

## Identifying Environmental Obligations

### *Background*

- 3.001 We have been concerned for a number of years about local authorities identifying environmental obligations and treating the obligations correctly in their annual financial statements. The purpose of this article is twofold:
- to provide an update on best practice in the reporting of environmental obligations in financial statements; and
  - to report on the findings of a survey undertaken by our auditors to ascertain the current status of accounting for environmental obligations by local authorities.

### *Reporting Environmental Obligations in Financial Statements*

- 3.002 In 1997 we reported on *Managing and Accounting for Landfills*.<sup>1</sup> We highlighted, among other things, the inconsistencies in the accounting treatment adopted for landfills – most of which did not take into account the full costs over the operating life of a landfill.
- 3.003 At the time of our 1997 report there was no applicable financial reporting standard in New Zealand dealing with accounting for landfills and other environmental obligations. In the absence of specific standards, our report listed sources of authoritative guidance available on accounting for landfills. Since then, two sources of guidance have been issued which deal specifically with the recognition of provisions in relation to environmental obligations:
- in 1998 the International Accounting Standards Committee issued IAS-37 – *Provisions, Contingent Liabilities and Contingent Assets*; and

<sup>1</sup> *Second Report for 1997*, parliamentary paper B.29[97b], pages 53-60 and 113-121.

- in April 1999 the Institute of Chartered Accountants of New Zealand (ICANZ) issued an exposure draft, ED-86 – *Provisions, Contingent Liabilities and Contingent Assets*.

3.004 ED-86 was based almost entirely on IAS-37 and it is expected that ICANZ will issue it as a Financial Reporting Standard (FRS) later this year.

3.005 The introduction of ED-86 as an FRS will provide New Zealand with its first standard dealing specifically with environmental obligations. ED-86 defines provisions as liabilities of uncertain timing or amount. Liabilities are defined in the *Statement of Concepts for General Purpose Financial Reporting* issued by ICANZ as:

*Liabilities are the future sacrifices of service potential or of future economic benefits that the entity is presently obliged to make to other entities as a result of past transactions or other past events.*

3.006 Environmental obligations are generally expected to meet the definition of a provision. ED-86 contains some illustrative examples of such obligations in an appendix. The examples relate to obligations arising from contaminated land and offshore oilrigs.

3.007 ED-86 requires a provision to be recognised in the statement of financial position when:

- the entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount can be reliably measured.

3.008 Constructive obligations are described in ED-86 as arising from circumstances where an entity creates a valid expectation – based on an established pattern of past practice, published policies or a sufficiently specific current statement – that it will accept and discharge certain responsibilities.

- 3.009 The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at balance date. In measuring a provision, an entity is required to:
- take risks and uncertainties into account;
  - discount the provisions, where the time value of money is material; and
  - take future events (such as changes in the law and technological changes into account) where there is sufficient objective evidence that they will occur.
- 3.010 ED-86 describes a contingent liability as:
- a liability that is not recognised because it is not probable that an outflow of resources will occur **or** the amount cannot be reliably measured; or
  - a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
- 3.011 Contingent liabilities are not recognised as liabilities but are disclosed in the financial statements by way of note.
- 3.012 We have reviewed our previously issued guidance on accounting for landfills in light of ED-86. The main difference affecting landfills is in measuring the liability:
- Our 1997 guidance was to measure the liability by allocating the present value of the estimated future cash outflows necessary to meet the obligation on a volumetric basis over the period that the landfill is accepting waste.
  - ED-86 proposes that the liability be measured based on the expenditure required to settle the present obligation at balance date.
- 3.013 A new standard based on ED-86 is imminent. In the circumstances we expect that local authorities will comply with the standard immediately it becomes effective. However, in order to reach that position local authorities still have much work to do.

### *Results of the Survey of Local Authorities*

- 3.014 We remained concerned that there may be a number of environmental obligations that local authorities had not yet fully identified and assessed, and therefore not recognised, in their financial statements. If that were so, they would not be acting in accordance with the forthcoming requirements of the standard to be based on ED-86.
- 3.015 We therefore asked our auditors to gather, during the 1998-99 audits, information on the potential impact of ED-86 with relation to the environmental obligations of local authorities. The aim of the exercise was to:
- build a picture of authorities' awareness of their potential environmental risk and/or obligations and the accounting treatments being used;
  - communicate forthcoming applicable generally accepted accounting practice (GAAP); and
  - prompt authorities to examine and debate their accounting policies for environmental obligations.
- 3.016 We asked our auditors to identify whether:
- Any local authority may have environmental obligations that have not been recognised in their financial statements and, if so, to provide information on –
    - the nature of any possible obligation or risk;
    - the assessment by the entity of their possible obligations; and
    - other available information, including the possible maximum amount and location of risk.
  - Any environmental obligations have been recognised as a liability and, for those identified, to provide information on –
    - the nature of the environmental liability;
    - the amount recognised; and
    - the accounting policy applied.

