



Capital Variance Report for the Year Ended December 31, 2017

Date: June 14, 2018
To: Budget Committee and Executive Committee
From: Interim Chief Financial Officer
Wards: All

SUMMARY

The purpose of this report is to provide City Council with the City of Toronto capital performance for the year ended December 31, 2017. Actual capital expenditures for 2017 totalled \$3.173 billion or 59.3% of 2017 approved Capital Budget of \$5.347 billion (see Table 1).

For the year-ended December 31, 2017, Tax Supported Programs and Agencies reported capital expenditures of \$2.365 billion representing 56.2% of their collective 2017 approved Capital Budget of \$4.210 billion. Rate Supported Programs reported capital expenditures of \$808.1 million, representing 71.0% of their collective 2017 approved Capital Budget of \$1.138 billion.

Table 1: Summary of Capital Spending

	2017 Approved Budget	2017 Actual Expenditure	
	(\$M)	(\$M)	%
Tax Supported Programs	4,209.7	2,365.0	56.2%
Rate Supported Programs	1,137.8	808.1	71.0%
TOTAL	5,347.4	3,173.1	59.3%

The report also provides details on the 87 completed capital projects that have a combined budget of \$272.628 million that were completed in Q4, 2017 and are ready to be closed. They have been completed with a total realized underspending of \$38.095 million. The permanent underspending which has associated funding of \$3.541 million in Provincial Grants, \$6.398 million in Capital from Current, \$18.500 million in debt, \$2.163 million in Development Charges, \$2.269 million in reserves/reserve funds, \$0.952 million in Recoverable Debt and \$4.272 million in other internal/external funds will be returned to their original Council approved funding sources.

For 2017, a total of 413 capital projects were completed with a combined capital budget of \$919.234 million and an actual combined expenditure of \$836.285 million, resulting in a total saving of \$82.949 million or 9.0%.

A total of \$4.008 billion or 75% of the 2017 approved Capital Budget is allocated to 9 Programs and Agencies, to which \$1.745 billion or 80% of the underspending is also attributed, as illustrated in the Table 2 below.

Table 2: Key Drivers of underspending for 2017

(\$Million)	2017 Approved Budget \$	2017 Actual Expenditure	Unspent \$	Spending Rate %
Toronto Transit Commission	2,303.3	1,438.2	865.1	62.4%
Transportation Services	508.2	272.4	235.8	53.6%
Facilities Mgmt, Real Estate & Envir	291.6	161.4	130.2	55.4%
Parks, Forestry & Recreation	237.4	144.0	93.4	60.7%
Corporate Initiatives	175.0	4.8	170.2	2.8%
Toronto Parking Authority	164.3	55.9	108.4	34.0%
Solid Waste Management Services	129.9	84.9	45.0	65.3%
Waterfront Revitalization Initiative	109.6	49.9	59.7	45.6%
Information & Technology	88.8	51.7	37.1	58.2%
Sub Total	4,008.1	2,263.3	1,744.9	56.5%
Other Programs	1,339.3	909.9	429.4	67.9%
Grand Total	5,347.4	3,173.1	2,174.3	59.3%

Programs and Agencies reported that the rate of spending in 2017 was largely driven by expropriation process delays for the acquisition of various sites, unanticipated site conditions, longer than planned timelines to obtain necessary approvals or required permits and design issues. Further details on the progress of all approved capital projects for each City Program and Agency can be found in Appendix 4 of this report.

RECOMMENDATIONS

The Interim Chief Financial Officer recommends that:

1. Council receive this report and attached Appendices for information

FINANCIAL IMPACT

Table 3 below outlines capital spending for Tax and Rate Supported Programs for the year ended December 31, 2017:

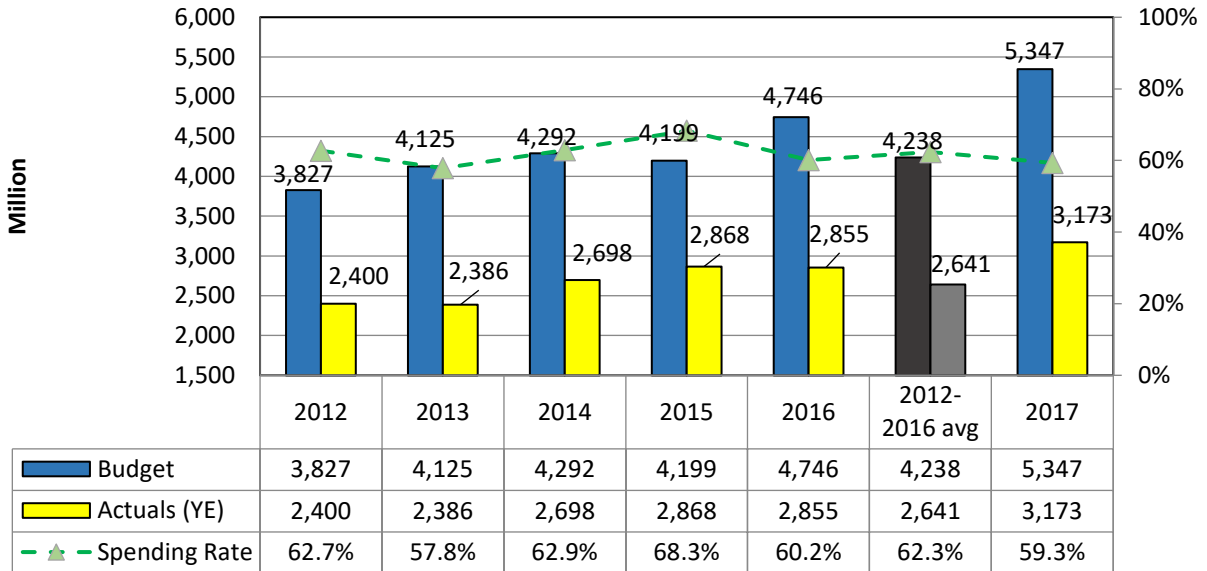
Table 3: Capital Year-end spending by Cluster

	2017 Approved Budget	2017 Actual Expenditure	
	(\$M)	(\$M)	%
Tax Supported Programs:			
Citizen Centred Services - "A"	391.4	212.1	54.2%
Citizen Centred Services - "B"	645.7	331.4	51.3%
Internal Corporate Services	433.3	259.7	59.9%
Office of the Chief Financial Officer	29.5	9.9	33.4%
Corporate Initiatives	175.0	4.8	2.8%
Other City Programs	10.6	5.9	55.4%
Sub Total City Operations	1,685.5	823.7	48.9%
Toronto Transit Commission	2,303.3	1,438.2	62.4%
Other Agencies	220.8	103.1	46.7%
Sub Total - Tax Supported	4,209.7	2,365.0	56.2%
Rate Supported Programs:			
Solid Waste Management	129.9	84.9	65.3%
Toronto Parking Authority	164.3	55.9	34.0%
Toronto Water	843.5	667.3	79.1%
Sub Total Rate Supported	1,137.8	808.1	71.0%
Total	5,347.4	3,173.1	59.3%

Total expenditures for Tax and Rate Supported Programs and Agencies for 2017 is \$3.173 billion representing 59.3% of the combined 2017 approved Capital Budget of \$5.347 billion.

Figure 1 below shows the actual year-end spending rate from 2012 to 2017 as well as the 5-year average spending rate for 2012 to 2016.

Figure 1: 2012 - 2017 Capital Spending Rate



Both the approved Capital Budget (including carry forward funding) and actual capital expenditures have been steadily trending upwards over the last 5 years. Actual capital spending has increased from \$2.400 billion in 2012 to \$3.173 billion in 2017, however, the spending rate for 2017 is slightly lower compared to previous years. While overall capital spending has increased annually, the spending rate has not kept pace with the approved budget increase.

The 2017 Capital Budget of \$5.347 billion represents the highest Capital Budget the City has ever had for its Tax and Rate Supported Programs. This reflects a Council approved Capital Budget of \$3.708 billion plus a combined adjustment for 2016 carry forward funding and 2017 in-year budget amendments of \$1.639 billion.

Appendix 1 summarizes the actual year-end spending and spending rate by City Program and Agency.

Projects to be closed

A capital project is considered fully closed when all its subsidiary projects/subprojects are completed. Eighty seven (87) capital projects were completed in the last quarter of 2017 that have a combined budget of \$272.628 million. They have been completed under budget realizing an underspending of \$38.095 million. During 2017, 413 projects were completed of which 334 were Tax Supported and 79 were Rate Supported.

