

**ANALYSING THE STRATEGIC LINKS BETWEEN  
ASSET MANAGEMENT PLANS AND LONG TERM  
COUNCIL COMMUNITY PLANS**

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**6<sup>th</sup> Annual Local Government  
Asset Management Conference**

**Auckland  
6 & 7 May 2003**

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## INTRODUCTION

My brief for this paper is to consider issues under the following four themes:

- ▶ Will the power of general competence affect asset management?
- ▶ How does this link to future demand forecasting?
- ▶ Examining appropriate performance measures.
- ▶ The key linkages – why it is crucial to get it right.

I want to start by emphasising the approach that this paper will take. It will not be about the detail of asset management itself. Rather, its focus is on the council's own strategic long-term planning as the setting within which asset management takes place.

## WILL THE POWER OF GENERAL COMPETENCE AFFECT ASSET MANAGEMENT?

In this section the term “power of general competence” is interpreted to mean both the formal power of general competence and the rules the Local Government Act 2002 (LGA 2002) puts in place to constrain how that power is exercised – rules about decision-making, planning, accountability and reporting.

Section 12 of the LGA 2002 states the power in quite broad terms as:

*“For the purposes of performing its role, a local authority has—*

- (a) Full capacity to carry on or undertake any activity or business, do any act, or enter into any transaction; and*
- (b) For the purposes of paragraph (a), full rights, powers, and privileges.”*

That wording is very similar to Section 16 of the Companies Act 1993 which provides that:

*“Subject to this Act, any other enactment, and the general law, a company has, both within and outside New Zealand –*

- (a) Full capacity to carry on or undertake any business or activity, do any act, or enter into any transaction; and*
- (b) For the purpose of paragraph (a) of this subsection, full rights, powers and privileges.”*

An immediate difference is obvious. The company has powers both within and outside New Zealand. More importantly, those powers are not qualified. In contrast, the local authority has its powers of competence “*for the purposes of performing its role*”. Accordingly, local authorities will still face a purposive test if their exercise of powers is ever challenged - were the powers being exercised for the purpose of performing its role, defined in Section 11 as:

*“The role of a local authority is to—*

- (a) Give effect, in relation to its district or region, to the purpose of local government stated in section 10; and*
- (b) Perform the duties, and exercise the rights, conferred on it by or under this Act and any other enactment.”*

There are other and very substantial differences between companies and local authorities. As a specific example, the Companies Act includes the following provision:

***“128 Management of company***

- (1) The business and affairs of the company must be managed by, or under the direction or supervision of, the board of the company.*
- (2) The board of a company has all the powers necessary for managing, and for directing and supervising the management of, the business and affairs of the company.”*

That section means what it says. In practice, it excludes shareholders from seeking to intervene in the management of the company (unless the company’s constitution expressly allows this). The section can and has been used by directors as a basis for ignoring shareholders’ resolutions that have sought to intervene in management.

The contrast with local government could scarcely be greater. The LGA 2002 is quite explicit that the purpose of local government includes *“to enable democratic local decision-making and action by, and on behalf of, communities”*. Generally, the LGA 2002 provides greatly enhanced provisions for community involvement through new provisions regarding decision-making, more detailed requirements around the special consultative procedure, and effectively turning long-term planning on its head. It is no longer the financial emphasis of the former long-term financial strategy. Instead the local authority’s principal planning document, the long term council community plan, is now to be prepared around community outcomes.

In my view, and that of a number of other commentators/participants, the term “power of general competence” is not really appropriate. For those who are used to what it means in the company arena, the term is positively misleading. It has set much of the business press off on a wild goose chase to constrain local government’s wide new powers, a result of accepting the term at face value rather than looking at what the legislation has actually done.

It is true that, in some respects, the LGA 2002 has simplified the local government environment. The many prescriptive provisions in the previous Local Government Act 1974 have now gone. For example, local authorities looking at providing support for low income housing will not now have to worry about the difference that used to exist in the powers they had to provide support for fully detached dwellings on the one hand and semi-detached dwellings or apartments on the other.

However, in looking at the overall impact on local government, the better conclusion is that local authorities (other than regional councils) now have less power than they did under the Local Government Act 1974. Specifically:

- ▶ The very wide powers they had to support activities of benefit to the community under Part 36 of the Local Government Act 1974 were much more sweeping and subject to less restraint than now exists.
- ▶ Under the Local Government Act 1974, local authorities had the power, subject only to using the special consultative procedure, to deal with water and wastewater assets as they saw fit. The LGA 2002 imposes a very strong straightjacket.

