



## STAFF REPORT ACTION REQUIRED

### Capital Variance Report for the Year Ended December 31, 2015

<b>Date:</b>	June 6, 2016
<b>To:</b>	Budget Committee Executive Committee
<b>From:</b>	Deputy City Manager & Chief Financial Officer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2016\Internal Services\FP\Bc16010Fp

#### SUMMARY

The purpose of this report is to provide Council with the City of Toronto Capital Variance for the year-ended December 31, 2015.

Capital expenditures for the twelve months ended December 31, 2015 totalled \$2.868 billion or 68.3% of the 2015 Approved Capital Budget of \$4.199 billion (see Table 1). This spending pattern is consistent with prior years.

For the year- ended December 31, 2015, Tax Supported Programs and Agencies reported capital expenditures of \$2.189 billion representing 65.8% of their collective 2015 Approved Capital Budget of \$3.328 billion. Rate Supported Programs reported capital expenditures of \$679.584 million, representing 78.1% of their collective 2015 Approved Capital Budget of \$870.628 million.

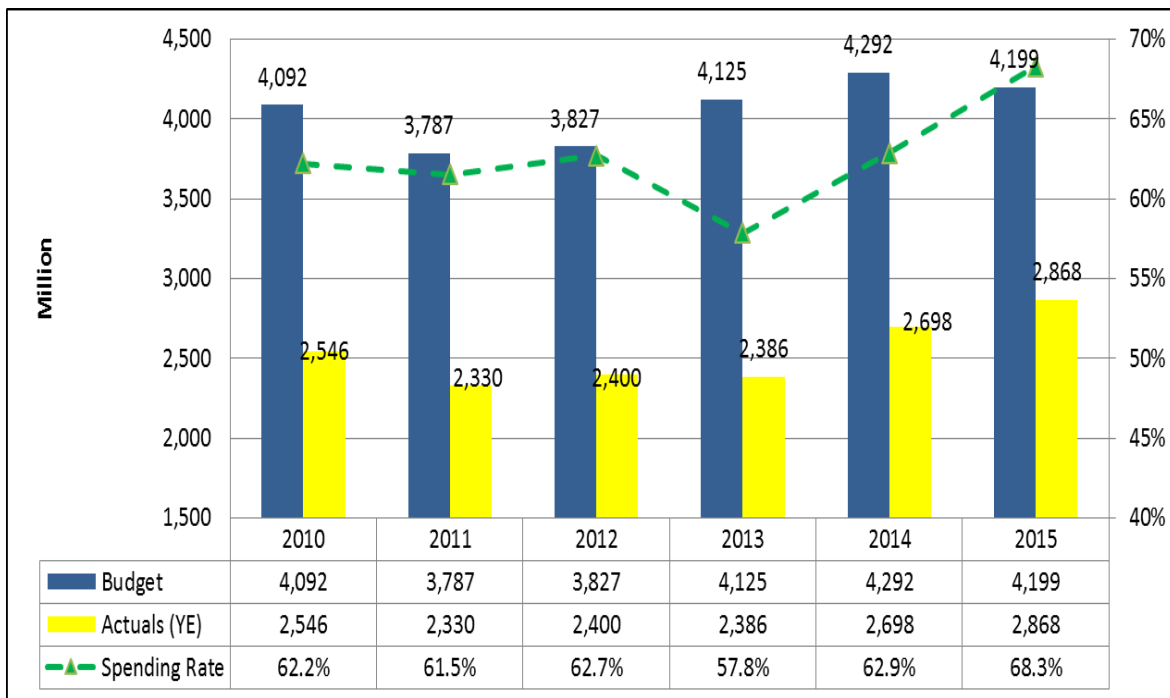
**Table 1  
Summary of Capital Spending**

(\$000s)	2015 Approved Budget	Actual Expenditures - January 1 to December 31, 2015	
		\$000s	%
Tax Supported	3,328,213	2,188,834	65.8%
Rate Supported	870,628	679,584	78.1%
<b>TOTAL</b>	<b>4,198,841</b>	<b>2,868,417</b>	<b>68.3%</b>

The rate of spending in 2015 was driven largely by expropriation process delays for the acquisition of various sites, site conditions, longer than planned timelines to obtain necessary approvals or required permits; design issues and difficulty in securing necessary resources for project delivery. The detailed explanations of project delays by Program/Agency are provided in Appendix 3 attached to the report.

