AMQ INTERNATIONAL
STRATEGIC ASSET MANAGEMENT

Issue 242 June 2 2008

Managing Urban Infrastructure

Infrastructure - What's in a Name?

Names matter! The words we use to describe a concept affect the way we think about that concept. In my editorial this week I ask: Is it time to change our name? And if so, to what? (page 2)

Return on Infrastructure My economist colleagues like to model infrastructure as if it were one amorphous blob. It isn't. So when arguments surface about the return on 'infrastructure' in general, rather than on specific instances of infrastructure, it is time to be wary - poor investment decisions are often the end result. We would not think of talking about 'the' return on private investment as if it were all the same. Infrastructure is not the same either. (page 3-4)

Catalyst Infrastructure Someone who is keenly aware that infrastructure comes in different shades is Ross Prestipino who has a website and blog called Vital Spaces in which he argues the need for specific, targeted, infrastructure closely linked in with communities and community decisions to tackle the problem of small, declining rural towns. Asset management with a heart! If this is a problem you are grappling with, you may find his website useful. My summary of his argument, with links to his sites, is given on pages 5-6.

Asset Management and the Problems of Urbanisation We have become addicted to growth infrastructure. But Growth and Non-Growth Areas require equal attention . Just one of the ideas presented by Jeff Roorda at his keynote address to the Canadian National Asset Management Conference in Halifax last month. (pages 7-8)

Editor: Dr Penny Burns, ***AMQ International***
PO Box 75 Salisbury South Australia 5108
Telephone 61 (0) 8 8281 5795
Email: amqi@amqi.com Website www.amqi.com

EDITORIAL:

WHAT'S IN A NAME?

For many years now, people have questioned whether the term 'asset management' should be changed. But never has there been a consensus suggestion as to what we should replace it with! Consider

Asset Management - a Google search will show up more financial investment sites that physical asset management sites.

Infrastructure - a Google search will show up more Information Technology sites and IT networking sites that physical asset management sites.

"---- asset management" - Putting something in front of 'asset management' such as 'water asset management' does improve the odds somewhat but still there will be a healthy dollop of financial sites. And this ruse does not help if you are looking for general information rather than specific assets.

"---- Infrastructure" - Putting something in front of 'infrastructure' also helps.

'Physical Infrastructure' is probably the best known, but there is also

'Public infrastructure' (although interpretation may vary from publicly owned infrastructure, publicly controlled infrastructure, to publicly used infrastructure.)

'Municipal/Local Government Infrastructure'. This is useful, although clearly a subset of the whole

'Urban Infrastructure' Because of its association with 'urban planning' this carries more of a flavour of the social, environmental and economic impacts of infrastructure. It is not tangled up with financial investments, nor does it lend itself so much (at all?) to narrow interpretations of asset management as operations/ maintenance/renewal focus. A benefit is that no single discipline has yet laid claim to this term so that it could be available for a multi-disciplinary profession such as asset management.

However, all names have consequences

And the danger with the term 'urban infrastructure' as in 'urban infrastructure management' is that, although 'urban' simply means relating to the characteristics of a city or town, we may be led to believe that we are interested only in the larger cities and towns and not smaller ones. (e.g. the rural/urban divide)

Ideally, the name should convey the objective - i.e. service.

Do you have a SUGGESTION
for an updated name for
Asset Management?

In this SAM we look at a number of issues related to names and the way we think about the concepts they represent.

RETURN ON INFRASTRUCTURE

About 15 years ago there was much discussion of the rate of return on infrastructure. Large rates of return were often claimed - and seized upon by construction organisations with glee to justify more public spending in their area. Trouble was that, while the statisticians could show reasonable correlation between the economy doing well (GDP increasing) and infrastructure spending increasing, they were not so able to say whether the government was investing *because the economy was doing well* (which provided both the funds and the justification for the investment) or whether the infrastructure investment led to the economy doing well.

Eventually the arguments died away. Now I have noticed that they are resurfacing in Canada. A study by Statistics Canada, surely a reputable organisation, has - despite admitting that there is great difficulty in determining the rate of return, come up with a figure of 17% +/- 12%.

