



Audit Topic 3 – Report 1, Part 2 (March, 2015)



LEARNINGS FROM
LOCAL GOVERNMENT
CAPITAL PROCUREMENT
PROJECTS AND
ASSET MANAGEMENT
PROGRAMS

City of Rossland (Part 2 of 2)

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

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GOVERNMENT CAPITAL
PROCUREMENT PROJECTS AND
ASSET MANAGEMENT PROGRAMS
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MESSAGE FROM THE AUDITOR GENERAL FOR LOCAL GOVERNMENT

My hope is that this report will help the City of Rossland develop and implement effective capital asset management practices consistent with the City's size and capacity.



3.1.1 I am pleased to present part two of our performance audit report on the topic Learnings from Local Government Capital Procurement Projects and Asset Management Programs. This report outlines our findings relating to the City of Rossland's capital asset management activities. It builds on the observations in our part one report, published in April 2014, relating to the City's performance in capital project procurement.

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

3.1.3 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.

3.1.4 We are releasing this report separately from our part one report, as we discovered serious issues relating to capital project procurement in Rossland during our audit work, requiring that we expedite the release of part one, which was published in April 2014.

3.1.5 This report outlines the activities the City of Rossland undertook during the audit period to manage its capital assets. We note positive steps as well as work that remains to be done for Rossland to manage its capital assets effectively. In our view, the City needs to build on the work it has already done to enhance its capital asset management activities by making them more systematic and strengthening its links between capital asset management and capital project planning and budgeting.

3.1.6 To help Rossland and all local governments assess and – where necessary – improve their capital asset management processes, we are also publishing an AGLG Perspectives Series booklet on this topic.

MESSAGE FROM THE AUDITOR GENERAL FOR LOCAL GOVERNMENT

3.1.7 I am pleased with the City of Rossland's response to the audit and our recommendations. It is encouraging to see the City strongly committed to improving in this important area that has such a major impact on the services a local government delivers to residents.

3.1.8 My hope is that this report will help the City of Rossland develop and implement effective capital asset management practices consistent with the City's size and capacity. I encourage the City to move forward with this work.

A handwritten signature in black ink, appearing to read 'Basia Ruta', with a large, stylized initial 'B'.

Basia Ruta, CPA, CA
Auditor General for Local Government

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EXECUTIVE SUMMARY

We undertook performance audits on capital procurement and asset management programs because they are key responsibilities of local governments.

3.1.9 Our audit found that the City of Rossland undertook good initiatives during the audit period to enhance its management of capital assets, but did not sustain this progress and did not integrate its capital asset management activities into a systematic overall approach linked to the City's capital project planning.

CAPITAL ASSET MANAGEMENT PRACTICES

Good steps with 2011 report and 2013 presentation

3.1.10 In 2011, the City contracted with a consulting firm to produce an Infrastructure Management and Improvement Plan. The consultant's report provided a detailed assessment of the condition of the City's capital assets and proposed a set of capital project priorities over five years and beyond.

3.1.11 In 2013, Rossland hired another consultant to provide the City with advice on drafting a capital asset management investment plan. This consultant proposed a four-step process to enhance the City's capital asset management.

Lack of a systematic approach to capital asset management

3.1.12 We would have expected the City to use the work of these consultants as a starting point to develop a systematic approach to capital asset management on an ongoing basis. We found that the City made limited progress in doing so during the audit period.

Need for enhanced asset information

3.1.13 While the 2011 consultant's report marked a major step forward for the City in assembling additional information on its capital assets, we found that Rossland needs strengthened asset information.

Organizational capability needs to be increased

3.1.14 We believe the City's ability to move forward and improve its capital asset management practices has been hampered by its lack of staff resources, particularly at the most senior level. While the City has used contracted resources to good effect at times, this weakness makes it difficult for the City to make sustained progress on capital asset management.

EXECUTIVE SUMMARY

We encourage the City to move forward with the development of a systematic approach to capital asset management.

