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Local Government Assumes Asset Management Leadership

In this issue we look at the leadership being assumed by local government in asset management in Australia, New Zealand, the United Kingdom, Canada and the World Bank.

Facing the Renewal Challenge

To start with, the Victorian Office of Local Government have now released "Facing the Renewal Challenge", the 1998 study that examined the capacity of councils to recognise and fund future infrastructure renewal. Department of Infrastructure, Local Government Branch, Melbourne Tel: 03 9655 8888. A summary report of this study can be found in SAM #3, pp17-19, Feb 1999.

New Study in South Australia

South Australia has commenced a forward-looking program of asset management leadership involving all South Australian councils on a free, voluntary and co-operative basis. The study will collect information about local government's infrastructure assets as well as asset management practices. There will be a focus on collecting 'good practice' stories and in disseminating useful information across all councils.

This study has been commissioned by the Metropolitan Local Government Chief Executive Officer's Association and funded by the Local Government Research and Development Scheme. It will be conducted in the period January to August 2000.

Service Delivery Outcomes Focus

The principal objective of the study is to provide the knowledge and context to enable and facilitate all South Australian councils to achieve a service delivery outcomes focus on asset management .

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This is to be achieved through:

- leadership;
- a corporate focus on asset management;
- focusing on solutions, not problems;
- strategies that are not confined to council boundaries; and
- communications, technology and technology transfer (getting SA councils tapped into the wider asset management network)."

The key benefits of this study will be:

- a comparative data base and analysis which identifies issues of local, regional, state and national significance;
- a knowledge and identification of current and future infrastructure and asset management issues before they become intransigent problems;
- the transfer of asset management, infrastructure and modelling information;
- an increase in the intellectual capital of South Australian councils;
- the provision of tools to assist in prioritising of future resource allocation, to plan asset renewal cash flows, reduce life cycle costs and optimise maintenance;
- an ability to explain & interpret financial reports;
- an explanation of the relationship between financial reports and financial health;
- the exploration of alternatives for infrastructure provision for differing asset categories and service delivery needs; and
- the fostering of leadership in technology and management in doing things better with less resources.

These benefits will be delivered to councils through a web-site, regional briefings and seminars and site visits to all councils, membership of the Steering Committee and the two reference groups, and by participating in the piloting the survey form .

Project Manager for this project is David Hope <skilmar@email.msn.com>

All councils are being kept up to date with weekly project reports which include the "tip of the week", the best of current practice in South Australian councils.

With the kind agreement of the project steering committee, these tips are being made available to all readers of SAM. Here is the first "tip of the week"

Tip of the Week 1. Improving Fragmented Information

Burnside City Council wanted to develop its strategic plan for asset management but found itself with fragmented information of varying quality, all on different databases. As it stood, it was less than useful.

So Burnside used the technique of Data Warehousing, enabling it to bring together information from disparate sources into one database. For example, service requests have been drawn from Lotus Notes and compared with current condition on Oracle.

Staff trained in querying the system are able to continuously clean and improve their data as they go. After only 6 months of effort, Burnside's data is vastly improved lending itself to more informed, better asset decisions.

Contact: David Krywanio 08 8366 4202.

Continuing the theme of Local Government Asset Management...

- **New Zealand** - "At Your Service" - Wanganui, NZ, spells out its asset management commitments - pages 11-12
- **UK** - Study in Local Government Property Asset Management - pages 11
- **Developing Countries** - How Reading the Municipal Balance Sheet Impacts Asset Management (from Angela Griffin, Urban Infrastructure, World Bank) - page 14

And see "**Overseas Views on the Future of Asset Management**" from practitioners in Local Government, on pages 15-16.

AT YOUR SERVICE!

Dean Taylor explains

How Wanganui District Council in New Zealand spells out its service commitments

A list of services, standards and costs

The Reason.

