

# **LOCAL GOVERNMENT FINANCES - WHAT'S HAPPENING IN NEW ZEALAND**

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**Peter McKinlay  
McKinlay Douglas Ltd  
and Local Government Centre  
Auckland University of Technology**

McKinlay Douglas Limited  
17 GreySt  
P O Box 13 125, Tauranga  
Tel: (07) 579 4217 Fax: (07) 579 4218  
[www.mdl.co.nz](http://www.mdl.co.nz)  
email: [peter@mdl.co.nz](mailto:peter@mdl.co.nz)



# INTRODUCTION

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My brief is to comment on the background to, objectives for and success (or otherwise) of recent New Zealand local government financial and related reforms and outline others now under consideration, all in the context of the current South Australian environment.

As with South Australia, New Zealand is well advanced on the journey from the traditional mid-20th century role of local government as purely a provider of housekeeping services to property owners, with a few cultural and recreational add-ons, to much more of a community leadership role, working with communities to help achieve their desired futures.

In this paper I will outline the nature of the New Zealand journey from the mid-19 70s through the major restructuring of the late 1980s and the successive changes in financial management and the role and purpose of local government which have been a feature of the past decade or so. In doing so, I will seek to draw out what seem to be useful parallels for South Australia.

To achieve this, the paper is divided into the following sections:

- In the beginning: mid-20th century local government.
- The reforms strike: the Labour government and local government restructuring.
- Public accountability and the place of financial management reform.
- The new Local Government Act -- the interplay between community outcomes, council planning and accountability.
- Next steps -- Local Authority Funding Issues.
- South Australia and New Zealand compared.

Finally, one theme will be repeated throughout this presentation; the importance attached in the New Zealand reforms to accountability. In one way or another, this has underpinned all of the changes which have taken place since the major structural reforms of the late 1980s.

It has been based on a recognition that effective accountability is a precondition to the achievement of independent autonomous local government. This means more than just the formal trappings of legal requirements, for example, to prepare financial information on an accrual basis. It means moving to a culture which values understanding and sharing with the community in an open and transparent way dealing with both retrospective and prospective information. It means opening the cupboard and cleaning out the skeletons of underinvestment in infrastructure, and being clear about the implications of demographic and economic change. The task is not an easy one but the reward is providing a basis for local government which ensures its proper place in the governing spectrum.

## IN THE BEGINNING: MID-20TH CENTURY LOCAL GOVERNMENT

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The process of change which has led New Zealand local government to the position it is now in began in the mid-1970s. At that time key characteristics of New Zealand local government included:

- A high degree of fragmentation - just over 200 territorially based local authorities and more than 600 special-purpose bodies.
- Very basic rating powers - primarily a general rate which could be levied on either a land value, a capital value or an annual value basis - local authorities did have autonomy to set their own rates subject to a requirement that the general rate (exclusive of GST once that was introduced) should not exceed 1.25% on the net capital value or the equivalent on the land value. This cap was abolished in 2002.
- Borrowing powers limited by a requirement for approval (and scheduling) through the government appointed Local Authorities Loans Board. Borrowing was by individual local authorities, often through the issue of debenture stock to private individuals, building on the belief that local authority loans were government guaranteed (not correct) and the attractiveness for investors of being able to invest locally.
- Limited accountability. Accounts were prepared on a cash basis, which provided little information of value either to local authorities or ratepayers. There were no requirements for public consultation or long-term planning.

Initial reforms were designed to meet the needs of councils themselves. By 1978 all territorial local authorities had a general power to impose differential rates. Typically these were used to set different rates in the dollar of rateable value for categories such as commercial, residential and rural. The rationale was the claimed different demands/impacts that these categories made on local authority expenditure. In practice the differential often became a means of shifting the rating burden from residential ratepayers - voters - to the commercial sector.

In 1982 councils were given the power to impose a uniform annual general charge. The purpose of this provision was to enable councils to redistribute the rating burden, especially on residential property, and to reduce the impact on higher valued property.

# THE REFORMS STRIKE: THE LABOUR GOVERNMENT AND LOCAL GOVERNMENT RESTRUCTURING.

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In the late 1980s, change began in earnest. The Labour Government, which had been elected in 1984, instituted what was almost certainly the most radical set of public sector reforms ever undertaken in a modern democracy. In its first term, the focus was on central government. In its second term, it turned its attention to local government.

Roger Douglas, the Minister of Finance, in his December 1987 Economic Statement set out five principles for the reform of local government:

- Individual functions should be allocated to local or regional agencies, which represent the appropriate community of interest.
- Operational efficiencies are desirable.
- Any authority should have clear non-conflicting objectives.
- Any trade-offs between objectives should be made in an explicit and transparent manner.
- Clear and strong accountability mechanisms should be encouraged.

These principles were consistent with the public choice approach that underpinned the New Zealand public sector reforms. Of importance for later initiatives in respect of accountability, it reflected a fundamental position consistent with the market orientation of the government's public sector reform approach generally. This held that constraints on the activities of local government should be primarily placed in the hands of their communities, within a statutory framework set by central government, rather than based on central government intervention.

The Local Government Commission was given a mandate that it should "before the close of the first day of July 1989, prepare such final reorganisation schemes as in its opinion, are necessary to improve local government in New Zealand or any part of New Zealand".

In very short order, more than 200 territorial and 600 special-purpose local authorities were reduced to 74 territorial and 13 regional councils.

For those not familiar with the New Zealand situation, a brief comment on the respective roles of territorial local authorities and regional councils may be of value. Territorial local authorities have traditionally been seen as the principal service delivery entities within local government. During the reform process, they picked up a number of additional tasks as the result of the abolition of special-purpose local authorities such as reserve boards and drainage boards.

Regional government is not seen, and does not act, as a second or higher tier of local government. Rather it undertakes a set of roles which are recognised as regional in scope including environmental management (based around catchments) and regional land transport planning.

The 1989 reforms put strong emphasis on separating out service delivery and regulatory roles. Consistent with the stated principle that any authority should have clear non-conflicting objectives, the general approach was that service delivery should be allocated to territorial local authorities and regulatory roles to regional councils (one concern was that if territorial local authorities retained a significant regulatory role, then they would be able to use this to create a bias in favour of any trading activities they owned as against commercial providers). In practice, that purist approach broke down with territorial local authorities retaining their regulatory functions including district planning, building control, and public health (primarily food premises and preparation).

