Agenda – Council – October 28, 2015

Report – Executive Policy Committee – October 21, 2015

Item No. 4 Adjustment of the Major Capital Projects Reporting Threshold for Inflation to Implement Recommendation 4 of the Waverley West Arterial Roads Project Audit

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On October 21, 2015, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the following to Council:

1. That an adjustment to the dollar value for the definition of a Major Capital Project for reporting to the Standing Policy Committee on Finance be approved from $10 to $20 million to reflect construction inflation since Council originally adopted the Policy in 1999.

2. That the threshold for Major Capital Project reporting to the Standing Policy Committee on Finance be automatically revised annually for construction inflation and disclosed in the Annual Capital Budget put forward to Council for adoption.

3. That the adjusted dollar value for reporting to the Standing Policy Committee on Finance be applied on a prospective basis. Projects currently reporting that are under the revised threshold will continue reporting until the project is completed.

4. That the Proper Officers of the Public Service do all things necessary to implement the intent of the foregoing.

Report – Executive Policy Committee – October 21, 2015

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On October 21, 2015, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the matter to Council.

ADMINISTRATIVE REPORT

Title: **Adjustment of the Major Capital Projects Reporting Threshold for Inflation to Implement Recommendation #4 of the Waverley West Arterial Roads Project Audit**

Critical Path: **EPC – Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
Georges Chartier Manager of Infrastructure Planning	Mike Ruta	Mike Ruta	D. McNeil

RECOMMENDATIONS

1. Council approves an adjustment to the dollar value for the definition of a Major Capital Project for reporting to SPC Finance from $10 to $20 million to reflect construction inflation since Council originally adopted the Policy in 1999.

2. The threshold for Major Capital Project reporting to SPC Finance be automatically revised annually for construction inflation and disclosed in the Annual Capital Budget put forward to Council for adoption.

3. The adjusted dollar value for reporting to SPC Finance will be applied on a prospective basis. Projects currently reporting that are under the revised threshold will continue reporting until the project is completed.

4. The Proper Officers of the Public Service do all things necessary to implement the intent of the foregoing.

REASON FOR THE REPORT

The Waverley West Arterial Roads Audit report, received by Council May 27th, 2015 observed the following:

- The $10 million dollar threshold for a Major Capital Project has remained unchanged since it was established in 1999
- If the threshold for requiring additional project oversight is not adjusted for inflation, the City will continue to expend additional oversight resources on projects with less relative project risk over time.

The accompanying audit recommendation is as follows:

- *"We recommend that the Infrastructure Planning Division of the Corporate Finance Department reassess the threshold defining a "Major Capital Project" for capital project management processes under the CAO's delegated authority; and that it also submit the proposed threshold to Council for approval for processes under Council's authority"*

The Infrastructure Planning Division of Corporate Finance has reviewed the impact of construction inflation on the reporting threshold and adjusting the Major Capital Projects threshold to $20 million is required to implement Recommendation #4 from the Waverley West Arterial Roads Audit report.

EXECUTIVE SUMMARY

Major Capital Projects represent significant investments in our assets and oversight helps ensure that a project's risks are adequately monitored and addressed in a timely manner in order to minimize their impact on cost, schedule, or quality (scope).

Major Capital Advisory Committees, comprised of senior level people in the organization provide additional oversight. These Committees meet on a regular basis and report to SPC Finance quarterly. A significant amount of administrative time is involved in monitoring and reporting on a Major Capital Project.

The current reporting threshold of $10 million was set by Council in 1999 as an outcome of the Process Review of the Main and Norwood Bridges Project. The City Auditor noted in the Waverley West Arterial Roads Project Audit report that the $10 million dollar threshold has not been adjusted for inflation since its inception in 1999. The Auditor further noted that not adjusting the threshold has resulted in expending additional oversight resources on projects with lesser relative project risk over time.

The Public Service is in concurrence with the City Auditor's recommendation. Adjusting for construction inflation would result in a revised threshold of $20 million. In order to ensure this situation does not occur again, the Public Service recommends that the threshold be adjusted for construction inflation on an annual basis. To ensure transparency, the threshold shall be disclosed in the Annual Capital Budget presented to Council for adoption.

IMPLICATIONS OF THE RECOMMENDATIONS

Projects with budgets $20 million or greater are required to form a Major Capital Project Advisory Committee and report to SPC Finance on a quarterly basis.

The threshold will be automatically adjusted for construction inflation on a go forward basis and disclosed in the Annual Capital Budget for Council approval.

Those projects currently reporting to SPC Finance that are under the revised threshold will continue reporting quarterly until the projects are complete.

HISTORY

The City Auditor recommended in the June 1999 Process Review of the Main and Norwood Bridges Project that "*the City could improve its future delivery of projects of a similar magnitude if its establishes processes which ensure that a multi-disciplinary team with a clearly defined mandate and an appropriate level of authority is put in place to oversee the entire project*".

On December 16th, 1999 Council adopted the recommendation put forth by the Executive Policy Committee that "*Council adopt a policy whereby all Capital Projects with a total estimated cost of $10 million or more, be submitted by the relevant City Department to the Standing Policy Committee on Fiscal Issues (now Standing Policy Committee on Finance) for review and recommendation prior to any bid solicitation being issued*.

