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Strategic Asset Management

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Before Conception

"From cradle to grave" isn't enough! Strategic asset management needs to start before asset acquisition, indeed, it needs to start 'before conception' by establishing required service levels. For both public and private agencies the process is pretty much the same:

There are three steps to determining service levels. Don't stop at step 1!

Three steps to Service Levels

- Step 1. identify a potential *service*
- Step 2. cost a range of *delivery levels*
- Step 3. determine *which delivery level* (if any) an 'informed' market is prepared to support.

Many government agencies have not made it past step one! *(Private companies may also stop at step 1, but they generally do not last long enough to do this too often.)* As a consequence, there is a lack of focus and this shows up in difficulties in performance monitoring and contracting, cost management and lack of customer satisfaction.

How can you get help in Steps 2 and 3?

Help Bruce and help yourselves!

Please Complete and Return the Service Level Survey Forms

Doctoral Research - Bruce Van Every, Charles Sturt Council, South Australia, is examining for his doctoral dissertation: "How do public sector managers set service levels for service delivery in monopolistic markets" (with a special emphasis on local government). Bruce will analyse the survey forms and we will print the results, especially the 'best practice' examples. *He will also provide other information from his study. So help Bruce do his dissertation and help yourselves—complete and return the survey forms* (a copy is included with this issue but if it is missing, complete it on-line at www.amqi.com/survey.htm)

Many thanks for all the responses received to date —but we need more! So please copy the form attached and ask all of your asset groups to respond.

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Designing Performance Indicators

Use this procedure for improving your own performance indicators

Look at these five Performance Indicators

1. Improved overall condition of police service buildings
2. Extended replacement cycle
3. Better/More Relevant Reporting of Building Defects
4. Gradual Reductions in the Level of Urgent Minor Repair
5. Fewer complaints in respect of lack of maintenance.

At first glance, they look ok. ***But actually none of them are operational!*** **That is, none of them, without further work, are actually measurable, nor can they be monitored.**

Below are some of the questions that need to be asked to develop these areas into useful performance indicators.

1. Improved overall condition of police service buildings

- How many different building "spaces" need to be defined, eg cells, reception areas, interview areas, office space, etc.
- What services do police need to carry out in these spaces? And what characteristics of the buildings are important for the functioning of these services?
- Why are these characteristics of the buildings important? Which are the most important, and for what services? Which characteristics are (a) essential (b) desirable?
- What information do we have on these characteristics? Is it available in quantitative terms? ie is it measurable?

2. Extended replacement cycle

- What are the indications that a building asset has reached the end of its replacement cycle?
- What can be done to extend the cycle? (change standards)? Can these be evaluated to make sure they are cost effective? If so, how?
- Does extending some parts of the building have an adverse effect on other parts? If so, what? Can we measure this?
- How is the replacement cycle currently measured? Is this measure satisfactory? What alternatives are there?

3. Better/More Relevant Reporting of Building Defects

- What defects should be reported? To whom? How often? With what response?
- What defects are currently reported?
- What is wrong with the current methods of reporting? How can it be corrected?
- How would we measure an improvement in relevant reporting?

4. Gradual Reductions in the Level of Urgent Minor Repair

- What is the distinction between minor and other repair? What is the criterion for defining a minor repair as "urgent"? Who determines?
- What are the field difficulties of determining whether a repair is (a) minor and (b) urgent?
- What are the current measures? How accurate would these be?
- What is an appropriate target level for urgent minor repair? Why? What is meant by gradual? Why should the reduction be gradual? How gradual should it be?

5. Fewer complaints in respect of lack of maintenance.

- How many complaints are currently received? From whom?
- What level of detail is kept on complaints?
- What are the major areas of complaint with respect to lack of maintenance? How do these match the important characteristics of buildings necessary for service as established above? How do the complaints match with the urgent minor repair items?
- To the extent that they do not match either of the above, what is the cause of the complaints?- i.e. too high a level of expectations, dissatisfaction in other areas, etc.