LINKS BETWEEN CAPITAL ASSET MANAGEMENT AND CAPITAL PROJECT PLANNING

3.1.15 While we did not assess the accuracy of the 2011 consultant's report, we observed that it set out priorities based primarily on capital asset condition and was used as the City's 2011 capital plan. In 2012 and 2013, we found little evidence of the City undertaking formal capital asset management planning.

Lack of documented rationale for not carrying out priority projects

3.1.16 We did not find in the City's files any explanation as to why it did not implement all of the 2011 report's recommendations on work to be carried out in 2012 and 2013, including several projects identified in that report as "urgent."

Capital project decision-making needs to be more systematic

3.1.17 Overall, since the 2011 report, we found limited evidence of Rossland following a systematic approach to decision-making on capital projects. We believe that this limits the ability of the City to ensure that funds are being directed to areas of highest priority.

Insufficient consideration of financial sustainability

3.1.18 Another important issue in Rossland is the absence of a plan for financing investments in the City's capital assets over the long term. Such a plan would allow the City to ensure that future capital asset expenditures will be affordable.

CONCLUSION

3.1.19 We encourage the City to move forward with the development of a systematic approach to capital asset management to protect the vital services and capital assets of behalf of its residents.

EXECUTIVE SUMMARY

EXHIBIT 1:
Summary of Recommendations

ISSUES	RECOMMENDATIONS
<p>Systematic Approach to Asset Management</p>	<p>The City of Rossland should develop and implement a systematic approach to capital asset management.</p>
<p>Asset Information, Risk Assessment and Planning</p>	<p>The City of Rossland should improve its capital asset information, risk assessment and planning by:</p> <ul style="list-style-type: none"> • Completing the process of assembling information on its capital assets and update it on a periodic basis in the future. • Undertaking a thorough risk assessment of its capital assets and address them with an appropriate action plan. • Assessing its capital asset needs, including consideration of desired service levels.
<p>Capital Project Planning and Approvals</p>	<p>The City of Rossland should enhance its planning and approval process for capital projects by:</p> <ul style="list-style-type: none"> • Adopting a consistent and structured decision-making process for all capital projects, including objective prioritization of proposed projects. • Assessing the impact of each proposed capital project on the City's operating budget. • Building a capital asset management revenue plan model. • Developing a capital asset management investment plan to ensure that capital funding is fully in place prior to launching each capital project.

INTRODUCTION

This report covers our performance audit of the City's capital asset management practices and concludes our audit of the City of Rossland.

3.1.20 This report presents the results of part two of a performance audit of the City of Rossland, conducted by the Auditor General for Local Government of British Columbia (AGLG) under the authority of the *Auditor General for Local Government Act*. The audit is on the topic of *Learnings from Local Government Capital Procurement Projects and Asset Management Programs*.

3.1.21 Due to the seriousness of our initial findings in reviewing capital project procurement by the City, we elected to split this audit report into two parts and release **part one** at the earliest possible date. It was published April 30, 2014.

3.1.22 This report covers our performance audit of the City's capital asset management practices and concludes our audit of the City of Rossland.

About Capital Asset Management

3.1.23 Capital asset management is the process of administering capital items necessary for the delivery of services to the community through their full lifecycle, from initial planning through decommissioning at the end of the item's useful life. A capital item is a physical thing that has long-term value, like a building, vehicle, road, sidewalk or network of water or sewer pipes. Administration of these assets can include planning, obtaining, caring for, replacing and disposing of these items.

3.1.24 Capital asset management is important because local governments are responsible for major capital assets that are expensive and affect the safety, well-being and quality of life of their residents. The acquisition and maintenance of these assets represent large investments by taxpayers and the way a local government manages its capital assets has a significant impact on the local government's 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.

INTRODUCTION

3.1.25 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.

