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## MEMORANDUM

April 13, 2012

TO: Mayor & Council

FROM: Penny Ballem, City Manager

CC: Patrice Impey

SUBJECT: 2011 Capital Budget

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In 2011, the Finance organization initiated a project to develop Capital budget quarterly financial reporting for Management and Council. This memo is the fourth and final report on the 2011 Capital Budget, and reflects the continuing evolution of our financial reporting processes to improve transparency and accountability for the City's financial performance. The memo has been made available to the public on the City of Vancouver external website at <http://vancouver.ca/fs/budgetServices/index.htm>.

The Capital Budget Quarterly Report includes a review of:

- 2011 Capital expenditures by department in comparison with the 2011 Capital Budget;
- The multi-year Capital expenditures by department in comparison with the multi-year Capital Program/Project budget.

While the Operating Budget is built to reflect operating costs for one year only, the annual Capital budget reflects one year of what can be multi-year Capital projects. Therefore, Capital projects are viewed on both an annual budget basis (annual expenditure vs annual budget), and a total project basis (multi-year project expenditures vs budget).

### Summary of Results:

2011 Capital expenditures were \$239.6 million on a 2011 budget of \$329.3 million, or 73% of budget. Annual expenditures were less than budget due to 3 main drivers:

- Projects awaiting 3rd party funding or partnership funding - while budgets were set for the 2011 year, many projects (particularly in Community Services) rely on 3rd party partnerships, or are dependent on market conditions (such as real estate acquisitions). These are unpredictable, and many were delayed until the following year. Beginning in 2012, these "timing uncertain" projects are not budgeted until there is more certainty on when the expenditure will take place. Approximately \$38 million of the

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under budget performance was due to these factors.

- Shifting Capital Program priorities - Staff resource availability, changes in requirements and external impacts such as weather condition or extended timelines for procurement or consultations in advance of the project can require project reprioritization or changes in timelines resulting in delayed expenditures. Approximately \$43 million of the under budget performance was due to these changes in priority and timing, and is expected to be spent in 2012 (\$39 million) and into 2013/14 (\$3 million).
- Project surpluses or reduced project scope - Projects are completed under the approved budget (Approximately \$10 million)

On a Departmental view, Engineering, while below budget by 17%, has significantly improved performance to budget with fewer projects carried forward into 2012 than prior years. This focus on capacity planning and budgeting to ability to spend is reflected in these results and in the 2012 budget. Parks has performed very well, virtually on target for the year. Community Services under budget performance of 39% reflects the uncertain timing for partnership and real estate acquisitions, and this has been factored into the 2012 budget. Civic Property and IT were below budget by close to 50% and reflect changing priorities and resource constraints. This is being reviewed and actioned by the departments in 2012. In 2011, the VPD facilities project was over budget due to timing as there is an offsetting positive variance in 2010.

Overall, the capital tracking to budget is improving as oversight of project schedules, scope and budgets has increased. Performance to budget will continue to be monitored closely and action taken as appropriate.

#### **Capital Status as of December 31, 2011**

##### **A. 2011 Capital Expenditures vs. 2011 Capital Budget:**

Annual Capital expenditures were \$239.6 million for the year ended December 31, 2011, representing 73% of the 2011 annual Capital Budget of \$329.3 million. The difference between the budgeted and actual expenditures is largely due to spend timing differences, as budgeted 2011 expenditures were shifted out to 2012 due to delays in contract tendering/awarding, adverse weather, and shifting Capital Program priorities.

Table 1 provides a summary of the annual Capital expenditures by department compared to the 2011 Capital Budget.

