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Are we confusing **THE TOOLS with THE TRADE?**



Few would confuse a stethoscope or a cardiograph machine with the science of medicine; we can distinguish the 'tool' from the 'trade' of medicine

But we often speak and act as if a 'renewal forecast', or a 'valuation', or a 'GIS' was asset management itself when, in truth, they are all merely tools .



We sell the wrong message to our decision makers – and to ourselves when we merely place the valuation in the balance sheet, or when we present a renewal forecast as if it was a prescription for needed future funding and fail to recognise the nature of these as 'tools'.

Tools are to be used. We should be analysing the data that has gone into the construction of the valuation for the light that it throws on our asset stocks and the messages it may give about trends and/or future actions. Similarly we should be *using* the renewal forecasts as the 'default' situation, the 'worse case' scenario for funding required if we do not apply our asset management skills to improving the situation.

Information is also a tool. And there are ways in which we can make far better use of the information that we collect for asset management. In this issue ARMIN HUEFNER argues that it is time we went beyond the purely reporting aspects of AAS27 and make sure that asset management benefits flow to users – by making data currently only used for AAS27 purposes available to everybody. See his article on pages 194-196

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TAKING ASSET MANAGEMENT BEYOND ITS ACCOUNTING ORIGINS

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Accrual Accounting Gave Initial Stimulus

The introduction of legislated accounting standards and asset management plans resulted in a flurry of data acquisition and rationalisation in the early to mid '90s. The data often ended up in spreadsheets for principal use in AAS27 reports and total management plans, only to be updated (perhaps) once per year and recycled. Since then, there has been little increase in legislative requirements in Australia whilst New Zealand, which lagged legislatively behind Australia in the early '90s, caught up and surpassed Australia by requiring local authorities to produce long term financial plans and then auditing them annually.

New Zealand Went Further, Mandated Asset Management

Now, every New Zealand authority is required to produce annual and long term financial plans showing details to the component level. The annual audit then compares the actual action and expenditure against the plan and the auditors make comment accordingly. The impact of this legislation is that local authorities now need to engage in "true" asset management in order to meet the statutory requirements. This has the secondary effect that all actions related to the management of assets need to be planned (where possible), instigated, tracked and measured with full transparency. Such action, obviously, has cost implications however the principal benefit is savings achieved through improved capital investment decisions which become apparent by applying true asset management principles.

Why Not Australia?

So why isn't every authority investing in this methodology to gain its benefits?

In Australia, the answer probably is that :

1. There is still not enough understanding and recognition by the practitioners and the decision makers in Local Government of the financial and organisational benefits that come from the application of proper or "true" asset management processes.

(An excerpt from Armin Huefner's presentation to the Pipes Wagga Conference, October 2001, entitled "Asset Management—Why?")

2. There is insufficient political and economic justification for any third party organisation such as a state government to drive "true asset management".
3. There is no legislation (as per the New Zealand model) to drive asset management beyond compliance with AAS27.

We Can Drive Asset Management From Within

"Make your data indispensable to the organisation on a daily basis"

One way to ensure asset management benefits flow to users is to make the data that is currently only used for AAS27 purposes, indispensable to the organisation on a daily basis. This can be achieved by making the data available to everybody in systems that require correct data.

These systems comprise :

- Customer Service Systems
- Contract Management Systems
- Maintenance Management Systems
- Property Systems

ie, move the emphasis of data use from once per year (for AAS27) to real-time eg the Customer Service System or the Property System.

Whilst this action relegates the asset data to a supporting role (to Contract Management, to Maintenance Management and Customer Service) it

Nor does the information, nor the benefits need to stop within the agency

Yarra Valley Water won the First Prize in the 1996 Asset Management Competitions for an innovative scheme in which they placed data on their underground pipe assets directly into the hands of developers, plumbing contractors and local home owners.

They did this through a customer focused GIS application based on open architecture that was robust, low cost, easy to use and highly portable— computer screens were made available in hardware shops for easy access.

This not only saved the company considerable time in dealing with daily customer requests, but created a real added value for plumbers and users.

See AMQ International 1997, Vol 1 Issue 3

certainly ensures that the data is maintained in top quality.

Once data is of top quality, using it for strategy determination is relatively simple. Strategy determination cannot be carried out without clean data and it is likely that a good number of attempts at true asset management in Australia have failed through lack of good data. Remember, it is quite possible to obtain meaningful and valid AAS27 answers from data that is not completely clean. That same lack of quality data can be a major hurdle in determining strategies and programs.

