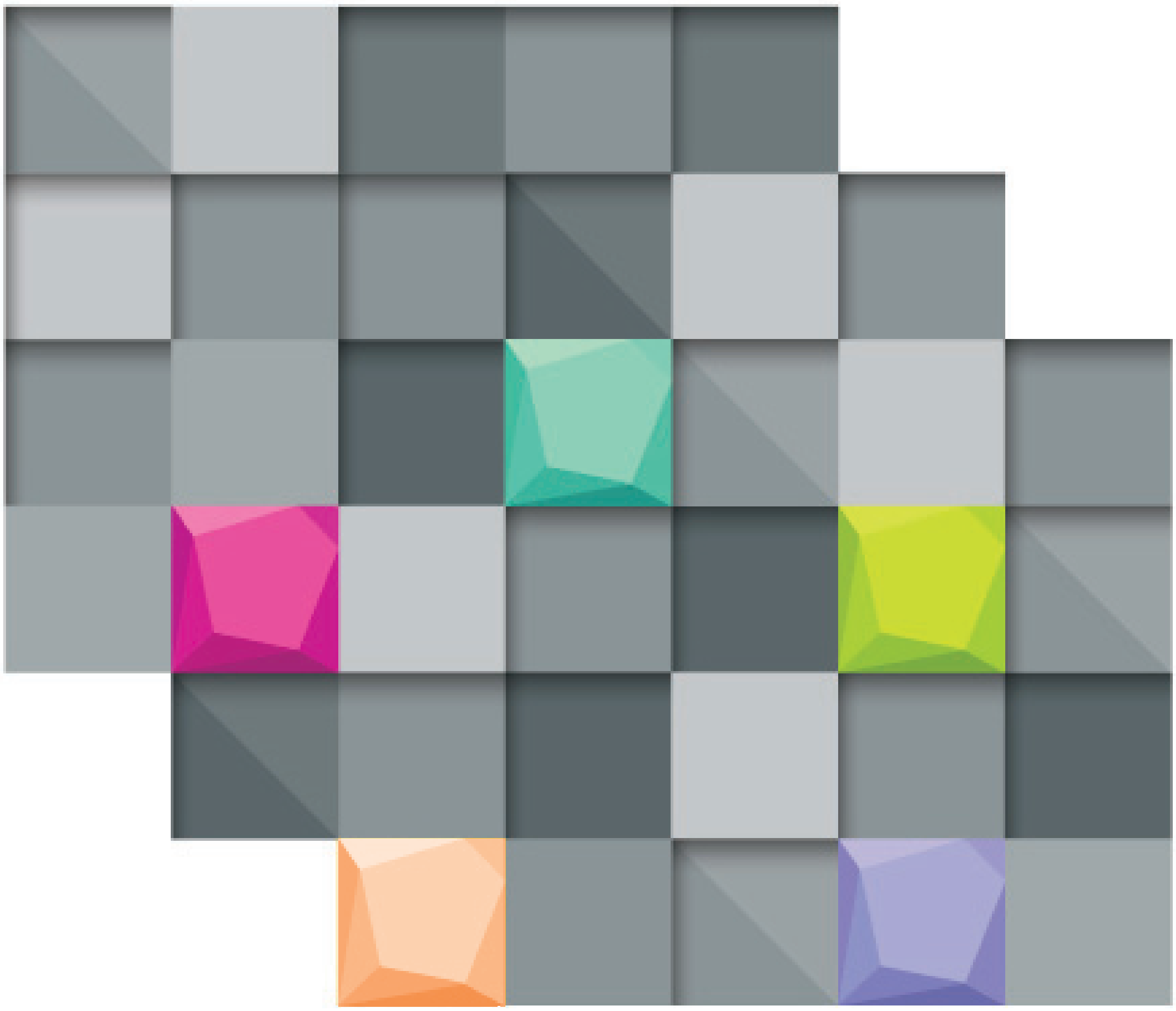
# Council Member's Toolkit

A practical guide to evaluating municipal asset management



## Questions for the council table

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12 February, 2015

# Innovative Asset Management

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# Tip Sheet #1

# Some useful questions for Council members...

## Part A: What are our service levels - and what should they be?

As a member of municipal Council, put municipal assets under the microscope and examine them through the three lenses...

