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ASSET MANAGEMENT AND ORGANISATIONAL CHANGE

In this issue we look at some aspects of the introduction of asset management at a time of organizational change.

- In "Commercialisation – the driving force behind asset management?"
  David Piazak, the Director of the Midwest Transportation Consortium in the USA argues that *organizational change DRIVES the adoption of asset management.* **P.258**

- In "Commercialisation: Answer, or different packaging of the problems?"
  we ask are problems with commercialisation so very different to the problems faced without? In other words, *is organizational change really necessary for asset management?*

  The basis for this article comes from the University of Birmingham in the UK, where they are running asset management training courses for senior road executives, details on **P.259**

- Our **Case Study** from the City of Bath in the UK, by Gerry Allen
  describes the experience of *introducing asset management at a time of great organizational change.* Councils that have experienced amalgamation and state agencies that have experienced major structural changes (amalgamation, de-amalgamation, a shifting of the major boundaries as well as the goal posts) will find this honest reporting of interest. **P.260**

- "Outsourcing Glasgow's Secondary Schools" by Eamon Fitzgerald and David Melvin,
  looks at a situation where *good asset management will determine the success of organisational change*. In this significant organisational change, asset management will not be judged by processes, but by outcomes. **P.263**

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COMMERCIALIZATION – THE DRIVING FORCE BEHIND ASSET MANAGEMENT?

David Piazak is the Director of the Midwest Transportation Consortium in the USA,

UK

In the UK major efforts are underway to privatize several major infrastructure systems, most notably railroad tracks, intercity freight and passenger rail services, large commercial airports, and portions of the subway system in metropolitan London.

Privatisation is ideal for the institution of asset management systems. Argues David Piazaks, "There is a clear need for valuation and performance information when a private sector organization is likely to end up with total responsibility for maintaining and renewing a system of assets to a contracted performance level.

"Overseas experience seems to suggest that asset management systems are best put in place when major changes in operational practices demand them. This includes privatizing large portions of systems or contracting long-term for maintenance services."
David Piazak

Australia and Canada

One would expect that asset management efforts in Australia, Canada, and New Zealand would be most analogous to those in the United States since their transportation systems, geographies, cultures, political systems, and institutions are most similar. However, even in Australia and Canada, the adoption of asset management strategies and techniques has been closely tied to long-term network maintenance contracting out practices. In some Australian states, particularly New South Wales and Tasmania, contracts have been put in place for private firms to maintain and perform routine capital spending (for system renewal) on extensive portions of the public roadway system. The anticipated benefits of such arrangements were significant cost savings to the public. In fact, cost savings of up to 20% over in-house operations have been measured with no decline in performance.

"Perhaps the main reason that there has been no real urgency in developing asset management systems for many agencies in the U.S. is simply that, until the mandate of GASB 34, there has been no compelling reason to understand in detail the current value of the transportation system or to track its value over time"
David Piazak

USA

Privatization and contracting out efforts similar to those in Australia and New Zealand have occurred in the United States (particularly in Massachusetts and Texas, where extensive contracting out of routine maintenance has been experimented with but not institutionalized). However, such system-wide, long-term privatization efforts are relatively rare in the United States.

In the U.S., states and localities are putting asset management systems in place largely to support improved decision-making and traditional, in-house operations or, lately, to help develop compliance with Governmental Accounting Standards Board Statement 34 (GASB 34).

COMMERCIALISATION
ANSWER, OR DIFFERENT PACKAGING OF THE PROBLEMS?

The main pressure nowadays is to move roads off-budget, commercialize them and manage them like a business – bring roads into the market place, put them on a fee-for-service basis and manage them like a business.

Road Asset Management

"The road sector is going through an unprecedented period of change. Countries are restructuring the way they manage their road networks, improving management of their road assets, introducing private sector financing and off-budget financing mechanisms, and changing the way they procure road maintenance and control its quality.

These changes have been driven by three main factors.

- First the road sector is increasingly recognised as 'big business'. If main road agencies were publicly listed companies, they would rank among the Fortune Global 500 (i.e. the 500 largest companies in the world).
- Second, the financial needs of the road sector have typically been growing faster than government tax revenues. The road sector has simply outgrown the government's budget.
- Third, the size of the road business, combined with the growing financial needs of the road sector, mean that traditional ways of managing and financing the road sector have become increasingly out of date.

The key concept that has emerged is that of *commercialising* road management and financing, i.e. to subject road management to some form of surrogate *market discipline*, and to finance roads by way of an explicit *fee-for-service* – either in the form of tolls, or a second generation road fund. Commercialisation furthermore requires reforms in four areas that have been known as the *four basic building blocks.*

(1) creating ownership by involving road users in the management of roads in order to win public support for more funding, to control potential monopoly power and to constrain road spending to what is affordable;
(2) stabilising road financing by securing an adequate and stable flow of funds;
(3) clarifying responsibility by clearly establishing the role of different levels of government (including local communities), and
(4) strengthening management of roads by providing effective systems and procedures of management, as well as strengthening managerial accountability."

