HAWKE'S BAY
REGIONAL COUNCIL

Meeting of the Corporate and Strategic Committee

Date: Wednesday 6 March 2019

Time: 9.00am

Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Attachments Excluded From Agenda

CONTROLLER AND AUDITOR-GENERAL
Tumuaki o te Mana Arotake

Item 10

B.29[19a]

Matters arising from our audits of the 2018-28 long-term plans

Attachment 1

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Matters arising from our audits of the 2018-28 long-term plans

Presented to the House of Representatives under section 20 of the Public Audit Act 2001.

February 2019

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Auditor-General's overview

Councils provide a range of important services to all New Zealanders, including the roads we travel on, the water we drink, and the locally owned community facilities, such as libraries, that we use. Councils need to plan well, often many years in advance, to ensure that they deliver these services for the long term, to a standard their communities want and can afford.

Every three years, councils are required to prepare a 10-year long-term plan (LTP). The LTP is the main way for councils to describe the services they plan to provide, the community outcomes they plan to contribute to, and the forecast cost of those services.

My auditors are required to express an opinion about whether each council's LTP is fit for purpose. Only one council received a modified audit opinion on its 2018-28 LTP. This was because it did not have reliable information to support some of its financial forecasts.

Councils have a hard job, and I acknowledge the effort those working in the local government sector make. Preparing an LTP is a significant task – the preparation takes time and costs money. However, I consider the LTP to be a fundamental tool for communities to hold their council to account.

The benefits of planning for a longer term, being transparent, and engaging with the community about the goals being pursued and their expected time frames and trade-offs cannot be underestimated. There is much about this process that other public organisations could learn from.

Challenges councils face

Councils are facing many significant and often conflicting pressures. Difficult decisions will need to be made as a result. Some councils are responding to unprecedented levels of growth. All councils are responding to increasing requirements for levels of service, including as a result of regulatory changes. They also need to reinvest in their existing infrastructure, often at higher levels than in the past to address historical underinvestment and improve services to meet community expectations.

This comes at a cost. The 2018-28 LTPs show significant forecast capital expenditure compared with previous LTPs. The increase in capital expenditure is not isolated to the 10-year period of the LTP. The 30-year infrastructure strategies reflect that this trend is expected to continue beyond the 10-year period.

Councils have a difficult job balancing the services they provide to communities with the long-term cost of those services, so providing affordable and sustainable services to their communities remains a challenge for councils. Council rates are forecast to continue to increase, and, for many communities, these increases are likely to be proportionately more than the increase in their other household costs or income.

Consistent with the principle of intergenerational equity, many councils use debt to fund much of their new capital expenditure. As a result, the 2018-28 LTPs reflect a sharp increase in expected debt for councils overall. Some "high-growth" councils (that is, councils experiencing high population growth) are starting to come up against the debt limits that they have set, in the context of prudent financial management.

Faced with this, councils are increasingly starting to consider using more innovative funding tools. For example, some are setting up "special purpose vehicles" to provide councils with alternative funding mechanisms. We will watch these developments and ensure that they are appropriately accounted for and disclosed.

The Productivity Commission is currently inquiring into the adequacy and efficiency of the existing funding and financing options for councils and whether these are sustainable. We expect that the inquiry will consider the trends and concerns that we discuss in this report.

To support better planning, councils need to do more to gain better information about the condition of their assets, the likelihood of a natural hazard event occurring, and the potential effects of climate change. I urge local and central government to work together to provide leadership on this.

Communities are already feeling the effects of climate change. Addressing these effects could compound the pressure of increasing capital expenditure forecasts. In many respects, councils do not know the extent of the challenges they face in responding to climate change and are forecasting expenditure without a good understanding of the risks.

The suitability of long-term plans

Since LTPs were introduced in 2002, there have been numerous changes to legislation. Some of the changes focused on increasing the ability of communities to engage in the planning process, and some were to provide more information.

LTPs, and the strategies they contain, remain long and complex. It is timely for the Department of Internal Affairs and the local government sector to discuss and review the required content for LTPs to ensure that they remain fit for purpose as planning and accountability documents.