Our expectations

3.1.26 When we assess capital asset management practices, we recognize that local governments have significantly varying experience, knowledge and resources to carry out this work.

3.1.27 We would expect a local government to have in place capital asset management systems and practices scaled to its size and resources. Local governments should have the objective of having systems and practices that should include as a minimum:

- A well-defined approach to 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 the service levels required to meet community needs.
- A five-year plan for capital expenditures based on these priorities, including strategies for the sustainable financing of each expenditure and the implications, if any, on the level of service.

3.1.28 For a smaller local government, it is important to at least know what capital assets it owns, be aware of their condition and the risks associated with them and have a clear plan – including financing – for how to maintain, replace and add to them.

3.1.29 Our AGLG Perspectives report on local government capital asset management will provide additional information on this topic. We anticipate publishing this report later this year.

INTRODUCTION

Our overall objective was to determine whether the City is exercising sound stewardship over its capital assets

What We Examined

3.1.30 Our overall objective in undertaking this performance audit was to determine whether the City of Rossland is exercising sound stewardship over its capital assets through strategic capital asset management practices and capital project procurement processes.

3.1.31 We assessed Rossland's capital asset management practices and related capital planning between 2010 and 2012. In some cases, we extended the period of review into 2013 and 2014 in order to capture important activities occurring after the audit period. We completed our audit work on November 18, 2014.

3.1.32 For this audit, we initially selected two capital projects undertaken by the City: the Rossland Arena Complex Roof Replacement Project and the Columbia/Washington Infrastructure Improvement Project. After identifying deficiencies and concerns with the procurement of these two projects, we selected five additional smaller projects to gain a deeper understanding of the City's capital project planning and procurement practices. The selected projects are described in detail in part one of our report.

3.1.33 The findings in this report were drawn from our review of the City's policies, procedures and files, plus an assessment of what the City's management of the selected projects tells us about its capital asset management practices. We have provided details about the audit objective, scope, approach and criteria in the About the Audit section of our part one report.

CONTEXT

The majority of the City’s capital assets as of December 31, 2012 were infrastructure assets, including roads, drainage, sewer and water infrastructure.

3.1.34 Rossland is a city of 3,556 people (as of 2011, according to BC Stats), located in the southern interior of British Columbia.

3.1.35 The City of Rossland undertook a major capital project in 2011: the Columbia/Washington Infrastructure Improvement Project. As Exhibit 2 shows, this resulted in major capital expenditures in 2012 and new capital assets for the City. During the period covered by the audit, the net book value of the City’s capital assets, as reported in its audited financial statements, increased by approximately 13 per cent, moving from just over \$38 million in 2010 to well over \$42 million in 2012.

EXHIBIT 2:
City of Rossland Capital Assets
Snapshot, 2010-2012

	2010		2011		2012	
Annual capital expenditures	\$	2,995,744	\$	1,932,394	\$	5,360,656
Capital asset net book value	\$	38,037,249	\$	38,751,550	\$	42,842,367

Source: City of Rossland 2010-2012 Annual Reports

CONTEXT

3.1.36 As Exhibit 3 shows, the majority of the City's capital assets as of December 31, 2012 were infrastructure assets, including roads, drainage, sewer and water infrastructure. Together, these types of assets accounted for 64 per cent of the value of the City's total capital assets. The remaining capital assets were mostly land and buildings, which accounted for 33 per cent of total capital assets.

