

Item No. 3
Budget Committee
July 19, 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: Prioritizing Capital Outcomes

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 evaluate capital projects in the 2020/21 capital budget using Strategic Alignment weighted allocations 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.

DISCUSSION

As previously described, 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.

To enable this alignment, staff have created a Strategic Document Hierarchy based on asset management best practices. In HRM's application of the tool, the Hierarchy presents how all currently active municipal guiding documents map to the six Council Priority Areas.

These six Council Priority Areas, including:

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

are highlighted as the primary themes in Halifax's 2017-2021 Strategic Plan to enable the Mission statement, guided by seven core Values. There are also 25 supporting Council Priority Outcomes defined in the Strategic Plan under the Priority Areas to further guide decision-making towards achieving Halifax's Vision.

Presently at the overall organizational level, there is no mechanism to guide staff on which strategic documents priority should be placed for the purpose of allocating resources with competing pressures. This increases the risk for the organization to not advance key strategies within Council's and the community's expected timeframe after the strategic document has been approved.

By engaging in an exercise to collectively assign weightings across the six Council Priority Areas, the Budget Committee will be providing improved guidance when capital projects are evaluated under the Strategic Alignment element of the Capital Prioritization Framework.

The Capital Prioritization Framework is an asset management tool which was implemented in the 2019/20 capital budget process. The purpose of this framework is to bring an improved level of transparency, and consistent and objective evaluation to the capital planning and budget deliberation process. While all project requests put forth have merit, financial and other resource capacities are not unlimited, creating prioritizing challenges. The framework captures staff's significant skill and experience with the infrastructure in a comparable rating system for:

- Capacity to Deliver,
- Risk,
- Impact to Service, and
- Strategic Alignment to Council Priority Areas

to ensure recommended projects are focused on the overall long-term goals instead of immediate needs and individual project merit. Each capital project is evaluated using the framework's criteria and presented for senior leadership's deliberation at an overall corporate perspective, to make a more valued recommendation to Council.

The elements of the Framework evaluate both the likeliness and degree of impact for each project as a High, Medium, or Low rating. The evaluation is not a calculated score, but a general rating for decision-makers to digest a large scope of information and drivers, to facilitate a more informed prioritization decision. The detailed Framework elements and their associated matrices can be found in Attachment A of this report.

The Strategic Alignment to Council Priority Areas rating is intended to bring greater focus for aligning organizational resources to achieve Council's community vision by prioritizing capital projects which most advance Council's key priorities. The Impact to Service rating indicates which projects will bring greater

value to each service area objectives. The Risk rating evaluates four elements of risk related to infrastructure management; the current budget process will introduce a fifth element to evaluate on environmental risk. The Capacity to Deliver rating evaluates the project's state of readiness. The elements rated provide a gating function, providing transparency on project timing and improved financial planning.

FINANCIAL IMPLICATIONS

The annual capital budget is set according to Regional Council's approved fiscal framework. A Capital Funding Framework will be brought forward for discussion at Budget Committee on September 24, 2019. The implication of prioritizing capital projects using weighted Strategic Alignment allocations should be a higher value outcome realized from the investment, by providing greater focus in advancing key strategies.

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

New to the 2020/21 budget process, staff will be creating 6-8 community pop-up kiosks in September 2019 in representative communities at large (urban, suburban, rural) as well as diverse communities to engage citizens for a better understanding of which strategic priorities and services are most meaningful. 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

Budget Committee may recommend weight all Council Priority Areas equally. The impact of this guidance to staff for capital project evaluation potentially results in having minimized understanding and focus on Council's top strategies from year to year and therefore continuing the risk that key strategies will advance slower than desired.

ALTERNATIVES

Attachment A – Capital Prioritization Framework (2018/19)

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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Capital Prioritization Framework (2018/19)

Evaluation Categories

Risk

For Halifax's first year implementing risk evaluation of capital projects, four categories will be examined: **Service Delivery/Operations, Health & Safety, Reputation and Legal & Compliance**. It is intended that risk evaluation methodology will evolve over time, particularly as Corporate Planning resumes work on Enterprise Risk Management later this fiscal year. The recommended risk impact and likelihood scales are shown in the tables on the next two pages.

