

Dr Penny Burns'

**Issue 9
April 1996**

ASSET MANAGEMENT QUARTERLY

ideas, case material, contacts

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see ideas on information and benchmarking, # 1,2,3,4,16
also idea on public consultation information, # 25

Not sure what you can, or cannot do, to your heritage asset, or how to value it?

see ideas on heritage, # 14,15

Need some practical advice for small maintenance units in prioritising their tasks?

see ideas on maintenance priority setting, # 19,20

Does your asset management need restructuring?

see ideas # 22,23,24,27

Needs some help in setting targets that work?

see ideas # 29,30,33,34

Is Valuation troubling you?

see ideas # 31,32

Like to see what things you could try to improve your information base and recording?

see ideas # 17,18,28

Building a reference library?

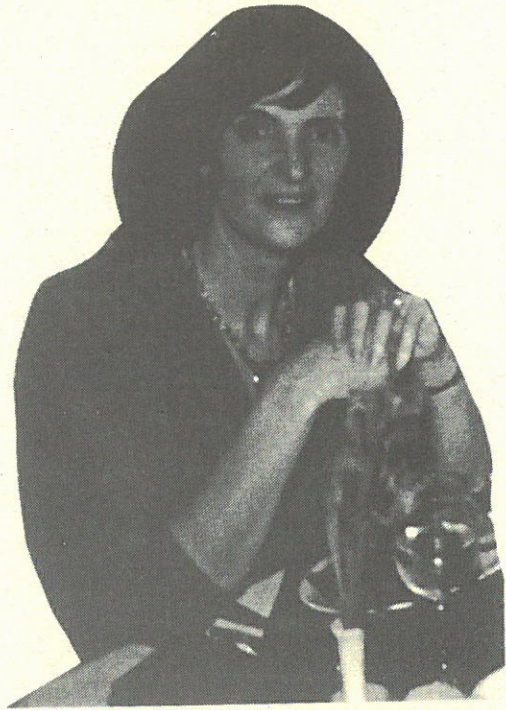
see ideas # 21,26

If your problem is not one of these, write and tell me
and I will see what I can do to oblige!

Editor

**SUBSCRIPTION TO THE AMQ IS ONLY \$200. PAYABLE TO ASSET MANAGEMENT
QUARTERLY, 21 LYNNE ST, BRAHMA LODGE, SA 5109.
TELEPHONE/FAX # 08 281 5795.**

Editorial



New Helpline

That shaver fellow! You know, the one that liked the shaver so much he bought the company? Well, I know how he feels! I was so taken with the Victorian Government's Office of Building's report on "Assessing the Condition of Constructed Assets" that I thought I would buy the government - but Jeff said that, unlike most other things, it wasn't for sale. Just joking. However, about the report I am very serious.

This is the first portfolio wide condition analysis tool that I have seen and I think that any asset manager would benefit greatly from it, whether you are managing a university, council, state instrumentality or a government department.

The problem with most condition audits and analyses is that they tend to view each asset in isolation and to focus on the supply/physical attributes to the detriment of the demand side. They are not suitable for analysing whole portfolios. This is. Although it has a bias to buildings in its examples, it could equally well be applied to non-building assets such as roads.

So I have arranged with the Victorian Government's Office of Building to distribute copies to all AMQ subscribers. And not only that!

I am also offering a helpline to get you going on condition analysis - and to keep you going on what could prove to be the most useful strategic asset management exercise that you could do. Doing things on your own is doing it the hard way. The AMQ is starting a helpline to make things easier.

REGISTER NOW and

- you will receive our occasional "condition audit" newsheets with helpful tips on implementation, and, as a registered helpline user,
- help is just a phone call away. When you call we will either put you in touch with another user with similar portfolio or problem, help you ourselves, or put you in touch with a specialist to suit your need (or all three!) as you require.

Registration is only open to bona fide asset managers or agencies that are contemplating, or working on, condition audits, and who are subscribers to the AMQ. So help others and help yourself. Register now. Ring or Fax 08 281 5795 and ask for the helpline registration form.

Penny Burns

I.

**STRAIGHT TALKING ABOUT
BENCHMARKING.**

Forget the rhetoric. Does benchmarking provide motivation or a reason to be content with the status quo?

The best of the benchmarking metric, for example, the BOMA benchmarking data, enables you to see where you stand vis a vis comparable others (eg other small retail, or large corporates) but how do you interpret that?

So you are in the lower quartile, or the middle, or the upper quartile of, say, maintenance expenditure per square metre. What does this mean?

If you are on the low end, is this good, or should you be spending more? Maybe your buildings are older/younger than others or usage patterns are different. Do you know enough about the field to take this into account?

What we really want to know is "Out of those companies which are similar to me, who are the successful ones and what are they doing?"