### 1. What services and programs should we offer, and at what level?

A key role of Council is to decide what services and programs to offer. Assets are often needed to successfully fulfill those obligations. Look at it as a promise to provide specific services to your citizens at the most reasonable and affordable price. "Price," of course, can be in the form of taxes or fees.

Begin this exercise by asking a series of questions, such as these...

- Is there a legal requirement to provide this service/ program in our community? What is the minimum standard? Who sets the standard?
- If the service/program is voluntary, is there a need for the offering?
- Is the municipality better off providing them directly to the public, or would contracting for these services, or encouraging others to do it, work better?
- If the contracting is feasible, could some agency, private organization, or not-for-profit group provide that service/program to the public?
- How do you determine if the agency or private offering is affordable to your citizens?

Next, you need to turn your attention to what level of service delivery is appropriate. Your decision on the level of service (i.e., amount, availability, quality, etc.) will determine what resources your municipality needs to either to do it yourselves or to buy these services/programs from an outside party. Either way, there will be an impact on municipal assets.

Consider asking these questions as you work your way through this decision process:

- If there is a legal requirement to provide the service, is there a minimum service level set? By the Province? By Council? For example: minimum service levels for police are set by the Province; service levels for snowplowing are set by Council.
- What is a safe level of service-delivery? You want to keep your community safe, and to avoid liability damage claims.
- If Council is free to set the level of service, you need to take into account your target population. Is it the general population, or targeted (e.g., seniors or children; kilometres of roads; demographics; fiscal capacity of the municipality; citizen affordability; etc.)
- If you currently deliver the service and you contract out, what is the appropriate price for the service? For what term? Guarantees of performance (both operational and customer service)?
- What happens to the assets that are no longer required? Surplus? Re-purposed?
- What is the impact on your asset management plan?
- What's the right balance between the community's demands and the taxpayers' willingness to pay the costs?

### 2. With asset related decisions, how do we consider our "Return on Investment" or ROI?

- Since public funds are scarce and acceptance of tax and/or fee increases is low, most Council decisions have consequences. You will be judged by the public, based on your decisions.
- Consider a "Return-on-Investment" approach, when making asset related decisions:

- What do we get in return for this asset investment? Extend the life of the asset? Maintenance cost avoided? More reliable service delivery?
- If the asset investment is rate-based (like water and sewer), can we show a pricing model which recovers the cost of the investment?
- Will this serve more people?
- Will the asset meet the 'stress test' of mitigation, in the event of natural disasters?
- Is this investment to meet a mandatory or voluntary need?

## 3. Can we lever our existing assets to get generate more "dividends" or make them more productive?

Throughout the 20th century, municipalities had generally not considered their assets as having value. Now, the standards have changed and they need to be reported on their financial statements just like any other enterprise. This has awakened municipal councils to the notion that perhaps we can "squeeze" value from these public assets so that the untapped value can be used to support other investment priorities.

Likewise, there may be other "intangible" assets which may also offer the promise to 'unlock' some financial benefits or improve operational performance. Additionally, some municipal assets may be 'dormant' or surplus, such as land or buildings, which could become revenue generators, either through sales, leases, or joint ventures with other partners.

When you consider investments in assets to support service delivery, ask yourself these questions:

- Do we have any surplus assets we could sell or lease? Could we find a joint venture partner to unlock their value?
- Do we have any underperforming assets that represent an opportunity for profit or gain, or reduced cost, if used differently or by some other party?
- Are these surplus/underperforming assets costing us any money simply to maintain them?
- Are they at risk of being damaged or destroyed through natural or human-made disaster?
- Is there a market for these assets?

# Tip Sheet #1

# Some useful questions for Council members...

## Part B: What are our financial assets and are they appropriate?

Asset management is about more than money, but both financial assets and the financial aspects of assets are very important. Council has a 'fiduciary responsibility' for the custodianship of taxpayers' money, including money invested in assets. In particular, consider how we build up, protect and deploy our financial assets.

