



Myponga Reservoir on South Australia's Fleurieu Peninsula

## **ASSET MANAGEMENT AS A QUEST**

### **1984-1993**

Dr Penny Burns

Chair, Talking Infrastructure Association

#### *Chapter Three: Reactions*

##### **The right time and place**

Had I tried to do this exercise anywhere else than with the EWS, I am now convinced it would not have seen the light of day. I would have been blocked by those who foresaw their current situation changing, and changing in ways they could not control.

Chief amongst these was Finance, as was later to be confirmed by the reactions of the State Treasury. There really was nothing in this exercise for Finance. They were

comfortable with the way things were, they knew what they were doing, and they had 'the power of the purse'. What I was proposing was going to shake things up.

Finance has a short term focus, mostly concerned with this budget year and next year's budget bid. Fortunately, in the EWS, engineers were dominant and they were able to take a longer term view. They were excited to realise that their asset portfolio was so big - and thus important! So, regardless of personalities, it was natural that I would get more support from engineering than from finance. But, of course, there was more involved. There always is.

### **Small things can have large consequences**

The English are particular about their tea, and I did not care for the brew that was served from the large urns in the basement cafe, so although his Secretary had declared that the tearoom on our executive floor was for the sole use of the CEO and his guests, I decided to disregard this and make myself a cup of tea with fresh hot water.

As I was doing so, the CEO himself arrived and so, caught, what could I do but smile brightly and say, "Would you like a coffee?" I made him a coffee and was about to take my tea back to my room when he said, "No, come and talk to me". He was curious to know what economists did, and what they could contribute to his department and so, in those first few weeks I often had morning tea with the CEO.

I guess these conversations might have given him the impression I knew something about politics, although I hardly did, for one morning he interrupted one of our meetings with "Good morning, Penny and Gentlemen - and it's you I want." Naturally my mind immediately went to what transgressions I might have committed. Fortunately, he just wanted help.

The irrigators had not taken kindly to the latest price rise and they had come, en masse, with their equipment, blocking exits from Parliament House, and demanding to speak to the Minister, who wasn't at all keen to speak to them.

When the CEO told me what was up, I said, in exasperation, "My goodness, water is really a small part of their budget when compared to electricity and the electricity price goes up every year much more than water - yet I don't see them complaining about that!"

"Is that true?"

"Yes, sure, look at this," and I was able to show him the spreadsheet that I was working on showing the proportion of different expenses within the typical irrigator's budget. He was delighted, promptly got through to the Minister who, now armed with a few facts, came out and addressed the motley assemblage.

Later the CEO made me his executive officer and, although I chafed at what I initially considered a menial chore, it not only gave me the opportunity to observe a master strategist up close but it also enabled me to develop good relations with all the public service heads. This little thing turned out to be quite useful when I needed to get them onside with the work I was later to do with the Public Accounts Committee.

**Take every opportunity you can - you never know when it will make a difference**

A few weeks into my term with the EWS, my colleague, Rex, was meant to attend a meeting on the Water Resources floor but had an urgent job on, would I like to go instead? It was about measuring the level of salinity in the River Murray of which I knew little, but I was happy to go.

When I got there, a consultant was reporting on his study of the costs of salinity along the River Murray. The guy had measured salinity at its lowest and highest points and then had simply drawn a straight line between them, thus assuming that the costs of increasing salinity were linear.

Without thinking much about it, I asked him for the white board marker. Surprised, he gave it to me and I drew another line on the board, one that inclined very slowly at the beginning and then started to increase until it met the highest point. I pointed out that salinity costs do not rise immediately because the river is able to cope with a certain amount of salinity so drawing the curve the way he had would overstate salinity costs all along the river and, importantly, it would also miss identifying the point at which costs started to rise rapidly, even exponentially.

The consultant was furious. And fair enough. It had not been my intention to upstage him but I had just left the University where, for the past ten years, I had been running economics tutorials in small rooms with a whiteboard just like this and habit simply took over.