The CAO further clarified in Administrative Directive FM-004 Capital Project Administration the requirement for the formation of Major Capital Project Steering Committees and quarterly reporting to SPC Finance for any project expected to exceed $10 million dollars.

Administrative Directive FM-004 Capital Project Administration was replaced by the new Asset Management Administrative Standard FM-004 on March 31, 2015. The requirement for the Committee formation and required quarterly reporting remains unchanged.

In May 2015, the City Auditor presented the Waverley West Arterial Roads Project Audit report to Council. The Auditor noted the following:

- The $10 million benchmark has been in place since Administrative Directive FM-004 was first published in 1999 and has not been adjusted for inflation since. Due to the length of time that has passed this amount may no longer be an appropriate threshold
- Statistics Canada has published that the Infrastructure Construction Price Index has increased by 49.4% between 2002 and 2012[1]
- Manitoba's "The Public-Private Partnerships Transparency & Accountability Act" defines a Major Capital Project as "*a public work or improvement to a public work in excess of $20 million dollars*"[2]

[1] Statistics Canada Catalogue no. 62-007-x: Capital Expenditure Price Statistics April to June 2013. Ottawa (2013). 17. Print.

[2] The Province of Manitoba. Bill 34: The Public-Private Partnerships Transparency and Accountability Act. 2012. Section 1(1).

The City Auditor indicated that their basis for the recommendation to increase the threshold was that if the threshold for requiring additional project oversight is not adjusted for inflation, the City will continue to expend additional oversight resources on projects with lesser relative project risk over time.

The following table details the impact of construction inflation since the establishment of the $10 million threshold in 1999. Adjusting the threshold (as recommended in the Audit) increases the threshold to $20 million.

Year	Threshold	Construction Inflation[3]	Revised Threshold after Inflation
1999	$ 10,000,000	3%	$ 10,300,000
2000	10,300,000	3%	10,609,000
2001	10,609,000	3%	10,927,270
2002	10,927,270	4%	11,364,361
2003	11,364,361	3%	11,705,292
2004	11,705,292	4%	12,173,503
2005	12,173,503	6%	12,903,913
2006	12,903,913	10%	14,194,305
2007	14,194,305	12%	15,897,621
2008	15,897,621	12%	17,805,336
2009	17,805,336	-5%	16,915,069
2010	16,915,069	3%	17,422,521
2011	17,422,521	2%	17,770,972
2012	17,770,972	3%	18,304,101
2013	18,304,101	4%	19,036,265
2014	19,036,265	4%	19,797,715
2015	19,797,715	4%	20,589,624

[3] Source: Compiled and derived by the City of Winnipeg, Infrastructure Planning Division of Corporate Finance

At its March 13th, 2014 meeting, the Standing Policy Committee on Finance directed the Winnipeg Public Service to provide, at every meeting of Committee, a schedule of all reports pertaining to Administrative Directive FM-004 which includes all projects and date of next report.

The following table is the list submitted to the Standing Policy Committee on Finance at its meeting May 7th, 2015 in budget order:

	Project	Budget (in millions)
1	**Southwest Transitway (Stage 2) - Pembina Hwy Underpass**	**$ 587**
2	**NEWPCC - Nutrient Removal/Upgrade**	**547**
3	**SEWPCC - Nutrient Removal/Upgrade & Expansion**	**336**
4	**Biosolids - Alternative Disposal Delivery & Mgmt System**	**274**
5	**Winnipeg Police Headquarters Redevelopment**	**178**
6	**Waverley West Arterial Roads**	**78**
7	**Plessis Road Twinning & Grade Separation @ CN Rail**	**77**
8	**Transit Building Replacement/Refurbishment**	**58**
9	**Polo Park Infrastructure Improvements**	**45**
10	Transit Automated Fare Collection System	18
11	4R Winnipeg Depots - Community Resource Recovery Facilities	14
12	Water Supervisory Control & Data Acquisition (SCADA) Upgrade	12

While projects currently reporting to SPC Finance will continue to report until completion of the project, the above table has been included to illustrate the impact on the capital program on a go forward basis.

FINANCIAL IMPACT

Financial Impact Statement **Date:**

Project Name:

Adjustment of the Major Capital Projects Reporting Threshold for Inflation to Implement Recommendation #4 of the Waverley West Arterial Roads Audit

COMMENTS:

There are no adjustments to Operating or Capital budgets associated with this report. Approval of this report will result in existing resources to be more effectively utilized on higher priority tasks considering organizational risk.

Original signed by R. Hodges

Manager of Finance & Administration

CONSULTATION

Asset Management Advisory Committee (COO/CFO and Infrastructure Directors)
Legal Services (as to legal issues)

OURWINNIPEG POLICY ALIGNMENT

01-3 Prosperity Direction 1: Provide efficient and focused civic administration and governance. This report demonstrates the efforts made by the Public Service to improve business processes to work more efficiently with existing resources.

SUBMITTED BY

Department: Corporate Finance
Division: Infrastructure Planning
Prepared by: D. Tooth / J. Ruby
Date: August 21, 2015