

Report of the

**Controller and
Auditor-General**

Tumuaki o te Mana Arotake

**Reviewing a Long-term
Financial Strategy and
Funding Policy –
*Experiences of the
Early Nine***

October 2000

Foreword

In 2001 most local authorities will be adopting reviewed versions of their Long-term Financial Strategy and Funding Policy in the first round of the three-yearly review cycle required for these important documents.

This report looks at the experience of “the early nine” local authorities in undertaking the first three-yearly review of their Long-term Financial Strategy and Funding Policy. Our intention in examining their experience was to share it, along with our suggestions and advice, with the majority of local authorities that are reviewing their Long-term Financial Strategy and Funding Policy now.

I know that many of the authorities approaching their review are expecting that the process will allow more opportunity to focus on the principles of Part VIIA of the Local Government Act 1974. Based on the experience of “the early nine”, we offer some suggestions about where that focus should be directed and identify the four key areas emerging:

- decision-making processes that engage elected representatives and encourage a longer-term view;
- integrating information for the Long-term Financial Strategy and Funding Policy with other council policies and plans;
- ensuring that information achieves legislative compliance and that the underlying data required to support the Long-term Financial Strategy and Funding Policy is complete; and
- dealing with transparency requirements, and communicating with and engaging residents and ratepayers in strategic decision-making.

In many ways, this report is complementary to our recently published report: *Auditing a Long-term Financial Strategy – Opotiki District Council Pilot Project*. While that report focuses on preparing the estimates for the Long-term Financial Strategy, this report looks at the qualitative aspects of reviewing the Long-term Financial Strategy and Funding Policy.

Since the Opotiki pilot project, to support the information in this report we have:

- completed an audit of the Western Bay of Plenty District Council's Long-term Financial Strategy; and
- interviewed councillors, chief executives, and staff of six of "the early nine".

I express my thanks to the early nine local authorities that helped us in our examination to prepare for this report. We are grateful for their time, their frankness about the problems they dealt with, and their willingness to share their experiences in order to benefit the rest of the local government sector.

Kevin Brady
Deputy Controller and Auditor-General

27 October 2000

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1 – Summary of Major Recommendations and Findings

Suggestions for Local Authorities Reviewing their Long-term Financial Strategy and Funding Policy

Decision-making Processes

- 101 The council’s review of its Long-term Financial Strategy (LTFS) and Funding Policy should involve examination and confirmation of the council’s strategic directions and plan.
- 102 Good project management is essential. This includes a planning framework that, for example, sets out the documents required, responsibilities and timelines for preparing components of the LTFS.
- 103 Councillor participation, including new councillors, needs to be planned for. This includes discussing with councillors the timetable for the review, the points at which they want involvement, and the level of information sought.
- 104 Information for councillors should be appropriate to the issues that Councillors need to focus on, including identifying the strategic implications of issues and decisions.

Integration

- 105 The council should maintain and ensure comprehensiveness by:
- identifying the base inputs and documents that form the basis of the LTFS;
 - maintaining staff awareness of the importance of integrity in the base inputs and documents that form the LTFS and of co-ordination in planning;
 - agreeing an LTFS preparation programme that clearly identifies the required timing and interdependencies of the various documents;
 - consistently applying financial policies for the 10-year period (for example, for internal borrowing and overhead allocation);
 - developing formal processes to ensure that the LTFS is in compliance with the Funding Policy, Borrowing Management Policy and Investment Policy; and
 - ensuring that the Asset Management Plans link to the LTFS through processes to translate the profile of assets into financial forecasts.

- 106 The council's strategic direction should be integrated into planning information by:
- clearly enunciating reasons council is involved in an activity that are derived from the council's strategic outcomes;
 - linking to ensure that outcomes in the Strategic Plan are reflected in the objectives, strategies and outputs of the LTFS and Annual Plan so that these are strategically driven;
 - ensuring consistency between the Regional Plans, District Plan, Strategic Plan, Asset Management Plans and other key policies of the council and the LTFS; and
 - considering how, when preparing the Annual Plan and Annual Report in future years, the council will ensure linkage to the existing LTFS.

Meeting Specific Legislative Requirements and Ensuring Completeness of Information

- 107 Processes and guidance are desirable to:
- assist staff in assessing what is significant and material for decisions with financial consequences for the contents of the current strategy and policies;
 - explicitly recognise the requirement to consider the cost and benefit of options (including when a review of a service is indicated) by formalising existing budgeting processes;
 - ensure that all key assumptions are disclosed and information is provided about the consequences of these assumptions – including identifying those assumptions with a high level of uncertainty and ensuring that assumptions are applied consistently;
 - ensure that the council has valid and complete data to incorporate into the LTFS by recording and retaining information necessary for its preparation; and
 - identify potential omissions and errors by undertaking formal quality assurance.

Transparency

- 108 The council should consider the needs of communities so they are best equipped to respond to proposed strategies and policies by:
- preparing special-purpose information to assist communities engage in strategically focused consultation;
 - presenting strategies and plans so that readers can form an assessment as to whether the financial projections and planned actions will enable the council to reach its selected strategic goals and objectives by ensuring that –
 - key information can be located easily;
 - aids such as narrative, diagrams, graphs and tables facilitate understanding of technical and financial information;
 - each document stands alone, so that the reader can make an informed assessment of its content; and
 - the strategy and plan are driven by strategic intent;
 - continuing to work to improve –
 - the specification of levels of service underlying the LTFS objectives and Annual Plan targets; and
 - processes for consulting with communities on strategic decision-making and on longer term planning horizons;
 - undertaking a thorough review of the funding policy that involves councillors and communities; and
 - making the logic of funding decisions clearly discernible and consistent, from the Funding Policy through the rates resolution to the rates invoice.

Findings about Local Authorities' Experience with the Part VIIA Framework that We Propose to Report to Parliament

- 109 The intention of the Part VIIA framework was to improve local authorities' financial management by:
- specifying principles of financial management to be observed in decision making;
 - providing a framework for financial policy and funding decision-making; and
 - providing for public participation in financial policies and funding decisions.

We therefore considered the extent to which these principles, framework and process served to facilitate prudent financial management. As result, we intend to report further to Parliament on issues including the following:

- **Principles** – The extent to which the regimes currently promote a strategic approach and the balance between decision-making for the short and long term.
- **Framework** – The need for legislative amendment to –
 - clarify inconsistencies in legislative language that lead to confusion about how the Part VIIA framework relates to the Annual Planning and reporting requirements in the Local Government Act;
 - specify in legislation the need for information on service levels and asset management planning necessary to the preparation of an LTFS; and
 - at a broad level, specifying the responsibilities of elected representatives in the financial management regime.
- **Participation** – The implications of the regime in terms of –
 - compliance costs as a result of the combined annual plan and LTFS regimes;
 - what local authorities need to do to report on achievements under the LTFS; and
 - principles-based legislation and auditing compliance by local authorities.

2 – Background

What This Report Is About

201 Our intention is (as with the 1998 article in our *Second Report* to Parliament on the experiences of the early nine) to assist the majority of councils that will be reviewing their LTFS and Funding Policy in 2001 by detailing the experiences of the early nine.¹

202 This report is based on our observations from two exercises:

- pilot audits of the Long-term Financial Strategies of Opotiki District Council and Western Bay of Plenty District Council; and
- document reviews and interviews with Waipa District Council, Masterton District Council, Porirua City Council, Wellington Regional Council, West Coast Regional Council, and Dunedin City Council.²

The Pilot Audits of Long-term Financial Strategies

203 We undertook these pilot audits to develop methods of assurance to test and form an opinion on whether the key elements required had been identified and addressed in the preparation of the LTFS.