Financial and infrastructure strategies are critical components of a council's LTP. These strategies must be clear about the current state of the council's finances and infrastructure, its goals, and the trade-offs that are needed. This is so readers of the LTP can meaningfully assess the prudence of their council's financial management and its long-term stewardship of infrastructure.

Councils should present their strategies concisely. In this report, I have set the challenge for councils to prepare a financial strategy in up to five pages. This is by no means easy but would hopefully aid a broader understanding of the council's strategy.

I also consider that there is an opportunity for further discussion about the effectiveness of councils' performance reporting to ensure that it remains fit for purpose. As part of our future work, we plan to take a more active role in influencing improvement in performance reporting throughout the public sector.

In my view, changes to the content of LTPs could make them more effective. I have heard from councils how resource-intensive it is to prepare an LTP. Improvements in requirements for LTPs could help decrease the burden on councils without compromising the primary purpose of LTPs.

Concluding comments

This report identifies that there is a lot for councils to grapple with. Further, with changes in technology, communities have different expectations for how they will interact with, and receive services from, their council. Future service delivery will look different. Councils can no longer plan based on the status quo – they need to actively consider what their future service delivery models will be.

Central and local government need to work together to ensure that the issues faced by our cities, districts, and regions are addressed in the best way for the benefit of all New Zealanders. LTPs provide a richness of information and planning that should be used by local and central government to form wider consideration of the important issues, and solutions to address these.

I have made four recommendations to central and local government to support the changes that, in my view, are needed.

John Ryan
Controller and Auditor-General

8 February 2019

Recommendations

We recommend:

1. 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;
2. that the Department of Internal Affairs and the local government sector review the required content for long-term plans to ensure that they remain fit for purpose, particularly:
   - the current suite of mandatory performance measures;
   - the disclosure requirements for financial and infrastructure strategies;
   - disclosures required under the Local Government (Financial Reporting and Prudence) Regulations 2014; and
   - how assumptions are disclosed in long-term plans;
3. that the Productivity Commission, in its review into the adequacy and efficiency of the existing funding and financing options for councils, consider the trends arising in the 2018-28 long-term plans, particularly the trends and concerns we have raised about increasing debt; and
4. that central government and local government continue to consider how increased leadership can be provided for climate change matters, particularly:
   - what data is needed and who collects this;
   - the quality of this data; and
   - how councils should consider this in future accountability documents, including the long-term plan.

1 How long-term plans have evolved

1.1 The 2018-28 long-term plans (LTPs) are the fifth set that we have audited. In this report, we discuss how councils met the main content requirements in their 2018-28 LTPs and the audit reports we issued. We also describe what we heard from two councils about their approaches to preparing an LTP.

1.2 The requirement for councils to prepare LTPs, and for the Auditor-General to audit them, was put into the Local Government Act 2002 (the Act) as part of significant local government law reform to replace the previous Local Government Act 1974.

1.3 LTPs are an important mechanism to strengthen long-term planning, community consultation and participation, and accountability in local government.

1.4 Numerous changes have been made to the Act since 2002. These have included changes to the purpose of local government; the process, purpose, and content of LTPs; and our audit role. We outline the changes in more detail in Appendix 1.

1.5 The most substantive changes affecting LTPs were a result of Government reviews between 2010 and 2014.

1.6 The main changes affecting the content of LTPs have been for the documents to contain the council's:

- financial strategy (since the 2012-22 LTPs); and
- infrastructure strategy (since the 2015-25 LTPs).

1.7 We continue to express our support for these two strategies.

1.8 Other changes affecting the content of LTPs include:

- **financial prudence**:
  - additional disclosures in the forecast financial statements, financial prudence benchmark disclosures, and funding impact statements, in the form prescribed by regulations;[1] and
- **standardised activities and measures**:
  - standard groups of activities for infrastructure services (water supply, sewage treatment and disposal, stormwater drainage, road and footpaths, and flood protection and control works); and
  - some prescribed non-financial performance measures for those groups of activities, as specified in rules made by central government.[2]

1.9 These changes were intended to provide greater consistency between councils in their planning and reporting, and to improve the ability to assess their financial

1 Local Government Act 2002, Part 1, Schedule 10, and the Local Government (Financial Reporting and Prudence) Regulations 2014.

