SUBJECT: Pilot Implementation of OMBI Municipal Guide to Accounting for Capital Assets (PW05129/FCS05117) (City Wide)

RECOMMENDATION:

Scott Stewart, C.E.T.  
General Manager  
Public Works Department

Joseph L. Rinaldo  
General Manager  
Finance & Corporate Services
EXECUTIVE SUMMARY:

Municipalities prepare their financial statements in accordance with generally accepted accounting principles as established by the Canadian Institute of Chartered Accountants (“CICA”) Public Sector Accounting Board (“PSAB”). The generally accepted accounting principles at this time do not address how municipalities record and report their capital assets. PSAB’s draft recommendations and guidelines in section PS3150 “Tangible Capital Assets”, released in June 2005, suggest implementation in 2008.

A number of municipalities participating in the Ontario Municipal CAO’s Benchmarking Initiative (OMBI) developed a capital asset accounting model and developed a plan to develop a manual, test the manual and educate and train municipalities in Ontario. Phase 1 of OMBI’s project produced the OMBI Municipal Guide to Accounting for Capital Assets in March 2005. The manual is to be used as a guide by municipalities in implementing PSAB’s financial statement reporting standards for capital assets. It will allow municipalities to have better information for decision-making for managing and investing in capital assets. This project is therefore critical to maintaining and improving capital infrastructure in municipalities across the province.

Phase 2 of the OMBI project is to conduct pilot implementations in six diverse municipalities of varying size and structure during 2005 and 2006.

The final phase, phase 3, is the development and testing of an education and training program. Plans suggest that it will run concurrently with the Phase 2 pilot implementations.

Pending approval of Council, the City of Hamilton will participate in Phase 2 of this OMBI Capital Asset project. Other municipalities also participating are County of Brant, District of Muskoka, Region of Niagara, City of Thunder Bay and Region of York. The City of Hamilton will specifically report on its Road Asset inventory, and will share data as well as have access to all data submitted by each of the municipal participants in the pilot project.

All pilot municipalities, including the City of Hamilton, will receive $60,000 in provincial funding to hire a temporary full-time project site manager for a 12 month contract. This Phase II of the OMBI Pilot Implementation must be completed by December 31st, 2006. OMBI project managers will be requesting meetings with the site project manager to ensure that the pilot is on target. OMBI’s project managers must prepare and submit status reports to the Province on March 1st, July 15th and October 15th, 2006. The final “Guide” and lessons learned from the pilots is due on January 31st, 2007. If the project is not progressing as planned, the OMBI project director and OMBI project manager will contact the project team. The City of Hamilton’s participation in the pilot project will be delivered within the $60,000 budget as the Province has indicated that there will be no further extension of funding for phase 2 of the project.

As we move forward on this project and if the PSAB guidelines are approved, it is possible that the City will need resources for 2007 and 2008 to coordinate the work for all other assets. At some point the City would have to add this staff complement into one of the operating budgets in Public Works or Corporate Services. These pilots are supposed to provide the Province and municipalities with the time commitment and resources required to test and implement the “Guide”.

The project site manager, upon being hired, will be responsible for reviewing the budget and schedule, developing a detailed project plan, then coordinating and supervising the deployment of resources sufficient to complete all phases of the identification, valuation, depreciation and reporting required. City of Hamilton staff from the Public Works department, Capital Planning and Implementation division, and the Operations and Maintenance division, and staff from the Corporate Services department, Financial Services division, and the Budgets and Finance division, will provide in-kind assistance as required to ensure that the project deliverables are achieved. An organizational chart for this project is attached as Appendix A.

BACKGROUND:

Municipalities prepare their financial statements in accordance with generally accepted accounting principles as established by the CICA Public Sector Accounting Board (PSAB). The generally accepted accounting principles at this time do not address how municipalities record and report their capital assets.

With the release of the 2002 PSAB research report titled *Accounting for Infrastructure in the Public Sector*, the Ontario Municipal CAO’s Benchmarking Initiative (OMBI) developed a capital asset accounting model that addresses the issues raised in the research report.

In order to utilize the time and effort invested by OMBI and ensure that its effort will meet the PSAB standards for fixed asset financial statement reporting, OMBI proposed to expand the work done by its Capital Assets Working Group. They planned to develop a manual so that it can be used as a guide by municipalities in implementing PSAB’s financial statement reporting standards for capital assets. This manual was developed to incorporate and integrate material already developed by OMBI and PSAB.

The main rationale for an investment by the Province of Ontario in this project is that it will assist in the development of tools for implementation of capital asset accounting and reporting by municipalities. It is advantageous, in that, if this project is successful, there is a high degree of probability of success in the future partnerships between the province and municipalities in regards to municipal capital assets. This project will also allow municipalities to have better information for decision-making for managing and investing in capital assets.

