

Dr Penny Burns'

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ASSET MANAGEMENT QUARTERLY

ideas, case material, contacts

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***Ideas that tickle! Ideas that prod! Ideas
that support your asset management***

**Asset Management Plans * Audit *
Bench-Marking * Refurbishment *
Utilisation * Project Evaluation * Discount
Rates * Life Cycle Costing * Valuation *
Maintenance * Outsourcing * Marketing *
Capital Charging * Ethics * Contracting**

Benchmarking Special

*

Internet Sites

*

**Asset Management Competition
\$30,000 Plus in Prizes
(Advance Notice)**

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THE ASSET MANAGER AS "SMART BUYER"

I heard a speaker the other day describe an asset manager as a "smart buyer" who could do three things:

- interpret desired outcomes
- specify requirements
- monitor results.

That is about it in a nutshell.

Asset managers have to "interpret desired outcomes" that is, translate outcomes into asset needs. As smart buyers, they will not buy what they do not need and they will make maximum use of what they already have.

They must "specify requirements" whether for construction, acquisition, in-house maintenance or contracts, to ensure that those asset needs are met. As smart buyers, they will choose assets that will serve them well for the timespan that is needed, neither more nor less. They will not be seduced into buying the cheapest. Neither will they necessarily buy the longest lasting or build in more longevity than is needed. Smart buyers value flexibility in a changing world.

Having bought, they "monitor results", correcting where necessary and learning from their mistakes.

These smart buyers set "best practice". Their successes become our successes. Or, rather, they would, if we knew what they were doing. More often we do not. That is why *The Asset Management Quarterly*, specialises in hunting down these ideas and making them available. It is also the rationale for the Inaugural 1996 Australia-New Zealand Asset Management Competition with over \$30,000 in prizes. (See Editorial - and send for your application!)

FOR YOUR EYES ONLY?

Why not use your AMQ to generate interest and support for your asset management efforts from ***your colleagues in other departments?***

- (1) Put them on your distribution list (after your staff have seen it!) or
 - (2) Photocopy relevant articles and send with a short post-it note to the relevant officer/s.
- Remember, people cannot support what they do not know, so spread the word!*



Where you see this symbol, it means that a copy of the original paper is available for loan. See back page for more information on our new service.

Announcing the

**1996 Inaugural
Australia and New Zealand
Asset Management
Competition
with over \$30,000 prizes, free
trips
and awards.**



Asset Management Success Stories

Asset Management is on a roll! Governments speak of it! Newspapers write about it! And agencies produce Guidelines on it and exhort us to comply.

This is our time. Monies are being committed to asset information systems, asset valuations and asset management units, in large sums, and it is all done on trust: in the belief, that, at the end, improvements will be seen in efficient and effective use of assets.

But how much longer can we go, in these very commercial times, before we are asked to show what we have done for the money? My guess is that our window of opportunity will be open for, at most, two years. In that time we have to show we are worth supporting or face the risk that something else will come along to take higher funding priority.

"But the benefits of asset management are to be seen in the longer rather than the shorter term!" do I hear you cry? Too Bad! That's not the way the world works. People (particularly funding bodies) are impatient and want results. (At the very least they want confirmation that results are on their way.) And they want this now!

Even if we cannot measure the costs and benefits of our entire asset management program (who can measure the hypothetical otherwise situation that would have arisen if we had not adopted wiser asset management?) nevertheless we can document some asset management events, some chapters in our asset management lives, some successes. It's mostly a matter of putting some attention into the documentation. Now, since nobody likes paperwork, the AMQ is providing an incentive for this essential work to be done - \$30,000 plus of incentive!

Document your success story and you could win a personal cash first prize of \$5,000 with at least \$10,000 of consulting services (from our sponsors) for your AM unit or agency! There are three cash prizes and 12 awards in 12 different categories. AMQ Subscribers are entitled to free entry to the Competition and Application forms and details will be sent to you by September 1st - but start thinking now. And good luck!

Penny Burns

Asset Management Plans



I.
**ASSET MANAGEMENT PLANS
- GETTING STARTED.**

When you don't know - assume!

Dean Taylor, Asset Management Co-Ordinator, Wanganui District Council says "Assumptions, we made heaps of them!"

Forecasts of imminent water shortage on prime time TV had been the spur to the Council developing a plan which would tell them how bad (or good!) their assets were and what they could do about them. -

Dean says their plan had to be simple, high level, and relate to customer needs.

"The approach taken was to **use the information we already had** rather than get into any significant field data capture exercise. Data capture is resource hungry!"

"We realised **each plan is an asset in itself** that will require maintenance. If there is no commitment to this, then, like an under-maintained physical asset, it will fall into disrepair and fail to deliver the goods. This is also the motive to **keep it simple and short with early returns.**"

"In the past, misguided notions about accuracy and completeness, produced an unwillingness to table many of the asset management issues for fear of specific questions and lack of comprehensive asset data. **A poor excuse not to discharge a vital management responsibility!**"

For this plan we decided where facts were unknown we would simply make an assumption, document it, and press on.

"Our outlook was 25 years and we made assumptions for this period for:

- Quantity requirements based on projections
- Quality requirements based on community demand and legislation
- Risk levels
- Ownership of Assets - to remain with Council

We also assumed that virtually any price will be paid to obtain drinking water as it is essential to the support of life. We reckoned if the real costs can be demonstrated then consumers will be happy to pay.

But if they are not - they will have a chance to tell us!

This is arguably the greatest benefit from an asset management plan in that **it places information in the hands of decision makers and consumers, which can be the basis for informed decisions.**"

Getting assumptions "down on paper" enables them to be examined. Dean's happy attitude to assumptions is a starting point. It makes possible the next stage, which is examination of assumptions and their consequences.

All too often we collect data to avoid making assumptions (and to avoid thinking?) only to find that the decisions we need to take are insensitive to the detail and we did not need or use the data at all!

Save time, save effort, save resources - use assumptions. And where decisions can be shown to be sensitive to the assumptions used - then test, but only then!

Dean can be contacted in New Zealand on 646 345 8529, (tel) or 646 345 2472 (fax).

2.

DON'T STOP!

.....at Asset Management and Control, says the National Audit Office.

Good news! In their asset management trilogy (Audit Report, Best Practice Guide and Asset Management Manual) the Audit Office have officially recognised that asset management is an interdisciplinary field, and should go beyond merely recording assets and ensuring sound inventory control - and step boldly into planning and management.

Asset Management Success Factors!

The "Asset Management - Best Practice Guide - June 1996" a laminated bifold A4 document in large print, provides the basic principles, products, success factors and outcomes for each of five areas - "integrated planning", "asset planning", "accountability for assets", "disposal" and "internal control structures"

e.g. *Accountability for Assets* has as one of its success factors - "the standard of performance of assets is an input to the next planning cycle."

Monitoring against these success factors would be a logistics nightmare, but the thrust is right (and it is a worthwhile challenge!)

Physical or Cerebral?

When you consider that asset management is more about planning, or thinking, than it is about doing, you will appreciate the value of **The Asset Management Handbook**. This handbook,

prepared with the assistance of Coopers and Lybrand, covers a wide range of asset management topics although, of necessity, only at an introductory level.

The style of presentation is attractive and engaging - I found myself asking questions throughout and the questioning procedure itself is valuable.

(One might well argue that the problem with asset management in the past is that we have not asked ourselves enough questions!)

While I like the thrust of most of the sections, I would take issue with the treatment of condition based depreciation. which in this handbook is really a provision for deferred maintenance.

However, while CBD proper is an important addition to the armory of the asset manager, it is not generally applicable to computers, plant and equipment, and these were the assets which were the major focus of the Audit Report.

Read it, agree or disagree with the arguments and prescriptions, it doesn't matter. The important thing is to think! And in this the AG has provided an excellent management tool in his trilogy of offerings.

The Auditor-General's Financial Control and Administration Audit, Audit Report No. 27. 1995-96 and the Best Practice Guide and Asset Management Handbook, are available from the Commonwealth Information Services, Australian Government Publishing Service, GPO Box 84, Canberra, ACT, 2601.

BENCHMARKING SPECIAL FEATURE

Response to AMQ9 showed that many of you share the concern with the way that the term "benchmarking" is increasingly being applied to database constructions, rather than the one-on-one agency interactions in search of good practice that the term originally denoted.

3.

BENCHMARKING IS NOT DATABASE CONSULTATION.

It may be worth quoting the NIES Benchmarking Manual which says:

"Benchmarking is not database consultation or number fixation. Databases can be useful, and performance indicators and targets are essential aspects of any well managed benchmarking approach.

However they [databases] will only be used effectively if combined with a change program based on shared and detailed understanding of the practices and structures which produce exemplary performance

Furthermore, because of problems arising in making genuine "like with like" comparisons, ***numbers tend not to be particularly effective drivers of change...***

-oOo-

Sorry Wrong Number!

Those who rang Jane Napier for the Asset Management Series but could not connect, don't give up hope, try her correct number (03) 9651 2209! My thanks to the subscribers who kindly let me know the error of my ways - and my apologies to everybody else. Jane tells me that the Series has been so well received that they are going into a second printing. Whilst they will eventually be on Internet, it will take a little longer for this to occur.

4.

CAN BENCHMARKING BE USED FOR CONTROL?

The other concern expressed was the desire of agencies to use benchmarking metric as a control mechanism.

Where there is a known standard or target to be aimed at, performance measures may be designed to tell whether the standard is being met. This is a control practice but it is not benchmarking!

Benchmarking is a *search mechanism* for best practice. Clearly if the best practice is already known, no search is necessary.

When agencies use "benchmarking" in the sense of control, they usually have in mind a desired standard or target that increases over time, and want to know whether a department or their contractor is keeping up with the best.

This is a reasonable request. But TQM studies have shown "inspecting in" quality does not work, it has to be "built in".

If performance itself is rewarded (rather than compliance with controls), departments and contractors will be encouraged to benchmark for managerial improvement and the control *objectives* will be met: without overt control being applied.

Monitoring performance records ***what is***. Benchmarking is about ***what could be!***

5.

METRIC OR BENCHMARKING?

Comments in AMQ9 specified benchmarking metric rather than benchmarking proper. What's the difference?

Benchmarking is a process of comparing your area with others, internally in the same firm or organisation, or externally.

The essence of benchmarking is that, since you are involved in a one-to-one interaction, you know exactly what you are comparing. You know your partner's objectives and their special circumstances. With Benchmarking Metric, you do not.

