



Alignment

Last week I asked why it is so hard to sell the idea of asset management

Perhaps it is because Asset Management is **not just one thing** but rather **the aggregation and interaction of many things**; and perhaps because the elements, and the weighting of these elements within the total, may differ between different sectors, and even between organisations within the same sector.

Difficulties are also likely to arise when the focus, needs and desires of the asset managers do not align to the focus, needs and desires of the organisation's decision makers.

Indeed Alignment (or mis-alignment) could be the biggest reason

In this issue, I look at some key factors driving decision making and asset management in three sectors - Utilities, Local Government and State Budget Dependent Departments.

Do consider and enjoy - and feel free to add your comments

Penny

Why is it hard to sell the idea of asset management?

My friends in the Utilities sector do not seem to find it as hard to sell the idea of asset management as those in local or state government. This issue may be able to throw some light on this.

Here are the definitions I use for the three sectors.



UTILITIES

Water, power, gas, telecommunications, etc.; where pay for use (or 'the utility model') is the adopted approach, fall within this category. Where these services have been corporatised or privatised, they fall within the Utilities sector. However, where they are provided by local or state government as a public good (where, for example, water is not metered), I consider it as part of a local government or state budget dependent department for the purposes of this issue.



LOCAL GOVERNMENT

The focus here is on Local Government infrastructure assets and the services they provide. For the most part, Local Government provides non-priced public goods. There are a few exceptions to this but they are relatively a small part of total services.



STATE BUDGET DEPENDENT DEPARTMENTS

A budget dependent department is one where services are provided either without direct charge or where the charge is a token amount not related to the cost of service, eg public housing, and where the state budget provides for all costs or a substantial contribution to the costs.

The following are generalisations and, like all generalisations, there will be exceptions. I have chosen to ignore the exceptions to allow us to focus more closely on the key differences between the sectors.

I am grateful to the following readers for the comments on the attached chart - but everything you still find objectionable remains entirely my responsibility!

Danny Azavedo, Sydney Water

John Comrie, JAC Comrie

John Howard, JRA Associates

David Hope, Skilmar Systems

Chris Lloyd, CA Solutions

*and one
correspondent who
wishes to remain
anonymous!*

ALIGNMENT - KEY FACTORS

How do your asset management drivers and the business drivers of your organisation align?



COMPLEXITY & NATURE OF ASSETS

A **complicated** asset has many elements to be considered, a good asset register/ information system can handle this. A **complex** asset is one that not only has many elements but any decision on one may impact the others in a significant way. This requires a higher level of information and more responsive asset management system. The more integrated an asset is, the more complex it is.

Utilities

Moderate to High Complexity. Assets highly integrated, few locations, failure can have immediate, extensive and critical (life and death) consequences

Comment: Limited range of assets; asset characteristics, performance and maintenance requirements are well known; generally known mean time before failure; large network has potential to allow good spares inventory; can be long lead times for increasing network capacity making it amenable to good planning.

Local Government

Where local government provides water and/or electricity under a utility model, see Utilities, otherwise assets generally have low complexity. Assets have, and need, limited integration. Simpler asset structures, Many sites and these sites largely independent. Failure seldom critical, mostly an inconvenience.

Comment: A wide range of assets for urban local government complicates management, limited information on asset characteristics, maintenance and performance knowledge (sometimes alleviated by sharing information across councils); smaller councils lack asset skills and knowledge which limits the benefits of low complexity.

State Budget Dependent Departments

buildings vary from very simple (small schools, bus shelters) to large, complicated and complex (eg high security prisons, teaching hospitals where failure of one component can have serious consequences for others and critical (life and death) consequences. For many state departments, however, their major asset is office buildings. Here failure of elements is mostly localised and an inconvenience rather than critical

Comment: Each department is responsible for only a narrow range of assets and services; procurement issues may be complex in nature.



