

REPORT
Office of the Chief Administrative Officer
And
Finance Department

To: Mayor Johnstone and Members of Council
Date: September 11, 2023

From: Lisa Spitale
Chief Administrative Officer
File:

Jacqueline Dairon
Acting CFO/Director of Finance

On behalf of the Senior Management Team
Item #: Report Number

Subject: 2023 Capital and Operating Quarterly Performance Report

RECOMMENDATION

THAT Council approve the 2023 quarterly capital budget adjustments as outlined in Table 1-1 of this report.

PURPOSE

To provide quarterly updates to Council on the Operating and Capital Budget and Major Project/Program Spending performance and to seek Council's approval of the proposed 2023 Capital Budget Adjustment and Revised 2023 Capital Budget: (1) Adjust for net budget increases of \$0.3M; and (3) Approve the Proposed Revised 2023 Multi-Year Capital budget of \$179.5M.

EXECUTIVE SUMMARY

The enclosed report and attachments provide a quarterly financial update on the City's 2023 budget and Financial Plan. As of June 30th, the Capital Budget of \$179.2M has

spent \$43.4M and committed over \$52.5M to major projects and capital program spending. The report highlights the City's progress, achieving milestones according to plan. As of June 30th, a total of \$1.2M capital budget adjustment is required of which \$0.9M is fully offset by savings/scope change of other projects in the same year, resulting in a net proposed adjustment of \$0.3M.

The Operating Budget is trending favorably as of June 30th, with the Operating Revenue Budget of \$301.5M performing slightly ahead of expectations, resulting in a projected favorable position of \$3.8M by year-end. This is partially offset by the Operating Expenditure Budget of \$235.4M which is trending unfavorably, with a projected unfavorable position of \$0.49M by year-end.

The City is proactively monitoring and addressing financial risks while implementing measures to ensure the ongoing financial health and sustainability of the City.

BACKGROUND

The 2023 Budget and Five Year Financial Plan were approved in April 2023, reflecting the City's commitment to financial sustainability and aligning with its core values. The budget process involved each Department Head presenting their respective budgets, highlighting achievements from 2022 and outlining initiatives for 2023. This demonstrated a transparent approach to delivering services.

Council has approved the Capital Budget of \$173.2M and the Operating Expenditure Budget of \$235.4M during the annual budgeting process. In June 2023, Council has further approved an increase of \$6.0M to the Capital Budget for Massey Theatre renovation, bringing the current approved capital budget to \$179.2M.

To maintain flexibility and transparency, the Finance Department provides quarterly reports to Council and seeks approval for any necessary budget adjustments throughout the year. This allows for timely reporting on accomplishments, project deferrals, and incorporation of Council's feedback on project adjustments or new initiatives.

The quarterly monitoring and reporting process serves as a best practice, acknowledging that changes can occur within a fiscal year. It ensures that Council is well informed, facilitates consultation on needed changes, and enhances transparency and financial oversight. This approach supports a seamless transition into future budget cycles and updates to the Five Year Financial Plan.

QUARTERLY CAPITAL REPORT

Capital projects and program spending can span over multiple years; therefore, budgets can be larger than the actual annual spend due to the need to complete the procurement strategy and contract awards ahead of time. As per the Community Charter and the City’s Procurement Policy, the City’s budgets must be in place before contracts are committed.

The current 2023 Approved Multi-Year Capital Budget of \$179.2M has \$43.4M spent up to June 30th and over \$52.5M in open purchase order commitments to span spending over multiple years. Capital expenditures will trend upward in the second half of the year, and the current year’s expenditures are comparable with prior years.

As at June 30th, a total of \$1.2M quarterly capital budget adjustment is required of which \$0.9M is fully offset by savings/scope change of other projects in the same year, leaving a net proposed adjustment of \$0.3M from reallocating work from future years of the capital plan to the current year budget to accommodate for business needs.

Attachment 1 provides a comprehensive list of items by project or program with capital expenditures as at June 30th. This attachment also includes projects that staff have proposed adjustments to the 2023 Approved Multi-Year Capital Budget.

Table 1-1 is a summary of the adjustments, which bring us to the Proposed Revised 2023 Multi-Year Capital Budget of **\$179.5M**.

