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Good Design for Asset Management

-Who Wins?

(a private sector analysis from Sarawak, Eastern Malaysia)

Wow! Look at those curves!

Our conference hotel in Miri, Sarawak, had an interesting concave curved shape that looked impressive on the hotel postcards. The *Village Grove* Condominium Apartments had a similar curved design, also very attractive. Interesting buildings attract guests and buyers but present a large number of construction and ongoing management and maintenance problems that increase costs. But does the higher price that the unique building can attract cover the extra construction and ongoing costs of construction that it incurs? And what of the impact on the ongoing costs of managing the asset?

Mustapha Besar, the General Manager of the Borneo Development Corporation, the corporation responsible for Village Grove spoke at a 2 day seminar by the Sarawak Development Institute in Miri, Eastern Malaysia addressing the theme of "Asset Management for Urban Sustainability and Nation Building".

Lessons from a Condominium Development

"Every developer", he said "would like to have a unique development and any architect would love the chance to design buildings which are different but practicality must temper this desire. Semi circular buildings limit room configurations and they also give rise to problems in terms of construction and waterproofing of walls. This is especially so if the building is quite high and there is a large expanse of curved wall to be built. Unless meticulous care is given during the brick laying and plastering, leakages are common. Curved walls also necessitate curved roofs. This limits the choice of building material. At Village Grove we had to import the material from France." (*cont. over page*)

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Does demand justify costs?

"Penthouses are associated with luxury of space. However unless we are looking at the very high end of the market the size differential must be within reason so as not to make the cost of the penthouse too exorbitant and unsaleable. At present we are of the opinion that roof top gardens should be avoided."

"At Village Grove our land size was only 6 acres but to create a low density development with a resort feel we ended up with well spaced low rise blocks of different heights separated by landscaping and recreational facilities. It gave us the look we wanted but with the cost of gardeners, house-keeping and security staff! This is not a design we would now repeat."

"Another aspect is lifts. Provision of lifts in our low rise buildings was used as a selling point during marketing as in some blocks each floor of two owners are serviced by one lift. The consequence is that we have a total of 15 lifts to maintain and service. This was costly to install and imposes a large burden in regular maintenance and repairs and also requires a higher replacement sinking fund."

Problems of Access

"Repairs and maintenance of high rise buildings pose their own problems. What happens when you have to replace roof tiles – is there access to the roof top? And painting? Scaffolding is costly when only a small area is required to be painted or repaired. For tall buildings safety consideration to workers must be addressed bearing in mind the wind factor at such heights". (Ed: Scaffolding requires a flat area on which it can be erected, often forgotten in creative landscaping.)

4 Parties to Condominium Development

In his paper, Mustaphar Besar, pointed out that there are four parties in a condominium development whose priorities have to be considered to ensure its success. They are the developers, the consultants (architects and supporting consultancies), the purchaser and the property manager or Management Corporation set up by the new owners to manage the common property. Where the interests of these groups conflict, how is the conflict to be resolved?

The developer's primary business is property development. He acquires land, creates a product and hopefully disposes of it at a profit. Profit is the driving motive. A developer will move on to another development once a project is finished so he has little or no financial interest in the completed project.

The consultants (Architects and supporting consultancies), will want to show their design skill, innovativeness and perhaps carve their unique trademark on the design.

"The purchasers' primary consideration is a transaction which is value for money (read the "cheapest possible") beautifully designed, properly fitted and furnished, good feng shui, and provided with all facilities and amenities but without attendant management fees. In other words they want the best of everything – the lowest possible price for the best possible product. (and good resale value)."

"The management corporation comes into being to manage the completed sub-divided building. It governs the land area where the condominium is built and the common property. As far as management is concerned, the less hassle the better. Therefore the Management Corporation would not want to be saddled with problems arising from the structure of the building or its design when maintaining the common property or in providing security for the area."

Design and Good Neighbours

"It is not the duty of the Management Corporation to deal with human problems, but it is often required to arbitrate between between occupants which may be direct result of the development.

