

Report of
expert reviewers
on changes between
the 2004-14 and 2006-16
Long-Term Council
Community Plans

June 2007

This report was commissioned by the
Controller and Auditor-General to supplement his report
Matters arising from the 2006-16 Long-Term Council Community Plans,
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The views expressed in this document are not necessarily
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19 February 2007

Mr Kevin Brady
 Controller and Auditor-General
 Private Box 3928
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Dear Mr Brady

REVIEW OF CHANGES BETWEEN THE 2004-14 AND 2006-16 LONG-TERM COUNCIL COMMUNITY PLANS

You have requested us to undertake reviews of a selection of Long-Term Council Community Plans (LTCCPs) of local authorities to identify changes that may be discernible to users of LTCCPs (being either improvements or deteriorations) between councils' 2004-14 LTCCPs and their 2006-16 LTCCPs. Based on the review work done, you have also requested us to make recommendations for future improvements.

We understand that this report of our review findings and recommendations is to be included in a report to Parliament, and will also be used to inform the advice that the Office of the Auditor-General gives in the context of any review of the legislation and to contribute to enhancing the audits of LTCCPs in 2009 and subsequent years.

In seeking to identify changes which may be discernible to the users of LTCCPs, you have asked us to take the perspective of those users of LTCCPs who are moderately interested and informed individuals and groups, such as media commentators, academics and analysts, members of relevant professional disciplines working with local authorities, and community groups such as ratepayer groups and associations.

Scope of the review

You have requested our reviews to focus on our particular fields of expertise:

- sustainable development;
- performance information;
- asset management information; and
- financial management and strategies.

While our reviews and this report concentrate on matters related to those particular fields of expertise, you have also requested us to take account of:

- the statutory purpose of the LTCCP – refer to section 93(6) of the Local Government Act 2002 (the Act); and
- the need to consider our individual fields of expertise within the context of the whole LTCCP document.

You have asked us to review 30 LTCCP documents, comprising the 2006-16 LTCCP and the immediately preceding LTCCP for each of 15 local authorities. Of these 15, you requested three

pairs of LTCCP documents be reviewed in common across all reviewers and three additional pairs of LTCCP documents be reviewed by each reviewer.

The 15 local authorities represent a spread of local authorities of different size and scale. They are:

- Gore District Council
- Environment Canterbury
- Hauraki District Council
- Kapiti Coast District Council
- Mackenzie District Council
- New Plymouth District Council
- North Shore City Council
- Queenstown Lakes District Council
- Rotorua District Council
- South Taranaki District Council
- South Wairarapa District Council
- Stratford District Council
- Tasman District Council
- Thames Coromandel District Council
- Wellington City Council

Our reviews have been based solely on each final adopted LTCCP, and we have not considered the systems and information which underlie the LTCCPs. Specifically, we have assumed that the underlying financial and asset information in the LTCCP itself is consistent with planned levels of service, and we have not considered any other documents referred to in the LTCCPs (such as detailed asset management plans).

Limitations of the review

The scope of this review results in certain limitations in the findings and recommendations we have made. Specifically each reviewer's findings are based solely on the 12 LTCCPs they have reviewed and, in particular, on comparisons between the 2004-14 and 2006-16 LTCCPs of the local authorities selected. Care therefore needs to be taken in extrapolating our findings across other local authorities.

Reviewers' recommendations are based on the review they have undertaken, although they have also taken account of other knowledge they have about LTCCPs generally and about the accountability and reporting environment of local authorities in seeking to make appropriate recommendations. Our review does not include any assessment of the actual level of assets and services provided by the council, but focuses on the information disclosed about the activities provided by the council in the LTCCP.

Approaches, findings, and recommendations

We report separately about each of the particular fields of expertise – sustainable development, performance information, asset management information, and financial management and strategy. Within each review report, our approaches, findings, and the recommendations arising from our reviews are set out in five parts:

- Approach taken by the reviewer.
- An assessment of the change (either improvement or deterioration) between the 2004-14 and 2006-16 LTCCPs based on the review of the six councils selected.
- Observations on patterns discernible in relation to how well the information is presented over the six councils reviewed (such as whether the presentation and quality changes with size and scale of council).
- Observations on the overall state of the information in 2006-16 LTCCPs, including strengths and weaknesses, and suggestions as to where future improvement work would best be focused.
- Issues in relation to the legislation applicable to LTCCPs.

Summary of key findings and recommendations from all reviews

In this summary, we outline common and main findings from each of our reviews in respect of the change (either improvement or deterioration) between the 2004-14 and 2006-16 LTCCPs, patterns discernible in relation to how well the information is presented, the overall state of the information in 2006-16 LTCCPs, and suggestions for future improvement work.

Overall, there are discernible improvements between the 2004-14 and 2006-16 LTCCPs, although the extent of the improvement and the number of councils showing improvement vary across the areas reviewed and, within these, across the matters considered by each reviewer.

Despite these improvements, in our view LTCCPs have a significant way to go to move from compliance-focused documents that set out the contents required by statute to strategic and user-centric planning documents that are a strong expression of the purpose of local government (as set out in section 10 of the Act).

It may be that councils have focused on complying with the requirements of the Act and have improved the quality of the underlying information, but are still at an early stage in effectively using the integrated information to enhance their own decision-making processes and the quality of the planning process for all stakeholders. There is the capacity to significantly improve the integrated “story” about the challenges, options, and the long-term plans of the council. We encourage local authorities to view the legislative requirements as the starting point to be addressed within a wider more strategic integrated context.

Sustainable development

Overall, there has been improvement in the adequacy and presentation of information about sustainable development and community outcomes between the reviewed 2004-14 and 2006-16 LTCCPs. However, the review of the LTCCPs showed that:

- the relationship between well-beings, community outcomes, and sustainable development within LTCCPs is often not clear, and there is limited evidence within current LTCCPs of sustainable development infusing the thinking of local authorities; and
- there appears to be uneven understanding of the scope of sustainable development.

While improvements were more readily identified in larger councils, improvements are more closely related to the timing of a community outcomes process. Large councils were found to have undertaken a community outcomes process more recently.

While all councils refer to the four well-beings (social, economic, environmental, and cultural) in their LTCCPs, to a greater or lesser extent there are a number of areas requiring improvement to infuse council thinking on sustainable development into LTCCPs:

- expressing how sustainable development is localised, owned, and defined at a council and community level;
- ensuring that community outcomes are expressed at a level of specificity that is meaningful, and that it is clear how the council contributes to the outcomes;
- reflecting consideration given to the needs of future generations' well-being in decision making;
- integrating thinking (across the well-beings) to express how activities (including the means by which they are delivered) satisfy the four elements of the section 14 sustainable development principle;*
- using the sustainable development principle and the community outcomes as a framework for performance planning and management;
- using a current and future wellbeing context to address statutory content areas, such as assumptions and negative effects, as well as to develop information about intended benefits and associated risks and key issues; and
- “walking the talk” in outlining how sustainable development relates to councils’ internal functioning.

A stronger articulation of sustainable development and how it relates to and affects the intentions and operations of councils would be required to in turn improve the usefulness of LTCCPs both as a public articulation of strategy and objectives and as a management framework for councils.

* Section 14(1)(h) of the Act, principles relating to local authorities, states that: (1) In performing its role, a local authority must act in accordance with the following principles: ...

(h) in taking a sustainable development approach, a local authority should take into account –

- (i) the social, economic, and cultural well-being of people and communities; and
- (ii) the need to maintain and enhance the quality of the environment; and
- (iii) the reasonably foreseeable needs of future generations.

Performance information

We found that there was a discernible improvement in the performance framework in the 2006-16 LTCCPs for all the councils, from a 2004 baseline that required significant improvement. There was no consistent pattern, but the main improvements related to:

- specification and completeness of the performance measures;
- provision of more background narrative to support the levels of service and performance measures;
- direct connection of the levels of service and performance measures; and
- specification of performance measures for the full 10-year period.

Larger councils tended to have more complete and sophisticated performance frameworks and information. Therefore there was less improvement in performance frameworks for larger councils compared to medium and small, as the larger councils started from a stronger base. However, there were examples of good practice spread across all councils and also room for improvement across all councils.

Overall, we found that there was room for improvement in how well the LTCCP expressed the council's strategic focus and how it flowed through to its activity statements, including the performance information. We consider that there is real scope for development in the performance information, particularly in further connecting the objectives, levels of service and performance measures with a clear context of the "big picture", including:

- clear articulation within the activity statements of the planned levels of service and performance measures relative to previous years;
- an appropriate focus on levels of service and performance measures to provide a meaningful picture of key aspects of the activity; and
- appropriate and relevant performance measures that include at least some indication of the intended impacts of planned services. We note that it is the quality of performance measures that matters, not the quantity (that is, how the performance measures work individually and, more importantly, in combination).

Asset management information

Councils have made some improvements from the first LTCCP information, by expanding the detail of the information. For example, while 2004-14 LTCCPs tended to focus on key infrastructure assets, in the 2006-16 versions, other community assets such as parks, halls, and libraries were analysed to a similar extent as network infrastructure assets. However, the focus continues to be on the management of the currently held assets, rather than planning for the next 10 years for new assets.

Overall, the medium-sized councils provided the most useful information and could identify changes to existing or new assets and the rationale for the changes. While generally larger city councils produced larger LTCCPs for 2006-16 than did small and medium-sized councils, these plans contained a lot of detailed asset information that did not always link into other parts of the LTCCP.

Users, as defined for the purposes of this review, are not yet provided a transparent and complete assessment of the planning decisions used to determine the current and future services and asset requirements. In particular, the following areas were not well covered by any of the LTCCPs that we reviewed:

- The Act's Schedule 10 requirement that group of activities information outlines the additional capacity requirements, how the capacity will be delivered, and a discussion on the options considered.
- Defining the future service level and capacity, and the linkage of the service level and capacity with the identified capital projects and ongoing expenditure.

Financial management and strategies

The forecast financial statements, accounting policies, and significant forecasting assumptions are all strong aspects of the 2006-16 LTCCPs. The funding impact statements are reasonable, as are most of the funding and financial policies examined.

However, there are two areas where improvement work would have the greatest capacity to enhance the value of the LTCCPs for users – explanation of the overall fiscal strategy, and enhancing the quality of the financial information about groups of activities.