Let me turn now to consider asset management itself. A good starting point is to recall that concern over asset management was one of the main drivers behind the so-called “No. 3 Act” – the Local Government Amendment Act No. 3 1996, which brought in the financial management provisions under which local authorities were required, amongst other things, to prepare a long term financial strategy. That resulted, in large part, from concerns expressed by the Controller and Auditor General that he was unable, in a number of cases, to form a “going concern” opinion on local authorities because he simply did not have adequate information on the state of major infrastructure assets and was thus unable to form a judgement on the local authority’s ability to meet future costs.

Although asset management planning is not specifically mentioned in the required contents of a long term financial strategy, it has always been quite clear that a local authority cannot prepare a proper LTFS unless it has asset management plans in place. Without those, it would simply not be able to develop the kind of information required to satisfy the requirements for the content of the LTFS such as: *“The estimated expenses, including an allowance for the cost of debt servicing and for the decline in the service potential of assets, necessary to meet the identified needs of the local authority over the period of the strategy”*.

At its heart, asset management is concerned with the least cost means of meeting service level standards over time. Asset managers are continually addressing the question of what mix of assets with what performance characteristics will be required to deliver the standard of service required and what measures will be needed to ensure that standards can be met not just now but in the future.

Current practice can be seen as primarily a technical means of compliance approach as the service level standards themselves tend to be developed by the people who are also responsible for asset management. In water and wastewater, standards have been driven by such things as Ministry of Health requirements and the terms of resource consents. In roading, it has been a combination of the subsidy policies of Transfund and quite widely accepted standards matching road type to traffic volume and visibility. Similar approaches have been taken with other major asset categories.

What changes under the LGA 2002? Initially, probably very little but over time there is scope for very significant change indeed. In my assessment, there will be two principal drivers of change as the new power of general competence and associated constraints begin to impact. The two drivers will be:

- ▶ The new emphasis on community outcomes and sustainable development.
- ▶ The requirement that the long term council community plan be audited.

It is worth comparing clauses 1 and 2 of Schedule 10 of the LGA 2002 – the information to be included in long term council community plans – with Section 122L of the Local Government Act 1974 setting out the contents of the long-term financial strategy.

The LTFS is focused almost exclusively on financial information. There is a requirement to give reasons for being engaged in the activities set out in the LTFS but there is no requirement, other than that the LTFS be adopted through the special consultative procedure, for significant community input.

In contrast, there is a major emphasis in the requirements for the LTCCP on community outcomes. Technically the local authority is not required to adopt community outcomes as the outcomes that its LTCCP is to serve. This seems sensible, if only because the question of whether implementation is feasible or affordable is not part of the community outcomes process but rather something that the local authority itself will need to analyse and decide.

That said, there are very powerful signals in the LGA 2002 that councils will be expected to pay very close regard to community outcomes and, where it is possible and reasonable to do so, seek to implement them. Pointers towards this include:

- ▶ The statutory role of a local authority is to give effect to the purpose of local government which Section 10 states as:
  - To enable democratic local decision-making and action by, and on behalf of, communities; and
  - To promote the social, economic, environmental and cultural well-being of communities in the present and for the future (the “four well-beings”).
- ▶ Sections 76-79, dealing with decision-making, require a local authority to seek to identify all reasonably practicable options for the achievement of the objective of the decision, to assess benefits and costs in terms of the “four well-beings” and the extent to which community outcomes would be promoted or achieved in an integrated and efficient manner by each option. Section 78 requires a local authority to give consideration to the views and preferences of persons likely to be affected by or to have an interest in the matter, with that consideration to be given at each of four separate stages through the decision-making process. Section 79 does give a local authority some discretion in how to apply those requirements, but it is not a carte blanche power to disregard them.
- ▶ This impression is further reinforced by the now very extensive provisions relating to the special consultative procedure. The few lines of Section 716A in the Local Government Act 1974 have been replaced by nearly six pages of rules in the LGA 2002.

