

2017 Planned spending on capital projects

**Priorities Committee Meeting
June 12, 2018**

Legislation and compliance

Municipal Government Act

- Budgeting Requirements
- Accounting Standards
 - Annual planned spending reported as a key budget figure in the audited Financial Statements

County Policies

- Financial Reporting (FIN-001-010)
- Tangible Capital Assets Financial Reporting Policy (FIN-001-027)
- Financial Reserves Policy (FIN-001-024)

Capital budgeting process

The capital budgeting process begins with an individual project

- For each individual project, the project budget is the estimate of the total amount that will be spent
- If it is a multi year project, the budget includes the amounts to be spent in each year (i.e. planned spending)
- The entire budget for the project (for the current and all future years) is approved at once
 - The County's capital budgeting, funding and financing processes provide that funds are committed upon approval regardless of the timing of planned spending

Council approved the 2017 Capital Budget of \$65.5 million, which was the total budget for all projects beginning in 2017, including multi-year projects. This approval authorizes the spending for all future years.

Capital budget example

A building is approved with construction beginning in 2016 and a completion date of 2018

- Total project cost is \$6 million
- Forecasted planned spending is \$2 million per year
- The entire \$6 million is approved and fully funded/financed in the 2016 capital budget with planned spending of \$2 million in 2016
- The remaining amounts are not re-approved as a part of the capital budget in subsequent years



Capital budget example (continued)

Planned spending

- The 2016 spending is \$2 million the project is progressing as planned
- The 2017 spending is \$1 million due to unanticipated events

Year	Planned spend	Actual spend	Variance
2016	\$2 million	\$2 million	-
2017	\$2 million	\$1 million	\$1 million
2018	\$2 million		
Total	\$6 million		

In this example, the variance in 2017 would be \$1 million – because the planned spend was \$2 million and only \$1 million was spent.

Capital budget example (continued)

Planned spending

- If there are changes to the project, departments have an annual opportunity to re-forecast planned spending
- If the building from the example was delayed, the re-forecast could resemble:

Year	Planned spend	Actual spend	Variance
2016	\$2 million	\$2 million	-
2017	\$2 million	\$1.0 million	\$1.0 million
2018 re-forecast	\$2.5 million		
2019 re-forecast	\$0.5 million		
Total	\$6 million		

In this example, the 2018 and 2019 planned spending were both increased by \$0.5 million (after they were re-forecast) to account for the 2017 variance.

Project execution and timing

Financial administration

- Projects are strictly monitored to ensure they do not exceed the total budget (e.g. the \$6 million from the example)
- If an amendment is required, it is approved **before** any funds are spent. (e.g. if the building required an additional \$2 million, this would be approved by Council as an amendment to the budget)

Project execution and timing

- Project activities can vary for many reasons (construction delays, permit delays, weather, etc.)
- If the project is delayed, no approvals are required (e.g. if the building was delayed to 2019, but still on budget, no approval is required)
- Management reporting provides status of planned spending versus actual

2017 Planned versus actual spending

Strathcona County has had significant variances between what is planned to be spent and what is actually spent in a year.

2017 Planned spend in millions	
2017 Total Planned Spend	\$190.7
2017 Capital Spend (actual amount spent)	(\$76.6)
2017 Capital Variance	\$114.1

The results of the comparison between the planned and actual spending are summarized into categories.