Regional councils were a new creation in the sense that they are independent directly elected bodies. They replaced United councils which had been comprised of representatives appointed from councils within the region. Experience suggested that this was an approach which would essentially result in a lowest common denominator outcome with members appointed from territorial local authorities acting to protect their own councils' parochial interests. From our side of the Tasman, it will be interesting to see whether this approach inhibits the further development of Regional Organisations of Councils in Australia.

# PUBLIC ACCOUNTABILITY AND THE PLACE OF FINANCIAL MANAGEMENT REFORM

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An important objective of the government of the day, as reflected in the principle *clear and strong accountability mechanisms should be encouraged*, was to improve the accountability of local authorities to their communities, a theme which has been a consistent element in the policy of successive governments since 1989. This was seen as requiring action on two separate but interrelated issues:

- Opportunities for public input on council proposals.
- Improved reporting both prospective and retrospective focused on but not limited to financial reporting.

1989 amendments to the Local Government Act introduced three very important changes:

- Financial reporting was shifted from cash to accrual accounting based on generally accepted accounting principles.
- Councils were required to prepare annual plans by significant activity, in detail for the first year and in outline for the succeeding two years. Annual reports were to be based on the annual plan and to report performance in accordance with objectives set in the annual plan.
- Introduction of what became known as the special consultative procedure, requiring councils to put significant proposals (including the annual plan) out for public consultation. The public was to be given at least a month to make submissions and the right to appear before the council in support of their views. Councils themselves were required to consider submissions with an open mind.

Review of the results of those changes highlighted two important gaps in the quality of financial reporting and forecasting. The first was identified by the Controller and Auditor-General in a 1993 report, *The Financial Condition of Regional and Territorial Local Authorities*. New Zealand territorial local authorities have major infrastructure responsibilities including water, waste water, stormwater and roading. In the Auditor-General's view, councils were not adequately identifying either the state of major infrastructure assets or the future expenditure they would require. His report commented:

The reviews indicated that local authorities were able to meet their immediate obligations. However, because the condition of service-providing assets is generally not known, and there is thus a lack of knowledge about what costs are unwittingly being deferred for maintenance and replacement of those assets, the overall financial condition of the authorities cannot be accurately appraised.

He went on to state that:

No assurance can be given that local government's financial condition is secure in the long-term, for two reasons:

- (i) the lack of knowledge of the condition a major asset; and
- (ii) the absence of adequate strategic planning for service requirements in the medium to long-term.

The second concern was that local authority decisions about the activities they should undertake and how the costs of those activities should be allocated (funded) often appeared to lack any consistent rationale - at least in the context of the public choice approach to public sector activity which then dominated government thinking.

These two concerns were addressed in 1996 amendments to the Local Government Act by requiring that local authorities should:

- Annually prepare a document known as the Long Term Financial Strategy (LTFS) which would set out for at least 10 years the activities which the council proposed to undertake, the rationale for those activities, the costs, both capital and operating, and how those activities were to be funded. Although asset management planning was not a formal part of the statutory requirements, it was expected that this would be an essential part of completing an LTFS.
- In considering what activities to undertake, and how they should be funded, go through a process requiring them to set out the rationale, determine who benefits (including issues of public versus private goods, whole of district versus part and intergenerational equity), and select funding instruments (user pays, the general rate, special rate, uniform annual general charge, borrowing) appropriate to each activity. The intention here was that local authorities should apply economic principles based on the nature of the good or service under consideration -- was it a public good, a private good, or a combination of the two and to the extent that it was a public good, were the beneficiaries the entire community or a subset?

Compliance with both requirements fell short of expectations. The Auditor-General had been expecting that councils would prepare their LTFSs using robust information, including best endeavours to ensure that the forecast figures over the 10 year period took into account what the council knew about expected changes in variables such as population growth and economic activity, as well as information about infrastructure assets based on good asset management planning.

In practice, many local authorities simply took the figures prepared for the first three years (the annual plan period) and extrapolated those out for the balance of the 10 years. As an extreme example, one of New Zealand's fastest growing local authorities predicted declining expenditure on investment in infrastructure; something totally inconsistent with its current and forecast growth pattern<sup>1</sup>.

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<sup>1</sup> The extent of the Auditor-General's concerns can be seen in a 2002 report, *Local Government -- Looking Back and Looking Forward*, a report prepared by the then retiring Auditor-General to put on record his perspective on changes in local government administration during his term.



Despite his concerns, the Auditor-General was unable to act on this apparent non-compliance. There was no requirement in the legislation for an audit of the LTFS, and no provision for any sanctions if a council's LTFS was not up to expectations. The lesson drawn from this experience was that, if long-term planning is to deliver real benefits in terms of accountability, there needs to be some means of ensuring that plans meet minimum standards.

Similarly, the attempt to get local authorities to apply economic principles to decision-making on their activities and how they should be funded got at best a patchy response, at least from an economic perspective. Many councils were simply not prepared to accept economic arguments about the private good nature of valued services such as libraries. However, this change did result in councils spelling out why they believed they should be undertaking each activity and their reasons for funding them in the way they proposed. They were also influenced by public input through the special consultative procedure, aware that this did provide a platform for people to highlight concerns with the Council's funding proposals, especially when those impacted on services which had traditionally been "free" to the individual ratepayer or resident.

A more positive development, taking place at the same time, was an initiative from within the local government sector designed to improve the quality of asset management, recognising that this was a necessary response to the financial management reforms being put in place for local government. Ingenium (the Association of local government engineering) took the initiative in promoting the formation of a National Asset Management Steering Group (NAMS)<sup>2</sup>. NAMS had five principal objectives:

- To raise awareness in the community and at elected member level.
- To provide a means for national and international information exchange.
- To improve the asset management skills of practitioners.
- To provide national technical coordination and guidelines.
- To identify research and directions for asset management.

Over the years NAMS has issued a number of guidelines and played a very significant role in establishing principles for and practice of asset management. This has included working with IPWEA on the development of the International Infrastructure Management Manual.

I will return to the question of asset management in the next section of this paper.

One further significant change was put in place in 1996, the requirement that "operating revenues in any financial year shall be set at a level adequate to cover all projected operating expenses." Local authorities were given one exception from this requirement; they

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<sup>2</sup> The full membership was Ingenium, the Society of Local Government Managers, the Local Government New Zealand, the Office of the Auditor-General, the New Zealand Water and Wastes Association, the New Zealand Recreation Association, New Zealand Local Government property managers and the Association of Local Government Information Managers.

were permitted to adjust their equity if they considered it appropriate to do so -- but this required explicit disclosure. An important related factor in the balanced budget requirement was the obligation to fully fund depreciation (an obligation whose introduction was deferred for two years to give councils time to adjust).

