



# Strategic Asset Management Framework



**Second Edition**  
February 1999

ASSET MANAGEMENT POLICY SERIES

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**STRATEGIC ASSET MANAGEMENT**

**Strategic  
Asset  
Management  
Framework**

**(Second Edition)**

**Achieving better value  
for South Australians from  
our investment in State assets**



Government of South Australia  
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## FOREWORD

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All South Australians are the stakeholders in our State's public assets which, if replaced at today's values, would cost some \$40 000 million - or about \$30 000 for each and every South Australian. These assets represent a significant proportion of our community's savings, much of it accumulated since World War II. In 1995/96 a further \$1 100 million will be invested in capital works.

In the 1990's we are often reminded that countries must be competitive in an increasingly global economy. But the 'McKinsey Report' observes '*Regions compete - not countries. Regions compete with other countries from around the world to provide the best environments for their existing businesses to grow and attract relocating businesses.....*' (Lead Local Compete Global, McKinsey and Company, 1994).

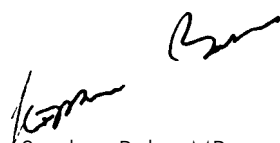
The State Government is committed to making South Australia more competitive - with other Australian States and with other regions anywhere in the world. A high priority is to improve management of the State by reducing debt and increasing the efficiency of key state services. The best possible management and use of the State's infrastructure is one factor which can encourage economic development. Economic growth in turn helps provide the resources to maintain and enhance community services and standards.

We can achieve greater benefits from our State's investment in assets. In 1994 the South Australian Commission of Audit advised the Government that management of the public sector's assets was deficient, citing examples of:

- a need to rationalise surplus assets;
- over engineering;
- inadequate maintenance and poor maintenance planning;
- poor analysis of investment priorities; and
- significant liabilities for replacement of existing assets.

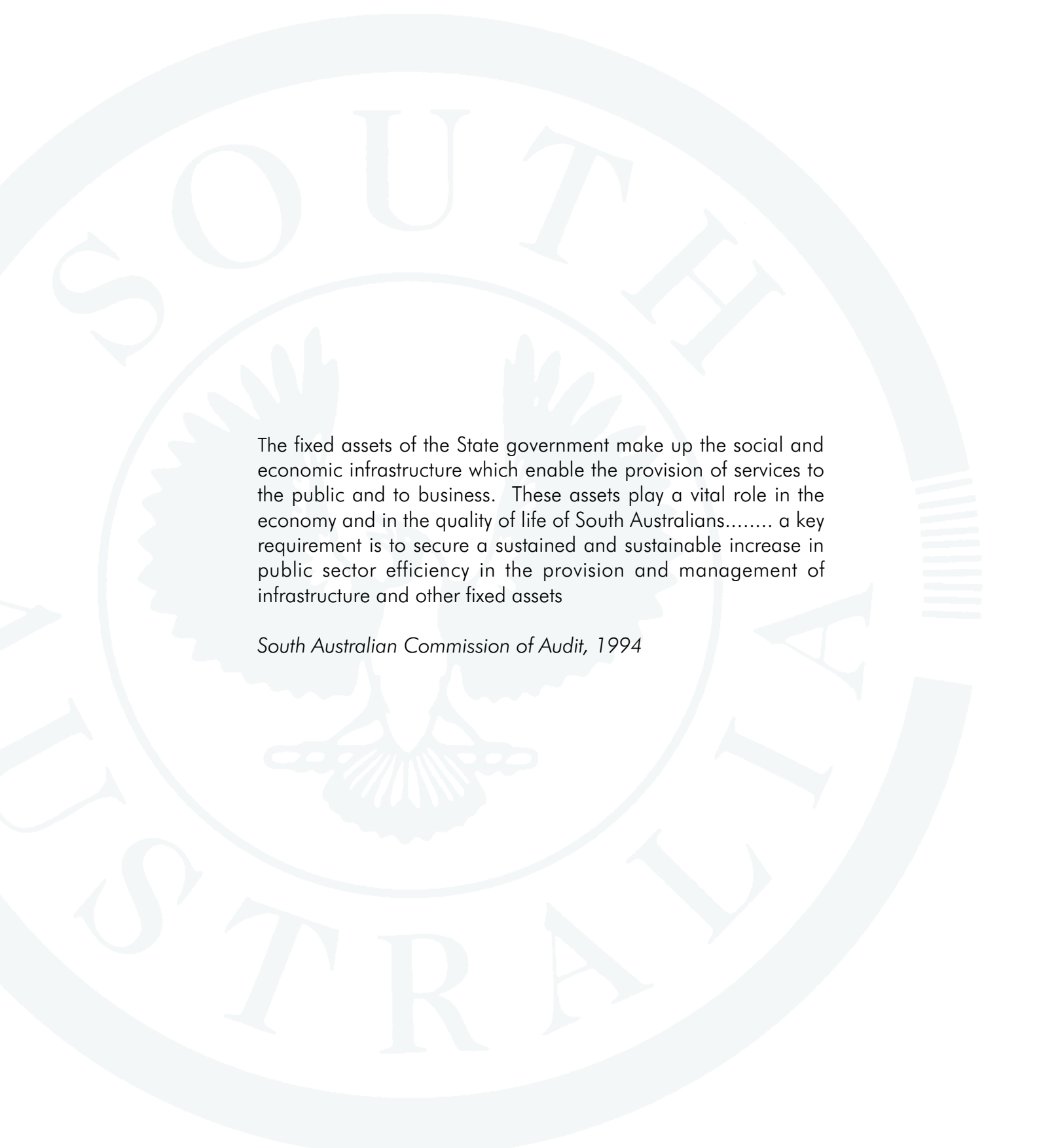
Better management of the State's considerable portfolio of assets is a Government priority.

