



B.29 [10d]

Parliamentary paper

## Matters arising from the 2009-19 long-term council community plans

Office of the Auditor-General  
PO Box 3928, Wellington 6140

Telephone: (04) 917 1500  
Facsimile: (04) 917 1549

Email: [reports@oag.govt.nz](mailto:reports@oag.govt.nz)  
Website: [www.oag.govt.nz](http://www.oag.govt.nz)

# Matters arising from the 2009-19 long-term council community plans

Presented to the House of  
Representatives under section 20 of  
the Public Audit Act 2001.

August 2010

ISBN 978-0-478-32667-3 (print)  
ISBN 978-0-478-32668-0 (online)



# Contents

<b>Auditor-General's overview</b>	<b>5</b>
How long-term planning has improved	5
Where improvements are still needed	5
Role of the recession in longer-term thinking	6
Our audit opinions on the 2009-19 LTCCPs	7
Preparing for future accountability requirements	7
Concluding comments	8
<b>Section 1 – Consultation</b>	
<b>Part 1 – Engaging the community in the right debate</b>	<b>9</b>
Importance of engaging the community in the right debate	9
Recommended hierarchy for presenting information	10
Major issues presented in the 2009-19 LTCCPs	11
Examples of well-presented issues	12
Financial strategies need to be better presented	15
Preparing for 2012	17
<b>Part 2 – How well Summaries communicate to communities</b>	<b>19</b>
Improved quality of the 2009-19 Summaries	19
How local authorities used Summaries to seek submissions	21
Preparing for 2012	22
<b>Section 2 – Financial overview</b>	
<b>Part 3 – Trends in financial information in the LTCCPs</b>	<b>23</b>
Department of Internal Affairs' financial analysis of the 2009-19 LTCCPs	23
Summary of trends in the financial forecasts	24
Forecast increases in rate levels	25
Increasing use of debt	26
Implications of increasing debt on financial prudence	27
Our observations	31
<b>Section 3 – Audit opinions</b>	
<b>Part 4 – Our audit opinions on the LTCCPs</b>	<b>33</b>
About our audit opinions	33
Audit opinions on the 2009-19 LTCCPs	34
Our conclusions	39
<b>Section 4 – Components</b>	
<b>Part 5 – Sustainable development in the LTCCPs</b>	<b>41</b>
How sustainable development applies to local government	42
What a sustainable development approach might look like in an LTCCP	44
Sustainable development in six 2009-19 LTCCPs	46
Our conclusions	55
Preparing for 2012	55

<b>Part 6 – Assumptions disclosed in the LTCCPs</b>	<b>57</b>
Requirements for local authorities to disclose assumptions in LTCCPs	57
Our review of assumptions disclosed by local authorities	58
Evaluating local authorities' compliance with the Act	63
Preparing for 2012	64
<b>Part 7 – Asset management in the LTCCPs</b>	<b>67</b>
The importance of good quality asset management	67
The significance of asset management for the LTCCP	68
Our audit work on local authorities' asset management	69
Asset management in the 2009-19 LTCCPs	69
Preparing for 2012	71
<b>Part 8 – Identifying and monitoring community outcomes</b>	<b>73</b>
Background and legislative requirements	73
Community outcomes in the 2009-19 LTCCPs	75
Legislative reform	78
Preparing for 2012	78
<b>Part 9 – Performance frameworks – grouping of activities</b>	<b>79</b>
Performance frameworks and accountability to communities	79
Improvements in the performance frameworks	80
Weaknesses in the grouping of activities	80
Preparing for 2012	82
<b>Section 5 – Production</b>	
<b>Part 10 – Improving project management</b>	<b>83</b>
Responses to poor project management of the 2006-16 LTCCPs	83
Project management for the 2009-19 LTCCPs	85
Preparing for 2012	87
<b>Part 11 – Timeliness of LTCCPs and audit fees</b>	<b>89</b>
Timeliness of adopting LTCCPs	89
Audit fees	92
Preparing for 2012	95
<b>Appendix – Summary of audit opinions on the 2009-19 LTCCPs</b>	<b>97</b>
<b>Figures</b>	
1 – Percentage of local authorities that made disclosures about various categories of assumptions, by type of local authority	60
2 – Estimated audit fees for the audits of the 2009-19 and 2006-16 LTCCPs, by fee band	93
3 – Actual audit fees charged for the 2009-19 LTCCPs, by fee band	94

# Auditor-General's overview

This report outlines the results of, and matters arising from, our audits of local authorities' 2009-19 long-term council community plans (LTCCPs). My predecessor has previously reported on the audits of the 2006-16 LTCCPs.<sup>1</sup>

The intent of this report is to:

- summarise our findings from our audits of the 2009-19 LTCCPs;
- focus on positive aspects and good examples; and
- identify how and where local authorities could improve further when they prepare their 2012-22 LTCCPs.

## How long-term planning has improved

A major theme of the Local Government Act 2002 is longer-term planning, which is common sense, given the nature of the services that regional and territorial local authorities provide. The theme is reflected in legislation through concepts such as sustainability and intergenerational equity.

The 2009-19 LTCCPs show that the sector has come to terms with, and is now embracing, the importance of long-term planning – both at elected member and senior management levels.

Overall, our audits of the 2009-19 LTCCPs showed that local authorities are demonstrating an increased acceptance of the importance of “thinking long term” through both the content of their LTCCPs and their approach to producing them. These observations have also been made in comments to my staff by others working with the sector.

Compared with the 2006-16 LTCCPs, the 2009-19 LTCCPs showed:

- increased attention to planning for the sustainable delivery of services;
- a strengthening commitment to raising longer-term issues with local authorities' communities; and
- better processes for preparing the LTCCP.

## Where improvements are still needed

Although we can clearly see progress in long-term planning, local authorities still need to improve their practices supporting long-term planning. These improvements are needed to match local authorities' intent to plan effectively for the long term.

<sup>1</sup> *Matters arising from the 2006-16 Long-Term Council Community Plans, June 2007.*

Local authorities could improve their practices in:

- completing and integrating robust underlying information, such as asset management plans (including understanding and monitoring levels of service) and forecasting assumptions; and
- complementing long-term thinking by preparing appropriate financial strategies.

Both of these have been challenges for the sector for some time. We continue to recommend that local authorities focus on them because they are fundamental for a local authority. Until local authorities have robust underlying information and appropriate financial strategies, the potential inherent in local authorities' willingness to think long-term will not be fully realised.

In our view, many local authorities can still produce better LTCCPs. We saw progress and improvements in the 2009-19 LTCCPs, but other changes, such as the steps that have been taken more recently to focus on effective reporting against performance frameworks, will also help.

The improvements some local authorities have achieved show the sector, and other parts of the public sector, that effort put into the planning and reporting of performance information, both financial and non-financial, does add value to an entity's reported information.

## Role of the recession in longer-term thinking

The recession was clearly significant in getting the sector to think long-term in preparing the 2009-19 LTCCPs. The recessionary environment accentuated the need for local communities to consider affordability. It also forced local authorities to evaluate whether the trend of increasing levels of service was viable for the long term.

To an extent, the recession made thinking longer term a necessity. It threatened local authorities' ability to maintain, let alone improve, levels of service.

The recession led local authorities to anticipate less activity in the first three years covered by the 2009-19 LTCCP. It also increased local authorities' desire to limit annual rate increases to, or near to, increases in the Consumer Price Index.

These conditions would suggest that local authorities might not be able to maintain levels of service to meet the community's expectations in the future. However, the 2009-19 LTCCPs showed that a number of local authorities sought to mitigate this and balance their books by increasing debt. The 2009-19 LTCCPs signal that debt will almost double during the ten-year period of the plans.



Our observations on this approach are:

1. Local authorities are increasing their use of debt to spread the costs to the community over the longer term. The increased use of debt will, in the next three to five years, mean increased debt servicing costs. It will also affect local authorities' ability to manage rates in the later years of the 2009-19 LTCCPs and beyond.
2. Local authorities need to prepare approaches, systems, and strategies to enable an appropriate response to an environment where resources are likely to be constrained in the future.

## Our audit opinions on the 2009-19 LTCCPs

The increased focus of elected members and management on completing robust LTCCPs is reflected in the audit opinions we issued on the draft and final LTCCPs. There were far fewer breaches of legislative requirements than we found in the 2006-16 LTCCPs.

Our non-standard audit opinions on the 2009-19 LTCCPs primarily related to matters of substance. We issued only four qualified audit opinions on the final LTCCPs, but, in our view, those LTCCPs were not fit for purpose. The matters the local authorities were struggling with are significant and challenging.

We also used an "emphasis of matter" paragraph in our audit reports on 14 local authorities' LTCCPs to draw the reader's attention to matters such as:

- financial strategies that did not set revenues in the 2009-19 LTCCP at high enough levels to be able to replace assets in the future (this approach will require significant rate increases or reductions in levels of service in the future);
- uncertainty about continued funding from central government, on which the local authority depends; and
- risks in relying on dividend streams from subsidiaries to reduce the level of the local authority's borrowing.

We also used an "emphasis of matter" paragraph to highlight the effect of local government reorganisation in the Auckland region.

## Preparing for future accountability requirements

Planning for the long term is difficult for local authorities. It always has been, and will be in the future. A substantial number of components are needed to build a comprehensive LTCCP (see Parts 5-9 of this report).

The sector has shown a growing acceptance of the need for long-term planning, which goes beyond compliance. The next step is for local authorities to move to

integrating the components of an LTCCP into their “business as usual” operations. Taking this step will ensure that local authorities can deliver their planning documents efficiently and have in place the internal capacity to project and analyse the effects of proposed decisions.

Parliament is currently considering the Transparency, Accountability and Financial Management proposals which, if enacted, will amend the Local Government Act 2002. The importance of local authorities establishing and maintaining well-integrated systems to produce a comprehensive LTCCP will be emphasised if the current proposals are implemented.

### Concluding comments

It is pleasing to see the improvements that local authorities have made in their 2009-19 LTCCPs. I am confident that the sector is capable of improving further in the years ahead. I encourage local authorities to consider the observations and challenges set out in this report as they begin preparing for the 2012-22 LTCCPs.



Lyn Provost  
Controller and Auditor-General

16 August 2010

## Part 1

# Engaging the community in the right debate

- 1.1 In this Part, we discuss how well local authorities consulted with their communities about the most important issues in the 2009-19 long-term council community plans (LTCCPs). We discuss:
- our views on how local authorities should present major issues in the LTCCP, so they can effectively have the right debate with their communities; and
  - our findings on how well local authorities consulted with their communities about major issues in the 2009-19 LTCCPs.

- 1.2 This section includes examples of good consultation about major issues and our views on how local authorities need to improve consultation about their financial strategies.

### Summary of our findings

- 1.3 An important role of LTCCPs is to provide information about significant issues facing a community so that the community can provide feedback on the choices facing it. The 2009-19 LTCCPs showed a significant improvement in the clarity with which local authorities presented major issues.
- 1.4 However, local authorities still need to improve how they present and explain their financial strategies. In our view, a local authority's financial strategy should be presented to the community as a major issue.

### Importance of engaging the community in the right debate

- 1.5 Section 93(6)(f) of the Local Government Act 2002 (the Act) says that:
- (6) The purpose of a long-term council community plan is to ...*
- (f) provide an opportunity for participation by the public in decision-making processes on activities to be undertaken by the local authority.*
- 1.6 The Act says that local authorities must use the “special consultative procedure” to provide that opportunity for participation. The special consultative procedure has its own detailed requirements and refers to a Statement of Proposal. For LTCCPs, the Statement of Proposal is effectively a draft version of the LTCCP. The Act also requires a Summary of the Statement of Proposal, because LTCCPs can be very long and detailed.
- 1.7 The LTCCP is finalised – adopted – after the local authority considers the feedback it gets from the community. Once an LTCCP is adopted, it is in place for up to three years.

- 1.8 For that time, it is the local authority's and the community's primary reference point. The local authority cannot significantly deviate from the direction established in the adopted LTCCP.<sup>2</sup> Therefore, the local authority needs to clearly present the important issues facing the community because the effects of the consultation will last well beyond the consultation period.
- 1.9 For a Statement of Proposal or Summary to facilitate the community having the right debate, the local authority needs to identify and present the appropriate information to the community. An LTCCP is a large document containing a great deal of detail. Therefore, local authorities need to effectively communicate the strategic and other important issues, choices, and implications so that these are readily apparent to the community.
- 1.10 Focusing on the major issues facing the community when preparing the LTCCP also enables the community to participate in discussions on local authority direction with elected members.

### Recommended hierarchy for presenting information

- 1.11 Local authorities need to present information in a way that draws a community's attention to the most important issues. We consider that a local authority should present its community with information about the major issues in the following order:
- first, the strategic and other major issues;
  - secondly, the choices and options for addressing the issues; and
  - last, the implications (financial, levels of service, and also effect on well-beings) of each option.
- 1.12 In our view, it is hard to argue that the right debate can take place if all aspects of the hierarchy are not evident in the LTCCP. The community needs each element of the hierarchy to evaluate the local authority's strategies and proposals to address the major issues that the community faces.
- 1.13 Overall, the 2009-19 LTCCPs showed a significant improvement in the clarity with which local authorities presented the major issues they faced. Local authorities generally presented major issues near the start of the LTCCP. We also noted a significant move towards preparing the Summary in conjunction with the Statement of Proposal. This results in a more meaningful and accurate summary of the major issues that are in the main document.

<sup>2</sup> When a local authority identifies a need to make a substantial change, it can go through a process to amend its LTCCP. The amendment requires consultation and audit, and the same principles should apply.

- 1.14 That said, we encourage local authorities to use the hierarchy more effectively. The hierarchy is especially useful in reminding a local authority to communicate the implications of its proposed approach to resolving strategic and other major issues.

### Time frame for engaging in the right debate

- 1.15 Local authorities' consultation with their communities about major issues often occurs over a long time. Therefore, for many LTCCPs, the right debate is the result of many years' work and of different types of consultation. For such LTCCPs, we expect local authorities to indicate in the LTCCP the choices and implications that they had already put to the community during previous consultation. We also expect local authorities to clearly explain the decisions required of their communities during the current LTCCP process.
- 1.16 We do not expect local authorities to apply the suggested hierarchy without considering their particular circumstances, including earlier consultation. However, local authorities must clearly communicate about any consultation that has already been completed.
- 1.17 Even when a local authority has already consulted a lot on major issues, it still needs to clearly communicate the major issues in its Statement of Proposal for those people in the community who have not been involved previously or who may be new to the district or region. Importantly, the Statement of Proposal is often the first time that the local authority brings together all the earlier consultation into one corporate view.

### Major issues presented in the 2009-19 LTCCPs

- 1.18 The issues that local authorities presented for community consideration in the 2009-19 LTCCPs were clearly affected by the global recession. A dominant theme of the LTCCPs was the need for local authorities' decisions to be affordable for the community.
- 1.19 Local authorities also showed a cautious approach to financial management, because of the uncertainty created by the recessionary conditions. Although the level of a local authority's rates, and particularly rate increases, has always been of interest to the community, the extra focus on affordability was unprecedented but, in the circumstances, warranted.
- 1.20 Against this background, the specific issues raised by local authorities were wide ranging. They included:
- proposals for large infrastructure asset development and upgrades;
  - proposals for community facilities, such as stadiums and events centres;

- proposals for relocating and renewing libraries;
- developing and amending the approach to providing community housing;
- proposals to create and disestablish council-controlled organisations; and
- preparing policies to guide the response to the effects of climate change.

1.21 The recession did not result in local authorities significantly reducing their activities. We noted that, in general, local authorities presented a strong argument to their communities about the importance of ongoing prudent management of core infrastructure and long-term, progressive development of other infrastructure and facilities. The 2009-19 LTCCPs showed that most local authorities are now strongly committed to the principle of long-term planning.

### Examples of well-presented issues

1.22 We identified some examples of well-presented issues in various Statements of Proposal. We do not consider that these examples are the best, or only good, examples from the 2009-19 LTCCPs. They are a small sample that we hope will stimulate further improvements in how local authorities engage in the right debate with their communities.

#### Gisborne District Council

1.23 Gisborne District Council presented its major issues under three headings:

- Committed projects;
- Major projects with issues and options; and
- Community-led and collaborative projects.

1.24 The Council presented “Committed projects” to the community in the context of its earlier consultation on these projects. The Statement of Proposal clearly stated that, in principle, the Council viewed the decision about the approach to these projects as having already been made. The Statement of Proposal also provided details of the Council’s planned and forecast response. However, the Statement of Proposal still made it clear that the Council was open to feedback about the proposed response stated in the Statement of Proposal.

1.25 The Council used the “Major projects with issues and options” section of its Statement of Proposal to present issues on which it specifically wanted community feedback. Projects or issues were presented with at least two options. The Council clearly stated that the first option presented was the option that was built into the Statement of Proposal forecasts and signalled that this was the local authority’s preferred option.

- 1.26 The Council usually presented the second option as “maintaining the status quo”. The second option included a good explanation of the effects of not proceeding with the first option, including the financial effects and the effects on levels of service. For example, the Council’s explanation of the effect of not building cycleways covered both the reduced capital expenditure associated with the project and the resulting loss of government subsidy for which the proposed project was eligible.
- 1.27 The Council’s third type of issue – “Community-led and collaborative projects” – included an explanation of projects that the Council did not make a monetary contribution to but supported in other ways. This aspect of presenting community issues emphasised the Council’s broader role in the community and its contribution to community organisations.
- 1.28 The Council’s submission form was structured to align with the options presented in the “Major projects with issues and options” section. The submission form asked the submitter to answer “yes” or “no” to whether they agreed that option one (preferred by the Council) was the best option for the Council to pursue. The Summary also followed the same structure as the Statement of Proposal, made good use of colour and diagrams, and made clear the major questions on which the Council wanted feedback.
- 1.29 The Council completed the process of presenting the right issues for debate by using the same three-part structure (along with an additional section) in its final adopted LTCCP. The additional section set out the issues that had been presented to the community for consideration but had been removed from the final LTCCP as a result of the feedback. The Council also explained why a project had been removed.
- 1.30 In our view, this extra section provided a robust and transparent record of the consultation process.

### **Rotorua District Council**

- 1.31 Rotorua District Council clearly presented its major issues and how it wanted the district to look in 2019. An overview set out the context and basis for the Council’s LTCCP and the three major themes that underpinned the Statement of Proposal. These major themes were economic growth, sustainability, and affordability. The Council gave a clear message that it had tried, in preparing the LTCCP, to keep rate increases to a minimum while balancing the community’s expectation that it provide “excellent facilities”.
- 1.32 The Council presented major projects and issues on which it was seeking feedback within the context of the three key themes. Each issue was presented with

background and contextual material titled “We’re proposing”. This was followed by a section titled “This means”, which set out how the Council’s proposals were dealt with in the Statement of Proposal – such as the funding provided in the financial forecasts and the planned timing of the project.

1.33 The Statement of Proposal then had a section that asked the reader specific questions. These were prompts for evaluating each project. The responses from the community were designed to help the Council to determine how to proceed with the projects. We note that the Summary included similar questions.

1.34 In our view, the Council was especially good at linking major issues to the overall context and to the direction that the Council was trying to take. The Council was also good at presenting background information on the specific issues and the implications. However, the Council’s LTCCP would have been better if it had more clearly presented the options available to the community.

### **Matamata Piako District Council**

1.35 Matamata Piako District Council carried out an extensive process of early consultation to help prepare its Statement of Proposal. In the Statement of Proposal, the Council set out its major issues under the heading “Decisions for the future”. Each major issue was presented with background information on the issue and the list of options that had already been presented to the community through the earlier consultation processes. For most issues, four options had already been provided to the community.

1.36 For each issue, the Statement of Proposal then identified the position that the Council had taken as a result of the earlier consultation. For most issues, the Council invited the community to make further comment on the Council’s planned approach to the issue, as signalled in the Statement of Proposal.

1.37 The Council’s Statement of Proposal provided the community with less detail about the options than may be considered ideal. However, because the Council had already carried out a staged consultation process and had therefore provided details to the community in the earlier process, we consider that the Statement of Proposal had an appropriate (although probably minimum) level of detail.

### **Far North District Council**

1.38 Far North District Council clearly presented its Statement of Proposal as a “back to basics” approach to the next 10 years. The introductory sections of the Statement of Proposal set this tone and described a number of specific strategies to achieve this overall goal. These strategies included:

- continuing to challenge the cost base of the Council; and



- evaluating the extent of future capital expenditure based on the related effect on operating costs.