The balanced budget requirement appears in a different and more detailed form in the Local Government Act 2002 as:

**Balanced budget requirement**

(1) A local authority must ensure that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses.

(2) Despite subsection (1), a local authority may set projected operating revenues at a different level from that required by that subsection if the local authority resolves that it is financially prudent to do so, having regard to—

(a) the estimated expenses of achieving and maintaining the predicted levels of service provision set out in the long-term council community plan, including the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life; and

(b) the projected revenue available to fund the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life; and

(c) the equitable allocation of responsibility for funding the provision and maintenance of assets and facilities throughout their useful life; and

(d) the funding and financial policies adopted under section 102.

This provision actually provides councils with a significant degree of discretion, especially in readjusting the relative burdens on current and future ratepayers.

Through the mid and late 1990s there was ongoing debate about the role of local government and the extent of the activities it should be able to undertake. Significant elements within the business community, including the New Zealand Business Roundtable, argued strongly that the role of local government should be restricted to local public goods and services. Notwithstanding the force of their advocacy, which was quite influential in public policy during the 1980s and 1990s, successive governments remained committed to the stance implicit in the 1987 economic statement that local government should have a high level of autonomy, but within a framework requiring clear and strong accountability mechanisms.

Consistent with the policy emphasis on promoting autonomy with accountability, the one significant control which central government had exercised over local authority funding, the regulation of borrowing by the Local Authorities Loans Board, was phased out in the mid-1990s. New Zealand local authorities are now free to borrow as they see fit subject to the one restriction that they may only take on commitments in New Zealand currency.

## **THE NEW LOCAL GOVERNMENT ACT - THE INTERPLAY BETWEEN COMMUNITY OUTCOMES, COUNCIL PLANNING AND ACCOUNTABILITY**

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The reforms of the 1980s and 1990s had all been put in place, legislatively, by tinkering with the Local Government Act 1974. In a typical year, this act would be amended two or three times. As a result, it became an increasingly messy piece of legislation both in drafting terms and philosophically. As a piece of drafting, it had become very cumbersome and difficult to follow. Philosophically, it was a mixture of a mid-20th century approach to local government of only that which is specified in legislation is permitted, and a more enabling "powers of general competence" approach.

By 2000, both central government and local government shared a commitment to replacing the 1974 Act with more up-to-date legislation. Local government's primary objective was to achieve a more simplified piece of legislation based on a power of general competence. Central government accepted that objective but had others as well including:

- Improving the accountability of local authorities to their communities. One factor in this was government's awareness that the special consultative procedure introduced in 1989 with the intention of providing a much greater opportunity for public input into local government decision-making had not operated as intended. Basically, the right to submit on local government proposals was seen as coming far too late in the process. A common public reaction was "you have asked us to comment on your answer to your question; we want to be consulted about what the question should be".
- Improving the quality of financial reporting -- in particular dealing with the shortcomings in Council long-term plans referred to above.
- Restating the purpose of local government.

The last point is particularly important. Central government was becoming more and more aware that achieving the major outcomes which were a feature of its policies in areas such as housing, employment, economic development, education, health and welfare could not be done in isolation from the communities in which those outcomes would be delivered. The mere fact that central government might have both the funding and the delivery responsibility did not overcome the fact that, in order to be effective, it needed close working relationships at a local and regional level including the ability to draw on local networks and knowledge.

It was also aware of changes taking place in England, most significantly the introduction in the English Local Government Act 2000 of a power for local authorities to promote community well-being, coupled with an obligation to prepare a community strategy and strong guidance from the Secretary of State for Local Government that this should be done through a local strategic partnership involving central and local government, business and community organisations.

The result was a shift from a series of purpose statements in the 1974 Act which were largely of a traditional representation and local service variety to a new statement of the purpose of local government as:

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

This new statement of purpose has underpinned significant changes in accountability. The rules for the special consultative procedure have been extensively rewritten in an attempt to address perceived shortcomings. Councils, in making decisions, are now subject to rules requiring them to give consideration to the views and preferences of persons likely to be affected by those decisions at each of four stages in the decision-making process (but with discretion for the Council to decide in individual cases the extent to which it should do so).

Most importantly, councils are now required each six years to go through a process of identifying community outcomes for the intermediate and long-term future of their district or region. The process is clearly intended to put the Council in a facilitative role, with requirements to engage with a wide range of key stakeholders and facilitate a community discussion.

The community outcomes, in turn, underpin what is now the key planning document for New Zealand local authorities; the Long Term Council Community Plan (LTCCP) which replaces the previous LTFs. This is to be prepared once every three years, but with a provision enabling local authorities to make amendments between LTCCPs subject to public consultation and compliance with the audit process discussed below.

Much of the statutory provisions regarding LTCCPs concern how they incorporate community outcomes and what councils propose to do about seeking the involvement of other parties who can contribute to their achievement (the appendix to this paper sets out extracts from Schedule 10 of the Local Government Act 2002 specifying what must be included in the LTCCP). In this area the Council still has quite significant discretion (although the LTCCP itself must be adopted through the special consultative procedure).

From an accountability perspective, there are two very important requirements. The first is that certain decisions may only be taken if they were provided for in the LTCCP. This includes decisions to alter significantly the intended level of service provision for any significant activity, a decision to transfer the ownership or control of a strategic asset, and a decision that will directly or indirectly significantly affect the capacity of a local authority or the cost to it in relation to an activity identified in the LTCCP. The purpose of this is to ensure that local authorities cannot significantly diverge from their declared activity and expenditure plans without first going through public consultation in an LTCCP framework. This is a significant constraint on entering into commitments without first obtaining public support, especially as the 10 year time frame of the LTCCPs means that it is binding on future councils unless they formally amend it following the processes set out in the legislation. These allow a Council to amend an LTCCP at any time, but an amendment must be adopted through the special consultative procedure and may also be subject to audit office review. This is expected to act as a significant disincentive to the use of the

amendment process. The second requirement is that the LTCCP must contain a report from the local authority's auditor (in practice the Auditor-General) on the extent to which the local authority has complied with the Act in respect of preparing the LTCCP, the quality of the information and assumptions underlying the forecast information provided in the plan, and the extent to which the forecast information and performance measures provide an appropriate framework for the meaningful assessment of the actual levels of service provision. The effect is to place the Auditor-General in a very powerful position in relation to the future planning activities of local authorities. His role is not one of commenting on the policies adopted by the council but it is one of ensuring that the information provided to its public by the council is robust, consistent, and based on the best available information.

