Issue 225 Sep 24 2007

AMQ INTERNATIONAL
STRATEGIC ASSET MANAGEMENT

- the Missing Tool in the
Asset Management Toolbox

STAR RATINGS

Life cycle asset management is only effective if
you have a clear idea of what level of service
you are aiming at.

Earlier this year (SAM 219) we showed you how you could reduce what you think of as your 'renewal gap' (the difference between what you are currently able to spend and what you think you need to spend over a given period on renewal) *simply by identifying the appropriate service level*. Here are details on just how to do that.

When you look at all of the service elements (and options!) that go into making up a service level, you immediately realise that, in the words of Dean Taylor "The renewal of an existing asset is a very crude approximation for the sustaining of current service levels".

We can do better! Dean Taylor and Adrian Duff show you how and why. But do not stop here - if you are interested to know more and to go further, join our **"Special Interest Group"** - details on the back page.

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PROVOCATION

Dean entitled the excerpt given below "Provocation". I am not surprised; those of you who know of Dean Taylor's work will know that his guiding principle is to provoke - but always in a good cause. You may remember Dean as the author of "At Your Service", in which Wanganui in New Zealand detailed all the services it provided to its ratepayers along with a description of the service level and the cost of achieving this service level per ratepayer - a document that was well ahead of its time. (SAM 28)

Dean has had a long time interest in service levels and it shows! He managed the Asset Management Team who developed the Star Ratings concept in Maroochy Shire Council. Dean is now Business Manager, with Opus International in New Zealand.

(Note: Subscribers can download all past issues of SAM referred to in this issue at www.amgi.com)

"Local Government and Asset management are opposed to one another

• Asset management has at its core (a) the defining of levels of service and then (b) delivering the service at lowest cost

• Local Government has no imperative to do either, which leads to

– Service output becoming a by-product of Council operations rather than the reason for its existence

– Auditors becoming surrogate customers, resulting in a plethora of input/process controls

AM too often is an academic exercise rather than using it to promote better Local Government performance. We have substituted process for product. Frustrated with this, Elected members have substituted capital acquisition for product."

But Asset Managers need to take their full share of responsibility

- **We Asset Managers have not tried hard enough the translate the theory into practice**
- We have given lip service to Levels of service
- We have been comfortable to stay close to our professional or technical backgrounds
- We have wanted to optimise, model, and experiment before we have put in place the essential basics
- We have ourselves to blame (in part) for the lack of progress over the past decade
- We can do better

Moving past lip service to Service Levels - the rules

- Are *not* consultation techniques
- Are *not* legislation/codes
- Are *not* specifications or maintenance cycles
- Are *not* aspirations (e.g. 'To meet user needs')
- Are *not* performance measures
- Are *not* a description of assets
- ***Are*** goods or services that can be produced and consumed

'The defined quality for a particular activity or service area against which performance may be measured.... Usually relate to quality, quantity, reliability, responsiveness, environmental acceptably and cost' -CCV Manual

And more rules

Services need to be quantified and qualified (defined)

From both a producer and consumer perspective

What will it take to deliver? (producer)

What do I get? (consumer)

Why is this so critical

- Links to the Strategic goals of the organisation
- Links to the operations of the organisation
- Is tangible, measurable, understandable, and is relevant to most stakeholders
- Justifies every dollar spent
- Creates a framework from which sustainability can be assessed
- A customer culture is dependent on it

Is the beginning of Good Asset Management!

Recalling the criteria underlying the service levels as applied to public toilets in Maroochy Shire in the last issue,

Where do Service Levels using Star Ratings take us?

The answer is: **Added Value**

Each part of the AM life cycle can be managed better

To illustrate: Think about the maintenance program that is often determined by available funds (often last year's budget plus inflation). Not only soul destroying – it is highly likely to be either too much, too little or have the wrong components. Then contrast that with a service level which is defined in such terms as to gives the opportunity to accurately determine the maintenance activities required to deliver it. (*Ed: See also "If 2% is the answer, what's the question?" (SAM 39) which looks at the misleading formulaic approaches to determining required maintenance which have more credibility with asset managers than others*.)

