

May 2002

Capital Asset Management Framework

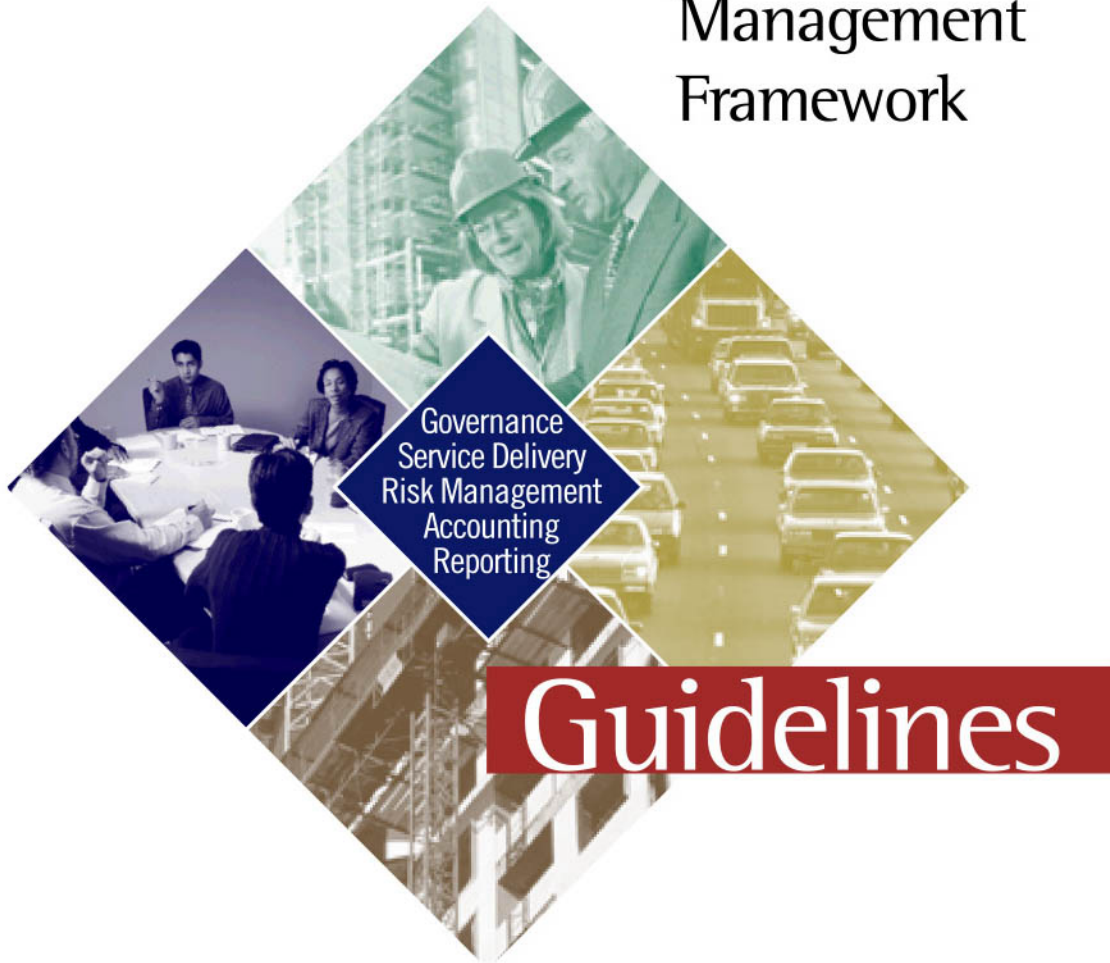


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INTRODUCTION

1. INTRODUCTION

INTRODUCTION

1.1. Overview of the Guidelines

These guidelines are part of a broader Capital Asset Management Framework which includes a set of principles and objectives, as well as practical tools to support best practices. All framework documents are available online at www.fin.gov.bc.ca/tbs

These capital asset management guidelines were developed to support provincial public-sector agencies¹ – including ministries, Crown corporations and local agencies such as school districts, health authorities and post-secondary institutions – to find the best solutions and apply best practices in managing capital assets on behalf of British Columbians.

The guidelines are part of a broader Capital Asset Management Framework, which includes:

- a high-level overview document describing the framework’s objectives and principles, and illustrating steps and approval points in the capital process;
- a set of guidelines (this document), articulating the Province’s minimum standards, as well as more detailed policies and processes, for capital asset management; and
- tools that support best practices in capital asset management. These are provided at the end of each section of the guidelines, where applicable.

1.2. Organization

Agencies are not expected to follow these guidelines step by step, in the order in which they appear. They should consider the Capital Asset Management Framework as a whole, referring to relevant sections as needed to support a continuous, multi-year capital planning process.

Capital asset management refers to the standards and processes applied through an asset’s full life cycle – from planning and acquisition through to operation, maintenance and disposal or renewal – as illustrated in Figure 1.2. The guidelines are organized according to this model with additional sections dedicated to overarching issues such as governance, risk and cost management.

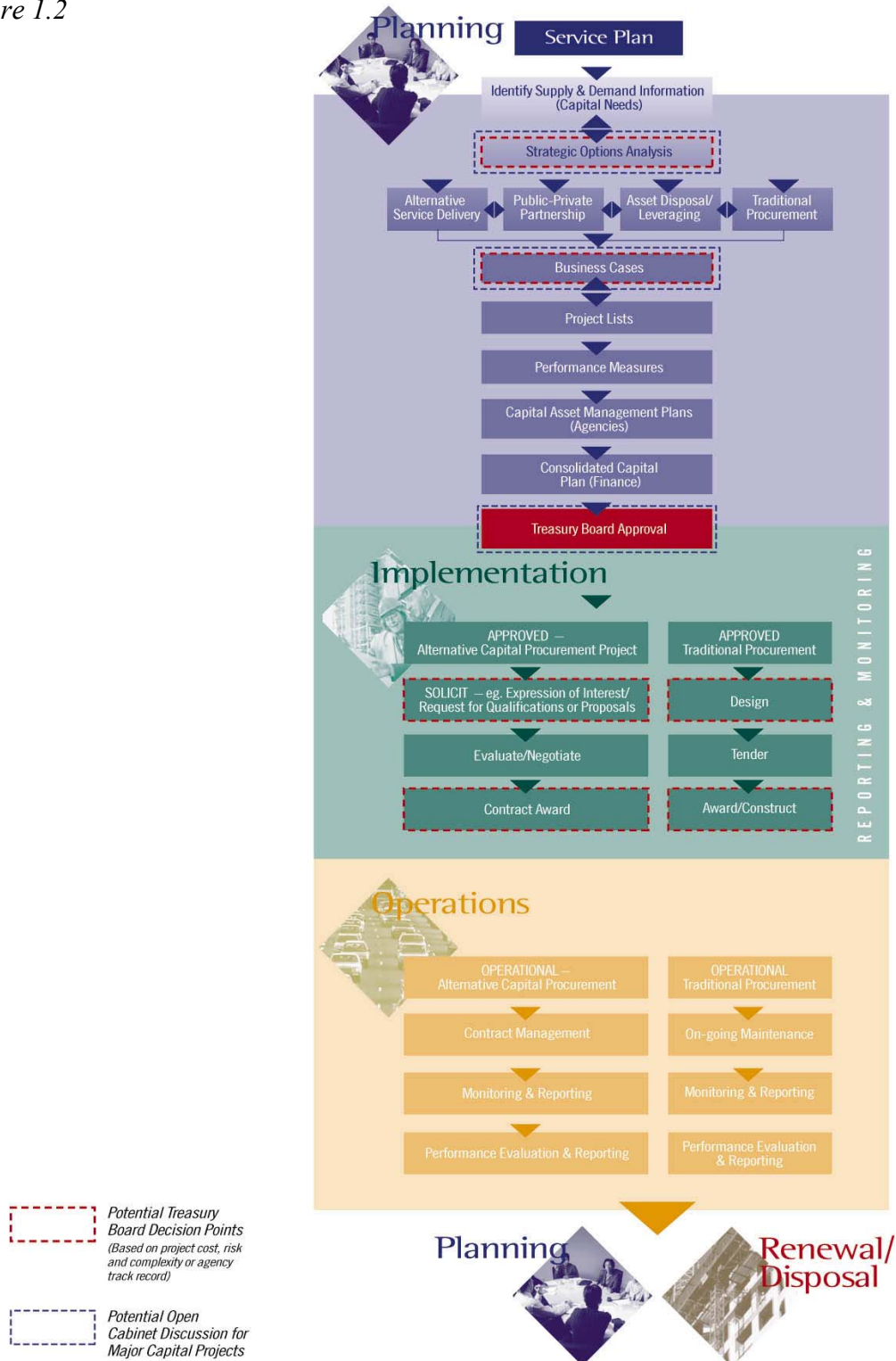
Agencies are not expected to undertake the processes described in these guidelines in the order in which they appear. Capital asset management is not a linear process; it happens continuously, with a range of activities often happening simultaneously. Reflecting this reality, the guidelines include links between various chapters and

sections, as well as links to other documents, which agencies are encouraged to follow according to their needs.

¹ Provincial public-sector agencies refers to government and government bodies as defined by the *Financial Administration Act (FAA)*. Section 4.1 of the *FAA* is the primary authority for the scope and application of the Capital Asset Management Framework.

INTRODUCTION

Figure 1.2



INTRODUCTION

The guidelines address:

- the roles and responsibilities of various levels of government involved in capital asset management;
- minimum standards agencies should strive to meet or exceed in planning and managing their asset bases through every phase of their life cycles;
- the Province's policy approach to oversight, including the approval and reporting requirements that may apply, based on agencies' or projects' risk profiles;
- capital-related budget processes; and
- standards for both alternative and traditional asset procurement.

1.3. Application

These guidelines apply to all public-sector agencies, and to the management of all public capital assets, regardless of their dollar value, the way they are financed (e.g. debt financed or expensed), or their accounting treatment. (For direction on accounting treatments, see Table 1.3 below and Chapter 14).

These guidelines are designed to support best practices in capital asset management. Agencies are encouraged to think creatively and find the most efficient ways to meet service delivery needs, while protecting the public interest and delivering value for money.

Guidance is provided regarding both alternative and traditional, publicly-financed asset procurement, recognizing that traditional approaches are not always the most effective – and that, in some cases, service delivery challenges can be met in ways that have no asset implications.

Agencies are encouraged to be creative in their planning and to find innovative solutions by focusing first and foremost on service delivery needs (rather than service delivery methods) and choosing the approach that:

- best meets service needs
- protects the public interest, and
- provides value for taxpayers.

Specific direction on the guidelines' application to individual agencies (e.g. project types, financial thresholds, approval requirements) is included as part of the broader guidance in Treasury Board Decision Letters, Letters of Expectations or, in the case of Crown corporations, through Shareholder's Letters of Expectations (where applicable). For further information see Section 5.3, Treasury Board Approval Requirements.

The capital asset management guidelines are directly relevant to ministries, Crown corporations and local agencies. Ministries are encouraged to develop their own policy approaches to the oversight of any local agencies in their purview.

INTRODUCTION

Table 1.3

<i>Accounting Perspective - Capital Asset Related Expenditures</i>		
<p>Agencies should follow Generally Accepted Accounting Principles (GAAP) and their own accounting policies when classifying capital-related expenditures for budgeting, accounting and financial statement reporting. The columns below outline the major types of capital expenditure covered by the Capital Asset Management Framework and the typical accounting treatment required for each:</p>		
<p>New Capital Assets</p> <p>All direct acquisition, construction and/or development costs related to new capital assets may be capitalized.</p>	<p>Rehabilitation (Betterments)</p> <p>Expenditures on rehabilitation projects may be capitalized. Rehabilitation projects are those that result in any of the following material changes to an existing asset:</p> <ul style="list-style-type: none"> ▪ increased physical output or service capacity; ▪ lower operating costs; ▪ extended life; or ▪ improved output quality. 	<p>Maintenance</p> <p>Capital asset related expenditures that do not qualify for capitalization as new capital assets or rehabilitation of existing assets are considered maintenance expenditures and should be expensed. These include the costs of maintaining assets for their intended purpose and service life, and repairs that do not prolong an asset's original life expectancy.</p>
<p><i>Agencies with specific questions regarding accounting treatment should first consult their in-house accounting professionals. Further advice may then be sought from the sponsoring ministry and, finally, the Office of the Comptroller General.</i></p>		

1.4. Clarifications & Amendments

These guidelines and the other documents that make up the Capital Asset Management Framework are maintained by the Ministry of Finance. Clarifications or amendments may be made in response to:

- concerns identified by Treasury Board, the Ministry of Finance or affected agencies;
- changes in legislation or regulations; or
- regular reviews of the framework's effectiveness by the Ministry of Finance.

Current versions of all framework documents are available on the Internet at www.fin.gov.bc.ca/tbs.

2. GOVERNANCE & OVERSIGHT

GOVERNANCE & OVERSIGHT

2.1. Overview

Governance refers broadly to the legislation, policy, procedures and systems guiding capital asset management at the agency and provincial levels. Oversight refers specifically to the relationship between agencies and central government.

In these guidelines, governance refers broadly to the legislation, policy, procedures and systems that guide the management of capital assets through their full life cycles. Governance concepts can be applied at both the agency and central government levels.

Oversight refers specifically to the relationship between agencies and central government, encompassing the range of checks and balances applied throughout the capital management process. These include Treasury Board's assessments of individual projects, or of agencies' overall capital plans, at key points in the capital asset management process. Specific oversight conditions are set out as part of the broader direction in Treasury Board

Letters of Expectations, Decision Letters or, in the case of Crown corporations, Shareholder's Letters of Expectations (where applicable).

The following section:

- lists and describes relevant legislation;
- provides a general overview of the roles and responsibilities of public-sector agencies in capital asset management; and
- explains the Province's policy approach to capital asset management oversight.

For additional information on oversight, see Section 5.3.3, Treasury Board Approval Requirements (Oversight).

2.2. Legislation

Capital asset management in British Columbia is governed by a range of statutes, including the:

The Financial Administration Act is the principal statute governing capital financial management and administration. It authorizes Treasury Board and the Minister of Finance to provide central direction on capital management to government and government bodies.

Financial Administration Act (FAA)

The *FAA* establishes the government's responsibility and accountability for managing public money across all program and service areas. It is the principal authority for capital financial management and administration.

The *FAA* authorizes Treasury Board and the Minister of Finance to provide central direction on capital management to government and government bodies, including Crown corporations and the broader public sector.

GOVERNANCE & OVERSIGHT

The following points reflect key elements of the *FAA* that apply to capital asset management:

- Treasury Board may provide direction and establish policy and conditions for capital expenditure planning, management and reporting;²
- The Minister of Finance has specific responsibility for fiscal policy, the fiscal framework (including revenue, expenses and debt), management and administration of the consolidated revenue fund and other financial matters; and
- Ministers are responsible for proper financial administration of their respective ministries, under the guidance of Treasury Board and the Minister of Finance.

Financial Information Act (FIA)

The *FIA* sets out authorities for the Minister of Finance, or the minister responsible, to obtain financial information – including capital-expenditure related information as set out in the *FAA* – from a corporation³. The *FIA* also empowers the government to audit Crown corporations.

Balanced Budget and Ministerial Accountability Act (BBMAA)

The *BBMAA* prohibits annual budget deficits as of fiscal 2004-05. It also establishes a salary holdback for ministers and the Premier, paid out on the achievement of annual expenditure and performance targets.

Budget Transparency and Accountability Act (BTAA)

The Budget Transparency and Accountability Act is central to capital asset management. It requires agencies to produce annual service plans, which form the basis for capital planning, and to publish information on major capital projects.

The *BTAA* requires public agencies to produce annual service plans as part of a provincial accountability framework. It also requires agencies to publish financial and other information on major capital projects with provincial contributions over \$50 million.

Other Legislation

Crown corporations and local agencies are also subject to a variety of agency-specific legislation that affects capital management.

² Section 4.1 of the *FAA* assigns responsibility to Treasury Board for making regulations or issuing directives respecting the planning, management and reporting of capital expenditures by government and government bodies.

³ As defined in section 1 (Definitions) of the *FIA*.

GOVERNANCE & OVERSIGHT

2.2.1. Legislation Tools

<p>The Revised Statutes and Consolidated Regulations of British Columbia: http://www.qp.gov.bc.ca/statreg/</p>	<p>Ministerial letter providing guidance to agencies in meeting the major capital project related requirements of the <i>BTAA</i>: http://www.gov.bc.ca/fin.</p>
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2.3. Roles & Responsibilities

Clearly-established roles and responsibilities support strong accountability, which is one of the key principles guiding the Capital Asset Management Framework.

This section provides a general overview of public-sector capital asset management roles and responsibilities. The information is not comprehensive. It is mainly intended to illustrate the areas in which responsibilities diverge and overlap.

Generally:

The Ministry of Finance provides support and advice to Treasury Board and the Minister of Finance on all matters relating to capital expenditures.

All other provincial ministries are responsible for: setting standards for their programs, identifying and prioritizing global capital needs within their service sectors, and preparing capital plans consistent with their service plans. Some ministries are also responsible for directly managing and monitoring capital projects.

As part of the Province's risk-based approach to capital management, responsibility, authority and levels of risk reside with those parties best able to manage them.

Local agencies such as school districts, health authorities and post-secondary institutions are responsible for delivering programs consistent with their mandates and their ministries' strategic directions.

Crown corporations are responsible for planning and implementing capital plans and projects and maintaining their capital assets, consistent with their mandates and strategic objectives.

The following table (Figure 2.3) summarizes some of the key roles and responsibilities of each level of government in capital asset management.

GOVERNANCE & OVERSIGHT

Figure 2.3

KEY CAPITAL-RELATED ROLES AND RESPONSIBILITIES	LEVELS OF GOVERNMENT			
	Ministry of Finance	Provincial Ministries	Local Agencies	Crown Corporations
Financial Framework & Policy				
Establish/administer government's central financial framework and policy				
Borrow funds on capital markets, guarantee agency debt and advance funds to agencies				
Prepare and report provincial financial statements				
Develop, maintain and implement a capital-related financial framework, relevant to the agency (or government as a whole in the case of the Ministry of Finance), addressing such issues as debt service, debt and risk management.				
Develop and implement internal policies, standards and procedures consistent with the Capital Asset Management Framework				
Program & Planning				
Establish ministry and program-level standards, policies and procedures; communicate these to local agencies, along with program requirements and ministry strategic priorities				
Identify and assess capital needs at the program or agency level				
Prepare Capital Asset Management Plans				
Review capital-related submissions and prepare the provincial Consolidated Capital Plan				
Capital Management & Implementation				
Implement capital plans				
Manage capital projects/programs, public-private partnerships or other activities necessary to meet service delivery or capital needs				
Own, maintain and operate facilities				
Monitor/audit compliance with government requirements (e.g. Treasury Board conditions of approval)				
Monitor ministry's capital program and approved capital projects				
Publicly communicate capital-related approvals and/or key milestones in the life cycle of capital projects				

May be relevant to only certain ministries.

GOVERNANCE & OVERSIGHT

2.4. Provincial Oversight

The Province uses a risk-based approach to oversight wherein degrees of rigour in monitoring, reporting and other checks and balances are proportional to the cost, complexity and level of risk associated with capital decisions.

In the Capital Asset Management Framework, oversight refers to the process by which central government reviews, approves, monitors and provides guidance on the capital-related work of public agencies. Oversight occurs at both the agency and project levels, including the specific approval and reporting requirements set by Treasury Board. (For details regarding project-level oversight, see Section 3.2, Project Risk.)

The Province's approach to oversight is risk-based. That means the level of checks and balances established by central government is proportional to the level of risk associated with an agency and/or a specific capital project.

Within this system, agencies are subject to less oversight when they:

- have approved service and capital plans,
- manage within fiscal and performance targets, and
- have a proven track record for managing capital projects effectively.

Agencies that cannot demonstrate satisfactory performance are subject to more rigorous levels of oversight, as are complex, high risk projects – regardless of the agency's track record.

Oversight is dynamic though, and the Province operates on a principle of earned independence. In other words, agencies are subject to diminishing levels of oversight as standards are achieved, best practices are implemented and cost-effective, accountable performance is proven.

The Province's objective is that all public agencies will be proven capital management performers and therefore subject to minimal oversight.

The Province's objective is that all public agencies will be proven capital management performers and therefore subject to minimal oversight. To help agencies meet this objective, the following chart (2.4.1) illustrates the range of factors Treasury Board may consider in determining levels of oversight for agencies managing capital assets and projects.

Agencies are encouraged to address these factors as part of their commitment to best management practices. Agencies are also encouraged to address the project-level oversight factors described in Section 3.2, Project Risk.

GOVERNANCE & OVERSIGHT

2.4.1. Critical Central Oversight Factors

Figure 2.4.1

FACTORS	DESCRIPTION
ORGANIZATIONAL	
<i>Service Plan</i>	Consistent with <i>BTAA</i> requirements, every agency must have a service plan (or strategic or business plan) that has been approved by an appropriate authority (e.g. Cabinet, Treasury Board and/or Crown Board). The service plan must be aligned with government's strategic plan and priorities.
<i>Capital Strategy & Plan</i>	A well-developed capital plan should explicitly support the agency's service plan and, at a minimum, meet the standards set out in these guidelines (see Chapter 4 for further information).
<i>Risk Management Plan</i>	A comprehensive (i.e. enterprise) risk management plan or framework should be developed, consistent with these guidelines (see Section 3.1 for further information).
<i>Performance Measurement and Reporting</i>	Performance measures, targets and reporting mechanisms - linked to strategic and financial objectives – are integral to the agency's service plan and capital plan. They should be flexible to support agencies to identify emerging issues, adapt strategies and reallocate budgets as required.
<i>Governance</i>	Formal governance processes establishing decision-making authorities and accountabilities should be evident to central agencies and clearly communicated throughout the organization.
PROCESSES	
<i>Expenditure Justification</i>	Proven business case methodologies should be used to support all capital asset decisions.
<i>Risk Management</i>	Best practices risk management processes and standards should be in place to identify, mitigate and manage risks associated with all capital projects.
<i>Project Management</i>	Generally accepted best practices project management standards and processes should be in place and applied to managing specific projects.
<i>Capital Inventory</i>	An inventory management system should be in place to track the age, condition and other attributes (e.g. utilization) of an agency's capital assets (see Section 4.3.2 for further information).
<i>Asset and Real Estate Management</i>	Procedures should be in place to manage a portfolio of assets with standards and performance measures to identify, prioritize and justify maintenance, expansion and other capital activities.
<i>Planning & Budgeting Tools</i>	A well-developed system of planning and budgeting tools should be in place to support the development of meaningful capital plans, projects and budgets.
<i>Operating, Maintenance & Administration Links</i>	The agency's capital plan should identify the costs and risks associated with capital assets through their full life cycles, including operating, maintenance and administration implications. These should be integrated directly with the agency's capital decision process.
<i>Public Consultation</i>	The agency should consult with the public when appropriate to seek input to, and gain support for, its capital program.

GOVERNANCE & OVERSIGHT

TRACK RECORD	
<i>Performance Achievement</i>	The agency’s performance record for capital asset management, including its success in meeting capital-related fiscal targets, will be considered.
<i>Project & Risk Management Performance</i>	The agency’s track record in managing projects and their risks will be carefully assessed.
<i>Shareholder/taxpayer Value</i>	The agency should demonstrate that it has consistently sought to optimize value for money and, where appropriate, to coordinate its capital activities with other agencies to develop least overall cost solutions.

This section outlines the factors Treasury Board considers in determining levels of oversight for agencies managing capital assets and projects. For project-specific oversight considerations, see Section 3.2.

The chart above may be useful for ministries and Crown corporations assessing the capital-related capabilities of local agencies, subsidiaries or business units in their purview. Just as Treasury Board uses these factors to determine levels of agency oversight, ministries and Crowns can use them to help determine appropriate levels of oversight for capital projects.

Agencies can also use the chart above to assess their own organizations, and to address areas where improvements may be needed. Agencies should reassess their capital capabilities at least every three years and each time a significant organizational or management change is made.

To support this ongoing work, agencies are encouraged to appoint a senior manager with responsibility, accountability and authority for overseeing capital management processes, including education of agency employees and contractors.

2.4.2. Communication of Oversight Requirements

As detailed in Section 5.3, Treasury Board oversight conditions for agencies and projects are communicated as part of the broader direction in Letters of Expectations, Treasury Board Decision Letters or, in the case of Crown corporations, Shareholder’s Letters of Expectations.

2.4.3. Oversight Tools

- Oversight tools (to be developed) will include an agency checklist to help assess corporate risk factors.

3. RISK MANAGEMENT

RISK MANAGEMENT

3.1. Risk Management

Risk management is not just about avoiding negative outcomes. It also helps agencies recognize, and make the most of, emerging opportunities.

In the Capital Asset Management Framework, risk is defined as the chance of something happening that will have an impact, either positive or negative, on objectives and/or outcomes.

Risk management is the process of identifying, analyzing and addressing risks and opportunities on an ongoing basis – not only to avoid negative outcomes, but also to exploit emerging opportunities. It should be part of every public agency’s corporate and project-management culture.

In British Columbia, dollar value is not used as a primary indicator of capital-related risk. Instead, the Province takes a holistic approach, recognizing the broad range of factors that contribute to an agency’s or project’s risk profile and acknowledging that these factors may well change in the course of an asset’s life cycle.

As part of this holistic approach, agencies are encouraged to:

Risk management should be part of every public agency’s corporate and project-management culture.

- support and promote a general system of risk management at every level throughout their organizations (referred to as enterprise-wide risk management, or ERM);
- apply systematic risk management processes at both the program and project levels;
- manage risk effectively throughout the life cycle of all capital assets, from pre-planning through implementation, operation, maintenance and renewal or disposal; and
- carry out post-project reviews to identify what worked and what did not. The lessons learned should be applied to future projects.

Agencies pursuing alternative service delivery or alternative capital procurement have an opportunity to allocate risks to the parties best able to manage them – at the least cost while serving the public interest.

Risk management is especially important when considering alternative service delivery or alternative procurement approaches such as public-private partnerships (P3s). New ways of doing business carry an inherent risk. At the same time, a defining feature of P3s is the opportunity they provide to share or transfer risks. Ultimately, risks should be allocated to those parties best able to manage them at the least cost while serving the public interest.

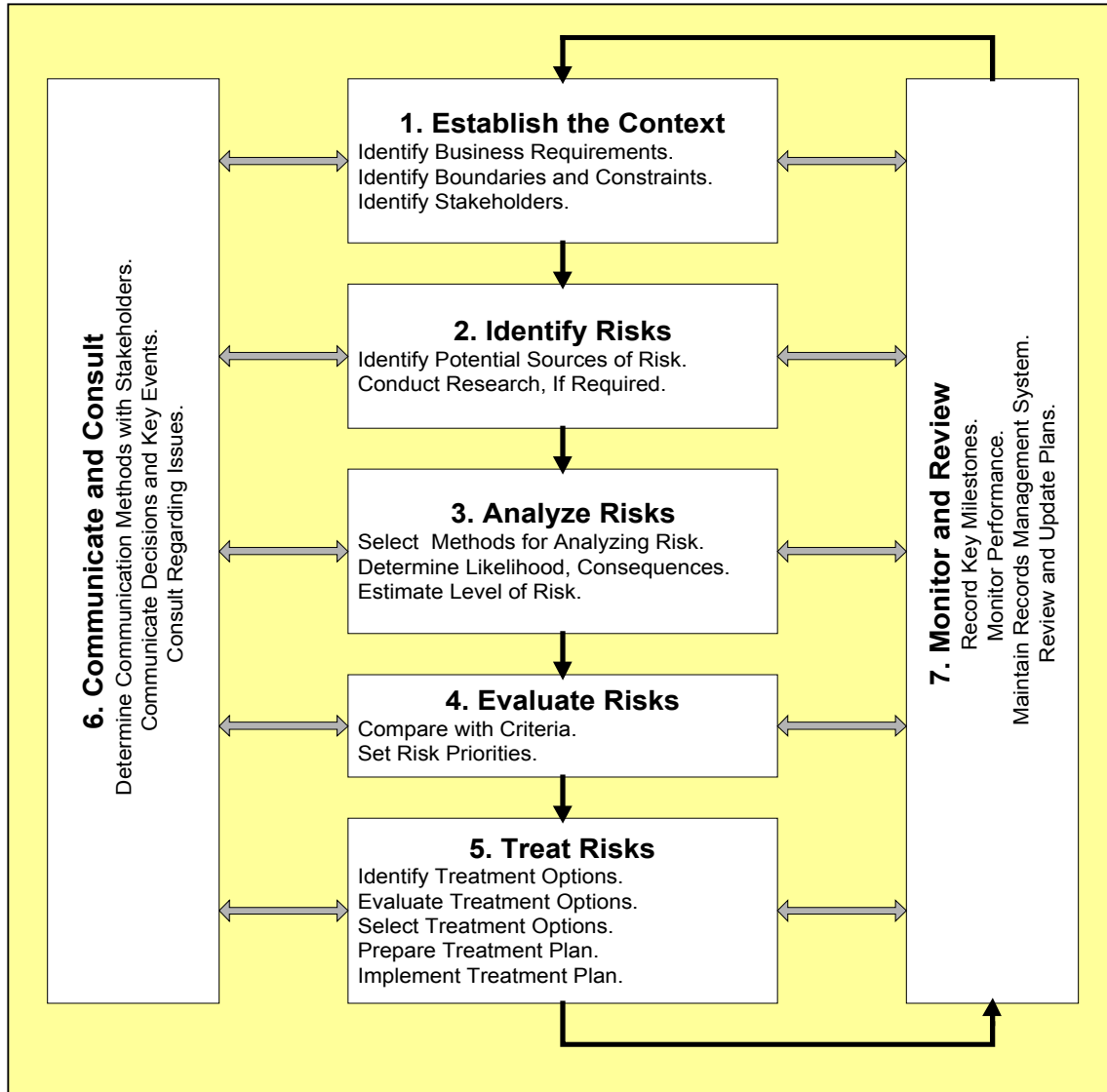
3.1.1. Standard Risk Management Process

Figure 3.1.1 (below) summarizes the Government Enterprise-Wide Risk Management model that agencies should follow in developing or refining their risk management processes. The model identifies a sequence of steps appropriate for use at key points throughout the capital management process, at both the corporate and project levels.

RISK MANAGEMENT

Although the steps are consistent, the degree of rigour required in applying this model (or similar models) will vary according to the levels of risk and complexity associated with each decision. For specific direction on risk management, see the guidelines referenced in Section 3.3.

Figure 3.1.1 - Risk Management Overview



The Province's Enterprise-Wide Risk Management Guideline is available in full at:
www.fin.gov.bc.ca/PT/rmb/index.shtml

RISK MANAGEMENT

3.2. Capital Project Risk

Every capital project carries a certain level of risk that must be identified and managed effectively throughout the project's life. Life-cycle cost is just one of many factors agencies should consider in assessing levels of project risk. Other factors include such things as the project's complexity, the agency's experience with similar types of projects and the nature of any technology involved.

The key to success in capital projects is not to ignore or be intimidated by risk, but to analyze and manage it effectively. That way, agencies can exploit opportunities that might otherwise be judged too uncertain. They can also take positive action to minimize the risks of adverse events as far as practicable. Risk is often most efficiently addressed by ensuring it is carried by the party best able to understand and manage it, at the lowest cost.

The risk profiles of individual projects vary by agency, sector and project type. For example, a multi-million dollar project may be considered routine in one sector while a project of the same cost may be considered high risk in another sector, or when the agency's experience and the project's characteristics are taken into consideration.

Levels of due diligence in managing a project should be commensurate with the project's risks, financial costs and level of complexity.