Service Level Agreements
Under Commercial Arrangements

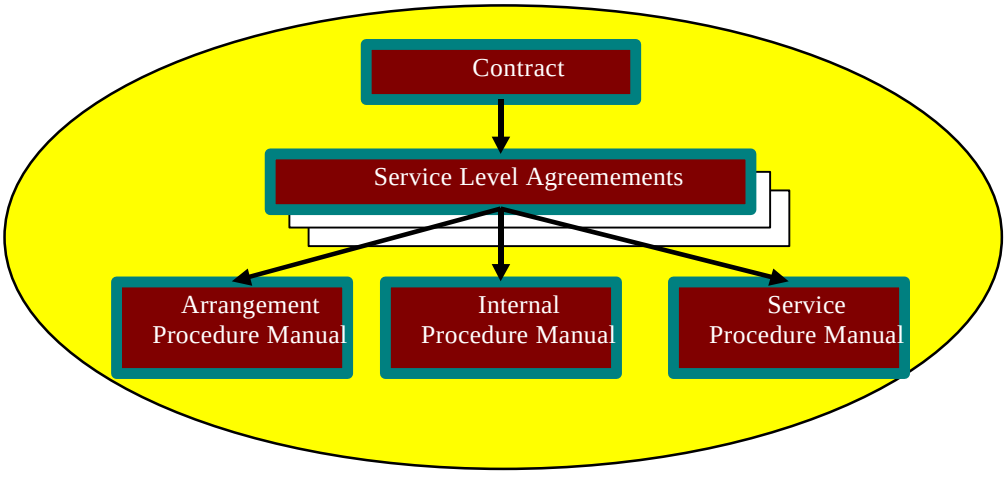
THIS ARTICLE ON SERVICE LEVEL AGREEMENTS (SLA) BY SARA CULLEN, DELOITTE CONSULTING, OUTLINES THE DOCUMENTS REQUIRED IN A COMMERCIAL ARRANGEMENT AND DIFFERENTIATES THE SLA FROM THE CONTRACT.

Many of you are probably managing SLAs under a contract. In a commercial arrangement SLAs and contracts go hand in hand. SLAs define what is success and the contract is there in the event of failure.

Contracts	SLAs
➢Spell out legal: ❖obligations, rights & responsibilities ❖guarantees ❖liability ❖termination	➢Spell out service: ❖definitions ❖requirements & expectations ❖KPIs and measures ❖relationships
➢Should be: ❖air tight ❖very dusty	➢Should be: ❖in regular use ❖under continual change
➢Written for service failure	➢Written for service success
	SLAs

SLAs and contracts are not the only form of governing document, however. Governing documents form the essence of the formal arrangement and must be designed for effective ongoing management. The governing documents employed are of three primary forms, all of which are underpinned by the relationship:

1. Contracts
2. Service Level Agreements
3. Procedure Manuals



CONTRACT

For the purpose of ongoing management, the contract is used in the event legal recourse may be required. In this context, it used for arrangement failure and unusual circumstances. However, the main benefit of a

contract is the *process* it forces the parties to undergo in defining responsibility and expectations, not to anticipate a breach. As it functions primarily to be referred to when problems have arisen, the ideal contract is airtight (addresses all issues) and very dusty (not used because you have relationship-driven arrangement rather than contract-driven).

SLA

The SLA specifies the success gauges and desired levels of the arrangement. It represents how good service and management will "look and feel" - setting out the what, who and when of the expected outcomes. The SLA is given effect by reference in the contract (often is a schedule) and should include those aspects of the service and/or arrangement that may change over time.

MANUALS

Procedure manuals are the "hows" of the arrangement - in how things get done between the parties, within the organisation and by the supplier in delivering the service. The intended audience is the direct users and direct providers of the service (future and present).

