Issue 8
Jan 1996

Dr Penny Burns'

ASSET MANAGEMENT QUARTERLY

ideas, case material, contacts

Over 30 good ideas in

* Condition analysis and Monitoring
* Consulting * Financing * Information
* Outsourcing and Insourcing * Ownership and Leasing * Pricing
* Asset Recognition * Valuation

with contributions from DSTO Salisbury, SEQUEB, Westpac and others

Plus an update on the Asset Management Dialogue

The AMQ - More than just a good idea!

And the winner is..... Scott Newman, Hobart City Council.

Many thanks to all of you who wrote telling me of the ways in which AMQ/AMD is being of assistance to you in your work - from putting you in touch with work going on in other places with which you were not familiar, to ideas that sparked controversy within the work place and, ultimately, helped in reaching a decision. Sometimes the ideas helped support a cause, sometimes they created one!

Our congratulations go to winner, Scott Newman , Asset Management Engineer for Hobart City Council who listed multiple ways in which the AMQ/AMD had been of assistance including:

- adopting a continuous asset updating procedure after reading the article about Bridgestone's continuous stocktaking approach in AMQ2
- selling the message about asset management to another council who asked what am was all about - by showing them the article in AMQ7 (pp2-3)!

Scott wins a free ticket to the AIC Conference on Strategic Asset Management and Maintenance in the Public Sector, to be held at the Menzies Hotel, 27-28 February 1996.

More Information Wanted!

Scott also asks if we can print some information on the following:

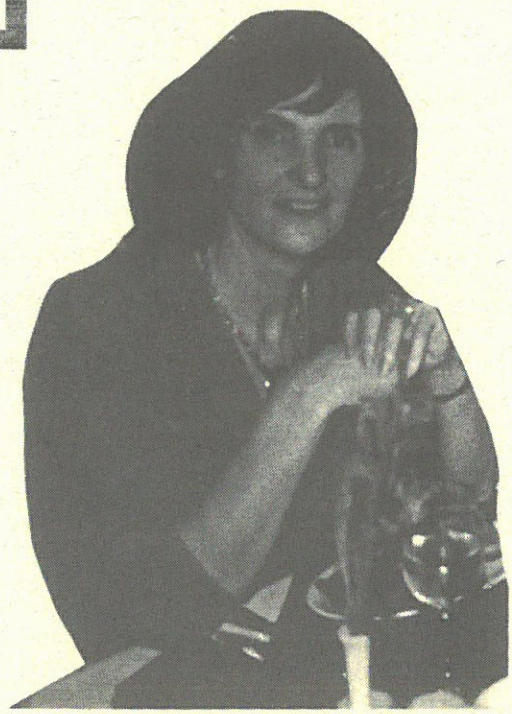
- Local Government asset management information systems including software evaluation and integration issues
- More information on the application of condition based depreciation
- How the asset management function is administered in Local Government (such as contracting out, recognition of the client/server splits, etc.)

Can you help? - And gain a complimentary subscription for a friend.

If you have ideas on the topics above, ideas on the topics printed in this issue, or any other ideas that you think should be given more currency - please write. In return for sharing your ideas, you will be able to choose a colleague, who is not currently subscribing to AMQ, to receive a complimentary annual subscription - *courtesy of you.* Address your ideas to Editor, AMQ, and fax to (08) 281 5795 or post to AMQ, 21 Lynne St, Brahma Lodge, SA, 5109.

Closing date for next issue is Monday March 4th.

Editorial



Ideas and Innovation.

The importance of ideas. Back of every innovation, every product, every institution that we have today. there was an initial idea. Ideas are necessary for improvement. But someone has to take that idea, see its applicability, mould it to their own needs - and then apply it. The aim of the AMQ is to provide you with a range of ideas that you can use, develop, call your own - and, of course, then apply.

What AMQ does. The AMQ draws heavily on work that other asset managers have done, and are doing, around Australia and overseas. Every year I talk with more than a hundred practicing asset managers, and have a phone, fax and mail correspondence with as many others. (Email is coming!) I attend many asset management seminars, conferences, or workshops and read the papers from others. And, of course, I draw on the work that I do in my role as a consulting infrastructure economist and researcher. All of this so that the AMQ can bring you ideas and case applications to inform, help .. and yes, inspire!

New Format. I am continually searching for ways to make ideas in asset management more accessible and easier to read, understand and apply. You will notice that this issue has a new format. Each idea has been numbered and ordered alphabetically by keyword to make finding and using ideas easier than ever. Ideas are cross referenced and linked to previous issues.

Tell me. Do you like it? If so, tell me. If you don't, tell me!

I wish you a happy and productive year in 1996.

Yours,

Penny Burns

NEW JOURNAL

The American Society of Civil Engineers have released a new journal:

The Journal of Infrastructure Systems

Articles are cross disciplinary with a clear engineering component.

