

HALIFAX

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Item No. 15.1.2
Halifax Regional Council
October 19, 2021

TO: Mayor Savage and Members of Halifax Regional Council

Original Signed by 

SUBMITTED BY:

Jacques Dubé, Chief Administrative Officer

DATE: October 5, 2021

SUBJECT: **2022-23 Capital Planning Framework**

ORIGIN

July 16, 2019 Committee of the Whole on Budget – Multi-Year Capital Plan and Asset Investment Framework

July 19, 2019 Committee of the Whole on Budget – Prioritizing Capital Outcomes

January 20, 2021 Committee of the Whole on Budget – Strategic Initiatives Framework

LEGISLATIVE AUTHORITY

Pursuant to the Halifax Charter, section 35(1), the Chief Administrative Officer shall (b) ensure that an annual budget is prepared and submitted to the Council.

RECOMMENDATION

It is recommended that Halifax Regional Council direct the Chief Administrative Officer to:

1. Direct staff to develop a funded 4-year capital plan and 10-year capital outlook which prioritizes Council's key strategic priorities, reliable and quality municipal services, and risk mitigation with an ability and capacity to deliver when scheduled;
2. Direct staff to continue to allocate 70%-80% of the annual base capital program to asset renewal projects and 20%-30% to service growth projects for the 2022-23 through 2025-26 budget years;
3. Direct staff to use Halifax Regional Council's priority weightings for the Strategic Alignment project prioritization evaluations for the 2022-23 through 2024-25 budget years.

BACKGROUND

In an iterative progression of maturity for asset management planning, the annual process continues to develop and improve a strategic plan for capital investment. Key elements include maintaining operational reliability, ensuring safety, designing proactive resiliency and sustainability. This report provides a review to Regional Council of recent strategies implemented within the capital planning process and the drivers which are impacting Halifax's current state of infrastructure. Awareness of staff's deliberations in planning will support a stronger understanding of the multi-year capital budget recommendation presented in December 2021 to Committee of the Whole on Budget.

DISCUSSION

Progress Made Towards Strategic Capital Planning

Visible progress has been made in annual capital planning process since 2019 when staff began to integrate asset management methodologies into capital budgeting. The focus on the long-term impacts of short-term project prioritization choices will provide more value for municipal service delivery. The ten-year outlook has more stability in consistent investment for existing infrastructure, longer funded planning range supporting coordination efficiencies and both value and flexibility in taking advantage of cost sharing opportunities.

After each asset manager creates their own assessed list of projects, the consolidated portfolio is evaluated against prioritization criteria which support Council's priorities, service delivery goals and risk mitigation. Projects do not seek budget approval until there is an adequate level of detailed scope planning and readiness to implement. Assigning level of priority, or level of investment value, for a project is a separate discussion from scheduling the optimal timeline for a project; priority does not equate urgency. Consideration for scheduling needs to integrate assessment of resource availability, project synergies or coordination, stakeholder readiness, saturation, and disruption to impacted residents.

Current Risks and Issues

Halifax has been experiencing steady growth over the past decade. Growth of a city leads to inherent growth in services and subsequently more infrastructure to support the expansion. As such, multiple service reviews, needs assessments, and redesigns have been undertaken by HRM. Significant public consultations and research have informed prominent strategic plans which Regional Council has approved. These strategic plans, such as the Integrated Mobility Plan (IMP) and the HalifACT Climate Action Plan have significant implications for capital investment.

Requests for inputs to the capital plan has seen significant increase without a direct correlation to increased funding levels or appetite for tax increases. Significant pressure has been felt from the demand in excess of staff's existing capacity to deliver as well as its financial capacity and the ability of local contractors to undertake projects. Both staff and industry partners require a minimum of two-to-three years to increase capacity and provide the ability to deliver a much larger and more complex municipal capital program. Once a new project is approved by Council, it may take upwards of 12-to-18 months of design and planning before a new asset is delivered or work activity can be executed.

The capital plan is not only experiencing complexity in its growth in size but also in change or advancement in design elements. Consultation and research identify higher community expectations with focus on more advanced technology capabilities, conveniences, and latest design trends. The community's vision for Halifax's quality of life is bringing urgency to having projects that support climate resiliency, equitable services, affordable living, and public safety. Changes to service delivery definitions can have significant influence and implications to infrastructure requirements. Expectations for urgency to alter and update existing municipal infrastructure to newer designs tend to greatly exceed the ability of taxpayers to fund.

