



Capital Variance Report for the Year Ended December 31, 2016

Date: May 25, 2017

To: Budget Committee and Executive Committee

From: Deputy City Manager & Chief Financial Officer

Wards: All

SUMMARY

The purpose of this report is to provide Council with the City of Toronto's capital variance for the year-ended December 31, 2016. Capital expenditures for the twelve months ended December 31, 2016 totalled \$2.855 billion or 60.2% of the 2016 Approved Capital Budget of \$4.747 billion (see Table 1). The spending rate is lower than 2015 spending rate of 68.3% and the five year average of 62.6%.

For the year-ended December 31, 2016, Tax Supported Programs and Agencies reported capital expenditures of \$2.085 billion representing 56.2% of their collective 2016 Approved Capital Budget of \$3.712 billion. Rate Supported Programs reported capital expenditures of \$770.7 million, representing 74.5% of their collective 2016 Approved Capital Budget of \$1.034 billion.

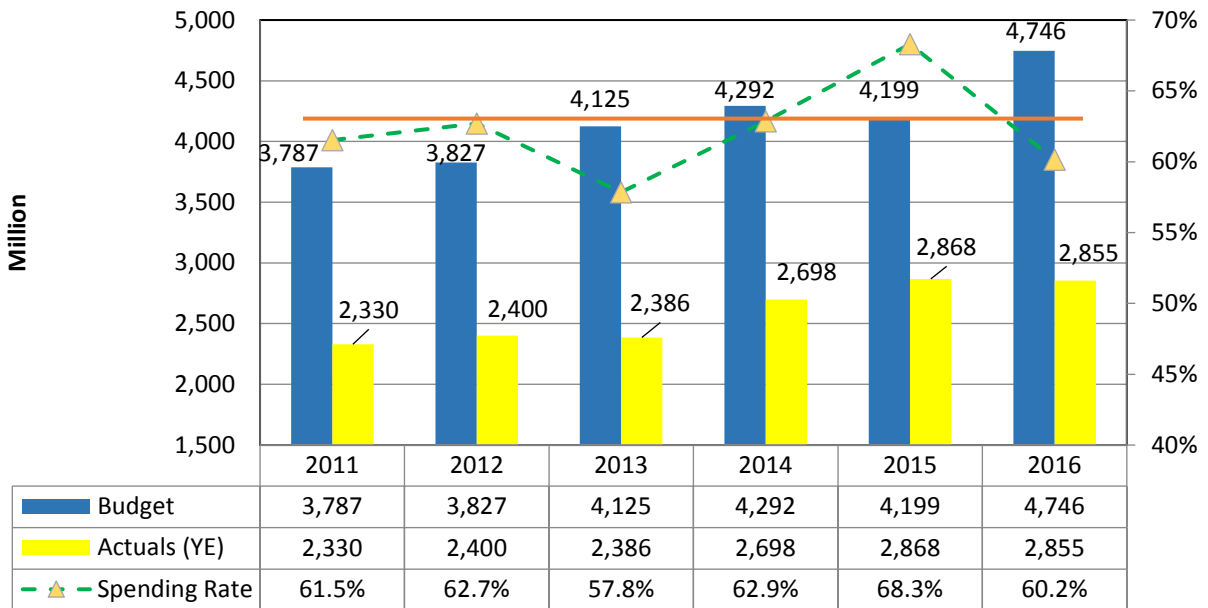
Table 1: Summary of Capital Spending

	2016 Approved Budget	Actual Expenditures - January to December	
		(\$M)	%
Tax Supported	3,712.1	2,084.7	56.2%
Rate Supported Programs:	1,034.4	770.7	74.5%
TOTAL	4,746.5	2,855.4	60.2%

The rate of spending in 2016 was driven largely 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. The detailed explanations of project delays by Program/Agency are provided in Appendix 3 attached to the report.

Figure 1 below shows City of Toronto's historical capital spending rate over the last 6 years.

