

Capital Variance Report for the Twelve Months Ended December 31, 2021

Date: June 9, 2022

To: Executive Committee

From: Chief Financial Officer and Treasurer

Wards: All

SUMMARY

The purpose of this report is to provide City Council with the City of Toronto capital spending for the twelve month period ended December 31, 2021.

As illustrated in Table 1 below, City's 2021 capital expenditure was \$3.545 billion or 67.6% of the 2021 capital budget of \$5.245 billion for the period ended December 31, 2021.

- Tax Supported Programs and Agencies reported capital expenditures of \$2.319 billion representing 61.3% of their collective 2021 Approved Capital Budget of \$3.783 billion.
- Rate Supported Programs reported capital expenditures of \$1.226 billion, representing 83.9% of their collective 2021 Approved Capital Budget of \$1.462 billion.

As reported in the April 7, 2021 COVID-19 Recovery and Rebuild Update to City Council, the 2021 Capital Budget anticipated potential impacts to capital project delivery as a result of pending intergovernmental funding commitments to address COVID-19 financial pressures. These challenges were sustained throughout 2021 due to ongoing significant global supply chain issues and labour challenges attributed to COVID-19, severely impacting capital delivery. In Q4 the emergence of the Omicron wave further impacted capital project delivery.

Table 1: Capital Variance Summary

Table 1 Corporate Capital Variance Summary for the Period Ended December 31, 2021			
	2021 Approved Budget*	2021 YE Actual Expenditures	
	\$M	\$M	%
City Operations	2,139	1,263	59.1%
Agencies	1,644	1,055	64.2%
Tax Supported	3,783	2,319	61.3%
Rate Supported Programs:	1,462	1,226	83.9%
TOTAL	5,245	3,545	67.6%

**Note: Includes carry forward funding*

While further efforts to improve capital spending continue, divisional and agency improvements in capital planning along with refinements in capital budgeting have resulted in improved capital spend rates over the last few years, with the 2021 spend rate of 67.6% greater than the 5 year historical average of 65.7%. However, the 2021 spend rate is lower than 2020, as challenges were experienced early in the year while awaiting intergovernmental funding commitments to address COVID-19 financial pressures; and were sustained throughout 2021 due to ongoing significant global supply chain issues and labour challenges attributed to COVID-19, severely impacting capital delivery.

This was particularly impactful during Q4 where the emergence of the Omicron wave resulted in lower spending than forecasted for the fourth quarter, with actual spending reported as 67.6% as compared to a projected year-end spend of 77.4% or \$4.076 billion. While less than projected, the City still accomplished a total capital spend of \$3.545 billion at year-end, a \$1.628 billion increase in actual spending over reported figures in the capital variance report for the nine month ended September 30, 2021, and \$0.531 billion less than projected.

Moving forward, the City will continue to plan annual capital projects in line with both affordability and achievability, based on the historical actual capacity and in consideration of emerging challenges such as inflationary impacts and supply chain disruptions. The strategy is expected to build on improvements experienced to date and improve the capital spend rate in future years; fully utilizing approved funding and enabling any excess funding capacity to support additional capital priorities, while promoting realistic capacity to spend in light of external factors and challenges.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council receive this report for information.

FINANCIAL IMPACT

The capital expenditures of 2021 totalled to \$3.545 billion or 67.6% of the total 2021 Approved Capital Budget.

Appendix 1 summarizes the 2021 spending by City Programs and Agencies.

DECISION HISTORY

City Council approved the 2021 Rate-Supported Capital Budget of \$1.437 billion (meeting of December 16, 2020) and the 2021 Tax Supported Capital Budget of \$3.699 billion (meeting of February 18, 2021).

This report is provided pursuant to financial management best practices and budgetary control. As part of the city of Toronto's financial accountability framework, quarterly and year-end capital variance reports are submitted to committees and city council, to provide financial monitoring information on capital results to date and projections to year-end, and on an exception basis, to identify issues that require direction and/or decisions from City Council. In addition, City Council's approval is requested for budget adjustments that amend the Approved Capital Budget and Plan between projects in accordance with the financial control by-law and the city's financial management policies.

COMMENTS

Table 2 outlines capital spending for Tax and Rate Supported Programs for the Twelve Months Ended December 31, 2021 for major service areas.