So why bother with going beyond AAS27?

(Cont over the page)

Why Go Beyond AAS27?

The benefits of practicing true asset management are varied and diverse. Some have direct, measurable impacts whilst others have a social impact which is difficult to measure. They include:

1. **Understanding** **The ability to analyse and trust good quality, relevant data enables the data to be converted to information.** This leads to understanding and knowledge which in turn, brings improved decision making and management.

All too often, even the smallest discrepancy in data quality has caused "loss of faith" in ALL data resulting in a rejection of that data and stultifying any attempt at asset management. A quality approach to all matters of asset management is essential.

2. **Control** **Asset management is about management for the future.** A systematic approach of what to do with assets, based on all knowledge, past and present, enables asset managers to achieve a sense of control over those assets. This is particularly true when systems are applied that enable modelling of behaviour in a "What if?" scenario.

The asset manager is charged with the "control" of assets. Such control comes from understanding and knowledge of all matters pertaining to the assets.

3. **Financial** **Management of assets is now a much more recognised financial necessity than was the case a few years ago.**

The advent of IT Technology with a profusion of software tools has enabled data to be converted to information and has enabled management decisions to be measured in financial terms. This has provided better information, not only to the management teams, but also to the directive teams, hence greater choices of action are available to those teams.

The concept of not seeking or achieving financial efficiency in asset management, or it being too "difficult" is no longer acceptable.

4. **Progress of Community** **A community owns and manages assets for the benefit of the community.** Good management of assets not only creates financial benefits but it feeds the spirit and well being of the community which in turn leads to better management.

You will be rewarded.

If your Asset Management System is languishing at the AAS27 barrier, why not make the data indispensable to the organisation by linking it to, or using it in, real-time systems. The step to True Asset Management thereafter will be a small step, but a rewarding step. Do it and you will be rewarded.

READER FEEDBACK

Some of your responses to articles that we have published this year.

Issue 63

"We don't do it this way here" p. 88

(A young engineer had written in response to our call for what really cheeses you off about asset management that, in his council, there was little attempt to change 'the standard way of doing things'. He referred to the older engineers as 'waiting to retire'.)

"Just don't write off the experienced generation as 'waiting to retire'. Some people have been brain dead since age 20"

"The Experienced Generation" John Timmers

I read with interest the comments about 'waiting to retire engineers' by the frustrated 23 year old. Enthusiasm is not necessarily limited to the relatively young (23). There are those of us over 50s who are still trying out new ways of doing things, enjoying the excitement and challenge, and probably doing it very well.

I have been in local government for only a short time, am at executive management level, and as one of my many areas of responsibility, am setting up asset management of the shire's building stock with a replacement value of \$32m (small council). We have had to create a simplified system of asset maintenance over a 20 year period, using spreadsheets. In doing so, I have coined a new term 'icon value' which attempts to define a building's service outcome level. All very subjective but useful in calculating higher or lower maintenance expenditures for like buildings in different locations with differering community expectations. I could also tell you about the older guys who graduate with MBAs in their 50s, etc. Just don't write off the experienced generation as 'waiting to retire'. Some people have been brain dead since age 20, others of us just never know when to stop. If the workplace does not suit your aspirations, leave. Find a place that allows you to develop and contribute, and ask questions during the interview process to make sure that this will be the case."

Issue 69:

What it takes to be an intelligent client: A focus on Post-Occupancy Evaluation pp 129-136

"A Question of Funding" Edwin Grech-Cumbo

The work reported is similar to that which we practiced in Telstra. But the costs became prohibitive. My experience is that trying to conduct a POE

Ed: When I attended my first Asset Management Conference in 1987 'Post Occupancy Evaluation' was the major topic of the day and Edwin Grech-Cumbo was its leading proponent.

"If POE's are to be resurrected they need to be funded by the Government or a research body provided with a grant or sponsor"

that has both academic value *and* provides customer satisfaction involves two opposing concepts that far too many professional & lay staff. Consequently, we had to bring all these studies to a sudden stop.

The principles discussed in the paper are similar to the guidelines we set in the early 80's and I can assure you that they work well. But for such studies to be conducted and for academia to gain knowledge the Government or Universities have to fund the POE.

I am also a firm believer that the POE should commence at the conceptual stage of any project. That is to say as the first draft brief is being drawn. The persons conducting such studies are best selected from a University that has no conflict of interest with the designer/s and the client / customer interface. The brief being the key building block that the whole of a project relies on.

