



Audit Topic 3 – Report 5 (March, 2016)

LEARNINGS FROM
LOCAL GOVERNMENT
CAPITAL PROCUREMENT
PROJECTS AND
ASSET MANAGEMENT
PROGRAMS

City of Campbell River

A Performance Audit carried out by the Auditor General
for Local Government of British Columbia

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MESSAGE FROM THE AUDITOR GENERAL FOR LOCAL GOVERNMENT



3.5.1 I am pleased to present this performance audit report on the operations of the City of Campbell River, covering the topic “*Learnings from Local Government Capital Procurement Projects and Asset Management Programs.*”

3.5.2 I want to thank the City of Campbell River for its cooperation during the performance audit process and its positive response to the report and its recommendations. The period covered by this audit was 2010 to 2012. While most of the field work for this audit was completed in 2013 and 2014, the audit itself and the recommendations presented are still relevant today.

3.5.3 The office of the Auditor General for Local Government was established to strengthen British Columbians’ confidence in their local governments’ stewardship of public assets and the achievement of value for money in their operations. One way we do this is by conducting performance audits of local government operations and initiatives.

3.5.4 Our performance audits are independent, unbiased assessments, carried out in accordance with professional standards. They aim to determine the extent to which the area being examined has been managed with due regard to economy, efficiency and effectiveness.

3.5.5 This report outlines the office’s findings on the City of Campbell River’s management of capital assets and planning and procurement of capital projects during the period covered by this audit. This was a challenging time for the City in that it faced significant financial pressures during the review period due to a mill closure and a resultant loss of both tax revenue and jobs in the community.

3.5.6 Overall, the City of Campbell River had many of the fundamental elements of an asset management framework in place and was taking a number of important steps in developing a greater level of capacity and maturity, which should advance its asset management practices and create greater financial sustainability over the long term. In addition, the City had sound capital planning and procurement activities in place.

MESSAGE FROM THE AUDITOR GENERAL FOR LOCAL GOVERNMENT

3.5.7 While we did not audit activities taking place after the period covered by the audit, we noted that the City has continued making significant positive progress on its asset management practices.

3.5.8 In July 2015, we published the second AGLG Perspectives series booklet: *Asset Management for Local Governments*. The purpose of this booklet is to assist local governments in getting started with the management of their capital assets. This is another way we are assisting municipalities to improve their practices. This booklet is in addition to our previously released booklet on oversight of capital procurement processes, which provides tools and advice focused on key oversight questions for a Council/Board to consider.



Gordon Ruth, FCPA, FCGA
Auditor General for Local Government

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EXECUTIVE SUMMARY

The City of Campbell River had many of the elements of an asset management framework in place.

3.5.9 We identified this topic as a priority for performance auditing because capital asset management and associated capital planning and procurement are key responsibilities of local governments. How they are carried out has a major impact on how well taxpayers' money is spent and the level and quality of service they receive.

3.5.10 Infrastructure assets involve major current and future capital and operational costs and liabilities to local governments, and are critical to the achievement of a wide range of local government objectives. The overall risk to economy, efficiency, and effectiveness associated with local government infrastructure assets is currently relatively high and expected to remain so for some time, due to factors such as aging infrastructure and growing populations. This places increasing pressure on existing infrastructure and creates demand for new infrastructure.

3.5.11 In addition, a related "infrastructure deficit," funding constraints and uncertainties, the impacts of deferred maintenance and other resource and capacity constraints within local governments impact their ability to effectively manage their infrastructure assets.

3.5.12 Conversely, good practices in infrastructure asset management could have major positive impacts on the economy, efficiency, and effectiveness of local government operations.

What We Examined

3.5.13 Our objective was to determine whether the City of Campbell River exercised sound stewardship over its capital assets through strategic capital asset management practices and capital procurement processes. We examined the City's asset management approach and supporting plans, policies and procedures.

3.5.14 We also selected two capital procurement projects undertaken by the City between 2010 and 2012 and examined the capital planning, procurement controls, policies and processes associated with them. The two projects were the Aeration Blower Replacement Project and the Sybil Andrews Park Development Project. We selected these projects based on asset type and project timing.

3.5.15 Finally, we examined a number of City payments to contractors in relation to work performed in the execution of the City's capital projects.

What We Found

3.5.16 The City of Campbell River had many of the elements of an asset management framework in place, which serve as useful building blocks for strong capital asset management. However, the City needs to develop an overarching asset management policy and supporting strategy and establish a more consistent approach to its asset management practices across City departments.

EXECUTIVE SUMMARY

The City has taken a number of significant steps to strengthen its approach to asset management.

3.5.17 In addition, the City requires more detailed condition assessments of its core assets and a more robust risk methodology in order to ensure the assets with the highest risks and the most critical needs are addressed.

3.5.18 The City has taken a number of significant steps to strengthen its approach to asset management, including establishing a ten year financial plan, an asset infrastructure management committee and restructuring its reserves policy. These steps should help ensure that the City moves toward long term financial sustainability while managing its infrastructure deficit.

3.5.19 The City had sound processes and controls in place to protect taxpayer interests in the planning and procurement of capital projects, although there were some purchasing policy gaps that the City should address. We were advised that the City intends to address these issues through updates to its purchasing policy.

EXHIBIT 1: Summary of Recommendations

ISSUES	RECOMMENDATIONS
<p>Asset Management</p>	<ol style="list-style-type: none"> 1 The City of Campbell River should continue to develop its asset management framework by establishing the following key components: <ul style="list-style-type: none"> • Asset management policy and supporting strategy; • Formal risk-based approach to priority setting and risk registers; and, • Lifecycle costing as part of financial planning. 2 The City of Campbell River should continue to develop its asset management framework by strengthening the following key components: <ul style="list-style-type: none"> • Asset information and condition assessment across core and critical infrastructure; • Comprehensive asset management plans for all core and critical assets; • Asset investment strategy; and, • Opportunities for public input. 3 The City of Campbell River should continue to increase its asset management capacity and maturity level by ensuring: <ul style="list-style-type: none"> • Greater uniformity and consistency in practice; • Key staff responsible for asset management continues to receive training and guidance on sound asset management practices; and, • Core competencies are identified and incorporated into job descriptions. 4 The City of Campbell River should finalize its balanced, long term financial planning approach involving a range of financing alternatives to address the risks related to its infrastructure deficit.
<p>Procurement</p>	<ol style="list-style-type: none"> 5 The City of Campbell River should: <ul style="list-style-type: none"> • Review its purchasing policy and Employee Code of Conduct as well as establish a practice for regular review; and, • Create a purchasing procedural manual and develop templates for procurement processes.

INTRODUCTION

This report presents the results of a performance audit conducted by the Auditor General for Local Government of British Columbia (AGLG) under the authority of the *Auditor General for Local Government Act*.

3.5.20 We conducted this audit under one of six audit themes outlined in our 2013/14 – 2015/16 Service Plan: “Infrastructure Sustainability and Infrastructure Asset Management.”

3.5.21 Following our identification of audit themes in early 2013, we selected specific audit topics for audits launched in 2013/14, including the topic of this performance audit: “Learnings from Local Government Capital Procurement Projects and Asset Management Programs.”

3.5.22 We selected six local governments to audit on this topic and work began on all six simultaneously. The other five local governments were the District of North Vancouver (completed), City of Dawson Creek (completed), City of Rossland (completed), District of Sechelt (completed) and City of Cranbrook.

Section **3(1)** and **(2)** of the *Auditor General for Local Government Act*:

3 (1) The purpose of the auditor general is to conduct performance audits of the operations* of local governments in order to provide local governments with objective information and relevant advice that will assist them in their accountability to their communities for the stewardship of public assets and the achievement of value for money in their operations.

3 (2) A performance audit conducted under this Act by the auditor general consists of

(a) a review of the operations* of a local government, as the operations relate to a matter or subject specified by the auditor general, to evaluate the extent to which

(i) the operations are undertaken economically, efficiently and effectively,

(ii) financial, human and other resources are used in relation to the operations with due regard to economy and efficiency,

(iii) the operations are effective in achieving their intended results, or

(iv) procedures established by the local government are sufficient for the local government to monitor the economy, efficiency and effectiveness of those operations, and

(b) recommendations to the local government arising from the review referred to in paragraph (a).

* *The Act defines operations as the design or implementation of the programs, services, policies or systems of a local government and related procedures.*

EXHIBIT 2:
Excerpt from *the Auditor General for Local Government Act*

INTRODUCTION

3.5.23 We may conduct more audits on capital procurement and capital asset management in future years, as this is a major area of local government activity.

3.5.24 Appendix 1 provides supplementary information on asset management and capital planning and procurement.

Asset Management activities include planning, obtaining, caring for, replacing and disposing of assets as well as considering the costs and requirements of capital assets throughout their lifecycle. These assets may be infrastructure, land or other large and lasting physical items such as buildings, utility plants and major equipment such as fire trucks.

Capital Planning is the process of identifying current and future capital needs, and preparing approaches, strategies and projects to meet those needs.

Capital Procurement is the process of acquiring, constructing or significantly improving capital assets using sources outside the local government.

EXHIBIT 3: Key Definitions

CONTEXT

3.5.25 The City of Campbell River is located on the eastern side of Vancouver Island and has a land area of approximately 143 square kilometres.

3.5.26 The City's population, as of 2011, was approximately 31,186, which represented an increase of 5.5 per cent from 2006. The City had a seniors population slightly larger than the national average, as more than 17 per cent of the City's residents were aged 65 or older in 2011.

