



September 12, 2022

MEMO TO : Park Board Commissioners

FROM : Donnie Rosa - General Manager, Parks and Recreation

SUBJECT : **2023 Budget Outlook – Board Briefing Memo**

Dear Commissioners,

The purpose of this memo is to provide the Board with a Budget Outlook for 2023. It provides an overview of the financial landscape to be considered for the next budget cycle, including external factors, and a review of the key revenue and expense drivers. The memo also provides information on the timing and approach for the development of the 2023 Budget and service plans, given the upcoming municipal election and potential for changes to Park Board priorities for the next Board term.

The 2023 Budget will be developed in an environment of continued service and financial impacts to the City due to the pandemic. The recent increases in inflation experienced around the world will also impact the City's financial outlook. The largest component of the Park Board budget is staffing costs and the pending renegotiation of collective agreements for staff adds a layer of uncertainty to the financial outlook. Recreation revenues have increased from pandemic lows as restrictions have opened up, but will not fully recover to pre-COVID-19 levels in 2022 as originally planned. These revenues are expected to continue to grow in 2023 as economic growth continues, however, there remains a risk that some revenues may take a number of years to recover. The combination of these factors means that financial prudence will need to be a consideration when developing the 2023 budget. Staff will work to maximize the delivery of services and project outcomes from within the current resourcing levels. Financial risks will be managed by establishing appropriate levels of contingency and phasing of deliverables. Staff will be seeking direction from the incoming Board regarding service delivery priorities.

The 2023 budget process timeline and approach will reflect the municipal election and provide an opportunity for the incoming Board to consider resource allocation for 2023. Staff will present a current state budget to Park Board and City Council in December, to ensure smooth operations of Parks and Recreation in the New Year. Over the first quarter of 2023, staff are anticipating detailed engagement with the Board and City Council regarding priorities and any associated budget adjustments, as well as engagement with the public, to inform the determination of a final budget for 2023 in advance of the statutory deadline of April 30.

Background/Context

The Budget Outlook is an important step in the budget process to provide the Park Board, City Council and the public with information about the financial landscape that will inform the budget development process. In the fall, post-election, this Budget Outlook will be followed up with further updates to Park Board and Council, public consultation and the development of detailed budgets and service plans.



The 2023 Budget Outlook provides an overview of the financial landscape going into the next budget cycle, including external factors, the current 2022 budget forecast, and a review of the key revenue and expense drivers. The Outlook also provides Park Board with the principles and approach that will be used in the development of the 2023 budget. The outlook initiates the budget process, however, specific budget decisions are not made at this time, to allow for development of service plans and options.

In October 2022, as a result of the Municipal Election, a new Board will be formed. A similar priority setting process is planned for early 2023 where Council will establish a set of objectives to help guide City staff in the development of the 2023 Budget, Services Plans and Five-year Financial Plan. Staff will work to align services and initiatives to these priorities as departmental service plans and budgets are developed through the Park Board term. This will involve existing project, ongoing work and any new initiatives triggered as a response to Park Board motions and direction.

2023 Budget Process

The 2023 Budget Process considers the impacts of an election year and will focus on presenting a current state budget to the newly elected Park Board in November 2022. The current state budget represents existing resources and service levels with no new investments. This budget will include fixed and contractually obligated costs of Parks and Recreation, and reflective of inflationary costs at current resource levels.

Where Park Board staff have previously worked with the City to identify resource needs to propose to Council for new investment as part of the 2023 budget process, those items will be identified as additions to the current state budget that could be funded through increases to property taxes and fees or through trade offs directed by Park Board and Council. Staff intend to have current state budget to be presented to Park Board in November with a list of investment asks that will be going forward to Council in Q1 of 2023.

Provided the incoming Board is prepared to adopt the proposed current state budget to enable continuity of operations beyond January 1, 2023, Park Board staff are planning to engage with City staff and Council in early 2023 to seek direction on any adjustments to the current state budget. Such adjustments could include reprioritizing City service plans through the year reallocating resources within the budget and/or adjustments to the final tax rate increase by April 2023.

Park Board Staff will also be seeking Board direction to guide a multi-year financial planning approach aligned to the new Board term. As far as possible, staff will be recommending that the Park Board plan for the implementation of policy and service priorities over a four-year horizon, based on a sustainable multi-year financial plan to resource that work. This longer-term view will ensure Park Board's ability to manage expense levels over time, to sustain and grow revenues and to achieve a balanced operating budget each year.



The 2023 Budget process will follow a number of key steps as outlined below:

Budget Process Step	Date
Budget Outlook Memo - Overview of financial landscape and budget process	Sep 2022
Current state Budget and Service Planning briefing	Nov 14, 2022
Current state Budget and Service Plans - Park Board vote	Nov 28, 2022
Draft current state Budget presentation to Council	Dec 6, 2022
Final Council Budget vote	Dec 13, 2022
Priority setting with new Park Board	Jan - Feb 2023
Priority setting with new Council	Jan - Feb 2023
Public engagement	Jan - Feb 2023
Approval of any adjustments to 2023 Budget and final property tax rates	Mar 2023

External Landscape Impacting the 2023 Budget

The global economic environment has changed significantly over the past year, as countries throughout the world reopened from COVID-19 restrictions. Strong economic growth, low levels of unemployment, and pent up demand from the pandemic combined with war in Ukraine and continued global supply chain disruptions, have resulted in growing inflationary pressures and an environment of increasing interest rates not seen for many years. While growth is expected to continue into 2023, the risk of a recession has increased. The approach for building the 2023 Budget will need to take into consideration the significant economic uncertainty in the year ahead.

