

# 1 Asset Management Concept and Development in the Public Sector

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### 1.1 Introduction

This chapter reviews the literature on property asset management in the public sector by focusing on three areas. First, the review explains the concept of asset management. Second, literature is reviewed in order to highlight the structure of operational property assets in the public sector in the United Kingdom (UK). Third, the evolution of asset management is reviewed by tracing its origins, the forces behind asset management reforms, as well as the trends in the development of asset management in the UK and internationally. A review of the trends in the development of asset management in the UK includes establishing the status of asset management practice in public sector organisations.

### 1.2 The concept of asset management

This section explains the concept of asset management by defining and identifying the components that it comprises.

#### 1.2.1 *Definition of asset management*

Different sources variously describe and define the term ‘asset management’. For instance, the Royal Institute of Chartered Surveyors (RICS) (2008) settled on a definition and description of the term asset management in public sector organisations after evaluating a number of published definitions from various sources, such as those by RICS/Office of the Deputy Prime Minister (ODPM) (2005), Male (2006) and Lyons (2004). Thus, RICS (2008) defines asset management as ‘a structured process that seeks to ensure best value for money from property assets in serving the strategic needs of public sector organisations’. In considering this definition and other definitions of asset management, RICS (2008) concludes that ‘there appears to be considerable consensus over the basic characteristics of strategic asset management for land and buildings and a distinction between strategic asset management and operational property management’.

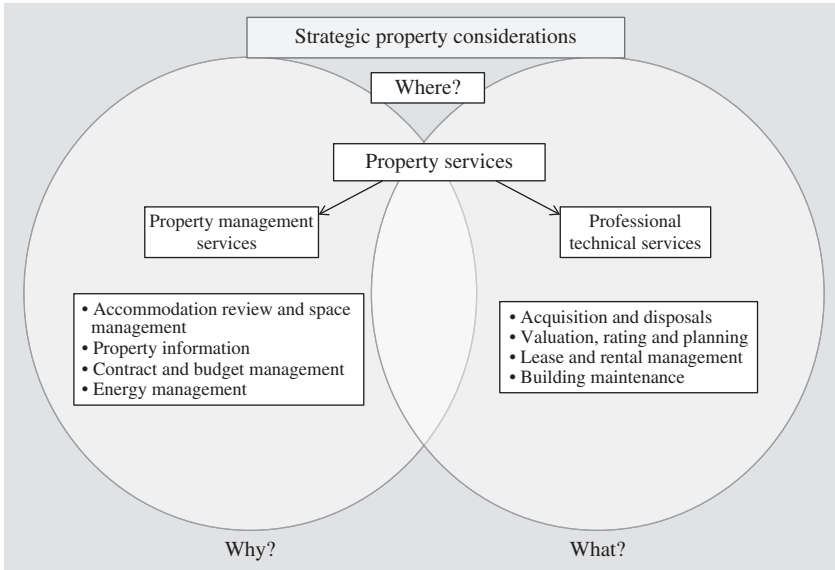
Asset management is characterised by:

- the adoption of an integrative approach (Institute of Asset Management, 2006; British Standard Institution (BSI), 2008; Edwards, 2010);
- defining service levels and performance standards and limiting them to strategic planning objectives;
- an optimised investment decision-making approach;
- adopting a long-term (lifecycle) approach to asset management (Worley, 2000);
- demand and risk management (Department of Provincial and Local Government, 2010).

The integrative role of asset management relates to the fact that the approach combines management, financial, economic and other activities and practices applied to the management of property assets' (Institute of Asset Management, 2006b) in a systematic and coordinated manner (British Standard Institution, 2008). The Audit Commission (2000) states that the strategic approach to managing public sector organisation property portfolios involves two broad strands of activities, as illustrated in Figure 1.1. The strands are *Strategic Property Considerations* and *Property Services*.

**Strategic property considerations** are in effect asset management, and include decisions about the number, type and location of assets required to meet a public sector organisation's objectives. It is the activity that ensures that the land and building asset base of a public sector organisation is optimally structured and aligned with its corporate goals and objectives (RICS, 2008). Strategic property considerations ask questions such as: where should the property be located; why should the property be sited in a particular location; and what size of property is needed to support a service?