How councils have addressed the balanced budget requirement is a demonstration of the weaknesses in articulating fiscal strategy, in that councils have not provided further comment where the operating revenues exceed the operating expenses. That is, where the balanced budget test has been met at a whole-of-council level, councils have not discussed whether the surplus is prudent or not.

The financial information about groups of activities represents an opportunity for a sector-wide effort to improve consistency in the manner of presentation of this information, as well as to improve the clarity of the information and the underlying logic. Separation of operating expenses from capital expenditure in the 2006-16 LTCCPs has led to some improvement. However, the funding part of these statements remains weak. In fact, the divergent underlying logic of funding approaches (including the confusion of real financial resources with accounting balances in some cases), and the terminology used by many councils, makes it very difficult for even an informed reader to understand the information.

Based on the selected local authorities, it appears that, in general, the larger the authority the better the information which has been presented. However, this observation is not valid across all of the financial management and strategy aspects examined in this review.

Yours sincerely

[signed by]

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Reviewer's Report 1

Sustainable development review – findings and recommendations

by Leanne Holdsworth

1. Review approach

Unlike the other review areas, sustainable development is a principle that is required to be applied to how councils operate, rather than a content requirement. There is no specific content requirement in the Local Government Act 2002 (the Act) to include sustainable development in the LTCCP and the purposes of the LTCCP¹ do not include a requirement to describe how it is taking into account sustainable development.

Nonetheless, the Act includes a principle that:

(h) in taking a sustainable development approach, a local authority should take into account –

- (i) the social, economic, and cultural well-being of people and communities; and*
- (ii) the need to maintain and enhance the quality of the environment; and*
- (iii) the reasonably foreseeable needs of future generations.²*

Therefore, this document review has gone further than information specifically identified as required in an LTCCP and is looking for evidence throughout the plan that a council is taking a sustainable development approach as defined in the Act.

Given that sustainable development is a principle of the Act, we could expect an LTCCP to include expression of how this principle is given effect, but how much evidence we should expect to see is a matter for debate. It is possible that a council has integrated sustainable development into decision-making but has not reflected this well in the LTCCP.³ Equally, it is also not necessarily the case that a council is giving effect to the principle of sustainable development when sustainable development information is well reflected in the LTCCP. However, I have assumed that, to be able to discuss the effect given to sustainable development in the LTCCP, a council will have had to consider and address how to give effect in its own decision-making and activities.

In making assessments of the four areas for this review, I have looked at the information about considerations and processes relevant to taking a sustainable development approach set out in the LTCCP. These are:

- the community outcomes process set out in section 91 and 92 and the associated LTCCP content requirements in respect of the process set out in Schedule 10, including the:
 - description of the community outcomes process;
 - monitoring of community outcomes;

1 Section 93(6).

2 Section 14(1)(h).

3 Note that, in my experience outside this review, I am not seeing strong examples of sustainable development applied to decision-making.

- the extent to which a council’s activities and objectives appear to be meaningfully related to the community outcomes;
- the use of the community outcomes and the associated monitoring information as a framework to assist the council with its own performance monitoring and management;
- the Act’s principle to take a sustainable development approach;⁴ including whether it has:
 - considered the social, economic, and cultural well-being of people and communities;
 - considered the need to maintain and enhance the quality of the environment; and
 - taken into account the reasonably foreseeable needs of future generations;
- the requirement of Schedule 10 of the Act to identify significant negative effects.⁵

I have also had regard to the variety of ways that I have observed, in which councils understand and interpret how sustainable development can be given effect. These include through:

- the community outcomes process;
- integrated thinking (across the well-beings);
- thinking in specific respect of the elements of well-being – that is, in respect of social, environmental, economic, and/or cultural well-being;
- considering future generations in decision-making;
- “walking the talk” of sustainable development in council operations.

In my view, all of these ways have a useful part to play in infusing sustainable development into council thinking and as a result through to the LTCCP.

2. Changes in the adequacy and presentation of information between the 2004-14 and 2006-16 LTCCPs

Overall, there has been some, mostly marginal, improvement in the adequacy and presentation of information about sustainable development and community outcomes between the reviewed 2004-14 and 2006-16 LTCCPs.

The following aspects of community outcomes showed slight improvement: how they were described and identified, how they related to other key strategic planning documents and processes, how councils work with others, and how councils will contribute to furthering community outcomes. These improvements in information related to community outcomes were on a base of 2004 LTCCPs for which half had reasonably well articulated community outcomes and half had significant room for improvement.

The description of what measures will be used to assess progress toward community outcomes had improved slightly more than other aspects, while the aspect that experienced the least improvement is how councils will monitor and report on the community’s progress toward achieving community outcomes. In this regard, commentary is limited and at a very generic level such as “a document will be prepared that includes reporting on the community outcomes”.

⁴ Section 14(1)(h).

⁵ Schedule 10, clause 2(1)(c).

All councils improved at least marginally in the way sustainable development was covered in the reviewed 2006-16 LTCCPs as compared to the 2004-14 LTCCPs. One mid-size council had showed considerable improvement; clearly taking steps to integrate sustainable development into decision-making and reflect this in the LTCCP.

In relation to identifying negative effects, one large council had significantly improved its identification of negative effects. However, a smaller council that identified negative effects in its 2004-14 LTCCP did not identify any in its 2006-16 LTCCP. Another large council had not identified negative effects in either year. The remainder of councils had improved their representation of negative effects marginally.

These improvements in information relating to sustainable development occurred from a base of all councils reviewed having significant room for improvement.⁶

3. Observations on patterns in relation to how well information is presented

There is a trend that the smaller councils tended to present sustainable development within their LTCCPs in a less meaningful and integrated manner than other councils. However, the explanation for this observation appears to be more closely related to the year in which the community outcomes process is undertaken. All small councils undertook the community outcomes process in 2004 and described the process more usefully in 2004, than in 2006. All large councils undertook the community outcomes process in 2006 and described the process more usefully in 2006. Therefore, overall, large councils improved more than smaller councils in relation to conveying information about the community outcomes process.

4. Observations on the overall state of the information in the 2006-16 LTCCPs reviewed and suggestions for future improvement work

Considering the principles of sustainable development is challenging and is an area that requires significant improvement by councils. Review of an LTCCP is not the only way to determine whether and how a council interprets and gives effect to sustainable development. However, from the review of the LTCCPs:

- The relationship between well-beings, community outcomes, and sustainable development within LTCCPs is often not clear and there is limited evidence of sustainable development infusing the thinking of local authorities in current LTCCPs.
- There appears to be uneven understanding of the scope of sustainable development – for example, most chief executives' statements refer to well-beings or community outcomes but do not discuss how these matters affect future generations, while other councils refer to sustainable development issues within the issues, assumptions, and risks sections of the LTCCP but do not discuss the implications of these at a strategic level.

⁶ This assumes that we are expecting to see the section 14(1)(h) principle of sustainable development evidenced in the LTCCP (rather than the one explicit requirement of sustainable development in the Local Government Act 2002, being the inclusion of negative effects).

A stronger articulation of sustainable development and how it relates to and affects the intentions and operations of a council would be required to in turn improve the usefulness of LTCCPs both as a public articulation of strategy and objectives and as a management framework for councils. An exception to this is a mid-sized council which demonstrated good practice in dealing with sustainable development, showing strong evidence of a strategic approach to sustainable development throughout the LTCCP through localising and gaining community agreement about what sustainable development means.

While all councils refer to the four well-beings within their LTCCPs to a greater or lesser extent, there are a number of areas through which councils can consider and give effect to sustainable development. Overall, these areas all require improvement to infuse council thinking on sustainable development into LTCCPs.

Localising, owning, and defining sustainable development at a council and community level

In my experience through my work with councils, the most common approach by which councils see that they are responding to sustainable development is through the community outcomes process. However, community outcomes are often stated at a very high level and therefore risk being meaningless to local communities. Good practice would be to support the description of community outcomes by relating these to the circumstances and specific concerns of the community.

Within the review group, two councils had done this well – a large council and a mid-sized council. The large council included description from individuals and groups about what the community outcomes mean to its community and ideas about ways forward. It also provided a strong parallel reporting on a M ori community outcomes process.

The mid-sized council was the only council in the review group that had “personalised” and “defined” sustainable development, including identifying how the community outcomes related to the four well-beings. This council articulated the best grasp of sustainable development noting:

...Councils have a dual accountability. [A Council] must consider the community outcomes, but it must be confident that this community vision is consistent with its responsibilities to promote well-being. It must also be confident that the vision is consistent with taking a sustainable development approach.

To deal with this dilemma, this council developed its own 14 sustainable development principles (with community consultation) and used these as a test to assess whether there were gaps and/or a direction set by the community outcomes that were inconsistent with a sustainable development approach.

Considering future generations' well-being in decision-making

There is very limited discussion of sustainable development in terms of consideration of the reasonably foreseeable needs of future generations.⁷ For example, key issues facing communities tend to be considered as matters council will have to address “over the next few years”. There is also limited discussion about future proofing, based on the precautionary principle. Evidence of providing opportunities for communities to discuss community outcomes in terms of present and future⁸ are almost non-existent. It would be useful to see this more clearly reflected. In general, this is an area where little progress has been made between the 2004-14 and 2006-16 LTCCPs, off a poor base.

Exceptions to this are two mid-sized councils. One shows a strong understanding of potential issues facing future generations and includes these in discussion of risks to assumptions, such as climate change and genetically modified organisms release. The other displays a mature understanding of future generations and uses a 20-year (rather than the 10-year requirement) planning horizon.

Addressing the interests of future generations should also result in LTCCPs showing evidence of:

- future proofing and taking a precautionary approach; and
- consideration of the council's role in promoting current and future community well-being matters through a range of activities (such as advocacy and facilitation where a council does not believe it should be actively delivering services or undertaking regulatory activity).

There is some evidence of a growing acceptance by councils of a more proactive role in relation to community well-being. This can be seen with some (although generally quite limited) discussion of partnerships/other stakeholders who have a role in delivering community outcomes as well as most councils including advocacy and facilitation as part of their description of their role.

Integrated thinking (across the well-beings)

If a council was taking a sustainable development approach, good practice would see expression of how activities (including the means by which they are delivered) satisfy the four-pronged sustainable development principle test.⁹ Statutory content areas such as assumptions and negative effects, as well as contextual information of intended benefits and associated risks and key issues, would reflect current and future well-being matters. This would include recognising major trade-offs in the LTCCP (although I recognise that most trade offs tend to happen at a lower level and through decision-making processes rather than the LTCCP).