- Local authorities had prepared a register of potentially or actually contaminated sites.
- 3.017 We have grouped the potential and actual environmental risks or obligations identified by local authorities into three categories:
- landfills;
  - other contaminated sites; and
  - other obligations.
- 3.018 The accounting treatment adopted for each category is discussed in the following paragraphs.

### Landfills

- 3.019 Local authorities operate the majority of landfills. They have an obligation under the Resource Management Act 1991 to avoid, remedy, or mitigate the environmental effects of their landfills. The resource consents needed to operate landfills specify standards for the day-to-day operation of the site and requirements for closure and post-closure care. Post-closure care can require monitoring the site for up to 30 years after closure, the costs of which can be significant.
- 3.020 The majority of local authorities that own or operate landfills acknowledge the closure and post-closure care costs as a possible or actual obligation. Even so, the majority make no provision for the closure and post-closure costs in the financial statements. Instead, they expense the costs in the year incurred.
- 3.021 Some local authorities have assessed a value for their obligations and included these costs in their long-term financial strategies; a number of others have begun investigations into likely future costs; and some have indicated that they intend to recognise provisions in the 1999-2000 financial year.
- 3.022 Less than a fifth of the local authorities that acknowledge an obligation for the closure and the post-closure costs of landfills have recognised the obligation as a liability in the financial statements. The majority of these local authorities are large city councils.

- 3.023 However, the measurement of the liability varies. Some local authorities allocated the estimated closure and post-closure costs over the life of the landfill based on the volume of the landfill consumed (in accordance with existing international authoritative guidance). Others measured the liability based on the expenditure required to settle the obligation at balance date (in accordance with ED-86).<sup>2</sup>
- 3.024 Only three of these local authorities have specifically stated that the time value of money has been considered by using discounted cash flows. Since the cash outflows are, in most cases, many years into the future, the time value of money is likely to be material.
- 3.025 Some local authorities have disclosed a contingent liability for landfill closure and post-closure costs, or made alternative note disclosure in the financial statements.

### Other Contaminated Sites

- 3.026 Local government is primarily responsible for resource management under the Resource Management Act 1991. This means that both regional councils and territorial authorities have the primary responsibility for managing contaminated sites.
- 3.027 Our auditors reported various types of potential and actual obligations for contaminated sites, including:
- asbestos remediation;
  - old gasworks sites;
  - freezing works sites;
  - timber treatment plants;
  - old quarries;
  - sawmills;
  - rubbish dumps;
  - pest depots;

<sup>2</sup> One authority has used both measurement techniques. The volumetric basis of measurement is used for the open landfill, whereas the liability for the closed landfills is measured at the estimated post-closure costs.

- land used for effluent treatment and disposal;
- petrol station leaks;
- poison sites; and
- contaminated water supply.

3.028 In many cases the local authority had not assessed the extent of its obligations. In some cases, the local authority indicated that the issue of liability was still to be resolved.

3.029 Only two local authorities recognised an obligation for contaminated sites as a liability in the financial statements. Another four local authorities disclosed a contingent liability for contaminated sites. One local authority disclosed a commitment to clean up a contaminated site.<sup>3</sup>

### Other Obligations

3.030 Other types of possible environmental obligations reported are stormwater drainage and treatment, sewage treatment, erosion protection, and coastal hazards. The current accounting treatment adopted is to recognise the costs when incurred.

### Register of Contaminated Sites

3.031 Preparing a register of potentially and actually contaminated sites is the primary mechanism used by local authorities to collect information about contaminated sites. The register is an important tool in managing the clean-up of sites. The 12 regional councils and four unitary authorities (acting as regional councils) have primarily carried out the task of collecting information on contaminated sites.

3.032 The auditors of these 16 local authorities were asked to ascertain whether a register of potentially or actually contaminated sites had been prepared. Twelve had prepared a register, although one of them noted that it was not up to date. Another authority was in the process of developing one. Three authorities had not prepared a register.

<sup>3</sup> Tasman District Council disclosed a commitment of \$2 million to clean up Mapua chemical site jointly with the Government.

3.033 The responses from the auditors of city and district councils were varied:

- many said the authority had not prepared a register;
- some said the authority had a register, which was a copy of the regional council register; and
- others said the authority provided updates to the regional council register.

### Summary

3.034 The results of our survey indicate that local authorities have many potential and actual environmental obligations – landfills and contaminated sites are the two most common. However, few local authorities are accounting for their environmental obligations in accordance with the forthcoming requirements of the standard to be based on ED-86.

### *Conclusions*

3.035 Our approach to date has encompassed information gathering and publicising of emerging GAAP for accounting for landfills and other environmental liabilities. Given the rate of progress so far in the correct accounting treatment of environmental obligations, the conversion of ED-86 into an FRS will have a major impact on the financial statements of local authorities.

