



AMQ International
"Increasing awareness, developing ability and
recognising achievement in asset management"

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AMQ International

Strategic Asset Management

HOT TOPICS IN 2002

HOT TOPICS

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- Best Value
- Single Pot
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- Risk Management
- Intelligent Assets
- Alliance Contracting
- Service Packaging
- Audit pro-activity
- Renewal forecasting
- Benchmarking
- Triple Bottom Line
- Portfolio wide mgt
- Maintainability
- Optimum intervention
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Overseas

UK

Big topics will be 'asset management plans', 'best value' and 'single pot'

Asset Management Plans.

The UK has taken up the asset management challenge in a big way in the last few years. Expect to see central agencies continuing to force the pace. For example in 'Plan for Wales 2001', the Welsh Assembly has committed to the establishment of Asset Management Plans across all parts of the public sector. These plans cover all property in public sector ownership and enable public sector bodies to identify and plan for the maintenance, replacement, utilisation and need for their estate. The intention is that the Assembly will use the information contained in the various plans to inform its future allocation of capital monies across the public sector. Expect to see a focus on funding similar to the emphasis that we used to place on maintenance backlogs before true asset management takes hold.

Best Value

The way in which it was introduced in Wales created much interest because of the so-called 'corporate diagnosis'. This attempts to overcome the problems

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that arise when the focus is, as it generally was in England, on disparate service areas rather than on what the local authority as a corporate whole is seeking to achieve and how best value can support and advance that vision. Expect some analysis of this to be part of the eagerly awaited Byers review of Best Value.

'Single Pot'

Expect to see

Asset Management Plans used as an External Control Device rather than an Internal Management Tool

- and expect conflict between these two objectives

This will continue to be a feature of the British asset management scene in 2002. The principle is to give councils more financial freedoms but expect to see Central Agencies reluctant to let go of the reins. When New Labour came to power in 1997 specific (tied) grants represented only 4.5% of the annual settlement to councils. They are now nearly 23%. Councils will need to jump through a number of hoops to regain financial control. 'Asset management plans' and 'best value' were the start, now they face the prospect of league tables and a rough demarcation that will see them labelled as high-performing, striving, coasting or poor-performing. High-performers will be given more financial freedoms and face a lighter-touch inspection regime. Similar freedoms can also be negotiated by striving councils. Expect to see council criticism of the performance framework and of their assessments by the Audit Commission inspectors.

A property focus

Asset management in the UK has focussed on property. In terms of replacement value, infrastructure is probably even more significant but it is not seen to offer the same opportunities for management and improvement and is unlikely to feature in asset management in 2002, or even for several more years.

USA

Expect to see

An increase in interest in asset management in the USA similar to the awareness raising in Australia and New Zealand with the introduction of accrual accounting to the public sector.

GASB 34

In the USA, contrary to the UK, asset management has been picked up at the state and federal level rather than the local government level and while the US has prepared property asset management guidelines, which we reported on last year, there has been an equal emphasis on infrastructure (highways, water, electricity). Expect to see the infrastructure emphasis increase this year as the new accrual accounting requirements (GASB 34) start to bite. Expect to see increasing interest in what is called 'the modified approach' to depreciation recording, by which infrastructure agencies may choose to report not their depreciation but rather the costs of maintaining service function

Expect to see these issues covered in SAM during 2002.

AND IN AUSTRALIA AND NEW ZEALAND?

Expect to see

Changes in the assets we produce and the way we use them

Three themes may be expected to dominate the asset management scene in 2002. They are: (1) the impact of changing assets, asset ownership and asset services; (2) a re-packaging of asset management services and information and (3) intelligent revisiting of traditional activities, arising out of the learning and experience of the past decade,

(1) CHANGING ASSETS, ASSET SERVICES

Expect to see changes in the assets we produce and what we think of as an asset. Expect also to see changes in ownership, recording, and obsolescence of assets.

Expect to see greater discussion of how we position ourselves for coming changes. In this context, consider the following scenario by Mark Neasbey of the Australian Centre for Value Management:

"A possible scene:

It is December 2010. The Place—a virtual company boardroom meeting. The topic on the agenda—how to manage the new personal chip transponders (fitted internally with minor local surgical procedure). These devices make obsolete all other forms of communication—they allow voice, data and imaging and they also provide instant translation across all known languages. They are activated by thought as well as speech and they enable multi-channel communications—i.e. with devices and people. We have a clandestine military model and one that can be safely used in the wider community. They will provide an enormous commercial advantage to those who acquire them first. However, their impact on existing communications infrastructure and product design and development is almost unfathomable. Furthermore we happen to be major providers of existing forms of communication and equipment and services. We have significant assets that we must now decide what to do with. Our previous approach to asset management will not serve us into the future. What must we do?

