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## What's New Around the World

I have just returned from three and a half weeks travelling around the world to seek out information and ideas that will help you as an asset manager.

As a result, I have secured the pre-publication, web serialisation rights to a new book on Maintenance and Asset Management Information Systems (more on this in the next issue); discovered more about asset management applications and issues in other places (see the "USA Update" in this issue); and met and discussed issues with asset managers from the USA, UK, Hong Kong, Iceland, India, Japan, Malaysia—and even Mongolia.

We are all facing similar issues—to privatise or not, and what are the issues to take into account if we do? (see our "Outsourcing Refresher" guide in this issue); how to achieve greater service delivery for less cost, environmental damage and risk; and how to overcome political inertia. These are all issues on which we have common cause and one country's, one state's, one city's, or one agency's solutions may have benefits for many others.

In just over 3 weeks I can but scratch the surface of solutions being tried by others—but I can connect them and you!

I estimate that for each hour of actual contact time I would have spent about 4 hours in transit or waiting around—and, in addition to time, the whole trip cost almost \$20K. As glamorous as foreign travel seems (and recent events have definitely taken the gloss off it!) there has to be a more efficient and cost effective means of communication.

That is why I have established a base for communication between those interested in asset management on [www.amqi.com](http://www.amqi.com). The world is becoming more inter-dependent. Find out why and benefit by becoming a member of the Virtual Asset Management Community today—and tell everybody else! It is that rare thing (like friendship) — valuable but free!

*Penny*

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## **COST SHIFTING**

### **Cost shifting is coming from above and below**

In each one of the six 'step-by-step' pilot councils we found that there was great pressure on councils from 'cost shifting'. This is normally experienced when a lower level of government is forced to take over the responsibilities previously provided by a higher level of government – nearly always without a commensurate transfer of funds! In recent years this has been rampant with the Federal Government shifting its responsibilities onto the States and the States shifting responsibilities onto Local Government.

But we also found that cost shifting is increasingly coming from another direction – from the community itself. Things that the community was once prepared to do for itself, it now is less likely to wish to tackle. We found that in many areas there was a decline in volunteerism. This could be related to an ageing population, or it could be due to 'burn-out' of existing volunteers without a suitable succession plan in operation. In the past, governments have not encouraged such volunteerism, and problems associated with risk liabilities have recently had an enormous impact on the groups that have remained.

### **Costs have been accepted, largely uncritically**

Cost-shifting has 'crept up on' many communities. The services previously supplied by others have been taken on as additional responsibilities by councils (and by State Governments) without serious consideration of the importance of these new responsibilities and the services that they inevitably (but maybe 'invisibly') displace.

### **Dealing with Cost-Shifting is Complex.**

The first task however is to recognise it – and quantify it. Accepting an existing service – a recreation centre, for example, from a private company that has gone under, or the continuation of a previously provided service by another level of government combines

- The task of evaluating the benefits and costs of a new asset or service AND
- The task of evaluating the benefits and costs of dispensing with an existing asset or service

There is a presumption that if an asset or service exists, it should continue to exist. *This needs to be challenged.* Not all 'good things' are worth the costs involved. Such a challenge can only be mounted within the context of the total needs of the agency or community. In other words, it can only be challenged within the context of an Asset Management Plan, underpinned by a strategy that looks at total requirements and objectives over the next 10 or more years. For this, a good understanding is needed of current assets and their costs of operation, maintenance, and renewal.

(continued on page 372)

## **OUTSOURCING: A REFRESHER COURSE**

*This set of criteria come from the New Zealand Auditor General who reports that agencies saw the requirements as good management practice which should be implemented regardless of their legislative obligation.*

*Starting from a position that no agency should conduct a service in-house unless it is satisfied that the advantages of this option for the ratepayers or customers clearly outweigh those of any other option, the following criteria can then be applied.*

### **Criteria**

#### **Ability to specify and enforce quality.**

Where it is not possible to pre-specify some measure of quality to a standard able to be incorporated in a legally enforceable contract document, or where adequate performance monitoring is impracticable, staff service provision should be the norm.

