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Baseline Asset Management: Part 2 of 2 Parts Communication with Decision Makers

Before Gilding the Lily – Consider your audience!

In the last issue we considered how to present asset information *very simply* using just a minimum (but a well-selected minimum) of asset information.

You may feel you can handle more than this minimum – *but can your intended audience?* When an inexperienced board is presented with masses of operational detail, the reaction may be one of suspicion rather than confidence. If, like most of us, you have not carefully nurtured your board or other key decision makers in understanding asset management, *start slow!*

For example, a natural reaction amongst advanced asset managers is to assume that to include confidence limits on the data would be an improvement. Until your audience is quite sophisticated, adding this 'advanced' element could easily backfire. Telling them that the information has an accuracy of +/- x% or, for example, explaining that information that is within, say +/-20% is acceptable, but information within +/-50% is not, will, in very many cases, be dangerous overkill.

Remember the objective here. We are *not* asking decision makers to make decisions on the basis of the BIG pictures. Instead *we are providing a context* within which they can make specific decisions on which you will separately inform them.

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Understanding

The purpose of the BIG pictures is for decision makers to *understand* that spending a 'surplus' on new assets may be unwise if they are facing a near term renewal need; and that every time they add a new asset, they add an ongoing liability. It is for them to *understand* that their decisions today affect the future and that yesterday's decisions will impact on them now. If they don't understand the basics, advanced stuff will only confuse.

What do they need to understand? The basics are the three "matching principles" given here.

The Matching Principles

1. Revenues and Expenses

If you want to have a viable business then your ***revenues must meet or exceed your expenses***

Expenses are different from *expenditures*. Expenditures are today's 'cash outs'. Expenses are your accrued costs. Expenses are those chickens that will come home to roost in some future period. The average annual asset consumption figure will tell us WHAT level of expenses need to be covered. The forecast renewal chart will tell us WHEN.

In addition to forecasting when renewal will be needed, we also need to forecast future revenues so that we can see whether or not we meet the first of the matching principles. When our chickens come home, can we feed them? If not, we have dead chickens! And we are not viable. In the event today's "cash outs" can never be more than the cash we have available or can borrow. What will give is the level of service and the quality (and eventually the quantity) of the asset.

If past trends are any guide, councils can assume that grant funding will, at best, remain constant, and (more likely) will decline slightly. Rate revenues are a function of growth in the rate base and the level of rates struck. Thus it is possible to forecast revenues within boundaries of optimistic, pessimistic and most likely. Other agencies can also project on past trends. Given other demands on the revenues thus projected, *is your asset base viable?*

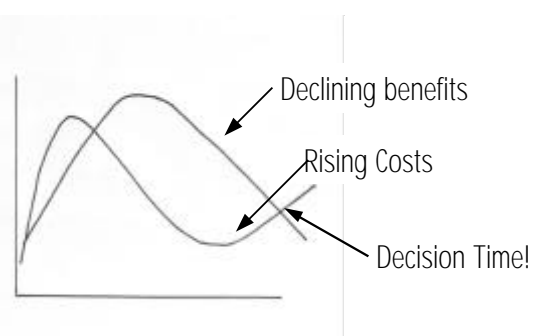
2. Costs and Benefits

The second matching principle is the matching of costs and benefits. Where benefits are non-financial, for example, the benefits of a new library, there is tendency to skimp the cost-benefit analysis. I have seen many a case for a new asset made on the "it would be a good thing" principle, without any attempt to show whether it would be *value for money*. Simple things such as "who" will benefit, for how long, etc. are often not addressed. So the second matching principle is the matching of costs and benefits.

Like the cost-benefit analysis, this is often given short shrift. But whereas asset managers are familiar with the concept of life cycle costs, they may not be so familiar with ***life cycle benefits***.

The Life Cycle Benefits Curve follows a similar pattern to that of Life Cycle Costs. It tends to rise rapidly at the beginning if the service is a well known one but then to fall away as more modern alternatives become available. Costs in the meantime tend to turn up towards the end of the cycle because of extra-ordinary maintenance and renewal.

Cost benefit analysis needs to take in the longer term as well as the short term.



