



Discussion paper

Local
government:
Improving the
usefulness of
annual reports

Office of the Auditor-General
PO Box 3928, Wellington 6140

Telephone: (04) 917 1500
Facsimile: (04) 917 1549

Email: reports@oag.govt.nz
Website: www.oag.govt.nz

Local government: Improving the usefulness of annual reports

Presented to the House of
Representatives under section 21
of the Public Audit Act 2001

September 2011

ISBN 978-0-478-38318-8 (print)
ISBN 978-0-478-38319-5 (online)

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Auditor-General's overview

In 2010/11, local authorities received \$14.5 billion in revenue to finance the services they deliver to their communities. By law, local authorities are required to report on how well they are performing in delivering those services. Recent changes to the law have made local authorities' responsibilities for useful reporting more explicit.

This discussion paper sets out the legal requirements, provides examples of improved reporting, and aims to encourage ongoing improvements in local authorities' performance reporting. Our expectation is that sharing our information and recommendations will help all public entities, but especially those in the local government sector, to improve their performance reporting. This should help local authorities with their decision-making and management. We also hope that the public will be more informed about what to expect from their local authorities.

Useful performance reporting is always desirable, but it is even more critical in our current economic environment. The local government sector is operating under significant financial constraints. Affordability in a recessionary environment continues to be a major consideration for local authorities in deciding what services to deliver, how to deliver them, when to deliver them, and to what quality standard. As a result, local authorities are continually challenged to provide affordable services that meet their communities' expectations.

Local authorities also provide a diverse range of services. Therefore, it is important that they are transparent about the costs, standards, impacts, and outcomes of their activities. Comparison and communication of financial and non-financial performance over time is essential for showing the efficiency, effectiveness, and cost-effectiveness aspects of performance.

Local authorities report how much is spent on different services, but this provides only part of the performance story. The expenditure needs to be considered and explained alongside the key services and results, and over enough time (say, 5 to 10 years) to see the performance trends and cause-and-effect relationship between expenditure and outcomes. For example, a service could be cheap to provide, so it is efficient. But, if it fails to achieve the intended impact or outcome, then it may not be effective and cost-effective.

Earlier this year, we commissioned an analysis of six local authorities' publicly reported performance information for the last seven years (2003/04 to 2009/10). This discussion paper is based on that analysis. The analysis showed that the

quality of reported performance information for the six local authorities had improved, particularly for the 2009/10 annual reports compared with the earlier years.

We consider that local authorities should continue to find ways to improve the quality of their reported performance information. I commend the features of the better annual reports and our recommended improvements.

I hope that all local authorities (and other public entities) will use this discussion paper to help them focus on what they are trying to achieve in measuring and reporting performance. Ultimately, what matters is the ability to improve that performance and the outcomes it achieves for the public. I would like to thank Deloitte for their help in carrying out the analysis for this report.

A handwritten signature in black ink, appearing to read 'Lyn Provost', written in a cursive style.

Lyn Provost
Controller and Auditor-General

20 September 2011

Our recommendations

Features of better annual reports

Most local authorities' annual reports have a similar reporting structure because of the legislative requirements, which specify the content for financial and non-financial reporting. However, local authorities can make the content more meaningful for their communities.

Some of the better practices we have seen for reporting performance information included:

- an overview performance report from the mayor (or chairperson) and the chief executive;
- selecting performance measures that together provided a balanced picture of the important aspects of the levels of service;
- information about the local authority that often included a description of the role and direction taken by the local authority and progress against identified milestones;
- a financial overview or highlights section that used graphics and narrative commentary to help readers interpret the financial information; and
- an analysis of where rates had been spent and sources of income for the local authority.

Recommendations to improve annual reports

We recommend that local authorities:

1. identify services and results (costs, outputs, impacts, and outcomes) that would benefit from longer-term (5 to 10 years) trend analysis and report that analysis, supported with commentary, in their annual reports;
2. analyse and evaluate their service performance, cost of service, and impact and outcome results to assess and report on cost-effectiveness;
3. include financial performance summaries that focus on the key issues and impacts, and key achievements during the financial year and over longer terms to reveal performance trends;
4. use graphs, diagrams, and other visual presentations to show performance, and support these with narrative and commentary as part of the context; and
5. consider reporting against key financial performance indicators to benchmark their performance and for assessing performance over time and against their financial strategy.

Part 1

Introduction

- 1.1 This discussion paper is aimed at regional and territorial local authorities, which are all required by the Local Government Act 2002 (LGA) to prepare annual reports of their performance for external publication. However, the principles we discuss apply to all public entities.
- 1.2 This paper is a companion to *Central government: Cost-effectiveness and improving annual reports*, which we published in June 2011 and which focused on the needs of central government entities.
- 1.3 Our views in this paper are based on an analysis of six local authorities' performance information. Using this analysis, we discuss current practices and use examples to show how local authorities can improve their reporting. However, this discussion paper is not a prescriptive guide to what is "best". Our aim is to encourage local authorities to keep improving their performance analysis and its reporting.
- 1.4 We also note that the annual reports discussed in this discussion paper were prepared before the LGA was amended by the Local Government Act 2002 Amendment Act 2010. Despite the changes to reporting that the amending Act brought into effect (which we discuss in Part 2), the principles that we discuss are relevant for preparing future annual reports.

How we reviewed performance information

- 1.5 In 2011, we commissioned an analysis by Deloitte of six local authorities' publicly reported performance information (primarily their annual reports) for the last seven years (2003/2004 to 2009/2010).¹ Local authorities prepare annual reports to discharge their accountability responsibilities. This includes reporting against the strategic and other major issues, choices, and implications facing their communities.
- 1.6 We selected the six local authorities because we considered that they prepared their 2009/10 annual reports (in particular, aspects of their performance information) better than other local authorities.
- 1.7 The analysis evaluated the six local authorities' performance information, with particular focus on the following aspects:
- financial performance at the local authority level, including debt, operational, and balance sheet analysis; and

¹ The analysis was at the council (parent entity) level rather than at the council group level.

- cost-effectiveness (impact or outcome over cost), and standard and quality of service delivery (standard or quality over cost) for the following activities:
 - water supply, waste water, sewerage, transport, building control, and library services; and
 - river control and flood protection, pest control, and environmental activities (land, soil, air, and water).

1.8 This paper discusses our review of the analysis.

Scope and structure of this discussion paper

- 1.9 This paper focuses on findings that are common to a number of local authorities. We provide recommendations that, if effectively addressed, would lead to significant improvements in public reporting about a local authority's performance. Therefore, this paper does not cover every aspect of performance reporting.
- 1.10 In Part 2, we discuss the purpose of annual performance reporting, its readers and uses, legislative requirements, the value of such reporting, and which reporting practices are common.
- 1.11 In Part 3, we discuss reporting practices about activity service performance information.
- 1.12 In Part 4, we discuss reporting practices about financial performance information.
- 1.13 Readers might find it helpful to refer to the annual reports of the local authorities that we discuss. The annual reports are available on the councils' websites:
- Environment Canterbury – Kaunihera Taiao ki Waitaha (www.ecan.govt.nz);
 - Environment Bay of Plenty (name now reverted to Bay of Plenty Regional Council) (www.boprc.govt.nz);
 - Hurunui District Council (www.hurunui.govt.nz);
 - Matamata-Piako District Council (www.mpdc.govt.nz);
 - Tasman District Council (www.tasman.govt.nz); and
 - Wellington City Council – Me Heke Ki Pōneke (www.wellington.govt.nz).

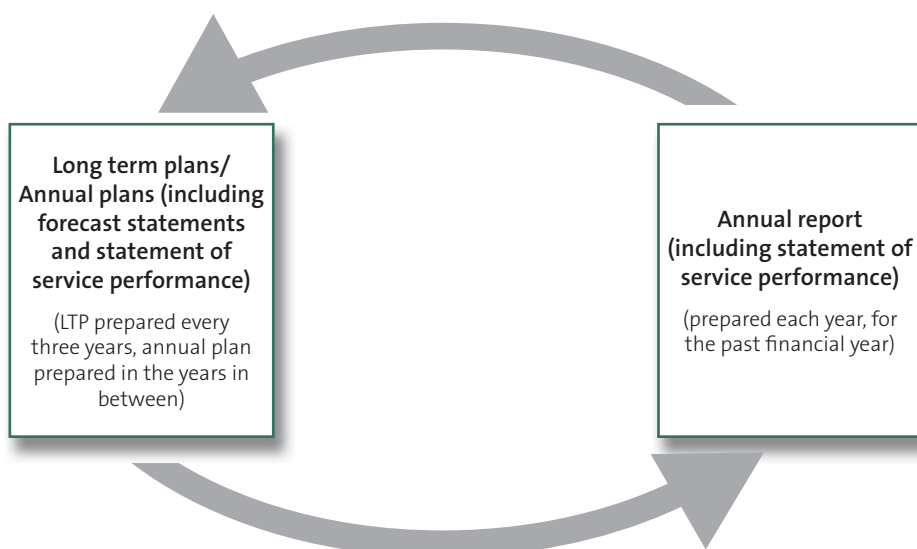
Part 2

The purpose of annual reports

Legislative requirements

- 2.1 Local authorities prepare annual reports to discharge their public accountability responsibilities. A local authority's annual report serves as a communication tool for providing wider information on activities carried out and services provided, and for comparing actual service delivery with forecast service delivery. The information in annual reports and summary annual reports should allow ratepayers, the community, and the wider public to assess how local authorities have performed in relation to stewardship of community assets, and the efficiency, effectiveness, and cost-effectiveness of operations.
- 2.2 Since 2004, the LGA has required local authorities to prepare long-term council community plans (LTCCPs) – now known as long-term plans (LTPs) – and to have them audited. LTPs set out local authorities' plans for at least the next 10 years. They focus on the community outcomes, activities, services to be provided and their cost, how those activities and services will be funded, and the capital expenditure requirements. Local authorities prepare LTPs every three years and an annual plan each year in between.
- 2.3 Local authorities are also required to prepare an annual report that fairly reflects their achievements and results against their LTP or annual plan, with particular emphasis on comparisons with their forecast financial and non-financial performance.
- 2.4 The annual report should link forecast performance and actual performance. The annual report should compare forecast expectations to actual results, should “feed into” the next year's forecast, and should signal any intended changes in direction, services, or actions based on an analysis of the current year's performance. Figure 1 outlines these links.

