

BETTER CAPITAL PLANNING & DECISION MAKING

QUICK REFERENCE GUIDE

EFFECTIVE
SEPTEMBER
2011

WHY WE NEED THIS

Social assets comprise around 50% of the Crown's balance sheet and they underpin the delivery of a range of core public services. Effective management of these assets is necessary for New Zealand to realise its economic goals and to deliver better public services.

Improved capital planning provides confidence to decision makers that:

- assets will be well managed,
- future investment will align with the outcomes sought by government, and
- the current level of outputs will continue to be delivered.

WHAT IS EXPECTED

Cabinet's expectations on asset management and reporting are provided in Cabinet Office Circular CO(10)2: *Capital Asset Management in Departments and Crown Entities: Expectations*.

Key requirements are that:

- All departments and Crown entities manage their assets effectively over the whole of their expected life-span, recognising that making better use of existing assets is as important as investing in the right mix of new assets.
- Capital-intensive agencies demonstrate a level of asset management practice and performance that is appropriate to the scale of assets under their management and the criticality of those assets to the delivery of key public services.
- Capital-intensive agencies must provide The Treasury with information on planned capital intentions in order to inform decisions on resource allocation and future business cases.

WHO SHOULD READ THIS AND WHY

Chief Executives, Boards and Executive Leadership Teams:

Better capital planning empowers these audiences: it enables them to build stakeholder confidence through access to information on the viability of current services and choices to cost effectively meet government expectations.

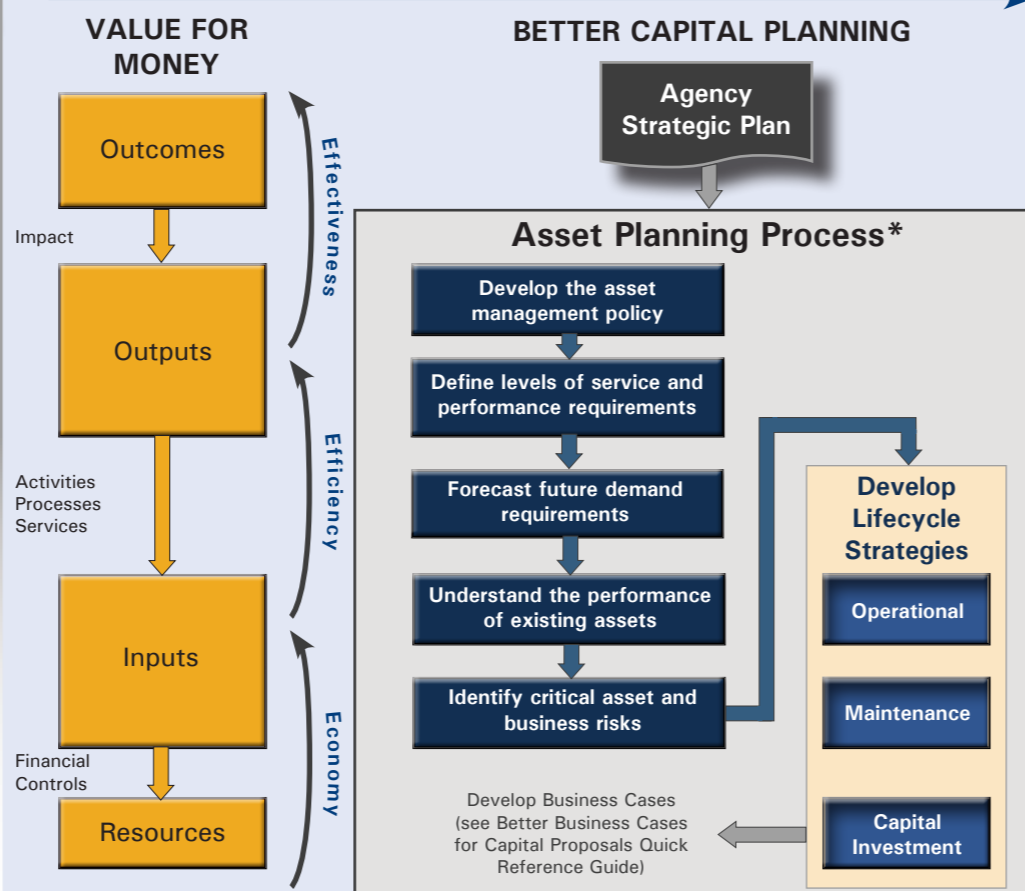
Strategic Planners, Asset Managers and Finance Teams:

Better capital planning enables this audience to be more effective at operating within constraints, improving resilience, making a strong case for resources and providing performance information to a range of stakeholders.

Monitoring Agencies:

Better capital planning helps monitoring agencies understand what to look for when assessing agency performance or assisting agencies to address wider business issues.

HOW TO DEMONSTRATE VALUE FOR MONEY THROUGH BETTER CAPITAL PLANNING



BETTER CAPITAL PLANNING

The aim of better capital planning is to produce the outcomes and outputs required by government through the management of capital in the most cost-effective manner possible.

The following sections summarise how better capital planning can deliver better value for money.

AGENCY STRATEGIC PLAN

An agency's strategic plan provides the context for capital planning: it shows what an agency needs to do to ensure it can continue to meet government's desired outcomes.

DEVELOP THE ASSET MANAGEMENT POLICY

The asset management policy guides decisions on the governance, investment and maintenance of the agency's assets within known constraints.

Ensure that existing policy clearly supports government's outcomes and outputs.

DEFINE LEVELS OF SERVICE AND PERFORMANCE REQUIREMENTS

Levels of service are the fundamental building blocks of asset management. This aspect of planning defines what is to be delivered and provides the basis for assessing performance.

FORECAST FUTURE DEMAND REQUIREMENTS

Sound forecasts allow the agency to plan the best way of managing changes in demand for services and implications for assets.

Determine the level of service required from critical and material assets now and in the future.

* Detailed guidance on asset management planning is provided in the *IIMM International Infrastructure Management Manual 2011*.

UNDERSTAND THE PERFORMANCE OF EXISTING ASSETS

The key to better capital planning is understanding the agency's capability to deliver on its service level and demand requirements, now and in the future.

Asset performance is normally assessed in terms of relationship between costs, capacity (asset availability, utilisation) and capability (condition and functionality).

Action 3 Measure current and forecast asset performance using appropriate measures that can be reported to various stakeholders.

IDENTIFY CRITICAL ASSET AND BUSINESS RISKS

Each agency needs to identify, assess and manage asset risks where consequences of failure may prevent the agency from achieving its business objectives and outcomes.

Action 4 Assess asset-related risks and adopt mitigation strategies.

DEVELOP LIFECYCLE STRATEGIES

The objective of lifecycle decision making is to find the lowest long-term cost of providing a required level of service from assets.

This activity occurs at three levels:

1 OPERATIONAL

Operational planning involves establishing, prioritising and deciding on possible asset and non-asset options to achieve a required level of service. This may involve:

- changing the way assets are used, operated and maintained to make them more efficient and/or effective, and
- changing the way services are delivered.

Action 5 Evaluate a range of potential asset and non-asset options to achieve required levels of service.

2 MAINTENANCE

Optimised maintenance programmes take account of factors like age, criticality, failure rates, and relative costs of maintenance vs. renewals to establish the most cost effective approach to managing key assets or portfolios of assets over their lifecycles.

3 CAPITAL INVESTMENT

Capital investment strategies consider the financial and operational implications of upgrading, creating or purchasing new assets, or renewing existing assets. These events provide the best opportunity to positively affect future costs and levels of service.

Action 6 Budget for the financial flows associated with operating, maintaining and replacing assets.

POLICY OPTIONS

During the asset planning process agencies are likely to identify areas where their ability to improve value-for-money is constrained by current policy settings.

Action 7 Identify changes to existing policy settings which could improve value-for-money.