TABLE 1 - 2011 Annual Capital Budget to Actual Comparison (\$000's)

| Department/Area                  | 2011 Capital Budget | Actual Expenditures 2011 | Variance         | Variance as a % of Budget |
|----------------------------------|---------------------|--------------------------|------------------|---------------------------|
| Engineering Services             | \$ 150,639          | \$ 124,473               | \$ 26,166        | 17%                       |
| Parks & Recreation               | 51,389              | 50,315                   | 1,074            | 2%                        |
| Community Services               | 50,438              | 10,697                   | 39,741           | 79%                       |
| Civic Property Management        | 21,799              | 11,613                   | 10,186           | 47%                       |
| Information Technology           | 25,515              | 12,851                   | 12,664           | 50%                       |
| Vancouver Police Department      | 12,689              | 20,790                   | (8,101)          | -64%                      |
| Vancouver Fire & Rescue Services | 8,143               | 5,638                    | 2,505            | 31%                       |
| Library                          | 4,867               | 2,592                    | 2,276            | 47%                       |
| Other                            | 3,826               | 650                      | 3,176            | 83%                       |
| <b>TOTAL</b>                     | <b>\$ 329,305</b>   | <b>\$ 239,619</b>        | <b>\$ 89,687</b> | <b>27%</b>                |

Of the \$89.7 million variance, \$42.3 million has been carried forward to future years' capital budgets (\$39 million to 2012, \$3.3 million to 2013/14), \$37.9 million has been carried forward to future years as Timing Uncertain (projects involving external dependencies with uncertain spend timing). The remaining \$9.5 million is made up of a combination of closeouts, and projected surpluses.

Notable variances by department are provided below.

Engineering Services:

Engineering Services has a positive variance of \$26.2 million or 17% of budget. The majority of the variance can be explained as follows:

- Streets work postponed due to unexpected sewer follow-up crew work, development and Transportation co-ordination issues;
- Various Transportation projects had extended public consultation periods which delayed construction. Property purchase relating to Canada Line bridge bike and pedestrian connection was delayed;
- Street lighting project work and other non-emergency work deferred to 2012 to support an increased emphasis on maintenance work in 2011;
- Residential Drop-Off upgrade at the Landfill delayed pending completion of the South Fraser Perimeter road and the Landfill closure and gas collection project delayed due to extended contract processes;
- Water transmission projects delayed as crews were redirected to work on the expansion of the NEU.

The remainder of the variance is made up of a number of projects and can be attributed to delays in consulting and contract work and constructions delays.

### Community Services:

Community Services has a positive variance of \$39.7 million or 79% of budget. The variance was primarily due to delays in land/social housing acquisitions resulting from our reliance on partnership funding (e.g., awaiting matching funding from partnership organization before the project can be initiated) or opportunistic purchases such as land or housing acquisitions where the exact timing of the expenditure is unknown and may cross multiple years.

As part of the new Capital Budgeting process, for 2012 and future years, these projects are categorized as "Timing Uncertain" and not included in the 2012 annual Capital Budget. When the timing of these capital expenditures becomes certain, the projects will be added to the Capital Budget.

### Civic Property Management:

Civic Property Management has a positive variance of \$10.2 million or 47% of budget. Approximately half of the \$10.2 million dollar variance can be explained by 4 major projects.

1. Re-roofing of the archives/records facility - Project was delayed due to extended timeline of procurement and adverse weather conditions, and is now scheduled for completion in 2012;
2. Non-Profit Capital Assets Phase 2 - Project was delayed due to uncertainties associated with a possible relocation of the Maritime Museum which in turn caused delays in non-profit capital maintenance work. The project is scheduled for completion in 2012;
3. Major office accommodation planning - Project was delayed as plans were adjusted to new requirements and approval process and is scheduled for completion in 2012;
4. Recapitalization software - Project scope is being reviewed as part of the VSR process and as such has been delayed.

The remaining variance is made up of a combination of relatively smaller dollar variances in a variety of Capital Maintenance programs (e.g., mechanical systems, electrical systems, fire protection systems, etc.)

### Information Technology:

Information technology has a positive variance of \$12.7 million or 50% of budget. Just over half of the variance can be explained by two key projects:

- Data Centre expansion - Project was delayed slightly due to project scope review; however, the project is underway and the feasibility study and tendering process are complete;
- Permit and Project Tracking System - Project is a large multi-year project. The project startup was delayed due to additional data gathering requested for the project business case and the subsequent delay in developing the related RFP; the RFP is now complete and contract negotiations are underway.