Figure 1
Cycle of local authority accountability documents



- 2.5 Because the LGA requires local authorities to report the activities, levels of service delivered, and the cost of providing those services, it is reasonable to conclude that the intent of the LGA is to provide local authorities with a framework to assess the efficiency, effectiveness, and cost-effectiveness of their activities.

Local Government Act 2002 amendments

- 2.6 The amendments to the LGA known as the Transparency, Accountability, and Financial Management (TAFM) reform became law on 26 November 2010 and introduced a number of amendments to the LGA that were effective immediately. Other provisions will be applied as part of the 2012-22 or the 2015-25 LTPs. The TAFM changes see some requirements removed and some new financial disclosures required in annual reports and LTPs. Overall, the process leading to the amended LGA has reinforced and confirmed the importance of long-term planning by local authorities.²
- 2.7 Among the changes, the amending Act³ introduced a list of five core services that all local authorities should have “particular regard” to,⁴ a requirement to disclose

² Office of the Auditor-General (March 2011), *Local Government: Results of the 2009/10 audits*, page 67, available at www.oag.govt.nz.

³ Local Government Act 2002 Amendment Act 2010.

⁴ The five core services are: network infrastructure; public transport services; solid waste collection and disposal; the avoidance or mitigation of natural hazards; and libraries, museums, reserves, recreational facilities, and other community infrastructure.

the financial strategy, and regulations specifying performance measures for five groups of activities to allow performance to be compared.⁵ The Appendix provides relevant clauses from Schedule 10 of the amended LGA.

- 2.8 Local authorities will need to reflect the changes to the LGA that apply in their 2012-22 LTPs, which need to be prepared, audited, and adopted by 30 June 2012.

Using annual reports

- 2.9 An annual report should contain an analysis of performance results. This requires having a set of appropriate measures and robust systems to collect the results, followed with analysis, interpretation, and evaluation of the information. A local authority can then determine what actions it should take based on the analysed information.

- 2.10 We have interpreted the formal requirements in the LGA into three main sets of information:
- **Achievements** – These include reporting on services delivered, the effect the services had on outcomes, and comparisons with past performance.
 - **Value** – This is the costs of the services delivered compared with what was achieved – that is, the cost-effectiveness of the services delivered. The reader should be able to tell how this has changed over time to determine whether the local authority is delivering improvements in cost-effectiveness.
 - **Performance interpretation** – This is an explanation of the main trends during the past 5 to 10 years, changes that were or might be required in any aspect of the business, and the results of any major management or policy decisions or operational changes made in recent years.

- 2.11 With a useful and effective annual report, the reader should be able to form a view on the performance of the local authority and whether it is doing well and providing value for money. A local authority inspires confidence and trust when it clearly demonstrates that it knows its own business, is consistently performing well, delivers value for money, and is transparent about any changes it needs to make and what it can do better.

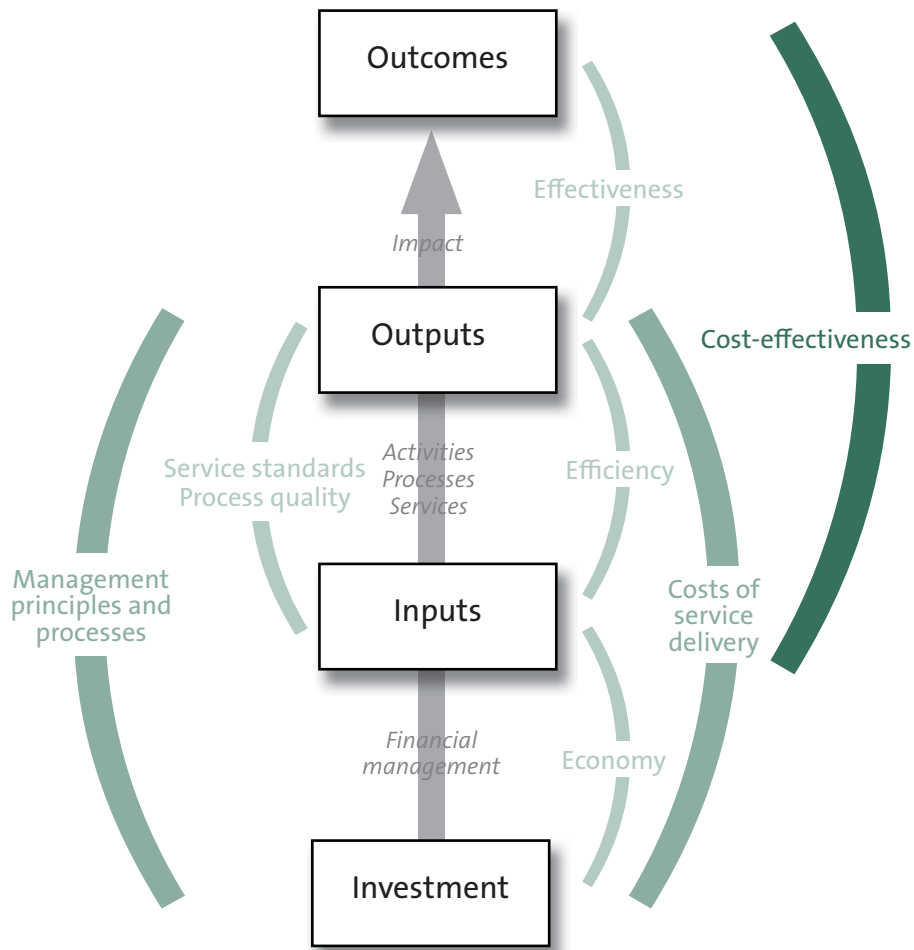
- 2.12 A local authority measures the cost of its service delivery by assessing whether it is providing its goods and services economically and efficiently. Therefore, measures of economy (the relationship between investment and inputs) and efficiency (the relationship between inputs and services) form the foundation of performance analysis. These measures are usually found in the annual report's statement of service performance (SSP).

⁵ The five groups of activities are: water supply; sewerage and the treatment and disposal of sewage; stormwater drainage; flood protection and control works; and the provision of roads and footpaths. Local authorities are not required to include and adopt these mandatory performance measures until their 2015-25 LTPs.

- 2.13 The legislative requirements that applied for the annual reports we analysed were:⁶
- identify the activities within the group of activities;
 - identify the community outcomes to which the group of activities primarily contributes;
 - report the results of any measurement undertaken during the year of progress towards the achievement of those outcomes;
 - describe any identified effects that any activity within the group of activities has had on the social, economic, environmental, or cultural well-being of the community;
 - include an audited statement:
 - setting out a comparison between the actual levels of service of that group of activities and the intended levels of service provision (as set out in the long-term council community plan in respect of that year) of that group of activities; and
 - giving the reasons for any significant variance between the actual service provision and the expected service provision; and
 - include an audited statement:
 - describing any significant acquisitions or replacements of assets undertaken by the local authority in the year to which the report relates;
 - giving the reasons why the local authority acquired or replaced those assets; and
 - giving the reasons for any significant variation between the acquisitions and replacements projected in the long-term council community plan and those actually made.
- 2.14 However, this reporting against the legislative requirements is not an end in itself, but the starting point for reporting the performance story.
- 2.15 To complete the performance story, the SSP should also provide a clear picture of the effectiveness and cost-effectiveness of the operations of a local authority. Therefore, local authorities must also focus on impact and outcome measures (and the interpretation and explanation of these) so that a reader can understand the effect of changing levels of expenditure on a local authority's performance. Performance information needs to focus on the significant matters that underlie long-term cost-effectiveness and effectiveness.
- 2.16 Figure 2 summarises the above information into an outcomes-based performance management model. The model shows the relationship between different kinds of measures and what they tell the reader about performance.

⁶ Local Government Act 2002, Schedule 10, Part 3 Information to be included in annual reports, clause 15 – before amendment by the Local Government Act 2002 Amendment Act 2010.

Figure 2
An outcomes-based performance management model



- 2.17 Assessing and reporting cost-effectiveness is a vital management tool. Cost-effectiveness is a result of the process of applying inputs to create outcomes. Cost-effectiveness varies over time and is influenced by external and internal events. It is an evaluation or an assessment rather than a handful of specific measures.

- 2.18 Providing information, analysis, and interpretation is important for a local authority in discharging its accountability requirements to comply with the LGA and New Zealand generally accepted accounting practice. The LGA and generally accepted accounting practice do not preclude local authorities from including additional information. As a general principle, commentary should be used to provide additional contextual information that helps the reader to understand

the nature of the performance.⁷ In our view, local authorities should be including this contextual information so that readers do not have to interpret the results themselves.

- 2.19 Therefore, we expect to see in a local authority's annual report that the entity has analysed and evaluated its performance in the context of economy, efficiency, effectiveness, and cost-effectiveness. We also expect to see that the local authority has honestly appraised how it has performed.

Presenting activity service performance information

- 2.20 Local authorities are required by the LGA to include in their annual reports specific non-financial performance information. The reported information is based at the group of activities level and needs to include:

- the actual levels of service provision compared with the intended levels of services;
- the costs of those services;
- the actual capital expenditure;
- the community outcomes; and
- the identified effects on the social, economic, environmental, or cultural well-being of the community.

- 2.21 Local authorities generally report the above information in their SSP. The SSP is required to comply with New Zealand Equivalent to International Accounting Standard 1: *Presentation of Financial Statements*. Technical Practice Aid No. 9: *Service Performance Reporting* issued by the New Zealand Institute of Chartered Accountants provides the following commentary, based on best practice, about specifying, measuring, and reporting service performance:

It is important for accountability and output management reasons that delivery entities demonstrate that they understand the rationale for the outputs that they are funded to deliver. To ensure clear accountability, the desired outcomes, the linkage between those outcomes and the outputs provided, and discussion of outcome achievement should be reported as additional non-financial information in the SSP or provided elsewhere in the relevant report. That discussion may also highlight for users other documentation such as Strategic Business Plans that provide more detailed information on the entity's strategic context and the link between desired outcomes and output delivery. Without this additional non-financial information, output delivery is reported in a vacuum.⁸

⁷ New Zealand Institute of Chartered Accountants (2007, revised), Technical Practice Aid No. 9: *Service Performance Reporting*, paragraph 7.16.

⁸ Paragraph 4.41.

