

REPORT
Office of the Chief Administrative Officer
And
Finance Department

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

From: Lisa Spitale
Chief Administrative Officer
File:

Shehzad Somji
CFO/Director of Finance

On behalf of the Senior Management Team
Item #: 2023-840

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 \$0.9M; and (2) Approve the Proposed Revised 2023 Multi-Year Capital budget of \$180.4M.

EXECUTIVE SUMMARY

The enclosed report and attachments provide a quarterly financial update on the City's 2023 budget and Financial Plan. As of September 30th, the Capital Budget of \$179.5M

has spent \$58.5M and committed over \$46.2M to major projects and capital program spending. The report highlights the City's progress, achieving milestones according to plan. As of September 30th, a total of \$1.3M capital budget adjustment is required of which \$0.4M is fully offset by savings/scope change of other projects in the same year, resulting in a net proposed adjustment of \$0.9M.

The Operating Budget is trending favourably as of September 30th, with the Operating Revenue Budget of \$301.5M performing ahead of expectations, resulting in a projected favourable position of \$33.4M by year-end. This is partially offset by the Operating Expenditure Budget of \$235.4M which is trending unfavourably, with a projected unfavourable position of \$4.4M 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. Throughout 2023, Council has further approved an increase of \$6.3M, including \$6M to the Capital Budget for Massey Theatre renovation and \$0.3M for budget shortfalls on existing projects, bringing the current approved capital budget to \$179.5M.

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 \$179.5M has \$58.5M spent up to September 30th and over \$46.2M in open purchase order commitments to span spending over multiple years. Capital expenditures continues to trend upward towards year-end, and the current year’s expenditures are comparable with prior years.

As at September 30th, a total of \$1.3M quarterly capital budget adjustment is required of which \$0.4M is fully offset by savings/scope change of other projects in the same year, leaving a net proposed adjustment of \$0.9M 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 September 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 **\$180.4M**.

Table 1-1

2023 Approved Revised Multi-Year Capital Budget (\$ in millions)	2023 Q3 Quarterly Adjustment (\$ in millions)	2023 Proposed Multi-Year Capital Budget (\$ in millions)	2023 Annual Forecast (\$ in millions)	2023 Spend to Date (\$ in millions)
\$ 179.5	\$ 0.9	\$ 180.4	\$ 100.2	\$ 58.5

Major Projects Highlight and Status Update:

- **\$42.8M Aquatic & Community Centre (TACC)** – as at September 30th, the forecasted spend is \$42.8M. Building envelope and roof installation is nearing completion at the competition pool, and interior tile work is well underway. 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 September 30th, the forecasted spend is \$0.2M with the balance carrying over into 2024. Project team is progressing the design to 30% in order to determine a Class C cost estimate; this will also improve the likelihood of securing grants to fund a portion of the capital costs. There are also ongoing discussions with Metro Vancouver around the terms of the agreement.

- **\$12.5M Massey Theatre** – as at September 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 September 30th, the forecasted spend is \$0.4M 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 September 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.
- **\$6.0M West-End Watermain Repair Program** – as at September 30th, the original \$0.2M forecasted spend has been reduced 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 September 30th, the forecasted spend is \$5.2M. Construction is underway and is on-track on 13th Street.
- **\$4.6M Water Main Replacement** – as at September 30th, the forecasted spend is \$3.8M with the balance carrying over into 2024. Construction is underway and is on-track on 13th Street.
- **\$2.6M Crosstown Greenway Construction** – as at September 30th, the forecasted spend is at \$0.2M 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 September 30th, the forecasted spend is \$0.2M 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 September 30th, the 2023 Approved Operating Revenue Budget of \$301.5M is surpassing expectations by \$19.6M, driven mainly by a portion of the insurance settlement proceeds received for the loss of the Westminster Pier Park, and higher than anticipated Bank Interest Income and Building Permit Income. The 2023 Approved Operating Expenditures of \$235.4M are slightly below budget by \$1.9M mainly due to lower than anticipated Salaries, Benefits, and Training costs due to vacancies and recruitment challenges.

The Operating Budgets face a number evolving factors and potential risk that should be highlighted to Council for awareness. As announced on November 21st, The City of New Westminster and the Canadian Union of Public Employees, Local 387 (CUPE 387), reached a new three-year collective agreement effective January 1, 2022. The wage increases within this settlement exceeded the budgeted amount, impacting the salary and benefits forecast for this quarterly update. While estimates have been budgeted for remaining expired collective agreements in 2023, the true impact remains contingent upon 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	2023 YTD	2023 YTD	2023 Annual	2023 Annual	Forecast vs
	Budget	Actual	Variance	Budget	Forecast	Budget Variance
Taxation Revenue	\$ (104.57)	\$ (104.11)	\$ (0.46)	\$ (105.14)	\$ (104.94)	\$ (0.20)
Utility Rates	\$ (89.82)	\$ (89.80)	\$ (0.01)	\$ (110.55)	\$ (109.86)	\$ (0.70)
Sale of Services	\$ (10.89)	\$ (13.28)	\$ 2.39	\$ (14.80)	\$ (17.13)	\$ 2.33
Grants from Other Governments	\$ (19.20)	\$ (20.70)	\$ 1.50	\$ (24.89)	\$ (24.93)	\$ 0.05
Other Revenue	\$ (17.63)	\$ (38.68)	\$ 21.05	\$ (23.44)	\$ (60.42)	\$ 36.98
Contribution Revenue	\$ (11.46)	\$ (6.58)	\$ (4.88)	\$ (22.68)	\$ (17.61)	\$ (5.07)
Total Revenue	\$ (253.58)	\$ (273.14)	\$ 19.57	\$ (301.50)	\$ (334.89)	\$ 33.39