Over time, for asset management, this is likely to mean that the process of defining service level standards will change quite markedly. Rather than being drawn primarily from “best practice” and from minimum standards set by regulators and/or emerging from discussions within professional bodies and the work of local authority staff, they will increasingly be influenced by community views. These are likely to affect both the standards and the means of achieving them.

A couple of examples will make the point. The first is the new requirement for the assessment of water and other sanitary services. This process includes a requirement that a territorial authority must consider

- (a) *The full range of options and their environmental and public health impacts, including (but not limited to)—*
- (i) *on-site collection and disposal; and*
  - (ii) *grey water and stormwater reuse or recycling; and*
  - (iii) *demand-reduction strategies, including public education, information, promotion of appropriate technologies, pricing, and regulation; and*
  - (iv) *the full range of technologies available”*

This provision has its origins in concerns held by the Green Party that, too often, water and wastewater projects were driven by conventional engineering solutions imposed by people who had relatively little understanding of alternative and more environmentally friendly options. (Whether that was in fact the case is a separate issue. The point to note is the political driver behind the legislation.)

In essence, what this section is proposing is that both service level standards themselves, and means of compliance, should be very much open to public input and the search for alternative solutions – especially as the assessment is to be adopted through the special consultative procedure – either on its own or as part of the LTCCP which itself must go through that procedure.

A second example comes from our recent involvement in providing advice to a provincial local authority on the very vexed question of how the cost of meeting its share of expenditure on roading should be allocated amongst different categories of ratepayers. The district concerned is one that has been experiencing relatively rapid growth with a high level of rural subdivision – some for horticulture, some for so-called “lifestyle” blocks. The council concerned used a mixture of land value rating and a uniform annual charge with a 2:1 differential on the rate affecting industrial and commercial property.

It also had in place a very detailed asset management plan that spelt out the circumstances under which roads would be upgraded. The priorities were driven, essentially, by safety with some recognition of amenity impacts - as traffic volumes increased, so would required road width. Volumes also determined the point at which an unsealed road would be sealed.

From a technical perspective, this was a very impressive piece of work. From a ratepayer’s perspective, there was strong anecdotal evidence that it was seen as an arbitrary way of ignoring the interests of ratepayers who may have paid very substantial rates for a number of years. As an example, if you happened to have a relatively high value property on an unsealed road with relatively low traffic volumes, your chances of having the road sealed in the near future, regardless of the amount you were paying in rates, were virtually zero.

There was a widespread view that one of the problems the council faced was the growth in the number of lifestyle blocks, which other ratepayers complained were getting something of a double benefit. Closer subdivision meant higher traffic volumes and therefore a greater likelihood of an upgrade, but smaller properties meant lifestyle ratepayers were paying less in rates (a proposition that was more correct on an individual basis than for lifestyle properties as a whole).

It seems very clear that, as that council goes through the community outcomes process, the pressure to move away from a purely technical approach to setting priorities for roading upgrades will be intense. Whether this will produce a genuinely better result is entirely another matter. People with any experience in roading will know how difficult it is to arrive at any system of allocating costs and setting priorities that is likely to have significant majority support.

The next driver is the audit requirement that will come into effect for the second LTCCP – the one to operate from 1 July 2006. The audit requirement is set out in Section 94 of the LGA 2002, as follows:

***“94 Audit of long-term council community plan***

- (1) The long-term council community plan must contain a report from the local authority’s auditor on—*
  - (a) the extent to which the local authority has complied with the requirements of this Act in respect of the plan; and*
  - (b) the quality of the information and assumptions underlying the forecast information provided in the plan; and*
  - (c) the extent to which the forecast information and performance measures provide an appropriate framework for the meaningful assessment of the actual levels of service provision.*
- (2) A report under subsection (1) may be in the form of confirmation or amendment of the report made by the auditor under section 84(4).*
- (3) For the avoidance of doubt, a report under subsection (1) must not comment on the merits of any policy content of the plan.”*

For asset managers, the most important provision is the requirement to report on *“the quality of the information and assumptions underlying the forecast information provided in the plan”*. The requirement is a new one. The LTFS itself was not audited (although one or two councils did voluntarily seek an audit – the Audit Office report on the audit of the Opotiki LTFS is well worth reading).

One consequence of the absence of an audit requirement has been that the assumptions on which the LTFS was developed were not always as robust as might be desired. In particular, there was a tendency to concentrate on the first three years (those on which the annual plan was based) and pay less attention to assumptions for years four onwards. In my experience, it was not uncommon to see a long-term financial strategy simply assume a series of constants.

