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For Practitioners, Policy Makers and Planners in Public Infrastructure

When it's time to go!
Asset Disposals

With skilled resources at a premium, we can no longer afford to retain assets that, either through age or because of demand changes, no longer fully meet our needs. In this issue we look at

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Editorial: Using your TAM manual to manage staff changes p.2

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Editorial: **Use Your TAM manual to facilitate staff change over**

50 years ago I started my first job with the Department of Defence. I worked in their library and I was responsible for inter-library loans, maps, and photocopying. No-one explained my job to me; they didn't have to. The last occupant of my position had left detailed hand written instructions! These were very detailed - down to 'put the green carbon flimsy in the box marked "due date" on the right hand shelf by the door!' I had no trouble understanding not only what I had to do - but exactly how to do it. My general instructions were simple. I could improve the processes I had inherited as I saw fit - I just had to write out the new instructions and put them in 'the book'.

Rapid turnover was no problem for us. Everyone knew what to do, and had complete freedom to experiment and improve. Sure, this was a simpler time, and probably simpler chores. We were still hand writing and using carbon paper! Today with computers, we should be able to do better.

One of the more serious exit costs that we are experiencing today - and it will get worse - is the loss of senior people - and the knowledge of how they used to do things. What if each new recruit had 'the book'?

If your asset management manual is online, you have the opportunity to create 'the book' for each of your Asset Management positions. Suppose that each new recruit could simply type in the name of his or her role position and with one click find the following three things:

1) a brief overview statement of what the role is responsible for and why it is important for the organisation

2) a list of the functions that this role must carry out - with links to the 'how-to' section of the manual

3) a list of the role positions that this officer is expected to 'liaise with' 'consult' or 'advise' - with instant links to the same information for those positions.

Suppose that there was a requirement on all officers to upload the latest 2 or 3 examples of each functional output - eg a strategic asset management plan, maintenance plan, disposals plan for the assets for which they were responsible (annotated for where they have departed from the general prescriptions in this case for whatever reason (lack of information, time, etc.) Any new comer would be able to readily fit in. Any officer 'subbing' for another over holiday breaks, illness, or while positions are filled, would also be able to readily fit in.

All it takes is a willingness to do what 'Google' does - take the perspective of the 'user' of the information rather than, as so often happens, the perspective of the provider of the information.

I have recently had the opportunity to review a client's system for this purpose. If you would like to talk about how you can do the same and get the benefits, I would be happy to speak with you.

Consider and Enjoy!
Penny Burns
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Asset Disposals

We are often reluctant to spend time and effort on asset disposals on the mistaken assumption that if we do nothing, it doesn't cost us anything.

So we hang onto obsolete equipment and pay the storage costs; we fail to dispose of buildings that are dysfunctional and scarcely used because we fear

the public outcry and so we pay maintenance, cleaning, security, heating and lighting costs for assets we do not need; we fence, mow and maintain land that we do not need. Rather than invest in 'once-off' exit costs, we incur these waste costs year after year.

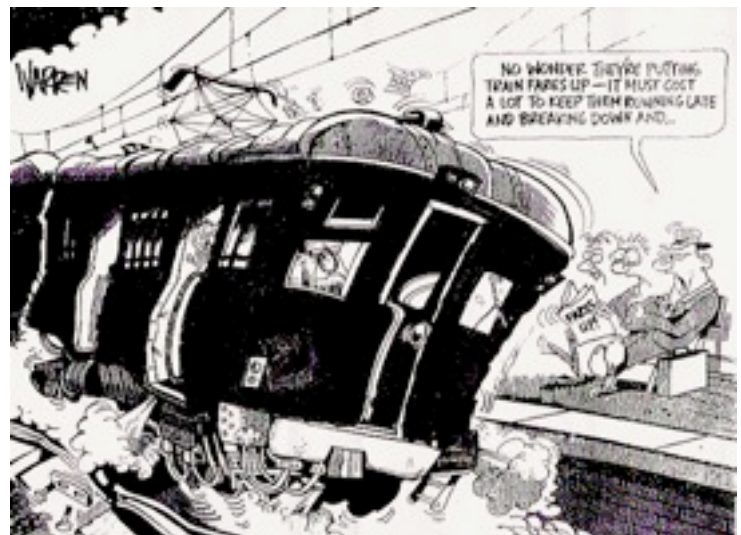
The highest costs can be lost opportunities.