- 1.39 Using this approach, the Council presented its Statement of Proposal as a document that would deliver to the community a rates rise of less than 1% in 2009/10. However, the community was clearly alerted to the fact that this approach would, in the long term, lead to decreasing levels of service. The Council then provided, in a simple table, seven independent options that, if all adopted, would add an additional 11% in total to the 2009/10 rates.
- 1.40 All seven options related to only operational expenditure (they did not relate to new capital projects). They reflected different ways in which the Council could deliver levels of service. Some options added to the current level of service and others maintained the current level of service by increasing funding to counteract the effect of inflation. The focus was on roading, district facilities, stormwater, and the Hokianga ferry – all major services that the Council provides.
- 1.41 We considered that the Council presented its options simply, yet very clearly and effectively. The table provided a good description of the available options and made a specific link to the effect on rates. The table also clearly stated that the options related only to operational expenditure and had no effect on capital expenditure or loan funding.

### **Financial strategies need to be better presented**

- 1.42 In our view, a local authority's financial strategy should be presented to the community as a major issue. The financial strategy most significantly determines the future state, both for the financial and consequently service delivery ability, of the local authority.
- 1.43 The financial strategy also sets the parameters that a local authority uses to balance the community's current and future interests. The financial strategy also defines the local authority's approach to funding activities equitably between ratepayers. These are all matters that the local authority should be making clear to the community and on which it should seek the community's input.
- 1.44 The financial strategy also provides the foundation principles on which the rating requirement is established. This foundation is for the 10 years (and beyond) of the particular LTCCP.
- 1.45 Overall, we found that local authorities did not present and explain financial strategies clearly enough to help communities provide informed input. Very few local authorities produced an effective synthesis of their approach to

managing their finances. Even fewer local authorities provided information to the community based on our recommended hierarchy for presenting the major issues that need to be debated (see paragraph 1.11).

- 1.46 Also, we considered that some local authorities did not appear to be fully aware of the long-term implications of the funding approaches that they were applying in their Statements of Proposal. A few local authorities described their financial strategy in the early drafts of the Statement of Proposal, but the description was not consistent with the approach actually applied in the financial forecasts.
- 1.47 We identified that local authorities had common and recurring weaknesses in presenting financial strategies:
- no explanation of the assumptions made about the effect of the economic downturn on growth assumptions and consequently on the levels of funding expected to be generated from development and financial contributions;
  - poor understanding of the differences between financial performance in keeping with generally accepted accounting practice (GAAP) and funding needs;
  - poor or inaccurate use of the term “unfunded depreciation”, often coupled with poor explanation of the consequential funding needs of assets for which depreciation is not funded in the period beyond the 2009-19 LTCCP;
  - misunderstanding that depreciation is not a cash item;
  - an over-emphasis on the first year’s rating requirement and not enough detail about the funding needs of later years;
  - an over-emphasis on, or detailed explanation of, one aspect of the financial strategy and limited or no coverage of other major aspects;
  - unclear explanations about the use of reserves and internal borrowing, and how use of these funding sources affects the external borrowing requirements; and
  - a debt funding and debt repayment approach that is not consistently reflected throughout the LTCCP, with differences or inconsistencies between the various elements of the financial statements and the financial strategy explanation.
- 1.48 Local authorities need to improve how they present their financial strategies in their future LTCCPs.

### Transparency, accountability, and financial management requirements for financial strategy disclosures

- 1.49 It is important to note that the Government's proposed changes to the Act, which arose from the Transparency, Accountability, and Financial Management (TAFM) review, include requirements for specific disclosures in the LTCCP about the financial strategy of each local authority.
- 1.50 The resulting Local Government Amendment (No 2) Bill 2010 has passed its first reading and is currently being considered by a parliamentary select committee. Although the details of the disclosures are yet to be finalised through further parliamentary scrutiny and debate, the changes are expected to help address some of the concerns discussed in paragraphs 1.45-1.48.
- 1.51 The proposals provide for a number of specific disclosures covering common components of a financial strategy. Whatever the outcome of the TAFM review, it will remain important for each local authority to work on making better disclosures about its financial strategy. If the amended legislation includes specific disclosure requirements, local authorities will still need to be careful to make disclosures that are appropriate to their own circumstances. If a local authority is taking a non-standard approach or has unique circumstances, it will need not only to comply with the requirements of the new legislation but also to be transparent about its unique circumstances.

### Preparing for 2012

- 1.52 The financial strategy provides a framework on which all other decisions will be based. It is very important that the local authority, including elected members and management, is completely clear about the nature of its financial strategy. All elected members need to be clear about the immediate and long-term implications of the financial strategy on the local authority's financial position, and its assets and activities.
- 1.53 Once the local authority is clear about its financial strategy, it will be in a better position to clearly articulate its financial strategy to the community in its LTCCP (in a manner that is meaningful to the lay reader), including the implications of its proposed strategy.



## Part 2

# How well Summaries communicate to communities

- 2.1 In this Part, we:
- discuss the significant improvements in the quality of the 2009-19 Summaries;
  - consider how local authorities sought submissions from the community through their Summaries; and
  - encourage local authorities to evaluate how effectively they used their Summaries to consult with their community.

### Summary of our findings

- 2.2 Summaries of the LTCCPs are very important. They need to present the major issues for debate, the choices available to the community, and the implications of those choices, in a clear and accessible way.
- 2.3 Overall, the Summaries of the 2009-19 LTCCPs were more timely and of a higher quality than they were for the 2006-16 LTCCPs.
- 2.4 That said, some were still too long, or unclear and verbose. Some simply “copied and pasted” from the LTCCP. We encourage local authorities to continue efforts to improve on the effectiveness of the Summaries in engaging the community in debate. We also encourage local authorities to evaluate how well they used their Summaries to consult with their community.

### Improved quality of the 2009-19 Summaries

- 2.5 We observed a significant improvement in the quality and timeliness of the Summaries of the 2009-19 LTCCPs. First, this was evident from the project planning intentions of local authorities that they reported to their appointed auditors in self-assessments (see paragraph 10.11 for more information about the self-assessments). They indicated an intention to prepare Summaries earlier.
- 2.6 Secondly, our auditors noted that the Summaries were largely completed in conjunction with preparing the Statements of Proposal. This enhanced the quality of both documents, because they generally worked together as a combined package of relevant information for the communities being consulted.
- 2.7 Summaries have a pivotal role in promoting the right debate. They need to clearly present the important issues, choices, and implications reflected in the Statement of Proposal in a balanced manner.

- 2.8 The Act is clear that the Summary must be in a form determined by the local authority.<sup>3</sup> It is important that local authorities tailor their Summary to their individual community needs while also including the strategic and important issues, choices, and implications reflected in the Statement of Proposal. However, local authorities also need to exercise discretion because section 89 of the Act requires them to carry out effective communication and consultation with their community.
- 2.9 Effective and honest consultation through quality Summaries can also give communities confidence in local authorities' processes and reduce complaints about poor process.
- 2.10 The Summaries of the 2009-19 LTCCPs were better at promoting the right debate than the Summaries of the 2006-16 LTCCPs.

### SOLGM's competition

- 2.11 SOLGM ran a competition for the Summaries of the 2009-19 Statements of Proposal. This competition sought documents that were easy to read and that told a clear story. The judges observed that a good Summary is, generally, a sign of good thinking and processes when preparing the overall LTCCP. The best Summaries were started early in the LTCCP process and were often completed by someone who had not been very involved in the details of the LTCCP. This allowed them to summarise the large volumes of information in a balanced manner.
- 2.12 Waitaki District Council's Summary was judged the winner in the SOLGM competition, and Tauranga City Council's Summary was awarded second place. The winning Summary was considered to be creative, both in its layout and in the presentation of issues for consultation. It was an easy read for the general population, and the submission form was well designed and easy to use.<sup>4</sup>
- 2.13 However, we noted that some Summaries were very lengthy, or did not present the important information in a clear and concise way. For example, some appeared to simply "cut and paste" directly from the Statement of Proposal. The length and clarity of the document are important to ensure that the reader is presented with the right information at the right level. We encourage the sector to continue addressing these matters.
- 2.14 The Summary should not introduce material that has not already been covered in the Statement of Proposal. If it does, it indicates that the Statement of Proposal is incomplete.

<sup>3</sup> Section 89 of the Act.

<sup>4</sup> SOLGM media release, 19 August 2009.

## How local authorities used Summaries to seek submissions

- 2.15 SOLGM's *2009 and Beyond* guides about LTCCPs emphasised the importance of a good quality Summary. In the *Telling Our Stories* guide,<sup>5</sup> local authorities were encouraged to help the community participate in the LTCCP decision-making process through the Summary. The guide noted that local authorities could make it easier for the community to participate by:
- attaching a submission form to the Summary; and
  - providing other details about the consultation process (such as the dates and venues of any meetings) and details about the right of submitters to make an oral submission.
- 2.16 We consider it crucial for Summaries to include information that explains how readers can make their views heard.
- 2.17 We acknowledge that the number of submissions received by a local authority is not necessarily evidence of a good quality LTCCP process or Summary. A number of factors may well – and in some cases did – influence the number and nature of submissions. However, our discussions with most local authorities about submissions indicated that good Summaries are associated with good community participation, which is reflected in the number of submissions received. Consequently, we used the format of submission forms and other information included in Summaries as evidence of how local authorities approached consultation.

### Format of submission forms

- 2.18 Local authorities accepted submissions through a wide range of methods – for example, by fax, email, and online submission. These options were usually clearly documented in the Summary. There were also a number of local authorities that offered to take submissions by telephone.
- 2.19 About 15% of local authorities did not include a submission form in their Summary. Instead, these local authorities usually informed readers about where a submission form could be obtained (usually on the local authority's website). It is not possible to establish whether this affected the number of submissions made on the Statement of Proposal because that depends on many factors (such as the profile of projects being carried out in the community). However, failing to include a submission form may have discouraged some people from making a submission.
- 2.20 Most submission forms included some basic contact information, so that submitters could contact the local authority, and a space for the submitter to write their views in detail. The submitter was also asked to raise any matter arising from the Statement of Proposal that they had a view on.

5 SOLGM, June 2008 *Telling Our Stories*, available at [www.solgm.co.nz](http://www.solgm.co.nz).

- 2.21 Some submission forms included more specific questions, such as:
- asking submitters to indicate whether they agreed or disagreed with the major projects outlined in the Summary;
  - asking submitters to rank preferred projects; and
  - requesting submitters' views on the major issues.
- 2.22 We are aware, from anecdotal reports, that providing more detailed information or giving the community easy options to provide feedback was an effective way to gain submitters' views on the major issues that the local authority was consulting on. Doing so may have made it easier for an individual to make a submission because, for example, submitters had an option to tick a box compared with writing a detailed submission.
- 2.23 Any detailed submission form that includes questions to prompt the reader needs to be carefully worded so that the local authority is not seen to be predetermining the community's views on issues.

### **Preparing for 2012**

- 2.24 It is important that local authorities evaluate how well they used their 2009-19 Summaries to consult with their community. In particular, local authorities need to consider what worked best for the individual circumstances of their community.
- 2.25 In our view, the evaluation should assess the types of responses and the level of community participation. The evaluation should also include the cost of current and proposed processes.



## Part 3

# Trends in financial information in the LTCCPs

3.1 In this Part, we discuss the main financial trends projected in the 2009-19 LTCCPs. We discuss:

- the analysis of financial information in the 2009-19 LTCCPs by the Department of Internal Affairs (the Department);
- our summary of trends in the financial forecasts within the 2009-19 LTCCPs;
- forecast rates increases; and
- the increased use of debt.

3.2 This Part primarily focuses on the trends emerging from the combined data drawn from the LTCCPs of all 85 local authorities. However, it is important to remain aware of the broad and varying range of circumstances, contexts, and community preferences that affect each individual local authority and the decisions that it makes, particularly for forecast rate levels and use of debt.

### Summary of our findings

3.3 Total rates are forecast to increase during the 2009-19 period. However, local authorities appear to be holding rates at the same proportion of total income as they forecast in the 2006-16 LTCCPs.

3.4 The 2009-19 LTCCPs show increasing debt. Local authorities are planning to have much higher debt levels, and pay more to service those debts, so they can develop and maintain their infrastructure.

### Department of Internal Affairs' financial analysis of the 2009-19 LTCCPs

3.5 In 2009, the Department collated and analysed the financial information included in local authorities' 2009-19 Statements of Proposal. In May 2009, the Department presented the Minister of Local Government with the results of this high-level analysis (which included its observations on non-financial matters). The Department then analysed the financial information included in the final 2009-19 LTCCPs. The findings from all the Department's analysis of, and observations on, the 2009-19 LTCCPs were made publicly available as part of the Local Government Information Series.<sup>6</sup>

3.6 The Department also made the financial information it used available to us for further analysis. The Department's review provides extensive information. Therefore, we do not intend to revisit the Department's work. Instead, we

<sup>6</sup> The Department's report, *Observations and Trends from 2009/19 Long-Term Council Community Plans*, was published as part of the Local Government Information Series (LGIS 2009/15) and is available at [www.localcouncils.govt.nz](http://www.localcouncils.govt.nz).

encourage readers to access the Department's analysis and use it to complement our analysis and observations.

- 3.7 Our financial overview focuses on trends in local authorities' financial forecasts, proposed rate levels, and the effect of their proposed use of increased debt. We focus on these matters because we consider that these were the most significant matters arising from the Department's analysis and our audits of the 2009-19 LTCCPs.

### Summary of trends in the financial forecasts

- 3.8 The following is our summary of significant trends in the financial forecasts presented in the final 2009-19 LTCCPs:
- total rates income is forecast to increase from \$3.9 billion in 2008/09<sup>7</sup> to \$6.5 billion in 2018/19 (up 68%);
  - local authorities expect to collect \$4 billion in development contributions and \$11.2 billion in subsidies during the 10-year period<sup>8</sup> of the 2009-19 LTCCPs, reflecting 3% and 9% of total income respectively;
  - surpluses are forecast to increase from \$3.2 billion in 2009/10 to \$4.6 billion in 2018/19 (up 44%);
  - overall (from 2009/10 to 2018/19), equity increases by more than 36% to \$127.5 billion;<sup>9</sup>
  - investment in property, plant, and equipment is forecast to increase to \$131.1 billion in 2018/19, an increase of 38% from 2009/10 estimates;
  - debt increases from \$5.9 billion (estimated in the 2008/09 annual plans) to \$10.8 billion (up 82%) in 2018/19;
  - total interest expense incurred during the period of the 2009-19 LTCCPs is \$6.7 billion, with the interest expense forecast for 2018/19 being 91% higher than in 2009/10, reflecting the increase in debt; and
  - capital expenditure is forecast to be \$31.4 billion in the 10 years from 2009/10 to 2018/19, and the annual depreciation expense is forecast to be 56% higher in 2018/19 than in 2009/10, reflecting this additional capital expenditure and periodic asset revaluations.

7 The 2008/09 rates information was collated from the 2008/09 annual plans of all local authorities. The 2009-19 LTCCPs were not required to include comparative information for the 2008/09 year, so this was not included in many instances. The increase in rates between 2009/10 and 2018/19 is \$2.4 billion (58%).

8 All other opening figures are 2009/10 figures from 2009-19 LTCCPs.

9 Balances for equity and property, plant, and equipment are both affected by the revaluation of property, plant, and equipment.

## Forecast increases in rate levels

- 3.9 The LTCCPs show that total rates are forecast to continue to increase during the 2009-19 period. The lowest levels of rate increases occur mainly towards the end of the 10-year period. However, local authorities appear to be holding rates at the same proportion of total income as they forecast in the 2006-16 LTCCPs. The proportion of rates to total income was 59%<sup>10</sup> at the end of the 2006-16 LTCCPs and is 58% at the end of the 2009-19 LTCCPs.
- 3.10 In the 2009-19 period, the year-on-year increase in total rates range from 4.04% for the lowest increase to 7.2% for the highest increase. This shows that rates, at the overall consolidated sector level, are forecast to increase by more than the anticipated increase in the Consumer Price Index (the CPI).<sup>11</sup> We note that within the sector, some local authorities have made a policy decision to cap rate increases at, or below, CPI levels.
- 3.11 Overall, total rates are forecast to increase from 53% to 58% as a proportion of total income during the 10 years of the 2009-19 LTCCPs. At a consolidated level, rates increases do not vary much between metropolitan, provincial, rural, and regional local authorities.<sup>12</sup> At 2019, the range across these four types of local authorities shows that 55% to 60% of total income is sourced from rates. District councils in provincial locations will obtain 60% of their revenue from rates in 2018/19, 6% higher than in 2009/10. Regional councils will obtain 55% of their revenue from rates in 2018/19, a 9% increase on 2009/10. The increase between 2009/10 and 2018/19 in the proportion of rates to total income ranges from 4% to 9% for the four types of local authorities.
- 3.12 Overall, the level of total rates as a proportion of total income still varies widely among local authorities. For example, there are several local authorities that have forecast rates to be up to 80% of total income in 2018/19. However, at the other end of the spectrum, there are several local authorities that have forecast rates to be as low as 39% of total income in 2018/19. These differences again emphasise the effect of the widely varying circumstances of local authorities. Those local authorities with lower total rates levels, in most cases, have significant additional sources of income from owning profit-making subsidiaries.
- 3.13 Given the forecasts for infrastructure renewal, replacement, and development needs in the 2009-19 period, local authorities' funding needs are extensive.

10 *Matters arising from the 2006-16 Long-Term Council Community Plans*, page 27, paragraph 3.21.

11 Increases in rates are often compared with the movement in the CPI. The CPI is heavily weighted to household goods, such as food and alcoholic beverages. No specific local government index has been established at present. However, the Producer Price Index and the subgroup of the Capital Goods Index for pipelines and transport ways may be better indicators. These have increased significantly more than the CPI in recent years.

12 The Department's analysis used these four types of local authorities. We do not use these categories in other Parts of this report, but found the Department's approach useful for our financial review.

Local authorities that are forecasting that they will be holding rates at about the same proportion of total income are moving away from relying on rates to meet growing funding needs. Instead, they are looking to use other sources of funding, particularly debt.

## Increasing use of debt

### Increasing use of debt is reflected in the 2009-19 LTCCPs

- 3.14 The 2009-19 LTCCPs are characterised by an increasing use of debt. This trend has been evident throughout the local government sector since 2004. The increase between 2009/10 and 2018/19 is \$3.9 billion, a 55% increase to a closing balance of \$10.8 billion. In 2015/16, debt is forecast to reach the highest level overall, peaking at \$11.2 billion. Rural district councils are planning to reach their peak level of debt a year earlier. The peak occurs later for metropolitan and regional councils. Collectively, they will reach peak levels of debt in 2016/17.
- 3.15 Although total debt is clearly very significant for local authorities in dollar terms, and the increases are large during the period of the 2009-19 LTCCPs, the effects are not so large when considered in the context of local authorities' overall balance sheets, and annual revenues and expenses. Total property, plant, and equipment purchases forecast for the period of the 2009-19 LTCCPs are \$31.4 billion, bringing local authorities' total assets to \$131.1 billion in 2018/19. Debt as a percentage of total assets is forecast to move from 7.4% in 2009/10, peak at 9.5% in 2014/15, and fall to 8.3% in 2018/19.
- 3.16 For regional councils, the increase in debt level is much higher, at 77%. However, we note that most regional councils have very low levels of debt in 2009/10. The increase in debt for rural district councils is much lower, at only 16%, which indicates an ongoing reluctance to use debt as a source of funding. Rural district councils, with smaller communities and less infrastructure, are also less likely to need debt as an additional source of funds.
- 3.17 The average increase of debt for each rural district council between 2009/10 and 2018/19 is \$2.1 million, compared with an average increase of \$38.9 million for the provincial district councils, and \$45.5 million for all local authorities. The lower levels of debt increase in the rural part of the sector are also likely to be linked to low or negative population growth rates.
- 3.18 The highest level of annual borrowing is forecast to occur in 2010/11, which aligns with the year of the greatest asset purchases. In 2010/11, \$3.7 billion is forecast to be spent on purchasing property, plant, and equipment and \$2 billion is borrowed to help fund these purchases. Overall, from 2016/17, local authorities

are expected to be in a position where, annually, the level of debt repayment is greater than the amount of new debt being taken on.<sup>13</sup>

### Borrowing costs

- 3.19 The cost of borrowing to local authorities amounts to \$6.7 billion during the 2009-19 period. This reflects a 109% increase in the annual interest expense compared with that estimated in the 2008/09 annual plans. This shows not only that local authorities are forecasting an increase in the amount of debt (55% more in 2018/19 than in 2009/10) but also that they are factoring increased interest rate levels into the expense estimates.
- 3.20 For all local authorities, interest expense as a proportion of total expenditure is 8.0% and as a proportion of total income is 7.0%. Interest expense is forecast to increase from 9.7% of rates revenue in 2009/10 to 11.8% in 2018/19. We do not consider that this level of interest expense for the sector is high or poses a likely risk of compromising the prudence with which local authorities are managing community assets. At these levels, interest expense is well within the standard policy limits usually set by the sector.

