AMQ International

Strategic Asset Management

Issue 16, August 13th 1999

Focus On Management Of Ageing Buildings

Weblink

Ageing Buildings

- Desired standards are going up ↑
- Actual standards are going down, as buildings age and degrade ↓

It is easy to feel squeezed between the two.

Our new weblink discussion forum suggests a way out -

RISK MANAGEMENT

Using Risk Management Techniques, you can manage your building portfolio to maximise returns and minimise risks - *even when budgets are contracting.*

This is the subject of the new discussion. David Ness-Chang and Bill Lambie, Department of Administration and Information Services, South Australia, who won a 1996 Excellence Award in the Asset Management Competitions for their early work in this area, have joined forces with Roger Frith, Manager Building Policy, Department of Infrastructure, Victoria and with Rick Sobol of the Intec Consulting Group to develop the techniques further.

Join them to explore the possibilities for your building portfolio.

See Web discussion on **www.amqi.com** *and pp 121-124 this issue*

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Risk Management for Ageing Building Portfolios

Risk Management applied to Asset Management

The concept of risk can be seen to embrace not only those issues that we usually associate as hazards, such as fire and OH&Sbut also wider issues, such as the risk of not providing adequate educational or health facilities, or the risk of a business not being able to function properly. AS/NZS 4360:1999L Risk Management takes a generic view and lists 'asset management and resource planning' among the applications of risk management.

The risk management process is becoming widelly introduced and applied in government and industry, and may form a sound and readily understood basis for asset performance reviews. The following are suggested steps in Asset Performance Review (with the comparable steps from AS/NZS 4360 in brackets)

Step 1. Corporate planning, benchmarks and performance targets (establish the context and criteria)

Step 2. Ascertain actual performance (identify risks)

Step 3. Analyse gap between actual and required performance (risk analysis)

Step 4. Evaluate risks and set priorities (evaluate risks)

Step 5. Assess and prioritise remedial actions, and develop actions, and develop action plans (treat risks).

Step 1. Commonly, performance reviews or 'audits' of existing buildings recommend upgrading to current standards e.g. an extensive cosmetic/image upgrade may be recommended for a secondary-grade building that has a series of major problems, such as poor utilisation, occupational health and safety (OHS) and fire safety deficiencies, poor disability access, etc. This approach may not represent the most effective use of limited resources.

A suggested alternative involves 'benchmarking' the required performance or service level of such an asset in comparison to other assets, using a scale of say 1 (high performance or functionality) to 5 (low functionality).

(Or, similarly to the ST&M tools from the International Centre for Facilities which were reviewed in AMQ International, Dec 1998—now available on www.amqi.com—the scale can simply indicate more or less of a particular attribute.)

The diagram opposite illustrates the risk management approach. The notion of 'what risk can be tolerated?" can be considered during the establishment of the targets. For example, performance reviews of particular assets, such as school swimming pools, may be based on a high standard for water quality and cleanliness, where the consequence of children falling ill could be very significant. A high or moderate level of risk can certainly not be tolerated. However, the fabric of the change-rooms could be assessed using a relatively lower target as consequences would not normally be as dramatic (eg unsightliness).

*The complete discussion paper on this topic can be found on the asset management website, **www.amqi.com** in "discussions". Each of the panel members moderating this discussion has volunteered an initial comment—see them on page 124—then add your own.*

Performance Targets v Actual Performance & "GAP" for a particular asset, say a school

Peformance Rating levels	**Image** (eg quality of finish)	**Access** for disabled and elderly	**Safety** (eg fire egress)	**Fit for Purpose** (eg teaching facilities	**Security**
1 Most			**Target** Excellent egress complying with current standards	Computer technology, internet	
2	**Target** Carpets/paint dated colour but not torn/flaking	Access to at least one of each specilaised facility		**Target** Electronic whiteboards, overhead projection	
3 Average	**Gap**	**Target** Access to at least one of each specialised facility, but not by main entrance	**Gap**	**Gap**	
4	**Actual** Some torn carpets, flaking paint	**Gap**	**Actual** Poor egress, limited detection and alarm	**Actual** Average facilities, eg whiteboards but not electronic, no overheads	**Actual** Some patrols, doors alarmed, lighting of main entry points
5. Least		**Actual** Lack of access to wide range of facilities			**Target** Very little security required, no external lighting required, etc

4 3 1 2 5

Priorities assigned for this asset

1. Note that priorities are set across all attributes, reflecting current business plans and strategies. Analysis of the gap provides an estimate of the required works and funding needed to reach targets. Achievable levels of work are set and risk acceptance is documented and monitored within the asset management plan.