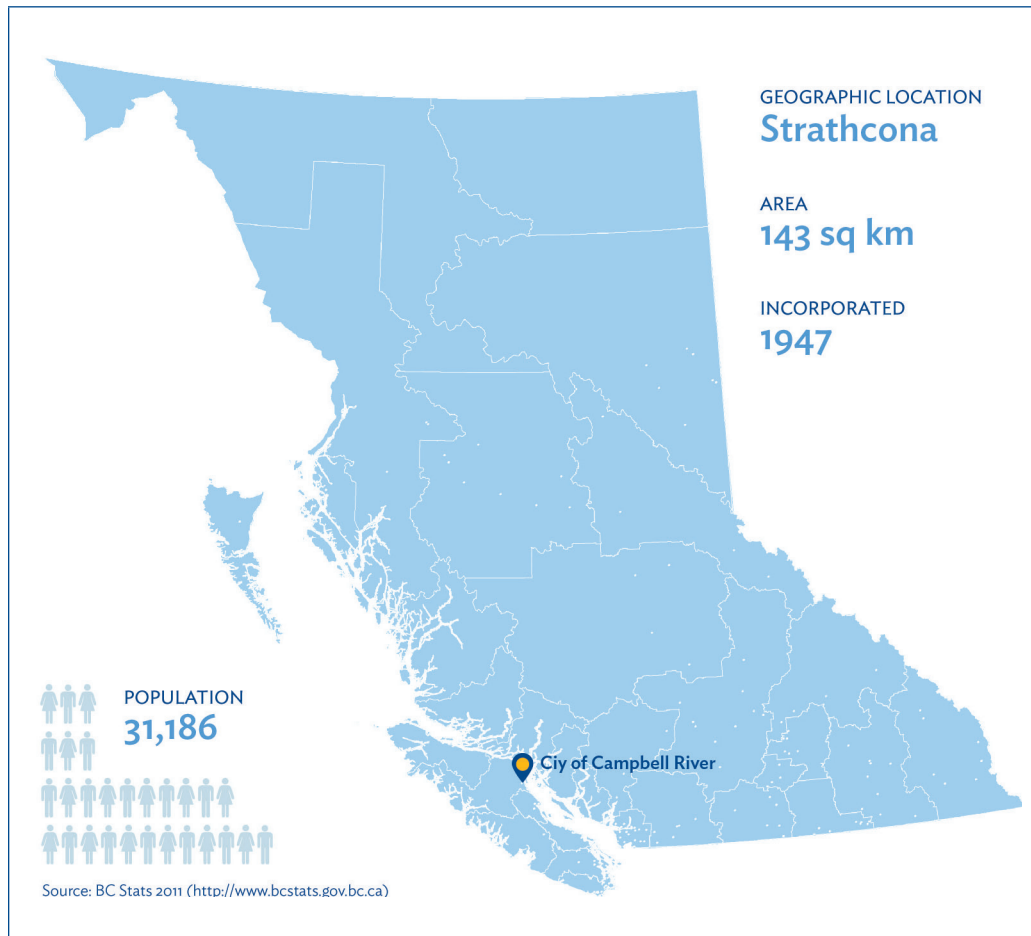


EXHIBIT 4:
City of Campbell River Visual
Facts

CONTEXT

3.5.27 The Elk Falls Pulp Mill was one of the largest employers in Campbell River for many years. The mill’s permanent shutdown in 2009 affected its approximately 600 employees, causing high unemployment and out-migration.

3.5.28 Substantial tax revenue from the Elk Falls mill was lost with its closure. Business tax from the mill was \$5.3 million in 2008, and only \$209,000 in 2012. The site of the mill was sold in May 2013 and future development plans for the site are unclear.

3.5.29 Exhibit 5 shows that the City’s annual revenues decreased during the period covered by the audit, from \$62 million in 2010 to \$51 million in 2012, which reflected the local economic hardship following the mill closure. Expenditures remained at about \$47 million during the three year period. The City’s capital budget and actual capital expenditures declined significantly during the three year period.

EXHIBIT 5: City of Campbell River Financial Snapshot, 2010-2012 (excluding recoverable tax)

	2010	2011	2012
Revenues	\$ 61,629,743	\$ 55,708,950	\$ 50,586,256
Expenditures	\$ 47,418,100	\$ 47,645,483	\$ 46,882,220
Annual Surplus	\$ 14,211,643	\$ 8,063,467	\$ 3,704,036
Capital Asset Value	\$ 215,120,489	\$ 218,864,616	\$ 217,851,631
Annual Capital Budget	\$ 32,831,833	\$ 16,867,696	\$ 11,075,421
Annual Capital Expenditures	\$ 19,163,803	\$ 10,783,589	\$ 5,461,868

Note: Annual capital budget figures differ from annual capital expenditures for several reasons, including project scope changes after budget approval and expenditures that occurred at different times from what budgets contemplated. Differences may also result from different capitalization requirements of the Public Sector Accounting Board compared to how the City presents this information for budget purposes.

Sources: City of Campbell River 2010, 2011 & 2012 Annual Reports.

CONTEXT

3.5.30 Exhibit 6 shows that the budgets for the two projects we selected for this audit, the Aeration Blower Replacement Project and the Sybil Andrews Park Development Project, accounted for 2.4 per cent of all capital project allocations approved by the City of Campbell River Council to take place during the 2010-2012 period.

3.5.31 As Exhibit 7 shows, the City of Campbell River owned capital assets worth \$217 million in net book value as of December 31, 2012. Infrastructure assets such as roads, water, sewer and drainage accounted for the majority of this value while another 23 per cent was in land and buildings.

EXHIBIT 6: City of Campbell River Capital Project Allocations in 2010-2012 Financial Plans (excluding recoverable tax)

Total Capital Project Allocations Approved for 2010-2012	\$ 60,774,950
Number of Capital Projects Selected for Review by AGLG	2
Total Budget Allocations of 2 AGLG Selected Projects for 2010-2012	\$ 1,470,382
Selected Project Allocations as Percentage of Total 2010-2012 Capital Project Allocations	2.4%

Sources: City of Campbell River 2010, 2012 & 2013 Annual Reports, 2010-2013 Five-Year Financial Plans.

TANGIBLE CAPITAL ASSETS	HISTORICAL COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	% OF TOTAL CAPITAL ASSETS
Land	\$ 32,937,010	\$ 0	\$ 32,937,010	15%
Buildings	\$ 33,680,691	\$ 16,146,075	\$ 17,534,616	8%
Machinery & Equipment	\$ 16,566,942	\$ 11,278,845	\$ 5,288,097	2%
Engineered Structure	\$ 285,345,486	\$ 124,067,962	\$ 161,277,524	74%
Assets Under Construction	\$ 814,384	\$ 0	\$ 814,384	0%
Total	\$ 369,344,513	\$ 151,492,882	\$ 217,851,631	100%

EXHIBIT 7: City of Campbell River Tangible Capital Assets in 2012

Source: City of Campbell River 2012 Annual Report.

FINDINGS

Asset management maturity and capacity were relatively strong in Campbell River.

3.5.32 Our findings are based on our review of the City of Campbell River's asset management framework and its planning, procurement and management of capital projects. We reviewed the City's systems, policies and procedures. We also reviewed relevant documentation such as asset management reports, strategies and plans, financial information and capital project records including payments to contractors. In addition, we held discussions with the City's key management and staff as well as the Mayor.

3.5.33 Please see the section entitled [About the Audit](#) for further information on the audit scope and approach.

Asset Management

3.5.34 Overall, the City of Campbell River had many of the fundamental building blocks of an asset management framework in place, although these components could be better integrated and streamlined through the development of an overarching asset management policy and strategy and the development of more comprehensive asset management plans. Such enhancements would increase the overall effectiveness and efficiency of the City's use of its financial resources.

3.5.35 Asset management maturity and capacity were relatively strong in Campbell River, with attention paid to asset information and asset condition. However, the City's internal culture was to carry out asset management within departmental silos. As a result, key practices such as the recording of asset information, asset condition assessment

and risk analysis varied across City departments. This created the potential for gaps in information and knowledge and could impact the effective use of financial resources. There was a need for greater formalization and more uniformity across City departments.

3.5.36 The City faced significant financial pressures during the period covered by the audit, as a result of a major mill closure and the resultant loss of over \$5 million in annual tax revenues, in addition to significant job losses. This contributed to a cautious, risk averse approach taken by the City which focused on its Five Year Financial Plan horizon with an emphasis on annual priorities.

3.5.37 As a result, infrastructure investments were largely budget-driven and focused on treating the City's highest risks on an annual basis. This led to a more reactive, less strategic approach, and financial sustainability has been viewed through a short term lens rather than from a longer, ten or twenty year, perspective. The City has an estimated infrastructure deficit of \$5 million, based on annual estimated replacement costs of \$9 million and annual capital spending of \$4 million.

3.5.38 In addition, infrastructure renewal and replacement placed little reliance on the use of reserves and on debt financing, while close attention was paid to cost savings opportunities by combining capital projects and through the use of grant funding. With a more stable outlook, the City may now be in a position to consider a more balanced, long term financial approach to managing infrastructure renewal and replacement. This could be achieved

FINDINGS

through a combination of alternatives such as the use of reserves, taxation, grants and contributions, debt financing and changes to levels of services.

3.5.39 Since the three year review period, the City of Campbell River has taken recent significant steps to advance its asset management practices including the establishment of a Ten Year Financial Plan and an Asset Infrastructure Management Committee. With the ongoing support of Council and senior staff, these steps should move the City towards its goal of achieving long term financial sustainability through strengthened asset management.

Capital Project Management

3.5.40 Both of the capital projects we reviewed were aligned with Campbell River's corporate priorities and had Council support. Procurement processes were open, transparent and fair. Both projects were executed in accordance with the City's Capital Project Management Policy and payments were processed in accordance with the City's financial policies. As well, their status was regularly reported to senior management. Overall, both projects were completed on scope, schedule and budget.

Capital Procurement

3.5.41 Overall, the City's Purchasing Policy and conflict of interest provisions in its Employee Code of Conduct supported fair and transparent capital procurement. However, there are opportunities to update and

strengthen these policies to fully address key procurement risks.

Capacity and Overview for Capital Asset Management

Asset Management Framework

3.5.42 The asset management framework constitutes the fundamental components of asset management that support a powerful approach to managing infrastructure across the organization. Based on information, finances, people and assets, these key elements include:

- A set of strategic objectives;
- Internal knowledge, skills and experience;
- Asset policy and strategy;
- Performance measures based on defined levels of service;
- Asset information;
- Risk-based methodology and risk registers;
- Asset condition assessments;
- Asset management plans based on lifecycle costing;
- Asset investment strategy;
- Long term financial plan with a balanced sustainable approach; and,
- Opportunities for community consultation and input.

3.5.43 Such a framework, when integrated and aligned, enables the organization to make informed, cost-effective asset investment decisions based on known condition, risk analysis, full lifecycle costing and potential

FINDINGS

The City has formulated high level goals, objectives and strategic priorities that are intended to drive long term (up to 2060) infrastructure investment.

sources of revenue. A framework also encourages collaboration between finance, engineering, and operations and considers public input. Overall, an asset management framework establishes organizational accountability for sustainable asset performance.

3.5.44 The City of Campbell River has in place several foundational components of an asset management framework. These components are separated into core asset classes and form the basis for operational and financial decision making around planning, operations and maintenance and renewal. In addition, the City has formulated high level goals, objectives and strategic priorities that are intended to drive long term (up to 2060) infrastructure investment. Solid waste assets were excluded from our review as this service is contracted out.

3.5.45 There are opportunities to enhance the framework through development of an integrated asset management policy and supporting strategy, through strengthened asset information and condition assessment across all City infrastructure, through the development of comprehensive asset management plans for core assets, through implementation of a formal risk-based approach to priority setting and development of a long term financial plan.

