

PRACTICAL IMPLICATIONS OF THE STRATEGIC LINKAGES BETWEEN THE LTCCP & AMP

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INTRODUCTION

My brief is to address the topic under the following themes:

- Examine how the implementation of changes to the Local Government Act affects community outcomes.
- How do the changes link to future demand forecasting?
- Explore common pitfalls.

I need to give what amounts to a product safety warning. The legislation is not clear in terms of what is required and who has what responsibility. Practice is still evolving. There is a good argument that rather than good or best practice emerging, we are falling short of what was intended by government when it put the Act in place and we are certainly falling short of the potential when we compare our performance against equivalent jurisdictions offshore.

This paper will draw quite heavily on work I have been undertaking, over the past few months, on the potential of the community outcomes process, looking both at New Zealand and at international experience. That work has recently been published by Local Government New Zealand as ***Realising the Potential of the Community Outcomes Process***. For those of you who want to go to the source, Local Government New Zealand will happily sell you a copy for \$30 plus GST.

In the rest of this paper I address the three themes and then consider the implications for asset management planning.

IMPLEMENTATION OF CHANGES TO LGA 2002

In this section I look first at the background to changes made by LGA 2002 around the theme of community outcomes. I then examine the principal changes themselves. Finally I consider implementation – what is happening; what could be happening.

BACKGROUND

LGA 2002 replaced a piece of legislation that was nearly 30 years old and which had been amended, on average, around 3 times a year.

The 1974 Act was a wonderful miscellany of provisions some of which were very highly prescriptive, others of which were about as broad and empowering as you could get.

In the former category, councils had power to provide financial support for people wishing to purchase their own home. For no apparent reason, the terms of support that could be provided were very significantly different depending on whether you were purchasing a fully detached or a semi-detached house.

In the broadly empowering strand, councils (territorials not regionals) were authorised to provide wide ranging financial support for the development of services and facilities to maintain and promote the general wellbeing of the public and to provide for the recreation, amusement, and instruction of the public and the provision or improvement or development or maintenance of amenities for the public.

What that provision amounted to was a very broad based power of general competence – arguably broader than what local government has under LGA 2002.

There were a number of strands in the argument that the Local Government Act 1974 needed to be rewritten. They included:

- A need to refocus the purpose of local government – from a specific service based approach, to one of community governance.
- A demand to improve accountability – the special consultative procedure introduced in the previous round of reforms had failed to deliver the expected benefits.
- A general concern to tidy up what had become very messy legislation.

The then minister made it very clear in her introductory speech that the purpose of the new Act was to empower communities **not local authorities** – a very clear statement of intention that LGA 2002 would provide much greater community participation in local government and local governance.

She was responding to numerous representations over the years that, notwithstanding the changes that had taken place in the reforms of the late 80s and early 90s, local government was still not sufficiently accountable. In particular, the special consultative procedure was increasingly seen as ineffective to achieve greater citizen participation.

Other influences included an awareness of what was happening with local government in England, with the introduction there of a power of wellbeing in 2000, and a growing emphasis on sustainability (the agenda 21 theme).

Finally, there was one other influence of particular interest for asset managers. The Auditor General had been a strong supporter of the new financial management requirements introduced by the Local Government Amendment Act (No.3) 1996 with its emphasis on long term planning intended to identify the expenditure and revenue requirements of councils over the medium to long term.

This was to be done through the Long-Term Financial Strategy (LTFS). That was required to set out matters such as future cashflows, and the reasons for being engaged in activities. There was an expectation that local authorities would make realistic assessments, especially in respect of infrastructure.

In practice the experience was different. A number of local authorities simply extrapolated the figures used in their annual plans. I have looked at more than one council's LTFS, for an area experiencing rapid growth, to see that projected expenditure on infrastructure was virtually flat.

From the Auditor General's perspective, this represented a failure of the objective of ensuring that local authorities were making realistic assessments of future financial requirements. That matter, also, has been addressed in LGA 2002.

