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Strategic Asset Management

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# MANAGING ALL THE LIFE CYCLES

There is more to asset management planning—than planning the asset actions!

Assets are a means to an end—and those ends are impacted by several life cycles of their own. Two that are particularly note-worthy are the Political Life Cycle and the Generational Life Cycle. One much shorter than the asset life cycle and the other that may be much longer.

But we do not have to be victims to what we perceive of as random acts and decisions of politicians. Our job, indeed, is to understand, anticipate, and deliver the services required.

See "Managing ALL the life cycles" on page 1035-1036—and if you feel impelled to tell me I have got it all wrong, DO!

We also look at the practical day to day issues of letting tenders and choosing the right consultants. Roger Byrne, of GHD, who has been active the asset management business for so long that his name is inseparable from the topic, shares his advice on tender evaluation. It is worth listening to. See it in "Tender Evaluation Techniques" on pp. 1033-1034.

ACORN Inc—the non-profit association for greater communication between decision makers and asset specialists—welcomes the active support of leading consultancies. Why not add your information to the database?

See also further ideas on the Tipping Point and What Issues we should be tackling today.

Enjoy!

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### [1] Intellectual Property

If your agency is not in the business of marketing intellectual property – and few have the skills and distribution networks to make this profitable – then you lose out when you demand that all intellectual property generated during the project remains with you. The Canadians have recognised that if they allow the intellectual property to remain with the consultants they get much more for their dollar –the consultants have a real incentive to innovate and, since they can amortise the innovation over many projects, you can get much more than you end up paying for!

### [2] Why play "Guess the Budget"?

Why make the consultant guess what your budget is? It they guess too high they may put in a great project proposal but it is out of your range, or they may guess too low and you miss out on other options that were possible. Mostly, I suspect, the reasoning goes that "we don't know what we want until we see what's on offer". But following down this route lends itself to lazy thinking and the briefs are vague and woolly. An alternative is to have a sharply defined brief that covers the essential services you require and the price you are prepared to pay – with scope, if need be, for offers of 'optional extras'.

### [3] Legal overkill

It is increasingly common that the brief – what you want to have done– takes 2-5 pages to convey but the contract conditions are the weight of a telephone book. And, while the project cost may not amount to more than $50,000 – you require millions of dollars in personal indemnity insurance. What is going on here? Is it not time to reign in the lawyers and be a bit more sensible? Why not ask yourself whether the project is one that you could possibly sue someone over. And whether you would ever want to waste your time – and the extra legal costs - in doing so. The answer is obvious. In most cases, it wouldn't be worth it. So why do it? A suggestion here is that if the project is (a) under $100,000 and (b) is an issue of consultancy advice – focus instead of making sure that both you and your consultant know what is required. Then do the tests that Roger Byrne suggests on the next page. You will get better results at less cost.

## THANKS

Thanks to everyone who has sent in comments and extra information for the ACORN Inc Executive Briefs for the first time up Client Consultancy Manager. You will all be acknowledged on the Acorn website. Particular thanks to Roger Byrne, GHD, for sharing with us some of his intellectual property garnered and worked on over a long period of time. In our "for the practitioner" feature this issue, Roger looks at how to evaluate the tender. If the project is one of considerable complexity and you do not wish to set the price but rather let the market guide you—then follow Roger's evaluation method to get a "quality rating" and use the table below to establish value for money.

| Elements | Tenderer 1 | Tenderer 2 | Tenderer 3 |
|---|---|---|---|
| Quality Rating | 64 | 90 | 69 |
| Tender/Price $ x 1000 | 220.1 | 260.2 | 210.6 |
| Benefit/Cost Ratio | 0.290 | 0.344 | 0.320 |
| Tender Ranking | 3 | 1 | 2 |

# TENDER EVALUATION TECHNIQUES FOR ASSET MANAGEMENT CONSULTANCIES

Roger Byrne, GHD for ACORN Inc

## Should you fix the fee or allow the consultant to fix the fee?

When calling tenders for asset management consultancies, you may determine an appropriate budget for the study and then tell consultants that they should outline methodology they will adopt and the deliverables that they will produce *for this fee*. Or you may allow the consultant to nominate the fee.

It is very difficult to assess *both* cost and value so it is a good idea to fix a fee for the brief and assess the deliverables according to the following table (with your own weightings).