I would have immediately apologised and explained, but he gave me no chance, rounding on me and demanding belligerently to know how long I had been in the EWS. "Just a few weeks," I answered, "Then what do you know about water?" I admitted, "Not much, but this really isn't a water problem, is it? It is a logic problem."

This sent him completely up the wall and he started to verbally abuse me. Fortunately, a glance at my watch reminded me that the branch was going out to lunch with the CEO, so I stood up, smiled at everyone and said, "I'm sorry to leave you but I have a luncheon engagement with the Chief". (I omitted to say that the whole branch was going.)

This exchange absolutely enchanted the water resources engineers! Because he was a friend of the CEO, this consultant won many commissions and would lord it over the departmental engineers who felt they had little option but to put up with it.

When the word got around, I was quickly and warmly welcomed by all the engineers on the Water Resources floor. They would tell me the issues they were working on, and we would try to find solutions. I enjoyed their issues more than those in corporate planning, so would spend a lot of time on that floor, and irrigation and salinity became what I was known for.

### **One thing led to another - as it always does**

About a month later, I was asked to contribute a chapter in a report seeking financial support from the Commonwealth Government for correcting river salinity along the River Murray. South Australia was at the end of the river and so was most affected.

The other chapters were to be written by engineers, and I didn't want so important a report to look as if it were a patched up job, which it would if I wrote using economic terminology.

So to ensure that my language matched theirs, I talked to each of the intending authors, whom by now I knew well, about what I wanted to say. I would note what terms they used in response and use those terms in my chapter. This gained me the reputation of being 'the only economist who can write so that engineers can understand'!

Australian states are quite competitive. To get New South Wales, Victoria and South Australia to co-operate with each other on the salinity issue, required a carrot. This would be greater funding support from the Commonwealth.

If each of the states were to contribute 1/8 and the Commonwealth could be induced to pick up the remaining 5/8, they were prepared to work together. But what would convince the Commonwealth to be so generous?

I argued that it had a 'historic moral responsibility' (a term I invented). The salinity problem arose because of irrigation along the river, and this had been the result of the Commonwealth seeking to re-establish returned soldiers on the land. A worthy objective. But we argued that the Commonwealth had benefitted, and it was now time for them to pay the costs.

These were all small things, but they gave me a lot of support with my engineering colleagues. This did not stop them arguing with me or critically assessing what we were later to do, but they were generally on-side and their criticisms were constructive.

With their help and support from the Chief, I was able to achieve a lot. Particularly since it was not my aim to take the credit. I just wanted to see the job through to a successful conclusion. In fact, at one stage I had happily told my boss that I could get anybody to do anything, I just had to let them take the credit for it.

Alan replied softly that that might be so, but why would anyone fund corporate planning if everything was seen to be being achieved elsewhere? A good point!

I realised that my task-oriented focus was not strictly strategic and that was a valuable lesson, albeit one that I had to re-learn a number of times.

### **Things did not start so positively with the CFO - the water price**

I had got off to an early black mark with the Chief Financial Officer. On my third day in the department, conversation had turned to the water price that was about to be announced. The CFO held that there would be no increase this year. My role at that stage was clearly simply to observe and, had I done so, things would have been fine.

However, I thought this result unlikely, and explained why: an election had recently been held and the incoming administration had campaigned on a promise not to raise any *new* rates or charges. So, as governments always want more money, it stood to reason that if new rates were out, they would need to increase the rates they already had.

Moreover, since there had been no rise in the water rate in the lead up to the election, I figured that it would be raised this year. The CFO was rather miffed that a newcomer should challenge his opinion and demanded brusquely, "OK, then what will it be?"

Put on the spot, I suggested 5% and that is what it turned out to be. Pure chance, of course. But from that moment on, the CFO and I were on a collision course.

## **From bad to worse - the castor story**

A few weeks later, a castor came off my office chair and, as I surveyed the damage, I said "I had better get this to the repair shop to get it fixed."

At this, the others yelled, "No! Don't do that! It will be cheaper just to get a new one."