3.036 We will continue to publicise the issue of accounting for environmental obligations as widely as possible – in our guidance to auditors, auditor training sessions, and various other communication mechanisms. The potential impacts of ED-86 are significant, so it is important that public sector entities consider and manage those impacts.

3.037 As we have done before in similar situations, to assist our auditors and local authorities we propose to issue an Audit Office general policy on environmental obligations. Although ED-86 will specify the rules for recognition, measurement, and disclosure of environmental obligations, there are likely to be matters that require interpretation. We envisage having the policy ready to be issued once ED-86 is replaced by an FRS.

- 3.038 We will seek to work closely with the Parliamentary Commissioner for the Environment and the Ministry for the Environment. We envisage having ongoing liaison over the period of implementation of ED-86 and after. It is likely that consultation will be required over issues such as actual or likely contamination and liability for the costs of cleaning up.

## Local Authority Borrowing

- 3.039 Part VIIb of the Local Government Act 1974 brought in significant changes to the way local authorities were able to borrow. The changes came into effect on 1 July 1998 (or 1 July 1997 for the nine early compliers).

### *Previous Regime*

- 3.040 Before 1998 the Local Authorities Loans Act 1956 (the Loans Act) imposed a very prescriptive regime with a narrow range of options as to how a local authority could borrow. Borrowing was subject to oversight and control by the Local Authorities Loans Board (the Board) – although the Board had issued a large number of exemptions, putting the majority of borrowing entirely in the hands of the local authority (providing it followed certain procedures).
- 3.041 Other than borrowing for working capital (the amount of which was also restricted), a local authority was able to borrow (by way of what was called a “special loan”) only for a specific project or purpose. In addition, the Board determined, by type of asset, the term over which the money could be borrowed, and often the term bore little relationship to the life of the asset.
- 3.042 A special loan had to be raised by issuing debentures or stock. Generally, repayment was required by means of either a sinking fund or equal instalments comprising both interest and principal. The Loans Board could be asked to approve an alternative loan repayment method – such as repayment in full on maturity on the loan.

- 3.043 Under section 5(3)(b) of the Securities Act 1978 (the Securities Act) local authorities received an exemption from that Act, especially in relation to the restrictions on issuing securities to the public.
- 3.044 One of the more contentious requirements of the Loans Act was that for loan polls. Where members of the public were of the view that a particular special loan should not be raised, 15% of the electors could sign a demand that the authority be required to poll the views of the ratepayers. Unless the majority of the voters favoured the proposal it could not proceed.

### *New Regime*

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- 3.045 Since 1 July 1998 the Loans Act has been repealed and local authorities are no longer exempted from the Securities Act. Instead, they have the same powers and obligations as apply to the private sector.
- 3.046 Local authorities wishing to offer securities to the public are required to comply with a range of significant procedural disclosures under the Securities Act.<sup>4</sup> These obligations include a requirement to register a prospectus and prepare investment statements and comply with the Securities Act and Regulations.
- 3.047 Local authorities are currently attempting to obtain an exemption from some of the Securities Act prospectus requirements in an attempt to reduce compliance costs.
- 3.048 A public consultation process, consistent with the other changes enacted in 1996, has replaced the loan poll provision. Before borrowing, a local authority is required to pass a resolution at a meeting open to the public that indicates:
- the purpose or purposes of the loan;
  - the nature of any security offered;

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<sup>4</sup> The Securities Act exempts the need for a prospectus where the offer is made to persons whose principal business is the investment of money or who, in the course of the purposes of their business, habitually invest money.

- that the council has considered the risks and benefits to the local authority; and
  - that the council is satisfied that the general terms and conditions of the loan and security are in accordance with its borrowing management policy.
- 3.049 A borrowing management policy is required under section 122R of the Local Government Act, an outline of which is to be given in the annual plan and the content of which must (under section 122s) include:
- *The interest rate exposure policy of the local authority*
  - *The liquidity policy of the local authority*
  - *The credit exposure policy of the local authority*
  - *The debt repayment policy of the local authority*
  - *Any specific borrowing limits determined by the local authority*
  - *Any specific policy of the local authority as to the giving of security.*
- 3.050 The Act also specifies how changes or variations to the borrowing management policy are to be handled, and the council is required to include in its annual report an explanation of any significant variations between the policy and the actual achievement.
- 3.051 The replacement of the loan poll option by a public consultation process may be one of the changes which has had the bigger impact on the community. However, it is the application of the Securities Act that has had the biggest impact on council operations.

### *Adapting to the New Regime*

- 3.052 Calls that we received from local authorities asking for our views on the new regime suggested that they were having some difficulties, at least initially, coming to grips with it. As a result, we decided that it could be useful to ascertain, as part of the 1999 audit, how local authorities were adapting to the new regime.