RISK LIKELIHOOD SCALE	
Likelihood	Description
5 Almost Certain	<ul style="list-style-type: none"> • 99% chance of occurrence within the next year • Impact is occurring now • Could occur within 'days to weeks'
4 Likely	<ul style="list-style-type: none"> • Greater than 50% chance of occurrence within the next year • Balance of probability will occur • Could occur within 'weeks to months'
3 Possible	<ul style="list-style-type: none"> • Greater than 10% chance of occurrence within the next year • May occur shortly but a distinct probability it will not • Could occur within 'months to years'
2 Unlikely	<ul style="list-style-type: none"> • Greater than 1% chance of occurrence within the next year • May occur but not anticipated • Could occur in 'years to decades'
1 Rare	<ul style="list-style-type: none"> • Less than 1% chance of occurrence within the next year • Occurrence requires exceptional circumstances • Exceptionally unlikely, even in the long term • Only occurs as a '100-year event'

The rating should be evaluated as the risk occurring if the project does NOT proceed.

Level	Service Delivery/ Ops	Health & Safety	Reputation	Legal & Compliance
5 Extraordinary	<ul style="list-style-type: none"> • Critical service loss for more than one month • Public outrage at inefficiencies/level of service demonstrated outside of City facilities 	<ul style="list-style-type: none"> • Loss of life 	<ul style="list-style-type: none"> • Long term effect on brand and reputation • Adverse/negative view of City (council and staff) is community-wide • Widespread prolonged public or media attention (international or national coverage) 	<ul style="list-style-type: none"> • Major litigation, possibility of custodial sentence • Investigation by regulatory body resulting in interruption to operations Possibility of custodial sentence
4 Major	<ul style="list-style-type: none"> • Critical service loss for up to one month • Customer service levels are at such a poor standard that most customers are aware of them • Volume of complaints on inefficiencies/level of service exceeds ability to respond 	<ul style="list-style-type: none"> • Multiple severe injuries • Permanent disability or widespread illness 	<ul style="list-style-type: none"> • Significant media, public or Government attention regionally • Adverse/negative view of City (council and staff) spans district boundaries/ majority of community groups 	<ul style="list-style-type: none"> • Major breach of regulation with punitive fine or legal action/injunction • Litigation involving many weeks of senior management time Legislative
3 Moderate	<ul style="list-style-type: none"> • Critical services are not available for several days • Steady level of complaints on inefficiencies/level of service from citizens/community groups 	<ul style="list-style-type: none"> • Moderate Health and Safety Event • Severe illness or injury impacting larger community 	<ul style="list-style-type: none"> • Attention from media or heightened stakeholder interest • Adverse/negative view of City (council and staff) is held by neighbourhoods/ multiple community groups. • Absorbs management attention for weeks 	<ul style="list-style-type: none"> • Breach of regulation with investigation or report to authority with prosecution or moderate fine
2 Minor	<ul style="list-style-type: none"> • Local only service loss for a few days • Intermittent complaints on inefficiencies/level of service from citizens/community groups 	<ul style="list-style-type: none"> • One individual with serious long-term injury • Severe illness within small, localized area groups 	<ul style="list-style-type: none"> • Minor local public or media attention • No perceivable impact on performance • Adverse/negative view of City (council and staff) is limited to a small area/community group. 	<ul style="list-style-type: none"> • Possibility of challenges due to: minor legal issues, non-compliance and/or breaches of regulation
1 Insignificant	<ul style="list-style-type: none"> • Negligible impact, brief loss of service • Few or no complaints from citizens/community groups 	<ul style="list-style-type: none"> • Single or multiple injuries requiring first aid 	<ul style="list-style-type: none"> • Little or no impact on level of trust in City (council and staff) • Public reaction minimal - no effect on City's profile 	<ul style="list-style-type: none"> • No identified compliance issues

