AMQ International

Strategic Asset Management

Issue 173 Aug 19, 2005

Something for Everyone

-but especially planners, CEOs and EMs
and those who advise them

Why AM is extremely valuable for Planners

If you have ever considered how to get the message across to planners that asset management matters, try this. Page 976.

What is it that makes infrastructure different?

Yes! It is different and special implications follow from the differences. See if you agree—and if you do, join with us to figure out how to best address them. Page 977

What is Financial Sustainability – and why do so few of our councils have it?

An Independent Inquiry into SA Local Government Finances produces some interesting results.. Pages 978– 979

Life Cycle Costs and Deferred Maintenance

How are they related and how do you measure them? The WA Dept of Rec and Sport is making its new Life Cycle Costing Guidelines freely available to all on CD. Page 980.

Dust off your Schumacher! Small is Again Beautiful.

The case for smaller, distributed, facilities is becoming stronger and will affect the way that asset managers think about the future life of their ageing assets. Page 981.

Now Available!

A number of recent reports and conferences of interest to asset managers have been made available either online, on free CD, or as webcasts. Page 982.

Enjoy!

Penny Burns

Researched and written by Dr Penny Burns, AMQ International,. unless otherwise specified, Published fortnightly. Subscription, Comment, or Inquiries to

AMQ International
PO Box 75 Salisbury South Australia
Tel 618 8281 5795
Email: sam@amqi.com Website: www.amqi.com

WHY ASSET MANAGEMENT IS *EXTREMELY VALUABLE FOR PLANNERS*

Forewarned is forearmed

The greatest danger to any planner or asset manager is to present your decision-makers with a situation in which they are forced to make a quick, uninformed, knee-jerk reaction. Such a situation is the sudden collapse of an asset, particularly the sudden, *unanticipated*, collapse of an asset.

To avoid this situation you need

(1) The service life, age, and remaining life of your assets
(2) The ability to detect the symptom of failure before it occurs
(3) And to monitor!

Portfolio planners (including State planners) need a process for collecting this information in a timely fashion where critical situations can be flagged.

(E.G. The WA Dept of Sport and Rec is collecting basic asset information on all of its sporting facilities. This will enable decisions on future facilities (renewal or new) to be made in the light of what is available in the area and this can be matched to rates of population and demographic change.)

Buy Yourself Some Time

Few councils, or indeed any agency, has half a million to two million dollars sitting around doing nothing, just waiting for some asset to collapse – not unless it is advised of the likelihood of future need and can plan and prepare for it.

Increase Your Planning Options

(1) By Appropriate Maintenance

To maximise the amount of planning time that you have and to make the following life extension options possible.

(2) By Life Extension

If you need to replace, say, a swimming pool, then the cost may be $600,000 and upwards. And the life of the new asset will be around 40 years. However to replace the lining of the swimming pool may cost around $200,000 and give you about 15-20 years. Or to refurbish the change rooms may give you another ten years. And so on.

Having different life spans for the planning options allows a better match between supply and demand – especially in times when demographics are changing.

And when all other options have been exhausted and replacement is the only one left – "like for like" replacement is likely to be your WORST option! (see "Small is Beautiful Again" on page 981)

WHAT MAKES INFRASTRUCTURE *DIFFERENT*?

Fact: Almost all infrastructure decisions have potential for consequences that are not trivial and are difficult, if not impossible, to reverse.

Implications:

- These consequences extend beyond jurisdictional boundaries and require *genuine dialogue within regions and between all levels of government*,
- And they extend over generations yet unborn, imposing on us the *responsibility to do everything in our power to anticipate the future consequences of our actions.*

Fact: Infrastructure decisions are expensive and technologically and socially complex.

Fact: The life span of infrastructure assets is many times the life span of governments

Fact: There is a low level of accountability for major infrastructure decisions because consequences are a long time emerging and we have inadequate arrangements for attempting to identify consequences and taking them into account in the decision-making.

Implications:

- Complexity and longevity combined with the potential severity and irreversibility of decisions *impose on us an extreme duty of care*. Public disclosure of the evidence for and against any major proposal is needed, together with analysis of all options considered and potential consequences identified.
- A low level of natural accountability places more emphasis on *the need for careful and publicly available analysis preceding infrastructure commitment decisions*.

