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A WEEK OF DISCOVERIES

Whilst thinking about how to present to the forthcoming American Public Works Conference in Kansas City, I realised that many of the communication difficulties that we face as asset managers could be because the notion of an asset life cycle - so fundamental to everything that we do - is not as well understood as we, who are in the business, may think.

What is worse - this situation may be of our own making!

The notion of a life cycle, where assets are created, maintained and disposed of, and where these actions *require differing amounts of resources over time*, is a pretty fundamental concept. Everyone needs to know, but in different ways and for different purposes.

- **Elected members** and all political decision makers need to understand the impacts of life cycles in terms that they can relate to – current and future service delivery and risk

- **Policy, planning and finance people** need to understand how to measure it so that they can plan to match future revenues and expenditures

- **Technical people** need to understand it in terms of long term optimisation rather than short term

My experience suggests that the life cycle notion, however, is not as well understood as I had previously thought. The good news is that once understood, enthusiasm for asset management does not look back; attitudes change and abilities improve. .

So, if you would like more support for your asset management endeavours within your organisation, focussing on the implications of asset life cycles could be the way to go.

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THREE DISCOVERIES

Discovery 1. Vision and Technology

You may recall an earlier article in SAM (Issue 20, Oct 8 1999) where Peter Bernstein, author of "Against the Gods" mused over the fact that it took until 1654 for probability theory (on which our current notions of risk management rest) to be discovered. It was inspired by a gambling problem and Bernstein asked why the Greeks who were good mathematicians, and enthusiastic gamblers, had not discovered it much earlier. The answer he decided was twofold

One, they didn't see their future as manageable. ('Order' resided in the heavens whereas life on earth, they believed was chaotic and at the whim of the gods.)

Two, they didn't have the zero! The Hindu numbering system and the concept of zero was yet to be discovered.

One could say that they failed to apply their mathematical ability to managing the future because they did not envision a manageable future and they lacked the tools to do the job.

In other words, they lacked the Vision and they lacked the Technology.

Both are necessary, Vision *and* Technology.

You can see that this when you realise that the Arabs - who did have the concept of zero, and were equally good mathematicians and also keen gamblers – also failed to develop probability theory with which to manage their future. The principal reason why they didn't – when they could have – is that they, too, did not see the future as predictable, or manageable. No Vision!

This is of immense importance for asset management.

For if our decision makers do not see their asset problems as manageable they won't try to manage them! They need the understanding that ageing assets, increasingly stringent environmental constraints, rising expectations and changing standards is, in fact, something that they can, and must, manage.

But as we look around what we see is an increasing number of agencies, knowing they have a problem, but looking for someone else to solve it! For this we, the asset managers, may have to accept some of the responsibility because, often, we have sold decision makers on the idea that asset renewal, and asset management generally, is a problem that *can only be solved by more money*.

Do our decision-makers see asset futures as manageable?

And if they do, how much of the responsibility is ours?

Helpless Victims?

Agencies are reacting pretty much the way the Ancient Greeks and Arabs did, as if they were helpless victims of economic life – subject to the whim of the gods. And if the gods (a.k.a. higher levels of government, or head office) won't give them any more money, then what are they to do? They resort to helpless victim status. And this can happen at all levels in the organisation.

“I didn't get all the money I wanted for maintenance, so I've told them
‘If anything goes wrong, it's all your fault!’”

Ever heard this? Worse, Have you ever said it?

When asset renewal is presented as a 'more money' problem, we are, in effect, telling our elected members and decision-makers, that there is only one solution – and that it is not a management solution. We are encouraging them to shirk their responsibilities, and in the process destroying their recognition of the need for the very services that asset managers can provide.

Doesn't make much sense, does it?

Yet, this is what is happening with things like the infamous 'Infrastructure Scorecards' and the ubiquitous logs of backlog maintenance. They cause a bit of a stir and a flurry, but nothing really happens – because nothing can happen. These 'one solution' proposals are the antithesis of asset management.

We have to change this if we are to progress. What it takes is a framework to think within – and that, itself, is a technology. (Want the framework? - Then follow the Step-By-Step program with the six pilot councils for that is what they are developing—see pp 348-351 in this issue.)

Discovery 2: The Wrong Focus

My second discovery is that the reason that we have not been doing too well in convincing the elected member or key decision maker of the importance of asset management is that we tend to get so enthusiastic about what we are *doing* that we fail to sell the benefits of what it *achieves*!

Maintenance costs up, Services down!

In fact we can lose sight of the benefits altogether. In many cases with the outsourcing of maintenance, the costs have gone up in order to maintain facilities—and *services have had to be cut to support the maintenance bill*. So we have 'better assets' but 'worse services'! Are we losing the plot here? No wonder some decision makers are not enamoured of asset management, they do not see it as productive, understandably so.

How is Your Maintenance Policy promoting Service Delivery?

In what way are your maintenance services serving the objective of your agency? Full marks to the Housing Authority that argued recently that it was now a welfare housing organisation, serving a clientele that were 'doing it hard'. These people were not able to fend for themselves. It was therefore part of the maintenance strategy *to do what was needed to serve the client*.