Governing document:	Intended Audience:	Designed for standards & reference cover	Number of likely variations over time:
Contract	Arbitrators and/or court	Arrangement failure or unusual circumstances	Few
Service Level Agreement	Contract & Account Manager	Arrangement success criteria, measures and reporting	Many
Arrangement Procedures Manual	Direct customers & service providers	Processes & procedures between parties	Continuous
Internal Procedures Manual	Internal personnel	Internal processes and procedures	Continuous
Service Delivery Procedures Manual	New ESP or inhouse service providers	Service delivery knowledge transfer	Continuous

Often, all of these quite different subjects with quite different purposes are commingled throughout a contract making management and maintenance of the SLA (and all documents) difficult.

The key to all of this is to set up appropriate documents for the intended purpose and audience. There are too many horror stories about managers trying to "operationalise" a contract into every-day applicability.

Don't Forget!

- Use the contract as the arms length exchange for worst case scenarios and related obligations
- Use the SLA to articulate ongoing service and performance expectations
- Use the procedures manuals to set the rules, procedures and processes everyone involved are to abide by.
- Use the relationship as strategic partnering with shared long-term benefits and

Sara will answer your questions and respond to your comments in her final article, #5. Contact her on 0416 107 185 or at sacullen@dc.com

The Cost of Tendering

"It appears the work conducted by CIDA and Roger Gyles Q.C. in respect of "The Cost of Tendering" has been forgotten by Principals who are currently requesting "Registration of Interest" (ROI) from the Market place. I am shocked at the detail that contractors are being asked to submit at this early stage of assessment.

Instead of the Principal setting the criteria of service levels they require and laying down the performance and benchmarks, they are asking for "How long is a piece of String" type questions and expect contractors to provide the benchmarks and performance criteria by which they will be judged.

Many large and medium contractors do not have accounting systems that are activity based, hence to expect them to quote detailed benchmarks for the elemental aspects of a variety of property is just a mere academic exercise.

Experience with the gas crisis in Victoria and many other similar occurrences in Australia make me wonder how well equipped are major contractors and how well can they manage large infrastructure outsourcing.

It is interesting to note that UK is experiencing similar results. For instance British Airways outsourced all its aircraft maintenance some 18 months ago. I read with interest that they are now re-constituting their maintenance in house again. The cause of this decision has not been forthcoming to date"

Edwin Grech Cumbo, Retired Asset Manager (egrechc@melbpc.org.au)

Editor:

You have every right to be shocked! This behaviour is not conducive to developing strong contracting markets which the community needs if outsourcing is to be cost effective. (See "The Market Dilemmas" AMQI Issue 2.6, Sep 30th 1998).

Tendering Costs

The costs of tendering are supposed to be *lowered* by the pre-selection that ROIs make possible, but this is not happening. A suggestion:

> **ROIs should not be used UNLESS**
> A clear set of criteria by which they will be evaluated has been determined IN ADVANCE of calling for registrations. (and used to design the ROI to keep it short and to the point).

Performance Measurement

There is a growing tendency to expect the contractor to submit a method by which performance may be evaluated – hence the demand for 'benchmarks and performance criteria'. (*Sara Cullen will be commenting on this in her final article in the SLA series on rewards and penalties.)*

This is strictly the responsibility of the client. It is suggested that to require the contractor to do the clients work in determining performance monitoring regimes, and to do this at no cost as part of the submission, is an unethical practice.

Your comment about the absence of activity based costing in contracting firms is probably correct. But they are not in place in most large government bureaucracies either so that it would appear that clients are demanding more detail than they themselves would be able to supply. Moreover without these accounting systems, it is difficult for agencies to be able to compare their in-house costs with the bid prices of contractors. Although accrual accounting is nominally in place for most government agencies now (or on its way), it is often only in place for end of the year reporting - not for ongoing cost assessment, and not for activity-by-activity assessment.