3.5.46 An integrated asset management framework will help to link existing goals, objectives and strategies, as well as supporting information and practices, while identifying full lifecycle funding requirements and any

gaps in information and other policy/procedure needs.

Corporate Objectives

3.5.47 Local governments have increasingly recognized the importance of developing and implementing sound asset management practices as a principal means of reaching effective operational and financial decisions, maximizing its infrastructure, and ensuring proper oversight and stewardship of publicly-owned resources. To accomplish this, a local government should formulate high level strategic goals and objectives aimed at fostering sound asset management practices.

3.5.48 In Campbell River, the City's corporate priorities during the review period have been to "develop a comprehensive capital plan" and to "develop a financial strategy to fund infrastructure." More recently, City Council's strategic priority since 2012 has been to "plan for the replacement of aging infrastructure." During the review period, financial constraints and staff turnover have limited progress on these objectives, however we did find a range of asset management practices in place across departments to help ensure short term funding decisions were targeted to the City's most critical and pressing needs.

3.5.49 The capital projects under consideration were closely linked to corporate priorities such as downtown revitalization, economic diversification and improvement of parks and trails.

FINDINGS

The City lacked a single point of leadership or accountability for asset management.

Internal Capacity

3.5.50 Effective asset management requires an integrated approach where each department across the organization is involved in elements of planning, finance and operations. In addition, one key member of the organization should have overall leadership and responsibility for planning, monitoring and reporting progress.

3.5.51 Each City department expressed confidence in their annual planning, funding priorities and decisions. Engineering and Operations were well-integrated throughout capital project implementation and they worked closely with Finance at appropriate times. For example, the development of annual capital plans was very much a joint effort.

3.5.52 However, the City lacked a single point of leadership or accountability for asset management. While each department had detailed knowledge of its assets and was managing its assets relatively effectively, activities and practices tended to be disjointed. Asset register information accuracy and completeness tended to be different, condition assessments had differing degrees of rigour, and risk analyses were carried out differently. While some training on asset management has been provided to key staff, core competencies have not yet been identified and embedded within job descriptions.

3.5.53 In the absence of a single point of leadership, asset management has been carried out in departmental silos and has been an annual budget-driven exercise with little

attention paid to planning horizons beyond the Five Year Financial Plan. This short term view can result in a reactive approach to asset management and impede long term financial sustainability and more strategic, proactive asset management practices.

3.5.54 In order to ensure accountability and develop a solid foundation, the City should ensure that key staff responsible for asset management continue to receive training and guidance on sound asset management practices, as well as identify core competencies and incorporate them into job descriptions.

Asset Management Policy and Strategy

3.5.55 An asset management policy serves to guide the implementation of asset management processes and practices across the organization. Such a policy, which can be scaled to the size of the organization, outlines the fundamental principles driving asset management, and provides overarching direction on long term planning, financing, operation, maintenance, repair, renewal or replacement, and disposal of city assets.

3.5.56 An asset management policy supports the establishment of an asset management strategy and asset management plans, including sustainable financing. In turn, the asset management strategy supports the asset lifecycle approach which is critical to long term financial sustainability. The strategy should also consider the organization's current and planned capacity with respect to human resources, information, tools and systems. The strategy should outline mechanisms for public

FINDINGS

The City should develop an overarching asset management policy and supporting strategy to guide its long term sustainable asset management practices.

engagement and consultation, including the reporting of results achieved.

3.5.57 Campbell River lacked a formal asset management policy and supporting strategy. The City's 2012 Official Community Plan emphasized general demand and growth management and considered the implications for infrastructure investment up to 2060. The City's growth management strategy was supported by objectives and policies for residential and business/industrial growth as well as brownfield redevelopment and downtown revitalization. Overall, the Official Community Plan provides a solid foundation for a long term, overarching asset management policy and strategy, and the City should take steps to develop these two key elements of the asset management framework.

3.5.58 The City did have a series of policies related to capital asset management including Tangible Capital Assets, Debt Management, and Capital Reserves, as well as a comprehensive Capital Project Management Policy. In addition, the City has the beginnings of an asset register and undertakes asset management assessments, rate reviews, annual plans and reports for all major asset classes. These practices support the development of the City's annual Five Year Capital Plan which formed part of the Five Year Financial Plan in place during the review period.

3.5.59 Building on this, the City should develop an overarching asset management policy and supporting strategy to guide its long term sustainable asset management practices. A policy would tie existing policies and practices

together under one broad goal and would foster ongoing asset management capacity and maturity. The strategy will facilitate a risk-based approach to asset management, performance measurement and mechanisms for ongoing stakeholder engagement. Together a policy and strategy would inform asset management plans where each asset class is clearly linked to the City's growth management strategy as outlined in the 2012 Official Community Plan.

Performance Measurement

3.5.60 With asset management, performance measures are indicators of work performed and results achieved. Performance measures help:

- Forecast and track the impacts of asset investments, maintenance, and operations improvements;
- To monitor the condition of assets; and,
- To gauge the management and service delivery of the organization.

3.5.61 The City of Campbell River had a balanced performance framework for its core assets which considered a range of operational, financial and performance related information with results reported annually. Overall, Campbell River has developed a comprehensive, meaningful performance measurement framework.

Levels of Service

3.5.62 Defining the operational levels of service for a particular asset or asset class is an essential component of planning, as well as for determining ongoing service delivery, operations requirements and the associated

FINDINGS

The City of Campbell River did a good job of identifying operational levels of service across its core asset classes.

costs. Levels of service often drive asset performance measures and targets. Overall, well-defined levels of service reduce risk throughout the lifecycle of the asset.

3.5.63 The City of Campbell River did a good job of identifying operational levels of service across its core asset classes: water, storm water, sewer and roads. Each class has a set of goals, objectives, and targets which are driven by operational or maintenance levels of service and customer levels of service. The levels of service inform higher level asset upgrading and replacement needs based on current needs as well as forecasted future demand requirements.

Asset Base Knowledge/Asset Inventory

3.5.64 Knowledge of assets is the lynchpin for an organization's asset management activities. Key asset inventory information should be grouped by asset class and an advanced inventory includes attributes such as ownership status, location based on GIS, age, history and condition, performance, historical cost and replacement value, estimated remaining service life and any significant issues.

3.5.65 The City of Campbell River had identified key attributes necessary for sound operational and financial decision making. However, asset information for its estimated 90,000 assets was spread across Tangible Capital Assets registers, Cartegraph software, CAD and GIS databases, spreadsheets and asset condition assessments, and replacement costs were not identified.

3.5.66 Tangible capital assets inventory information, developed in response to PSAB

3150 requirements for tangible capital assets, focused largely on accounting purposes such as age, historical cost, depreciation and net book value. Cartegraph is the central repository and procedures for entering data are in place to help ensure data integrity. Cartegraph contained key data including location and maintenance history for roads and storm water, water assets to a lesser extent, while sewer assets have only recently begun to be registered. Key attributes such as asset condition, useful life, and significant issues were contained in asset condition assessments, however it is unclear if the asset condition assessments reflected all assets in that class, or only those in need of repair or upgrading. In addition, asset replacement costs are a key attribute which the City needs to identify as part of asset management planning.

3.5.67 The City should build on, ensure greater uniformity in approach, and integrate its asset base knowledge to enhance its asset management practices and minimize the risk of misallocating scarce infrastructure resources.

Risk Prioritization

3.5.68 Attention to risk allows the organization to prioritize its resources by ensuring they are targeted to the most critical infrastructure needs. Risk assessment should be carried out to:

- Prioritize which assets should be subject to condition assessment, e.g. core assets, critical assets; and,
- Target spending based on the results of those condition assessments.

FINDINGS

The City has not employed a formal, risk-based methodology based on likelihood and consequence of asset failure.

3.5.69 In Campbell River, the City has not employed a formal, risk-based methodology based on likelihood and consequence of asset failure and there are no formal risk registers to help inform investment decisions and direct resources. Each department uses a less formal risk assessment process based on a range of information sources such as staff knowledge and history, visual inspections, condition assessments, technical and legal requirements and public complaints and service calls.

3.5.70 The City's wastewater CCTV inspection report points out sewer main probability of failure, i.e. risk of failure, based on age and condition. In addition, the City looks at risk factors on a project-specific level and carries out a risk assessment at this level to help ensure project success.

3.5.71 The City should implement a formal risk based process beginning with its critical, core assets. Risk registers should be updated on a regular basis.

Asset Condition

3.5.72 Asset condition assessment is an essential element of asset management. The condition of assets is closely linked to performance, and the physical state of each asset is used to determine the need for repair or replacement. Asset condition can also be used to inform maintenance requirements. Core asset classes have standardized indexes or ratings used to analyze costs of repair versus replacement.

3.5.73 In Campbell River, the City carried out a range of formal and informal asset condition

assessment practices on all core asset classes, fleet and facilities. However, there is a general need for a greater level of detail to fully support the City's decision making.

3.5.74 Building condition assessments are conducted on City facilities approximately every two years. Information from building inspections is high level rather than detailed, and is used for short to medium term maintenance planning, not for renewal or replacement planning.

3.5.75 Fleet inspections are carried out annually, a formal risk analysis is conducted and results are used for replacement planning and costing. Routine maintenance programs and inspections of fire hydrants, street lights and the majority of City facilities are also carried out.

3.5.76 Road condition assessments are carried out using the Overall Condition Index, however these inspections are limited to key areas such as commercial and downtown sectors, and are not conducted on a regular basis. The City is looking at developing a long term Pavement Management Plan where all roads will be inspected on a rotational basis.

3.5.77 The City has also drafted a higher level infrastructure assessment condition report across all core assets, which highlights age, preliminary conditions, priorities for upgrades, repair or replacement, and the associated costs. The report is a very good starting point for lifecycle management, however the City acknowledges that detailed condition analyses that identify highest risk assets are required to

FINDINGS

Asset management plans are the cornerstones of an organization's asset management framework.

more accurately direct their financial planning and specific spending decisions.

3.5.78 The City should ensure detailed condition assessments of all assets are regularly conducted, prioritizing its core and critical assets.

Asset Management Plans

3.5.79 Asset management plans are the cornerstones of an organization's asset management framework. Each asset class should have a plan containing inventory information, targeted levels of service, defined maintenance and repair activities which serve to maximize the asset's useful life while minimizing costs, i.e. the lifecycle approach and a costing strategy.

3.5.80 The City of Campbell River produces annual reports for each core asset class: water, storm water, wastewater and roads. These reports serve as an adequate starting point for asset management plans. Stormwater and road reports contained levels of service targets and system upgrade needs at a high level as well as estimated remaining service life. Water and wastewater reports only contained levels of service targets. These reports do not provide more detailed repair or refurbishment requirements based on condition assessments and do not provide detailed financial estimates which can be used for short and long term budget forecasting.

