Reporting on infrastructure—STC and SPMC

12

Main points

Government infrastructure includes a wide range of physical assets used to provide public services, such as transportation, communication, and energy. In Saskatchewan, some of the Government's key risks relate to public infrastructure. Factors contributing to these risks are advancing technology, a shifting population base, and an aging infrastructure. Costs to purchase, operate, and maintain infrastructure are significant.

Legislators, managers, and the public require information about how the Government manages these risks. Good information supports sound decisions. It also helps the public to understand those decisions.

In this chapter, we report on the adequacy of information given to the public by two agencies with significant infrastructure—Saskatchewan Transportation Company (STC) and Saskatchewan Property Management Corporation (SPMC).

STC provided the public with good information about its vehicles, but needs to provide further information about its facilities. SPMC needs to expand its information about its facilities and vehicles. Using the Government's accountability framework, SPMC expects to improve information about its infrastructure over the next few years. With better information, legislators and the public will be able to assess whether these corporations manage their infrastructure appropriately.

Introduction

Governments use public infrastructure to provide a wide range of public services. The nature of government infrastructure varies (e.g., roads, gas lines, power plants, and communications networks). In Saskatchewan, the Government has over $10 billion invested in infrastructure and spends significant resources each year to buy, improve, and maintain it.

In recent years, our Office has encouraged the Government to assess its management of infrastructure and improve the information on infrastructure that it gives to the public.

In Chapter 4 of our 2000 Fall Report – Volume 3, we discussed the key risks that governments face related to their investment in infrastructure. To reduce these risks, governments must adequately manage how they:

1. Plan for infrastructure needs
2. Set clear responsibility for infrastructure
3. Maintain the capacity of infrastructure
4. Maintain good information, and
5. Keep the public informed.

In Chapter 2 of our 2002 Fall Report – Volume 2, we reported on how well two government agencies – SaskEnergy Incorporated (SaskEnergy) and the Department of Highways and Transportation (Highways) keep the public informed about their infrastructure.

In this chapter, we report on the adequacy of the information on infrastructure that two other government agencies provide—Saskatchewan Transportation Company (STC) and Saskatchewan Property Management Corporation (SPMC). We chose these two agencies because, in common with SaskEnergy and Highways, they each have a significant investment in infrastructure.

Background

The infrastructure owned by STC and SPMC is integral to each of their operations and supports their delivery of public services.

STC provides transportation and courier (express) services in Saskatchewan. It recognizes that the public expects to receive these services in a safe, reliable, and affordable manner. Its key infrastructure consists of a fleet of 38 coaches and vans, a freight truck and freight trailers, as well as facilities consisting of three passenger and express depots and two service garages[1].

At December 31, 2002, STC had assets of $19.3 million and annual operating expenditures of $17.5 million. During the year, STC received a capital grant of $2.4 million. Of this, $1.8 million was designated for the purchase of new coaches and freight trailers[2].

SPMC provides services (e.g., accommodation, fleet vehicles) primarily to government departments, Crown corporations, and other Crown agencies. It expects to provide these services in a cost-effective manner and sustain the related infrastructure over the long term. Its key infrastructure consists of 1,260 buildings that it owns or manages, a fleet of 4,500 vehicles, and six aircraft[3].

At March 31, 2003, SPMC's key infrastructure had a net book value of $378 million comprised of $342 million for buildings, $20 million for vehicles, and $16 million for aircraft. During the year, SPMC spent $111.4 million[4] on the management and maintenance of its properties.

Audit objective, process, and criteria

We assessed the adequacy of information made public (e.g., in annual reports, on web sites) by STC and SPMC in 2002 and the first seven months of 2003. Legislators and the public need information to know if governments are properly managing their infrastructure.

Throughout our audit, we followed *The Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants.