Discovery Three: Implementing Strategic Asset Management is a lifetime thing

We often say that assets (and therefore asset management) is not an end in itself, but a 'means to an end' and this is true – but *whose* ends?

When you think about the means-ends question, the only rational answer is that it must be the ends desired by the key decision makers—in other words, the service delivery objectives.

We need to keep this very clearly in the forefront of our minds all the time when getting the asset management message through to elected members/ key decision makers. This is my third discovery – that selling the asset management message is not a case of a 'once-off' effort, but requires 'eternal vigilance' by practitioners.

It is so easy to slip back into more operational objectives—the quality of the building and not the quality of the services supplied out of the building.

If you doubt the truth of this statement, look at any list of performance indicators that have been drafted with the explicit intention of being outcome focussed—and then see whether or not they slip back into measuring inputs about halfway down the page. Remember 'Eternal Vigilance!'

STEP BY STEP: The story continues

Quick Gains

Although the aim of asset management is medium to longer term improvement, a few quick gains never go amiss. In the last issue we introduced two of our pilot councils—Northern Areas, a small rural council with declining population and Marion City Council, a large and growing metropolitan council. Both councils were able to take immediate steps to improve their situation as a result of the first two day on-site visit.

Here are some of the discoveries that Northern Areas made. Maybe you can benefit, too?

Reducing that deficit. You will recall that Northern Areas Council had a deficit of over \$1M (after capital revenues) on an operating budget of \$6.1M. While deficits are very common among councils, it is an indication that current ratepayers are using up more capital than they are paying for – not a long-term sustainable position. On examination, council was found to be depreciating the earthworks component of its road asset. Earthworks are to be considered as land (for that is what they are, just formed land) and are not depreciable. This has had the effect of reducing the deficit by about half. But Northern Areas are not cheering too soon, they realise that they have some serious work to do in improving the quality of their asset register before they can be sure that things are really better than they seemed.—still, it is an encouraging start.

Conducting own valuations will save money and increase understanding

The asset management team were advised to do their own valuations and to go outside only when the valuation task was a specialised one. Roads, the major asset of this council, can be valued appropriately by assigning each road to its appropriate classification in the road hierarchy—to determine the quality required, and then choosing the appropriate unit rate to apply to each road length. Calculating the depreciated value requires assessment of the economic life for each class of roads and the remaining life of individual road segments. This requires a bit more research—and that is where the increased understanding comes in. All councils need to come to grips with the life cycle of their assets and *we will be reporting the techniques used later in this series.*

The first step to managing risk is to know you have it!

Northern Areas is experiencing a large increase in the size and speed of trucks handling grain and other produce. This is not confined to this council area of course, but in the case of Northern Areas, the problem is a particularly difficult one because of the narrowness of some of the existing 'farm gate' roads and the winding, hilly nature of many of the routes to the grain silos. By focussing only on the damage to the road surface, the council was not looking at the other risk—the risk of accidents with other vehicles on the road. Did these restricted access vehicles pose more of a problem than the traditional semi-trailers? Clearly more knowledge was required.

The next step is to seek assistance.

Council was advised to write to Transport SA to clarify the safety issues of restricted access vehicles and to seek their advice on what to do about roads that do not conform to the draft requirements that TSA have issued. This has the immediate effect of reducing liability for accidents but it does not limit the level of accidents itself. Council was advised to consider the exact nature of the problem with restricted access vehicles. Again a knowledge issue.

A radical strategy for road priorities?

Like many councils, Northern Areas does not have the funds to upgrade all of its roads to the new standards now being demanded by the draft TSA guidelines. They hope that these guidelines will not gain the force of law. What can they do where the budget does not equal need? What must they do? Clearly prioritisation is needed.

Most councils allocate their scarce council funds towards maintaining their most important roads. In many cases these are regional roads or roads of economic significance—roads that could perhaps attract funds from other sources. Sometimes the most important roads are arterial roads and councils pick up work undone by the state road authority because they reason that the quality needs to be improved. Generally the last roads to be allocated funds are local roads, the very roads that need to be paid for out of council funds because they can attract no other.

What if councils in this position allocated their own funds first to their own local roads and then worked as a regional group to address the regional roads and roads of economic significance? These roads can attract commonwealth funding. By failing to pick up the undone work of the state authority, the council would be forcing the state to fund its own responsibilities. Both of these actions would increase the funding available and the overall quality of the council roads, important in rural areas.

Not a 'quick gain' perhaps. But certainly 'food for thought' - and for regional action.

INTRODUCING TWO MORE PILOT COUNCILS

3. A rural council experiencing considerable economic and population growth and changing demographics.

BACKGROUND

Alexandrina Council is facing major growth and change. Population has increased by over 2% p.a. for the last five years and now stands at around 18,000. The coastal towns of Goolwa and Port Elliott have for many years been simply a summer holiday retreat with 50% of ratepayers being non-resident, but with the ageing of the population and a general desire for people to live along the coastline, population in these towns is expected to double within the next 10 years. Dairy farming, viticulture and tourism are all growing strongly. A major problem facing this council is how to manage general economic and population growth and the increased expectations it may bring.