This, however, requires matching up input ratios with the outcomes (or at least some measure of success or failure). And I have yet to see this done.

So perhaps, when all is said and done, the major use for benchmarks is as a source of comfort for the status quo. It allows us, as in

"Yes, Minister" to say "We are doing OK!" To the extent we are doing so, benchmarking is counter-productive.

What are the options? (read on...)

2.

**THREE WAYS TO DO
BENCHMARKING.**

1. The first way is to find yourself a benchmarking partner. But how do you choose a partner? How do you find someone that has (a) skills or abilities that you do not have and (b) is weak in areas where you have strengths? This two way matching is important for both agencies to gain from the time put into the benchmarking exercise.

2. The second is for small or large groups to publish performance data in which each agency is identified. The willingness of agencies to be identified is necessary.

3. The third is to use "generic" or un-sourced data, ie where the contributing agencies are not identified. Most of the benchmarking metric that is produced today is un-sourced data.

The comments on benchmarking in this issue of the AMQ relate to the second and third ways of benchmarking and not to the first.

3.

WHEN A "PERSONAL BEST" IS THE BEST!

Certain sports commentators have been known to decry the "personal" best and to claim that only the "worlds" best is a valid claim to glory. But.

When you are already the world's best, benchmarking against yourself is the only way to go. Why reserve this strategy for the only the world's best?

The advantage of benchmarking against yourself is that *you can at least understand what you are measuring* and be able to accurately measure the changes made. This "personal best" benchmarking is consistent with TQM's continuous improvement.

The current tendency to compare ourselves with 'the world's best' could backfire on us.

Comparing ourselves with others who are in different, and favoured, circumstances tends to focus our thoughts on our disadvantages. We might say, for example, that it is not fair to compare ourselves with the USA, say, in communications, or with Singapore in shipping - the population densities are so much larger.

Unless adjustments for the differing circumstances are made we are simply setting up to fail! But such adjustments must inevitably be "ad hoc" so that it rather destroys the rigour of benchmarking!

It has been suggested that benchmarking against such countries feeds our national inferiority complex and cultural cringe. Even if this is not so, it may not be particularly inspirational!

4.

THE BENCHMARKING DILEMMA

To be able to interpret and use benchmarking data, you must know what is "good performance" in any process, and where it leads to. This is possible in a benchmarking partnership, but partnerships are time and resource intensive, and good partners are hard to find.

So attention has turned to generic data. But here it is often not clear what "good" performance is (eg is more space per person better than less - it may be cheaper but is it better in terms of worker productivity?) and what are the linkages? (eg faster response times may be reported - but at what cost?)

Thus the benchmarking dilemma - The partnership approach produces data which can be usefully interpreted, but is expensive whereas the generic approach produces data which is cheap but cannot be usefully interpreted. Is there solution?

My solution to the dilemma will be published in the next issue of the AMQ.

5.

REVISIT, DON'T JUST RECAST!

Don Nicholls, (executive officer for both the NSW and SA Audit Commissions) recommends:

Revisit all of those capital works that you have had on your forward program for more than three years. The chances are they can now be done in a more efficient and effective manner.

OK, so you risk having the project knocked back if you redesign and resubmit it - but you also run the far greater risk of having a project out of date before it's even operational.

To avoid the angst of requiring the original proponents to reconsider their own work, a value management exercise on these projects would probably yield very significant benefits.

Making a new VM a formal requirement for any project that has been on the program for three years would also help.

6.

THOSE ENDLESS OFFICE MOVES - ARE THEY EFFICIENT?

A colleague greeted me enthusiastically the other day when I commented on the changed layout of her offices - Yes, she said, it will make us so much more efficient!

Well, maybe, but how would we know?

Does anyone ever test? It is worth thinking about how you would measure such efficiency improvements since:

A recent study on churn costs (the cost of changing office layouts and moving people) suggests that for some organisations churn costs are effectively doubling their accommodation costs!

This includes physical resources, labour, and lost time for the incumbents.

Are you providing your executives with information on churn costs that they can use in making their next moving decision?

7.

AVOIDING CREATING EXPECTATIONS THAT YOU CANNOT FULFIL.

We all do it - create a rod for our own backs. We asked around and got the following suggestions for being more sensible in the future:

1. Avoid creating precedents. Individually a modification or upgrade may seem to be within the budget. But consider the wider impact if it is then extended to other units.
2. Don't overdo it. A run-down transport depot needed refurbishment but the remodelling went over the top - and it brought all other depot workers out on strike!
3. Don't hurry to put all your assets on your register. Once you make them visible in this way, you have obligations. (This suggestion came from someone who wishes to remain anonymous!)

8.

ALLOCATE YOUR SPACE COSTS AND SAVE MONEY!

About five years ago, the SA Department of Construction (now Services SA) allocated

space costs (security, heating, lighting, energy, cleaning) to its various business centres on a per square metre basis.

