objectives
- An overview of current service delivery including known financial gaps and service needs
- Key Performance Indicators (KPIs)
- A summary of current financial investment by service
- An overview of the asset investment required for service delivery

## **Section 3: 2022 Budget Timeline (Special Budget Meetings)**

- Draft 2022 Budget Tabled: November 29, 2021
- Capital Budget Presentation: December 13, 2021
- Operating Budget Presentation and Consolidated Budget Recommendation: Dec 14, 2021
- Additional Budget Meeting (if needed): January 17, 2022

## **Section 4: Budget 2022 Drivers**

The 2022 Multi-year operating, and capital budget will consider the following key budget drivers (pressures and mitigations/reliefs):

### **1. Pandemic of the Century- Covid\_19**

Budget 2022 will be developed in an environment of continued uncertainty regarding COVID-19 impacts, potentially including reduced revenues due to provincial health orders and related closures of facilities, and increased costs due to the Town's response efforts, particularly for the most vulnerable citizens. While we are optimistic that given the current Provincial re-opening plan and

vaccination rates that town services will largely be open by 2022, we recognize that a portion of this financial strain may continue into 2022 and beyond. Between now and the draft budget, staff will work on aligning current service plans and budgets to support Council priorities adjusted for COVID recovery. Staff will work to address cost pressures, refine budget estimates, and identify opportunities for cost savings and process improvement.

The 2022 budget will incorporate the latest information available while identifying associated risks and pressures surrounding the ongoing pandemic. There will be a continued focus on core service delivery, continuous improvement and finding cost savings in all program areas to mitigate any sharp tax increase. Staff is diligently monitoring potential Federal and Provincial fiscal stimulus programs and is partnering with other municipalities through the Federation of Canadian Municipalities (FCM) and Association of Municipalities of Ontario (AMO) to ensure that needs of municipalities are represented as the government considers future stimulus packages. These potential funding programs will be considered as the 2022 Operating and Capital budgets are developed to ensure the Town of Orangeville could participate in the programs to support key Council priorities.

## **2. Safe Restart Fund (SRF)**

On July 27, 2020, as part of the federal-provincial Safe Restart Agreement (SRF), the Ontario government announced that it had secured up to \$4 billion in emergency assistance to provide Ontario's 444 municipalities with the support they need to respond to COVID-19. Under the municipal operating stream, \$1.39 billion was available to Ontario's municipalities to address operating pressures and local needs. In 2021, the Ontario government has provided an additional \$500 million to help municipalities address ongoing COVID-19 operating costs. The new financial relief will help ensure the delivery of critical services and keep capital projects on track.

The Town remains grateful for the senior government support received to date under the Safe Restart Agreement. This funding helps municipalities like Orangeville protect the health and well-being of our residents, while continuing to deliver critical public services to our community and assist with economic recovery. It also provides immediate relief from transit pressures, such as lower ridership, reduced revenues as well as for new costs due to COVID-19, such as enhanced cleaning and personal protective equipment.

To date the Town has received the following funding which has largely mitigated revenue losses and covid related expenses for 2020 and 2021. Any funding not required in 2021 will be carried over into 2022 as per the letters from the province.

	2020	2021
Operations	\$673,400.00	\$565,857.00
Transit	\$96,430.00	\$211,913.00

### 3. Salary Market Review 2021

Municipalities are service driven organizations that depend heavily on human resources to deliver the range and quality of services that residents have come to expect. A significant risk to the corporation is the attraction and retention of talent. The following realities create a labour market and workforce risk:

- number of staff eligible to retire;
- ability to hire qualified candidates; and
- a compensation system requiring updates to be more competitive

One of the ways the Town is looking to attract and retain talents is through launching the corporation's **Salary Market Review Project**. A Salary Market Review benchmarks the Town's job descriptions (with a few exceptions – contract and fire association) and compares them with other municipal comparators that have similarities to the Town of Orangeville's positions. In addition to this external market review, the positions will also be reviewed for internal equity in order to verify that our pay equity continues to be aligned. The goal is to have the project completed and presented to Council in October 2021. Although, the funding for the current Salary Market Review remains to be determined, it may be conjectured from previous market reviews that close to a percentage increase of overall tax levy could be expected.

### 4. Maintaining CPI level of 2% (same as 2021) for non-union employees

The Consumer Price Index (CPI) produced by Statistics Canada is the most widely used calculation of inflation for Canada, the provinces, and municipalities. CPI Measures the overall price change in a fixed basket of goods and services bought by an average Canadian consumer over time. Council will recall that for 2021 approved budget and 2020 approved budget June 2020 CPI and June 2019 were adopted respectively as inflationary increase for cost-of-living adjustment for non-union employees. CPI Canada and Ontario are trending at positive since the start of 2021. The annual inflation rate in Canada quickened to 3.7% in July of 2021 from 3.1% in June and compared to market forecasts of 3.4%, with base effects from last year still weighing. It was the highest inflation rate since May of 2011, as prices rose at a faster pace in six of the eight major components in July, with shelter prices (4.8%) contributing the most to the all-items increase. Excluding gasoline, the CPI increased 2.8%. On a monthly basis, the CPI rose 0.6% in July, the fastest pace since January 2021. (Source:

<https://tradingeconomics.com/canada/inflation-cpi>). The following table shows the rise of CPI in 2021.