### Implications of increasing debt on financial prudence

- 3.21 The debt levels included in local authorities' forecasts were (with the exception of Dunedin City Council) aligned with the borrowing limits established in their liability management policies. However, a number of local authorities increased their borrowing limits as part of the changes made to the LTCCPs through the consultation process. This reflects that local authorities are identifying the need, and increasing their preparedness, to take on greater levels of debt.
- 3.22 In general, where local authorities have specified their debt limits, interest expense is often limited to 20% of operating revenue and debt is often limited to 250% of operating revenue. These limits are established by each individual local authority. There are no limits established in legislation and prudence needs to be assessed in the context of the individual circumstances of each local authority.

### Some examples of the effect of debt on financial prudence

- 3.23 During the 2009-19 LTCCP audits, we carefully considered each local authority's forecast debt levels and the effect of these debt levels on financial prudence.<sup>14</sup> Local authorities and auditors had to place greater emphasis on assessing risk related to financial prudence because of the recessionary environment.

<sup>13</sup> For example, in 2018/19 local authorities plan to borrow \$858 million and repay just over \$1 billion, resulting in a net debt decrease of just over \$200 million, compared to the net debt increase in 2009/10 of \$1.5 billion, which is the year where the net debt increase is the highest in the 2009-19 period.

<sup>14</sup> Section 101(1) of the Act requires local authorities to manage their activities prudently.

3.24 In two cases – Tauranga City Council and Queenstown Lakes District Council – our consideration, in conjunction with the financial position of the local authority, resulted in our issuing qualified audit opinions. Those qualified audit opinions alerted the reader of the LTCCP about prudence issues primarily related to the level of debt forecast in the LTCCP.

#### **Tauranga City Council**

3.25 As a result of Tauranga City Council's consultation process, the draft financial forecasts were revised and the audit qualification that was issued on the Council's Statement of Proposal was removed for the final LTCCP. The Council's forecast debt levels remain high, peaking in 2011/12 at 13% of total assets and falling to 7.4% in 2018/19. In the 2009-19 period, interest is 16% of total expenditure, 10% of total income, and 21% of rates revenue. The extent of the city's growth and the resulting need to develop new infrastructure significantly affect the Council's borrowing needs.

#### **Queenstown-Lakes District Council**

3.26 Queenstown-Lakes District Council was unable to resolve its funding issues, and we maintained the audit qualification on the Statement of Proposal for the final LTCCP. The Council is affected by the need for significant infrastructure renewal and new development to respond to the district's growth. The Council signalled in its LTCCP that it did not have enough funding sources available to it to fund the capital expenditure needed for the 2009-19 period. The financial projections in the Council's LTCCP reflect the borrowing needed to match the capital programme. However, the Council has clearly stated that the debt level is not a realistic proposition, and that it will review the funding strategy and capital programme before starting the 2012-22 LTCCP process.

3.27 In the Council's final LTCCP, interest is 14% of total expenditure for the 2009-19 period, 11% of total income, and 22% of rates revenue. The Council's debt as a proportion of total assets is expected to continue to grow during the 10-year period. At 2009/10, it is 12.4% and reaches 23.5% by 2018/19. Although debt repayments occur in the 2009-19 period, the net borrowing position is forecast to peak in 2013/14 when the net debt position increases by \$67 million.

3.28 The amount of debt repayments consistently increases from 2015/16 onwards, but the Council remains a net borrower through to the end of 2018/19. The interest expense as a proportion of rates reaches its highest level of 29.5% in 2018/19. These ratios are significantly above the levels generally seen in the sector.

### Causes for the growing use of debt funding

- 3.29 Local authorities use debt as a funding source for acquiring long-life assets, which helps to provide equity between generations of ratepayers. Generally, local authorities should not use debt to fund operational expenditure. A review of the consolidated cash flow statements of local authorities as presented in the LTCCPs shows that, in 2009/10, debt will fund 57.4% of asset purchases. This falls to 27.2% by 2018/19.
- 3.30 This shows the reducing proportion of asset purchases funded through debt towards the end of the LTCCP period. The reduction occurs in the context of a minimal decrease in the actual dollar value of asset purchases occurring each year. This reinforces the general preference indicated by local authorities to use debt funding as a last resort rather than to routinely fund asset purchases.
- 3.31 It appears that part of the reason for the reduction in the proportion of debt funding used towards the end of the 2009-19 LTCCP period relates to the increased levels of monetary assets held by local authorities. Monetary assets are 22% higher in 2018/19 than in 2009/10. The build-up of monetary assets probably reflects the build-up of funds from rates as a result of “funding of depreciation”. These funds are collected and then become available for asset renewals and debt repayment.
- 3.32 Asset purchases use 49% of operating cash flows in 2009/10, but this drops to 29% at the end of the 2009-19 LTCCP period. As noted above, the levels of debt funding also begin to drop during that time (debt to asset ratios peak at 9.5% in 2014/15 and fall to 8.3% in 2018/19). This seems to support the observation that debt is mainly being used to fund specific projects that are needed in the earlier part of the LTCCP period. This is further supported by evidence that, towards the end of the LTCCP period, the net debt position each year shows that repayments are greater than the level of new debt.
- 3.33 The specific, one-off peak in asset purchases during the 2009-19 period is strongly related to water supply upgrade projects. These projects are often part of work that local authorities are carrying out to comply with the requirements of the revised Drinking Water Standards. Other contributors are previously deferred renewal and growth-related infrastructure development projects, and community facility projects (such as building and upgrading facilities for the 2011 Rugby World Cup).
- 3.34 There remains a risk that the reason these debt trends reduce towards the end of the LTCCP period is that the LTCCP forecasts become increasingly inaccurate towards the end of the LTCCP period. Although the later years of the forecasts will

always tend to be less accurate, known projects, such as the water and facilities projects, in the earlier part of the LTCCP period also explain the trend of reducing debt. When the LTCCPs were completed, the revised Drinking Water Standards were a significant one-off infrastructure upgrade required by legislation. We would expect such a legislative requirement to create an expenditure peak because it is not cyclical expenditure.

- 3.35 The improvements in long-term planning that have occurred in the sector are also bringing to light, for many local authorities, where assets have been inadequately managed in the past. As a result, some local authorities are addressing deferred capital projects. This is also contributing to a non-cyclical peak in the 2009-19 planning period.

### Some examples of the effects of specific projects on debt

- 3.36 The 2009-19 LTCCPs provide a number of notable examples of specific projects that affect the debt situation for individual local authorities. Grey District Council and Dunedin City Council have significant major projects that they are funding by debt.

#### Grey District Council

- 3.37 Grey District Council received a non-standard audit opinion (an emphasis of matter paragraph) highlighting the disclosures the Council made about its financial strategy. The disclosures focus on the Council's financial strategy and its decision not to fully fund depreciation throughout the LTCCP period because of the Council's decision to prioritise maintaining levels of service and to have rate increases no greater than the rate of inflation.<sup>15</sup>
- 3.38 Although the ratios of interest expense to expenditure, income, and rates are similar to the trends throughout the sector, we note that the Council has moved from a position of very low use of debt financing in the recent past. During the period of the Council's 2009-19 LTCCP, debt is forecast to increase by 115% and interest expense by 184% – both well above the increases seen in the sector as a whole.
- 3.39 The Council has disclosed that the most significant implication of this strategy of not fully funding depreciation is that it will not have funds available for future asset replacements. Therefore, when such replacements are necessary, increasing the use of debt could become unsustainable. The only alternative then is to increase rates very significantly. Even though it can see the implications, the Council was not prepared to increase its forecast rates or debt position to higher levels.

<sup>15</sup> Grey District Council, *Long-Term Council Community Plan, Volume 1*, page 22.



- 3.40 The Council's current significant capital expenditure project is the sewerage stormwater separation project. The Council has not made any allowance in its LTCCP for upgrades to water supplies needed to meet the revised Drinking Water Standards, because it considered the cost of the required upgrades unaffordable for the community. This approach will mean levels of service for this community will not increase in line with others around the country, because the Council's water supplies will not be upgraded.

#### **Dunedin City Council**

- 3.41 Another interesting example is Dunedin City Council, which has been significantly affected by its involvement in building a new stadium. To construct this facility, the Council had to take on significant levels of debt during the 2007-11 period. The Council's level of debt is expected to increase by 226% between 2006/07 and 2010/11, with interest expenses forecast to increase by 254% from 2006/07 to 2013/14, when interest costs are forecast to peak.
- 3.42 As well as the stadium project, the Council also has other capital projects (such as the central city redevelopment and development of a secondary sewerage treatment system) in progress during the 2009-19 LTCCP period. As a result, the Council is expecting to breach a number of its own liability management policy limits in the mid-years of the 2009-19 LTCCP period, when the debt levels are at their highest.
- 3.43 The Council provides a robust explanation of its financial position in the financial overview section of its LTCCP. This includes a "warning" to the community that significant rate increases will be required to bring the ratios back within the policy limits.<sup>16</sup> Given the financial position that the Council is in, it is clear that there is little scope for any unexpected core infrastructure capital projects to be accommodated within the 2009-19 LTCCP period or the years immediately following.

#### **Our observations**

- 3.44 The examples of Grey District Council and Dunedin City Council provided above show the pressures – into the medium to long term – that can result from using debt as a funding source. These examples also show that, for most local authorities, it is essential to use debt to develop infrastructure. The examples of Tauranga City Council and Queenstown-Lakes District Council show the cases where financial prudence issues are apparent in the more immediate future. These examples show that the challenges related to financial prudence are likely to become more widespread.

16 Dunedin City Council, *Community Plan 2009/10 – 2018/19*, Volume One, pages 20-23.

- 3.45 The cost of infrastructure assets is the main cause of increasing debt levels. We also note that, despite the increased use of debt and the continuing trend of year-on-year rate increases, some local authorities are still having to defer capital expenditure. Some local authorities are managing this by agreeing with the community to reduce some levels of service, while others are maintaining levels of service but extending maintenance periods to limit the costs incurred.
- 3.46 We consider that, for some essential infrastructure, reducing levels of service or extending maintenance periods is probably not viable in the long term. For good asset management, local authorities should follow renewal and maintenance plans that are optimal for the community. If good asset management practices are not followed, some risk arises that essential services will operate below the community's expectation in the future.
- 3.47 We also note that, where local authorities have capped rates increases at or below the CPI, debt becomes necessary if levels of service are to be maintained. This is because costs continue to increase over time. Local authorities will not be able to continue to deliver levels of service that meet the communities' expectations if debt is not used as a funding source.
- 3.48 There appears to be an effective self-imposed limit to the level of rates, which is shown by the ratio of rates as a proportion of total income staying relatively stable. Currently, local authorities do not seek more than about 60% of annual income (funding needs) directly from ratepayers except in rare situations. It appears that, once this level is reached, most local authorities move to other sources of income to fill the funding gap to maintain levels of service.

## Part 4

# Our audit opinions on the LTCCPs

- 4.1 In this Part, we discuss our audit opinions on the 2009-19 LTCCPs, which included unqualified and non-standard audit opinions.
- 4.2 The Act requires the Auditor-General to audit all LTCCPs. In practice, these audits are carried out by audit service providers.<sup>17</sup> The local government team of the Office of the Auditor-General co-ordinates aspects of these audits, including reviewing the auditors' work to confirm consistency and fairness.

### Summary of our findings

- 4.3 For the 85 Statements of Proposal that we audited, we issued 72 unqualified audit opinions. The affect of the local government reforms in Auckland created uncertainties for 10 local authorities. Information was included on the uncertainty in the audit opinion on the final LTCCPs. That left 19 of the 85 final LTCCPs with a non-standard audit opinion. Four of those were adverse audit opinions.
- 4.4 Any non-standard audit opinion – but particularly an adverse audit opinion – should be of serious concern to the ratepayer. In our view, the LTCCPs that received an adverse audit opinion were not fit for purpose.

### About our audit opinions

- 4.5 Our core reporting responsibility is to report on whether the Statement of Proposal and the final LTCCP are fit for purpose – that is, whether they meet the intended purposes of the Act and are of ongoing usefulness to the local authority's community.
- 4.6 In our overall audit opinion for the Statement of Proposal and for the final LTCCP, we express "being fit for purpose" as:
- In our opinion the [LTCCP] ... provides a reasonable basis for long term integrated decision-making by the [local authority] and for participation in decision-making by the public and subsequent accountability to the community about the activities of the [local authority].*
- 4.7 The audit opinion also reflects the specific requirements that the auditor needs to report on, which are set out in sections 84(4) and 94(1) of the Act. These sections require the auditor to report on:
- the extent to which the local authority has complied with the requirements of the Act in preparing its LTCCP;
  - the quality of the information and assumptions underlying the forecast information provided in the LTCCP; and

<sup>17</sup> For the 2006-16 and 2009-19 LTCCPs, these audit service providers were Audit New Zealand, Deloitte, and Ernst & Young.

- the extent to which the forecast information and performance measures provide an appropriate framework for the meaningful assessment of the actual levels of service provision.

4.8 We also set out in our audit opinion the main elements of the audit methodology that the auditors apply when auditing the Statement of Proposal and the final LTCCP. This detail is provided in the section headed “Basis of the opinion”. It was designed to provide the reader of the audit opinion with a clear indication that the auditor has thoroughly examined the LTCCP, taking into account its breadth and integrated nature.

4.9 Our audit opinion also clearly states that:

- it is not the auditor’s responsibility to express an opinion on the merits of any policy content within the LTCCP – as provided for in sections 84(5) and 94(3) of the Act; and
- anticipated events frequently do not occur as expected and the variation may be material from that forecast. Accordingly, the auditor expresses no opinion about whether the forecasts will be achieved.

### Audit opinions on the 2009-19 LTCCPs

4.10 There were 85 local authorities in New Zealand when the 2009-19 LTCCPs were prepared. Therefore, we issued 85 separate audit opinions on the 2009-19 Statements of Proposal and then, after local authorities consulted with their communities and finalised their LTCCP, we issued a further 85 audit opinions on the final LTCCPs.

4.11 The bulk of our audit work was carried out in delivering the audit opinion on the Statement of Proposal. The audit opinion on the final LTCCP also required substantive work. However, in general, the amount of audit work on the final LTCCP was significantly less.

4.12 We were able to issue unqualified audit opinions for 72 of the 85 Statements of Proposal and for 66 of the final LTCCPs. We issued nine qualified audit opinions on the Statements of Proposal.<sup>18</sup> We issued five qualified audit opinions on the final LTCCPs.<sup>19</sup> The rest of the non-standard opinions issued contained emphasis of matter paragraphs.

4.13 The Appendix sets out a full list of the non-standard audit opinions issued on the Statements of Proposal and the final LTCCPs.

18 This included eight adverse audit opinions and one “except for” audit opinion.

19 This included four adverse audit opinions and one “except for” audit opinion.

### Qualified opinions

- 4.14 For our audit opinions on the 2006-16 LTCCPs, the qualifications were dominated by matters of non-compliance such as not including required information. Although this information is important for legislative compliance, not including this information can be considered a procedural matter with limited flow-on implications.
- 4.15 For the 2009-19 LTCCPs, five of the nine local authorities that received a qualified audit opinion on their Statement of Proposal were able to resolve the issue and obtained an unqualified audit opinion on their final LTCCP. No local authorities received a qualified audit opinion on their final LTCCP without first receiving a qualified audit opinion on their Statement of Proposal.
- 4.16 There was a slight increase in the total number of non-standard audit opinions issued for the 2009-19 LTCCPs compared with the 2006-16 round.<sup>20</sup> However, overall, the 2009-19 LTCCPs showed a more mature approach to long-term planning and to clearly setting out the right issues for debate.
- 4.17 The overall increase in total non-standard opinions was significantly affected by our increased use of emphasis of matter paragraphs. These opinions do not represent an actual qualification of the forecast information, but draw the attention of the community about an aspect of the LTCCP.
- 4.18 The recurring issues in the qualified audit opinions for the 2009-19 Statements of Proposal were a failure to demonstrate a prudent financial strategy and weaknesses in the performance management framework. These issues are clearly much more significant than not including required information, as occurred in the 2006-16 LTCCPs.
- 4.19 Also, the following two issues led to qualifications in the 2009-19 LTCCPs, but each occurred in only one local authority's LTCCP:
- non-compliance with generally accepted accounting practice (GAAP) because the local authority failed to include asset revaluations in financial forecasts; and
  - non-compliance with GAAP because the local authority failed to adjust financial forecasts for estimated future price changes and had inadequate underlying information.

<sup>20</sup> We issued standard unqualified audit opinions for 72 of the 85 2006-16 Statements of Proposal and for 68 of the final 2006-16 LTCCPs.

## Emphasis of matter paragraphs – Statement of Proposal

- 4.20 An emphasis of matter is a non-standard audit opinion, but does not represent an actual qualification of the forecast information. Rather, it draws the reader's attention to a matter of significance in reading and assessing the information provided by the local authority. Where circumstances warranted it, we were prepared to use this reporting tool more for the 2009-19 LTCCPs than we did for the 2006-16 LTCCPs.
- 4.21 The use of an emphasis of matter paragraph enabled us to draw attention to a significant issue that, from our independent perspective, warranted us to say that there was an important matter to be considered when reading and using that LTCCP. This meant that, for the 2009-19 LTCCPs, in addition to the qualified audit opinions noted above, we issued five audit opinions containing an emphasis of matter paragraph on the Statements of Proposal and 14 on the final LTCCPs.
- 4.22 For the Statements of Proposal, we used an emphasis of matter paragraph to highlight the following:
- Auckland Regional Council – the uncertainty facing the Council after the Minister of Transport announced the withdrawal of the Auckland Regional Fuel Tax scheme, and that, in principle, the Crown would take over responsibility for purchasing Auckland's new electric trains.
  - Chatham Islands Council – the significant assumption, made by the Council, that operational funding from central government will continue throughout the period covered by the Statement of Proposal. The Council had a confirmed financial assistance package with central government until 2011/12 to enable it to fulfil its regional and territorial local government responsibilities. The Council prepared the Statement of Proposal on the basis that this funding would continue throughout all the years of the LTCCP.
  - Grey District Council – the projected operating revenues had not been set at a high enough level to meet the projected operating expenses. The Council based this decision on what it considered ratepayers could afford at present. The consequence of this strategy is that the revenue levels will need to increase after 2018/19 to generate funds required to replace assets.
  - Mackenzie District Council – the Council's financial strategy met the financial prudence requirements of the Act. However, we considered that the financial strategy of the Council, on which the LTCCP is based, was not clearly outlined for the reader.<sup>21</sup>

21 In addition to the outlined emphasis of matter, the Mackenzie District Council's Statement of Proposal was qualified because of weaknesses in the performance management framework. However, both of these issues were resolved, and the qualification and emphasis of matter were removed from the audit opinion on the final LTCCP.

- Porirua City Council – we considered that the Council’s financial strategy for funding its assets and facilities (especially for water supply, waste water, and stormwater) will have significant effects on future levels of rates and debt, beyond the period of the current LTCCP. Our audit opinion highlighted the need for readers to assess the Council’s funding approach for intergenerational equity.<sup>22</sup>

4.23 We were satisfied that, in highlighting these issues, the audit opinion was able to direct the reader to consider particularly important issues when, during the consultation process, they evaluated the Statement of Proposal.

#### **Emphasis of matter paragraphs – final LTCCP**

4.24 For the final LTCCPs, we used an emphasis of matter paragraph in two significant ways. We added an emphasis of matter paragraph to the audit opinion of Waitomo District Council’s LTCCP, and also to the LTCCPs of all local authorities affected by the Auckland local government reforms.

