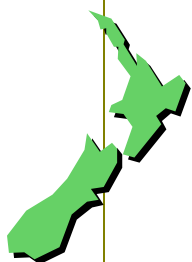


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**From New Zealand****CHECKLIST FOR SELF REVIEW OF
ASSET MANAGEMENT PLANS****Asset Management Plans**

Asset management plans have been prepared by councils in New Zealand since about 1995. In the first few years the plans were of exceedingly variable quality. But within a relatively short period of time, a few councils began to stand out as leaders and their work stimulated improvement by others.

In June last year a group of practitioners comprising Dean Taylor of Wanganui DC, Stephen Garlick of Hutt City, Neville West/Louis Boeyen of Gisborne DC, Michael Voss of Tauranga DC and Paul Cooper of Rotorua DC started looking at the issue of Minimum Standard AMPs.

The group plus Kevin Simpkins of the Office of the Auditor General reviewed a check list that Hutt City had produced, and came up with the Self Review Check list that is provided on pages 268-272

From Planning to Policy - Coming Soon!

New Zealand was a world leader in requiring councils to prepare asset management plans and they are set to be a world leader again when they move from a planning to a policy orientation in a new Local Government bill currently in debate. It is set to radically change the context in which asset management is carried out. The aim is to empower communities to exert greater control over their lives and over the environments in which they live. Asset management decisions will need to take into account more than council efficiency; the new focus will be on strategy, policy, effectiveness and accountability. We will look at the potential impact on asset management of this far reaching bill in a later issue.

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A COMPARISON

Engineers

- 1. Like wizzy gadgets
- 2. Like to have all the answers
- 3. Are focused on asset operation and better ways of doing that

Accountants

- 1. Like wizzy gadgets, but have to justify the cost
- 2. Have all the answers but not the ones the Engineers want
- 3. Are focused on asset return on investment and replacement planning

Courtesy of J D Edwards, New Zealand

STRATEGIC ASSET MANAGEMENT WHO DOES IT BEST, ENGINEERS OR ACCOUNTANTS?

According to Stuart Locke, Dept of Finance, University of Waikato Management School and Neville Smith, Property Consultant,* neither the pure 'accounting approach' or the 'engineering approach' is sufficient to provide good strategic asset management.

They conducted several surveys of property asset management in New Zealand and found that less than half of the agencies surveyed had asset management plans and one third of the respondents did not make a strong link between improved property asset management and reduction in the organisations overall risk.

Here are some of their findings.

Engineering focus - efficiency

Engineers focus on maintenance of productive capacity and keeping assets in good order. Asset management, from this perspective, focuses on the operating efficiency of assets. Such a focus readily translates into an asset management plan.

However, a consequence of this approach is that the plans tend to be prescriptive in nature, eg change filter every 3 months, check fuel, change oil. The provision of a performance format, eg temperature maintained 18 +/- 2 degrees, operating at 95% efficiency, etc, provides useful guidance from an efficiency perspective.



*The authors presented their ideas in a paper entitled "Strategic Asset Management for New Zealand Local Government" to the BIIA Conference "Local Government Asset Management" held in Auckland, 15-16 April 2002



The alternative of viewing the assets in terms of their service potential is not readily reconciled with the prevailing engineering focus. To view the assets from the stance of service potential requires considering them both separately and in a portfolio context, focusing on what the assets are used for and how appropriate it is for the service it provides. The attributes of the asset then become as important as the condition – eg 'open 8.30-16.30' 'easy access', etc. The strategic asset manager needs to ask how the attributes rank on, say, a 1-5 scale.

Accounting focus – accountability

The ascendancy of the accounting focus has arisen directly from legislation and the role of Audit, from such requirements as having long-term financial forecasts, asset management plans, asset registers and valuations. The accountant needs to account for these accurately in the balance sheet.

However, a consequence of this approach is that building values are typically determined by indemnity values required for insurance purposes – emphasising market values or written down replacement values. An optimised deprival value, on the other hand, would pick up whether the asset was really what was needed. (If it truly answered the question "How much would you be prepared to pay not to lose the service of this asset?"). If the two forms of valuation are wildly different, this is an indication of the need for a change in strategic direction.

