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**March 24
2014**

AMQ International's

STRATEGIC

ASSET MANAGEMENT

Public Sector Recognition - at last!

I had occasion to quote Ross Gittens, one of the best commentators on infrastructure in the country, in the last issue. Here is part of his recent comment on the release of the draft report of the Productivity Commission on public infrastructure. It makes heartening reading!

“The Productivity Commission has a well earned reputation for being a hard headed, even hard hearted, economic rationalist outfit so it is particularly significant that in its report on public sector infrastructure it debunks the private sector good, public sector bad mentality. It’s become terribly fashionable for governments of both colours to turn their public sector projects over to PPPs, public-private-partnerships, but the Commission doesn’t hide its mixed feelings about PPPs, saying only if implemented well does private sector provision and financing deliver efficiency gains. Plenty of people believe that the private sector is always efficient and the public sector always inefficient but not the Productivity Commission. It quotes examples where the private partners in PPPs have stuffed things up. In 2002, for example, the Victorian Government had to break into its contract with the private operators of the Latrobe Regional Hospital thanks to the big losses they were making because they bid for the project at too low a price and they couldn’t achieve the cost savings they thought they could.” You can watch his full video and read what he has written in the Brisbane Times of March 18, 2014. You can also download the reports of the Productivity Commission itself.

Now that the Productivity Commission has publicly recognised the value of public provision of infrastructure - let us build on that recognition! In this issue I look at

Ideas for induction of new councillors in asset management, pp2-3

Understanding where we are now on the path to progress. An illustrated view of AM maturity. pp 4-6

Why Asset Managers need a future vision: an interview with Dave Openshaw, Head of Engineering Regulatory Strategy at EDF Energy, UK pp 7-20

As always, please enjoy!

Penny

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Prepare now for September

Later this year, many councils will be having council elections and there will be new councillors to introduce to the idea of asset management. This is a good time to start thinking about the most appropriate induction program to introduce them to the essential ideas that they need to know about the asset management decisions that they will be required to make during their time of office.

This can be a confusing time for new members, many of whom are still trying to find their way around the council chambers and to get their head around a mountain of regulations - you don't want to make their job any harder. If you can express the asset management messages in clear language, avoiding jargon, you will succeed where others fail. However to do this, to keep the number of messages down to a minimum, and express them clearly, illustrating them with relevant stories that the new councillors can relate to, takes time - so it pays to start now.

SOME OF YOU WILL HAVE AM INDUCTIONS ALREADY PREPARED FOR YOUR NEW COUNCILLORS - and your comments, suggestions and experience are invaluable, please share them with us.

But for those of you who are still to develop their courses. Here are some of the key messages that I think should be in such an induction, illustrated with relevant examples drawn from your own current and past experience that your councillors can relate to. With examples of where the message was ignored. And examples of where it was adhered to.

ASSET MANAGEMENT INDUCTION

FREE ASSETS

There is no such thing as a 'free asset', not even one that is given to you or bought with grant funding. ALL assets require money to be spent on them every year for cleaning, power, maintenance, repairs, renewal, and security. If this money is not spent, the asset degrades, does not function well and, eventually, does not function at all.

ACQUIRE CAREFULLY

Don't acquire more assets than you can afford to maintain. Each asset has a certain 'lifespan' – it is shorter if not well managed, and longer if it is. But eventually it will need replacing or renewing. The costs of this renewal must be taken into account, along with maintenance, cleaning, etc, to know what size asset stock we can afford to own.

SERVICES FIRST

The role of assets is to provide a service. Assets don't have to be large or expensive to provide good service. Mega projects are almost never the answer. They are mostly about ego, and not about service.

KNOW YOUR ASSETS

Knowing what you own and its condition is critical to good asset management. Communities that do not record their assets, cannot keep track of them, or know when to maintain or renew them. They are also more subject to loss. We must have a proper Asset Inventory Register and which must be updated regularly and scrutinised constantly

MATCHING NEEDS

A good asset manager matches asset capacity and needs, neither too little which provides poor service, or too much, which adds unnecessarily to costs.

THINK LOCAL

Design with local construction and maintenance skills in mind. Use local materials wherever possible. Avoid 'ego trips'

THINK FORWARD

Assets last a long time, what will be the need in say 10 years time? Or 20 years or even 50 years time? Some assets can present serious and adverse impacts on future generations, especially with respect to our environment. Sound the alarm now so that we can see how to reduce the future social costs to maintain our city's well being.

