

## From Frustration



: the Power of  
Good Asset  
Management

## To Relaxation

### In this issue

**Editorial:** The downside of certainty, p. 2

Like Golf, it is easy to learn the principles of AM - but it takes a life time to master! See '**Penny's Basics**' 4 simple principles (*AM for Dummies?*) pp 3-4

**Show me the Money!** Investment Logic Maps (Issue 246) focus on the *rationale* for the investment: the drivers, objectives, and benefits - and allow you to track the achievement of those benefits. But where are the financials? p.5

**How do we share information?** - responses to the invitation in Issue 245 p 6

**Random Thoughts** - ideas in need of solutions p.7

**What to say at an interview** p 8

**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) Website [www.amqi.com](http://www.amqi.com)



## **Editorial:** The downsides of Certainty

We all want more certainty in our lives and in our work - but be careful what you wish for, because it comes at a cost!

When we invest our money, we can put it in the bank and get a small return with certainty, or we can put it into stocks and shares which carries more risk but the potential gains (as well as losses) are greater.

At work we can get greater certainty for *our unit's* budget - but only at the cost of reducing overall budget flexibility.

For example, we may argue that if only we had a policy or standard that stipulated that all of our parks and reserves were equipped with barbeques and toilet facilities of a certain standard, this would greatly add to our planning certainty - but in the event of a downturn in corporate budgets, or a change in park and reserve usage - this reduces the corporation's options for budget management. It also reduces the parks and reserves manager's ability to develop, say, smaller green spaces that don't merit these facilities. Any standard that commits the budget to one expenditure rather than another, makes life more certain for that expenditure - but far worse for all others!

Another example is the requirement in hospitals to provide maintenance contracts for large and expensive equipment - but without increasing the overall maintenance budget. The overall effect is that other equipment is starved of maintenance funds and condition deteriorates.

Customers and Ratepayers also like certainty - but seldom anticipate the consequences. Any commitment to one group of users, shifts the burden of flexibility onto others.

None of us can see into the future, so reducing our flexibility to cope with unforeseen change - especially in the current situation - is an extremely chancy and ill-considered strategy.

*Consider and Enjoy! Penny*

*Like Golf, the basic principles of AM are simple enough to learn - but they can take a lifetime to refine and master!*

## THE BASIC AM PRINCIPLES

*There are really only 4 Basic Principles, everything else is refinement or technique.*

### **BASIC PRINCIPLE 1. Assets only exist for the services that they provide.**

If it doesn't provide a service, it's not an asset. If it doesn't provide a service *and it costs you money*, even while it may look like an asset, it isn't - *it's a liability*.

What's more, if it does provide service but the services it provides are less valuable than the costs that are incurred to do it - *it is still a liability*.

e.g. those community halls only used for band practice on wet Wednesdays.

**Corollary:** If the asset is not providing the greatest possible *net* community service value added (i.e. after considering the costs involved) then you are not managing that asset well enough.

### **BASIC PRINCIPLE 2. Enough is enough.**

More is not necessarily 'better'. If the job can be done with a Ford or a Holden, then providing a BMW is not a better service, simply a more expensive one. If the community needs can be met by a Grade 2 road, providing a Grade 1 road is NOT a better service - again it is just a more expensive one.

If the community need can be met by spending \$100 and you spend \$200, this is not a better service because the extra \$100 gains nothing on *this* community need and the community is being deprived of the value that it could have achieved by having it spent on another need somewhere else.

The NZ Auditor General astutely observed that 'over-maintaining' an asset looked exactly the same as 'appropriately maintaining' - it just costs more. So, it is important to determine exactly what is 'enough' - *and stop there*.

### **BASIC PRINCIPLE 3. Assets must be managed for Today AND for Tomorrow**

#### **Infrastructure Assets are**

**Expensive** - so that getting the decision wrong incurs much waste and lost opportunity

**Mostly irreversible** - or reversible only at great cost - so getting it right *first time is critical*

**Far reaching in their impact** - the impact of a new road, for example, can be felt far away as traffic flows change, meaning that while some businesses may benefit it may also be that others that were viable before are not now. Some residences may experience a decline in traffic in their areas, others may experience more. Etc.

**Long Living** - any impacts from the new asset are going to be felt for many years. Thirty, sixty or a hundred years from now people will still be impacted.

And, most importantly, **the costs do not stop with the acquisition.** The costs will continue as long as the asset lasts. This is why one of the most important **techniques** of Asset Management is **Life Cycle Analysis** - giving Asset Managers, the ability to track and minimise the costs of the asset for any given level of desired output.