SERVICE LEVEL AGREEMENTS PT 2:

PREVENTING PROBLEMS

In the second article on SLAs, Sara Cullen outlines some of the problems commonly encountered by companies on the SLA trail – and how to prevent and solve them

Service Level Agreements (SLAs) are fast becoming a standard service delivery tool regarding the property and facilities management function. While the benefits are certainly real and achievable, SLAs can be an unnecessarily painful process.

Recent surveys, reviews and audits that we have performed have found many issues you want to avoid. Some of these are:

- Ø 2 to 10 times more effort was required than planned (recent survey of over a hundred organisations in Australia)
- Ø Numerous cases of Key Performance Indicators (KPIs) not developed, not reported, errors in measurement formulas and source data.
- Ø No SLA review meetings, all operational "fire fighting", with the service provider (SP) eventually eroding reporting and measures to 20% of specifications.
- Ø Duplicate topics in the external service provider (ESP) contract and SLA with the contract terms being inadequate. However, the contract had precedence over the SLA and numerous variations (and price increases) were necessary to bring it up to scratch.
- Ø No ownership of the SLA by the customers who viewed it as the SP's documents and not reflective of their needs. Customer created own document, gave it to the SP and all SLA actions stopped. Relationship considerably poorer.
- Ø Turnover of personnel at SP and Customer left no one who championed the SLA concept and reverted back to original state of "do what we tell you" from both parties.

The list goes on and I'm sure you have your own.

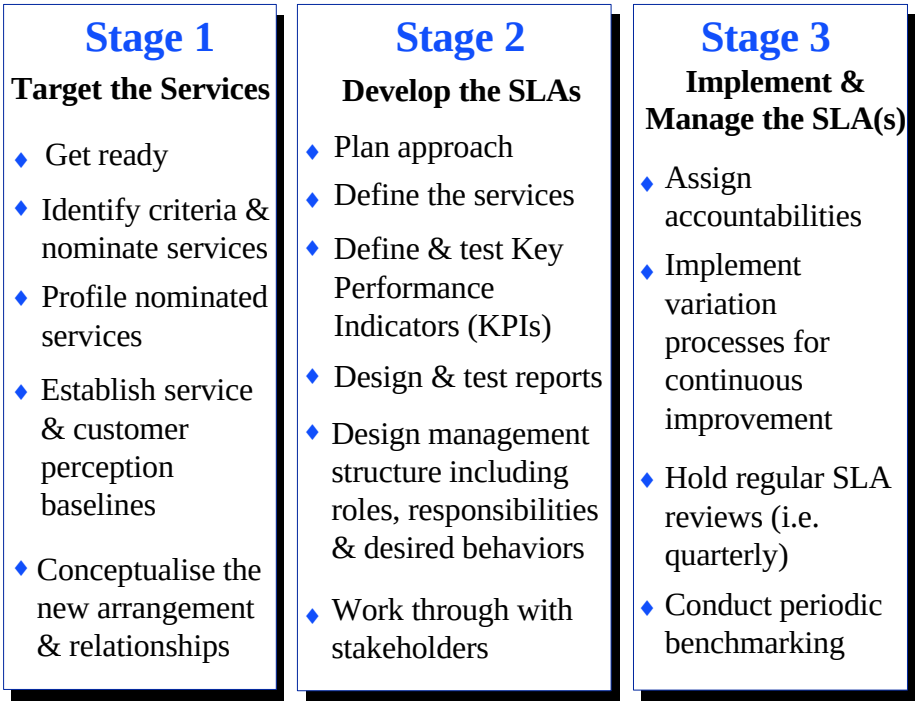
The problems typically occurred because of a lack of any of the following:

- Ø a structured strategy for the full life cycle of SLA,
- Ø an oversimplified view of the processes involved,
- Ø a rushed attempt to meet an extraneous agenda and/or
- Ø the use of inexperienced personnel.