## 2021 CPI and Inflation Rates for Ontario

This table shows the monthly All-Items Consumer Price Index (CPI-U) and annual inflation rates for Ontario in 2021. You can find upcoming CPI release dates on our [schedule](#) page. These numbers are released by *Statistics Canada*.

Month	CPI	Monthly Inflation Rate (%)	Yearly Inflation Rate (%)
January	139.5	0.5	1.1
February	140.2	0.5	1.1
March	141.1	0.6	2.2
April	141.8	0.6	3.3
May	142.6	0.6	3.7
June	143.1	0.4	3.2
July	143.7	0.4	3.5
Annual	141.714	0.514	2.586

Source: <https://inflationcalculator.ca/2021-cpi-and-inflation-rates-for-ontario/>

Given that both June 2021 CPI as well as the annualized CPI to date for 2021 are 3.2% and 2.58% respectively, staff is recommending maintaining cost-of-living adjustment (COLA) for the non-union employees at the same level as 2021 COLA adjustment of 2%. Council does have the discretion to provide further direction to staff in the matter.

### 5. Annual Contribution to Capital Budget

A 10-year capital budget and forecast will be prepared that will identify the investment required to support the anticipated growth in the community as well as the Town's infrastructure maintenance and rehabilitation needs. The starting point for preparing the 2022-2031 budget and forecast will be the 10-year forecast presented and approved in principle through the 2021 budget process. Investing in new and expanded infrastructure has a significant financial impact on future operating budgets and tax levies. Capital investment in local infrastructure that is constructed by developers and assumed by Towns through new developments also results in ongoing incremental cost. Maintaining a robust Capital Budget funding envelop through incremental increases help support the Town's infrastructure maintenance and rehabilitation needs.

Council provided direction to maintain contribution to capital budget at the same level as 2019 budget or \$2.6M for the foreseeable future. Therefore, no further direction is required from Council for the 2022 budget cycle. It is worthwhile to note that Council will require to revisit \$2.6M levy commitment to capital budget

once the 2022 Asset Management Plan is completed. The plan will provide updated information on Town's assets, level of service and funding requirements for future budget years (2023 onwards).

## **6. Annual Contribution to General Capital Reserves**

Reserves are effective resources set aside to provide financial flexibility for current and future capital needs to buffer sharp tax increases. Sensitivity analysis is required to ensure adequate reserve levels are maintained on an annual basis. Adequate Capital Reserves ensure stable and predictable levies; safeguard and optimize existing assets thereby reducing service level interruptions and provide for balance sheet stability and flexibility. To that end, that Town will maintain contribution to reserves at an optimal level matching previous years' budget. Therefore, no further direction is required from Council for the 2022 budget cycle. The Town will have a better understanding of its optimal level of capital reserves contribution once the 2022 Asset Management Plan is completed in July 2022 as part of O. Reg 588/17 mandate.

## **7. Predictive Sources of Grants for Capital Budget**

- a. Gas Tax: Federal and Provincial funding envelop and allocation for Gas Tax remain unaffected in 2022. Council will note that as of June 29, 2021, the Gas Tax Fund has been renamed the Canada Community-Building Fund (CCBF). This name change better reflects the program's evolution over time and will not alter or modify the objectives or requirements of the program (source: <https://www.infrastructure.gc.ca/plan/gtf-fte-eng.html>).
- b. Ontario Community Infrastructure Funding (OCIF): At the time of writing this report, the province has not released information on 2022 OCIF funding levels. Historical OCIF funding for the Town has been \$800K (approx.) for the past 3 years. Staff will assume that 2022 OCIF funding levels will remain consistent with 2021 funding levels of \$816K. When more information is known, it will be communicated to Council in future budget meetings.

## **8. Projected 2022 Phased-in Assessment and Real Growth**

A key highlight of the Ontario government's 2021 budget was the announcement that property assessments under the Municipal Property Assessment Corporation (MPAC) will be frozen again in 2022. In last year's budget, the province froze assessment values for the 2021 tax year in response to the COVID-19 pandemic. All property assessments will remain at the value and level they were assessed at for the 2020 tax year until 2023. Presumably, the new assessment values will begin to be phased in at that time.

The Assessment Act requires that MPAC reassess all property values every four years based on the current value assessment (CVA) system. CVA is defined as the amount of money a property would realise if sold at arm's length by a willing seller to a willing buyer. The province established a phase-in of assessment valuation increases to provide a greater level of stability and predictability and avoid significant fluctuations in assessment values resulting from annual valuation changes. Mandatory phase-in requires that increases in assessed value be distributed equally over four years, while decreases are applied immediately. January 1, 2016 was the most recent valuation date which phases-in increases over the 2017 – 2020 property tax years.

The delta between year over year phased in assessments resulting from reassessments every four year along with new assessment growth helps mitigate annual budgetary inflations. While new growth for 2021 will still be reported by Municipal Property Assessment Corporation (MPAC), the postponement of reassessment of existing assessment base for the Town of Orangeville continues to accrue budgetary pressures.

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## Strategic Alignment

### Orangeville Forward – Strategic Plan

Priority Area: Strong Governance

Objective: Financial Responsibilities

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## Notice Provisions

Not Applicable

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## Financial Impact

There are no direct financial implications from the recommendations in this report.

Respectfully submitted

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**Attachment(s):** Not Applicable