

DATE: February 28, 2013

REPORT TITLE: **LONG TERM FINANCIAL PLANNING STRATEGY**

FROM: Norma Trim, Chief Financial Officer and Commissioner of Corporate Services

RECOMMENDATION

That the Long Term Financial Planning Strategy as outlined in the report of the Chief Financial Officer and Commissioner of Corporate Services, dated February 28, 2013, titled "Long Term Financial Planning Strategy", be approved;

And further, that the proposed actions recommended by staff in the subject report be endorsed.

REPORT HIGHLIGHTS

- The Long Term Financial Planning Strategy ("the Strategy") is required to ensure the long term financial sustainability of Peel's services as its growing and evolving community puts increased pressure on services while being more resistant to tax increases.
- The Strategy builds on existing financial planning practices and applies a more disciplined, comprehensive and integrated approach that identifies and manages the risks to the Region of Peel's long term financial sustainability.
- The Strategy is founded on balancing the three pillars of sustainability; Financial Sustainability, Financial Vulnerability and Financial Flexibility which are supported by nine financial principles
- To determine if the pillars are balanced, Peel's current state will be assessed against desired states identified for each of the nine financial principles
- Each year, Regional Council will be provided with a Financial Condition Scorecard that shows how the Region of Peel is doing against the desired states, the risk to those desired states and if there are any proposed actions or mitigation strategies
- The Region of Peel's first Financial Condition Scorecard shows that overall, the Region is financially healthy which is supported by its Triple "A" credit rating
- The Financial Condition Scorecard has also identified five areas where actions or strategies are proposed to mitigate future risks to the Region of Peel's financial sustainability

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LONG TERM FINANCIAL PLANNING STRATEGY**DISCUSSION****1. Background**

In 2011, Regional Council approved the development of a long term financial planning strategy as one of its Term of Council Priorities. The purpose of the strategy is to ensure the long term financial sustainability of Regional services and maintain its high quality credit rating.

Peel is facing a changing environment with slow economic growth, continued population growth, changing demographics, specifically the aging population, changing land use through intensification and increased regulation and legislation that put pressure on program and service delivery. This is occurring at the same time as taxpayers are looking to governments to do more with less resources creating an environment where there is little appetite for tax increases.

To address the increasing financial pressure that Peel's growing and evolving community is putting on its services and programs, the Long Term Financial Planning Strategy was developed. The Strategy builds on existing financial planning practices and applies a more disciplined, comprehensive and integrated approach that identifies and manages the risks to the Region of Peel's long term financial sustainability.

To support the Strategy, a financial model has been developed that allows staff to forecast 10-year tax and utility rate impacts. The model reflects the Region of Peel's existing financial policies, the operating impacts of future capital projects, planned debt levels and is driven by forecasts for population growth, employment and demographic changes.

The Strategy and model will enhance Regional Council's ability to make difficult decisions on policies, services and service levels by:

- Providing the long term financial impact of these decisions
- Identifying emerging trends earlier; and
- Understanding how and when decisions will change the organization's financial condition

Utilization of the Strategy and model will reassure the residents of Peel that Council and staff are taking a disciplined and integrated approach to managing risk and maintaining the Region of Peel's long term financial condition.

2. The Long Term Financial Plan Strategy Overview

As mentioned earlier, the outcome of the Strategy is to ensure long term financial sustainability of Regional services and continuation of the Region's high quality credit rating. The Long Term Financial Planning Strategy is founded on balancing the three pillars of sustainability that are supported by the Canadian Institute of Chartered Accountants;

1. Financial Sustainability
2. Financial Vulnerability
3. Financial Flexibility

These fiscal pillars are taken into consideration by agencies such as Moody's and Standard & Poors to determine the Region of Peel's credit rating. Collectively these three pillars will

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provide a holistic perspective of Region of Peel's financial condition. Each of the pillars of sustainability is defined below.

1. **Financial Sustainability** is the Region of Peel's ability to provide and maintain planned service and infrastructure levels without resorting to unplanned increases in rates or disruptive cuts to services. Financial sustainability is the Region of Peel's stability.
2. **Financial Vulnerability** is the amount in which the Region of Peel is dependent on external funding sources that it can not control; it is the level of risk that could impact the ability to meet existing financial obligations and commitments, including the delivery of Regional services. Financial vulnerability is how vulnerable the Region of Peel is to other sources of funding.
3. **Financial Flexibility** is related to debt and taxes, it is the Region of Peel's ability to change either debt levels or taxes to meet financial obligations. Flexibility is whether or not the Region of Peel has the ability to issue debt responsibly without impacting the credit rating or the ability to generate needed revenues.

