

TBS Horizontal Fixed Asset Review

Financial Management Institute of Canada
January 23, 2020

**HORIZONTAL
FIXED ASSET
REVIEW** Better management.
Better value.

Ensuring federal real estate assets
generate greater value for Canadians



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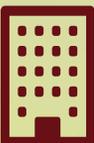
GC Real Property Portfolio: At a Glance

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The Government of Canada (GC) is the **largest real property owner** in Canada. The GC real property portfolio is sizable, diverse and complex, and provides a vital network of infrastructure throughout Canada.



The management of federal real estate is distributed across 16 departments, 11 agencies and 38 Crown corporations*



PSPC is the designated custodian of general purpose office space and provides accommodation to tenants through its mandatory program



The Government spends approximately \$10B annually to purchase, construct, repair, maintain and operate this portfolio**



Approximately 10,000 people (4% of the core federal public service) are employed across government to perform real property functions***

* Crown corporations are not scoped into the Review.

** Estimations developed using data from Public Accounts 2015-2016.

*** Workforce Analysis: Real Property Community (2016) developed by ASAS (TBS).

The GC real estate portfolio consists of approximately:*

32K buildings
15K properties

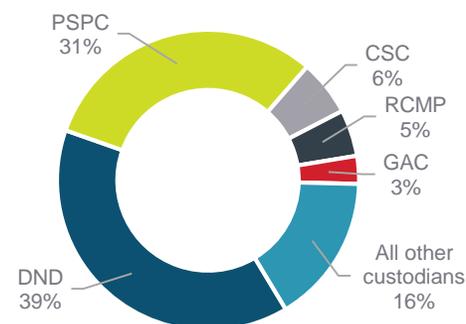
23M m² of floor area
39M hectares of land**

* These numbers include 27 custodial departments and agencies scoped into the Review.

** This number includes only managed land and national parks.

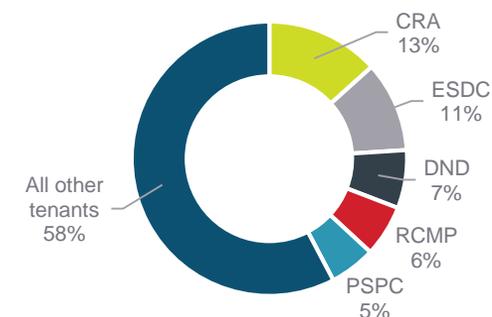
Source: FAR Dataset, extracted from the Directory of Federal Real Property (DFRP) (Feb 2018)

Top 5 Custodians by Floor Area (m²)



Source: FAR Dataset, extracted from DFRP (Feb 2018)

Top 5 Office Tenants by Floor Area (m²)



Source: PSPC Dataset, extracted Sept 2018

Horizontal Fixed Asset Review: Overview

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Budget 2017 committed the Government to “initiate a three-year horizontal review of federal fixed assets, staged by asset-type – e.g., engineering assets, science facilities, etc. A comprehensive review of government fixed assets has not been completed in decades.” By launching this Review, the Government acknowledged the value of real property as a key enabler of program delivery.

Horizontal Fixed Asset Review (FAR)

Cross-cutting issues (e.g., custody, funding, portfolio management) are assessed throughout the Review



Phase I:
Science &
Technology



Phase II:
Office & Other



Phase III:
Engineering &
Other



Phase IV:
Security and
Safety &
Other



Expected Outcome

Improve the management of fixed assets, including divesting legacy holdings, reducing footprint, and strengthening governance and oversight

FAR Objectives

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The Review envisions a right-sized, strategically managed, prudently stewarded, sustainable and carbon-neutral portfolio that supports government programs and delivers value for money

Governance Model

Assess the current governance model, including custody, management, oversight, and real property professionalization. Provide advice on optimal business model.

Portfolio Management

Assess the state of real property portfolio (e.g., age, condition, utilization), and the maturity of demand and supply integration. Provide advice on the most effective portfolio management practices.

Leveraging

Explore opportunities to leverage real property portfolio to achieve broader government objectives (e.g., greening, affordable housing, reconciliation, heritage), and enhance the value of real property assets for Canadians.

