



---

# THE BULLETIN

## SUMMER 2008

---

BUILDING THE  
COMPETITIVE EDGE  
*The key to successful property  
asset management*



# THE ADVANTAGE OF WHOLE LIFE ASSET MANAGEMENT PLANNING

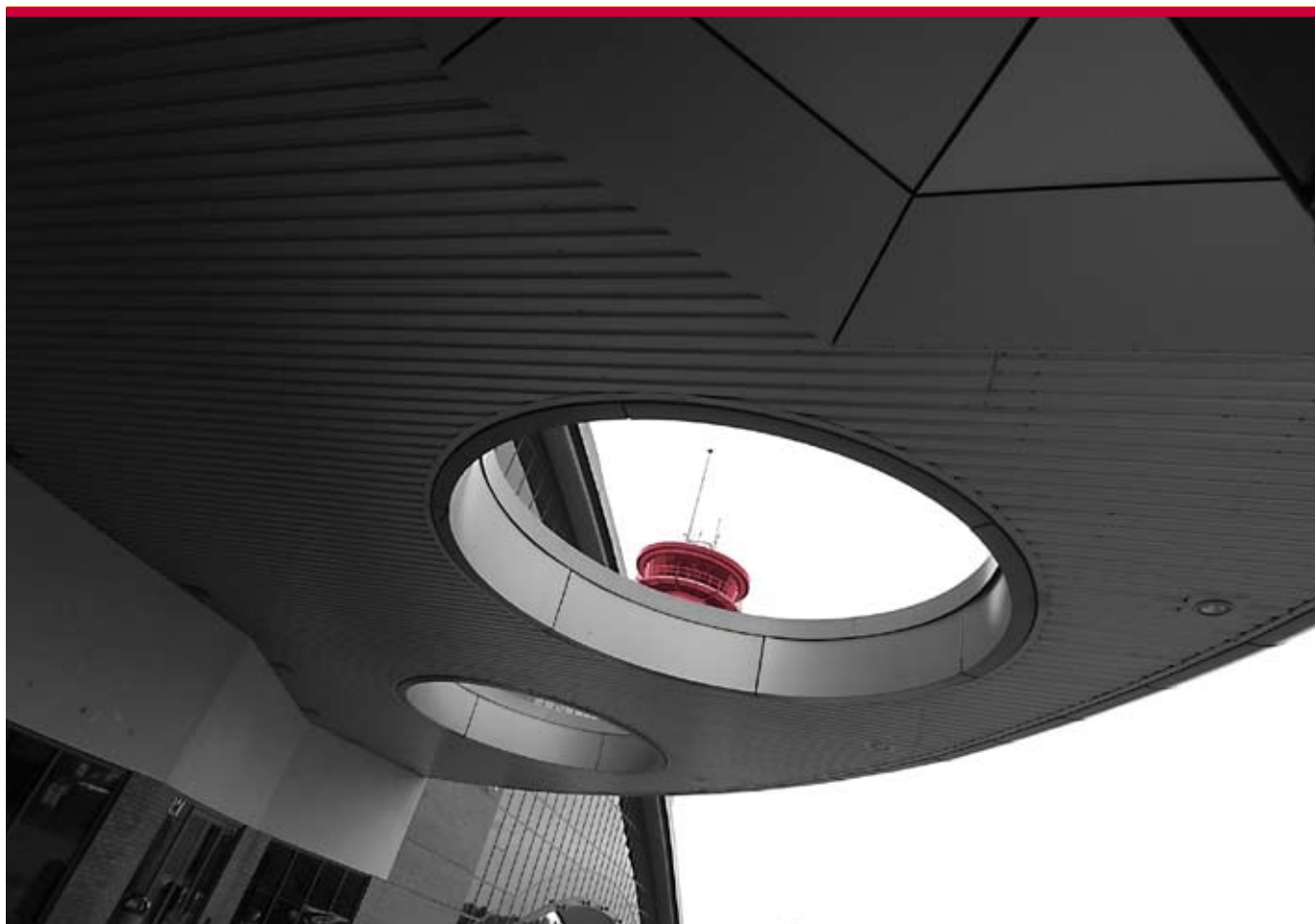
The asset portfolio – which is an organisation's infrastructure, facilities and property – represents a substantial cost base for any business. Players in both the commercial and public sectors risk locking themselves into a long-term cycle of overpaying for underperformance if they fail to adopt leading edge innovations in whole life asset management.