They focus on methodologies for

- monitoring
- evaluating
- expanding
- repairing
- replacing
- financing

the civil infrastructure.

Although cross disciplinary, they really require an engineering or technical background to fully appreciate.

Idea 1 **Condition Analysis**

WHAT DOES IT MEAN TO SAY AN ASSET IS DEFICIENT?

In the US bridge funding from the Federal Government is made available on the basis of assessed deficiency and to ensure fairness and efficiency in fund allocation, they have developed detailed coding guides for rating bridge deficiencies. The first issue is to define a bridge. (Sometimes the most obvious is overlooked!)

There are two types of ratings

- condition (eg measures of deterioration, section loss, excessive cracking, scour and other conditions that can be seen and estimated during the actual bridge inspection.)
- appraisal (what we might call 'performance' or 'functional') (these relate the service performance of the asset to a reference standard)

Condition deficiencies ("low ratings") are related to physical deterioration due to environmental conditions, maintenance policies, as well as unanticipated factors such as imposed displacements, fatigue, torsion, high friction, poor drainage systems, and impact and dynamic responses. By contrast, appraisal difficulties are related to normal design standards and traffic growth. There are about 100 active data items that serve to inventory and rate each bridge. Dunker and Rabbat "Assessing Infrastructure Deficiencies: The case of highway bridges" *J of Infrastructure Systems*, June 1995, pp 100-119) seek to analyse this data base for about 471,000 bridges! "An interesting question is whether or not traffic volume growth and actual vehicular load increases are outweighing physical deterioration as reasons for increases in bridge deficiencies with age."

The article provides lots of clues as to how to design and go about condition evaluation and the principles could be applied to other assets.

Idea 2 Condition Analysis

ARE YOUR CONDITION ANALYSES "ACTION ORIENTED"?

"A snapshot in time or part of an action program"?

That is a realistic choice. The usefulness of condition assessment can be enhanced by designing ratings to be "action oriented"

The following is an example related to buildings that enable minor works, major works, critical needs analyses and review periods to be logged and planned for.

Buildings

Grading	Explanation	Action
"As New"	No visible defects, safe, secure, weatherproof structure, "as new" condition. Functionally and aesthetically sound.	No major work . Review in 5 years.
"Near New"	As 1, but showing superficial wear and tear. Normal maintenance only needed to prevent initial stages of decay or dereliction commencing.	No major work. Review in 3 years.
"Fair"	Functionally sound, appearance needs attention affected by staining, peeling, paintwork, overgrowth, displaced bricks, mortar loss, minor spalling of bricks - early stages of decay becoming evident.	No major work. Minor repairs and review in 5 years or leave as is, but review in 3 years depending on finance available.
"Poor"	Building no longer functioning properly. Extensive areas of missing bricks, vertical cracking through section of brick face, displaced bricks representing a health hazard. Leakage, staining or fungal growth severe enough to affect structural integrity. Safety problems.	Conduct a needs analysis within next 3 years. Major work needed within 5 years.
"Awful"	Serious structural problems.	Conduct immediate needs analysis. Major work needed within 2 years.

Idea 3 Condition Monitoring

AN INTEGRATED CONDITION MONITORING TECHNIQUE.

SEQEB's integrated condition monitoring technique, POPS (Plant Overload Protection Software) has applications far wider than the electricity distribution area for which it was designed.

POPS has four main components,

- **Watchers** (responsible for monitoring the condition of an item of plant),
- **the Validator** (responsible for generating validated conditions from the coincidence of one or more Watcher conditions),
- **the Analyser** (responsible for fielding validated conditions, flagging prospective actions and initiating corrective actions) and
- **Agents** (responsible for executing the corrective action(s) as commanded by the Analyser).

SEQEB designed the technique for monitoring the real time condition of plant, flagging potential overload conditions to the control room monitors and, where appropriate, taking action to alleviate the overload condition.

However I spent a happy hour or so at a coffee shop, paper in hand,adapting it for application in other fields - for example, to the "repair or replace" decision of public housing. The trick is in integrating our condition assessments and designing appropriate validators and analysers.

The paper was presented by Conrad Woolston, one of the two authors, at the November Distribution 2000 Conference in Brisbane.

He would be happy to send you a copy of the paper and I would be happy to hear from anyone who sees new applications in this interesting technique.