Table 1-1

2023 Approved Revised Multi-Year Capital Budget (\$ in millions)	2023 Q2 Quarterly Adjustment (\$ in millions)	2023 Proposed Multi-Year Capital Budget (\$ in millions)	2023 Annual Forecast (\$ in millions)	2023 Spend to Date (\$ in millions)
\$ 179.2	\$ 0.3	\$ 179.5	\$ 131.2	\$ 43.4

Major Projects Highlight and Status Update:

- **\$42.8M tēmәsewtx^w Aquatic & Community Centre (TACC)** – as at June 30th, the forecasted spend is \$42.8M. Phase 1 on-site & off-site drainage services completed, except final tie-ins and adjustments near property line. TACC team remains committed to tight monitoring and mitigation strategies, and continue to manage risk via the project’s contingency and to stay within the current approved budget of \$114.6M.
- **\$13.8M Advance Metering Infrastructure (AMI)** – as at June 30th, the forecasted spend is \$2.0M with the balance carrying over into 2024. The Advanced Metering Infrastructure (AMI) project is nearing completion of detailed design stage. The network is scheduled to be installed in the fall of 2023, the 100 meter pilot is

scheduled for January 2024 followed by mass deployment beginning in summer 2024.

- **\$12.5M Massey Theatre** – as at June 30th, the forecasted spend is \$0.5M with the balance carrying over into 2024. The building investigation and scope definition work has now been completed as part of the pre-design phase of the project. The recommended scope represents the minimum amount of work necessary to achieve the project objectives which includes demo of gym, electrical room, roof, structural, washroom, elevators, and other accessibility improvements and or upgrades.
- **\$6.7M West-End Sewer Separation Program** – as at June 30th, the forecasted spend is \$2.7M with the balance carrying over into 2024. Archeological requirements for the site have delayed the procurement process, but a renewed procurement strategy will leverage efficiencies, allowing this multi-year program to remain on target.
- **\$6.5M Queensborough (QB) Substation** – as at June 30th, the forecasted spend is \$5.3M with an estimated original \$2.0M savings at project completion by September 2023, where \$0.8M was reallocated support other projects. The substation is currently in operation with only minor deficiencies left. The project will be financially closed by the end of September.
- **\$6.0M West-End Watermain Repair Program** – as at June 30th, the original \$6.0M forecasted spend has been reduced to \$1.8M with the balance carrying over into 2024. Archeological requirements for the site have delayed the procurement process, but a renewed procurement strategy will leverage efficiencies, allowing this multi-year program to remain on target.
- **\$5.2M Sewer Separation** – as at June 30th, the forecasted spend is \$5.2M. Construction is underway and is on-track on 13th Street.
- **\$4.6M Water Main Replacement** – as at June 30th, the forecasted spend is \$4.6M. Construction is underway and is on-track on 13th Street.
- **\$2.6M Crosstown Greenway Construction** – as at June 30th, the forecasted spend is at \$0.1M with the balance carrying over into 2024. This project needs to be coordinated with a Metro Vancouver watermain installation and construction will be deferred to 2024.
- **\$2.3M Sapperton District Energy** – as at June 30th, the forecasted spend is \$2.0M with the balance carrying over into 2024. Staff have confirmed the monetizing the carbon credits associated with RCH is not possible. The City has received a proposal by the City's consultant related to progressing the design to 30% in order to determine a Class C cost estimate. There are also ongoing discussions with Metro Vancouver around the terms of the agreement.

QUARTERLY OPERATING REPORT

The Operating Budgets provide annual funds for essential City Services such as Public Safety, Parks & Recreation, Library Services, and more. These budgets also propose Property Taxes and Utility rates to sustain Operating Expenditures and contribute to infrastructure renewal.

As at June 30th, the 2023 Approved Operating Revenue Budget of \$301.5M is surpassing expectations by \$3.8M, driven mainly by higher Bank Interest Income and Building Permit Income. The 2023 Approved Operating Expenditures of \$235.4M are slightly above budget by \$0.5M mainly due to higher Contracted Services and Supplies and Materials costs.