The remaining variance is made up of a combination of relatively smaller dollar variances in a variety of IT projects and programs.

### Vancouver Police Department:

Vancouver Police has a negative variance of \$8.1 million or -64%. This is primarily due to the timing of planned versus actual expenditures for the Property and Forensic Storage Facility project. This is a large, multi-year project with a total multi-year budget of \$30.3 million. The 2011 Capital Budget was developed based on a level of costs being incurred in the fourth quarter of 2010; a significant portion of these planned 2010 expenditures shifted to 2011, however, creating a negative variance when compared to the 2011 budget. It is expected that this project will be closed out by the second quarter of 2012 and that on an overall project budget basis the project will be completed on budget.

### **B. Multi-year Capital Project Expenditures vs Budget:**

The review of the multi-year capital program/projects identifies projects that have budget risks, are projected to complete on/over/under budget, as well as which projects have unspent balances at the end of the year. As of December 31, 2011, Capital programs/projects underway have budgets totaling \$1.056 billion, with actual expenditures to date of \$885.2 million and an unspent total balance of \$170.8 million.

The unspent balance represents \$84 million included in the 2012 Capital Budget, \$7 million forecast to be spent in 2013/2014, and \$44 million classified as Timing Uncertain.

The remaining \$36 million is made up of a combination of anticipated project closeouts, 2011 expenditure timing differences between what was forecast to be spent in 2011 (forming the carryforward component of the 2012 Capital Budget) and actual 2011 expenditures, and anticipated completion variances for current capital projects and programs.

### **Federal and Provincial Infrastructure Projects**

In 2010, 31 capital projects with an overall budget of \$160 million received funding for "eligible" expenses through the Infrastructure Stimulus Funding ("ISF") Programs, including up to \$53.5 million in Federal Infrastructure Stimulus and Recreational Infrastructure Canada ("RinC") funding and up to \$10 million in infrastructure funding through the Province. This maximum funding contribution of \$63.5 million from the senior government Infrastructure Stimulus Programs was included in the 2010 Capital Budget.

Due to the expansion in project scope of some ISF projects and to maximize the federal funding (e.g. VanDusen Garden Visitor Centre, Neighbourhood Energy Utility and Sewer Replacement), additional City funding was required and the total budget for all ISF and RinC projects was increased to \$164.5 million.

All 31 City of Vancouver projects (29 ISF projects and 2 RinC projects) under the ISF Programs met the completion deadline set by the Federal Government. As of the end of 2011, the actual expenditure was \$159 million (96%), with \$55 million funding received from the senior governments.

The Federal Government required an audit report to be submitted for each of the individual ISF projects. These audit reports were completed in January 2012. These reports, along with

the final project expense claims, were submitted before the federal deadline of January 31, 2012.

The City anticipates that it will receive an additional \$3.8 million federal funding (holdback release and final claim) in April 2012. At that time, it is estimated that the City will have spent approximately \$160.5 million on these 31 projects, with a total recovery under the ISF Programs of \$58.8 Million. As some of the project costs were not eligible for Federal funding; therefore, additional funding by the City of approximately \$0.65 million will be required to cover these ineligible costs. We expect to close out all ISF projects within the next two quarters (when all the senior government funding is received and the total expenditure finalized).

## SUMMARY

The City of Vancouver incurred \$239.6 million in capital expenditures for the year ended December 31, 2011 compared with an annual budget of \$329.3 million, which represents 73% of the 2011 Capital Budget. The spend shortfall is attributable primarily to a shift in the timing of expenditures budgeted in 2011 but delayed to 2012 due to delays in contract tendering/awarding, adverse weather, awaiting partnership funding, and shifting City Capital Program priorities.

The 2012 annual Capital Budget approved in February 2012 is \$255.1 million. This amount closely aligns with the 2011 actual expenditures, reflecting City's overall annual capacity to spend on capital projects.

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