- 3.053 We asked our auditors to gather information on, among other things:
- which local authorities had borrowed and how much they had borrowed;
  - borrowing terms and rates of interest;
  - security for the borrowing (including the intentions of an authority that had not yet borrowed but intended to do so in the near future) and whether the authority had a credit rating;
  - what advantages and disadvantages the authorities saw with the new regime; and
  - what changes the authorities would like to make to the new regime.

### *How Many Authorities Borrowed, and How Much?*

3.054 A number of local authorities had unexercised loan authorities dating from before 1 July 1998. Many of those local authorities exercised the loan authority just before the new regime came into effect because, had they not, the loan authorities would have lapsed. The result was that many authorities had funds in hand and did not need to borrow straight away under the new regime. It also appeared that authorities were using surplus funds rather than borrowing.

3.055 In the year ended 30 June 1999, 51 of the 86 local authorities undertook new borrowing. The total amount borrowed was just under \$600 million, but the individual amounts varied considerably, as shown in Figure 3.1 on the next page.



Figure 3.1  
Local Authority Borrowing in 1998-99

Amount Borrowed	Number of Authorities
Less than \$1 million	7
Between \$1 and \$5 million	25
Between \$5 and \$10 million	10
Between \$10 and \$50 million	6
More than \$50 million	3

Terms and Rates of Interest

3.056 Because the borrowings were made throughout the year, and interest rates had fluctuated, the interest rates being paid varied significantly. A comparison of the rates and the terms of borrowing showed no instances that stood out as being exceptional. However, from observing the range of interest rates between 4.45% for some short-term borrowing to just over 8% for some longer-term borrowing, some councils were apparently able to negotiate better terms and rates than others.

Security Offered

3.057 A local authority may charge any one or more of its assets as security for a loan. An “asset” for this purpose *includes any revenue, rate, or other right or entitlement of the local authority capable of being subjected to a charge.*

3.058 As we expected, the types of security being offered also varied considerably, and did not correlate to the amount being borrowed. Different types of security were offered for both small and large amounts borrowed. Figure 3.2 on page 56 shows our analysis of the types of security offered by those local authorities that borrowed. For the local authorities that indicated that they had not needed to offer security, we assume that the lender expected that rates would be the security.

Figure 3.2  
Types of Security Offered

	%
Rates	39
Negative pledge	17
Debenture	13
Special rate	13
Registered bonds	9
None	9

- 3.059 Of some concern were the six local authorities that offered special rates as security. The power for local authorities to levy special rates for new borrowing has been repealed. While we are in no way suggesting that the lenders who have taken special rates as security are at risk, we would hope that future borrowing documentation ceases to mention special rates as security.
- 3.060 Those councils that have not yet borrowed were also asked what security they expected to offer. Their responses indicated that the pattern above is likely to recur.
- 3.061 Only five local authorities – all larger authorities – have a credit agency rating.

*Advantages and Disadvantages*

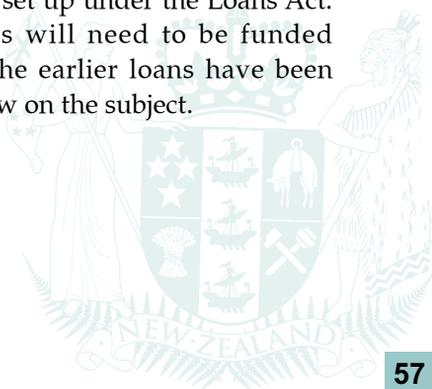
3.062 Also as we expected, there was a large range of views as to what has eventuated from the new regime. Some authorities saw the greater flexibility as being a significant advantage, whereas others saw the flexibility as being a problem through creating a regime that was too complex. It was impossible to get a pattern but the range of responses included:

- concern that individuals can no longer invest directly with councils;

- satisfaction that they no longer have to set up sinking funds;
- regret that there isn't a standard trust deed that is accepted by the banking community;
- the additional flexibility outweighs the additional administration costs;
- councils are now able to manage funds better, especially as they do not have to borrow for specific purposes any longer; and
- a risk that the market is treating all local authorities the same regardless of their asset backing.

### *What Changes Authorities Would Like*

- 3.063 Given some of the initial concerns expressed to us about the new regime, we were surprised that the majority of councils had no views as to what they would like to change. Those that had a view concentrated on receiving an exemption from the requirements of the Securities Act – especially in relation to prospectus requirements – and local government is working to achieve this.
- 3.064 A small number of councils would like to remove the requirements of section 122zc on the prohibition on borrowing or entering into incidental arrangements in foreign currency. Their motivation appeared reasonable in that it would enable them to reduce currency risk on overseas purchases rather than enable them to borrow from overseas sources.
- 3.065 A further desire was that councils be able to disestablish all the sinking funds that were set up under the Loans Act. Many of these sinking funds will need to be funded for a number of years until the earlier loans have been paid off. We have no strong view on the subject.