Where **benchmarking metric** identifies the source of the data, such as comparisons of costs between university facilities or water agencies where the data is linked with the name of the facility or agency users may be familiar with each others' operations, but this will not always be the case and with un-named (un-sourced) metric, this knowledge is impossible.

6.

INTERPRETATION IS THE KEY

Unless you know how a particular measure is achieved and with what results, the data will be uninterpretable.

For example; An agency may develop improved cleaning techniques and as a result be able to reduce its cleaning staff by half without any ill effect on the *quality of*

cleaning that results. Another agency may simply reduce its cleaning staff by half but with no such efficiency improvements so that its facility declines in quality, with increased graffiti, more frequent need for repainting, loss of custom, etc. The benchmarking metric will look the same in both cases!

The above measure was uninterpretable because it was an input-to-input ratio - "cleaning costs per square metre", with no outcome component (quality of cleaning).

Input ratios can be suggestive, indicating which agencies might have techniques worthy of further examination. But they need sourced data to enable follow up.

Today much of the benchmarking metric that is being produced is, however, unsourced, uninterpretable, input-ratio data.

7.

BENCHMARKING METRIC - THE DILEMMAS

Benchmarking requires finding the right partner and engaging in resource intensive one-on-one interaction. In this way, benchmarking partners can discover what works and why and how to implement it in their own agencies. It works but it is difficult to find the right partner and it is time consuming. Benchmarking metric is far cheaper -but, if unsourced data is used, it is uninterpretable and cannot be used for management improvement. This gives rise to the

Resource Intensity/ Interpretability Dilemma.

Benchmarking

Another Dilemma is the "like for like" comparability problem. The more agencies are alike, the more comparable the measures - but the less they are alike, the more useful the measures are likely to be. At the extreme, if two agencies are exactly alike, their benchmarking data will reveal no useful differences! This is the

Comparability/ Usefulness Dilemma.

8.

RESOLVING THE BENCHMARKING DILEMMAS.

Introducing the Third Element.

Can we resolve these dilemmas?

Working on the principle that the way to resolve a dilemma is to introduce a third element, the following solutions rest on

- (1) *determining the appropriate objective for benchmarking metric (not trying to make it do what it cannot),*
- (2) *benchmarking outcomes rather than inputs*
- (3) *adding outcome data to input measures and*
- (4) *analysing interactions.*

These solutions are, as you will readily see, not mutually exclusive.

Solution 1.

Determine the appropriate objective.

Benchmarking metric cannot provide answers.

It will not tell you, for example, where to set your benchmark or target. Nor will it tell you whether your current results are good, bad or indifferent.

What it can do, is to indicate possible answers and suggest fruitful areas of research. Benefits will not be gained unless this research is done.

So, to use benchmarking metric constructively, it should

- **either be part of a one-on-one interactive study**
- **or, where large differences are found between the results examined and the comparison data, a detailed process analysis could be undertaken.**

Like golf, the secret of wise use of benchmarking metric is "follow through".

Solution 2.

Benchmark Outcomes.

You can benchmark **performance indicators** such as

reliability, eg number of breakdowns; availability, eg time out for repair, maintenance or out-of-service;

utilisation, eg percentage of time and/or capacity utilised;

or any **outcome measure**.

Metrics or comparison data can be used to suggest which areas would benefit from further study.

But it is not worthwhile to benchmark input ratios, eg maintenance costs per square metre (see idea 6) unless you are also able to match up the input ratios with outcomes or success or failure criteria (Solution 3.)

[You can also benchmark processes, such as project evaluation or post occupancy review but processes do not lend themselves to database analysis or benchmarking metric]

Solution 3.

Rescue Existing Input Data Collections by Adding Outcome Data.....

To make use of the large store of input ratio data (maintenance, cleaning costs, energy usage, etc) that is being collected, we need to ***add information that will enable it to be interpreted.*** That is, we need to add outcome data.

This can be overall outcomes, ie how successful the agency is, or specific outcomes, like customer satisfaction (with the agency or some aspect of the agency, eg cleanliness). Outcome data then needs to be matched with input ratio data.

Solution 4.

..... And/Or Analysing Interactions

It is dangerous to try to interpret the meaning of one input ratio standing alone. Interactions need to be studied.

For example, how do low cleaning costs relate to costs of repainting? How do low maintenance costs relate to costs of upgrading or replacement capital? More complex relationships may also need to be examined. This is not work that can be done by the user of published benchmarking metric. It needs access to the data bank itself, and preferably design of the data bank itself.

This analysis is work that could be done by a new profession of benchmarking analysts.

9.

UMS - GOOD BENCHMARKING IN OPERATION

UMS, one of the world's leading benchmarkers, make anonymity a key element of their marketing ***but they*** know all of the participants in the study and from the data on the organisation's types and quantities of assets, age, customer distribution and other key parameters, they can select appropriate benchmarking partners and then assess the key input and output parameters to identify those areas in which their performance could be assessed as weak.

Although anonymity is practiced, UMS do require the top five benchmarked organisations in each of the key business areas to be identified. In most cases this represents the top 2-5% and as such no manager has too much stress in being identified as that good! This is an example of Solutions 3 and 4 in action.

Note that this is very different from simply collecting data from different agencies without the indepth agency knowledge!

10.

BENCHMARKING TERMS

AMQ9 used the word "generic" to refer to the type of benchmarking metric where the source is not identified, similar to the use of "generic" or "house" brands of groceries made by well known producers who are not identified.

But the word "generic" when applied to benchmarking is also used in another sense, as described in the NIES Benchmarking Manual - "Benchmarking externally against ... organisations not in the same industry but

Benchmarking/ Life Cycle Costing

which have similar needs to employ similar processes with a particular performance emphasis, such as the need to develop new products/services rapidly or to fill customer order cost-effectively. Known as **generic benchmarking**, this can be very effective even though it is generally the most difficult.

Process benchmarking refers to business processes and is indistinguishable for practical purposes from generic benchmarking.

Function benchmarking generally refers to a function in the organisation, such as human resources management. A function is a collection of processes and to do it one needs to disaggregate the function into business processes, such as induction training, before being able to engage in meaningful comparisons. Hence, it too ends up being similar to generic benchmarking."

II.

NIES

"NIES Benchmarking Self Help Manual - Your organisation's guide to achieving best practice."

A complete guide including

- getting ready,
- customising your benchmarking model to suit your own organisation,
- deciding what to benchmark,
- selecting and training teams for benchmarking projects,
- analysing your own practices,
- methods of finding benchmarking partners, detailed preparation for the visits,
- how to conduct the visits,
- interpreting findings
- committing to implementation and consolidating and integrating benchmarking in your organisation.

This is a handbook for the serious benchmarker.

Lots of practical examples. Clear, easy-to-understand text with full page exhibits designed to be used for overhead reproduction. Handy hints accompany most chapters. Purchasers of the manual are entitled to a free update based on the benchmarking experience of Australian firms involved in the development of the manual. \$150 from Mail Order Sales; Australian Government Publishing Service, GPO Box 84, Canberra, ACT, 2601 or fax (06) 295 4888.



12.

WHY AREN'T WE? (Life Cycle Costing, that is)

A seminar, conducted by the **Building Science Forum of Australia** in Sydney was told that the role of life cycle costing as a tool for building asset management was very much underutilised in Australia.

Three explanations were given:

(1) Brian Churchill, State Superannuation Investment and Management Corporation, described the **traditional pattern of ownership of commercial buildings** over recent decades, each building going through a cycle of brief retention by the developer, ownership by an institution requiring long term growth, movement into a property trust seeking high yields and, finally, sale for either major refurbishment or redevelopment.

(2) Jon Seller, Honeywell Limited stated that **contracts are often let on a year by year basis to lowest bidders**, minimising any sense of responsibility for building performance, while

(3) Graham O'Loughlin, Coopers and Lybrand spoke of the **low regard of management, even owner-occupiers, towards building management.**

O'Loughlin pointed out that initial costs are more easily visualised compared with the wide make-up, intangibility and variability of the ongoing costs of ownership and that the building industry has developed a structure appropriate to these attitudes, being strongly partitioned into phases up to a handover with no culture of long term maintenance.

These notes are from a seminar report provided to AMQ by Peter Bishop of Kinhill Engineers, a committee member of the Building Science Forum of Australia (contact 02 637 6133). They lead us to asking:

When Life Cycle Costing is so much vaunted by asset managers and all the best practice manuals, why is it not taken up by those who should, theoretically, have the most to gain from it?

What's the problem?

- Is it that life cycle costing's benefits are not visible?
- Is it that the costs are not outweighed by the benefits?
- Is it that we have no way of demonstrating the benefit/cost outcomes?
- Is it that the benefits are accepted but we lack an institutional method for incorporating life cycle costing in building management?
- ***Or is it something else?***



13.

THE FUTURE OF MAINTENANCE

Some forecasts for maintenance made by Prof Geraerds at the ICOMS Conference in Melbourne in May.

- The **reliability** of components, and consequently of technical systems (assets) will continue to grow as a result of better design and of new materials

and of the replacement of mechanical control devices by integrated circuits.

- The fraction of conventional **UBM (Use based maintenance)** will be reduced drastically. Periodic inspections concern primarily cleaning and hidden failures.
- The fraction of **CBD (Condition based maintenance)** will increase and will dominate.
- The pressure for short maintenance times will lead to **more modular designs**, allowing of quick and simple repair by replacement; replaced modules will be passed on to specialised repair shops, if repair is economically feasible.
- Due to the increase in reliability and of CBM the **maintenance function will be faced with increasing irregularity of maintenance demand**. This will require highly flexible and quick reaction planning and control systems.
- Quick reaction will also require **more delegation to autonomous groups** at shop floor level.
- **The internal maintenance skills will concentrate on diagnostics**, rather than on technical skills for the execution of maintenance. Specialised maintenance will, more and more, be contracted out to companies who will be specialised as service units.

REMINDER!



Ok, so you are not a woman!

but you probably know a few. Some might even be working in an asset management field (accounting, administration, management, engineering, whatever). So please draw to their attention our Women in Asset Management Survey in the last AMQ. **or tell us their name and fax number (or e-mail) and we will contact them directly.**

thanks.

14.

MAKING THE CASE FOR MAINTENANCE OR RENEWAL.

Question: Why does new money generally go to new capital items, not much needed and overdue replacement?

Answer: Proponents of new capital items do a better job of *selling the benefits* than do proponents of replacement or refurbishment.

To emulate their success, maintenance/renewal proponents need to

(a) (if the benefits are non-monetary) describe the benefits of the replacement in terms of what it means to the organisation. Do this in concrete terms.