The impacts of COVID-19 continue to impact the Park Board budget in a number of ways such as higher demand on our Parks and Open Spaces. Over the past year, the Vancouver region experienced a number of severe weather events, including extreme heat, cold and flooding. This trend will continue to result in increased pressure on our resources such as spray parks and Recreation centres which act as cooling centres. It also puts pressure on our infrastructure and reinforces the urgency and importance of investing in infrastructure renewal and resilience.

As part of building the Budget Outlook, staff have reviewed economic forecasts from a variety of external organizations, including the Conference Board of Canada, and the provincial and federal governments. The Consumer Price Index (CPI) for Metro Vancouver has recently increased to an annual rate of 7.7% as of July 2022, and the Bank of Canada has signalled an intention to raise interest rates in order to bring inflation back down to within the target range of 1 to 3 per cent. Over the past 20 years, CPI has averaged 1.7% and has not exceeded 2.7%. The Conference Board of Canada CPI forecast for the period of 2023-2026 is currently around 2%. As the forecast is updated in fall 2022, staff will reflect it the 2023 budget build process.



Inflation in a number of sectors has been well above the CPI inflation rate, with considerable impacts to the Park Board's budget. Supply Chain Management has seen considerable cost escalations across different procurements, since start of 2022. Construction materials have seen considerable increases in prices in 2022. Fuel costs have risen sharply, which has compounded the inflationary pressures. Inflationary pressures are also beginning to have an impact on compensation trends across the public and private sectors in Canada. At this point, the implications for the City in this regard are unclear.

2023 Operating Budget Outlook

The Vancouver Park Board continues to experience financial impacts as a result of COVID-19. The 2023 Budget Outlook estimates that all revenues have recovered to pre-pandemic levels as a result of the re-opening and release of Public Health Orders (PHO) in early 2022. However, there is still potential for revenue shortfalls resulting from slower economic recovery than anticipated. Fuel costs are estimated to increase significantly in 2023 as prices of crude oil remain high in relation to current market trends. Other known cost pressures that will impact the 2023 budget included fixed cost increases that exceed the rate of CPI inflation i.e. WorkSafe BC premiums, insurance, and funding for infrastructural renewal as identified in the 2023-2026 Capital Plan, to name a few.

Park Board staff are taking a balanced approach to mitigating the continued impact of COVID-19 including actions such as cost containment, utilizing reserves and monitoring impacts on 2023-2027 Budget Outlook.

Program fee revenues are estimated to increase by 3% and are consistent with actual increases in service costs. Shortfalls in non-tax revenues, including program fees are a risk as we plan for 2023. Staff will continue to monitor the recovery of these revenue streams based on the economic recovery. The impact on the 2023 budget will be addressed through the 2023 budget process.

The outlook for 2023 show higher estimates in fixed costs, wage expenses and fringe benefits. Fringe benefit costs have increased during 2022 as a result of Canada Pension Plan and WorkSafe BC rates; however, total wage impacts are unknown at this time as they are significantly dependent on the terms of future collective agreement settlements.

As of January 1, 2023, all collective agreements between the City, and thus the Park Board, and the bargaining agents representing unionized staff will have expired. The results of the Collective Agreement negotiations will have a major impact on the city's budget, however the impact is uncertain.

Risks

The following are a number of risks that may impact the City's financial revenue or expenses. These will be considered over the next months as the 2023 budget is developed.

- Uncertainty related to the ongoing impact of COVID-19, including but not limited to recreation revenue resulting from slower economic recovery than anticipated;



- Impacts of senior government policies on local conditions, such as income assistance rates, health system responses to complex mental health issues, and homelessness response;
- Compensation costs arising out of collective bargaining; and
- Price increase in supplies and materials used in Parks and Recreation operations.

Capital Budgeting and Planning

The 2023-2026 Capital Plan was approved by Park Board on June 28, 2022 and Council on June 29, 2022 for a total amount of \$539 million broken down as follows:

- \$208m Parks and Open spaces;
- \$329m Recreation facilities; and
- \$2m service yards.

2023-2026 Capital Budget Allocations

2023 will be the first year of the 2023-2026 Capital Plan. The main driver for the 2023 Capital Budget allocations will be the funding required towards the initial phases such as planning/scoping for one-time projects and for ongoing programs.

The 2023 budget will be focused on delivering what we have already started. As a result, the focus will be on finishing the projects that were requested as part of the 2019-2022 Capital Plan.

As a result of the ongoing global supply chain pressures and inflation, the Park Board is facing challenges with timely project delivery and unanticipated cost escalation on major projects. In order to mitigate the impact, staff are focused intensely on expediting project delivery and managing cost escalation through improved efficiency and reallocation within the approved capital plan funding envelope.

Conclusion

The 2023 Budget Outlook provides an overview of the financial landscape facing the Park Board at the start of the 2023 Budget Process. While there are many positive signs of recovery, there continue to be financial risks and pressures on city services which will make 2023 a challenging budget year.

The 2023 Budget Process considers the impacts of an election year and will focus on presenting a current state budget to the newly elect Park Board in November 2022. The current state budget represents only existing resources with no new investments. Park Board and Council will be engaged in early 2023 to determine priorities with an opportunity to make further adjustments to the current state budget, including reprioritizing service plans through the year, and adjustments to the final tax rate increase by April 2023.



VANCOUVER
BOARD OF
PARKS AND
RECREATION

Regards,

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

Donnie Rosa (*they/she*)
General Manager - Parks and Recreation

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Copy to: PB Leadership Team
Financial Planning & Analysis
PB Communications