Without any compromise to quality standards, we can save the South Australian community millions of dollars each year by improving the planning, provision, management and maintenance of infrastructure.

  
Stephen Baker MP  
Deputy Premier  
Treasurer

  
Wayne Matthew MP  
Minister for State Services

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The fixed assets of the State government make up the social and economic infrastructure which enable the provision of services to the public and to business. These assets play a vital role in the economy and in the quality of life of South Australians..... a key requirement is to secure a sustained and sustainable increase in public sector efficiency in the provision and management of infrastructure and other fixed assets

*South Australian Commission of Audit, 1994*

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## INTRODUCTION

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This Framework has been designed to assist people who manage agencies and other authorities to adopt best practices for asset management. These processes may vary to accommodate individual circumstances, but in each instance the objective is to achieve the best use of our State's assets - for the benefit of all South Australians.

Asset management is *a process to manage demand and guide acquisition, use and disposal of assets to make the most of their service delivery potential, and manage risks and costs over their entire life.*

The *Strategic Asset Management Framework* applies to all physical assets or groups of assets controlled by the public sector. It applies to all assets which have a capital value in excess of \$10 000 at the time of acquisition. The emphasis is on *control* - an agency does not need to own or physically possess an asset to control it.

The assets may be natural resources, building structures, land, plant and equipment, heritage and cultural assets, or any other form of infrastructure. Financial, information and human resources, including intellectual property, are not included.

This Framework applies particularly to non-commercial agencies in the public sector. Management of commercial sector agencies should be aware that the general principles apply equally to their organisations and they should make every effort to ensure that the policies and processes they use are consistent with those nominated in this Framework.





## **THE CHALLENGE**

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The direction and management of the State's investment in assets to maximise benefits and minimise costs is both a responsibility and challenge for all of us in government.

Management should ensure that their agency's work practices and procedures reflect the principles that can help successfully meet that challenge.

### **FOCUS ON BENEFITS FOR CUSTOMERS**

Asset management decisions and practices should be determined by the fact that assets are acquired to support the provision of services to customers. The cost of ownership (or control) and the management and use of the asset influences the total cost - and the quality - of service delivery.

