



# Cabinet

CAB Min (09) 38/16

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## Minute of Decision

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### Local Government Transparency, Accountability and Financial Management: Improving Transparency and Accountability (Paper 1)

Portfolio: Local Government

On 27 October 2009, following reference from the Cabinet Economic Growth and Infrastructure Committee (EGI), Cabinet:

#### Background

- 1 **noted** that on 20 April 2009, EGI invited the Minister of Local Government to report back with specific proposals to improve local authority transparency, accountability and financial management, and on other minor changes to the Local Government Act 2002 (the LGA) [EGI Min (09) 6/10];
- 2 **noted** that on 27 April 2009, Cabinet invited the Minister of Local Government to report back to EGI on the Royal Commission on Auckland Governance's (Royal Commission) recommendation for an Auckland Service Performance Auditor, as part of the work on the local government transparency, accountability and financial management in the New Zealand-wide context [CAB Min (09) 14/2];
- 3 **noted** that in recent years, residential rates have grown significantly faster than consumer price inflation, local government input cost indices, and the average household income;
- 4 **noted** that work to improve local authority transparency, accountability and financial management is guided by the following three principles [EGI Min (09) 6/10]:
  - 4.1 local government should operate within a defined fiscal envelope;
  - 4.2 councils should focus on core activities;
  - 4.3 council decision making should be clear, transparent and accountable;

#### "Plain English" financial reporting

- 5 **noted** that the LGA requires councils to include in their plans a funding impact statement (FIS), including an indication of the level or amount of funds to be produced for each funding mechanism used by the council;

- 6 **agreed** that the LGA be amended to require the FIS to show both the sources and applications of funds, and to be included for the whole council and for each group of activities;
- 7 **agreed** that the LGA be amended to require each council to show:
- 7.1 in its plans and reports, each reserve fund that it has created, the purpose of the reserve, the activities to which it relates, the opening and closing balance of the reserve, and the movement of funds into and out of the reserve;
- 7.2 for each activity, the total of any internal loans applied to that activity, reductions and increases in the balance of those loans, and interest charges on those loans;
- 8 **agreed** that:
- 8.1 the detail of the format and presentation of the balanced FIS be specified by Order in Council;
- 8.2 the balanced FIS may be specifically exempt from compliance with generally accepted accounting practice (GAAP) in order to more clearly show council funding requirements and practices;

#### Inter-council comparisons

- 9 **noted** that the ability to compare situations, either between councils or within a council over time, is a key element of transparent government;
- 10 **agreed** that the LGA be amended so that, on the advice of the Minister of Local Government, the Governor-General by Order in Council is authorised to prescribe the form and definition of accounting disclosures to be made by councils in their financial statements;
- 11 **agreed** that in the event of any inconsistency between GAAP and the accounting disclosures prescribed, GAAP will prevail;
- 12 **agreed** that the following activities be disclosed as separate groups of activities in council plans and reports:
- 12.1 water supply;
- 12.2 sewage treatment and disposal;
- 12.3 stormwater drainage;
- 12.4 flood protection;
- 12.5 roading;
- 13 **agreed** that the LGA be amended to require prior year's budget comparisons in long-term council community plans (LTCCPs) and annual plans;
- 14 **noted** that the provision of comparative non-financial data is desirable to achieve transparency about the level of service being provided to ratepayers;

15 agreed that the LGA provide for:

- 15.1 a system of standard measurement systems for local authority services;
- 15.2 responsibility for preparing measurement standards to lie with Standards New Zealand;
- 15.3 mandatory development of accredited performance measurement systems for water supply, sewage treatment and disposal, stormwater drainage, flood protection and roading;
- 15.4 inclusion of performance targets for mandatory performance measurement systems in council LTCCPs, annual plans and annual reports;
- 15.5 auditing of reported actual performance in the annual report;

#### Improving disclosure of asset management information

16 noted that:

- 16.1 councils are major providers of infrastructure services, but the quality of information available to ratepayers is highly variable;
- 16.2 the financial importance of infrastructure services means that the public need good information on the likely future costs of these services to properly evaluate other competing expenditure proposals;

17 noted that proposals to standardise the groups of activities used by councils, and to standardise non-financial performance measurement information, will help to develop consistent asset management information for each council;

18 agreed that to complete the package, LTCCPs, annual plans and annual reports should:

- 18.1 clearly disclose planned and actual capital investment in infrastructure assets;
- 18.2 show separately investment to meet additional demand for services, investment to improve the standard of service provided, and investment to replace existing assets;