Allocating costs to business centre budgets enabled the organisation, within the space of a few months, to significantly reduce demands for space by its own personnel and to free up space for reletting.

The cost of the space itself (interest and depreciation) was not included at that time, thus avoiding the element of capital charging which was likely to prove the most contentious. Nevertheless the impact on self-rationalisation was considerable.

To maximise the impact on any cost allocation, however, budgets need to be output driven not input driven!

9.

TIPS FOR SAVING ON CARPET COSTS

Who better to advise on carpet management than Adrian Guilfoyle, Chief Engineer for Parliament House? Adrian suggests:

1. Don't use all plush carpets in high prestige areas, alternate cut and loop rows provide a harder wearing carpet which over its life will offer better presentation and the watermarked effect that you get with plush after a few months will not occur.

Cost Control, Disposals

2. Where carpet has worn in high traffic areas, consider replacing just this area with a patterned carpet in the same toning if the rest is plain or plain if the rest is patterned. Cut in around with metal stripping and it will look quite attractive. Or use slate or tiling in the heavy use areas.
3. Use the best quality underlay. The carpet fibre is damaged when crushed. The thicker the underlay and the more "give" it has the better.
4. Don't use the double stick method of gluing carpet to underlay. The carpet cannot be restretched. Furthermore, good quality underlay can be used again, it does not need replacing every time the carpet is replaced.
5. Parquet flooring marks badly with stiletto heels. It comes up well after sanding and an acrylic seal. Time will have packed it down. But marks will recur.

Adrian Guilfolyle, Tel (06) 277 7101

IO. THOSE WORN OUT, OBSOLETE AND SURPLUS ASSETS.

Do you find that worn out or obsolete equipment is blocking your stairwells, propped up against fire doors, or stuck at the back of cupboards? Many agencies do. Not only does this incur security and storage, it is a major safety hazard.

The main reason disposals are not attended to is often there is no person in the organisation who is personally responsible for making it happen!

As assets are replaced or upgraded, older assets are not systematically and thoughtfully disposed of. They remain in the system attracting maintenance, security and storage costs.

You can improve efficiency - and safety - by appointing an asset disposal officer.

It is best if performance is measured not only by the revenue obtained (which lends itself to a focus on high value items only) but by the reduction in storage requirements and increased safety.

Introducing a policy that branches must cede their replaced items as a condition of replacement funding will help too.

So would capital charging.

II. MOVE FIRST TO DEFUSE COMMUNITY OPPOSITION.

If a property is available because of the closure of a service facility that was opposed by the community, then you can anticipate further opposition when rezoning it in preparation for the sale, suggests David Eades, General Manager, Property, Queensland Rail.

So be prepared! Nothing is worse for community relations, he warns, than for the first indication of a change to be seeing the "for sale" notice.

David's recipe for success in such negotiations is

1. Move first - Know the community (age profile, work, leisure activities) and, if it is a major redevelopment site, work with the local government to undertake a land-use study. This gives local government a chance to have their input (often precluded by crown privilege).

If it is a small project, merely keeping neighbours informed before it becomes known to the market may suffice.

2. Have all the information. Nothing kills credibility faster than not knowing the facts.

3. Take a frank and open approach. There are usually genuine reasons for the community's opposition. Look for ways to provide positive gains to counter the losses (both real and perceived).

4. Fill the 'White Spaces' with Positives. Release positive stories to the media while the community movements are regrouping. The media is more likely to listen then.

5. Accept Moral Risk. It doesn't matter if you have all the legalities covered, if the community believes you have a moral risk - you have it!

David Eades can be contacted on (07) 3235 1992

12.

BE WARY OF HAND-ME-DOWNS.

When someone asked why it was that a fire service in a small country town had a fire engine designed for fighting fires in multi storey buildings when they did not boast any building over two stories, the answer was "It was handed down".

Because of the established practice of hand-me-downs, a very expensive item was being seriously underutilised. And the town had never considered what benefits they were getting for the extra maintenance, operations and security costs of their "free" asset.

The moral is don't hand down assets without a clear cost rationale.

A council developed a well argued case for handing down its truck fleet based on reliability. As the overall reliability of the vehicle reduced over time, the organisation moved it from major construction where "on time" reliable service was essential down through the different work groups until it provided a support role in a large park where reliability was not a key requirement.

They demonstrated that this was the most cost effective way of managing their fleet needs. (If the council were to lose their sales tax advantage, this would have been an even more cost effective option)

(see also the report accompanying this issue, the Victorian Government's "Assessing the Condition of Constructed Assets" which shows how to take account of the significance of different asset elements.)

13.

**AN ANNUAL
"CLEAN UP" DAY.**

Most agencies have a good system for disposing of surplus property "but that process only deals with items that are openly acknowledged as useless, nonfunctional or obsolete.