#### **Waitomo District Council**

- 4.25 We drew the reader’s attention to the fact that the financial strategy used by Waitomo District Council in the 2009-19 LTCCP relied on the successful restructuring of the Council’s subsidiary Inframax Construction Limited to ensure that dividends return to historical levels.
- 4.26 The Council’s 2006-16 LTCCP had received a qualified audit opinion because it was not sustainable and therefore not a financially prudent plan, as required by section 101 of the Act. Since 2006, the Council had carried out a significant amount of work to address the qualification. When the 2009-19 LTCCP was adopted, we were satisfied that it was fit for purpose and that the financial strategy was prudent.
- 4.27 During the period that the Council was consulting on the 2009-19 Statement of Proposal, further information was provided to the Council about the ability of Inframax Construction Limited to meet its 2008/09 performance criteria. As a result, the company could not deliver the budgeted dividends for the first three years of the 2009-19 LTCCP. The dividends were identified as crucial to reducing the Council’s level of borrowing. The company also required further capital from the Council to enhance its capital structure.

22 The same issue was highlighted in our audit opinion on the 2006-16 LTCCP of Porirua City Council, using an emphasis of matter paragraph. This was the only use of the emphasis of matter paragraph in the audit opinions on the 2006-16 LTCCPs.

**Auckland local government reforms**

- 4.28 In May 2009, the Local Government (Tamaki Makaurau Reorganisation) Act 2009 was passed into law. The emphasis of matter paragraph was useful to highlight the effect of local government reorganisation in the Auckland region. Information about the reorganisation process and its effect on the LTCCP was included in the audit opinions on the final LTCCP of the 10 councils known at that stage to be affected by the reform.<sup>23</sup>

**“Except for” opinions – final LTCCP**

- 4.29 Waimate District Council provides an example of how the final audit opinion – although not qualified – was linked to, and affected by, the qualified opinion issued for the Statement of Proposal.

**Waimate District Council**

- 4.30 Waimate District Council failed to prepare a coherent Statement of Proposal – it was so flawed, in our view, that it was not fit for purpose. Because of this, the auditor issued a qualified audit opinion. The issues contributing to this opinion were:
- non-compliance with GAAP – because capital expenditure was not adjusted for estimated future price increases;
  - the debt funding and repayment strategy was not clearly explained;
  - the performance management framework was inadequate; and
  - assurance could not be gained about the integrity of the financial model.
- 4.31 These issues were resolved so that the final LTCCP met the minimum standard. However, an “except for” audit opinion was issued. This “except for” opinion was considered appropriate because the outcome of the consultation process could have been significantly different if the Statement of Proposal had been presented to the community without all the flaws in it.
- 4.32 The “except for” opinion also noted that the Summary did not include any information about the qualified audit opinion. In our view, issuing this “except for” audit opinion alerts the reader to these issues, which is important because the audit opinion on the Statement of Proposal becomes obsolete and is withdrawn from circulation after the LTCCP is adopted and becomes final.

<sup>23</sup> Councils known to be affected by the reform at the time of finalising the LTCCPs were Auckland City Council, Auckland Regional Council, Environment Waikato, Franklin District Council, Manukau City Council, North Shore City Council, Papakura District Council, Rodney District Council, Waikato District Council, and Waitakere City Council. Subsequently, Hauraki District Council was also affected by boundary changes.



## Our conclusions

- 4.33 We are responsible for reporting our audit opinion on the LTCCP. We have no mandate to require any action of the local authority – particularly where we report a qualified opinion. Where local authorities received a non-standard audit opinion, they were still able to adopt the LTCCP and, because it is closely linked to the planning process, set their rates for the next financial year. These LTCCPs are still “in force”, with the flaws that we have pointed out.
- 4.34 This means that some local authorities have set their strategic direction based on inadequate underlying information and with performance management frameworks that will not enable them to assess their actual performance meaningfully. This position is accentuated for those local authorities that received a qualified audit opinion on their final LTCCP. In our view, these LTCCPs were not fit for purpose.
- 4.35 Some of these local authorities, such as Central Otago District Council, have indicated that they will try to rectify the issues that our audit opinion raised before they prepare the next LTCCP for 2012-22. This will probably require them to make an amendment to the 2009-19 LTCCP. Although amending the LTCCP can address the issues, it is costly and time consuming. The issues could have been addressed more efficiently if the project of preparing the 2009-19 LTCCP had been better managed.
- 4.36 Where a local authority has received any non-standard audit opinion – but particularly a qualified audit opinion<sup>24</sup> – this reflects matters that should be of serious concern to the ratepayer.
- 4.37 Overall, we consider that our audit opinions on the 2009-19 LTCCPs indicate that the sector, as a whole, has improved the quality of the LTCCPs. There were significantly fewer breaches of legislative requirements. The matters that led to the non-standard audit opinions reflect significant and challenging issues for local authorities – such as establishing a financially prudent financial strategy during a recession.

24 Including adverse and “except for” audit opinions.



## Part 5

# Sustainable development in the LTCCPs

- 5.1 In this Part, we review how six local authorities approached sustainable development in their 2009-19 LTCCPs. This review builds on an external review<sup>25</sup> that we commissioned on the 2006-16 LTCCPs. We discuss:
- how the concept of sustainable development applies to local government, and to LTCCPs in particular;
  - our findings from reviewing the 2009-19 LTCCPs of six local authorities, with a focus on:
    - quality of information in LTCCPs about sustainable development and links with community outcomes and well-being;
    - considering future generations' well-being in decision-making;
    - integrated thinking (across environmental, economic, social, and cultural well-being);
    - using sustainable development principles and community outcomes as a framework for performance planning and management;
    - negative effects;
    - working internally (“corporate sustainability”); and
    - maintaining and enhancing the environment.

### Summary of our findings

- 5.2 An external review of six local authorities' 2006-16 LTCCPs found that, although they had better information about sustainable development than the 2004-14 LTCCPs, they could be improved by better articulating sustainable development and how it affects the local authority's intentions and operations.
- 5.3 Our review of the 2009-19 LTCCPs found some improvements but room for still more. Five of the six LTCCPs we reviewed explicitly covered sustainability issues, and linked community outcomes and the four aspects of well-being to some extent (particularly in regard to water). However, we consider that more analysis of, and specificity about, the effects of activities on well-being would be useful.

### The Auditor-General's role in sustainable development

- 5.4 In the period since the 2006-16 LTCCPs, we have been considering the Auditor-General's role in sustainable development in the public sector and, in particular, in local government.
- 5.5 We consider that the concept of sustainable development fits well with our mandate in matters of performance, use of resources (not just financial), waste, and accountability. However, we have found that sustainable development can

<sup>25</sup> Holdsworth, L (2007), “Reviewer's Report 1: Sustainable development review – findings and recommendations” in *Report of expert reviewers on changes between the 2004-14 and 2006-16 Long-Term Council Community Plans*, Office of the Auditor-General, Wellington.

be a challenging concept for public entities and for auditors. Our main focus has been on local government, given that the Act requires local authorities to take a sustainable development approach.<sup>26</sup>

## How sustainable development applies to local government

- 5.6 One authoritative definition of sustainable development comes from the 1987 report of the World Commission on Environment and Development: Our Common Future:

*Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.*<sup>27</sup>

- 5.7 This definition accords with a common view that sustainable development involves increasing the standard of living and well-being of people over time, without compromising the natural environment in doing so. Sustainable development involves broad consideration of economic, social, and environmental aspects in planning and decision-making, and taking a long-term view.
- 5.8 In our view, although the concept of sustainable development is not difficult to understand, applying it in practice can be challenging. Most government agencies and activities aim to improve the well-being of citizens in some way. A sustainable development approach that integrates economic, social, and environmental considerations can be a useful way of thinking about what the agency or local authority is trying to achieve and the effects of its activities. Taking a longer-term view can ensure that current spending and policies do not compromise the needs of future generations.
- 5.9 Internationally, some Auditors-General have taken an active role in improving government actions by monitoring, evaluating, and reporting on the effectiveness of public entities in:
- implementing sustainable development legislation, strategies, policies, and programmes; and
  - their planning and reporting processes.

<sup>26</sup> Sections 3(d), 10(b), and 14(1)(h) of the Act.

<sup>27</sup> In Chapter 2: Towards Sustainable Development of *Report of the World Commission on Environment and Development: Our Common Future* [the Brundtland Commission]. Available at [www.un-documents.net](http://www.un-documents.net). [United Nations: Transmitted as an Annex to document a/42/427 – Development and International Co-operation: Environment.]

## Sustainable development and the Local Government Act 2002

- 5.10 The Act explicitly links well-being and sustainable development. It gives local authorities the core statutory purpose of promoting the social, economic, environmental, and cultural well-being<sup>28</sup> of their communities and “taking a sustainable development approach”.<sup>29</sup>
- 5.11 A sustainable development approach is defined to include:
- taking account of the economic, social, and cultural well-being of people and communities;
  - the need to protect and enhance the quality of the environment; and
  - the reasonably foreseeable needs of future generations.<sup>30</sup>
- 5.12 We note that the Act’s definition of sustainable development gives slightly more emphasis to the environmental aspect of well-being compared with the other three aspects of sustainable development.
- 5.13 The Act does not give detailed direction to local authorities on how to promote the four aspects of well-being or on how to advance sustainable development in their communities. This is for them to decide, with their communities. However, the Act does have clear requirements for local authorities to consider the needs of future generations. For example, an LTCCP must provide a long-term focus for decisions and activities, and local authorities must consider intergenerational equity issues in funding decisions.<sup>31</sup>
- 5.14 The LTCCP must also explain why a local authority carries out its activities, the activities’ contribution to community outcomes, and any negative effects of those activities on well-being.<sup>32</sup> This provides scope for local authorities to link their activities to achieving the economic, social, cultural, and environmental well-being of current and future generations in their district or region – that is, for local authorities to explain how they are giving effect to their statutory purpose.
- 5.15 In their annual reports, local authorities must report on progress in implementing their plans, including how their activities affect economic, social, environmental, and cultural well-being in their communities.<sup>33</sup> This can be seen as an opportunity

28 In most other contexts, sustainable development has three pillars – economy, society, and the environment – and the broad concept of society would embrace cultural well-being. However, the Act gives cultural well-being explicit recognition.

29 Section 10(b) of the Act.

30 Section 14(1)(h) of the Act.

31 Sections 93 and 101 of the Act.

32 Part 1 of Schedule 10 of the Act.

33 Clause 15(1)(d) of Schedule 10 of the Act.

to report on their progress in achieving sustainable development, as defined by the Act.

- 5.16 Our audit opinion on the annual report needs to confirm that local authorities have met this reporting requirement. We have produced a series of reports to Parliament on how local authorities have performed with this.<sup>34</sup> Some local authorities are not meeting the requirement in full or at all, despite it having been in place for several years. Local authorities would more easily meet this requirement if they incorporated a sustainable development approach in their LTCCPs. We explain what this approach might look like below.

### What a sustainable development approach might look like in an LTCCP

- 5.17 We provided some guidance to our auditors on what a sustainable development approach might look like in an LTCCP. We said that it could include:
- a set of high-level principles adopted by the local authority, used in decision-making;
  - strategies and policies that are explicit about how the local authority considers economic, environmental, social, and cultural well-being, and their integration, the needs of future generations, and working with others in collaborative ways, as well as how the local authority is maintaining and enhancing the environment;
  - operational plans such as asset and activity management plans that integrate the four aspects of community well-being and long-term perspectives; and
  - performance measures that consider the effect of a local authority's activities on the four aspects of well-being, and their contribution to community outcomes.
- 5.18 A good strategy for achieving sustainable development would include a set of targets for what needs to be achieved and indicators or performance measures to check progress against those targets. In an LTCCP, this could involve putting targets and indicators or measures in place for each aspect of well-being. The results of the community outcomes process could be used in setting these targets and indicators, to link the outcomes sought with each aspect of well-being, and to identify priority indicators to measure achievement of the community's priority outcomes.
- 5.19 Such targets and indicators may be at a "headline" level, to complement more detailed indicators and targets set at the activities level (which would feed into the headline indicators), and could be used to give local authorities and their

<sup>34</sup> Most recently, in Office of the Auditor-General, *Local Government Results of the 2008/09 audits*, Part 2 – Reporting on activities in the annual report.

communities a high-level overview of progress. This process could also provide a way of achieving integrated thinking about the effect of the local authority's activities on each aspect of well-being.

- 5.20 The local authority would need to have a monitoring system to measure and record its progress against the headline well-being indicators. At the end of each year, the local authority would then be able to use the information from its monitoring process to report the effects of its activities on each aspect of well-being in its annual report.<sup>35</sup> This would enable the local authority to publicly state how it is giving effect in its district or region to achieving sustainable development, including how it is promoting each aspect of community well-being, how it is maintaining and enhancing the environment, and how it is taking account of the needs of future generations in carrying out its activities.
- 5.21 Local authorities could then use their monitoring results to inform decision-making and when devising policies and strategies.
- 5.22 Guidance from the Working Group on Environmental Auditing suggests that it can be useful to select a small number of key indicators and identify some desirable trends to work towards, rather than try and measure too many indicators.<sup>36</sup>
- 5.23 The work of Statistics New Zealand on measuring New Zealand's progress towards sustainable development provides an example of an approach using a small set of key indicators to measure environmental, economic, and social aspects of sustainable development.<sup>37</sup> Statistics New Zealand grouped key indicators by four broad concepts:
- Meeting needs – how well do we live? (indicators – employment rate, income, life expectancy, crime rates);
  - Fairness – how well are resources distributed? (indicators – access to early childhood education by ethnicity, income inequality);
  - Efficiency – how efficiently are we using our resources? (indicators – greenhouse gas intensity in the economy,<sup>38</sup> energy intensity in the economy, labour productivity); and
  - Preserving resources – what are we leaving behind for our children? (indicators – biodiversity, trend in greenhouse gas emissions, nitrogen in rivers and streams, adult education levels, number of Māori language speakers).

<sup>35</sup> As required by clause 15(1)(d) of Schedule 10 of the Act.

<sup>36</sup> *Sustainable Development: The Role of Supreme Audit Institutions* (2004), available at [www.wgea.org](http://www.wgea.org). The Working Group on Environmental Auditing is part of the International Organization of Supreme Audit Institutions.

<sup>37</sup> Statistics New Zealand (2008), *Measuring New Zealand's Progress Using a Sustainable Development Approach*, Wellington. Available at [www.stats.govt.nz](http://www.stats.govt.nz).

<sup>38</sup> "Intensity in the economy" is measured in relation to real gross domestic product. That is, whether greenhouse gases, or use of energy, has grown faster or slower than the economy. See page 4 of Statistics New Zealand (2009), *Measuring New Zealand's Progress Using a Sustainable Development Approach*, Wellington.

- 5.24 Statistics New Zealand established a target trend for each indicator to show the desired direction, and then measured progress using data gathered over a 20-year period. A favourable result indicates progress towards sustainable development and a negative result the opposite. Local authorities that are interested in further engaging with sustainable development may wish to consider the Statistics New Zealand report.
- 5.25 More guidance on sustainable development was available to the sector for the 2009-19 LTCCPs than for the 2006-16 LTCCPs. Local authorities could access guidance on how to reflect a sustainable development approach in LTCCPs,<sup>39</sup> on how to reflect possible climate change impacts in plans,<sup>40</sup> and on the benefits of having a strategic framework to guide decision-making (for example, by having a set of sustainable development principles).<sup>41</sup>

### Sustainable development in six 2009-19 LTCCPs

- 5.26 During our audit of the 2006-16 LTCCPs, we commissioned an external review on the extent to which the LTCCPs showed that local authorities were taking a sustainable development approach as defined in the Act.
- 5.27 Overall, the reviewer concluded that the six 2006-16 LTCCPs she reviewed would be more effective as strategic documents, more useful as a management framework for local authorities, and of more value to the public if they more strongly articulated sustainable development and how it affects a local authority's intentions and operations.
- 5.28 We reviewed the 2009-19 LTCCPs of the same six local authorities. They were:
- Environment Canterbury;<sup>42</sup>
  - Kapiti Coast District Council;
  - North Shore City Council;
  - South Taranaki District Council;
  - South Wairarapa District Council; and
  - Tasman District Council.
- 5.29 We were interested to see whether the 2009-19 LTCCPs showed that local authorities had changed their approach to sustainable development, and were

39 New Zealand Society of Local Government Managers (2008), *Fit for the Future: Reflecting Your Approach to Sustainable Development in Your 2009-19 LTCCP*, Wellington.

40 Ministry for the Environment (2008), *Preparing for climate change: A guide for local government in New Zealand*, Wellington. Available at [www.mfe.govt.nz](http://www.mfe.govt.nz).

41 Office of the Auditor-General (2007), *Turning principles into action: A guide for local authorities on decision-making and consultation*, Wellington.

42 The fact that Environment Canterbury councillors have been replaced by commissioners since the 2009-19 LTCCP is not considered relevant for the purposes of this review.



particularly interested to find out whether increasing public interest and focus on environmental sustainability issues such as freshwater management and climate change had been reflected in the 2009-19 LTCCPs.

### Quality of information in LTCCPs about sustainable development and links with community outcomes and well-being

- 5.30 Most of the 2009-19 LTCCPs we reviewed have shown significant improvement in articulating sustainable development and linking it with community outcomes and well-being. We outline below how five of the six LTCCPs we reviewed explicitly covered sustainability issues, and linked community outcomes and the four aspects of well-being to some extent.
- 5.31 Environment Canterbury's process for identifying community outcomes involved ranking 32 outcomes for the region in order of priority. The Council's 2009-19 LTCCP then categorises the community outcomes according to whether their achievement will contribute to economic, cultural, social, and environmental well-being, states a commitment to advocating sustainable development in Canterbury, explains the sustainable development approach required by the Act, and discusses the concept of sustainable development and what the four well-being aspects of sustainable development encompass.<sup>43</sup> Throughout the LTCCP, the Council includes brief statements about the effect that its activities will have on the four aspects of well-being and covers both positive and negative effects. The LTCCP notes that the sustainable management of water is the major issue for the region.
- 5.32 North Shore City Council's 2009-2024<sup>44</sup> LTCCP has a strong focus on the strategic approach of Council, and includes several linked strategies and policies including 12 "city principles" to guide the Council's thinking and planning as well as forward-looking "city directions". The LTCCP emphasises all aspects of community well-being, and approach that is reflected in the city principles. The LTCCP notes that:
- ... sustainability in its broad sense, including not only environmental but also social, economic and cultural aspects, is the overarching principle and outcome for the city.<sup>45</sup>*
- 5.33 South Wairarapa District Council's 2009-19 LTCCP takes some steps towards articulating sustainable development concepts, but its approach is less sophisticated than that of the larger councils. The Council has five high-level community outcomes, one of which is "sustainable South Wairarapa", linking economic development and environmental management of the district. The

43 Environment Canterbury Long Term Council Community Plan 2009-19, page 15.

44 North Shore City Council's LTCCP has a 15-year time frame.

45 North Shore City Council City Plan 2009-2024 – Module 2 – City Direction, page 21.

LTCCP contains several references to sustainability and sustainable management, including in the description of the Council's 10 significant activities, but doesn't strongly link community outcomes, well-being, and activities.

- 5.34 Tasman District Council's 2009-19 LTCCP has quite a strong sustainable development focus. The LTCCP notes that this focus was sought by the community, which had called for greater sustainability, protecting both the district's natural and man-made environments. The LTCCP links the relationship between community outcomes for the district, the four dimensions of community well-being, the Council's objectives in each of those aspects, and how its activities will contribute to achieving community outcomes.<sup>46</sup> The LTCCP has a focus on balancing economic and population growth with sustainable development and environmental management, but taking a cautious approach to keep the district moving forward in a difficult economic environment. The LTCCP discusses the Council's approach to sustainable development and environmental management in relation to managing land and land use, and projected growth and demand for land and services, and managing water resources.<sup>47</sup>
- 5.35 Kapiti Coast District Council's 2009-19 LTCCP has a strong focus on sustainable development. It contains a section explaining its sustainable development approach, and notes that the Council has adopted 14 principles to guide its decisions and actions rather than trying to define its approach precisely. The Council identified its community outcomes for a 20-year period and the LTCCP notes that some issues facing the community, such as planning for coastal erosion and protection, must be seen as 10-, 20-, or even 50-year issues. The LTCCP describes activities that appear to be different to standard council activities, such as 'supporting social wellbeing', and 'supporting environmental sustainability' (which includes advice on household sustainability, and community programmes such as waste minimisation).
- 5.36 South Taranaki District Council's approach to linking community outcomes, well-being, and activities in its 2009-19 LTCCP was less sophisticated than the approach taken by the other five councils. The Council's LTCCP does show how the district outcomes are linked to regional outcomes, and there are summary tables of how the Council's activities are linked to district and regional outcomes. However, the LTCCP does not disclose the sustainability concepts in the way the other 2009-19 LTCCPs do.

