

# NZ ASSET MANAGEMENT - REVIEW AND LESSONS LEARNT

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## Abstract

New Zealand local authorities manage land transport, water supply, wastewater, stormwater, parks, recreation and property assets on behalf of their communities. Since the 1989 local government reforms and consolidation New Zealand local authorities have been subject to a range of changes driven by good practice, legislation and audit requirements.

Developing local authority asset management practice to meet these requirements has led to the implementation of asset information systems; production of asset management plans; and more recently the production of activity management plans in support of long term council community plans.

The continuing changes required in local authority asset management practice have had a large impact on council budget requirements for asset management activities, resource requirements for council staff, and the requirements to use specialist external resources.

Whilst the on-going changes have created challenges for all local authorities in New Zealand, the impact has been particularly severe for New Zealand's smaller Councils. These impacts are examined for different sized and resourced local authorities, and lessons learned for small local authorities are developed. By developing the lessons learned for small New Zealand local authorities useful insights are provided for Australian Shire Councils that may face similar changes in asset management practice.

## Key Words: Changes to NZ AM practice; the impact of AM Changes

### Introduction

Asset management is now an integral part of New Zealand local authority practice.

The period since the 1989 New Zealand local government reforms has seen the introduction of asset management as a discipline through to authorities practicing comprehensive asset management as mandated by the Local Government Act 2002 (LGA2002).

There are a number of lessons to be learnt from this period of change that will provide useful insights for Australian Shire Councils that might face similar changes in asset management practice.

### Background

Since 1989 New Zealand local authorities have seen a steady change in requirements and practice, with most of these changes resulting from the introduction of major pieces of legislation. These changes have required the development of effective asset management by local authorities.

The 1989 local government reforms reduced over 300 councils and special purpose authorities to 74 territorial local authorities (regional authorities are not considered in this paper).

Against a background of NZ economic issues from the mid 1980's to the early 1990's concerns were raised regarding stalled or declining investment in essential services and the lack of longer-term planning by local

authorities. As a result of these concerns in 1996 the Local Government Amendment Act (No 3) was passed. The requirements of this Act included a 10 year Long Term Financial Strategy (LTFS) and an implicit requirement to produce asset management plans for significant asset groups to support the LTFS. The requirement to fund depreciation was also introduced with this Act.

The Local Government Act 2002 (which replaced the 1974 Local Government Act) has introduced a raft of changes and new requirements for local authorities. Asset management requirements are explicit throughout this legislation (particularly the Schedule 10 requirements for Activity Plans to support the Long Term Council Community Plan – see Appendix A for detail). The Act requires comprehensive (previously generally referred to as ‘Advanced’) asset management, with audit compliance targets for the Long Term Council Community Plan (LTCCP) set for June 2006.

### **NZ Local Authorities**

The 1989 reforms consolidated New Zealand territorial local authorities to 74 Councils. For the purposes of this paper these authorities are considered in 4 groups.

#### **Metropolitan**

8 large metropolitan councils centred on New Zealand’s major cities with Council 2001 population ranging from 114,000 – 367,000.

#### **Provincial**

23 councils on the fringes of major cities or centred on a major provincial centre with Council 2001 population ranging from 40,000 – 95,000.

#### **Small Provincial**

20 Councils on the fringes of major provincial centres or centred on smaller provincial towns with Council 2001 population ranging from 17,000 – 38,000.

#### **Small Rural**

23 rural councils centred on small towns with Council 2001 population ranging from 720 – 16,000.

### **The Auditor-General**

Since 1995 New Zealand has been fortunate to have Auditor-Generals who have been proactive in regard to their role of overseeing local government.

The Public Audit Act 2001 broadened the role of the Auditor-General in relation to local government and sets out specific functions – including financial report audits, performance audits, and the power to inquire into any matter concerning a public entity’s use of its resources. With regard to local authority asset management the Auditor-General signs off on an acceptable standard being achieved.

### **Asset Information Systems**

The development of asset management in NZ local authorities has been underpinned by the deployment of asset information systems.

On-going issues relating to the updating of asset registers, the appropriate level and quality of data collection, and supporting processes are being addressed by all authorities.

Lack of adequate asset information is a major impediment to the development of comprehensive asset management. Those authorities that have not made much progress with improving their asset information since 1997 have to commit significant resources in this area to reach the LGA2002 compliance targets in 2006.

The co-ordinated procurement of asset information systems has been a New Zealand success story.

