AMQ International

Strategic Asset Management

Issue 62, May 18, 2001

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PROTECT YOURSELF! (USES FOR YOUR ASSET MANAGEMENT PLANS)

Legal Liability

A woman tripped on a cracked footpath and her lawyer encouraged her to sue the local council.

In its defence the council said that yes, many of its footpaths were ageing and in need of repair. Many other assets were also in need of attention. Council was now facing the need to replace many assets constructed during growth times some 30-40 years ago. In total, the costs of renewal were far more than the council could manage in any one year's budget. The Community had been consulted and the council had carried out a condition audit on its footpaths. It had scheduled the worst areas for immediate attention and had a program to address the rest over a period of years. Each year, the capital works list was re-prioritised to ensure that council was allocating its scarce resources to the areas most in need. They demonstrated this by reference to council's asset management plans and condition audits.

The judge awarded the case to the council. In his summation, he said that the council was demonstrably not negligent in the way that it was tackling its repairs and maintenance.

Not only did he find for the council, but he also awarded costs against the complainant. The woman then sued her lawyer for poor advice! **Other good uses for your plans on pp 74-75.**

Advisory Panel and Contributors for this Issue

David Bernard, Playford City Council, SA

Chris Adam, Cardno-MBK, Brisbane, Qld

Researched and written by Dr Penny Burns, AMQ International.
Published fortnightly. Subscription, Comment, or Inquiries to

AMQ Intenational
PO Box 75 Salisbury South Australia
Tel 618 8258 4342 Fax 618 8281 5795
Email: sam@amqi.com

MORE USES FOR YOUR ASSET MANAGEMENT PLANS

Protecting Yourself from Lobbyists

The council members had been coached in asset management thinking and were aware that the acquisition of an old, non-heritage listed building with limited functionality was not in the best community interest. But how did they deal with a very vocal lobby group that was pressing them to acquire it?

At this stage their asset management plan had not been constructed but suppose it was, then they could have shown the lobbyists that council's resources were fully allocated to projects which had each been justified in terms of benefits and costs to the community and they could have said. "We appreciate your interest but here is where council resources are going. All of these projects have been carefully analysed, costed and evaluated. Provide us with a costed evaluation and the benefits of your proposal for the wider community and if the benefit:cost shows that it is better than the least of our current projects we will reconsider."

This puts the onus back on the lobbyists to estimate both costs AND benefits and this will often be sufficient to stop the lobbying pressure but if the lobby group do demonstrate greater value then council knows that it is not disadvantaging the community by agreeing to their wishes.

What do you need to have in your Asset Management Plan to achieve these benefits

-see page 76

Protecting Yourself from Unwanted Free Gifts

Free gifts are never really free. This is why Joe Brown, the ageing art dealer, is finding it so difficult to get the Victorian Government to accept his offer of an outstanding art collection worth many millions of dollars. The capital and ongoing costs associated with housing and maintaining the collection are themselves quite extensive.

The quality of the collection is not in dispute but what could be in dispute is the value to the Victorian community of allocating scarce resources to an art collection that could otherwise be spent on health or education or any of a large number of other uses.

To a large extent it will be influenced by the Government's strategy for community arts and the nature of its existing portfolio which will determine what this collection could add to the total art coverage (see last issue "All strategic questions are portfolio questions")

If the Strategy and associated plans were well documented the opportunity to acquire this collection could be compared with the existing methods of meeting the strategy as documented in the Plans. Then it is possible to tell whether this is a 'wanted gift' or an 'unwanted gift'.

Without this information, elected members are at serious risk of being emotionally blackmailed into poor community decisions.

Protect your agency by protecting your elected members!

AND STILL MORE USES

Adapting Quickly to New Circumstances

A project is delayed, quick – what can you bring forward to fill the gap?
A project is delayed, quick – what consequences will you need to cover?
New Grant Funds become available but have to be spent within the financial year – how do you avoid frittering the resources away?

The answer to all of the above is, you guessed it, your Asset Management Plan! But, in order for your plan to provide help in these (very common) situations, it needs to contain the right information. It needs to cover a period of at least three forward years, and preferably more. Each project has to be tagged with the possibility for advancement or delay. Some projects cannot be brought forward because other things need to be done first, so it is important to know which projects can be advanced. Good management would ensure that a few projects have the necessary documentation prepared ahead of time if this emergency situation is common in your organisation.

