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For Information

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DATE: September 16, 2011

REPORT TITLE: **REGION OF PEEL CORPORATE ASSET MANAGEMENT STRATEGY**

FROM: Norma Trim, Chief Financial Officer and Commissioner of Corporate Services

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## OBJECTIVE

To update Audit Committee on Peel's asset management strategy and how it will influence the 2012 and future Capital Budgets and Forecasts.

### REPORT HIGHLIGHTS

- The Region of Peel currently owns and operates \$17 billion of capital assets which is expected to grow 35 per cent, to over \$23 billion by 2031 (2010 replacement values).
- An asset management strategy is a framework of practices and policies under which an organization can consistently manage its infrastructure.
- The *Corporate Asset Management Strategy* touches on many of the Goals in the Strategic Plan but most directly addresses Goal 7.1: "*Ensure the financial sustainability of Regional Services*". Furthermore, the strategy and resulting long-term asset management plans will be significant inputs toward Term of Council Priority #17; "*Develop a Long Term Financial Plan*".
- Peel's *Corporate Asset Management Strategy* uses risk management techniques and lifecycle strategies to provide an optimal balance between the costs to address asset needs to support public services with the affordability to do so. It is a proactive approach that will reflect the Region's changing business environment.
- The role of the Audit Committee is to receive and evaluate assurance that sound management practices and controls are in place. Peel's asset management strategy supports good capital asset management control.

## DISCUSSION

### 1. Background

Good infrastructure is necessary to provide quality services and promote the economic prosperity and well-being of the community. The Public is aware of the value of sound infrastructure and expect that it be managed effectively; however, as our infrastructure grows, so will costs to address the asset rehabilitation and replacement needs to maintain state-of-good-repair. As a result, all levels of government and political representatives are increasingly tasked with creating policies and practices that balance improved infrastructure management with affordability to the tax payer.

September 16, 2011

## REGION OF PEEL CORPORATE ASSET MANAGEMENT STRATEGY

### 2. The Future of Infrastructure Stewardship

Improving the management of infrastructure will increasingly require the application of sound practices and tools that promote evidence-informed decision-making so that political leaders have the insight to make wise and careful infrastructure investment choices that specifically reflect what citizens truly value from public services. Municipalities must be prepared to make the shift toward processes that focus on what is critical in public infrastructure.

A recent announcement by the Province that ties future infrastructure funding to sound asset management plans is an example of the shift toward more comprehensive, sustainable and focused infrastructure planning. Peel's Corporate Asset Management Strategy will position the Region to capitalize on such opportunities.

### 3. Alignment with Peel's Strategic Direction

Peel's Strategic Plan demonstrates Council's commitment to sound asset management practices in order to sustain efficient and effective Regional services at the most affordable and practical costs. The Corporate Asset Management Strategy touches on many of the Goals in the Strategic Plan but most directly addresses Goal 7.1: *"Ensure the financial sustainability of Regional Services"*. Furthermore, the strategy and resulting long-term asset management plans will be significant inputs toward Term of Council Priority #17; *"Develop a Long Term Financial Plan"*.

The Region of Peel currently owns and operates \$17 billion of capital assets which is expected to grow 35 per cent, to over \$23 billion by 2031 (2010 replacement values). The sheer magnitude and value of Peel's infrastructure makes asset management a key factor in guiding the long term strategic direction of the organization.

### 4. Peel's Corporate Asset Management Strategy

An asset management strategy is a framework of practices and policies under which an organization can consistently manage its infrastructure to meet broader corporate priorities and policies.

Peel has a diverse inventory of assets that must be in good working order to provide the quality services Peel's citizens have come to expect. The Corporate Asset Management Strategy has been developed to provide an organizational context of asset rehabilitation and replacement needs and to prioritize the corrective works in a consistent, objective and transparent format.