Our local authority delivers, like most, a wide range of services that have evolved over many years. Unfortunately the reasons for what we provide tend to become vague, with the passing of time, and as a result we run the risk of no longer providing what is relevant or appropriate. As a first step it was decided to simply and comprehensively document what we currently provided so that it could be either endorsed or challenged.

As asset managers we have tended to breathe a sigh of relief when we have been told our service level can simply be a description of what we currently provide. We have then often proceeded to write a woolly, technical description that tells the consumer very little about what he or she is actually paying for. At best it is a justification for our budget. At worst it is padding. It is my contention that the service level is the most important part of an Asset plan

The Rules.

To get the best out of this exercise we wrote some rules:

Rule 1. Services provided must be described in terms of outputs, not inputs.

Analogy: Bob purchasing a hamburger. What Bob is primarily interested in is the quantity, quality and price of the hamburger and how fast it is he can get it. He is probably not so interested in the maintenance plan for the cooking equipment.

Likewise, as far as possible we constrained ourselves to describe **what** is delivered and at **what** price, not all the layers of **how**.

Rule 2. Language as far as possible should be in layman's terms.

If we are to have a customer orientation then we must learn to articulate what we provide in their terms.

Rule 3. Each service should be limited to one page of text.

No one is interested in reading volumes.

Rule 4. Sufficient information should be included to enable anyone to judge the quality/price trade off.

Consumers have a right to know just what they are getting for their money and to be informed enough to keep the service provider accountable. There needs to be enough detail on standards included so that if the cost varies significantly then so does the service description.

Rule 5. Each service should be documented in a standardised format.

This is not only to ensure ease of reading but also to enable comparison between services, particularly in terms of value for money.

The Result.

Not all rules were strictly adhered to but at least it kept us on track. It was a constant challenge to refrain from listing various planning, administration and information management processes as services. Council's services were broken down to a list of 22 outputs and described.

The document has proved to be the most popular that Council has produced. Its format enables those interested in just a single service to be provided with information a single sheet of paper. We **can** cut the bureaucracy!

It has become very useful for asset managers to focus the service delivery process on the enhancement of service provided and turns the heat up on other processes that do not add value. It has caused us to repeatedly question *why* we are doing various things and *who is benefiting* from the activity. It also forms the basis for the monitoring of our performance and hopefully will lead to a more formal customer-supplier agreement in the future.

The document is updated annually and provides the front end to all our other plans including asset management plans.

Dean Taylor <DeanT@wanganui.govt.nz>

Simple, Effective—An Example from “At Your Service”

Drainage

We provide a drainage service

- To dispose of sewage and stormwater to maintain a ‘clean’ environment.

How this service is provided

Sewage pipes throughout the urban area connect properties at the boundary. Collected sewage is pre-treated and discharged to sea through the ocean out-fall. Industrial premises are serviced through a controlled discharge regime. Separate rural schemes are operated at Marybank and Mowhanau.

Stormwater pipes connect to some properties but many still discharge through the sewerage system. The stormwater system also drains the road surface. Clean stormwater is discharged to the river or streams.

Services provided

Urban

1. Pipe locations on request within three working days.
2. Sewage and stormwater connection pipes are provided to property boundaries from the street.
3. The service is available to all connected properties 99% of the time.
4. Residential properties (except for those in restricted services zones) can discharge an unlimited volume of sewage and stormwater.
5. Sewage is kept out of the river 96% of the time.
6. Stormwater volume is limited to varying capacity of pipes, open watercourses and road surface but is designed to minimise significant nuisance.
7. Industrial sewage is collected to trade wastes bylaw standard.

Note that the current wastewater scheme is changing the way the service is provided by separating sewage from stormwater in urban areas.

Rural

1. As for urban, for sewage only.

Customer service

- Complaints/enquiries about service breakdown are responded to within four hours.
- Urgent surcharges will be responded to within one hour.
- New connections are installed within eight working days of acceptance of quotation.