3.5.81 In addition, the City drafted master plans for its core assets. For example, the 2012 Transportation Master Plan provides a blueprint for transportation asset investment

for the next 25 years. The plan contains a summary of short, mid and long term priorities and their estimated costs based on forecasted demand. This plan also provides a useful starting point for a detailed transportation asset management plan.

3.5.82 The City also had rate reviews for water and wastewater utilities. These reviews analyzed current rate structures, current capacity, forecasted requirements and the gap. These reviews provide a basis for utilities management based on sustainable financial planning.

3.5.83 The City should develop asset management plans for its core assets by building on these reports and rate reviews, in particular, by documenting and integrating comprehensive lifecycle maintenance, repair, upgrades, and renewal strategies with forecasted financial requirements. As mentioned earlier, the strategies should be risk-based with planned spending targeted to the highest risk needs. These more mature asset management plans will allow the City to develop a long term financial plan and help move the City towards long term financial sustainability.

Asset Lifecycle Costing

3.5.84 Sound asset management and decision making requires consideration of full lifecycle costing. Lifecycle costing takes into account the entire cost of the asset from planning through to retirement and includes all planning, design, construction, acquisition, operating and maintenance, repair and disposal costs. Of particular significance are maintenance costs. Following preventative maintenance schedules

FINDINGS

Asset investment in Campbell River was largely budget-driven with set annual budgets allocated for each asset class based on historical spending as opposed to need.

can reduce repair costs and extend the life of some assets.

3.5.85 The City has not consistently considered full lifecycle costing as part of infrastructure planning and budgeting, although it is now taking steps to ensure the costs of operating and repair are built into long term financial planning. We were advised projects under consideration now require a business case that includes lifecycle cost analysis including replacement costs.

Asset Investment Strategy

3.5.86 The key deliverable of asset management is a long term investment strategy which details the timing (short, mid and long term) of all capital infrastructure projects. This includes repair, replacement, renewal and creation needs based on condition assessment and risk, as well as estimated future demand. A multi-year asset investment strategy should include costs and a funding strategy or options for funding and key assumptions should be stated. Because conditions, risks and costs change over time, an investment strategy should be updated annually to reflect any changes.

3.5.87 Asset investment in Campbell River was largely budget-driven with set annual budgets allocated for each asset class based on historical spending as opposed to need. Instead of asset conditions driving the budget, the budget drives the work, and investment has been under-funded. Further, there is very little contingency funding factored into the budget in the event of unforeseen asset failures or events. In addition, an element of the City's investment approach was to look closely at

opportunities for cost savings by combining capital projects and by accessing provincial and federal funding sources to offset City costs.

3.5.88 The City prepared a high level asset renewal strategy for core assets. These documents contained basic inventory data, steps needed to develop a detailed strategy, as well as some replacement priorities, growth related needs, and a nominal budget. While different funding options were outlined, there were no detailed project cost estimates. Replacement priorities were ranked according to age alone, rather than formal risk assessment.

3.5.89 The City should build on this high level investment strategy by identifying specific projects based on a range of risks, determining full lifecycle costs, developing options for each project, and prioritizing and addressing highest risk projects.

Financial Sustainability

3.5.90 Asset management and financial management are intertwined. Results of asset management practices should inform financial management processes and, in turn, financial considerations should impact asset management decisions. Because asset management typically has significant financial impacts and is resource intensive, the organization should have a long term financial plan, extending for a minimum of ten years.

3.5.91 The plan should include key information drawn from asset management practices such as operational, maintenance, renewal and development costs based on

FINDINGS

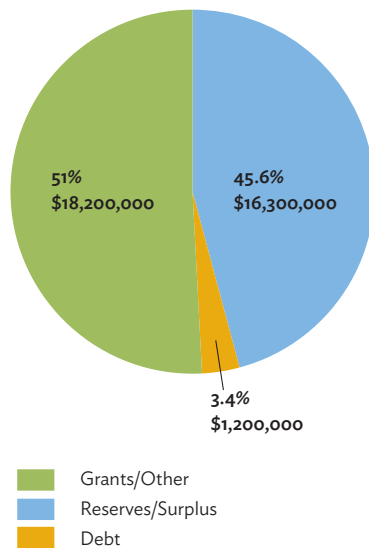
Good practice is to set up a reserve for each core asset class: buildings, water, sewer, storm water, roads and fleet.

lifecycle costing, as well as long term forecasts for both planned expenditures and sources of funding or financing to ensure sustainability. The plan should also consider the sale or disposal of surplus assets.

3.5.92 The City’s planning horizon was the Five Year Financial Plan which is updated annually. During the review period, the City did not have a long term financial plan to support asset replacement that they have estimated to be \$9 million annually.

3.5.93 During the period covered by the audit, the City took a conservative approach towards financing its capital investments in response to the situation. As illustrated in Exhibit 8, more than half of capital spending was funded through grants or other external financial assistance, and less than five per cent was financed through borrowing.

EXHIBIT 8:
2010-2012 Capital Spending by Funding Source



Source: City of Campbell River financial records.

Use of Reserves and Debt Management

3.5.94 Many local governments face an infrastructure deficit where asset repair, renewal, replacement and development needs cannot consistently keep up with required funding levels. To help address this shortfall, some local governments have established asset reserve funds dedicated to capital works as part of a long term financial strategy. This approach provides financial flexibility, helps manage risks, and enables the organization to take advantage of opportunities as they arise.

3.5.95 While there is no one best model governing the establishment and use of reserves, good practice is to set up a reserve for each core asset class: buildings, water, sewer, storm water, roads and fleet based on information within asset registers and asset management plans. In addition, reserve accounts can be established for asset replacement, unplanned maintenance and unplanned repairs.

3.5.96 Campbell River has a reserve policy and has established asset reserves dedicated to water and sewer utilities as well as a general reserve fund for roads, transportation, storm water and fleet and facilities. The City acknowledged that the current reserves’ balance is insufficient to address its infrastructure deficit, and a sustainable, balanced financial strategy is under development. We were advised that required capital funding was obtained from other categories of reserves when needed, and we note the City maintained consistent reserve balances available for capital investments throughout the review period.

FINDINGS

AVAILABLE INTERNAL FUNDS (SURPLUS + NON-STATUTORY RESERVE BALANCES)				
	2009	2010	2011	2012
General	\$ 12,823,656	\$ 13,228,841	\$ 11,887,538	\$ 13,940,180
Water	\$ 3,230,505	\$ 2,246,807	\$ 1,412,370	\$ 1,776,804
Sanitary Sewer	\$ 5,644,092	\$ 5,326,772	\$ 7,207,027	\$ 9,219,067
Airport	\$ 242,217	\$ 111,234	\$ 292,660	\$ 370,288
	\$ 21,940,470	\$ 20,913,654	\$ 20,799,595	\$ 25,306,339

EXHIBIT 9:
2009-2012 Available City Funds for Capital

Source: 2009-2012 City of Campbell River annual reports.

3.5.97 The City has not solely relied on internal funding (reserves and operating surpluses) to support its capital needs. As shown in Exhibit 8, of the City’s three year total capital spending, just \$16.3 million was from internal funding. This is an average of \$5.4 million annually, or approximately 24% of the internal funding available as illustrated in Exhibit 9.

3.5.98 The City considered this approach to be prudent during a period when it faced a significant reduction in tax revenues. However, while it implies savings to taxpayers by relying on and using grants when opportunities are available, this approach on its own may not ensure the highest risk or most critical infrastructure needs are addressed, as those projects may not have come with grants or other external financial assistance. In addition, City staff advised that they expected less grant opportunities in future years.

3.5.99 In January 2013, prior to the commencement of this audit, City staff proposed to Council a broader approach to

finance and address the City’s capital needs in future years. City staff estimated existing asset replacement needs (excluding new infrastructure requirements) would be \$9 million annually, implying a \$4 million annual funding gap based on existing funding plans.

3.5.100 Also in January 2013, Council agreed to commit one per cent of the annual tax increase to further support the City’s capital needs. Further, based on staff recommendations, several capital reserve accounts were consolidated to simplify them and make them more flexible.

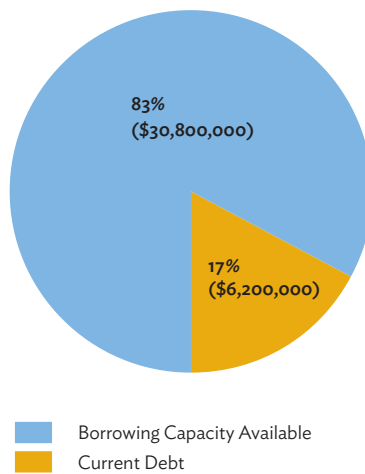
3.5.101 We were advised that recently, the City is undertaking another reserve account review to ensure the reserves are utilized effectively.

3.5.102 As shown in Exhibit 8, out of the City’s three year total capital spending, only \$1.2 million or 3.4% was financed through borrowing. Exhibit 10 shows that the City had borrowed little compared to its borrowing capacity.

FINDINGS

EXHIBIT 10: City Borrowing Capacity

Total Borrowing Limit (\$37,000,000) versus Outstanding Debt (20 years) as at January 2013



Source: City of Campbell River financial report to Council.

3.5.103 As part of a balanced, long term financial sustainability approach, the City should examine a combination of financing alternatives for capital investments such as the use of reserves, taxation, grants and contributions, debt financing and changes to levels of service.

Reporting to Council

3.5.104 Asset management activities, progress and results should be routinely reported to City Council as the oversight body ultimately responsible for the stewardship of public assets. Reporting should include the current state of assets, asset renewal and investment strategies, the infrastructure gap, results of decisions, capital project updates and annual detailed asset management plan updates.

3.5.105 Throughout the review period, City staff presented a range of core asset management information to Council members contained in monthly, quarterly and annual reports, infrastructure renewal strategies, infrastructure status reports as well as capital project updates. In addition, monthly meetings of the Council-as-a-whole have provided opportunities for staff to increase asset management knowledge of Council members. Overall, Council was kept informed of asset creation, and core asset repair, upgrade and renewal needs, financial impacts and the resultant gap along with funding options.

EXHIBIT 11: Lunch-and-Learn Sessions

We note that the City of Campbell River holds monthly Lunch-and-Learn workshops where staff present information on a range of current subjects to members of City Council. The objective of these workshops is to raise awareness and understanding of, in some cases, complex and technical issues as well as challenges that the City is dealing with.

These sessions provide opportunities for Council members to learn, to ask questions, and to have an increased understanding of important City matters that they can relay to the broader community.

These Lunch-and-Learn Sessions are a good practice which other communities may wish to emulate.

