

## Issue 239 April 21 2008

By and For Asset Management  
Leaders

### The times, they are a changin'



#### How are the changing times affecting your work as an asset manager?

Here we look at three current issues: growth, change, and oil prices.

**Growth:** Colin Symonds in New Zealand looks at the assumptions we have grown up with in respect to land reserves per head of population and considers whether our current policies are indeed sustainable in the longer term. As always we have to ask what else has to give way in order to achieve any given desirable objective.

**Organisational Change:** Over one third of our infrastructure assets are buildings. And the demand for (and thus the useful life of) buildings depends on how well they suit organisational structure. When deep hierarchical organisational structures gave way to flatter organisations, buildings changed. Older buildings became dysfunctional. What's next? We look at a Price WaterHouseCoopers' Report into future work structures.

**Oil:** Some practical guidance in adopting a 'mitigation/commitment/re-engineering' approach to responding to increasing oil prices & world scarcity.

But first, Rex Harland, Auckland City Council responds to the question in the last issue: Can Regulation Improve Asset Management, with a "Yes, but....."  
And finally, "How much consultation do your people want?"

Enjoy!

Penny Burns



*We know regulation can go too far and be difficult to enforce but*

## **Can Regulation improve asset management?**

*Last week we looked at some of the responses of New Zealand asset managers to this question. In New Zealand asset management plans are needed to meet the requirements of the Local Government Act. I met with Rex Harland, Auckland City Council, and we explored this question.*

### **A: Yes, but it hasn't done it alone!**

Rex drew attention to two other 'success factors'. One is the work of the National Asset Management Steering Group (NAMS) in NZ; their frameworks, manuals and training. And the other, which we noted in the last issue, but which is worth emphasising is the role of the Office of the Auditor General and his recognition of best practice. Rex believes that this has freed up the whole discipline to progress through a continuous improvement approach that relies upon peer reviews and ultimately audit sign off to confirm that things are on the right track. Legislation has helped by making it no longer an option whether to produce - and thus to resource an Asset Management Plan.

### **And the initial focus has been very asset focused.**

Surprisingly, "What have we got?" is still a very fundamental question. "Auckland City like many large organisations has had many restructuring and realignments over the years that often result in confusion over what asset the city has and what their responsibilities are.

### **An initial asset focus can, in fact, be most beneficial**

Rex observed that he had recently spoken to their Libraries' new business manager who when he arrived read the libraries asset management plan. His comment was that "It was a great introduction, very quickly I got a good understanding of what the assets are and how they contribute to the library services". Therefore, with a good grounding he was able to start with informed decision making almost immediately, rather than through traditional trial and error process.

### **Dangers of Compliance Mentality are Real but can be addressed.**

The dangers of a legislative requirement to asset management planning, is that it becomes compliance driven, stifling innovation. Rex is of the view that early planners did well to get the basics right. However, the expectations of the peer review process raises the bar over time. Similarly, past audit reviews were largely a desk top process. As we look to the future, the reviews will go beyond the desk top. There is thus a built in improvement process.

The above points may prove useful for anyone planning to introduce a level of regulation.

**Colin Symonds** suggests that Capex projections for local authorities are influenced by policies and assumptions that need more thought.

## GROWTH: THINK NOW - OR PAY LATER!

*'The major driver for capital expenditure on parks and reserves is land purchases and their subsequent development, with the major expenditure being in the Auckland region.'* (Shand Report\*)

### Current Policies and their Implications

- The requirement for more land is based on setting a service level of "area of open space per capita population". Auckland is experiencing strong population growth. This is why the effect is observed mostly in that region.
- Projecting this 'area' measure very-long-term demonstrates that it is ultimately unsustainable. (In the extreme, the population would live in high-rise apartments surrounded by expensive park-land converted from residential property!)
- It needs to be reviewed now, as its impact is already being felt in projections.
- Regional Councils have similar policies. The contribution of their landholdings is not being considered by the City Councils located in those regions when projecting their land requirements.
- A major driver of development contributions (a 'growth' levy on developers) is also public open space purchase.



The parkland currently owned by Councils is far from fully-utilised. A walk in almost any park (with the exception of peak demand times in "premiere" parks and sports parks) confirms this. Certainly people using the parks to enjoy open space would be unlikely to feel at present that they are crowded.

Compare the demand on our parks with, say, Singapore's. Even in that populous city it is possible to enjoy a feeling of space and the amenity of trees and gardens - typically through the design of the infrastructure (including trees and gardens).