The Operating Budgets face a number of potential risk and pressures that should be highlighted to Council for awareness. Several collective agreements have expired and while estimates have been budgeted in 2023, the true impact of these agreement remains contingent upon their ratification. As discussed in the Finance memo, increasing property insurance premium costs and debt financing costs are impacting the 2023 forecast. Vulnerability to climate emergency events and inflationary price increases in supplies and materials continue to put pressure on expense accounts. There also continues to be significant challenges arising from staffing shortages and the need to fill vacancies. While savings in salaries are being actualized, the strain on staffing and recruitment expenses and increasing WorksafeBC premiums are impacting the city budgets.

See **Table 2-1** for a summary of the Operating Revenues – All Funds

Table 2-1

Operating Revenue (in millions)	2023 YTD Budget	2023 YTD Actual	2023 YTD Variance	2023 Annual Budget	2023 Annual Forecast	Forecast vs Budget Variance
Taxation Revenue	\$ (103.12)	\$ (104.22)	\$ 1.10	\$ (105.14)	\$ (104.83)	\$ (0.31)
Utility Rates	\$ (72.83)	\$ (71.75)	\$ (1.08)	\$ (110.55)	\$ (109.31)	\$ (1.24)
Sale of Services	\$ (7.20)	\$ (8.18)	\$ 0.98	\$ (14.80)	\$ (15.85)	\$ 1.05
Grants from Other Governments	\$ (18.51)	\$ (19.49)	\$ 0.97	\$ (24.89)	\$ (25.28)	\$ 0.40
Other Revenue	\$ (12.26)	\$ (14.58)	\$ 2.32	\$ (23.44)	\$ (31.75)	\$ 8.31
Contribution Revenue	\$ (7.51)	\$ (3.81)	\$ (3.70)	\$ (22.68)	\$ (17.01)	\$ (5.67)
Total Revenue	\$ (221.44)	\$ (222.04)	\$ 0.60	\$ (301.50)	\$ (304.04)	\$ 2.53

As at June 30th, the City’s total **actual operating revenues are \$222.0M** vs the estimated budget of \$221.4M. This is primarily due to the timing of received Taxation Revenue \$1.1M and higher than planned Other Revenue \$2.3M, which are offset by lower than planned Contribution Revenue \$3.7M due to timing of the revenue received and a slower pace of capital spending largely due to staff challenges. Staff are forecasting \$2.5M over the 2023 annual budget due to higher than planned bank interest income and building permits fees.

Major Revenue Highlight and Status update at the end of the Second Quarter:

- **Taxation Revenues:** Property tax revenue is \$1.1M higher than budget to date due to the timing of grants in lieu of taxes received. Annual forecast is largely in line of budget.
- **Utility Revenues:** YTD actual is \$1.1M lower than budget to date mainly due to lower than planned commercial electricity consumption \$1.4M, partially offset higher than planned residential electricity consumption \$0.5M. Staff are forecasting a decrease \$1.2M from budget in annual revenues for the year.
- **Sale of Services:** YTD actual is \$1.0M higher than budget to date due to higher than planned service billings from Police \$0.1M; higher sale on recreational services from Parks & Recreation \$0.3M, higher parking revenue from Engineering department \$0.5M; and other minor variances from various program areas. Staff are forecasting a \$1.0M increase in the sale of services in the remainder of the year.
- **Grants from Other Governments:** YTD government grants is \$1.0M higher than budget to date due to timing of the grants received. Annual forecast is largely in line with the 2023 budget.
- **Contribution Revenue:** YTD contribution revenue is \$3.7M lower than budget to date due to timing of the revenue received and a slower pace of capital spending largely due to staff challenges. Staff are forecasting a \$5.7M decrease from budget at end of year as we progress through the budgeted capital spending.
- **Other Revenue:** YTD other revenue is \$2.3M higher than budget primarily due to higher than budgeted bank interest income \$2.0M, as the 2023 budget increase was the first increase staff proposed after many years and therefore staff remained conservative in the forecast under the unpredictable and volatile post-pandemic economic environment. Staff are forecasting an \$8.3M increase from budget by end of year.

