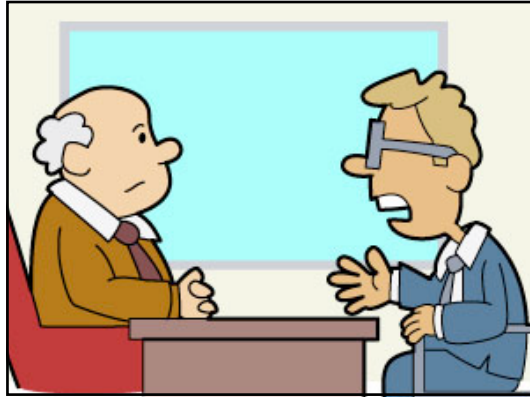


Tracking Success



But our Asset management MUST be successful. Just look HOW MUCH MONEY we are spending on it

In the last issue, on the theme of Success, I looked at how you could improve your odds for success in individual projects or programs by focussing on the specific benefits that you expected this project/ program to achieve, defining them and tracking them.

In this issue, I want to look at how we might track AM success on a broader scale, for an organisation overall, looking at the THREE major BENEFITS that AM brings to the community, namely:

cost and charge reduction;

service and service standard improvement; and

sustainability (and with it the assurance that services will continue to be supplied without sudden and disruptive rate increases.)

In the next issue I will look at some of the 'in-house' benefits that you may use when promoting greater use of asset management to your organisation.

Please consider - and enjoy!

Penny

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View from the Coffee Shop

My thoughts this morning
were as dark as my coffee!



ON SPIN

Recently the tabloids have been claiming that state and federal governments 'admit' to employing 3,000 'spin doctors' (at a taxpayer funded \$28M) - which is a blatant act of 'spin' in itself.

Talk about the pot calling the kettle black! What the governments actually 'admitted' to was the numbers of *media and press relations* people they had.

Now, as anybody exposed to the unedifying spectacle of the recent Federal election campaign would attest, 'spin' - that is, glib, no-substance statements designed to pacify or sway the population rather than inform - is on the rise. But to label an entire profession as, effectively, 'liars' is hardly the way to go.

Your PR team is your organisation's link with the community.

How are you going to determine what the community wants by way of service levels, and how you going to know whether they are prepared to pay for the services demanded, if they do not believe any information you provide to them?

Without a clear understanding of service levels and their costs on both sides of the fence - yours and the community's - **there can be NO good asset management.**

So this is a serious situation, not only for your maligned and under-valued public relations officer, but for your AM team - and your entire organisation.

Fortunately, you are in a position to correct the problem. What turns people off is the perception that information is being with-held and/or that they are being treated as too stupid to understand the true situation.

Perhaps the time has come for a much closer collaboration between the asset management team, the public relations section and the executive? You are in a good position to ensure that the information going out to the public is not only honest but can be verified. It will pay to be very upfront about this. If you don't have a media policy that involves the AM team, maybe it is time to get one?

Have a cup of coffee and think about it!
Cheers,
Penny

**Asset management isn't ONE THING,
it is actually a whole collection of activities**

Who is 'best' at asset management?

That asset management is a collection of activities, the composition and weighting of which will vary between organisations, is quite obvious to anyone who has taken part in any benchmarking exercise in asset management.

This is why it is very difficult when I am asked "who is the best at asset management?" and I, like you, can think of agencies who are doing some things very well and others who are doing other things very well but no-one who is actually doing everything very well. To my mind that is what keeps AM so interesting - there is always scope for improvement, even amongst the very best.

What are the benefits of adopting an asset information system?

This means that questions that I often see in forums such as 'what are the benefits of adopting an asset information system' really can't be answered.

For one thing, it depends on where the organisation is now in terms of asset management organisation and culture.

For another, unless organisations recognise that an AIS is just 'one thing among many' that needs to be done to improve asset management there is a good chance that there will be no benefits at all.

For example, unless the organisation recognises the need for training people to enter data conscientiously, provides the time for them to do so as part of their normal work, and promotes a culture where this is the accepted and 'right' thing to do, the chances are that the system won't actually provide much improvement in useable data quality.