In the current economic climate especially, a tailored whole life asset management planning strategy – whether in infrastruc-

ture, information and communications technology or real estate – is the key to adding value, reducing costs, driving efficiencies, meeting sustainability challenges and boosting profit.

Of course, successful whole life asset management planning requires strategic buy-in at board level if these considerable commercial benefits are to be realised.

It is an enterprise-wide issue requiring coordination and cooperation at all levels



to ensure that the organisation's assets support the corporate goals and objectives in terms of quality and fitness for purpose, optimum access for all stakeholders, increased value for money and effective use of resources.

Above all, it must be sustainable – and the proven link between good asset management and improved frontline services must be communicated to the other key areas on which it has a major impact. These include the finance function, human resources, information and communications technology, procurement, logistics and workplace strategies.

While the majority of modern companies are clearly focused on the strategic advantages of sophisticated human resources management, attitudes to infrastructure asset management are not as advanced. However, the two are fundamentally linked and critical to personnel at all levels in an organisation.

There is considerable scope for improved performance in asset management across the public and private sectors where the significant value creation and risk management potential remains underexploited. In part, this is due to lack of awareness of the impact that a holistic asset management strategy, such as Currie & Brown's, can deliver.

Organisations, from the multinational corporation to the municipal authority, are waking up to the opportunities presented by asset management. They are realising



*There is considerable scope for improved performance in asset management across the public and private sectors*

that by better aligning business needs and services with asset management planning and scenario modelling, they can make a substantial positive impact on employee productivity and morale while contributing to the bottom line.

The example of the property sector alone highlights the scale and potential of this strategic, holistic approach. The latest research from insurance group, Royal & Sun Alliance, published in November 2007, shows that the total value of the UK's commercial property portfolio was £741 billion while some £16.6 billion of new commercial development was commissioned in 2006, the latest year for which figures are available.

Traditionally, the main focus of asset management, from rail and water to property and energy, has been to control short-term operational and maintenance costs. Senior



## *Business models and data sets must take account of the long-term strategic benefits of whole life asset management*

management can easily grasp the need to reduce running costs but their business models and data sets must take account of the long-term strategic benefits of whole life asset management which will take their planning and modelling to a more efficient, strategic, structured and embedded level.

Effective asset management adds to the strength of a business, irrespective of its core disciplines. It ensures that organisations have the necessary overview of their liabilities and can make strategic decisions on such matters as relocation, redevelop-

ment or the outsourcing of services or the assets themselves.

Certain commentators have described this whole life approach as a 'cradle to grave' service, covering strategic decisions on the relocation, redevelopment, outsourcing, acquisition, maintenance and disposal of assets and any cross-functional co-ordination needed to achieve the desired outcomes.

In fact, best-in-class 'whole life' management of assets starts by challenging the core assumptions that dictate a need for an asset-based solution in the first place. Key questions include: why are we investing in these particular assets; are these assets necessary to deliver our service; and can we reduce the asset requirement to increase value for money?

Such analysis requires a fundamental understanding of the issues, and a robust data set, covering such factors as:

## KEY BUSINESS DRIVERS

- Evaluation of alternative strategies and option appraisals, from acquisition to remodelling
- Accurate forecasting, profiling and risk analysis
- Detailed breakdown of previous and projected capital expenditure
- The optimum trade-off between performance and lifetime replacement/operating cost
- Awareness of the impact on the wellbeing, satisfaction and performance of the organisation's people.

Once this analysis is undertaken we can support organisations in effectively man-

aging substantial levels of investment over the lifetime of the asset.

Thus, by taking a holistic whole life view of the client's business drivers, we can maximise value and performance while minimising risk and cost.

The simple case study, left, serves to illustrate the essence of this holistic approach.

Effective and efficient whole life asset management is becoming increasingly important in any infrastructure owner's investment decisions. With escalating infrastructure maintenance bills, asset owners are recognising the benefits. This is as true in the public sector as in the private and quoted sectors.