(Ref: http://www.statcan.ca/Daily/English/080415/d080415b.htm)

So, at a minimum, according to the study, the return is at least equal to the long term bond rate. Impressive! ***But what does it mean?***

"Hey, who cares!" You might say. "Anything that leads to greater spending on infrastructure is good thing. So what is wrong with it?"

Actually, there is a great deal that is wrong.

For one thing it puts the focus on *funding* infrastructure - rather than *choosing* the most appropriate infrastructure to fund.

For another it treats all infrastructure spending as equal. We wouldn't think to do this for private investments so why we should do it for public infrastructure is a mystery.

Political Repercussions

If this thinking takes hold at the policy level, then politically the best thing to do is to spend the money where it can be *most quickly and easily* spent. After all, if all infrastructure spending is equal, why wear the costs of decision making to get the 'right' infrastructure?

For example, a 4 lane highway connecting a potential raw resource with its manufacturing demand, or a manufacturing potential with its export markets can result in very high returns. But a 4 lane highway that travels from one edge of the Transport Minister's electorate to the other (and I know of such a highway!) is just a very expensive piece of bitumen - returns zero!

It is easier to spend a million dollars (or $10m or $100m) on a greenfield site than it is to spend the same amount on renewal and upgrade. Politicians are this way inclined already. Studies that show high rates of return to *any* infrastructure spending only encourage this. But renewal and upgrade might generate a greater community return.

So be careful what you support!

There are parallels to 'Growth'.

Until relatively recently, we would do just about anything to get 'growth'. Growth was good. Any growth! Then we started to wise up to the fact that some growth is not only socially and environmentally damaging, it is also not very good for long term economic sustainability either. Perhaps it is now time to start looking at infrastructure with the same thoughtful consideration?

Recently I found an interesting website that looks at one aspect of this very issue. It looks at the future of those fringe cities (about 2 hours drive from rapidly growing centres) and argues that what is needed here is not 'growth infrastructure' as such but specifically targeted infrastructure the author calls "Catalyst Infrastructure"

CATALYST INFRASTRUCTURE

and the survival of small, declining, ageing, townships

Names, as I say, are important! *So when my attention was directed to Ross Prestipino's Vital Places website and Blog by Rob Didcoe, (WA Dept Recreation and Sport) I was attracted by the use of the term 'Catalyst Infrastructure'.*

Here is the basic argument. *You will find references to Ross' blog and website at the end of the article.*

Ross Prestipino lives in Queensland and his website and blog are heavily influenced by the structural changes that are now taking place in Queensland with the move from many small local governments to fewer, larger, regional councils

Problem: Growth is not uniform

But the issues facing these regional Queensland councils are the same issues that are facing many, many others. For while some areas are experiencing rapid growth - and attracting the bulk of financing from both State and Commonwealth - many others are missing out on growth. 'These are the small towns and localities within an hour or two of the growth centres. For many of these small towns and localities the combination of narrow business bases, declining population and high levels of ageing is eroding the very identity and lifestyles they cherish.'

Do we throw small declining townships to the wolves?

No doubt, economic arguments based on 'economies of scale' could be mounted to support the growth centres and starve the declining centres of funds. But even without such argument, this is, in fact what is happening.

Yet it is possible to mount the opposite case - that too much growth is detrimental to social cohesion, community life and well being. If this is the case - or even if *it is possible* that

this *could* be the case - then we owe it to ourselves to examine the arguments for a more even allocation of investment for the benefit of both growth and non-growth centres.

As Ross says 'They may be small, but collectively they represent a significant part of our community and political landscape. These are the heartlands of community passion and pride of place."

This is the starting point for 'Vital Places',

a website that looks at the wider social and community benefits of small towns and localities that are not experiencing wild growth.

"These places are not screaming out for growth infrastructure, but rather innovative projects that provide catalyst infrastructure designed to re-engage their economic base with future growth opportunities. It is about providing the missing bits of public infrastructure necessary to attract new private sector investment and create quality local jobs."

> **"To avoid the slide into social and economic dysfunction requiring ongoing and increasing support of State and Federal agencies, the opportunity of Catalyst Infrastructure may be their last chance to turn things around.**

The alternative to Catalyst Infrastructure is Costly!