Ed: But weren't these the same problems roads management experienced before privatisation?

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Courses in Road Asset Management

The University of Birmingham in the UK, in conjunction with Transit New Zealand, is conducting a series of training courses for senior road executives in Road Management and Road Asset Management. If you want to attend the courses they are being run in May and June this year. Details of course content can be found at **http://www.worldbank.org/afr/ssatp/Birmingham.pdf.**

CASE STUDY FROM THE CITY OF BATH:
Systems Change in Step with Organisational Change

by Gerry Allen MBA CEng MICE MIHT

This article discusses organisational issues of implementing large scale departmental systems change and the review of asset management processes. It relates to experiences in Bath and N E Somerset and describes a process of change achieved over a period of about three years.

The Changing Environment

Recently Local Government in the UK has experienced an unprecedented degree and rate of change. Bath and North East Somerset Council was formed in 1996 by a merging of the activities of the former Bath City Council and the former Avon County Council. The County Council disbanded and its staff and assets were divided between five newly established unitary authorities.

Almost immediately the party political leadership of national government switched in a general election and, in time, the legislation requiring Compulsory Competitive Tendering was replaced with a new requirement to demonstrate Best Value in the delivery of local government services.

Progressively, since that time, the new Council has been restructuring organisationally and, at the same time, reviewing the quality of its service delivery, to meet the emerging challenges.

Organisational Restructure

Following a concurrent review of the inherited practices, systems, and competencies in the Engineering and Waste Management Division of the organisation Bath and N E Somerset decided to restructure organisationally and to procure new systems. The concept was to implement an integrated set of systems incorporating the management processes of:-

Highway Maintenance
Street Lighting Maintenance
Streetwork (public utilities activities)
Highway Structures
Road Traffic Accident Studies
Pavement Management (asset management planning)
Customer Services

The author , Gerry Allen, was engaged as an external consultant at the conceptual stage and was initially tasked with review of the systems. He was later employed for the procurement and implementation stages.

The Change Manager Role

In an exercise of this magnitude it was essential that a high level of collaboration between project management of the systems supplier was established. The key decision was taken to utilise the external consultant to project manage the systems change and to take responsibility for its implementation, the introduction of new team-working practices and the co-ordination of new data management and collection routines. This decision enabled the achievement of good collaborative progress during a period when the internal management needed to concentrate on achieving change in the staffing structure of the department.

System selection and the procurement processes took about nine months

System Selection

The inherited systems had been inconsistent when compared one with another, not usefully sharing information between specialist teams, and indeed there was a distinct lack of coherence between the diverse team activities.

> The system selection process itself was capable of being divisive, since a wide range of needs was to be satisfied across a number of work groups. This was resolved by the introduction of a cross-functional project team, with each member representing the systems requirements of their activity area.

A select list of systems providers was agreed and the team undertook visits to authorities using the competing systems. Each of the systems had its own strengths but none of them provided the perfect solution. This was resolved by the agreement of a price/quality decision matrix capable of defining the optimum choice and gaining support from the Council.

"It became clear that although each of the potential systems had advantages, the system most likely to satisfy the largest range of a wish list of needs would not necessarily win on straight price competition. "

Ultimately, the selected system provider was SouthBank Systems plc, who were contracted to supply the appropriate modules of their suited range, to implement the system incorporating historic data and to train the appropriate staff.

The Effects of Systems Change Management were out of step with Organisational Change

Extremely good early progress was achieved on the implementation of this project. The levels of collaboration, enthusiasm and team working were excellent.. Much of this relied upon goodwill and trust. The new organisational structure had been published for consultation purposes and, whilst the need for change could be seen by all, and was widely supported.

However, change will always have an unsettling effect upon individuals and the uncertainty caused can be demoralising. In the event, some staff members felt that the proposed changes impacted adversely for them, and progressively the support and enthusiasm for implementation of new systems and methods of working, waned as appeal and consultation processes dragged on. Some key members of staff found new posts in other organisations. The change management task was becoming increasingly difficult.

Summary of Early Progress

This early work was completed during a period of approximately eighteen months, including the period of nine months for systems selection and procurement

The early work demonstrated the wisdom of, and benefits to be achieved from, the original collaborative processes adopted during the systems procurement and implementation stages. Already the Highways Maintenance, Streetworks and Customer Services modules were operational and effective. The parallel introduction of new Accident Analysis systems and processes had been partially achieved and highway condition data collection for the Pavement Management system had progressed.

A major investment had been made and that part which had become embedded within the department was demonstrating its value. The vision of integrated systems and allocation of resources to provide best value, when measured against competing needs, had become established.