THE PRINCIPAL CHANGES

First and foremost, the statutory role of local government has been redefined. The combination of sections 10 and 11 now mean that councils have a statutory purpose to:

- Enable democratic local decision making and action by, and on behalf of, communities; and
- To promote the social, economic, environmental, and cultural wellbeing of communities, in the present and for the future.

This is more than just some kind of PR dressing on a bunch of local services. It is a quite fundamental shift.

Whether, and how widely, this is understood within local government is still an open question. Certainly in our work we have come across a number of instances where councils, especially elected members, appear to believe that this is some kind of central government flight of fancy and that they can more or less carry on business as usual.

Prudent councils will think again. The equivalent situation in England is that local authorities have a power of wellbeing – in other words, not a statutory purpose with the associated sense of obligation to deliver on the purpose, but simply a power to do something. That power has already been the subject of litigation on the argument that, if a council has a power to do something for the wellbeing of its community, then, confronted with a situation in which it could do so, it also has an obligation.

I expect to see similar but stronger arguments (because of the wording of the legislation) emerge here. More of this below.

The second major change, in terms of outcomes, is the introduction of the Long-Term Council Community Plan (LTCCP) as the council's key planning document. It represents a marked shift from its predecessor, the long-term financial strategy. The LTFS was focused primarily on financial matters with virtually all of the statutory requirements describing its content being concerned with different aspects of revenue, expenditure, assets and liabilities. In contrast, schedule 10 of LGA 2002, describing the information to go in the LTCCP, places its first priority on what it is to cover in respect of community outcomes and only then goes on to talk about the activities in which the council will be engaged – and even here, the schedule speaks first about the rationale for delivery of the activities and the requirement to outline any significant negative effects on the four wellbeings before it gets into matters dealing with assets and finances. In other words, we have a strong shift away from the financials as the key focus, to the financials not quite as a residual but as consequential around the actual decisions the local authority is taking about what it will be doing and how.

Next I want to spend some time on what is very clearly a major confusion in the minds of many people both within and outside local government; the relationship between the LTCCP and community outcomes. The legislation makes it quite clear that these are two very separate things. Too much of current practice acts as though they are almost one and the same.

Three separate parts of the Act that are relevant here. They are:

- Section 91 which sets out the obligation on a local authority to adopt a process for identifying community outcomes.
- Section 92 which sets out the obligation to monitor and report progress in achieving community outcomes.
- Schedule 10 which describes how the council, in its LTCCP, should deal with community outcomes.

Let me discuss briefly the effect of each of these three.

SECTION 91

Section 91 requires a local authority, not less than once every six years, to carry out a process to **identify** community outcomes for the intermediate and long term future of its district or region. The word **identify** is crucial. This is not about the local authority deciding, after consultation, what the outcomes should be. It is the local authority undertaking a search process with the implicit assumption, in the legislation, that the outcomes are already out there in the minds of “the community”. In other words, the local authority is to adopt a search process not a consultation process.

Next, the section is quite non-prescriptive regarding the process itself. Section 91(3) simply says that a local authority may decide for itself the process it is to use to **facilitate the identification** of community outcomes (the use of the word facilitate is a further emphasis that the outcomes are “out there”, not something to be decided by council).

The only real constraint on adopting a process is that, before it does so, the local authority must take steps to identify, so far as practicable, “other organisations and groups” capable of influencing either the identification or the promotion of community outcomes and, if practicable, to secure their agreement to the process and its relation to any existing and related plans.

Note, first, that there is nothing in the legislation which requires the local authority itself to manage the process of identifying community outcomes. The Act simply states that it is required to decide for itself the process that it is to use to facilitate the identification. In a world well accustomed to outsourcing, and encouraging third party activity, that wording is entirely consistent with a decision that some or even all of the process should actually be managed by others.

My next point, and here I draw an analogy with practice in England and Wales, and in New South Wales, is to highlight the importance of identifying and securing the agreement of “other organisations and groups”.