- 2.22 The activity service performance information should tell a meaningful story of performance to the reader. The SSP is not complete unless the outcomes to which activities are intended to contribute are disclosed either in the SSP itself or elsewhere in the annual report. Therefore, the activity service performance information should tell a meaningful story of performance to the reader. Links should be drawn between activities, the cost of the activities, and outcomes. The progress towards achieving those outcomes should also be discussed.
- 2.23 We discuss activity service performance information in Part 3.

Presenting financial performance information

- 2.24 The LGA requires the forecast⁹ and actual financial statements to comply with New Zealand generally accepted accounting practice. This requires compliance with the reporting requirements of the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).
- 2.25 NZ IFRS is prescriptive in terms of the information required to be disclosed in the financial statements. Local authorities must include in their financial statements:
- a statement of comprehensive income (revenue and expenditure);
 - a statement of changes in equity;
 - a balance sheet (assets, liabilities, and equity);
 - a statement of cash flows;
 - a statement of accounting policies; and
 - notes supporting the financial statements.
- 2.26 We discuss financial performance information in Part 4.

⁹ The forecast financial statements are prepared in keeping with Financial Reporting Standard 42: *Prospective Financial Statements*.

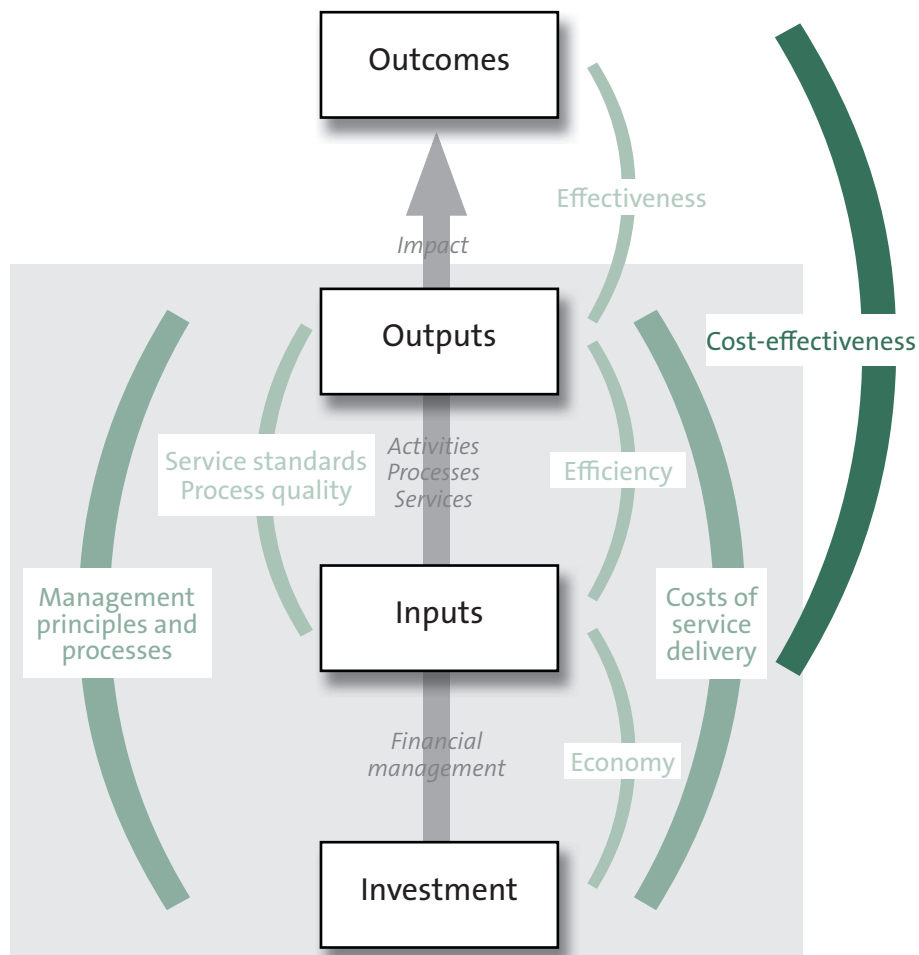
Part 3

Presenting service and cost performance information

Current service and cost performance reporting

- 3.1 Local authorities usually complied with the reporting requirements of Part 3 of Schedule 10 of the LGA. If they did not, we referred to the non-compliance in our audit report.
- 3.2 We found improvements in the quality of local authorities' SSPs during the period under review. Local authorities have made considerable progress in presenting their non-financial performance measurement in 2009/10 compared with reports from earlier years (2003/04 to 2008/09). The earlier reports often had information of very limited usefulness for assessing and evaluating performance. The progress reflects improvements in local authorities' performance frameworks, as included in their 2009-19 LTPs and first reported against in their 2009/10 annual reports.
- 3.3 As noted in Part 2, a local authority measures the cost of its service delivery by assessing whether it is providing its goods and services economically and efficiently. Therefore, measures of economy (the relationship between investment and inputs) and efficiency (the relationship between inputs and outputs) form the foundation of performance analysis.
- 3.4 Figure 3 highlights the economy and efficiency measures.

Figure 3
An outcomes-based model, indicating areas of output (goods and services) reporting



- 3.5 Annual reports in the later years – particularly the 2009/10 annual reports – showed better performance information in the SSP. The Society of Local Government Managers provided extensive guidance for developing the 2009-19 LTCCP, and the 2009/10 annual plans and 2009/10 annual reports have been audited under the *Auditor-General's Auditing Standard 4 (Revised): The audit of service performance reports*.¹⁰

¹⁰ Auditors were required to attest to whether the statement of service performance fairly reflects actual service performance for the year.

3.6 For the local authorities' annual reports that were analysed for this discussion paper, we found two main areas of improvement:

- measuring what matters to the ratepayers and the community; and
- explaining performance results.

Measuring what matters

3.7 The better annual reports showed a movement between 2003/04 and 2009/10 away from transactional process or activity-type measures (which focus on completing individual processes, tasks, or reports) toward outcome-based, impact-based, and service-based measures that could be used to understand the effectiveness of the local authorities' operations.

3.8 The performance measures that a local authority chooses should provide a balanced picture of the important aspects of the levels of service that it provides and the purpose of that activity. We have noted previously:

In selecting performance measures to report, entities should consider the characteristics of performance that:

- *are of greatest importance to [ratepayers and the community];*
- *reflect the financial significance of the activity; and*
- *reflect both the objectives for carrying out the activity and any (external or internal) risks needed to be managed in achieving those objectives.*¹¹

3.9 Alongside the shift in the types of measures, some local authorities reduced the number of performance measures included in their performance framework. The resulting performance measures focused on measuring aspects that were most important for understanding service quantity and standards. For example, Bay of Plenty Regional Council reduced the number of performance measures from 211 in its 2008/09 annual report to 67 in its 2009/10 annual report.

3.10 Figures 4 and 5 illustrate the change in both the number and nature of the performance measures between annual reports for Tasman District Council and Bay of Plenty Regional Council.

11 Controller and Auditor-General (2008), *The Auditor-General's observations on the quality of performance reporting*, paragraph 6.43, which is available at www.oag.govt.nz.

Figure 4
Sample of performance measures for selected activities from Tasman District Council's annual reports

Activity	Historic measures*	Current measures**
Water supply	<p>Council water asset management plan (AMP) adequately forecasts growth and includes plans to provide infrastructure to adequately service new development areas.</p> <p>Council will operate all water supply activities in a sustainable manner and in accordance with legislation, District Plans and resource consents.</p>	<p>Percentage of supply that meets minimum pressure requirements.</p> <p>Percentage of water tested compliant with Drinking Water Standards New Zealand (DWSNZ).</p>
Wastewater	<p>Public outreach for community involvement has occurred.</p> <p>50% of pump stations have telemetry to allow automatic communication of failures.</p> <p>Record any properties that are unable to connect to the wastewater systems by gravity.</p>	<p>Annual overflows per kilometre of sewer.</p> <p>Number of complaints relating to odour or noise.</p> <p>Number of overflows that cause beach closures or shellfish-gathering bans.</p>

* Source: 2007/08 and 2008/09 annual reports.

** Source: 2009/10 annual report.

Figure 5
Sample of performance measures for selected activities from Bay of Plenty Regional Council's annual reports

Activity	Historic measures*	Current measures**
River control and flood protection	<p>Compliance with maintenance and capital works operations programmes.</p> <p>Long-section and cross-section surveying of stop banks is carried out every five years.</p> <p>All pumps are inspected not less than six-monthly.</p>	<p>No failure of flood protection schemes below specified design levels.</p>
Air	<p>Monitoring trends in the levels of applicable contaminants covered by New Zealand Ambient Air Quality Guideline.</p> <p>Monitor the efficiency and effectiveness of provisions in the Air Plan every five years.</p>	<p>Exceedences of Particle Matter 10.</p>

* Source: 2007/08 and 2008/09 annual reports.

** Source: 2009/10 annual report. Note exceedences refers to the instances of particle matter 10 being exceeded.

Explaining performance results

- 3.11 The better annual reports provided high-level summaries of performance in the mayor's or chief executive's introduction at an overall local authority level or in the SSP at a group of activity level. We found that these annual reports supplemented their commentary with graphs, diagrams, and other illustrations to clearly highlight the local authority's performance. Some local authorities provided more useful commentary than others on variances against financial and performance expectations, and performance compared with previous years. The 2009/10 annual reports were especially good at this compared with earlier years' annual reports.
- 3.12 Figure 6 shows how Bay of Plenty Regional Council summarised performance against its performance measures as a whole.

Figure 6

Bay of Plenty Regional Council's statement on its achievement against its performance measures

We measure how we are going through key performance indicators. We believe we have performed well against our 67 key performance indicators (KPI). At the end of the financial year 76 percent of our indicator targets (51) were on track. We were behind schedule on 22 percent (15) of these, and significantly behind on just one of our target indicators (2 percent).*

Green lights signify that all projects that contribute to that KPI have been completed satisfactorily. Amber lights indicate a target that was not reached but was within 20 percent of being met. Red lights are used when we are more than 20 percent behind target. This indicates a project or programme is significantly behind schedule.

Our 2010 annual Environmental Enhancement Fund target for completed projects was significantly behind schedule. Our application round was brought forward to better suit planting timeframes, but this required staff resources to be diverted from ensuring recipients completed projects on time. As a result only 26 percent of projects were completed in the required timeframe. Systems are in place to ensure this is not repeated in future years.

