Presentation to
ASSET MANAGEMENT BC
The Changing Culture of Asset Management:
an intensive one day asset management seminar
January 24, 2011
Vancouver

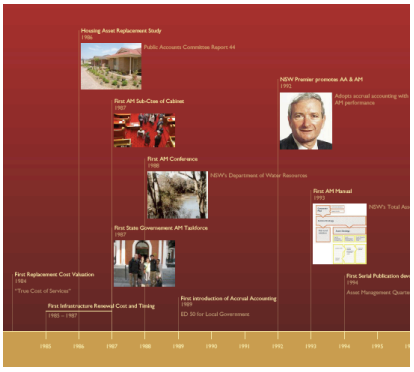
SEEING FURTHER AHEAD: Why AM is good for you, and the changing culture of AM

This is a story in two parts. The first part looks at the benefits of having (and the costs of not having) good asset management practices. The second part looks at what actions have been taken around the world at the provincial and national levels that have influenced the culture of asset management.

PART ONE: WHY AM IS GOOD FOR YOU

INTRODUCTION: the Story of AM

18 months ago I decided to put together, as best as I could, the story of how asset management has developed over the past 30 years. I now have the first timeline, for Australia, on my website, www.amqi.com. I am now working on a Canadian timeline and if anyone would like to contribute an idea, event, or theme, just send email to info@amqi.com.



WHY THE STORY OF AM?

I chose to look at the story of asset management because I wanted to know why it had developed differently in different jurisdictions, why in some places the charge had been led by finance and in others by engineering, why some technique were being well used in some places but were completely unknown in others.

But one thing, above all else, concerned me. Why was it, I wondered, that agencies would so often progress to the stage of being the envy of all in terms of their asset management - only to collapse and have to rediscover everything they previously knew. ***Was there something inherently unstable about asset management?***

I haven't yet found the answers to all questions, but I am think I know the answer to that last one. And, when *you* know it, you can make sure that it doesn't happen to you.

DEFINITION OF ASSET MANAGEMENT (Current)

But let's start at the beginning. You are going to come across a lot of definitions of asset management. Maybe you already have. All have validity. But the one that I favour at the moment has a focus not on what asset management does - but *what you get out of it!*

> Asset management is a series of **process and information improvements** that enable you to see not only the likely **consequences** of the decisions you take today - *but also of the actions you don't take.*

When you are armed with a knowledge of the consequences you can make better decisions.

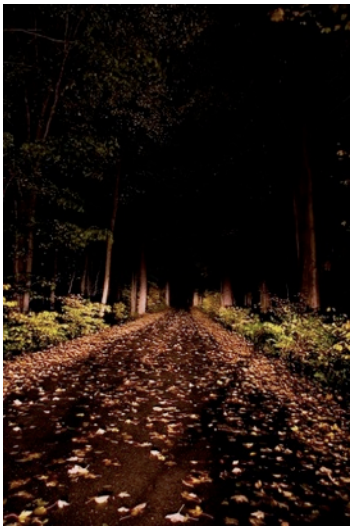
For example, you may not have enough money to do everything, but you can be confident that the things you are doing are of greater value to your community than the things you are not - and, importantly, you can demonstrate this to others.

Asset management protects you. If you are a councillor, it protects you from pressure by lobbyists and those who would have you spend council resources in ways which you know are sub-optimal. If you are an administrator, it enables you weigh up different uses of your limited resources. If you are responsible for assets, it enables you to know what to do that will best meet the service needs of the community.

The key word is **'consequences'.**

When you can tell what is likely to happen next as a result of the actions you take today - and of your *in*actions - you are able to make better decisions and make them with confidence. And when you are able to demonstrate this to others and gain *their confidence*, life becomes much more enjoyable.