For example, if the agreed Star rating for a building facility defines lighting levels then the maintenance of lighting can be scheduled and priced. Because the star rating method of service levels has got a much better chance of being agreed and understood by the decision makers, and more predictable into the future, then the opportunity to drive down the cost is greatly increased. Uncertainty and lack of clarity is very expensive over the long term.

The same is true of other parts of the life cycle;

- Renewals and optimisation of the assets employed can be much more focused, using say a risk assessment methodology which determines *the criticality of each of the criteria used to make up the service level*.
- Long term financial projections become realistic and meaningful. In some cases figures quoted for the renewals gap is overstated because the current and projected service level are not realistically defined. *The renewal of an existing asset is a very crude approximation for the sustaining of current service levels.*
- Consultation and customer engagement processes become useful and relevant, *because good information is able to be provided at the front end in terms of both service level and costs, for current and future service levels.*
- Capital acquisition comes under appropriately greater levels of scrutiny because the need for such can be more easily challenged. *The whole of life cost also becomes more apparent, ...and so on*

Much of what we do in the management of assets can be significantly improved if we work to clearly define what is we are delivering and what it is costing. Conversely managing the lifecycle of a group of assets without clear service level definition and projection is of doubtful value and contrary to the principles of sound asset management.

see Dean's Helpful Hints to Getting Started in Star Ratings on p. 7

STAR QUALITY 3-4

SERVICE LEVELS
USING STAR RATINGS

A Practical, Replicable, Meaningful, Measure that aids Performance
Part 2:
(for Part 1, see SAM Issue 224)

What are our options?

In the last issue of SAM we saw how Star Ratings were easily understood by customers, easy to scale and simple to replicate. We found that all we needed to do was to determine for each of our assets, why it existed and what services it provided. The toilet block example made it clear that the services provided to, and perceived by, customers for even so simple an asset as a public toilet were, nevertheless, many and various. So it takes some thinking - and always from a customer perspective.

Cost effectively maintaining or improving service levels

However, having put in this effort, you are then able to *use your data* to determine whether and. if so, how to cost effectively improve your service levels. It is possible that you may decide that the service is excessive for the cost your users are prepared to pay - and then the same data can be used to determine the maximum cost reduction for minimum service reduction! We will look at the case of service improvement, but the same process can be used for a cost saving.

In this article, **Adrian Duff**, Asset Management Co-Ordinator, **Maroochy Shire Council,** duffa@maroochy.qld.gov.au , explains how to use “Cost of Service (CoS)” calculations to improve your asset management.

Cost of Service (CoS)

Let us take the example of public toilets, as explained in SAM 224. Maroochy provides 88 toilets across the Shire at an average star rating of 2.7. The cost to provide this service at this level is $x or $x/no ratepayers / year. To maintain the current quality of the service, we need to continue to provide funds for operations (cleaning), for regular maintenance and an element of renewals.

Where the quality of the service needs to be lifted, say to a 3.5 star rating, we should consider the best mix of funding to achieve this.

- Do we clean the toilets more regularly?
- Do we provide more maintenance funds or
- Should we utilise a proportion of capital to renew or replace some of the tired infrastructure?

To calculate the Cost of Service, we take the total operational expenditure and divide by the number of rateable properties. Operational expenditure includes operations, maintenance costs, depreciation and management overheads. The cost of service is net of any external contributions or subsidies towards the service. By understanding the cost of service per ratepayer, a value judgement can be made on the services our ratepayers are receiving. For example, public toilets currently cost us $18 per ratepayer per year.

STAR QUALITY 1-2

Using the Data

The data can be used in a number of ways:

- to inform the community of the value provided (benefits less cost) and
- to compare all services being received by the community

'What if' analysis can now be used to determine the most cost effective means of raising overall performance. That old chestnut of 'worst first or best first' no longer applies. Now the data can be used to determine what strategies will yield the most overall improvement per dollar.

