MCC INDONESIA CONTROL OF CORRUPTION PROJECT: A SPREADSHEET MODEL FOR JUDICIAL SECTOR ASSET MANAGEMENT

CONSULTANT REPORT ON MODEL DEVELOPMENT AND PRESENTATION, JANUARY 21 – FEBRUARY 2, 2008

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A. SUMMARY

In late January, 2008, the consultant traveled to Indonesia to undertake work on the MCC Indonesia Control of Corruption Project (ICCP), specifically on Task 1, Judicial Reform Activity 2b: Asset Management. According to the ICCP work plan and the SOW for this consultancy, the purpose of the trip was to follow up on the following task items:

- Lead design and development of a spreadsheet model for forecasting future asset costs. This task includes a number of technical sub-tasks:
    - Formulate specifications for asset "life-expectancy" schedules
    - Finalize collection of international benchmark materials
    - Establish connectivity of the model with Activity 2a of the project
    - Develop a simple financial spreadsheet model to help forecast the annual cost, at the individual court level, for acquiring new assets to either: a) replace damaged assets; or b) augment assets as needed if the number of court personnel increases or to meet other increased demands.
    - Prepare a written description of the model, including illustrative examples, for presenting to and discussing with the Supreme Court and with representatives from selected courts, in order to ensure that the model is responsive to their needs
    - After validating the concept with the beneficiaries, finalize the spreadsheet and develop guidelines for it use

A spreadsheet model in Microsoft Excel, along with examples, was developed by Ms. Kathy Gaertner, Ms. Katherine Carson, Mr. Muhammad Ridwansyah, and Dr. Olga Kaganova, and presented during the consulting trip. The model calculates estimated capital costs for building and equipping a new courthouse. It contains four main components: the cost of land acquisition; construction cost for a courthouse itself; furniture and equipment costs; and the cost of acquiring or building mandatory housing for judges. The model also includes a separate sheet for conducting sensitivity analysis. The draft model was accompanied by a Concept Note that discussed the underlying methodology, and model's possible uses. The draft model is useful as a stand-alone instrument to improve transparency and efficiency of financial planning and budgeting.

The model was presented to project counterparts over the course of four meetings (see the chart on the next page), attended by about 60 people from the Planning Bureau, Equipment Bureau, and Finance Department at the Supreme Court, and experts from the Ministry of Finance. The attendees received the model with unanimous enthusiasm. Mr. Mohammad Saleh (head of the Equipment Bureau), Mr. Hariri (head of the Planning Bureau), Mr. Darmawan (head of the Finance Department), and Mr. Subagyo (Supreme Court Administration) attended the initial presentation. Mr. Hariri met with the model team to discuss its finalization and applications further.

The welcoming reaction to the model can be explained by the fact that the Supreme Court administration, including Planning and Equipment Bureaus, were heretofore unfamiliar with the concept of using a spreadsheet as an instrument for financial planning. The technical side of the

Meetings Held to Present and Discuss the Model

Date	Title	Purposes	Number of Gov't Participants	Level of Participants	Results
January 23	Model ppresentation & coordination meeting with 3 bureaus at Supreme Court (Planning, Financial, and Equipment)	— Introduce the spreadsheet model — Obtain input for finalizing the model	18	Echelon I, II, II, IV and staff	— The participants were interested in the model and agreed to help improve it — Agreed to discuss more at the technical meeting with each Bureau
January 24	Technical meeting with Planning Bureau, Supreme Court	— Obtain specific feedback and suggestions from the planning bureau experts	7	Echelon III, IV and staff	— The participants provided suggestions on construction cost components — They agreed to conduct an informal trial survey on space use by judges and their satisfaction
January 25	Technical meeting with Financial Bureau, Supreme Court	— Obtain specific feedback and suggestions from the finance bureau	Approx. 5	Echelon III, IV and staff	— The participants asked about technicalities of spreadsheets
January 25	Technical meeting with equipment bureau, Supreme Court	— Obtain specific feedback and suggestions from the equipment bureau, Supreme Court	18	Echelon III, IV and staff	— The equipment bureau agreed to provide the list of equipment omitted in the draft model
January 29	Technical meeting with Ministry of Finance (Directorate Budget-II and Budget system) and Planning Bureau, Supreme Court	— Introduce the spreadsheet model — Obtain specific feedback and suggestions from the both entities	12	Echelon III, IV and staff	— MoF suggested following the technical guidelines for state building which was issued by the Ministry of Public Work — MoF suggested a useful after-calculation test of the model results — The participants started an inter-agency discussion on how the MoPW norms should be applied to Supreme Court
January 31	Meeting with The Head of Planning Bureau, Supreme Court	— Debrief Mr. Hairiri on the progress with model modifications — Discuss next steps, especially model use for planning and budgeting at Supreme Court	1	Echelon II	— Mr. Hairiri suggested how to unify various versions of the model — Mr. Hairiri informed us that Planning Bureau plan to use this model for the next Supreme Court's 5-yr. capital plan (2009-2014) — Asset Mgt Team informed him on how the final guideline documents for the model will be structured (two parts: technical and methodology)

model generated lively and constructive discussion and feedback from all units involved, including the Ministry of Finance.