Conrad Woolston, Computer Systems Engineer, The South East Queensland Electricity Corporation, GPO Box 1461, Brisbane, Qld, 4001 Tel: 07 3407 4357 or fax: 07 3407 4607 or email: cw021@seqeb.gov.au

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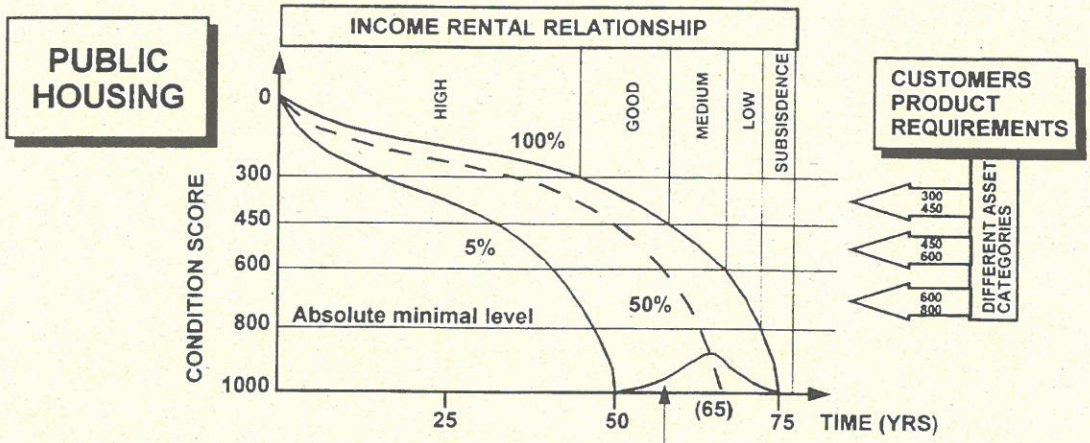
Idea 4 Condition Monitoring

MORE ON INTEGRATED CONDITION ANALYSIS

A propos of integrated condition analysis methods, Roger Byrne, GHD, a member of the AMQ Review Panel, has provided the following two schematics to help asset managers think through the relationship between the condition of their assets and the impact that this has on the agency's service delivery capability

If you would like to discuss their application with him, Roger may be contacted on (03) 9600 1100 or fax: (03) 9600 1300.

CONDITION - LEVEL OF SERVICE RELATIONSHIP



SHOWS SCHEMATIC RELATIONSHIP BETWEEN:

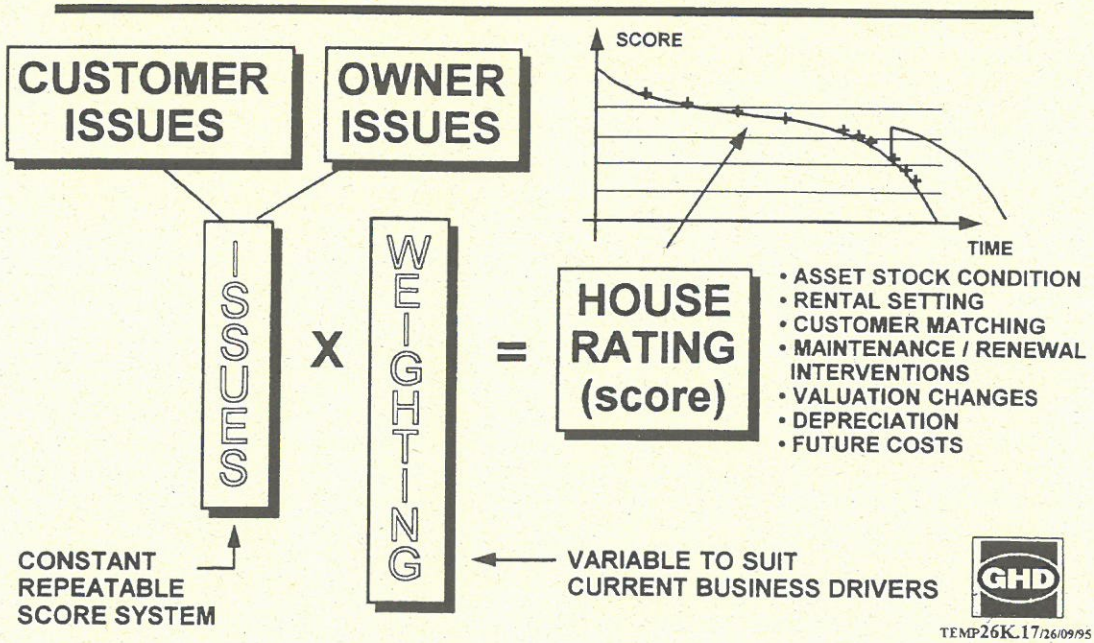
- CUSTOMER NEEDS
- PRODUCTS (STOCK) AVAILABLE
- CONDITION VARIABLES
- RENTAL INCOME

ACTUAL DISTRIBUTION OF FAILURE OF ALL LIKE ASSETS (CATEGORIES)

GHD

TEMP26K.18/27/09/95

PUBLIC HOUSING - PORTFOLIO RATING



GHD

TEMP26K.17/26/09/95

Idea 5 — Consulting

WHY NOT REVEAL YOUR BUDGET? IT MAY HELP YOU

Is competition stronger when the budget is known or unknown?

When the budget is unknown and the contract is awarded to the lowest bidder, a winning strategy is to bid low but to keep the details of the proposal vague to enable the quality of effort to match the bid price. It then becomes a guessing game for both contractor and client.