Table 2: Capital Variance Summary

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	2021 Approved Budget	2021 YE Actual Expenditures	
	\$M	\$M	%
Tax Supported Programs:			
Community and Social Services	918.4	557.0	60.6%
Infrastructure and Development Services	646.9	463.0	71.6%
Corporate Services	475.8	232.9	49.0%
Finance and Treasury Services	79.2	5.3	6.6%
Corporate Initiatives	3.4	0.6	19.3%
Other City Programs	15.0	4.6	30.4%
Sub Total City Operations	2,138.7	1,263.4	59.1%
TTC	1,278.2	830.0	64.9%
Transit Expansion (TTC)	97.9	34.8	35.6%
Other Agencies	268.1	190.6	71.1%
Sub Total - Tax Supported	3,782.9	2,318.9	61.3%
Rate Supported Programs:			
Solid Waste Management	79.1	50.0	63.2%
Toronto Parking Authority	52.5	12.0	23.0%
Toronto Water	1,330.6	1,164.4	87.5%
Sub Total Rate Supported	1,462.2	1,226.4	83.9%
Total	5,245.1	3,545.2	67.6%

City Programs and Agencies actual year-end capital expenditures totalled \$3.545 billion or 67.6% of the 2021 Approved Capital Budget. The 2021 spend rate is lower than 2020 as challenges were experienced early in the year due to timing of intergovernmental funding commitments which resulted in a slowdown of capital spending and worsened throughout 2021 due to the sustainment of COVID-19. As indicated during the April 7, 2021 “COVID-19 Recovery and Rebuild Update” report to City Council, the timing and adequacy of intergovernmental funding commitments was anticipated to impact the 2021 Capital Budget and capital project delivery. COVID-19 impacts were prevalent in Q4 of 2021 due to ongoing significant global supply chain issues and labour challenges attributed to COVID-19, which was further worsened with the emergence of the Omicron wave during year-end. This had a negative impact on the year-end actual spending in comparison to what was reported as part of the Q3 year-end projections.

The spending rate in 2021 was primarily driven by Programs and Agencies with significant capital programs such as TTC, Toronto Water and Transportation Services:

- TTC (Base Programs) spent \$830 million or 64.9% of its 2021 Approved Capital Budget. The largest expenditures were on the *Purchase of Streetcars (\$129.2 million)*, *Other Buildings & Structures Projects (\$76.2 million)*, *Easier Access-Phase III (\$72.6 million)* and *Bus Overhaul (\$61.0 million)*.
- Toronto Water spent \$1.164 billion or 87.5% of its 2021 Approved Capital Budget. The following multi-year projects account for some of the most

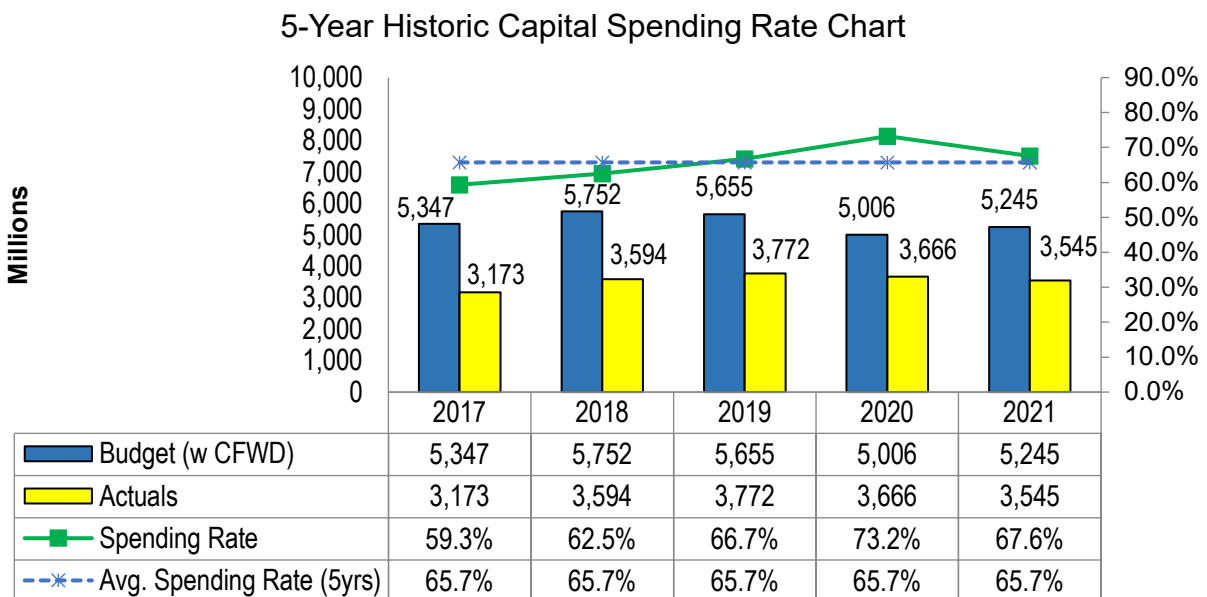
significant spending: *Ashbridges Bay Wastewater Treatment Plant - Effluent System Project* (\$156.5 million), *Basement Flooding Relief Program* (\$120.4 million), and *District Watermain Replacement* projects (\$100.5 million).