As at September 30th, the City's total **actual operating revenues are \$273.1M** vs the estimated budget of \$253.6M. This is primarily due to higher than planned Other Revenue \$21.1M, as a portion of the insurance settlement proceeds was received for the loss of the Westminster Pier Park. The favourability is partially offset by lower than planned Contribution Revenue \$4.9M due to timing of the revenue received and a slower pace of capital spending largely due to staff challenges. Staff are forecasting \$33.4M over the 2023 annual budget due to higher than planned bank interest income and building permits fees, and the receipt of the remaining insurance settlement proceeds for the loss of the Westminster Pier Park in the fourth quarter.

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

- **Taxation Revenues:** Property tax revenue is largely in line with the 2023 budget.
- **Utility Revenues:** YTD actual is largely in line of budget. Staff are forecasting a slight decrease \$0.7M from budget in annual revenues for the year.
- **Sale of Services:** YTD actual is \$2.4M higher than budget to date due to higher than planned service billings from Police \$0.3M; higher parking revenue from Engineering department \$0.9M; higher sale on recreational services from Parks & Recreation \$1.0M; and other minor variances from various program areas. Staff are forecasting a \$2.3M increase in Sale of Services by the end of year.
- **Grants from Other Governments:** YTD government grants is \$1.5M 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 \$4.9M 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 \$5.1M decrease from budget by end of year as we progress through the budgeted capital spending.
- **Other Revenue:** YTD other revenue is \$21.1M higher than budget primarily due to a portion of the insurance settlement proceeds was received for the loss of the Westminster Pier Park \$7.0M; higher than budgeted bank interest income \$5.2M, 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; higher than budgeted permit revenue \$4.2M from various developments; and the timing of the budgeted carbon credits sales. Staff are forecasting a \$37.0M increase from budget by end of year, largely due to the remainder of insurance settlement proceeds \$13.0M received in the fourth quarter.

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

Table 2-2

Operating Expenses (in millions)	2023 YTD	2023 YTD	2023 YTD	2023 Annual	2023 Annual	Forecast vs
	Budget	Actual	Variance	Budget	Forecast	Budget Variance
Salaries/Benefits/Training	\$ 84.74	\$ 83.42	\$ 1.31	\$ 110.63	\$ 115.05	\$ (4.42)
Contracted Services	\$ 11.50	\$ 10.60	\$ 0.90	\$ 15.62	\$ 15.44	\$ 0.18
Supplies and Materials	\$ 8.70	\$ 8.84	\$ (0.14)	\$ 11.80	\$ 11.95	\$ (0.15)
Cost of Sales	\$ 1.24	\$ 1.08	\$ 0.16	\$ 1.67	\$ 1.54	\$ 0.12
Grants	\$ 0.92	\$ 0.77	\$ 0.15	\$ 1.22	\$ 1.08	\$ 0.15
Insurance and Claims	\$ 3.13	\$ 3.16	\$ (0.02)	\$ 4.24	\$ 4.28	\$ (0.05)
Amortization	\$ 20.52	\$ 20.80	\$ (0.28)	\$ 27.73	\$ 27.93	\$ (0.20)
Utility Purchases and Levies	\$ 43.87	\$ 43.34	\$ 0.53	\$ 55.71	\$ 55.80	\$ (0.09)
Interest and Bank Charges	\$ 5.45	\$ 6.17	\$ (0.72)	\$ 6.76	\$ 6.76	\$ 0.01
Total Expenses	\$ 180.07	\$ 178.17	\$ 1.90	\$ 235.38	\$ 239.83	\$ (4.44)

As at September 30th, the City’s total **actual operating expenditures are \$178.2M** spent which is \$1.9M 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 \$1.3M due to staffing recruitment challenges, and Contracted Services \$0.9M due to timing of grant-funded expenditures.

The Interest Charges are \$0.7M higher than budget to date primarily due to timing of debt coupon payments.

By year-end, staff are estimating the total expenditures by year-end to be \$4.4M above the planned budget, primarily due to the anticipated financial implication of the new three-year collective agreement settlement exceeding the original budgeted amount.

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 September 30th, 2023, the Purchasing Division was involved in the preparation and administration of 19 competitive bid documents. Also for this period, the Purchasing Division identified 20 awards, purchase orders, or change orders that met the parameters of this report requirement (**Attachment 3**). Of these, 13 were competitive

contract awards, 3 were sole source awards, and 4 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 actively engaged in aligning the Budget and Five-Year Financial Plan to the new 2023-2026 Council Strategic Plan. This is recently demonstrated through the presentation of the General Fund Capital Budget on October 16th and the General Fund Operating Budget on December 11th.

At the September 25th Council Workshop, the Strategic Plan Progress Report Template received endorsement, a key step in our strategic planning process. Looking forward, the next quarterly update in the new year will see staff presenting progress updates for each strategic priority, utilizing the approved template. This strategic timing will facilitate the connection between the 2024 Budget and Five-Year Financial Plan with the strategic priorities, ensuring a seamless alignment between the endorsed template and the projects approved in the budget.

INTERDEPARTMENTAL LIAISON

All City departments have collaborated in this report.

OPTIONS

There are two 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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