One research establishment had an excellent offer for a block of land that was surplus to its requirements but they were unable to sell because there was a shed on the land that housed technical equipment used in past experiments. What had escaped notice until then was that no-one actually re-used any of the equipment so stored! (Incidentally, the loss of this opportunity was the spur needed for this organisation to introduce asset management.)

Asset disposal is often the asset management element that gets the least attention because scarce planning time is absorbed by new works, operations and maintenance. The drivers here are obvious. But what are the drivers for planning for asset disposal? This is where discipline is required, and some forward thinking.

Factoring in exit costs.

Costs of disposal can come as a nasty surprise. My favourite story was told to me some years ago by Peter Niven, who was then General Manager, City Rail in NSW. Back about fifteen years ago, City Rail decided to update its stock. The "Red Rattlers" that had provided good service from about 1927 lacked the features that modern travellers required, maintenance costs were high and their reliability was only about 50% of the newer models.



"No wonder they're putting train fares up - it must cost a lot to keep them running late and breaking down and..."



Old Sydney Rail Carriages to be sold for accommodation.
 "Well, it's certainly allowed us to fast-track the Honeysuckle Development"

it was time for them to go - but go where? Too old to be sold to another line, the best option seemed to be scrap metal. However just as this plan was about to be carried out it was discovered that about 10% of the carriages were lined with asbestos. The problem was the records did not show which ones! For safety, all had to be stabilised and then sold for low value purposes such as chook houses. City Rail were unprepared for the very large costs involved with disposal - and the newspapers had a field day!

In this case it is unlikely that knowledge of the exit costs would have changed the decision) to upgrade, but they would

have been more prepared for the cost, and the publicity, consequences. However, there are times when the decision is marginal and (correct) inclusion of the exit costs would affect the decision. (These are just a couple of cartoons from the day. Unfortunately for the vital service that rail supplies, it is a very accessible subject for cartoonists!)

What do you need to think about for asset disposals?

On the next page is an asset disposals framework used a few years ago by BP Petroleum for its non-operational equipment assets. *How would you modify, or adapt, this for buildings and infrastructure? What processes would you put in place to identify surplus assets? What records would you keep?*

Behind each one of the disposal options BP had a set of policies and guidelines. Here are some of the key points.

1. Transfer or Recycle

Can it be used by someone else?
 Which part of the business/network can use it?
 Spares and operating procedures to go with it?
 Where is it recorded?
What paperwork is required?

2. Put into Store

How much of a life-cycle does it have left?
 Is it of better condition than those currently stored?
 Do we need it? Does it need spares?
 Is there space in the store?
 What is the store cost?
What paperwork is required?

