

Part Two: Working Within Councils

Service Levels, Outcomes, Perception and Performance

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21. At Your Service

“We realise that our Council’s prime reason for being is to meet the customer service needs of our community”

District Council of Mount Remarkable’s Strategic Plan.

Services

Councils deliver a wide range of services that have evolved over many years. With the passing of time, the reasons for what is provided can become vague and, as a result, councils run the risk of no longer providing what is relevant or appropriate.

In New Zealand, where asset management plans have now been in use for 4-5 years, councils were advised, as a first step, simply to comprehensively document what was currently provided so that it could be either endorsed or challenged.

However, as the asset manager for Wanganui Council wrote, “as asset managers we tended to breathe a sigh of relief when we were told our service level can simply be a description of what we currently provide. We then often proceeded to write a woolly, technical description that told the customers very little about what they were actually paying for. At best it was justification of the budget and at worst, simply padding.”

As a result, Wanganui worked out a set of simple rules for communicating service levels – in user terms. These are provided in Fig 21 as guidance for South Australian councils. Examples of how these rules were translated into service statements for 22 different services for Wanganui can be found in the “Further Resources” section of the study website.

The Result.

Wanganui reports that not all rules were strictly adhered to but at least it kept them on track.

“It was a constant challenge to refrain from listing various planning, administration and information management processes as services. Council’s services were broken down to a list of 22 outputs and described.

Box 21A: How to Cost Services

What do services cost? Take libraries. There are obviously costs for librarians, technicians and assistants to staff the libraries. There are the on-costs of central administration and the operating costs of cleaning, lighting, security, etc. There are the costs of consumables such as paper for the photocopier, or daily newspapers, and then there are the ‘assets’ – the library stock of books, periodicals and other loan and reference items; the computers and software for the computers; and the library buildings themselves (or mobile van).

Cost of library services =
Direct labour costs
Indirect labour costs (super, HO admin, etc)
Services and utilities (cleaning, lighting, water rates, security)
Capital related costs: -
Maintenance of the assets used
Depreciation of the assets used (see Note 1)
Opportunity Cost or Interest Foregone (see Note 2)

Note:

1. If the asset has an expected life of 10 years, then the depreciation rate will be 10% and this is 10% of the full replacement cost.
2. Opportunity cost is the interest foregone by the council in holding its wealth in the form of the capital asset rather than as money in the bank. One could perform the thought exercise of selling the asset and investing the revenues. (All assets, even infrastructure assets, can be sold if there is an interested buyer.) However as the asset ages, its market price falls. This is reflected in the books of account as the depreciated value or “the written down replacement cost (WDRC)”. If the opportunity cost is, say 7%, this is expressed as 7% of the written down replacement cost.

21. At Your Service

The document has proved to be the most popular that Council has produced. Its format enables those interested in just a single service to be provided with information a single sheet of paper. We can cut the bureaucracy!

It has become very useful for asset managers to focus the service delivery process on the enhancement of service provided and turns the heat

up on other processes that do not add value. It has caused us to repeatedly question *why* we are doing various things and *who is benefiting* from the activity. It also forms the basis for the monitoring of our performance and hopefully will lead to a more formal customer-supplier agreement in the future."

Once services have been identified councils need to determine the level at which they are to be provided—see next section on service levels.

Opportunity: To increase value and reduce cost by focussing on services most wanted.

Box 21B: Wanganui's Service Description Rules.

Rule 1. Services provided must be described in terms of outputs, not inputs.

Comment: As an analogy, consider Bob purchasing a hamburger. What Bob is primarily interested in is the quantity, quality and price of the hamburger and how fast it is he can get it. He is probably not so interested in the maintenance plan for the cooking equipment. Likewise, as far as possible we should constrain ourselves to describe what is delivered and at what price, not all the layers of 'how'

Rule 2. Language as far as possible should be in layman's terms.

If we are to have a customer orientation then we must learn to articulate what we provide in their terms.

Rule 3. Each service should be limited to one page of text.



Mainstreet Wanganui

No one is interested in reading volumes.

Rule 4. Sufficient information should be included to enable anyone to judge the quality/price trade off.

Consumers have a right to know just what they are getting for their money and to be informed enough to keep the service provider accountable. There needs to be enough detail on standards in-

cluded so that if the cost varies significantly then so does the service description.

Rule 5. Each service should be documented in a standardised format.

This is not only to ensure ease of reading but also to enable comparison between services, particularly in terms of value for money.

22. Service Levels

“It is all very well to ask us to do more with less, but ratepayers don’t think there is a link between improved service standards and costs”

Identified Need

Expressing services in user terms and quantifying different levels of service in user terms were identified as two of the areas in which respondents to the survey were most in need of information.

Box 22A: Using Service Levels



Once service levels have been defined from a user’s perspective, we have a measure of the different levels of “outcomes” that council can provide. This can then be matched against the cost of providing each outcome.

However, sometimes, it will not be necessary to do the cost calculations for the outcomes alone can guide council. For example, council may feel that it should have a ‘top of the range’ road for its mainstreet – but when asked ‘do you really want traffic to be able to do 100 kph in safety and comfort down your mainstreet?’ the answer would probably be NO! And the same answer may be forthcoming for residential streets. (After all, why put in a road that can do 100 kph in comfort and then install traffic calming devices to keep the speeds down?) In this way, councils are able to select not the “top” standards, but the “appropriate” standard for the need.

As a result this report has looked at how to describe services in user terms (Section 21) and how to analyse and use service levels (this section).

Next Steps

Having taken the first step of simply describing current services and their costs, as described in the previous section, councils are ready to take, with their community, the next step of examining the range of service levels and determining what is really wanted.

For an Asset Management Strategy to assist a council in getting more service for less resources, an essential in today’s world, the focus must be on service levels – *from the user’s perspective*. But what does this mean?

Consider roads.

Normally service levels for roads would be defined in terms of roughness counts or other forms of road condition, such as cracking. But these are technical service levels, not user service levels.

What services do users want from roads?

