

Capital Variance Report for the Three Month Period Ended March 31, 2014

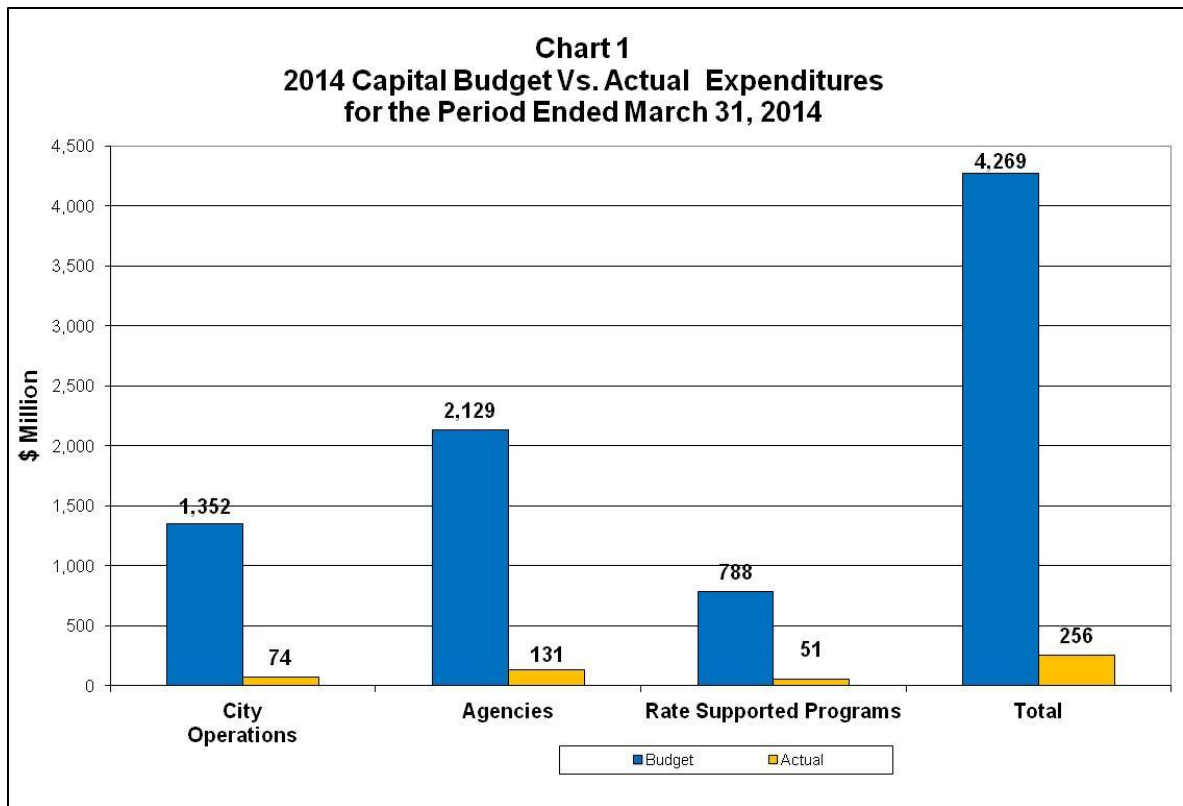
Date:	April 14, 2014
To:	Budget Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2014\Internal Services\Fp\Bc14011Fp (AFS #19101)

SUMMARY

The purpose of this report is to provide Council with the 2014 Capital Variance Report for the three month period ended March 31, 2014 as well as projected actual expenditures to December 31, 2014. Furthermore, the report seeks Council's approval for 2014 in-year budget adjustments and carry-forward funding adjustments to the 2014 Approved Capital Budget.

This report also provides a list of 112 completed capital projects to be closed including the total number and value of projects' under and over expenditures. \$380.602 million in projects are ready to be closed and have been completed under budget, with savings of \$17.410 million. These savings will be returned to their original funding sources, including a savings of \$10.736 million in debt funding.

Capital expenditures for the three months ended March 31, 2014 totalled \$256.530 million or 6% of the 2014 Approved Capital Budget of \$4.269 billion (see Chart 1). This spending pattern is consistent with prior years as first quarter capital activity is typically more preparatory, with less expenditure actually in the first quarter occurring than in the remainder of the year. As detailed by City Program and Agency in Appendix 1, actual expenditures to year-end are expected to reach \$3.415 billion or 80% of the total 2014 Approved Capital Budget; 22 of 32 City Programs and Agencies are projecting spending in excess of 70% by year-end: Tax Supported Programs project a spending rate of 79.7% to year-end; while Rate Supported Programs project year-end spending rate of 81.5%.



RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. Council approve in-year budget adjustments to the 2014-2023 Approved Capital Budget and Plan detailed in Appendix 2 with no incremental impact on debt funding.
2. Council approve reduction of \$2.923 million in previously approved carry forward funding for Toronto Police Services as detailed in Appendix 3 and that 2014 Approved Capital Budget be adjusted accordingly.
3. Council receive for information Appendix 4 which lists 112 capital projects/sub-projects that have been completed and are to be closed with a total combined project budget saving of \$17.410 million, including savings of \$10.736 million in debt funding.
4. Council authorize and direct the appropriate City Officials to take the necessary action to give effect thereto.

FINANCIAL IMPACT

The financial impact to the 2014 – 2023 Approved Capital Budget and Plan arising from the adoption of in-year budget adjustments recommended in this report result in decrease of \$9.922 million in 2014 Capital Approved Budget and increase of \$6.422 million in 2015 Capital Approved Plan, for the overall decrease of \$3.500 million in total project cost for 2014 – 2023 Approved Capital Budget and Plan with no impact on debt funding primarily arising from a decrease in Fleet Services' 2014 -2023 Approved Capital Budget and Plan.

Approval of the reduction in carry forward funding of \$2.923 million recommended in this report will decrease the Toronto Police Services' 2014 Approved Capital Budget from \$59.563 million to \$56.640 million. Reduction is recommended to correct overstated carry forward funding estimates already included in the 2014 Approved Capital Budget.

ISSUE BACKGROUND

This report is provided pursuant to good business practices and budgetary control. As part of the City's accountability framework, capital variance reports are submitted to Committees and Council on a periodic basis in order to provide information on how the implementation of approved capital programs is progressing, and on an exception basis, to identify issues that require direction and/or decisions from Council.

COMMENTS

At its meetings of December 16-17, 2013, Council approved a 2014 Rate-Supported Capital Budget of \$602.191 million; and at its meetings of January 29-30, 2014, Council approved a 2014 Tax Supported Capital Budget of \$2.212 billion for a total of \$2.814 billion. The 2014 Rate-Supported Capital Budget consists of \$476.713 million for Toronto Water, \$49.001 million for Toronto Parking Authority and \$76.477 million for Solid Waste Management Services. Including additional 2013 carry forward funding and 2014 in-year budget adjustments for all City Tax and Rate Programs and Agencies, the 2014 Adjusted Capital Budget is \$4.263 billion.

Spending for the first three months ended March 31, 2014 totalled \$256.530 million or 6% of the 2014 Approved Capital Budget of \$4.269 billion. Tax Supported Programs incurred capital expenditures of \$205.060 million, representing 5.9% of their collective 2014 Approved Capital Budget of \$3.481 billion. Rate Supported Programs incurred capital expenditures of \$51.369 million, representing 6.5% of their collective 2014 Approved Capital Budget of \$788.334 million. The City's capital work tends to accelerate in the later part of the year. This is evident in the increased spending projections to 2014 year-end, which indicate total spending of \$3.415 billion or 80% of 2014 Approved Capital Budget.

Table 1 Corporate Capital Variance Summary for the Period Ended March 31, 2014 (\$000s)					
	2014 Approved Budget	Actual Expenditures - January 1 to March 31, 2014		Projected Actual Expenditure at Year-End	
		\$000s	%	\$000s	% of Plan
Tax Supported Programs:					
Citizen Centred Services - "A"	281,936	13,496	4.8	213,297	75.7
Citizen Centred Services - "B"	497,883	30,611	6.1	390,852	78.5
Internal Services	455,157	28,950	6.4	319,698	70.2
Other City Programs	115,942	1,394	1.2	103,512	89.3
Agencies	2,128,764	130,706	6.1	1,745,177	82.0
Total - Tax Supported	3,479,681	205,157	5.9	2,772,536	79.7
Rate Supported Programs:					
Toronto Parking Authority	71,009	1,258	1.8	70,684	99.5
Solid Waste Management	103,942	2,887	2.8	48,856	47.0
Toronto Water	613,383	47,224	7.7	522,842	85.2
Total Rate Supported	788,334	51,369	6.5	642,382	81.5
Total	4,268,015	256,526	6.0	3,414,918	80.0

In-Year Budget Adjustments

In-year budget and technical adjustments to the 2014 - 2023 Approved Capital Budget and Plan require approval by Council.

As detailed in Appendix 2, technical and in-year budget adjustments are recommended for ***Fleet Services*** to reflect funding deferrals. Fleet Services will continue with vehicle condition assessments and review vehicle usage to optimize the replacement of vehicles with operational requirements, health and safety and achieving greater financial efficiencies. This will be reflected in the 2015-2024 Capital Budget and Plan. These recommended budget adjustments result in a net zero impact to the 2014 Approved Capital Budget's debt funding.