When evaluating the management of financial assets, consider these questions, the answers to which often have conventionally accepted 'rules of thumb':

- Do we have any short-term borrowings? If yes, what is the average monthly level?
- What is the level of tax arrears as a percentage of the current year tax levy?
- Do we typically have an operating surplus or deficit? What's our policy regarding use of operating surpluses?
- Are 'surpluses' good business, or imprecise budgeting?
- Do we have Reserves and Reserve Funds? How many and what policies govern their use?
- Do we issue debentures to fund capital projects, or do we have a pay-as-you-go-capital funding program?
- Do we differentiate how we fund capital projects, depending on what type of project is approved? e.g., tax–based projects (i.e. recreational facilities) vs. rate-based projects (i.e. water and sewer)
- Do we have a charge-back policy for those projects benefitting only certain users?
- Do we use "one-time" revenues only to fund capital projects?

Beyond prudent financial management, there are also policy questions you should consider, in order to ensure you hold staff accountable for discharging their fiduciary duties. Which assets require attention and which assets should be abandoned, sold off, handed-off to others to maintain, or simply left to be addressed on an as-needed basis?

You may wish to answer questions like these:

- How do we 'leverage' the best value from our investment in assets? Do we adhere to 'state of good repair' standards? What do we do to extend useful life, reduce future costs, and meet new regulatory standards? etc.
- Will the investment ensure municipal 'business continuity' in the event of a natural or non-natural disaster? Are we making provision for expanded obligations, like disability access?
- Do we treat asset management plans like we treat insurance needs? Assess the risks and make decisions based on balancing good professional advice and an assessment of community expectations.
- Do we look for ways to optimize available grants or partnerships to make best use of taxpayers' money?
- Are we assured that the funding of projects is in keeping with the accounting rules?

Councillors also need to recognize that asset decisions they make today will likely endure far past their elected mandate. Making the 'right' decisions for today needs include keeping an eye on the downstream impacts, both in terms of wise asset investment and future affordability.

- Are we making decisions that "smooth out" the peaks and valleys of asset management decisions, so that they provide a more stable tax outcome for taxpayers?

# Tip Sheet #2

## Some useful questions for Council members...

### Communicating the benefits of asset management to the public

For many citizens, a discussion on asset management will be a bit boring. What is more likely to be engaging, is a discussion on what programs and services are up for debate, what is the cost of each and at what service level they are to be delivered.

Fortunately, as a municipal Council member, you deal with the public all the time. You're in a good position to understand the way the public views issues in the community. That will help you and municipal staff find creative ways to engage the public on this important but not particularly captivating topic.

Here are five suggested approaches:

1. Can you highlight the public's awareness of infrastructure, in a way that would lend support to keeping it in **good repair**?
2. Can you illustrate the **cost of inaction**?
3. Can you raise the **profile of safety** in the maintenance of infrastructure, as a rationale for preventative investment?
4. In the Internet age, many more municipalities survey their residents, using social media and "apps" developed by other local residents or other municipalities, to gain insight into the public's **priorities**.
5. Can you **celebrate your successes**? The community likes to know that its affairs are being well, prudently and creatively managed.

Once decisions have been made on what services and programs are to be offered, attention can turn to what "tools" are needed to get the job done. Usually, this involves deploying municipal assets and other resources.

The following are suggested tips for members of Council, on how best to get answers that will help to explain the cost/ benefit of good asset management practices:

- How well have we explained our portfolio of assets, their current condition and future needs, and their role in service delivery?
- Do we know the public tolerance for service disruptions?
- Have we listened to the public, primary users and providers? Have we listened to citizens' experiences, preferences and priorities?
- Have we used all forms of social media to engage the public? 'Electronic' communication allows citizens' input on their terms and on their time (e.g., phone "apps" to allow direct feedback on road conditions, etc.)
- Have we used webinars, Town Halls, "open houses," blogs and broadcast e-mails to reach our citizens?
- Have Councillors balanced the short-term needs against long-term sustainability?
- What is affordable? What methods are we using to set priorities?
- Where possible, Councillors should use everyday "household or business language" to explain asset management issues to citizens.
- Use of "third party" supporters to assist in good asset management practices, such as opinion leaders, community leaders, etc., who have credibility with the community and the media.

