

# HALIFAX

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**Item No. 14.1.3**  
**Halifax Regional Council**  
**October 16, 2018**

**TO:** Mayor Savage and Members of Halifax Regional Council

Original Signed by



**SUBMITTED BY:**

\_\_\_\_\_  
Jacques Dubé, Chief Administrative Officer

**DATE:** September 18, 2018

**SUBJECT:** Approval of 2019/20 Budget Schedule, Update on Business Planning, Operating & Capital Budgets

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## **ORIGIN**

October 3, 2017 Council agenda item 14.2.1 Long-term Strategic Capital Update. Moved by C. Karsten, seconded by C. Nicoll:

*“direct staff to bring forward a framework for a ten-year capital outlook aligned with Regional Council Priorities, along with an initial ten-year capital outlook that includes funding for the Planned Strategic Projects as noted in the September 6, 2017 staff report, and options for other capital outlays including the Potential Strategic Projects.”*

## **LEGISLATIVE AUTHORITY**

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 approve the 2019/2020 Budget Consultation Schedule.

## **BACKGROUND**

In February of 2016 Regional Council directed staff to undertake:

*“ in 2017-2018 and the following years, a much broader view that looks at the underlying fiscal and economic assumptions and critical key decisions such as the level of the overall capital budget, debt, tax levels, reserves and the capacity to undertake service enhancements.”*

As directed, in 2017/18 HRM introduced its first two-year Budget and Business Plan. Year One of that Budget was formally approved. Year Two was fully developed to budget quality and approved in principle but was subsequently reviewed in depth and revised before being formally approved in 2018/19.

There are many benefits to this multi-year approach, including:

- Predictability
- Greater opportunity to plan strategically
- Enhanced flexibility
- Reduced annual effort

As part of this new approach, Staff is currently in the initial stages of planning for Years One through Four namely 2019/20 and 2020/21 to budget quality and 2021/22 and 2022/23 as estimates. Commencing in January 2019 and continuing through into March, Regional Council will begin the review of individual budgets and plans for the upcoming fiscal year. As in past years it is proposed that that review occur through the Standing Committee of the Whole on Budget.

## **DISCUSSION**

Committee of the Whole's (COW) oversight of the Operating and Capital Budgets and Business Plans has proven to be an effective and transparent approach to developing those budgets and plans. The three key parts to the process are the Business Plan, Operating Budget and Capital Budget.

### **Business Planning Update**

As with the 2018/19 Budget and Business Planning cycle, each Business Unit and the Auditor General, will appear before COW with an overview of their budget and business plans following a multi-year approach.

As part of the Strategic Planning Updates provided by the Council Priority Outcome teams, the Chief Administrative Officer, (CAO), will provide the COW with a presentation on the Administrative Priority Area, achievements towards strategic outcomes as well as planned initiatives. The work undertaken by the Administrative Outcome Team provides the framework for the fulfillment of Regional Council's Strategic Mandate as well as the Administrative Mandate. This year, strategic objectives, such as diversity and inclusion, will be cascaded into business plans along with the planned development of corporate key performance indicators.

Also new to this budget and business planning cycle, HRM's strategic enterprise risk matrix will be linked to the business planning process by analyzing each administrative strategic outcome through the risk lens. In this way the soundness of the strategic outcome can be assessed; existing risks re-evaluated and prioritized and mitigating strategies implemented in business plans through strategic initiatives. This is an important step in the operationalization of risk management, however it is a large undertaking and may not be fully completed before the budget is deliberated.

The schedule outlined in Attachment A will serve to reserve the COW Budget dates; however, the order of business unit presentations may change as the dates draw nearer. Councillors will be kept fully

apprised of any adjustments to the schedule as they occur. It is proposed that the consultation process consist of four consecutive Wednesdays for business unit presentations and a fourth Wednesday two weeks later to consider the consolidated budget. This schedule should provide Council with ample time to review each business unit's proposed budgets and enable Council to approve the budget by early to mid-April.

COW contingency dates have been reserved for Friday's during this same period, to mitigate against weather related risk and provide additional time, should it be required, for Council consideration and deliberation. Should there be any unfinished business stemming from a Wednesday COW, Council may choose to opt out of the Friday contingency date and move remaining business to a Tuesday Regional Council date.