FINDINGS

It is important for community stakeholders and residents to be consulted on, and to provide input into community priorities, particularly when major financial investments are involved.

Public Consultation

3.5.106 It is important for community stakeholders and residents to be consulted on, and to provide input into community priorities, particularly when major financial investments are involved as they often are with infrastructure decisions. Public consultation and engagement can also inform service level expectations which are a key component of the asset management framework. Public consultation also provides a local government with the opportunity to increase community awareness and understanding of asset management and its importance. The public should also be kept informed of the results of infrastructure spending.

3.5.107 A range of methods can be used to engage community stakeholders and residents on infrastructure priorities and gauge community satisfaction with City assets and services. Examples in communities across the province include town hall meetings, advisory groups, resident surveys, and the development of strategic plans with defined targets, capital plans and asset strategies that involve public consultation.

3.5.108 In Campbell River, the City communicated its Five Year Financial Plan, including the capital plan, as required under the *Local Government Act* and the *Community Charter*. In addition, long term plans such as the Official Community Plan and master plans allowed for public consultation. As well, significant capital investments were publicized and communicated to the public. More routinely, staff rely largely on Council as

a conduit for community input.

3.5.109 The City should look for opportunities for public input into its overall asset management approach and use these forums to raise public awareness of its infrastructure challenges and its strategies to reduce the infrastructure deficit.

Advancement in Practices in the Post Audit Period

3.5.110 Given the length of time that has lapsed between the period covered and the issuance of our report, it is important to recognize the significant steps that Campbell River has taken since 2012 to increase its internal capacity, strengthen its asset management practices and move towards long term financial sustainability.

3.5.111 The City has recently established an Asset Infrastructure Management (AIM) Committee with the goal of developing an integrated asset management strategy and a corporate-wide asset management system. The overarching goal of the committee is to establish a 30 year long term financial plan by 2021. Leadership has been delegated to an individual and members of the committee have been provided training and guidance to help accomplish their mandate. All policy and budget considerations will be presented to Council for approval.

3.5.112 In addition, the City has recently moved from a Five Year Financial Plan to a Ten Year Plan. This allows the City to consider longer term operational and financial impacts

FINDINGS

Overall, the City of Campbell River has taken a number of positive actions which have increased its internal capacity and level of maturity of financial policies and asset management practices.

of asset investments, including full lifecycle costing of planned infrastructure and replacement costs.

3.5.113 More robust business cases supporting capital projects are now expected and opportunities for cost savings are actively considered. Based on current ten year forecasts, the City's future investments in asset replacement and renewal closely match financial requirements.

3.5.114 Reserves restructuring has been closely looked at with the objective of streamlining and consolidating the use of reserves. Reserve level targets have been set based on research into other comparable jurisdictions which should lead the City towards greater financial sustainability. We were advised that the new reserve policy and budget strategy starting in the 2016 budget allocates all available capital funding into the area needed rather than a set annual allocation to ensure reserve funding is actively utilized. A debt management policy is also being looked at with the recognition that opportunities exist for the City to strategically use debt as a means of addressing its infrastructure deficit. As well, a long-term 0.75% annual tax increase for asset renewal has been approved by Council as part of the 2016 budget.

3.5.115 As well, steps are being taken to standardize asset management practices across City departments including greater uniformity in recording asset register data. There is a general recognition that greater consistency in risk analysis and asset conditions assessments is needed. In this regard, a detailed assessment of

all City buildings is to be conducted and a pavement management plan is to be developed. The results of these activities will be used to drive the Ten Year Plan.

3.5.116 Overall, the City of Campbell River has taken a number of positive actions which have increased its internal capacity and level of maturity of financial policies and asset management practices. Over time, this should move the City towards long term financial sustainability allowing it to keep pace with its infrastructure needs.

Capital Procurement

3.5.117 Complete, clear and up-to-date procurement-related policies and procedures are essential for local governments to ensure consistency in their efforts to achieve best value for tax dollars. This is particularly important as staff come and go over time.

3.5.118 An effective procurement policy includes several key components:

- It is comprehensive, providing sufficient guidance to staff and suppliers to communicate expectations;
- Policy statements are presented with sufficient depth to provide clear and unambiguous direction;
- Its formatting and language make it easy to understand and follow as a guide; and,
- It includes clear guidance on ethical conduct and conflict of interest.

FINDINGS

Overall, the City's Purchasing Policy and conflict of interest provisions in its Code Of Conduct supported fair and transparent capital procurement.

3.5.119 Regardless of their size, all local governments should have clear policies focused on encouraging the use of competitive procurement, preventing misconduct and ensuring value for money.

3.5.120 Overall, the City's Purchasing Policy and conflict of interest provisions in its Employee Code of Conduct supported fair and transparent capital procurement, however there are opportunities to update and strengthen City policies to fully address key procurement risks.

Purchasing Policy

3.5.121 The City's Purchasing Policy was last updated in 2008. This policy required competitive offers or bids for purchases above \$10,000 and Council's approval on purchases over \$100,000. It also set spending thresholds for City staff.

3.5.122 The policy clearly defined who could authorize capital expenditures and promoted environmentally friendly purchases. It also referenced the Agreement on Internal Trade (AIT) and promoted its spirit.

3.5.123 At a high level the City's Purchasing Policy covers purchasing processes. However, we found several gaps in the policy including the following:

- It did not explicitly state under what circumstances a written contract was required in place of, or in addition to, a purchase order.

- It did not provide direction as to when a tender can or should be cancelled.
- It did not provide guidance as to when a sole source purchase is allowed. While we were advised the City relies on the AIT for this guidance, City policy should stand alone, and the policy itself should outline the conditions for sole source procurement.
- It did not refer to the Employee Code of Conduct regarding conflict of interest guidelines.
- It did not include procedures for vendor dispute resolution. While these are included in the standard contracts the City uses for construction or architectural contracts, the City lacked any provision for dealing with complaints from vendors relating to other purchases.
- It gave no direction on how staff should work with vendors in various procurement stages or situations, such as dealing with unsolicited proposals, vendor or subcontractor conflict of interest, debriefing unsuccessful bidders and assessing vendor performance.

3.5.124 The City should review its purchasing policy and establish a practice for regular review.

3.5.125 Given the City's relatively high turnover in key staff positions, knowledge transfer is important. The City should consider creating a purchasing procedural manual and developing templates for procurement processes, such as templates for various competitive processes, vendor evaluation and written contracts.

FINDINGS

Conflicts of interest, whether actual or perceived, are relatively common and can often be managed effectively.

Conflict of Interest Policy

3.5.126 Local governments are accountable for having effective policies and procedures in place to ensure ethical conduct by staff. A code of conduct which addresses conflict of interest, illegal or improper payments, anti-competitive guidelines, insider information and fraud should be in place and implemented, and the code should be formally acknowledged by staff periodically.

3.5.127 A conflict of interest occurs when a member of the procurement team, or advisor to the process, has either a personal or business relationship or interest that could be seen to bias their judgement or impartiality.

3.5.128 Conflicts of interest, whether actual or perceived, are relatively common and can often be managed effectively. However, it is important to identify potential conflicts of interest early in the procurement process, and to take timely and appropriate steps to address and effectively mitigate them.

3.5.129 Local governments should develop policies and processes to ensure that procurement team members, and any advisors, declare and resolve any actual or perceived conflicts of interest throughout the procurement process.

3.5.130 The City did not have a conflict of interest policy covering members of Council. We acknowledge that this topic is covered in the *Community Charter*, however, a good practice followed by a number of local governments, is to provide additional requirements and guidance in policy.

3.5.131 In 2009 the City introduced a Code of Conduct for employees that refers to conflict of interest procedures. The Code of Conduct requires employees to provide a written disclosure to their immediate supervisor whenever an actual and/or potential conflict of interest was believed to have occurred. The Code of Conduct could be improved by cross-referencing it with the City's Purchasing Policy and by adding a whistleblower policy.

Capital Project Management

3.5.132 Capital projects are typically complex and some can have significant challenges increasing the risk to achieving intended outcomes. More challenging and higher risk projects require a higher degree of project management expertise and other specialized areas of knowledge such as contracting and financial budgeting.

3.5.133 Local government councils and boards should satisfy themselves that the project will be effectively managed. When technical expertise and capacity are not available internally, local governments should consider a contracted project management approach to ensure the local government's interests are addressed throughout the execution of the project. A project charter setting out roles and responsibilities of all key players is a useful approach.

3.5.134 In addition, local governments should have a set of policies and procedures as well as

FINDINGS

Both projects we examined were completed on scope, schedule and budget.

supporting tools and templates to serve as guidelines and as standards expected of staff as they undertake capital project planning and procurement activities. A policy and procedures manual should contain, at a minimum, the following elements:

Governance

Identification of relevant legislation and bylaws, clarification of roles and responsibilities of elected officials, staff and contractors, approval and authorization levels, and conflict of interest guidelines.

Risk Management

Identification, assessment and management of key financial and non-financial risks to projects throughout project planning, procurement and execution.

Planning

Needs identification, delivery options analysis, procurement options, business case development and analysis, and an implementation plan.

Procurement

Open, fair and competitive solicitation, tendering, evaluation and award practices.

Contract Management

Types of contracts, preparation of contract documents and supplementary conditions and schedules (insurance, performance bonds), legal considerations, billings and payments, and use of contract amendments and change orders.

Budget and Cost Management

Budget estimates based on functional

requirements and/or design specifications and cost management mechanisms.

Monitoring and Reporting

Internal and external standards for routine and exceptional project monitoring and reporting, consisting of financial, performance and risk-based reporting, as well as approval standards which include levels of authority, accountability and responsibility.

Project Evaluation

Requirements for post-completion assessment of project performance and outcomes.

3.5.135 Overall, the City of Campbell River had sound capital project management processes in place which supported fair and transparent procurement, strong project execution and appropriate payments to contractors. As a result, both projects we examined were completed on scope, schedule and budget.

Aeration Blower Replacement Project

3.5.136 In 2008, the City engaged a pre-qualified consultant engineer to complete a predesign study for the upgrade of sewage treatment aeration blowers. This was in response to needs identified in a sewage treatment study conducted in prior years. The aeration blowers process air for oxidation ditches and an aerobic digester at the sewage facility.

3.5.137 Based on the pre-design study results, City staff submitted a service level change request form to Council to justify the project. This form included some key business case

FINDINGS

elements such as project scope, justification, priority ranking, alignment with strategic goals, estimated costs and project time frame.

3.5.138 The original 2008 submission for this project proposed an optimistic project time frame (to be completed in 2008). The submission did not reference any potential impacts to operations, for example, if there would be any incremental operating cost of the new asset.

