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Town of Aurora

Budget Committee Report

No. FIN20-025

Subject: New capital budget framework

Prepared by: Rachel Wainwright-van Kessel, Director, Finance

Department: Finance

Date: November 16, 2020

Recommendation

1. That Report No. FIN20-025 be received for information.

Executive Summary

This report outlines the new framework for the capital budget in the 2021 to 2022 Budget and 10-Year Capital Plan.

- The capital budget now shows a complete capital plan
- Capital Budget Authority will be requested for each capital project and may span multiple years to reflect the contractual commitments needed for the project
- The 10-year capital plan in the budget more carefully manages capital reserves ensuring the funds are planned to be available in each year
- Four capital programs are proposed for repair and replacement projects to improve capital delivery
- Council will be asked to approve the capital budget in a few new ways
- Starting in 2021, new capital projects proposed in-year may need to be offset by a project with the same type of capital funding
- The reporting on approved capital projects will change in 2021

Background

The 2020 Capital Budget identified a few key improvements to the capital budget for 2021. These changes included:

- Bringing approved and proposed capital together
- Considering multi-year capital project commitments along with cash flow
- Developing long-term reserve requirements
- Developing more sophisticated Development Charge revenue models
- Refining the fiscal strategy and set financial policy

This budget accomplishes the first two elements which will provide a strong foundation for further development of the last three items listed above.

Analysis

The capital budget now shows a complete capital plan

In the past capital budgets for a project were approved for the total amount and then managed through the Capital Close Report and no longer appeared in the capital budget. The capital budget now includes all new capital requests, active capital projects, conditionally approved projects and a list of the closed capital projects.

Capital Budget Authority will be requested for each capital project and may span multiple years to reflect the contractual commitments needed for the project

Capital budget authority is a new concept in this budget which represents the approved capital budget commitment for a project. This multi-year commitment relates to procurement contracts items like consulting services, the purchase of vehicles or the construction of the project. Sometimes these contractual commitments may need to be made in the year before the spending occurs to manage the lead time of the procurement.

Capital budget authority is made up of four components:

- Life to date actuals spent on a project to the end of the last fiscal year
- The current year's capital forecast
- The cash flow planned in the first budget year

- The cash flow, as required, for future budget years where contractual commitments are planned.

This means the 2021 capital budget authority includes actuals to December 31, 2019 plus the 2020 forecast plus 2021 capital cash flow and capital from 2022 and beyond only as required.

The 10-year capital plan in the budget more carefully manages capital reserves ensuring the funds are planned to be available in each year

The financial information included in the budget for each project now shows the timing of when the work is expected to be done and funds are to be spent. This was a key element in improving the management of reserves in this budget.

The purpose of the reserve determines the type of capital projects it can fund. As part of this budget, there was a focus on the first five years of the capital plan to ensure that the timing and spending on projects was managed to stay within the available funds within the reserves and also the available staff resources to deliver the project. This was done through a corporate-wide collaboration of staff to prioritize the projects particularly for the growth & new and studies & other projects.

The reserve contributions for the Development Charge reserves is more difficult to predict and some project have a post period benefit which means future growth outside the five-year study period will also pay for these projects. The management of the Development Charge reserves in this budget now reflects the forecasted collections rather than the full amount in the study and also recommend debt for some projects to manage the timing of when the future Development Charges will be collected to pay for these projects.

Four capital programs are proposed for repair and replacement projects to improve capital delivery

The Town of Aurora has historically approved projects on an individual basis. This means each replacement of a vehicle and each repair to a facility separately. Should a project cost come in higher than expected, then a report to Council to seek additional budget is needed to proceed with the project unless up to 10 percent of the budget from a like project can be allocated under the Delegated Authority Bylaw.

Capital programs group projects of a like funding source together. The capital program budget is the total of the budget approved for all projects within the program. The

program then provides the flexibility to manage the variances to budget between projects. So if one project costs less than budgeted, these funds can be used to cover the costs of projects that cost more within the same program while not exceeding the total budget approval for the program.

Using capital programs will enable staff to more effectively manage variances on capital projects and reduces the delays needed to seek additional budget when tenders come in higher than expected. In turn this should result in staff being able to improve the delivery of capital projects resulting in projects taking less time to complete.