Funding Sustainability

Assess the current financial management environment (e.g., expenditures, trends, deferred maintenance, revenues, accounting protocols) and levels of funding to provide advice on long-term financial sustainability.

Divestiture

Assess the current disposal surplus property inventory, and provide advice on innovating and streamlining the business process for the disposal of surplus properties

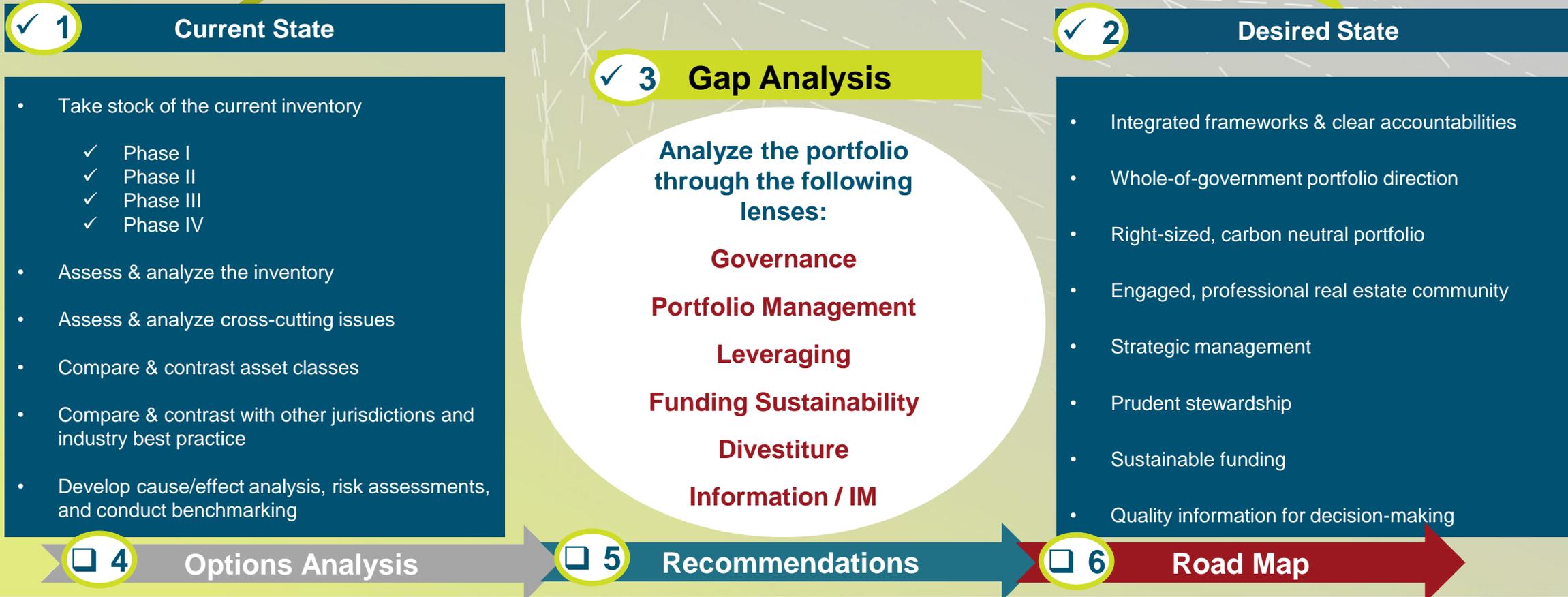
Information / IM

Assess the current state of real property data and information management systems. Provide advice on how to improve data quality and information management in support of evidence-based decision-making.

FAR Logic Model & Status Update

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The Review employs a methodology to take stock of the current state of the portfolio (“as is”), frames the “desired state”, and conducts a gap analysis. On this basis, the Review will develop a roadmap for action.



Overall Findings & Observations

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The Review's analysis shows that macro findings are generally consistent across all asset classes and custodians, noting some peculiarities of each asset class and custodial organizations.