It is difficult to form an overall view on the extent of integrated thinking other than to say there is a smattering of activities that are obviously explicitly supportive of the sustainable development principle. For example, one large city council showed some understanding of integrated thinking (the environmental impact of congestion on growing economic base locally).

⁷ Section 14(1)(h)(iii) of the Act.

⁸ Section 91(2)(a) of the Act.

⁹ Section 14(1)(h) of the Act.

Other examples include activities to reduce waste (for example, kitchen waste collection or increased size of recycling bins), environmental education, and advocating in the social service space.

There is limited discussion as to the sustainable development principle being given effect when deciding how to deliver the activity. For instance, whether toxins and poisons are used in council reserve management or how scarce resources (for example, water) are being managed for future generations.

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

Under section 91(2)(a) and (b) the purposes of the identification of community outcomes are (among other things):

- (a) *to provide opportunities for communities to discuss their desired outcomes in terms of the present and future social, economic, environmental, and cultural well-being of the community; and*
- (b) *to allow communities to discuss the relative importance and priorities of identified outcomes to the present and future social, economic, environmental, and cultural well-being of the community; and...*

Schedule 10, 1(c) then requires the local authority to describe how it will contribute to furthering community outcomes. This is often done at a high level through describing the various roles that a council will undertake with respect to various community outcomes. While a local authority may not contribute directly or to all community outcomes, where it does expect to have an impact on a community outcome, it is useful and good practice to explain how such activities make a contribution towards the achievement of community outcomes and/or well-being. The “what and how” of activities, including selecting the service levels, and performance measures and targets, should in turn strongly relate to this contribution.

The relationship between community outcomes and council activity is often poor and gives a sense of being retrofitted. Evidence of a council deciding what it delivers based on the community outcomes and sustainable development is not present in the LTCCPs reviewed. Sometimes the rationale for the delivery of the activity is separate from discussion of community outcomes. For example, a mid-size council has a section entitled “why we do it” (referring to the activity) but makes no reference to community outcomes as a rationale for undertaking activities.

Most of the LTCCPs we reviewed simply identified what community outcomes the activity contributes to without saying how it contributes, which is of limited value. For example, one council has a strong strategic framework between community outcomes and strategies, but the link between community outcomes and activities is not made clear. With this council, the relationship between community outcomes and activities is very weak; at the beginning of each activity there are the numbers 1-7 and the community outcomes that the activity contributes toward is highlighted.

Generally, the level of information on how community outcomes will be monitored is poor

in both years. However, there is an outstanding example of measurement from the mid-sized council, with the inclusion of a genuine progress index, being a way of seeing progress against the four well-beings at once.

Some councils have – in addition to community outcomes – a separate community vision that doesn't seem to be aligned with the community outcomes. It is often unclear where this vision has come from – the council or the community. Unless it is an expression by the community and linked to the community outcomes, a vision can serve to confuse the basis of the strategic and performance framework.

Councils that have integrated community outcomes into their LTCCPs better than others tend to reference community outcomes and the council performance framework in the LTCCP Statement Summary by the mayor, chairperson, or chief executive to help the reader understand how the council has decided what to do.

In order to keep the performance framework clear, detailed information about the community outcomes process is best kept as an appendix or further back in the report, with references to the process and location of further information upfront.

Negative effects

This is an area where there is an opportunity for significant improvement. The legislation requires the LTCCP to “outline any significant negative effects that any activity within the group of activities may have on social, economic, environmental or cultural well-being of the local community”.¹⁰

There is a wide range of approaches being taken in relation to identifying negative effects. In general, there is not sufficient consideration of negative effects across the well-beings.¹¹ Within the LTCCPs reviewed, there were still councils with no identified negative significant effects, including large councils. Most councils do not identify negative effects for all activities or even groups of activities (even where there obviously are significant negative effects).

Where negative effects are identified, there is often a tendency to overlook significant, long term effects.¹² Matters affecting long term well-being do not tend to be reflected in negative effect thinking. For example, it would be unusual to see discussion of the requirement for more cars on the roads (with its associated negative effects) within a planning activity that has that effect. Or planning that supported increased development identifying increased pressure on natural ecosystems without corresponding policy changes (such as requirement for grey water tanks, or increased cost of waste collection).

There is also some confusion in the way negative effects are presented. For instance, a large council identified a negative effect of the community development activity as “community groups’ ability to access funding lessens and groups become unsustainable”. It is unclear if this

¹⁰ Schedule 10, clause 2(1)(c).

¹¹ Just one council (large) identified effects across each of the well-beings. Most councils included a general statement about negative effects without relating it to a particular well-being. Although the silo approach has a potential downside of lacking integrated thinking, it is recommended at this early stage of consideration of negative effects to ensure that all aspects of well-being are covered.

¹² Although, Schedule 10, clause 2(1)(c) does not require well-being of future generations to specifically be considered.

was perhaps a negative effect of not undertaking the activity or a possible negative effect over the long term of a change in policy. Another smaller council interpreted negative effects as a mix, with some activities identifying negative effects to the council rather than the community, for example, financial costs of potential legal challenge to a service within the activity is a common negative effect for this council.

The mid-sized council with strong sustainable development and community outcomes performance in other aspects does not identify negative effects in either the 2004 or 2006 year. However, in 2006, the LTCCP states that the council has built a decision-making framework which requires consideration of effects across the well-being area. Given the council's obvious integration of sustainable development, it is likely that negative effects have been considered at a decision-making stage. However, this still does not extinguish the transparency requirement of identifying negative effects.

Walking the talk

There is limited evidence of councils walking the talk in outlining how sustainable development relates to their internal functioning. Other than a mid-sized council, no councils talked about the way sustainable development was used to help determine what and how council should operate.

This mid-sized council included information about its own sustainable development performance. Although such transparency is useful, there is much work to be done by all but one council to integrate sustainable development into the outward facing work. In my view, energy is better spent developing this outward focus for now.

However, there are obvious areas where internal processes are required to deliver these outward facing outcomes, such as business processes to enable sustainable development to be considered in decision-making. Where there are large investments for internal assets such as a new civic building, good practice would include some discussion of how the principles of sustainable development will be met for the project.

Overall suggestions for improvement

There are five main areas where effort should be placed to improve performance in relation to reflecting sustainable development within the LTCCP:

- raising both sector and auditor capability in regard to sustainable development, particularly in regard to long-term issues affecting future generations;
- reflecting how the community outcomes discussion has occurred within the context of well-beings for both current and future communities;
- developing a coherent strategic performance framework driven from a sustainable development perspective and the community outcomes, for example, through meaningful descriptions of how activities contribute toward outcomes;
- raising understanding of negative effects and communicating this meaningfully; and
- defining and infusing sustainable development through the planning processes of councils.

5. Issues relating to the legislation applicable to LTCCPs

Below are some issues that have been identified during this review that apply to the legislation affecting LTCCPs. It is not a full review of the legislative framework as it affects community outcomes and sustainable development.

The purpose of local government is:

- a) *to enable democratic local decision-making and action by, and on behalf of, communities; and*
- b) *to promote the social, economic, environmental, and cultural well-being of communities, in the present and for the future.*¹³

Despite this purpose, the Act may not be providing sufficient incentive or direction for how Parliament intends local authorities to give effect to sustainable development. For example:

- the purpose of the LTCCP (section 93(6)) does not include sustainable development and it is the LTCCP which is currently the basis of the audit;
- the specific requirements of content for the LTCCP as set out in Schedule 10 of the Act, do not include sustainable development (with the exception of an aspect of sustainable development in the description of negative effects).

The main weaknesses in current LTCCPs identified by this review are a lack of strategic focus, integration, and consideration of reasonably foreseeable needs of future generations. This means that section 93(6) may need to send stronger signals about the importance of these matters.

While sustainable development remains a principle that is not fully traced into the underlying obligations established by the Act,¹⁴ there is a risk that the focus of local authorities will be on ensuring compliance with specific legislative requirements, rather than fundamentally focusing on the intentions of the legislation. In respect of the LTCCP, for example, this could result in a focus on statutory contents rather than processes to secure community participation and understanding, and communicating information that portrays an integrated picture of the council's intentions and activities and resulting funding and operations.

It may not be surprising therefore that we are seeing such limited evidence of the reasonably foreseeable needs of future generations and active strategies to manage sustainable development. However, we equally need to be aware that any attempt to make sustainable development more specifically included in legislation may result in a compliance exercise that could further stifle any real ownership and personalising of sustainable development to the community involved.

How these limitations may be corrected is an exercise in itself. Some other quick thoughts are:

- Ensuring that the breadth of definition of sustainable development in section 14(1)(h) of the Act is consistently applied wherever currently there is part of the definition referred to. For instance Schedule 10, clause 2(1)(c) of the Act (negative effects) does not explicitly require a local authority to consider negative effects in regard to future generations, risking relatively short-term thinking in the description of negative effects.

¹³ Section 10 of the Act.

¹⁴ *Albeit a principle-based Act.*

- Section 93(6) of the Act includes in the purpose of an LTCCP to provide integrated decision-making and co-ordination of the resources of the local authority and provide a long term (10 years) focus for the decisions and activities of the local authority. Arguably, both of these aspects are required to take a sustainable development approach. However, by excluding the full breadth of “taking a sustainable development approach” as defined in section 14(1)(h) from the purpose of the LTCCP, it has always been difficult to know how much requirement there actually is to reflect sustainable development in the LTCCP. So, perhaps section 93(6) should be broadened to include sustainable development.
- A change in the focus of audit from the audit of the LTCCP, to explicitly involve a greater focus on the sustainable development purpose and principles of the Act. This could assist in improving the extent to which sustainable development is infused into decision-making processes of councils.
- Presumably the intention of requiring a council to consider negative effects at an activity level is to ensure that they are considering well-being. However, when significant decisions are being made, a more useful test is to ask what the negative and positive effects are on sustainable development (therefore explicitly requiring the council to consider reasonably foreseeable needs of future generations). To some degree this is already required in section 77(1)(b)(i). However, this could be strengthened to eliminate the “add on” of negative effects statements to the LTCCP. This would be aimed at encouraging consideration of sustainable development in significant decisions rather than inclusion for the sake of the document.

Reviewer's Report 2

Performance information review – findings and recommendations

by Robyn Wells

1. Review approach

The Local Government Act 2002 (the Act) requires local authorities to decide which activities they undertake and how they will undertake them. The Act promotes the accountability of local authorities to their communities and the LTCCP provides a specific basis for this accountability.

