

REPORT
Climate Action, Planning and Development
Finance Department

To: Mayor Johnstone and Members of Council in Workshop
Date: March 4, 2024

From: Jackie Teed, Director,
Climate Action Planning and
Development
File: Doc#2433200

Shehzad Somji, CFO/Director of
Finance
Item #: 2024-123

Subject: **Climate Action Decision Making Framework: Prioritizing Funding for Climate Focused Initiatives**

RECOMMENDATION

THAT Council endorse the Climate Action Decision Making Framework for immediate use, including in the 2024 quarterly variance and 2025 capital budget process, and

THAT Council direct staff initiate the next steps as presented in this report.

PURPOSE

The purpose of this report is to present Council with the Climate Action Decision Making Framework and to seek council's endorsement to use the framework in the City's 2024 quarterly variance and 2025 capital budget process.

EXECUTIVE SUMMARY

To enable transparent and consistent identification and prioritization of projects which can be supported with monies from the Climate Action Reserve Fund (CARF), the City retained KPMG to develop a Climate Action Decision Making Framework (CADMF); which was initiated in July 2023. The accelerated timeline of this project delivered a draft framework in fall 2023 to allow for beta-testing of the framework on a small subset of projects in the 2024 budget.

Since the Council Workshop (September 11, 2023), the following has been completed:

1. Updated the framework criteria and structure based on feedback from Council Workshop.
2. Beta-tested the framework with 3 capital projects within the proposed 2024 budget with the support and participation from project owners.
3. Adjusted the framework language, rating scales, and weightings based on outcomes of the beta-testing to further differentiate the recommended outcomes when necessary.
4. Created user-friendly template, training materials, and guidance documents to support CADMF implementation.
5. Identified opportunities for future refinement of the framework and development of a reserve policy to support principled financial management of the CARF.

The Climate Action Team (CAT) and Finance Department recommend broader use of the CADMF in the City's 2025 budgeting processes. This will support broader assessment of the functionality of the framework, identify current City initiatives that are advancing the City's climate action strategies and provide the necessary incremental funding through the CARF for initiatives that demonstrate a better than business as usual performance related to energy use and carbon emissions. Using the 2025 budgeting processes as a broad assessment, further refinements to the CADMF can be incorporated in future budget years to maximize the impact of the CARF and support fiscally responsible management of this City reserve.

BACKGROUND

Recognizing that the cost of climate action is incrementally higher than business as usual, a Climate Action Reserve Fund (CARF) was established in 2022. That reserve holds climate action related revenues (i.e. Government grants, third party contributions, climate action levy and low carbon fuel credit sales) which are required to be directed to initiatives which demonstrably advance the City's ability to meet the climate emergency declaration targets.

To enable transparent and consistent identification and prioritization of projects which can be supported with monies from the CARF, the City retained KPMG to develop a Climate Action Decision Making Framework (CADMF); which was initiated in July 2023. The accelerated timeline of this project delivered a draft framework in fall 2023 to allow for beta-testing of the framework on a small subset of projects in the 2024 budget.

Reports to council on this project were delivered on:

1. July 10, 2023, Regular Council Meeting: Climate Action Decision Making Framework Project Update
2. September 11, 2023, Council Workshop: Climate Action Decision Making Framework Criteria Workshop

DISCUSSION

Since the Council Workshop (September 11, 2023), the following has been completed:

6. Updated the framework criteria and structure based on feedback from Council Workshop.
7. Beta-tested the framework with 3 capital projects within the proposed 2024 budget with the support and participation from project owners.
8. Adjusted the framework language, rating scales, and weightings based on outcomes of the beta-testing to further differentiate the recommended outcomes when necessary.
9. Created user-friendly template, training materials, and guidance documents to support CADMF implementation.
10. Identified opportunities for future refinement of the framework and development of a reserve policy to support principled financial management of the CARF.

Council Workshop Outcomes – September 11, 2023

The workshop presented Council with recommended guiding principles, a proposed climate action decision making framework structure and criteria. Through the workshop discussion the feedback that was heard was that the overall approach, framework structure, guiding principles and criteria were aligned with Council's expectations. The following presentments items that were noted for further consideration:

1. Climate Equity (secondary consideration criteria) must hold a stronger place in the framework structure.
2. Incorporate a mechanism for climate change related health and safety emergency initiatives, which may increase energy consumption and/or carbon emissions, to qualify as a viable initiative within the framework (i.e. July 10, 2023 Council Report: City Staff's Heat Plan Response to Extreme Heat in New Westminster: Accelerated Workplan and Funding for Summer 2023).

In response to these considerations:

1. The Climate Equity criteria was elevated to the Primary Criteria section of the framework, where it will carry a stronger influence on the framework outcome.
2. A Climate Emergency criteria was added to the top tier of the framework as an alternative to satisfying the "pass/fail" criteria.

The proposed CADMF structure and criteria are presented in attachment 1.

Beta-Testing Outcomes

Completing the CADMF results in one of the three following recommendations:

- 1. Consider CARF Allocation
- 2. Secondary Consideration for CARF Allocation
- 3. CARF Allocation Unlikely
 - a. It should be noted that this outcome is not a reflection on the value and essential nature of the initiative under review; it simply indicates that the initiative does not directly advance implementation of the City’s climate action strategies or does have sufficient data available to demonstrate the initiative’s ability to reduce energy consumption and/or carbon emission reductions.

