

Memo

3 February 2020

To: Value for Money Committee
From: Matthew Walker, Group Chief Financial Officer

Subject: Value for Money Programme - briefing

Background

1. The Local Government Act 2002 (LGA) section 17A requires all councils to undertake regular reviews of the cost-effectiveness of their delivery of “good-quality local infrastructure, local public services, and performance of regulatory functions”. The LGA also requires that these reviews “consider options for the governance, funding, and delivery of infrastructure, services, and regulatory functions”.
2. Auckland Council has several strong drivers for seeking to manage costs and chose to broaden the 17A process into a much more robust vehicle than that required by the legislation. Since 2017 a systematic approach to reviewing services and activities has been undertaken, incorporating the legislative requirements of s17A. The programme was initially overseen by the Finance and Performance Committee, but in March 2018 the Terms of Reference of the existing Appointments and Performance Review Committee were amended to provide governance oversight of the Value for Money (VfM) programme.
3. The previous VfM programme had a number of distinct features designed to ensure maximum effectiveness i.e.
 - A broader approach than just that required by the LGA – the programme has looked at value in a strategic sense i.e. the value to Auckland from the four wellbeing perspective, rather than just the cost of delivering the activity. Value has been assessed using an evidence base and benchmarking against comparable organisations. It has also taken a group perspective by including the relevant activities in CCOs as part of the review.
 - A consistent methodology for each service/activity – this has allowed the development and evolution of a framework and reports that are consistent in their presentation to decision makers, transparent to all stakeholders, and resulted in the development of internal capability which can be applied to a range of issues. It has also assisted in identifying common themes across the individual parts of the programme.
 - Oversight and input from an Independent Reference Panel – the members of the panel brought in-depth experience from their backgrounds in engineering, public policy and the legal profession. The elements of independent challenge, an outside perspective and professional credibility have been valuable assets to the overall process.
 - External expertise as required – a number of the projects have used external subject matter experts to challenge the review findings, ask the right questions and add another perspective. Included in this expertise has been: an expert in the water industry for the Three Waters review; a communications expert for the communications and engagement review; a Te Ao Maori advisor, to ensure that Maori interests have been considered in the relevant reviews.
 - Governance oversight and ongoing monitoring of expected benefits – this ensures that there is continued focus on delivery as well as review.
4. The potential financial benefits of the projects completed to date are estimated to be \$430 million over ten years. \$270 million of this was realised in year 1.

5. At the conclusion of the last term of the council, the Appointments, Performance Review and Value for Money Committee, received a report reviewing the programme and resolved that a Value for Money programme briefing paper be prepared by the group chief financial officer for the incoming council.

Drivers for continuing the programme

6. Many of the drivers to continue with the programme are unchanged from the original impetus for the current programme i.e.
 - The legislative requirement to continue with s17A reviews
 - The challenges of Auckland's ongoing growth and managing the costs and debt constraints associated with funding that growth
 - A best practice approach to ensuring that ratepayers are receiving best value for their money through optimising service delivery and costs
 - Ongoing governance and organisational focus on the trade-offs between costs to ratepayers and the levels of service that are demanded in different activities
 - Transparency to the community of such trade-offs.
7. In addition, the macro issues that face the Council and NZ generally (climate change, housing provision, environmental degradation) are making significant demands on constrained resources. Continuing a programme that ensures funding is released wherever possible to meet these increasing costs is essential in some form.
8. The VfM programme can also have a part to play in improving the community's trust and confidence in Council's performance. It provides the assurance that Council takes its responsibilities seriously in managing public funding through a robust programme of reviewing all activities with independent oversight. Given the global decline in trust in governments and institutions (e.g. Edelman Trust Barometer 2019), providing such assurance is valuable.

Shape of the future VfM programme

9. The future form that the programme takes and the amount of effort and resource that go into it are essentially governance decisions. Council could adopt a more minimalist, legislative compliance approach. This is not recommended for the reasons set out above and was not the preferred option of the previous Appointments, Performance Review and Value for Money Committee.
10. At the end of the last term of Council a report to the Committee recommended that the programme continue and identified that the key issues for consideration included:
 - Aligning the VfM programme with other initiatives (such as the annual efficiency savings, the simplification project) to ensure there is an integrated overview of all of these activities
 - Acknowledging the wider approach to measuring "value" that the VfM programme brings and capturing that within the integrated approach (i.e. that value is more than simply cost reductions)
 - Aligning the integrated programme with the next Long Term Plan process
 - Determining the programme approach in terms of specific groups of activities, cross cutting projects or a mixture of both
 - A project structure that provides for appropriate political leadership and direction, particularly in those community facing activities which impact at a local level

- An ongoing role for independent oversight (such as the Independent Reference Panel)

Alignment of the VfM programme with other relevant initiatives

11. One of the key linkages for the VfM programme is the Long-term Plan 2021-2031 (LTP). Work will commence on this during 2020. The LTP process considers the work programme and its associated financial implications for the next 10 years. Specific consideration needs to be given to the trade-offs of where limited funding resources are applied. The linkages with the VfM programmes (and other cost savings initiatives) are:
 - Identifying cost savings from existing projects, services and activities and ensuring that these are captured in the forecasting
 - Consideration of the relative priorities of new or expanded projects and activities for any available additional funding
 - Providing the vehicle for any VfM initiatives which may need community consultation.
12. A review of the CCOs has been initiated in recent weeks. How activities are delivered, and to what level of service, are key issues for s17A reviews. The VfM programme will need to be aligned with the relevant outputs of the CCO review.
13. Other efficiency and cost saving projects, initiated from different processes, will be managed and reported so that the council has a comprehensive view of financial impacts of the VfM and other programmes.

