AMQ International's STRATEGIC
332 ASSET MANAGEMENT

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WHAT GOT YOU HERE, WON'T GET YOU THERE!

This is the title of a New York Times Best Seller for the last 5 years. It looks at traits that made businesses and business people successful and yet, paradoxically, may now be holding them back from further development.

Asset Management has come a long way in the last 30 years, but we might also ask **"Will what got us here, get us to the next level?"** A good question but one that we have no hope of answering until we can say where exactly we now are, and how we got here. Once we know the answers to those questions, we are in a position to tackle the next one which is **"Where do we want to go now, and what is the best way to get there".**

Surely these are issues we can no longer avoid considering? Especially now that we are teaching asset management at a tertiary level, accrediting the next generation of asset managers and recognising on-the-job training. Each of us will also want to think about this for their own organisation as well as the industry.

Let us start the discussion by looking at where we were before asset management took off and what other changes have taken place in the last 30 years that have made the development of AM possible.

As all non-fiction writers are encouraged to 'write what you know' I have written about the situation in public infrastructure in Australia. Until 2000 I was an active player in much of the development that took place here. From 2000 onwards I have been a keen observer but I don't have the in-depth knowledge that many of you will have so please feel free to add, after all this is *our* story.

As always, please enjoy - and take part.
Penny

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WHAT KIND OF HISTORY IS 'THE AM STORY'?

Traditional History

Most historical accounts deal with events that have taken part in the long distant past and no-one is now alive who can either contribute or verify the facts. These histories are necessarily based on whatever documented evidence is available.

Oral History

Then there are the 'oral' histories, stories of more recent events where the major players are still alive to contribute their (necessarily faulty and partial) memories, and to verify (or query) others.

Interesting History

Some of the most interesting stories (such as my favourite, Michael Dobb's minute by minute account of the last 24 hours of the Cuban missile crisis "One minute to Midnight') use both. I plan to use both. The truth is that the really interesting discussions in asset management are those that precede the (often times very bland and boring) official conclusions. Anyone who has taken part in an animated few days of discussion to decide an organisations 'mission statement' will recognise that the words eventually published bear no relationship at all to the passion of the arguments. These words are usually chosen so that anyone can put their own interpretation on them and so 'take ownership'! But they hardly constitute published evidence of thought, idea development, or discussion.

Why YOU are needed

So if the story of asset management is to be an interesting story, we cannot rely solely on published reports, manuals, or conference papers, although all of these are relevant to the overall story. We need the personal stories of those involved. *Your story!* Whether you have been involved in asset management for 2 years or for 20 years, If you remember how you or your organisation responded to any of the broader structural changes that I refer to in the next article, anything at all related to the way your organisation made decisions with respect to assets - please contact me and let's talk.

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THE ASSET MANAGEMENT STORY

To start: a little bit of contextual background

(since nothing happens in a vacuum).

A new management science

The last 30 years have seen the birth of a new management science – asset management. With a now impressive range of tools, processes and techniques, asset management is changing the way we do business, particularly with infrastructure and long lasting assets, and the way in which we organise ourselves.

Asset management is the integration of all decisions related to infrastructure and assets with the aim of achieving desired service outcomes and to do so at minimum life time cost. It thus involves many disciplines: engineering, finance, planning, design, demographics and many other specialities, it is a multidisciplinary field of inquiry.

Many changes have taken place in a relatively short time.

To understand the changes that have taken place in asset management, it is necessary to understand the context in which they have occurred, the simultaneous changes taking place in the structure of the public service, management styles, the economy itself and, of course, in technology. So here is a brief overview.

STATE AND FEDERAL GOVERNMENT

1. From Stewardship to Management

Around the mid 1980s, the Public Service began to reconsider the role of *stewardship*, seen as an essentially passive 'maintaining of the status quo', and to favour the more active role of *management*, seen as 'value adding', a term that was to come into later favour. The 'management' approach was seen as more systematic and, by many, more desirable than stewardship. It was essentially *forward-looking* whereas stewardship had as its goal to 'preserve' what already existed.