Figure 1: 2011 - 2016 Capital Spending Rate



Actual capital expenditures have been steadily trending upwards over the last 5 years: from 2011 of \$2.330 billion to 2016 of \$2.855 billion. However, as a result of increased Capital Budgets, the spending as a percentage of the Budget is lower. The increased budget is driven by a combination of Council approval of higher capital budgets together with higher carry forward funding levels from prior year unspent capital projects.

The 2016 year-end capital budget of \$4.747 billion represents the highest Capital Budget the City has had for its Tax and Rate Supported Programs. This level of funding reflects Approved Capital Budget of \$3.183 billion plus the 2015 carry forward funding and 2016 in-year budget adjustments of \$1.564 billion.

The under-spending in 2016 was primarily driven by the following Programs/Agencies:

(\$Million)	2016 Approved Budget \$	2016 Actual Expenditure	2016 Unspent Amount	Spending Rate
		(\$)	(\$)	%
Toronto Transit Commission	2,165.2	1,221.9	943.3	56.4%
Transportation Services	456.3	252.8	203.5	55.4%
Facilities Management, Real Estate & Environment	295.0	160.6	134.5	54.4%
Parks, Forestry & Recreation	242.3	114.9	127.4	47.4%
Toronto Parking Authority	86.0	26.6	59.4	30.9%
Information & Technology	98.7	53.5	45.2	54.2%
Toronto Police Service	71.7	34.4	37.3	48.0%
Solid Waste Management Services	96.7	64.5	32.1	66.7%
TOTAL	3,512.0	1,929.2	1,582.8	54.9%
Other Program	1,234.5	926.2	308.3	75.0%
GRAND TOTAL	4,746.5	2,855.4	1,891.1	60.2%

A total of \$3.512 billion or 73.9% of the 2016 Approved Capital Budget was allocated to these 8 Programs or Agencies from which \$1.582.8 billion or 83.7% of the underspending was attributed to them.

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 2016 actual expenditure for Tax and Rate Supported Programs for the year ended December 31, 2016.

Table 2: Capital Year-End Spending by Cluster

	2016 Approved Budget	Actual Expenditures - January 1 to December 31, 2016	
		(\$M)	%
Tax Supported Programs:			
Citizen Centred Services - "A"	377.31	186.66	49.5%
Citizen Centred Services - "B"	525.24	292.97	55.8%
Internal Services	475.84	273.73	57.5%
Other City Programs	22.39	10.46	46.7%
Sub Total City Operations	1,400.8	763.8	54.5%
Agencies	2,311.33	1,320.85	57.1%
Sub Total - Tax Supported	3,712.1	2,084.7	56.2%
Rate Supported Programs:			
Solid Waste Management	96.7	64.5	66.7%
Toronto Parking Authority	86.0	26.6	30.9%
Toronto Water	851.7	679.6	79.8%
Sub Total Rate Supported	1,034.4	770.7	74.5%
Total	4,746.5	2,855.4	60.2%

Total Capital expenditures for Tax and Rate Supported Programs and Agencies for the year-ended December 31 2016 were \$2.855 billion representing 60.2% of their combined 2016 Approved Capital Budget.

As detailed in Appendix 2, 28 capital projects can be closed with this report with a total budget of \$39.845 million and actual expenditure of \$37.6 million. This results in \$2.257 million in realized savings of which \$1.432 million would have been debt funded.

Table 3 below outlines the number of projects, project costs, actual expenditures and savings realized from the closure of completed Capital projects during 2016.

