

6 July 2012

Allan Prangnell
Wellington City Council
PO Box 2199
101 Wakefield Street
Wellington

Dear Allan Prangnell,

Please find attached the McGuinness Institute's submission on *Local Government Reform in Wellington* to the Wellington City Council. The McGuinness Institute works to contribute strategic foresight to long-term planning and therefore welcomes this opportunity to contribute research on the city's local government reform options.

We would also welcome the opportunity to present further comment during an oral submission, and wish to register our interest in doing so.

Kind regards,



Wendy McGuinness
Chief Executive



Rory Sarten
Head of Research

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About the McGuinness Institute

The McGuinness Institute, formerly the Sustainable Future Institute, was founded in 2004 and is a non-partisan think tank working towards a sustainable future, contributing strategic foresight through evidence-based research and policy analysis.

Introduction

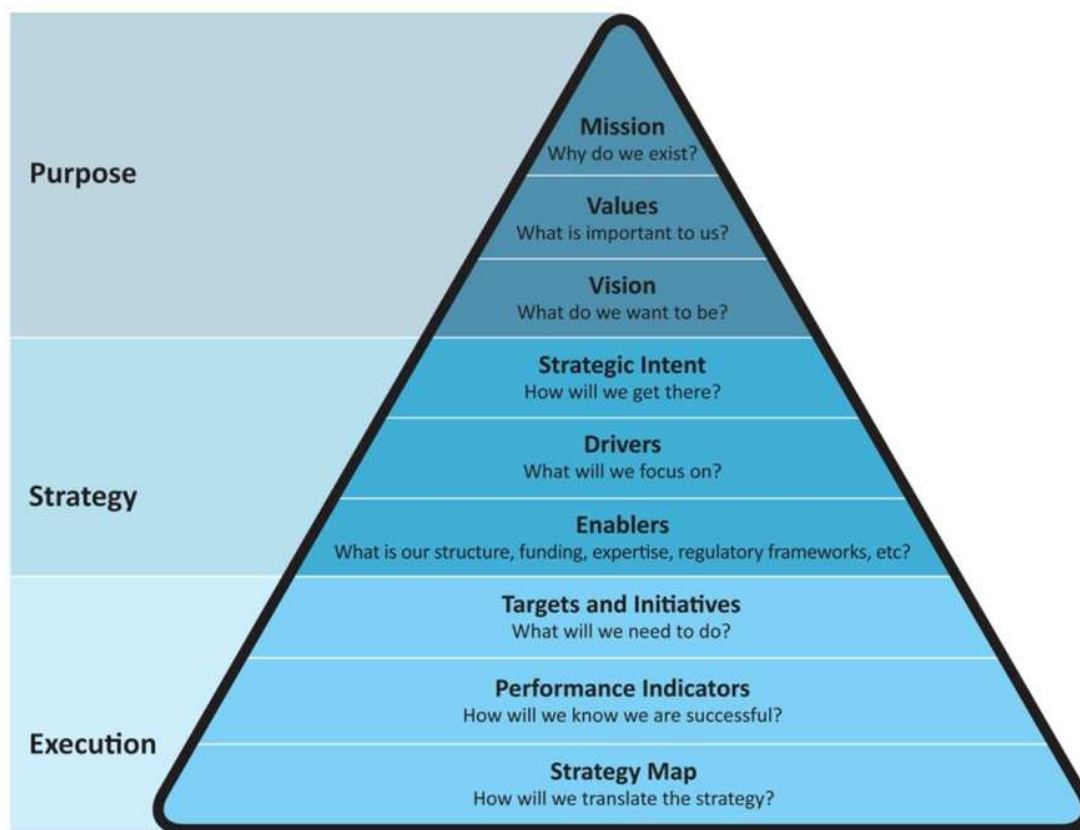
The McGuinness Institute believes that both strategy development and operational planning is essential to delivering long-term benefits to New Zealanders.

