

Hamilton City Council – Finance Committee

Thursday 21 February 2019

Chairman's Report

Value, like Beauty, is in the eye of the beholder. Value, like Beauty is often subjective. But that's no reason for Council to ignore the importance of Value for the people we represent.

The words "Value for Money", or "Value for Ratepayers" rarely, if ever, appear in staff reports to Council or Council committees. In my opinion staff reports are light on addressing 'Value for Money' for our Ratepayers, Citizens & Businesses.

In my opinion we risk good proposals being approved that, despite their 'goodness', are hideously over-priced. Other good proposals being rejected because earlier good proposals have gobbled up all the money. Bad proposals being approved because they happen to arrive when Council has spare cash to go around (e.g. savings from an underbudget project) or good/bad proposals turning bad/worse, but Council is slow to react, or doesn't react at all & just accepts the resulting financial carnage (e.g. Claudelands Events Centre).

We seem to have no objective process for measuring or ranking spends on major proposals. Put bluntly - we don't seem to have a mechanism for ensuring that our Ratepayers, Citizens & Businesses get Value for Their Money.

Council is a monopoly provider in most of the activities/services in which it is engaged so our Ratepayers, Citizens & Businesses have no option but to use, & pay for, Council's services irrespective of Council's cost, timeliness, variety, quality etc. In most situations its "Council's way or the Highway". In that respect our Ratepayers, Citizens & Businesses are more "Captives" than "Customers."

For that & other reasons Council needs an objective process to ensure, as best we can, that Ratepayers, Citizens & Businesses get Value when Council spends their money. This process should provide objective advice to Council when it (1) approves/declines a proposal & (2) ranks competing proposals.

Cost Benefit Analysis (CBA) is an analytical tool that would provide greater clarity, certainty, objectivity & validation for Elected Members when determining the spending or otherwise of Ratepayers' money.

I assume most will be aware, to some degree, of CBA. CBA is a simple concept with enormous consequences. Notwithstanding, the huge value CBA can bring to decision making, I'm not aware that Staff reports &/or recommendations consider CBA or are 'backed up' by CBA.

Simply, CBA is the process of weighing the costs of a proposal against the benefits of that proposal. If the costs out-weigh the benefits the proposal probably shouldn't proceed. If the benefits outweigh the costs, that's good reason the proposal should proceed.

However, CBA is about more than just approving or declining proposals, CBA informs the ranking of competing proposals. Several proposals may deliver positive CBA results. CBA provides an objective process by which competing proposals can be ranked.

Council agendas include consideration of matters like "Legal & Policy" & "Significance & Engagement" however I see no evidence of CBA in our standard reporting model.

CBA requires an objective investigation, identification & quantification of the costs & benefits, both financial & non-financial of a proposal.

Just following the discipline of CBA will identify many of the costs/benefits/issues/challenges etc. caused by a proposal, many of which may not have been captured under the current reporting format.

A rigorous CBA process should deliver a stronger, objective & more comprehensive understanding of the costs & the benefits of a proposal. A lot of the costs & benefits will be financial, but CBA is not limited to financial cost & benefits. Examples of non-financial measures:

1. "How many people will benefit or suffer as a consequence of the proposal?"
2. "How much time will this proposal save or waste?"

CBA reporting provides a great deal of the objective information Council needs when making decisions as to (1) whether or not a proposal should proceed & (2) which proposals, amongst many, should proceed.

I have discussed this matter with the Mayor & the CE. I suggest we work to incorporate CBA into our standard reporting model. If we don't, I'm of the opinion that Council risks making decisions absent information that is fundamental, objective & comprehensive which will lead to poor 'Value for Money' outcomes for our Ratepayers, Citizens & Businesses.

My objective is to address what, in my opinion, is a weakness in our oversight responsibility regarding the spending of ratepayers' money. In my opinion, failure to consider the CBA outcome of our decisions leads, very often, to outcomes whereby the costs to our community far outweigh the benefits.