"What really concerns me", says H Val Peterson, in *Facilities Manager, April 1996*, "are those forgotten items that are squirreled away in closets, storage rooms and other-less-than-legal locations, or those items that are kept because someday they will surely be needed (most likely the day after hell freezes over)."

He suggests instituting

"An annual clean up day - only those items in good condition or that have been used directly to support the mission of the institution during the last fiscal year would be retained".

[Perhaps the day before the Christmas Break would be a good day to institute a regular practice?]

This, he says, would free up an enormous amount of space (rooms, filing cabinets, cupboards) in most agencies; you could even have a garage sale - **but beware of agency officers wanting to buy!**

[Ed: An agency recently found itself thwarted in its disposal plans for a parcel of surplus land because it was home to a shed that stored left over and out of date equipment!. It thereupon decided to implement asset management procedures!]

14.

**WHY IS YOUR HERITAGE ASSET
"HERITAGE"? - THE KEY TO
MANAGEMENT.**

It's a heritage asset, so there's nothing I can do. Right? Wrong!

Sharon Sullivan, Executive Officer of the Australian Heritage Commission points out that there are many reasons why a building (or for that matter, any item, including a tree or a garden) could be classified as "of heritage significance".

Finding out WHY your heritage building is so listed, is the first step in managing

It may be that the building exhibits important aesthetic characteristics valued by the community or group and if this were the case, preservation of these characteristics would be of prime importance - but you may be able to change the use of the building.

If the significance of the building is, instead, its use, you may be more able to modify the building.

Take, for example, a post office heritage listed because it was the place where people received their telegrams during the war years, keeping them in touch with their loved ones in the forces and was a place where the community gathered.

In this case, the meeting place nature of the place may need to be retained but the architectural nature of the building could be sympathetically changed.

The clue is obviously to find out why your building is listed.

Unfortunately, it is not always the case that the reason for declaring it heritage is listed when the building is!

In that case, you will need to employ a heritage consultant to research it for you. But the freedom you could obtain in your core business not to mention the benefit to the nation in the conservation of its heritage would be well worth the expense.

For further information contact the Australian Heritage Commission, Phone (06) 217 2111, Fax (06) 217 2095

15

WHAT IS DEPRIVAL VALUE WHEN RELATED TO HERITAGE ASSETS?

Robert Williams, Principal Policy Analyst for the NSW Treasury, points out that in the "Guidelines in Accounting Policy for Valuation of Assets of Government Trading Enterprises" (guidelines which are now being extended in many ways to non-trading enterprises):

'heritage assets are those assets which a government has decided to preserve for the duration of their physical lives because of their unique historical, geographical, cultural and/or environmental attributes'

It is recognised that some heritage assets are of solely historical or cultural interest, for example, monuments and statues, while others provide a functional service.

The view of the Steering Committee responsible for the guidelines is that heritage assets should be measured consistently with the measurement policies to be applied to other physical non-current assets of GTE's - that is, at deprival value.

Where the service potential embodied in a heritage asset would be otherwise acquired (through replacement, reproduction, rental, leasing, or in any other manner) if the GTE were to be deprived of the asset, the deprival value of the asset is the written down current cost of the service potential.

Where heritage assets are viewed as having functional as well as heritage characteristics, such as heritage buildings, the value of the heritage or aesthetic utility component may be difficult to measure.

If the heritage component would not be replaced if the agency were to be deprived of the asset - and remember the definition only states that the government has decided to retain for 'the duration of its physical life'. - **then the heritage component is, in effect, excluded from the asset valuation disclosed in the financial accountants.** But additional information may be included in the notes.

Robert Williams may be contacted at the NSW Treasury

[Ed: whether a heritage asset would be "reproduced", and, if so, which aspects would be reproduced, would depend on the reason for its listing, see "Why is your heritage item "heritage""]

16. CHAOS THEORY AND ASSET MANAGEMENT.

About 25 years ago the economics profession moved from a qualitative to a quantitative approach. Statistics, econometrics and modelling "took off" and so did the reputation of economists as people who could understand and predict what was happening in the economy. Today we can see that few of the predictions were accurate or even helpful. There are many who now doubt that economists really do understand any longer what they are talking about.

Are asset managers about to go the same way with major effort in information systems, data bases, modelling etc? Will we have our few years of being considered "scientific" only to find we are on the wrong tram?

The key question we have to ask is "Where are the interdependencies?"

John Legge's book on "Chaos Theory and Business Planning", a highly readable, very relevant, non-mathematical treatment of chaos theory for managers points out that many of the events that we treat as independent, aren't.

Which is the reason that our models fail!

There is no doubt that there will be a growth in asset information and information systems over the coming years and this is good.

Unthinking acceptance of the resultant figures, however, is not.

