ADMINISTRATIVE DIRECTIVE NO. FM-004

Capital Project Administration

AUTHORITY FOR DIRECTIVE:Chief Administrative Officer

LAST UPDATED:March, 2007

Directive

CAPITAL PROJECTS MUST BE PLANNED GIVING DUE REGARD TO APPROPRIATE PROJECT MANAGEMENT TECHNIQUES, REPORTING AND ADMINISTRATIVE STRUCTURE INCLUDING THE MAJOR CAPITAL PROJECT STEERING COMMITTEE REQUIRED FOR PROJECTS THAT ARE EXPECTED TO EXCEED $10 MILLION.

PROJECT MANAGEMENT TECHNIQUES MUST INVOLVE CONSIDERATION OF PROJECT BUDGETS AND ALTERNATIVE METHODS OF COMPLETING PROJECTS INCLUDING PUBLIC PRIVATE PARTNERSHIP OPPORTUNITIES.

A. PURPOSE OF DIRECTIVE

The purpose of the directive is to describe processes that must be considered when planning, delivering and executing a capital project on behalf of the City to ensure that they are completed:

- in a transparent manner,
- in the most efficient and cost effective means available giving full consideration to the guiding principle of cost certainty,
- with sufficient due diligence,
- managing project scope in relation to the capital budget and potential opportunities regarding project timing, and
- giving due consideration to risk management

The very nature of the City's business requires delivery of capital projects to the citizens of Winnipeg through various departments including Public Works, Water & Waste, Transit, and Planning, Property and Development. In a majority of cases, the City has delivered these projects within budget but over the past few years, price increases in materials and labour have resulted in a dramatic and unexpected impact on capital budgets.

As a result, it is timely to re-examine the processes and procedures applied by the City in delivering capital projects. For this purpose, the Directive provides details regarding capital project management. Information has been gathered from various sources including discussions with the contractor community, the City's

bankers, City departments and other municipalities who have provided information in terms of their operations.

B. ROLES AND RESPONSIBILITIES

For the purposes of this Administrative Directive, unless specified otherwise, major capital projects are defined to be those over $10 million. The $10 million threshold was set pursuant to the Main/Norwood bridge audit in 1999 resulting from a series of recommendations that were stated in the final audit report. Nevertheless, all of the techniques and processes explained in this document could be applied to all capital projects undertaken by the City.

CHIEF ADMINISTRATIVE OFFICER

- Ensure compliance with this directive.
- Appoint members, as required to the Major Capital Project Steering Committee.
- Appoint members to the City's Public Private Partnership Review Committee.("P3 Committee")

CHIEF FINANCIAL OFFICER

- Oversee financial systems for purposes of timely financial reporting relating to capital.
- Ensure compliance with respect to reporting and set up of major capital project committees.
- Chair the P3 Committee (or designate).
- Provide input and advice to the CAO on all financial decisions relating to P3 opportunities.

MANAGER OF CAPITAL PROJECTS

- Assist in the establishment of a quality assurance process relating to capital projects in the City.
- Assist in reviewing detailed drawings and innovatively challenge design/build specifications with a view to reducing costs but at the same time maintain quality. Participate in the review of value engineering concepts.
- Review all considerations relating to P3 opportunities and provide input into whether work should be done internally or through a P3.
- Participate on the P3 Committee providing guidance, research and input.
- Involved in the calculation of Public Sector Comparators for each P3 candidate, external and internal financial reviews, and arranging peer reviews as required.
- Be involved in the development of key success indicators which might include the timing of issue of tenders and requests for proposals.
- Be involved in the risk analysis and a proponent of its results to ensure that the City is focused on key issues affecting construction.

- Make recommendations on what risks the City should accept which could assist with respect to reductions of contract prices.
- Participate on all Major Capital Project Steering Committees to monitor the capital process and comment on progress to date.
- Review the quarterly administrative reports submitted by departments to the Standing Policy Committee on Finance for completeness, percentage of completion and cost estimation. Identify funding shortfalls early in the process, assist in designing processes that reduce the City's risk and assist in the development of compensating procedures including recommendations regarding reduced scope, and deferral of projects.
- Be a proponent and champion for life cycle costing and asset management systems in the City.
- Prepare presentations on an annual basis in respect of the state of the City's capital, the deferred maintenance liability, investment requirements and recommendations regarding replacement or devolution of assets not only for infrastructure but land and buildings as well.
- In support of the existing capital budget process but in advance of the budget submission, conduct a quality assurance review of the capital budget prepared by departments.
- Preparation of checklists, timelines and best practice documents guiding management of capital projects.
- Introduce consistent methodologies for capital management of all City projects.
- Consult with the Materials Management Branch, Departments and the construction industry concerning changing trends and revisions required to procurement documents .
- Consult with the Risk Management Branch concerning insurance practices that may impact the construction industry and City.
- Monitor price changes in materials and labour and provide advice to departments concerning the impact of these issues on their capital projects.
- Annually review performance of completed capital projects against budget.
- Provide input into the City's financing decisions relating to capital investments.
- Support the establishment of proper capital accounting policies in the City. Promote consolidation of surpluses based on the practices setout below and support timely completion of expropriations.