3.5.139 We were advised that, following the period covered by this audit, the City had improved on the use of this form, to provide better and more sufficient information for Council’s decision-making. For example, any incremental operational cost of the subject asset and timespan for multi-year projects are now indicated on this form. We were also advised that the City now prepares a full business case for major projects, though it is not required by policy.

3.5.140 The City issued a tender for the supply of the aeration blowers in 2009 and three bids were received, however two of these bids were non-compliant, leading the City to cancel the tender.

3.5.141 The cancelled tender delayed this project, so City staff requested a budget carry-forward to 2010. The City re-issued a tender in 2010 and two bids were received. The lower priced of these two bids was considered incomplete and non-compliant with the bidding terms. The City awarded the contract to the only compliant bid. Both the consultant engineer and the City debriefed the lower priced bidder in writing.

3.5.142 In 2011, the consultant engineer completed the detailed design for the upgrade. In the same year, the City issued a tender for the installation of the blowers. The City received three bids. Upon evaluation of the bid and reference checks, the City awarded the contract to the lowest priced bidder, as recommended by the consultant engineers.

3.5.143 We reviewed the procurement documents and records of the three tendering processes involved in this project and the contracts with the engineering consultant. We also reviewed invoices and change orders and found that all were properly approved.

3.5.144 Exhibit 12 summarizes the procurement processes for this project.

CONTRACT	COMPETITIVE PROCESS?	PROPER APPROVAL PER POLICY?	QUOTATION VALUE (EXCLUDING HST)
Design Services	Yes for Pre-qualification	Yes	\$ 45,270
Engineering Support	Yes for Pre-qualification	Yes	\$ 79,137
Blower Supply	Yes	Yes	\$ 340,100
Blower Installation	Yes	Yes	\$ 451,108

EXHIBIT 12:
Aeration Blower Replacement
Project Contracts

Source: City of Campbell River procurement records.

FINDINGS

3.5.145 The City’s Capital Works Department provided weekly written updates on project status to the City’s senior management. Key milestones were also published on the City’s website.

3.5.146 The new blowers were delivered and successfully installed at the end of 2011. In 2012, City staff conducted a post-completion project evaluation which noted that this project was finished on budget and on time (based on the revised timeframe).

3.5.147 Exhibit 13 shows the budget and actual cost of this project by financing source.

EXHIBIT 13:
Aeration Blower Replacement
Project Budget and Actual
Costs

		BY FINANCING SOURCE		
		CITY RESERVE/ SURPLUS	GRANTS/OTHER	DEBT
2008 Project Cost Estimate	\$ 1,147,500	-	-	\$ 1,147,500
2008 Approved Budget	\$ 1,147,500	-	-	\$ 1,147,500
2010 Revised Budget	\$ 1,166,000	-	\$ 18,500	\$ 1,147,500
2008-2012 Total Actual Costs	\$ 1,088,210	\$ 45,814	\$ 122,035	\$ 920,361
Budget vs Actual Variance	\$ 77,790	-	-	-

Source: City of Campbell River financial records.

FINDINGS

Sybil Andrews Park Development Project

3.5.148 The Sybil Andrews/Walter Morgan Cottage was a heritage building with an artistic structure and an attractive landscape. It was used as the offices and gallery of the Campbell River Community Arts Council as well as for classes and meetings. Since 2004, some local residents had openly expressed their hope to restore this heritage site, which would become the City’s first-ever heritage building restoration project.

3.5.149 In 2008, given a rough cost estimate of \$300,000, City Council approved the project in principal subject to a feasibility study and external financial assistance.

3.5.150 During the following year, the City held a number of consultation sessions and received a feasibility study prepared by an engineering consultant who recommended proceeding with this project. Although a formal business case was not completed, the combination of the feasibility plan and the 2008 - 2012 Service Level Change Request form provided some key elements of a business

case, such as defining project needs, scope and estimated costs.

3.5.151 In 2010, the Coast Sustainability Trust approved \$150,000 to assist this project, and the City Council approved the same amount as part of its 2010-2014 Financial Plan, allowing the project to start with an approved budget of \$300,000. In the same year, the City directly awarded an architectural design contract to a pre-qualified engineering consultant.

3.5.152 In 2011, the City issued a tender for the building restoration work. The City received three bids and awarded a contract to the lowest bidder. The contract was submitted for Council approval as per City policy, as it was valued over \$100,000.

3.5.153 We reviewed the procurement documents and records of this project. The procurement processes followed by the City complied with the City’s procurement policies at that time.

3.5.154 Exhibit 14 summarizes the procurement processes for this project.

CONTRACT	COMPETITIVE PROCESS?	PROPER APPROVAL PER POLICY?	QUOTATION VALUE (EXCLUDING HST)
Feasibility Study	No	Yes	\$ 17,076
Design Services	Yes for Pre-qualification	Yes	\$ 22,000
Construction Contract Admin	Yes for Pre-qualification	Yes	\$ 19,235
Building Restoration	Yes	Yes	\$ 188,953

EXHIBIT 14:
Sybil Andrews Park Development Project Contracts

Source: City of Campbell River procurement records.

FINDINGS

3.5.155 The City’s Capital Works Department provided written updates on project status to the City’s senior management weekly. Following its completion in 2011, City staff conducted a post-completion project evaluation which noted that this project was completed on budget and on time.

3.5.156 Exhibit 15 shows the budget and actual cost of this project by financing source.

EXHIBIT 15:
Sybil Andrews Park Project
Budget and Actual Costs

		BY FINANCING SOURCE		
		CITY RESERVE/ SURPLUS	GRANTS/OTHER	DEBT
2008 Project Cost Estimate	\$ 300,000	\$ 150,000	\$ 150,000	-
2010 Approved Budget	\$ 304,382	\$ 124,382	\$ 180,000	-
2008-2012 Total Actual Costs	\$ 299,465	\$ 118,121	\$ 181,344	-
Budget vs Actual Variance	\$ 4,917	-	-	-

Source: City of Campbell River financial records.

Review of Payments

3.5.157 We reviewed a sample of 11 capital project payments totalling \$545,000. All payments complied with City financial policy and were authorized in a manner that demonstrated proper segregation of duties. Once payment was authorized, the files demonstrated that finance department staff exercised due diligence as part of payment processing.

Determination of Value for Money

3.5.158 Our review of these two capital projects concluded that the City of Campbell River had sound processes and controls in place designed to help protect the interests of taxpayers and help ensure value for money.

CONCLUSIONS

3.5.159 Overall, the City of Campbell River had many of the fundamental building blocks of an asset management framework in place, although these components could be better integrated and streamlined through the development of an overarching asset management policy and strategy and the development of more comprehensive asset management plans. Such enhancements would increase the overall effectiveness and efficiency of the City's use of its financial resources.

3.5.160 Asset management maturity and capacity were relatively strong in Campbell River, with attention paid to asset information and asset condition. However, the City's internal culture was to carry out asset management within departmental silos. As a result, key practices such as the recording of asset information, asset condition assessment and risk analysis varied across City departments. This created the potential for gaps in information and knowledge and could impact the effective use of financial resources. There was a need for greater formalization and more uniformity across City departments.

3.5.161 The City faced significant financial pressures during the period covered by the audit, as a result of a major mill closure and the resultant loss of over \$5 million in annual tax revenues, in addition to significant job losses. This contributed to a cautious, risk averse approach taken by the City which focused on its Five Year Financial Plan horizon with an emphasis on annual priorities.

3.5.162 As a result, infrastructure investments were largely budget-driven and focused on treating the City's highest risks on an annual basis. This led to a more reactive, less strategic approach, and financial sustainability has been viewed through a short term lens rather than from a longer, ten or twenty year, perspective. The City has an estimated infrastructure deficit of \$5 million, based on annual estimated replacement costs of \$9 million and annual capital spending of \$4 million.

3.5.163 In addition, infrastructure renewal and replacement placed little reliance on the use of reserves and on debt financing, while close attention was paid to cost savings opportunities by combining capital projects and through the use of grant funding. With a more stable outlook, the City may now be in a position to consider a more balanced, long term financial approach to managing infrastructure renewal and replacement. This could be achieved through a combination of alternatives such as the use of reserves, taxation, grants and contributions, debt financing and changes to levels of services.

3.5.164 Since the three year review period, the City of Campbell River has taken recent significant steps to advance its asset management practices including the establishment of a Ten Year Financial Plan and an Asset Infrastructure Management Committee. With the ongoing support of Council and senior staff, these steps should move the City towards its goal of achieving long term financial sustainability through strengthened asset management.

CONCLUSIONS

3.5.165 Both of the capital projects we reviewed were aligned with Campbell River's corporate priorities and had Council support. Procurement processes were open, transparent and fair. Both projects were executed in accordance with the City's Capital Project Management Policy and payments were processed in accordance with the City's financial policies. As well, their status was regularly reported to senior management. Overall, both projects were completed on scope, schedule and budget.

3.5.166 Overall, the City's Purchasing Policy and conflict of interest provisions in its Employee Code of Conduct supported fair and transparent capital procurement. However, there are opportunities to update and strengthen these policies to fully address key procurement risks.

RECOMMENDATIONS

Recommendation 1

The City of Campbell River should continue to develop its asset management framework by establishing the following key components:

- Asset management policy and supporting strategy;
- Formal risk-based approach to priority setting and risk registers; and,
- Lifecycle costing as part of financial planning.

Recommendation 2

The City of Campbell River should continue to develop its asset management framework by strengthening the following key components:

- Asset information and condition assessment across core and critical infrastructure;
- Comprehensive asset management plans for all core and critical assets;
- Asset investment strategy; and,
- Opportunities for public input.

Recommendation 3

The City of Campbell River should continue to increase its asset management capacity and maturity level by ensuring:

- Greater uniformity and consistency in practice;
- Key staff responsible for asset management continues to receive training and guidance on sound asset management practices; and,
- Core competencies are identified and incorporated into job descriptions.

Recommendation 4

The City of Campbell River should finalize its balanced, long term financial planning approach involving a range of financing alternatives to address the risks related to its infrastructure deficit.

Recommendation 5

The City of Campbell River should:

- Review its purchasing policy and Employee Code of Conduct as well as establish a practice for regular review; and,
- Create a purchasing procedural manual and develop templates for procurement processes.

SUMMARY OF LOCAL GOVERNMENT'S COMMENTS



March 8, 2016

Mr. Gordon Ruth, FCPA, FCGA
Auditor General for Local Government
201 – 10470 152nd Street
Surrey, BC V3R 0Y3

Dear Mr. Ruth:

Re: Learnings From Local Government Capital Procurement Projects and Asset Management Program

Thank you for the opportunity to provide comments on your Proposed Final Audit Report. AGLG representatives attended the February 9, 2016 In-Camera Council Meeting and presented Council with their proposed Final Audit Report. City Council has further reviewed the materials and has provided our responses to your recommendations in the attached Action Plan.