Expect a considerable amount of latitude in the early application of this requirement, at least in respect of non-core services. But also expect, where there is pressure on a particular service or district, that the Audit Office will be looking for robust information. If you are in an area that is under going major development or significant changes in population or the nature of economic activity, the Audit Office will probably want to see professionally developed

forecasts of key variables – population, business activity by sector, expected land use demand, etc.

To sum up this part, asset management planning under the LGA 2002 will:

- ▶ Be significantly driven by community outcomes as a significant (but not the only) means of determining service level standards and, for at least some services, the preferred means of achieving those standards.
- ▶ See the technical means of compliance approach to determining the least cost solution remaining important but, increasingly, either needing to be consistent with the way community outcomes are expressed or have a clear reason for departing from what the community has expressed.
- ▶ Through the new requirement for audit, requiring asset managers to ensure that their forecasts of activity levels etc are based on robust information, especially in respect of core services in areas that are undergoing significant change.

Finally, a brief comment on Schedule 10's specific requirements regarding assets, which are that the plan must, in relation to each group of activities of the local authority:

- “(d) Identify the assets or groups of assets required by the group of activities and identify, in relation to those assets or groups of assets,—*
- (i) How the local authority will assess and manage the asset management implications of changes to—*
    - (A) demand for, or consumption of, relevant services; and*
    - (B) service provision levels and standards:*
  - (ii) What additional asset capacity is estimated to be required in respect of changes to each of the matters described in subparagraph (i):*
  - (iii) How the provision of additional asset capacity will be undertaken:*
  - (iv) The estimated costs of the provision of additional asset capacity identified under subparagraph (ii), and the division of those costs between each of the matters in respect of which additional capacity is required:*
  - (v) How the costs of the provision of additional asset capacity will be met:*
  - (vi) How the maintenance, renewal, and replacement of assets will be undertaken:*
  - (vii) How the costs of the maintenance, renewal, and replacement of assets will be met:”*

Generally, those provisions should not see any significant change from current practice except to the extent that they do require an evidence-based approach to estimating future demand.



## HOW DOES THIS LINK TO FUTURE DEMAND FORECASTING?

The immediate answer, and one that should be obvious from the discussion above of the implications of auditing the LTCCP, is that demand forecasting will be an essential part of asset management planning. In this section I want to provide a few pointers about some of the complexities that might arise and the need for coordination.

The first point, and one that asset managers should already be familiar with, is the importance of understanding the key drivers behind growth in demand. This will need to include getting to understand how the drivers themselves operate. Assume, as an example, a service for which demand is driven largely by population growth. At a simple level, you may have treated the impact on demand as simply a function of the percentage growth in population. However, if you want robust information, then you may need to put aside the simple assumption that the percentage increase in population translates to the percentage growth in demand and replace it with an understanding of factors such as:

- ▶ Growth in household numbers versus population growth. It may be that the key variable driving demand is actually household numbers so that you could have increasing demand, even in a district in which population is static or declining. Note that, generally, average household size is decreasing across New Zealand.
- ▶ Does the age composition of the population matter? For some services, it will. Older people may have a lesser demand for sporting facilities but a greater demand for library and cultural facilities. At the last census, the percentage of the population aged 65 or over was 12.1% for New Zealand as a whole but ranged from 6.9% in Porirua City to 22.3% in Kapiti Coast District. Expect older people, who are comparatively more politically active, to play a major role through the community outcomes process in seeking the types of services they prefer.

Industry composition will also be a key driver. Forecasting future demand will require an understanding both of the impacts of different industry sectors, as they are currently configured and operate, and the potential for changes in technology (an obvious one is the increasing use of irrigation) as well as likely changes in industry composition.

It will be important in forecasting demand to ensure coordination between the different kinds of forecasts and planning with which the council is involved. As one example, does it make sense for asset managers and the council's economic development arm to be adopting different assumptions about or targets for population growth? It is noteworthy that most, if not all, of the economic development strategies prepared recently with Industry New Zealand assistance appear to include targeting increased population as one objective. Demographic information for New Zealand as a whole suggests that, although some districts/regions will enjoy significant population growth, for a number of others the population will stabilise or decline.

