
Priority Ranking for Investments in Assets: A Tool for Times of Scrutiny

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The Challenge

On the premise that needs usually significantly exceed available resources, governments face difficult challenges in allocating resources they have to the wide variety of public needs. Governments appreciate tools that support timely and informed allocation decision-making and that offer the possibility of a fair and open rationale for the decisions that have been taken. Such tools become all the more valuable as scrutiny increases about the risks, impacts and effects of allocation decisions. Certainly audits, evaluations, risk assessments and performance measurement processes are contributing to the increased scrutiny of allocation decisions within the federal government

The Utility of Priority Ranking

Governments face particularly acute challenges in allocating resources for asset investments. Investments for health and safety, for compliance with laws and policies, for refresh, evergreening and renovation of existing asset bases, for managing a variety of risks, and for harnessing new technologies and engineering strategic change all compete with each other, across four or more asset categories, including IM/IT, fleet, equipment, and real property. Smaller disbursements aggregated in the form of multi-year flows compete with larger disbursements in the form of standalone projects. Senior management is being pressed to find decision-rules for the allocation of resources that are defensible at the DM's table, that meets the Treasury Board expectations for rigorous stewardship and that leave auditors and evaluators satisfied.

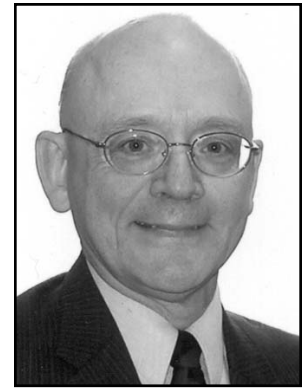
Several departments have already turned to Capital Project Priority Ranking (CPPR) or Priority Ranking for Investments in Assets (PRIA) as useful tools to meet a variety of goals simultaneously. CPPR and PRIA are flexible, open-source (non-proprietary) tools, fully customizable to the distinctive

settings of individual government programs. The tools enable program and departmental managements to assess any number of investment opportunities against a suite of common public policy and performance criteria, and to come up with a credible measure of level of priority from highest to lowest for each proposed investment.

Typically this measure of priority takes the form of a project score, which can range from zero to 500. With a well-designed tool, only a handful of the highest priority projects would score above 420. Organizations develop internal processes that make the final score close to unassailable — the robust averaging of credible, informed opinion within the organization, adjusted for common biases. The cumulative outcome of an annual exercise is the ranking of proposed investments from highest to lowest, with an identified funding threshold, below which funding is not available. Investments falling below the line are either deferred to future years or rejected, to be reworked prior to being submitted again for consideration.

Background

CPPR and PRIA have been around for some time, in international organizations such as the World Bank, and in federal, provincial and municipal institutions in Canada. However, it can be said that CPPR for assets got its start at the federal level Canada in 1995 when Dr. Ken Watson, in an assignment with PWGSC Real Property Services (in which Mr. Siré also participated), developed a project scoring matrix for office accommodation projects that was both simple to complete yet conveyed an enormous depth of crucial information about the subject investment and its relative importance. This CPPR matrix served its purpose during Program Review to communicate effectively to stakeholders in other government departments and in central agencies the rigour being applied to selecting among



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competing priorities and in maximizing the impacts of the investment dollar.

As best as can be determined, CPPR was next applied in the Department of Fisheries and Oceans (DFO) from 1998 onward. DFO customized the tool to its needs and brought significant innovation to this matrix by applying it systematically across a number of asset categories: IM/IT, real property, Coast Guard vessels, and small craft harbours. Only scientific equipment and the vehicle fleet were exempted from priority ranking. Wisely DFO supported CPPR through an annual investment planning cycle, wherein the Investment Man-

agement Board (IMB) ensures the integrity of investment planning, project scoring and the capital project peer review process. Close to eight years later, DFO continues to use CPPR, with some minor modifications, and the IMB and peer review continue to play their roles. The Department sees the tool as a way of providing a common denominator for a large, complex asset base, and for communicating critical information about the quality of projects to senior management.