Moreover, we were told that after the model is finalized, it will be approved as a formal planning instrument at the Supreme Court. Finally, Mr. Hariri expects that the court will use the model to develop the five-year capital plan for the entire Supreme Court system, when a new Cabinet of Ministers is formed after the 2009 presidential elections.

However, a number of issues surfaced during the development and presentation of the model. These are summarized with suggested remedies in under letter C below, Challenges and Next Steps.

Consultant Dr. Kaganova reviewed and evaluated subcontractor PT. Laksa Laksana's deliverables for asset inventorying under Phase I; she also participated in the project team's meeting with PT. Laksa Laksana to discuss the deliverables and required clarifications and modifications.

B. MAIN RESULTS

The draft Excel spreadsheet model — along with reasonably realistic entry data — and the Concept Note were developed before the trip, translated into Bahasa Indonesia, and sent to key counterparts at the Supreme Court and Ministry of Finance in advance. Ms. Garrtner and Dr. Kaganova prepared a PowerPoint presentation and provided all attendees of the first key meeting with its printouts. Information on four meetings related to the model presentation is summarized in the chart on the previous page.

The interest in the model and the spirit of cooperation was substantially higher than we anticipated, based on past experience of complications with asset inventory efforts. It turned out that except for one person at the Supreme Court, and 2 to 3 people from the Ministry of Finance, nobody among the attendees seemed to have been exposed to the concept of practical spreadsheet use. The attendees, especially those from the Planning Bureau, quickly realized how useful the model and corresponding sensitivity analysis can be for them, and demonstrated a great deal of interest. Each meeting focused on technical details that should be fixed (such as adding missing equipment items or revising the structure of the land cost) in order to make the model directly applicable to the planning and budgeting process.

The consultant collected practical suggestions from all the participants, and is incorporating these into the model. Modifying the model to reflect counterpart suggestions should create a sense of ownership among them.

The Planning and Equipment Bureaus told us repeatedly that the model, after being adjusted according to their suggestions, would be formally approved for use at the Supreme Court. An important factor that makes the model attractive for both bureaus is that each of them can "silence" those functions that are not relevant for their particular responsibilities, and work only with those germane to their areas of responsibility.

C. CHALLENGES AND NEXT STEPS (PLANNED AND SUGGESTED)

Analysis of regulatory documents and discussions held during the trip made some challenges quite clear.

1. There is confusion about which documents are applicable and should guide model structure and use. This led to restructuring some parts of the model and changing data for the illustration cases several times, to reflect the hierarchy of the guidance documents.

   Next step: While beyond the scope of the MCC ICCP, to provide greater clarity, a list should be made of key discrepancies in the guidance documents issued by the Ministry of Finance, Ministry of Public Works, and the Supreme Court; this list should be presented to the court for discussion.

2. Counterparts focused on the technical details and parameters of the model, while the methodological background briefly outlined in the Concept Note was almost untouched. This part of the deliverable should be "recalibrated" to reinforce and extend its reach, and to strengthen references to international experiences (the latter was requested by the Planning Bureau).

   Next step: The model guidance document will be split into two parts: one dealing only with technical operations of the Excel spreadsheet; and the other addressing the underlying assumptions, methodology, policy and information gaps, and international practices.

3. Unresolved methodological issues include defining the use of space at courthouses. The draft model is based on the concept of space "norms" (per person or per function) defined as entry parameters[1]. The normative approach to space utilization as a concept is not completely alien to the court system in Indonesia. This concept was developed and has been used by the religious courts since 1984, and is included in the current guidance document of the Ministry of Public Works, considered the prevailing guidance for the whole of government. The problem is that:

   - How should the generic Ministry of Public Works rules be applied to the court system is an open question, given that courthouses have many unique specifications.

   - The norms issued for space utilization[2] do not account for actual courthouse needs. The concept of ***benchmarking*** as a key contemporary instrument for knowledge-based planning (be it for space consumption or cleaning costs) is unknown to the Supreme Court.

[1] This "normative" approach has been applied throughout the court system in the US and is used as a guiding principle (not always implemented) by governmental agencies in some developed countries.

[2] In addition to the MoPW guidance, there are at least two other current guidance documents on space utilization issued by the SC itself in August 2007.

Next step: The concept of benchmarking will be included in the methodology discussion in the guide to the model, and will provide suggestions on which parameters of the existing courthouses should be surveyed as the start of the practical benchmarking.