- Access, speed, safety for motorists, ride comfort (if they are on them)
- Noise control and safety for pedestrians (if they are alongside them)
- Aesthetics and environmental safety could be important in some circumstances (e.g. landscaping of verges and control of grass growth to control bushfires)

22. Service Levels

Describing Service Levels

It is possible to think of a number of different service levels for each of these services. Take service levels for road speeds:

Level 1. 'capable of safe, comfortable, speeds up to 100 kph'

Level 2. 'capable of safe, comfortable, speeds up to 80 kph'

Level 3. 'capable of safe, comfortable, speeds up to 60 kph'

Important points to note:

1. This is clearly not the total of service levels that could be defined for safe, comfortable driving speeds. There is really an unlimited number of service levels, as many as the mind can devise.

2. Written this way, each service level implies that there are alternatives. Higher levels of service presumably come at a higher life cycle cost – if not, a lower level is not really an alternative.

3. The service levels relate to what the asset DOES, not what IS DONE to it, or even what condition it is in.

4. There are many different ways to achieve the service level. (See Figure 22). It is important not to confuse the means with the ends. Improving a roughness count is not a service itself, it is a means to providing a service (ie ride comfort)

5. Related to the above, there is no one way to achieve, or to vary, a service level.

An asset may, and generally will, provide a number of services and each of these has to be examined in terms of appropriate service levels. For example, a wetlands provides a drainage service but it also provides a tourist attraction.

More information

More information can be found on constructing and using service levels in "Further Resources" on the study website.

Opportunity: To meet the community's real needs.

Fig 22
The "how" of Service Levels

Defining service levels in outcome terms leaves it open to the asset manager to choose the most appropriate method of achieving the end result. For example, whatever the road speed desired, there are numerous ways of achieving safe, comfortable driving at that speed.:

- Road width (wider roads make for safer driving at speed)
- Road alignment (straighter roads are faster but too straight and inattention may lead to accidents)

- Surface quality (roughness and potholes limit safe driving speeds)
- Substructure (ie pavement quality) -sunder roads are safer
- Signage (can increase safety by giving warning of danger spots)
- Traffic lights (can reduce congestion)
- Bridges and overpasses (can speed traffic flow)
- Etc



Road Safety Audits are not 're-design' exercises but they can suggest improvements to existing roads. Where the problem is more difficult, there is the Federal Government's 'blackspot' program.

23. User Perceptions

“Do you see
what I see?
Do you hear
what I hear?”

Traditional
Christmas carol

Serving the Community

The last two sections have looked at the issue of describing services and service levels in user terms.

This is not only necessary for communication, it is also necessary for performance improvement.

Example of User Perceptions

It was just a torn scrap of very muddy t-shirt – “that’s what I get when I put it under the tap”, he would say, in no uncertain tones of disgust. The scraps of t shirt turned up every few months.

On investigation, it turned out that the water authority, to remove the build up of sediment that occurs in South Australian water, had a practice at the time of flushing the pipes. For a few hours the water would be like gravy. However the end result was that reasonably clear water would be available for the next several months.

Statistics can be deceptive

The authority’s statistics told it that it was providing clear water 99.7% of the time and it considered that a good service. The fellow with the t-shirt, however, had a completely different view and anybody who happened to put through a load of white washing at the time of pipe flushing would consider the service a very poor one. Who was right?

Lessons to be learned

1. Perceptions count

There are several messages from this story for councils. One is that it is not what you do, but how it is perceived by the community, that counts.

2. Communication counts.

Another is that the water authority was not keeping the community ‘in

Box 23: The Comparative Assessment Technique



A new technique, developed in the UK, takes qualitative outcomes and transforms them into user defined and accepted gradings that can be measured, monitored, and tracked over time. Now there is a way to determine whether qualitative outcomes are improving, whether goals have been reached. - and, if not, *how far* we are away from the desired end-state (and how much it will cost to get there!)

It is called CAT– Comparative Assessment Technique, and it is based on the simple, but operationally powerful, idea that any qualitative output can be expressed in terms of its worst state, its best, and all possible states in between.

Being able to measure qualitative outcomes/outputs makes it possible to

- Track developments over time
- Compare outcomes with other organisations
- Relate activities to outcomes
- Relate *the cost of* activities to the *improvement* in outcomes

A list of all possible states is called a ‘ladder’. Ladders can be used to measure

- The performance of a task
- The effectiveness (or result) of the task and
- What users think of the overall activity

23. User Perceptions

the loop'. Later, it began the practice of advising consumers when the pipe flushing would take place.

3. Taking a User Perspective Counts

Later still, it found ways to avoid flushing at all. It is interesting that it was only when the authority focussed on the service – from the user's perspective – did it realise that improvement was needed!

Measuring Perceptions

Until recently, the fact that perceptions were 'subjective' made them very difficult, if not impossible, to measure. A technique is now available that allows councils to rate how the community perceives

a service and, unlike most rating devices, to measure and aggregate the different aspects of the service making the management of perceptions as real as the management of service outcomes. (See Box 23, Fig 23 and a detailed account in "Further Resources" on the study website).

Use in Councils

This technique is now being used by the Brisbane City Council to evaluate the perceptions that other sections of council have of its IT service. Asset managers could use it to estimate the effect that its asset management work is having on ratepayers' perceptions of the services they receive.

In general, community perceptions are more positive if:

- They understand the reasons for service disruptions or, if necessary, service downgrading.
- They are consulted about the changes and their ideas listened to.
- Council reports the problems it is facing and how it is overcoming them

See also

Section 28 "Community Consultation" and

Section 29 "Measuring and Forecasting Demand"

Pricing is a useful tool for understanding community demand. It is the subject of the next section.

Opportunity: To improve performance by managing community perceptions

Fig 23: Example of a Comparative Assessment Technique Ladder

An example of a *consequence ladder* for Heating and Ventilation in the context of Customer Perceptions could therefore be as follows: -

1. Customers have refused to come to our offices because they are always too hot or too cold.
2. Customers are always complaining that our offices are always too hot or too cold.
3. Customers often complain that our offices are too hot or too cold.
4. We sometimes get complaints from customers that our offices are too hot or too cold.
5. We seldom get complaints from customers that our offices are too hot or too cold, but we suspect that they are being too polite to tell us and it may therefore be affecting business.
6. Customers never complain that our offices are too hot or cold, but we suspect that they are being too polite to tell us and it may therefore be affecting business.
7. Customers seem to be happy with the temperature of our buildings.
8. Customers sometimes remark that we always have our buildings at the correct temperature.
9. Customers often remark that we always have our buildings at the correct temperature.
10. We pride ourselves in operating our buildings at temperatures that improve our image with customers.
11. Our policy regarding the temperature of our buildings is seen by our customers as an important factor in their measurement of our image.
12. Other organisations use us as a benchmark for the contribution that control of temperature adds to our image as perceived by our customers.