2 Local Government Act 2002, section 261B and clause 4 of Schedule 10.

health and compare their performance. There were related changes to council annual reporting and our audit requirements.[3]

1.10 Despite changes to make LTPs more strategic and streamlined, the documents remain long and complex. There is a risk that they contain material that does not help them achieve their purpose.

1.11 In our view, it would be timely for the Department of Internal Affairs and the local government sector to discuss and review the content required for LTPs to ensure that they remain fit for purpose.

1.12 Particularly, we recommend that any review consider whether all the content required for LTPs is actually needed, such as some of the mandatory disclosures in the financial strategies and the duplication in the Act in the area of assumptions.

3 Local Government Act 2002, section 259C.

2 Activities and outcomes

2.1 The Act gives councils a framework and powers to decide what activities to carry out and how they will carry them out. The Act also states that councils are accountable to their communities.[4] The performance information included in the LTP is an important part of how councils demonstrate that accountability.

2.2 Councils are required to present information on community outcomes, groups of activities, and a statement of service provision (including performance measures and targets) and clearly and logically link them together. We refer to this information collectively as the "performance framework", although the Act does not use this term.

2.3 In this Part, we discuss:

- the Act's performance framework requirements;
- whether councils' performance frameworks had a logical flow;
- what community outcomes were included in councils' performance frameworks in the LTPs;
- the size of councils' performance frameworks; and
- the opportunity to improve performance frameworks to ensure that they will continue to be an effective basis for accountability.

2.4 In this Part, we do not comment on all aspects of councils' performance frameworks as disclosed in their LTP.

2.5 We consider that there is an opportunity for further discussion about the effectiveness of councils' performance reporting to ensure that it remains fit for purpose. As part of our work, we plan to take a more active role in influencing improvements in performance reporting throughout the public sector.

The Act's performance framework requirements

2.6 The Act requires an LTP to be explicit about the link between the community outcomes the council wants, the rationale for its delivery of groups of activities, and its performance measures and targets. The Act sets out performance framework requirements (see Figure 1).[5]

2.7 Community outcomes are the aspirations the council has for its community.[6]

4 Local Government Act 2002, section 3.

5 Local Government Act 2002, Schedule 10, clause 2.

6 Community outcomes are the outcomes that the council aims to achieve in meeting the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions (Local Government Act 2002, section 5).

Figure 1
The Local Government Act's performance framework requirements

Community outcomes: the outcomes the council wants to achieve.

Groups of activities: activities in each group of activities are clearly identified.

Rationale for activities: how the groups of activities contribute to well-being/outcomes and to the council's strategic objectives and duties.

Significant negative effects: any significant negative effects that an activity might have on the community.

Service levels: including intended levels of service delivery; any intended changes to the level of service provided in the year before the first year covered by the plan and the reasons for the changes; and the reason for any material change in the cost of a service.

Performance measures (for service delivery): the specific criteria or means used to objectively measure performance (in detail for years 1-3, in outline for years 4-10). They include the mandatory performance measures specified under a rule made under section 261B.

Targets: the level of performance sought (supported by quality information) on forecast expenditure, assets, resources (capability, capacity), and robust assumptions.

2.8 The Act also requires several disclosures that must be made in an LTP for each group of activities a council selects, including:

- any performance measures specified by the Secretary for Local Government;
- the performance measures that the council considers will enable the community to assess the level of service for major aspects of groups of activities for which performance measures have not been specified;
- the performance target or targets set by the council for each performance measure;
- any intended changes to the level of service that was provided for in the year before the first year covered by the plan and the reasons for the changes; and
- the reason for any material change to the cost of a service.[7]

2.9 It is important that the council selects the forecast performance measures and targets well to provide a meaningful picture of its activities and levels of service. This includes considering aspects of service and performance that are of greatest importance to the community and reflect the financial significance of the activity.