4. Space and expense planning for new courthouses within the court system involves a number of policy questions and discloses simple knowledge gaps that can substantially impact the cost and efficiency of the court system. One policy question, for example, is which "satellite" functions should be planned in the court buildings? Government documents on the subject conflict with each other and do not reflect courthouse reality. Another policy question is how much space should be planned for parking. The need for parking is ignored in even the latest (2007) Supreme Court guiding documents, though the number of cars clogging court grounds is well over parking capacity, at least in Jakarta and large cities.

   Next step: While beyond the scope of the MCC ICCP, a survey of satellite functions and parking capacities at existing courthouses should be conducted. Once this work is undertaken the results could be incorporated in the model-related deliverables and presented as practical benchmarking to the Supreme Court.

5. The modeling of asset-related expenses was supposed to have another component treating operating expenses (for details, please see the Concept Note in the annex). However, analysis of current practices indicates that before a reasonably complete model for such expenses can be introduced at the Supreme Court, improvements in budgeting practices should take place. The current practice of "dual budgeting" (for details, see Concept Note) should become transparent. Our model for forecasting asset-related expenses will convey only key approaches and include elements that can be applied within the current practices.

   Next step: While beyond the scope of the MCC ICCP, this part of the model could be further developed, to the extent feasible and reasonable, to add a spreadsheet calculates annual schedules for replacing movable assets.

6. Although outside the scope of this report, the consultant has an observation on a major issue in central asset management directly related to strategic financial planning in the public sector generally and at the Supreme Court in particular: valuation of real estate assets owned by governmental entities. The Ministry of Finance is on the eve of launching a nationwide reevaluation of government owned real estate. However, from ministry documents and discussion with ministry staff and the subcontractor PT. Laksa Laksana, it seems this extremely expensive and time consuming effort might be not sufficiently well thought-out, especially as it continues to be the subject of debate within the ministry and between it and other agencies. In particular, the inventory forms issued by ministry for the inventorying process that precedes reevaluation do not make clear whether land sites and buildings will be valued together or separately. The revaluation process does not seem to have any selectivity or prioritization established, without which total reevaluation might be another costly mistake. The issue of valuing and revaluing

governmental property assets is a hotly debated topic in asset management, even in very advanced countries.[3] For Indonesia, with its limited public sector resources, more up-front discussion and strategic planning could be useful. In particular, PT. Laksa Laksana advised us that materials describing international experiences in public property valuation and conceptual issues could further shape approaches to the issue.

Next steps: At some point this activity needs to be undertaken by the Supreme Court as it affects both central asset management and strategic financial planning.

[3] Some review of international debate on the issue was presented in various chapters of the book by Kaganova, Olga and James Mckellar *(Editors) Managing Government Property Assets: International Experiences,* Urban Institute Press, Washington, DC, 2006.

ANNEX: MCC INDONESIA CONTROL OF CORRUPTION PROJECT: COSTS OF PHYSICAL ASSETS OF THE COURT SYSTEM IN INDONESIA: PLANNING AND BUDGETING

CONCEPT NOTE AND SPREADSHEET MODEL

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CONTENTS

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A. INTRODUCTION

This Concept Note and associated spreadsheet model respond to the Supreme Court (SC) request for assistance on modeling and estimating the expenses related to physical assets (property) used by courts. It was implied that this should include both capital costs (specifically, the case when a new court building is planned) and operating and maintenance expenses for existing court facilities.

Based on recent international asset management trends, this task belongs to a new but quickly growing area of public management: explicit and conscious integration of property asset management and its financial aspects into the overall public financial management and budgeting process. Focused attention to property-related costs and expenses is especially important because governmental property constitutes the biggest part of public wealth, while property-related operating expenses can be quite high, next only to the personnel costs of the public sector. For example, for public budgets in Germany, the real estate operating costs alone (without the cost of movable property) are estimated as 15 to 20 percent of the operating budgets (Schulte, Ecke, 2006). Despite the fact that property is a major part of the public sector wealth, governmental properties are rarely managed strategically and often suffer from chronic under-investment in capital repair. Their market value is not recognized, and the properties themselves are under-utilized.

The purpose of this Concept Note is to discuss issues that are intrinsic to estimating and modeling property-related expenses, and to present a framework that will help the Supreme Court make systematic improvements in planning these expenses. Associated spreadsheets are illustrated by quantitative examples. The approaches suggested here are analytical instruments complementary to the budgeting scheme and budgeting computer model suggested by the Ministry of Finance (MoF); they do not substitute for the MoF model.

Primary users of this Concept Note are planners and executors of financial management at the Supreme Court – from people who deal with the financial and budgeting policy to those who are tasked with implementing improvements in financial management, including budgeting. In addition, the authors hope that the Note will contribute to a constructive dialog between the MoF and Supreme Court on how the budgeting process can be further enhanced.