FINANCIAL SITUATION

Council manages physical assets valued at 94.5m, with depreciation calculated at \$3.4m. The council is currently running a deficit of \$1.2m, or 10% of its operating revenues. After capital grants this deficit falls to \$0.79m. Its revenue stream has growth potential.

ASSET MANAGEMENT STATUS

Alexandrina has a stable council with well-articulated values and objectives. Considerable planning has been undertaken. The Council has a three-year strategic plan; a ten-year infrastructure and financial plan and well established planning processes. Current intentions of the Council are to greatly step up the level of road re-sealing and re-construction. However, there is little current data on age or life of road and other assets.

REASON FOR REQUESTING TO BE PART OF THE STEP-BY-STEP PROGRAM

This council is well aware of the outcomes of the South Australian local government infrastructure study, as reported in "Wealth of Opportunities" which showed that, for councils overall, renewal needed to increase three-fold over the next five and more years. However, whether this is true for Alexandrina at the present time needs further exploration.

THE PLUS SIDE

Council staff are innovative and have moved some way down the track in developing their plans.

WHAT CAN THIS COUNCIL DO?

How will this council balance the new demands brought about by growth with the demand of renewal? Will it be able to maintain its clear values for community self sufficiency in the face of changing demographics and the demand for increased services? Will its investigations into asset lives and ages change its expectations? Will its plans prove flexible enough to take on the new asset knowledge that will arise from current research? Stay with us as we find out.

RURAL CITY OF MURRAY BRIDGE

4. A rural council with great growth potential and development as a transport hub

BACKGROUND

The Rural City of Murray Bridge Council, with a population of over 19,000, is situated just over an hour from Adelaide in the rapidly growing Murraylands region and on the national transport route from the eastern states to South Australia, Western Australia and the Northern Territory. The Agriculture in the region ranges from broad acre cropping and livestock production to intensive horticulture. Over recent years a number of small and medium size manufacturing establishments have developed within the region. These industries have benefited from the strategic location of the Murraylands as a regional and national centre for transport and warehousing distribution. Median house prices have risen 26% over the past 12 months.

FINANCIAL SITUATION

Murray Bridge has an operating budget of \$12.8m. Depreciation is \$3.5m on physical assets (excl land) of \$67.7m. Of this, \$48.5m represents infrastructure, mostly roads. The deficit of \$2.66m is about *% of operating revenues. It falls to \$1.18m after allowing for capital grants, subsidies and contributions.

ASSET MANAGEMENT STATUS

There is no formal asset management strategy although aspects of the strategy relating to the needs of an expanding city, especially the recreational and sporting facilities required have been well developed. Council has a strategic plan, master plan and departmental business plan and a policy on asset management is being prepared for Council.

REASON FOR REQUESTING TO BE PART OF THE STEP-BY-STEP PROGRAM

The Council has adopted a policy of stabilisation and of improving the image of council after some previous poor publicity and disruptions. It sees sound management as the key to its recovery. Two years ago a full time Community Land/ Asset Management Officer was appointed to address strategic planning and policy matters. The Step-by-step program is seen as a means of achieving strategic objectives.

THE PLUS SIDE

This council has appointed an Asset Manager with responsibilities for community land, infrastructure and buildings. Growth provides greater flexibility for necessary change.

WHAT CAN THIS COUNCIL DO?

This council is facing strong economic and population growth. How will it manage demand for growth assets? What pressures will this put on existing assets and how will they deal with them? What will they discover as they investigate their asset portfolios? How will the council respond to asset management issues? Stay with us!

Just launched!

The Virtual Asset Management Community Site is unique

If you believe in the power of asset management to improve your community, enhance service delivery and reduce costs and you would like a place to go where you can meet others like you, where you can develop a sense of community, exchange ideas and seek information,

Where you can boast about your achievements to others who will appreciate the effort involved, where you can share your frustrations,

Where you can make contact with others at home and abroad who have interests similar to yours?

Where you can find someone who has, perhaps, tackled the problem you are now facing and can tell you what to do - or at least what to avoid!

Where you can engage in brainstorming current issues, testing your knowledge, and improving yourself as an asset management 'professional', then

Take a sneak preview

Become a member (it's free!) and you will be able to access the Members Database. You want to find someone in the technical field in the water industry in the United States? No problems! Search either by country, role, or nature of assets. You can read what members have to say about their work and interests and contact them securely from this site. And they can contact you.

Make your networking more productive. (Remember the last conference you went to and you learnt as much from the other delegates as you did from the presentations and you wished the coffee breaks were longer so you could talk some more—well, now you can. And the beauty of the Virtual Asset Management Community is that you don't have to spend a fortune, you can do it any time you like, and you don't have to come home to an overflowing in-tray)

It's up to you. AMQ International is providing the community the place and the opportunity. What you do with it is up to you, the asset management community. Use the "Contact us" coupon for your ideas. All suggestions will be personally responded to.

Go to

www.amqi.com