More information in "Further Resources" on the study website

24. Pricing as an Information Tool

**“If its free,
people always
want more!”**

What services does your community want?

This is often difficult to assess. You can call public meetings but generally only those who have a vested interest in the outcome will turn up. Or, if the service is one where the community benefits only indirectly, for example in the provision of tourist facilities such as caravan parks, maybe no one will turn up!

The general issues of community consultation are dealt with in Section 29 “Community Consultation”.

Pricing as a rationing device

Pricing is a technique that councils can use to determine how much value their community places on different services. If the council suspects that a service is not highly valued, it is useful to put a price on it. It does not have to be a ‘full cost’ price, even a small price can lead to serious rationalisation of demand by the community with considerable savings. (see box 24).

Box 24 Pricing as an Information and Rationalisation Tool



On examination a New Zealand Council discovered that 32% of the costs of maintaining sportsfields were incurred in getting them to a level appropriate for casual use such as walking or jogging. 68% of the costs were incurred by maintaining the fields to the standard required by the sporting Codes (soccer, rugby, cricket, etc)

The Council made a political decision that the Sporting Codes would bear roughly 20% of the total costs that they imposed. A system was introduced which saw the codes facing prices that signalled the cost of the preparation of pitches to different standards for each code.

The result of this was that the Codes moderated their demands for pitch preparation to such an extent that \$180,000 was saved in the first year of the system.

A reluctance to price

Not all services lend themselves to being priced and there may be good reasons why, when it is possible, that the council should choose not to use pricing techniques. For example, at the height of the wave of council outsourcing, a number of councils were considering the possibility of entirely outsourcing garbage collection, with not only the collection of garbage but also the collection of user fees from garbage collection being outsourced. This could have led to innovative pricing mechanisms that discouraged waste accumulation by households, which is particularly important where council tips are being overloaded and few replacement sites are available. However, most of the councils decided against such an action on the grounds that garbage collection was one of the few visible services that all ratepayers could see that they were getting for their rates.

24. Pricing as an Information Tool

Pricing and community equity

Where services are provided unequally – as is often the case when two (or more) councils have amalgamated and previously had very different spending and revenue policies – the use of pricing can be seen as being more self-evidently fair. Those who use, pay; those who do not, do not. When all ratepayers see themselves as contributing to the cost of service provision, they are inclined to demand a service, even

if it is of marginal value to them, simply out of a sense of fair play.

Pricing as an Opportunity

Pricing can therefore be a useful tool for determining just what services the community *really* wants. It also has the extra benefit of enabling the service to be *facilitated* rather than provided. For example, recreation facilities such as swimming pools, recreation centres, and tennis courts can be provided by council, but they can also

be provided by others – using ‘other people’s assets’!

In addition, pricing services provides income that can supplement other revenues.

Opportunity: To discover what the community *really* wants and values

Fig 24 What Can Be Priced



It is useful to separate the services provided by councils into the following three groupings:

Public goods: those goods and services provided to the community as a whole, whose benefits accrue to society as a whole and cannot be divided into saleable units. For example, good town planning. While charges may be made for planning permits and building inspections, the overall benefits of good town planning go beyond this and are available to all. Assets that provide essentially public good type services include: roads,

road verges and pavements; bridges; stormwater drains; parks and gardens; open space land; and council buildings (when used for administrative purposes). Public goods do not lend themselves to any kind of pricing policy but may be subject to occasional revenue or reimbursements.

Community goods. These are those goods and service that the community consider desirable but no private producer has been induced to provide commercially. Assets that provide essentially community good type services include: sports stadiums; library, museums, art galleries; sporting grounds, ovals; pre-school, child care and maternal care centres; the Town Hall (when used for community functions); swimming pools and rubbish tips. Revenue from these assets may come from user fees, permits, licences. Prices are charged but do not cover the full cost. The ratepayer subsidises the user of these services

Private goods. Councils sometimes provide purely commercial goods and services. Examples

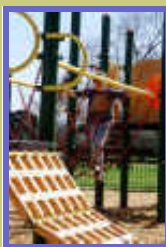
include: commercial land and buildings; abattoirs, caravan parks; and cemeteries. For private goods the appropriate pricing is full rate of return. Indeed, under the new competition policy, councils are required to price this way.

Membership of the three categories is not clear cut. Assets and the services they provide may shade from one category to another. Understanding this provides councils with more options to manage their assets. For example regional roads can be defined where sealing would provide economic advantages to an identified clientele and they may be asked to contribute. Or, while cemeteries may normally be considered as pure private goods to be fully priced, ‘heritage’ cemeteries may provide a general community benefit and this may justify some price subsidy.

25 Performance Indicators

“We have been trying to improve performance and we think we have, in some areas, but we are not sure”

Box 25A: Performance and a Focus on Service



Newly amalgamated, this non metro urban council found itself with very little asset information. Like others in this situation it could have invested in data collection and an asset information system. But, instead, it chose to understand more about what the council had *in broad terms* and what the council wanted to do – *provide or facilitate the provision of services*. Once it had this broad understanding it was then able to (a) focus on those issues of most immediate relevance and (b) select and measure just those aspects that were of top importance. Rather than collect information on everything, the council was able to “focus on service”!

Why Measure and Monitor

Playing tennis without keeping score would not be much fun, and working to improve asset management practice also lacks stimulus if there is no way of measuring and demonstrating improvement.

But the most important uses of performance indicators are (1), as an ‘early warning device’ - to be able to detect where performance is lacking and corrections need to be made, in time to make them cost effectively; and (2) as a means of recognising good practice and performance, so that the lessons learnt may be extended.