Next, Natural Resources Canada customized the CPPR matrix in order to allocate \$6.0 million in incremental funding to scientific equipment projects in 2002-2003. The Directors General of each of the Sectors assigned scores to each proposed scientific equipment project, and these scores were averaged to determine which projects would receive the limited incremental funding. The NRCan experience demonstrated that the involvement of senior managers is feasible for the scoring stage, and that a rigorous departmental process of information gathering and project scoring can yield an authoritative result.

The Canadian Food Inspection Agency (CFIA) took the next conceptual step in using CPPR for all asset categories, including the vehicle fleet and scientific equipment. The universal application of CPPR was supplemented by two other measures: (1) by a rigorous annual process for project scoring and peer review, learning much from the DFO example, and (2) by a risk management matrix, which basically assigns a risk management score to every project. Needless to say, there is a degree of correlation between the risk score a project obtains, focussing on avoidance of the adverse consequences of a project not proceeding, and the CPPR score a project obtains, which focuses in effect on the expected favourable medium and longer term impacts of the project.

When CPPR/PRIA Works Well:

Priority ranking works well when the investment projects and flows have several common characteristics:

- There is at least some degree of rationing of investment funding, either between departmental salary, O & M and investment dollars, or between each of the individual asset categories; without

rationing of disbursements, departmental participants may fail to perceive any stakes in the process – or any benefits;

- The projects and flows have “genetic” differences, namely some distinguishing features that allow for differential scoring; otherwise all projects would score 500 or 385, and the bunching of projects around a specific score would compromise CPPR effectiveness;
- The projects and flows are under an umbrella of well-articulated strategic objectives, outputs and outcomes, to which they can be linked in some way or another; the strategic objectives are therefore known and achieving strategic alignment is feasible;
- The projects and flows represent magnitudes of investment that have “strategic content” for the organization; in other words, there is a strategic component to the investment decision, either in terms of technology, financial viability, client service, or risk management; and
- The projects and flows will be well implemented once approved; there is perceived to be a high probability that all approved projects will achieve their intended results.

Priority ranking for investments works well when it is implemented in a deliberate and thoughtful manner. There is a need to:

- Customize and define the criteria carefully;
- Establish practical, operationally efficient descriptors for each rating level, 1 to 5, for each criterion;
- Apply weightings to the individual criteria that properly capture a departmental consensus about relative importance;
- “Pilot test” the matrix against “live” projects and to learn from these trials to adjust the matrix;
- Supplement the matrix with a strong annual process, a process that corrects for individual biases and encourages a department-wide view of the achievement of outputs and outcomes; and
- Engage all departmental stakeholders early and in a transparent manner; the priority matrix is owned collectively, and its legitimacy is measured by its acceptance.

Implementers are encouraged to incorporate a key feature that can be too easily neglected: the explanation of rating. In filling out the template for each project, it is

important to leave space for the proponent to explain in his/her own language the rating that they have selected. The information provided in justifying project ratings helps the reader to better grasp key aspects of the proposed project.

Implementers are challenged to avoid two large pitfalls of priority ranking. The first pitfall occurs through breathless and overhasty implementation, resulting in use without effective testing and in use without common ownership. The framework is viewed as something alien, imposed and perhaps even inapplicable.

The second pitfall relates to over reliance. Once the tool is in place, there is the challenge of managing expectations around priority ranking. Priority ranking is an aide to decision-making, not a substitute for it, as Dr. Watson wrote over ten years ago. In the right circumstances, new information, common sense, sound analysis, and the rigours of consistency can allow for the challenging and changing of project scores. At the end of the day, priority ranking will only be as good as the effort made to put it in place and the quality of the process applied annually. The need for stewardship does not abate.

Conclusions and Next Steps

CPPR/PRIA has become an integral and integrating tool in the investment planning frameworks of a number of custodian departments. It has proven its worth in supporting qualitative deliberations about relative importance with robust quantitative measures, namely project scores reached through rigorous departmental process. Priority ranking is an indication of the care that custodial departments are taking to understand the results of projects. In the right context, project scores provide additional useful information, and shed light on key factors for making meaningful resource allocation decisions at the departmental level.

The evolution of priority ranking is not over. In the future, analysts will seek to better integrate risk management and priority ranking information into a common set of ratings and scores. Analysts will also seek to better use IMIT solutions in linking data and information and in accelerating process and improving the quality of priority ranking activities in departments. ■