#### **Presentation**

- 5.37 The LTCCPs for Environment Canterbury and North Shore City Council presented information very clearly. They did so in a logical and coherent way, with good use of graphics to explain how policies, plans, and strategies fit together. Clearly,

<sup>46</sup> Tasman District Council Long Term Council Community Plan (LTCCP), Volume 1, pages 71-77.

<sup>47</sup> Ibid, pages 32-36.

the larger councils have an advantage over smaller councils because of greater resources and capacity.

### **Localising community outcomes**

- 5.38 All six local authorities identified community outcomes in their LTCCPs that were localised to their city, district, or region, rather than broad, high-level outcomes that could apply anywhere. The LTCCPs clearly explained the local authority's contribution to outcomes. In some cases, the summary version of the community outcomes could be read as generic outcomes applicable in any part of New Zealand. However, more detailed material in later sections of the LTCCPs provide the local context and rationale. North Shore City Council's LTCCP is an example of this approach,<sup>48</sup> which is complemented by its other strategies that are specific to its district.
- 5.39 Several of the LTCCPs feature both district outcomes and regional outcomes.

### **Considering the well-being of future generations in decision-making**

- 5.40 A major aspect of the sustainable development approach is taking a long-term view. This is the concept that the actions of current generations to raise our standard of living should not be at the expense of future generations and the natural environment. The Act expresses this as taking account of the foreseeable needs of future generations, and promoting well-being in the present and for the future.<sup>49</sup> The financial management principles in the Act also contain references to the current and future interests of the community, and require local authorities to consider, in their funding decisions, the period of time in which benefits occur.
- 5.41 This part of the sustainable development approach requires councils to think about the future rather than short-term gains, and the 10-year time frame of LTCCPs supports this. However, the ordinary meaning of "a generation" is the average period of time in which children are ready to take the role of their parents (usually about 30 years). This indicates that, where possible, local authorities should take a longer focus than the 10-year minimum.
- 5.42 Local authorities should by now have developed processes to consider future needs in their decision-making and planning, and this should be a core part of decision-making templates. For example, some local authorities have created overarching principles for decision-making (for example, Kapiti Coast District Council and North Shore City Council). The process for identifying community outcomes also provides an opportunity to consider long-term aspirations or goals for future generations, particularly for issues that take a long time to change such as water quality.

48 *North Shore City Council City Plan 2009-2024 – Module 2 – City Direction, community outcomes in summary form on page 20 and in detail on page 47 and following.*

49 Sections 3, 10, and 14 of the Act.

- 5.43 The six 2009-19 LTCCPs showed improvements, with discussion of future needs early on in the LTCCPs and then throughout the document in relevant activity descriptions and assumptions. Councils do not tend to use the language such as “the reasonably foreseeable needs of future generations”, but this is not important so long as they are clearly taking a long-term view.
- 5.44 Kapiti Coast District Council, which also did this well in 2006, takes a longer-term view than the 10-year minimum period for the LTCCP. Its LTCCP states that a council’s role is to work with its community on a managed transition to a future (the next 50 years) that will be strongly affected by issues such as climate change, peak oil, competition for labour, and a generally ageing society. Kapiti Coast District Council used a 20-year period for its community outcomes and the LTCCP notes that some issues facing the community must be seen as 10-, 20- or even 50-year issues. Its 2009-19 LTCCP explores two future scenarios.
- 5.45 North Shore City Council’s LTCCP covers a 15-year, rather than 10-year, period and its “city directions” indicate locations for future growth, change, and development during the next 30 years. It also discusses global and other external drivers of change, with challenges including resource availability and climate change, and other drivers such as population growth and diversity.
- 5.46 All of the LTCCPs discuss key issues for the community in the period of the LTCCP, so are future focused to some extent. However, the needs of future generations are more likely to be implicit (for example, when explaining funding decisions), rather than explicit. Most of the LTCCPs contain information about matters such as climate change and forecast population changes, sometimes in the material on assumptions.<sup>50</sup> Some LTCCPs refer to “future proofing” services (for example, Tasman District Council’s LTCCP notes that the Council is investing in future proofing its water supplies with a proposed dam). The South Wairarapa District Council’s LTCCP has sections on “the district today” and “the district tomorrow”, with the latter section taking a longer-term view of trends and key issues for significant activities and major projects.
- 5.47 The fact that the 2009-19 LTCCPs were prepared in a difficult economic climate with uncertainty about how long the recession might last may have made taking a long-term view harder for the smaller districts. This comes through in the LTCCPs for South Taranaki District Council and Tasman District Council.
- 5.48 It is noteworthy that the LTCCPs all placed importance on the need to manage water as an increasingly valuable resource.

50 See Part 6 of this report for more discussion about assumptions in the 2009-19 LTCCPs.

### Integrated thinking (across environmental, economic, social, and cultural well-being)

- 5.49 Another key component of a sustainable development approach is “integrated thinking”, which involves taking a broad approach to decision-making by considering the economic, environmental, social, and cultural aspects of decisions and recognising any trade-offs required.
- 5.50 This was harder to evaluate in the LTCCPs that we reviewed, but we have covered it to some extent in the discussion above on integrating community outcomes, well-being, and groups of activities.
- 5.51 In the 2009-19 LTCCPs, we noted that the aspects that were most clearly linked were economic and environmental well-being, and that some councils show integrated thinking on these aspects. Environment Canterbury’s 2009-19 LTCCP is one example. The Chairman’s introduction notes that the Council’s role is one of working towards achieving a sustainable environment – for people in the region and for generations to come, but done in step with the community and at an agreed cost. This LTCCP also signals that water management is one of the most complex sustainability challenges for the region. Another example is South Wairarapa District Council’s LTCCP. One of this Council’s five community outcomes is “sustainable South Wairarapa”, which is defined as “a sustainably managed district where economic development and environmental management go hand in hand”.
- 5.52 As noted above, all LTCCPs have a strong focus on water management issues. Water is a good example of an issue where integrated thinking is required, as all four aspects of well-being are relevant.

### Using sustainable development principles and community outcomes as a framework for performance planning and management

- 5.53 Using the Act’s sustainable development principles and community outcomes framework as an overarching basis for a local authority’s performance framework would help the local authority to measure and report on whether it is achieving sustainable development in its community. We discuss an approach to this sort of performance framework in paragraphs 5.18 to 5.22. Guidance is also available for the sector about incorporating a sustainable development approach in LTCCPs.<sup>51</sup> This provides some examples of councils that have linked outcomes and activities in useful ways.
- 5.54 Local authorities are required to include information in their annual reports about any identified effects of their activities on environmental, economic, social, and

51 New Zealand Society of Local Government Managers (2008), *Fit for the Future: Reflecting Your Approach to Sustainable Development in Your 2009-19 LTCCP*, Wellington, pages 13-17.

cultural well-being. They are also required to report the results from measuring progress in achieving community outcomes. To report on this requires putting in place performance measures for each group of activities. There is limited value in LTCCPs describing effects on well-being if local authorities do not incorporate measures into their performance frameworks to report on the effects of their activities.

- 5.55 As discussed in paragraphs 5.30 to 5.36, the 2009-19 LTCCPs were generally more successful in explaining links between community outcomes, economic, environmental, social, and cultural well-being, and activities. In Part 9, we discuss our findings on how well local authorities integrated community outcomes in performance frameworks, and note that the performance frameworks in the 2009-19 LTCCPs were found to have significantly improved from those in the 2006-16 LTCCPs. This was especially true for the flow or link from community outcomes through to levels of service and performance measures, as well as for disclosing specific targets and measures for community outcomes.
- 5.56 However, from a sustainable development point of view, the links with the four aspects of well-being were less apparent. In some cases, the statements about the effect of activities on each aspect of well-being were so general that they were of little value (for example, by saying that a particular activity affected all aspects of well-being but not explaining in what way). It would be more meaningful to consider the aspects of well-being most affected by each of the local authority's main activities, and discuss the reasons why and how the effects will be measured.
- 5.57 As stated earlier (see paragraph 5.18), an effective strategy for achieving sustainable development would include a set of targets for what needs to be achieved and indicators or performance measures to check progress against those targets. In an LTCCP, this could involve putting targets and indicators or measures in place for each aspect of well-being. This was not readily apparent in most of the LTCCPs that we reviewed.
- 5.58 Several LTCCPs had high-level indicators for regional and district outcomes, but it was not always clear how the local authority would use performance measures for its activities to report on its contribution to those district and regional outcomes. The information in LTCCPs about how performance in groups of activities would be measured did not always link back to an aspect of well-being. Although these links can often be inferred, it would be clearer to make them explicit. These links are perhaps more visible in annual reports than in LTCCPs.
- 5.59 North Shore City Council's 2009-2024 LTCCP is a good example of a more explicit approach. It contains, for each group of activities, information on the effects of the

activity on each aspect of well-being (both positive and negative), as well as on the activity's contribution to community outcomes.

### Negative effects

- 5.60 The Act requires an LTCCP to:
- ... outline any significant negative effects that any activity within the group of activities may have on social, economic, environmental or cultural wellbeing of the local community.*<sup>52</sup>
- 5.61 Most of the 2009-19 LTCCPs showed some improvement in this aspect, although local authorities still tend to describe negative effects without being explicit about whether the effect is on social, environmental, economic, or cultural well-being. In some cases, local authorities give little or no information about negative effects, or the description is of a negative aspect of an activity but is not one that really affects well-being. It appears that local authorities still find difficult to articulate any negative aspects of their activities.
- 5.62 It is encouraging to see that several of the 2009-19 LTCCPs reviewed do not just focus on negative effects, but cover both the positive and negative effects of activities. We consider that the approach of describing both positive and negative effects is preferable and more logical than just focusing on negative effects. In our view, the Act would be improved by requiring local authorities to identify in their LTCCPs all effects of their significant activities on well-being, not just negative effects. This would fit better with the annual report requirement to include the identified effects of a local authority's significant activities on each of the four aspects of well-being. It would be easier to meet the reporting requirement if planned effects were identified in the LTCCP, and measures put in place. This would also provide a greater incentive to integrate well-being measures into performance frameworks for groups of activities.
- 5.63 In our work on auditing service performance information, we are increasing the focus on the appropriateness of performance measures. This will provide us with scope to examine reporting by local authorities on the effects of their activities on environmental, economic, social, and cultural well-being in more depth.

### Working internally (“corporate sustainability”)

- 5.64 Entities that are committed to taking a sustainable development approach often take steps to make their own operations more sustainable (for example, by attempting to reduce the environmental effects of their corporate activities).
- 5.65 There are no explicit requirements to include information in LTCCPs about how sustainable development relates to a local authority's internal functioning and

<sup>52</sup> Clause 2(1)(c) of Schedule 10 of the Act.

operations or how the local authority tries to operate in a sustainable way. This type of information was not clearly visible in the 2009-19 LTCCPs. The South Wairarapa District Council's LTCCP did refer to it, by noting that the Council had joined the Communities for Climate Protection scheme. The aim of that scheme is for member councils to reduce greenhouse gas emissions from their own operations and from their communities and thus show leadership.

- 5.66 It may be that these efforts are part of a local authority's business processes but are not explicit in its LTCCP. As part of the annual audit for the year ending 30 June 2010, we have asked our auditors to gather information about whether local authorities are measuring, reducing, and reporting on their greenhouse gas emissions from their corporate activities and whether any assurance is being provided. We may continue doing this over the next few years, partly to assess the effect of the Emissions Trading Scheme.

### **Maintaining and enhancing the environment**

- 5.67 The Act states that, in taking a sustainable development approach, local authorities should take into account the need to maintain and enhance the environment. The Act gives slightly more emphasis to environmental sustainability than to economic, cultural, or social well-being.
- 5.68 Four of the 2009-19 LTCCPs have quite a strong focus on environmental sustainability (those for Environment Canterbury, Tasman District Council, North Shore City Council, and Kapiti Coast District Council). These LTCCPs use concepts such as stewardship, resilience, and adaptability to guide their environmental management responsibilities to preserve and protect the environment for future generations.
- 5.69 Given the functions of regional councils, their LTCCPs might be expected to be the most explicit about how they will help maintain and enhance the environment. However, in Environment Canterbury's LTCCP, this tends to be implicit rather than explicit. However, the LTCCP is not the only way that a local authority can express how it might promote environmental sustainability. A regional council may express its contribution to environmental sustainability more clearly in its Resource Management Act policies and plans.
- 5.70 It is possible that the economic context that existed when the 2009-19 LTCCPs were prepared led to a greater focus on economic well-being than environmental sustainability, particularly for the smaller local authorities. The strength of a local authority's approach to environmental sustainability would also be driven by its community. Tasman District Council's 2009-19 LTCCP notes that the community encouraged the Council in this direction.



- 5.71 Most of the 2009-19 LTCCPs refer to possible effects of climate change in their districts or region, and some referred to possible effects of the Emissions Trading Scheme.

## Our conclusions

- 5.72 We were pleased to note that most of the 2009-19 LTCCPs reviewed show that those local authorities have made progress on the matters that the external reviewer of the 2006-16 LTCCPs recommended:
- expressing how sustainable development is localised, owned, and defined at a local authority and community level;
  - expressing community outcomes in a way that shows their relevance for the district or region, and clearly showing how the local authority contributes to the outcomes; and
  - considering and describing how they have taken account of the needs of future generations.
- 5.73 We were also pleased to note that some of the 2009-19 LTCCPs we reviewed had improved the way they described the effect of their activities on economic, social, environmental, and cultural well-being, and described both positive and negative effects. However, we think that more analysis of, and specificity about, the effects of activities on well-being would be useful.
- 5.74 The proposed reforms of the Act to improve transparency, accountability, and financial management (see paragraphs 1.49-1.51) do not affect the requirement for local authorities to take a sustainable development approach or make any substantive changes to the accountability provisions discussed in this Part. We consider that taking a sustainable development approach is a useful way for local authorities to operate, especially when integrated into performance frameworks. We will continue to work with our auditors and the sector on improving this.
- 5.75 All the 2009-19 LTCCPs we reviewed had a strong focus on water management issues. Water is a good example of an issue where integrated thinking is particularly useful, because water is relevant to all four aspects of well-being.

## Preparing for 2012

- 5.76 There is considerable “sustainability” language in the 2009-19 LTCCPs, indicating that local authorities are comfortable with the concept and that it is part of their role. However, we consider there is still room to improve:
- integrated sustainable development thinking, in terms of how activities affect each aspect of well-being and any trade-offs that have been made;

- being explicit about how the local authority's activities are maintaining and enhancing the environment;
- using performance management frameworks for groups of activities to measure the effect of activities on each aspect of well-being and achieving community outcomes; and
- describing how local authorities are taking a sustainable development approach to their corporate operations.

5.77 In February 2010, we reported on how eight local authorities are planning to meet the forecast demand for drinking water,<sup>53</sup> including the extent to which they are taking a sustainable development approach to the supply of drinking water. We recommended that local authorities integrate sustainable development strategies into drinking-water supply management as part of preparing comprehensive demand management plans.

5.78 Local authorities that wish to take further steps to using a sustainable development approach in their thinking, decision-making, and planning could do so by focusing on one of their activities initially, such as water management, to test the value of the approach to them and their communities.

53 Office of the Auditor-General (2010), *Local authorities: Planning to meet the forecast demand for drinking water*, Wellington, pages 75-77 and 97.

## Part 6

# Assumptions disclosed in the LTCCPs

6.1 In this Part, we discuss:

- the requirements for local authorities to disclose assumptions in their LTCCPs;
- our review of the types of assumptions disclosed in the 2009-19 LTCCPs;
- how well local authorities are complying with the legislative requirements to disclose the risks and uncertainties associated with their assumptions; and
- how local authorities can improve future LTCCPs by making better disclosures about assumptions.

### Summary of our findings

6.2 We found that local authorities disclosed a broader range of assumptions in their 2009-19 LTCCPs than in their 2006-16 LTCCPs. However, not all local authorities met legislative requirements for disclosing assumptions, particularly about the associated risks and uncertainties.

### Requirements for local authorities to disclose assumptions in LTCCPs

6.3 As part of preparing its LTCCP, a local authority has to decide how it will approach the future and adopt positions on various issues. This involves making some assumptions about components of its decisions that, because the assumptions relate to the future, may or may not occur and are subject to a greater or lesser degree of certainty and control by the local authority.

6.4 Clause 11 of Schedule 10 of the Act requires a local authority to make some specific disclosures in its LTCCP about assumptions:

- risks must be clearly identified – clause 11(a);
- assumptions regarding the useful life of significant assets and sources of funds for the replacement of significant assets must be clearly identified and disclosed – clause 11(b); and
- for significant assumptions where there is a high level of uncertainty, a local authority must disclose that there is uncertainty and the implications of the uncertainty for the financial estimates – clause 11(c).

6.5 Importantly, the assumptions must be applied to the financial and non-financial estimates in the LTCCP. For example, assumptions form the basis of asset management planning, which affects financial and non-financial aspects of the LTCCP.

- 6.6 Disclosing assumptions in the LTCCP allows the reader to make their own judgement about the quality and reliability of the assumptions.
- 6.7 Given the similarities of the environment and context for all local authorities, there are many assumptions common to all local authorities. However, as expected, the specific details of assumptions will differ.
- 6.8 Along with the Act's requirements, local authorities must also comply with the requirements of Financial Reporting Standard 42: *Prospective Financial Statements* (FRS-42). Paragraph 49 of FRS-42 requires that prospective financial statements contain the information necessary for the user to appreciate the degree of uncertainty and the effect of that uncertainty for all assumptions included in the prospective financial statements.
- 6.9 Therefore, the combined effect of clause 11(c) and FRS-42 requires local authorities to disclose the implications of the uncertainty for all assumptions.

### Why is estimating the effect of uncertainty so important?

- 6.10 The importance of estimating uncertainty can be demonstrated by an example. Some local authorities have been significantly affected by leaky buildings. There remains a lot of uncertainty about the extent of future claims on local authorities. For the most affected local authorities, claims during the 2009-19 period could represent a significant liability that they will need to fund.
- 6.11 It is important that local authorities make clear disclosures about their assumptions in the financial forecasts within their LTCCP about the leaky buildings issue, because these costs may affect the ability of the local authorities to carry out other projects.

## Our review of assumptions disclosed by local authorities

### What we did

- 6.12 We reviewed the assumptions that each local authority had disclosed in the final LTCCPs for 2009-19. We identified the main types of assumptions that were disclosed throughout the sector and then analysed the prevalence of those assumptions.

### What we expected to find

- 6.13 Through our audits of the 2006-16 LTCCPs, we noted that assumptions related mainly to the financial aspects of the information used to prepare an LTCCP.

- 6.14 After the 2006-16 LTCCPs, we emphasised to the sector, through newsletters and speaking engagements, the need for local authorities to broaden their consideration of assumptions. We also emphasised that all assumptions applied by local authorities needed to be clearly disclosed in the LTCCPs. The SOLGM good practice guidance<sup>54</sup> also addressed the need for better communication about assumptions.
- 6.15 The intention was to improve transparency for the reader of the LTCCP. To achieve transparency, it is important to clearly state all the components that combine in building the LTCCP. This is particularly important when there are complex and strategic assumptions that a local authority needs to make about dealing with the uncertainties of future environmental, social, economic, and cultural changes.
- 6.16 Many of these more complex and strategic assumptions relate to issues or events that may arise well beyond the term of the LTCCP but for which preparatory steps may be needed in the current LTCCP time frame.
- 6.17 Forecast information – both financial and non-financial – can be fully understood by the reader only when it is supported by transparent assumptions that are clearly described.

### What we found

- 6.18 Overall, we found a broader range of assumptions disclosed in the 2009-19 LTCCPs than was disclosed in the 2006-16 LTCCPs. The most commonly disclosed assumption was local authorities' approach to inflation, which was disclosed by all<sup>55</sup> local authorities in the 2009-19 LTCCPs (compared with 95% of local authorities in the 2006-16 LTCCPs).
- 6.19 The second most common assumption related to population growth, which appeared in all but one of the 2009-19 LTCCPs (compared with 86% in the 2006-16 LTCCPs).
- 6.20 Figure 1 sets out the categories of assumptions that we identified,<sup>56</sup> and the proportion of local authorities (by type) that disclosed assumptions in those categories.

54 *2009 and Beyond* LTCCP guides. These are available at [www.solgm.co.nz](http://www.solgm.co.nz).