There are certain rules that performance indicators need to follow if they are to be used to correct problems early or to recognise good practices. They need to be:

timely - annual reporting may be sufficient for very slowly changing conditions, but for most practices quarterly, monthly or more regular reporting will be necessary.

precise - if something is going wrong (or right!) it is necessary to know exactly what it is; too general a level of performance measurement will not provide enough information for correction or extension.

measurable!
(see examples in Fig 25B)

First seek to understand, then to improve, performance

Performance indicators are a combination of two things:

Performance measures
Performance targets

It is advisable to measure performance and understand the causes of variation for maybe several years before attempting to set performance targets. Much harm has been done by selecting and working to artificial targets. Setting a target for a debt to asset ratio, for instance, without understanding the implications for other performance is unwise. (See “Debt as an asset funding mechanism” Section 31)

One is Generally Not Enough

Because individual practices are so interdependent, it is very unwise to base actions on just one performance measure or indicator. For example, consider a “maintenance to asset ratio”. What would constitute an improvement in this ratio – for it to increase or decrease? Many, who believe that maintenance is under-funded would say “up”; others who feel that much maintenance funding is wasted, might say “down”. The point is, that we cannot tell – without looking at other indicators, such as asset condition, customer satisfaction, breakdown rates, renewal funding, etc. It may be that because assets have been recently renewed, that maintenance has been able to be beneficially reduced; on the other hand maintenance may be reduced causing required renewal to greatly expand.

Performance Requires Understanding and Analysis

Understanding performance requires considering a range of measures and *interpreting* them.

25 Performance Indicators

A medical diagnosis might take a single symptom such as a cough and diagnose leukemia, aids – or a simple, common cold. A similar range of interpretations is available for an asset management diagnosis. *The interpreter needs to have asset management skills*

and know what to look for. Reductions in cleaning costs may show up in the need to repaint more often or in more customer complaints – or, it might be the result of better techniques.

See also “Benchmarking and Best Practice”, Section 30, and the Appendix 7 on Performance Indicators.

Opportunity: To know and demonstrate improvement.

Box 25B: Ensuring Your Performance Indicators are Measurable

The following performance indicators were chosen by one agency

1. Improved overall condition of council buildings
2. Extended replacement cycle
3. Better/More Relevant Reporting of Building Defects
4. Gradual Reductions in the Level of Urgent Minor Repair
5. Fewer complaints in respect of lack of maintenance.

At first glance, they look ok. ***But actually none of them are operational! That is, none of them, without further work, are actually measurable, nor can they be monitored.***

Below are some of the questions that need to be asked to develop these areas into useful performance indicators.

1. Improved overall condition of council buildings

- How many different building "spaces" need to be defined, eg offices, toilet blocks, town hall reception facilities, etc. What services does council need to carry out in these spaces? And what characteristics of the buildings are important for the functioning of these services?
 - Why are these characteristics of the buildings important? Which are the most important, and for what

services? Which characteristics are (a) essential (b) desirable?

- What information do we have on these characteristics? Is it available in quantitative terms? ie is it measurable?

2. Extended replacement cycle

- What are the indications that an asset has reached the end of its replacement cycle?
 - What can be done to extend the cycle? (change standards)? Can these be evaluated to make sure they are cost effective? If so, how?
 - Does extending some parts of the building have an adverse effect on other parts? If so, what? Can we measure this?
 - How is the replacement cycle currently measured? Is this measure satisfactory? What alternatives are there?

3. Better/More Relevant Reporting of Building Defects

- What defects should be reported? To whom? How often? With what response?
 - What defects are currently reported?
 - What is wrong with the current methods of reporting? How can it be corrected?
 - How would we measure an im-

provement in relevant reporting?

4. Gradual Reductions in the Level of Urgent Minor Repair

- What is the distinction between minor and other repair? What is the criterion for defining a minor repair as "urgent"? Who determines?
 - What are the field difficulties of determining whether a repair is (a) minor and (b) urgent?
 - What are the current measures? How accurate would these be?
 - What is an appropriate target level for urgent minor repair? Why? What is meant by gradual? Why should the reduction be gradual? How gradual should it be?

5. Fewer complaints in respect of lack of maintenance.

- How many complaints are currently received? From whom?
 - What level of detail is kept on complaints?
 - What are the major areas of complaint with respect to lack of maintenance? How do these match the important characteristics of buildings necessary for service as established above? How do the complaints match with the urgent minor repair items?

26. An Asset Manager?

“The Goal is Accountable Asset Management”

Does there have to be an “Asset Manager”?

No there doesn't, but there are advantages to having someone coordinate the various activities that come under the heading of asset management.

However if one person or unit takes the asset management role, he or she should be seen (and preferably named) an Asset Management Co-Ordinator, rather than an Asset Manager, to avoid other council officers thinking that asset management is not part of their role.

Asset management is a multi-disciplinary activity involving almost all of the key roles in council from planner to administrator, from finance to engineering, from operations to service managers and will only be truly effective if everyone takes responsibility.

In the survey, councils indicated that few had a designated “asset manager”. In most cases, the CEO or the CFO took the role of asset management co-ordinator.

An Asset Management Group

Some of the larger councils had an asset management group that attended to maintenance and contract management .

Avoiding Silos—Cross Functional Groups

One council had set up Cross Functional Groups to operate outside departmental boundaries to develop organisational strategies for key areas. One of these areas was **Asset Management**. The Groups are essentially ‘corporate think tanks’ focusing on the strategic level, rather than the day to day operational level.

Cross Functional Groups:

- contribute to strategic planning for relevant areas;
- identify new projects and assist

Box 26A: Best Practice: Improving Proposals

Taking The Corporate View

When projects come before senior management for recommendation to Council, the proposals are normally prepared by the group promoting the project, thus if it is a road project it will have been prepared by the transport group, if it is a drainage project then by the drainage group, etc. This is appropriate as these groups are the most knowledgeable about these particular assets. But who is taking the corporate view?

The Electricity Trust of South Australia were commended by the Audit Commission for their innovative solution to ensuring that projects were in the corporate, as well as branch, interest. All project proposals from functional or client areas were independently examined by the corporate policy section. The Policy section investigated the benefits from a corporate viewpoint, noted the areas of overlap between one section and another (both positive and negative), examined the assumptions made (particularly assumptions about future demand growth), and considered the options presented to see if they were reasonably comprehensive and that the analysis had been correctly carried out.