The landscape of local government in New Zealand is changing significantly. The creation of the Auckland 'super city', representing around 1.5 million people has altered the nature of local government relationships with central government. Alongside this, the focus on development and renewal in Christchurch means that both Auckland and Christchurch cities will have an inordinate level of influence on central government in the coming years. Further, the Government's proposed amendments to the *Local Government Act (2002)* shifts the role and focus of local government institutions to reflect the current central government's focus on fiscal responsibility and efficient delivery of services.

In the Institute's submission on the *Wellington City Council Draft Long Term Plan*, we highlighted a robust strategy development process as the most effective means of identifying and then achieving a desired outcome. We posited the Strategy Pyramid (see below), developed by the Institute, as an effective way of approaching strategy development. The Strategy Pyramid illustrates the consecutive processes by which a strategy is developed, beginning with a purpose and ending with a plan of execution. Questions about how goals and aims will be achieved cannot come before questions about why goals and aims need to be achieved, which in turn cannot come before questions about what the goals and aims themselves actually are. Further detail on this strategy pyramid can be found in Appendix 1. In responding to this invitation to comment, we will draw very heavily on the following strategy pyramid below.

We outline two significant areas of concern below.

Figure 1: Strategy Pyramid



Issue One: Concerns over changes to the proposed purpose of local authorities

The purpose of local government in New Zealand set out in the Local Government Act 2002 is:

‘to enable democratic local decision-making and action by, and on behalf of, communities; and to promote the social, economic, environmental, and cultural well-being of communities, in the present and for the future.’

The Local Government Act 2002 Amendment Bill 2012 seeks to change this statement so that the new purpose of local government in New Zealand is:

‘to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most effective for household and businesses.’ Good quality is defined as ‘infrastructure, services, and performance that are ... efficient ... and effective ... and ... appropriate to present and anticipated future circumstances.’

This change in the purpose of local government will change the mission of local authorities, moving them from having a community focus to being a service provider. Of concern to the Institute is the proposed amendment to replace the reference to 'social, economic, environmental and cultural well-being of communities' with the new purpose of 'providing good quality local infrastructure, public services and regulatory functions *at the least possible cost to households and businesses*'. It is important to consider how this proposed change in purpose may lead to the need for a greater regional focus.

Issue Two: Separating strategy from planning

The Institute is concerned that under the pressure of central government to create greater efficiencies and streamline planning processes, local governments may be at risk of over planning and under strategising. Planning decisions should be made on the basis of a clearly defined strategy, and therefore should not precede strategic thinking. The relationship between a plan and a strategy is explained:

'Strategy is about understanding your environment and making choices about what you will do. Planning is about making choices about how to use the resources you have and the actions you will take to achieve the choices that were made.' (Jones, n.d.) It is clear the local governments in New Zealand are experiencing a period of change, in which councils need to be responsive and adaptable. It is important that councils respond to this environment strategically; which means exploring strategic options and regional fit first, before completing detailed plans allocating finances and resources.

Much of the central government thinking about local government reform appears to be based on an assumption that greater efficiency in local government requires greater amalgamation of city and regional councils. It is important that the Wellington City Council tests this assumption against a set of hypotheses about cause and effect and then considers how these effects compare with the councils desired outcomes, goals and aims, before it commits to any decisions to merge with other councils.

The Institute believes that as a result of the changing landscape of local government in New Zealand, change to the local government structure in the Greater Wellington area is necessary in order to access the benefits of engaging in high-level, strategic decision-making that can achieve unified outcomes and works with, and can leverage, central government.

The Institute believes that this requires thinking about the relationship between strategy and planning at different levels of local government, arguably strategic thinking at a regional level and operational planning at a local level. We believe the regional level is the best arena for strategic thinking to take place. This means that planning is more appropriately conducted at a local council level as it involves decision-making about specific resource use that is best coordinated by local area representation with specific knowledge of the needs and resources of the community. This means that local and regional authorities both play important but different governance roles.

Appendix 1: The Nine Pillars of the Strategy Pyramid

The *Strategy Pyramid* is a robust strategy development process that has been developed by the Harvard Business School and then adapted by the McGuinness Institute. The pyramid has three overarching components, purpose, strategy and execution. Each of these is further divided into three stages that are approached as high-level strategic questions. In total it forms nine steps that should be worked through linearly and are shown in image below.