204 We expected that any local authority's LTFS should:

- reflect the authority's strategic goals, objectives and performance targets;
- provide background information on community circumstances;
- state the assumptions made about, and reflect, changes in community needs and aspirations as these occur or are anticipated – such as through legislative, environmental or technological changes;
- indicate options or scenarios that might be expected as a result of change and choices that may be required to be made in the future;

¹ The early nine are:

Wellington Regional Council	West Coast Regional Council
Waipa District Council	Masterton District Council
Rodney District Council	Dunedin City Council
Porirua City Council	Opotiki District Council
Western Bay of Plenty District Council	

² We did not include Rodney District Council because of special legislation enacted that exempted the Council from undertaking a review of its Part VIIA documents for the 2000-01 year.

- provide for all legislative obligations to be met;
- outline for ratepayers the role that the local authority anticipates taking and the activities it proposes to engage in over the short term as well as over the duration of the LTFS; and
- provide accurate financial information about activities and proposals for the period, including outlining for ratepayers the impact on rates, and reflect these in other local authority policies – including the funding, borrowing and investment policies.

Document Reviews and Interviews with Others of the Early Nine

205 We visited the other six of the early nine to discuss the approach and views of the council to the planning regimes and the review process. In particular, we looked at the qualitative aspects of how the councillors and staff:

- dealt with the processes and considerations made in the exercise of judgement in preparing the strategy and policies required by Part VIIA; and
- provided information to communities.

206 At each of those councils we talked to:

- the chief executive;
- the staff involved in the strategy and policy reviews; and
- at least one councillor who had been re-elected at the last election and one new councillor.

207 We reviewed each council's:

- Draft LTFS/Funding Policy and Annual Plan;
- Strategic plan; and
- Rates resolution and rates invoice.

208 We also used (where they were identified to us as relevant) other documentary sources such as:

- the council's plans and policies;
- information prepared for public consultation; and
- council agenda papers and minutes.

209 Our objectives for the reviews and interviews were to:

- explore the impact of the Part VIIA requirements to assess whether they had changed the way the councils performed their functions;
- assess whether the LTFS and Funding Policy were integral documents underlying decisions of both the governing body and staff;
- understand the process adopted and explore the perceptions of the role, extent, and nature of the involvement of staff and councillors and the particular issues/problems that arose;
- assess the transparency of public information; and
- assess the compliance with specific requirements through the councils' processes.

Our Major Assumption

210 We accept that the way in which we approached the two exercises, and our resulting suggestions, are based on an assumption that long-term strategic planning processes result in better information to help decision-making by local authorities. This is because the particular characteristics of local government lend it naturally to a long-term horizon, including its:

- involvement in the delivery and purchase of services that have very long life-spans and lead times for change; and
- responsibility for safeguarding vital environmental and community resources that once lost can be difficult and expensive, if not sometimes impossible, to recover.

211 Therefore, the approach of legislation over the last 10 years since local government reform, and developments that the sector has led of its own initiative, have focused on strategic planning and the supporting processes and information needed to make the new regime work.

Given this focus on strategic planning and supporting information and processes, several themes recur in this report:

- the need for the actions and proposals of local authorities to be driven by strategic intent;
- the need for sound asset management and information systems to support informed decision-making; and
- information should be appropriate to the needs of elected representatives and of residents and ratepayers to assist them in participating in the decision-making processes.

3 – Part VIIA and the Review Process

The Part VIIA Framework

- 301 The purpose of Part VIIA is to promote prudent effective and efficient financial management by local authorities. We regard these provisions as central to local government legislation because they are concerned with:
- providing councils with a framework and guidance to enhance their financial decision-making;
 - assisting communities to participate in and make choices about the services, and the costs associated with the services, that they wish to receive from their local governments; and
 - providing information to communities to better enable them to hold their elected representatives to account for their decisions.
- 302 Before Part VIIA came into effect, most councils operated on a relatively short-term planning framework and generally determined their funding requirements by reference to annual cash requirements. Part VIIA introduced a regime founded on the premises of transparency and accountability to local communities in local authority decision-making by:
- specifying principles of financial management to be observed in decision making;
 - providing a framework for financial policy and funding decision-making; and
 - providing for public participation in financial policies and funding decisions.
- 303 The legislation requires a council to:
- adopt an LTFS and Funding Policy using the special consultative procedure set out in section 716A of the Local Government Act; and
 - provide summaries in the Annual Plan of the investment and borrowing management policies adopted by the council.
- 304 These provisions came into effect for the 1998-99 financial year and prescribe a regime of not less than three-yearly review and adoption of the LTFS and Funding Policy. The early nine local authorities elected to comply with Part VIIA a year early. This report is based on information drawn primarily from these councils' experiences in their first review of their LTFS and Funding Policy.
- 305 Unlike much of the prescriptive local government legislation, Part VIIA is principles-based. It is a framework within which local authorities are required to exercise their judgement transparently for the benefit of ratepayers, residents, and the district. Because it is concerned with the

exercise of judgement in financial planning and decision-making, the framework contemplates both that:

- Trade-offs will be made. For example, between the principles for financial decision-making; between short term and long term interests; and between the interests of different groups of people.
- Changes will be made to the LTFS and the funding and other policies adopted to reflect both real events, and new directions and choices by communities and their representatives.

306 The primary emphasis of the legislation, therefore, is to ensure that these trade-offs and changes are made transparently so that communities can understand and participate in choices and decision-making and hold their elected representatives to account for decisions.

307 We felt that, because of the newness and extensiveness of these legislative changes, it would have been unrealistic to expect councils to get everything right in the first year of Part VIIA being in force. However, many councils approaching the review for 2001 are expecting that the process will be easier the second time around and will, consequently, allow more opportunity to focus on the principles of the legislation as well as the mechanics.

308 Our focus until now has been on whether local authorities had their LTFS and funding, investment and borrowing management policies in place. For the future, we have indicated that we will be paying greater attention to the processes for preparing these documents.

309 At its essence, Part VIIA is about undertaking integrated business planning and decision-making. Therefore, both the LTFS and Funding Policy are most meaningful and best understood when there is a strategic plan that provides a rationale (or the ‘why’) to the key questions that Part VIIA asks a council to consider.

310 In our view, these key questions include:

- What does the community want for its district or region – what outcomes should the council therefore seek?
- What is the role and objectives of the council in contributing to these outcomes?
- Why and how in contributing to these outcomes does the council choose to participate in any particular activity?
- How does the council prioritise, programme and trade-off between possible activities to achieve its outcomes?
- How does the council programme its activities so that activities are funded fairly over time and debt and equity are prudently managed?

- Who is the council trying to deliver services/benefits to for each activity?
- How does the council arrange to pay for the activities it is involved in as between ratepayers, residents, and users of services?

311 Our observations differed in extent and nature among the six councils we visited, and not every issue we raise in this report was experienced by each council. All councils told us that they had found the Part VIIA requirements useful – in particular because of the improved information about assets and resulting improvements in their financial management processes.

312 We have used our discussions with the early nine to raise and consider the issues that a council’s review process needs to deal with. Nevertheless, among the early nine are examples of local authorities developing best practice in working with Part VIIA. For example, of the six councils we visited (see paragraph 202) Wellington Regional Council undertook the most comprehensive and planned review of the LTFS and Funding Policy.

313 Of future interest is Dunedin City Council, where information is already actively being prepared for a more comprehensive review for 2002 – the starting year for a new electoral triennium.