IN THE DARK

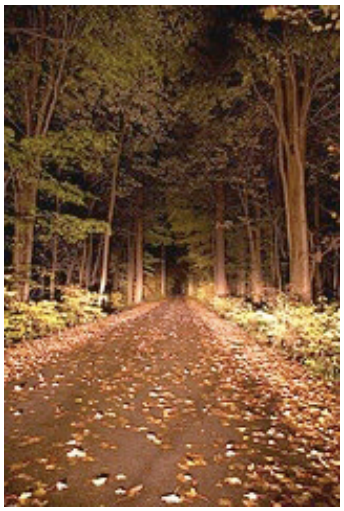


Without asset management, you are operating in the dark. It's like driving at night with your headlights showing you just a few metres of the coming road.

You are only able to see a little way ahead, and all of your decision making, whether on short or long term goals, is constrained by having such a limited view.

So you move cautiously, never quite sure what those shadows mean, or what is coming next. And you can easily miss your turning and have to make time wasting course corrections. Or at worse, run into something with expensive, maybe fatal, results.

SWITCH ON YOUR HIGH BEAMS!



Introducing asset management is like switching on your high beams.

Suddenly, with a better view of the likely consequences of your actions, you can now
see a long distance in front. You can move forward more confidently, make better decisions, and avoid potential problems, because you understand the likely consequences of actions and inaction.

This is very exciting and it is not difficult to see why asset management creates evangelists. Many of you will have experienced this in your recent exercise to complete asset data bases in order to comply with PS 3150. Maybe for the first time, you now have an overall view of your asset base, a better understanding of what you have, what condition it is in, and what its value is. This gives you a completely different view of what you can do - and it is pretty heady stuff.

But a word of caution!

What I have learnt is that ***you cannot stop at this stage***.

The High Beam stage is unstable. When you are on the road, any approaching vehicle can force you to switch them off.

Similarly when you are starting asset management, and you adopt *generic* assumptions about asset lives and desired service levels to get yourselves started, you get a 'great leap forward'. This is the 'switching on the high beams' stage. It enables you to make progress quickly.

But, as in all things, easy come - easy go!

When things get tough - the asset management equivalent of the oncoming traffic - you can no longer rely on these generic assumptions and service levels. In times of trouble - missed grants, unexpected and unfunded asset renewals, in fact any difficulty - your staff and your ratepayers need to have full confidence in the reliability of your system and this means that you need to move on from the generic data and develop information that is credibly yours. In other words, you need to customise.

DEVELOPING CREDIBILITY BY CUSTOMISING YOUR AM INFORMATION

To do this you need to work with your community to develop service levels that are widely understood and accepted and from which you develop costs and standards that can withstand criticisms.

Your asset data needs to reflect these service levels and to demonstrate the reliability that comes from documented, efficient, update mechanisms. Your asset lives need to reflect your own local conditions and known maintenance histories. And you need robust processes to ensure that all new asset acquisition reflects your strategic directions. This takes effort, commitment - and time.

However, once you have done this, you are largely failure proof. By the time you have developed a good understanding throughout your council staff from field staff to CEO and councillors, by the time you have good, up-to-date data, and by the time you have the confidence that this brings, your asset management is secure. You have successfully navigated the instability phase and come out safely on the other side.

This stage of asset management is like adopting a Satellite Navigation System. Now you can analyse all the options and choosing the optimum course is easy.

And when you get here you won't want to stop. Asset management improvement for the benefit of your community will simply be the way you do business and you will enjoy always seeking to do better. **The Road Ahead is now clearer and you travel it with confidence.**

WHAT HAPPENS IF YOU DON'T CHOOSE GOOD AM?

Let me tell you a story about a certain council in New South Wales.

The Event

In June 2007, during a wild storm, a section of the road collapsed causing a vehicle with 5 people to plunge into the flooded creek below, a mother, a father, their two children and another woman, a family friend. They all died.

The cause turned out to be an unlined culvert that had given way.