Further discussion on our key performance indicators can be found under each activity.

* Source: Bay of Plenty Regional Council, 2009/10 annual report, page ix.

- 3.13 Although the general picture was one of improvement, the quality of activity performance reporting varied greatly across the local authorities reviewed. The common features that were still prevalent in the performance frameworks included:
- using performance measures that assessed “processes and transactions” rather than the services delivered;
 - using a limited range of measures that assessed quality of service delivery, with performance measures relying heavily on customer satisfaction surveys;

- using a large number of performance measures that made it difficult to see the big picture performance of the local authority and establish service trends and achievements; and
- providing performance information that was not presented in a way that was very accessible for readers.

Opportunities for improvement

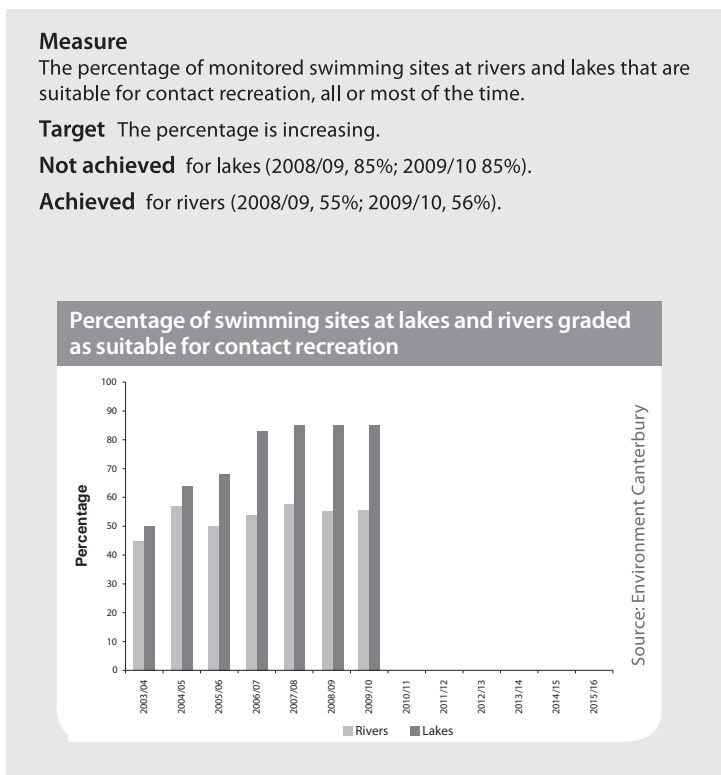
3.14 We identified four areas where local authorities could make improvements to their annual reports, and we have included examples from annual reports to show the sort of improvements that could be made in these areas:

- trend analysis;
- showing outcome progress;
- analysing cost-effectiveness; and
- providing greater explanation and commentary.

Trend analysis

- 3.15 Most local authorities provided prior-year comparative information, but we found that they provided little trend analysis highlighting how performance had changed over time. This makes it difficult to determine whether local authorities' activities are moving in the right direction and are having the desired result.
- 3.16 Instead of trend information, readers of SSPs are presented with a snapshot of the current year's performance against target. This provides no information on whether operations are improving or deteriorating. For example, a customer satisfaction rating of 80% for a certain service may look very impressive on a standalone basis and against a target of 50%, but is less impressive when compared with the previous year's rating of 95%.
- 3.17 Environment Canterbury showed how performance changed over a number of years at an activity level, presenting the current year result alongside results for the previous two years. Highlighting trends in performance enables readers to assess the effect of a local authority's services on performance. Figure 7 is an example of how Environment Canterbury discloses several years of performance information.

Figure 7
Example of how Environment Canterbury discloses several years of performance information – improving recreational water quality at swimming sites




Source: Environment Canterbury, 2009/10 annual report, page 68.

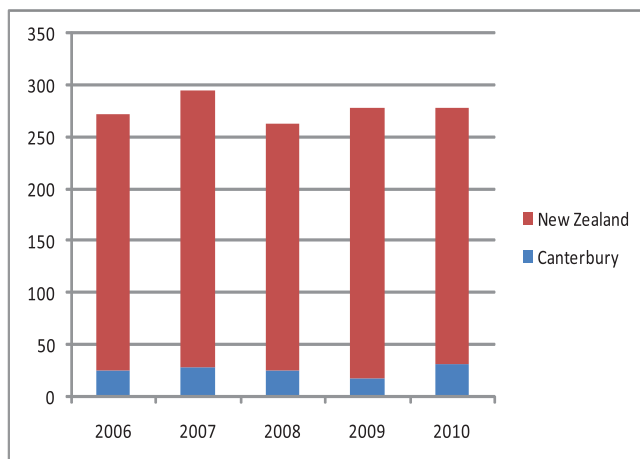
Showing outcome progress

3.18 Hurunui District Council sets out its progress against its well-described outcome measures and shows long-term trends using graphs and other helpful graphics as well as providing helpful commentary. Figure 8 is an example of how Hurunui District Council uses a range of formats to show trends.

Figure 8
Example of how Hurunui District Council uses various graphics to show trends

Indicator 2.10	Road crash fatalities and injuries by cause of crash
Relevance	Road accidents and their severity can help us to see how safe the District's roads are.
Limitations	While we can obtain information on the seriousness of road accidents and on the main cause of crashes, we cannot cross-reference the two to see how they correlate to each other. At present, data is only available for the Canterbury region, not for each individual local District.
Current Level and Trends	On the whole, there is only a slight increase in road trauma over the last 10 years. The number of fatalities within the Hurunui District is fairly high compared to other smaller regions, but this may be influenced by the population, because other higher density areas show similar figures, such as Waikato and the Bay of Plenty. The number of fatalities has only risen slightly and the number of serious injury crashes is showing a downward trend, while there is a large increase in the number of non injury crashes.
Conclusion	 The number of crashes have increased despite being controlled for population increases. It is important to continue monitoring this data and to ensure that action is taken that will help to decrease road crashes within the District.

Road Crash Fatalities and Injuries for New Zealand & Canterbury

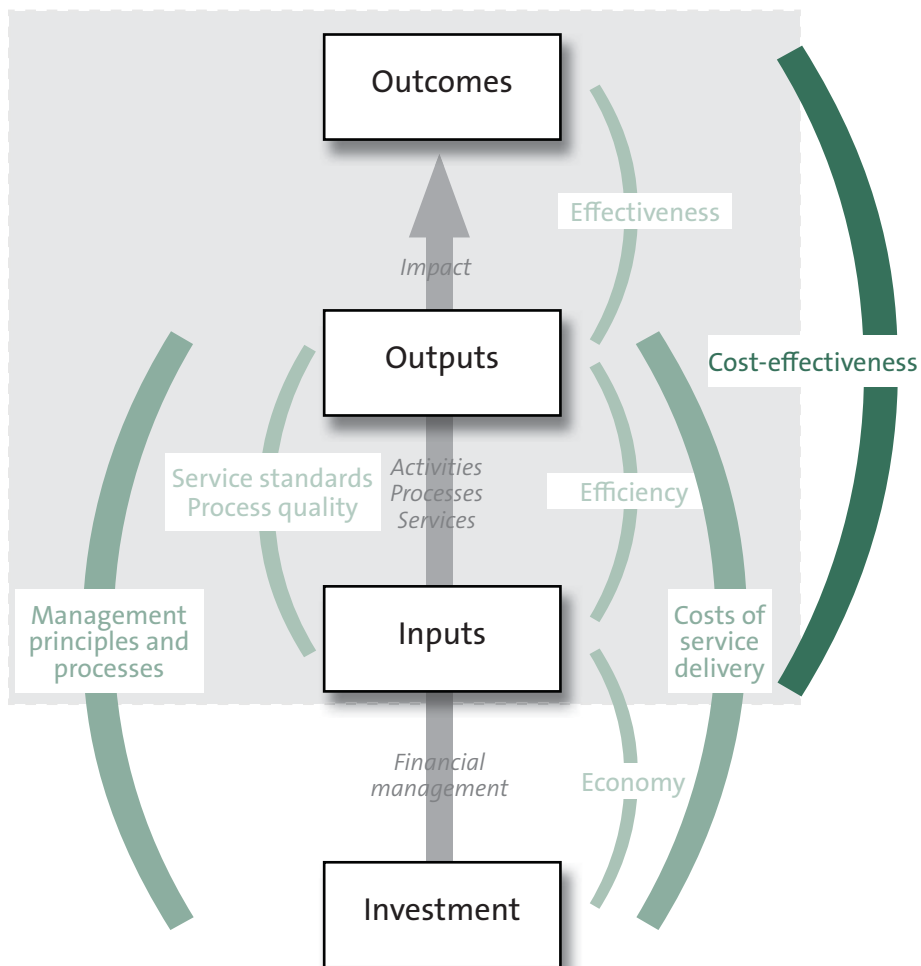


Source: Hurunui District Council, 2009/10 annual report, pages 37 and 38.

Analysing cost-effectiveness

- 3.19 We found there was very little analysis of, or commentary on, cost-effectiveness in the annual reports. This means that there is limited visibility about the value ratepayers and the community receive from expenditure and in relation to standards and quality of service delivery.
- 3.20 Figure 9 highlights cost-effectiveness, which is made up of efficiency and effectiveness measures – that is, the relationship between inputs, outputs, and outcomes.