The degree of effort, depth of analysis and amount of time and other resources that should be committed to planning and managing a particular project – referred to in this framework as the level of “due diligence” – should also be commensurate with a project's risk profile. For example, a large, complex and costly project should be supported by a substantial business case and may require rigorous reporting and monitoring, whereas a small or routine project may require minimal justification and reporting.

To support agencies in successfully managing project risk, the following section provides:

- examples of the types of risk categories agencies should consider when assessing project risk and developing project-level risk management strategies;
- a discussion of, and a model for, rating project risk to help agencies assess a project's characteristics, and to provide guidance in determining the level of due diligence that should be applied; and
- a link to provincial risk-management policy and guidelines that agencies should follow.

RISK MANAGEMENT

3.2.1. Project Risk Categories

Figure 3.2.1 offers examples of the categories Treasury Board considers in determining levels of oversight for capital projects. Section 2.4.1 provides a similar chart, focusing on oversight considerations for agencies managing capital assets and projects.

Figure 3.2.1 (below) provides examples of the project risk categories agencies should consider when planning and managing capital expenditures. It also provides examples of how these types of risks may be treated to reduce the likelihood or consequences of potential loss events.

Agencies are encouraged to address these categories – and develop targeted treatments to address the specific risks unique to each project – as part of their commitment to best management practices.

The categories listed here are among those Treasury Board considers in assessing project risk. (As discussed in Chapter 2, Treasury Board

also considers a wide range of factors in assessing the risk profiles of public-sector agencies themselves.)

Figure 3.2.1 – Sample Project Risk Categories and Treatments

RISK CATEGORY	DESCRIPTION AND TREATMENT EXAMPLES
General Risks	General risks include high-level concerns related to the decision to undertake a project. Examples of risk treatment include: documenting how a project fits with established strategic objectives; assessing the requirements for a new corporate structure; enhancing the project’s profile with the public, media and governments; and working collaboratively to enhance labour and industrial relations.
Policy Risks	These include the likelihood that a project represents, or may be affected by, a major shift in government or agency policy, or change in legislation. Treatment examples include assessing the impact of any potential policy or legislative changes on the project.
Public Interest Risks	Examples include the project’s environmental impact and its relation to public health, safety and security issues. Treatment examples include working with neighbours and the community to address public concerns in the project planning phase.
Management or Organizational Risks	These include the complexities associated with partnerships, investments and management. Treatment examples include managing dependencies on linked funding and contingent investments; ensuring the availability of qualified project managers; and ensuring the project development team has access to appropriate expertise when undertaking a new type of initiative.
Design/Construction, Commissioning, Partnership or Supplier Risks	Examples include sponsor risk (e.g. the likelihood that a private partner may be unable to deliver) and general supplier/market capacity. Treatment examples include ensuring the availability of material and equipment supplies; ensuring that experienced designers, contractors and trades are available in the required time frame; anticipating the need for community permits and approvals; and designing construction windows to avoid delays due to adverse weather.

RISK MANAGEMENT

RISK CATEGORY	DESCRIPTION AND TREATMENT EXAMPLES
Site Risks	These include the risks associated with site selection and acquisition. Treatment examples include ensuring that the site is available at an affordable price; evaluating site challenges such as soil contamination or potential flooding; and ensuring the desired site is free of potential land-claim issues.
Financing Risk	Financing risks relate to the agency’s ability to draw the required financial resources – and the overall financial viability of the project. Treatment examples include ensuring that financing is available at the appropriate time; anticipating the impact of interest rate increases; and evaluating the credit-worthiness of any potential partners.
Cost, Economic or Market Risks	These include all possible events that could affect cash-flow during project development. Sample treatments could include planning for contingencies in the market such as a drop in demand for services; anticipating the potential for labour or material cost escalations; ensuring funding is available to cover operations, maintenance and administration; and assessing the potential for competing facilities.
Ownership & Operations Risk	The risks associated with owning and operating an asset include labour relations, maintenance, technical and asset obsolescence risks. Treatment examples include taking steps to keep maintenance in line with forecast levels; and taking appropriate measures to address the likelihood of abandonment.
Other Risks	Other risks which could be substantive and require resolution and/or management prior to commitment to the expenditure, or during delivery, include uncontrollable “force majeure” risks such as weather and global uncertainty. Treatment examples include developing contingency plans to avoid or reduce construction delays due to emergencies or disasters; and ensuring that business continuity plans address a wide range of potential events.

3.2.1 Due Diligence & Risk Rating

Due diligence refers to the degree of effort, depth and breadth of analysis, and amount of time and other resources that should be committed to a project or a project phase. Levels of due diligence should be commensurate with the degrees and types of risk present.

To ensure they apply the appropriate levels of due diligence, agencies should develop processes to:

- assess the overall risk and complexity associated with each project, throughout its life cycle;
- assess risk in the earliest stages of planning, when only rudimentary estimates of costs and impacts may be available; and
- continually review and update risk assessments at every stage of a project’s life cycle, adjusting levels of due diligence as needed.

RISK MANAGEMENT

The Province’s enterprise-wide risk management process provides a risk-rating system to help determine the level of due diligence that should be applied to activities such as:

Risk rating helps agencies make preliminary assessments of overall project complexity and risk. It also helps central agencies establish project-specific approval and reporting requirements.

- risk-management processes;
- strategic options analysis;
- business-case analysis;
- oversight, reporting and monitoring during implementation; and
- the application of post implementation performance reviews.

Evaluating risk can also help central agencies assess risk exposure and establish approval or reporting requirements for individual projects.

Figure 3.2.2 below provides an overview of some of the critical risk management tasks agencies need to consider at key milestones during project development.

Figure 3.2.2

SUMMARY — RISK MANAGEMENT AT KEY PROJECT PHASES		
STRATEGIC OPTIONS ANALYSIS (SOA)	BUSINESS CASE	PROCUREMENT
A preliminary (i.e. strategic level) assessment of project risk is made at this stage, primarily based on qualitative analysis. This includes an initial identification of project risk categories, an assessment of the likelihood that certain types of risks will occur, and their potential consequences. Relative risk priorities should also be established.	Thorough identification, analysis, valuation (e.g. quantification of the economic or other impacts of each risk on deliverables) and risk treatment strategies are required at this phase, building on the work done to develop the SOA. This typically includes the development of a comprehensive risk register. It also includes development of a detailed project risk management strategy covering risk treatment, optimal risk transfer, and risk monitoring through project implementation.	Further assessment and refinement of risk information and the agency’s risk management strategy are required before the procurement phase is initiated. Solicitation documents should include the risks identified by government. The risk management strategy is then implemented. Risks are treated throughout the various phases of the project.
Risk Rating: Throughout the planning and implementation phases, agencies can conduct regular risk-ratings to provide "snap-shot" assessments of whether the project’s underlying risk characteristics have changed.		

The tool-kit section at the end of this chapter provides guidance and examples of how risk ratings should influence the due diligence required for each phase of capital management, from pre-planning through operation to renewal/disposal.

RISK MANAGEMENT

Risk-rating is not a substitute for a comprehensive approach to managing project risks. For guidance in developing a comprehensive risk-management strategy, see the references in Section 3.3.

3.3. Risk Management Guidelines

As described in the preceding sections, public-sector agencies have a responsibility to ensure that risk management strategies are in place at both the corporate (agency or enterprise) and program/project levels.

For corporate-level risk management, agencies should follow the Province’s *Enterprise-Wide Risk Management Guidelines*.

For project-level risk management, agencies should follow the Province’s *Project Risk Management Guidelines*.

For assistance in using these guidelines, contact the Risk Management Branch of the Ministry of Finance. For contact information, or to view the guidelines, see the Risk Management Branch Web site at

www.min.fin.gov.bc.ca → Provincial Treasury → Risk Management Branch

For assistance in using these guidelines, contact the Risk Management Branch of the Ministry of Finance at (250) 356-8915 or www.fin.gov.bc.ca/pt.htm.

3.4. Risk Management Tools

RMB Managing Risks in Procurement Guideline	RMB Managing Risks in Outsourcing Guideline
RMB Managing Project Risks Guideline	RMB Managing Contract Risks Guideline
RMB Managing Risks in Public-Private Partnerships Guideline	RMB Business Continuity Planning Guideline
<i>Other risk management tools, such as a risk rating system to help make preliminary assessments of overall project complexity and risk, are currently under development.</i>	

All risk management tools are available to government users at the Risk Management Branch web site:

www.min.fin.gov.bc.ca → Provincial Treasury → Risk Management Branch

4. PLANNING



CAPITAL ASSET MANAGEMENT PLANNING

4.1. Introduction

“Capital asset management planning” refers to the process of identifying current and future capital needs, and developing strategies and projects to address those needs.

Sound planning is fundamental to effective capital asset management. Public agencies should develop rolling, multi-year capital plans that support their service plans and reflect the full life-cycle costs of capital assets.

British Columbia uses a consolidated capital planning process wherein public-sector agencies’ capital plans are “rolled up” into a single, provincial plan to support effective financial and risk management of the government’s bottom line.

As part of this process, agencies are encouraged to develop rolling, multi-year capital asset management plans (also referred to as capital plans) that flow from and support their service plans, and reflect the cost of managing assets through their life cycles (i.e. all operating and capital costs).

The following chapter:

- explains key tasks and elements agencies should consider in their capital planning processes; and
- identifies the outputs or products from these processes that should be included in agencies’ capital plans.

For additional guidance on capital planning, agencies are encouraged to refer to the Capital Asset Management Framework overview document, which articulates the objectives and principles guiding the capital management process. Copies of the overview are available online at www.fin.gov.bc.ca/tbs.

For a detailed description of the consolidated capital planning process, see Chapter 5.

4.1.1. Key Elements of Capital Planning

Figure 4.1.1 (below) illustrates the main elements of the capital planning process. It also indicates risk-based approval points – stages in the process where Treasury Board may assess an agency’s plans, based on project costs, risks, complexity and/or the agency’s track record to date.

The balance of this chapter is organized to generally correspond with the elements identified in Figure 4.1.1. However, this is not intended to suggest that capital planning is a linear process, or that the guidelines in this section should be followed in the order in which they appear.



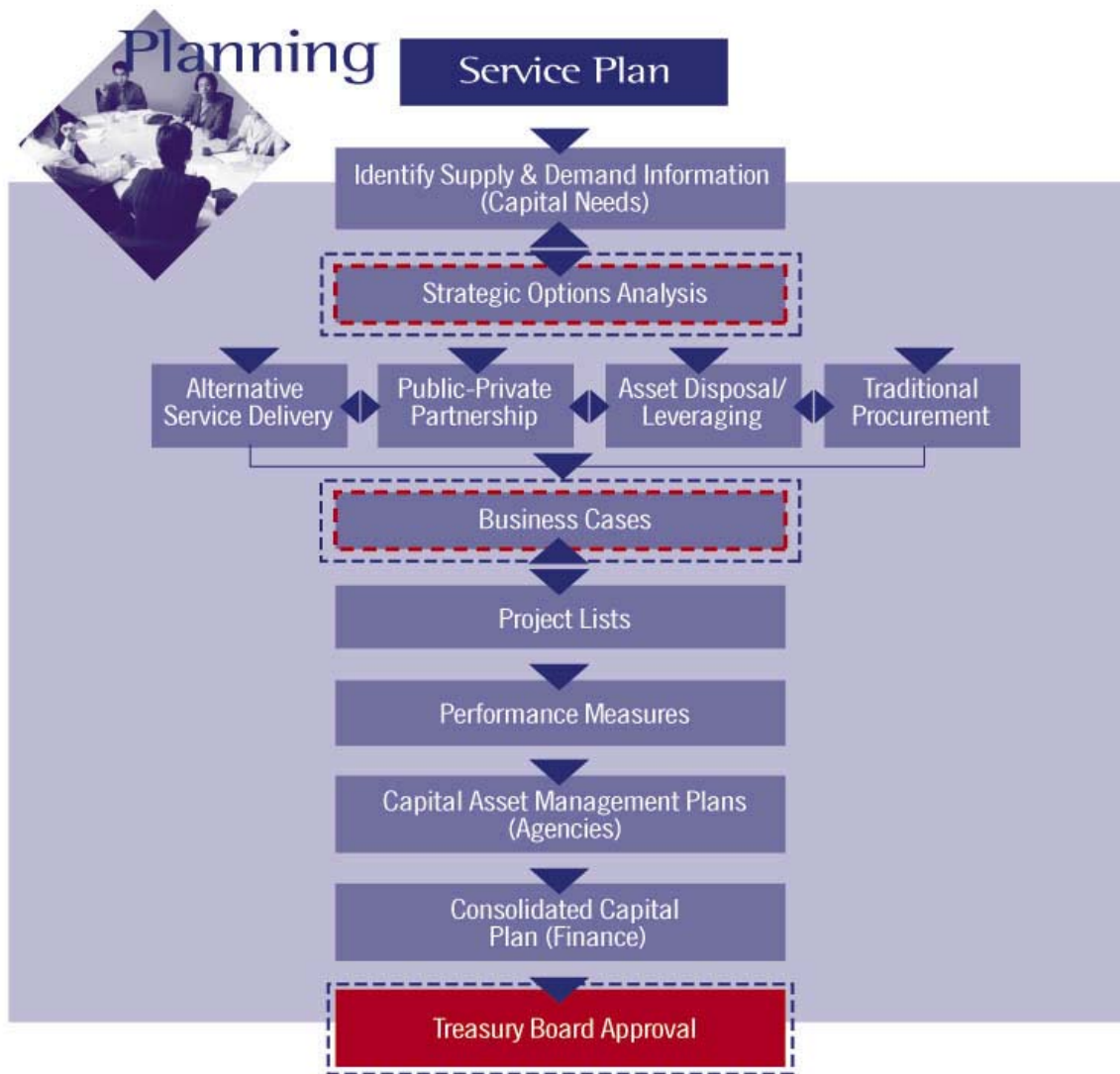
As a further guide, this document symbol is used throughout the chapter to highlight specific items that should be included in agencies’ capital plans.


CAPITAL ASSET MANAGEMENT PLANNING

Recognizing that capital planning happens continuously and often involves simultaneous processes, agencies are encouraged to use the guidelines in the order that best suits their individual needs.

For an overview of the content and organization of capital plans, see the sample Table of Contents in Section 4.9.

Figure 4.1.1



 *Potential Treasury Board Decision Points
(Based on project cost, risk and complexity or agency track record)*

 *Potential Open Cabinet Discussion for Major Capital Projects*

CAPITAL ASSET MANAGEMENT PLANNING

4.2. Service Plan

The purpose of capital planning, and all capital projects, is ultimately to meet or support service delivery needs. Every public agency in B.C. is responsible for delivering a range of core services, as set out in its service plan, and this should be the central factor driving the capital planning process.

Plan

Agencies' capital plans should clearly articulate the links between their service plans and capital plans, including:

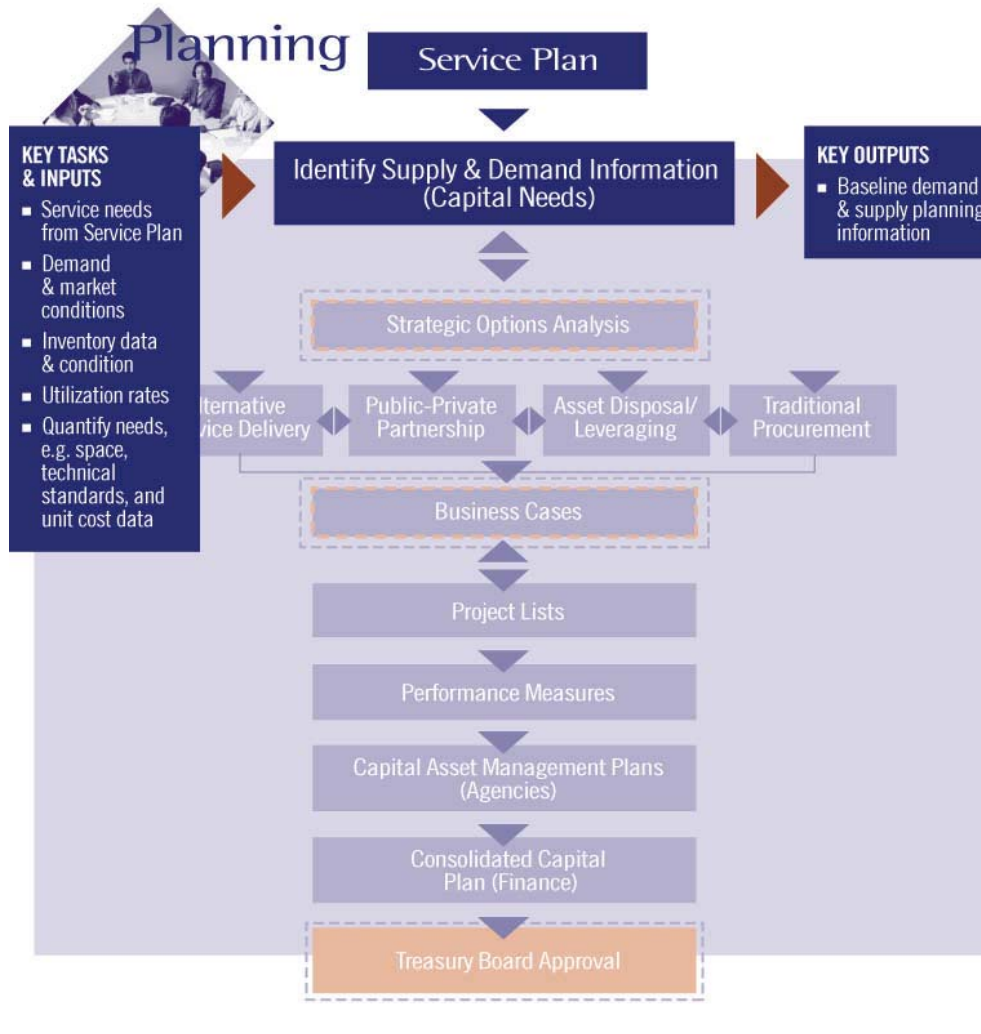
- a description of the mandate, core services and priorities in the service plan;
- an explanation of how the capital plan supports the agency's service plan; and
- where relevant, a summary of how the agency's plans link to broader government strategic priorities.

Capital management planning should be based, first and foremost, on meeting service delivery needs (e.g. patient care, students' education), rather than on service delivery methods (e.g. public vs. private-sector funding or asset ownership).

This information is important for decision makers, ensuring that they view an agency's capital plan in the proper context. It also supports agencies to stay "on strategy" throughout the capital planning process.

CAPITAL ASSET MANAGEMENT PLANNING

4.3. Needs Identification & Analysis



*Potential Treasury Board Decision Points
(Based on project cost, risk and complexity or agency track record)*

Potential Open Cabinet Discussion for Major Capital Projects

During this phase of the capital planning process, agencies analyze their service delivery needs by:

- examining factors driving need;
- assessing their asset bases; and
- based on these assessments, forecasting capital asset needs, including maintenance requirements and a contingency fund for emergencies.

CAPITAL ASSET MANAGEMENT PLANNING

Each of these steps is addressed in detail in the following sections.

4.3.1. Factors Driving Capital Needs

A broad range of factors can affect an agency’s capital needs. Some of the most common are outlined in Figure 4.3.1 (below).

Figure 4.3.1

FACTORS	DESCRIPTION
<i>Demographics</i>	Agencies should consider both current and future indicators, such as population change by age cohort; impacts of births, deaths, immigration and emigration; and issues specific to program areas.
<i>Program changes</i>	These include new initiatives, program terminations or changes in program parameters.
<i>Technological changes</i>	Examples include the impact of web-based technologies on distance learning or e-business opportunities.
<i>Economic or business changes</i>	These include current and projected financial or economic/market trends and opportunities – in general, or specific to the service sector.
<i>Environmental factors</i>	These include the impact of any potential changes to environmental standards.
<i>Social changes</i>	Agencies should consider any trends that could affect service delivery needs.
<i>Legislation</i>	Factors to consider here include any new statutory requirements affecting the agency or its service plan.



Agencies’ capital needs will be affected by different factors, but all capital plans should include:

- an analysis of the most significant factors driving capital needs, and
- an overview of the methodology underpinning the agency’s demand-forecasting models.

4.3.2. Inventory Information

Inventory information is critical to capital planning and should be assembled on an ongoing “rolling” basis. Every public agency should develop and maintain (e.g. update on an annual basis) a comprehensive asset inventory, including an assessment of the physical condition, functionality (i.e. ability to support current program delivery) and utilization (capacity) of its capital stock.

This inventory information:

- allows for meaningful comparisons between assets;

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- helps form the basis for ranking projects;
- informs the nature, cost and timing of work required, including renovation and/or maintenance; and
- supports agencies to develop strategies to meet service needs in the most cost effective and efficient manner (e.g. identifying and capitalizing on excess capacity).

The following table (Figure 4.3.2) outlines the types of information generally tracked by an asset inventory.

Figure 4.3.2

ASSET INFORMATION	DESCRIPTION
<i>Baseline information</i>	Information on assets such as land, buildings, building systems and equipment, tracking such factors as: <ul style="list-style-type: none"> • ownership status (e.g. or leased) • location and zoning • structural types • size (land area if applicable, square footage, vehicle capacity, etc.) • age and history (e.g. rehabilitation, repairs, maintenance activity, additions, renovations) • value • current use, • estimated service life; and • any other significant issues such as environmental liabilities.
<i>Physical condition and risk factors</i>	An assessment or rating of the physical condition of the inventory, including maintenance requirements, seismic vulnerability, asbestos, etc.
<i>Functionality</i>	An assessment of how effectively each asset meets existing program or service needs; functionality is sometimes measured as the difference between current operating costs and the projected cost of operating a "state of the art" facility.
<i>Utilization</i>	An assessment of how each asset is being used; this is sometimes measured by comparing forecast service demand against an asset's current capacity to determine whether there is an excess or a shortage of capacity.

Plan

A capital plan should include an overview of the agency's capital stock, including its average age and condition, utilization, suitable valuation(s) (e.g. replacement cost and book value) and a description of any major inventory issues the agency feels are relevant (e.g. deferred maintenance, excess capacity, etc.).

CAPITAL ASSET MANAGEMENT PLANNING

4.3.2.1. Inventory Tools

- Inventory tools are currently being developed and will include a sample Facility Audit Program/Process sample and/or a sample asset inventory data set.

4.3.3. Maintenance, Repair and Rehabilitation

One of the key priorities of provincial capital management is to safeguard the Province's investment in its capital stock. Deferring maintenance can save money in the short term. However, it creates a future liability for the agency responsible and the Province – and that liability increases over time.

As part of the full life-cycle approach, agencies should adequately plan and budget for maintenance needs to ensure that capital stock meets or exceeds its expected economic life. This planning is based on inventory assessments (as described above) and appropriate methodologies to estimate maintenance needs for an agency's full portfolio of assets.



Maintenance requirements should be identified in capital plans as a need. Plans should also explain the methodologies used to develop the forecasts (e.g. measurement tools, standards and formulas based on asset value or square footage).

4.3.3.1. Maintenance Tools

- Maintenance tools (to be developed) will include sample maintenance estimating methodologies and/or sample maintenance plans.

4.3.4. Quantifying Needs

Agencies may identify a diverse range of needs in their capital planning processes. These needs should be quantified as financial or budget estimates (typically covering three or four years) to allow agencies to:

- assess the difference between their needs and their ability to meet them, within the prevailing fiscal framework; and
- develop strategies and projects to meet those needs.

Agencies should establish and maintain systems of budgeting tools or models to help them estimate the quantity, quality and cost of services, assets or asset-related services required to meet the objectives in their service plans. A range of budgeting tools is discussed in Chapter 9, Budgeting and Cost Management.

Categorizing or grouping needs can also support effective decision-making at both the agency and central government levels. Capital needs can be grouped by program area,

CAPITAL ASSET MANAGEMENT PLANNING

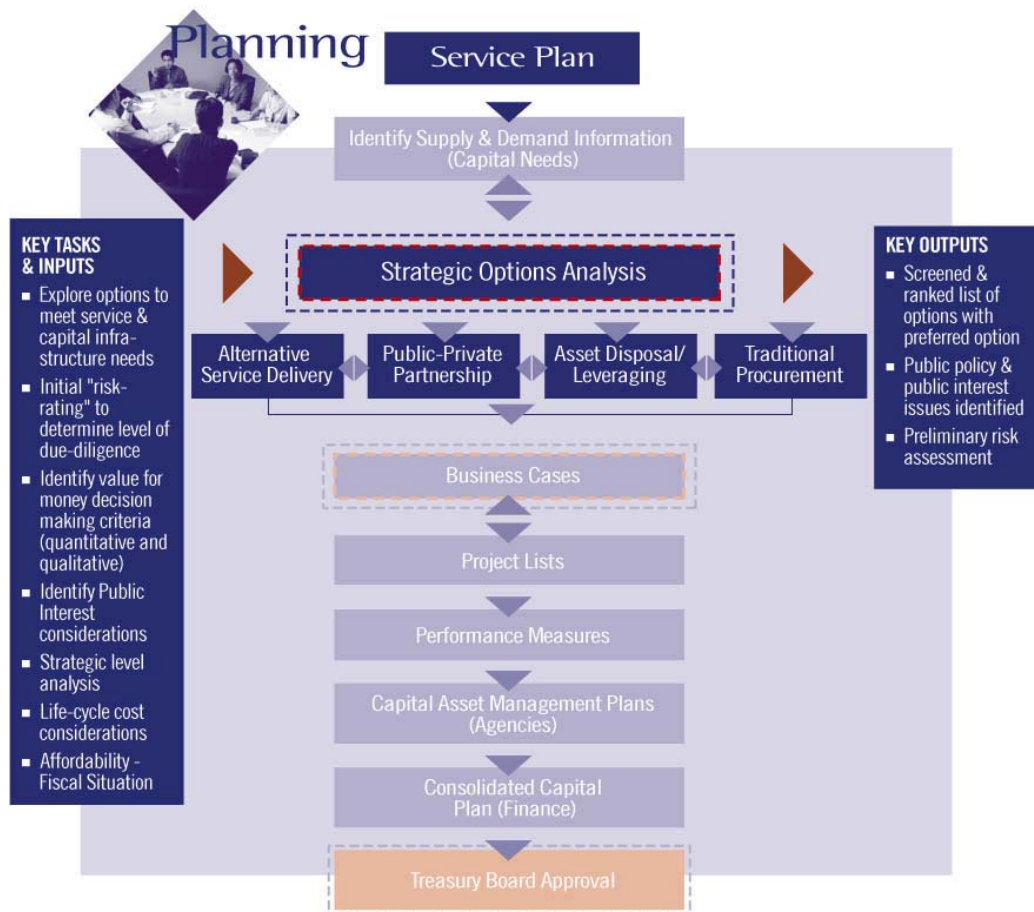
business sector, construction type or accounting treatment. Or, consistent with accounting terminology, they may be grouped to reflect the type of need they represent, such as maintenance/repair, renewal/rehabilitation, and replacement or expansion (new construction). At a minimum, the Province supports a categorizing approach based on generally accepted accounting terminology.

Plan Estimates of capital asset related needs should be aggregated into identifiable categories in capital plans as outlined above. The following issues should also be addressed:

<i>Fiscal situation:</i>	Capital plans should include a high-level overview of the agency's fiscal situation, including a discussion of debt, debt service, amortization and other future-year operating costs.
<i>Preplanning/pre-feasibility requirements:</i>	Capital plans should include a forecast of budget needs for pre-planning or pre-feasibility studies and a description of the methodology used to prepare the forecast.
<i>Contingency for emergency requirements:</i>	<p>As part of the full life-cycle approach, agencies need to plan and budget for unforeseen emergencies that have the potential to undermine ongoing services, programs or business. These may include:</p> <ul style="list-style-type: none"> • immediate health or safety issues such as fire loss, access barriers, mechanical failure or roofing failure; or • immediate program space demands due to such things as property loss, changing program parameters or changes in an agency's legislative obligations. <p>Agencies should establish procedures to manage emergency budget risks, ensuring appropriate insurance coverage and/or working with the Risk Management Branch, Ministry of Finance, as needed. These procedures should be identified in capital plans as a budget contingency item. Capital plans should also describe the methodology used to estimate contingency requirements and/or the process used to address emergency issues.</p>
<i>Planning models & assumptions & applied</i>	Capital plans should outline the planning models used to estimate needs. They should also detail the critical material assumptions made in planning and the sources involved (e.g. discount rates, amortization periods, asset valuation methodologies and market assumptions).

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4.4. Exploring Options to Meet Service Delivery Needs - Strategic Options Analysis



*Potential Treasury Board Decision Points
(Based on project cost, risk and complexity or agency track record)*

Potential Open Cabinet Discussion for Major Capital Projects

To find the best ways to meet service delivery needs, agencies are encouraged to think creatively and challenge service delivery assumptions.

One of the key objectives of the Capital Asset Management Framework is to support ministries, health authorities, school districts, Crown corporations and other public agencies to think creatively and find the most efficient ways to meet the Province's capital needs associated with meeting service delivery needs. Agencies are encouraged to be innovative and to challenge traditional service delivery approaches and assumptions.

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That means looking at a full range of options for meeting service delivery needs. It also means considering key questions, such as:

- Is there a way to meet our needs without new capital spending?
- Is there a way to better use or manage existing assets that could reduce the need for additional expenditures? and
- Is there a way to share the cost and risk of capital acquisition with, for example, a private-sector partner or another public-sector agency?

Agencies should also consider traditional approaches (i.e. public financing and service delivery). However, no final decisions should be made until a full range of options has been carefully considered and the agency has identified the option(s) that achieve the greatest value for taxpayers.

Greater integration between the private and public sectors has the potential to improve services, increase efficiency and deliver value for money.

Greater integration between the private and public sectors has the potential to improve services, increase efficiency and deliver value for money. It may also generate financing options which reduce the requirement for taxpayer-supported debt.

However, there should be no presumption that either sector is inherently more or less efficient. Decisions should be made on a case-by-case basis, supported by analysis of all practical options.

To support these determinations, the following section describes:

- the range of strategies agencies should consider to meet service delivery needs;
- key value for money and public interest issues that should be considered when assessing options; and
- Strategic Options Analysis – a method for assessing strategies or options to help determine the best approach.

4.4.1. Range of Strategies

4.4.1.1. Alternative Service Delivery

*Before considering capital projects, agencies should ask: Are there ways to effectively meet our service delivery needs **without** new capital spending?*

In examining options to meet service delivery needs, agencies should closely consider alternate service delivery, which means potentially changing the way services are delivered to avoid or limit capital spending. Examples include:

- developing new service delivery methods;
- outsourcing;
- implementing demand-management techniques (e.g. pricing alternatives such as peak load pricing);

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- improving asset utilization by, for example, extending hours, developing more efficient space standards, introducing scheduling strategies or changing approaches to managing service (i.e. catchment) areas;
- enhancing technology (e.g. electronic service delivery);
- reconfiguring programs;
- forming partnerships with non-government organizations or other levels of government;
- jointly using facilities; and/or
- sharing services with other agencies.

This is not a complete list of alternative service delivery methods. Agencies are encouraged to use their own creativity to identify as many options as may be feasible – bearing in mind that all capital management decisions should be based, first and foremost, on effectively achieving service delivery outcomes.

4.4.1.2. Alternative Capital Procurement

Alternative capital procurement refers to any method other than the traditional buy-and-borrow approach (e.g. public financing and service delivery). It involves the acquisition of capital assets and services:

- without direct purchase by the Province;
- transferring some or all of a project’s life-cycle risks to outside parties; and/or
- financed with limited or no recourse to the Province.

The chief advantage of alternative procurement is its potential to allow for an optimal distribution of risk, whereby risks are assumed by those parties best able to manage them at the least cost while protecting the public interest.