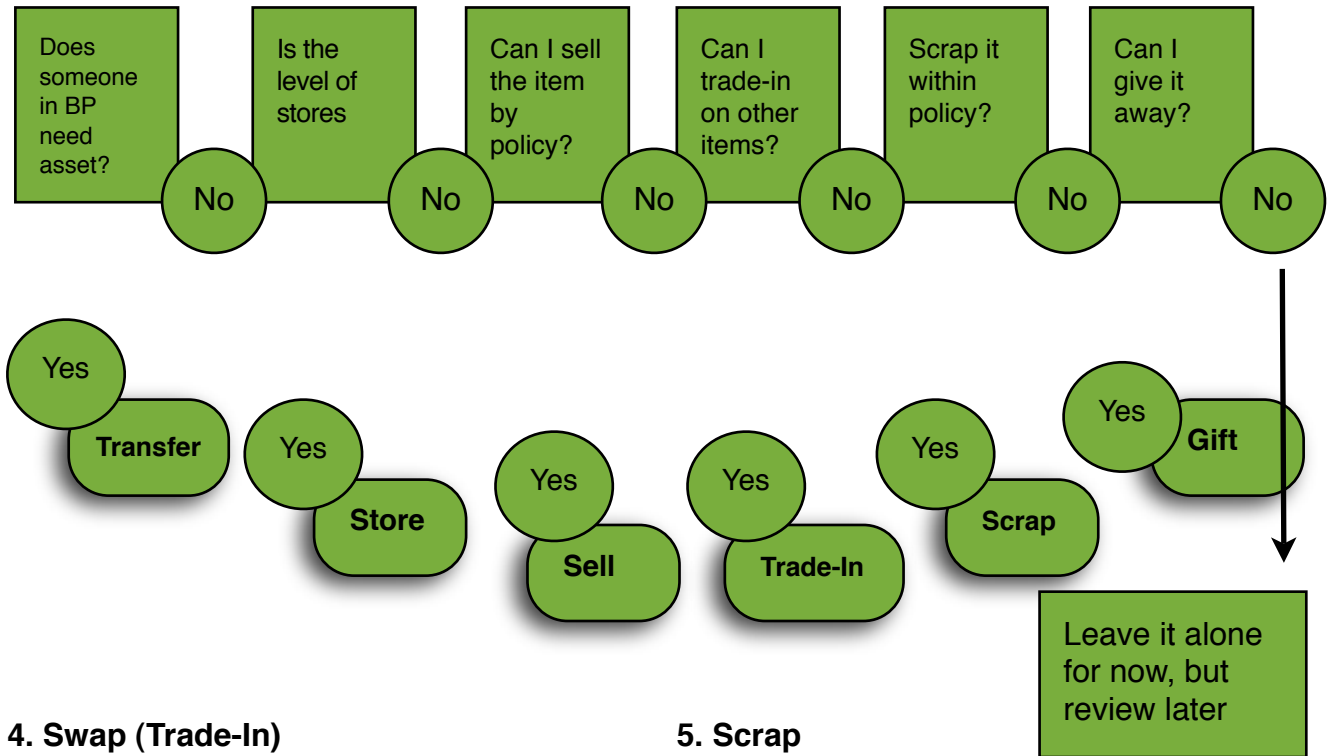
3. Sell

How do we find a 'fair price'?
 Do I store it while advertising and waiting for a buyer?
 Who does business strategy allow sales to?
 How do I maximise sale price? Add value and then sell?
 Has an economic evaluation been undertaken?
 Has ownership been checked?
 Has Health, Safety, etc issues been addressed?
 What paperwork is required?
 Spares and operating procedures to go with it?

A Simple Asset Disposal Flow Chart

for you to modify, adapt

Non-Operational Assets Flow Chart



4. Swap (Trade-In)

Do Suppliers accept? How much do they allow? Market value? market where? replacement cost?
 Cost-Benefit analysis; save CAPEX data
 Has an economic evaluation been undertaken?
 Has ownership been checked?
 Have health, safety, etc. issues been addressed?
 Who does business strategy allow?
 What paperwork is required?
 Spares and operating procedures to go with it?

5. Scrap

Transport Cost?
 Scrapping Cost?
 Where do you scrap it?
 Preparation for scrapping (safety)

6. Gift

Potential liabilities (future)?
 How will it impact business?
 Liability - indemnity? Disposal value?
 Policy and strategic considerations

How might you modify, adapt, add to this framework for land, buildings and infrastructure?



Help, I'm Drowning in Computers!

A case study in the difference between POLICY and ACTIONABLE PROCESS

How do you dispose of old computers?

Eight years ago I received an email from a State Education Department Asset Manager that made me alternately laugh and cry with him in frustration. I am reprinting it here for those who were not subscribing at the time and to refresh the memories of those who were.

What progress have we now made?

Here is the situation as it was.

The Policy

The Department's superceded 'leading edge' machines in the IT department were passed down to the college level and re-deployed there in administrative roles. There was a reluctance to use these machines for students because of the perceived need to teach today's methods not yesterdays.

Student machines typically went through only a single cycle of upgrades for the rate of change in the computer industry was such (and still is!) that, twelve months later, the machines are considered obsolete and have to be replaced.

