Regulatory Impact Statement

Better Local Government:
Improving infrastructure delivery and asset management

Agency Disclosure Statement

This Regulatory Impact Statement (RIS) has been prepared by the Department of Internal Affairs.

It provides an analysis of options to:

- encourage good asset management practice in local government;
- improve the quality of decision making regarding assets; and
- provide greater transparency for local and national stakeholders about asset management issues and practices for core local authority infrastructure.

Most components relate to issues and recommendations in the Local Government Infrastructure Efficiency Expert Advisory Group's Report of March 2013. This was commissioned as a component of Phase Two of the Better Local Government programme.

The proposals affect local authorities; they do not have a direct impact on individuals or businesses. The proposals do not involve significant change from current practice for most councils, and would incur relatively minimal compliance costs. Given this, a formal regulatory impact analysis might not have been necessary.

However, we consider that it is important to identify the impacts of central government regulation on local government. Undertaking this analysis is important for transparency, and to demonstrate the rigour of the process for preparing advice.

The analysis was constrained by our inability to quantify the magnitude of the problems arising in relation to local government infrastructure delivery, nor the costs to councils of meeting the proposed legislative requirements, with any precision. The sector is diverse and practice varies widely.

It is recognised that non-regulatory approaches are needed to complement the proposed legislative changes. Proposals for a non-legislative performance monitoring and improvement regime for local government are currently being developed as part of BLG.

Marilyn Little, Acting Chair, Regulatory Impact Analysis Panel, Department of Internal Affairs

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Executive summary

1. Councils are asset-intensive organisations, and it is critical that their infrastructure assets are planned and managed well. Failures can be expensive to local ratepayers and potentially to central government, through emergency management arrangements.

2. This Regulatory Impact Statement (RIS) considers options to improve infrastructure delivery and asset management planning by local government. The objectives are to:

   - encourage good asset management practice in local government;
   - improve the quality of decision making regarding assets; and
   - provide greater transparency for local and national stakeholders about asset management issues and practices for core local authority infrastructure.

3. This RIS assesses two options for achieving the objectives: a non-regulatory (voluntary) and a regulatory (mandatory) approach. The latter would entail requiring each local authority to:

   - undertake asset management planning for its physical assets;
   - prepare an infrastructure strategy and incorporate this into its long-term plan; and
   - disclose its risk management arrangements.

4. The Department of Internal Affairs has reached the conclusion that achieving the objectives requires a regulatory approach, and this would provide local and national benefits that outweigh the costs these requirements would generate for councils.

Introduction: Better Local Government context

The Better Local Government programme

5. In March 2012, Cabinet agreed to the Better Local Government (BLG) reform programme to improve efficiency in local government [CAB Min (12) 9/4 refers]. The programme was to be undertaken in two phases, both involving legislative amendments and some non-legislative elements. The first Local Government Reform Bill was developed and enacted in 2012; the second is proposed for introduction in October 2013.

6. The BLG programme is part of the Government's broader economic growth agenda, and relates particularly to its strategic priorities of:

   - building a more productive and competitive economy; and
   - delivering better public services within tight financial constraints.

7. BLG seeks to contribute to the Government's strategic priorities by improving the performance of the local government system, in order to:

- enhance its positive contribution and minimise its negative effects on economic growth; and
- enable better delivery of local public services.

8. These objectives recognise that a critical part of strengthening the economy lies in ensuring local government institutions and processes are sound. Local authorities' decisions have important consequences for the national and local economies, in relation to core infrastructure, regulations, and public services. Negative effects can arise from matters such as:

- poor long-term planning; and
- inefficient or ineffective decisions based on insufficient information.

9. Building infrastructure is one of the six components of the Business Growth Agenda, and local government has a large role in building and operating core infrastructure assets that New Zealanders rely upon.

10. This Regulatory Impact Statement (RIS) has been developed to take account of this broader context, and as part of the overall BLG programme. Other components of BLG considered the fair and effective funding of infrastructure and growth, prudent financial management and the development of a local government performance monitoring and improvement framework.

Focus of this RIS

11. This RIS accompanies the fourth of four Cabinet papers that seek policy decisions on the content of a Local Government Reform Bill that is proposed for introduction later in 2013. It covers the proposed components of the Bill relating to infrastructure provision and asset management planning by councils.

Relevant decisions already taken and links with the content of this RIS

12. In 2012, the Local Government Act 2002 (LGA02) was amended to provide for a new purpose statement (emphasising the provision of local infrastructure and local public services), a more flexible assistance and intervention framework, the ability to develop financial prudence regulations, and new procedures for the community-initiated reorganisation of local government.

13. These reforms, which formed most of Phase One of BLG, were designed to improve the efficiency and effectiveness of local government and encourage more prudent financial management in the tight financial climate. The reforms were in response to concerns that the local government sector was not adapting to the global financial crisis and was out of step with central government drives for more efficient public service delivery.

14. The BLG programme included the establishment of a Local Government Infrastructure Efficiency Expert Advisory Group (the EAG) and a Local Government

Efficiency Taskforce (the Taskforce).[1] The reports of both these groups have informed the development of regulatory and non-regulatory proposals during the current Phase Two of BLG.