A council's LTCCP must provide a performance framework across its groups of activities. The framework establishes the rationale for council's involvement in each activity, the planned levels of service for the next three years, and provides outline information for the subsequent seven years. The information on levels of service includes the performance targets and other measures to allow the meaningful assessment of actual levels of service provision (as reported at the end of each financial year in the annual report).

The performance framework needs to provide clarity and a sense of direction on what the council plans to achieve in the short-term and an indication of its plans and performance over the longer-term. It provides the mechanism through which the council informs local people about the range, quality, quantity, and impact of the services it intends to provide and demonstrates the choices made by the council in relation to its services.

To achieve this, I would expect the performance framework to show:

- how council's activities contribute to the community outcomes;
- what services the council provides and any significant changes that are planned;
- the impact of expenditure on major projects or changes to the existing pattern of expenditure; and
- what will be different in 10 years.

Within the performance framework context set out in the Act, I identified a number of key characteristics of effective performance reporting which, in combination, can provide a meaningful picture of expected and actual performance that will be relevant and useful to the public. The characteristics can be usefully grouped under the concepts of consistency, connections, context, and completeness, although there are overlaps between the categories.

Figure 1
Characteristics of effective performance reporting

Concept	Why this is important
<p>Consistency: a consistent format is used to present information in the activity statements* within the LTCCP.</p>	<p>The LTCCP is clearer, easier to read and understand.</p>
<p>Connections: there is a clear logical flow of information between the community outcomes, council goals or objectives, the choice of activities, levels of service and performance measures.</p>	<p>The reader can readily link the achievement of performance targets with the overall aims of the council.</p>
<p>Context: there is supporting narrative comment on the levels of service and performance measures, such as their relationship with relevant strategic objectives and how priorities, planned levels of service and performance compare with previous years.</p>	<p>The levels of service and performance measures are meaningful.</p>
<p>Completeness: it is clear what the key service intentions are for each activity and the performance information links to these key intentions. The performance information on levels of service and performance measures is provided in detail for the first three years of the plan and in outline for the remaining seven years.</p>	<p>The LTCCP provides a balanced and reasonable picture of expected performance over the duration of the plan.</p>

* We have used the term “activity statement” to refer to the information provided by councils in relation to (groups of) activities, as specified in clause 2 of Schedule 10 of the Act.

I also note that it is good practice to provide historical and baseline performance information for levels of service and to set targets in relation to any available benchmarking. The performance measures themselves must be expressed so that it is clear what will be reported on at year end.

Although I have not reported specifically against each of the concepts of consistency, connections, context, and completeness, these underpin our analysis and our review findings.

Finally, I have also identified examples of better practice I observed in reviewing the sample of LTCCPs for inclusion in our report.

2. Changes in the adequacy and presentation of information between the 2004-14 and 2006-16 LTCCPs

I found that there was a discernible improvement in the performance framework from the 2004-14 to the 2006-16 LTCCPs for all the councils. There was no consistent pattern, but the main improvements related to the following areas.

- Specification and completeness of the performance measures: In the 2004-14 LTCCPs, two of the councils expressed how they would measure performance in broad terms only. They have now developed specific sets of performance measures. Most councils have added to or refined their performance measures since 2004, which has resulted in more aspects of planned performance being covered in the performance measures.
- Provision of more background narrative to support the levels of service and performance measures: At least half the councils provided more contextual information in their activity statements. For example, one council added more context to a key activity on the likely impact of growth and council's strategic plans for addressing the issue. Another council added a list of significant planned projects.
- Direct connection of the levels of service and performance measures by use of a table format: Two councils moved to presenting their information in this way, which helps the reader to see the linkages between the levels of service and the performance measures.
- Specification of performance measures for the full 10-year period: Two councils were much more explicit in their 2006-16 LTCCPs about the timeframe covered by the performance measures.

In general, most of the councils achieved some improvements from a 2004 baseline that required significant improvement. In one case, the improvement was significant, with the addition of specific performance measures and the adoption of a performance framework that better demonstrated the linkages between the levels of service and performance measures. For the larger councils, there was some improvement from 2004, but this was less evident than that for the small to medium size councils, as larger councils started from a stronger base.

3. Observations on patterns in relation to how well information is presented

There was a pattern that larger councils tended to have more complete and sophisticated performance frameworks and information. This was not a simple relationship; however, as there were examples of good practice spread across all councils and also room for improvement across all councils. With this note of caution, areas tending to improve with the size of the council included:

- the clarity of the council's strategic direction;
- the articulation of whether the levels of service are increasing, reducing, or staying the same;
- the specification of the performance information across the entire 10 years (three years in detail/seven years in outline); and
- the general quality of the presentation of information.

4. Observations on the overall state of the information in the 2006-16 LTCCPs reviewed and suggestions for future improvement work

I found a mixture of good practice and shortcomings in the performance frameworks in the LTCCPs. This has made it difficult to provide definitive observations on the overall state of the information. I have focused our observations on issues that may be useful starting points for discussions on further developing the performance frameworks in LTCCPs. At the same time, I acknowledge the time and energy which the councils have clearly put into the LTCCPs. I have included examples of current practice in relation to some of the issues.

Connecting strategic information to the performance information

An important aspect of the information I expected to see in the LTCCPs was in relation to strategic objectives. To be effective as 10-year plans, the LTCCPs must have a strong strategic focus. This implies that they will provide information on the key issues facing the city, district or region, a clear vision of what will be different in 10 years, and an overview of how the council plans to achieve its longer term objectives.

The performance information in the activity statements should clearly reflect the council's strategic objectives, including identifying relevant changes in the focus or levels of services and providing relevant performance measures. The presentation of information in detail for the first three years and in outline for the subsequent seven years of the LTCCP is a useful tool to indicate a council's strategic objectives and progress towards meeting them.

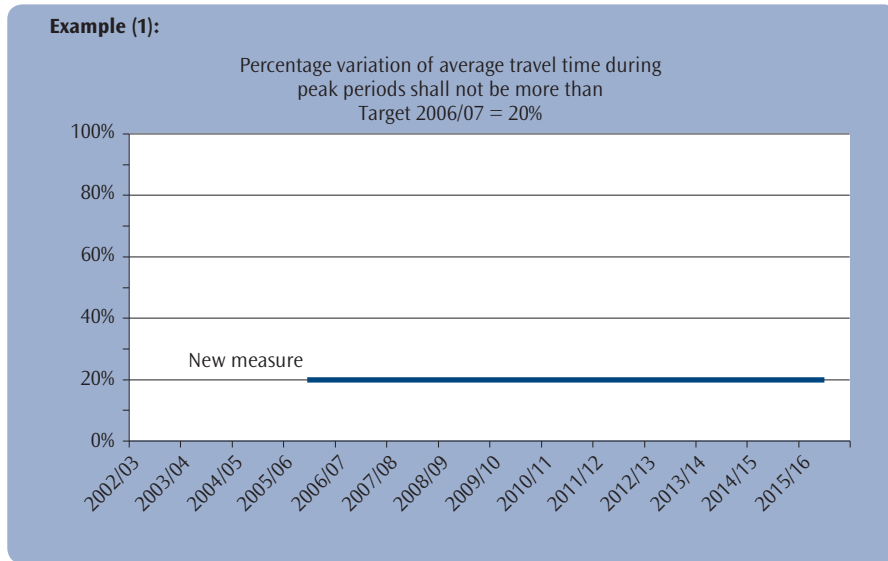
Overall, I found that there was room for improvement in how well the LTCCPs clearly expressed the council's strategic focus and how it flowed through to its activity statements, including the performance information. It was not always clear how key strategic priorities will be achieved and measured, resulting in a lack of a clear sense of direction in many of the activity statements. More specifically, I found that:

- the extent to which councils clearly expressed their strategic focus in the LTCCPs was variable;
- three of the six councils did not always explicitly reflect the strategic focus which they had highlighted early in the LTCCP in the text in their ensuing activity statements;
- it was difficult to pick up the strategic focus from levels of service and the performance measures. Where there were specific performance measures which were relevant, the connections back to the strategic priorities were not always clearly articulated, leaving the reader to make the link; and
- most councils could make better use of the 10-year timeframe for highlighting strategic priorities and key milestones.

Some of the councils were successful in reflecting strategic priorities through their performance information. The two performance measures in Figure 2 are indicators of how well the council manages the effects of growth on the transport system.

Figure 2

Two examples of performance measures that successfully reflect a council's strategic priorities



Example (2):

Measure: Peak traffic flows SH6A (critical arterial route) to peak in 2011 with development of public transport and alternative routes (Future Link).

Target 2006-09	Target 2009-16	Current performance
1180 vehicles per hour	1200 vehicles per hour	1000 vehicles per hour (2006)

Note: The accompanying text further supports this measure by noting current capacity (1200 vehicles) and providing information about the strategic planning (Future Link) which underpins this.

Indicating trends in service levels and performance

An important aspect of the contextual information I expected to see in the LTCCPs was on how the planned levels of service compared with previous years. This provides valuable perspective to the performance information. I also expected performance targets to be set within the context of current performance. This indicates whether the targets are realistic and contributes to transparency on the direction of service levels (increase, maintain, or decrease).

I found that the articulation of information on service levels relative to previous years needed to be enhanced in most of the LTCCPs. Even where comment was made on this earlier in the LTCCP, I would strongly encourage highlighting it in the activity statements. One council, for example, used a very informative heading in at least one of its activities “Comment on significant changes in levels of service”.

Two of the six councils provided information on current performance in relation to their performance measures. One council consistently presented its performance measures in graphs, clearly demonstrating expected trends over the next 10 years and historical performance (see example (1) in Figure 2).

Ensuring that levels of service and performance measures provide a complete picture

Integrated presentation of performance information

Using a table format to present key performance information is one option for clearly demonstrating the connections between objectives, levels of service, and performance measures, and reducing the risks of gaps in performance information. It can also give a more “results-oriented” flavour to the levels of service and performance measures. Figure 3 sets out one potential approach to a performance information table.

