THE MUNICIPALITY OF BARRINGTON | An ocean of opportunity

2020 / 2021

CAPITAL PLANNING PROCESS HANDBOOK

LOBSTER CAPITAL OF CANADA

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INTRODUCTION

Infrastructure, technology, and major equipment are the physical foundation for providing services to our citizens. The procurement, design, construction, maintenance, and operation of capital assets are a critical activity of our Municipality and therefore require careful planning.

Capital planning is critical to water, sewer, transportation, sanitation, and other essential public services. It is also an important component of a community's economic development program and strategic plan. Capital facilities and infrastructure are important legacies that serve current and future generations. It is extremely difficult for local governments to address the current and long-term needs of their citizens without a sound multi-year capital plan that clearly identifies capital needs, funding options, and operating budget impacts.

A properly prepared capital plan is essential to the future financial health of an organization and continued delivery of services to citizens and businesses.

Several agencies and organizations, including the Association of Municipal Administrators of Nova Scotia, the Nova Scotia Municipal Finance Corporation, The Financial Management Best Practice Committee and the Government Finance Officers Association, all recommend that local governments prepare and adopt a comprehensive multi-year capital plan to ensure the effective management of capital assets.

LAWS AND REGULATIONS

Financial provisions in the *Municipal Government Act* give municipalities the flexibility to manage their finances. The Act also emphasizes accountability through long-term financial planning that combines both operating and capital budgeting. Part IV of the *Municipal Government Act* includes general municipal expenditure authority, the borrowing provisions formerly contained in the *Municipal Affairs Act* and a number of other financial measures. Section 99 contains the requirements and authority to maintain a capital reserve fund.

PRINCIPLES AND REPORTING

Municipalities are required to have a capital reserve fund. There must be a separate accounting of assets in the capital reserve fund from the general operating funds and capital funds. They are required to follow the current public sector accounting practices and in accordance with generally accepted accounting principles for municipal governments as recommended by the Canadian Institute of Chartered Accountants.

Section 99 of the Municipal Government Act requires the following to be placed in the capital reserve fund:

- funds received from the sale of property;
- the proceeds from insurance resulting from loss or damage of property
- that is not used for replacement, repair or reconstruction of the property;

- any surplus remaining from the sale of debentures that is not used for
- the purpose for which the debentures were issued;
- proceeds received from the winding up of a municipal enterprise as
- defined in the Municipal Finance Corporation Act;
- any capital grant not expended in the year in which it was paid;
- the current fiscal year's accrual for landfill closure and post-closure
- expenses;
- amounts transferred to the fund by the council; and
- balance in tax sale surplus account twenty years after the tax sale.

TERMS, CONCEPTS & DEFINITIONS

Budget – a financial plan, including estimated revenues and expenditures, for a specific period of time.

CAO – Chief Administrative Officer of the Municipality.

Capital Investment – A capital investment is a purchase that exceeds $20,000, has a useful life of longer than 5 years and is not intended for sale during the normal course of business.

Expenditure – the disbursement of money to cover the expenses of municipal operations. Expenditures are decreases in net financial resources and include current operating expenses which require the current use of net current assets.

Expenses – Decreases in net total assets. Expenses represent the total cost of operations during a period regardless of the timing of related expenditures. Fiscal year – the 12-month period in which a local government operates.

GAAP – Generally Accepted Accounting Principles – uniform minimum standards of and guidelines to financial accounting and reporting. GAAP govern the form and content of the basic financial statements of a reporting entity.

GAAS – Generally Accepted Auditing Standards – measures of the performance quality of auditing procedures and the objectives to be attained through their use. GAAS are concerned with the auditor's professional qualities and with the judgment exercised in the performance of an audit.

Revenue – the money used by the municipality to operate.

Revenue sources – specific areas from which revenue is derived, e.g., property taxes, franchise fees, building permit fees.

THE CAPITAL PLANNING PROCESS

The First Steps

The first step in building a multiyear capital plan is to gain consensus on the goals and objectives of the plan. Capital plans should have a clear mission – to maintain and improve a local government's capital assets over time. The plan must balance capital priorities with fiscal constraints. It should be as comprehensive as possible, encompassing all major public assets that have a significant useful life. It should consider opportunities to combine capital assets into a broader regional infrastructure network. It should establish some parameters for how capital assets will be financed. Finally, it must be flexible enough to respond to new needs and deal with emergencies.

A Capital plan should try to answer the following questions:

- What assets do we currently own?
- What are our capital investment needs?
- How have we prioritized these needs?
- How much will they cost to build and maintain?
- What is our fiscal capacity to support capital spending over time?
- What is the best way to finance these capital investments?
- How can we effectively manage these projects?
- How much will they cost to operate once constructed?