Taking the example of the public sector, in his report to the Chancellor in November 2004, Sir Michael Lyons highlighted that the UK public sector owns £766 billion of assets. And the Civil Estate constitutes a substantial asset covering 13 million square metres of floor space with an annual running cost estimated at £6 billion. It is clear that even modest improvements in the performance of this estate will deliver significant efficiency savings.

Sir Michael calculated that at least £760 million each year could be saved through office relocation, intensified use and full benchmarking. Those annual savings would pay for 25 new schools every year.

This striking investment benefit was independently endorsed by a major study by the University of Leeds in 2006 which suggested that in the central civil government estate, savings in the order of 10% minimum could be achieved through strategic and integrated property asset management.

## CASE STUDY

*In the United Arab Emirates, new tower blocks are currently being erected, some of which will require demolition in 15 years time.*

*Replacement of an 80-storey building in a prime location will necessitate that site and accommodation being offline for up to three years to take account of the cycle of demolition, site remediation, rebuild and commissioning. That disruption and displacement represents a major continuity threat to business planning.*

*The difference in applying holistic asset management, where the considerations are made prior to initial design, will deliver a substantial reduction in future remodelling cost and the associated logistics requirements by anticipating and mitigating such risks.*

*By designing the shell and core for a 30-year life facility to change the look of the exterior future remodelling costs will be reduced as will the duration of the building being offline.*

*Getting the right structure and process in place is essential and major corporations are increasingly relying on external expertise to facilitate, scope and achieve these efficiencies.*

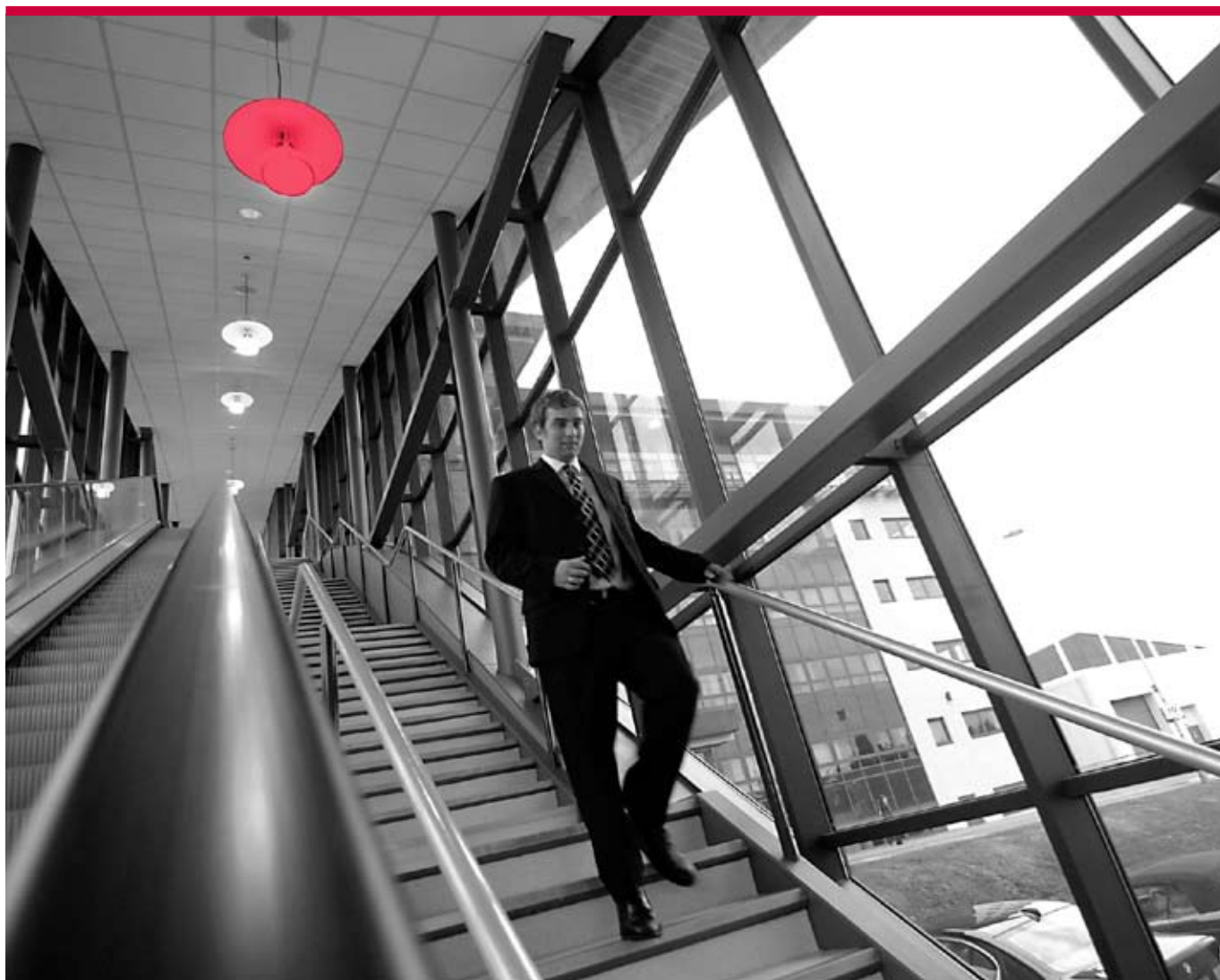
*The imperative of generating a full return in all asset classes has never been greater*

