

Date: 2022-12-05

Subject: **Strategies to Address Unspent Capital Backlog**

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Report Number: Corporate Support Services-2022-1041

Recommendations:

1. That the report from Nash Damer, Treasurer, Finance, Corporate Support Services, dated December 5, 2022, to the Council Meeting of December 14, 2022, re: **Strategies to Address Unspent Capital Backlog**, be received; and,
2. That Council approves the strategies and methods contained within to address the current capital backlog and as part of the preparation of the 2023 Capital Budget program.

Overview:

- **As of September 30, 2022, the City of Brampton has an uncommitted capital projects balance of over \$1 billion, representing 41% of the total approved budget.**
- **Staff proposes a series of strategies and solutions in this report to resolve the capital backlog and approach future capital projects: 1. Project Planning and Budget Strategies for Future Capital Requests; 2. Resource Planning and Forecasting; 3. Innovative Project Delivery Methods to Resolve Capital Backlog; 4. Procurement Approaches; and 5. Project Management Standards for Future Projects.**
- **Staff recommends Council approval of the strategies and methods contained in the report.**

Background:

To address unspent capital amounts, staff has conducted a review of approved projects to identify major drivers and solutions to reduce the backlog. The approach is to address issues related to project delivery, procurement, project resource availability, project funding and budget constraints, and any factors including existing policies and procedures impacting the successful delivery of uncommitted projects.

The proposed strategies and solutions identified in this report will apply to the existing backlogs as well as any new capital project ask in preparation for the 2023 capital budget deliberations. The procurement methods identified as part of this report will be done in consultation with the Purchasing Department, the respective Operating Department, and approved by the CAO.

Staff are approaching the 2023 Budget with a mindset of reducing the project backlog by focusing on delivering existing approved projects, and permitting new projects only when adequate resources have been identified to deliver the project within the budget year. This approach will help relieve pressure with the capital budget moving forward by better aligning past, present and future funding with resource capacity to deliver projects.

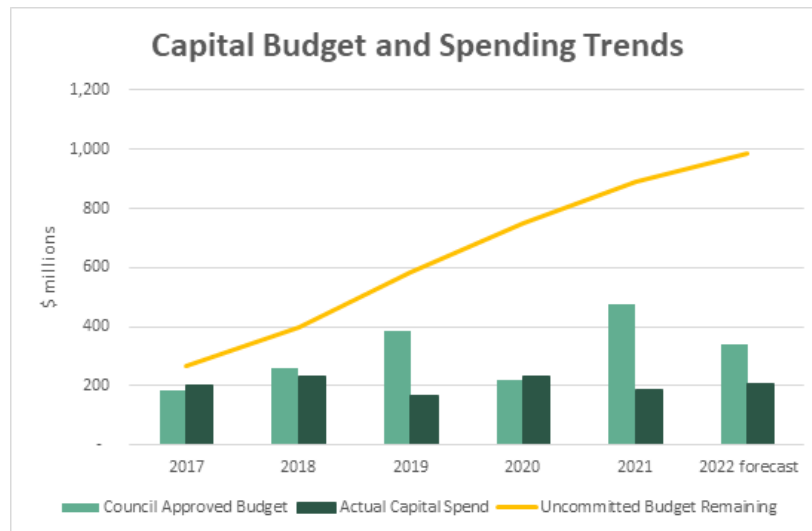
Current Situation:

Existing Capital Backlog

As of September 30, 2022, there were 584 open projects. These projects have a cumulative value of approximately \$1 billion, which represents 41% of the approved budget to-date. The main cause for the unspent capital funds is the multi-year nature of large capital projects. Total funding must be approved upfront to ensure sufficient funds are available even though payments are incurred throughout the life of a project, which may be several years. 63% of the currently unspent capital is related to projects approved in 2021 and 2022.