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Acknowledgments

Better Capital Planning and the Value for Money Framework have been adapted from content included in the *IIMM International Infrastructure Management Manual 2011* and from the Office of the Auditor General respectively.

The purpose of this quick reference guide is to show how:

- agencies can demonstrate value-for-money through better capital planning; and
- agencies' capital planning informs government resource decisions.

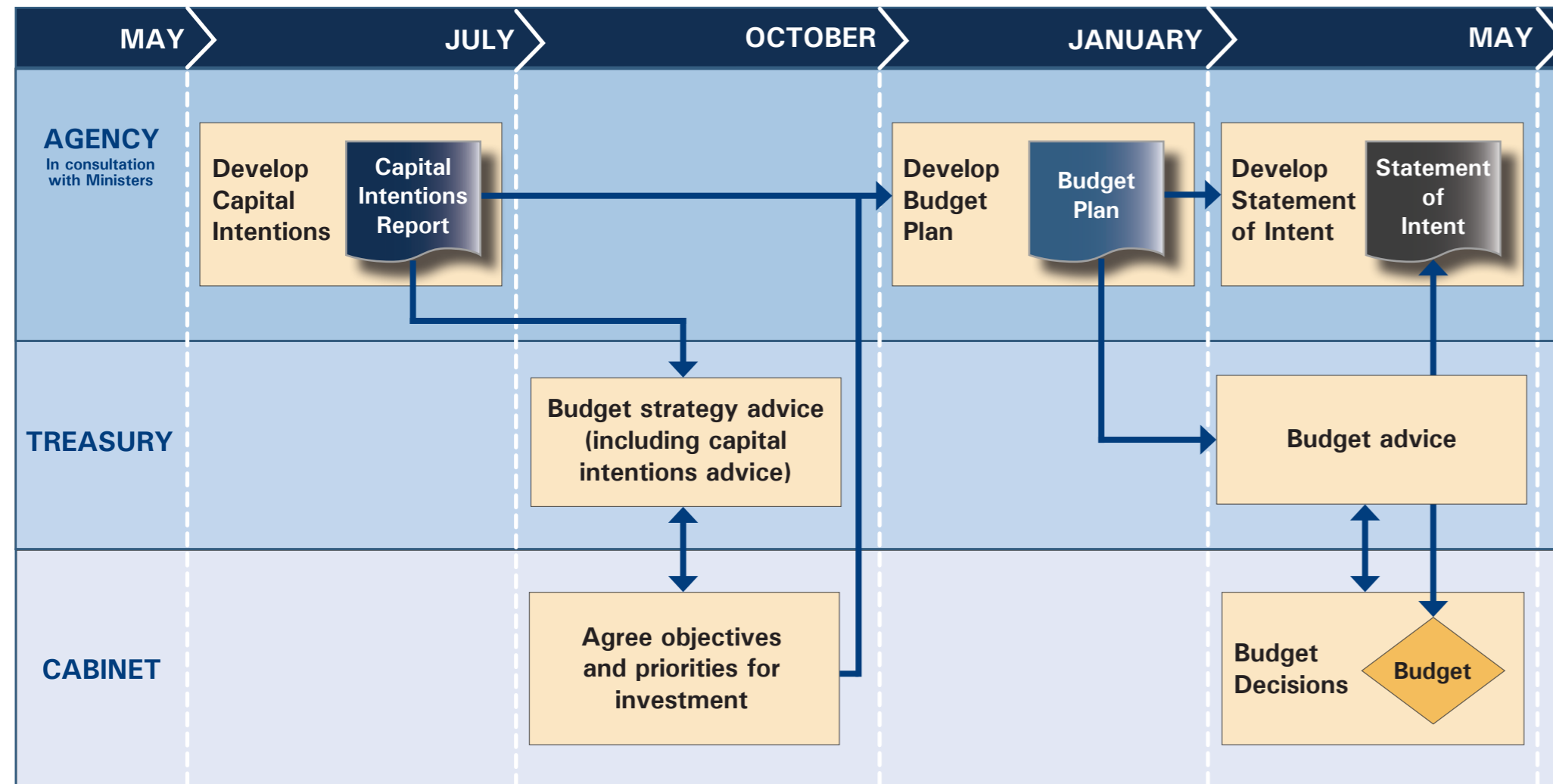
HOW GOVERNMENT DECISIONS ARE INFORMED BY CAPITAL PLANNING

MORE INFORMATION

BETTER CAPITAL PLANNING

The diagram below shows how key agency planning and reporting documents and processes will inform government decision making processes from 2012 (to inform Budget 2013).

