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Matters arising from our audits of the 2021-31 long-term plans



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Contents

Auditor-General's overview	4
The 2021-31 long-term plans at a glance	8
Part 1 – Preparing long-term plans	10
Why do councils prepare long-term plans?	10
Our audit work on long-term plans	11
How the Covid-19 pandemic affected the preparation of councils' long-term plans	13
More 2021-31 long-term plans were adopted late	15
Part 2 – The financial strategies adopted by councils and their impact on rates and debt	17
What is a financial strategy?	17
How effective were the financial strategies?	17
The rates limits set by councils in their financial strategies	20
What are the proposed rates to be set for the sector in long-term plans?	22
What borrowing limits did councils set in their financial strategies?	25
How much are councils proposing to borrow?	26
Why some of the financial assumptions councils made affected the audit reports we issued	29
Part 3 – Infrastructure strategies	36
What is an infrastructure strategy and what does it need to include?	36
Why are infrastructure strategies important?	39
What makes a good infrastructure strategy?	39
Our observations about the most recent infrastructure strategies	40
Part 4 – How councils manage their assets	47
Councils' capital expenditure forecasts	47
What are the risks to councils delivering their capital expenditure programmes?	50
Are councils reinvesting enough in their existing assets?	52
What do councils know about the condition and performance of their critical assets?	55
Part 5 – How the Government's proposed three waters reforms affected the long-term plans	59
The three waters reform programme	59
How did the three waters reform programme affect councils' long-term plans?	62
What was our audit response?	64
Potential implications of the three waters reform programme	65
Part 6 – Climate change	66
The need for climate action is becoming more urgent	66
Our expectations for the 2021-31 long-term plans	67
How councils are factoring climate change risks and vulnerabilities into their long-term planning	69
Taking climate action	71
We are proposing further work to consider climate action by councils	81
Appendices	
1 – The audit reports issued on councils' 2021-31 long-term plans	82
2 – Subsectors and the growth councils	101

Figures

1 – The types of audit reports issued on the 2021-31 long-term plans, compared with the 2012-22, 2015-25, and 2018-28 long-term plans	12
2 – The length of councils' financial strategies in their 2021-31 long-term plans	19
3 – The composition of total revenue by revenue type for the 2015-25, 2018-28, and 2021-31 long-term plans	23
4 – The number of councils forecasting to increase their rates for 2021/22 to 2030/31 and the percentage increase forecast	24
5 – Range of councils' borrowing limits	26
6 – Comparison of debt forecasts from the 2015-25, 2018-28, and 2021-31 long-term plans	27
7 – Peak debt forecasts by council subsector in the 2021-31 long-term plans, compared with the 2018-28 long-term plans	28
8 – Palmerston North City Council's proposed debt compared to its debt affordability benchmark	32
9 – Reasons for emphasis of matter paragraphs about funding and financing assumptions	33
10 – The core assets presented in councils' infrastructure strategies	37
11 – Other types of infrastructure assets that some councils included in their infrastructure strategies	38
12 – Forecast capital expenditure in the 2021-31 long-term plans, compared to 2018-28 long-term plans	47
13 – Proposed spending on capital by all councils in years 11 to 30 of their 2021-51 infrastructure strategies	48
14 – Proportion of 2021-31 forecast capital expenditure by subsector and type of capital expenditure	49
15 – Forecast renewal capital expenditure compared to forecast depreciation for all councils for the 2021-31, 2018-28, and 2015-25 long-term plans	53
16 – The proportion of forecast renewal expenditure to forecast depreciation by core asset activity, in the 2021-31 and 2018-28 long-term plans	54
17 – Key government announcements and how they affected long-term plans and our audit reports	60
18 – The locations of the proposed four water services entities	63
19 – Central Otago District Council's long-term plan 2021-31 climate change assumption	69
20 – Central Otago District Council's long-term plan 2015-25 climate change assumption	70
21 – The location of councils that have declared a climate emergency	73

Auditor-General's overview

E ngā mana, e ngā reo, e ngā karangarangatanga maha o te motu, tēnā koutou.

Long-term planning that informs good decision-making by councils and helps communities to hold councils to account has never been more important.

For many years, most councils have had a relatively stable operating context. This is no longer the case. The impact of the Covid-19 pandemic, together with the number of reforms and reviews under way, means that the context that the local government sector is now operating in is highly uncertain.

However, regardless of context, councils need to continue to reliably and efficiently deliver services to maintain the trust and confidence of their communities.

In New Zealand, we are fortunate to have a robust long-term planning regime in the local government sector. Other parts of the public sector are not required to do such long-term planning. In my view, they would benefit from such a requirement.

Long-term planning allows councils to set out the challenges they and their communities face, provide options for how these challenges may be addressed, and seek input from their communities on their preferred way to address them. For many councils, the challenges that they face, and the financial commitment that they seek from their community to address those challenges, is a real test of community leadership.

I commend the efforts of council staff and elected members who sought to tackle many of the key challenges that their councils face. Most councils produced realistic long-term plans based on the best information available when the plans were adopted. This is a significant achievement even in less challenging times but even more so in the current operating context facing the local government sector.

We saw the following in the 2021-31 long-term plans:

- Councils are moving to address historical underinvestment in their infrastructure. The long-term plans had a richer discussion of the implications of previous decisions for investing in assets and what this meant for the future. The plans often had a particular focus on reinvestment in three waters assets within a significant proposed capital expenditure programme of \$77.2 billion throughout the sector for the next 10 years.
- Many councils made tangible progress in collecting better condition and performance information about their critical assets. Having this information helps to support more accurate decision-making about the need for, and timing of, asset renewals and the risks of “sweating assets” in need of replacement.

- Councils set rates at higher levels than they may have previously to fund the increasing costs that they expect to face.
- Councils provided more discussion about climate change in their long-term plans, including what they were doing to adapt to, and mitigate the risks from, the impacts of climate change on their communities.
- Councils discussed the uncertainty created by the current significant reforms – three waters reforms, the reform of the Resource Management Act, and the future for Local Government review. These reforms are making the operating context for councils challenging.

Although there have been improvements, councils need to do more to produce financial and infrastructure strategies that are integrated and are clear about the risks that each council faces, what the council's risk appetite is, and how it is planning to mitigate or manage risks and the associated cost of this.

The financial strategy and the infrastructure strategy provide the strategic direction and the underpinning context for the long-term plan. Consequently, these two strategies need to be realistic and clear to the reader.

These two strategies also need to be integrated to provide a sense of the risks a council faces, the trade-offs that need to be made, and the resulting costs, including how those costs will be funded. Councils also need to base their plans on realistic assumptions that reflect their best information about the future.

A tight labour market and supply chain challenges are causing capacity issues. This creates risks to current service delivery, the delivery of future capital projects, and their cost. The financial and infrastructure strategies need to be able to respond to these challenges.

Councils are forecasting to invest more in their assets than in previous long-term plans. Assuming councils can substantially deliver this planned investment, this is a positive change. Historically, this has not been the case.

Councils' forecast renewals remain lower than forecast depreciation for the period of the long-term plans. This indicates that councils are still not reinvesting enough in their assets.

Each council's borrowing practices need to reflect its risk profile. With a significant increase in infrastructure investment being forecast, debt throughout the local government sector is also forecast to be the highest it has ever been. Debt is forecast to be more than \$38 billion by the end of the long-term plan period in 2031.

In the current economic environment of increasing interest rates, councils with significant debt levels need to closely monitor interest costs and ensure that their treasury management policies and practices are fit for the risks that they are managing.

Councils that have relied on alternative funding sources face the risk that these do not eventuate as budgeted. This could have implications for the services that councils are planning to provide. It could also mean that councils will need to identify other funding sources.

Councils also need to address the inherent risks in the long-term operation of their infrastructure. It is critical that councils understand the state of their infrastructure and the ongoing investment that they need, including responding to the effects of increasingly severe weather events as a result of climate change.

Most councils disclosed that they needed to improve the information that they hold about their assets to support prioritised investment decisions. I agree with that, and also that Councils should continue focusing on asset management practices generally. It is important that councils implement the improvement plans they have for collecting and maintaining asset condition information.

We continue to highlight that improved information about the condition and performance of councils' assets is needed for three waters assets. Holding suitable information will be important for ongoing service delivery to the country, regardless of any future changes to the role councils may play in managing these assets.

Our audit of long-term plans helps to provide assurance to communities that the underlying information and assumptions that the long-term plan is based on is reasonable and supportable – for example, a council has reasonable knowledge of its assets.

My auditors issued two adverse audit opinions and nine qualified audit opinions on the 2021-31 long-term plans. Adverse and qualified audit opinions are normally rare in our audits of long-term plans.

In most instances, the qualification was limited to a disagreement or a limitation in scope about an aspect of the underlying information that the long-term plan was based on. For example, a council may not have had enough information about the condition and performance of its assets to suitably inform the council's renewal strategies and forecasts.

However, in my view, the two councils that received an adverse audit opinion did not present a plan that was fit for purpose. This is because the councils did not have a credible plan based on reasonable and supportable assumptions to address the challenges that those councils faced.

Our audit reports on the 2021-31 long-term plans also included more emphasis of matter paragraphs than in the past. An emphasis of matter paragraph does not mean that the auditor has found anything wrong. However, there were some important matters that we wanted to draw readers' attention to. In most instances, the emphasis of matter paragraphs reflected the significant uncertainties councils faced in preparing their long-term plans.

Our auditors emphasised the uncertainty associated with:

- the impact of the Government's proposed structural reforms of three waters services;
- whether some councils can deliver their proposed capital expenditure programmes, given the scale of the proposed programmes and the various challenges in delivering them;
- the nature and extent of the asset condition and performance information that some councils used to inform their forecasts of three waters asset renewals; and
- the funding assumptions that some councils used.

In my 2019 report about the matters arising from the 2018-28 long-term plans, I recommended that the Department of Internal Affairs and the local government sector review the required content for long-term plans so that they remain fit for purpose and do not include requirements that have limited value to their communities. This recommendation stands.

I acknowledge the dedication, time, and effort that elected members and council officers and staff put into preparing the 2021-31 long-term plans, particularly during the difficult circumstances of a pandemic. I also acknowledge my auditors and staff in the wider office who supported our audits.

This would have been a challenging year for both councils and our auditors even without a long-term planning process.

Nāku noa, nā

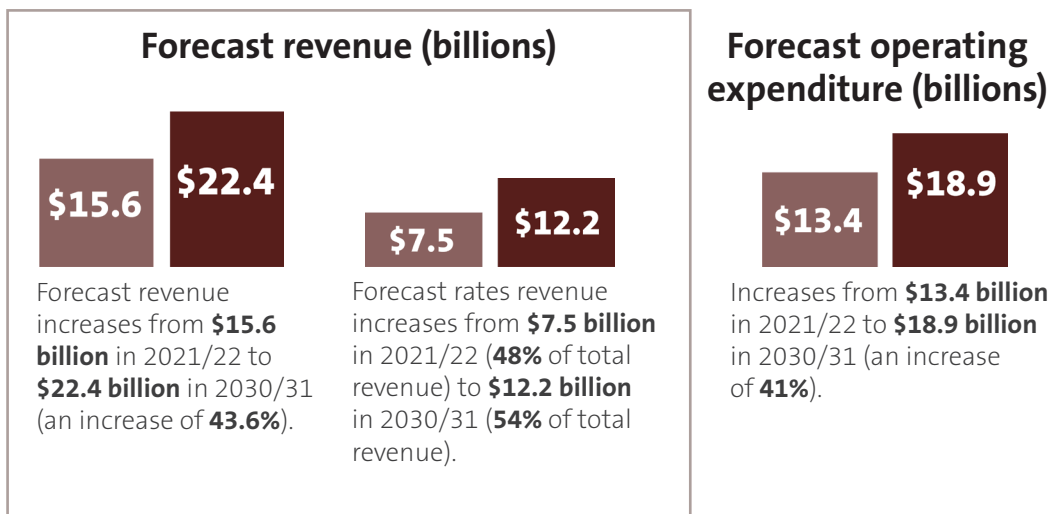


John Ryan
Controller and Auditor-General

20 July 2022

The 2021-31 long-term plans at a glance

Long-term plan main financial forecasts of all councils



Forecast capital expenditure

\$77.2 billion

Councils propose to spend **\$77.2 billion** on their assets. Annual capital expenditure is expected to range between **\$7.5 and \$7.9 billion**.

\$32.5 billion on renewing assets.

\$26.5 billion on improving levels of service.

\$18.2 billion on meeting additional demand.

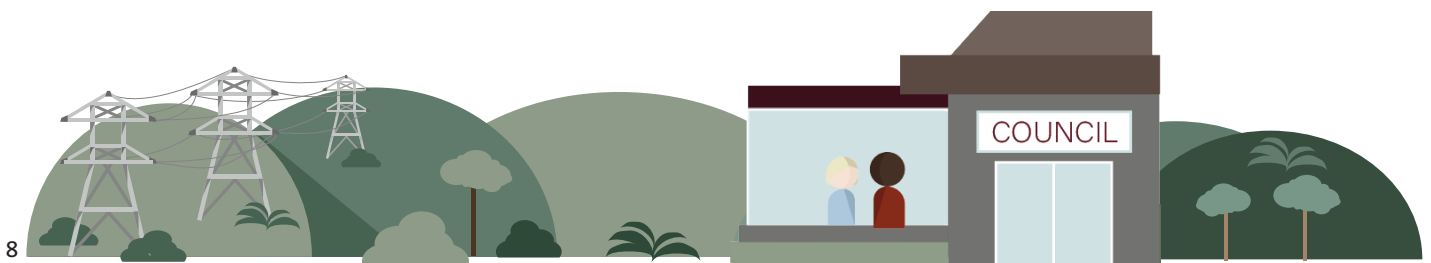
On average, renewal expenditure is forecast to be **84%** of the amount of depreciation.

Forecast gross debt

Increases from **\$24.7 billion** in 2021/22 to **\$38.4 billion** in 2030/31.

Forecast gross debt as a percentage of revenue peaks at **201%** in 2024/25.

Interest expenditure as a percentage of gross borrowing ranges between **3.1% and 3.3%** over the forecasts.



Long-term plan audit results

Timeliness



66 councils adopted their long-term plans before the statutory deadline of 30 June 2021.

12 councils missed the deadline, but 9 adopted by the end of July 2021. One adopted in August, one in October, and one in December.

Audit opinions



67 councils had clear audit opinions, which meant that the long-term plans were fit for purpose and based on reasonable underlying assumptions and information. For 63 of these councils, we highlighted matters of concern or information in our audit report.

11 councils received a qualified audit opinion, where we did not provide audit assurances over the long-term plan and all its assumptions. Two of these councils received an adverse audit report.

Other facts

Infrastructure strategies



43 councils covered more types of infrastructure assets than those required to be included.

2 councils produced a combined financial and infrastructure strategy.

Disclosures about climate change

All councils included appropriate disclosures on how climate change is expected to affect them and their communities.

There were more than 5000 references to “climate change” in the 2021-31 long-term plans, an average of 65 references for each council. In the previous long-term plans, the average was 27.



1

Preparing long-term plans

- 1.1 In this Part, we outline:
- why councils prepare long-term plans;
 - our audit work on long-term plans;
 - how the Covid-19 pandemic affected the preparation of councils' 2021-31 long-term plans; and
 - why more councils adopted their long-term plans later than usual.

Why do councils prepare long-term plans?

- 1.2 The long-term plan is the key planning tool for councils. It is the basis for accountability with communities and a vehicle for integrated decision-making and co-ordination of resources, giving a long-term view.
- 1.3 The Local Government Act 2002 (the Act) requires a council to always have a long-term plan covering a period of not less than 10 consecutive financial years. A long-term plan remains in force for three years and can be amended by a council at any time.
- 1.4 After three years, councils are required to adopt a new long-term plan. A council must consult with its community on the proposed content of its long-term plan or any amendments to its long-term plan.¹
- 1.5 Section 93(6) of the Act states that the purpose of a long-term plan is to:
- describe the activities of the local authority;
 - describe the community outcomes of the local authority's city, district, or region;
 - provide integrated decision-making and co-ordination of the local authority's resources;
 - provide a long-term focus for the decisions and activities of the local authority; and
 - provide a basis for accountability of the local authority to the community.
- 1.6 Essentially, a long-term plan describes the services a council plans to provide, the community outcomes it plans to contribute to, and the cost of this. Therefore, long-term plans are an important mechanism to strengthen long-term planning, community consultation and participation, and accountability.

¹ The Act requires a consultation document to form the basis for public participation in a local authority's decision-making process about the content of its long-term plan. Each consultation document is required to contain an audit report from the Auditor-General. For more information about consultation documents and our audits of these, see oag.parliament.nz, *Consulting matters: Observations on the 2021-31 consultation documents*.

Our audit work on long-term plans

What do our audits of long-term plans cover?

- 1.7 Our audits provide Parliament and the public with independent assurance that the long-term plan meets its statutory purpose and is based on reasonable and supportable underlying information and assumptions.
- 1.8 In completing our audits, we are not required to give a view on whether a council has met all of the Act's legislative requirements. However, we do consider whether the council has included the mandatory content and whether it is taking a financially prudent approach. Councils remain responsible for meeting legislative requirements.
- 1.9 Our role does not allow us to comment on the merits of any policy content that councils have included in their long-term plan. Policy decisions are for elected members to make. This is important because it helps us to maintain our independence.
- 1.10 Instead, our audit involves checking that the policies a council proposes are appropriately reflected in the forecasts it has prepared. In effect, we check whether councils' forecasts are consistent with what they say they will do.

A summary of the non-standard audit reports that we issued on the 2021-31 long-term plans

- 1.11 Figure 1 shows the audit reports we issued on long-term plans compared to the previous three long-term plan rounds. Appendix 1 sets out the types of audit reports we can issue and provides detail on each non-standard audit report we issued on the 2021-31 long-term plans.
- 1.12 As in our audits of consultation documents,² we issued only four standard audit reports on the 2021-31 long-term plans, which is far fewer than previous long-term plan rounds. These four standard audit reports were for regional councils.
- 1.13 The audit reports for the long-term plans of all territorial authorities (other than Mackenzie District Council) and Greater Wellington Regional Council included an emphasis of matter paragraph that drew attention to the uncertainty of the impacts of the three waters reforms.³ See Part 5 for more information.

² For more information on the audit reports we issued on the consultation documents, see Part 5 of *Consulting matters: Observations on the 2021-31 consultation documents* at oag.parliament.nz.

³ Three waters service delivery relates to water supply, sewerage and the treatment and disposal of sewage, and stormwater drainage activities.

Figure 1
The types of audit reports issued on the 2021-31 long-term plans, compared with the 2012-22, 2015-25, and 2018-28 long-term plans

Audit report issued	2021-31	2018-28*	2015-25	2012-22**
Adverse audit opinion	2	0	0	1
Qualified audit opinion (“except-for” opinion)	9	1	1	2
Unmodified audit opinion that included an emphasis of matter paragraph***	63	9	11	7
Standard audit report	4	67	66	67
Total	78	77	78	77

* Kaikōura District Council did not prepare a long-term plan in 2018. Because of the exceptional circumstances arising out of the 2016 Kaikōura earthquake, an Order in Council in March 2018 allowed the Council to prepare a customised unaudited three-year plan.

** Christchurch City Council did not prepare a long-term plan in 2012. The Council elected not to prepare and adopt a 2012-22 long-term plan. Legislation enacted after the Canterbury earthquakes gave the Council that option.

*** An audit report can contain more than one emphasis of matter paragraph. We included 146 emphasis of matter paragraphs in our 2021-31 long-term plan audit reports. Appendix 1 sets out full details for each council’s audit report.

- 1.14 We issued two adverse audit opinions. We determined that the underlying information and assumptions in Palmerston North City Council’s long-term plan were unreasonable. The Council had made assumptions about how it would meet the projected costs for the upgrade to its wastewater treatment plant in year three of its plan onwards. We considered that Palmerston North City Council’s long-term plan did not have a credible plan to fund its activities and projects (see paragraphs 2.81 to 2.88).
- 1.15 In its long-term plan, Palmerston North City Council had made the assumption that the wastewater treatment plant would be funded by debt. However, the Council also acknowledged that it would be unlikely to secure this level of borrowing. The Council took this approach because of uncertainty about the proposed three waters reforms.
- 1.16 We also issued an adverse audit opinion for Mackenzie District Council. This was because the Council assumed it would continue to deliver the three waters services after the Government had formally announced that the proposed three waters reforms were mandatory for all councils and would take effect from 1 July 2024.
- 1.17 Other councils had made the same assumption but did so before the Government’s announcement. Mackenzie District Council adopted its long-term plan in December 2021, after significant announcements by the Government on three waters reforms. Therefore, we took a different approach from the one we took with other councils (see paragraphs 5.25 to 5.29).

- 1.18 We also issued nine qualified audit opinions. Six of these related to certain funding assumptions that we considered unreasonable. The other three qualifications covered the quality of councils' asset information.
- 1.19 Some of the qualifications we issued in the consultation document audit reports were not included in the long-term plan audit reports. In part, this was because they related to the content of the consultation document and were not applicable to the long-term plan.
- 1.20 It was also pleasing to see that three councils made changes to their forecasts to address the concerns we had when issuing a qualified audit opinion on their consultation document.
- 1.21 Other sections of this report discuss the main themes that we identified from the audit reports that we issued. These are:
- the funding and financing assumptions (see paragraphs 2.65 to 2.109);
 - the delivery of the forecast capital expenditure programme (see paragraphs 4.25 to 4.31);
 - the nature of information on the condition and performance of assets (see paragraphs 4.66 to 4.84); and
 - the proposed three waters reforms (see paragraphs 5.22 to 5.29).

How the Covid-19 pandemic affected the preparation of councils' long-term plans

- 1.22 Preparing a long-term plan is not a simple task. Significant input from elected members and council staff is needed to effectively meet the purpose of a long-term plan (see paragraph 1.5).
- 1.23 Elected members are expected to set the direction of the council, make decisions that affect the content of the long-term plan, and ultimately approve the completed long-term plan. Council staff are expected to develop the underpinning strategies, policies, assumptions, and forecasts that are then presented in the long-term plan.
- 1.24 To support the sector in preparing long-term plans, Taituarā – Local Government Professionals Aotearoa (Taituarā) produced guidance that it shared with its members. The guidance recommends that councils should spend up to two years preparing the supporting material, drafting the long-term plan, and consulting with their communities about what they propose to include in the long-term plan. Most of the work will be completed between six and 18 months before the adoption of the long-term plan.

- 1.25 With this lead time in developing the long-term plans, councils need to stay alert for changes that they may need to incorporate into their long-term plan. Taituarā also provided specific guidance to assist councils in focusing on what would be important in the 2021-31 long-term plans.
- 1.26 Many in the sector told us that the 2021-31 long-term plans were the most difficult to prepare since the plans were first required. The most significant challenge for councils to navigate was the impact of the Covid-19 pandemic. The country went into the first lockdown at about the same time that councils were preparing their 2020/21 annual plans.⁴ This resulted in some rework on the 2020/21 annual plans. As a result, work on the long-term plans started later than usual. Taituarā's guidance was designed to help councils be more efficient in preparing their long-term plans given this context.
- 1.27 As a response to the economic downturn caused by the lockdowns, many councils looked to support their communities by minimising the 2020/21 rates increase or reducing the cost of some services not funded by rates. Where they could, some councils also brought forward programmes of work, with the aim of supporting the local economy.
- 1.28 The policy decisions that councils made as they prepared their 2020/21 annual plans had an impact on the 2021-31 long-term plans. Councils needed to consider whether they could continue to provide the support they had put in place. If they could not, they needed to determine what needed to change. Some councils could not continue to minimise their main funding source – their rates revenue – without affecting the levels of service they provide.
- 1.29 At the same time, the long-term issues facing councils had not gone away. These included responding to climate change, improving critical services such as providing safe drinking water, and adequately reinvesting in infrastructure.
- 1.30 Additionally, councils were facing proposed reforms (three waters and resource management) and a changing regulatory environment. To maintain and improve community well-being, councils needed to carefully balance their response to the Covid-19 pandemic with these other issues.
- 1.31 The Covid-19 pandemic also affected some of the assumptions that councils were using, such as population growth (for example, expected changes to immigration forecasts) and behavioural trends (for example, how people live and work, including how they use community facilities, what form of transport they use, and how often they use it).

⁴ In response to the Covid-19 pandemic, the Government put in place a four-level alert system. Each Alert Level introduces more measures to protect people from contracting or spreading Covid-19. On 25 March 2020, all of New Zealand moved into Alert Level 4, which required many council workers to isolate and work from home.

- 1.32 At times, councils needed to reconsider the funding assumptions for some projects. This was because economic stimulus packages meant that councils could receive additional funding from central government.
- 1.33 The Covid-19 pandemic made preparing the long-term plans significantly more challenging. Staff had to work remotely at times during the long-term plan's preparation. Staff also had to factor in a new set of assumptions and consider their council's role in the economic recovery from the pandemic.
- 1.34 The Covid-19 pandemic also made the forecasts included in the long-term plan more uncertain. We are already starting to see the impact of this as councils prepare their 2022/23 annual plans. Councils face much higher interest rates and cost increases than they originally assumed in the long-term plans.
- 1.35 Responding to the impact of the Covid-19 pandemic meant that many councils effectively needed to restart preparing their long-term plans. This affected when councils adopted their 2021-31 long-term plans, as we discuss in paragraphs 1.36 to 1.45. We acknowledge the dedication, time, and effort that elected members and council officers put into preparing their long-term plans in these circumstances.

