
For Information

REPORT TITLE: 2023 Capital Financial Triannual Performance – August 31, 2023

FROM: Davinder Valeri, Chief Financial Officer and Commissioner of Corporate Services

OBJECTIVE

To provide a status update on the 2023 Capital Program Financial Triannual Performance Report as at August 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 \$5.7 billion (1,643 active capital projects) as at August 31, 2023.
 - Regionally Controlled Programs:
 - Capital work completed in the first eight months of 2023 totaled \$424.0 million, with \$104.5 million spent in Tax Supported Services and \$319.5 million spent in Utility Rate Supported Services.
 - 97 per cent of the capital work progressed on schedule, three per cent 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 40 per cent of the remaining budget of active projects as at August 31, 2023.
 - Projected year end results are based on actions that are consistent with the principles approved by Council to maintain Regional services through the transition period.
 - An operating triannual performance report as at August 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 second update for 2023 on the financial results of the Capital Program based on information as at August 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.

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2023 Capital Budget

On February 2, 2023, Regional Council approved \$1.9 billion (215 projects) 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, known as the Peel Community Housing Development Program. 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.

As summarized in Table 1 below 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 August 31, 2023, the capital work had 1,643 active capital projects with a gross remaining budget of \$5.7 billion (\$4.7 billion and 1,464 capital projects for Regionally Controlled) after year-to-date capital spending of \$0.4 billion. During the eight months of 2023, the total capital projects decreased from 1,669 to 1,643 largely due to projects closed during the year.

Table 1: Total Capital Program as at August 31, 2023

2023 CAPITAL WORK	Regionally Controlled Programs (\$Billions)	Regionally Financed External Organizations (\$Billions)	TOTAL (\$Billions)	Total Number of Projects
Opening Balance as at January 1, 2023	4.0	0.2	4.2	1,454
Capital Work Added through 2023 Approved Budget	1.1	0.8	1.9	215
Opening Balance following 2023 Budget	5.1	1.0	6.1	1,669
Capital Work completed in 2023 ¹	(0.4)	(0.03)	(0.4)	
Balance as at August 31, 2023	4.7	1.0	5.7	1,643 ²

¹ Refer to Appendix I for details.

² Total capital projects decreased largely due to projects closed during the year.

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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 eight months of 2023 amounted to \$459.0 million (\$424.0 million for Regionally Controlled, \$35.0 million for external organizations), with \$104.5 million spent in Tax Supported Services and \$319.5 million spent in Utility Rate Supported Services. Highlights are provided in Appendix I.

b) Progress of Regionally Controlled Capital Program

The progress of Regionally Controlled capital projects, comprising 1,464 out of the total of 1,643 Region of Peel projects, was actively monitored and measured. Of the 2023 opening balance of Regionally Controlled capital work of \$5.1 billion, 97 per cent of the capital work progressed on schedule which is three per cent higher than the past five years' average of 94 per cent at year end. Three per cent of capital projects (\$121 million) are either on hold and/or due to Management decisions or unforeseen circumstances. In addition, some capital projects have not incurred spending as they are at an early stage.

Of the total 1,464 Regionally Controlled capital projects, 82 projects were completed during the first eight months of 2023 with \$18.3 million unspent funds returned to reserves. As of August 31, 2023, the Regionally Controlled Capital Program had a closing balance of \$4.7 billion. Summaries are provided in Appendix II.

c) 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 focus on the progress and report to Council on the 25 largest capital projects based on the gross remaining budget value. In magnitude, the top 25 active capital projects represent 40 per cent of the remaining budget of regionally controlled capital projects and two per cent of the total number of 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 is \$2.5 billion with a remaining budget of \$1.9 billion.
- By the end of August 2023, the cumulative spending amounted to \$642.1 million or 25 per cent of the gross approved budget.

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As of August 31, 2023, 24 of the 25 capital projects are on track, and the following capital project has been delayed:

Mayfield Road - Hurontario Street

- The project was originally planned to commence in the first quarter of 2023. The delay is due to unforeseen challenges with the utility relocations mostly for underground communication wiring and overhead cabling. The work is now expected to commence in the first quarter of 2024 and last a duration of two years.

Of the 24 projects that are on track; 15 projects are in the initiation, planning, design, and procurement stages, and the remaining nine are in the construction stage.

As detailed in the top 25 projects, 24 of 25 capital projects are on budget, and the following project budget has a budget shortfall:

Peel Manor Seniors Housing - Peel Community Housing Development Program

- On July 6, 2023, Regional Council approved an additional \$11 million in capital funding to be included as part of the 2024 Capital Budget submission. This amount will secure funding for the Seniors Housing Project on the Peel Manor Site in Brampton (Council Resolution 2023-584).

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.

5. 2023 Operating Performance

A report titled “2024 Operating Financial Triannual Performance Report – August 31, 2023” is listed on the October 26, 2023 Regional Council agenda. This supports Regional Council in their decision making on the Region’s operating program.

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BILL 112 RISKS AND IMPLICATIONS

There are no immediate significant risks associated with the progress of the capital work to date. However, as additional details and direction related to Bill 112 are released, the risks will need to be re-assessed and may change. The implementation of Council's approved capital projects support the maintenance and delivery of approved service levels.

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 – August)
 - 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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