It also makes sense to consider the possible impact of government policies, both policies for economic development and policies for greater devolution. The emphasis in the government's growth and innovation strategy is on developing knowledge-intensive industries – information technology, biotechnology and the creative industries. If your district

is to be part of this strategy, have you considered what kinds of infrastructure will be required to enable those types of industries? Have you considered the potential implications of the government's tertiary strategy with its emphasis on greater collaboration and tertiary sector institutions working more closely with the regions and communities they serve?

Taking the regional economic development strategies as an example, if you want your forecasts to be robust, should you be looking to compare your assumptions against those used by other local authorities?

More generally, the process of preparing the assumptions on which you forecast demand needs to be seen as an integral part of the council's strategic planning and reflect the "four well-beings" that are now the focus of the local authority's role – economic, cultural, social and environmental well-being now and into the future. Your assumptions will need to take into account not just demand in an absolute sense but the community's preferences for how that demand should be satisfied – of which the requirement to consider different options in the provision for assessment of water and sanitary services is the most explicit example.

Last year I gave a presentation to a seminar for Auckland local authorities on the implications for asset management of what was then still the Local Government Bill. The Bill included a requirement, not carried forward to the Act itself, for the preparation of an asset management policy. One question I posed to the seminar was where responsibility for development of an asset management policy should lie – with the various operational groups currently involved in asset management or at the corporate level as part of the council's strategic planning. You will not be surprised that my answer was at the corporate level.

Although the formal requirement for an asset management policy has gone, in my view it will be difficult for local authorities to deliver effectively on their new responsibilities without taking a strategic approach to asset management – without, in effect, developing an asset management policy for the council as part of its strategic planning activity. Without this, it will be very difficult to give individual asset management groups the framework and guidance they will require to ensure effective linkage and, in particular, that the assumptions on which they base their demand and compliance (ie what set of assets to meet required service standards) are robust and consistent with the way in which the council as a whole intends to respond to identified community outcomes.

## **EXAMINING APPROPRIATE PERFORMANCE MEASURES**

The statutory requirement is in clause 2(2)(a) of Schedule 10 of the LGA 2002. It is that the LTCCP include:

*"A statement of the intended levels of service provision for the group of activities, including the performance targets and other measures by which actual levels of service provision may meaningfully be assessed."*

Although an overview of comments from various sources, such as the Audit Office, suggest that asset management practice within local government is still somewhat variable, it seems a fair assumption that most, if not all, local authorities will have a good grasp of technically based performance measures, especially for core infrastructure – drawing on sources such as NAMS, standards set by the Ministry of Health for water, conditions of resource consents

for sewerage, stormwater and solid waste disposal, and in roading measures such as roughness, texture, skid resistance, rutting and dust generation.

Equally, I expect that most councils will be familiar with and have developed financial performance measures, which really is the essence of what an LTFS and annual plan have been about.

In this section I want to look, instead, at the implications of the LGA 2002 with its outcomes focus, recognising that a number of local authorities (Auckland City is a good example) have been taking an outcomes approach to asset management planning for some years.

It is useful to start with the Auditor General's criteria for the acceptability of an asset management plan. These start with a requirement that the plan define the service levels. To quote:

*"A management plan should define the level of service or performance required of the asset, even if these are existing service levels."*

*"Service levels are defined as 'defined service quality for an activity against which service performance may be measured'." Service levels can relate to:*

- *Quality.*
- *Quantity.*
- *Reliability.*
- *Responsiveness.*
- *Environmental Impact.*
- *Cost."*

Service level standards themselves arise from different sources. They include:

- ▶ Regulatory requirements – standards imposed by regulation or by terms of resource consents.
- ▶ Accumulated professional experience/opinion – such as many of the performance standards in roading.
- ▶ Community preferences – statements of the outcomes that service users expect.

It is the last of these on which I wish to concentrate – defining service level standards that support identified community outcomes and selecting performance measures that fairly reflect achievement of those standards.

What we are speaking of here is a mix of outputs and outcomes. Outputs are the good or service itself; outcomes are the state of affairs that results from consuming that good or service. Typically, even if it is not expressed in that way, the community outcomes people seek will be about goods or services that will produce a desired state of affairs. An affordable supply of clean water is about outcomes such as standard of living, health and quality of life (eg is the water drinkable and of acceptable taste?).

