

## INDUSTRY FAQ

# Frequently Asked Questions on Facilities Capital Management for Retail Banks

### 1. What are the critical elements of an effective facility asset management process?

There are many components to effective corporate real estate planning and management within retail banks. The ability to accurately forecast costs – both of ongoing facility operations and maintenance and of future capital needs – is paramount. This capability requires that banks maintain detailed, up-to-date information about facilities and major building systems. Implementing common processes for assessing facility requirements across the portfolio is one step toward ensuring you have an accurate picture of current needs. The use of a common source for cost data – from a reliable cost database such as RSMMeans – also facilitates this process.

With requirements and costs documented, a consistent and objective process for categorizing capital projects and aligning them with business objectives is the next step in effective capital management.

The ability to analyze the impact of different funding scenarios on long-term costs and facility conditions is important to understanding the impact of inevitable trade-offs, and optimizing your investment strategy. Finally, the ability to understand what has been spent against the planned budget at any given time is critical for managers and financial executives to keep capital spending on track.

### 2. How often should we assess the condition of our facilities, and what should the assessments encompass?

Most banks categorize their facilities based on their criticality to the business. Mission-critical data center facilities, for example, generally warrant more frequent appraisal than sales offices. As a rule of thumb, we recommend that you reevaluate the condition of each facility and its major systems at least every three to five years.

There are various approaches you may take to this evaluation.

A facility condition assessment, conducted by trained professional assessors, should collect detailed information about all current requirements in your facilities, and the cost associated with remediating them. System lifecycle assessments, on the other hand, focus exclusively on major systems such as HVAC and electrical.

In some cases, you may require information related to a specific requirement, such as ADA compliance or energy efficiency. Depending on how recently a facility has been evaluated, you may choose to conduct a targeted assessment focused exclusively on this issue, or include an assessment of this requirement as part of a more comprehensive condition assessment.

For retail branches, an assessment of branch compliance with branding standards is a method banks can employ to both promote a consistent customer experience and reduce costs through the use of common layouts and systems.

### **3. How does a branch branding assessment work?**

A branding assessment evaluates how consistently a bank's retail stores convey the desired brand image and experience. The findings serve as a basis for determining which branches require the most investment to comply with brand standard, as well as for implementing more standard branch layouts and building systems, which deliver greater cost efficiencies.

The branding assessment inventories infrastructure elements and signage contributing to brand image and assesses their current condition and appearance. Also considered are such elements as ATMs, customer service areas, teller areas, general office space, employee break rooms, training rooms, restrooms and special areas such as power rooms. In each of these areas, the condition, appearance and finishes of ceilings, flooring, doors, lighting, walls and security systems are evaluated. Window treatments, privacy partitions and appliances, where relevant, are also assessed.

### **4. How can we most effectively use information about facility conditions to guide ongoing investments?**

Most banks have a wealth of data related to their facilities, which reside in multiple departments, locations and systems across the organization. This is not surprising since there are many individuals with a wide variety of roles and responsibilities – from corporate real estate managers to financial analysts – that have different perspectives on this information, and need different views into it. However, using a central source for facility data – which will feed other systems – is important to promoting the consistency and accuracy of information that is critical to effective planning.

Given the complexity of the data, sophisticated decision support capabilities are often required to glean relevant business intelligence. Historically, many banks modified modules of existing financial or enterprise resource planning systems to address capital asset management and planning needs. However, increasingly banks are recognizing the benefit of dedicated systems that provide tools specific to capital planning, while enabling the seamless exchange of information with a variety of enterprise systems.

### **5. How can implementing capital planning and management software benefit our organization?**

Capital asset planning and management software provides a central source of information about facility assets which can be readily shared across the organization. It can provide a view into the condition of the entire portfolio, specific regions, particular types of systems, or an individual facility.

A capital planning application also facilitates the process of “what if” scenario planning, enabling you to identify the lowest cost options for achieving a certain facility condition. It can help you determine how to bundle multiple capital projects most cost-effectively, and reduce waste through more accurate purchasing. Capital planning software can also aid you in more effectively managing the renewal of building systems, and achieve savings by avoiding costly emergency repairs.

When calculating these cost savings relative to the cost of implementing VFA's capital planning and management software, typical payback periods for customers average less than 12 months following implementation, with an average three-year return on investment of greater than 100 percent, representing a range of 77 percent to 287 percent.

## 6. How can we effectively prioritize competing facilities projects and programs?

Some of the common criteria that banks use to evaluate the priority of capital investments, to which they may assign different weights based on their business objectives, include ownership, term remaining on lease, facility size, building function, building condition index (FCI), and building tier.