For many, the SLA became an unused and unsupported pile of paper.

In my experience over the last decade, most of the SLA problems encountered by organisations could have been easily prevented. In fact, far less time and effort is required overall when SLAs are properly planned and executed.

A SLA is only a tool - it is in your hands as to how well the tool is put to use. It is part of a service strategy and needs to be managed as such.



Following are three common problems encountered and how to ensure it does not happen in your organisation.

1. Wrote an SLA for One Thing, Got Another

This happens when there was not enough homework done before the SLAs were issued. To ensure there are no surprises when it comes to service delivery:

Get the definitions right

Too often, there are invalid assumptions by both parties (customer and SP) leading to significant re-negotiation in the early life of the SLA. This is often because words that have meaning to the SP, such as "maintenance" will have a different meaning to a customer.

If you have an ESP, their definition is likely to win out or higher costs incurred unless your definition has been articulated and agreed within the agreement. To ensure your interpretations are those that are adopted within the arrangement:

- unbundle all the terms used in the SLA in enough detail to minimise the possibility of a misunderstanding.
- define the acts (but not how performed) that comprise each service, be it lease negotiations, property operations, help desk, training, etc.
- define the acts that will satisfy verbs like "implement", "maintain", or "support".
- define all nouns like "working day", "documentation", and "grounds".

Draft the SLA before tendering if you are using an ESP

You have the strongest bargaining power before you award the tender. Technical specifications, which often form the basis of the tender, are not enough to ensure you get what you want. You do not want to be negotiating the business arrangement and performance measures after you are, in effect, a customer of a monopoly provider. Where this has occurred, the SP's preference has typically won.

to be negotiating the business arrangement and performance measures after you are, in effect, a customer of a monopoly provider. Where this has occurred, the SP's preference has typically won.

To avoid this, I cannot stress enough the importance of drafting the SLA as close to the actual commercial agreement to be signed as feasible and releasing it with the tender. Have the SP's note their agreement with each clause or propose an alternative. Complex SLAs have been able to be negotiated in a matter of days rather than months using this approach.

Measure and track each outcome you expect

Too often there are vague, inarticulate expectations in the SLA that have little hope of actually being realised. If you are serious about obtaining the outcomes you expect, measure them now to obtain your baseline and continue to measure on a regular basis throughout the life of the agreement.

For example, if you are writing SLAs to:

- improve service - track it and benchmark it;
- reward and/or penalise the SP – use a few KPIs rather than numerous PIs (performance indicators) and relate the value of the reward/penalty to the value of the KPI to you;
- improve customer perceptions of service – get the opinion baseline and survey it on a regular basis; and/or
- instil a customer service orientated culture – implement a culture change program, an SLA is only part of the change and will not make it happen.

Often performance measures agreed to in outsourcing contracts are purely theoretical. The organisation is not using them now nor they have ever been tested to ensure the data exists and the measure can be calculated cost effectively.

Measure current performance

The best way of ensuring performance measures are effective is to have them already in place. If you do not, most SP's will promise to deliver what you are getting now. If you cannot substantiate this, they will determine what service levels you are achieving - hardly an independent situation.

"Reality test" the measures

If you cannot get baseline performance measures in place prior to releasing the SLAs:

- ☑ prototype the performance report you want
- ☑ determine the formula to be applied for each performance measure,
- ☑ walkthrough each measure/formula to identify where the source data should come from, and
- ☑ determine how the measure could be circumvented or misinterpreted in calculation.

3. Stuck with an undesirable arrangement

While most SLAs are renewed with the same SP, albeit with changed service requirements, on occasion an organisation may be forced to stay in undesirable arrangements.
Having a fallback plan is imperative to ensure that ongoing services are of the desired quality and cost effectiveness. The typical fallback plan has the following components:

3. Stuck with an undesirable arrangement

While most SLAs are renewed with the same SP, albeit with changed service requirements, on occasion an organisation may be forced to stay in undesirable arrangements.
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Dispute resolution
A recognised and agreed process to escalate concerns to personnel inside the parties who can make a decision, and in some cases, the use of an independent mediator or arbitrator.