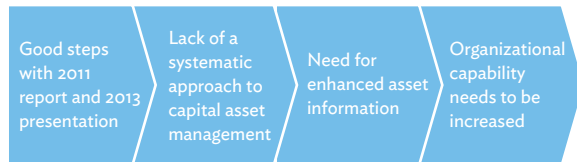
EXHIBIT 3:
City of Rossland Tangible
Capital Assets, December 31,
2012

TANGIBLE CAPITAL ASSETS	HISTORICAL COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	% OF NET BOOK VALUE
Land	\$ 8,858,549		\$ 8,858,549	21%
Land Improvement & Buildings	\$ 10,700,061	\$ 5,524,306	\$ 5,175,755	12%
Equipment / Furniture / Vehicles	\$ 2,420,512	\$ 1,879,827	\$ 540,685	1%
Roads / Drainage	\$ 18,565,778	\$ 9,189,396	\$ 9,376,382	22%
Water Infrastructure	\$ 18,305,622	\$ 5,588,172	\$ 12,717,450	30%
Sanitary Sewer Infrastructure	\$ 7,796,887	\$ 2,516,790	\$ 5,280,097	12%
Work In Progress Assets	\$ 408,727		\$ 408,727	1%
Leased Assets	\$ 1,425,038	\$ 940,316	\$ 484,722	1%
Total	\$ 68,481,174	\$ 25,638,807	\$ 42,842,367	100%

Source: City of Rossland 2012 Annual Reports

FINDINGS

Capital Asset Management Practices



Overall, we found that the City of Rossland undertook good initiatives during the audit period but did not sustain its progress.

3.1.37 Overall, we found that the City of Rossland undertook good initiatives during the audit period to enhance its management of capital assets. However, the City did not sustain this progress over succeeding years and did not integrate the various elements of its capital asset management activity into a systematic overall approach linked to capital project planning and decision-making.

Capital Asset Management Practices

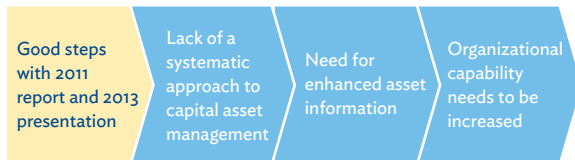
3.1.38 All local governments carry out capital asset management activities, which include, for example, tracking the condition of infrastructure such as a road and assessing the risks associated with the potential failure of a capital asset such as a sewer line.

3.1.39 Effective capital asset management requires a lifecycle approach to capital assets. This involves planning and considering the costs and requirements of capital assets from before their creation through to after their decommissioning. It also requires accurate and up-to-date information on desired service levels and the resulting capital asset needs, the condition of existing capital assets and the financial capacity of the local government to pay for their acquisition, operation and maintenance over the long term.

3.1.40 Such an approach allows a local government to make informed decisions on how to meet community needs and expectations affordably while ensuring tax dollars are well spent. These asset management activities must be undertaken in a systematic way in order to be fully effective.

FINDINGS

Capital Asset Management Practices



Good steps with 2011 report and 2013 presentation

3.1.41 In 2011, the City of Rossland contracted with a consulting firm to produce an Infrastructure Management and Improvement Plan for the City, including a Five Year Capital Works Plan. The consultant's report provided a detailed assessment of the condition of the City's buildings and facilities as well as roads, water lines and sewers. It focused on the estimated costs of work needed to maintain these assets. It also proposed a set of capital project priorities over five years and beyond.

3.1.42 In 2013, following the audit period, Rossland hired another consultant to provide the City with advice on drafting a capital asset management investment plan. The consultant informed us that he relied on the 2011 report and on data from the City's plans and GIS to develop an asset register which then informed the asset management investment plan.

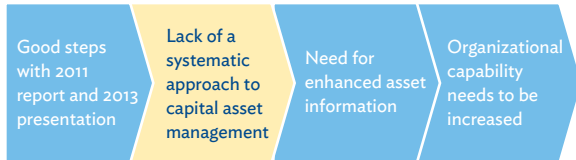
In 2011, the City received a detailed assessment of the condition of its buildings, facilities, water lines and sewers. In 2013, the City hired another consultant to provide advice on drafting a capital asset management investment plan.

3.1.43 The result of the second consultant's work was a presentation to Council on the City's long-term capital asset management planning and infrastructure deficit. The presentation laid out four key steps for the City to follow:

1. Building a detailed asset register/inventory for the City's linear and non-linear infrastructure.
2. Building an asset management investment plan model to provide information on which assets to invest in and when.
3. Building an asset management revenue plan model.
4. Developing an asset management investment plan that balances costs against revenues.