2. Introduction of Accrual Accounting

The decision to adopt accrual accounting in the public sector in 1989 required assets to be recorded in the balance sheet and launched intense debate on appropriate methods of valuation and depreciation.

3. Outsourcing

When, a short time later, the general worldwide trend towards outsourcing was also taken up in Australia, it became evident that we really had a very poor understanding of how much it was really costing us to maintain our assets - nor how much it would cost in future years. How much therefore should we be prepared to pay for private maintenance contracts? We did not know. This caused us to look more carefully at the way in which we had been recording (and often 'mis-recording') capital and recurrent costs.

4. Un-bundling

The outsourcing movement led to clearer specification of service outcomes and to the physical separation of service provisions by government entities, known as 'unbundling' thus allowing private companies to bid for the provision of individual services. Unbundling also led to reconsideration of the worth of individual services and to consideration of whether they should be provided at all.

5. Commercialisation, corporatisation and privatisation

These questions were brought into even sharper focus by the subsequent movement towards commercialisation, corporatisation and privatisation in the mid 1990s. What had been taken for granted when paid for by government was looked at more closely when the enterprise was being run as a commercial entity. For example, the corporatisation (meaning the creation of a commercially run, although government owned, organisation) of one water authority resulted in a complete review, and radical downgrading of their 'backlog maintenance' lists.

6. Regulation

In 1985 there was little regulation applying to the management of public infrastructure assets. Government departments were both the provider and the policy maker. Gas was privately provided, but electricity, water, public transport, telecommunications, and postal services were all government monopolies. With the gradual corporatisation and privatisation of utilities, there was also a need to replace the policy element with official regulation. What kind of regulation and who should do it, for example, - a special

regulatory body or the treasury - was the source of much research and exploration of issues relevant to the management of public infrastructure.

7. Changes in management style

As well as structural changes, management styles have changed,

1. ***Management structures have become 'flatter'*** - i.e. less hierarchies with more Indians and fewer chiefs.

2. ***Senior appointments have become politicised*****,** with department heads, and even deputy heads in some cases being political appointments. 25 years ago this was rarely the case.

3. ***The required 'skill set' of senior managers has changed.*** In the mid-80s, all heavy engineering departments (water, electricity, roads, rail) were headed by engineers, and often engineers that had spent the major part of their working life in that same department. By the mid-90s, interest in efficiencies reflected in outsourcing, commercialisation, corporatisation and privatisation had resulted in most of these senior positions being held by accountants or those with financial ability. Move on 10 years and we see the rise of the 'content-free' manager.

4. ***As a result, tenures have become far shorter*****, and**

5. ***Management has become riskier, and essentially 'short-term'*** This same period has seen managerial attitudes changed from one of caution born of awareness that consequences will have to be dealt with to one preferring showy radical change that will enable the next appointment.

All of these changes have affected the development of asset management at the state and federal levels.

LOCAL GOVERNMENT

Many of the changes listed above have also had an impact on local government bodies, although not necessarily to the same extent. In addition, certain structural changes have affected only local government. The three most significant were amalgamation, separation from general council management of income earning water bodies, and devolution of state provided services to local government.

Amalgamations,

In the name of economies of scale and efficiency, started in late 1980s and lasted for about 15 years, affecting each of the states, some being affected several times.

Separation of Water Bodies.

As part of the privatisation movement, councils were encouraged to put out to tender any 'commercial' service that they provided, and in any case to run that business according to commercial practices. In order to ensure that this occur, those councils that had responsibility for water and waste water provision were hived off into separate businesses. (In Queensland, after many years of restructuring in the water businesses, there is now talk of giving them back to councils!)

Devolution of services from the state.

As state budgets have tightened, they have passed on the responsibility for service provision to local government, albeit without the requisite funding. This, of course, is not unique to Australia and is also happening in Canada and the USA, amongst others.

This, then, is the background to the Australian Asset Management Story.

OK THEN

SO WHAT HAVE I MISSED?

