



Address to Asset Management and Engineering Directors' Forum

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The Increased Need for Judgement...

- LGA 2002 is a more comprehensive planning and reporting regime that emphasises:
 - Greater underlying information to support decision-making
 - The need for elected members and officers to make judgements
- Our role as statutory auditor of local authorities requires us to consider both these elements



Questions Raised by ‘General Empowerment’...

- ... in using the Part 6 Planning and reporting processes
 - how much information to disclose and how
 - when and who to consult
 - how much analysis to undertake over what period
- ...in applying the Act to particular circumstances
 - sale/purchase of assets
 - use of rates
 - contracting and tendering



Community Views in Relation to Decisions

Consultation



Community Outcomes

Consultation



LTCCP

Consultation



Annual Plan

Community Views



New Proposals

Community Views



Service Level Planning

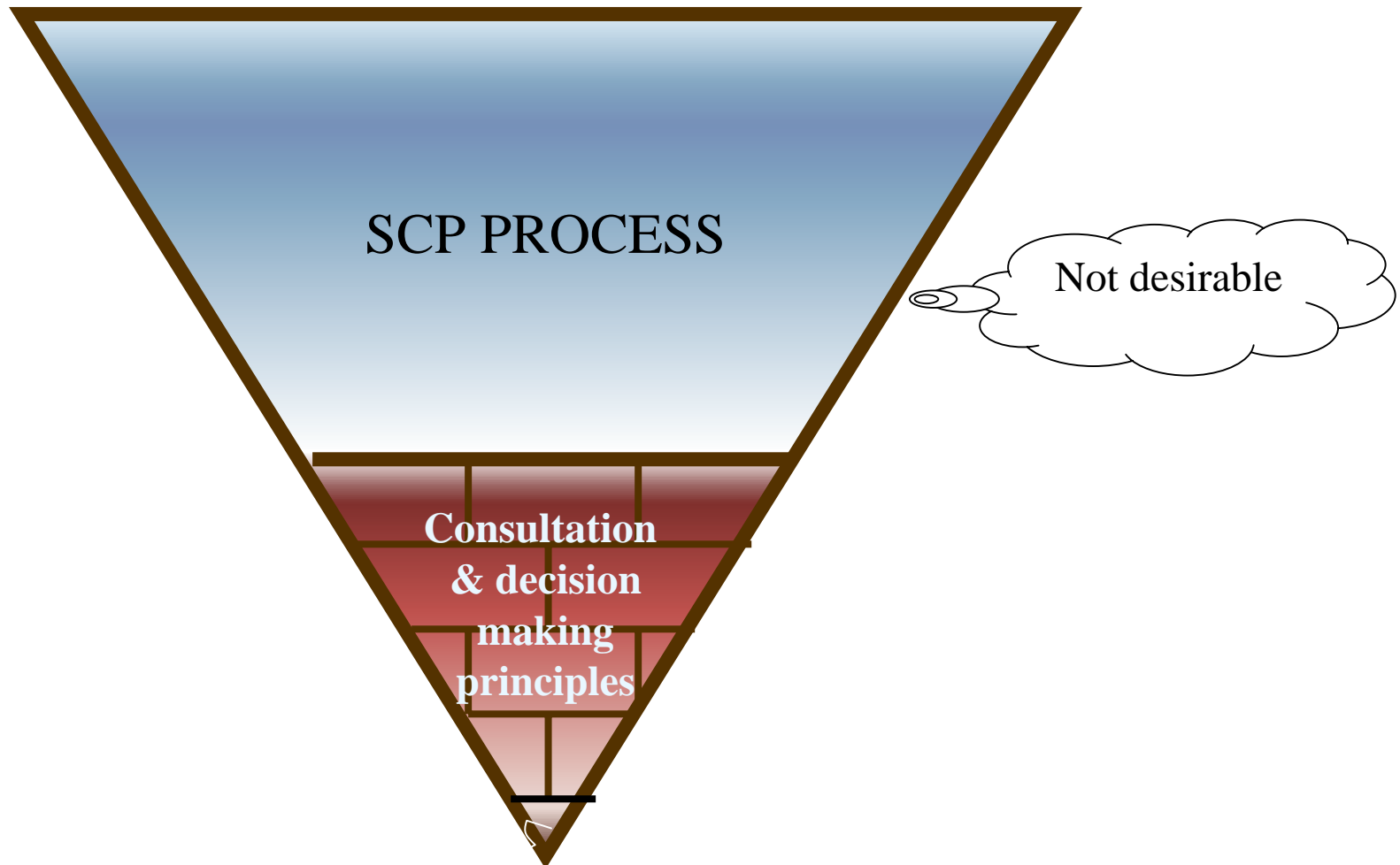


Consultation

- Spirit of consultation is as important as the method
- Research shows a greater use of active participation (deliberative techniques) ie preference forming
- Greater variety of consultation techniques being used; “One size doesn’t fit all”