### *Conclusion*

- 3.066 Overall, local authorities have coped with the new regime. It has certainly provided greater flexibility, but not without additional costs. The major beneficiaries would appear to be the larger authorities and those borrowing significant amounts. For smaller authorities with minimal borrowing, the compliance costs have tended to encourage them to go to their local bank.
- 3.067 Despite the large number of authorities that saw disadvantages in the new regime, there were only a small number that wished to return to the previous regime. While for small authorities the easiest option is to borrow from a trading bank, the interest rate payable may be higher than if using other sources.
- 3.068 It is probably timely for local government as a whole to review what has happened since the new regime was introduced and ascertain whether there are other efficiencies that can be gained and lessons learned. It is clear that a range of practices is being adopted and, while in no way suggesting that one solution will meet the needs of all, authorities should be putting themselves in a position where they can learn from others in similar situations.

## Members' Remuneration

### *Introduction*

- 3.069 Remuneration paid to members of local authorities consists of two types – salary and meeting allowance. The Minister of Local Government sets the minimum and maximum rates at which both types of remuneration can be paid.<sup>5</sup>
- 3.070 The maximum payment varies according to the population of the district (for a territorial authority) or region (for a regional council). Each local authority is free to decide the rate it will pay between the minimum and the maximum. The current ranges of maximum payments are shown in Figure 3.3 on the next page.

<sup>5</sup> *Local Government (Local Authorities Salaries and Allowances) Determination 1999, S.R.1999/224.*

*Figure 3.3*  
*Ranges of Maximum Remuneration*

	<b>Territorial Authorities \$</b>	<b>Regional Councils \$</b>
Mayor/Chairperson annual salary	45,450-94,320	56,810-94,320
Deputy Chairperson and Chairpersons of Committees annual salary	11,360-31,820	22,720-31,820
Members annual salary	3,400-15,910	9,990-15,910
Meeting allowance (each meeting)	105-185	145-185

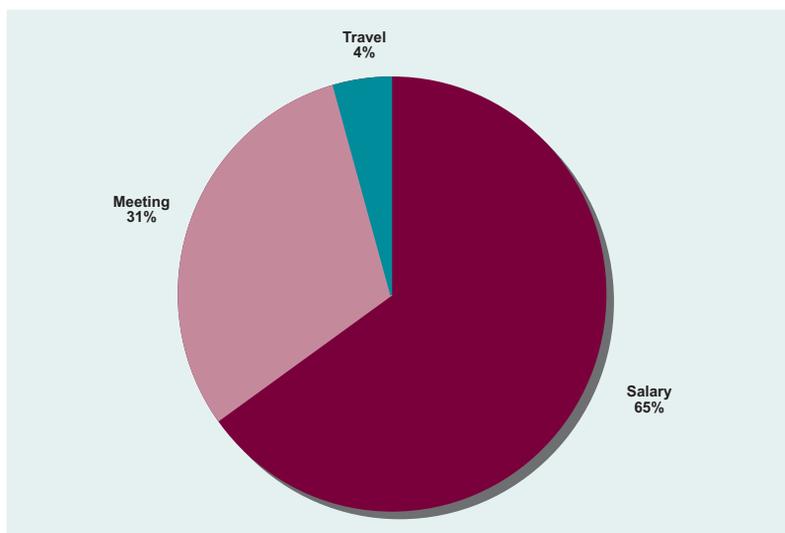
- 3.071 In addition to salary and meeting allowances, a local authority can reimburse its members for travel expenses incurred on authority business in accordance with the Fees and Travelling Allowances Act 1951.<sup>6</sup> (The current rate of motor vehicle allowance payable under that Act is 62 cents a kilometre for up to 3,000km a year.)
- 3.072 As part of our 1998-99 audit brief we asked our auditors to collect information about members' remuneration. This was in response to a number of concerns raised about the level of payments being made. These concerns centred on the justification for payments being made and the lack of incentive to minimise the cost of payments.
- 3.073 Information about the costs of remuneration for elected members has, up to now, been largely anecdotal. The purpose of asking our auditors to obtain the information was to provide accurate and unbiased data so that any future decisions on methods and levels of remunerating members could be more soundly and objectively based.

6 For the purposes of this article we have classified reimbursements of travel expenses as "remuneration".

### *Remuneration by Type*

- 3.074 For each member we obtained particulars of remuneration paid for 1998-99 – divided between salary, meeting allowances, and travel reimbursements – and the number of meetings attended.
- 3.075 The aggregate picture of remuneration paid by type is shown in Figure 3.4 below.