In fact they did all of the things that it is normally assumed the Executive Panel will do in evaluating a proposal but which, in fact, busy senior managers seldom have time to do. Nor do senior managers necessarily have all the specialist analytical skills.

This is a valuable role for the Asset Manager. Avoiding costly mistakes in asset acquisition is the most cost-beneficial application of asset management skills. A week of analysis can save council hundreds of thousands of dollars in wrong decisions.

26. An Asset Manager?

project completion;

- facilitate Strategic Impact Reviews;
- negotiate resources to address critical issues;
- research, discuss, recommend or report on current developments in the area of interest; and
- collaborate with relevant functional areas and contribute to the development of the project and/or capital sections of relevant Business Plans.

The Asset Management Cross Functional Group consists of staff members from the departments of Strategy and Policy, Organisation Services, Economic Development, Customer and Community Services, Environmental Services and, Asset and Infrastructure Services.

Further details on this approach will be found in Appendix 6.

Asset Management is NOT Data Management

In some councils, the “asset management unit” is responsible for collecting and recording asset information. Data reports are produced but usually no analysis of the information is involved. This is not asset management.

Asset Management is not Line Operations

In other councils, the “asset management unit” is responsible for operations and maintenance and for preparing budget applications, but has little or no strategic input.

These activities are not asset management, in the sense in which we have defined asset management, namely matching the asset portfolio to the needs of council. Having a unit called “asset management” can lead council

to believe that the corporate and strategic needs of asset management are being met when they are not.

Here is a list of the “asset management activities” that need to be done.

- Prepare and update the AMS for council approval
- Collect data and analyse it in preparation for the asset management plans, providing documented justification for capital projects (both new and renewal)
- Ensure that the plan is implemented (either in-house or through contract)
- Track and monitor **performance** and report back to council

See also “Checklist” in Section 38

Opportunity: to make someone or some group accountable for asset management across council

Box 26 B: Best Practice: Monitoring Performance

Make an individual responsible for each asset project

BP Steel won an international best practice award for its performance monitoring of projects.

One element of their approach can easily be adopted by councils.

Each major project (renewal, acquisition or modification) has to be ‘sponsored’ by a senior service manager who argues its case before the executive panel pointing out the benefits to be achieved by the project *and taking responsibility for seeing that the agency gets those benefits!* Six months after the implementation date the senior manager is asked to set a time to present the post

implementation results to executive panel. If more time is needed, he/she is granted it and the extension of time recorded. At the post implementation meeting, the senior manager has to say whether the benefits that were promised are being achieved, *and if not, what he/she has done to correct the matter.* Once any corrections have been made, that same senior manager reports to his co-managers on the lessons that have been learned.

The whole process of post implementation review (from keeping track of the proposal and its promised benefits, to arranging the reporting back and ensuring the dissemination to others of the lessons learned – and, if necessary, making changes to the council’s formal asset management processes) would be a valuable role for the Asset Manager.

27. AM Strategy Starts at the Top

“Elected members determine and guide the Asset Management Strategy; their understanding and interest in strategic analysis is therefore critical”

An Example

A number of councils have adopted deliberate programs to closely involve elected members in understanding the strategic issues facing the community. This is an example from one of them.

When Onkaparinga faced the problem common to newly amalgamated councils of bringing information together, it decided to work for a strategic understanding rather than to dive straight into major information systems construction.



Box 27 Full Involvement

“Hey, I reckon I have a combination for you that will work! That community centre that we have on the hill is used by an over-50s group but really accessibility is not good for them. We have an under-utilised facility lower down on the flat that would suit them far better with a small amount of modification. Then we could move the scouts group onto the hill, which they would enjoy, and free up a building for sale.”

The call was from one of the City of Onkaparinga’s councillors. The asset manager said that he gets at least one call a week from councillors with cost effective asset suggestions. They are well aware that “Asset Management is getting the level, quality, maintenance and usage of assets right to deliver the council’s goals.”

Each council member was interviewed individually. Councillor and staff member met informally and went over the plans and documentation for that ward. Invariably councillors would give staff more information, tell them about assets they didn’t know of, their condition, and their potential. Then a workshop was run for councillors addressing :

- The difference between wants and needs
- The Council’s core business and what should be funded, owned, purchased and/or provided
- Council’s service delivery priorities and its roles and responsibilities
- When it is critical or important to hold assets for this purpose... and when is it not.

Councillors were shown pictures of assets (council’s and other’s) providing similar services. It helped to make the point that there was more than one way to do things.

They were shown examples where the council funded and owned, but another body provided the services; examples where council did everything and examples where the community received these services without any intervention by council at all. There were examples of just about every combination of funder/owner/purchaser/provider. It went a long way to overcoming the tendency to want to ‘do everything’ ‘own everything’ and ‘control everything’. Councillors

27. AM Strategy Starts at the Top

are now challenging the 'Status Quo' asking themselves:

- What are Council's service delivery roles and responsibilities? and
- Can the demand in other ways without the need for asset additions?

Community forums

Onkaparinga Council runs community forums on various topics, in which asset aspects are addressed. What they have been at pains to do in all of these meetings is to make it clear that

'there is always another way' "This helps to overcome inertia. Traditional ways of doing things, such as immediately engaging architects to develop a detailed brief for a new facility before looking at all the options, are gradually being phased out."

Councillors form Asset Management Group

There is now an asset management group within Council itself to guide the development of the City's asset management plans. To help structure their planning, councillors first decided on their general priorities for

action. (See Box 11 for illustration of the choices made and Sections 1-3 in Part 2 for more information on strategy and planning.)

Whatever method is used to involve councillors it must include the provision of the 'big picture' of asset holdings, costs and future renewal as well as options for managing the situation.

Opportunity: To enable councillors to use their knowledge and commitment to develop and improve the quality of council's asset management strategy.

Box 27B: Asset Management Strategy

Asset management strategy is a key element of integrated resource planning, a subset of Strategic Planning for council.