The New Zealand experience with outcomes as an objective for public sector activity has been, at best, patchy. A principal reason for this is the emphasis, since the public sector reforms of the 1980s, on outputs as the basis for public sector managerial accountability — within both central and local government. The following extract from a 1991 Treasury Working Paper (Working Paper 01/05, *Outcomes Focused Management in New Zealand*) describes the situation well:

*“This apparent focus on outputs at the departmental level has to be understood in the context of the sharp distinction made between the responsibilities of chief executives and Ministers. The distinction is closely linked with the way accountability is thought of in the New Zealand system. In an accountability relationship, performance may attract rewards and sanctions. The external parties to whom chief executives report have a power to act on that performance information. Hence it is critical that managers have control over the performance dimensions for which they are held accountable.*

*In general, it is more difficult to hold managers to account for outcomes than outputs for a number of reasons, including problems of:*

- *determining causality accurately;*
- *significant time-lags;*
- *lack of information and information asymmetries.”*

As that paper goes on to note, *“Because chief executives are explicitly accountable for outputs, considerably more effort has gone into describing and measuring outputs than outcomes”*.

At the same time, other jurisdictions were taking a different approach, largely because they had not adopted the purist separation inherent in the New Zealand situation between managerial responsibility for outputs and ministerial (or councillor) accountability for outcomes. As an example, the Canadian approach in the 1990s was the very pragmatic one that, although ministers were primarily responsible for outcomes – because outcomes were the things that politicians were committed to Parliament to deliver from the monies appropriated for their departments – nonetheless managers also played a significant role that could not be ignored. Accordingly, the Canadian position became basically one that:

- Ministers were primarily responsible for outcomes as it was they that went to Parliament to seek an appropriation and they who were accountable to Parliament for the results of using the appropriation.
- In the real world, ministerial decisions on which outcomes to pursue and what outputs should be used in pursuing them would normally be very heavily reliant on the advice of officials. Accordingly, officials should be held accountable for the quality of their advice including the reasoning that led them to recommend outcome A rather than outcome B and the use of output C rather than output D.
- Officials also had a very significant impact on outcomes in the way in which they managed the delivery of services – consider, for example, the impact that different strategies for recruiting managing and empowering counter staff in central or local government departments can have.

- ▶ Finally, officials should be accountable to Parliament, not for government policy (which was the minister's domain), but for explaining why they gave the advice they did.

One legacy of the New Zealand approach to the role of outcomes, as the Treasury Working Paper notes, is that there has been relatively little work on how to specify outcomes. The *LG-KnowHow Guide to Decision-Making Under the Local Government Act 2002* can be seen as good evidence of where the sector has got to in considering the "outcomes" within the community outcome process. The section in the guide dealing with "What are community outcomes?" begins with the following description:

*"An outcome is a desired result or state of affairs. Another way of viewing community outcomes is as 'the things that the community thinks are important for its well-being'.*

*Outcomes should not be confused with outputs. An outcome is the end result that is desired from engaging in an activity, while an output is the good or service directly produced by that activity. For example, a local community might have developed the outcome of 'promoting a safe healthy community'. The local authority might undertake several activities that contribute to this outcome including security cameras in its town centre, regulation of dogs, food inspections, employing a lifeguard for a particular beach, or straightening a particular local road. The results of each of these activities are all outputs.*

*The local authority's role in the outcomes process is to:*

- *facilitate the process*
- *promote or achieve the outcomes (as one of the parties that is capable of doing so and to the extent that the elected council deems appropriate in the LTCCP)*
- *monitor progress towards the achievement of community outcomes."*

Two things emerge from that description. The first is that, despite the distinction made between outputs and outcomes, there is still a lack of clarity. The suggested outcome "Promoting a safe, healthy community" is in fact an output - the activity or service leading to "a safe, healthy community" - rather than the outcome itself.

Secondly, and more importantly, the outcome "a safe, healthy community" is so general in its terms as to be virtually meaningless – as can be seen by considering who might want to have as an outcome an unsafe or unhealthy community.

This comment is intended to note that there is much more work to be done on outcomes rather than be critical of the guide itself. It simply reflects, broadly, where thinking about outcomes has actually got to within the New Zealand public sector.

In practice, as the outcomes process develops, hopefully it will break down to a series of more specific and ascertainable outcomes. In a sense the outcome "a safe, healthy community" can be seen as a meta-outcome beneath which there will be a series of more specific identifiable outcomes that represent what the community (or subsets within it) mean when they refer to a safe, healthy community.

