



Paper prepared by Larry.N.Mitchell for the AUMA President's Summit April 2009

Introduction

My subject, chosen for the AUMA President's Summit simply put and according to the event's agenda is ... *'The New Zealand local government experience ... Reflecting on New Zealand'*.

I have been asked to ... *focus on the process* of New Zealand local government reforms and to be mindful of the fact that local Canadian conditions ... *may vary significantly* from New Zealand experience. 'Now that's an understatement ... of significant proportions!'

The direction and the principal thrust of local government reform in New Zealand occurred in two bursts, thirteen years apart starting with the far reaching 1989 reforms and followed in 2002 with comprehensive new legislation.

These legislative changes were accompanied by widespread council¹ reorganisations and amalgamations the bulk of which occurred in 1989.

Obvious environmental and political differences aside, New Zealand's experiences are I believe at least instructive for others. Many lessons and consideration of a number of change models could be applied to similar local government reforms currently in the winds for Alberta. This premise underpins the argument of this paper.

Our New Zealand experience is indeed a matter *for reflection*, particularly the manner in which the reforms emerged. The way in which the local government reforms proceeded in New Zealand² can fairly be described as unique, certainly for New Zealand they were unprecedented. It is important to add though that local government reforms were accompanied by much wider and very radical public sector (central government) governance, financial and administrative changes.

It would be extremely unlikely for these events to reoccur in Canada - or elsewhere for that matter, such was their uniqueness ... and their serendipity. Progress was possible only because of the confluence of many influences necessary for change. Given this proviso the New Zealand scene of the mid eighties still most definitely warranted drastic remedy. The New Zealand economy was in a parlous state, public sector practices at every level were antiquated, productivity was low and change was generally agreed to be essential and unavoidable.

The state of the local government sector in the eighties is hinted at by the number and size of council units. These were too numerous and small in size to achieve good economies or to attract good people and meet modern public service level standards.

¹ Council is the New Zealand term for Municipality

² For a full exposition of New Zealand local government reform see *Local Government Reform ... Options for public management governance ...* a paper by Prof June Pallot 2005

<http://www.google.co.nz/search?q=new+zealand+local+government+reforms>



One commentator (Scott 1974) made the point that ... *in 1974, in a country with a population at that time of only 3 million, there were 991 local authorities.*

When the 1989 Council amalgamations had been concluded ... *almost overnight the number of local authorities was reduced from over 700 to a mere 85, that is; 72 territorial authorities (cities and districts) and 13 regional authorities* (Pallo 2005 *infra*).

By any measure these changes were large ones with massive consequences for the local government sector and citizens. The 1989 legislative changes were railroaded through the lawmaking stages in very quick time, so rapidly that any organised opposition was wrong footed and disorganised. Led by the government of the day there was little consultation - more coercion. Such dramatic changes would have been unlikely but for the force and speed of the process that was used.

The 'Big Bang' style of these radical reforms has recently been supplanted by more consultative and considered change process. Driven by a principled movement to achieve best practice, two later acts of parliament continued upon a course of improvement and further change:

- in 1996 with the introduction of financial management reforms and
- in 2002 the new Act consisted of a complete *root and branch* revision to the local government principal act.

Big Bang with its more revolutionary, some would say undemocratic approach to reform, has been replaced by these more principle-driven legislative refinements.

But wait there is more ... currently, that is April 2009 the Auckland (so termed 'Super') City deliberations are still in progress. The appointment of a Royal Commission guided by public consultation was established to consider the Auckland case. This approach deserves serious consideration also as it has taken a different process course again.

Out of these various New Zealand experiences it is hoped to draw useful parallels relevant for Albertan local government. New Zealand has been something of a laboratory for local government change process as is evident from the numerous methods (experiments) that have been conducted. Consideration, even possible selection of one or a hybrid of these though ... is Alberta's call.

This paper is in three sections:

- The first section covers the process of New Zealand local government reform and describes some of the factors that permitted such fundamental shifts of practice and lead to extensive amalgamations.
- The second section covers the subject of financial management best practice as adopted and operative in New Zealand councils.
- The final section addresses the importance of integrated 'holistic'³ long term planning and asset (facilities)⁴ management disciplines.

