

**Local Government Funding and Financing Inquiry
New Zealand Productivity Commission
Level 15 Fujitsu Tower
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WELLINGTON**

SUBMISSION

1.0 PURPOSE

This submission is in response to question Q5.3 posed by the Commission in its Draft Report:

'Are there other more effective ways of encouraging better asset management practices in Local Government?'

2.0 INTRODUCTION

As Ian Ball says in his background report:

'One of the long-standing and widespread concerns internationally with government financial management is the relatively poor quality of asset management.'

Source: Ball, Ian - Public Sector Performance (NZ) Ltd. *'Local Government Funding and Finance – Accounting and Financial Management Issues - Report to the New Zealand Productivity Commission'* Page 28 2019

I have been involved with Infrastructure Asset Management for more than 50 years. For 27 years I was a local authority CEO. I have worked on asset management projects in New Zealand, Australia, the United States, South Africa and Fiji.

For several years now I have been carrying out a detailed study of the asset management practices in all of these countries (and in the UK and Canada) in order to try and identify 'a better way'.

3.0 STUDY FINDINGS

3.1 LOCAL GOVERNMENT COMPETENCY

For a period, in the late 90s and for a few years after 2000, New Zealand local government was acknowledged internationally as being at the leading edge in asset management practice, however that is no longer the case.

3.1.1 Audit New Zealand's View

Audit New Zealand said in 2010 that it thought the science of asset management may be outpacing the capability of councils to apply it and in 2017, that in the subsequent five years to 2015 their performance had plateaued at its 2010 level – with some councils having improved, some having gone backwards, but the majority having stayed broadly the same.

3.1.2 The Controller and Auditor General's View

The Controller and Auditor-General said in 2014 that many local authorities' asset management practices fall short of guidance such as that provided by the National Asset Management Steering Group (NAMS) and earlier this year (in February 2019) that the Long-term Plans (LTPs) are long and complex and contain material that does not help them achieve their purpose; that many of the improvements he expected to see in the Infrastructure Strategies compared with three years ago have not happened; that the long-term realism and affordability of many of the Long-term Plans is questionable (especially from 2028); that the financial strategies need to be improved; and that there needs to be further discussion about the effectiveness of councils' performance reporting.

3.1.3 **The Havelock North Drinking Water Inquiry Findings**

In 2017 the Havelock North Drinking Water Inquiry identified serious deficiencies in Councils' management of their water supplies.

3.1.4 **Local Government New Zealand Surveys**

Local Government New Zealand surveys from 2014 suggest that fewer than 50% of councils comply with resource consent conditions for waste and stormwater. In 2015/16 18% of wastewater treatment services were operating on an expired consent.

3.1.5 **Other Weaknesses**

A long list of other weaknesses has also been identified.

3.1.5 **Conclusion**

The foregoing illustrates quite clearly that New Zealand local authorities' current performance is not at the level it should be.

3.2 **REASONS FOR THE CURRENT LEVEL OF POOR PERFORMANCE**

The reasons why this is the case are:

3.2.1 **A Poor Understanding Of What Asset Management Is:**

Councils do not sufficiently understand that 'Asset Management' is a **corporate function** focussed on the process of achieving whole-of life effectiveness of assets at minimum cost in **order to sustainably deliver the prescribed levels of service** – not just an Engineering or technical function focussed on management of the physical assets.

'A better service, not a better asset, is a (the) key indication of successful asset management'

Source: Victorian State Government (Australia) (Department of Victorian Communities) – 'Asset Management Policy, Strategy and Plan – Guidelines for Developing An Asset Management Policy, Strategy and Plan'

3.2.2 **The Planning and Reporting Provisions With Which The Local Authorities Have To Legislatively Comply Causes Counterproductive Behaviour and The Preparation of Documents That Are Not Fit For Purpose.**

3.2.3 **The Asset Management Policy, the Long-term Plan (Including The Infrastructure Strategy And The Financial Strategy), Annual Plans, The Asset Management Plans, And The Council's Annual Report Are Not Prepared in A Properly Linked and Integrated Way**

Insufficient thought is given to how these documents 'fit together' – and what the purpose of each is. Rather than them all being prepared in a properly linked and integrated way (in a manner that has been fully thought through) each is often prepared quite separately with the decision about its format and content being left to the author.

3.2.4 Poor leadership.

Important asset management decisions are allowed to be made, in a fragmented manner, at too low a level. Inadequate interest is shown by, and inadequate direction and leadership is provided by, the elected councillors and by senior management.

Possibly the largest barriers worldwide to sound asset management are a combination of lack of commitment, the non-recognition of the importance of asset management and an inability to recognise the true benefits delivered from sound asset management, at the senior management and/or governance level.....'