The use of the capital programs must follow the following rules:

- The savings applied to other projects should represent a true savings and not a deferral that will need to be re-budgeted in future years
- The project scope must remain the same as originally approved by Council
- The projects must have the same funding source
- The capital budget authority for the program cannot be exceeded
- The planned capital spending (cash flow) for the budget year cannot be exceeded.

Capital programs are proposed for facilities, fleet, roads and storm sewer repair and replacement projects. Each of these groups of projects have their own dedicated repair and replacement reserve and are guided by the asset management plan. This makes repair & replacement projects a good choice for the flexibility that program groups provides.

Council will be asked to approve the capital budget in a few new ways

As part of the capital budget the approval will go beyond just approving the individual project in this budget. Five types of budget approval will be sought for capital projects including:

- Approval of each new capital project and their requested capital budget authority
- Approval of the changes to capital budget authority for each capital project
- Approval of the total planned 2021 spending subject to adjustments related to the variances carried forward from the 2020 forecast (both over and under spending)
- Approval of the capital program groups subject to the rules outlined for their use
- Approval of debt authority for specific projects.

The only adjustments that will be made to the capital spending planned for 2021 will be adjustments for the 2020 forecast variances. Should the project spend less than forecasted then these funds are available in 2021 for that specific project. However, should the project spending in 2020 be higher than the forecast, the 2021 available budget will be reduced by that amount. This will help manage the timing differences between the forecast year and the first budget year.

Starting in 2021, new capital projects proposed in-year may need to be offset by a project with the same type of capital funding

In-year budget requests for new capital projects or capital budget authority increases must be managed carefully going forward because this budget has focused on the careful management of reserves and staff resources to develop the 10-year plan.

The in-year requests will need to consider the following questions:

- Is there available budget within similarly funded projects that can be moved to cover the budget increase?
- Does the forecasted total spending stay within the total budgeted?
- What is the impact on the future capital projects in the 10-year plan?
- What is the impact on the reserves?

It is highly recommended that any new capital requests be deferred to the next budget process or have the budget from a similarly funded capital project reallocated to it. Ideally all future capital investments should be included in the 10-year plan as soon as they are known so they can be appropriately prioritized within the capital plan.

The reporting on approved capital projects will change in 2021

The reporting on capital projects in 2021 will change based on this new framework for the budget. The new reporting will be able to show not just spending on the project budget to-date budget also a forecast of the project spending for the year compared to the 2021 budget year amount approved. This will improve cash management and also show the Town's success in delivering the capital plan.

Advisory Committee Review

None

Legal Considerations

None

Financial Implications

There are no direct financial implications associated with this report. The changes outlined here will affect how the budget is reviewed and approved. The approval of the budget planned for December 15th will include approval framework described in this report.

Communications Considerations

The Town of Aurora will use 'Inform' as the level of engagement for this project. There are five different levels of community engagement to consider, with each level providing the community more involvement in the decision-making process. These levels are: Inform, Consult, Involve, Collaborate and Empower. Examples of each can be found in the Community Engagement Policy. These options are based on the International Association of Public Participation (IAP2) Spectrum and assist in establishing guidelines for clearly communicating with our public and managing community engagement. Staff will inform the public of the changes to the budget process by posting information to the Town website. The calendar of budget-related meetings will also be shared on the website and through social media.

Link to Strategic Plan

Developing, reviewing and presenting the annual capital plan supports several aspects of the Strategic Plan. This report supports the Plan principles of Leadership in Corporate Management, Leveraging Partnerships, and Progressive Corporate Excellence and Continuous Improvement. Enter text

Alternative(s) to the Recommendation

1. Council to provide direction.

Conclusions

Council be provided with the capital budget approval recommendations, which support the new capital budget framework outlined in this report, for its consideration of the approval of the budget on December 15th, 2020.

Attachments

None

Previous Reports

FIN20-027, 2021 Budget Introduction, October 27, 2020

FIN20-009, 2021 Budget Process and Timeline, April 14, 2020

Pre-submission Review

Agenda Management Team review on October 15, 2020

Approvals

Approved by Rachel Wainwright-van Kessel, CPA, CMA, Director, Finance

Approved by Doug Nadorozny, Chief Administrative Officer