- Transportation Services is on track with most of its major projects including: Local and Major Road Rehabilitation projects (\$119.3 million), the *F.G. Gardiner project* (\$63.7 million), and *City Bridge Rehabilitation Critical projects* (\$36.8 million). As a result Transportation Services spent \$373.3 million or 80.6% of its approved 2021 Capital Budget.

Figure 1 below compares the actual year-end spending rate in each of the years 2017 to 2021, and the five year average spending rate as detailed in this report. The spending rate is the actual capital spending amount as a percentage of the full year budget including in-year adjustments and carry forward funding from prior years' unspent budget.

As indicated in the annual chart below, the City's annual spending rate is trending up from year 2017's 59.3% to 2021's 67.6%. Despite the impacts of COVID-19, labour challenges and significant supply chain disruptions the City was facing, the City achieved a 2021 spending rate of 67.6% which was higher than the 5 year average of 65.7% and greater than every recent year except 2020. The sustained impacts of COVID-19, significant supply chain disruptions and the emergence of the Omicron wave in Q4 resulted in a lower than projected actual spend in 2021.

Figure 1: 2017 - 2021 Spending and Spending Rate (\$Millions)

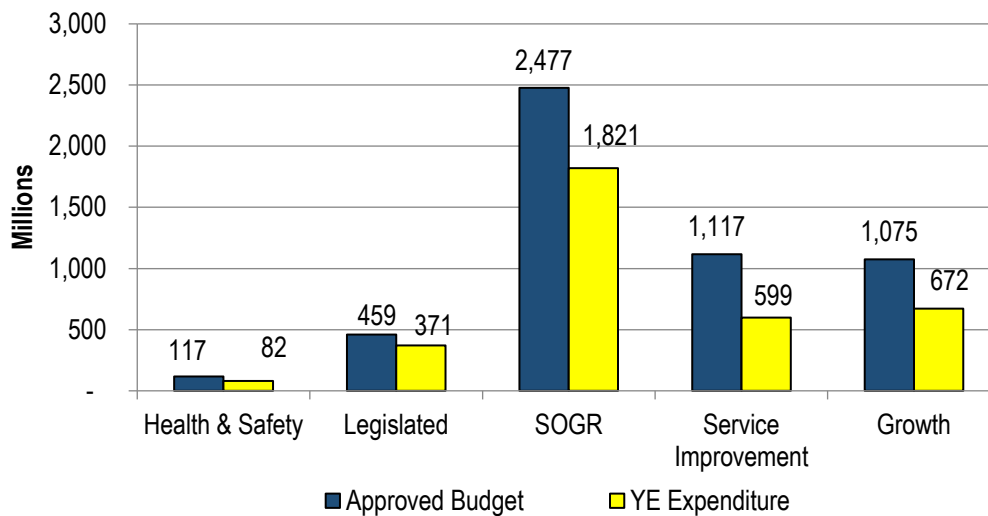


Despite City of Toronto's effort to deliver projects on time, City Programs and Agencies were facing tremendous challenges in 2021 as COVID-19 restrictions continued to have a negative impact across City's divisions. The global supply chain disruption and labour shortage also escalated the pressures in material deliveries and staff recruitment, causing unexpected delays in completing capital projects. At its meeting on May 11,

2022, City Council approved additional carry forward funding of \$545.2 million from unspent capital project funding, resulting in a total carry forward amount of \$1.627 billion in 2022 and future years to enable capital project delivery.

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 on the following page compares the 2021 Total (Tax and Rate) Approved Budget, year-to-date spending and year-end projections for each project category.