DEPARTMENTS

Responsibilities apply both to department heads and staff responsible for managing capital projects

1. Project Planning (including Budgeting and Public Private Partnerships (P3))

Planning for the Project

Typically projects are formulated several years in advance of the proposed date for construction. There are several matters associated with this approach including:

Considerations

- The City's six year capital plan (annual capital budget and five year capital forecast) provides an opportunity for all departments to plan for repairs or replacement in the future.
- Contractors have indicated that a steady flow of work as evidenced in the capital budget enables them to plan for work and retain trade and other service provider resources.
- It is difficult to estimate the true cost of a project if it commences several years in the future. Prices for materials and labour can vary considerably during this term so estimating an inflation rate and contingencies is critical to setting an appropriate budget.
- Once the cost of the project is set, it is often difficult to increase the budget because funding is based on the original amount of the budget proposed.
- Capital work, left to commence at a much later date, may not be placed into service for an extended period even though there may be significant needs in the Community for earlier implementation. These projects are also highly susceptible to the effects of inflation.
- The City has identified a growing number of important capital investments. Each needs to be prioritized in consideration of available management and financial resources.
- Discussion of financing opportunities with Corporate Finance as a possibility for advancing capital projects
- Entry into the capital budget implies that the City will manage the project but there is no apparent intermediary step to stop and consider other opportunities including P3's.

Responsibilities

- All capital projects contemplated need to be evaluated in advance of the capital budget process to determine whether:
    - The project should be project managed by internal City staff.

    - The project would be appropriate for P3 consideration using a design, build, finance and operate (dbfo) model or could some derivative of this model be used (for example - design, build only).
    - External debt should be issued.
    - Sources of revenue are available.
    - The City can apply alternative delivery techniques including the use of construction managers.
- If after considering the above, the City decides to manage the project internally there are other areas that will require additional consideration including:
    - If there is a decision to build using internal resources and to pay as you go, is the risk from commencement to completion manageable? In other words, sufficient contingencies and inflation would need to be built into the model to ensure that the budget keeps pace with changing economic conditions. Alternatively, each budget would need to be challenged vigorously on an annual basis to ensure that sufficient funding was available for future capital work.
    - Should capital work be broken into more manageable components?
    - Should the capital project be tendered at the beginning of the project or in stages throughout the project?

2. Project Management

Definition of Consultants

For purposes of this directive, consultants are defined to include those external parties who are engaged to provide engineering, architectural, construction management or general contract management to the City.

Consultant Contracts

Once the project is budgeted, departments will decide on the appointment of design consultants and issue RFP's for either a construction manager or general contractor. Processes involve the following considerations:

Considerations

- Work is assigned to design consultants in accordance with the Materials Management Policy in a fair and equitable manner.
- Commencement and completion dates should be well controlled by penalty provisions through the liquidated damages sections in the contracts. However, if contractors know they cannot complete on time, their bid price often reflects the amounts relating to liquidated damages.
- Given current conditions, consultants are very busy and have been preparing multiple addendums to correct tender documents that represent additional

costs to contractors who are required to change their bids often significantly to capture material changes in design.

- Consultants have been charging based on the cost of the project and if these prices escalate, they have asked for increased fees. This practice has led to the City adopting a fee schedule based on original pricing or alternatively using a percentage based approach to set fees.
- At times, it would appear that preliminary and detailed designs include estimates that are not reflective of market conditions relating to increased material and labour costs. As a result preliminary and detailed designs may materially differ from the final costs noted on the bids.
- Plans may not necessarily include evaluation points during the building process that would allow the City to reduce scope, discontinue or extend the project if costs were running at a level higher than budgeted.

Responsibilities

- Decisions need to be made in the contract documents to possibly include financial consequences where numerous addendums are added to design documents or where there are significant variations in estimates from preliminary and final design to tender. Consideration needs to be given to have consultants bear some responsibility where design estimates differ significantly from final tender prices.
- Design documents need to include critical decision matrices that will provide opportunities to reduce scope, postpone or end construction.
- If consulting fees are paid on a percentage of construction basis, there needs to be included in the contract a cap to limit the amount of fees paid that relates primarily to inflation or market conditions.
- Consideration needs to be given by the City in advance of contracting with consultants as to whether the project can be designed internally.

Risk Management

Risk management practices must be used throughout the project from beginning to end.

Considerations

- Assists the department in evaluating risks that may impact the capital project and allows the department to plan for changes that may need to be made to construction.
- Once the initial risk assessment is completed, there may be inadequate time during the project to refer back to the details of the plan to address the risks. Losing sight of these risks can lead to issues with respect to the project.

Responsibilities

- All major capital projects require a formal risk management plan completed by internal staff or external consultants that will highlight potential risks. The contract administrator or project manager should review, consider and address these risks during the course of the project.
- The risk analysis represents a dynamic process that should be reviewed regularly throughout the project to identify and address new risks that might arise.

Project Management Tools

There are many project management techniques that require consideration during the course of a project including:

- Making decisions regarding commencement and completion of the project in terms of sufficient time to obtain bids from the community and capacity to complete within the times noted. Extended time frames contribute potentially to higher inflation and costs in excess of budgets.
- Completing the capital budget in the year prior to construction and issuing tenders and RFP's and awarding contracts before contractors are busy on other work. In this manner, the City will potentially be able to garner more favourable pricing.
- Review procurement practices to ensure ease of application and use for contractors.
- Decide on whether all bids should be obtained at the beginning of a project or in stages for the various components throughout.
- Consider at various times during the project whether to cancel, defer or reduce scope if project costs are expected to exceed budget.
- Change orders have always been an issue with respect to project management. Significant changes from original design can lead to cost overruns. Budgets should include appropriate estimates for contingencies.
- Engage qualified consultants who have experienced staff involved with estimating.