[1] *Made in Saskatchewan for Saskatchewan, STC 2002 Annual Report*, p. 9.
[2] Ibid.
[3] Government of Saskatchewan, *SPMC 2002-2003 Annual Report*, pp. 3-4. Managed buildings include buildings leased by SPMC for provision of accommodation services.
[4] Government of Saskatchewan, *SPMC 2002-2003 Annual Report* ($111.4 million is comprised of property management of $76.6 million, other property management of $29.1 million and property maintenance of $5.7 million.)

The criteria, set out in Exhibit 1, describe the essential content for adequate public reports about the Government's infrastructure.

Exhibit 1 – Criteria for public information on key infrastructure

Adequate public information about key infrastructure that a government agency uses to provide public services should briefly describe:

1. **the capacity of each major category of infrastructure**
   - key infrastructure available for use
   - cost of the infrastructure
   - condition of the infrastructure
   - maximum service that the infrastructure could produce in its current condition
2. **the extent to which the use of key infrastructure achieved planned results**
   - actual operating results compared to plans
   - actual financial results compared to plans
   - reasons for major differences between results and plans
3. **the strategies used to manage major risks of the key infrastructure**
   - identify major risks that may affect the key infrastructure
   - actions taken or planned to reduce major risks to acceptable levels

We used these criteria in similar audits of information that SaskEnergy and Highways made public about their infrastructure. Officials from STC and SPMC agreed with these criteria. In addition, SaskEnergy, Highways, Executive Council, the Department of Finance, and the Crown Investments Corporation of Saskatchewan (CIC) support the criteria.

With the help of key officials from STC and SPMC, we identified relevant information that each made public during the audit period. STC consistently used its annual report as the primary way to provide information on its key infrastructure to the public. It also used its semi-annual financial reports, its web site, and presentations to committees of the Legislative Assembly as opportunities to provide additional information.

SPMC took a different approach. Instead of relying primarily on its annual report, it used other methods to provide the public with information on its key infrastructure. These methods included its web site and key

publications such as its Strategic Business Plan, accommodation manual, and a study that developed standards for courthouse facilities in the province.

We compared this information to the criteria in Exhibit 1.

Conclusions

For the audit period, STC provided the public with good information about its fleet of vehicles, but needs to improve information on its facilities as explained in this chapter.

For the audit period, SPMC provided the public with adequate information about its key infrastructure, except as follows. As explained in this chapter, SPMC needs to provide better information about the capacity of its infrastructure and the extent to which it achieved planned results.

Key findings by criteria

For each criterion, we set out our expectations (in italics) and our key audit findings for each agency.

Capacity of each major category of infrastructure

Information about infrastructure will describe capacity in terms of:

- *the nature and location of key infrastructure available for use;*
- *the cost of the infrastructure and the method used to measure the cost;*
- *the processes used for maintaining the infrastructure in good working condition and the average remaining lifespan of each major category of infrastructure; and*
- *the maximum service capacity of the infrastructure.*

For STC, infrastructure is its fleet of vehicles (i.e., coaches, vans, a truck, and freight trailers) and facilities (i.e., depots and garages). STC provides the public with the number and size of its vehicles, as well as the number and locations of its service garages and passenger and express depots.

STC consistently sets out the original cost, accumulated amortization, and net book value (i.e., depreciated value) by category, its cost of repairs, and the nature and amount of additional infrastructure purchased each year.

STC describes the type and volume of transportation services (i.e., passenger, courier, and charter) it provides. By stating the number and seating capacity of its coaches (e.g., 15-seater to 55-seater), number of communities served, miles of bus service, and load factors, STC provides the public with information that assists its understanding of the fleet's capacity.

For its facilities (i.e., garages and depots), STC notes their locations and indicates that their primary use is to support the delivery of the passenger and express services. However, further information is limited. This makes it difficult for the public to understand if these facilities are used to their maximum capacity or if alternative uses are feasible.

