

CORPORATE POLICY

POLICY TITLE: ASSET MANAGEMENT: FINANCIAL REQUIREMENTS

POLICY NO.: 03.C.05

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|---------------------------------------|---------------------------------------------------------|-----------------------------|-------------------------------|
| Section: | Administration & Legal | | |
| Effective Date: | June 19, 2018 | Date of Last Review: | Click or tap to enter a date. |
| Approval Authority: Council | Policy Owner: DCM, Infrastructure Development | | |

POLICY STATEMENT

Asset management requires financial processes to accurately value assets and give priority to asset renewal expenditure over proposals to construct new assets. Effective reporting of infrastructure financial management is achieved by the City’s asset management plan.

The service rendered by an infrastructure asset will determine if it is included in an asset management plan – if an asset requires deliberate management by the municipality for its role in service delivery, then it will be included in an asset management plan.

The threshold used to determine which assets are to be included is therefore a guideline for the application of Council-endorsed principles in professional judgment. This qualitative focused approach is unlike the criteria to be capitalized in any tangible capital asset methodologies.

PURPOSE

This policy aligns the business model of asset management with the City’s financial planning, financial reporting, cost management, Treasury and taxation functions.

To achieve this outcome, the City will integrate findings from the asset management plans into its long-term financial planning and budgeting processes.

Sound financial analysis will be encompassed in asset management planning in order for the asset management plan to be a sought-after guide for employees in budgeting and financial planning.

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The financial strategy included in each asset management plan will be completed by a multi-disciplinary team that will include representatives from Finance and the concerned service area.

Once developed, the asset management plan will be referenced by service area personnel in preparation of their budget submission in order to help with the following:

1. Identify all potential revenues and costs (including operating, maintenance, replacement and decommission) associated with forthcoming infrastructure asset decisions.
2. Evaluate the validity and need of each significant new capital asset, including considering the impact on future operating costs.
3. Incorporate new revenue tools and alternative funding strategies where possible. The department level budget submission prepared by each service area will be evaluated by the budget committee in preparation of the municipality's annual budget.

SCOPE

This component of the Asset Management Policy applies to all assets whose role in service delivery requires deliberate management by the City.

The service-focus intent of this policy differentiates its requirements for identifying assets from the capitalization thresholds, which are developed for the purposes of financial reporting.

For this reason, the capitalization threshold developed for financial reporting will not be the guide in selecting the assets covered by asset management planning processes.

The asset management plans and progress made on the plans will be considered annually in the creation of the City's capital budgets, operating budgets and long-term financial plans.

Service area personnel will reference the asset management plan through a multi-disciplinary approach for their area in order to:

1. Look up forecasted spending needs identified in the plan.
2. Verify progress made on the plan to identify potential gaps.
3. Prioritize spending needs, across the gap identified in the plan and recent developments, for the years to be budgeted for.

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The budgets prepared by each service area will be processed in accordance with the broader municipal budgeting process and prioritized in accordance with documented corporate budgeting practices that include continuously improving asset management planning processes.

Finance personnel will be involved in asset management planning to facilitate the bridge between:

4. The financial strategy developed in the asset management plan(s).
5. The budget submissions of each service area.
6. The overall budgeting process they ultimately oversee.

LEGISLATIVE REQUIREMENTS

The financial analysis used for the water and wastewater asset management plans will align with existing financial plans related to water and wastewater assets. The analysis completed in each tangential document will reference the most up-to-date information from the same datasets, will be based on common methods and will improve upon one another.

Finance personnel, water services personnel, and wastewater services personnel will work together to align the financial strategy developed in the asset management plan with the financial plans related to the water and wastewater assets. Alignment will be achieved through a multi-disciplinary approach, including the use of common analytical methods and data sources.

The City must develop and finalize a policy to include:

- 3.(1)8. An explanation of the capitalization thresholds used to determine which assets are to be included in the municipality's asset management plan and how the thresholds compare to those in the municipality's tangible capital asset policy, if it has one.
- 3.(1)2. The process by which the asset management plan is to be considered in the development of the municipality's budget or of any long-term financial plans of the municipality that take into account municipal infrastructure assets.
- 3.(1)6. A process to ensure that the municipality's asset management planning is aligned with any of the following financial plans:
 - i. Financial plans related to the municipality's water assets including any financial plans prepared under the Safe Drinking Water Act, 2002.