B. THE CONTEXT AND CHALLENGE

Financial and asset management in the public sector in Indonesia is in a very dynamic transition to make government use of state property and state funding transparent and accountable. In particular, the MoF is implementing fundamental modernization of asset inventorying, valuation, and accounting, which includes computerization of inventory and accounting throughout the government sector. The current computerized inventorying system, SABMN, which already is in use at least at some courts,[4] will be replaced by a more advanced system, IRDA. Further, the Treasury is planning to develop an accounting management system, SIMAK, which will eventually replace SABMN.

[4] It is not clear at this moment how many courts are using SABMN.

On the budgeting side, the MoF has developed and begun implementation of a computerized system to automate budget formulation, *Rencana Kerja Anggaran Kementerian Negara/Lembaga* (RKA-KL). For the Supreme Court, this translates into installation of RKA-KL at each court, and training staff in charge to formulate budget requests using this software. However, despite the fact that the MoF is introducing this system, many issues of court budgeting — from general policy to specific norms and techniques — have to be further addressed through constructive dialog within the government. The practice of "dual budgeting" is an example of policy to address now. Currently, courts have two sources of funding: (1) the state budget, subject to MoF control and approval, and (2) "own revenues" that are not reported to MoF. Well-planned budgeting is complicated under such a dual and not-fully-transparent system. Further development should lead to a system that plans, accounts, and reports all court revenues and expenses within a unified budget. Another relevant policy question is the latitude the Supreme Court should have in defining the framework and specific parameters for its budgeting. This is especially important for at least two reasons. First, within the current practice, operating needs of the court system are often under-funded by state budget allocations (see Box 1 above), creating a need for courts to look for alternative sources of revenues. These alternative sources are currently non-transparent "own revenues." Second, international examples indicate that capital expenses for courthouses can be higher than those for ordinary government office buildings, because of higher functional requirements for space and equipment (U.S. Court Design Guide, 2007). This may imply that the Supreme Court budgeting might have specifics differentiating it from other agencies' budgeting.

Box 1. Example of Courthouse Dual Budgeting

The court budget allocated by the central government pays for two security guards only. The court has seven guards: salaries of other five guards are paid from the court's "own revenues."

In parallel to new budgeting approaches initiated by the MoF, the Supreme Court itself is actively revising and extending its asset-associated standards. For example, the Religious Courts have had furniture utilization standards since 1983 that still work, though they need some modification. New standards on building and land space utilization, universally applicable to all types of courts were introduced on August 24, 2007 (143/KMA/SK/VIII/2007).

There are challenges to focusing attention on asset-related costs. First, the current dynamism in reforming public sector financial management presents, in itself, a challenge for the Supreme Court and technical assistance providers. Changes in financial and asset management are being introduced so quickly, and by so many different entities at the government, that unavoidable discrepancies among some new documents are created. This in turn makes the task of developing a model for estimating asset-related expenses particularly difficult. Second, clear identification and management of all property-related expenses in public budgets is a relatively new subject internationally. There is no standard way to present and budget asset-related expenses, given substantial international differences in the technicalities of public budgeting. Finally, while paying attention to asset-related expenses is a very important topic (because it leads to savings), this attention should be well-balanced with maintaining an integral approach to the whole of budgeting.

C. THE EXPENSES IN QUESTION

Though there is no standard structure (categorization of expenditures) for public budgets, budgets often have two main parts:

1. Operating budget (OB), which covers all routine/regular expenditures
2. Capital budget (CB), which is an annual part of a longer-term (3-5 year) Capital Improvement Plan, where:

   Capital improvements (CI) are major, nonrecurring expenditures for fixed assets resulting in acquisition or improvements of existing assets. What is classified as CI is the matter of a convention, but usually projects above some threshold (for example, above $25,000 at local government level in the U.S.) are considered CI.

Expenditures in OB, in turn, are often classified in three groups (Reley, Colby, 1999):

1. Personnel-related expenses (salaries, benefits, training)
2. Operating expenses (usual, ordinary expenses (services, commodities, and supplies, current obligations, and fixed charges)), and
3. Capital outlay (acquisition of equipment, fixtures, and other tangible property with more than one year life cost greater than some set value (but less than CI).

Budgeting for operating expenses is done either by the *incremental method* (based on the past one or more years) or based on *unit cost calculations*, or a combination of both.

Typical property-related items on operating budgets include:

1. Administration and other personnel related to property management
2. Building:

   - Building repairs
   - Cleaning
   - Heating (if any)
   - Electricity
   - Gas (if any)
   - Water
   - Trash removal
   - Security
   - Landscaping/ground care
   - Insurance
   - Property taxes or fees (if any)
   - Miscellaneous

3. Equipment and vehicles:

   - Equipment and vehicles maintenance expenses

- Acquisition of equipment, vehicles, and furniture to replace old/broken assets needed for extended programs or staff.

