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SECTION 1

Introduction

1.1 PURPOSE OF THIS GUIDE

For most public sector organisations, capital assets are their most valuable resource (other than staff). How those assets are deployed and developed must therefore be a key subject of their strategic planning. The purpose of this guide is to help public sector organisations both in the UK and elsewhere to develop effective capital strategies and to use their assets efficiently to achieve the best possible outcomes within constrained budgets.

> The term 'asset' is used in this guide to mean physical assets, such as land, buildings, roads, railways, equipment and vehicles, and excludes financial assets and intangible assets, such as intellectual property.

Organisations with limited capital resources or limited discretion over how they spend their capital funding may not see capital planning as a priority. But these limitations make it even more important for an organisation to take a strategic approach to capital planning so that it can protect its assets and continue to fulfil its responsibilities.

The crisis of 2008 has transformed the financial landscape for public sector organisations. The severe squeeze on budgets is set to continue for the foreseeable future; the public sector has entered a new era of austerity. This calls for better strategic thinking and a willingness to embrace new ways of working in order to maximise the use of scarce resources.

Budgets are always constrained to some degree, even in times of prosperity, and public sector organisations always have a duty to spend taxpayers' money wisely. The lessons that are being learned from austerity are therefore relevant to organisations that have emerged relatively unscathed from the crisis of 2008 and will continue to be relevant should there ever be a return to high levels of public spending.

While austerity calls for innovative ways of working, organisations must first ensure that they have got the basics right, learning from established good practice. This involves:

- developing asset and capital strategies that facilitate a long-term approach to decision-making
- ensuring that assets are only held as needed to achieve the organisation's objectives
- maximising efficiency in the management and use of assets
- ensuring that the pressure to achieve savings in the short run does not compromise the value of assets through lack of investment
- ensuring that capital investment is targeted where it will achieve the greatest long-term benefit.

This guide is aimed at all types of public sector organisation, whether large or small, including central governments, government departments, arm's-length agencies, local authorities and public health bodies. Although this publication is based mainly on UK experience it is written with a wider audience in mind, which makes it relevant to public sector organisations throughout the world.

1.2 APPROACH AND TERMINOLOGY

Capital planning is an art, not a science. There are no definitive rules about right or wrong approaches, as there are in capital accounting. This guide does not set out to prescribe rigid processes, but instead to point to good practice and set out the key issues that public sector organisations need to consider. The focus is on substance rather than form.

Neither is this guide prescriptive about terminology. Different organisations use different terms to describe aspects of capital and asset planning. The glossary at the end of this publication defines the key terms used in this guide, which may not be familiar to everybody. The most important ones are set out in the box below.

Asset strategy	Long-term strategy for moving towards the optimal asset portfolio, which includes strategies for: ▪ purchasing and constructing new assets ▪ investing in and replacing existing assets ▪ transferring assets to other organisations ▪ disposing of assets that are surplus to requirements.
Asset management plans	Detailed plans for individual assets or groups of assets covering: ▪ how they will be managed on a day-to-day basis ▪ investment in, replacement, transfer or disposal of those assets, in accordance with the asset strategy.
Asset planning	A general term for the activities covered by an asset strategy and asset management plans.
Capital strategy	Long-term strategy for investment in assets and for obtaining the resources required for that investment.
Capital programme	A set of capital projects that an organisation plans to undertake within a specified timescale, typically three to five years.
Capital planning	A general term for the activities covered by a capital strategy and the development of a capital programme.

The relationship between the asset strategy and the capital strategy is explained in section 3.5.

Given the difference in terminology (the asset strategy, for example, may be known as the property strategy in some organisations), readers are urged to focus on the substance of the strategies, plans, processes and documents described in this guide rather than on the specific terms it uses to refer to them.

1.3 EXECUTIVE SUMMARY

It is vital that the need to maintain and develop the asset portfolio is fully considered during discussions about prioritising capital investment. Capital planning and asset planning are therefore inextricably linked.

The purpose of asset planning is to develop the asset base so that the assets held are those required to deliver the organisation's objectives efficiently. The key components of asset planning are an asset strategy and asset management plans (AMPs). The asset strategy includes strategies for purchasing and constructing new assets, investing in and replacing existing assets, transferring assets to other organisations and disposing of assets that are surplus to requirements. AMPs are plans for individual assets or groups of assets and should be based on the asset strategy.

Every public sector organisation with significant assets should have a robust capital strategy that is clearly related to its corporate objectives. These should be the same objectives as those for which assets are held. The capital strategy should be linked with infrastructure planning, as well as asset planning, and should include a strategy for funding capital investment.

The capital strategy forms the basis for the capital programme, which contains the capital projects that the organisation intends to undertake in the medium term. Robust processes need to be put in place for potential projects to be proposed, evaluated and prioritised, and for approving the programme and the resources to fund it. This requires clear parameters to be set at the beginning of the process, clarity about the information that must be supplied with each project proposal and clear criteria, related to the organisation's corporate objectives, for prioritising projects.

In determining how much capital investment to undertake, organisations need to consider the long-term impact of borrowing and other forms of capital funding on their revenue budgets. The same principle applies to the use of leases, public–private partnerships and outsourcing arrangements to procure public assets.

Delivering the capital programme requires efficient programme management, project management and procurement, as well as appropriate systems for corporate monitoring, control and scrutiny. It is vital to ensure that there are sufficient resources and the right skills in place for delivery. It is also vital to ensure that the processes and culture of the organisation facilitate delivery and that delivery teams are not hampered by excessive bureaucracy.

In the new era of austerity, however, good planning and efficient management are not enough. Public sector organisations need to adapt their capital strategies to a changed financial landscape in which revenue budgets are likely to be reduced not just in the medium term, but permanently. This requires a change in capital investment priorities to reflect the new reality; it also calls for new ways of working, such as shared services, so that more can be achieved from less.

1.4 STRUCTURE OF THIS GUIDE

Section 2 explains that asset planning is the foundation of capital planning. It sets out the key components of asset planning, including the asset strategy and asset management plans.

Section 3 discusses the importance of a capital strategy, the contents of the capital strategy and the need for the capital strategy to be linked to corporate objectives and infrastructure planning. It also explains the relationship between capital planning and asset planning.

Section 4 describes the need for a clear and coherent process to develop the capital programme that is consistent with the capital strategy. It sets out how evaluation criteria should be used to prioritise project proposals and the role of feasibility studies, option appraisal, business cases, asset management plan information and financial information.

Section 5 highlights the importance of a financing strategy as part of the capital strategy. It describes the capital budgeting process and the different sources of funding for capital expenditure. It concludes by summarising the revenue budget implications of capital funding and the reasons why these must be fully considered when the capital budget is being set.

Section 6 describes alternative ways of procuring assets, including renting, operating leases, public–private partnerships and outsourcing. It explains that the impact on revenue budgets must also be fully assessed when these options are being considered.

Section 7 sets out what is required to deliver the capital programme efficiently. The first half of the section explains the importance of efficient programme management, project management, procurement and contract management. The second half covers corporate monitoring, scrutiny and control. The section concludes with a plea for organisations to keep governance processes and reporting relatively simple so that delivery teams can focus on delivery.

Section 8 considers how the public sector can adapt to austerity in the wake of the financial crisis of 2008. It provides examples of how organisations might redirect their capital investment priorities to reflect the new reality. It also gives examples of new ways of working, such as shared services, that enable assets to be used more efficiently.

The guide ends with a **glossary** that defines key terms used and a **further reading** section for those interested in delving deeper on specific topics.