When the budget is known, contractors must demonstrate quality and performance to win, rather than simply guess better where the budget cap might lie! The client does not then have to assess proposals of widely different scope nor have to renegotiate should *all* bids come in high.

Idea 6 — Finance

OPERATING LEASES AND TRADITIONAL LEASES

Operating Leases account for approx 9% of all equipment financed in Australia but it is expanding.

In the USA and UK where similar accounting standards appjly, operating leases account for more than 50% of the market in each country, according to Richard Bailey of ALC Finance (*Construction*, vol 10, no 10 October 1995)

The essential difference between an Operating Lease and a Traditional Lease is that an Operating Lease does not have a residual value and the financier retains ownership of the goods. This makes Operating Leases "off balance" items. Traditional leases, are a means of financing purchase, and are required to be capitalised and reported in the balance sheet as assets under Australian accounting standards. Operating leases do not.

Richard Bailey points out that the equipment hire industry in Australia has been providing the Operating Lease product in a different form in Australia for many years.

Often the product has been a bundled product in that it usually included maintenance and provision by the equipment owner.

The only significant difference between Operating Lease and existing Rental/Hire arrangement is generally that these have been for short terms.

Operating Leases do not have to be confined to the standard areas of equipment. and are increasingly being applied to areas as diverse as furniture, pot plants and carpets! The ability to find a resale market or a recycling opportunity seems to be the key to development of operating lease possibilities.

Idea 7 — Information

DO YOU NEED FULL SYSTEMS INTEGRATION FOR PLANNING PURPOSES? - WHY NOT TRY DATA WAREHOUSING!

'Full systems integration' may bring a gleam to the eye of the IT specialist, but for everybody else it can be a nightmare.

Stand alone systems are quicker to establish, can be personalised, can take advantage of new technology quicker, can respond to changing need and are more likely to be "owned and used" by those in the field.

On the other hand, sophisticated systems can record information and store it in a number of combinations and permutations, but such sophisticated systems are few and costly, *and are often not needed for day-to-day operations.*

For planning data warehousing software can pick up information from several stand alone systems to give a "snapshot" for planning purposes. The information is not "on line", but for planning "on line" is often not necessary.

Data warehousing software can enable the planners to do their thing - and leave the operations people free to do theirs. And it is much, much cheaper!

If you would like to know more contact: Duncan Waddell, CFMR (Corporate Facilities Management Resources Pty Ltd) on (03) 9654 3900 or fax (03) 654 1171..

Idea 8 — Outsourcing

HOW TO AVOID CONTRACTING FOR MORE THAN YOU NEED

Before locking yourself in to an outsourcing contract for the maintenance of assets which you may not require, or to standards which are in excess of your real needs, it pays to do some ***condition and performance checks.*** Such checks also serves as a reference benchmark for subsequent monitoring of the progress and benefits of your contract.

Shawhite is one company that can assist. It has developed Asset Performance Measurement software (similar to an hierarchy of financial ratios). It assesses

- the service delivery from an existing property
- the impact on the service delivery by decay of the structure and utilities,
- the impact on the serivce delivery by the layout of the facility and
- the impact on service delivery by staff performance.

Analysis of these factors helps determine where in house services (insourcing); co-sourcing or outsourcing is appropriate.

Such knowledge is essential if you wish to to avoid paying for more than you need and an outside assessment can be more objective.

Contact Alan White Tel (06) 248 9922; Fax (06) 248 9770 if you would like to discuss how this approach may benefit you.

Idea 9 — Outsourcing

SO YOU HAVE WON WITH AN IN-HOUSE BID, CONGRATULATIONS! - NOW CONSOLIDATE.

When it won an in-house bid against external contenders, Scientific and Engineering Services (SES), a DSTO Salisbury services team did not sit back on its laurels. It realised that if it were to be in a position to retain the job come contract renewal time, ***now was the time to begin a radical efficiency drive*** (notwithstanding the cuts it had made to secure the bid in the first place).

Since SES does not want to waste the limited time it has available, it is categorising its assets, which are mostly physical and scientific equipment, and developing a basic "filtering" approach to determine where to place their maximum efforts. ***The filters SES is considering are***

- ***criticality*** (how essential is this asset to their operations and how essential is it that they should own it, rather than hire when needed)
- ***usage*** (is this asset used once a month, once a year, or more regularly?)
- ***commercial availability*** (if the equipment owned has a utilisation of < 20% and if it is readily available in the current market, disposal of the asset is seriously considered)
- ***number of assets*** (is this a unique piece of equipment or is it one of many of the same type giving possibilities of rationalisation?)
- ***maintenance costs*** (are they heavy or light?)

In terms of ***rationalising*** its stock, SES is looking to those assets in which the criticality is low, usage low, maintenance costs (in relation to usage) high, and the number of similar assets is high. Once unnecessary assets have been culled, the next task is to develop appropriate maintenance regimes and these will focus on those assets which have high criticality, usage, maintenance costs and number of assets.