It will set a new context for asset management planning in particular. The Auditor-General will be looking to see that the service level standards adopted in the LTCCP are consistent with community outcomes and that the provisions in the LTCCP for investment in and maintenance of assets will support the stated service level standards, including whatever may be required to deal with expected demographic and other changes.

Very detailed guidance has been issued by the Auditor-General. The compliance requirements are increasingly seen by local government as extremely onerous (more information on what is required can be had from the Auditor-General's web site, [www.oag.govt.nz](http://www.oag.govt.nz) in the section named 10-year council plans (LTCCPs)). In part, this is a consequence of the fact that councils are undertaking this compliance activity for the first time. To the extent that councils are developing templates that will be available for future LTCCPs, this burden may be more akin to an investment in long-term planning activity rather than a repetitive cost.

Of perhaps more concern is the performance of councils in identifying community outcomes. The legislation is quite clear that this is to be a facilitated process and that the outcomes are the community's outcomes not the council's outcomes. Despite this, many councils have run the community outcomes process as though it were a conventional council consultation. One factor in this is the relative absence, for New Zealand local government, of the type of guidance which the United Kingdom government has provided to its local authorities on the equivalent process there.

The Local Government Act 2002 recognised that adjusting to the new community outcomes/LTCCP process would require a significant lead time. Accordingly, the Act provided for what was described as a transitional LTCCP which councils could prepare to come into effect from either 1 July 2004 or 1 July 2005. The purpose of this was to give councils an opportunity of becoming familiar with the process before they were required to develop a fully compliant LTCCP subject to audit.

Those fully compliant LTCCPs are currently being prepared and going out for public consultation with the intention that they will come into effect from 1 July 2006. The audit requirement is having a number of impacts the most significant of which appear to be:

- "Flushing out" a number of expenditure obligations which had not previously been identified in council long-term plans, either because councils for one reason or another had not seen fit to include them, or because they are only now required to ensure that long-term expenditure and investment projections are consistent with

information on matters such as the current state of infrastructure, and expected demographic and economic changes within the council's district.

- Preparing prospective financial information in inflation adjusted dollars (there has been some difference of view between individual councils and the Auditor-General on whether this is actually required. The Auditor-General has insisted that councils do report prospective financial information on this basis.)

For many councils "flushing out" all of their expenditure obligations has resulted in an increase in the expected real level of expenditure, sometimes substantial, over that previously reported. The impact on the ratepayer public is expected to be compounded by the requirement to report in inflation adjusted dollars. As an example one council is already embroiled in controversy as the result of a newspaper report (based on a leak from a dissenting councillor) that its rates will increase by 100% over the next 10 years. In real terms the increase is nearer 60% -- 70%. Still substantial but nothing like as alarming, especially as the impact will be spread over a rapidly growing district and hence an increased number of ratepayers.

Some 17 years have passed since central government first turned the spotlight on local government accountability. Over that period, local government accountability has shifted from being virtually nonexistent, to being a very highly developed and integrated system designed to ensure that local authorities, and their communities, have the information they need to have a very clear understanding of the current and future financial position of the authority, and how that relates to the services the council proposes that the community should receive.

The underlying principle, which successive governments have followed, is that the appropriate discipline on local authority performance should be community accountability, rather than central government intervention, but that the role of central government is to ensure that accountability is clear and comprehensive.

## **RATING**

Changes to rating legislation further reinforced the autonomy of councils (the Rating Powers Act 1988 was replaced by a new Local Government (Rating) Act 2002). They have retained all the rating tools which they had previously and have been given a new and potentially very powerful one, the targeted rate. This allows a council to establish a rate either ad valorem or as a fixed amount in respect of any property or properties defined in terms of a wide range of characteristics for the purpose of funding services to that property or those properties.

The targeted rate provisions have already enabled some quite imaginative partnerships between councils and groups of ratepayers. As one example, an Auckland council has used the provisions to assist ratepayers within an industrial estate to better manage security concerns. The estate is covered by an incorporated body representative of ratepayers within the estate. Its funding comes from a targeted rate which was put in place by the Council after a poll of ratepayers within the estate supported its introduction. The association contracts with a single security company to cover the entire estate, has introduced CCTV, and is developing a 'Crime Prevention through Environment Design' project. One immediate outcome is that reported burglaries have dropped from 117 in 2004 to 38 in 2005 with a five minute response time compared to a 20 minute industry norm.

The scope for the use of this tool to support collective arrangements which might otherwise be difficult to put in place because of "free rider" and "transaction cost" problems is clearly very extensive.

The practical reality for New Zealand councils is that they now have the legal powers to tailor-make almost whatever rating system they wish with only limited statutory constraints (such as a restriction on the percentage of revenue which may be raised through a uniform annual general charge). Accountability to the community, rather than government intervention, is seen as the appropriate means of protecting the ratepayer.

The new legislation also changed the powers which councils have to postpone payment of rates. Previously this could only be done for residential ratepayers on proof of hardship. Not surprisingly, very few people ever applied (this is consistent with research evidence on this type of policy that people are very reluctant to put themselves forward as unable to cope, especially if for most of their lives they have been able to manage their affairs effectively -- a particular issue for older people).

New Zealand local authorities now have the statutory power to adopt what ever postponement policy they wish, so long as they do so through their LTCCP -- in other words in consultation with the community. The New Zealand legislation is broadly similar in intent to section 182 A, Postponement of Rates - Seniors, of the South Australian Local Government Act 1999 although less prescriptive in its wording. The context is also similar. As has been the case in South Australia, a number of New Zealand councils have found that the regular revaluation of properties for rating purposes leads to some highly variable outcomes, largely because of the worldwide phenomenon of demand for coastal and other premium property.

Five territorial local authorities adopted rates postponement policies with effect from 1 July 2004 under which older people have the right, subject to meeting the costs involved, to postpone payment of their rates until death or sale of their property. Another 8-10 territorial local authorities are expected to do so with effect from 1 July 2006.

An important point with the New Zealand rates postponement arrangements, which appears also to be the case with the South Australian provisions, is that rates postponement should neither expose other ratepayers to any risk of loss nor result in any net cost.

The response of local authorities to this new provision has been highly variable. Some have taken the view, especially that they now have a statutory obligation to promote community well-being, that providing the opportunity for rates postponement is simply one of those things that local authorities should now do as a matter of course. Others have reacted almost as though this is the end of the world as they know it. It has been hard to escape the impression that some councils - and especially some council finance managers - almost operate on the principle that they should do whatever they can to ensure that the pain of rates increases is maximised.