Consult web sites of municipalities who have been successful, like the City of Cambridge's award-winning cost-reducing asset management program.

# Tip Sheet #3

## Some useful questions for Council members...

### Maximizing the use of available tools to implement asset management plans

What are the best tools to manage and improve the performance of specific classes of assets? Truth is, there are as many variable tools available as there are types of assets. In some cases, assets "stand-alone," like buildings or equipment. In other cases, it is important to take an overall view of related classes of assets such as roads, water mains, sanitary sewers, storm sewers, streets, sidewalks, etc. that often share the same right-of-way but may have differing life cycles.

You should pose questions like these, when deciding if the right tools are being employed in asset management planning:

- What's the timetable for improvements to your other, related capital assets, if located in the same right-of way?
- Have we requested asset improvement timetables from other external agencies/companies whose assets may occupy the same right-of-way, i.e. hydro, gas, telephone, etc
- What funds are available to carry out the work?
- Which performance indicators are we using to measure implementation outcomes? What reporting cycle Council can expect?

Many assets have revenue generating potential, even if they are not currently generating any revenue. This will lead you to consider "user pay" concepts, taking into account the financial impacts on citizens, whether units of consumable services can be measured (e.g., water, recreation programs, etc.).

A "user pay" philosophy often brings some aspect of market discipline to consumable, measurable services and programs, influencing volume, level and variety of services offered. It also allows Council to select those services/programs well suited to user-pay, to be priced accordingly. As a result, it allows citizens to be in control of the degree to which service offerings will be consumed and its associated cost. While it doesn't usually make sense to run government like a business, it can make much greater sense to run government in a business-like fashion.

You may want to ask questions like these:

- Which services/programs lend themselves to user-pay?
- Should we treat rate-related assets differently from tax-based assets?
- Can we partner with others (other municipalities, agencies, private companies, voluntary sector) in providing assets to support service delivery?
- Can we optimize the value of our real estate assets through an INVEST type strategy?
- Can we leverage economic development opportunities by changing our traditional approach to asset investment?
- Do we have a plan to maximize the value of our real estate assets, with a clear business plan that allows for proper funding to develop our business strategy?
- Have we assessed the risks and rewards associated with making the best use of our real estate assets?

# Tip Sheet #4

# Some useful questions for Council members...

## Enhancing asset management planning

Can we simply go beyond simply maintaining and refurbishing our assets, to expand their productivity or leverage their value?

### What is "value engineering"?

Can we subject our assets to a process of value engineering? The Society of American Value Engineers International (SAVE International) defines value engineering as a "function-oriented, systematic, team approach to provide value in a product, system, or service." The definition further explains that while the process is often "focused on cost reduction, other improvements such as customer-perceived quality and performance are also paramount in the value equation."

In other words, it can be described as getting best value for money, and will the infrastructure stand the test of time?

### Risk-based approach to asset management:

Many private and public entities do risk-based analysis in making asset management decisions. Natural and non-natural disasters whether from massive power outages, severe flooding or railway events are now regular TV images. Many of these unfortunate incidents are made worse due to weak design, failure to update data to take into account things like climate change i.e. 100 year flood standard, and/or operational failure of key infrastructure. Unwelcomed events will inevitably occur in municipalities. Your municipality's ability to limit potential damage and to return the community and employers to their feet in short order, is a key, often neglected element of asset management planning. One must build in resilience, mitigation and business-recovery, when planning your infrastructure.

Just as we can reduce the risks of system failures by advance thinking of "resilience by design" we can do the same to meet contemporary accessibility needs and obligations. As you plan to refurbish and rebuild infrastructure, you can accommodate the various needs of physically challenged citizens up-front, and at a much lower cost than with retrofits.

Energy conservation and environmental performance also need to be considered as you plan your infrastructure new build or renewal.

- What investment is required and what is the payback? What return can be expected from those investments? Are you seeking LEED standards and ongoing energy efficiency in municipal building design and refurbishment?
- How well do our asset management investments align with our various land-use planning policies?
- Do our plans make reference to required infrastructure costs, related municipal service costs and net revenues from development-related fees and charges (i.e., new assessment, development charges and user fees)?
- Do you have a "growth must pay for itself" policy?
- How well do the plans support cost-effectiveness and density to support public transit programs and service delivery?