The processes and practices that underlie the base data and the way it is put together are put into place by normal human beings - hence the chaos connection!

We need to look behind the figures and accompany the figures with interpretation.

A quick test:

1. *How much of your data production is accompanied by analysis?*
2. *How much of your data production is actually used in decision making?*

See also the ideas related to benchmarking in this issue.

17. GREATER PROFITABILITY WITHOUT INCREASING YOUR PRICES OR REDUCING YOUR COSTS?

Sound impossible? Of course, but if current profit levels are being

misrepresented by double counting certain costs then removing the double counting by using a condition based depreciation approach (cbd) that does not double count maintenance will do precisely this.

It will increase your recorded profits by bringing them into line with your real profits. And it will do this without any change to real prices or real costs.

Alan Lodge, CEO of Wairarapa Electricity, NZ, believes this is the major benefit of adopting infrastructural accounting (cbd) for his continuously renewed distribution assets.

Transpower, New Zealand's national grid operator, also uses infrastructural accounting for its transmission line assets.

Contact: Alan Lodge, Wairarapa Electricity
ph 64 6 370 9800 fax 64 6 3709823

18.

GREATER CONFIDENCE IN ASSET DECAY RATES

Roger Byrne of GHD argues that now that some assets are having their third condition assessment we are developing greater confidence in predicting decay and in understanding what really is the cause for system performance and deterioration.

The technical information is thus becoming more accurate for informing a condition based depreciation approach. He further argues that cbd is essential for managing large asset portfolios and that you cannot effectively prove your case for appropriate renewal programs without understanding the connection between the condition of the asset and its ultimate performance. This

requires an analysis of the costs and benefits of improvement, taking into account the overall critically or risks to the business (which include customer costs!), in both operating and capital investments.

The good news is that engineers now have the technical capability to provide good quality information to accountants to support infrastructure accounting.

Roger can be contacted on (03) 9600 1100 or fax (03) 9600 1300

19.

BEST FIRST OR WORST FIRST?

A standard question when considering maintenance is whether one should tackle the worst problems first or the best ones first. The problem of tackling the worst first is that just one problem may absorb the entire maintenance budget with the result that next year the lesser problems are all more serious. Conversely if the best are tackled first, the worst may never get done. What is the answer?

Neither, says the Road Traffic Authority of NSW. The answer is "do what will give you the best value for money". This means looking at the cost of remedial action and weighing it against the benefits to be achieved. Maximising the benefits for a given maintenance budget provides optimum results.

To measure the benefits, see *Risk Management - "A simple method for measuring risk"* in this issue.

20.

A PRIORITIES CHECKLIST.

Some years ago I was on the Properties and Fabrics Committee for St David's Cathedral in Hobart.

One day I went around with the committee as we decided what priorities we would place on different maintenance requirements.

A decision to repaint an aesthetically unattractive brick frontage to a building leased to a local restaurant and to neglect the pointwork at the back of the church house made me realise that such committees needed help with prioritisation.

I prepared for them the following check list which may be helpful to small committees and others.

**Maintenance Priorities for St Davids
Cathedral**

"The most visible problems are seldom the most urgent, and the most urgent are seldom the most visible!

It is useful to think of a priorities list in three parts.

1. At the top of the list

we place those activities which are needed for safety reasons or if delayed would mean that more work had to be done, eg
 paintwork that would have to be stripped rather than recoated
 neglected pointwork and subsequent water damage

2. At the bottom of the list

we should place all those activities where delay presents no penalty in terms of safety or more work needing to be done, eg

replacing worn stonework

3. In the middle of the list

are those activities which either reduce maintenance costs, improve operating costs, or make the services we provide better or easier to provide, eg

modifications to the kitchen

4. Not on the list at all

are those activities which are justified separately from the maintenance budget, eg

activities subject to a special bequest, or subject to special funding*, such as a roof reconstruction public appeal and those activities which are justified by the revenue they obtain, eg

painting the brickwork at the front of the restaurant. This is aesthetic and not functional and would be justified if (a) it was part of the agreement for the existing rental, or (b) the rent could be raised to cover it."

* *Government agencies could read "tied grants"*

In more formal maintenance terms, the items above would be functional, safety, or cost significance - or no significance at all. Each item can be rated on a 1-5 or 1-10 basis to enable weighting items to suit the business drivers of the organisation, ie an emphasis on safety or function (reliability) but for small maintenance units the categories above will probably prove sufficient.

21.

I'VE BEEN THINKING...

'When I became Postmaster General, New Zealand Post was losing millions of dollars a year - despite the fact that the cost of postage had been rising faster than inflation. Also a third of all letters posted were not delivered on time.

One day I received some parcels that had been smashed out of recognition, so I asked the officials "Why is it that whenever I receive parcels they look as though they have been dropped out of a third storey window?"