Also, unless it is prepared to analyse, use and act according to the data it provides, again, there may be little change.

And, unless it recognises that an AIS can only provide supply side information on assets and not on the service demands that are the reason for the assets in the first place, then the organisation has only a pair of scissors - with just one blade!

And, and, and.....

When asset management is well done in an organisation, it means that many things are coming together as a whole.

In other words, good asset management is 'holistic'.

And the only way we can measure the performance of an holistic system is by its overall **OUTCOMES**, and not by individual outputs or sectional KPIs.

**Tracking the OUTCOMES
of Asset Management**

There are THREE main outcomes of interest to the community/customer base

- reduced costs/charges
- increased services/service levels
- sustainability (meaning the assurance that services will continue to be supplied without sudden and disruptive price or rate increases)

The first two can be tracked over time using standard business statistics. The third requires budget agencies to develop their asset data to a level that would be considered standard were they a revenue raising agency.

In 2001 Steve Albee of the USA Environmental Protection Agency visited Australia to see how the water and wastewater industry was performing here. He went home full of enthusiasm and told the US water industry what he had found. He described what was being done - and the benefits being achieved. The following is a good summary of the benefits that can be measured for revenue raising functions.

Example: The Hunter Water Experience

Steve Albee described how Asset Management had allowed Hunter Water to: -

Do more with less

Hunter Water went from 1500 employees to 450 in a decade

Increase revenue/benefit opportunities

1. In addition, about 100 of their employees work for a subsidiary, that provides services to Hunter Water and earns external income from other utilities by providing a range of operating / consulting type service to other smaller utilities

2. They formed another subsidiary company for telemetry service and then sold that company for revenue for reinvestment in the base system

Reduce costs

Since 1990, their audited average operating costs per service have fallen by over 40% in real terms

Reduce customer charges

Over the last decade average charges per customer were reduced by about 30% in real terms.

Improve services

The price reductions occurred during the same period when improved service standards were adopted and customer satisfaction surveys document improved customer satisfaction with service levels

Meet compliance standards

12 of 21 wastewater treatment plants achieved full compliance with all license conditions. The remaining 9 plants achieved 99.6% compliance

Was this effective in encouraging the US Water Industry into Asset Management?

Very much so! AM in the US water industry is now the fastest growing in the country.

**SUSTAINABILITY, or Measuring the
RENEWAL GAP**

Where output is not measured or priced in units - such as the many and varied services provided by councils, it is harder to demonstrate reduction in costs, and without this, any reduction in rates or charges is suspect.

Similarly, it may also be more difficult to define services and service levels independently of the quality of the assets used to provide them.

But one thing that councils, and budget dependent agencies can do is to demonstrate their asset management through the measurement of increased sustainability (i.e. a reduction of the 'Renewal Gap')

**Why Councils and Budget Dependent Agencies
need to demonstrate long term financial sustainability
- and start now!**

**FINANCIAL SUSTAINABILITY CAN BE MEASURED BY THE SIZE OF THE
'RENEWAL GAP'** (This is the difference between the amount that needs to be spent in the next 5, 10, 15 years to provide for asset renewal falling due and the amount that is actually being budgeted.)

Asset data not ‘good enough’? Not so!

Many agencies defer making an attempt to measure their renewal gap because they are conscious that their asset register details need updating in terms of accuracy or scope or both. They are not sure of their asset lives or asset condition (particularly for buried assets) and their asset values haven't been updated for a while.

The main reason for not waiting until your asset data is good is because, if you wait, it never will be!

Stop pretending otherwise.

Unless the organisation knows the truth about the quality of the current data - and, especially, unless it understands why it is necessary to do better - why should they?

You need to give them this reason.

So start now to document what you know (and what you don't!). Where the data quality is pretty reliable, give it an A, where it is not so good, a B, and where you know you should not rely on this information for any important decision, give it a C (or any information quality assessment coding of your own choosing). Just do it! Don't let the current quality of your data stand in the way of establishing your baseline.