2. Assets and Service Need

The third matching principle is matching assets and service need. And how do you know? This is the purpose of our 4th BIG Picture. This is more complicated than the others, still a "one pager" but now one page per SERVICE. (note not per ASSET, assets are merely a means to an end, the focus is service.) Some examples were given in SAM earlier this year (Issue 28, pp 11-12) here are some more.

The 4th BIG Picture - The Asset/Service Link

The previous three BIG pictures concentrated on costs. The 4th BIG picture brings in service - the reason for the assets. To construct the service one-pagers we need to consider each asset in terms of the services it provides. Then we allocate the capital and the operating costs to the service.

These examples come from "At Your Service" by **Dean Taylor**, of Wanganui Council in New Zealand. The original with all examples can be found on the amqi.com website.

Example 1: Footpaths, berms and walkways

Including the Durie Hill Elevator

We provide footpaths

- *For safe and comfortable access for personal/social activities and recreation.*

How this service is provided

Access is provided through 313km of hard surfaced footpaths. A few streets have interconnecting walkways. In addition, some 1220 pram crossings are provided. Where there are no adjacent dwellings, this service also maintains the grass berms.

The Durie Hill Elevator provides convenient safe access for pedestrians and cyclists.

Services provided

1. Urban footpaths - 304km, walkways - 6km.
2. Rural footpaths - 3km.
3. Generally urban streets have a footpath on at least one side. A few streets have none at the residents' request. In busy areas two footpaths are provided.
4. In high traffic areas, such as near shopping centres, the footpath is generally constructed from kerb to boundary i. e. more than 3m wide.
5. Clear access for pedestrians by mowing and tree trimming to specified distances from the path.
6. Berms are mown twice yearly where not maintained by residents. The grass is kept to 200mm or less. Other specified road berms are mowed to a higher standard e.g. Georgetti Road to 100mm and Burton Avenue centre island to 75mm. Steep banks are maintained for safety, visibility and tidiness.
7. Autumn leaf removal is undertaken in streets with deciduous trees.
8. Pram crossings are installed where wheeled traffic is common.
9. Bumps, hollows and lips are repaired where these would cause distress to pedestrians, pushchairs, mobility scooters etc.
10. Litter bins are placed in areas of demand, such as shopping centres, and are emptied regularly.
11. The Durie Hill Elevator is open from 7.30am to 6pm weekdays, 10am to 6pm Saturdays, 11am to 5pm Sundays.

Monitoring the service

- Footpath condition rating every three years.

Cost

The average ratepayer pays \$37 per year.

Durie Hill Elevator charges are: Adults - \$1 Children - 50 cents Children with bikes, downward - free

For further information contact:

Example 2 - Halls and Community Buildings

We provide halls and community buildings

• *To provide indoor community venues for a range of social, cultural, recreational and educational uses. Rural halls provide a focal point for these communities. Some buildings also have an historic and/or memorial value.*

How this service is provided

Various buildings, many of them inherited from past generations, are located across the District and are leased or hired out to various users; local committees manage rural halls; the Council manages the Royal Opera House and War Memorial Hall.

Services provided

The service varies significantly from building to building, depending on the nature of the building and use.

1. Memorial Hall (which has architectural status) includes a large hall, 380 seat concert chamber, Pioneer (meeting) Room, servery facilities etc.
2. Opera House (which has historical status) seating 830 in St Hill Street.
3. 10 community buildings - Arts Society building, Castlecliff, Gonville and Kokohuia Town Halls, Duncan Pavilion, Mangamahu Play Centre, Observatory, Repertory Theatre, Savage Club, and Women's Centre, leased mainly to community organisations.
4. Nine rural halls - at Brunswick, Fordell, Kaitoke, Kai Iwi, Mangamahu, Maxwell, Mowhanau, Okoia and Upokongaro.
5. A booking service, in partnership with Friends of the Opera House, is provided from the Opera House office.

Hours

The booking service at the Opera House is open 10am to 5pm weekdays and 10am to 12noon on Saturdays.

Monitoring the service

- Occupancy levels.
- Other surveys as required.

Cost

Memorial Hall and Opera House: The average ratepayer pays \$47 per year - plus user fees.

Community buildings and halls: The average ratepayer pays \$8 per year - plus user fees.