The Risk Impact and Risk Likelihood scales are multiplied to derive a score of 1-25 in a given risk category. Risks may impact one or more categories and action should be contemplated or initiated when the risk in one or more categories exceeds the Municipality’s tolerance. This threshold differs by municipality and should correspond with the definitions of Risk Impact. Definitions chosen for the Risk Impacts in this document were taken from Halifax’s Draft Risk Management Strategy (2015). The corresponding Risk Priority Matrix (Impact x Likelihood) is shown below:

		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

Strategic Alignment

Each project is evaluated based on alignment to community goals and objectives. For Halifax, these are represented by Council Priority Areas. For the initial year of the framework’s implementation, preliminary weightings were set equally for each of the Council Priority Areas. It is intended that Council will set weightings for each priority area going forward and updated for changes to Council Priority Areas and Outcomes.

Each project will be evaluated on how strongly it contributes to achieving the outcomes for each Council Priority Area. Scoring under each Priority Area is as follows:

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, their weights, and their associated outcomes are outlined below:

Priority Area: Economic Development	Weight: 17%
<p>Outcomes:</p> <ul style="list-style-type: none"> • Halifax is a welcoming community where the world’s talent can find great opportunities. • Halifax promotes a business climate that drives and sustains growth by improving competitiveness, minimizing barriers and leveraging our strengths. • The economic viability of rural communities is included as an integral aim of regional economic growth strategies and their implementation. • Halifax has a vibrant, animated and economically healthy Regional Centre that is a cultural, business and education hub with a growing population. • Ensure that there are sufficient industrial, commercial and institutional lands available to provide economic opportunities. • Recognize and support heritage, cultural activities, and arts to bolster the creative economy and the vitality of the region. 	

Priority Area: Service Delivery	Weight: 17%
<p>Outcomes:</p> <ul style="list-style-type: none"> • HRM simplifies processes and delivers service to promote and encourage a vibrant business environment. • HRM understands the needs and perspectives of the people they serve, and provides quality service through a person focused approach. • Halifax will foster a corporate culture that values innovation and bold ideas and supports the rapid deployment of experimental pilot projects and civic innovation project teams. 	

Priority Area: Healthy, Liveable Communities

Weight: 17%

Outcomes:

- Halifax citizens and visitors are safe where they live, work, and play.
- Halifax builds resiliency by providing leadership in energy management, sustainability and environmental risk management both as an organization and in the community, we serve.
- Halifax citizens have access to facilities and natural assets that enable a range of choices for structured and unstructured leisure and recreation activities.
- Halifax shall be an active partner in supporting community health programs such as food security initiatives.

Priority Area: Social Development

Weight: 17%

Outcomes:

- HRM communities, families, youth and seniors have access to social infrastructure that enables them to participate fully in their community.
- Halifax is a leader in building an accessible community where everyone can participate fully in life, including persons with disabilities and seniors.
- Halifax is a leader in fostering partnerships that provide access to a full range of quality, affordable housing options in safe and vibrant neighborhoods.
- Halifax is a diverse and inclusive community that supports everybody.

Priority Area: Governance and Engagement

Weight: 17%

Outcomes:

- Halifax citizens have confidence in the governance structures of the municipality.
- Halifax citizens and communities participate in open and transparent communication with the municipality.
- Halifax citizens and communities are engaged in the development of public policy and plans.
- HRM manages municipal resources with integrity and considers the impact on taxpayers when making decisions.

Outcomes:

- Halifax will implement an integrated mobility strategy that supports growth, development and the transportation of goods and people of all ages and abilities, using all modes including walking, cycling, transit, and motor vehicles, consistent with the Regional Plan.
- The Halifax Transportation Network is comprised of well-maintained assets.
- The Halifax Transportation Network is designed to be operated to be safe, accessible and supportive of enhanced user experience and focused on service improvements.
- Drivers, cyclists and pedestrians all-share responsibility for travelling safely together. Through education, enforcement, and improved infrastructure (engineering), engagement and evaluation, pedestrians in Halifax are provided with a safe environment in which to walk.