THINK BEFORE ACTING

Is it necessary to acquire a new asset or can the existing asset do more? Asset management is about getting the maximum service out of a given asset for as long as possible.

CONSULT COMMUNITY

Proper consultation is not 'being told'; it means the community being listened to, given an opportunity to say what the community wants and discussing with suppliers the options, and the costs.

You can customise the above by adding examples of each message drawn from your own community - try to spread the examples so that each ward gets represented so that you can engage the councillors at a personal level.

Please share your ideas - and your experience with induction



ASSET MANAGEMENT SUCCESS STORIES

We struggle to find success stories in Asset Management.

Such stories as we, and that we disseminate at our conferences, tend to focus on getting AM plans or processes in place - but not on the benefits that are then accrued to our organisations - *and therein lies the problem!*

I have published two early examples of success in terms of outcomes for the organisation - recognition of their contribution to public amenity, reputation, reduction of risk for the board, improvements in work culture, and greater financial freedom. They form two parts of a continuing story of successes for British Waterways, the organisation that manages the canal system in the UK.

Here is a great illustrated summary of that development by Graham Holland, now retired, when he was the Asset Manager for British Waterways.

An exercise

Are you able to match your development on a similar chart?

No matter where you are - still on all fours, or on the way to becoming the next generation of cyborgs in asset management, there is much benefit in attempting to document your story so far. How have the following changed during your development

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Culture?
Organisational Support?
Future Focus?

Perhaps seeing themselves on the path to greater improvement might give your executive the nudge that it needs?

Darwinism and the Evolution of Asset Management in British Waterways

Graham Holland, Asset Manager
British Waterways

Harsh environment,
food scarce, facing
extinction, all efforts
just to stay alive



Harsh economic environment, money scarce,
facing managed shut down and extinction, all
efforts just to keep the infrastructure intact

Self aware, life
dominated by search
for food, competitive, at
the mercy of the
environment



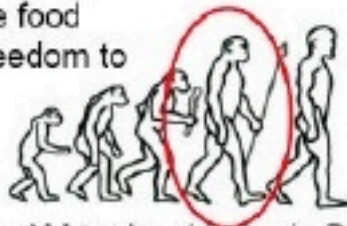
Understanding what we own, begging bowl
philosophy, competitive for money, at the mercy
of Government whims

Invented tools, better use of resources,
food more secure, many tribal groups,
development of group knowledge,
leadership



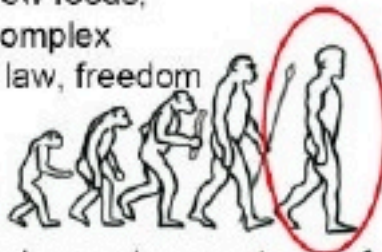
AM tools, knowledge built on improving data,
more secure funding, regional groups
developing good practice, Board signed up to
AM

Better tools, cultural changes, development of rules, secure food allows more freedom to act



Better AM tools, change in BW culture, common standards, secure funding and greater freedom given by Government

Actively changing environment, new foods, sophisticated complex society, rule of law, freedom to explore



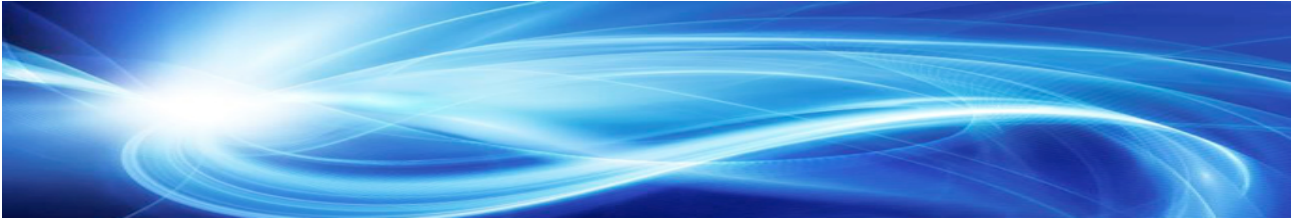
Changing environment, new funding sources, increasingly sophisticated AM, AIP2001, commercial freedom

Continue to evolve, conserve the environment, seek renewable resources, sustainable society based on stakeholders aspirations



More customer focus, meet stringent legislation, bio-diversity plans, heritage awareness, commercial ventures, sustainability based on increasing stakeholder involvement

British Waterways as a success story in asset management will be no stranger to regular readers of "Strategic Asset Management". It is an organisation that took itself from a neglected, third rate transport organisation with decaying assets to a first rate multi-service, value-adding, innovative, organisation in less than six years—through the application of sound asset management principles. See "SAM# 66, July 13 2001" and "SAM#102 November 29 2002" for how they did it.