An obvious practical challenge is to identify, monitor, and plan those personnel expenses related to property operation and maintenance, rather than court operations. This would include, in addition to the administration personnel already mentioned above:

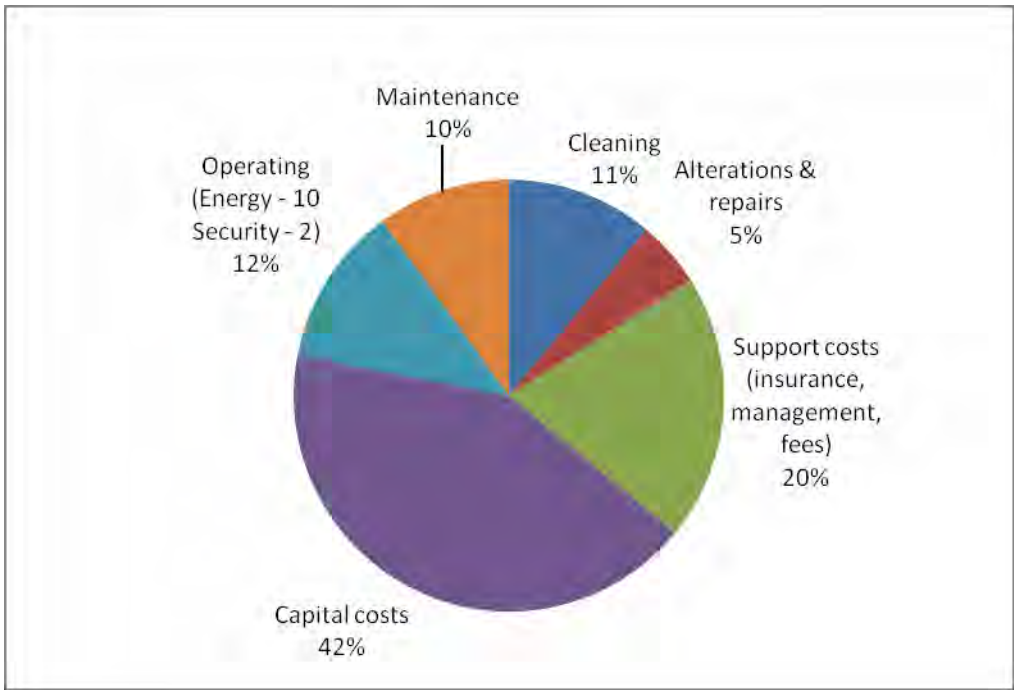
- Janitors
- Security guards
- Gardener (if any)
- Building/equipment engineer (if any).

Typical capital expenses (in case of new facility to be built) include:

- Land costs (including acquisition, survey, demolition, if any, and legal fees)
- Design costs (including architects, consultants/in-house staff and special studies)
- Construction costs (labor, material, equipment, administration, overheads, overtime, profit, insurance, permits, fees; service of loans; and other expenses)
- Commissioning (tests)
- Furniture and office and court equipment

It is important for budget planners to recognize how much the capital and operating and maintenance costs are connected during the lifetime of a court building. Figure 1 illustrates this connection (Life Cycle Costing, 1988): only 42 % of the total life cycle costs of an office building during its 40-year life are initial capital costs, while the rest 58% are recurrent costs related to building operation, maintenance, and other “cost-in-use” expenses.

Figure 1. Example of life cycle costs over a 40-year life span of an office building