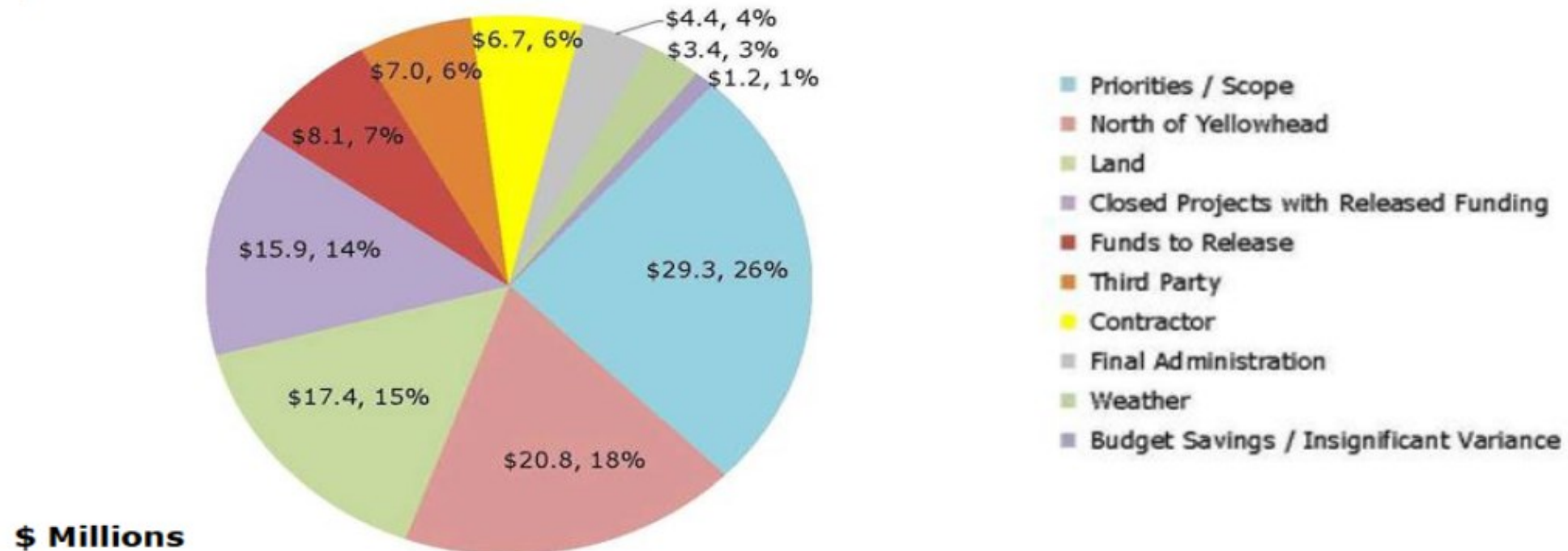
2017 Planned spending and budget (in millions)

	2017 Planned spend	2018 Planned spend	2019 Planned spend	2020 + Planned spend	2017 Amended budget
2017 Approved budget	\$54.5	\$10.6	\$0.2	\$0.2	\$65.6
2017 Approved amendments	\$8.9	\$8.9	\$2.9	\$1.1	\$21.8
2016 Open projects	\$48.2	\$15.7	\$2.3	\$0.3	-
2015 Open projects	\$25.7	\$9.1	\$0.2	\$1.0	-
Prior year open projects	\$53.4	\$25.8	\$36.5	\$4.1	-
Total planned spend in 2017	\$190.7				\$87.4

Slide seven from the 2017 Annual Management Report

Capital Variance As at December 31, 2017

2017 Capital Variance = \$114.1 Million



Variance categories

Priorities/Scope (26% or \$29.3M)

Delays due to changing priorities (Corporate and/or Divisional), scope changes, and project alignment/staging with other projects and initiatives

Land (15% or \$17.4M)

Delays due to land purchase timing, negotiations, or locating appropriate land for the intended use

Third Party (6% or \$7.0M)

Third party agreements, activities, or funding delays

Contractor (6% or \$6.7M)

Contractor, vendor or other purchasing delays (e.g. Request for Proposal (RFP) process)

Closed projects with released funding (14% or \$15.9M)

These projects have been closed during the year and any savings on 2017 planned spending have been released back to the original sources of funding

Priorities/scope examples

Smart Fare and Smart Bus

2017 Variance: \$5,549,343

- Approved by Council in fall of 2014 subject to Provincial GreenTRIP funding approval
- Confirmation of GreenTRIP funding took longer than expected (received late 2015) which delayed release of RFP
- Delayed RFP release caused timelines to be readjusted which impacted original planned spending
- Full implementation scheduled for end of Q2 in 2020
- Smart Bus scheduled for implementation in early 2019
- The City of Edmonton is leading the RFP in partnership with SC and the City of St Albert