"That is because they have, Minister", the officials replied. "All parcels in Auckland are sorted on the third floor of the central post office and after being sorted they are dropped down chutes to the ground floor for delivery."

The real solution to this problem was to stop dropping parcels 15 metres. But what the Post Office did instead was to try and persuade customers to buy bubble plastic to wrap their parcels in. It was no surprise that fewer and fewer New Zealanders were using New Zealand postal services."

So writes Richard Prebble, a former Minister for State Owned Enterprises in New Zealand in his book *"I've been thinking"*. It is a must for all asset managers as it not only outlines, in his straight talking and entertaining style, the problems that afflicted New Zealand before commercialisation (nearly all of them related to assets in one way or another) but provides the solutions, too!. *"I've been thinking"* is available from Seaview Publishing, Box 6860, Wellesley St, Auckland.

22.

BENEFITS NEED TO BE ACTIVATED!

If asset management is not happening in your agency, ask yourself where are the "action triggers".

It is not enough that an asset management action should produce benefits, we have to be able to be able to tell when the opportunity arises. Since there will always be many things fighting for our attention at any given time, this opportunity needs to be flagged in such a way as not to allow us to ignore it.

If someone wants a new asset, they will generally keep up the pressure on you until some action occurs. This is a very effective "action trigger". If a vital asset has broken down, there will be similar pressure.

But what if an asset is being under-utilised, over-maintained, under-maintained, or is surplus to requirements. Where then, is the pressure for action?

Your organisation structure (and information system) may require some re-engineering to ensure that

(a) there is some signal that there is a need for action and

(b) the signal has the strength to compete with other demands on your time and the time of your staff.

For further information on "action triggers", contact David Bernard, Colliers Jardine, (08) 305 8888, who has been developing them for a large health organisation.

23.

PROMOTE ASSET MANAGEMENT WHEN CONTRACTING OUT

Alan Piper, Executive Director of the WA Building Management Authority advises using contracting out to strengthen your asset management. He recommends:

- use AM expertise to pre-qualify contractors
- build information system development into the contract (when it gets costed it gets done!)
- outsource your condition assessment too - but use *separate* contractors!

For information on the WABMA approach, contact Robert Harvey, Director Asset Services on (09) 222 5343

24.

LEASE-PURCHASE FOR BUILDINGS, A NEW OPTION.

Corporates in the US turned to leasing rather than purchasing when they could see they were getting about 30% on their core business but only 10-12% return on their real estate. Then they discovered that their ability to take advantage of the next market jump and make short term adjustments conflicted with the needs of investors who wanted the security of long term leases. This forced many firms back into purchase because even if they lost on the real estate they would gain on the extra business!

But now there is a new development - the

lease with a purchase option. If the lessee does not wish to continue the lease until term, and the lessor does not wish, or is unable, to re-lease it, then the lessee is required to purchase the building. This provides the lessor with the security of a long term contract but gives the lessor the flexibility of an owned building.

Current trends are to go into warehouses and offices on short term leases and plant on a long term lease

25.

WHAT HAPPENS TO YOUR VALUABLE PUBLIC CONSULTATION DATA?

Many organisations carry out (indeed, are required to carry out) customer consultation. Techniques range from polling, focus groups, survey research, working with existing public opinion data and convening task forces of customers. But having achieved its immediate end, this information is usually shelved. Seldom is it shared with others to inform future asset and general management decisions.

In the United States, they have developed a means for beneficial exchange of such information that could be applied here between councils, between water and electricity utilities in different States, between schools, hospitals and other like agencies.

Called a "civic journalism" project, it is designed to encourage the collection and dissemination of knowledge about

community desires, hopes and aspirations. A charitable trust, the Pew Centre, provides grants to encourage this information dissemination and its rules for receiving grant allocations are worth noting.

The project is required to entail doing journalism, reporting and news coverage, it must have a plan for obtaining community or customer input, must have other media partners [or for asset management other provider partners], must have a plan for information dissemination, a developed budget, and must have a proposal for how the results are to be evaluated (eg tracking letters, e-mail, fax, computer clicks, attendance at town meetings, voter results, circulation results, etc.)

(I am indebted to Neville Binning, Main Roads Board, WA, for bringing this to my attention. Neville found it while browsing the Internet!)

When it comes to customer satisfaction and expectations it is vitally important to understand and to predict changing trends. It is important that organisations retain their base survey data and wherever possible build on this with future surveys so that they can monitor trends over a reasonable period of time.

This is an important role that could be carried out by professional discipline, municipal council organisations or central agencies. We waste a lot of money doing shallow surveys and while maybe sufficient at a local level, deeper more meaningful surveys could easily be developed for specific uses on a regional or state and national basis.

26.

VICTORIA'S ASSET MANAGEMENT SERIES.