We are pleased that the overall conclusion of the audit is that the City of Campbell River has demonstrated best practices in its capital procurement and has progressed towards strong stewardship over its capital asset management practices and that we protect the interest of taxpayers and ensure value for money in our activities. Our staff includes a talented pool of accounting and audit professionals who are dedicated to financial governance oversight and diligently work with staff across all City departments to ensure the highest standard of public accountability.

We appreciate the role of the AGLG and are pleased to have had the opportunity to participate in such a valuable exercise that validates the City's direction in asset management and capital procurement.

We wish you good fortune in your new role of Auditor General for Local Government.

Yours truly,

A handwritten signature in black ink, appearing to read "Deborah Sargent", with a large, stylized flourish at the end.

Deborah Sargent
City Manager

Attach: Appendix A

Administration Department

301 St. Ann's Road, Campbell River, B.C. V9W 4C7
Telephone: 250.286.5700; Fax: 250.286.5760

CITY OF CAMPBELL RIVER’S ACTION PLAN

AGLG RECOMMENDATION	MANAGEMENT RESPONSE AND NEXT STEPS	PERSON RESPONSIBLE	TIMEFRAME
RECOMMENDATION 1			
<p>The City of Campbell River should continue to develop its asset management framework by establishing the following key components:</p> <ul style="list-style-type: none"> • Asset management policy and supporting strategy; • Formal risk-based approach to priority setting and risk registers; and, • Lifecycle costing as part of financial planning. 	<p>The City of Campbell River is committed to further development of an asset infrastructure management (AIM) framework by <u>establishing</u> key components of our capital asset planning, many of which have already begun.</p> <p>A draft AIM Strategy has been developed and will be reviewed by Council in March 2016. Implementing the AIM Strategy will ensure a risk-based approach to capital asset investments is accomplished by:</p> <ul style="list-style-type: none"> • Developing an AIM Policy; • Using capital asset and risk assessment data to ensure science-based decisions drive investment of scarce resources; and • Life-cycle costing and a long-term financing plan (30+ years) will ensure financial resources are available when needed. This has already started with the development of a 10-year financial plan bylaw adopted in February 2016. 	City Manager	2021
RECOMMENDATION 2			
<p>The City of Campbell River should continue to develop its asset management framework by strengthening the following key components:</p> <ul style="list-style-type: none"> • Asset information and condition assessment across core and critical infrastructure; • Comprehensive asset management plans for all core and critical assets; • Asset investment strategy; and, • Opportunities for public input. 	<p>The City of Campbell River is committed to the development of an asset infrastructure management (AIM) framework by strengthening current components of our AIM planning, including:</p> <ul style="list-style-type: none"> • A consistent AIM electronic data platform that will consolidate capital asset data into a single integrated location. This is a commitment in our AIM Strategy; • Improving condition assessment data especially for crucial assets. This is a commitment in our AIM Strategy and the 2016 budget includes a project to update condition assessments for all facilities and buildings and another project to review all aging downtown capital assets; • A commitment to change our historical financing strategy based on continuing pressure on taxes and service levels and an acknowledgement of a substantial infrastructure deficit. To the end, we have developed a new approach to financial management; Financial Resilience and Stability Program. This program includes a 10-year budget that commits to incremental increases to capital asset investment (established in 2016), restructuring reserves to align with asset type and to ensure funds are invested in core or critical capital assets (established in 2015), ensuring a business case is developed for every capital asset investment decision and a detailed business case analysis and Council presentation for major asset decisions (commenced in 2015), adopting a debt management policy (currently being researched, for a 2016 adoption), and continuing to identify other sources of funding such as grants, donations, sponsorships and user fees; and 	City Manager	2021

CITY OF CAMPBELL RIVER’S ACTION PLAN

AGLG RECOMMENDATION	MANAGEMENT RESPONSE AND NEXT STEPS	PERSON RESPONSIBLE	TIMEFRAME
<p>RECOMMENDATION 2 (CONT'D)</p>	<ul style="list-style-type: none"> Increasing our public, business and government outreach regarding our AIM Strategy. This will include senior management presentations to community and business groups, Council lobbying of Provincial and Federal Governments to fairly and consistently assist in funding capital asset replacement, continue our Citizen Satisfaction Survey to measure public appetite for investment into public assets and to measure satisfaction in service levels and asset conditions, continue our service request tracking program, continue to target public requests for infrastructure feedback, continue public engagement in all infrastructure and planning processes, and continue to engage the Youth Action Committee and local First Nations. 		
<p>RECOMMENDATION 3</p> <p>The City of Campbell River should continue to increase its asset management capacity and maturity level by ensuring:</p> <ul style="list-style-type: none"> Greater uniformity and consistency in practice; Key staff responsible for asset management continues to receive training and guidance on sound asset management practices; and, Core competencies are identified and incorporated into job descriptions. 	<p>The City of Campbell River agrees we should continue to increase capacity, maturity and resources spent on asset infrastructure management (AIM) including:</p> <ul style="list-style-type: none"> Continuing the staff-lead AIM Committee to implement the AIM Strategy on an integrated, corporate with basis; Making a resource and training commitment in order to implement the AIM Strategy; and Building asset management core competences into our recruitment program, performance management program, training and development program and job descriptions. 	<p>City Manager</p>	<p>2021</p>
<p>RECOMMENDATION 4</p> <p>The City of Campbell River should finalize its balanced, long term financial planning approach involving a range of financing alternatives to address the risks related to its infrastructure deficit.</p>	<p>The City of Campbell River will continue its progress towards finalizing a balanced, long-term financial planning approach involving a range of financing alternatives by continuing our Financial Resiliency and Stability Program, including:</p> <ul style="list-style-type: none"> Continuing 10-year budgeting and potentially increase this to 15 years; Developing a long-term financing plan (30+years) as committed to in our AIM Strategy; Developing a Debt Management Policy in 2016 as committed to in our AIM Strategy; Continuing to apply for grants, consider corporate sponsorships, use community donations, and consider user fee models (pay for service); and Incrementally increasing dedicated community investment into capital assets. 	<p>City Manager</p>	<p>2021</p>

CITY OF CAMPBELL RIVER’S ACTION PLAN

AGLG RECOMMENDATION	MANAGEMENT RESPONSE AND NEXT STEPS	PERSON RESPONSIBLE	TIMEFRAME
<p>RECOMMENDATION 5</p> <p>The City of Campbell River should:</p> <ul style="list-style-type: none"> Review its purchasing policy and Employee Code of Conduct as well as establish a practice for regular review; and, Create a purchasing procedural manual and develop templates for procurement processes. 	<p>The City of Campbell River will:</p> <ul style="list-style-type: none"> Review our purchasing policy and Employee Code of Conduct as well as establish a practice for regular review; and with this much anticipated audit in hand the City will take the AGLG’s recommendations into consideration and update policies accordingly, and, Create a purchasing procedural manual, incorporating existing and new templates for procurement processes. 	<p>City Manager</p>	<p>2016</p>

ABOUT THE AUDIT

All the audit work in this report was conducted in accordance with Canadian Standards on Assurance Engagements.

Audit Objectives

3.5.167 The overall objective was to determine whether the City of Campbell River is exercising sound stewardship over its capital assets through strategic capital asset management practices and capital project procurement processes. In addition, we looked for examples of leading practices and tools other local governments could use to support their capital asset management and capital project procurement activities.

3.5.168 Our specific objectives were to assess the City of Campbell River's capital asset management and capital planning practice and to audit a sample of capital project procurement projects.

Audit Scope and Approach

3.5.169 The audit included a review of the City of Campbell River's performance in managing capital procurement and capital asset management. It focused on the City of Campbell River's capital procurement controls, processes and practices. We selected for review two capital projects that were underway during the 2010 - 2012 period: the Aeration Blower Replacement Project and the Sybil Andrews Park Development Project.

3.5.170 To assess the City's stewardship of its capital assets, we reviewed the City's approach to:

- How capital spending is targeted;
- The affordability, sustainability and funding of capital plans;
- Budget and cost management approaches;
- Alternative service delivery models;
- Contracting and procurement strategies;
- Risk management approaches;
- Risk of conflict of interest and other capital risk mitigation approaches; and,
- How accountability to citizens is ensured.

3.5.171 In carrying out the audit, we interviewed City staff and members of the City of Campbell River Council, as well as consultants and professionals familiar with the selected projects.

3.5.172 The documentation we reviewed included accounts payable, invoices, contracts, bid documents, Council minutes and previous reports by third parties requested by the City.

ABOUT THE AUDIT

Audit Criteria

3.5.173 Performance audit criteria define the standards we used to assess the City of Campbell River's performance. We expressed these criteria as reasonable expectations for the City's capital asset management and capital procurement processes and practices to achieve expected results and outcomes.

3.5.174 Below are the criteria we used to gauge the City of Campbell River's performance:

1. Assess the local government's asset management framework against leading practice; identify successful aspects of its development or practices that may be employed by other local governments.
 - a. The local government's asset management framework incorporates recognized leading asset management models and practices modified for local conditions.
 - b. The local government's asset management framework prioritizes assessment of asset condition and identification of related risk. Capital planning decision-makers are presented with full information including alternative sources of funding and/or use of reserves in a manner in which they can make effective use.
 - c. Reporting to the oversight bodies and the public includes short, medium and long-term asset management, procurement and funding needs as well as the results achieved through the asset management process and this reporting is timely, accurate, transparent and relevant.
 - d. The key decisions and steps in the local government's development and implementation of its asset management framework are documented.
 - e. Opportunities for improvement or enhancements to the asset management framework and/or practices employed are identified and implemented.
2. Conflict of interest and key asset management and capital procurement risks are identified and mitigated.
 - a. Well documented conflict of interest guidelines and requirements exist for elected officials and local government staff, including disclosure.
 - b. Well documented processes and procedures exist to ensure that key asset management and/or capital procurement risks are identified, managed and mitigated.
3. The local government's capital procurement model is well documented, transparent and linked to the individual capital project business case decisions.
 - a. Well documented capital procurement policies and procedures exist that are well understood by local government staff, publicly known and linked to capital project objectives.
 - b. Capital procurement decisions include a comprehensive procurement options analysis that covers the nature and breadth of alternative service delivery options and contracting strategies and the best value option selected is implemented.

ABOUT THE AUDIT

Period Covered by the Audit

3.5.175 The audit covered the years 2010, 2011 and 2012. Fieldwork was completed in 2013 and 2014. We finalized our audit work in January 2016.