More 2021-31 long-term plans were adopted late

- 1.36 The disruption caused by the Covid-19 pandemic meant that some councils faced delays in preparing their long-term plans while they responded to elevated risks and uncertainties in many areas of the long-term plan's forecasts. Our auditors also needed to consider these risks and uncertainties as they completed their audits, which took more time.
- 1.37 Our audits were also affected by a shortage of qualified auditors throughout New Zealand. This affected our audits of council annual reports and led to Parliament passing legislation that extended the statutory reporting time frames for many public organisations, including local authorities, by two months for 2019/20, 2020/21, and 2021/22. The delays in our auditors completing their 2020 audits meant they started their audits of the 2021-31 long-term plans later than they ordinarily would.
- 1.38 These matters affected whether some councils were able to adopt their audited long-term plans on time. Section 93(3) of the Act requires a council to adopt a long-term plan before the start of the first financial year that the plan covers. That means that councils needed to have adopted their audited 2021-31 long-term plans before 1 July 2021.

- 1.39 Twelve councils adopted their audited 2021-31 long-term plans after 30 June 2021. By comparison, two councils adopted their 2018-28 long-term plans late. Consistent with our standard practice, we referred to this breach of statutory deadline in our audit reports.
- 1.40 Of the 12 councils that adopted their long-term plans late, Mackenzie District Council and West Coast Regional Council adopted their audited long-term plans more than three months after the statutory deadline. Even allowing for the impact of the Covid-19 pandemic, we consider this delay in providing those two communities with a long-term plan is unacceptable.
- 1.41 Mackenzie District Council's and West Coast Regional Council's decision-making has been compromised as a result. Their ability to levy their main source of revenue – rates – was delayed because they were unable to set the rates for 2021/22 until they adopted their long-term plan.
- 1.42 Taituarā recommends that councils apply six principles when preparing a long-term plan. One of these principles is “long-term planning requires project management disciplines”.
- 1.43 The long-term planning process contains a lot of moving parts. Taituarā states that successful long-term planning needs careful project planning and sequencing the right activities in the right order. We endorse using project management disciplines when preparing a long-term plan.
- 1.44 Governors and staff need to understand the purpose of the long-term plan and their role in the process. The long-term plan cannot be seen as “business as usual”. It is part of good local governance and organisational effectiveness. Input into the long-term plan is needed from a wide range of staff throughout the council.
- 1.45 There will still be considerable uncertainty for councils to consider when they prepare their 2024-34 long-term plans. We urge all councils to consider, with their auditors, where they can improve their project management processes.

If councils have not already held a debrief on their 2021-31 long-term plan to consider what went well and where there are opportunities for improvement in preparing future long-term plans, we recommend that they do this now.

The financial strategies adopted by councils and their impact on rates and debt

2

2.1 In this Part, we discuss:

- what financial strategies are and how effective they were;
- the rates limits that were set in councils' financial strategies and what this meant for proposed rates to be set throughout the sector; and
- the debt limits that were set in councils' financial strategies and how councils are looking to manage debt.

2.2 We also discuss why some of the financial assumptions that councils made affected the audit reports we issued.

What is a financial strategy?

2.3 The Local Government Act 2001 (the Act) sets out the purpose and required content of the financial strategy. Section 101A(2) states that the purpose of the financial strategy is to:

- facilitate prudent financial management by the local authority by providing a guide for the local authority to consider proposals for funding and expenditure against; and
- provide a context for consultation on the local authority's proposals for funding and expenditure by making transparent the overall effects of those proposals on the local authority's services, rates, debt, and investments.

2.4 The financial strategy is a mix of forecast information about what could have a significant financial effect on the council (such as changes in population or land use), expected capital expenditure in significant areas, and disclosures about the financial parameters that the council will operate in (limits on rates increases, borrowing, and targeted returns for financial investments).

2.5 The financial strategy is a critical part of the long-term plan. Along with the council's infrastructure strategy, it provides the strategic direction and the underpinning context for the long-term plan. Taken together, the financial and infrastructure strategies provide the reader with a sense of the costs, risks, and trade-offs that underpin the development of the expenditure programmes in the long-term plan.⁵

How effective were the financial strategies?

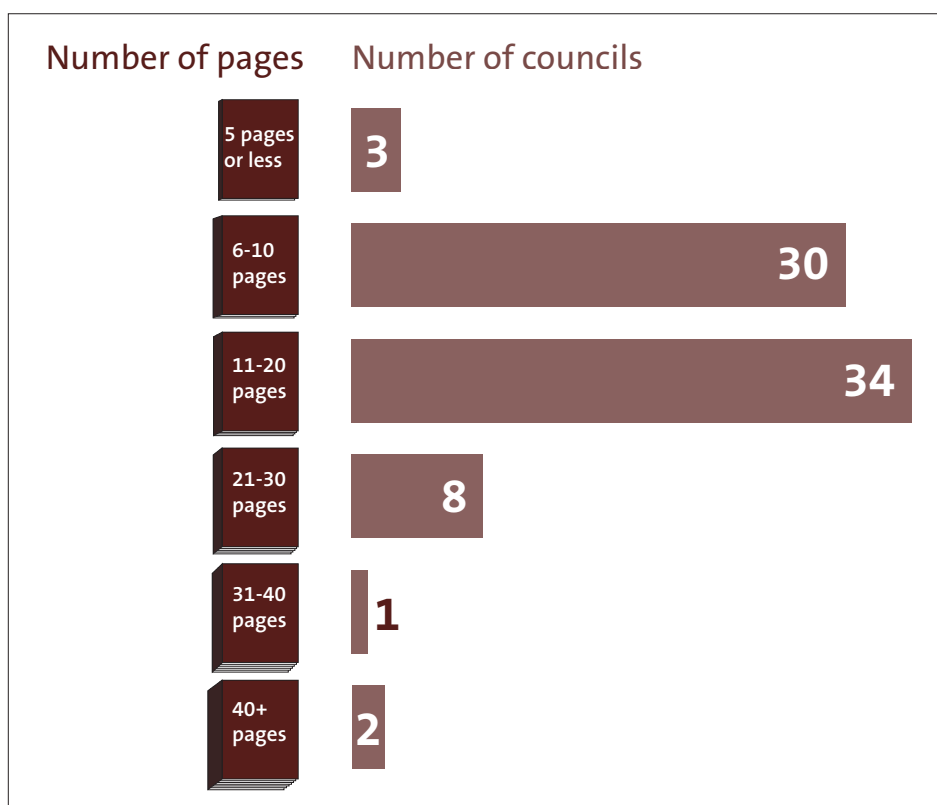
2.6 Councils should clearly explain their financial strategies to their communities by summarising what happened in the past, describing the present situation and challenges, and setting goals for the future (including why these are desirable and important).

⁵ New Zealand Society of Local Government Managers (2019), *Dollars and sense 2021: Financial and infrastructure matters and the long-term plan*, page 19.

- 2.7 For readers of the long-term plan to meaningfully assess the prudence of councils' financial management, the financial strategy must be clear about its goals and trade-offs and be presented in a concise way.
- 2.8 In our view, Hamilton City Council, Tasman District Council, and Greater Wellington Regional Council had effective financial strategies.
- 2.9 Hamilton City Council's financial strategy, which is seven pages long, is clear, concise, and easy to read. The Council highlights as a key challenge the unprecedented growth the city is experiencing and the increased pressure this has placed on infrastructure and services.
- 2.10 This provides a good link between the Council's infrastructure and financial strategies. The Council then explains how it has adapted the financial strategy to respond to these challenges, including by increasing the debt-to-revenue limit. There is also a clear description of the risk of the growth assumptions being higher or lower than planned and what the implications for the strategy would be.
- 2.11 Tasman District Council's financial strategy, which is 17 pages long, is a good example of "telling the story" to the community. It has a clear beginning (setting the scene), middle (explaining the current challenges), and end (describing the destination and its importance and impact – for example, the impact on drinking water quality and level of service).
- 2.12 The Council uses effective headings such as "The lay of the land", "What are our goals?", and "What's the plan?" to help the reader engage with the strategy. The Council also provides a good description of land use and the expected changes caused by growth.
- 2.13 Greater Wellington Regional Council's financial strategy, which is 19 pages long, clearly states its guiding principles. The Council clearly explains its current challenges, with a particular focus on climate change. There are good links to the Council's infrastructure strategy. Overall, the financial strategy is presented in a way that is easy for the reader to engage with.
- 2.14 In our view, presenting a clear and concise strategy, then adding any other required disclosures that have not already been covered, will produce a more effective financial strategy.
- 2.15 In our previous audits of long-term plans, we commented that presenting financial strategies in a clear and concise way would be more effective. Therefore, in our report on matters arising from the 2018-28 long-term plans,⁶ we set councils the challenge of producing clear and concise financial strategies that were no longer than five pages in their 2021-31 long-term plans.

- 2.16 We have reviewed the financial strategies in the 2021-31 long-term plans to see whether councils met this challenge. Although the Act sets out the minimum requirements of a financial strategy, some councils chose to provide additional information in the long-term plan's financial strategy section.
- 2.17 This additional information may include the financial prudence graphs or combining the financial and infrastructure strategies in the same section.⁷ This makes it more difficult to directly compare the length of financial strategies between councils.
- 2.18 However, because not many councils include the financial prudence graphs and infrastructure strategies, the overall analysis gives us a reasonable idea of the length of financial strategies. Figure 2 gives more information on the page count of councils' financial strategies.

Figure 2
The length of councils' financial strategies in their 2021-31 long-term plans



⁷ The Local Government (Financial Reporting and Prudence) Regulations 2014 require councils to include financial prudence benchmark disclosures in long-term plans.

- 2.19 The average length of all financial strategies was 14 pages. Thirty-three councils had financial strategies that were 10 pages or fewer, and 67 councils had financial strategies that were 20 pages or fewer. This indicates that councils tried to present the necessary information to their communities in a clear and concise manner.

The rates limits set by councils in their financial strategies

- 2.20 Section 101A(3)(b)(i) of the Act requires a council's financial strategy to include a statement about the council's quantified limits on rates increases. Some councils continue to set a total limit for rates (for example, by stating that rates would not exceed a certain percentage of total revenue), although the Act no longer requires this.
- 2.21 Councils set their own rates increase limits, which may be the same for each of the 10 years or an average of the 10 years of the plan. Alternatively, limits may vary year on year.
- 2.22 Slightly more than one-third of councils linked their rates increase limits to the local government cost index.⁸ Of these councils, most set a limit of local government cost index plus a single specified percentage (ranging from 2% to 9%). Most councils with rates increase limits not tied to the local government cost index had a specified percentage limit or a range that was generally tied to the council's actual results for the previous year.
- 2.23 Several variables are also involved – for example, whether the limits apply to general rates only or whether they also apply to targeted rates. The limits may also specifically include matters such as inflation, growth, water by meter, and rates penalties. This makes it difficult to directly compare councils. With this in mind, we have reviewed the information about rates increases in councils' financial strategies.
- 2.24 Porirua City Council, Rotorua Lakes Council, and Buller District Councils are among those setting the lowest rates increase limits (at 1.6%, 2%, and 2.2% respectively). For the 10 years covered by their long-term plans:
- Buller District Council's limit remains at 2.2% during all 10 years of the plan;
 - Porirua City Council's limits range from 1.6% in 2029/30 to 7.6% in 2021/22; and
 - Rotorua Lakes Council's limits range from 2% in 2026/27 to 9.2% in 2021/22.
- 2.25 However, Buller District Council is proposing to breach its limits in the first four years of its long-term plan.

⁸ Councils purchase different goods and services than households and other organisations. Therefore, councils cannot make use of forecast price indices developed for use in New Zealand to reliably forecast the impact on inflation in their long-term plans. To provide councils with reliable forecast price indices, Taituarā engages economists to produce 10-year rolling forecasts of movements in key local government costs. Indices for individual components are combined into an overall index: the local government cost index.

- 2.26 Otago Regional Council, Wellington City Council, and Environment Southland are among those setting the highest rates increase limits (at 49%, 27.5%, and 20% respectively). All have quite large ranges in their limits (at 6%-49%, 3%-27.5%, and 5%-20% respectively).
- 2.27 In some years, Wellington City Council's limits are significantly higher than its forecast rates increase. For example, year one of the long-term plan has a 27.5% limit against a 14% forecast, year four has a 25.2% limit against a 6.5% forecast, and year five has a 20.2% limit against a 2% forecast.
- 2.28 As a subsector, regional councils set the highest rates increase limits largely due to the need to increase compliance with government standards. They have four of the five highest limits.⁹ However, a ratepayer pays a significantly lower amount of rates to a regional council than to a territorial authority. Appendix 2 lists which councils are in each subsector.
- 2.29 This means that the impact of higher rates increase limits for a regional council may not be as significant for an individual ratepayer as higher rates increase limits for a territorial authority.
- 2.30 Like Buller District Council, 20 other councils have set the same rates increase limit during all 10 years of the long-term plan. Of the remaining 57 councils, the general trend for most (46 councils) is to set the highest rates increase limits in the earlier years of the plan and for these to decrease during the 10 years of the plan.
- 2.31 Most of the limits are not substantially different to the movements forecast in the long-term plans. Some councils have set their forecast rates increases equal to the limit set for some or all years of the plan. This suggests that the limits may be restraining actual practice in setting rates, or it could mean that limits are set to fit around the financial forecasts – and so do not really function as a true limit.
- 2.32 Although councils set their own rates increase limits (see paragraph 2.21), 30 councils forecast that they will breach their rates increase limits in at least one year of the long-term plan. Central Hawke's Bay District Council and Greater Wellington Regional Council forecast that they would breach their limits in seven years of their plans.
- 2.33 It appears that these two councils have opted to keep their prescribed limits, despite knowing they are likely to be breached in some years. These councils have included explanations for this in their long-term plans.
- 2.34 Councils should be clear about what limits they have set. Importantly, they should explain why using that specific limit to assess their financial health or prudence is appropriate.

Effective financial strategies should clearly disclose the rates increase limit set and why the limit is prudent.

9 These are Bay of Plenty, Northland, and Otago Regional Councils, and Environment Southland.

- 2.35 Although Christchurch City Council was not expecting to breach its rates increase limits, it described the limits as “soft”. This means that the Council could choose to exceed them if it could explain why it would be prudent to do so. This implies that the Council is treating the limit more like a guideline that can be flexible if needed. The Council has taken this approach because it recognises that the Christchurch earthquake rebuild and changing economic environment could result in a change in forecasts and ultimately the level of rates the Council will need to set.
- 2.36 Although councils forecast to keep to the limits they set in most instances, many ratepayers cannot relate the increases in their rates invoice from one year to the next to the rate increase limits set by their council. This is because rates increases are generally reported as an increase in total revenue, where individual ratepayers will pay more or less depending on factors such as rating policies and changes to differentials.

What are the proposed rates to be set for the sector in long-term plans?

Rates as a percentage of total council revenue remains consistent

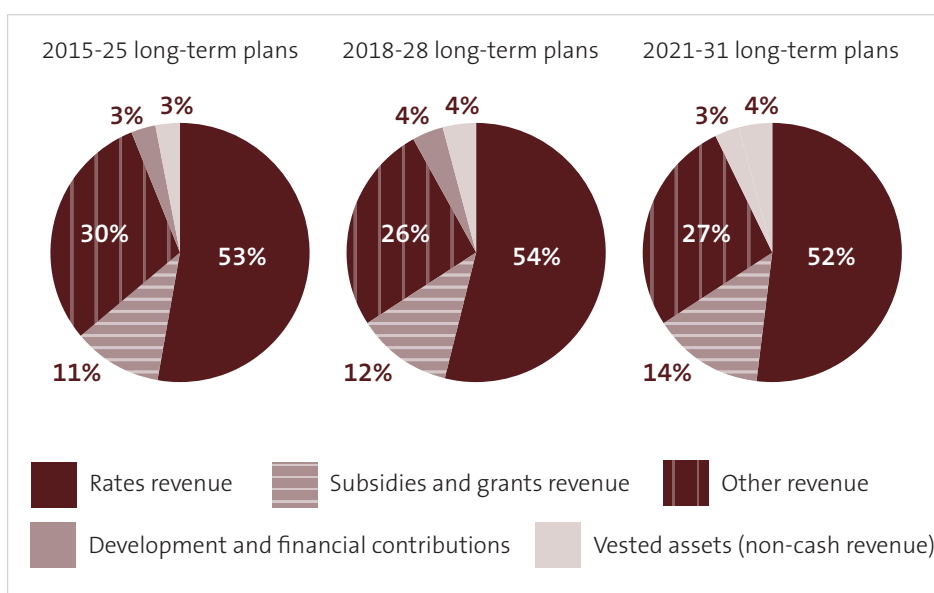
- 2.37 The total amount of councils’ revenue forecast to be received from rates has increased in the last three long-term plan rounds (2015-25 long-term plans: \$65.3 billion; 2018-28 long-term plans: \$77.8 billion; and 2021-31 long-term plans: \$98.7 billion). However, the percentage of revenue received from rates has remained relatively constant at between 52% and 54% (see Figure 3).
- 2.38 Individually, the average percentage of forecast revenue made up by rates revenue during the 2021-31 period varies from 7% (Chatham Islands Council, which has fewer than 1000 residents and rateable units and relies heavily on central government funding for its operational and capital expenditure) to 81% (Kawerau District Council).
- 2.39 Three councils have forecast rates revenue that makes up less than 40% of their total income. For 14 councils, forecast rates revenue makes up more than 70% of their total income during the same period.¹⁰
- 2.40 Some councils said in their financial strategies that they will actively seek to minimise their reliance on rates to fund their operational expenditure by promoting other revenue sources, such as government grants, sponsorship, and “user pays” policies.

¹⁰ This analysis excludes Mackenzie District Council, which had not adopted its 2021-31 long-term plan when we collected our data.

Figure 3

The composition of total revenue by revenue type for the 2015-25, 2018-28, and 2021-31 long-term plans

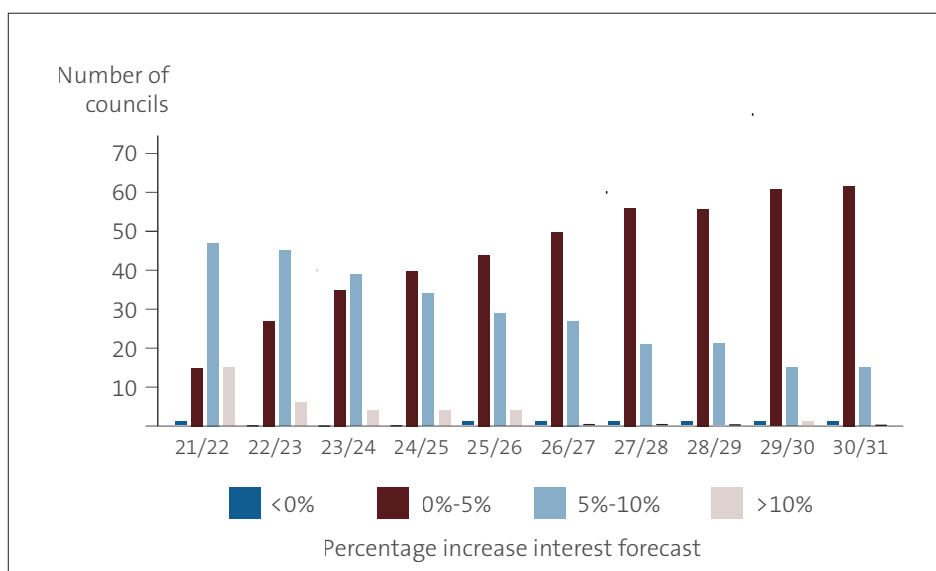
Rates revenue is the largest forecast revenue stream, making up more than 50% in each long-term plan round. The next highest categories are other revenue, making up between 26% and 30% of forecast revenue, and subsidies and grants revenue, making up between 11% and 14%. “Other revenue” includes council fees and charges revenue, and investment revenue such as interest and dividends.



- 2.41 However, other councils are taking the opposite approach. Hawke’s Bay Regional Council has signalled an increase in rates as a percentage of total revenue from 50% to 60% in its 2021-31 financial strategy to reduce its reliance on investment income. Rotorua Lakes Council said that it is prudent to rely on rates (rather than other revenue sources) because it is a stable revenue base. It also said that the impact of Covid-19 restrictions on other revenue streams had proven this.
- 2.42 As mentioned in paragraphs 1.22 to 1.35, councils’ long-term plans were affected by the Covid-19 pandemic. This included councils needing to decide whether to continue rates relief initiatives they applied in 2020/21.
- 2.43 Figure 4 shows the spread of increases in rates forecast by councils in their 2021-31 long-term plans. Most councils forecast to increase their rates by between 5% and 10% in 2021/22, 2022/23, and 2023/24. Fifteen councils forecast to increase their rates by more than 10% in 2021/22. From 2024/25, most councils’ forecast rates increases were between 0% and 5%.

Figure 4
The number of councils forecasting to increase their rates for 2021/22 to 2030/31 and the percentage increase forecast

The graph shows how many councils forecast to increase their rates by certain levels for 2021/22 to 2030/31. We have categorised forecast rates increase by less than 0%, 0% to 5%, 5% to 10%, and more than 10%. The largest categories are 5% to 10% (for 2021/22 to 2023/24) and 0% to 5% (for the other financial years).



2.44 The general trend is that most councils have forecast their highest rates increases to be in years 1-3, and rates will decrease during the 10 years of the plan. There appears to be a bias to the shorter term compared with the long term because of an increased level of uncertainty.

2.45 This creates certain expectations in the community about what future rates will look like. However, history shows us that rates increases seldom stay as low as forecast.

2.46 Given that most council spending is on infrastructure, this could suggest that councils are being overly optimistic with their assumptions about the level of future investment or reinvestment in assets needed in the later years of the plan.

2.47 It is reasonable for the community to understand that there is less certainty in the later years of the plan and that new projects (which are not yet known) will need funding, possibly through rates.

Councils need to make robust assumptions over the 10 years of the long-term plan to provide reliable and transparent forecasts for expected future rates increases.

- 2.48 However, communities could lose trust and confidence in a council if they feel that their expectations of rates increases have not been met. In our view, councils need to continue to focus on the robustness of their planning during the full 10 years of the long-term plan.

What borrowing limits did councils set in their financial strategies?

- 2.49 As well as requiring a council's financial strategy to set a limit on rates increases, section 101A(3)(b)(i) of the Act also requires a council's financial strategy to include a statement about the council's quantified limits on borrowing. Councils can choose what limits to set. Many councils apply multiple limits.
- 2.50 The limits set in accordance with the Act should not be confused with debt covenants or limits set by lenders. For example, the New Zealand Local Government Funding Agency (LGFA) applies debt limits to council borrowers.¹¹
- 2.51 We have previously encouraged councils to consider whether the debt limits they set are a strategic control on financial practice. A limit on borrowing needs to reflect the council's risk appetite. There is a risk that some councils applied the LGFA debt limits without considering how well these limits fit their own situation and that some councils set limits well above the actual position forecast in the long-term plan.
- 2.52 In our report on matters arising from the 2015-25 long-term plans, we analysed the range of debt limits that councils used.¹² Although the LGFA limit was the most commonly used, we found that councils were using up to five other debt limits. We have repeated some of this analysis for the 2021-31 long-term plans.¹³
- 2.53 Figure 5 shows the range of councils' borrowing limits and how this compares to our analysis of the 2015-25 long-term plans. Councils can have more than one borrowing limit.
- 2.54 Some results are similar to the 2015 limits. Given that councils are now taking on more debt than ever before, the increases are expected.

11 The LGFA had several debt limits that applied to councils when they were preparing their 2021-31 long-term plans. The limits also differed depending on whether a council had a credit rating. Generally, the LGFA limit that has the greatest influence in constraining council debt amounts is its net debt to total revenue limit. Councils that have a credit rating greater than "A" equivalent had a net debt to total revenue limit of 300% in 2021/22. This steadily reduced to a limit of 280% that applied from 2025/26 onwards. Unrated councils or councils that have a credit rating less than "A" equivalent had a net debt to total revenue limit of 175%.

12 Office of the Auditor-General (2015), *Matters arising from the 2015-25 local authority long-term plans*, pages 22-23.

13 In 2015, we also considered other limits, such as interest as a percentage of operating income (used by 48 councils) and interest as a percentage of rates income (used by 30 councils), but we have not collected the equivalent information from the 2021-31 long-term plans.

Figure 5
Range of councils' borrowing limits

	Highest in limit range	Lowest in limit range	Average limit	Number of councils using this limit
Debt as a % of operating income	300% (2015: 275%)	40% (2015: 50%)	193% (2015: 162%)	68 (2015: 45)
Debt as a % of assets	50% (2015: 20%)	10% (2015: 10%)	21% (2015: 16%)	6 (2015: 8)
Debt as a % of rates income	280% (2015: 200%)	280% (2015: 25%)	280% (2015: 160%)	1 (2015: 6)
Debt as a % of equity	20% (2015: 28%)	10% (2015: 5%)	18% (2015: 18%)	4 (2015: 8)
Maximum debt per capita or rateable property	\$8,000 (2015: \$5,788)	\$500 (2015: \$500)	\$4,167 (2015: \$2,782)	3 (2015: 12)
Maximum total debt	\$250 million (2015: \$590 million)	\$15 million (2015: \$12 million)	\$103 million (2015: \$181 million)	7 (2015: 10)

- 2.55 The highest maximum total debt limit has decreased from \$590 million in 2015 to \$250 million in 2021. However, because only seven councils are using this limit (compared to 10 in 2015), it is not indicative of the debt trends we see throughout the sector.
- 2.56 The results for the debt as a percentage of rates income also look quite different. However, because only one council used this limit in 2021, the data is skewed.