Programme of work

14. Ten groups of activities have been through the review process these are:
 - Three waters
 - Domestic waste services
 - Investment attraction and global partnerships
 - Communications and engagement
 - Group procurement
 - Information and communication technology
 - Customer services
 - Group financial services
 - Parks and open spaces
 - Group legal and risk management services.
15. The Terms of Reference for Group Human Resource Management Services were approved and work on the review commenced but is currently on hold (see status report). Other activities such as Regional and Local Planning, Economic development, Community Services, Regulatory services, etc. were to be programmed from early 2020 onwards. This would continue the existing approach of basing the reviews on the groups of activities as set out in council's public documents such as the 10-year budget (LTP) and Annual Report, however there are opportunities for alternative approaches to the review programme such as:
 - a) A focus on cross-cutting functions with the potential for common approaches and therefore increased value for money. Procurement was an early example of this, other potential areas are: asset management, capital programme delivery, contract briefing/management, property management and project management.

- b) Reviewing areas where renewal of major contracts for service are due in the medium term e.g. community facilities
- c) Identifying those priority areas which require review leading into the LTP process – particularly where they may require community consultation because of changes in service level, mode of delivery or governance structures.
- d) Activity areas that may be impacted by the review of CCOs.
- e) The operating model for some council services, particularly where the current model is of a mixture of in-house and outsourced service delivery.

Independent overview of the programme

16. The current VfM programme has utilised an Independent Reference Panel (IRP) for oversight and input. The members of the previous panel brought in-depth experience from their backgrounds in engineering, public policy and the legal profession. The elements of independent challenge, an outside perspective and professional credibility have been valuable assets to the overall process.
17. It is recommended that the programme continues to have this independent oversight and input. It is also recommended that there be more regular engagement of the IRP with the governance of Council (elected members) and CCOs (boards of directors). This would enable the IRP to present their independent assessment directly to the governors rather than via the staff reports.
18. Moving forward the most appropriate mix of skills on the panel might change depending on the work programme that is agreed. The public policy element will be a consistent requirement given the nature of local government. Other skills/experience that are likely to be useful are legal, asset management, customer services, community engagement and organisational transformation. It is recommended that, following agreement of the VfM forward programme, the Group Chief Financial Officer, as previously, identifies and appoints appropriate individuals (maximum of three) to the panel.

Programme governance structure

19. In the previous term of Council the VfM programme reported initially to the Finance and Performance Committee and subsequently to the Appointments, Performance Review and Value for Money Committee. This Committee then recommended actions to the Governing Body. Key issues for consideration in the governance structure (many of which have been addressed already) are:
 - Delegation from the Governing Body – it is more efficient if the VfM programme was overseen by one committee – this has been addressed through the creation of the Value for Money Committee reporting directly to the Governing Body.
 - Engagement with the governance of the CCOs – many of the specific projects within the programme rely on a cross “council family” approach. One of the issues identified in the VfM review at the end of the last term of council, was the difficulty of ensuring effective implementation when staff of CCOs have their own governance structure and their own priorities. The CCO review may give some guidance to addressing these issues going forward.
 - Involvement of local boards – as the VfM programme moves to activities that are community facing, there will be an impact on services and assets over which the local boards have a governance role. The Governing Body continues to be responsible for funding all activities (through the setting of the general rate), however, the local board has decision making over local activities and assets. Work recently completed on local board involvement in regional policy and plans, provides guidance for how this should be approached for activities where local boards have a governance role. The boards would be invited to nominate representatives to workshop the implications with the committee at

the appropriate stage (Terms of Reference) and then all local board views would be sought on the review findings report, before reporting back to the committee.

- Independent Maori Statutory Board (IMSB) – the IMSB has been appointed to the Value for Money Committee.
- Independent advice – the committee will have an ongoing monitoring role for the delivery of the VfM programme and achievement of the identified benefits within each project. IRP members develop in-depth understanding of elements of the council activities and it may be valuable to utilise this knowledge more widely. One way of doing this could be by assisting the committee in challenging the report back process. Appointing the Chair of the IRP to the committee (as has already happened) is a very helpful initiative. As well as acting as an independent and well informed “challenger” of the monitoring process, the IRP Chair can act as the interface between the committee and the panel as a whole.
- Structure of committee meetings –the committee is likely to become a key interface between local boards and CCOs as well as ongoing engagement with the IRP. For this reason, it is suggested that committee meetings continue to be structured around a regular workshop component (which may be more significant going forward) and a formal meeting component at each scheduled meeting.

Communication

20. The VfM programme can have a key role to play in improving the trust and confidence of the community in the council’s financial performance. In order to do this, the results of the programme should be published on a regular basis. A separate report from the IRP on an annual basis could also provide an independent view of council’s performance in addressing its delivery effectiveness. This should become part of the Terms of Reference for the future IRP.