

Capital Asset Management Framework



Overview



BRITISH
COLUMBIA

Introduction

The government of British Columbia has made strong commitments to sound fiscal management, public accountability and, above all, value for taxpayers' dollars. That means delivering effective public services that meet people's needs at a cost we can afford – a principle that underlies every part of government, including the management of capital assets.

Hospitals, schools, highways and other capital assets are essential to the delivery of government services, and to economic growth. And public-sector agencies have a key role to play in making sure these assets are acquired and managed in the most cost-effective manner possible.

Achieving this goal in today's world of rapid technological change, shifting demographics and fast-evolving economic realities calls for new ideas and approaches. Ministries, school districts, health authorities, Crown corporations and others leading capital projects and managing capital assets have a chance to think "outside the box" and apply fresh solutions to infrastructure challenges. Traditional procurement – where assets are purchased entirely with taxpayers' money or debt, and operated predominantly by the public sector – isn't always the most efficient and certainly isn't the only option that should be considered for meeting public needs.

To help public agencies find the best solutions and apply the best capital management practices, the government has developed a Capital Asset Management Framework, consisting of three integrated components:

- a Framework Overview (this document), describing the objectives, principles and key elements of the framework and setting out (in the Appendix) the Province's life-cycle approach to capital management and the steps and approval points in the new, streamlined capital process;
- a set of Guidelines, articulating the province's minimum standards, as well as policies and processes, for capital asset management; and
- a range of practical tools - such as technical guidelines, sample documents, templates and manuals - to be developed and refined over time to support efficient, accountable capital management.

This framework sets a new standard for the way the Province plans and manages capital assets. It paves the way for a high-quality infrastructure system that meets people's needs and delivers on government's commitment to make the best possible use of every tax dollar.

More information or copies of all framework documents, can be found at www.fin.gov.bc.ca/tbs

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The Framework

Objectives

The key objectives of the Capital Asset Management Framework are:

1. To establish best practices in capital asset management across the public sector.
2. To support ministries, health authorities, school districts, Crown corporations and other public-sector agencies to think creatively and find the most efficient ways to meet British Columbia's infrastructure needs.

Application

The framework applies to all provincial public-sector agencies (e.g. ministries, health authorities, school districts, Crown corporations), and to the management of all public capital assets, regardless of their dollar value or the way they're financed. Specific standards of compliance are set through Treasury Board decision letters or letters of expectations for individual agencies.

The framework is not prescriptive but sets out basic guidelines and principles, as well as minimum standards, which agencies are encouraged to exceed.

Challenging Assumptions

The framework encourages agencies to be creative and look beyond traditional approaches to managing capital assets. Instead of doing "business as usual", they should explore a full range of options for meeting service delivery needs and make decisions based on what is best, rather than simply following past practices.

For example, as a first step in the capital process, agencies are expected to ask:

- Is there another way to meet our service delivery needs that could avoid new capital spending?
- Is there a way to better manage or use 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?

These are all viable alternatives to traditional, publicly-financed procurement. Traditional procurement is still an option. However, to ensure they get the best value for taxpayers' dollars, agencies need to consider as many options as may be feasible.

Objectives: Guiding Principles Guidelines & Tools

1

To establish best practices in capital asset management across the public sector.

Each of the framework's objectives is supported by a set of principles, guidelines and tools, to give agencies clear direction and practical support in carrying out their capital mandates. The following outlines the key principles underlying each objective and discusses some of the key elements of the framework's guidelines and tools.

PRINCIPLE:

Sound Fiscal & Risk Management

- Spending on capital assets will be managed within fiscal limits.
- Capital asset management decisions will be supported by rigorous business case analysis.
- Costs and risks (such as legal, environmental, health and safety, construction) will be identified, analyzed and managed throughout an asset's life-cycle which includes planning, acquisition, use, maintenance and disposal or renewal.
- Risks will be allocated to those parties best able to manage them at the least cost while serving the public interest. Those parties may be in the public, private or non-profit sector – or a combination of the three.

GUIDELINES & TOOLS:

The framework supports consolidated capital planning – wherein all agencies' capital plans are "rolled up" into a single, provincial plan. This strengthens the Province's ability to assess and manage risks across government, allows trade-offs amongst government priorities, and supports the province in managing to a financial "bottom line".