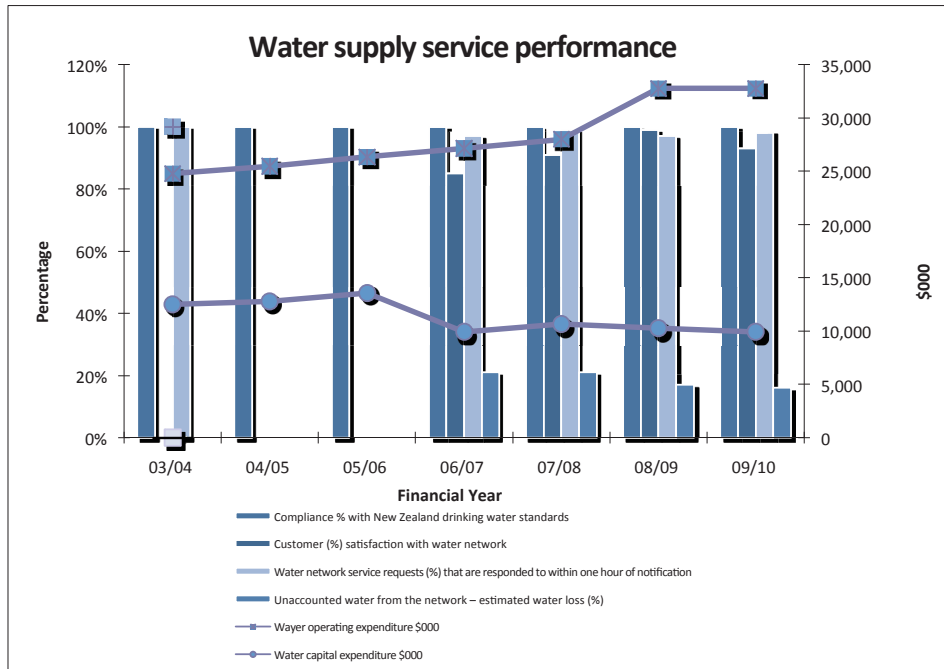
Figure 9
An outcomes-based model, indicating areas that make up cost-effectiveness measures



- 3.21 In the following examples, we have compiled information from several years of reported annual report results to show how inferences about cost-effectiveness can be made (and presented). We acknowledge that there will be other factors relevant to interpreting the performance results such as strategies, programmes, and resources. However, the explanation of these other factors was commonly not disclosed in the annual reports.

- 3.22 The examples set out in Figures 10, 11, and 12 show that an increase in expenditure appears to have resulted in an increase in efficiency or effectiveness of service delivery. Including such analysis in annual reports would be helpful to readers to clearly see the results of council services and the impact these services have or have not had on outcomes.
- 3.23 In Figure 10, we have graphed Wellington City Council’s water supply expenditure and performance results so we can see the trends over the last seven years.¹²

Figure 10
Wellington City Council’s water supply expenditure* and performance results over seven years show the efficiency aspect of performance**



* Wellington City Council grouped its capital expenditure for drainage, wastewater, and water infrastructure together.

** Wellington City Council did not measure and report its achievements for some of the performance measures from 2003/04 to 2005/06.

12 We have left out some performance results, such as water consumption (because there did not appear to be any related service delivery performance measure), and other results that Wellington City Council started reporting only for 2009/10.

3.24 Figure 10 shows that there has been a steady increase in water-supply operating expenditure over the seven years, with a steeper increase between 2007/08 and 2008/09. The increase in operating expenditure appears to have had a positive effect on customer satisfaction with the network and reduced the amount of unaccounted water loss. Wellington City Council disclosed that:

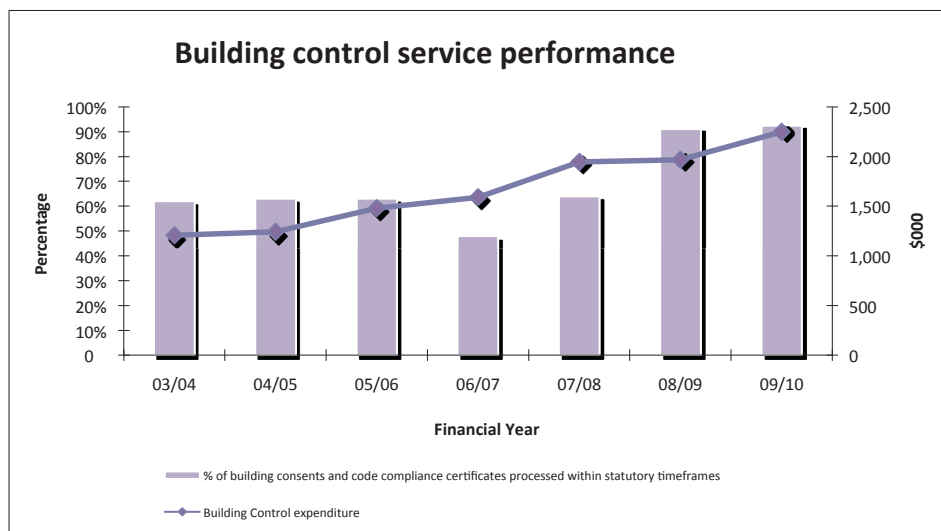
During the year, active leak detection programmes were undertaken on the public network, including work in Johnsonville, Newtown, Ngaio, Churton Park, Tawa, and within the CBD. A number of significant leaks on private residences were also identified and fixed during the year.

The pressure reduction trial in Mt Victoria and Roseneath should reduce the number of bursts and the effects of any leaks.¹³

This is a good example of how graphing performance results over a longer-term period can tell the performance story.

3.25 In Figure 11, we have put together Tasman District Council’s building control service performance and operating expenditure for seven years. This provides another example of how to tell a performance story.

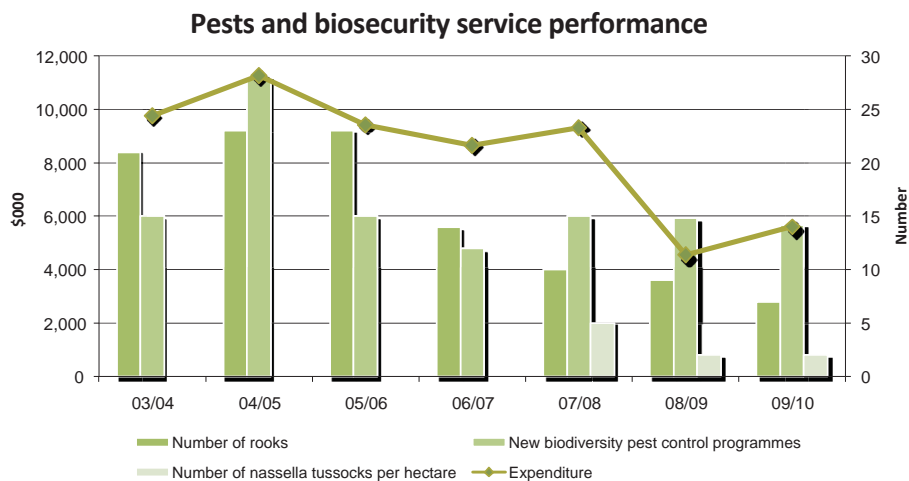
Figure 11
Tasman District Council’s building control service over seven years shows the efficiency aspects of performance



13 Wellington City Council, 2009/10 annual report, page 35.

- 3.26 Figure 11 shows a good correlation between an increase in expenditure and an increase in the percentage of consents processed within statutory timeframes. Tasman District Council could further improve the performance story by including information such as the cost per consent for types of consents, the total value of consents processed in each financial year, and consideration of the outcome of building control services and how this might be assessed.
- 3.27 Environment Canterbury included a range of service delivery and impact measures within its pest control activity. We have created the following graph using information from this council’s annual reports to show service performance trends over seven years in Figure 12.

Figure 12
Environment Canterbury’s pest control service performance and outcomes*



*Environment Canterbury did not measure and report the number of new biodiversity pest control programmes from 2003/04 to 2006/07.

- 3.28 Environment Canterbury’s pest control activity performance appears to be a largely positive story. Despite significant drops in spending from 2004/05 to 2008/09, Figure 12 shows that pest control appears to be heading in the right direction. The programmes and initiatives often do not produce results till subsequent years. Although Environment Canterbury has not pulled together its performance results by providing a graph like Figure 12 in its annual report, we found that it has provided a good overview of its progress on limiting the effect of pests by operating a three-tier pest control programme.¹⁴

14 Environment Canterbury, 2009/10 annual report, page 32.

Providing greater explanation and commentary

- 3.29 The relationship between expenditure and performance measures is not a simple or proportional one, and many factors play a part. Therefore, the commentary accompanying the measures is important.
- 3.30 In general, we found that there was very little commentary to support the performance measurement framework. Telling the story of performance achievement and trends in the annual report is an important part of giving the reader a holistic perspective on a local authority's operations.
- 3.31 Local authorities should consider providing explanatory comment where actual performance is materially different to the target set (either above or below) or to the performance trend from previous years. Such commentary should set out the factors and events necessary to understanding the performance results and the plans in place to make any changes to performance desired in the future. Although the following examples explained performance achievement and the impact it has had on operations, they could be improved by explaining how the issues could be addressed or responded to.

Figure 13

Environment Canterbury's commentary on processing of applications for resource consent

Continued high demand for consents from water, dairy and subdivision related activities, coupled with increased numbers of notifications and hearings in water resource constrained areas, and some large individual applications, has resulted in many consent applications across all portfolios not being able to be completed within statutory timeframes.*

* Source: Environment Canterbury, 2007/08 annual report, page 16.

Figure 14

Wellington City Council's commentary on library activity

We have experienced a notable shift in usage over the last two years. From survey results, fewer residents (down 6%) are making use of the library facilities and actual issues have also declined ... Conversely, library website visitor sessions have increased by 13% from 1,294,371 in 2006/07 to 1,465,637 in 2007/08. This result suggests that users are shifting away from physical visits to accessing the library's web facilities.*

* Source: Wellington City Council, 2007/08 annual report, page 59.

Recommendation 1

We recommend that local authorities identify services and results (costs, outputs, impacts, and outcomes) that would benefit from longer-term (5 to 10 years) trend analysis and report that analysis, supported with commentary, in their annual reports.

Recommendation 2

We recommend that local authorities analyse and evaluate their service performance, cost of service, and impact and outcome results to assess and report on cost-effectiveness.