³ Main Entry Dictionary: holistic Part of Speech: *adjective* Definition: complete, whole Synonyms: [aggregate](#), [comprehensive](#), [entire](#), [full](#), [integrated](#), [total](#), [universal](#)

⁴ 'Facilities' management is coming to replace the term asset management in recognition of the involvement in all aspects of asset operations including all resources such as personnel, finance, budgets and funding ... the whole shooting box!



New Zealand local government reform ... the process

New Zealand local government has made progress in changing its administrative and operational structure in two waves.

The first wave (more a Tsunami) took place in 1989 and resulted in a local government act that drew upon economic theory characterised by and derived from the Chicago school of economics (Milton Friedman). The 1989 act, perhaps in spite of its doctrine-driven genesis, nonetheless incorporated the following touchstones of administrative best practice...

- Organisational structures with clear and linear accountabilities
- Transparency at all levels including policy setting, and
- Best practice operational efficiency and performance.

Much has been written of the people, the key players who drove the New Zealand reform process plus the timing and the extraordinary political environment that accompanied the 1989 reforms.⁵ Both the people and the process are important to the story of the reforms of the eighties.

Central and local government between 1986 and 1989 concurrently underwent enormous administrative and governance changes so it was not as if local government was going it alone. Their reforms were merely part of a much larger groundswell of a revolution brought on by the realisation that the future economic health of New Zealand⁶ was in good part dependent upon making fundamental changes to how the public sector behaved.

Commentators have pointed to the almost *astrological* forces that seemed to be afoot at the time and acted as necessary preconditions of the reforms. These influences resulted in policy developments and legal drafting incorporating much of the philosophies reflective of the personalities of the protagonists. Their personal qualities⁷ translated into a zeal and drive for improvements and were hugely influential requirements for the reforms to proceed. Observers have stated that the speed⁸, nature and extent of the changes could not have occurred or have been so widespread if it had not been for the conjunction of all of these influences ... an auspicious *alignment of the planets*?

If the circumstances of change in New Zealand are to be transported to Canada (it is very! unlikely that Big Bang could 'travel') and a model for change for Canada is to be discerned and taken from New Zealand experiences then there are several key ingredients in the mix that could assist in facilitating proposed Canadian reforms.

If the appropriate process can be identified then that is well and good ... it needs to emerge in its own good local time without much call for presumptuous declarations of outsiders. Whatever the process chosen might ultimately be, in any event it will benefit from a number of essential ingredients, essential for the success of the chosen process that is.

⁵ The best précis of this 1989 process is the book ... Boston, J., Martin, J., Pallot, J. and Walsh, P. (eds) (1991) *Reshaping the State: New Zealand's Bureaucratic Revolution* Auckland: Oxford University Press

⁶ As to the economic need for such massive changes opinions vary. Two prime ministers held differing views ... Lange ... *the IMF was about to foreclose ... we had to devalue ... Muldoon ... nonsense it was all an overreaction*

⁷ principally Hon Roger Douglas Min of Finance, Hon Michael Bassett Min of Local Government and Sir Brian Elwood architect of the 1989 amalgamations

⁸ The speed of reform was breathtaking from start to finish from 1986 the new Public Finance Act to 1989 with the new 1989 Local Government act



It goes without saying that the first and most important of these ingredients are energetic and determined leadership coupled to political will. Energy and determination of the champions of reform are essential here and are put ahead of say any inspirational or doctrinal motivation. This is due to the nature of the local government reform scenario. The democratic process will be alive and well within the local government reform process which will be more responsive to leadership rather than ideology.

Leadership, including the inspiration of people most affected by the changes will be needed to be engendered. This has proven to be a tall order in New Zealand's case particularly for municipal taxpayers, elected members and the staff of municipalities who are generally (though not always) averse to change.

For reforms to succeed considerable determination in driving change has to come from the champions, at times in spite of opposition. Some might call that undemocratic, others prefer to see this level of energy and commitment from the leadership as ... well ... leadership. It can prove to be a fine balance.

Without writing a treatise on this subject, (and one may be warranted), the leadership of the reform of local government will wear several hats ranging from exercising firmness of purpose to the use of excellent listening skills.