The Journey

The next ten years can be expected to see an acceleration of the obsolescence of many assets. However, the availability of capital resources to replace these assets is unlikely to keep pace with the evident commercial need. It will also place enormous pressure on revenue streams and asset investment and dis-investment strategies. It's likely that many more organisations will opt to lease their 'assets' rather than own them. This will obviously be counter balanced by a concentrated number of firms that will specialise in particular assets and associated services.

But these assets will look less and less like the 'traditional' assets.

Information and its management is no longer just the hardware and software that a company has—because most of it will be in the minds and 'laptops' of their people—or more importantly it may have 'leached' via multitudes of electronic transactions to others. We still need physical assets to satisfy many functions—but more and more business will be conducted with a different set of assets that presently acquired knowledge and experience is not suitable for.

This picture is likely to be significantly different amongst those nations that are known as 'the developing nations'. Their asset focus will primarily be on essential human and community needs. But these they cannot fund internally. Nevertheless they will experience a rapid change in their communications infrastructure. They will also be able to participate in electronic businesses largely 'on a par' with the 'western' economies."■

Expect to see

More talk than action over 'intelligent assets'

Intelligent Assets

In recent years we have seen intelligent buildings, intelligent transport systems and now it is the turn of intelligent urban planning. With rising crime rates and aggressive community behaviour, not to mention the new threats imposed by global terrorism, we can expect to see increased intelligent asset applications in surveillance (e.g. cameras on street light poles that feed information directly back into police headquarters). These are already in use in trouble hot spots and now urban designers are starting to plan around the availability of such communication devices.

Expect to see increased discussion of national, co-ordinated introduction of intelligent transport systems and the new legal and management issues that such assets introduce. However, wholesale introduction of such assets is still some years off.

Alliance Contracting

Continued experimentation with new methods of asset delivery

The new Australian National Museum was constructed under an Alliance Contract. Alliance contracting is the latest in a long line of alternative approaches for meeting schedules and coming in on budget. It describes a project delivery method whereby the parties to the project, including the owner and the contractor, form an alliance team to deliver a project. The basic rationale is that of a risk sharing collaborative approach to project delivery rather than the traditional 'hard dollar' win/lose approach. By embracing the risks on the project and then putting together a strategy to deal with those risks as they arise, the parties seek to achieve "win/win" for all parties involved and better results for the project.

Expect to see discussion, if not action, on incorporating aspects of asset management within the ambit of the alliance contract.

(2) A RE-PACKAGING

Also expect to see

Changes in the way we package asset management services ..

Asset Management Services

Not only are we likely to see changes in assets themselves and the way in which they are provided but we can also expect to see changes in the way that asset management services themselves are supplied.

The break up of large state and federally based utilities into smaller, competitive elements has not necessarily led to greater competition, as was initially hoped. Instead, what we have seen is that they have re-combined. The new combinations do not look like the old monopolies, however; they are entirely new aggregates—water with electricity, gas with telecom etc.

In 2002 we can expect to see similar imaginative combinations of services in asset management with entrepreneurs offering combined bureau services/ training services/ and information systems, amongst other combinations.

Information—not more, simply better arranged

..and in the way we package asset information

The push towards major inventory collections, GIS development, asset registers and Asset Information Systems, that we have experienced over the past decade is about to morph into a new form of information modelling. This is characterised not so much by collection of new information but by more intelligent packaging of existing data. We saw an example of this last year in the work of the South Australian local government in their infrastructure study where, by using only existing information but packaging it in a way that made more intuitive sense for asset managers, whole new insights were possible.

Expect to see this approach used in overcoming the reporting requirements of triple bottom line (see page 214) and in the development of new planning models (below)

Portfolio wide planning and Renewal Forecasting

... particularly in large planning models

Expect to see increased interest in state and federal central agencies for an overview of their asset portfolios, not for detailed day-to-day management but for future planning. Victoria is currently leading the race with well developed renewal forecasting models for a number of its key agencies, with more on the way. Characteristic of the Victorian approach is the desire for consistent approaches in its individual renewal forecasting models so that an entire state picture may be built up. The new attitude of central agencies is much more one of overall guidance rather than control.

