

Risk and Assurance Committee - Rangitikei District Council - Chair's Report – September 2024

Author: Philip Jones, Chair

In my previous report I commented that the local authorities have the following emerging risks:

- Financial sustainability
- Inability to deliver key services
- Internal conflict over different priorities, roles and responsibilities
- Lack of community responsibility
- Increasing compliance

These have not changed, however since the last meeting the Government have announced their intention to remove all references to the four aspects of community well-being in the LGA02 both at the Local Government Conference and through the proactive release of Cabinet material about the Local Government Forward Work Programme by the Minister of Local Government.

In the paper the Minister listed 12 items of focus being:

1. refocusing the purpose of local government;
2. benchmarking local authorities on key metrics;
3. revenue cap on non-core expenditure by councils;
4. looking into how councils recover costs from fees and charges;
5. review of the bylaws system, including enforcement;
6. exploring a collective approach to reduce insurance costs
7. looking at how the Local Government Funding Agency (LGFA) can lend more to larger councils;
8. reviewing councils' transparency and accountability processes;
9. addressing constraints in councils' consultation and decision-making processes;
10. discrete interventions to update and modernise the Local Government Act 2002 (LGA02);
11. exploring whether efficiencies in how elected councillors conduct their business; and
12. consider the greater use of shared services.

In this report I will focus on refocusing the purpose of local government, benchmarking local authorities on key metrics and exploring a collective approach to reduce insurance costs. However, the proposed revenue cap on non-core expenditure by councils will create significant risks for the councils. It should be acknowledged that "rates caps" have not worked well overseas.

The purpose of local government

In the paper the Minister makes the following statements:

To tackle the high cost of living, the Government has committed to restoring discipline to public spending and working alongside local government to effect change. This includes ensuring that the local government system can operate as efficiently as possible.

There is significant inflationary pressure on council rates. The Government has been focused on cutting costs and stopping wasteful programmes and reducing the size of the back office. Unfortunately, local government has not taken this message on board. Average rates rises by local government over the next 12 months amount to around 15%, which is over four times the rate of inflation.

This is unacceptable and putting significant burden on ratepayers.

Therefore, I suggest refocusing the purpose of local government in law by:

Removing all references to the four aspects of community well-being in the LGA02;

- *Establishing a more precise and meaningful purpose for local government in the LGA02 (I propose that section 10(1)(b) read "to provide for good-quality local infrastructure, public services, and regulatory functions in a way that is most cost-effective for households and businesses, while supporting local economic growth and development");*
- *Reinstating section 11A of the LGA02 (core services to be considered in performing role), which provides that, in performing its role, a local authority must have particular regard to the contribution that certain core services make to its communities;*

Particularly, I intend to investigate requirements that councils publish information on the activities they undertake and the costs of those activities. My expectation is that council activities will need to be justified under the new purpose of local government. Where the justification for council activities has rested solely on the four well-beings, my expectation is that councils will cease these activities

This is my opinion will put additional pressure to reduce levels of service which and if these are significant, will require councils to amend recently adopted Long term plans, which will come at a cost. However, in 2011 when the last National lead Government was in power, there was no change in the costs or levels of service from the removal of the four well beings. While it is the intention to focus the purpose to provide for "good-quality local infrastructure, public services, and regulatory functions", previously these have not been defined in the LGA02.

In addition, almost all activities have some link to the four well beings, so I am uncertain as to the effect of the statement "Where the justification for council activities has rested solely on the four well-beings, my expectation is that councils will cease these activities".

Benchmarking local authorities on key metrics

While this may be seen as a risk, the current non financial benchmarks are either a pass or fail. With the right measures, these could be improved to show trends over time.

Exploring a collective approach to reduce insurance costs

Insurance costs have significantly outpaced inflation for public and private asset owners in recent years. Part of the increase has been driven by an increased understanding of seismic risk, with an update to the National Seismic Hazard Model (NSHM) in 2022 and higher incidence/impact of weather events. For central government, insurance costs have increased an average of 23% per annum for key central government agencies over the last three years. This has driven (and occurred despite) a reduction in the level of insurance coverage obtained, meaning there is a greater cost of insurance and a higher exposure to risk. The local government picture is similar with increased costs being passed onto ratepayers through rates increases and higher levels of uninsured assets.

I will be looking for opportunities to improve risk management practice and reduce costs to local government.

The issue that the Minister has not addressed, nor in my opinion is likely to address, is all local authorities are jointly and severally liable for all building works including commercial buildings. In law, joint and severally liability makes all parties in a suit responsible for damages up to the entire amount awarded. That is, if one party is unable to pay, the others named must pay more than their share.

This means, even if a local authority makes a very minor error, because they are the last man standing, they can be held 100% liable. This is why insurance premiums are increasing and some providers are withdrawing from the New Zealand market. This was the basis of the claim against the Masterton¹ District Council claim.

Professional indemnity insurance will become more expensive and difficult to acquire due to the “last man standing requirement”. As noted in the press, Masterton like a number of local authorities uses Marsh insurance brokers and their provider of Professional Indemnity withdrew from the New Zealand market because of the number of claims against local authorities. This puts more financial pressure on the sector.

¹ Masterton's insurance was settled between the parties and the amount remains confidential.