**Property services** comprise two strands: property management services and professional technical services. Both strands deliver the strategic asset management objectives by undertaking the professional/technical and management work necessary to ensure that property is in the condition, form, layout and location



**Figure 1.1 Strategic property considerations and property services.**

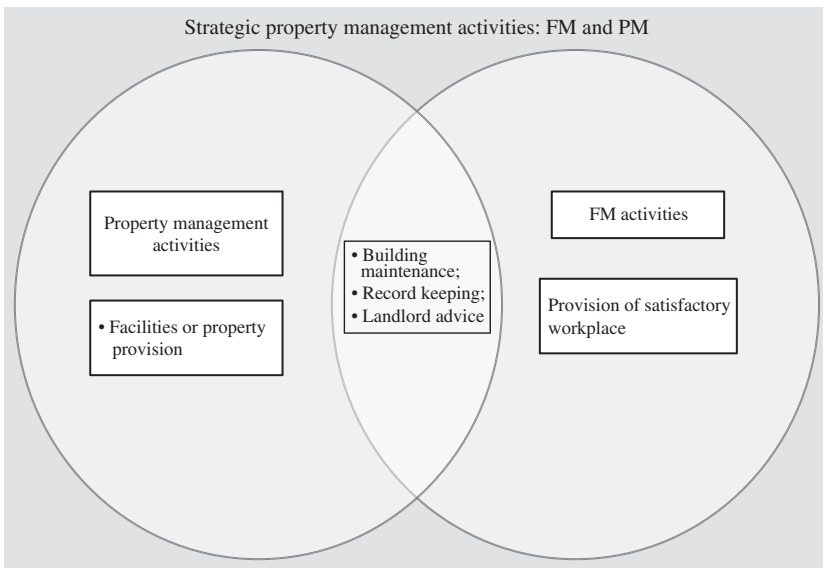
desired. Property services include ensuring that property is supplied with the services required; surplus property is disposed of and new property acquired and constructed; property is valued; property rates are catered for; and all this is done in a cost-effective manner. It also involves offering advice to decision-makers on the best way of managing operational property assets (RICS, 2008). What can be discerned from the various activities associated with property services is that it comprises two elements, namely property management (PM) and a concept known as facilities management (FM).

Ali (2007) cites Brown *et al.* (1993) who define facilities management services as coordinating the needs of people, equipment and operational activities into the physical workplace. It focuses on the provision of a quality working environment through various responsibilities such as facilities design, energy conservation and environmental control (Ali, 2007; Tay and Ooi, 2001). On the other hand, property management, according to Gibson (1994), is concerned with the care of buildings to tenants' or owner occupiers' satisfaction. Both FM and PM have responsibility for premises, although the focus of activities for meeting those responsibilities is different. The core of PM activities, also known as estate management, involves valuation

of property; acquisition and disposal of buildings; provision of advice on property investment; administration of leases; administration and accounting for service charges; supervision of building repairs; rent reviews and rating advice; strategic reviews of property and accommodation and sales of surplus space (Stansall, 1994; Balch, 1994).

Conversely, activities associated with FM include: control of operating budgets and occupancy costs; management and maintenance of building services; planning and management of moves; selection of furniture; management of space allocation and use; supervision of cleaning; security, IT/communication and telecommunications services; catering and office support services; materials and equipment purchase management; office equipment and furniture purchase and management; as well as maintenance of the building itself (cleaning, heating and lighting) and maintenance of all mechanical and electrical equipment and building fabric in terms of decoration and repair of internal and external equipment (Stansall, 1994; Balch, 1994).

In practice, the functions of PM and FM are not so neatly separated. There are some common roles between them. The interface between operational property management and facilities management within an organisation is shown in Figure 1.2.



**Figure 1.2 Asset management: FM and PM activities.**

### 1.3 Benefits of asset management

The integration of facilities and property management services, the hallmark of asset management, is the most beneficial arrangement for supporting public sector organisation objectives. There are practical and business benefits that accrue from utilising property asset management arrangements (National Asset Management Steering Group (NAMS), 2006a). The holistic and long-term view adopted by asset management makes it an efficient approach to property management as it ensures that property assets, which represent a major investment built up over hundreds of years in some cases, continue to deliver the desired services for as long as required. Additionally, the benchmarking of condition and performance, both of which are integral to asset management, promotes innovation and efficiencies (NAMS, 2006a). Furthermore, asset management provides a structured and programmed approach to long-term change. This is necessary because property assets are slow to respond to change due to the long lead-in times needed to create them as well as their illiquid nature. Annual incremental change is therefore insufficient and, as such, it is practically desirable to adopt a strategic approach, which asset management provides (RICS, 2008). An asset management framework also offers business benefits, which include amongst others: improved governance and accountability (Scottish Executive, 2003); enhanced service management and customer satisfaction; improved risk management (NAMS, 2006a); improved financial efficiency; and improved decision-making (Worley, 2000).