The Board, or Council, Changes Composition and Corporate Priorities Change

This is another common problem faced by asset managers. Policy decisions change and new projects need to be brought on stream. What makes way for such new projects? If the policy change makes certain projects irrelevant, the choice is relatively simple, but more often it will be a matter of delaying works in progress. Which works can be delayed with the minimum of cost to the organisation? Again your Asset Management Plan comes to the fore. Well, it does, if each project has been tagged with the consequences for the agency's outcomes if the project were to be delayed one year.

This is usually quite straight forward where there are operational consequences— for example, where a building project in year 2 is conditional on land acquisition in year one.

However where the action, say a land acquisition for strategic regions (say a central location for a proposed new fire station in a developing area) is not associated with immediate construction, in the absence of a well documented Asset Management Plan, the land may be bought by others and forever not available. The costs, then, for the operational capability of the organisation can be immense.

Communicating—Within Developing the "Corporate" Asset Management Plan

Most organisations are divided into business units to facilitate smoother operations. There is a tendency for these units to operate as 'silos', thinking only of their own needs and not those of the corporate whole.

Corporations need to be able to see the consequences for the agency as a whole if more resources are to be allocated to one unit rather than another, or if one unit is unable, for some reason, to complete its capital or maintenance works, the corporate body needs to be able to re-allocate mid-stream. This is where the asset management plans of the business unit can be used to generate better overall outcomes for the agency.

Communicating Without: Collaboration with Others

When new opportunities arise from collaboration with others but the consequences are that changes have to made to the capital and maintenance programs, how can you determine which opportunities are worth taking up—and the desired time frame?

How do you communicate to your partners the costs to you of making changes so that they can be taken into account, either by some alteration in their actions, or by compensation?

AND YET ANOTHER!

New Funding is made available but on condition that you demonstrate that it is being spent advisedly

How do you demonstrate that 'extra' resources are being deployed to areas of common interest?
How do you demonstrate that the monies are being spent advisedly?

The Federal Government frequently provides 'seed money' to the States or Local Government to achieve national outcomes. It is a frequent bone of contention that the recipients "don't do the right thing"! However, one of the reason for this perception is often that the outcomes are poorly designed and described by the donor. If the donor quantifies the required outcomes, the grants are auditable.

But even if they don't, both the donor and the recipients benefit if the resources can be *demonstrated* to be used effectively and efficiently—and again, this role can be played by the Asset Management Plan.

Three Essential Elements for
Really Useful
Asset Management Plans

- Extend at least three years forward in time
- Each project tagged with the consequences of advancement or deferral
- Each project tagged with an audit trail that links the project with its cost justification (and the Asset Management Strategy)

WEBSITE OF THE WEEK

The urban rehabilitation research program of the National Research Council of Canada's Institute for Research in Construction has much to offer.

Research in the UIR program is organized into three sub-programs:

- **Buried Utilities** - deals with underground infrastructure such as water mains and sewer pipes.
- **Concrete Structures** - addresses issues related to the rehabilitation of concrete structures such as bridges.
- **Urban Roads** - aims to increase the longevity of municipal roadways.

Within each of these sub-programs there are details of half a dozen or so research projects currently underway—reported on the website

More than 80% of all infrastructure-related spending by Canadian cities is channeled into buried utilities, roads and bridges. The municipalities have expressed an immediate need for new methods of assessing the present state and predicting the future condition of infrastructure. The objective is to do so with minimal interruption of service using new design methods and materials that will ensure long-lasting repairs and rehabilitation. Municipalities are also seeking enhanced decision-making systems to help management plan for high investment returns on expenditures

www.nrc.ca/irc/uir/index.html

SELECTING THE RIGHT TOOL FOR THE JOB:

"ASSET LIVES" PART 2

"AS IS" OR "AS DESIRED"?

Which lives should you use—those that reflect what is actually happening today, the actual period between one refurbishment or renewal and the next ("As Is" lives)? Or should you use, instead, the lives that you believe would provide the appropriate standards of service for your agency and its customers ("As desired" lives)?

There are good reasons for doing both. Certainly, you must KNOW which lives you are using.

Advantages for using "As Is" lives

The "As Is" lives, used with the "Replace As Is" valuations for assets provide a basis, a reference benchmark that reflects the cost of maintaining the status quo.

Many decision makers, in the absence of this information, make the mistake of believing (or acting as if) the status quo can be maintained at a lower cost (and sometimes at no cost at all!)

