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**# 340 ASSET MANAGEMENT**

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**Learning from the Arts**



Pipilotti Rist  
Gravity Be My Friend, 2007  
audio video installation by Pipilotti Rist (video still) Courtesy the artist and Hauser & Wirth from the website of the Australian Centre for Contemporary Art, one of the participants in the study

**A Special Case Study Issue: Service Oriented Asset Management.**

Performing and Contemporary Arts Companies are famous for their attention to providing service - and notorious for their lack of interest in the daily grind of asset management. So, an asset management system that captures their interest would, prima facie, have to have something going for it.

**It could equally well be used by councils for the sporting bodies that they support by providing buildings that need to be managed by the users.**

In this issue we look at a study undertaken by SKM for Arts Victoria. I am indebted for help in constructing this case study to Claudia Ahern, Arts Victoria and Claire Moritz of SKM and am appreciative of the enthusiasm of everybody we met in Arts Victoria and the NGOs that feature in the study.

A more detailed version of this work is to be published next month in "International Case Studies in Asset Management" by Chris Lloyd, Telford Publishing, London. (See details on page 10)

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## Preamble

**For some time now, governments have favoured capital allocations above recurrent because the 'once-off' nature of capital appears to allow greater control.**

There have been two major consequences:

1. asset portfolios have increased but the means to maintain and operate them have not, and
2. budget petitioners (government departments, non-government organisations) have been encouraged to measure their value to the community in terms of their success in winning capital allocations.

**Capital funds have thus become an end in themselves rather than a means to improved performance.** Perhaps nowhere is this as true as for organisations in the Arts field, where performance has always been seen to be more than simply the number of visitors, but pinning down exactly what services are being provided, and to whom, has proved elusive.

**Across Australia, measures are now being taken to change attitudes from 'asset centric' to 'service centric'** (as we have seen in SAM Issues 328 - 330) and this is one of them. It illustrates the development and application of a 'service oriented asset management' framework to Non-Government Organisations introduced by Arts Victoria.

## Art Victoria's Requirement

The Arts Victoria Service Oriented Asset Management Framework guides and informs decision making for compliance, maintenance, renewal and long-term development of Arts Infrastructure. It includes asset compliance and condition audits and is intended to deliver a process of continuous auditing, monitoring and reporting for the ongoing management of the overall asset portfolio.

The change in approach was instigated in 2009 as Arts Victoria recognised that they did not have the tools and resources to make effective and planned asset management decisions for their facilities occupied by non-government organisations (NGOs). Two previous facilities reviews had raised concerns that the facilities were not being well

managed and maintained by the NGOs and there was a lack of clarity and transparency in the funding procedures.

### **The Issue**

The portfolio was facing increasing pressure associated with short-term rectification works being prioritised ahead of sustainable long term planning for asset renewal. Arts Victoria realised it needed a structured and transparent basis for supporting NGOs and a consistent approach across the portfolio as it was having difficulties in meeting its portfolio reporting requirements to Government. As always, in the absence of a formal approach, people who know how to work the system tend to get the most funding, maintenance backlogs were growing and services were suffering.

The task was to develop a framework to assist Arts Victoria to improve the day to day asset management, protect the facilities, enhance the services provided and provide clarity and transparency in funding applications for NGOs. These include two galleries, a modern dance company, a theatre company, a musical park installation, a youth theatre company and a circus. **This needed to be done in a way that engaged all stakeholders in the process.**

The framework was required to use a recognised established methodology acceptable to both Arts Victoria and the Treasury, one that would align with service delivery outcomes and take account of the complexities inherent in arts and cultural facilities.

An additional requirement was that the framework should be capable of being scaled up to suit the needs of the larger arts agencies, such as the State Museum and Art Gallery, so that a common approach could be taken to all Arts facilities. These agencies are semi-autonomous and are supported, rather than controlled, by Arts Victoria, so the framework would need to be seen to deliver demonstrable good value them if it was to be accepted.