The **capacity** of existing park networks, although not stretched at present, can be increased as the population rises, by increasing quality/amenity without increasing the land area. **With some lateral thinking, measures of capacity and service that do not result in financially-unsustainable outcomes can be developed.**

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Report of the 2007 Independent Enquiry into Local Government Rating (the Shand Report)

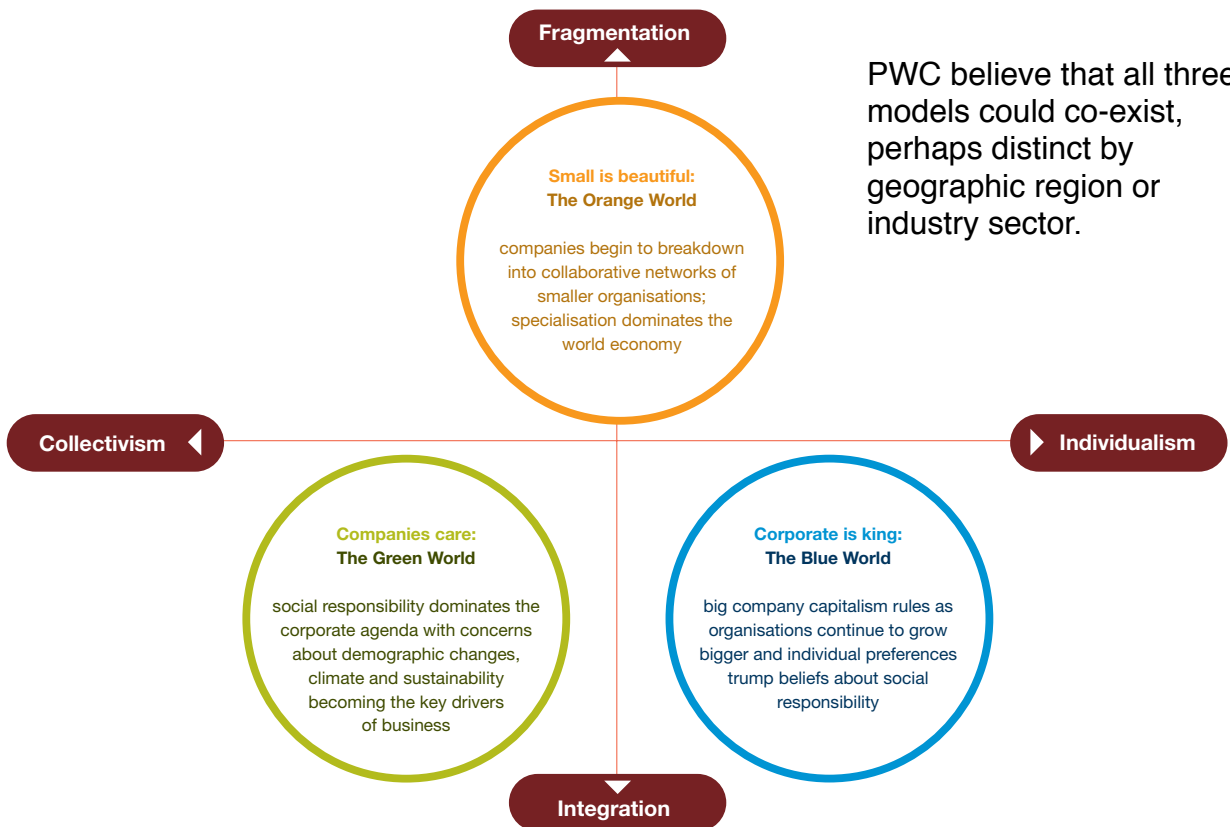
## CHANGE: Changing Work Structures and Infrastructure Demand

The PriceWaterhouseCoopers' Scenario Study "Managing Tomorrow's People: the future of work to 2020"\* argues that business models will change dramatically over the next 20 years and that people management will be one of the greatest challenges. The way that organisations respond to this challenge will drive their organisational structures.

The PWC focus is on the business context - i.e. the world our infrastructure services support! And it is on people rather than assets. What about changes in asset demand?

**Two Questions** to ask: (1) Could any of the three scenarios apply to your organisation, and if so, how will it impact *your* demand for assets (particularly buildings). (2) How might these changes, *in the business world*, impact their demand for infrastructure support?