Table 3: 2016 Closed Projects

Tax Supported Programs	Closed Projects Q1	Closed Projects Q2	Closed Projects Q3	Closed Projects Q4	Total 2016
# of Closed Projects	20.0	28.0	4.0	22.0	74.0
Project Budget (\$M)	83.1	318.3	27.6	35.4	464.4
Actual Expenditure (\$M)	49.9	277.0	27.5	33.5	387.8
Savings (\$M)	33.2	41.3	0.1	1.9	76.6
Savings in Debt Funding (\$M)	0.0	27.8	0.0	1.4	29.2
Rate Supported Programs					
Rate Supported Programs	Closed Projects Q1	Closed Projects Q2	Closed Projects Q3	Closed Projects Q4	Total 2016
# of Closed Projects	0.0	22.0	0.0	6.0	28.0
Project Budget (\$M)	0.0	43.9	0.0	4.5	48.3
Actual Expenditure (\$M)	0.0	33.7	0.0	4.1	37.8
Savings (\$M)	0.0	10.1	0.0	0.3	10.5
All City Programs/Agencies					
All City Programs/Agencies	Closed Projects Q1	Closed Projects Q2	Closed Projects Q3	Closed Projects Q4	Total 2016
# of Closed Projects	20.0	50.0	4.0	28.0	102.0
Project Budget (\$M)	83.1	362.1	27.6	39.8	512.7
Actual Expenditure (\$M)	49.9	310.7	27.5	37.6	425.6
Savings (\$M)	33.2	51.4	0.1	2.3	87.0
Savings in Debt Funding (\$M)	0.0	27.8	0.0	1.4	29.2

In 2016, City Programs and Agencies have completed 102 projects of which 28 are to be closed with this report. The total combined project cost for those 102 projects is \$512.703 million with final spending of \$425.651 million and a realized saving of \$87.042 million.

Tax Supported Programs fully completed 74 projects that had a total project cost of \$464.343 million, an actual expenditure of \$387.807 million resulting in under expenditure of \$76.563 million. This permanent under expenditure results in financial savings of which \$29.234 million was funded by debt; \$6.982 million funded by CFC; \$11.729 million funded by reserve/reserve funds; \$10.164 million funded by Provincial and Federal Subsidy; \$0.251 million funded by Development Funds; and \$18.453 million by Other funding sources.

Rate Supported Programs fully completed 28 projects that had a total project cost of \$48.312 million, an actual expenditure of \$37.842 million resulting in permanent financial savings of \$10.470 million of which \$4.726 million was funded by reserve/reserve funds and \$5.744 million funded by recoverable debt.

The funding sources associated with the underspent are shown in Table 4:

Table 4: 2016 Realized Savings by Funding Source

Funding Source (\$000s)	Tax	Rate	Total
Provincial Grants	10,159	0	10,159
Federal Subsidy	5	0	5
CFC	6,982	0	6,982
Debt	29,234	0	29,234
Development Charges	251	0	251
Reserves/Reserve Funds	11,729	4,726	16,455
Recoverable Debt	0	5,744	5,744
Other (Donation, Third Party etc.)	18,202	0	18,202
Total	76,563	10,470	87,032

Accounting Services staff ensures that all expenditures for the identified capital projects/sub-projects were fully funded prior to closure.

Attached to the report are appendices which detail the following:

- Appendix 1 summarizes 2016 year-end spending rates by City Programs and Agencies.
- Appendix 2 details completed projects for various City Programs and Agencies that will be closed at 2016 year-end.
- Appendix 3 provide explanation on the progress of the capital work for Major Projects.

- Appendix 4 provides Dashboards for each City Program and Agency for the twelve months ended December 31, 2016.

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

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 progressed during 2016 and the actual spending incurred against the 2016 Approved Capital Budget.

DECISION HISTORY

Capital Variance reports are prepared 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, and on an exception basis, to identify issues that require direction and/or decisions from Council.

