

Capital Asset Management Workshop 17 February 2012

Introduction from the
Tertiary Education
Commission

Good morning

- Today's workshop - CAM SRG
- Agenda – plan to finish around 3pm
- Presentations and sessions
- Opportunity to engage and explore



Government expectations for CAM

- Greater leadership across the public sector
- Use of a common framework for cost effective management of assets over their economic lives
- Improving the quality and relevance of information to support decision making processes
- Greater assurance about asset management practices and performance in both departments and crown entities



Cabinet led approach

- Cabinet Office Circular CO (10) 2
- Circular to be reviewed – to ensure fit for purpose
- TEC on national steering group and also reference group – review and influence NIU work programme
- 2011 Investment Statement (Dec 2010) – sets out direction of travel - need to improve performance through better alignment of the Crown's capital investments (assets) with its objectives
- 16 Capital intensive agencies including TEC on behalf of TEI sector



System Level Assurance

- Providing stakeholders (Councils, TEC, Treasury, Minister, Cabinet) with confidence that the whole CAM regime is working effectively
- Treasury and TEC working on system level assurance process – tailored for tertiary sector
- Includes taking stock of factors
 - effectiveness of asset management
 - quality business cases/project management
 - evidence of changes in assets or balance sheet performance etc



Whole-of-government long-term fiscal setting

Source: *Pre-election Economic and Fiscal Update 2011*

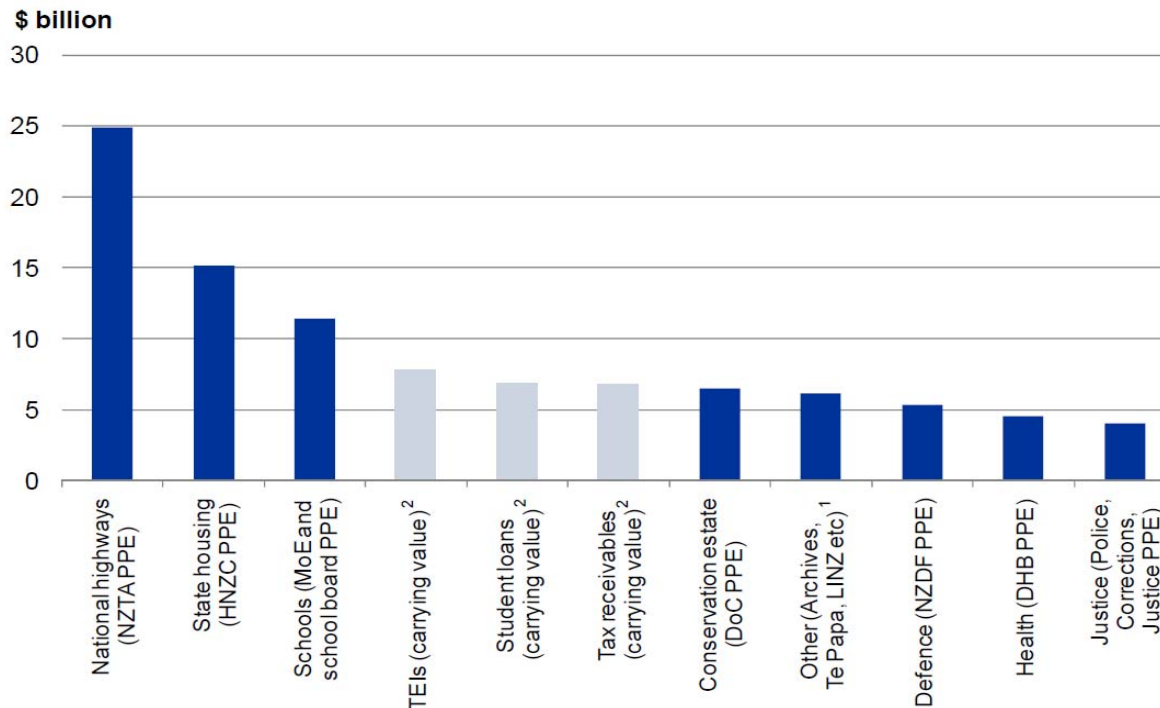
- The Government's fiscal outlook is highly constrained (see below)
- Very low levels of new operating expenditure and limited opportunities for capital expenditure

