



# Financial Perspective on Asset Management

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URISA Conference Presentation  
February 13, 2006



# Agenda

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- What is Finance's interest in infrastructure management
- Infrastructure deficit "real or buzz"
- Financial Information "GAP"
- New Accounting Standards
- What is Needed?



# Finance's Interest in Infrastructure Management Systems

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**“OUR \$60 BILLION** national municipal infrastructure deficit grows by \$2 billion a year, and the longer we take to erase it, the more it will cost Canadians.”

Michael Coleman, President,  
Federation of Canadian Municipalities



# Infrastructure Deficit “Real or Buzz”

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““Infrastructure deficit” has become a popular buzz phrase to prop up ribbon cutting spending by politicians on capital goods....”

“...the fact is that economists have little ability to measure infrastructure deficit...this [\$60 billion] number is built on assumptions as shaky as “a fiddler on a roof””

Jack Mintz, President and CEO, C.D. Howe Institute



# What is the truth?

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## A Capital Question

"...analysis demonstrates that while many estimates are indeed large, they are credible....Because of the lack of funding to finance desperately needed infrastructure, most big cities in the West will likely see increased levels of tax-supported debt."

Canada West Foundation, October, 2003



# Conclusion

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- Sustainable asset management requires breaking down the silos between engineers and financial decision makers
- Information needs
  - Inventory of all infrastructure assets
  - Condition and age
  - Types of spending required to rehabilitate and/or replace
  - Timing of expenditures
  - Estimate of future expenditures to preserve and maintain



# Challenges

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- Balancing competing priorities in budgets
- Lack of life cycle costing – only initial investment is reported with no provision for maintaining, rehabilitating and replacement
- Growth of Cities
- Revenue base to support



# Life Cycle Costing

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- Include life-cycle costing (including capital investment, operational, infrastructure renewal, rehabilitation and decommissioning) across economical, environmental and social dimensions to minimize intended and unintended costs today and for future generations.





# The Financial Information GAP

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- Information being collected for and reported in various systems tends to be
  - Specialized in nature
    - Engineering systems focus on work management, customer service, design specifications
    - Financial information currently focuses on sources of financing and expenditures
  - Fragmented and incomplete
    - Engineering systems tend to be service focused
    - Financial systems do not collect information about existing infrastructure



# The Financial Information GAP

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- Information being collected for and reported in various systems tends to be
  - Inconsistent and not comparable
    - Inconsistent definitions and measurement (replacement cost vs historical cost)
    - Information reported with respect to existing assets is not available and/or inconsistent



# Significance of Information GAP

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- Difficult to:
  - assess overall spending priorities
  - assess the effects of funding decisions on existing infrastructure
  - establish infrastructure spending priorities
  - determine sufficiency of tax and user fee rates
  - assess accountability for resources provided
  - make judgments about performance
  - assess financial sustainability, flexibility and vulnerability
  - make cost comparisons



# What is needed?

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- Integrated engineering and financial systems to capture relevant information
  - Stock and use of infrastructure
  - Reliable mechanisms to measure infrastructure deficits
  - Measurement of ongoing costs of using infrastructure
  - to allow governments to plan for funding requirements necessary to sustain infrastructure over the long term



# What is Needed!

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- Fully integrated infrastructure system that can meet cross disciplinary information needs to ensure ongoing sustainability of infrastructure
- Comprehensive and robust infrastructure management philosophy coupled with rigid financial reporting standards
- Common definitions and measurements and consistent basis for recording and reporting information



# New Accounting Standards

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- Viewed as first step in filling the 'GAP'
- 'Out-of-sight, out of mind' or 'future blindness' environment today
- Focus on acquisition of new infrastructure in any given period
- Not addressing needs of existing infrastructure in terms of use, renewal and replacement
- Financial statements can present relationship between funding decisions and costs of government programs



# Finance's Financial Management Requirements

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- Development of annual operating budgets
- Development of capital budgets
- Reporting against actual results of operations
- Long term financial planning
- Performance Measurement

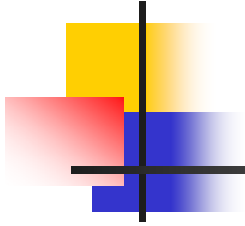


# Final Comment

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- This *is not* a technology issue.
- This *is* a cultural issue.





Questions ?