Figure 3

Hypothetical example of a table of performance information

Objectives/ Rationale	Current Levels of Service	Planned Levels of Service Years 1-3	Indicative Levels of Service Years 4-10	Performance Measures				Indicative Performance Measures Years 4 to 10	
				Current Performance	Year 1	Year 2	Year 3		
Clear expression of what council aims to achieve, why this is important to the council, and the links to strategic objectives	Provide a brief overview of what council currently provides	Brief overview of what council plans to do	Indication of the expected direction of levels of service over the longer term	Specific performance measure directly relating to a particular level of service	Actual performance in the most recent financial year, to provide baseline data				Indication of the expected direction of performance, including progress towards any specific long term targets identified under the objective

I found that a few councils have moved towards presenting their key performance information in a table with links between performance measures and levels of service and a higher level goal. I noted that the further development of the performance frameworks in the 2006-16 LTCCPs resulted, on occasion, in the loss of useful contextual information from the 2004-14 LTCCPs. Even the best frameworks are likely to need additional context to provide a comprehensive picture, for example, on the current state and key issues facing a council.

One council went a step further with the Act’s requirement to identify the contribution of its activities to the community outcomes. It presented the tables of planned levels of service and performance targets by community outcome and sub-outcome. I note that, in principle, this approach has both merits and risks. It has the potential to embed strong and meaningful linkages between council’s activities and the community outcomes. The risk is that the

community outcomes may not completely align with a council’s strategic goals. This could result in gaps in the council’s performance information. Community outcomes may also vary in the extent to which they are specific enough to allow for meaningful alignment with the council’s performance information.

Layers of performance measures

Identifying performance measures to effectively represent a council’s performance against specific levels of service is a challenging but important issue. To achieve a balanced picture of performance, councils need to consider at what level to pitch each performance measure. Sometimes a lower level measure related to specific actions, projects, and programmes will be best. Other times a higher level measure of the impacts or effectiveness of its services will be appropriate. These measures will often be those which most clearly show progress against strategic objectives. They are clearly related to the council’s rationale for undertaking activities and certain levels of service.

I would encourage councils to provide “layers” of performance measures where appropriate, with a combination of both lower and higher level measures in relation to a level of service. I did not sight many instances of layers of performance measures. The measures tended to be either outcome oriented or, perhaps more commonly, at the lower level of actions, projects, and programmes. Where higher level measures were used, there was variation in how clear the connections were back to the text in the activity statements. I noted that some measures, quite appropriately, fell in between these two levels. For example, library membership was a common measure used as one indicator of meeting the community’s needs with respect to the library service. It is not necessarily a direct outcome measure, nor is it a pure activity-based measure.

Figure 4
Two examples of lower and higher level performance measures

Example (1):

The following two measures illustrate the concept of performance measures at different levels. The first measure is a “lower level” measure. The second measure is a “higher level” measure.

Performance measure (1): (2004-14 LTCCP):	Performance measure (2): (2006-16 LTCCP)
Number of bus priority schemes implemented in the year.	Percentage of annual passengers carried by public transport across the harbour bridge during peak morning period. This measure was supported by text on bus priority measures.

Example (2):

One council, in relation to road safety, used a suite of four performance measures ranging from a high level outcome measure on the number of fatal and injury crashes through to a lower level measure on specific actions related to its Road Safety Action Plan.

Timeframe of performance information

The Act requires councils to identify the planned levels of service and performance measures in detail for the first three years of the plan and in outline for the subsequent seven years. I have already commented earlier on the usefulness of this approach for demonstrating performance and progress against strategic objectives. It is also useful for “everyday” performance measures and “business as usual” levels of service.

I found variation, both across LTCCPs and sometimes within LTCCPs, in how, and the extent to which, councils addressed this requirement of the Act. I identified instances where:

- there was little information on years 4-10;
- performance targets were unchanged over the 10 (or three) year period;
- the 10 (or three) year information was primarily specified though the performance measures, which then relied on those being a complete reflection of key aspects of services; and
- the timeframes for the performance measures were implied but not explicitly stated.

Cost-effectiveness

Engaging with communities over the levels of service is one of the processes underlying the development of an effective LTCCP, with cost being one aspect underpinning decision-making on levels of service. I acknowledge this as an area of challenge, but I consider that the performance information in the LTCCPs should include measures indicating cost-effectiveness, in relation to both strategic choices and at the lower level of specific service performance.

I found that the performance measures did not tend to address cost-effectiveness.

Explaining performance measures

The performance measures need to be clear and easy to comprehend. This includes providing additional context on performance measures if required.

While in the main the performance measures were self-explanatory, there were instances where additional information would have helped make them much more meaningful. A recurring example was the lack of explanation of the “NAASRA” counts measure used to indicate the ride quality (roughness) of roads.

Relationship between LTCCPs

I noted the occasional instance where the performance targets in 2006-16 were lower than those in 2004-14, but there was no explanation of this. I also noted cases where projects signalled in the 2004-14 LTCCP, and which should have been completed, were in the 2006-16 LTCCP with later dates, but with no explanation for the delay. Each time there is a new LTCCP it may be useful to explain significant changes in levels of service, timing of planned projects, and targeted performance.

Conclusion on observations on the overall state of the information in the 2006-16 LTCCPs reviewed and suggestions for future improvement work

Overall, the LTCCPs contain a large volume of performance information. Every council is different in the way in which it has set out its information on levels of service and performance measures. The key question is whether the information will provide the reader with a meaningful picture of service levels. This to some extent will depend on what councils choose to report against in their annual reports, as discussed in the next section. Notwithstanding that, I consider that there is real scope for development in the performance information, particularly in further connecting the objectives, levels of service, and performance measures with a clear context of the “big picture”. Providing this big picture means ensuring that the LTCCP has a strong strategic focus which connects clearly through to the activity statements and performance information.

Making such connections can promote:

- Clear articulation within the activity statements themselves of the planned levels of service and performance measures relative to previous years. Highlighting in the activity statements’ text how planned levels of service compare to the previous years’ levels of service, providing historical and baseline data for the performance measures and using formats such as tables for the presentation of performance information would all contribute towards achieving this.
- An appropriate focus on levels of service and performance measures to provide a meaningful picture of key aspects of the activity. Extending the use of layers of performance measures and making clear connections between the measures and the key actions, projects, and programmes which will underlie a council’s progress in meeting the targets in these measures would contribute towards achieving this.
- Appropriate and relevant performance measures which include at least some indication of the intended impacts of planned services. I note that it is not the quantity of performance measures that matters, but the quality (that is, how they work individually and, more importantly, in combination). Providing clear information on planned levels of service for the next three years, with clear outline information for the subsequent seven years, developing measures in relation to cost-effectiveness, and providing explanations of performance measures which are not immediately understandable to the outside reader would contribute towards achieving this.

5. Issues relating to the legislation applicable to LTCCPs

Contents of the annual report

Schedule 10 of the Act sets out requirements for providing information on levels of service and performance measures in the LTCCP and in the annual report.

Figure 5
Comparison of requirements for reporting on levels of service in LTCCPs and annual reports

LTCCP requirement	Annual report requirement
<p>“a statement of the intended levels of service provision for the group of activities, including the performance targets and other measures by which actual levels of service provision may meaningfully be assessed.”</p>	<p>“include an audited statement . . . setting out a comparison between the actual levels of service provision of that group of activities and the intended levels of service provision (as set out in the long-term council community plan in respect of that year) of that group of activities . . .”</p>

With the slight difference in wording between these two paragraphs, it is potentially uncertain whether local authorities will report only against the performance measures or also against the more generally expressed levels of service in their annual reports.

In the LTCCPs, the levels of service and the performance measures **in combination** tend to provide a more complete, and, therefore, meaningful, picture of planned service provision. If reporting were to be against the performance measures only, then more rigorous standards will need to be applied to assessing the performance measures. In particular, I would expect key aspects of the levels of service to be reflected in the performance measures. This does not require a performance measure for each aspect, but a clear alignment between the level of service and how it will be measured (even if the measure is a higher level impact type measure).

I note that neither “levels of service” nor “performance targets and other measures” are defined in the Act. There is some uncertainty about their relationship to each other. Defining these terms could help clarify the above issue.

While not a direct legislative issue, I also note that accompanying contextual information is usually desirable to provide a complete and meaningful picture of planned levels of service and performance. Providing such context in local authorities’ annual reports would also be beneficial.

Reviewer's Report 3

Asset management review –findings and recommendations

by Malcolm Morrison

1. Review approach

In making the assessments, we have considered the six aspects of the LTCCPs that relate to infrastructure asset management included in the relevant sections of the Local Government Act 2002 (the Act). They are:

- **Significance Policy:** section 90 of the Act requires that a local authority include a policy on determining the significance of proposals and decisions in relation to assets, and to list the assets that the local authority considers to be strategic assets.
- **Revenue and Financing Policy:** section 102 requires the local authority to adopt a number of funding and financial policies. We have considered the Revenue and Financing Policy in relation to the disclosure of both operational and capital expenditure and the funding of this expenditure.
- **Development Contributions Policy:** section 106 requires the local authority to include a policy on development contributions or financial contributions. We have considered whether the policy summarises and explains the capital expenditure identified in the LTCCP that the council expects to incur to meet increased demand for community facilities (and therefore infrastructure assets) resulting from growth.
- **Grouping of Activities:** Schedule 10, clause 2(1)(b) requires that the LTCCP provides the rationale for delivery of each group of activities, including the community outcomes to which the group of activities primarily contributes. We have considered if this linkage has been disclosed.
- **Activity Statement:** Schedule 10, clause 2(1)(d) and Schedule 10, clause 2(2) requires disclosure of information in relation to the assets or groups of assets. We have reviewed and assessed the information provided, including the current asset state, analysis of current and future service level provision and capacity, analysis of performance measures to monitor achievement, and the funding of operational and capital expenditure. (We have used the term “activity statement” to refer to the information provided by councils in relation to groups of activities, as specified in clause 2 of Schedule 10 of the Act.)
- **Assessment of Water and Sanitary Services and Waste Management Plan:** Schedule 10, clause 3, of the Act states that the LTCCP must contain a summary of the last assessment of water and sanitary services. We have considered the summary information provided and the linkage to the activity statements.

2. Changes in the adequacy and presentation of information between the 2004-14 and 2006-16 LTCCPs

In making an assessment of the changes (either improvement or deterioration) between the 2006-16 LTCCPs and the preceding LTCCPs of the councils selected, we have the following comments:

Significance Policy

All the councils had developed a policy that was included in the 2004-14 LTCCPs and, generally, the councils duplicated the same policy as contained in their first LTCCP. Councils appear to have considered that their 2004-14 LTCCP policy reflected the requirements of the Act as there were no discernible changes between the two periods. However, some councils have further developed their schedule of strategic assets to include specific community assets or parks. The expansion into these areas is an improvement although, generally, councils did not provide sufficient information on the details of the assets considered to be strategic to add value to a reader's understanding.

