

STRATEGIC # 315 ASSET MANAGEMENT

May 2nd 2011

A devil of an issue for those who are policy oriented

2. **'Not enough maintenance money' or 'too much capital to maintain'?** How changing the question can widen the range of solutions. *Keywords: maintenance, capital, investment.*
3. **How 'Building too much' is built into the system** From a historical beginning to now. *Keywords: history, capital growth,*
4. **A Bias towards capital, rather than non-capital solutions** And we are all responsible. *Keywords: capital, non-capital solutions*
5. **What's the question?** (what insightful questions would help resolve the 'too much capital impasse?')
6. **Future Role of Central Agencies?** What is the role of the 'go-it-alone' agencies in an increasingly collaborative world? *Keywords: collaboration, TAM, IIMM, PAS 55*
8. **Competition Results** - how readers saw the 'Four Words for disciples of the new religion of Asset Management. *Keywords: service, risk, people, sustainability*
12. **A new Competition for May/June** - What Actions can we encourage to promote the Attitudes we want people to have?

Enjoy!

Penny

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'Not enough maintenance money' - or TOO MUCH CAPITAL to maintain?

Galbraith, the eminent American economist, commenting on the impact of advertising, spoke of being assaulted each morning by devils creating anxieties that could only be assuaged by going out and buying goods to counteract the effect of the devils. *Did we really need more goods, he asked - or did we need less devils?*

This advice may be instructive for infrastructure. Do we really need more maintenance money to sustain our infrastructure - or do we need less infrastructure to maintain?

**The way we state the problem
conditions the options that we see as
possible solutions.**

If we state the problem as **TOO LITTLE MONEY** - the solution is obvious: 'get more money'. We have been trying this for the last 30 years with few, very limited, successes to show for it.

Is it perhaps time to restate the problem as
TOO MANY ASSETS?

If true this opens up a whole new field of options (asset sharing, asset modification, asset disposal) for existing assets and a new way of approaching future asset demands.

But is it true? What would constitute 'too many assets'? More than we can afford - or are willing to sustain? If so, then it is easy to see whether this is true of your organisation. In an earlier SAM I raised the question about sustainability and it bears repeating - given that asset portfolios, in general, have an average economic life of about 50 years or so, that is are 'wearing out' at about 2% a year, is your organisation making provision for renewal at the rate of 2% for the current replacement cost of your total portfolio? (Bearing in mind that they would also need to spend about 1+% for maintenance to ensure that the rate of wearing out was no higher than it needed to be). Is this the level of commitment that your organisation is prepared to make. What is it doing to ensure its future renewal planning meets the necessary target?

OK, time to consider the 'too many assets' hypothesis?

Consider the following two articles: "Building Too Much is Built-in to the System" (p. 3-4) and "Too much capital - What are the Questions?" (p.5)

For many years when confronted with a situation where demand for infrastructure assets exceeded supply, we responded by increasing supply.

It was not really until after the introduction of widespread asset management thinking that we seriously addressed the possibility of demand management, and even now it is probably not the first option examined.

We still have a predisposition to build!



HOW 'BUILDING TOO MUCH' IS BUILT INTO THE SYSTEM

Historically there was reason for focussing on new infrastructure to the exclusion of sustainability in the longer term. That is not true now but our attitudes, and our actions, have not changed.

Historically

After the end of the Second World War, the Australian economy expanded very rapidly with soldiers returning from the war, refugees and migrants swelling the workforce and people ready to buy and put the deprivations of the war years behind them. There was a new confidence which benefitted industry expansion. Then came the baby boom and a greatly increased demand for public housing and all the household goods that go along with housing expansion. New council areas were being developed and required roads, telecommunications, power and water. Demand for infrastructure was very high - but that was OK because as the economy grew so did government revenues. At this time there was little unemployment and few social welfare payments compared to today, the population was young and fit. So much of the new government income could be, and was, devoted to building the infrastructure needed for a growing economy.