As economists reduce their growth forecasts in the current climate, the commercial imperative of generating a full return on investment in all asset classes has never been greater.

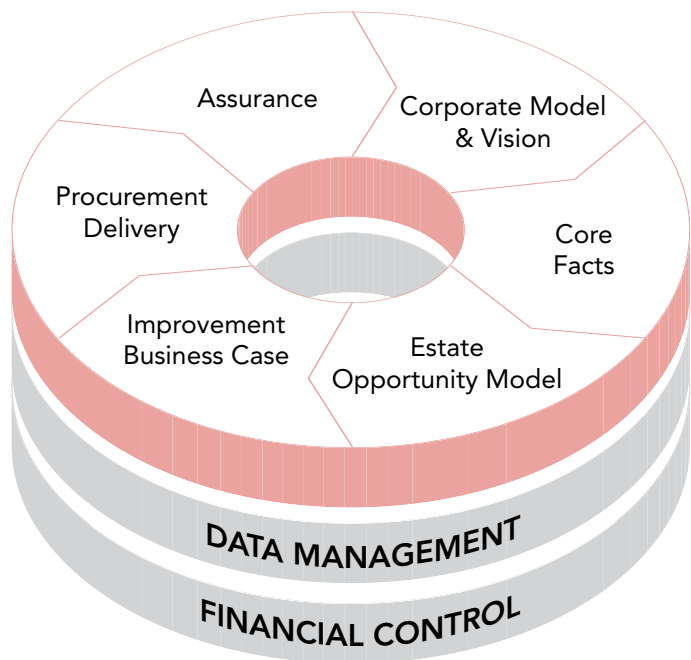
Current indicators suggest that the credit crunch, driven by the sub-prime crisis, is now impacting growth. The latest figures from the IPD reveal that in January this

year, commercial property capital values had fallen by 12% year-on-year.

In its latest quarterly outlook, the CBI says the UK economy will grow at a slower than predicted rate of 1.7% this year, and by 1.3% in 2009. The OECD puts the figure at 1.4%. However, major blue chips are now exploring the huge potential of whole life asset management as a value generation



## Asset Management Planning: Continuous Improvement Cycle



### WHY IS ASSET MANAGEMENT PLANNING (AMP) IMPORTANT?

- Assess the best portfolio required to deliver the given service
- Minimise occupation costs and maximise property efficiency
- Maximise efficiency of service delivery
- Plan expenditure and procurement in line with corporate objectives
- Develop partnerships and synergies with other organisations

and risk management proposition with the Currie & Brown model being adopted strategically by organisations with widely differing asset challenges. Doing so creates greater visibility of future earnings and can protect margins in a tougher economic climate.

Industry leaders across all global sectors realise that whole life asset management can extend the effective service life of assets with a commensurate reduction in the need to invest in new assets.