This "filtering" approach could be used by any organisation, thus avoiding the trap of "wanting to record everything in an asset register" before doing anything.

Contact: Andrew Moffett, Tel #: (08) 259 5722 or Fax #: 08 259 656

Idea 10 — Outsourcing

MANAGING YOUR OUTSOURCING CONTRACT

American companies can seem woefully inept at managing their relationships with outsourcers,according to a recent article in the Economist, reprinted in The Australian, 1/12/95 (p.25).

Many see outsourcing as a way of washing their hands of a problem. It isn't!

Greg Petsch, head of corporate operations at Compaq points out that company subcontractors must now supply daily quality data and undertake "product-integrity audits".

All of this data has to be managed by the company and for those heavily reliant on outsourcing ***Petsch advises the appointment of a "chief resource officer" to oversee the supply strategy.***

Management life with contractors is different and has to be prepared for to avoid difficulties.

Idea 11 Outsourcing

OUTSOURCERS CAN LEARN FROM SUPPLIERS!

When Westpac decided to outsource, they did more than the usual stuff of finding out how other firms had fared, - they also ***asked their potential suppliers*** what problems they had experienced with previous outsourcing contracts.

Two of the major issues were:
- transition of personnel
- lack of documentation preparation

Westpac worked hard to keep its personnel informed at every key stage in the development of the contract - and they put 5-6 months into documentation preparation. It paid off.

As a result, few addendums and notifications had to be issued and all tenders conformed.

But communication with suppliers did not stop there.

Every unsuccessful tenderer was given the opportunity to be individually debriefed and was told approximately where his price stood in the general range of prices, high, low or average. For the three unsuccessful shortlisted tenderers, the debriefing was longer and covered the concerns that the client had, not from the angle that these had caused the bid to fail, but rather that the successful tenderer had more completely demonstrated that the concerns had been addressed.

Westpac are proud of their "open book" approach. This attitude is well demonstrated in the customer interviews.

Every firm considering outsourcing its maintenance will wish to speak with other customers of its intended suppliers - but ***Westpac offered the tenderers the opportunity to be present at these customer interviews,*** which is an excellent start to a "partnership" arrangement.

Of course, customers were asked whether they felt comfortable with this arrangement. For the most part they were. On one occasion the customer felt that he would rather not answer with the supplier present and the supplier was then asked if he would mind if Westpac had 'a private half hour' with his customer. Good relationships were maintained.

Paul R Anderson, Manager Contracts, Property Management, Property Services, Westpac. Level 8, 140 Phillip Street, Sydney, NSW 2000, Tel: (02) 223 6342; Fax: (02) 226 3200.

Idea 12 Outsourcing

SUPPLIERS - KNOW YOUR CUSTOMER'S BUSINESS!

Paul Anderson, of Westpac (see idea above) said that a number of their tenderers asked for Westpac's vision or mission statement. While this is perhaps not suitable - and too hard! - to put into a contract the company's overall objectives, or vision, is important contextual information for a contractor.

It is also necessary that contractors understand how the facilities that they maintain are going to be *used*. ***"While some are excellent, too many service providers seem to think that their responsibilities end at the plant room door. Service providers must be able to demonstrate a strong customer focus."***

Managing and Leasing a building *as if you own it* is also a key feature of the new asset management as described in ***BOMA's leading edge research paper "Human Resources"***. Prepared by KPMG, the paper addresses the people requirements of asset management - client relationships, recruitment, remuneration, performance measurement and management and education.

Asset management is interpreted broadly and inclusively and the ideas are applicable pretty generally.

Contact: Your nearest BOMA office.

Idea 13 Outsourcing

CO-OPERATION MAY BE MORE EFFECTIVE THAN COMPETITION BUT IT REQUIRES PROFIT SHARING INCENTIVES

Outsourcing now accounts for more than a third of Japanese companies' total manaufacturing costs and routinely reduces those costs by more than 20% reports the Economist (reprinted in The Australian, 1/12/95, p.25).

In Japan the attitude is that company and contractor are together for the long haul. Improvement comes through a mutual understanding.

By contrast, in Australia, improvement is expected to come from holding up the stick of competition - by opening up the contract to tender every few years..

Would you do better to adopt the Japanese approach?

Interestingly, both the IT and the Water Contracts in South Australia have a co-operative long term focus.

This has partly been driven by the desire to attach economic development benefits to the outsourcing contract (of this, more in the next issue) ***But for long term contracts to work well in our environment, there needs to be incentives for profit sharing when cost breakthroughs are made.***

Idea 14 Outsourcing

FLEXIBILITY AND SPEED.

Outsourcing may be beneficial - but not for all.