### **Operating Budget Update**

HRM is now embarking on its second two-year Budget. Again, COW will be presented with Year One (2019/20) for formal approval. Year Two (2020/21) will be done to budget quality but will only be approved in principle and will be subject to revision once 2019/20 has been completed. An additional two years (2021/22) and 2022/23) will be estimated in the fiscal outlook. This biennial cycle provides the greatest opportunity to meet the benefits of a multi-year approach described above.

As was done in the previous two years, the Fiscal Framework document will present a longer term fiscal approach that integrates key items in the budget process. The four critical influences that affect the municipality's fiscal situation are:

1. Operating Budget (including Taxes),
2. Net Capital Budget,
3. Tax Supported Debt, and,
4. Reserves (Net Obligations)

As in 2018/19, the Budget will be reviewed in individual Budget COWs, as per the timeline in Attachment A. This year a draft copy of individual operational budgets will also be provided as an appendix to the business unit business plans. The intent is to provide a preliminary view of the Business Unit budget for information purposes and to revise it in accordance with Council direction from the Budget COW.

As in previous years, there will be an over/under process, providing Council with the opportunity to add or remove specific services from the Budget. In addition, consultations with the public will be undertaken similar to previous years. This will include the use of the Budget Allocator and the opportunity for members of the Budget to present at the Budget COW.

### **Capital Budget Update**

In response to Regional Council's request to better align capital planning with strategic priorities that provides for a sustainable long-term financial outlook, municipal staff initiated a capital reform project early in 2018.

The current unamortized value of tangible capital assets supporting the service delivery to citizens is \$3.6B. From an accounting perspective, this infrastructure's lifecycle is approximately 50% depreciated, or expended. From an operational perspective, this means that the daily maintenance requirements for our assets are beginning to increase and the need to invest in significant rehabilitation will be required sooner than later to prevent any risk of disruption to service. Rough initial estimates are that over the next ten years the capital plan will require \$1.5 billion in funding from debt, capital-from-operating and gas tax. Current estimates suggest only \$1 billion is available leaving a significant shortfall for one-third of that plan. In order to mitigate this risk and alleviate the forecast financial and workload burden the Capital Reform Project was established as a proactive measure.

The key change for the 2019/20 capital budget cycle is its integration with the Enterprise Asset Management (EAM) business system, which was rolled out to the organization in mid-2017. The \$12M EAM multi-year capital program implemented, a business system to provide the capabilities to mature Halifax Regional Municipality's (HRMs) asset lifecycle management to better support municipal services and achieve Halifax's strategic community vision while minimizing total lifecycle costs. The program established an operating model based on international best practice standards, a continuous improvement framework, enabling technology capabilities and a governance model led by a newly established Asset Management Office to ensure the organization will actively continue to evolve this long-term initiative and realize its return on investment.

To-date, the organization has been focusing most of its efforts on establishing new asset management practices and improving business processes. While this phase will require multiple years to mature fully, some benefits have already begun to be experienced, such as increased operational capacity and response times, increased safety and improved resource coordination.

The greatest savings and benefits related to implementing asset management practices, however, relate to achieving better alignment between:

- daily operational maintenance plans,
- larger capital interventions,
- defined levels of municipal service, and
- strategic council priorities.

By integrating EAM best practices with the annual capital planning process, HRM will begin to achieve this vertical alignment resulting in a more strategic business, including improved coordination, focused work efforts, sustainable investments and longer reliable asset lifecycles.

Between May and July 2018, senior leadership participated in four strategic capital planning workshops. The outcome of these workshops was the decision to implement a prioritization framework to guide HRMs capital portfolio annual budget recommendation to Regional Council utilizing an asset management methodology. This asset management best practice does not replace municipal staff's skill or experience but rather creates a method to better inform the discussion of how to best prioritize the consolidated portfolio. The new process is intended to assist in the formulation of recommendations to maximize sustainable investment solutions and innovation to achieve Council's community vision goals instead of just reacting to immediate asset needs.

As in past practice, municipal staff will continue to assess their respective asset group inventories to create a list of capital project recommendations, working in collaboration with their service and operational maintenance partners. This year however each asset group will then be presented to the Capital Steering Committee for consideration to prioritize the consolidated portfolio within the allocated capital budget envelope.