There have been some issues with these national systems procurements, mainly relating management commitment, systems integration, deployment of multiple systems, a lack of implementation planning and ability of internal resources to manage the systems.

The small provincial and small rural authorities have found that the national procurement projects did not always fit their needs or their on-going ability to resource the larger asset information systems. This problem has been overcome by vendors offering hosted and bureau services, and by relatively simpler systems being available (for example the Bizeasset system ([www.bizedata.co.nz](http://www.bizedata.co.nz)) based on MapInfo GIS).

### **Asset Management Plans**

To support long term financial strategies and achieve 1996 Local Government Amendment Act compliance the requirement to produce asset management plans was introduced. This requirement was adopted with varying success by local authorities but 14 authorities (18%) over 2 financial years received qualified audits for not presenting sufficiently reliable information about their infrastructural assets.

The 1998 asset management plans were produced using the guidelines outlined in the then New Zealand Infrastructure Asset Management Manual (subsequently replaced by the International Infrastructure Management Manual).

For most authorities the intention in 1998 was to update their asset management plans on a 3 yearly cycle. However, once the legislative compliance pressures were lifted in 1999 – 2000, and with other concerns such as Year 2000 preparedness, good intentions regarding asset management planning drifted.

In the period 1999 – 2003 the relatively better resourced Metropolitan authorities typically completed AMP updating on a one or two year cycle; the Provincial (and some Small Provincial) authorities updated AMPs on a three to five year cycle; whilst most Small Provincial and Small Rural authorities did not complete any AMP updating apart from asset revaluations as required.

This disparity in AMP updating cycles, and associated work on asset systems, information and process has magnified the

effects of the changes required by LGA2002 for the smaller authorities.

### **Activity Plans**

The LGA2002 introduced defined requirements for asset management in the form of Activity Management, as specified in Schedule 10 of the Act (see Appendix A for details).

The specified requirements for Activities in the form of Asset or Activity Management Plans assume the ability of the authority to complete comprehensive asset management.

These requirements were included in the Act based on the understanding that local authorities had continued to advance their asset management practice during the period 1998 – 2002 (as authorities were repeatedly encouraged / warned to do by the Auditor-General).

The LGA2002 specified compliance with the new requirements by June 2006, with the practical implication that the supporting Asset / Activity Management Plans need to be prepared by September / October 2005 to provide financial information for the 2006 LTCCP.

The new requirements of the LGA2002 have created a range of challenges for local authorities to meet the compliance targets.

The local government and consulting industries have responded with a range of training, seminars, and guidelines to assist with LGA2002 compliance.

With relation to asset management compliance Brian Sharplin of MWH ([brian.sharplin@mwhglobal.com](mailto:brian.sharplin@mwhglobal.com)) has put a huge amount of effort into producing Activity Management Plan guidelines that have been purchased by over half of New Zealand local authorities.

### **Asset Management Budgets**

Typically for local authorities during the period 1989 – 1995 there was generally no specific budget for asset management activities. Following the production of Asset

Management Plans by 1998, the accompanying improvement plans outlined a lot of additional asset management related work needed to be funded if asset management practice improvements were to be implemented.

In many cases neither sufficient funding, nor sufficient internal resources were made available, and hence desired progress was not made.

In work completed for an average size Provincial authority it was calculated that the on-going (over 20 years) asset management budget requirement would be approximately \$500,000 per annum – work either previously unfunded or funded from operational budgets (when surplus was available).

Some small provincial and small rural authorities, once the 1996 – 1998 AMP compliance requirements were met, took no further action other than maintaining asset registers and asset valuations. These authorities now need to commit major expenditure in a short period of time (\$200,000 - \$300,000) to achieve compliance with the LGA2002 asset management requirements.

Often these authorities have no budget or resource available for on-going asset management work and improvements other than the immediate compliance requirements.

The Auditor-General has made it clear that AM Improvement Programmes must be funded to be credible.

The lack of on-going budget and resource will continue to cause a range of problems for these authorities as they attempt to complete their asset management improvement programmes.

### **Asset Management Resources**

Following the 1989 reforms City, Borough and County Engineers became Directors of Engineering or District Engineers. The job description involved political and public interface, managing the engineering team, operations and maintenance management, capital expenditure management, and policy

advice. In the mid 1990's with asset management requirements to the fore many District Engineers became the Asset Manager. The job title changed, but the job description did not – except that additional work (asset management) was added to the role. Engineering resource reductions during the late 1980's and early 1990's meant there was little internal capacity to take on additional workload.