If benefits take the form of more reliable services - speak to the service recipients to discover and document the consequences of your current unreliable service. (Quantification of the costs of unreliability, of course, is better) Use anecdotes to make the issue "come alive". Cost the consequences of poor service.

(b) If the benefits are reduced maintenance costs, then an offer to pay back the interest on the capital out of your maintenance budget.

If the reduction in maintenance does not exceed the interest payable - and this is the main reason you are interested, then, you should not be doing it anyway. If the benefits are reduced risk of failure and its consequences then the case will be enhanced by a detailed costing (see AMQ9, Idea Number 27).

The point is that you are not the victim of an unfortunate executive mindset against maintenance but that, in today's commercially oriented world, you must demonstrate value for money.



15.

THE MYTH OF THE BATHTUB CURVE

What a pleasure to find that my reaction to the use of the bathtub curve approach to predicting asset replacement has been echoed by no less an authority than **Prof Bill Geraerds of the Eindhoven University of Technology and President of the International Foundation for Research in Maintenance!** He says:

"The bathtub curve was for many years, and still is, presented as typical for the behavior of a TS [technical system/"asset"] with respect to maintenance. However it does not teach anything about maintenance that would indicate the end of useful life. And research has shown that it hardly ever turns up! The bathtub curve then might as well go down the drain!"

[The reason that it does not teach anything useful about maintenance is that even if the number of "failures" increases, it is the cost of these and what they portend for future costs that is important.

In an economic analysis for the justification of the renewal of a 5km pipeline length in a country water system Roger Byrne tells me that a GHD study showed that it would take up to 350 failures before it could be cost effectively replaced given the cost of service level parameters that the customers indicated were most critical to them.

With the high capital costs of replacement, many assets can "wear" quite a lot of failure and repair before being replaced. In the end replacement will probably be determined by customer annoyance long before its "economic life" is up!]



16.

DELIVERING THE MESSAGE

Once you have prepared your plan, you have to sell it. Dean Taylor (whose ideas on preparing AMPs were given in idea #1) said:

"If our belief was correct that the elected representatives should actually be running the ship then it was vital to get the often complex issues tabled in such a way that informed decisions would result. A good deal of thought was given to how this might be achieved. If we were to fail in this step then the whole process would become futile.

"The reality is that decisions are often in the end made on perception."

This being the case then the presentation report as distinct from the technical report is the one that will have the most impact"

The result was a full day's workshop with Council with the following key elements:

- A tour of key facilities, particularly those with augmentation needs
- A good lunch
- No news media present
- A multi-media screen presentation covering the full asset and augmentation issues.
- Demonstration of the "live" financial model for various scenarios.

In all of the above the information was kept as simple as possible to ensure a high 'absorption' rate.

Note the similarity of this approach - and its success - to the approach taken by Marion Council next (in which GHD was also involved).

17.

GETTING THE ASSET MANAGEMENT MESSAGE ACROSS

What not to do

Bill Braithwaite, when Asset Manager, Marion Council, had put together a team to look at asset management and GIS within the council. There was no budget for this work, it was a "think tank" that made recommendations. It got nowhere, reports Bill. It was too abstract. It needed to be grounded.

A better way

So Bill decided to set up a few pilot projects that could demonstrate the worth of what he wanted to do. To minimise the initial drain on the budget, two of his three pilot projects were co-operative ventures, one with the State Department of Environment and Natural Resources and one with the local TAFE.

Use lots of pictures

Board approval was gained for the pilots which produced data - and pictures. At this stage, Bill organised a launch for the council members with lots of pictures around the walls. The pictures and the figures came from the local area so that the council members could identify with them.

This generated enough interest to permit the commissioning of a consultant to estimate the savings that would be available from better management, what had to be done and how much it would cost.

Indicate results - and timing.

This information was presented to Council in a second session where the figures were explained and concrete ideas presented on how they could start capitalising on the potential savings. ***And Bill got the go-ahead for a one million dollar project.***

(Since this time, Bill has moved on and up, and is now Chief Engineer with the Shire of Glenelg in Victoria - who says asset management doesn't pay!)

18.

LARGE PACKAGES - OR SMALL ?

Large scale packaging of maintenance work reduces your administration costs but reduces scope for effective competition and, importantly, reduces the information flow that you need to have in order to manage.

Even if your contractor provides cost breakdowns you may not know the costs of individual services. The reason for this is that there are a large number of costs that are general to the contract and can be split in any number of ways depending on where the advantages lie at the time!

Small scale packaging maximises competition and maintains information flow but is a heavy demand on management time.

One answer may lie in reducing your outsourcing contacts to one - by outsourcing the management of your contracts to an independent contract manager.

Big is not necessarily beautiful, nor is small necessarily efficient. But, as my reviewer has pointed out, "Big is very difficult to keep beautiful". Which probably means that if you are moving towards packaging - think carefully!

19.

CONTRACTS AND ETHICS.

The use of consultants and contracting out has rapidly increased in recent years and shows no immediate signs of slowing down. As with any rapid change, some questionable practices have been showing up.

Ross Nicholson of South Taranaki District Council, Hawera, speaking at the ALGENZ conference at Taupo, referred to some raised by Russ Erwin of Boral Asphalt:

- specifications that are written to suit the in-house workforce
- rules for assessment of tenders not known by the external bidders
- call tenders to get the market value and then recall so that the in-house bid can be the lowest
- call tenders to get the market price, but give the work to the in-house workforce requiring them to perform at that price
- creaming off the easy work for in-house and tendering only the risky work.

we could also consider

- calling for consultancy offers then taking the ideas and doing the job in-house with the ideas presented by the consultants
- calling for tenders on a major task, and after the tendering work has been done, redefining the task to be a much smaller one
- calling for tenders to establish an in-house budget (before work goes out to tender a budget should have been allocated to it, and committed)
- not debriefing following allocation of tender (contractors need information in order to learn and improve)

As Ross says, " I wonder how many of us can honestly say that we have never indulged in some of these practices?"

Thank you, Ross, for reminding us that in the fun of "winning", ethical practices are sometimes lost sight of.

What is the cost of some of these practices to the community? In some tenders for CCT in Victoria there have been 50 sets of documents taken out and over 25 tenders prepared. On typical proposal costs of between 2% and 5% of the contract fee this means that the entire community has contributed up to the full cost of the project in the tendering effort.

This represents a significant cost to Australia's productivity. A cost which could go even higher as more work is outsourced.

20.

**OUTSOURCING -
MEASURING SUCCESS**

Bruce James, General Manager, Transfield Maintenance, Transfield Construction Pty Ltd, (tel: (09)224 5300 shared his measures with delegates at the **ICOMS Conference.**

"We measure success by first ***understanding the drivers which determine the client's success.*** It is most important that any measures put in place for the contract achieve some benefit, and are not just 'nice to have'. Some examples of KPIs (Key Performance Indicators) are as follows:

Effectiveness (How well is service delivered?)

- non-conformances
- average time to close-out jobs
- supervisor/staff ratios
- % timewriting
- customer satisfaction index
- rework rates
- correct supply of material
- IR lost time

Efficiency (Minimum resources to deliver the service)

- actual vs. estimate productivity
- % overtime
- % lost time
- trades/ non trades ratio
- procurement overhead cost
- cost of services vs total project cost
- project duration vs schedule

Flexibility (Response to changes)

- availability of workforce
- skill profiles/ competence
- resource leveling (look ahead planning)

- lead time for new work
- backlog of non-critical work

Safety/Environment

- Lost time injury frequency
- Total recordable injury frequency
- Performance against HSE plan
- Overdue improvement actions
- Leaks and spills
- Environmental innovations

Any measurement should be an indicator of potential problem areas which would be addressed if negative trends occurred.

- If the problem areas are considered insignificant for corrective action, then there is no point in measuring them in the first place!

This is not a job creation scheme for a junior clerk or engineer and particularly, it is not the job of an entire team of people.

The systems put in place to manage the work should be developed so that the required information is output on a monthly basis without more than a few man days of effort."

Ed: When measuring performance you must have in mind a range of acceptable behavior so that it is possible to tell whether a movement is negative- and whether it is big enough to need correction. AMQ 7 showed how to express this information usefully on a performance chart.



**Condition Assessment
Helpline. (08 281 5795)**

Write, fax for Application Form and
Tipsheets on Condition Analysis.

AMO'S GUIDE TO THE INTERNET

Have you been searching for good asset management sites and found things like computer leasing, financial portfolios and such? Or perhaps you have struck paydirt and found something worthwhile. Whichever, this is the guide for you. Write and tell us any good sites that you find. (You will be much appreciated by those burning the midnight oil looking in vain!)

Financenet

Charles Manning, now with the Australian Customs Service, but previously Asset Management Training Officer with the Commonwealth Department of Finance, sent me information on Al Gore's "Financenet". It is described as a "worldwide network of people that spans Federal executive agencies and departments, International, State, local and municipal governments, professional organisations and taxpayers as it crosses public-private sector boundaries to provide electronic libraries and mailing lists to link participants in a global outreach effort to improve the way governments manage the public's resources." Co-ordination and support are provided by Vice President Gore's National Performance Review (NFR) in Washington.

Subscription to any of the e-mail lists is free. Some of the topics available - you can list yourself and have information forwarded to your e-mail address - include: government asset sales, performance measures and lots of finance topics! For complete information on all Financenet services send a blank e-mail message to

info@financenet.gov

You will automatically receive a response by return e-mail with complete details.

Performance Measurement

David Atkinson of Haden Facilities Management suggests that those interested in performance and performance measurement might find a visit to the National Science Foundation beneficial. They have a discussion paper on performance assessment and further contact points. The NSF's Internet number is

<http://www.nsf.gov/od/ops/gprafnl.htm>

Recent Releases:

South Australia has recently released its "Strategic Asset Management Framework" and "Project Initiation Process". Inquiries: Building Asset Policy Services SA Tel (08) 226 5124 Fax (08) 226 5077.

The **Queensland Education Department** has just released "Better Asset Solutions -2001 Program". It will be officially launched in early August with a view to statewide implementation by the start of the 1997 school year. A comprehensive package of pamphlet, booklet and strategy plan, on disc, has been prepared. Contact: Frank Riley, Manager Asset Management Branch, Facilities and Services, Dept Education, Qld on (07) 3237 1699 if you would like further information.

21.

COMPARING THE FULL COSTS.

