



## TOTAL ASSET MANAGEMENT (TAM) POLICY UPDATE

**This Circular outlines several significant current issues in TAM Policy implementation and also the key results of Treasury's annual review of agencies' 2005 TAM plans.**

### Summary:

NSW Treasury promotes and encourages improvement in strategic planning and management of the State's physical assets. A recent Audit Office performance audit, *Implementing Asset Management Reforms*, recommended that in addition to direct feedback provided to individual agencies on their TAM planning, Treasury also routinely provide more general feedback on the policy. Therefore, this Circular outlines some key current issues in TAM Policy implementation across government and presents some key findings from Treasury's annual review of agencies' TAM plans, which were submitted in August 2005.

TAM policy reflects the Government's objective of achieving best value from its physical asset base, both existing and to be acquired, in supporting delivery of services to the community. Although TAM policy is not new, its adoption has been slow until recently, when responsibility for policy implementation was transferred to Treasury.

Use of TAM plans in Treasury's assessment of Budget proposals and in the development of the State Infrastructure Strategy is reinforcing the need for agencies to develop better quality TAM plans.

Sound TAM plans enable budget deliberations to be made with accurate knowledge of the context and potential costs of proposals, facilitating priority setting and tradeoffs. However, as highlighted in the Audit Office performance audit, there is scope for further improvement in asset planning and management, including the timeliness of agencies' plan submission.

John Pierce  
Secretary

### Further Information:

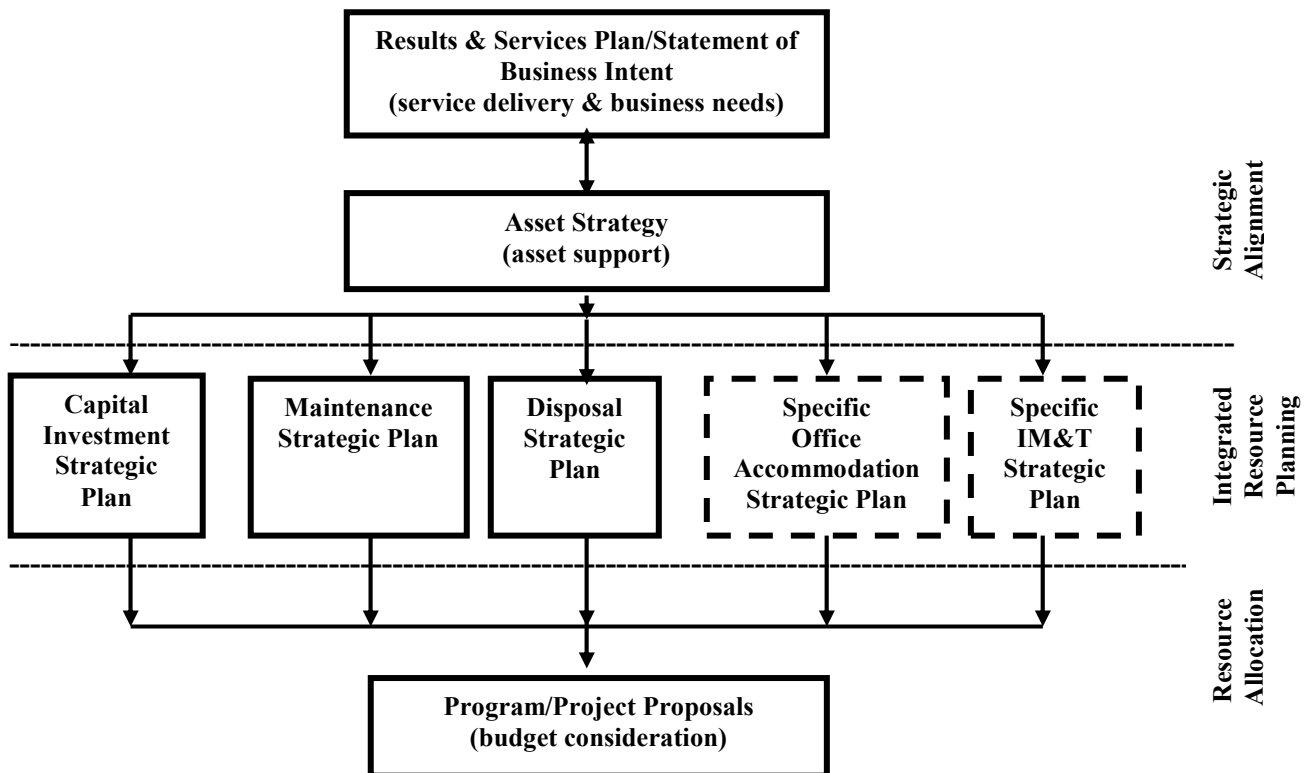
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## INTRODUCTION

Total Asset Management (TAM) policy applies to all State government agencies except State Owned Corporations, where similar principles apply, consistent with their commercial orientation. TAM policy covers all physical, non-current assets owned or controlled by an agency, which directly or indirectly support service delivery. Typically, such assets include land, buildings, information technology, major infrastructure, equipment, collections and vehicles.