So a primary objective of this Framework is the strategic management of the public sector's asset portfolio to best achieve service delivery objectives.

### **ENSURE INFORMED DECISION MAKING**

The Framework aims to ensure informed decision making by managers who invest in and manage those assets which help achieve an agency's service delivery objectives.

Asset management decisions need to be based on a proper evaluation of options which take into account all costs and benefits over the life of the asset, and incorporate an explicit analysis and determination of an acceptable level of risk.

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## **CONSIDER MANAGEMENT'S INVESTMENT RESPONSIBILITIES**

Asset procurement and management must be responsible, accountable, open, consistent and ethical. Agency management is responsible for the level of investment in assets, the benefits and costs that arise from the investment and how well the assets are maintained and managed.

## **INTEGRATE PLANNING AND MANAGEMENT PROCESSES**

Management is responsible for the integration of asset planning, budgeting, reporting and monitoring as part of their own overall management processes within their agency. An integrated approach may call for consultation with, and coordinated reporting to, central agencies.

## **ESTABLISH A MANAGEMENT FRAMEWORK**

Management of assets benefits from a strategic framework which establishes:

- the criteria and standards for the ownership (or control) and management of the assets;
- strategies and processes for procurement, maintenance, disposal and risk management; and
- priorities for allocating resources for asset management.

## BENEFITS

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The Framework is a way we can achieve better value from the State's investments and reduced asset running costs.

How does the *Strategic Asset Management Framework* help?

- ❑ It provides a structure for strategic planning for the management of the State's infrastructure to best sustain economic development and delivery of services to the community.
- ❑ It ensures minimisation of costs over the life of the asset for providing, maintaining and operating assets to support service and program delivery at specified standards.
- ❑ It ensures that investment in assets is at an appropriate level commensurate with service delivery requirements and it encourages the consideration and adoption of non-asset based options for the delivery of some services.
- ❑ It ensures that capital works programs, priorities and asset risk management practices are consistent with government policies.
- ❑ Finally, this Framework sets the basis and standards which can assist people in the public sector best apply sound business principles and analytical, rational and effective decision making to their asset management practices. The development and encouragement of a more creative and analytical management culture will help our public sector contribute to the future prosperity of South Australia.

# FRAMEWORK

The *Strategic Asset Management Framework* will assist managers develop a formal corporate approach to identify their agency’s asset management requirements. It provides a systematic approach to existing management activities and practices, and the establishment of clear linkages between the various asset management functions. It requires no more planning or management expertise than that which is consistent with general good management practices.

## THREE DIMENSIONS

Effective asset management requires planning supported by integrated organisational structures and processes which then enables resources to be allocated.

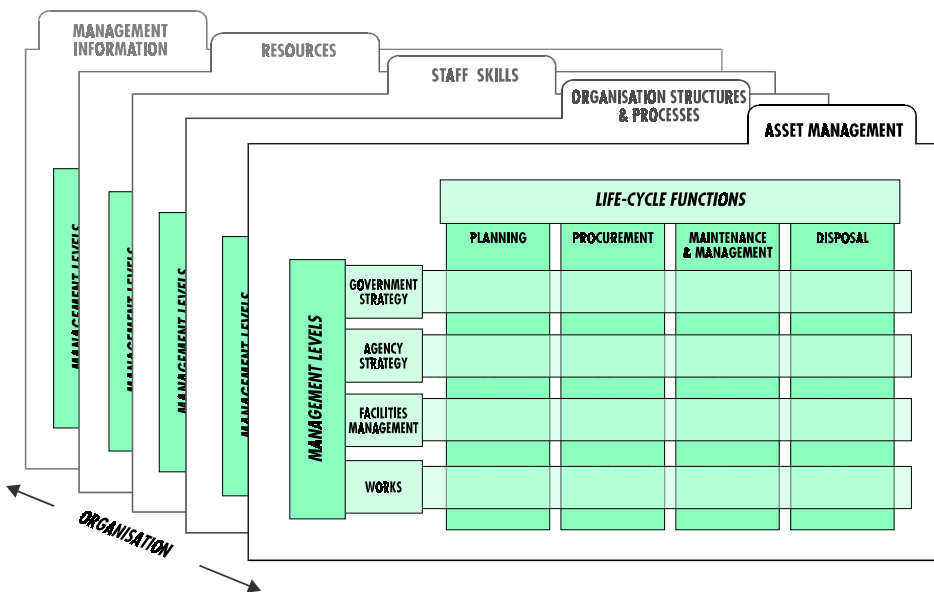
Strategic Asset Management can be considered in three dimensions.