But should you choose to allow the consultant to set the fee, then the two envelope system employed by the World Bank is the recommended procedure, whereby the consultant submits separate tenders for deliverables and for price. First assess the quality (according to the following evaluation criteria), then weigh the quality against price to determine value for money.

| Category | | Weight | 1 | | 2 | | 3 | |
|---|---|---|---|---|---|---|---|---|
| | | | Rate | SCR | Rate | SCR | Rate | SCR |
| i) | Experience/record in studies of this nature | 10 | 60% | 6 | 80% | 8 | 90% | 9 |
| ii) | Understanding of needs of the organisation & brief | 15 | 40% | 6 | 100% | 15 | 80% | 12 |
| iii) | Methodology or approach nominated and | 20 | 90% | 18 | 90% | 18 | 70% | 14 |
| iv) | Deliverables – Samples demonstrated & shown | 20 | 60% | 12 | 90% | 18 | 40% | 8 |
| iv) | Quality of previous work (check with references) | 20 | 70% | 14 | 80% | 16 | 70% | 14 |
| v) | Quality (past experience) of study team members nominated (1). | 20 | 40% | 8 | 75% | 15 | 60% | 69 |
| | TOTAL | 100 | | 64 | | 90 | | 69 |

When setting your criteria,
remember that an Asset Management Consultancy is very different from the typical engineering design documentation or feasibility studies.

## Evaluation Issues to be Considered

| | |
|---|---|
| Ensure consultants use the team nominated. | It is the experience of those team members that will be critical to your projects success. Ensure that your reference checks identify who was involved and how did they perform. |
| The experience of an Asset Management Consultant is significant. | Many consultants will quote statements such as ‘ we have been doing asset management for 20 years’. It is vital to understand what they mean by this as it can often mean they have only developed asset registers and completed condition assessment for most of that time, but have not been involved in advising clients on how to drive AM improvements until they read the IIMM manuals just two years ago. There is a big difference between consultants who have read all the manuals and books and those who have written and developed them and have completed many studies of this nature. The best way to really check their ability is to contact references and discuss the performance of the team and especially the individual consultants doing the work. |
| Understanding the needs of the client. | This is usually easy to see from the proposal and the performance during the interview. You will generally get to see just how well the consultants have linked your needs to their approach and how your desired objectives / outputs will be derived. Ensure that you believe they really understand your needs and how they will tailor their approach to suit your organization. |
| Methodology of their approach. | This should clearly form the link between your needs and the deliverables that are desired. As stated in the next section it is this connection that is best judge by examples of their previous reports /studies. |
| Their Outputs and Deliverables. | Management consulting output performance is difficult to judge. Looking at examples of the deliverables the consultants have given other clients is the most valid way to fully understand what you will get. Ask the consultants to bring examples of their to the interviews and spend sometime considering the content and quality of these outputs. It is also important to look at the other deliverables such as advisory guides, agenda’s and examples of the PowerPoint presentations. Also understand what will become your property after the commission. The consultant that has these developed and complete and tailors them to your organization will not be spending time developing these products and can put more efforts into the outputs and tailoring them to your needs. You are not going to be paying for them to reinvent the wheel. |
| Quality of Previous work – References | Really check references!. However it is best to check work they have done for those clients not listed in their reference list. Ask the clients they have listed for other contacts, or even ask the consultant themselves and see what they have to say. |
| Performance and knowledge of staff nominated. | This is often tied to the above enquiries. The key here is to get the consultant to show the actual time that will be spent by all staff and get them to guarantee that they will not be substituted, without your express written approval. Then use those clients for whom the individual staff members have worked to give you an assessment of their individual performance. It is important to understand the roles that these staff have played in previous commissions. |

See also foot of p.1032

For the Strategic Planner

# Managing All the Life Cycles

Take all life cycles into account in your planning

When we think of life cycle management, we tend to focus only on the life cycle of the ASSET. But there are at least two other life cycles that we need to manage and integrate into our planning;

- the political life cycle (about 3-4 years) and
- the generational life cycle (about 60 years).

As with the asset life cycles, these cycles impact the need for both capital and recurrent spending. If we wish to avoid being the custodians of low grade, high maintenance, under-utilised assets, it is the management of these two cycles that will help.

