

To blame or not to blame
(the bean counters),
that is the question

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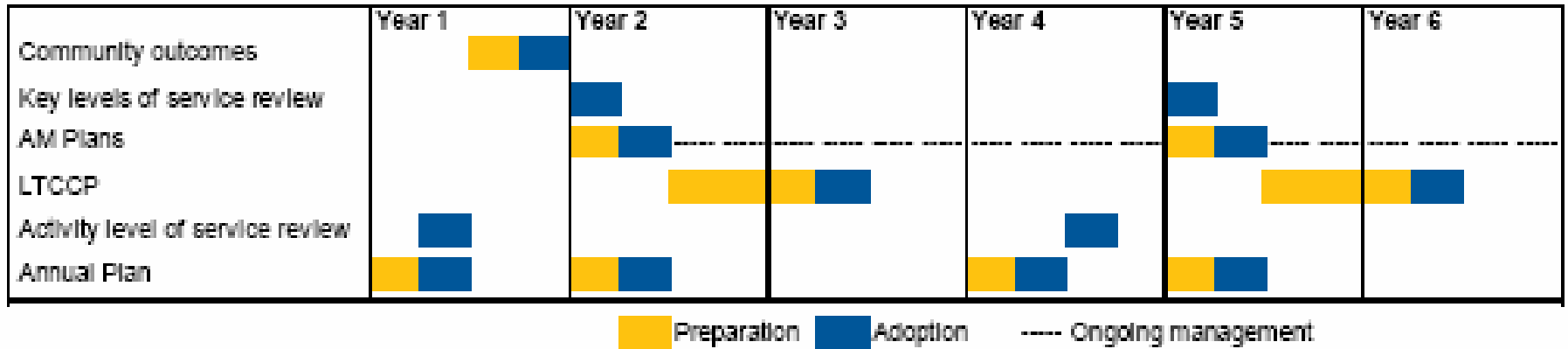
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Summary of issues

- AMPs are prepared or revised as part of the LTCCP process based on expected or proposed levels of service.
- Then when consolidated LTCCP financials there are often cuts made to the supporting expenditure of the asset management plan.
- Often this comes as a surprise to the asset manager.
- How do we prepare for the “surprise”

LOS AMP & LTCCP timeline



As per NAMS Developing Levels of Service and Performance Measures section A2/4

Council Road Map

What people see

Council processes

Planning Inputs

Costs of services or budget = Revenue requirements

Operations & Maintenance
Depreciation
Capital expenditure
Renewal
Development

Funding or budget = Revenue requirements

Council's response to Community outcomes

Council's Activities

Well beings

Community Outcomes

Levels of service

Community expectations

Funding and Financial Policies

Asset Management Requirements

Legislation

Revenue choices

Rates, Fees, Contributions

Borrowing, use of Reserve funds

Borrowing & debt management

Long Term Council Community Plan

S 93 - 97

Annual Report

Annual Plan

Actions

Example

The completed AMP

- Reflects the level of service
- Discloses (for the next ten years)

Operational & maintenance 

Depreciation based on remaining useful lives following condition assessment 

Renewal expenditure based on condition assessment 

Discloses capital into additional level of service and meeting growth requirements 

Example (1)

The new Asset Management Plan has the following impact:

- Increase in rates
- Increase in debt
- Increase in development/financial contributions
- And worse other activities are proposing to exceed their previous rates