The prioritization framework introduces four decision matrices with weighted multi-criteria rankings. With the assistance of an external asset management subject matter expert, the Capital Steering Committee designed the new framework to include the following decision lenses:

- Capacity to Deliver,
- Impact to Service,
- Risk, and
- Strategic Alignment.

For both the Capital Steering Committee and Regional Council, the implementation of the prioritization framework will bring a new level of transparency to the capital planning and budget discussion. The rationale for project priority rankings and timing should be more apparent by the category ratings than in

previous years. As well, if any changes to the recommended prioritization are desired, the impacts, risks, and opportunity costs should be better understood.

The Capital Steering Committee and their staff are currently implementing the elements of the new prioritization framework and will be presenting a 3-year balanced capital budget in December 2018. Regional Council will receive staff's recommendation for consideration in the new tabular format with ranking results.

### **FINANCIAL IMPLICATIONS**

There are no immediate financial implications associated with this recommendation. The preliminary budget targets that will be provided to business units are scenarios for development, feedback and presentation purposes.

### **RISK CONSIDERATION**

There are no risks associated with this preliminary report.

### **COMMUNITY ENGAGEMENT**

Budget Consultations will consist of an on-line balance-the-budget tool (the "budget allocator"); as with past years, the information from the on-line tool will be reviewed and presented to COW for their consideration during the Budget process.

In addition, at the end of each COW meeting public participation as well as the opportunity complete comment cards will be sustained allowing interested members of the public to comment on the topic under discussion that day.

### **ENVIRONMENTAL IMPLICATIONS**

There are no environmental implications stemming from this report

### **ALTERNATIVES**

There are no proposed alternatives

### **ATTACHMENTS**

Attachment A – Consolidated Budget Schedule

Attachment B – 2019/20 Business Plan, Budget and Capital Update Presentation

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A copy of this report can be obtained online at [halifax.ca](http://halifax.ca) or by contacting the Office of the Municipal Clerk at 902.490.4210.

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## Attachment A

### Consolidated Budget and Business Presentation Schedule

Subject	COW Dates	Contingency COW Dates
Strategic Planning and Fiscal Framework Priority and Direction	Tuesday Nov 13, 2018	Tuesday Nov 27, 2018
Advanced Tender Report	Tuesday Dec 4, 2018	Tuesday Dec 11, 2018
Business Unit Budget and Business Plan Presentations		
Admin Services Bundle and Auditor General (CAO, Legal, HR & FICT)	Wednesday Jan 16, 2019	Friday Jan 18, 2019
Police and Fire	Wednesday Jan 23, 2019	Friday Jan 25, 2019
Transit, TPW and CCS	Wednesday Jan 30, 2019	Friday Feb 1, 2019
Parks and Rec, Library and P&D	Wednesday Feb 6, 2019	Friday Feb 8, 2019
Fiscal & Consolidated Accounts Budget Adjustment List (BAL) Review	Wednesday Feb 13, 2019	Friday Feb 15, 2019
<b>Recommendation Report: 2019/21 Budget and Business Plan Approval</b>	<b>Tuesday April 2, 2019 (Regional Council)</b>	<b>Tuesday April 16, 2019 (Regional Council if required)</b>

Attachment 2

**HALIFAX**

# **Business Planning and Budget Direction 2019/20**

October 16, 2018  
Regional Council

# Business Planning Update

Budget and Business Plans will be presented using multi-year approach (2019/20-2020/21) for COW planning purposes only; formal approval only sought for 2019/20.

## New this year:

- Administrative Priority Outcome areas will be presented by CAO at Strategic Planning Update sessions scheduled in November.
- This work will include strategy map and associated scorecard (key performance indicators) that links the Administrative and Council priorities through strategic objectives (outcomes)
- Strategic objectives will also be analyzed through Enterprise Risk lens

# Business Planning Update

Strategic objectives will be cascaded into business plans to reflect a unified approach to priorities, such as:

- Diversity and Inclusion
- Performance Excellence
- Operational Risk Management

Key performance metrics will be rolled up to reflect organizational success against key priorities.