Table 4 below outlines the projects that have been completed in 2017:

Table 4: 2017 Closed Projects

Tax Supported Programs	Closed Projects Q1	Closed Projects Q2	Closed Projects Q3	Closed Projects Q4	Total 2017
# of Closed Projects	40	41	175	78	334
Project Budget (\$M)	317.5	101.3	205.7	245.8	870.3
Actual Expenditure (\$M)	316.9	87.8	183.5	210.2	798.5
Underspending (\$M)	0.5	13.5	22.2	35.6	71.8
Underspent Debt Funding (\$M)	0.0	10.7	6.6	18.5	35.9
Rate Supported Programs					
	Closed Projects Q1	Closed Projects Q2	Closed Projects Q3	Closed Projects Q4	Total 2017
# of Closed Projects	13	52	5	9	79
Project Budget (\$M)	4.6	17.2	0.3	26.8	49.0
Actual Expenditure (\$M)	2.9	10.4	0.3	24.3	37.8
Underspending (\$M)	1.8	6.8	0.0	2.5	11.1
Underspent Debt Funding (\$M)	0.0	0.0	0.0	0.0	0.0
All City Programs/Agencies					
	Closed Projects Q1	Closed Projects Q2	Closed Projects Q3	Closed Projects Q4	Total 2017
# of Closed Projects	53	93	180	87	413
Project Budget (\$M)	322.1	118.5	206.1	272.6	919.2
Actual Expenditure (\$M)	319.8	98.1	183.9	234.5	836.3
Underspending (\$M)	2.3	20.3	22.2	38.1	82.9
Underspent Debt Funding (\$M)	0.0	10.7	6.6	18.5	35.9

The permanent underspending of \$38.095 has associated funding of \$3.541 million from Provincial Grants, \$6.398 million in Capital from Current, \$18.500 million in debt, \$2.163 million in Development Charges, \$2.269 million in reserves/reserve funds, \$0.952 million in Recoverable Debt and \$4.272 million in Other Revenue will be returned to their original Council approved funding sources.

Table 5 below outlines the associated underspending by funding sources for Tax Supported and Rate Supported projects completed in 2017:

Table 5: 2017 fourth quarter underspending by funding sources

Funding Sources (\$M)	Tax	Rate	Total
Provincial/ Grants	3.541		3.541
Federal Subsidy			
Capital from Current (Prior Year)	6.398		6.398
Debt	18.500		18.500
Development Charges	2.163		2.163
Reserve/ Reserve Funds	0.718	1.550	2.269
Recoverable Debt		0.952	0.952
Other Revenue	4.272		4.272
Total	35.593	2.502	38.095

Appendix 2 details 87 capital projects that have been completed in the fourth quarter of 2017 by various City Programs and Agencies which can now be closed.

DECISION HISTORY

This report is provided in accordance with the City's business practice. As part of the City's financial management and accountability framework, capital variance reports are submitted to Committees and Council on a quarterly basis in order to provide capital spending performance as an indicator of how City Programs and Agencies are progressing on the capital work in 2017, and on an exception basis, to identify issues that require direction and/or decisions from Council.

At its meeting of December 13-14, 2016, Council approved a 2017 Rate-Supported Capital Budget of \$932.391 million and on February 15, 2017, Council approved a 2017 Tax Supported Capital Budget of \$2.776 billion. The 2017 Rate-Supported Capital Budget includes \$729.565 million for Toronto Water, \$99.049 million for Toronto Parking Authority and \$103.777 million for Solid Waste Management Services. Including additional 2016 carry forward funding and in-year budget adjustments for all City Tax and Rate Programs and Agencies, the adjusted Capital Budget for 2017 is currently \$5.347 billion.