15. Three earlier Cabinet papers covered the majority of the BLG Phase Two policy initiatives to be included in the upcoming Bill:

- making the local boards model available outside Auckland [EGI Min (13) 14/6 refers];
- opportunities to improve efficiency [EGI Min (13) 16/9 refers]; and
- improving the development contributions regime [CAB Min (13) 27/10 refers].

16. Via the second paper, on local government efficiency, Cabinet has agreed to a number of reforms, including providing for more flexibility about how councils undertake consultation. These build on legislative changes since 2010 that have reduced the total compliance burden and made an important contribution to the Government's priority of better public services through efficiency gains. A list of relevant changes is attached at Appendix One.

17. Not all councils have taken advantage of these previous reforms, so there is the potential for further compliance cost reductions. For example, many councils choose to include detailed capital works programmes, and schedules of fees and charges, in their long-term plans – which are not required. Further guidance will be developed to encourage more streamlined documents.

Exclusion

18. The Cabinet paper includes a proposal for a minor legislative change to clarify the purpose of assessments of water and other sanitary services, which section 125 of the LGA02 requires councils to undertake. This proposal is not covered in this RIS because the Regulatory Impact Analysis requirements do not apply to technical revisions that improve legislative clarity, including clarification of the existing legislative intent.

Regulatory impact analysis

1	Status quo, including existing legislation

19. Councils are asset-intensive organisations. At 30 June 2012, local authorities owned fixed assets valued at $96.0 billion, not far short of the Crown's fixed assets of $108.5 billion at the same date.[2] The bulk of these are in five categories of "core infrastructure": the three waters (potable water supply, sewage treatment and disposal, and stormwater drainage), roading and flood protection.

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[1] The terms of reference for the Infrastructure Efficiency Expert Advisory Group and Efficiency Taskforce can be found at: http://www.dia.govt.nz/Better-Local-Government.

[2] Statistics New Zealand: *Local authority financial statistics year ended June 2012*; The Treasury: *Financial Statements of the Government of New Zealand 2012*.

20. The dominance of capital expenditure in councils' finances is illustrated by a comparison of its share of expenditure. In 2012, for every $1 the Crown spent on purchasing assets, it spent $13.50 on operations; for local authorities, the proportion is $1 of capital expenditure to $2 of operating expenditure.[3]

21. It is critical that these assets are planned and managed well. Failures are expensive. The Government has recognised good infrastructure as a necessary element of the Business Growth Agenda. It also has a clear priority of delivering better public services within tight financial constraints.

22. Many of councils' physical assets have a very long life. For example, water pipes have an expected life of 60 to100 years and bridges typically last over 100 years. There is therefore a long planning horizon for initial provision and renewal, both of which can present cost peaks that are best planned for well in advance.

23. Long-term plans are required to cover a period of "not less than 10 consecutive financial years" [LGA02 s93(7)(a)]. This implies that longer planning timescales should be used where appropriate, such as for infrastructure. This message is not explicit, however, and standard sector practice is to cover only the minimum 10 years.

24. Asset management planning has been recognised as good practice in local government for many years. For example, as long ago as 2002, the Auditor-General commented that "for more than a decade," he had been promoting asset management plans for local government.[4] An industry group, National Asset Management Support (NAMS), was established to provide authoritative good practice guidance, and in conjunction with international partners, this has been produced and is readily available to local authorities.[5]

25. However, in 2010, the Auditor-General commented that "a significant number of local authorities' asset management plans were not complete, did not reflect other available information or management practice, and did not support the information included in long-term plans."[6] This suggests that there is considerable room for improvement in local authority asset management practice. The continued or greater importance of asset management planning in a context of economic constraint was emphasised in the Auditor-General's report on the 2012-22 long term plans.

26. Asset management planning is not mandatory for local authorities. Its only (indirect) statutory foundation (in the LGA02) lies in the requirement for the auditor of a long-term plan to express an opinion on the "quality of information and assumptions"

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[3] Department of Internal Affairs' analysis of the 2012-22 long-term plans and The Treasury: *Financial Statements of the Government of New Zealand 2012*.

[4] Office of the Auditor-General*: Local government: Results of the 2002-03 audits,* June 2004.

[5] New Zealand National Asset Management Steering Group and Institute of Public Works Engineering Australia: *International Infrastructure Management Manual (IIMM)*, fourth edition, 2011 (previous editions were published in 2000, 2002 and 2006).

[6] Office of the Auditor-General: *Matters arising from the 2009-19 long-term council community plans,* August 2010.

underlying the plan. Good asset management plans provide auditors with a suitable basis for forming that opinion in relation to long-term plans. However, even in the situation where an auditor encounters a situation where a particular council's asset management plans are out of date or incomplete, the auditor may still be able to issue a satisfactory opinion, based on the totality of the information the council holds about its assets.

27. NAMS' International Infrastructure Management Manual defines the goal of asset management as "to meet a required level of service, in the most cost effective manner, through the management of assets for present and future customers."[7] Critically, this means that debates about levels of service, while informed by asset management plans, will not be resolved within those plans.