Since responsibility for TAM policy was transferred to Treasury in June 2003, TAM planning has become more closely integrated into Treasury's Budget process, focusing on an agency's overall service delivery performance.



TAM provides a structured and systematic approach by which an agency can align its asset planning and management with its service delivery priorities. Agencies' Asset Strategies and supporting detailed plans for Capital Investment, Maintenance, Disposal, and specific Office Accommodation and ICT plans are used to inform Government's resource allocation decisions and develop the State Infrastructure Strategy (SIS).

## CURRENT TAM ISSUES

The following sector-wide issues may be of particular significance to agencies in their implementation of TAM Policy:

- **Audit Office Report:** On 12<sup>th</sup> October 2005, the Audit Office (AO) tabled in Parliament a performance audit report titled *Implementing Asset Management Reforms*. The audit found that TAM policy provides a best practice framework to improve asset management and integration of TAM planning with the Budget process was starting to have a positive impact on asset management practices across the government sector. The audit also found that further improvement was needed in agencies' implementation of asset strategies. Some key areas for improvement were for agencies to:
  - Include all physical assets essential to service delivery in TAM plans and demonstrate the level of their support to service delivery.
  - Develop better asset performance standards or measures to help judge whether assets were needed for current service delivery or could be disposed of.
  - Address the risks non-provision of assets pose to service delivery. This would enable budget deliberations to be made with full knowledge of the implications and risks where tradeoffs are made.

In addition, the AO report indicates that agencies should review the adequacy of their asset management systems. To assist agencies, Treasury has reinforced its TAM guidelines in these areas as necessary, and is also providing greater feedback on agencies' TAM plans and TAM policy more generally.

- **Relationship between TAM and Procurement Policies:** It is important that agencies understand the relationship between TAM and Procurement policies so that their procurement proposals are properly developed for consideration in the Budget or internal funding process. Procurement policy emphasises the key role of proper TAM planning in improving agencies' up-front preparation for project procurement. In particular, Business Cases and Gateway Reviews call for sound links between a project and an agency's TAM plans, which provide critical context and justification for procurement proposals. TAM plans also help to monitor project implementation and the realisation of planned benefits over the project's service life.
- **Government Asset Management Committee (GAMC) monitoring:** During 2005, the GAMC called for a number of presentations from CEOs on their agencies' TAM plans. Further presentations are planned for 2006. This increased monitoring of agencies' TAM planning emphasises the Government's greater focus on agency management of physical assets.
- **Coordination and Delivery of Major Infrastructure Projects:** In October, 2005, the Government established the Infrastructure Implementation Group (IIG) within the Premier's Department and the Office of Infrastructure Management (OIM) within Treasury to improve major infrastructure coordination and delivery (see Premier's Memorandum M2005-09 ).

The OIM is responsible for the development of the State Infrastructure Strategy (SIS). Agencies' Asset Strategies and Capital Investment Strategic Plans (CISPs) are used to inform development of this Strategy (a ten year rolling infrastructure plan) and to provide strategic infrastructure advice and support to the Government. Accordingly, an agency's CISP should be a ten (10) year rolling plan. It should provide a list of *prioritised* projects, including ICT projects, targeting identified asset investment needed to optimise service delivery. For each project, the CISP should provide, in *appropriate* detail, a range of specific information to support its inclusion and priority. Agencies should discuss intended projects with their Treasury analyst at the earliest opportunity in their strategic planning processes *before* developing detailed proposals to avoid wasted effort.

▪ **Incorporating ICT into TAM Planning:**

Information and Communications Technology (ICT) is an important area of investment underpinning many key government services. Agencies are currently required to prepare a separate Information Management and Technology (IM&T) Strategic Plan, which is submitted to both the Government Chief Information Officer (GCIO) and Treasury. The GCIO, within the Department of Commerce, reviews agencies' IM&T Strategies to ensure alignment with wider government priorities and ICT directions. Details regarding the GCIO are available at [www.oict.nsw.gov.au](http://www.oict.nsw.gov.au)

TAM requires integrated planning of all physical assets on a whole-of-agency basis. Through its Asset Strategy an agency determines the asset base, including ICT, needed for their business and service delivery as defined by their RSP or equivalent. The Strategy aims to optimise the asset mix and enables prioritisation. An agency's IM&T Strategic Plan informs development of its overall Asset Strategy and supporting detailed TAM plans, so that these should reflect the GCIO's whole-of-government ICT strategies.