DECISION MAKERS

Decision Makers are those who make the final decision. Some may engage advisors to assist, but it is still the Council, the Board or the State Executive who make the final decisions at the strategic level (i.e. new acquisitions, disposal, changes in service levels)

Utilities

DM are the Board and are chosen for their industry and technical expertise

Comment: Board members generally have excellent industry knowledge and often excellent asset knowledge; good networks of colleagues, politicians and advisers; they can both understand and appreciate advanced modelling and statistics

Local Government

DM are the Council and chosen for their rapport with community -

Comment: Councillors have good political skills, response is intuitive driven by media and community anticipated acceptance and re-election potential. They are subject to pressure groups in the community. Response is driven more by intuition than sound analysis - however, this doesn't necessarily make the decisions wrong!

State Budget Dependent Departments

DM are the Politicians and their advisors, chosen for political affiliation -

Comment: Ideology may play a part in asset acquisition and management (e.g. use of the private sector, PPPs); more remote from understanding community needs than local government; subject to extensive media pressure.



INCOME/REVENUE AND FOCUS

Every organisation is in some way a slave to its budget for no one survives to the longer term unless they also survive in the short term! Budgets are thus critical to survival. How to ensure increases to the budget and prevent reductions is a key determiner of actions in all sectors.

Utilities

Determined by sales and by prices allowed by the regulator; hence the focus on risk and return

comment: Additional effort is needed to satisfy the regulator; regulatory decisions may not be congruent with utility planning and development issues (depends somewhat on level of independence of regulator); Risk and Life Cycle Costing is now becoming a major tool not only in asset management but also in communication.

Local Government

Revenues are property related but services are increasingly people related and hence there is a mismatch; councils free to increase rates subject to ratepayer acceptance (and subject occasionally to caps set by state government): focus on community satisfaction

Comment: Most services provided are in the nature of public goods; where opportunities for user pays pricing exist there tends to be a lack of understanding of full costs (especially life cycle costs) leading to poor pricing decisions.

State Budget Dependent Departments

Revenues of individual departments are determined by central budget allocation, special purpose federal grants: focus on meeting requirements. Budget allocation does not necessarily recognise the cost of providing service.

Comment: budgets often determined by automatic CPI+/- adjustments; desire to 'win' co-funding by the Federal Government or by the Private Sector (PPPs) has a large influence on the projects chosen, with both being more amenable to new capital than renewal.



CAPITAL RAISING

What are the influences that determine new and renewal capital investment? And what are the checks and balances?

Utilities

Subject to acceptance of business case by Directors, and by regulators who check the rigour of the business case

comment: Also subject to the financial market

Local Government

Business case acceptance is probably the exception, it is more driven by meeting community needs

Comment: Where business cases used, they may be a means of justifying a priori council decisions.

State Budget Dependent Departments

Subject to acceptance of business case by departmental head, of funding availability by the Treasury, and of political priorities.

Comment: Capital spending is often a measure for 'kick starting' the economy. There is little external review to check the completeness and rigour. Both Treasury and Audit have limited resources and limited influence. Decisions often driven by credit rating agencies (encouraging 'off budget' expenditures and the use of PPPs as a replacement for capital raising.



'BOTTOM LINE'

The 'bottom line' is code for what is important to an agency, what determines success or failure.

Utilities

Impact on the bottom line (Profit, subject to risk and reliability) is the major determiner of actions. Recognition of the 'long haul' nature of the business. The economic bottom line is clear, quantifiable, and monetised, and is determined by and reflected in the Balance Sheet as well as Profit and Loss Statements.

Comment: Increasingly, Utilities are recognising a wider, triple bottom line focus. Environmental regulators encourage (force?) attention on environmental issues and the Economic Regulators are seeking to encourage more community participation and awareness of social issues

Local Government

Making a profit is not the intention of Local Government. Instead, the impact of the bottom line is more a constraint than a *determiner* of actions. The focus is 'triple' bottom (economic, environmental, social) but measurement is vague and thus as a determiner it is vague. Success is not measured by the Balance Sheet (but failure might be!)