Chart 1 below shows historical spending rate over the last 6 years. There has been a marked increase and improvement in capital spending over the last 2 years reaching all time high of \$2.868 billion in 2015.

**Chart 1  
2010 – 2015 Capital Budget Spend Rate**



## **RECOMMENDATIONS**

The Deputy City Manager & Chief Financial Officer recommends that:

1. Council receive this report and attached Appendices for information.

## FINANCIAL IMPACT

Table 2 below outlines the 2015 actual expenditure for Tax and Rate Supported Programs for the year ended December 31, 2015.

**Table 2**  
**Capital Year-End Spending by Cluster**

	2015 Approved Budget	Actual Expenditures - January 1 to December 31, 2015		
		\$000s	%	Alert
<b>Tax Supported Programs:</b>				
Citizen Centred Services "A"	357,162	192,811	54.0	Ⓢ
Citizen Centred Services "B"	519,055	359,549	69.3	Ⓢ
Internal Services	435,383	223,238	51.3	Ⓢ
Other City Programs	70,221	26,482	37.7	Ⓡ
<b>Sub Total City Operations</b>	<b>1,381,821</b>	<b>802,080</b>	<b>58.0</b>	
<b>Agencies</b>	<b>1,946,392</b>	<b>1,386,754</b>	<b>71.2</b>	
<b>Sub Total - Tax Supported</b>	<b>3,328,213</b>	<b>2,188,834</b>	<b>65.8</b>	
<b>Rate Supported Programs:</b>				
Solid Waste Management	56,054	28,400	50.7	Ⓢ
Toronto Parking Authority	57,934	19,080	32.9	Ⓡ
Toronto Water	756,640	632,103	83.5	Ⓢ
<b>Sub Total - Rate Supported</b>	<b>870,628</b>	<b>679,584</b>	<b>78.1</b>	
<b>Total</b>	<b>4,198,841</b>	<b>2,868,417</b>	<b>68.3</b>	Ⓢ

Total expenditures for Tax and Rate Supported Programs and Agencies for the year-ended December 31 2015 are \$2.868 billion representing 68.3% of their combined 2015 Approved Capital Budget. Actual spending at year-end is higher than previous years with the highest spending levels attributed to capital work for City Agencies and Toronto Water.

Appendix 1 provides summary of the year-end spending rate by City Program and Agency. Appendix 3 provides detailed project status by 2015 year-end in a dashboard approach.

### Closed Capital Projects

During the last 5 years, City Programs and Agencies completed capital work on 1,764 capital projects that have had a combined total project cost of \$3.849 billion and actual expenditures of \$3.395 billion, coming under budget by \$453 million, of which \$153 million resulted in avoided debt funding.

**Table 5  
2011 – 2015 Closed Capital Projects**

	2011	2012	2013	2014	2015	Q1 2016	2011-2015 Total
# of Projects Closed:	409	383	233	368.0	351.0	20.0	1,764
Project Budgets (\$M)	731	495	1,557	652	330.8	83.1	3,849
Actual Capital Expenditure (\$M)	671	423	1,374	581	296.2	49.9	3,395
Savings (\$M)	114	16	183	72	35.4	33.2	453
Savings in Debt Funding (\$M)	5	8	103	24.7	12.3	0.0	153

A consolidated list of projects and sub-projects to be closed were part of the first quarter variance report for 2016. Since 20 projects with \$83.1 million in project cost and realised saving of \$ 33.2 million will be closed with Q1 2016 Variance report, City Programs and Agencies did not request any closure of capital projects with this report. Accounting Services staff ensured that all expenditures for the identified capital projects/sub-projects were fully funded prior to closure.

### **Carry Forward**

A total of \$1.138 billion representing 24.7% of the 2015 Approved Capital Budget has been approved to be carried forward to 2016 Approved Capital Budget to ensure continuation of work on those capital projects.