#### **Adequacy of market of external contractors.**

Where a service is specialised and external contractors are extremely few, so that the market mechanism will not operate satisfactorily and there is a real risk that following the loss of the in-house alternative the agency could be faced with a monopoly supplier, contracting should not be favoured.

#### **Centrality of service/proximity to the democratic or managerial heart.**

It is recognised that some key areas of policy advice or the operation of the agency would be inappropriate for external delivery.

#### **Provision for emergencies.**

As the agency retains responsibility for all its functions at all times, it needs to be satisfied that it has adequate availability of service in case of emergency. Where this cannot be assured in a contract (and in many cases it can be) there will be a need for an agency workforce, which will therefore need a baseload of work for normal circumstances.

## **OUTSOURCING: A REFRESHER COURSE (cont.)**

### **Need to retain a critical mass of staff.**

Whilst it is possible for many functions to be provided by contractors, in many cases the agency needs to retain sufficient staff to be able to specify the services and standards needed, to prepare and let the contract, and to supervise its performance. Similarly, experienced and skilled staff are required to provide policy advice to senior management and the board. In many disciplines such experience and skill can only be developed and retained through 'hands-on' experience.

### **De minimis.**

The de minimis criterion relates to the recognition that where the costs of a service or project are small, then the costs of preparing specifications, seeking tenders and contractors preparing their bids, are out of proportion to the value of the work. This problem can be overcome when many similar jobs arise by the employment of a term contractor.

### **Public interface.**

This can be important when enforcement or other activities are involved, or when agency policy has to be put before ratepayers or other members of the public.

### **Integration or synergy.**

Where the separation of one activity from others that cannot be incorporated into the same contract will result in significant loss of the benefits of integration, the use of staff will be favoured.

### **Direct costs.**

Where one of the foregoing criteria is insufficient to justify in-house provision, the direct cost comparison will be the main consideration. Such comparison should be comprehensive and fair. The costs may reasonably include any costs of redundancy and differences in costs of monitoring. Where a service is capable of being contracted out, the overhead costs for an internal service should not include costs that will be incurred anyway. Where the agency believes that it gains superior service through an internal department occupying space in the agency building, that advantage should be acknowledged in the comparison.

# USA

## ASSET MANAGEMENT UPDATE 2002

*When it comes to understanding asset management anywhere — follow the dollar! ‘What gets paid, get’s done’. Here are the results of four days exploration at the Public Works Congress in Kansas City.*

### A Correction Focus

Public works in the USA are the province of councils who have access to sales taxes as well as council rates. For this they are often the envy of Australian councils that have such limited revenue raising abilities.

There is a price to be paid for this access; ratepayers have to directly vote the extra taxes and they tend to be reluctant to do this for purely preventative asset management measures. Karen, an engineer with the Kansas City Public Works, took much delight in explaining to me the extensive (and expensive) city road developments designed to speed up traffic arriving and departing from a recent privately constructed speedway that is used only three times a year (nine days in total) yet looked truly horrified when we discussed funding for asset management. “But that’s coming out of our own pockets!” she protested.

Councils wait until serious service and asset deterioration are obvious before approaching their communities to vote. But by the time the need is sufficiently self evident to secure a positive community response, the only actions that can be taken are capital replacement; the time for cost effective life extension, demand management or other preventative asset management treatment is long past.

This funding mechanism explains a lot about the US approach to asset management. That the quality of infrastructure is now seriously declining may also be inferred from the fact that the number of community tax referenda this year has increased threefold.

### GASB 34 and the ‘modified approach’ – an opportunity lost

At first sight the new accrual accounting standard, GASB 34, seemed to provide the same fillip to asset management as it did in Australia and New Zealand. Indeed, with the provision for agencies to adopt the ‘modified approach’ – by which they could count as depreciation the cost of keeping their assets in good condition, it seemed to go even further.

Unlike Australia, agencies choosing to revalue, do not need to revalue all of their assets – just those that have been acquired in the past 5 years, at least to start with. Finance sections are generally seeing this as an easier option than calculating the cost of managing their total asset stocks, determining appropriate standards, and working out the cost and timing of renewal. But the *most recent* 5 years of assets are the least of their infrastructure worries. This reaction to the new accounting rules is depriving many agencies of valuable management information for addressing the most serious and immediate issues connected with ageing infrastructure.