For Further Information contact:

Integrating Service and Asset

This 4th BIG Picture story is more detailed than the other three but it still tells the big picture, particularly in the cost per ratepayer.

This should lead on to the question "Why does it cost what it does, and is it worth it?" We will look at the costing question in the next issue of the newsletter.

Next Steps:

Think how telling would be the message if you were to include the average rate of asset consumption instead of the actual renewal carried out in any particular year, and if you were to include the opportunity cost or lost earnings from investing the capital cost elsewhere?

- But this is for advanced asset managers—and advanced asset management audiences!

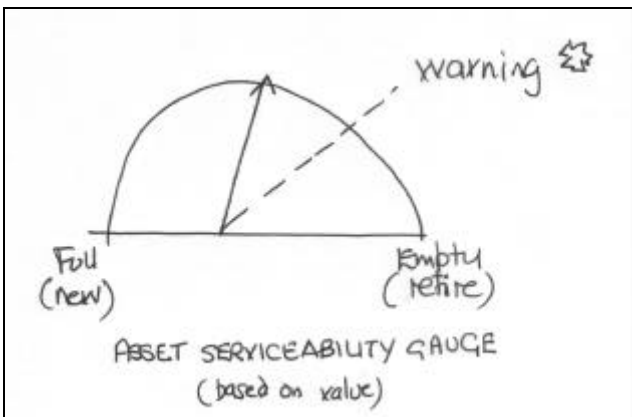
Simple Communication Techniques

During the week, I was sent an excellent set of BIG pictures, along the line described in the last issue. The reader swears to their effectiveness in getting the message across.

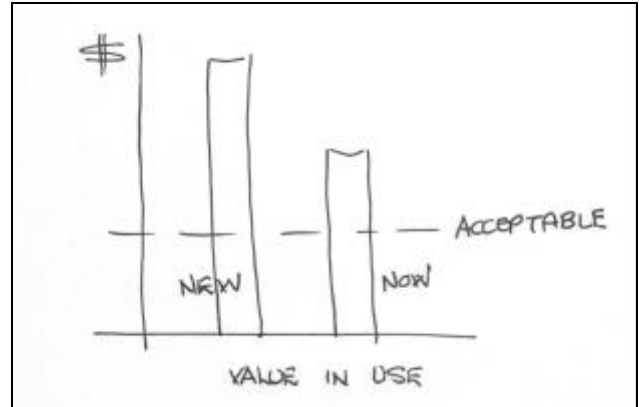
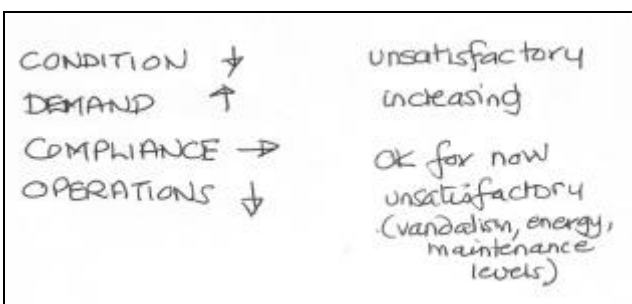
You will also find the following communication techniques very useful. They are not big picture stuff, rather they deal with smaller segments of your asset stock, but they still look to the broad messages.

Get out your flipchart

These are best done by hand on a whiteboard or flip chart where your audience can watch you develop them—as we watched David Bernard, of Playford Council, demonstrate them at a recent asset management conference. (Elaborate power point presentations with this kind of ‘immediate’ communication would be overkill and likely unproductive!)



This diagram and the two that follow do not support analysis, they are not intended to, think of them in terms of a “warm up” for your audience to get them in the right mood to consider more detailed proposals that you will put to them.



The value of these communication tools is their immediacy. You probably have others that you use with good effect. Just remember their place.

Follow them up with detailed analysis before you ask decision makers to commit resources to any project. These are for background information only.

