
Subject: Asset Management Governance Model

Report to: Corporate Services Committee

Report date: Wednesday, January 9, 2019

Recommendation

That the creation of a Corporate Asset Management Office at a cost of \$0.85 million including the addition of seven full time equivalents **BE REFERRED** for consideration as part of the 2019 budget process.

Key Facts

- The purpose of this report is to inform Council of the proposed Asset Management (AM) Governance Model that will lead the Region's capital asset portfolio with a replacement value in excess of \$7.4 billion.
- In 2017, the Ontario government released a new regulation under the Infrastructure for Jobs and Prosperity Act, 2015 – Ontario Regulation 588/17, Asset Management Planning for Municipal Infrastructure (O. Reg. 588/17) which outlines deadlines for achieving strategic AM practices (Appendix 1).
- In addition to the above regulation, Federal and Provincial governments require updated comprehensive AM plans for Federal Gas Tax funding, future application based funding and Development Charges.
- Conservatively, the creation of a CAM office at an annual cost of \$0.85 million and operating for a 10 year period, based on an industry scan and standards is estimated to have a 4 year payback period.
- Through consultation with local area municipalities, it is expected that they can leverage process, policy and strategy development, networking and technology from the Region's work on AM to further advance their own AM maturity levels.

Financial Considerations

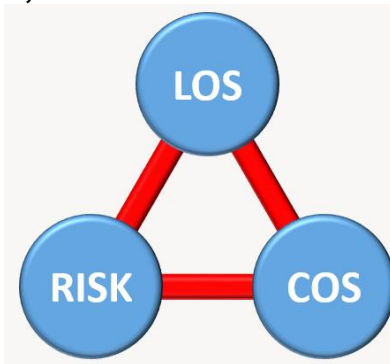
As summarized in Table 1 below, the Council approved 2016 Asset Management Plan (AMP) identified for the Region an annual infrastructure funding gap of \$73.3 million for the first 10 years. The remaining 40 years of the plan have a projected annual funding gap of \$34.1 million.

Table 1: Avg. annual renewal investment (AARI) required compared to avg. annual capital budget

(in \$M)	Current	TCA	10-Year	10-Year	10-Year
Asset Portfolio	Replacement	Historical	Capital	AARI	Budget
	Value	Value	Budget		vs AARI
Transportation	\$1,787	\$845	\$58	\$57	\$1
Water & Wastewater	\$4,402	\$1,088	\$58	\$135	-\$77
Waste Management	\$331	\$77	\$3	\$3	\$0
Public Health	\$37	\$24	\$4	\$3	\$1
Social & Community Services	\$231	\$104	\$12	\$12	\$0
Niagara Regional Housing	\$416	\$176	\$5	\$3	\$2
Information Technology	\$27	\$33	\$4	\$4	\$0
Facilities	\$134	\$37	\$3	\$3	\$0
Police	\$33	\$70	\$6	\$6	\$0
Total	\$7,398	\$2,454	\$153	\$226	-\$73