2. Choosing targets that are less than the maximum implies accepting a certain level of residual risk. The gaps indicate an unacceptable level of risk that is to be closed.

3. Actual performance can exceed targets, as in the security aspect in this example.

Building Asset Performance, Risk and All that!

Add your comments to these on the website discussion on www.amqi.com

Performance Requirements should be "appropriate"

Most audits of existing buildings recommend upgrading to current standards. For example, a 100% earthquake upgrade recommended for a secondary-grade building that had a series of other problems, such as poor utilisation, depressing image, OHS deficiencies, etc. **To overcome this** we could 'benchmark' the required performance or service level of such an asset in comparison to other assets, using a scale of say 1 (high functionality, "flagship role"), 3 (average functionality) to 5 (low functionality).

Benchmarking by attribute

A more meaningful ***profile*** might be devised of the service requirements or attributes of the particular school e.g. level 2 for image, 3 for safety, 4 for accessibility, and so on. These then become the target performance levels or benchmarks for subsequent assessments of actual status. A 'gap' will usually exist with older *existing* assets. This will entail a degree of risk, which may be managed or removed (depending upon funding availability).

Highest is not always the best

Considerable savings can be expected, and more effective use of limited resources, by setting performance targets range from 1 to 5 *depending upon the type of asset, its use and criticality*. Other savings may be expected by accepting some 'residual risk' and by managing rather than eliminating this risk.

David Ness-Chang, DAIS

Importance of asset performance in retail sector

A Woolworths store has minor upgrades on a yearly basis and is totally refurbished every three to five years. Woolworths believe that to attract shoppers they need to provide a safe, attractive and clean environment that will complement their fresh food image. After a major refurbishment, weekly turnover will increase from between ten to twenty percent. Monitoring of performance on a regular basis coupled with active works programs ensures that the retailer maintains the company image and shopper loyalty. Benchmarks are set and measured on department by department basis and store by store basis. These results assist management gauge the timing of major refurbishments and are a major component of yearly financial planning cycle.

Rick Sobol, Intec Consulting Group

Satisfying legislative and due diligence obligations?

Government agencies have legal and community obligations to ensure that their existing buildings meet standards which avoid harm to people. Merely complying with building legislation applicable at the time the asset was constructed can result in non-compliance with later legislation and also increase exposure to litigation. In an environment of increasing litigation, liability is being attributed to building owners and operators.

In 1987, a year 11 student sustained debilitating injuries when he tripped and fell through a glass door. Despite the glazing complying when installed in 1966, the college had ignored a new Australian Standard for safety glass. The judge found that it was both practicable and affordable for the glass to have been upgraded. Consequently, the college was found negligent, as it did not take any action to identify or assess the risks.

Roger Frith, Department of Infrastructure, Victoria

Risk is acceptable!

A performance approach is consistent with the use of risk management to both set and assess the performance of buildings. For example,

- This recognises that performance benchmarks should be 'fit for purpose'
- It promotes the idea that performance of buildings can be described within an acceptable range and does not preclude the possibility that a level of residual risk may be acceptable.

Bill Lambie,
Building Management, DAIS

Service Level Agreements Pt 4:

The Contract – Your Safety Net

The previous article addressed the relationship of the contract to the Service Level Agreement (SLA). To complete the picture, it is useful for those who are managing a commercial SLA under a contract to be aware of the typical service provision contract. This article provides a few key points to consider and an outline for such a contract.

By Sara Cullen, Deloitte Consulting. Tel: 0416 107 185 or at sacullen@dc.com

1. Do not use the ESP's Standard Contract

Each outsourcing arrangement has its own set of issues and its own dynamics. Do not use standard External Service Provider (ESP) contracts as they represent the service provider's commercial position not yours. You are in the greatest position of strength if you draft your desired contract for release with the tender and ask the bidders as part of their response to specify which clauses they want to negotiate and their preferred wording.