The framework also offers guidance to agencies for developing rolling, multi-year capital asset management plans, based on their service plans – and reflecting the cost of managing assets through their full life-cycles. Specifically, it:

- identifies key issues that should be addressed in capital management plans, including forecasting, inventory information, project ranking, budgeting and cost-control techniques;
- sets minimum standards for analytical due diligence (e.g. for developing business cases) to ensure that agencies plan for all potential costs, risks and benefits throughout an asset's life-cycle, including such things as maintenance;
- provides tools that agencies can use to identify, evaluate, allocate and manage risk systematically and effectively; and
- identifies a cross-section of risks specifically related to alternative procurement approaches (such as public-private partnerships) and offers guidance on transferring risk.

PRINCIPLE:

Strong Accountability in a Flexible and Streamlined Process

- Agencies will have freedom and flexibility to carry out their capital mandates with minimal intervention from the Province. At the same time, they will be held fully accountable for managing capital assets efficiently.
- Capital processes will be flexible to:
 - accommodate differences in project complexities and agencies' experience in planning and management;
 - encourage agencies to innovate and consider a full range of options to best meet service delivery needs; and
 - respond to the many factors that affect service delivery needs, such as demographic shifts, emerging technologies and changes in the provincial economy.
- The Province will use a risk-based approach to oversight. Degrees of rigour in approval requirements, monitoring, reporting and other checks and balances will increase in proportion to the cost, complexity and level of risk associated with capital projects or decisions.
- Provincial oversight will also reflect the concept of "earned independence" – with oversight decreasing in proportion to an agency's ability to demonstrate effective capital management.
- All agencies will measure their performance and report results.

GUIDELINES & TOOLS:

The framework outlines the core capital responsibilities of government agencies and draws clear lines of accountability between those responsible for service delivery and those responsible for oversight. It also:

- articulates clear, streamlined budget and approval processes;
- offers guidance in measuring and assessing service and asset performance;
- explains the concept of risk-based due diligence, where the degree of analysis and management required increases in proportion to the project's cost, complexity and risk level; and
- establishes the concept of risk-based oversight, wherein the rigour of approval, monitoring and reporting requirements is proportional to a project's risk, cost and complexity – and to the agency's track record. This includes setting standards for variance-based reporting, wherein agencies report to the Province when a project varies from its original, approved plan and are held accountable for managing those variances.

PRINCIPLE:

Emphasis on Service Delivery

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

GUIDELINES & TOOLS:

The framework requires public sector agencies to challenge service delivery assumptions and explore a full range of options for effectively and efficiently meeting public needs. To support this kind of creative thinking, the framework provides a range of tools for identifying, assessing and implementing alternative service delivery and public-private partnership opportunities.

These opportunities could include:

- making more efficient use of existing assets to avoid the need for additional capital spending;
- entering joint-use or joint-venture arrangements with partners in the public, private or non-profit sectors (for example, sharing services or space with other public or private-sector agencies, thereby reducing the need for capital expansion);
- applying demand-management techniques to minimize the need for capital expansion; this could include, for example, encouraging the use of alternative dispute resolution in the justice system;
- out-sourcing services; or
- leveraging government assets (e.g. selling or leasing part of a property to offset the cost of new construction).

2

To support provincial public-sector agencies to think creatively and find the most efficient ways to meet British Columbia's infrastructure needs.

PRINCIPLE:

Value for Money

- Value for money will be determined through a rigorous examination of service delivery options and business case analysis, considering factors such as service levels, costs, promotion of growth and employment opportunities, and the protection of critical public interests.
- A key aspect of achieving value for money involves agencies demonstrating the most efficient use of resources to meet or exceed service delivery goals.
- Value for money will be enhanced through strategic use of public and private sector resources.

GUIDELINES & TOOLS:

The framework does not assume that any one sector is inherently more efficient in building and operating public assets. Instead, it emphasizes that capital decisions will be based on a practical, project-specific assessment of a full range of options to determine which provides the best value for money while serving the public interest.

To support this assessment, the framework provides:

- an overview of a variety of alternative-service delivery, public-private partnership and project-delivery models;

- criteria that can be used to help identify suitable projects for alternative capital procurement;
- technical tools and methodologies, such as strategic options analysis and business case analysis, that agencies can use to examine the feasibility, cost-effectiveness and efficiency of various capital management options; and
- a discussion of various financing options and their implications for agencies' and the Province's balance sheet.

PRINCIPLE:

Protecting the Public Interest

- Safeguarding the public interest will be paramount in determining the best service delivery options.
- Public interest issues such as service effectiveness, health and safety, environmental protection, access, privacy, equity, transparency and security will be rigorously assessed in making capital decisions.

GUIDELINES & TOOLS:

The framework offers guidelines and tools to help agencies assess public interest considerations and emphasizes that an agencies' primary mandate is to serve the public effectively.