Year ending 30 June \$billion	2011 Actual	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast
Core Crown revenue	57.6	61.2	65.7	70.4	74.8	79.2
Core Crown expenses	(70.5)	(74.5)	(71.6)	(72.9)	(75.6)	(78.0)
Net surpluses/(deficits) of SOEs and CEs	(5.5)	2.5	1.4	1.5	2.2	2.0
Total Crown OBEGAL	(18.4)	(10.8)	(4.4)	(0.9)	1.5	3.1
Net retained surpluses of SOEs, CEs and NZS Fund	5.1	(3.0)	(1.5)	(1.6)	(2.3)	(2.0)
Non-cash items and working capital movements	4.0	4.5	0.3	1.3	0.6	1.2
Net core Crown cash flow from operations	(9.3)	(9.3)	(5.7)	(1.3)	(0.2)	2.3
Net purchase of physical assets	(1.5)	(2.1)	(1.6)	(1.4)	(1.4)	(1.6)
Advances and capital injections	(2.5)	(1.9)	(2.2)	(2.2)	(2.5)	(2.2)
Forecast for future new capital spending	-	(0.2)	(0.5)	(0.7)	(0.8)	(0.9)
Balance sheet funding of new capital spending	-	-	0.1	0.6	0.8	0.8
Core Crown residual cash deficit	(13.3)	(13.6)	(9.9)	(5.0)	(4.1)	(1.6)
Opening net debt	26.7	40.1	53.8	63.2	67.8	71.3
Core Crown residual cash deficit	13.3	13.6	9.9	5.0	4.1	1.6
Other valuation changes in financial assets and financial liabilities	0.1	0.1	(0.5)	(0.4)	(0.5)	(0.4)
Closing net debt	40.1	53.8	63.2	67.8	71.3	72.5
As a percentage of GDP	20.0%	25.4%	28.5%	28.9%	29.0%	28.2%

Why is the government interested in the tertiary education sector?

- Tertiary education institutions collectively own and manage the fourth largest asset base across government – approx \$7.7 billion (behind NZTA, HNZC and MOE).
- By 2020 asset base is forecast to increase to \$10.0 billion

Value of Social Assets
– 30 June 2010
*(source, 2010
Investment Statement
of the New Zealand
Government)*



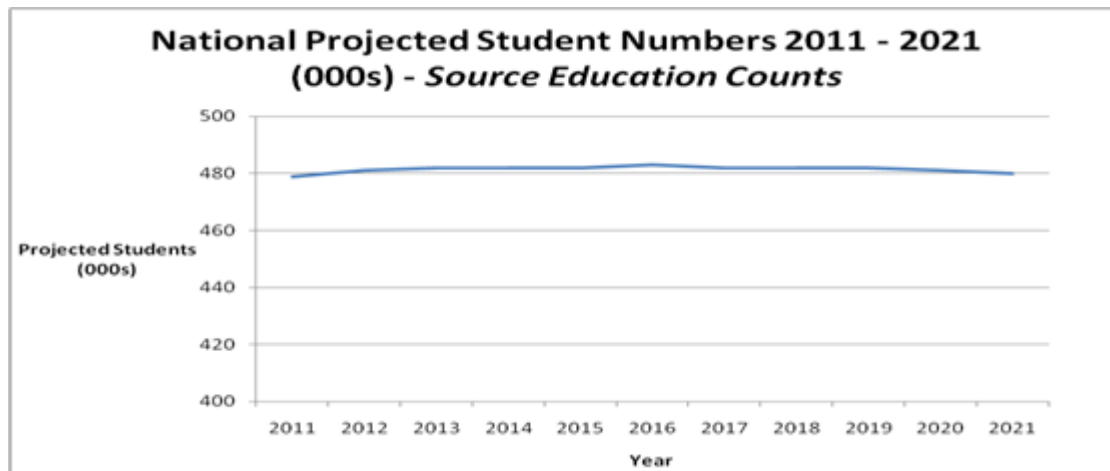
Why is the government interested in the tertiary education sector?

