

ASSET MANAGEMENT AS A QUEST 1984-1993

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Chapter Seven: Reactions

Agencies

The PAC was accountable to the Parliament and needed to inform them first. The first the agencies got to see was the end result of our analysis. This came as a bit of a shock to all of them as they were not used to looking at their asset portfolios the way that we were doing and agency reactions were initially concerned, alarmed - and negative.

This led to some amusing correspondence as agencies came to terms with the substance of the reports. For one agency we had demonstrated that, while it said that it put maintenance first, it actually focused primarily on new and major reconstruction, as evident from their organisational structure and annual reports. The first response of this agency, was "Penny's got it all wrong and we are going to have a word with the Minister" By that afternoon this had been amended to "Penny's still got it all wrong, but we are not speaking with the Minister". By the following morning, it was "Well, it's not *all* wrong!" And by the time we produced the final summary report some months later, they were in complete agreement with our findings. As, indeed, were all agencies, even Housing. It was a record for the PAC: eight reports and complete agreement! Never been known before.

Media

The reports didn't make much of a dent on the media. The final media presentation attracted three TV channels and sundry press, but the questions were inane. At its close, I found the reporter from the local newspaper, a young woman, wandering around the Parliament House basement, looking lost and trying to find her way out. As I helped her, she turned a bewildered face to me and in hushed, awed, tones said, referring to the Chairman's address, "He was talking billions! I don't understand billions". So much for intelligent press coverage.

Central Agencies and the University

While explaining the future renewal problems of the Royal Adelaide Hospital to one of the deputies in the Auditor-General's office who was on the hospital's board, I was dismayed at his response. Showing great anxiety, he exclaimed "My Goodness! We can't let the board see this!" Avoiding information that could be a problem was, unfortunately, not an uncommon response.

However, not all saw the large renewal figures as a cause for dismay and anxiety. In the city, shortly after our figures were released, I was greeted by the Under-Treasurer who braved the city traffic to dash across the road to tell me, enthusiastically, that our figures

had helped the State retain its triple A credit rating. The rating agencies had seen the renewal figures as an indication of the wealth of the state, and not its mounting future debt!

Still others had the foresight to see difficulties I had not envisaged. Just after starting the work with the PAC I attended the University of Adelaide's Economics Department Christmas party and, naturally, I told my former colleagues about the work we were doing. One of them turned pale with anxiety and said that it wasn't only infrastructure renewal that was unfunded, neither was his university superannuation fund! Now, he realised, this had to compete with the government's unfunded infrastructure renewal and he was concerned.

Parliament and Government

The Parliament established a sub-committee to report to it on asset management. The Government meanwhile had set up a task force to review the work of the PAC. The original intention of this task force, I discovered from one of its members, had been to rubbish the report and destroy belief in it, but as it became evident that its results would not reflect poorly on the current administration, as had been expected, but instead reflected the results of numerous past administrations, they were more inclined to treat it seriously and ended up reinforcing all of our results.

The Public Accounts Committee Members themselves

During the almost two and a half years that I was with them, the Committee members became increasingly interested in economics and had begun using economic concepts in their own work. There was one inquiry into a port authority that had invested in a computer system some seven years previously but had yet to have any output from it. One of the Committee members cut into the numerous excuses presented, demanding to know "What is the opportunity cost of that?" Shortly afterwards, I noticed the Secretary to the Committee pass him a note. It read 'You have pleasantly surprised our resident economist!'

So many of my board presentations consisted of explaining economics that on one occasion towards the end, the Chairman leant back in his chair and said "And what kind of an economics degree do we get out of this?" and when I murmured something about an honorary degree, he exploded "Honorary, be damned, we've worked hard for this!" And they had.