See **Table 2-2** for a summary of the Operating Expenditures – All Funds

Table 2-2

Operating Expenses (in millions)	2023 YTD Budget	2023 YTD Actual	2023 YTD Variance	2023 Annual Budget	2023 Annual Forecast	Forecast vs Budget Variance
Salaries/Benefits/Training	\$ 55.16	\$ 53.12	\$ 2.04	\$ 110.63	\$ 110.43	\$ 0.20
Contracted Services	\$ 7.60	\$ 6.61	\$ 1.00	\$ 15.62	\$ 15.28	\$ 0.35
Supplies and Materials	\$ 5.76	\$ 6.17	\$ (0.40)	\$ 11.80	\$ 12.58	\$ (0.79)
Cost of Sales	\$ 0.82	\$ 0.85	\$ (0.04)	\$ 1.67	\$ 1.70	\$ (0.04)
Grants	\$ 0.61	\$ 0.64	\$ (0.03)	\$ 1.22	\$ 1.23	\$ (0.00)
Insurance and Claims	\$ 2.08	\$ 1.94	\$ 0.14	\$ 4.24	\$ 4.38	\$ (0.15)
Amortization	\$ 13.59	\$ 13.86	\$ (0.28)	\$ 27.73	\$ 27.97	\$ (0.24)
Utility Purchases and Levies	\$ 21.20	\$ 20.44	\$ 0.76	\$ 55.71	\$ 55.29	\$ 0.42
Interest and Bank Charges	\$ 3.33	\$ 3.61	\$ (0.28)	\$ 6.76	\$ 7.01	\$ (0.25)
Total Expenses	\$ 110.15	\$ 107.25	\$ 2.91	\$ 235.38	\$ 235.87	\$ (0.49)

As at June 30th, the City’s total **actual operating expenditures are \$107.2M** spent which is \$2.9M less than planned, much of which can be explained by the delay in budget approval this year and misalignment of budget per seasons to actual spending projections. There are some significant underspends to date in areas of Salaries/Benefits/Training \$2.0M due to staffing recruitment challenges, and Utility Purchases and Levies \$0.8M mainly due to lower than expected electrical consumption.

The Interest Charges are \$0.3M higher than budget to date primarily due to timing of debt coupon payments. Annual forecast is \$0.2M higher than budget, which can be attributed to the rising interest rate environment worldwide.

By year-end, staff are forecasting the \$2.9M favorable YTD variance to reduce as departments fill vacancies and accelerate spends in areas like Supplies and Materials and Contracted Services. Staff are estimating the total expenditures by year-end to be \$0.5M above the planned budget due to higher Contracted Services and Supplies and Materials costs, insurance premium costs, and Utility Purchase spends which are offset by unfavorable forecast in revenues in the Utility Rate recovery.

Attachment 2 is a list of individual department operating memos which provide detailed analyses of the department’s quarterly operating results and year-end forecast.

1. MAJOR PURCHASE REPORT

The City’s Procurement Policy (Policy) requires staff to report back to Council on all contracts awarded during the period in excess of \$100,000 and all sole source awards in excess of \$50,000.

For the Quarter ending June 30, 2023, the Purchasing Division was involved in the preparation and administration of 30 competitive bid documents. Also for this period, the Purchasing Division identified 28 awards, purchase orders, or change orders that met the

parameters of this report requirement (**Attachment 3**). Of these, 15 were competitive contract awards, 4 were sole source awards, and 9 were change orders to an existing contract.

A list of all contracts or change orders awarded can be found in Attachment 3.

2. 2023-2026 STRATEGIC PLAN

Staff is working to align the Budget and Five-Year Financial Plan to the new 2023-2026 Council Strategic Plan.

At an upcoming Council Workshop, staff will seek Council input regarding the development of the Strategic Plan/Budget Quarterly Reports. Staff will seek Council input regarding the template for, progress, monitoring and reporting back.

INTERDEPARTMENTAL LIAISON

All City departments have collaborated in this report.

OPTIONS

There are three options for Council's consideration:

Option 1: THAT Council approve the 2023 quarterly capital budget adjustments as outlined in Table 1-1 of this report.

Option 2: THAT Council provides staff with further direction.

Staff recommend Options 1.

ATTACHMENTS

Attachment 1 – Capital Budget Spent to date and Proposed Quarterly Adjustments

Attachment 2 – Quarterly Department Operating Memos

Attachment 3 – Quarterly Major Purchases Report

APPROVALS

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