55 Timaru District Council did not apply inflation to its forecasts, but it did specify that it was taking this approach (non-application) to inflation in its assumptions.

56 We developed these assumption categories for our review. They do not reflect categories required by the Act and may not match the actual assumption categories used by local authorities.

**Figure 1**  
Percentage of local authorities that made disclosures about various categories of assumptions, by type of local authority

Main category	% of all local authorities	% of district councils	% of city councils	% of regional councils
Inflation	100	100	100	100
Population growth	98	98	100	92
Assets	81	84	81	67
Asset useful life	84	81	88	92
Interest rates	95	96	100	83
Funding sources	95	96	100	83
Joint venture arrangements	16	16	0	42
Policy/approach of council	47	47	44	50
External factors	92	96	88	75
Natural disasters	73	79	69	50
Costs/subsidies	89	93	94	67
Governance	42	44	38	42
Resource consent renewals	56	61	75	8
Service levels	55	63	56	17

### The most significant increases in disclosures of assumptions

6.21 There was a significant increase in the number of local authorities that disclosed assumptions about external factors and natural disasters in the 2009-19 LTCCPs compared with the 2006-16 LTCCPs.

#### External factors

6.22 In the 2006-16 LTCCPs, 31% of local authorities included an assumption about external factors or effects. These assumptions mainly focused on the possibility of legislative change and, in most instances, disclosed that the LTCCP was based on an assumption that no legislative change would occur. In the 2009-19 LTCCPs, 92% of local authorities included an assumption on external factors, but related the assumption to a broader range of external scenarios.

6.23 The main new matter covered within the details of the external factors assumption was an explanation of local authorities' approach to the economic recession. The recession was a very significant issue at the time of preparing the 2009-19 LTCCPs. Other matters that were included in the assumption about external factors were:

- the effects of immigration patterns on social structure;
- the effects of business growth; and
- currency fluctuations.

**Natural disasters**

- 6.24 In the 2009-19 LTCCPs, 97% of local authorities included an assumption for this category (compared with 31% for the 2006-16 LTCCPs) and appeared to focus more on the climate change aspects covered in this category of assumption.

**Added emphasis on climate change in the 2009-19 LTCCPs**

- 6.25 For the 2009-19 LTCCPs, there was an increase in the number of local authorities that disclosed assumptions about natural disasters and the effects of climate change compared with the 2006-16 LTCCPs. This increase appears to align with the growing level of concern about climate change effects that has developed worldwide since the 2006-16 LTCCPs were prepared.
- 6.26 We consider that this change also shows that local authorities are responding to the need to be transparent about all the considerations that have been taken into account in preparing the LTCCP.
- 6.27 We also consider that increased transparency of assumptions about the natural disasters and the effects of climate change reflects local authorities' increasing recognition that section 14(1)(h) of the Act requires them to take a sustainable development approach.
- 6.28 In the 2009-19 LTCCPs, similar assumptions to those included in the 2006-16 LTCCPs were made about major natural disasters, such as earthquakes – that no natural event would occur during the period causing anything other than normal asset and facility maintenance to be required. However, for the 2009-19 LTCCPs, many more complex assumptions and a lot more information was provided about the longer-term effects of climate change.
- 6.29 Some local authorities noted that their asset management plans allowed for the effects of climate change – for example, more frequent flood events because of higher expected levels of rainfall, or an increased need for water storage because of more frequent drought conditions.
- 6.30 Many local authorities provided the reader of the LTCCP with information about climate change and what the local authority is doing to consider the effects on that local authority. However, most local authorities did not make any specific changes to their financial forecasts to allow for the effects of climate change because of the current uncertainty about the effects. Whether the effects of climate change are flawed in the financial forecasts or not, local authorities need to be clear through their assumption disclosures about their approach so that there is transparency for the reader about the possible implications of climate change on the local authorities' forecasts.

- 6.31 Only 50% of regional councils disclosed information about how they planned to deal with the expected effects of climate change, compared with 96% of district councils (see Figure 2). We consider that this may be a matter that regional councils need to consider and provide more transparent disclosure on in future LTCCPs. Disclosure of this assumption is particularly relevant to regional councils' responsibilities for coastal protection and to maintain flood protection schemes. It also relates to their role in developing other land use and environmental policy.

### Assumptions about the Emissions Trading Scheme

- 6.32 The Emissions Trading Scheme was passed into law on 26 September 2008. The scheme has direct and indirect effects on the services that local authorities provide. Following the General Election in November 2008, the new Government announced a review of the scheme.
- 6.33 Despite the fact that this review was to be completed after the 2009-19 LTCCPs were adopted, we expected local authorities to make assumptions about the effects of the scheme on their activities during the next 10 years. It was clear that some form of emissions trading scheme would remain in place.
- 6.34 As a result of our review of all 2009-19 LTCCPs, we identified 53 local authorities (62%) that made specific reference to the Emissions Trading Scheme in their assumptions. Most of these local authorities stated that there was too much uncertainty about the final form of the scheme and therefore about the effects of the scheme. Because of these uncertainties, no effects had been built into their financial forecasts.
- 6.35 Despite the uncertainties about the exact form of the scheme, 18 local authorities did make some allowance for the Emissions Trading Scheme. For these local authorities, additional costs were reflected in the LTCCP forecasts. Most commonly, this was limited to applying the one-off 1.1% additional inflation adjustor recommended by Business and Economic Research Limited. This adjustor was intended to reflect the estimated general effect of the scheme on prices across the market. However, seven local authorities included specific quantified costs related to estimated carbon emissions, and/or quantified costs related to managing processes to reduce emissions.



## Evaluating local authorities' compliance with the Act

### The legislative basis

- 6.36 As noted in paragraph 6.4, the Act sets out some specific disclosure requirements for assumptions. As well as considering the types of assumptions applied by local authorities, we also reviewed how effectively local authorities addressed the related disclosures required by the Act.

### What we did

- 6.37 For the final 2009-19 LTCCPs, we reviewed the disclosed assumptions of each local authority to consider what they had disclosed about risk and uncertainty and the specific assumptions required by clause 11 of Schedule 10 of the Act. Disclosing the risks and uncertainties associated with each assumption provides very important information to the reader of the LTCCP. This information provides context so that the reader can evaluate the reliability of the forecasts.
- 6.38 We identified whether the required disclosures had been made and also whether they were clear enough for the reader of the LTCCP to evaluate the reliability of the LTCCP forecasts.

### What we found

- 6.39 Importantly, we found that, in the 2009-19 LTCCPs, 40 local authorities provided more comprehensive and clearly presented information about risks and uncertainties compared with what they had disclosed in their 2006-16 LTCCPs. In the 2006-16 LTCCPs, 65 local authorities (76%) included disclosures about risks and uncertainties. In the 2009-19 LTCCPs, this improved to 78 local authorities (92%). This means that an additional 13 local authorities complied with the legislative requirements.
- 6.40 One of the seven local authorities whose 2009-19 LTCCP did not meet the full requirements of the Act for disclosures presented better information about its assumptions compared with its 2006-16 LTCCP. The six other local authorities whose 2009-19 LTCCPs did not meet the disclosure requirements of the Act made few or no changes to their assumption disclosures between their 2006-16 and their 2009-19 LTCCPs.
- 6.41 In summary, our review identified variable performance in disclosures about risks and uncertainties. Where the approach to addressing the requirements of clause 11 of Schedule 10 of the Act was identified as being weak during the audit, this was raised by the appointed auditor as a matter for future improvement.

- 6.42 The clear disclosure of risks and uncertainties contributes significantly to the reader's depth of understanding of the LTCCP forecasts. We encourage all local authorities to work towards full compliance with the requirements of the Act on assumptions, particularly the disclosure of risks and uncertainties.

### How improvements were made

- 6.43 Many of the 40 local authorities that improved the way they presented information about their assumptions, risks, and the related uncertainties moved from a narrative form of presentation to a tabular format. Using a tabular format appears to make it easier for local authorities to clearly and systematically set out the information required by the Act.
- 6.44 We also noted that local authorities had improved the extent to which they disclosed their estimates about the potential effects of uncertainties on their financial forecasts. For many local authorities, estimating the effects of uncertainties with assumptions and associated risks is difficult and, sometimes, because of the nature of the assumptions, not possible. Local authorities put a lot more effort into doing this. As a result, the information provided on potential effects was more informative than it was in the 2006-16 LTCCPs.

### Other required disclosures

- 6.45 Not all local authorities included assumptions about the useful life of assets and the sources of funds for future replacement, as required by clause 11(b) of Schedule 10 of the Act. Figure 1 provides more detail about how well the different types of councils complied with this requirement.
- 6.46 In general, auditors accepted that the information required by clause 11(b) could be obtained from the detailed activity sections of most LTCCPs, and that a legislative compliance breach had therefore not occurred. In our view, this information is generally more accessible for the reader when it is included with the assumption disclosures. We encourage local authorities to consider how they disclose these assumptions in future LTCCPs.

### Preparing for 2012

- 6.47 We expect that all local authorities will meet the requirements of the Act in future LTCCPs. This means clearly disclosing the risks and uncertainties associated with all assumptions applied, and the assumptions specifically required by clause 11(b) of the Act.
- 6.48 There is scope for local authorities to continue improving how they present assumptions, risks, and uncertainties in a manner that helps the reader to

evaluate the implications of the assumptions for the financial and non-financial forecasts. As noted in paragraph 6.43, a tabular format seems to help local authorities make better disclosures.

- 6.49 Local authorities can make whatever assumptions they deem fit and necessary in preparing their LTCCPs. We observed that, where the broader non-financial assumptions were disclosed, local authorities often took the position that the situation was too uncertain to actually apply any assumptions in the forecasts. This position was taken for many assumptions in LTCCPs, particularly for the effects of climate change, the Emissions Trading Scheme, and some aspects of population growth and other demographic changes. We do not dispute the validity of this approach in the 2009-19 LTCCPs. However, we encourage local authorities to continue assessing the effect of these issues on their communities in the medium to long term, and to specifically build the effects into their future LTCCP forecasts.



## Part 7

# Asset management in the LTCCPs

7.1 In this Part, we consider aspects of how local authorities plan for and manage their assets. We discuss:

- the importance of good quality asset management, and its continuing improvement;
- the significance of asset management for the LTCCP;
- our audit work on local authorities' asset management; and
- our findings from the 2009-19 LTCCP audits.

### Summary of our findings

7.2 In recent years, we have seen local authorities improve their asset management practice and the related information that they hold about their assets.

7.3 Generally, local authorities had enough underlying information to support the forecasts and disclosures about assets in their 2009-19 LTCCPs. However, a significant number of local authorities' asset management plans were not complete, did not reflect other available information and management practice, and did not support the information included in the LTCCPs.

7.4 Also, a significant number of local authorities needed to better define their levels of service. In our view, local authorities need to focus on improvement planning to continuously enhance how they manage their assets.

### The importance of good quality asset management

7.5 Local authorities manage infrastructure and other community assets to deliver services to their communities.

7.6 For many local authorities, particularly territorial local authorities, infrastructure assets are their largest investment. This means that the cost of acquiring, maintaining, and renewing these assets, which ratepayers and other funders must ultimately pay for, is significant.

7.7 To meet their responsibilities for decision-making and accountability under the Act, all local authorities need to effectively plan, manage, and be accountable for their stewardship of assets and the services those assets deliver.

7.8 Some of these services are critical to a community's quality of life. In our 2010 report, *Local authorities: Planning to meet the forecast demand for drinking water*, we outlined our findings from a performance audit that considered how well eight local authorities were prepared to meet the likely future demand for drinking water. To meet this demand and deliver water at a level of service that

meets community expectations requires local authorities to successfully integrate technical engineering aspects of asset management with non-technical user-focused considerations.

- 7.9 Many of our reports to Parliament have raised issues about how local authorities manage their assets. We have raised these issues in the context of accepted good practice for asset management in the local government sector. These issues include:
- the necessity of good quality information about assets to underpin reliable plans and estimates and good decision-making; and
  - the importance of asset management plans being based on levels of service established through meaningful consultation with ratepayers or users of services.
- 7.10 The importance of asset management is also recognised in the Government's National Infrastructure Plan.<sup>57</sup>

### **The significance of asset management for the LTCCP**

- 7.11 To manage their assets effectively, local authorities need management practices that align with industry-recognised standards and a reliable base of underlying information about their assets. Only then can local authorities be confident about the asset-related decisions that they make, and communities can have confidence in the plans that their local authority puts before them. Without good management practices and reliable information, communities can not be confident that their local authority will continue to deliver the services they require and use their assets sustainably.
- 7.12 The Act recognises that having reliable information about assets is an important basis for the LTCCP. Section 94(1)(b) of the Act states that the auditor of a local authority's LTCCP must report on "the quality of the information and assumptions underlying the forecast information provided in the plan". The Act (in particular, clause 2(1)(d) of Schedule 10 of the Act) also requires local authorities to disclose critical information about their assets, for which adequate underlying information is necessary.
- 7.13 This means that the forecasts included in the LTCCP should be consistent with the available and adequate underlying information about a local authority's assets.
- 7.14 Current legislative revisions are proposing to change the nature and extent of the asset-related information that local authorities need to disclose. However, local

<sup>57</sup> *National Infrastructure Plan*, March 2010, pages 11, 20, and 26 (available at [www.infrastructure.govt.nz](http://www.infrastructure.govt.nz)).

authorities will still need the information they are currently required to disclose to manage their assets effectively, regardless of any new external reporting disclosure requirements.

## Our audit work on local authorities' asset management

- 7.15 Much of our audit work on local authorities' asset management focuses on a local authority's approach to asset management practice and the quality of the resulting asset management plans.
- 7.16 As part of our LTCCP audits, we assessed asset-related information that was used in preparing the LTCCP. We expected that:
- the quality of a local authority's underlying information for the LTCCP is adequate;
  - the information included in the LTCCP is consistent with the underlying information; and
  - the disclosures about assets are made in keeping with the requirements of the Act.

## Asset management in the 2009-19 LTCCPs

### Asset management and our audit opinions

- 7.17 There was a significant reduction in the number of non-standard audit opinions relating to asset management. We issued just one non-standard audit opinion that was related to asset management (compared with five for the 2006-16 LTCCPs).
- 7.18 We concluded that Tararua District Council's 2009-19 LTCCP was not fit for purpose<sup>58</sup> because the information underlying its asset management plans was inadequate to support the forecast information included in the LTCCP. This also meant that we were unable to affirm that the LTCCP complied with generally accepted accounting practice or that it achieved the purpose set out in the Act.
- 7.19 The non-standard opinion we issued was for both the Statement of Proposal and the final LTCCP. This reflects that local authorities often cannot readily address the issues that we identify with their core underlying information, which cause us to issue these qualifications, in the short term.

### Other comments

- 7.20 Generally, local authorities had enough underlying information to support the forecasts and disclosures included in their LTCCPs. This is reflected in the fact that

<sup>58</sup> See section 93(6) of the Act.

we issued only one non-standard audit opinion related to asset management for the 2009-19 LTCCPs. However, we did note where some improvements need to be made.

- 7.21 Our audits of the 2009-19 LTCCPs showed that, again, a significant number of local authorities' asset management plans were not complete, did not reflect other available information and management practice, and did not fully support the information included in the LTCCPs. In these situations, the local authorities had to supplement the information that was included in the asset management plans to fully support their LTCCPs.
- 7.22 In some cases, the appointed auditor had to complete additional work to confirm that the information supporting the LTCCP was adequate. Some of the additional information relied on local knowledge held informally by individual asset managers. This situation creates a number of risks for local authorities and reinforces the importance of having complete asset management plans.
- 7.23 Although we are pleased that the LTCCPs were supported by reasonable information, it is not good for local authorities to have asset-related plans that do not follow good practice and are inconsistent with information that is available to the local authority.
- 7.24 We also recommended to a significant number of local authorities that they should better define their levels of service. In some instances, the local authority selected levels of service from their asset management plans that were described only in technical terms, which made it difficult for the lay reader to understand them. In our view, descriptions of the levels of service in the LTCCP should appropriately blend technical and non-technical aspects. They also need to be easy to understand because the levels of service form the basis for meaningful engagement with the community.
- 7.25 When preparing the 2006-16 LTCCPs, anticipating and addressing a growth environment was a significant challenge for some local authorities. This was less so in the recessionary environment when local authorities were preparing their 2009-19 LTCCPs – affordability was a more significant issue.
- 7.26 Regardless of whether the economic environment is expansive or recessionary, a local authority's services are delivered by assets that have a long life. Local authorities have particular challenges in presenting to their communities clear trade-offs, choices, and decisions between funding and service levels, both for the short term and the long term.



## Preparing for 2012

- 7.27 In our view, local authorities need to focus on improvement planning to continuously enhance how they manage their assets. Asset management remains critical for local authorities.
- 7.28 We hope that Audit New Zealand's 2010 report on asset management<sup>59</sup> stimulates a focus on valuable examples of asset management practice, which reflect what all local authorities can achieve. This practice, and the information on which it is based, are pivotal to effective long-term planning.

<sup>59</sup> Audit New Zealand (2010), *Asset management for public entities: Learning from local government examples*, Wellington.



## Part 8

# Identifying and monitoring community outcomes

- 8.1 In this Part, we provide background information on community outcomes and then discuss:
- the legislative requirements for local authorities to identify, monitor, and report on community outcomes; and
  - how well the 2009-19 LTCCPs identified community outcomes, reported against community outcomes, and integrated community outcomes in performance frameworks.

8.2 We also briefly discuss regional collaboration and legislative reform.

### Summary of our findings

- 8.3 Most 2009-19 LTCCPs were based on the community outcomes developed for the 2006-16 LTCCPs, which met the requirements of the Act. There was a significant improvement in the links between local authorities' performance frameworks and community outcomes compared with the 2006-16 LTCCPs.
- 8.4 However, there is still much that local authorities can do to ensure that their plans and reports effectively disclose how well they are performing on service delivery, the well-being of their communities, and outcomes.

### Background and legislative requirements

- 8.5 Community outcomes for a city, district, or region are those priorities that have been identified as important to the current and/or future social, economic, environmental, or cultural well-being of a community.
- 8.6 Community outcomes provide the overall framework on which all other aspects of the local authority's direction are based, such as the selection and focus of the local authority's activities.
- 8.7 Therefore, community outcomes are a core part of the community engagement and accountability framework required by the Act. They should sit at the heart of a local authority's planning processes and are crucial to identifying community expectations.
- 8.8 The local authority's reporting against community outcomes is the monitoring system by which the community holds the local authority to account for delivering the community's expectations.
- 8.9 The Act requires local authorities to carry out a process to identify community outcomes for the intermediate and long-term future of their district or region at

least once every six years.<sup>60</sup> A local authority may decide on the process that it uses to identify community outcomes. However, the Act currently requires local authorities to take steps to:

- identify other organisations and groups that are capable of influencing community outcomes (section 91(3)(a)(i)); and
- secure the agreement of those organisations and groups to the process and to the relationship of the process to any existing and related plans (section 91(3)(a)(ii)).

- 8.10 Local authorities are required to monitor progress on achieving community outcomes. Every three years, they are required to report on this. The reporting should show how achievements during the three years are progressing community well-being and the desired community outcomes.<sup>61</sup> To show how the local authority is contributing to community outcomes, the local authority is required to report in the annual report each year how the activities it carries out result in the furthering of community outcomes.
- 8.11 The measures disclosed in the LTCCP are a critical component of the performance framework, because monitoring against these measures allows local authorities to show the extent to which their activities are furthering community outcomes and/or well-being. Information disclosed in the LTCCP needs to communicate how the identified outcomes are being achieved, with reference to the current state of the outcome and the measures that will be used to assess change in the state of the outcome over time.
- 8.12 The Act requires the local authority's auditor to report on the extent to which the LTCCP complies with the requirements of the Act and on the extent to which the forecast information on proposed performance measures will provide an appropriate framework for the meaningful assessment of actual levels of service provision.<sup>62</sup>
- 8.13 Therefore, during the LTCCP audit, the auditor assesses whether the local authority has made the appropriate disclosures required by the Act. The auditor specifically forms a view on the quality of:
- the measures the local authority proposed to use to assess progress towards achieving community outcomes;<sup>63</sup> and
  - the information on how the local authority will monitor and report on the community's progress towards achieving community outcomes.<sup>64</sup>

<sup>60</sup> Section 91 of the Act.

<sup>61</sup> Section 92 of the Act.

<sup>62</sup> Sections 84(4) and 94(1) of the Act.

<sup>63</sup> Clause 1(f) of Schedule 10 of the Act.