Fact: A high degree of interconnectivity means that the city benefits from infrastructure provided in the country, and vice versa, and regions benefit from infrastructure provided in neighbouring regions. Some infrastructure issues, such as the problem of declining population centres, cannot be solved by the affected centre alone.

Implication:

- It follows that it is not appropriate - or even safe - for major infrastructure decisions to be made by any one agency or one government alone. Community assets are those that impact on the wellbeing of the community (regardless of the ownership status) *and it is to the entire community's advantage that they be informed and able to support wise decision-making and share in the responsibility for avoiding damage and creating better futures.*

If you agree, the next question is "What are we going to do about it?" ACORN Inc. Is now considering these issues. Your suggestions, ideas, comments—and interest, are warmly welcomed. At nut@acorninc.org or to info@amgi.com

WHAT IS FINANCIAL SUSTAINABILITY?

And why do so few of our councils have it?

The Report of the South Australian Local Government Finances Independent Inquiry, "Rising to the Challenge" was released this week. We look at the major findings..

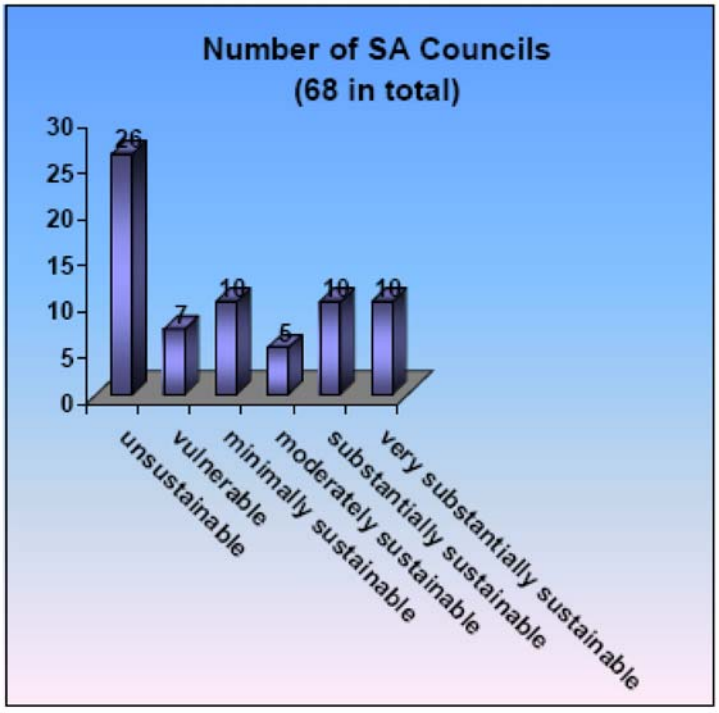
http://www.localgovinquiry.net.au/

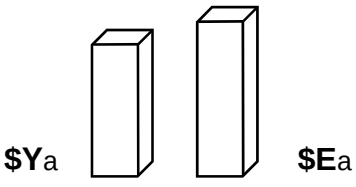
The major findings were that

- Almost two thirds of councils were not sustainable (see chart)
- There was no well accepted concept of financial sustainability in local government
- High operating deficits ("which look set only to get bigger in future") and substantial infrastructure renewal and replacement backlogs were the major evidence for council unsustainability.
- "Of those SA councils whose long-term finances are sustainable, only some seem to have the types of policies and practices in place that lock-in

" Ultimately, a council's finances are sustainable in the long term only if they are strong enough to allow the council to manage likely developments and unexpected financial shocks over the long-term financial planning period without having to introduce substantial or disruptive revenue (or expenditure) adjustments during that period."

SA Councils by Financial Sustainability Category





"A major problem is that financial management is focused on yearly budgets, rather than long-term management."

TIME TO UPDATE DICKENS

"Annual income one pound, annual expenditure nineteen shillings and sixpence; result happiness.
Annual income one pound, annual expenditure one pound and sixpence; result misery."