The Region of Peel's strong financial position is maintained when a balance between financial sustainability, financial vulnerability and financial flexibility is achieved. To implement the pillars of sustainability, nine Financial Principles have been developed.

Financial Principles:

1. Respect for the tax and utility rate payers
2. Ensure the capital plan is sustainable
3. Maintain assets
4. Deliver value for money
5. Users pay where appropriate
6. Work with area municipalities to maintain economic viability of the community
7. Make prudent investments
8. Maintain flexibility to mitigate volatility in rates
9. Borrow only for substantial long term assets at affordable levels

Each Financial Principle addresses a specific financial aspect such as debt, reserve adequacy, and investments. No one principle is more important than another. They are to be used in an integrated fashion to achieve overall financial health and sustainability.

These principles will guide Regional Council and staff when making decisions related to service and program planning; will be used in an integrated fashion to help balance the three fiscal pillars; and are reflective of direction provided by Regional Council over the past few years. For a more detailed description of the financial principles refer to Appendix I.

3. Measurement of the Long Term Financial Planning Strategy

Monitoring and reporting is a critical element of the execution of a strategy. As mentioned earlier, long term sustainability is achieved when Financial Sustainability, Financial Vulnerability and Financial Flexibility are balanced. To determine if the pillars are in balance, Peel's current state will be assessed against desired states for the nine Financial Principles.

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A Financial Condition Scorecard (Appendix II) has been developed that uses key financial performance indicators for each desired state. The scorecard shows three key pieces of information;

- The indicator for each Financial Principle
- How Peel's current state compares to each indicator
- If any actions or mitigation strategies are proposed

Results of the financial condition assessment will identify the need to review the financial strategy and policies that Regional Council has put in place for either adjustments or confirmation. Staff continues to work with the area municipalities in developing financial indicators that strive for consistency when measuring the overall financial condition.

4. Assessment of the Region of Peel's Financial Condition

The Region of Peel's first Financial Condition Scorecard (see Appendix II) shows that its overall financial condition is healthy and this is supported by Peel's current Triple "A" credit rating. Staff is confident that Peel's overall financial condition will be validated again at the next credit rating assessment.

Regional Council has a track record of strong financial management and has put in place a number of elements to protect the Region of Peel's financial sustainability and maintain a Triple "A" credit rating. Decisions such as the 1% infrastructure levy, the recent introduction of an annual DC rate adequacy assessment and the decision to undertake a study of employment trends in Peel are some examples of how Council's decisions are contributing to maintaining Peel's financial condition.

Although there is no change to the Region of Peel's financial condition, staff has identified three areas where the desired state was not achieved. The three areas are:

1. Forecasted Tax rate increases are in line with inflation
2. Sufficient tax reserve levels to support non-DC funded capital plan
3. Sufficient utility rate reserve levels to support non-DC funded capital plan

Proposed actions to achieve the desired state for the three areas identified above include:

- Setting 2014 Budget targets for all tax supported programs - (refer to companion report entitled "Approach to the Development of the 2014 Budget" presented on the April 11, 2013 Regional Council agenda)
- Continuing to manage the sustainability of the tax-supported capital program by increasing the tax reserve contributions or reducing the capital plan
- Continuing to manage the sustainability of the utility-supported capital program by increasing the utility rate reserve contributions or reducing the capital plan

The results of the financial condition assessment also identified two areas where the risk of not achieving the desired state is increasing. These areas are:

1. Declining working fund reserves due to the moderate increases to the total tax operating budget
2. Debt levels increasing faster than overall cash levels

Proposed actions to mitigate the risk to the Region of Peel's financial condition for the two areas identified above include:

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- Undertaking a review of the reserve management policy to determine whether we have the right level of working funds, special and capital reserves to support the current risk profile of the Region's program and services.
- Developing a cash management policy to ensure that capital spending is in-line with expected DC revenues and capital reserve contributions.

In addition to the above proposed actions and strategies, there are a number of significant actions in place or proposed to mitigate the risk to the Region of Peel's financial condition such as the development of Cash Management and Reserve Management policies (see Appendix III for a more detailed list).

Reporting of the Long Term Financial Planning Strategy

Staff will report annually on the Region of Peel's overall financial condition and request Council's endorsement of the recommended actions to ensure the desired state is met and the risk to the credit rating is mitigated. This report will be presented to Regional Council every spring and can serve as an input into the budget planning cycle.

Throughout the year, as significant policy reports dealing with service or service level changes are brought before Regional Council, staff will provide an assessment of the impact of the strategy on the recommendations in those reports including a forecast of the long term financial impact, the potential risk to the Region of Peel's credit rating if any and if there are any approved policies with significant financial impacts occurring at the same time.

In 2013, Council will be presented with a Cash Management Policy, Reserve Management Policy, Capital Asset Management Policy as well as the results of the employment trends study.