Growth rates reached a peak in the 1960s and since then have slowed. During the 1950s and 1960s we built to meet growing demand. Today, we are just as likely to build infrastructure *to try to stimulate demand*.

Today

There is a bias towards capital expenditure - and it is coming from all quarters.

In spite of the growth of asset management understanding and life cycle cost analysis that shows that the upfront capital costs is only one third or less of the total cost commitment of new assets; in spite of our inability to adequately fund the maintenance of the assets we already have; in spite of lip service paid to non-capital solutions including demand management, our infrastructure portfolios continue to grow beyond our capacity to sustain.

The answer lies in people. Consider ----

A BIAS TOWARDS CAPITAL RATHER THAN NON-CAPITAL SOLUTIONS



We have tended to focus on lack of knowledge of AM principles, lack of appreciation of total life cycle costing, or lack of good benefit:cost justifications and all of these are relevant, but I suspect they pale into insignificance when lined up against what motivates people.

On the part of (in alphabetical order)

Accountants - a desire for verifiability v. relevance which is reflected in a lack of instruments to adequately take into account future maintenance and renewal liabilities

Administrators - the greater ease of obtaining funding under a 'once-off' capital line, rather than a continuing or recurrent line.

Architects - a focus on the new and innovative, and on aesthetics, at the expense of sustainability and the minimisation of total life cycle costs.

Economists - the recommendation of investment projects based on whether the benefits exceed the costs - regardless, and without consideration, of whether the community benefits can actually be funded in the longer term

Engineers - the sheer fun and satisfaction of constructing something.

Management - a desire to reduce labour inputs in order to avoid the pain of labour management and disputes,

Politicians and senior bureaucrats - a desire to 'leave a monument'

Treasuries - a misguided belief in the efficacy of stop/start economic management through the medium of capital expenditure (or failure to educate their governments) and failure to deal with the bias to new capital construction of PPPs.

Senior levels of government - the practice of using capital grants as 'seed money' to direct the expenditures of lower levels of government into desired directions and thus to achieve their political goals at minimum cost to them.

Lower levels of government - the practice of rewarding managements who secure the maximum number of these capital grants, falsely seen by them as 'free money'.

AND ON EVERYBODY'S PART - a focus on the supply of *assets* rather than service

There is a wealth of knowledge in the Asset Management Community.

SHARING IS CARING! So please consider sending in your suggestions. And we will share them in a future issue.

SAM 314 Invitation

WHAT'S THE ANSWER?

DUE DATE: JUNE 30TH 2011

Having to refer ALL decisions up the line is grossly time consuming and delays much needed action.

BUT making strategic decisions (i.e those that have portfolio wide ramifications) at the maintenance level without understanding the corporate impact is very expensive - and again, delays much needed action.

So what's the answer?

Two types of answer are welcomed:

From Experienced AMgrs and Consultants we are looking for **what has been tried - and worked!**

From Everybody, experienced or even very new to the field - **potentially different ways of doing things that have yet to be implemented but could work.**

SAM 315 Invitation

WHAT'S THE QUESTION?

DUE DATE: JULY 30TH 2011

The problem we are considering here - the bias towards capital expenditure resulting in more capital than we can manage to support - is a very complex one, because so many see it in their interest to continue (as seen in the article "How 'building too much' is built-in to the system'.

So my question to you is:

What question / or questions can you suggest, whose answers would help to reign in this practice?

Not an easy challenge, but I suggest, a necessary one if asset managers are to be able to do their job.

THE FUTURE ROLE OF CENTRAL AGENCIES?

State treasuries and other central agencies have, in the past, had a guiding role in creating awareness and initiating interest in asset management.

I have been looking at the role of AM manuals and guidelines in the AM History Forum and it seems to me that there has been a growing, collaborative trend, that might question the future role of the essentially 'go-it-alone' central agencies.