Dashboard Approach

The dashboards for City Programs and Agencies, set out in Appendix 4, provide greater transparency and insight into the financial performance of all City Programs and Agencies, greater accountability with better performance measurement and monitoring to ensure Programs and Agencies are meeting targets, and improved information to enable Councillors to make informed decisions based on easy to understand results. The dashboards include "alert" indicators with Green, Yellow or Red colours that measure the percentage of capital spending with the criteria based on the following net budget variances:

Green – 70%-100% or more of Budget Spent

Yellow – Between 50% and 70% of Budget Spent

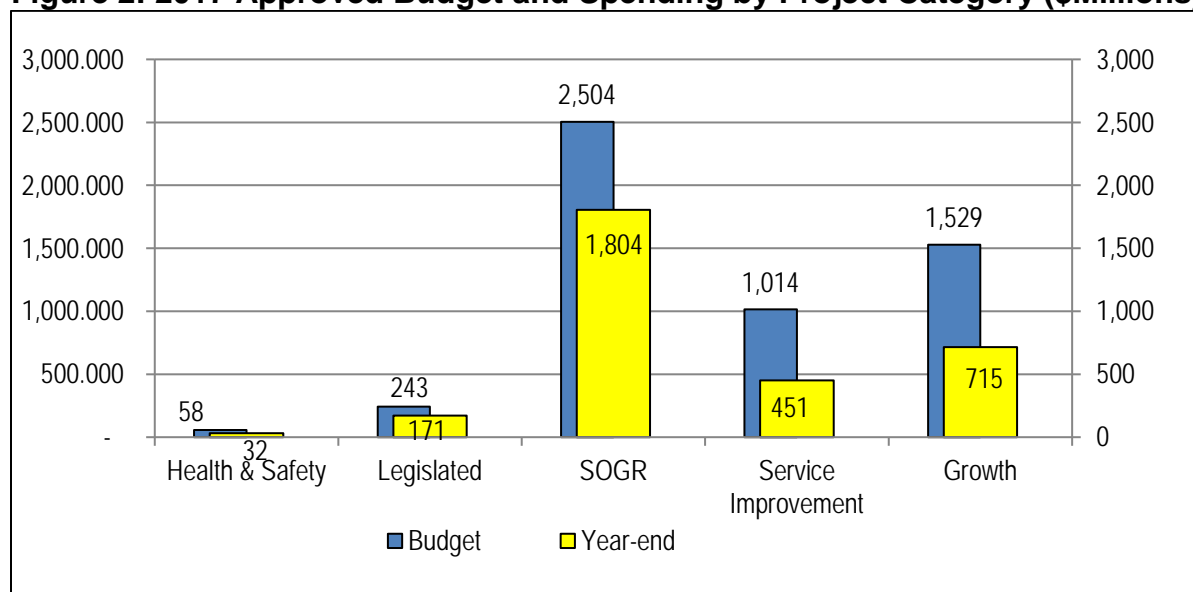
Red – Less than 50% of Budget Spent or more than 100% of Budget Spent

COMMENTS

The City's capital program encompasses 5 categories of capital work: Health & Safety projects; Legislated projects; State of Good Repair projects; Service Improvement projects; and Growth Related projects.

Figure 2 below compares the 2017 Total (Rate and Tax) approved Budget and year-end actual expenditure for each project category.

Figure 2: 2017 Approved Budget and Spending by Project Category (\$Millions)

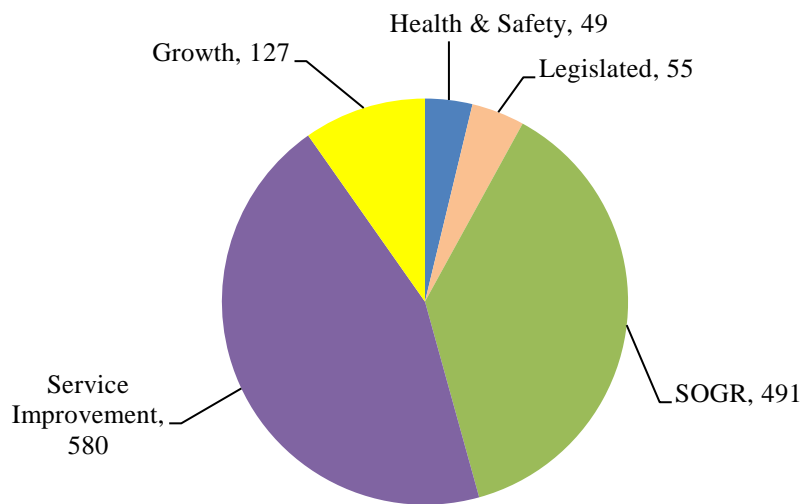


Priority is given to projects that maintain existing assets in a state of good repair (SOGR) to ensure assets are reliable for service delivery. SOGR projects account for \$2.504 billion or 46.8% of the City's 2017 approved Capital Budget of which \$1.805 billion or 72.1% of the SOGR budget was spent. 2017 spending for Health & Safety (\$32.139 million) and Legislated projects (\$170.698 million) was 55.7% and 70.3%