The Victorian Asset Management Series is different from other asset management manuals.

For one thing, it has extensive indexation. If you want to find the current Victorian government policy or administrative policy position on valuation, asset registers, depreciation, gifts, heritage items or any other asset management issue, you will find it in Policy and Principles index.

There is also a glossary which has been a surprising absence in some manuals.

The asset management principles section is brief, and the policies and procedures section is basically an elaboration of terms such as "useful life", "valuation", "capital charge" and codification of requirements upon asset managers.

What you won't find are technical guidelines, examples of asset management benefits, case studies, or any discussion of issues. These may be coming in later parts of the series. It is refreshingly free of those clever and complicated charts and diagrams that are now so common in asset management presentations and those diagrams that are used are simple and to the point.

Of particular value is the catalogue of references in two parts: (a) material produced by the Victorian Government departments and agencies and (b) material produced by Commonwealth and other State Government bodies and

Reference, Risk

private sector organisations. Each of these references states the nature of the item, ie whether legislation, policy, guidelines or standard, gives a brief description, the source of the item with contact details and a keyword index. Almost 250 references are included that provide information covering financial, technical or functional aspects that have an application and relevance beyond a specific asset. The catalogue has its own index and you can use it to locate any asset management reference from acquisitions by libraries to wallpaper in government buildings. This catalogue alone would make it a worthwhile addition to any serious asset manager's bookshelf.

This volume is not for those at the coal face of technical asset management but all serious asset management section heads, any central agency or head office designing a manual for its line agencies or branches, any consultant who want to know the Victorian government policy background, and any asset management researcher should get themselves a copy.

Hard copies are currently available from Jane Napier (03) 9657 2209 and Internet is coming. The AMQ will advise later when Internet access is available, and its access code.

27.**A SIMPLE METHOD FOR MEASURING RISK.**

Many requests for maintenance or replacement cite the consequences should the asset fail as the justification for expenditure. "If we do not replace this air conditioner, we could risk another outbreak of legionnaire's disease".

But how probable is your risk?

Advanced methods of risk assessment consider both consequences and probability. So, if the consequences were a cost of \$10,000 and a probability of 0.1 then the risk cost would be \$1,000.

Costs should include both the direct costs of replacement and the costs of injury, inconvenience, disruption of service, etc. Each cost may have a different probability attached to it and risks need to be time bounded, eg how probable is it within the next twelve months?

Using the probability/cost weightings, assets can be ranked according to risk cost exposure.

However, it does not necessarily mean that the asset with the highest risk cost exposure should receive highest priority.

The question now to be asked is what can you do to reduce the exposure and how much would it cost you to do so?

If you can reduce the probability to 0.05, thus reducing your risk cost exposure to \$500 and you could do this at a cost of \$200, your benefit: cost ratio would be 2.5:1.

But sometimes it pays to just wear the risk!

*Useful references on risk management are:
the new risk standards AS/NZS4360-1995 and AS/NZS3931-1995, and*

*NSW Public Works Department
Guidelines on Risk Assessment*

28.

MEASURING UTILISATION

Have you updated your space guidelines to take account of new technology and changing functions?

Space Guidelines are one the tools of space utilisation along with the space inventory and space allocation modelling. These are input measures.

Now a new class of tools, space productivity measures are being adopted in the US to measure outputs and outcomes, such as how well space is used.

The most widely used space productivity tool is the classroom space utilisation

29.

CAN AUSTRALIANS ACCEPT A TARGET OF BEING "THE WORLDS BEST"?

Those companies and asset management sections that set the target of being the worlds best will probably have a great deal of trouble getting staff "buy-in", for two reasons.

1. Australians culturally are not brought up to brag about being "the best". We are much more likely to be self-deprecating, at least in public. Bragging isn't part of our value set. And our cultural values are such that we probably don't believe it, anyway.

2. *What does it mean?* If we can't "see" it, how can we aim for it?

Valuation

need to be made to free up the necessary resources from other tasks.

We must also monitor expenditure and progress. In AM, especially in data collection many go beserk and blow the budget spending more than is warranted for benefits achieved.

This may mean that asset managers have to be more pro-active with their agency heads!

31.

DO YOU NEED TO DEPRECIATE IF YOU REVALUE EACH YEAR AT MARKET?

If you only want depreciation for estimating residual value then market value will give it to you directly. Any depreciation of the market value amount will be double counting.

There are two caveats.

One: check the instructions given to your valuer. Is he valuing as at "average condition" or he is carrying out a full internal examination?

Two: If you revalue every three to five years and adjust by an index in the between years, then the need to depreciate will depend on whether the indexation factor incorporates change in condition.

If you are using "average condition", then depreciation is inappropriate unless it is the average itself that is changing, rather than the individual asset or property.