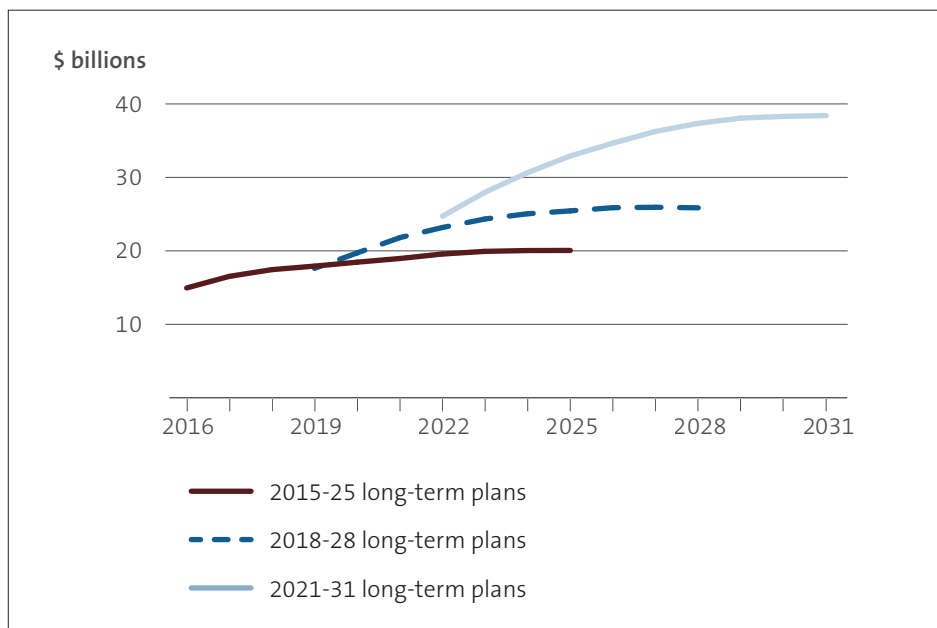
How much are councils proposing to borrow?

Councils are forecasting steep increases in their debt levels

- 2.57 Figure 6 shows a significant increase in councils' forecast borrowing in the 2021-31 long-term plans compared with the 2018-28 and 2015-25 long-term plans. The level of forecast borrowing in the current long-term plan is the highest it has ever been.
- 2.58 If the forecasts in the 2021-31 long-term plans are met, councils will have borrowed about \$11 billion more by 2028 than they had forecast three years ago. Debt is forecast to be more than \$38 billion by the end of the long-term plan forecast period. By comparison, councils had forecast that debt would peak at about \$25 billion in their 2018-28 long-term plans.

Figure 6
Comparison of debt forecasts from the 2015-25, 2018-28, and 2021-31 long-term plans

The graph presents the forecast debt levels for councils, as presented in the 2015-25, 2018-28, and 2021-31 long-term plans. In the 2015-25 long-term plans, councils forecast debt to increase from \$14.9 billion in 2015/16 to \$20.0 billion in 2024/25. In the 2018-28 long-term plans, councils forecast debt to increase from \$17.6 billion in 2018/19 (about the same amount as was forecast in the 2015-25 long-term plans) to \$25.9 billion in 2027/28. In the 2021-31 long-term plans, councils forecast debt to increase from \$24.7 billion in 2021/22 (about the same amount as was forecast in the 2018-28 long-term plans) to \$38.4 billion in 2030/31.



2.59 Figure 7 shows that, when we analysed by type of council, all subsectors showed a similar increase in debt levels (see Appendix 2 for the list of subsectors). Councils' total debt is significantly influenced by Auckland Council's debt, which is forecast to reach \$16.3 billion by 2031. This makes up 42% of councils' total debt.

Figure 7
Peak debt forecasts by council subsector in the 2021-31 long-term plans, compared with the 2018-28 long-term plans

Subsector	2021-31 long-term plan	2018-28 long-term plan
Auckland	\$16.3 billion in 2030/31 \$15.5 billion in 2027/28 (when peaks in 2018-28 long-term plan)	\$13.1 billion in 2027/28
Metro	\$12.2 billion in 2030/31 \$11.8 billion in 2027/28 (when peaks in 2018-28 long-term plan)	\$7.6 billion in 2027/28
Provincial	\$7.2 billion in 2028/29 \$5.8 billion in 2023/24 (when peaks in 2018-28 long-term plan)	\$4.0 billion in 2023/24
Regional	\$1.9 billion in 2028/29 \$1.7 billion in 2025/26 (when peaks in 2018-28 long-term plan)	\$1.1 billion in 2025/26
Rural	\$1.0 billion in 2027/28 \$0.9 billion in 2024/25 (when peaks in 2018-28 long-term plan)	\$0.6 billion in 2024/25

2.60 Increased borrowing means that some councils are approaching (or have forecast that they will exceed) their debt limits. The risk is that councils approaching or exceeding their debt limits will start to exhaust their ability to borrow and will have to use operational funding to continue to reinvest in and increase their assets. Otherwise, levels of service may have to decrease. When a council is close to their borrowing limit, they have less ability to borrow to deal with unexpected events, such as natural disasters.

2.61 It is important that councils set debt limits that are at an appropriate level for the right reasons and are tailored to a council's specific circumstances. To be financially prudent, all drivers of a council's debt limits need to be considered, including revenue. Some councils have experienced decreases in revenue as a result of the Covid-19 pandemic, with the consequent lowering of those councils' borrowing limits.

Councils with large debt levels will need to closely monitor changes in interest rates

2.62 Increases in interest rates also pose risks to councils. Interest rates have been low in recent times. However, interest rates are now expected to increase and could be higher than councils forecast in their 2021-31 long-term plans.

Councils, particularly those with significant debt levels, need to closely monitor interest rates and ensure that they have sound treasury management practices.

- 2.63 In their 2021-31 long-term plans, councils have forecast interest expenses and interest rates to be far lower than in the 2015-25 and 2018-28 long-term plans. For example, in 2021/22, councils forecast \$0.8 billion of interest expense in the 2021-31 long-term plans. By comparison, the 2015-25 and 2018-28 long-term plans forecasted between \$1.1 and \$1.2 billion of interest expenditure. As a proportion of debt, interest expenditure ranges between 3.1% and 3.3%. In the 2018-28 and 2015-25 long-term plans, ranges were 5.0% to 5.4% and 5.5% to 5.9% respectively.
- 2.64 Councils may find it increasingly difficult to fund the cost of borrowing. To manage this risk, councils, particularly those with significant debt levels, will need to closely monitor interest rates and ensure that they have sound treasury management practices.

Why some of the financial assumptions councils made affected the audit reports we issued

- 2.65 In preparing their long-term plans, councils need to make assumptions about how they will fund their activities. Although a significant amount of this funding comes from rates and debt, there are other sources of funding, including subsidies and grants (see Figure 3).
- 2.66 When councils make significant funding assumptions, we expect these assumptions to be adequately supported – for example, by having an agreement or contract already in place or by taking active steps to secure funding. We also consider whether a council was able to secure similar funding in the past.
- 2.67 Additionally, if a council assumes that it will receive funding from central government, we expect there to be relevant appropriate funds available. When there were no such known funds, we considered the assumption to be unreasonable.
- 2.68 Without enough support, there is a risk that the funding may not eventuate. This could affect a council's ability to deliver a stated level of service. It could also mean that a council will need to use alternative funding sources, such as rates or debt.

A council's financial strategy should clearly disclose the reliance the council places on alternative funding sources and the risks of those sources not eventuating.

Qualified audit opinions because of unreasonable funding assumptions

- 2.69 For six councils, we determined that the funding assumptions made were unreasonable. This was because they were unable to provide our auditors with the appropriate level of evidence to support the assumption in their long-term plan that a significant portion of funding would be provided from an external source.
- 2.70 Three of the six qualified audit opinions we issued related to the councils' assumptions that they would receive central government or other external

funding.¹⁴ These three councils also received qualified audit opinions on their long-term plan consultation documents for the same reason.

- 2.71 The other three qualified audit opinions we issued also related to central government funding, specifically the assumption that the councils would receive funding from Waka Kotahi NZ Transport Agency (Waka Kotahi).¹⁵
- 2.72 We usually consider this assumption to be reasonable because Waka Kotahi is a known source of local government funding for roading and public passenger transport activities. However, these councils continued to assume a certain level of funding would be received after Waka Kotahi confirmed that the level of funding would be lower. We therefore considered the funding assumptions to be unreasonable.
- 2.73 The timing of some funding decisions and announcements can be a challenge for councils when preparing their long-term plans. For example, budgets for central government are generally announced in May, but councils consult on the proposed content of their long-term plans before then.
- 2.74 One of the more significant challenges for councils is the timing of when Waka Kotahi finalises its National Land Transport Programme. This is usually in August, which is after the statutory deadline for councils to adopt their long-term plans. Waka Kotahi provides the largest source of subsidy funding to the local government sector as a whole.
- 2.75 Historically, in preparing their long-term plans, councils have assumed that they would receive similar levels of financial assistance rates from Waka Kotahi that they received in the past. This was the assumption that most councils applied in preparing the 2021-31 long-term plans.
- 2.76 However, in April 2021, when most councils were consulting on the proposed content of their long-term plans, Waka Kotahi noted that funding requests for continuous programmes were significantly higher than funding provided for in the previous National Land Transport Programme. Waka Kotahi also stated that, overall, funding for the 2021-24 National Land Transport Programme was highly constrained.
- 2.77 In May 2021, Waka Kotahi provided many councils with information about indicative allocations for some of the programmes it funds. In some instances, the indicative amounts were materially different to what councils had forecast.
- 2.78 In these situations, we considered it appropriate that the council update its forecast to reflect the indicative funding announced by Waka Kotahi.

¹⁴ These were Ashburton District Council, Buller District Council, and Hauraki District Council.

¹⁵ These were Hastings District Council, Kaipara District Council, and Kāpiti Coast District Council.

- 2.79 Making a change this late in the long-term planning process is challenging because it requires the council to consider alternative ways of funding this work. If there are no alternative funding options, the council will need to consider the implications of deferring work. In some cases, this could be more costly in the long term because the process involves long-term asset management plans, which inform the appropriate level of expenditure.
- 2.80 Where councils did not update its forecast to reflect the indicative funding announced by Waka Kotahi, and the difference between what councils were forecasting and the indicative funding announced by Waka Kotahi was materially different, we qualified our audit opinion. In some cases, the councils were looking to continue to engage with Waka Kotahi to secure this funding in the future.

In our view, there remains a need for central and local government to consider how they can understand and support each other's planning cycles.

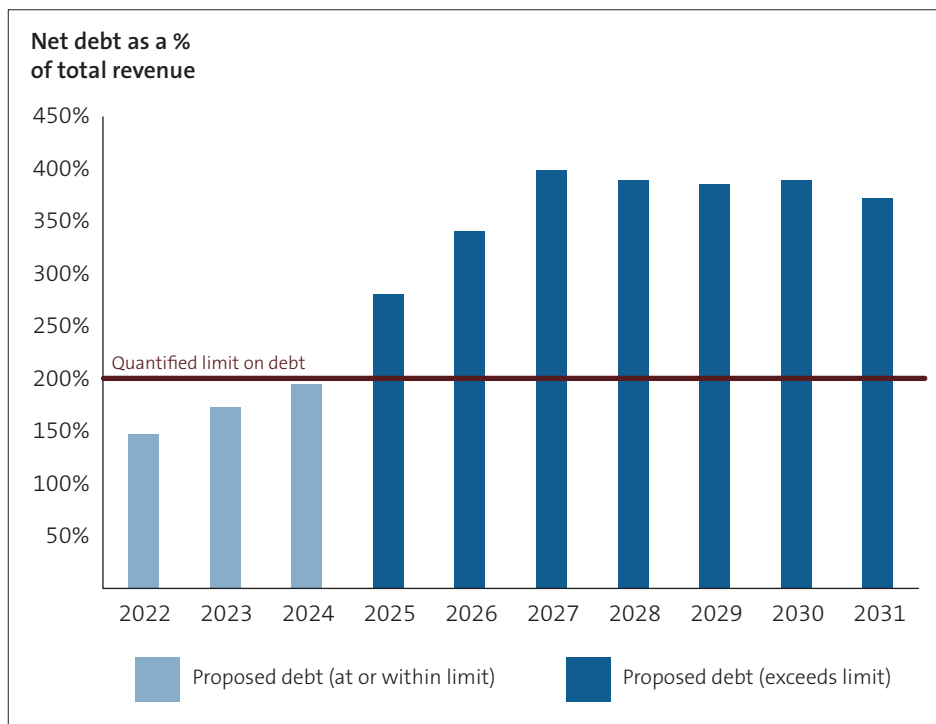
Palmerston North City Council received an adverse audit opinion

- 2.81 One of the two adverse audit opinions we issued (see Figure 1) related to the funding and financing assumptions that Palmerston North City Council made. We also issued an adverse audit opinion on the Council's long-term plan consultation document for the same reason.
- 2.82 We determined that Palmerston North City Council's long-term plan did not meet its statutory purpose because it did not provide an effective basis for long-term integrated decision-making or co-ordination of the Council's resources and accountability to its community.
- 2.83 This was because, in our view, the underlying information and assumptions in the long-term plan were unreasonable and inconsistent with Palmerston North City Council's financial strategy.
- 2.84 Palmerston North City Council included an upgrade to its wastewater treatment plant from year 4 of its long-term plan. When the Council included the upgrade in its long-term plan, there was no certainty about the proposed three waters reforms, including whether the Council would be financially responsible for the upgrade. This meant that the Council made the decision, in the interests of transparency, to include the anticipated costs in its long-term plan.
- 2.85 However, we considered that the underlying information and assumptions that Palmerston North City Council's long-term plan was based on were inconsistent with its own financial strategy.
- 2.86 Palmerston North City Council's financial strategy caps the Council's debt at 200% of revenue (see Figure 8). With the inclusion of the wastewater treatment plant upgrade, the forecasts in the plan showed that the Council expected to exceed its own debt cap after year 4 of the long-term plan (and was forecasting to exceed the debt limits set by the LGFA after year 5).

2.87 Palmerston North City Council also disclosed in its long-term plan that it was highly unlikely that lenders would be prepared to lend the amounts that were in the underlying information.

Figure 8
Palmerston North City Council’s proposed debt compared to its debt affordability benchmark

Palmerston North City Council’s net debt limit was set at 200% of total revenue. The Council forecast to comply with its net debt limit for 2021/22, 2022/23, and 2023/24. For the other seven years, the Council forecast to breach its net debt limit. From 2025/26 to 2030/31, the Council was forecasting net debt to be above 300% of its total revenue.



Source: Palmerston North City Council 10-year plan, 2021-31.

2.88 In our view, Palmerston North City Council’s approach meant that it did not deliver a credible plan for funding its activities and planned projects (in particular from year 4 of the long-term plan) to its community. The Council needed to consider other options, such as reducing levels of service, removing or deferring planned projects, and increasing rates further to keep debt amounts within its own policy parameters. The Council was aware and considered these matters but did not address them in its long-term plan because of the uncertainty about the proposed three waters reforms.

Emphasis of matter paragraphs relating to funding and financing assumptions

- 2.89 We included 22 emphasis of matter paragraphs related to funding and financing assumptions (see Figure 9).

Figure 9
Reasons for emphasis of matter paragraphs about funding and financing assumptions

Reasons for emphasis of matter paragraphs	Number
Uncertain external funding	11
Uncertain cost savings	2
Unbalanced budget	3
Breach of debt limits	2
Other	4
Total	22

Uncertain external funding

- 2.90 Eleven of the emphasis of matter paragraphs related to uncertainties over whether the councils would receive planned central government or other external funding.¹⁶ This was also the reason we issued the six qualified audit opinions (see paragraphs 2.69 to 2.80).
- 2.91 Based on the supporting evidence, we considered that the funding assumptions of the councils issued with emphasis of matter paragraphs were reasonable. However, these assumptions had high degrees of uncertainty (for example, the timing of the funding may not have been certain or the total amount of funding had not yet been agreed).
- 2.92 We used an emphasis of matter paragraph to highlight to readers the relevant uncertainty of the long-term plans.

Uncertain cost savings

- 2.93 We issued Hamilton City Council and Rangitikei District Council with emphasis of matter paragraphs related to proposed cost savings. We considered that these assumptions were reasonable, but we used emphasis of matter paragraphs to highlight to readers the uncertainty associated with the planned cost savings of the long-term plans. These two councils also received emphasis of matter paragraphs on their consultation document audit reports for the same reason.

¹⁶ These were Auckland Council, Chatham Islands Council, Greater Wellington Regional Council, Invercargill City Council, Masterton District Council, Ōpōtiki District Council, Rotorua Lakes Council, Waikato Regional Council, Waitaki District Council, Wellington City Council, and Whakatāne District Council.

Unbalanced budget

- 2.94 We used emphasis of matter paragraphs to highlight that, in all years of their long-term plans, Central Hawke’s Bay District Council, Kaikōura District Council, and Napier City Council did not have a balanced budget, were not meeting the balanced budget benchmark, or both.
- 2.95 The term “balanced budget” refers to a council’s surplus or deficit in its forecast financial statements. Any years forecasting a deficit mean that a council does not have a balanced budget in those years. The “balanced budget benchmark” calculates surplus/deficit differently, as prescribed by the Local Government (Financial Reporting and Prudence) Regulations 2014.
- 2.96 The balanced budget benchmark is calculated as planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment) as a proportion of planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment).
- 2.97 The balanced budget benchmark is met if planned revenue equals or is greater than planned operating expenses.
- 2.98 Central Hawke’s Bay District Council did not have a balanced budget in years 2-10 of its long-term plan. It also did not meet the balanced budget benchmark in those years.
- 2.99 Kaikōura District Council did not have a balanced budget in years 4-10 of its long-term plan. It also did not meet the balanced budget benchmark in those years.
- 2.100 In contrast, Napier City Council did not have a balanced budget in year 3 only. However, it did not meet the balanced budget benchmark in years 1-9 of its long-term plan.¹⁷
- 2.101 All three councils did not meet the balanced budget benchmark because they were not fully funding depreciation on critical asset classes or they were not fully funding depreciation for a sustained period of time.
- 2.102 Councils are required to include an annual depreciation charge on their assets, which is shown as an expense in their long-term plan forecast financial statements. Where the council’s total expenses (including depreciation) are not covered by an equivalent amount of revenue, we say that the council is not fully funding depreciation. It also means that the cost of renewals will be passed on to future ratepayers.

17 Napier City Council was forecasting to receive significant financial contributions, which is why it set a balanced budget in all but one year.

- 2.103 For example, Napier City Council disclosed that, after the 2020 asset revaluations, the total depreciation expense increased significantly, and the council did not believe it was appropriate to immediately increase rates to address the impact of this.¹⁸
- 2.104 In their long-term plans, the three councils clearly disclosed why they considered it financially prudent to not meet the balanced budget benchmark and how they were working towards funding depreciation for their critical assets in the future.
- 2.105 However, given the implications of this strategy, we considered that it was important to highlight the approach that the councils were taking.
- 2.106 Twenty-five other councils also did not forecast to have balanced budgets in some years of their long-term plans. However, our auditors were able to obtain reasonable explanations for this. For example, a council may not be funding depreciation because it related to assets that it does not intend to renew in the future, such as a community hall.

Breach of debt limits

- 2.107 We included emphasis of matter paragraphs for Ruapehu District Council and Wellington City Council because they were forecasting to breach the debt limits set in their financial strategies. However, because LGFA debt covenants were not breached in either instance, we still considered that the forecast debt was prudent.

Other

- 2.108 We included emphasis of matter paragraphs related to funding and financing in the audit reports of the following four councils for reasons other than those described above:
- Kaipara District Council – the Council’s ability to repay the debt associated with the planned Mangawhai wastewater scheme is uncertain because it is dependent on the Council’s assumptions about growth and the collection of the proposed development contributions;
 - Queenstown Lakes District Council – to draw attention to the uncertainty related to the Council's proposed visitor levy to fund visitor-related infrastructure;
 - South Wairarapa District Council – to highlight cost and funding uncertainties associated with the needed improvements to the Featherston wastewater treatment plant; and
 - Tasman District Council – to draw attention to the uncertainty over the Waimea Community Dam construction costs.
- 2.109 Except for Kaipara District Council, these councils also received emphasis of matter paragraphs on their long-term plan consultation document audit reports for the same reasons.

¹⁸ Te Kaunihera o Ahuriri Napier City Council (2021), *Volume two: Our detailed budgets, strategies, and policies*, page 40.

3

Infrastructure strategies

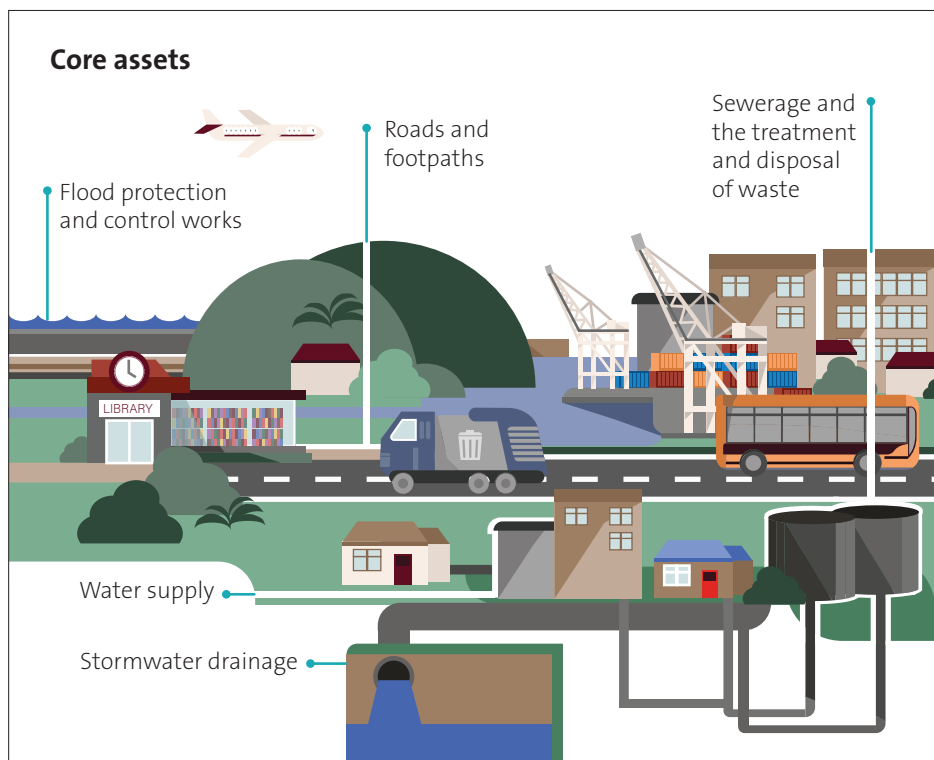
- 3.1 In this Part, we discuss:
- what infrastructure strategies are and the information they need to include;
 - why infrastructure strategies are important;
 - what makes a good infrastructure strategy; and
 - our observations on the most recent infrastructure strategies.

What is an infrastructure strategy and what does it need to include?

- 3.2 Section 101B of the Local Government Act 2001 requires councils to prepare and adopt an infrastructure strategy as part of their long-term plan. The purpose of the infrastructure strategy is to identify:
- significant infrastructure issues for the local authority during the period covered by the strategy; and
 - the principal options for managing those issues and the implications of those options.
- 3.3 The Act requires an infrastructure strategy to include existing or proposed assets to be used to provide certain services by, or on behalf of, the council. Figure 10 shows the core assets required under the Act.
- 3.4 Councils can include other assets in their infrastructure strategies, such as community facilities, parks, and solid waste facilities. Forty-three councils included other assets as well as their core assets in their infrastructure strategy. This is an increase from the 27 councils that included other assets in the infrastructure strategies in the 2018-28 long-term plans.