### Asset Management Plans

Where agencies have chosen the 'modified approach' they have let contracts to large engineering consortiums to assess the condition and remaining lives of their assets. The 'asset management plans' that result are essentially multi-year works programs, designed to maximise the engineering section's access to agency funds, rather than to evaluate options. I saw no evidence of an interest in establishing and justifying outcomes or service delivery standards. This subject was not discussed at the APWA conference and it was clear that asset management is still seen as an engineering task, not a multi-disciplinary task as it is in Australia and New Zealand.

### Management within silos

Not only is asset management (or rather maintenance) still seen as purely an engineering preserve, but even within the engineering discipline, silos are alive and well. Maintenance budgets are allocated to specific assets and it does not seem, in general, the role of the Director of Public Works to use his knowledge of asset needs to influence the allocation.

An interesting illustration of this occurred one night at dinner when, to get an idea of the comparative size of his council's operations, I asked one Public Works Director what the size of his total budget was. He looked puzzled and said "Well, now you've got me, I have 16 separate sections but I have never added up the total". He then proceeded to check off the sections on his fingers and gave me a total of around \$US 6 M! He looked vaguely surprised that it was so much, but clearly the aggregate was not a figure that he was managing.

### Asset Management just at the beginning

It must be remembered that the USA is only at the beginning when it comes to asset management. After years of cash accounting, they do not, in general, have good records of what they have, what the replacement cost is, what the maintenance history is. At this stage they see their needs as being data collection and the installation of 'systems'.

It is to be expected that, with their enthusiasm and the large size of their markets, that demand for asset information systems will grow quickly. Also, within asset groups, particularly within water or wastewater, where demand greatly exceeds the available supply of funding, there could be the opportunity for interesting life cycle management.

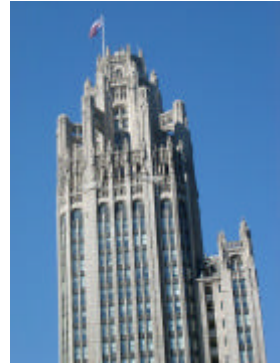
However, strategic asset management for the purpose of achieving business outcomes, where those outcomes are not represented by a dollar driven bottom line, may be some time away.

## A personal note

Can the skyline affect the personality of a city?

The first time I visited Chicago was about 20 years ago. It was late October and the city was cold and wet, dirty and noisy— and I loved it! Conversely my first visit to Washington a few years ago on a clear crisp day, despite an interesting meeting with the World Bank, left me feeling heavy and miserable.

In Washington the buildings are large, heavy, monumental buildings, mostly rectangular. The effect, on me at least, was depressing. But Chicago lifts the spirits with its magnificent skyscrapers.



This time in the USA, it was impossible not to return to Chicago—and, of course, being there, impossible also not to take advantage of the Architecture Foundation's tours of this great city, so I indulged in a river tour.

(Even hard working editors should be entitled to some time off!)