Part 4

Presenting financial performance information

- 4.1 Financial performance is an important element of a local authority's overall performance. It is therefore important to analyse financial performance when assessing local authority performance. In annual reports, the financial performance information is found in the financial statements and notes to the financial statements. The cost of service statements¹⁵ are found in the SSP at the "group of activity" level.
- 4.2 Financial statements have to be prepared in keeping with New Zealand generally accepted accounting practice and therefore need to follow the financial reporting requirements of NZ IFRS. NZ IFRS is prescriptive about the form of the financial information and the nature of the disclosures required. However, financial statements also need to be relevant and appropriate for financial accountability purposes. Financial statements are made publicly available to partly fulfil a local authority's accountability responsibilities.¹⁶
- 4.3 It is important that financial performance information can be readily integrated with non-financial performance information. This is because true accountability requires transparency about both financial and non-financial performance and an appropriate relationship between the two.
- 4.4 Ideally, the financial performance information should communicate a local authority's performance compared with the financial strategy that it sets in its LTP. Clause 36 of Schedule 10 of the LGA requires local authorities to include a statement in their pre-election report that compares the rates, rate increases, and borrowing within the quantified limits specified in the financial strategy. Therefore, financial information should be presented simply and should not require a reader to have expertise in analysing the financial statements.
- 4.5 We found that the quality of financial performance reporting at the group of activity level had improved over time and most noticeably in the 2009/10 annual reports. Local authorities placed more emphasis on "telling the performance story", particularly in the narrative explaining significant variations between budgeted and actual performance and the effect that the variations have had on service performance.
- 4.6 Local authorities often included a high-level analysis of performance in the reports provided by the mayor (or chairperson) and the chief executive. Although practices varied between local authorities, the comments in the high-level analysis typically focused on key issues and impacts, and key achievements for the financial year.

¹⁵ The cost of service statements will be the funding impact statement from the 2012/13 annual reports.

¹⁶ Controller and Auditor-General (June 2009), *The Auditor-General's views on setting financial reporting standards for the public sector*, page 35.

Such commentary is an important aspect of performance reporting and improves the usefulness of information provided to the ratepayers, the community, and the general public.

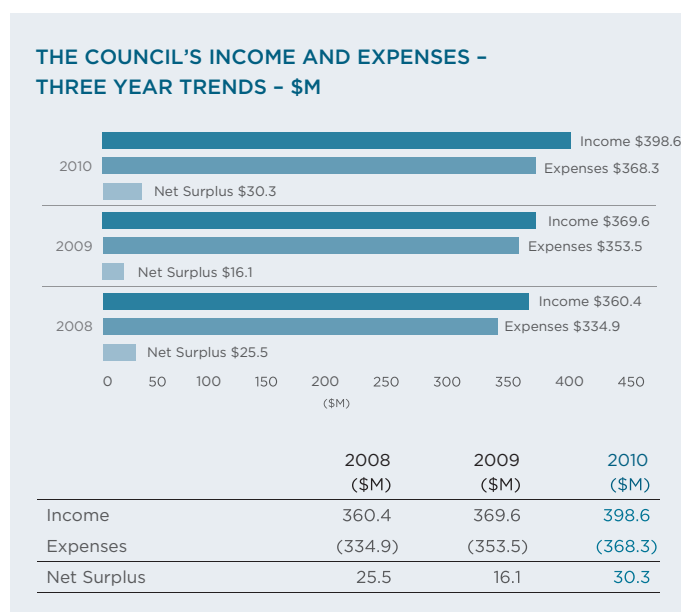
4.7 We provide examples of better reporting practice in two areas:

- financial summaries; and
- key performance trends.

Examples of better reporting practice – financial summaries

4.8 We consider that Wellington City Council's 2009/10 annual report showed better practice in explaining its financial performance information. Its annual report included a seven-page financial overview section¹⁷ The reporting attributes that we liked included:

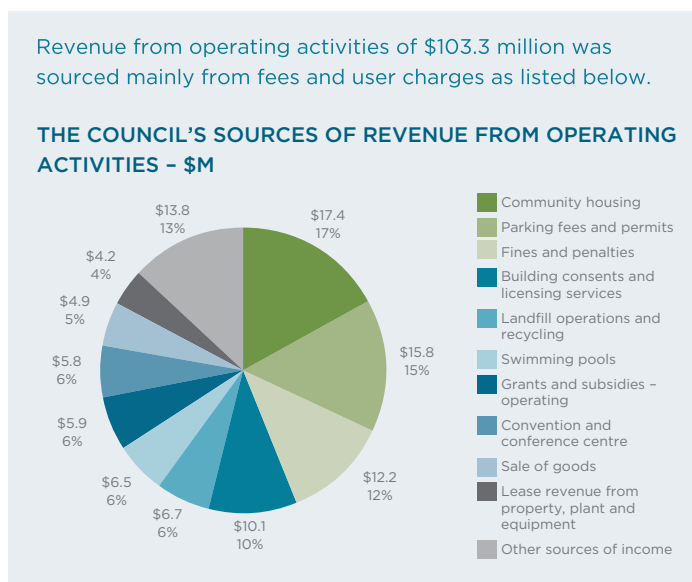
- An explanation of the terminology used in the financial statements. For example, "Total income – total expenses = net surplus" to help in understanding the financial statements.
- A bar graph showing total income, expenses, and net surplus for the last three years. This is an example of longitudinal reporting (although trends are more evident when information is presented over a longer time frame of at least five years).



Source: Wellington City Council, 2009/10 annual report, page xv.

17 Wellington City Council, 2009/10 annual report, pages xiv-xx. This report is available at <http://www.wellington.govt.nz/plans/annualreport/0910/index.html>

- Funding for capital expenditure and activity operating income being analysed and reported using pie charts.



Source: Wellington City Council, 2009/10 annual report, page xvi.

- Including brief comments to aid the reader’s understanding of the graphical information. For example: “We record this amount [capital funding] as income even though it is not used to fund operating activities.” This statement was further explained with: “The income from the New Zealand Transport Agency is used to help fund capital expenditure on the Council’s road corridor ...”. These two statements told the reader why a net surplus was reported for 2009/10 and the story of how it came about.

\$32.6 million of the income we received was for funding of capital expenditure and so cannot be used to reduce rates.

The following graph shows where we received our capital funding from. We record this amount as income even though it is not used to fund operating activities.

THE COUNCIL’S SOURCES OF INCOME FOR CAPITAL EXPENDITURE – \$M

Source	Amount (\$M)	Percentage
Grant - Housing New Zealand	\$14.9	46%
Grant - New Zealand Transport Agency (NZTA) for roading	\$11.1	34%
Development Contributions	\$5.2	16%
Other grants	\$1.4	4%

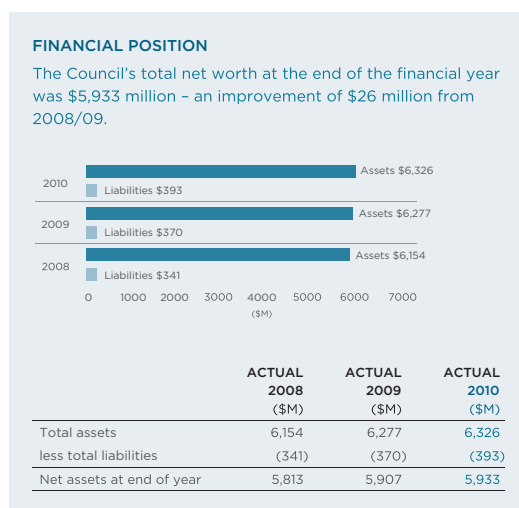
The grant from Housing New Zealand provides financial assistance over an investment period of 10 years to assist with the upgrade of the Council’s housing portfolio.

The income from the New Zealand Transport Agency is used to help fund capital expenditure on the Council’s road corridor, which includes roads, footpaths and streetlights.

Revenue from operating activities of \$103.3 million was sourced mainly from fees and user charges as listed below.

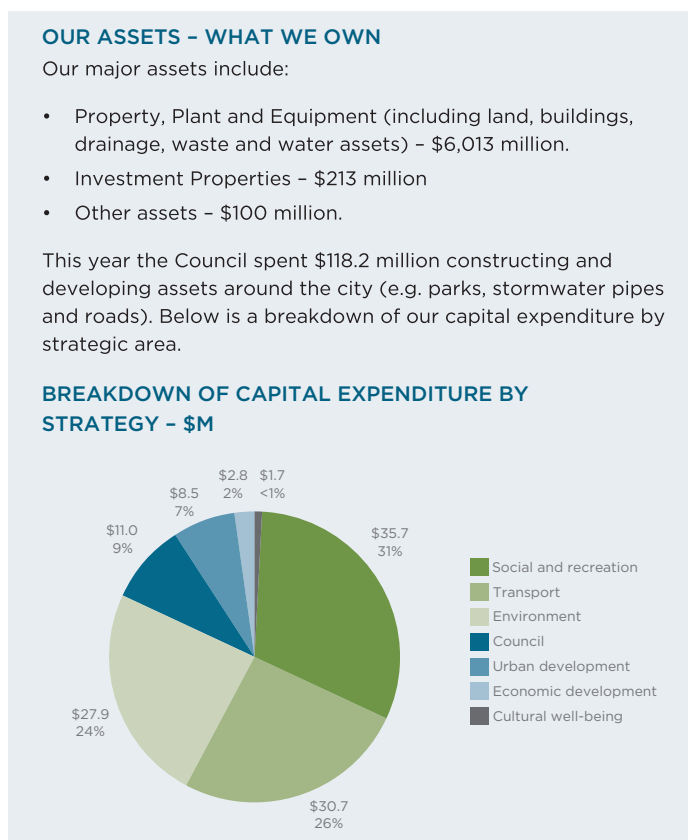
Source: Wellington City Council, 2009/10 annual report, page xvi.

- A graphical analysis of total assets and total liabilities for the last three years.



Source: Wellington City Council, 2009/10 annual report, page xvii.

- Breakdown of capital expenditure by strategy (group of activities).



Source: Wellington City Council, 2009/10 annual report, page xviii.

- Analysis of key financial ratios (borrowing and liquidity) being reported against the internal policy limits – for example, borrowings as a percentage of equity, borrowings as a percentage of income, and net interest as a percentage of annual rates income.

The Council has managed its debt well by meeting all of the core policy compliance requirements set out in the Council's Investment and Liability Management Policy.

PRUDENTIAL LIMITS	POLICY LIMIT	ACTUAL	COMPLIANCE
Borrowings as a % of equity	<10%	5%	Yes
Borrowings as a % of income	<150%	71%	Yes
Net interest as a % of annual rates income	<15%	8%	Yes

Source: Wellington City Council, 2009/10 annual report, page xviii.