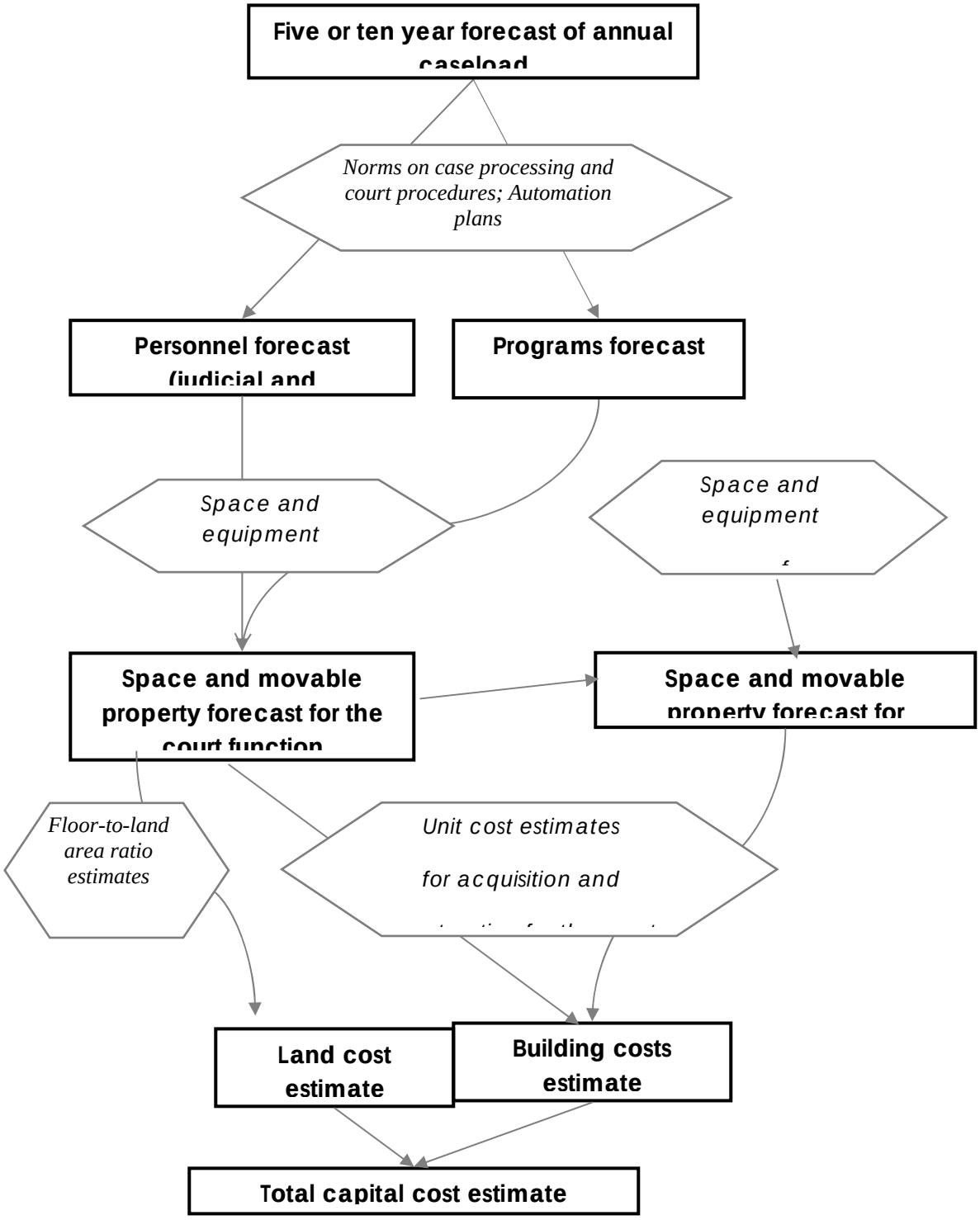


This connection is important because often buildings that are cheaper from the construction (capital costs) viewpoint are more expensive to operate, making their total life cycle cost substantially higher. For example, a building may cost less to build because it has cheap air conditioning equipment or uses linoleum instead of wood as floor finishing. However, this building can consume more electricity because its air conditioning is not energy-efficient. It can cost more in floor cleaning and replacement, because linoleum is more time-consuming to clean and needs replacement more often than wood.

D. FRAMEWORK FOR ESTIMATING CAPITAL EXPENSES FOR NEW COURTHOUSES

Planning the capital expenses of a new courthouse is a task that is inseparable from human resource planning and norms for space and equipment consumption in performance of court functions and programs, along with accompanying ("satellite") functions, as depicted in Figure 2. In other words, estimates of capital expenses are based on assumptions (norms) about personnel, programs, consumption of space and equipment, and allowable costs associated with acquisition of equipment and furniture. The resulting estimates of the capital costs are only as good and realistic as those assumptions.

Figure 2. Framework for capital costs estimates for a new courthouse



A spreadsheet model is a natural instrument for quantitative estimates based on the above framework; an illustrative version in MS Excel is presented together with this Note. Advanced computerization is not a pre-requisite, but is rather one of the outcomes of good asset management, as the experiences of countries that undertook substantial reforms in public asset management demonstrate (Jowett, 2006). The spreadsheet model suggested here is a useful analytical and methodological tool for improving the process of financial planning, rather than an instrument for direct number-crunching for the court budget.

The logic of the framework (and related spreadsheet model) is straightforward and follows the approach tested and used by the court system in the U.S. First, planners should make quantified entry assumptions about parameters that define the total cost of building and equipping a new courthouse. The model calculates the estimated cost. The entry assumptions cover the following:

- Number of personnel to be housed in the new courthouse
- Which programs (such as automation) are planned
- Norms for space consumption by court personnel and support staff, court functions (such as court rooms or holding cells) and programs, and other non-court functions (such as a prayer room or women's association)
- Norms for furniture and equipment consumption by personnel and needed for court functions and programs
- Various costs per unit (such as land acquisition price per square meter, construction cost per square meter, costs of various furniture pieces, etc.)

