

What is a Planning Horizon and Why is it Important for Building Owners?

David Albrice, RDH Building Engineering Ltd., October 2013

What is it?

A planning horizon is a "window" into the future that graphically illustrates two important pieces of information to help the owners make informed decisions and avoid surprises:

- How much money do we need? and
- When do we need to have the funds available?

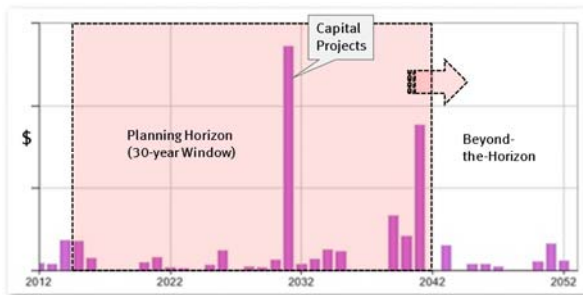
It usually covers many calendar years for the purpose of ensuring sufficient lead time to raise funds and develop logistics for responsible stewardship of the assets.

Depreciation reports are required to make 30-year forecasts into the future so the planning horizon is typically a 30-year window.

What does it look like?

The planning horizon is usually represented as a bar chart with the vertical bars indicating capital projects, such as roof replacement, boiler retrofit and elevator modernization.

The figure below illustrates some of the elements of a planning horizon where the purple bars are the projects.



The planning horizon has two key dimensions: time (horizontal axis) and cost (vertical axis).

Who creates it and how is it made?

Generating a planning horizon is a challenge that is generally left to consultants. The process of creating the graph contains two key steps:

- **A Physical Analysis** -- This determines when projects are likely to occur. The physical analysis asks the question: "How long do things last?" For example, how much life is left in our roof.
- **A Financial Analysis** -- This determines the value of the projects by asking the question: "How much do things cost?" For example, what will it cost us to replace the roof.

The physical and financial analyses are only meaningful and valid if the consultant has ensured two things.

- **"Realistic" Forecasts** – The forecasts must not be optimistic or pessimistic. The timing of projects must be reasonable.
- **"Defensible" Costs** – The project estimates must be based upon information that can be validated and confirmed.

Once these two tests have been met, then the needs of all stakeholders are served.

How do we use it?

For management purposes, the planning horizon can be divided into three stages, as follows:

- Short-Term Needs (Years 1-5)
- Mid-Range Needs (Years 6-15)
- Long-Range Needs (Years 15-30)

Everything is important but not everything is urgent. While the short-term projects are more urgent than the long-range projects, it is prudent to keep our eyes focused at both levels.

There is a wonderful saying: the manager has his eye on the bottom line, while the leader has his eye on the horizon. A successful asset management program requires both leadership and management.

It is helpful to tackle the planning horizon in bite-size chunks. Initially, the owners should focus their attention on the short-term needs ("tactical") before turning their attention to the longer-range needs ("strategic"). This concept is illustrated in the figure below.



Owners need to make informed decisions about the general funding requirements over the long-term (30-years) and funding for specific projects in the near term (1-5 years).

Last words...

It is important to recognize that the planning horizon moves forward each year. As projects are completed they move behind the planning horizon and new projects move into the horizon. Therefore, we must revisit the planning horizon each year and re-evaluate for the next fiscal year.