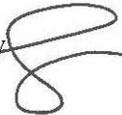


HALIFAX

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Item No. 3
Budget Committee
July 16, 2019

TO: Chair and Members of Budget Committee
(Standing Committee of the Whole on Budget)

Original Signed by 

SUBMITTED BY:

Jane Fraser, Director of Finance, Asset Management & ICT/CFO

Original Signed by 

Jacques Dubé, Chief Administrative Officer

DATE: July 3, 2019

SUBJECT: Multi-year Capital Plan and Asset Investment Framework

ORIGIN

May 21, 2019 Halifax Regional Council Item 15.1.2 motion: THAT Halifax Regional Council direct the Chief Administrative Officer to schedule Budget Committee meetings, as outlined in the Discussion section of the staff report dated April 24, 2019, to provide guidance for the 2020/21, 2021/22, and 2022/23 capital budget deliberations.

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 Budget Committee direct staff to prepare the 2020/21, 2021/22 and 2022/23 capital budgets according to a 20-30% Growth allocation and 70-80% Asset Renewal allocation as described in this report.

BACKGROUND

In 2017/18 HRM began to deliver multi-year budgets in response to Regional Council's 2016 request for staff to take a broader view of underlying assumptions and the capacity to undertake service enhancements. In 2018/19 HRM began to integrate enterprise asset management practices into the capital planning process to continue efforts to meet Council's request for a more predictable, strategic and sustainable approach to infrastructure investment and service delivery.

Projects funded by the capital budget are now being categorized by two definitions, Growth and Asset Renewal, to better communicate the originating driver for the infrastructure request and the associated future budget implications.

Projects categorized as Growth can be defined as:

- Investment in new assets as well as investment in projects that add to or enhance components of existing infrastructure assets to improve the type of service provided and/or improve functionality.

Projects categorized as Asset Renewal can be defined as:

- Investment in existing infrastructure to restore its former condition and extend its service life, which may include replacement of individual components as they age or become obsolete. Capital investment in renewal extends the period of service potential but does not change the replacement value, and so does not increase the size of the infrastructure asset portfolio.

Some projects may include both renewal and growth; for a project to be considered renewal, no more than 10% of the total project cost must be for enhancements. Any project with more than 10% of its cost dedicated to enhancement is considered growth. This approach is standard among many Canadian municipalities.

DISCUSSION

To create a sustainable infrastructure investment plan for the municipality, a longer-term understanding is required. Aligning Council's vision for municipal services to the community with what infrastructure will be needed to deliver those services is the basis of this understanding.

The enterprise asset management model and its various supporting strategies to be implemented over the coming years, provides decision-makers with an improved view of cost expectations over the life of each asset and the impacts of service changes for both current and future taxpayers.

Reliable and resilient infrastructure demands regular preventative maintenance plans and coordinated planning efforts across internal and external partners to minimize disruption to the community while also balancing overall condition and risk. It also demands integrating strategies for the inclusion of updated design standards, efficiencies, synergies and alternative approaches when infrastructure requires significant rehabilitation or replacement.

Providing guidance for staff to invest a significant portion of the annual capital budget towards Asset Renewal projects will support the goal to have a more predictable and sustainable capital plan. Industry practice recommends a wide range of allocation for investing in current infrastructure, 60%-90%, depending on the related demand and priority for Growth. Investment in Growth capital projects originates from direction to add new services or increased levels of services. New Growth results in permanent annual increases to the operating budget as well as a commitment to increased future capital budgets. Deferring recommended Asset Renewal projects usually creates increased operating costs and results in larger capital costs, due to further deterioration, when the project is rescheduled.

The average allocation for Asset Renewal projects presented to Regional Council during the last budget cycle for the three funded fiscal years 2019/20, 2020/21 and 2021/22 was 74%. The overall capital ten-year outlook allocated 68% of the prioritized investment proposal towards Asset Renewal. For the next two to three budget cycles, as asset lifecycle data is being developed within the enterprise asset management systems, staff is recommending that annual capital investments range from 70-80% for Asset Renewal and 20-30% Growth. This recommended allocation will be reviewed for updates in 2022/23.

FINANCIAL IMPLICATIONS

The financial implications associated with the recommendation would be reflected in the longer-term financial pressures of the municipality's infrastructure operating, maintenance and rehabilitation budgets. Assets which are not on a regular preventative maintenance schedule and continue to be operated at a lower state in condition will result in a higher volume of emergency repairs and larger, more complex projects.

RISK CONSIDERATION

Implementing a longer-term strategic capital plan will mitigate the enterprise risk associated with owning and maintaining HRM's large infrastructure inventory. Risk is now formally evaluated for each capital project annually, as part of the capital prioritization framework.

COMMUNITY ENGAGEMENT

Halifax Regional Council meetings are open to public attendance, and a live webcast is provided of the meeting. The agenda, reports, minutes, and meeting video are posted on Halifax.ca.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications directly associated with the recommendation of this report. A more strategic capital plan should allow for greater consideration of environmental resiliency in municipal infrastructure.

ALTERNATIVES

1. Budget Committee can recommend to alternatively provide a lower or higher range for the annual capital budget allocation for the Growth and Asset Renewal categories. The impact of alternative allocations would result in higher operating costs annually, some short-term and others permanently.
2. Budget Committee can recommend not to set investment allocation guidelines for the Growth and Asset Renewal categories. The loss of new governance for enabling a more sustained and reliable infrastructure and inventory would increase risk for service disruption and financial pressures.

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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