Their interest in economics then extended to other work that I was doing. At one stage I had explained to them how the multiplier concept was being mis-used and how the public was being misled by consultants' claims like 'The Festival of Arts returns \$7.53 for every dollar of government support' - a nonsense statement that so many believed. When they said I should write a letter to the editor, I was disappointed and said miserably to the Secretary "I thought they understood". He replied "They did! They want you to write it where politicians will read it!" - which showed how little I still understood of politics.

The multiplier conversation was à propos of a book that I was co-writing and editing, looking into the impact of the first Australian Grand Prix which was held in Adelaide in 1985. The idea for this had arisen over coffee with Paul Van der Lee, my former section leader at the water authority who was then heading up marketing for the Department of Tourism. We knew we wanted the Grand Prix to be a success but were worried that if it were it could spark many worthless 'public events' since the government had no idea how to evaluate their likely success.

There had been no study of the costs and benefits of a Grand Prix anywhere in the world, yet its value was always being touted. We decided to do such a study and to publish it to coincide with the second Grand Prix in 1986. I asked the Premier, John Bannon, to launch it. I was sure that he would like to do that for he had secured the last election with a record majority and was in no doubt that it was the success of the Grand Prix that was in large measure responsible for the size of his win.

Naturally, I had also invited the PAC committee members to the launch. When the Premier walked into the room and saw them all, he thought they were planning to investigate the Grand Prix and he turned absolutely pale! Fortunately, the Chairman was quick to recognise what he was thinking, took him aside and explained the relationship.

A few years later when the state government was being urged by some to secure the Commonwealth Games for Adelaide, arguing that if we did, 'we would get lots of new sporting venues', a number of our committee members from both sides of the house objected, as they now understood the ongoing costs of such infrastructure. I was proud of them for that.

Infrastructure agencies across Australia

The water industry had already enthusiastically adopted the idea of asset management long before we had produced the final PAC report and were busy spreading the word to their colleagues interstate and overseas. It was the generic nature of our investigation of seven separate agencies, however, that made it attractive to other states for they could see that they were likely to experience the same issues and for the same reasons.

Infrastructure was an idea whose time had come

The PAC reports were not the only infrastructure reports to be produced around 1987 but they were the only ones that dealt with asset management.

In the UK, the Institution of Civil Engineers produced the 'Second report of the Infrastructure Planning Group, April 1986, a detailed study looking at what the UK demand for assets would be over *the coming years*, a fact finding exercise for politicians to use in planning future infrastructure acquisition. It did not look at renewing ageing assets as such, nor infrastructure management.

In the USA, the National Council on Public Works Improvement produced, in 1987, its 'Executive Summaries of Nine Studies' and in 1988, a much larger volume, 'Fragile Foundations: a report on America's Public Works', This latter was a major report that looked at how much it would cost to not only replace all of America's ageing assets, but also bring them up to latest standards, plus fill in the gaps where infrastructure had not yet been provided for all. So it included renewal, expansion and upgrade but with insufficient detail to enable these elements to be separately identified and managed.

The aim was to make the figure as large as possible to convince politicians to take the matter seriously. (Later I was to meet with one of the authors of this report, an MP, and when I talked about how we might improve infrastructure decision making, she reacted negatively "If we can't get the capital projects we want, it wouldn't be worth going into politics!")

America, as a rich country, was used to dealing with problems by throwing money at them, so their focus on the costs alone probably made sense. Australia, on the other hand, had

no such illusions. We didn't expect money to be easily forthcoming and knew that we would need to present a well documented case if this were to happen. We also knew priorities would need to be set. So our focus on management was understandable.

The UK and the USA studies covered much larger populations and a far wider scope than the South Australian study with its population of only just over 2 million. Our more restricted focus on asset renewal for a mere 7 agencies might be considered insignificant against these larger studies, however, it was precisely our restricted focus that made it possible to go into depth and develop workable asset management processes and practices.

Public Presentations

The practical management focus of the PAC Reports made it easy to convey asset management messages to our varied audiences.