In a most recent reform initiative involving a proposed amalgamation of Auckland City the three Royal Commissioners were appointed for their eminence, professional skills and personal qualities. It may be instructive to add that none of the three could be said to have ever been immersed in the local government sector.

Any reforms of this nature for all of their variety of approach hopefully will be underpinned with sound social and economic imperatives. Desirably these process-related foundations each justifying reform, establishing credentials and revealing the common sense purpose of the proposals can be coupled to the skilled people leading the process while aiming at gaining the goodwill of those most affected.

A tall order indeed! Sounds like a perfect world? The reality is that even with all of these optimal ingredients present, municipal reform in Canada will be no pushover. The Canadian reform environment seems to be more complex than was ours. One fact that we hold in common is worth mentioning here.

Reforms of local government rarely, if ever have been advanced by the sector itself (from within). Invariably reform will only occur as it did in New Zealand if higher government driven by determined reformers do it, not the units of local government themselves. Local government leaders of course have a role in assisting and informing the issues of reform on a multitude of matters but their potency in determining the process is often less than they themselves might desire.

The people who ultimately set the rules for local government (Canada's provincial legislatures) hopefully, motivated by those laudable and worthwhile social and economic imperatives will set any new legislative framework ... or finally decide upon amalgamation schemes. The process of reform



will need to align with these objectives with the leaders of reform being driven by the force of their ideas (and personalities) so that necessary and productive change can occur.⁹

Other ingredients of reform include the influence of a range of social or socio-economic goals. New Zealand was an early adopter of notions of sustainability. Its Resource Management Act 1991 incorporated 'green' policies and extended sustainability into every corner of local government regulatory practice. Later, the 2002 Act introduced outcomes-based quadruple bottom line accountability (closely linked to sustainable practice) on a well beings platform which covered off the four community outcomes of social, economic, environmental and cultural outcomes-objectives.¹⁰

These socio economic movements greatly assisted local government reform by creating a national environment where local service delivery had to be competent and informed sufficiently to achieve these overarching national objectives.

The vehicles and *modus operandi* of the older style (pre 1989) Councils could not deal with these more innovative guidelines for doing local government business and hence they had to change. The new law set out models of local government organisation and behaviour, the structure and performance frameworks of which were suited to meeting these outcomes-based objectives.

Finally there is the influence or ingredient for change arising from 'the masses' ... of the people, the communities that will be affected by reform. The Big Bang bulldozer tactics that attended the 1989 reforms had little reference to consulted-upon community desires. This 'one off' process has more recently been supplanted by a kinder more sharing consultative approach to the promotion of change.

More consultative styles for change were applied to varying degrees with both the 1996 and 2002 law changes. But in fact the big news in New Zealand today is the proposal for a new 'Super' Auckland City. If proceeded with, this will result in an amalgamation of seven units of territorial and regional government¹¹ into what will amount to a city state of over a million residents containing over one third of New Zealand's population and economic substance.

The processes used for this major Auckland City amalgamation proposal have to my view been impeccable and generally to date have followed the ideal prescription mentioned (above). Not all appear to agree with this (rose tinted?) view. People not supportive of the change, mainly elected officials and staff of affected councils are critical of the Commission's proposals. Perhaps this is inevitable for any upset to the status quo ... matters of job security arise ... and that *people issue* and reluctance to change appears again!

As a policy analyst's case study for managing local government change the Royal Commission's choice of process, its financial and policy analysis and just plain good horse sense all serve to make the Auckland Super city methodology a model of good consultation and forward thinking. The jury is

⁹ Incremental changes are quite another matter, as they would no doubt occur differently from our New Zealand experiences, in every case New Zealand reforms could hardly be termed 'incremental'. I might also boldly add (Note tucked away in a footnote) that the constitutional structure of Canada particularly the federal-provincial-municipal relationship will not make it easy.