Figure 10
The core assets presented in councils' infrastructure strategies

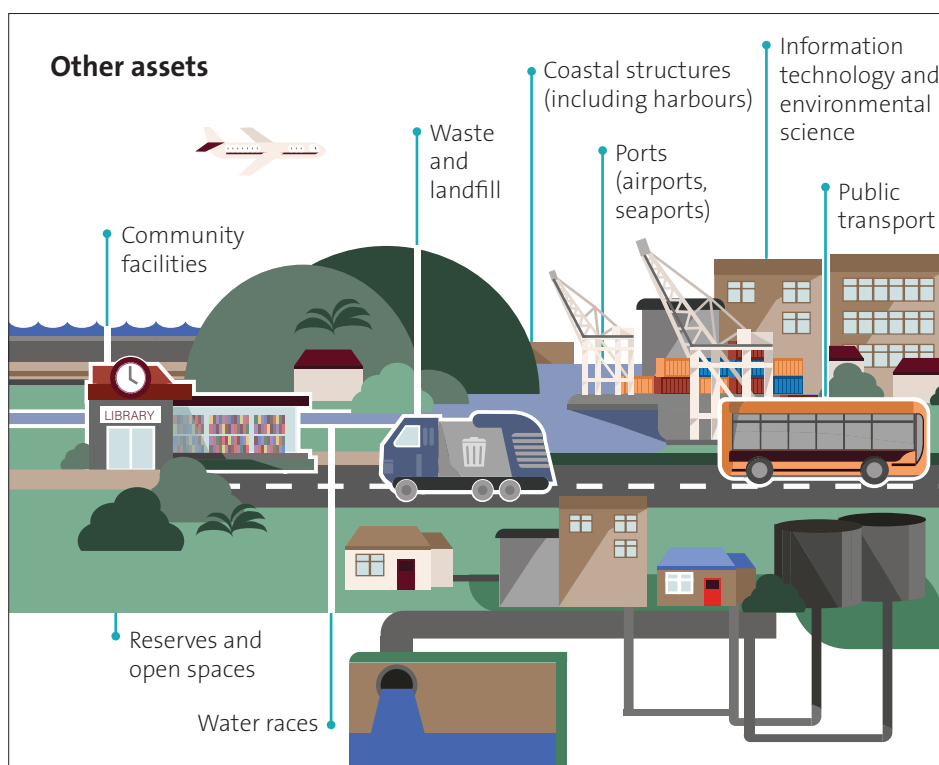
The core assets presented in council infrastructure strategies were flood protection and control works, roads and footpaths, sewerage and the treatment and disposal of waste, stormwater drainage, and water supply.



3.5 Figure 11 shows the other types of infrastructure assets that some councils decided to include.

Figure 11
Other types of infrastructure assets that some councils included in their infrastructure strategies

Forty-three councils included other types of infrastructure assets in their infrastructure, such as coastal structures (including harbours), community facilities, information technology and environmental science, ports (airports and seaports), public transport, reserves and open spaces, waste and landfill, and water races.



3.6 Section 101B(3)(a) to (e) of the Act prescribes the content of infrastructure strategies in some detail. An infrastructure strategy must outline:

- how a council intends to manage its infrastructure assets (having regard to matters such as when assets need to be renewed or replaced);
- how the council will respond to growth or decline in demand for services;
- how the council plans for increases or decreases in levels of services; and
- other matters, such as the need to improve public health or environmental outcomes (or mitigate adverse effects on them) and to manage risks from natural hazards.

- 3.7 Infrastructure strategies are meant to provide a higher-level strategic view of infrastructure issues than a council's asset management plans. Infrastructure strategies join up operational planning at the asset level and strategic planning at the corporate level.

Why are infrastructure strategies important?

- 3.8 Councils hold significant infrastructure assets. Most of their spending is on infrastructure operations and works. Councils are responsible for managing these assets for their community's safety and quality of life. An infrastructure strategy that provides, at a minimum, a 30-year view allows councils to present a strategic picture of their infrastructure portfolio.
- 3.9 As mentioned in paragraph 2.5, along with the council's financial strategy, the infrastructure strategy provides the strategic direction and the underpinning context for the long-term plan.
- 3.10 Like many other infrastructure owners, councils face significant challenges in managing their assets. These challenges include:
- having a sound understanding of the age and condition of the assets they own to inform good decisions about asset maintenance, renewals, and replacement;
 - the constrained funding that many councils have and the increasingly limited supply of materials and expertise to manage assets;
 - the evolving expectations about the levels of service that ratepayers desire, as well as increases in standards for providing certain services (for example, the need to meet drinking water standards); and
 - the need for infrastructure to be resilient and fit for the future. This includes considering the impact of changing demographics and technologies, and what that may mean for infrastructure use, as well as the impact of climate change.
- 3.11 Councils should be planning for, and engaging with their communities about, these challenges.
- 3.12 Given its purpose, we expect the infrastructure strategy to bring this information together and provide a clear and transparent description of how these issues, as well as others that may be specific to a council, affect the council and how the council proposes to manage these.

What makes a good infrastructure strategy?

- 3.13 We consider that infrastructure strategies should:
- tell the story about where councils are, where they expect to be, and how they intend to get there;

- include relevant assumptions and disclosures of funding, data, risks, and delivery; and
- create the right debate and be credible by connecting with financial strategies, demographic change, and other relevant influences. This includes matters such as those mentioned in paragraph 3.10 and being clear about the effect of change on infrastructure needs.

- 3.14 In previous reports, we have commented that including other assets as well as the core assets described in Figure 10 can help improve strategies. Including other assets that are strategically important to the council's delivery of services provides a more comprehensive overview of the infrastructure challenges and issues that the council faces.¹⁹
- 3.15 We consider that including other assets would also allow the infrastructure strategy to be better integrated with the financial strategy. As mentioned in paragraph 3.4, an increasing number of councils are disclosing more than their core assets in their infrastructure strategy. In our view, this is a positive trend.
- 3.16 Infrastructure strategies should also cover the period needed to adequately show the future situation of the council. For example, if major infrastructure renewals are expected to peak in 2060, then it would be helpful for the council to disclose this information, any funding implications, and the approach it needs to take to successfully renew the infrastructure, recognising that the strategy in addressing the peak will change overtime.

Our observations about the most recent infrastructure strategies

- 3.17 Most councils provided a good description of the assets they own and manage. They also provided details of the main projects that are needed in the next 30 years.
- 3.18 We observed that most council infrastructure strategies provide a clear overview of the issues that councils face. We considered that Ashburton District Council and Upper Hutt City Council produced good infrastructure strategies.
- 3.19 Ashburton District Council produced a clear and well-written infrastructure strategy. The strategy took an effective long-term view of the district's future infrastructure needs and what is needed to address the major issues facing the district in the next 30 years. The Council also had good links between its infrastructure and financial strategies.
- 3.20 Upper Hutt City Council produced a very clear infrastructure strategy. The Council identified three key challenges in the strategy. It identified themes within each challenge to help focus its responses to the challenges. The Council also

considered resilience and incorporated this into its renewals programme well.

3.21 An increasing number of councils included information about risk and risk mitigation in their infrastructure strategies. This is an improvement on previous infrastructure strategies, where this type of discussion was not as obvious.

3.22 We see this as an example of an improving maturity in council infrastructure planning. We encourage councils to consider where they could enhance their risk management disclosures.

3.23 We still saw instances where it appeared that the preparation and presentation of the infrastructure strategy had been treated as a separate exercise and not integrated with the long-term plan. For example, some infrastructure strategies were attached as an appendix to the long-term plan, with no clear link to explain how the long-term plan built on the strategy.

There are opportunities for councils to enhance disclosures in their infrastructure strategies about risks to the delivery of infrastructural services and how they are seeking to mitigate or manage those risks.

How are councils disclosing asset condition and performance information?

3.24 An understanding of the age, condition, and performance of critical assets, as well as future demand, is important in assessing whether councils' actual and planned expenditure is sustainably maintaining assets.

3.25 In 2017, we carried out work looking at asset information held by councils. In our report on that work, we observed that, once councils comprehensively understood their critical assets and the cost of maintaining them, elected members could make informed decisions about management and consult with their community about how to fund that cost or the consequences of not doing so.²⁰

3.26 We expected to see continued improvement in the information disclosed in infrastructure strategies about the condition and performance of critical assets. Most infrastructure strategies provided information about the condition and performance of councils' assets. However, many councils had gaps in their condition and performance information.

3.27 In many instances, those councils made disclosures about their plans to collect better condition and performance information. For example:

- Bay of Plenty Regional Council invested significantly into condition assessment of its rivers and drainage assets after the 2017 floods. The Council's infrastructure strategy states that the average condition of its assets is good, but that it is still collecting information about its stop banks and waterways.

²⁰ Office of the Auditor-General (2017), *Getting the right information to effectively manage public assets: Lessons from local authorities*, Part 1.

- Environment Southland placed a high importance on regular river surveys, condition and performance surveys, and structural inspections to inform its work programme and activities to improve the condition of its assets.
- Grey District Council worked to improve its asset condition information by applying sound asset management practice during the past decade. The Council's long-term plan and infrastructure strategy is clear about what it needs to do.
- Kaikōura District Council said that little effort had been made in the past to invest in collecting asset data. In preparing the 2021-31 long-term plan, asset assessments were completed after the 2016 earthquake. The Council recognises that it needs to complete further work on pipe data, but the overall asset information for roading and three-waters assets has significantly improved.
- Ruapehu District Council plans to implement a risk-based critical asset condition assessment as a priority so it can meet levels of service and legislative requirements and be resilient to any disruption.

3.28 It is encouraging to see councils outline their plans to gather better information where they have identified gaps. Understanding how an asset's condition and performance are changing over time can assist in understanding the best time to intervene with maintenance, extend its life, or replace the asset and maintain levels of service.

3.29 In some instances, gaps in asset condition and performance information were reflected in the audit opinions we issued. This is because we considered that the readers of the long-term plans needed to understand where there were limitations in councils' judgement about managing their assets. We discuss this further in paragraphs 4.66 to 4.84.

Integration with financial strategies

3.30 We expected to see strong links between a council's infrastructure strategy and its financial strategy. In our view, the strongest and most integrated infrastructure strategies connected to important issues of financial and service management.

3.31 We found that about 20% of councils' infrastructure strategies had little to no disclosures that explain how councils plan to fund infrastructure. In our view, this would make it particularly difficult for communities to effectively engage with the strategy. Councils should continue to focus on better integrating their financial and infrastructure strategies in the future.

Councils need to include better disclosures about how they plan to fund infrastructure in their infrastructure strategies.

- 3.32 Wellington City Council and Chatham Islands Council both prepared combined financial and infrastructure strategies. We recognise that there are difficulties in combining these strategies.
- 3.33 The disclosure requirements for financial and infrastructure strategies do not fit together well. For example, the infrastructure strategy has a 30-year life and needs to cover only the five groups of network infrastructure. The financial strategy has a 10-year life and needs to incorporate all the council's activities.
- 3.34 South Taranaki District Council provided a good overview of how it plans to fund infrastructure and the importance of prioritising debt management during the term of the long-term plan.
- 3.35 Waimakariri District Council said that continuing to deliver current levels of service is a high priority. The Council has developed a renewals programme for the "whole of life" of its assets for the next 150 years. The renewals programme has graphs that show the amount of funding it plans to collect to fully fund the renewal of its infrastructure networks for the next 150 years.

How are councils describing changes to levels of service?

- 3.36 Levels of service describe the outputs a council intends to deliver. They relate to service attributes such as quality, reliability, responsiveness, sustainability, timeliness, accessibility, and cost. In our view, an effective infrastructure strategy should clearly define the levels of service and any changes to them.
- 3.37 Looking at councils' infrastructure strategies, we did not see many examples of councils proposing to lower levels of services over time.
- 3.38 Some infrastructure strategies clearly described changes to levels of service and the reason for those changes. For example, some councils mentioned investment to improve the quality of water supply either to prepare for growth and/or to meet environmental and health standards. Councils also disclosed that changes in levels of service to meet compliance standards are creating significant costs.
- 3.39 Waimakariri District Council described the changes to levels of service for different assets over time and how rates and debt may be affected. The way that this information is set out made it easy for the community to understand the significant issues and choices it faces.
- 3.40 However, some councils disclosed little to no information about any proposed changes to levels of service. It is possible that they are not expecting any change to levels of service during the period of the long-term plan. However, being explicit about this would be useful to readers of the infrastructure strategy.

3.41 Where councils are proposing a change in levels of service, or improving actual performance to meet expected levels of service, this should be disclosed in the infrastructure strategy, so readers clearly understand the implications.

Good infrastructure strategies clearly disclose proposed changes in levels of service and the implications of these changes.

3.42 We note that many ratepayers may not understand the implications of changes in levels of service. However, councils have a role to educate communities as to what changes in levels of service mean and the associated implications.

How are councils investing for growth?

3.43 Changes in future demand could include changes to demographics and population, environmental standards, or land use. Many councils expected growth within their cities, districts, or regions, so were thinking about how to manage the resulting demand on infrastructure.

3.44 Some councils are revising their growth forecasts, either because growth has not been as high as expected or because higher-than-forecast growth has occurred. Councils that are preparing for growth are planning to increase investment in their infrastructure assets so that they can manage demand.

3.45 For example, New Plymouth District Council made proposals for the infrastructure needed to support population growth. The Council's infrastructure strategy stated that the Council is updating its District Plan. The infrastructure strategy displayed the future urban zones and development areas. It outlined that the Council (as opposed to the developers) will lead the growth-related infrastructure to ensure that it meets the requirement of the 2020 National Policy Statement for Urban Development.

3.46 Napier City Council forecast medium to high population growth of 5.4% over 10 years and said that three major subdivision developments are under way or planned for the city. To support this forecast growth, the Council is reviewing long-term master plans and prioritising work to make infrastructure more resilient and compliant. This includes developing infrastructure network models to inform the impacts of growth on the current networks and greenfield developments.

3.47 Selwyn District Council has been one of the fastest growing districts in New Zealand in recent years. The Council continued to assume that the district's population will grow at a medium-high rate during the next 10 years. It has based its plans for managing and expanding its infrastructure on the population projections. The infrastructure strategy stated that, if growth should occur at different rates than projected, the Council can respond using tactics it has employed before: accelerating, delaying, or revising planned capital works.

- 3.48 In some instances, councils facing population growth included other assets in their infrastructure strategies as well as their core assets. This provided a more complete story about the integrated impact of growth on a council.
- 3.49 For example, Central Hawke's Bay District Council's infrastructure strategy included the core assets as well as waste and landfill assets, community facilities, and reserves and open spaces. The Council disclosed that it is expecting a rising population and it is currently underprepared for such high levels of growth.
- 3.50 The Council's infrastructure strategy stated that the Council was planning for, and responding to, growth opportunities and set out what this meant for all of the asset classes included in the strategy.

How infrastructure strategies discussed technology

- 3.51 We also observed that the infrastructure strategies discussed technology more than they had previously. Infrastructure planning must increasingly consider the rapid development of technology.
- 3.52 There are opportunities for significant improvements in monitoring and data gathering as technology advances. Technology enables strengthened governance and improved services. It can also provide opportunities to help with demand management. This will become increasingly necessary as resources become scarcer and the effects of climate change increase.
- 3.53 We saw that some councils are taking a flexible approach to infrastructure renewals and replacement so that they can consider possible future scenarios and solutions.

How are councils considering resilience?

- 3.54 In our 2019 report on matters arising from the 2018-28 long-term plans, we indicated that the 2021-31 long-term plans will need to include a discussion with the community about resilience and climate change issues. New Zealand's economy is vulnerable to the effects of natural disasters, and several significant events have occurred since the 2021-31 long-term plans were adopted.
- 3.55 We observed that many councils provided a clear story about their resilience and climate change challenges in their infrastructure strategies. In Part 6, we discuss in more detail how councils are planning for climate change and how they discussed climate change issues in their long-term plans.
- 3.56 Addressing the resilience of infrastructure means councils need to understand risks that are complex, uncertain, and unpredictable. Councils need to determine:
- the likelihood of a natural hazard event occurring, where it is likely to occur, and in what time frame (this includes both shock events, such as earthquakes,

and natural hazard events that result from the gradual effects of climate change, such as coastal erosion from sea-level rise);

- how exposed to natural hazard events their infrastructure assets are – in particular, the age, condition, and location of their critical infrastructure assets (poorly maintained and/or ageing infrastructure poses a potentially higher risk to councils);
- the consequent vulnerability of those assets to damage from natural hazard events; and
- how they would maintain service continuity if a significant asset failed.

- 3.57 The Act requires councils to make appropriate financial provision to address the risks from natural hazards to their infrastructure assets. Councils cannot do this effectively if they have a limited understanding of those risks.
- 3.58 In many infrastructure strategies, councils said that they would look to build resilience into their asset network when they carried out their renewals programme. Examples of this include using materials that would be less affected by earthquakes or changing the location of the asset so it was better protected from the effects of climate change.
- 3.59 This is a reasonable approach to take. However, the size of renewals that councils are forecasting implies that council infrastructure may be affected by extreme events in the meantime.
- 3.60 Some councils clearly outlined the expected impacts of climate change and the mitigation issues in their infrastructure strategies.
- 3.61 For example, Greater Wellington Regional Council was clear about the impacts of climate change and mitigation actions in its infrastructure strategy. One of the Council's overarching strategic priorities is responding to its declared climate emergency by demonstrating leadership in regional climate action and advocacy and by aiming for its operations to be carbon neutral by 2030.
- 3.62 Greater Wellington Regional Council's infrastructure strategy stated that the region is already experiencing the effects of climate change. As a result, the Council considered the risk assessment of assets for its key infrastructure activities. This was predominately in flood protection, bulk water, and public transport.

How councils manage their assets

- 4.1 In this Part, we consider how councils manage their assets. We discuss:
- our observations of councils' capital expenditure forecasts;
 - what the risks in delivering councils' forecast capital expenditure are;
 - whether councils are planning to reinvest enough in their assets; and
 - whether councils have enough knowledge of their critical assets to inform asset reinvestment in a timely manner.

Councils' capital expenditure forecasts

There has been a significant increase in capital expenditure forecasts

- 4.2 Councils' capital expenditure forecasts in the 2021-31 long-term plans are significantly higher than the 2018-28 long-term plans – a 42% increase overall.
- 4.3 Figure 12 shows that councils are forecasting to spend \$77.2 billion on capital expenditure programmes for the duration of their long-term plans. This is an average of \$7.7 billion a year during the next 10 years and is significantly higher than what councils have forecast in the past.

Figure 12

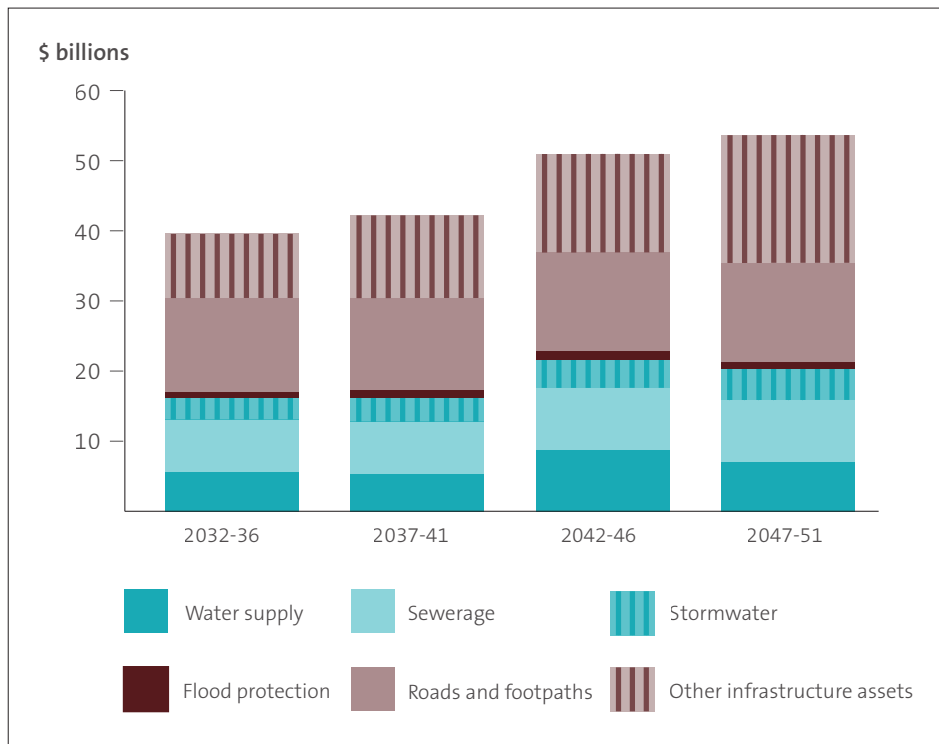
Forecast capital expenditure in the 2021-31 long-term plans, compared to 2018-28 long-term plans

Capital expenditure	2018-28 long-term plan (billions)	2021-31 long-term plan (billions)	% increase
Meet additional demand	\$12.4	\$18.2	47%
Improve level of service	\$18.6	\$26.5	42%
Renew existing assets	\$23.5	\$32.5	36%
Total	\$54.5	\$77.2	42%

- 4.4 As well as the increase in capital expenditure in the 10 years covered by the long-term plan, the increase in capital expenditure forecasts for the medium to long term is expected to continue to rise significantly.
- 4.5 Collectively, councils included \$39.5 billion of forecast capital expenditure in their infrastructure strategies for the five years between 1 July 2031 and 30 June 2036 – that is, \$7.9 billion each year. This increases to \$56 billion for the five years between 1 July 2046 and 30 June 2051 – that is, \$11.2 billion each year.
- 4.6 This does not reflect the entire forecast spending on capital. It shows only the total forecast capital expenditure disclosed in the infrastructure strategies, which relates to specific categories of assets (see Part 3).

- 4.7 Further, councils were not always explicit about whether the forecast expenditure had been adjusted for inflation. As a result, the forecast capital expenditure could be significantly higher than what is set out in Figure 13.
- 4.8 In paragraphs 3.31 and 3.32, we said that councils could do more to better integrate their financial and infrastructure strategies with their long-term plans. The continued increase in capital expenditure forecast in the infrastructure strategies reflects the need for clear disclosures in the infrastructure strategies about how councils plan to fund expenditure over the long term.

Figure 13
Proposed spending on capital by all councils in years 11 to 30 of their 2021-51 infrastructure strategies



Councils risk not delivering their large forecast capital expenditure programmes

- 4.9 The increase in capital expenditure is not a new trend. For example, the forecast capital expenditure in the 2018-28 long-term plans was a 31% increase from forecast capital expenditure in the 2015-25 long-term plans.

- 4.10 In the past, councils have struggled to deliver their planned capital expenditure programmes.²¹ Most councils did not deliver their total capital budgets in 2019/20. The total actual capital expenditure for 2019/20 was \$5.14 billion. This was the highest amount councils had spent on their assets compared to the previous eight years – but it equated to only 79%²² of budgeted expenditure for that year.²³ The 2019/20 achievement is similar to that of previous years, which on average delivered about 80% of the planned capital expenditure programme in any given year.
- 4.11 The local government sector acknowledges that delivering capital expenditure programmes is a sector-wide strategic issue.

What is driving the increase in capital expenditure programmes?

- 4.12 We looked at the proportion of 2021-31 forecast capital expenditure by type of capital expenditure for all councils.
- 4.13 Renewing or replacing existing assets makes up 42% of councils' planned capital expenditure. More than a third of capital expenditure is to improve current levels of service, and 24% of forecast capital expenditure is for new infrastructure to meet additional demand (growth). These proportions are broadly unchanged from the 2018-28 long-term plans.
- 4.14 Councils must respond to growth and changes in levels of service, including regulatory changes. It is also important that councils continue to renew and invest in their current infrastructure or face the risk of critical infrastructure assets starting to fail.
- 4.15 Figure 14 shows the proportion of forecast capital spending by subsector (see Appendix 2 for the list of subsectors and which councils are in each).

Figure 14
Proportion of 2021-31 forecast capital expenditure by subsector and type of capital expenditure

Capital expenditure	Auckland*	Metro**	Provincial	Regional	Rural
Meet additional demand	29%	25%	16%	15%	8%
Improve level of service	30%	38%	37%	42%	29%
Renewal existing assets	41%	37%	47%	43%	63%

* Auckland is considered separately from other metropolitan councils because of its size.

** Excluding Auckland Council.

21 This means that some capital projects are either delayed or not delivered.

22 This information is from the statements of cash flows of councils. It includes only the money that councils spent on purchasing property, plant, and equipment and intangible assets.

23 Office of the Auditor-General (2021), *Insights into local government: 2020*, page 13.

- 4.16 The proportion of capital expenditure for these three categories is relatively consistent for all subsectors except for rural councils. The proportions for rural councils have not changed significantly during the last three long-term plan rounds.
- 4.17 For example, in the 2015-25 long-term plans, rural councils forecast that they would spend 73% of their capital expenditure on replacing existing assets. They forecast to spend 69% on this in the 2018-28 long-term plans.
- 4.18 Rural councils generally have a smaller ratepayer base and, in many instances, do not experience high levels of growth. Therefore, they tend to focus on investing in renewing existing assets.
- 4.19 Regional councils had the highest proportion of capital expenditure planned for improved levels of service. This was for several reasons, including upgrades to flood protection assets to provide increased resilience to the impacts of climate change.

What are the risks to councils delivering their capital expenditure programmes?

- 4.20 As mentioned in paragraph 4.10, councils have historically struggled to deliver their capital expenditure programmes. From the analysis we completed in our previous reports and speaking to practitioners in the sector, we have found several reasons for this.
- 4.21 Some delays can be attributed to the time it takes to receive consents. More recently, the Covid-19 pandemic has added another layer of complexity, with supply chain issues delaying the delivery of raw materials and adding to cost pressures.
- 4.22 In our view, the failure to deliver capital expenditure programmes suggests that some councils have not had enough project management capacity and capability to deliver their programmes.
- 4.23 The already tight labour market and historically low unemployment is contributing to staff capacity and recruitment issues. We also heard from the sector that the uncertainty created by the current reform agenda (three waters reforms, the reform of the Resource Management Act, and the future for local government review) is making it difficult for councils to attract and retain staff. Because the future is so uncertain, councils are seeing high turnover. In some instances, the turnover is in very senior roles.
- 4.24 When we completed our audits of the 2021-31 long-term plans, our concern was whether the amount of forecast capital work is achievable given the constraints we already see in the market and the context of the current operating environment. Central government and the private sector have their own significant infrastructure programmes. All will be competing for similar resources.

How did our auditors respond?