Russ Erwin, Marketing and Contracts Manager of Boral Asphalt, speaking at the New South Wales Branch of the Institute of Municipal Engineering, spoke about the taxes that Local Government doesn't pay and posed a question about whether the council would ever charge damages for late or poor completion by their in-house business units, or ban it from tendering. Both these risks are carried by contractors.

22.

**"DISCOUNT RATE SHOULD BE
AROUND 2%"**

Chris Miller's paper to the ICOMS Conference caused a great deal of interest. Arguing that long term assets be evaluated using a long term discount rate, he poses the question "What is the long term rate?"

He uses several series of historical data on inflation and nominal interest rates from the Reserve Bank to calculate the average real interest rate over periods from 5 to 71 years and argues that "based on the 10 Year Bond rate and Headline inflation, the long term average real interest over the 71 year period from 1923-1993 was around 2%.

Up until about 15 years ago, this average had not increased very much at all, reaching only around 3% in 1974 and it was not until the late seventies that the rate rose above 5%. In fact, for all but the past 20 years or so, the average real interest rate since 1923 has been less than 2.5%, and it was mainly the effects of the 1930's depression that caused it to increase from its low average around 1% to 2%."

Based on his analysis, and taking into

account any appropriate risk premiums, Chris believes that current rates are too high and that this is leading to cheap capital solutions which put a premium on future generations who are required to pay excessive maintenance and repair bills. He argues that

"Adopting realistic discount rate that reflect the true average changes in the value of money over the long term future will encourage the cost-effective design and management of assets there minimising the burden on future generations."

There are problems of comparison between projects of different lengths if we adopt the practice that Chris is advocating, which he realises, but then these problems of comparison exist in any case and are, perhaps, simply glossed over with our present practices.

What do you think? Write or fax AMQ, or ring Chris Miller on 019 666 445.

23

THINKING OF REFURBISHING?

When a 70 year old, eight storey, solid brick building was renovated recently new glazed windows replaced the old small timber ones, fretting sandstone was ground off, a silicon coating was applied to the whole exterior and a new air conditioning system installed. "Then, for the first time in its life, the old building leaked. Not just a little, a lot....Water which once evaporated from the facade now was trapped by the silicon coating and ran inside, drawn to the interior by the warm air conditioned space"! This is the lead story in Geri Cavalli's "Money for Jam or Urban Timebombs" in the March *BOMA journal*. The whole issue features refurbishment - its pros and cons - and Geri's article has some timely warning on the perils of accepting the lowest tender.

24. UTILISATION

Under-utilisation is often regarded as a problem to be eradicated. It is probably more productive to view it as an opportunity to be taken advantage of.

Increasing the utilisation of an asset will normally result in some extra costs for operating and maintenance and may reduce the life expectancy, so that increasing

- | | |
|--|---|
| 1. There is a minimum threshold standard below which construction is not reasonable and this caters for more use than is currently required (eg the depth of rural sealed roads) | <input checked="" type="checkbox"/> live with it! (but possibly rethink timing of future rural roads or lane width) |
| 2. It is the early developmental stage of an asset which has been sized larger than current demand to allow for growth | <input checked="" type="checkbox"/> live with it! (or possibly arrange for temporary alternative uses if the demand is there) |
| 3. There are physical constraints, eg insufficient lighting, heating, power supply, etc. | <input checked="" type="checkbox"/> Modification of asset or associated services |
| 4. Technology has changed and newer assets with different functions are now required | <input checked="" type="checkbox"/> Change the use of the asset if possible, downgrade to a lower use, or dispose of it |
| 5. There are management constraints, eg staff hours of operation are limited, weekend penalty rates, etc. | <input checked="" type="checkbox"/> Weigh up the alternative costs of underutilisation and extra management costs |
| 6. There are resource constraints, ie insufficient recurrent funds to operate the asset | <input checked="" type="checkbox"/> Rationalise <u>both</u> Recurrent and Capital Budgets. |
| 7. The asset is in poor condition | <input checked="" type="checkbox"/> If demand for the asset still exists, increase the maintenance or renew |
| 8. Demand obsolescence means that the asset's services are no longer in demand, maybe through population shifts | <input checked="" type="checkbox"/> Change the use of the asset to something that is in demand or dispose of the asset. |

You will note that **none** of the above actions requires you to actively stimulate greater demand, although most will result in existing or future demand being more easily accommodated - an **opportunity** to save on future capital expense.

Dr Penny Burns'

**Issue 10
July 1996**

ASSET MANAGEMENT QUARTERLY

ideas, case material, contacts

Contributors

**David Atkinson
Peter Bishop
Bill Braithwaite
Russ Erwin
Bill Geraerds
Bruce James
Charles Manning
Chris Miller
Ross Nicholson
Dean Taylor**

Reviewer:

Roger Byrne

***Ideas that tickle! Ideas that prod! Ideas
that support your asset management***

**Asset Management Plans * Audit *
Bench-Marking * Refurbishment *
Utilisation * Project Evaluation * Discount
Rates * Life Cycle Costing * Valuation *
Maintenance * Outsourcing * Marketing *
Capital Charging * Ethics * Contracting**

Benchmarking Special

*

Internet Sites

*

**Asset Management Competition
\$30,000 Plus in Prizes
(Advance Notice)**

Subscription to the AMQ is \$200 payable to the Asset Management Quarterly, 21 Lynne Street, Brahma Lodge, SA 5109. Telephone/ Fax (618) 281 5795. No more than two ideas may be republished without the permission of the editor and should be cited. Copying is not fair dealing.

THE ASSET MANAGER AS "SMART BUYER"

I heard a speaker the other day describe an asset manager as a "smart buyer" who could do three things:

- interpret desired outcomes
- specify requirements
- monitor results.

That is about it in a nutshell.

Asset managers have to "interpret desired outcomes" that is, translate outcomes into asset needs. As smart buyers, they will not buy what they do not need and they will make maximum use of what they already have.

They must "specify requirements" whether for construction, acquisition, in-house maintenance or contracts, to ensure that those asset needs are met. As smart buyers, they will choose assets that will serve them well for the timespan that is needed, neither more nor less. They will not be seduced into buying the cheapest. Neither will they necessarily buy the longest lasting or build in more longevity than is needed. Smart buyers value flexibility in a changing world.

Having bought, they "monitor results", correcting where necessary and learning from their mistakes.

These smart buyers set "best practice". Their successes become our successes. Or, rather, they would, if we knew what they were doing. More often we do not. That is why *The Asset Management Quarterly*, specialises in hunting down these ideas and making them available. It is also the rationale for the Inaugural 1996 Australia-New Zealand Asset Management Competition with over \$30,000 in prizes. (See Editorial - and send for your application!)

FOR YOUR EYES ONLY?

Why not use your AMQ to generate interest and support for your asset management efforts from ***your colleagues in other departments?***

- (1) Put them on your distribution list (after your staff have seen it!) or
- (2) Photocopy relevant articles and send with a short post-it note to the relevant officer/s. *Remember, people cannot support what they do not know, so spread the word!*



Where you see this symbol, it means that a copy of the original paper is available for loan. See back page for more information on our new service.

Announcing the

**1996 Inaugural
Australia and New Zealand
Asset Management
Competition
with over \$30,000 prizes, free
trips
and awards.**



Asset Management Success Stories

Asset Management is on a roll! Governments speak of it! Newspapers write about it! And agencies produce Guidelines on it and exhort us to comply.

This is our time. Monies are being committed to asset information systems, asset valuations and asset management units, in large sums, and it is all done on trust: in the belief, that, at the end, improvements will be seen in efficient and effective use of assets.

But how much longer can we go, in these very commercial times, before we are asked to show what we have done for the money? My guess is that our window of opportunity will be open for, at most, two years. In that time we have to show we are worth supporting or face the risk that something else will come along to take higher funding priority.

"But the benefits of asset management are to be seen in the longer rather than the shorter term!" do I hear you cry? Too Bad! That's not the way the world works. People (particularly funding bodies) are impatient and want results. (At the very least they want confirmation that results are on their way.) And they want this now!

Even if we cannot measure the costs and benefits of our entire asset management program (who can measure the hypothetical otherwise situation that would have arisen if we had not adopted wiser asset management?) nevertheless we can document some asset management events, some chapters in our asset management lives, some successes. It's mostly a matter of putting some attention into the documentation. Now, since nobody likes paperwork, the AMQ is providing an incentive for this essential work to be done - \$30,000 plus of incentive!

Document your success story and you could win a personal cash first prize of \$5,000 with at least \$10,000 of consulting services (from our sponsors) for your AM unit or agency! There are three cash prizes and 12 awards in 12 different categories. AMQ Subscribers are entitled to free entry to the Competition and Application forms and details will be sent to you by September 1st - but start thinking now. And good luck!

Penny Burns

Asset Management Plans



I. ASSET MANAGEMENT PLANS - GETTING STARTED.

When you don't know - assume!

Dean Taylor, Asset Management Co-Ordinator, Wanganui District Council says "Assumptions, we made heaps of them!"

Forecasts of imminent water shortage on prime time TV had been the spur to the Council developing a plan which would tell them how bad (or good!) their assets were and what they could do about them. -

Dean says their plan had to be simple, high level, and relate to customer needs.

"The approach taken was to **use the information we already had** rather than get into any significant field data capture exercise. Data capture is resource hungry!"

"We realised **each plan is an asset in itself** that will require maintenance. If there is no commitment to this, then, like an under-maintained physical asset, it will fall into disrepair and fail to deliver the goods. This is also the motive to **keep it simple and short with early returns.**"

"In the past, misguided notions about accuracy and completeness, produced an unwillingness to table many of the asset management issues for fear of specific questions and lack of comprehensive asset data. **A poor excuse not to discharge a vital management responsibility!**"

For this plan we decided where facts were unknown we would simply make an assumption, document it, and press on.

"Our outlook was 25 years and we made assumptions for this period for:

- Quantity requirements based on projections
- Quality requirements based on community demand and legislation
- Risk levels
- Ownership of Assets - to remain with Council

We also assumed that virtually any price will be paid to obtain drinking water as it is essential to the support of life. We reckoned if the real costs can be demonstrated then consumers will be happy to pay.

But if they are not - they will have a chance to tell us!

This is arguably the greatest benefit from an asset management plan in that **it places information in the hands of decision makers and consumers, which can be the basis for informed decisions.**"

Getting assumptions "down on paper" enables them to be examined. Dean's happy attitude to assumptions is a starting point. It makes possible the next stage, which is examination of assumptions and their consequences.

All too often we collect data to avoid making assumptions (and to avoid thinking?) only to find that the decisions we need to take are insensitive to the detail and we did not need or use the data at all!