The global pandemic has impacted most areas of municipal operations and some effects are expected to continue in the coming years. Delays and gaps in the industries' supply chain have caused extensions to project delivery timelines and increased vendor costs, sometimes as high as 30%-50% over previous costs. Best efforts are made by project managers in making assumptions and mitigating the uncertainty with project management. Examples of these recent experiences include budget increases for Cogswell Interchange Redevelopment, Graham's Grove Regional Park Washroom, and the West Bedford Park & Ride. Budget reallocations made possible by scope adjustments include transfers from Traffic Signals Re-Lamping and Road Operations & Construction – State of Good Repair to fund Road Safety Improvement, HRFE Intelligent Dispatching transfer to fund HRFE Station Alerting, and Halifax Ferry Terminal transfer to fund Woodside Ferry Terminal. Annual program accounts, or "bundles", will be adjusted to complete as many asset maintenance activities as possible within the budgeted levels for this fiscal year.

Awareness needs to be made that HRM financial reserves may be required in some cases for unplanned project budget increases, or that planned work activities will need to be delayed in order to work within existing budget totals. Professional judgement is applied on which strategy to apply and manage the market fluctuations as best possible. Assumptions cannot predict the future flawlessly when high levels of volatility, uncertainty, complexity, and ambiguity exist. Procurement is assisting in advising safeguarding against cost escalations where possible.

When examining the Base Capital Program, questions remain on what the optimal level of rehabilitation and replacement timing is for each of the asset categories in the future, based on life cycle modeling utilizing data from our Enterprise Asset Management (EAM) Systems. Staff are able to provide this information for road infrastructure, which is the municipalities largest and most critical asset. Most of the remaining asset categories still require an average of two-to-three years of asset information documentation.

When available, lifecycle information is available for modeling optimal future investment timelines. However, Council should be aware that at the same time the analysis will inform staff of the gap between desired state of infrastructure condition in all of our assets versus the existing reality. Additional investment strategy and work plan will need to be designed at that time.

Next Steps

Asset management practices for assisting in prioritizing projects with the most value to service quality and long-term cost sustainability began to be implemented in 2019. As the list of capital projects requested rapidly outgrows previous average levels, the corporate process to evaluate projects for priority, optimal timing, and coordination is more critical than ever before.

Halifax Regional Council provided direction in 2019 on the proportion of investment towards Council's Strategic Priorities for staff to use while evaluating new projects. Council also provided direction on the portion of the annual capital investment which should support asset renewal activities versus service growth. This direction covered a three-year period. Staff are now requesting Council's update in direction to finalize the project evaluation process.

Challenge exists for the Municipality to balance desired service improvements versus the incremental financial burden which surpasses required rehabilitation and replacement of the municipality's \$4B existing asset inventory. Council will be presented with the full implication of implementing the infrastructure identified in the approved strategic plans.

In continuation of last year's capital plan presentation, the 2022/23 capital plan will be broken into two components for Council's consideration. The Base Capital Program will represent stable and predictive asset investment in alignment with past levels. The Strategic Initiatives list will outline for Council all the of the capital activities required to achieve the goals of approved priority strategic plans. Staff will present funding profiles and strategies to assist with understanding the impacts of this large investment plan. As requested, a funding model will be included for the HalifACT Climate Action Plan projects. An update will be provided on the strategy to utilize debentures to fund the projects with repayment terms more closely

matching the asset's lifecycle, and then use a Reserve to fund the debt servicing payments. Council's direction will be sought for the acceptable level of additional investment and timing for implementation.

FINANCIAL IMPLICATIONS

Financial implications for each project included in the 2022/23 capital plan will be presented to Committee of the Whole on Budget on December 14, 2021 for deliberation.

The information presented within this report identifies the strategies which staff continue to develop and implement in association with capital planning in efforts to minimize the cost of operating and maintaining its assets over their ownership life. This report also identifies the existing pressures and risks that staff are challenged with managing in the capital plan's delivery.

RISK CONSIDERATION

Risk as it relates to this report specifically is minimal, as the recommendation requests aligning investment with Council's priorities. Other risks identified in this report relating to specific projects will be discussed in more detail when the full budget is presented in December 2021.

COMMUNITY ENGAGEMENT

Resident survey currently in progress. Annual budget deliberations are open to public participation.

ENVIRONMENTAL IMPLICATIONS

Specific environmental implications related to planned capital investment will be discussed in more detail when the full budget is presented in December 2021.

ALTERNATIVES

Regional Council may choose to not include Strategic Alignment criteria from staff's project prioritization process in determining the capital plan, and/or choose not to set a level of commitment for investment in Asset Renewal or Service Growth annually.

ATTACHMENTS

None.

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

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