Next, a process should be agreed upon for creating and managing the capital plan. This process should include the following steps:

- Identify what types of assets and expenditures will be included in the capital plan.

- Decide how long a period of time the capital plan should encompass.
- Develop data and information requirements for decision making and recordkeeping purposes.
- Develop a specific timetable for creating and reviewing the capital plan.
- Determine who will be participating in the planning process (elected officials, senior managers, etc.), and at what points in the process.
- Finally, be sure to formally approve the plan annually and make sure it is evaluated regularly in future years.

A clear time frame of necessary planning events should be developed. For example, a set period should be established for senior managers and Council to develop capital requests. The plan should also go through an approval process for project selection that connects to the annual budgeting cycle of the local government.

Finally, participants in the process should agree on their respective roles and responsibilities to facilitate effective coordination. The capital planning process should also take into account procurement timelines and the selection of necessary professional services.

Below is a general schedule of the process:

Deadlines	Steps
December 31st	Asset Inventory Completed
January 30th	Capital Projects Submitted
February 28th	Review of Capital Investment Plan Draft Capital Budget Completed
March 30th	Review of Capital Projects Impact on Budget

Creating an Asset Inventory

Many local governments do not maintain a comprehensive inventory of capital assets. While creating such an inventory can sometimes be a significant (and costly) undertaking, local governments can utilize existing capital asset records to begin developing an inventory. Senior managers can also provide valuable information on the current condition of existing capital assets. The goal is to identify all capital assets that may need repair or replacement at some point in time.

The inventory should include but need not be limited to:

- Utility and sanitation assets, including sewer and water systems, solid waste facilities, and municipal electric and lighting systems;
- Highways, roads and bridges;
- Public buildings;
- Certain equipment, vehicles and furnishings;
- Land or rights to land;
- Certain improvements to land other than buildings.

The inventory should include a brief description of the asset (or group of assets), its location, its estimated useful life, its remaining useful life, its current condition, and its estimated replacement value. Senior managers can then use the inventory information to help prioritize capital project needs.

Prioritizing

Just like an annual operating budget, a multiyear capital plan can require difficult decisions. The good news is that going through a formal capital planning process should make the decisions easier, and everything does not have to be accomplished (and paid for) in one year. Within fiscal constraints, the nature and importance of individual projects will often dictate which must be accomplished in year one and which can be deferred into future years. By creating a rolling multiyear plan, these future capital needs can be clearly identified for policy makers and appropriate resources can be earmarked for use when needed.

Your capital planning process should now move into the identification of capital needs over a period of time (capital plans typically assess needs for up to five years). Senior managers can use the asset inventory to identify projects that will be necessary in future years and add to the list new needs and priorities in response to such things as legal mandates, economic development pressures or community input. This list should be a direct result of information gathered by senior managers in assessing their program needs and objectives, and not simply a "wish list" for the department.

There are a number of factors to consider when evaluating potential projects, including:

- Health and safety concerns.
- Legal mandates by provincial or federal governments.
- Economic, environmental, or social value to the community.
- Operational benefits to the local government.
- Specific needs or demands for improved service, timeliness or cost savings.
- Investment return (e.g., saving on maintenance).

- Capacity to leverage other resources (e.g., matching funds).
- Project feasibility (cost, time frames, management capacity).
- Project risks.

The benefits identified with a particular project should be compared to its total cost, both for initial capital construction and ongoing operating expense. When anticipated costs exceed identified benefits, managers must decide if the capital improvement or acquisition is still justified, or whether obtaining additional funding or cutting costs will be necessary. **All major capital acquisitions and estimated costs should be substantiated before final approval is given.**

Next, the process should prioritize and rank projects in order of importance so that decision makers can effectively evaluate these requests. Local government officials can use various methods and combinations of techniques to help with this process. For example, it may be helpful to create a prioritization scale (high, medium, low) based on broad categories of need. Rankings should be justified by empirical data where possible (e.g., engineering studies, cost/benefit analyses, surveys). If a capital plan consists of a large volume of projects, it may be helpful to group projects into clusters of activity so that local government officials can effectively prioritize them.

Priorities should be developed and reviewed at several levels:

- **Departmental or functional priorities** - This approach utilizes the individuals who have the greatest familiarity with their particular capital projects and needs. It should be based upon asset condition data and the subject matter expertise of the senior manager. Departments should create project lists that reflect the urgency of need from an operational perspective.