In addition, STC states the average age of its vehicles (e.g., actual average age at December 31, 2002 was 7.13 years) and uses it as a key performance measure. Although STC notes the Regina garage is aging, it does not provide information on the age or condition of facilities. In its financial statements, STC sets out a range of estimated useful lives for each major category of infrastructure (e.g., vehicles 3 to 15 years, buildings 10 to 40 years) and the cost and net book value of each. STC should consider publishing the remaining lifespan of its infrastructure to increase the public's understanding.

Integral to the condition of infrastructure is the nature and extent of its maintenance. STC reports that the primary purpose of its garages is for vehicle maintenance. Further, STC indicates that the coaches meet standards set by the Federal Government. To increase the public's awareness of these standards, STC could tell the public where to obtain access to these standards.

In some of its reports, STC cites the need to correct deficiencies at its facilities, but does not clearly indicate the nature of these deficiencies or explain other key processes it uses to maintain its facilities.

Overall, the information STC makes available provides the public with a good understanding of the condition of its vehicles. However, more information is needed on its facilities to enhance the public's awareness of their condition.

1. We recommend that STC provide the public with additional information about the current condition of its facilities to help explain their capacity.

For SPMC, its infrastructure consists of facilities (i.e., land and buildings that it owns and/or manages), vehicles, and aircraft. SPMC provides the public with general descriptions of the types of its facilities (e.g., office space, storage, special purpose such as courthouses and health care facilities). It reports the number of each. For its vehicles, it indicates the number of client groups (i.e., 330) and their average annual usage (i.e., 70 million kilometres per year).

SPMC states the specific location of some facilities (i.e., its offices, courthouse facilities, vehicle depots) and indicates they are in 165 communities and 25 provincial parks. Unfortunately, this does not indicate the primary geographic locations of its facilities (e.g., percentage in Regina or other urban centres). Information on primary geographic locations help the public to better understand the service potential of the infrastructure and potential risks in the event of a disaster, an economic downturn, or other factors that may affect infrastructure.

Similar to STC, SPMC consistently sets out in its financial statements the original cost, accumulated amortization, and net book value (i.e., depreciated value) of each major category of infrastructure. It also provides the cost of repairs and the amount of purchases of additional infrastructure in each year.

SPMC describes the types of services that each category of key infrastructure can produce, but does not set out the volume of services it can provide over its remaining lifespan. For its facilities, SPMC could state the square metres of available office space, cubic metres of storage space, the amount, and type of vacant space it holds, or occupancy rates. For its vehicles, SPMC could set out the average number of standby vehicles. This would help the public understand the extent of unused capacity.

SPMC sets out a range of estimated useful lives for each major category of its infrastructure (e.g., equipment including vehicles and aircraft 2 to 20 years, buildings 1 to 55 years with average estimated useful life of 20 years). It does not provide the current lifespan of its facilities and vehicles.

SPMC clearly indicates the number of buildings that it maintains (i.e., 543 out of the 937 that it owns), and the number that tenants maintain (i.e., the remaining 394). It provides information about the key processes used to maintain its facilities (e.g., risk management, strategic planning, property and liability insurance). It also notes that it has a backlog of essential maintenance and major renovation projects[5]. But SPMC does not provide the extent of the backlog or the impact on the current condition of its facilities.

For situations where tenants agree to maintain SPMC's facilities, SPMC must have processes to ensure the tenants carry out this responsibility effectively. SPMC does not provide the public with information on such processes.

In addition, SPMC provides limited information about processes it uses to maintain its vehicles and aircraft.

Without further information about the condition of its infrastructure (e.g., percentage in compliance with related codes or safety standards, average remaining service life), it is difficult for the public to understand the condition or capacity of SPMC's key infrastructure.

2. We recommend that SPMC provide the public with additional information about the capacity of its facilities and vehicles including their current condition and potential volume of service.

Extent to which the use of key infrastructure achieved planned results

Government agencies should provide the public with sufficient information to decide whether the use of public infrastructure helped the Government to achieve its planned operating and financial results. Government

[5] *SPMC, 2002-2003 Annual Report*, p. 16.

agencies should compare actual results to targets for key operational information (e.g., number and duration of service interruptions or downtimes, public safety and reliability, impact of the infrastructure on the environment).