I laughed. But they were deadly serious - and, more than that, they were right! The Repair Shop had adopted the fashionable new policy of 'charging out', meaning they were able to charge other branches for the in-house work that they did. This might have worked fine, had they had any competition, but they didn't. They could charge anything they liked.

Moreover, they had simplified their accounting by simply allocating all their monthly costs (including all their idle time which was increasing by the month) over any jobs they had on hand. As their charges rose, jobs stopped coming in, causing the next round of price rises.

This had now reached the stage where to have a castor re-attached would genuinely cost more than the chair itself. Yet no one had done anything about it!

Even worse, the chief accountant was so proud of his financial policy that he and the CFO were planning to run an international conference to show off to the national and international water authorities. I explained what was wrong with this approach to my branch head and wrote two papers, one in the vernacular so that everyone could see how damaging it was, and one, in more measured academic terms. The conference was cancelled so at least we did not look like an international laughing stock, but it did not win me any favours with Finance.

Changing the policy, however, was more difficult as Accounting stuck their heels in and had the Minister sign an instruction demanding that all jobs be sent to the Repair Shop. With the growing dominance of the 'free market competition' model across the country, this could be considered the public sector dipping their toe in the water, trying to become 'more efficient, more competitive, more market oriented', yet still wanting, and indeed having, to operate within a public sector framework.

There is no doubt I could have been more diplomatic, but I doubt the results would have been different, for 'charging out' was to become the flavour for many other departments. I spent many years when I became an infrastructure advisor, either correcting the damage done or warning policy makers off.

## **The value of opposition**

With hindsight, the CFO's opposition was extremely valuable. It stopped me getting sloppy. I had to be forever on my toes, anticipating him wherever I could, and dealing with him when I couldn't.

He had a clever way of blocking me without seeming to be in opposition. He would challenge me on every point I made, but if I was able to overcome that, he would then proclaim that what I was doing was very important and that I should extend my inquiries to cover a wider field. By increasing the scope, his intention was to slow me down. It was very effective.

Now, he always sat opposite me at the meeting table, but one day I deliberately chose to walk around the table and sit next to him. He looked startled and, curiously, for that entire meeting he did not challenge a word I said. I had read that this would be the case, but I didn't believe it until I tried it out for myself.

This was, of course, not the solution to all problems, but learning to deal with negative reactions was to prove very useful wherever I went.

### **The reaction of other water authorities**

After I had presented the True Cost study to the Executive Committee, the CEO said, with a happy smile on his face: "That was great, now I want you to find out what everyone else is doing!" Still flying from a successful presentation, I cheekily replied "Do you mean get on the phone and find out, or get on a plane and find out?" He then said what he was to repeat many times while I was in the department: "Penny, you must do what you think fit." So I got on a plane.

I visited every mainland water authority except Darwin, and everywhere the story was the same. "When do you say major renewal will start to ramp up? No problems! I will be retired by then!" For managers of very long living assets, they took a very short run view, mainly concerned with maintenance and renewing what they already knew to be substandard.

No one was looking out beyond five years and trying to anticipate where problems might arise. They did not have estimates of economic life, and the standard method for determining the time to intervene was the 'bathtub curve' methodology familiar to all engineers, and still in practice in many places today. Namely, after a pre-determined number of breaks, the pipe or sewer would be replaced. There was no cost analysis. Because of this, all water authorities kept statistics on the number of breaks per kilometre.

In Sydney I was being given a polite hearing, but more in tolerance than genuine interest, until I told them what our current break rate was - and it was the same as theirs, to the decimal point! Now this was pure coincidence and nothing on which to base a decision, for the geography was entirely different.

Sydney had a very difficult terrain to traverse, up and down hills, whereas in Adelaide the land was very flat. The current average number of breaks should have been irrelevant. Nevertheless, the fact that our break rate was identical to theirs changed the entire conversation. The same CEO who had previously declared that he would be retired before problems arose was now intensely interested. Sydney Water then became quite proactive.

In fact, as word of what we were doing spread in the water industry, there was a great deal of interest by all water authorities across the country and they were the first industry to develop asset management skills. This then spread to their contacts in water authorities overseas.

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