Just starting will create interest in the organisation

As soon as you publish and publicise your measures, *any measures*, you start to generate interest in what you are doing and get people thinking about the issues involved

When I started to collect the data that became the very first replacement cost valuation for the water authority in South Australia (while it was still a budget agency even though charges were laid), the Deputy Director would stop me while I was waiting at the lift and want to know “What is it up to now?” And he wasn't the only one. We had started with an estimate (based on outstanding loans of about \$800M) By the time the exercise was finished the figure was \$8,000 million - a ten fold increase. But by generating the interest I had an opportunity to explain what it was we were doing and why it was that the figures were so much higher than had previously been imagined. So when the figures were finally produced, they had been conditioned to expect a large increase. This made it more acceptable.

You will also flush out opposition

The other thing that happened is that my figures were immediately suspect by those who had produced the existing figures.

The Finance Section did not want to believe that they had been reporting such understated figures for so long and resisted very strongly. *This engaged considerable debate in the organisation, giving me the opportunity to elaborate on what we were doing and why.*

The engineers also had their doubts over whether the figures were kosher. So they replicated my research - and by doing so, *validated the process and improved the data - and they did this on their budget dollars!* Also by getting involved at the ground floor as it were, they became firm supporters. They adopted the modelling work I had done and further developed it, so that the data continued to improve.

Don't fear opposition.

It is other people's way of getting involved. And the earlier in your endeavours you publish and publicise your work, while it is still pretty preliminary and rough, the easier it is for others to get engaged. (And if you have made mistakes, so much the better! For others will correct them, you will have learnt something, and they will be more committed to the end results now that they have had an input.)

The Importance of a Baseline

Until you have a baseline you haven't got anything to measure your improvement by. Why put a whole heap of work into getting better data if you are not going to be appreciated for the effort?

The baseline also establishes why you need to improve! Your first estimates of the renewal gap will be based on your current understanding of asset lives, asset condition, asset values. It is possible that your budgeting will not be that good either. For example, it may not distinguish between capital expenditure needed for renewal and that needed for expansion and upgrade. So your initial figures will be based on guesses. SAY SO.

But warn your organisation that these are preliminary estimates and two things will happen

- (1) First, the recorded situation is likely to get worse as your information improves. This is a measure of how much more you have learnt about the real situation as a result of your AM activity. Remember it is not the real situation that has changed, simply that your understanding of it has improved.
- (2) Second, once you have established the real situation you can start to deal with it - from here on in, the Renewal Gap will get smaller and smaller, that is you will get more sustainable, because you are able to improve your understanding of what is really needed and prioritise improvements.

but not only will it **GET** better, you will be able to **DEMONSTRATE** that it is getting better! **SO START NOW!**

THIS WEEK ON THE WEBSITE

A competition to challenge the brain cells

Win a FREE subscription to Strategic Asset Management.

Suffolk Council in the UK is to reduce its £1.1bn budget by 30% by outsourcing almost all its services. Under the New Strategic Direction almost all council services will be provided by social enterprises or companies over the next few years. It is seen as a possible model for other councils strapped for funds and has attracted a great deal of criticism from unions, but

- **What might be the *strategic asset management advantages* of this action?** Answers (400 words max.) to Editor, SAM. By November 31st please.

Best answer wins a **FREE** subscription to Strategic Asset Management for a year.

*This competition is available to everyone, but if you are an **existing subscriber you can choose an alternate cash prize**. For every entry the prize pool will increase. So encourage everybody to enter.*

Most of you can readily think of reasons for NOT outsourcing - but your executive may have other plans, so learn to think like them to be in the best position to argue your case.

ALSO ON THE WEBSITE



Calling All Water and Wastewater Asset Managers

to the International Water Association's Leading Edge Conference on **Strategic Asset Management**.
September 27-30, 2011
Mulheim an der Ruhr

website: www.lesam2011.org
Abstracts due **October 30th 2010**

Come, be there! I will be, and I look forward to seeing you.