**Management levels** - different levels of management responsibility and activities.

**Life-cycle functions** - different tasks to be performed at different stages of the asset’s life.

**Organisational requirements** - to support the asset management process.

### Strategic Asset Management



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## **Management levels**

There are four main levels of asset management. Risk management should be considered at each level.

1. *Government strategies* set whole-of-government policies, establish priorities and monitor outcomes.
2. *Agency strategies* meet the service delivery responsibilities by ensuring the effectiveness of the investment, management processes and control over strategic functions.
3. *Facilities management* is the practical day to day management of the asset(s) to minimise whole of life costs and physically manage the asset (e.g. utilisation, cleaning and power).
4. *Conduct of works* are those day to day services associated with specific assets (e.g. maintenance such as painting and electrical services).

## **Life-cycle functions**

The life-cycle functions you should consider include:

- *planning* - rigorously examine all options to achieve service delivery objectives;
- *procurement* - rigorously evaluate decisions at the earliest stages of a proposal, prior to any investment in new or replacement assets or refurbishment. Manage the procurement (whether construction, purchase or lease);
- *maintenance and management* - minimise the cost and risk of ownership with effective maintenance strategies and procedures, and by proper management of use and operational costs;
- *disposal or divestment* - regularly evaluate the agency's investment in assets to identify functional or physical obsolescence, financial viability and unacceptable risk. Planning for disposal should be as rigorous as that applied to procurement.

## **Organisational requirements**

Agency management needs to consider the structures, staff, resources and information which will best support the asset management process.

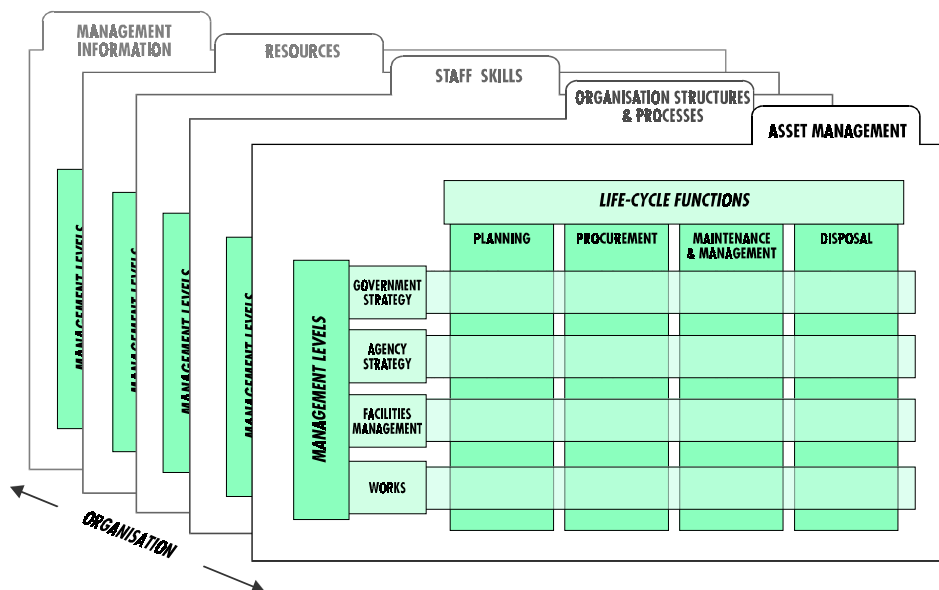
- ❑ **Organisational structures and processes.** Consider the extent to which the asset management responsibilities and functions nominated within the framework should be centralised or devolved.
- ❑ **Staff skills.** Consider the skills and knowledge which you and your staff will need to perform and manage the asset functions.
- ❑ **Sufficient resources.** Allocate the finance, people and systems which are necessary for asset management and the delivery of asset services.
- ❑ **Adequate management information.** Ensure the availability and quality of information which supports decisions and assessment of outcomes.