- 4.25 We considered the ability of councils to deliver their planned capital expenditure programmes as an audit risk. In response to that risk, we set expectations of what we felt was reasonable for each council to achieve.
- 4.26 We first considered how well individual councils had met their previous capital expenditure forecasts. Then we considered how much the capital expenditure forecast had increased compared to previous budgets and actual delivery. For significant increases in capital expenditure forecasts, we sought to understand what changes to their processes councils were planning to help them achieve their planned capital expenditure programme.
- 4.27 We did not identify any individual councils with capital expenditure programmes that we considered unreasonable. However, given the amount of uncertainty in the operating environment and the number of variables in delivering such ambitious capital expenditure programmes, we emphasised high levels of uncertainty about the delivery of the capital expenditure programme in our audit reports for 30 councils.
- 4.28 In our view, it was fundamental that ratepayers understood the uncertainty of the delivery of these capital expenditure programmes. There are several reasons for this.
- 4.29 A council that is unable to deliver planned projects could affect current levels of service or mean that the infrastructure needed to meet forecast growth is not delivered. Councils will also set their rates based on the assumption that they will deliver all their planned capital expenditure.
- 4.30 In some instances, not delivering their capital expenditure programmes could mean that critical assets may not be renewed in time, leading to asset failure. This would ultimately cost ratepayers more in the long run.
- 4.31 When capital expenditure programmes are not delivered as planned, councils risk losing the trust and confidence of their communities.

What are councils doing differently to help them achieve their capital expenditure programmes?

- 4.32 Through our audit work, we gained an understanding of what changes to their processes councils were planning to help them achieve their capital expenditure programmes.
- 4.33 In some instances, we identified innovative approaches. For example, we saw examples of councils working together and communicating more proactively with contractors. We also saw councils actively improve their procurement policies

and practices, as well as their business case processes, to enable better project prioritisation and management.

- 4.34 In our view, this should lead to councils having more realistic time frames for completing some projects and enable them to plan more effectively.
- 4.35 Some councils were bringing forward their planning and resource consent processes. Our auditors received more comfort, in the earlier forecast years, where projects had already gained the required consents and/or had contracts signed for the projects to begin.
- 4.36 We also saw examples of councils providing more dedicated resources to project delivery – for example, by developing or expanding project management offices. One council opted to contract out these services so that it could draw on the right level of expertise.
- 4.37 In our view, risk management has never been more important. In our 2021 report *Our observations on local government risk management practices*, we stated that effective risk management is a critical part of successfully delivering an organisation’s strategy. When risk is not managed effectively, assets or projects can fail. This can erode the public’s trust and confidence in an organisation.
- 4.38 Councils need to have robust project management frameworks in place to help manage delivery risk. Having clear planning and procurement strategies, well defined roles and responsibilities, and good project governance will be critical to effectively managing delivery risks. Elected members will need timely project performance data to enable effective decision-making.
- 4.39 The sector should be commended for more explicitly considering the risks of non-delivery and improving its existing processes to help deliver its capital expenditure programmes. It is important that councils prepare capital expenditure programmes that they can reasonably achieve and are accountable for.
- 4.40 This is an area that senior management and elected members must continue to monitor. We have seen positive improvements in delivering capital expenditure programmes when councils take steps to actively monitor their performance in delivering their programmes in a timely manner.
- 4.41 We will continue to monitor and report on councils’ progress to deliver their capital expenditure programmes.

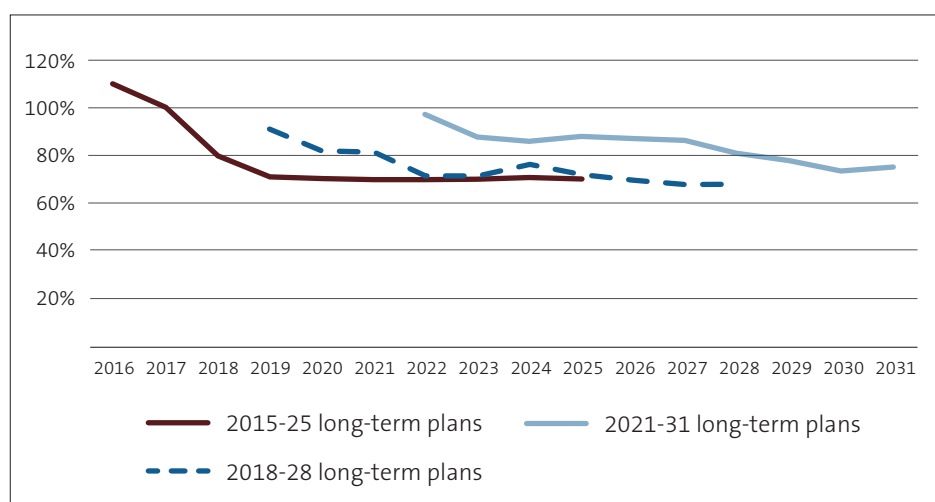
Are councils reinvesting enough in their existing assets?

- 4.42 We have previously reported our concerns that many councils are not adequately reinvesting in their assets.²⁴

- 4.43 In our report on matters arising from the 2015-25 long-term plans, we considered the link between spending on capital for renewing and replacing existing assets and provision of funding through depreciation.²⁵ We compared renewals spending to depreciation on the basis that depreciation is a reasonable estimate of the consumption of the service potential inherent in the asset.
- 4.44 When we have compared spending on renewals with the depreciation charge, we see that the spending on renewals continues to be lower. We describe this apparent underinvestment as the “renewals gap”.
- 4.45 In Figure 15, we set out forecast capital expenditure for renewals compared to the forecast depreciation for the last three long-term plan rounds. The graph shows that forecast renewals for the 2021-31 long-term plans remains lower than forecast depreciation for the period of the long-term plan.
- 4.46 However, we can also see that, for the years in common, councils are forecasting to invest more in their assets than in previous long-term plans. This is a positive change, assuming that councils deliver this planned investment.

Figure 15
Forecast renewal capital expenditure compared to forecast depreciation for all councils for the 2021-31, 2018-28, and 2015-25 long-term plans

The 2021-31 proportion of forecast renewal expenditure to forecast depreciation declines from just under 100% in 2021/22 to just under 80% in 2030/31. The proportion is relatively steady for 2022/23 to 2026/27 at 90%. For the years in common, the 2021-31 proportion is higher than what councils forecast in the 2018-28 and 2015-25 long-term plans.



25 Office of the Auditor-General (2015), *Matters arising from the 2015-25 local authority long-term plans*, page 10.

- 4.47 In Figure 16, we set out the proportion of forecast renewal expenditure to forecast depreciation for councils' main infrastructure activities from the 2021-31 and 2018-28 long-term plans. Councils are now planning to spend more on renewing their water supply networks compared to the associated depreciation charge. We are encouraged by this.
- 4.48 In some long-term plans, councils discussed the implications of historical underinvestment in water infrastructure. This shows that councils are increasingly looking to address this.

Figure 16
The proportion of forecast renewal expenditure to forecast depreciation by core asset activity, in the 2021-31 and 2018-28 long-term plans

Core asset activity	2021-31 long-term plan	2018-28 long-term plan
Roading	92%	83%
Water supply	122%	82%
Wastewater treatment and disposal	99%	67%
Stormwater drainage	54%	52%
Flood protection and control works	183%	224%

- 4.49 Figure 16 shows that councils' planned reinvestment is significantly lower for stormwater assets than for other asset classes. We reported this observation in our findings from our 2018 report *Managing stormwater systems to reduce the risk of flooding*. In 2021, we also reported that the actual renewals expenditure for the stormwater asset class was only 39% of depreciation for 2019/20.²⁶
- 4.50 This trend indicates significant underinvestment in stormwater assets. These lower levels of investment could be because councils tend to prioritise water supply and wastewater over stormwater, particularly as there are other options to manage stormwater depending on local geography (for example, through discharge to land).
- 4.51 Underinvestment and a lack of condition and performance information on stormwater assets (which we discuss below), combined with increasing weather events associated with climate change, could pose a significant risk for councils and their communities. We will continue to monitor and report on this.

What do councils know about the condition and performance of their critical assets?

- 4.52 One of our recommendations from our report on matters arising from the 2018-28 long-term plans was:
- ... that councils prioritise collecting condition and performance information of critical assets and, in the meantime, take a precautionary approach for significant services where the condition information of critical assets is unknown.²⁷*
- 4.53 We expected councils to have made progress on building their knowledge of the condition and performance of their critical assets. This was an area of focus in our audits of the 2021-31 long-term plans.
- 4.54 We do not expect councils to have perfect information. It would be prohibitively expensive for most councils and almost impossible to achieve. However, we continue to reinforce the importance of having good information about critical assets.
- 4.55 Councils need enough information to allow them to make decisions, which are informed by risk, about when to replace critical infrastructure so that existing services are maintained for their communities. The type of information needed will differ depending on the size, age, and complexity of the council's asset networks. The optimal amount of information needed to inform renewal and maintenance forecasts is a matter of judgement.
- 4.56 To inform our audit work, we first considered whether councils had reasonable information to inform their renewals and maintenance forecasts. In our view, reasonable information is initially understanding what assets are critical in the network, knowing the useful lives and age of those assets, and combining this information with an up-to-date assessment of the condition of those assets.
- 4.57 Councils could gather condition information from visual inspections. For underground infrastructure, more sophisticated condition assessments may be needed, such as smoke or laser assessments or sending a camera to visually inspect underground assets.
- 4.58 In our view, effective renewal strategies are based on the asset's age, condition, and performance information. The more an asset is critical to the success of the asset network, the more councils need to better understand its condition and performance information.
- 4.59 As an asset network becomes more complex and sophisticated, we expect a more systematic approach to capturing, recording, and using condition and performance information. Councils need to invest time and money into doing this.

²⁷ Office of the Auditor-General (2019), *Matters arising from our audits of the 2018-28 long-term plans*, page 7.

- 4.60 For councils that did not have reasonable information, we considered whether there was enough alternative information to inform the council's renewals forecasts. This included assessing the reliability of age and remaining useful life information and the experience and knowledge of the council's asset management staff.
- 4.61 We then considered whether there were any known performance issues or whether the age of the assets could contribute to performance issues. Finally, we considered what the consequences would be if critical assets were to fail.
- 4.62 This approach enabled our auditors to determine whether the council's information about the asset's condition and performance was reasonable enough, on balance, to inform their renewals forecasts.
- 4.63 We observed that most councils are continuing to make progress in collecting condition and performance information about their critical assets. As a result of this, we also found that councils were clearer in their disclosures and assumptions about the condition and performance of their assets.
- 4.64 We observed that councils generally had better information about their roading assets. This is not a surprise given that water infrastructure is often underground. Information about the condition of underground assets is not easily observed, and undocumented knowledge of these assets could have been lost through staff turnover.
- 4.65 When it comes to the three waters, councils generally had limited knowledge about the condition and performance of their stormwater assets.

Councils are making progress in prioritising the collection of condition and performance information about critical assets. It is important that this continues to be a priority.

What did this mean for our audit reports?

- 4.66 In some instances, we found that councils did not have enough condition and performance information to suitably inform their renewal strategies and forecasts. In other instances, we found that councils that had condition and performance information did not use it to inform their renewal strategies and forecasts.
- 4.67 We issued two qualified audit opinions about asset condition and performance information.
- 4.68 Gore District Council received a qualified audit opinion because it did not have enough reliable information about the condition of the assets in the water supply and wastewater networks that were nearing the end of their useful lives. Further, the exact age of the assets (which are believed to be more than 60 years old) is unknown. This is because a fire destroyed the underlying infrastructure records in the 1950s.

- 4.69 The Council used historical failure rates of its assets to determine the investment needed to renew the networks.
- 4.70 We considered it unreasonable for the Council to use historical failure rates alone to develop its forecasts for renewing its networks. Planning on this basis increases the risk of asset failures, which could result in reduced levels of service and increase costs that would need to be funded through rates or debt.
- 4.71 The Council has started an active programme to collect better condition and performance information about its assets. This includes, for example, using closed circuit television (CCTV) surveillance camera footage to examine the condition and performance of its water and wastewater networks. The Council was collecting this information at the same time as it was preparing its 2021-31 long-term plan. Therefore, there was not enough appropriate information to inform the 2021-31 long-term plan forecasts.
- 4.72 Wellington City Council also received a qualified audit opinion. Many of the assets in the Council's networks are old, and a significant percentage have already passed the end of their expected useful life.
- 4.73 The Council's assets are managed by a third party. This third party does not use information about the condition of the three water assets to inform its investment in its three waters networks. Instead, it forecast the renewal of assets based on their age. The proposed investment was capped by what the Council considered was physically able to be delivered.
- 4.74 We considered this approach to be unreasonable because it could result, during the 10-year period of the long-term plan, in more asset failures, reduced levels of service, and greater costs than forecast.
- 4.75 We included 11 emphasis of matter paragraphs about the uncertainty of asset condition and performance information in our audit reports.
- 4.76 Although two councils were continuing to improve their condition and performance information, the asset condition information they used to support their planned infrastructure assets renewal programme was not complete. This increases the risk that they may not have identified some assets needing replacement.
- 4.77 One council based its decision on when to replace assets by continually assessing asset condition and monitoring reactive maintenance costs. However, the budget for renewing assets is based on the age of the assets. This means that there is a risk that the council may need additional funding to pay for renewals that are needed earlier than planned, which could result in an increased risk of disruption to services.

- 4.78 The eight remaining emphasis of matter paragraphs were related to uncertainty about three waters infrastructure assets forecasts. Although these councils are continuing to improve their information about asset condition, they primarily used age-based information to inform their three waters renewals.
- 4.79 Using only age-based information means that there is a higher degree of uncertainty about how the councils have prioritised their investment needs. Not using condition information increases the risk that assets are not replaced at an optimal time. This could lead to unnecessary disruption to levels of services and, ultimately, increased costs.
- 4.80 Hurunui District Council also received a qualified audit opinion because it did not recognise the improvements made to the inland road connecting Waiau and Kaikōura. The road was heavily damaged by the 2016 Kaikōura earthquake.
- 4.81 After the Kaikōura earthquake, Waka Kotahi took responsibility for maintaining, repairing, and upgrading the road. The road was formally transferred back to the Council in December 2020.
- 4.82 The Council does not have information about the work completed by Waka Kotahi while the road was in its ownership. Therefore, the Council cannot reliably forecast future maintenance, renewals, or depreciation associated with the road.
- 4.83 In our view, despite the uncertainty associated with the three waters reforms and the final decisions on asset ownership, councils need to continue investing in good asset information on behalf of their communities.
- 4.84 This will mean bringing together the different information sources – their own condition assessments, asset failure rates, what contractors are seeing from repairing and replacing assets, and what other councils are finding – and using this information to inform asset renewals. This will allow councils to better maintain expected levels of service for their communities and avoid costly asset failure.

How the Government's proposed three waters reforms affected the long-term plans

5

- 5.1 In this Part, we discuss:
- the three waters service delivery reform programme (the three waters reform programme) when the long-term plans were prepared;
 - how councils dealt with the three waters reform programme in their long-term plans;
 - our audit response (see Figure 17); and
 - the potential implications of the three waters reform programme that need to be considered.

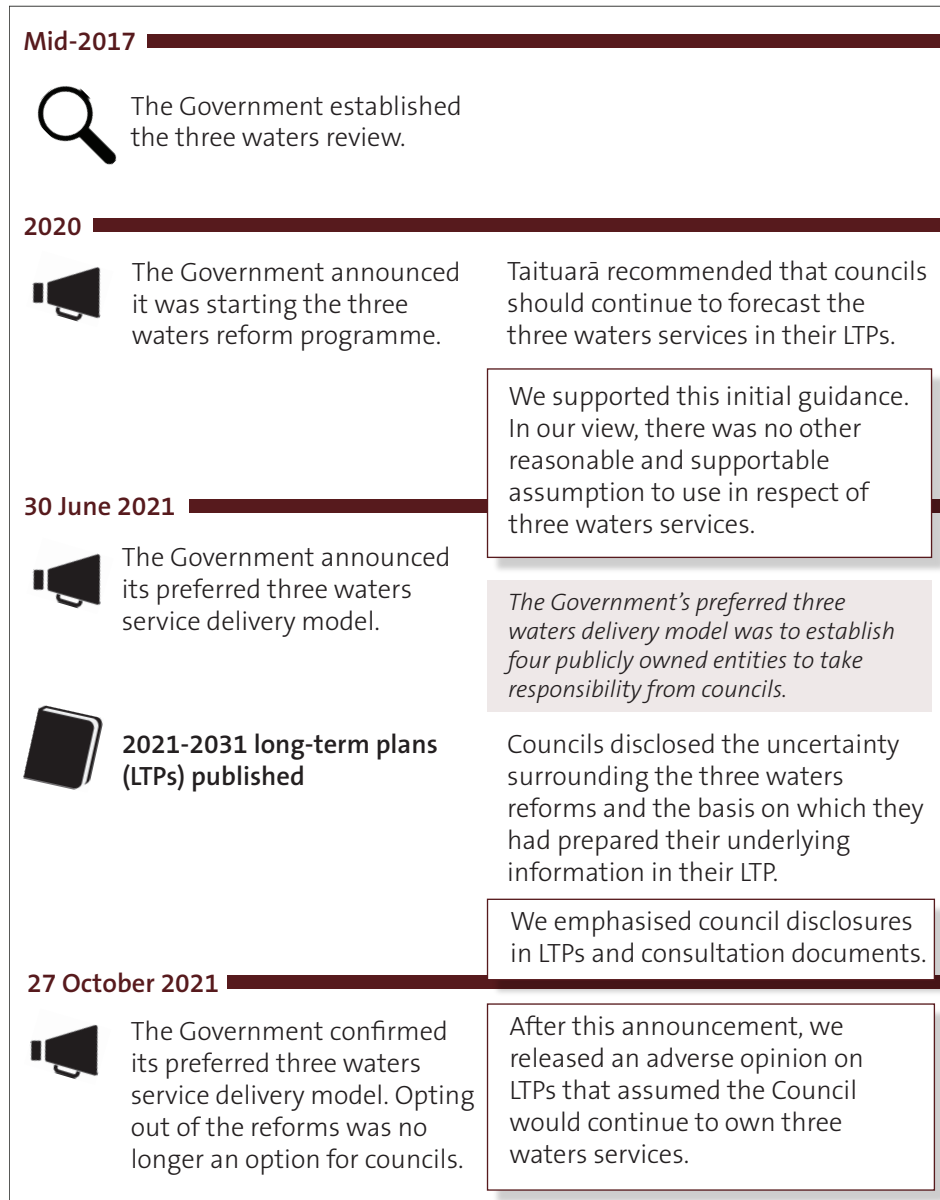
The three waters reform programme

- 5.2 In mid-2017, after the Government's Inquiry into Havelock North Drinking Water (the Havelock North Inquiry), the Government established the three waters review to look at how to improve the regulation and service delivery arrangements of the three waters services.²⁸
- 5.3 The findings of the review were consistent with many of the Havelock North Inquiry's findings and raised system-wide questions about the effectiveness of the regulatory regime for the three waters and the capability and sustainability of water service providers.
- 5.4 In response to the review, the Government created Taumata Arowai, the new water services regulator. On 15 November 2021, Taumata Arowai became the drinking water regulator. In 2024, it will assume regulatory responsibility for wastewater and stormwater networks, becoming the country's three waters regulator.
- 5.5 In 2020, the Government announced that it was starting the three waters reform programme. The reform programme focused on how the three waters services were delivered. It had six objectives. These were:
- significantly improving safety and quality of drinking water services and the environmental performance of wastewater and stormwater systems;
 - ensuring that all New Zealanders have equitable access to affordable three waters services;
 - improving resource co-ordination and unlocking strategic opportunities to consider national infrastructure needs at a larger scale;
 - increasing resilience of three waters service provision to both short- and long-term risks and events, particularly climate change and natural hazards;
 - moving three waters services to a financially sustainable footing and addressing the affordability and capability challenges faced by small suppliers and councils; and

²⁸ You can find more information on the Government's Inquiry into Havelock North Drinking Water on the Department of Internal Affairs website, dia.govt.nz.

- improving transparency and accountability in cost and delivery of three waters services, including the ability to benchmark performance of service providers.

Figure 17
Key government announcements and how they affected long-term plans and our audit reports



- 5.6 The Government stated that its key design features in the three waters reform programme were:
- water service delivery entities that are:
 - of significant scale (most likely multi-regional) to enable benefits from aggregation to be achieved over the medium to long term;
 - asset-owning entities with balance sheet separation, to support improved access to capital, alternative funding instruments, and improved balance sheet strength; and
 - structured as statutory entities with appropriate and relevant commercial disciplines and competency-based boards;
 - delivery of drinking water and wastewater services as a priority, with the ability to extend to stormwater service provision only where effective and efficient to do so;
 - publicly owned entities, with a preference for collective council ownership; and
 - mechanisms for enabling iwi/Māori and communities to provide input to the new entities.
- 5.7 All affected councils signed a memorandum of understanding with the Government to work together on an approach that will meet the objectives outlined above.²⁹ The memorandum of understanding set out that the signing councils will have the right to choose whether they wish to continue to participate in the reform programme beyond the term of the memorandum, which was 30 June 2021.
- 5.8 All affected councils other than Auckland Council also received funding from the Government after signing the memorandum of understanding. They could use the funding to support economic recovery and maintain, increase, and/or accelerate investment into core three water infrastructure renewals and investments.

The Government announced its preferred three waters service delivery model

- 5.9 The Government spent several months completing work to inform its preferred model for delivering three waters services. To inform this work, the Government requested information from affected councils. It requested this information while the councils were preparing their long-term plans. This work included the Water Industry Commission of Scotland's analysis of the economic benefits of reform.
- 5.10 On 30 June 2021, the Government announced that its preferred model for delivering three waters services was to establish four publicly owned entities to

²⁹ An affected council is one that owns or operates three water infrastructure. This includes all territorial local authorities and the Greater Wellington Regional Council, which is responsible for collecting, treating, and distributing safe and healthy drinking water to Wellington, Hutt, Upper Hutt, and Porirua City Councils.

take responsibility from councils. In making this announcement, the Government stated that the new entities would be collectively owned by councils, on behalf of communities.

- 5.11 However, the new entities would also own the assets and be operationally and financially separate from councils. Figure 18 sets out which parts of New Zealand the four entities were proposed to operate in.
- 5.12 After this announcement, the Government released information to councils to enable them to assess the Government's proposal. The Government also engaged with councils and other stakeholders.
- 5.13 Many councils also took the opportunity to engage with their communities to understand their views on the proposal. Councils were asked to provide feedback to the Government on the proposal.

The Government confirmed its preferred three waters service delivery model

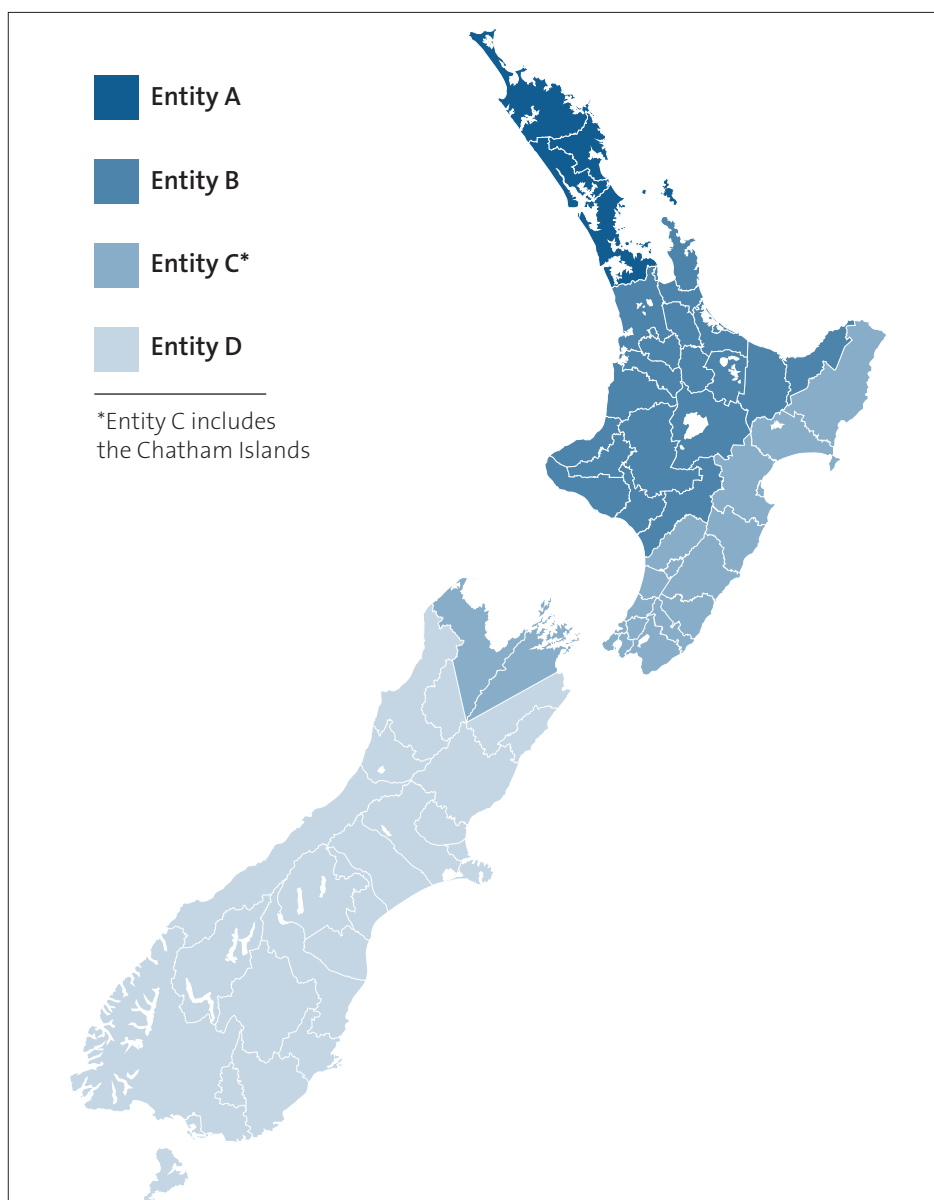
- 5.14 On 27 October 2021, the Government confirmed its preferred model for delivering three waters services, as outlined in paragraphs 5.9 to 5.13.
- 5.15 In making this announcement, the Government confirmed that all affected councils would be required to participate in the reforms. Opting out of the reforms was no longer an option.
- 5.16 The new water services entities were expected to become operational from 1 July 2024.