2. Determining the term of the Contract

The term of the contract will vary according to many factors including:

- the number of ready substitute service providers and the degree that the services outsourced are industry standard/ generic,
- cost of the tendering process itself,
- the degree of investment by the ESP and the investment of your organisation in the service provider's learning curve,
- the transition time required from handover to efficiently run operations, and
- the probability and timing of radical change in your organisation which may necessitate a new approach.

respective of the initial term of the contract, always ensure there are renewal terms and early termination clauses. A well written contract in this manner is almost virtual – it can be terminated any time (for the appropriate reasons) and renewed indefinitely (again, for the appropriate reasons).

3. Performance Penalties

Performance penalty schemes (often called liquating damages or service fee adjustments which "penalise" the service provider for not meeting key performance indicators) are merely intended to decrease the price paid. The general rationale is that you did not get the level of service that both parties agreed to in exchange for your money, accordingly the price should be adjusted.

However, they are only an interim correction mechanism prior to any court battle. Once in court, pre-specified damages in the event of breach are rarely held up in court. Courts award actual damages, not punitive ones. The most you can expect for successful litigation over a contract is payment of actual damages incurred, rather than specific performance.

4. Termination and Termination Charges

The contract must provide for assistance required from the service provider in the event of termination. The assistance specified may be limited if the termination was a voluntary one by your organisation or extensive if termination was at the request of the service provider.

In addition, ensure you have a price structure for the assistance ranging from no cost to you if the service provider breaches the contract to significant costs borne by you if your organisation is in breach.

Some ESPs will attempt a termination charge for early termination in addition to any expenses they may incur. Aspects of these charges may be valid if they have allocated the start-up costs over the contract term and these have been validated and the allocation method approved by you. In no case should you allow a punitive charge because they have lost potential revenue.

5. Updating Contract Drafts

Plan for how contract drafts will be updated, particularly while in negotiations – either your negotiation team or theirs will need to be in charge. If you administer the drafts, you will need advanced word processing and document management skills. If the ESP does, you will need to review each draft in extensive detail.

Whoever performs the editing can make changes that have not been agreed with the other party (albeit the intention could be honourable). Consequently, you may want to consider using an independent legal secretarial firm to perform editing, rather than either party's lawyers.

6. Keep an Electronic Copy

Always have the final contract in an electronic format to enable quick searches for relevant clauses. Even the most carefully prepared contracts can be a nightmare to manually search for clauses related to the issue at hand.

CONTRACT OUTLINE:

Below is a recommended outline for such a contract. Not all clauses will be appropriate for each outsourcing arrangement, but they represent the issues that should be considered with every new agreement.

When reading through this outline always remember, there is no such thing as a standard contract, only standard headings!

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When reading through this outline always remember, there is no such thing as a standard contract, only standard headings!

Part 1: General Provisions

1. Interpretation
2. Definitions used in this Contract
3. Initial term of the Contract
4. Subsequent terms of the Contract
5. Governing law
6. Entire Contract and Precedence
7. General conduct of the Contract
8. Negation of employment and partnership
9. Partnering

10. Exclusivity (or Non Exclusivity)
11. Severability
12. Waivers
13. Guarantees, warranties and indemnities
14. Liability
15. Performance guarantee*
16. Unconditional financial undertaking *
17. Insurance
18. Escrow *
19. Assignment and novation
20. Service provider as Prime Contractor *
21. Subcontracting
22. Service provider as Agent *
23. Confidentiality and disclosure
24. Conflict of Interest
25. Consents and transfers
26. Intellectual property rights
27. Amendments and variations
28. Force majeure
29. Extension of time for discharging an obligation (excusable delay)
30. Dispute resolution
31. Taxes and duties
32. Notices

