

SEP 26 2016

ISC: UNRESTRICTED
PFC2016-0713

Page 1 of 3

ITEM: 11-3 PF C2016-0713

2016 Capital Budget Recast and Other Capital Revisions

Distribution
CITY CLERK'S DEPARTMENT

EXECUTIVE SUMMARY

To request Council's approval of the Capital Budget Recast and request Council's approval for revisions to the previously approved 2015 - 2018 capital budget.

ADMINISTRATION RECOMMENDATION(S)

That Council:

1. Approve Administration's Recast to the previously approved 2015-2018 Capital Budget, as identified in Attachment 1;
2. Approve 2015 July 1 to 2016 July 31 revisions to the previously approved 2015-2018 Capital Budget, as identified in Attachment 2;
3. Receive for information previous revisions to the 2015-2018 Capital Budget in Attachment 3;
4. Authorize Administration to make expenditures related to cash flow timing changes as outlined in the investigation section of this report and update Council Policy CFO006 to reflect new levels of approval for capital budget cash flow timing changes as identified in Attachment 5; and
5. Direct Administration to proceed with:
 - a. Recasting the 2017 capital budget by early 2017;
 - b. Repositioning the capital budget to identify funding for potential new and currently unfunded projects and return to Council at the November 2016 Mid-Cycle Adjustment deliberations; and
 - c. Recommending funding allocations for investment projects no later than when The City finalizes its 2017 property tax rate.

**RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, DATED
2016 SEPTEMBER 20:**

That the Administration Recommendation contained in Report PFC2016-0713 be approved.

Excerpt from the Minutes of the Regular Meeting of the Priorities and Finance Committee Held 2016 September 20:

"6. And further, that the Priorities and Finance Committee forward this report to the 2016 September 26 Regular Meeting of Council as an item of Urgent Business."

PREVIOUS COUNCIL DIRECTION / POLICY

Council approved the 2015-2018 capital budgets in the 2014 November 24 Special Meeting of Council (C2014-0863). Council subsequently approved amendments to the Capital Budgets contained in the 2014 Year-end revisions report (PFC2015-0347) and 2015 Mid-year revisions report (PFC2015-0697).

On 2015 November 25 Council directed that Administration return to Council by Q2 2016 with a recommended recast capital budget (C2015-0855). On 2016 June 27 Administration provided an update to Council on the recasted capital budget as part of the Update on the Investment Strategy report (C2016-0561). However, because of the volume and nature of the information,

2016 Capital Budget Recast and Other Capital Revisions

it was thought best to allow for discussion to occur at the 2016 September 20 Priorities & Finance Committee (PFC) meeting and then with Council, rather than discussing the item at a Strategic Planning meeting of Council.

BACKGROUND

Capital budget requests are made as part of the multi-year business plan and budget. As projects begin or are in progress, additional information becomes known regarding the expected timing of expenditures and confirmation of funding sources.

As a result of historically low capital spend rates and capital budgets that do not reflect anticipated cash flow, the Capital Infrastructure Investment Strategy proposed that Administration would critically examine and update (recast) cash flows. This provides improved insight into the status of capital projects across The Corporation and allows Administration to better inform Council about The City's capital plan.

The capital budget recast process engaged business units across The Corporation to provide revised cash flow forecasts and a more refined capital budget. The capital budget recast and other revisions to the capital budgets are required to reflect changes that have arisen relating to actual experience with project delivery, Council directions, and Administrative changes.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The current approved 2016 capital budget is \$3.2 billion, which comprises the 2016 approved action plan capital budget of \$1.6 billion, plus amounts carried forward as part of the budget revisions process in 2014 and 2015 totalling \$1.6 billion (\$307 million in 2014, \$456 million in 2015, and \$844 million from the 2015 year end).

Consistent with report (C2016-0561) Update on the Investment Strategy, the capital budget recast and other revisions set out in this report have resulted in a change in the 2016 budget from \$3.2 billion to a more achievable \$1.6 billion. This reflects increasing the capital investment from the annual average (over the last 5 years) of \$1.2 billion by more than 25%.

The capital budget recast details provided in Attachment 1 only reflect the cash flow timing changes which have no net impact to the total project budgets as approved in Action Plan 2015-2018. The other revisions to the capital budget include increases, relinquishments, advancements and net zero transfers from 2015 July 1 to 2016 July 31. They are presented in Attachment 2 (requiring Council approval) and Attachment 3 (for information). The net impact of the capital budget recast and other revisions (including years beyond 2016) is an increase of \$327 million to the 2015-2018 Action Plan budget as seen in the revision summary provided in Attachment 4 (\$378 million increase in Schedule A and a \$51 million decrease in Schedule B). Included in these revisions are transfers to the Capital Budget Savings budget program of \$95 million.