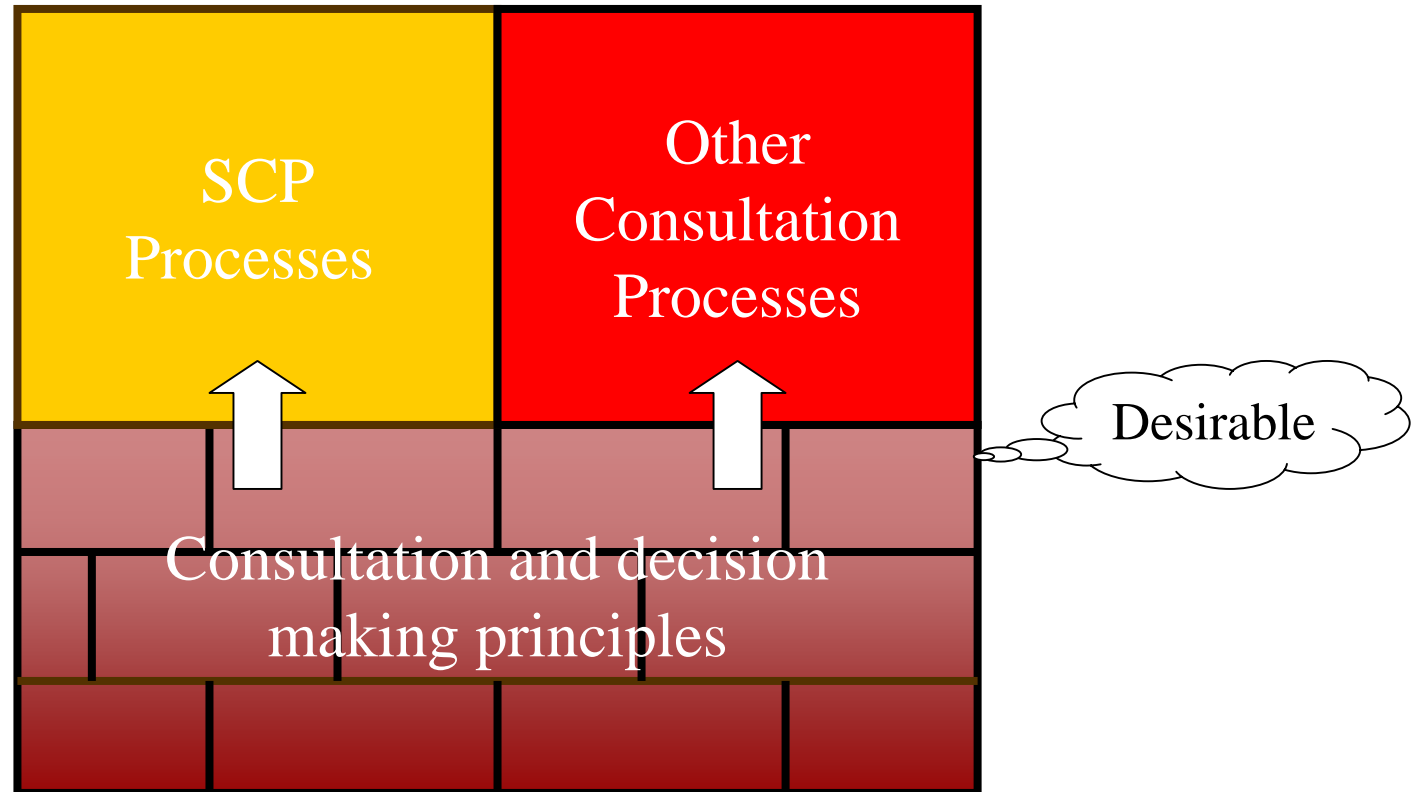


SCP Prescription Overpowering Consultation Principles





Consultation Approach Balanced





Decision Making & the 4Ps

- Navigating through:
 - Powers: tell councils the scope of the scope of their decision making powers (12)
 - Principles: tell councils what to have regard to in all situations (14, 39, 78, 82, 101)
 - Purpose: guide councils in deciding how far to go in analysing and consulting in planning and reporting (10, 11, 91(2), 93(6), 95(5), 98(2))
 - Prescriptions: red flags for inconsistent decisions or forbidden decisions (80, 97)
- The reason for the approach is now as important as the approach



Our Approach to Good Practice

- Strong demand for guidance on how to deal with judgement based provisions of the Act
- Where issues are in our core area of expertise we will work with the sector to develop guidance
- Experience with the Act is evolving so good practice is likely to evolve



LTCCP Foundation...

