Capital asset plans

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Introduction

Our Office examines areas where the Government faces risks. In Chapter 4 of our 2000 Fall Report to the Legislative Assembly (Volume 3 p.191), we set out the risks related to infrastructure.[1] That Chapter described the infrastructure risks that the Government must manage well. To reduce its infrastructure risks successfully, the Government must manage well in these broad areas:

- identify needs (long-term planning),
- set clear responsibility,
- maintain capacity,
- maintain good information, and
- keep the public informed.

In this chapter, we focus on the first three of these areas. In particular, we discuss the use of capital asset plans to guide management's decisions about significant capital assets in the public sector. We define capital assets as the buildings and equipment that government organizations use to deliver public programs. We include capital assets that the Government owns, leases, or supports with public money.

Adequate capital asset plans help to reduce risks. Capital asset plans help to ensure that organizations have the capacity to deliver their programs as planned. Capital asset plans encourage action so that capital assets are in good working order when organizations require them. For example, capital asset plans encourage action to reduce the risk of deteriorating buildings or equipment that is unsafe or obsolete. When organizations use capital asset plans to reduce risks, they increase their ability to carry out their programs efficiently, economically, and effectively.

The Government's Accountability Project considers capital asset plans to be part of long-term strategic plans. We agree. When managers align their capital asset plans with their strategic plan, it helps their organization to achieve its goals and objectives. In short, action on long-term capital asset plans would help the Government achieve its strategic objectives.

[1] We defined public infrastructure as physical assets used to provide public services including roads, dams, and power plants as well as buildings and equipment.

Our objective and approach

The objective of this study is to set out the key content elements of capital asset plans in the public sector. Our purpose is to stimulate discussion among legislators and managers about capital asset plans. Capital asset plans can help to reduce the risks associated with owning and managing capital assets. They can also reduce risks associated with using public money to support capital assets that are owned by other organizations.

We based our study on international literature and reports of other auditors concerning capital asset plans. We considered government guidelines and requirements related to the content of capital asset plans.

We consulted with key government organizations at various points in our work. In particular, we consulted with key individuals in the departments of Health, Highways and Transportation, Education, and Finance; in the Saskatchewan Property Management Corporation; and in SaskEnergy Incorporated. Their comments helped us to describe key elements that are clear and relevant for capital asset plans in the public sector in Saskatchewan.

Content of capital asset plans

Capital asset plans document decisions intended to ensure that organizations have the capital assets required to provide their programs effectively, efficiently, and economically. Capital asset plans help organizations select the capital assets that have the best value and keep them in good working order.

As set out in Exhibit 1, capital asset plans should contain key content elements showing:

- significant capital assets required to support strategic objectives and programs;
- the gap between required and existing capital assets;
- strategies to manage capital assets;
- justification of capital asset strategies; and
- financial implications of capital asset strategies.

This chapter describes each of these elements. The chapter also explains why each element is important. Examples show the implications for capital asset plans in the public sector.

Exhibit 1

In the public sector, capital asset plans should contain the following key content elements.

1. **Capital assets required to support strategic objectives and programs**
   - overview of strategic objectives that will impact capital assets
   - summary of required capital assets for next ten years in line with strategic direction
   - responsibility for capital assets
2. **Gap between required and existing capital assets**
   - summary of existing capital asset capacity
   - risks related to existing capital assets
   - gap between existing asset capacity and needs for ten years
3. **Strategies to manage capital assets**
   - strategies to obtain capital assets to meet program needs
   - strategies to operate capital assets
   - strategies to maintain capital assets
   - strategies to dispose of capital assets no longer usable or required
4. **Justification of capital asset strategies**
   - criteria used to select capital asset strategies
   - outline of capital and non-capital alternatives to achieve strategic objectives
   - explanation of how capital asset strategies minimize key risks
5. **Financial implications of capital asset strategies**
   - estimated life-cycle costs for planned capital assets over the next ten years
   - sources of money to carry out capital asset strategies

Capital assets required to support strategic objectives and programs

Organizations acquire capital assets to help them deliver programs that contribute to the achievement of their objectives. Thus, capital asset plans should begin with an overview of the organization's strategic objectives as set out in its strategic plan. This overview should highlight the type of programs that the organization will provide.

Based on these highlights from the strategic plan, the capital asset plan should project the capital assets required for future program delivery. Capital asset plans should state the assumptions that underlie these projections. The assumptions may include population changes, public policies (e.g., equitable access to services), or the continuation of program trends. Stating assumptions helps managers monitor the environment and plan timely change.

The capital asset plan should summarize the assets that the organization requires to fulfill its mandate during the next five to ten years. The time period will vary with the type of asset but it should be as long as possible to contribute to good stewardship of public assets.

The time period covered by a capital asset plan may extend beyond the period covered by the strategic plan. There is an important interaction between strategic plans and capital asset plans. The strategic plan sets the direction; the capital asset plan may highlight risks that must be addressed in future strategic plans.

Long-term capital asset plans also allow government managers time to address risk areas before they become a public concern. Managers may need time to arrange for construction or partnerships. The long-term nature of capital asset plans helps to ensure that capital assets are available and in good working order when they are required.

Responsibility for capital assets is often complex in the public sector. Capital asset plans should describe who is responsible, either through ownership or through agreement, to obtain, operate, and maintain significant capital assets. They should also state who is responsible to monitor the assets' performance.