Many councils are now promoting this integration to their communities, recognising that it is not new assets, but improved services that matter.

Here are some excerpts from Mitcham Council's community newsletter where "Quality Infrastructure" is a major part of its Strategic Management Plan, showing some good examples of simple overview statements of asset management strategy for public communication.



Roads

Two years ago, a formal analysis of the road network determined the optimum level of recurrent maintenance expenditure to preserve a significant part of the network from major deterioration. This resulted in a recurrent budget for road maintenance surfacing and repairs plus the provision of \$150,000 per annum to a reserve fund for the reconstruction of roads that are in a poor state.

Bridges

... A recent condition assessment reveals that 14 of Council's 17 bridges require programmed replacement. Council is establishing a fund for this program, with the Devonshire Bridge construction taking place in the first year and the Cashel Street and Sturt Avenue bridges being designed for replacement in later years.

Footpaths

.. The review (of footpaths) concluded that to reduce immediate and future maintenance liabilities and to overcome a backlog of poor condition bitumen footpaths, the footpath replacement program should be accelerated.

28. Community Consultation

“Community Consultation is two way.”

When is Consultation Needed?

When should a road be replaced? Where should a new park be located? What trees should be planted in the streetscape? What service standards should apply to the Council's assets?

Questions such as these have a technical edge but, more importantly, the answers are incomplete if they do not take account of the hu-

man dimension.

Sometimes this is obvious – if the road is no longer used by drivers, it is not required! But what if the reason the road is no longer used is because it is so badly maintained that it is dangerous to drive on. It can be risky to make assumptions about the needs and wants of the community, especially when it is so easy to ask what those needs and wants are. With limited resources it would certainly be unwise to create an asset that no-one wanted to use! Involving the community in the process of short, medium and long term planning can provide councils with important information that will ensure that assets are acquired and maintained to meet the community's needs.

What is Community Consultation?

Community consultation is often ‘one way’ – providing written information, or briefings and public meetings – but it is more beneficial when ‘two way’ – actively seeking the views of the community through surveys, the use of focus groups, involving the community in the decision making process.

Whatever method, or methods, are employed it is essential that the method adds value to the decision making process. This can be readily achieved by the means of a few simple ‘rules’.

- Consult early – there is little point in ‘consulting’ when the decision has already been made.
- Explain why the consultation is taking place and what it is expected to achieve – e.g. obtain an understanding of the community's preferred option among several competing options.
- Explain the constraints on

Box 28 Finding Out What Consumers Want



Dean Taylor, Asset Manager, Wanganui District Council, New Zealand, conducted a series of meetings in rural locations in order to determine what users wanted from Wanganui's rural roads. The results were extremely instructive and led to the development of new analytical tools.

Analysis of the written responses after the meeting showed that the road sections of most concern to users DID NOT MATCH the road sections that would have been programmed for priority attention by using traditional road board standards. That meant that the work the Council was doing was NOT the highest priority work in the *eyes of the customers*.

The road standards recommended a number of roads be widened. NOT ONE of the top three of the road widening recommendations were considered as too narrow by the users – although narrow roads were a problem for them in other areas. Given funding limitations, the council funds would have been exhausted before they got round to the roads of main interest to users! (More details see “Further Resources” on the study website.

28. Community Consultation

potential solutions – e.g. funding, timing, engineering standards, legislation.

- Outline the assumptions that underlie the decision making process – e.g. number of expected users, service standards, involvement of neighbouring councils.

- Be ready to listen with an open mind (and make sure all participants in the process do the same) – don't let preconceptions on a 'preferred' solution close off other potential solutions that may better meet the needs of the community.

When to use Consultation

It is clearly not possible, or useful, to use community consultation for every decision that needs to be taken. However, part of the reforms that the public sector are currently undergoing is a focus on community consultation. This is reinforced by the requirement for community consultation, in a number of instances, in the Local Government Act 1999.

In terms of asset management there are at least four instances when community consultation will be useful. They are:

- **Strategic Planning** – In setting the long term direction of the council

- **Setting and Changing Service Standards** – Community consultation can provide useful information on what the community expects.

- **Major Projects** – Where major projects are contemplated there can be extensive impact on the community, both positive and negative. Community consultation can help ensure community needs are met and assist in minimising any negative aspects of the project.

- **Multiple Choices/ Solutions** –
 - Assessing and ranking the benefits of different solutions is often difficult. The perspectives obtained from community consultation can assist in making the decision more focused on the needs of the community.



Box 28B: Community Consultation Happens Every Day

A ratepayer rang the local council to say that one of the street lights had just died. "Thank you" said the receptionist, "We will deal with your complaint as soon as we can". The caller hesitated and said "I wasn't complaining, I just thought you would like to know".

This example was raised at local government asset management workshop in New Zealand. During the subsequent discussion someone suggested the receptionist should have used the word "feedback". Others however recognised that this could be rather patronising because it sounded as if the council had actually done something worthy of having information fed back.

The best suggestion came from a council that had trained its receptionists to answer "Thank you for this information. Please be patient, we want to provide you the best service possible but since the major storm last week we have had over 100 call-outs so it may take us a day or so." The council officer who supplied this information said that their council believed that information should go both ways. He added that, whenever they gave a sound reason for a slight delay, they could actually go a week without attending to the issue, if necessary, without losing customer support.!

Networking sessions like these help NZ councils focus on service delivery.

Opportunity: To use the knowledge and goodwill of the community to improve quality of service

29. Managing and Forecasting Demand

“Expectations are increasing faster than our budgets can cope!”

Understanding and Forecasting Community Demand

Asset information systems only hold data on assets, their level and condition their value and the rate at which they are ageing or becoming obsolete. They do not hold data on what services the community wants now or may want in the future, they do not give any information on the rate of growth of populations, or on social and environmental standards, or changes in the nature of the community (eg through urban renewal).

Demand analysis

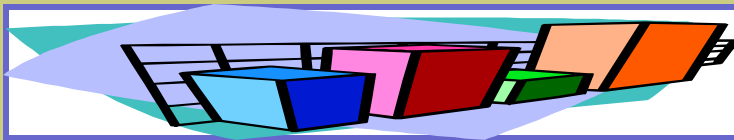
Asset managers need to know where the customers are and what they want. They also have to know where they *were*, and what they *no longer want*. If they only concentrate on the first of these then assets get added to suit new needs – but they don't get subtracted when needs have passed. Because infrastructure assets have a long life, it is not sufficient to think only of today, foreseeable changes need also to be taken into account.