- ...is groups of activities including:
 - Service rationale, statement of levels of service, plus significant negative effects
 - Assets associated and those additionally required by demand and standard changes, and how:
 - maintenance, renewal and replacement will be undertaken
 - costs of additional will be met
 - Statement of cost of service
 - Expenses and Revenue, including the relationship to the financial management considerations (103)
- Careful presentation needed for information to be understandable and avoid duplication



Migrating from LTFS to LTCCP

- Councils with LTFSs based on sound information should have a good base to prepare the LTCCP's 10-year forecasts
- The LTFS “disciplines” are transferable
- There are issues:
 - Asset information
 - Financial forecasts
 - Service Levels
 - Significance



Asset Information

- The new information about asset capacity should allow understanding of:
 - how assets deliver service
 - funding required for extra capacity
- An area not well done by the early 9 - little information on assets and how these are to be managed and funded.
- AMP reviews suggest some councils will have their work cut out to meet the new disclosure requirements



Financial Forecasts

- Reviews of LTFSs and some LTCCPs suggest Councils will need to enhance the robustness of forecast and projected financial information to:
 - adequately disclose assumptions supporting the financial forecasts and projections
 - correctly show movements and changes
 - present forecast financial statements per GAAP (FRS-29)
- Forecast statements and accounting policies should allow comparison with the financial statements and should reflect the discipline used to prepare groups of activity statements



Service Levels

- Not a good understanding of what **services** are and what they achieve
- Historic performance measures are taken as service levels
- Many Councils only use the Annual Plan to consult
- Legislative requirements dominate
- Over-reliance on “customer satisfaction”
- Specific outcome and service targets lacking
- Generally a 1 year focus



Meaningfulness of Performance Information

- All groups of activities need levels of service and measures that allow costs to be related
- Should be able to express reasons for choosing service levels and performance measures explain and how these contribute to outcomes
- Service level information varies – non-asset based service levels are being demanding
- Useful resources include:
 - NAMS manual *Creating Customer Value*;
 - Our 2001 report *Reporting Public Sector Performance*



Significance

- Some councils are experiencing difficulty in their approach to assessing the significance of issues.
- May be an equivalence between ‘strategic assets’ and ‘assets required by groups of activities’ for LTCCPs
- Where there is not a policy approach:
 - a significance assessment still needs to be made
 - individual decisions need to be recorded and monitored for consistency with treatment in like circumstances