In the public sector, the organization that obtains a capital asset may not be the organization that maintains it. Similarly, the organization that depends on an asset to deliver its services may not own the asset. For example, the Saskatchewan Property Management Corporation owns or leases the office buildings used by most government departments. Third-party organizations called 'affiliates' sometimes own the hospitals and nursing homes that health districts depend on to deliver services. When ownership and responsibility is complex, the capital asset plan can help to manage the risk of conflicting priorities by noting key obligations to others.

Gap between required and existing capital assets

After setting out future capital asset requirements, capital asset plans should show the result of an evaluation of the existing assets and their capacity to meet the defined requirements.

Capital asset plans should summarize existing capital assets by category and condition because different assets need to be managed differently. For example, managers may categorize assets by type of building or by the purpose of equipment. Capital asset plans also should show the current condition of the assets by category (e.g., 20% of special equipment is obsolete; 5% of the office buildings in a region have less than ten years estimated remaining lifespan). This summary helps managers to assess risks and to plan to reduce them over the long term.

Capital asset plans should identify risks related to existing assets, such as a history of excessive repairs or under-performance in meeting program objectives. Other risks might include service interruptions or non-compliance with health, safety, or building codes.

Once the above information is collected, capital asset plans should show whether existing assets have the capacity to carry out the projected programs over the next ten years. Any gaps between existing asset capacity and required asset capacity should be identified to help managers consider alternatives. Capital asset plans should specify the nature of the assets required (e.g., type, size, location) and when the assets must be available for use. They should also identify assets that are no longer required or that have surplus capacity.

Strategies to manage capital assets

To be complete, capital asset plans should include strategies to obtain, operate, maintain, and dispose of capital assets. These essential strategies go beyond what management will do to fill the gap between existing and required assets.

In the capital asset plan, management sets out the types of capital assets it will use to support its programs. It also shows how the organization will obtain the required buildings and equipment (e.g., buy, build, lease).

Capital asset plans should show how management intends to operate the capital assets to support the organization's strategic objectives and program projections. Capital asset plans should explain whether the capital assets must operate at maximum capacity. Capital asset plans should ensure that organizations have the physical requirements to operate capital equipment at the required capacity (e.g., sufficient space, power). They should also highlight the human resources or information technology required. For example, capital asset plans should be aligned to human resource plans for the organization that describe recruitment or training of qualified staff to operate key assets.

Effective capital asset plans contain a maintenance strategy to ensure major assets can operate at a reasonable cost and without disruption. The maintenance strategy outlines the frequency of essential maintenance for major assets. It enables capital assets to operate at the expected capacity and to meet performance standards.

Capital asset plans should set out a disposal strategy for surplus or obsolete assets. Even when regularly maintained, some capital assets no longer perform at an acceptable standard or simply become redundant. A disposal strategy should state whether there are other ways to use the asset. Ultimately, this strategy will determine whether the asset should be transferred, sold by tender or auction, leased, traded-in, or scrapped.

Justification of capital asset strategies

Capital asset plans should document the criteria used to select the priority capital asset strategies. The criteria state what the organization expects of the capital assets. The criteria provide a direct link between the program objectives and the capital asset strategies. If the program objective is to handle a high volume of clients effectively, the capital assets must be selected, operated, and maintained to allow that objective to be achieved.

For each major asset group, the capital asset plan should outline the capital and non-capital alternatives that management considered. Setting out alternative capital asset approaches enables a rapid and flexible response to changing circumstances. It also helps to show the benefits of the strategies chosen over the possible alternatives (e.g., portable or permanent structures, lease or buy, renovate or build new, stand-alone or shared facilities). Non-capital alternatives might include redesigning programs to reduce the need for capital assets or contracting with other organizations to provide programs. Alternatives should consider not only initial costs to obtain the assets, but also operating, maintenance, and disposal costs over the expected lifespan of the assets (i.e., life-cycle costs).

Capital asset plans should briefly explain why management chose specific strategies. For example, organizations often choose specific strategies because they reduce risks (e.g., repair the roof to reduce the risk of water damage). Organizations may select strategies to meet key public policy objectives such as environmental stewardship or equitable access to programs. Sometimes organizations select strategies to reduce operational costs.

Financial implications of capital asset strategies

Capital asset plans should outline life-cycle costs related to existing and proposed significant capital assets. This includes annual costs to operate and maintain assets as well as costs to obtain assets. Where possible, managers should project costs to operate and maintain assets for ten years. This is important because some capital assets cost as much to operate and maintain as they do to purchase (e.g., some medical equipment).

Capital asset plans should state the anticipated source of money to carry out the capital asset strategies and when it will be required. Capital asset plans should show the proportion of spending for capital strategies that will come from operations, appropriations, or borrowing.

If the organization anticipates that it will require money from external sources for buildings or equipment, the capital asset plan should make this clear. For example, the capital asset plan should document how partners will share the cost of the capital asset strategies. Partners may include other provincial government agencies, federal or municipal governments, or organizations in the private sector.

Next steps

Various government organizations have different methods of planning for capital assets. The methods used influence the adequacy of the capital asset plans of these organizations. We think the use of long-term capital asset plans will help the Government to reduce the risks associated with significant capital assets.

We plan to audit government organizations to assess whether they are appropriately reducing their capital asset risks through their planning processes and the resulting capital asset plans. We will continue to report our findings to the Legislative Assembly.

In addition, we look forward to ongoing discussions with government organizations about capital asset plans.

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