Monitoring the service

- Department of Health audit.
- Discharge consent conditions/wastewater scheme milestones.

Cost

- Sewage:

Residential consumers pay an average of \$193 per year.

Commercial/industrial users pay \$97 per water closet.

Mowhanau users pay \$304 and Marybank users pay \$354 per year for connected properties.

- Stormwater:

- Urban ratepayers pay \$21 per year for each \$10,000 of capital value.

Further Information

(Name and contact details of the relevant officer are provided for each service)

Get More Examples. See how Wanganui deals with all 22 of its services, from cemeteries to footpaths to water supplies in the full edition of “At Your Service” on our website www.amqi.com

Examples of Good Practice in UK Municipal Property Management

These examples are taken from "Measuring Performance in the Management of Local Authority Property", by the Department of Environment, Transport and the Regions, the entry that won the Confirm -SBS Award for the UK in the 1999 International Asset Management Competitions (for more case studies from the Competitions and for information on entering for 2000 and the prizes to be won, see our website, www.amqi.com)

Examples of structural approaches to asset management

- A major city council which owns land and property with a capital value in excess of \$5b has a head of property with strategic responsibilities who reports to the Finance Committee, while the central technical property services team report to the Economic Development Committee.
- A district council has a separate strategic client services section, within the department of Planning, Property and Construction Services, that is responsible for advising the Council on authority-wide property issues. All property matters are reported to the Land and Property sub-committee of Policy and Resources Committee.

Links between Property and Service Plans

- A County that introduced property planning at the service department level found the process of compiling a property plan relied on clear guidelines on service strategy being available. This repeatedly drew attention to the need for the service department to be more explicit and clear about service strategy, particularly in the medium term.
- A Metropolitan authority undertaking a fundamental service review for social services discovered it required a large amount of detailed property information and its options incorporated property issues. The solution has been to prepare a property strategy and service strategy simultaneously and this approach is to be rolled out for other fundamental service reviews.

Approaches to Departmental Asset Planning

- A borough council allocates responsibility for producing service property plans to the central property team. The property plans are prepared after extensive consultation with service departments. This provides an integrated approach between individual departments and the corporate centre.
- In two authorities, including a high population County, a framework for preparing property strategies is set out centrally for individual service committees to follow when preparing their property action plans/property strategies. This enables a co-ordinated approach which should then be collated into an authority-wide asset plan.
- One option being considered by a case study metropolitan authority is for significant property consequences of changes to service delivery to be explicitly set out in the Service Plans prepared by service departments. These should then be collated into an authority-wide asset plan.

Approach to identifying properties for disposal

- In one authority the strategic asset management role has been strengthened by establishing corporate procedures for disposal. When a department declares a property (or lettable portion of a property) surplus to its specific requirements, responsibility for managing the property transfers to Valuation and Estates department. An officer-level Accommodation Group with an authority-wide overview, determines whether the property should be allocated to an alternative authority-user or the interest disposed of. This should be in line with any corporate plan and priorities. A corporate fund pays the cost of securing and running the building in the interim, as well as meeting any disposal costs.

This review was the first winner of the review category in the 1998-1999 Competitions and also the winner of the UK Award by SouthbankSystems' Confirm IMS.

CONFIRM

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The Practical Use of Municipal Balance Sheet and Asset Management Analysis in Developing Economies by

Angela Griffin/Michael Schaeffer, Urban Division, World Bank

Traditionally overlooked in municipal finance studies, the municipal balance sheet is important to understanding the financial viability of an individual local government and analyzing a municipality's current and future fiscal choices.

The assets/liabilities of municipalities in developing countries are often very large compared to their annual budget revenues and expenditures.

Further, the ratio of municipally owned assets to annual budgetary revenues is typically much higher in developing and restructuring countries than it is in the more developed economies because of the accelerating pace of decentralization of state assets. This makes it more important to understand the economic choices surrounding these assets.