Agencies should also compare actual financial results to key financial targets (e.g., expected return on investment, budgeted acquisition, operating or maintenance costs). We also expect agencies to report the reasons for significant differences between planned and actual results for both operational and financial information.

STC uses a performance reporting model called the Balanced Scorecard. Using this model, STC sets out its key performance measures. For each measure, it provides its current-year target, actual result, and the next year's target. A number of these measures relate directly to its use of its vehicles (e.g., for volume, quality, and continuity of services).

In its reports, STC clearly indicates that it uses its facilities to support services related to its vehicles. As such, STC directly links a few of its performance measures to its use of its facilities. Exhibit 2 includes examples of STC's measures and their related objective.

Exhibit 2 – STC performance objectives and measures

Objective	Measure
Match seats in fleet more closely to customer demand	Load factor
Maintain safety	Percentage of preventable-accident free miles driven
Customer satisfaction	Ridership surveys
Ensure Corporation's asset base	Average age of fleet
Our routes serve a significant portion of rural Saskatchewan	Miles traveled Communities served.
We work to protect our environment	Percentage improvement in fuel efficiency Average age in years of newer, more fuel efficient coaches
We ensure our equipment is correct for our needs	Load factor
We live within grants given us by our stakeholders	Amount of operating and grants

Objective	Measure
We keep our operating costs as low as possible	Subsidy per mile
Source: *STC, 2002 Annual Report*	

STC recognizes the value of industry comparisons in explaining its use of its fleet but clearly notes that comparative industry information is not readily available. In its annual reports, STC clearly explains the reasons for significant differences between its planned and actual results. It also explains changes in future plans.

With this information, STC provides the public with very good information on the extent to which it uses its fleet to achieve its plans.

SPMC has started to implement the Government's Accountability Framework[6]. Unlike STC, SPMC has not yet provided the public with its key performance measures. In its 2002-2003 Annual Report, it clearly indicates that it expects to report results based on its goals and objectives in the future.

Although SPMC does not provide the public with a comparison of its operational plans to actual results, SPMC's 2002-2003 Annual Report provides the public with more information than it did previously. This Report includes an overview of some of SPMC's key plans for its infrastructure and more clearly describes the services that it provides with its infrastructure. It reports "Sustainable Property Infrastructure" as a key goal.

We encourage SPMC to select performance measures and targets that directly link to its objectives for its key infrastructure. It should then report on its achievement of these targets. This will help to inform the public about how well SPMC has done in achieving its plans.

In its annual reports, SPMC provides limited information about the achievement of its financial plans. It compares its planned revenues and expenses to its actual results but only briefly explains significant differences. In its financial statements, it states the nature and amount of infrastructure purchased each year. However, it does not set out the

[6] Additional information on the Government's Accountability Framework is available on the Department of Finance's website at http://www.gov.sk.ca/finance/accountability/ (October 31, 2003)

planned level of purchases. SPMC's financial results set out its property maintenance costs, but not the costs to maintain its vehicles and aircraft.

Overall, SPMC does not provide sufficient information on the extent to which it uses its facilities, vehicles, and aircraft to achieve its plans.

3. We recommend that SPMC provide the public with additional information about the extent to which the use of its key infrastructure (i.e., facilities, vehicles, and aircraft) achieved its operational and financial plans, and explain significant differences between actual and planned results.

Strategies used to manage key risks of the infrastructure

Government agencies should describe the major risks that affect each major category of their infrastructure. Risks may include those common to the industry, risks related to deferred maintenance, changes in technology, and health or safety concerns. Agencies should also outline their actions to reduce these risks to acceptable levels.

STC describes key trends and other factors that impact its operations. For example, it explains how the province's changing demographics (e.g., increased urbanization, high reliance on private vehicles, state of highway system) impacts the number and types of passengers who ride buses.