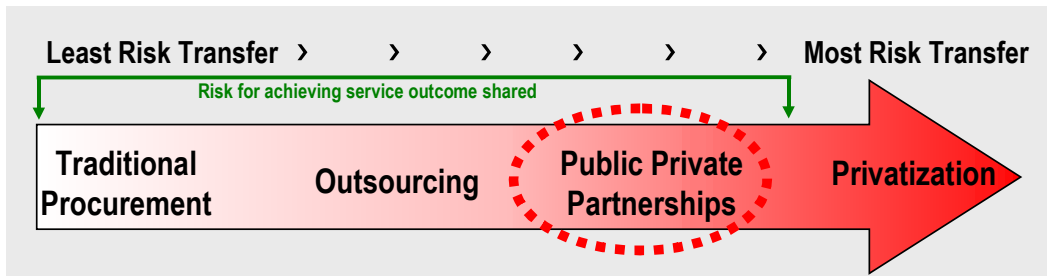
This emerging area of capital asset management offers a range of potential benefits, including the opportunity for public-sector agencies to make use of private-sector ideas and innovations. However, the chief advantage of alternative procurement is its potential for risk transfer.

Because the private sector is required to provide an asset and a service, agencies using alternative procurement may be able to transfer to the private partner some or all of the risks in areas such as site, design, construction, financing, market, operations, industrial relations and ownership (e.g. maintenance or technological obsolescence).

As illustrated below in Figure 4.4.1.2, one form of alternative capital procurement (known as public-private partnership or P3) is at the higher end of the spectrum of risk transfer from the public to the private sector. By contrast, in traditional procurement, most or all of the risk is retained by the public sector while, in pure privatization, most or all of the risk rests with the private sector.

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Figure 4.4.1.2



With alternative capital procurement, risks should always be allocated to those parties best able to manage them at the least cost while serving the public interest. For example, a private partner may assume the risks related to the potential for unsatisfactory service levels. However, the Province retains ultimate authority and responsibility for providing public services.

4.4.1.2.1. Forms of Alternative Capital Procurement

Alternative capital procurement encompasses a wide range of models with a range of implications for issues such as risk transfer, ownership, operations, accounting and debt reporting. In general, agencies should consider whether the public or private sector is better equipped to design, build, finance, operate and ultimately own a given capital asset.

Public-private partnerships transfer, to a private-sector party, the opportunity and obligation to provide a specified service, for a predetermined tariff, for a prescribed period of time.

Methods of alternative procurement can include:

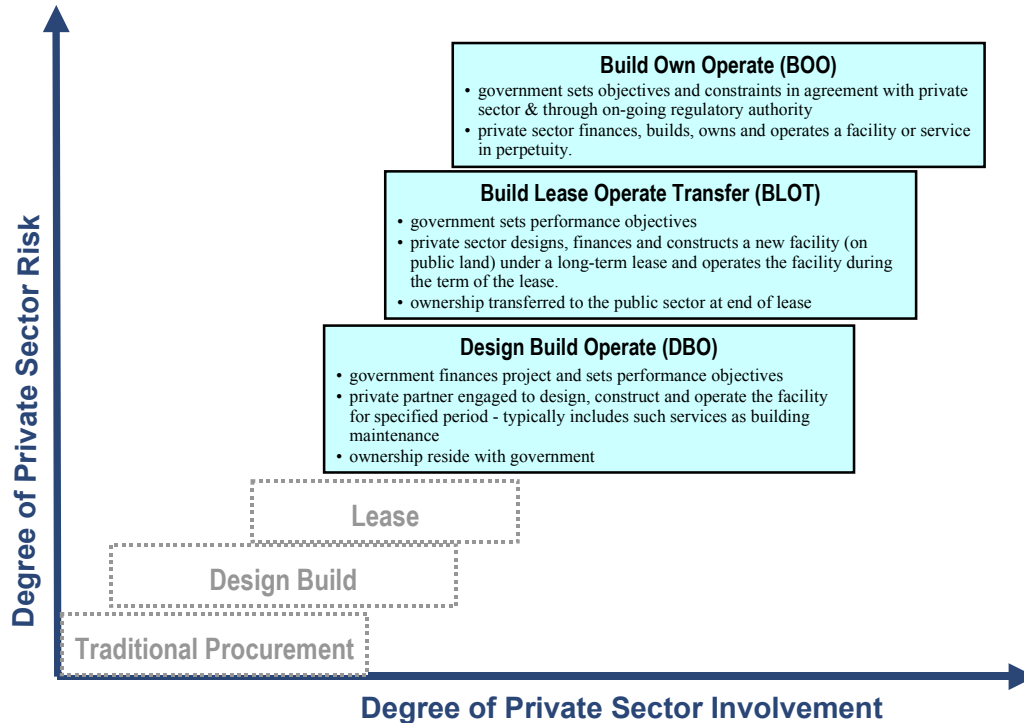
- operating leases;
- self-supporting projects (e.g. ancillary services at post-secondary institutions);
- internal payback (e.g. energy efficiency) projects; and
- partnership approaches such as joint ventures and public-private partnerships (a variety of models).

Each model has different service delivery potential and, as illustrated in Figure 4.4.1.2.1 (below), each model is predicated on different levels of risk being transferred or allocated to the private sector.

Figure 4.4.1.2.1 addresses only a limited sample of alternative models. Agencies should consider as many options as possible to determine which is best able to meet service delivery needs.

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Figure 4.4.1.2.1 - Continuum - Traditional and P3 Procurement Models



4.4.1.2.2. Identifying Appropriate Projects for Alternative Procurement

Alternative procurement does have advantages, but it is not appropriate in every situation. It may be a feasible option when:

Agencies should develop screening criteria specific to their business or program area to identify viable alternative procurement projects.

- significant opportunities exist for private sector innovation in design, construction, service delivery and/or asset use;
- clearly definable and measurable output specifications (i.e. service objectives) can be established, suitable for payment on a services-delivered basis;
- a market for bidders can be identified or can be reasonably expected to develop;
- there is potential to transfer risk to the private sector;
- the private-sector partner has an opportunity to generate non-government streams of revenue (e.g. charge for private access in off-hours); and/or
- projects of a similar nature have been successfully procured using a similar method.

Agencies should develop screening criteria to help identify viable alternative procurement projects. The following table (Figure 4.4.1.2.2) identifies six basic types of criteria that agencies may wish to consider.

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All screening criteria should be modified as needed to suit agencies' business or program areas, and tailored to the context of specific projects. In general, projects that appropriately address the issues discussed in the table below may be candidates for public-private partnerships.

Figure 4.4.1.2.2

CRITERIA	CONSIDERATIONS	SAMPLE ISSUES
<i>Financial</i>	Can the alternative procurement method accommodate financial terms acceptable to both parties?	<ul style="list-style-type: none"> ▪ Can the project be viable on a stand-alone basis (i.e. will returns to the private partner reflect the intensity of their efforts and be commensurate with the risk transferred)? This requires analysis from public and private sector perspectives. ▪ Is it possible to establish an equitable and effective rate mechanism (payment) that includes appropriate incentives and controls based on clear service outcomes?
<i>Technical</i>	Could alternative procurement result in a technical solution to meet service delivery needs?	<ul style="list-style-type: none"> ▪ Does the project have technical constraints or risks that cannot be addressed by the private sector? ▪ Can clear and adequate technical specifications for the project be established? ▪ Can appropriate mechanisms/measures be established to monitor technical performance?
<i>Operational</i>	Could operational hurdles undermine an alternative approach?	<ul style="list-style-type: none"> ▪ Can government establish clear and measurable operating standards for the private partner to meet? Can the private partner be held accountable for performing to those standards? ▪ Are there operational issues or risks that could not realistically be managed by the private sector such as potential changes to environmental regulations?
<i>Public policy</i>	Will the public sector accept private involvement?	<ul style="list-style-type: none"> ▪ To what extent do various stakeholders such as the public, elected officials, service users and government officials (all of whom may affect the viability of a project) accept involvement of the private sector?
<i>Implementation</i>	Could implementation barriers prevent the use of alternative methods?	<ul style="list-style-type: none"> ▪ Is it possible to generate meaningful private sector competition? ▪ Does the public agency have the necessary legal authority to enter a partnership (e.g. grant a concession)? ▪ Is there a strong project champion with access to the resources needed to make the project successful? ▪ Can a successful transition plan be implemented that addresses such issues as labour adjustments?
<i>Timing & schedule</i>	Could time constraints pre-empt alternative procurement?	<ul style="list-style-type: none"> ▪ Are the timelines adequate to pursue the partnership for all aspects of the project development life-cycle (e.g. time to develop appropriate operational specifications)?

In addition to using screening criteria, agencies considering alternative procurement should consult with the Provincial Treasury, Ministry of Finance, regarding the

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appointment of external financial advisors to aid in assessing project economics, appropriate discount rates, financing structures, etc.

4.4.1.2.3. Accounting Treatment for Alternative Procurement Projects

For budgeting, accounting and financial statement reporting, agencies should follow Generally Accepted Accounting Principles (GAAP) – regardless of which procurement approach they use. Alternative approaches should be pursued on the basis of the substance of the underlying business case, not as a means of achieving certain accounting or reporting outcomes.

The province's accounting approach to alternatively procured projects focuses on reporting the substance of transactions - not their form.

Elaborate structures designed for accounting purposes generally do not withstand the test of time and can result in significant restatement of financial statements in the future. For example, in some cases, proposed leases have been structured to avoid meeting capital-lease financial tests. However, on analysis, it is clear that these agreements assign little risk to the private sector lessor and may in fact result in the Province taking on most of the risks associated with ownership – without the corresponding benefits. In these cases the agency could be required to restate its financial statements.

Levels of risk transfer through alternative procurement should be clearly and accurately identified in the classification of capital financial transactions.

For further information, see Chapters 13 and 14 (Financing and Accounting). For advice, agencies should first consult with their own financial and accounting professionals and those of their sponsoring Ministry. Agencies may then wish to contact the Provincial Treasury and/or the Office of the Comptroller General, Ministry of Finance.

4.4.1.2.4. Alternative Procurement Tools

An **Introduction to Public-Private Partnerships** @ www.gov.bc.ca/fin.

- Alternative procurement tools are being developed, including examples of alternative procurement models - and their potential risks and benefits - and sample screening criteria.

4.4.1.3. Asset Leveraging

Asset leveraging is the process of capturing (e.g. commercially exploiting) the value of government assets to offset service or capital costs. Examples could include:

- selling or leasing part of a property (e.g. sale and leaseback transactions);

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- exploiting excess capacity (e.g. unused space or off-hours use) to generate revenue; and/or
- using other government properties, even those unrelated to the project, to generate revenue for a capital project. Agencies considering this form of leveraging must first assess whether any restrictions exist on their ability to dispose of assets or to use the proceeds of disposal.

Asset leveraging may be appropriate when an agency has excess capacity; when program changes render assets obsolete; or when changes in service demand reduce an agency's capital needs.

4.4.1.4. Traditional (i.e. publicly-financed) Procurement

Traditional procurement is the process whereby public agencies procure capital assets – retaining direct responsibility for financing, design, construction and (usually) operations, and assuming most or all of the risks throughout an asset's life cycle.

Traditional procurement is appropriate where it provides the best value for money and is necessary to protect the public interest.

This option is appropriate where it provides the best value for money and is necessary to protect the public interest. Agencies may also wish to assess a traditional procurement approach as a benchmark against which to measure the relative merits of alternative procurement options.

Traditional procurement takes a variety of forms, such as design-bid-build, construction management, unit price, cost plus or design-build. For a more complete discussion of traditional procurement approaches, see Section 8.6.2, Contract Methods.

4.4.1.5. Integrated Strategies

In some cases, the best approach to meeting service delivery needs may be a combination of varying procurement and service-delivery methods, integrated into a single project-specific strategy. For example, one or more aspects of demand could be met through an alternative service delivery strategy such as outsourcing. Part of an existing asset could be sold to offset costs. Another aspect of service delivery could be provided through a public-private partnership and, where it provides the best value for money and is necessary to protect the public interest, a portion of service delivery need could be met through traditional (publicly-financed) means.

Finding the best solution will involve considering and analyzing a full range of options, and assessing them against public-interest and value-for-money criteria.

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4.4.2. Assessing Potential Strategies

To determine the best service delivery option, agencies need to assess which strategy will achieve the best value for money and best protect the public interest.

One of the key principles guiding the Capital Asset Management Framework is that all capital decisions should be based, first and foremost, on meeting service delivery needs. To assess which strategy can do this most effectively, agencies need to determine:

- which service delivery option offers the best value for money; and
- which option best protects the public interest.

The follow section describes these concepts in detail, identifying issues that should be assessed throughout project planning and implementation. It also offers guidance on how the concepts of value for money and protecting the public interest should be applied at critical project phases.

4.4.2.1. Assessing Value For Money

A value for money assessment must include both quantitative and qualitative dimensions.

In the broadest sense, the option providing the best value for money is the one that uses the fewest resources to achieve desired service outcomes. Relative value is determined through a rigorous examination of service delivery options and business case analysis, considering a broad range of factors including: service levels, cost, promotion of growth and employment, environmental considerations and other health, safety and economic issues.

A value for money assessment must consider both quantitative and qualitative factors.

Quantitative factors include those to which a dollar value can be assigned, such as initial capital costs, operating and maintenance costs over the life of a project (adjusted for risks), and ongoing operating costs related to service delivery. For alternative procurement projects, these quantitative factors are typically measured in part by using a Public Sector Comparator, as described below in Section 4.4.2.1.1.

Quantitative factors also include those which can be quantified but are difficult to accurately translate into monetary terms. Examples may include the number of indirect jobs created by a project, the potential for broader economic stimulus, the level of measurable environmental benefits or the number of people served within a given timeframe.

Qualitative factors may include the nature (e.g. flexibility) and duration of a potential business relationship, the potential for innovation in service delivery, environmental considerations, community impacts, labour relations issues, or the potential for alternative use of an asset.

Qualitative factors should be assessed using an objective and disciplined approach, such as a multiple criteria or accounts methodology.

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4.4.2.1.1. The Public Sector Comparator (PSC)

Agencies should develop and use a Public Sector Comparator (PSC) to assess the financial aspects of value for money – and as a benchmark against which to measure the net value of alternative procurement options.

A PSC typically has three components:

- Raw PSC is a measure of life-cycle base costs, less revenue. It reflects all capital costs, operating costs and revenues over the proposed life of the partnership proposal period – if the asset and/or service were procured through the traditional method. Raw PSC does not include the quantification of risks or amounts for contingency.
- Competitive Neutrality reflects a quantification of the true cost to government of a capital project, if it was procured through traditional methods and owned by the public sector. Competitive neutrality generally includes the quantification of government advantages (such as property-tax exemptions) and disadvantages.
- Risk Quantification identifies the material risks associated with the desired output and estimates their potential cost and probability. Quantified risks are commonly separated into those best managed by the public sector (i.e. the retained risks) and those best managed by the private partner (i.e. the transferable risks). The costs allocated to risks in a PSC should not be disclosed to potential private partners.

Added together, the three PSC components represent the lowest risk-adjusted life-cycle cost to achieve a desired service output – if the public sector was to finance and deliver the project. (Lowest risk-adjusted life-cycle cost is the lowest combination of capital, operating and maintenance costs over the life of a project, adjusted for risks.)

For guidance on developing a Public Sector Comparator, see Section 4.5.5.

4.4.2.1.2. Achieving Value for Money in Alternative Capital Procurement Projects

A number of key factors often contribute to achieving value for money in alternative procurement projects. These include:

- **Risk Transfer** – Allocating or transferring project risks to the party or parties best able to manage them can reduce the all-in cost of the service to government.
- **Innovation** – In a competitive market, focusing on outputs rather than inputs gives private sector operators the opportunity and incentive to be innovative in service delivery. The benefits of innovation can be passed on to government.
- **Asset Utilization** – The private sector is often better positioned to generate proceeds from any surplus facility capacity which can be used, in part, to reduce the cost of services to government.

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- **Whole Life Costs** – In some cases, the private sector is able to provide facilities more cost effectively than government from a whole-life cost perspective (i.e. the costs of design, construction, maintenance, refurbishment and service delivery).

4.4.2.2. Public Interest Considerations

Regardless of who delivers public services, the government has a duty to protect the public interest and users of public services. In determining the best way to meet service delivery needs, agencies must identify the key public interest issues specific to their business and program areas, and determine how effectively each option under consideration can address those issues. Table 4.4.2.2 below identifies a **minimum** range of public interest issues against which agencies should rigorously assess all service delivery options.

Table 4.4.2.2

PUBLIC INTEREST	DISCUSSION
<i>Service Effectiveness</i>	Can required service levels be defined and measured, and can service outcomes be regularly assessed?
<i>Accountability and Transparency.</i>	Can the performance of private provider/operator be monitored and reported, and can adequate accountability measures be put in place?
<i>Public Access</i>	Do strategies provide and ensure appropriate access by the public (e.g. access in timely manner and at sufficient locations)?
<i>Equity</i>	Do strategies adequately ensure that disadvantaged groups (e.g. people with disabilities) have access to the services?
<i>Privacy</i>	Can the strategy be appropriately structured to provide adequate protection of individual privacy (e.g. personal information) and where applicable the rights of commercial enterprises (e.g. proprietary rights)?
<i>Health and Safety</i>	Does the strategy adequately protect the public and ensure appropriate health and safety standards are met?
<i>Consumer Rights</i>	Are the consumer rights of service users adequately protected (e.g. against price increases)?
<i>Environment</i>	Is the environment adequately protected?
<i>Individual and Community Input?</i>	Where appropriate, have potentially affected individuals and communities been consulted?

4.4.2.3. When and How to Assess Value for Money and the Public Interest

A full assessment of value-for-money and public-interest issues should be continually applied and refined as a project strategy is developed and proceeds through to

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implementation. Table 4.4.2.3 below provides an overview of when and how these issues should be considered at critical points in the planning and implementation processes. It also outlines when and how it is appropriate to apply a Public Sector Comparator methodology, as one aspect of a value-for-money assessment.

Generally the province supports a multiple criteria (accounts) approach to systematically and objectively assessing value for money and public interest in the planning stages (i.e. when preparing a strategic options analysis or business case). Analytical methodologies focused primarily on financial or quantitative analysis, such as benefit-cost analysis or cost effectiveness analysis, may be appropriate in certain circumstances requiring limited consideration of qualitative criteria (or criteria difficult to quantify).

Table 4.4.2.3

	KEY PROJECT PHASE		
	STRATEGIC OPTIONS ANALYSIS	BUSINESS CASE	PROCUREMENT
Value for Money	Criteria are initially identified and defined. An initial qualitative - strategic level assessment of relative value for money is conducted (i.e. ordinal ranking or assessment of likelihood as opposed to detailed quantitative analysis).	Criteria are further refined and assessed on a comprehensive and detailed basis. Assessment methodology employed (e.g. benefit-cost, multi-criteria analysis) should be appropriate to the range of criteria being assessed.	Procurement documents such as Requests for Expressions of Interest or Requests for Proposals include both quantitative and qualitative criteria.
PSC	A preliminary assessment of the costs and risks of the options is prepared to determine affordability.	When applicable, a detailed PSC is developed as part of the business case.	The PSC, if applicable, is further refined and used in the evaluation of proposals.
Public Interest	Issues must be identified, defined and then refined as projects develop. All options undergo a qualitative assessment to determine their relative capacity to protect the public interest.	Issues are refined and clear, measurable standards for addressing them are defined. Business cases should include a full public interest assessment, including the identification of any mandatory requirements to ensure the public interest is protected.	Procurement documents detail public interest issues and how they should be taken into account. Bids are evaluated against the public interest issues to determine whether they adequately meet the requirements.

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4.4.3. Strategic Options Analysis Methodology

4.4.3.1. Overview

Strategic options analysis supports efficient planning and decision making. By short-listing options for further evaluation, it allows for early decisions on public policy issues and targets resources to projects that are likely to be successful.

Strategic options analysis (SOA) is a systematic approach to determining the best way to meet service delivery needs. An appropriately rigorous SOA - commensurate with the size, complexity and risk associated with a particular initiative - should be undertaken to support decision-making, including consideration of issues such as service delivery outcomes, value for money, the public interest and social, labour and legal issues.

Preparing an SOA will ensure a thorough, cost-effective, strategic-level screening is completed on the widest possible range of service delivery options (e.g. alternative service delivery, leveraging and alternative procurement) before an agency invests in detailed and costly business case development and analysis. An SOA also allows key decisions to be made early in the project's planning cycle, and helps agencies to:

- identify the critical business and public policy issues that need consideration;
- identify and critically examine the financial and other advantages, disadvantages, risks and benefits to government of each available option;
- identify and provide a clear rationale for a preferred option or short-list of options for further evaluation;
- determine the appropriate depth of business case analysis needed; and
- provide a sound basis for key strategic decisions to meet service objectives, provide value for money and protect the public interest.

Like a traditional business case analysis, an SOA should consider the implications of each option over the full life cycle of capital assets. However, an SOA is a higher-level analysis, typically based on preliminary cost and benefit estimates and only a qualitative assessment of risks. It is primarily focused on policy-level decisions and may not address some business case elements such as context assessments, implementation and risk management. Rather, it provides the basis for a targeted business case analysis, focusing on the best option(s) for meeting service delivery needs.

4.4.3.2. Basic Elements of Strategic Options Analysis

Generally, a strategic options analysis should include the five basic elements outlined in *Table 4.4.3.2* below.

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Table 4.4.3.2

Strategic Options Analysis - Basic Elements -
<p>Description of The Service Challenge / Problem:</p> <p>This should be a future-oriented outline of the fundamental service challenge or problem the agency wants to address, consistent with its service plan. A service challenge statement should focus on preferred service outcomes rather than outputs or activities.</p>
<p>A Full Range of Strategic Delivery Options:</p> <p>This section should describe a full and innovative spectrum of options including non-asset solutions, alternative service delivery mechanisms, public-private partnerships, leveraging and traditional procurement approaches.</p> <p>It may also include an appropriate reference or base-case scenario indicating, for example, the most likely outcome if the recommended solution is not adopted, or if a traditional (publicly financed) alternative is adopted.</p>
<p>Preliminary Evaluation of Options:</p> <p>This involves identifying quantitative and qualitative criteria for screening options and, at minimum, a <i>qualitative</i> assessment of the issues and implications of the various options, relative to each screening criteria. A comprehensive set of financial and non-financial criteria should be developed, including criteria focused on value for money and protecting the public interest. A qualitative description of advantages and disadvantages can also be used in evaluating options depending on the nature of the criteria.</p> <p>Information on comparative results is often summarized in a table format where columns are used to list options, and rows list the criteria used in the evaluation.</p>
<p>Preliminary Risk Assessment</p> <p>This involves a high-level analysis of potential risks to estimate their likelihood and consequences (i.e. the potential level of risk), and establish relative risk priorities. The degree of rigor required in carrying out this risk assessment may vary depending on the nature of the service challenge and the nature of options under consideration. Identification of potential risk mitigation strategies should also be included.</p>
<p>A Screened, Ranked Short-List of Options</p> <p>Typically the short-list consists of the most promising strategic options and a recommendation to senior decision-makers on preferred options for further analysis. The short-list should describe the major features of each option and explain why the prioritized list is the preferred set (often presented in tabular form).</p>

4.4.3.3. Applicability – When to prepare a Strategic Options Analysis

If a project is likely to be complex or raise difficult policy issues, the sponsoring agency should conduct a strategic options analysis as a matter of course.

As with most decisions in the capital planning process, the specific characteristics of a project will determine whether, and to what degree of depth, an agency should prepare a strategic options analysis (SOA). An initial assessment of project complexity, risk and cost should be undertaken before a detailed SOA. For more

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direction on making this assessment, see Section 3.2.1 which discusses risk rating.

Generally, if a project is likely to be complex or raise difficult policy issues, the agency should conduct an SOA as a matter of course. For lower-risk projects, an SOA may not be warranted. A simple business case may be sufficient.

Agencies are expected to exercise professional judgement in determining:

- when to prepare a strategic options analysis;
- the appropriate level of rigour and detail for the analysis;
- a suitable time in the planning cycle for doing the analysis; and
- the appropriate analytical techniques to apply.

4.4.3.4. Approval Requirements

Depending on the public policy, organizational or financial issues raised by the options under consideration, agencies may be required to present the findings of strategic options analyses to Treasury Board or other government committees, as part of the capital approval process. The information may be required as part of a capital plan, or as a stand-alone submission.

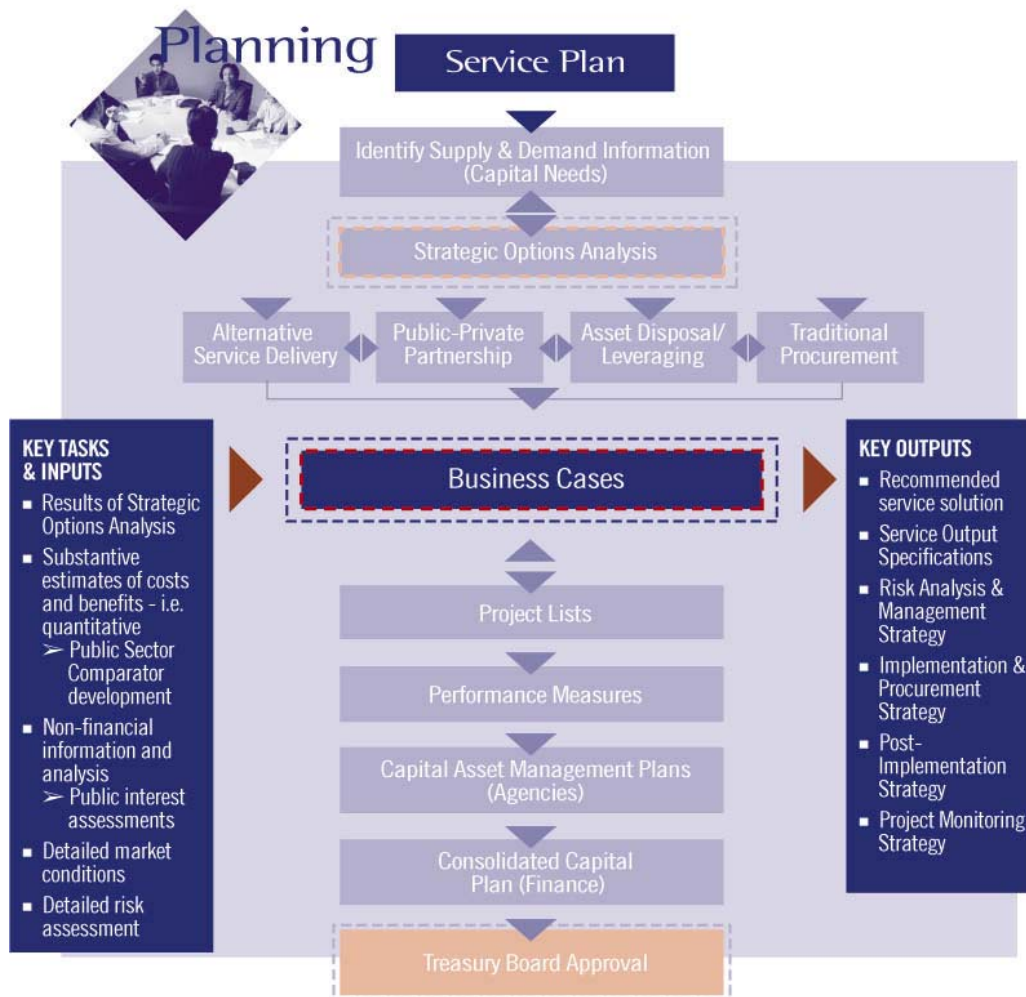
Agencies must be able to clearly demonstrate how a preferred option will be accommodated within fiscal targets (e.g. operating budget, capital expenditure limits and debt limits). Specific submission requirements will be based on the project's risk profile and public policy issues, and the agency's delivery and management track record.


4.4.3.5. Strategic Options Analysis Tools

- | |
|--|
| <ul style="list-style-type: none">• Strategic Options Analysis tools such as templates and examples of strategic options analyses are currently being developed. |
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4.5. Business Cases



 *Potential Treasury Board Decision Points*
(Based on project cost, risk and complexity or agency track record)

 *Potential Open Cabinet Discussion for Major Capital Projects*

All capital expenditures should be supported by appropriately rigorous business case justification.

A business case encompasses detailed assessments (e.g. estimates of the comparative costs and benefits) of a variety of:

- financial factors such as life-cycle costs;
- non-financial factors such as environmental, job creation, public health or other such socio-economic impacts; and
- associated public interest issues such as access, security and safety.

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A sound business case allows decision-makers to gauge the viability of specific initiatives, including their affordability, desirability, efficiency and cost-effectiveness – based on value for money. It also supports the Province to assess and establish priorities in the context of overall service and capital plans, and to evaluate final asset and service outcomes against intended or projected results.

The following section offers a guide for preparing a sound business case, including:

- an overview of elements to address; and
- guidance on determining the appropriate depth of analysis, based on the complexity, risk and size of an initiative.

4.5.1. Capital Programs

Before preparing a business case, agencies may consider whether a group of similar planned expenditures or projects can be consolidated into a "capital program" to simplify planning and approval processes.

Some capital projects or expenditures – especially those which are large, complex and/or carry significant risk – should be analyzed through individual business cases. At other times, agencies responsible for managing large numbers of similar capital expenditures can simplify their planning processes, and attendant approvals, by categorizing or grouping individual projects or expenditures into "capital programs."

For example, similar expenditures can be consolidated into groups such as: maintenance and repair programs, vehicle replacement programs, mechanical upgrade programs and seismic upgrade programs.

Agencies often standardize business case assessment and project ranking within capital programs, using simplified evaluation processes based on unit rates, guidelines relating to asset life, or other standard decision parameters. This approach to categorizing tends to work best where:

- reliable forecasts indicate that many proposed projects will have very similar features; and
- each group of expenditures will address a recurring problem where a limited number of options or solutions must be repeatedly assessed.

4.5.1.1. Capital Program Tools

- Capital program tools currently being developed include a sample capital program and a sample capital program ranking methodology.

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4.5.2. Business Case Elements

Table 4.5.2 below describes the major elements that should be addressed in developing a business case.

Table 4.5.2

Business Case Elements
<p>1. Description of the Service Challenge/Problem</p> <p>This is typically based on prior strategic options analysis, further refined to address the following questions:</p> <ul style="list-style-type: none"> ◆ What problem, challenge, opportunity or need is this initiative intended to address? ◆ What are the initiative’s ultimate goals, outcomes and/or objectives? ◆ What are the primary issues to be resolved and/or barriers to be overcome in moving towards the ultimate goals or outcomes? <p>This section should also address the current situation and work-to-date, explaining how the service was delivered in the past and describing the planning undertaken to date, including its history, current status and - especially - any commitments made or negotiations under way.</p>
<p>2. Analysis or Development of Preferred Options</p> <p>This section details the alternatives considered for addressing the identified problem/challenge - typically based on top-ranked options from a strategic options analysis (e.g. covering non-asset solutions, alternative delivery mechanisms, public/private partnerships) and different phasing for implementation or procurement strategies for the preferred solution.</p> <p>This section should also identify a reference or base-case scenario against which to make a meaningful comparison. A base-case scenario is the most likely approach or sequence of results expected if the proposed preferred option does not proceed. The base-case should be a feasible option, allowing a value-for-money comparison and indicating how the problem will likely evolve over time, if the preferred solution is rejected. Where applicable, this is the scenario to which the value-for-money test will be applied when assessing an alternative procurement scenario (e.g. applying a Public Sector Comparator).</p>
<p>3. Evaluation of the Options:</p> <p>This section should include a context assessment, describing the most significant features of the overall environment in which the initiative will function (e.g. strategic, market capacity, socio-economic, technical, legal and other factors that may affect the project over time).</p> <p>It should also list selection criteria, including the quantitative and non-quantitative measures and standards used to compare and evaluate the options. Normally, this includes financial, environmental, social and other value-for-money criteria as well as public interest issues, with justification for any criteria unique to the case. Financial criteria include the net present value of quantifiable benefits and costs (measured against a Public Sector Comparator, where applicable) and financial impacts on key stakeholders. (Agencies should consult with Provincial Treasury in determining an appropriate discount rate.)</p> <p>A risk evaluation is also required, including the identification, analysis, mitigation/treatment, evaluation, and communication of risks, as well as sensitivity analysis including a description of the techniques, and/or approaches used. The risk evaluation should be consistent with government guidelines provided by the Ministry of Finance (Risk Management Branch).</p>

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Business Case Elements

4. Recommendations

In this section, the agency should describe its **preferred solution**, including:

- its major features;
- its technical scope (defining technical features and an explanation of how the proposal differs technically from other options); and
- financial information, including a year-by-year breakdown of forecast costs, revenues and funding sources for the asset's full, risk-adjusted life cycle.