Are there any answers? The next issue introduces a new discussion forum on "Performance Based Contracting". **Wanted:** Questions, answers, comments, suggestions for good practice in the area of performance based contracts. ***Prepare now for the new discussion on www.amqi.com***

Our People Are Our Greatest Asset!

Really??

Do we really want to be treated as assets? To be acquired, rationalised, optimised and redeployed at will? Our "Change Management" Discussion Forum is closing this week to make way for new Discussion Forums but before we leave it the following comments from Discussant Michael Breen are worth considering:

The Ethics of Change Management

"A few years ago, I took a Norwegian consultant from the Norwegian Work Life Centre to see a prospective client of mine. The prospect asked me how I would train change agents. Later, outside the office, my Norwegian colleague was furious.

"Training change agents is like training the Gestapo. First they change people this way, then they change them that way." He went on to explain how Norwegian banks had almost sent themselves broke by spending large amounts extending their market share rather than working to serve the customer better.

The Pain of Change: Is it Justified?

"We need to ask 'why' about change processes. What is the justification? We need to map the stakeholders and involve people in the changes that will affect them and their families. Idealistic as this may sound, something needs to happen to nourish the workplace, which at the moment is more in pain than at any time in my career in consulting.

"I don't think much of assets that can walk out of the factory at the end of the day"
Pierpont writing in The Bulletin about people as assets

"Mine don't!"
Slaveowner

"And consultants have to take a lot of the responsibility for the pain. Sure, work is shrinking and we have to redefine work, however those driving profits need to realize some of the effects of the changes they are asking for. The only forms of life that are focussed on change in terms of constant growth are the embryo and cancer!"

Where Does Change Come From?

One of the things Diana's death retaught was that change comes from the periphery. The clapping at the church ceremony started outside in the park. The insiders were too culturally bound to change things – even spontaneously. The outsiders were less bound, and therefore more able to be spontaneous, so much so that the inside people were able to 'join in'. So the 'opinion makers' were able to change their behaviour with permission from commoners outside the elect group.

Responsibility Of Change Managers

"Do people consider the ethical issues in change? Is it ethical to commence a particular change process? Is the human pain and suffering something which can be justified by the suggested results? Are the methods the best available? What kind of reflection space or supervision is there for the consultant or the team involved? That person or group will be 'holding' the feelings, dreams, hopes, etc of a number of people. Are they going to rely on their own wisdom alone? Good practice in therapy includes getting supervision from a skilled neutral other. Change is about letting go of what is familiar and going through a process to embrace a new situation. This is called bereavement. How well are cycles of separation and loss, mourning and death understood by change agents?" **Michael Breen, Tel: 9381 6507; email at m.d.breen@cowan.edu.au**

Issues in Canberra and Christchurch

For Timo Savimaki, Manager, Asset Management, Urban Services, Canberra, the issue is a

Capital Works Program Performance Audit

Urban Services is about to commence a performance audit of their capital works program. Urban Services are now in their third year of operating under a purchaser-provider split arrangement. They have about 30 business units each taking the role of purchaser.

A government-owned enterprise, Totalcare drawn from the previous public works and services group conducts maintenance and manages the capital works projects. Although no longer tied to this enterprise, Urban Services nevertheless continues to do most of its works through it. Total Care is thus the major provider.

The audit will examine, amongst other things, how things are performed (eg cash management, prepayments, advances and other financial administrative matters) and who is responsible for different stages of the program, eg budget control, approvals processes. The study is to be carried out as part of Urban Services internal audit program and is expected to be completed by the end of the year. Urban Services outsources its internal audit work.
timo_savimaki@dpa.act.gov.au

For Mike Bourke, Wastewater, Christchurch City Council, New Zealand, the problem is

To define the level of service.

The main thrust has been to identify the assets, assess their condition and ensure adequate funding for maintenance and renewal. Christchurch is fortunate in that the City Council has allocated enough money over the last 10 years to ensure there is no backlog of maintenance or renewal of our sewerage system.