- ii. Financial plans related to the municipality’s wastewater assets.

Asset management plans must include:

6.(1)2. An explanation of why the proposed levels of service are appropriate for the municipality, based on an assessment of the following:

- iv. The municipality’s ability to afford the proposed levels of service.

6.(1)4. A lifecycle management and financial strategy that sets out the following information with respect to the assets in each asset category for the 10-year period

- iii. An identification of the annual funding projected to be available to undertake lifecycle activities and an explanation of the options examined by the municipality to maximize the funding projected to be available.

DEFINITIONS

The following definitions are provided in accordance with the International Infrastructure Management Manual.

1. **Asset Management (AM):** Systematic and coordinated activities and practices of an organization to optimally and sustainably deliver on its objectives through the cost-effect lifecycle management of assets.
2. **Asset Management Framework:** Overarching AM hierarchy including the AM Policy, Objectives, Strategy, and the AM Plan.
3. **Asset Management Objectives:** Specific outcomes required from the implementation of the AM Framework.
4. **Asset Management Plan (AM Plan):** Long-term plans that outline the asset activities and programs for each service area and resources applied to provide a defined level of service in the most cost-effective way.
5. **Asset Management Policy:** Document that broadly outlines the principles and mandated requirements for undertaking AM across the organization in a systematic and coordinated way, consistent with the organizations strategic plan. It provides the framework for the AM Strategy and AM Plan.
6. **Asset Management Strategy:** High level long-term approach to AM including AM action plans and objectives for managing the assets.

- 7. Asset Management Team:** The team appointed by an organization to review and monitor the corporate AM improvement program and ensure the development of integrated AM information systems, processes, and plans consistent with organizational goals and objectives.
- 8. Condition:** Physical state of an asset.
- 9. Condition Grade:** Measure of the physical integrity of an asset or component.
- 10. Current Replacement Cost:** Cost incurred to acquire a new modern equivalent asset (not second hand) on the reporting date.
- 11. Deferred Maintenance:** Shortfall in maintenance work required to maintain the service potential of an asset.
- 12. Depreciation (Amortization):** Systematic allocation of the depreciable amount of an asset over its useful life.
- 13. Depreciated Replacement Cost (DRC):** Replacement cost of an asset less accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.
- 14. Deterioration Rate:** Rate at which an asset approaches failure (end of life).
- 15. Finance Personnel:** Internal or external partners who may design, compose, evaluate, advise, report, manage, direct or supervise activities in or for the portfolio of the Chief Financial Officer & City Treasurer.
- 16. Long-Term:** 5, 10, 20 or 30 years.
- 17. Modern Equivalent Assets:** Assets that replace what is in existence with the most cost-effective asset providing an equivalent level of service.
- 18. Rehabilitation:** Works to rebuild or replace parts or components of an asset, to restore it to a required functional condition and extend its life, which may incorporate some modification. Generally, involves repairing the asset to deliver its original level of service without significant upgrade.
- 19. Remaining Useful Life:** Time remaining until an asset ceases to provide the required service level or economic usefulness.
- 20. Renewal:** Works to replace existing assets with assets of equivalent capacity or performance capability.

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21. Residual Value: Estimated amount currently obtained from disposal of the asset, after deducting cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

22. Service Area: Collaborative partners, typically own infrastructure assets or manage operations and maintenance.

23. Useful Life: Period over which an asset or component is expected to be available for use; or the number of production or similar units expected to be obtained from the asset or component by the organization.

24. Valuation: Assessed asset value which may depend on the purpose for which the valuation is required, i.e., replacement value for determining maintenance levels, market value for lifecycle costing and optimized deprival value for tariff setting.

POLICY

1. Policy Principles: Strategic Asset Management

1.1. Citizen Focused:

The City of Vaughan will have clearly defined levels of service and apply asset management practices to maintain the confidence of customers in how City assets are managed.