Three scenarios. **In one, the 'blue world' called 'Corporate is King'**. "The globalisers take centre stage, consumer preference dominates, a corporate career separates the haves from the have nots." **In the 'green world' called 'Companies Care'**, "Companies develop a powerful social conscience and green sense of responsibility. Consumers demand ethics and environmental credentials as a top priority. Society and business see their agenda align." **In the 'orange world' called 'small is beautiful'** "Global businesses fragment, localism prevails, technology empowers a low impact, high-tech business model. Networks prosper while large companies fall"



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## **Some Thought Starters.** How might such changes impact public infrastructure, and what are the implications for decisions you have to make today?

### **For Public Infrastructure, what might indicate a**

**Blue World?** Consolidation of education into 'super schools', centralisation, increased privatisation, tax rebates that give power to individuals to make individual choices rather than community choices, .....

**and the consequences?** less funding to public infrastructure, ageing, lower maintenance and continued deterioration of public assets, public assets privatised, people too busy to engage in sport and recreation, passive viewing, health issues lead to changed demand for community assets

**Green World?** Signing the Kyoto Agreement, introduction of carbon tax schemes, requirement for greater community consultation, social and environmental factors required to be taken into account in project appraisal, ....

**and the consequences?** Creation and expansion of parks and reserves for their environmental benefits as much as for recreation and enjoyment. More rules and legislation, creation of new environmental assets (carbon sinks, etc), less focus on growth and development, more requirements for developers to comply with, possibly demand on councils to 'retrofit' developments built under more lenient conditions...

**Orange World?** Continued increase in small offices/home offices, greater emphasis on 'buying local' to reduce the environmental impact of transport, emphasis on choice and anti-monopoly thinking ....

**and the consequences?** A move away from large 'all in, packaged contracts' where only large maintenance companies can compete, emphasis on technology to support social networking, demand for greater variety in community assets as the idea of 'work/life balance' dominates.

*You may care to go to the PWC site and download the full report, "Managing Tomorrow's People". Remember that the focus is on the role of HR. You will also find the ideas important in your attempts to recruit and train the staff that you will need to manage infrastructure in the next 20 years.*

**The Key Question for Us:** All three worlds probably exist today. I would judge the blue world to have been dominant - and increasing - over the past 20 years. Its growth has affected the way we provide support services. If this dominance now gives way to newer structures with new demands, how will this impact your infrastructure choice, use, demand?

**Footnote:** I have just finished reading "Meatball Sundae" by Seth Godin. What is a meatball sundae? According to the author it is 'messy, revolting, and ineffective - the result of combining two perfectly good things that do not go together' - he uses it as an analogy for those who try to apply the newer internet media, customer tailored production and 'permission marketing' to business structures developed in the older age of mass marketing (average goods for average people) which he calls 'interruption marketing'. *The message is business structures will have to change! And we will probably have to change too!*

## RESPONSE TO OIL DEPLETION



Just as we have now stopped arguing about whether climate change is real and have started thinking about what to do about it, so the issue of oil depletion now has to be reckoned with. As oil becomes relatively scarcer two things will happen that we need to plan for: (1) prices will rise (2) there will be greater price fluctuations and maybe some short term outages.

In the UK, whole towns and villages are attempting to do just this (google "Transition Towns"). A February Report from **Energy Preparedness** in the USA provides a useful framework for thinking around this complex issue, based on MITIGATE: COMMIT: RE-ENGINEER

Here are a few of the ideas from that report

### MITIGATE

And since you cannot mitigate what you do not know, the first step is to determine how much oil and energy you are using, both directly and indirectly, so

**1. Develop an understanding of the structure and energy uses of the municipality.** What services does the municipality provide? Which are general fund and which are fee-based? What is the budget of the departments that provide the services? What types of energy do they use? What aspects of city services do they outsource and what is the pricing structure?

Note: Municipalities in the USA provide many of the services that in Australia and New Zealand are provided at the state level. For 'municipality' read 'government'

**2. Develop a municipal energy budget that provides quantity** (e.g., in kwhs, gallons, therms) and dollars spent for each energy and fuel source by department and month for the previous fiscal year.

**3. Analyze the energy data.** Calculate the percentage of each department's budget that is spent on energy. Identify the departments with the highest energy use and percentage of cost, and determine their energy mix.

**4. Get the current planning assumptions for future energy/fuel pricing used in budgeting.** Use these as the low case. Develop at least one plausible energy price scenario (or use those developed by Energy Preparedness) that assumes energy prices will continue to escalate similar to their rise in the past several years. You may also consider appropriate levels of volatility for each scenario.

**5. Perform a sensitivity analysis** to see the impact of using alternative planning assumptions on the costs by department and if desired on the cost flow.