The problem

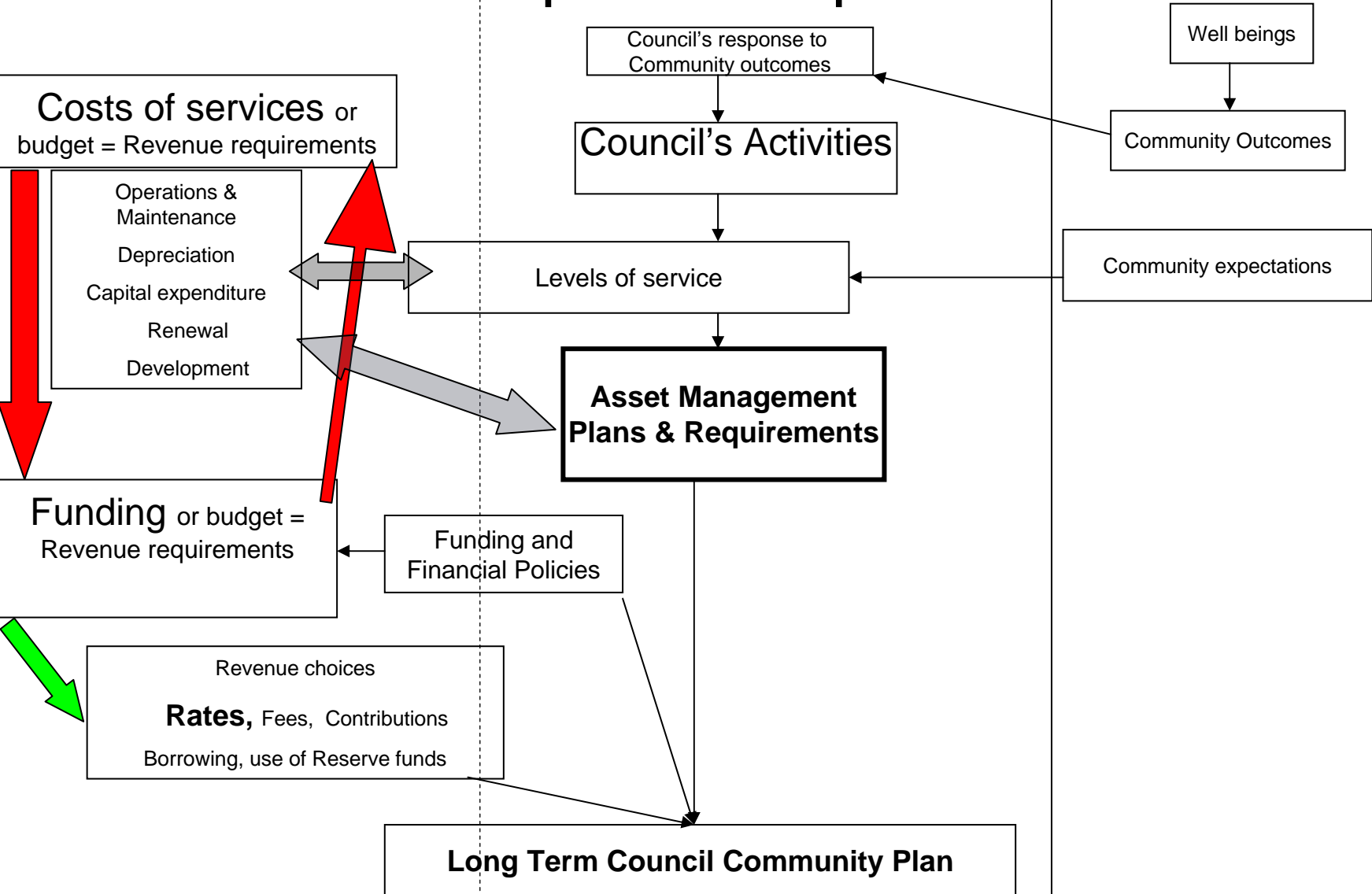
- There are not enough black beans (income) to go around
- Why?
- There are too many red beans (we are in the red)



We are out of balance



The impact of expenditure



Four options or approaches

1. Prepare a draft AMP - modify after reductions so AMP and financials LTCCP agree
2. Adopt AMP and by way of appendix disclose cuts
3. Be ready for “cuts” and prepare AMP on the basis that cuts could happen
4. Obtain from council comfort levels

The problem with options 1 & 2
Have we got the right answer?



Option 3

- Within the AMP estimate the level of pain
 - Last period rates
 - Estimate the impact of the work programme on rates/debt
 - Prioritise what expenditure (Capex & opex) **could** be cut
 - Know the consequences of the cuts

What are the consequences of reducing expenditure

- Level of service
- Increased risk of failure
- Future expenditure
- Consumer complaints

Leads to a risk management approach

Level of service

- Reducing expenditure will reduce the level of service
- Reduced LOS may not happen straight away

So

- Restate the level of service
- and will the stakeholders (Governance and customers) be happy with that?

Increased risk of failure

- By reducing/deferring expenditure
- Is there an increase the risk of critical assets failing?
 - What are the contingency plans (consider funding)
 - How does that impact of LOS
 - What is the political risk

Future expenditure

- By reducing expenditure now - does this lead to additional expenditure in the future
- Identify
 - When that will happen
 - How much that will be
- Can this be mitigated against

Consumer complaints

- Be ready - anticipate
- System to record complaints
- Provide consumers the reasons



Option 4

- Before the next the LTCCP (or LTP)
 - Before you revise your AMP
- Go to Council with an issue paper
 - What are the issues facing your assets
 - What are existing rates
 - What are the LOS
 - Future opex & capex
- Ask Council what level of rates increases are acceptable

Option 4 (2)

- Prepare AMP on the basis of rates and note the impact on the following
 - Level of service
 - Increased risk of failure
 - Future expenditure (outside of 10 years)
 - Consumer complaints

We are in balance



Questions