(3) INTELLIGENT RE-VISITING OF ASSET MANAGEMENT ISSUES

Audit Offices

Expect to see

More pro-activity from
Auditors ...

Auditors-General are becoming more pro-active generally and especially in asset management. It is a characteristic of their communications that they are designed not simply to codify or regulate but to genuinely increase the level of understanding of asset management. This has been generally very well received and we can therefore expect to see more of it.

Infrastructure reporting to improve asset management planning

A good example is the infrastructure financial reporting practice notes produced by the Tasmanian Audit Office. The notes have been applied to local government roads but the principles equally apply to other assets. Essentially what they do is to generate consistent definition and interpretations by increasing council's understanding of the nature of its road assets. Efforts to consistently value and record the depreciation of assets now lend themselves to improved asset management planning and, in doing so, make the transition to a asset management based measure of depreciation (a la the new 'modified approach' being promoted in the USA with the introduction of GASB 34) a great deal closer.

Expect to see renewed interest in depreciation measures that assist asset management. Also expect to see greater support from Audit and from the Standards Boards.

Sustainability

Expect to see

Some breakthrough in the
reporting of the triple
bottom line

Agencies have long talked about being sustainable, but little has been achieved on a practical front. Why not? And will 2002 be any different? Part of the problem has been the difficulty of measuring the triple bottom line of financial, ecological and social sustainability.

- a) *Financial Sustainability*: what we want to achieve and how are we performing COMMERCIALY (and may include assessment of ECONOMIC performance)
- a) *Ecological Sustainability*: our goals and how will we measure our ENVIRONMENTAL performance, and
- a) *Social Sustainability*: our SOCIAL OBLIGATIONS and how we measure our performance in this regard.

But much work is being done in this area and we may be ready for a breakthrough. SAM will be reporting on this later in the year.

Expect to see

Continued interest in benchmarking, but with more sophistication

Showing up in attempts to define and manage with best practice

And on Performance Measurement

Expect to see intelligent re-visiting of established issues such as

Maintainability

Optimum Time to Intervene

And Risk Management

Benchmarking

There are indications that the emphasis in benchmarking is moving away from benchmarking metric which suffers from difficulties in comparability and encourages a focus on efficiency at the expense of effectiveness. The current moves seem to focus on processes. See next SAM (#80) for further discussion and examples of the current benchmarking issues.

Best Practice

For a number of years now 'best practice' has been undefined and undefinable, a buzz word to throw around whenever more kudos, or more budget, was required. Expect to see a more sophisticated approach to this topic, one focussed on management.

Performance Measurement

Expect to see new performance measurement tools as this area, along with benchmarking and best practice, strives for more coherence and general usefulness.

Maintainability

What is the role of maintainability in a world of rapid obsolescence? Do we have it and does it matter? With changes in the packaging of contracts to involve both capital improvements and maintenance, expect to see these issues surface for equipment and rolling stock assets. The jury may stay out on infrastructure.

Optimum Time to Intervene

When is the optimum time to intervene (for maintenance, renewal, refurbishment) to maximise asset value. Expect to see a more operational approach to the older issue of degradation curves.

Risk Management

Finally, you say! Risk management will take on a series of new dimensions. Global terrorism has generated risk management activities at the operational level. Expect to see more of this built into asset design in the future, probably led by the USA. Here in Australia, the High Court decision last year will inevitably be put to the test, so for many, 'risk' will mean 'risk of litigation'. The more astute agencies will be calculating the risk of not knowing their asset condition.

All in all, an interesting year in prospect!

And Expect all of the foregoing issues to be well represented in SAM in 2002.

Also Watch for

“Step by Step”

Asset management progress is not made in a neat straight line, it is full of detours, backtracks and side-turnings. The trick is to stay focussed on the desired end point while all of this twisting and turning is taking place. This year SAM starts a new feature in which we follow several agencies as they develop their Asset Management Strategies, convert them into Plans and then implement the plans. This is a ‘warts’n’all’ coverage—we will be particularly looking at those areas where things do not go strictly according to plan and how the agencies fall back and re-group effectively to achieve the end result.

“Industry Analyses”

This year also SAM will be looking at what asset management issues are of particular importance to particular industries, it will look at where the industry is now with respect to asset management and where it is going.

“Recent and Current Projects”

SAM will also be starting a coverage of recent and current projects carried out by agencies, looking particularly at the way in which the results are incorporated into the agency’s future operations.

And, finally,

Watch for the **BIG ANNOUNCEMENT** on **APRIL 1st** of the **VS**.

What’s a **VS**? Watch this space!

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