## CONTRACTING OUT OF ASSET SERVICES

Although each agency will be responsible for the management of its assets, many of the asset management services may be suitable for contracting out to the private sector. When assessing this option, consider the following criteria:

- value for money (risks and benefits - price is only one factor);
- the strategic significance of the asset or service;
- non-core activities;
- availability of suitably skilled staff; and
- accountability and control.

As asset management services are generally support functions, consider contracting out these services in the broader context of the agency's strategies in terms of contracting out service delivery.



# ASSET MANAGEMENT PROCESSES AND POLICIES

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Agencies must manage assets through the different stages of an asset's life, from planning to determine the need to own assets, to the time of their disposal. They should have the following plans and processes in place to ensure effective asset management.

## PLANNING

### ***Asset management plans***

Agencies need to develop asset management plans which link physical resources to service delivery programs and government objectives. These plans should include whole of agency plans (for capital investment, maintenance, divestment or disposal), risk management and specific asset or facility plans.

Agencies should continually assess service needs and standards and reconcile them with asset holdings.

### ***Demand management strategies***

Agencies should actively develop and pursue demand management strategies based on direct efforts to influence demand for assets within the community - and even from within their own agency.

A modification to demand may serve to dramatically reduce investment in assets or defer asset acquisition or refurbishment to the benefit of overall agency performance. The following strategies represent some options.

- Identify justifiable community needs from other expectations and consider only community needs consistent with the agency charter.
- Optimise the use and performance of existing assets and look for non-asset based solutions to meet demand for services.
- Incorporate the cost of assets into the pricing of services, and introduce accrual accounting to reflect the full cost of services.
- Help modify behaviour through explanatory marketing and education campaigns.

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Demand management is integral to the process of accurately forecasting service requirements, a part of the agency's corporate planning, and should be incorporated within asset management plans.

### **Risk management**

Management must consider the agency's exposure to risk throughout the asset management process. Risk management is a structured way to identify and analyse potential risk, and devise and implement appropriate responses according to classes of risks. These responses may include risk prevention, risk transfer, minimising the impact or acceptance of risk. A combination of these strategies may apply to manage different individual risks within a particular activity or project.

### **Life-cycle costing**

Decision making should take into account life-cycle costing, defined as *the total of the significant costs of ownership over the life of the asset*. These costs include capital and recurrent costs (e.g. maintenance, refurbishment, operating costs and insurance) and residual value of the asset.

Apply life-cycle cost planning at the new project concept and design stages. This serves to ensure that a balance is achieved between asset performance, which is derived from agreed service standards, and the total asset costs. Use discounted cash flows to compare alternative solutions.

Following the acquisition of an asset, life-cycle costing can provide a profile against which the asset can be managed and costs controlled.

### **Agency asset registers/Data bases and reporting**

Ensure your agency fulfils the need for clear, consistent and comparable presentation of current data on assets to meet the needs of decision makers in your agency and the government. Ensure that basic details of the assets controlled by an agency are recorded in a register and that the required key information is supplied for the State asset register.

A data base which contains current financial and performance information and a report on the condition of the asset are fundamental management tools. The information necessary to compile the data base should be obtained in a cost effective manner and in a format relevant to managers.



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## PROCUREMENT OF NEW ASSETS, REPLACEMENT OR REFURBISHMENT OF EXISTING STOCK

### ***Project initiation process for capital works***

Agencies need to be aware of the project initiation process for capital works as proposals for capital works projects must be rigorously evaluated at the earliest stage. Although each project is unique, best practice can always be applied. The time, effort and money spent up front has the greatest potential to save.