314 Each council faces a range of unique capability, resource and environmental factors and, therefore, needs to organise its review process in a manner that allows these unique factors to be accommodated and addressed appropriately. West Coast Regional Council – as a small council with a large geographic area, low population base and volatile physical environment – has strategic questions of how to achieve legislative compliance at least cost and how to manage the risks of minimal compliance. Its strategic questions therefore tend to be oriented to issues of delivery and internal organisation.

The Common Approach and Views of the Six Councils

315 The most common approach to the review process by the six councils was to:

- incorporate the review requirement into the Annual Plan preparation process;
- have staff update the estimates for the LTFS, incorporate any revisions to the policies (in the course of the preceding two years), and identify areas where problems had arisen in the LTFS and Funding Policy;
- circulate the updated LTFS and Funding Policy to councillors for consideration and confirmation;

- separately consider the specific problem areas; and
- make the LTFS and Funding Policy available for public comment in conjunction with the Annual Plan.

316 In our view, this approach to decision-making and information preparation was not centred on developing the LTFS and Funding Policy as documents of strategic intent. This created problems in the transparency of public information and affected councillors' and staff perceptions of the relevance and value of the LTFS and Funding Policy.

317 Most of the early nine we talked to told us that they were not satisfied with either the review process they had undertaken or the LTFS and Funding Policy that they had adopted. Their concerns and other issues we noted related in particular to:

- decision-making processes to engage elected representatives more actively – including a review programme that provides time for their participation to encourage decision-making focused on the longer-term horizon;
- establishing better integration of information for the LTFS and Funding Policy with other council policies and plans;
- ensuring that the information is sufficient to achieve legislative compliance and that the underlying data required to develop the LTFS and Funding Policy is complete; and
- dealing with transparency requirements and how better to communicate and engage residents and ratepayers in strategic decision-making.

Engaging Elected Representatives More Actively and Encouraging a Focus on a Longer-term Horizon

318 Examples of particular concerns that the councils raised were that:

- No review was undertaken of the goals and intentions underlying the LTFS and Funding Policy and the reasons for council involvement in activities and services.
- There was insufficient time for councillors to consider the issues and implications raised by the legislative requirements and how they wished to approach these.
- Preparation of the documents is to a great extent a technical exercise by staff, but to do that well involves a significant level of guidance from elected representatives. Therefore, a common question was how to ensure that both elected representatives and staff are best able to fulfil their roles in developing and adopting the LTFS and Funding Policy.

Better Integration of Information

319 Issues of better integration related to both financial and non-financial information. For example:

- Integrating the information management systems and policies of the council to build into the review of the LTFS and Funding Policy – such as linking and maintaining information that underlies the LTFS (including asset management plans and fixed asset registers).
- Integrating the various policies of the council and the implications of these for the LTFS and Funding Policy by, for instance –
 - specifically reviewing the investment and borrowing management policies to assess whether they were appropriate for the LTFS directions; and
 - reflecting growth expectations of the District Plan in the LTFS.
- Reflecting the rationale underlying the decisions and strategies of the LTFS through into the Annual Plan performance information.

Complying with Legislative Requirements and Ensuring Completeness of Information and of Underlying Data

320 Some council concerns on this subject related to how best to deal with:

- the requirements to –
 - determine materiality and significance levels;
 - consider the costs and benefits of options; and
 - identify the assumptions the LTFS is based on including those assumptions with a high degree of uncertainty; and
- ensuring comprehensiveness of information so that the Strategic Plan and LTFS cover the overall council environment and future impacts or changes are understood.

Engaging Residents and Ratepayers in Strategic Decision-making

321 The councils had a range of concerns on this subject, including that:

- there can be high compliance costs associated with the Annual Plan process – so that the councils were seeking processes that maintain public involvement and support a focus on a longer-term horizon;
- best practice is still evolving for identifying and specifying service levels to better engage both councillors and the public actively in service-level choices; and

- the contents required in the Annual Plan are already complex and the additional contents required by the LTFS and Funding Policy are adding further complexity to the task of effectively communicating to residents and ratepayers.

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The following parts of this report consider each of the three foregoing subjects in turn.

4 – Decision-making Processes

401 Part VIIA provides a framework and guidance to enhance financial decision-making. Therefore, it is as much to guide elected representatives as it is for financial management. We suggest that it is no coincidence that the term for elected representatives is three years and the period for reviewing these key planning documents is also three years.

402 In our view, a sound review process will:

- allow elected representatives to consider and choose their priorities and directions;
- provide sufficient time for councillors to consider the issues and implications raised and how they wish to approach the legislative requirements; and
- ensure that both elected representatives and staff are able to best fulfil their roles in developing and adopting the strategy and policies.

The Case for Reviewing

403 Many of the early nine did not have a very high proportion of new councillors at the 2000 triennial elections, so many elected representatives felt that:

- there was no need to revisit the fundamentals; and
- an update would suffice.

404 The irony is that many staff and the same councillors told us that their LTFS and Funding Policy were not relevant in their day-to-day decision-making because circumstances had changed. This attitude suggests that, however a council chooses to review its fundamental assumptions and approaches, it does need to revisit some key considerations.

405 These considerations are the reasons why a fundamental review may still be relevant, and include:

- identifying wider social, economic and environmental changes that may have an impact on the council's view of why it is involved in an activity;
- identifying and fleshing out emerging strategy and how this challenges or directly affects the original basis of the strategy;
- taking opportunities to identify new services or to deliver services differently (for example, as may be provided by new technology);

- reviewing the actual results of an activity and assessing the results against the council’s objectives for being involved in the activity; and
- checking whether the assumptions on which the previous strategy was based are reasonable and continue to be appropriate.

Timing Is Important

406 Timing is important in deciding how to align the review of the LTFS and Funding Policy with the cycle of elections so that the elected representatives can have the impact they want at the time they feel best equipped to make it. It should also assist communities in making choices by providing better information about strategies and options. Several of the councils we talked to had been thinking about this and had adopted one of two broad approaches as described in paragraphs 407-412 following.

Timing the Strategic Plan Cycle for an Incoming Council – the Dunedin City Council Approach

407 Timing the strategic plan cycle for an incoming council involves starting preparatory work while the previous triennium’s councillors are still in office. Strategic planning preparation is undertaken through working parties and consultation exercises to identify the strategies and initiatives that the community supports.

408 These strategies and initiatives are then explored by staff and working parties for appropriateness in terms of the council’s role and powers, likelihood of contributing to the council’s desired outcomes, and costs.

409 A further round of consultation is then undertaken to prioritise the range of activities and initiatives proposed. This information is then available to feed into the preparation and adoption of a strategic plan and LTFS by the next triennium’s elected representatives.

Timing the Strategic Plan Cycle for a Mid-term Council – the Wellington Regional Council Approach

410 Timing the strategic plan cycle for a council at its mid-term means embarking on the process of working with councillors at the start of a new three-year term. Initially, this involves councillors exploring:

- the framework of local government;
- how they see their role as elected representatives; and

- their goals and objectives for the region and the residents.

411 The next step is to seek information about the position of the region environmentally, socially and economically and identify what the council is involved in and why.

412 Finally, the council determines its particular priorities, the service levels it seeks and the costs as the basis of public consultation on the strategic plan and LTFS – which is adopted during the second year of the council’s term.

The Need for Councillor Involvement

413 Whichever of those two approaches is preferred, it involves consciously planning for councillor involvement. This means that (as with the process that many councils use for preparing their annual plan) a clear plan is required for reviewing the strategy and policies. Good project management is essential – including a planning framework that, for example, sets out the documents required, responsibilities, and timelines for preparing components of the LTFS.