28. Planning for future community infrastructure needs, whether for growth or for population decline, requires a coherent perspective across assets. It cannot be achieved within distinct individual asset management plans. Councils must consider questions such as levels of investment, timing of investment and how to balance service level expectations with affordability. This strategic planning is not currently mandatory.

29. There are linkages between the three significant planning systems that councils must follow: local government, resource management and land transport management. These are particularly strong in relation to the 10 year planning horizon, and an integrated approach to financial planning is effectively required in order for a council to tie together its different activity strands.

30. Finally, local authorities manage financial risk to their large stock of physical assets in several ways. They can carry some or all of the risk themselves (self insurance), they can share risk between councils and they can shift risk by purchasing insurance. Central government also carries a proportion of the risk of damage to local authority assets through emergency management arrangements (partial reimbursement of costs, as was applied recently to recovery from the Canterbury earthquakes, for example).

2 Problems

31. A number of problems are evident in the status quo:

- risks associated with the absence of legislated requirements;
- planning time horizons that are not long enough for the expected life of councils' physical assets;
- a lack of transparency for ratepayers;
- potential for poor-quality decisions, with failures generating significant costs to ratepayers; and
- a lack of transparency for central government and national stakeholders.

[7] NAMS: IIMM, page 1 | 2.

32. These problems are significant in the sense that they span the whole local government system, which consists of 78 councils. Infrastructure planning or management failures can be very costly for ratepayers, as in the example of the Mangawhai wastewater treatment scheme.

33. We do not have specific information as to the current practices of each individual council. We expect that they sit on a continuum from poor to excellent. We are aware that many councils do undertake long-term asset planning, information disclosure and relevant consultation with their communities.

34. Because of this scale and diversity, we are unable to quantify the magnitude of the problems with any precision. The following sections describe the issues.

Risks associated with no legislated requirements

35. While there is near-universal acknowledgement of the merits of formal asset management and strategic planning for infrastructure, it is not currently required by law. The only statutory basis for good practice currently rests on the Auditor-General's mandate to audit long-term plans. This continues to be contentious with many councils, because of perceived issues of cost and benefit.

36. If the current audit mandate were weakened, it could reduce the incentives for quality asset management practices. This could result in a reduction in the quality of local government asset management practice as councils reprioritise their resources to other activities.

37. Most councils have asset management plans for some of their assets. However, in the absence of clear legislated requirements, practice is variable, in terms of both the process by which the plans are prepared and the timeframe of the planning horizon. Plans for individual assets are not necessarily integrated into a coherent long-term strategy.

Planning time horizons that are not long enough

38. Most local authority assets have lives measured in decades. Current statutory (long-term) planning mechanisms provide financial forecasts for a minimum of 10 years. This may be an insufficient planning period to identify the financial implications of good asset management. For example, it has been hypothesised that some communities might need to permanently increase their expenditure on renewal of water reticulation systems, as those built to meet post-war urban expansion reach the end of their useful lives.[8]

39. Formal asset management planning covering a longer time horizon than current long-term plans would contribute to ensuring that this situation is properly considered and planned for. This would help prevent sudden, unexpected costs to ratepayers to fix unforeseen asset failures.

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[8] For example, this is commented on in *Infrastructure 2012*, the National Infrastructure Unit's National State of Infrastructure Report (page 33).

Lack of transparency for ratepayers

40. Asset management planning generates information that needs to be considered by councils and their ratepayers in assessing the long-term consequences of decisions about service levels, risk management approaches and associated trade-offs. Currently, there is variable practice in publishing asset management information in a form accessible to ratepayers, so well-informed consultation will not be occurring consistently across the country.

41. Similarly, local authorities have considerable discretion about how to present the information in their long-term plan financial strategies. This means that strategic infrastructure issues may not be given prominence in financial strategies or may be mixed with other service delivery issues.

Poor-quality decisions

42. As alluded to above, the decisions councils are making about their expenditure and priorities might not be informed by adequate technical information about the state of their assets, nor full and informed consultation with communities about the issues arising. This is inconsistent with the Government priority of delivering better public services within tight financial constraints.

43. In these circumstances, poor-quality decisions are more likely to result. Those can be costly for ratepayers, generating not just the direct costs of fixing problems, but also secondary costs such as litigation. Serious failures can require central government assistance or intervention, at additional cost.

Lack of transparency for central government and national stakeholders

44. Finally, the management quality of several local authority services also has national implications. Roads form part of a national transport network. Flood protection works protect the national interest in agricultural production. Water and sewerage services have significant national public health and environmental interests. Stormwater drainage protects national investments in cities and towns. Central government, through civil defence and emergency management funding arrangements, is committed to financially assisting communities with restoring these services after natural disasters.

45. However, currently, central government is unable to obtain a clear picture of the level of local authority investment in these services, the investment needed to maintain the services over longer time periods than 10 years, information about the age and condition of the infrastructure, or how much financial assistance central government might be called upon to provide following a natural disaster.