In conversation with: **Dave Openshaw**, Head of Engineering Regulatory Strategy at EDF Energy, UK

WHY ASSET MANAGERS NEED A FUTURE VISION

Why a Vision?



Why do you believe that a future vision is so important to asset managers?

The best way for me to answer this is to take a quote from 'The Edge' magazine 1995: "Unless we are guided by a conscious vision of the kind of future we want, we will be guided by an unconscious vision of the kind of present we already have." The point is that today's assets and infrastructures, however well cared for, will not necessarily meet tomorrow's business needs, in terms of capacity, reliability, quality, efficiency, and overall functional specification.

Our Job or Someone Else's?

So what would you say to those Asset Managers who believe that developing a vision of the future by understanding the changing business environment to be a task for some other section of their organisation, not them?



Well, it depends on whether they are aspiring to be world-class asset managers. World-class asset management is about much more than simply managing the assets themselves. It is about understanding the condition and (future) performance of those assets and the impact that this performance will have on their business and on sustainable profits, on the customers and businesses that we serve, and indeed on the economic prospects for our nations.

Understanding the business environment is absolutely key. Because the asset base has a long life, this also means being able to predict the future business environment. There are many external influences that need to be carefully monitored in order to predict how this environment might change over the life of the assets. This implies scenario modelling and /or sensitivity studies; for example: assumptions regarding demand growth, future expectations for quality, new technologies, changes in the regulatory and statutory environment, and even (as you have pointed out Penny) demographic trends.

The shape of the organisation, its culture, its corporate knowledge, its quality systems and, processes, and by no means least its people, are fundamental factors in determining the success of an asset management organisation. Only if these precursors are firmly embedded within an asset management organisation, under continuous review, and subject to continuous improvement, will that organisation be able to aspire to world-class status.

What if there is no Vision?



I think this is a real risk. The problem is that we are in danger of becoming 'smug' – rightly congratulating ourselves for the great strides we have made in things like extending maintenance intervals, and 'safe' deferment of asset replacement, but failing to recognise the need for a long-term vision and timely re-investment. The ultimate cost to the country of inadequate infrastructure will be many times greater than the cost of timely investment in adequate infrastructure, and examples are already staring us in the face. Delaying reinvestment in infrastructure will ultimately lead to paralysis – and the cost of rectification will then be many times greater than if we had invested adequately at the right time. Failing to recognise the future capacity and performance requirements of the infrastructure over its natural life is an almost irrecoverable mistake.

Four Essentials to a Long Term Vision

So are Asset Managers in the UK and Europe embracing this forward thinking, changing business environment role?



To some extent, yes. I consider that there are four essential elements to a long-term perspective (or Vision). These are: understanding the (future) business environment (the commercial and regulatory context under which we operate); understanding the assets (i.e. their characteristics, maintenance requirements, failure modes, whole-life costs, etc.); managing business risk and opportunity (for example the consequences of asset failure, but also the synergies arising from re-investment and new technology); and finally, what I call the 'enablers' (a collective term for things like corporate knowledge, information systems, key processes, etc.).

When it comes to 'understanding the business environment' we have a fundamental challenge in reconciling short-term financial pressures (e.g. cash) with the fact that we are managing a long-term business. Regulators have an important role in ensuring that incentives are correctly balanced and weighted; not only for the cost/quality trade-off, but also for timely reinvestment. In terms of 'understanding our assets', we are making good progress with diagnostics and in developing 'condition-based' and/or 'reliability-centred' maintenance regimes. Also, we are still on a long learning curve, so our understanding should get even better. In terms of 'risk and opportunity management', at least we are beginning to understand how to apply concepts such as FMECA and realise the wider consequences of asset failure on business risk and performance. Finally, we are beginning to recognise some of the essential 'enablers' – like the need for information systems, quality accredited processes, and (even) 'people' strategies (including recruitment, retention, and succession planning).