The capital budget recast exercise highlighted a concern among business units about the ability to advance capital budgets or spend more than the current year adopted capital budget if a project is proceeding quicker than expected. Business units often front-end their budgets and carry forward any unspent budget amounts to future years to avoid exceeding the adopted capital budget for the current year. As indicated by the revisions above, the capital budgets do not always reflect business units' anticipated spend in a given year.

2016 Capital Budget Recast and Other Capital Revisions

In order to facilitate the timely, efficient and cost effective delivery of services and capital infrastructure, it is important that Administration have the flexibility to authorize cash flow changes for capital projects within the Council approved multi-year business plans and budgets.

The current Budget Reporting Policies (CFO006) states that The City Manager and General Managers can authorize net departmental over-expenditures of up to \$200,000. There is no change in this \$200,000 authority for cost estimate changes being proposed in this report. Cash flow timing changes do not have a net impact on the total project budgets approved by Council in the multi-year business plans and budgets. As such, Administration recommends updating the existing policy to reflect the additional authorization levels below that would be limited to cash flow timing changes related to capital budgets (Attachment 5):

- The Corporate Budget Officer or Corporate Budget Office Manager can authorize cash flow timing changes up to \$100,000 per project per calendar year
- Directors can authorize cash flow timing changes up to \$1 million per project per calendar year
- General Managers can authorize cash flow timing changes up to the greater of \$5 million or 10% of the total capital project amount approved in the multi-year business plans and budgets, up to a maximum of \$15 million per project per calendar year
- The City Manager, Chief Financial Officer and Deputy City Manager together can authorize cash flow timing changes up to the total capital project amount approved in multi-year business plans and budgets

These proposed approval limits will provide Administration with the authorization to make expenditures that are included in the Council approved multi-year business plan and budget but not necessarily included in the yearly adopted capital budget. This increased flexibility will assist with improving the accuracy of budget timing and overall cash flow planning. All amounts approved by Administration will be reported to Council for information as part of an annual reporting process. Next steps this year will be to reposition the capital budget to identify funding for potential new and currently unfunded projects and return to Council at the November 2016 Mid-Cycle Adjustment deliberations.

Stakeholder Engagement, Research and Communication

Department budget actions are predicated on directions received from Council during the 2015-2018 Action Plan deliberations. Actions also reflect current Council directions and actual spending patterns. Capital project owners across The Corporation were engaged for their insights and cash flow estimates to update the capital budget recast.

Strategic Alignment

The Budget Adjustment process is designed to maintain the direction and priorities established in the approved 2015 – 2018 business plans and budgets. The Adjustment process allows Administration to adapt to changes in economic conditions and the external environment and allow long term objectives to be met and support Council's priorities of a Well Run City and a Prosperous City.

Social, Environmental, Economic (External)

The economic situation has significantly weakened in Calgary from the time Action Plan was approved in 2014 November. Recasting the capital budget and identifying contingencies that

2016 Capital Budget Recast and Other Capital Revisions

can be released provides council and citizens with more up to date information regarding the activities of The City and a more refined estimate of the actual spending that is expected for each year.

Financial Capacity

Current and Future Operating Budget:

There are no net operating budget impacts identified in this report.

Current and Future Capital Budget:

Capital budget Recast and revisions to the 2015-2018 Action Plan are requested for approval in this report. Administration is requesting approval of additional authorization levels relating to capital budget cash flow timing changes.

Risk Assessment

From an Integrated Risk Management perspective, the most significant risks are internal capacity and the economic situation in Calgary. The City will need to ensure that there is sufficient capacity to implement all of the capital projects. Leaving the capital budget as is represents a high likelihood that capital funds will remain unutilized. From an economic perspective, the changes in the economy could continue to put additional pressures on The City.

REASON(S) FOR RECOMMENDATION(S):

Administration is providing Attachments 1, and 2 to ensure timely alignment of cash flow with the work plans and priorities. Attachment 5 is providing the proposed update to Council Policy CFO006 to authorize Administration to make capital budget cash flow timing changes for projects approved within the approved multi-year business plan and budget.

ATTACHMENT(S)

1. Capital Budget Recast Requiring Council Approval
2. Capital Budget Revisions Requiring Council Approval - from 2015 July 1 to 2016 July 31
3. Previously Approved Capital Budget Revisions - for Information
4. Capital Budget Revision Summary
5. Budget Reporting Policies (CFO006) updated with proposed revisions