Save time, save effort, save resources - use assumptions. And where decisions can be shown to be sensitive to the assumptions used - then test, but only then!

Dean can be contacted in New Zealand on 646 345 8529, (tel) or 646 345 2472 (fax).

2.

DON'T STOP!

.....at Asset Management and Control, says the National Audit Office.

Good news! In their asset management trilogy (Audit Report, Best Practice Guide and Asset Management Manual) the Audit Office have officially recognised that asset management is an interdisciplinary field, and should go beyond merely recording assets and ensuring sound inventory control - and step boldly into planning and management.

Asset Management Success Factors!

The "Asset Management - Best Practice Guide - June 1996" a laminated bifold A4 document in large print, provides the basic principles, products, success factors and outcomes for each of five areas - "integrated planning", "asset planning", "accountability for assets", "disposal" and "internal control structures"

e.g. *Accountability for Assets* has as one of its success factors - "the standard of performance of assets is an input to the next planning cycle."

Monitoring against these success factors would be a logistics nightmare, but the thrust is right (and it is a worthwhile challenge!)

Physical or Cerebral?

When you consider that asset management is more about planning, or thinking, than it is about doing, you will appreciate the value of ***The Asset Management Handbook***. This handbook,

prepared with the assistance of Coopers and Lybrand, covers a wide range of asset management topics although, of necessity, only at an introductory level.

The style of presentation is attractive and engaging - I found myself asking questions throughout and the questioning procedure itself is valuable.

(One might well argue that the problem with asset management in the past is that we have not asked ourselves enough questions!)

While I like the thrust of most of the sections, I would take issue with the treatment of condition based depreciation. which in this handbook is really a provision for deferred maintenance.

However, while CBD proper is an important addition to the armory of the asset manager, it is not generally applicable to computers, plant and equipment, and these were the assets which were the major focus of the Audit Report.

Read it, agree or disagree with the arguments and prescriptions, it doesn't matter. The important thing is to think! And in this the AG has provided an excellent management tool in his trilogy of offerings.

The Auditor-General's Financial Control and Administration Audit, Audit Report No. 27. 1995-96 and the Best Practice Guide and Asset Management Handbook, are available from the Commonwealth Information Services, Australian Government Publishing Service, GPO Box 84, Canberra, ACT, 2601.

BENCHMARKING SPECIAL FEATURE

Response to AMQ9 showed that many of you share the concern with the way that the term "benchmarking" is increasingly being applied to database constructions, rather than the one-on-one agency interactions in search of good practice that the term originally denoted.

3.

BENCHMARKING IS NOT DATABASE CONSULTATION.

It may be worth quoting the NIES Benchmarking Manual which says:

"Benchmarking is not database consultation or number fixation. Databases can be useful, and performance indicators and targets are essential aspects of any well managed benchmarking approach.

However they [databases] will only be used effectively if combined with a change program based on shared and detailed understanding of the practices and structures which produce exemplary performance

Furthermore, because of problems arising in making genuine "like with like" comparisons, ***numbers tend not to be particularly effective drivers of change...***

-o0o-

Sorry Wrong Number!

Those who rang Jane Napier for the Asset Management Series but could not connect, don't give up hope, try her correct number (03) 9651 2209! My thanks to the subscribers who kindly let me know the error of my ways - and my apologies to everybody else. Jane tells me that the Series has been so well received that they are going into a second printing. Whilst they will eventually be on Internet, it will take a little longer for this to occur.

4.

CAN BENCHMARKING BE USED FOR CONTROL?

The other concern expressed was the desire of agencies to use benchmarking metric as a control mechanism.

Where there is a known standard or target to be aimed at, performance measures may be designed to tell whether the standard is being met. This is a control practice but it is not benchmarking!

Benchmarking is a *search mechanism* for best practice. Clearly if the best practice is already known, no search is necessary.

When agencies use "benchmarking" in the sense of control, they usually have in mind a desired standard or target that increases over time, and want to know whether a department or their contractor is keeping up with the best.

This is a reasonable request. But TQM studies have shown "inspecting in" quality does not work, it has to be "built in".

If performance itself is rewarded (rather than compliance with controls), departments and contractors will be encouraged to benchmark for managerial improvement and the control *objectives* will be met: without overt control being applied.

Monitoring performance records ***what is***. Benchmarking is about ***what could be!***

5.

METRIC OR BENCHMARKING?

Comments in AMQ9 specified benchmarking metric rather than benchmarking proper. What's the difference?

Benchmarking is a process of comparing your area with others, internally in the same firm or organisation, or externally.

The essence of benchmarking is that, since you are involved in a one-to-one interaction, you know exactly what you are comparing. You know your partner's objectives and their special circumstances. With Benchmarking Metric, you do not.

Where benchmarking metric identifies the source of the data, such as comparisons of costs between university facilities or water agencies where the data is linked with the name of the facility or agency users may be familiar with each others' operations, but this will not always be the case and with un-named (un-sourced) metric, this knowledge is impossible.

6.

INTERPRETATION IS THE KEY

Unless you know how a particular measure is achieved and with what results, the data will be uninterpretable.

For example; An agency may develop improved cleaning techniques and as a result be able to reduce its cleaning staff by half without any ill effect on the *quality of*

cleaning that results. Another agency may simply reduce its cleaning staff by half but with no such efficiency improvements so that its facility declines in quality, with increased graffiti, more frequent need for repainting, loss of custom, etc. The benchmarking metric will look the same in both cases!

The above measure was uninterpretable because it was an input-to-input ratio - "cleaning costs per square metre", with no outcome component (quality of cleaning).

Input ratios can be suggestive, indicating which agencies might have techniques worthy of further examination. But they need sourced data to enable follow up.

Today much of the benchmarking metric that is being produced is, however, unsourced, uninterpretable, input-ratio data.

7.

BENCHMARKING METRIC - THE DILEMMAS

Benchmarking requires finding the right partner and engaging in resource intensive one-on-one interaction. In this way, benchmarking partners can discover what works and why and how to implement it in their own agencies. It works but it is difficult to find the right partner and it is time consuming. Benchmarking metric is far cheaper -but, if unsourced data is used, it is uninterpretable and cannot be used for management improvement. This gives rise to the

Resource Intensity/ Interpretability Dilemma.

Benchmarking

Another Dilemma is the "like for like" comparability problem. The more agencies are alike, the more comparable the measures - but the less they are alike, the more useful the measures are likely to be. At the extreme, if two agencies are exactly alike, their benchmarking data will reveal no useful differences! This is the

Comparability/ Usefulness Dilemma.

8.

RESOLVING THE BENCHMARKING DILEMMAS.

Introducing the Third Element.

Can we resolve these dilemmas?

Working on the principle that the way to resolve a dilemma is to introduce a third element, the following solutions rest on

- (1) *determining the appropriate objective for benchmarking metric (not trying to make it do what it cannot),*
- (2) *benchmarking outcomes rather than inputs*
- (3) *adding outcome data to input measures and*
- (4) *analysing interactions.*

These solutions are, as you will readily see, not mutually exclusive.

Solution 1.

Determine the appropriate objective.

Benchmarking metric cannot provide answers.

It will not tell you, for example, where to set your benchmark or target. Nor will it tell you whether your current results are good, bad or indifferent.

What it can do, is to indicate possible answers and suggest fruitful areas of research. Benefits will not be gained unless this research is done.

So, to use benchmarking metric constructively, it should

- **either be part of a one-on-one interactive study**
- **or, where large differences are found between the results examined and the comparison data, a detailed process analysis could be undertaken.**

Like golf, the secret of wise use of benchmarking metric is "follow through".

Solution 2.

Benchmark Outcomes.

You can benchmark **performance indicators** such as

- reliability, eg number of breakdowns;*
- availability, eg time out for repair, maintenance or out-of-service;*
- utilisation, eg percentage of time and/or capacity utilised;*
- or any **outcome measure.***

Metrics or comparison data can be used to suggest which areas would benefit from further study.

But it is not worthwhile to benchmark input ratios, eg maintenance costs per square metre (see idea 6) unless you are also able to match up the input ratios with outcomes or success or failure criteria (Solution 3.)

[You can also benchmark processes, such as project evaluation or post occupancy review but processes do not lend themselves to database analysis or benchmarking metric]

Solution 3.

Rescue Existing Input Data Collections by Adding Outcome Data.....

To make use of the large store of input ratio data (maintenance, cleaning costs, energy usage, etc) that is being collected, we need to ***add information that will enable it to be interpreted.*** That is, we need to add outcome data.

This can be overall outcomes, ie how successful the agency is, or specific outcomes, like customer satisfaction (with the agency or some aspect of the agency, eg cleanliness). Outcome data then needs to be matched with input ratio data.

Solution 4.

..... And/Or Analysing Interactions

It is dangerous to try to interpret the meaning of one input ratio standing alone. Interactions need to be studied.

For example, how do low cleaning costs relate to costs of repainting? How do low maintenance costs relate to costs of upgrading or replacement capital? More complex relationships may also need to be examined. This is not work that can be done by the user of published benchmarking metric. It needs access to the data bank itself, and preferably design of the data bank itself.

This analysis is work that could be done by a new profession of benchmarking analysts.

9.

UMS - GOOD BENCHMARKING IN OPERATION

UMS, one of the world's leading benchmarkers, make anonymity a key element of their marketing ***but they*** know all of the participants in the study and from the data on the organisation's types and quantities of assets, age, customer distribution and other key parameters, they can select appropriate benchmarking partners and then assess the key input and output parameters to identify those areas in which their performance could be assessed as weak.

Although anonymity is practiced, UMS do require the top five benchmarked organisations in each of the key business areas to be identified. In most cases this represents the top 2-5% and as such no manager has too much stress in being identified as that good! This is an example of Solutions 3 and 4 in action.

Note that this is very different from simply collecting data from different agencies without the indepth agency knowledge!

10.

BENCHMARKING TERMS

AMQ9 used the word "generic" to refer to the type of benchmarking metric where the source is not identified, similar to the use of "generic" or "house" brands of groceries made by well known producers who are not identified.

But the word "generic" when applied to benchmarking is also used in another sense, as described in the NIES Bench-marking Manual - "Benchmarking externally against ... organisations not in the same industry but

Benchmarking/ Life Cycle Costing

which have similar needs to employ similar processes with a particular performance emphasis, such as the need to develop new products/services rapidly or to fill customer order cost-effectively. Known as **generic benchmarking**, this can be very effective even though it is generally the most difficult.