Reporting

Reporting is critical to understanding and determining whether any issues exist and possible courses of action that need to be considered. Appendix E includes standard reports that must be prepared on a quarterly basis. No changes to the standard reports are allowed without approval of the CAO.

Considerations

- Reporting provides information concerning budgets, actuals and projected costs and if used properly, will provide early warning of possible issues relating to the project.
- Inconsistent reporting with inadequate information for interpretation may lead to surprises for decision makers during the course of a project.

Roles and Responsibilities

- The department responsible for the capital project must report quarterly or at any other interval as determined by the Standing Policy Committee on Finance and the Standing Policy Committee on Infrastructure Renewal and Public Works.
- In preparing the report, consultation and concurrence from the Major Capital Project Steering Committee must be sought.
- Reporting must be made in the form set out in Appendix E. No changes will be permitted to the format without CAO approval.

3. Committees

The following Committees will be used to evaluate P3 candidates and the performance of major capital projects.

P3 Review Committee

Definition

The Canadian Council for Public-Private Partnerships (C2P3) defines a P3 as: “a cooperative venture between the public and private sectors, built on the expertise of each partner that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards.”

P3’s have several perceived differences from internal delivery models including:

- Allowing bidders the opportunity to innovate with respect to design and build options.
- Transferring risk to P3 operators in exchange for cost certainty thereby reducing the overall effect of inflation.
- It has been argued that this process allows bidders to use their own suppliers with a view to delivering the project in a timely manner.

On the other hand P3’s must be carefully considered in the following context:

- Development of contracts and RFP’s to engage P3 operators may take a protracted time to complete so there are considerable opportunities in using

standardized documents that may be available from other governments involved in this area.

- The City needs to determine what level of risk to transfer to the contractor because the final cost will reflect this.
- The size of the capital project will attract either national or local interest which may be a determining factor in the contractor's financial ability to complete the contract.
- Minimum specifications and pricing need to be determined by the City in advance of an RFP for purposes of comparing the final design, build, finance and operating costs bid on the project. In this manner, the City can conduct a meaningful comparison of the financial cost of the project (Public Sector Comparators).

Terms of reference

All proposed major capital projects would be referred to the P3 Review Committee for further evaluation. The City requires a P3 Review Committee with individuals who possess sufficient skills to evaluate P3 capital opportunities and to promote their use in the City. The CAO would appoint members to this committee annually. The P3 Review Committee will have the following composition and mandate:

Composition:

- The Committee would be chaired by the CFO or designate.
- The Manager of Capital Projects would serve on the Committee bringing research material and some context in terms of the national and local market.
- The CAO would appoint other members to the committee annually. Management from each department conducting major capital projects would also be asked to serve on the Committee together with the Manager of Financial Services from Corporate Finance.

Mandate

- Coordinate and manage a consistent methodology of evaluation and presentation relating to P3 project candidates.
- Develop P3 contacts both locally and nationally.
- Investigate and monitor P3 progress in Canada and the latest developments in P3 financing.
- Develop criteria to evaluate P3 opportunities.
- Review all capital projects over the threshold established by the CAO for P3 suitability prior to budget submission and evaluate recommendations of the departments.
- Assist in evaluating and developing procurement documents that would be issued to solicit interest in P3 opportunities.

- Review whether a design, build, finance and operate (dbfo) scenario or some derivative of this (which might include a design/build only option), would be appropriate for the capital project and evaluate related recommendations of the departments.
- Review business plans prepared by departments concerning P3 candidates and assist the departments in preparing a business plan template that could be used by all departments.
- Sign-off all business plans where P3 recommendations are involved.
- Develop a Public Sector Comparator to assess whether the P3 can provide better value for money on a given project.
- Arrange for external and internal financial reviews of each candidate project and peer reviews if required.
- Represent City Administration with respect to all P3 enquiries through the Manager of Capital Projects.
- Provide advice and recommendations to the CAO on the suitability of P3 candidates in the City.

Major Capital Project Steering Committee

Terms of Reference:

- Major capital projects expected to exceed $10 million require the formation of a Major Capital Project Steering Committee. The CAO is responsible for appointments to the Committee which must continue to operate from the beginning to end of the project. In 1999, the CAO required formation of major capital project steering committees as a consequence of recommendations emanating from the Main/Norwood Bridge review conducted by the City Auditor.
- City Council adopted a policy on December 16, 1999 requiring that all capital projects with a total estimated cost of $10 million or more must be submitted by the relevant City Department to the Standing Policy Committee on Finance (previously the Standing Committee on Fiscal Issues) for review and recommendation prior to any bid solicitation being issued. The review by the Standing Policy Committee may take place either before or after Council's adoption of the Capital Estimates, as timing permits.

- Capital projects considered routine, ongoing capital works and where the individual components could be completed in isolation at a cost substantially less than $10 million would be excluded from the formation of a Major Capital Project Steering Committee. Examples of exclusions include:
    - Transit bus replacements
    - Residential street renewals
    - Sewer and water main renewals

Composition:

- The Committee should be comprised of the department head, two other directors from other departments, a representative of Corporate Finance, the Manager of Capital Projects and project managers from the department.
- The Committee should be established no later than the time a project is approved for inclusion in the capital budget.
- All appointments must be confirmed by the CAO.

