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**For Information**

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**REPORT TITLE: 2023 Capital Financial Interim Performance Report – May 31, 2023**

**FROM: Patricia Caza, Chief Financial Officer and Commissioner of Corporate Services**

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**OBJECTIVE**

To provide a status update on the 2023 Capital Program interim Performance Report as at May 31, 2023.

**REPORT HIGHLIGHTS**

- The 2023 Capital Program began with an opening balance of \$6.1 billion (1,669 projects) consisting of the approved 2023 Capital Budget and Capital Work in Progress from prior years; the total capital program has an ending balance of \$5.9 billion (1,728 active capital projects) as at May 31, 2023.
  - Regionally Controlled Programs:
    - Capital work completed in the first five months of 2023 totaled \$145.5 million, with \$18.6 million spent in Tax Supported Services and \$126.9 million spent in Utility Rate Supported Services.
    - 95 per cent of the capital work progressed on schedule slightly higher than the past five years' average at year end (94 per cent).
    - The top 25 largest capital projects, by remaining gross budget, make up 39 per cent of the remaining budget of active projects as at May 31, 2023.
  - An operating interim performance report as at May 31, 2023 will be provided to Regional Council to provide a forecast on the operating budget.
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**DISCUSSION**

**1. Background**

The Budget Policy requires that staff report the status of capital work at a minimum of twice a year to manage financial performance to ensure the long-term financial sustainability of Regional services. This report provides the first update for 2023 on the financial results of the Capital Program based on information as at May 31, 2023.

At the beginning of the year, the Capital Program began with an opening balance of \$4.2 billion (1,454 projects) for Capital Work in Progress from prior years.

## **2023 Capital Financial Interim Performance Report – May 31, 2023**

### **2023 Capital Budget**

On February 2, 2023, Regional Council approved \$1.9 billion capital investment in Peel's infrastructure through the 2023 Budget. The approved 2023 Capital Budget includes \$0.8 billion to the Regionally Financed External Organizations: Peel Regional Police, Ontario Provincial Police, and three Conservation Authorities.

## **2. Overview of 2023 Capital Program**

Capital work represents a key component of the Region's service delivery. Capital work is used to acquire, improve, or maintain land, buildings, roads, water and sewer mains, pumping stations, machinery and equipment, information technology and, to conduct studies relating to corporate assets.

The Region's capital plans are developed based on the Region's Growth Master Plans, Regional Official Plan, Corporate Asset Management Plan for state of good repair and other Regional Council directions, such as the Waste Reduction and Resource Recovery Strategy and the Housing Master Plan. The Region actively monitors the changes to these plans and adjusts the capital plan where it is required. A significant portion of the Region's capital work consists of large projects that take five to eight years to complete from start to finish.

Immediately following the approval of the 2023 Budget, Capital work had an opening balance of \$6.1 billion (1,669 projects) which consists of projects that are Regionally Controlled (\$5.1 billion), and those managed by external organizations (\$1.0 billion) such as Peel Regional Police (PRP), Ontario Provincial Police (OPP) and Conservation Authorities.

As at May 31, 2023, the capital work had 1,728 active capital projects with a gross remaining budget of \$5.9 billion (\$5.0 billion and 1,533 capital projects for Regionally Controlled) after year-to-date capital spending of \$0.2 billion. During the first five months of 2023, the total capital projects increased from 1,669 to 1,728 largely due to the creation of smaller capital projects from larger envelope projects.

## **3. Capital Operations and Financing Impact**

The Region actively monitors the performance of the capital operations by tracking the capital project progress through various stages of its project life cycle and analyzing work in progress. Staff review capital performance at a minimum of twice a year and report to Regional Council on the status of the capital work in progress including significant variances.

### **a) 2023 Capital Spending**

Capital spending for both Tax and Utility Rate Supported services (including Regionally Controlled and external organizations) in the first five months of 2023 amounted to \$159.2 million (\$145.5 million for Regionally Controlled, \$13.7 million for external organizations), with \$32.3 million spent in Tax Supported Services and \$126.9 million spent in Utility Rate Supported Services. Highlights are provided in Appendix I.

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### b) The Progress of Regionally Controlled Capital Program

The progress of Regionally Controlled capital projects, comprising 1,533 out of the total of 1,728 Region of Peel projects, was actively monitored and measured. Of the 2023 opening balance of Regionally Controlled capital work of \$5.1 billion, 95 per cent of the capital work progressed on schedule which is slightly higher than the past five years' average of 94 per cent at year end. Five per cent of capital projects (\$249.1 million) are either on hold or delayed by Regional Council and/or Management decisions or unforeseen circumstances. In addition, some capital projects have not incurred spending as they are at an early stage.

Of the total 1,533 Regionally Controlled capital projects, three projects were completed during the first five months of 2023 with \$34 thousand unspent funds returned to reserves. As of May 31, 2023, the Regionally Controlled Capital Program had a closing balance of \$5.0 billion. Summaries are provided in Appendix II.