International experience highlights processes akin to our community outcomes process as inherently strategic planning. It emphasises the importance of not simply securing the formal agreement of other stakeholders, but actively seeking their involvement. In my view the importance of this cannot be overestimated. This is the point in the process at which the council has the opportunity to gain commitment from the stakeholders who need to be on board to make this an effective process. It means ensuring they understand the inherently strategic nature of the process and why their active involvement is needed.¹

SECTION 92

The next change of significance is section 92 with its stated obligation on a local authority to monitor and not less than once every 3 years report on the progress made by the community of its district or region in achieving the community outcomes for the district or region.

As written, this applies to all the outcomes identified through the community outcomes process. This is a marked distinction from schedule 10 which gives a local authority discretion over the extent to which it describes community outcomes in the LTCCP and what it proposes to be done in respect of them. Again, this highlights the fact that the community outcomes process, including what emerges from it, is separate and distinct from the LTCCP. The community outcomes belong to the community. The LTCCP is the council’s response to what the community has stated. Amongst other things this strongly suggests that the outcomes should be published and reported quite separately from the LTCCP itself.

¹ For a more detailed discussion of this see pages 12 – 17 of *Realising the Potential of the Community Outcomes Process*.

SCHEDULE 10

Schedule 10 sets out the “information to be included in long term council community plans”. In respect of community outcomes it starts by stating that “a long term council community plan must, **to the extent deemed appropriate by the local authority**” (emphasis added).

- (a) Describe the community outcomes for the local authority’s district or region.
- (b) Describe how the community outcomes have been identified.
- (c) Describe how the local authority will contribute to furthering community outcomes.
- (d) Describe how the community outcomes relate to other key strategic planning documents or processes.
- (e) Outline how the local authority will, to further community outcomes, work with:
 - (i) Other local organisations and regional organisations; and
 - (ii) Maori, central government, and non-government organisations; and
 - (iii) The private sector.
- (f) State what measures will be used to assess progress towards the achievement of community outcomes.
- (g) State how the local authority will monitor and, not less than once in every 3 years, report on the community’s progress towards achieving community outcomes.

Note that the council has a discretion on the extent to which it deals with any or all of the community outcomes and how it does so. This highlights the fact that the LTCCP is the council’s response to the community outcomes. It is not the community outcomes themselves and nor should the LTCCP be the document that actually records the community outcomes except to the extent appropriate to respond to those. The clear inference is that the community outcomes themselves should be recorded in a separate document appropriate to underpin the obligation to monitor and report on all community outcomes. By implication, the drafting of schedule 10 also raises the likelihood that other organisations, themselves with an interest in the community outcomes, will be incorporating in their own planning documents or other strategic material their response to those outcomes that are relevant in their own area – this could range from District Health Boards to EDAs to central government departments and, no doubt, where appropriate to the strategic processes of private sector firms or organisations.

IMPLEMENTATION

The shift from the previous “roads, rats and rubbish” purpose of local government to a defined statutory purpose around the “four wellbeings” and democratic decision making is a major one. It raises the usual issues associated with change management in any organisation – to what extent is there understanding, buy-in, capability, and the resources needed to achieve effective change?

On a lot of these dimensions, local government was not and is not well placed.

WHAT IS HAPPENING

First and foremost, there is very little evidence that local government as a sector wanted the changes which were brought in by LGA 2002. It is certainly the case that the legislation was developed collaboratively through working parties made up of representatives from central government on the one hand and local government on the other. What is less clear is whether the persons who came from the local government sector were genuinely representative of the sector, in the sense of expressing sector-wide views, or whether they were people who happened to work within local government but were putting forward ideas that were largely their own, or those of the councils from which they came.

On balance, my view is that the shift in LGA 2002 to the four wellbeings and community outcomes did not have broad based support within local government but rather was the (perhaps quite worthwhile) result of the enthusiasm of a few. Certainly, I have more than once been told by irate councillors that this was something that was imposed on local government by central government and not something that local government sought.

This is not a good starting point for effective change management.