Mandate

- Monitor progress of the capital project in reference to the formal risk management plan.
- The Committee should meet as often as necessary prior to the commencement of construction to evaluate risk management issues. Questions concerning project management and the desirability of various project delivery models should be considered by the Committee.
- Once construction commences, the Committee is required to meet at least quarterly in advance of any reporting to the CAO, the Standing Policy Committee on Finance and the Standing Policy Committee on Infrastructure Renewal and Public Works unless otherwise approved by the CAO and Standing Policy Committee on Finance. Agreement on a draft report should be obtained by consensus on the Committee before any reports are submitted to the CAO Executive Advisory Committee.

C. PROCEDURAL CHANGES

NOTE: This section applies to <u>all</u> capital projects and not only those defined as major capital projects.

Several procedural changes will be made to improve on transparency and flexibility in respect of capital project management. The City is facing a significant number of high priority capital investments. The changes proposed herein will result in more timely identification of capital project surpluses, and provide for greater opportunity to address future challenges relating to capital projects.

Expropriations

Several years ago, the City began accounting for expropriations as a liability on its consolidated financial statements. From an operational perspective, expropriation budgets are spread across many capital projects in primarily three major departments. To facilitate, timely accounting and close-out of completed capital projects, expropriation budgets will be transferred from completed construction projects to a pooled expropriation account by department. This process will assist in highlighting

potential surpluses and cover possible shortfalls where additional funding might be required.

Non-specified Capital Accounts

Periodically, departments prepare reports consolidating surplus balances in capital accounts to help fund other accounts that appear to have a shortfall. However, this practice results in questions concerning the amount of surpluses that actually might be available in capital.

To assist in this regard, departments will be asked to re-allocate unspent project budgets to a non-specified capital account by department. Capital reallocations to other projects will be permitted for amounts equal to the lesser of $100,000 and 25% of the project's base budget based on Department Head approval but any reallocations beyond this amount would require approval of the Standing Policy Committee on Infrastructure Renewal and Public Works or other appropriate committee.

Cancellation of projects

The last time the City cancelled borrowing authority was in 2000 and a recommendation to cancel borrowing authority is included in the 2007 capital budget. Because the City has been financing cash to capital, there has been no recent tax-supported borrowing. However, there are many projects that remain open and outstanding beyond five years.

It is the intention of the City to cancel all projects outstanding beyond five years and require that departments reapply for this funding during capital budget deliberations.

Note that details including history and processes for each of these requirements are setout in the attached Appendix B – New Processes for Accounting.

D. REFERENCES AND LINKS TO RELATED PROCEDURES

The City of Winnipeg Materials Management Policy

http://citynet/matmgt/policy.stm

The City of Winnipeg Universal Design Policy

http://citynet/intrahom/pdfs/ud/universaldesign.pdf

The City of Winnipeg Debt Management Policy

http://citynet/finance/files/approved_debt_management_policy.pdf

Execution of Documents By-law No. 7367/99 (Signing By-law)

http://www.winnipeg.ca/CLKDMIS/DocExt/ViewDoc.asp?DocumentTypeId=1&DocId=854

Over-Expenditure Authorization Information

http://citynet/finance/documents_page.stm

Budget Procedures Manual

http://citynet/finance/bpm_docs.stm

E. AMENDMENTS

None

F. REVIEW PROCESS

The Corporate Controller shall review the Directive annually. The CAO is accountable for approving any amendments to this Directive

G. KEY CONTACTS

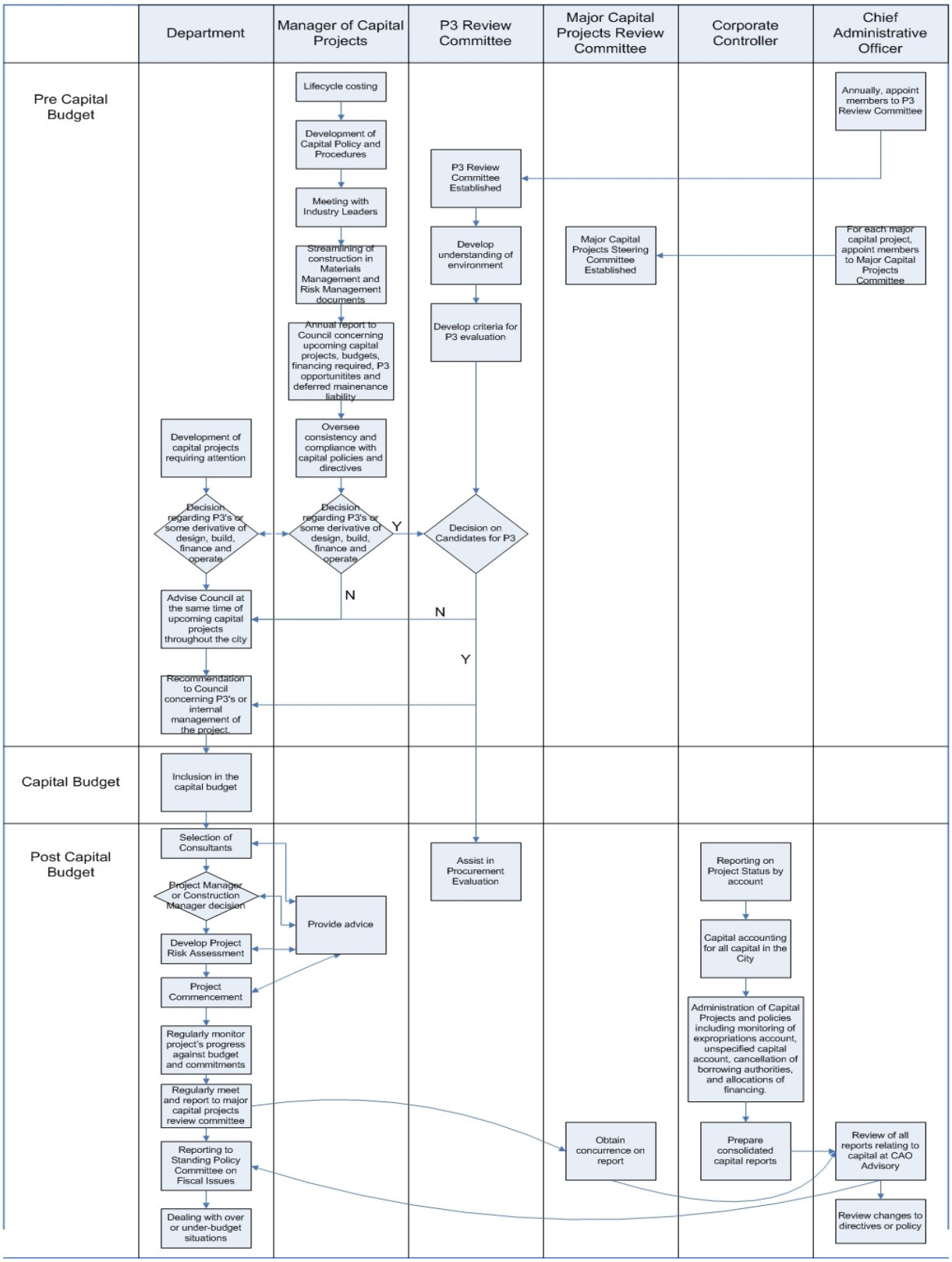
Corporate Controller
Chief Financial Officer

