

Issue 76, November 30, 2001**THE GREAT ASSET MANAGEMENT DEBATES:**

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1. THAT ASSET MANAGEMENT IS BEST LEFT IN THE HANDS OF THE ACCOUNTANTS

(The Great Debates were held at the August 2001
International Public Works Federation Conference held in Perth, Australia)

Entering fully into the spirit of the day, Bruce Douglas led his team of engineers in a tongue-in-cheek assessment of the reasons why it was best to leave asset management in the hands of the accountant.

The Requirements of Asset Management

Bruce Douglas: There are only three things that matter in Asset Management:

1. Passing the Annual Compliance Audit
2. Addressing Council's concern for effective control on Asset Expenditure
3. Development and application of an innovative model for asset valuation and depreciation

1. Passing The Annual Compliance Audit

What is essential is an unqualified acceptance of the council's financial position and an accurate statement of the value of the infrastructure assets by THE AUDITOR – an Accountant! He seeks a set of reports that is:

Simple, 2 Dimensional and in Black and White

Only the Accountant can communicate this information effectively to the Auditor. It is appropriate to think at this point of the analogy of Alice in Wonderland. The auditor is represented by The Queen of Hearts and the Accountant as the White Rabbit – no time to waste, concerned only with the Mad Hatters Tea Party and *not interested in being distracted by facts and complexities*. That is:

Simple, 2 Dimensional and in Black and White

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The Teams were:**PRO**

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BSD Consultants
Western Australia

CON

Stephen Howe
City of Boroondara, Victoria

John Bennie
CEO
Manningham City Council,
Victoria

Ian Robins
CEO
Wyndham City Council,
Victoria

Unfortunately, John King's excellent presentation did not survive the day, but here is Peter Drummy's address.

2. Council's control of expenditure on Assets

Councillors' main interest and concern is the effective control and direction of the expenditure on assets. You must remember that a councillor is simply and untrained, concerned enthusiastic amateur. She is not concerned with technical sophistication of databases, GIS or PMS and needs to have information provided in a form that is:

Simple, 2 Dimensional and in Black and White

This is all that is required to exercise control. The Accountant is the person best placed in the organisation to provide this role of informing and managing the councillor.

He is a simple person, a 2 dimensional figures man, a black and white person—A Collingwood supporter!!

3. Innovative asset valuation and depreciation model

The last element that is required is an innovative development and application of a model to value and depreciate the council's assets. The Accountant is best placed to provide this, he has already innovated a model some time ago and is prepared to rigorously apply it to the task without the need to widely consult or involve other disciplines such as engineering. This model is:

Simple, 2 Dimensional and in Black and White

It requires nothing more than

- A Identification of the Initial Capital Cost
- B Assignment of the service life for the asset
- C Application of Straight line depreciation to a Zero Balance

It is important that everyone appreciates that at the end of the day, the value of council's assets comes to Zero-----

Only the Accountant understands this essential element of asset management, it is clearly their role and they are best left to it.

This fact is as clear as BLACK and WHITE!

The Characteristics of the Accountant

Peter Drummy: A Finance Manager has the professional and interpersonal skills so necessary and vital to get us past the examiner/ auditor (**Accountant to Accountant**) An Engineer to Accountant will not work.

Firstly, in terms of overall **professional** skills the Finance Manager has the ability to:

- **concisely** document requirements which can be readily understood

What does it take to be a good asset manager?

- establish & maintain an accurate database - that can meet independent scrutiny (audit); without this accurate information how can an organisation plan and manage their important assets? Not suffer wrath of auditor
- accurately record and monitor expenditure: (*without this ability an organisation is doomed to failure*)
- Develop & maintain financial & other modelling so critical in planning for the future (NPV, etc);
- concisely translate the financial requirements for assets into the Council's budget and get Council approval;

Secondly the Finance Managers has high quality interpersonal skills, so necessary to ensure that asset management principles and practices are understood and followed within an organisation. A Finance Manager has:

- extremely high ethics Built into Professional Charter);
- honest as is the day is long;
- flexible and open minded not "blinkered" as is the case with other professions such as engineers
- Excellent communication skills – a great teacher & importantly great listener (*as Finance manager they are required to deal with whole organisational issues as part of their day today activities*);
- friendly persona with high customer focus;
- responsive and continually provides feedback to staff and Councillors;
- innovative with ability to think "outside the square"
- they are just great people

The Arguments Against the Proposition

"That Asset Management is Best Left in the Hands of the Accountant"

Stephen Howe: Madam Moderator, Ladies and Gentlemen - Asset Management **must not** be left to the Accountants.

To Account, or To Do?
That is the question

You can teach an engineer to account – you can't teach an accountant to engineer – "*accountants count, engineers do*". Let me use an Analogy: ever heard the phrase "*our greatest asset is our staff*?" To just *count* your staff is not the same as *managing* them, is it? – you need to know their foibles, problems and find solutions – it's the same with Assets.

Our *community's* greatest asset is its infrastructure – what do they want us to do with it? Account only, or Account and manage to meet the communities evolving best interests?