In the subsequent coroner's investigation it was revealed that:
• The council had been aware of the problem with the road as early as 2002 and had prepared an estimate to reconstruct the entire culvert but that details were never entered into the record management system.
• In 2004, pavement repairs triggered a request by the council's asset manager to ask for quotes for concrete lining of the culvert with tenders called. But again, the information was not entered into the record system and no follow-up action was taken.
• Emails with quotes for roadwork that may have averted the collapse were not considered official records and were not recorded.
• A key finding of the review was 'that at the time of the road collapse council's inadequate reporting practices led to a failure to identify the critical need to upgrade some of its key road infrastructure'

Internet comment on the report of the accident

> "Too little too late. Good to see our rate money going towards incompetent council workers who hide behind their computers pretending to be busy. And when the accident did happen they actually had the nerve to try to pass the blame to the state/federal govt. This accident should not have happened. For the lazy workers who didn't do their job properly, how do you sleep at night?"

But is it a case of 'lazy workers' or did the system fail them?

Unless your system is sound, how would you know? More especially how can they demonstrate their diligence to the outside world?

A poor asset management system puts your staff at risk!

The Central Coast's 'Express Advocate' reported the mother of the young woman whose family perished as saying that she hoped the people who made the human error think about it every night. 'We certainly do. They have destroyed our family'.

No member of your staff should have to live with this responsibility!

And, although reported as 'human error', if you look at the numbers of different people involved in this story, you have to ask yourself whether it is really 'human error' or really 'system error'.

The Press Coverage

Now the Coroner's report was, not unnaturally, reported in both of the local papers. It was noteworthy for two reasons:

One: because both journalists actually used the term 'asset management' in their reports. and Two: because both reported that whilst asset management in the council was now best practice it was not at the time of the accident.

I was curious.

What had happened to improve asset management so much between the accident in June 2007 and the Coroners Report in March 2009? (less than 2 years)

I decided to visit the council and find out.

The Council

And when I walked into the foyer, on the wall facing the entrance was their 'mission statement'. It said simply "We aim to be a council that the community is proud of" and underneath it said "We are not there yet!".

That told me a lot about the ***attitude*** of that council and their determination to get better.

Then I met with the Asset Manager and his Director of Information Services. Both were extremely open, articulate, knowledgeable - and very enthusiastic about asset management. They knew they had to improve their asset information and had hired a friend of mine, whom I reckon is the best asset information consultant in Australia.

But they also knew that improving asset information *alone* is not enough. They knew they also had to understand and improve their **processes**.

And this is where they really shone. Each of their structures and processes had been analysed and streamlined. There were dozens of them, each reproduced in A3 size - and laminated. Then bound in sections relating to different functions. I have reproduced some of their charts and process maps for you in the Appendix.

Mapping is a great way to understand your processes **- and a great way to show others that you understand them!** My guess is that it is these graphics that so impressed the journalists. Taken together

Greatly improved information
A positive, action-oriented, attitude - as expressed by the foyer plague and the confidence and knowledge of the Asset Manager and his Director of Information Services
Understanding of Asset Management Processes - as illustrated by the process maps,

...all added up to a situation where two journalists from separate papers, in reporting the story of council failure, would both modify their criticism by making it clear to their readers that the council's asset management was now 'best practice'.

But there was an even better result.

The Follow Up

After the coroner's findings had been handed down with all the attendant publicity, the Sydney Morning Herald reported on yet another culvert in poor condition in the council area. In ordinary circumstances you would expect the press to have a field day with this.

But it didn't. Despite the obvious cracks and poor condition of the culvert, the Sydney Morning Herald's journalist provided very balanced and moderate coverage. He quoted the consulting engineer's findings, made some criticisms of the council but then tempered the report with the recognition that the cost to repair the problem was high relative to the annual budget; actually quoted figures, and comment by other councils about this problem and recognised that a large part of the problem was that the roads were handed over to councils by the State Government, who had previously had responsibility for them, with insufficient maintenance funds attached.

What price would you pay for fair media coverage?

And a last word

Last week I rang the Director of Asset Information to ask him to send me some of his process maps so that I could share them with you, which he did. I also asked him if he would go into the foyer and take a photo of the plaque for you. But he said that the foyer display had now been completely remodelled to feature the council's new 2015 Vision.

It is what I said to you earlier - **once you get good at asset management, it becomes a way of life and you just want to keep getting better!**

PART TWO: WHAT STATE/PROVINCIAL OR FEDERAL GOVERNMENT CAN DO TO CHANGE THE AM CULTURE.