Performance Audit Process

3.5.176 At the beginning of the performance audit process, we shared key audit-related documents with the City of Campbell River. These included a description of the audit background, focus, scope and criteria and an engagement protocol describing the audit process and requirements. At the audit reporting stage, we also obtained management confirmation that the findings included in this report are factually based. The audit process is summarized in Exhibit 16.

EXHIBIT 16: Performance Audit Process

AGLG initiates audit with notification letter and schedules opening meeting with local government to discuss process and proposed audit scope and criteria.

AGLG finalizes audit scope/criteria and advises local government, which acknowledges/accepts.

With cooperation of local government, AGLG gathers evidence by conducting enquiries, site visits and reviews, inspecting records, performing analysis and other activities.

AGLG shares preliminary findings with local government at fact clearing meeting or by providing draft proposed final report.

Local government confirms all fact statements, advising AGLG if any information is incorrect or incomplete, providing corrected information with documentary support.

AGLG may produce a draft proposed final report for local government review and comment.

Local government may suggest revisions to the draft report. This request must be supported by evidence. Local government comments must be provided within timeframes established by AGLG.

AGLG produces proposed final report and shares it with local government.

Local government has 45 days to provide comments. These should include response to recommendations.

AGLG adds summary of local government comments to proposed final report and submits it to Audit Council for their review.

Audit Council may provide comments.

After considering any Audit Council comments, AGLG finalizes report.

AGLG will provide the local government with the final performance audit report.

AGLG publishes the final performance audit report on AGLG.ca website.

APPENDIX 1 – SUPPLEMENTARY INFORMATION ON ASSET MANAGEMENT AND CAPITAL PLANNING AND PROCUREMENT

About Capital Asset Management

3.5.177 Capital asset management is important because local governments are responsible for making significant investments in major capital assets that affect the safety, well-being and quality of life of their residents. The way a local government manages these assets has a significant impact on its success in delivering value for tax dollars. In our consultations with local governments, we found that many identified capital asset management as a key challenge.

3.5.178 All local governments carry out capital asset management activities, which include planning, obtaining, caring for, replacing and disposing of these items as well as considering the costs and requirements of capital assets throughout their lifecycle. Together, these activities make up the local government's approach to capital asset management.

3.5.179 A strong approach to capital asset management will bring together the following in a systematic and integrated way:

- A commitment to asset management and leadership at the local government's highest level.
- A roadmap of policies, plans and strategies setting out short and long-term activities relating to the local government's assets, the estimated costs and timing of these activities and the risks if they are not carried out.
- A set of accessible and sufficiently up-to-date information on current capital assets, including replacement values, condition, performance levels, risks, needs and expected service levels.
- A business case template, which contains asset information and is used to support the process of identifying, prioritizing and selecting capital projects.

- A system to assess and determine the long-term financial sustainability of the local government's planned investments in capital assets. This includes investments needed to address any historical infrastructure deficit the local government may face.
- Clear and strong links between capital asset management activities and the capital planning that leads to investments in capital projects.

Our Expectations of Local Government Capital Asset Management

3.5.180 As with capital project procurement, when we assess capital asset management, we recognize that local governments have significantly varying experience, knowledge and resources to carry out this work. We would expect a local government to have in place a capital asset management approach scaled to its size and resources. Such an approach should include as a minimum:

- A well-defined roadmap for capital asset management, with clearly assigned roles and responsibilities to carry it out.
- Identification of the local government's capital assets and complete and up-to-date information on the age, condition and replacement cost of each.
- Identified and documented needs and priorities for capital asset maintenance, replacement and/or additions, based on assessments of risks and community needs.
- A five-year plan for capital expenditures based on these priorities and affordability, including strategies for financing each expenditure and the implications, if any, on the level of service being provided.

3.5.181 Once a local government is systematically carrying out these activities, we would also expect them to develop and track measures on the performance, efficiency and effectiveness of their capital asset management approach.

APPENDIX 1 – SUPPLEMENTARY INFORMATION ON ASSET MANAGEMENT AND CAPITAL PLANNING AND PROCUREMENT

About Capital Planning

3.5.182 Capital planning is the process of identifying current and future capital needs, and preparing approaches, strategies and projects to meet those needs. The process involves gathering information on the age and condition of assets, replacement costs, service level requirements, significant infrastructure issues, the appropriateness of budget and service delivery options and business case analysis. Ultimately, planning links service needs to capital project requirements.

3.5.183 Under the *Community Charter* and *Local Government Act*, local governments are required to prepare Five Year Financial Plans including the amount required for capital purposes. The rolling multi-year capital plan should be closely linked to local government operational plans and priorities. Generally, any capital requests should form part of that plan and should be a priority.

3.5.184 A key element of capital project planning is the preparation of a business case. The business case is the plan for the project and addresses the entire lifecycle of the asset, from the need through to ongoing operational costs. Business cases are key accountability mechanisms and should always accompany requests for capital funding. These should be scaled to the size and complexity of the project.

3.5.185 Business cases should address the service need, objectives, other alternatives (e.g. lease, renovate, defer, cancel), project risks, project management structure, schedule, monitoring and reporting, procurement strategy, performance measures and a budget which includes full lifecycle costs.

About Capital Procurement

3.5.186 Capital procurement is the process of acquiring, constructing or significantly improving capital assets using sources outside the local government. These assets may be infrastructure, land or other large and lasting physical items such as buildings, utility plants and major equipment such as fire trucks.

3.5.187 Capital procurement is important because it often involves some of the largest expenditures local governments make, generally through investments taxpayers pay for over many years. The resulting projects often have a long-term impact on the services local governments deliver and – in some cases – contribute significantly to the character of their communities.

3.5.188 Exhibit 17 lists a series of steps typically involved in the capital procurement process. This information is derived from the Government of British Columbia's Capital Asset Management Framework and the *Community Charter*. Individual local governments have various ways of organizing these activities, which ought to be conducted and documented to help ensure transparency, accountability and value for money in capital procurement. It is also important for local governments to consider the overall timing of these steps. A significant lapse in time may skew results.

APPENDIX 1 – SUPPLEMENTARY INFORMATION ON ASSET MANAGEMENT AND CAPITAL PLANNING AND PROCUREMENT

EXHIBIT 17:
Example of a Capital Planning and Procurement Process

STAGE	ACTIONS
Identify Need	Identify need for capital project as part of annual business planning.
Include in 5-year Capital Requirements	Include in 5-year capital requirements. Estimate cost to meet capital needs.
Feasibility Analysis	Carry out cost-benefit analysis. If necessary, do preliminary design.
Business Case	Define project scope. Estimate schedule and budget. Identify procurement approach. Prepare risk analysis. Define project management structure. Identify performance measures.
Project Approval	Council approval.
Solicitation	Undertake Invitation to Tender, Request for Quote, Request for Proposals or sole source as per policy.
Evaluation	Evaluation team declares any conflicts of interest, with final assessors being free of any real or perceived conflict of interest. Assess bids against bid requirements.
Award	Undertake vendor checks. Obtain legal advice. Arrange for performance bonding. Enter into contract.
Project Management	Administer contract. Monitor work. Report financial and non-financial information to Council. Where necessary, prepare change orders. Assess potential change orders re: budget impact.
Payments to Suppliers	Sign-off by a qualified receiver and an expense authority to ensure proper segregation of responsibility. Reconciliation of invoices to contracts or purchase orders. Ensuring adequate description of goods and services rendered.
Post Contract Evaluation	Assess actual results compared to planned results.
Reporting	Provide public disclosure of results achieved.

At all stages, complete and accurate documentation ought to be prepared and kept on file.

APPENDIX 1 – SUPPLEMENTARY INFORMATION ON ASSET MANAGEMENT AND CAPITAL PLANNING AND PROCUREMENT

Our Expectations of Local Government Capital Procurement

3.5.189 We recognize that local governments have varying levels of in-house capacity to undertake capital procurement. However, all local governments undertaking major expenditures have the ability and responsibility to ensure capital procurement is undertaken well and with due regard for economy, efficiency and effectiveness.

3.5.190 In undertaking capital projects, we would expect the local government to ensure the following is in place:

- Clear policies and procedures governing project selection and approval, the procurement process – including conflict of interest provisions and contracting – monitoring of work and payments.
- A requirement for the preparation of business cases for all proposed significant capital projects prior to committing to them.
- Council/Board approval of all significant capital projects prior to their start.
- To ensure best value, the use of competitive procurement processes for all significant capital expenditures, unless there is a reasonable and documented rationale for doing otherwise, as provided for in Council/Board policies or as expressly approved by the Council/Board.
- Appropriate delegation of responsibility for procurement to the local government's staff, balanced with adequate Council/Board oversight.
- Monitoring of the progress of capital projects, using meaningful performance measures.
- Involvement of finance department staff in ensuring compliance with policies and that payments are appropriate and properly supported.
- Regular reporting by staff to the Council/Board on capital procurement results and the progress of work.
- Maintenance of complete and accurate files on all capital projects and associated procurement.

EXHIBIT 18: Definitions of Key Terms

Stewardship means the responsible oversight and protection of something of value.

Value for money means whether or not an organization has obtained the maximum benefit, at the desired level of quality, from the goods and services it acquires, within the resources available to it. In the public sector, this term also reflects a concern for transparency and accountability in spending public funds.

Links Between Capital Asset Management and Capital Planning

3.5.191 Capital asset management is the process of administering capital items necessary for the delivery of services to the community through their full lifecycle.

3.5.192 In British Columbia, [Part 6 Division 1](#) of the *Community Charter* and [Part 24 Division 5](#) of the *Local Government Act* require a local government to approve each year, through by-law, a financial plan covering at least a five-year period. Among other things, the local government must set out the amount of funds required for capital purposes. Many local governments include a detailed capital plan as part of their financial plan each year. Such a plan depends on information that comes from capital asset management activities.

3.5.193 Together, capital planning and asset management activities determine what capital projects a local government will carry out. The local government then uses capital procurement to implement those projects.

3.5.194 The process of selecting projects for the capital plan requires information to assess the relative priorities of projects under consideration. Capital asset management activities

APPENDIX 1 – SUPPLEMENTARY INFORMATION ON ASSET MANAGEMENT AND CAPITAL PLANNING AND PROCUREMENT

provide the information needed to determine priorities and make choices. The local government then uses this asset management information to establish the procurement requirements of each project.

3.5.195 For a local government to practice effective stewardship of its capital assets, it must build clear and strong links between its capital asset management activities and the capital planning that leads to investments in capital projects.

AGLG CONTACT INFORMATION

The AGLG welcomes your feedback and comments. Contact us electronically using our website contact form on www.aglg.ca or email info@aglg.ca to share your questions or comments.

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LOCAL GOVERNMENT**

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