Please Contact Me

What has been your experience with any of the issues dealt with in this article?

What other issues are important that I have missed?

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THE WAY WE USED TO BE
Before 1987

We may complain about the state of asset management today - but the only way we can really appreciate how much has been done is to look back and see where we have come from. In 1987 there were no AM plans, hardly any public sector assets were recorded, or valued. We had almost no data. Understanding of the economic lives of assets was rudimentary. Asset renewal was hardly thought about. Here is some idea of what life was like then.

No science to it

Until around 1987 there was no recognised field of activity known as “asset management”. Assets were acquired and constructed, were utilised, maintained and, eventually, disposed of. But there was no *science* to it. There was no holistic thinking that linked the construction decision to utilisation, to maintenance and disposal.

Builders began to complain about the lack of “build-ability”, because architects did not design with the builder in mind. Similarly, maintenance crews complained about “maintain-ability” because the builder was not thinking about the future maintenance needs of the asset when he built.

Users complained of assets that did not work as they were intended, or needed, to work. Some communities discovered, too late, the damages caused by thoughtless asset provision – damages that went further than economic waste, and extended to include damage to the social and environmental fabric through run-down, decaying, infrastructure. Buildings, neglected and abandoned; rutted,pot-holed roads adding to traffic congestion and traffic frustration; rusting pipes; sagging,badly maintained overhead power lines; unsafe bridges, the list goes on.

‘Buildability’ and ‘maintainability’ were identified as problems because they affected defined user groups that were able to articulate their concerns (although unable to change matters).

There were more problems on other fronts: we were not choosing assets wisely to ensure that benefits exceeded costs, or managing demand to avoid wastage, or designing assets to avoid environmental damage, and we were not prioritising asset choices to maximise social benefit.

There have been no simple words, like ‘maintainability’ coined for these problems, because they do not affect any one single lobby group. They affect society as a whole, and the effects are not necessarily felt immediately but are dispersed over time, so that it is difficult to clearly determine cause and effect.

The First Signs

When the first instances of poor (or no) asset management came to light – as in the much-publicized problems of New York City in 1984 – there was a tendency to look for individual answers. Who or what had gone wrong? Later, as the problems became more widespread, the focus changed to ‘fixing the problems’ and the universal fix was to demand more money.

A little earlier In the United States in the 1980s, facility managers in America’s higher education institutions had documented the ‘decaying campus’, studies that culminated some years later in the USA general study “Fragile Foundations”. This study rolled together the cost of restoring existing ageing infrastructure with improving the quality of the infrastructure and extending infrastructure services. As can be imagined the total costs of correction were enormous. It brought the problem of ageing infrastructure to public attention in the late 1980s but *it did not usher in asset management to the United States* because the focus was on *funding,* not on *management.* It was a talking point for a while but without an ability to understand what options existed and to be able to weigh those options in order to prioritise the needs, there was no way that much could be done. The study has quietly faded into the background - despite regular ‘updates’ in the form of the “Infrastructure Scorecards” - and the United States is still to adopt asset management across the broad range of its utilities and councils.

Engineers, grappling with the growing repair and replacement problems in Australia and New Zealand had quickly recognised that the problems afflicting New York City would strike at home as well but local politicians and policy makers were no more inclined to spend huge sums of money on renewal than their American counterparts.