I was so impressed by the energy and commitment of your local government asset managers that when I was asked this question the last time I was in Canada I believe that my answer was 'leave them alone, they are doing fine by themselves'. But that was not terribly helpful and I do apologise. So here I would to look at what has been tried in the UK, in New Zealand, and in Australia.

WHO DOES AM WELL?

When we look at the areas that have done well in asset management in Australia, the ones that come first to mind are the regulated utilities, particularly power and water. They, however, have a number of advantages that councils do not.

For one thing they have a regular income stream, which enables them to fund the tools and training necessary. For another they have pressure from the regulator which is important if they wish to retain that income stream. And last, the regulator sets their service level requirements for them, only to a limited extent do regulated utilities have to choose their own service levels, and hardly ever do they need to trade off one service level against another.

Of course, none of this applies to councils who generally have rather limited incomes, and no regulator to determine their future revenues or their service levels, all of which you have to manage on your own. However, attempts have been made to apply pressure similar to that of the regulator in regulated utilities.

THE UK

In the UK, councils provide a rather wider range of services than they do in Australia and Canada. They are responsible, for example, for public housing, education and hospitals. All of this was strategically controlled and funded centrally through specific, that is, tied grants.

When New Labour came to power in 1997 specific (tied) grants represented only 4.5% of the annual settlement to councils. By 2002 they were nearly 23%. The Government then decided to give councils more financial freedom but with sureties that the money would be spent wisely.

That is why 'Asset Management Plans' and 'Best Value' had been introduced around 1998. There had been no demand by councils themselves for asset management. In fact, they knew so little about why and how asset management could help them that the Local Government Research Management Board asked me to write a report on the lessons they could learn from the work that we had done in Australia and New Zealand. The Report was then printed and sent to every council in England and Wales in preparation for the roll-out of asset management requirements the following year.

Financial Rewards for AM Plans and AM Strategies

Traditionally money had been allocated by central government for the separate functions but in 1998 in the interests of 'joined up' government – a phrase meaning integration of separate government functions and of private and public sector services in the interests of more client focussed outcomes – there was a move towards a 'single pot' which would allow councils to allocate resources to needs as they see them.

This represented a major shift in policy determination and resource allocation from central government to local government and was part of the 'modernisation' reforms. For it to work, councils needed to have in place good capital strategies and asset management plans and so the central department with responsibility for resource allocation sought to achieve this end by allocating some of the 'single pot' of money on the basis of the quality of council planning. 5% of the single pot was to be allocated for this purpose in the first year, rising to 20%.

A 'dry run' was held in 2000 where capital strategies and asset management plans were assessed, with information being fed back to councils but no cash; money began to flow from 2002

A 'good' capital strategy earnt a council £50,000 (then about $135,000); a 'satisfactory' capital strategy earnt £25,000. Similar amounts were available for the asset management plans so a council that provided both a good capital strategy and a good asset management plan could earn £100,000. (Larger councils argued it should be prorata'ed to give them more but the department replied that the poorer, smaller councils needed most assistance and so kept it at the same absolute level for all.)

The capital strategies were meant to take a portfolio wide approach, to consider partnership links, public consultation processes, links to other plans/ strategies and performance measurement.

Criteria for being 'good' included:

§ Extent of coverage
§ Framework for management and monitoring
§ Approach to prioritisation
§ Consistency with other documentation
§ Demonstrated corporate approach

The asset management plans are meant to take a corporate approach, show the results of public consultation, data management and performance measurement as well as programme development and disposal or under-utilisation programmes.

Criteria for being 'good' included

§ Corporate property officer
§ Cross service asset management team
§ Collation of data
§ High level reporting procedures
§ Basic condition survey

Financial rewards were the first step to encourage quickly getting asset management strategies and plans into place.

Carrot and Stick Approach

The next step was to develop league tables and a rough demarcation that labelled councils as high-performing, striving, coasting or poor performing.Highperformers were given more financial freedoms and faced a lighter-touch inspection regime. Similar freedoms could also be negotiated by striving councils.