Three initiatives from the proposed 2024 capital budget were selected to assess the effectiveness of the CADMF:

Sector	Initiative Name
Civic Buildings	QP Boiler
Transportation	Crosstown Greenway
Climate Policy	CEEP Update 2.0

The selection aimed to identify initiatives from a range of sectors, while also testing if the criteria and guiding questions could be answered by project owners based on existing available information related to their initiative (results in attachment 2).

This testing highlighted the following:

- Higher weightings on emission reduction and ongoing operational cost significantly impacts the overall score.
- Insufficient data or unanswered questions significantly impacts the results.
- Policy initiatives pose inherent risk related to long lead times for impact realization, which can diminish the value of long term planning initiatives within the structure of the CADMF.

With these considerations recorded, the Climate Action Team (CAT) and Finance Department recommend broader use of the CADMF in the City’s 2025 budgeting processes. This will support broader assessment of the functionality of the framework, identify current City initiatives that are advancing the City’s climate action strategies and provide the necessary incremental funding through the CARF for initiatives that demonstrate a better than business as usual performance related to energy use and carbon emissions. Using the 2025 budgeting processes as a broad assessment, further refinements to the CADMF can be incorporated in future budget years to maximize the impact of the CARF and support fiscally responsible management of this City reserve.

NEXT STEPS

The following actions will be taken by the CAT in collaboration with Finance, and through the support of all City Departments (provided the CADMF receives council endorsement):

Q1 2024

- Draft process flow for implementation in 2024 quarterly variance and 2025 capital budget process

Q2 2024

- Internal training and implementation of the Framework in the 2024 quarterly variance process
- Implementation of the Framework in the 2025 budget process
- Initiate development of a CARF Reserve Policy

Q3 2024

- Review submissions for 2025 budget year and the potential impact on the CARF and overall City budget.

Q4 2024 – Q1 2025

- Review feedback from project owners on the Framework itself and recalibrate, if necessary based on overall outcomes.

INTERDEPARTMENTAL LIAISON

This project is being led by the Climate Action Team, in partnership with the Finance Department. The project is supported by the Senior Management Team and all departments across the City as a critical step in applying a climate lens in the budgeting and work planning processes.

Utility Commission

The CADMF has been supported by the Utility Commission as a tool to enable transparency and consistency in allocation of the Climate Action Reserve Fund, which includes contributions from the Climate Action Levy. The following resolution was carried at the February 20, 2024, Utility Commission Meeting with all members voting in favour of the motion:

THAT the Utility Commission endorse the proposed Climate Action Decision Making Framework.

FINANCIAL IMPLICATIONS

The proposed timeline and the development of a CARF Reserve Policy is guided by Financial Sustainability principles that ensures the City’s investments align with the City’s core values, and financial decisions are in the best interest of all.

The CARF is estimated to have a balance of \$41.9M for the year ended December 31st, 2023, and has been incorporated into the City’s Draft 2024 – 2028 Five-Year Financial Plan as an assumed funding for a subset of potential initiatives. Below is a sample list of projects/initiatives which are in alignment with the City’s climate action plans and strategies and the emerging CADMF guiding principles, and which may meet the eligibility criteria of the CADMF. These projects/initiatives formed part of the 2024 – 2028 Capital Plan, where final approval for the use of CARF will be subject to alignment with the adopted CADMF.

Climate Action Reserve Fund (\$ Million)	2024	2025	2026	2027	2028
Civic Buildings Energy Projects	0.22	0.22	0.23	0.24	0.24
EV Charging Infrastructure at Civic Buildings	0.95	-	-	-	-
Natural Environment Enhancement	0.05	0.03	0.03	0.03	0.04
Corporate Energy and Emissions Plan Update 2.0	0.77	0.25	0.25	0.25	0.25
Community and & Corporate EV Charging Strategy	0.55	0.25	0.25	0.25	0.25
Climate Changing Resilience & Adaptation	0.10	-	-	-	-
KPI Dashboard Software	0.02	-	-	-	-
Climate Action Decision Making Framework	0.10	-	-	-	-
Green Infrastructure Network	-	-	-	0.35	0.15
Corporate Electric Vehicles	1.30	0.70	0.87	1.33	3.11
Sub-Total	4.06	1.45	1.63	2.45	4.04
Estimated 3rd party Grants/Contributions	(0.29)	(0.29)	(0.29)	(0.29)	(0.29)
Net CARF Contributions	3.77	1.16	1.34	2.16	3.75
Cumulative Total	3.77	4.93	6.27	8.43	12.18

OPTIONS

There are 3 options for Council’s consideration:

1. That Council endorse the Climate Action Decision Making Framework for immediate use, including in the 2024 quarterly variance and 2025 capital budget process, and
2. That Council direct staff initiate the next steps as presented in this report.
3. That Council provide staff with alternative direction.

Staff recommends options 1 and 2.

ATTACHMENTS

- Attachment 1 – CADMF Structure, Criteria and Rating Scales
- Attachment 2 – CADMF Beta-Testing Results

APPROVALS

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