Governance Model

Real property as a key corporate asset is integral to modern government, and is an essential element of government-wide comptrollership and departmental accountability.

Portfolio Management

The Government of Canada (GC) portfolio is aging, the condition of assets deteriorating, and obsolescence is an issue. This presents an opportunity to right-size and modernize the portfolio in support of current and future program requirements.

Leveraging

There is an opportunity to transform the legacy perception of real property (RP) as cost-driver and source of risk to a strategic enabler that can be proactively leveraged to advance broader government objectives (e.g., attract and retain talent, rural and regional economic development, accessibility).

Funding Sustainability

Given the age and condition of the portfolio, deferred maintenance costs are high and are expected to increase. There are systemic funding pressures in Operating & Maintenance and Capital, and purchasing power is eroding.

Divestiture

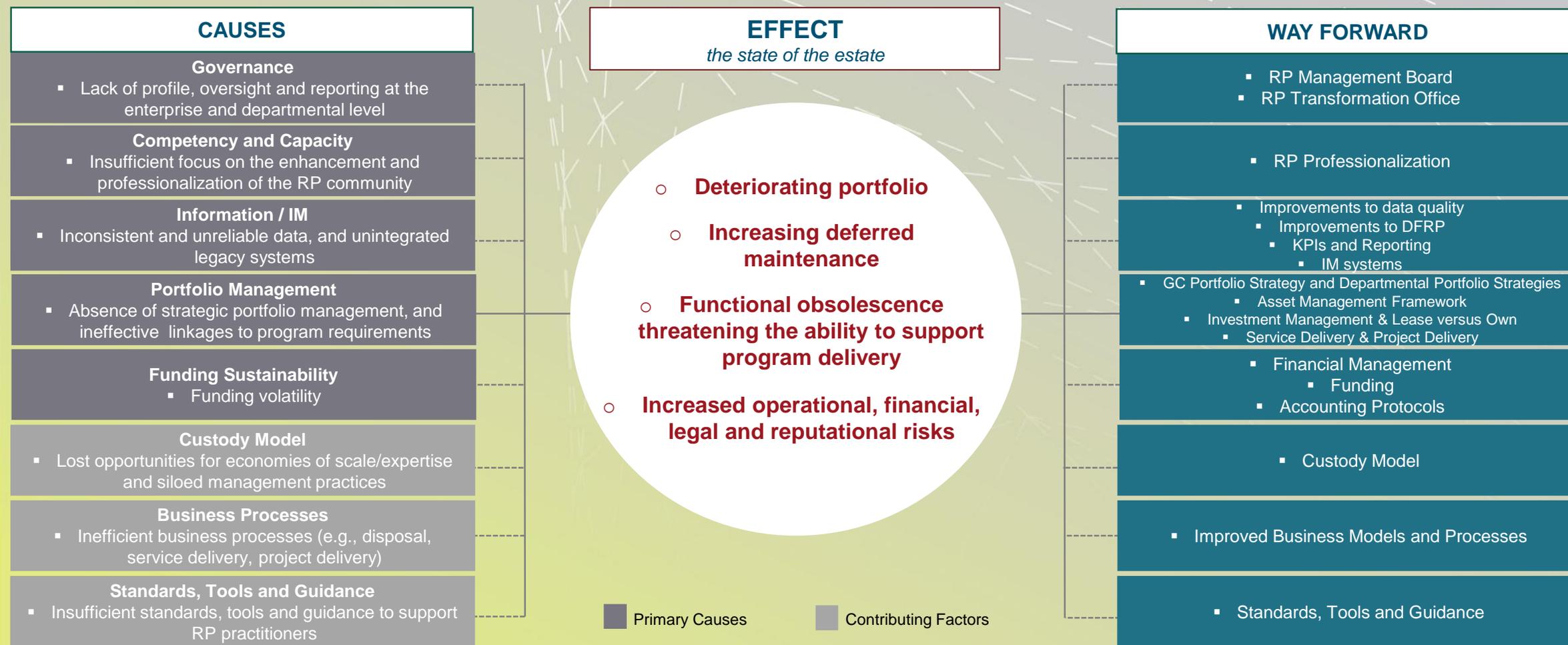
The disposal process of surplus properties is cumbersome, slow and inefficient. There are opportunities to innovate and accelerate cycle time for disposals, which will reduce liabilities and generate financial return.

