

Introduction

The New Financial Management Regime for Local Authorities

In previous reports¹ we have outlined the requirements of the new financial management regime set out in Part VIIA of the Local Government Act 1974 (the Act).² The provisions of Part VIIA came into effect for the 1998-99 financial year and lay down a three-year cycle for adoption and review of the long-term financial strategy and funding policy.

In our previous reports we also summarised the issues and experiences arising from the implementation of these requirements, particularly in respect of those nine local authorities that elected to implement Part VIIA early with effect from 1 July 1997.³

The purpose of Part VIIA is to promote prudent, effective and efficient financial management by local authorities. We regard these provisions as central to local government legislation because they are concerned with both:

- providing councils with a framework and guidance to enhance their financial decision-making; and
- assisting communities to participate in and make choices about the services, and their associated costs, that they wish to receive from their local authority.

Before the advent of Part VIIA, most councils operated on a relatively short-term planning framework and generally determined their funding requirements by reference to annual cash requirements. Part VIIA introduced a regime founded on transparency and accountability to local communities in local authority decision-making by:

- specifying principles of financial management to be observed in decision-making;

1 *First Report for 1998*, parliamentary paper B.29[98a], pages 61-87; and *Second Report for 1999*, parliamentary paper B.29[99b], pages 13-18.

2 Inserted by the Local Government Amendment Act (No. 3) 1996.

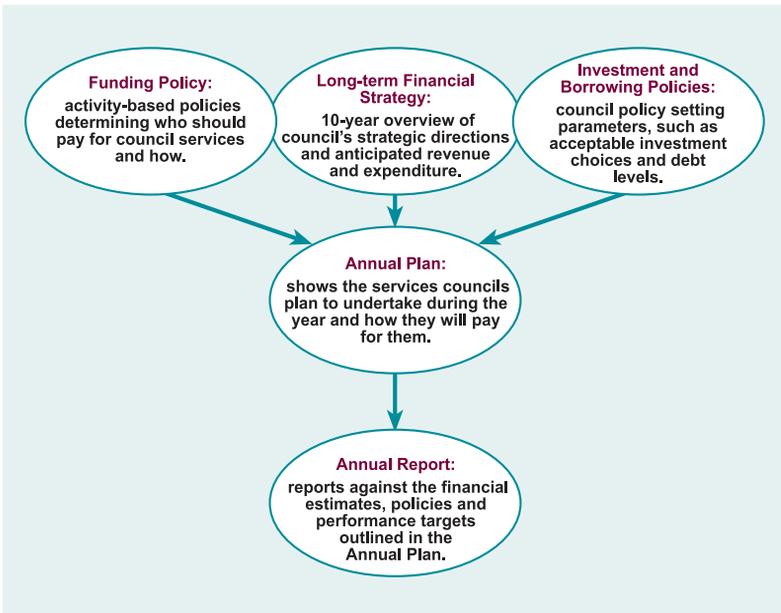
3 Refer *First Report for 1998*, page 63.

- providing a framework for financial policy and funding decision-making; and
- providing for public participation in financial policies and funding decisions.

Councils are now required to:

- adopt a long-term financial strategy and funding policy using the public consultation provisions in section 716A of the Act; and
- include in the annual plan summaries of the investment and borrowing management policies they have adopted.

The Part VIIA Framework



Unlike much of the prescriptive local government legislation, Part VIIA is principles-based. It provides a framework within which local authorities are required to exercise their judgement transparently for the benefit of ratepayers, residents and the district. Because it is concerned with the exercise of judgement in financial planning and decision-making, the framework contemplates that both:

- trade-offs will be made (for example, between the principles for financial decision-making; between short-term and long-term interests; and between the interests of different groups of people); and
- changes will be made to the strategy and policies adopted, to reflect both real events and new directions and choices by communities and their representatives.

The primary emphasis of the legislation, therefore, is to ensure that these trade-offs and changes are made transparently so that communities can understand and participate in choices and decision-making.

Because of the newness and the extent of these legislative changes, we felt it would have been unrealistic to expect councils to get everything right in the first year of Part VIIA being in force. However, there is a clear expectation – from the local government sector itself and from other groups with an interest in local government – that councils will achieve greater observance of the principles, as well as the mechanical requirements, of the legislation the second time around.

Our audit focus since Part VIIA came into force has been on local authorities' compliance with the requirements, to ensure that they have prepared and adopted the strategy and policies specified. However, we have indicated to councils that, in subsequent years:

- we will place greater attention on the processes surrounding the preparation of strategic documents; and
- we will expect greater accuracy in reconciling information over the life of the documents.

The Contents of this Report

In Part 1 (pages 11-29) we discuss progress with two of the practical implications of complying with Part VIIA:

- the development of asset management plans and accounting for infrastructural assets; and
- setting operating revenues to cover operating expenses.

Parliament enacted Part VII_B of the Local Government Act at the same time as Part VII_A. Part VII_B introduced a significantly different framework for local authority borrowing, which we discuss in Part 3 (on pages 51-58).

In Part 6 (pages 91-106) we outline the work we plan this year to report on how local authorities have complied with the requirements of Part VII_A for:

- the analysis to be undertaken, and consideration of the matters to be taken into account, in preparing the strategy and policies;
- the transparency of information provided to communities about the exercise of judgement; and
- reporting on the achievement of, changes to, and variations from, the agreed strategy and policies adopted under Part VII_A.

Other topics addressed in this report include:

- assuring members of the public that the contents of a local authority's proposed annual plan meet the statutory requirements for it (pages 26-29);
- a number of other issues that came to our notice during 1998-99 and required our consideration (Part 2, pages 31-40);
- the important matter of local authorities identifying environmental obligations – such as arise from landfills and other contaminated sites, and from sewage treatment – and treating the obligations correctly in their annual financial statements (pages 43-51);
- the amounts of remuneration paid to members of local authorities (pages 58-67);
- the prohibition on members of local authorities discussing and voting on matters in which they have a pecuniary interest (Part 7, pages 107-114);
- the financial state of Provincial Patriotic Councils (Part 8, pages 115-119); and
- how we engage auditors to carry out audits on our behalf under our contestable audit policy (Part 9, pages 121-129).