Comment: In addition to promoting achievements there is a focus on minimising damage in the public eye. Recently there has been significant focus (from State Government) on financial sustainability (operating surpluses, asset replacement) some requirements in LG Acts for prudential assessment of major projects but no enforcement;

State Budget Dependent Departments

Bottom line is a constraint, budget dependent,

Comment: In addition to promoting achievements there is a focus on minimising damage in the public eye. General recognition of the need to spend 'up to' the limit in order to ensure continuance of budget; often criticised for not 'spending fast enough' to ensure that government priorities are met; little reward or recognition for 'more efficient or more effective' spending.



RANGE OF DIFFERENT SERVICES PROVIDED

The more different services that are provided, especially where these serve different market groups, the more trade-offs are involved, and the greater the difficulty of decision making.

Utilities

Narrow; trade-offs normally evaluated in terms of risk and return,

Comment: commercially, where conglomerations of different utilities occur it is generally based around a particular service, such as meter reading where the basis of profit is in the extension of service knowledge and economies of scale.

Local Government

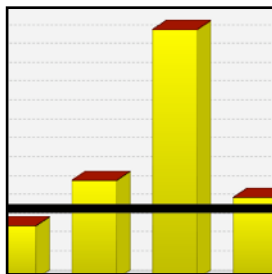
Broad and there is the constant need for trade-offs between more of one service and less of another - risk and return not so easy to apply,

Comment: Often the trade-off is not recognised and applies by default. There is increasing community demand for broader range of services and acceptance (uncritical or otherwise) of services vacated by other levels of government; lack of community understanding of the roles of various levels of government contribute to pressure on local government to increase service provision; service provider 'of last resort'

State Budget Dependent Departments

Each individual state department has a relatively narrow set of assets and services (eg housing OR education) but various subsets of both.

Comment: in Australia, there has been significantly shedding services over the last 25 years, often to local government or by privatisation of services or asset sales.



SERVICE LEVELS

How are appropriate, cost effective, desirable service levels determined?

Utilities

Service levels largely (but not completely) determined by the regulators (economic, environmental, OH&S); 24/7 delivery requirements

Comment: increasingly utilities are reaching out to understand the desires of their customers.

Local Government

Service levels determined by the community as interpreted by councillors or through community consultation.

Comment: community pressure to retain assets which no longer contribute to service delivery; generally little need for 24/7 service delivery; difficult to 'get out of' service delivery even when the demand is very low. However a lot of work has been devoted to methods and tools for getting the service level 'right'.

State Budget Dependent Departments

Service levels determined by political agenda.

Comment: Little assessment of the 'appropriate' risk levels and reduction of overly high levels are often carried out by default; risk management may determine minimum service levels in relation to community safety; 24/7 service delivery is a characteristic of the more complex, and complicated assets such as high tech prisons and hospitals.

In Summary,

Utilities

- and, by extension, all commercial organisations to some extent who see themselves in business for the longer term - have the greatest alignment between the interests and desires of the asset manager and those of the Board members. Board members have a good in-depth knowledge of the industry, and usually the assets. In many ways they are able to 'speak the same language'. They see that good asset management improves their profits, reduces their risks and increases reliability, things which are of critical importance to decision makers. And these things can usually be measured and tracked.

Local Government

has some disconnect. Councillors do not necessarily make the connection between efficient and effective asset management and the supply of services to the community. These things are not so easily measurable or trackable. They are generally aware, in principle, of the importance of asset management - thanks to activity by associations supporting Asset Management and, in Australia, by a number of studies into the financial sustainability of local government which has revolved around their ability to fund the renewal of ageing assets. However councillors do not necessarily see the steps to be taken to bridge the gap between awareness and actuality. They are, however, considerably in advance of ..

State Government,

where no similar across the board studies have been done into long term financial sustainability since the mid- 1980s! At the state government level there is no higher authority urging them to better asset management and there is no clear connection between efficient and effective asset management and the achievement of the political aims of state budget departments. For roads and rail, there is much asset management activity on the ground but at the higher reaches of decision makers, asset management still takes a back seat to political requirements. For hospitals and prisons, the task of managing complex and complicated asset systems that have potentially critical effects is made harder by a 'rule by media' that influences so much of the top decision making.

Although based on experience in Australia, it is likely that the same general truths apply internationally - but if I am wrong - feel free to tell me!