

Presented To:	Audit Committee
Presented:	Tuesday, May 15, 2018
Report Date	Tuesday, May 01, 2018
Type:	Managers' Reports

Request for Decision

Facilities Audit Report

Resolution

THAT the City of Greater Sudbury endorses the recommendations as outlined the report entitled "Facilities Audit Report", from the Auditor General, presented at the Audit Committee meeting on May 15, 2018.

Signed By
Auditor General Ron Foster Auditor General <i>Digitally Signed May 1, 18</i>

Relationship to the Strategic Plan / Health Impact Assessment

This report supports the strategic pillar of maintaining sustainable infrastructure by prioritizing, building and rebuilding our community's foundation.

Report Summary

To ensure the corporate strategic goal of sustainable infrastructure can be met, it is recommended that staff move forward expeditiously with the development of the asset management strategy and provide Council with annual updates on how the service levels, costs and risks associated with the City's ageing facilities and other infrastructure are being managed.

Opportunities to improve the coordination and cost-effectiveness of facility maintenance processes were also identified during this audit.

Financial Implications

Until the asset management strategy is complete, the service level, financial and risk implications associated with the City's ageing facilities and other infrastructure will remain unclear.

Audit of Facilities Management

MAY 1, 2018
FINAL REPORT



SUMMARY

Objectives

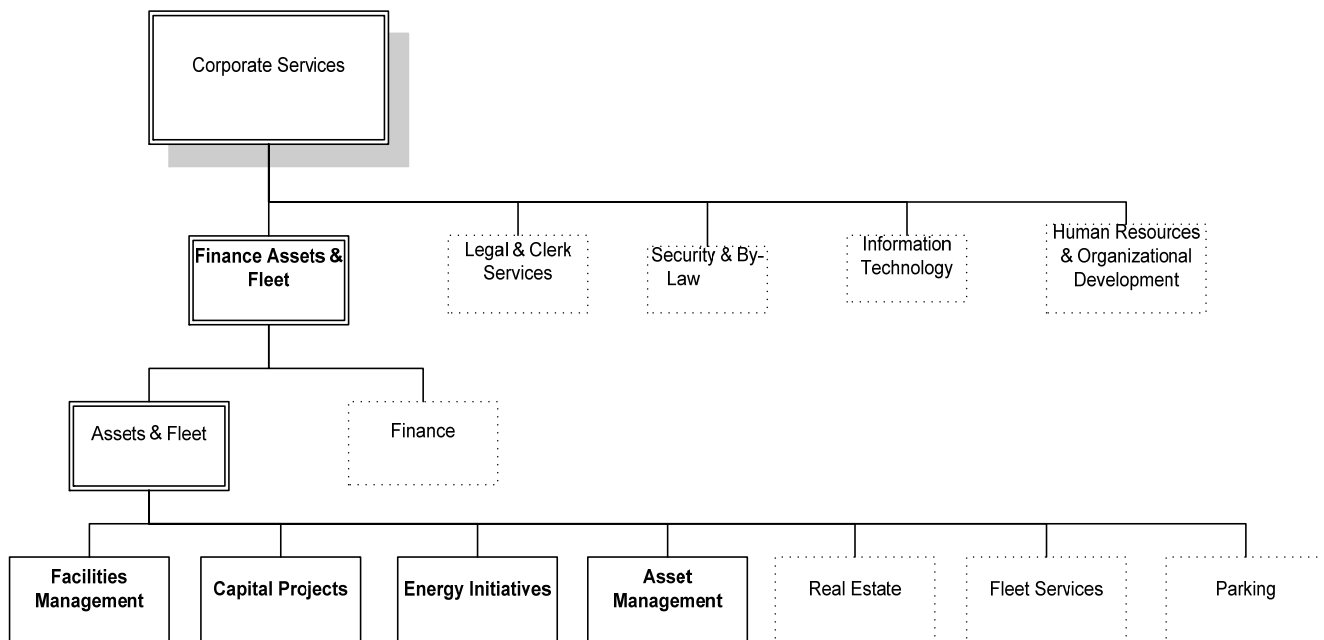
The objectives of this audit were to review and assess the effectiveness of processes to manage the City of Greater Sudbury's facilities and associated risks and to recommend improvements to these processes.