Impact to Service

Workshops were held in which Directors and their management teams explored concepts related to service delivery. They worked through identifying their stakeholders, what is uniquely important to them, how to measure success, and what factors they weigh when making choices. This information was then assembled into project evaluation criteria and tested with several examples. The criteria to evaluate impact to service varies among service areas, just as the nature of the services delivered varies.

Criteria	Fire	Police	Library	Parks & Rec	TPW	Transit
Accessibility <i>A measure of the ease with which users can make use of the service. Examples: provision of sufficient facilities, adequate hours, barrier-free</i>	20%	20%	30%	20%	20%	15%
Functional Performance <i>Describes the standard to which the service is provided. The network and associated facilities are up-to-date, in good condition, and “fit for purpose”.</i>	20%	10%	25%	25%	15%	30%
Sustainability <i>Relates to the management of the service for the future. Assets are managed with respect to current and future generations and adverse effects are managed effectively.</i>	10%	5%	20%	20%	45%	35%
Compliance <i>Relates to the risks created by provision of the service and the degree to which these are mitigated. Example: services are delivered without risk to public health</i>	50%	65%	25%	35%	20%	20%

Projects are scored as follows:

- 3** The project **strongly contributes** to achieving the level of service performance criteria
- 2** The project **contributes** to achieving the level of service performance criteria
- 1** The project **weakly contributes** to achieving the level of service performance criteria
- 0** The project **does not contribute** to achieving the level of service performance criteria

Each business area is responsible for defining specifically what those scores mean for each of the criteria so that they may be consistently applied.

Capacity to Deliver

That idea was amended to apply Capacity to Deliver to serve as a tool to determine project timing. The criteria selected to evaluate Capacity to Deliver are: **Land, Public Consultation, Resource Expertise/Availability, Procurement Phase, and Funding Sources**. Uncertainty or difficulties with any of these areas has the potential to significantly impact a project timeline. Definitions are included in the table on the next page.

Readiness Category	Land	Public Consultation	Resource Expertise/ Availability	Procurement Phase	External Partnerships
3 Ready to Proceed	<ul style="list-style-type: none"> • No land acquisition is required • Necessary land has been acquired 	<ul style="list-style-type: none"> • Public consultation is not required • Public consultation is complete 	<ul style="list-style-type: none"> • Expertise is available in-house or may be readily procured • Resources are available to carry out the work 	<ul style="list-style-type: none"> • Tender process is planned or underway • Request for proposal has been issued or recently closed and contract negotiations are expected to be STRAIGHTFORWARD 	<ul style="list-style-type: none"> • Cost sharing or grants have been confirmed – OR – No external funding is required.
2 Preparation Underway	<ul style="list-style-type: none"> • Negotiations to acquire land have started 	<ul style="list-style-type: none"> • Public consultation is underway • Public consultation will be completed within 6 months 	<ul style="list-style-type: none"> • Efforts are underway to resolve expertise/ availability gaps 	<ul style="list-style-type: none"> • Request for proposal process is planned or underway • Request for proposal has recently closed but contract negotiations are expected to be COMPLEX 	<ul style="list-style-type: none"> • Cost sharing or grants are planned, and confirmation is expected within 6 months • Sale of land/asset to fund the project is underway
1 Further Preparation Required	<ul style="list-style-type: none"> • Preferred site has been identified 	<ul style="list-style-type: none"> • Public consultation program is in planning phase 	<ul style="list-style-type: none"> • Staff training program required • Recruitment campaign is planned 	<ul style="list-style-type: none"> • Request for qualifications process is planned or underway 	<ul style="list-style-type: none"> • Planned cost sharing is at the application stage • Sale of land or another asset to fund the project is planned
0 Conceptual	<ul style="list-style-type: none"> • Preferred site has yet to be determined 	<ul style="list-style-type: none"> • Extent of public consultation has not yet been determined 	<ul style="list-style-type: none"> • Required skill sets/number of resources have yet to be determined 	<ul style="list-style-type: none"> • Further research and/or defined requirements are needed before proceeding with procurement 	<ul style="list-style-type: none"> • External funding program details or requirements are not yet available