- **Fiscal priorities** - The chief fiscal officer and his or her staff should review capital project requests within the context of the local government's budget parameters. Here, the focus is on such factors as the impact projects will have on debt affordability measures, debt service costs, capital reserve funds, cash flow and operating costs once the project is completed. Funding sources should be verified, and the timing of project costs should be examined (the next section will discuss this review in more detail).
- **Executive priorities** - Local government leaders should also assess capital needs within the context of their broader community objectives. While this is a subjective approach that requires local leadership to be in close touch with community needs, it helps place departmental capital needs in a broader context for decision making.

Prioritizing capital needs is a central element to a successful multiyear capital plan. There will always be more "want than wallet," the key is for capital needs to be effectively prioritized over time so that capital costs fit within fiscal constraints.

Assessing Budgetary Impacts

The acquisition of capital assets can have a significant impact on future operating budgets. A multiyear capital plan should provide accurate, reasonable estimates of each project's budgetary impact, including debt service costs, impact on capital reserve funds and fund balance, and future operating expenditures.

Your capital plan should capture the following types of fiscal data:

- **Current and Future Debt Service Costs** - Large capital projects often must be funded with the issuance of debt. Estimates should be prepared on the principal and interest costs associated with issuing bonds for these types of projects. Also, it is important to monitor the budgetary impact of these costs in order to assess a local government's future debt capacity. This can be assessed by looking at such measures as debt service as a share of total expenditures, constitutional debt limits, and how fast debt will "recycle" as old debt is paid off and new debt capacity is created.
- **Lease- or Installment-Purchase Contracts** - These costs for purchases of equipment, machinery and apparatus are similar in some respects to purchases made with debt proceeds, in that they are funded over a period of more than one year, subject to certain terms and conditions. They should be tracked along with debt service to give a complete picture of future liabilities.
- **Pay-As-You-Go Costs** - Some capital expenditures may be paid for out of current appropriations in the year acquired. Local governments should estimate the impact on cash flow and fund balances when planning to use current

appropriations for the partial or total funding of capital acquisitions.

- **Reserve Funds** - Through formal resolution, the local government can establish reserve funds, earmarking resources for the future acquisition and repair of essential capital assets. Balances of reserve funds should be monitored to ensure funds remain for planned expenditures.
- **Future Operating Costs** - To the extent possible, future operating costs necessary to utilize the capital asset should be estimated. For example, a building addition typically will require furnishings, computers, and other amenities, and have an impact on utility and other operating costs.
- **Impact on Revenues** - Certain capital expenditures need to be financed with increased fees or user charges. These amounts should be estimated and highlighted as an assumption in the capital budget.
- **New Costs and/or Savings Associated with New Capital Assets** - While the construction of new capital assets often results in new operating costs, it can also produce savings if the investment improves efficiency. For example, the installation of energy-efficient equipment can significantly reduce utility costs. New equipment may also reduce costs for maintenance and repair or produce new sources of fee revenue. These savings should also be incorporated into budget estimates.

At budget time, it may be useful to include a separate capital budget section in the operating budget presentation. For some local governments, this type of presentation is required. This will help decision makers and the public fully understand how the capital plan will affect local government fiscal operations. This presentation should include the following:

- A presentation of capital expenditures for the pertinent year. Depending on the local government or the types of capital projects, this presentation can be displayed by fund, category, priority, strategic goal or geographic location.
- In addition to current year capital expenditures, the capital budget presentation should include a detailed account of corresponding revenues. This will allow local officials to assess the strength of revenue streams that support capital projects and to evaluate budget constraints stemming from any revenue shortfalls.
- It can be helpful to display capital budget data and trends using graphs or tables, to make the information easier for members of the public to understand.

Adopting a Capital Plan & Monitoring

Once all aspects of the plan (policies, needs, priorities, costs, and financing) have been addressed, the capital plan can be formally adopted.

The local government can seek public input on the proposed capital plan. This would allow public interest groups, business leaders, and community residents to review program priorities and to voice any concerns. Some adjustment to the plan may be necessary to reflect any citizen response.

Once the plan is approved, decisions affecting the annual operating budget (including debt service) must be incorporated into that budget process. A summary document that describes the proposed program and its budgetary impact should be developed and approved by the governing body together with the operating budget. Governing body approval of the multiyear capital program does not generally extend beyond the first year of the capital program and should be renewed each year. It is the adoption of that portion of the local government's budget relating to capital expenditures (e.g., the first year of the capital program) that provides the framework for capital projects to be undertaken in that year. Appropriations are set by the governing board through the adoption of the budget and through the authorization of individual capital projects.