The model calculates:

- Space needed for various personnel and functions
- Equipment and furniture required
- Costs of each component (such as the cost of furniture, etc.)
- Total capital cost (land, building, and equipment/furniture)

For all the apparent simplicity of this framework, it still establishes a clear hierarchy of parameters: thus, the size of a courthouse is a function of (i) staff size and (ii) space utilization norms per person, differentiated by level of seniority. In other words, the building size is not defined inflexibly by a prescribed list of rooms and their sizes.[5]

Given that approaches to planning for courthouses in Indonesia are actively evolving (see B. Context and Challenges, above), the consultants consciously decided to suggest, at this stage, a hybrid model that combines elements of both the Indonesian and U.S. approaches, as they are known to us to date. On one hand, the draft model utilizes as many specifics and rules from Indonesian guidance documents as was possible to accommodate without breaking the logic of the framework presented above.[6] On the other hand, we followed this logic even when this led to deviations from some

[5] Moreover, in the U.S. practice, new courthouses are designed and built larger than needed at the time of building design to accommodate future growth of the court's case load. In interim, the extra space is typically occupied by other law enforcement agencies.

[6] The list of Indonesian documents used is provided in References.

existing guidance documents. A main justification is that the framework we used allows discussing some important methodological issues (discussed below).

E. METHODS TO JUSTIFY THE COSTS

Even for a stylized version of the spreadsheet model, planners need about 90 numerical entry parameters. This fact reflects the core of the model: The model is as good as its entry parameters. In other words, the model demonstrates that ***identifying and justifying the parameters that underpin capital expenses is the central part of planning capital expenses for new courthouses.***

Key methodological questions that planners at the Supreme Court could ask themselves are:

1. What are the most important groups of parameters and assumptions?
2. How can optimal values for these parameters be found and justified?

Regarding the first question, the framework in Figure 2 and its Excel application clearly show that there are three groups of critical parameters:

1. *Norms on personnel needed for processing the expected caseload*
2. *Norms on space and equipment consumption for court and satellite functions, and*
3. *Unit coasts for acquisition and construction.*

The personnel group relates to human resource management and not to asset management, so it is not discussed here.

The other two groups – on space/equipment consumption and unit costs – are related to asset management.

1. Defining and justifying the norms on space and equipment consumption

The Supreme Court should define norms and support them by justification that would withstand an independent review by government and gain funding support by the Ministry of Finance. Based on international good practices, this process might include the following key elements:

- Survey the current space/equipment utilization at Indonesian courts and present the survey's quantitative data with analysis.

- Survey satisfaction of court clients and personnel with space and equipment using the same sample of courts that would be included in the space/equipment utilization survey.

- Identify applicable international practices that can improve efficiency of space and equipment utilization at Indonesian courts.

- Drawing on the above three elements, choose the norms that would be financially realistic and functionally close to "optimal."

Of course, it is important to make the norm-establishing process itself credible with the government and MoF in particular. For this reason, administration of the norm-establishing activity should be well discussed both within the Supreme Court and with other relevant government entities. On the survey side, these surveys should be well planned and designed, and perhaps competitively sourced to independent consulting companies to conduct. In any event, it should be some standing entity tasked with assembling and presenting the results of the surveys to those in charge for norm setting.

Conducting or even designing the above surveys goes well beyond the tasks of outlining approaches to planning asset-related costs. Nevertheless, given that inventorying of court buildings and land sites is currently under final stages of planning, the inventorying process will include a collection of quantitative information on floor areas in court buildings used for the court functions and satellite functions. The results will provide quantitative data on which share of court buildings is currently used by the satellite functions. This data will serve as an objective background for policy debate. Deciding how much space should go to satellite functions in newly-planned courthouses will help set norms for these functions. Similarly, the inventorying activity will allow factual estimates of floor-to-area ratio (i.e. the floor area of the building divided by the land area of the associated land site) at existing courts, contributing information to the debate about this ratio for future courthouses.

2. Defining and justifying the unit coasts for acquisition and construction

Unit costs required for the model can be obtained from two principal sources: historic data and current market prices. For example, the cost of recently acquired furniture pieces or computers, which are reflected in inventory records, can be a source of initial rough estimates. However, we do not recommend using inventory cost data as the main reference source given changing market conditions and unknown quality of procurement that led to these acquisitions. Instead, requests for cost proposals should be issued (and well advertised) to identify competitive price offers from potential suppliers.

Estimates of the construction cost should be solicited from reputable independent real estate appraisers. Here, it is important to avoid a common mistake when certain cost components are not included (often, such “forgotten” components are related to land preparation or building finishing). A possible checklist is provided on the second page of the Excel file with the spreadsheet. It is also important to remember that construction costs may vary geographically.

The cost of land acquisition will depend substantially on geographic location (city), location of a site within the city, its size, and general land prices on the local real estate market. For estimating a potential cost of land acquisition, planners might need assistance of a qualified real estate expert (broker or appraiser) familiar with the market in a city where the future court should be located.