Often, a municipality may have only a vague idea of the value of some of the most important assets it owns.

Most municipalities in developing countries have no inventory of the physical assets they possess, much less a meaningful estimate of the value of these assets.

Numerous local governments in Eastern and Central Europe have inherited a water and sewer system or thousands of housing units as a result of a central government's decision to decentralize ownership of these public assets.

Local governments often have even less awareness of their liabilities.

For example, the Novgorod Oblast in Russia as of July, 1997 had provided unconditional guarantees for the debt of other entities, primarily commercial enterprises, in the amount of R31.6 billion, or more than 10 times the Oblast's own outstanding debt. Given that 46 percent of the region's enterprises had been unprofitable in the previous year, the potential liability under these loan guarantees was substantial, but the Oblast had never undertaken an examination of its risk exposure, either before or after providing the guarantees.

An irony of municipal finance in developing countries is that while central governments often impose limitations on the right of local governments to establish their own taxes, or borrow from the credit market, they rarely place any restrictions on the rights of local government to own, operate, acquire or dispose of discretionary assets not critical to public service delivery.

A direct implication of this is that important financial choices made by many municipalities in developing or re-structuring countries may be viewed as portfolio or balance sheet choices rather than strictly budget choices.

There are some inherent pitfalls with respect to the analysis of municipal balance sheets in developing countries.

These include: a realistic estimate of municipal liabilities may be difficult especially when attempting to corral municipal pension fund obligations or to estimate a market value for contingent liabilities; and, the value of municipally owned infrastructure or property may be largely irrelevant if the property cannot be sold, leased, or used as collateral for municipal borrowing. Notwithstanding, property that resides in the public domain does have community value.

The issues related to asset management in developing countries with respect to initiatives assisted and sponsored by the World Bank and other multilaterals include:

- Understanding and improving the level of customer service and providing the assets required to achieve the level of service demanded by the community.
- Ensuring a life-cycle approach when determining asset operations, maintenance, renewal and development strategies.
- Promoting the municipal balance sheet as a tool to understanding the financial viability of an individual local government and assisting the local community in analyzing its current and future fiscal choices.

Views from Abroad on the Future of Asset Management

In Issue 27 we looked at the forecasts of Australian asset managers for the future of the field over the next ten years or so. Now it is time to turn our eyes further afield.

Canada

Technology is making the future of Asset Management anything but boring,

says Dana J Vanier, National Research Council Canada, Institute for Research in Construction, arguing that in the next decade:

Information and communication technologies now allow asset managers to be more efficient in the way they manage their facilities. More specifically, ready-to-use technologies such as relational databases and the Internet drastically reduce data collection, filing and information retrieval. Advanced technologies such as product modeling, data mining and data warehousing permit the storage of data concerning facilities and can translate these data into useable information and knowledge. Information technologies can assist many facets of these identified problems; the six "Whats" of asset management are used to describe examples of available technologies and tools:

- **What do you own?** Relational and object-oriented database technology, alongside Geographical Information Systems (GIS), provide an accurate and itemized picture of the extent of a portfolio.
- **What is it worth?** Life cycle analysis and economic modeling, using "off-the-shelf" commercial tools, alongside trend analysis tools using data warehousing and mining can calculate both coarse and accurate values of different types of construction.
- **What is its condition?** Engineered Management Systems (EMS), as proposed by the US Army Corps of Engineers, or financial models, as proposed by the National Association of College and University Business Officers, can be used to establish the technical condition or the maintenance backlog for an asset, respectively.
- **What is the remaining service life?** Techniques employing databases such as EMS and sophisticated mathematical modelling using Markov Chain⁸ provide estimates for the remaining service life of components and systems.
- **What is the maintenance backlog?** Trending, data warehousing, and object-oriented databases

allow the asset managers to calculate both the current backlog of deferred maintenance, in addition to the projected levels of maintenance in the future.