Strategic focus – effectiveness

Effective organisation – A common barrier to authority-wide asset management planning is a culture of front-line services 'owning' the property they occupy/use. This undermines an authority wide strategic approach.

An example of this can be seen in parks and gardens where there are often largish areas incorporating maintenance workshops although external contractors could provide the services. The old workshops provide all staff with covered car parks and indoor basketball courts for lunchtime but are not really the best use of assets for the ratepayers.

Effective funding – Another common barrier is the political cycle, funding only being guaranteed 12 months at a time does not support long term planning.

Effective structures – Where internal rents are introduced to reflect the opportunity cost of occupying space the rental is normally set as a budgetary item and the option of relocating to alternative space in the confidence that the rental allowance will continue in future years at the same amount is not present. Any cost savings are lost to the Unit. Similarly the potential to release assets by moving Units into more appropriate premises is not seen as worth the struggle.

Ed: The authors conclude that "If Councillors understood the processes of service delivery and the resource consequences of policies implemented they would look for a closer alignment of asset utilisation and strategic planning."

We will soon have an opportunity to test this assumption when the new local government bill currently being debated passes into legislation within the next several months. More on this in a later issue.

CHECKLIST FOR SELF REVIEW OF ASSET MANAGEMENT PLANS

ASSET GROUP.....



For each item, the reviewer checks the state of compliance or P (pending) and the date. During the development phase of the asset management, a comments column would be a useful attachment. The dated checklists can be used to check the progress of your asset management planning over time. The New Zealand authors have prepared a template version and it is available and it can be accessed, with many other asset management resources, from the www.amqi.com website. Go to the **library** and look up 'asset management plans- self review checklists.'

COMPLIANCE ✓ x P	DATE
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1 LINKAGES/RECONCILIATION

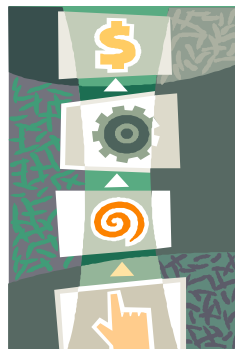
- Is there a clear linkage between the AMP and other council plans ?
- Is there a clear linkage and reconciliation between:
 - The Asset Valuation
 - the fixed asset register (FAR)
 - asset management plan (AMP); and
 - long term financial strategy
 demonstrated in the asset management plan?

COMPLIANCE ✓ x P	DATE
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2 SERVICE STANDARDS

- Does the plan define the service(s) to be provided?
- Does the plan define the standards to be achieved?
- Are service standards measurable?
- Are key performance measures for assets clearly set out?
- Are there auditable processes to measure the level of achievement of
 - Service standards?
 - Asset performance?
 Is the basis for customer service standards clearly set out in the plan (actual, target etc)?





3 RECORDING OF ASSETS

- Does the plan contain a comprehensive description of the asset system covered by the plan?
- Is the level of detail at which the assets are recorded defined, together with a statement of the reason for the level of detail which has been adopted?
- Are the sources of data for the AMP set out in the plan?
- Are critical assets identified in the plan?
- Does the plan assess both asset condition *and* asset performance?
- Is there a clear description of the process used to determine the age, condition and remaining life of assets?
- Are the lifecycles (baselives) which have been adopted for different assets clearly defined?
- Is the basis for the lifecycles (baselives) adopted for the assets clearly set out? Do the lifecycles reflect the experience of the Council?
- Is the process used for determining the remaining lives of assets clearly set out in the asset management plans?
- Are the baselives and remaining lives used in the asset management plans consistent with the baselives and remaining lives used in the asset valuation?
- Are there defined quality assurance procedures described in the plan for ensuring the data is of the best practical quality?
- Are assumptions made with respect to data in the plan clearly stated?
- Is there data on usage trends and predictions?
- Does the asset management plan specify mechanisms for the measurement of actual performance of assets?
- Is there a clear reconciliation between GIS, the Valuation database, and the statement of assets in the asset management plans?
- Is the level of asset component adopted consistent between the asset management plans and the asset valuation?
- Is there a defined process to verify the integrity of the asset database (incl GIS)?