A **rationale for the preferred solution** should be based on the earlier evaluation of options with explicit reference to implications relative to risks and the selection criteria used.

This section should also include a description of **authorities sought**, including at minimum a summary of recommendations to key senior decision-makers and potential funding agencies, and a list of all authorities and decisions being sought from senior decision-makers.

5. Proposed Implementation Strategy

This section describes the key features and steps necessary to implement the proposed solution – to approved scope, within schedule and on or under budget – including:

- ◆ **management and governance structure** (during implementation and operational phases)
- ◆ **scheduled milestones and deliverables** (e.g. Gantt Chart, time targets for major phases)
- ◆ **monitoring and control systems** (e.g. for variances from approved scope, targets, budget, etc.)
- ◆ **risk management strategy** (including risk mitigation/treatment, control and monitoring)
- ◆ **procurement strategy** (e.g. proposed financing sources, procurement delivery models, etc.)
- ◆ **range of performance targets** (outputs and outcomes expected)
- ◆ **consultation/communications** (at least from announcement of a decision through to commencement of operations)

4.5.3. Guidelines

A business case should be prepared for any significant capital project. Agencies are responsible for determining the level of analysis required – in terms of the number of business case elements addressed, and the depth of analysis in each – based on the project's size, complexity and risk.

Business cases should be prepared for all significant capital projects.

Agencies can use the preliminary risk assessment from their strategic options analysis to gauge project risk and complexity and determine the type of business case required. Table 4.5.3. below provides additional guidance in making these decisions.

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Table 4.5.3.

PROJECT RISK & COMPLEXITY	DESCRIPTION
<i>Large, complex and moderate to high-risk projects</i>	A <u>detailed business case analysis</u> is needed and typically includes a substantive evaluation and comparison of variants of the preferred strategy with one or two variants of the next-most promising options. Each variant should be a real alternative, capable of practical implementation. All business case elements should be included, with detailed analysis and a thorough risk assessment. The latter is critically important when considering alternative service delivery or public-private partnership options.
<i>Medium-sized projects of moderate risk or complexity</i>	A <u>less detailed business case analysis</u> is needed and should focus primarily on the business case elements associated with the areas of highest risk, determined through a thorough risk assessment.
<i>Smaller, less complex projects</i>	A <u>simplified business case analysis</u> is typically sufficient for lower-risk projects, including those for which a strategic options analysis may not be appropriate. In these instances, only selected (relevant) business case elements are included, and levels of analysis are commensurate with risk.

4.5.4. Approval Requirements

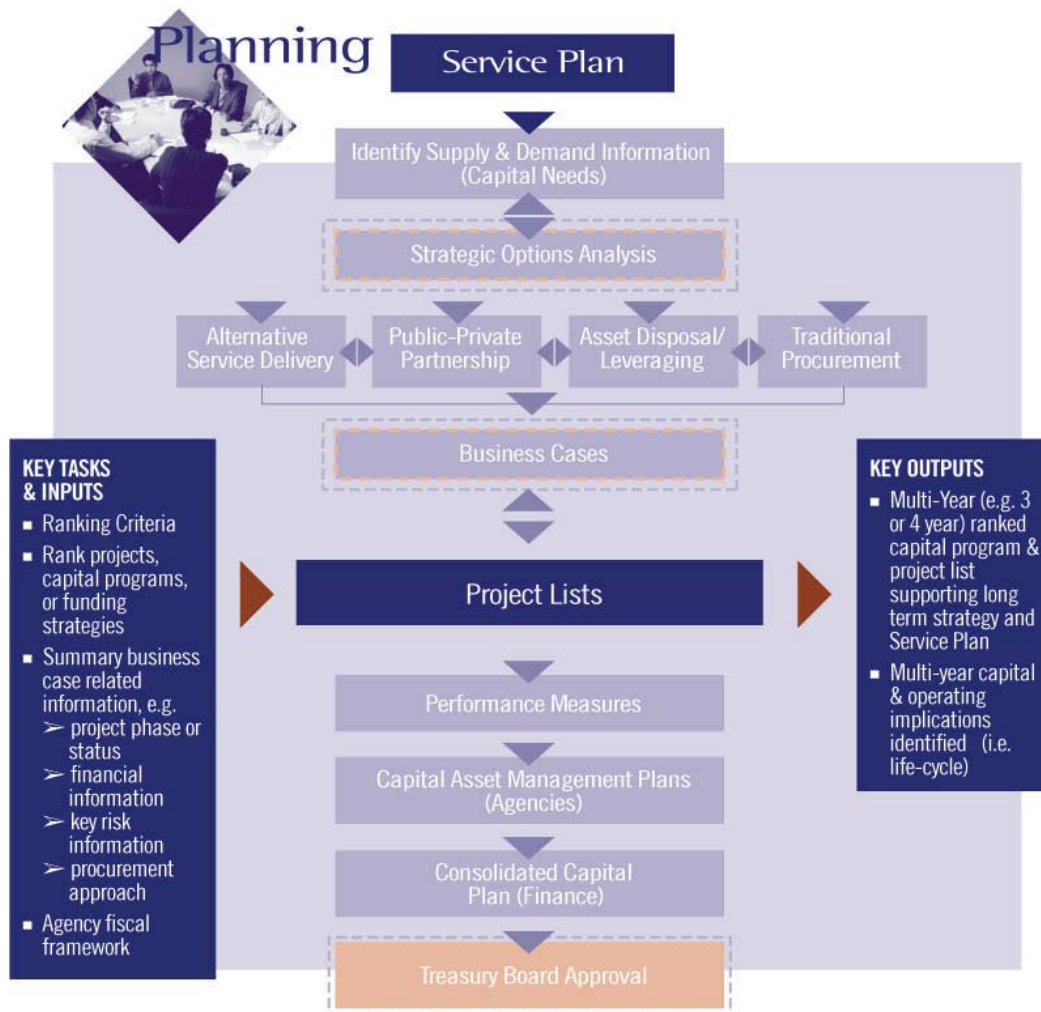
Agencies may be required to submit specific business cases to Treasury Board as part of their capital asset management plans or as stand-alone submissions. Specific submission requirements will be set out in Treasury Board Letters of Expectations or similar decision-related letters to individual agencies, based on the project’s risk profile and the agency's delivery and management track record. For details of the Province’s consolidated capital planning approval process, see Section 5.3.

4.5.5. Business Case Tools

- Business case tools are currently being developed and will include a more detailed user manual for preparing a business case, with examples of different types of business cases for projects of differing complexity and risk. A sample public sector comparator methodology is also being developed.

CAPITAL ASSET MANAGEMENT PLANNING

4.6. Program and Project Lists



 Potential Treasury Board Decision Points
(Based on project cost, risk and complexity or agency track record)

 Potential Open Cabinet Discussion for Major Capital Projects

4.6.1. Description

Program and project lists are typically aggregated summaries of business cases, ranking projects or programs in order of priority and identifying multi-year (ideally three to five-year) funding strategies reflecting the full life-cycle cost of all capital assets. These lists should demonstrate how an agency is supporting core service delivery, prioritizing its

CAPITAL ASSET MANAGEMENT PLANNING

projects, managing its asset base and implementing its capital strategy within its fiscal limits.

The following section describes the key components of project/program lists and offers guidance on:

- ranking methodology;
- summary project/program information that should be included in capital plans; and
- project categorization.

4.6.2. Project Ranking Methodology

Project (or program) ranking is a systematic way of setting capital priorities. It is particularly useful to agencies examining a broad range of proposed projects, because it provides a means to assess and prioritize competing demands, based on consistent and measurable criteria.

Specific, quantifiable project-ranking criteria can help agencies assess competing needs and set priorities consistent with their service objectives.

Agencies are encouraged to develop specific and quantifiable project-ranking criteria and to set priorities based on service objectives. Criteria may reflect:

- service needs – for example, projects may be ranked on the basis of their potential to improve program delivery immediately as measured by volume, quality or other standards, or their potential to change program delivery to improve quality or increase volume at a minimal cost;
- legislative, legal or contractual requirements;
- protection of people, including the need to comply with building codes, health and safety standards or Workers' Compensation Board requirements;
- protection of existing assets, taking into consideration the cost of renovating existing assets vs. the cost of replacement, with facility audits substantiating the scope of work and budget;
- cost savings or cost implications; these may be calculated to show the budget implications of implementing a capital project, or the future implications if the project is not undertaken;
- service plan targets and strategic fit;
- business case criteria measures (e.g. internal rate of return); and/or
- local conditions (physical, economic or demographic).

Plan Capital plans should include a brief description of the ranking criteria and methodology used in establishing agency priorities.

CAPITAL ASSET MANAGEMENT PLANNING

4.6.2.1. Ranking Methodology Tools

- Project ranking tools currently under development include a sample project ranking methodology.

4.6.3. Summary Project/Program Information

Plan Project/program lists included in capital plans should demonstrate that an agency is managing, and will continue to manage, within in its fiscal limits on a multi-year basis. These lists should include summary information that clearly identifies each project and provides key financial and status information, including the project’s current phase (e.g. planning, design, construction).

Table 4.6.3. below provides an overview of the information that should be included for each project.

Table 4.6.3

INFORMATION	DESCRIPTION
Project description and justification	Information based on key elements of the strategic options analysis and/or detailed business case. For minor projects, the justification may be supported by other means, such as an engineering report.
Rank	Project rank showing the project’s place among the agency’s capital priorities
Full life-cycle cost of the project	Information including: <ul style="list-style-type: none"> • the estimated total capital cost; • the estimated annual cash-flow and accrual portion of total capital cost; • multiple-year operating cost implications, including costs in areas such as maintenance and repair, staffing, operations, accommodation, debt service, amortization and lease expenses; and • an indication of whether the agency is able to support the expenditure in future years’ operating budgets.
Project phase and on-going expenditures	Information indicating the project’s current phase (e.g. pre-feasibility, planning, design, engineering, construction, commissioning, etc.) and identifying expenditures that are ongoing and legally (contractually) committed.
Funding source(s)	A description of how the project is being funded (e.g. cost sharing arrangements, debt financing, internal financing, user fees, or other revenue sources).
Procurement method:	Description of how the project is being procured (e.g. by traditional or alternative approaches).

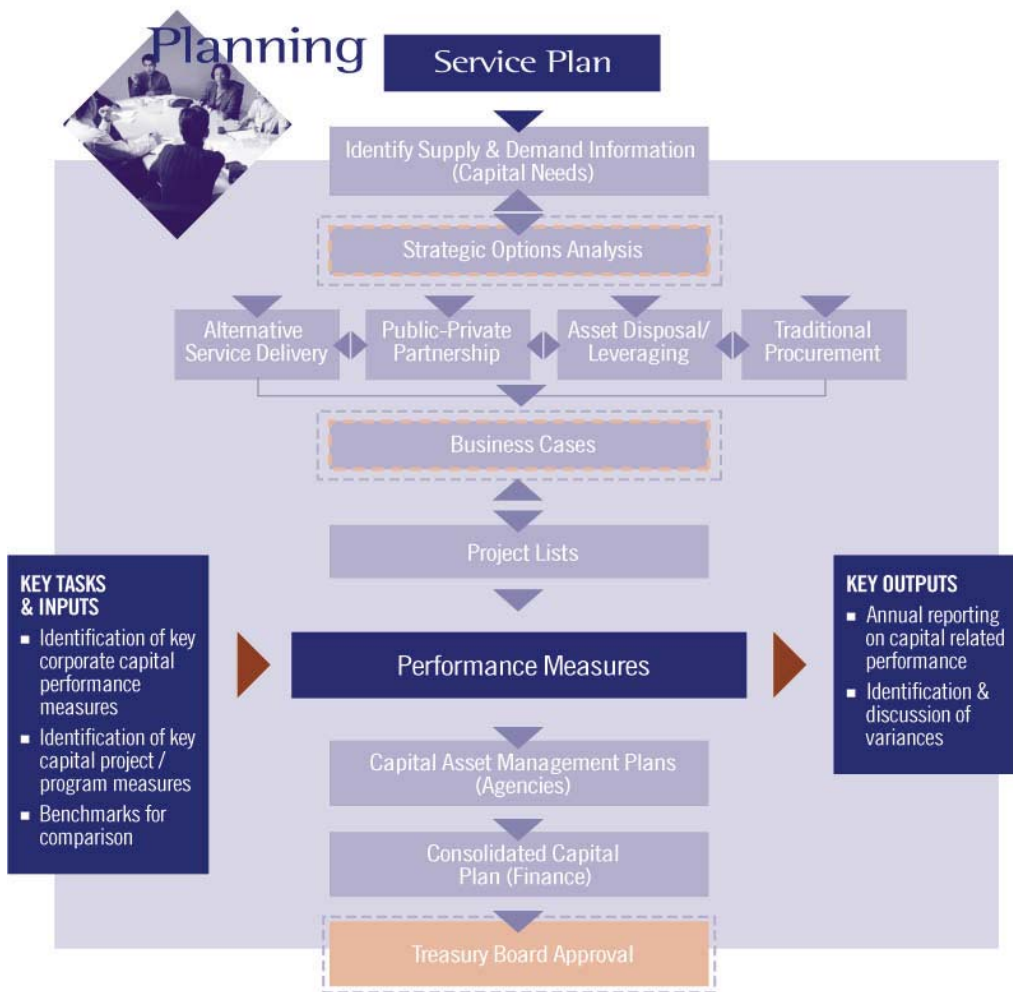
Plan Project or program lists should be included in agencies’ capital plans, summarized by category. The summaries should be consistent with those used in communicating capital requirements. They may be grouped according to purpose (e.g. maintenance, renovation, replacement or expansion) or in categories relevant to agencies’ program areas. For decision purposes, they should also be grouped

CAPITAL ASSET MANAGEMENT PLANNING

by delivery method (e.g. alternative capital procurement or traditional/publicly financed procurement).

Where applicable, budget requirements should be identified for pre-feasibility studies, post implementation reviews and contingencies for loss replacement. This supports the Province’s full life-cycle approach to managing capital assets.

4.7. Performance Measurement & Reporting



CAPITAL ASSET MANAGEMENT PLANNING

As part of the Province's commitment to accountability, public agencies need to measure their performance at every stage of the capital asset management process, at both the corporate and project/program level.

Corporate-level performance measures may include the agency's ability to:

- manage within fiscal targets (e.g. capital-related) from year to year;
- successfully implement proposed strategies and projects from year to year; and/or
 - achieve asset management goals such as targets for average age of capital stock, utilization rates, maintenance-expenditure targets and levels of accumulated deferred maintenance.

Public sector agencies have freedom and flexibility to carry out their capital mandates with minimal intervention from the Province. At the same time, they must be fully accountable for managing capital assets efficiently.

Program or project-level performance measures may address:

- how effectively assets are supporting service delivery objectives;
- project management performance, including whether projects are delivered on scope, schedule and budget and whether risks have been effectively managed; and/or
- physical asset performance (whether the planned quantity and quality of assets are achieved).

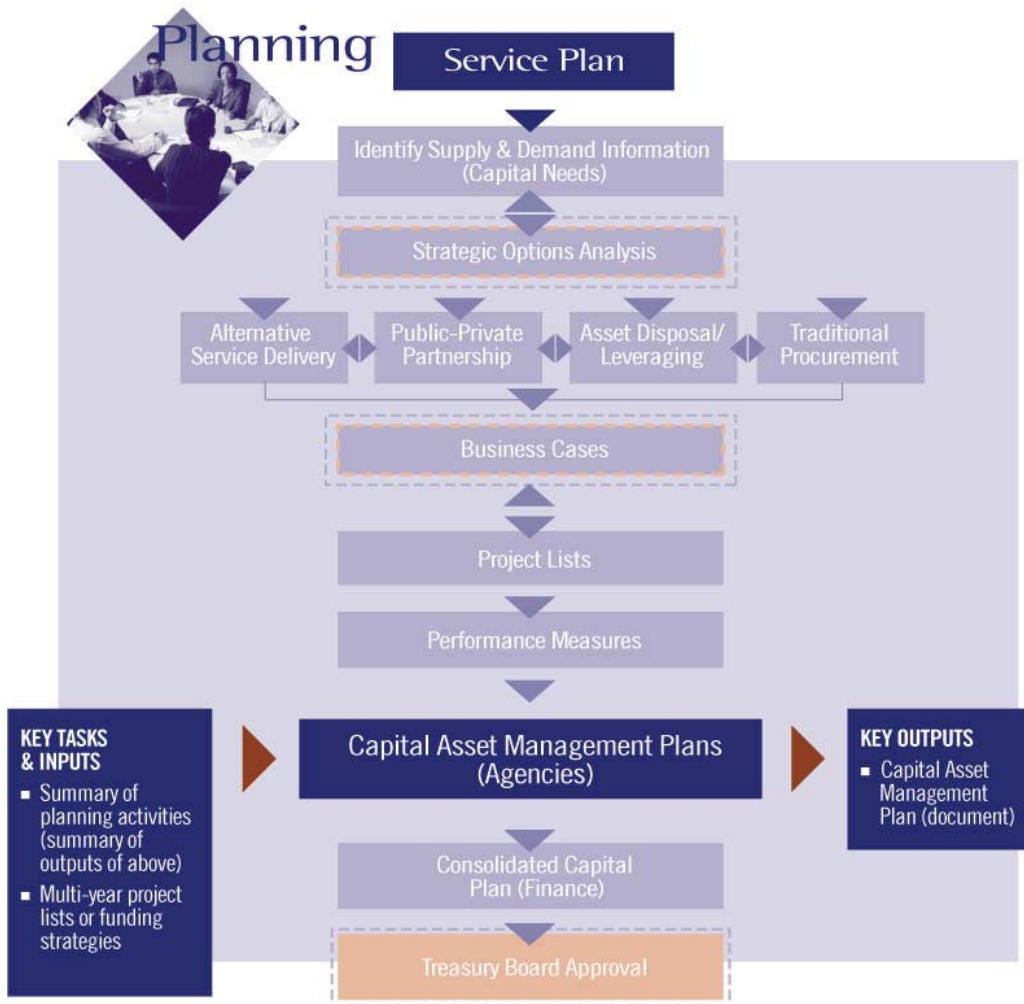


Capital asset management plans should summarize agencies' track records in meeting both corporate and project-specific performance measures in previous years. They should also set out measures against which agencies' future performance will be assessed.

For a more complete discussion of performance measurement concepts, standards and methodologies, see Chapter 11.

CAPITAL ASSET MANAGEMENT PLANNING

4.8. Capital Asset Management Plans



- Potential Treasury Board Decision Points
(Based on project cost, risk and complexity or agency track record)*
- Potential Open Cabinet Discussion for Major Capital Projects*

Capital asset management planning is not a once-a-year event. It is a strategic process agencies should undertake continuously to inform rolling, multi-year capital plans.

Capital asset management plans capture the most significant information from an agency’s capital planning process. That process should be ongoing and continuous, and the findings should be used to continually update multi-year, rolling capital plans – based on agencies’ service plans and reflecting the cost of managing capital assets through their full life cycles.

CAPITAL ASSET MANAGEMENT PLANNING

The sample table of contents below (Figure 4.8.) offers general guidance on the structure and contents of capital asset management plans. It also provides descriptions and/or examples of elements that should be included.

Figure 4.8.

Table of Contents		Sample
I. Overview of Agency	<ul style="list-style-type: none">• description of the agency’s mandate and core services as per its service plan, and their relationship to capital asset management• links to broader government strategic or capital priorities• relevant capital related organizational or governance structures (e.g. the relationship between ministries and local agencies)• capital related legislative requirements• overview of agency-specific funding mechanisms	
II. Factors Driving The Need For Capital	<ul style="list-style-type: none">• identification and analysis of the significant factors underlying the agency’s demand for capital expenditures (e.g. demographics, technological change, market conditions, program changes) and a brief overview of the methodology used to forecast demand• overview of the agency’s capital stock (e.g. identifying its average age and condition, utilization issues and any major inventory issues) and the methodology used (e.g. asset valuation methodologies) to track and calculate the inventory information• maintenance requirements and an outline of the methodologies used in these forecasts (e.g. standards, formulas based on asset value or square footage)	
III. Overview of Capital Related Fiscal Situation	<ul style="list-style-type: none">• overview of the agency’s debt, debt service, amortization and/or other capital related fiscal pressures• material assumptions used in the planning processes and their sources (e.g. discount rates, amortization periods, market assumptions)	
IV. Capital Expenditure History	<ul style="list-style-type: none">• brief summary of the agency’s historical spending patterns and priorities	
V. Forecast of Capital Asset Related Needs	<ul style="list-style-type: none">• summary of forecasted capital expenditure requirements, grouped into meaningful categories, such as:<ul style="list-style-type: none">• preplanning/pre-feasibility, with a description of the methodology used to estimate	

CAPITAL ASSET MANAGEMENT PLANNING

the requirements

- maintenance, renovation, replacement or expansion, with a description of the methodology used to estimate the requirements
- allowances, contingency requirements (or another approach) for managing emergency capital requirements, with a description of the methodology used to estimate or address the requirements

VI. Strategies and Projects to Meet Needs

- where relevant, approaches to formula funding with an overview of the allocation methodology or criteria
- summary of alternative strategies used to meet capital needs, including a discussion of the implications if capital needs exceed affordability
- detailed project/program lists including a brief description of the ranking criteria and methodology used in establishing priorities; the information should be aggregated in meaningful categories for decision-makers and should include:
 - a summary of need for each proposal (a brief statement of justification, appropriately reflecting the project's size, complexity and risk);
 - financial, project phase (life cycle) and other relevant information such as procurement method (e.g. P-3); and
 - identification and status of ongoing (i.e. legally committed) projects including identification of any substantive issues (e.g. schedule slippage).

VII. Capital Related Performance Measures and Targets

- summary of an agency's key capital management performance measures, targets and benchmarks
- reporting on previous years' performance

VIII. Appendices as needed. Examples include:

- identification or summary of budget and planning methodologies applied
- project ranking methodology
- complete strategic options analyses or business cases as required for approval
- supporting reports or studies

4.8.1. Approval Requirements

Capital asset management plans are generally submitted to Treasury Board on an annual basis as per the consolidated capital planning and approval process outlined in Chapter 5. Submission requirements will vary by agency, according to Letters of Expectations or

CAPITAL ASSET MANAGEMENT PLANNING

other decision-related letters from Treasury Board, such as Shareholder's Letters of Expectations for Crown corporations.

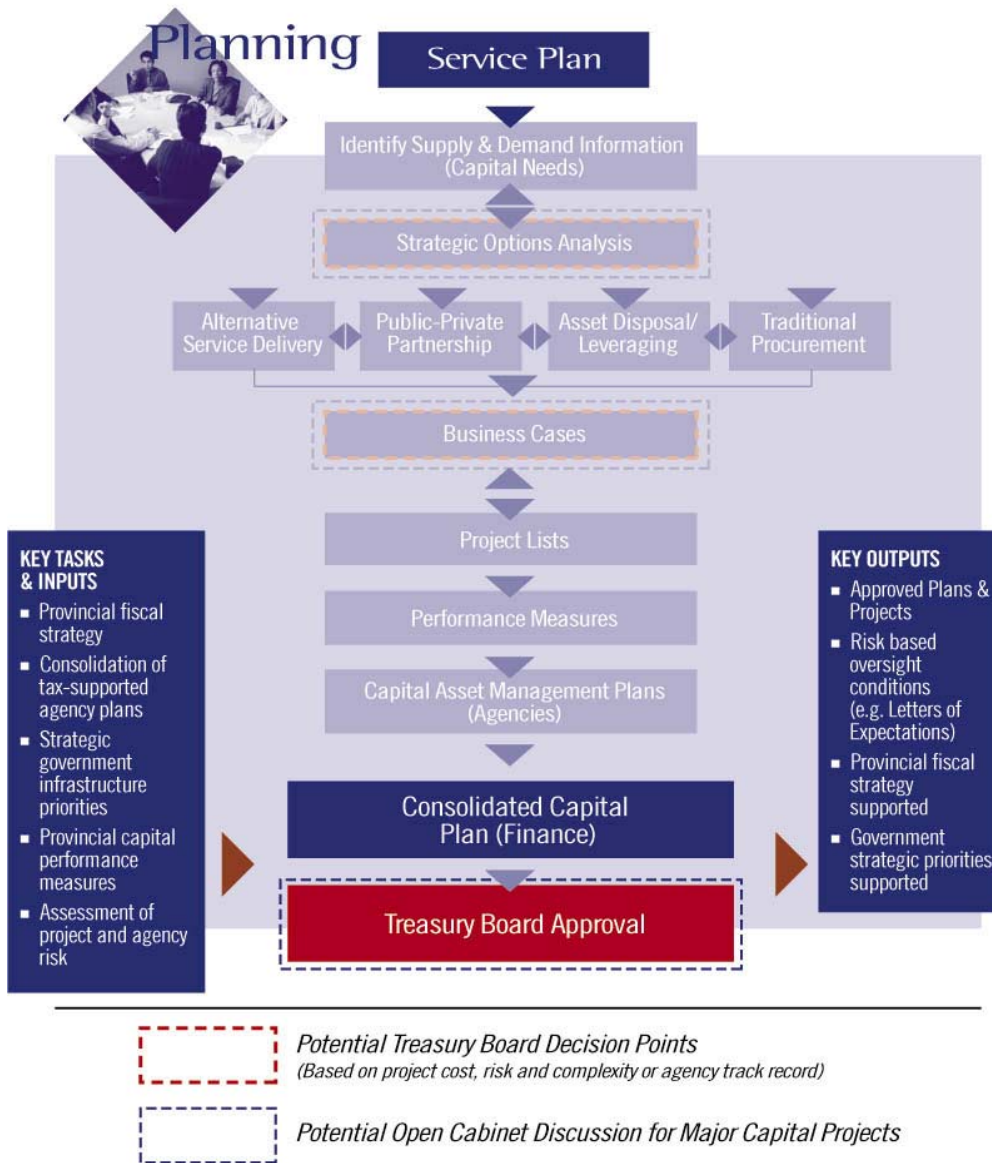
4.8.2. Capital Asset Management Plan Tools

- Tools being developed include sample Capital Asset Management Plans.

5. CONSOLIDATED CAPITAL PLAN PROCESS & APPROVALS

CONSOLIDATED CAPITAL PLAN PROCESS {APPROVALS}

5.1. Overview



Consolidated capital planning (CCP) refers to the process whereby public agencies’ capital plans are rolled into a single provincial capital plan, as part of the government’s annual budgeting and approval process.

This approach allows the Province to:

- establish fiscal controls such as capital expenditure limits, debt targets or debt-service limits commensurate with government's overall fiscal priorities;

CONSOLIDATED CAPITAL PLAN PROCESS {APPROVALS}

- assess whether agencies' plans are consistent with provincial objectives and priorities;
- assess agencies' performance in achieving their plans;
- make informed decisions or set oversight conditions in the context of fully-disclosed agency risk profiles, and project cost and risk profiles;
- identify and assess critical capital funding issues or pressures (e.g. deferred maintenance, seismic risk) and develop provincial strategies to address them; and
- allocate capital resources to meet competing needs and make informed trade-offs (e.g. investment in health care vs. transportation or education infrastructure).

5.2. Consolidated Capital Planning (CCP) Process

The annual CCP process generally follows these steps:

1. On an ongoing basis, agencies develop and refine their service plans, identifying all related capital asset needs.
2. As directed by Treasury Board, the Ministry of Finance issues budget instructions, outlining the budget schedule and priorities with specific instructions included related to capital asset management plans. These instructions should address, at a minimum:
 - any strategic government priorities for the budget cycle;
 - schedules for developing and submitting capital plans, with guidance regarding their form or content; and
 - if applicable, notional or actual capital expenditure limits for taxpayer-supported agencies.
3. Where applicable, ministries prepare and issue annual capital budget instructions to local agencies addressing, at a minimum, the ministry-level version of the factors listed above for provincial capital budget instructions. Consistent with these instructions, agencies submit capital plans to ministries. Ministries consolidate and prioritize local agency plans, and prepare their own ministry-level capital asset management plans.
4. Consistent with provincial budget instructions (and/or specific Treasury Board requirements as articulated in decision letters or Letters of Expectations), ministries and Crown corporations submit capital asset management plans to Treasury Board as part of the overall budget process. Submissions are signed by the minister or CEO responsible.
5. Treasury Board reviews the plans and may make preliminary decisions with respect to some agency plans.

CONSOLIDATED CAPITAL PLAN PROCESS {APPROVALS}

6. The Ministry of Finance prepares a consolidated capital plan, consolidating the spending intentions of tax-supported agencies. Treasury Board assesses the plan's implications in the context of:
 - its overall fiscal and debt strategy;
 - strategic provincial capital management issues; and
 - provincial program priorities.
7. If agency plans are inconsistent with the province's fiscal (e.g. debt) strategy, or if Treasury Board identifies strategic capital allocation or management issues, some agencies may be required to adjust their plans.
8. Treasury Board issues or updates Letters of Expectations (or decision letters) respecting capital asset management plans.

Figure 5.2 (below) offers an overview of the CCP process, illustrating major approval points, decision factors and target timelines.