In a way this is understandable. If your view of the role of a local authority is that it is primarily a service provider funded by recovering costs from service users, and if you see a relatively strong parallel between that role and (say) the business of a conventional commercial operator, then it is probably only natural to expect that you should receive

payment as the service is delivered. If, however, you take what appears to be increasingly the current view of the role of local government as in the business of enabling citizens to achieve their objectives as effectively as possible, then rates postponement is simply one natural and obvious response to the needs of a particular group of ratepayers.



## **NEXT STEPS - LOCAL AUTHORITY FUNDING ISSUES**

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Much of the business of New Zealand local government over the next few years will be making the recent reforms work effectively. This will include refining what it means to have as your principal purpose promoting community well-being, working more effectively with the community outcomes process and the partnership approach which that implies in working with other key influencers in the community including central government, business and the voluntary and community sector. Ideally it should enable community-based strategic planning.

It will also include refining financial management including the linkages between the different policy and work streams within the typical council -- linking finance to policy, strategy and service delivery.

Improving performance in asset management is likely to play a central role. In a recent assessment of the performance of New Zealand local authorities, NAMS concluded that New Zealand local authorities could be placed in three separate categories:

- Advanced -- about 10 to 15% of all councils where the organisation as a whole has adopted asset management as the key business process through which the organisation has operated. Asset management plans reflect the strategy of the organisation and drive operations.
- Improving -- about 70% of all councils. Management and council have accepted asset management planning as intrinsic to the organisation, but are still liable to make decisions conflict with the asset management strategy and perhaps limit resources. Asset management is not yet part of the corporate culture.
- Compliance driven -- about 10 to 15% of all councils. Management and council are frankly sceptical of the asset management process, asset management plans are quite dated and only used when auditors visit. The plans have little or no linkage to strategy or operations.

It is hardly surprising that asset management should be the major focus for further improvement in local government performance. Typically, councils are asset driven organisations. Both their annual operating performance, and their long-term viability, are critically dependent on the quality of their asset management. Unless the full costs of each years current consumption are properly taken into account, then a council's statement of financial performance risks becoming a work of fiction rather than a robust statement of accountability. Equally, its statement of financial position will be unreliable unless it fully reflects an accurate assessment of the current value of its assets and any contingent liabilities associated with those.

The other major focus, reflecting experience virtually worldwide, is on local government funding. As is the case elsewhere, rates are not a popular tax. One reason is undoubtedly the fact that there is often only a limited correlation with the taxpayer's income (a particular

issue for retired people living in what may be a relatively valuable property). Another is that payment is highly visible -- in contrast to income-tax on wages and salaries which disappears in an almost invisible way.

In New Zealand pressure has been mounting on local authorities for a number of reasons including:

- The impact on local government expenditure of the requirement to fund depreciation.
- Rising environmental standards requiring significant additional investment in areas such as water and wastewater.
- In many districts, the sheer demands of growth and rising public expectations of the range of services which local government should provide.

A particular complaint of local government, which reflects experience in Australia, is the extent to which central government "free loads" on the ratepayer. This may be through the so-called "unfunded mandate" of central government allocating new policy and/or delivery responsibilities to local government without equivalent funding. It may be the extent to which government owned property is wholly or partly exempt from rates, coupled with inadequate grants in lieu.

In contrast with Australia, New Zealand local government receives no general purpose funding from central government. The one principal area where government funding is an important part of local government revenue is roading, the underlying rationale for this is that it is central government which collect the main sources of revenue applied to funding both new construction and maintenance (excise tax and road user charges).

Recently, there have been two initiatives which have involved increased government funding for local government activity. The first has been an allocation of additional government funding for new roading, primarily to address major congestion issues in areas such as Auckland, the Bay of Plenty and Wellington. The second has been a recognition that meeting increased environmental and public health standards in water and sewerage will be beyond the means of a number of smaller and less well off communities.

This has been compounded by the increased emphasis on a user pays approach within local government. Formal user pays, for example in the sense of water by meter, is still a minority approach. However, most local authorities in considering the cost of water and sewerage infrastructure, now take the view that the cost should be carried by the community or communities which the infrastructure serves. To put it another way, New Zealand local authorities are now much less likely than used to be the case to cross subsidise services for one part of their district with rates revenue raised in another part.

Central government has accepted that this is an appropriate approach. It has also recognised that one consequence, even in districts which overall may have a strong rating capability, can be that part of the district will be unable to afford new or upgraded infrastructure even where there may be a pressing public health need.

In response to this, the government has put in place a series of subsidy schemes targeted towards small disadvantaged communities (which may be within the district of a territorial

local authority which is generally relatively well off) to assist with the cost of new or upgraded sewerage schemes and water supply.

As well as these one-off initiatives, the question of local government funding is currently under review by a joint central government/local government working party whose interim report was published in July 2005 (it is available on the Local Government New Zealand web site at <http://library.lgnz.co.nz/cgi-bin/koha/opac-detail.pl?bib=3424>). Despite the fact that the average household rate in New Zealand is somewhat more than double what appears to be the average in Australia -- around \$1500 per annum but with significant variation -- that working party has concluded:

Analysis of the data shows a wide variability in the local government sector which is a result of their individual circumstances, history of investment in infrastructure, and management. It is therefore challenging to draw conclusions that apply across the whole sector.

There are a number of fiscal constraints or pressures on local government. It appears that most local authorities are managing these pressures successfully and providing appropriate services and facilities for their communities. Their transitional LTCCPs and financial projections indicate that this is sustainable over the foreseeable future.

There appears to be a small proportion of local authorities where increasing pressures will be difficult to accommodate using existing funding tools. For some this is evident from their published information (i.e. transitional LTCCPs), and for others this expenditure is yet to be included in LTCCPs. We consider that fewer than 10 percent of local authorities fit into the first category. The percentage in the second category will be affected by the amount of expenditure not included, potential for discussion of expenditure priorities with the community, and ability to manage it using existing tools.

This conclusion is consistent with a general impression that, despite current pressures, New Zealand local government is financially viable. The few exceptions to this are primarily small local authorities with very limited ratepayer bases.

The one issue which looks as though it will receive considerable attention in the review's final report is the question of government funding to compensate both for the "unfunded mandate" and for inadequate grants in lieu. The extent to which this will actually be addressed is not yet clear.