Demand forecasting

However, while it is sensible to build into the Asset Management Strategy those changes that can be reasonably predicted, it is a mistake to 'plan for the unknown'. In the UK, under the general rubric of 'flexibility' schools were built with extra high ceilings in case they may, at some future stage, be needed for something that required the extra height, and they were built with walls that could be removed to convert two rooms into one. Not only did this increase the construction cost, the extra ceiling height added enormously to the heating bills in the cold English winters and, with the normal process of staff changes, eventually no-one was left in the school who even knew that the walls could be removed. A study later showed that less than 2% of the buildings had need to take advantage of the 'flexibility' built in!

Good service demand forecasting is talent unrelated to asset management proper but without it, asset management is only half-done. Forecasts of renewal need to be modified by any demand changes that this analysis of future demand throws up.

Box 29 Forecasting and Managing Demand



Councils already project and analyze demographic data to forecast population growth and change and they take into account changes in industry and tourism, as well as social and environmental standards.

But growth in service demand need not translate into a similar growth in asset demand.

Use of Management Demand techniques can lead to greater utilisation of existing assets, shift in peaks, and rationalisation of demand with resultant cost savings.

See Figure 29 for examples of ways of managing demand

29. Managing and Forecasting Demand

Demand management

Demand management means using persuasion to affect the demand for services and the assets that support them. The management of demand for council services can be influenced by such measures as community education and pricing policies and can dramatically reduce or defer asset requirements. But demand management is not only about demand reduction. Where council has an under-utilised asset that cannot easily be disposed of, it may choose to encourage greater use of the asset using the same techniques of community education and pricing. By doing

this, the community gets more service but at a low marginal cost.

Councils are making some use of user-pays pricing systems but could do more. (ref Section 21) User-pays does not necessarily mean 'pay for use' which requires being able to exclude non-payers from the asset services. It can also include levies: where one section of the community gets a large share of the total benefits from a proposed asset or asset upgrade, it can be asked to pay a share of the costs. This may apply to retailers in tourist areas who would benefit from higher quality road access or extra toilet facilities to encourage peo-

ple into and to stay in the area. It may also apply to the situation described in box 9 where a change in production in a former agricultural area towards the growing of dust sensitive crops like vegetables and flowers has brought about demands on council to upgrade the roads.

Opportunity: To increase service VALUE, rather than services per se—and in doing so, reduce asset costs for the community

Fig 29

Demand Management also Means Resisting Demands in the Community Interest.

1. Ask "Who Benefits?"

A council was facing serious periodic flooding which resulted in road closures and high costs of restoration. A wetlands was proposed to control water runoff. A number of council members saw that it also had benefits as a tourist attraction and became enthusiastic. Two sites were considered, Site B was better for tourism but would have serious diminished capability in flood prevention. For flood control Site A was a far better site. Which site should be chosen?

The beneficiaries of the wetlands as a tourist attraction were mainly non-ratepayers and that part of the community that benefits directly from tourism but their gains would have to be considered small as the wetlands was unlikely to be a major tourism attraction bringing many people in from other places. The beneficiaries from flood control were, directly, those

ratepayers using and affected by the road closures and flooding, but indirectly, ALL ratepayers would have benefited through the reduction in the regular costs of restoration - monies that could now be put to other uses.

2. Ask "What is Displaced?"

A council, having been exposed to asset management principles, was well aware of the costs that the community would incur if it succumbed to the demands of a small group to take on an old, non-listed, building for 'heritage reasons'. Still, they found it difficult to resist because at that stage they did not have a well-developed asset management strategy and asset management plan. With these, it could have demonstrated that acceptance of the community's demands would have meant displacing other important and beneficial activities.

30. Benchmarking and Best Practice

“We jumped into benchmarking only to find that we should have put our efforts into understanding our own processes first”

BP New Zealand

Benchmarking and Best Practice

This study had its genesis in the desire of councils to benchmark and improve their asset performance.

However councils had not gone very far before they discovered that the way in which they recorded data was very different from each other – for example, there are over 27 different computerised financial systems in use throughout 68 councils. Any comparisons they might make would be unlikely to be valid.

The initial idea was to compare data rather than processes – unit costs for maintaining a length of gravel or sealed road, for example. But this was fraught with difficulty, not only because of the different computer systems used which recorded information in different ways, but also because cost data varies for reasons other than performance efficiency.

Now a new benchmarking tool

Through its website, this infrastructure asset management study has created a new benchmarking tool. It is only as good as the data that has been entered by councils but it has the capacity to get better since the databases are updatable. For the first time, data has been collected from councils according to a common organising principle – namely the need to forecast future asset renewal and to calculate the average annual asset consumption cost, the amount that tells a council how much it needs to provide to sustain its asset stock into the future.

What is “Best Practice”?

Best Practice is hard to define, since what works well for one council may not work for another. Best Practice must always be defined in terms of the goals that each council sets for itself. What is best in a growth situation may not be best when a council is in decline and so on. For this reason the website database allows councils to select their own most relevant groups for comparison. However, there are some general principles that apply no matter what. One of them is

Box 30 Good Benchmarking Starts at Home

These questions can be asked of others or yourself
(But like BP New Zealand, it pays to understand your own assets and asset processes before trying to understanding others)

Why do you select that life for that asset class?

What do you do to get assets to last that long
(or, conversely, what is causing them to be replaced at such
(relatively) short intervals)?

Why do you use those particular asset sub-sets?

What level of maintenance do you apply to this
type of asset?

What standard of service are you aiming at?

For what class of customers? Why?

30. Benchmarking and Best Practice

“Maintenance First” which is discussed in Section 3. Another is the need to match future costs and revenues. Throughout this report, these good general principles have been outlined.

Natural variation

One of the major determinants of unit cost is economic life – that period of time between the renewal of a major element, such as road seal and the next. Economic life can vary for reasons of climate, terrain, usage, soil type, construction method and maintenance processes, to name a few. Some can be controlled by council and some cannot. The study website shows the economic life distribution for all councils or for chosen subsets.

