

379

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WELCOME, RUTH!

Ruth Wallsgrove joins me as a co-editor of the 'Best of SAM' volume. Long time readers will recognise Ruth, having read many of her excellent papers in SAM and perhaps have heard her speak at ICOMS and other AM conferences in Australia. Ruth is now based in the UK.

Ruth's background could not be more perfect for this task. She is a historian, a journalist (she was the first editor of the IAM's Assets magazine) and an asset management strategist and educator with AMCL.

Her arrival greatly improves both the quality of the volume and the likelihood that we will have it ready for the 20th anniversary of SAM next April 1st. Both have led to an improvement in my factors of productivity (see page 2)

As a nine year old helping my father paint our old family car, I was taught 'always start with the most difficult spots first - after that it is all downhill!' so I have been reproducing some of the earliest articles which are now available only in hard copy. It is interesting to see how so many of them are just as fresh and relevant today. I have included five of them in this issue and you can find more selections on the website, all clearly indicating topic, asset, location and date to help you make your selection for comment.

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Enjoy them for their intrinsic value - or use them to kickstart your own thinking for contributions to the BEST OF volume. Also, see Ruth's initial selections on website. Check out Downloads - "Best of SAM"

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IMPROVING PERFORMANCE

It is one thing to be able to measure performance improvement after the event - it is quite another to measure what you are doing that will generate performance improvement. Think Leading and Lagging Indicators. As a manager, and particularly in managing your own performance it is the Leading Indicators that are the most useful.

This is why I introduced Heaton's 4 Factors of Productivity in SAM 377. In SAM 378 I applied them to my forthcoming 'Best of SAM' volume. I hope that you have been trying out Heaton's 4 Factors of Productivity for yourself. Maybe you got a better score than I did. You might remember that I had assessed my initial score on the 4 factors (inputs, process, output, follow up) at 80 x 70 x 60 x 50 for a very miserable total score of just 16.8%.

I decided that I had to do something to lift my game.

For the first factor, **INPUTS**, you will recall I was looking at two main sources - the SAM articles themselves and the contributions from readers. For the first 5 years I have only hard copy articles which means copy typing or scanning, a time consuming exercise. So my first concern was whether I would have enough time prepare the articles and solicit reader contributions and meet my publishing deadline of April 1st 2014. I gave myself an initial score of 80. But two things have helped me increase my estimates here. One is my **Collaboration** with Ruth which is improving quality, reducing time pressures, and enabling a far greater reach. The second is taking **Direct Action**, by speaking directly with long time readers and key asset managers for their suggestions and contributions. The combination of these two actions - Collaboration and Direct Action - have enabled me to increase my assessed INPUTS score from 80 to 85 and my PROCESS score from 70 also to 85.

As a result my total score has gone from a miserable **16.8** to a slightly less miserable **21.68**. This may only represent slightly less than a **five percentage point increase**, but considering the low base from which I started, it is actually **a 29% improvement on my original score**, and that is not so bad.

My next task is to see what I can do to increase the very low scores I have given myself for the last two factors - OUTPUT and FOLLOW UP.

So watch this space!

A note on DIRECT ACTION

Emails, general mail-outs, and written stuff generally, have their place and may be efficient, but direct action is far more effective. (How many times have you had a lengthy succession of fruitless email exchanges within your own organisation, only to find that when you get up, walk down the corridor and talk directly with the person you have been corresponding with, the problem is solved. In one case that I am familiar with, two key asset people in the organisation had been serving each other increasingly bitter email arguments - and this had been going on for three years. With the arrival of a replacement for one of them who believed in the direct approach, the issues that had seemed so monumental before, were resolved. See also Energy Australia's experience of taking asset management out into the field by talking with the maintenance teams. (SAM 279)



In looking through the early issues of Strategic Asset Management (or AMQ International as it was in 1997, I came across this contribution by Geoff Hayter of Colliers Jardine. It is a quote from Sir Thomas More's "Utopia" written in the early 18th century. Thomas More wrote about the imaginary island of Utopia (which means nowhere!) where perfection in politics brought about an ideal world. In this land, asset management was clearly to the fore, as you can see from the following excerpt.

UTOPIA

"In other countries, building and repairing houses demands the constant labour of many men, because what a father has built, his thriftless heir lets fall into ruin; and then his successor has to reconstruct, at great expense, what could easily have been kept up at a very small charge. Again when a man has built a splendid house at vast cost, someone else may think he has better taste, let the first house fall to ruin and then build another one somewhere else for just as much money. But among the Utopians, where everything has been well-ordered and the commonwealth properly established, building a new home on a new site is a rare event. They are not only quick to repair deterioration, but foresighted in preventing it. The result is that their buildings last for a very long time with minimum repairs; and the carpenters and masons sometimes have so little to do that they are set to squaring timber and cutting stone for prompt use in case of future need. ...