As a result, in the smaller authorities asset management has rarely been adequately resourced, and asset management planning has often been either completely handed over to consultants, or has been completed by an engineer making time (often out of hours) in the midst of other workload.

The Auditor-General (following dispensation requests from small rural authorities) has commented on the issue as follows:

“Do councils have the capability to meet the demands placed on them?.....By the term ‘capability’ I mean both the financial resources and the human resource capacity to meet the expectations of the community and the requirements of legislation.....The fact that such approaches (for dispensation or a more relaxed response to legislative requirements) have been made demonstrates that smaller local authorities are struggling to provide the range of expertise needed (such as policy analysts, economists and experienced asset managers) to meet their legislative requirements.”

### **AM Compliance vs. AM Culture**

Asset Management in NZ local authority practice is here to stay, as evidenced by the requirements of the LGA2002.

Unfortunately, for many authorities the attitude is still one of achieving minimum compliance in asset management, so that the auditor will sign-off with a tick. Many of the 1998 Asset Management Plans were written by consultants, achieved compliance and then were put on a shelf never to see the light of day again. In reality this is a huge waste of time, effort and money, and the gains available through the asset management

process were not made by the authorities concerned.

For other authorities, the asset management process has been driven by an individual with vision for what could be achieved. These authorities have done very well with their asset management, but when the individual leaves, tend to fall back as asset management has not been embedded in the organisation.

The Metropolitan authorities have made more progress in this regard and many now have dedicated asset management positions in both strategic and engineering service delivery groups.

For an authority to capture the gains that are available through the asset management process a culture of asset management needs to be embedded in the organisation. Any effective culture change in an authority must be driven by the Chief Executive and senior managers, supported by the Council.

Whilst in New Zealand Councils and management know about asset management as a result of 7 years of seminars and training, I believe that for many authorities there is still only lip-service to asset management. If directly asked I think most would vigorously deny this, but sadly, when budgets, resources, progress and attitudes are examined I draw the conclusion that we still have a long way to go in developing asset management cultures in New Zealand local authorities.

### **Asset Management Impacts**

The Auditor-General has raised the valid issue of small authority capability to meet the expectations of the community and the requirements of legislation.

Asset management has had a range of positive impacts in New Zealand, including definition and consultation on service levels; a better understanding of demand and asset constraints; the building of asset registers and a better understanding of asset life cycles; and a structured approach to funding asset maintenance, renewal and acquisition.

The development of asset management practice has required additional human resources and additional funding of identified improvement programmes. In general Metropolitan and Provincial authorities have managed to resource and fund their asset management practice better than small provincial and small rural authorities.

Small provincial and rural authorities have struggled to meet minimum compliance requirements, and to provide enough management and engineering resource to adequately undertake asset management programmes. This has led to a very stop-start approach to asset management as legislative compliance pressures have developed, which in turn has led to very lumpy funding requests to Council, additional pressure on already stretched human resources, and the potential gains of a sustained asset management programme not being captured.

### **Lessons from the 16 years of Change**

The lessons that can be learnt for asset management from the past 16 years of New Zealand local authority change are detailed below.

#### **Lesson 1: Culture**

The on-going and successful implementation and development of asset management requires an organisational culture of asset management to be developed. To be successful the asset management culture needs to consistently modelled and supported by the Chief Executive and senior managers in conjunction with the elected Council.

Effective stewardship and management of an authority's major investment (assets) will not occur in the long term without a culture of asset management.

#### **Lesson 2: Structure**

The structure of an authority will have a big impact on the effectiveness of its asset management.

Effective asset management requires co-operation and understanding across the Treasury, Accounting, Planning, Engineering, Policy and Economics disciplines.

It is very difficult to sustain an effective asset management programme in siloed organisations, or those organisations with departmental performance measures and drivers in place that do not support asset management.

### **Lesson 3: Succession**

The underlying assumption regarding easy availability of additional resources that was valid 20 years ago is no longer valid and in the current labour market experienced asset managers are not easy to find.

Whilst in recent years immigration has taken up some of the resource constraints, there remains an on-going requirement for authorities to practice effective succession planning to resource their asset management programmes (including the appropriate mix of internal and external resources).

In New Zealand these issues have been recognised and initiatives are underway by local government engineering and management organisations.