Information / IM

The Directory of Federal Real Property (DFRP) is a central registry for GC real property. Custodians use a wide variety of IM systems for different functions. There are opportunities for improving data quality, integrating systems and utilizing a variety of business intelligence tools in real property management.

Cause & Effect

A number of inter-connected, systemic and complex causes (noted below) have led to the current state of the GC portfolio. Mindful and intentional actions need to be taken on multiple fronts simultaneously given the interdependencies between the multi-faceted causes.



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Legislative and Policy Context

The Real Property financial environment is governed by a complex set of legislations, policies, strategies, tools, practices and procedures. Key legislations include:

- *Financial Administration Act*
- *Federal Real Property and Federal Immovables Act*
- *Appropriations Act*
- *Federal Accountability Act*
- *Canada Labour Code, Part II*
- *Canadian Environmental Protection Act*

Policy Framework for the Management of Assets and Acquired Services

- *Policy on the Planning and Management of Investments*
- *Policy on the Management of Real Property**
- *Directive on the Sale or Transfer of Surplus Real Property**
- *Accessibility Standard for Real Property**
- *Appraisals and Estimates Standard for Real Property**
- *Reporting Standard on Real Property**
- *Fire Protection Standard**
- *Guide to the Management of Real Property*

Policy on Financial Management

- *Directive on Accounting Standards*
- *Guideline on Departmental Chart of Accounts Line Object Codes*

TBS Management Accountability Framework (MAF)

MAF is the framework for management excellence, accompanied by an annual assessment of management practices and performance in most departments and agencies of the Government of Canada.

Key Datasets holding real property related data

- Public Accounts
- The Directory of Federal Real Property (DFRP)
- The Federal Contaminated Sites Inventory (FCSI)

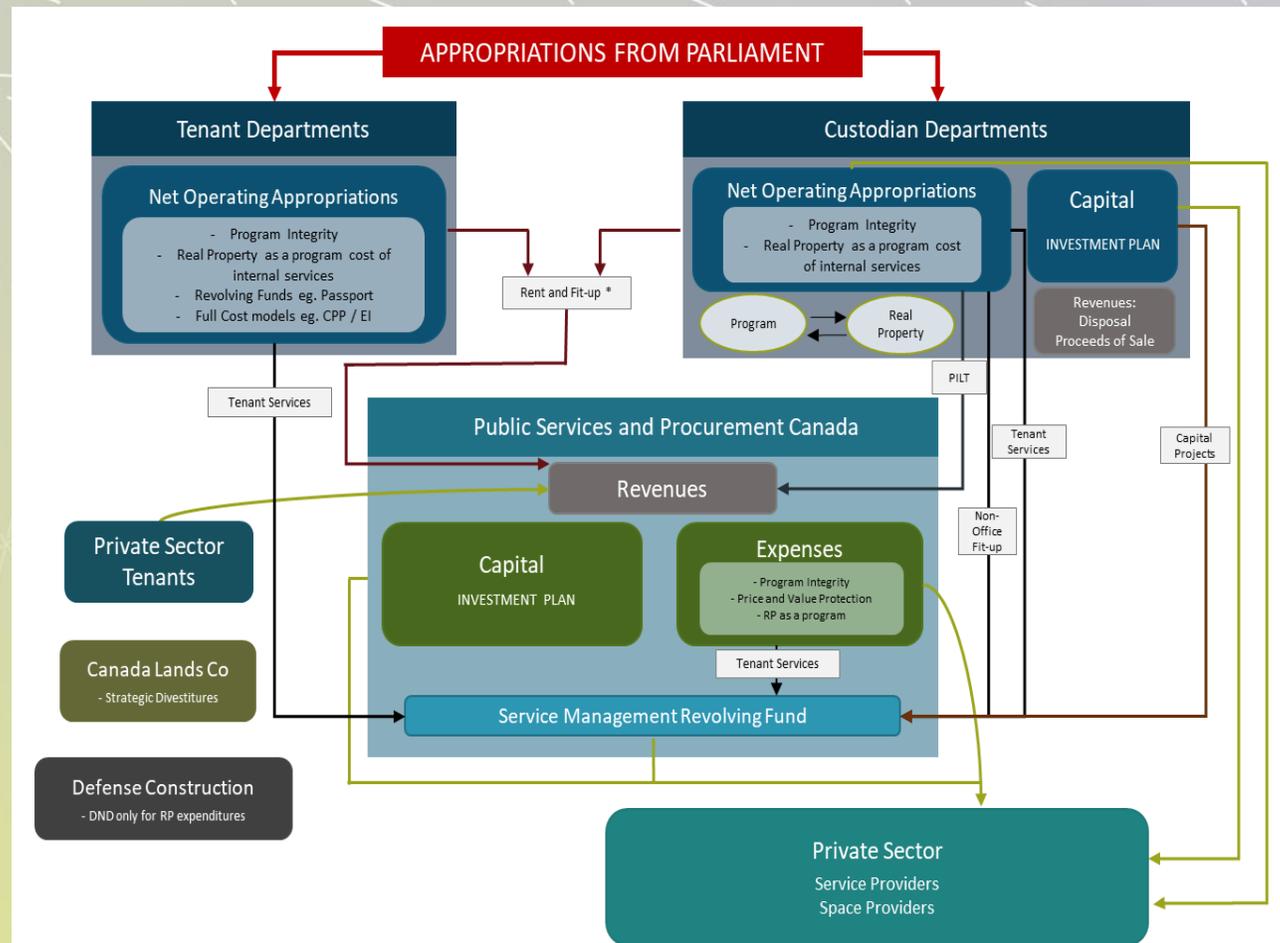
* The Directive on the Management of Real Property will replace these TB policy instruments.