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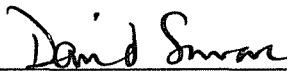
CONCLUSION

The Long Term Financial Planning Strategy represents the continued evolution and enhancement to the Region of Peel's existing long term financial planning practices. Long term financial planning will now be an integrated, comprehensive and more structured approach that identifies and manages the risks to the Region of Peel's long term financial sustainability. The annual evaluation of the strategy will provide additional assurance to the public and credit rating agencies of the strong focus by both Regional Council and senior management on the Region of Peel's financial sustainability and overall financial condition.



Norma Trim
Chief Financial Officer
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Approved for Submission:



D. Szwarc, Chief Administrative Officer

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c. Legislative Services

Long Term Financial Planning Strategy – Financial Principles

1. **Respect the tax and utility rate payer** – meaning the Region of Peel will strive to achieve reasonable and responsible tax and utility rates and ensure Regional Council's highest priority programs (both capital and operating) are maintained
2. **Ensure the capital plan is sustainable** – where reserves and reserve funds should be funded to the levels required for their purposes, capital expenditures are reviewed in context of affordability, and the operating impact of capital is sustainable and affordable
3. **Maintain assets** – refers to infrastructure being replaced when it can be demonstrated that the replacement cost and subsequent maintenance cost are less expensive than maintaining the existing asset in a state of good repair over the same period of time
4. **Deliver value for money** – is a principle that will push the Region of Peel to continuously find efficiency and quality improvements in the way it manages and delivers services, and to seek out innovative approaches to financing services, like the use of P3s and shared services, including outsourcing
5. **Users pay where appropriate** – this principle is focused on how and when user fees are utilized and the principle of growth pays for growth
6. **Work with area municipalities to maintain economic viability of the community** – to ensure that the Region of Peel continues to be a desirable area to live, work and play
7. **Make prudent investments** –the Region of Peel will maintain a conservative portfolio which does not compromise safety of principal and maintenance of liquidity in order to maximize investment returns
8. **Maintain flexibility to mitigate volatility in rates** – through the use of the working funds the Region of Peel can implement techniques to smooth and maintain our tax and utility rates
9. **Borrow only for substantial long-term assets at affordable levels** – this principle is related to debt, how the Region of Peel services its debt, what debt can be issued for and ensuring actions do not negatively affect the credit rating

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 Long Term Financial Planning Strategy

Appendix II

Peel's Financial Scorecard

Financial Principles	Indicator	Assessment	Detail on Action
Overall Financial Condition	High level credit rating	Triple "A" On Track	
Sustainability <ul style="list-style-type: none"> ■ Respect the tax payer ■ Maintain Assets ■ Ensure capital plan is ■ Deliver value for money 	Tax rate in line with inflation	Action recommended	Set targets for all tax-supported capital programs
	Adequate Capital Reserves - Tax	Continued Action required	Council continue to increase the tax reserve contributions or reduce the capital plan
	Adequate Capital Reserves - Utility	Continued Action required	Council continue to increase the utility rate reserve contributions or reduce the capital plan
	Focus GTA Survey - Value for Tax	On track	
Vulnerability <ul style="list-style-type: none"> ■ Users pay where appropriate ■ Work with area municipalities to maintain economic viability of the community ■ Prudently invest 	Less than 20% DC rate increase required	On track	
	Less than 50% of Budget funded by property tax	On track	
	Non-residential tax revenue - 35% to 45%	On track	
	100% compliance with investment policy	On track	
Flexibility <ul style="list-style-type: none"> ■ Maintain flexibility to mitigate volatility in tax and utility rates ■ Borrow only for substantial long-term assets at affordable rates 	Adequate working fund reserves - 5% to 10%	Action recommended	Undertake a review of reserve management policy to determine whether we have the right level of working funds to support the current risk profile of Regional programs and services.
	Adequate cash to fund 12 month debt payments	Action recommended	Develop cash management policy to ensure that capital spending remains in-line with DC revenues and capital reserve contributions
	Adequate stabilization reserves - 5% to 10%	On track	
	Annual debt payments <25% own source revenue	On track	

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Actions in place or proposed to mitigate the risk to the Region of Peel's financial condition include:

- Continuing to monitor debt and investment decisions to ensure compliance with policy.
- Developing an appropriate annual Development Charge update and reporting process.
- Developing a corporate asset management policy which formalizes the risk-based approach the Region applies to state of good repair decisions.
- Continuing to advocate the federal and provincial governments to institute increased permanent and sustainable infrastructure funding
- Implementing enhanced capital project reporting to provide better information on the accuracy of capital budgets including appropriate contingency levels.
- Understanding the financial implications of servicing growth when decisions are made to allocate additional population and employment numbers.