46. This information would be valuable to both central government and to national bodies with an interest in the performance of these assets. The two recent National Infrastructure Plans have recognised the information gaps and pointed to the need for improved management of urban water assets, in particular. This is linked to the Government's priority of delivering better public services within tight financial constraints.

3 Objectives

47. The objectives are to:

- encourage good asset management practice in local government;
- improve the quality of decision making regarding assets; and
- provide greater transparency for local and national stakeholders about asset management issues and practices for core local authority infrastructure

across the whole of the local government system.

4 Options and impact analysis

48. There are two options for achieving these objectives:

- encourage good practices and transparency through non-regulatory approaches; or
- regulate for good practices and transparency.

Non-regulatory approaches

49. A non-regulatory approach, involving guidance material and training, would go some way toward achieving the objectives. They would entail limited costs, given that costs would only be incurred by those individual councils that chose to participate in any performance improvement activities.

50. The benefits achieved by a voluntary approach would also be limited, given that they would be produced only within those councils that opted in. This approach would not contribute to the national objectives outlined above.

51. An outline of the costs to councils arising from implementing desired good practices is provided once, in the following section, rather than duplicated here. Developing an infrastructure strategy and consulting on it, for example, would cost the same whether that activity were voluntary or mandatory.

Regulation

52. A regulatory approach would entail requiring each local authority to:

- undertake asset management planning for its physical assets;
- prepare an infrastructure strategy and incorporate this into its long-term plan; and
- disclose its risk management arrangements.

53. With a regulatory approach, some costs would be incurred by all councils, rather than just those councils that chose to implement good practices.

54. We would also expect to find positive results across the country, derived from good practices, rather than only in discrete pockets. These benefits would include

positive impacts on ratepayers and businesses, such as an ability to participate in council decision making on a fully informed basis and avoid unexpected rates rises. Better public services and national-level goals such as a national balance sheet of local government infrastructure assets would be achievable.

Asset management planning

55. A requirement for councils to undertake asset management planning could be inserted into the LGA02. This could take the form of an additional principle in section 14, stating that local authorities should undertake asset management planning as part of the prudent stewardship of resources.

56. This requirement would generate costs for councils not already following best practice. These would arise from: assessing the current state of their physical assets (e.g. through inspections, which are sometimes externally contracted) and then planning for renewal and replacement. Costs will vary widely according to the individual circumstances of each council, in terms of the scale of its asset portfolio and the current state of its information base and planning for those assets.

57. For the majority that already complete this activity, there should be no new costs. Those councils that currently have inadequate practices or incomplete plans would be have to prioritise resources to address these issues.

58. A key determinant of compliance costs would be how prescriptive the legislation is about the required process for, and content of, asset management plans. Prescribing too much content could result in overly costly plan preparation when the council concerned is small, the asset base is uncomplicated and the issues associated with the asset are minor. Prescribing too little content may provide statutory endorsement of a quality of asset management plan that is, in many cases, inadequate.

59. The proposal is that neither the process nor content of asset management plans will be prescribed. This would leave it to each council to tailor the approach it takes to asset management planning. Best practice guidance and training would also be undertaken by peak sector organisations.

60. Gathering fundamental factual information about the current state of assets and using it to inform planning should contribute to better decision making, which is a crucial aspect of better public services.

61. The objective of transparency applies less to asset management plans – they would contain detailed, technical information that is of little interest to the general public. Accordingly, publication should not be required, and thus no publication costs would arise. Plans could be made available upon request under standard local government official information provisions.

62. Some specific base information derived from asset management planning would be prescribed indirectly, through a requirement that it be included in an infrastructure strategy, as described below.

Infrastructure strategies

63. A requirement for councils to develop and publish an infrastructure strategy could be inserted into the LGA02. This would be a strategic plan for future community

infrastructure needs, whether for growth or for population decline. It requires a coherent perspective across assets – it cannot be achieved within distinct individual asset management plans. It would provide a useful mechanism for strategic asset management issues to be made explicit to the public and consulted upon. This strategy would then drive operational asset management decisions.

64. The requirement would indicate that the purpose of the infrastructure strategy would be to set out the significant infrastructure issues, options and implications for the council and its district. This could include:

- planning for maintenance, growth, and possible increases or decreases in levels of service;
- maintaining or improving environmental and public health outcomes, or mitigating adverse effects on them; and
- managing the financial and non-financial risks to, and resilience of, infrastructure assets from natural disasters.

65. The critical issues will differ in each community, but at a minimum, an infrastructure strategy should be required to cover those of the five core infrastructure services (water supplies, sewerage and the treatment and disposal of sewage, stormwater drainage, flood protection and control works, and roads and footpaths) that the particular council provides. (In general, district councils provide all of these but flood protection, which is often provided by regional councils.) These are the five categories that represent the majority of councils' infrastructure spending.

66. The five core assets are already subject to a number of reporting requirements that present a picture of their present state, including current and upcoming financial disclosure and standardised non-financial performance measures. An infrastructure strategy would represent a shift in focus from the present to the desired future state.

67. An infrastructure strategy would include the following base information derived from asset management planning:

- projected capital and operating expenditure requirements for each year;
- the assumptions about service levels and asset lives on which the projections are based; and
- where assumptions involve significant uncertainty, the nature of that uncertainty and its potential impacts.