4 ASSET REGISTERS/ASSET VALUATIONS

- Is the basis of asset valuations and the process followed to produce valuations summarised in the plan?
- Is there a policy on asset revaluations set out in the plan?
- Does the Plan state how the replacement costs for major assets have been derived?
- Is there a defined policy in the asset management plan on how it will record asset component information in both AMP's and the FAR and how it will reconcile between these two systems. (Particularly in respect of additions, renewals, decline in service potential and disposals). Is the policy clearly set out in the asset management plan?
- Is there a clear policy and process set out in the asset management plan to add new assets/components to the fixed assets register and the GIS and to periodically amend the AMP's to incorporate these changes?
- Is there a clear policy and process set out in the asset management plan to identify components which are physically replaced and remove them from the fixed assets register (FAR). (writing off any residual amount) ?



5 MANAGEMENT STRATEGIES AND PROCESSES

- Is the role of support systems such as the AMS and GIS clearly set out?
- Is it set out in the plan how "demand management" is dealt with?
- Is there a process in the plans to prioritise works?
- Is there a policy in the plan on the use of cost benefit analysis?
- Is the cost benefit process described?
- Is there a policy and process for considering alternatives for renewal and development expenditure and for determining an optimum course of action?
- Is there a risk management process set out in the plan?
- Does the risk management process include:
 - An assessment of risks?
 - Adopted strategies to manage risks?
 - A statement of residual exposure to risks?



COMPLIANCE ✓ x P DATE

6 FINANCIAL POLICIES AND PRACTICES

- Is capital development expenditure clearly distinguished from renewal and operating expenditure?
- Are there appropriate definitions of these types of expenditure and policies on accounting treatment in the asset management plan?
- Are policies which set out how the decline in service potential will be calculated and then accounted for in respect of each type and component of infrastructure clearly set out in the asset management plan?
- Has a policy on depreciation of assets been clearly defined?

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7 DEPRECIATION

- Is it clear at what asset level (component level) depreciation is being calculated; and why this asset level (component level) has been used?
- Is it clear how depreciation rates have been determined?
- Has the basis for useful lives of assets been clearly defined? Do the useful lives reflect the experience of the Council?
- Are the depreciation rates consistent with the timing of renewals in the renewal programmes?
- Are assets depreciated over their remaining useful lives – not total useful lives?
- Is depreciation calculated on the depreciable amount (depreciated replacement cost less non depreciable amount less residual value)?



COMPLIANCE ✓ x P DATE

8 PROGRAMMES AND PLANS

- Does the asset management plan include a maintenance plan for the asset system?
- Does the asset management plan include an operations plan for the asset system?
- Does the asset management plan include a renewal plan for the asset system?
- Does the asset management plan include financial forecasts covering at least the next 20 years?





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8. PROGRAMMES AND PLANS (cont)

- Is the basis for the financial programmes clearly set out?
- Do the financial forecasts clearly differentiate between:
 - Expenditure on operations and maintenance?
 - Renewals for depreciated assets?
 - Capital development?
- Are the financial programmes:
 - Based on known and provable unit costs?
 - Complete, including full costing of labour, material and services (including professional services) whether provided internally or externally?
 - Logically and clearly compiled?
- Are usage trends and predictions reflected in asset development programmes?
- Does the plan provide an indication of the long term (>20 year) financial scenario?
- Do the financial forecasts clearly differentiate between expenditure and funding?
- Does the plan include a funding strategy as well as expenditure programmes?
- Is there a statement on the accuracy and sensitivity of financial projections?

9 IMPROVEMENT PLAN

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- Is there a separate improvement plan section in the plan?
- Is there a defined process for monitoring / review of the improvement programme?



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10 PLAN REVIEW, UPDATING AND STATUS

- Does the Plan contain a defined annual review /updating process including:
 - Annual updating of the financial programmes?
 - Updating of the financial programmes to present day costs?
 - A record of when the updating was completed?
 - An overall review of the Asset Management Plan at least every 3 years?
- Are reviews actually occurring in accordance with the defined process?
- Is it clear who the asset management plan has been prepared by?
- Has financial information been peer reviewed or prepared in conjunction with a suitably qualified person? Is this stated in the plan?

And, finally

- Is the asset management plan a firm commitment of Council (eg approved and adopted by governing body)? Is the status of the plan clearly stated?