So there are some good signs here. Perhaps that explains why we are feeling so smug. What most concerns me is that we are too focussed on the short term, and worse still, we don't seem to recognise it. Thinking about the future is still a 'tomorrow' problem. We still have a long way to go in developing good understanding of our changing business environment.

Scope Here for Integrated Thinking?

In my own work on future thinking (cf SAM 147, Sep 17 "What's on Your Radar?") I looked at some very broad issues such as climate change (or even perceptions of climate change); ageing and declining populations; the rise of the Chinese economy, the impact of global terrorism, and attitudinal changes such as the loss of trust in professionals and the rise of the environmentalism movement. These are issues that are not going to affect just one organisation, but all of them. Given that organisations have yet to seriously think about the changing business futures, is there an opportunity here to develop some serious integrated thinking?



These are all relevant and important considerations and, sadly, we have recently been reminded of the need to add 'natural disasters' to our radar map. If we continue to think of these things as tomorrow's problems, the consequences are obvious; we will simply make the wrong investment decisions, in terms both of timing and functional specification. I have however recently seen a good example of visionary thinking.

Example of Integrated Thinking



On the eastern side of London, the largest single regeneration project in Europe, known as 'The Thames Gateway', is just getting into its stride. This will ultimately result in 200,000 new homes. Backed by the UK government, several supporting agencies, and indeed the London Mayor, the need for sustainable, integrated, and holistic planning is considered essential if we are not to perpetuate, or even exacerbate, some of the existing 'problems' surrounding the management of this already densely populated urban environment.

One particular project – known as the 'Z-squared' project – will provide homes, together with the supporting infrastructure, for 5,000 people. The project embraces 'lifetime' strategies for transport infrastructure and utilities, energy and waste management, protection of flora and fauna, food production, education and employment, cultural and social integration, health and safety, etc. These requirements are all built into the overall functional specification.

And in EDF Energy, we have a company that genuinely has a long-term interest, and Vision, and we are now having meaningful discussions with our regulator (Ofgem) on the need for long-term investment.

Asset Management Moving from its Engineering Origins?

A last, and sneaky, question, Dave. The issues involved in changing business environments could be considered to be taking asset management a long way away from its engineering origins – comment?



True – but surely this is a natural evolution of asset management and a great opportunity for engineering to re-establish itself as a key profession in our modern world. Unless we understand the business context, we will not fully recognise the business benefits that new technologies and strategies can

deliver. (Worse still, we may pursue technically ‘interesting’ developments that deliver little in terms of business benefit).

Of course we need to work with economists, environmentalists, financial stakeholders, regulators, statutory authorities and government departments etc. but if we can demonstrate that we have understood and embraced the ‘business’ context in our asset management thinking, then we will have a much greater influence over business decisions. The alternative is that we are regarded as a purely technical source of reference – a profession that is asked to deliver the strategy that has been decided, rather than one that has directly influenced that strategy.

VALE ATHOL JAMIESON (29.03.1951 - 10.03.2014)



Athol Jamieson died suddenly whilst out sailing - and we lost a true Champion of Asset Management.

He was a Graduate of the University of Western Australia - B.Com & MBA - and spent his entire career with the WA Government public service, starting as an economics teacher (only for a few years); various Agencies - Main Roads, WA; WA Public Sector Management Office; WA Building Management Authority; WA Treasury & Finance; WA Ministry of Justice; WA Department for Planning & Infrastructure, and retired only a few years ago (2010) from the position of Assistant Director General of Department for Planning and Infrastructure. He was known for his collegial progressive leadership style, but could be quite forthright, when the occasion warranted it, in pushing reform.

In the early 1990s strategic asset management was still new. Most Australian States produced information explaining what it was. The most effective of them all was the 20 page all colour magazine style ‘Strategic Asset Management Overview’ by Athol Jamieson and a team of top people from the Building Management Authority’s Asset Services Directorate in July 1994. Each folio represented one of the key asset types in WA together with a brief, insightful, statement of one of the main asset management messages. The BMA together with the West Australian Treasury led the field in asset management at that time.

Athol is survived by his wife, Penny, and children Shana and Blair). He was very much a family oriented person, keen on travel (particularly caravanning) and boating and will be sorely missed by a legion of friends.