- **What do you fix first?** Decision-support tools such as those suggested in the Building Envelope Life Cycle Asset Management Project and displayed below provide standardized interfaces for asset managers; sophisticated and complex calculations, integrated with numerous computer applications could provide answers to many maintenance, repair and renewal questions. In addition, the BEL-CAM techniques encourage the use of risk and reliability analysis for engineering decision support.

This is an excerpt from Dana's paper which may be seen on the www.amqi.com website. (Dana Vanier is engaged in a large asset management data management exercise for municipal government in Canada.)

Dana Vanier <Dana.Vanier@nrc.ca>

UK

Profit focus inimical to asset management

Is the view of Norm Eason, President of the British Institute of Asset Management. Norm is a specialist in Maintenance Information Systems having developed a number of top selling models in the UK.

Like many areas of industry and commerce, it is possible to take either an optimistic or a pessimistic view of the future. We would all wish to believe that an optimistic view is the more appropriate and that Asset Management would progress to become a key discipline in all industrial and commercial operations, along with already established professions such as accountancy and business administration.

Unfortunately, the pessimistic view would appear to be the more realistic. Even if we discount the ongoing problem of recognition of the role of engineering as a profession and engineering processes as contributors to an organisation's wealth, we will still be faced with a short-term attitude in most organisations, fuelled by the need to display continued improvement in profits accompanied by minimal spending on longer term activities. This attitude is prevalent and is diametrically opposite to the principles of Asset Management.

Norm Eason <eason@cix.co.uk>

Sweden

Three Dominating Trends

Is the way that David Sherwin, Professor of Terotechnology, Department of Industrial Engineering, Lund University Institute of Technology, Sweden sees the future of asset management over the next 10 years.

Trustworthy IT systems and Globalisation

At a plant and equipment level, there is a need for trustworthy, comprehensive intelligent IT systems for feedback from users to original equipment manufacturers. This will improve the trend towards Life Cycle Cost/Profit calculations at system level, because asset buyers will have greater confidence in growing overall equipment effectiveness of the assets.

Life Cycle Analysis in Energy

Increasing concern for the environment will lead to Life-cycle Energy (LCE) calculations as the main basis for social acceptability, and continuing growth of recycling and durability. Likewise, cultural, heritage and conservation issues will force some re-thinking that will be reflected in the approval, design, sizing and placement of assets.

Globalisation and Increasing Monopoly Production

The manufacture of assets will be more globalised and there could be a trend to monopoly supply (cf Bill Gates and Murdoch)

David Sherwin <David.Sherwin@ie.lth.se>

Germany

Time now ripe for Asset Management

Says Michael Reidenbach, Deutsches Institut für Urbanistik, Berlin, Germany

Asset management was neglected for a long time in Germany. However, this situation is changing rapidly. Several factors are influencing this transformation: the scarce availability of financial resources,

- the reform of the budgeting process with more independence to lower level agencies,
- the insight that planned maintenance leads to cost savings,
- the pressure to avoid environmental damages,
- the introduction of new technologies (for example for the rehabilitation of sewers and pipes) and finally
- the introduction of resource accounting.

I foresee that, at the end of the next decade or so, asset management will have been established as a professional standard in large parts of the public sector in Germany. and the ingredients of a successful asset management are used.

Agencies will develop databases providing information on the quantity and quality of their assets. This information will be, more and more, connected by GIS etc. Sophisticated computer modelling reflecting new mathematical models will help to better plan maintenance and rehabilitation. This includes the control of the necessary finances as well.

Comprehensive and integrative approaches will be introduced to avoid a split up into 'silos' or different fields or responsibility. Much asset management activity will be outsourced to specialised enterprises. However, the level of these activities will depend strongly on the balance between possible improvement of the infrastructure performance and additional costs for the asset management.

Michael Reidenbach <reidenbach@difu.de>

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