# Operating Budget

- **Two Year Budget:**
  - Year One – 2019/20 for Formal Approval
  - Year Two – 2020/21 Approval in Principle
- **Fiscal Framework Provides Four Year Forecast:**
  - Operating Budget (including Taxes),
  - Net Capital Budget,
  - Tax Supported Debt, and,
  - Reserves (Net Obligations).
- **COW Budget Review**
  - Draft Budget Included in Report for Each Business Unit,
  - Over/Under Process, and,
  - Full Budget Document Provided Two Weeks before Approval.

# Update: Capital Plan Changes

A Capital Reform project initiated in early 2018. Recommended changes from Senior Leadership will be reflected in the Capital Budget presentation this December.

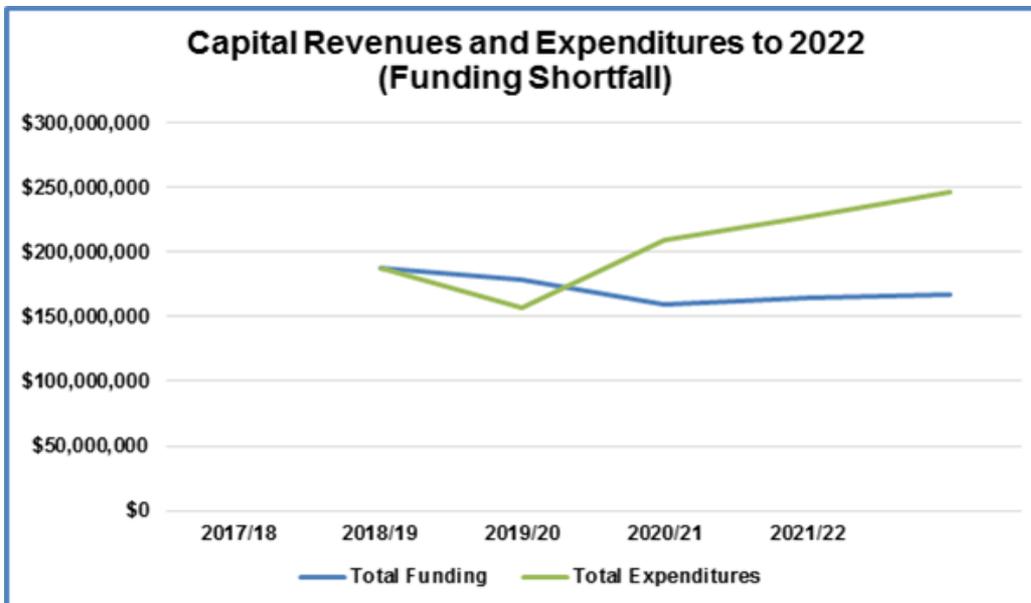
## Why?

- We are not sized to do everything we want to do.  
(staff and \$\$)
- Desire exists for operations to be predictable, reliable, and sustainable.
- All proposed projects have merit, creating the difficult challenge to prioritize within our capacity for optimal long-term outcomes.

# Current Capital Outlook Gap

Cost	Balance at March 31, 2018	Balance at March 31, 2018	Net book value March 31, 2018
Land	\$ 285,988	\$ -	\$ 285,988
Land improvements	267,578	196,055	71,523
Buildings	606,780	267,214	339,566
Vehicles	260,420	157,197	103,223
Machinery and equipment	103,921	47,626	56,295
Roads and infrastructure	1,978,983	1,037,877	941,106
Dams	480	480	-
Ferries	39,209	17,362	21,847
Leasehold improvements	3,030	1,625	1,405
Assets under construction	43,588	-	43,588
<b>Total</b>	<b>\$ 3,589,977</b>	<b>\$ 1,725,436</b>	<b>\$ 1,864,541</b>

Capital Asset inventory > 50% amortized reflects aging infrastructure requiring commitment to sizable ongoing rehabilitation management and investment



Capital Outlook is reflecting that funding at current levels will not be sufficient for capital project requests

# Enterprise Asset Management (EAM)

Business system implemented in 2017 to support effective asset management planning and decision-making, including governance, people, processes, data and technology.

