



# S O L G M

## NEW ZEALAND SOCIETY OF LOCAL GOVERNMENT MANAGERS

### **A Commentary on the Cabinet Paper “Improving Local Government Transparency, Accountability and Fiscal Management”**

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#### **Purpose of the Memo**

The Department of Internal Affairs has recently released a Cabinet paper from the Minister of Local Government, the Hon Rodney Hide seeking Cabinet approval to begin the above named project (TAFM for short).

The Cabinet paper can be viewed ([insert link here](#)). As the Cabinet paper is in the public domain both it and this memo can be shared as you see fit.

The purpose of this memorandum is to raise awareness of the TAFM project among members, and provide members with an opportunity to comment on the issues raised in the paper.

#### **Objectives and Scope**

The overall purpose of the review is to “give ratepayers and citizens better tools for controlling council costs, rates and activities”. The bulk of the paper is a definition of the scope of the review. The areas of inquiry are set out in the third paragraph and include the following:

- simplifying LTCCPs and giving them a more strategic focus
- considering a local pre-election fiscal update and a local fiscal strategy
- additional “plain English” financial disclosures
- exploration of a local government cost index for benchmarking purposes
- a review of the community outcomes process
- a more focused and less costly performance reporting system
- disclosure of infrastructural asset management information to ratepayers and citizens
- consideration of the circumstances in which polls and referenda could be required for decisions
- mechanisms for developing comparisons between councils.

We understand that the review is likely to touch on other areas, such as the decision making process (sections 76-82 LGA), the future of some policy requirements, and of course the role and future of the audit process.

Paragraph 7 and the associated chart appear to be the Minister's “problem definition” - residential rates have risen at a rate substantially in excess of council input costs. Of course, the figures on which this graph is based are misleading as the rates index, alone of all those shown reflects both changes in cost and changes in the quantity and quality of service provided. In other words any change in level of service – whether mandated by central government (like drinking water standards) or a matter of local choice (like catching up on

infrastructure backlogs, increasing hours a library opens, sealing previously unsealed rural roads etc) will be reflected in the rate numbers. All other indices are strictly controlled so that “prices” for the same quantity and quality of work, pipeline etc are captured. Not only is this an inaccurate reflection of cost, it fails to recognise that the investments local authorities make provide (or are meant to provide) better value.

## Review Items

The Cabinet paper is a scoping paper rather than an in-depth proposal. More detail is required regarding what each of the above areas of inquiry involves, and how the pieces all fit together, Nevertheless the following are some initial thoughts and concerns for your consideration.

### The Role of Local Government

In paragraph 13 the Minister expresses the view that there is a core role for local government. He considers that there would be general acceptance that the core role of local government is transport, water services and public health and safety – with some expansion of what each of these means.

There appears to be little recognition of the community infrastructure – recreational and cultural facilities, community events, community grants, in other words all the services that help shape places and define communities. Indeed the whole approach of core roles suggest a retreat from a focus on outcomes back to local authorities simply being seen as delivering a bunch of outputs. The Auckland Cabinet Papers reveal that the Minister quite clearly sees little role for local government in economic development and what might loosely be termed “social issues”, and that the “place making” role of local authorities that was so central to the Royal Commission’s report does not appear to be part of the Minister’s thinking.

The Department is also considering a second project on the roles and responsibilities of local and central government. It is difficult to see how the Minister would approach this project without a working definition of roles in mind. We have no further information on this project, at this time. In our view it is not beyond the realm of possibility that the Government will attempt to define a core role or roles for local government.

### A Strategic LTCCP

The paper expresses a view – with which we may well agree – that the present LTCCP provisions provide a lot of information to the general public, but not all of it is useful information. The paper expresses an intent to refocus the LTCCPs on strategic issues. As an objective this is something we would support – and recommendations in our *Tuning Up the Engine* submission to the Minister (to see these please click [here](#)) were intended to simplify the documents. We are unconvinced that the direction will actually deliver a strategic LTCCP – it may look different, and have different information in it, but might not make the key issues any more apparent.

In particular we note the possibility that some of the policy disclosures and the so-called “schedule 10 disclosures” might be removed from LTCCPs. *Tuning up the Engine* made the case for retention of a revenue and financing policy and removal of all other section 102 policies from the LTCCP (and the deletion of two mandatory policies altogether).

## **A Strategic Focussed Performance Reporting Regime**

This appears to have come out of a concern that:

1. Joe Public submits on projects rather than levels of service
2. performance management is the source of much angst during the audit process

Some issues for consideration are:

- what is the impact of uncoupling levels of service and financials for “the right debate”?
- what effect (if any) would uncoupling the financials and levels of service have on obligations to manage financials prudently?
- what is the community reaction likely to be to seeing a full set of financials and a list of funding requirements, but only incomplete information on what they get ‘for their money’?
- to what extent might practice improvements address some of these issues (e.g performance measures expressed in a way that is meaningful to Joe Public, more examples of good practice etc)?