2.10 The measures disclosed in the LTP are a critical part of the performance framework, because monitoring and reporting against these measures (in the annual report) allows councils to demonstrate their performance.

Did councils' performance frameworks have a logical flow?

2.11 Most councils' performance frameworks in their LTPs had clear links between each of the components described in Figure 1.

7 Local Government Act 2002, Schedule 10, clause 4.

2.12 Some councils presented the logical flow of the parts of their performance framework on one page. The information presented often included links between the LTP and the council's other strategic documents. We considered that these types of disclosures usefully helped readers' understanding of how the council was going to demonstrate accountability.

2.13 However, in many instances, the community outcomes being sought were so broad (see paragraphs 2.17 to 2.22) that they linked to most of the groups of activities the council delivers.

2.14 It is unlikely that all activities will support community outcomes to the same extent. Therefore, we considered that it was helpful when councils provided an indication in each of their activity statements of the primary community outcome that the activity was seeking to support. For example, Napier City Council took this approach and also noted secondary contributions.

2.15 Central Otago District Council and Waimakariri District Council, in disclosing their performance measures and targets for each activity, made a clear link back to the relevant community outcomes. In contrast, most councils simply described, at a high level, which community outcome the group of activities related to.

What community outcomes were disclosed in the 2018-28 long-term plans?

2.16 On average, councils had five community outcomes in their 2018-28 LTPs. Figure 2 shows the words councils used most in their community outcomes.

2.17 The outcomes set by councils were generally broad aspirations. For example, half of the regional councils had a community outcome including the phrase "healthy environment".

2.18 Because community outcomes are so broad, there is a risk that members of the community will not understand what actions the council is taking to contribute to the community outcome and how the council will measure and demonstrate whether it has achieved that outcome.

2.19 A small number of councils included specific outcome measures and indicators that they will use to demonstrate achievement of, or progress towards, the outcomes they seek. For example, Hawke's Bay Regional Council disclosed 23 specific outcome measures in its LTP.

2.20 Some councils provided additional content, such as goals or descriptions of how they plan to achieve the community outcomes. For example, Buller District Council provided information under each community outcome on its related objectives ("What does Council want to achieve?"), how it will contribute to achieving those objectives, and relevant programmes and projects.

Figure 2
Words councils used most in their community outcomes

Councils described their community outcomes using a wide variety of words, most commonly: community, sustainable, environment, economy, and strong.

2.21 A third of councils explicitly said in their LTPs that they had refreshed their community outcomes as part of preparing their 2018-28 LTPs. Most councils signalled that they did this to better align their outcomes with their vision and goals. It is important that community outcomes align with the strategic direction that the council wants.

2.22 Most councils plan to demonstrate performance towards community outcomes by reporting against their performance measures for service delivery (at an activity level) in the annual report. Because performance measures tend to have a short-term focus, it will be important that councils collect trend information over multiple years to provide an indication of how they are making progress towards their long-term outcomes.

Consideration should be given to the size of performance frameworks

2.23 On average, councils had 11 activity statements. Each activity statement generally had numerous performance measures.

2.24 The performance framework in councils' LTPs should provide enough information about what is important to the council and the community. However, it is important that readers are not burdened with too much detail and that the cost for councils preparing the information for reporting in the annual report is not onerous.

2.25 Reporting against each of these performance measures is a significant task for a council and is likely to be long and detailed in the council's annual report. Few members of the community will have the desire or the ability to read and assess this amount of information.

2.26 There could be an opportunity for councils to further aggregate their groups of activities to reduce the amount of repetitive information and performance reporting for similar activities.

2.27 There might also be an opportunity to consider and reduce the number of performance measures that a council has. For example, Christchurch City Council removed about 235 measures from its previous performance framework.

2.28 We have previously reported concerns that some of the mandatory performance measures do not provide a meaningful indication of a council's performance. In our view, it is timely for the Department of Internal Affairs to consider whether the current suite of mandatory performance measures is fit for purpose.

