



The University of British Columbia
Board of Governors

Policy No.:

125

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September 2009

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September 27, 2011

Responsible Executive:

Vice-President, Finance Resources,
and Operations

Title:

Retained Risk Fund for Major Capital Projects

Background & Purposes:

The University manages risk on major capital projects through a variety of strategies incorporated into its project planning, delivery and procurement processes. Risk management strategies include the avoidance, reduction and transference of risk away from the University, as appropriate. However, some types of risk cannot be fully or economically managed through these means and in those cases, it is prudent and cost efficient to retain and self-insure against such risks.

The purposes of this Policy are:

- 1) To protect the University against retained risk on major capital projects through a central retained risk fund.
- 2) To provide a mechanism to effectively, consistently and transparently manage unforeseen budget surpluses and deficits on major capital projects.

1. Definitions

- 1.1 “**Board 1 approval**”, “**Board 2 approval**” and “**Board 3 approval**” each refer to a level of approval granted by the Board of Governors for academic and institutional construction projects pursuant to the Board of Governor’s Project Management Process, as it may be amended from time to time.
- 1.2 “**Funds**” means collectively, the UBC Okanagan Fund and the UBC Vancouver Fund and “**Fund**” means either the UBC Okanagan Fund or the UBC Vancouver Fund, as the context requires.
- 1.3 “**Major Project**” means an academic or other institutional construction project that has received Board 1 approval with a preliminary capital budget in excess of \$2.5 million, at either the UBC Vancouver or UBC Okanagan campus.

2. Scope

- 2.1 This Policy applies to all Major Projects that receive Board 1 approval on or after September 1, 2009. In addition, for any Major Project that received Board 1 approval prior to September 1, 2009 and for which no cost-overruns are currently projected, the Project Manager (as defined below) may elect to have that Major Project covered by this Policy by delivering notice in writing to the Managing Director, Infrastructure Development, not later than October 31, 2009.

3. Establishment of the Funds

- 3.1 The Responsible Executive will establish a retained risk fund for Major Projects at the UBC Okanagan campus (the “**UBC Okanagan Fund**”) and a retained risk fund for Major Projects at the UBC Vancouver campus, including, for greater certainty, its Robson Square and Great Northern Way locations (the “**UBC Vancouver Fund**”).
- 3.2 The individual, administrative unit or entity responsible for the management of a particular Major Project (the “**Project Manager**”) will take measures through its capital project planning, delivery and procurement processes to manage risk in a prudent and cost-efficient manner, including through the avoidance, reduction or transference of risk away from the University, as appropriate.
- 3.3 The purpose of the UBC Okanagan Fund and the UBC Vancouver Fund is to protect the University against risks arising from the construction of Major Projects that cannot be prudently and efficiently managed by other means and result in cost overruns. The Funds are centralized funds in addition to the project-specific contingency allowance contained within each Major Project’s budget.
- 3.4 The Funds will be maintained at a value that provides for reasonable protection against retained risk but does not unnecessarily withhold capital that could otherwise be put to higher use by the University.
- 3.5 Each Fund will be overseen by a committee (the “**RRF Committee**”) consisting of those individuals prescribed in the Procedures to this Policy.

4. Contributions to and Expenditures from the Funds

- 4.1 Each of the Funds will be financed in the following manner from Major Projects on their respective campuses:
 - 4.1.1 through the collection of a retained risk fee (the “**Fee**”) paid from each Major Project, in the amount determined in accordance with the Procedures to this Policy; and
 - 4.1.2 through the transfer of surplus funds from the capital budget of each Major Project, in the amount determined in accordance with the Procedures to this Policy.
- 4.2 Requests for expenditures from either Fund must be submitted by the Project Manager to the Managing Director, Infrastructure Development, in the form, manner and according to the timelines prescribed by the Managing Director, Infrastructure Development from time to time.
- 4.3 The Managing Director, Infrastructure Development will review each request for expenditure against the relevant Fund and make recommendations to the relevant RRF Committee. The RRF Committees will make the final decision with respect to requests for expenditures from their respective Fund.

