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Help Celebrate the 250th!

Reaching the 250th issue is a milestone that speaks to the enduring value of *Strategic Asset Management*.

Please help me celebrate by spreading the word. The more who read, the more who practice, and the more who comment and make suggestions, the better we will all get.

So tell someone about *Strategic Asset Management*. If they write me when they subscribe and tell me who recommended SAM to them, both of you will receive - with my compliments - a copy of my new e-book "**Benchmarking for Beginners**"

Thank you for supporting "Strategic Asset Management" - the world needs all the good asset managers it can get.

Penny

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Editorial: Why I answer my own phone

When readers ring my office they are frequently surprised to find that I mostly answer my own phone. The reason is simple - I **WANT** to talk with you!

Strategic Asset Management is not so much a newsletter as an **information service** for those who are actively engaged with asset management - as practitioners, as policy makers, or as consultants.

I am delighted - and somewhat amazed! - to reach Issue 250. That represents 2,000 pages of ideas, issues, suggestions, case studies, and references to good practice that I have presented since January 1999.

This could not have happened without contributions from the many asset managers that I meet with, talk with, correspond with and *without feedback from YOU.*

So thank you!

And **please call again!**

Penny

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Acknowledgements

Contributors to this special 250th Issue include Vivek Kangsu, Geoff Eves and Jan Korek for “The Tasks of the Corporate Asset Manager”; Warren Corlett and Presenters at the ILM Accreditation Workshop for “Is your business case a waste of time and money?” and Ian Godfrey for “Valuing for Renewal Planning”. Needless to say - but I will say it anyway! - these people are not responsible for what I might say, but they have been very helpful in my saying it.

In the last issue I suggested that one of the reasons that we have a 'missing middle', in fact one of the major reasons that we don't have as high a level of asset management excellence as we could have, is that *there is no one person whose responsibility it is to ensure the job gets done.*

I suggested that councils and others would be advised to consider the position and role of the CORPORATE ASSET MANAGER.

Continuing that theme, in this issue I outline the accountabilities of a Corporate Asset Manager - with sincere thanks to the following whose ideas and contributions are reflected in this article:

Vivek Kangsu, Corporate Asset Manager, Townsville, *Geoff Eves*, Director of Infrastructure and *Jan Korek*, Manager, Asset Management Business Unit, Stirling.



What is the Corporate Asset Manager to be held accountable for?

Process Custodian

Fulfill the corporate accountabilities as process manager for the following processes:

- Plan Strategic Asset Management
- Co-ordinate and Maintain Asset Strategies, Standards and Guidelines
- Provide the renewal forecasts/ capital asset components of the ten year financial plan and long term renewal funding plans
- Provide corporation wide statement on service levels, targets, and cost of service and facilitate the development of these where they cross business unit boundaries. Target levels should consider capacity and condition trends in assets and any adverse effects from maintaining status quo.
- Review and implement necessary change in the valuation and depreciation methodology

Decision Making Support

Implement such investment procedures (e.g. Investment Logic Maps, Business Cases) as to provide necessary information for corporate decision making. (*such procedures should ensure that the development of one asset will not have adverse impacts on another asset, is not at the expense of existing assets, and will not lead to the unwarranted decline of another asset, amongst other things*)

Demand forecasting and scenario development wrt assets

Business Risk and Continuity Procedures wrt assets

Standards and Strategies

Development of best practice asset management strategies, policies, guidelines and standards for all infrastructure, land and building assets ensuring consistent and effective deployment and management of assets across the Corporation

Asset Management Systems

Development, integration, review and maintenance of asset management information systems across the Corporation

Data Custodian for the data integrity and maintenance of corporate asset management information

Continuous improvement of the systems

Strategic Asset Management Plan

Development, implementation and ongoing review of a Corporate Strategic Asset Management Plan

Strategic Asset Management Initiatives

Initiation and undertaking of strategic asset management initiatives

Integrate sustainability principles and methodologies into asset management across the Council

Conduct asset management benchmarking and identify opportunities for improvements

Keep abreast of latest tools, techniques and technologies in corporate asset management

Co-ordinate regulatory asset management reviews/audits

Responsible for identifying desired elements in the asset management improvement plan

Corporate Support

Actively contribute to the development and execution of corporate plan, strategies and establishment of performance measures and achievement of key business objectives

Of course, none of these things are done in a vacuum and the ACTION arms of the corporation, those divisions responsible for asset operations and for service delivery must also be held accountable for their contributions to the corporate picture.