How Have We Performed Over Time?

With the focus of elected members on providing more and more infrastructure, the quality of the existing infrastructure has slowly decreased in many areas. Generally, when new infrastructure is constructed it is to a high level of quality. Over time the quality of the infrastructure deteriorates due to age in many cases but also due to an increase in community expectations. In the case of public toilets, what was once a 4 star rating, may now only be 2 star, due to changes in design for security and access, construction materials and the need for water efficiencies. This results in infrastructure requiring renewal well before the useful life of the infrastructure has been reached.

Conclusion

So what does all this mean? Through better definition of our services we know:

- What we provide to the community.
- What it costs to consistently provide these services to the community.
- We know that we cannot continue to build new without understanding the impact on the existing.

In reality, it means decision time.

What can we afford to deliver, not just construction, but the overall level of service? By defining the level of service being provided, we are forcing our elected members to make informed decisions and be held accountable to the people in the community.

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GETTING STARTED IN SERVICE LEVELS

So you are keen to know and do more, but wondering how to get started?We have two suggestions:

1. Check out the suggestions in this issue of SAM and also SAM 224.
2. Join our "Service Levels Interest Group" in which Adrian, Dean and others who either are doing work in Service Levels or would like to, can come together to ask questions and discuss options. (More information on the back page!)

STARTING HINTS
Adrian Duffy

- Describe what is being provided to the community
- Express in terms of **what** it is rather than **how** it is performed
- Be within the control of the agency
- Collectively cover all activities, including overheads & shared services
- Avoid aligning services to internal management structures
- Instead align the activities (what we do) to the services

Comfort & Amenity
- Weather Protection
- CPTED
- Cleanliness
- Level of Internal Finish
- Ventilation
- Lighting

Function & Usability
- Capacity space
- Compatibility

Accessibility
- Site accessibility
- Network fit
- Proximity

Condition
- Internal
- External

Environment
- Water Usage
- Energy consumption

Be Consistent

select core values that will apply over all the services, not just the assets, see sidebar for example

STARTING HINTS
Dean Taylor

SERVICE DEFINITION (what does the ratepayer receive?)

- **Output Quantity**.. How many? plans, meetings, events, dogs, licences, approvals etc
- **Output Quality**.. To what standard? rules, policies, legislation, star ratings etc
- **Output Location**.. Where? Shire wide, specific site(s) etc
- **Output Time bound**.. When? 24/7, Business hours, On request, etc
- **Output Cost** ..How much?

In essence:
- What produces benefit?
- What costs money?

Dean has contributed two detailed power point presentations to our "Special Interest Group" - see how to access them on the next page.

STAR RATINGS SPECIAL INTEREST GROUP

When Adrian Duff presented Maroochy Shire Council's work on star ratings at the IPWEA Conference at Cairns, he created quite a deal of interest amongst the audience, many of whom were interested to know more and to try it for themselves.

And Dean Taylor, although he has now left Maroochy to return to his family in New Zealand, retains a keen interest in further development of this essential tool for asset managers.

I have also had interest expressed by a number of others, who would like to be able to swap notes and ideas with other practitioners, ask questions and supply solutions that they have found to work.

Fortunately, our new website provides the facilities for such a **SPECIAL INTEREST GROUP.** We can

Securely record the names and contact details of members
Provide them only to other members
Make available to members extra information
Send periodic updates to members as questions are asked or new information received.

So,

- If you would like to make contact with other **STAR RATINGS** enthusiasts; benefit from experience of professionals such as Adrian and Dean and be inspired by the enthusiasm of others

- If you would like to access the two presentations that Dean Taylor has made available,

    - "Service Driven Asset Management", and
    - "How to - some examples"

- If you would like to help drive the development of this important missing tool in the asset management tool box,

then email info@amqi.com and I will add you to the list and when you log into the downloads page you will be able to see and download everything that we have on star ratings for service levels, and you will be able to make contact with other asset managers with the same interest.

Penny Burns