### **BASIC PRINCIPLE 4. Life is a Trade-Off, so is AM**

None of us can do everything we want to do, or acquire all we want to acquire. We simply do not have the time or money. Human beings are enormously inventive and we can always think of more activities, more acquisitions than our time and money budgets will permit - and so life is a trade off. We can have more of this, but only at the expense of less of that.

And so it is with Asset Management - except that here we have to make the trade-offs on behalf of others.

**Every decision we make** - whether to acquire an asset or not acquire it, to renew or discard, to maintain or not maintain - **is implicitly a trade-off.** We are trading off one possible service level to our community against another. There is no such thing as getting more of everything! More of one thing ALWAYS means less of another. Raising more revenues from ratepayers may enable *asset managers* to do more - but it enables *ratepayers* to do less, so a trade-off. And it is the same with charges.

*the Golfing Analogy can only take us so far.*

Golf is an individual game. Asset Management is a team sport!



*Don't fool around*

## Show me the Money!

**A follow up to the Investment Logic Maps in the last issue.**

In a discussion on Investment Logic Maps last week, Terry Pailing, City of Stirling, WA, astutely observed that there were no financials in the Investment Logic Maps. How could a decision be made in the absence of cost data? A good question.

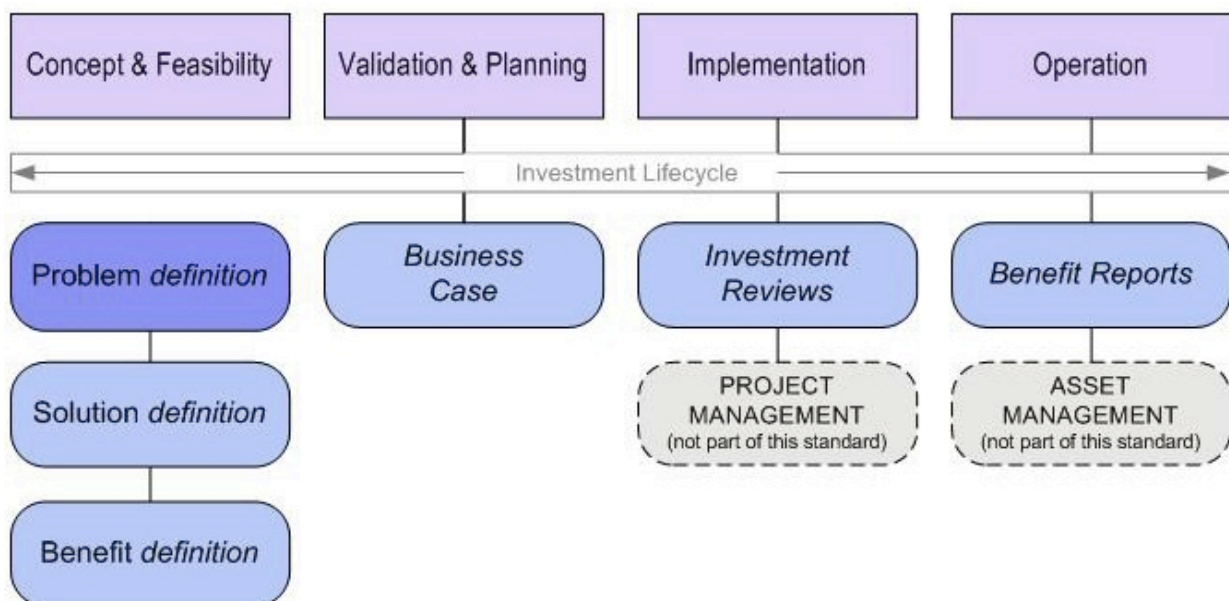
And the answer lies in the fact that the Investment Logic Maps are but one element of the Investment Management package. An overview of the full package can be seen below.

The investment logic maps deal with the first - and, sadly, most neglected - element of investment planning. It provides a way to think around the concept feasibility.

It does not preclude the necessity to move to the next stage and develop a business case; it just makes it easier to do so!

(In the diagram below, 'asset management' refers to operational asset management only.)

Further information can be found by following the links to the Treasury website given in the last issue.





*The traffic only flows when the two sides connect!*

*In issue 245 I asked how we share information. Here are some ideas that were forthcoming.*

## **How do we share information?**

**Andreas Hack, Hobart City**, gave a varied set of vehicles for information exchange as follows:

Apart from the odd conference attendance ...