Through effective asset management, a public sector organisation will improve its governance and accountability arrangements with regard to its stewardship of property assets. Improvements are possible because the public sector organisation is able to demonstrate to tax payers and those who use its services that these are being managed sustainably and delivered effectively and efficiently. Improvement in accountability with regard to resource use is also enhanced by having in place and publishing financial and performance indicators (NAMS, 2006b; Scottish Executive, 2003). Furthermore, associated asset management techniques provide the basis for evaluating and balancing service, price and quality trade-offs. Having performance indicators in place ensures that public sector organisations have the ability

to benchmark asset management performance results against other or similar public sector organisations (Worley, 2000). Benchmarking ensures that the organisations deliver continuous improvement in their asset management arrangements through performance management. Asset management activities are undertaken in a systematic and coordinated manner. According to Worley (2000), such an approach improves governance and accountability as it ensures that there is a clear audit trail for the appropriateness of decisions taken and the associated risks. Also, through effective asset management service management, service user satisfaction can be enhanced. Improvement in service management and appreciation of services by users can be realised through a variety of mechanisms. Such mechanisms, according to the Scottish Executive (2003), include: improved performance and control of service delivery to the required standards, thereby maximising efficiency of service delivery; improved understanding of service requirements and options; formal consultation and agreement with users on the service levels; and a more holistic approach to asset management within the organisation through multidisciplinary management teams.

Improved risk management is another beneficial outcome that can flow from effective asset management. According to NAMS (2006b), asset management processes and practices ensure that assets are assessed for the probability and consequences of failure and issues relating to continuity of service are addressed. Apart from improved risk management, effective asset management practice has the potential to enhance the financial efficiency of a public sector organisation. At the heart of asset management practice is the concept of optimised decision-making (ODM), involving whole lifecycle cost and option appraisal of the asset management lifecycle activities of asset creation, operation and maintenance and disposal decisions. ODM, NAMS (2006a) argues, leads to improved decision-making. ODM ensures that decisions are based on evaluating both financial (costs) and non-financial costs and the benefits of alternatives. In addition, the decision-making framework based on ODM enables the prioritisation of investments, interventions and asset care activities as well as justification for introduction of or bringing forward works programmes and funding requirements. Furthermore, ODM makes it easier to recognise all costs of creating, owning, maintaining, operating and disposing of assets over

the lifecycle of the assets. Additionally, it ensures that a public sector organisation has a lean, well-maintained portfolio that allows the authority to live within its means by being able to fund both capital and revenue, by managing property running costs effectively and efficiently and releasing capital and then recycling it into corporate priorities (Scottish Executive, 2003). Apart from financial, governance and service improvement there are other benefits that flow from effective asset management. For instance, according to the Department for Communities and Local Government (DCLG) (2008), asset management can improve the economic wellbeing of an area by supporting and facilitating wider objectives such as regeneration and help to introduce new working practices and trigger cultural organisational changes. Furthermore, well-managed property assets can assist in reducing carbon emissions and improve environmental sustainability through low energy consumption. The potential to increase co-location, partnership working and sharing of knowledge are other positive outcomes associated with effective asset management; others include improvements in the accessibility of services and ensuring compliance with statutes and regulations. Since the need to ensure that assets are in good condition is one of the key goals of asset management, it follows therefore that a public sector organisation is likely to end up having a portfolio of properties that are likely to be in good condition, that is both physically and aesthetically. Properties that are in good condition are not only fit to support service delivery but also help to improve the quality of the public realm. The advantages offered by a structured approach to property management, as is the case with asset management, have not always been appreciated by public sector organisations.

### **1.4 Asset management development in the public sector**

Asset management evolution is investigated by examining the forces that have driven the adoption of asset management by public sector organisations. The evolution of asset management is also considered by tracing the trends in the development of asset management in the UK public sector and for similar institutions internationally.



