



City of Richmond

Report to Committee

To: General Purposes Committee **Date:** February 23, 2007
From: George Duncan **File:**
Chief Administrative Officer
Re: Major Projects & Events Cost Reporting

Staff Recommendation

1. That staff develop an administrative procedure through which to apply the special event and major project scope, budget, and costing principles and procedures outlined in this Staff Report (dated February 23, 2007) from the Chief Administrative Officer.
2. That administrative costs associated with planning and delivery be charged to the budgets and included in the final accounting of costs on all major projects and events including the Canada Line, Richmond Oval Project, and the (February 2007) Countdown Event, in accordance with the scope, budget, and costing principles and procedures outlined in this Staff Report (dated February 23, 2007) from the CAO.
3. That the value of the internal administrative overhead charge calculated through the new major special event and major project scope, budget and costing procedure overhead rate schedule, as outlined on page 4 of this Staff Report, be charged against the approved \$178 million Richmond Oval Project budget.
4. That the Oval Project consultants be advised that the Project budget will be revised to absorb the resulting administrative overhead cost.
5. That the current quarterly administrative overhead cost reporting format adopted on the Oval Project, the post-Games Oval conversion plan, Olympic Games-related business, and Oval site land sales be eliminated in favour of applying the proposed scope, budget, and costing administrative overhead procedure as would be appropriate.
6. That where staff time invested in special events or major projects produces revenue from external sources beyond the total amount of revenue budgeted, the cost or value of the administrative overheads and any staff time charged against a special event or major project should be reported, but offset in the final costing report by up to the value of the staff time or overhead charged.
7. That where a major event generates a surplus in revenue beyond the event costs, the surplus revenue be deposited into a Major Events Fund to be utilized to support the delivery of future events.

George Duncan
Chief Administrative Officer

REVIEWED BY TAG

YES

Staff Report

Origin

Over the past six years, Richmond has hosted numerous special events and is presently at various stages of the delivery of three major projects beyond the inventory of the City's annual capital program. Due to the broad scope of these projects, magnitude of the cost, overall level of public interest, and to the amount of media scrutiny that is generally attracted to high profile projects that are associated with the 2010 Olympic Games, it is important that the City ensure timely and accurate reporting. Staff wish to ensure that appropriate accountability procedures are in place to provide for consistent measurement and reporting of financial performance and overall community benefit. However, in the case of some past major events such as Tall Ships 2002, and major capital projects as is the case presently with the Oval Project, the City is using a costing methodology to defining scope, budget, and cost that is not being applied consistently to all major projects and events, and which does not meet generally accepted costing practices. The following Staff Report points out some of the inconsistencies in how major events and projects are being costed, and the potential negative implications of applying non-conventional cost analysis to event and project costs. The Report also identifies principles for defining scope, budget, and costs. Adoption of the recommendations of this Report will ensure consistent, accurate, and reliable measurement and reporting of financial performance on all major events and projects.

Analysis

If not addressed, inconsistent budgeting and costing practices as described above will potentially jeopardize the accuracy and usefulness of project and event budgets and cost reports. There is also a risk of negatively influencing public perception on the overall value and benefit of public events and projects which in turn could tarnish the appeal of future events and the reputation of the City. This is of particular concern at the present time where due to the high profile of the 2010 Olympic Games, financial performance on the Oval Project is likely to be compared with other Olympic Games venues, and it would be unfortunate if the Oval Project were to be disadvantaged by cost factors that will not likely be included in the cost accounting of these other projects. Inconsistent budgeting and costing practices could also possibly call into question, the reliability of other accountability procedures utilized by the City and leave reports on the financial performance of the City's events and projects open to interpretation and vulnerable to misrepresentation. That the City would apply somewhat different costing formulas to each of two major projects that are being managed concurrently, such as the Richmond Oval and the Canada Line, and a different formula again to track costs on projects completed in the capital program is a concern for the CAO. Apparently, this non-conventional costing practice was first applied to the Tall Ships 2002 event and was recently applied to the Oval Project. However, the CAO was not present in 2003 when this format was instituted and is seeking Council's support to standardize with the adoption of conventional costing practices. Staff recommend that the City address these concerns by adopting a standard format for defining scope and budget, and capturing costs on all major special events and major projects similar to the format used on the capital program.