How might central agencies ensure they continue to be relevant, not merely as a policeman or controller, but as a positive force for continual growth and development?

QUESTION:

A

COLLABORATIVE TREND?



If we look at the general development of manuals/ guidelines from the first NSW TAM manual in early 1993 through to the current development of PAS 55, there is, I think, a very interesting progression that can be observed (in fact, several!)

STAGE ONE: State AM Manuals (early to mid 1990s)

The TAM guideline was specific to New South Wales. It was the first of its kind and its impact can be seen in all of the guidelines, manuals and discussion on AM that came after. NSW, as the largest state and economically strong, had become used to being a leader in the country and expected that other states would simply adopt the TAM manual. It had printed many volumes in anticipation. But parochialism won the day and the other states developed their own volumes, each claiming their own superiority but clearly influenced by TAM. It was, as Kerry McGovern says in the Forum, an 'exercise in bringing clarity out of chaos'.

This is the first stage, where AM was Government led. The focus was more on the WHAT should be done, than the HOW, although examples were given.

STAGE TWO: The development of the IIMM (1994 to 2000 and continuing)

The development of the IIMM represents the second stage. It started life as the "Australian National Asset Management Manual" for and by local government in 1994. The content was largely based on professional guidance documents that Roger Byrne had produced for his GHD clients. Roger then introduced this manual and AM ideas in general to New Zealand and the local engineers association there (then Algenz, now Ingenium) produced their own manual, the "NZ Infrastructure Asset Management

Manual", in 1996. So far we seem to be seeing a repeat of the parochialism that affected the state government manuals. But after each organisation had suffered through the agony of updating their individual manuals they saw much benefit in joining forces when each needed a second update and so the International Infrastructure Management Manual (IIMM) was born in 2000. That collaboration between the Australian and New Zealand engineering associations has grown and since expanded world wide.

So the second stage of manual production became the first collaborative stage, where organisations - THAT WANTED THE SAME THINGS - came together to produce a joint product. The IIMM is a manual rather than a guideline and is designed to show how as well as to explain why.

STAGE THREE: PAS 55

PAS 55 is rather different. It is, as Ruth Wallsgrove observed on the Forum, not a manual nor a guideline. It has not been produced by a government, nor even by an organisation - although it has been endorsed by many.

Comments I have received as to WHY they are doing so suggest that those endorsing and supporting it have *not* done so because they share the same goals and ambitions but rather because they see in PAS 55, however imperfectly, A MEANS TO FURTHER DIFFERENT GOALS that they are interested in. It is, in a sense, a 'general purpose vehicle'. Its use as a 'standard' by regulators is a case in point. I think that this multi-purpose function is why it is continuing to grow.

PAS 55, is stage 3 in this developing collaborative movement. Not quite a 'standard', not a 'manual' nor yet a guideline, it is hard to accurately categorise PAS 55. But it appears to be acting as a catalyst for further development.

SUMMARY:

Looking back, we can see a move from parochial, go-it-alone, to collaborative for similar purposes, to collaborative for different and individual purposes. We also see a movement from government production to professional association production to private sector production. And from guidance to instruction to something approaching a formal 'standard'.

What's next?



Competition Results

FOUR WORDS

as a key for disciples
of the new religion
of Asset Management

THE TASK You will recall that the challenge was to give your disciples 4 words to use to spread the religion and make sure that the important aspects of its teaching are not lost into the future. You were told that they will use these 4 words as prompts to remember all they have learnt from you and that these will be the only written scripture the religion is allowed to have.

Sustainability is the Word

*George Wilkie, Executive Manager City Design,
Hobart City Council*

Pay now – Live later

*Stephen Howe, Regional Manager,
Gippsland SMEC Urban Consulting Group*

Stephen adds that this is an intentional pun and reversal on the usual short-termism we see amongst many asset custodians. It's also pretty consistent with how many actual religions operate!

