

## Issue 231 December 17 2007

For Practitioners, Policy Makers and Planners in Public Infrastructure

Spin the  
Wheel,  
Round she  
goes,  
And where she  
stops,  
Nobody  
knows!



### WHAT WILL 2008 BRING?

This issue is somewhat of a guessing game. But we are not exactly guessing into the wind for early signs are already here.

In this issue I make three predictions for 2008. How do they square with your own views?

I have also asked others to give their views of what issues will arise in 2008. See what the two leading asset management associations in Australia think and what other specialists consider will be important.

But remember, in the end, the wheel of fortune responds to the twists and turns that *you* give it.

Finally, as this is the last issue for 2007, my thanks to all my readers - without you I would have played more and worked less!

All the best for the holiday season. See you again in 2008!

Penny

**Editor: Dr Penny Burns, AMQ International**  
PO Box 75 Salisbury South Australia 5108  
Telephone 61 (0) 8 8281 5795  
Email: [amqi@amqi.com](mailto:amqi@amqi.com)



## Editorial: Penny's Forecast for 2008

1. **Regulation.** As a result of a number of well-publicized inquiries into the long term financial sustainability of local government in Australia, there is now greater awareness at the political level about the importance of asset management.

This can go two ways: (1) On the one hand it could usher in a regime of more informed government policy and funding.

(2) But on the other, it could result in mandatory requirements that give the public appearance of tackling the problem but end up doing more harm than good

Which way it goes depends on us. So I predict that the "to mandate or not to mandate" question will be high on the agenda in 2008. Along with the associated question of 'standards'. When are standards helpful - and when do they just generate more paperwork? Expect to see this debated next year.

2. **Competition.** For a long time, Australians and New Zealanders have basked in the glory of being ahead in the international asset management stakes. But in 2008, I predict that they will face serious competition from North America, now that both America and Canada have adopted accrual accounting for their public accounts and have a greater focus on assets.

My guess is that some innovative work is about to come out of Canada, building on the knowledge built up in Australia and New Zealand over the past ten and more years, but adding on the flair of imaginative newcomers who have a greater sense of urgency.

3. **A Broader Perspective.** The precursor to this was the focus on 'service levels' ad a 'service centric' approach, so necessary for local government that was set up to meet the very different and individual requirements of their local communities. This has taken the attention away from the asset 'as an asset' where issues such as condition, failure, maintenance, etc prevailed, to a new space where the asset is a 'means of service delivery' and the important thing is the service, not the asset. Expect in 2008 to see more debate about the relevance of different services and service levels to our rapidly changing economies.

And as part of this broader perspective, expect also to see the beginnings (if faint) of debate about the appropriateness of asset management at the non-local level. Expect to see some moves at the State and Federal levels to manage their own assets instead of merely insisting that lower levels of government manage theirs!

**Well these are my projections: (1) debate over the right type of regulation** (although there will be a pretty broad acceptance that some form of regulation is necessary); **(2) much more competition and innovative asset management perspectives coming from overseas** and **(3) the beginnings of extension of serious asset management to the state and federal levels.**



# AUSTRALIA

## VIEWS OF THE ORGANISATIONS

*Australia is fortunate to have two active and capable organisations for guidance and information exchange to members. IPWEA's NAMS-AU addresses public works in local government and MESA's Asset Management Council addresses the asset management needs of heavy engineering utilities and organisations, both private and public.*



**in 2008 - we will  
stop  
talking and  
ACT!**

**Chris Champion, CEO, IPWEA**, foresees that in 2008 we will stop talking and act.

“I feel 2008 is **the year of implementation** for the sector that we largely work in (local government and public works). IPWEA has now been able to develop - through NAMS.PLUS (see [www.ipwea.org.au/namsplus](http://www.ipwea.org.au/namsplus)) - the tools and templates that will assist organisations to apply the AM framework outlined in the IIMM.

In 2008 significant numbers of local governments across Australia will be **writing their asset management plans** (or should be) to provide expenditure projections that input into the organisations **long term financial plans** (LTFP's). In some States this will be in response to legislative requirements (or foreshadowed legislation). The important aspect of **legislation** is that it not be introduced in a manner that is too prescriptive - otherwise we will look at AM as a merely compliance issue. South Australia has done this well and it appears that NSW will follow down a similar path. We need a 'stick' that encourages AM and LTFP as good and essential management practice, not as a compliance hurdle.

**Making AM 'an essential part of doing business'** requires new emphasis in organisations to develop their Long Term Financial Plans as **true and effective business tools**. LTFP's can be the central element that bring together all an organisations strategic intentions. More work is needed in this area. And then 'Managing the Gap' will become the issue in 2008/2009 and beyond!”

**Peter Way, Chair of the IPWEA's NAMS.AU**, agrees but adds

“I see the **adoption of the Australian Infrastructure Financial Management Guidelines** in 2008 as the catalyst for the next quantum leap forward in the Asset Management task. It will do much to get all professions involved, thinking along a common path about the funding level required for an infrastructure provider organization, under their future long term financial plans, to provide the level of service the community is seeking. It will hopefully allow us to get away from old fixations about how to treat depreciation of assets and remaining life, etc., which tend to get bogged down in semantics of complying with accounting standards not well suited to dealing with long life infrastructure assets.