Our approach has drawn heavily on the work of Robert S. Kaplan and David P. Norton, professors at the Harvard Business School who pioneered the strategy mapping process.¹ Another important influence on our approach comes from another Harvard Professor, Robert Simons, whose work demonstrates how important it is to be constantly asking the right strategic questions. He proposes seven key questions that should be asked in order to anticipate change and respond in a way that repositions yourself, your entity, your city or your country as competitive.²

1. Mission – Why do we exist?

The first pillar, the mission, is about ensuring there is clarity as to what the role of the Wellington City Council is and what would happen if it did not exist. Establishing the council's mission requires asking questions about why particular forms of government are better than others for improving a community's well-being and providing local services. Understanding why a system exists is an important starting point for designing an optimal system.

The purpose of local government in New Zealand set out in the *Local Government Act 2002* is 'to enable democratic local decision-making and action by, and on behalf of, communities; and to promote the social, economic, environmental, and cultural well-being of communities, in the present and for the future.' *The Local Government Act 2002 Amendment Bill 2012* seeks to change this statement so that new purpose of local government in New Zealand is 'to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most effective for household and businesses.' Good quality is defined as 'infrastructure, services, and performance that are ... efficient ... and effective ... and ... appropriate to present and anticipated future circumstances.'

This change in intent of local government will change the mission of local authorities, moving them from a communities focus to a service provider. Of concern to the Institute is the proposed amendment to replace the reference to 'social, economic, environmental and cultural well-being of communities' with the new purpose for councils of 'providing good quality local infrastructure, public services and regulatory functions at the least possible cost to households and businesses'.

¹ See, Robert S. Kaplan & David P. Norton (2008). *The execution premium*. Harvard Business Publishing.

² See, Robert Simons (2010). *Seven Strategy Questions: A simple approach for better execution*. Harvard Business Publishing.

This means that it remains unclear who will fill the gap given that households and business do not make up the whole community? Although the proposed reforms are still in the relatively early stages of the legislative process, the government has invited public submissions on the proposed changes, due July 26, 2012. It is at this time that the question of why local authorities exist will be explored, tested and reflected upon. In reality, it will only be once the law is changed that we will be clear why local authorities exist.

2. Values – What is important to us?

The second pillar is a set of shared values. A clear set of values should be driving change, not treated as an add-on after the main event. When rules and regulations fail, or as shown in the case of the Christchurch earthquakes, when urgent issues arise, values are all we have. The right values enable those within the system to know right from wrong, know good governance from bad, improve communication, collaboration and teamwork, and allow the system to respond consistently to ideas and issues, risks and opportunities, and emerging challenges.

According to the Wellington City Council's Code of Conduct, the council's shared value set are:

- **Public Interest:** Members should serve only the interests of the city as a whole and should never improperly confer an advantage or disadvantage on any one person, or group of persons.
- **Honesty and Integrity:** Members should not place themselves in situations where their honesty and integrity may be questioned, should not behave improperly and should on all occasions avoid the appearance of such behaviour.
- **Objectivity:** Members should make decisions on merit including making appointments, awarding contracts, or recommending individuals for rewards or benefits. Members should also note that, once elected, their duty is to the interests of the entire city.
- **Accountability:** Members should be accountable to the public for their actions and the manner in which they carry out their responsibilities, and should cooperate fully and honestly with the scrutiny appropriate to their particular office.
- **Openness:** Members should be as open as possible about their actions and those of the council, and should be prepared to justify their actions.
- **Personal Judgment:** Members can and will take account of the views of others, but should reach their own conclusions on the issues before them, and act in accordance with those conclusions.
- **Respect for others:** Elected members should remember the respect and dignity of their office in their dealings with each other, management and the public. Members should treat people with respect, regardless of their race, age, religion, gender, sexual orientation, or disability, and should not unlawfully discriminate against any person or group of persons.
- **Duty to uphold the law:** Members should uphold the law, and on all occasions, act in accordance with the trust the public places in them.