The objective of the strategy is to use risk management concepts to provide an optimal balance between the needs and costs for repairing, replacing and upgrading assets with the affordability to do so. More specifically, the strategy delivers:

- Long-range strategic planning and prioritization of asset needs
- Improved evidence-informed decision-making
- Long-term financial requirements to sustain the assets
- Improved capital planning processes
- Consistent asset management practices and measures across the organization

September 16, 2011

## REGION OF PEEL CORPORATE ASSET MANAGEMENT STRATEGY

The asset management strategy is an ever evolving proactive framework that will require periodic updates as Peel's business environment changes. The following outlines the key components of the Corporate Asset Management Strategy.

### a) Asset Levels of Service

Assets are governed by a number of criteria in order to provide good services to the public. These criteria are referred to as '*asset levels of service*'. For example, Peel's customers desire reliable water service. Therefore, one criteria or '*asset level of service*' would stipulate the maximum number of times a watermain is permitted to break during its lifespan. When the watermain exceeds the maximum number of breaks, it is replaced.

As service expectations change, so too will the '*asset levels of service*'. Staff intend to present the '*asset levels of service*' to Council and provide updates as service expectations and regulations change.

### b) Risk

Peel's strategy focuses on managing the risks to services through the proper management of assets. The closer the assets can be maintained at their desired '*asset levels of service*'; the more the risks to services can be reduced. It is important to note that the risks to services and the risks of asset failures can never be fully eliminated. The objective is to balance acceptable levels of risk (risk tolerances) with the acceptable cost to mitigate the risks.

As Council's risk tolerances change, so too will the '*asset levels of service*'.

### c) Life Cycle Strategies

Life cycle strategies help to predict when assets will require refurbishment or replacement before they fail to meet their levels of service criteria. Each asset type has a different life cycle strategy. Having the strategies in place not only helps to plan proactive capital works to reduce the risk of asset failures, but also helps to plan funding to do the works. In this way, adequate reserves can be maintained and appropriate levels of taxation can be determined.

The life cycle strategies will change over time as construction materials, technology, the natural environment and knowledge about the Peel's assets change. Staff will continue to review and modify the asset life cycle strategies.

### d) Reporting

The long term asset requirements to sustain service delivery are reported in an asset management plan. The asset management plan, titled the "*Infrastructure Stewardship Report*", is used by Executive Management and the Programs to guide infrastructure decisions and planning for the Capital Budget and Forecast.

## 5. Role of the Audit Committee

Infrastructure needs can change according to new regulations, improvements to technology, changing demands by the Public, and new service directions, including changes to Term of Council Priorities and the Regional Strategic Plan. Peel's asset

September 8, 2011

## REGION OF PEEL CORPORATE ASSET MANAGEMENT STRATEGY

### 5. Role of the Audit Committee

Infrastructure needs can change according to new regulations, improvements to technology, changing demands by the Public, and new service directions, including changes to Term of Council Priorities and the Regional Strategic Plan. Peel's asset management strategy must be dynamic to respond to the infrastructure and service changes. The role of the Audit Committee is to receive and evaluate assurance that sound management practices and controls are in place. Peel's asset management strategy supports good capital asset management control and, therefore, it is intended that proposed changes to the strategy be reported to the Audit Committee.

### 6. Next Steps – Demonstrating the Strategy to Council

Staff are utilizing the Corporate Asset Management Strategy to help plan the Regional 2012 Capital Budget and Forecast. Asset management plans have been developed and provided to each Program having capital infrastructure (excluding fleet and Information Technology assets) and the Programs have considered the asset management plans as one of the inputs into their budget planning process.

Staff intend to elaborate the asset management strategy to Council through more detailed budget presentations by three (3) selected Programs, Peel Living, Water and Long Term Care.

## CONCLUSION

Asset management is critical to maintaining quality services and ensuring the organization's long-term financial viability. Peel's Corporate Asset Management Strategy provides a transparent and objective methodology to evaluate, plan and prioritize asset needs that support Regional services in an environmental, social and financially sustainable way.



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### Approved for Submission:



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