Allied to the above will be the issue of **seeking a consistent national approach** to how Governments mandate through appropriate non – prescriptive legislation to ensure that all levels of government are accountable to the community: demonstrating that they are managing the assets appropriately and assuring the community that the long term financial sustainability of services provided by those assets is guaranteed. Simple performance measures that can be reported annually will go a long way to satisfying that concern.

Given the ongoing economic boom, and resultant rush for the construction of new infrastructure, it is also critical that **whole of life cycle costing analysis** is done by proponents of these projects to ensure that when projects are initiated, allowance is made for the ongoing operation, maintenance, rehabilitation and ultimate replacement costs as part of the long term financial planning by infrastructure providers.

**Establishing and reviewing the levels of service being required of various infrastructure assets is also of growing concern.** As we are often asked to do more with less, one obvious area to be reviewed is whether the traditional approach in terms of existing services being provided, is the most appropriate to meet community expectations. Simple robust ways of gauging that community expectation, will be more frequently expected to be tested, by infrastructure providers.

**Finally the skills shortage issues will continue to require our focus in 2008.**

Fortunately a number of simple tools such as NAMS.PLUS will assist in helping existing staff to get on with the task at hand. Others however will be seeking more formal training in AM and we need to keep pushing the tertiary education providers to offer appropriate training to assist in that regard. This needs to be at both undergraduate and post graduate levels.”



### **Better AM Decisions through Awareness, Understanding and Knowledge**

**Peter Buckland, Technical Director, MESA's Asset Management Council,** considers the major challenge for all managers in 2008 is better decision making through awareness of circumstances, understanding of basic principles, and acquisition of the knowledge necessary for the decision.

His important issues for 2008 include:

#### **Justification, not Ranking**

- In decision making there is no substitute for knowledge.
- Relative rank ordering is often used in an attempt to substitute for lack of knowledge.
- Justification usually requires absolutes rather than relativities.
- There is a need for a strong thrust in knowledge based decision making.

#### **Exposing the ills of the Stretch Target**

- Stretch targets are often used where lack of knowledge prevents determination of justifiable targets.

- There is a general failure to recognise that "more" may not always be "better".
- There is need for consideration of both the benefits and the costs implied when setting a target.

### Decisions for the "Long Now"

- We have a propensity to deal with "now" and leave "tomorrow" to its own devices.
- There is a need to view "**Now**" not as say Friday, but as 2007, or better as the 21st century or even longer in some contexts. see <http://www.longnow.org/>
- There is need for a balanced approach to decisions with respect to short, medium and long term outcomes.
- Decision makers responsible for setting the stage for all that follows, need "wisdom".

### The challenges of essential infrastructure service provision

- To acquire the knowledge needed both for good management, and good regulation.
- To structure and manage infrastructure industries for best net social outcomes?
- To embrace the concept of the "long now".

### The imminent "baby boomer" knowledge drain

- Knowledge can't be "downloaded" from one to another in the short term. Plan well ahead.
- Knowledge management systems will be vital in preventing corporate memory loss.
- In many organisations this will require major cultural and behavioural change at all levels.

## VIEWS OF THE SPECIALISTS



### Political support and intergovernmental co-operation

*Jeff Roorda and his group, JRA, have been heavily involved in the NSW Inquiry into financial sustainability in NSW local government and is well aware of the efforts now being made to bring more consistency across the country into AM governance.*

**Jeff Roorda, JRA,** sees two signs that suggest greater inter-governmental co-operation on the horizon

“Two major initiatives have the potential to change the state of play in Australia – and make me very optimistic if leadership groups like ACORN and IPWEA provide influence and ideas.

#### 1. Intergovernmental Agreement Signed in 2006

On 12 April 2006, all jurisdictions and the Australian Local Government Association signed an Intergovernmental Agreement. The IGA is an aspirational document that sets out principles for how the three tiers of government will work together in a spirit of cooperation.

Local Government Ministers in all States signed the agreement stating that:

For its part, in order to achieve the objectives of this Agreement, local government commits to sound public governance through:

- i) good fiscal management by working towards:
  - a) prudent management of assets and liabilities;
  - b) ensuring that revenue and spending decisions have regard to their effect on future generations and ongoing financial sustainability;
- ii) ensuring that its decisions on service delivery and the provision and maintenance of infrastructure are made with due regard to available, existing and anticipated future financial resources and competing priorities;
- iii) improving its practices including strategic planning at local and regional levels, prudent borrowing and appropriate pricing regimes;
- iv) being responsible for funding functions it chooses to undertake in an area of responsibility of other spheres of government, in addition to funding its existing core functions.