The adopted version of a capital plan should include:

- The capital portion of the budget for the upcoming fiscal year.
- Projections for the capital plan period.
- Relevant information about the multiyear capital plan that clearly outlines proposed capital priorities.
- Capital and operating budget expenditure projections.

A plan is only as good as the results it produces. Follow-up is essential to determine if capital program goals are being met. Also, routine monitoring of approved capital projects helps to ensure that projects remain on schedule and within budget. Budget information should be tracked and communicated to interested parties in a timely manner. Similarly, relevant external factors (such as bond market interest rates, construction costs, etc.) should be monitored and reported.

Just like any part of the budget, a primary function of the portion of the budget relating to capital projects is to help control expenditures. Board members and other managers should be kept apprised of capital spending-to-date versus approved amounts. Where cost overruns are anticipated, the board should act to control spending or modify the budget. Asset performance should also be periodically evaluated. Over time, have the capital purchases and projects produced the expected results? Have long-term goals been met?

Local government officials should also monitor the external environment to help them anticipate changes that might impact future years of the capital program. Changes in technology or equipment can make portions of the plan obsolete. Changes in anticipated State and federal funding can impact the number and priority of planned projects. Citizen input may signal a change in direction. Local government officials should be aware of these external factors which can change the focus of capital plans.

Annually, the capital program should be updated and modified, and a new budget developed and approved for the upcoming fiscal year. As the current year passes and projects are completed, future needs and funding capacity come more into focus. Year four is now year three; year three becomes year two; and so on. General capital priorities should now evolve into specific project proposals. Initial work may need to be started (and funded) for a project to be completed in future years.

Finally, after the initial capital plan has been completed and projects are underway, a review of the planning process should be undertaken to determine whether changes should be made to improve the process. This step is particularly important for local governments developing a capital program for the first time. All participants in the planning process should provide input as to what aspects of the process have worked well and what aspects should be modified.

CONCLUSION

Creating an effective multiyear capital planning process can help local governments meet this significant financial responsibility without overburdening taxpayers or disrupting vital services.

There are many benefits to a robust capital planning process. Local governments can create a comprehensive inventory of their capital assets and "know what they own." The process of prioritizing capital investments can make sure key assets are repaired or replaced before an emergency occurs. The plan can help local leaders appropriately balance capital priorities with fiscal constraints. Finally, constituents can begin to understand the costs and benefits of maintaining capital infrastructure.

APPENDIX A

Municipality of Barrington Vehicle Asset Inventory as of March 2020					
Vehicle Type	Number of Vehicles			Total Number of Vehicles	Spare Vehicles %
	Active	Reserve[1]	Spare[2]		
Trucks - small					
Trucks - Large					
Snow Plows					
Mowing Equipment					
Other Equipment					
Please note: You may want to survey neighbouring local governments to find out what type of vehicles/equipment they use and possibilities of sharing or cooperatively purchasing certain assets.					

[1] Reserve vehicles are stationed in a variety of locations in case of major disaster.
[2] Spare vehicles are used temporarily to replace vehicles which are out of service.

APPENDIX B

Municipality of Barrington
Asset Inventory as of March 2020

Year	Description of Capital Equipment/Improvement	Purchase Price	Life Expectancy	Remaining Life	Repair Necessary (✓)	Repair Complete (✓)	Annual Repair Costs	Cumulative Repair Cost	Replacement Cost

APPENDIX C

Capital Investment Project
Evaluation Criteria

Step 1:	
Criteria A	The project was mandated by the provincial or federal government (or another legal requirement).
Criteria B	The project was started in a previous year or included in a previous year's CIP.
Criteria C	The project provides an important health or safety benefit.
Criteria D	The project is a necessary repair or replacement of existing capital equipment or facility.
Criteria E	The project cost will be offset by operating cost savings or increased revenues. (Could specify a period, for example: "offset over a five-year period"); and/or there is a good probability of sponsor or regional funding for the project.
Criteria F	The project has a life expectancy of 20 years.
Criteria G	Any extra operating and maintenance cost for the project must be less than $5,000 in any 1 budget year and less than $25,000 for a 5-year period.
Criteria H	The project must be used by or serve at least %50 of the local residents.
Criteria I	The project advances strategic objectives found in the municipal strategic plan.
Criteria J	The project would have positive economic development impacts and is supported by the business community as a priority.
Step 2:	
For each project request, judge how many of the established evaluation criteria it satisfies. Then rank the project in priority groups.	
First Priority Group: Project that satisfies 5 or more criteria.	
Second Priority Group: Projects that satisfies 4 criteria.	
Third Priority Group: Projects that satisfies 3 criteria.	
Fourth Priority Group: Projects that satisfies less than 3 criteria.	

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