Opportunity for improving performance frameworks

2.29 There were only a few instances where, having completed the audit of the 2018-28 LTPs, auditors made recommendations to councils to improve their performance frameworks. The recommendations were for improvements for the council to consider as opposed to significant concerns about the performance framework.

2.30 This reflects that councils are generally providing a logical and reasonable performance framework. That is not to suggest performance frameworks could not be improved.

2.31 We would like to see performance frameworks that provide greater clarity about the main matters a council is working on. The Parliamentary Commissioner for the Environment had a similar view about presenting clear information. In a 2016 report discussing the state of the environment monitoring, it was noted that:

> *The answer is to have a purpose that is crystal clear. Any information that does not serve that purpose can be excluded.*[8]

2.32 Parliament is currently considering whether it should reintroduce the four well-beings into the Act.[9] This would provide for councils to play a broad role in promoting the social, economic, environmental well-being of their communities, taking a sustainable development approach. This could be an opportunity for the local government sector to think more deliberately about what it reports and how it will report it.

8 Parliamentary Commissioner for the Environment (2015), *The state of New Zealand's environment: Commentary by the Parliamentary Commissioner for the Environment on "Environment Aotearoa 2015"*, page 6.

9 Amendments to the Act changed councils' focus on the well-being of the community to a more restricted focus on core services and cost-effectiveness.

3

Financial trends and insights

3.1 In this Part, we discuss the forecast financial information[10] in the 2018-28 LTPs.[11] We wanted to understand the trends in the forecast financial information.

3.2 The main trend we identified is significant forecast capital expenditure in the 2018-28 LTPs. Most of the councils' planned capital expenditure is to renew their assets. However, this amount remains less than forecast depreciation, indicating that councils as a whole might not be adequately reinvesting in their assets.

3.3 Most councils have assessed that they are in this position and have plans to manage their "renewals gap". Councils need to actively review these plans so that they will be able to adequately reinvest in their assets.

3.4 A large portion of forecast capital expenditure is on new infrastructure and to increase levels of service. Councils have to respond to growth and changes in levels of service, including regulatory changes. It is also important that they continue to renew and invest in their current infrastructure or risk that crucial infrastructure assets could start to fail.

3.5 Meeting proposed levels of service comes at a cost. Although councils have expressed a desire to keep rates at affordable levels, rates revenue is expected to increase by more than 50% in the next 10 years to fund proposed services. This increase is largely consistent with rates increases that were forecast in the 2015-25 LTPs.

3.6 There is also a sharp increase in expected debt to fund the anticipated growth. Some councils expecting high growth are starting to come up against debt covenants. Councils nearing such limits run the risk that they will not be able to respond to unexpected events because, if they occur, funding sources could be limited.

3.7 Councils' forecast interest expenditure is comparatively lower than the 2015-25 LTPs despite increased debt signalling lower interest rates. We are concerned by this trend. If interest rates increase more than anticipated, this could limit some councils' ability to service their debt and carry out their capital expenditure programmes without making other changes, such as increasing rates or reducing expenditure.

3.8 The Productivity Commission is currently inquiring into the adequacy and efficiency of the existing funding and financing options for councils and whether

10 Auckland Council prepared an LTP that covers the Council and its group of council-controlled organisations. Other councils prepared an LTP that included council-only financial forecasts. We included Auckland Council's group financial forecasts in our analysis.

11 Our financial analysis excludes Kaikōura District Council. An Order-in-Council in March 2018 allowed the Council to prepare a customised three-year plan in place of the standard 10-year LTP. There was no audit requirement for the three-year plan. The Government agreed to this approach because the Council faced exceptional circumstances after the Hurunui/Kaikōura earthquake. A similar approach was taken to support Christchurch City Council after the Canterbury earthquakes.
Our financial analysis also excludes Wairoa District Council and West Coast Regional Council, because their LTPs were not available when this report was written.

these are sustainable. We recommend that this review consider the trends and concerns we have raised.

How we completed our financial analysis

3.9 In our analysis, we considered the sector as a whole and as five sub-sectors. The sub-sectors we considered were:

- metropolitan councils;
- Auckland Council (considered separately from other metropolitan councils because of its size);
- provincial councils;
- regional councils; and
- rural councils.