Background

Asset management planning is the process of making the best possible decisions regarding the acquisition, operation, maintenance, renewal, replacement and disposition of infrastructure assets and is regarded as a best practice for long-term financial planning. Facilities are municipal structures and are a significant component of a municipality's assets that need to be managed effectively to maintain service levels and to fulfill legislated responsibilities. Older facilities that continue in use beyond their useful life provide lower service levels, higher maintenance costs and increased risks to employees and users of these facilities. Periodic condition assessments, repairs and renewals and planned replacements are required to manage facility lifecycle costs effectively.

Recognizing the need to address weaknesses in the City's asset management planning processes and to adhere with provincial legislation, management issued an RFP in 2016 for the preparation of an asset management plan. KPMG was awarded the contract and staff reported to Council in December 2016 on the Asset Management Plan (AMP). The AMP pointed out that the City has infrastructure with replacement costs of approximately \$7.2 billion. Approximately \$3.1 billion of these assets - including \$325 million of facilities - are operating beyond or near the end of its useful service life. As the City cannot afford to replace all these assets, KPMG recommended other options be pursued such as rationalizing these assets, extending their service lives, and implementing an infrastructure surcharge to cover increasing costs for their maintenance and replacement.

In 2017, the Corporate Services Division was established in part to illustrate the relationship between services, service levels and cost within the City. The Asset and Fleet Services Section was created in late 2017 to deliver the following services that were included in the scope of this audit: Asset Management, Facilities Management, Capital Projects and Energy Initiatives. Real Estate, Fleet Services and Parking were excluded from our scope.



The four groups that were subject to audit were staffed by 12 Full-Time Equivalents with part time hours of 4,602 and an operating budget of \$5.2 million in 2017. Comparative budget figures are shown below.

(Amount in 000s)

Cost Center	2016 Budget	2017 Budget	2018 Budget
1540 – Admin & Misc Properties	1,799.9	1,954.3	2,154.2
1541 – 199 Larch Street	3,042.8	3,042.8	3,151.6
1542 – Energy Management	173.9	176.2	179.1
Totals	5,016.6	5,173.3	5,484.9

The City has approximately 550 facilities with a replacement value of approximately \$751 million. These facilities comprise a diverse mix of structures such as works depots, fire halls, libraries, and community centers that are spread across the city.

Scope

The scope of this audit includes activities relating to management of the City’s facilities from January 1, 2016 to March 31, 2018.

Report Highlights

In October 2017, staff reported on the steps that will be taken over the next several years to prepare an asset management strategy to address the City’s ageing facilities and other infrastructure. To ensure the corporate strategic goal of sustainable infrastructure can be met, it is recommended that staff move forward expeditiously with the development of the asset management strategy and provide Council with annual updates on how the service levels, costs and risks associated with the City’s ageing facilities and other infrastructure are being managed.

Opportunities to improve the coordination and cost-effectiveness of facility maintenance processes were also identified during this audit.

Audit Standards

We conducted our audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we adequately plan for the audit; properly supervise audit staff; obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions; and prepare audit documentation related to the planning, conducting, and reporting for each audit. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

For further information regarding this report, please contact Ron Foster at extension 4402 or via email at ron.foster@greatersudbury.ca

Facilities Management Strategy

Like many other municipalities, the City of Greater Sudbury has deferred the renewal and replacement of its capital assets and infrastructure to keep property taxes at an affordable level. Benchmarking indicates, however, that our asset management strategy and plans are not nearly as far advanced as those of our municipal peers in Chatham-Kent, Guelph, Windsor, Barrie and Thunder Bay.

The Asset Management Plan (AMP) prepared in November 2016 pointed out that the City has ageing infrastructure with estimated replacement costs of \$7.2 billion including \$3.1 billion which is operating beyond or near the end of its useful life. According to KPMG, approximately 43% of the City's facilities are now either at or near the end of their useful lives and will require an investment of approximately \$325 million to replace within the next 10 years unless the City rationalizes its facilities and service levels or takes significant steps to extend their useful lives.

The report entitled "Asset Management Strategy" that was presented to Council in October 2017 identifies the City's legislated requirement to prepare an asset management plan and sets out the steps that will be taken to prepare an asset management strategy. A draft enterprise asset management policy was also recently developed to address the risk of failure of the City's ageing infrastructure assets. Once staff obtain condition assessments for all City facilities, they can finalize the asset management strategy. Until the strategy is complete, however, the service level, cost and risk implications associated with the City's ageing facilities and other infrastructure will remain unclear.