*The practice of managing assets to **minimize the total cost of owning and operating them while delivering the desired service levels.***

Benefits potential:

- Improved Safety/ Reduced Risk
- Decreased Service Disruption
- Sustainable Operations, balancing service levels, risk and costs
- Right-sized Asset Inventory to Support Services
- Improved Resource Allocation
- Increased Proactive, Preventative Maintenance Work
- Understanding long-term impacts of short-term decisions
- Continuous improvement based governance
- Improved integration of capital and operating plans
- Increased vertical alignment between strategic community vision and operational plans

# Enterprise Asset Management (EAM)

[https://www.youtube.com/  
watch?v=3jDzDPqHXpl&  
feature=youtu.be](https://www.youtube.com/watch?v=3jDzDPqHXpl&feature=youtu.be)

# Integrating EAM into Capital Decisions

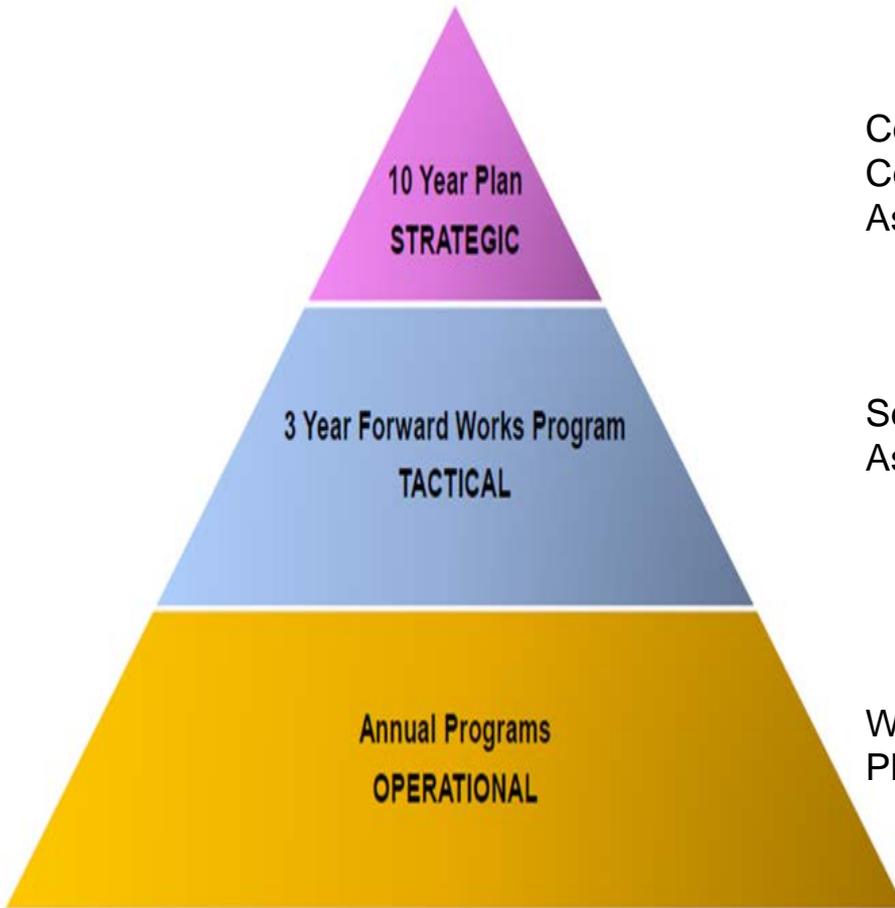
## Maintenance Management (Traditional):

- Find faults or receive complaints (**reactionary**)
- Check how much budget is remaining
- Create work plan to fix the asset if funds are available; defer if funds are not available
- ❖ Service Delivery is unreliable

## Organizational Management (Goal):

- Organizational Objectives set by senior leadership
- Levels of Service are debated and agreed upon
- Asset inventory and acceptable condition to support the defined Levels of Service are determined
- Asset Lifecycle Maintenance Strategies are defined for each asset group (**proactive and preventative**)
- Budgets are aligned with lifecycle maintenance plans
- ❖ Service Delivery is predictive and sustainable for the least possible cost