- Institutions telling government:
 - Large amounts of deferred maintenance in sector
 - Requirements to upgrade facilities (i.e. not fit-for-purpose, earthquake strengthening etc)
 - Change in demand – mainly Auckland
 - Total cost of future upgrades hard to quantify
- Poor investment and maintenance decisions are major contributors to institutional risk
- Need new information to understand impact of the Christchurch earthquakes and the flow on effects to other TEIs (e.g. meeting revised building code requirements)

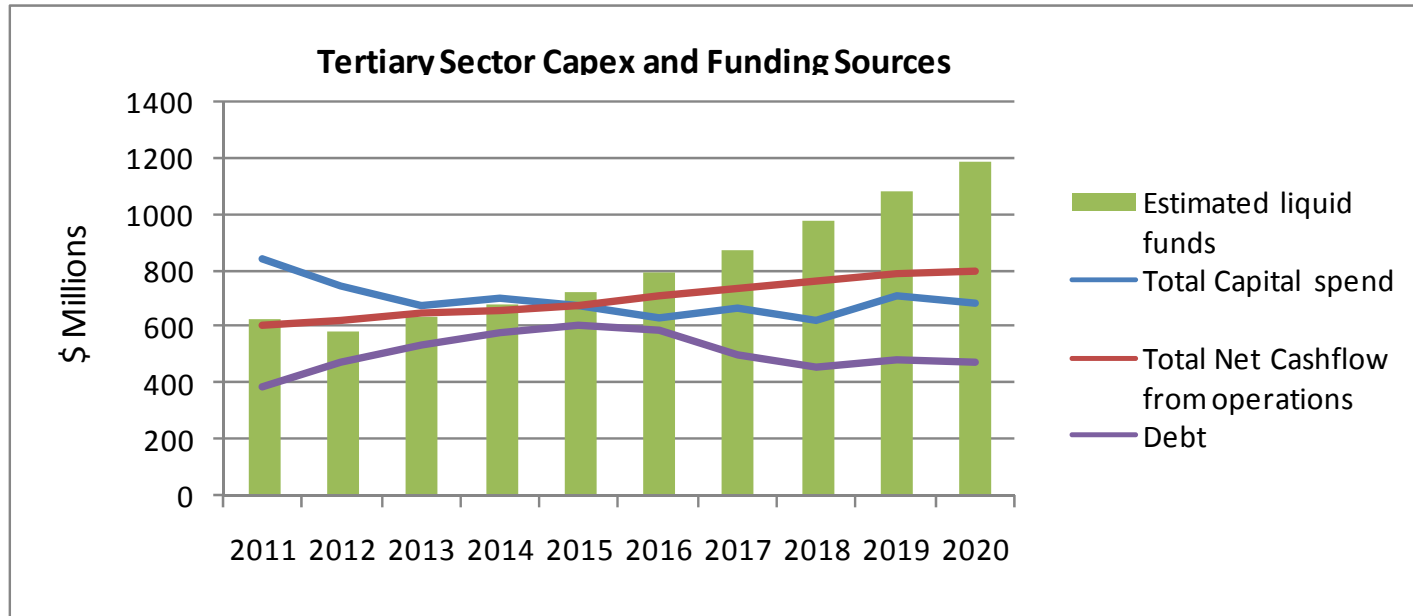


Why should the tertiary education sector be interested in providing information to government?

- sector plans to spend >\$6.9 billion refurbishing existing assets and acquiring new assets between 2012 – 2021
- second highest new investment across government behind NZTA
- Static student numbers (see below)
- Hence the need to work together to signal capital pressures to government given constrained fiscal and economic setting



