Buying into a **'sexy' business**

BY ANTHONY BYETT, SENIOR ECONOMIST, MWH GLOBAL

Two issues persist with asset managers – they continue to experience difficulty getting stake-holder 'buy-in'; and asset management is considered 'not sexy'. This is about to change.

In a narrow sense, asset management is about monitoring and managing the things we own. This approach tends to conjure notions of data availability and efficient operation, probably the source of the 'not sexy' perspective. In a wider sense though, asset management is akin to management in general; we establish goals, set objectives and then work to effectively and efficiently deliver on target. It is about adding value to people's lives, with the major difference being that this value-add revolves around long-life assets.

First, it needs to be acknowledged that these assets, and the services provided, are of high value. Take local government. From an accounting point of view, Statistics New Zealand report local government infrastructure assets totalled $72 billion at June 2011. The annual income allocated to roading, transportation, water, wastewater and solid waste at the time was around $3 billion. The Auditor-General reports plans for total capital expenditure (including non-infrastructure assets) of $37 billion in the 10 years to June 2022 among local authorities (excluding Christchurch.) These are big numbers.

However, value typically exceeds cost. Many infrastructure projects are pivotal to development within a region. When networks are established, the wider benefit to a region is often well in excess of any capital expenditure, as stated in impact assessment studies. From a national perspective the incremental gains to the private sector are more modest, but the OECD report that international research shows societal gains do exceed the initial infrastructure investment and that these impacts accrue over a long time.

The flip-side of the high value is the high cost. Herein lies the opportunity and the challenge to management – how to reduce this cost, while preserving value? Clearly there are many ways; get the size right, defer expenditure, apply new technology, influence demand, to name a few. The relevant verbs here are measure and decide.

Before exploring this further, it is important to also acknowledge the complex nature of the decisions required. The investments are in long-life assets. The public may be good at knowing what they want today but we are not so good at specifying our needs longer-term. The assets are typically interconnected rather than stand-alone, so coordination is important. There are high fixed-costs that make the determination of price difficult at the margin – a decision in turn that becomes entangled with the ability of people to pay and the ability of people and businesses to relocate. There is the potential for high transaction costs if we do not agree on a system of pricing and allocation. There is the lack of competition that would normally spur the quest for improvement.

All of which begs the question: what's not exciting about asset management? Presumably the frustration among the asset management community is that the weighty data-gathering is not being translated into action. The inference – more focus on decisions, please.

It just so happens that forces are mounting that will require tough decisions. The Government has laid down the gauntlet, so to speak, in the form of the Local Government 2002 Amendment Act 2012 with more emphasis on "good-quality local infrastructure" and "cost-effective" performance. Also, funding will increasingly become a constraint as individual authorities accumulate debt. There will be more assets coming up for renewal, and many areas face a declining working-age population.

The infrastructure renewal challenge is global. A wave of public investment in the 1960s and 1970s produced amazing results, and we owe much today to that prescience. But these assets, e.g. roads, bridges, dams, are nearing their use-by date. The cost of renewal will be high. Local authorities are cushioning the eventual financial impact by gathering revenue today (to match depreciation) but gaps remain.

The falling population will be especially challenging to those trying to maintain the current level of service. The recent 20-year 'medium projection' by Statistics New Zealand put the population of 23 out of 67 territories at below their 2011 levels; the 15 to 64 year old population is projected to decline in all but 11 territories.

A key decision for many local authorities when it comes to renewing assets will be the appropriate level of service. This will require a deep understanding of the community's sometimes-competing needs. The decision may be to lower the utility of the asset e.g. a narrower or unsealed road. The decision may be to accept a larger risk of service interruption, e.g. a wider tolerance of water restrictions at times. There is also likely to be a role for demand management, employing both the new technology available to meter usage and the incentives created by block and/or differential charging.

That's not to say that deferred expenditure – sweating the asset – will lose favour. It makes good sense to check the condition of assets, thus preventing expensive failures and in many cases delaying the replacement of an asset that is functioning well in spite of its age. (A theme that will resonate among many people).

The point is – decisions will have to be made. The response to the squeeze between the funding available and the expenditure possible is likely to be many dimensional. Much information exists at present. Even more will be required, especially around needs. How it is used is for us to decide. LG

ECAN says better information allows it to **improve planning**

Environment Canterbury says it is receiving improved information from consented water users in the region and this will enable it to plan for better water management.

David Caygill, Environment Canterbury's Commissioner with responsibility for water says water consent holders with takes of 20 litres per second and more were required to install a water measuring system by November 10 last year under the Government's national regulations on water measuring. Consent holders must also provide their water use data to their regional council in July of each year.

"Many consent holders are already providing their water usage information to Environment Canterbury – ahead of the requirements in the regulations – and are also using this information to better manage and make more efficient use of water on their properties."

A key finding from the report is that 39 per cent of allocated groundwater was used during the 2011-12 year compared with 52 per cent in the previous year. For surface water 43.4 per cent of the volume of allocated takes was used compared with 49.5 per cent the previous year. The amount of consented water used in the 2011-12 season was relatively low likely because of a wetter-than-usual season. During the main irrigation season from October 2011 to April 2012, soil moisture levels were often replenished by rainfall without the need for irrigation.

The report also provides information on water use by water management zone, including statistics on the proportion of wells and surface water takes with metering systems installed.

As at June 30 last year, 58 per cent of groundwater wells with takes of 20 litres per second and more throughout Canterbury had water meters installed and consent holders had provided data for the 2011-12 report, up from 43 per cent in the previous water year.

"We are aware of many consent holders, however, who have missed the November 10 deadline to install a water measuring system, but who have made arrangements with service providers to have a system installed.

"Environment Canterbury started a compliance programme in November to remind consent holders of their obligations and ultimately we will ensure full compliance with the regulations."

Ashburton zone – which has 1735 wells – had the highest proportion of metered wells at 59.5 per cent. The Selwyn-Waihora zone had the most wells at 2080, with 46.4 per cent of these metered.

In total, the metered water takes represented 62.4 per cent (1137 million cubic metres) of all allocated groundwater, and 20.5 per cent (3213 million cubic metres) of all allocated surface water in Canterbury. LG