5.2.1. Mid-year Projects/Proposals

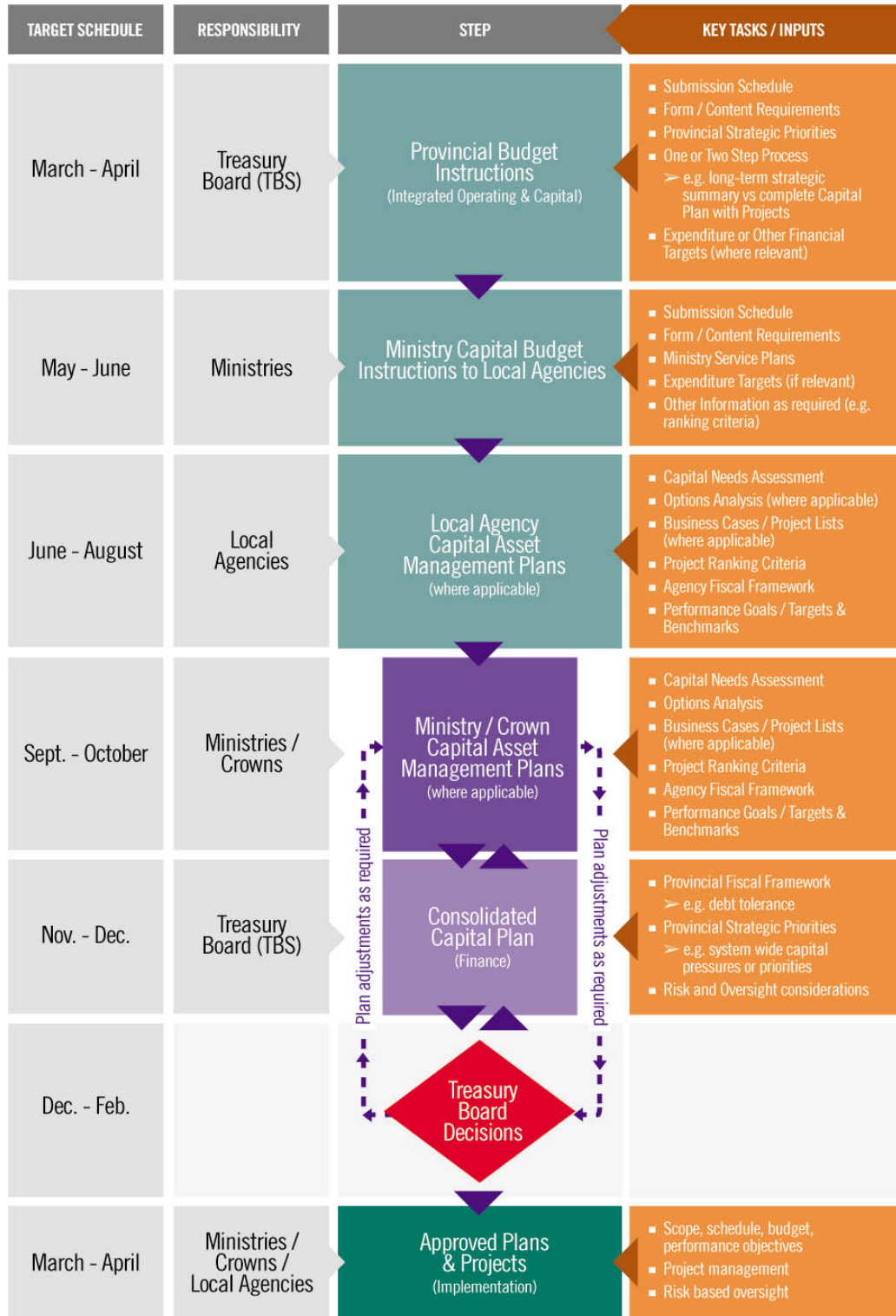
Capital proposals may be submitted to Treasury Board outside the annual budget process. Agencies should ensure that any such submissions meet the standards articulated in these guidelines and are:

- justified (e.g. with a business case that clearly supports the project);
- consistent with the agency's priorities; and
- supportable within the agency's capital and fiscal plans.

CONSOLIDATED CAPITAL PLAN PROCESS {APPROVALS}

Figure 5.2

Consolidated Capital Planning Process
(i.e. Capital Budget Process)



5.3. Treasury Board Approval Requirements (Oversight)

5.3.1. Overview

British Columbia uses a risk-based approach to capital management oversight. That means submission, approval and reporting (i.e. oversight) requirements vary according to an individual project or agency's risk profile. Generally, the lower the risk and the better the agency's track record, the fewer conditions Treasury Board requires for central oversight.

Treasury Board Staff consults with agencies before determining specific approval conditions. The factors considered in these determinations are detailed in Sections 2.3 and 3.2.

5.3.2. Decision Letters (or Letters of Expectations)

The majority of Treasury Board's agency-specific oversight conditions are communicated through Treasury Board Decision Letters, Letters of Expectations or, in the case of Crown Corporations, through Shareholder's Letters of Expectations (where applicable). These letters typically address a wide variety of service, governance, operating, or budget issues. Figure 5.3.2a below lists a range of capital related elements that may be included in these letters or in stand-alone capital-related letters.

Ministries responsible for the oversight of local agencies may wish to use a similar process to clarify their own capital-related expectations.

Figure 5.3.2.a

Potential Capital Related Elements of a Treasury Board Decision Letter or Letter of Expectations:

- **Roles and Responsibilities**
 - Overview of any key capital related responsibilities or governance issues that may vary from the roles defined in the Capital Asset Management Framework
- **Strategic Government Capital Priorities, such as:**
 - Addressing deferred maintenance liability or seismic risk
- **Agency Specific Capital Performance Goals or Limits, such as:**
 - Capital expenditure or debt limits
 - Asset utilization or cost control targets
- **Framework Compliance Requirements, such as:**
 - Meeting business case standards

CONSOLIDATED CAPITAL PLAN PROCESS {APPROVALS}

- Adhering to a specific reporting format
- Meeting inventory assessment requirements
- **Submission and Approval Requirements, such as:**
 - Capital asset management plans
 - Specific capital project or program related Treasury Board approval requirements (based on project or agency risk assessments) such as:
 - large or complex projects over a defined threshold or risk profile
 - phased approval for selected alternative procurement projects
 - third party oversight for high-risk projects
 - responsibility for scope changes
- **Reporting Requirements (as outlined in Section 10), such as:**
 - Non-discretionary public related reporting requirements
 - Capital asset management plan general performance reporting requirements
 - Specific capital project or program related reporting requirements (based on project or agency risk profiles)
- **Post-Implementation Review Requirements, such as:**
 - Identification of projects requiring post-implementation reviews for accountability purposes
- **Timeline**
 - Length of time before Letter of Expectations is reassessed or renewed
- **Accountability**
 - Identification of key personnel responsible for specific deliverables

Figure 5.3.2.b below provides a high-level summary of key approval and reporting related roles and responsibilities among various provincial capital agencies.

CONSOLIDATED CAPITAL PLAN PROCESS {APPROVALS}

Figure 5.3.2.b

	Treasury Board/ Minister of Finance	Ministry	Local Agency	Crown Corporation
Capital Asset Management Plans	Review and approve ministry & Crown capital plans in accordance with Letters of Expectations	Prepare and submit to Treasury Board Execute capital plan Approve local agency plans where applicable	Prepare and submit to ministry Execute local agency capital plan	Prepare and submit to Treasury Board as required by Letter of Expectations Execute capital plan
Capital Budget Allocations (e.g. Capital expenditure/ debt limits)	Adjust or approve ministry & tax-supported Crown capital expenditure limits, consistent with provincial fiscal framework and strategic priorities	Ministry determines its own limits based on affordability Adjust/approve local agency limits where applicable	Derived from affordability	Establish according to affordability
Specific Project Approvals	Approve according to Letter of Expectations with ministries or Crowns	Submit to Treasury Board according to Letter of Expectations	Submit to ministry according to ministry requirements	Submit to Treasury Board according to Letter of Expectations
Capital Related Policy	Develop provincial Capital Asset Management Framework	Develop ministry policies consistent with provincial framework	Develop local agency policies consistent with provincial framework	Develop corporate policies consistent with provincial framework
Risk Based Reporting (e.g. Financial, Performance, etc.)	Receive for review according to Letters of Expectations	Submit to Treasury Board according to Letter of Expectations	Submit to ministry according to ministry requirements	Submit to Treasury Board according to Letter of Expectations
Public Financial Reporting (e.g., Quarterly public reporting requirements)	Receive for review & publication	Prepare and submit to Treasury Board Receive for review from local agencies	Prepare and submit according to ministry requirements	Prepare and submit to Treasury Board
Project Monitoring	Oversight according to Letters of Expectations	Ongoing monitoring Day-to-day delivery responsibility where applicable	Day-to-day delivery responsibility	Day-to-day delivery responsibility
Funding and Cash Flow Management	Provincial Treasury is fiscal agent	Direct responsibility for funding Approve, disburse, and manage cash flow with respect to local agencies where applicable	Direct responsibility for funding	Direct responsibility for funding
Project Related Communications	N/A	Responsible	Responsible	Responsible

6. PUBLIC COMMUNICATIONS

PUBLIC COMMUNICATIONS

6.1. Introduction

In keeping with its commitment to public accountability, the Province communicates with stakeholders and the public, telling taxpayers how and where their dollars are being invested. Agencies are also required to be accountable and should develop basic, corporate communication plans that identify opportunities and strategies for:

- announcing key milestones in capital projects' life cycles;
- informing stakeholders (including local communities) about a project's objectives or impacts on the community (e.g. job creation, program/service delivery);
- ensuring that public announcements do not precede required approvals, creating unrealistic expectations; and
- ensuring that all communications regarding a given project are consistent and coordinated with ministries responsible and/or central government agencies.

6.2. Guidelines

Agencies should work with the communications staff in their agency, in the ministry responsible, or in central government to develop a basic communications plan and guidelines for:

- determining which types of capital expenditures are suitable for public announcement;
- ensuring that necessary approvals are in place prior to initiating public announcements;
- determining who is responsible for making public announcements and in what circumstances (e.g. project characteristics such as size or geographical location);
- coordinating announcements with any involved partners such as private-sector companies;
- coordinating announcements with the appropriate ministries and/or central government agencies;
- identifying key project milestones (e.g. approval, design, issuance of a Request for Proposals, start of construction, start of service delivery) or criteria to inform the timing and scope of public announcements; and
- ensuring that announcements respecting pre-feasibility or pre-planning studies clearly communicate the nature of the process (i.e. to assess the feasibility and cost effectiveness of all alternatives, including not proceeding with the project).

7. PROJECT PERSONNEL & MANAGEMENT

PROJECT PERSONNEL & MANAGEMENT

7.1. Project Personnel

To deliver successful capital projects, agencies need the right personnel with the right mix of knowledge, skills and experience. Care should be taken in identifying, selecting and assigning appropriate human resources – and developing appropriate management structures – at all phases of a project’s life cycle.

This may pose additional challenges for agencies pursuing alternative procurement options. Knowledge and experience are limited in this relatively new area, and the need for expertise is heightened because new approaches present new, and potentially more complex, management risks.

Having the right people, with the right skills and experience, is fundamental to the success of capital projects.

All personnel and project management choices should reflect the nature, risk and complexity of the undertaking. High-risk projects will require a higher degree of formal project management expertise or management structures (e.g. a project management committee), compared to routine or low-risk projects. Similarly, the more complex a project, the earlier in the process critical expertise should be assigned and project management structures established.

7.2. Sources of Expertise

The most common source of expertise are:

- staff internal to the agency;
- resources shared with other public agencies; and/or
- service contracts with private-sector professionals.

In determining whom to secure for a given project (and when and how) agencies should consider:

As with all decisions in capital asset management, personnel choices and management structures should directly reflect the project’s risk and complexity.

- the project’s complexity, scope and risks;
- the internal and external environment and risks that may affect how the project is planned and executed (e.g. process and approval requirements);
- whether staff with sufficient or specialized expertise are available in-house;
- how frequently dedicated in-house resources may be required;
- the various specialized skills that may be required depending on the nature of the project (e.g. legal and contractual skills; financial

PROJECT PERSONNEL & MANAGEMENT

and economic skills; planning, program and/or public policy skills; technical design, engineering and environmental expertise; project and contract management skills and industrial relations expertise); and

- issues around conflict of interest and other matters related to the agency's ethics and integrity.

7.3. Project Management Structures

7.3.1. Project Director and Team

Agencies should appoint a project director with clear, overall responsibility and accountability for the project's success. This responsibility should include coordinating a team with the right skills and experience.

7.3.2. Committee Structures

Agencies should develop project management committees commensurate with the size and complexity of each project. Common types of committees include:

- steering committees which guide projects' planning and implementation (often including evaluating and selecting successful private sector bidders);
- oversight committees which assess and advise on the integrity of the processes used throughout a project and recommend improvements as needed; and
- technical or working committees (e.g. financial, legal, design and engineering) which may serve in either an advisory or an evaluative capacity.

Project management and steering committees should be representative of the sponsor agency or agencies and relevant governance structures.

7.3.3. Project Charter

A formal project charter may be useful in managing complex or risky projects. A charter is a written statement, usually developed by a project management or steering committee, designed to help ensure that all parties fully understand the project and their respective roles and responsibilities.

Project charters commonly address:

- authorization (the authority under which the project is proceeding);
- formalized project responsibilities;
- reporting relationships;

PROJECT PERSONNEL & MANAGEMENT

- project objectives, constraints and assumptions; and
- information on financing project management overhead.

7.1 Project Personnel and Management Tools

- Tools (to be developed).

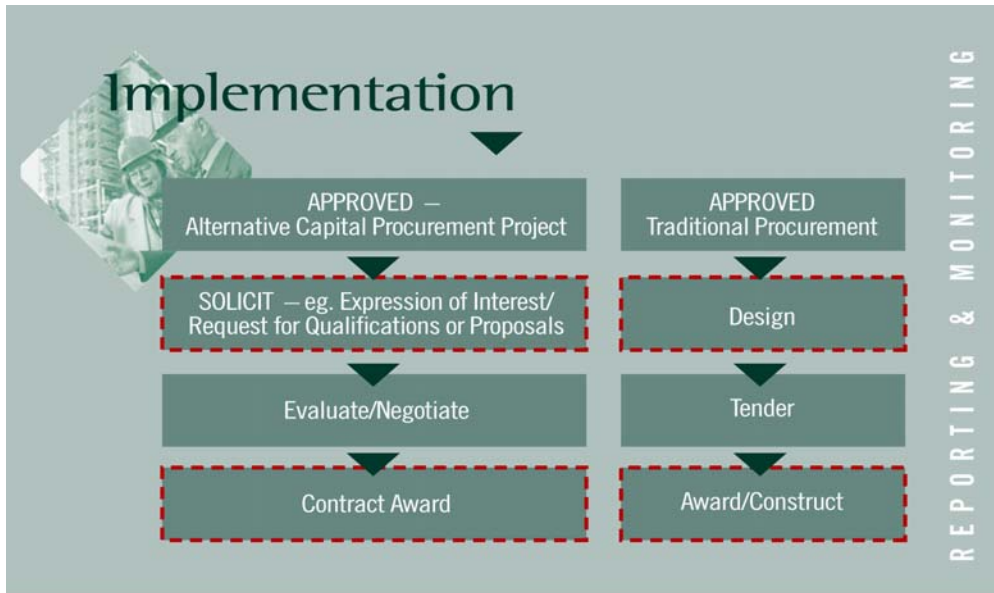
8. CAPITAL PROCUREMENT



CAPITAL PROCUREMENT

This section may be subject to revision pending the outcomes of the province's Procurement Reform Initiative

8.1. Introduction



Potential Treasury Board Decision Points
(Based on project cost, risk and complexity or agency track record)

After completing the planning process and choosing the best option for meeting service delivery needs, agencies can begin the process of capital procurement. In other words, they can begin to engage the private sector (the market) to acquire capital assets and related services, bearing in mind the Province's commitments to value for money and protecting the public interest.

The following chapter details:

- principles guiding capital related procurement;
- key legal and ethical considerations;
- the alternative capital procurement process; and
- the traditional, publicly-financed capital procurement process.

Tools are also provided, at the end of relevant sections, to support the alternative and traditional procurement processes.

CAPITAL PROCUREMENT

8.2. Principles

The following principles guide all public sector capital procurement:

FAIRNESS, OPENNESS AND TRANSPARENCY	ALLOCATION AND MANAGEMENT OF RISK
<ul style="list-style-type: none"> • Procurement processes must be fair, open and transparent to assure the public and potential partners of the integrity of the process and the desired outcome. • The public must be given every opportunity to participate in government business. Required qualifications for bidders (e.g. financial capacity and technical capability) should be proportionate to project size and complexity. 	<ul style="list-style-type: none"> • Procurement strategies should allocate risks to the party (e.g. agency, supplier, contractor) best able to manage them. • Experience, knowledge and training of procurement staff should be commensurate with the nature and complexity of the purchase.
COMPETITION	VALUE FOR MONEY AND PROTECTING THE PUBLIC INTEREST
<ul style="list-style-type: none"> • Capital procurement opportunities must be tendered publicly, using competitive processes. Reasonable exceptions may be made in unusual circumstances (e.g. in matters of urgent public health or safety, or where there is only one supplier of goods or services). 	<ul style="list-style-type: none"> • Procurement decisions must be based on value for money assessments with due regard for protecting the public interest. • The cost of procurement should be appropriate to the value of the goods or services being acquired, and the risks associated with the procurement.

8.3. Legal and Ethical Issues

8.3.1. Legal Considerations

Public sector procurement must take place in full accordance with the law, including inter-governmental agreements such as the Agreement on Internal Trade. Agencies should ensure that procurement personnel are knowledgeable in the applicable legal areas.

8.3.2. Freedom of Information and Protection of Privacy Act

The *Freedom of Information and Protection of Privacy Act (FIPPA)* governs disclosure of information in the custody or control of public agencies. Agencies to which the Act applies can be obliged to release procurement information unless the information is excepted from disclosure by the legislation. Such exceptions include disclosures that would be harmful to business interests of a third party or the financial or economic interest of a public body.

Agencies should contact their designated *FIPPA* contact for specific advice prior to disclosing any procurement information, other than that which is part of the public tendering process.

CAPITAL PROCUREMENT

8.3.3. Intellectual Property

Intellectual property includes property protected by patent, trademark, industrial design or copyright.

To ensure the proper protection of intellectual property, agencies engaged in capital procurement should ensure that their solicitation documents specifically address how intellectual property issues should be handled. Agencies should consult with their legal advisors on addressing intellectual property issues.

Typically, solicitation documents include a statement detailing the manner in which the agency will treat intellectual property. For example, solicitation documents should include a statement indicating that all documents, including proposals submitted to the Province, become property of the Province.

8.3.4. Lobbying

Lobbying generally refers to activities intended to influence government decision-making. Specifically, it involves communication with public office holders – as defined in the *Lobbyist Registration Act* – by parties external to government.

All enquiries related to a procurement process should be directed in writing to a designated project contact. This helps to protect the integrity of the process, and the public interest.

Lobbying should not be permitted during procurement because it can undermine the integrity of the process and potentially compromise the public interest. To ensure that procurement processes are - and are seen to be - fair, transparent and open, agencies should:

- designate a key contact person to respond to any inquiries about the procurement process;
- inform bidders that inquiries about the process must be directed in writing to the key contact person;
- ensure that such enquiries are recorded and distributed to all project proponents with the agency's response, with appropriate exceptions for proprietary information; and
- adopt “no-lobbying” policies prohibiting bidders from communicating with any representative of the agency or Province after the procurement process starts – except in the case of routine inquiries, as described above. Bidders should also be prohibited from discussing the project with the public or the media, other than as expressly directed or permitted by the Province.

8.3.5. Conflict of Interest

In the context of capital procurement, a conflict of interest (real or perceived) occurs when a member of, or adviser to, a procurement team has a relationship or interest that

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might be seen to prejudice their impartiality. For example, an agency employee or advisor could have a family member in private business, or be involved with a proponent, who could potentially benefit from a procurement decision.

Conflicts of interest – both real and perceived – are not uncommon and can often be managed effectively. The key is to identify them early in the procurement process, and to take appropriate steps to address and effectively mitigate them in a timely way.

Agencies should develop processes (as part of the solicitation process) to ensure that all procurement team members and their advisors:

- declare and address any real or perceived conflicts of interest before the bidding process begins; and
- identify and address any new or changing conflicts (real or perceived) that arise during the procurement process.

Agencies should also develop processes to address the following related issues:

Unfair advantage: This may arise where a contractor entering a competition:

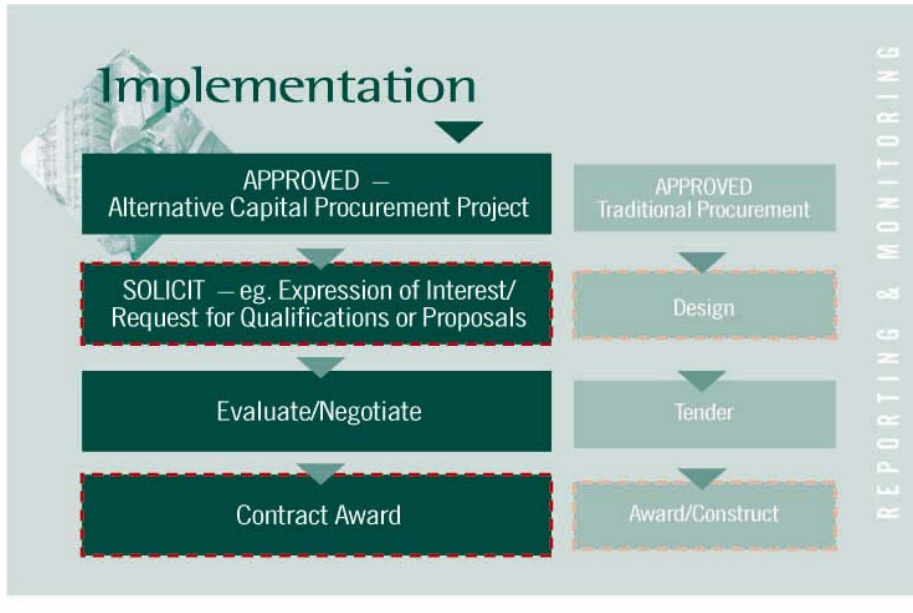
- has had the opportunity to structure the competition in a way that favours him/herself (e.g. by designing an evaluation process that prefers his/her specific skills); or
- has had access to information giving her/him an advantage over other proponents.

Often, this issue is addressed by fully disclosing the advantage so that other bidders will be aware of the circumstances under which they enter the competition.

Confidential information: This issue is similar to unfair advantage. It occurs where one party has access to information that is not available to other bidders. When this happens, agencies should ensure that there is some means of addressing fairness in the process.

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8.4. Alternative Capital Procurement



*Potential Treasury Board Decision Points
(Based on project cost, risk and complexity or agency track record)*

8.4.1. Introduction

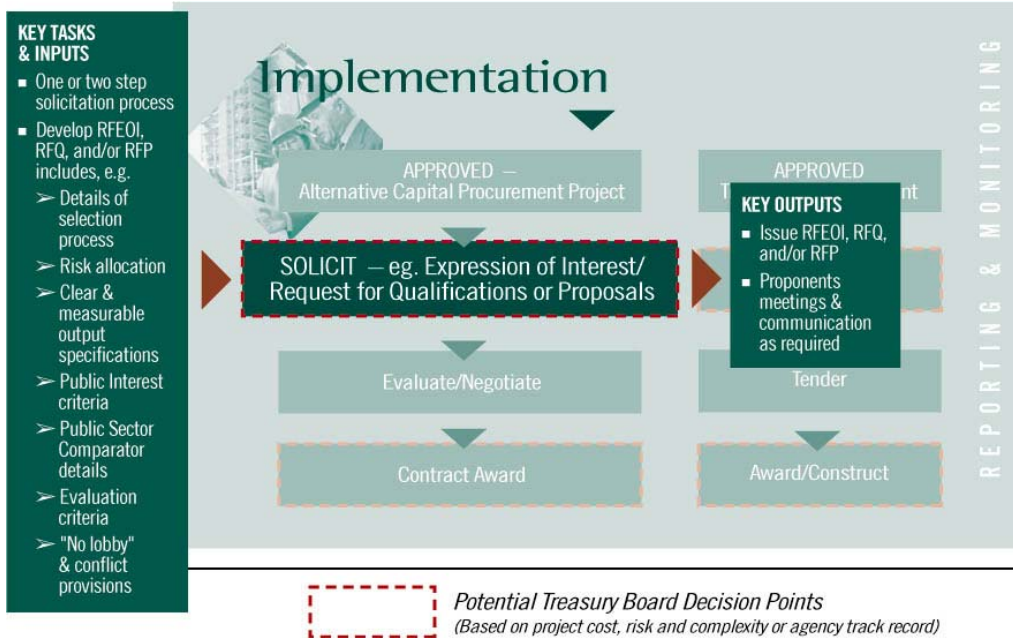
As discussed in Chapter 4, alternative capital procurement generally refers to any method other than traditional buy-and-borrow or design-bid-build procurement. The process can be broken into three basic stages:

- **Solicitation**, which includes preparing and issuing documents such as Requests for Expressions of Interest (REOIs), Requests for Qualifications (RFQs), and Requests for Proposals (RFPs);
- **Evaluation/Negotiation**: the evaluation of qualified proponents and their proposals against measurable, clearly defined benchmarks and subsequent negotiation with the preferred proponent; and
- **Contract Award**: the process of awarding the contract to the successful bidder.

Once the award is made, the focus shifts to managing the contract and, later, monitoring performance of the asset and/or service. These issues are addressed in Section 8.5.2.4.

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8.4.2. Solicitation



Solicitation begins with the preparation of necessary documents and concludes with the receipt of proposals from bidders. It may follow a one-step or a two-step process, depending on the project’s nature and complexity.

A one-step process typically involves issuing a Request for Qualification (RFQ) or a Request for Proposals (RFP). This is appropriate where the partnership potential is clear, project requirements are well defined, and only a limited number of firms could reasonably be expected to be interested in the project.

Regardless of whether a one-step or two-step method is used, the competitive bidding process must be fair, open and transparent.

A two-step process is often preferred for more complex projects. It involves issuing a Request for Expressions of Interest (RFEOI) to short-list qualified potential bidders, followed by an RFP for detailed proposals. This approach acknowledges the cost of preparing and evaluating RFP responses, and can improve efficiency.

In some cases, agencies may wish to meet with a number of potential bidders before issuing solicitation documents in order to determine the level of interest, experience and expertise available in the marketplace. This “**market sounding**” can inform the solicitation process and is appropriate in cases where:

- there is uncertainty regarding market capacity (e.g. whether adequate interest or technical capacity to ensure a competitive process); and/or
- advice is required on certain aspects (e.g. terms) of solicitation documents under development to ensure they are feasible or understandable.

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Agencies using market sounding should ensure that the process does not create, or appear to create, an advantage to any potential bidder(s). For further guidance, see Section 8.4.5, Conflict of Interest.

8.4.2.1. Request for Qualifications (RFQ) or Request for Expressions of Interest (RFEOI)

RFPs, REIOs and related solicitations should be issued in accordance with the procurement principles outlined in Section 8.2.

RFQs and RFEOIs are used to short-list qualified proponents and assess their qualifications, including their project team, financial resources and track record for controlling, managing and delivering specific projects and/or services.

While RFQ processes can be used to select a potential partner with whom to enter contract negotiations, RFEOIs are typically used as the first part of a two stage process to solicit ideas for further development at the RFP stage. Once an RFQ or RFEOI closes, responses must be evaluated by a selection committee according to the criteria established in the solicitation documentation. In instances where a two-step process is being employed, an RFP may then be used to select a successful bidder.

At a minimum, an RFQ or an RFEOI should generally include:

<p>Procedural information</p>	<ul style="list-style-type: none"> • details about the selection process (e.g. one-step or two-step process) and the schedule for selection; • submission procedures including the documentation required and administrative matters such as the name of the agency contact person and details regarding bidders' meetings, questions and submission requirements; • an outline of the evaluation process including the criteria used and their relative weighting; and • general guidelines in areas such as conflict of interest, rights of the Province and required financial deposits. This should include a "no-lobby" provision instructing bidders (including any third-party representatives) not to communicate with any representative of the agency or Province after procurement begins.
<p>Project & proponent information</p>	<ul style="list-style-type: none"> • where applicable, a description of physical aspects such as service delivery outputs, design guidelines, environmental considerations, operation and maintenance requirements and property acquisition details; • a section requiring proponents to describe, in general terms, their approach, ideas or innovation for addressing the performance outcomes and/or outputs; • a section requiring proponents to provide qualifications, past experience and financial and other capacity information; and • the specific role(s) and risks that successful proponents are expected to undertake (e.g., finance, design, construction, maintenance).
<p>Technical and legal information</p>	<ul style="list-style-type: none"> • details of any specific legal or provincial provisions that apply to the project; • definitions of terminology used in the document; and • any particular policy regarding the payment of honoraria to proponents.

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A sample RFQ and RFEOI are currently being developed and will be included in the tool kit in Section 8.4.7.

8.4.2.2. The Request for Proposals (RFP)

The purpose of an RFP is to solicit enough information from private sector proponents to assess the relative merits of proponents' proposals. Where applicable, agencies should consult with their line ministries to develop RFP documents. These documents should generally include, at a minimum:

<p>Procedural information</p>	<ul style="list-style-type: none"> • an introduction specifying the objectives of government's RFP process and defining important terms; • instruction on preparing the proposal, important deadlines, contact information and procedures for inquiries; • guidelines regarding conflict of interest and a "no-lobby" provision (as described in Section 8.4.4); • evaluation criteria, their relative weighting and the process for applying them to proposals; and • a clause advising that a meeting will be held to de-brief project proponents subsequent to evaluation.
<p>Project information and proposal requirements</p>	<ul style="list-style-type: none"> • clearly defined and measurable output and/or outcome specifications (mandatory and desirable program and/or asset performance requirements). These are specifications suitable for payment on a services-delivered basis are most effective; • requirements for disclosing and presenting project costs (e.g. capital, operating and maintenance costs), revenues, balances, and provincial contributions; • details with regard to the Public Sector Comparator (i.e. raw PSC and competitive neutrality information) to enable bidders to demonstrate the relative benefits of their proposals; • requirements for detailing the proposed allocation of project risks (however, solicitation documents should not include government's estimates of the value of the risk transfer); • requirements for presenting project finance details; where applicable, market assumptions to be used by all proponents should be specified (e.g. benchmark interest rates for financing); • indemnification and insurance requirements; • provisions to safeguard the public interest; • relevant documentation related to the proposal's financial terms and conditions including, if available, draft lease and purchase agreements; and • wherever possible, an opinion from the agency's auditor regarding the accounting treatment of the proposed transaction (i.e. project financing structure).
<p>Technical and legal information</p>	<ul style="list-style-type: none"> • general requirements for the conduct of the RFP including the agency's right to amend proposals; • an indication that the <i>Freedom of Information and Protection of Privacy Act</i> applies to the RFP process; • a statement indicating that all documents, including proposals submitted to the Province, become property of the Province; • a clause reserving the agency's right to reject any or all proposals and to cancel the RFP

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	<p>process at any time; and</p> <ul style="list-style-type: none"> • a clause requiring proponents to identify confidential or proprietary information including ideas that are patented, copyrighted or otherwise legally protected.
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A sample RFP is currently being developed for inclusion in the tool kit in Section 8.4.7.

8.4.2.2.1. Evaluation Criteria

Agencies evaluating alternative procurement proposals should focus on value for money and protection of the public interest.

As identified above in Section 8.4.2.2., evaluation criteria must be clearly defined in the RFP, and must allow for accurate assessments of:

- value for money compared to the Public Sector Comparator (PSC). Alternative procurement proposals must clearly demonstrate a benefit over the PSC that includes an assessment of the risk transfer;
- other value for money costs and benefits not included in the PSC (quantitative or qualitative); and
- each proposal's capacity to protect the public interest.

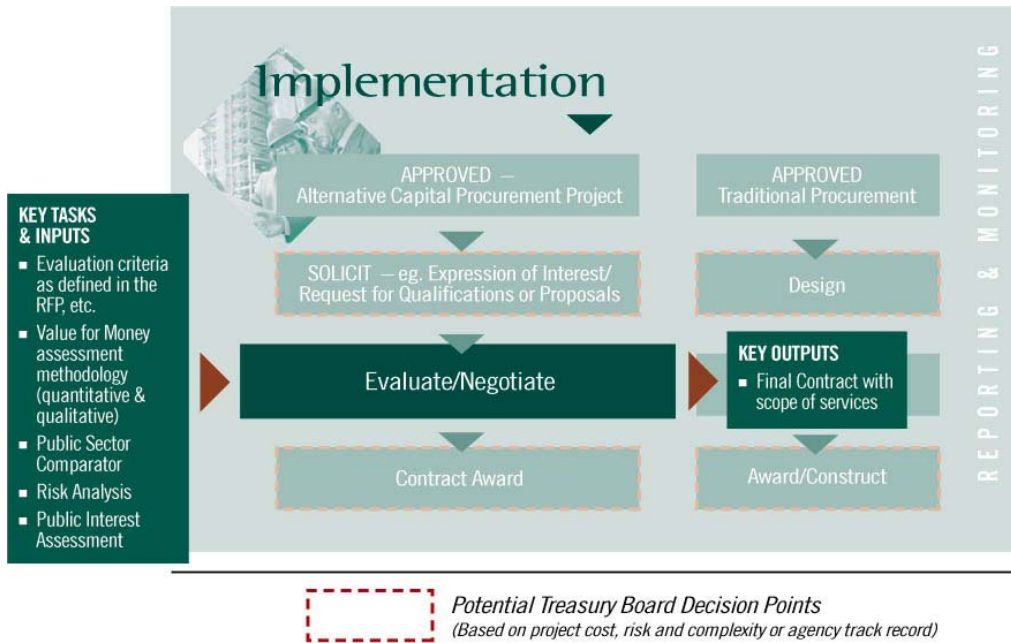
Typically these criteria have been identified and refined throughout the planning process (i.e. in the business case and any refinements thereafter based on market sounding, if applicable).