Are all these things being done effectively in your corporation? Do you need a Corporate Asset Manager?

I am a great supporter of the Business Case - but in the **right** place and for the **right** reasons!

Trouble is many business cases are carried out in the wrong place and for the wrong reasons. When you consider that large organisations may spend as much as **\$100m** or more on business cases each year - and up to **half of that** may be sheer waste, *this is not a trivial matter.*



Is your Business Case a waste of time and money?

What is the wrong reason?

Consider the following scenario - You approach your boss with an idea; she is too busy at the time to give it much consideration but appreciates your interest and enthusiasm and so she says "Great idea! Why don't you do a business case and then we will consider it!" Wrong!

Or this - You approach your boss with an idea; he doesn't think it has much chance of success but rather than be the one to turn it down says "Great idea! Why don't you do a business case and then we will consider it!" Wrong!

Perhaps you have used the 'business case ploy' yourself as a **means of deferring a decision?** It happens. It happens too frequently.

Now consider the next step in the chain.

Now since you have been asked by your boss to do a business case (or you have done the asking) a project advisory team is underway and a consultant called in to help. **But what is the objective of the business case in these circumstances?** To give it a good shake to determine whether it is worth doing - or *to provide the best support for going ahead that you can come up with? Probably the latter!*

In any case, you produce a business case report, and if the project is a costly one, the report can run into a document several inches thick.

Now your boss - who was too busy to think through the issue in the first place, is **still** busy. So does she have time to read the entire report with the care that is required? Probably not. So she applies a filter. Is it addressing her most pressing problem? If not, it may not get considered further.

Or your boss - who didn't think it stood much of a chance because he knew that the company did not have the capacity to deliver the benefits such a project could theoretically provide, looks to see if his concern has been addressed. It hasn't, so the project does not get considered further.

In either case, could this decision filter have been applied earlier - and the time and expense of constructing a business case avoided?

This brings us to the second of the two questions:

What is the wrong place?

The wrong place is **before** the project has been considered in the light of the business drivers, objectives and benefits and has been deemed as potentially a winner by the Senior Responsible Officer (a.k.a. your boss, or maybe you, if you are the asset owner).

Before you even attempt the detailed work of a business case it is important to know that

the project is addressing - not *just any* business driver, ***but a business driver and objective considered to be of key importance by the person who will be eventually making the project decision.***

It may be that the particular project you have in mind does not quite fit the bill, BUT an alternative approach might be quite successful. You will only know this if you establish the logic of investing in a solution to this particular problem.

A detailed business case addressing the wrong solution, or even the wrong problem, will not tell you what alternatives to consider

What will?

In Issue 248 we looked at **Investment Logic Maps**. In a two hour workshop involving the key decision maker and advisors it is possible not only to avoid many wasteful project business cases but to pinpoint those that will have the best chance of success.

Even a desk top ILM exercise, during which you think through the drivers, objectives, benefits, required changes, enabling assets and KPIs without the involvement of others, will be enormously valuable. Consider this a first cut exercise, a filter if you like, for determining where you should press for a full Investment Logic Map workshop with the key decision maker.

In any case, Business Cases should not be used to defer decision making

The Problem:

The asset values, as recorded in your accounts, **are not what you need for renewal planning**

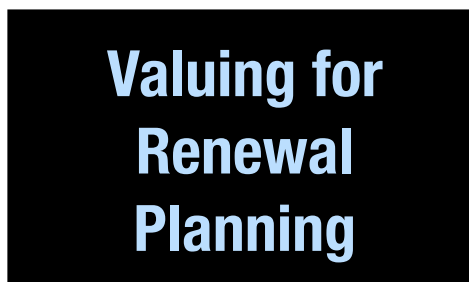


Why not?

There are two types of renewal:

incremental renewal, where elements of a building or asset are renewed piecemeal (the normal method) and

complete replacement, where the entire building or asset is replaced as a whole, either by being demolished and rebuilt on the same site, or rebuilt on a separate site.



Both will cost more than the figures recorded in your accounts.

This is clearly the case if your accounts are still recorded in historic cost terms but *it is also true if they are stated in current replacement cost terms*. The reason for this is that accounting current replacement values are based on the costs of building a new asset on a greenfield site. (The term 'greenfield' comes from the undeveloped land at a city's fringe.)