PRINCIPLE:

Competition and Transparency

- Agencies procuring private sector services will use fair, open, competitive processes – consistent with government procurement policies.
- Agencies will disclose the details of competitive processes and their outcomes, while protecting proprietary and commercially confidential information.

GUIDELINES & TOOLS:

The framework outlines standards for competitive, open, transparent procurement of capital-related services. Specifically, it:

- describes the government's policy approach to capital procurement, including objectives and principles;
- details best practices and steps to follow for both traditional (public sector) and alternative capital procurement; and
- offers criteria and processes for reviewing, assessing and, where appropriate, accepting unsolicited proposals from the private sector, without compromising government's commitment to open and competitive processes.

Conclusion



To ensure the most effective and efficient public services; to realize the best value for taxpayers' dollars; to achieve a sustainable, balanced provincial budget; and, at the same time, to maintain hospitals, schools, highways and other essential infrastructure, British Columbia must explore new ways of funding and managing capital assets.

Recognizing this practical and economic imperative, the government has developed a Capital Asset Management Framework with two key objectives:

- to establish best practices in capital asset management across the public sector; and
- to support provincial public-sector agencies to think creatively and find the most efficient ways to meet British Columbia's infrastructure needs.

The framework promotes alternative service delivery options, including public-private partnerships, and provides checks and balances to ensure accountability and effective management of risk through all phases of capital projects. It also underlines agencies' inherent responsibilities to meet public service delivery needs and serve the public interest.

Ultimately, the framework will ensure that taxpayers get the maximum value for their capital dollars – both in terms of maintaining modern, affordable infrastructure, and through the effective delivery of services.

Appendix: The Capital Process

Life-Cycle Orientation

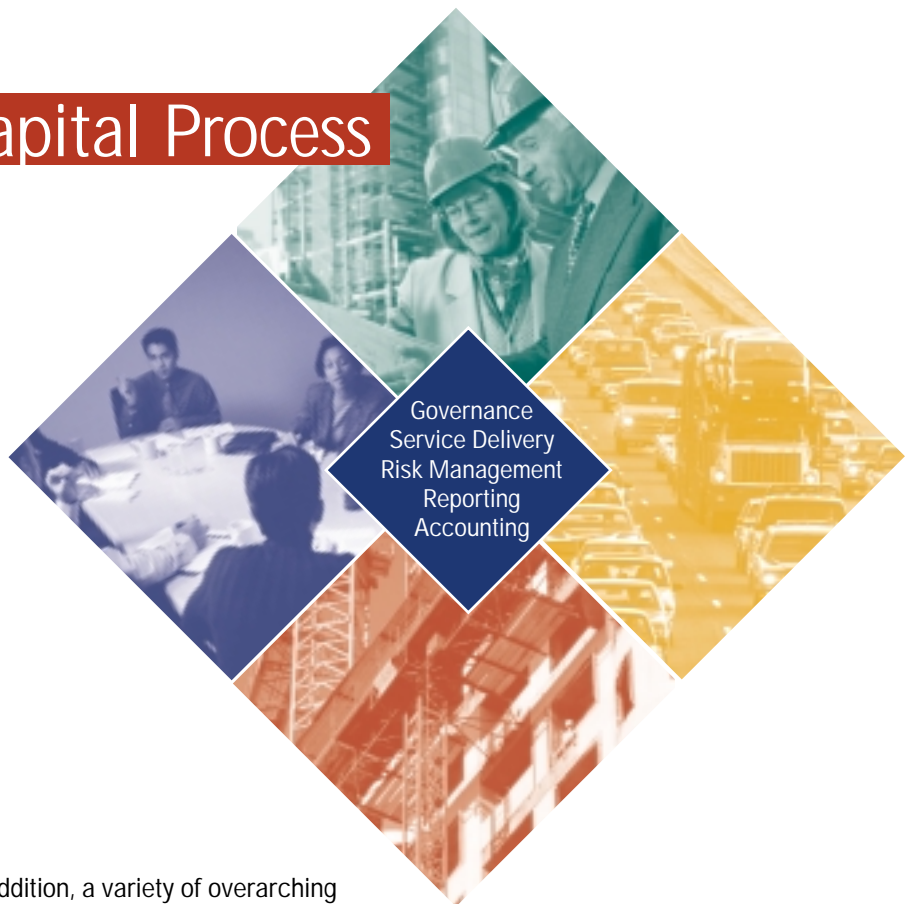
The concepts and processes articulated in this framework are presented in relation to four typical stages in the life-cycle of a capital asset. This is intended for ease of orientation, to emphasize the interrelationship of each phase and to promote a full-life cycle approach to capital management. The four principal phases are:

Planning - including the identification of baseline supply and demand information (e.g., inventory information), service delivery options and business case analysis;

Implementation - acquisition, or design and construction;

Operations - asset in use and related service delivery, including performance reporting; and,

Renewal or disposal - end of an asset's useful economic life, or requirement for services is to be renewed or no longer needed.