3.10 We also considered the effect of population growth on councils and categorised councils as either "high-growth" or "low-growth".[12]

3.11 See Appendix 2 for more information on the sub-sectors and high-growth councils, and Appendices 3 to 7 for the forecast financial picture of the five sub-sectors.

Councils are forecasting higher spending

3.12 Compared with the financial forecasts for 2015-25, councils are forecasting to spend more to address greater demand on council services, improve levels of service, and carry out their normal operations.[13] To fund this additional spending, councils are forecasting to increase revenue streams, such as rates, and to borrow more.

3.13 This trend is not new. However, the scale of change from the 2015-25 LTPs to the 2018-28 LTPs is new, especially the increase in forecast capital expenditure.

3.14 Figure 3 summarises the increases in councils' revenue, operating expenditure, and capital expenditure forecasts by comparing the 2018-28 LTPs' forecasts with the 2015-25 LTPs' forecasts. These movements are not uniform throughout all councils (see Appendices 3 to 7).

Forecast growth is not evenly spread

3.15 Some councils are having to plan for and manage large increases in the number of people who will live and work in their cities, districts, or regions. We have described the councils experiencing the largest population increase as "high-growth".

12 We have used the National Policy Statement on Urban Development Capacity 2016 to define high-growth councils. All other councils we have defined as low-growth.

13 In comparing to the 2015-25 LTP forecasts, we have not adjusted these forecasts for any LTP amendments adopted by councils.

Figure 3
2018-28 forecast financial information compared with 2015-25 forecast financial information for all councils

	2015-25 LTP $billion	2018-28 LTP $billion	% increase[14]
Operating revenue	122.7	149.5	22
Operating expenditure	110.8	130.1	17
Capital expenditure	41.5	54.5	31

3.16 High-growth councils forecast larger increases compared with the 2015-25 LTPs than their low-growth counterparts (see Figure 4).

Figure 4
Comparison between 2018-28 forecast financial information and 2015-25 forecast financial information for high-growth and low-growth councils

	High-growth councils			Low-growth councils		
	2015-25 LTP $billion	2018-28 LTP $billion	% increase[14]	2015-25 LTP $billion	2018-28 LTP $billion	% increase[14]
Operating revenue	70.6	88.6	25	52.1	60.9	17
Operating expenditure	61.3	73.0	19	49.5	57.1	15
Capital expenditure	28.0	36.9	32	13.6	17.6	30

3.17 Some high-growth councils forecast large increases. For example, Queenstown-Lakes District Council and Tauranga City Council both forecast more than a 50% increase in operating revenue and operating expenditure compared with 2015-25. Both councils have more than doubled their forecast capital expenditure programme in their 2018-28 LTPs.

3.18 The forecast capital expenditure increases for the high-growth and low-growth councils shown in Figure 4 are similar. However, the high-growth councils have forecast 29% of their planned capital expenditure to allow for meeting increased demand. Low-growth councils expect some growth but, at 9% of their planned capital expenditure, it is far less. "Growth" capital expenditure is primarily funded by borrowing. Councils also have other funding sources for growth capital expenditure, such as subsidies from the New Zealand Transport Agency and by levying contributions from the developers wanting the capital expenditure.

14 The financial information compared in Figures 3 and 4, and in other parts of our report, was prepared at different times. This means the percentage movements discussed include the effect of inflation on councils since the 2015-25 LTPs were prepared.