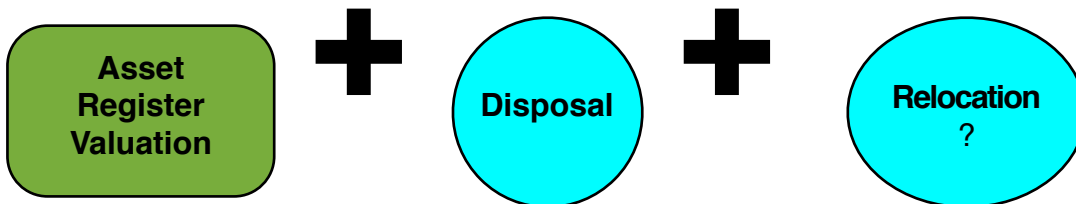
Replacement

When you are planning for a complete replacement of an asset, you must allow for the costs of demolition of the original (if you are re-building on the old site) or the costs of disposal of the original asset. These disposal or demolition costs *are additional to the asset value*.

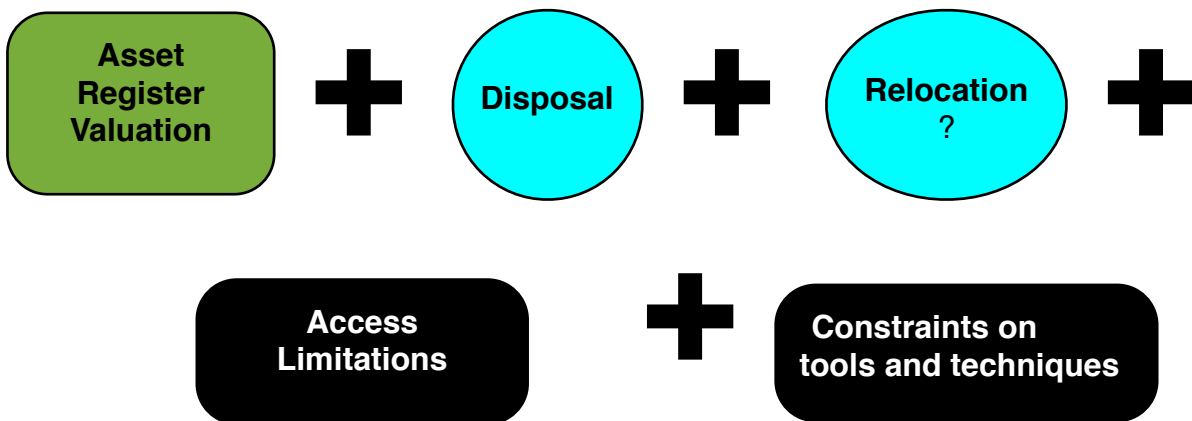
Incremental renewal

In the normal course of events, most infrastructure is renewed rather than replaced. That is, elements are replaced not the entire asset. The elemental costs in the accounts are derived from the costs of that element in constructing a new asset on a greenfield site. However, when renewing, extra costs are involved: costs incurred to maintain the asset function whilst renewal is going on (e.g. road detours, sewer by-passes); costs incurred because of more difficult site access (e.g. within a functioning hospital); and costs incurred because of constraints on the techniques that can be employed (e.g. not being able to use blasting because of the close location of other utilities - that were not there when the original asset was constructed.)

REPLACEMENT



INCREMENTAL RENEWAL



Calculating your RENEWAL FACTORS

Step 1. Decide whether your asset is likely to be replaced or renewed (if it is to be replaced, a specific project study will be needed to determine costs)

Step 2. For assets which are to be piecemeal renewed (the majority) you will need to determine the appropriate RENEWAL FACTOR for each component.

Disposal - removing one element, e.g. a boiler, from an existing building is more costly and time consuming than that element's share of complete demolition. How much more costly will depend on the asset. A critical 24/7 asset such as a hospital will have higher costs than, say, a school with holiday periods available for access.

Relocation - road detours, sewer by-passes, staff re-locations fit within this category. 24/7 usage and high utilisation will generally create high relocation costs.

Access Limitations - Working within a confined space is slower, more difficult than open access, digging through a concrete floor to a liftwell to renew services is more difficult and costly than setting those services in place first time around.

Constraints on tools and techniques - Consider renewal of a sewer in a main CBD road. We need to dig down through an existing road structure (and renew it afterwards) but whereas when the sewer was first laid down (in a greenfield site) we could use blasting and heavy equipment, we are now constrained by the co-location of other utilities.