Specific timeframes for agency reporting may vary from budget-to-budget.



Capital Intentions Report

Timeframe Covered 10 Years

PURPOSE
Capital intensive agencies prepare capital intentions reports which are grounded in current baselines, policies and service level arrangements.

The information is used to inform the strategic phase of the Government's annual budget cycle and in other government planning, performance and assurance processes. The information helps shape and prioritise work on policy options and investment proposals.

- CONTENT**
These reports show:
- Planning and policy assumptions;
 - Optimised asset performance;
 - Major risks and mitigations;
 - Major capital projects;
 - Financial projections;
 - Government policy options (to improve cost effectiveness or affordability).

- ACTIONS**
- Highlight options to address key asset management issues over the next decade.
 - Ensure intentions link to the agency's strategic plan and statement of intent.
 - Ensure the quality is fit for purpose (i.e. provides a reasonable basis for long-term decision making).

Budget Plan

Timeframe Covered 4 Years

PURPOSE
Budget plans outline the priorities and pressures facing the agency and how these will be managed to deliver outputs within fiscal parameters agreed by Cabinet. They also provide an opportunity for agencies to refine capital proposals and policy options signalled in capital intentions reports for further consideration by Ministers.

CONTENT
Budget plans should directly link to the assumptions and financial forecasts provided in capital intentions reports (unless there has been a substantive change in assumptions between reports).

The Treasury will publish detailed information on its website.

- ACTIONS**
- Ensure budget plans include the financial flows associated with delivering outputs for the next four years.
 - Ensure budget plans are consistent with information previously provided in capital intentions reports and other key planning documents.

Statement of Intent

Timeframe Covered 3-5 Years

PURPOSE
Statements of intent explain each agency's planned performance over the next three-to-five years.

CONTENT
The Organisational Health and Capability section requires agencies to provide information on capital asset management. This should explain how an agency intends to manage its critical assets to maintain or improve output delivery.

The Treasury will publish detailed information on its website.

- ACTIONS**
- Explain how value-for-money will be demonstrated through better capital planning.
 - Ensure that asset management information in the statement of intent is consistent with that provided in other planning and reporting documents.

For queries or for further information please contact: cam@treasury.govt.nz.

Additional reading and information:
Asset Management
New Zealand Asset Management Support
<http://www.nams.org.nz/>

Better Business Cases
Guidance on developing and assessing business cases for capital investments can be found at <http://www.infrastructure.govt.nz/publications/betterbusinesscases>

Budget Plans
Budget guidance process - <http://www.treasury.govt.nz/publications/guidance/planning/budgetprocess>

Cabinet Office Circulars
A full list of Cabinet Office circulars can be found at <http://www.dPMC.govt.nz/cabinet/circulars/>

Capital Intensive Agencies
The list of capital intensive agencies can be found at <http://www.treasury.govt.nz/stateselector/ciagencies>

Capital Intentions Reporting
Capital asset management section of the Public Service Intranet - <https://psi.govt.nz/cam/default.aspx>

Statements of Intent
Guidance for departments and Crown entities on how to prepare statements of intent can be found at <http://www.treasury.govt.nz/publications/guidance/strategy/soi-depts> and <http://www.treasury.govt.nz/publications/guidance/strategy/soi-ces>.

Value-for-Money
Performance Measurement: advice and examples on how to develop effective frameworks
<http://www.ssc.govt.nz/performance-measurement>
Central Government: case studies in reporting forecast performance information
www.oag.govt.nz/2011/central-government/docs/central-government.pdf