Revenue and Financing Policy

The councils used the same format for disclosing the detail of the funding of operational and capital expenditure on assets for both periods and there were no discernible changes in presentation between the years.

Development Contributions Policy

During the intervening period, the councils analysed and reviewed all or at least parts of their Development/Financial Contribution Policy to expand or update the policy with further information.

Grouping of Activities

Generally, there were no significant changes between the two periods, as most councils continued with linking individual activities under Groups of Activities. The outcomes that each activity contributed towards were either provided at the beginning of the individual asset information or as a summary at the beginning of the Group of Activity information. The rationale for providing the assets was well expressed.

Activity Statement

All councils had made changes that improved the general comprehension of the individual Activity Statements in terms of format and layout. However, the content of the presentation was not significantly altered during the two periods. It was noted that these sections appeared to be replicated word for word between the two plans, with little commentary that reflected any changes in the asset requirements that had occurred in the intervening three years.

In our opinion, it is unlikely that there would have been no changes in most councils over this period.

All councils included good narrative on the current assets that the council owned or operated and some included tables and graphs outlining the current condition assessment of the asset. One area where all councils provided additional information was the inclusion of specific performance measures and information on the level of service and how the level of service was to be measured. Information on levels of service and how these are to be measured were either included or expanded. We also observed that the 2004-14 LTCCPs tended to focus on key infrastructure assets whereas, in the 2006-16 versions, other community assets such as parks, halls, and libraries were analysed to a similar extent as network infrastructure assets. This demonstrates an improvement in the completeness of the information provided on the range of councils' assets.

Assessment of Water and Sanitary Services and Waste Management Plans

All councils, with the exception of one, had completed an Assessment of Water and Sanitary Services in the period between the two LTCCPs, and had included a summary of that assessment in their 2006-16 LTCCPs. The information presented in this summary ranged from sole discussion on the council's role, to others who presented LTCCPs that encompassed details of the council's networks and other private networks. The most comprehensive assessments outlined the issues identified by the assessment and the implications for costs in the future to deal with these issues. This is good practice.

Most councils had completed Waste Management Plans by 2004, but had not included a summary or any reference to the existing strategy document in the 2004-14 LTCCP. There was reference to their original plans in the 2006-16 LTCCP.

3. Observations on patterns in relation to how well information is presented

In consideration of the range of councils reviewed, (small rural, medium-sized provincial, and large urban), there appeared differences based on the size of the council in relation to the quantity and quality of information presented. Generally, the larger city councils produced larger LTCCPs in 2006, than the small and medium-sized councils, that contained a large amount of broad asset information which did not always link into other parts of the LTCCP.

Overall, the mid-sized councils provided the most useful information and could identify changes to existing or new assets, and the rationale for the changes.

Policies

There was no distinction between the policies based on the council's size or urban/rural mix in relation to the development of the Significance Policy and Revenue and Financing Policy. The Development and Financial Contribution Policy tended to be either very brief or overly complex with the inclusion of a large section of detailed calculation information within the body of the policy. It was observed that the smaller rural councils did not tend to have a Development Contribution Policy. One of these made the statement it had limited growth. It was noted that some of these councils did have significant potential for growth because of the increased

attractiveness of the area for tourist and rural residential development. Additional explanation for the reader on the sources of potential funding and the rationale behind the decision process as to why a policy was (or was not) adopted would be useful.

Most councils clearly set out the amounts to be paid as a Development Contribution for each of the infrastructure categories and also stated the amounts that would be collected in terms of a reserves contribution.

Instead of specific Development Contribution Policies, a number of councils only had Financial Contribution Policies, but this was clearly stated in all cases. Many of these policies are either under review or are new policies, and the transition between the changed policies was outlined in all cases. In our opinion, best practice would be to have a Development Contribution Policy that at least provides a framework for the setting of any future development contribution in line with a council's other strategic plans (such as the District Plan) therefore ensuring that the council has the ability to respond to development funding requirements in a structured manner whether or not development is currently occurring.

Activities

There was an apparent trend for the activities to be categorised into the traditional council groupings. However, in one of the large city council's documents, it was not always obvious where an activity might be found. In this case, detailing the sub activities in the index would help the readers of the document.

The Activity Statements provided a good summary of the current assets. However, it was noted that, overall, there was a little or limited commentary on the future demand on the assets and the implications of this on capacity changes. This is a significant weakness considering that the LTCCP should be focusing on the services required for the next 10 years. Several of the small rural councils did state their strategies for demand management, but did not provide any explanation of the options that had been considered in selection of the strategy.

All councils included tables that outlined the operating and capital expenditure to varying levels of detail in terms of timing over the 10-year period and in terms of detail of specific projects. None of the councils outlined the total value of the assets in 2006 by major asset type (for example, roads versus parks), hence the reader cannot be confident that the level of renewal expenditure is sufficient in relation to the total asset base, as different asset types will require different levels of renewal expenditure (for example, long life, stable assets may require lower renewals expenditure than assets with short-term economic life profiles).

Most councils chose to present a section on key issues either within the Activity Statements or at the front of the LTCCP which allowed the council to highlight key capital works and the issues surrounding the expenditure.

Both smaller rural councils obviously realised their limitations with their budgets and both had made statements that their strategy was to manage the demand rather than build capacity to meet increased growth. This can be the most appropriate strategy in their circumstances.

Assessment of Water and Sanitary Services and Waster Management Plans

The 2006 year was the first time that a Summary of the Assessment of Water and Sanitary Services was required and nearly all councils provided the minimum of information. We believe that these summaries of assessment could have been more meaningful to the user. One of the smaller councils stated that they were hampered by both lack of time and budget to produce the information.

The smaller and mid-sized councils had a good linkage from the Assessment Summary to the activity section, reiterating the projects required and providing financial detail. This was not apparent in the urban councils as the information may have been assumed to be too detailed. In 2006, with the exception of one mid-sized council which omitted to provide a summary or the full Waste Management Plan, all councils did provide reference to their Waste Management Plan. Most provided broad discussion on the strategies, however, no detail was provided of the consequences or the future capital or operating expenditure that might need to be included in the financial plans. One small council did provide for this detail in the Waste Management Plan, which was also reflected in the Waste Activity Management Plan. Most councils provided an executive summary on the overall philosophy of the Waste Management Plan and this also provided limited information.

4. Observations on the overall state of the information in the 2006-16 LTCCPs reviewed and suggestions for future improvement work

In this section, we have considered the overall state of the information in the 2006-16 LTCCPs reviewed and made suggestions as to where future improvement work would best be focused.

Significance Policy

A best practice noted in one LTCCP was a process for consideration of the significance of any agenda items in any reports that are presented to council. The adoption of this process will assist both the council and community in identifying key decisions regarding infrastructure assets.

Another best practice noted was the inclusion of a definition of strategic assets to give context as to why these were detailed in the Significance Policy. This again improves the reader's ability to consider the asset decisions in a relevant context. Key community assets such as event centres, major natural environments, or heritage buildings should be considered for being detailed separately as a strategic asset. Many councils only provided reference to the network infrastructure in the context of strategic assets.

Revenue and Financing Policy

In the Revenue and Financing Policy, all the councils provided good detail on the funding of operational expenditure by activity, however, capital funding was provided only at a summary level. While this treatment meets the Act's requirements, we consider that the significant level of investment in infrastructural assets suggests that the sources of funding for capital expenditure

should be presented by major project and/or each major asset type because the funding sources could differ significantly for each project and asset type.

Development Contributions Policy

Most policies had little reference to growth, and the assumptions as to the basis for the future predictions of growth and demand were often not explained. Therefore, it was difficult for the reader to assess if the service provision of infrastructural assets was capable of meeting future demands. An improvement on these plans would be to identify growth, state the rationale of the assumptions made in predicting growth, and then detail the additional capital expenditure to be incurred as a result of this growth in population.

There also needs to be a logical rationale that outlines how capital works are attributable to the current ratepayers and how the future ratepayers will contribute to the assets that are a result of the growth. Any calculations shown need to be simple or shown as an appendix to the main policy.

We noted a tendency for the Development and Financial Contribution Policy to be overly complex. Many policies included a large section of detailed calculation information within the body of the policy. The average user would find this information more readable if contained either in an appendix or referenced to a separate document which would require a change in the requirements of the LTCCP contents.

Activity Statement

An area of improvement in all councils was the inclusion of specific performance measures. All councils had statements of service levels, but these were of variable quality as half the councils provided service targets, or standards, which were a variation on performance rather than being a service level. The most readable example detailed the performance measures in graphical format with the target line and the past history of performance. This allows the reader to assess if the target is realistic and form an opinion as to whether it can be achieved within the strategies and actions presented in the activity area. We would suggest this formatting approach be adopted by all councils.

Overall, there needs to be an improvement in the demand assessment that is required to allow the reader to assess if the council is providing a sufficient service for current and future communities. The demand assessment must be linked to other parts of the plan and policies and, in particular, there must be consistency between the Development and Financial Contribution Policy and the asset requirements. Many of the councils listed the capital projects and the drivers (growth or renewal) but it was difficult to relate these back to the demand factors. It is apparent that in most cases the information is prepared by two different areas of the council with very little linkage.

One mid-sized council was particularly good at identifying future changes and providing rationale to substantiate the change in capacity and then providing for the appropriate capital works.

In some of the plans, the new asset requirements were discussed in a “key issues” section but the discussion was again limited to the selected option and not a full discussion on the range of options and the rationale for the selected choice. We suggest, considering the level of expenditure of capital projects, that all key projects should be included in a key issue discussion to outline the options and the proposed project.

We found that the Activity Statement often referred to the Asset Management Plans of council, but the linkages were not direct and were made at the Asset Management Plan as a whole level rather than the specific components. There was little or no discussion on the asset management practices that affect the level of service and life of the asset. An improvement in the Activity Statement would be the inclusion of a statement on the Asset Management Plan implications and the impact that has on the level of service and ongoing and future expenditure requirements.