68. This information would cover a minimum 30 year period and include projected capital and operating expenditure forecasts, and associated assumptions. A 30 year planning horizon is common within New Zealand; it is consistent with the requirement for Auckland Council's spatial plan, for example.

69. These infrastructure strategy requirements would generate costs for councils, including: obtaining information about change factors that might impact on their communities (e.g. demographic projections, future development schemes); developing scenarios; assessing financial implications; proposing a strategic

direction; and publishing and consulting on the strategy (as part of a long-term plan cycle).

70. The costs of these activities will vary widely according to the individual circumstances of each council, in terms of the scale of its asset portfolio, the current state of its information base and strategic planning, the complexity of the issues facing the council, and the scale of public debate and controversy associated with those issues.

71. For those councils that already have good strategic planning processes in place, there would be little new cost. Those councils that currently have inadequate practices would have to prioritise resources to address these issues.

72. Using the long-term plan as the vehicle for publishing and consulting on an infrastructure strategy would help to contain costs, as it would be just one additional component within that document and the associated processes. Key issues and choices identified in the infrastructure strategy should be extracted and explained in the new long-term plan consultation document recently agreed by Cabinet.[9]

73. Given the strategic nature of these documents, rather than operational, there should be no requirement for councils to report against them annually, so no reporting costs would arise.

74. Local Government New Zealand (LGNZ) indicated that the sector would not be likely to object to the new requirement for an infrastructure strategy, in light of the bigger picture of reduced process requirements, as outlined in Appendix One.

75. This approach would contribute to better decision making and increased transparency to both local and national stakeholders. Comparisons among councils could be made, and good practice would emerge. The information would be used by the Department of Internal Affairs in the performance monitoring and improvement system that is under development.

Disclosure of risk management arrangements

76. A requirement could be inserted into the LGA02 for councils to disclose their risk management arrangements in their annual reports. The requisite information would include the value of: the insurance cover they hold, any financial risk sharing arrangements in which they participate, and any self-insurance of assets.

77. The costs that would be generated by this disclosure are less variable than the above proposals, so easier to outline. They would be very low for all councils, arising from staff time in pulling together the information then publishing it. The process would require little staff time and less than one page in the report, annually. It would be just one additional component within regular annual reporting cycle.

78. This approach would contribute directly to the objective of transparency and indirectly to the objective of improving decision making, as feedback from ratepayers and other commentators on the information informs future decisions.

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9 Proposals for a new consultation document were agreed by EGI on 10 July 2013 [EGI Min (13) 16/9 refers].

Summary of key regulatory requirements applying to local government infrastructure planning and disclosure

79. The following table summarises the key legislative requirements that would apply to local government infrastructure planning and disclosure if the proposed regulatory package were adopted.

2010 requirements	2014 proposals
• Disaggregated capital expenditure budgets for each of the five core infrastructure asset categories in long-term plans • Standardised 10 year financial disclosure, showing funding flows, in annual reports • Disclosure of levels of service (non-financial performance measures, applying from 2015 long-term plans)	• 30 year infrastructure strategy giving a high-level, cross-asset perspective, in long-term plans • Standardised 10 year financial disclosure showing asset values (stocks), in annual reports, allowing construction of a national balance sheet

An alternative approach to mandatory long-term planning

80. Recognising that the above requirements would generate some new costs for councils, we sought means to reduce other costs commensurately. The following alternative to the proposed regulatory approach was considered, but discounted.

81. The alternative would be to require councils to plan their activities and associated finances in detail for the upcoming three financial years, plus provide a financial strategy and projections for a minimum of ten years. (In addition to the proposed infrastructure strategy.)

82. Currently, councils' 10 year long-term plans must cover their activities "in detail" for the first three financial years in the planning cycle, and "in outline" for the following years [LGA02 Schedule 10, Part 1, clause 2(1)(d)]. We considered whether the latter requirement (for financial years four and onward) could be removed on the basis that the asset management planning and infrastructure strategy requirements outlined above would provide new assurance that these activities were well controlled by councils. Spending on the five core infrastructure categories is the largest share of councils' capital expenditure.[10]

83. A 10 year financial planning horizon is essential, in our view – critical planning should not be reduced to just a three-year horizon. Resource management and land transport management planning requirements have a 10 year planning horizon, effectively requiring supporting financial planning to tie these strands together. It is necessary to ensure transparency of financial implications of significant activities in the medium term, beyond the three-year horizon. Capital-intensive central government departments must produce 10 year capital intentions

[10] Spending on the five core infrastructure categories (potable water supply, sewage treatment and disposal, stormwater drainage, roading and flood protection) represented 63 per cent of forecast capital expenditure in the 2012-22 long-term plans.

plans [Cabinet Office Circular CO (10) 2 refers]. Given how capital-intensive local authorities are, a parallel requirement is appropriate.

84. The following table compares the key features of the primary regulatory option and the potential alternative arrangement option. They are contrasted in more detail in Appendix Two.