¹⁰ Outcomes and well-beings are interchangeable terms used to describe all of the 'things' that a modern society would wish for the care and health of its citizens. A full exposition of these is given at www.communityoutcomes.govt.nz

¹¹ For the full 800 page report of the deliberations of the Royal Commission on Auckland governance see www.royalcommission.govt.nz



still out for Auckland's future governance structures at the time of writing this paper. Central government is 'considering the report of the commission' and has not yet announced its intentions

Alberta may wish to consider the differing reform-change processes used in New Zealand. The choices available from our experience seem to be reasonably representative and can be derived from at least the four New Zealand models described. These include ...

- the 1989 Act ... a radical and rapid reform model, or
- the 1996 financial management reforms ... a managerial best practice reform or
- the 2002 Local Government Act ... a more policy-driven through-going improvement process or
- to take guidance from the 2009 Auckland City proposed amalgamation ... a more consultative approach though also a bureaucratic and conceptually driven platform.

Local Government financial management best practice

There were later (post 1989) features of the New Zealand local government reforms that had as their inspiration the achievement of better performance using perceived best practice standards. What is remarkable to outside observers is the incorporation of best practice within the law.

Although there is no research that could be found on the subject, the inclusion of such detailed mandated practice guides into the law would seem extraordinary. No other jurisdiction has been so insistent that the practice of local government accounting (and engineering) be given the force of law. This uncompromising stance was adopted in the face of opposition from the local government sector that promoted its own 'Public Sector' versions of local government accounting rules and practice.

The two prominent cases of codes of practice being written into the law without amendment were the accounting area with its adoption of generally accepted practice and the engineering discipline where the law required the use of asset management international best practice models. There was no houseroom given by the lawmakers to any existing local government adapted practice versions, these were seen often as merely compromises of best practice.

In governance and provision of public information terms these new laws were at once both refreshing in their honesty and in many cases breathtaking for the practitioners. In other areas involving the provision of public information major changes occurred. The dominance of organisations and bureaucrats for information access over the citizenry were 'challenged' by the law ... to say the least.

For example, the 2002 Act's decision-making provisions¹² with their attendant consultation processes attempted to redress (a little) the information asymmetry issue. This was achieved by providing citizens with a number of courses to follow in preparing their arguments by obtaining from councils (*ibid* Local Government Act 2002 S.82)... *'information in a manner and format that is appropriate to the preferences of those persons.*

¹² New Zealand Local Government Act 2002 S.76 to S.90



In the field of public information provision this must rank as one of the more open-handed concessions to the rights of citizens to obtain public information and assistance. This principle also found new voice in the area of financial management as major accountability improvements were required for disclosures both of the financial performance and affairs of councils.

Financial information was thereby firmly placed before the citizens along with all other public information concerning their local government unit requiring full, intelligible and open disclosure.

The 1996 Local Government Amendment (financial provisions) Act attempted to set best practice standards of accounting and financial management. A full reporting of these provisions would warrant a separate research paper. They included local government's mandated use as described (above) of all extant accounting standards plus incorporation of best practice asset management doctrine.

The following is a short list of the more significant financial management provisions all of which amount to a principled attempt at better transparency and accountability.

- **Long term (ten year) financial planning¹³ ... a detailed 'comprehensive' strategic plan** ... all councils were required to prepare long term integrated financial and operational plans. The plans are subject to audit and must stack up on a balanced budget basis. Performance measures must be set for all major actions, the quadruple bottom line outcome views must be reported annually within statements of financial position and performance.¹⁴ It is arguable that the long term plan has been the most influential exercise required of councils by the new legislation. The discipline and rigour of these exercises would leave many business plans in the shade; they certainly are Superior to central government's own endeavours!
- **Mandated funding of the loss of service potential (assets related costs)¹⁵ ...** each council's long term plan must include provision to fully fund from current revenues the maintenance and renewal of their infrastructural assets. This policy ensures that council assets are maintained in a steady state so that backlog depreciation is not permitted to accumulate. The correct amounts are budgeted and provided for their amount being derived from rigorous best practice asset management plans.
- **Integration of asset (facilities) management plans into budgets¹⁶ ...** a major thrust of best practice has been the efforts of the engineers in devising an asset management process which includes all economic, engineering and financial management

¹³ New Zealand Local Government Act 2002 S.93

¹⁴ Look at any New Zealand Council web site, a full list is at www.localgovt.co.nz for a clear demonstration and evidence of the quality and extent of accounting disclosures and accountability.