The 2014 Capital Budgets for ***City Planning*** (\$0.600 million) and ***Transportation Services*** (\$0.040) includes \$0.640 million for direct construction costs for streetscape improvements associated with the new Scarborough Civic Centre Library. In order to complete the full scope of work for this enhancement in 2014, an additional \$0.514 million in funding is required. There is a benefit of completing the full scope of work in 2014 as it will allow for the simultaneous completion of both the Library and the streetscape enhancements this year. To ensure completion of the full scope of streetscape improvements in 2014, it is recommended that \$0.514 million in additional funding be added to the City Planning 2014 Capital Budget to be funded by eligible development charge funding (\$0.256 million) and a reallocation of available funds from the ***Facilities Management and Real Estate*** 2014 Capital Budget (\$0.258 million). This FM&RE funding was originally budgeted for SOGR work in the Scarborough Civic Centre, as this work is no longer required these funds can be reallocated to these enhancements

associated with the new Scarborough Civic Library without any impact on the FM&RE Capital Program.

Carry Forward Capital Funding Adjustment

The City's Carry Forward Policy permits City Programs and Agencies to adjust their prior year carry forward requirements based on updated year-end information.

Appendix 3 includes a recommended reduction to the Toronto Police Services' 2013 carry forward funding to reflect actual 2013 year-end expenditures. This reduction will adjust a now overstated carry forward funding estimate already included in the 2014 Council Approved Capital Budget.

Closed Capital Projects

The City's Financial Control By-Law stipulates that Chief Financial Officer must "submit a report to Council on an annual basis detailing all capital projects closed during the year". Appendix 4 details completed projects for various City Programs and Agencies that will be closed

A capital project is considered fully closed when all its subsidiary projects/subprojects are completed. Capital project financing may have various funding sources. Projects are normally funded based on actual expenditures in the following order: third-party funding, reserves or reserve funds, and lastly debt. In accordance with the Finance Control By-Law, after a project is fully completed and closed, the unspent funding, if any, will be treated as follows:

- Third party funding will be returned to the source as they are generally for specific purposes and can only be used for the specific projects
- Reserve funds are drawn based on actual expenditure within the Council approved limit. Any undrawn portion will remain in the same reserve or reserve fund
- Debt is applied only lastly and for the purposes for which the debt was issued. The unspent debt portion will generally not be issued.

As detailed in Appendix 4, at the end of the first quarter, 112 capital projects are fully completed and will be closed. These fully completed projects have total approved project costs of \$380.602 million and actual spending of \$363.192 million, representing a total saving of \$17.410 million, with \$10.736 million funded by debt, \$0.152 million funded by various reserve and reserve funds and \$6.522 million from other funding sources such as debt recoverable and donations.

The number and value of the fully completed and closed projects are attributed to the following programs:

Sony Centre has fully completed 6 projects with total project cost of \$38.884 million, and an actual expenditure of \$35.449 million, resulting in saving of \$3.436 million.

Toronto Police Services has fully completed 86 projects with total project cost of \$310.346 million, actual expenditure of \$299.610 million and savings of \$10.736 million.

Toronto Parking Authority has fully completed 14 projects with total project cost of \$8.395 million, actual expenditure of \$7.101 million and savings of \$1.293 million.

In addition to fully completed projects, 80 capital sub-projects are completed within 4 Council approved projects. These projects will remain open to allow continuation of capital work and residual funds will be used to complete remaining phases or sub-projects of the approved capital projects. Actual spending on these completed capital activities is \$48.983 million. These partially closed capital projects had a combined approved total project cost of \$860.793 million and total life-to-date spending of \$592.023 million. The remaining Council approved funding available for outstanding phases or sub-projects is \$268.770 million.

Closing of the completed capital projects in a timely manner identifies savings and allows staff to redirect and return funding to their original source. This then frees scarce funds for re-use in future budgets. It is also noted that the closure of projects / subprojects enable staff to focus attention only on active projects, and supports better and more efficient and accurate variance reporting. A consolidated list of projects and sub-projects to be closed will be forwarded to the Accounting Services Division which will preclude any further processing of transactions against them. Accounting Services staff will ensure that all expenditures for the identified capital projects/sub-projects are fully funded prior to closure.

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SIGNATURE

Roberto Rossini
Deputy City Manager and Chief Financial Officer

ATTACHMENTS

- Appendix 1 - 2014 Consolidated Capital Variance Report for the Three Months Ended March 31, 2014
- Appendix 2 - In-Year Adjustments for the Three Months Ended March 31, 2014
- Appendix 3 - Carry Forward Funding Adjustments
- Appendix 4 - Capital Projects to be Closed
- Appendix 5 - Capital Variance Explanation - Programs/Agencies