This will clearly matter for asset managers considering how to establish service level standards. If the outcome is simply “*a safe, healthy community*”, then you virtually have a *carte blanche*. The risk is that you will not target what the community, or different elements within it, actually want.

To be effective, the outcomes process will need to drill deeper. Consider, for example, the issue of safe streets as part of what might be meant by a safe community. If you are in the hospitality industry, for you a “*safe community*” outcome might best be measured by the number of assaults and other incidents of disorder in your city’s entertainment district after midnight. If you belong to Grey Power, you may be much more concerned about pedestrian safety during daytime. If you are the local authority asset manager responsible for streets, and with limited resources, you want information that allows you to set priorities amongst those and other possible outcomes – and you should certainly be preparing for this as, once the community outcomes process is underway, you are going to get demands at this lower level rather than being left within some kind of meta-outcome context to make your own decisions. In practical terms you may find yourself faced with a choice between security cameras plus more street lighting on the one hand and traffic calming measures on the other.

As a related issue, you will also need to be thinking carefully about how you group activities. The clear implication of clause 2 of Schedule 10 is that grouping should be driven, at least in part, by the outcomes to which a group of activities contribute. Clearly, the intention is that the outcomes from a group of activities should be common or closely related.

What will that mean in practice? A useful example to consider is the role of councils in providing for the community’s recreational and cultural interests. This is an area coming under increasing pressure as:

- ▶ Sections of ratepayers, especially those on low or fixed incomes, become increasingly resistant to what they see as discretionary expenditure for the benefit of others.
- ▶ Discretionary funding from sources such as the Lottery Grants Board and gaming profits either declines (Lottery Grants Board) or is significantly biased in favour of a limited range of activities (gaming profits).

The assets involved in delivering on recreational and cultural outcomes are a very disparate range – libraries, art galleries, sometimes zoos, events centres, playing fields, aquatic centres, stadiums, passive reserves – the list goes on. It is a mix of assets that appeal to quite widely different tastes. The rugby player may use the library, and the library enthusiast may play rugby – and both may be keen on the art gallery. Equally, however, the rugby player may regard the art gallery or library as an unnecessary indulgence and the art or book lover may think that the council is over-investing in recreational assets and neglecting the district’s cultural needs.

This does suggest a very strategic approach to the question of community outcomes. In the area of culture and recreation, it is virtually certain that the outcomes identified by “the community” will reflect the particular interests of different sporting and cultural groups, each competing for scarce resources. If they come in with a clear and logical outcome specification, it will be in terms of access to the particular resources/experiences to which they are committed.

Accordingly, the council's role will almost certainly be one of then mediating amongst different interests (remember, community outcomes are those identified by the community, **not** by the council) to agree a set of outcomes that are both workable – in the sense that you know what they mean and you can put in place milestones leading to their achievement – and acceptable.

From a grouping perspective, across cultural and recreational assets, this may mean outcomes defined in terms of providing for each (member?, section?) of the community an opportunity to pursue their preferred recreational and cultural interests. There will clearly be a need, if an outcome is expressed in those terms, for some survey-based support to identify different preferences.

An approach of that kind might be based on targeting an agreed absolute amount or percentage of rates for the group of activities “cultural and recreational” (or “community well-being”) with the outcomes process used as the means of determining priorities amongst different categories – and of providing a basis on which the council can get some support for the view that the critical issue in terms of ratepayer funding is that there is something for everybody rather than the present all too common approach of each group arguing that their interests should be served and others ignored. The outcome measure itself may then be a user (a ratepayer) satisfaction measure tied back to the council's performance in delivering a portfolio of opportunities.

In summary:

- ▶ The LGA 2002 clearly expects that the logical flow will be identified outcomes leading to service level standards and in turn to asset management plans.
- ▶ Groups of activities will be outcome related, providing an opportunity to encourage outcome definitions that enable, where appropriate, a portfolio approach.
- ▶ There is much work still to be done on understanding the outcomes process and in particular developing outcome definitions that are meaningful.

One final comment. There is a wealth of good material now available on defining and evaluating outcomes. The issue for local government – both at the strategic and the operational level – is how best to become familiar with and learn to apply that.