By employing statistical ranking methods including pair-wise comparisons, retail banks can simplify the process of comparing multiple criteria, and of ranking requirements based on organizational priorities.

Generally, banks invest more in facilities that they own or lease under a triple net lease contract, than those they lease for shorter terms. Similarly, they tend to focus more attention on maintaining detailed data for owned facilities. However, a detailed understanding of deferred maintenance requirements and costs can also provide important leverage in the case of leased facilities where a significant portion of this cost is the landlord or property manager's responsibility.

Similarly, detailed information about a facility's operational and renewal needs provide a strong foundation for lease versus own decisions, and choices about new building investment.

## 7. How can we minimize the risk of business interruption, while pursuing operating efficiencies in our facilities?

In addition to standardizing branch floor plans and mechanical and electrical equipment, more proactive management of system renewal across bank facilities is an effective enabler of operating efficiencies. Tracking the remaining useful life of all major systems, coupled with inspections based on age and observed condition, help promote the continuity of key systems.

Lifecycle renewal programs are one part of a proactive preventive maintenance strategy to mitigate the risk of business interruption. Doing 'too little too late' greatly increases maintenance and replacement costs for facilities and equipment. For example, the breakdown of an electrical panel supporting many computer systems could result in losses of \$30,000 per hour for a bank. In contrast, an annual preventive maintenance program on this panel can be conducted for a fraction of this cost.

Scoring the acceptable level of risk for each facility and major building system is one method banks employ to guide them in implementing appropriate strategies for avoiding costly downtime.

## 8. How do we target workplace improvements to support productivity?

With estimates of the costs of hiring and training a new employee ranging from 25 percent to 200 percent of the employee's annual compensation, keeping top performers happy yields quantifiable cost savings for banks. And those figures don't include the difficult-to-estimate costs of customer service disruption, and loss of experience, continuity and corporate memory.

By developing criteria for evaluating space requirements of different types of employees and collecting the relevant facilities data, including information on office square footage, cubicle material, office furniture and lighting, banks can establish indices for space per employee to support target productivity levels and gain insights into how to optimally consolidate facilities, better utilize space, target specific facilities for disposition, and reduce overhead costs.

The foundation for planning workplace improvements is detailed information about space configuration, finishes, and condition and remaining useful life of systems and fixtures. Conditions that impact workplace performance include such factors as office size and partition height,

break room placement and condition, air and pollution control systems, natural and artificial lighting, security and emergency power systems, and of course, aesthetic and ergonomic features, such as furniture, décor, and finishes.

### 9. How can we effectively control ongoing capital spending against the planned budget?

Controlling ongoing capital spending against your planned budget requires a reconciled view of overall capital spending that many organizations lack. Manual processes for tracking planned and actual expenses don't deliver a real-time view of the spending process, allowing unplanned expenses to crop up. In many organizations, such expenses consume up to 20 percent of capital expenditures.

Capital spend management software can help banks manage the process by which capital needs are identified, defined, approved as part of the budget, and then purchased. They assist banks in answering quickly and accurately answering questions such as:

- Is the budget being spent according to plan?
- Where are the variances?
- What unexpected/unbudgeted purchases should be allowed?
- Are the right substitutions being made?

### 10. What benefits can we expect from implementing a capital spend management system?

A capital spend management system can enable a bank to reduce costs through improved spending controls, while improving productivity by streamlining the process of capital budgeting, requisitioning and expense monitoring. Quantifiable benefits some of VFA's clients have realized include:

- Reduced cost of capital purchases 8 to 15 percent by integrating capital budget and purchase activity, increasing visibility and promoting aggregation
- Reduced unapproved capital expenses, which previously accounted for more than 20 percent of the annual capital budget
- Lowered operating costs by 75 percent through reduced labor to process create and reconciled capital reports, while reducing the time needed to process capital requisitions

Other qualitative benefits include the ability to create more accurate capital budgets, see real-time cash and depreciation forecasts, and automate the enforcement of fiscal policies.

#### About VFA, Inc.

VFA helps organizations strategically manage their facility portfolios with Capital Planning and Management Solutions (CPMS™) that combine software, assessment services and business process consulting. Organizations in government, education, healthcare and corporate markets employ VFA solutions to manage almost two billion square feet of real estate.

Contact us to learn how VFA can help your organization to optimize its facilities investment.

In the U.S.: (800) 693-3132

In Canada: (888) 685-3757

On the Web: [www.vfa.com](http://www.vfa.com)

Email: [info@vfa.com](mailto:info@vfa.com)