This project is therefore critical to maintaining and improving capital infrastructure in municipalities across the province. In recognition of this, the Ministry of Finance (MOF) provided OMBI with funding for Phase 1 of the project, the development of a *Municipal Guide to Accounting for Capital Assets*. This Phase 1 document which provides a thorough review of options and considerations for capital asset accounting was completed in March 2005.

Given the complexity and need for practical test of policies, OMBI received approval to conduct pilot implementations of the manual in six diverse municipalities of varying size and structure. The pilots are expected to be completed by December 31, 2006 (approximately 12 to 16 months from the date of approval). OMBI's final version of the Guide is due to the Ministry on January 31, 2007.

Phase 3, to pilot and further develop an education and training program, is expected to run concurrently with the Phase 2 pilot implementations. Phase 3 will use each
implementation to refine the training program, policy recommendations and implementation guidelines so that it becomes a professional training program that a number of professional associations can use to prepare municipalities for the requirement to report capital assets on their financial statements.


**ANALYSIS/RATIONALE:**

This project will assist in the development of tools for implementation of capital asset accounting and reporting by all municipalities. If this project is successful, then this project will also allow municipalities to have better information for decision-making for managing and investing in capital assets.

Hamilton’s participation in this Roads Capital Assets project will provide us with useful knowledge that can be transferred to other capital assets and infrastructure as we move towards the expected implementation for 2008.

**ALTERNATIVES FOR CONSIDERATION:**

N/A

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

**Financial Implications**

The pilot site manager and project team will require assistance to gather information, analyze information, develop policies and procedures and meet on the progress of the project. There is a possibility that funds will be required to make modifications to systems to store and report on the capital asset information.

**Staffing Implications**

The pilot project requires one full-time contract employee for 12 months as a site manager. The province will be providing the funding of $60,000 towards the staffing costs. This Phase 2 of the OMBI Pilot Implementation must be completed by December 31st, 2006.

Staff resources will be required from the Public Works department, Capital Planning and Implementation division, and the Operations and Maintenance division, and from the Corporate Services department, Financial Services division, and the Budgets and Finance division to assist the site manager.

**Legal Implications**

Not applicable

**POLICIES AFFECTING PROPOSAL:**

Not applicable.
RELEVANT CONSULTATION:

The Financial Services Division and the Budgets and Finance Division, both of the Corporate Services Department, are involved in this project with Capital Planning and Implementation staff of Public Works. They have reviewed and provided input into this report. The City Manager’s office was consulted.

CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. ☑ Yes ☐ No
Public services and programs are delivered in an equitable manner, coordinated, efficient, effective and easily accessible to all citizens.
The goal of this project is to ultimately allow municipalities to have better information for decision-making for managing and investing in capital assets. Improved management of capital assets will enable more efficient and feasible scheduling of the rehabilitation/reconstruction of capital assets, resulting in improved service levels and increased public safety.

Environmental Well-Being is enhanced. ☑ Yes ☐ No
A sustainable transportation network provides many options for people and goods movement; vehicle-dependency is reduced.
A transportation network, with its associated assets, functions most efficiently when it is designed to today’s standards and when it is operating efficiently. Efficiency in the transportation network increases driver comfort, therefore traffic flow, thus reducing travel times, resulting in lower overall vehicle emissions.

Economic Well-Being is enhanced. ☑ Yes ☐ No
Investment in Hamilton is enhanced and supported.
The goal of this project is to ultimately allow municipalities to have better information for decision-making for managing and investing in capital assets. Improved management of capital assets will ultimately result in more cost-effective rehabilitation/reconstruction decisions when scheduling capital asset projects.

Does the option you are recommending create value across all three bottom lines? ☑ Yes ☐ No
This project aims at developing a tool that assists in sustainable infrastructure systems with increased levels of service, in turn reducing costs.
Community well-being is enhanced through improved service levels and increased public safety. Environmental well-being is enhanced through lower vehicle emissions. Economic well-being is enhanced through more cost-effective capital project scheduling.

Do the options you are recommending make Hamilton a City of choice for high performance public servants? ☑ Yes ☐ No
The willingness of the City of Hamilton to pursue emerging technologies, processes, studies, etc. attracts staff that wish to develop and contribute to the municipality and/or area of study. Being involved in pilot implementations such as this, helps put Hamilton on the map, and make Hamilton known as a leader in the municipal world.
APPENDIX ‘A’

City of Hamilton
OMBI Capital Assets Project
Organizational Structure

CMT
(Corporate Management Team)

Project Team

Site Manager
(F.T.E. 100%)

In-Kind Support
Public Works Dept.
Corporate Services Dept.

Project Manager
OMBI
(Province)

Project Team
Scott Stewart
General Manager, Public Works
Joe Rinaldo
General Manager, Finance & Corporate Services
Gerry Davis
Director, Capital Planning & Implementation
David Trevisani
Manager, Finance & Administration
Brian McMullen
Manager, Accounting Services