The next problem facing implementation is a relative lack of understanding of the nature of the changes. By and large – there are some notable exceptions – most councils appear to have approached the community outcomes process as though it were some kind of linear extension of standard council consultative processes. One problem with the legislation is that councils which do this may be able to demonstrate compliance. Typically, they will have gone through a process of asking quite a wide range of stakeholders, and the public at large, what outcomes they want. They may well have chosen a process which, whether they consciously intended or not, has effectively been council controlled but they can nonetheless show that yes they did go and ask the community. As for seeking the agreement of “other organisations and groups”, all councils have done that in one way or another. Many have simply sent out a circular, called a meeting or two of stakeholders, or adopted some other group process. The practical consequence of this type of approach to seeking agreement, is those familiar with organisational process will understand, is that almost inevitably people will agree.

After all, why expect major stakeholders in your community to understand the nuances of new local government legislation, and to be aware from observing best practice internationally, of the real potential?

The problem has been compounded by lack of effective guidance from central government itself. Although there is ample evidence that ministers regard the combination of the community outcomes process and the LTCCP as a very important tool for improving collaboration and coordination around the delivery of government’s own services, it has not been good at articulating this either to local government or to the wider community. The guidance provided through LGKnowhow was orientated more towards compliance than to creative use.

The consequence is that, within many councils, the community outcomes they have been developing are very much in the category of what one contributor to the work we have been doing on outcomes described as “applehood and mother pie”. Typically the outcomes have been meta-level statements of what are almost values rather than outcomes – a prosperous

community, a diverse community, a healthy community. As another contributor to our work commented, if you are getting broadly the same type of outcome statements for Gisborne as you are for central Auckland, how much use are they for policy purposes?

Much of this is the product of lack of direction. Councils have been left to decide for themselves what kind of processes they should use, and more importantly what the purpose of the whole exercise is. Even the fact that outcomes are normally part of a strategic planning approach is fairly well concealed. There is only one reference in the legislation to outcomes as part of a strategic process – the requirement in schedule 10 that the LTCCP must “to the extent determined appropriate by the local authority ... describe how the community outcomes relate to other key strategic planning documents or processes”.

In contrast, in England and Wales, there is a well established (many would say too well established) practice of central government giving local government guidelines on what it expects to see happening. In the case of the wellbeing power, local authorities are required to complete a community plan and to do so through a local strategic partnership. There are detailed guidelines from the Secretary of the State on how to form a local strategic partnership and the range of interests it must encompass. It is a clear recognition that addressing matters of community wellbeing is:

- Inherently a strategic planning process.
- One that needs to involve, at a deep rather than a lip service level, a broad range of stakeholders from central government, local government, business and the voluntary/community sector.

Capability is clearly another factor. The major shift in LGA 2002 needs to be matched by a major shift in capability within local government. Why? Because the Act was imposing quite a new set of requirements on local government – whether you take the view that the community outcomes process can largely be managed by external parties, or whether you believe that the council should have a more direct role in facilitating the process in identifying outcomes, you are creating a demand for a new set of strategic skills – and a set which covers not just the activities the council has conventionally been engaged in, but all of the activities that contribute to community outcomes. If the outcomes process is to be truly effective, somewhere in the mix you need people who are able to provide strategic leadership in identifying not just the outcomes the community might want in areas such as health, tertiary education, economic development, positive ageing, arts and culture and so on; they need also to have a good understanding of how to develop and implement the strategies for achieving those outcomes. Such skills are scarce on the ground in New Zealand so it is hardly a matter for surprise that local government still has some way to go in getting up to speed in this area.

That said, there are a number of encouraging signs around the process. Most councils have now recognised and taken on board the opportunity for closer engagement with central government agencies (and the same is true of central government agencies, especially the Ministry of Social Development which has been very prominent in seeking to work with local government on social development outcomes).

There are examples of councils that, having identified outcomes, are now recognising that the real matter they have to address is how to develop the needed strategies. Regions such as Taranaki are showing a significant degree of innovation, using an outcomes process that

relies on a series of working groups, one around each outcome set, and some at least headed by organisations from outside council.