### In Life Cycle Management everything is in the Timing

Unless we have asset portfolios where the age distribution is pretty flat - i.e. there are just as many assets in the 5-10 year age bracket as in the 10-15, the 15-20 and so on - then we know that spending the average life cycle cost each year is NOT the answer; some years we will spend far too much and it will be wasted; other years we will spend far too little and the asset stock will degrade. Life Cycle Management is all about Timing; it is knowing the right time to intervene, and what kind of intervention is needed.

The same is true of managing the political and generational life cycles.

You don't have to have your plans turned upside down by political cycles—if you take them into account whilst planning!

## THE POLITICAL CYCLE

First Year – High capital spending as promises are fulfilled and directions changed
Middle Year/s – Lower capital spending possible
Last Year – High capital spending as the electorate is wooed

### Both the Amount and the Composition of Capital Spending is Affected.

First Year – Capital Spending dominated by NEW assets representing NEW directions
Middle Year/s – More scope for RENEWAL Capital spending
Last Year – High Capital Spending again but can include major rehabilitation

### How can you use this in your planning?

Schedule more of your RENEWAL capital spending for the middle year/s.

Plan to get rid of surplus assets in the first year of the political cycle. Why? Several reasons: (1) the new administration is less likely to be committed to them and (2) the easiest way to dispose of surplus assets is in a package deal where the community can see that what they perceive as a loss is more than outweighed by the gains. (see example over the page)

Example: New Administration is promising a new hospital; what facilities that are surplus to requirements can be disposed of at this time – perhaps an old, out-dated facilitiy? Then ensure that plans are made for its disposal *within this first year of the political cycle.*. Position its disposal positively – not as a "loss" but as an "upgrade". Commit resources to its sale or removal and ensure that it is carried out. If you don't, you may not get the chance again for many years for in the next political cycle some other portfolio may be featured, not this. And then you will need to commit funds to an under-utilised, heavy maintenance, item that will impact the rest of your asset management.

### Understanding Political Promises

Our job as asset managers is to respond to the directions that the decision-makers (politicians) wish to move in. However, "New" does not necessarily mean "Additional". The asset manager needs to know the size, condition, location and the service needs that his asset portfolio is addressing, and this information needs to be 'on tap'. This enables you positive response to political directions in a manner that is long-term sustainable.

Example: The Government announces 100 NEW police stations. Without a commitment to extra police staffing, maintenance, etc, this should not be interpreted as ADDITIONAL police stations. Instead the opportunity is for re-location, re-sizing, making the entire portfolio more efficient. Design and planning need to recognise this.

### A check: Five-Year Plans

Are you assuming a 'steady as she goes' approach with the same amount and nature of capital spending each year or does your 5 year plan take into account the needs of the political cycle?

## The Long Wave – Generational Cycles

Political life cycles are much shorter than the asset life cycle but generational cycles can be longer.

New development areas tend to attract young people and new families – bringing a need for childcare, primary and secondary schools, sports fields, youth clubs. Some 20-30 years later, the generational needs of the area change – the need now is for employment and a different type of entertainment . The youth are more mobile, cars are ubiquitous, large scale facilities can draw on a mobile catchment area. As we have observed before, swimming pools set up to cater for the needs of the young in the 1960s are no longer the type of facility that attracts as much support today. Another 20 years on and the original families are now reaching retirement age and their needs change yet again. These changing needs must be taken into account in asset planning just as much as in urban, town or social planning.

### What do you do whilst waiting for the cycles to begin again?

The question that bedevils asset managers is what to do with under-utilised assets (maternity hospitals, primary schools) whilst waiting for the long wave generational cycles to begin again. In the past we have experienced resurgence in some areas (but not all). Families come back to some of the older areas and the schools are again needed. But, like fashions, the demand is never the same the second time around. The school facilities that suited the needs of children 30-40 or more years ago are very different from the facilities required today. In the future the numbers of children will be lower and those of seniors higher.