Information and Preparation Requirements for Councillors and Staff

414 Councillors need to be prepared for what the review process asks of them so that they can focus on the strategic issues that an LTFS and Funding Policy review requires. In 1997, when the Part VIIA requirements came into force, there was a lot of preparation and information to help councillors understand their role and what they were being asked to do. Many of the new councillors elected since 1997 that we talked to received no specific assistance in the way of preparation or information.

415 The common view of councillors and staff was that the role of elected representatives was governance and policy-making. However, both groups also noted a strong tendency for elected representatives to easily become immersed in (what were seen as) operational issues rather than take a strategic view.

416 What ought to be the role and focus of elected representatives? In our view, there is no single right answer to that question. We heard several factors mentioned that contribute to creating a focus on operational issues at the expense of strategic questions. Some factors are obviously complex matters that run across:

- the role of elected representatives – distinguishing it from that of the chief executive and staff; and
- the management of council relationships with communities.

417 However, being aware of these factors can help in preparing for and understanding what are the requirements of the respective roles of elected representatives and staff to best do their job. We describe some of these factors in paragraphs 418-428 following.

Expectations of Residents and Ratepayers

418 The nature of many of the contacts that councillors have with ratepayers and residents are often about day-to-day operational concerns. Ratepayers and residents have a legitimate interest in the full spectrum of council decision-making – from strategic to operational.

419 Councils have become much more conscious of the need to consult citizens and obtain their participation. In particular, consultation on decisions about operational service choices is becoming quite sophisticated – for example, consultation to support decisions about services such as roading upgrades and playground location.

420 However, the techniques for engaging citizens in strategic planning are still developing. Many councils had strategic plans in place before Part VIIA came into force, but best practice for consultation that engages the public and meets the legislative requirements of Part VIIA is evolving with councils' experience of applying the framework. We discuss some of the issues raised by the early nine councils in Part 7 of this report on pages 45-49.

Focus of Information Provided to Councillors

421 Often, information in council papers is oriented (understandably) towards the processes and questions demanding staff time and attention – for example, at the operational annual budget level. However, this does not necessarily help councillors to identify and assess underlying strategic issues. The level of information that councillors desire is subjective and should, therefore, be a matter for prior discussion and agreement before work on the strategy and policies begins in earnest.

422 It is critical that the review process provides time – for staff to prepare information for councillors, and for staff to stand back and think about the information that the councillors need to fulfil their governance role.

- 423 Similarly, it is necessary for elected representatives to:
- understand how the process of reviewing the LTFS and Funding Policy is relevant to their role; and
 - develop an understanding for how issues have an impact in the long term as well as the short term.
- 424 One of the early nine held background and information seminars staggered as a sequence over an extended period before the formal review, to allow councillors to consider issues outside the LTFS and Funding Policy adoption process. Others of the early nine said they would use similar approaches for future reviews.

Soundness of Planning Documents

- 425 Councillors may hold concerns that information used to prepare the LTFS and Funding Policy is not reliable or comprehensive expression of what can reasonably be expected in the future and (as a result) concentrate their attention on the Annual Plan. We were told often that the first few years' particulars of an LTFS were based on 'hard' numbers, while the particulars for later years were seen as 'soft'. We discuss issues about the integration and soundness of information in Part 5 on pages 27-32 and Part 6 on pages 33-44.

Tensions at the Political Level

- 426 Tensions at the political level can inhibit a council's ability to debate and agree strategic issues. For example, the identification of individual councillors with particular wards or constituencies may reduce the ability of the council to make the necessary strategic decisions for the district as a whole.
- 427 There are many reasons why a council may not find itself in the best position to consider strategic questions. Nonetheless, the duty of the staff, and in particular of the chief executive, to advise the council does not diminish.

428

Therefore, in the council's consideration and direction of strategy and in other decision-making, the chief executive and staff, as well as the Mayor/Chairperson and chairpersons of council committees, need to ensure that:

- opportunities are available for the council to recognise and discuss issues;
- elected representatives are provided with advice to assist their decision-making; and
- elected representatives are made aware of the consequences of their decisions.

Potential for Improvement in the 2001 Review

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We have identified the following factors that, in our view, would improve the conduct of the 2001 review of the LTFS and Funding Policy:

- **The review should involve examination and confirmation of the council's strategic directions.**
- **Good project management is essential. This includes a planning framework that, for example, sets out the documents required, responsibilities, and timelines for preparing components of the LTFS.**
- **Councillor participation, including new councillors, needs to be planned for. This includes discussing with councillors the timetable for the review, the points at which they want to be involved, and the extent of information sought.**
- **Information for councillors should be appropriate to the issues that they need to focus on, including identifying the strategic implications of issues and decisions.**

5 – Better Integration of Information

- 501 A significant ongoing issue is integrating the range of key policy and planning documents, including those required by Part VIIA – the annual plan, strategic plan and the district plan. As the purpose of Part VIIA is to provide an integrated financial management regime, the extent to which the council’s key policies and plans are consistent with each other is an indicator of its implementation of the framework.
- 502 In our view, a sound process for review will ensure well-integrated policies and plans with:
- the information management systems and policies built into the review; and
 - the rationale underlying the decisions and strategies in the LTFS built into the annual plan and performance information.
- 503 This integration requires merging a ‘bottom-up’ approach to building asset management and other information systems with a ‘top-down’ strategically driven planning approach.

Financial and Technical Information Underlying the Strategic Plan and LTFS

- 504 Part VIIA requires the LTFS to include a range of estimates, among which are:
- expenses, including an allowance for debt servicing and the decline in the service potential of assets and the proposed sources of funds to cover the expenses;
 - cash-flow projections;
 - creation and realisation of reserves, investments, and assets;
 - changes in the levels of equity and long-term borrowing requirements; and
 - commitments and contingencies for future events.
- 505 Accurate, complete and reliable information about infrastructural assets over their expected life is needed to support the preparation of those estimates and effective decision-making. Local authorities need procedures that ensure that robust long-term financial forecasts (reflecting the asset management plan information, and in particular the asset profiles) are incorporated into the LTFS.

- 506 The eight of the early nine local authorities that we reviewed (see paragraph 202) were beginning to address the development of systems to link the information requirements of the general ledger, the fixed asset register, the asset management plan, and the LTFS. The accuracy and completeness of each of these requires systems that support the consistency, integration and exchange of information on a timely basis, as well as ensuring that:
- the base inputs and documentation from which the LTFS is compiled are known in advance; and
 - the timetable for preparing the LTFS identifies where each input is required and the interdependencies of inputs and documents.
- 507 We recognise that development of such systems is complex. However, we believe it is important that local authorities give attention to developing systems which, in the long term, will provide comprehensive, reliable and integrated asset management information.
- 508 Staff at the early nine told us that the processes for preparing the LTFS are improving incrementally and there is greater confidence in the reliability of the estimated costs derived from asset management plans in providing for ongoing service. However, they recognise that the cultural practices and attitudes of the organisation have yet to develop so that all staff involved are aware of the importance of the integrity of documents and there is organisational awareness of the role of these documents in planning.
- 509 Where information underlying the LTFS and Funding Policy is spread across several departments (for example, Finance, Corporate, Planning and Service Departments), the early nine were concerned to ensure that staff were committed to maintaining the data systems and protecting the integrity of data.
- 510 We also suggest that councils ensure that financial policies to deal with, for example, organisation-wide issues such as internal borrowing and overhead allocation are consistently applied throughout the 10-year period of the LTFS.

