Local Government Act 2002 Amendment Act 2014

Infrastructure strategies and asset management

Question and answers

July 2014

Q: What was wrong with how councils were managing their infrastructure assets?

A: Preparation of asset management plans has been recognised as good practice in local government for almost two decades. Many councils are managing their assets perfectly well. However, others weren’t taking the long-term perspective about service and demand levels that is needed for assets that have lives measured by decades. It is important that good asset management practices are taken up by all councils, so the benefits are realised by all communities.

Q: Why was this addressed now?

A: The National Infrastructure Plan identified shortcomings in the legislative framework and information base for local authority infrastructure, especially for urban water services. Planning processes, prior to the introduction of this 2014 Act, did not provide the long-term perspective required to assess whether there are hidden investment gaps or affordability issues beyond the 10 year horizon.

Both advisory groups that were set up earlier in the Better Local Government programme made recommendations relating to asset management. For example, the Local Government Efficiency Taskforce recommended that asset management plans be made mandatory, as they have already become a practical requirement for most councils. The Local Government Infrastructure Efficiency Expert Advisory Group report recommended that councils use professional asset management practices and that councils develop an integrated infrastructure strategy. This Group considered that such a strategy could be developed effectively and reasonably quickly.

Q: Are asset management plans now mandatory?

A: Preparation of asset management plans is good practice, but the Act does not include provisions that require this. Legislating for asset management plans would impose a one-size-fits-all approach, which is not appropriate given the diversity of local authorities.

However, asset management planning should be a fundamental part of a council’s prudent stewardship of community resources over the long term. The Act inserts a statement to this effect as a principle, giving councils the flexibility to follow it in a manner that is appropriate to their circumstances.
Q: The Act includes requirements for an infrastructure strategy. What is its purpose?

A: An infrastructure strategy must cover at least 30 years, and is intended to be a vehicle for identifying the significant infrastructure issues facing the council over that period, the principal options for managing those issues, and the implications of those options.

The infrastructure strategy will provide transparency to residents and ratepayers about those issues, options, and their long-term consequences. Key elements of the strategy will be canvassed in the new long-term plan consultation document (also introduced in the 2014 Act).

Q: Thirty years is a long time. How much detail is expected to be in an infrastructure strategy?

A: It is recognised that details relating to later years will be very uncertain and expenditure requirements difficult to predict. Highly accurate information is not necessary to achieve the purpose of the strategy, though. These are intended to be strategic documents, based on scenarios and estimates, not lengthy, complex and precise plans.

To clarify this, the Act specifies that the strategy must outline the “most likely scenario” for the management of a council’s infrastructure assets, and is to include “indicative estimates” of the projected capital and operating expenditure associated with those assets. These estimates are to be shown in each of the first 10 years covered by the strategy (to align with the long-term plan), and then in blocks of five years.

Q: Which assets does the infrastructure strategy need to cover?

A: The Act requires infrastructure strategies to cover, at a minimum, those of the five “core infrastructure” categories (water supplies, sewage treatment and disposal, stormwater drainage, flood protection works, and roads and footpaths) that the particular council provides. The bulk of local government infrastructure assets are in those five categories.

If a council can see significant issues on the horizon for another type of infrastructure, that can be included as well – for example, if a council proposes to build a major new piece of community infrastructure, which will require funding, consents, maintenance, etc. over a long period.

Q: What else does an infrastructure strategy cover?

A: There are a number of critical issues that each council must confront in planning and managing its infrastructure assets, including:

- what level of infrastructure investment, if any, is necessary to provide for growth in the community;
- how to manage the timing of investment for growth, to avoid constraints on growth from limited infrastructure capacity while minimising the costs to the community of underutilised infrastructure capacity;
- what level of investment is needed to maintain, renew and replace existing assets;
- how to balance service level expectations with affordability in the context of demographic changes such as depopulation and aging; and
- what level of investment, if any, is needed to improve the level of service provided by those assets.
Accordingly, infrastructure strategies are required to cover:

- planning for maintenance, growth and possible increases or decreases in levels of service provided;
- managing or improving public health and environmental outcomes, or mitigating adverse effects on them; and
- provision for the resilience of infrastructure assets, by identifying and managing risks relating to natural hazards, and making appropriate financial provision for those risks.

The strategy also needs to include, in the context of outlining the council’s most likely scenario for managing its infrastructure assets:

- indicative estimates of the projected capital and operating expenditure requirements (shown for each of the first 10 years covered by the strategy, and subsequently in periods of five years);
- the significant decisions about capital expenditure the council expects to be required to be made, when those decisions are expected, and the principal options relating to, and approximate magnitude of the costs associated with, each decision;
- assumptions about service levels and asset life-cycles on which the scenario is based; and
- where assumptions involve significant uncertainty, the nature of that uncertainty and its potential impacts.

Q: Doesn’t this just add to the planning burden – and costs – councils face?

A: The planning burden on councils was carefully considered when these decisions were made. Asset management planning is already standard practice in many councils. An infrastructure strategy would be closely related to a council’s financial strategy and should not create a significant new compliance burden. The difficulty of developing the strategy will, of course, depend on the complexity and importance of the issues facing the community.

Q: Why are councils now required to report on insurance arrangements?

A: In light of the scale of the financial impact of the Canterbury earthquakes, it is timely to increase the focus on councils’ risk management practices. The changes made by this Act are intended to enhance transparency about local authority asset insurance and related risk management arrangements, enabling ratepayers to hold local authorities accountable for their decisions in this area. Reporting on these matters could also help to identify potential fiscal implications for the Crown where local authorities are self-insuring or entering risk sharing arrangements that have limited financial capacity.

Q: When do the changes made by this Act come in to effect?

A: Most of changes take effect immediately. However, the first infrastructure strategies will be incorporated into the next round of long-term plans. These will be developed by councils over the coming months, and must be adopted by the end of June 2015.

Information about insurance arrangements will be included in council annual reports, starting with the 2013-14 reports (which must be adopted by the end of October 2014).