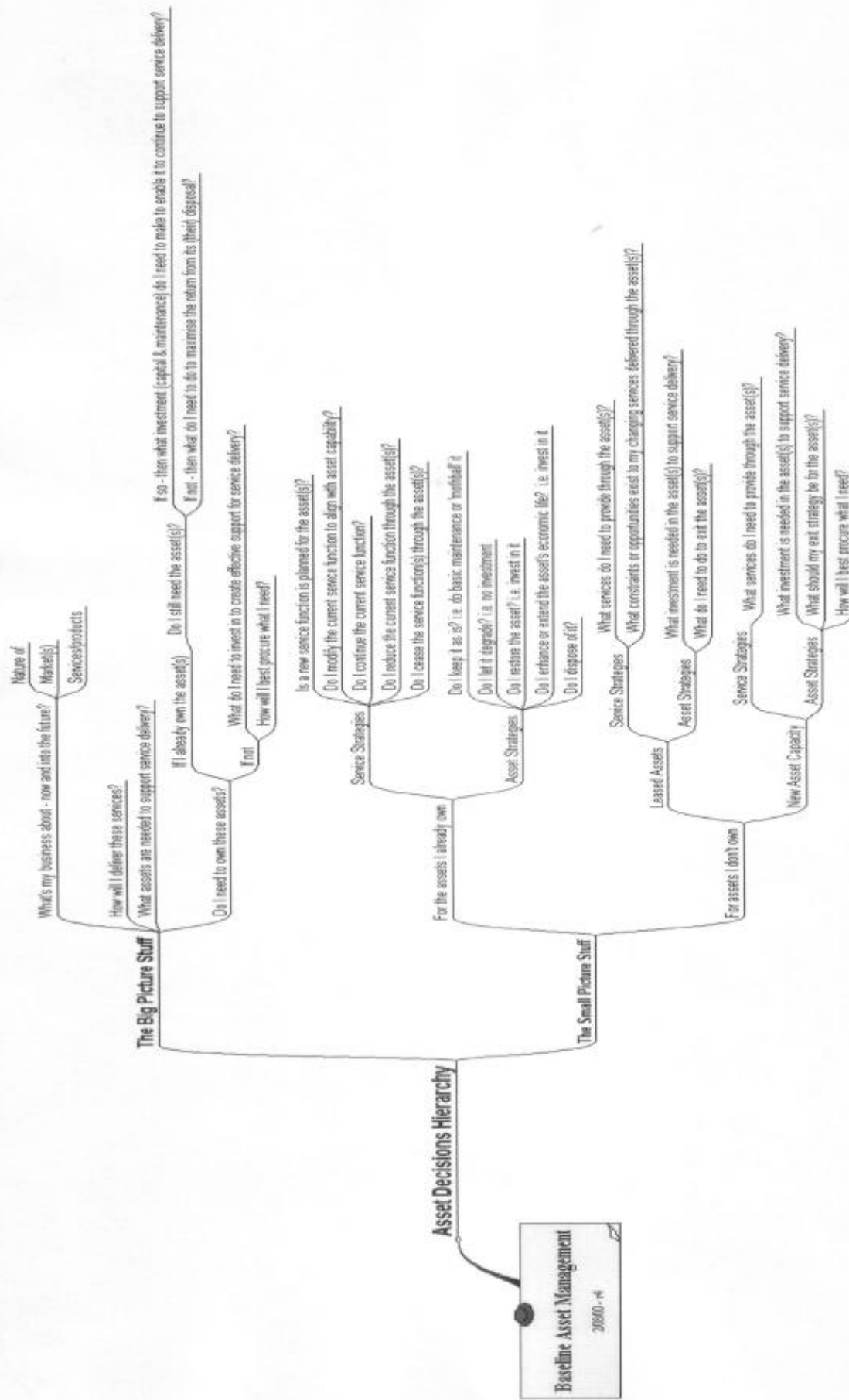
Mind Mapping for Asset Managers

And yet more pictorial communication techniques!

If you have never tried your hand at mind mapping, you have a treat in store. **Mark Neasbey**, a very creative Director of the Australian Centre of Value Management, uses the mind mapping technique to help him sort out masses of data, idea, thoughts, clues, etc in his VM and other tasks.

You can now get software to assist you in your mind mapping (check out www.mindmanager.com.) Over the page you will find Mark’s mind map outline of “**Where you go in your own asset management once you have the big pictures in hand!**”

The Big Pictures are very useful for setting the scene for your own research and helping you to identify priority areas. When you are ready to go further, the mind map over the page is a good guide.