Sustainable Communities Are Resilient:

Frank Blues, Prince George, BC, Canada

This can take on the acronym SCAR that might be memorable but I also think that if the words are reversed leading to – Resilient Communities are Sustainable – I think this also works. I think this message talks to the goal of AM while considering the need to continually adapt i.e. climate change.

Service Tradeoffs Are Rationalized:

Frank Blues, Prince George, BC, Canada

This can also take on the acronym STAR which has a direct connection to the STAR ratings and remembering that we may not always be designing or striving for the delivery of 4+Star services in every area.

Patience, patience, patience, patience!

Dean Taylor, Opus International, New Zealand

Others considered the four words as guides to understanding the religion, which was more in the spirit of the original challenge

Customer

Ultimate aim is to make your customer happy. If customer is unhappy, whatever reasons you give are futile. If you are not ready to negotiate your actions, make sure you convert your customer's principles of happiness to ensure customer is happy at the end.

Risk

All asset management actions are prioritised on levels of risks. Higher risks get more attention and vice versa.

Capability

Asset management personnel should have the capability by having required skills and authority. The organisation should have the capability with sufficient resources. Asset should have the capability to provide the service.

Time

Every asset management action has to be taken at the correct time to get the intended result.

*As the Prophet of religion "**Asset Management**", if I am blessed with the **capability** of assessing the risks involved with my capable assets to take actions on time **to ensure customer** happiness, my religion would live long.*

Janaka Seneviratne,

Maintenance Co-Ordinator Buildings, Bankstown
City Council

People (Serve the Need)

Every thing in the word exists for a reason – to support the economy, or the ecology or in a way, which is invisible to many, to help the pure existence of another system. Assets are too. Assets are existing or newly created to serve a purpose – wellbeing of people. The purpose will encompass competing needs of several systems. The insatiable needs of social, environment, legal and other co-existing systems will exert pressure on scarce sources. Asset management is assessing the needs of stakeholders, defining and regulating the needs for best outcomes. The optimum outcome which asset management trying to arrive at will require each affected party to compromise - a scarification for an integrated approach, and a more rounded solution.

Risk (Face the Challenge)

In a world where death is the only certainty, assets are no exception. Asset will die or declared dead when they fail to perform the duties (these may be hydraulic, capacity, technological, economical etc) they were expected and the cease can be triggered by many causes. It is inevitable that asset managers have to take risks in managing the life of an asset during its lifetime starting from the acquisition to disposal. Every risk – whether we try to mitigate, eradicate or avoid depending on the risk appetite - has benefits and costs attached to it. Asset management is managing the risk at a level that matches the stakeholders (including communities, managers and various institutions) risk appetite.

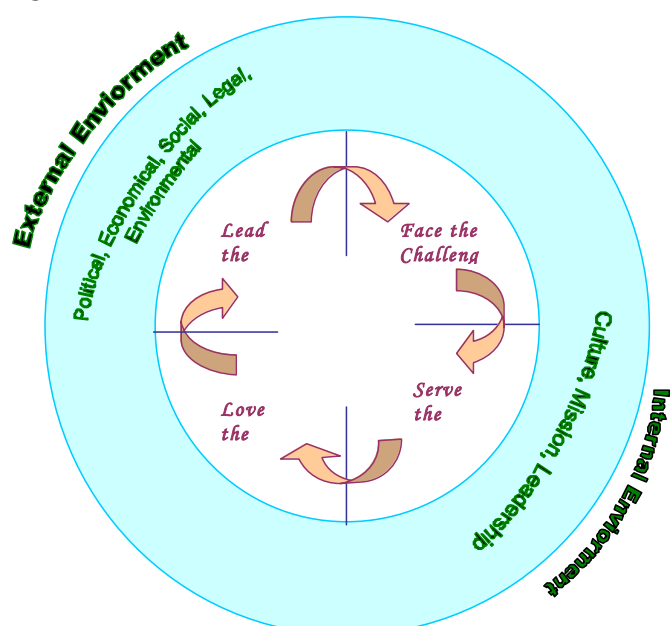
Sustainable (Love the Future)