"Ironically, it may be the need for extra speed - the very factor which first drove many companies into the arms of outsourcers - that will force many managers to reconsider"

[reports the Economist, reprinted in The Australian, 1/12/95, p. 25]

High-tech products as diverse as pagers and PC units are increasingly being built to order, offering consumers swifter delivery of custome designs and cutting manufacturers' inventory costs, too. But if Compaq is to build its PC units to order, say Pesch, head of corporate operations at Compaq, ***it will have to rely less on outsourcing.***

Only by taking key operations back in house will it achieve the flexibility and speed that building to order requires."

Idea 15 Outsourcing

IS IT CHEAPER- AND HOW DO YOU KNOW?

How good is your maintenance cost data? Our past practices have a habit of catching up with us - and when changing from in house provision to outsourcing, this could well be the time for such catching up to occur.

Are you about to to make an expensive error?

If in the past, there has been a tendency to "shift" expenditures away from lines running "over budget" towards those that were running "under", as has been common in many places, your cost figures will be unreliable.

If your actuals have consistently come out close to budget, this could be either that you are remarkably clairvoyant - or your accounts have been "assisted" in this way!

Other poor practices include the one detected by the Victorian Audit Commission, namely the habit of some agencies of putting together a package of maintenance, repair and minor renewal and calling it "capital".

Or, the habit of not charging to the maintenance budget, the full cost of equipment or other facilities.

Or, overcharging of maintenance through faulty charge out methods.

Any of these practices could make your historical figures unreliable for cost comparison purposes.

If this is the case, then it would pay to undertake a thorough cost comparison study, based on current figures and extrapolate by building in known trends, rather than rely on historical data.

Idea 16 **Ownership**

DO FIXED ASSETS HAVE A FUTURE ON YOUR BALANCE SHEET?

What scope do you have for <u>increasing your return on shareholder funds</u> by selling off your assets and either leasing them back or purchasing the asset services direct?

"Collateralised lending in business by financial institutions is going to have to give way to cash flow facilitation in the 21st Century, ***as businesses no longer carry hard assets on the books",*** says Phil Ruthven, executive chairman of IBIS Business Information Pty Ltd, writing in the Financial Review (Nov 28, 1995)

"Ownership of land, buildings, equipment and stock are no longer helpful on the balance sheets of trading enterprises", he says, citing a recent ABS release on business statistics showing a ***strong positive relationship between the "revenue to assets ratio" and "pre-tax return on shareholders' funds"***

Industries where the sales revenues per annum were less than 0.5 times total assets employed (agriculture, utilities, property and business services) have had only a 5.6% rate of return on shareholders funds over the past four years compared to those industries with a revenue to assets ratio of 0.5 to 1.0 (mining, hospitality, transport, communications, recreation and personal services industries) which averaged 13.6% return.

WHERE THE PROFITS ARE

Revenue to assets ratio	Pre-tax return on shareholder's funds year to June				
	1991	1992	1993	1994	4 year average
Less than 0.5	4.0	4.3	5.8	8.2	5.6
0.5 - 1.0	14.0	12.6	13.9	13.7	13.6
1.0 - 2.0	13.0	13.1	18.1	20.2	17.6
Over 2.0	25.1	21.5	36.8	36.3	29.9
10 - year bond rate	12.1	9.9	8.4	7.4	9.5

Source: ABS

However those industries in the revenue to assets range of 1.0 to 2.0 averaged 17.6% return and those over 2.0 averaged a massive 29.9% return!

"Owning hard assets was a habit we picked up in the agragrian age, carried through the industrial age, but should have jettisoned in the infotronics age that began in the mid-1960s.

The message is simple. If you are in business today, **don't put lead in your saddle bag, don't own land, buildings, equipment or stock.** They are the business of superannuation and pension funds, property trusts, finance and leasing companies and factoring institutions in the infotronics age.. we can still own hard assets if we like, says Phil, but why bother, unless we want to be at the bottom in terms of profitability?"

Idea 17

Ownership

BEWARE THE NEW CARGO CULT OF SALE AND LEASEBACK.

The desire to own all of one's assets, causing cash flow difficulties, has been the downfall of many an otherwise profitable business.

However, before you succumb to the modern trend to sell off your assets and lease them back to provide more flexible funds, consider this - ***is what you are going to do with the funds earning you more than you will have to pay for the replacement of services that your assets currently provide?***

Before selling off anything, ***analyse the risks*** involved to your organisation and document these clearly.

Where a business has

- a clear demand for the asets, and
- a large enough portfolio to undertake best practice

ownership may be far more profitable than leasing.

Idea 18

Ownership

CURRENT LEASE PRICES MAY LOOK GOOD BUT WHAT ABOUT THE FUTURE?

Before selling and leasing back, it is essential to consider the future costs of the assets as they age and require more maintenance, repair and renovation.

If the lease period allows for future price revisions these costs will feed back into future charges.

Or if prices are fixed for the lease period but you are responsible for maintenance, again the costs of repair and renovation will feed back into your costs.

The savings that you think you are making may not be the case. The future is rarely a continuation of today, yet many agencies do their forecasting on this basis.