In particular, the Customer Services module, enabling tracking of actions and expenditures against requests from members of the public or Councillors, was really demonstrating its worth in the new Best Value regime. This facility is likely to be expanded from the originally intended range of services.

Perhaps inevitably, in all of the circumstances, as appointments were made into the new management structure, several key posts were filled externally. New direction was required and services of the author ceased at this stage

More Recent Progress

Slower but solid progress was achieved during a further eighteen months after the implementation of the departmental structure

The new management, whilst remaining committed to the original objectives, recognised that the full introduction of the envisaged changes was probably not achievable within the human constraints of the organisation. The inherited Street Lighting Management system has now been upgraded, without reference to integration with the departmental systems but a degree of integration is now being achieved by the adoption of common highway network descriptors.

Whilst the full vision of Asset Management Planning was outside the reach of in-house technical competencies, a small asset inventory team has been established. Condition monitoring and Asset Management advice has been out-sourced to a specialist service provider.

Encouragingly, the improved integration of systems is still being sought and the department now has ambitions to incorporate a new Environmental Management System into the originally envisaged package.

Lessons to be learned from this Case Study?

- Recognise that achieving change is the biggest issue—early appointment of a change manager can make all the difference
- Plan for the best achievable solution, taking account of needs, constraints and competencies of the organisation
- Recognise the impact on organisational culture and treat it as important
- Allow time—the progress reported here took place over three years
- Flexibility is essential
- And recognise that the end result may not be as originally conceived but should represent the greatest improvement achievable

GLASGOW'S SECONDARY SCHOOLS – WHERE ASSET MANAGEMENT WILL BE THE TEST OF SUCCESS OF ORGANISATIONAL CHANGE

After years of compulsory competitive tendering, the UK is looking to genuine private-public partnerships (PPP) as the way forward. Here is a short extract from "The UK Private Finance Initiative and Glasgow Schools" by Eamon Fitzgerald and David Melvin, presented at the CIB70 conference in Brisbane last year.

What is being done

In February 2000 Glasgow City Council approved plans for the UK's largest secondary level investment programme, a £415 M public-private partnership (PPP).

In the private finance initiative (PFI)- type deal a consortium, named '3ed', which includes a building contractor, FM service provider and one of the UK's major banks, will modernise, rebuild and maintain the city's 29 secondary schools under a 29 year contract. Also included is the provision of extensive state of the art IT facilities.

The deal will inject approx £200 M of buildings by mid 2003, plus an extra £200M of maintenance work, all in return for a single annual service charge of some £40.5 M.

Under the agreement signed, the premises return to the ownership of the City at the end of the contract. All security, janitorial and cleaning services, transfer to the consortium but, unusually for the pattern of similar deals negotiated elsewhere in the UK, catering is excluded and remains in-house with the City's established direct service organisation (DSO).

Background

In Scotland, and in particular Glasgow, senior ('secondary') school provision is overwhelmingly dominated by the local authority. The City Council, in common with many other UK large education authorities experienced a rapid expansion of the school system in the 1950s and 1960s as central government channelled funds to local authorities to deal with the backlog of investment in modern school buildings and major demographic change.

Later, as investment eliminated the immediate post-1945 backlog of spending on the physical fabric of schools, the City began to experience an oversupply of school places which reached 40% by the late 1990s. A population flight beyond tightly drawn boundaries to wealthier suburbs and beyond worsened the crisis.

Financial pressures on metropolitan authorities, particularly in areas on industrial decline, are immense.

The UK system of local government finance adds another twist; 85% of Glasgow's expenditure is financed by central government grant and that's largely tied to numbers in the resident population.

From experience, old urban centres everywhere cannot easily shed burdens as fast as they lose population so the building fabric of Glasgow's grand Victorian infrastructure along with its post 1945 supplements soon began to show obvious signs of under-investment.

Assessment

The choice of a PFI approach for the provision of schools premises and support services can be regarded as novel; it contradicts the normal expectation that for large capital intensive projects with a substantial emphasis on effectiveness and limited competition, the public sector will dominate.

Where Asset Management becomes essential

"What is evident is that sub-contractors and FM contractors alike will have ample reason to ensure that best practice in the management and specification of service performance will be firmly embedded in a mutually advantageous long-term relationship".

Equally, the survival of an in-house DSO in a normally 'total FM' environment where the demands of risk management are considerable, brings sharp relief to the issues which confront all public service service providers who seek to develop and prosper in the new environment. The introduction of the DSO to otherwise total FM package of premises management can be justified in terms of the DSO;s experience in managing a lower-risk acitivty and one where an established relationship with the client and service users is a valued consideration. …

There are inevitably questions that can only be answered in the fullness of time but the initial phase holds out considerable promise for FM in its ability to provide a rational framework for monitoring and developing the school service under the new PFI/PPP arrangements."