**6. Develop energy supply disruption scenarios.** Energy Preparedness suggests using several time scenarios such as 3-7 days, 2 weeks to several months, and several years as well as various availability levels (e.g., 0%, 50%, and 75%).

**7. Develop new and/or refine existing contingency plans for energy supply disruption scenarios** and determine the extent to which existing systems will be able to operate in the case of supply disruption (e.g., two weeks of water in storage).

Some cities are beginning to think in these terms. Oakland City Council appears to be a leader. The Oakland Oil Independent by 2020 report (released in February 2008) recommends that Oakland develop a contingency plan to address future oil price and supply shocks that addresses a seven-day fuel outage as well as a slow creep in prices. The report says the city should require that new development, municipal and regional agencies, and large employers within the City to develop contingency plans.

### COMMIT

One way to commit to reducing oil consumption is to adopt the **Oil Depletion Protocol**. The protocol requires that importing countries decrease their imports by the world depletion rate, currently assumed to be 3%.

In January 2006, Sweden announced the intention to phase out oil by 2020. To meet their goal of phasing out fossil energy by 2020, Sweden is considering or has partially implemented the following:

- \* Large-scale investments in renewable energy and in research.
- \* Expansion of district heating initiatives including cogeneration and the use of waste industrial and utility heat for residential needs
- \* Energy and carbon dioxide emission taxes were raised, while other taxes including payroll were decreased by an equivalent amount
- \* Exempting CO2 free fuel from energy and carbon dioxide emission taxes
- \* Exempting efficient vehicles from Stockholm's congestion tax
- \* Municipalities receive grants to invest in environment-friendly technology
- \* Progress is charted through 70 national indicators.

### RE-ENGINEER

The Reengineer stage of the M-C-R framework is about reconfiguring economic relationships and physical infrastructure to garner large reductions in energy consumption. In the municipal context, this means re-localizing the local economy and reconfiguring the built infrastructure for less transport and energy.

Localization (or relocation) is the process through which a community reverts from ever increasing dependence upon the global economic system back to local networks of economic interdependency. Localization brings production closer to consumption obviating the need to rely on long supply chains and distant markets so that communities can largely provision themselves. Local production strengthens the local economy, creates worthwhile jobs, and increases local self reliance. Refocusing the economy locally will necessarily revitalize the community, increasing camaraderie, cooperation, and support for local culture and a sense of place. (cf the 'green' and 'orange' scenarios in the PWC study)

The entire report is only 11 pages long and refers to studies being carried out in other places of the world including Australia. You can access it at <http://www.energypreparedness.net/resources/whitepaper/1>

## DO WE CONSULT TOO MUCH?

You may remember Debra Hall, we published a series of articles by Debra in early 2005. In the next issue we will look at the results of research that Debra Hall, Synovate, conducted this year into whether ratepayers believe that they are consulted too much. Before we bring you these results you may like to test your own understanding. I did, and was amazed at how far out I was! (Incidentally, Debra was surprised too.)

In the first question, ratepayers were asked “ **Which one of the following statements most reflects your opinions about the way that your local city or district council consults with its residents and ratepayers?** They were asked to select one

**YOUR TASK** - Which one did they select? Write your estimate of the percentage selecting against each of the following items

%

1. My local council **doesn't consult enough**, I'd support them spending more time & resources understanding what people think
2. My local councils does **about the right amount of consultation** with the community
3. My local council **consults too much**, I'd support them spending less time & resources understanding what people think
4. I don't know/ have no interest in how much or how little my local council consults with its residents & ratepayers.

In the second question, ratepayers were told “**Your local city or district council is required to consult with the community about the decisions that it makes that affect your community. Different people have different opinions about the way their community is consulted** - and they were asked to tick **all** of the statements with which they personally agreed.

**YOUR TASK** - Which one did they select? Write your estimate of the percentage selecting against each of the following items

%

1. I'd prefer my council to just get on with doing what's right for the community, with much less community consultation
2. I'd prefer my council to make sure that everyone in the community has a say on the major decisions that they make
3. I'm worried that too much consultation delays my council from making the right decisions
4. I'm worried that too much consultation is adding to the cost of my local body rates bill
5. I think my council would make better decisions if more people took an interest in who they voted onto the council
6. I think that my council does a pretty good job of balancing the needs of different parts of the community
7. It's the elected councillors' job to reflect the views of their community - we don't need lots of consultation

**ANSWERS BASED ON NEW ZEALAND NEXT WEEK!**