spent respectively. In addition, \$450.906 million for Service Improvement projects and \$714.730 million for Growth Related projects was also spent, representing the lowest spending rates of 44.5% and 46.7% compared to the other categories.

As illustrated in Figure 3 below, the City had a total of 1,302 previously approved and new 2017 capital projects that remained open at the end of 2017.

Figure 3: 2017 Open Projects (1,302)



Service Improvement projects account for the majority of open projects totalling 580 or 44.5% of the total projects while SOGR projects account for 491 or 37.7% of all SOGR projects which have increased from 2016 as a result of new investments approved in the 2017 Capital Budget.

A detailed explanation on the progress of major capital projects can be found in Appendix 3 of this report.

Closed Capital Projects

The City's Financial Control By-Law stipulates that the Chief Financial Officer must "submit a report to Council on an annual basis detailing all capital projects closed during the year". The City reports quarterly on the disposition of closed projects.

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 Financial 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.

Closing of completed capital projects in a timely manner identifies underspending and allows funding to be returned to its original source. This then frees scarce funds for re-use in future budgets. It is also noted that the closure of projects / subprojects enables staff to better focus their attention on active projects, and support better, more efficient and accurate variance reporting. Accounting Services staff will ensure that all expenditures for the identified capital projects/sub-projects are fully funded prior to closure.

Table 6 below shows the number of projects that have been closed for the last 5 years and their associated approved budget, expenditure and underspending.

Table 6: Project Closure form 2013-2017

	2013	2014	2015	2016	2017	2013-2017
# of Projects Closed:	233	368	351	102	413	1,467
Project Budgets (\$M)	1,557	652	330.8	512.7	919.2	3,972
Actual Capital Expenditure (\$M)	1,374	581	296.2	425.6	836.3	3,513
Underspending (\$M)	183	72	35.4	87.0	82.9	460
Underspent Debt Funding (\$M)	103	24.7	12.3	29.2	35.9	205

In 2017, 413 projects with a total budget of \$919.234 million and an actual expenditure of \$836.285 million were completed. The permanent underspending of \$82.949 has associated funding of \$3.541 million from Provincial Grants, \$9.271 million in Capital from Current, \$35.867 million in debt, \$2.560 million in Development Charges, \$20.752 million in reserves/reserve funds, \$5.420 million in Recoverable Debt and \$5.538 million in Other Revenue will be returned to their original Council approved funding sources.

The funding sources associated with the \$82.949 million in permanent underspending from those Tax Supported and Rate Supported projects are shown in Table 7:

Table 7: Total underspending by funding sources for 2017

Funding Sources (\$M)	Tax	Rate	Total
Provincial/ Grants	3.541		3.541
Federal Subsidy			
CFC (Prior Year)	9.271		9.271
Debt	35.867		35.867
Development Charges	2.560		2.560
Reserve/ Reserve Funds	15.037	5.715	20.752
Recoverable Debt		5.420	5.420
Other Revenues	5.538		5.538
Total	71.814	11.135	82.949

In addition to the fully completed projects, 3 capital sub-projects in Solid Waste Management Services have been completed within the *Diversion System* project. This project with a total approved budget of \$286.343 million and a life-to-date expenditure of \$187.835 million will remain open to allow continuation of capital work for the remaining sub-projects. The residual funds of \$98.508 million will be used to complete the remaining phases or sub-projects of this project.

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SIGNATURE

Joe Farag
Interim Chief Financial Officer

ATTACHMENTS

Appendix 1 Capital Variance Summary for the year ended December 31, 2017
Appendix 2 Capital Projects for Closure
Appendix 3 Major Capital Projects
Appendix 4 Capital Dashboard for Programs/Agencies