H. ATTACHMENTS

Appendices

A – Flowchart – Capital Project Cycle
B – New processes for accounting
C - Interest and administrative overhead charges
D – Processes regarding over-expenditures of Capital Projects
E – Capital project report format

Capital Project Cycle



APPENDIX B

New Processes for Accounting

This applies to all capital projects and not only Major Capital Projects.

Expropriations

Many capital accounts are left open for extended periods even though complete, due to an outstanding expropriation. Surpluses from one expropriation are often required to settle a deficit in other capital accounts within a department.

HISTORY:

- Expropriation budgets are included in the capital budget of any given project. At the time of budget approval it is not usually known whether an expropriation will be required.
- The capital budget resides in the department specified in the capital budget book. Construction budgets and expropriation budgets are commingled as there is no separate allocation for expropriations. It is difficult to track how much funding is available for the expropriation because the transactions are spread among many accounts in the major capital departments.
- Responsibility for negotiating expropriation settlements resides with Planning, Property & Development (PP&D).
- The City accrues expropriation liabilities on its consolidated financial statements using a conservative estimate. From a funding perspective, the City measures its funding against this conservative estimate.

Expropriation accounting

<u>Requirements</u>

The City set up one Expropriation Project per department to fund all of the department's expropriations.

<u>Procedures</u>

- Capital budgeting for all project costs, including expropriations, as one amount will continue as is.
- Once the construction portion of a project is complete and an expropriation liability exists, the expropriation budget will be transferred to a newly created expropriation project account.

- The construction project will have an expropriation expense in its expenditures equal to the amount of the expropriation budget transferred to the new expropriation project account.
- The new expropriation project account will show funding transferred from the construction projects.
- Expropriations settled under budget will be able to help fund expropriations that do not have sufficient funding (i.e. a pooled concept). The account will only be allowed to grow to a level sufficient to ensure all expropriation liabilities are fully funded under the worst case scenario estimate plus $1 million city-wide. Excess surplus must be reallocated to the non-specified account (see description below).
- An expropriation report will be created in PeopleSoft to show a summary of all expropriation projects for the City, their actual expenditures and available funding. This can be compared to liability estimates on a regular basis. This report will be provided to the CAO annually as information.

Considerations

- Departments will be able to report on full budget expenditures by capital project after including an expropriation expenditure at budget amount.
- The number of open capital projects and work orders will be reduced.
- The time spent discussing available budgets in different projects with Construction project managers will be reduced.
- The risk of having commingled budget dollars spent on construction costs or transferred elsewhere before the expropriation is settled will be reduced.
- The new expropriation project account will enable an expropriation report to be created in PeopleSoft to assess adequacy of funding compared to the related liability.
- The City will be better able to answer questions from senior management and external auditors as to the status of the City's expropriation liabilities.
- The expropriation liability is significant. By changing the accounting procedures, the City will be better able to assess whether there is sufficient budget dollars available to fund the liability.
- For more lengthy settlements, construction projects are remaining open for years after the construction is completed until the expropriation is settled. Under the new accounting processes the construction project will be able to be closed as soon as the construction portion of the project is complete. This will also reduce the number of open projects older than 5 years on a go forward basis and therefore reduce the number of projects for future supplemental budgets.
- Accrued interest, as required by Statute on the expropriated balance outstanding, can be a significant portion of the final settlement, which generally is not considered by departments involved in construction. By transferring the budget dollars to separate expropriation projects, accrued interest will be factored into assessing the sufficiency of budget dollars compared to the liability.
- Pooling of the surpluses and deficits resulting from expropriations would provide administrative ease, as departments would not be required to request extra

funding from Council for small overages when funds are available from other expropriations.
- Pooling would provide an incentive to settle the expropriations as there would be a direct correlation with the total liability and available funding.
- Once an expropriation has been settled, the time between the settlement date and when the cheque is required to be issued, is only days. For this reason having all expropriation budgets pooled will aid in being able to issue cheques on a timely basis if the settlement exceeds the initial budget.
- The expropriation expenditure in the construction project will not represent the actual settlement amount.