WHAT COULD BE HAPPENING

That leads me on to what could be happening. There is a wealth of emerging experience internationally, and empirically based research in support of that, which highlights the role of the region/locality as the crucial node point at which people get together and develop and implement the strategies needed around major outcomes. The reason is simple. For most of the matters that now really concern us, such as health, education and economic development, we are looking at very complex systems and interactions. Crucial knowledge is held by a number of different stakeholders who themselves are typically locally or regionally based. Attempting to plan effectively for the outcomes in areas such as this from a central point such as Wellington is simply not possible – central governments have a role in setting frameworks and in providing resources, but increasingly in determining the nature and quality of outcomes, they along with others need to operate at a regional/local level, and they need to operate in a highly collaborative way.

Again, the reason is simply that of complexity. The key to being effective at a regional or local level is being able to tap into local knowledge and networks, and get the kind of support needed to “go the extra mile”, something that central governments are simply not equipped to do by staying at the centre. We know from experience that people will get passionate about their locality in a way that they will not do about a central government led programme.

We are, I believe, moving from a situation of a compliance based response to the new legislation to one in which, increasingly, we will see a recognition that the community outcomes process can in fact be community based strategic planning. This is certainly the lesson which one learns from observing overseas experience.² It also matters to identify areas of opportunity in which people will get excited about the potential of the community outcomes. If you really want to get people engaged, telling them that there is this wonderful new thing called the Local Government Act 2002, with a series of rather convoluted processes around community outcomes and LTCCPs, and its really better than taking a party drug is not a good marketing line. Telling someone who is getting really upset about the state of tertiary education in their district, or thinks that no one is looking after the interests of older people, that there is a great new tool for bringing about some local control over tertiary education, or creating a positive ageing strategy with a genuine focus on the need of local older people, may give you a better chance.

These are both examples that my firm is currently working on. In the tertiary education case, there is now a growing realisation that the belief the Tertiary Education Commission could, from Wellington, determine the appropriate mix of services to purchase in any particular region or district, based on what they were told by local providers, has simply not worked. As a result, there is the beginnings of a recognition that if you want to get a tertiary education system that is responsive and effective at a regional level, then you need to get closely engaged with people at a regional level – potential students, parents, employers, and so on. The outcomes process provides an ideal mechanism for developing a regional or district tertiary education strategy.

² For more background, see the extensive discussion in *Realising the Potential of the Community Outcomes Process*.

We are getting a similar response around the concept of positive ageing, especially given the need to bring together not just interest groups working for older people, but government agencies and private sector interests who themselves are starting to address the very profound implications of changing local and international demographics.

THE LINK TO FUTURE DEMAND FORECASTING

Now finally to what is the real essence of the changes from an asset manager's perspective. Section 94 requires that the LTCCP contain a report from the local authority's auditor on:

- The extent to which the local authority has complied with the requirements of the Act in respect of the LTCCP; and
- The quality of the information and assumptions underlying the forecast information provided in the plan; and
- 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.

This is a clear and obvious response to the concern which the Auditor General has had since the No.3 Act of 1996, that local authority forecasts have too often been less than robust.

Hopefully all of you will be familiar with the audit office's *LTCCP – Auditing the Future Project*. Newsletter 5, which was issued in December 2004, provides an overview of the approach that the Audit Office expects to take.

The newsletter is well worth reading – anyone involved in asset management planning should be familiar with it. As an example of the kind of information the Audit Office will be seeking, the newsletter includes a statement of matters which auditors will need to review:

1“Information Systems and Related Business Processes:

- The main business processes/classes of transactions/activities significant to the LTCCP;
- The related records supporting information in respect of initiating, recording, processing, and reporting information;
- The financial planning process used to prepare the LTCCP;
- Significant application systems (i.e. financial modelling systems), and performance management systems; and
- Controls in place to ensure data with integrity is entered, and processed accurately and completely.