- **Stewardship:** Members must ensure that the council uses resources prudently and for lawful purposes, and that the council maintains sufficient resources to meet its statutory obligations.
- **Leadership:** Members should promote and support these proposals by example, and should always endeavour to act in the best interests of the community. (WCC, n.d. [a])

Ideally any changes should be considered in terms of whether shared values exist, and where values are different. Getting this right is critical in order to ensure the framework operates in accordance with the shared values of the region.

3. Vision – What do we want to be?

The third pillar calls for a compelling vision; one where short-term compromises and hard work are acceptable because all the parties like what the trade-offs will deliver. This means that there must be real clarity over the long-term benefits and that those benefits are something that all parties want delivered to their community in the future. The vision must be able to create a description of a desired future destination, and time, that is compelling and succinct, so that it is (i) easy to navigate to and (ii) stakeholders know when they have arrived.

The Wellington City Council has put forward a vision statement of ‘Wellington is a lively city with a thriving cultural life, talented people, and cutting-edge businesses. It’s the nation’s capital, home to three universities and has the country’s highest average income. It is also a compact city with a dramatic landscape and good infrastructure.’ (WCC, n.d. [b])

Our initial response is that this vision statement is too long and is therefore not compelling enough. An example of a good vision is Sir Callaghan’s vision for New Zealand as ‘a place where talent wants to live’.³

4. Strategic Intent – How will we get there?

The fourth pillar is strategic intent. Without transparent processes in regard to the identification and selection of strategic options, an optimal strategic direction will not be developed. A strategic intent is the framework of broad decisions an organisation makes about its competitive strategy. An organisation needs to put in place a clear strategy that says as much about what it will not focus on, as what it intends to focus on. Strategic intent is broad enough to provide consistency to short-term action, while leaving room for reinterpretation as new opportunities emerge (Hamel & Prahalad, 2010: 11).

The Wellington City Council *Draft Long-Term Plan 2012-22* identifies three priority targets which set out well its strategic intent:

1. **An inclusive place where talent wants to live:** Our economic future depends on our ability to attract and retain people, and employment opportunities, in our city. To do this, we will maintain our investment in those things that make Wellington a great place

³ See, http://mcguinnessinstitute.org/Site/StrategyNZ/speakers/Sir_Paul_Callaghan.aspx
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to live, while increasing our investment in activities that will grow the economy and make Wellington an even more attractive place to work, invest in and visit. By doing these things, we are taking the first steps towards achieving our community outcomes

2. **Resilient city:** To maintain and enhance our city's resilience, we will prioritise investment in earthquake strengthening the city's key infrastructure and work with businesses and communities so that, as a city, we are better prepared for and can swiftly recover from such an event
3. **A well-managed city:** We are committed to providing effective services that are good value for money. To achieve this priority, we will focus on simplifying our processes, making the best use of technology, working in partnership with others, managing demand ahead of investing in new assets, and looking for opportunities to reduce costs or generate income. This will help us stay within the parameters of our financial strategy by keeping rates affordable and managing our debt levels. (WCC, 2012)

5. Drivers – What will we focus on?

The fifth pillar is clarity over the drivers that support the strategic intent. Drivers denote action and answer the question: if we decided to focus on three or four things to achieve the strategic intent, what would they be? It is important to recognise that in making such decisions, there will be necessary trade-offs about what not to focus on. Trade-offs is an essential aspect to strategy development because they create the need for choice. Trade-offs define how individual activities will be configured and integrated (Porter, 1996: 69, 74).

In order for an organisation to make the most of its strategy it has to constantly ask the right questions about what to focus on. Key questions should anticipate change and respond in a way that repositions our cities competitive. Answers to these questions should not only provide insight into the challenges ahead, what is often called foresight, but indicate where time and effort should be focused in the future. As such, these answers can drive strategy (McGuinness, 2011).

The Wellington City Council's long-term strategic vision, *Towards 2040: Smart Capital*, identifies four key drivers for supporting the strategic intent:

1. **People-centred City:** Wellington's people are the city's greatest asset. Wellington's shape and character will continue to reflect the people who live in, work in, and visit the city. Wellington's people-centred city will be healthy, vibrant, affordable and resilient, with a strong sense of identity and 'place'. This will be expressed through urban form, openness and accessibility for its current and future populations.

