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Strategic Asset Management

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12 Tips on Improving Performance with Benchmarking

In the last issue we looked at benchmarking and, in particular, at the misuse of benchmarking metric.

How can we 'do it right?' Here are 12 tips on improving your performance by benchmarking.

1. If you are just beginning, forget looking at industry leaders.

Process benchmarking with a partner is a 2-way street. You gain from them and they gain from you. If you do not have anything to offer the industry leader, don't waste your time and theirs.

2. If you are just beginning, use another industry beginner.

As crazy as this may seem on first sight, it is actually the best way to go. What you want of your first benchmarking partner is an opportunity to *understand your own processes better*. They need to do the same and will be interested to work with you. Another benefit of working with a beginner is that you won't be tempted to put a 'gloss' on what you are doing to impress an industry leader. You can be honest, and you will learn faster.

3. 80% of the benefits of benchmarking come through a better understanding your own processes.

Those who have undertaken a benchmarking exercise report that most of the benefits came, not through seeing what others were doing, but by understanding what they themselves were doing! Some have estimated as much as 80% of the

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benefits come in this way. Anything that can help you understand yourself better will get you the lion's share of benefits.

4. Don't focus on the measure, focus on the process

When governments set headcount targets (an input ratio), budgets blow out because more consultants are used. The way to contain costs is to look at the process and ask (a) whether all the work that is currently done needs to be done and (b) whether it needs to be done the *way* it is being done. This is a focus on process.

5. Flowchart your processes

To understand your process, flowchart it!

6. Use benchmarking metric to suggest, not direct

From your flowchart you identify that one of the critical elements in the maintenance process is the ratio of maintenance supervisors to maintenance operators. Benchmarking tells you that the range in your industry is from 1:3 to 1:20. The median is 1:7. If you are 1: 9. you may decide to do nothing about this, but if you are 1:16, ie out on an extreme position, you may decide this is worth further exploration. What you don't do, is set your target at 1:7.

7. Be wary of extremes

Extreme positions in any benchmarking metric range are likely to be definitional or 'exceptions'; ie companies or agencies that do not quite fit the standard mould. The 1:20 response may be a result of the definition of 'supervisor' as 'head of unit' whereas the 1:3 response may be the result of defining 'supervisor' as anybody who has oversight of another, down to leading hand. Or it may be that the 1:20 response is a company with a mostly routine maintenance requirement that is well known to the men and needs little supervision, whereas the 1:3 response is a new or technically involved agency fighting day to day 'settling in' problems. Don't use extreme positions to set your performance targets.

8. Choose a target that will "stretch" you but not "break" you.

Your supervisor to operator ratio is 1:16, you decide this is too high. The industry median is 1:7. You decide to move towards this level, by setting your target at 1: 12 which is a stretch for you but allows for the fact that there is variation in industry and the nature of your work may be on the high side. You will watch outcomes and review.

9. Choose a meaningful performance indicator

Headcount or hours? Your operators work a deal of overtime, their average hours are 50 per week. Your supervisors work a standard 40 hour week. What do you choose to measure? Conversely, your operators work 8 hour shifts but your supervisors, work 8 to 6, or 10 hours. What are you going to measure? (Be aware that the 'benchmark' figures did not necessarily standardise between respondents).

10. Understand the nature of a performance indicator

A performance indicator is a complex animal – it consists of a performance measure AND a target. The indication comes from moving towards or away from your target. Neither the measure, nor the target, by themselves constitutes a performance indicator, you need both.

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An Accounting-Asset Management Dilemma.

***Problem*:**
Accounting standards do not permit provisions for deferred maintenance to be carried in the financial statements of an entity. The basis for this being the definition of a liability under accounting concepts. A liability must satisfy the test that there is an obligation, usually to some other party, for a 'future sacrifice of economic benefits'.

The relevant accounting concept (SAC 4) is at pains to point out that the intention of management to do something (e.g. carry out the deferred maintenance) is not a liability as there is no obligation to enforce the intention.