The advantage of using 'as is' lives in your calculations is that you are then able to determine the average unit cost of providing the current standard of service. To present a clean picture, only the replaceable element of your asset portfolio should be included. Thus, if you have assets that are surplus to requirements, the reference benchmark figure should *exclude* these assets. And a separate note should be added to make it clear that these assets have been removed (and the cost of so doing.)

The 'as is' life is factual, and given enough data, renewal periods can be verified. "As desired" lives varies with whoever is doing the desiring! The relationship between desired standards and desired economic lives is hypothetical.

The Advantages of Using "As Desired" Lives

Where the agency has already determined that it requires an increase in the standard, or where technological or demand changes have made the existing asset lives no longer relevant, the use of 'as is' lives will provide a better estimate of the ongoing costs and a better estimate of the renewal profile.

But 'as desired' lives are harder to get right. In the last issue I described how I pieced together the information I needed on 'as is' economic lives by studying the budget papers and speaking with the technical maintenance supervisors. This option is not open if you are using 'as desired' lives.

A Focus on Suitability Rather Than Condition

For "As Desired" lives, it is necessary to understand the environmental and policy drivers that are influencing asset change. This reflects a change from asset lives determined by condition (a physical or technical estimate) to asset lives determined by suitability (a policy assessment of the effectiveness of service outcomes of assets not their physical condition).

More Information?

Jenny wrote me this week to say that her council was considering the development of joint assets and referring to the article on the Council-TAFE library in the issue on Collaboration (Issue 60) asked whether more information was available. I sent her a longer article on the issue and put her in touch with the council that had undertaken the original work.

If you want more information on an issue that SAM has dealt with, ask!

Practical Example:

"Functional Components"

The renewal forecasts illustrated in the last issue used quite detailed "physical components" .

It is possible to do some broad-scale planning with just a few physical categories determined by fabric type and chosen for the differences in their economic life. Thus, if we were modelling hospitals, we may choose the physical component breakdown illustrated in Figure 1.

However, today's changing world means that asset lives are more frequently determined not by whether they are in a 'good condition' but by whether they are providing the service that is now required.

This focus on suitability rather than condition means that rather than replace individual physical components as they wear out, the likelihood today is that we will be replacing entire functional units because they are no longer sufficient for the job in hand.

For example, rather than replacing physical elements such as electrical wiring, plumbing, floor and wall surfaces, etc, a hospital will renew a 'surgical theatre', or a 'ward'. These represent a particular function. Some elements such as site engineering services and reticulated building systems may be common to the various functions and subject to its own renewal profile; these would be represented as separate functional units. A functional breakdown is illustrated in Figure 2.

Fig 1 A2 Hospitals Asset Portfolio 2000
Current Replacement Cost
(by Fabric Type)

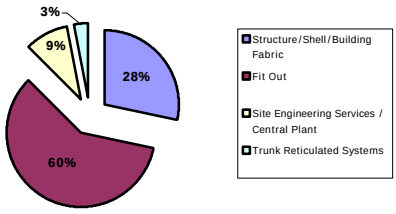
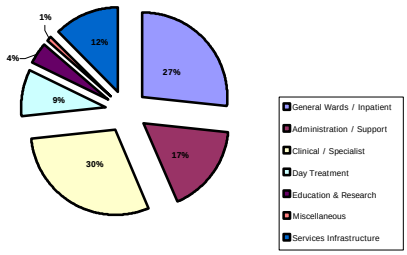
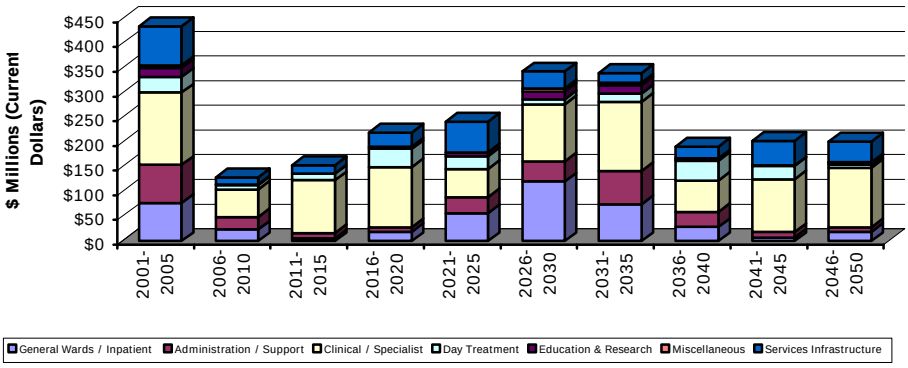


Fig 2 2 Hospitals Asset Portfolio 2000
Current Replacement Cost
(by Functional Unit)



It is, of course, possible to combine these two approaches by looking at each function as a combination of both long living structure/shell and a shorter living fit-out component. This was done in this case, enabling the model to project renewal both by fabric type and by functional unit as is illustrated in Fig 3.