	Proposal	Alternative option
Description	• Audited 10 year long-term plan (current requirement) • Would include streamlining changes recently approved by Cabinet • 30 year infrastructure strategy	• Audited 3 year plan • 10 year financial strategy and projection • 30 year infrastructure strategy
Cost implications	• Reduces borrowing costs • Infrastructure strategy slightly increases compliance costs	• Increases borrowing costs • Transitional compliance costs • Infrastructure strategy slightly increases compliance costs
Financial governance	• Encourages good financial governance	• Weakens financial governance
Linkages	• Improves integration	• Reduces integration
Transparency	• Increases transparency	• Reduces transparency

85. This potential alternative set of long-term planning requirements would not significantly reduce compliance costs – except for small councils not facing growth pressures. Many councils would derive their 10 year projections by creating 10 year detailed budgets, just as they do now. In practice, a requirement for a three-year plan with a 10 year projection is little changed from current requirements.

86. Any small reduction in compliance costs could be more than offset by transition costs and has a risk of increased borrowing costs. Local authorities and the Crown recently established the Local Government Funding Agency (LGFA), which has significantly lowered the cost of borrowing for councils. The LGFA has achieved this by attaining a credit rating that equals that of the Government. A critical factor in attaining this credit rating has been the presence of detailed, audited 10 year financial forecasts. Any weakening of this legislated planning mechanism could flow through to a lower credit rating and higher borrowing costs.

87. Without outlines of activities planned in years four to 10, communities would not have transparency as to the particular capital projects that require expenditure over the medium term, whether that might be a Dunedin stadium or a Wanganui wastewater treatment plant. The specific drivers of debt also would not be clear at the aggregate level of the financial projections. This would also represent a large change from the status quo, which might not meet community expectations.

5 Consultation

88. The first two of the three proposals above were informed by the reports and recommendations of the EAG and Efficiency Taskforce. Both advisory groups consulted with local government and other stakeholders. This included undertaking surveys of local authority chief executives and (in the case of the EAG) infrastructure industry organisations that have dealings with local government. LGNZ and the Society of Local Government Managers (SOLGM) gave input to the advisory groups, and the Office of the Auditor-General also provided input.

89. LGNZ and SOLGM were consulted on their views on the recommendations in the EAG Report. In summary, both considered that in order to improve councils' delivery of infrastructure, the emphasis should be on improving practice rather than legislative change. They were generally supportive of the thrust of the EAG's recommendations.

90. Targeted consultation with the sector was undertaken on the alternative option for long-term planning requirements discussed in paragraphs 80 to 87. That consultation revealed that the sector is unlikely to support this alternative. LGNZ and SOLGM are particularly concerned by the risk of increased borrowing costs.

91. The following government departments and agencies were provided with a copy of this RIS during consultation on the draft Cabinet paper that it accompanies: Ministry of Business, Innovation and Employment, Ministry for the Environment, Ministry of Health, Ministry of Justice, Ministry for Primary Industries, Ministry of Transport, Te Puni Kōkiri, The Treasury, Canterbury Earthquake Recovery Authority, Land Information New Zealand, and New Zealand Transport Agency. The Department of the Prime Minister and Cabinet was informed.

6 Conclusions and recommendations

92. At the end of its deliberations, the EAG recommended that councils should implement and support professional asset management practices.[11] The Efficiency Taskforce similarly recommended that asset management plans be made mandatory for local authorities. It commented that these have already effectively become a practical requirement, given the amount of asset information required in long-term plans. The Taskforce noted that many councils already include them on their websites and recommended that this be mandated.[12]

93. The EAG also recommended that local authorities be required to prepare an infrastructure strategy as a tool for achieving more efficient provision of infrastructure; this would be an overarching document that integrated plans for

[11] Local Government Infrastructure Efficiency Expert Advisory Group: *Report of the Local Government Infrastructure Efficiency Expert Advisory Group,* March 2013 (EAG Report), recommendation 44.

[12] Local Government Efficiency Taskforce: *Report of the Local Government Efficiency Taskforce*, November 2012, recommendation 23 and page 72.

individual assets. The EAG considered that "such an infrastructure strategy could be developed by a council effectively and reasonably rapidly".[13]

94. We have also reached the conclusion that achieving the objectives of

- good asset management practice in local government;
- improved decision making regarding assets; and
- greater transparency for local and national stakeholders about asset management issues and practices for core local authority infrastructure

requires a regulatory approach to ensure consistent achievement of the benefits across New Zealand. This would provide local and national benefits that outweigh the costs these requirements would generate for councils, including avoidance of the potential costs of significant asset planning or management failure.

95. Local government sector and public encouragement of good asset management practice has achieved considerable progress over the last 20 years, but as noted earlier, successive Auditor-General reports and other evidence suggests that shortcomings remain in some cases. Effective and accurate asset planning and management are critical, given the scale and importance of local authority infrastructure in communities across New Zealand. The risks of failure are too large to continue with these light-handed approaches.

96. Overall, this set of proposals will provide an enhanced focus on local authority asset management that is consistent with the revised purpose statement for local government included in the LGA02 in 2012.[14] Compliance costs will be relatively low on average and acceptable when considered within the context of streamlining reforms of recent years. The additional information made available will be useful to a range of stakeholders at both local and national level.

