

- 12.001 In 1998<sup>1</sup> we reported on local and central government progress in following up the recommendations we made in 1996<sup>2</sup> on funding the restoration of essential community services following natural disasters. We noted our disappointment that little progress had been made in acting on our recommendations. We still have some concerns.
- 12.002 Over the past year, a number of local authorities have had cause to make claims to central government for assistance in restoration of assets following flooding. Arising from these claims, we have noted the extent to which local government financial management provisions and central government policy appear to be at odds with each other. This is best portrayed by a comparison of local government funding policies with central government criteria for assessing the eligibility of local authorities for financial assistance.
- 12.003 The Local Government Act 1974 requires all local authorities to prepare and adopt a funding policy which shows, in respect of each function of a local authority for each year:
- the allocation of the costs of that function;
  - the rationale for the allocation of those costs; and
  - the mix of funding mechanisms required to meet the total funding requirements of the local authority.
- 12.004 The central government *Recovery Plan* states that, among other things, local authorities shall only be eligible for financial assistance for the costs of repair or restoration if the amount of the damage is greater than a threshold set for the entire district or region. The threshold set is a percentage of the Equalised Net Capital Value – this is derived from a valuation method used to determine the net capital value of the property in a local authority’s district or region at a particular time.
- 12.005 An inconsistency can occur because, on the one hand, the legislation encourages local authorities to consider funding issues by function, taking into account specific issues of fairness and equity. The legislation also acknowledges that a

1 *First Report for 1998*, parliamentary paper B.29[98a], pages 31-37.

2 *First Report for 1996*, parliamentary paper B.29[96a], pages 113-144.

mix of different types of funding mechanisms are needed to suit different user requirements. Often this will require each community to pay its own way.

- 12.006 On the other hand, the *Recovery Plan* assesses the situation based on a threshold which is set for the district or region as a whole. This does not take into account the different funding requirements of specific groups of users within the district or region.
- 12.007 In our view, consideration needs to be given to ensuring that there is no inconsistency when the two different sets of requirements are applied.
- 12.008 We are heartened by the fact that the Department of the Prime Minister and Cabinet, in conjunction with the Ministry of Civil Defence, is taking steps to clarify certain sections of the *Recovery Plan* this year. This clarification will aid local authorities in their determination of the criteria by which claims for financial assistance will be assessed. We have offered to assist officials in this work and will raise the issue discussed above.

