

STRATEGIC INITIATIVE AND UPDATE**Budget 2024 – Initial Update****Report Purpose**

To provide Council with an update on Budget 2024.

Our Strategic Goals

Governance Requirement

N/A

Report

In every budget cycle, there are unique and sometimes significant factors, opportunities or challenges that contribute to the overall budget submission. Administration is bringing forward an update to inform Council of the holistic factors that have informed the development of the 2024 budget.

Economic Pressures and Inflation

On a global level, supply chain challenges and international conflicts continue to impact the world economy. Natural gas and electricity markets continue to fluctuate, and the carbon tax and delivery charges continue to escalate prices across the board.

Similar to last year, inflation continues to be a significant factor in this year's budget. Generally, inflation analysis focuses on the Consumer Price Index (CPI), although this year the Building Construction Price Index (BCPI) analysis is highly relevant. CPI was very central to last year's budget, as numerous inflation factors across nearly all sectors impacted the global economy.

While CPI inflation is trending down over the last 12 months, the downward trend only shows that inflation is not as high as it has been in the last year, and prices are still increasing; prices only decrease in a period of negative inflation. CPI continues to be higher than normal, with year-on-year inflation currently at 4.49% and 4.05% for Alberta and Edmonton respectively, and the last few months have been volatile, with CPI rates fluctuating by nearly 3%.

BCPI has been extremely volatile over the last few years, with 2021 and 2022 coming in at 12.9% and 9.7% respectively, which is leading to significantly elevated capital costs compared to historical trends. Current year-on-year BCPI inflation is 4.6% for non-residential buildings. However, as stated previously there has been no reduction in inflation, so the 4.6% is in addition to the 12.9% and 9.7% inflationary increases, thus presenting a significant unfavourable reality for the capital program.

National banks continue to try and bring inflation under control, particularly in North America. The primary method of control is through setting borrowing interest rates. Interest rates are currently high, between 5% to 6%, and this has both a positive and negative effect on the County's budget. We are seeing an increase to our investment income, but also significant total cost increases for borrowing for capital, both of which the debt repayments reside in the operating budget.

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As stated, the interest rate environment is elevated, inflation is heightened, but another legacy factor is the reduction in flexible grants over the years, specifically the Local Government Fiscal Framework (formerly Municipal Sustainability Initiative). Strathcona County has seen an erosion of this grant funding from the province over the years which is having a negative impact on our ability to fund our capital program. In addition, grants coming forward tend to be rigid and focused on very specific items which unfortunately do not apply to our existing capital plan and focus on new projects. All in all, our reserves are feeling significant pressures as a result.

Multi-year Budgets

As part of the 2023 Budget, Administration forecasted tax revenue requirements for 2024 to 2026 as follows:

- 2024 – 3.84%
- 2025 – 3.78%
- 2026 – 3.17%

When comparing last year's forecasted 2024 budget, there are several high-level items in which we see favourable and unfavourable impacts on the operating budget numbers.

Favourable increases include:

- Recreation revenue,
- Fine revenues,
- Investment income.

Offset by unfavourable items:

- Increased costs from vendors and suppliers,
- Utilities,
- Insurance,
- Timing, the borrowing and operating impacts for The Pointe was moved from 2024 to 2025; in turn increasing the tax requirement for 2025.

On the capital side, BCPI inflation has considerably outpaced CPI over the last couple of years, and the financial challenge is matching sustainable funding (reserve contributions from the operating budget) with the significantly elevated capital costs. Annual programs have nearly doubled in cost in the last three years while our contributions to reserve have not matched that growth. In addition to maintaining what the County already has, some significant growth opportunities have already been approved and additional opportunities are also being contemplated.

Asset Management Office

Over the last year, Administration has created the Asset Management Office (AMO), and it has generated significant benefits in its short existence. Some examples include the Transportation State of the Infrastructure has been completed (with the remaining asset categories being presented before year end), a Council capital workshop in the spring, and an approved Asset Management Policy. Another outcome of the AMO is the recommendation of a Multi-year Budget Approval, in which Administration will seek approval for the next three years of capital projects. AMO has been integral to the organization this last year identifying pressures and upcoming financial trends. Having the AMO function is enabling Strathcona County to view things proactively to allow us to better plan and ensure fiscal sustainability.

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Council Decisions

This year's budget discussion will also include several different Council decision points, including but not limited to a number of Council Directed Initiatives (CDI), a decision around Fire Station Seven building and staffing, and addressing annual program funding.

Public Engagement

A statistically valid survey on the budget was conducted earlier in the year, and while some of the responses were the same as last year, there were some interesting results. In a question to determine residents budget priority, the top two responses to budget priority were ensuring long-term fiscal sustainability (38%) and minimizing property taxes (24%). These two responses could be in direct conflict with each other, as fiscal sustainability into the future can often require tax increases in the present. Another interesting result is that 52% of respondents would support a tax increase to maintain or increase services, of which 69% would support a tax increase of at least 2%.

Other Impacts

Policy: N/A

Financial/Budget: N/A

Legislative/Legal: N/A

Interdepartmental: N/A

Master Plan/Framework: N/A

Enclosure

1 Budget 2024 – Initial Update presentation