Strategies, Goals, Objectives and Performance Measures

- 511 The focus of the Local Government Act 1974 is on meeting community demands through the effective and sustainable management of resources over the longer term. Delivering on that objective requires an alignment of outcomes and strategic intention through the LTFS and Funding Policy and into plan performance information and management systems.

Reasons Why Activities Are Engaged In

- 512 The LTFS is required to set out the reasons why the council engages in each significant activity (section 122L(b)). That is, to explain the rationale for the activities and services that the council has chosen to deliver.
- 513 In legislative terms, the requirement therefore plays a pivotal role in linking the strategic plan to the LTFS, and the resulting information links the council's overall strategic directions with the financial estimates in the LTFS.
- 514 In conjunction with determining why it is undertaking the services and activities it is involved in, the council needs to assess the ways by which it can best deliver these activities and services. This assessment is needed in order to comply with the principle of financial management that the council consider the costs and benefits of the delivery options.
- 515 A council may have a number of reasons to be involved in an activity – because, for example:
- legislation dictates so;
 - consultation on the Strategic Plan has suggested that involvement is necessary for the council to achieve its outcomes; and
 - there are no other providers of the service in the area.
- 516 Therefore, what we looked for was a clear enunciation – backed by supporting information (where necessary) – of why the council was involved in an activity. We expected this enunciation to derive from the council's strategic outcomes and to flow into the LTFS and Funding Policy through into the Annual Plan and performance measures.

Strategically Driven Planning Perspective

- 517 Preparation of an LTFS should be driven from a strategic perspective so that there is a clear and direct linkage between the Strategic Plan and the LTFS. The LTFS is the document that translates the strategies and decisions into financial consequences.
- 518 In our view, where the LTFS is prepared using a ‘bottom-up’ approach it is less likely to be driven by the strategic approach of the Council – making the selection of and choices between activities and service levels difficult.
- 519 We recommend that a council’s Strategic Plan addresses:
- significant or key strategic outcomes;
 - secondary outcomes;
 - priority objectives to achieve the key outcomes;
 - objectives to achieve secondary outcomes; and
 - action plans to achieve the objectives.
- 520 Addressing those things will assist with the clarity of the Strategic Plan and will also simplify the linkage between the Strategic Plan, LTFS and Annual Plan.

Performance Measures

- 521 Section 223D(3)(b)(iii) of the Local Government Act requires a council to develop performance measures by which performance may be judged in relation to its outcomes, objectives and outputs. Section 122V of the Act requires a council to report against its LTFS in the Annual Report.
- 522 To enable an informed assessment of performance in those terms, the council should include appropriate measures and standards in the LTFS that would allow a determination of the extent to which the LTFS objectives will be met. Thus, a clear linkage is needed between the performance measures in both the Strategic Plan and the LTFS.
- 523 An issue for us as auditor (and one that we are frequently reminded of) is that councils determine performance measures in an effort to meet statutory requirements rather than with the objective of effectively measuring performance. Consequently, measures are often not used as a management tool or as a means of assessing whether objectives and strategic outcomes are being achieved.

- 524 In our view, the best performance measures are those that a council needs to manage and monitor its activities and to help it account to the public. Selecting performance measures simply because they can be quantified results in effort and cost for no particular benefit, as well as missing the opportunity to focus on what is important about each activity or service.
- 525 Performance measures in the Annual Plan that focus predominantly on the short term do not reflect the “bigger picture” of the council’s strategic direction, nor do they indicate how outputs contribute to achievement of the LTFS and the Strategic Plan. Consequently, there is minimal linkage between the Annual Plan and the Strategic Plan.
- 526 We accept that the relationship between outcomes and outputs is complex, and is based on assumptions and judgements. However, the Strategic Plan provides the direction on which the LTFS is based. A council may see outcomes as too complex to be completely quantified or predicted. Nevertheless, because of their importance in the Strategic Plan, and as the basis that underlies the LTFS, we think the relationship between outcomes and outputs should be monitored. The results of this monitoring should used in:
- evaluating the success of council activities, to decide what activities to undertake in future;
 - reporting to the public on council’s the achievements;
 - providing information about the position of the council and the district; and
 - providing a link to the accountability for the strategic direction selected and the results achieved.
- 527 We encourage councils to include in the Annual Plan longer-term and outcome-focused measures. In particular, we encourage disclosure of and accountability for:
- the outcomes that the council wishes to achieve (section 223D(3)(b)(iii) of the Act);
 - the longer-term goals and objectives (linked to Strategic Plan); and
 - long-term infrastructure asset initiatives (i.e. council initiatives to meet changes and growth in demand for infrastructure services).

Opportunities for Improvement in the 2001 Review

528 We suggest that a council wishing to ensure well-integrated policies and plans for future reviews will need to do the following things.

529 *Build in information management systems and policies by:*

- **identifying the base inputs and documents that form the basis of the LTFS;**
- **maintaining staff awareness of the importance of the integrity in the base inputs and documents that form the LTFS, and encouraging co-ordination in planning;**
- **agreeing an LTFS preparation programme that clearly identifies the required timing and interdependencies of the various documents;**
- **consistently applying financial policies for the 10-year period (for example, for internal borrowing and overhead allocation);**
- **developing formal processes to ensure that the LTFS complies with the Funding Policy, Borrowing Management Policy and Investment Policy; and**
- **ensuring that the Asset Management Plans link to the LTFS by translation of the profile of assets into financial forecasts.**

530 *Build the rationale underlying decisions and strategies by:*

- **clearly enunciating the reasons – derived from the council’s strategic outcomes – why the council is involved in an activity;**
- **ensuring that the objectives, strategies and outputs of the LTFS and Annual Plan are strategically driven by reflecting the outcomes in the Strategic Plan;**
- **ensuring consistency between the Regional Plans, District Plan, Strategic Plan, Annual Plan, Asset Management Plans, and other key policies of the council and the LTFS; and**
- **considering how, when preparing the Annual Plan and Annual Report in future years, the council will ensure linkage to the existing LTFS.**

6 – Complying with Specific Legislative Requirements and Ensuring Completeness of Information and Underlying Data

601 The issues dealt with in this section arise from both legislative requirements and problems experienced by early nine councils in ensuring that the information underlying the LTFS is complete. The issues also apply to the Investment Policy and the Borrowing Management Policy (which, together with the Funding Policy, we refer to in this part of the report as “the three policies”).

602 The concerns that councils had related to how best to deal with:

- the requirements to –
 - determine materiality and significance levels;
 - consider the costs and benefits of options; and
 - identify the assumptions the LTFS is based on including those assumptions with a high degree of uncertainty; and
- the comprehensiveness of information so that –
 - the Strategic Plan and LTFS cover the overall council environment; and
 - forthcoming impacts and changes are understood.

Determining Materiality and Significance Levels

603 Part VIIA places reliance on the exercise of judgement by decision-makers and, as a result, gives extensive qualitative direction – for example, sections 122T, 122U and 122V refer to significant changes, material errors, material inconsistencies, and significant variations.

604 Also of relevance to a council determining materiality and significance levels were the sections of the legislation referring to:

- significant forecasting assumptions (section 122M); and
- costs and benefits of different options in making decisions with significant financial consequences (section 122C(1)).

605 The purpose of the Part VIIA requirements is for local authorities to determine materiality and significance for the purposes of decision-making and public accountability. This suggests that councils need to develop guidance to assist staff in assessing what is material and significant for:

- the new LTFS and the three policies; and
- decisions with consequences for the current LTFS and the three policies.