When there is an abundance of everything as a result of everyone working at useful trades and nobody consuming to excess, they sometimes assemble great numbers of people to work on the roads, if any need repairs. And when there is no need even for this sort of public work, then the officials very often proclaim a shorter work day, since they never force their citizens to perform useless labour. The chief aim of their constitution is that, as far as public needs permit, all citizens should be free to withdraw as much time as possible from the services of the body and devote themselves to the freedom and culture of the mind. For that, they think, is the real happiness of life."

(Sir Thomas More. Utopia. Cambridge University Press. Book 11. pp 54-55)

SELECTIONS FOR ENJOYMENT - AND FOR CONTRIBUTION

Should you prescribe the method or the desired outcomes? This example is taken from the 1996 report of the NSW Auditor-General and illustrates the difficulties encountered when contractors choice of method is over-ridden and the organisation has no recourse when performance outcomes are not met.

What is your experience with contracts where the method is prescribed and those which allow the contractor to choose appropriate methods to meet prescribed outcomes

3. Acquisition. Prescription v Performance. Trains. 1997

Audit Reports can be a source of endless fascination and learning for asset managers. Here is such an example in an excerpt from the NSW Audit Office's "Performance Audit Report for the Tangara Contract Finalisation, November 1996". It illustrates a number of lessons for design, asset acquisition and risk management.

It is well recognised in life cycle cost analysis that the course of future costs is largely determined by the end of the design stage. The use of value management at this stage is highly desirable.

"Had such techniques [Value Management] been applied in the Tangara project, some significant problems and associated costs may have been reduced or even eliminated. This issue can be illustrated by the window design problem with the Tangara.

The window design specification stipulated by SRA [State Rail Authority] provided for toughened and strengthened glass of the dimensions and (curved) shape required for Tangara carriages.

Rather than redesign the windows, or use conventional technology glass (readily available and proven to be effective) for all panels except the curved ones at the top of the carriages, SRA sought what proved to be a technically difficult and ultimately unsatisfactory design modification. The main reason for pursuing this course appears to have been to maintain a uniform standard for all glass panels, regardless of their position (and need) and also for aesthetic reasons.

The technical solution pursued by SRA was very problematic. A resolution was sought using two layers of glass; one toughened and one strengthened. However because the different panes have different properties it was found that projectiles could in fact pass through both. SRA directed that a clear polycarbonate layer be inserted. This fixed that problem. However, because of the now multi-layered construction, small pressure equalisation holes were required to prevent the whole glass panel from popping out when trains passed through tunnels. The window units are therefore not fully sealed, as is the case with conventional designs. This has enabled a chemical reaction to occur between the glass panes, which causes irreversible etching on the glass and a permanent fogging effect which, over time, may make windows entirely opaque. No solution to this problem has been determined.

The direct involvement of the SRA in dealing with detailed specification and rectification of the window design (as described above) led to claims by the contractor of disruption to the project and consequential losses which formed a large part of the claim commenced by the contractor in the Supreme Court.

The intention of the SRA was simply to deal with a tricky problem. However, the SRA's actions served to limit and cloud the responsibility of the contractor, and directly contributed to the problems being encountered.

It was noted that greater difficulties generally arose where the SRA specified particular components or designs to be used, rather than setting out performance standards and allowing the contractor to determine how best to meet them (which was SRA's general approach to the contract). [The following] technical issue illustrates this point.

Frequent blowing of fuses was occurring in the Tangara open door indicator circuit. SRA had specified components which the contractor was obliged to use, and which have subsequently not performed as desired. The contractor, therefore, could not be held responsible and liability for costs to rectify the problem rested with the SRA."

The Audit Report concluded that effort needed to go into developing reliable measures of performance.



While we are looking at Audit Reports, let us look at that vexed question of audit qualifications that scare most organisations. (Unlike one of the best asset managers I ever came across who, when his reports were qualified, was unfazed and said: "One day, the AG will realise that I am right!")

What can you add by way of update or elaboration to this article?

4. Audits and Qualifications. Australia. 1997

The role of the audit office is, primarily, probity.

The prime role of the audit office is to ensure probity - i.e. to make sure that nobody is doing anything wrong, insofar as this affects the accounts. This is done by checking agency practice against 'best practice', as defined by the accounting standards. The problem for asset managers is that accounting standards focus on reporting for external users, or financial accounting, whereas asset managers are mostly interested in internal or management accounting. This is often the cause of conflict but it can be overcome by a better definition of the uses to which the information is put, and the relevant standards of accuracy required. This will enable the auditor to know when a breach of standards is truly of significance.

