

Article for Local Government Magazine

Time for Fresh Thinking

For sometime now it's become apparent to me that Local Authorities are increasingly being placed between a rock and a hard place. Pressures from many different fronts are pulling Local Authorities in different directions. Fresh thinking is needed to reconcile these issues.

On one hand Local Authorities are under considerable pressure to have minimal rate increases. At the same time they are required to fund the depreciation of infrastructure assets and tackle a significant shortfall in infrastructure provision.

Looking at the overview of the latest LTCPs shows that the 10 year plan for the three waters has increased from \$22 billion to \$28 billion and while 10 year LTCPs transport plans show a decrease it's concerning that NZTA's funding is no longer matching some Local Authority maintenance funding. Both of these issues have the potential to force rate increases in order to protect the considerable investment in Local Government infrastructure.

Over time the funding provisions currently being built up from depreciation of infrastructure assets should help fund future infrastructure renewals but at this stage after only 10 to 15 years into this regime we'll all need to wait another 10 to 15 years at least for this to happen.

In some ways funding the provision for infrastructure depreciation could not be happening at a worst time. Just when funding is needed to help address the infrastructure backlog and to stimulate regional economies it needs to be put in the bank as a provision for future years.

So what can be done about this and is it possible to get a win-win situation? Here are some thoughts on some fresh thinking that could mean Local Authorities could have their cake and eat it too.

Develop a Sound Procurement Strategy

During the consultation phase of developing NZTA's Interim Procurement Manual in 2007 there was an over-riding desire by most Local Authorities to bundle contracts. The reason for this was very clear. Improved value for money by either achieving the same output at less cost, or a higher output at the same cost. Reasons given by Local Authorities for wanting this approach include:

- Lower tendering costs
- Economies of scale (labour, plant and materials)
- Superior emergency management
- Superior communications and project management
- Improved confidence in the delivery of work
- Better management of health, safety and environmental risk
- Direct communications between the client and contractor
- Reduced administration and supervision costs from Council employees and/or Council consultants

At the same time and in the past concerns have been raised suggesting that bundled contracts would lead to decreased competition. NZTA's recent competition survey shows that this in fact is not true. There are now more contractors (189) winning Local Authority and NZTA roading work than in 2004 (180) and the number of contractors who can handle bundled contracts has grown from two to seven. These figures show that competition has increased as the bundling of contracts has increased. All Local Authorities need to seriously consider adopting this approach as the savings have proved to be significant.

Maximise your NZTA subsidies

The Minister of Transport has made it clear that those Local Authorities who will be underspending their funding allocation will have their NZTA subsidy funding given to those Local Authorities who can (use it or lose it).

NZTA has recently issued General Circular 10/01 "Advancing Local Authority Works" to take advantage of current sharp tender prices and to stimulate regional economies.

Move to a high capital and low maintenance cost regime

For many years now New Zealand has used a low capital cost and high maintenance cost regime for building key infrastructure, especially in roading. This practice did not impact on Council budget and rating levels, however, this has now fundamentally changed. High maintenance cost regimes are costed into asset management plans and provision has to be made when setting the rates to fund these future regimes. By changing the philosophy of the asset management plans (whole of life) to a high capital cost low maintenance cost regime where appropriate the funding currently set aside in the bank as a future provision could be actually used to fund capital works in the present day. Not only would this help to address infrastructure needs it would also provide much needed work to stimulate regional economies and maintain critical Local Government infrastructure assets.

The Real World

Like it or not the world is forever changing – ratepayers and consumers want better "bang for their buck". Both public and private sector businesses alike have to find more efficient and cost effective methods of delivering services and products. This has/will ultimately force a step change in the ways many businesses operate. It is interesting to note that a number of Councils are also considering a "shared services" approach, amongst other initiatives, for many of their key support services to minimize the diversion of funds away from the maintenance of key infrastructure. They should be applauded for their efforts and initiatives.

To sum up. If you always do what you've always done you'll always get what you've always got.

There is a way forward.