Mr Micawber in Nicholas Nicholby, Charles Dickens

For Councils, who need to deal in the longer term, we need to **update Dickens**. We need to talk not 'annual income' and 'annual expenditure' but annualised income (Ya) and annualised expenditure E(a)

ANNUALISED INCOMES

Annualised income is the average annual amount to be received in the future. Let us say, for sake of argument, the next 10 years..

If incomes are expected to be stable in real terms over the next 10 years then the task is an easy one. In this case annual and annualised are the same. But if incomes are increasing, annualised > annual. If incomes are expected to fall (and for declining rural areas this is a real possibility), then annualised < annual.

This requires that councils

Analyse what is driving change in expected future revenues. (Changes in industry, population, demographics, willingness and capacity to pay)

But few are doing it!

In "Facing the Renewal Challenge" (Victoria) and "Wealth of Opportunities" (South Australia) it was apparent that few councils were doing much more than applying simple extrapolations to their revenue projections, a "CPI+' approach being the most common. Few were taking expected industry or population changes into account in revenue projections – even where those changes were being discussed in other areas, eg planning.

ANNUALISED EXPENDITURES

Annualised expenditure is the average annual amount that needs to be spent in the future to maintain the currently committed projects, standards and policies – *and externally imposed increases in standards that are obligatory.* In other words – annual life cycle cost. (see page 980)

This requires that councils

Analyse what is driving changes in expected future expenditures (changes in maintenance, renewal (and operating costs) as assets age – this is largely predictable with life cycle analysis. Changes in costs as a result of growth (a matter of ensuring that new ratepayers pay at least the marginal cost of their usage, again largely predictable with life cycle analysis. Changes in costs associated with changed externally imposed standards. (not so predictable, but highly probable.)

And do not engage in new projects if the future expenditures cannot be sustained by future revenues.

But how many capital projects – at any level of government – are required to match the annual life cycle cost against the annualised future income? And therein lies the problem.

We have the technology.
How do we get the will?

LIFE CYCLE COSTS AND DEFERRED MAINTENANCE

"Maintenance competes for funding with other programs and is often deferred when other projects receive a higher priority. The cost is the increased risk of components failing and potentially increased safety hazards, poor service to the public, higher costs in the future and inefficient operations."

The Guidelines are an interesting blend of instruction in the calculation of Life Cycle Costs for new capital and the measurement of Deferred Maintenance for existing capital.

Measuring Deferred Maintenance

Deferred maintenance is, *theoretically and practically,* the maintenance *assessed as necessary for achieving the life cycles claimed in the project proposal's life cycle analysis* that have actually not been carried out.

If we have well documented the amount of maintenance required to attain the claimed life cycles, it follows that measuring deferred maintenance is easy.

But therein lies the rub! For few do so. And then there are all of those capital projects that were not subjected to any form of life cycle analysis at all.

Although the Guidelines recommend the use of LCC for proposed new capital items, their application to existing capital items would help to determine whether the ongoing costs are indeed sustainable (see "Financial Sustainability" on pp 978-979 and the SA Local Gov Independent Inquiry Report.)

The Guidelines provide suggested economic lives for Equipment Services (heating, cooling, ventilation and air-conditioning and worked examples for simple LCC analysis.

There is also a useful table of present values. For use in carrying out present value discount analysis.

FREE CD

The West Australian Department of Sport and Recreation have released the latest in a series of excellent references for asset managers, "Life Cycle Cost Guidelines for Sport and Recreation Facilities". (May 2005)

You can find these guidelines on their website, http://www.dsr.wa.gov.au/ - (where, incidentally, you will also find other interesting asset management guidelines and case studies)

But in a welcome return to the generosity of spirit and recognition of the value of free exchange of information that used to characterise the public service before we became captured by commercialisation, the Department is prepared to make their Life Cycle Cost Guidelines freely available on CD.

Just write to Rob Didcoe, at Rob.Didcoe@dsr.wa.gov.au

"Life cycle cost analysis may mean you trade higher initial construction or plant costs for lower future operating costs"

A very welcome bonus is a selection of reproducible templates that users can customise to suit their own needs.

Dust off your Schumacher!

