



Report from the Controller and Auditor-General, Water and Roads: Funding and Management Challenges

Report of the Local Government and Environment Committee

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Report from the Controller and Auditor-General, Water and Roads: Funding and management challenges

Recommendation

The Local Government and Environment Committee has considered the report of the Controller and Auditor-General, Water and Roads: Funding and Management Challenges, and recommends the House take note of its report.

Introduction

A key responsibility of local authorities is the management of infrastructure delivering essential services: roads and the “three waters” (water supply, wastewater, and storm water). In New Zealand these assets are collectively worth more than \$100 billion. The Office of the Auditor-General has investigated the state of the infrastructure, the maintenance done by local authorities, and what is needed to ensure the provision of these services in the future. The Office analysed the asset management practices of 31 selected local authorities that between them own 74 percent of local authority property, plant, and equipment assets nationwide.

Key concerns

In the 2007 to 2013 period reviewed in the report local authorities consistently spent less than they budgeted on capital projects. It was noted that local government infrastructure and capital management needs to improve to meet the challenges ahead. While most local authorities’ planning and funding is adequate for the short to medium term, there is concern that not enough attention has been paid to managing infrastructure strategies in the long term. The Office of the Auditor-General expressed particular concern that the ratio of forecast expenditure on renewals to depreciation in local authorities’ 2012–22 long-term plans shows a downward trend in asset reinvestment. It estimates that if actual spending trends continue to match those forecast, the gap between asset renewals expenditure and depreciation in the local government sector could be from \$6 billion to \$7 billion by 2022.

The issues that underspending raise are exacerbated by local authorities’ use of data. This is particularly apparent in the management of below-ground assets; local authorities were found to have invested more in roads than in their three waters assets. The Office’s report questioned whether local authorities could make effective decisions about capital expenditure without good information on the performance of network assets.

Society of Local Government Managers

The Society of Local Government Managers (SOLGM) told us that the report raised some real issues, and indeed the management of the infrastructure deficit by local authorities is more complex than the report suggests. SOLGM pointed out that better asset management

and choosing not to renew assets would appear as deficits on an authority's books. It suggested that the issue of infrastructure deficits needs further investigation, and advocated a number of measures to address funding shortfalls and ensure good management of infrastructure assets.

SOLGM cautioned that managing demand might have to involve charging for services. It noted evidence from New Zealand and overseas that price is an effective demand management tool. It remarked that the policy framework regarding charging and pricing for water is rather haphazard. Road pricing is an even more complex and controversial issue.

SOLGM also expressed concern that the local government sector is not investing enough in upskilling staff, and recommended that councils increase their training for both elected members and council staff. Some local authorities, particularly in rural and provincial areas, also find it difficult to retain skilled staff.

SOLGM supports the recent introduction of mandatory 30-year infrastructure strategies, but cautioned that those drawn up so far appear to fall short in allowing for economic and population growth or ensuring infrastructure resilience. Strategic planning will have to involve communities considering the levels of service they will be able to afford, and perhaps reducing some.

Local Government New Zealand

Local Government New Zealand (LGNZ) represents the interests of local authorities. It agreed with the Office of the Auditor-General's perception of a changing trend in water and roads, but argued that New Zealand's asset management is generally better than that of its overseas counterparts. It acknowledged a "potential" deficit, and various pressures on funding, including New Zealand's ageing population, but argued that more information is required. We were assured that there is little chance of an imminent catastrophe.

LGNZ acknowledged that it is difficult to prioritise appropriately the management of and investment in relatively invisible water and road infrastructure. They pointed out also the political pressures of three-year terms, which make elected representatives wary of increasing rates. Expensive but necessary infrastructure projects may fail to capture the support of ratepayers.

We heard that technology will increasingly help to assess and cut infrastructure costs. LGNZ suggested central government should help local authorities, particularly smaller councils, to access technology for such purposes as inspecting underground assets and data collection and analysis.

Asked about the potential impact of climate change on water and roads, LGNZ said it was working on assessing natural hazards and reviewing the local government insurance market. They acknowledged that addressing climate change will require "difficult" conversations with communities and a coordinated approach from local authorities.

LGNZ acknowledges wide variation in local governments' capability. It provides training and development to encourage best practice across the local government sector.

We asked why annual renewals as a percentage of depreciation have dropped significantly in recent years. LGNZ said it is not yet certain, but suspects new technologies may be a contributing factor as well as underinvestment.

We asked LGNZ about the falling trend in New Zealand Transport Agency subsidies for rural roads. It argued that problems in the One Road Network Classification will result in long-term underinvestment. LGNZ expressed the view that the current prioritising of Roads of National Significance cannot be sustained at the expense of rural roads.

LGNZ agreed with SOLGM that charging frameworks are variable, but related this to the different circumstances of different local authorities.

Appendix

Committee procedure

The report from the Controller and Auditor-General, Water and Roads: Funding and Management Challenges was referred to the committee on 25 November 2014.

We heard evidence from the Controller and Auditor-General, the Society of Local Government Managers, and Local Government New Zealand, and received written evidence from the Controller and Auditor-General.

Committee members

Scott Simpson (Chairperson)

Matt Doocey

Paul Foster-Bell

Julie Anne Genter

Joanne Hayes

Tutehounuku Korako

Ron Mark

Todd Muller

Eugenie Sage

Su'a William Sio

Dr Megan Woods