Recommendations

To ensure the corporate strategic goal of sustainable infrastructure can be met, it is recommended that staff move forward expeditiously with the development of the asset management strategy and provide Council with annual updates on how the service levels, costs and risks associated with the City's ageing facilities and other infrastructure are being managed.

Management's Response: Agreed

- *Staff has advised Council that the City is moving forward with the production of comprehensive asset management plans that will have defined service levels, asset condition data and risk considerations.*
- *Staff has outlined the new legislative requirements and deadlines for asset management in a report to the Finance Committee on April 17, 2018. Included in this report is the City's completed Asset Management Policy. The deadline for completion of this policy is July 1, 2019. The City is well ahead of schedule.*
- *Staff will continue to work towards meeting and/or exceeding the legislated deadlines while ensuring Council is kept apprised of the status of this work and any implications resulting from it.*

Decentralized Facility Maintenance

While recent steps have been taken to improve the coordination of maintenance services within the Assets & Fleet Services Section of the Corporate Services Division, many of the responsibilities for maintaining the City's facilities continues to be dispersed between various operational departments. This service delivery model which includes both centralized and decentralized functions presents the following risks:

- Lack of integration increases the risk of completing work that extends the life of individual building components past the residual life of the buildings/structures;
- Lack of expertise in managing facility maintenance requests initiated by operating departmental managers with authority over operating budgets; and
- Missed opportunities to build internal capacity and to achieve economies of scale for maintenance work that may currently be outsourced.

Recommendations

Consider establishing a matrix reporting relationship between operational department heads and the Director of Assets & Fleet to ensure that effective communication and coordination occurs for asset maintenance and management initiatives.

Management's Response: Agreed

- *Management has adopted an approach which will, over time, centralize the management of facilities in Corporate Services. Staff favour and have created a structure which has a single point of accountability for delivery of each city service, including those services such as facilities and fleet management with a business partnership approach within the operational departments. The risks you have identified will be minimized over time with an evolution to centralized facilities management which respects the continuity of services and operational realities.*
- *The Facilities Management section implemented a formal work management system in 2016, which has enabled the section to exploit scheduled preventative maintenance on facility assets thereby reducing reactive and often more costly repairs. The use of this work management system could be expanded to include other facilities across City of Greater Sudbury (C.G.S).*
- *In the past, Leisure Services staff has maintained libraries and museums in the City. In December of 2017, the Facilities Management section accepted responsibility for the maintenance of 3 libraries and 2 museums. This revision has allowed staff to further expand the use of internal skilled labour and expertise to prevent costly repairs and minimize downtime of facility assets. This expertise will also allow the City to benefit from lower costs over the long term as proper maintenance treatments are provided for in a timely manner.*
- *The Capital projects section currently assists Citizen and Leisure services in designing and delivering the facility portion of their capital program. The Capital projects section can add value and efficiency to other departmental facilities via the knowledge of buildings systems, and ensuring high quality work through a consistent approach.*
- *The Asset Management Coordinator that was authorized by Council for the 2017 budget will be assisting all departments in designing, developing and delivering on formal asset management plans that will assist in ensuring capital dollars are allocated to the highest priority projects identified in the capital budgeting process.*

Contract Expenditures for Facilities Maintenance

The Facilities Management section employs skilled tradespersons in electrical, plumbing and HVAC (heating, ventilation and air conditioning). These tradespersons have been utilized amongst the most sophisticated equipment that C.G.S. owns and operates. The attention to and familiarity with these systems has led to a reduction in overall cost of ownership and reduced downtime.

Notwithstanding the above achievements, our analysis indicated that the City spent almost \$1.4 million in 2017 compared to \$522K in 2016 on contractors that provide specialized facilities maintenance services including electrical, plumbing, millwright and HVAC services. With such a large increase in the annual volume of work being contracted out and so many facilities that will be approaching the end of their useful service lives in the next ten years, opportunities may exist to perform additional work in-house using skilled trades people.

Recommendation

Prepare a business case to examine the opportunity to create additional specialized facilities maintenance positions to reduce the City's reliance on contractors.

Management's Response: *Agreed*

- *The Assets and Fleet section will work with operating departments to convert contract services budgets and expenditures to internal skilled labour where possible. Business cases will be produced where and when it would be advantageous to the City.*