8.4.2.3. Approval Requirements

Depending on the nature of the project (e.g. scope, cost, complexity, public policy issues) agencies may be required to seek Treasury Board approval prior to issuing (tendering) the RFEOI or RFP.

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8.4.3. Evaluation & Negotiation



This phase of the alternative procurement process includes the evaluation of proposal documents - according to criteria disclosed in the RFP - and the final negotiation of a contract with a preferred proponent.

In **evaluating** proposals, agencies must pay particular attention to fairness and consistency. They must also ensure that the deliberations leading to any decisions are well documented. During this stage, communications with proponents must be consistent with the process identified in the solicitation documents.

Typically, a preferred proponent is identified through the evaluation process and **negotiations** are initiated. Before commencing negotiations, agencies should consider the following issues:

- identification of a clear negotiation process or framework. For example, the agency should work with the preferred bidder to identify, define and prioritize the issues that require negotiation; establish the contract drafting process; and agree on a dispute resolution process;
- identification of personnel who have the necessary skills and experience (e.g. negotiating, legal, financial, etc.) to undertake the negotiations, as well as clear direction as to their mandate and decision-making authority (e.g. limitations);
- parameters in which the agency has the authority to negotiate (e.g. financial, potential term of the contract, policy parameters); and
- time frame for negotiations (e.g. consideration of when service is required to be operational).

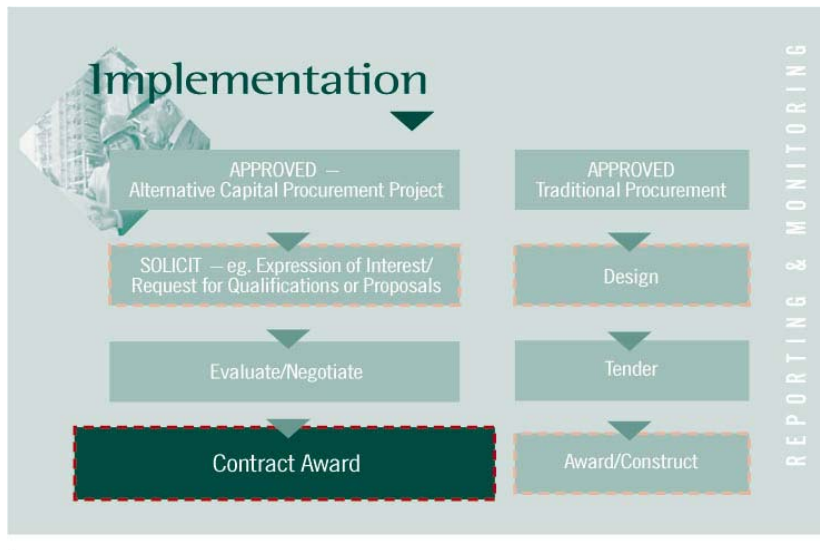
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In some cases, agencies may also require Treasury Board approval prior to negotiating a contract with the preferred bidder, depending on:

- the project’s risk profile and the extent of prior approvals;
- related public interest issues; and
- the agency's management track-record.

Such approval may be required to receive final directions and decisions on the negotiating parameters.

8.4.4. Contract Award



*Potential Treasury Board Decision Points
(Based on project cost, risk and complexity or agency track record)*

In some circumstances (e.g. where the final contract negotiated materially deviates from the approved project parameters) agencies may require Treasury Board approval prior to contract award.

Once approval is secured and a contract is executed, a public announcement should be made, consistent with the communications policy and plan for the agency or project. (For guidance, see Chapter 6, Public Communications.)

Agencies should also meet with unsuccessful proponents to brief them on the outcome of the procurement process.

8.4.5. Unsolicited Proposals

Agencies may occasionally receive unsolicited proposals from the private sector, offering a unique business relationship related to a specific project or service. This can pose a

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procedural challenge because – on the one hand, the Province is committed to ensuring that public procurement processes are open, fair and competitive. On the other hand, it is also committed to finding the best solutions that offer value for money and protect the public interest – which, by necessity, involves considering the widest possible range of potentially feasible options.

The province’s process for handling unsolicited proposals enables it to proceed where it can be demonstrated that:

- the proposal results in value for money (e.g. relative to a PSC) and protects the public interest; and
- the level of value for money achieved could not reasonably be expected to be matched or exceeded by another proponent.

Agencies should first review unsolicited proposals at a conceptual level to determine if they have any merit. If not, they should be returned to the proponent.

Unsolicited proposals deemed to have merit may be “sponsored” by an agency and, where applicable, the ministry responsible.

A two stage process should then be followed, including:

1. pre-feasibility analysis, and
2. proposal assessment.

Figure 8.4.6. below summarizes the process for managing unsolicited proposals.

8.4.5.1. Pre-feasibility Analysis

The sponsoring agency and, where applicable, the responsible ministry use a two-stage process to conduct a pre-feasibility analysis of an unsolicited proposal.

Stage One examines:

- whether the proposal has the support of both the agency responsible and the ministry responsible (if applicable);
- if the proposal relates to a need supported by the ministry (if applicable); and
- whether the proposal appears to be feasible and has merit.

Agencies must reject proposals that do not meet these criteria, and provide an explanation in writing to the project proponents. Proposals that do meet the stage-one criteria may proceed to stage two.

Stage Two of the pre-feasibility analysis examines:

- whether the proposal will provide value for money; and

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Agencies may accept unsolicited proposals from the private sector only where they promise a level of value for money that no other proponent could reasonably be expected to meet or exceed.

- whether it has unique aspects, providing a level of value for money that no other proponent could reasonably be expected to match or exceed. This may happen, for example, where a proponent owns the only viable project site.

When the stage-two criteria are met, the agency may work with the proponent to develop a more detailed proposal and/or business case.

Proposals which are not deemed to be unique may be subject to a competitive proponent-selection process.

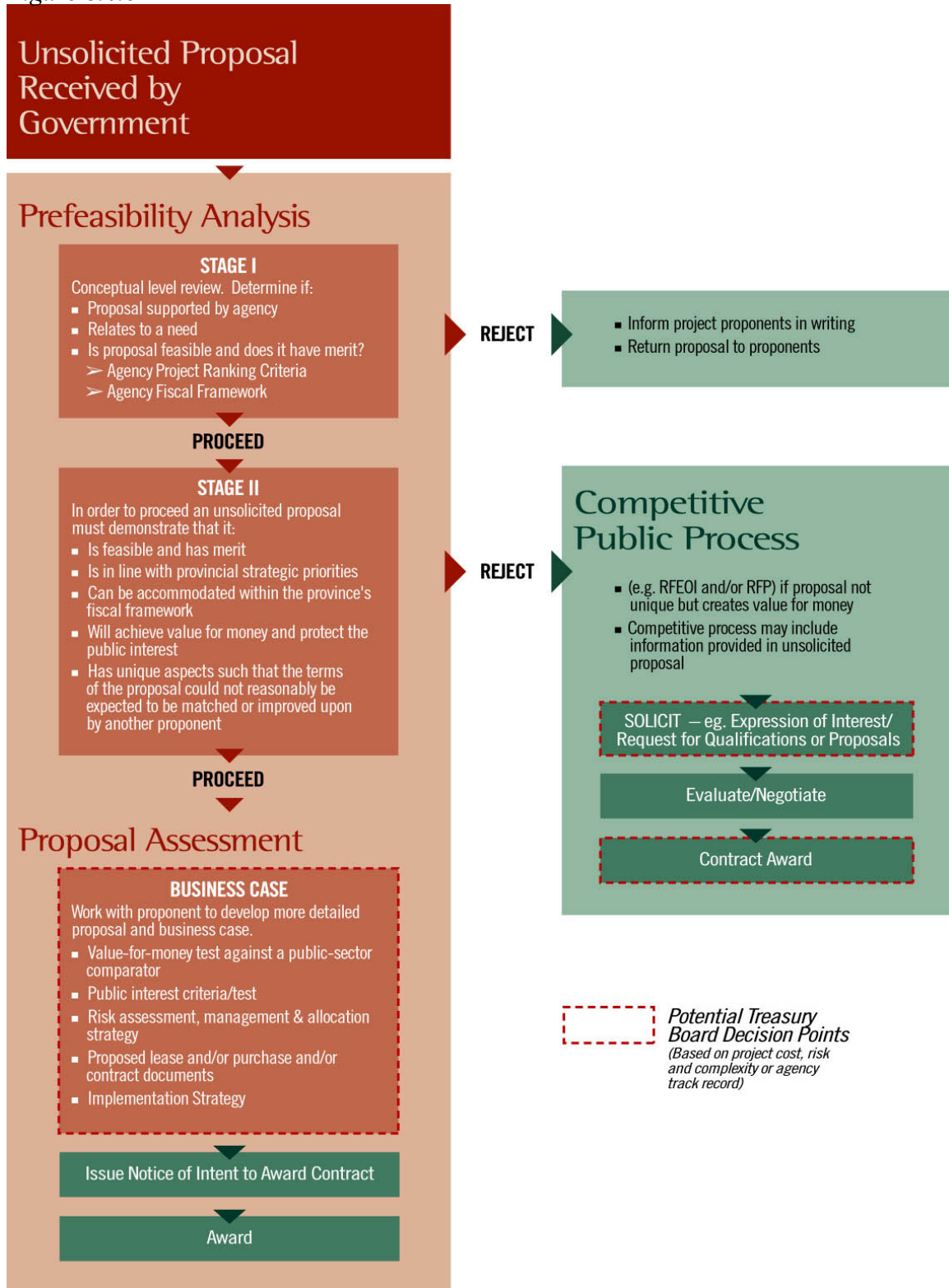
Before negotiating contract terms, the agency must issue a public Notice of Intent to award a contract. The purpose of the Notice of Intent is to validate the conclusion that no other proponent can reasonably be expected to meet or exceed the terms of the proposed contract.

8.4.5.2. Proposal Assessment

Unsolicited proposals that pass the pre-feasibility analysis are assessed on the same basis as proposals received through a competitive solicitation process. They must undergo complete value-for-money and risk assessments, using an appropriate Public Sector Comparator where applicable. They must also be assessed for their capacity to protect the public interest.

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Figure 8.4.6



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8.4.6. Contract Management and Performance Monitoring



Once a contract is signed, the agency’s role shifts. The focus now is on making sure that both the agency and the private partner fulfil their obligations under the contract. To this end, agencies should ensure their managing staff:

- have the appropriate contract management expertise and the requisite delegations of responsibility and accountability;
- carry out regular, detailed reviews to ensure that the project remains on track and performance targets are met; this includes monitoring the contractor’s performance against pre-determined measures (e.g. quality, quantity) and ensuring that progress billings (if any) bear a proper relationship to the work performed to date;
- identify the cost and time impacts of possible contract amendments necessitated by any unexpected findings;
- maintain open and professional lines of communication with the contractor’s authorized representatives;
- ensure public reporting requirements are met;
- ensure that all financial guarantees and insurance coverage remain in place during the contract term; and
- take appropriate and timely corrective action where necessary.

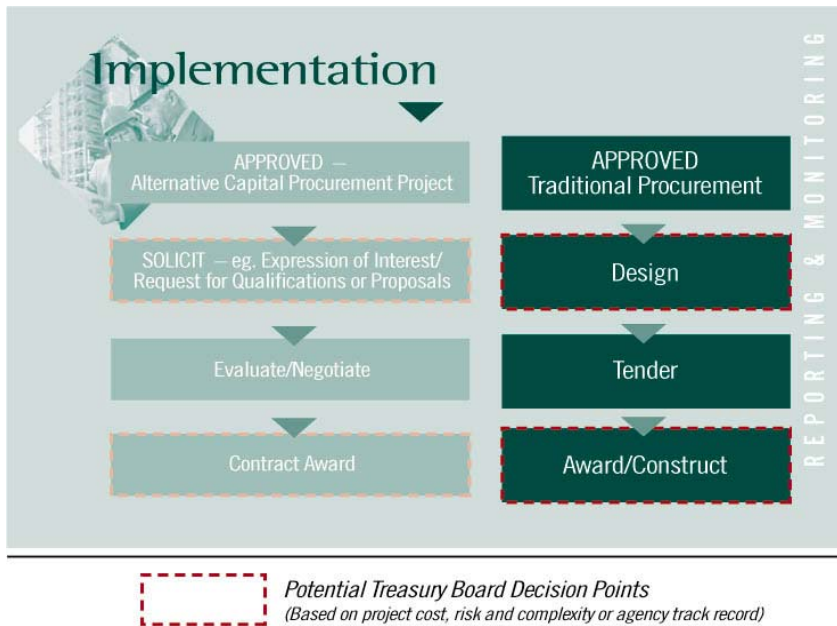
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8.4.7. Alternative Capital Procurement Tools

- Alternative capital procurement tools are currently being developed and include templates for Requests for Expressions of Interest, Requests for Proposals and Requests for Qualifications. Tools will also include samples of RFEOs, RFQs and RFPs, along with sample RFP evaluation criteria and a Public Sector Comparator methodology.

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8.5. Traditional Capital Procurement



Traditional procurement is appropriate when, compared to other options, it best meets service needs, delivers the best value for money and best protects the public interest.

One of the key objectives of the Capital Asset Management Framework is to support public-sector agencies to innovate and find the most efficient ways to meet capital-related needs. In all cases, agencies are encouraged to consider the widest possible range of options, and to choose the one that:

- best meets service needs
- delivers the best value for money, and
- best protects the public interest.

Traditional, publicly-financed procurement is appropriate when it meets these tests. It may be used as a stand-alone strategy, or as part of an integrated strategy in combination with alternative service delivery or alternative procurement approaches.

The following section offers guidance on traditional procurement, including:

Agencies' procurement strategies should be identified in the business cases for individual projects or for capital programs. For direction on preparing a business case, see Section 4.6.

- the contracting methods preferred by the Province and some of their characteristics (e.g. risks and benefits);
- other methods that can be useful in certain situations but involve greater potential risk to the agency;
- the typical steps involved in a design-bid-build procurement

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process; and

- critical tasks that should be addressed at each step.

8.5.1. Preferred Contract Methods

8.5.1.1. Design-Bid-Build (Stipulated Sum Contract)

Stipulated sum is the Province's preferred contract method for traditional procurement because it provides relative certainty regarding project costs and the sharing of risks.

Stipulated sum is a standard contract pricing method used in the building industry. It is also the Province's preferred approach for traditional capital asset procurement. With this method, a fully-designed project is tendered with working drawings and a set of contract terms that will apply to the successful bidder.

Contractors bid on the project, quoting a fixed or stipulated sum to complete the work, and the contract is awarded to the lowest qualified bidder. This method is preferred because it provides relative certainty regarding final project costs and the sharing of risks.

Typically, the price payable by the agency is fixed, regardless of the contractor's actual costs to complete the work, while any changes initiated by the agency are paid as "an extra" or "change order" at a negotiated price. Progress payments are made at pre-determined milestones or as specified proportions of the work are completed.

8.5.1.2. Unit Price Contracts

Unit price contracts are appropriate in cases where neither the agency nor the contractor can control the quantity of work required to complete a task or project.

Unit price contracts are useful in cases such as engineering projects where site conditions may be variable (e.g. roads, bridges, sewer lines and water lines). Work is divided into a series of units, each with a description and an estimated quantity. Contractors quote unit rates for each work category and multiply the rates by the estimated quantities to estimate a price for each item. The final cost of the contract is determined by multiplying the actual quantities by the appropriate unit rates.

Generally, the unit price payable by the agency remains fixed, regardless of the contractor's costs to complete each unit of work. Progress payments are based on the actual units of each item of work performed by the contractor and accepted by the agency. This pricing method is appropriate when neither party can control the quantity of work required to perform each project task.

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8.5.2. Contract Methods For Specific Circumstances

All capital decisions should be based on a practical, project-specific assessment of options to secure the best value for money while protecting the public interest.

In specific circumstances – as identified in agencies’ business cases – contract methods other than stipulated sum or unit price may be more appropriate and achieve better results.

However, these methods can also involve a greater degree of risk. They require careful consideration and administration.

8.5.2.1. Construction Management

Agencies using construction management (CM) contract with a firm to manage a project’s tendering and construction. A CM firm may also be contracted earlier in the process to advise the agency on construction-related design issues, or the construction process and cost.

Unlike the traditional design-bid-build approach, CM eliminates the role of a prime contractor. The agency contracts directly with trades, suppliers and the other contractors involved in the project. The CM firm acts as the agency’s agent, managing the contracts and the construction process.

In some cases, CM is used to “fast-track” a project. In fast-tracking, the agency hires a construction manager to work with the design team, and early phases of construction (e.g. site preparation or foundations) are tendered while the later phases are still being designed.

Fast-tracking and other forms of CM may be appropriate where:

- project components must be tendered in sequence to manage potentially critical service or facility disruptions during construction;
- a project’s delivery schedule must be accelerated to meet critical service or operational requirements; or
- the agency can demonstrate that there may be insufficient industry capacity to ensure competitive bids from general contractors, due to a project’s location.

Agencies using contract management assume most of the risks normally assigned to a general contractor, including the risk of cost overruns. They are solely responsible for funding any costs above the approved project budget.

Because of their direct relationship with trades, suppliers and other contractors, agencies using CM assume most of the risks generally assigned to the prime contractor under a stipulated sum contract. This includes the risk of cost overrun. Agencies choosing CM are solely responsible for funding any costs above the approved project budget.

Construction managers, trades and all other suppliers should be selected through competitive public processes, and contract documents should be consistent with industry

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standards. The contract between the agency and the construction manager should include specific performance requirements for project schedule, scope, budget and construction quality, to help protect the agency from unnecessary risk and liability.

8.5.2.2. Design Build

Agencies using this approach contract with a private partner to both design and build a facility to meet the agency's standards and performance specifications. The agency owns and, in most cases, operates the completed facility. Payment is generally at major project milestones.

The design-build approach can provide design, cost and schedule benefits by allowing greater freedom for private sector innovation. By integrating design and construction, this procurement method can also sometimes facilitate faster delivery. It is appropriate in cases where an agency can clearly articulate its performance requirements and is seeking innovative approaches or solutions.

The primary risk of this approach is that the private partner has no vested interest in the facility's long-term performance. Its responsibility expires with the warranty period. Increasing the level of detail in contract specifications may help reduce this risk. However, it can also dilute the method's potential benefits.

8.5.2.3. Cost Plus Contracts

Under a cost-plus contract, agencies agree to pay the contractor's actual costs to carry out the project, plus a fixed percentage for overhead and profit. Progress payments are based on the quantity of resources consumed in a given time period. The agency bears all risks associated with project costs.

Cost plus contracts are only appropriate in highly-specialized circumstances, or when an agency can carefully control the project's labour and material requirements.

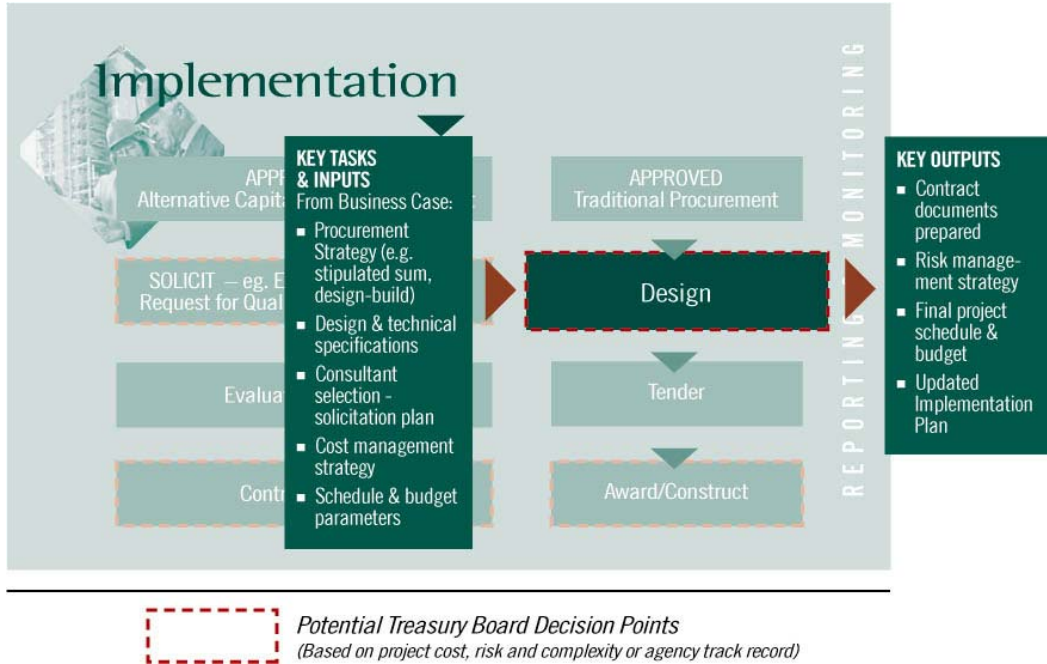
Because of its high level of risk to the Province, this approach is only appropriate in highly-specialized circumstances – such as emergencies related to public health or safety – or when the agency has the ability to carefully control the inputs (e.g. material, labour) needed to complete each task.

8.5.3. Traditional Capital Procurement Process Design-Bid-Build

As discussed in Sections 8.6.1 and 8.6.2, agencies pursuing traditional procurement may choose from a range of contracting methods, depending on their specific needs. In most cases, though, the Province's preferred method – design-bid-build – will be the most effective. Therefore, it is described in detail throughout the remainder of this chapter.

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8.5.3.1. Design Phase



The design phase begins with the selection of a consultant and includes the range of activities leading to a public tender. As in other aspects of capital asset management, decisions in this phase should focus first on service needs and agencies should strive to ensure that needs are met effectively at the lowest possible life-cycle cost.

8.5.3.1.1. Consultant Selection

Agencies planning capital expenditures typically hire consultants (e.g. architects and engineers) to determine specifications, design facilities, prepare contract documents, evaluate tenders and administer contracts. Qualified consultants should be chosen through a fair, open and transparent competitive process. Selection criteria should include, at a minimum:

- technical and financial capacity to complete the work;
- relevant experience;
- fees; and
- where appropriate, confirmation of professional liability insurance.

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8.5.3.1.2. The Design Process

In a design-bid-build, "design" typically refers to the planning, design and engineering of a new capital asset - or modifications to an existing asset. Although the design process varies by sector and engineering discipline (e.g. civil or structural) it is usually divided into a series of stages or phases. For example, road design is usually phased as design/engineering/construction, while building design, as a rule, has the following three phases:

PHASE	DESCRIPTION
<i>Schematic Design</i>	Conceptual or preliminary-stage design, concerned with aspects of the site and the relationships among building elements and physical adjacencies of space, height, massing and alternative design ideas. Can inform quite detailed cost estimates (\pm 10%-20%).
<i>Design Development</i>	More specific design with detailed architectural solutions and the development and integration of engineering (structural, mechanical, electrical) systems. More accurate cost estimates are possible. Typically approximately 4% of the project budget may be spent to complete the design development phase.
<i>Working Drawings (Contract Documents)</i>	Consist of complete (i.e. tender ready) working drawings and detailed technical specifications. Accurate cost estimates are available at this stage. As a rule of thumb, an additional 1½% of the project budget may be spent to complete working drawings.

The challenge at this stage is to design a project that meets functional specifications and achieves value for money (e.g. least life-cycle cost) within the available budget.

Agencies are more likely to meet this challenge successfully when they have:

- prepared complete functional programs;
- developed accurate budgets and project scopes through business case analysis;
- established clear design standards; and
- implemented effective cost management processes.

Chapter 9 (Budget and Cost Management) provides additional detail in these areas.

8.5.3.1.3. Preparing Contract Documents

The design process usually concludes with the preparation of contract documents, which are commonly considered in two parts:

Front-end documents detail the basis on which the agency will hire a contractor. Typically prepared by the prime consultant, these documents generally include seven sections:

1. Notice to contractor

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2. Specification index
3. Instruction to bidders
4. Tender form
5. General conditions
6. Supplementary general conditions
7. Addenda

A number of industry-standard front-end documents are available for use by public-sector agencies. The Province supports the use of the following:

- *CCDC-2 1994*: this is the industry standard stipulated sum contract, developed by the Canadian Construction Document Committee (CCDC).
- *Master Municipal Contract Documents (MMCD)*: this set of front-end documents was developed by the MMCD Association for use on municipal construction contracts with a focus on civil engineering projects.

Agencies using standard front-end documents should consider supplementary conditions to address issues unique to their area of business, or to a specific project. They should also contact the Risk Management Branch, Ministry of Finance to ensure they have appropriate risk related (e.g. insurance) contract clauses.

These standard documents do not necessarily fully reflect public-sector risk allocation strategies and business practices. Therefore, agencies should consider using supplementary conditions in their contracts to address issues unique to their area of business, or to a specific project.

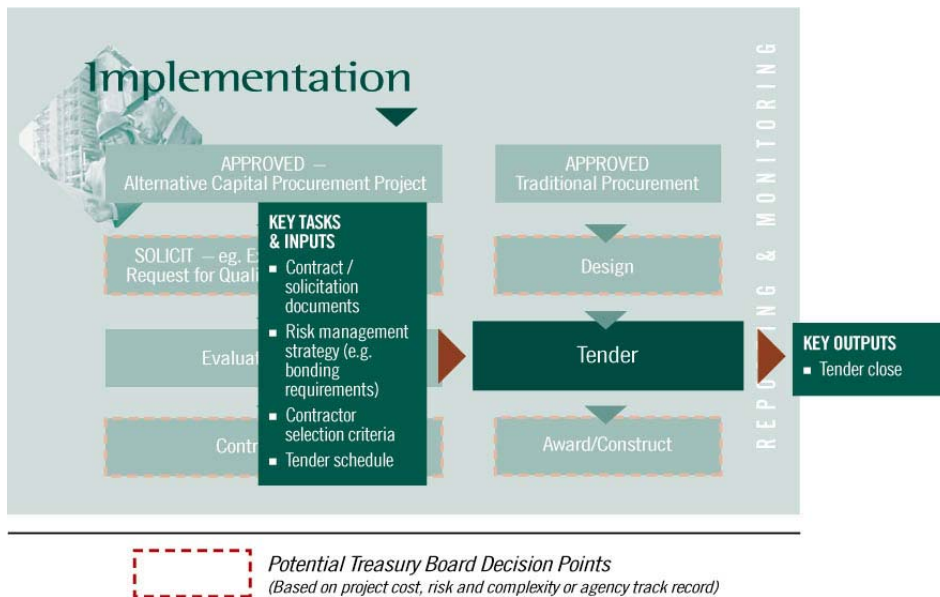
Where applicable, agencies should also contact the Risk Management Branch, Ministry of Finance, to ensure contract documents include government's standard indemnity, insurance or other risk management related clauses appropriate to the program area.

Agencies may also want to use the *Procedures and Guidelines Recommended For Use on Publicly Funded Construction Projects*. These guidelines were prepared by the Public Construction Council of British Columbia.

Back-end documents include the project's working drawings and specifications. These should be completed in detail prior to tender. Incomplete or poor quality drawings pose a risk to both the agency and the contractor. They can lead to change orders and extras during construction, adding to the project's cost and complexity.

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8.5.3.2. Tender (Bid) Phase



The tender phase of a project commences with bid notification and ends with tender closing. Agencies should ensure that tendering processes comply with both public policy objectives and the body of tendering-related case law.

8.5.3.2.1. Threshold

Government is committed to open procurement to allow fair competition and provide value for money.

The Agreement on Internal Trade sets out the rules for the competitive tendering of contracts to provide goods, services and construction. For construction, the AIT applies as follows:

- for ministries, where the procurement value is \$100,000 or greater;
- for local agencies, where the procurement value is \$250,000 or greater; and
- for Crown corporations, where the procurement value is \$5 million or greater.

Below these thresholds, agencies are encouraged to openly and fairly tender work using a method of solicitation appropriate to the value of the construction, goods or services being acquired.

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8.5.3.2.2. Use of “Own Forces”

Own forces refers to the in-house trade and technical staff often retained by local agencies, typically defined as employees by the *Employment Standards Act*. While it is the Province’s objective that as much capital-related work as practical be tendered publicly through open and competitive processes, some collective agreements contain “own forces” provisions. These provisions enable in-house staff to complete work, or divisions of work, within specified thresholds.

8.5.3.2.3. Bid Notification

Bid notification is the process of alerting potential bidders to contract opportunities and inviting their bids through an Invitation to Tender. Where the *Agreement on Internal Trade (AIT)* applies (see Section 8.5.3.2.1) potential contractors must be notified of all construction contracts through a nationally accepted bulletin board and/or a pre-qualified bidders’ list. Pursuant to government policy in support of open, fair and competitive tendering, agencies should also consider posting bid notifications in recognized trade publications and newspapers to ensure broad industry and regional exposure, and to post notifications for projects below *AIT* thresholds.

8.5.3.2.4. Contractor Pre-qualification

In a traditional procurement process, contractors are generally considered to be qualified on the basis of two criteria:

- their ability to reliably perform the work; and
- their ability to secure the necessary bonds.

In many cases, these criteria are sufficient. However, there may be situations where agencies feel the best value for money can be achieved by employing a process to prequalify contractors. For example, agencies may require specific expertise for a particular project (e.g. one that uses highly-specialized construction techniques or must be delivered without service disruptions).

In such circumstances, agencies may use pre-qualification criteria to develop a bidders’ list – a list of contractors the agency has screened in advance and identified as potentially qualified to perform the work required.

Pre-qualification criteria should be objective and must be specifically identified prior to bid notification.

TRADITIONAL CAPITAL PROCUREMENT

8.5.3.2.5. Security Requirements (e.g. Bonding)

Bid Security

Each tender form submitted by a contractor must be accompanied by a bid bond equivalent, typically in the amount of 10% of the total tender amount. These bonds should be retained by the agency until it receives contract security (see below).

Certified cheques and guaranteed letters of credit should only be accepted in exceptional circumstances.

Bid bonds from unsuccessful bidders should be returned promptly after a contract is signed.

Contract Security

To ensure they have sufficient contract security, agencies should generally require bidders to provide performance bonds and labour and materials payment bonds within a specified period (e.g. 14 days) from the date of contract award. Typically, each of these bonds is equivalent to 50% of the contract price.

8.5.3.2.6. Use of Separate and Alternate Prices

In their contract documents, agencies may identify specific items (e.g. building envelope material, parking lots, landscaping) and request separate or alternate prices for those items. This approach can provide increased budget and design flexibility. However, it must be managed carefully to ensure that selection processes are – and are seen to be – fair and transparent.

Separate and alternate prices should to be treated as deductions from, or additions to, the base tender price. In evaluating bids, the base tender price should prevail (i.e. over a comparison of prices that include additions or deletions related to separate or alternate prices).

8.5.3.2.7. Use of Bid Depository

The bid depository is a system for administering the tender process between trade and general contractors, facilitating the receipt of sealed bids. Operated by the B.C. Construction Association, the B.C. bid-depository system is designed to:

- enable general contractors to receive trade bids in writing, in adequate time before a general tender close, to promote fairness, equity and quality in the bidding process among trade contractors; and
- protect subcontractors from bid shopping – the practice of soliciting a bid from one subcontractor and then disclosing it to competitors in an attempt by the prime to get a better price.