Look at the benefits today as well as down the road, so that you are making sustainable decisions.

Examine asset plan decisions from a full-life cycle costing perspective, rather than from a one-time cost point of view.

You may want to ask these questions:

- Have we used "value engineering" techniques to ensure we are not overspending, or looking at other options arising from re-design?
- Have we looked at a variety of design solutions to ensure we minimize ongoing maintenance spending?
- Ask if our asset plans incorporate business continuity, in the event of possible natural or non-natural disasters.

- Are we building in “reliance by design” to mitigate against the potential of infrastructure failures?
- Have you “stress tested” your asset designs to ensure they perform as anticipated?
- If there is a failure, do we have a plan to get back to business quickly? What is our business continuity plan? Recovery plan? Do we have a back-up plan?
- Are accessibility plans, energy conservation measures, etc. built into our asset plans?
- How is the asset management plan itself being financed?
- Does the asset plan look at full life-cycle costing, versus one-time cost?

# Tip Sheet #5

# Some useful questions for Council members...

## Asset Management Policy "Best Practices"

### What do I need, as a Council member, to prepare for an asset management discussion?

First, you must decide what overall policy should guide staff in approaching the subject of asset management.

Second, you must have a good sense of the ways in which you can evaluate progress over time and ensure accountability for performance.

### "Recycling" municipal assets: An idea whose time has come?

The public is not demanding higher taxes and fees, even if it's for much needed community infrastructure or to protect their past investments. But the infrastructure needs don't go away. So are there alternatives that balance these conflicting views?

If we look at what others have done, we may see some options we may not have considered in the past. Do we currently have assets that are surplus to our needs, or that are underperforming, so that we can extract the pent-up value from those public assets?

Can the value of surplus/underperforming assets be 'unlocked' to free up needed money to support new or renewed infrastructure needs, without asking the public for a lot of 'new' money? For example, such assets could be in the form of unused or underused land, buildings, etc. Can you sell, lease or franchise these assets to realize financial gains, which can then be reinvested in new or renewed assets?

This "recycling" of assets approach is akin to selling your used car to buy a new one, rather than selling the furniture to buy groceries. Public pension funds, like OMERS and the Canada Pension Plan, are interested in investments in public assets, such as electricity generation and distribution, if they can be 'packaged' at a reasonable scale.

### Performance Monitoring and Benchmarking Asset Management Plans:

Another policy decision that faces Council is how do you monitor the performance of your asset management plan? Well, you may want to look at what our municipal colleagues have done to measure the effectiveness of implementation and ongoing performance. A review of the Municipal Finance Officers Association (MFOA) website is an excellent place to examine the performance of other municipalities and how you compare.

Ask if your municipality is following "best practices":

- Do we have an inventory of surplus or decommissioned assets?
- Do we know which of our assets are underperforming?
- Have we considered recycling our surplus or underperforming assets?
- Have we looked at alternatives to assist in the financing of new or renewed infrastructure?
- What value to we believe we could unlock from these surplus assets?
- Do we have a policy to allocate the proceeds of asset disposition to meet the infrastructure and asset preservation needs of our municipality?
- Do we participate with other similar municipalities in surveys, benchmarking, and exchanging best-practices, on the state of municipal assets?
- Do we have ways to report to Council on a regular basis on key considerations related to asset management (level of deferred maintenance, preventative maintenance scheduling, etc.)

## Production Credit:

Produced by Fenn Advisory Services In. (with the collaboration of John Burke, Donald May and Michael Fenn). We wish to acknowledge the helpful contributions of the staff of the Association of Municipalities of Ontario and the Ministry of Municipal Affaris and Housing, as well as the Reference Group of Reviewers: Mayor Dave Marr (Central Elgin), Dan Cowin (MFOA), Alain Gonthier (City of Ottawa) and Bill Hughes (York Region). The responsibility for the content rests with Fenn Advisory Services Inc. and may not represent the views of AMO, MMAH or the Reviewers.

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