ReNew Canada | Rounding Error

http://renew canada.net/2011/rounding-error/ January 19, 2012

During his keynote address at the Canadian Network of Asset Managers (CNAM) conference this May, Matrix Group's Andrew C. Lemer said 98 per cent of the U.S. municipalities took the "easy way out" when complying with the Governmental Accounting Standards Board's (GASB's) Statement 34. When accounting for their assets, municipalities chose to go the current replacement value and depreciation route, which Lemer feels was much less valuable, and didn't advance the field of asset management (AM) as he had hoped it would.

At the same conference, University of British Columbia's Dana Vanier gave a report card style update on how Canadian municipalities did with our version of GASB, the Public Sector Accounting Board's (PSAB) 3150, now that the first round of financial statements have been submitted. The verdict? Not great; not terrible.

Vanier, who analyzed the financial reports of 20 municipalities, said data omissions when it came to condition assessment amounted to a missed opportunity for stewardship. Beyond the basic inventory, PSAB requires municipalities to calculate the standard depreciation of its assets. Vanier said most municipalities chose to calculate useful life of tangible capital assets (TCAs) as a straight line—an approach he feels is less than accurate.

Kim Fowler is director of sustainability for the City of Victoria. She says, "The odd thing about PSAB is the more depreciated [the assets], the better your accounting looks. That's the difference between accounting and engineering."

Fowler says there's an important final piece not being legislated by PSAB 3150: replacement. Municipalities didn't have to include an estimate of the cost of replacing TCAs in their financial statements—in fact, Burnaby, British Columbia, the site of this year's CNAM conference, is one of only a handful of municipalities that even has an operations and maintenance budget.

Holly Power-Garrett, with Halifax Regional Municipality's (HRM's) AM and infrastructure department, says her municipality will join that list. For the first time, AM became a budget issue, with even mainstream coverage of HRM's budget debates mentioning both the infrastructure deficit and asset management.

The infrastructure planning group in HRM was created three years ago, but, Power-Garrett says, "this year, we really laid our cards on the table regarding what the lack of recapitalization is doing to our infrastructure." During budget debates, councillors started asking what level of recapitalization would be required to bring assets up to an acceptable level. "These are questions they've never asked before."

Besides increased advocacy from her department, Power-Garrett says PSAB requirements have also been an impetus for better asset management.

"Because of the work we've done, we can say with reasonable confidence what [investments] we need on bridges, roads, and solid waste assets," says Power-Garrett. Her department estimates it needs approximately $145 million in the budget over three or four years—that's about $300 million to $400 million more than is currently being spent.

"We need to devote more and more of the budget to rehabilitation and less to new assets," says Power-Garrett, who attributes the increased spending on new projects in part to federal funding. The two projects HRM has had funded through the Building Canada Plan have been new builds (the Canada Games Centre and a central library).

During the recent federal election campaign, the Conservatives promised to consult with industry and lower-tier governments on a new long-term plan for infrastructure.

While Power-Garrett doesn't expect they'll reinvent the wheel, she says, "We'd like to see some clear guidelines that funds would go towards rehabilitation rather than something new."

Building an Inventory

The City of Victoria has accounted for all of its infrastructure, including 100 facilities ranging from small public washrooms to historic buildings to operational buildings, worth in the range of $250-million.

The City is using U.S.-based VFA's software to keep track of its building stock. The information it generated shows that 59 per cent of the city's buildings are past their useful life. It's not the best news but, as Kim Fowler, director of sustainability, says, "At least we have that assessment."

Using this information, Victoria has been able to develop a life-cycle replacement program for all buildings and identify, from a high-level perspective, all deficiencies.

"While we have a lot of deficiencies and an infrastructure deficit, we can determine where the deficiencies are, set up a prioritization, and come up with a capital planning program," says Fowler. "There's no cash cow to give us all we need to do the work, but what we are able to do is target the work—target money more effectively in terms of getting our building condition improved."

Sierd Hortsing, facilities manager for the City of Victoria, elaborates. "If we see that the entire electrical system in a building needs to be replaced, we can't do that, but we can address the immediate need."

Before this system was set up in 2007, facilities management was relatively new to Victoria. "Mostly, it was distributed around to various departments," says Hortsing. "When this system was set up in 2007, we used it to consolidate information about our buildings—a lot was anecdotal regarding their conditions. Virtually everything was in paper files or in people's heads, which is not atypical in organizations [such as ours]."

The Halifax Regional Municipality (HRM) is considering this system, among several others, now that asset management is a budget priority. HRM used Riva's services to get the information already gathered into a legible form. It now has a solid inventory and assessment of its bridges, roads, and solid waste assets. But buildings are still a large gap.

As for Victoria, the city is still facing a $67-million infrastructure deficit. Fowler says an asset management plan is in the works that addresses that deficit, along with a sustainability plan and climate change action.