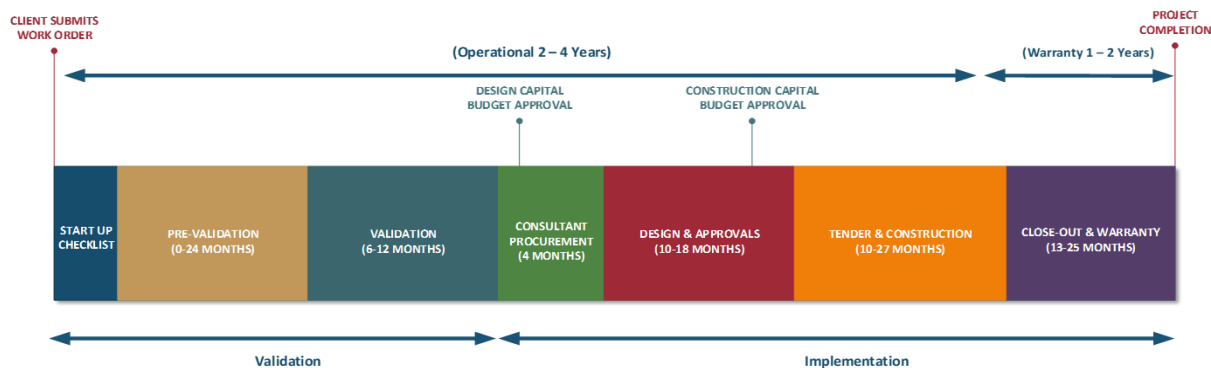
Capital Backlog Approval Year (in millions)					
2018 and prior	2019	2020	2021	2022	Total
\$88	\$195	\$104	\$393	\$274	\$1,053

The following chart illustrates the comparative trends between annual capital budget approvals, actual capacity to spend and the unspent/uncommitted balance. The growing backlog of uncommitted approved capital is a result of capital program approvals at a rate that exceeds the demonstrated capacity to deliver.



Strategy 1: Project Planning and Budget Strategies for Future Capital Requests

Project planning is critical to the successful delivery of projects. One of the key contributors to the number and value of uncommitted projects is the prior practice of assigning and approving the total project budget prior to determining the full scope of the project. This has two adverse effects. First, the construction portion of the budget remains uncommitted for several years until the project validation and/or design phases are completed. This period ranges from 6 months to 2 years or more depending on the scale or project type, as depicted in the “New Construction Timeline” chart below.



Secondly, given recent hyper-inflationary market pressures and cost escalations relating to materials and labour, project budgets approved several years ahead would not reflect the true actual cost of implementing the project in future years. For example, non-residential construction inflation in the Toronto area was in the range of 3-4% pre-pandemic. In 2022, it ranged from 15 to 20% per annum.

To better manage these factors, project budgets will be requested at definitive points in the project lifecycle. Council approval will be sought either through the budgeting process or through a Council Budget Amendment report depending on the receipt of the proper project estimate. The project design budget would be requested first based on preliminary project scope. The construction budget would then be determined and submitted for

approval when it has attained at least a Class C level of accuracy. This would allow staff to cost out the project more accurately in the year in which funds will be committed.

For projects that are deemed strategically important, but lacked definition when initially added, staff will assign a nominal seed funding amount to these projects. This allows staff to better define the project needs, scope and budget, which can then be presented to Council for approval. The same approach may be applied to projects anticipating other government funding where initial seed funding is required from the municipality ahead of receiving external contributions. Staff will better engage with the external partners at a project level and governance level to ensure timely communication between all involved parties to achieve better planning and project success.

Grouping similar types of projects into a program is advantageous as it allows flexibility in the delivery of each project. For example, shortfalls in project budgets can be adjusted across the program without having to request budget amendments each time there is a need. The exact magnitude of the budget amendment allowed would be Council approved. This approach also allows opportunities to optimize project schedules.

Strategy 2: Resource Planning and Forecasting

The availability of adequate resources has been a major constraint and has impacted project delivery. Over the last few years there has been a shortfall in the number of staff required to meet the City's project delivery mandate. More recently, recruitment and retention has severely impacted the City's ability to maintain an adequate staff complement to deliver the uncommitted capital projects mandate. Although some of these past capacity issues are being addressed, there remains an ongoing challenge particularly with recruitment and retention, which is accentuated further by the current labour market.

Given the above noted constraints and associated impacts on project delivery, staff will develop a resource plan to ensure that only projects with assigned project management and delivery resources are included in future capital budgets. This will ensure Council approved projects can be committed and delivered as planned.

Resource availability levels have also been a limiting factor for contractors and consultants as this adversely affects their capacity to bid or perform work on the City's projects. This has led to schedule delays during design or tendering. Staff intend to consult with contractors and consultants to better understand their capacity constraints. This information will then be coupled with the innovative project delivery and procurement methods noted below to formulate a comprehensive delivery strategy.

Strategy 3: Innovative Project Delivery Methods to Resolve Capital Backlog

Based on industry best practices and lessons learned, staff will, through a coordinated cross-departmental approach, undertake a review of uncommitted strategic projects and prepare a delivery and procurement plan of approach. This plan will outline the delivery

and procurement methods most likely to deliver the best value to the City considering impacts to budget, schedule and quality of the project product.