It is significant that every time one of these small towns fails and people need to seek re-location elsewhere, all of the existing infrastructure needs to be replicated in the new location. New houses, new local roads, new schools, clinics, shops, utilities, etc.

This costly duplication of infrastructure generates no new benefits, just new infrastructure costs - *as well as high social and community dislocation costs.*

Catalyst Infrastructure is

Smaller scale

Carefully targeted and locally designed

Part of an overall, co-ordinated, township strategy in which all the players are involved.

"The focus needs to be sharp and simple. The implementation needs to be strategic and networked. The keys to delivering outcomes will come from initiatives in:

- What matters locally is Community Lifestyle
- How to Guide Change that protects lifestyle is a Governance role
- Focus on change that increases Local Wealth
- Use the fast track tool of Catalyst Infrastructure."

Visit Ross' website www.vitalplaces.com.au where you will find case studies of successful Catalyst Infrastructure projects and his blog at www.vitalplaces.blogspot.com/

Someone who would much approve the Prestipino focus on careful selection of infrastructure, integrated with community decision making, in order to retain local communities is ***Jeff Roorda, JRA*** *This is just one of the ideas in Jeff's keynote address to the Second Canadian National Asset Management Conference in Halifax last month.*

ASSET MANAGEMENT AND PROBLEMS OF URBANISATION

In addition to the economic sustainability warnings In Australia, there were signs that lack of asset management was also having environmental, cultural and social consequences. In 2005, the Sustainable Cities report identified that,

> *"with the numbers of urban residents increasing, our cities risk becoming more unsustainable across environmental, economic and social indicators. Larger cities are resulting in more urban travel, greater freight costs, less bush land, higher living costs, more social isolation, reduced air quality, greater water and energy consumption, decreased physical health, and increased levels of household and commercial waste."*[1]

Urban populations can be far more environmentally taxing unless high level of asset management planning is carried out at the outset. *Sydney's ecological footprint is 150 times greater than the area of Sydney itself* [2] Anecdotal evidencepoints to loneliness as a chronic problem for people that have moved to urban areas. The Australian Sustainable Cities report identified that,

> "*there are a number of possible planning scenarios that could shape our future cities. However, allowing cities to continue to grow without strategic forethought can only result in more dispersed cities, characterized by economic stratification, high infrastructure costs, and inequitable access to and provision of public services*."

The link between asset management and problems of urbanization needs much greater understanding. In Australia, one driver has been a gradual decline in rural populations associated with changing agricultural practices and the impact of open competition on global markets.

This has led to the decline spiral seen in many Australian rural communities:

- Rural Communities Lose Population – leads to...
- Loss of Services – leads to...
- Lack of Employment Opportunities – leads to…
- Further Population loss of young groups – leads to….
- Higher Dependence on Government Services precisely when local communities and Councils have declining revenues and increased difficulty funding infrastructure

The primary problem is the loss of community often inherent in urban society. Communities working together with a sense of the interconnectedness of all things are one of the features of rural villages. This is often lost in the trend to urbanization. Family and community support structures are dismantled, connection to the environment is lost, and cultural identity becomes subsumed by shopping malls and fast food chains. Where this happens society risks becoming unstable. The consequences are only party understood. Australian Bureau of Statistics figures have shown that adolescents and young men in country areas of Australia are among the most likely to commit suicide. Other statistics show suicide rates for 15–24-year-old Australian men increasing as much as twelve-fold since the 1960s in some towns with a population of less than 4000, compared with a doubling overall. The decline of rural communities poses the following asset management questions.

1. What role do rural communities play in the social and cultural well- being of a country?
2. Should rural communities operate as self-sustaining economic business units and what should happen if they can't financially survive?
3. How can we identify national or regional benefits provided by rural communities and fund these benefits at the national or regional level?
4. Central governments support 'growth', should they also support 'decline'?

[1] The Parliament of the Commonwealth of Australia Sustainable Cities House of Representatives Standing Committee on Environment and Heritage August 2005

[2] Professor Anthony McMichael, National Centre for Epidemiology and Population Health