2Preparation of Forecasts: the controls in place to ensure that:

- Business units' 10-year financial forecasts give effect to agreed service levels and combine to make up the Council's 10-year financial forecasts;
- There are clear links between business unit plans (for financial and non-financial data) and asset management plans, statutory policies and plans, business plans or work programmes, the Council's rationale for the activity, and community outcomes or wellbeing; and
- The impact of spending and funding proposals are appropriately evaluated both within Groups of Activities and Council-wide.

3Application of Assumptions:

- Applied in the development of the forecasts, to ensure that they are 'best estimate' assumptions that are reasonable, supportable, consistent with other

assumptions and with the strategic plans, and are applied consistently throughout the LTCCP.

4Community Outcomes and decision-making processes:

1To help us ensure that there are appropriate linkages for a performance framework from wellbeing/community outcomes to the Council's strategic plans and to work programmes, and that appropriate decision-making processes are in place. We will use a self-assessment to be completed by Councils to help us understand the practices of the Council and of the local government sector generally to identify areas of emerging good practice.

5Performance measures and monitoring procedures:

- That the Council has in place to meet (or measure progress in meeting) its service levels, and the linkage of these to its monitoring of the impact on outcomes and wellbeing.

6Monitoring controls:

- that the Council has in place over the preparation of the LTCCP."

In our discussions with the Office of the Auditor General, we understand that it will be taking a relatively flexible approach – working with councils to encourage and develop best practice, rather than looking to catch councils out. Despite that supportive approach, the new regime will be demanding. Note the emphasis on such things as clear linkages, the council's rationale, that assumptions are "best estimate" assumptions that are reasonable, supportable and consistent – if in part of the LTCCP you are projecting quite rapid population growth and elsewhere you are looking at a relatively flat approach to service provision, expect the auditor to query this.

Asset managers are going to have two primary sources of input which will affect future demand forecasting. One will be the "business as usual" of council services. This will cover areas of activity for which the community outcomes process does not suggest any change in service levels. Assume that water and wastewater comes into that category. What LGA 2002 will be requiring of you is that the assumptions you use for future capital and operating expenditure are based on "best estimates" of impacts on demand for services over the forecasting period (a minimum of ten years) from sources such as population growth, changing household composition, economic development, changing environmental requirements and so on. Much of that will be drawn from the assessment of water services and other sanitary services which councils are now required, by sections 124 – 129, to undertake.

A second influence affecting the asset management process will be any new or changed service levels that result from the council's response to community outcomes. Assume, for example, that the community adopts an outcome in respect of accommodation for older persons which suggests that existing service provision is unsatisfactory and that the council's response carries with it an implication of bringing services up to current standard. The obligation of consistency which the LTCCP must satisfy suggests that the asset management plan in its forecasts of future capital and operating expenditure should take that new standard into account and this in turn should feed through into the financial provisions in the LTCCP.

What we have emerging is a new context for asset management planning although one which it could be argued should have been in place all along. It is a context that recognises the role of the council as a service organisation working in support of its community rather

than dictating to it. It recognises that the primary driver must be the outcomes that the community seeks and the council's role in helping achieve those. It seeks to achieve a balance between the fact that, especially for "big ticket" items, councils are in a long term business, and the need to ensure that is properly planned for, against the fact that forecasting the future is never straightforward.

COMMON PITFALLS

In this section I intend to be relatively brief. My observation is that the bedding down of the community outcomes and LTCCP processes is still very much in its early days, making it difficult to argue that there are clearly obvious common pitfalls from an asset manager's perspective.