## **Mandatory Asset Disclosures**

The paper does not provide much detail as to what information would be disclosed. In the absence of detail, it is difficult to say to what extent the disclosures would cover items already included in Schedule 10, and what if anything would be new. It is similarly unclear what impact such a regime would have on the length and user-friendliness of an LTCCP – especially if disclosures of levels of service and measures are removed. We are also unsure whether the disclosure of more than a modicum of asset information would enhance the strategic nature of the LTCCP.

## **Community Outcomes**

The paper expresses a view that the community outcomes process is being used to widen councils roles beyond core services. Leaving aside whether there is such a thing as ‘core business’ for local government, both the Independent Inquiry into rating and the Local Government Commission Review of the LGA have been unable to find the evidence of any major expansion in activities.

This is not to say that the sector universally found the community outcomes process a helpful exercise. Some of the issues here are:

- what is the real value from the community outcomes process – is it the outcomes themselves or the relationships that get built during the process, and the commitment to joint action
- which groups walked away once outcomes were identified and what could be done to get them back (our guess is it’s the government departments ...)
- should outcomes be identified every six years – or over a shorter or longer period
- what evidence (as opposed to ideological cant) is there that local authorities have actually expanded their role since 2002 and if so is it really the community outcomes process that is the cause.

## **“Plain English” Financial Statements**

The paper makes an interesting observation about the usefulness of accrual accounting as a device for engaging the public on financial matters. The paper seems to advocate the

production of either expanded financial disclosures or a second set of financial information on a “plain English” basis.

The issues to be worked through here include:

- is it truly accrual accounting that is the issue, or GAAP/IFRS requirements, or some combination of the two
- the interface with section 111 of the Local Government Act (the obligation to follow GAAP)
- the interface with GAAP (and especially in an environment where IFRS standards are developed for the needs of the Northern hemisphere capital markets rather than those interest in local accountability)
- the expectations and requirements of capital markets
- the interface with the professional obligations of accountants
- the costs and benefit of additional information.

### **Financial Strategy/Fiscal Envelope**

The Minister is interested in further exploration of the concept of a financial strategy (the so called fiscal envelope) that each individual local authority would set *for itself*. The paper explicitly dismisses centrally mandated and administered rate-capping (and in terms such that few would disagree with).

Of course, some local authorities already set their own fiscal envelope either consciously or subconsciously. Some commentators have suggested that at least subconsciously, the concept of a fiscal envelope has been a significant feature of the 2009-19 LTCCPs (often in the guise of discussions around affordability).

Issues here include:

- what are the long-term consequences of a “rates first” approach for sustainability of service, asset management and the like?
- is a self-set cap really an effective tool for controlling rates (i.e. if it is set at local authority level and can be changed at local authority level) or is it the debate about changing the envelope that is the control?
- which has primacy – the fiscal envelope or financial prudence?
- design of a fiscal strategy (what’s in, what’s out)?
- whether any such fiscal envelope would simply end up being a plausible excuse to run down the condition of assets and push costs onto future generations?

### **Pre-Election Fiscal Update (PREFU)**

The fiscal envelope would be articulated in a document that the Cabinet paper views as something akin to central government’s Pre-Election Fiscal Update (PREFU). In some respects the PREFU appears akin to the Long Term Financial Strategies of the late 1990s. We note with some surprise the Minister’s observation that the media do not pay much attention to local government financial issues (this may be true of the electronic media, but we find this assertion very bald in regards to the print media - especially at local level). It is also not clear to us that the PREFU is an effective device for focusing the public on spending proposals during general elections.

The concept of a PREFU needs careful consideration in terms of:

- the implications for the shape and nature of local elections i.e. will the financial forecasts in a PREFU subsume other issues (i.e. rates become the issue rather than the future of the community, the PREFU acts as a spur for ill-considered campaign promises, and is the PREFU dynamic really that effective in central government)
- the interface between the PREFU and other documents – the intent appears to be that the PREFU would be a scene-setter, but to what extent would it tie the hands of an incoming council.

We understand that there is some possibility that in conjunction with the PREFU, consideration may be given to moving the LTCCP (or its successor) to the first year of the triennium. The intent is that the PREFU would take some of the heavier duty financial forecasting, asset/level of service planning into year three of the triennium and lighten the load. Movement of the LTCCP would resolve some of the concerns incoming elected members sometimes express that they are unable to make significant changes for eighteen months, but does place real importance on the council's post-election induction programmes. Effectively councils would need to start working with the elected members the day they are sworn in.