Process benchmarking refers to business processes and is indistinguishable for practical purposes from generic benchmarking.

Function benchmarking generally refers to a function in the organisation, such as human resources management. A function is a collection of processes and to do it one needs to disaggregate the function into business processes, such as induction training, before being able to engage in meaningful comparisons. Hence, it too ends up being similar to generic benchmarking."

II.

NIES

"NIES Benchmarking Self Help Manual - Your organisation's guide to achieving best practice."

A complete guide including

- getting ready,
- customising your benchmarking model to suit your own organisation,
- deciding what to benchmark,
- selecting and training teams for benchmarking projects,
- analysing your own practices,
- methods of finding benchmarking partners,
- detailed preparation for the visits,
- how to conduct the visits,
- interpreting findings
- committing to implementation and consolidating and integrating benchmarking in your organisation.

This is a handbook for the serious benchmarker.

Lots of practical examples. Clear, easy-to-understand text with full page exhibits designed to be used for overhead reproduction. Handy hints accompany most chapters. Purchasers of the manual are entitled to a free update based on the benchmarking experience of Australian firms involved in the development of the manual. \$150 from Mail Order Sales; Australian Government Publishing Service, GPO Box 84, Canberra, ACT, 2601 or fax (06) 295 4888.



12.

WHY AREN'T WE? (Life Cycle Costing, that is)

A seminar conducted by the **Building Science Forum of Australia** in Sydney was told that the role of life cycle costing as a tool for building asset management was very much underutilised in Australia.

Three explanations were given:

(1) Brian Churchill, State Superannuation Investment and Management Corporation, described the **traditional pattern of ownership of commercial buildings** over recent decades, each building going through a cycle of brief retention by the developer, ownership by an institution requiring long term growth, movement into a property trust seeking high yields and, finally, sale for either major refurbishment or redevelopment.

(2) Jon Seller, Honeywell Limited stated that **contracts are often let on a year by year basis to lowest bidders**, minimising any sense of responsibility for building performance, while

(3) Graham O'Loughlin, Coopers and Lybrand spoke of the **low regard of management, even owner-occupiers, towards building management.**

O'Loughlin pointed out that initial costs are more easily visualised compared with the wide make-up, intangibility and variability of the ongoing costs of ownership and that the building industry has developed a structure appropriate to these attitudes, being strongly partitioned into phases up to a handover with no culture of long term maintenance.

These notes are from a seminar report provided to AMQ by Peter Bishop of Kinhill Engineers, a committee member of the Building Science Forum of Australia (contact 02 637 6133). They lead us to asking:

When Life Cycle Costing is so much vaunted by asset managers and all the best practice manuals, why is it not taken up by those who should, theoretically, have the most to gain from it?

What's the problem?

- Is it that life cycle costing's benefits are not visible?
- Is it that the costs are not outweighed by the benefits?
- Is it that we have no way of demonstrating the benefit/cost outcomes?
- Is it that the benefits are accepted but we lack an institutional method for incorporating life cycle costing in building management?
- ***Or is it something else?***



13.

THE FUTURE OF MAINTENANCE

Some forecasts for maintenance made by Prof Geraerds at the ICOMS Conference in Melbourne in May.

- The **reliability** of components, and consequently of technical systems (assets) will continue to grow as a result of better design and of new materials

and of the replacement of mechanical control devices by integrated circuits.

- The fraction of conventional **UBM (Use based maintenance)** will be reduced drastically. Periodic inspections concern primarily cleaning and hidden failures.
- The fraction of **CBD (Condition based maintenance)** will increase and will dominate.
- The pressure for short maintenance times will lead to **more modular designs**, allowing of quick and simple repair by replacement; replaced modules will be passed on to specialised repair shops, if repair is economically feasible.
- Due to the increase in reliability and of **CBM the maintenance function will be faced with increasing irregularity of maintenance demand**. This will require highly flexible and quick reaction planning and control systems.
- Quick reaction will also require **more delegation to autonomous groups** at shop floor level.
- **The internal maintenance skills will concentrate on diagnostics**, rather than on technical skills for the execution of maintenance. Specialised maintenance will, more and more, be contracted out to companies who will be specialised as service units.

REMINDER!



Ok, so you are not a woman!

but you probably know a few. Some might even be working in an asset management field (accounting, administration, management, engineering, whatever). So please draw to their attention our Women in Asset Management Survey in the last AMQ. **or tell us their name and fax number (or e-mail) and we will contact them directly.**

thanks.

Maintenance

14.

MAKING THE CASE FOR MAINTENANCE OR RENEWAL.

Question: Why does new money generally go to new capital items, not much needed and overdue replacement?

Answer: Proponents of new capital items do a better job of selling the benefits than do proponents of replacement or refurbishment.

To emulate their success, maintenance/ renewal proponents need to

(a) (if the benefits are non-monetary) describe the benefits of the replacement in terms of what it means to the organisation. Do this in concrete terms.

If benefits take the form of more reliable services - speak to the service recipients to discover and document the consequences of your current unreliable service. (Quantification of the costs of unreliability, of course, is better) Use anecdotes to make the issue "come alive". Cost the consequences of poor service.

(b) If the benefits are reduced maintenance costs, then an offer to pay back the interest on the capital out of your maintenance budget.

If the reduction in maintenance does not exceed the interest payable - and this is the main reason you are interested, then, you should not be doing it anyway. If the benefits are reduced risk of failure and its consequences then the case will be enhanced by a detailed costing (see AMQ9, Idea Number 27).

The point is that you are not the victim of an unfortunate executive mindset against maintenance but that, in today's commercially oriented world, you must demonstrate value for money.



15.

THE MYTH OF THE BATHTUB CURVE

What a pleasure to find that my reaction to the use of the bathtub curve approach to predicting asset replacement has been echoed by no less an authority than **Prof Bill Geraerds of the Eindhoven University of Technology and President of the International Foundation for Research in Maintenance!** He says:

"The bathtub curve was for many years, and still is, presented as typical for the behavior of a TS [technical system/"asset"] with respect to maintenance. However it does not teach anything about maintenance that would indicate the end of useful life. And research has shown that it hardly ever turns up! The bathtub curve then might as well go down the drain!"

[The reason that it does not teach anything useful about maintenance is that even if the number of "failures" increases, it is the cost of these and what they portend for future costs that is important.

In an economic analysis for the justification of the renewal of a 5km pipeline length in a country water system Roger Byrne tells me that a GHD study showed that it would take up to 350 failures before it could be cost effectively replaced given the cost of service level parameters that the customers indicated were most critical to them.

With the high capital costs of replacement, many assets can "wear" quite a lot of failure and repair before being replaced. In the end replacement will probably be determined by customer annoyance long before its "economic life" is up!]



16.

DELIVERING THE MESSAGE

Once you have prepared your plan, you have to sell it. Dean Taylor (whose ideas on preparing AMPs were given in idea #1) said:

"If our belief was correct that the elected representatives should actually be running the ship then it was vital to get the often complex issues tabled in such a way that informed decisions would result. A good deal of thought was given to how this might be achieved. If we were to fail in this step then the whole process would become futile.

"The reality is that decisions are often in the end made on perception."

This being the case then the presentation report as distinct from the technical report is the one that will have the most impact"

The result was a full day's workshop with Council with the following key elements:

- A tour of key facilities, particularly those with augmentation needs
- A good lunch
- No news media present
- A multi-media screen presentation covering the full asset and augmentation issues.
- Demonstration of the "live" financial model for various scenarios.

In all of the above the information was kept as simple as possible to ensure a high 'absorption' rate.

Note the similarity of this approach - and its success - to the approach taken by Marion Council next (in which GHD was also involved).

17.

GETTING THE ASSET MANAGEMENT MESSAGE ACROSS

What not to do

Bill Braithwaite, when Asset Manager, Marion Council, had put together a team to look at asset management and GIS within the council. There was no budget for this work, it was a "think tank" that made recommendations. It got nowhere, reports Bill. It was too abstract. It needed to be grounded.

A better way

So Bill decided to set up a few pilot projects that could demonstrate the worth of what he wanted to do. To minimise the initial drain on the budget, two of his three pilot projects were co-operative ventures, one with the State Department of Environment and Natural Resources and one with the local TAFE.

Use lots of pictures

Board approval was gained for the pilots which produced data - and pictures. At this stage, Bill organised a launch for the council members with lots of pictures around the walls. The pictures and the figures came from the local area so that the council members could identify with them.

This generated enough interest to permit the commissioning of a consultant to estimate the savings that would be available from better management, what had to be done and how much it would cost.

Indicate results - and timing.

This information was presented to Council in a second session where the figures were explained and concrete ideas presented on how they could start capitalising on the potential savings. ***And Bill got the go-ahead for a one million dollar project.***

(Since this time, Bill has moved on and up, and is now Chief Engineer with the Shire of Glenelg in Victoria - who says asset management doesn't pay!)

18.

LARGE PACKAGES - OR SMALL ?

Large scale packaging of maintenance work reduces your administration costs but reduces scope for effective competition and, importantly, reduces the information flow that you need to have in order to manage.

Even if your contractor provides cost breakdowns you may not know the costs of individual services. The reason for this is that there are a large number of costs that are general to the contract and can be split in any number of ways depending on where the advantages lie at the time!

Small scale packaging maximises competition and maintains information flow but is a heavy demand on management time.

One answer may lie in reducing your outsourcing contacts to one - by outsourcing the management of your contracts to an independent contract manager.

Big is not necessarily beautiful, nor is small necessarily efficient. But, as my reviewer has pointed out, "Big is very difficult to keep beautiful". Which probably means that if you are moving towards packaging - think carefully!

19.

CONTRACTS AND ETHICS.

The use of consultants and contracting out has rapidly increased in recent years and shows no immediate signs of slowing down. As with any rapid change, some questionable practices have been showing up.

Ross Nicholson of South Taranaki District Council, Hawera, speaking at the ALGENZ conference at Taupo, referred to some raised by Russ Erwin of Boral Asphalt:

- specifications that are written to suit the in-house workforce
- rules for assessment of tenders not known by the external bidders
- call tenders to get the market value and then recall so that the in-house bid can be the lowest
- call tenders to get the market price, but give the work to the in-house workforce requiring them to perform at that price
- creaming off the easy work for in-house and tendering only the risky work.

we could also consider

- calling for consultancy offers then taking the ideas and doing the job in-house with the ideas presented by the consultants
- calling for tenders on a major task, and after the tendering work has been done, redefining the task to be a much smaller one
- calling for tenders to establish an in-house budget (before work goes out to tender a budget should have been allocated to it, and committed)
- not debriefing following allocation of tender (contractors need information in order to learn and improve)

As Ross says, "I wonder how many of us can honestly say that we have never indulged in some of these practices?"