Although not explicitly described as risks, STC provides sufficient information to allow the public to determine that its risks centre on the safety and security of passengers, maximizing the recovery of costs, and managing potential changes in competition. A number of STC's performance measures reflect its key strategies and actions to manage and reduce these risks. For example, to address safety risks, STC tracks the percentage of accident-free miles and preventable-accident free miles. To minimize costs, STC is working towards matching the size of its coaches to suit the needs of the public. To do this, STC replaces older coaches with new ones of a suitable size.

STC provides the public with adequate information on the strategies it uses to reduce major risks facing its vehicles. However, it provides limited information about risks facing its facilities (i.e., depots and service garages).

STC's facilities are important for the delivery of its services. STC relies on its garages to provide maintenance services and its depots to manage the flow of its passengers and express customers. STC briefly notes structural deficiencies in some of its buildings but provides limited information on planned actions.

4. We recommend that STC provide the public with additional information about the strategies used to manage major risks facing its facilities by describing the actions it is taking to reduce these risks to an acceptable level.

SPMC clearly indicates that it operates within limited financial resources and therefore must provide cost-effective services. A key risk that SPMC faces is that it must appropriately maintain its facilities to ensure future viability. SPMC reports a backlog of essential maintenance. SPMC does not clearly explain what it plans to do to reduce this risk.

SPMC explains some of its other risks in general terms. It provides information about some of its key corporate and operational risks and environmental issues that affect the capacity of its infrastructure. For example, its risk management and operational staff work together to identify risks and develop practical, cost-effective approaches to reduce these risks. For example, SPMC notes its use of property and liability insurance to protect against financial loss due to unforeseen circumstances.

SPMC could provide more information about other risks it faces. For example, SPMC is at risk that its tenants who agree to maintain facilities will not do so adequately. SPMC should describe this risk and what it is doing to reduce it.

Providing additional information on the current level of major risks, plans to reduce these risks, as well as the level of risk that SPMC considers acceptable would help the public understand the residual risks. We note that under the Government's Accountability Framework, SPMC is not yet required to report the risks it faces. SPMC will be required to report these risks in 2005.

Selected references

Australian National Audit Office. (1996, June). *Asset Management Guide*. http://anao.gov.au/WebSite.nsf/Publications/4A256AE90015F69B4A25692900152215 (October 31, 2003).

Australian National Audit Office. (1996, June). *Asset Management Handbook.* http://anao.gov.au/WebSite.nsf/Publications/4A256AE90015F69B4A256911008379C8 (October 31, 2003).

Australian National Audit Office. (1997-1998). *Audit Report No. 41*. http://anao.gov.au/WebSite.nsf/Publications/4A256AE90015F69B4A25690600094A85 (October 31, 2003).

Deloitte Consulting. (2000, April). *Capital Management Process Review for the Government of British Columbia: Final Report*. British Columbia: Author.

Government Asset Management Committee. (1999). *Integrating asset management into service and resource planning*. Australia: Government of New South Wales.

McNamee, P., Dornan, D., Bajadek, D., and Chait, E. (1999, October). *Understanding GASB 34's Infrastructure Reporting Requirements*. Arlington, Virginia: PricewaterhouseCoopers LLP.

Patton, T.K. & Wardlow, P.S. (1999, May). *Why infrastructure reporting?* Government Accounting Standards Board (GASB) Action Report 16 (5).

United States. General Accounting Office (GAO). (1998, April). *Executive Guide: Leading Practices in Capital Decision-Making. Washington*, D.C.: Author. http://www.gao.gov/archive/1998/ai98110.pdf

Unites States. Executive Office of the President. (1997). *Capital Programming Guide: Supplement to Part 3 of Circular No. A-11*. Washington, D.C.: White House. Office of Management and Budget. http://www.whitehouse.gov/omb/circulars/a11/cpgtoc.html