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LGfin '06

The 9th Local Government Finance Forum

The LTCCP and the auditor

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Outline of session

The LTCCP opinion results

The LTCCP “numbers”

High level generalisations

LTCCP implications

Sectoral response

Future auditor focus (including amendments)



The LTCCP opinion results

*“...provides a reasonable basis for **long term integrated decision-making** by ... Council and **for participation in decision-making by the public and subsequent accountability to the community about the activities of ... Council**”*



The LTCCP opinion results

Adverse	4
Except for	4
Matter of emphasis	1
<i>Minor</i> except for	<u>8</u>
	17



The LTCCP opinion results

Adverse

Plan was **not** financially prudent (s101)

Inconsistent with/incomplete ***asset management plans*** (x2)

Failure to incorporate the effect of price changes (not ***best estimate***)



The LTCCP opinion results

Except for

Failure to include **future** asset revaluations (x2)

Inadequate identification of ***levels of service***

Capex **not** adjusted for future price changes



The LTCCP opinion results

Matter of emphasis

Drawing attention to **cumulative operating deficits** and ability to assert that it is a financially prudent plan



The LTCCP opinion results

Minor qualifications

(all related to legislative compliance)

Failure to include a summary of the **water and sanitary** services assessment (x2 + 1)

Inadequate **summaries** of the statement of proposal (s 89) (x6)



The LTCCP opinion results

The impact of an *adverse* opinion varied

Within 4 months of 01 July 2006, we have/are dealing with 5 amendments – 3 x development contributions policies; a regional council assuming a new role (s16) and transfer of strategic assets to a CCTO



The LTCCP “numbers”

Rates climb 57% (including inflation) to \$5.2b

But as a proportion of revenue, rates climb from 52% to 59%

Debt increases 66% to \$6.5b

But interest costs increase to 120% to \$497m



The LTCCP “numbers”

Opex increases 40% to \$7.5b

Depreciation increases 53% to \$1.6b

P&L surplus rises from \$913m to \$1.2b

Capex averages \$2.5b p.a. (total \$25.6b over 10 years)



The LTCCP “numbers”

Fixed assets increase 39% to \$83.2b

Cash climbs 99% to \$1.3b

Why, with increasing rates? Deferred maintenance/renewals, missing capex in 2012 (year 6) through 2016 (year 10) or build up of renewals after 2016 – or all of the above?



High level generalisations

Improvement required

- Asset management planning
- Performance management frameworks
- Financial modelling
- The *right debate*



High level generalisations

Good decision = f (knowledge x attitude)



High level generalisations

We found attitude to be the biggest determinant in the success (or otherwise) of the LTCCP (or any other planning) process and decision-making

Attitude relates to all levels of the council ... *starting from the top*

- Priority
- Preparedness
- Short term vs strategic
- Compliance
- Team work



High level generalisations

Data ***does not equal*** knowledge

It generally requires

- Conversion and interpretation
- Maintenance
- Collation and reporting
- Integration either into or with other systems



LTCCP implications

Implementing “the *World Cup* rule”

Planning through project management

An integrated team approach (both *inter* and *intra* department)

There is *no silver bullet* in connecting good practice to reality



Sector response

There is a need for the local government sector to lead the defining of good practice for the 2009/19 LTCCP – not for this to be left to the auditor *by default*



Sector response

SOLGM

Debriefing and reviewing 2006 to lead to an active programme to assist generally and CFOs/planners specifically – as required and determined by 20/27 November meetings and through their Financial Management Working Party

The development of a performance framework working party – reporting by 2007



Sector response

LGNZ

Financial governance – possible development of an education package for elected members

A summit on issues associated with asset management information and implementing the IIMM (in conjunction with INGENIUM)



Sector response

INGENIUM/NAMs

A review of the *creating customer value* section of the IIMM

In conjunction with LGNZ, a summit on issue associated with asset management information and implementing the IIMM



Future auditor focus - amendments

- The most probable time to consider if an amendment is required is at the annual plan preparation time. It is logical for the local authority and auditor to discuss the annual plan and any flow on effect to required amendments at an early stage in 2006/07
- What **is** an amendment is a matter of law, policy on significance and judgement (all 3 matters are inter-related)
- S 97, 102(6) and 141



Future audit focus - amendments

- Reporting responsibilities of the auditor:
 - An opinion on the Statement of Proposal
 - An update of the *existing* opinion on the 2006/16 LTCCP
- **Quirks** to watch out for:
 - **Clause 10** – disclosure of the local authority's definition of separate used/inhabited part of a rating unit
 - **S 84(2)(b)** – accompanying *consequential amendments*



Future auditor focus – audit methodology

To review our objectives for the audit (process) with the **reality** of the 2006 experience

To consider the **sensitivity** of our reporting – can assess and report differences more effectively



Future auditor focus – annual reporting

Clause 15, schedule 10

The Local Government Act 2002 contains some specific accountability obligations which mirror the LTCCP prospective information:

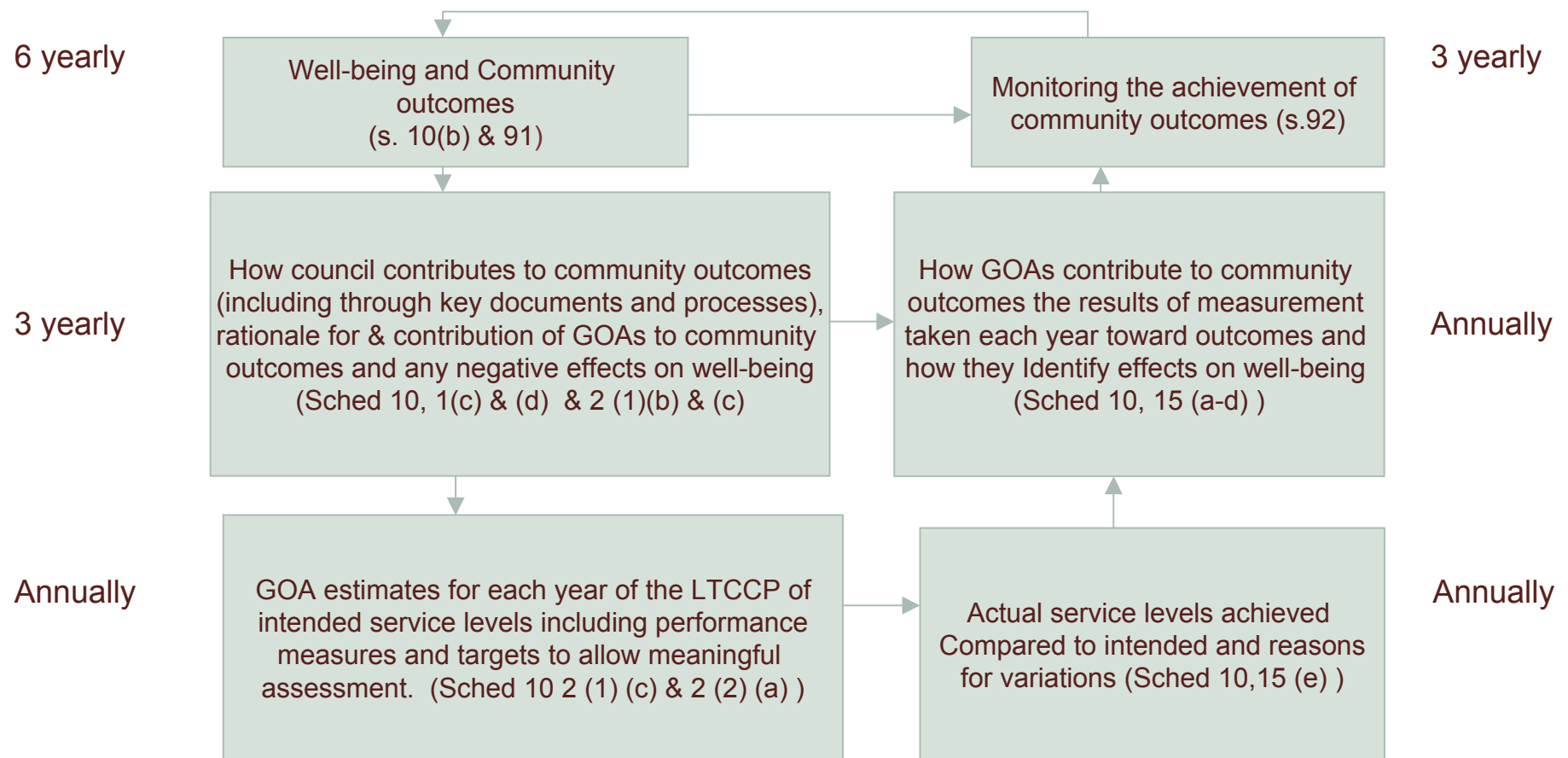
- Any measurement of progress... (cl 15(c))
- Identified effects on well beings (cl 15(d))
- Actual levels of service provision and reasons for significant variance (cl 15(e))
- Significant asset acquisition or replacement and reasons for variance (cl 15(f))



Future auditor focus – annual reporting

The Planned Effect

The Reporting 'Mirror'





Future auditor focus - *IFRS*

Working with the sector to adopt *(NZ) IFRS* early:

- Restated opening balance sheets
- Restated 2005/06 comparatives
- Monitor interim financial statements of CCOs at 31 December 2006 for effective transition to *(NZ) IFRS* – (s 66(1))



Key messages

- Both the sector and the auditor **have made significant gains** in the move to thinking strategically through the LTCCP
- As neither were perfect, there is **substantial ground to be made** up to ensure gains are made for 2009/19
- We will continue **to work with the sector** as the various initiatives progress
- While looking long term there is also the need to “keep the eye on the short term ball” – **reporting** against the LTCCP and conversion to (NZ) IFRS