# Organizational Alignment with EAM



Community Vision  
Council Priority Outcomes  
Asset Outcomes



Service Levels  
Asset Intervention Levels



Work Instructions  
Physical Work

*Setting the  
Right Objectives*

*Doing the  
Right Things*

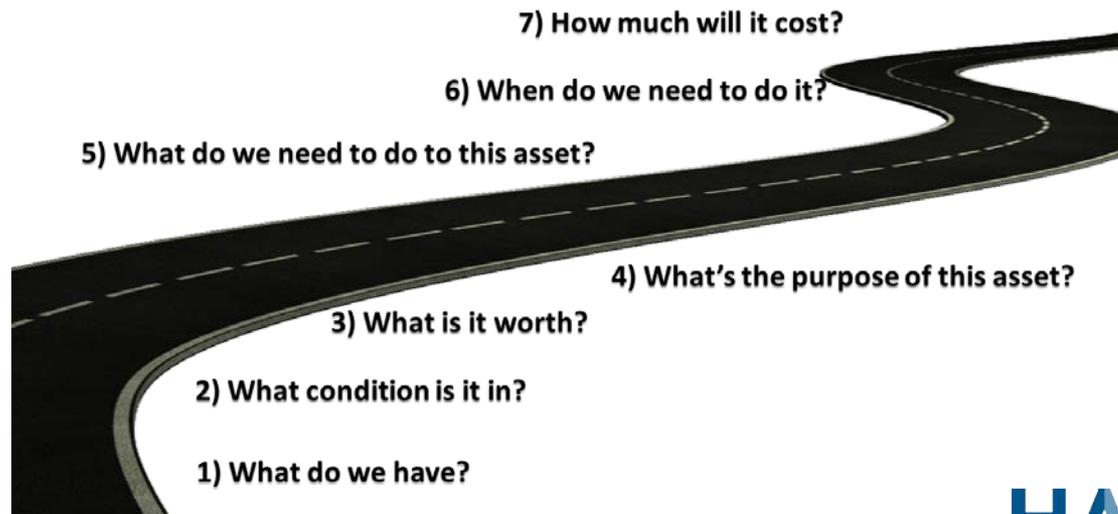
*Doing Things  
Right*

# Sustainable Asset Management

*...Assessing the health of municipal infrastructure is necessary if Canada is to ensure that the services, quality of life and economic growth provided by this infrastructure can be sustained over the long term.*

- Canadian Infrastructure Report Card, 2016

## The Asset Management Journey



# Transition to Strategic Capital Planning

During this business planning & budget cycle:

1. Update Project Category Definitions
2. Implement Prioritization Framework
3. Implement Corporate Asset Management Policy

Benefits of Changes:

- Consistency in decision-making,
- Improved integration between capital and operating budgets,
- Ability to plan longer term with predictive outcomes,
- Increased transparency of impacts and risks,
- Increased ability to better prioritize resources and services,
- Increased ability to achieve strategic goals,
- Improved focus on best value of investment,
- Better service to citizens.

# Capital Prioritization Framework

Framework is a decision matrix to assist with prioritizing projects.

Provides an objective structure to consider the long-term impacts to goals, investment and risk.

Each capital project considered using the framework will discuss:

- Impact to **HRM Corporate Priorities & Strategies**
- Impact to operational **Levels of Service**
- Impact to **Criticality** (level of risk)
- **Capacity** to Deliver (resources)

# Evaluating Capacity to Deliver

Score	Description
3	Ready to Proceed
2	Preparation Underway
1	Further Preparation Required
0	Conceptual

Elements of Project Readiness Evaluated:

- Land
- Public Consultation
- Resource Expertise/Availability
- Procurement Phase
- Funding Sources

# Evaluating Strategic Alignment

Score	Description
3	The project has as its primary objective to support/promote one or more of the Priority Area outcomes
2	The project is one of several factors that contributes toward achieving one or more of the Priority Area outcomes but they are not the primary reason for carrying out the project
1	The project indirectly supports one or more of the Priority Area outcomes as a side benefit
0	The project does not relate to any of the Priority Area outcomes

## Council Priority Areas that Define the Community Vision:

- Economic Development
- Service Delivery
- Healthy, Liveable Communities
- Social Development
- Governance & Engagement
- Transportation

# Evaluating Levels of Service Impact

Score	Description
3	The project <b>strongly contributes</b> to achieving the level of service performance criteria
2	The project <b>contributes</b> to achieving the level of service performance criteria
1	The project <b>weakly contributes</b> to achieving the level of service performance criteria
0	The project <b>does not contribute</b> to achieving the level of service performance criteria

Each Service Area defines the key interests/service requirements which the identified stakeholders would define for success in delivery.