How did the three waters reform programme affect councils' long-term plans?

- 5.17 When the Government announced it was reforming how three waters services are delivered, councils were developing their underlying information and assumptions to inform their 2021-31 long-term plans.
- 5.18 Without knowing what the Government would decide in its reform proposal, councils had to consider what the announcement meant, if anything, to the development of their long-term plans.
- 5.19 The local government sector, through Taituarā, produced guidance that all affected councils followed. Taituarā recommended that councils should continue to forecast the three waters services in their underlying information as if they would continue to own three waters assets for the period that the long-term plans covered.

Figure 18
The locations of the proposed four water services entities

Entity A was proposed to operate from the top of New Zealand to Auckland. Entity B was proposed to cover the middle of the North Island, including from the Taranaki region in the west to the Rangitikei district in the south, excluding the Hawke's Bay and Gisborne regions. Entity C was proposed to cover the remainder of the North Island, the Nelson, Marlborough (excluding those parts included in Entity D), and Tasman (excluding those parts included in Entity D) districts in the South Island, and the Chatham Islands. Entity D was proposed to cover the remainder of the South Island.



- 5.20 In making this recommendation, the sector considered that the community should be able to understand and comment on the important issues related to three waters services until the reforms were certain.
- 5.21 Because of the considerable uncertainty in taking this approach, councils disclosed the uncertainty over the three waters reforms and the basis on which they had prepared their underlying information in the long-term plan.

What was our audit response?

- 5.22 We supported the local government sector's guidance on how councils should treat the three waters services in their long-term plans. In our view, there was no other reasonable and supportable assumption to use for three waters services. In forming this view, we also took into account that, at that stage, the Government had not made the reform programme mandatory.
- 5.23 Three waters infrastructure is significant to most councils. Therefore, we determined that the three waters reform programme caused uncertainty for councils that had significant three waters assets. This was of fundamental interest to the readers of the long-term plans.
- 5.24 In the audit reports of 67 affected councils, we emphasised the councils' own disclosure of the three waters reform programme.

Mackenzie District Council

- 5.25 When the Government made its announcement on 27 October 2021, Mackenzie District Council had not yet adopted its 2021-31 long-term plan. The Council continued to follow Taituarā's guidance and assumed that it would continue to own three waters services for the period that the long-term plans covered.
- 5.26 Mackenzie District Council said that it had two reasons for following Taituarā's guidance:
- Because the Government had not made any information available about how the three water services would be transferred from councils to the new water services entities, the Council could not reasonably model the transfer.
 - The Council believed that it was appropriate to prepare its long-term plan in the same way other affected councils had, to allow long-term plans to be compared.
- 5.27 We did not consider that this was a reasonable assumption for Mackenzie District Council to apply. In assessing the reasonableness of a proposed assumption, we also consider what the most likely outcome is when considering alternative options.
- 5.28 The Government had decided that the three waters reform programme was mandatory for all councils. Therefore, the most likely outcome for Mackenzie

District Council was that it would no longer operate the three waters services from 1 July 2024. In our view, the Council had not prepared a credible plan.

- 5.29 Consequently, we issued an adverse audit opinion on Mackenzie District Council's 2021-31 long-term plan.

Potential implications of the three waters reform programme

- 5.30 When we wrote this report, Parliament had completed its first reading of the Water Services Entities Bill. This is the first part of a suite of legislation that the Government is progressing to establish the new system for three waters service delivery. The Government has established a National Transition Unit to carry out the Government's decisions on the three waters reforms.
- 5.31 From the work we have done on the long-term plans, we can see that the Government, councils, and the new water entities should consider certain matters as the three waters reform programme progresses.
- 5.32 Many of the concerns we have raised in this report and our previous reports on the long-term plans, as well as in our wider work on local government, were about the operations of three waters activities.
- 5.33 We remain concerned that councils are not delivering on their capital expenditure programmes. Based on the 2021-31 long-term plans, about \$28 billion or 36% of the forecast capital expenditure relates to three water activities. As mentioned in Part 4, there are risks of capital expenditure not being completed as planned, such as providing new services to those needing them or even maintaining existing services to the community.
- 5.34 We also consider that councils need to improve their information about the condition and performance of their assets. As mentioned in Part 4, the main asset class where councils need better information is in three waters infrastructure.
- 5.35 If the three waters reform programme happens as the Government currently proposes, councils will continue to operate the three waters services for the next two years. It will be important for councils to consider our findings before the activities are handed over to the new water services entities. Ultimately, these assets will still be required to operate efficiently and deliver services to the community.
- 5.36 It will also be important for the new water services entities to consider our findings as a matter of priority. These larger organisations will have many competing priorities to consider and address as they begin to manage multi-region networks. Making informed decisions about what to prioritise needs appropriately complete and reliable information, based on carefully assessed risks.

6

Climate change

- 6.1 In this Part, we discuss how the need for climate action is becoming more urgent. We also discuss the climate change matters disclosed in the 2021-31 long-term plans. This includes:
- our expectations for the 2021-31 long-term plans and our approach to reviewing the references to climate change in the plans;
 - how councils are factoring climate change risks and vulnerabilities into their long-term planning;
 - the types of climate actions councils are taking, including the councils that declared climate emergencies; and
 - the further work we propose to do to consider climate action by councils.

The need for climate action is becoming more urgent

- 6.2 The need to take urgent action to respond to climate change and its impacts is gaining momentum under the Government's climate response framework.³⁰ This reflects the international consensus that urgent action is needed in the next decade to manage global temperature rise.
- 6.3 Adapting to, and mitigating the effects of, climate change presents significant challenges for councils. Given the role councils have in environmental planning and regulation, transport planning, and responding to natural hazards and extreme weather events, much of the responsibility for dealing with, and adapting to, climate change effects falls to them.
- 6.4 There is also an increased focus on reducing greenhouse gas emissions and on climate-related reporting. In order to meet New Zealand's legislated target of net zero greenhouse gas emissions by 2050, significant transformation and change will be needed throughout all sectors of the economy.
- 6.5 The Government's Emissions Reduction Plan, released in May 2022, sets out the actions needed to meet national emissions reduction targets and the principles that underpin the Government's approach.³¹ The Emissions Reduction Plan and several of the principles could provide useful guidance for councils in their climate action planning.

Our previous work

- 6.6 After auditing the 2018-28 long-term plans, we observed that:
- most councils were deferring making decisions about how to respond to the effects of climate change because there was too much uncertainty;

30 As implemented by the 2019 "zero carbon" amendments to the Climate Change Response Act 2002.

31 Ministry for the Environment (2022), *Te hau mārohi ki anamata: Towards a productive, sustainable and inclusive economy*.

- many councils assumed that climate change would not significantly affect their communities in the period of the long-term plan and that there would be no major natural hazard events in that period;
- councils had a limited understanding of the risks natural hazards pose and how climate change could affect their infrastructure assets; and
- it made little sense for all councils to individually consider how to improve their reporting on climate change issues, and there was a need for increased leadership from both central and local government on climate reporting and data requirements.³²

6.7 We also reviewed the climate-related content of councils' 2018/19 annual reports. We observed that many councils were giving greater attention to climate change in their governance and decision-making, including some collaborative arrangements in four council regions.

6.8 A small number of councils had formed climate action committees, and some had allocated staff or funding to climate change work and projects. We observed that audit and risk committees play an important role in assisting councillors to consider climate-related risks to achieving objectives – in particular, a council's ability to deliver services to the community.³³

Our expectations for the 2021-31 long-term plans

6.9 We expected that climate change would be more prominent in the 2021-31 long-term plans than in previous plans. In our previous work, we had suggested that councils should have a comprehensive discussion of resilience and climate change issues with their communities as part of their 2021-31 long-term plans.³⁴

6.10 As a result, climate change assumptions and disclosures were a focus for our auditors when auditing the 2021-31 long-term plans.

6.11 We expected that all councils would include an assumption about climate change effects and impacts in their long-term plan, with some supporting evidence. The expected effects of climate change could include increases in sea level, rainfall events, floods, droughts, and the severity of adverse weather events and temperature changes.

6.12 We also expected councils to show how much they understand the potential impacts that the expected effects of climate change will have on their critical assets and communities.

32 Office of the Auditor-General (2019), *Matters arising from our audits of the 2018-28 long-term plans*, Part 6.

33 Office of the Auditor-General (2020), *Insights into local government: 2019*, Part 5.

34 Office of the Auditor-General (2019), *Matters arising from our audits of the 2018-28 long-term plans*, page 39.

- 6.13 For most councils, these are likely to include impacts on:
- three waters services – this includes water supply security issues, reduction in water quality, increased wastewater overflows from heavy rainfall, and flood protection assets not working;
 - the transportation network – disruption from sea-level rise or flooding and landslides, leading to increased maintenance costs;
 - coastal infrastructure and property – sea-level rise causing coastal erosion that will put property and assets at risk, and may mean some places become uninsurable; and
 - biodiversity and pest management – changes in the type and distribution of pest species.
- 6.14 In assessing whether a climate-related assumption is reasonable, our auditors look at the council's process for making the assumption (including supporting information such as an assessment of climate effects from an expert climate organisation) and how the council has considered the impacts of that information on its activities and its community.
- 6.15 There may be instances where a community is already experiencing significant climate change effects. In these instances, more detailed modelling of climate change effects may be needed to demonstrate the reasonableness and supportability of the assumption.

Assessing climate-related actions and their priority

- 6.16 As well as considering climate change assumptions, which are largely focused on how councils are planning to adapt to the effects of climate change, we wanted to assess the steps that councils are taking to reduce greenhouse gas emissions and whether councils are prioritising climate action over other priorities.
- 6.17 To carry out our assessment, we:
- reviewed our auditors' findings on the climate-related disclosures in the long-term plans;
 - compared the number of references to climate change in the 2021-31 long-term plans to the number in the 2018-28 long-term plans;
 - reviewed whether the long-term plans refer to climate change as a strategic issue for the council – for example, in the mayor/chairperson's or chief executive's introduction or in the description of significant challenges and issues; and
 - reviewed the climate actions councils are taking, including those that declared climate emergencies.

How councils are factoring climate change risks and vulnerabilities into their long-term planning

Climate change assumptions

- 6.18 We are pleased to note that:
- all councils included a disclosure about climate change effects in their long-term plan;
 - our auditors did not raise any significant concerns about the climate change assumptions in the 2021-31 long-term plans (but suggested improvements in some instances);
 - our auditors did not draw attention to any climate-related matters or concerns in their audit reports.
- 6.19 Councils take a fairly standard approach to setting out their climate change assumptions. The climate change assumption often involves a description of the likelihood and impact of climate change, with supporting information about forecast district- or region-specific climate effects. It then sets out possible impacts on council infrastructure, activities, or communities.
- 6.20 To show how a council's approach has evolved, we provide an example of a climate change assumption from Central Otago District Council's 2021-31 long-term plan (see Figure 19) and compare it with the climate change assumption in its 2015-25 long-term plan (see Figure 20).

Figure 19
Central Otago District Council's long-term plan 2021-31 climate change assumption

Climate Change

Central Otago District Council commissioned Bodeker Scientific to undertake analysis and prepare a report of climate change impacts on the Central Otago District in 2017. This includes the projection under the worst case or highest warming scenario, as well as the implications this may have for the district. The Otago Regional Council has engaged Tonkin and Taylor to undertake analysis of the expected impacts of climate change on the wider Otago Region. The implications of climate change on Central Otago presented in the Tonkin and Taylor report are similar to those in the Bodeker Scientific report.

Central Otago District is predicted to warm by several degrees by the end of the century. Total precipitation is not projected to change much in the district. However, the distribution and intensity of rainfall is likely to alter, with a greater likelihood of more frequent extreme rainfall events. These events have occurred infrequently in the past, which provides valuable information regarding the consequences of these events to improve planning for the future. Central Otago District Council declared a climate crisis in Central Otago on 25 September 2019. Further details of this can be found in the Infrastructure Strategy.

Climate Change

Council has joined the Toitū Carbon Reduce certification scheme, which measures, manages and reduces its greenhouse gas emissions. This is a key strategic focus of Council's Sustainability Strategy. The emission sources that Council is responsible for have been measured for the 2017-18, 2018-19, and 2019-20 financial years. Emissions are broken down into three categories by the Greenhouse Gas Protocol, and by Council activity in order to better understand the source. These will be audited by June 2021, along with Council's emissions management and reduction plan.

There is a risk that if these assumptions are wrong, then Council could face growing costs from more frequent weather events, damage to assets and growing insurance costs. Council continues to monitor the impact of climate change across Council's assets. The risk of direct impact from climate change within the 10-Year Plan timeframe is medium.

- 6.21 In contrast, the climate assumption information in the 2015-25 long-term plan and infrastructure strategy focused on uncertainty.

Figure 20 Central Otago District Council's long-term plan 2015-25 climate change assumption

Climate Change Resilience

At present the impacts climate change may have on Central Otago are largely unknown. A wetter climate is a likely scenario and will impact on the district's stormwater and roading assets. The most common natural hazards that affect the transportation network are flooding and snow. Council has established procedures for responding to these events.

The degree and severity of these scenarios is not yet known. Subsequently, no significant individual capital projects relating to climate change are identified in this strategy.

The impact of these events on the transportation network will be monitored from 2014 using the One Network performance framework for resilience.

- 6.22 Central Otago District Council's approach has evolved significantly since its 2015-25 long-term plan. Its current approach is supported by expert analysis of climate effects for the district and Otago region, and a decision to declare a climate crisis and take actions in response.
- 6.23 Our auditor reviewed the Council's climate-related actions and assumption. Our auditor concluded that it was reasonable and supportable and acknowledged an appropriate level of uncertainty. Our auditor observed that the Council has been taking steps in the right direction to identify and mitigate climate change. This was clearly set out in the long-term plan.

The prominence of climate change disclosures in the 2021-31 long-term plans

- 6.24 We checked whether climate change is more prominent in the 2021-31 long-term plans than in the 2018-28 long-term plans. We did so by:
- counting references to “climate change” in the 2018-28 long-term plans and the 2021-31 long-term plans; and
 - checking whether councils assessed climate change or climate action as a strategic priority issue up front in their 2021-31 long-term plans, compared to their 2018-28 long-term plans.
- 6.25 We acknowledge the limitations of this approach in assessing the prominence of climate-related content. Although it does not consider the quality of the information, it does give an indication of the relative emphasis councils gave to climate change in their 2021-31 long-term plans compared to their 2018-28 long-term plans.
- 6.26 In the 2018-28 long-term plans, we counted 2127 references to climate change. In the 2021-31 long-term plans, we counted 5161 references to climate change. This is an increase of 143%.
- 6.27 The average number of references to climate change in the 2018-28 long-term plans was 27. In the 2021-31 long-term plans, the average number was 66.
- 6.28 The highest number of references to climate change in a long-term plan was 355 and the lowest was 11. The largest change between the two long-term plans was Waitomo District Council. In its 2018-2028 long-term plan, climate change was referenced once. In its 2021-31 long-term plan, climate change was referenced 35 times.
- 6.29 About 55 councils (70%) identified climate change or climate action as a strategic priority at the front of their 2021-31 long-term plan, either in the mayor/ chairperson’s or chief executive’s introduction or in a section on key issues or priorities. This was a notable increase from about 20 councils (25%) that mentioned climate change at the front of the 2018-28 long-term plans.
- 6.30 Many councils also identified climate change as a key challenge in their infrastructure strategies in both their 2018-28 and 2021-31 long-term plans. We also observed that some councils increasingly refer to climate action as well as climate change.

Taking climate action

- 6.31 We considered what councils said about their climate change activities in their 2021-31 long-term plans and what climate action they are taking or planning. We wanted to consider the nature and extent of climate action by councils and whether climate action is an urgent priority compared to councils' other priorities.
- 6.32 We paid particular attention to the 17 councils that had declared climate emergencies in 2019 and 2020³⁵ (see Figure 21). (Central Otago District Council has declared a climate crisis rather than a climate emergency.) We expected that declaring an emergency would result in tangible actions or programmes relating to mitigating and/or adapting to the effects of climate change and that these would be priority areas of council activity and investment evident in the long-term plan. This was the case for most of those councils.
- 6.33 We are aware that some councils have identified climate action as a strategic priority for the council and their communities but have not declared a climate emergency. We expect that our further planned work on climate action in local government will consider a broader range of councils than the councils that have declared a climate emergency.

Increasing resilience to climate change

- 6.34 We observed two main approaches to disclosing information about resilience to climate change. Councils either:
- have disclosed climate change resilience as a key challenge or issue in their long-term plans and have some work under way to consider what they are going to do about it (mainly focusing on adapting to climate change rather than reducing emissions); or
 - say that they still have significant work to do to improve their understanding of their exposure and vulnerability to climate change and know that they need to do much more work to identify and consider the impact on the community and the council's assets and activities. This includes large councils such as Christchurch City Council and smaller councils such as the Chatham Islands Council.

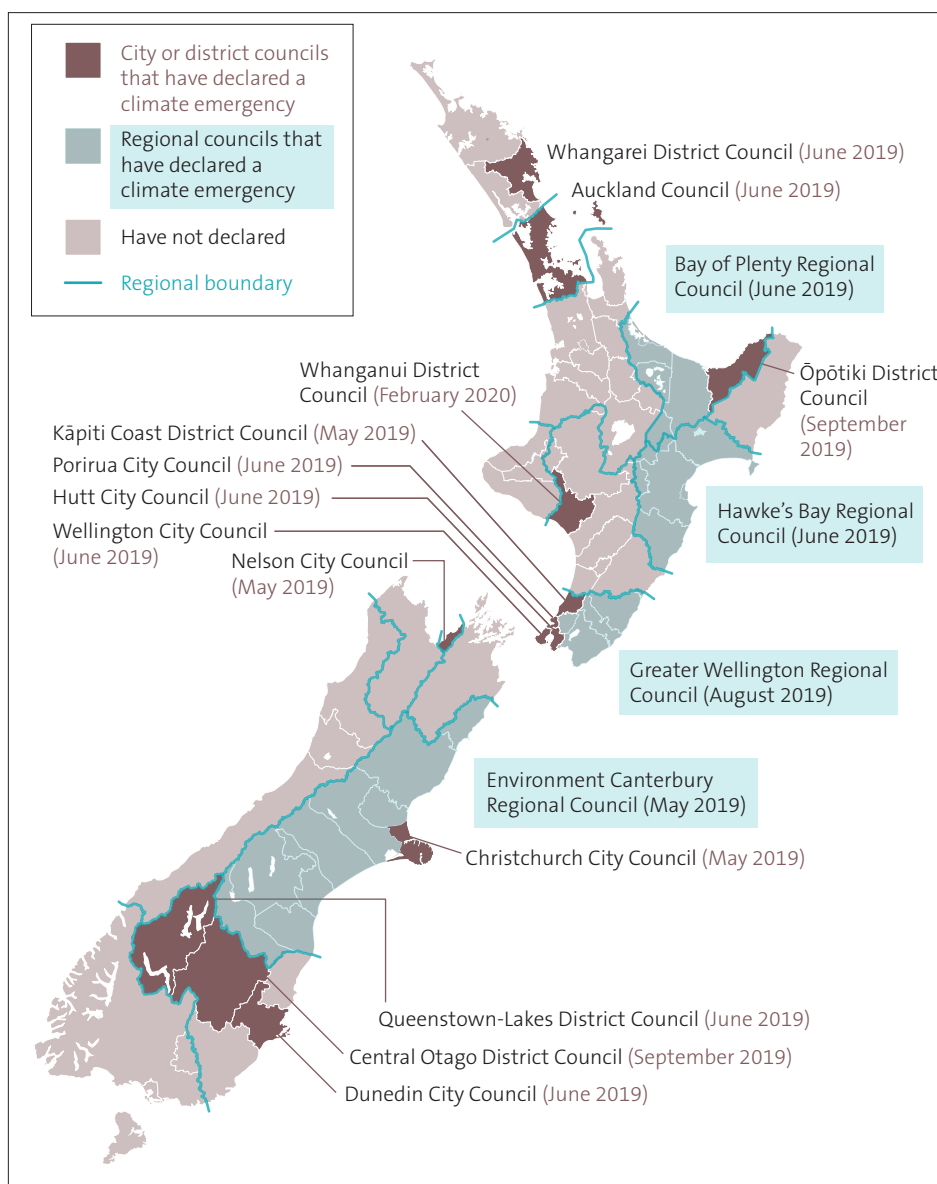
Reducing greenhouse gas emissions

- 6.35 Several councils have committed to reducing greenhouse gas emissions. These are either the council's own emissions or the emissions for the city, district, or region, or both. In some instances, councils have ambitious targets for reducing greenhouse gas emissions.

³⁵ In the 2019 calendar year, 16 councils declared climate emergencies. Whanganui District Council declared a climate emergency on 11 February 2020.

- 6.36 In a 2011 report, we assessed that about 25% of councils were taking steps to measure and reduce their greenhouse gas emissions.³⁶ They had begun doing so as part of former initiatives such as the Communities for Climate Protection New Zealand programme.
- 6.37 The 2021-31 long-term plans show that, for some councils, reducing emissions is their first step to taking action on climate change. This is illustrated by some of their statements in their plans.

Figure 21
The location of councils that have declared a climate emergency



36 Office of the Auditor-General (2011), *Local government: Results of the 2009/10 audits*, Part 4.

- 6.38 For example, Waitaki District Council said that:
- ... [the] Council recognises the importance of reducing our greenhouse gas emissions. In 2019 we commissioned a greenhouse gas inventory report to provide some base data to help understand our organisation's emissions. This will be used to track and compare emissions over time.³⁷*
- 6.39 The Chatham Islands Council said that:
- ... [the] Council is committed to taking a collaborative approach to addressing any identified local causes and impacts of climate change, which includes strategically varying our core Council infrastructure and internal policies to reduce or mitigate any greenhouse gas emissions.³⁸*
- 6.40 Approaches to reducing their own corporate emissions include setting targets, providing data on a baseline year for emissions so they can assess progress, and having specific actions to reduce emissions.
- 6.41 Some councils have adopted New Zealand's legislated target of net zero carbon emissions by 2050 for their district or region.³⁹ Some councils have interim targets, such as a 50% decrease by 2030. For example:
- Dunedin City Council aspires for Dunedin to be a carbon neutral city by 2030.
 - Nelson City Council is adopting central government's targets and budgets for reducing emissions and aims to reduce its own greenhouse gas emissions for each council activity by 5% by 2025.
 - Greater Wellington Regional Council aspires to be carbon neutral by 2030. It goes further by aspiring to be "climate positive" by 2035 through stock reduction, tree planting, and clean transport solutions.

Climate-related performance measures

- 6.42 Councils that have adopted emissions reduction targets need to have measures to assess their progress and be accountable to their communities. Some councils are beginning to include climate-related performance measures in their long-term plans, such as emissions reduction targets for their own operations or for their district or region, which they will report on in their annual reports.
- 6.43 Some measures are in the council's community outcome measures, rather than as part of their (audited) activity-related performance information. Some examples of measures include:
- measures of the council's greenhouse gas emissions from its own activities and facilities (corporate emissions), expressed in tonnes of CO₂ emitted as a

37 Waitaki District Council (2021), *2021-2031 Long term plan*, page 326.

38 Chatham Islands Council (2021), *Long term plan 2021-2031*, page 66.

39 Climate Change Response Act 2002, as amended by the Zero Carbon legislation in 2019.

- percentage change against a baseline, and including direct and indirect emissions;
- time-based measures for reduction in emissions from council-owned fuel vehicles – for example, 20% reduction in 2021/22, zero emissions by 2030;
- year-on-year reduction measures from a baseline starting year – for example, 10% decrease in emissions from baseline in organisational emissions year on year;
- measures that also include greenhouse gas emissions for all council subsidiaries, business units (and the share of jointly owned council-controlled organisations based on ownership share); and
- district-, city-, or region-wide measures, including:
 - percentage reduction of greenhouse gas emissions from public transport services and assets;
 - total city greenhouse gas emissions – for example, 43% reduction by 2030; and
 - number of native trees planted in region.

6.44 This is a developing area, but it will become increasingly important for councils that wish to be accountable to their communities for their progress with climate action. We will consider the state of climate-related performance reporting by councils in our proposed performance audit, which we discuss at the end of this Part.