### c) The Progress of the Top 25 Regionally Controlled Capital Projects

While all capital projects are actively managed, to efficiently manage the Regionally Controlled capital service and mitigate the risks effectively, staff also focus on the progress and report to Council on the 25 largest capital projects based on the remaining gross budget value. In magnitude, the top 25 active capital projects represent two per cent of the total number of active capital projects but represent 39 per cent of the remaining budget of active regionally controlled capital projects.

Appendix III provides the status of the top 25 capital projects by services with the highest gross remaining budget broken down into tax and utility rate services. Analysis of the top 25 projects shows:

- The total gross budget of the top 25 projects is \$2.6 billion with a remaining budget of \$2.0 billion.
- By the end of May 2023, the cumulative spending of the top 25 capital projects amounted to \$587.6 million or 23 per cent of the gross approved budget.

As of May 31, 2023, 23 of the 25 capital projects are on track, while the remaining two capital projects have been delayed.

#### Mississauga Road - Bovaird Drive

- The project was originally planned to commence in 2022, however due to unforeseen challenges in receiving TransCanada (TC) Energy's pipeline crossing authorization, works are now expected to commence in 2023 and last a duration of three years.

#### Mayfield Road - Hurontario Street

- The project was originally planned to commence in the first quarter of 2023. Due to unforeseen challenges with the utility relocations mostly for underground electrical wiring, and cable, the work is now expected to commence in the third quarter of 2023 and last a duration of two years.

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Of the 23 projects that are on track, 10 are in construction stage and the remaining 13 projects are in the initiation, planning, design, and procurement stages.

As detailed in the top 25 projects, 21 of 25 capital projects are on budget, while the four project budgets are under review.

### Housing Master Plan Envelope

- An update of the Housing Master Plan was presented to Council on May 11, 2023, which provided an update on the future of the plan and budget implications.

### Chelsea Gardens

- An update on Chelsea Gardens was included as part of the overall Housing Master Plan update to Council on May 11, 2023.

### G.E. Booth Wastewater Treatment Plant-Odour Control Improvements

- Additional Budget is required and will be requested through the 2024 Budget to fund Plant 3 Odour Control.

### Clarkson Water Resource Recovery Facility (WRRF) Biosolids Expansion

- Additional budget is anticipated and will be requested through the 2024 Budget for increased construction costs.

## **4. 2024 Outlook**

Price changes for capital input as captured by the Non-residential Construction Price Index accelerated to multi-year highs in 2021 and 2022. Although inflation is expected to ease in 2024, some prices are expected to remain elevated, and will result in continued price pressure on the capital program.

As presented through the June 22, 2023 report of the Chief Financial Officer and Commissioner of Corporate Services titled “Approach to the Development of the 2024 Budget”, a 5.0 per cent for inflation will be applied to the 2024 capital budget, 4.0 per cent for 2025, and 3.0 per cent for the remaining eight years of the capital plan.

Staff continue to ensure that the state of good repair of Peel’s aging infrastructure remains a high priority. The forecasted increases reflect infrastructure levies to fund the replacement of existing infrastructure as it reaches the end of its life cycle. Through the 2024 Budget process, infrastructure levies for both tax and utility will be required for 2024 and beyond to fund the shortfalls in the capital reserves forecasted over the next 20 years.

Staff will continue to develop strategies to ensure that the budget remains flexible to mitigate any risks involved with an uncertain external environment and positioned to adapt to any of several possible outcomes.

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### 5. 2023 Operating Performance

A report titled “2023 Operating Financial Interim Performance Report – May 31, 2023” is listed on the June 22, 2023 Regional Council agenda. This supports Regional Council in their decision making on the Region’s operating program.

#### **BILL 112 RISKS AND IMPLICATIONS**

On June 8, 2023, the *Hazel McCallion Act* (Bill112), received royal assent. At the time of writing this report, the Ministry of Municipal Affairs and Housing was developing the Terms of Reference and in the process of appointing the Transition Board.

Under Bill 112, recognizing that no details have been provided yet, the Transition Board, once in place, will ensure that transactions and/or decisions after May 18, 2023, are done in the public interest having regard to the municipal restructuring, and are done in a manner that does not unreasonably impact another municipality.

On June 8, 2023, Regional Council approved principles to maintain Regional services through the transition period and prepare for the 2024 Budget, as outlined in the Council report from the Chief Administrative Officer titled, “Bill 112 – Managing Through the Transition”. The forecasted financial results outlined in the 2023 Capital Financial Interim Performance Report have been made in alignment with these approved principles.

#### **CONCLUSION**

Overall, capital operations are largely progressing as planned in 2023 and spending is on par with prior years’ levels. The 2023 capital work was implemented within the constraints of the reserves, reserve funds and debt plan, which allows the Region to maintain its financial flexibility.

#### **APPENDICES**

Appendix I	2023 Capital Spending (January – May)
Appendix II	Capital Program 2023 Work in Progress (WIP) - Regionally Controlled Program
Appendix III	Status of Top 25 Capital Projects with Gross Remaining Budget – Regionally Controlled Program

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Patricia Caza, Chief Financial Officer and Commissioner of Corporate Services

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