A Resurgence in Life Cycle Costing

Suddenly it seems that the whole world is waking up and getting interested again in life cycle costing. That is, if I am to judge by the numbers of post graduate students, researchers and others who have contacted me recently and by the growth of new websites devoted to this topic.

"The Whole Life Cost Forum"

One of these websites, "The Whole Life Cost Forum" was brought to my attention by Françoise Szigeti, (Deputy Director of the International Centre for Facilities with its headquarters in Ottawa)

The Whole Life Cost Forum is an industry led initiative set up in November 1999 with the aim of producing a standard methodology for whole life costing and to generate real whole life cost data through a confidential database maintained by BRE.

Organisations are invited to take part and further information can be obtained from their website at <http://www.wlcf.org.uk> or by writing to The Whole Life Cost Forum, The Secretariat @ Centre for Whole Life Performance, BRE, Garston, Watford WD2 7JR, Tel: 01923 664348, Fax: 01923 664991

Françoise writes from her world perspective:

"Corporate Real Estate, Facilities Management and the building industry generally are in an accelerated change phase. Because of the amount of data embedded in buildings and their management, the use of data bases is starting to have an impact. Everybody is saying things like: "we have to stop storing data about buildings in silos" --- "we can't go on starting from scratch every time we evaluate a building or do anything about our properties, our leases, etc." The next step is: "we need to agree on data structure, terminology, etc., if we do not want to reinvent the wheel every time", etc.

At the **US National Institute of Building Sciences (NIBS)**, there is now a group called the

Facility Information Council (FIC). They also have a project called the "Whole Building Design Guide" which is a computerized collection of short pieces about any element of a building.

NIBS also hosts a group that started to look at how to computerize O&M Manuals (known as CMMS - Computerized Maintenance Management System) about 5 years ago. They now say "in order to deal with the manuals, we have to look at procurement, and go back up the value chain to where the decisions are made".

Gerald Davis (Chairman, ICF) and I are convinced that the next two years will see a tremendous change in how properties are managed, and more importantly in how the information and knowledge base about buildings and the building industry are "integrated".

I am told that Microsoft is also interested in such data bases. Also, some 13 major developers and property managers in the US (mostly based in NYC) have joined forces to deal with such electronic support."

"Movement for Innovation (M4I)"

And an email from Ann Gorey, Department of Administrative and Information Services, Adelaide, informs me that she was working with with Tim Sierp on some life cycle costing research and discovered the existence of **The UK group is Movement for Innovation (M4I)**.

This can be found at <http://www.m4i.org.uk/conference/index.htm> which is also developing information on life cycle costing and is worth a look. There is also a website devoted to **construction best practice** at <http://www.cbpp.org.uk/cbpp/>

Get Easy Access to these websites through www.amqi.com Just look up "life cycle costing" in the articles and websites index.

Next Issue:

Why does it cost - **how** much?

This is an issue devoted to asset cost estimating, including that vexed "shall we repair or replace?" issue for long lived infrastructure assets.

August Web Contribution Award

Thanks

We thank **Anne Gorey, Tim Sierp** and **Françoise Szigeti** for sharing the fruits of their research and discovery with us.

Pass on Your Great Discoveries

If we had to find out everything for ourselves we would never get anywhere so please pass on your great discoveries.

And Share Your Ideas

And don't forget that if you have interesting articles that you have written that are of relevance to strategic asset managers, then either put them on your website and send us the address (preferable) or send them to us directly and we will put them on the amqi.com website for all to enjoy and benefit from.

If you do you will automatically enter the monthly Web Contribution Award.

Of our Contributors this month, our August winner is

Françoise Szigeti
Deputy Director
International Centre for Facilities
Ottawa Canada

Not only did Françoise contribute the existence of the website on life cycle costing, valuable in itself, but she also submitted an excellent paper on

"User Needs and Quality Assessment"

How do you define user needs and provide a quality assessment to ensure that users get the facility that best matches their needs? This paper will answer this question by first presenting and discussing how the ASTM Standards are used, and then by demonstrating how one organization, the American State Department for Chanceries, implemented these standards. You will find it on **www.amqi.com**. Look up "User Needs" or "Quality Assessment" in the articles/websites index

Françoise wins a 12 month subscription to ***"Strategic Asset Management"*** with our compliments.

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