Although tables were provided for expenditure, the information would be more useful if it was identified as operating maintenance expenditure or capital renewals expenditure or minor new works. Inclusion of the total asset value information would allow the reader to assess the relative adequacy of the expenditure in relation to the underlying asset value. It is noted that the financial statements require the full 10-year forecasts, and it is assumed that each council has completed the capital forecast programme for the 10 years. Therefore, we would expect the capital expenditure forecast should be provided to allow the reader to understand the significant future capital requirements. It would also be useful for the council to indicate which capital expenditure forecasts are estimates and the varying level of confidence the council has in the adequacy and firmness of the estimates.

Assessment of Water and Sanitary Services and Waste Management Plans

All summaries of assessment included reference to water, wastewater, stormwater, and public toilets. Most also considered cemeteries.

There was no correlation between the information provided compared to the size of council. A good summary of assessment was made by a smaller council and a mid-sized council which provided good identification and assessment of the existing sanitary systems for both council and private schemes, and discussion on the issues and implications for the future, then discussing what provision needed to be made in the council's financial plans.

Another strength is in providing discussion relative to the identified capital works. One mid-sized council in its Activity Statement clarified that it was deferring some of the works that were included in the Summary of Assessment of Water and Sanitary Services and relayed the implications of this deferral.

A future improvement would be to include the grade of the water schemes as they exist, what is considered the target to achieve over the 10-year period, and discussion on the cost/benefit of providing any increased service level. Only one mid-sized council did this.

5. Issues relating to the legislation applicable to LTCCPs

Arising from our review, we have identified a number of issues where the legislation could be improved to promote better information in the LTCCP. These are:

Revenue and Financing Policy

As noted earlier, all the Revenue and Financing Policies reviewed comply with the requirements of the Act. However, section 103 of the Act requires the same level of detail for capital expenditure funding as detailed in operational expenditure. However, we observed that a number of councils provided the funding for operating expenses down to the level of activity areas within this section, but few provided the same level of detail for capital expenditure. Considering the significant amount of capital expenditure and the long-term implications of the funding tools used (for example, loans) we feel that best practice would be to disclose a greater level of information relating to this.

Activity Statement

The Act requires that the activity plan outlines the additional capacity requirements, how the capacity will be delivered and a discussion on the options considered. This area was not well covered in any of the LTCCPs reviewed.

Assessments of Water and Sanitary Services and Waste Management Plans

The legislation states that the LTCCP must contain a summary of Assessment of Water and Sanitary Services or the full policy in Schedule 10, clause 3. The same provision is required for waste management plans.

It would be appropriate to encourage a baseline of information in the summary as a minimum to be provided, such as reference to the strategies, reference to issues arising for the community, and reference to capital works and future operational expenditure that may be required.

Reviewer's Report 4

Financial management and strategies review – findings and recommendations

by Kevin Simpkins

1. Review approach

In making an assessment of the change (either improvement or deterioration) between the 2006-16 LTCCPs and the preceding LTCCPs of the councils selected, I have considered eight aspects of financial management and strategy. They are:

- strategic and logical linkages;
- relevant funding and financial policies;
- accounting policies;
- significant forecasting assumptions;
- group of activity statements;
- funding impact statements;
- generally accepted accounting practice aspects; and
- the balanced budget.

I assess each of these below.

2. Changes in the adequacy and presentation of information between the 2004-14 and 2006-16 LTCCPs

Strategic and logical linkages

The LTCCP is intended to be the culmination of a planning process that exemplifies integrated decision-making. There are numerous linkages between different parts of the LTCCP, sometimes non-financial linking to non-financial, sometimes non-financial to financial and, in other circumstances, financial linking to non-financial.

In relation to the strategic and logical linkages between the information included in the LTCCPs, the 2004-14 LTCCPs of the selected local authorities had significant room for improvement. This can largely be attributed to the fact that the process was new and councils were simply seeking to present the information without necessarily having integrated processes and information to the extent the Act expects.

The 2006-16 LTCCPs show limited improvement in this respect. The reader is more readily able to identify the flow of decisions and information through the LTCCP than was the case in the 2004-14 LTCCPs. In the case of some councils, their presentation of overall summary information, which draws together information spread throughout the document and provides some analysis to inform the user, was improved. However, as noted below, a significant weakness

is the linkage between the financial information about groups of activities and the prospective financial statements of the local authority as a whole. This remains an aspect needing significant improvement.

Relevant funding and financial policies

Section 102 of the Local Government Act 2002 (the Act) requires a local authority to adopt a number of funding and financial policies. The Act requires specific details to be included in these policies. I reviewed the Revenue and Financing Policy (which addresses the local authority's policies in respect of the funding of operating expenses and capital expenditure), the liability management policy, and the investment policy in each LTCCP.

The funding and financial policies of the councils selected were reasonably well articulated in 2004. There was also some improvement in the 2006-16 LTCCPs, showing that policies had been updated to reflect more integrated thinking and new decisions made by the local authorities. However, there remains room for improvement.

Accounting policies

The accounting policies included in 2004-14 LTCCPs were reasonably well articulated. This is not surprising bearing in mind that these policies are required to be presented in audited financial statements and will generally have been based on the most recent annual report.

The accounting policies in the 2006-16 LTCCPs reflect some improvement. The most significant changes are those as a consequence of the adoption of New Zealand equivalents to International Financial Reporting Standards from the commencement date of these LTCCPs. However, the impression gained is that that adoption process has not only led directly to improved disclosure of policies in some areas but has provided the impetus for a reconsideration of the expression of certain policies leading to enhancements.

Significant forecasting assumptions

Clause 11 of Schedule 10 of the Act requires an LTCCP to clearly identify the significant forecasting assumptions and risks underlying the financial estimates, as well as the fact of any uncertainty and an estimate of the potential effects of that uncertainty on the financial estimates provided.

The significant forecasting assumptions disclosed in the 2004-14 LTCCPs had much room for improvement. In many cases the key assumptions were not addressed, and many assumptions that were considered were addressed at a very general level. The fact and impact of uncertainties was not generally addressed well by councils.

There was some improvement in the description of significant forecasting assumptions in the 2006-16 LTCCPs reviewed. Some councils reflected significant improvement. The improvement related to greater completeness in the significant assumptions, greater specificity in relation to the assumptions and some improvement in relation to the consideration of uncertainty. However, consideration of the impact of uncertainty was frequently very general and is an area for further improvement.

In 2006, councils were required to take account of inflation over the 10 years of the LTCCP and generally appear to have done this adequately. However, councils could consider also presenting some key information net of inflation to inform users better. An obvious example is to report various types of rate for the first three years of the plan, exclusive of inflation. This would allow greater transparency and enhanced discussion about the impact of matters other than inflation on the level of those various rates.

Group of activity statements

Clause 2 of Schedule 10 of the Act requires inclusion of a range of information relating to groups of activities. I considered the financial information required to be included.

The group of activity statements in 2004-14 LTCCPs left significant room for improvement. Particularly weak aspects were:

- the mixing together of operating and capital expenditures;
- a distinct lack of clarity in relation to the funding sections of these statements. In a number of cases the funding sources listed were not readily understandable and in some cases there appeared to be confusion between cash and accrual based funding; and
- some of the terminology used was highly unlikely to be understood, in the context that it was used, by the moderately interested and informed user.

While some improvement was evident in the 2006-16 LTCCPs, these statements still have significant room for improvement. While there has been a better separation of operating and capital expenditure in the 2006 statements, the other issues identified above remain. Furthermore it is extremely difficult (and in most cases impossible) to reconcile the financial information in the group of activity statements with the overall financial statements for the local authority as a whole. This inability to reconcile this information may undermine the credibility of the LTCCP as a whole.

Funding impact statements

Clause 10 of Schedule 10 of the Act requires that an LTCCP must include a funding impact statement including information about the revenue and financing mechanisms to be used by the local authority.

The funding impact statements in 2004-14 LTCCPs were reasonably well articulated. Some improvement was evident in the 2006-16 LTCCPs primarily as a consequence of improvements in the general integration of information and in revenue and financing policies.

Generally accepted accounting practice aspects

Section 111 of the Act requires that all information that is required by any provision of Part 6 or of Schedule 10 to be included in any plan, report or other document must be prepared in accordance with generally accepted accounting practice (GAAP), if that information is of a form or nature for which GAAP has developed standards. Furthermore, clause 8 of Schedule 10 of the Act requires an LTCCP to include, for each of the financial years covered by the plan, forecast

financial statements for the local authority. An LTCCP may also include, for each of the financial years covered by the plan or for any of those years, forecast financial statements for any council-controlled organisation or any other entity under the local authority's control.

Shortly before the 2006-16 LTCCPs were prepared, a new financial reporting standard FRS-42: *Prospective financial statements* came into effect to replace the former FRS-29: *Prospective financial information*. The new standard is the primary source of GAAP for prospective financial information.

The prospective financial statements and other requirements of GAAP were generally reasonably articulated in the 2004-14 LTCCPs. This was to be expected because the format of the financial statements and the requirements of GAAP are generally well known to local authorities.

The 2006-16 LTCCPs reflected some improvement, in particular, in smaller councils.

All of the LTCCPs presented financial statements for the local authority alone, without consolidating any controlled entities. This reflects a potential issue which is considered later in this report.

Balanced budget

Section 100 of the Act requires a local authority to ensure that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses. A local authority may set projected operating revenues at a different level from that required to meet projected operating expenses after it has had regard to certain matters. Where a local authority has resolved not to balance its operating budget then it must include a statement of the reasons for the resolution and any matters taken into account and a statement of the implications of the decision for its LTCCP (clause 9 of Schedule 10 to the Act).

The balanced budget requirement must also be read in conjunction with the general financial management requirements of the Act (such as section 101).

At a whole of council level, operating revenues exceeded operating expenses in both the 2004-14 and 2006-16 LTCCPs of all the selected councils. References to the balanced budget in LTCCPs were primarily to describe the nature of the requirement only and in one case referred to depreciation on some specific assets not being funded for stated reasons.

In my opinion, however, the 2006-16 LTCCPs do not reflect a discernible change on those for 2004-14. I consider that, for two reasons, further consideration of the balanced budget requirement should be expected in LTCCPs even where operating surpluses exist in each year at the whole of council level. Firstly, where operating surpluses are small, then notwithstanding the balanced budget test may be met, the prudent financial management requirements still deserve consideration. For example, where surpluses arise directly as a consequence of non recurring capital grants received, then some discussion about the principles of the balanced budget requirement are appropriate in my view. A second circumstance in which additional discussion is appropriate is in relation to councils with significant surpluses. It is difficult for the informed user to assess the appropriateness of the quantum of surplus without a discussion by the council of the factors that are influencing that large surplus.