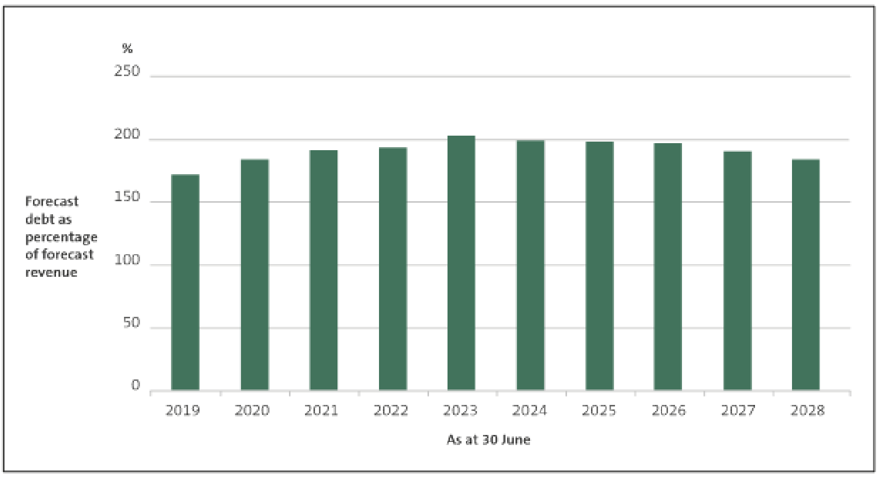
3.19 We see two main risks that high-growth councils must manage.

3.20 The first risk is when to provide new assets to meet additional demand. If councils build assets too early, the cost to service the debt used to fund the assets will fall disproportionately on existing ratepayers. If they build assets too late, the services they provide to the community will be affected.

3.21 The second risk is funding the growth. High-growth councils need to borrow significantly to fund capital expenditure for new assets – the 2018-28 LTP forecasts show a 49% increase in debt from 2018/19 to 2027/28 for these councils. Figure 5 shows the forecast debt as a percentage of revenue for the 11 high-growth councils.[15]

Figure 5
Forecast debt as a percentage of total revenue for high-growth councils

The 2018-28 LTP forecasts show an increase in debt as a percentage of total revenue for high-growth councils, peaking in 2022/23.



3.22 Most high-growth councils have debt covenants that restrict their ability to borrow more than 250% of their revenue. Based on forecast debt levels, most high-growth councils generally do not have much borrowing capacity to respond to other risks. Increasingly, councils' ability to sustainably manage growth is becoming more at risk.

15 By comparison, low-growth councils' forecast borrowing as a percentage of revenue does not exceed 120% during the period of the 2018-28 LTPs.

Councils face risks to their large forecast capital expenditure programme

3.23 As noted in Figure 3, councils have significantly increased the amount of planned capital expenditure in the latest LTPs compared with the 2015-25 LTPs. Figure 6 breaks down the forecast capital expenditure into three categories:

- expenditure for new assets to **meet additional demand**;
- expenditure to **improve levels of service**; and
- expenditure to **replace or renew** existing assets.

Figure 6
Forecast capital expenditure in the 2018-28 long-term plans compared with the 2015-25 long-term plans

Capital expenditure	2015-25 LTP $billion	2018-28 LTP $billion	% increase
Meet additional demand	8.2	12.4	51
Improve the level of service	13.2	18.6	41
Renew existing assets	20.1	23.5	17
Total	**41.5**	**54.5**	**31**

3.24 Figure 6 shows that councils are progressively forecasting more capital expenditure to meet additional demand and improve service levels. As noted above, capital expenditure forecast to meet additional demand is concentrated in high-growth councils. Some councils included forecast capital expenditure to respond to the recommendations in the *Report of the Havelock North drinking water inquiry: Stage 2*, and to meet the expectations included in national policy statements.

3.25 The overall forecast capital expenditure increase compared with the 2015-25 LTP forecasts affects almost all councils. Appendices 3 to 7 show that all sub-sectors are forecast to increase their capital expenditure significantly. Only seven councils are forecasting a decrease in capital expenditure compared with their 2015-25 LTP forecasts.

3.26 Generally speaking, low-growth councils are increasingly turning their attention to renewing existing and ageing infrastructure. We consider this to be prudent and consistent with councils' stewardship responsibilities. On the other hand, high-growth councils are more focused on providing capital expenditure to meet anticipated demand. We discuss council renewals in paragraphs 3.34 to 3.44.

3.27 Achieving this forecast capital expenditure programme will be challenging. The capital expenditure programme is larger than what councils have forecast previously and also larger than what has been recently achieved.