Small is Beautiful again

A Regional Facility Manager remarked that there were two facilities in her region much in need of renewal. "Good" remarked her Minister "Then we can remove them and build *one large facility: it will be more efficient!"*

This is the way we used to think and it was appropriate when populations were young and expanding. But the case for smaller, distributed, facilities is becoming stronger.

They can be:

Safer – large facilities have large impacts should they fail. Terrorists know this. So do risk managers. That is why there is renewed interest in such critical infrastructure as electricity generation to think small and distributed rather than large.

Cheaper – Smaller facilities cost less to heat, cool and ventilate. Economies of scale only apply if demand matches supply. Where a facility can cater for 500 but only has 200, 100 or ten much of the time, the economies do not apply. Surplus capacity costs. And with the rising price of fuel, it is going to cost even more.

More Sustainable – both financially and environmentally. Lage community facilities need to draw on a wide catchment area to make them efficient, increasing the extent of motor vehicle travel required.

Healthier – Stephanie Knox of the Planning Institute of Australia, speaking to a group of Sports and Recreational Facility Managers last week, emphasised the health benefits of being able to walk to local facilities (shops, government offices, community facilities). Many cities are now building walking trails and bicycle paths but since regular exercise is better for us than occasional recreation, she pointed out the health benefits of easily accessible, smaller, localised facilities. Also as the population ages we will have larger numbers who no longer drive and need easily accessible facilities.

More relevant to future need – Most of our existing facilities were built during the 1960s at a time when we had experienced and anticipated rapid population growth. Populations were young, outdoor team sports flourished. Today, team sports are less popular as other activities via for the attention of the young and young adults find themselves working longer hours with fewer opportunities to engage in time intensive team sports; they are more inclined to use facilities that provide for flexible and individual activities.

In future, the more considered and wiser answer of the Minister may well be

> "Good. Now we have the opportunity to reconfigure. We can design several smaller facilities that are better located for the population and take into account newer demands – they will be both more efficient and more effective."

But for this to happen, the Asset Manager, Planners and Designers will need to prepare the way.

NOW AVAILABLE

International Conference on Engaging Communities

http://webcast.viocorp.com/engagingcommunities2005

Over the past week the Queensland Government, together with the United Nations, conducted the International Conference on Engaging Communities. Many of the presentations are now available as webcasts so that you can have all the fun of being there without the hassle. This is your chance to hear such fascinating speakers as Mrs Mary Robinson, former President of Ireland, Dr Jose Ramos-Horta, foreign minister, East Timor, and many others.

Community engagement is daily becoming more relevant to Asset Management and many of the sessions are relevant. Unfortunately, potentially the most interesting session "Engaging Communities in Infrastructure Development" is not available. I will do what I can to get some coverage of this session.

Better Facilities, Stronger Communities

http://www.clfconference.com.au/

The Department for Victorian Communities is making a free CD of this week's Melbourne conference available to all. Just go to the website. This includes a number of interesting plenary sessions and the following concurrent sessions with a number of presenters in each.

1. Planning community facilities for all people
2. Planning to achieve health and well being outcomes
3. Understanding what the community needs
4. Measuring outcomes: Knowing what works
5. Working with the community - What can facility users and the wider community contribute to facility management?
6. Managing relationships with Government
7. Facility management models and outcomes
8. Revitalising places
9. Developing a design brief
10. Embedding cultural and creative responses
11. Community facility renewal
12. Trouble shooting workshop

Managing Storm Water Flooding Risks in Melbourne

http://www.audit.vic.gov.au/reports_par/agp10602.html

More specific than either of the two publications above, this is a fascinating read. Well researched, you will find the background information a valuable introduction. Whether you agree with the conclusions or recommendations may well depend where you come from. Anyway, it is very much worth a look.

The objective was to determine whether the stormwater management practices adopted by Melbourne Water and 6 selected councils had efficiently and effectively addressed stormwater flooding risks in their respective localities. The audit asked 2 key questions:

- Had the stormwater flood mitigation strategies adopted by these agencies diminished the exposure to damage caused by flooding?
- Were the drainage infrastructure asset management practices adopted by these agencies optimising the useful life and service capability of their assets?