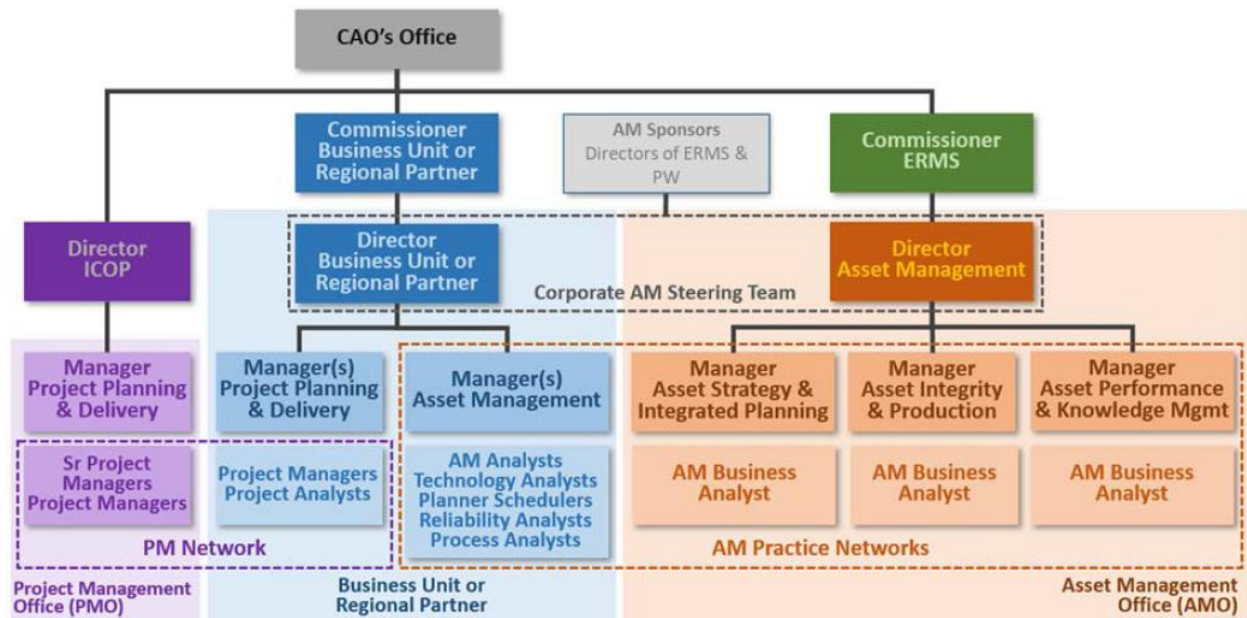
The CAM office will promote the use of consistent AM policies and practices across the Region's departments, boards and commissions, and ensure capital decisions are based on effective management of infrastructure risks, and balance the lowest cost of service (COS) while providing the desired levels of service (LOS), as per Image 1.

Image 1: Relationship of LOS, COS and Risk



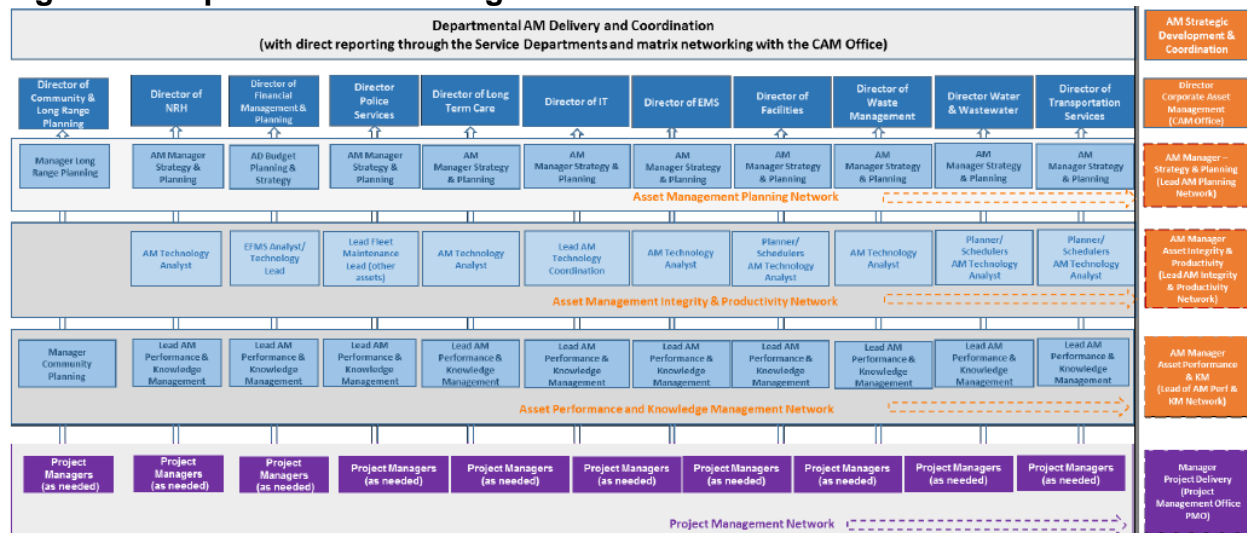
In order to fully implement the proposed CAM office structure, the Region will require an additional seven full time equivalent (FTE) employees (shown in orange in Figure 1). These employees would be required to start-up the AM governance structure, develop and implement policies and practices, and ensure there is adequate training, knowledge transfer and support for the departmental AM leads. This will help ensure that the Region is doing the right work, on the right assets, at the right time, for the right costs and the right reasons.