Accountants don't live in the real world – just look at how they handle depreciation. Condition based depreciation is another way of saying

“reality based depreciation” – *but do they want reality?* No. Think about the difference between a straight line depreciation and a **real** Asset Decay Curve....this difference is what we call “*the Credibility gap*”.

The accounting view of the world only matches reality at the start and end of the asset life...but most critical asset management decisions are made in between those points...or even before the asset is created!

If we leave asset management to the accountants we will end up with

“a beautiful set of numbers”
and

“the infrastructure we had to have”

Auditors nit pick over issues of 1-2% accuracy on asset registers, when we could all be +/- 50% out on the “big picture” issues – does our depreciation reflect our true position? Do we want these assets anyway? Will we have enough funds to replace these assets when they need renewing? Are we making unsustainable choices on our choice of capital projects? Are we spending too much or too little on maintenance? When is “crunch time” coming, and how bad will it be? Will we have to cut back on services or raise rates?

Lets think about it -If we leave asset management to the accountants (to paraphrase Paul Keating) we will end up “*a beautiful set of numbers*”; this would lead to “*the infrastructure we had to have*”!

John Bennie developed the opening theme:

What is Asset Management really about? It’s about looking after existing assets, minimising cost and risk, maximising ‘fitness for purpose’. What does “the bible” of Asset Management (he holds up copy of IPWEA’s “International Infrastructure Management Manual”) say Asset Management entails?...lets have a look at some chapter headings...

- Condition Assessment and performance monitoring
- Developing lifecycle strategies for Asset Management plans
- Demand forecasting
- Maintenance Analysis and management
- Data Collection

Of the 39 or so chapters in this book, only one (count them...ONE!) was titled “valuation and financial issues”. Does this tell us something?

Asset Management is a
TEAM GAME

- For accountants,
engineers, and others

We are NOT trying to say we don’t need accountants to do Asset Management – we need a *team* of people with a variety of skills. At the end of the day, if we leave Asset Management to the Accountants, follow the Accounting Standards to the letter, and end up with nonsense, we are still guilty. The “tail has wagged the dog” for too long – lets redirect the various pieces of legislation that currently govern us towards the right direction – so that the accounting standards become *guidelines* or *tools* to help achieve good outcomes; not the masters that we serve at the moment.

It fell to **Ian Robins** to rebut the other side and sum up. Here is his closing statement: Yes, it was fun but the idea is not an ‘accountants v. engineers’ mudslinging exercise. No, what we *are* saying is that the public wants confidence that their assets are being managed to meet their views and their

And the Winner?

On the day, the audience decided that the Con Side were the winners.

The Pro Side took the judgement philosophically—and smiled a quiet smile of satisfaction!

Here are some further points pro and con.

What is your view?
Why not email me at
<info@amqi.com>?

evolving needs. This means matching infrastructure to needs in terms of both quantity and quality. Good asset management needs input from other professions and the community. We all understand that two heads are better than one – particularly if they come from a different vocation. Asset management is no different in this regard.

As you decide how to cast your vote, we leave you with some challenges - the theme of this conference is "*innovation: the key to the future*".

- Is establishing an inventory and applying straight line depreciation innovative? – I suggest no.
- Is managing assets without input from other professions or the community innovation?

FURTHER POINTS

PRO

- (1) AM is all about cash flows and Finance determines the budget
- (2) Finance generally has the ear of top management and can therefore ensure that what needs to get done, gets done
- (3) all asset management is a matter of trade-offs and these trade-offs must take into account other financial demands on the agency as well as the likelihood of changes in future income.
- (4) Accountants/Finance have a better understanding of user requirements
- (5) Asset valuation and depreciation are financial issues
- (6) AM is a data manipulation exercise and accountants are best equipped to deal with it.

CON

- (1) AM has been taken over by Accounting to its detriment. It is NOT a financial issue but a management issue with financial implications. The management issues have been overlooked.
- (2) Public Works engineers have a better understanding of what is possible and AM is, above all, about generating and evaluating options.
- (3) Public Works engineers are trained to optimise, to maximise outcomes under constraints – this is the core of asset management, not mindless compliance with procedures or rules
- (4) Public Works engineers, being practical people, are more in touch with users and what they need and want. AM is a planning and management exercise that requires understanding both the asset capabilities and a practical approach to meeting agency objectives .
- (5) Valuation and Depreciation are technical issues that have been hi-jacked by the accountants.
- (6) AM in the hands of A/F is treated as a data manipulation exercise and that has been its downfall.

2. That Life Cycle Costing is no longer relevant in today's fast changing world

Unfortunately for posterity, the stirring performances of the two sides in the main debate "That Life Cycle Costing is no longer relevant in today's fast changing world" have disappeared into the ether, with the exception of this spirited attack on the proposition by Richard Kirby. It is followed by a number of points that could be made, both pro and con—if your suggestion is not amongst them, why not email it to me? <info@amqi.com>

Penny Burns (Editor)

The Teams Were

PRO

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Queensland

Geoff Parnell

Tungsten Group Pty Ltd
Perth, Western Australia

Tony Urquhart

Meritec Pty Ltd
Melbourne, Victoria

CON

Armin Huefner

Huefner Management
Systems
Norwood SA

Richard Kirby

Asset Manager
Manuwatu District
Council, New Zealand

Jim Donahue

Yuma County
Department of Public
Works, USA

Richard Kirby: I have an important announcement to make;

The Civil Aviation Safety Authority (CASA) has grounded all of Ansett Australia's Boeing 767 fleet. This is because of irregularities in the airline's maintenance checks. The grounding has followed the discovery of cracks in two of its jets.