Ability to terminate
For extremely poor service (not meeting KPIs over a period of time or significantly underachieving a KPI in one period) can give rise to a termination right by the customer.

All possible termination events related to the SLA must have the obligations of both parties explicitly stated in the contract of with an ESP or the SLA if the SP is internal. Obligations include continuation of service for a specified time, transfer of licences, preparation of up-to-date documentation, removal of intellectual and physical property, and reimbursement of expenditures. Some of these obligations will continue past termination. Furthermore, any termination costs must be explicit as to who may incur what and whose expense.

Portable service knowledge
It is critical that the service remains portable so that you can transit to a new service provider or back in-house if desirable.

This means having clauses that require up-to-date documentation for which you have intellectual property rights or licences for, transferable licence arrangements and an amended contract/SLA that reflects the current situation and practice.

Periodic exploration of alternative supply sources
You may not wish to go through another lengthy SLA process if an arrangement is not meeting your expectations. Keeping up a dialogue with alternative suppliers, or at least keeping up to date with the market capabilities and offerings, will provide comfort that there are options and that your current service provider (internal or external) is not in a greater position of power than yourself.

Sara will be providing a series of SLA articles and invites you to ask questions and provide comments. She can be reached on 0416 107 185 or at sacullen@dc.com

And if you would like to know more, why not attend one of Sara's 2 day workshops on Service Level Determination, being held in Perth, Sydney, Brisbane and Adelaide. See Issue 12 for dates and contact details.

Servants of Deceit!

Emblazoned in bold, block letters, several cm high, the front page headline on "The Advertiser" for June 24 read "Servants of Deceit". The article following reported how public servants had been systematically undercosting major projects to get them onto the capital works list, leaving out such essential items such as sprinkler systems, then "remembering" after the project had been committed and capital allocated, requiring an extra allocation. "Shame!" said the newspaper, "this means we should sack the public servants involved". "Shame!" said the opposition, "this means the capital works budget of this government is out of control".

Of course, it means neither! This has been going on since capital works budgets were invented. It is not the people, it is the SYSTEM that needs changing. The fact that this has been denounced by the Premier of the State and is being investigated now by the Auditor General may mean that we have a chance to develop a sounder system. If so, it will be quite a milestone in asset management development. *SAM* will report on the outcome of this investigation. In the meantime, if you are in a policy position, you may wish to check your own capital proposal vetting procedures!

Good Design– Who benefits?, *from page 98*

Walls may not be soundproof and hence the neighbour may become a nuisance with excessive noise. Or the plumbing may leak and, despite complaints, the neighbour above may not allow anyone in to do repairs."

Who Benefits?

The Management Corporation, which is responsible for levying fees for maintenance of common areas and sorting out daily problems would, along with purchasers who have to pay the fees, have the most to gain from good development and design. But it is not in existence when the crucial design and construction decisions are being made.

Developers can gain from the uniqueness of architectural design, providing the costs surface after they have sold the building. Architects benefit from designing a building which is uniquely beautiful, that can stand out as a landmark in design concept and construction ideas. But the "maintainability" of a building is not necessary visible from the outside.

Solutions?

1. • Ongoing Commitment by the Developer
   - o Including 'building-maintenance' contracts, BOO, BOOT
   - o And a "Radical Suggestion"
2. • Greater Knowledge and Awareness on the Part of the Buyer
3. • Kudos to the Architect

1. Ongoing Commitment by the Developer

In the case of condominium development, the developer may often find, on completion of the development, that not all of the units are sold. He therefore becomes an 'owner' or 'purchaser' by default, and is involved in the Management Corporation and all of the ongoing problems of his development until such time as all of the units are sold.