Figure 1: Proposed Asset Management Governance Model



The CAM Office will lead the Region's cross departmental AM Networks that support the different focuses of AM (see Figure 2), including the integration of AM across the organization and building the inter-departmental relationships required to move the overall AM maturity of the organization forward. The recommended staff compliment of 7 for the CAM office will support the over \$7.4 billion of Region owned assets.

Figure 2: Proposed Asset Management Networks



The fully staffed CAM office is estimated to have an annual cost of \$0.85 million to implement in 2019, including all payroll-related costs, training, professional fees and general office related expenditures. The CAM office is proposed to be funded in 2019 within guidance, subject to 2019 budget approval. The Director of the CAM office fulfills the O. Reg. 588/17 requirement of an executive lead to be responsible for AM planning.

The implementation of a CAM office is expected to result in savings related to capital asset budgeting, on-going maintenance costs and utilities savings that based on industry standards, as well as a scan of other municipalities engaged in AM practices, conservative estimates suggest these savings to be 3%, 25%, and 5%, respectively. These savings will be a result of the Region being able to make corporate wide risk and condition based prioritization decisions to ensure that the projects that are approved deliver the best return for the Region. It will implement processes and procedures across the Region that will better identify other lifecycle activities that may be undertaken and the ideal timing for them to sustain the level of service (LOS) of the asset and prolong the useful life at the most effective cost for the Region. The CAM office will also help the Region better coordinate efforts across divisions and with local municipalities to ensure interconnected projects are completed concurrently, therefore reducing scenarios where assets are replaced before the end of their useful life.

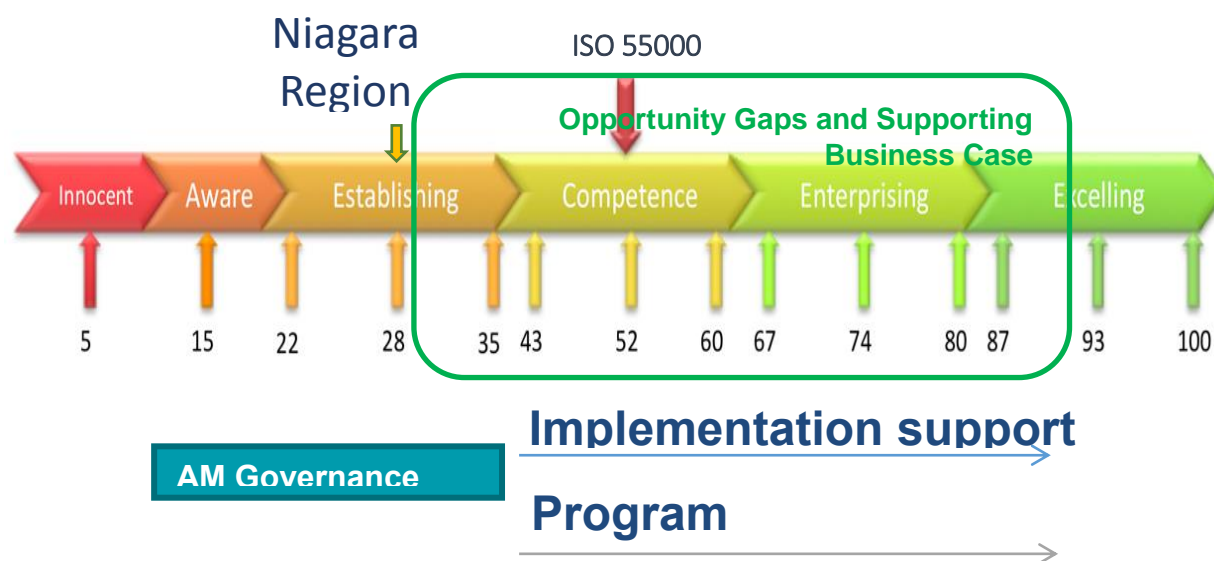
An approved AM Plan is also a requirement of:

1. Federal Gas Tax, averaging approximately \$14.2 million annually
2. Ontario Development Charges Act. Development Charges are projected to be \$50.0 million annually (per the 2017 Development Charge Background Study), and
3. Future Federal and Provincial application based funding.

Analysis

The Region currently performs base requirements of AM as is evidenced by the maintenance and rehabilitation of the existing assets used in service delivery. However, as determined through the first phase on the AM program, the overall maturity of the Region was determined to be in the stage of Establishing, as seen in figure 1.

Figure 1: AM Maturity



The Region has embarked on a multi-year phased AM Program to develop and implement leading AM principles and practices. O. Reg. 588/17, which was released in December 2016 and came into effect on January 1, 2017, requires the following be accomplished by the Region:

- July 2019: Strategic AM Policy approved and published
- July 2021: Core infrastructure AMP and current LOS
- July 2023: Comprehensive AMP and current LOS
- July 2024: Alignment of the Comprehensive AMP to the proposed LOS and financing strategy to achieve the proposed LOS
- Continuous updates to these every 5-years.

AM is considered to be a fundamental element in an asset-intensive organization's operations, as the efficient allocation and management of resources are crucial to maximize performance and fulfil strategic goals. The creation of a CAM office will position the Region to make AM practices a part of business as usual. The resulting capital program will be aligned with the AM Plan and will support the most effective use of Regional resources, and achieve the AM goals of doing the right work, on the right assets, at the right time, for the right cost and the right reasons

The first phase of the AM Program, which was completed in 2017, involved the development of:

- An AM Roadmap to guide the AM Program through the various phases of development.
- An AM Strategy that measured the Region's asset management system against a standard of best practice and outlined actions to achieve efficiency and effectiveness in service delivery across the Region.
- An update of the Region's AM Plan to 2016.
- An information technology review.

The second phase of the AM Program addresses governance models that underpin effective processes in managing assets, shifting the focus to concentrating on accountability for assets, asset life-cycle reporting requirements and communication between AM policy makers, asset managers and asset users in order to comply with regulations and to support good decision making. The outcomes of this phase include:

- Business case for the CAM office (Appendix 2)
- Proposing an AM Governance model that empowers staff (Appendix 3).
- Identifying the impacts on the organization of implementing an AM Governance structure by considering work tasks, people, structure and culture (Appendix 4).
- Developing a framework for change management, communications and training plans to support the implementation (Appendix 5)

As a result of the second phase analysis, the model that is being recommended is provided in Figure 1 and includes:

- The creation of a Corporate Asset Management (CAM) office (see Figure 1 orange areas).
- The establishment of a cross-divisional Corporate AM Steering Team The AM Steering Team would help guide AM decision and support the consistent implementation of AM practices throughout the Region that would report through the Corporate Leadership Team (CLT).
- Identification of current departmental staff that are performing AM tasks and formalize the AM component of their roles (see Figure 1 blue areas).
- The alignment of the Project Management Office (PMO) with the departmental staff who will be executing the projects identified through the AMP.