The assessments were carried out by the Audit Commission, and might have been one of the reasons that the Audit Commission came to be regarded as high handed and a waste of money. It was abolished last year.

Asset management in the UK was initially applied to property only and not to infrastructure which probably accounts for the fact that in the UK, the two agencies principally involved in developing asset management guidelines were CIPFA, the Chartered Institute of Public Financial Accountants and RICS, the Royal Institute of Chartered Surveyors, whereas in Australia and in Canada it was local government engineers who quickly took the running.

New Zealand

Stage 1 Early 1990s

New Zealand is known for its early start in asset management. There was pressure on councils, once accrual accounting had been introduced, to depreciate their assets. But councils protested that the nature of their assets was such that they were continually renewing them so that to depreciate them as if this renewal was not taking place would be akin to double counting. While the Auditor General was sympathetic, he wanted to be sure that the amount of renewal actually being carried out was sufficient to maintain the assets. A number of things then coincided, as they generally do.

Early in 1993, I addressed the National Accountants in Government Conference in Hobart at which the NZ Auditor General, Kevin Brady, was present. My subject was condition based depreciation, effectively depreciation measured by the amount of renewal that needed to be done to maintain the assets, as determined by a good asset management plan. Around the same time, Gareth Evans, who was to become the first NAMS Chairman in NZ, presented a paper on asset management plans and the idea gelled in the mind of the Auditor General who then said he would permit condition based depreciation, that is allow the amount of renewals provisions to be considered the equivalent of depreciation, provided that the renewals were backed up by an asset management plan.

This started the rush to asset management plans in New Zealand. I remember at that time a young consultant ringing me and saying "I have just won a contract to do an asset management plan for a council - what's an asset management plan?" Of course, the quality of these first plans was extremely variable. That's OK, said the Auditor General. There will be some that are very good, some not so good, and some that quite frankly are basket cases. The very good will compete with each other to continually get better, the not so good will learn from them, and we just have to realise that there will always be basket cases.

This pragmatic approach of the Auditor General is in very large measure the reason for early asset management success in New Zealand. He did not prescribe how the plans were to be done, but rather allowed them to develop. And they developed in leaps and bounds. At no time in those early years was asset management actually proscribed. Rather it was useful. What was proscribed by the Auditor General was a statement of cash flows looking ahead ten years. The only way to manage this was, in effect, to develop an asset management plan. So asset management was adopted in New Zealand because it was seen to serve a purpose. And we might contrast this with the UK approach where it was imposed by fiat.

Stage 2 2000 -

Two things happened in New Zealand, however, which appear to have slowed the development of asset management. One was the ruling by the accounting body that condition based depreciation was not to be used and that councils had to switch to standard depreciation techniques, essentially straight line depreciation on an assumed life. This happened around the time of the international harmonisation movement in accounting around 2000. The other was the introduction of the new Local Government Act where, for the first time, asset management plans were formally required and would be audited according to certain criteria. At the same time, councils were required to consult extensively with their communities on just about everything. Now that councils have to meet audit criteria there is less scope for them to introduce new ideas that may not pass muster and a lot of the creative zeal of the New Zealanders seems to have evaporated.

Australia

In Australia, local government engineers saw the introduction of accrual accounting into local government early in the 1990s as a wonderful opportunity to introduce ideas about asset management. For now that assets had to be recorded in balance sheets, the accountants were coming to the engineers to ask for assistance in assessing the condition and value of the assets. That meant engineers and accountants were talking to each other! In the first ten to fifteen years of my work in asset management I spent half my time talking to engineers and the other half talking to accountants and trying to get them to talk to each other. Well, it is now happening. I am pleased to say that we have a pretty good relationship between engineers and accountants now. But at no time was asset management proscribed for local councils. As in New Zealand, it was seen as being useful.

What has helped is that the IPWEA, the Institute for Public Works Engineering, Australia, has taken a strong and leading role in this area with training courses (and now a university degree course), conferences, and guidelines, of which the IIMM is perhaps the most well known, but a recent addition to the stable, the Financial Guidelines could well become as important.