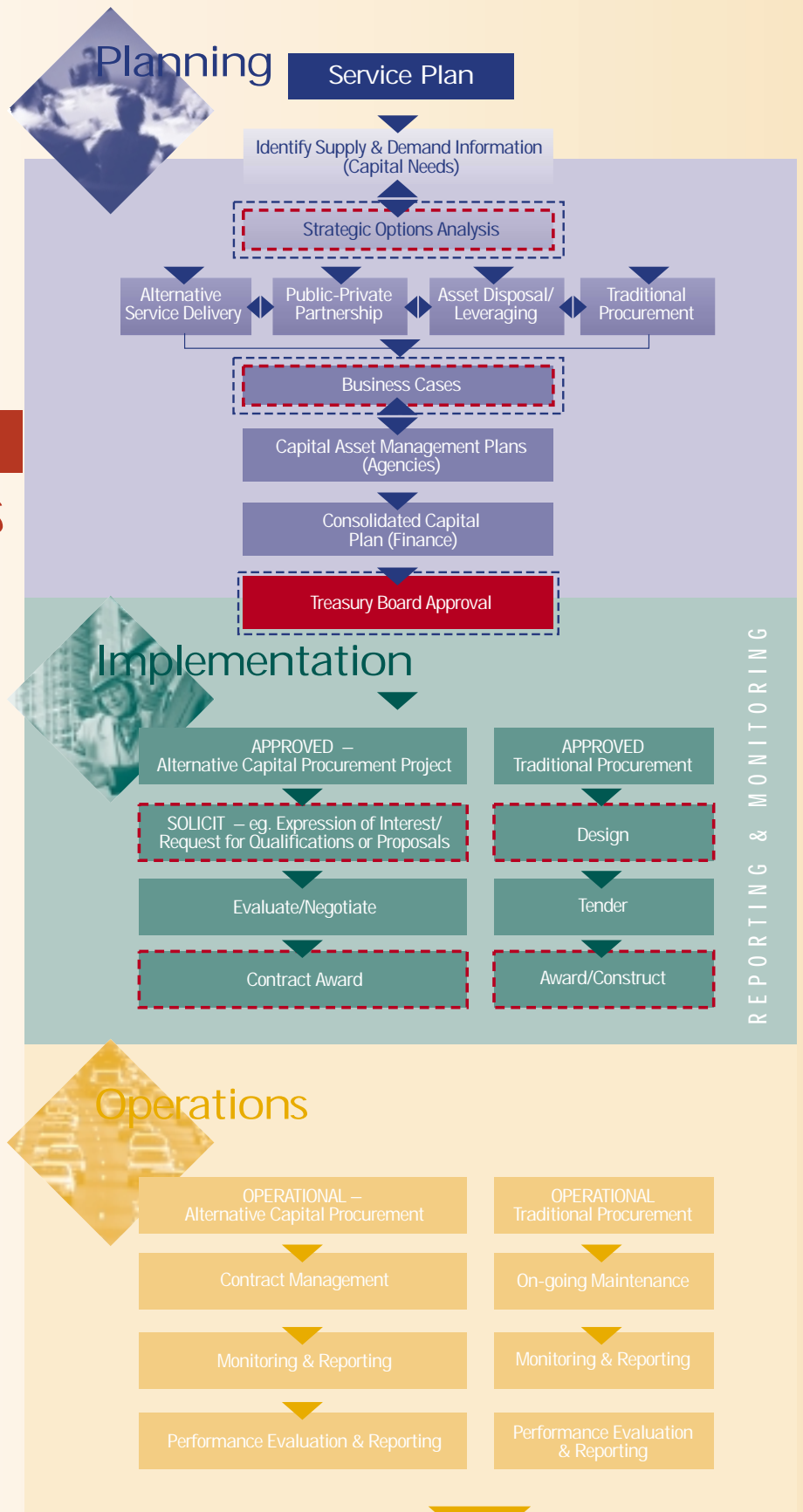



In addition, a variety of overarching capital management issues relevant to every phase in the life-cycle (e.g., governance and risk management) are discussed throughout the framework.


Capital Asset Management Process

The chart on the following page outlines the major stages in the capital asset management process and identifies potential approval points based on the complexity, risk and cost of projects or the track-record of an agency.

The Capital Process Steps and Approvals



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

 Potential Open Cabinet Discussion for Major Capital Projects

Planning

Renewal/
Disposal