<sup>64</sup> Clause 1(g) of Schedule 10 of the Act.

## Community outcomes in the 2009-19 LTCCPs

### Updating outcomes used in the 2006-16 LTCCP

- 8.14 As part of the self-assessments (see paragraph 10.11 for more detail on the self-assessments) that local authorities completed, we asked them about their intentions to revise their community outcomes as part of preparing their 2009-19 LTCCP.
- 8.15 We found that, at the time of preparing the self-assessment, most local authorities did not intend to carry out a process to update community outcomes as part of their 2009-19 LTCCP process. Most of the 2009-19 LTCCPs were to be based on the community outcomes developed for the 2006-16 LTCCP. This meets the requirements of the Act because the review of community outcomes must be completed not less than once every six years.<sup>65</sup>
- 8.16 Some local authorities indicated that they would consult with the community about whether the community outcomes that were in place were still appropriate. These local authorities later disclosed in their 2009-19 LTCCP that the work had identified that the community was still happy with the outcomes set before the 2006-16 LTCCP. However, some changes were made to measures and/or targets and sometimes to the wording of some of the outcomes.
- 8.17 Very few local authorities went through the process of creating new community outcomes as part of preparing their 2009-19 LTCCP.

### Three-yearly reporting against community outcomes

- 8.18 All local authorities were required to have community outcomes in place by 30 June 2006 at the latest. Therefore, the first three-yearly monitoring report should have been completed by 30 June 2009.
- 8.19 We asked local authorities, as part of their self-assessment, about whether they had produced, or when they intended to produce, a monitoring report.
- 8.20 About a quarter of all local authorities had reported against their community outcomes before completing the self-assessment. Most local authorities completed their monitoring reports during the 2008/09 financial year, with at least one local authority including the monitoring report in its 2009-19 LTCCP.
- 8.21 We observed that the link between community outcomes and the local authority's performance framework in the LTCCP was particularly clear when the community outcomes were reported on in the 2009-19 LTCCP.

<sup>65</sup> Section 91(1) of the Act.

- 8.22 In our view, the information gained through the monitoring process should serve as a basis for explaining and interpreting a local authority's contribution to achieving community outcomes. Therefore, this information should provide context for a local authority's priorities and objectives, which are included in its performance framework.
- 8.23 A small number of local authorities did not complete their monitoring report within the legislative time frames. Where local authorities failed to finalise the three-yearly report in time to benefit the preparation of the 2009-19 LTCCP, there was a risk that the LTCCP failed to capture all the relevant information about its community. There was even a risk that it might need to amend its LTCCP once the monitoring report was completed, because there might be new information in the monitoring report that has a significant effect on the local authority's focus.
- 8.24 The measures for monitoring community outcomes that were included in 2006-16 LTCCPs were often expressed very generally. We expected the information on the measures for monitoring community outcomes to be more specific and focused in the 2009-19 LTCCPs. We found some improvements in the 2009-19 LTCCPs.

### **Integrating community outcomes into performance frameworks**

- 8.25 Most local authorities, at the time of completing their self-assessment, were planning to revise the performance frameworks they had established in their 2006-16 LTCCPs.
- 8.26 Almost all local authorities revised their performance frameworks in their 2009-19 LTCCP, whether initially intended, or as a consequence of preparing the 2009-19 LTCCP.
- 8.27 As a result, the performance frameworks in the 2009-19 LTCCPs had significantly improved compared with the 2006-16 LTCCPs. Two aspects had especially improved:
- linking community outcomes to levels of service and performance measures; and
  - disclosing specific measures and targets for community outcomes.

### **Qualified audit opinions related to community outcomes**

- 8.28 Three local authorities (Central Otago District Council, Mackenzie District Council, and Taupo District Council) received qualified audit opinions on their Statement of Proposal because the auditor was not able to form a view on the quality of the local authority's performance framework, including its measures for community outcomes.

- 8.29 The number of qualifications decreased to one on the final 2009-19 LTCCP. Central Otago District Council received a qualified opinion on both its Statement of Proposal and the final LTCCP. The Council did not adequately disclose or explain the relationship between community outcomes, service levels, performance measures, and targets across the range of its activities. The Statement of Proposal and final LTCCP did not provide information to the readers about what the Council was trying to achieve in order to contribute towards the community outcomes.
- 8.30 Mackenzie District Council also received a qualified audit opinion on its Statement of Proposal because of the inadequacy of the performance information provided by the Council about what it was trying to achieve in order to contribute towards the community outcomes. Its Statement of Proposal also did not provide adequate information about what measures and targets it would use to assess progress towards achieving the community outcomes. These issues were resolved in the final LTCCP. As a result, we issued an unqualified audit opinion on the final LTCCP.
- 8.31 For Taupo District Council's Statement of Proposal, we concluded that the document did not provide enough clear and understandable information about what the local authority was trying to achieve in order to contribute towards the community outcomes. Its Statement of Proposal also did not provide adequate information about what measures and targets it would use to assess progress towards achieving community outcomes. The Council made changes, and we were able to issue an unqualified audit opinion on the final LTCCP.
- 8.32 A local authority's community should be able to clearly understand the accountability documents of their local authority. This includes having clear information on how community outcomes, which the community had previously been consulted on and which local authorities are required to plan to address, are expected to be achieved or managed.

### Regional collaboration

- 8.33 Many local authorities have worked with neighbouring local authorities to identify and monitor community outcomes for their wider region. We see this collaboration as an opportunity for local authorities, especially those with limited resources, to fulfil their legislative obligations in an efficient way. We support the results of these efforts and, generally, we encourage this approach.
- 8.34 However, there is no "one-size-fits-all" approach. Therefore, we expect local authorities to customise any process for monitoring regional community outcomes by also addressing their own specific community outcomes and their community's local context.

## Legislative reform

- 8.35 Community outcomes are under review in the legislative reform arising from the Transparency, Accountability, and Financial Management review (see paragraphs 1.49-1.51).
- 8.36 At present, local authorities are required to go through a process of preparing community outcomes, including identifying how the local authority will work with other organisations to further community outcomes.<sup>66</sup> The proposals that are currently before Parliament remove the requirement for local authorities to include this broader perspective in the process of preparing community outcomes. The current proposals are enabling, so they still allow for local authorities to interact with other community organisations to identify outcomes if they choose to do so.

## Preparing for 2012

- 8.37 Despite the significant improvements we have seen, there is still much that local authorities can do to ensure that their plans and reports effectively disclose how well they are performing on service delivery, the well-being of their communities, and outcomes.

<sup>66</sup> Clauses 1(e)(i) and (ii) of Schedule 10 of the Act.



## Part 9

# Performance frameworks – grouping of activities

- 9.1 In this Part, we discuss:
- performance frameworks and their role in keeping a local authority accountable to its community;
  - how performance frameworks have improved in the 2009-19 LTCCPs; and
  - how local authorities can improve further in relation to groups of activities.

### Summary of our findings

- 9.2 In the 2009-19 LTCCPs, there was a lot of variation between how local authorities chose to group their activities. This is to be expected, because different activities are important to different local authorities and any performance framework should be tailored accordingly.
- 9.3 A sound performance framework will present information in such a way that the reader will be able to readily identify the links between the local authority's function, strategy, and performance goals. It will specifically identify the links between activities and the outcomes they contribute to, making clear the rationale for a local authority doing activities and producing services.
- 9.4 To get the performance framework right, local authorities need to present and aggregate their performance information in a clear and logical manner. There is still scope for local authorities to further improve how they group their activities.

### Performance frameworks and accountability to communities

- 9.5 The Act promotes the accountability of local authorities to their communities, and the LTCCP is specifically intended to enable this accountability. The Act requires local authorities to decide what activities they will carry out to achieve community outcomes and well-beings, and how they will carry out those activities.
- 9.6 In its LTCCP, a local authority's performance information for each group of activities sets out the rationale for the local authority's involvement in each activity, the planned levels of service for the next three years, and outline information for the subsequent seven years. The information on levels of service includes performance targets against which actual levels of service can be meaningfully assessed (as reported at the end of each financial year in an annual report). An LTCCP contains activity information about assets and finances, and provides an aggregated view of the local authority's activities.

## Improvements in the performance frameworks

- 9.7 During our audits of the 2006-16 LTCCPs, we noted that many local authorities needed to significantly improve their performance framework.
- 9.8 The attributes of effective performance reporting, which we had anticipated would be present in the 2006-16 LTCCPs, were often not reflected in the LTCCP or in the underlying information and assumptions. We reported that, in the 2006-16 LTCCPs, 65% of local authorities had shortcomings in their performance measures to varying extents. This meant that often there were no identifiable measures to assess how certain aspects of an activity were achieved. The performance framework should reflect the local authority's intended direction overall and for its intended direction each of its groups of activities.
- 9.9 In our audits of the 2009-19 LTCCPs, we found that local authorities have significantly improved their performance frameworks since the 2006-16 LTCCPs. However, there is still scope for further improvement. In our view, local authorities still need to substantially improve how they group their activities.<sup>67</sup>

## Weaknesses in the grouping of activities

- 9.10 Appropriately grouped activities will help local authorities produce more efficient, easy to read performance frameworks.
- 9.11 For each group of activities, a local authority must make certain disclosures, including but not limited to:
- the activities within the group of activities; and
  - the rationale for delivering the group of activities (including the community outcomes to which the group of activities primarily contributes).<sup>68</sup>
- 9.12 The aggregation, or grouping, of activities and associated performance information is important in presenting:
- a clear and logical alignment between a local authority's objectives and priorities, and the services it delivers; and
  - concise performance information that focuses on the critical aspects of a local authority's activities, levels of service, and performance but does not swamp the reader with information.
- 9.13 In the 2009-19 LTCCPs, the approach to grouping of activities varied greatly between local authorities. This is to be expected, as different activities are

<sup>67</sup> Section 5 of the Act.

<sup>68</sup> Clause 2 of Schedule 10 of the Act. We note that the current legislative reform process is proposing some changes to performance reporting, particularly the nature of community outcomes. In our view, the proposed changes will not affect the core concepts of the performance framework, and activities will remain. See paragraphs 1.56-1.57 of this report for more information on the legislative reforms.

important to different local authorities and for different reasons. Any comparison of the approaches taken by local authorities to the disclosure of groups of activities need to recognise this.

- 9.14 About a quarter of local authorities chose not to group their activities in the LTCCP, or did not group their activities to any significant extent. That is, the activities disclosed did not have any subcategories.
- 9.15 Some local authorities chose to disclose an activity statement for each significantly identifiable community asset, such as their community swimming pool, library, and community centre. Other local authorities grouped these activities under “community facilities” and established one single cost of service statement and one set of performance measures and targets for the group of activities. In this case, the information presented was often more concise, which the reader of the LTCCP is likely to prefer.
- 9.16 We acknowledge that there are varying levels of expenditure and different levels of perceived interest from community groups that may, in some cases, have influenced the separate treatment of some of these activities. We emphasise that providing a large amount of detailed information may reduce the clarity of performance reporting and could distract the reader from matters of strategic focus.
- 9.17 A small number of local authorities had identified as few as three groups of activities. However, within those groups of activities, there were a number of activities/subcategories (between 11 and 27) for which these local authorities had disclosed substantial financial information (such as cost of service statements) and non-financial information (including performance measures and targets) at the activity level.
- 9.18 The legislation permits performance information to be prepared at a group of activities level. Disclosing the information at an activity level, specifically in situations where an appropriate activity group structure has been identified, increases the size and complexity of the LTCCP document as a whole. Often, as a result, information gets disclosed repeatedly for similar activities.
- 9.19 Disclosing activities to greater levels of detail than may be necessary can mean that local authorities are creating, and subsequently monitoring and reporting against, unnecessary performance measures and targets. We observed that, in some situations, local authorities had separately identified activities that were not significant to the local authority. As a result, they needed to develop performance measures and targets for the activity statement that were by definition of lesser relevance to the reader.

- 9.20 This is a potential barrier to efficient and meaningful reporting, because the local authority needs to establish systems to measure progress against performance measures when often those performance measures are not meaningful to an assessment of the operations of the local authority.
- 9.21 This increases the risk that performance information is being disclosed for the sake of it. This is an inefficient use of a local authority's resources and mostly a distraction to the people who prepare, audit, and read the information.
- 9.22 There is no specified length for an LTCCP. In fact, the Act states that a local authority must include in the plan "such detail as the local authority considers on reasonable grounds to be appropriate".<sup>69</sup>
- 9.23 Every LTCCP produced so far has been a large document. This has implications for the overall readability and effectiveness of the document. The LTCCP is a key document for integrated decision-making and consultation with the community. Therefore, the fact that some local authorities provide too much and/or unnecessary information is a cause for concern.

### Preparing for 2012

- 9.24 The LTCCP should provide enough information on what is important to the local authority and its community, but this must be balanced so that readers are not burdened with too much detail (and the related cost of preparing it).
- 9.25 We suggest that related activities should be aggregated, particularly where they have similar objectives and service provision. Aggregating the activities will also reduce the amount of repetitive information and performance reporting for related activities included in the LTCCP, annual plan, and annual report.
- 9.26 We expect local authorities to give further consideration to the aggregation of activities in preparing the 2012-22 LTCCPs to reduce repetitive information and ensure that meaningful performance frameworks are developed.

<sup>69</sup> Section 93(8) of the Act.

## Part 10

# Improving project management

- 10.1 In this Part, we discuss:
- how local authorities and the sector have responded to the poor project management of the 2006-16 LTCCPs; and
  - how project management has improved for the 2009-19 LTCCP.

### Summary of our findings

- 10.2 Local authorities recognised the need to improve their project management when preparing for the 2009-19 LTCCPs. Our audit of the 2009-19 LTCCPs found that project management processes had significantly improved, which paid off at the final development and audit stages of the LTCCP process.
- 10.3 However, some local authorities continued to set optimistic time frames that they could not achieve.

### Responses to poor project management of the 2006-16 LTCCPs

- 10.4 When preparing their 2006-16 LTCCPs, local authorities were not good at project-managing the process.<sup>70</sup> In fact, poor project management was a primary cause of many of the other issues – such as poor communication with communities and lack of clarity about financial strategies – that we identified in our audit of the 2006-16 LTCCPs.
- 10.5 In our view, there were two main reasons for the poor project management:
- a lack of appreciation for the size of the LTCCP project; or
  - a conscious decision by the local authority to place minimal emphasis on the LTCCP process.
- 10.6 After the 2006-16 LTCCPs, the sector recognised the need to address the project management issues that had significantly affected the preparation of the 2006-16 LTCCPs. The issues were considered extensively by SOLGM and good practice guidance on the issue was included in its *2009 and Beyond* guides. These guides were produced to help local authorities prepare for the 2009-19 LTCCPs.

### The effect of SOLGM's guidance on the 2009-19 LTCCP process

- 10.7 SOLGM was very clear about the importance of addressing the project management weaknesses that had such a significant effect on preparing the 2006-16 LTCCPs. Their guide *Living Through the LTCCP: Managing a Long Term*

<sup>70</sup> *Matters arising from the 2006-16 Long-Term Council Community Plans*, pages 6 and 44-46.

*Planning Process under the Local Government Act 2002*<sup>71</sup> was the first of the 2009 and Beyond guides to be released.

- 10.8 This guide was made available in August 2007 to reinforce the need for local authorities to begin preliminary project planning between mid- to late 2007. Preliminary project planning was expected to include establishing a project management team and an initial assessment of the review work that would be required to produce the 2009-19 LTCCP.
- 10.9 *Living Through the LTCCP* provided wide-ranging guidance on how to effectively manage the LTCCP project. The guide focused not only on processes and time frames but also provided guidance on developing the right culture in the local authority.
- 10.10 Having the right culture is important so that the process is properly understood and valued by elected members, senior management, and other local authority staff. The guide also helped to clarify the people and resource needs of the LTCCP project, including job descriptions for the key project roles. The guide also used some examples of effective approaches from the 2006-16 LTCCP process.

### What the self-assessments showed us

- 10.11 As part of the early stages of audit planning for the 2009-19 LTCCP, appointed auditors asked local authorities to complete a self-assessment. Self-assessments provided detail on how local authorities were using SOLGM's guidance. Most local authorities completed the self-assessment between May and August 2008. We were pleased to see evidence in the self-assessments that a significant proportion of local authorities were using SOLGM's guidance to help their LTCCP preparations.
- 10.12 Many local authorities specifically applied the 2009-19 Health Check tool that was included in the *Living Through the LTCCP* guide. This tool was designed to help local authorities assess their readiness for the 2009-19 LTCCPs. It was also designed to help identify any weakness and who needed to take action, and by when, to address the weakness. Whether or not local authorities used the 2009-19 Health Check tool, a significant amount of planning was completed much earlier and in a more robust manner for the 2009-19 LTCCPs than for the 2006-16 LTCCPs.
- 10.13 SOLGM's guidance strongly emphasised that a crucial success factor for the LTCCP project is the active participation, from an early stage and throughout the project, of elected members. This is important because the elected members are the ones who are held to account by the community for the decisions recorded in the LTCCP. Therefore, it is essential that the LTCCP reflects the policy position of the elected

71 Released by SOLGM in August 2007 and available at [www.solgm.co.nz](http://www.solgm.co.nz).

members and that management works effectively with them to ensure that they understand the implications of their decisions.

### Project management for the 2009-19 LTCCPs

- 10.14 We found a significant improvement in the effectiveness of LTCCP project management for the 2009-19 LTCCPs. We attribute the improvement to:
- SOLGM's guidance for the sector;
  - increased commitment by local authorities to producing effective LTCCPs;
  - knowledge gained from developing the 2004-14 and 2006-16 LTCCPs; and
  - elected members and senior management showing a developing awareness of the value of, and need to improve, long-term planning.
- 10.15 We also acknowledge that elected members and senior management appeared much more committed to, and involved in, the process. One experienced observer told us that local authorities had a greater "maturity" in acknowledging the importance of long-term thinking. We concur with this view.
- 10.16 Overall, local authorities:
- started planning earlier;
  - established formal project management teams, placing less reliance on one individual;
  - created project plans that appropriately sequenced preparing and developing components of the LTCCP;
  - set realistic timelines; and
  - planned to prepare the LTCCP with more effective interaction with elected members.
- 10.17 We found that in practice the improvements made at the project planning stage paid off at the crucial final development and audit stages of the LTCCP process. Overall, the sector performed significantly better in 2009 than in 2006, particularly with delivering the Statement of Proposal for audit in line with agreed project timelines and to a reasonable quality. But we also noted that some local authorities continued to plan using overly optimistic time frames that they could not achieve.

### Evidence of improvement found in audit management reports

- 10.18 We reviewed the audit management reports issued to local authorities by their appointed auditor after the completion of the Statement of Proposal and final LTCCP. These reports mainly covered technical issues related to components of the LTCCP but also addressed, where relevant, issues related to project management.
- 10.19 We noted that at least 30 local authorities were specifically commended by their appointed auditor for good or significantly improved project management. There were also more than 10 local authorities where the appointed auditor commented on how increased involvement with, and commitment to, the LTCCP project by the local authority's senior management team and elected members improved project management.
- 10.20 Although these numbers may appear low given that there are 85 local authorities, we consider that the audit management reports strongly support our observations about improvement. This is because there was no requirement for appointed auditors to report to local authorities on successful project management. Therefore, we expect that there could be other local authorities that made project management improvements that were not identified in audit management reports.

### Difficulties with meeting deadlines

- 10.21 Even though project management has improved, we note that some local authorities still had difficulties in project managing the 2009-19 LTCCP process. There were a number of local authorities that planned well but did not deliver on their timelines and did not carry out planned quality assurance before providing draft Statements of Proposal to their auditor. This meant that completing the Statement of Proposal and the related audit process was problematic. In some cases, the statutory deadline was breached and there were additional audit costs (see Part 12 for more detail on timeliness of LTCCPs, and audit fees).
- 10.22 Other local authorities were unable to adhere to certain parts of their project plans. Preparing an LTCCP is one of the largest, if not the largest, tasks a local authority carries out during its elected members' term. Therefore, ongoing efforts to refine project management of the process will be required, even for those local authorities whose 2009-19 LTCCP projects were considered successful.
- 10.23 We note that 13 local authorities received audit management reports from their appointed auditors that detailed serious project management failures. These failures significantly affected the quality and timeliness of their draft Statements of Proposal and preparation of other important underlying information.



