Why was this report commissioned?

In August 2018, the Government announced it would ask the Productivity Commission to undertake an inquiry into local government costs and revenues. The Commission will report back to Government with its findings in November 2019.

The Department of Internal Affairs is the Government’s lead advisor on local government policy and will be offering advice to Government on its response to the inquiry. The Department commissioned Robertson & MorrisonLow to examine the adequacy and operation of the local government financial management system, as provided through legislation, regulations and expected by good practice. The review examined how these rules, regulations and practices enable, constrain and encourage good financial management within the sector, both now and into the future.

This allows the Department to start preparing its thinking on the issues facing the sector and the appropriate response from the Government.

What is the relationship between this report and the Productivity Commission’s work?

There is no relationship between the Productivity’s Commission’s Inquiry and this report other than they can be expected to canvass similar issues. The Productivity Commission is an independent Crown entity that provides advice to the Government on improving productivity. When it delivers its report, the Department will provide its own advice to Government on an appropriate response.

What are the main findings of the report?

Local authorities are wrestling with a range of significant challenges that are driving rates increases, including:

- changing populations and demographics
- tourism
- climate change
- seismic strengthening
- roads in rural areas.

The report found that there is nothing in the framework that prevents councils from responding to these significant issues, however:

- There is scope to improve the purpose and content of Long Term Plans.
- There is a need to consider the role of audit.
- The balanced budget and prudence provisions have driven some positive changes within the sector.
- There are calls for some level of standardisation and recognition of the size and scale of councils within the current framework.
- The current suite of mandatory reporting benchmarks is not fit for purpose.

**What are the implications of these findings?**

The report outlines key issues that should be addressed to enhance the framework, and identifies areas for further consideration and investigation by the Department.

**What happens next?**

The Department has shared a copy of its report with the Productivity Commission. The Department will continue to gather its own evidence and talk with the local government sector and a range of stakeholders to understand the challenges and opportunities around the local government financial management system. This will position the Government to offer an informed and constructive response to the Productivity Commission’s report when it is published towards the end of 2019.

If you would like to discuss the report further, please email Michael.Lovett@dia.govt.nz.