

INVESTMENT OPTIMIZATION PROGRAM IMPLEMENTATION PLAN

EXECUTIVE SUMMARY

On 2017 March 06 (Council report C2017-0214), Council approved in principle, Administration's recommended capital investments which provide short term economic stimulus, add resilience to the community, maintain and preserve The City's existing infrastructure and community assets through lifecycle funding, build a great community through legacy investments, and leverage public and private investments. As one of these approved in principle recommendations, the Investment Optimization Program (IOP) is a program that will enable improved decision making on specific capital investments, and fund corporate capital programs that improve efficiency and effectiveness of project delivery in advance of the next business cycle. Other benefits include, but are not limited to improving the accuracy of the cost estimates for specific capital projects; validation and increased clarity of project scopes and performance expectations in advance of requesting budget and funding; improved identification of resource planning requirements; and allocation of funding towards investments that increase efficiencies in The City's capital portfolio. Proposed as an initial pilot, the IOP enables the acceleration of early capital investment deliverables to facilitate better decision making and prioritization, and improve financial estimates.

Funding is from existing available corporate capacity as identified by Infrastructure Calgary, the budget approval for the program/project outlined will have no net impact on the tax rate.

ADMINISTRATION RECOMMENDATION(S)

Administration recommends that Council:

1. Receive for information the Investment Optimization Program implementation plan in Attachment 1.
2. Approve capital budget as per Attachment 2 to be funded by corporate capacity identified by Infrastructure Calgary.
3. Direct that Attachment 2 be heard in-camera and remain confidential, pursuant to sections 23(1)(b), 24(1)(a) and 24(1)(g) of the *Freedom of Information and Protection of Privacy Act*, until all implementation plans are approved by Council and the contract(s) for the project(s) considered in this report are awarded, unless it is determined by the Directors of Supply and the responsible business unit to be appropriate to release budget information in advance of the contract(s) being awarded.

PREVIOUS COUNCIL DIRECTION / POLICY

At its 2017 March 06 Strategic meeting, Council adopted report C2017-0214 which included the following direction:

"Direct Administration to return with implementation plans, including refined capital estimates, public consultation plans and financing strategies, to the Priorities and Finance Committee or the appropriate Standing Policy Committee as soon as possible for final approval by Council."

Prior to receiving the direction above, as part of the Action Plan Mid Cycle Adjustments report to Council on 21 November 2016, Council approved the Capital Investment Plan and authorized the Deputy City Manager to continue to identify capital funding sources, including allocations and efficiencies from existing capital budgets and to transfer funds to the Budget Savings

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Account. The Deputy City Manager was directed to return to Council no later than Q2 2017 with recommendations for new, or currently unfunded investment projects.

BACKGROUND

Infrastructure Calgary is a corporate program created to align and optimize capital investments and strengthen investment decision making and the processes involved in capital planning management.

In response to Council direction, Infrastructure Calgary established a Director led sub-committee of the Steering Committee to lead the identification, evaluation and selection of potential projects. The sub-committee looked at funding sources identified through a corporate capacity review to determine the best alignment based on funding restrictions and guidelines.

Projects were assessed according to four key filters determined by the sub-committee: Strategic Alignment, Project Readiness, Project Financials and Project Value and Benefit. After application of these filters, a peer review process looked at a project's ability to provide short term economic stimulus, add resilience in the community, including flood protection, maintain and preserve The City's existing infrastructure and community assets through lifecycle funding, build a great community through legacy investments, and leverage public and private investment.

As a result of this work, Infrastructure Calgary recommended twenty-one programs/projects to Council and received approval in principle. Individual implementation plans require Council approval.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Through the approval of the Capital Infrastructure Investment Strategy (C2015-0855), the Capital Investment Plan (C2016-0863) and the formation of Infrastructure Calgary, Council has signalled the need to improve investment in capital projects to enhance The City's ability to deliver programs and services to citizens, and maximize the value of its investments.

Investment in infrastructure is through capital budget allocations to departments first based on Council priorities, grant funding and regulatory requirements. Funding is then allocated to unfunded capital projects based on departmental infrastructure investment plans. Often it is the case that the overall capital budget is approved with many programs and projects still very early in their lifecycle. This would be prior to completion of design and specifications, to a level of detail that would provide refined, and in depth cost and schedule estimates. This may result in budget requiring adjustments as they progress.