Given this opportunity to create long-term value through whole life strategic asset management, they are working with external consultants to harness the benefits in terms of reduced costs, increased competitiveness, enhanced efficiency and improved performance.

With issues of corporate social responsibility (CSR) now high up the business agenda, the asset management strategy can shape the organisation's engagement on community and environmental matters with its focus on issues of long-term sustainability and sustainable development.

This has moved up the corporate agenda recently as increased global competition for limited resources has led to a greater emphasis on social, economic and environmental factors regarding the sustainable development of property and land.

Currie & Brown manages the entire whole life asset management process as a trusted adviser, providing a unique integrated model that delivers the sophisticated and mission critical modelling required by financial directors in both public and private sectors. It is a dynamic continuous improvement model designed to be robust enough to meet the changing demands made on assets by a marketplace in flux.

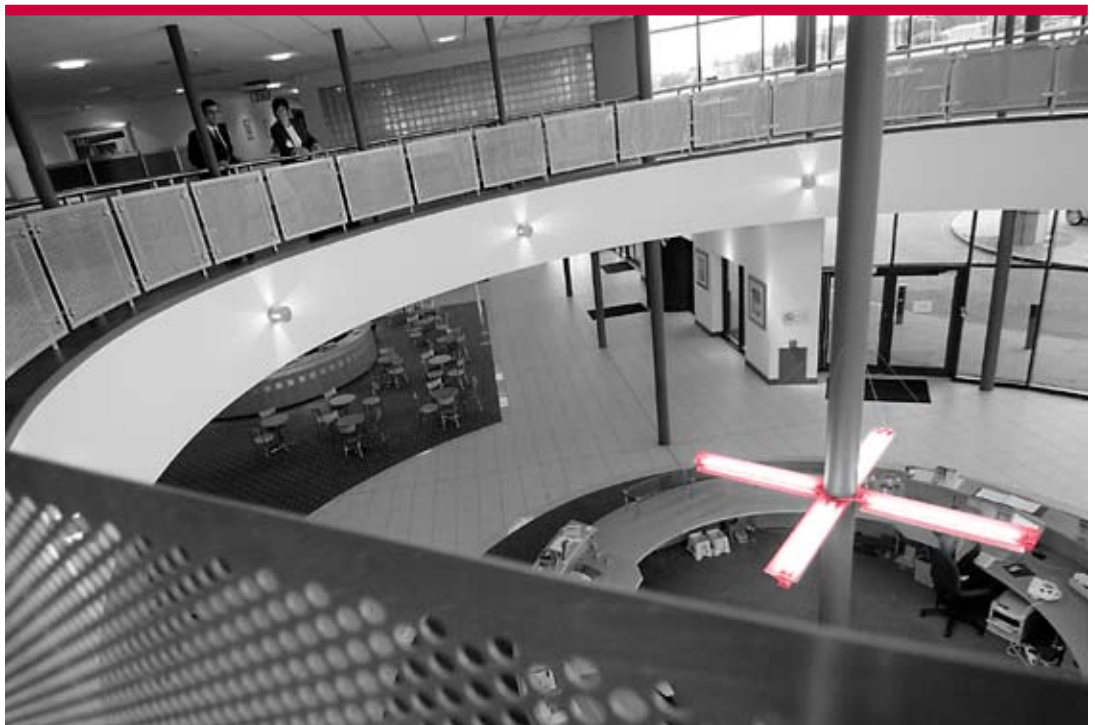
*Industry leaders across all global sectors realise that whole life asset management can extend the effective service life of assets*

## *Trust is the key to delivering a successful whole life asset management strategy*

Our aim is to help clients future-proof their business from an asset management perspective by taking a lateral view of asset management and mitigating risk.

However, beyond the technical expertise and added value service offering, trust is the key to delivering a successful whole life

asset management strategy. Clients can trust us with the sensitive business information required to maximise the impact of the modelling. They can also trust that their assets will be more actively and strategically managed to provide an enduring competitive edge.



If you would like to find out more about the issues discussed in this paper or learn more about how Currie & Brown's expertise can add value to your organisation please contact Martin Dorby, director management consultancy.

[martin.dorby@curriebrown.com](mailto:martin.dorby@curriebrown.com)