However, there is no doubt that the failure to carry out some maintenance will, in most cases, result in a more rapid decline in the service potential of an asset. This is clearly something which should be recorded in the financial statements. D. Hope. ("Condition Based Depreciation" web discussion.)

Discussion: **Sometimes the solution to one problem only serves to create a new problem!**

Provisions for deferred depreciation were created to get over a problem with infrastructure assets where large sums need to be provided for periodic renewal.

The wearing out of the asset represents a "future sacrifice of economic benefits" for shareholders or community, (ie 'some other party') and it represents a liability in the sense of a negative offset to assets, but it does not meet the test of 'obligation' so it is not accepted - and being not accepted, cannot be used to represent a very real cost of infrastructure asset consumption.

Help find a way out of this impasse! - comments welcome on **www.amqi.com**

A Bright Idea?

Organisations are often loathe to accept an idea before it has been endorsed somewhere else. This can make life pretty tough for a pioneer.

Many good ideas die on the vine for lack of support at the critical time.

When I did the first projections of renewal cost for the SA Water Corporation (when it was still the Engineering and Water Supply Department) and drew the implications for management, the CEO was very interested but he said " Find out what other organisations are doing" So I got on a plane, went around Australia and came back and told him. The ideas were then acted on. But not everyone has such a great boss.

So if you are pushing uphill with your idea why not get some endorsement? Put your idea in the International Asset Management Competitions - in our new category of "Best New Idea".

At the very least you will get noticed! And you may win a study tour to develop your idea overseas.

Don't wait! Do it now! See details on website www.amqi.com

More Accounting Issues in Asset Management

Management Accounting for your use as Asset Manager

Financial Accounting is geared to External Requirements - but Management Accounting is for you, and you don't need to meet any accounting standards, just the test of relevance, says David Hope.

Many organisations become consumed with the need to provide a set of general purpose financial reports once a year to satisfy shareholders, governments and an array of other users of such reports. The financial system is geared to producing such reports. Yet the real needs of any organisation are for relevant, accurate and timely management information. Most modern accounting software packages will allow you to have several views of the accounting data so it should be relatively easy to provide good management information and once a year provide the statutory financial reports. And the best thing about management reports is that there is no set of accounting standards that must be complied with - they must merely meet the needs of managers for accounting and management information!

Commercial Obsolescence

Obsolescence, whether commercial or technical, is a difficult to predict. How do we do it asks Graham Carpenter.

It is important under any accounting and management framework to not just consider the physical life issues but to also consider questions of the commercial obsolescence and other limits. This is a challenge for both engineers, accountants and auditors in terms of looking 60, 80 or even 100 years out. There is a possibility in some areas that new technology will have an impact such as provide new ways of handling wastes (I've heard some talk of "in situ" treatment) and which may lead to an impact on existing infrastructure including treatment plants.

Cross Purposes?

Valuing According to Current Cost Concepts but Depreciating under a Historic Cost Paradigm ? Asks John Sing.

Given that many public sector reporting entities are now producing financial statements in accordance with external reporting requirements, large numbers are beginning to emerge in relation to the depreciation of infrastructure assets. It should be kept in mind however that the external reporting requirements (ie. AAS4) prescribe the allocation of cost concept. AAS4 was also developed under the historic cost paradigm (arguably with short to medium life assets in mind).

Herein lies an inconsistency as AAS27, 29 & 31 prescribe the valuation of infrastructure assets under the current cost paradigm. So what we currently have are entities valuing their infrastructure on the one basis and depreciating them under another. This may be fine if the objective is simply to satisfy external audit requirements, however the 'sting in the tail' comes about if the AAS4 infrastructure asset depreciation figure is then used in a full cost pricing exercise (ie. management accounting purposes). Here management may be basing their pricing decisions based

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Is Forecasting Worth the Effort?