When the final report was released there were a flurry of speaking requests but the first two I presented had the most interesting responses. In November 1986 I had delivered a short address to the World Housing Congress which alerted the CSIRO to the work we were doing, and in February 1987 there was a presentation to the National Accountants in Government Conference in Perth. This latter was a full presentation and it was tricky as the results of the last four reports had yet to be presented to Parliament so I could not use them. I chose to illustrate the main issues, using roads as the simplest way to get across the notion that our current renewal expenditures were not a good indication of our future needs - and why.

I worked on that one paper every day for 6 weeks! My session was the last one of the day and, after listening to the other presenters at the conference and marvelling at their beautifully produced slides, I knew that, despite my weeks of effort, my presentation would be the least professional that the audience would have heard that day. It was thus a blessing that I had the smallest room with the smallest audience. There were about 110 people but, given that there were over two thousand attendees at the conference, you could definitely say that asset management then was a 'boutique' interest. Most had come just out of curiosity.

At the end of the presentation, however, a strange thing happened. Instead of rapidly exiting and heading for the bar as normally happens for the last session of the day, the audience stayed and question time ran for well over an hour! The audience might have been small but it was enthusiastic. At the end someone asked "Surely, with all the technological advances we have made, we should be able to design all our buildings to last for 200 or 300 years". And I, having dealt with the problem of physical lives which already greatly exceeded their functional or economic lives, had replied in genuine astonishment, "My Goodness! Why would we want to?" That caused the Chairman to eventually bring the session to a halt.

That conference paper was subsequently reproduced in '*The Public Sector: Contemporary Readings in Accounting and Auditing*' edited by Guthrie, Parker and Shand (1990) and led to me often being referred to in accounting papers. My favourite all time citation was 'Accountants don't know how to handle this, but Dr Penny Burns says..' which occurred in one of the Accounting Societies' practice papers.

Incidentally, when I presented to the same accounting conference six years later, I had the plenary hall and over two thirds of the attendees. Clearly a lot had happened in those six years and asset management was no longer a 'boutique interest'. In the following chapters I will trace the developments that helped this to happen.

On a subsequent visit to Perth, the Highways Deputy Commissioner told me, enthusiastically, that he loved my paper (maybe because of the roads focus) and that he had restructured his corporate planning branch on the basis of it! I don't know how he did that but I was pleased to think my 6 weeks of effort had not been in vain.

My reactions

If the accountants had a strong reaction to my paper, it was as nothing compared with my reaction to them. A hundred and ten people might be small by their association standards but it was huge by mine. I was not new to public speaking. As a PhD student I had, for the past five years, presented at both the economics and the agricultural economics conferences every year. But experimental economics, my topic, was as new to those audiences as asset management was to this one. Today it is a recognised category of economics but at that time it was considered an impossibility. So the numbers were small. On any number of occasions it could be as low as 5. There would be me and my mate who turned up in support, the other speaker and his mate, and the chairman. But no matter how small, you gave it your all. That had been my speaking experience until asset management - and then everything changed!

The other thing that changed was the venue. In my university years, the presentation space was a lecture theatre and my conference accommodation was usually a student hostel: a single bed, a desk, a lamp, a cupboard and a wastepaper basket, lino on the floor with the odd dead cockroach in the corner, communal bathrooms - basic! I was completely unprepared for the luxury of the Perth Sheraton.

At the gala dinner for that conference I was gratified to be invited to join the table of 'The Untouchables', that is, the Auditors-General and I got to know them all. This was to be very helpful later when I was presenting at Accounting Conferences, introducing asset management and valuation principles, and arguing the case for accrual accounting and for replacement values over historic costs.

It puzzled me why the Auditors-General could understand and agree the points I was making about accrual accounting and yet not adopt them. That is until they explained they could only audit according to generally accepted policies and practices (GAPP).

It continues to be a source of frustration for me that those who are in the best position to see what is going wrong with these generally accepted policies and practices seem to be the least able to do anything about them!