Non-specified Capital Accounts

Each department has many open accounts for completed capital projects with insignificant remaining budgets. Periodically departments prepare reports consolidating the balances in these accounts to assist in funding other approved capital projects that have shortfalls. This process results in uncertainty regarding other surplus balances that might exist.

HISTORY

- After the process review of the Main/Norwood bridges project a "Major Capital Policy Team" was established by the Corporate Controller's office. One recommendation made by the team was to set up a "Non-specified Capital Funds Account" to provide flexibility to deal with unexpected shortfalls that arise as well as facilitate closure of non-active accounts with balances too small to individually be utilized.
- Non-specified capital accounts were then set up in 2002 by Public Works Department as a method of determining the effectiveness of the recommendation.
- Approval was always sought from the Department Head or Standing Committee on Fiscal Issues (now the Standing Policy Committee on Finance) when transferring funds out of the non-specified capital account using the City's current approval thresholds for transfers.
- Public Works Department was the only department that utilized this account, which allowed the department to close approximately 15 projects, with a balance totalling $570,000. A majority of these funds were transferred to the Provencher Bridge Project as approved by the Standing Committee on Fiscal Issues (now the Standing Policy Committee on Finance).

Requirements

Authorize the use of a non-specified capital account for each department, by fund, on a continuous basis to transfer unspent project budgets identified as surplus. Restrict growth in the account for all department funds combined to not more than $2,000,000 per department. Transfers out of this account must be approved by the department's Standing Policy Committee with the exception of transfers of amounts under $100,000

that can be approved by the department head. All transfers between funds require Council approval.

Procedures

- Surpluses identified by departments may be transferred into this account at the department's discretion.
- Relevant Standing Policy Committee approval must be obtained to transfer funds relating to requests in excess of the lesser of $100,000 and 25% of the overexpended project budget. Transfers of amounts less than the lesser of $100,000 and 25% of the overexpended project budget must be approved by the departmental director. Expenditures are not charged directly to this account, budget amounts can only be transferred in or out.
- This account can be utilized to fund other project over-expenditures provided appropriate approval is obtained from the relevant Standing Policy Committee.
- This account can only grow to a maximum of $2,000,000 per department. Amounts above this amount will be identified as available to be re-budgeted in future years.
- Journal entries to transfer funds to and from this account will be completed by the Corporate Capital Fund Accountant.
- Non-specified capital funds account is to be reconciled quarterly including a continuity schedule outlining the source of the funds, the projects funded from this account, and the remaining balance in this account. A report documenting activity in this account will be provided annually to the CAO.
- Reports for use of surplus balances will not be considered from individual project accounts but only from the unspecified capital budget.
- No transfers of budgets shall be made out of budgets funded from sources other than borrowing such as Land Dedication Reserve, Provincial Funding, and other external contributions unless the appropriate authority to reallocate these funds has been obtained.
- Transfers of borrowing authority from General Capital to Local Improvements are to be avoided unless no other unused borrowing authority in Local Improvements can be identified. Transfers from Local Improvements to General Capital borrowing authority are to be avoided.

Considerations

- Enables the closing of many projects that departments may otherwise hold open indefinitely.
- Project surpluses will be identified in a more expedient manner.
- The details of what is included in the non-specified capital funds account may not be transparent to all users.

Supplementary Borrowing Authority and Project Closing

Closing accounts over five years is an important consideration because inactive projects tie up external and internal borrowing authority. There are several capital accounts that have been open and outstanding for periods over five years.

HISTORY

- On January 21, 1988 the Board of Commissioners adopted the recommendation that all outstanding borrowing authority greater than five years old be cancelled and all projects relating to those bylaws be closed. The projects that are requested to be carried forward must be submitted for approval in a supplementary capital budget. The City Treasurer was authorized to exclude certain borrowing authorities and capital projects from cancellation and closure. This process was to be done once a year.
- Since the adoption of the above recommendation, $131.7 million in borrowing authority has been cancelled. The last supplementary capital budget was in 2000.
- The supplementary capital budget has not been prepared every year because there has not been excess borrowing authority to be cancelled. The departments had indicated that all projects were still ongoing. The City's outstanding borrowing authority is consistent with the outstanding forecasted capital project expenditures. Any borrowing authority to be cancelled will be as a result of decisions the departments may make now to identify completed projects.

Requirements

- Implement a requirement to prepare a supplementary borrowing authority report annually and submit it for review by Administration at the same time that the capital budget is submitted. The information from this report could, in fact, be included in the recommendations relating to the capital budget.
- Implement a requirement to close projects older than 5 years and require departments to reapply for the budgets through the capital budget process.
- Eliminate the practice of preparing Supplementary Capital Budgets.

Procedures

- Require all departments to list the capital projects older than five years and identify which ones can be cancelled and provide details with respect to the projects identified for carry forward. This process would be required annually and at the same time that the capital budget is being evaluated.