19 agreed that section 99 of the LGA be amended to require the Auditor-General to report on compliance with the rules for asset management information disclosure in the audit opinion on each council's annual report;

#### Pre-election report

20 noted that it is important to promote discussion about the issues, options, trade-offs and priorities facing each council at election time;

21 agreed that each council be required to publish a pre-election report containing:

- 21.1 financial results for the previous three years;
- 21.2 compliance with the council's financial strategy;
- 21.3 forecast financial information for the next three years;

- 21.4 forecast major projects for the next three years;
- 22 **agreed** that to minimise compliance costs, the information contained in the pre-election report be drawn from previously published plans and reports, except for the council's best estimate of financial outcomes for the previous financial year;
- 23 **agreed** that to avoid the report becoming a ratepayer funded electioneering report for current elected members, the report be prepared and issued by the council's chief executive, and that statements attributed to and photographs of current elected members, be prohibited from the report;

#### Core services

- 24 **noted** that while the measures proposed in the paper under EGI (09) 209 will provide indirect incentives for councils to focus on core services, there should be a more direct approach;
- 25 **agreed** that section 12 of the LGA be amended to require councils to have particular regard to the contribution to community well-being made by specified services;
- 26 **agreed** to add a principle requiring councils to periodically assess risks and returns from investments to section 14 of the LGA;

#### Auckland service performance auditor

- 27 **noted** that the Royal Commission recommended the creation of a statutory position of Auckland Service Performance Auditor (ASPA);
- 28 **noted** that the Royal Commission had concerns about the monopoly risks of Watercare and recommended that the ASPA have regulatory oversight of Watercare, including the power to require information disclosure;
- 29 **noted** that council-controlled organisations (CCOs) will play a greater role in service delivery for the Auckland Council than for any other council in the country;
- 30 **noted** that the Department of Internal Affairs is undertaking further work on whether the CCO monitoring framework for the Auckland Council needs to be strengthened, and that the results of this work will be included in a later paper to the Cabinet Committee on Implementation of Auckland Governance Reforms;

#### Minor legislative changes

- 31 **agreed** to the following minor changes to the LGA:
- 31.1 the repeal of section 107, which requires councils to have a policy on partnerships with the private sector, because few councils enter into public-private partnerships;
- 31.2 the repeal of section 78(2), so that when considering the views and preferences of persons likely to be affected by, or have an interest in, a particular matter, councils are not required to undertake such consideration at four distinct stages in the decision-making process;

- 31.3 the omission of the words "out of the general revenues of the district" from subclause 39(1) of Schedule 7, to clarify that a targeted rate can be used to recover community board expenses;
- 32 **noted** that, as recommended by the Local Government and Environment Committee, the issues raised in petition 2008/2 have been considered as part of work to improve the transparency, accountability and financial management of local government;
- 33 **agreed** to not amend the LGA to require councils and CCOs to record details of contracts issued to the private sector in their annual reports, as petition 2008/2 requested;

### Implementation

- 34 **agreed** that the proposals in the paper under EGI (09) 209 take effect from the 2012 long term council community plans (LTCCPs), except for:
- 34.1 the provision of prior year's comparisons (paragraph 13 above) to take effect immediately upon Royal Assent;
- 34.2 non-financial performance measures (paragraph 15 above) to take effect from 30 June 2014;
- 34.3 the Auditor-General's report on compliance with asset management disclosures (paragraph 19 above) to take effect for the financial year commencing 1 July 2010;
- 34.4 pre-election reports (paragraph 21 above) to take effect for the 2013 local authority elections;

### Legislative implications

- 35 **invited** the Minister of Local Government to issue drafting instructions to Parliamentary Counsel Office to prepare amendments to the LGA to give effect to the above proposals;
- 36 **authorised** the Minister of Local Government, Associate Minister of Local Government, and other affected portfolio Ministers, to provide direction to the Parliamentary Counsel Office on any drafting issues arising;

### Publicity

- 37 **authorised** a group of Ministers, comprising the Prime Minister, the Minister for Infrastructure, Associate Minister for Infrastructure, Minister of Local Government and Associate Minister of Local Government to take decisions on the process, timing and content of the communications strategy for announcing Cabinet's decisions on the proposals on local government transparency, accountability and financial management [CAB Min (09) 38/16-18] and on water infrastructure development [CAB Min (09) 38/19];

38 noted that the Minister of Local Government intends to consult with Local Government New Zealand and the Society of Local Government Managers on the drafting of the Bill, subject to their agreement to confidentiality.

*Rebecca Kitteridge*  
Secretary of the Cabinet

Reference: CAB (09) 621; CAB (09) 622; CAB (09) 623

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