606 Most of the early nine had set a financial figure as a significance threshold for new proposals considered during compilation of the Annual Plan. However, other factors that may be relevant in assessing significance were less clearly identified.

607 In our view, a council should be:

- providing direction on how to evaluate significance, taking into account a range of factors including –
 - the degree or scale of a proposed change;
 - the effect of the item on ratepayers and/or the users of the service;
 - the effect of the item on the LTFS, the three policies, and the Annual Plan;
 - the level of public interest; and
 - the associated risk to the council;
- identifying the users of council documents and their differing interests in the council's services and activities; and
- considering what form a matter of significance may take, such as –
 - new projects or services or changes in the manner of delivering services;
 - changes in the indicators of performance;
 - changes in funding, including in the types and amounts of expenditure over the period of the LTFS (e.g. capital expenditure, operating expenditure); and
 - changes in the basis of accounting.

608 We have already recommended to councils that they produce such guidance for use by staff. We are collecting information about how councils are approaching the significance requirements and will be reporting further on this following the completion of the 1999-2000 year-end financial reports.

Materiality

- 609 Several sections of Part VIIA refer to significance, but sections 122T(2) and 122U(a) deal specifically with material error and inconsistency. Significance seems to be associated with conscious choices, changes and variations – for instance, to make an assumption based on the best information available or to vary strategies/policies in response to factors such as new information and community choices. However, material error seems more associated with mistakes – for example, in the data and information used to develop the LTFS and the three policies.
- 610 Material error may be identified relating to:
- a specific function/activity; or
 - the council's estimates.
- 611 In our view, a council should formulate a policy for assessing materiality for any error identified in the LTFS because:
- Section 122T(2)(a) requires public notification of a material error and amendment of the policy/strategy.
 - Section 122T(2)(b) says that the council must as soon as practicable, by resolution, publicly notify and amend the error. The section provides further that, UNLESS the error is such that the council is satisfied no person will be significantly disadvantaged, it is to adopt a replacement strategy or policy as early as is lawfully practicable.
- 612 Those provisions suggest that:
- material errors should be rectified as soon as possible by resolution and public notice; but
 - the LTFS or the three policies may continue to stand where no-one is believed to be significantly disadvantaged.
- 613 However, no statutory indication is given of how to deal with these disadvantages – and we know that (ultimately) the council must adopt a new policy or strategy. We suggest that, where there is believed to be significant disadvantage to a person, the council use the special consultative procedure to adopt its new LTFS or Funding Policy (as it would under normal circumstances) or amended Investment and Borrowing Management Policies.

- 614 Where the error relates to one function or activity, we believe that it would be reasonable that only the section of the LTFS and/or policy relating to that function or activity need be reviewed and replaced. Where the error relates to the overall estimates, it may be necessary to replace the complete LTFS or policy.
- 615 In relation to the section 122T(2)(b) requirement to adopt a new LTFS and/or policy unless there will be no significant adverse impact for any person, two approaches seem possible:
- the council could by resolution state that it believes no person to be adversely affected; or
 - in the public notification of the error, invite anyone who believes that they are adversely affected to inform the council.
- 616 The council would then need to determine for itself whether the perceived impact was a significant disadvantage to a person, and consider whether to simply amend by resolution or to undertake public consultation as a precursor to the proposed change.

Materiality on a Cumulative Basis

- 617 One topic to which we gave specific consideration in our audit of an LTFS was how to deal with materiality in relation to impacts over a cumulative period as well as in a single year.
- 618 Over the life of an LTFS, errors in any one year – though not material in relation to the sums involved in that year – could in the aggregate be significant. Councils may therefore need to consider whether their policy for determining materiality should also address cumulative materiality over the life of the LTFS.

Benefits and Costs of Options

- 619 Section 122C(1) sets out a number of principles for prudent, effective and efficient financial management that local authorities must follow. Paragraph (c) of that section requires that the *benefits and costs of different options are to be assessed in determining any long-term financial strategy, funding policy, investment policy, or borrowing management policy, and in making any decision with significant financial consequences (including a decision to take no action).*

620 The Society of Local Government Managers (SOLGM) has prepared a paper on the subject: *Assessing Benefits and Costs for all Options – Good Practice in the Interpretation of Section 122C(1)(c) of the Local Government Act 1974*.

621 SOLGM's view is that:

- consideration of the benefits and costs of options is fundamental to good decision-making because it allows decision-makers an informed choice from a range of alternatives;
- decisions cannot comply with the principle unless decision-makers are aware of the options and their relative merits and drawbacks; and
- the formal preparation of this information ensures that the principle can be complied with and provides apparent evidence of compliance.

622 In the paper SOLGM says that the requirement boils down to: “When are assessments of costs and options best undertaken and what should be provided?” The pragmatic approach is to adopt guidelines on the level of assessment the local authority will normally consider for proposals that exceed the council's significance and materiality policies or that fall into stated categories. We are aware that some councils have already produced manuals advising staff on how to go about analysing benefits and costs of options.

623 We agree with the view of the SOLGM Financial Management Working Party that compliance with 122C(1)(c) cannot be assured solely by the use of procedural rules. We also agree that:

- evaluating the benefits and costs of different options is a key component of quality decision-making;
- the principle applies to all decisions –
 - taken in the context of determining the LTFS and the various policies required by Part VIIA; and
 - with financial consequences which are significant in terms of the contents of the current strategy and policies;
- the extent to which formal presentation and analysis (including quantification) of options is required is a matter for each local authority to determine as provided in 122I; and
- formal records of the consideration of options are seen as desirable to ensure that quality decisions can be made and explained to the public.

624 In considering the nature of guidance that might be used to assess whether an analysis to determine the benefits and costs of options is required, it is important to recognise that councils make decisions with significant financial consequences:

- in relation to both new as well as ongoing initiatives and services; and
- as part of adopting their Part VIIA strategy and policies and on an as-required basis.

Ongoing Activities within the LTFS and Annual Plan Processes

625 All eight of the early nine councils we visited had a budgeting process by which to determine the level of expenditure for the inputs and the associated outputs each year. The budgets are prepared in the first instance between the finance department and the specific service department, and are then considered by a senior manager or group of managers before being finally endorsed and adopted by the council.

626 In our view, such a budgeting process is a ready-made a means by which the council can assess the benefits and costs of options for ongoing and new activities. However, the process intuitively involves asking questions that are necessary to assessing the costs and benefits of options, such as:

- Is the activity contributing to the council's objectives and outcomes?
- Is there any way that this actively could be done better or more effectively to achieve those outcomes?

627 What, it could be argued, is lacking from this approach is reviewing from a zero base. Thus, if the council were to be designing anew, how it would seek to achieve various outcomes and objectives and what range of activities or functions might it seek to undertake?

628 In addition to considering the questions in paragraph 626 when preparing estimates for ongoing activities, a council also needs to undertake from time-to-time baseline reviews of activities to assess whether there is reason to reconsider its involvement in them. Most of the eight councils we visited had undertaken a baseline review of their involvement in a particular activity (for example, waste collection services) within the three-year period since first adopting their LTFS and the three policies. These reviews tended to occur mainly because of pressure to make funds available for higher-priority activities.

629 We do not believe it is reasonable to expect that a council would undertake a full review of every activity it is involved in every three years. The time required to produce information to assess whether an activity is effective in achieving its objectives, and the lead time involved in the nature of many of these activities, suggest that full triennial review is not practical.