7 Implementation plan

97. Implementation would be aligned with local authority planning and reporting cycles.

98. The requirement to undertake asset management planning would take effect immediately. Because it would be phrased as a principle, there would be no specific actions required on a specific date – the process would be worked in with individual councils' internal processes.

99. The requirement to prepare an infrastructure strategy is consistent with a long-standing theme that long-term plans should articulate clearly the strategic issues that a community faces. The main implementation issue is to make it clear that local authorities do not have to rush to prepare costly amendments to their current long-term plans. This can be done by specifying that the new requirement would apply to the 2015-25 and onward long-term plans.

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13 EAG Report, recommendation 28 and paragraph 269.

14 This includes specific references to the provision of good-quality infrastructure, in a way that is most cost-effective for households and businesses.

100. The requirement to disclose risk management arrangements, including insurance, would apply to the next annual report following passage of the legislation. This could be at the end of the 2013/14 or 2014/15 financial year.

101. These legislative changes would be complemented by non-regulatory approaches. The Department of Internal Affairs will have an increased focus, over the coming years, on working with LGNZ, SOLGM and councils to improve performance at the practical level. LGNZ is planning to establish a centre of excellence to undertake capability building and related supporting activities – this is expected to contribute significantly to improved infrastructure and asset practices across local government.

8 Monitoring, evaluation and review

102. Most of the recommended changes to the LGA02 outlined in this RIS would be reflected in council long-term plans and annual reports. These are required to be audited by the Office of the Auditor-General (OAG), as noted above. If any long-term plan or annual report were considered to be deficient in its infrastructure strategy or risk management disclosure, the auditor could put a qualification into the audit report.

103. It is current practice for the Department of Internal Affairs to undertake analysis of these plans and reports in order to identify themes and trends. In future, this work could include consideration of the proposed new infrastructure strategies and disclosure requirements.

104. The Department of Internal Affairs is currently developing a performance monitoring and improvement framework for local government. The outcomes from these legislative requirements would be considered within that framework, to gauge whether practices and outcomes are improving. Non-compliance in any individual case could lead to Ministerial action, including requests for further information or other intervention, as provided for by BLG Phase One amendments to the LGA02 made in 2012.

105. The OAG has traditionally published a report on matters arising from the long-term plans, when they are released (triennially). In future, this assessment might comment on the effectiveness of these new provisions. This possibility is a question for the Auditor-General to consider, as an independent Officer of Parliament.

Appendix One

Key changes to long-term plan provisions in the Local Government Act 2002 (LGA02) since 2010

Key substantive changes to long-term planning and related council processes are outlined in the following tables. Most of these (but not all) are streamlining changes that would generate compliance cost reductions.

Summary of relevant changes to LGA02 made in 2010

Subject	Amendments made in 2010
Content of long-term plan (LTP)	• Various operational funding and financial policies removed from LTP – liability management; investment; development contributions; rates remission; rates postponement; remission and postponement of rates on Māori freehold land • Some council decisions do not have to be provided for in the long-term plan – e.g. proposals to construct, replace or abandon a strategic asset, or to sell or exchange endowment land • Repealed requirement to have a policy on partnerships with private sector (and to include this in the LTP) • LTP can contain less information about waste management plans and assessments of water and sanitary services (i.e. summaries of these are no longer required, just an explanation of any variations) • New requirements for councils to prepare and adopt a financial strategy as part of their LTP • New requirement for councils to disclose examples of how rates would affect individual properties • New requirement for councils to disclose standard financial information showing sources and applications of funds for activities and the whole council
Consultation	• Removed requirement to consult on proposals to change the mode of service delivery for a significant activity • Reduced the frequency of consultation on policies on: rates remission; rates postponement; remission and postponement of rates on Māori freehold land • Removed consultation on parts of the liability management and investment policies
Decision making	• Removed requirement to consider the views and preferences of affected/interested people at four separate stages in the decision-making process
Community outcomes	• Removed requirements for separate processes for identifying and reporting on community outcomes • Definition changed – focus on the outcomes the council is aiming to achieve (not broader outcomes)

Subject	Amendments made in 2010
Assessments of water and sanitary services	• Removed prescription about the process for making the assessments and the information required in the assessments
Standardised disclosure of infrastructure service information	• Five infrastructure services must be treated as separate groups of activities in council plans and reports (water; wastewater; stormwater; flood protection; roads and footpaths)
Pre-election report	• New requirement for councils to prepare a pre-election report to provide information to promote public discussion about the issues facing the council

Summary of Cabinet decisions (July 2013) to improve the efficiency and effectiveness of consultation, decision making and long-term/annual plans