As with South Australian local government, New Zealand local government carries relatively little debt. The working party assessment is:

In the 2004/5 financial year local authorities owed \$3.003 billion in public debt. This needs to be viewed as part of the overall financial picture of local government. In the same year local authorities owned some \$62 billion of assets, for a net worth of \$59 billion. Put another way local authorities own \$20 in assets for every dollar of term debt. This compares favourably with the financial position of central government

which on 30 June 2004 had \$110.6 billion in assets, \$75 billion in liabilities (or \$1.47 in assets for every dollar of debt).

Between now and 2012/13 local government debt is expected to increase by 60 percent and will stand at \$4.8 billion. Regional council debt is expected to double and will stand at around \$355 million.

The working party did not record the level of non-core financial assets held by local government but it is generally accepted these exceed public debt -- in other words local government at a sector level rather than having net debt has a positive net financial balance.

This is an issue which is likely to come under close scrutiny as councils debate with their communities the expenditure and rating levels signalled in their about to be released LTCCPs. What is clear is that the typical council has been overcharging current ratepayers to the benefit of future ratepayers. Whether current ratepayers will be prepared to continue accepting this is debatable. Historically it has had quite strong support because of a general aversion to public-sector debt but as ratepayers come to understand the trade-offs better, this may be a less significant factor.

## **SOUTH AUSTRALIA AND NEW ZEALAND COMPARED**

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In this final section I want to compare and contrast three areas where New Zealand experience may provide some useful input for the future direction of South Australian local government. I start by noting an important caveat; local government is uniquely a product of its own context, both legislative, historical and cultural. Reasoning from experience in one jurisdiction to draw conclusions about what should be done in another has advantages but must recognise the role of context. With that caution, the three areas I want to consider are:

- Accountability -- to whom?
- Local government audit.
- Rating

### **ACCOUNTABILITY -- TO WHOM?**

Considering the reality of local government as local democracy, probably the most crucial question is to whom local government is accountable and how. A generation ago the answer was simple. Local government was accountable to the electors.

Today we answer that question differently. We know from experience that the wide range of responsibilities local government undertakes means that most people, most of the time, will approve of what the council is doing in some areas, be indifferent in others and disapprove of some activity. With that range of responses from the typical elector, simple electoral accountability is a very blunt weapon.

Instead, we now put greater emphasis on citizen engagement with the local authority through consultation and other means of involvement -- not usurping the council's governing responsibility but rather ensuring that it is better informed. Recall the public reaction to New Zealand's special consultative procedure referred to above "you have asked us to comment on your answer to your question; we want to be consulted about what the question should be".

It is this concern which lies behind the New Zealand emphasis on accountability and on ensuring that local authorities operate within a framework which requires them to provide their communities with accurate information on their financial and non-financial affairs. It is also this concern which has seen the introduction of the community outcomes process as the statutory starting point for local authority planning in New Zealand.

What lies behind this is a belief that effective accountability is not simply after the event. To be truly effective, accountability requires citizen involvement in the process of direction setting.

In this respect, the New Zealand and South Australian statutes provide an interesting contrast. As can be seen from schedule 10 of our Local Government Act (see the appendix)

it is the community outcomes process which drives the LTCCP. Central government and its agencies come into this process through the provisions governing how community outcomes are to be identified. The requirement on the local authority, in facilitating the identification of community outcomes, is to identify, so far as practicable, other organisations and groups capable of influencing either the identification or the promotion of community outcomes and to secure their agreement to the process. The input from government (government agencies) is subsumed within the category "other organisations and groups".

Section 122 of the South Australian Local Government Act, dealing with strategic management plans, requires the council to identify its objectives for the area over a period of at least four years and provide a clear indication of:

- (i) the extent to which the council has participated with other councils, and with State and national governments, in setting public policy objectives, and the extent to which the council's objectives are related to regional, State and national objectives; and
- (ii) the extent to which the council has given consideration to regional, State and national objectives and strategies which are relevant to the economic, social, physical and environmental development and management of its area; and
- (iii) the extent to which the council intends to co-ordinate with State and national governments in the planning and delivery of services in which there is a common interest;

My assumption is that this set of requirements is based on a state government concern that local government service delivery should be coordinated with the activities of other public sector providers -- in itself a reasonable requirement. However, notwithstanding the relatively hands off approach which your state government takes to local government, this set of provisions suggests that effective accountability may still be to the state rather than to the community.

The issue is more than just academic. There is a growing emphasis internationally, which can be seen through the work of organisations such as the OECD and others working on regional policy, on the importance of the regional level in economic and social development and as part of that, the role of local government in facilitating effective engagement amongst key players at a regional and local level including the business community, the voluntary and community sector and other significant influencers.

## **LOCAL GOVERNMENT AUDITING**

Another contrast between our two jurisdictions is the New Zealand requirement that the Auditor-General be the auditor of local authorities whilst in South Australia councils are free to choose their own auditor subject only to the requirement that the auditor must be a registered company auditor or, if a firm is appointed, at least one member of it meets that requirement.

In New Zealand the actual audit itself may be undertaken either by Audit New Zealand (the trading arm of the audit office) or by an accountant in private practice. Regardless of who undertakes the actual audit, the audit requirements and standards are set by the Auditor-General and it is the Auditor-General who carries final responsibility for the audit.

The desirability of this arrangement was last reviewed in the early 1990s. It provided an opportunity for local government to express its concerns. At the end of the day, both Local Government New Zealand representing elected members, and the Society of Local Government Managers, representing executive management, supported the continuation of the Auditor-General role.

One important factor was the question of who should appoint the auditor. In the commercial sector, auditors are appointed by shareholder resolution so that there is a measure of independence from the people subject to audit (the board and management) even although that independence may not, in practice, be complete.

In local government there is no equivalent to the board and management/shareholder separation. The suggestion of appointment of an auditor by ratepayer vote was considered but rejected as impracticable. The possibility of the Minister of Local Government appointing auditors was also rejected. It begged the question of who should make the recommendation to the Minister and how the Minister would make a judgment on the suitability of the proposed appointees.

The statutory requirement that the Auditor-General be the auditor of local government is seen as having a number of advantages including

**Consistency.** Local authority accounts are audited to common standards and with a common interpretation of accounting standards.

**Public sector awareness.** The Auditor-General is very familiar with the nature of the public sector and the difference between public and private sector organisations and is able to carry this through into the instructions and training given the people who undertake local government audits.

**Standards development.** The Auditor-General has a vested interest, which few private auditors would, in the continuing development of professional standards and best practice. As an example, the Auditor-General has been a key player in the development of asset management practice within New Zealand.