### **Inter-Council Comparisons**

Paragraph 31 notes that ratepayers find it difficult to compare their council's performance with others. The Minister wishes to explore mechanisms for developing comparisons between councils. This is an item from the National Party manifesto.

SOLGM is exploring some degree of standardized reporting of rates and financial measures through "the template" already (currently out for consultation). It is not clear in the paper what the purpose of the comparison would be, is it to enhance local accountability or is the intent more in keeping with the UK Audit Commission model (which is more about performance managing local government). We will be discussing this at the upcoming Benchmarking Forum (to view a programme please click [here.](#))

### **Audit**

The paper notes that concerns have been expressed about the cost of auditing LTCCPs but of itself makes no further mention of any consideration of audit. However, we are aware that the Department will be looking at this.

SOLGM's position (as expressed our *Tuning Up the Engine submission*) is that the sector has outgrown the need to have all 85 plans audited every LTCCP round. In our view, the full LTCCP audit should be reserved for those with a history of weak plans and those where there is an identifiable risk. We would also like to see more transparent allowance made for performance (or the lack thereof) and risk in the setting of fees.

Some issues include:

- has the community found the independent assurance that the audit provides helpful?
- if not audit, then what mechanisms would be needed to ensure that planning is robust and meaningful?
- is the sector able to effectively self-regulate (which begs the question – why did Parliament consider an audit was necessary in the first place)?
- should the scope of the audit be constrained in some way (the approach in the paper seems to revolve around reducing the range of information in long-term plans) ?
- what mechanisms would be needed to identify those at risk, and whose responsibility would the assessment be ?

## Polls and Referenda

Last, but not least, the Minister is considering circumstances in which polls and referenda could be required for certain Council decisions without saying of what nature. There is a wide range of options for how such requirements might be structured and each would have its own policy and practical issues associated.

Some local authorities have introduced polls – most notably Wanganui District. But some of the issues with polls and referenda are:

- cost
- implications for sustainability of service and prudence – experience with loan polls was that those for community infrastructure projects tended to be more successful than the network infrastructure (especially the out of sight infrastructure);
- who gets to frame the question and by what process?
- implications for representative democracy.

## What About the 2009-19 LTCCPs?

There is both a policy and a legislative process to run before these proposals (or any others) become law. From that perspective, you should continue development of your 2009-19 LTCCP as you planned, and of course under the legislation as it presently stands. It would be unwise to make assumptions that proposal A will proceed or proposal B will not.

## What About Auckland?

The Cabinet paper includes the statement that the changes arising from this process will apply to Auckland unless there is good reason to the contrary. This suggests that people thinking about the role of the future Auckland Council and its proposed subsidiary local boards, may need to turn their minds to how some of the possible outcomes of the TAFM exercise might impact on the proposed new Auckland governance arrangements. This may give rise to issues that people might want to raise in submissions to the Select Committee on the Local Government (Auckland Council) Bill.

## What Happens Next?

We understand the Minister's current intention is that any changes in legislation would be included in a kind of local government omnibus bill that would feature this material and the content for the so-called "third Auckland Bill". The Cabinet paper also suggests that the Minister may take the opportunity to deal with a few other issues. This is tentatively scheduled for September (and will need to be progressed quite quickly after that, especially if combined with the last Auckland legislation). The Department is looking to complete discussions with the sector by the end of July.

The SOLGM Executive has agreed that SOLGM will participate subject to:

- all representations being on a without prejudice basis to further representations that SOLGM will make e.g. through the legislative process
- papers will be shared with the Financial Management and Strategic Planning Working Parties
- the sector (i.e. ourselves and Local Government New Zealand) will have the right to place comments in the Cabinet paper.

We expect that the process will begin shortly, and that the Department of Internal Affairs will be sending us a number of discussion papers to comment on. We will involve the members of both the Strategic Planning Working Party and Financial Management Working Party in assessing the proposals in these documents and coming to a view. SOLGM will have the right to put comments in the final Cabinet papers.

We have made the Cabinet paper, high level though it is, available for any SOLGM member who wishes to comment on the matters raised therein. We anticipate the first of the discussion papers will arrive for comment in the next week to ten days. Anyone who would like to make comments should contact Raymond Horan at [rhoran.solgm.org.nz](mailto:rhoran.solgm.org.nz) or 04-978-1283 by close of play on **15 June**.

Where possible we will keep the sector informed during the process, but note that our ability to participate in these exercises is dependent on the Government having confidence it can seek our feedback without “reading about it the next day”. Having said that, our involvement is on a without prejudice basis, to any representations we make on completion of the policy process – and to that end at the end of the process we will ensure that the Cabinet papers are released and will post these and the comments we make during the process on [www.solgm.co.nz](http://www.solgm.co.nz)