¹⁵ New Zealand Local Government Act 2002 S.100 (b) refers to 'maintaining service capacity'

¹⁶ NAMS International Asset Management Manual (www.nams.org.nz) is the seminal text of modern asset management practice. It is in extensive use throughout 'the world'. Namely the UK, RSA, Aust, NZ and the USA but not yet? In Canada.



considerations for dealing with council infrastructure. The law requires these procedures to be in place, in use and subject to audit.

- **Adoption of GAAP and more recently IFRS accounting standards** ... no distinction is made of differing public or private entities with respect to accounting practice as all councils irrespective also of their size are required to adopt and use generally accepted accounting practice (GAAP). More recently the adoption of the international standards (IFRS) makes further demands upon accounting best practice although views vary as to the cost-benefits derived from the IFRS requirements. Public accounts of councils have expanded with some reaching over 300 pages in length. A rationalisation, in the interests of layman-intelligible financial information for these onerous provisions is being sought.
- **A performance framework** ... at every level the setting, monitoring, measurement and reporting of Council performance is in place. One small City council¹⁷ in 2007 startled the natives by winning the premium business excellence award against all comers, including the private sector; such is the drive for quality management and performance improvements by some New Zealand councils.

The selective nature of this list does not do justice to the many processes associated with improved financial practice. Perhaps apart from engineering, more than any other field, accounting and financial analysis have contributed most, in terms of achieving best practice and raising the bar for council performance. The performance reporting regime is second to none at least in concept although there is still some way to go with the audit processes involved. It may be that audit is just waiting to see if the public appetite for hard-nosed cost-effectiveness has arrived ... with the recession?¹⁸

Adoption of all of these improvements, long term integrated planning in particular, could readily be contemplated for all Canadian municipalities. My assessment of current accounting and disclosure standards in Canada is that overall they are well below best practice norms, some well below!

For further information on financial standards and performance reporting within local government I have commented in detail and in comparative terms (New Zealand-Canada accounting standards) within the *Frontier Centre for Public Policy's* 2007 and 2008 Local Government Performance Index project.¹⁹

¹⁷ Hutt City Council and the NZ Business Excellence programme

¹⁸ The author of this paper who makes his living from *'improving local government's performance ... 'sure hopes so'*. Without the energetic support of audit only lip service is often given by councils to these quite excellent objectives.

¹⁹ www.FCPP.org local government panel search on LGPI 2007 and 2008.



Integrated long term planning and asset (facilities) management practice

This brief and final section is included as much to give prominence to the importance of asset management best practice because it should become a major contributor to Canadian reform ... over and above all other single issue initiatives. It is that important.²⁰

As already detailed (above) asset management planning disciplines are mandated in New Zealand and are integral to New Zealand local government operations. As a general rule our Councils have around 80% of ratepayers equity (net worth) tied up in their assets. It is not surprising then that the effort and activities of councils are largely centred upon managing their assets.

Another good reason for best practice in this field is a Council's incentive to meet ratepayer's (taxpayers in Canada) heightened expectations. New Zealand councils are not funded from the centre excepting for local roads with their central government funded 'gas tax' subsidies. Just over 90% of total council revenues are raised locally and excellent process is necessary to demonstrate the best ratepayer's value for money.

Locals can see for themselves the evidence of *their* money being spent. This in the main comprises works undertaken upon 'their assets purchased with their money'. This natural symmetry creates an excellent accountability mechanism-loop, surely a justification of itself for less funding from other (central) agencies and more from local sources?

The standards of asset management as a result of ratepayer scrutiny are closely observed by ratepayers. Frequent poorly planned digging up of the same piece of a busy road is now largely a thing of the past and can be and is attributed to better asset (and council) management. Likewise if an asset improvement is included in a council works schedule then there is confidence that it got there less because of political intrigue and more as a result of moderated engineering asset management process.

Such is the centrality of assets management within local government administration that the process has come to be seen and is used as the glue that binds numerous sub-processes. Asset management starts with its direction being set within a strategic (long term) planning context.

This statement could be put the other way around in the sense that capital asset acquisitions and renewals included in a strategic plan are sourced and developed from forward planning for assets which have been properly assessed as being required and capable of meeting future service needs.