Engaging with communities and collaboration with other councils

- 6.45 Several councils are collaborating with other councils in their regions to share climate-related information and approaches. For example, the eight councils in the Manawatū-Whanganui region signed a memorandum of understanding in December 2020 about how they will collaborate on climate change resilience and emissions reductions in their region.⁴⁰
- 6.46 The councils formed a Climate Action Joint Committee in early 2021 to guide their climate action activities, including completing a regional risk assessment to identify issues that most urgently need attention.
- 6.47 Councils are also taking action to raise community awareness of climate change mitigation and adaptation challenges and are working with communities and other partners and groups on solutions.
- 6.48 Several councils confirmed additional funding for climate-related projects or work in response to feedback during the consultation on the long-term plans that the community wanted their council to do more.
- 6.49 For example, Nelson City Council received 147 submissions on climate change, with most supporting the Council being proactive in addressing the challenges of climate change. Some urged the Council to progress as fast as possible and prioritise dealing

⁴⁰ Horizons Regional Council (2020), *Manawatū-Whanganui climate change action plan towards a climate-resilient region*.

with climate change over other spending. Ten submitters were opposed to work in this area. The Council elected to proceed with its proposed changes.

- 6.50 Whangarei District Council observed that it saw a majority of submitters asking the Council to do more about climate change and sustainability. Elected members responded to this by confirming the \$3.7 million of new funding that we consulted on. The Council also increased the contestable fund by \$100 thousand per year for community waste minimisation projects and clean ups.⁴¹ The Council notes that the funding of \$3.7 million was aligned to its capacity to deliver the projects in both the adaptation and mitigation realm. This includes delivery of priority actions within the Te Tai Tokerau Climate Adaptation Strategy, which is a region-wide strategy developed collaboratively and adopted in 2022 by the four Northland councils.

Integration

- 6.51 The statutory purposes of a long-term plan include integrated decision-making, taking a long-term focus for the council's decisions and activities, and being accountable to communities.⁴²
- 6.52 Climate change is an issue with long-term implications, and it needs to be integrated into the council's processes, plans, and strategies. Communities that seek climate action have an interest in how their council accounts for its climate-related performance.
- 6.53 Several long-term plans reflected the council's strategy to integrate climate change into its planning and decision-making or embed climate change considerations into all decisions.
- 6.54 For example, Hawke's Bay Regional Council observed that:
*Climate change is therefore a focus in all of our planning and decision-making with climate change projections, adaptation and mitigation a key component of this Long Term Plan.*⁴³
- 6.55 Waitaki District Council disclosed that:
Using the best available information, climate change considerations are becoming a core part of our planning. The impacts of climate change are being considered in our work on strategies and plans, including this plan, the AMP's, our Financial Strategy, our Coastal Roads Strategy and our District Plan, and through

41 Whangarei District Council, *Long term plan 2021-31*, Volume 1, page 10.

42 Section 93(6) of the Local Government Act 2002.

43 Hawke's Bay Regional Council, *Time to Act – Kia Rite! 2021-2031 Long term plan*, page 12.

design and construction standards, identification of hazards, and redundancy and mitigation (such as insurance) over the life of the Long-Term Plan.⁴⁴

Some councils have reflected a sense of urgency and priority

- 6.56 Councils that declared climate emergencies tend to give a sense of urgency and priority to climate action in their long-term plans. This is reflected in statements in their long-term plans.
- 6.57 Nelson City Council said that:
Responding to climate change is our biggest global challenge. We have less than a decade to accelerate our emissions reductions to avoid the full effects of global warming.⁴⁵
- 6.58 Porirua City Council said that:
To accelerate our response to climate change, Council agreed to invest an additional \$6 million during years 2022/23 and 2023/24 to reduce greenhouse gas emissions from council facilities, reduce organic waste going to the landfill and accelerate the transition of Council's fleet to electric vehicles where we can.⁴⁶
- 6.59 Wellington City Council said that:
We are in a climate and ecological emergency and we need to take action now to adapt to the changing climate, and to lessen the extent of the impacts through supporting the city to radically lower emissions. In addition, the city has ongoing ambitions to protect and enhance the city's indigenous biodiversity, outlined in Our Natural Capital – Wellington's Biodiversity Strategy and Action Plan, that will need continued Council investment.⁴⁷

Climate action plans

- 6.60 Some councils are increasingly referring to climate action as well as climate change, and several councils have adopted or are working on dedicated climate action plans.
- 6.61 In 2020/21, we carried out a preliminary review of climate action planning by councils before beginning the long-term plan audits. We found that 21 councils had a dedicated climate action plan or a similar document, such as a sustainability plan or climate change strategy, policy, or roadmap setting out needed actions.

44 Waitaki District Council, *2021-31 Long term plan*, page 325.

45 Nelson City Council, *Your wellbeing, Nelson's future – Oranga Tonutanga: Nelson's long term plan 2021-2031*, page 26.

46 Porirua City Council, *Porirua – our people, our harbour, our home: Long-term plan 2021-51*, page 11.

47 Wellington City Council, *Tō mātou mahere ngahuru tau: Our 10-year plan*, Volume 1, page 21.

- 6.62 A further 19 councils had some documentation relevant to climate change (for example, a collection of actions without an overarching plan, an environmental scan, or principles for addressing climate change). We could not find any publicly available climate action plans or similar documents for the remaining 38 councils.
- 6.63 For this report, we considered the climate action plans of councils that have declared a climate emergency. We are aware that some councils that have not declared emergencies also have climate action plans.
- 6.64 Some of the councils that have declared a climate emergency acknowledge that they are at the early stages of taking climate action. Not all councils that have declared a climate emergency have adopted a climate action plan, but most of those have draft action plans or are developing them.
- 6.65 We provide examples of three councils that have more developed action plans.
- 6.66 Queenstown-Lakes District Council consulted on a second iteration of its climate action plan during the 2022/23 annual plan process. The Council aims to achieve net zero carbon emissions by 2050 and to be resilient to the local impact of climate change throughout the whole district. The Council uses a climate reference group and its audit and risk committee to guide its climate-related actions.
- 6.67 Auckland Council adopted a climate action plan in December 2020 for itself and the Council group. The climate action plan is comprehensive and well advanced compared to other councils, but the Council says that more needs to be done. The Council consulted on a new “climate action targeted rate” in its 2022/23 annual plan process to further support the actions in its climate action plan, particularly in the transport sector. The proposed rate would raise \$574 million during a 10-year period.
- 6.68 Wellington City Council’s climate action plan sets the city’s target of net zero carbon by 2050. The Council plans to invest \$47 million in climate action during the period of the 2021-31 long-term plan, including to measure its emissions, engage residents, and develop more climate action initiatives in partnership with a range of stakeholders. The Council is also developing a framework to measure progress and be accountable for emissions reductions.

Climate justice and a focus on transition

- 6.69 Some councils are considering the equity or social justice aspects of climate change, as a general recognition that some communities may be affected by climate change and transitioning to a low carbon economy more than others.
- 6.70 For example, Dunedin City Council’s long-term plan describes the Council’s work to build resilience and identify opportunities and plan for long-term adaptation for South Dunedin, a low-lying, highly populated area of the city. Dunedin’s mayor

stresses the importance of the need for “ensuring a just transition to a safer climate future” in his introduction to the long-term plan.⁴⁸

- 6.71 Auckland Council’s climate action plan considers equity, climate change as a social issue, and climate change through a te ao Māori perspective.⁴⁹
- 6.72 An “equitable transition” is one of the five underpinning principles of the Government’s Emissions Reduction Plan. This could provide useful guidance for councils thinking about equity in their climate action planning.⁵⁰

Climate change response as a new activity

- 6.73 Porirua City Council created a new “climate change response” activity as one of its main groups of activities, with associated outcomes and performance measures and three focus areas – mitigation, adaptation, and transition.
- 6.74 The Council established the new activity to guide and direct its response to climate change. The activity provides expert advice to the Council, identifies and manages key projects that address specific climate-related issues, and supports other groups within the Council that are working on climate-related issues.
- 6.75 The Council has introduced the following time-based measures, with a target of 100% completion on time:
- 2021/22 – develop business cases for actions to reduce the Council’s greenhouse gas emissions;
 - 2022/23 – greenhouse gas targets are adopted by the Council; and
 - 2023/24 – the Council’s greenhouse gas mitigation plan is developed and being implemented. Adaptation planning is under way with the community.⁵¹

Use of climate guidance and reporting frameworks

- 6.76 Some councils are using climate-related guidance or membership organisations to assist their thinking or are applying reporting frameworks on a voluntary basis.⁵²
- 6.77 For example, Greater Wellington Regional Council has joined CDP (formerly the Carbon Disclosure Project), a charity that runs a global disclosure system to help entities and regions manage their environmental impacts.

48 Dunedin City Council, *Tō tātou eke wakamuri – The future of us: 10 year plan 2021-31*, page 2.

49 Auckland Council (2020), *Te Tāruke-ā-Tāwhiri: Auckland’s climate plan*, pages 11-12.

50 Ministry for the Environment (2022), *Te hau mārohi ki anamata: Towards a productive, sustainable and inclusive economy*, chapter 3.

51 Porirua City Council, *Porirua – our people, our harbour, our home: Long-term plan 2021-51*, page 96.

52 International guidance on climate reporting is available, including from the Task Force on Climate-Related Financial Disclosures. This guidance is being used to develop climate-related reporting requirements for certain New Zealand entities that operate in financial markets, including a small number of public sector entities.

- 6.78 The Council is also drawing on the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD).⁵³ This is an international organisation set up to develop voluntary, consistent climate-related financial risk disclosures for organisations.
- 6.79 Auckland Council has voluntarily adopted the TCFD's climate reporting framework. The Council produces a separate volume of its annual report about climate-related risks and opportunities for the Auckland Council group.
- 6.80 The Council considers that identifying and disclosing its climate-related financial risks is key to providing a transparent view to improve its stakeholders' understanding of the financial implications associated with climate change.
- 6.81 The Council said that applying TCFD's recommended disclosures has meant making fundamental changes to embed climate risk management into its governance structures, strategic, and financial planning processes.

Climate change opportunities

- 6.82 Some councils are also considering opportunities associated with climate change. The TCFD's guidance states that efforts to mitigate and adapt to climate change also produce opportunities for organisations – for example, resource efficiency and cost savings by adopting low-emission energy sources, access to new markets, and building resilience along the supply chain.
- 6.83 Greater Wellington Regional Council describes climate-related opportunities in transport, including the potential to find innovative ways to further decarbonise its public transport fleet (bus, rail, and ferry) and implement nationwide electronic ticketing for public transport.⁵⁴
- 6.84 Nelson City Council sees many opportunities in its climate change response, including restoring biodiversity, improving water and soil quality, building sustainable urban environments, and promoting healthy lifestyle choices and connected communities in a more liveable city.⁵⁵

We are proposing further work to consider climate action by councils

- 6.85 It is encouraging to see that all councils are thinking about climate change in their 2021-31 long-term plans, and that some have identified climate action as a strategic priority and recognise the urgency to take action.

⁵³ For more information about the Task Force on Climate-related Financial Disclosures, see www.fsb-tcfid.org.

⁵⁴ Greater Wellington Regional Council, *The Great Wellington Regional story – Ko Te Pae Tawhiti: Long Term Plan 2021-2031*, page 66.

⁵⁵ Nelson City Council, *Your wellbeing, Nelson's future – Oranga Tonutanga: Nelson's long term plan 2021-2031*, page 26.

- 6.86 This is a marked improvement from the 2018-28 long-term plans. A notable change is that several councils have dedicated climate action plans and resources or are working on them. Councils that want to develop climate action plans have plenty of good examples and experience from other councils to draw on, as well as guidance and direction from international frameworks such as TCFD or the Government's 2022 Emissions Reduction Plan.
- 6.87 It is encouraging to see councils beginning to put performance targets and measures into their plans so that they can assess and report on progress and be accountable to their communities, including to those who want more climate action.
- 6.88 Climate action and reporting is a developing area. Councils that have included climate-related targets and measures into their long-term plans will be among the first public organisations to formally report their progress with climate actions. Councils that have included relevant metrics as part of their performance measurement framework will be well positioned to report on their contribution to the Government's emissions reduction targets.
- 6.89 The discipline of long-term planning is well established in local government. Councils have good experience in considering future effects and scenarios about matters that could have a significant impact on their operations and in forecasting related costs. This will be helpful for more formal climate-related reporting should such requirements be established for councils.
- 6.90 As councils develop their next long-term plan, they could consider the opportunity to take a strong leadership role in climate action in their district or region. The current local government reforms could provide scope or opportunity for councils to take more climate actions in the future.
- 6.91 We intend to consider climate action by councils in more depth in a performance audit in 2022/23.⁵⁶ This assessment of climate actions set out in the 2021-31 long-term plans and our performance audit will provide a baseline for comparison with future long-term plans. We will use it to measure how councils are progressing with climate actions over time and to track any increasing urgency and activity.

⁵⁶ See Office of the Auditor-General (2022), *Annual plan 2022/23* at oag.parliament.nz.

Appendix 1

The audit reports issued on councils' 2021-31 long-term plans

The types of audit reports that can be issued

An audit report will be either standard or non-standard.⁵⁷ A non-standard audit report is one that contains:

- an adverse opinion;
- a qualified audit opinion;
- an emphasis of matter paragraph; and/or
- an “other matter” paragraph.

An adverse opinion is quite rare and means that the auditor disagrees with the entity. It indicates that, in the auditor’s professional opinion, the underlying information and assumptions in the long-term plan were unreasonable.

An adverse opinion or qualified opinion can also be called a modified opinion.

An auditor will include an emphasis of matter paragraph or an “other matter” paragraph in the audit report to draw attention to:

- a breach of law; or
- a matter or matters presented or disclosed that are of such importance that they are fundamental to readers’ understanding of the audited information.

An emphasis of matter paragraph does not necessarily mean that the auditor has found anything wrong. Instead, the auditor wants to draw the readers’ attention to a matter or matters that are fundamental to understanding the long-term plan.

An audit report can contain more than one modification to the audit opinion or more than one emphasis of matter paragraph.

The audit reports we issued

In summarising the non-standard audit reports we issued, we have not repeated the wording of the emphasis of matter paragraph included in 67 audit reports relating to the uncertainty of the three waters reforms. This emphasis of matter paragraph is as follows:

Uncertainty over three waters reforms

Without modifying our opinion, we draw attention to the disclosure on... [outline], which outlines the Government’s intention to make three waters reform decisions during 2021. The effect that the reforms may have on three waters services provided is currently uncertain because no decisions have been made. The plan was prepared as if these services will continue to be provided by the Council, but future decisions may result in significant changes, which would affect the information on which the plan has been based.

⁵⁷ For a plain English explanation of the different forms of audit reports, see our blog post, “The Kiwi guide to audit reports”, at oag.parliament.nz.

Modified audit opinions – adverse opinions

Mackenzie District Council

Assumptions over three waters ownership and service delivery from 1 July 2024 are not reasonable

In July 2020, the Government announced the Three Waters Reform Programme. The Programme included a review of water service delivery. At the consultation phase for the long-term plan, there were numerous uncertainties over the effects of the reforms on the Council, because no decisions had been made. Therefore, the Council assumed that it will retain ownership of three waters assets and remain responsible for the service delivery of three waters services for the life of the plan.

On 27 October 2021, the Government publicly announced that legislation will be introduced to establish four publicly owned water services entities to take over responsibility for three waters service delivery and infrastructure from local authorities, from 1 July 2024. The Council has, however, not amended its forecast information, after this announcement, to reflect these changes in responsibility.

The Council's assumption that it will continue to deliver three waters services after 1 July 2024 is now not reasonable or supportable, which means that the Council does not have a credible plan from 2024 onwards.

The impact of the assumptions on the plan are pervasive given the significance of three waters infrastructure and service delivery to the Council. We did not determine the impact of the reforms on the plan because it was impracticable for us to do so.

Emphasis of matters

Breach of the Local Government Act 2002

The Council failed to adopt the plan before the commencement of the first year to which it relates. This is a breach of section 93(3) of the Local Government Act 2002.

We also draw specific attention to the following matters which affect the first three years of the plan.

Delivery of the capital programme

While the Council has taken steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme, due to the availability of contractors. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Canterbury flooding event

A significant flooding event occurred during May 2021 in the Canterbury region. The Council has not made amendments to the forecasts contained in the plan because it assesses it can complete flood remediation work within existing budgets. This is because existing forecasts include allowances for weather related events, and existing works are able to be reprioritised to address flooding damage. This increases the risk that assets requiring renewals or maintenance may be deferred, which may impact service levels.

Palmerston North City Council

Underlying information and assumptions in the plan are inconsistent with the Council's financial strategy

The underlying information and assumptions in the plan are not reasonable because they are inconsistent with the Council's financial strategy. The financial strategy caps the Council's debt at 200% of revenue. However, the forecasts in the plan show the Council expects to exceed its debt cap after year 4 of the plan (and is forecast to exceed the debt limits set by the New Zealand Local Government Funding Agency after year 5). The Council notes that it is highly unlikely that lenders would be prepared to lend the amounts of debt that the Council is forecasting and has included in the underlying information to the plan.

This means that the Council does not have a credible plan for funding all its activities and planned projects. Therefore, the Council needs to consider reducing levels of service, removing or deferring planned projects, or increasing rates further. None of these matters are addressed in the plan.

Because of the unreasonable underlying information and assumptions and inconsistencies with the Council's financial strategy, the plan does not provide a reasonable basis for long-term, integrated decision-making, or accountability to the community.

Emphasis of matters

Breach of the Local Government Act 2002

The Council failed to adopt the plan before the commencement of the first year to which it relates. This is a breach of section 93(3) of the Local Government Act 2002.

Uncertainty over three waters reforms

Modified audit opinions – qualified opinions

Ashburton District Council

Qualified opinion

Assumption related to the funding of a second urban bridge between Ashburton and Tinwald

The Council plans to spend \$37 million to build a second urban bridge to connect Ashburton and Tinwald. In its plan, the Council is proposing to fund \$7.5 million of the bridge through debt and rates. The Council assumes that the remaining cost of the bridge will be funded by \$18.8 million from Waka Kotahi NZ Transport Agency and \$10.7 million from central government. We consider the assumption that \$10.7 million will be funded by central government is unreasonable, because central government has not made any funding available.

Due to the uncertainty over the assumed central government funding, we have not determined the impact that this may have on the plan.

Emphasis of matters

Extent of damage from the significant flooding event during May 2021 is unknown

A significant flooding event occurred during May 2021 in the Canterbury region. The Council has not made amendments to the forecasts contained in the plan. This is because the extent of the damage to the Council's essential assets and the estimated cost and timing of the repairs that will be required are currently unknown, and have yet to be assessed by the Council. Once this information is known, the Council will determine whether to amend its plan or include the information in the 2022/23 annual plan.

Uncertainty over three waters reforms

Buller District Council

Qualified opinion

Westport port and the Kawatiri dredge

The Council assumed that \$25.2 million in revenue will be received from a large commercial operator, throughout the 10 years of the plan. This revenue is needed for dredging the Westport Harbour, which will be required for the operator to ship out of the port. We consider this assumption is unreasonable because there is no contract in place with the potential operator to secure this revenue.

If the large commercial operation does not proceed, the Council will not receive this revenue and the Council has signalled that no additional costs will be incurred to dredge the Westport Harbour. However, fixed operational costs will continue, and these would need to be funded through other port revenues or by some other means.

Karamea special purpose road

The Karamea highway is currently 100% funded by Waka Kotahi NZ Transport Agency (Waka Kotahi) because of its special purpose road status. The Council has assumed that Waka Kotahi will continue to fund the Karamea highway at 100% during the 10 years of the plan. We consider this assumption is unreasonable because Waka Kotahi has advised that the status of the highway will change from a special purpose road to a local road, resulting in Waka Kotahi funding only 72%, effective from the start of the 2024/25 financial year.

If the 100% funding is not received beyond the 2023/24 year, the levels of service could reduce due to the Council not being able to afford the maintenance of the road. It could also have a major impact on rates.

Punakaiki water supply scheme

The Council plans to spend \$6.7 million to upgrade and extend its Punakaiki water supply scheme during the 2024/25 and 2025/26 financial years. In the information underlying the plan, the Council has assumed that the Government will fully fund the planned upgrade. We consider this assumption is unreasonable because the Government has not made any funding available.

If the upgrade proceeds and the government funding is not received, debt funding would be required, resulting in a large rates impact for each of the 93 households in Punakaiki. If the upgrade does not proceed the levels of service will not improve.

Emphasis of matter

Uncertainty over three waters reforms

Gore District Council

Qualified opinion

Lack of condition and age information for water supply and wastewater assets

The Council does not have sufficient reliable information about the condition of the assets in the water supply and wastewater networks, many of which are nearing the end of their useful lives. Further, the exact age of assets more than 60 years old is unknown due to a fire that destroyed the underlying infrastructure records in the 1950s. The Council has used historical failure rates of its assets to determine the investment required to renew these networks.

We consider it unreasonable for the Council to use historical failure rates alone to develop its forecasts for renewing its networks. Planning on this basis increases the risk of asset failures, which could result in reduced levels of service, and increased costs that will need to be funded through either rates or debt.

Emphasis of matters

Breach of the Local Government Act 2002

The Council failed to adopt the plan before the commencement of the first year to which it relates. This is a breach of section 93(3) of the Local Government Act 2002.

Uncertainty over three waters reforms

Hastings District Council

Qualified opinion

Assumption related to Waka Kotahi funding

Funding for the transport activity is dependent on a subsidy from Waka Kotahi NZ Transport Agency (Waka Kotahi). On 27 May 2021, the Waka Kotahi Board endorsed an indicative subsidy of \$53 million for the Council's local road maintenance over the first three years of the plan. This is \$10.4 million lower than the Council had requested and has forecast in its plan.

The Council has not adjusted its forecast assumption to the indicative subsidy of \$53 million from Waka Kotahi, despite that being the best information available at the time of preparing and finalising the Council's plan. The effect of not adjusting this forecast assumption is that the estimated subsidies and grants is overstated by \$3.47 million per annum over the first three years of the plan. Given the Council has not made any decisions on alternative funding sources, including increasing rates or increasing debt, we cannot determine the possible effects on other areas of the plan.

There are no satisfactory audit procedures we could perform to confirm the impact of the reduction in the subsidy on the plan.

Emphasis of matter – *Uncertainty over three waters reforms*

Hauraki District Council

Qualified opinion

Assumption related to the upgrade of wastewater treatment plants

The Council plans to spend \$41 million to upgrade its wastewater treatment plants within the next 10 years. The Council assumes that the Government will fund 50% of the upgrades. We consider this assumption unreasonable because the Government has not made any funding available.

If this assumption was removed, the impact on the underlying information over the next 10 years, as described by the Council, would be debt increasing to \$85 million and targeted wastewater rates increasing by another 39% to a total of \$1,040 per household.

Emphasis of matter

Uncertainty over three waters reforms

Hurunui District Council

Qualified opinion

Improvements to the "Route 70 – Inland Road" and the consequences of those improvements have not been included in the underlying information

The plan outlines that Waka Kotahi NZ Transport Agency (Waka Kotahi) obtained the power to operate the "Route 70 – Inland Road" after the 2016 Kaikōura Earthquake. Waka Kotahi was responsible for maintaining, repairing, and upgrading the road until 24 December 2020, when this responsibility was formally transferred back to the Council for its share of the road.

The Council has not recognised its share in the value of Waka Kotahi's improvements to the road, because the Council did not have the information available during the preparation of the plan. As a consequence, the Council has not adjusted its forecast maintenance, renewals, and depreciation for the road in its plan. We are unable to determine the possible effect of these matters on the plan because it is impracticable to do so.

Emphasis of matter

Uncertainty over three waters reforms

Kaipara District Council

Qualified opinion

Waka Kotahi funding

Funding for the transport activity is dependent on a subsidy from Waka Kotahi NZ Transport Agency (Waka Kotahi). On 27 May 2021, the Waka Kotahi Board endorsed an indicative subsidy of \$49.6 million for the Council's local road maintenance over the first three years of the plan. This is \$6.2 million lower than the Council had requested and has forecasted in its plan.

The Council has not adjusted its forecast assumption by the reduction in the subsidy from Waka Kotahi, despite that being the best information available when the Council prepared and finalised its plan. The effect of not adjusting this forecast assumption is that estimated subsidies and grants is overstated by \$3.8 million. Given that the Council has not adjusted for this, we are uncertain of the effects this would have.

Emphasis of matters

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$339 million on capital projects over the next 10 years. Although the Council has taken steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Uncertainty over debt repayment of the planned Mangawhai wastewater scheme development

The Council is proposing to fund planned development of the Mangawhai wastewater scheme through development contributions rather than rates. The Council plans to fund the initial expenditure through debt, which will be recovered by associated development contributions over the life of the entire scheme. The Council's ability to repay the debt is uncertain because it is dependent on the Council's assumptions around growth and the collection of the proposed development contributions. Should these assumptions not be achieved the Council would need to reconsider the timing of future capital works projects and/or obtain alternative funding sources to repay the debt.

Uncertainty over three waters reforms

Kāpiti Coast District Council

Qualified opinion

Assumption related to Waka Kotahi NZ Transport Agency funding

Funding for the transport activity is dependent on a subsidy from Waka Kotahi NZ Transport Agency (Waka Kotahi). On 27 May 2021, the Waka Kotahi Board endorsed an indicative subsidy of \$12.5 million for the Council's local road maintenance over the first three years of the plan. This is \$3.9 million lower than the Council requested and has forecasted in its plan.