3. Alternative approach: public-private partnership for delivering courthouses

There is a worldwide trend — especially in Europe and countries with developed market economies — to engage the private sector in delivering and operating public facilities through public-private partnerships (PPPs). The meaning of the term “PPP” varies from country to country, and has changed over time. However, the current generation of property-related PPPs is usually structured as *a risk-sharing contractual relationship between the public and private sectors formed to use the private sector to provide a property-associated public outcome (for example, to build or renovate*

and operate property for public use) (Kaganova, Polen, 2006). Practically, this often implies that a private sector partner is tasked to design, finance, and build a public-use facility — such as a school or hospital or courthouse — and then to operate the facility during, for example, a 30-year contractual period. The public partner repays the cost of construction and operation and maintenance during this period. If a PPP contract properly allocates risks and incentives, this leads to substantial savings for the public sector, both during the construction stage and because of life-cycle savings. In particular, review of PPPs in the UK revealed that they have smaller delays with completion than traditional public-sector projects and have substantially smaller probability of construction budget overruns, which are typical for the public sector projects. A recent review and discussion of PPP experiences in Europe can be found in a report by PriceWaterhouseCoopers (2005).

The PPP concept has been tested with courthouses (Box 2 below). This may be a good alternative for Indonesia, requiring, however, special preparation and testing.

Box 2: PPP for Courts: Greater London Magistrates Courts Authority

The Greater London Magistrates Courts Authority GLMCA), which owns 35-40 courthouses, was seeking to implement a London wide estates property rationalization program to achieve the objectives of its 2001 Strategic Plan. This involved the procurement of several new modern courthouses and the merging and closure of operations elsewhere. Drivers Jonas Property Consultants advised the GLMCA on the following:

- Estate rationalization - implementation and program
- Analysis and advice on procurement options for new courthouse facilities - including PPP/PFI and traditional design and build options (with separate surplus site disposals)
- Preparation of project Implementation plans for Central London PPP project, and design and build procurement of North West courthouse
- Advice on strategy and marketing of the Central London PPP through OJEC procedures, including an associated town planning strategy
- Advice on marketing and disposal of Clerkenwell Magistrates Court
- Advice on other general matters including valuation advice, compulsory purchase and town planning.

Source: http://www.driversjonas.com/uk.aspx?docid=6131&doc=15834

F. WHEN AND HOW THIS MODEL IS USEFUL

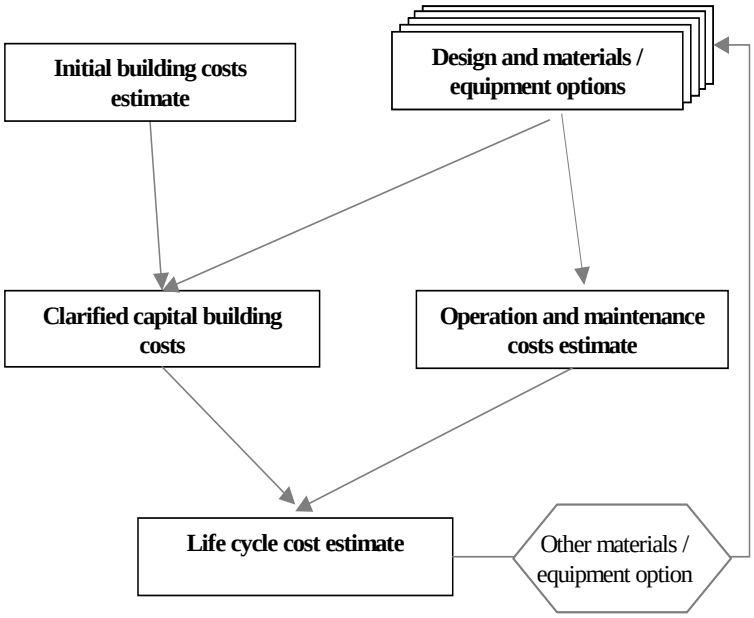
First, this model can help substantially with general conceptualization of the planning process and the identification of information gaps.

Second, the model can be used for initial rough estimates of the total capital expenses in the early stage of planning. Furthermore, an important implication is that the model can be used (as any spreadsheet model) for *sensitivity analysis*, which shows how the final output (the total capital expenses) changes, based on variations of the input parameters. This analysis can lead planners to practical conclusions. For example, it can help identify those norms and costs that are the most important to keep under strict control for staying within the planned budget; or decide which norms and costs should be reduced to achieve savings.

Third, the model can be used during the pre-design and design stages to make further, clarified cost estimates, after assumptions about space consumption, design solutions, or materials used are made.

Finally, this model can be used in conjunction with a separate model of operating expenses for life cycle costing, as depicted on Figure 3. However, the modeling of the life cycle costing should be addressed at later stages of improving asset-related financial planning.

Figure 3. The relationship between the capital cost and life-cycle cost



A further chapter is being developed that will briefly present typical approaches to planning the operating expenses, the cost of replacing movable assets and capital repair expenses. The chapter will provide some illustrative spreadsheet examples for estimating some of these expenses.

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