That said, there are matters that will need to be addressed. They include:

- **Data.** Most councils lack the local or regional data required to produce accurate information to underpin future demand forecasting.
- **Third party intentions.** It can often be difficult to anticipate the impact that significant third parties may have on demand for local government services. Councils cannot be expected to anticipate, easily, how the market might respond or what the intentions of major government departments will be. As one example, the Western Bay of Plenty recently adopted recommendations coming out of a major land use study, Smart Growth. That study included a projection of the expected order of development of new residential and commercial land. The market response – in terms of the areas which developers have identified as priorities – has been quite different and on a dramatic scale. This is perhaps not so much a pitfall as a recognition that councils operate in a dynamic environment. The implications for asset management planners is the need to keep plans constantly under review and to have good intelligence about what is actually happening within your district or region.
- **The potential tension between the political imperative, in most councils, to keep rates increases to a minimum, and the implications for future rating levels of asset management planning based on “best estimates”.** Especially in areas facing growth, I expect asset management planners to face real pressure from elected members to keep their assumptions under review in order to minimise rates increases. Here the role of the Auditor General should be of very real value in supporting the argument for using the best available assumptions.

ASSET MANAGEMENT PLANNING

What does all of this mean for asset management planning?

First, at the relatively hum drum level, there are now some quite tight rules and expectations around the relationship between the LTCCP and the AMP. The requirement that the assumptions used in the council's LTCCP are "best estimates" will not be possible to satisfy unless those estimates, where appropriate, are underpinned by robust asset management plans. This goes to the heart of this part of the change in the legislation, the concern that local government have in place robust long term plans that do identify the funding implications of changes in the level or nature of the service provision (as well as the impacts of ongoing maintenance of existing assets).

The more interesting issue, which is only now beginning to emerge, is the interaction between stated community outcomes, council policies, the four wellbeings, and asset management plans.

It is stating the obvious to say the key driver for asset management plans is the service level specification – what are you going to be doing, for whom, how often, and under what conditions?

Community outcomes will obviously have some kind of impact on this, especially as the community's understanding of what is meant by an outcome, and the strategies for achieving it, start coming through. I think of one council which has a transport related outcome expressed as easy to move around. The council has interpreted that, primarily, as support for continued development of its roading network. It appears that the community has a rather different view – a focus on safety, pleasant streetscapes, alternatives to the motor car and so on.

In that type of area what I expect to see happen is a gradual shift away from service levels simply being determined by elected members substantially on the advice of officers, to service levels being influenced by what comes through the community outcomes process.

Potentially more significant is the impact of the "four wellbeings". Recall that this part of the statutory purpose of local government is to promote the social, economic, environmental, and cultural wellbeing of communities, in the present and for the future. Accordingly, it is not just comprehensive in the sense of covering every aspect of community life, it is also firmly based on the principle of sustainability.

Let me cite two current examples. The first is council housing and the second is water supply.

HOUSING

Collectively, New Zealand local authorities own approximately 13,000 units of social housing, primarily housing designed for older people and built with the assistance of government subsidy. Most of this housing was put in place 30 or more years ago. Funding was tight and

the typical housing mix reflected this – a combination of bed sitting rooms and small one-bedroom apartments. It has to be assumed that, at the time, this standard of accommodation was seen as appropriate.

Today, perceptions have very much changed. We recognise that an older person or couple being allocated a local authority housing unit when they are in their mid 60s could possibly be tenants for 20 or more years. This puts a real focus on what is suitable very long-term accommodation.

We looked at that issue recently in work which we were doing for a local authority. A mix of Internet searching, and tapping into our housing networks locally and offshore produced a pretty clear consensus. No one now sees bed sitting room accommodation as a suitable long-term option, especially for older people. Housing New Zealand, which is currently redeveloping much of the portfolio it purchased from Auckland City Council two or three years ago, has arrived informally at a view that, for a single older person, the appropriate provision is a one bedroom flat of approximately 50 square metres (the typical bed sitting room is 27 square metres).

Imagine that you are the responsible asset manager for a portfolio which includes a number of bed sitting units. You are considering the advice you should give your council on service level requirements and associated with that long-term maintenance/upgrade.

You know that the council has a statutory duty to promote social, cultural, economic and environmental wellbeing. You know that there is virtually a consensus amongst social housing providers that bed sitting rooms are no longer acceptable as long term accommodation for older persons.

Do you advise your council that it should simply continue maintaining the properties to a reasonable equivalent of their normal physical standard? Do you draw their attention to the question of whether it is consistent with their wellbeing responsibility to offer that type of accommodation to older persons? Is there a risk that, if they do, they will sooner or later face a legal challenge?