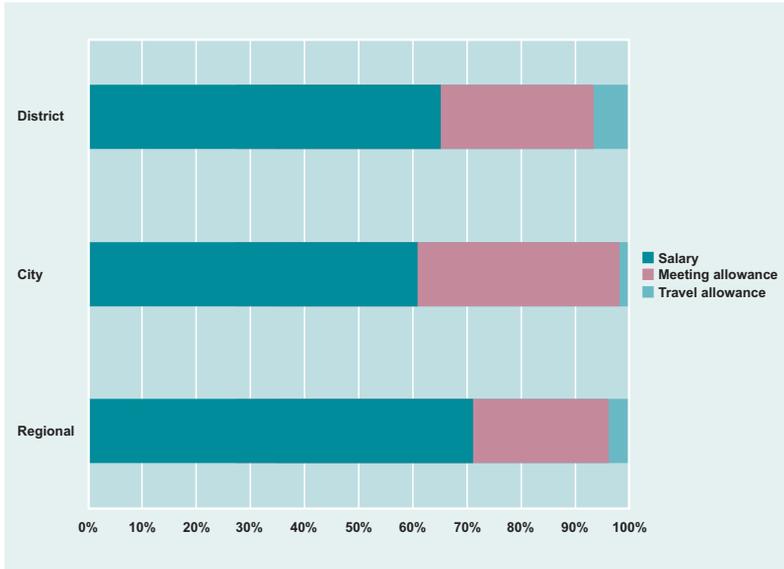
*Figure 3.4  
Proportion of All Remuneration by Type*



- 3.076 The aggregate position shown by Figure 3.4 disguises a wide variation between local authorities in the number of meetings individual members were remunerated for attending. For several authorities meeting allowances accounted for over 40% of total remuneration, whilst for others the proportion was below 20%. To a large extent the scale and complexity of the particular authority will determine the difference in the number of meetings attended.

- 3.077 While travel reimbursements averaged only 4% of total remuneration payments, for many, mostly rural authorities, this figure rises to over 10% of remuneration expenditure. A little over one in ten local authorities had decided not to pay their members travel allowances.

Figure 3.5  
Components of All Remuneration  
By Type of Authority



3.078 Analysis of remuneration by local authority type – district, city, and regional – as shown in Figure 3.5 above indicates three main trends:

- Regional council members derive a higher proportion of their total remuneration from *salaries* than their counterparts in either district or city councils.
- City councillors receive a higher share of their remuneration from meeting allowances than either regional or district councillors. This is perhaps indicative of the size and complexity of many of the bigger metropolitan areas.
- District council members tend to receive a higher proportion of their total remuneration from travel allowances. An explanation for this might be the geographical size of many districts – rural members sometimes having to travel long distances to attend meetings at council offices usually located in urban centres.

*Number of Meetings Attended*

3.079 Our analysis in Figure 3.6 below takes below the highest number of meetings attended by a single member for each local authority as an indication of the range in the number of meetings held by authorities.

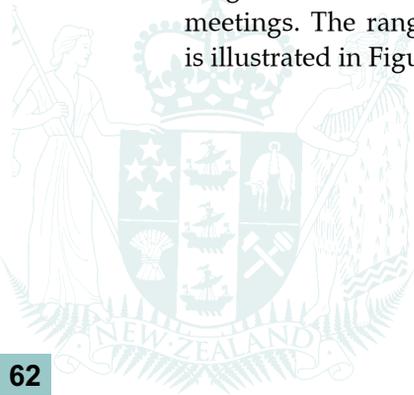
*Figure 3.6  
Range of Highest Number of Meetings Attended  
by Type of Authority*

Range of Highest Number of Meetings Attended			
Member of a	Greatest in Range	Lowest in Range	Median
Regional Council	163	24	84
District Council	171	24	61
City Council	166	69	105

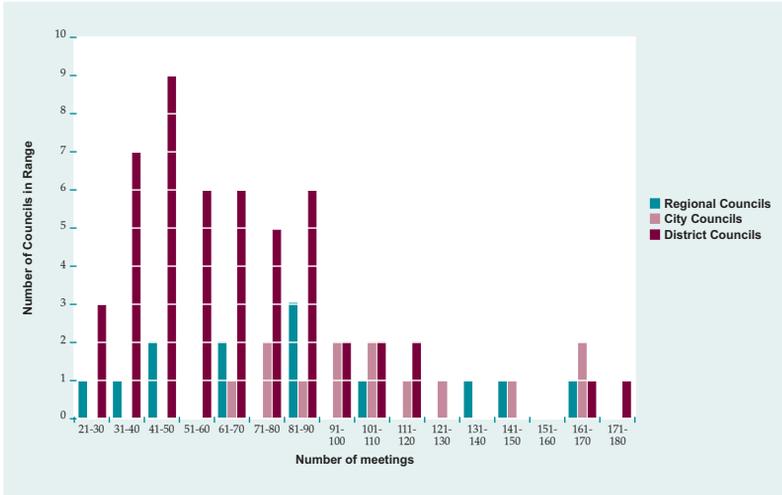
3.080 City councils have the highest median number of meetings attended, reinforcing the view that those councils tend to be larger and more complex in operations. They also have the narrowest range between the maximum and minimum of meetings attended, suggesting that the need for a high number of meetings remains relatively consistent among city councils.