**Leadership.** The Auditor-General also contributes significantly to leadership within the local government financial management profession, for example, by supporting the cultural change to ensure that the shift from cash to accrual accounting was adopted not just in form but in substance, and not just in external reporting but internally.

**Confidence.** The fact that the audit certificate is signed on behalf of the Auditor-General provides a significant measure of confidence both to the general public and to people dealing with the local authority. It is, for example, a useful defence against challenges to the financial integrity of a council. Perhaps more importantly, it also provides confidence to lenders that they can rely on a local authority's balance sheet and financial forecasts. In the current climate, this may seem a relatively unimportant benefit as local authorities in South Australia appear to have no difficulty, through the agency of the Local Government Finance Authority, in borrowing on favourable terms. This may not always be the case. The need to rebuild infrastructure, and the possibility that the current flood of savings available internationally may dry up as countries like China shift to consumption driven growth, may

both make competition for borrowing more intense thus emphasising the need to put on the best possible appearance.

There is another role which the New Zealand Auditor-General performs which can be of very real value for local government. One of his roles under the Public Audit Act is to inquire, either of his own initiative or on request, into any matter concerning the use of its resources by a public entity. This can be an extremely valuable tool for local government. An example will illustrate its use. Some 18 months ago a local authority went through the process of changing its rating base from land value to capital value. The matter was extremely controversial locally and there were strong vested interests on either side of the debate. Some councillors on the minority side were strongly and publicly critical of the ethics and process applied by council management and majority councillors.

The chief executive invited the Auditor-General to undertake an inquiry into the process which the council had followed. The resultant clean bill of health put the matter to rest.

A final comment. New Zealand has been fortunate that successive Auditor-Generals, and their key staff involved with the sector, have had a very good understanding of local government and good working relationships with sector organisations. If South Australian local government audit arrangements were to change so that the Auditor-General became the auditor, the change management process should be designed to ensure an equivalent level of understanding and working relationships.

## **RATING**

New Zealand and South Australia have broadly similar statutory provisions for local government rating. Each jurisdiction offers councils a choice of rating base with capital value, land value and annual value all available (subject to the procedural requirements of each jurisdiction's legislation). Each makes provision for differential rating, for fixed charges and for what in New Zealand we refer to as targeted rates and South Australia describes as separate rates -- rates which can be used to fund the provision of a specific service to a specific group of properties.

However, attitudes toward rating as a funding mechanism differ significantly. My impression from what I have read and heard of the South Australian situation (and for that matter of local body rating generally within Australia) is that it appears to be taken as a given that local government has more or less reached a ceiling beyond which further rate increases are not possible. That is a marked contrast with New Zealand where local body rates are generally around twice the Australian level and most councils are contemplating quite significant further increases.

It is tempting to wonder the extent to which the difference between New Zealand and Australia is a function of different views about the role of government in funding local government. In Australia there is clearly a strongly held view within local government that the Federal government is failing to meet its obligations in respect of Horizontal Fiscal Equalisation and that the appropriate solution to the problem of local government funding is an increase in Commonwealth Financial Assistance Grants. Presumably, so long as local government promotes this view it is difficult also to argue that the funding problem should be addressed by a quantum shift in the level of rates.



The nature of the legislation under which each of our local government sectors function raises one very interesting possibility which, as far as I am aware, has not yet been canvassed in either jurisdiction. In the United States for many years there has been an ongoing debate between advocates of small units of local government as a means of providing choice over the bundle of taxes and services which ratepayers might prefer (the so-called "public choice" school) and advocates of larger local government units who focus on the role of local government in the provision of services such as social and economic development which require larger units of local government in order to be effective (the so-called "consolidationist" school). The essential argument of the "public choice" school is that people have genuinely different preferences about the mix of taxes and services they prefer and that the only way of accommodating this is to allow people choice between a range of municipalities in the area in which they wish to locate (it is a common feature of American local government legislation to provide the right to incorporate new municipalities -- typically these will be relatively small and will outsource most of their service provision for reasons of economies of scale).

The same "small is better" argument has surfaced in Australia most notably in the work of the Balmain Secession Movement.

Traditionally, local government has thought of rating powers as being primarily a means of funding "whole of Council" services. Even where specific user fees are put in place, this is commonly for services which it is expected that all of the community will access in one way or another. The nature of the rating powers which our respective local government sectors now have provides the alternative possibility of developing service packages designed to meet the preferences of sub-sets of ratepayers who wish to have a different mix from the council wide norm. It will be interesting to see the extent to which local government explores this potential. My personal view is that we can expect to see initiatives in this area relatively soon, especially for groups of ratepayers, such as the elderly, who have quite different and significant needs associated with what in New Zealand we refer to as "ageing in place".

## CONCLUDING COMMENTS

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In this presentation I have sought to give a reasonably wide ranging coverage of what has been happening with financial management and related changes in New Zealand local government.

There is one main point on which I wish to conclude. This is to emphasise again the central importance in the New Zealand reforms of accountability to the community.

It has been a clear and consistent theme of recent New Zealand reforms that local government owes its primary accountability to the community and that achieving this requires timely, robust and well grounded information both retrospective and prospective. Indeed, the New Zealand reforms have placed at least as much emphasis on prospective information as they have on reporting the past. The reason is the relatively simple one that citizens and ratepayers will only be able to engage effectively with their councils if they understand what needs and opportunities lie ahead, and the options available for addressing them.

In this respect, New Zealand appears to be some distance ahead of South Australia. The numerous recommendations from your independent inquiry into the financial sustainability of local government make it very clear that your communities do not yet have the quality of information needed for effective accountability. In turn, based on the New Zealand experience, does this suggest that South Australian local government cannot yet expect to be treated as an autonomous and independent level of governance?

Consistent with the note of caution with which I started this presentation, I am not suggesting that South Australia should simply adopt the New Zealand approach. Rather I am suggesting that, in building on the findings of your recent inquiry, you put effective accountability at the centre of the changes you will need to put in place with the assistance of your state government to the extent that legislation is required.

# APPENDIX

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## SCHEDULE 10

### Council plans and reports

#### Part 1

Information to be included in long-term council community plans

#### **1 Community outcomes**

A long-term council community plan must, to the extent determined appropriate by the local authority,—

- (a) describe the community outcomes for the local authority's district or region:
- (b) describe how the community outcomes have been identified:
- (c) describe how the local authority will contribute to furthering community outcomes:
- (d) describe how the community outcomes relate to other key strategic planning documents or processes:
- (e) outline how the local authority will, to further community outcomes, work with—
  - (i) other local organisations and regional organisations; and
  - (ii) Maori, central government, and non-government organisations; and
  - (iii) the private sector:
- (f) state what measures will be used to assess progress towards the achievement of community outcomes:
- (g) state how the local authority will monitor and, not less than once in every 3 years, report on the community's progress towards achieving community outcomes.