WATER

Many, I hope all, of you will be familiar with the Parliamentary Commissioner for the Environment's June 2000 report ***Ageing Pipes and Murky Waters: Urban Water Issues for the 21st Century***.

That report was a considered evaluation of the relationship between human activity, water and the environment. Amongst other things, it made a cogent argument that water services should be priced to reflect their full environmental cost. In making this argument, the Commissioner was recognising that economics and the environment can be partners. In this instance he was simply applying the now conventional view that efficiency is best promoted if activities bear their full costs. He was very well aware, both from theoretical analysis, and from empirical research looking at overseas examples, that there is a direct relationship between the price of water services and demand. From his perspective, full cost pricing (including the full environmental cost) had the potential to create a virtuous circle. Full cost

pricing would send signals to users about the quantity they used and cause them to look again at uses of relatively low utility and of ways of minimising the impact on the environment of their water use (especially Grey and Blackwater).

One expected benefit, in both economic and environmental terms, would be a reduced demand for new capital works, either for capturing and delivering additional sources of water, or for disposal.

The implications for asset managers in water services are obvious. The international research which the Parliamentary Commissioner was using looked simply at situations where pricing was based on full economic cost – the capital and operational costs but excluding environmental costs - the value to be placed on the degradation of the environment resulting from water extraction or disposal.

Again, consider the implications of the statutory responsibility to promote the four wellbeings in the present and for the future. Does that point councils to adopting management and pricing systems that are consistent with promoting preferred environmental outcomes? Would this be reinforced if the community outcomes process establishes that the community places a high value on preserving the environment?

From a “whole of council” management perspective other interesting questions arise. If water services were priced on this basis, then councils might find that they had a very substantial source of revenue which could substitute for much of what they currently raise through the general rate.

Let’s put this in a particular context. Metro Water is a council controlled organisation (in formal legal structure a charitable company but a tax paying one because of specific provisions in the Income Tax Act) which is responsible for retail water services within the Auckland City Council area.

It charges for water and for wastewater services. It is required, by Auckland City Council, to keep its prices under a defined ceiling. In practice, it finds that the ceiling will allow it to generate increasing surpluses.

The Auckland City Council, as Metro Water’s owner, and the party responsible for setting its operating framework, will face a fascinating decision, and one which will impact significantly on its own asset management practices.

If it decides that Metro Water should continue to operate close to a break even (a break even including generating cash flow to reinvest in the system) then the price path will trend downwards. This is bound to encourage increased demand which in turn will require new investment with the economic and environmental costs associated with that.

If it decides, instead, to price to support environmental wellbeing, and to reflect the kind of outcomes the community is identifying for the environment, then Metro Water’s revenue will increase rapidly whilst demand should fall away reducing the need for future investment.

How do asset managers, with an obligation to forecast ahead at least ten years, address that kind of situation? Do they make forecasts based on a combination of continuing price

reductions and demand increases; do they assume that, at some point over the ten year period, the pricing framework will shift towards full economic and environmental cost pricing.

At this stage, it would require a crystal ball to answer that question. What it does do is demonstrate the kind of environment in which asset management plans should now be developed. The same kind of scenario could be run, for example, for other major services such as roading and, with variations, for sporting, creation and cultural activity.

CONCLUSION

In this paper I have attempted to demonstrate that the new community outcomes/LTCCP process is more than just another set of compliance rules. For asset managers, it certainly is this as well – the new role of the Auditor General will be very much focused on ensuring that your asset management plans are prepared on robust assumptions and are consistent with what else appears in the LTCCP.

More significantly, the Act sets a new strategic environment. Just what that will be in the longer term is still difficult to project. The one certain theme that can be stated with confidence is that you are in a changing environment; what may have been recognised as good practice in the past may be regarded as poor practice in the future. Most importantly, as asset managers, you have the opportunity to operate in a much more strategic way and, coupled with that, the need to understand the strategic environment in which local government now functions.