2. **Connected City:** As a connected city, Wellington's people, places and ideas access networks - regionally, nationally and globally.
Connections will be:
 - physical - allowing for ease of movement of people and goods
 - virtual - in the form of world-class ICT infrastructure
 - social - allowing people to connect to each other and their communities.

3. **Eco-City:** Developing Wellington as an eco-city involves a proactive response to environmental challenges. It recognises the importance of Wellington taking an environmental leadership role as the capital city of clean and green New Zealand. Wellington's many natural assets give the city a head-start and opportunities as part of a green economy.

4. **Dynamic Central City:** As a city with a dynamic centre, Wellington will be a place of creativity, exploration and innovation. The central city will be a vibrant and creative place offering the lifestyle, entertainment and amenities of a much bigger city. The central city will continue to drive the regional economy. (WCC, n.d. [c])

6. Enablers – What frameworks, resources and skill will we use?

The sixth pillar is a set of enablers to achieve the strategic intent. Enablers provide adequate power, means, opportunity, or authority to do something and need to work together to deliver on the strategic intent. Enablers that provide high service differentiation and are highly mission-critical are *strategic* enablers, whereas those that provide low service differentiation yet are still mission-critical are *tactical* enablers. Strategic enablers allow the delivery of services that are unique and differentiated from those of competitors. For example, public transport in Wellington could be considered a strategic enabler if it is better performing than the public transport systems of most other New Zealand cities. However, sewage disposal may be considered a tactical enabler if Wellington does not have a competitive advantage over any other city with regard to its sewer system. Thus, the tactical enabler simply allows the organisation to maintain parity in the market place.

Past experience would indicate that decision-makers tend to focus on changes to the institutional framework, rather than considering the other enablers. This is unfortunate as institutional changes tend to be expensive and time consuming; therefore benefits take time to eventuate. Contrary to past practice, we consider there are real benefits to be gained from fine-tuning the other enablers so that internal cohesion exists and synergies are gained.

The Wellington City Council's *Draft Long Term Plan 2012-22* sets out the following seven enablers: governance; environment; economic development; cultural wellbeing; social and recreation; urban development; and transport (WCC, 2012). Arguably these should be reduced to three or four strategic enablers, as they will help the Council, the staff and the citizens know what will enable the strategy to become a reality.

It is only by having clarity over the six pillars described above, is it possible to develop the following three pillars. For the purposes of brevity, they are only described below. The Wellington City Council's Draft Long Term Plan 2012-22 sets out numerous targets and initiatives, performance indicators and diagrams explaining the resulting strategy.

7. Targets and Initiatives – What will we need to do?

The seventh pillar relates to the need for execution of the strategy, in particular the need for clear targets and initiatives. This is the beginning of the planning stage of the strategy pyramid. It involves working within the constraints of the strategy, deciding what to do about the choices that have already been made. Not only must each target be clear and concise, but the linkages between the target and the initiatives must be logical and achievable. Fundamental to this pillar is the need for the agenda to be a publicly available document. It must not only list the agenda, but also explain how it was formulated, what evidence it was based on, and who was involved in its development. Ideally, the agenda must set out what each initiative or target is trying to achieve, and clarify how the outcomes will create value for the community. This could be explained using influence diagrams, a useful method for showing how one level of targets or initiatives can feed into another.

8. Performance Indicators – How will we know we are successful?

The eighth pillar relates to the need for a comprehensive set of indicators to benchmark progress over time. Performance Indicators must include both financial and non-financial, *strategic* measures of success. In other words, performance must be measured against the organisations unique vision and strategy. The Balanced Score Card method, which articulates the strategy of an organisation across financial, customer, internal and learning perspectives, is a good way of measure strategic performance. (Kaplan & Norton, 1996)

9. Strategy Map – How will we test and communicate the strategy?

The ninth pillar is testing and communicating the strategy to stakeholders through a strategy map. Strategy mapping is a concept that was developed by Professor Robert S. Kaplan of Harvard Business School and Dr David Norton, founder and director of the Palladium Group. Mapping a one page strategy has proven a very useful instrument for bringing about change.

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