The City has had significant success with many alternative delivery models. The Construction Management (CM) approach is being explored for many City projects as it presents distinct advantages over the traditional design-bid-build methodology depending on project complexity, scale, and market volatility. The CM approach was utilized on the Fire Campus. It helped overcome market volatility during the pandemic and contributed to opening the building several months ahead of schedule. This flexible delivery model allowed adjustments to the scope of work and facilitated negotiations during the construction phase. This was critical to overcome supply chain disruptions, labour strikes and pricing inflation.

Staff are also exploring other innovative variations such as Energy as a Service (EaaS) and Energy Services Company (ESCO) giving the Net Zero and Electrification projects the City is planning or currently has underway. ESCO is a type of design-build project where the contractor guarantees a level of energy performance for the project, this is currently being used for the Susan Fennell Sportsplex NetZero Retrofit and will be further explored for two potential new NetZero projects in 2023. EaaS is also a form of design-build that is being considered for upcoming projects including the installation of electric bus charging infrastructure at the Sandalwood Transit Facility and others. EaaS involves lower upfront capital costs to the City and repayment of installation costs over time using fuel savings.

Indefinite Delivery/Indefinite Quality (IDIQ) construction delivery method is also being considered for smaller scale state of good repair projects. This form of contract utilizes industry established unit pricing for procurements, which increases transparency and shortens project timelines and reduces complexity.

Staff continues to seek alternative delivery methods by canvassing other municipalities and engaging with consultants and contractors based on project type, complexity and delivery constraints. Staff will explore all alternative options in consultation with the CAO to alleviate the capital backlog.

Strategy 4: Procurement Approaches

While blanket contracts and prequalification roster lists are currently used, the enhancement of these tools can help reduce procurement timelines in securing both consultant and contractor services. This approach can be particularly useful for “State of Good Repair” projects which are typically of lower contract value. For instance, by creating blanket contracts with a list of contractors the City can solicit second stage competitive bids. Alternatively, the City can use prequalified contractors/consultants depending on project budget ranges, whereby reducing procurement timelines.

Another possibility is to bundle State of Good Repair projects based on geographical location, building location, schedule constraints, and/or project type, to reduce procurement processing time and alleviate staffing resources.

Staff will explore a variety of procurement approaches to facilitate project delivery urgency as may be related to schedule constraints imposed by funding agencies and other levels of government, such as where grants or subsidies are provided towards a project with stipulated completion deadlines. Currently, the City has a number of these projects with over \$93 million of approved external funding. Some are at risk of losing the funding if not immediately prioritized. Thus, the alignment of delivery methods and procurement approaches, along with dedicating adequate resources are critical to meeting the stringent delivery schedules and ensuring full funding utilization.

Strategy 5: Project Management Standards for Future Projects

In 2022, the Centre of Excellence & Capital Compliance Office, otherwise known as Enterprise Project Management Office (EPMO), developed project management standards, incorporating feedback from divisions where possible, and trained over 270 staff on project management practices. For the 2023 Capital Budget Submission, EPMO collaborated with divisions in developing project prioritization criteria and a justification template to help senior leadership prioritize projects based on a range of factors, including strategic alignment, capacity to deliver, operational impacts, and benefits/value to the City of Brampton. Divisions were asked to justify funding requests to ensure scope, schedule, cost, risks, and stakeholders were understood prior to requesting funding.

The EPMO is currently implementing a Corporate Project Stage Gate model as a part of the Project Stage Gate Standard. This model shows the different Stages a project completes throughout its lifecycle. Staff will use this model in future reports to indicate which Stage a project is currently completing. This will provide Council with a better understanding of project progress, as well as how much capital backlog resides in a particular Stage.

Corporate Implications:

Financial Implications:

There are no immediate direct financial implications associated with this report. Any future financial implications as a result of the implementation of the strategies and solution proposed in this report will be incorporated in future budget submissions, pending Council approval.

Term of Council Priorities:

This report supports the Term of Council Priorities and the 2040 Vision.

Brampton is a City of Opportunities: the proposed strategy to address the capital backlog is vital to ensure opportunities are realized for residents and initiatives are delivered.

Brampton is a Well-Run City: the proposed strategy to address the capital backlog is important in terms of fiscal responsibility and project delivery efficiency.

Conclusion:

In order to address unspent capital, staff have identified strategies and methods to address issues related to project delivery, procurement, project resource availability, project funding and budget constraints, and any factors including existing policies and procedures impacting the successful delivery of uncommitted projects.

With regards to the 2023 Capital Budget, staff recommends prioritizing the existing projects to alleviate the pressure. Improved planning and resourcing, and more rigor will be applied to future capital budget asks to better align funding and capacity to deliver the projects. It is recommended that Council approves the recommendations as described within this report.

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