3. Observations on patterns in relation to how well information is presented

Based on the selected local authorities, it appears that, in general, the larger the authority the better the information which has been presented. However, this observation is not valid across all of the financial management and strategy aspects examined in this review. For example, there is very little difference in the quality of the accounting policies of the local authorities examined and there is little difference in relation to the balanced budget disclosures. In the case of the accounting policies, this is most likely due to the authorities all having many years' experience in presenting their accounting policies as part of their annual reports and because there are many examples of specific policies readily available to all authorities. In the case of the balanced budget requirement this would appear to be due to the fact that councils of all sizes and scale have not provided further comment where the operating revenues exceed the operating expenses. That is, where the balanced budget test has been met at a whole-of-council level, councils have not considered whether the surplus is prudent or not.

An area where there is a discernibly higher quality from councils of greater size and scale is the significant forecasting assumptions. This appears to result from the councils having applied more resources to this aspect.

4. Observations on the overall state of the information in the 2006-16 LTCCPs reviewed and suggestions for future improvement work

In this section, I consider the overall state of the information in the 2006-16 LTCCPs reviewed and make suggestions as to where future improvement work would best be focused.

The forecast financial statements, accounting policies, and significant forecasting assumptions are all strong aspects of the 2006-16 LTCCPs. The funding impact statements are reasonable as are most of the funding and financial policies examined.

There are two areas where improvement work would have the greatest capacity to enhance the value of the LTCCPs for users – explanation of the overall fiscal strategy and enhancing the quality of the financial information about groups of activities.

While there has been some improvement in the articulation of the overall fiscal strategy of councils, this remains the financial management and strategy aspect with the greatest potential for improvement. It appears that councils have focused on complying with the requirements of the Act and have improved the quality of the underlying information to ensure that they meet audit expectations, but are still at an early stage in effectively using the integrated information to enhance their own decision-making processes and the quality of the planning process for all stakeholders. There is the capacity to significantly improve the integrated “story” about the challenges, options, and plans of the council. One council considered in this review expressed it this way “Now the Council has systems in place to deal with these requirements, we look forward to simplifying it and making it even easier for the community to influence the direction of their council and district.” In my view, this statement is valid for all councils examined, to a greater or lesser degree.

The financial information about groups of activities represents an opportunity for a sector-wide effort to improve consistency in the manner of presentation of this information as well as to improve the clarity of the information and the underlying logic. Separation of operating expenses from capital expenditure has led to some improvement. However, the funding part of these statements remains weak. In fact, the divergent underlying logic of funding approaches (including the confusion of real financial resources with accounting balances in some cases) and the terminology used by many councils makes it very difficult for even an informed reader to understand the information.

Some of the issues which a sector-wide approach could consider are:

- Whether users would be better served by general rates being included in or excluded from group of activity revenues (some councils include general rates and others treat general rates as a funding source).
- How best to treat and, equally importantly, explain to users non-cash items such as depreciation. In my view, phrases such as “funded by depreciation” and similar are unlikely to be readily understood by users.
- How to illustrate the use of reserves as a funding source. This is another source that will not be readily understood by users. It is further complicated by the fact it is rarely possible to determine how the amount of a transfer to or from a reserve was determined and because the generic label “reserves” is used by most councils when greater specificity about the nature of the accounting balance concerned would communicate better with users. Other funding sources that, in my view, will not be readily understood by users are “carry forwards” and “other funding source” (or similar).
- How best to display internal items such as internal loans and internal interest in a manner which maintains the credibility of the overall prospective financial statements of the council.
- How best to enhance the credibility of this information at both group of activity and whole-of-council level by providing a reconciliation between the two. (I recommend later in this report that such a reconciliation should be a legislative requirement.)

Agreement on a consistent approach to these matters and application of the agreed approach by councils would, in my view, lead to a significant increase in the usefulness of the financial information about groups of activities and in the credibility of the LTCCP as a whole.

In addition to the two most significant matters discussed above, I make the following suggestions to improve the quality and usefulness of LTCCPs:

- While borrowing management policies are generally adequate, some are presented in such general terms that they may not act as a “management policy” as such.
- Revenue and financing policies could be enhanced through better rationale for the use of particular sources of revenue and specification of a hierarchy of sources. This is particularly the case for capital expenditure.

Some councils use terminology which is likely to be more readily understood by users than some more technical terms. The use of lay terminology or, where that is not possible, inclusion of thoughtful glossaries is likely to enhance the understandability of LTCCPs.

5. Issues relating to the legislation applicable to LTCCPs

Arising from my review, I have identified a small number of issues relating to the legislation applicable to LTCCPs which may deserve reconsideration.

Balanced budget requirements

My review has identified a significant degree of reliance on the Act's premise that a balanced budget – where forecast operating revenues are at least equal to forecast operating expenses – is, *prima facie*, financially prudent.

The terms “operating revenue” and “operating expenses” are defined in the Act as having the same meaning as under GAAP. When the Act was passed, GAAP in this regard was contained in paragraphs 4.21 and 4.22 of FRS-9: *Information to be disclosed in financial statements*. However, that standard is no longer applicable to local authorities that have adopted New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). The Auditor-General has adopted the view that the intent of the Act is that all items included in the statement of financial performance should be included in determining operating revenues and operating expenses, except for extraordinary items. I concur with this view. However, it would be desirable, bearing in mind the importance of the balanced budget test, that the definitions of operating revenue and operating expense are changed to align with the comparable terms under NZ IFRS. Some consequential amendments would also be necessary.

The reliance on GAAP to provide the basis for the balanced budget test means that certain revenue and expense items included within the test have the potential to distort its intention. For example, the fair value of vested assets is accounted for as revenue when the assets are vested in the local authority. However, the expense associated with the ongoing use of those assets is reported as depreciation over the useful life of the assets. The receipt of significant vested assets within a period may result in the balanced budget test being met, whereas the underlying position might be that ongoing operating expenses exceed ongoing operating revenues. Another example is the receipt of Transfund revenue where the revenue is recognised when the council has a right to it. Where the roading activity associated with the Transfund revenue is of a capital nature, the related expense will be the depreciation over the useful life of the road. Depending on the quantum of Transfund revenue received in a reporting period contrasted with depreciation on the portion of any capital assets funded previously by Transfund, a distortion in the underlying intent of the balanced budget test may arise.

In my opinion, the current balanced budget requirement is too blunt an instrument to achieve its desired intent and the review has highlighted circumstances in which a modest surplus could possibly represent an underlying deficit and also circumstances in which it is not possible to determine whether a substantial surplus is in fact justifiable from a prudent financial management perspective or not. In my view, the balanced budget test should be modified to require local authorities to explain why their surplus or deficit is appropriate, having regard to the relationship between operating revenues and expenses and, in particular, to all circumstances in which revenues and expenses which are related are, for accounting purposes, reported in different periods.

Recording of significant changes between draft and final LTCCPs

Some of the local authorities selected for review included helpful explanations of significant changes made between the draft LTCCP and the final LTCCP. Frequently these changes were strategic and had financial consequences. Some councils also included explanation of the rationale for the changes. In my opinion, reporting significant changes and providing an explanation for them is an important aspect of the long-term planning process in ensuring that users of the LTCCP are informed about the matters which have impacted the final LTCCP. The legislation should, in my opinion, require the reporting of any significant changes and the reasons for them.

Reporting for the local authority only rather than the local authority group

FRS-42 permits the reporting of a subset of the reporting entity (paragraph 43). All the councils considered in this review presented prospective financial statements for the parent council alone.

FRS-42 requires that the reasons for not presenting group prospective financial statements shall be disclosed (paragraph 63). The reason given in most cases was “cost-benefit” reasons. In my view, this is an inadequate reason. A valid reason might be (for example) that, due to the minimal activity in controlled entities, users are not disadvantaged by presenting only the parent council financial statements and the costs of presenting group financial statements are therefore not justifiable.

The issue of concern here is that if prospective financial statements are not presented for the council and all its controlled entities as an economic entity (as if they were all one entity) then the nature of the transactions between the council and its controlled entities has the potential to impact the quality of the information for users. An obvious example is the capacity to influence the timing of dividends between council-controlled trading organisations and the council.

In my view, the legislation (or alternatively FRS-42) should require that where prospective financial statements are not presented for the council group, information on the flows between the council and any council-controlled organisations (as well as summarised information about the assets and liabilities not included in the prospective financial statements) must be disclosed.

Clarifying the ambiguity about the financial information to be reported in relation to groups of activities

Clause 2(2)(b) of Schedule 10 requires that the estimated expenses of achieving and maintaining the identified levels of service provision (for a group of activities), including the estimated expenses associated with maintaining the service capacity and integrity of the assets, must be disclosed in detail in relation to the first three financial years covered by the plan and in outline in relation to each of the subsequent financial years covered by the plan. The reference to “the estimated expenses associated with maintaining the service capacity and integrity of the assets” has been interpreted to necessitate the reporting of both operating and capital expenditure. In my opinion, it is doubtful whether this interpretation is appropriate. The term “expenses” must

be interpreted in accordance with GAAP (as required by section 111). Capital expenditure is not an expense. However, one is left then considering the meaning of the phrase “including the estimated expenses associated with maintaining the service capacity and integrity of assets”. In my opinion, the wording of this subclause should be reassessed to ensure that the information intended to be disclosed is in fact required.

Linkage of groups of activity financial information to the forecast financial statements for the local authority

As noted earlier in my report, it is frequently not possible to follow how detailed financial information presented for groups of activities has been accumulated into the forecast financial statements for the local authority as a whole. This can be further complicated where there are internal charges (such as interest), where different types of revenue are combined for the purpose of the groups of activity statements (such as general rates and other general funding sources) and where there are transfers to and from unspecified reserves. In my opinion the inability to relate the group of activity information to the forecast financial statements of the local authority as a whole has the potential to undermine confidence in the forecast financial statements. In my opinion, local authorities should be required to present a reconciliation between the groups of activities financial information and the forecast financial statements for the local authority as a whole.

Articulation of the extent of benefits in revenue and financing policies

The review has identified that the articulation of the extent of benefits in the revenue and financing policy and, accordingly, the extent to which any funding source should be applied to any activity, is not required by the Act. This was required by the previous legislation to be included in the former funding policy. In my opinion, the revenue and financing policies would be enhanced by the reinstatement of this requirement or a requirement similar to it.