FINDINGS

Capital Asset Management Practices



Lack of a systematic approach to capital asset management

3.1.44 We would have expected the City to use the 2011 report and 2013 presentation as a starting point to develop a systematic approach to capital asset management on an ongoing basis. We found that the City made limited progress in doing so. Rossland partially implemented the first of the four steps outlined in the 2013 presentation and City staff told us that, subsequent to the audit period, it was in the process of verifying estimates of its long-term capital asset needs.

3.1.45 We found that the City’s monitoring of asset condition and identification of future capital asset needs relied heavily on staff knowledge, ad-hoc practices and various reports and data that were not brought together in any integrated way.

3.1.46 These weaknesses hindered the City’s ability to manage its capital assets effectively. In our view, the City was at risk of making capital asset-related decisions based on incomplete information and potentially making less than optimal use of tax dollars.

When we talk about a **systematic approach** to capital asset management, we mean a set of integrated activities whose processes are documented and implemented according to a pre-determined schedule.

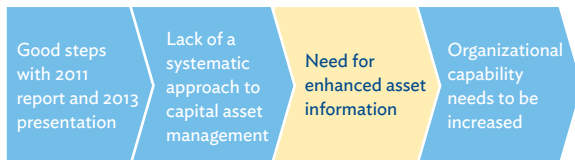
These activities may involve developing an inventory of capital assets, including their condition and replacement cost, assessment of the risks associated with them and a long-term plan to finance investments in capital assets. In addition, community priorities around service levels and financing plans may be factored into capital asset management decision making.

The size of the local government and the age and complexity of its capital assets will determine how frequently these activities should be carried out and the level of detail that should be recorded.

EXHIBIT 4: Systematic Capital Asset Management

FINDINGS

Capital Asset Management Practices



We observed that the City’s information on its capital assets varied by type of asset and lacked a formal process to identify, assess and treat risks associated with its capital assets.

Need for enhanced asset information

3.1.47 We observed that the City’s information on its capital assets varied by type of asset. For all capital assets, the City had financial information as required for its annual report.

3.1.48 For its water lines and sewers, Rossland maintained descriptive information in its Geographical Information System on attributes such as location, material and age. That system also included a smaller amount of information on Rossland’s roads. Testing the completeness and accuracy of this information was beyond the scope of this audit.

3.1.49 The City maintained less descriptive information on its other capital assets. Fleet assets were listed in a spreadsheet, which included only basic identification information. Other than the information recorded in the 2011 consultant’s report, the City did not document information on its buildings; the same was true of parks and other City-owned lands.

3.1.50 Rossland had even less information in its files on capital asset condition. We did find manual records of failures of sanitary sewer, storm sewer and drinking water pipes, but the

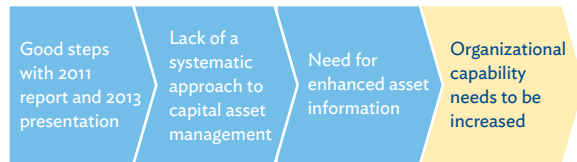
City lacked a system or process to track and efficiently retrieve this information. We found no evidence of operational performance tracking of other types of capital assets and no updates on the condition of any assets since the 2011 consultant’s report.

3.1.51 We also found that Rossland did not have a formal process in place to identify, assess and treat risks associated with its capital assets in order to manage risk exposure through proactive maintenance, increased monitoring or replacement strategies. While we understand that the City has taken some positive steps to address this issue since the period covered by the audit, we remain concerned that weaknesses in this area may expose the City to risks, including health and safety risk, inadequate lifecycle planning and a lack of prioritized maintenance spending.