- 10.24 In our view, many of these 13 local authorities experienced unforeseen issues such as staff changes or unexpected reactions to the development of the issues for debate. For these local authorities, any contingency time built into the project plan was not enough to manage such problems.
- 10.25 However, some local authorities are still not committed to preparing their LTCCP. These local authorities are carrying out the LTCCP process to achieve only minimum compliance with their statutory obligations. As long as this attitude remains, it is inevitable that these local authorities will not complete the LTCCP using effective project management principles. In the long run, it is communities that are most affected by local authorities' failure to effectively project manage the LTCCP process and produce a quality LTCCP.

### Preparing for 2012

- 10.26 The LTCCP process is a very large project. Local authorities need to be fully committed to the project if it is to be completed effectively.
- 10.27 Commitment must come from all levels of the local authority – including the elected members. Therefore, it is very important – for future LTCCPs – that each local authority completes a thorough debrief of the 2009-19 LTCCP process, actively addresses any weaknesses identified in their processes, and looks for ways to reinforce and share those aspects that worked well, both through the many parts of the local authority involved in preparing the LTCCP and with other local authorities.



# Part 11

## Timeliness of LTCCPs and audit fees

- 11.1 In this Part, we discuss
- the timeliness with which local authorities adopted their LTCCPs; and
  - audit fees.

### Summary of our findings

- 11.2 Improved project planning meant that local authorities improved the timeliness of delivering for audit, and adopting, their LTCCPs.
- 11.3 Nearly half of the local authorities in the sector were charged audit fees in line with what had been estimated and agreed. However, the additional fees charged and hours incurred during the 2009-19 LTCCP audit demonstrate the complexity of preparing and auditing LTCCPs. Although the 2006-16 LTCCP audits provided a baseline, and despite significant improvements to planning and preparing LTCCPs, estimating the time and cost of the audits still proved very difficult. There are many variables to consider and the possibility of unanticipated events adds to the complexity.
- 11.4 Our comparison of the fees charged for the audits of the 2006-16 LTCCPs with the audits of the 2009-19 LTCCPs shows that good planning by local authorities has a significant effect on the cost of the auditing.

### Timeliness of adopting LTCCPs

- 11.5 Preparing an LTCCP is a major task – arguably one of the largest corporate tasks that a local authority will carry out. Local authorities need to co-ordinate efforts and resources from throughout the local authority and link major information sources.

### Improved project planning

- 11.6 As discussed in Part 10, our review of the 2006-16 LTCCPs led us to conclude that project planning and sequencing of the information needed for the LTCCP were weaknesses in the 2006-16 LTCCP process.
- 11.7 Most local authorities improved their project management of the 2009-19 LTCCP process. Most local authorities applied project management disciplines to the overall project, including appointing a project manager, establishing a detailed timetable, and implementing an internal quality assurance process. This was evident from an early stage in the LTCCP process, as documented by local authorities in the self-assessments they completed and provided to their appointed auditors.

- 11.8 Some local authorities were better than others at adhering to project plans, but, overall, project planning improved substantially compared with the project planning for the 2006-16 LTCCPs.
- 11.9 To analyse how well local authorities adhered to project timelines, we considered the date on which appointed auditors originally indicated that they could provide a summary of their audit work to our local government team for a consistency review. This review is carried out before the audit opinion on the Statement of Proposal is issued.
- 11.10 We found that 56% of local authorities adhered to their project timelines well enough that the variance between the date that the auditors had indicated and the actual date on which the audit summary was provided was seven days or less.<sup>72</sup>
- 11.11 Given the complexity of the LTCCP project and the large number of people involved, we consider it to be very positive that more than half of the audit summaries were delivered within seven days of the indicated date.
- 11.12 However, there were a number of occasions when a local authority shortened its planned internal quality assurance review process so that it could provide draft documentation to the appointed auditor within the established timeline.
- 11.13 We consider that this places unacceptable pressures on the appointed auditor and can lead to unnecessary increases in the time (and cost) of the audit, particularly if there are inconsistencies and errors in the LTCCP that have not been identified by the local authority.
- 11.14 This is a matter that requires further attention by local authorities as they prepare for future LTCCPs.

### Adopting the Statement of Proposal

- 11.15 For the 2009-19 LTCCP process, there was a long period between the date that the first local authority adopted its Statement of Proposal for consultation and when the last local authority adopted its Statement of Proposal. The first Statement of Proposal was adopted on 16 December 2008 and the last was adopted on 17 July 2009. The last local authority to adopt a Statement of Proposal for consultation was Waimate District Council.
- 11.16 The adoption date for the Statement of Proposal is not specified in legislation. However, we considered that the end of the third week in April 2009 was the latest credible date for its adoption. This allows for the 30 June statutory deadline to be met and yet allows for only the minimum statutory consultation period (of

<sup>72</sup> Sixteen percent of local authorities adhered to the original date agreed, 39% varied by one to seven days later than planned, and 1% varied by one to seven days earlier than planned.

one month) and a short period for considering submissions and completing and adopting the final LTCCP. In 2009, 15 local authorities adopted their Statement of Proposal later than 20 April 2009, with six of these local authorities adopting their Statement of Proposal in May 2009 or later.

### Adopting the final LTCCP

- 11.17 Sixty-eight of the 85 local authorities adopted their final LTCCP in the week before the statutory deadline of 30 June. The first final LTCCP was adopted on 9 June 2009 and the last was adopted on 25 September 2009. Seven local authorities adopted their final LTCCPs after the statutory deadline of 30 June 2009.<sup>73</sup> Six of these were adopted in July 2009, most of which were in the first two weeks of July. This was a slight improvement on the performance in 2006.
- 11.18 Although these late adoptions breached the statutory requirement, as in 2006, we generally supported these local authorities taking their time to get their documents “right” rather than rushing them through to meet the statutory deadline. This view was based on the importance of the LTCCP in setting direction rather than a disregard of the statutory provision. In all instances, the local authorities acknowledged in their LTCCP that they had breached the statutory deadline.
- 11.19 The primary cause of late adoption of the final LTCCP was under-resourcing, often combined with weak project planning. This situation was compounded in several local authorities by the emergence of significant issues through the consultation process.

### Our conclusions

- 11.20 Preparing an LTCCP is a significant task. It requires a local authority to sequentially gather information from various sources and from different parts of the local authority. In comparison with 2006, local authorities improved the timeliness of delivering their LTCCP for the audit and adopting the LTCCP. These achievements were related to improved project planning. However, there remains scope for further improvement in preparing and adopting future LTCCPs.
- 11.21 Local authorities need to continue focusing on thoroughly planning the LTCCP project. Good project management is important because it allows the community to be effectively consulted. People need enough time to deliberate on the issues, choices, and implications contained in the local authority’s LTCCP.

<sup>73</sup> In 2006, seven local authorities adopted their final LTCCP after 30 June 2006. The latest was adopted on 14 September 2006, four were adopted in July 2006, and two were adopted in August 2006.

## Audit fees

- 11.22 In keeping with professional audit practice, we sought to advise local authorities of our estimated audit fees before auditing the LTCCP. The appointed auditors started negotiating audit fees in mid-2008.
- 11.23 After the 2006-16 LTCCPs, we told the sector that we would need to significantly increase the estimated audit fees for the 2009-19 LTCCPs. For the 2006-16 LTCCPs, we were faced with the unique situation of establishing an audit fee. There was no precedent, locally or internationally, for estimating fees for auditing 10 years of prospective information.
- 11.24 After we completed the 2006-16 LTCCP audits, it became clear that we had underestimated our auditing time – actual hours for completing the 2006-16 audits were 48% above the estimate. However, we did not seek to recover the additional costs of the 2006-16 LTCCP audits because we considered our audit work was helping to develop local authorities' strategic planning approaches. In return, we expected local authorities to learn from the 2006-16 LTCCP audits. We clearly signalled this to the sector, along with advising that full costs would be charged for future LTCCP audits.
- 11.25 Recognising that a substantial fee increase was necessary for the 2009-19 LTCCP audit, we were very transparent about the LTCCP audit methodology.<sup>74</sup> We strongly encouraged appointed auditors and local authorities to work closely together in planning for preparing and auditing LTCCPs and to do as much as possible to limit the level of audit input required. Our approach recognised that the size of the audit fee is significantly affected by the quality of the work that the local authority provides to the auditor.
- 11.26 We established the 2009-19 LTCCP audit fee estimates in conjunction with a consultation process. Audit service providers and the Office of the Auditor-General provided estimated audit fees. The estimated fee was based on the 2006-16 LTCCP audits, adjusted for the improvements that were expected to be evident in the second round of preparing LTCCPs and for a sizing of the 2009-19 LTCCP audit methodology. We provided representatives from the sector with details of the cost drivers affecting the fee estimates. After this consultation process, appointed auditors started negotiating fees with each local authority.
- 11.27 Auditors were given some discretion to vary the estimated fee for known client-specific matters. This allowed them to consider their confidence in how the local authority planned and prepared their LTCCP, and in other factors (such as past performance and staff competence). This assessment was based on information

<sup>74</sup> The 2009-19 LTCCP audit methodology was summarised in newsletters to the sector, which we released in December 2007 and in May and June 2008. It was also covered during a number of speaking engagements by members of our local government team throughout 2007 and 2008. We also published a summarised version of the 2009-19 audit methodology (for non-auditors) on our website, [www.oag.govt.nz](http://www.oag.govt.nz).

obtained through direct discussions with local authorities and information gained through the self-assessment completed by local authorities in mid-2008.

- 11.28 Figure 2 shows the range of estimated audit fees for the audits of the 2009-19 and 2006-16 LTCCPs.

**Figure 2**  
Estimated audit fees for the audits of the 2009-19 and 2006-16 LTCCPs, by fee band

Band	2009-19 LTCCPs (number of councils)	2006-16 LTCCPs (number of councils)
\$20,000-29,999	-	9
\$30,000-39,999	-	34
\$40,000-49,999	6	20
\$50,000-59,999	12	12
\$60,000-69,999	20	3
\$70,000-79,999	17	2
\$80,000-89,999	9	2
\$90,000-99,999	8	1
\$100,000-109,999	4	-
\$110,000-119,999	1	2
\$120,000-129,999	-	-
\$130,000-139,999	3	-
\$140,000-149,999	3	-
\$150,000-159,999	-	-
\$160,000-169,999	-	-
\$170,000-179,999	-	-
\$180,000-189,999	1	-
\$190,000-200,000	1	-
<b>Median audit fee</b>	<b>\$71,850</b>	<b>\$39,964</b>

- 11.29 The combined estimated fees for all local authorities, based on agreed letters of undertaking, was nearly \$6,770,000.
- 11.30 The estimated fee schedule that formed the basis of individual fee negotiations also showed that it would take the three audit service providers about 33,000 hours to carry out all 85 audits.<sup>75</sup>
- 11.31 After the 2009-19 LTCCP audits were completed, 37 local authorities were charged audit fees at the level agreed in the letter of undertaking. For these local authorities, their performance was in line with the estimated audit fee. Two

<sup>75</sup> For the 2006-16 LTCCPs, audit hours were estimated to be 23,000. However, the actual time taken to complete the 2006-16 LTCCP audit work was more than 34,000 hours.

local authorities performed ahead of expectations and, as a result, the actual fee charged was reduced to reflect the actual costs incurred by the auditor.

11.32 The rest of the local authorities incurred additional audit time and costs. As signalled since the 2006-16 LTCCP round, it was necessary to seek additional audit fees to either fully or partially recover these costs.

11.33 Figure 3 shows the range of actual audit fees charged.

**Figure 3**  
Actual audit fees charged for the 2009-19 LTCCPs, by fee band

Band	2009-19 LTCCPs (number of councils)
\$20,000-29,999	-
\$30,000-39,999	-
\$40,000-49,999	3
\$50,000-59,999	8
\$60,000-69,999	14
\$70,000-79,999	15
\$80,000-89,999	11
\$90,000-99,999	8
\$100,000-109,999	7
\$110,000-119,999	5
\$120,000-129,999	5
\$130,000-139,999	1
\$140,000-149,999	4
\$150,000-159,999	1
\$160,000-169,999	-
\$170,000-179,999	-
\$180,000-189,999	2
\$190,000-200,000	-
\$260,000-269,999	1
<b>Median audit fee</b>	<b>\$83,000</b>

11.34 Figures 2 and 3 show that there is a variance of \$11,150 in the median between the estimated audit fee and the actual audit fee charged (\$71,850 in estimated fees to \$83,000 in actual fees). The additional fees charged ranged from \$1,500 to \$83,690. This reflects the extent and complexity of unanticipated issues that arose and/or the severity of some local authorities' non-performance.

11.35 The actual total audit hours were about 50% above the estimated audit hours. About 30% of the additional hours incurred by auditors were on-charged to local



authorities. The remainder of the additional hours were absorbed by the auditors, acknowledging some on-the-job learning by the audit teams, particularly for the Statement of Proposal audits completed in late 2008 and early 2009. On average, for all local authorities, about 75% of LTCCP audit work was completed by Chartered Accountants.<sup>76</sup> Staff input at this level was indicated as appropriate to the sector before the 2009-19 LTCCP audits started, and the estimated audit fees were based on this level of input from experienced auditors.

### Preparing for 2012

- 11.36 For the future, it is clear that there is scope for local authorities to better plan and manage preparing their LTCCP. The experience of the 2006-16 and 2009-19 LTCCPs has confirmed that audit efficiencies can be achieved when local authorities plan effectively and early. The application of good internal quality assurance processes also has a significant effect on audit cost. In addition, maintaining good communication between the auditor and the local authority – particularly when unanticipated events affect the planning and preparation process – can also reduce the cost effect of changes to initial plans.
- 11.37 Our comparison of the fees charged for the audits of the 2006-16 LTCCPs with the audits of the 2009-19 LTCCPs shows that good planning by local authorities has a significant effect on audit cost. We encourage the sector to continue to focus on planning for the 2012-22 LTCCP.

<sup>76</sup> In general, 50% to 60% of an annual audit is completed by staff who are Chartered Accountants or other specialist staff.



## Appendix

# Summary of audit opinions on the 2009-19 LTCCPs

Local authority	Statement of Proposal	Final LTCCP
<b>Adverse opinion</b>		
Central Otago District Council	Performance management framework – inadequate in demonstrating the levels of service and service dimensions being provided to the community.  Also failure to account for planned periodic revaluation of assets.	Qualification carried forward unchanged.
Queenstown Lakes District Council	Lack of financial prudence. Long-term plan is financially unsustainable; the community faces a fundamental issue regarding the Council's ability to fund its forecast expenditure needs in the long term.	Qualification carried forward unchanged.
South Taranaki District Council	Performance management framework – inadequate to demonstrate levels of service and all dimensions of performance, particularly in water.	Qualification removed after Council revised its performance management framework.
Tararua District Council	Inadequate underlying information, particularly for asset management plans.	Qualification carried forward unchanged.
Tauranga City Council	Lack of financial prudence. Long-term plan is financially unsustainable; affected by development slowdown and the cost of infrastructure investment needed now to meet anticipated growth.	Qualification removed after Council revised its financial strategy.
Timaru District Council	Prime financial statements were not reasonable estimates, given no allowance for inflation. The supplementary information provided was incomplete.	Qualification carried forward unchanged.

Local authority	Statement of Proposal	Final LTCCP
Waimate District Council	Forecast capital expenditure was not adjusted for the effects of inflation. Debt funding and debt repayment were not consistently reflected in the various financial statements and could not be relied on to reflect an accurate picture for the 10 years of the plan. Unexplained errors in the cost of service statements indicate unreliability of the financial model. Also, the performance framework was inadequate because of incomplete specification of levels of service, some measures were not measurable, and some targets were not specified.	“Except for” opinion given on a deficient consultation process and the potential affect that may have had on the final, adopted LTCCP. (The Statement of Proposal issues were cleared – and not retained in the final opinion – but the overall qualified opinion on the Statement of Proposal, which contained inadequate information, was not made known to the public through the Summary).
<b>“Except for” paragraph</b>		
Taupo District Council	Performance management framework – inadequate linkage of activities to outcomes and lack of clarity on what matters were affecting the intended levels of service.	“Except for” opinion removed after Council revised the intended reporting framework.
<b>Emphasis of matter paragraph</b>		
Auckland City Council	N/A	Auckland reorganisation uncertainties.
Auckland Regional Council	Assumptions and uncertainty – related to the funding of the rail transport developments because of the late withdrawal of the regional fuel tax funding option.	Non-standard opinion from the Statement of Proposal carried forward, and Auckland reorganisation uncertainties.
Chatham Island Council	Long-term plan assumes ongoing central government support for the delivery of core services, but only three years of funding have been formally agreed.	Non-standard opinion from Statement of Proposal carried forward with no change.
Environment Waikato	N/A	Auckland reorganisation uncertainties (Council will have boundary changes in reorganisation).

Local authority	Statement of Proposal	Final LTCCP
Franklin District Council	N/A	Auckland reorganisation uncertainties.
Grey District Council	Financial strategy – the Statement of Proposal is dominated by a focus on affordability over meeting full funding of expenditure. While prudent, the Statement of Proposal and the audit opinion alert the community to the significant build-up of costs immediately after the plan period.	Non-standard opinion from Statement of Proposal carried forward with no change.
Manukau City Council	N/A	Auckland reorganisation uncertainties.
North Shore City Council	N/A	Auckland reorganisation uncertainties.
Papakura District Council	N/A	Auckland reorganisation uncertainties.
Porirua City Council	Financial strategy – while financial prudence was demonstrated, the Statement of Proposal and audit opinion alert the community to costs “lined up” after the end of the plan that the community will have to meet.	Non-standard opinion from Statement of Proposal carried forward with no change.
Rodney District Council	N/A	Auckland reorganisation uncertainties.
Waikato District Council	N/A	Auckland reorganisation uncertainties (Council will have boundary changes in reorganisation).
Waitakere City Council	N/A	Auckland reorganisation uncertainties.
Waitomo District Council	N/A	Financial strategy – reliance of Council on the successful restructuring of Council’s subsidiary Inframax Construction Limited to ensure that dividends, to be used to contribute to Council’s debt reduction program, return to historical levels.

Local authority	Statement of Proposal	Final LTCCP
<b>Dual – Adverse opinion and emphasis of matter paragraph</b>		
Mackenzie District Council	<p><b>Adverse</b> Performance management framework – inadequate to demonstrate levels of service and all dimensions of performance – particularly in water and roading.</p> <p><b>Emphasis of matter</b> Financial strategy was not clearly outlined for the reader. However, the strategy does meet the prudence requirements of the Act.</p>	Qualification and emphasis of matter removed following revision of LTCCP.

# Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Inquiry into the Plumbers, Gasfitters, and Drainlayers Board
- Inland Revenue Department: Managing child support debt
- Inquiry into New Zealand Defence Force payments to officers seconded to the United Nations
- The Civil Aviation Authority's progress with improving certification and surveillance
- Annual Plan 2010/11
- Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Second monitoring report
- Local government: Examples of better practice in setting local authorities' performance measures
- Local government: Results of the 2008/09 audits
- Statement of Intent 2010–13
- Performance audits from 2008: Follow-up report
- Effectiveness of arrangements for co-ordinating civilian maritime patrols
- Auditor-General's inquiry into certain types of expenditure in Vote Ministerial Services – Part 1
- Local authorities: Planning to meet the forecast demand for drinking water
- Central government: Results of the 2008/09 audits
- Auckland City Council: Management of footpaths contracts
- Investigation into conflicts of interest of four councillors at Environment Canterbury
- Effectiveness of arrangements to check the standard of services provided by rest homes

## Website

All these reports are available in HTML and PDF format on our website – [www.oag.govt.nz](http://www.oag.govt.nz). Most of them can also be obtained in hard copy on request – [reports@oag.govt.nz](mailto:reports@oag.govt.nz).

## Mailing list for notification of new reports

We offer a facility for people to be notified by email when new reports and public statements are added to our website. The link to this service is in the Publications section of the website.

## Sustainable publishing

The Office of the Auditor-General has a policy of sustainable publishing practices. This report is printed on environmentally responsible paper stocks manufactured under the environmental management system standard AS/NZS ISO 14001:2004 using Elemental Chlorine Free (ECF) pulp sourced from sustainable well-managed forests. Processes for manufacture include use of vegetable-based inks and water-based sealants, with disposal and/or recycling of waste materials according to best business practices.

Office of the Auditor-General  
PO Box 3928, Wellington 6140

Telephone: (04) 917 1500  
Facsimile: (04) 917 1549

Email: [reports@oag.govt.nz](mailto:reports@oag.govt.nz)  
Website: [www.oag.govt.nz](http://www.oag.govt.nz)