630 However, we suggest that, for evaluating the benefits and costs of options, a useful addition to the estimates review would be to identify and apply criteria for considering whether a baseline review of any particular activity or service is warranted. The criteria could include whether:

- the service environment is changing rapidly as a result of factors such as –
 - demand from residents/users;
 - entry of other competing providers or services;
 - changing parameters/requirements within which the service is operating; and
 - changing ways of delivering the service such as from new technology;
- changes in the council’s objectives and outcomes and the importance of the service in achieving them and whether there are a range of different means by which the council could achieve its objectives and outcomes;
- management information is revealing concerns about the effectiveness of the service in achieving the council’s objectives and outcomes; and
- significant increases in operating or capital expenditure are required to maintain the service.

631 The council could then programme baseline reviews to occur at a time convenient and logical in terms of the need to implement any decisions and resulting changes.

The ‘No-action’ Decision

632 A number of councils raised with us the “decision to take no action” part of the section 122C(1)(c) requirement. Applying its most rigorous interpretation, councils are not complying because every day they are determining to take ‘no action’ on proposals and suggestions that they receive without considering the benefits and costs of options.

633 That interpretation does not seem to us either reasonable or what the legislation intends – particularly in the light of the purposes of Part VIIA, which are to promote prudent, effective, and efficient financial management by local authorities, including:

- by providing a structured framework for local authority decision-making on financial management;
- by providing an effective and appropriate avenue for public participation in local authority financial policies and funding decisions; and
- by clarifying the appropriate exercise of local authority autonomy in financial policy and funding decisions; and

634 In our view, the most appropriate mechanism for making decisions with significant financial consequences, and considering the benefits and costs associated with them, is through the development and adoption of the LTFS and the three policies. However, this mechanism is premised on:

- comprehensive reviews of council strategies and activities; and
- the LTFS and the three policies being living documents that provide a context for decision-making.

Decisions Taken Outside Planning

635 The section 122C(1)(c) requirement as it relates to a decision to take no action underscores the importance of planning in decision-making. Some councils use a higher dollar significance threshold for decisions that are not being taken as part of preparing the Annual Plan, and encourage reasonably anticipated expenditure being evaluated through the coherent single process of producing the Annual Plan.

Soundness of the LTFS and Refining Estimates

636 It is worth noting that – quite naturally – many councils have provided only indicative financial estimates for capital projects in the LTFS and estimated in greater detail when the council was considering funding items within the three-year estimates for the Annual Plan. However, as a result both staff and councillors tended to feel that, while information in the early years of the LTFS is reasonably indicative of the council’s intentions, estimates for years further out are not as reliable. This situation affects perceptions of the usefulness and predictive reliability of the LTFS.

- 637 Council staff need to consider at what point it is reasonable to undertake thorough research on the benefits and costs of options for proposed expenditure. We suggest that, insofar as it is reasonable, efforts should be applied to make the expectations of the LTFS as reliable as possible.
- 638 We recognise that issues such as expectations about the lives of assets and the planning lead time required to replace assets mean that adjustment will be required. Indeed, estimates will always require re-evaluation. Nonetheless, if the LTFS and Funding Policy are to provide a real context for decision-making, elected representatives and the public need to know that they are based on solid data and reasonable assumptions.
- 639 We also recognise that a council may be required to choose among a number of options in preparing its LTFS. To allow the public to participate in these choices, strategies might need to indicate the underlying scenarios – potentially making the information complex for the public to understand. To this extent, attempting to provide a high level of assurance about the information presented in the LTFS and its purpose – to promote transparency in local authority decision-making – may conflict, and a council should be conscious of this in determining to what extent options and information are quantified.

Assumptions

- 640 Clearly, assumptions need to be made for the purpose of forecasting so the LTFS has to be prepared based on assumptions as to future events or actions. Section 122M requires the LTFS to clearly identify all the significant forecasting assumptions and risks underlying the financial estimates.
- 641 Because the quality of the LTFS information is largely dependent on the appropriateness of these assumptions, we looked in particular at how the early nine councils identified and assessed the potential impact of the forecasting assumptions used to prepare the LTFS. We found that most councils had identified a number of financial assumptions. However:
- not all financial assumptions were identified and many councils had not identified assumptions associated with areas of policy or service risk;
 - many assumptions were not based on reasonable evidence (for example, projected interest rates or operational cost increases);
 - most councils did not review their assumptions as part of reviewing their LTFS.

Documenting and Communicating Assumptions

- 642 Generally, a number of people within a council are involved in preparing the LTFS estimates. Therefore, it is essential that there are mechanisms to ensure consistent application of assumptions.
- 643 We recommend that councils establish formal mechanisms and standards for documenting and communicating key assumptions. Staff will thereby be able to ensure that inconsistencies within the LTFS do not arise from different assumptions being applied or differing interpretations of the implications of assumptions.

Assumptions with a High Level of Uncertainty

- 644 Section 122M(b) requires that, where significant forecasting assumptions involve a high level of uncertainty, the uncertainty and an estimate of the potential effects of that uncertainty on the financial estimates be provided. This requirement is similar to that of the Institute of Chartered Accountants of New Zealand's financial reporting standard on *Prospective Financial Information* (FRS 29). FRS29 recognises that, for users to make their own informed judgement, it is necessary to provide information that assists them in assessing the sensitivity of prospective financial information to changes in assumptions which are subject to high degrees of uncertainty.
- 645 The section 122M(c) requirement in particular seemed to be overlooked by councils, as most information about assumptions was not accompanied by information to allow the reader to assess the uncertainty associated with each assumption.
- 646 We believe that councils would find it useful to determine and apply criteria by which to define assumptions with a high level of uncertainty – to provide a benchmark for complying with the legislative requirement.
- 647 Our recently published report *Auditing a Long-term Financial Strategy - Opotiki District Council Pilot Project* shows the framework used by that council for identifying high-risk assumptions. The framework involved the Council identifying the assumptions made and establishing the level of uncertainty associated with each assumption through a matrix assessing:
- the probability of occurrence of the risk;
 - the financial significance of the risk; and
 - the controllability of the risk by the Council.

Comprehensiveness of Information

648 One particular issue that several councils raised about making their LTFS reliable and relevant was the need to ensure that the Strategic Plan and LTFS are comprehensive. The Strategic Plan and LTFS need to cover the overall council environment to ensure that forthcoming impacts and changes are understood. This requires identifying and taking account of considerations such as:

- the environment that the council is operating in (for example, taking into account historical and projected growth trends and their impact on capital expansion/replacement requirements);
- forthcoming impacts on the council's expenditure needs (for example, as a result of increasingly strict environmental standards); and
- the cost of operating services on an ongoing basis (for example, after a new capital or establishment component has been funded and the impact of specific events and issues such as elections, public celebrations).

649 Issues of that nature mean that councils need to develop systems to record and retain the information necessary for preparing the LTFS and should consider formal quality assurance to identify potential omissions and errors that can result from incomplete information.

Opportunities for Improvement in the 2001 Review

650 **Councils, in order to achieve compliance with the specific requirements of Part VIIA, need to ensure that the information underlying the LTFS and the three policies is comprehensive. To achieve this comprehensiveness, councils need to establish the means to:**

- **assist staff in assessing what is significant and material for decisions with financial consequences for the contents of the current LTFS and three policies;**
- **formalise existing budgeting processes so that the requirement to consider the benefits and costs of options is explicitly recognised (including when a review of a service is indicated);**
- **consider whether additional or different requirements should be used for new proposals required to be considered outside preparation of the LTFS and annual planning;**

- **ensure that all key assumptions are disclosed and information is provided about the consequences of these assumptions – including identifying those assumptions with a high level of uncertainty and ensuring that assumptions are applied consistently;**
- **record and retain information necessary for preparing the LTFS to ensure that the council has valid and complete data to incorporate into the LTFS; and**
- **undertake formal quality assurance to identify potential omissions and errors.**

7 – Promoting Transparency in Decision-making

701 A council needs a sound method of assisting its community to participate in and make choices about the services, and the costs associated with the services, that they wish to receive from the council. An appropriate method will also help the community to hold the elected representatives to account for their decisions.