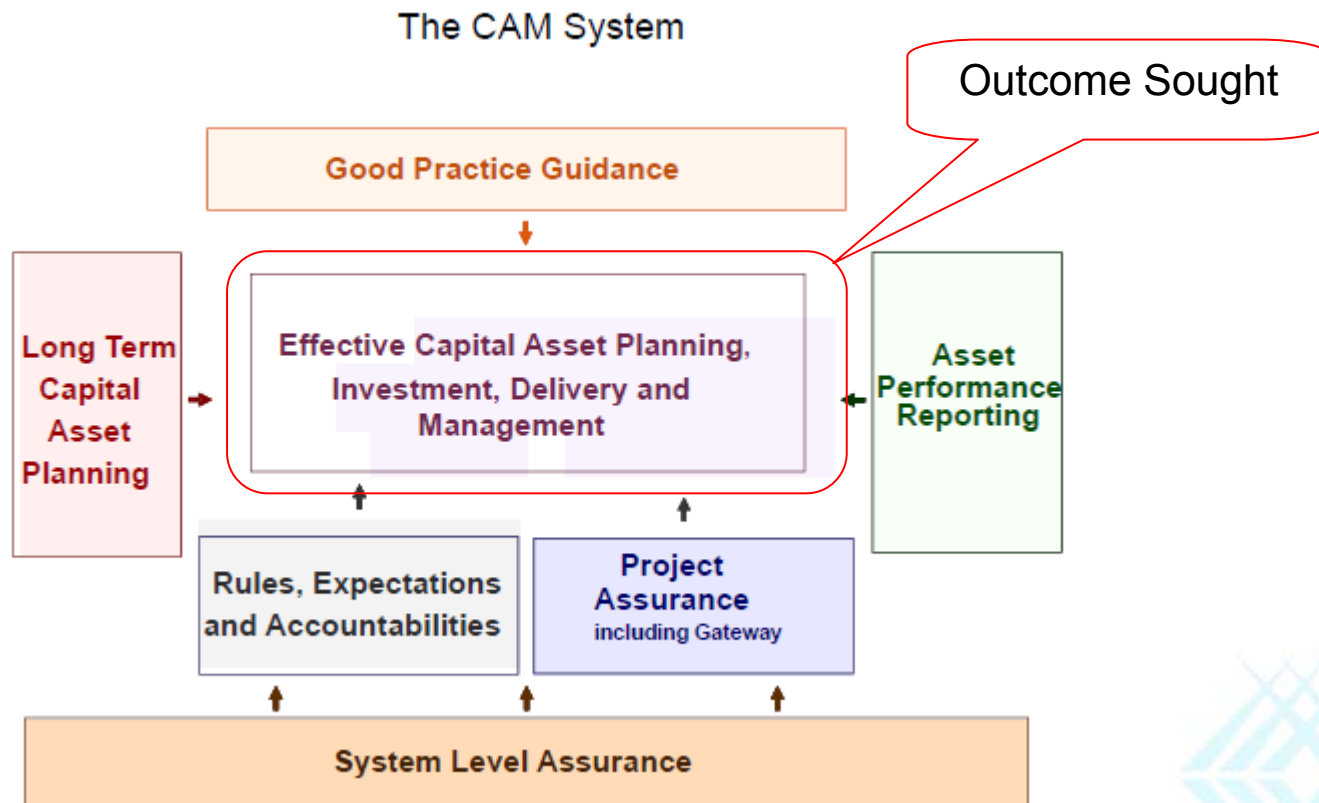
CAPEX and funding source – June 2011



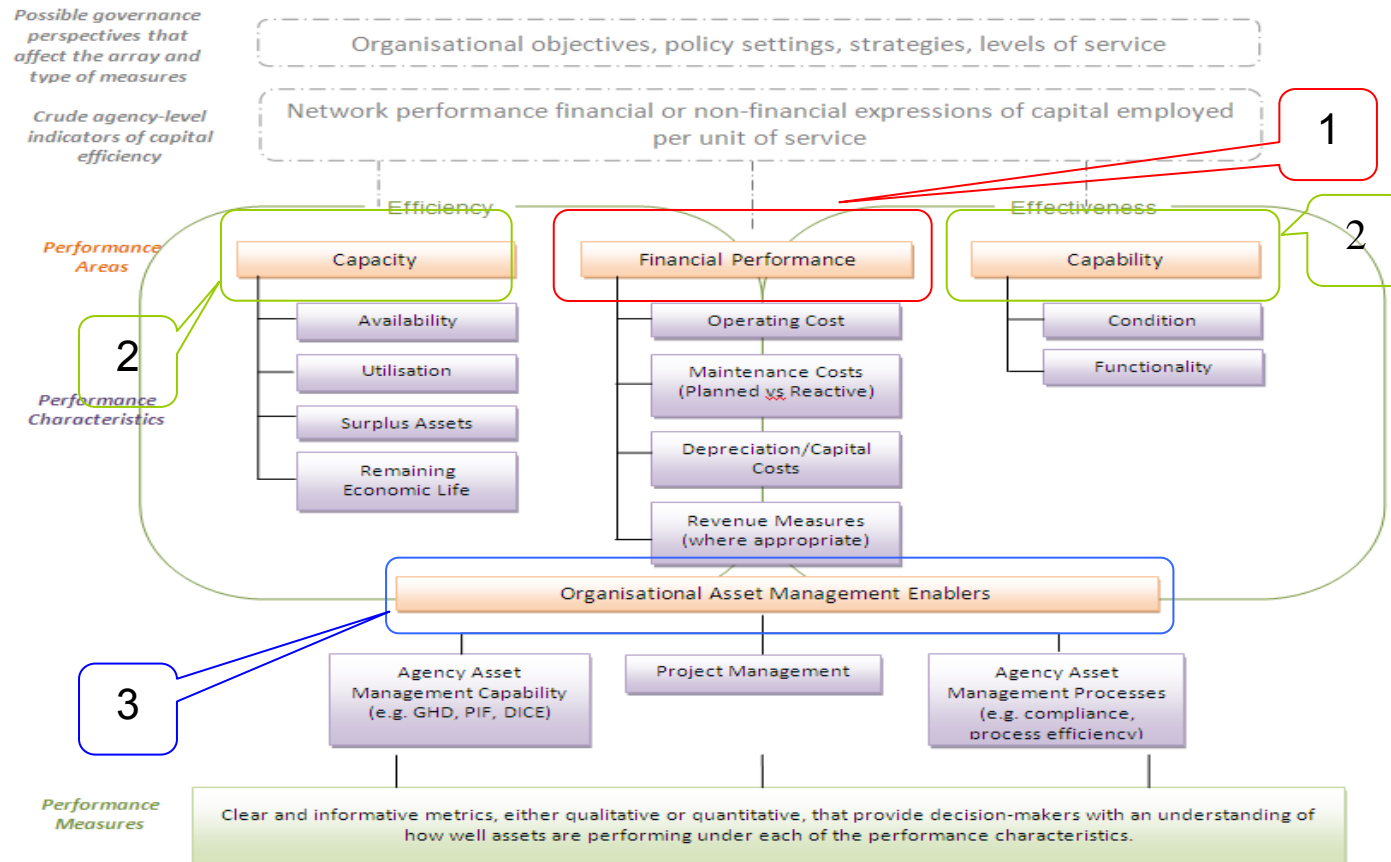
- The sector is expecting to mainly fund capital spending through a combination of internally generated operating cash flows and debt
- Debt is are expected to peak at \$603m in 2015 before declining again in out-years. Liquid funds decrease in 2012 but increase each year thereafter



CAM System – Treasury



NZ Government Capital Asset Management Monitoring Framework (The Treasury 2011)



What information is the TEC interested in?

Consultation with TEI sector and The Treasury throughout 2011. Three areas identified:

1. Financial performance (i.e. how much are TEIs spending and on what?)
2. Capacity and Capability (i.e. how are assets performing now, and planned to perform in the future?)
3. Organisational Asset Management Enablers:
 - CAM Capability (how are assets being managed, how are TEIs doing at linking capital planning to their strategy?)
 - Business Cases (i.e. how are decisions about new high-risk and high-value investments made?)

How will the TEC collect information?

1 & 2: Financial Performance, Capacity and Capability (asset performance):