The framework was also required to guide and inform decision making on compliance issues, maintenance, renewal and long-term development of Arts infrastructure. Therefore, it needed to be adaptable to the day-to-day asset management decisions of the organisations as well as to their longer-term developmental needs.

**Conventional Methods - Life Cycle Costing Models and Condition Audits - were examined but found not suitable for the purpose.**

As mentioned, Arts Victoria and the Treasury required the framework to make use of recognised established methodology, this included life cycle costing methodology and condition audits.

The Treasury had, over a period of about eight years, developed a life cycle costing (LCC) model for the assets held by its major budget dependent agencies in education, public housing, police and healthcare. But this model required a large number of very similar assets to make possible the modelling of renewals using averages and the laws of large numbers, and its use was tailored to large scale forecasting, analysis and financial planning by the Treasury rather than routine use by small organisations. Another limitation was that most LCC models are based on assets, asset lives and replacement costs, not on services and service levels.

Condition Audits were another commonly used tool, used to identify areas where facilities do not comply with regulations and alert facility managers to issues that might affect the longer-term sustainability of the building, for example, leaking roofs. In practice, condition auditors tend to go further and list improvements that, in their view, need to be made to the asset, such as painting.

Typically, these improvements far exceed the financial ability of the organisation, which means they need to be prioritised. To do this, a fit for purpose assessment is needed but the detailed knowledge of the service delivery requirements of each facility this requires is beyond most condition auditors so it is rarely done.

For these reasons, neither the traditional LCC model nor the condition audits were able to handle the requirement that the framework be aligned to service delivery outcomes and so a new approach needed to be developed.

Recognising that both LCC models and condition audits had their place, an audit of information held by both the NGOs and the larger arts agencies was conducted to establish the gap between what they had and what they would need for LCC modelling and a condition audit of NGO assets was used to identify any serious issues of sustainability and compliance. **However, the major part of the work involved developing a framework that focused on services and service levels.**

### **It had to be simple as most NGOs do not have facility managers**

Most NGOs do not have facility managers and their focus is on what the facilities can do, rather than on the facilities themselves. Few of them, and indeed few of the larger

agencies, had mission statements that were in a form that could guide their asset management actions and help them define and measure success. Mission statements and the objectives of many NGOs were very broad, a typical example being to 'enrich the lives of artists and audiences'. In the absence of clear performance success criteria, it was perhaps inevitable that the ability to secure capital funds was sometimes used as a proxy. Moreover because of the limitations of recurrent funding, many sought other means, such as the hiring out of their facilities for non-arts purposes and some came to see this as a major function even though it was not in their remit from Arts Victoria. One of the advantages of the new service based understanding of their purpose was to help them take a different view of what they do and what success looks like and be able to measure it, even if only in broad terms.

### **What was done 1:**

#### **Identification of 'Functional Spaces' - a different way of looking at assets**

The development of the Service Oriented Asset Management Framework started with a review of the main functions of each organisation in order to categorise the space around these functions. An Art Gallery may have several exhibition areas, in separate rooms or separate buildings, but together they serve a single function, that is, exhibiting art work, and can be viewed as one functional space. Alternatively, a section of one building may constitute a teaching area that, because teaching is a different function from exhibition, becomes a separate 'functional space' even though it may share a building or room with other functions.

By this analysis, three exhibition galleries became one functional space and, in another organisation, three theatres became one functional space. This perspective enabled the discussion to be shifted away from the need for capital enhancements to, say, a specific gallery or theatre, towards the realisation that functions may be able to be fulfilled by any theatre or gallery and that a service may not need to be delivered by each gallery or theatre. This shift in emphasis from specific assets serving a particular geography to functional space helped to focus discussions and decisions on services rather than assets.

#### **Enabled a focus on Function from the beginning**

Without a group understanding of the importance of each functional area to overall service delivery it was possible to get caught up capital improvements to functions that actually contributed very little to overall service. The development of the service-oriented templates, therefore, placed emphasis on determining the relative importance of each functional space. Where organisations found this difficult, they were asked to think about what they would want to re-establish first if all their facilities were destroyed by fire.