Penny

### Why Water Quality is currently On the Agenda

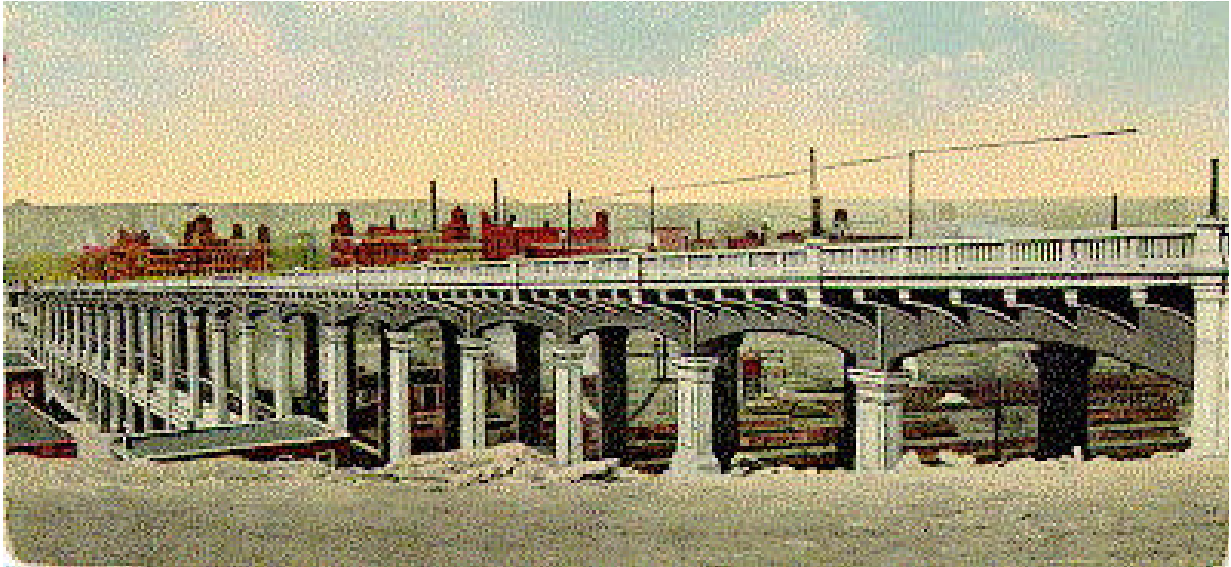
What struck me during the river cruise was the fact that we passed by the *backs* of many of the older buildings. The river was so highly polluted that it was not considered an attraction! It has recently been upgraded – from 'toxic' to 'polluted', which brings me to the subject of water quality.

Water quality is a big problem in the US. The Total Maximum Daily Load (TMDL) is the rule that calculates the maximum amount of pollutant that a water body can receive and still meet water quality standards. Clinton, during his administration, required the Environmental Protection Agency's approval of state's efforts to restore the impaired water bodies, a designation applying to about 300,000 miles of rivers and shorelines and five million acres of land. Congress disliked this bill so much that it added a rider to an appropriations bill that prohibited the EPA from spending Financial Year 2000 and 2001 money to implement the new rule.

Under Bush the rule is being 'watered down'! The new proposal would guarantee state's planning for entire watersheds instead of individual water bodies. The new rule would provide states with greater flexibility to downgrade water quality standards for specific rivers and lakes and would not allow the EPA to be involved in such decision-making. While environmentalists favour the original Clinton rule, the states are in favour of the Bush revision because it will save them money. There it is again—follow the dollar! Current interest in good drinking water is a combination of pollution at the source and the ageing of water and wastewater infrastructure.

## Infrastructure Renewal

While I was in Kansas City, the 12th Street Viaduct, was being renovated. Constructed in 1912 ( pictured below ) at a cost then of \$US 65,000 (which at today's prices is equivalent to \$US 30M) the cost of renovation is today \$US 21M. This viaduct is now 90 years old. The renewal price is consistent with the initial cost, but the revaluation figure was not in the books. Nor, with the new GASB 34 approach (see p 369), does it need to be!



Step by Step—The Issues

### Cost Shifting (continued from p.366) - Ceduna's Experience

Ceduna, one of our pilot councils, is typical of many. Because of changes of personnel and the GIS system used for recording asset data, Ceduna is currently in the position of having little data and little knowledge of the current state of their assets.

The only asset register data currently available is that used to compile the depreciation schedules and the quality of that information is also in doubt. There is no asset management strategy and no asset management plans. Ceduna is also required to complete an asset revaluation by the end of 2003 that will be difficult given the current state of knowledge.

To complicate things further, in December there will be a total lunar eclipse above Ceduna that is expected to attract almost 20,000 people into the town for maybe 3-7 days. Managing the logistics concerning water, electricity, wastewater and people management for a temporary five-fold increase in population will absorb most of the council's engineering resources until the end of the year.

You can follow how Ceduna and our other pilot councils address this issue by following the quarterly reporting of the case studies in "Case Studies" on the Virtual Asset Management Community website, [www.amqi.com](http://www.amqi.com)

And you can take part in the local government discussion forum and contribute your ideas and solutions and discuss them with others. If you have not already done so, **check out the VAMC today— at [www.amqi.com](http://www.amqi.com)**