This had some drawbacks for those councils where decision makers were more focussed on the short run than on longer term sustainability and chose not to invest many resources in asset management.

Unfortunately there were quite a number of these as the States discovered when they started to examine the long term financial sustainability of councils - and found that many were not sustainable at all. This is now being addressed by new requirements that stipulate what needs to be done - but not how to do it! Thus leaving open the scope for creativity and innovation, without which asset management is not much fun at all.

Grants Allocation Process

This need to be open to innovation is one of the greatest stumbling blocks we have found in introducing good asset management as a factor in the allocation of State Grants. In Australia, the Federal Grants Authority decides how much of the local government funding pool should be allocated to each State. It does this on the basis of certain parameters representing hardship and the idea is to give all states the same opportunity. The States Grants Bodies then allocate to the councils within its borders using the same general approach to equalisation but with factors that it considers appropriate. These Grants Bodies are quite amenable to the idea of including good

asset management as one of the parameters even though it is not an equalisation factor as such. The difficulty comes in deciding what parameters to use to represent good asset management. We know that asset condition, for which we have the data, is not a proxy. But good asset management supports the aims and objectives of the council - and this is where problems arise. For the Grants Bodies find it difficult sometimes to distinguish between hardship endemic to the area and hardship created by unsustainable decisions. So we haven't solved this problem yet. But one State is coming very close.

Victoria

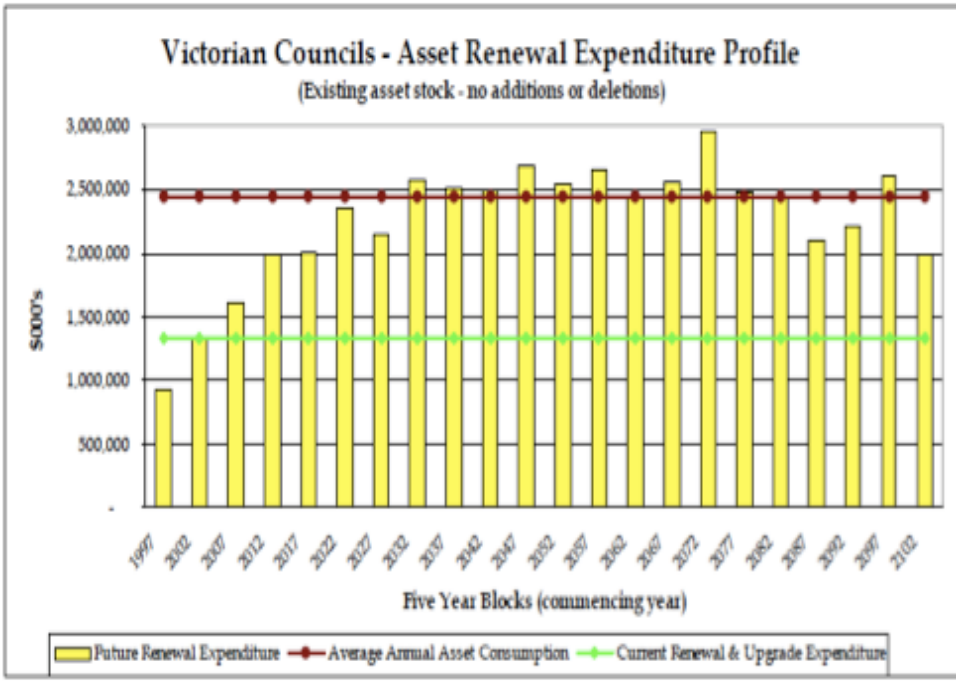
In Victoria, co-ordinated action by both State and councils have resulted in them being in poll position with respect to asset management across Australia. And this is not just a matter of bragging rights. Victorian councils have managed to greatly improve their sustainability in the last 12 years - and they have the measures to prove it.