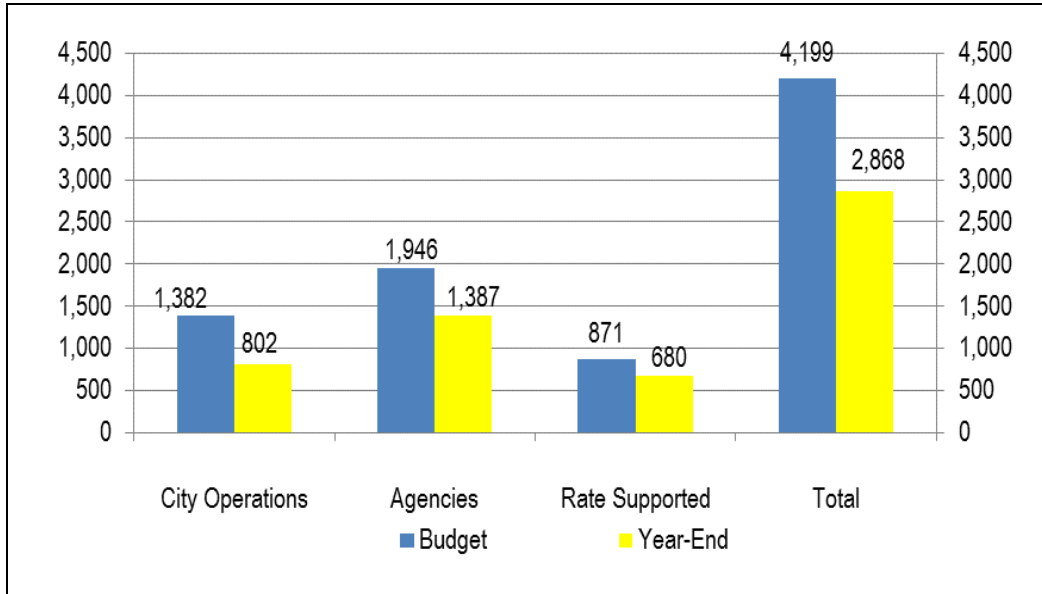
### **ISSUE BACKGROUND**

This report is provided pursuant to financial management and budgetary control best practices. As part of the City’s accountability framework, a year-end capital variance report is submitted to Committees and Council in order to provide information on how the approved capital works have progressed during 2015 and the actual spending incurred against the 2015 Approved Capital Budget.

### **COMMENTS**

At its meeting of December 16-17, 2014, City Council approved a 2015 Rate-Supported Capital Budget of \$825.113 million; and at its meeting of January 29-30, 2015, City Council approved a 2015 Tax Supported Capital Budget of \$2.001 billion for a total of \$2.825 billion. The 2015 Rate-Supported Capital Budget consists of \$729.261 million for Toronto Water, \$27.928 million for Toronto Parking Authority and \$67.924 million for Solid Waste Management Services. Including additional 2014 carry forward funding of \$1.333 billion and 2015 in-year budget adjustments for all City Tax and Rate Programs and Agencies, the 2015 Adjusted Capital Budget at year-end is \$4.199 billion (see Chart 1).