Qualification - what it means and why the auditor does it

When an agency practice does not line up with accounting standards, the Auditor has two options. He can ignore it as not being 'material and significant', or he can qualify. A qualification simply means that an agency's practice is not consistent with the standard - or that a standard does not exist to cover what the agency is doing. *It does not necessarily mean that what the agency is doing is wrong!*

It may be that the standards are inappropriate, out of date, or fail to cover new developments. For example, accounting standards are needed for BOO [Build-Own-Operate] and BOOT [Build-Own-Operate-Transfer] schemes which was pointed out by the NSW AG in 1995. Qualifying the accounts of the RTA in 1995 (who had developed their own measures for dealing with these new schemes) drew attention to the deficiencies in the standards.

The auditor may qualify accounts to force a change in the accounting standards - or to force compliance with them. But the motivation behind the qualifications is not always well recognised.

Material and Significant

The Auditor General is bound by the professional standards. Professional standard setters tend to err on the side of caution, sometimes excessively so. This protects the professional but the costs of implementation are borne by the agencies and by the Audit Office that needs to check compliance.

The Queensland AG has drawn attention to the very large costs involved in valuation and in the general adoption of accrual accounting. How much of these costs are necessary and how much are the result of an excessive application of rigour? This is where the AG has some flexibility. He can determine that any particular breach of the standards is not 'material or significant' and, in this case, it can stand.

Greater public debate by asset managers and others of the uses of asset valuations would assist in this determination and could, perhaps, significantly reduce cost and general frustration all round.

Performance Audits - How to use them

The Queensland Audit Office [1997] does not have a mandate to do performance audits of 'value for money' audits but the NSW Audit Office does and uses its mandate in this respect to produce industry guides. (See the Tangara Performance Audit, also part of this special SAM collection, No.4).

Well conducted performance audits can be of great value, not only to the agency concerned, but to everyone facing similar situations. Why make all your mistakes yourself? A less costly approach is to use the Audit Office findings as though they were your own 'post commission evaluations'. Learn from the experience of others and build the lessons into your own asset management procedures.



If you want responsibility put just one guy in charge!

This reports the gains made by Australian National Rail when they made their property management the responsibility of one person, rather than having it distributed loosely over the whole organisation. Have you had experience in making asset or property management more accountable by putting 'one person' in charge? Perhaps you have had experience with the reverse?

(note that all these figures are in 1995 dollars - do your own mental escalations!)

5. Responsibility - Employee Housing - Australia - 1997

\$10,000 is a lot of money - unless it is part of a \$100 million budget, in which case it is probably petty cash! This is the problem when asset management is assigned to a unit where asset management is a small part of overall responsibilities.

When Australian National Rail's employees housing was 'owned' by the employee's division, rentals were frequently overlooked, rental charges had not been reviewed for five years, houses that became vacant consequent upon personnel moves could sometimes remain vacant for six months or more, and maintenance was performed ineffectively and often allocated to the wrong accounts.

The solution (as British Rail also found out, see AMQ March 1994) was to make some ONE person responsible.

In the case of the ANR's western region (SA, WA, NT) that one person was Pasquale Mastrangelo, who reports the following:

Firstly, all property was subsumed into the Property Section and charged back to the using divisions.

Over a 3 year period rents were raised to the appropriate market value, saving \$120,000 annually in fringe benefits tax and increasing revenues.

Where a house remained vacant for more than two weeks, the division using the property had to pay the rent from the third week onwards out of its own budget or release the property. This substantially reduced the tendency to retain unutilised properties 'in case of future need' and made it possible to dispose of 120 houses in just one financial year with a disposal value of \$2 million.

Where good quality property was vacated, a tenant from a poorer property was upgraded and the poorer property sold. The many thousands of dollars that would otherwise have had to be spent in maintaining the lower value properties would not have been recoverable in the market. This policy resulted in annual maintenance savings of \$240,000.

Sales to sitting tenants were facilitated by personal visits. Whatever the problem was, it was dealt with on the spot. In all cases of property in country areas, Pasquale argues, a better deal is made if the agency negotiator has visited the town and knows 'the lie of the land' when the time comes to talk money.

The end result was that property management in AN had a focus! It also had a business plan. Commercial, residential property, policies and procedures have tightened up and maintenance is closely monitored. It is in the interests of the 'one person', the Property Manager that this should be so.

The responsibilities of the AN property unit extend far beyond employee housing, and similar gains have been made in commercial leasing, rest house management, water and power services and rail land management.

These gains have come because AN has someone for whom 'the buck stops here'.