3.1.52 While the 2011 Infrastructure Management and Improvement Plan marked a major step forward for the City in assembling information on its capital assets, particularly with its information on the condition of the City’s buildings, we found that Rossland still has work to do in tracking its capital assets. The City needs strengthened information to provide a foundation for ongoing capital asset management activities, to allow the City to forecast, and prioritize, its capital asset needs and to support its decision-making and reporting.

FINDINGS

Capital Asset Management Practices



The City's ability to move forward and improve its capital asset management practices has been hampered by its lack of staff resources, particularly at the most senior level.

Organizational capability needs to be increased

3.1.53 We believe the City's ability to move forward and improve its capital asset management practices has been hampered by its lack of staff resources, particularly at the most senior level. As we described in our part one report on Rossland, this was highlighted by the absence of a full-time chief administrative officer for more than a year prior to the publication of this report. While the City has used contracted resources to good effect at times, this weakness makes it difficult for the City to make sustained progress on capital asset management.

FINDINGS

Links Between Capital Asset Management and Capital Project Planning



Links Between Capital Asset Management and Capital Project Planning

3.1.54 For capital asset management activities to fully benefit a local government, capital project planning should be part of a systematic approach to capital asset management that aims to ensure tax dollars are used effectively to enhance the long-term well-being of the community.

3.1.55 While we did not assess the accuracy of the 2011 consultant’s report, we observed that it set out priorities based primarily on capital asset condition. It did not set out to consider service levels or potential future needs beyond the City’s existing capital assets, so this remained a gap in Rossland.

In 2012 and 2013, we found little evidence of the City undertaking any formal capital asset management planning.

3.1.56 In 2012 and 2013, we found little evidence of the City undertaking formal capital asset management planning. Instead, Rossland assessed capital asset needs informally and proceeded directly to undertaking individual projects rather than formally linking the City’s capital project planning to its capital asset management activities.

FINDINGS

Links Between Capital Asset Management and Capital Project Planning



Lack of documented rationale for not carrying out priority projects

3.1.57 We observed that Rossland used the five year capital works plan included in the 2011 consultant’s report as its 2011 capital plan. The City, however, did not implement all of the report’s recommendations on work to be carried out in 2012 and 2013.

3.1.58 For both of those years, the City’s Council-approved capital plans included some projects that did not appear in the consultant’s report and excluded others that had been listed in the report, including some identified as urgent. City staff told us that some of these recommendations were outdated by 2012 and 2013, so were not considered a priority in the City’s capital plans for those years. The City’s files, however, did not contain documentation showing the rationale for such an assessment.

3.1.59 For example, following the City’s 2010 Arena Roof Replacement Project, the 2011 consultant’s report recommended “urgent” capital work in the arena’s plumbing, electrical systems and sprinklers. This urgent work was not reflected in the City’s 2012, 2013 or 2014 capital plans and City staff told us that, while it had addressed the plumbing issues, the recommended urgent work was not done on the arena’s electrical systems or sprinklers. The City’s files did not explain why this was the case.

The City’s files did not include documentation of the rationale for not proceeding with recommended work included in the 2011 consultant’s report.

3.1.60 The 2011 report also recommended “urgent” capital work on the roof, façade and exterior painting of the Miner’s Hall, at an estimated cost of \$290,000. We found that this work was not included in the City’s 2012, 2013 or 2014 capital plans, though City staff told us they recommended that a larger upgrade of the Miner’s Hall should take place when funding becomes available in the future. Again, the City’s files did not include documentation of the rationale for not proceeding with the recommended work.

FINDINGS

Links Between Capital Asset Management and Capital Project Planning



Overall, since the 2011 consultant's report, we found limited evidence of Rossland following a systematic approach to decision-making on capital projects.

Capital project decision-making process needs improvement

3.1.61 Overall, since the 2011 consultant's report, we found limited evidence of Rossland following a systematic approach to decision-making on capital projects. We believe that this limits the ability of the City to ensure that funds are being directed to areas of highest priority.

