

Submission to the New Zealand Productivity Commission

Local Government Funding and Financing issues paper, November 2018

1. I wish to make a brief submission to the Commission, touching on the adequacy of frameworks for Council decision-making, the oversight of these, and the importance of equipping the interested constituent in a Council area with relevant and robust accounting information to hold their Council to account.
2. My name is John Robertson. I have an interest in the legislative and regulatory framework under which local government entities make decisions for their communities of interest. I have previously served in Local Government as the Chair of the Commissioners appointed to govern the Kaipara District Council from 2012 to 2016, and as the Mayor of Papakura from 2004 to 2007. I am currently the independent chair the Audit and Risk Committee of the Otorohanga District Council.
3. I firstly want to observe that Local Government accounting has developed considerably over the past few decades. The ten year long term planning framework has introduced important financial management disciplines to Councils, and the framework for extended asset management planning is adding further value to these disciplines.
4. The Local Government Act 2002 lists principles that encourage financial management prudence and the effective and efficient use of resources. The balanced budget requirement provides another important boundary.
5. Ultimate accountability for Council performance is tested in the three year Local Government election cycle. It is important that constituents are assisted in their judgment of their Council's performance by Council reporting that is relevant, robust (thus subject to independent oversight), and consistent across like Councils. I comment briefly on each of these below.
6. On relevance and robustness: I question the usefulness of some of the financial prudence benchmarks mentioned in the Issues paper. These were introduced by regulation in 2014. Most Councils, including those with poor financial performance, highlight their success in passing these tests, citing them as signals of prudent financial management and performance. In fact, these measures can encourage planning behavior that does the opposite, while enabling the measure to be passed. In my view, these measures need review.

These are important measures to review, for the Auditors of Councils attest to their compliance with the regulations in their audit report.

7. On performance measures and consistency across like Councils:
Constituents often wish to, and should be able to, compare the financial performance of their Council against other like Councils. In my view, performance measures that highlight the financial and asset condition health of a Council need further development.

8. On consistency across like Councils, robustness and subject to oversight:
The local government accounting model has developed well over the past two decades. However, there is one area that stands out that requires attention - that is the extent to which Councils fund by rates the depreciation that they expense. There is considerably inconsistency between Councils on this matter, and little transparency. If the current approach is to remain, I recommend that the Auditor provide a statement or opinion on the accounting treatment for the funding of depreciation of the particular Council.

Conclusion:

Ultimately, it is the constituent ratepayer who pays the cost of poor stewardship of Council assets and of poor financial management.

I encourage the Commission to take into account the importance of equipping the interested constituent in a Council area with relevant and robust information to hold their Council to account.

I have argued also that in carrying out their responsibilities to hold their local Council to account, the constituent will be assisted by being able to compare their Council's funding and financing framework to other like Councils.