Defined key service criteria include:

- Accessibility
- Alignment to Strategic Service Plan
- Availability
- Compliance
- Condition
- Connectivity
- Coordination
- Functional Performance
- Good Stewardship/Decision Making
- Health & Safety
- Reliability
- Risk Reduction
- Service Span Frequency

# Evaluating Risk

		Impact				
		1 Insignificant	2 Minor	3 Moderate	4 Major	5 Extraordinary
Likelihood	5-Almost Certain	Moderate	High	Very High	Very High	Very High
	4-Likely	Moderate	High	High	Very High	Very High
	3-Possible	Low	Moderate	High	High	Very High
	2-Unlikely	Low	Low	Moderate	High	High
	1-Rare	Low	Low	Moderate	Moderate	High

## Elements of Risk Evaluated:

- Financial
- Service Delivery/Operations
- Health & Safety
- Reputation & Legal

# Prioritization Framework: Example

Project	Risk	Levels of Service	Strategic Alignment	Overall Rating	Cost	Capacity to Deliver
Project A	High	High	Medium	High	\$800K	Ready to Proceed
Project B	Low	Medium	High	Medium	\$3M	Ready to Proceed
Project C	Medium	Low	Low	Low	\$1M	Ready to Proceed
Project D	Low	Low	Low	Low	\$150K	Preparation Underway
Project E	High	Medium	Medium	Medium	\$500K	Preparation Underway
Project F	Medium	High	High	Medium	\$8M	Further Preparation Required
Project G	Medium	High	Medium	Medium	\$12.5M	Conceptual
Project H	Medium	Medium	High	Medium	\$4M	Conceptual
Project I	Low	Low	Low	Low	\$200K	Conceptual

The prioritization ratings do not remove the practitioner's decision-making ability.

It is intended to provide focus, objectivity and consistency to improve the practitioner's wisdom.

It increases transparency in the decision-making process related to expectations, impacts and risks.

# Regional Council Direction

## **October 3, 2017**

That Halifax Regional Council direct staff to bring forward a framework for a ten-year capital outlook aligned with Regional Council Priorities, along with an initial ten-year capital outlook that includes funding for the Planned Strategic Projects as noted in the September 6, 2017 staff report, and options for other capital outlays including the Potential Strategic Projects.

## **December 5, 2017**

That Halifax Regional Council:

...4. Direct staff to prepare the long-term capital outlook, funding options and priorities, as directed on October 3, 2017, to include the Integrated Mobility Plan, and return to Regional Council for discussion of the capital outlook and its implications.

# SLT Capital Reform Update



Group existing capital projects into 2 categories:

1. Asset Renewal
2. Growth

Establish the available funding from sources: debt, operating, reserves, project specific funding, other.

Allocate envelopes to each area based on funding availability, council commitments, strategic plans and current assessment of state of assets. Require projects to be balanced to the envelopes and understand the risks, impacts, and opportunity costs.

Revisit Capital Steering Governance Committee TOR and establish accountability for balancing and delivering. Performance measures and KPI's established.

Develop decision-making/prioritization matrix.

Focus on achieving current studies rather than introducing new studies.

Understand the operational impact of projects: whole lifecycle costs and capacity to deliver

Renewed service plans that outline and prioritize aligned asset operating & capital investment across the entire organization.

Significant new infrastructure projects to be assessed for opportunities to collaborate and partner at an organizational level.

Evidenced-based asset information to assist with balancing cost, risk, resources, and performance.

Enhanced decision-making governance at both working group and steering group levels.

# Transition to Strategic Capital Planning

Next Steps for Capital Reform (2019/20)...

1. Implement Business Case process for Growth or significant Asset Renewal proposed projects.
2. Improve Levels of Service definitions.
3. Design preliminary Aging Asset Strategy.
4. Design preliminary Strategic Funding Alignment process.

**Note:** As HRM's asset management maturity increases, practices, analysis and decision-making capabilities will continue to evolve and improve.

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