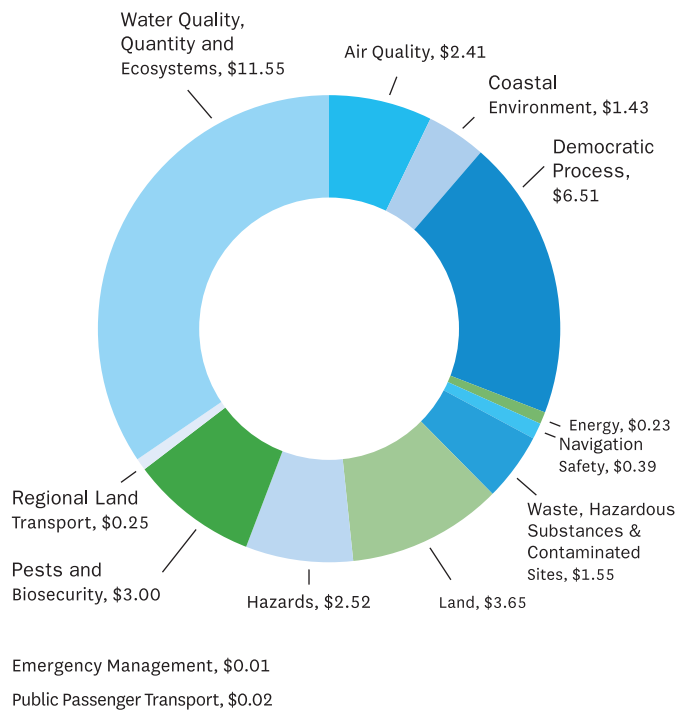
- 4.9 We also consider that Environment Canterbury's "financial commentary" section in its 2009/10 annual report showed two particularly good features in terms of reporting financial performance information.
- 4.10 Environment Canterbury stated: "For every \$100,000 of capital value, the owner of a property in the Canterbury region paid an average of \$33.52 in general rates to Environment Canterbury." A diagram supports this statement, showing the activities to which the \$33.52 had been applied (see Figure 15). We consider this a useful piece of analysis because it provided information that every ratepayer could directly relate to.

Figure 15
How the \$33.52 in general rates for every \$100,000 of capital value had been spent on various Environment Canterbury activities

General rates

For every \$100,000 of capital value, the owner of a property in the Canterbury region paid an average of \$33.52 in general rates to Environment Canterbury. Environment Canterbury collects general rates for activities which benefit the whole of the region.

A breakdown of the \$33.52 into significant activities is as follows:



Source: Environment Canterbury, 2009/10 annual report, page 38.

- 4.11 Environment Canterbury reported a number of key financial statistics and financial performance items for a seven-year period, with explanatory comments (see Figure 16). This is a good illustration of reporting trends.

Figure 16
Key financial statistics and financial performance items for Environment Canterbury over a seven-year period

Environment Canterbury Financial Statistics							
	2010	2009	2008	2007	2006	2005	2004
Proportion of rates to total income (%)	57	62	63	64	58	60	61
General rate per \$100,000 capital value (\$) GST included	33.52	33.53	42.06	44.55	40.83	50.46	52.46
Total public debt as a percentage of total assets (%)	1.1	0.8	0.18	0.24	0.33	0.32	0.57

Environment Canterbury Financial Performance							
	2010	2009	2008	2007	2006	2005	2004
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Rates	72,705	68,588	65,743	60,306	49,909	47,222	44,675
Net surplus/(deficit) after tax	6,094	2,673	1,299	685	(2,374)	3,891	4,066
Public debt	6,632	4,863	1,089	1,039	965	1,403	2,159
Total Assets	617,487	606,872	600,508	436,188	434,469	438,544	376,486

Source: Environment Canterbury, 2009/10 annual report, page 38.

- 4.12 Environment Canterbury could include further analysis and comment on the general rate per \$100,000 of capital value and use that as a proxy to assess overall efficiency and cost-effectiveness of its operations. A decreasing ratio could indicate that services are being performed more efficiently. However, to complete this analysis, the movements in capital values, and impacts and outcomes of services provided, would need to be evaluated.

Examples of better reporting practices – key performance trends

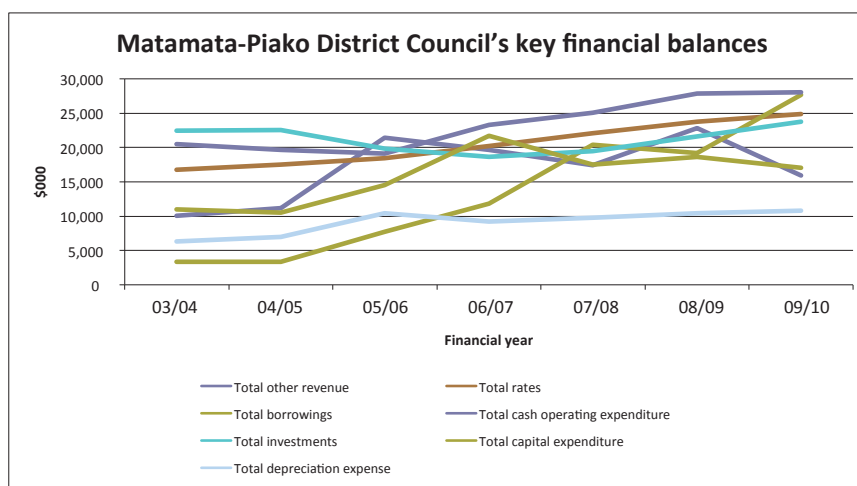
- 4.13 Local authorities regularly use a suite of common financial ratios and benchmarks to assess their financial performance. In some instances, they also assess their performance against other local authorities of a similar size and nature. Traditional performance indicators focus on profit and returns on investment, which are not applicable to local authorities whose primary objective is to provide services for the community or for a social benefit. However, there are key financial performance ratios that local authorities should consider because ratios provide a point-in-time picture of financial performance from other angles. Figure 17 summarises a set of financial performance indicators that we believe are useful for comparing performance over time. We drew many of these from the Wellington City Council and Environment Canterbury annual reports.

Figure 17
Key financial performance indicators

Key financial performance indicator	Reason for using the indicator
Rates as a percentage of total income.	This demonstrates how dependent the local authority is on rates income to fund its activities or, conversely, how dependent the local authority is on other sources of income (for example, dividend or investment income).
Percentage rates increase year-on-year over time. Complementary indicators might include: - rates per head of population; and - rates per rating unit.	This measures fiscal prudence, although results would need to be considered in the context of the local authority's circumstances (for example, the local authority's financial strategy).
Percentage increase in the cash flow from operating activities year-on-year over time. (Operating activities are the principal revenue-producing activities of the local authority and exclude activities relating to long-term assets and other investments, equity, and borrowings.)	This measures fiscal prudence, although results would need to be considered in the context of the local authority's circumstances (for example, the local authority's financial strategy).
Capital expenditure as a percentage of the depreciation charge.	This measures whether the local authority is expanding its levels of service, catching up on deferred capital expenditure, deferring capital expenditure, or spending on a business-as-usual basis. Further information would be needed to show which of these applies.
Funding sources for capital expenditure.	This shows how capital expenditure is funded (for example, rates, government grants and subsidies, cash reserves, or borrowings).
Average percentage return on investments.	This measures the effectiveness of investment decisions.
Average percentage borrowing cost.	This measures the cost of borrowing as a financial strategy.
Key borrowing ratios. For example: - borrowings as a percentage of rates; - the number of times interest is covered by rates; and - borrowings as a percentage of total assets or total equity.	These measure the capacity to borrow and ability to service and support borrowings.
Working capital (or current) ratio.	This measures the extent to which the local authority can meet its short-term obligations (for example, payments to creditors, employee entitlements, or short-term borrowings).

- 4.14 It may be worthwhile presenting the above ratios or other financial information using graphs to show the trends. These graphs should be accompanied with commentary. For example, a local authority could graph the trends of operating expenditure, rates income, and total income as a pictorial overview of financial performance. A pictorial overview of the local authority's financial strategy could be shown by graphing the trends of capital expenditure, investment assets, and borrowings. Figure 18 sets out our graphing of Matamata-Piako District Council's operating expenditure, rates income, borrowings, investments, and capital expenditure over seven years.

Figure 18
Matamata-Piako District Council's operating expenditure, rates income, borrowings, investments, and capital expenditure from 2003/04 to 2009/10



- 4.15 The trends in the graph indicate the following:
- There has been an increase in most activity areas as reflected in the upwards trend in rates revenue, other revenue, cash operating expenditure, capital expenditure, borrowings, and investments.
 - Based on the levels of cash operating and capital expenditure trends, Matamata-Piako District Council appears to be increasing the scope (or the level) of services it provides to its community.
 - Capital expenditure is at least twice the depreciation expense in each of the seven years. This could indicate either increases in the level of services or catching up on expenditure deferred from previous years, but providing additional information would make this clearer.

- 4.16 Matamata-Piako District Council appears to have changed how it funds its activities. Over the seven years, while the level of borrowings has increased, the investments balance has been maintained. This indicates that investments are not being used as a funding source for its activities. We found that this part of its decisions had not been communicated in the annual reports and should be considered, particularly to explain the funding approach for significant capital projects.
- 4.17 We have analysed and commented on what we believe is Matamata-Piako District Council's financial strategy based on what is reflected in the performance results. It is an exercise that Matamata-Piako District Council and other local authorities should consider doing in their future annual reports to show that they are using historical performance information as part of making business operating decisions. As mentioned earlier, local authorities will need to report against their financial strategy in their pre-election report.
- 4.18 An important focus of the upcoming 2012-22 LTP will be the disclosure of the local authority's financial strategy. Therefore, it is useful and good practice for local authorities to include analysis and commentary in the annual report reflecting how they have performed compared with their financial strategy. Wellington City Council's financial overview section in its 2009/10 annual report included a number of useful graphs and comments about its financial strategy. Figure 19 sets out part of those comments.

Figure 19
Part of Wellington City Council’s narrative about its performance against its financial strategy

The Council’s gross borrowings have increased by \$20.1 million to \$283.2 million as at 30 June 2010.

OUR BORROWINGS POSITION – THREE YEAR TREND – \$M

Year	Non Current (\$M)	Current (\$M)
2010	\$183	\$100
2009	\$178	\$84
2008	\$143	\$108

The increase in the Council’s total level of borrowings reflects the utilisation of funds to complete the 2009/10 capital expenditure programme.

The Council borrows to fund the purchase or construction of new assets or upgrades to existing assets that are approved through the Annual Plan process. This included completing the extension of the City Gallery and beginning construction of the Indoor Community Sport Centre.