3.081 District councils have the lowest median number of meetings attended but share with regional councils a wide range between the maximum and minimum number of meetings. The range of highest number of meetings held is illustrated in Figure 3.7 on the next page.

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*Figure 3.7  
Ranges of Highest Number of Meetings Attended  
by Individual Members by Type of Authority*

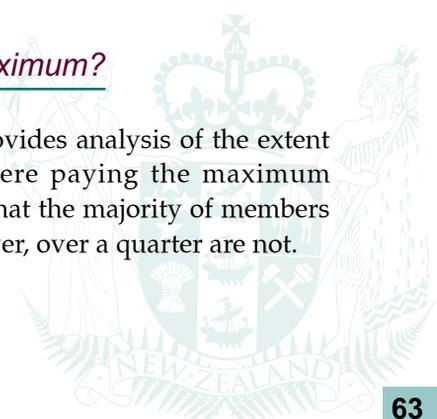


- 3.082 Figure 3.7 shows that, although there is a wide range in the highest number of meetings attended, for district councils the view is somewhat skewed by a few authorities being at the high end.
- 3.083 Local authorities should be aware that the number of meetings that their members are attending is the largest variable component of the total remuneration cost. This analysis provides an indication of the range of meetings attended for all local authorities, and can be used as guidance by an authority that wants to compare its meeting attendance levels against a broad peer group of similar authorities.

*Are Members Paid the Maximum?*

- 3.084 Figure 3.8 on the next page provides analysis of the extent to which local authorities were paying the maximum amounts permitted. It shows that the majority of members are paid the maximum. However, over a quarter are not.

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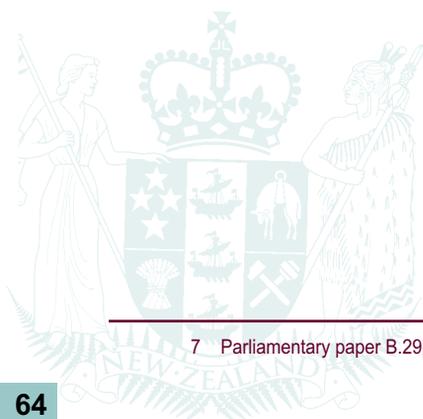


*Figure 3.8  
Members Being Paid the Maximum*

Yes	No
<p>Nearly 70% of authorities paid all members the maximum allowance.</p>	<p>1 in 10 authorities set their own range varying from 15% of the maximum upwards.</p>
<p>Over 80% of authorities paid councillors the maximum allowance.</p>	<p>A handful of authorities chose not to increase remuneration in line with the 1998 determination.</p> <p>16% of authorities did not pay mayors or chairpersons the full allowance.</p>

*Were Members Being Paid to Attend “Workshops”?*

- 3.085 Many local authorities have adopted the practice of holding “workshops” and paying attending members meeting allowances.
- 3.086 We discussed the subject of remunerating members for attending workshops in our *Second Report for 1997*.<sup>7</sup> Figure 3.9 on the next page shows the extent to which this was happening in 1998-99.



<sup>7</sup> Parliamentary paper B.29[97b], pages 71-74.

*Figure 3.9  
Members Being Paid to Attend “Workshops”*

Yes	No
<p>Over half of authorities paid for workshop attendance.</p> <p>A handful of authorities paid for some workshops, usually following a specific council resolution.</p>	<p>Around a third of authorities did not pay for workshop attendance.</p>

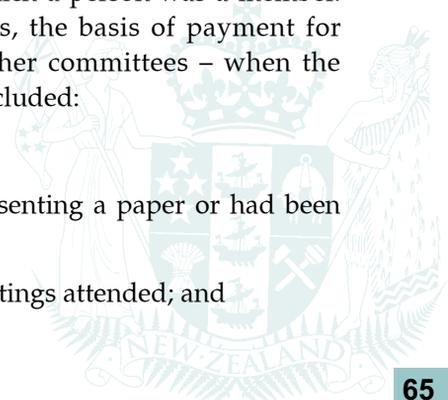
3.087 We take this opportunity to remind those local authorities that pay meeting allowances for attendance at workshops that they should:

- comply with the Local Government Act requirements in relation to holding meetings – with minutes being taken, a quorum of members being present, and a presiding chairperson; and
- conduct the meetings in accordance with their standing orders.

*Are Members Paid Only for Meetings of Committees They Attend as Committee Members?*

3.088 Almost 90% of local authorities paid only for attendance at meetings of committees of which a person was a member. For the remaining authorities, the basis of payment for attendance at meetings of other committees – when the person was not a member – included:

- travel expenses;
- where the member was presenting a paper or had been formally invited to attend;
- as a matter of policy, all meetings attended; and



- an annual maximum number of meetings/committees attended.