Source: Institute of Professional Engineers of New Zealand (IPENZ) – 'Assessing The State of Infrastructure – Is What You See What You Get?' 2010

3.2.5 A Focus On Compliance Rather Than on Better Management

The Local Government Act 2002 prescribes a long list of documents/information that have to be included in the Long-term Plan and in many councils the focus is more on compliance with those requirements and on production, in the traditional way, of the non-mandatory Asset Management Plans (also for compliance) than it is on producing succinct documents that will be of interest to the council's stakeholders and easy for them to understand - and which will be actually used by the Council and will **cause it** to operate more effectively, effectively, sustainably and responsibly.

3.3 THE SOLUTION

3.3.1 Introduction

From an analysis of all of the identified weaknesses it is clear that in many (most) councils, the Asset Management Plans (AMPs), as they are prepared now, **aren't serving any useful purpose at all** and the Long-term Plans and Infrastructure Strategies are not achieving their purpose either.

The whole system needs to be turned completely around with the Asset Management Policy, the Long-term Plan (including the Infrastructure Strategy and the Financial Strategy), the AMPs, subsequent Annual Plans, and the Annual Report being developed and managed in a much more integrated way - with greater attention being paid to what the purpose of each is. The AMP is supposed to be **A PLAN** that outlines what the Council is going to do to implement the Asset Management Policy and the Infrastructure Strategy and deliver the specified levels of service – not a document that concentrates on the physical assets (rather than on the required actions and improvements needed to achieve the service objectives) to the extent that most AMPs do.

3.3.2 A Proposed Changed Approach

The work that I have done explains a suggested changed management approach – one that if implemented as outlined would address **ALL** of the weaknesses mentioned in '3.2' above. Amongst other things it would also result in:

- more meaningful Long-term Plans of not more than about 50 pages (instead of the current average of about 300);

- more succinct, truly strategic, Infrastructure Strategies of not more than about 20/25 pages (instead of the current average of about 60) – and less in the case of the smaller territorials and those in which little growth is forecasted;
- An abbreviated version of the Infrastructure Strategy, of not more than 4 pages, for attachment to the ‘Consultation Document For Adoption of the Long Term Plan’.

Note: In my view a summary prepared in this form would go a long way towards encouraging more people to express an interest in, and become involved, with their local councils.

- Financial Strategies of not more than about 5 pages;
- instead of between about seven and eleven or more Asset Management Plans totalling about 1,000 pages, except perhaps for Roads and Solid Waste Management **only one of about 30 pages** – prepared in a form where it is **no longer necessary to carry out the traditional very costly and time-consuming triennial reviews** and where an ‘up-to-date’ copy is able to be produced upon request, without further work, at any time. (It is recommended Roads and Solid Waste be included in the Combined AMP as well).
- a robust Asset Management **MANAGEMENT** system.

4.0 ACCOUNTABILITY – REPORTING PERFORMANCE

I also thoroughly agree with the Commission’s finding number F5-4:

‘The current performance reporting requirements on local authorities, including the financial and non-financial information disclosures, are excessively detailed, inappropriately focussed and not fit-for purpose’

My study includes a suite of ‘Customer Level’ performance measures and targets for all local authority infrastructure activities, which I suggest should be **located in one place** in every Long-term Plan and Annual Report. The measures that are listed there all flow from the Long-term Plan and from the prescribed levels of service and have been designed to answer the question:

‘Did you do what you said you were going to do when you said you would and to the standards and within the price you said you were going to do it?’

I believe if all residents could easily see these results – especially the performance **trends** - they would be able to understand much more easily what their Council is doing and how well it is (or is not) performing and be more inclined to regard it with greater respect.

5.0 OBSTACLES TO ACHIEVING EARLY SIGNIFICANT IMPROVEMENT

The work required to make a change along the lines outlined in this submission is relatively simple but that is only the first step. Significantly better performance will not be able to be, or is unlikely to be achieved, in several key areas, unless/until:

- central Government amends the Local Government Act 2002 to rationalise the 'Consultation Document For Adoption of the Long-term Plan/Long-term Plan/Infrastructure Strategy/ Financial Strategy/Annual Plan/Annual Report/and Performance Measurement and Reporting' requirements;
- there is greater regulatory oversight of local authorities' asset management (especially but not necessarily limited to water supplies and wastewater);
- the council's auditors take a more assertive stance when auditing the local authorities' performance (especially relating to their non-financial performance); (and)
- the elected Councillors and the Council CEOs take greater personal ownership of the asset management function and ensure it is practised and reported in a more responsible, integrated, 'service-provision focussed', and transparent way – or transfer responsibility for at least delivery of the services (as opposed to transfer of ownership of the assets) to a Council-Controlled Organisation (CCO), perhaps jointly with their neighbouring authorities.

7.0 CONCLUSION

Because the process that I have outlined requires the Council to identify the performance gap for every 'aspect of asset management' and to say what it is going to do to address it, I have absolutely no doubt whatsoever that implemented and managed correctly, such a change will streamline (or simplify) the councils' work, result in better and more transparent planning and management and in the provision of more effective, efficient and sustainable services; and increase the councils' accountability to their stakeholders.

I am available to meet with the Commission if required.

Yours sincerely

BRIAN SHARPLIN