In the annual capital program, the City presently utilizes a formula to calculate administrative overhead charges with varying rates depending on the extent of usage of internal or external resources. Therefore, although the capital program overhead format is suitable to be adopted to apply to major events and major projects, the rate of the charge is not. Overhead rates for the capital program which are presently set at 5% for outside design and outside construction, combined with internal project management are under review and expected to be reduced. These rates were established in 1999 and were largely based on the assumption that the maximum value of the projects would typically be in the hundreds of thousands of dollars range and would rarely exceed \$1.5 million to \$2 million. As the cost of administrative overhead does not increase proportionately with the rate of increase in project value, the current overhead percentage of 5% is extremely high and would only serve to unreasonably burden the project budget while increasing the annual Operating Budget surplus.

It is proposed that the major special event and major project costing practices be based on the following principles:

- When seeking approval, each major special event and/or project must be clearly defined – this will be referred to as the definition of the scope of the project or scope definition;
- Major special events and major project budgets must be accompanied by the event or project scope definition when presented for approval;
- Costs must be identified and reported as either “in scope costs” or “increased scope costs”;
- Civic costs must be distinguishable from or identified separately from event or project costs when budgets include revenues from other sources, where the revenues were provided to the City to cover those particular costs;
- Event and project budgets and costs will include:
 - direct costs incurred in: labour, materials, equipment rentals, insurance, or in kind services that are exclusively attributable to the event or project;
 - value of staff time – only if staff duties, responsibility, and time are 100% dedicated and exclusive to the event or project;
 - value of staff time for incremental costs that arise due to overtime or other costs that are incurred on behalf of and which are attributable solely to the event or project;
 - so as to avoid double counting City costs - where staff time is charged to an event or project, the City should open special project accounts to track the staff time costs rather than make allocations after the fact;
 - recognition of the value of off-setting revenue, contributions of materials and in-kind services, and hours rendered to the event or project by community volunteers;

- a standard overhead allowance to cover the cost of services including labour hours contributed on a regular or significant basis, but not assigned full time to the event or project, at the following rates:

Major Events Overhead Rate Schedule		Major Projects Overhead Rate Schedule	
Budget for City's cost share < \$50,000	4%	< \$5 million	4%
Budget for City's cost share ≥ \$50,000 and < \$100,000	3%	≥ \$5 million and < \$50 million	3%
Budget for City's Cost Share ≥ \$100,000 and < \$1 million	2%	≥ \$50 million and < \$100 million	2%
Budget for City's Cost Share ≥ \$1 million	1%	≥ \$100 million when external project management resources are charged directly to the project: <ul style="list-style-type: none"> • flat rate of \$50,000 per year during design phase • \$100,000 per year during construction phase 	1%

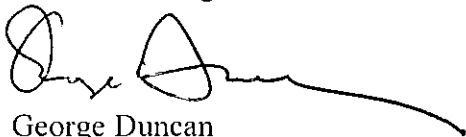
- Where possible, complementary or companion projects should be identified in the scope definition;
- An economic impact study should be conducted for each major event.
- Time invested by staff volunteers will not be recorded against project budgets as costs.

Financial Impact

The City will not incur any increased costs to implement the proposed administrative procedure, and will realize some savings in administrative time due to the more efficient method of determining administrative overhead costs.

Conclusion

The City should adopt a standardized procedure that will ensure responsible and accurate budgeting and cost analysis on all major projects and events. All major events and projects should be charged reasonable fees to cover the cost of administrative overhead.



George Duncan
 Chief Administrative Officer
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