Some agencies, such as Telstra, have recently gone the other way, dispersing their property management to regions where operations interests swamp property asset management concerns, while State Housing Authorities have, under the Commonwealth State Housing Agreement, moved to separate their asset management and client services businesses.



Heritage - We seldom see papers on the management of heritage items on the conference agendas today. Why not? In the late 1990s they were a serious concern. Have we solved the problems, or has the world moved on, perhaps regulations are less strict now? What is the answer?

6. Managing heritage assets. 1997

"It's a heritage asset, so there's nothing we can do to it!" Right? Wrong!

There are many reasons why a building (or for that matter, a tree or a garden) should be classified as 'of heritage significance'

It may be that the building exhibits important aesthetic characteristics valued by the community or group and if this were the case, preservation of these characteristics would be of prime importance - but whilst preserving the characteristics you may nevertheless be permitted to change the use or function of the building.

If the significance of the building is, instead, its use, then, although retaining the use, you may be able to modify the building.

Take, for example, a post office heritage listed because it was the place where the community received telegrams during the war years, keeping them in touch with their loved ones in the forces and was a place where the community gathered.

In this case, the meeting place nature of the place may need to be retained but sympathetic modifications to the building itself may be possible.

The clue is in the reason for the listing.

Unfortunately, it is not always the case that the reason for declaring the heritage is listed when the building is! In this case, it may be necessary to employ a heritage consultant to research the reasons. The freedom you could obtain in our core business in the management of this asset, not to mention the benefits to the nation, may well be worth the cost.



An asset often serves more than one function, the extra functions may be physical or they may be psychic services, but to ignore them is to court trouble.

What examples can you cite of community resistance to asset disposal, and can you identify the secondary benefits that lay behind the resistance? What could have been done to mitigate the resistance in that particular case?

7. Disposal - Secondary functions - 1997

The disposal of assets when no longer required for their prime function is often frustrated by the actions of stakeholders seeking to preserve the extra, or secondary, functions that the asset supplies. Both public and private asset managers experience this problem. If you wish to dispose of an asset you need to identify and deal with these secondary functions.

What is a secondary function and why does it matter?

Examples of secondary functions are:

1. In regional or rural areas, the community may call at a policeman's home thus treating it as a second or de-facto police station. Selling police employee housing can meet with resistance from the community if this function is not dealt with.
2. Being able to transfer an unruly employee to a remote rural or regional location at short notice may be considered a valuable disciplinary function and sale of such property may incur resistance from within the management.
3. Managers may reward good employees by giving better houses or prompter maintenance attendance. Owned housing in this case has a secondary reward function.

4. In local communities, schools provide gathering spots, a focal point. They are also a link with the community's past and a symbol of community status. This is why it is so difficult to close down a school when falling student numbers make its continuation unnecessary for its primary function.
5. People may by-pass the local hospital and go to the nearest major city hospital where the facilities are better, but nevertheless they would consider their community downgraded if the hospital were to be closed.
6. The same may be said of railway lines that are seldom used, or sealed roads going nowhere once a factory or major employment focus has closed or moved on. Communities see their passing as a downgrading of their town (and frequently as a signal of worse things yet to come.)

To ignore these concerns is to court trouble. However, to give into them and fail to close facilities no longer needed is to waste resources.

Not all of these 'secondary functions' may be considered desirable but if they exist then they are real and important to those who count, that is those who can at best delay, and at worst prevent facility closure and greatly increase the costs of disposal. Therefore they need to be understood and dealt with. This is where disposal is an asset management, rather than a real estate, issue.

Not all the secondary functions of importance to stakeholders will be voluntarily revealed. Where there is a management benefit as in Examples 2 and 3 above, there may be great reluctance to reveal the real reason why management is resisting disposal. If you find that whenever you produce a solution to one presumed reason that is presented, the audience switches tracks and claims another reason for not selling, you can be sure that you have some secondary functions that need to be identified.

Ultimately these secondary functions issues will be resolved by:

- replacing the asset's symbolic function (maybe by upgrading another asset, maybe by another symbolic gesture but, hopefully, one that is less wasteful of resources)
- replacing or removing the necessity for the secondary functions (perhaps by changing the organisational structure or culture)
- recognising that any change causes pain, and that even though the asset no longer provides its prime function, removing it will result in a loss. Compensation for this loss needs to be planned - and it needs to be marketed to the community.

All the things that you do to make the removal of an asset acceptable will result in costs or loss of benefits in some way. These costs need not be high, although sometimes they are. They need to be factored in to the decision to dispose of the asset.



The best extra examples or updates that are received will be considered for publication in the 'BEST OF SAM' collection. \$300 is available each month, starting December, for the most interesting contribution. See www.amqi.com