Idea 19 — Ownership

LEASE OR BUY - WHAT FACTORS SHOULD YOU CONSIDER?

Key factors

- ***Comparable Interest rates*** available on lease v purchase
- ***Availability of funds*** or borrowing capability
- ***Life of the asset*** and forecast lease rates
- Life of the asset and ***your need for asset*** (if a short term need and a long term asset, leasing may be preferable)
- ***Likely resale value*** of asset
- ***tax*** (only a limited impact - finance leases (those where the asset passes to the lessee at the end of the lease) are capitalised, whereas operating leases(those where the assets remain the property of the lessor) stay off the balance sheet)

Grant Feitelberg advises doing a discount cash flow analysis for each option. Note: these issues are tactical ones. See Idea 18 for the strategic issues involved.

Grant Feitelberg, CAT (Corporate Advisory and Training Pty Ltd), travels Australia providing public and in-house courses in Finance and Accounting. I caught up with him at his Adelaide Session for IIR Conferences. You may contact him on Tel:(02)-237 3122 or Fax (02)357 4141

Idea 20 — Recognition

BOOTS - YOURS OR THEIRS?

BOOT schemes are becoming increasingly popular with Governments. If you are the beneficiary of a boot funded asset ***you need to consider how to deal with this in your balance sheet. It is not yours now but it will be someday.***

The RTA, with respect to the Harbour tunnel, have included the net present value of the assets to be handed over as a particular type of asset, namely a "right to receive". (Simple logic would also assume that this be matched in the books of the agency currently owning and managing the asset as a contingent liability or "obligation to pay" of the same amount, but there would appear to be no official or accounting standards means by which this link can be enforced.)

The NSW Auditor General objects to this treatment, apparently on the grounds that the Government is underwriting the asset - which he construes as "control" and therefore argues the entire asset be included in the RTA books at current value.

Since underwriting does not constitute any control, only a financial liability, this does not seem at all reasonable. What is of interest in this dispute is that neither party seems to deny the necessity to put on the

books of one agency, assets which are currently owned and managed by another - *and that **flags an important departure from standard accounting practice and an issue that all agencies involved in BOOT schemes need to consider.***

Idea 21

Recognition

DELEGATION OR ABDICATION

Some councils have created assets that they have passed over to a Committee of Management or to a Sporting Club to operte, maintain, etc. In some cases, these councils are stating that these are no longer counicl assets and are not recording them. This could raise the issue of ultimate ownership is there arises a problem of legal liability.

See also AMQ3 pp10-11 for other aspects related to asset disposals.

NO ADVERTISING

It is the intention of the AMQ to bring to your attention interesting ideas in Asset Management, whatever the source.

Thus ideas may come from industry, from government, from consultants, from professional and association conferences - in other words, from anywhere.

No payment is accepted for any editorial reference nor are paid advertisements accepted. You may rest assured that if you see a reference to a 'for profit' organisation in these pages - generally as an example of the idea discussed - it is only because of its potential interest to you as the reader.

Editor

Idea 22

Performance

THREE CRITICAL QUESTIONS

Are your 'performance measures' helpful?

Once you have decided on your goals and the various measures that you are going to use, ask yourselves three essential questions, namely

1. How will I know when the measure moves unfavourably?
2. How will I know whether the movement is sufficiently unfavourable to do anything about it?
3. What will I do if it is?

If you cannot answer these questions, how are you going to be able to put the measure to use?

(It is helpful to be able to construct and read a performance chart, see AMQ7 p.23)

Idea 23

Performance

OUTCOME OR PROCESS ?

Indicators come in two shapes - *outcome* measures and *process* measures. A standard outcome measure is return on shareholders funds.

Other indicators relate to processes, they

are partial measures, sometimes called "drivers", in the sense that if you get these right, they "drive" the performance outcome result.

Thus, if you have a high cost of capital because a lot of your capital is under-utilised, a reduction in this will lead to an improvement in your outcome measure. There are a number of things that you can measure to track capital utilisation and capital intensity.

Similarly if you find that you are spending a lot on new capital but relatively little on replacement capital, then ageing, inappropriate or simply broken down capital may be adding to your overall cost of capital per unit of output. So ***these partial measures are indicators that you can use to see if you are on track to achieve your overall objective.***

Process measures are needed in order to manage. Outcome measures are used for reporting.

This distinction is important because of the differences required in both the timing of collection and the level of detail needed (see idea following)

SETTING UP AN ASSET MANAGEMENT LIBRARY?

If so, you will find useful references in Ideas 1, 3, 6, 10, 13, 14, 16, 26, 27, 28.

Idea 24 **Performance**

HOW OFTEN TO MEASURE?

Outcome measures are normally taken annually or monthly. They are used for reporting performance (in the annual report or corporate plans).