Experience from some 35 POE's conduct in Telstra many years ago suggests that the designers tend to feel threatened and go cold on the concept. The customers, while wanting to conduct a POE, also felt that they were under scrutiny because they did not control the cost or development of their own requirement. On the other hand, they tended to lose all keenness to continue once the first cost was passed on to them.

If POE's are to be resurrected they need to be funded by the Government or a research body provided with a grant or sponsor. The scope of the POE to be staged in a manner that would produce beneficial results to all the parties involved. Further more the proposer must clearly outline why the study is required.

BENEFIT FROM BUILDING RESEARCH

Well researched and rigorous analysis is a luxury that busy practitioners seldom have time for, let alone the relevant expertise or the resources. You can access a wide range of articles on building related topics in the BRI journal (building research). www.tandf.co.uk/journals/routledge/09613218.html (or, easier, look up 'building research' in www.amqi.com's library and you can go straight there!)

Once in the BRI website you can find the contents of each BRI issue. The special issue on POE is volume 29 number 2 (March/April 2001). Contents, abstracts and keywords for each paper are in the public domain. If you find an issue that is relevant you can purchase an electronic or hard copy—you don't have to subscribe to the journal to get an individual issue.

(Naturally, subscribers have full electronic access as well as the print version.) Subscriptions to BRI can be obtained through [<journals.orders@tandf.co.uk>](mailto:journals.orders@tandf.co.uk)

Issue 70
Portfolio Risk and Expectations Risk

“Government’s goals and objectives in investing in assets are not the same as those of the private sector.”

“More on portfolio risks”
Ami Sudjiman-Spinks

In terms of government assets, the portfolio risks become the whole of government’s risks, impacted by the portfolio, its management and operation.

Government assets are usually created to provide service to meet and support community needs. Consequently, Government’s goals and objectives in investing in assets are not the same as those of the private sector. Although the government may also have a need to have returns on their investment, improve bottom line and increase profit margin, there are many other community obligations and responsibilities to tax payers that need to be considered.

The differing objectives between the ‘sponsor’ and the ‘consumer’ will need to be identified and recognised as early as possible, so that appropriate methods of operation can be developed and implemented to ensure that both parties are able to gain benefits from the joint venture.

Corporate knowledge and red tape bureaucracies are often associated with government inefficiencies. However, they do have reasons for their existence, if managed well. Mean spirited, fast moving management style based on token procedures, often lead to short sighted and irresponsible decisions. This may also have a ripple effect to the whole portfolio, depending on the extent of the private funding.

Issue 72
Make a Project Proposal that Decision Makers Can Understand

“Going beyond the dollars”
Chris Adam

I wonder if we put too much emphasis on the dollar side of government decisions? If only commercial considerations were relevant, perhaps the market should be supplying the services? The fact that government is undertaking these projects suggests that there are social and environmental considerations that go beyond the mere financial.

We do a lot of talking nowadays about ‘triple bottom line’ but we don’t ‘walk the talk’. I would suggest that the best way of bringing the social and environmental considerations into the decision would be by the use of multi criterion analysis. (cont. over the page)

Multi-criteria analysis

One of the criteria would be the financial costs and benefits. (Financial, note, not economic, for the 'externality' issues would be picked up directly in the other criteria to the extent that they are important for the decision.

Other criteria could include 'environmental safety', 'social equity', 'compliance with standards', perhaps 'aesthetics', perhaps 'potential for economic growth'. The general rule for the number of criteria is around 5—not too many that the decision maker cannot get his/her head around all of the issues.

Scoring each individual criterion is the work of professional specialists in each area. But assigning weights to the individual criteria is strictly the province of the decision makers themselves. This distinguishes the multi-criteria analysis from cost benefit analysis, where weights are assigned by the analyst and lost in a 'black box' mechanism.

Coming Next Issue

Some of the Asset Management Issues that made the media headlines

Once the decision-makers have chosen the weightings that THEY consider appropriate (e.g. 40% for environment,; 40% for financial; 20% for social) each project can get a relative score. But the important thing is that all the elements in the multi criteria analysis approach are transparent to the decision maker.

So, plagiarizing John Howard's question, we should then tell the Councillors:

- Project A should proceed because
- (a) the financials stack up (or go close) AND
- (b) The project meets the Corporate Plan social obligations; AND
- (c) The project meets the environmental criteria.

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