1.2. Service Focused:

The City of Vaughan will consider all the assets in a service context and take into account their interrelationships as opposed to optimizing individual assets in isolation.

1.3. Risk-based

The City of Vaughan will manage the asset risk associated with attaining the agreed levels of service by focusing resources, expenditures, and priorities based upon risk assessments and the corresponding cost/benefit, recognizing that public safety is the priority.

1.4. Value-based Affordable

The City of Vaughan will choose practices, interventions, and operations that aim at reducing the lifecycle cost of asset ownership, while satisfying the agreed levels of service. Decisions are based on balancing service levels, risks, and costs.

2. Policy Goals: Strategic Asset Management

2.1. Provide infrastructure and services to sustain the City of Vaughan that:

- 2.1.1. Support the quality of life, urban environment, and cultural fabric appropriate to the City of Vaughan;
- 2.1.2. Facilitate the changes to infrastructure needed to cater for changing communities; and,
- 2.1.3. Enhance the resilience of the City's infrastructure and communities.
- 2.2. Implement a life-cycle approach to the management of infrastructure assets where:
 - 2.2.1. Asset planning decisions are based on an evaluation of alternatives that consider the "whole of life" of an asset through acquisition, operation, maintenance, renewal, and disposal;
 - 2.2.2. The asset management cycle considers the current and future environmental, economic, cultural, and social outcomes.
- 2.3. Ensure that service delivery needs are the primary driver for infrastructure asset management practices by:
 - 2.3.1. Establishing and monitoring levels of service for each asset class through the Asset Management Plan;
 - 2.3.2. Identifying and monitoring individual and network risks to assets and service levels for each asset class.
- 2.4. Provide a sustainable funding model that provides assets aligned with the City's long-term plans and community needs with a:
 - 2.4.1. Funded model for all asset related services extending at least 10 years into the future that addresses the need for funds, considers renewal peaks and troughs, and identifies how the funds will be sourced.
- 2.5. Develop and implement best value environmentally sustainable asset management practices that:
 - 2.5.1. Encourage a flexible and scenario-based approach through systems and plans to allow for innovative use of assets, particularly in environmental initiatives;
 - 2.5.2. Acknowledge climate change adaptation, environmental protection and enhancement protocols are fundamental to sustainable asset management planning;

2.5.3. Minimize energy and water use, waste generation, and air quality impacts through our own initiatives and by working with stakeholders;

2.5.4. Utilize low energy products, infrastructure materials and methods wherever possible; and,

2.5.5. Incorporate sustainability criteria into infrastructure projects and procurement.

2.6. Provide reliable asset and infrastructure data through supported digital platforms demonstrated by:

2.6.1. Open sourced for community use, where appropriate, such as with an asset management plan;

2.6.2. Implementation of sound data governance and data quality management;

2.6.3. Access to systems and information by mobile technology wherever possible.

2.7. Implement an integrated decision support system that:

2.7.1. Provides systems and knowledge necessary to achieve policy outcomes;

2.7.2. Proactively interrogates and models data to support informed decisions;

2.7.3. Minimizes the risk of corporate knowledge and data loss;

2.7.4. Manages information as efficiently as possible through the appropriate use of software, hardware and communication tools; and,

2.7.5. Reduces data duplication.

2.8. Ensure compliance with legislative requirements by:

2.8.1. Aligning with infrastructure planning principles from the Infrastructure for Jobs and Prosperity Act, 2015; and,

2.8.2. Having clear policies, processes and information to ensure that organizational objectives and legislative requirements are met.

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| ADMINISTRATION | | | |
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| <i>Administered by the Office of the City Clerk.</i> | | | |
| Review Schedule: | Other (specify) As required by legislation. | Next Review Date: | Click or tap to enter a date. |
| Related Policy(ies): | 04.C.03 – Asset Management: Administrative Umbrella 03.C.04 – Asset Management: Critical Assets Business Risks 03.C.06 – Asset Management: Land Use Planning 03.C.07 – Asset Management: Levels of Service | | |
| Related By-Law(s): | | | |
| Procedural Document: | PRC.14 – Asset Management: Implementation Procedures and Communication | | |
| Revision History | | | |
| Date: | Description: | | |
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