- CAM Reporting (due 18 May 2012) including information on capital spend over the next ten-years, planned major projects and current and projected asset performance.
- Link to TEFMA data – pilot with 2 universities

3: Organisational Asset Management Enablers:

- CAM Capability – self-assessments 18 May 2012 (example to be discussed)
- CAM Capability – independent reviews (list of reviewers on TEC's website):
 - ITPs (independent reviews due May 2013)
 - Wānanga (TBC – likely May 2014 to follow up SPM reviews)
 - Universities (TBC)
 - Or 'as required' as part of a Crown Asset Transfer or Disposal Application
- Business Case decision making (institution specific) plus new special rules and guidelines for business cases (only when seeking a decision from the Crown, not internal business cases).

CAM Monitoring Framework for Tertiary

- Broad but light-handed approach – 3 components (high-level)
- Tertiary framework more permissive than the prescriptive approach taken by Treasury


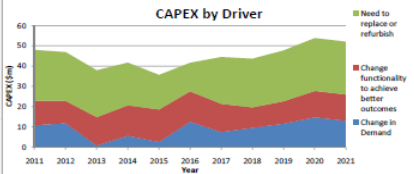
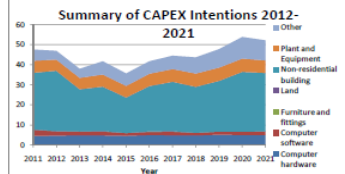


Financial Performance, Capacity and Capability (asset performance)

- CAM Summary of activity produced annually
- supplied to each TEI link to FMF report

Will likely include:

- Key dates for self assessment and rating
- Capital purchasing intentions (summarised by driver and category)
- Key asset performance metrics (summarised against sector/sub-sector averages)
- List of planned major capital projects

Capital Asset Management (CAM) Monitoring Framework		ABC University										
Table One - CAM Capability												
Date of last self review	May 12	Date of next self review	May 13									
Self review outcome	Moderate	Expected outcome	Moderate									
Date of last independent review	N/A	Date of next independent review	May 13									
Independent review outcome		Expected outcome	Moderate									
												
Table Two - Capital Purchasing Intentions (\$m)												
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Change in Demand	11	12	1	6	3	13	6	10	12	15	13	
Change functionality to achieve better outcomes	12	11	14	15	16	15	14	10	11	13	13	
Need to replace or refurbish	25	24	23	21	17	14	23	24	25	26	26	
Total CAPEX intentions	48	47	38	42	36	42	43	44	48	54	52	
Summary of CAPEX Intentions 2012-2021 (\$m)												
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Computer hardware	5	5	5	5	5	5	5	5	5	5	5	53
Computer software	3	2	2	2	1	2	2	1	2	2	2	20
Furniture and fittings	0	0	0	0	0	0	0	0	0	0	0	0
Land	0	0	0	0	0	0	0	0	0	0	0	1
Non-residential building	28	30	21	22	18	23	25	23	25	30	29	273
Plant and Equipment	6	6	6	6	6	6	7	7	7	7	7	68
Other	6	4	4	7	6	6	7	8	9	11	10	78
TOTAL CAPEX	48	47	38	42	36	42	43	44	48	54	52	493
CAPEX by Driver												
												
Summary of CAPEX Intentions 2012-2021												
												
Table Three - Asset Performance Ratios												
Ratios	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Revenue to Total Assets												
Occupancy and property costs per EFTS	\$92	\$74	\$91	\$93	\$92	\$90	\$91	\$102	\$103	\$104	\$106	
Depreciation to Capital Expenditure												
Capital Expenditure per EFTS												
Fixed assets (\$) per EFTS												
Property, plant and equipment per EFTS (\$)	\$6,158	\$6,577	\$6,580	\$6,746	\$7,241	\$6,951	\$6,688	\$6,345	\$6,290	\$6,094	\$5,899	
Capital value per \$m (buildings) - \$												
Sqm per EFTS (buildings)	2.6	2.7	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	
Table Four - Major Projects (\$m)												
Major Projects	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
New Admin Block	19	40	42	22	5							127
IT Labs						7	9	9				25
Library Redevelopment						19	21	22	24	25	28	139
School of Design			12	15	20	5						52
Stairlift Redevelopment				3	5	10						20
Total	19	40	54	41	30	41	29	31	24	25	28	362
Comments												
ABC University is bleachable...												

CAM Self Assessment Tool

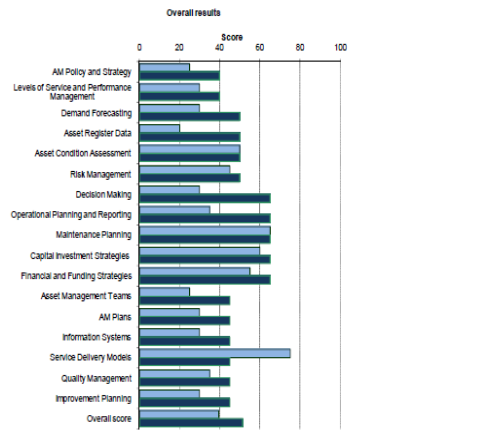
- Developed by Treasury
- Used to review 13 capital intensives agencies – (small span from high to lower performing)
- Findings similar to tertiary – need link to strategic levels of service , build capability, need links between capital planning and AMP
- Overall shift in last 5, 2 years and ongoing
- TEC leading this for tertiary sector – 2010 ITPs reviews informed Treasury approach
- Minister keen on capital efficiency and asset maturity



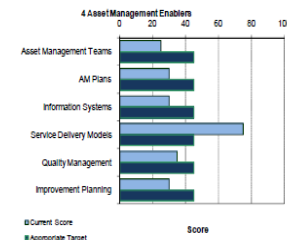
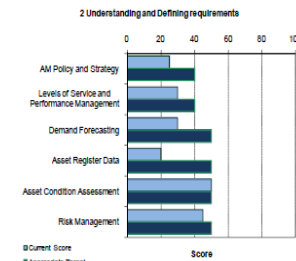
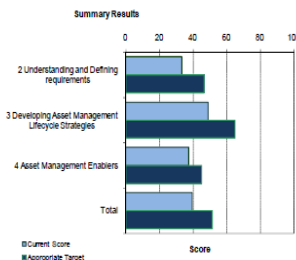
CAM Self Assessment Tool (example)