Thank you, Ross, for reminding us that in the fun of "winning", ethical practices are sometimes lost sight of.

What is the cost of some of these practices to the community? In some tenders for CCT in Victoria there have been 50 sets of documents taken out and over 25 tenders prepared. On typical proposal costs of between 2% and 5% of the contract fee this means that the entire community has contributed up to the full cost of the project in the tendering effort.

This represents a significant cost to Australia's productivity. A cost which could go even higher as more work is outsourced.

20.

OUTSOURCING - MEASURING SUCCESS

Bruce James, General Manager, Transfield Maintenance, Transfield Construction Pty Ltd, (tel: (09)224 5300 shared his measures with delegates at the ICOMS Conference.

"We measure success by first ***understanding the drivers which determine the client's success***. It is most important that any measures put in place for the contract achieve some benefit, and are not just 'nice to have'. Some examples of KPIs (Key Performance Indicators) are as follows:

Effectiveness (How well is service delivered?)

- non-conformances
- average time to close-out jobs
- supervisor/staff ratios
- % timewriting
- customer satisfaction index
- rework rates
- correct supply of material
- IR lost time

Efficiency (Minimum resources to deliver the service)

- actual vs. estimate productivity
- % overtime
- % lost time
- trades/ non trades ratio
- procurement overhead cost
- cost of services vs total project cost
- project duration vs schedule

Flexibility (Response to changes)

- availability of workforce
- skill profiles/ competence
- resource leveling (look ahead planning)

- lead time for new work
- backlog of non-critical work

Safety/Environment

- Lost time injury frequency
- Total recordable injury frequency
- Performance against HSE plan
- Overdue improvement actions
- Leaks and spills
- Environmental innovations

Any measurement should be an indicator of potential problem areas which would be addressed if negative trends occurred.

- If the problem areas are considered insignificant for corrective action, then there is no point in measuring them in the first place!

This is not a job creation scheme for a junior clerk or engineer and particularly, it is not the job of an entire team of people.

The systems put in place to manage the work should be developed so that the required information is output on a monthly basis without more than a few man days of effort."

Ed: When measuring performance you must have in mind a range of acceptable behavior so that it is possible to tell whether a movement is negative- and whether it is big enough to need correction. AMQ 7 showed how to express this information usefully on a performance chart.



**Condition Assessment
Helpline. (08 281 5795)**

Write, fax for Application Form and
Tipsheets on Condition Analysis.

AMO'S GUIDE TO THE INTERNET

Have you been searching for good asset management sites and found things like computer leasing, financial portfolios and such? Or perhaps you have struck paydirt and found something worthwhile. Whichever, this is the guide for you. Write and tell us any good sites that you find. (You will be much appreciated by those burning the midnight oil looking in vain!)

Financenet

Charles Manning, now with the Australian Customs Service, but previously Asset Management Training Officer with the Commonwealth Department of Finance, sent me information on Al Gore's "Financenet". It is described as a "worldwide network of people that spans Federal executive agencies and departments, International, State, local and municipal governments, professional organisations and taxpayers as it crosses public-private sector boundaries to provide electronic libraries and mailing lists to link participants in a global outreach effort to improve the way governments manage the public's resources." Co-ordination and support are provided by Vice President Gore's National Performance Review (NFR) in Washington.

Subscription to any of the e-mail lists is free. Some of the topics available - you can list yourself and have information forwarded to your e-mail address - include: government asset sales, performance measures and lots of finance topics! For complete information on all Financenet services send a blank e-mail message to

info@financenet.gov

You will automatically receive a response by return e-mail with complete details.

Performance Measurement

David Atkinson of Haden Facilities Management suggests that those interested in performance and performance measurement might find a visit to the National Science Foundation beneficial. They have a discussion paper on performance assessment and further contact points. The NSF's Internet number is

<http://www.nsf.gov/od/ops/gprafnl.htm>

Recent Releases:

South Australia has recently released its "Strategic Asset Management Framework" and "Project Initiation Process". Inquiries: Building Asset Policy Services SA Tel (08) 226 5124 Fax (08) 226 5077.

The **Queensland Education Department** has just released "Better Asset Solutions -2001 Program". It will be officially launched in early August with a view to statewide implementation by the start of the 1997 school year. A comprehensive package of pamphlet, booklet and strategy plan, on disc, has been prepared. Contact: Frank Riley, Manager Asset Management Branch, Facilities and Services, Dept Education, Qld on (07) 3237 1699 if you would like further information.

21.

COMPARING THE FULL COSTS.

Russ Erwin, Marketing and Contracts Manager of Boral Asphalt, speaking at the New South Wales Branch of the Institute of Municipal Engineering, spoke about the taxes that Local Government doesn't pay and posed a question about whether the council would ever charge damages for late or poor completion by their in-house business units, or ban it from tendering. Both these risks are carried by contractors.

22.

**"DISCOUNT RATE SHOULD BE AROUND 2%"**

Chris Miller's paper to the ICOMS Conference caused a great deal of interest. Arguing that long term assets be evaluated using a long term discount rate, he poses the question "What is the long term rate?"

He uses several series of historical data on inflation and nominal interest rates from the Reserve Bank to calculate the average real interest rate over periods from 5 to 71 years and argues that "based on the 10 Year Bond rate and Headline inflation, the long term average real interest over the 71 year period from 1923-1993 was around 2%.

Up until about 15 years ago, this average had not increased very much at all, reaching only around 3% in 1974 and it was not until the late seventies that the rate rose above 5%. In fact, for all but the past 20 years or so, the average real interest rate since 1923 has been less than 2.5%, and it was mainly the effects of the 1930's depression that caused it to increase from its low average around 1% to 2%."

Based on his analysis, and taking into

account any appropriate risk premiums, Chris believes that current rates are too high and that this is leading to cheap capital solutions which put a premium on future generations who are required to pay excessive maintenance and repair bills. He argues that

"Adopting realistic discount rate that reflect the true average changes in the value of money over the long term future will encourage the cost-effective design and management of assets there minimising the burden on future generations."

There are problems of comparison between projects of different lengths if we adopt the practice that Chris is advocating, which he realises, but then these problems of comparison exist in any case and are, perhaps, simply glossed over with our present practices.

What do you think? Write or fax AMQ, or ring Chris Miller on 019 666 445.

23

THINKING OF REFURBISHING?

When a 70 year old, eight storey, solid brick building was renovated recently new glazed windows replaced the old small timber ones, fretting sandstone was ground off, a silicon coating was applied to the whole exterior and a new air conditioning system installed. "Then, for the first time in its life, the old building leaked. Not just a little, a lot....Water which once evaporated from the facade now was trapped by the silicon coating and ran inside, drawn to the interior by the warm air conditioned space"! This is the lead story in Geri Cavalli's "Money for Jam or Urban Timebombs" in the March *BOMA journal*. The whole issue features refurbishment - its pros and cons - and Geri's article has some timely warning on the perils of accepting the lowest tender.

24. UTILISATION

Under-utilisation is often regarded as a problem to be eradicated. It is probably more productive to view it as an opportunity to be taken advantage of.

Increasing the utilisation of an asset will normally result in some extra costs for operating and maintenance and may reduce the life expectancy, so that increasing

1. There is a minimum threshold standard below which construction is not reasonable and this caters for more use than is currently required (eg the depth of rural sealed roads)



live with it! (but possibly rethink timing of future rural roads or lane width)

2. It is the early developmental stage of an asset which has been sized larger than current demand to allow for growth



live with it! (or possibly arrange for temporary alternative uses if the demand is there)

3. There are physical constraints, eg insufficient lighting, heating, power supply, etc.



Modification of asset or associated services

4. Technology has changed and newer assets with different functions are now required



Change the use of the asset if possible, downgrade to a lower use, or dispose of it

5. There are management constraints, eg staff hours of operation are limited, weekend penalty rates, etc.



Weigh up the alternative costs of underutilisation and extra management costs

6. There are resource constraints, ie insufficient recurrent funds to operate the asset



Rationalise both Recurrent and Capital Budgets.

7. The asset is in poor condition



If demand for the asset still exists, increase the maintenance or renew

8. Demand obsolescence means that the asset's services are no longer in demand, maybe through population shifts



Change the use of the asset to something that is in demand or dispose of the asset.

You will note that **none** of the above actions requires you to actively stimulate greater demand, although most will result in existing or future demand being more easily accommodated - an **opportunity** to save on future capital expense.

25.

**VALUATION OF ASSETS FOR
CAPITAL CHARGING.**

There is currently some interest in the incentive value of capital charging for asset management.

The notion of a charge on the value of all assets held by agencies as a motivating force for increased utilisation, disposal of surplus assets, and demand management generally - in addition to its virtue of cost transparency - has encouraged Treasuries, in particular, to consider the application of capital charging.

Most of the effort to date seems to have been placed on determining the appropriate charge rate. (eg weighted average cost of capital).

But the critical issues for asset management more appropriately lie with determining the appropriate valuation method for capital charging. In particular, should the deprival value approach apply?

The question is how should departments be compensated for the capital charge?

How the credit for asset sales is determined is important. There are three basic options:-

1. asset sale revenue goes to the "owner" = Treasury and the capital charge is reduced by the capital charge rate X book value of the asset (the value used to determine the initial charge amount).

Consequence: No incentive to maximise sale price.

2. asset sale revenue is retained by agency and the capital charge is not altered.

Consequence: Maximum incentive to maximise sale price but could be unfair in agencies where book value (ie the capital charge) is determined by its value as a going concern (ie deprival /replacement rather than market sale price)

3. asset sale revenue goes to "owner" = Treasury and capital charge is reduced by capital charge rate X sales receipts.

Consequence: As for 2.

Either option 2 or 3 would encourage maximisation of sale value, and this incentive is *independent* of the way in which the asset is valued in the books. This being so, it would be possible to change the basis of asset valuation for capital charge purposes to increase fairness and equity, without disturbing the incentive mechanism. Perhaps we need a fourth option? Certainly the compensation method cannot be simply brushed aside as a trivial matter.

E-mail.

You can now reach the AMQ by e-mail. Take advantage of this to send us your comments, suggestions, queries, etc. Our number is

Pennyb@dove.mtx.net.au

ASSET MANAGEMENT DIALOGUE

Update Your Contact Details Now!

As all Australian numbers have recently changed or will be changing soon, we will be issuing an update of the AMD in the next issue.