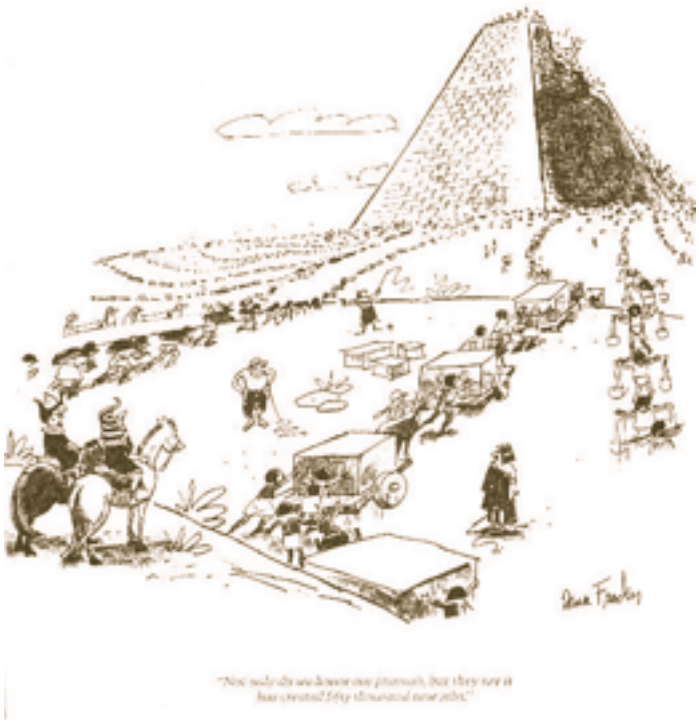
A focus on construction

The focus in the 1980s was still on new construction. This had been appropriate in earlier growth years. During the first half of the 1950s, Australia's population grew at an average annual rate of 2.5% and it stayed over 2% until the mid 1960s.

> **In the space of about 15 years the population grew by almost 40% - but its infrastructure more than doubled!**

Obviously this rate of infrastructure growth could not continue and was not needed to continue but as it began to slow down those who had profited from it – the builders, road constructors, etc – agitated for the declines to be reversed. Articles began to appear pointing out that the percentage of GDP applied to public investment was falling – and holding the government culpable for the fall. What the articles failed to recognise was that the fall off was both necessary and appropriate. To have continued with the same level of asset acquisition would have seen the entire countryside covered in 4 lane highways and multi-storied buildings and, in general, infrastructure far beyond our needs or our budgets. The National Infrastructure Forums were created in Australia by the then Australian Federation of Construction Contractors. They became biennial talkfests "proving" the case for more infrastructure.

To support their arguments, protagonists would argue the benefits of job-creation. As the Harvard Business Review cartoon here shows, by 1989 the old employment generating ideas were becoming a bit of a joke!



The caption reads

"Not only do we honour our Pharoah, but they say it has also created 50,000 new jobs."

However in recent times, as manufacturing jobs have closed up in many developed countries and unemployment has started to rise significantly, these ideas have come back into favour

In November 1987, the Commonwealth Government produced "Constructing and Recon- structing Australia's Public Infrastructure" (known as the Langmore Report, after its chairman). Despite the title, no meaningful distinction was made between the need for construction and the need for reconstruction. It was contended that "a higher level of investment in Australia would lead to a higher level of economic growth" . This was being promoted by the Government but there was no evidence in the report to support it. Several academic articles around this time also promoted the idea of infrastructure as 'an engine of growth'. Other academics pointed out that these studies failed to differentiate between a correlation and a causal correlation and that pressures for growth could have stimulated the demand for infrastructure. Politically the idea that public expenditure on infrastructure could kick start the economy was a powerful one. Meanwhile engineers were becoming increasingly concerned about the lack of maintenance.

The Asset Management Break-Through

The breakthrough came with the publication of eight reports by the South Australian Parliament. For the first time we had a parliamentary report that focussed on the cost of maintaining the infrastructure that we had already acquired. For the first time it put a figure on how much that infrastructure would cost to renew and estimates of when this renewal might be needed. Each major asset class was broken down into broad components according to the best economic life estimates at the time, models were constructed and sensitivity tested. All in all, this was the most extensive infrastructure database yet compiled. Nowhere else in the world had a study of infrastructure renewal been carried out across an entire state on a common and consistent basis. (And that is still true, today). The reports influenced behaviour across Australia and beyond.

The study examined the current maintenance, renewal and financial recording practices of the 8 largest infrastructure owning agencies in the State. In doing so it raised a range of questions that had not previously been asked.

Asset management was now on the map!

In the next issue:
We look at the early years of AM and
We also look at the major AM achievements of 2011