The major issue for us at the moment is to define the level of service we should provide, particularly the frequency of sewer overflows that should be permitted. Most of our sewers are below groundwater level so it is not possible to eliminate infiltration, but with the work done on maintenance and renewal overflows are already below the level that many authorities would tolerate.

However this has raised expectations and we are trying to obtain informed community input over the additional funds that we should spend to reduce overflows still further. We are currently developing wet and d y weather flow models to better target problem areas of the system and also we are well up with CCTV inspection of our sewers (40%) completed.
Mike.Bourke@ccc.govt.nz

For Eric Van Toor, Water, Christchurch City Council, New Zealand, the issue is

Data Capture & Longer Term Research

Or, more precisely, the length of time for information capture to get into Databases and GIS at current allocation of resources.

As with Christchurch Wastewater, we are currently adequately funded for the accepted level of service. In fact, expenditure on water supply per customer is expected to reduce slightly over the next twenty years. We are fortunate to have an adequate supply of secure groundwater which allows for incremental expansion without costly trunkmains or treatment.

We have some current operational issues and in the longer term groundwater issues may lead to limits on abstraction in some areas and constraints on where new or replacement wells are located. We need more investigation to see how this may affect the long term capital works program. **Eric.VanToor@ccc.govt.nz**

Condition Appraisals—How to Use Them

By Ami Sudjiman, Strategic Facilities Services Pty Ltd

The need for condition appraisals tends to be rather similar across clients, who have a need to:

- Have an independent assessment to objectively establish the true condition of their assets.
- Have a professional assessment on the 'suitability' of their current portfolio in supporting the business activities.
- Understand whether the long term objectives of their business are going to be possible with the asset.
- Have a budget estimate for their short and long term maintenance and renewal program for the portfolio.
- Understand their future capital works program to support their forecast accommodation requirements.
- Have a starting point for their strategic management plan for the asset/facility management section.

However the Condition Appraisals process has also produced additional benefits to the organisations, including:

- An acknowledgement of the true functions of their assets.
- A better understanding of the roles of the different sections of the organisation.
- The need for the organisation to establish priorities for the different parts of their asset portfolio.
- An acknowledgement of the direct impacts of the condition of the particular building components to the functionality of their buildings.
- The impacts that the combined effects have upon the funds required to maintain functional operation over time.

The preparation of recommendations and budget plans for the Condition Appraisals can only be carried out on a real set of priorities within the organisation. A successful Condition Appraisal report is one that can be easily implemented by the organisation. This cannot be achieved when the report does not directly relate to the business plans of the organisation, or if the recommendations for works and funding allocation cannot be argued to support the long term operational requirements of the organisation. One should regard Condition Appraisal reports as part of an organisation's work plan to implement their Business Plan.

Ami Sudjiman may be contacted on 61 (0)2 6260 5558 or by email sfs_admin@stratfac.com.au

International Asset Management Competition Finals

Process To be Simplified for 1998 / 1999

Because of work loads of asset managers as the New Millenium approaches (Y2K compliance, new asset systems being bedded in, risk management strategies to cope with the unknown, etc) the finals procedure for the Competitions this year will be simplified.

Normally we would have all award winners make a formal presentation in front of an audience. This is excellent practice for "the art of persuasion" which asset managers need, but no fun at all if the audience is small.

It takes a lot of time to put together a really top presentation. At the present time, it would be irresponsible of the Competitions to use up scarce asset management resources in this way, despite the excellent training opportunities it provides.

The International Asset Manager of the Year for 1998/1999 will thus be chosen on the basis of the written paper and telephone questioning by the new judging panel. Awardees will have an opportunity to include new work they would have presented in a revised copy of their paper if they wish. .All awardees are being personally informed

Regretfully there will be no formal "Finals" this year.

For further information,
contact <competitions@amqi.com>