Recording Economic Life

This study has also originated a new, best practice, method of recording economic life that has

recognised that, even within one council, economic life will vary according to the factors mentioned above. So that a council may have, say, 30% of its roads with a life of 30 years, 45% with a life of 50 years, and 25% with a life of 60 years.

Some councils were able to utilise this tool the first time around, but many will use it on subsequent updating rounds as they understand more about their asset portfolios.

Benchmarking Economic Life

It also recognised that, for many councils, the life of assets are still largely a matter of guesswork. The study thus also originated a new recording method by which councils report when they replace or renew an asset, its estimated age and the reason for replacement. This information is entered into a national database which has the capability of matching like entries to derive average economic lives for different assets and circum-

stances. This information set will grow as councils contribute to it and it will help councils derive appropriate lives for their own assets.

The economic life of an asset is closely related to the standard at which the asset is desired to operate. Consequently one of the means by which councils may control their future asset renewal expenditures is to choose a different operating standard. So it is to be expected that economic life, and thus unit costs, will change as councils manage their asset stocks more closely.

More Information

Further information on benchmarking and best practice more generally will be found in the Appendices.

Opportunity: To use the differences revealed by comparisons to ask useful questions about one's own practices.

Fig. 30 Renewal Profile - Recent Asset Reconstruction Data

| Asset Category | Reason for Renewal | Other reason for renewal | Percentage of Asset | Total Economic Life (yrs) | Order of Accuracy |
|----------------|--------------------|--------------------------|---------------------|---------------------------|-------------------|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

31. Debt Management

“There are peaks and troughs in asset renewal. Using debt to fund the peaks and using the troughs to pay off the debt is a sound strategy.”

Funding Asset Acquisition and Renewal

The financing of public works by raising debentures or other means of borrowing has been a tool of various governments for hundreds of years. Borrowings are a useful mechanism for spreading the cost of assets over the time frame that those assets

are used to provide services to ratepayers, thus ensuring to a large extent that the ratepayers who benefit from the assets pay for their consumption.

The Debt Debate

Debates about the level of debt, or indeed, debt itself, can become mired in both social and political posturing. The reality is that debt is neither intrinsically ‘good’ or ‘bad’.

Debt ratios (e.g. debt: income; debt: assets) are useful as a means of tracking a council's borrowing capability, but it is a mistake to focus on achieving any given ratio independent of the objectives and situation of council. Sometimes it is advisable to increase the ratio, sometimes to decrease it. This is the art of debt management.

Debt Management and Asset Management

Debt management and asset management are closely linked together, for the following reasons:

- The acquisition, maintenance and renewal of council assets place significant calls on council financial resources;
- Most of the infrastructure that councils are responsible for has been built in the second half of the twentieth century and a period of intensive asset replacement is looming;
- Compared with other levels of government in Australia,

Box 31A: Counter-cyclical financial management with debt and infrastructure depreciation

The South Australian Local Government Finance Group is currently examining the benefits of applying infrastructure depreciation tools to help councils manage their coming increases in renewal. In essence, this method of depreciation measures the cost of the wearing out that is occurring in infrastructure assets by the cost of rectification – as forecast by a well constructed and justified asset management plan. Depreciation is then calculated as an annuity over the renewal needed over a specified forward period that is long enough to avoid untoward fluctuations but short enough to contain sound forecasts and not mere guesswork. Ten years is a practical period for councils.

A major characteristic of this form of depreciation is that it is higher when assets are aged and lower when new. This is the exact reverse of the pattern of repayments and interest which are higher when the asset is new and lower when aged.

A combination of the two could help councils manage the financial aspects of renewal. For more information on infrastructure depreciation, see the “Further Resources” section of the website.

31. Debt Management

local government has relatively low levels of debt with most of that debt relating to asset acquisition and renewal; and

- The potential for much of the looming asset renewal to be undertaken using debt.

Debt Management as an Asset Management Tool

It is critical that the level of a council's debt is monitored and managed on a regular basis if the council is to maintain the capacity to use debt to fund asset acquisition and renewal.

1. Although there is no specific restriction on the ability of a council to borrow, there is a practical limit beyond which the

commitment to interest rate and principal payments will seriously effect the capacity of the council to fund its asset base.

2. There are peaks and troughs in asset renewal. Using debt to fund the peaks and using the troughs to pay off the debt is a good strategy to adopt.
3. Short lived assets, such as plant and equipment, are replaced on a regular basis. The initial purchase of such assets may be through the use of borrowings. However, the use of borrowings to fund their regular replacement simply adds the interest cost to council operations and should be discouraged.
4. Careful consideration needs to

be given to the 'mix' or structure of a council's debt portfolio. If all of the debt is in long-term, fixed interest rate loans the ability of the council to respond to changing interest rates will be limited, as will the ability of the council to reduce its debt level at a reasonable cost when there is less call on council funds. Debt should be a mixture of short and long term, fixed and variable interest rates to maintain flexibility in managing debt and thus managing the capacity to maintain the asset base of a council.

Opportunity for councils to manage the future increase in funding required for asset renewal by freeing up borrowing capacity.

Box 31B: Corporate Credit Rating

In New Zealand, many councils are looking to improve their corporate credit ratings, seeking help from the private sector to train them in appropriate debt management. Standard and Poors, one of the major rating agencies gives criteria for ratings as follows:

Economy (demographics, growth)

Systems/Administration (structure, legal structure)

Budget Performance and Flexibility – revenue flexibility and expenditure flexibility (councils don't have much, user pays is limited)

Finance (assets, debt, contingencies)

Benefits from using corporate credit ratings include:

Improved borrowing terms (Treasury estimates that councils pay .3% over the bb(base bond) rate because they use the local banks that they know and they are then captive markets and cannot shop around)

Ability to tap a wider source of finance

Financial discipline

The downside of corporate credit ratings is that the normal fee is \$33,000+ GST. Although Standard and Poors say that they would offer a volume discount if many councils took up the offer.

Convenient access to finance through the Local Government Finance Authority makes this largely irrelevant for SA Councils.