#### **2 Group of activities**

(1) A long-term council community plan must, in relation to each group of activities of the local authority,—

- (a) identify the activities within the group of activities:
- (b) identify the rationale for delivery of the group of activities (including the community outcomes to which the group of activities primarily contributes):
- (c) outline any significant negative effects that any activity within the group of activities may have on the social, economic, environmental, or cultural well-being of the local community:
- (d) identify the assets or groups of assets required by the group of activities and identify, in relation to those assets or groups of assets,—
  - (i) how the local authority will assess and manage the asset management implications of changes to—
    - (A) demand for, or consumption of, relevant services; and
    - (B) service provision levels and standards:

(ii) what additional asset capacity is estimated to be required in respect of changes to each of the matters described in subparagraph (i):

(iii) how the provision of additional asset capacity will be undertaken:

(iv) the estimated costs of the provision of additional asset capacity identified under subparagraph (ii), and the division of those costs between each of the matters in respect of which additional capacity is required:

(v) how the costs of the provision of additional asset capacity will be met:

(vi) how the maintenance, renewal, and replacement of assets will be undertaken:

(vii) how the costs of the maintenance, renewal, and replacement of assets will be met:

(e) include the information specified in subclause (2)—

(i) in detail in relation to each of the first 3 financial years covered by the plan; and

(ii) in outline in relation to each of the subsequent financial years covered by the plan.

(2) The information referred to in subclause (1)(e) is—

(a) 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:

(b) the estimated expenses of achieving and maintaining the identified levels of service provision, including the estimated expenses associated with maintaining the service capacity and integrity of assets:

(c) a statement of how the expenses are to be met:

(d) a statement of the estimated revenue levels, the other sources of funds, and the rationale for their selection in terms of section 101(3).

### **3 Summaries of assessments of water and sanitary services and waste management plans**

(1) The long-term council community plan of a territorial authority must contain—

(a) a summary of the last assessment which was made under section 125 by the local authority and which assessed the provision within its district of water services and sanitary services; and

(b) a summary of the waste management plan in force under section 539 of the Local Government Act 1974.

(2) Subclause (1) does not apply in respect of an assessment of water services and sanitary services or a waste management plan if the assessment or waste management plan is included in the long-term council community plan.

(3) The long-term council community plan of a territorial authority must identify and explain any significant variation between the content of any assessment or waste management plan referred to in subclause (1), and any relevant information included under clause 2.

### **4 Council-controlled organisations**

A long-term council community plan must, in relation to each council-controlled organization in which the local authority is a shareholder,—

(a) name the council-controlled organisation and any subsidiary of the council-controlled organisation; and

(b) identify—

(i) the local authority's significant policies and objectives in regard to ownership and control of the organisation; and

(ii) the nature and scope of the activities to be provided by the council-controlled organisation; and

(iii) the key performance targets and other measures by which performance may be judged.

### **5 Development of Maori capacity to contribute to decision-making processes**

A long-term council community plan must set out any steps that the local authority intends to take, having considered ways in which it might foster the development of Maori capacity to contribute to the decision-making processes of the local authority, over the period covered by that plan.

### **6 Funding and financial policies**

A long-term council community plan must include the funding and financial policies of the local authority adopted under section 102.

### **7 Determining significance**

A long-term council community plan must contain a summary of the local authority's policy on determining significance under the Act.

### **8 Forecast financial statements**

(1) A long-term council community plan must include, for each of the financial years covered by the plan, forecast financial statements for the local authority.

(2) A long-term council community plan may 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.

### **9 Statement concerning balancing of budget**

If the local authority has resolved, under section 100(2), not to balance its operating budget in any year covered by the long term council community plan, the plan must include—

(a) a statement of the reasons for the resolution and any other matters taken into account; and

(b) a statement of the implications of the decision.

### **10 Funding impact statement**

(1) A long-term council community plan must include a funding impact statement that includes,—

(a) in relation to each year covered by the plan, information that discloses the revenue and financing mechanisms to be used by the local authority; and

(b) in relation to each year covered by the plan, an indication of the level or amount of funds to be produced by each mechanism; and

- (c) if the mechanisms include a general rate,—
    - (i) particulars of the valuation system on which the general rate is to be assessed; and
    - (ii) a statement as to whether a uniform annual general charge is to be included; and
    - (iii) if a uniform annual general charge is to be included, a statement as to how that uniform annual general charge will be calculated; and
    - (iv) a statement as to whether the general rate is to be set differentially, and, if so,—
      - (A) the categories of rateable land, within the meaning of section 14 of the Local Government (Rating) Act 2002, to be used; and
      - (B) the objectives of the differential rate, in terms of the total revenue sought from each category of rateable land or of the relationship between the rates set on rateable land in each category; and
  - (d) if the mechanisms include a targeted rate,—
    - (i) the activities or groups of activities for which the targeted rate is to be set; and
    - (ii) particulars of the category, or categories, of rateable land, within the meaning of section 17 of the Local Government (Rating) Act 2002, to be used; and
    - (iii) for each such category, a statement as to how liability for the targeted rate is to be calculated; and
    - (iv) if the targeted rate is set differentially, a statement of the total revenue sought from each category of rateable land or of the relationship between the rates set on rateable land in each category; and
  - (e) for each mechanism, a statement of its relationship to the sources of funding described in clause 2(2)(d).
- (2) If the same mechanism is to be used in more than one of the years covered by the long-term council community plan, it is sufficient compliance with paragraphs (c) to (e) of subclause (1), in respect of that mechanism, if—
- (a) those paragraphs are complied with in respect of one of those years; and
  - (b) the funding impact statement specifies the other years in respect of which that mechanism is to be used.

### **11 Significant forecasting assumptions**

A long-term council community plan must clearly identify—

- (a) all the significant forecasting assumptions and risks underlying the financial estimates:
- (b) without limiting the generality of paragraph (a), the following assumptions on which the financial estimates are based:
  - (i) the assumptions of the local authority concerning the useful life of significant assets; and
  - (ii) the assumptions of the local authority concerning sources of funds for the future replacement of significant assets:

(c) in any case where significant forecasting assumptions involve a high level of uncertainty,  
—

(i) the fact of that uncertainty; and

(ii) an estimate of the potential effects of that uncertainty on the financial estimates provided.