Functional priorities are determined by the organisation's strategy and only change when there is a major change to that strategy.

## What factors drive those functions

Having determined the major functions, the next task was to identify the factors that drive those functions. Take, for example, a contemporary dance company whose stated purpose might be 'to design, produce, present and tour new contemporary dance works of the highest quality and calibre'. It might define, say, five functional spaces, but of these, three may contribute the bulk of the service delivery. Perhaps its performance studios may be considered to contribute the most, say 40%, administration 25%, and amenities 15%. For each of these important functional spaces, the major factors affecting success would then be identified. For example, for the Performance Studios it might be considered that the facilities interacted with service delivery outcomes in five ways: through support for innovative creation/design, production, or rehearsal and performance under national and international conditions, safety of performers, comfort of performers and the ability of the organisation to grow.

Functional spaces not only serve different service outputs, they also serve different interest groups. In preparing the templates, the NGOs were asked to think about the importance of each functional space in terms of:

- **The customer/patron experience**, for example in theatres, auditoria, foyers, reception areas and galleries
- **The provider experience**, for example, in administration areas, workshops and loading docks
- **The whole of government experience**, for example, heritage aspects, long term physical sustainability of the facilities, environmental sustainability aspects such as energy and water usage (The templates provided the basis for this assessment but the whole of government issues were also informed by the desk top study that examined information in the form of LCC profiles, condition audits and reports on environmental and heritage issues.)

## What was done 2: Service Levels

For each identified functional space, the key factors affecting the contribution that the space makes to total service outcomes were identified, as above, and then a five

point service performance scale, ranging from very poor to excellent, was used to examine each of these key factors in turn.

The key to the service levels statements is that they are written as positive, 'we' statements to reinforce the attitude that service levels are only partially determined by the nature of the physical asset and at least as much by the way it is used. This also encourages the use of non- or low capital options to achieve higher service level ratings. Each service level is written deliberately as a narrative rather than quantitative statements in order to encourage engagement by everyone in the organisation and to maximise innovative thinking.

As an example, for the performance studios for a contemporary dance company, a level 5 statement may include statements such as "we are unlimited in our creative ability and can create for small, medium or large size performances" (note that this does not imply that all of these abilities are necessarily to be found within the basic facility and it may be that this is supplemented when necessary).

A level 3 statement may include a statement such as "we can create a range of performances but have to be mindful that not all spaces have flexible theatrical and audio visual equipment although most do". A level 1 statement may focus more on the limitations and include statements such as 'the small size of available spaces restricts the range of possible productions' or 'absence of sprung floors causes concerns for performer safety'.

With the 5 grades of service levels prepared for each functional space and agreed by the organisations, the NGO was asked to assess where it felt it currently stood on each service scale and where it thought it should be aiming to be.

Although the initial reaction of most was to claim a very low current status and to aim for 5 in every case, on reflection, they were able to recognise that 5 was not necessary for every one of their functions and to adjust their initial assessment of current status. They were advised that Arts Victoria, as the investor, would also have a view as to the current status and the aspirational levels that they were able to support and thus the NGOs' assessments should be viewed as the basis for discussion rather than the ultimate outcome.

The overall position of each organisation was determined by multiplying the importance of the space in terms of its contribution to service delivery by its current agreed service level. The reliability of the result was enhanced by asking the client

manager for each NGO to verify the NGO self-assessment and then by bringing the NGO and the client manager together to reach agreement on a final result

By the end of the assessment process, Arts Victoria had a better understanding of exactly what performance outcomes each NGO wanted to achieve and the NGOs themselves were clearer about what levels of aspiration the funding body was prepared to support at that point in time.