TRADITIONAL CAPITAL PROCUREMENT

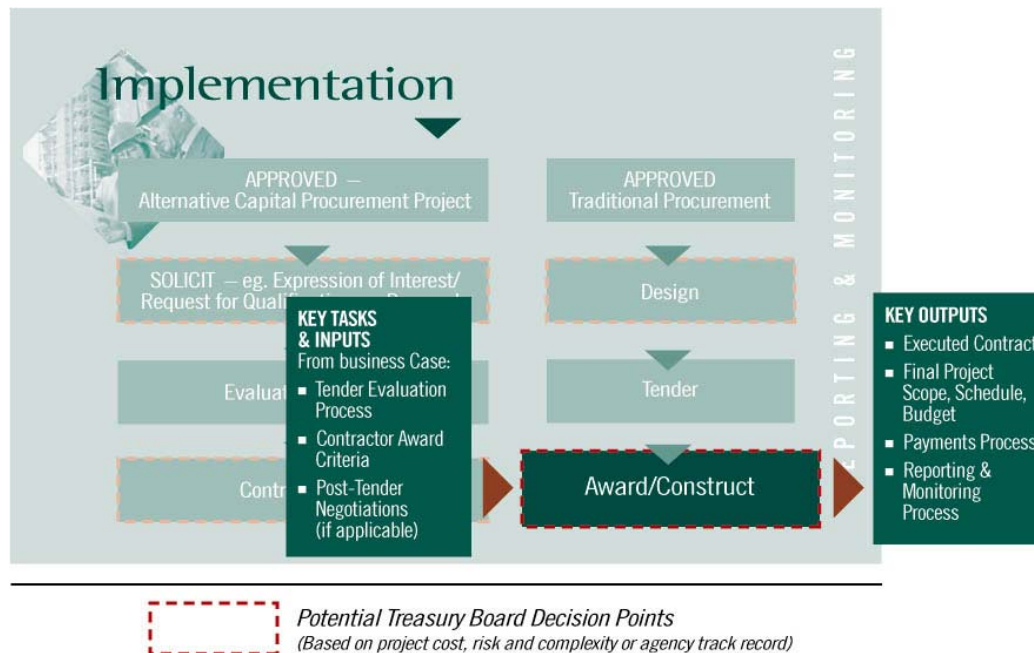
Bid depository rules require prime contractors submitting tenders to agencies to use only subcontractors who have submitted valid prices through the bid depository.

Agencies may choose to require the use of the bid depository system for general contracts. Often, this approach is used when divisions of work are expected to exceed \$100,000. However, agencies may choose to use the bid depository for divisions of work below this threshold.

8.5.3.2.8. Scheduling Bid Closing

Agencies issuing tenders should allow adequate time (e.g. 15 days) for bids to be prepared. If additional time is needed, bidders should be notified at least three days before the tender closes, through an addendum to the initial tender documents.

8.5.3.3. Tender Opening and Award



Detailed and accurate documentation is required at all stages of the tendering process.

This phase of capital asset management follows a formal process that should conform to established industry procedures, and must be well documented. The process outlined below identifies key tasks and typical processes that should be followed in a tender opening, concluding with contract award. This section provides guidance on

some of the terms (i.e. what should be addressed) in front-end documents. However, the specific requirements of individual projects must also be considered.

TRADITIONAL CAPITAL PROCUREMENT

8.5.3.3.1. Tender Opening

Tender opening should be attended by one or more of the agency's representatives (e.g. the prime consultant) and should follow the steps outlined below.

Prior to opening time:

A designated agency representative should prepare a "tender opening record form" and record:

1. the names and signatures of the agency (tendering authority) personnel in attendance;
2. the names of all people in attendance, along with their company or other affiliations;
3. the official closing time of the "receipt of tenders"; and
4. the name of each bidder, along with the amount, revised price (if any) and total of each bid.

The agency also should verify the correct time prior to opening to ensure the tenders are not opened prematurely.

The Opening:

Tenders may be opened after the close of the bidding process is announced. The opening process should follow these steps:

1. Each tender received in the form prescribed is opened and signed by each of the agency personnel present.
2. The presence of the bid bond is verified before the price is read out. If the bid bond is not present, the tender should not be read out but declared invalid.
3. Tenders are checked to ensure general compliance with the tender documents, and that the bidder is named and the signatures are present. If these items are not correct, the tender may be set aside for further evaluation.
4. The written and numerical amounts are checked to ensure they are the same.
5. When these requirements (1 to 4 inclusive) are fulfilled, the bid price is announced. If revisions are made prior to closing, then the revised bid price is announced as "We *calculate* the bid price to be \$_____".
6. Each tender amount is recorded on the tender opening record form.
7. When these steps (1 to 6 inclusive) are complete, each tender is carefully replaced in its envelope.

The agency should then announce that:

- the tenders will be reviewed in detail;

TRADITIONAL CAPITAL PROCUREMENT

Unsolicited prices or proposals should not be considered in a formal tendering process.

- all bidders will be notified of the results; and
- the opening procedures are now closed.

The tenders should then be carefully secured to ensure they remain intact.

8.5.3.3.2. Single Bid

In the event that only one tender is received, the agency may open the tender without reference to the bidder.

8.5.3.3.3. Late Bids

All tenders submitted late should be returned to the sender – unopened by the tendering authority – together with a covering letters. Letters of notification should also be sent to bidders whose tenders are disqualified for other reasons.

8.5.3.3.4. Mistakes in Bids

A bidder who makes a serious and demonstrable mistake in a bid may be permitted to withdraw the bid without penalty, provided that:

- the agency is informed of the mistake promptly after bid closing and before the bid is opened; and
- where applicable, the agency has permission from its funding authority.

Where mathematical errors occur in extending or calculating prices in the bid form, the unit prices or detail prices shall prevail, with the mathematical extension adjusted accordingly.

8.5.3.3.5. Non-Conforming Bids

At the agency's sole discretion, tenders may be disqualified or rejected for containing alterations, qualifications or omissions to the tender form or otherwise failing to conform to the tender documents. Agencies retain the right to waive minor clerical or technical irregularities in the tender form, as long as they do not create an unfair competitive advantage.

TRADITIONAL CAPITAL PROCUREMENT

8.5.3.3.6. Tied Bids

Should two or more bids be the same, the relative advantages of each bid's proposed time schedule should be used to determine the successful low bidder.

8.5.3.3.7. Post Bid Closing Amendments

If the tendering process does not generate a bid price acceptable to the agency, and design documents would have to be substantially changed to reach an acceptable price, then all bids should be rejected and bidders so notified.

8.5.3.3.8. Contract Award Criteria (Qualified Low Bid)

Public sector contracts are awarded based on the lowest qualified bid that meets the terms and conditions of the tender documents.

Public sector contracts are awarded based on the lowest qualified bid that meets the tender documents' terms and conditions.

The lowest or any tender may not necessarily be accepted.

8.5.3.3.9. Post Tender Negotiations

Prior to contract award, agencies may negotiate certain items (e.g. separate and alternate prices) or changes to the tender documents with the lowest qualified bidder.

If the negotiations fail to produce an acceptable price, all tenders are rejected and the bidders so notified.

8.5.3.3.10. Contract Award

Bids should be held irrevocable for a defined period (typically 30 days). If a contract is awarded after the period expires, the bidder must confirm in writing that the bid price remains valid and security requirements can still be fulfilled.

The actual award process begins with a letter of award, stating that the agency accepts the bidder's offer to do the work for the agreed amount and is prepared to sign an agreement. The letter should be followed by a signed contract.

8.5.3.4. Contract Management (Build) Phase

This phase begins once the contract is awarded and concludes when the completed project is accepted, as described below.

TRADITIONAL CAPITAL PROCUREMENT

8.5.3.4.1. Contract Management

Contracts must be administered in accordance with their terms. Changes to contracts (e.g. change orders) should be kept to a minimum and any disputes that arise should be dealt with fairly and promptly.

8.5.3.4.2. Acceptance of the Project

A payment certifier (typically the agency's prime consultant) must determine when substantial performance - as defined in the *Builders Lien Act* - is reached. In general terms, it occurs when a building is ready to serve its intended purpose and the proponent has met the terms of the contract.

8.5.3.4.3. Traditional Capital Procurement Tools

- Traditional capital procurement tools currently being developed include links to standard government risk management contract clauses and standard sets of supplementary conditions.

9. BUDGET & COST MANAGEMENT

BUDGET & COST MANAGEMENT

9.1. Introduction

Sound fiscal management is a fundamental principle of the Capital Asset Management Framework. Agencies must identify, analyze and manage costs effectively throughout the life cycle of capital assets, ensuring that spending does not exceed fiscal limits.

Adequate project budgets must be developed to meet functional specifications and carry a project through to completion. However, due to the nature of the capital planning and approval process, often this must be done before the design phase – without the benefit of detailed design information.

To help agencies meet this challenge and manage project costs successfully through the design phase, the following chapter describes a series of tools and techniques for:

- developing clear, fixed functional program specifications prior to the design phase;
- translating functional specifications into meaningful budget requirements; and
- securing unbiased cost management advice during planning and implementation from qualified professionals such as quantity surveyors.

Budgeting and cost management guidelines and techniques should be applied at every stage of a project's life cycle.

These techniques generally apply to traditional design-bid-build projects where risks related to budget, design, construction and operations reside with the agency and, by extension, the Province.

For alternatively financed projects, these risks are generally assumed by the private-sector developer, owner or financier and, while the extent to which this occurs depends on the model employed (e.g.

build-own-operate-transfer), the tools described in this chapter are nonetheless relevant. They can be used to establish initial project scopes and budgets, and to establish benchmarks for measuring value for money.

For example, agencies can use unit rate cost models to establish Public Sector Comparators to assess the relative value for money associated with alternative procurement proposals. They can also use such things as space, design and technical standards to help determine service specifications for inclusion in Requests for Proposals or performance contracts with private-sector partners.

9.2. Budget and Cost Management Guidelines

Agencies are encouraged to develop internal policies (e.g. a cost management framework) to assist in developing adequate project budgets and managing project costs.

In doing this work, agencies should strive to ensure that:

- project budgets provide sufficient funding to reliably meet infrastructure and/or program needs;

BUDGET & COST MANAGEMENT

- project designs fulfil functional, technical and program requirements for the least life-cycle cost; and
- consistent quality and value are achieved across similar assets and/or program space.

9.2.1. Budgeting Tools

To support their budgeting and cost management processes, agencies should establish and maintain a system of planning and budgeting tools to estimate and control the quantity and quality of assets needed to meet service delivery needs. A number of commonly-used tools are described in the following sections.

9.2.1.1. Functional Programs or Requirements

Decisions made during functional programming have a critical impact on future operations, as well as operating and capital costs.

A functional program is a representation of spatial requirements and adjacencies based on a facility's functional (i.e. service delivery) requirements. Typically prepared by professional space planners in consultation with facility staff, administrators and design professionals, functional programs translate service methods, systems, functional operations, organization and staffing considerations into specific spatial requirements.

Design teams use functional programs to design and engineer projects to meet an agency's needs. A functional program also helps to specify a project's scope, in combination with space, design and technical standards.

9.2.1.2. Space, Design &/or Technical Standards

For agencies pursuing alternative procurement strategies, space, design and technical standards can be used to help determine service specifications for inclusion in Requests for Proposals or performance contracts with private-sector partners.

Space standards define the area required and allocated to meet a facility's functional needs. Design standards apply to the efficiency, form or image of the space required, and technical standards are guidelines for the quantity and quality of material and systems used in construction.

Together, these standards can provide a framework for determining the quantity, quality and attributes of physical space required for service delivery, typically based on a functional program as described in Section 9.2.1.1.

Agencies are encouraged to develop space, design and/or technical standards to ensure that:

- functional program needs are reliably met;

BUDGET & COST MANAGEMENT

- similar types of program space are consistent across the province;
- the project uses systems and materials with proven superior technical and life-cycle cost performance; and
- design and technical assumptions underlying project budgets (i.e. unit rates) are articulated and understood.

Standards must be maintained and updated as needed to ensure they adequately reflect desired program outcomes and specifications. Updates should be based on information gathered through post-implementation reviews and value analysis sessions.

9.2.1.3. Other Budgeting Tools

Unit rate construction/area costs (e.g. cost per square metre) can be used to determine the maximum cost of a new capital project or project component.

Per service unit costs (e.g. cost per patient bed day) can be used to determine both operating and capital costs for each unit of service delivery.

Per diem rates (i.e. the per-day cost to operate an asset) can be used to support trade-offs between operating and capital costs to deliver the most cost-effective solution.

In all three examples above, the unit or per diem rates must be based on design and program solutions that have proven their value for money over time. Used in combination with acceptable area and service standards, unit rate modelling can be an effective tool for establishing rational, equitable project budgets across like facility types or program functions.

Per diem rates and per service costs can be critical tools to assess the value for money of alternative delivery strategies.

In addition, these are examples of critical tools that can be used to assess value for money of alternative delivery strategies.

9.2.2. Cost Management Advice

As part of their cost management strategies, agencies should hire a professional such as a quantity surveyor. Such professionals offer a range of expertise and can provide milestone cost estimates, devise tender strategies and fulfil monitoring and reporting requirements, as well as providing ongoing cost management advice at every stage of a project. They can also help agencies prepare project budgeting tools.

9.2.3. Value Analysis

Project design is a complex process that often requires agencies to make trade-offs between functional elements, building materials, design elements and aesthetics in order to stay within their budgets. The process of Value Analysis (VA) can support this decision-making by helping agencies systematically review their design decisions and

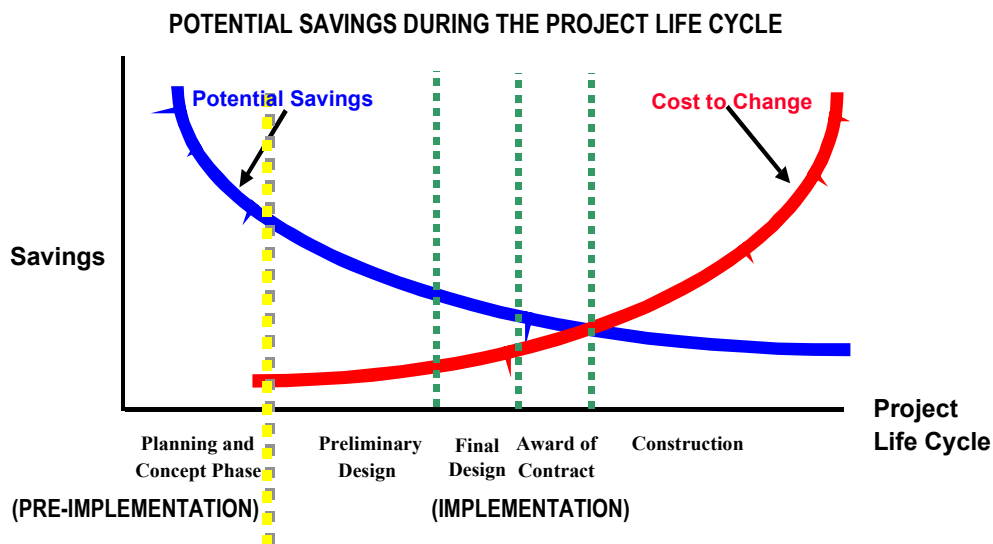
BUDGET & COST MANAGEMENT

assumptions to ensure they meet their value objectives. To assist in the process, agencies may retain professionals (e.g. quantity surveyors) trained in VA facilitation.

Unlike cost-reduction analysis, value analysis provides a methodology for identifying major savings in a facility without reducing reliability or performance.

During value analysis, an agency reviews the scope, design and material components of a capital project (and, where appropriate, the operating equipment), and evaluates these elements against the project’s intended function. Alternatives are identified and evaluated from the perspectives of cost, reliability, performance and other requirements, and the agency chooses the options that offer the best value for money.

As illustrated below, applying value analysis concepts early in the planning phase can generate greater potential savings at a lower cost. VA results can also be used in aggregate to better inform standards and unit rate budgeting models.

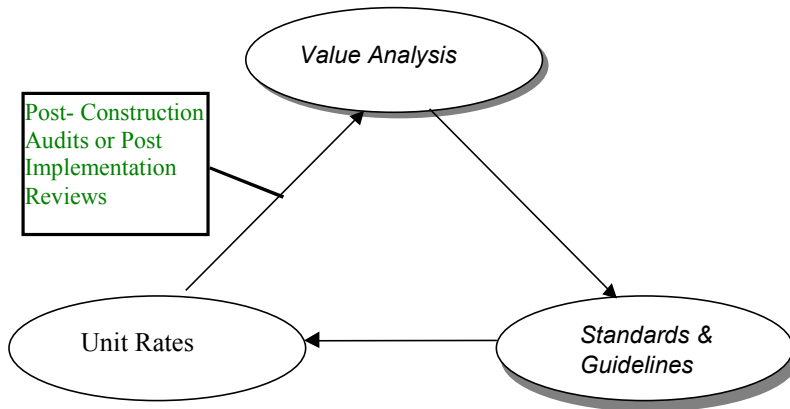


9.2.4. A Sample Framework For Managing Costs

Figure 9.2.4. (below) illustrates the fully-integrated approach that some ministries use to successfully manage the costs of capital projects. The framework ensures that the results of project value analyses are incorporated into design guidelines which, in turn, are reflected in the unit rates used to establish project budgets.

BUDGET & COST MANAGEMENT

Figure 9.2.4: Sample Cost Control Framework



Post-construction audits or post-implementation reviews monitor the effectiveness of facility/program standards and unit rates, project by project. In this way, decisions made through value analysis inform design and technical standards and the related unit rates, ensuring that framework adequately reflects program, technology and cost changes over time.

9.2.5. Budget & Cost Management Tools

- Budget and cost management tools currently being developed include a sample unit rate or per diem methodology.

10. REPORTING & MONITORING

REPORTING AND MONITORING

10.1. Introduction

The Budget Transparency and Accountability Act requires public agencies to publish financial and other information on capital projects with provincial contributions over \$50 million. Agencies are also required to report routine information – for all capital projects – to the Ministry of Finance on an ongoing basis.

The Capital Asset Management Framework is based in part on a principle of strong accountability in a flexible, streamlined process. Agencies are free to carry out their capital mandates with minimum intervention from the Province – and guidelines are flexible to encourage innovation and accommodate differences in agencies, projects and the factors driving service delivery needs. At the same time, agencies must be fully accountable for managing capital assets effectively.

Reporting and monitoring are essential to accountability, and to effective risk and cost management. Agencies need to gather and report relevant information about a project's status (e.g. physical progress, financial parameters, social and economic information) to appropriate stakeholders in a timely manner to support informed

decision making – and to demonstrate that strategies are in place to effectively manage any variations from the project's approved plan.

The following chapter supports these objectives by:

- identifying standard reporting components agencies should consider when establishing reporting processes;
- offering high-level guidance regarding "internal" reporting processes for capital-related information;
- identifying the routine capital-related information required by the Ministry of Finance to meet statutory and budget-related public information disclosure requirements; and
- providing an overview of the information Treasury Board may require of individual agencies, according to either the agency's or a project's risk profile.

Monitoring and reporting on the progress of capital projects is a key component of public accountability. It also supports effective risk and cost management.

10.2 Standard Reporting Components

Public-sector agencies are required to report on the progress of capital projects and should develop processes to ensure that this occurs on a regular, timely basis.

Table 10.2. below lists and describes the standard reporting components that should be addressed, consistent with the parameters identified in the planning process, as part of the due diligence undertaken in reviewing service delivery options and developing business cases. These reporting components are relevant for both internal (agency) and external audiences.

REPORTING AND MONITORING

Table 10.2

COMPONENT	DESCRIPTION
Scope	A succinct but comprehensive statement should define the project's approved scope, consistent with the scope established in the business case. Information provided should relate to the limits within which the project's critical objectives are to be achieved and accountability is to be assessed (e.g. description of the end product or output including quality standards, tasks performed, resources consumed).
Schedule	Agencies should provide itemized information regarding the project's schedule, with key milestone dates and corresponding project deliverables.
Financial	Agencies should provide a breakdown of all the financial parameters for planning, designing, constructing, acquiring and/or operating the asset or service, including any revenue forecasts. This should include the cost to complete the project and identify any variances from original estimates.
Other Critical Business Case Elements:	Where relevant, agencies should provide information on any issues unique to the project's business case, such as environmental assessments, alternative procurement methods, labour, legal and/or First Nations issues, or performance criteria.

10.2. Internal (Agency) Reporting and Monitoring Standards

Agencies should develop internal policies and procedures to ensure there is routine, timely and relevant reporting of risk-related information to the appropriate decision-making authorities. This supports ongoing public accountability. It also supports agencies to meet requirements for various capital-related approvals.

Specifically, agencies should:

- ensure that there is routine internal monitoring of standard reporting components during the acquisition or procurement (e.g. design and construction) phases;
- ensure that there is timely reporting for each standard reporting component (as described in Section 10.2) to the appropriate decision-makers; and
- establish an appropriate internal reporting and approval framework (typically including levels of authority, accountability and responsibility consistent with the agency's governance structure). The framework should be flexible enough to accommodate changes to the underlying parameters of the project, including changes to expected utilization, demand for service or financial conditions.

REPORTING AND MONITORING

10.3. Routine Reporting Required by the Ministry of Finance

The Ministry of Finance is required to prepare regular public reports on the Province's economic and fiscal performance. Specifically, it must provide "planned versus actual" information on an aggregated agency basis (consolidating information from all public agencies that are part of a given reporting entity), and for specific projects where required by legislation or by Treasury Board.

As part of this process, agencies may be required (as communicated through a Treasury Board Letter of Expectations or other such communiqué) to provide calendarized monthly or quarterly reports to the ministry.

As part of this routine reporting, agencies are also required to report any material variations from a project's approved parameters, including scope, schedule and cost – and to identify strategies to effectively manage those variations. This **variance-based** approach to reporting has two important benefits:

Variance-based reporting helps to reduce the administrative burden associated with mandatory reporting requirements. It also provides ongoing opportunities for agencies to demonstrate their accountability.

1. It allows the Province to minimize the administrative burden associated with mandatory reporting requirements and focus on essential information; and
2. It provides ongoing opportunities for agencies to demonstrate their accountability for recognizing and remedying emerging issues throughout a project's life.

10.3.1. Calendarized and Monthly Aggregate Reports

Agencies may be required to submit a calendarized forecast of their overall capital expenditures at the beginning of the fiscal year and a Monthly Aggregate Report thereafter.

Generally, the calendarized forecast should be submitted within 15 working days of the start of the fiscal year. Monthly aggregate reports should be prepared on an accrual basis and submitted within 10 working days of the end of each month.

Figure 10.3.1 below provides an overview of the content of a typical monthly aggregate report.

Figure 10.3.1

Monthly Aggregate Report
<p>Generally, the report includes:</p> <ul style="list-style-type: none"> ▪ a roll-up of total actual capital expenditures for the month just ended; and ▪ an updated forecast of capital expenditures calendarized (i.e. broken down

REPORTING AND MONITORING

by month) for the balance of the fiscal year.

In the event of a material variance between the actual monthly capital expenditures and the calendarized forecast capital expenditures, a variance report should provide the reason(s) for the variance.

In the event of a significant variance between an agency's total annual calendarized capital expenditures and its Capital Expenditure Limit, the variance report should provide:

- reasons for the forecast variance;
- strategies to address the forecast variance; and
- an assessment of the impact of the variance on capital expenditures in subsequent fiscal years.

10.3.2. Quarterly Project Reports

For specific projects (generally those where the provincial contribution exceeds \$50 million), agencies may be required to submit a calendarized forecast of capital expenditures at the beginning of the fiscal year and quarterly thereafter.

As outlined below in Figure 10.3.2, quarterly reports provide more detailed information than monthly aggregate reports. They should be prepared on an accrual basis and submitted to central government within 15 working days of the end of each fiscal quarter.

Figure 10.3.2

Quarterly Reports

Should include the following information:

- A short project description;
- Project start and forecast completion dates;
- Total project budget;
- Total project cost forecast;
- Estimated cost to complete;
- Cumulative spending to most recent fiscal year end;
- Cumulative spending to date;
- Reasons for any material variance in forecasts, together with:
 - strategies to address the forecast variance; and
 - an assessment of the impact of the variance on capital expenditures in subsequent fiscal years.

REPORTING AND MONITORING

10.4. Risk Based Reporting Requirements

Risk-based reporting is another component of the Province's commitment to balance accountability with agency-level flexibility. Depending on the specific risk profile presented by a project and/or its sponsoring agency, the agency may be required to:

- provide specific reports, or more detailed information regarding particular project risks;
- report to central government more frequently; and/or
- adhere to a specific reporting format.

These requirements may be part of Treasury Board's conditions for approval, or they may be outlined in an agency's Letter of Expectations. (For examples of the factors Treasury Board considers in determining levels of oversight for capital projects, see Figure 3.2.1, Project Risk Factors.)

The overviews below indicate the levels of information appropriate for risk-based reporting on initiatives of different scope and complexity. Although the report components are identical, the level of detail required for each varies according to the project's specific features.

Comprehensive Report

A comprehensive report would generally be used for high-risk, high-cost and/or high-profile initiatives. It would typically include:

- a description of the project's approved scope and objectives, including quantifiable benefits and risks;
- an update on the schedule for each major work package, compared to the approved schedule;
- for each major financial component or work package of the expenditure:
 - the budget and forecast financial information by month at the time of approval, including cost at completion financial information;
 - the actual financial information for the month, year to date financial information and forecast financial information by month, including cost at completion financial information;
 - committed financial information and status of contingency;
 - the forecast financial information at completion, including forecast revenue information at completion; and
- an update on existing or potential risk(s) and proposed mitigation plan(s).

REPORTING AND MONITORING

Detailed Report

A detailed report would generally be used for moderate-risk, cost and/or profile initiatives. It would typically include:

- a detailed description of the approved scope of the expenditure;
- a detailed update on the schedule compared to the approved schedule; including corresponding capital expenditures for each milestone date; and
- a detailed update of the actual and forecast financial information compared to the approved financial information, including the forecast financial information at completion.

Summary Information Report

A summary information report would generally be used for low-risk, low-cost initiatives and would typically include:

- the project's location, and a summary description of its approved scope;
- a summary update on the project schedule, including corresponding capital expenditures; and,
- a summary update of the actual and forecast financial information compared to the approved financial information, including the forecast financial information at completion.

Sample versions of each type of report are being developed, and will be included in the tool kit in Section 10.8

10.5. Attestation

Each time an agency reports to central government – whether to meet public reporting requirements or Treasury Board risk-based oversight conditions – the report must be accompanied by correspondence signed by the responsible officer(s) and attesting to the accuracy and completeness of the information provided.

10.6. Audits, Reviews & Oversight

Treasury Board or its designate may direct an independent third party to conduct audits or reviews to verify compliance with any reporting component, including any specific conditions of project approval. In exceptional circumstances – or in high risk, complex projects - Treasury Board may also require independent, third-party oversight to monitor and report on a project's progress.

REPORTING AND MONITORING

10.7. Reporting Tools

- Reporting tools currently being developed include sample monthly aggregate, quarterly, comprehensive and other reports as identified above.

11. PERFORMANCE MEASUREMENT

PERFORMANCE MEASUREMENT

11.1. Introduction

The Capital Asset Management Framework is based, in part, on the principle of strong accountability in a flexible, streamlined process. An integral part of this accountability involves performance measurement – the process by which program, service, project and/or asset outcomes are measured against intended objectives.

In capital asset management, agencies can use performance measurement to determine:

- if the **processes** used to plan and procure assets are effective and appropriate – or whether they can be improved;
- whether intended project (asset performance) and service delivery **outcomes** are achieved; and
- whether accountable parties have effectively fulfilled their **roles and responsibilities**.

At the **corporate level**, performance measurement helps to ensure that:

- the agency is managing within capital-related fiscal targets from year to year;
- proposed strategies and projects are being implemented from year to year; and
- broad asset management goals are being achieved (e.g. average age of capital stock, facility utilization rates, maintenance expenditure targets).

At the **program or project level**, performance measurement can be used to determine:

- how effectively assets support service delivery objectives;
- how well projects are managed, including whether they are delivered on scope, schedule and budget and whether risks have been effectively managed; and
- whether physical assets are meeting their technical performance objectives.

Performance measurement is an integral part of public accountability. It should be applied at both the corporate and project levels.

The following chapter offers guidance on both corporate and project level performance measurement, including criteria for developing and using performance measures to support a culture of continuous improvement.

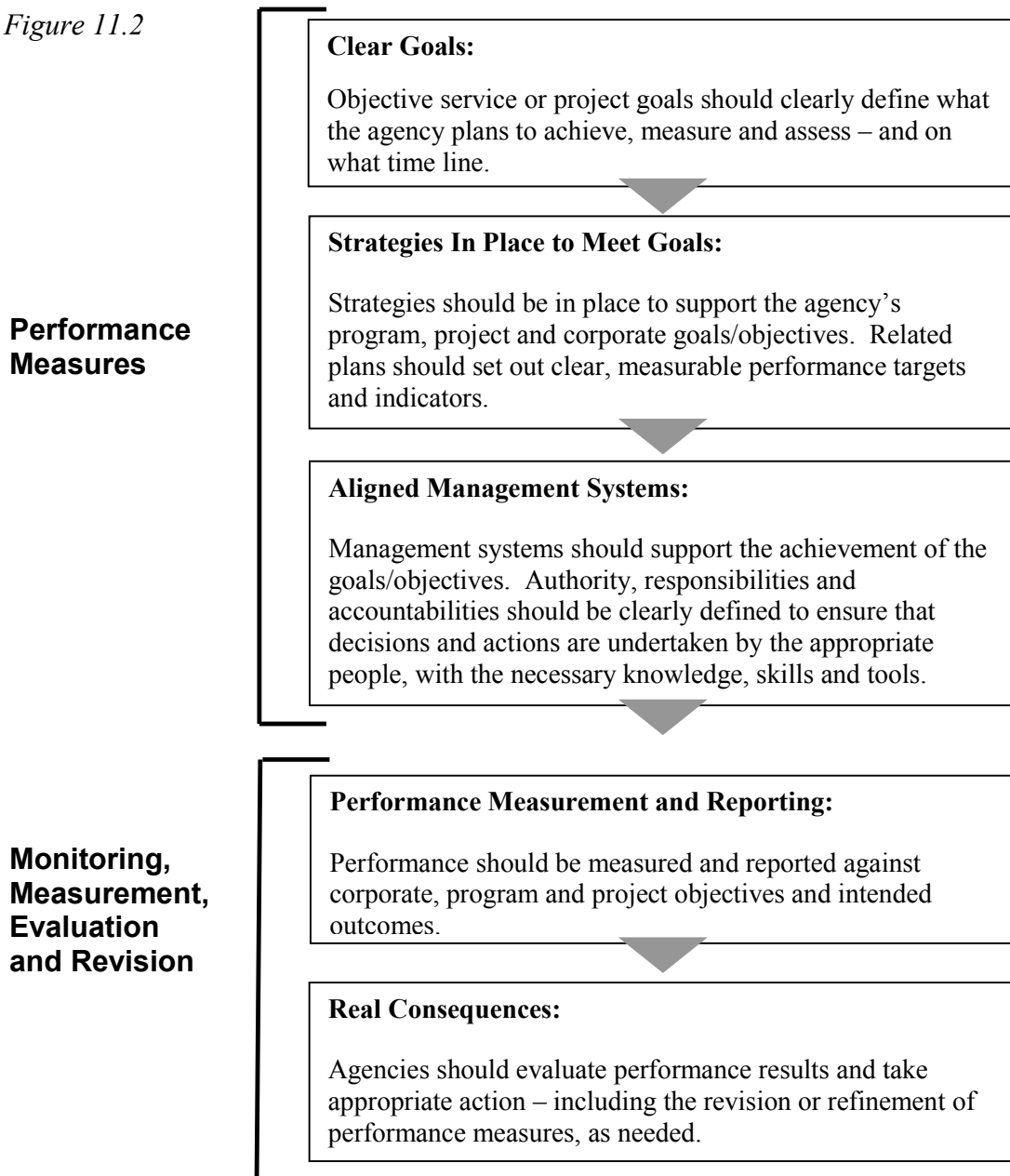
PERFORMANCE MEASUREMENT

11.2. Framework for Performance Management

Performance measurement should take place on an ongoing basis to ensure accountability and to support a culture of continuous improvement.