The Council has managed its debt well by meeting all of the core policy compliance requirements set out in the Council’s Investment and Liability Management Policy.

PRUDENTIAL LIMITS	POLICY LIMIT	ACTUAL	COMPLIANCE
Borrowings as a % of equity	<10%	5%	Yes
Borrowings as a % of income	<150%	71%	Yes
Net interest as a % of annual rates income	<15%	8%	Yes

The Council has hedged itself against the unexpected increases in interest rates by ensuring that a large portion of the debt is at fixed interest rates. Currently 81% of the total debt is effectively at fixed rates. The table below shows the amount of borrowings hedged against changes in interest rates by maturity.

INTEREST RATE RISK CONTROL LIMITS (INTEREST RATE EXPOSURE)	POLICY LIMIT	ACTUAL	COMPLIANCE
1 - 3 year bucket	20%–60%	21%	Yes
3 - 5 year bucket	20%–60%	24%	Yes
5 - 10 year bucket	20%–60%	55%	Yes

The Council manages its liquidity risk by spreading the maturity of debt by ensuring we have unused facilities available to fund future spending and by ensuring the maturity of our borrowings is well spread. There are \$77 million of unused facilities available at 30 June 2010 to cover future spending requirements and ensure the Council has adequate access to funds at all times. The following table shows the maturity profile of our total facilities

LIQUIDITY/FUNDING RISK (ACCESS TO FUNDS)	POLICY LIMIT	ACTUAL	COMPLIANCE
Liquidity/funding risk (access to funds)	>110%	110%	Yes
0–3 year bucket	20%–60%	56%	Yes
3–5 year bucket	20%–60%	24%	Yes
5–10 year bucket	15%–60%	20%	Yes

The Council continues to maintain a strong investment position when compared to the level of borrowings.

Year	Other Assets (\$M)	Investments (\$M)	Borrowings (\$M)
2010	\$382	\$5,944	\$283
2009	\$391	\$5,886	\$263
2008	\$374	\$5,780	\$251

The Council’s investments include cash and cash equivalents, investment properties, our share of the net assets of our associates (including Wellington International Airport Limited) as well as our other financial assets.

Key investment highlights during the year include:

- We received \$15.4 million in dividends from our investment in Wellington International Airport Limited.
- We received \$14.2 million from the lease of our investment properties.

Source: Wellington City Council, 2009/10 annual report, pages xviii and xix.

4.19 Lack of analysis and commentary would make it difficult for a reader to understand why and how a local authority has made its financial management decisions. To inform its readers, it is worthwhile for a local authority to clearly communicate its financial strategy, explain any significant variances in its annual report, and relate its financial performance to the financial strategy.

Recommendation 3

We recommend that local authorities include financial performance summaries that focus on the key issues and impacts, and key achievements during the financial year and over longer terms to reveal performance trends.

Recommendation 4

We recommend that local authorities use graphs, diagrams, and other visual presentations to show performance, and support these with narrative and commentary as part of the context.

Recommendation 5

We recommend that local authorities consider reporting against key financial performance indicators to benchmark their performance and for assessing performance over time and against their financial strategy.

Appendix

Local Government Act 2002: Information to be included in annual reports

This Appendix shows some of the amended clauses of Part 3 of Schedule 10 of the Local Government Act 2002. These clauses were amended by the Local Government Act 2002 Amendment Act 2010.

[Clause] 23 Groups of activities

An annual report must, in relation to each group of activities of the local authority, –

- (a) identify the activities within the group of activities; and
- (b) identify the community outcomes to which the group of activities primarily contributes; and
- (c) report the results of any measurement undertaken during the year of progress towards the achievement of those outcomes; and
- (d) describe any identified effects that any activity within the group of activities has had on the social, economic, environmental, or cultural well-being of the community.

[Clause] 24 Capital expenditure for groups of activities

- (1) An annual report, must in relation to each group of activities, include an audited statement comparing the capital expenditure budgeted by the local authority (as set out in the long-term plan or annual plan for the financial year) with the amount spent.
- (2) The statement described in subclause (1) must show separately the amount of funds that the local authority intended to spend and the amount spent to –
 - (a) meet additional demand for a group of activities; and
 - (b) improve the level of performance in relation to a group of activities; and
 - (c) replace existing assets.
- (3) For the purpose of this clause, capital expenditure budgeted for 2 or all of the purposes in subclause (2) must be treated as if it were made solely in relation to the primary purpose of the expenditure.

[Clause] 25 Statement of service provision

An annual report must include an audited statement that –

- (a) compares the level of service achieved in relation to a group of activities with the performance target or targets for the group of activities; and
- (b) specifies whether any intended changes to the level of service have been achieved; and
- (c) gives the reasons for any significant variation between the level of service achieved and the intended level of service.

[Clause] 29 Financial statements

(1) An annual report must include –

- (a) audited financial statements for the financial year for the local authority; and
- (b) audited consolidated financial statements for the financial year; and
- (c) such other information as is necessary to enable an informed assessment of the operations of each entity reported on; and
- (d) the numerical information from the statements described in paragraphs (a) and (b) for the financial year before the financial year to which the report relates.

(2) The numerical information described in subclause (1)(d) must be presented in a way that allows the public to compare the information with the numerical information contained in the forecast financial statements for the financial year covered by the report.

Glossary

Activity is a good or service provided by, or on behalf of, a local authority or a council-controlled organisation. It includes providing facilities and amenities, making grants, and performing regulatory and other governmental functions.

Cost-effectiveness is the relationship between the level of resources used (costs) and progress toward a predetermined outcome (effect). The terms “cost-effectiveness” and “interventions” are not formally defined in legislation or specifically required, so a broad interpretation should be taken consistent with the expectation that the major activities that entities carry out add real value at a reasonable cost. Assessing cost-effectiveness, and identifying cost-effectiveness intentions, involve entities tracking performance over time to allow readers to understand whether the costs of services are justified by the impact and outcome results produced.

Dimensions of performance are the aspects or properties of performance that a particular performance measure can address. They include, but are not limited to, quantity, quality, timeliness, location, and cost.

Elements of non-financial performance reporting include inputs, outputs, impacts, and outcomes, which can be measured for the purpose of reporting and assessing the entity’s performance.

Group of activities means one or more related activities provided by, or on behalf of, a local authority or council-controlled organisation.

Impacts are the contributions made to an outcome by a specified set of outputs. Often referred to as “intermediate outcomes”, they represent the relatively immediate or direct effect on stakeholders of the entity’s outputs.

Outcomes refer to changes in the state, condition of, effects on, or consequences for the community, society, economy, or environment resulting from the operations of the reporting entity.

Outputs are the goods and services produced by the reporting entity. The term refers only to the goods and services produced for third parties. It excludes goods and services consumed within the reporting entity (such as services provided by legal, research, human resource, or information technology functions to other functional areas within the same entity, which are often referred to as “internal outputs”).

Performance means how well an entity performs against its objectives. It is a comprehensive concept because performance can relate to a wide range of elements, such as outcomes (including impacts or other intermediate-level

outcomes), outputs, inputs, and capability. Performance may also be expressed in relational terms, such as efficiency (that is, relationship of inputs to outputs) or effectiveness (that is, relationship of outputs to outcomes).

Performance measures are the specific criteria or means used to measure performance (most commonly of output production and achievement of impacts and outcomes). They may be expressed as (but are not limited to) absolute numbers, percentages, ratios, point estimates, or ranges. They may also be qualitative in nature.

Performance standards or targets are the specific levels of performance (usually relating to outputs produced and outcomes achieved) that the entity aims to meet.

Readers are people who rely on the published (that is, external) general purpose reports as their major source of financial and non-financial information about an entity. For this purpose, readers are assumed to have a reasonable knowledge and willingness to study the reported information.

Service performance reports are reports to readers that provide primarily non-financial information that records the output delivery performance of an entity against specified measures and targets. This information is usually shown in statements of service performance (or equivalent reports) and is compared with information contained in forecast non-financial performance reports. Service performance is concerned not only with how well services are delivered (output delivery performance) but also with how effective the services are at achieving the entity's objectives (achievement of impacts and outcomes). Therefore, service performance reports should provide some link to impact and outcome information. For the purpose of published, statutory accountability reports, service performance reports typically comprise:

- a medium-term component that incorporates an outcome-oriented statement of intended or actual achievements, which should include information on the entity's objectives, outcomes, impacts, and operating intentions, together with related performance measures and targets and other information required by legislation and generally accepted accounting practice; and
- an annual component that incorporates a service performance report (often referred to as a statement of service performance), which is an output-oriented statement of forecast or historical service (that is, output) delivery, together with related performance measures and targets and other information required by legislation and generally accepted accounting practice.

A **Statement of service performance** reports on the extent to which intended levels of service and service performance were met during the financial year.

Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Managing freshwater quality: Challenges for regional councils
- New Zealand Transport Agency: Delivering maintenance and renewal work on the state highway network
- Government planning and support for housing on Māori land
- Inquiry into the use of parliamentary travel entitlements by Mr and Mrs Wong
- The Emissions Trading Scheme – summary information for public entities and auditors
- Planning to meet the forecast demand for drinking water in Auckland
- Appointing public sector auditors and setting audit fees
- Home-based support services for older people
- New Zealand Customs Service: Providing assurance about revenue
- Inland Revenue Department: Making it easy to comply
- Central government: Cost-effectiveness and improving annual reports
- Annual Plan 2011/12
- Progress in delivering publicly funded scheduled services to patients
- Final audits of Auckland's dissolved councils, and managing leaky home liabilities
- Statement of Intent 2011–14
- Review of the Northland Events Centre
- Public entities' progress in implementing the Auditor-General's recommendations
- Ministry of Social Development: Managing the recovery of debt
- Local government: Results of the 2009/10 audits
- The Auditor-General's Auditing Standards
- Central government: Results of the 2009/10 audits (Volume 2)
- Provision of billboard for Len Brown's mayoral campaign

Website

All these reports are available in HTML and PDF format on our website – www.oag.govt.nz. Most of them can also be obtained in hard copy on request – reports@oag.govt.nz.

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Office of the Auditor-General
PO Box 3928, Wellington 6140

Telephone: (04) 917 1500
Facsimile: (04) 917 1549

Email: reports@oag.govt.nz
Website: www.oag.govt.nz