1. Active participation in the user network for our AM information system;
2. Participation in the MAV Advanced STEPS program (as the only council outside Vic);
3. IPWEA Asset Mates, reading what's said, occasionally saying something too;
4. A committed senior level AM steering committee (AMSC) with engineers, finance, legal, customer/marketing and process facilitation represented (=heaps of learning from each other);
5. A working group of AMSC which meets 2 weekly, at times even weekly for half-days, to consider a whole range of AM issues, particularly data quality / systems / forecasting. Members include our top engineer + offsider, our top finance person + offsider, several Asset Services Unit staff and regular guest appearances by AM Managers from throughout the organisation (we've got 21 AMPs each covering different asset groups). (=again plenty of learning from each other);
6. Regular workshops for AM Managers from throughout the organisation and support staff. Conducted by/on behalf of AMSC (mostly part of the annual AMP production/review process); and
7. Recruiting knowledgeable people.

Not sure whether this exactly what you are after, but that's a significant part of our info sharing.

And **Hugh Blake-Manson** wrote

The local authority Asset Managers in Canterbury have set up a group which meets bi-monthly to discuss asset management issues across all asset classes. This is a relatively informal group, but seems to be working well and could be strengthened by bringing in hot topic.

**Any other ideas to share?**

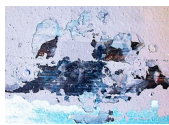


## RANDOM THOUGHTS

In the course of the day many ideas occur for which I have no current solution. Here are some of them. If you would like to suggest an answer, I would be delighted to hear from you.

([penny@amqi.com](mailto:penny@amqi.com))

### Random Thought 1.



Any systems modeller knows that to optimise a subset, de-optimises the whole. And yet, in the pursuit of management efficiencies, we divide corporations into many tiny subsets or business units, and establish reward mechanisms that encourage managers to promote their own unit in competition with others. Where is then the incentive to work collaboratively for the corporate good?

### Random Thought 2.



As an economist, the concepts of a balance between demand and supply and the value of countervailing power come naturally to me. In terms of deciding what asset actions we should take it is necessary to consider both the technical feasibility and the costs (the supply side) and the user needs and requirements on the other (the demand side). How are these two to be brought into equilibrium? Through bi-lateral horse trading? Corporate intervention and decision making? Or through the use of asset management frameworks? I think the Investment Logic Maps (in the last issue) could be such a framework. What are the possibilities? What are the limitations?

### Random Thought 3.



Filling the Gaps. Whenever in the course of our work we need information which is not currently available to us, most competent professionals will make a reasonable assumption, their best guess. Generally, the experience of the professional will ensure that this best guess is pretty close to the mark. But seldom do we record the nature of the assumptions made. And this means that later when time has moved on and the situation changes, or more information comes to light, no-one (including possibly the original professional) knows whether it is necessary (and, if so, how) to go back and amend the original conclusions.

*Recently I was approached for suggestions on what to say when granted an interview for a position as a Local Government Asset Manager. This was my suggestion. But I would be happy to hear of other suggestions as to how to sell yourself in this situation.*

## **What to say at Interview**

I would suggest that you let them know that you understand their situation and how asset management can help them achieve their goals.

If your Council is currently undergoing major expansion, with population (and ratepayers) increasing in numbers, and lots of development then you could talk about

- your abilities in contract management
- your skills at developing life cycle asset management plans for new assets
- the use of life cycle costing in setting appropriate rates for new developments if of a higher standard

If, on the other hand, your Council is in an area that it is in decline, or in other ways is experiencing severe budget constraints, then you should show that you understand their problems by talking about

- your ability to identify the key and critical assets and ways to secure their continued functioning no matter what
- your skills at maintenance planning
- the role of asset management in demand management and related community education

If your Council is juggling the twin problems of both ageing assets in some areas and growth in others, you could talk about

- your abilities in prioritising projects
- your skills in presenting business cases that can make the case for renewal when the pressure is on to grow
- and how renewal forecasting can assist them in managing both growth and renewal by understanding critical timings

In each case, though, it could also be helpful to refer to particular issues and techniques that will illustrate your command or the tools of your trade.

For example: the key importance of using service levels to drive asset management activity; the value of star ratings is finding the most cost effective way to meet service levels as well as to communicate within and without council; the use of renewal forecasting as a way of keeping future expenditures and future revenues in balance; and (if you have read the latest issue of Strategic Asset Management) Investment Logic Maps as a powerful tool to track the achievement of project benefits.

I hope that this is useful for you. Best of luck!