PROCEDURES

Approved: September 2009

Pursuant to Policy #1: Administration of Policies, "Procedures may be amended by the President, provided the new procedures conform to the approved policy. Such amendments are reported at the next meeting of the Board of Governors." Note: the most recent procedures may be reviewed at <http://universitycounsel.ubc.ca/policies/index/>.

1. The RRF Committee

- 1.1 The RRF Committee for the UBC Vancouver Fund will be comprised of:
 - 1.1.1 the Vice President, Finance, Resources and Operations; and
 - 1.1.2 the Provost and Vice President, Academic, UBC Vancouver.
- 1.2 The RRF Committee for the UBC Okanagan Fund will be comprised of:
 - 1.2.1 the Vice President, Finance, Resources and Operations; and
 - 1.2.2 the Deputy Vice-Chancellor, UBC Okanagan.

2. Contributions to the Funds

- 2.1 For each Fund, the Fee will be charged against each Major Project as a percentage of the project-specific contingency allowance, and such percentage will be established from time to time by the Board of Governors.
- 2.2 If a Major Project is completed and there is a surplus in the capital budget for that Major Project, then such surplus will be transferred to the relevant Fund; provided however, where funding for the Major Project has been facilitated or otherwise generated by a faculty, ancillary unit or other unit, there will first be a disbursement from the surplus funds to that faculty, ancillary unit or other unit that is proportionate to that faculty, ancillary unit or other unit's actual contribution relative to the total capital budget.

3. Criteria for Appropriate Expenditures from the Funds

- 3.1 The Managing Director, Infrastructure Development and the relevant RRF Committee will consider applications for expenditures from a Fund toward the cost of the construction of a Major Project on the basis that the application demonstrates:
 - 3.1.1 the construction of the Major Project has resulted in cost overruns;
 - 3.1.2 the cost overruns were a result of extraordinary circumstances that:
 - 3.1.2.1 could not have been reasonably foreseen; and

3.1.2.2 could not prudently or cost-effectively be managed using other available resources, changes or adjustments to the project scope, design, finishings or schedule, or any other appropriate means; and

3.1.3 the proposed expenditure is consistent with the purpose of the Funds.

3.2 For greater certainty, the Funds may not be used to pay for a shortfall in the amount of capital funding anticipated in a Major Project's budget or costs resulting from user group initiated changes to project design or scope.

4. Requests for Expenditure

4.1 Requests for expenditures against each of the Funds are to be submitted by the Project Manager to the Managing Director, Infrastructure Development with a specific description of the expenditure requirement and the supporting rationale.

4.2 The Managing Director, Infrastructure Development will evaluate each request against the criteria outlined above and make a recommendation to the appropriate RRF Committee. The RRF Committee may decide to approve the request, with or without conditions, deny the request, or delay their decision pending receipt of additional information.

4.3 Approval by the RRF Committee, if granted, will be made in writing signed by at least one member of the RRF Committee.

5. Investment of Funds

5.1 Each Fund will be invested as part of the University's working capital and any interest and investments gains or losses attributable to the Fund will be credited to or debited from the value of the Fund.

5.2 In order to maintain each of the Funds at a value that provides for reasonable protection against retained risk but does not unnecessarily withhold capital that could otherwise be put to higher use by the University, each RRF Committee may seek the approval of the Board of Governors from time to time for transfers from its Fund to the general purpose operating fund for its campus. Without limiting the generality of the foregoing, an example of such a situation would be where the RRF Committee does not anticipate any significant Major Projects for its campus in the near future.

6. Reporting Requirements

6.1 The Responsible Executive will present a report to the Board of Governors, annually, setting out:

6.1.1 the contributions to and the expenditures from the Funds; and

6.1.2 recommendations regarding the appropriate Fee for each campus on a going-forward basis in order to maintain the value of each Fund at a level sufficient to accomplish the objectives set out this Policy.

- 6.2 At least quarterly and as otherwise requested, the Managing Director, Infrastructure Development will present a report to the RRF Committee for each Fund setting out the following:
- 6.2.1 the value of the Fund and all expenditures from the Fund for the relevant reporting period;
 - 6.2.2 the total value of Major Projects underway at the relevant campus that have received either Board 2 approval or Board 3 approval; and
 - 6.2.3 the number of proposed Major Projects on the relevant campus scheduled to seek Board 1 approval in the following 5 year period.