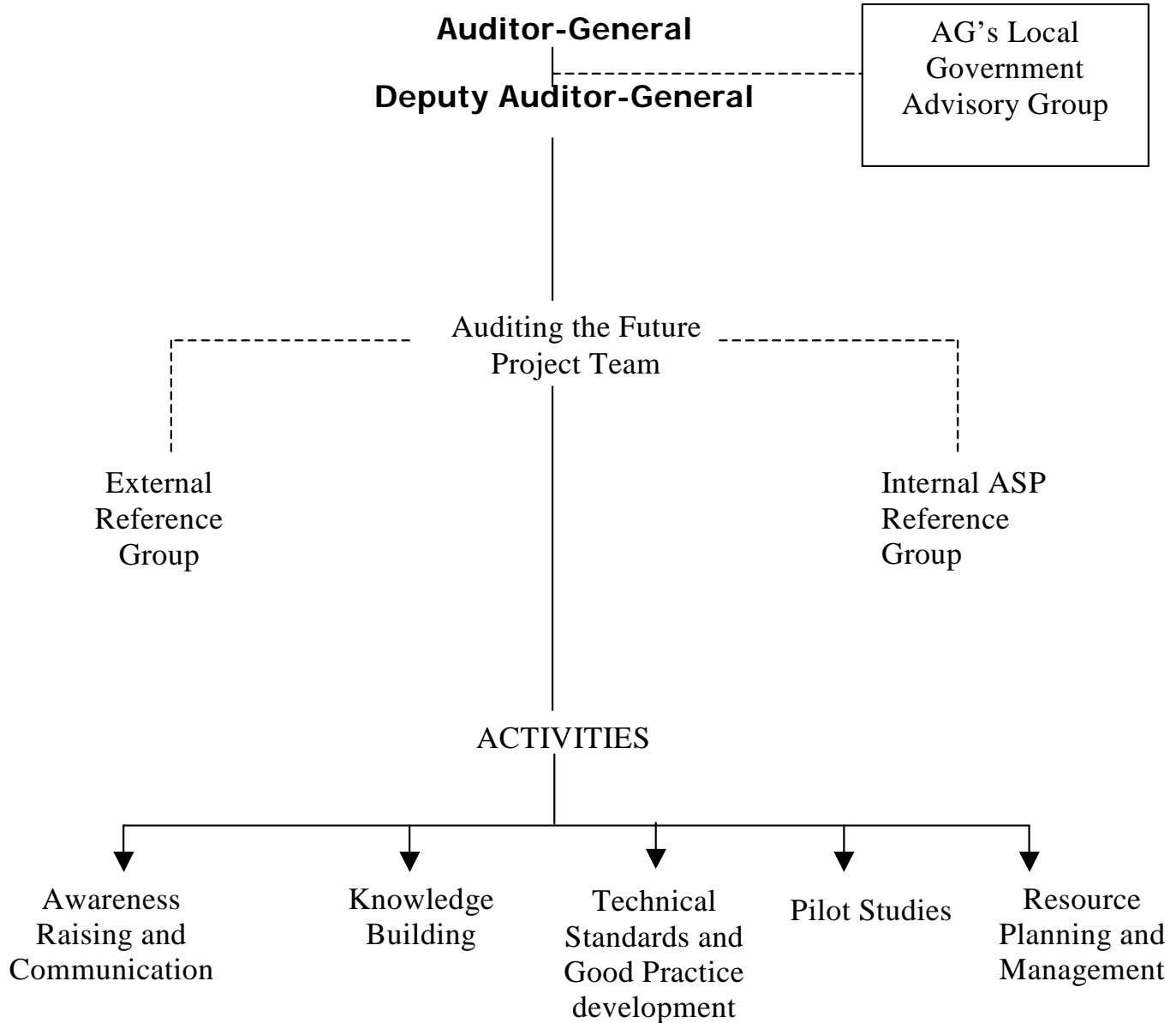
Challenges for Asset Managers

- Thinking about:
 - Social, economic, environmental and cultural wellbeing in the present and future
 - significance (negative effects, service levels, strategic assets)
- Integration across policy, strategy, asset management and finance
- Understanding the drivers of asset upgrading and development needs
- Rethinking capex forecasting
- Converting technical standards into customer service levels



Our Role - Auditing the Future

- From 2006, audit the draft and final LTCCP and any amendments and attest on:
 - The extent to which legislative requirements are met;
 - The quality of underlying information and assumptions;
 - The extent to which performance information will allow the public to make meaningful judgments about service levels.
- Audit of the Summary Annual Report:
 - Represents the information on major matters fairly and consistently.
- Project: Auditing the Future is to put in place the resources, standards and the know-how to audit LTCCPs





Current Focus of Workstreams

- Knowledge Building
 - Research on international accounting and auditing standards
 - Analysis of sustainable development auditing techniques and other options for audit approach
- Technical Standards and Good Practice Development
 - Issues with FRS-29 being raised with ICANZ
 - SOLGM to be asked to assist with developing sets of assumptions



Current Focus of Workstreams

- Pilot Studies
 - Pilots are not ‘real-time’
 - Testing our audit approach in four key areas and looking at options on the issues
 - Pilots being conducted by OAG and ASP teams
- Awareness Raising and Communication
 - Consulting primarily through our external reference group and SOLGM.
 - General communication through newsletter and presentations



Components of our Pilot Audit Approach

- Four keys areas of development:
 - Application of sustainable development approach and of the Act principles
 - Integration across underlying information and within the LTCCP
 - Compliance with the content requirements (Pt 6 and Sched 10)
 - Form of opinion and the standards to be applied



Some Issues

- Materiality
- Assumptions
- Financial Modelling
- Amendments (s.97, s.102 s.141 & s.80)



Approach to 2006 Audit Work

- Work will be spread over the LTCCP development - encourage your councils to plan for audit involvement at key milestones and process points
- Work on the ‘final’ draft LTCCP will primarily involve ensuring that information and processes already reviewed are correctly applied and aggregated



Our Question to You

- How can *INGENIUM* help contribute to the future knowledge and tools will asset managers need to achieve the integration and information robustness envisaged by the Act?