3.1.62 In our view, the City's relative lack of capital asset information made it difficult for Council to make fully informed capital project decisions. To support good decision-making, the City needs information on capital asset condition and related risks, service levels and risks to service delivery. With the exception of some condition information and staff estimates, we found that the City lacked information to support decision-making.

3.1.63 City employees and councillors told us that, with the exception of the development of the City's 2011 capital plan, the selection of projects for the City's five year capital plans was performed by the chief administrative officer, sometimes in consultation with other staff,

and involved little documentation. We found no evidence that the City prepared a high-level business case for each project prior to its inclusion in the five year capital plan or a more detailed business plan prior to launching the project.

3.1.64 The approval of projects without a business case and clear rationale calls into question whether Council had the information it needed to make fully informed decisions. It also puts the community at risk in terms of effective use of tax dollars and value for money.

3.1.65 City staff informed us that, following the audit period, they took the initiative to improve Rossland's capital prioritization process by assessing the risk of each potential capital project. They told us that, starting in 2014, they also began to use high-level business cases for proposed capital projects. We did not audit these recent initiatives.

3.1.66 Both of the major projects we selected for this audit showed other deficiencies in capital project decision-making.

3.1.67 In the case of the Arena Complex Roof Replacement Project, when tenders for the roof replacement came in at significantly lower cost than had been anticipated, City staff did not ask Council to choose between spending less on this project – thereby reducing costs to taxpayers or freeing up funding for other projects – or expanding the scope of the project. Instead, staff acted without Council approval to spend funds on additional work components they selected without the involvement of Council.

FINDINGS

Links Between Capital Asset Management and Capital Project Planning



The City undertook major expenses without having project funding fully in place.

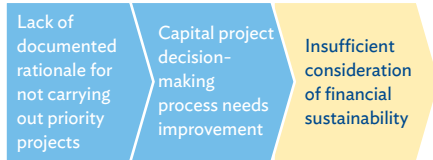
3.1.68 In the case of the Columbia-Washington Project, the City's initial plan was to fund the project through long-term debt and Ministry of Transportation and Fortis BC grants. The City did receive provincial funds totalling \$1.74 million for the project. However, the long-term borrowing did not proceed in a timely way due to a missed deadline for initiating the alternative approval process in 2012.

3.1.69 This resulted in the City undertaking major expenses without having project funding fully in place. As a result, the City brought its General Operating Fund into a negative balance of more than \$3 million in 2012 by using operating funds to cover part of its capital spending on the Columbia/Washington project.

3.1.70 In 2013, the City used the alternative approval process to obtain a \$4 million loan to replenish the operating funds it had spent in this manner. Given that approval of long-term borrowing is not assured until the alternative approval process is complete, this was a risky approach to funding such a major expense.

FINDINGS

Links Between Capital Asset Management and Capital Project Planning



Insufficient consideration of financial sustainability

3.1.71 Another important issue in Rossland was the absence of a long-term plan for financing investments in the City’s capital assets beyond the period of a five-year capital plan. Such a plan would allow the City to ensure that future capital asset expenditures will be affordable.

3.1.72 Financial sustainability involves more than considering the capital costs of a project, as expenditures on capital assets can lead to significant operating costs that also need consideration before a local government commits to particular capital projects.

There was an absence of a long-term plan for financing investments in the City’s capital assets beyond the period of a five-year capital plan.

CONCLUSION

At the conclusion of our audit, the City was at an early stage of developing a systematic approach to capital asset management.

3.1.73 Our review of the City of Rossland's capital asset management practices between 2010 and 2012 revealed that – while it took positive steps forward – the City was still at an early stage of developing a systematic approach to capital asset management. We are concerned that this process may have stalled and suffers from the absence of a permanent chief administrative officer on the job since October 2013.