### *Was a Committee Chairperson's Salary Paid When the Committee Held No Meetings?*

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- 3.089 A few local authorities paid the committee chairpersons an annual salary (split into monthly amounts) regardless of attendance at, and scheduling of, meetings. However, no case was reported of the salary being paid when no meetings were held.

### *Actions to Contain, or That Would Increase, the Remuneration Costs*

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- 3.090 Nearly half the authorities had taken action after the 1998 local government elections to minimise costs. Most initiatives were associated with managing meeting allowances. For example, a quarter of authorities endeavoured to hold more than one meeting on the same day, and many authorities reduced the number and frequency of committee and other meetings. A few authorities instigated reviews of their structures or reduced the number of members.
- 3.091 A number of local authorities took actions which had the effect of potentially increasing remuneration costs. The majority of these actions were either an increase in the number of committees or an increase in the number and/or frequency of meetings and workshops being held.

### *Conclusion*

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- 3.092 Our enquiries revealed little evidence either of members maximising their income through remuneration for their local authority activities, or of authorities not attempting to control remuneration costs. Over a quarter of members are not being paid the maximum rates of remuneration, and nearly 50% of authorities are endeavouring to reduce costs by planning more efficiently the number and timing of meetings.

3.093 However, the variation between local authorities in the number and frequency of meetings suggests that there is no common approach to remunerating members through attendance at meetings. It is good governance practice to regularly review the number and purpose of all meetings.

## Other Subjects Reviewed During 1998-99

3.094 In our 1999 report<sup>8</sup> we referred to two review projects that were currently in progress:

- contracting out local authority regulatory functions; and
- local government environmental management.

3.095 Also in 1999 we began:

- a pilot project to audit the long-term financial strategy of the Opotiki District Council; and
- a review of how three local authorities – Canterbury Regional Council, Mackenzie District Council and Timaru District Council – had managed their involvement in the project to build and operate the Opuha dam and associated works.

3.096 We comment on the first three of those topics in the following paragraphs. We expect to complete the Opuha dam project review and report in the near future.

### *Contracting Out Local Authority Regulatory Functions*

3.097 Our report into contracting out of regulatory functions was based on the experience of the Queenstown Lakes District Council in contracting out the performance of most of its regulatory functions to a single private sector contractor.

8 Second Report for 1999, parliamentary paper B.29[99b], pages 104-106.

- 3.098 The report contains a good practice guide – which will be useful to those local authorities that are thinking about contracting out some or all of their regulatory functions – and a commentary on the Queenstown experience:
- how that local authority went about contracting out;
  - some of the inherent risks involved and how they were dealt with; and
  - lessons for others to learn.
- 3.099 The full report was presented to the House in November 1999,<sup>9</sup> and the executive summary from the report is reproduced as Part 4 of this report (pages 71-79).

### *Local Government Environmental Management*

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- 3.100 We carried out a review of local government environmental management as a joint project with the Parliamentary Commissioner for the Environment. The project was undertaken as an independent assessment of how unitary authorities were discharging their environmental management responsibilities. The objective was to help inform current debate about appropriate models for managing local environmental responsibilities.
- 3.101 The project sought to assess how the unitary authority model was functioning in terms of having environmental management responsibilities of both a regional council and a territorial authority. However, as the investigation and analysis proceeded, it became clear that the key features that contribute to desired region-wide environmental outcomes are more significant than the institutional form or model of local government.
- 3.102 The report of the results of this project was presented to the House in August 1999,<sup>10</sup> and the executive summary from the report is reproduced as Part 5 of this report (pages 81-89).

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<sup>9</sup> *Contracting Out Local Authority Regulatory Functions*, November 1999, ISBN 0 477 02865 9.

<sup>10</sup> *Local Government Environmental Management: A Study of Models and Outcomes*, August 1999, ISBN 0 908804 88 1.

### *Auditing a Long-term Financial Strategy*

- 3.103 During 1999, the Opotiki District Council (the Council) approached us seeking additional assurance about the quality of its Long-term Financial Strategy (LTFS). We saw that developing methods of assurance to test the quality of long-term financial planning by local authorities was important because an LTFS:
- addresses concerns that this Office has held since 1992 regarding the state of local authorities' asset management and the future sustainability of key infrastructure; and
  - provides a mechanism for communities to participate in decision-making about the long-term future of and vision for their district.
- 3.104 We were happy to agree to the Council's request as a pilot project. Our objectives in doing so were to:
- assess the feasibility of, and lessons that could be learned from, applying audit techniques to a planning document for prospective financial events;
  - promote development of best practice in local authorities' financial management; and
  - assist in achieving legislative compliance with Part VIIA of the Local Government Act 1974.
- 3.105 We will report the results of the pilot project to the House in the near future.