Wye Road, Brentwood and Nottingham intersection

2017 Variance: \$4,285,681

- Construction began in 2017
- Completion of this work will be in 2018 as FORTIS had to complete their work along this section of roadway first.
- The Nottingham Way/Hillshire Boulevard intersection improvements are delayed due to development timing

Priorities/scope examples (continued)

Strathcona County Business Transformation (SCBT) Project

2017 Variance: \$3,905,119

- Project commenced in 2016
- The project paused to ensure the correct scope to allow the organization to achieve full value of a modernized ERP system
- Project resumed in August 2017 with a revised scope and Council approval
- Forecasted completion in July 2020

Facility capital lifecycle

2017 Variance: \$1,581,689

- Project commenced in 2016
- There are various projects included within this capital project that are now assigned and in various stages of completion
- Two projects linked to the Kinsmen Leisure Centre are now forecasted to be completed in 2020

Land examples

Twp Rd 560, Rge Rd 213 to 214

2017 Variance: \$6,252,229

- Construction tender delayed due to environmental permit approvals, land and borrowing agreements
- Capital Budget Amendment in July 2017 to add funds covering additional project costs
- Construction tendered in late 2017, began in early 2018 and continue throughout 2018

Class 1 Rural Grid Road Improvement Projects

(Twp Rd 522 from East of Hwy 21 to Rge Rd 224)

2017 Variance: \$3,170,334

- Due to land negotiation challenges, right of way acquisition was not completed as originally anticipated; therefore delaying construction
- On March 27, 2018 Council approved a budget amendment that will result in the remaining land being pursued in 2018 to continue construction

Multi-Use Agricultural Facility – Design, Land and Utilities

2017 Variance: \$2,438,479

- Delay due to sellers request on closing the land sale in 2018

Third party example

Petroleum Way Improvements Phase 1 and Trans Canada Trail

2017 Variance: \$881,828

- The construction was largely completed in 2017
- Delays in rail crossing approvals / scheduling delayed the completion of the work
- Topsoil, seeding and other deficiency work remains for 2018

Centre in the Park (CITP) Development

2017 Variance: \$834,420

- CITP developers were not as far along as predicted
- Strathcona County could not complete the interface infrastructure work on the two remaining lots
- Work is expected to commence in July 2018

Contractor examples

Annual Residential Rehab Program 2017

2017 Variance: \$596,830

- Program not completed due to contractor delays and early season cool temperatures
- Completion expected in the second quarter of 2018

Strathcona Athletic Park Shop Modification

2017 Variance: \$500,000

- Project originally issued on one RFP
- Delayed due to two streams of work that required two separate negotiated RFPs
- Coordination with Facility Services
- Construction to be completed in 2018

Closed projects – funding released

Sump Pump Collector Retrofit

2017 Variance: \$1,400,200

- Project finished with lower costs due to better contract rates and more efficient processes

Annual Rural Water Program

2017 Variance: \$1,107,235

- Fewer rural customers connecting to pressurized water system.
- Policy being revised to make connections more attractive to rural customers

Vehicle and Equipment Replacement

2017 Variance: \$1,067,452

- Several units in 2015 required replacements
- Purchases were much less than anticipated due to recession, market competition and new vendors

Closing comments

Upcoming Council reports that will be presented to close projects or release funds

- June 19 – Close six North of Yellowhead projects that have not commenced and release \$53.1 million from the Capital Budget
- June 19 – Close two Heartland projects that have not commenced and release \$5.0 million
- July 3 – Release funding of \$19.9 million from nineteen projects that need to remain open for completion but have excess funding

Addressing the outstanding audit observation re: capital budget

- Actions will seek to improve the accuracy of the planned spending
- Approach to address this observation is in under consideration

Questions?