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on an accounting exercise that bears no resemblance to the actual loss in service or consumption of the asset.

Perhaps the time has come to allow for greater flexibility in the accounting standards by permitting the depreciation of infrastructure assets under current cost principles (ie. CBD). This would bring about an alignment between management accounting and financial accounting. If not, accountants when producing information concerning their entity's infrastructure should be mindful of the purpose for which the information will be used.

Is Forecasting worth the Effort?

Responding to the comment "We are underfunded already, why should we spend more resources on forecasting if we are not going to get any more money anyway?" Ashay Prabhu considers some reasons why forecasting is a valuable tool for asset managers.

"How does an agency define underfunding", he asks. "Is it a level of funding which is below an expected level of funding, this being the asset manager's estimate to maintain a certain service level?

If so – has the agency determined through analysis what the level of service is. Is it a condition of the network that has to be achieved each year, or is it a safety standard to be achieved, or is it something else? Then again if the expected level of service is low, does the service reduce? What is its impact in the long run?

If asset renewal forecasting is a waste of time and resources, how do we justify our current strategic and tactical maintenance and renewal plans, how do we demonstrate to stakeholders that the taxes are being spent at the right spot, at the right time. And, vice versa, if more funding is not available, can an agency without

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Tools for Greater Productivity?

Do you have a new tool, product, or service that will increase the productivity of asset managers, or generally make their life easier?

If it has been developed, or substantially revised within the last 3 years, it qualifies as a new product, or service.

Why not tell the world?

An entry in the **International Asset Management Competitions** could gain you notice at the very least -

and maybe you will win the opportunity to take your idea to the world in an asset management study tour.

DETAILS on website
www.amqi.com Or
Fax 08 8281 5795

Do it now!

(Continued from page 82- Tips for Performance Improvement)

11. Learn to recognise 'business as usual'

In any business there is a natural variation, the more deviations in the process the wider is the 'business as usual' range. If you don't know this, you will treat any deviation as serious when it is not. Conversely you may treat a serious deviation as normal when it is not.

12. Distinguish between external and internal indicators.

External reporting indicators should be (a) outcome based (b) aggregate (c) relatively infrequent, ie annually or half yearly reported and (d) they should address the most significant of the desired agency outcomes.

The aim is to so manage your agency that your external reporting indicators make you look good. You want these indicators to shine! (but honestly shine!)

Internal reporting indicators should be: (a) input based and related to the key external indicators, (b) detailed, (c) as frequent as they need to be to make sure that you 'stay on track' and can take corrective action quickly and (d) they should be the indicators that most help you to manage the external indicators.

The aim is to find out what is going wrong in time to put it right.

Do not 'manipulate' these indicators to make you look good, or you will only end up fooling yourself!

(Continued from page 85- Ideas from the Web Discussions)

doing such analysis demonstrate that the asset is going to be a time bomb at a certain stage where it will be impossible to catch up."

Do you know the answer? -

What's the cost of maintaining a deteriorating asset?

Ashay Prabhu asks:

"What is the cost to agencies of maintaining a deteriorating asset, ie do we know if it costs more to maintain an asset like a road network in a good condition as opposed to an asset in a poor condition – or is it the other way around?"

Visit the web discussions for these and more interesting questions and comments. Join in or just browse. You are sure to get some good ideas.

www.amqi.com

Help determine the baseline for

Service Levels

Many councils and agencies have contributed to our survey of service levels. Have you?

If you do not have the survey form, fill in your answers 'on line'

on www.amqi.com

or fax 61 (0) 8 8281 5795 f

or another copy

An Excellent Example

ALGA AWARD FOR ASSET MANAGEMENT EXCELLENCE
in the
1998/199 International Asset Management Awards

The third award to be made in the current International Asset Management Competition Series has been won by Ashay Prabhu, Tim Provis (both of Civil Construction Corporation) and Peter Fortune and Tony Mangiardi (of the Brimbank City Council).