702 However, a number of councils have raised issues with us that include:

- best practice for identifying and specifying service levels is still evolving, with ways being needed to better engage both councillors and the public more actively in service level choices;
- there can be high compliance costs in producing the Annual Plan and councils are also seeking ways to maintain public involvement while keeping a focus on a longer-term horizon; and
- the contents required in the Annual Plan are already complex, and the requirements of the LTFS and Funding Policy are adding further complexity to effective communication with residents and ratepayers.

Presenting Information for the Intended Audience

703 There is increasing concern about how to make information understandable to the public while meeting all of the technical contents required by the legislation. Several councils have asked us if we would recommend information being presented in the order and format of the legislation. In our view, the legislation specifies a number of requirements that must clearly be met and the documents that must be prepared. (These requirements must be complied with, and the following comments are intended to help in answering the question.)

704 However, a council has another equally important duty –to communicate effectively to its residents and ratepayers. In our report *Public Consultation and Decision-making in Local Government* we observed that the special consultative procedure laid down by section 716A of the Local Government Act represents the minimum expectation for a council conducting consultation. The statutory requirements for planning should also be regarded as a minimum which the council may need to exceed so that it can communicate effectively with its residents and ratepayers.

705 Many councils, including the early nine, are already looking at ways beyond the strict requirements of the legislation to consult and communicate better – we encourage these initiatives. Our impression is that some of the things that residents and ratepayers might reasonably expect to be able to find easily in a council’s LTFS and Annual Plan are:

- the strategic direction that the council wishes to follow;
- the key services and functions being undertaken by the council;
- the financial position of the council;
- the status of key issues currently facing the council;
- the state of the infrastructure; and
- the overall cost and how this affects the funding required of ratepayers and users of services.

706 In many instances, those expectations are simply considerations about how best to present and integrate information through the various requirements of Part VIIA and annual planning. However, the reader should be able to form an assessment as to whether the financial projections and planned actions would enable the council to reach its selected strategic goals and objectives.

707 In our view, the LTFS and Annual Plan were easier to understand when driven from a strategic perspective as outlined in Part 5.

708 Other ways that we noticed that may assist with better communicating information are:

- Where the LTFS and Annual Plan contain schedules of financial information, the schedules should be accompanied by information that enables them to be effectively interpreted by the reader.
- As information is spread across separate documents (including the asset management plans) a council needs to consider how it will ensure that the documents can be understood as an integrated plan for communicating to the public. If the council elects to publish its LTFS, Funding Policy and Annual Plan as separate documents, each document must be able to stand alone to enable the reader to make an informed assessment of its content by reference to a summary of the key issues contained within the document.

Service Levels

- 709 In the following paragraphs we discuss some fundamental questions about service levels and the techniques for consultation on strategic matters in which best practice is still developing.
- 710 There is a growing recognition in local government that service levels are the critical determinants for infrastructural asset management planning. Local authorities have experienced difficulty in accurately quantifying current levels of service. And they have found it even more challenging to obtain agreement – both internally and with their communities – on the desired future levels of service.
- 711 Most of the early nine councils made a clear statement that their LTFS and Funding Policy were based on delivering unchanged levels of service. Consequently, budgets were compiled assuming similar levels of activity to the previous year unless there was a known variable to be taken into account. However, budgeting on that basis does not clearly communicate to residents and ratepayers the service levels they can expect nor, for elected representatives as decision-makers, how service levels relate to the costs involved.
- 712 Our own observation of a few service level specifications is that they are outlined in technical descriptions of the assets and the capacity involved – which does not seem to provide the information that would tell residents and ratepayers what they can expect from the services.
- 713 Clearer definition of service levels, and more reliable determination of the financial consequences of agreed service levels, need to develop over time. Local authorities need to establish ways of better debating what is delivered.

Improving Techniques for Strategic Consultation

- 714 Most of the early nine councils told us that there can be high compliance costs in producing the Annual Plan and councils are also seeking ways to maintain public involvement while keeping a focus on a longer-term horizon.
- 715 We have noticed that councils' practices for consulting on specific proposals (such as upgrading roads or developing reserves) have become increasingly sophisticated. However, most councils are still grappling with consultation and participation as they relate to strategic direction and longer-term planning horizons.

716 The early nine councils told us that feedback on the LTFS and Funding Policy was less than that received on the Annual Plan. This was particularly the case where:

- the council only updated the documents rather than comprehensively reviewed them; and
- information was included with the annual plan process without it being highlighted that a review of the LTFS and Funding Policy was being undertaken.

The Funding Policy and Setting Rates and Charges

717 A sound method of formulating the Funding Policy will assist in making transparent the way in which rates and charges are determined, improving consultation and community input into local authority decisions on rate setting and expenditure. In our view, a sound method involves:

- undertaking a thorough review of the Funding Policy, which includes considering within the three-step process required by the legislation –
 - why the council undertakes the activity and what that says about who benefits;
 - whether the environment in which the activity is provided has changed;
 - what customer usage and feedback is saying; and
 - what way of paying for the activity best serves the council's reasons for being involved in the activity;
- including a summary of the Funding Policy in the Annual Plan showing –
 - the groups that the council assessed should pay for each activity and why;
 - any variations made at steps two and three and the reasons for them;
 - any transitions being made to get to the indicated Funding Policy position; and
 - why a particular funding mechanism has been selected – in terms of efficiency and effectiveness;
- the council being conscious of how different funding mechanisms work in achieving policy objectives in spreading costs fairly across communities, and providing incentives for sustainable use of assets and resources; and
- the council having a system of checks in place to ensure that the LTFS and Annual Plan estimates meet Funding Policy ratios, or if this is not the case then an explanation is provided of why the policy is not being met.

718 One of the debates about transparency in relation to the Funding Policy is the extent to which it should outline the way of paying (for example, rates or user charges) or the specific funding mechanism selected.

719 Transparency is achieved, in our view, when the effect of the council's Funding Policy decisions is shown to the community in easily understandable rating and service price information. This means that the logic should be clearly discernible and consistent – from the Funding Policy, through the rates resolution, to the rates invoice.

Opportunities for Improvement in the 2001 Review

720 **We suggest that a council considers the needs of its community – so that the community is best equipped to respond to the proposed LTFS and Funding Policy – by:**

- **preparing special purpose information to assist communities to engage in strategically focused consultation;**
- **presenting strategies and plans so readers form an assessment as to whether the financial projections and planned actions will enable the council to reach its selected strategic goals and objectives by ensuring that –**
 - **key information can be located easily;**
 - **aids such as narrative, diagrams, graphs, and tables facilitate understanding of technical and financial information;**
 - **each document stands alone so that the reader can make an informed assessment of its content; and**
 - **the LTFS and Annual Plan are driven by strategic intent;**
- **continuing efforts to improve –**
 - **the specification of levels of service underlying the LTFS objectives and Annual Plan targets; and**
 - **methods for consulting with the community on strategic decision-making and on longer-term planning horizons;**
- **undertaking a through review of the Funding Policy, involving councillors and key communities; and**
- **making the logic of funding decisions clearly discernible and consistent, from the Funding Policy through the rates resolution to the rates invoice.**