Other aspects of this process would need to be defined in more detail through the capital budget process in the year of roll-out.

APPENDIX C

This applies to all capital projects and not only Major Capital Projects.

INTEREST AND ADMINISTRATIVE OVERHEAD CHARGES

Council Policy

The following information was obtained from Council minutes recorded on October 3, 1979 minutes, paragraph 1824, which states:

"WHEREAS the City of Winnipeg until the year 1978 had included overhead as part of its capital costs; and

WHEREAS the Board of Commissioners changed this policy in 1978 without obtaining Council approval; and

WHEREAS this change was discovered by the City Auditor in reviewing the 1978 budget as set out in his report; and

WHEREAS this change of policy should be made only by City Council; and

WHEREAS the present policy of the Board of Commissioners unfairly adds $2,000,000 to $3,000,000 to the Current Budget to the detriment of existing taxpayers rather than adding It to the Capital Budget so that future taxpayers participate in paying for long term capital improvements; and

BE IT RESOLVED that overhead be included in capital costs as part of City policy."

Based on the motion provided above, requests for changes in overhead rates must be submitted to Council for approval

The following represents the City's practice with respect to interest and administrative overhead charges that are assessed against capital expenditures made during the year.

Interest overhead:

Interest is charged as a means of reimbursing the operating budget for the cost of funding advanced in the year of expenditure. In the year following the expenditure, the City budgets for and expends on actual debt and financing charges but this is not the case in the year that the expenditure is made.

The City charges 2% only on the City's share of funding, including debt, and not on external funding such as grants.

Limited to the foregoing maximum, all costs are charged interest overhead except for the following:

Salary costs
Consultants Charges
Legal Fees

Administrative overhead:

The City charges 1% on all expenditures noted below including those financed by Provincial & Federal grants even though we cannot bill for them. This overhead is meant to recoup the costs incurred by the City for preparing such things as: contracts, tender awards and legal documents etc. Administrative overhead charges can only be made to a maximum of $100,000 per program.

Only the following costs are charged administrative overhead:

Contracted Services – External
Non-Contracted Services – External
Property Acquisition.

Waiver mechanism

Departments may request a waiver of up to 1% of the administrative overhead charge in writing to the CFO. Waiver of the charge will be considered only on an exception basis. Consideration will be given to circumstances where a majority of the project is financed by outside grants from the Federal or Provincial governments and where these sources will not consider overhead charges as qualified expenditures for purposes of the grant program.

APPENDIX D

This applies to all capital projects and not only Major Capital Projects.

PROCESSES REGARDING OVER-EXPENDITURE OF CAPITAL PROJECTS

The following processes should be followed when considering an over-expenditure of a capital project:

The $100,000/25% Rule

Transfers of over $100,000 or 25% of the "base budget" as defined below, whichever is the lesser, will require approval of the appropriate Standing Policy Committee. Otherwise the transfer can be approved by the department head impacted.

Definition of "base budget"

Base budget means:

- The original budget plus or minus any amendments adopted by Council or approved by Standing Policy Committee; or
- Where several projects have been tendered out under one tender or combined in one award, the total capital budgets of the projects awarded under the same tender; or
- For local improvements control will be exercised on the total program. This allows individual local improvements to vary from the original cost estimate without the restrictions of the $100,000/25% rule.
- For the watermain renewals control will be exercised on the total program. This allows individual watermain renewals to vary from the original cost estimate without the restrictions of the $100,000/25% rule.

Approval of Over-expenditure not exceeding the $100,000/25% rule

- If the anticipated over-expenditure does not exceed the lesser of $100,000 or 25% of the base budget, and the funds are available for transfer from within the non-specified capital budget account of the same fund in the department, the appropriate department head may approve the over-expenditure. Transfers between funds require Council approval. If the anticipated over-expenditure is more than $100,000 or 25% of the base budget, whichever is the lesser, the department head will follow the process noted above.
- If the anticipated over-expenditure does not exceed the lesser of $100,000 or 25% of the base budget, but, involves transfers from different departments within the same accounting fund or from projects of different years, the department heads may approve the transfer.

APPENDIX E

CAPITAL PROJECT REPORT FORMAT

NOTE – The approved format set out in the Administrative Directive relating to standard reports would be used. However there are unique elements that must be included in capital project reporting that have been outlined below. Those areas identified are mandatory requirements and any changes requested in format must be approved by the CAO.

RE: CAPITAL PROGRAM FINANCIAL STATUS REPORT NO. X FOR THE PERIOD FROM XXXX TO YYYY

FOR SUBMISSION TO: THE STANDING POLICY COMMITTEE ON FINANCE
AND THE STANDING POLICY COMMITTEE ON
INFRASTRUCTURE RENEWAL AND PUBLIC WORKS

ORIGINAL REPORT SIGNED BY: Director
Department

REPORT DATE:

RECOMMENDATION(S): That this report be received as information and be distributed to all members of Council.

REPORT SUMMARY

KEY ISSUES:

- To be completed

.