Here is the story in brief. In 1997 increasing numbers of councils were coming to the Office of local Government, a state instrumentality that controlled the amount of money that they could borrow, asking for an increase in their borrowing cap so that they could address the problem of asset renewal. The State was a bit wary about granting these requests for two reasons. One, it had loan limits of its own imposed on them by the Federal Government which would be impacted by increasing council loans, and two, they believed that the loan limits enforced a certain level of financial prudence on the councils. Still, they could understand the problem of ageing assets. What they really wanted to know was who really needed their loans to address renewal and who was seeking increases to fund their general operations. They called for the building of a model that would give them the answers. But the problem was that the data needed to populate such a model simply did not exist. Councils, in general, had a very poor idea of what assets they had, what condition they were in, when they would need renewing and how much it would cost. So that turned out to be the focus of the study that the Office ended up doing. It showed that the level of asset renewal was set to escalate in the following 15 years - and that councils weren't even keeping up with the level of renewal needed then!

The graph will give you some idea of the rate at which asset renewal requirements were increasing.

Councils seemed unaware of their renewal requirements and instead of providing for sustainability were spending most of their capital on new assets - thus making the renewal problem worse rather than better.

With renewal requirements set to triple, managing the problem with increased funding alone was considered out of the question. There needed to be an asset management solution. So the State set about considering how to do this. First off, it implemented every one of the recommendations in the report. This focus on asset management solutions helped Victoria when a major legislative change was made at the Federal Level.



Road Asset Management Plans

Until 2001, all Australian road authorities enjoyed the benefit of protection against accidents on their roads and footpaths that resulted from maintenance or repair works not being done, or warnings not given, (immunity from nonfeasance) but not for maintenance or works carried out that were directly or indirectly the cause of an accident (no immunity from misfeasance). In other words, they were given an immunity against negligence enjoyed by no other private or public sector entities. In 2001 the Federal Government removed the protection against nonfeasance. Road authorities in every State insisted that their protections should remain. In NSW, the federal protection was replaced with state protection. In SA, special insurance funds were established. *Only Victoria responded with an asset management solution.* Victoria required all councils to develop road asset management plans showing that they were managing their available funding to best effect. This, henceforth, was to be the only protection that councils had.

The Victoria Story - And an offer!

It did many other things, too. Too numerous to mention here so I have written up the first part of the Victoria Story (what the state did) in the current issue of Strategic Asset Management, the fortnightly newsletter that I edit and write. And if you would like this just drop your business card on my table or give it to me during the rest of the sessions today. I will be bringing out part two of this in a few weeks' time looking at what the councils themselves have done to improve their own asset management and this is pretty impressive too. In fact, if you give me your contact details I will give you access to my website members zone and you can not only read the Victoria Story but many other examples of good work that councils have done - in Australia, in New Zealand - and yes, in Canada, too. Over 300 issues are now available to view or download and you can help yourself.

In Conclusion, may I introduce my friend Marcus?

Marcus is a musician, avid bushwalker, photographer ..and asset management creative!

He is continually coming up with creative ways of increasing asset management understanding of his councillors, colleagues, field workers - and even high school children through innovative games and explanations.

Just before Christmas he wrote me the following:

Consider the following scenario:

AM is a new religion and you are its prophet. You have 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.

They will use these 4 words as prompts to remember all that they have learnt from you. These will be the only written scripture the religion is allowed to have.**What would your 4 words be?**

Here are mine:

"Service" because that is the reason for assets, if it provides no service (i.e. an airstrip that is no longer used) then that strip is no longer an asset, and if it is still being maintained, then it is a liability! (This does not preclude the land under the airstrip being an asset - once the airstrip is removed.)

"Value" since the aim of asset management is NOT to achieve the lowest possible life cycle cost for a given service, as is so often stated. That assumes there is no iteration between service and cost. Instead it should be to achieve the maximum value (Benefits - Costs).

"Children" because we cannot calculate the value without factoring in the benefits and particularly the costs to future generations. We are the children who have inherited the decisions (wise or not) of previous generations. Our children and grandchildren will inherit from us.

"Choices" because there is no cut-and-dried solution to the 'service-value-children' equation. We will always be left with choices to make.

But don't choose mine - think of your own!

Asset Management is Fun,

So whatever you do,

Don't Stop!