Just fax your updated business card (or details) and list your interests. Choose from the list below or add your own.

Asset Registers; Asset Valuation; Depreciation; Condition Based Depreciation; Condition Analysis; Maintenance Planning; Funding; Asset Acquisition; Disposals; Accounting for Assets; Renewals; Economic Lives; Decay Rates; Forecasting; Demand Analysis; Demand Management; Asset Performance; Utilisation; Benchmarking; Best Practice; Organising for Asset management; Strategic Asset management ; Configuration management - or add yours

And, if you are not already listed, take this opportunity!

Gutteridge Haskins & Davey
380 Lonsdale Street
Melbourne, Vic, 3000

Roger Byrne
Manager, Asset Management Group
Telephone: (03) 9600 1100
Facsimile: (03) 9600 1300

Interests: Renewals, Organising for Asset Management, Strategic Asset Management

AirServices Australia
GPO Box 367
Canberra ACT 2001

Suzanne Williamson
National Manager - Property Assets
Telephone: (06) 268 4837
Facsimile: (06) 268 5694

Interests: Asset Performance, Benchmarking, Strategic Asset Management

MITS Limited
474 Flinders Street
Melbourne Vic 3000

Gary Stoneham
Director, Business Consultancy
Telephone (03) 9613 7176
Facsimile (03) 9613 9500

Interests: Asset Registers, Organising for Asset Management, Outsourcing

Burnie City Council
80 Wilson Street
Burnie Tas 7326

Roger Gomez
Asset Management Engineer
Engineering Services Dept
Telephone: (004) 305 772
Facsimile: (004) 305 797

Interests: Asset Registers, Condition Assessment, Asset Valuation

[Please note that all Tasmanian Numbers will change as from August 19th. The 00 number prefix will become 03 followed by a 6 indicating Tasmania, followed by the area code and the local number. Thus (004) 305 772 becomes (03) 64305 772.]

Department of Public Works and Housing
(Strategic Policy Unit)
GPO Box 2457
Brisbane Qld 5001

Peter Keane
Director
Telephone: (07) 3224 5487
Facsimile: (07) 3224 4754

Interests: Benchmarking, Best Practice, Organising for Asset Management

YOU ASKED!

One of the many services that **AMQ** offers its subscribers is to seek out information on topics of interest.

Life Cycle Costing in Contracts.

Bruce Harvey of Brunstrum and Hammond Pty Ltd says that for all the talk about the incorporation of life cycle costing into contracts, there seems to be scant evidence of it in practice and he would be interested to speak with anyone who has actually done it. Not simply advising on the future maintenance costs of a construction, but actually building it into the contract price and negotiations.

Is there anybody out there who has done this, or knows of someone who has? If so, you can either contact Bruce directly on (06) 282 5542 or by fax on (06) 282 5602 or ring/fax **AMQ** on (08) 281 5795.

Information that **AMQ** has discovered includes the following.

1. **South Australian Water Corporation (contact: Mike Boremann on (08) 204 1696)** incorporated a special life cycle costing and reporting exercise as part of their requirement for asset management plans in their \$1.5 billion maintenance and operations outsourcing contract.
2. The New Zealand Government, as part of their resource management act, requires all providers of new buildings over ten stories to provide, as part of their construction proposals, the means by which the buildings will be eventually demolished! This effectively builds in one element of life cycle costing to the construction proposal.
3. It is understood that Bill Clinton has mandated life cycle costing on all requests for federal funding for new hospitals, but I have no direct information on this - does anybody? (eg what is require and what has happened?)
4. **Bryan Farmer, of Capital Insight (Tel (02)9955 2300)** tells me that the Silver Water Bridge Contract let by the Roads and Traffic Authority and awarded to Concrete Constructions incorporated a ten year maintenance contract. Bryan also pointed out that the use of BOOT contracts for asset components - such as the SEQEB Brisbane Power Station Turbines, effectively builds in life cycle costs into the contract.
5. A recent contract for an extension to a TAFE college in SA had a clause in it requiring life cycle costs to be taken into account. But it did not specify how!

Any further ideas?

WHAT IS AN ASSET?

If the public sector is having problems in deciding what's what, then it may come as something of a consolation to know that the private sector has not necessarily settled everything either. The following is now over five years dated, but worth recalling for the issues it raises.

Pierpoint (Australian Business, Feb 20, 1991) cites the following.

"Markit Capital Ltd, showed the little marketing company to have a healthy \$6.4million in net assets last June. Note that Pierpoint left out the word "tangible" from net assets. This is because the net assets included goodwill of \$3 million and client lists valued at \$3.6 million (previously \$1.2 million). Offhand, Pierpoint would have thought a client list a pretty intangible asset because its value depends entirely on the clients' continued willingness to pay you money. As Market has since hit the wall, Pierpoint is waiting with fascination to see how much the receiver gets for its rich client lists.

But Markit is only the latest in a long list of companies which could see assets where your correspondent could not.

Take the 1977 annual report of *Pub Squash Ltd*, which showed that its main asset at the time was empty bottles. Pub had launched into a soft drink war with Cadbury-Schweppes at the time and looked to be fighting out of its division. However, it managed to show a surplus in its balance sheet by revealing its empty bottles.

Right there in the accounts it showed "returnable containers in hand" at \$694,000 and "returnable containers in trade" at \$370,000. A returnable container in hand is an asset, sure enough, but a returnable container out there somewhere in the trade is an asset only if you get it back. In this

case not enough containers were returned because PubSquash went into receivership in 1979.

It's not only small companies that can be resourceful. The 1975 accounts of Australian Consolidated Industries (ACI) showed an intangible asset labelled "pre-production expenses" as being worth \$5.6 million. This figure, which related to its Pacific Can joint venture, did not represent factories, canning machines, or even ringpulls. It was the cost of sending staff to Japan for training. It was just as well ACI had discovered this asset at the time, or its profit for the year would have been slashed by three quarters.

Nevertheless, Pierpoint did not think it much of an asset, because he dislikes attaching a value to any asset that goes home at night. Pacific Can was scrapped a couple of years later and went home altogether.

Bond Corp, which was a big company at the time, included as an asset in its 1988 accounts, an amount of \$110 million, which it said was owed by a \$2 company named Kitool Pty Ltd on a chunk of land outside Rome. Collection of this debt was problematical, because when details of the transaction emerged, everybody associated with Kitool strongly denied they owed the money.

The only other point worth noting is that, apart from Pub Squash, every set of accounts mentioned above got the "true and fair" teddy bear stamp from the auditors. It just shows how rich Australia is in assets. We can see them where other people can't."

***("Endpoint" is a new feature designed to lighten your day - but make you think, too!)**

New Zealand in the Spring!

**Planning Effective and Strategic Asset Management
30th and 31st October 1996
Hyatt Regency, Auckland.**

New Zealand started their corporatisation, privatization, accrual accounting recording, asset sales and asset management planning programs before we did in Australia and, with the advantages of smaller size and only two layers of government control (national and local) they have been able to make considerable progress in a short period of time. Whilst they would be the first to say that they have not licked all of the problems, Australians could find their experiences of great value.

Topics include strategic planning, service levels, asset management plans, valuation, funding options, marketing asset management, outsourcing. For brochure fax IIR NZ on 649 309 7986. I will be the Chairman on both days and would be happy to introduce you to the speakers and others who can assist you in gaining a better appreciation of the state of play in asset management in New Zealand at the present time and to arrange an informal dinner on the 30th to enable you to increase your networking base. Just tell me you are going.

**Winning Against the Odds - Facility Management 96,
Sydney Convention and Exhibition Centre,
4-6 September 1996.**

Practical case studies including

- Alan Griffith, Dept of Defence, speaking on Outsourcing,
- Richard Audsley, Sabre Decision Technologies on Decision Support Tools
- Geoff Parnell, KPMG on Disaster Recovery
- John Macdonald, Eggleston Macdonald Pty Ltd, on Energy Efficient Practices

Also sessions on Winning through Change including "Organisation Renewal" and "Managing Transition". And keynote address by Phillip Adams on "Does Australia have a future in the Asia Pacific Region?" **Inquiries: (02) 9906 1088**

In addition to the conference program, there is a trade exhibition and

Exhibition Seminars

including

Lessons Learned in Outsourcing featuring experts from Optus Communications, Digital Equipment Corporation and State Rail who will detail their experiences.

A case study of the Herald and Weekly Times Relocation - hear how they relocated 900 people and over 15,000 square metres - and still got their daily newspaper and four weekly papers out on time!

Computer time bombs In the year 2000. Details the problem of recognition of date fields and the inability of millions of computer programs to read 01/01/00 and deals with how businesses should address the issue. Case histories from around the world will be presented.

The interactive office. International trends featured with examples of alternative office environments. **Inquiries(for exhibition and seminars) (02) 9819 0211**

New Service!

The AMQ Asset Management Resource Centre

Every year I attend many asset management conferences, seminars, workshops, etc and collect papers, reports, books and articles on the subject. On the principle that knowledge is to be shared and not hoarded, I am offering to make my library available to AMQ subscribers.

Each quarter I will produce a list of papers, etc, collected. As I don't want to take up valuable space in the Quarterly for this, **it will be available to anybody who asks! Just fax your contact details to "AMQ Resource Centre" (08) 281 5795 to be put on the mailing list.**

Conditions apply! And they are:

- You return borrowed items promptly
- You pay the postage
- And when you find a good idea, please consider sharing it with other AMQ readers. (We will acknowledge both the finder and the author of the idea)

If you normally deal through your librarian, please make an exception in this case and contact us directly. As we don't want to lose track of our collection, we will only send information directly to users.

AND REMEMBER OUR OTHER AMQ SERVICES. (ALL FREE TO SUBSCRIBERS)

1. **The Condition Assessment Helpline.** This is for anybody interested in undertaking a portfolio condition assessment. AMQ will answer questions, provide occasional tipsheets, put you in contact with other asset managers who can assist, or suggest sources of professional help.
2. **The Asset Management Dialogue.** List your interests and increase your contact network.
3. **What's Your Problem?.** Subscribers may fax their problems. If we can help immediately we will. If we have to ask around, we will. If all else fails, we will print your request in the AMQ for everybody to help.
4. **Advertise Your Job Vacancies in Asset Management.** Next deadline is September 26 and AMQ 11 will be distributed on October 8th.

and, new to this issue

5. **The AMQ Guide to Internet Locations for Asset Management.** See page 16 and remember that we will print any good Internet locations that readers find.

The AMQ - More than just a great idea!