

**CITY OF VAUGHAN**

**EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 25, 2013**

Item 11, Report No. 8, of the Finance and Administration Committee, which was adopted without amendment by the Council of the City of Vaughan on June 25, 2013.

**11                      DRAFT CAPITAL PROJECT FINANCIAL CONTROL POLICY**

**The Finance and Administration Committee recommends:**

- 1)        That the recommendation contained in the following report of the Interim City Manager and the Acting Commissioner of Finance & City Treasurer, dated June 10, 2013, be approved;**
- 2)        That the Proposed Capital Project Financial Control Policy be developed in consultation with the Senior Management Team and that their comments be included in the report back; and**
- 3)        That Communication C4, Presentation Material titled “Draft Capital Project Financial Control Policy”, dated June 10, 2013, be received.**

**Recommendation**

The Interim City Manager and the Acting Commissioner of Finance & City Treasurer recommends:

1. That the Draft Capital Project Financial Control Policy be received for input and comments; and
2. That staff report back in the fall of 2013 with a Proposed Capital Project Financial Control Policy for approval.

**Contribution to Sustainability**

Capital projects make up a substantial portion of the City's overall budget, ranging from 30 -70 million annually. Given the volume, duration and magnitude of capital projects it is vital for the City to ensure capital investments are safeguarded and capital projects are delivered in the manner and timeframe intended to sustain the City's operations and services. The Capital Project Financial Control policy will assist the City in this regard by providing guidance and control related to capital project governance and assurance.

**Economic Impact**

There is no economic impact associated with this report.

**Communications Plan**

Upon approval, the Capital Project Financial Control Policy will be incorporated within the City of Vaughan's policy manual. In addition, this policy will support the City's budget process and be referenced in future budget guidelines, deliberations, and regular reporting.

It is intended, as per policy, for this document and associated templates to be further discussed at a quarterly SMT/Directors working session. This discussion will incorporate any input received by Council.

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##### **Purpose**

The purpose of this report is to introduce a Draft Capital Project Financial Control Policy and associated templates for input and comments from Members of Council. Staff will report back with a final Proposed Capital Project Financial Control Policy in the fall of 2013 for approval.

##### **Background Analysis and Options**

The City of Vaughan is committed to ensuring effective municipal governance. Capital project control practices have existed within the City for many years, but typically are informal in nature. Therefore a review was undertaken and a draft policy formalized to capture existing practices and develop a foundation, which will be enhanced as new policies and practices evolve. This document is intended to:

- Provide a consistent approach to capital project control
- Ensure approved capital projects are implemented as intended
- Provide an element of flexibility to manage operational circumstances
- Report on the status of capital projects
- Develop consistency regarding authorization and resolution of common issues

Within the policy the following topics have been addressed:

- Definition of a capital project
- Capital project roles and responsibilities
- Project risk assessment
- Capital project payments
- Treatment of over spending
- Closing of capital projects and the application of remaining funds
- Reporting requirements
- Project management responsibility
- Policy review & update

##### **New Policy Concepts for Consideration**

Relatively new to the City are concepts related to capital project risk assessment and additional reporting requirements associated with high profile capital projects. These items are briefly summarized.

Project Risk Assessment - Given the varying degree of complexity, timeframes and the use of estimates associated with capital projects and awards, an element of risk is naturally inherent. It is therefore good management practice to include a level of contingency to account for project risk factors. This concept is supported through recommendations provided in the Construction Audit Report for Vaughan City Hall in 2011. To address this recommendation, a contingency matrix was developed in the spring of 2012 to guide departments in assessing a base level of risk and associated contingency. Since that time, this tool has been introduced and utilized by some departments to develop contingency balances for capital budgets and project award reports. The matrix framework formulates a contingency percentage based on the cumulative scoring of seven risk elements and based on the outcomes an associated contingency percentage ranging from low (0-5%) to extreme (20-25%) is determined. In rare cases, where a contingency in excess of 25% is necessary, a separate and distinct justification will be required. This percentage is a clear indication of uncertainty and risk and will be used to develop the contingency amount for capital project budgets and awards.

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**High Profile Capital Project Reporting** – A high profile capital project is defined as being of a large value, has a greater level of risk, or is highly visible or sensitive in nature. Considering their high impact nature, the levels of oversight, management and assurance need to be heightened. This concept is also supported through recommendations provided in the Construction Audit Report for Vaughan City Hall. For this reason, as part of City's quarterly reporting process, capital projects of this nature will require a more comprehensive level of reporting and analysis. Specific reporting requirements and a template are incorporated with the policy, but reflect the following:

- Information regarding budget and award revisions
- Change order tracking
- Risk and issue identification/mitigation efforts
- Project element breakdown and schedule performance
- Project cost performance ( current and project completion estimates), etc

Selection criteria for additional reporting is based on project value, risk and sensitivity; these items are also incorporated in the policy.

**Risk and Project Management** – Although the above concepts speak to some elements of risk and project management, they do not in themselves constitute an enterprise or city-wide risk management or project management program. Integrated Risk Management Practices and Project Management Standards and Guidelines are a fundamental underpinning of good governance and management supporting decision-making at all levels of an organization. When embedded and integrated into existing decision-making structures and processes, they support effective planning, priority setting, financial reporting, audits and evaluations, corporate business plans, performance assessment and other key functions throughout an organization. This in turn creates and protects community value.

**City Hall** – As part of the completion of the City Hall project, it was appropriate to conduct a project audit given its overall complexity and value. The project audit was conducted by Commercial Cost Control, whom provided audit findings and recommendations. Findings and recommendations related to financial aspects have been captured within this policy, primarily contingency setting and additional reporting.

#### **Relationship to Vaughan Vision 2020**

The above recommendations are consistent with the City's overarching goal of organizational excellence and specifically relate to ensuring a high performing organization and manage corporate asset strategic themes

#### **Regional Implications**

No Implications

#### **Conclusion**

It is recommended that the Draft Capital Project Financial Control Policy be received for input and comments. A Proposed Capital Project Financial Control Policy will be brought back to Council for approval in the fall of 2013.

#### **Attachments**

Attachment 1 - Draft Capital Project Financial Control Policy

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(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)