**Chart 2**  
**2015 Capital Budget and Year-End Spending**  
**as of December 31, 2015**

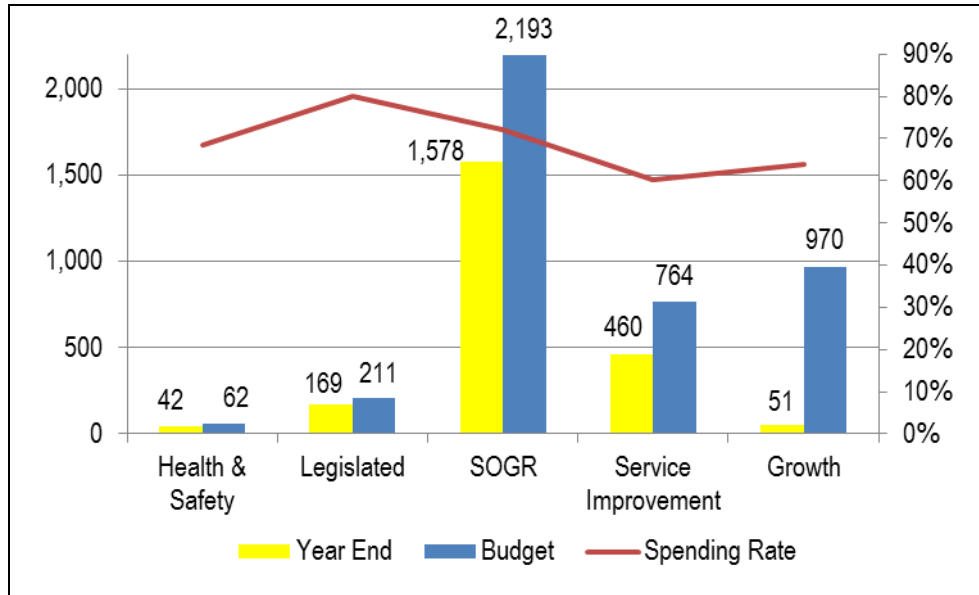


Under-spending during 2015 was primarily experienced in Parks, Forestry & Recreation, Transportation Services, Facilities, Real Estate, Energy & Environment, Financial Services, PanAm Games, Sustainable Energy Plan, Toronto Police Services, TTC, Solid Waste Management Services and Toronto Parking Authority. These Programs and Agencies account for \$3.001 billion or 71% of the total 2015 Approved Capital Budget and \$1.054 billion or 79% of total under spending at 2015 year-end.

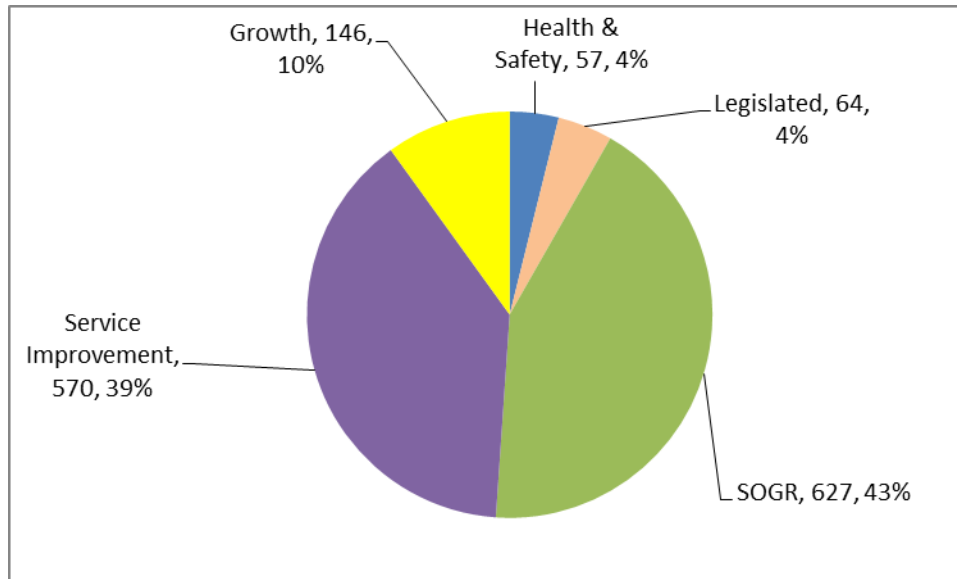
Notwithstanding the 68.3% spending rate, a number of projects are on track and were completed in 2015. As well, a portion of the reported under spending is attributable to savings from completed projects coming in under budget.

The City's capital program encompasses 5 categories of capital work; Health & Safety projects (HS); Legislated projects (LE); State of Good Repair projects (SOGR); Service Improvements projects (SI); and Growth Related projects (GR). Charts 3 and 4 below outline the 2015 Approved Budget and the number of projects in each category.

**Chart 3**  
**2015 Approved Budget and Spending by Project Category (\$4.199B)**  
**as of December 31, 2015**



**Chart 4**  
**2015 Active Projects (1,464)**



As illustrated in Chart 3 and Chart 4 above, 627 or 42.8% of the City’s active capital projects are for State of Good Repair (SOGR), which represent \$2.193 billion of 2015’s Approved Capital Budget. At year-end, \$1.578 billion or 71.9% of the capital funding allocated to SOGR projects was spent. In addition, \$460.079 million in approved Service Improvement projects and \$619.197 million for Growth Related projects was spent by

year-end representing a completion rate of 60.2% and 63.8% respectively. Total spending for Health & Safety projects amounts to \$42.124 million and Legislated projects incurred expenditure of \$168.553 million by 2015 year-end representing 68.4% and 80% respectively.