▪ **Provision of TAM Education and Training:** During 2005, the Institute of Public Administration Australia NSW (IPAA) introduced the Treasury endorsed course *Total Asset Management in the Public Sector*. This course aims to:

- Improving agencies' knowledge of TAM policy,
- Providing guidance on preparing TAM plans of the type and standard required within the NSW public sector environment,
- Improving agencies' understanding of the roles and responsibilities for asset management in the NSW public sector, and
- Improving agencies' understanding of the assessment and decision tools currently applied in asset management.

Course details are available from IPAA at [www.nsw.ipaa.org.au](http://www.nsw.ipaa.org.au)

## **REVIEW OF AGENCIES' 2005 TAM PLANS**

Treasury identified the following key, common areas for improvement during its annual review of agencies' TAM plans:

### **Timeliness of Submission of TAM Plans:**

Agencies are required to submit their TAM plans to Treasury annually, by 31<sup>st</sup> August, as per Treasury Circular TC 04/09. In 2005, TAM plans were received from 77 agencies, representing approximately 80% of agencies required to comply with TAM policy and accounting for approximately 96% of general government asset holdings by value. A significant number of these plans were received after the due date, which affects the level of input those plans provide to the Budget decision process.

TAM plans are an important part of the Budget process. Therefore, submission by the due date is important to allow proper review and assessment by analysts. Treasury needs agencies' cooperation to ensure all TAM plans are submitted – on time.

### **Improving TAM Plan Quality:**

While common TAM principles apply to all agencies, including those with few physical assets, plan requirements reflect the type of assets held by an agency. The TAM plans of agencies with few assets can be brief in comparison with those with extensive portfolios and broad service delivery responsibilities. However in both cases the role assets play in service delivery and the efforts to best manage the portfolios within resource limits should be made clear in the submitted plans.

In liaison with Treasury, an agency should develop plans commensurate with the nature of their services and asset portfolio. To assist with suggested plan structures and coverage/content, an illustrative case study and a template have been provided (see Treasury's web site). An agency may seek further advice through its Treasury RAD analyst.

### **Improving Focus on Asset Support to Service Delivery:**

Treasury reviews agencies' TAM plans to gauge the level of TAM implementation. Assessment criteria are presented in the TAM Manual (Asset Strategy Planning, Appendix A) and may be supplemented by Treasury analysts, to reflect agency specific issues. Treasury has determined three levels of TAM implementation:

- High - Service Focus – asset management is focused on service needs.
- Medium - Asset Portfolio Focus – asset management is based on asset-focused criteria/benchmarks rather than service needs.
- Low – Asset Segment Focus – asset management is based on individual projects or asset classes e.g. accommodation, ICT etc. rather than the whole asset portfolio and service needs.

The review of 2005 TAM plans indicates that most agencies are currently operating at the “medium” level of TAM implementation or below. In some cases TAM plans lacked detail on significant aspects of service delivery. While agencies provided details in their Results and Services, there was often no expansion which allowed linkages between these significant aspects of services and the assets required to support their delivery. In other cases, plans made some links between assets and the services they supported, but without evidence that the links were valuable in making decisions on the management of these assets. Some plans included narratives of agencies' operations and asset requirements, with no reference to service or business needs. Also, some plans did not provide details of proposed capital

investment and maintenance projects and programs or quantify the levels of investment and expenditure proposed.

Given the iterative nature of services and asset strategic planning, agencies should ensure that their asset planners work closely with their finance, services, ICT and corporate planners year-round to improve the quality of asset planning and management results.

Good quality TAM planning provides an agency's executive management with:

- The ability to effectively manage physical assets and monitor ongoing results.
- Confidence that the agency has sound physical asset governance, planning and management processes and systems in place.
- Reliable information, on which to base resource allocation decisions or recommendations.
- A basis for project monitoring, following funding approvals.

### **Improving Asset Performance:**

Asset performance should be focused on achieving the planned service delivery performance, outlined in an agency's Results and Services Plan (RSP) or equivalent business plan. The RSP provides the result indicators and service measures that are used to monitor agency performance. The performance measures documented in the RSP should 'flow through' to the development of supporting asset measures of the *effectiveness* and *efficiency* of the agency's asset management practices in response to service needs.

Agencies are currently focusing on improving their service delivery planning. Some agencies' TAM plans show a weakness in the links reported between services and asset planning. Also, where planning lacked benchmarks or measures of asset performance, targets and changes over time could not be readily monitored. In some cases reported benchmarks/measures were considered too broad or generalised to be meaningful. It is anticipated that agencies' TAM plans will improve as the quality of their overall service delivery planning improves. To assist agencies, Treasury, together with the Department of Corrective Services, developed an illustrative case study in preparing an Asset Strategy.

### **ENQUIRIES**

In the first instance, agencies should contact their Treasury Resource Allocation Directorate (RAD) Analyst. TAM Policy issues may be referred to either:

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