But process (or "leading") indicators need to be gathered much more frequently. Why? So that you can answer the key questions "Is the indicator moving unfavourably and is it sufficiently unfavourable to do anything about it?". And then be able to do something about it sufficiently quickly to get things back on track, hopefully before the outcome measure reflects an unfavourable picture.

Most measures fluctuate around a trend line. It is important to know what the normal range of fluctuation is for there is no sense panicking if a "movement away" from your desired position is only part of the normal ebb and flow.

To establish the normal range of fluctuation, however, you need to have a reasonable number of observations, preferably ten to twelve.

This immediately rules out annual data. Not only will you be waiting for ever to acquire the data, but the world will have changed substantially between your first and last observations. So use monthly data at a pinch, even better, weekly or even daily observations on processes.

But whatever the frequency you choose -it pays to test the benefits you achieve!

Idea 25

Performance

WHAT DETAIL DO YOU REQUIRE FOR PERFORMANCE INDICATORS?

For reporting purposes - the annual report, etc - performance measures are usually presented at a reasonably highly aggregate level - eg rate of return on shareholders funds. Too much detail at this top end and you cannot see the wood for the trees! For a big picture, aggregation is essential.

For management purposes, disaggregated data is required, data that is broken down by function.

Retail facility managers break down their property measures very finely indeed - by aisle! This is so that they can analyse what use is being made of it.

Utilisation figures aggregated over an entire hospital are not so useful for management as utilisation figures by ward. ***The aggregate figure may say there is a problem - but detailed information on the location of the problem is necessary for management to do anything about it.***

Similarly maintenance figures by site are not as useful as by building, and maintenance figures by building are not as useful as those that break down the maintenance costs by plant, civil structures, furnishings etc.

The detail is needed to detect small problems before they become large ones.

Acknowledgements.

Conference addresses - those I listen to and those I give - spark many ideas. I would like to thank the following:

To IIR Conferences - ideas 7, 11, 12, and 19;
The 3rd Electricity Distribution Conference for idea 3
The Local Government Accountants Association of Queensland Inc for ideas 20 and 29
South Australian Local Government Financial Management Group for idea 31
Capital Charging in the Health Sector Conf for Ideas 22-26

Idea 26

Performance

ONE IS NOT ENOUGH

Using detailed management information for accountability clouds the overall picture and it is not possible to make broad planning decisions nor to see, how the overall agency, region, or State, is performing.

And if we try to use the broad, aggregate, annual, measures for management, we find that managers do not get the information they need, in the form they need it, or with the timeliness that they need it. Managers cannot "manage" with annual information. They can "report" but they cannot "manage".

It follows that we need two types of performance measure -

(1) broadscale measures of outcomes on an annual basis for accountability and

(2) detailed measures of processes on a weekly or monthly basis for management.

(The five ideas above were extracted from a paper which I presented to a Conference on Capital Assets for the Department of Human Services and Health called "Performing Better" - if you would like a copy of that paper, fax AMQ on (08) 281 5795 and we will send you one.)

Idea 27 **Performance**

PROCESS MAPPING AND THE IMPORTANCE OF FOLLOW THROUGH

"A management team spent the whole weekend mapping their business' processes. The resulting Process Map, which took up four walls of the workshop conference room, was the cause of much self-congratulation and even featured in the company newsletter, with a picture of the proud owners. However once the workshop was over the Map quickly found a new home rolled up in the cupboard back at head office. ***No improvement resulted becaused the management team failed to follow through*** with analysis and action to change the process. Just the effort involved in building the map seemed enough! "

In Issue 7 of their excellent newsletter "Your Partner in Achieving Best Practice" ACIG (Australian Continuous Improvement Group Pty Ltd) outlined the steps needed to construct a process map, in Issue 11 they provide a guide to implementation. If you would like to know more about making and implementing process maps and/or about the services which ACIG can provide, or if you would just like to receive their tremendously informative and complimentary newsletter, contact Bob Hood or his office.

Bob Hood, Managing Director, ACIG (Australian Continuous Improvement Group Pty Ltd) Tel: (03) 9614-1771, Fax: (03) 9614-1030.

Idea 28 **Pricing**

DISCUSSION PAPERS AVAILABLE FROM THE GOVERNMENT PRICING TRIBUNAL, NSW.

Three discussion papers, and one research paper, on pricing issues are available from the GoverThey are:

Discussion Paper # 7
Prices Regulation and Demand Management
Discussion Paper # 8
Developer Charges In the NSW Water Industry
Discussion Paper # 9
Pricing Principles for Local Water Authorities: An issues paper, **and**
Research Paper # 3
King, Stephen P., *Access Pricing*

These papers are available without charge.

The Tribunal has established a Developer Charges Forum and after consideration of its report will be producing guidelines. There is also a Demand Management Forum which was due to report by the end of 1995. For further information contact the*Government Pricing Tribunal, GPO Box 3400 Sydney NSW 2000,Tel: (02) 290 8400; Fax: (02) 290 2061*