The IOP provides Administration with a program intended to address this early understanding of a project's capital requirements. It permits Administration to optimize, strengthen and increase the value of The City's capital investment to benefit citizens and provide Council with information to enable decision making on investments. Eligible capital investments that will be funded through the IOP are intended to meet one or more of the following objectives:

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- Enable improved decision making on specific capital investments by refining cost estimates, identification of potential value and benefit (e.g. economic, social, environmental) in advance of the next business cycle;
- Fund corporate capital programs that increase The Corporation's state of readiness, and improve understanding of certain investment requirements prior to the next business cycle; and
- Improve efficiency and effectiveness of project delivery.

Currently proceeding as a pilot the IOP would enable The City to implement formal investment decision points for projects being considered for funding. The IOP further allows Infrastructure Calgary to focus on and accelerate early deliverables in order to facilitate: better decision making and prioritization as a result of improved accuracy of cost estimates and their associated request for funding; increasing understanding of the project or program value to Calgarians by clarifying project scope and performance expectations in advance of approved funding; and, in identifying resource requirements, their impact within the organization prior to the next business cycle (Attachment 1).

Continued investment in the IOP would expand these opportunities to facilitate a cross department / City-wide view approach to investment. Opportunities include, but are not limited to the following benefits; align projects to maximize investments across departments, improve budget forecasting, advance unfunded projects that support or compliment previously funded projects, improve resilience, identify and seek opportunities to leverage external opportunities and funding, or enhance resilience within investments.

The creation of the IOP includes a governance model, establishment of criteria aligned to the objectives identified above, and a mechanism for bringing requests for funding forward for consideration and selection. Potential unfunded capital projects will be identified by business unit Directors and brought to the Infrastructure Calgary Portfolio Management Office for an initial review. Individual assessments will then be forwarded to the Infrastructure Calgary Steering Committee, which is comprised of Directors representing capital intensive business units and business areas supporting the capital process, to review and select projects based on alignment with the identified criteria. Projects receiving funding by the IOP will follow procurement policies and disclose budgets as appropriate. Ongoing monitoring and reporting of the investments will be undertaken by the Infrastructure Calgary Portfolio Management Office to ensure appropriate accountability, track progress and to ensure that the identified project opportunities are realized.

Stakeholder Engagement, Research and Communication

The IOP was developed by Infrastructure Calgary, which is comprised of representation from The City's capital intensive business units and business units supporting capital. Communication of the IOP opportunity will be conducted to identify investment opportunities for consideration.

Strategic Alignment

The IOP enables The Corporation to invest and optimize capital investments that align to corporate strategies, including but not limited to, current Council priorities, the Capital Infrastructure Investment Strategy and the Capital Investment Plan.

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Social, Environmental, Economic (External)

Establishing the Investment Optimization Program enables The Corporation to explore social, economic, and environmental opportunities that may augment existing projects, improve resilience or create greater value through the consolidation of multiple program or service needs.

Financial Capacity

Current and Future Operating Budget:

There are minimal anticipated operating budget impacts for this project. Any impacts associated with the allocation of funding to capital investments will be absorbed within the existing operating budget.

Current and Future Capital Budget:

A capital budget approval is requested for the Investment Optimization Program. This budget request is to be funded by existing corporate capacity identified in report C2017-0214, which includes the capital budget savings account, corporate reserves, off-site levies and grant funding, and will have no net impact on the tax rate. The program identified in Attachment 2 is anticipated to be funded from Pay-As-You-Go funds in the Budget Savings Account. The requested budget and funding is consistent with the information provided by Infrastructure Calgary as part of report C2017-0214. Once the implementation plans for all projects are complete, funding allocations will be confirmed by Infrastructure Calgary to optimize the use of the most restricted sources of funding.

Risk Assessment

Projects being assessed may result in a recommendation to not proceed with continued investment due to limited investment value, or as a result of finding an alternative means to deliver the program or service. The significance of this potential sunk cost will be mitigated through project screening, the use of selection criteria, and the allocation of funding following a formalized decision making methodology.

REASON(S) FOR RECOMMENDATION(S):

The Investment Optimization Program will enable improved decision making on specific capital investments, and fund corporate capital programs that improve efficiency and effectiveness of project delivery in advance of the next business cycle. As a pilot, the Investment Optimization Program will provide opportunities to identify and implement improvements that will assist decision making, provide greater benefits to Calgarians through advanced capital investment requirements, and reinforce a corporate approach to capital investment.

ATTACHMENT(S)

1. Infrastructure Calgary Implementation Plan – Investment Optimization Program
2. Financing Strategies - Infrastructure Calgary Implementation Plan – Investment Optimization Program (Confidential)