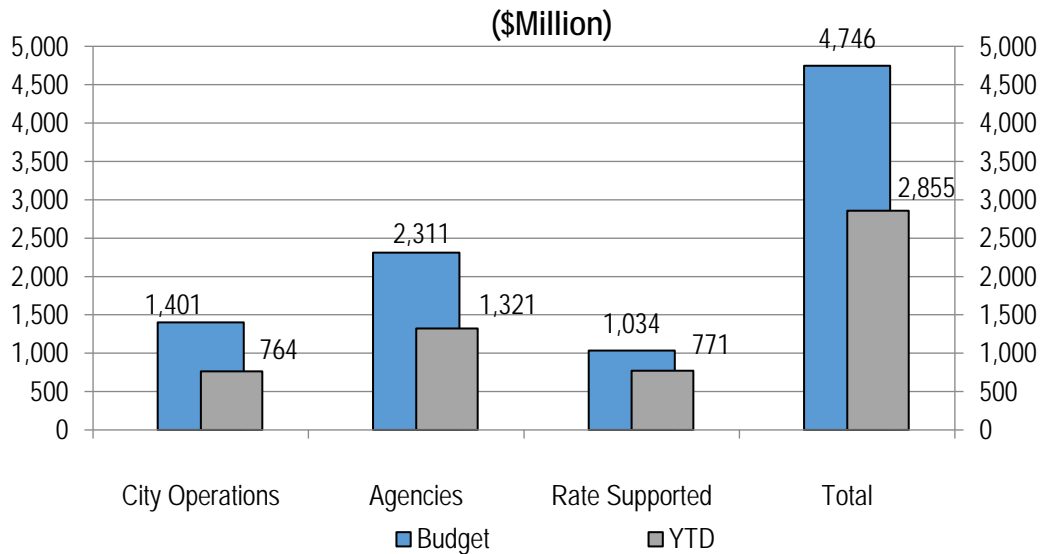
At its meeting of December 9-10, 2015, City Council approved a 2016 Rate-Supported Capital Budget of \$942.295 million; and at its meeting of February 17-18, 2016, City Council approved a 2016 Tax Supported Capital Budget of \$2.241 billion for a total of \$3.183 billion. The 2016 Rate-Supported Capital Budget consists of \$801.083 million for Toronto Water, \$52.045 million for Toronto Parking Authority and \$89.167 million for Solid Waste Management Services.

COMMENTS

Figure 2 below compares the 2016 Approved Budget and to the year-end actual spending for City Programs and Agencies and Rate Supported Programs. Overall

\$2.856 billion was spent by the end of 2016 resulting in 60.2% of the total 2016 Approved Capital Budget of \$4.746 billion.

Figure 2: 2016 Capital Budget and Year-End Spending as of December 31, 2016

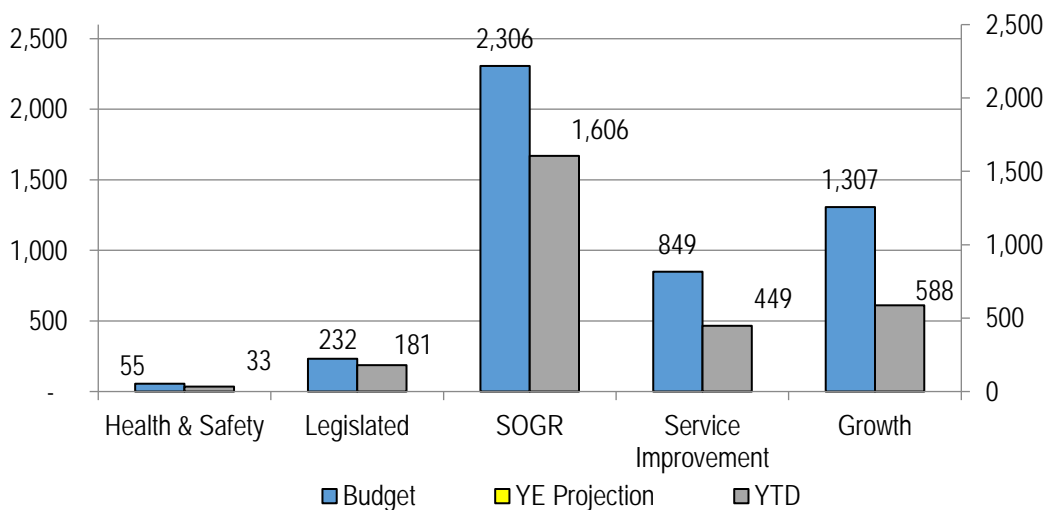


Notwithstanding the 60.2% spending rate, a number of projects are on track and were completed in 2016. As well, a portion of the reported under spending is attributable to savings from completed projects coming in under budget.

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). Figure 3 and 4 below outline the 2016 Approved Budget and the number of projects in each category.

Figure 3 below compares the 2016 Approved Budget and the total 2016 spending for each project category.