If Ansett Australia had completed its compulsory inspections, it would probably not be in the position it finds itself today. CASA spokesman Peter Gibson says, "We're requiring Ansett to fix all these cracks and complete all inspections before the jets can go back into service. CASA obviously has a major investigation underway into this whole incident and in particular how Ansett missed these inspections. Following that, we will consider further action that might be necessary, including whether we should even take a closer look at all of Ansett's maintenance systems."

End of announcement. Well what an announcement – and to top it off, this incident actually happened 9 months ago – it has **not** been invented for this debate!

Could it be said that Ansett Australia had a policy of only investing capital in aeroplanes thinking that they would last forever and not need further investment! Is Ansett Australia saying that predicting the investment required over the life of each of its fleet is not particularly relevant in today's changing world? Are they saying that life cycle analysis is not relevant? Oh sorry perhaps that's a bit harsh. Perhaps they are saying that life cycle analysis is optional and only relevant if you have the time and sufficient funding!

It makes sense that if anyone were to invest capital into such infrastructure as aeroplanes, there would be more to the decision than just capital investment. Of course the business plan would include the long-term investment – which would have to involve Life Cycle Analysis. Obviously

And the Winner?

The Audience gave equal billing to both sides in this debate.

As we can not provide you with the arguments on both sides, you will need to make up your own minds on the basis of the merit of the proposition.

the income from airfares and freight would have to be sufficient to ensure the fleet could operate and continue to sustain the service. Sustainability through life cycle analysis - now doesn't that make sense!

What if we were to operate our roads, our sewerage schemes and water supplies with the same short-term, carefree attitude?

My point is; embracing life cycle analysis is a matter of life and death, there is no option.

Even now, I can hear the little old man; you know the one who has lived all his life in your community. I can hear him saying;

"After all, I have paid my rates for 40 years and now this is the service I receive – no water. Don't the engineers know that pipes wear out? They have been up my street to fix this pipe lots of times and each time my water has been shut off. The last time I was in the middle of my shower, covered in soap I was, then the shower just stopped. Its not good enough, I have paid my rates and this is what I get. This pipe should have been replaced years ago? The engineer he told me that council has already spent its renewal budget this year. What sort of incompetent bureaucrats are managing our services, anyway? They should have predicted this was going to happen when they put the pipe in 60 years ago! Hopeless I say hopeless – shoot the lot of them!"

Well, what a familiar story. The same type of complaint could also be levelled at our roads or our sewerage schemes – sewage flooding across private properties as a consequence of a pipe collapse is not acceptable in these modern times. Our communities are becoming increasingly intolerant of such incidents.

All these are consequences of not applying and implementing life cycle analysis correctly. Such failures are predictable and can be funded accordingly. Even though the exact time of replacement may not be predicted precisely, at least the funding can be accounted for now.

The choice is ours. We must have sustainability in the provision of all our services and that can only be implemented effectively if we embrace the whole of life approach to our management.

WARNING

None of the Debators in either of the two debates necessarily commits to the views espoused. Their job was simply to present the strongest case they could for their side.

PRO

- (1) Not relevant because the focus today must be on desired outcomes and these are constantly changing. LCA assumes that assets will remain pretty much as they are and be renewed as is.
- (2) Not relevant because the power today is with the visionaries, those who can see the broad sweep – not get bogged down in detail (cf terotechnology)
- (3) Not relevant because even wehre we have enough detailed costings to construct a LCC these costs are based on
 - a. The components we used to have (eg concrete rather than PVC pipes)
 - b. The usage patterns we used to have (eg 'gentler' road usage before today's heavy traffic and road trains)
- (4) Not relevant because where assets are being constantly renewed, as well as added to, subtracted from and modified – how can we even *define* the life, let alone the life cycle.
- (5) Not relevant because demand is nowadays the main determinate of activity – not technical supply conditions
- (6) Not relevant because so little reliable information is available that most LCCs are a combination of gross assumptions and

FURTHER POINTS

CON

- (1) Relevant because LCA is not primarily an exercise in figure work but a thinking framework that puts the initial acquisition cost into a longer term framework
- (2) Relevant because it focuses on the need to factor in the operation and maintenance costs needed to ensure asset sustainability
- (3) Relevant because it provides a plan of action and any plan – even if changes have to be made – is better than no plan at all
- (4) Relevant because it reveals the danger of opting for the lowest cost acquisition price – at the expense of greater ongoing costs.
- (5) Relevant because it influences the way budgets are set.
- (6) Relevant because it goes to the heart of asset management and the role of the public works engineer.

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