



REPORT
Meeting Date: October 24, 2013
Peel Living

DATE: August 28, 2013

REPORT TITLE: **INTEGRATING CAPITAL PLANNING, BUDGETING AND RESERVE MANAGEMENT**

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RECOMMENDATION

That a Task Force Team, comprised of board members, to oversee the development of a sustainable financial model for Peel Living, be established.

REPORT HIGHLIGHTS

- Asset Sustainability is one of six focus areas of Peel Living.
- The compelling reasons for the work outlined in this report are aging buildings and the decline of capital reserves, and the need for a sustainable financial model.
- To further improve outcomes in the area of asset sustainability, a building and community renewal strategy has been developed that will help address Peel Living's capital budget deficit and improve overall asset management.
- A new technology (Asset Planner) will be utilized to make better management decisions on capital spending priorities.
- This strategy represents a more integrated and coordinated approach to managing the capital demands of Peel Living's aging stock.

DISCUSSION

1. Background

This report addresses the theme of Asset Sustainability, one of six focus areas of Peel Living's, as requested by the Board.

Analysis of capital reserve funds confirmed a decline resulting from expenditures in excess of reserve contributions. During the seven year period from 2005 to 2012 the Capital Reserve Balance declined from \$33 million (2005) to less than \$2 million (2012). The attached graph (Appendix I) illustrates the decline in reserves, the contributions to reserves and the capital draws over the seven year period from 2005 through 2012.

The current approach to budgeting and spending will not be sustainable over the long term. In the last three years, a number of measures have been taken to replenish reserve funds necessary to extend the life of Peel Living assets. These measures include:

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- increased discretionary contributions combined with reduced capital expenditures show as a small reserve increase (to \$2.1 million) reflected in 2012
- capital budget management improvements
- adoption of asset planning software

2. Capital Budget Management

To address declining reserves a capital budget management plan was initiated to:

- re-examine capital planning decisions to bring Peel Living's capital plan in line with prescribed social housing requirements
- re-assess the risks and priorities based on a balance of affordability and the need to provide quality housing services

The minor capital budget was reduced from \$3.8 million (2012) to \$1.8 million (2013). This was achieved by focusing the minor capital plan on three areas:

- emergency repairs
- unit turnover repairs
- beautification and landscaping of community space

The primary outcome of this approach is to achieve a better connection between minor capital and priorities in major capital, operations and preventative maintenance areas.

3. Asset Management Software

Peel Housing Corporation has acquired Asset Planner, an asset management tool, from the Housing Services Corporation (HSC). The HSC asset planning software developed by Ameresco assists in the management of the annual capital budget.

Asset Planner has multiple functions including:

- one-stop data platform for management decisions on capital plans
- real time comprehensive snapshot of the complete portfolio
- foresight capabilities for reserve fund maintenance
- identifying and developing benchmarks
- comparing costs and quality of capital planning with other social housing providers in Ontario

This software assists staff to consider options, implement efficient short-term capital plans and make recommendations about Peel Living's long-term asset sustainability.

Ameresco, the developer of the Asset Planner software, will make a presentation to illustrate the functionality of this software tool and its applicability to Peel Living.

4. Financial Sustainability

Peel Living Capital Reserves continue to be insufficient to meet repair and replacement requirements. In addition, aging building structures and their systems put pressure on operating costs and, in turn, leads to additional costs to the capital budget.

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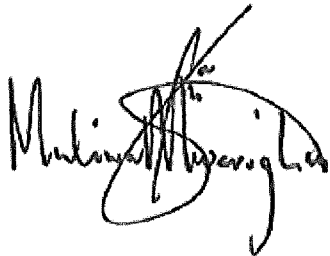
In the last several years it has been necessary for Peel Living to borrow or anticipate requesting loans from the Service Manager in the amounts of:

2011 – Loan for Capital	\$7.0 million
2013 – Request for Capital for 2013	7.4 million
2014 – Request for Capital for 2014	5.5 million (estimate)
<u>Total</u>	<u>\$19.9 million</u>

Given this continuing need for internal loans to sustain Peel Living's aging housing stock, staff recommend that a Board Task Force oversee the development of a sustainable financial model for Peel Living.

CONCLUSION

The capital management initiatives described will help improve financial and capital expenditure planning. A long-term financial strategy will enable Peel Living to develop a sustainable plan that will continue to enhance the quality of life by improving buildings, tenants' well-being and overall community environment.



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CAPITAL DRAW AND RESERVE ANALYSIS