IMPLICATIONS OF THE RECOMMENDATION(S):

General Implications

X	None
	For the organization overall and/or for other departments
	For the community and/or organizations external to the City of Winnipeg
	Involves a multi-year contract
	Comment(s):

Policy Implications

X	No
	Yes – Comment(s):

Regulatory Implications

X	None
	Eliminates or reduces regulatory impact
	Proposes regulatory impact
	Comment(s):

Environmental Implications

X	None
	Yes – Comment(s):

Human Resources Implications

X	No
	Yes – Comment(s):

Financial Implications

	Within approved current and/or capital budget
	Current and/or capital budget adjustment required

REPORT

REASON FOR THE REPORT:

At its meeting held on December 16, 1999, City Council adopted a policy whereby all capital projects with a total estimated cost of $10 million or more be submitted by the associated Civic Department to the Standing Committee on Fiscal Issues (now the Standing Policy Committee on Finance) for review and recommendation prior to any bid solicitation being issued.

Administrative Directive No. FM-00X requires quarterly reporting to the Standing Committee on Fiscal Issues (now the Standing Policy Committee on Finance) and the Standing Policy Committee on Infrastructure Renewal and Public Works.

HISTORY:

All history related to Council approvals and reports made should be outlined.

DISCUSSION:

MAJOR CAPITAL PROJECT STEERING COMMITTEE

Administrative policy for projects with capital cost exceeding $10 million requires formation of Major Capital Project Steering Committee. The Committee has been formed and its members are:

> *The Committee should be comprised of the department head, two other directors from other departments, a representative of Corporate Finance, the Manager of Capital Projects and project managers from the department.*

The Committee has reviewed this report and recommended that the report be sent to the Standing Policy Committee on Finance and Standing Policy Committee on Infrastructure Renewal and Public Works.

DESCRIPTION OF PROJECT

Description of the project including major timelines etc.

RISKS AND RISK MITIGATION STRATEGIES

Setout the risks identified in the risk strategy sessions held in advance of the capital process and mitigating strategies adopted to deal with the risks

CHANGES FROM LAST REPORT

Last report date and details of changes in risks, progress in the project and any other issues requiring attention.

ISSUES/RISKS REQUIRING FURTHER ATTENTION

Outline any issues and risks that require attention and need to be dealt with. This would include any areas of concern that might require Council's attention.

FINANCIAL ANALYSIS

Tenders issued and pending award as of the date of this report are as follows. This information can be referenced to appendices or included in the body of the report.

For example,

Project funding

The approved capital and projected budget deficit (if any) are as follows:

PROJECT FUNDING

000's

Year	Capital Program	Actual + Projected Cashflows	Cumulative Capital Budget Remaining
Up to 2003	20,000	4,100	15,900
(1) 2004	26,000	8,300	33,600
(1) 2005	84,000	22,814	94,786
(2) 2006	97,300	99,000	93,086
(3) 2007	2,800	105,000	(9,114)
2008	-	60,786	(69,900)
Total	230,100	300,000	(69,900)

(1) Capital Budget approved by Council

(2) Program requirements approved by Council and included in the 2006 Capital Budget

(3) Program requirements approved by Council and included in the 2007 Capital Budget

Financial Analysis

A summary of the budget to forecast comparison is contained in Appendix

Note - ***NO OTHER FINANCIAL REPORTING SHOULD BE INCLUDED UNLESS OTHERWISE APPROVED AS AN INCLUSION IN THE DIRECTIVE.***

FINANCIAL IMPACT:

As this report is submitted for informational purposes only, there is no financial impact associated with this recommendation.

Manager of Finance & Administration

IN PREPARING THIS REPORT THERE WAS:

Internal Consultation With and Concurrence By:

Project's Major Capital Project Steering Committee

External Consultation With:

THIS REPORT SUBMITTED BY:

Department:
Division:
Prepared by:
File No.

APPENDIX E
CAPITAL PROGRAM
As of March 31, 2006

Project Component		Capital Budget				Capital Expenditure Forecast					Surplus (Deficit)	Variance Last	Change in Variance [4]
						Actual Costs	Projected Costs			Total			
		Original	Council Approved Change - March 23, 2005 [1]	Council Approved Change - Nov.28, 2005 [2]	Revised	To March 31, 2006	2006	2007	2008	Forecast	From Revised Budget [3]	Report	
A	Conceptual Engineering	$ 3,700,000	$ -	$ -	$ 3,700,000	$ 3,765,297	$ -	$ -	$ -	$ 3,765,297	$ (65,297)	$ (65,297)	$ -
B	Construction description	9,000,000	-	-	9,000,000	8,052,585	352,482	-	-	8,405,067	594,933	700,398	(105,465)
C	Construction description	3,000,000	-	-	3,000,000	-	1,500,000	1,500,000	-	3,000,000	-	-	-
D	Project Management Office	100,000	-	-	100,000	60,765	16,535	22,700	-	100,000	-	26	(26)
E	Professional Services	24,260,000	1,846,748	388,794	26,495,542	11,810,000	9,087,178	7,000,000	7,150,385	35,047,563	(8,552,021)	1,800,839	(10,352,860)
F	Construction description	$ 173,940,000	$ 11,453,252	$ 2,411,206	187,804,458	$ 15,514,400	$ 30,000,000	$ 88,971,360	$51,849,615	186,335,375	1,469,083	#########	8,905,049
		$ 214,000,000	$ 13,300,000	$ 2,800,000	$ 230,100,000	$ 39,203,047	$ 40,956,195	$ 97,494,060	$59,000,000	$236,653,302	$ (6,553,302)	#########	$ (1,553,302)

Notes:

1 Program amended .

2 Program amended to include additional costs

3 Variance from budget due to scope changes

4 Variance from last report due to new information

April 28, 2006