The Council has not adjusted its forecast subsidy by the reduction in the subsidy from Waka Kotahi, despite that being the best information available at the time of preparing and finalising the Council's plan. The Council's assumption is that Waka Kotahi will provide the Council the \$3.9 million shortfall within the next three years. If Waka Kotahi does not provide the Council with this additional funding, the Council may need to obtain additional borrowing to maintain the district's transport network. The effect of not adjusting the forecast subsidy is that estimated grants and subsidies revenue is overstated, on average, by \$1.3 million per annum over the first three years of the plan. Given the Council has not adjusted for the forecast subsidy, we are uncertain of the effects this could have.

Emphasis of matters

Uncertainty over the delivery of the capital works programme

The Council is proposing to spend \$225 million on capital projects over the next three years of the plan. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Uncertainty over three waters reforms

Wellington City Council

Qualified opinion

Infrastructure asset condition information

The Council has challenges with its ageing three waters networks. Many of the assets in the networks are old, and a significant percentage have already passed the end of their expected useful life. The Council has also experienced several high-profile pipe failures, which have affected levels of service.

The Council does not use information about the condition of its three water assets to inform its investment in its three waters networks. Rather, the renewal of assets has been forecast based on the age of the assets, capped by what the Council considers is affordable. Given the challenges outlined above, we consider this approach to be unreasonable. This could result in more asset failures during the 10-year period of the long-term plan, reduced levels of service, and greater costs than forecast.

Emphasis of matters

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$3.2 billion on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could impact on levels of service.

Uncertainty over funding of wastewater treatment plant

The Council has assumed that external funding investment in the Moa Point wastewater treatment plant will be obtained by using the mechanisms in the Infrastructure Funding and Financing Act 2020. The project is currently uncertain because funding has not yet been confirmed. If the forecast level of external funding is not received, the Council notes that the project would not be able to proceed and will have to be reprioritised. This could affect improvements to levels of service.

The Council's debt limit is forecast to be exceeded

The Council's debt limit is based on a debt to income ratio of 225%. Forecast debt is expected to exceed this limit for the first six years of the plan.

The Council notes that the forecast debt is prudent as it is below the Local Government Funding Agency debt to income ratio covenant level. However, given the Council has not used asset condition information to direct its investment in its three waters networks, the Council may need to incur greater costs than forecast. Should this occur these additional costs will need to be funded. Unless the Council reprioritises other projects, which could affect levels of service, it would need to increase rates or increase debt to fund the additional costs.

Uncertainty over three waters reforms

Unmodified opinions with “emphasis of matter” paragraphs

Auckland Council

Uncertainty over forecast funding

We drew specific attention to the following assumptions, which are subject to higher levels of uncertainty and could affect the Council's ability to fund its planned capital expenditure:

- Covid-19 border controls will remain until July 2022 with no further lockdowns.
- The programmes agreed in the Auckland Transport Alignment Project will be fully delivered, and all parties involved will work together to ensure the agreed funding is made available, notwithstanding the indicative funding advice received from Waka Kotahi NZ Transport Agency was less than forecast.
- The asset recycling target of \$70 million per annum for the first five years of the plan and a \$90 million permanent savings target (to be achieved in 2022 and maintained in subsequent years) will be met.

Changes in these assumptions could require the Council to reduce its planned capital expenditure and may result in a reduction in levels of service, without further increases in funding, either through rates, debt, or other funding sources.

Uncertainty over the City Rail Link project

The Council assumed that it will cost \$4.4 billion to deliver the City Rail Link project, which it expects to complete in late 2024. The Council's share of the estimated total cost is \$2.2 billion. There remains a level of uncertainty about the costs related to the project.

An agreement has not yet been reached between the Crown and the Council over the future ownership of the assets that comprise the City Rail Link. The Council has assumed that it will need to fund \$408 million of future operating costs over the 10-year period of the plan and depreciation for 50% of the assets.

Changes in these assumptions would affect the total estimated project cost, future operating costs, and depreciation, incorporated into the underlying information to the plan.

Uncertainty over three waters reforms

Central Hawke's Bay District Council

Balancing the budget

The Council is planning a balanced budget in year 1 of its plan but not a balanced budget for the remaining nine years. The Local Government Act 2002 requires a council to budget operating revenue that meets planned operating expenses for each year of the plan unless, after considering certain matters set out in the Act, it resolves that it is financially prudent to budget less operating revenue. The Council explains why it is financially prudent to plan not to have a balanced budget, how and when it is likely to have a balanced budget, and the impact of the decision on future debt and rates.

Uncertainty over three waters reforms

Central Otago District Council

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$333 million on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect levels of services.

Uncertainty over three waters reforms

<p>Chatham Islands Council</p> <p><i>Reliance on funding from the Government</i></p> <p>The Council is reliant on funding from the Government to remain financially sustainable. The Government has confirmed financial support for operational costs until the end of the 2023/24 financial year.</p> <p>The Council also receives grants from various government agencies to fund capital expenditure to renew assets and improve levels of service. The long-term plan outlines those capital expenditure projects that the Council has not included in its financial forecasts because such funding has not yet been secured.</p> <p>We drew specific attention to the following matters, because of the Council's unique circumstances:</p> <ul style="list-style-type: none"> • The Council expects that investment in the three waters, waste management and minimisation and roading infrastructure will be required over the next 10 years. Waka Kotahi NZ Transport Agency (Waka Kotahi) has endorsed an indicative subsidy for road maintenance operations and renewals for the next three years. However, government funding for other needed investment has not yet been confirmed. As a result, there is a risk that if funding for identified asset investments is not forthcoming, critical assets may fail and planned service levels may not eventuate. • Ratepayers will have an opportunity to install approved water tanks to reduce the demand on potable water, and to repay the costs to the Council via a targeted rate on the property over 10 years. The cost and community uptake of this project and how the Council plans to fund the project, including the level of support from the Government are uncertain. <p><i>Uncertainty over three waters reforms</i></p>
<p>Clutha District Council</p> <p><i>Uncertainty over the delivery of the capital works programme</i></p> <p>The Council is proposing to spend \$278 million on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to significant constraints on the construction market. If the Council's is unable to deliver on a planned project, it could affect intended levels of service.</p> <p><i>Uncertainty over three waters reforms</i></p>
<p>Environment Canterbury Regional Council</p> <p><i>Extent of damage from the significant flooding event during May 2021 is unknown</i></p> <p>A significant flooding event occurred during May 2021 in the Canterbury region. The Council has not made amendments to the forecasts contained in the plan because the extent of the damage to the region's flood protection infrastructure and the estimated cost and timing of the remediation work that will be required are currently unknown and have yet to be assessed by the Council. Once this information is known, the Council will determine whether to amend its plan or include the information in the 2022/23 annual plan.</p>
<p>Environment Southland Regional Council</p> <p><i>Breach of the Local Government Act 2002</i></p> <p>The Council failed to adopt the plan before the commencement of the first year to which it relates. This is a breach of section 93(3) of the Local Government Act 2002.</p>

Far North District Council

Uncertainty over water supply and wastewater assets condition information

The condition information used to support the Council's planned water supply and wastewater assets renewal programme is not complete. The Council uses the available condition assessment information and performance of the assets to determine the renewals required. There is therefore a risk that all assets that may need replacing have not been identified. The Council sets out how it plans to reduce this risk and notes that it proposes to spend more on better understanding its assets.

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$1.1 billion on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Uncertainty over three waters reforms

Greater Wellington Regional Council

Uncertainty over the delivery of the capital programme

The Regional Council is proposing to spend \$1,023 million on capital projects over the next 10 years. Although the Regional Council has taken steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Regional Council is unable to deliver on a planned project, it could affect intended levels of service.

Uncertainty over the decarbonisation of the bus and rail networks

The Regional Council plans to decarbonise its bus and rail networks. The Regional Council has assumed that the Government will provide a significant level of funding to enable decarbonisation of the bus and rail networks. If the Regional Council does not receive the assumed government funding, its bus and rail programme affordability will be at risk and it will need to significantly revise its decarbonisation plan.

Uncertainty over three waters reforms

Hamilton City Council

Uncertainty over cost savings

The Council expects to achieve cost savings of \$106 million over the next 10 years. If the Council is unable to achieve all the expected cost savings, the Council will need to find alternative funding sources or reduce costs elsewhere. The Council notes that it intends to maintain levels of service.

Uncertainty over infrastructure asset condition information

Although the Council continues to update its asset information, the asset condition information used to support its planned infrastructure assets renewal programme is not complete. The Council uses information about the age and performance of assets and the types of materials the assets are made of to determine the renewals required. There is therefore a risk that some assets that may need replacing have not been identified. The Council sets out how it reduces this risk and notes that it proposes to spend more on better understanding its assets.

Uncertainty over three waters reforms

<p>Hawke's Bay Regional Council</p> <p><i>Uncertainty over the delivery of the capital programme</i></p> <p>The Council is proposing to spend \$156 million over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.</p>
<p>Horowhenua District Council</p> <p><i>Uncertainty over the delivery of the capital programme</i></p> <p>The Council is proposing to spend \$47 million per year on capital projects over the next 20 years. Although the Council is taking steps to deliver on its planned capital programme, there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.</p> <p><i>Uncertainty over infrastructure asset condition information</i></p> <p>The Council's decision on when to replace ageing assets is informed by continual assessment of asset condition and monitoring of reactive maintenance costs. The renewal of assets is however budgeted for based on the age of the assets. There is therefore a risk that additional funding may be required to pay for renewals that are needed earlier than planned, and this could result in an increased risk of disruption in services.</p> <p><i>Uncertainty over three waters reforms</i></p>
<p>Hutt City Council</p> <p><i>Uncertainty over the three waters asset renewals forecasts</i></p> <p>The Council continues to improve its asset condition information. The Council primarily uses age-based information to forecast its three waters asset renewals, which means there is a higher degree of uncertainty about how the Council prioritises its investment needs.</p> <p><i>Uncertainty over the delivery of the capital programme</i></p> <p>The Council is proposing to spend \$1.5 billion on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.</p> <p><i>Uncertainty over three waters reforms</i></p>
<p>Invercargill City Council</p> <p><i>Uncertainty over the delivery of the capital programme</i></p> <p>The Council is proposing to spend \$115 million on capital projects over the next 10 years. While the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could result in disruption to services as a result of asset failures.</p> <p><i>Uncertainty over external funding of capital projects</i></p> <p>The Council has assumed that external funding contributions will be obtained to build the City Centre Masterplan Streetscape and Urban Play, reopen and refurbish the Southland Museum and Art Gallery, and construct Arts and Creativity Invercargill over the next 10 years. The external funding contributions are currently uncertain because funding agreements are not in place. If the level of external funding is not achieved and where significant ratepayer funding is required, the Council has noted that it intends to consult with the community on contributing more ratepayer funding or whether to explore other options.</p> <p><i>Uncertainty over three waters reforms</i></p>

Kaikōura District Council

Achieving a balanced budget

The Council is not planning to meet the balanced budget benchmark from years 2025 to 2031 of the plan. This is because the Council is not fully funding depreciation on its assets. The Council explains the reasons why it considers this is financially prudent and describes how it plans to achieve a balanced budget beyond the 10 years of this plan.

Breach of the Local Government Act 2002

The Council failed to adopt the plan before the commencement of the first year to which it relates. This is a breach of section 93(3) of the Local Government Act 2002.

Uncertainty over three waters reforms

Kawerau District Council

Uncertainty over three waters renewals forecasts

The Council's forecasting for three waters asset renewals is based on the assets' minimum lifespan. We note that using mostly age-based information increases the risk that assets requiring renewal are not replaced at the best time. The Council plans to carry out an asset evaluation programme and to use this information to determine the actual renewals required.

Breach of the Local Government Act 2002

The Council failed to adopt the plan before the commencement of the first year to which it relates. This is a breach of section 93(3) of the Local Government Act 2002.

Uncertainty over three waters reforms

Manawatū-Wanganui Regional Council (Horizons Regional Council)

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$138.5 million on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Masterton District Council

Uncertainty over external funding

The Council has assumed that government subsidies and external funding will be obtained to fund a project estimated to cost \$2.5 million to facilitate growth at Panama. The project is currently uncertain because funding has not yet been sought. The Council notes that it will work with the Government, community housing providers, and iwi to determine the most appropriate arrangement for a provider to fund and build the public housing. The Council will also seek external funding for infrastructure required on the site.

Uncertainty over three waters reforms

Napier City Council

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$811 million on capital projects over the next 10 years. Although the Council is taking steps to deliver its capital programme, there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could impact on levels of service.

Achieving a balanced budget

The Council is not planning to meet the balanced budget benchmark for the first nine years of the plan. This is because the Council is not fully funding its depreciation. The Council explains the reasons why it considers that it is financially prudent not to meet the balanced budget benchmark, and how it proposes to increase rates and debt over the period of the plan in order to meet the balanced budget benchmark by year 10.

Uncertainty over three waters reforms

New Plymouth District Council

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$963 million on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Uncertainty over three waters reforms

Ōpōtiki District Council

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$117 million on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Uncertainty over external funding

The Council faces challenges with funding large-scale housing developments. The Council has assumed that government subsidies will be obtained to fund projects of approximately \$22 million, to facilitate growth in Hukutaia. These projects are currently uncertain because funding has not yet been sought. If the level of external funding is not achieved, the Council notes that it would consider other funding sources as part of the next long-term plan.

Uncertainty over three waters reforms

Porirua City Council

Uncertainty over the three waters forecasts

The Council continues to improve its asset condition information. The Council primarily uses age-based information to forecast its three waters asset renewals, which means that there is a higher degree of uncertainty about how the Council prioritises its investment needs.

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$2.7 billion on capital projects over the next 30 years. Although the Council is taking steps to deliver its planned capital programme there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Uncertainty over three waters reforms

Queenstown-Lakes District Council

Uncertainty related to the proposed visitor levy

The Council has proposed the introduction of a visitor levy from 2024 to fund visitor-related infrastructure. The Council does not yet have the legal authority for the levy. If the visitor levy is not available from 2024, the related capital programme will be significantly impacted or rates will increase.

Uncertainty over the delivery of the capital works programme

The Council is proposing to spend \$1.67 billion on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect the levels of service.

Uncertainty over three waters reforms

Rangitikei District Council

Uncertainty over the three waters asset renewals forecasts

The Council continues to improve its asset condition information. The Council primarily uses age-based information to forecast its three waters asset renewals, which means there is a higher degree of uncertainty about how the Council prioritises its investment needs.

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$221 million on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Uncertainty over forecast cost savings

The Council is pursuing operational efficiencies with forecast cost savings of \$8 million included in the plan. To the extent that the Council does not achieve the forecast savings there will be an impact on future debt levels, service levels, and/or rates.

Breach of the Local Government Act 2002

The Council failed to adopt the plan before the commencement of the first year to which it relates. This is a breach of section 93(3) of the Local Government Act 2002.

Uncertainty over three waters reforms

Rotorua Lakes Council

Uncertainty over external funding of capital projects

The Council assumed that external funding contributions will be obtained for the Aquatic Centre, Museum, Westbrook Sports Precinct, and Rotoiti/Rotoma sewerage scheme. The external funding contributions are currently uncertain because funding has not yet been sought. If the level of external funding is not achieved the Council notes that it will have to determine how to proceed with these projects, including increasing its funding commitments.

Uncertainty over three waters reforms

Ruapehu District Council

The Council's debt limit is forecast to be exceeded

The Council's financial strategy notes that the Council's debt limit is based on borrowings being no more than twice the total annual rates bill for the period of the plan. Forecast debt is expected to grow to \$100 million which will exceed the limit from year 4 of the plan. The Council notes that forecast debt is affordable (but not ideal) and that the Council has a number of opportunities to review its financial position and may need to consider revising its debt limits in the next annual and long-term planning cycles.

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$234 million on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Uncertainty over three waters reforms

Selwyn District Council

The extent of damage from the significant flooding event during May 2021 is uncertain

A significant flooding event occurred during May 2021 in the Canterbury region. The Council has not made amendments to the forecasts contained in the plan because the extent of the damage to the Council's infrastructure and the estimated cost and timing of the remediation work that will be required are currently based on a preliminary assessment only. Should repair costs be much higher than expected, the Council will determine whether to amend its plan or include the information in the 2022/23 annual plan.

Uncertainty over three waters reforms

South Taranaki District Council

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$336 million on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Uncertainty over three waters reforms

South Wairarapa District Council

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$110 million on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Uncertainty over the three waters forecasts

The Council continues to improve its asset condition information. The Council primarily uses age-based information to forecast its three waters asset renewals, which means there is a higher degree of uncertainty about how the Council prioritises its renewals programme.

Uncertainty over Featherston wastewater treatment plant

The Featherston wastewater treatment plant will be an investment focus over the next 10 years. There is a high level of uncertainty over identifying a long-term sustainable solution that is feasible and affordable to the community, due to complexities around the location of the plant.

The Council has included \$16 million over the first five years of the plan to make improvements to the existing plant and to fund the new consent process. However, further investment will be required for a new wastewater treatment plant, which could have a significant impact on the Council's forecast debt and levels of service. The Council notes that it is working with Wellington Water, industry experts, key stakeholders, and the community to identify a shortlist of options and their estimated costs.

Uncertainty over three waters reforms

Southland District Council

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$458 million on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Uncertainty over three waters reforms

Tasman District Council

Uncertainty over the Waimea Community Dam construction costs

The plan outlines a range for the revised cost estimate of the Waimea Community Dam. The Council has estimated the cost to be \$158.5 million and the Council's plan has been based on this estimate. In addition, the costs to enable future hydro power of \$350,000 have been included in the Council's plan. The total cost of the dam is uncertain due to risks associated with the project, including any further Covid-19 related costs, and the scale of work still required to complete the dam.

The estimated cost overrun is \$54 million higher than the original cost estimate in 2018. The Council is contractually obliged to meet all cost overruns above the first \$3 million and \$1.5 million of that first \$3 million. The Council describes how it will fund the cost over-run and the additional costs to enable future hydro power in the plan.

Uncertainty over three waters reforms

Taupō District Council

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$418 million on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Uncertainty over three waters reforms

Tauranga City Council

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$4.6 billion on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Breach of the Local Government Act 2002

The Council failed to adopt the plan before the commencement of the first year to which it relates. This is a breach of section 93(3) of the Local Government Act 2002.

Uncertainty over three waters reforms

<p>Timaru District Council</p> <p><i>Breach of the Local Government Act 2002</i></p> <p>The Council failed to adopt the plan before the commencement of the first year to which it relates. This is a breach of section 93(3) of the Local Government Act 2002.</p> <p><i>Uncertainty over three waters reforms</i></p>
<p>Upper Hutt City Council</p> <p><i>Uncertainty over the three waters asset renewals forecasts</i></p> <p>The Council continues to improve its asset condition information. The Council primarily uses age-based information to forecast its three waters asset renewals, which means there is a higher degree of uncertainty about how the Council prioritises its investment needs.</p> <p><i>Uncertainty over the delivery of the capital programme</i></p> <p>The Council is proposing to spend \$359 million on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.</p> <p><i>Uncertainty over three waters reforms</i></p>
<p>Waimate District Council</p> <p><i>Breach of the Local Government Act 2002</i></p> <p>The Council failed to adopt the plan before the commencement of the first year to which it relates. This is a breach of section 93(3) of the Local Government Act 2002.</p> <p><i>Uncertainty over three waters reforms</i></p>
<p>Waikato District Council</p> <p><i>Uncertainty over the delivery of the capital programme</i></p> <p>The Council is proposing to spend \$1,026 million on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.</p> <p><i>Uncertainty over three waters reforms</i></p>
<p>Waikato Regional Council</p> <p><i>Uncertainty over funding of Te Huia services</i></p> <p>The Council has launched a start-up passenger rail service (Te Huia) in April 2021 and intends to extend the service. The Government has approved funding for the first five-year trial service. The Council assumes that the Government will continue to fund this rail service after the trial period. The Council also assumes that additional funding will be provided to support the proposed extension of the service's operation after December 2021. If the start-up funding is not continued or the additional funding for the planned additional services is not received, the Council would need to meet the shortfall in funding through other sources or rates, which may result in changes being made to the rail service, including not proceeding with the planned improvements.</p>

Waitaki District Council

Uncertainty over external funding of capital projects

The Council has assumed that external funding contributions will be obtained to build an indoor sports and events centre. The external funding contributions are currently uncertain because funding agreements are not in place. A decision to build the facility will not be made until there is certainty about what could be delivered within the funding constraints. If the level of external funding is not achieved the Council notes that it will either change the scope of the project or abandon the project.

Uncertainty over three waters infrastructure assets forecast

The Council's forecasting for three waters infrastructure asset renewals is based on age and asset failure rates. Planning on this basis increases the risk of disruption in services.

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$313 million on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect levels of service.

Uncertainty over three waters reforms

West Coast Regional Council

Breach of the Local Government Act 2002

The Council failed to adopt the plan before the commencement of the first year to which it relates. This is a breach of section 93(3) of the Local Government Act 2002.

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$44.02 million on capital projects over the next 10 years. There is uncertainty over the delivery of the programme within the set timeframes due to a number of factors, including delays in receiving resource consents, adverse weather events, and the inability to procure the appropriate contracted services. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Westland District Council

Uncertainty over the delivery of the capital programme

The Council is proposing to spend \$108 million on capital projects over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to a number of factors, including significant constraints in the construction market. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Uncertainty over the three waters renewals forecasts

The Council continues to improve its asset condition information. The Council primarily uses age-based information to forecast its three water asset renewals, which means there is a higher degree of uncertainty about how the Council prioritises its investment needs.

Uncertainty over three waters reforms

Whakatāne District Council

Uncertainty over external funding

The Council requires \$13.7 million in external funding for a new wastewater treatment plant in Matatā. The Council has assumed that \$6.7 million and \$7 million will be funded by the Ministry of Health and the Bay of Plenty Regional Council respectively. The external funding contributions are currently uncertain because they have not yet been confirmed. If the Council is not able to obtain this level of funding, it will reconsider how to proceed with the project.

Breach of the Local Government Act 2002

The Council failed to adopt the plan before the commencement of the first year to which it relates. This is a breach of section 93(3) of the Local Government Act 2002.

Uncertainty over three waters reforms

Further, the following councils received an unmodified audit opinion with an “emphasis of matter” paragraph about the uncertainty over the three waters reforms only.

- Carterton District Council
- Christchurch City Council
- Dunedin City Council
- Gisborne District Council
- Grey District Council
- Manawatū District Council
- Marlborough District Council
- Matamata-Piako District Council
- Nelson City Council
- Ōtorohanga District Council
- South Waikato District Council
- Stratford District Council
- Tararua District Council
- Thames-Coromandel District Council
- Waimakariri District Council
- Waipā District Council
- Wairoa District Council
- Waitomo District Council
- Western Bay of Plenty District Council
- Whanganui District Council
- Whangarei District Council

Appendix 2

Subsectors and the growth councils

Subsectors

Local Government New Zealand defines four types of subsector:⁵⁸

- metropolitan;
- provincial;
- rural; and
- regional (comprising regional councils and unitary authorities).

We followed these definitions but considered Auckland Council as its own subsector separate to the other metropolitan councils because of its size. For the purposes of our analysis, we have grouped the unitary authorities in their respective provincial or rural subsectors. The councils that make up each subsector are listed below.

Auckland subsector		
Auckland Council		
Metropolitan subsector		
Christchurch City Council	Dunedin City Council	Hamilton City Council
Hutt City Council	Palmerston North City Council	Porirua City Council
Queenstown-Lakes District Council	Tauranga City Council	Upper Hutt City Council
Wellington City Council	Whangarei District Council	
Provincial subsector		
Ashburton District Council	Central Otago District Council	Far North District Council
Gisborne District Council	Hastings District Council	Horowhenua District Council
Invercargill City Council	Kaipara District Council	Kāpiti Coast District Council
Manawatū District Council	Marlborough District Council	Masterton District Council
Matamata-Piako District Council	Napier City Council	Nelson City Council
New Plymouth District Council	Rotorua Lakes Council	Selwyn District Council
South Taranaki District Council	South Waikato District Council	Southland District Council
Tasman District Council	Taupō District Council	Thames-Coromandel District Council
Timaru District Council ⁵⁹	Waikato District Council	Waimakariri District Council

⁵⁸ For more on the sector groups, see www.lgnz.nz.

⁵⁹ Timaru District Council is no longer an LGNZ member. Therefore, we have classified the Council as provincial based on how it was historically classified when it was an LGNZ member.

Appendix 2
Subsectors and the growth councils

Waipā District Council	Waitaki District Council	Western Bay of Plenty District Council
Whanganui District Council	Whakatāne District Council	
Rural subsector		
Buller District Council	Carterton District Council	Central Hawke's Bay District Council
Chatham Islands Council	Clutha District Council	Gore District Council
Grey District Council	Hauraki District Council	Hurunui District Council
Kaikōura District Council	Kawerau District Council	Mackenzie District Council
Ōpōtiki District Council	Ōtorohanga District Council	Rangitikei District Council
Ruapehu District Council	South Wairarapa District Council	Stratford District Council
Tararua District Council	Waimate District Council	Wairoa District Council
Waitomo District Council	Westland District Council	
Regional subsector		
Bay of Plenty Regional Council	Environment Canterbury	Environment Southland
Greater Wellington Regional Council	Hawke's Bay Regional Council	Horizons Regional Council
Northland Regional Council	Otago Regional Council	Taranaki Regional Council
Waikato Regional Council	West Coast Regional Council	

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