In the longer term, the optimum solution should be sustainable. Everyone share and enjoy the planet today has an unquestionable duty to protect it for their younger generation. We have to look beyond the comfortable next few years to find solutions that yield benefits for years to come. The assets we create or maintain should be safe, hassle free (as much as possible), technically sound and environmentally friendly, so, they are highly valued equally by future beneficiaries – let them worry less. Asset management is about finding sustainable solutions – thinking forward (whole life cycle).

Lead (the Way)

Implementation of sustainable solutions needs investments – in term of finance, human resources and other recourse of versions. Even a thought or a feeling originates within you, will have a consequence on you or others. Likewise, every investment will have a consequence - asset management is leading the way and winning the trust in infrastructure investment to make the consequence – the outcome - a positive experience, which makes a real “difference” – a healthy return. Monitoring, controlling and benefit realisation assessments are crucial in asset management. It is about achieving excellence and adapting to change. All living beings are evolving, trying to adapt to changes, to survive. Why not assets and asset management?

Padmi Pinidiya
Sydney Water Corporation



Social Wellbeing

Social wellbeing is the key to successful infrastructure asset management. Our social systems are based on the economic systems. A society should have sound economic development in order to ensure greater social wellbeing of the community. Economic development of any society is underpinned by good infrastructure systems/networks

Service Delivery

Focus of Asset Management is to deliver service to the community. Factors influencing the level of service (LOS) are: Community expectations; legislative requirements; environmental considerations, economics. There should be a right balance between customer expectations, level of service and economics.

Sustainability

In Asset Management we have to consider economic sustainability as well as environmental sustainability. Our infrastructure systems are built on the natural environment that we inherited. Consideration must be given to: using physical resources carefully without wastage; preserving the natural environment for future generations; and harmonising physical infrastructure with the natural environment.

Strategies

We should plan and build infrastructure for future generations (-100years). Asset management strategies should be aligned with the organisation's strategic direction. Strategies should then be translated into detailed tactical elements in order to deliver the organisation's strategic outcomes. Tactical elements include lifecycle approach, risk management, demand management, economic analyses, etc.

Chaminda Dassanayake
Roads and Traffic Authority, NSW

Conscience - we are there for human beings, not for the asset

Consciousness - be aware of everything that you could possibly impact with your recommendations/decisions

Sustainable - make sure that what you are doing is good for the long run, and will be there in the long run - make sure it's not just "short-term gain for long-term pain"

Needs - as compared to wants/desires - this includes the service and the assets to provide that service - make sure that you and the client understand the difference between the two

Leo Gohier, now retired
Canada,

And the winner?

This was a very hard task with so much thought and creativity supplied by all contestants, but in the end I decided in favour of **Padmi Pinidiya**. Congratulations! And may you greatly enjoy your free subscription to “Strategic Asset Management” over the coming year.

Congratulations also to **Marcus Lee of Devonport** who suggested this topic. If you have a suggestion for an AM Challenge topic do submit it!

Next Competition, May/June

“If you want to change the way people act, you have to change the way they think - John Moubray,”

On reflection, this seems not the way in which things actually happen. As children we were taught to say 'please' and 'thank you'. Gradually, after **acting** in this way for many years, we developed **attitudes** of politeness and gratitude.

The same may be true of AM also. Moreover we can observe and measure changes in action - we can only infer changes in thinking. This suggests that we should concentrate on working out **what actions would be connected with desired attitudes**, and then **encourage those actions?**”

So YOUR TASK is to

(1) choose one AM attitude or mindset that you would like to encourage, (2) suggest an action to promote it and (3) comment on how it could be encouraged, observed and measured

Due Date: Friday 24th June 2011