## **KEY LINKAGES – WHY IT IS CRUCIAL TO GET IT RIGHT**

The good news is that none of this should be seen as rocket science. Instead, establishing the key linkages, and getting it right, is really a matter of plain common sense coupled with an understanding of the importance of good coordination amongst the council's different planning mechanisms and operational arms.

First, as already noted, the logical path is a flow from identifying community outcomes to service level standards to decisions on the mix and configuration of assets required to delivery those service standards. Along this path, the following points should be noted:

- ▶ Although the LGA 2002 makes it clear that it is the community's outcomes that are to be identified, not the council's preferred outcomes for the community, it is clear that the Council will play a major role. Specifically, its responsibilities will include:

  - Finding means of reconciling or mediating between potentially conflicting expressions of desired outcomes – as different groups within the community express their preferences.
  - Doing what it can to ensure that community outcomes are expressed in meaningful ways so that the council's response can be focused on what it is that the community is really seeking.
- ▶ The LGA 2002 does not require that the council's LTCCP be driven by community outcomes in the sense that the council must make provision for them. Rather, as clause 1 of Schedule 10 makes clear, the LTCCP must "*to the extent determined appropriate by the local authority, do such things as describe how the local authority will contribute to furthering community outcomes and how community outcomes related to other strategic planning documents or processes*". Generally, though, a prudent council will ensure either that it is acting to achieve community outcomes or, if it is not, it has good reason – which could include cost, feasibility, or the fact that a particular outcome is someone else's responsibility.
- ▶ It will be reasonable, also, for the council to make judgements about the long term practicability of implementing the measures required to achieve community outcomes. This will be an issue, for example, in considering alternative means of wastewater disposal. There is good research-based evidence, from Australia and the United States, that alternative approaches that are highly dependent on management by individual households are very vulnerable as properties change hands and new owners have differing levels of enthusiasm for the management role.
- ▶ It will be increasingly important to ensure that there is good linkage between the different operational arms of a council to ensure that there is consistency between the objectives they are pursuing and the plans they have in place for doing so.

More generally, the process of asset management now needs to recognise, quite specifically, the "four well-beings" responsibility of local authorities and the sustainable development context for those – that the focus is on outcomes both now and into the future.

The principal feedback loop in the asset management process will be the information and assumptions underlying the forecast information provided in the LTCCP. This will need to be handled by the council at a strategic level as it is really about setting the context for the whole of the council's operations. It requires, for example, an understanding of how different activities each contribute to the four well-beings and may require quite fundamental reassessment of the purpose of some activities with quite significant implications for asset management.

As an example, we have recently been involved in a project for a local authority considering options for the management of its medium sized housing portfolio. In common with most local authorities that still own housing, the overriding objective for this activity is still strongly dominated by its origins in the government subsidised programmes that originally funded it – especially the provision of housing for low income elderly.



Increasingly, that local authority has found itself (as have many of its fellows) also looked to as a provider of low cost rental accommodation for other groups within the community – for example, people with a psychiatric history.

The asset management role has concentrated on the council as a firm but friendly landlord, responding to the perception that the council's primary role is one of the provision of physical accommodation. From our work, it became clear that community needs have shifted rather more significantly than the council itself has yet realised. The more significant demand in that community is for low income housing as part of a transitional process – as people reintegrate with the community. The issue with asset management, thus, is shifting from physical provision in the sense of responding to demand by providing more housing to one of housing that is suited to the transitional/reintegration role. Implications include:

- Service level standards/performance indicators should be more focused on successful transition, with its necessary implication of a high rate of turnover, rather than on a conventional rental portfolio target of long-term, stable tenancies.
- The provision of accommodation is increasingly an input into a social process rather than an end in itself. This has major implications for management including whether it remains appropriate for the management role to be within council itself or in some kind of special purpose body with a primary social work orientation.

To conclude, the focus not just for asset managers but for the council as a whole must now be on:

- How does asset management contribute to community outcomes – and what evidence do you have that it is doing so?
- The underlying assumptions and information driving your asset management decisions, and flowing through into the financial and other provisions in your LTCCP, must be evidence-based and reflect (subject to the cost of obtaining it) the best quality information and analysis you can obtain regarding future trends within your district.
- Treating asset management as an integral part of the council's own strategic planning and ensuring that it is well coordinated with planning and operational activities throughout the council.