When initiating a project, agencies should consider the following key phases of the project initiation process and take into consideration the role of risk management. (For more detail relating to these phases and the whole process, refer to the publication *Project Initiation Process for Capital Works*).

#### **1. Government Strategies and Key Directions**

This document and the *Project Initiation Process for Capital Works* define the Government's commitment to the efficient and effective delivery of services to the community and obtaining best value from new and existing built assets.

#### **2. Ideas to Meet Needs**

There will be a wide range of ways in which community services can be met. Each agency will need to consider community demands before defining what services and infrastructure (if any) are needed.

#### **3. Corporate Planning**

Each agency must systematically analyse the demand for its services, consider different methods for delivery and prepare a long term strategy or corporate plan. Effective services delivery may not require the creation of new and costly assets, if better utilisation of existing assets or innovative, alternative service delivery strategies are considered.

#### **4. Concept Development**

An agency moves from broad strategic asset development planning to individual concepts and projects should be tested, measured against benchmarks, and the impact on the project and performance objectives quantified. This may be achieved through the needs analysis process.

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**5. Concept Evaluation**

Options for service delivery to the community will be evaluated using methods including strategic value management, as well as economic and financial evaluation.

**6. Project Definition**

Develop and specify the preferred option in greater detail.

**7. Project Delivery**

Take the project through the detailed design and construction stages.

**8. Review**

*A post occupancy review* determines whether a recent capital work has met its service delivery objectives. The review may enhance future projects by identifying ways to improve project performance. It also indicates whether the project was achieved on time and on budget. It should include a risk audit.

## **MAINTENANCE AND MINOR WORKS**

Develop maintenance plans for assets which correlate and quantify the maintenance requirements with service strategy, asset performance standards and risk management. Together, these elements form the basis of the agency's asset maintenance strategic plan.

Remember that protection of service delivery capability is a priority when making decisions about asset maintenance. The useful life of an asset and the cost of ownership depend on how effectively it is maintained.

## **DISPOSAL OR DIVESTMENT OF ASSETS**

Management should plan for asset disposal or divestment. An agency must outline procedures for a regular review process to assess utilisation and identify surplus or obsolete assets. The agency must then manage the disposal process consistent with government or corporate policies and prevailing social and economic conditions.

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## OTHER GOVERNMENT POLICY INITIATIVES

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This *Strategic Asset Management Framework* should be considered in conjunction with other Government policy initiatives.

### **Strategic asset management policies, processes and guidelines**

**Project Initiation Process for Capital Works:-** describes a detailed process which will improve the capacity of all agencies to clearly demonstrate the needs and benefits of a particular project, and ensure the most cost effective delivery of essential services.

**Minor Works Policy and Procedures Manual:-** provides guidance for agencies choosing to manage the minor works procurement process.

### **Treasurer's Instructions**

TI 302	Authorities for Expenditure
TI 304	Service Contracts, Supply Contracts and General Provisions
TI 306	Approval to Incur Liability for Expenditure under Contracts other than Contracts under the Supply Act
TI 308	Calling Tenders for Service Contracts
TI 1001	Asset Registers
TI 9104	Purchase and Disposal of Government Assets
TI 9105	Guidelines for the Evaluation of Public Sector Projects
TI 9106	Accounting for the Sale of Assets

### **Other Publications**

*Guidelines for Private Sector Provision of Infrastructure*, Economic Development Authority, 1994.

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*Guidelines for the Private Sector on Contracting Out and Competitive Tendering*, Economic Development Authority, 1995.

*All About Contracting Out*,  
Office for Public Sector Management, Department of the Premier and Cabinet, 1995.

*Contracting Out Financial Guidelines*,  
Department of Treasury and Finance, November 1995.

*Risk Management Policy Statement and Strategic Plan*, SAICORP,  
Department of Treasury and Finance, 1995.

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## **FURTHER INFORMATION**

If you require further copies of the Strategic Asset Management Framework or any information with regard to this and subsequent publications, please contact:

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