Reference	Question	Summary Results	Current Score	Appropriate Target	Difference
IIMM 2.1	1	AM Policy and Strategy	25	40	15
IIMM 2.2	2	Levels of Service and Performance Management	30	40	10
IIMM 2.3	3	Demand Forecasting	30	50	20
IIMM 2.4	4	Asset Register Data	20	50	30
IIMM 2.5	5	Asset Condition Assessment	50	50	0
IIMM 2.6	6	Risk Management	45	50	5
IIMM 3.1	7	Decision Making	30	65	35
IIMM 3.2	8	Operational Planning and Reporting	35	65	30
IIMM 3.3	9	Maintenance Planning	65	65	0
IIMM 3.4	10	Capital Investment Strategies	60	65	5
IIMM 3.5	11	Financial and Funding Strategies	55	65	10
IIMM 4.1	12	Asset Management Teams	25	45	20
IIMM 4.2	13	AM Plans	30	45	15
IIMM 4.3	14	Information Systems	30	45	15
IIMM 4.4	15	Service Delivery Models	75	45	-30
IIMM 4.5	16	Quality Management	35	45	10
IIMM 4.6	17	Improvement Planning	30	45	15
		Overall score	39	51	12

Summary Results	Current Score	Appropriate Target	Difference
2 Understanding and Defining requirements	33	47	13
3 Developing Asset Management Lifecycle Strategies	49	65	16
4 Asset Management Enablers	38	45	8
Total	39	51	12



Level	Score Range
Aviation	0-20
Minimum	25-40
Core	45-60
Intermediate	65-80
Advanced	85-100



Example Output Report from CAM Self-Assessment Tool (*The TEC*)

-Is available on *TEC website*

-Based on *2011 IIMM framework*

Engagement with TEIs

- System assurance approach – high level reporting as in 1, 2, 3 above
- Expectation that TEIs will have supporting systems and processes in place
- TEC will review CAM reports and discuss
 - Asset alignment to Investment/Strategic planning
 - Link to service delivery and SOI
 - Is capex affordable and justified?
 - Performance information – KPIs
 - CAM capability assessment – what is appropriate level
 - Improvement Plan – continuous improvement



How can I use CAM internally?

- Discuss planned CAPEX, asset management capability and asset plans across senior management and councils
 - Is planned CAPEX affordable?
 - Does it align with the institution's strategy, investment plan etc?
 - Does it align with TES priorities?
- Monitor major projects
 - Are risks being identified and managed properly?
 - Are councils engaged over high-risk, high-value projects?
 - Are benefits being reviewed and reported
 - If decision sought from Crown, are you using the required business case format?



Is there anything else I should know?

- Minister for Tertiary Education letter to sector – June 2011
- Letter from TEC to Council Chairs (cc'ing VCs and CEs) outlining the CAM Monitoring Framework March 2012
- Specific information on CAM work streams will be sent to CFOs/FMs as developed
- Revised capital intentions report and revised due date - 18 May 2012
- CAM SRG will continue to operate (6 reps from TEIs plus TEC)
- TEC will engage with TEIs from late 2012



Other initiatives

- Communities of practice
- Today's workshop – start of this
- Newsletter ???
- Information available on TEC's website (i.e. list of independent CAM reviewers, business case templates, CAM Capability Self-Assessment Tool, CAM Annual Return, Tools/Templates etc)
- NIU/Treasury Website (business case/training)
- Working closely with Audit New Zealand

Update on Crown Asset Transfer Policy

- Applications from 7 out of 25 eligible TEIs
- Pilot with VUW continuing, approval in principle provided and MOU drafted, CAM requirements being fine tuned including CAM capability assessment
- Each TEI application has unique features and timing is case by case
- Treaty settlements – adds complexity
- TEC will meet with TEIs to outline application process and to ascertain when will be lodged
- Overall policy intent is to transfer all Crown land and buildings to TEIs as quickly as possible.
- Application information on www.tec.govt.nz