If you are carrying out a rolling revaluation with say, one third of the stock valued each year and the change in value used to calculate the index, then the average condition is being adjusted via the index and again depreciation is neither necessary or desirable.

Some use depreciation in the between years and cancel out the accumulated depreciation in the revaluation reserve upon revaluing. Use of an appropriate index will make this unnecessary. But see also "What do you want depreciation for?"

32.

WHAT DO YOU WANT DEPRECIATION FOR?

There are more uses for depreciation than merely calculating current value. (but see above for its necessity even for this purpose).

It can be used as a measure of cost, as an element of charging, and as a tool to assist future planning.

For charging purposes, there are benefits in smoothing out the depreciation allocation from year to year, an "amortization" approach makes sense here, with the cost (in current dollar terms) spread over the anticipated life of the asset at an even rate.

However for costing purposes, if it is desired to truly reflect the wear and tear of the asset as well as its obsolescence, there is value in a condition based approach.

Unless depreciation is based on condition, rather than an accounting formula, written down values for renewal planning or performance comparison are dangerous.

33.

**DEPRIVAL VALUE THEORY AND
"THE MARKET PRICE"**

Deprival value is an umbrella term covering three possibilities (ie to sell as surplus, to eventually replace, or not to replace but to continue using until the end of the asset's life.)

What is often not fully recognised is all three possibilities represent the value to the owner.. This is decidedly different to the normal valuation procedures for business assets for the private sector where it is common practice to value from the point of view of a general purpose purchaser.

Where a good second hand market exists, the two approaches will come to the same thing. But not where there is no market, or a very thin market at best.

In these circumstances, the entry of a new buyer or seller into the market changes the supply-demand balance enough to cause a significant difference in the price.

Thus in a thin market - eg remote area housing - if a housing authority wants to purchase a house, its entry into the market forces the price up, if it wishes to sell, its entry forces the price down - *relative to the pre-existing market price!*

What this means is that agencies need to be very careful about the use of general purpose market valuations if they wish to establish a genuine deprival value for their assets.

Where markets are thin, even though some sales evidence is available and estimates

can be made of the average sales price over a given period, this estimate is not likely to give a good estimate of replacement cost. In fact it will systematically be biased downwards. The difference could be considerable. In fact the "market value" obtained may be neither a good estimate of the cost to replace nor of the price that could be received upon sale.

34.

**REPLACING WITH A HIGHER
QUALITY OR DIFFERENT
STANDARD**

Valuing at "modern equivalent" presents few problems when the existing asset is no longer available. But when replacement with a higher standard is a matter of choice, agencies sometimes have difficulties in interpreting the deprival value approach.

In this case, the asset is clearly not surplus, it is still being used. But is it to be interpreted as "would be replaced" or "would continue to be used, but not replaced"?. If the latter, it would be valued at the net present value of future benefits (a difficult undertaking where benefits are not priced, or are not priced by the market). If the former, it is to be valued at replacement cost.

The answer is, it is valued at replacement cost. The reason being that *the function the asset is providing* would be replaced. The cost of replacing the function is measured by the appropriate written down replacement cost and this is the asset's deprival value. The additional cost of moving to the new standard should be treated as investment, or new capital.

YOUR TURN!

Women in Asset Management

Is the world must becoming more politically correct? I have been surprised by the number of requests that I have received lately for help in finding asset management staff - particularly women. About time, too, I say. But this leaves me with a problem because, although I try to meet all the female asset managers I come across at conferences and other gatherings, I don't know enough of you, who and where you are, what you are doing, and what you would like to do.

Some years ago, it was discovered that female engineering graduates had decidedly different views of what was important than the males. Furthermore, most of the things they thought important were not being done. This may be true of asset management too. So help me fill a knowledge gap.

Take part in our survey*. Fax the answers to the following three questions to the Editor, AMQ on (08) 281 5795

1. What are you doing now?
2. What would you like to be doing?
3. What do you consider the important issues to be solved in asset management?

Include your contact details, tell me whether you would be happy to have your name published or would like your identity not to be disclosed, and tell me if you are interested in hearing about future asset management positions.

*And, as our thanks for helping others, please accept two back issues of the AMQ of your choice with our compliments. Just tell me which two issues you would like.

P.S. If you are not female, please draw this to the attention of those of your asset management

AMQ Policy and Asset Management Positions

The AMQ has a policy of NO ADVERTISING. We wish to bring you good ideas wherever they be found, in institutions, private companies, consultants, research establishments, anywhere. The ideas you find in these pages have been reviewed by our review panel.

However, exceptions to the 'no advertising' policy will be made for advertising asset management positions. If you have an asset management position you would like filled, you may advertise in the AMQ. Deadlines for the next issues are July 5th and October 4th. Please contact the Editor for details on (08) 281 5795 (phone/fax).

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