Fig 3 : Hospitals
Forecast Renewal 2001-2050
(by Functional Unit)



CAN THE ENGINEER "STAY IN TOUCH"?

Not so much a "gripe"; rather a concern, writes Chris Adam of Cardno-MBK, in response to our current "what irritates you about Asset Management" feature.

Chris is concerned that technical practitioners, who have so long been the champions of Asset Management, may have to fight to retain their relevance in an increasingly business focused world. (In this, he anticipates the "Grand Debates" – see opposite) Chris is an engineer with business management training.

"Asset Management is today more about "Management" than about the "Asset" and, in an strongly commercial environment, the "Management" component is increasingly focused on the commercial drivers of the business. Technical practitioners need to have an understanding of how this impacts on their activities.

I believe that Asset Management strategies need to be developed in a manner that balances the following components of the business:

a) Service Standards (i.e. what do our customers want?) are the primary driver for any business
b) Technical Standards (i.e. what can we provide and what do we need to do to meet the customer service standards); and
c) Financial Standards (i.e. what can we afford to do?)

It is the balance between these three components which are the ultimate challenge of any business. To achieve this balance, each group needs to have an appreciation of the needs of the other, dependent, groups.

Traditionally, Asset Managers within an organization have been technical people (engineers, environmentalist and social planners). These groups intuitively understand the technical and service standards of the business. However, many technical people prefer to avoid the commercial issues and operate within their "comfort zone"

In this article, Chris Adam throws down the gauntlet to engineers.

- Engineers, technical readers—what's the answer?
- Accountants, financial readers— Are you as good as Chris thinks you are?

Write to me at info@amqi.com Editor

Accountants are "doing it right"

The accounting profession understands the financial requirements of the business but are developing tools which accommodate the other functions of the business. This is an admirable development of a profession which wants to maintain its position as centrally relevant to the business. In addition, they have significant influence through ready access to senior management. As the performance of senior management are typically measured in commercial terms, the accounting function is becoming increasingly important and influential within these businesses. This access to senior management exposes the accounting profession to all of the issues affecting the business, the result being that the accounting profession is developing a far more "whole of business" approach. This is illustrated in the development of new (primarily accounting) concepts of the Balanced Scorecard and Triple Bottom Line Analysis.

The challenge is now for the engineer!

However, as the emphasis changes from an "Asset" focus to a "Management" focus, the technical people need to make sure that they can stay "in touch" and remain equally relevant in the development of AM and AM tools. Otherwise, as the accounting profession develops and applies tools which link all aspects of the business (financial, social and environmental), they may well take control of the AM agenda.

The technical people, who are arguably in the best position to develop a truly sustainable business (not just a profitable one), run the risk of being sidelined as an "off-line" technical role.

Angry? Cheesed Off?

What really annoys you about Asset Management ?

For the next few issues, I am asking practitioners what really irks them about asset management and the way it is currently applied. Generally, we get annoyed by what we feel unable to change. Maybe some of the issues we raise will have answers, maybe they won't and we will have to learn to live with them, or work around them.

David Bernard, Playford City Council, SA, writes:

"We are making it all seem too difficult"

The Asset Management industry (consultants and practitioners) has tried to make it all too complex, scientific and mysterious. The technocrats amongst us have devised asset analytical tools which guarantee their survival but alienate us from the everyday asset user/stakeholder. It has been about scaring Clients into having to know every minutia of detail on asset condition and risk and installing asset information systems to support the habit.

The reality is that most asset failure is due to demand obsolescence and this relates to people ,services and the market place. Sure, the supply side is important and more so in certain industries such as utilities providers. But managing condition and compliance matters is improving in organisations.

The way to win back respect for asset managers however is to engage with the users of assets in a more meaningful way... about future needs, services, the impact of technology etc

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