## 2. Consistent Framework to Measure Local Government Sustainability Signed in 2007

The Local Government and Planning Ministers' Council (LGPMC), consisting of Local Government and Planning Ministers from across Australia and New Zealand and the President of the Australian Local Government Association convened in Auckland, New Zealand. The Fifth Meeting - 26 March 2007 was chaired by the Australian Government Minister for Local Government, Territories and Roads, the Hon Jim Lloyd MP. The LGPMC provided final endorsement of nationally consistent frameworks for assessing financial sustainability, asset planning and management and financial planning and reporting and agreed that each State and Territory governments apply the frameworks in the context of their relationships with their local government sectors. This framework provides tools for all local government authorities that are consistent across the areas of financial sustainability, asset planning and management, and financial planning and reporting. A report on the progress of their application will be provided back to the LGPMC in 2008.”

## NEW ZEALAND



**Credibility will  
be a key issue  
for 2008**

*Dean Taylor, Opus Consultants, was for a long time heavily involved in the work of NAMS-NZ. Now, after a stint of work in Australia (see the Star Ratings work of Maroochy Shire Council in Issues # and # , he is back in New Zealand, but now working in a related field so that he has the benefit of both distance and perspective. Dean says*

“One key issue for Asset Management from a New Zealand perspective -Credibility

- There is a present and growing danger that those of us who have basked in the glory of being "world leaders" in Asset management might just be challenged to produce evidence to justify this label.
- Actual improvement in recent years has been slower than might have been reasonably expected. AM has always promised (correctly in my view) to make significant improvement to how our organisations deliver services.
- Too many organisations, and the professionals within, them have been content to do enough to get across the line, the line often being determined by external requirements, particularly from auditors.
- We are, in some cases, dangerously close to going through the motions with AM and not using it as the strategic business tool it is meant to be. In some cases we simply repackage current practice under an AM banner
- This is because we (still) have much to do to convince ourselves and our stakeholders of the tangible, measurable benefits of AM improvement, in terms of bottom line improvements to service recipients/payers.
- Instead there are greater perceived rewards of undertaking projects, especially capital projects, particularly in a growth environment where a strong driver is the need to deliver a programme and spend the money by a given date. They compete for our skills, focus and energy and leave AM as something of a Cinderella activity.
- Sound asset management needs to significantly influence the investment decisions made at the top of asset-centric organisations. To do this the asset information need to be relevant, credible and aligned to key organisational objectives. In many cases in New Zealand local authorities, for example, this is not currently the case.
- Too many AM plans are cut and paste versions of a standard template and are not sufficiently aligned to the particular organisation they are part of to actually change current practice.
- If we are to maintain the momentum, and the big gains we have made in the past then we need to demonstrate an ability to translate the sound theory into applied business practices and be able to communicate the difference it will make."

## THE WATER INDUSTRY IN QUEENSLAND



*Of course, not all of us have the luxury of looking at the big picture, most of us are knee deep in the swamps fighting off the crocodiles.*

*With this in mind, I asked Peter Oliver at Gold Coast Water, what he saw ahead in 2008. (Bear in mind that Australia is in serious drought and this is particularly so in South East Queensland where rapid population growth over recent years has greatly increased water demand. The Government's response has been to change the organisational structure. Whether this will turn out to be mere deckchair logistics or something more substantial is yet to be seen.)*

In response to my inquiry, Peter wrote:

“We are in a bit of a quandary at the moment with the detail of the Queensland Government take-over of aspects of our water business a bit up in the air. This includes all or part of the AM function, and is dependant on the amount of the business external to the Bulk Water Supply that they will eventually seek to control. Apart from that however, I can see an enormous problem that will begin to rear its head during 2008, gaining momentum toward 2009 and beyond.

As you are probably pretty much aware at this time, the water utilities up the eastern seaboard of Australia are experiencing a period of above average infrastructure growth. This has come about as a consequence of the previous ten to fifteen year period when they largely "de-engineered" their businesses, and focussed a tad too clearly on the bottom line to the exclusion of a lot of sensible renewal and growth associated infrastructure expansion.

As a result of the current accelerated activity there is a significant expectation among a lot of senior managerial staff that things will "return to normal" in a year or two. The fact is, things will never return to the way they were.

For starters the amount of infrastructure investment has almost doubled what it was before. Simply attending to essential maintenance and necessary renewal programs alone will by necessity generate 150% the level of activity that we experienced before. Secondly we will need to be much more aware of which programs are essential, and consciously defer nothing, as eventually the deferred programs come back to bite us as emergencies that should have been dealt with when they were cheaper and easier. All of this work will require conscious effort to resource and fund, and especially so if we are to take any of our lessons learnt from the past three years to heart.

So the burning issue is - will our decision makers and business managers take these lessons to heart and maintain the momentum now established, or will they wither in the face of the expected cost to maintain the flow - and dump us right back into the mess we are only now trying to climb out of.”

## **CANADA & THE USA**

The situation is still too fluid in the USA and too soon in Canada to call any specifics. But the little I have seen so far encourages me to believe that we will be seeing very interesting things out of North America in 2008. Watch for them!



### **P.S. THANK YOU**

Jenny Doreian, ARRB, was the first to let me know which issues struck a most responsive chord. To Jenny and to all of you who responded, my sincere thanks. This information will help me structure the 2008 issues. Christmas cheer is in the mail!