It is expected that the full implementation of the AM Governance initiative will occur over a one to two year period (including role integration) however we need to ensure that a sustainable source of funding is in place. This includes building the resources, training, capability, collaboration and guidance required to execute AM work efficiently and effectively at both the CAM office and departmental levels. In the interim, any surplus cash flow may be used to accelerate onboarding through the use of consultants.

In addition to the new roles and structures discussed above, the creation of AM Networks to support AM delivery, coordination and continuous improvements across departments is also being recommended. These networks will be cross-divisional

communities of practice that will meet frequently during the establishment of the Region's AM practices (i.e. monthly), then less frequently once the practices are fully implemented and are maturing (i.e. quarterly). Through these networks staff will share information, knowledge and best practices to help synchronize all divisions' AM maturation.

The Region has consulted with the local area municipalities (LAMs) including the CAO's, treasurers and public works officials, on the proposed AM Governance structure for the Region, and solicited feedback on how the Region's efforts could be further leveraged by the LAMs. The following opportunities were brought forward:

- Establish a central repository to promote the sharing of materials such as templates, policies, research, etc. This would be available to any LAM staff who is involved in AM planning.
- Establish a region-wide AM working group that would meet quarterly and work with the Region's cross-departmental teams to share knowledge, best practices, etc.
- Make available any reports and analysis completed by the consultants retained by the Region for the LAMs to leverage local information in their work.

Alternatives Reviewed

In addition to the recommended AM model, which includes the creation of a cross-Departmental Asset Management Steering Team, Corporate Asset Management Office and formal decentralization departmental Delivery, there were three other governance model structures considered during the assessment of the Region (please refer to Table 6.6 – Evaluation of Asset Management Governance Models in Appendix 3). Based on a review of the goals of AM practices and procedures that will promote effective and efficient AM implementation and growth throughout the entire Region, it was determined that they were not as effectively aligned as the model being proposed. These models included:

- Corporate Asset Management Steering Team (Senior Level Cross-Departmental Office) and Decentralized Departmental Delivery – **NOT RECOMMENDED** (lack of consistency across departments, difficulty reaching consensus on decisions, longer term to implement and realize benefits of AM)
- Corporate Asset Management Office and Informal Decentralized Departmental Delivery – **NOT RECOMMENDED** (fear CAM Office will take over departmental operations, CAM office could disconnect from departmental units)
- Corporate Asset Management Steering Team, Asset Management Delivery through Task Teams – **NOT RECOMMENDED** (lack of consistency across departments, longer term to implement, lack of accountability and authority)

Relationship to Council Strategic Priorities

The Comprehensive AM Plan was identified as a priority of the previous Council that directly supports Organizational Excellence, as well as supporting the Infrastructure and Taxation priorities.

The 2016 Council directed value for money audit conducted by Deloitte included a recommendation that the Region's capital investment plan should include major capital assets that are expected to require replacement or rehabilitation in the next 10 years to allow for effective decision making and a proactive approach to managing these large projects. The first step to address this recommendation was the update of the AM Plan.

In 2019 the Region will begin with the sustainability review supported by the previous Council with \$400,000 in funding. The Region is faced with substantial fiscal challenges as it attempts to implement its long term AM program and support the increasing cost of the delivery of services in an environment where tax increases remain relatively modest. In order to ensure the Region has the funding necessary to maintain its capital assets and essential services, a review is required of the services provided for opportunities to redirect cost savings is required.

Other Pertinent Reports

CSD 11-2017	2017 DC Background Study
CSD 21-2017	Asset Management Plan
CSD 51-2018	Asset Management Governance

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Appendices

Appendix 1	Ontario Regulation 588/17
Appendix 2	Business Case
Appendix 3	Proposed Asset Management Governance Model
Appendix 4	Impact Assessment Report
Appendix 5	Change Management, Communications & Training Plan