### **Lesson 4: Systems**

Effective asset information systems underpin asset management. Systems deployed must be appropriate for the assets and resources of the authority. Systems need to be supported by implementation planning, associated processes and internal resources. A clear understanding of outputs required is needed to ensure that appropriate data is captured and maintained.

Management support, direction and appropriate resources are required for the long term success of asset information system implementations.

### **Lesson 5: Resources**

Asset management programmes must be adequately resourced.

Adding asset management to an already extensive job description is not going to get the job done.

Changing the job title of an operational or project engineer to Asset Manager also does not necessarily make them an asset manager.

Asset management requires on-going budget to deliver identified improvements and keep plans and processes current with evolving practice.

Asset management budget and resource requirements are additional to historic budget requirements. For many New Zealand authorities this has not been adequately recognised.

Small local authorities are having difficulty attracting and retaining experienced asset managers. As a result a realistic appraisal of the appropriate mix of internal and external resources needs to be made, and then funded.

### **Lesson 6: Continuous Change**

New Zealand experience shows that the changes relating to asset management have been reasonably continuous over the past 16 years. Practice improvements, continued development of community aspirations and political changes suggest that these changes will continue.

Council asset management practice needs to continue to develop to match these changes.

Authorities that have adopted a process of continuous asset management practice improvement over the past 10 years have been well placed to meet the challenges of new legislation.

Authorities that have adopted a minimum compliance approach have struggled at each new change.

### **Lesson 7: Commitment**

The behaviour of some local authorities in New Zealand suggests that they think that if

they achieve minimum compliance asset management will eventually go away.

Asset management as a discipline is here to stay in local authority practice. This is entirely logical given the value and importance of the assets managed on behalf of the community.

For asset management to be successful in local authority practice it must be a commitment recognised across the organisation.

This commitment must translate into budget, human resources, and management accountability.

### **Conclusion**

New Zealand local government has faced a series of major changes in the past 16 years primarily, driven by legislation.

Asset management has been introduced and has evolved as a discipline and asset management requirements are now embedded in the Local Government Act 2002.

The continuous change experienced in asset management practice over the past 16 years is likely to continue.

Asset management changes have led to requirements for additional staff resources, and a wider and different range of skills to be deployed.

Small provincial and rural authorities have struggled to meet the minimum legislative requirements for asset management. The additional budget and human resources for asset management programmes have not been available. This has led to a stop-start approach to asset management, and less than optimal results.

Having the capability (both financial resources and human resource capacity) to meet the expectations of the community and the requirements of legislation has been identified as a major issue for small local authorities.

To achieve successful asset management programmes authorities need a culture of asset management. This includes developing a structure to deliver effective asset management, and an on-going commitment of the Council, Chief Executive and senior management to the delivery of asset management programmes and outcomes.

Issues relating to asset information systems, adequate levels of human resources and succession planning need to be addressed to support the asset management programme.

### **References**

Macdonald DJD (May 2002) "Report of the Controller and Auditor-General, Local Government – Looking Back and Looking Forward"

### **Appendix A: LGA2002 Activity Plan Requirements**

The Local Government Act 2002 Schedule 10 requirements for Activity Management are summarised below for reference.

1. Identify the activity within the group of activities.
2. Identify the rationale for delivery of the group of activities.
3. Outline any significant negative effects.
4. How demand for services will be managed.
5. How service levels will be managed.
6. What additional asset capacity will be required.
7. How the provision of additional asset capacity will be undertaken.
8. What the estimated costs of the additional asset capacity will be and the broad division of those costs.
9. How the costs of providing the additional asset capacity will be met.

10. How the maintenance, renewal and replacement of assets will be undertaken, and how these costs will be met.
11. Statement of intended levels of service for the group of activities including performance targets.
12. Estimated costs of achieving and maintaining identified levels of service including maintaining service capacity and integrity of assets.
13. Statement of how expenses are to be met.
14. Statement of estimated revenue levels, other sources of funds and the rationale for their selection.

## **Biography**



Ross Waugh, Waugh Consultants Ltd, New Zealand

Ross is an asset management specialist with over 20 years experience in New Zealand local government asset management.

Waugh Consultants has successfully assisted local authorities for the past 6 years, and has grown a client base that covers one third of NZ local authorities and ranges from large urban to small rural authorities.

Waugh Consultants specialise in the delivery of practical asset management planning solutions and the integration of AM planning with asset information systems and processes. In the past 2 years Ross and his team have assisted clients in developing their asset management planning to meet new legislative requirements.