Subject	Amendments for inclusion in 2013 Local Government Reform Bill	Desired impact
Consultation on long-term plan (LTP)	• New LTP consultation document – councils would consult on this instead of both a draft of the full LTP and a summary of the LTP • Consultation document would contain key issues/choices only and be written in plain English • Councils would decide what to put in consultation document, but it would not contain detailed technical or financial information or performance measures • Draft LTP becomes an internal working document that does not have to be published • Separate summary of draft LTP is no longer required	• Improved efficiency and effectiveness of consultation and decision-making processes • Consultation documents are short and focused on issues of community interest, where input into decision making is valuable • Important matters are understood and commented on by a broad range of people • Councils do not have to use resources preparing and printing full drafts of the LTP (hundreds of pages long)
Annual plan	• New, short annual plan consultation document (instead of publishing draft plan and summary) • This would contain proposed differences from the LTP only (such as new spending proposals) • Councils would not have to consult using special consultative procedure • Final annual plan would not need to duplicate information from the LTP for that year	As above, plus reductions in: • repeat consultation on matters that have already been decided in the LTP (reducing administration related to processing and hearing repeat submissions) • unnecessary duplication between annual plan and LTP • time spent on consultation (if special consultative procedure is not used)

Subject	Amendments for inclusion in 2013 Local Government Reform Bill	Desired impact
Consultation	• Remove most requirements to use the special consultative procedure to consult under the LGA02 • (*Special consultative procedure would still have to be used to consult on LTP, the creation of new bylaws, and some changes to existing bylaws*) • Amend the special consultative procedure so it accommodates new techniques and technology for communicating and consulting with the public (including a variety of ways for hearing public submissions) • Amend the principles of consultation so they support efficient, effective and transparent consultation (e.g. by reducing unnecessary administration and other process requirements)	• More flexible and efficient consultation processes, which are not administratively burdensome • Consultation is proportionate to each issue/matter – time and resources are not used unnecessarily • Special consultative procedure is only used where appropriate • Consultation methods accommodate new technology and techniques, and encourage input from a broad range of people • Over time, changes to expectations about traditional forms of consultation and public hearings
Decision making	• Change policy on significance to 'significance and engagement policy' • New purpose and intent of this policy – it should provide a basis for agreeing how and when communities expect to be engaged in decisions about different issues • Simplify the decision-making requirements relating to the assessment of options (by removing prescription about what this assessment involves)	• Improved clarity and understanding about significance policies and decision-making requirements, which translates into efficient and effective processes • Councils use significance and engagement policy to tailor their decision-making processes (e.g. by establishing up front the extent of any public engagement that is required during a particular decision)

Appendix Two

Comparison of key features of the primary regulatory option for infrastructure planning and the potential alternative option (three years plus 10 years)

	Proposal	Alternative option
Description	• Audited 10 year long-term plan (current requirement) • Would include streamlining changes recently approved by Cabinet • 30 year infrastructure strategy	• Audited 3 year plan describing activities "in detail" • 10 year financial strategy and projection • 30 year infrastructure strategy
Cost implications	**Reduces borrowing costs** • Audited 10 year plans provide strong evidence of credit worthiness. This has supported the establishment of the Local Government Funding Agency (20 per cent Crown-owned), which has lowered borrowing costs to local government. **Infrastructure strategy slightly increases compliance costs** • Preparation of the infrastructure strategy is an additional cost but should be derived from information the council already holds. The cost lies in presenting and debating the strategy, first with the governing body and then with the community. This should not be a significant cost.	**Increases borrowing costs** • Weaker planning framework may negatively affect the perception of council credit worthiness, which could be reflected in higher borrowing costs. **Transitional compliance costs** • There would be transition costs in shifting to a new system, including establishment of revised audit procedures; explanation and training for staff and elected council members; and establishment of high level forecasting systems to support the financial strategy. • Many councils may continue detailed 10 year budgeting, but publish less of the information available. In that case, savings would be minimal. **Infrastructure strategy slightly increases compliance costs** • Preparation of the infrastructure strategy is an additional cost but should be derived from information the council already holds. The cost lies in presenting and debating the strategy, first with the governing body and then with the community. This should not be a significant cost.

	Proposal	Alternative option
Financial governance	**Encourages good financial governance** • Strong focus on ensuring the long-term financial implications of current decisions are clearly identified, encouraging disciplined council decision making.	**Weakens financial governance** • Would permit a reduction in the level of discipline brought to decisions with long-term implications.
Linkages	**Improves integration** • Integrates the commitments in: o regional land transport strategies; and o urban land supply commitments proposed in RMA reforms. • Provides information for the pre-election report introduced in the 2010 amendments to the LGA02. • Supports proposals that development contributions policies provide details of the future projects to be funded from development contributions.	**Reduces integration** • Using a 10 year projection unsupported by activity budgets may lower the quality of financial planning. This may create a risk that councils are less prepared to commit the financial resources necessary to support land transport and urban land supply priorities.
Transparency	**Increases transparency** • Provides a clear statement to ratepayers of the long-term implications of council proposals. • Previous long-term plans have highlighted potential debt issues for Waitomo, Tauranga, and Queenstown-Lakes and the long-term costs and implications for ratepayers of the Dunedin Stadium and Auckland transport proposals.	**Reduces transparency** • A 10 year financial strategy, including high level financial projections, unsupported by activity budgets, will be less transparent to ratepayers and lenders. • Removes information included in council pre-election reports – especially information on major projects planned for years four to ten.