This results the Department having large quantities of perfectly functional equipment on hand. It cannot give these machines to staff or students because the Department is a government office and to do so would raise the issue of corruption. It is extremely conscious of the fact that it has to be seen to "have done the right thing" so it has strict disposal procedures. The procedures are based on expected disposal value and for this there are four categories:

1. Equipment deemed to have no value (ie beyond repair)
2. Equipment deemed to have disposal/ scrap value up to \$1000 (some life, but not serviceable)
3. Equipment considered to have a disposal value between \$1000 and \$100,000
4. Equipment deemed to have a disposal value in excess of \$100,000

Where an item is in any sense technical in nature a suitably qualified person must certify it to be beyond economic repair and give an opinion as to value and/or an officer with appropriate delegation must certify it to be surplus to requirements etc.

"Delegation" is the grant of authority by which an officer is permitted to authorise transactions up to given dollar values in accordance with an approved table.

Disposal Options

Category 1 items can in theory be dumped.

Category 2 materials can be disposed of by negotiated sale which means sold to the highest offer.

Category 3 items must be disposed of by Public Tender or by Auction. Tenders must be advertised in the press and the usual kinds of rules as to closing dates, etc

observed. There are rigorous requirements for managing Auctions.

Category 4 items Can only be disposed of through Public Tender or Auction approved of by the Minister of Education

The policy is complete and detailed and looks ok ---- until you have to put it into practice! Here is an excerpt from the Asset Manager's email"

THE PRACTICE

"Sending them to auction sounds good but you have to package label and record everything. This entails labour costs and administrative effort. The organisation then incurs freight and handling to get the goods to auction.

The items, being outdated, may not sell and the organisation is billed for auctioneers minimum fee plus return freight. In other words we have to spend money to not get rid of equipment!

Typically we have now run out of storage space and have to pay commercial rates to store the equipment.

Several months pass and the next attempt will be newspaper advertising, at further expense, in the hope that someone will take the goods off our hands. But no one will buy them because the computers are two to three years old and, in a market with a four month product life cycle, they have no value on the market.

So we provide some old computers to teachers for students to pull to bits and put together again as training exercises. That gets rid of a few dozen but we are still stuck with storing the rest.

Next we try to get an officer with the appropriate 'delegation' to approve destruction or disposal. (destruction is a nice word because it suggests you won't see the wretched things again)

Having identified an appropriate officer we have to get him/her to sign. Because they are public servants they simply dare not do so in case, with 20/20 hindsight, they might be subsequently shown to have made an error of judgment, further since demurrage costs are most probably not charged to their sections' budgets there is no personal benefit in signing but only potential future pain. Storage costs continue.

We are not allowed to take computers to the tip until they are 5 years old because under the rules they are depreciated straight line over that time and, when no longer of practical value, will commonly still have a year or so to go before they reach a zero WDV. This interacts with the myth that a positive WDV means that the item actually has some residual value!

Even when PCs are five years old plus it is unwise to be seen tipping them because some reporter will write up a sensationalist story of government waste regardless of the underlying truth, so you keep on incurring storage costs.

To ease the problem in the future we are reducing the depreciable lives of such assets. While this will help a bit it by no means solves the problem.

What can I do?"

Signed "Frustrated"



Now Add Environmental Considerations to the mix!

In 2003, an ABC Catalyst Program estimated that there were an estimated 9.2 million computers in use around Australia, being added to at the rate of 2.1 million computers a year. This amounts to thousands of tonnes of 'e-waste' made up of obsolete computers along with broken monitors, used toner and ink cartridges, modems, printers and a range of other peripherals and consumables.

Companies are now being established to recycle computer parts and to salvage the valuable metals in them. But computers also include much toxic material as well so that the way in which the recycling is carried out is critical.

Heavy metals including lead, cadmium, mercury and arsenic are used in electronic equipment. When

disposed of they can leach from landfill tips into the water table. Brominated-flame retardants used in computer equipment are both an occupational and environmental health threat. Printer inks and toners often contain toxic materials such as carbon black and cadmium.

Australia ratified the Basel Convention in 1992 and now hazardous wastes can only be exported from Australia with a permit, granted only where it can be shown that the wastes will be managed in an environmentally sound manner in the country of import. Under Hazardous Waste Act, exporting hazardous waste without a permit is an offence, punishable with a fine of up to \$1 million or imprisonment for up to five years.

How do you dispose of your old computer parts?

**comments, suggestions, ideas,
good practice - all welcome!**