3.1.74 Effective capital asset management requires a consistent commitment by the local government over time. It is not necessary to have extensive staff resources to undertake capital asset management; some of the work can be contracted to outside resources and the extent of the task can be scaled to match the size and complexity of the local government's capital assets.

3.1.75 In light of the serious issues in Rossland outlined in part one of this report on capital project procurement – and the significant cost of acquiring and maintaining capital assets – the ad hoc approach to capital asset management we observed during the audit period needs to be further strengthened on a priority basis. We encourage the City to move forward with the development of a systematic approach to capital asset management to protect the vital services and capital assets of its residents.

RECOMMENDATIONS

We provide three recommendations to assist Rossland in its efforts to enhance its long-term management of the City's capital assets.

Recommendation 1

The City of Rossland should develop and implement a systematic approach to capital asset management.

Recommendation 2

The City of Rossland should improve its capital asset information, risk assessment and planning by:

- Completing the process of assembling information on its capital assets and update it on a periodic basis in the future.
- Undertaking a thorough risk assessment of its capital assets and address them with an appropriate action plan.
- Assessing its capital asset needs, including consideration of desired service levels.

Recommendation 3

The City of Rossland should enhance its planning and approval process for capital projects by:

- Adopting a consistent and structured decision-making process for all capital projects, including objective prioritization of proposed projects.
- Assessing the impact of each proposed capital project on the City's operating budget.
- Building a capital asset management revenue plan model.
- Developing a capital asset management investment plan to ensure that capital funding is fully in place prior to launching each capital project.

SUMMARY OF LOCAL GOVERNMENT'S COMMENTS

Rossland's new Council has reviewed Part 2 of the AGLG's report. We appreciate the time and effort contributed by both the Auditor General's staff and of our own employees. We will make good use of the observations and suggestions included in the material.

Rossland council is undertaking a priority setting process to set the direction of our city over the next term. Much of the work in Part 1 and 2 of this report, will be incorporated. Many of the ideas expressed have been identified as critical and we are making significant progress towards their achievement.

This council has a strong focus on ensuring proper fiscal management and a firm commitment to providing good value for our taxpayers' money. Developing a systematic approach to asset and capital project management are key components. We have strengthened our financial department by hiring qualified staff, we are establishing tough measures to ensure our infrastructure needs will be met, and we will institute a process of continuous improvement throughout our organization. Council is optimistic that these changes will have a significant impact on the fiscal health of our organization. We intend to transform ourselves into a model of good fiscal and asset management for municipalities of our diminutive size.

This report has highlighted the need for adequate resources for all municipalities to both manage and invest in infrastructure. To do this properly, as outlined in this report, requires significant funds. The irony is that not only do small municipalities often lack qualified manpower resources, they also lack financial resources; we are a residential community of 3,500 people. Our taxes are already high. We have no industrial taxpayer to help and we rarely win the grant "beauty contest".

The report points out that Rossland failed to adhere to our infrastructure renewal plan. That is true but it is important to highlight that the cause was simple affordability. Without any grant assistance, Rossland had to undertake a \$6m project on our main street. It was a priority not only due to the age of the underground infrastructure but also because we could take advantage of the fact the Ministry of Transportation had scheduled to repave their highway through our downtown. It would have made no sense to do the scheduled projects, and dig up the freshly paved downtown later, when we could afford it. Had we received any grant assistance with the main street project, we would have continued to invest in our infrastructure renewal plan.

This situation highlights the conundrum faced by municipalities all across Canada. Our aging infrastructure is a huge burden that municipalities, with their limited resources, are not equipped to handle. Rossland can and will make significant changes to how we manage our resources and admittedly we have done so poorly in the past, but there are fundamental changes required, beyond our control that ultimately hinder any small municipality.

Once again, we thank the AGLG for the work done in Rossland and appreciate the opportunity to get significant help with these thorny problems. We hope that other municipalities will also benefit from the observations and suggestions made here.

Kathy Moore, Mayor
On behalf of the Rossland City Council
February 11, 2015

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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