Mustapha Besar says that this experience has led him and his corporation to take many aspects into account in future developments to minimize ongoing costs. These were the issues that he referred to in his paper.

Interest in Building-Maintenance Contracts and BOO and BOOT contracts has grown because of the ongoing benefits that good design has for asset management.

A Radical Suggestion

But ongoing commitment by the developer could be encouraged by the simple device of making each developer responsible for a certain proportion of the maintenance and renewal expense for, say the first ten years. To protect himself from charges for 'non-maintenance' (upgrading) costs, the developer would need to produce a maintenance program for the building – a sort of 'users manual' such as comes with a new car, but with information on the maintenance and component renewal cycles.

2. Greater Buyer Knowledge

This would lead to greater knowledge on the part of the buyer, and would encourage life cycle costing on the part of both buyer and developer – since the buyer's share of costs would need to be factored in to the purchase price, and buyers are much influenced by the first up cost.

3. Kudos to the Architect

When the suggestion of a "users manual" was made at the Sarawak Conference, one of the leading creative designers of timber houses took up the challenge. He sees it as a 'competitive edge'.

SAM will keep you posted on future developments in this area.

Issues

currently engaging the minds of Asset Managers in

Birmingham and Brisbane

Birmingham City Council

Best Value Pilot Study

Compulsory competitive tendering (CCT) in the UK is no more. In its place is the new "Best Value" approach designed to introduce co-operation rather than competition. Monitoring and evaluation of the best value pilot scheme (commissioned by the Department of Environment, Transport and the Regions (DETR)) is now underway in Birmingham and 40 other pilot local authorities in England and Wales and will continue up to mid 2000. The study will disseminate emergent findings with description of best practice to local authorities during the period of the pilot scheme. It is being undertaken by staff from Aston Business School, Warwick Business School and Leeds Metropolitan University. ***For details contact Tony Bovaird bovairag@pcmail.aston.ac.uk***

Integrated Property Management System (IPMS)

As the largest local authority in the UK, Birmingham City Council is responsible for many tens of thousands of parcels of land in the city. The Integrated Property Management System, IPMS, is used to manage this portfolio efficiently and cost-effectively. One of the key aspects of the system is its ability to highlight and analyse the Council's current land and property holdings, assess their value and monitor any changes. The system is used by over one hundred users in six departments. These users are located at five sites in Birmingham linked over a WAN. The system runs on a network of Sun workstations and PCs incorporating a range of output and input devices. Sysdeco has worked in close partnership with Birmingham City Council on implementation tasks including software development, hardware and software installation, user training, documentation as well as on-going customer support.

The initial requirement was to convert 5 GB of graphical and non-graphical land parcel data from an existing mainframe system for use in the new IPMS (Integrated Property Management System). This stage also involved the development of a complex datamodel and bespoke functionality to fulfill Birmingham City Council's requirements. ***BCC Contact: P Bayliss, Telephone 44 121 303 3874***

Brisbane City Council

Asset Strategic Planning

City Assets Branch, Brisbane City Council is currently developing Strategic Asset Management Plans for commercial real estate and property portfolio. Preliminary planning activities to determine the current and future property requirements, which in turn raises issues of capital investment, acquisition, aintenance and profiling and divestment strategies are key issues leading to the overall planning outcomes.

Energy Performance Contracts

Contracts have just been signed for an Energy Performance and Maintenance Services Contract for the Brisbane Administration Centre (22 storey office building), City Hall and the Garden City Bus Depot. The contract 'guarantees' energy reductions of 2,248,571 KWhrs or 2,522 tonnes of CO2 carbon emissions per annum over the three sites.

Property Re-investment Strategies

State Government has transferred $40Million worth of property to Brisbane City Council to assist with financial contribution towards the construction of the Inner City Bypass (major road construction diversion project). Council's challenge is to manage tenancies and dispose of property in a timely and 'value-added' program over the next two years.

Contact: Frank Riley, Manager City Assets <MCA@brisbane.qld.gov.au>