### Where are you in the long wave cycle?

Different parts of your total portfolio might be in different stages. Asset planning is not simply maintaining the existing asset, it is planning for the service that will be required in future years—*at minimum holding costs.*

# What's the Big Idea?: The Tipping Point - Responses

## [1] Context and Credibility

### How to make things happen

"Thanks for drawing my attention to "The Tipping Point". *(Issue 178)* I had heard the term a number of times but as it was usually described in terms of epidemics it seemed more useful as an explanation of things that had already happened – rather than a way to make things happen. But I read the book and was taken with one example of a young black woman who was trying to convince other black women in her community to take steps to improve their health. She organised meetings after church but found that the only people who attended were those who were already committed. Mostly others were busy with their own lives and didn't want to stop. (We find the same thing when we try to get community participation – we get only those with an axe to grind and the rest are too busy.) She solved her problem by finding a place where her intended audience would have the time to listen – the hairdressers during long hairdressing treatments. And she didn't give the messages herself but had them delivered by hairdressers in the same way that they would share any of their normal gossip.

### Context and Credibility

I thought where can we find people when they are willing to listen? And how can we give the messages out in a way that will generate trust? I remembered that years ago when Hunter Water wanted to greatly increase the price it was charging for water, John Patterson, who was then the CEO, spoke personally to roomfuls of people – and answered all of the questions forthrightly and with no shirking. Afterwards a taxi driver told me "I don't like the idea of paying more for my water but I can see why we need to. That Patterson bloke is ok – he didn't dodge a single question!"

### Talk back radio

So I went to our media person and told her that I thought we should make more use of talk-back radio than we were doing and that we should make every effort to sell our asset management messages and not shirk any of the answers. On talk back we could present information in a form that people enjoyed – and involved themselves in. She asked me "What messages?" I realised I needed to think more about that. She pointed out that regularity and repetition of messages was essential but it had to be done in a way that didn't bore the pants of people. And then she made a great suggestion – that we get together with other local councils, put together a series of joint briefings to our CEOS and see if we couldn't arrange for several CEOS to front the radio session together. In that way, the message that we send is that asset management is a general problem. I figured that we might see if we could address one asset each session – say footpaths, parks and gardens, libraries, etc.

It is still very much early days yet and we haven't done anything except think about it, but I thought that others might like to know the general direction we are moving in. Just don't publish our name just yet!

## [2] Experience Needed.

Andrew was taken the ideas of the Tipping Point and asked his post graduate students to see how they could incorporate them in selling their Asset Management Strategies – an exercise they were working on. They found it very difficult - largely, he suspected, because of their lack of field experience. Perhaps we need to make more use of those with experience, and probably those with a natural ability to tune into the concerns of people, rather than those who are task-oriented problem solvers.( engineers?) Social planners? Librarians?

# Significant Strategic Asset Management Issues
## What should we be tackling in 2006?

*Peter Way, Director of City Works, Logan City Council, is the Chair of the IPWEA's National Asset Management Strategy Committee – NAMS.AU. I spoke with him about what we needed to do next in asset management.*

Peter Way, observed that in the '90s there was a flurry of activity as we set about complying with the new accrual accounting standards – asset registers, valuation, depreciation principles, etc. And, of course, we had the launch of the National Asset Management Manual. There then followed a period of stagnation as, having done what they had to do, interest waned. But in the last 3-4 years there has been a resurgence of interest and this time it is coming from an interest in driving business and sustainability. As I reflected on these comments I realised that this is pretty much the history of the NAMS.AU group itself that has, within the last few years, re-constituted itself and is taking a far more strategic approach.

In Peter's opinion, we should now be spending less time on *processes* such as depreciation and valuation, issues that have had a lot of attention over the past ten years. We now have pretty good workable *processes*, sure they can be 'tweaked' but is that where our efforts really should be going? Peter thinks not. Instead, he says, we should be focussing on developing **long term financial plans**, considering **the source and requirements for long term funding**, looking to the **standards of service** that the community want (and, I would add, helping them to understand the consequences of those demands, including how much it costs) and, as all of these things will change over time, we need **systems for monitoring.** To this end the IPWEA's NAMS.AU is preparing some forward looking national guidelines – not on the technicalities for which we already have well accepted practices in the International Infrastructure Management Manual that is now in use around the world – but rather that address the purpose for asset management – strong, sustainable communities.

### Mandated or Mindful?

We discussed the role of AM legislation as a two-edged sword. It can force attention to such things as record keeping (asset registers); condition assessment, valuation and depreciation and other desirable asset management processes, but it can also lead to an attitude of 'minimum compliance' rather than 'active and purposeful implementation and innovation'. Where budgets are dependent on compliance (eg in Water Regulation) it has been shown to have a strong focussing effect.

But can legislation improve attitudes?

What is YOUR VIEW?
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