Funding is not provided to help NGOs on this basis - that is determined project by project. The service levels are applied in three ways:

- As a basis for discussion – to provide a common understanding to engage all stakeholders (arts programmers, facility managers, finance, directors, etc and Arts Victoria) in recognising the relationship between facilities and service delivery and to enable them to come to a common understanding as to the nature of the current service level and what level of aspirations could be financially supported.
- As a rationale for project proposals - any facility project proposal submitted must now show how, and by how much, the project will improve service delivery. In other words, how it will move them from the current to the agreed aspirational levels;

As a measure of improvement - NGOs are required to show how they will know when they have been successful by identifying the KPIs they will use; and, to explain what alternative non-, or lower level, capital strategies have been introduced or considered to address the need

## **Outcomes to Date**

The Service Oriented Asset Management Framework integrates asset management with service outcomes and, by doing so, encourages a wider range of options to be considered than capital enhancement alone. The approach has now been embedded into funding application documents so that organisations need to relate their bids to service level improvements. Other benefits include:

**The templates provide vehicle for internal debate within the NGOs** as to what were the most important contributing factors to service output - previously, there had been no explicit consensus on this and so different executive members had pursued separate and incompatible goals.

**Only serious compliance and sustainability requirements are mandated on NGOs.**

Other requirements, identified by the condition audits, may be addressed within the next two, or the next three to five years, depending on their importance. Other than these, all capital spending decisions were to be based on the contribution of the asset to service delivery outcomes

**Arts Victoria now have a way to assess contributions to each NGO against the level of performance improvement that could be achieved.**

**There is now also the basis for discussion between Arts Victoria and the State Treasury**

The recently published Asset Management Framework Service and Asset Strategy Guidance (2011) from the Department of Treasury & Finance (DTF) further consolidates the link between assets and services through capital and recurrent funding planning and reporting steps.

The Treasury Guidance document is useful for embedding service as central to securing funds, but it gives limited evidence to users and operators of sites as to how asset management can support, as opposed to inhibit their abilities to deliver effective services. The templates and approach, as developed for the NGOs, is the practical 'hands-on' document that will help Arts Victoria to apply the new Treasury Guidance.

Central to this guidance is the concept of how assets will help departments and agencies deliver to their agreed service objectives. The Treasury Framework includes three key strategic planning documents - the Service Strategy, Asset Strategy and Multi-Year Strategy - which between them provide a view of long-term infrastructure investment needs and inform asset funding decisions.

The main requirements of each of these documents are as follows:

- A department's Service Strategy describes its current and future service delivery requirements to meet evolving community needs and expectations

- A department's Asset Strategy presents the preferred asset position required to support its current and future evolving service delivery requirements and strategies
- The Multi-Year Strategy should respond to the Asset Strategy, which in turn should respond to the Service Strategy. The implication is that all asset decisions should be a direct function of the Service Strategy.

### **In Conclusion:**

A service oriented approach supports the whole of government policy and practices being introduced and implemented by DTF and is expected to improve the capability and capacity to provide services and asset performance information, along with the increasing/evolving service reporting requirements. All government departments and agencies are now required to report on their service, asset and multi-year strategies annually. The appropriate reference to service benefit, impact or delivery must be included in forms and reports used for asset management in future. Funding applications are to include KPIs with service improvement statements for each item of funding sought. For its part, by applying the Framework, Arts Victoria expects to benefit from higher levels of transparency and consistency when delivering and reporting on asset management across the portfolio. Already the greater clarity of requirements has enabled Arts Victoria to make an essential change to their administration schedules to enable NGOs the time to provide information with minimum inconvenience to their rehearsal and performance activities.

**If you enjoyed this case study, you will be interested to know that in June you can obtain**

### **INTERNATIONAL CASE STUDIES IN ASSET MANAGEMENT**

by Chris Lloyd

Thomas Telford Publishing, London, June 2012

(available in both paperback and online versions)

'International Case Studies in Asset Management' shows stakeholders at every level how an asset management approach can provide the strategic perspective, transparency, and tools they need to maximise returns on capital, grow market value, and demonstrate that investments are put to best use. This book offers a wealth of experience covering methods, techniques, decision criteria, assumptions, measures, and insights on how to embed asset management thinking and use it to reduce risk, improve services, and become more competitive. With a strong emphasis on leadership, the book shows readers how they can change the way people work, break down boundaries and create an asset management culture.

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