Observations on the Current Funding Model

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The way real property expenditures are accounted for is complex due to the real property funding framework.

- The current funding model is based on the real property management regime established by the Nielsen Task Force (1985). This regime includes tenants, custodians and PSPC as the common service provider. This results in variations in business volumes depending on the business model chosen by custodians.
- PSPC is the only custodian with special-purpose allotments for the management of real property.
- Other custodians are subject to the internal annual funding allocation processes which can result in fluctuations to real property funding.
- PSPC has the ability and competency to argue for funding to protect against inflationary pressures and fluctuations in portfolio size, which would otherwise lead to the natural erosion of real property budgets over time.
- Optional real property services (e.g., property management, and technical services) are provided to custodians by PSPC, and supported by a funding mechanism – the Real Property Services Revolving Fund.



* Costs exceeding the tenant space allowance or Fit-up Standards only.

Accounting Protocols – Preliminary Analysis

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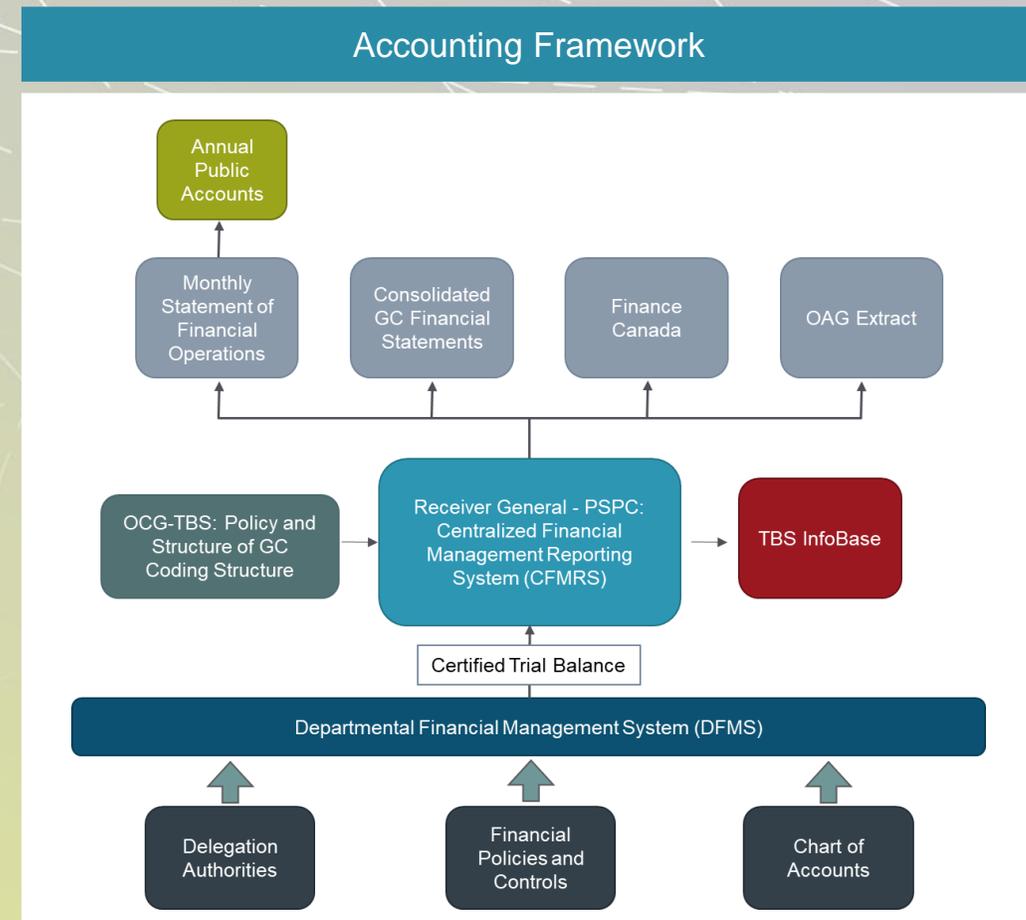
When implemented and monitored correctly, integrated accounting protocols can provide necessary information required to support effective real property management.

The Government of Canada's accounting policies are based on Public Sector Accounting Standards.

- In 2002, the Public Sector Accounting Board (PSAB) recommended that senior levels of government adopt accrual-based private sector accounting practices for financial reporting purposes. This involves the capitalization and depreciation of tangible capital assets rather than the practice of expensing items (PSAB 3150).
- The current chart of accounts supports the reporting requirements for program and responsibility centre monitoring as well as financial reporting requirements, set out in the Public Accounts and PSAB for financial statement reporting.

Although there is a financial structure in place to report on real property, there are *no shared reporting practices* among custodians.

- The only enterprise-wide database for real property reporting is the DFRP, which does not include any financial data.
- In addition, not all real property assets are reported in the DFRP (e.g., engineering assets).
- Unique identifiers (or pivot references) would be required to help integrate real property and financial systems.