A detailed explanation on the progress of the capital work for Major Projects can be found in Appendix 2 of this report.

A detailed explanation on the progress being made on approved capital projects for each City Program and Agency 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".

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.

Closing of 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, more efficient and accurate variance reporting.

City Programs and Agencies did not report any completed projects with this variance report due the timing of Q1 2016 report that was submitted to Council on June 7, 2016, and majority of the Program and Agencies reported closure of the projects as a part of 2016 first quarter capital variance reporting.

For the 2015, the City completed and closed 351 projects that had a combined budget of \$330.8 million. The final spending for these closed projects was \$296.2 million resulting

in under expenditure of \$35.4 million. The funding sources associated with the underspent are shown in Table 3:

**Table 3**  
**Realized Savings by Funding Source**  
**(Million)**

<b>Funding Source</b>	<b>Tax</b>	<b>Rate</b>	<b>Total</b>
Provincial/Grants			
Federal Subsidy		153,293	153,293
CFC	762,621		762,621
Debt	12,249,449	-8,447	12,241,002
DC			
Reserve/Reserve Funds	16,607,712	3,862,542	20,470,254
Recoverable Debt		1,449,373	1,449,373
Other (Donations, Third Party funding, etc.)			
<b>Total</b>	<b>29,619,782</b>	<b>5,456,762</b>	<b>35,076,544</b>

***Tax Supported Programs*** fully completed 322 projects with total project cost of \$242.2 million, an actual expenditure of \$213 million resulting in savings of \$29.9 million of which \$12.241 million was funded by debt; \$0.763 million funded by CFC; and \$16.608 million funded by reserve/reserve funds.

***Rate Supported Programs*** fully completed 29 projects with total project cost of \$88.6 million, an actual expenditure of \$83.2 million resulting in saving of \$5.5 million of which \$3.863million was funded by reserve/reserve funds; \$1.449 million funded by recoverable debt; and \$0.153 million funded by Federal funding.



Table 4 outlines project costs, actual expenditures and savings realized from the closure of completed Capital projects during 2015.

**Table 4**  
**2015 Project Closure Summary**

Tax Supported Programs	Closed Projects Q2	Closed Projects Q3	Closed Projects Q4	Total 2015
# of Closed Projects	198	124		322.0
Project Budget (\$M)	63.5	178.7		242.2
Actual Expenditure (\$M)	59.8	153.2		213.0
Savings (\$M)	4.0	25.9		29.9
Savings in Debt Funding (\$M)	3.0	9.3		12.3
<b>Rate Supported Programs</b>				
Rate Supported Programs	Closed Projects Q2	Closed Projects Q3	Closed Projects Q4	Total 2015
# of Closed Projects	1.0	28.0		29.0
Project Budget (\$M)	0.3	88.3		88.6
Actual Expenditure (\$M)	0.4	82.8		83.2
Savings (\$M)		5.5		5.5
Savings in Debt Funding				0.0
<b>All City Programs/Agencies</b>				
All City Programs/Agencies	Closed Projects Q2	Closed Projects Q3	Closed Projects Q4	Total 2015
# of Closed Projects	199.0	152.0	0.0	351.0
Project Budget (\$M)	63.8	267.0	0.0	330.8
Actual Expenditure (\$M)	60.2	236.0	0.0	296.2
Savings (\$M)	4.0	31.4	0.0	35.4
Savings in Debt Funding (\$M)	3.0	9.3	0.0	12.3

## Dashboard Approach

The dashboards for City Programs and Agencies, set out in Appendix 3, 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% 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

## CONTACT

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## SIGNATURE

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Roberto Rossini  
Deputy City Manager & Chief Financial Officer

## ATTACHMENTS

Appendix 1 - 2015 Consolidated Capital Variance Report for the Year-Ended  
December 31, 2015

Appendix 2 - Major Capital Projects

Appendix 3 - Dashboards by Program/Agency