Figure 2: 2021 Approved Budget and Spending by Project Category (\$Millions)



Legislated and State of Good Repair (SOGR) projects have the two highest actual spending rates of 80.9% and 73.5% respectively. SOGR projects account for the highest actual spending at \$1.821 billion which aligns with the City's continued emphasis on SOGR investment. Health & Safety has the next highest spending rate of 69.7%. In addition, Growth related projects experienced a 62.5% spend rate and Service Improvement related projects had a 53.6% spend rate. This lower spending rate is common for these categories of projects which tend to be more complex, include various stakeholders and have dependencies on other factors. Table 3 below outlines 2021 City's capital expenditure and spending rate by project category.

Table 3: City Budget and Actual Spending by Project Category

Project Category (\$M) - YE 2021	Approved Budget	YE Expenditure	Spending Rate
Health & Safety	117	82	69.7%
Legislated	459	371	80.9%
SOGR	2,477	1,821	73.5%
Service Improvement	1,117	599	53.6%
Growth	1,075	672	62.5%
Total	5,245	3,545	67.6%

As illustrated in Figure 3 below, the City has a total of 1,249 active capital projects at the end of 12 months of 2021.

Figure 3: 2021 Active Capital Projects by Category (Number of Projects)

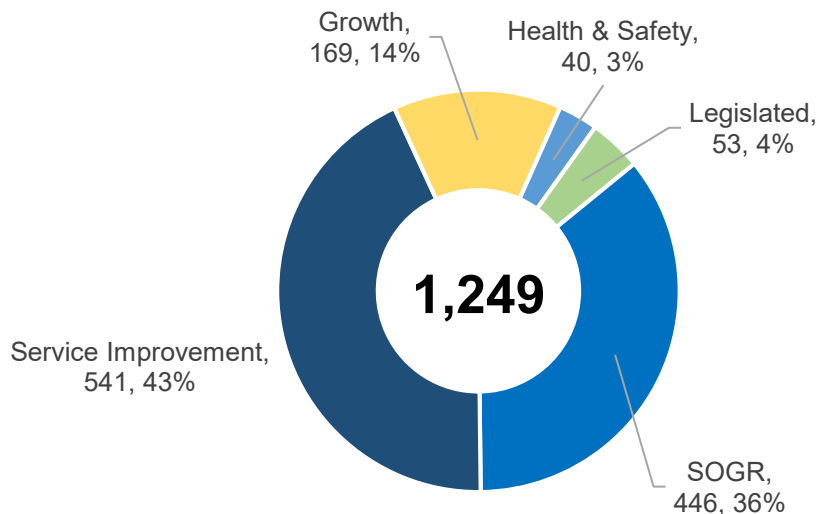


Figure 3 displays the total number of active capital projects in each category. Service Improvement projects account for the majority of active projects totalling 541 or 43% of the City's capital projects, with a total value of \$599 million. SOGR projects account for 446 or 36% of all capital projects, with a total value of \$1,821 million. The number of capital projects and how they are distributed among categories may vary according to individual Program and Agency capital planning requirements. Please refer to Table 3 above for detailed breakdown of the 2021 Capital Budget and spending by project category.

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.

Closed Capital Projects in the twelve months of 2021

Closing of completed capital projects in a timely manner identifies underspending and allows funding to be returned to its original source, to be reinvested in future budgets. Accounting Services staff will ensure that all expenditures for the identified capital projects/sub-projects are appropriately accounted for prior to closure.

Appendix 2A details 57 capital projects from the Tax Supported Programs that have been completed in the twelve months of 2021 by various City Programs and Agencies which can now be closed. Together these capital projects have a combined budget of \$178.9 million and actual expenditures of \$164.2 million. This results in permanent underspending of \$14.7 million.

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 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 for future use consistent with funding eligibility.
- 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 for future use.
- Debt is applied last and is usually only issued upon a capital project's completion, with the proceeds of the debenture applied directly to the project.

CONTACT

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix 1 2021 Capital Variance Summary for the Twelve Months Ended December 31, 2021
Appendix 2A 2021 Year-End Capital Projects for Full Closure
Appendix 2B 2021 Year-End Capital Projects for Partial Closure
Appendix 3 2021 Year-End Major Capital Projects
Appendix 4 2021 Year-End Capital Variance Dashboard by Program and Agency