Performance measurement should be a component of every public agency’s accountability framework. As illustrated below in Figure 11.2, that framework should include initial performance measures, and make allowance for their subsequent monitoring, measurement, evaluation and revision.

Figure 11.2



PERFORMANCE MEASUREMENT

11.2.1. Performance Measures

Throughout the planning phase (i.e. in the development of agencies’ capital plans, business cases, project plans and all related contracts), agencies should establish performance measures and targets that are linked to broader strategic goals. Table 11.2.1 below outlines some of the key attributes agencies should consider when establishing performance measures.

Table 11.2.1

PERFORMANCE MEASURE ATTRIBUTE	DESCRIPTION
<i>Results Oriented</i>	Performance measures and targets should be results-oriented to reflect the initiative’s measured or estimated consequences.
<i>Comparative</i>	Comparative information and benchmarks (e.g. efficiency ratios, data from similar jurisdictions) should be used where available.
<i>Diverse and Balanced</i>	Agencies should develop a mix of relevant output, outcome and efficiency measures – balanced to provide several different perspectives on service delivery and project outcomes. Performance targets should take into account a variety of conditions and factors that can affect the achievement and public understanding of outputs/outcomes.
<i>Stable</i>	Selected performance measures should be reasonably stable to allow an examination of changes over time.
<i>Realistic</i>	Performance targets should be realistic and carefully selected to provide the appropriate incentives.
<i>Able to withstand scrutiny</i>	Performance measures should be suitable for external reporting and should be able to withstand scrutiny. They should be clear, meaningful, easy to understand and straightforward to interpret.

11.2.2. Monitoring, Measurement, Evaluation And Revision

Agencies are encouraged to take a systematic approach to performance measurement at the corporate and project levels. A systematic approach involves four, interrelated activities:

1. Performance monitoring:
 - Performance should be monitored against the targets and indicators identified in the agency’s (or project’s) objectives and plans.

PERFORMANCE MEASUREMENT

- External and internal environments should be monitored to obtain information that may signal a need to re-evaluate the organization's objectives or management systems.
2. Measurement and reporting of results:
 - Agencies should measure actual results and compare them to expected outcomes.
 - Any variances should be identified, along with their underlying causes.
 - Results should be reported to the appropriate internal or external authority.
 3. Evaluating results against expected outcomes:
 - Results should be evaluated to ensure they accurately reflect performance over time. They must clearly indicate if the intended outcomes were achieved.
 4. Results Management:
 - This is the process by which appropriate action is taken to improve performance, based on results to date. Enlightened, informed reviews should be carried out to identify achievements, difficulties and needed corrections.
 - Results management helps to ensure that:
 - information gathered through performance measurement adds value to managing the overall directions of the program, agency, service and/or asset;
 - results are used to assess the ongoing relevancy of the program, objectives and strategies; and
 - agencies strive for continuous improvement in critically reviewing results and taking corrective action – realigning strategies and performance measures as needed.

11.2.2.1. Application to Capital Plans

Clearly-defined performance measurement criteria should be included in agencies' capital plans to allow for an accurate assessment of their performance. These criteria would typically include:

- key corporate capital performance measures (e.g. targets for average age of the capital stock, track record for managing within capital-related fiscal targets);
- key project or program performance measures as identified through strategic options and business case analyses; and
- relevant benchmarks against which progress can be measured.

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Capital Asset Management Plans should also summarize agencies' track records in meeting corporate and project-specific performance measures in previous years.

11.2.2.2. Application to Process Performance

Whether they use alternative or traditional methods, agencies' procurement processes should be subject to critical post-completion review and evaluation. Critical reviews of the project delivery process can identify positive and negative lessons learned and thereby inform future processes.

Process reviews typically focus on two phases of a project's life cycle:

1. The planning, approval and procurement phase, from business case development and performance measure identification - through to the issuance of tender documents, RFEOIs and RFPS.
2. The contract management and evaluation phase, including the project management and construction processes. For alternatively procured projects, reviews can be used to determine if the private partner is meeting performance targets within the contract's parameters. They can also help determine whether the contract management resources and mechanisms in place are effective.

11.2.2.3. Application to Asset Performance

Once a capital project is completed, post-implementation reviews (PIRs) can be used to determine whether its performance and business case objectives are being achieved.

Using surveys and other measurement methodologies, PIRs evaluate facility performance by focusing on users' needs – including health, safety, security, functional and efficiency requirements, as well as user satisfaction.

PIRs are another tool that agencies can use to assemble “lessons learned” by collecting, archiving and sharing information about successes and failures in processes, products and other related areas, to help improve the quality of future facilities. For example, PIR's can help agencies:

- fine tune asset specifications and performance levels;
- assess facilities' impacts on occupants or users;
- measure facilities' contributions to service outcomes;
- gather information to adjust repetitive programs; and
- measure physical asset performance in terms of quality of design, construction and operating performance.

A typical PIR has three components:

PERFORMANCE MEASUREMENT

1. Scope and cost reviews, which involve the evaluation of a completed asset’s technical scope and cost against the originally approved scope and budget.
2. Program reviews, which evaluate an asset’s functional performance in terms of user satisfaction and the original functional program.
3. Product reviews, which evaluate a completed asset’s physical performance in terms of design, specifications, life-cycle cost and operating and maintenance characteristics.

11.2.2.4. When to Undertake a Process or Asset Review

Agencies should develop their own policies and processes for managing a performance measurement system. This should include establishing a framework and guidelines for conducting performance reviews of the types described above.

Often, the intention to conduct a review is identified in the business case and is part of project approval.

Generally, reviews should begin within six to 18 months of project completion – and should be completed for all high-risk and/or high-projects. For moderate-risk projects, agencies should evaluate a representative sample of initiatives over a given year. For low-risk projects, only a selective sample should be evaluated.

More specific criteria are outlined below in Table 11.2.2.4 (below). Agencies should consider these criteria in selecting projects for process or asset reviews, and when developing internal guidelines and procedures.

Table 11.2.2.4

Criteria	QUESTIONS TO CONSIDER
Capital program or project	Is the project or program unique? For example, is it being delivered through a new or alternative approach? Or is it a repetitive program with which the agency has significant experience?
Process	Was the process used to acquire the asset and/or services unique? Did it present new or different risks (e.g. design-build, public-private partnership, construction management)?
Product	Is a new product or idea involved (e.g. alternative roofing material, new mechanical system, new or complex technology)?
Risk	Is the project high risk with probable unmitigated risks?
Costs	Is it high cost, with large capital or long-term operating impacts?
Impact Analysis	Does the project generate significant social, environmental or economic impacts?
Duration	How much time has elapsed since the agency last reviewed this particular type of asset or project?

PERFORMANCE MEASUREMENT

11.2.3. Performance Measurement and Accountability Tools

- Performance tools (*to be developed*) such as examples of performance & accountability frameworks.

12. RENEWAL OR DISPOSAL

(TO BE DEVELOPED)

13. FINANCING

FINANCING

13.1. Traditional Financing

Capital assets procured using traditional methods are financed by the Province in one of two ways:

- Prepaid capital advances (PCAs) are used to fund the government's contributions to education, health and public-transit infrastructure.
- The Fiscal Agency Loan program is used to fund all other taxpayer-supported Crown capital requirements.

Both traditional financing methods are discussed in greater detail below.

13.1.1. Prepaid Capital Advances (PCAs)

PCAs are issued to eligible agencies (as defined in section 56.1 of the *Financial Administration Act*) for the acquisition of tangible capital assets to support provincially-funded programs. To qualify for a PCA, the agency must have a claim on the asset to ensure its continued use for provincially-funded public programs.

Monies are advanced through an Electronic Fund Transfer and financed with direct government debt, which is classified by capital purpose.

PCAs are recorded on the province's financial statements as a deferred expense and amortized over the asset's life. The value of a PCA must never exceed the unamortized value of the tangible capital asset it was used to acquire.

As part of the PCA process, agencies may be issued Certificates of Approval (COAs) for specific projects, giving them the authority they need to receive funds, and to draw down those funds to an established project limit.

Agencies that use the COA system should establish internal policies and procedures for its administration. These policies and procedures should accommodate local agencies' approval requirements, if applicable, particularly in cases where legislation requires the agencies to pass bylaws before undertaking capital expenditures.

13.1.2. Fiscal Agency Loan Program

Most public-sector agency borrowing for capital needs is done through the Fiscal Agency Loan program, under which the Province borrows directly in the financial markets and re-lends funds to agencies on matching terms. The program uses the Province's strong credit rating, and its ability to borrow at lower interest rates, to provide lower-cost financing.

In most cases, responsibility for borrowing and financing costs rests with the agency. The exception is in certain cases where the Province pays for all or part of the debt service costs.

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If the fiscal agency loan is recoverable from future government appropriations, the loan is treated, for accounting purposes, as a prepaid capital advance (i.e. a deferred expense amortized over the asset's life).

Given competing program demands, fiscal agency loans may not be appropriate for self-supporting projects, or projects projected to become self-supporting. Agencies leading these projects may be directed to obtain non-government guaranteed financing.

13.2. Alternative Financing

Alternative financing refers to the use of innovative and cost-effective funding approaches that do not add to the Province's debt and proceed without recourse to, or guarantees from, the Province.

It is one component of alternative procurement (which is discussed in detail in Section 8.4) and may deliver benefits such as:

- mitigation and transfer of project financial risks;
- reduction of demand for tax-payer-supported debt;
- protection of the Province's credit rating; and
- accelerated delivery of capital projects.

Alternative financing can take various forms. Commonly-used methods include:

Capital and operating leases: These allow the lessee to use an asset for a period of time, with or without full recourse to the Province in the event of default. The lease types differ primarily in their allocation of risk. In an operating lease, the lessor retains most of the risks (and rewards) of ownership. In a capital lease, substantially all the risks and rewards are transferred to the lessee.

Bonds, debentures and other securities: These may be issued directly by agencies to financial institutions and the capital markets. They are issued with recourse limited only to the project or the sponsoring agency.

These methods of alternative financing could be used in any of the following forms of alternative procurement:

- Partnerships, including P3s and partnerships between public-sector agencies;
- Self supporting projects that rely on user fees or other non taxpayer-supported revenues to recover debt service payments, operating and capital-maintenance costs;
- Internal payback projects, which generate sufficient savings to fully cover debt service costs; and
- General-purpose projects of non-consolidated institutions, with no increase in annual government grant or subsidy payments.

FINANCING

Agencies are required to consult with the Provincial Treasury, Ministry of Finance, prior to embarking on alternative financing initiatives.

Agencies are required to consult with the Provincial Treasury, Ministry of Finance, prior to embarking on alternative financing initiatives. The Provincial Treasury can provide:

- financial advisory services (e.g. support in developing business cases, deal structures, financial projections, discount rates, debt and funding models); and
- financing/funding transaction services (e.g. support in engaging financial advisors, placement agents, credit rating agencies, capital markets and financial institutions).

These services support a co-ordinated, streamlined approach that allows competitive engagement; effective liaison among financial service providers, investors, government and clients; and leverage of the relationship to help ensure lowest-cost service delivery.

13.3. Classification of Debt under the Fiscal Planning Framework

Under the Province's Fiscal Planning Framework, the debt of public-sector agencies is classified in three categories:

- taxpayer-supported
- self-supporting, and
- off-credit.

Each of these categories is discussed below, along with the criteria Treasury Board uses to determine the different classifications. These criteria parallel those applied by a major U.S. credit rating agency.

For a high-level overview of the impact of various financing methods on provincial debt, see Section 13.3.4.

13.3.1. Taxpayer-Supported Debt

Taxpayer-supported debt includes:

Direct government debt, which funds government operations and capital advances for education, health care and public transit infrastructure;

Fiscal agency and government guaranteed loans to social and government-services agencies, which finance construction of justice facilities, and government and other accommodation requirements;

Fiscal agency and government guaranteed loans to economic development agencies, which finance ferry terminal and fleet expansions, and certain public transit and highway construction projects;

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Other fiscal agency loans, which finance the construction and maintenance of post-secondary residences, parking facilities and other ancillary services. These projects are supported by user fees which are not sufficient to fully recover all debt service requirements, operating and capital-maintenance costs. Loans are also provided to local improvement districts to finance infrastructure;

Loan guarantees, which are provided to private-sector firms and individuals by the government through various programs. The government obligation is contingent upon default of the primary debtor; and

Non-guaranteed debt, which may be incurred directly by a taxpayer-supported agency, excluding non-consolidated institutions such as schools and health organizations.

13.3.2. Self-Supporting Debt

The debt incurred for a capital project may be designated as self-supporting when it meets the following two conditions:

- User fees and/or other non taxpayer-supported revenue must fully cover all debt service, operating and capital-maintenance costs. At minimum, this requires positive net income (after deducting depreciation) and a debt service coverage ratio⁴ of one-to-one (“fully self-supporting performance”).
- Five-year financial projections must show that fully self-supporting performance is sustainable. Treasury Board may further require that fully self-supporting performance be achieved for up to three consecutive fiscal years prior to such designation.

Self-supporting debt includes:

- debt held by commercial Crown corporations that do not receive grants or subsidies to pay debt service, operating or capital-maintenance costs;
- fiscal agency loans to, and any other government-guaranteed debt of, non-consolidated institutions for the purposes of financing self-supporting ancillary service projects such student residences or parking lots; and
- financing through the warehouse borrowing program, which takes advantage of capital market opportunities to borrow money before it is actually required. Proceeds from the borrowing are invested pending eventual lending to public-sector agencies.

13.3.3. Off-Credit Financing

Off-credit financing refers to borrowing and other types of financing that do not appear in either the taxpayer-supported or self-supporting debt categories. Examples include:

⁴ Calculated as a ratio of annual cash flow to annual principal, interest and lease payments.

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- operating leases as designated by the lessee's auditor, whether or not they are government guaranteed;
- the debt of internal payback projects sponsored by a non-consolidated institution provided that:
 - a) the institution remains non-consolidated;
 - b) the debt recourse is limited to the project and/or the non-consolidated institution;
 - c) there are no dedicated grants or subsidy payments from the government to the non-consolidated institution for servicing the debt (i.e. principal and interest);
 - d) grants or subsidy payments from the government to the non-consolidated institution are not incrementally augmented to accommodate debt servicing for the project; and
 - e) cost savings generated by the project fully cover debt servicing, starting on the completion date (as evidenced by five-year financial projections and pro-forma statements).
- the debt of self-supporting projects sponsored by non-consolidated institutions, provided the institutions remain non-consolidated and the debt recourse is limited to the project and/or the institution; and
- the debt of general purpose projects sponsored by a non-consolidated institution where debt service costs are fully covered by non tax-supported sources – provided that:
 - a) the agency remains non-consolidated;
 - b) the debt recourse is limited to the non tax-supported sources and/or the non-consolidated institution;
 - c) there are no dedicated grants or subsidy payments from the government to the non-consolidated institution for servicing the debt (i.e. principal and interest);
 - d) grants or subsidy payments from the government to the non-consolidated institution are not incrementally augmented to accommodate debt servicing for the project; and
 - e) the historical performance of non tax-supported sources and five-year financial projections substantiate a sustaining source of funds which may be increased by the agency, as required, to fully pay debt service costs without affecting the government's annual capital, operating grant or subsidy payments for the period during which the debt is outstanding.

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13.3.4. Financing Tools

Link to an overview of the Impact of Financial Methods on Provincial Debt (under development)

14. ACCOUNTING

ACCOUNTING

14.1. Introduction

The Capital Asset Management Framework encourages public agencies to find the best solutions to service delivery challenges by:

Capital-related business decisions should be based on a project or program's underlying economics – not its potential accounting impacts.

- considering the widest possible range of options, and
- choosing the one that best meets service delivery needs while providing value for money and protecting the public interest.

Accounting impacts flow from – rather than being a factor in – this decision-making process. They are determined by examining the substance of the transaction(s) and any related contracts or agreements, and applying Generally Accepted Accounting Principles (GAAP).

14.2. Substance of the Agreements

Accounting treatment can only be determined on the basis of final procurement agreements, such as contracts. Proposals and preliminary negotiations do not provide enough information for these determinations.

For example, accounting treatment may be affected by specific provisions around the allocation of project risk, rewards and ownership. These can only be determined on the basis of a final agreement.

14.3. Sources of Guidance on Accounting Treatment

Agencies should follow Generally Accepted Accounting Principles (GAAP) - and their own accounting policies - when classifying capital-related expenditures for budgeting, accounting and financial statement reporting.

Each agency is responsible for interpreting GAAP for its own projects, led by its in-house accounting professionals in consultation with their auditors.

Accounting decisions should be able to withstand both audit scrutiny and public scrutiny. Sources of guidance available to accounting professionals are noted in Table 14.3 below.

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Table 14.3

Source	DESCRIPTION AND LOCATION
GAAP	GAAP (as defined in the Canadian Institute of Chartered Accountants (CICA) Handbook) apply to all organizations in Canada. Canadian GAAP are divided into three sections: private sector, public sector and not-for-profit. Agencies should follow the GAAP appropriate to their sector, unless otherwise directed by legislation, regulations or policies. Any departures from GAAP should be properly disclosed.
International Accounting Standards	Where no Canadian guidance is available, agencies can look to international standards to assist them in determining the most appropriate accounting treatment.
Internal Policy & Procedures	Agencies should always look first to their internal accounting policies and procedures for guidance. Analysis must be forward thinking, identifying potential changes in long-term projects and their impact on accounting and reporting.
Provincial	<p>The Province's accounting policy is described in the Financial Management Operating Policy manual, Chapter 4 – Government Accounting Policy. A copy is available online at: http://www.fin.gov.bc.ca/ocg/fmb/manuals/fmop/fm4.htm.</p> <p>For further details on government accounting policy, see the Financial Administration Procedures manual at: http://www.fin.gov.bc.ca/ocg/fmb/manuals/Fapro/FAPROtoc.htm</p> <p>Relevant sections include:</p> <p>Chapter 9 Financial Reporting and Documentation</p> <p>Chapter 10 Tangible Capital Assets (see also CICA sections HB3060 and PS3150).</p> <p>Chapter 12 Prepaid Capital Advances</p>
Legislation	<p>Legislation also provides direction on accounting and reporting transactions. The main legislative framework for government accounting policy is contained in the <i>Financial Administration Act</i> (http://www.qp.gov.bc.ca/statreg/stat/F/96138_01.htm) and the <i>Budget Transparency and Accountability Act</i> (http://www.qp.gov.bc.ca/statreg/stat/B/00023_01.htm)</p>
Industry practice	Where applicable (e.g. in projects involving rate regulated agencies or real estate investment companies) industry-specific accounting practices should be considered.

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14.3.1. Levels of Accounting Guidance

Agencies should follow the process outlined below in determining appropriate accounting treatments:

- Project leaders should first consult with their own accounting and finance departments, and their auditors.
- Where relevant, agencies should consult with their sponsoring ministry.
- Ministries should consult with the Office of the Auditor General and their Treasury Board Analyst.
- After research is done at the agency/ministry level, accounting policy experts at the Office of the Comptroller General can provide further direction regarding transactions' potential accounting impacts on the Province's financial statements.

14.3.2. Roles of Accounting in a Project's Life Cycle

Accounting advice is required in all capital project phases – from planning through to disposal or renewal. At a minimum, accounting professionals can provide advice on issues such as:

- appropriate costing;
- potential impacts on capital and operating budgets (including debt service and amortization where applicable, capital rehabilitation, and incremental operating costs);
- pre-operating and start-up costs;
- reporting and disclosure requirements including management information systems available;
- timing; and
- valuation or write-off

14.4. Accounting Tools

To ensure consistency in their analyses, agencies should use standardized tools, templates and processes (where applicable) to analyze transactions and proposed structures.

The accounting analysis tools used by the Province are available through the Office of the Comptroller General at <http://www.fin.gov.bc.ca/ocg/aprd/aprd.htm>. The tools include a lease classification template, criteria for sale treatment, accounting treatment for some sample P3 structures, and accounting for tangible capital assets.

15. ABBREVIATIONS & GLOSSARY

GLOSSARY

15.1. Abbreviations

ASD	Alternative Service Delivery	P3	Public-Private Partnership
BCA	Benefit-Cost Analysis	PCA	Prepaid Capital Advance
BTAA	<i>Budget Transparency and Accountability Act</i>	PIR	Post-Implementation Review
CAMF	Capital Asset Management Framework	POE	Post-Occupancy Evaluation
CCP	Consolidated Capital Plan	ROI	Return on Investment
CM	Construction Management	TB	Treasury Board
COA	Certificate of Approval	TBS	Treasury Board Staff
DB	<i>Design Build</i>	VA	Value Analysis
DBFO	<i>Design Build Finance Operate</i>		
FIA	<i>Financial Information Act</i>		
IRR	Internal Rate of Return		
LTCP	Long Term Capital Plan		
MAE	Multiple Accounts Evaluation		
MFIN	Ministry of Finance		
NPV	Net Present Value		
OCG	Office of Comptroller General		

GLOSSARY

15.2. Glossary

The terms and definitions provided below apply only to the application of the Capital Asset Management Framework.

Acquisition - The process of obtaining goods and/or services to meet material needs by way of purchasing, leasing or contracting. Also referred to as procurement.

Agencies - Government and government bodies as defined in the *Financial Administration Act* R.S.B.C. 1996.ch 138. These include: ministries, taxpayer-supported and commercial Crown corporations and their subsidiaries, and local agencies such as school districts, health authorities, universities and colleges. The definition does not include central agencies.

Alternative Capital Procurement – The acquisition of capital assets involving any of the following three criteria: (a) without direct purchase by the province, or (b) financed with limited or no recourse to the Province, and (c) transferring all or some of the project’s life cycle risks to outside parties.

Alternative Financing – Financing through innovative and cost effective alternative methods (excluding direct Provincial debt) that would assist in mitigating and transferring project finance risks to outside parties, protecting the province’s credit rating, and accelerating the delivery of capital infrastructure.

Alternative Service Delivery - In the context of capital asset management, this term refers to the spectrum of strategies which, by their nature, constitute a change in the way a service is being delivered or asset-related demand is being managed. For the purposes of this framework, alternative service delivery could include private delivery options, non-asset related strategies (e.g. eliminating or reducing demand for a particular service) and existing asset strategies (e.g. using existing assets more intensively rather than expanding capacity).

Best Practices - The set of processes, techniques or management methods generally endorsed by professionals in a given field as having either a demonstrable record of success or representing the approach most likely to achieve significant improvements in terms of cost, quality, schedule or other specified criteria.

Betterment - A material cost incurred to enhance the service potential (useful life or capacity) of a tangible capital asset. A betterment will increase the asset’s previously

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assessed physical output or service capacity, significantly lower associated operating costs (improving efficiency), extend the life of the property or improve the quality of the output.

Business case analysis – A method of analysis that applies professional, business-like reasoning and argumentation to a series of well-developed options and criteria, in order to present a clearly reasoned justification for a proposed initiative or expenditure, demonstrating its viability, desirability and affordability.

Business case elements – The range of components which constitute a business case, including the analysis or development of preferred options, an evaluation of the options and the rationale for a preferred solution.

Calendarized – Broken down by month.

Capital Asset Management Plan - The principal product resulting from the processes an agency uses to: identify its current and future capital expenditure needs; devise strategies and plan specific projects to address those needs; and determine priorities for the ongoing management of its assets.

Capital Expenditure - Any expenditure associated with the planning, development, acquisition, leasing, construction, maintenance, repair, deconstruction, disposition or other such activity in the life cycle of a tangible capital asset, irrespective of the funding source (i.e. operating expenditures, debt financed/borrowings) and accounting treatment (i.e. whether the expenditure is capitalized and recorded on an agency's balance sheet).

Capital Program - A grouping of capital expenditures or projects with similar characteristics or attributes. Capital programs can generally be subject to standard or simplified evaluation and decision (approval) processes.

Consolidated Capital Planning - The process by which the Province assesses agencies' capital plans, identifies and prioritizes its multi-year capital needs, and approves capital expenditures.

Direct Debt - Funds borrowed directly by the government for operational funding, capital advances, refinancing of maturing debt and other financing transactions.

Discounted Cash Flow - The stream of expected cashflows, including the effect of any risk adjustments generated by the procurement, discounted back to today's values by applying an appropriate discount rate.

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Expansion - Expenditures required to provide a new asset or increase capacity to respond to growth in service demand.

Governance - In the context of this framework, governance refers broadly to the legislation, policy, procedures, controls and decision making processes, systems and reporting relationships that guide the management of capital assets through their full life cycles. Governance concepts can be applied at both the agency and central government levels.

Guaranteed Debt - Debt incurred by Entities, private sector firms and individuals with a provincial government guarantee as to the payment of principal and interest.

Joint Venture - A partnership wherein two or more parties agree to jointly finance and share the risks, responsibilities and rewards of a specific project, according to the terms of a joint venture agreement.

Lease - A conveyance by a lessor to a lessee of the right to use a tangible asset, usually for a specified period of time, in return for rent. An **operating lease** is a lease in which the lessor retains substantially all the risks and benefits related to the asset's ownership. A **capital lease** transfers substantially all the risks and benefits of ownership to the lessee and is a form of alternative financing.

Life Cycle - The totality of the capital management process including the conceptual, planning, project justification, budgeting, approval, administration, procurement, operation and disposal phases in the economic life of a tangible capital asset. In the context of this framework, "economic life cycle" encompasses an asset's pre-implementation, implementation and post-implementation stages.

Life-Cycle Cost - The aggregate present value of all capital and operating cash outlays over the economic life of a capital asset, after netting out its terminal value.

Line Ministry - A provincial ministry that is not a central agency.

Local Agency – Generally refers to public-sector entities other than central agencies, ministries and Crown corporations. Examples of local agencies include health authorities, post-secondary institutions and school districts.

Monitoring - The ongoing review and analysis of actual performance compared to planned performance, including the identification and analysis of variances from the original capital expenditure approval.

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Multiple Criteria Evaluation - A methodology used to assess and document the incremental impacts of projects on a series of accounts that encompass both financial and non-financial criteria (e.g. environmental accounts, customer service accounts, social and economic accounts) to assist in comparing the advantages and disadvantages of different options.

Net Present Value - Most commonly used method for assessing the economic of a project. It is the present value of expected future net cash flows (e.g. cash revenues less cash costs) discounted at an appropriate discounted rate

Non Consolidated Institutions - Schools, post secondary institutions and health care organizations which are excluded from consolidation on the Summary Financial Statements of the province

Non-Guaranteed Debt - Debt that is incurred by Entities without the guarantee of the provincial government.

Off-Credit Financing - Financing with no impact on taxpayer-supported or self-supporting debt classifications.

Operating Costs - The costs associated with using an asset, including debt service costs and amortization.

Pre-Paid Capital Advances (PCAs) - Grants paid to qualifying institutions for the acquisition of tangible capital assets. These grants are booked as assets recorded as prepaid expenses and expensed over the useful life of the asset acquired.

Procurement - Acquisition.

Project - An undertaking of defined scope, time frame and budget intended to develop, maintain, improve or acquire a tangible capital asset.

Project Management – The direction and co-ordination of human and material resources through the life of a project (including planning, project justification, budgeting, approval, administration, procurement, operation and disposal) using management techniques to achieve predetermined objectives of scope, cost, time, quality and stakeholder satisfaction.

Projects with Internal Paybacks - Projects which generate sufficient cost savings to fully fund any associated operating and debt service costs (i.e. principal and

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interest). *See also the Tools and Resources Compendium*

Public-Private Partnership (P3) - a venture that formally engages the expertise of both the public and private sectors to meet clearly-defined public needs through the appropriate allocation of resources, responsibilities, risks and rewards. More specifically, a P3 is a partnership between the public and private sectors for some combination of ownership, design, construction, financing, operation and/or maintenance of public capital assets. The partnership may rely on user fees or alternative sources of revenue to recover all or part of the related capital (debt servicing and return on equity if applicable), operation and capital maintenance costs. *See also the Tools and Resources Compendium.*

Public Sector Comparator (PSC) - a hypothetical costing of outputs that represents the lowest, risk-adjusted life-cycle cost to achieve a desired service output – if the public sector was to finance and deliver the project. Agencies may use a PSC to determine “whether a private investment proposal offers value for money in comparison with the most efficient form of public procurement.”¹ In other words, the PSC is a benchmark for assessing value for money (VFM).

Recourse - The right of recovery by the lender in the event of the borrower’s default in payment of its obligations under a financing agreement.

Reporting - The regime by which appropriate stakeholders receive timely and relevant information regarding the status of a project's progress (e.g. scope, schedule, budget, and other identified risks or performance measures) to support informed decision making.

Risk Management - The culture, processes and structures directed to the effective management of potential opportunities and adverse effects. This includes a systematic process for the identification, analysis of, and response to risk factors throughout a project’s life cycle.

Scope - The limits within which critical objectives are to be achieved and accountability assessed. Scope is fully described by identifying tasks performed, resources consumed and the end products that result, including quality standards.

Self-supporting Debt - Debt of entities which generate sufficient revenues from external sources to cover their operating and capital expenses including debt service payments and may include self-supporting project debt of Non Consolidated Institutions.

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Self-Supporting Projects - Projects that rely on user fees or other non taxpayer-supported revenues to recover all or some of the costs associated with debt servicing, operations and/or capital maintenance. Self-supporting projects can be structured as P3s or without partnership components. *See also the Tools and Resources Compendium*

Service Plan – A document prepared annually by each public-sector agency, articulating its plans (including goals, performance measures, challenges and opportunities) for the next three fiscal years, as required under the amended *Budget Transparency and Accountability Act*. Service plans are updated yearly on a rolling basis and represent an important part of the government’s commitment to openness and accountability.

Shareholder's Letter of Expectations - An agreement executed annually by the Board Chair of a Crown corporation and the minister responsible, setting out the government’s (i.e. shareholder’s) financial and performance expectations for the Crown corporation.

Tangible Capital Assets - Non-financial assets with physical substance that are used in the production or supply of goods and/or services. Tangible capital assets have useful lives extending beyond an accounting period. They are intended to be used on a continuing basis, and are not intended for sale in the ordinary course of operations. Examples include land, structures, equipment, vehicles, roads, ferry and transit systems, schools, hospitals, universities and other capital works. Tangible capital assets do *not* include intellectual property (e.g. software), information technology, items acquired for resale in the ordinary course of operations, or items required for physical consumption such as operating materials and supplies.

Taxpayer-Supported Debt - Generally, debt incurred for government operations and capital purposes. This includes the debt of Crown corporations and agencies which undertake capital projects to provide essential services to the Province and require an operating or debt-service subsidy from the provincial government.

Traditional Procurement - The process whereby capital assets are purchased entirely with public money or taxpayer-supported debt and operated predominantly by the public sector, with the Province assuming all risks throughout the asset’s life cycle. Traditional procurement is also referred to as “buy-and-borrow” or “design-bid-build” procurement.

GLOSSARY

Treasury Board - A statutory Committee of the Executive Council (cabinet) with roles and responsibilities set out in the *Financial Administration Act*. Treasury Board is chaired by the Minister of Finance and is the major financial management committee of cabinet, providing advice and recommendations on significant budgetary and fiscal policy matters, particularly those involving significant expenditure decisions and those related to the provincial budget and estimates.

Useful Life - Either the period over which a tangible capital asset is expected to be used or the volume of goods and/or services the asset is expected to produce or support. The life of a tangible capital asset may extend beyond its useful life to government. The life of a tangible capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial or legal life. It may also be referred to as economic life.