Part 2: Service Particulars

33. Appointment of Representatives
34. General scope of Services
35. Provision of services in accordance with the SLA
36. Applicable standards and policies
37. Obligations of Service provider
38. Obligations of Customer
39. Management of third party contracts*
40. Performance improvement *
41. Benchmarking *
42. Technology refreshment *
43. Industry development *
44. Specified Service Provider personnel
45. Resource commitment
46. Documentation to be maintained
47. Data ownership and security
48. Records, access and audit rights
49. Year 2000 compliance
50. Viruses

Part 3: Payment Particulars

51. Service Fees
52. Reimbursement of costs incurred
53. Service fee adjustments
54. Limitation on expenditures
55. Services outside scope
56. Invoicing
57. Payment
58. Service fee variations
59. Gainsharing

Part 4: Start-up Particulars

60. Migration plan
61. Transfer/sale of assets *
62. Transfer/secondment of staff *
63. Transfer of third party licences *
64. Transfer of third party contracts *
65. Obligations of Service Provider during Start-up
66. Obligations of Customer during Start-up
67. Documentation to be Developed during Start-up

Part 5: Termination Particulars

68. Termination by breach by the Service Provider
69. Termination by breach by the Customer
70. Termination in absence of breach
71. Partial termination
72. Moneys recoverable
73. Transfer-back of assets *
74. Transfer- back of staff *
75. Service obligations during termination
76. Termination assistance by the Service Provider
77. Post termination services by the Service Provider
78. No representation after termination

SCHEDULES

A. Contract Details
B. Service Level Agreement (SLA)
C. Service Fees
D. Assets to be acquired by the Service Provider *
E. Assets to be retained by the Customer *
F. Third party contracts *
G. Third party licences *
H. Unconditional financial undertaking *
I. Security *
J. Performance Guarantee*
K. Specified Subcontractors*
L. Specified Personnel List
M. Resource Plan*
N. Confidentiality Agreement
O. Escrow Agreement *
P. Partnering Charter *
Q. Start-up Plan
R. Termination Plan

** - Optional, if applicable*

Issues

currently engaging the minds of Asset Managers in

Darwin, Northern Territory

For **Indus International**, the issue is

Successful Rollout

The 26th July saw the completion of the successful rollout of its *Indus Solution Series – Enterprise MPAC*™ and *Curator*™ for the Northern Territory's Power and Water Authority (PAWA). The completion of any project is a cause for celebration but this particular task presented a number of logical difficulties, now overcome. Just for starters was the size of the job! Although the Northern Territory has around 180,000 residents, representing just 1% of the total Australian population, these residents are spread over an area representing 17% of the total Australian landmass. The WIMS rollout project involved major implementations at PAWA offices in Darwin, Alice Springs, Tennant Creek and Katherine Centres.

The integration of the *Indus Solution Series*™ and *Curator*™ into PAWA's core business processes of Financial, Procurement, Graphical Information, Customer Information and Personnel/Payroll systems allows the Authority to manage all aspects of its extensive asset portfolio. Namely, power generation, transmission and distribution infrastructure, water infrastructure and networks, sewerage infrastructure and networks - each with unique needs and different degrees of automation.

"This puts the Power and Water Authority in a position to take on the challenges of deregulation and competitiveness while realising substantial returns from increased productive capacity and business process standardisation," said Allen Vaughn, General Manager, Professional Services, Indus International Asia-Pacific. Headquartered in San Francisco, Indus International is the world's largest provider of Enterprise Asset Management (EAM) solutions.

Indus International is a Sponsor of the International Asset Management Competitions.

www.indusinternational.com

For **Jeff Butler, Power and Water**, Northern Territory, the issue now is..

Using information systems to generate best practice asset management

Those who have introduced work order systems, maintenance management systems and AIS will know that the job is not over when the system is installed.

For Jeff Butler, having completed the first phase of installation and operation of the INDUS enterprise resource management systems (including MPAC and curator) the task is now to use the vast potential the system provides to drive change in asset management practice.

With today's rapid change in management positions, with new people and new structures (PAWA, a multi utility, has recently restructured from a regional to a business unit basis) the task is an ongoing one.

For Jeff, who has a background in operational management (which is effectively people management!) the completion of Phase 1, development, installation and testing, Phase 2 involves work process redesign, ongoing training and encouragement, from tradesmen on up to senior management.

<jeff.butler@dwnjape.pawa.nt.gov.au>"