### **1.4.1 *Origins of asset management***

There is a lack of consensus among researchers and commentators over the origins of asset management. However, there is unanimity among commentators that asset management evolved from other disciplines. For instance, Edwards (2010) argues that the concept is a relatively new description of activities that have been undertaken for many decades but until recently in a fragmented way. This argument is shared by Piling (2010), who states that asset management is not a new discipline but rather a concept that has evolved over a number of decades from the industrial age. Throughout its development phases, asset management has learned from and incorporated other disciplines and techniques. Piling (2010) further argues that, over time, there has been a gradual evolution of these different disciplines and techniques to the management of the business and management systems and frameworks that have supported them. However, from the 1970s, realisation started to take hold in organisations that the effective management of assets involved an enterprise-wide approach. The enterprise approach is one where organisations look at their entire asset portfolio and the interactions between asset systems. This integrative and entrepreneurial-wide approach is what is presently understood to be associated with asset management.

However, there is no agreement over the nature and type of business activities from which asset management originated. Woodhouse (2009) is of the view that asset management evolved principally from the UK's North Sea oil and gas industry during the late 1980s and early 1990s. The catalysts for the change are said to have been the survival pressures of the late 1980s following the Piper Alpha disaster and the crash in oil price (Woodhouse, 2009). These events forced a rethink on the part of these sectors. In response, the oil and gas industrial sectors introduced an initiative known as CRINE (Cost Reduction in the New Era). The initiative challenged many of the existing practices culminating, for most of the industry players, in the creation of business units with clear lines of budget authority and performance accountability and given active encouragement to challenge the status quo. The improvements that ensued led to significant cost reduction and a management model akin to what is now termed asset management arose (Woodhouse, 2009).

There were certain features that characterised this management model. The features included first, an increased focus on the role of assets that supported the gas and oil business activities. Second, there was increased interest in establishing how assets performed in supporting such business activities. Third, the gas and oil industries came to greatly recognise the role and creative input of operators and technicians. Finally, the management of assets supporting gas and oil activities came to be based on ‘whole life’ asset management plans. From these origins, asset management continued to evolve and this resulted in growing interest from organisations such as the Institute of Asset Management (IAM) to codify best practice for managing assets. In 2004 there was an initial attempt by the IAM to capture the minimum requirements and best practices. The Institute of Asset Management (IAM) and the British Standards Institution (BSI) launched a project on a standard for the management of physical assets known as BSI PAS 55. The BSI PAS 55 was, and is now increasingly seen as, the framework for good asset practices, particularly in the engineering and utilities sectors. BSI PAS 55 is still the ‘publicly available specification’ for optimised management of physical assets and infrastructure.

Edwards (2010) suggests that privatisation of the rail and utility companies in the 1990s was a spur to asset management in the UK. After privatisation, the rail and utility entities started pursuing efficiencies through higher levels of productivity and outsourcing of various services. Edwards (2010), further argues that, with time, these types of efficiency savings of increased productivity and outsourcing became harder to find. The rail and utility organisations responded by starting to challenge their asset renewal and maintenance activities to see if renewals could be deferred or planned maintenance intervals extended. In order to defer or plan maintenance, organisations needed better asset knowledge and control over their work management processes. These organisations then began to develop and implement asset registers and work management systems. Although the initiatives led to improved asset registers, they did not deliver the expected efficiency gains. Risk management and cost control remained a problem. Understanding, quantifying and managing risk, therefore, became increasingly important to unlocking the efficiencies associated with optimisation of renewal

and maintenance regimes. The demands of the regulators over controlling longer-term risks associated with asset management also led to pressures to provide better guidance on the holistic management of risk. Edwards (2010) is of the view that the need to holistically manage risks was one of the drivers for the Institute of Asset Management and British Standards Institution in developing BSI PAS 55. Regardless of the origins of asset management, its beneficial impacts are increasingly being appreciated by organisations in both the public and private sector. These beneficial effects are echoed by Piling (2010), for instance, who argues that the integrative approach associated with asset management has contributed to a situation where organisations now see asset management as a powerful tool to help them add value to a business, rather than as just a cost centre. Asset management brings value addition to organisations because the concept applies an enterprise-wide approach through the whole asset lifecycle.

## 1.5 Chapter summary

In this chapter, it has been pointed out that while the exact origins of asset management cannot be identified, they can nonetheless be traced to the North Sea gas and oil sector or to the privatised utilities in the UK. Despite lack of agreement over the origins of asset management, there is consensus that the concept evolved from other disciplines.