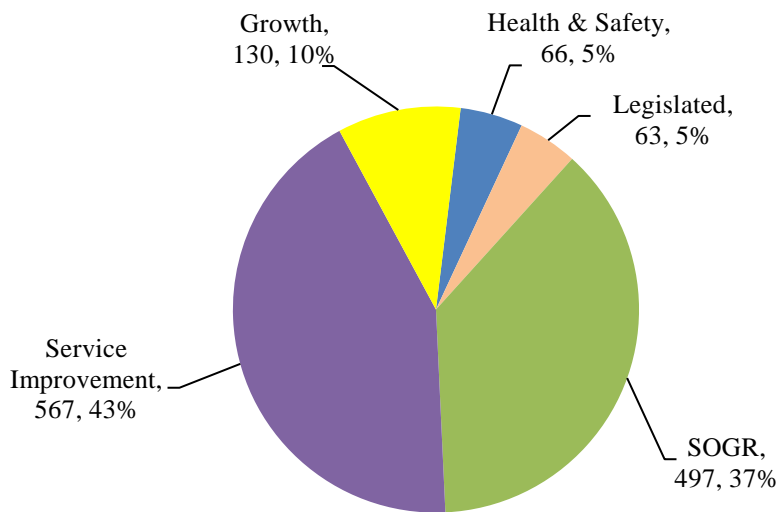
Figure 3: 2016 Approved Budget and Spending by Project Category



State of Good Repair (SOGR) projects represent \$2.306 billion of 2016 Approved Capital Budget, at year-end, \$1.606 billion or 69.6% of the capital funding allocated to SOGR projects was spent. In addition, \$448.991 million in approved Service Improvement projects and \$587.793 million for Growth Related projects was spent by year-end representing a spending rate of 52.9% and 45.0% respectively. Total spending for Health & Safety projects amounted to \$33.056 million and Legislated projects incurred expenditure of \$180.707 million by 2016 year-end representing 60.0% and 78.0% respectively. SOGR projects have higher budget and spending compared to Service Improvement or Growth related projects due to more maintenance, repair and design site work required of existing infrastructure.

As illustrated in Figure 4 below, the City had a total of 1,323 active capital projects by the end of 2016.

Figure 4: 2016 Active Projects (1,323)



As illustrated in Figure 4 above, 497 or 37.6% of the City's active capital projects are for State of Good Repair (SOGR), 567 or 43% are Service Improvement projects, 130 or 10% are Growth related projects, 66 or 5% are Health & Safety projects and 63 or 5% are Legislated projects.

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.

Table 5 below outlines the Closed Capital Projects for the last 5 years

Table 5: 2012 – 2016 Closed Capital Projects

	2012	2013	2014	2015	2016	2012-2016
# of Projects Closed:	383	233	368.0	351.0	102.0	1,437
Project Budgets (\$M)	495	1,557	652	330.8	512.7	3,548
Actual Capital Expenditure (\$M)	423	1,374	581	296.2	425.6	3,100
Savings (\$M)	16	183	72	35.4	87.0	393
Savings in Debt Funding (\$M)	8	103	24.7	12.3	29.2	177

During the last 5 years, City Programs and Agencies completed capital work on 1,437 capital projects that have had a combined total project cost of \$3.548 billion and actual expenditures of \$3.100 billion, coming under budget by \$393 million, of which \$177 million resulted in avoided debt funding.

In addition to the above fully completed projects, 43 capital sub-projects were completed within 14 Council approved projects. These partially closed capital projects have a combined approved total project cost of \$20.565 million and total life-to-date spending of \$15.968 million. These projects will remain open to allow the continuation of capital work and the residual funds of \$4.598 million to be used to complete the remaining phases or sub-projects of the approved capital projects.

CONTACT

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SIGNATURE

Roberto Rossini
Deputy City Manager & Chief Financial Officer

ATTACHMENTS

Appendix 1 - Capital Variance Summary for the Year Ended December 31, 2016
Appendix 2 - Capital Projects for Closure
Appendix 3 - Major Capital Projects
Appendix 4 - Capital Dashboard for Programs/Agencies