This entry is an excellent example of what the Asset Management Competitions were created for. Asset Management is not just a 'good thing' that we do because it makes us feel all warm and fuzzy. It has to pay its way *– and it has to be shown to pay its way!*

Brimbank City commissioned Civil Construction Corporation to develop strategies for the maintenance and rehabilitation of their road network. The city had collected pavement condition data – visual rating of roads, based on URCOND 90 methodology developed by the Roads and Transport Authority (RTA) of New South Wales - on their entire network from January to May 1998.

A Long Term Performance Model (LTPM) was developed representing the current strategies. This phase involved the configuration, structuring and fine tuning of the LTPM using the city's software FNOS and TNOS. The deterioration parameters developed in an earlier phase of the exercise were used in the model and an initial output was analysed in consultation with the City's Asset Branch.

A preliminary review led to some fine-tuning of unit costs and transitional probabilities. Nearly a thousand process runs of the LTPM were performed before the deterioration parameters were satisfactorily locked in. At this stage the LTPM was reflecting current strategies of maintenance being implemented on Brimbank's roads. This model was tested for robustness and reality.

Alternative strategies were then modelled against the current strategy and were shown to yield a 2-4% reduction in the rate of deterioration, thus deferring rehabilitation for at least six to eight years – a very sizeable saving. Brimbank has now adopted the alternative strategy.

This entry shows how to make proper use of consulting expertise, not by abdicating responsibility but by jointly developing both information, analysis and understanding.

Ashay Prabhu will present this work at the Competition Finals, November 25-26.

There is still time to enter your project. See details on website www.amqi.com or fax AMQ International on 61 (0) 8 8281 5795.

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Glossary: Deprival Value

Australian governments have issued accounting policy statements which requires departments and agencies to adopt deprival value as the basis for valuing their assets. Essentially, this provides for three distinct valuation methodologies to be used, depending on the action that would be taken if an agency were "deprived" of an asset. This is summarised in the following table:

Action if Deprived of Asset	*Valuation Methodology*
Replace the asset with same or similar asset	Current Replacement Cost – (written down for usage)
Not replace the asset – asset being held for sale	Market Value
Not replace the asset, but asset would have continued in use	Net Present Value of future benefits

Illustration of Application

The Public Libraries Automated Information Network (PLAIN) holds four collections on behalf of public libraries in South Australia. These collections are:

- Video cassettes;
- Audio books;
- Language Other Than English (LOTE); and
- 16mm Film.

The video, audio and LOTE collections are 'live' collections that are being continually revised and upgraded. From time to time, items are culled from the collection and held for disposal by sale to the public. The film collection is the residual collection from the SA Film and Video Collection, excluding those items of heritage value which are held elsewhere. Films in this collection may not be resold because of agreements made at the time of purchase.

Deprival value was applied to each of the four collections to obtain an appropriate valuation to use in the first set of accounts prepared under accrual accounting. In the case of the video, audio and LOTE collections the appropriate valuation methodology adopted was Written Down Current Replacement Cost. As many of the individual items in the collection did not have initial purchase information (cost and date) attached to their records the valuation was done by using the average purchase price for the past two years, estimating the age of the collection and its growth over time, identifying useful life and residual value, then applying this information to the collection. In addition to the purchase cost of each item, the valuation included the cost of placing the item into service – selection, acquisition and cataloguing costs.

Items which had been culled from the collection for disposal by sale were valued at Market Value. In valuing the collection, the expected average sale price of items in the collection was used as the residual value for depreciation purposes.

The film collection was valued using the Net Present Value of Future Benefits - because it would not be replaced if it were destroyed and no item from the collection may be sold. In assessing the NPV, two factors were taken into account, no fee is charged for a library to access the film collection and only there were only 124 accessions to the collection of 5,624 items over a three year period. With no revenue from accessions and no potential revenue from sales, the NPV of the film collection is zero. *David Hope*