

Hon Rodney Hide

28 October 2009

Decisions for better transparency,
accountability and financial management of
local government

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This paper summarises the decisions of Cabinet on 27 October.

These decisions will lead to changes to the Local Government Act 2002. Councils and members of the public will have the opportunity to make submissions during the select committee hearings.

The reforms will help keep rates rises under control by giving ratepayers and residents greater understanding of councils' budgets and financial operations.

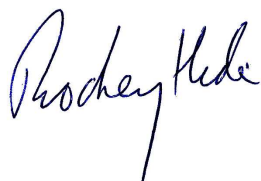


Specifically, the decisions will:

- ensure council costs, rates and activities are better understood by ratepayers and residents, enabling them to exert greater influence and control during planning and decision-making processes
- simplify long-term council community plans and give them a more strategic focus
- achieve plain English financial disclosures
- improve councils' flexibility to choose effective and efficient delivery methods for water services.

Cabinet considered four papers. The full papers are to be published as soon as possible on www.dia.govt.nz. I will include these changes in the Local Government Amendment Bill, which is planned for introduction late in 2009 or early in 2010.

These decisions represent significant progress towards better local government, and towards easier and more effective participation by ratepayers and residents in the activities and decisions of councils.



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Better control of council costs, rates and activities

Issue

Council activities and council decisions should match the priorities of the ratepayers who pay for these decisions. There is a lot of council information available, but it is not always easy to find, and it may not be available at the best time for councils to be held to account. Since 1994, the New Zealand Government has been required to 'open the books' before elections. A similar requirement in local government would enhance democracy.

The Minister of Local Government has promoted discussion on the need for councils to concentrate, first, on core services. The Cabinet decided not to proceed with a requirement for referendums to allow residents to guide councils. Decisions made by Cabinet on long-term plans, transparent financial reporting and better control of council activities go much of the way towards meeting the concerns which prompted the call for referendums.

Decisions

- Implement a pre-election report for each council by drawing together existing council information in a readily accessible format and timely manner to help promote election debate.
- Encourage councils to focus on core services by amending section 12 of the Local Government Act (the power of general competence) to require councils to have particular regard to the importance of:
 - infrastructural services
 - solid waste services
 - hazard and disaster management
 - libraries, recreation, culture and heritage services
 - the performance of regulatory responsibilities and statutory duties.
- There will be no additional requirement for referendums, but councils remain free to use them as part of their consultation and decision-making processes.

Simpler long-term plans

Issue

Currently councils have to produce a LTCCP and also run a separate 'community outcomes identification process'. The two processes overlap, with community outcomes feeding into the priority setting undertaken in the LTCCP process. The community outcomes process for councils has the potential to involve central government agencies in discussions about local issues. However, councils are required to develop a broad range of community outcomes, many of which involve services they are not responsible for delivering. Separating this process from the development of LTCCPs can also mean that discussions about prioritisation and funding are out of context or avoided.

Decisions

- Simplifying planning by renaming the LTCCP a "long-term plan" and giving it a more strategic focus.
- Focus the long term plan on crucial issues by:
 - including within the long term plan a financial strategy. This strategy would be similar to the fiscal strategy the Public Finance Act 1989 requires of central government and would help councils and ratepayers prioritise existing and proposed expenditure
 - removing a number of operational policies from the long term plan
 - streamlining non-financial performance reporting to focus on major issues.
- Merge the community outcomes process into the long-term council community planning process. This will:
 - eliminate the costs and inefficiencies of running a second long-term planning process in addition to the long term plan
 - put greater attention on the prioritisation and affordability of proposals
 - allow local communities to determine for themselves the range of issues they want their council to address
 - provide clearer links between the outcomes a local authority is seeking for its community and how it proposes to achieve them.

Plain English financial disclosures

Issue

For ratepayers to be properly informed, they need to be able to see the application of funds for all activities and groups of activities.

For these figures to mean something when ratepayers are working out if their council is doing a good job, the figures and the way activities are named need to be consistent from one council to another. Similar comparable standard performance measures are needed for non-financial reporting.

For ratepayers to know the full story about their council's financial health, they need to be able to see how assets are managed, and be able to compare this with other councils.

Decisions

- Achieve “Plain English” financial reporting by requiring councils to include in their plans and reports funding impact statements showing the sources and applications of funds for the whole council and for each group of activities.
- Improve inter-council comparisons by:
 - consistently classifying financial information in councils' primary financial statements
 - using standard groups of activities for infrastructural services
 - standardising non-financial performance measures for infrastructural services
 - improving disclosure of asset management information.

Flexibility in delivery of water services

Issue

Local councils are elected to govern. They are responsible to the law, and to their electors. In deciding on any restrictions on councils' activities, central government needs to ensure that a balance between the public interest and the ability of councils to act on behalf of their people is maintained.

The present law restricts councils from structuring their water services in a way that best meets ratepayers' and residents' needs and preferences. The current restrictions reduce councils' flexibility to choose effective and efficient delivery methods for water services.

The Government has decided on changes that will allow for more use of public-private partnerships in the construction and operation of water and wastewater treatment plants. Build-own-operate-transfer (BOOT) schemes become more feasible, but ownership of assets would revert to councils at the end of any agreement, thus retaining ultimate public ownership. These changes do not affect the other rules around asset ownership.

Decisions

The following legislative changes will be made:

- extend the 15-year limit on water services contracts and joint arrangements with the private sector to 35 years, which makes these arrangements more workable
- allow water services arrangements to include BOOT schemes by allowing ownership of infrastructure by the private sector during the contract period
- repeal the provisions that require councils entering into a contract or joint arrangement with the private sector to retain control over the management of water services (control over pricing and policy to be retained by councils).