The data on this comes from engineering asset management-demand forecasting projections of future needs and service quality. The asset plan drives the financial plan. And assets represent about 80% of all council activities. To this degree then the asset management plan ... (or at least on an 80:20 rule basis) is the strategic plan. It most definitely is integral to it. Asset planning, its completeness and accuracy is vital to running an efficient responsive modern unit of local government.

To give some idea of the wide ranging scope and influence of asset management consider the following. Amongst the NAMS asset management implementation techniques are the following details of asset management standards, guidelines and key asset management activities such as:

²⁰ Also at www.fcpp.org is my item on 'Good Local Government' and subsequent papers at the same location. The importance of asset management particularly to the flow of properly (and fairly) allocated grants from senior government to municipalities is given as a major reason for best practice asset management becoming adopted possibly mandated



- developing and consulting on plans
- optimised decision-making on service levels
- maintenance planning
- demand forecasting and management
- financial implications and analysis
- linkages and incorporation into the strategic plan
- risk management method

This list indicates the expanse of such plans and the multi-disciplinary qualities of asset management. For although these processes are often ‘owned’ by the engineers, other disciplines taking part include economists, policy people, financial analysts, strategy and customer services specialists who are all involved in creating and operating long term asset (facilities) management activities. Another benefit of this cooperation is that team building and leadership skills accompany these processes and can if properly managed create a stimulating and productive staff environment.

Concluding (personal) Remarks

This paper has skirted around many issues for local government in Canada. One prominent omission concerns the rising infrastructural asset maintenance backlog and the means of funding the shortfall, which are of major concern.

A part of the solution to these problems lies within the pages of this paper with the suggested reforms implicit in what I have written. The economic consequences of this backlog issue if left unresolved are huge ... and mounting.

Given the somewhat convoluted governance structures of Canada the resolution particularly of the funding issues will take determination, goodwill and political will at all levels of government and from the populace at large.

Good Luck with all of that ... my suggestions²¹ - coming from many years consulting on these matters - as to how it might be done are on the record but are not within this papers scope.

Our New Zealand local government act of 2002 is an excellent model, a modern balanced mix of social and economic aims and should be seriously considered for adoption in this light.

I have been fortunate over the last three years in particular to work in your wonderful country (and the home of my birth) to discover a warmth, sincerity and support for my work designed to assist with improving local government performance. Changes however have not emerged yet, although the sentiment for necessary reforms appears to be genuine. Time will tell.

An overseas expert arriving on a foreign shore to deliver a sermon on how to do things, not surprisingly is often greeted in stony silence ... and with scepticism.

But I have been visiting and working in Canada long enough to learn that we, (NZ-Can) are ‘different’ and often in unsuspected areas. The constitutional differences and the role of the trade unions are two very major environmental factors that impinge ‘differently’ upon local government performance in our two countries.

²¹ Frontier Centre’s www.fcgp.org has numerous references in the local government panel to what constitutes good local government. The recent (March 2009) item titled ‘*The Municipal Infrastructure Money-go-round*’ covers the funding conundrum.



New Zealand is a small country and is light footed and more flexible than most as a result. The good news for Canada-Alberta is that local government reforms can take place at the ‘smaller’ sub-national provincial level. To this degree the two countries are perhaps closer than might be first thought in terms of their change environments.

There is also nothing preventing individual municipal units from adopting many of the best practice processes of themselves. There are a few who have commenced to do so already starting in the performance reporting area. A piecemeal approach is no substitute for a comprehensive one and individual municipalities would struggle without the support of legislation (with audit coverage) over their best practice initiatives.

Exactly how all of this will pan out ... *frankly I don't know* ... yet. I look forward though to our discussions on ‘*the how to*’ issues for a reform approach that suits Alberta.

If it is best governance and practice that is being sought for Alberta (and Canada) then our New Zealand experiences will assist with models of:

- local government structure ... amalgamations and law changes and
- best international local government practice ... financial and asset management principally.

The New Zealand story is by no means the Holy Grail but if our experiences with local government change can help ... then at the very least we can claim ... *We sure have had a lot of them!*

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