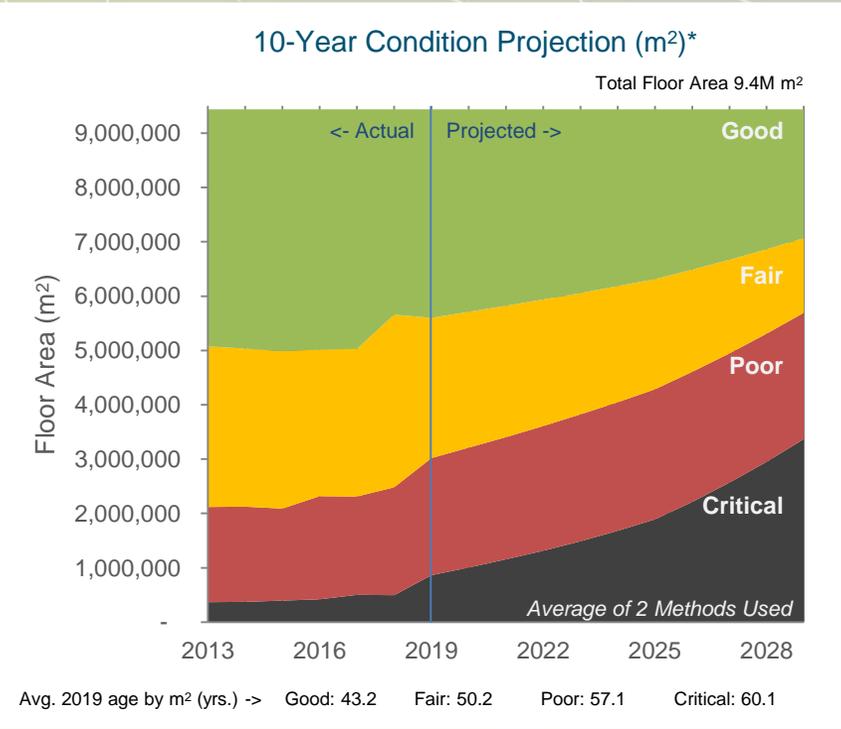
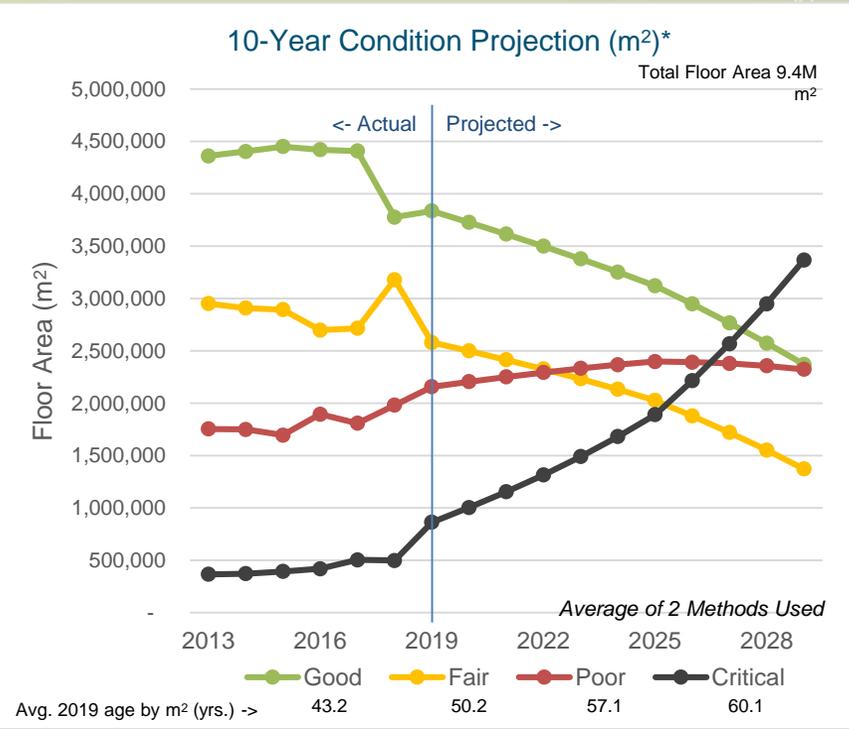
Current State of the Portfolio

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The Review findings demonstrate that the Government of Canada (GC) real property portfolio is aging, and deferred maintenance costs are increasing while the condition and functionality of assets are declining. This accelerating deterioration increases operational, financial, legal and reputational risks and liabilities, compromising the portfolio's ability to support federal programs and broader government objectives.

In the next 10 years, more than half of the total GC floor area will be in Poor and Critical condition, with Critical surpassing all other condition types.

Cost to cure deferred maintenance increases significantly for assets that are in Critical condition – 12 times higher for S&T assets and 5.5 times higher for office buildings



S&T Deferred Maintenance cost per m² by condition category

Condition Categories	DM Cost per m ²
Good	\$277
Fair	\$676
Poor	\$906
Critical	\$3,211

Office Deferred Maintenance cost per m² by condition category

Condition Categories	DM Cost per m ²
Good	\$169
Fair	\$491
Poor	\$472
Critical	\$953

* The data used for the projections represents the building condition information reported to the DFRP over time (2013-2019) by floor area (m²), excluding DND and engineering assets.

Questions & Answers

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