3.28 From 2013/14 to 2016/17, councils overall have managed to spend between 66% and 78% of their planned capital expenditure budgets. Capital expenditure budgets during this period ranged from $3.2 billion (in 2013/14) to $4.9 billion (in 2015/16).

3.29 We consider that councils will need to carefully plan, prioritise, and monitor their budgets to have a realistic ability to achieve capital expenditure programme budgets. Councils will also need to consider whether they have the staff capacity and capability to manage their capital expenditure programme.

3.30 This is a matter of interest to us. Through our focus on public sector procurement practices, we plan to examine councils' capital procurement capacity and capability.[16]

3.31 In paragraphs 3.20 and 3.21, we noted that high-growth councils will need to carefully manage the pressures of growth. This is even more relevant for councils that have to manage growth in their cities, districts, or regions after a long period of no growth. Among other factors, these councils should consider whether they are applying the right funding tools (such as development contributions) to pay for growth-related capital expenditure.

3.32 New Zealand is a small country, and there are several other planned or occurring projects[17] that will compete with councils for service from the construction industry. This could affect when councils complete their planned capital work and the cost of this work.

3.33 A new independent infrastructure body is being set up. We understand that this entity is likely to have a role in considering project delivery throughout the public and private sectors.

Councils need to better manage and reinvest in their existing assets

3.34 We have previously reported our concerns that many councils are not adequately reinvesting in their assets.[18] To consider how councils are reinvesting in their assets, we compared renewal and replacement capital expenditure to depreciation. We consider depreciation to be the best available estimate of what portion of the asset was used up during the financial year.

3.35 When examining LTPs, we can get a better sense of how councils plan to manage their existing assets over time. A council that is spending less on renewing its assets compared to the depreciation expense will, at some point in the future, need to spend more to "catch-up" its asset reinvestment. The LTPs, and specifically

16 For more information, see Controller and Auditor-General (2018), *Introducing our work about procurement*, Wellington.

17 For example, the Government's KiwiBuild development scheme.

18 See, for example, Controller and Auditor-General (2018), *Local government: Results of the 2016/17 audits*, Wellington, pages 10 and 11.

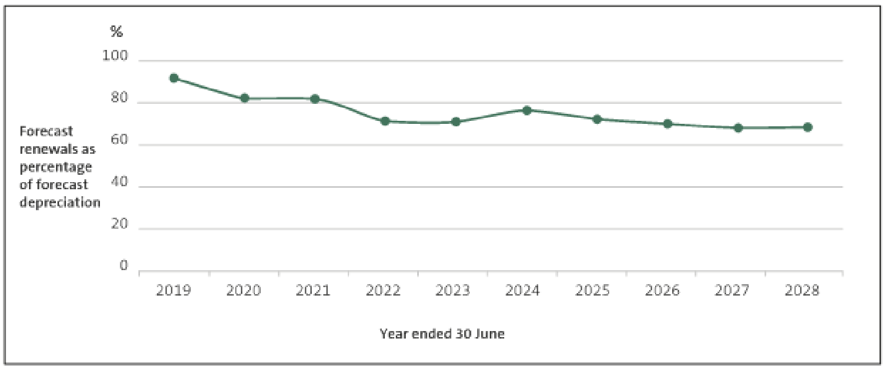
the financial and infrastructure strategies, should explain what approaches councils will take to manage reinvestment in existing infrastructure.

3.36 Figure 7 compares the forecast renewal capital expenditure to forecast depreciation for all councils. Forecast renewals remain less than forecast depreciation during the period of the LTP.

3.37 These are similar trends to those we have seen from analysing the 2012-22 and 2015-25 LTP figures.[19] There are no significant differences when looking at sub-sectors or at high-growth and low-growth councils.

Figure 7
Forecast renewal capital expenditure compared with forecast depreciation for all councils

Forecast renewals remain less than forecast depreciation during the period of the LTP.



3.38 For councils' core assets, councils are forecasting renewals expenditure to be significantly above 100% of depreciation only in flood protection and control works. Other asset classes have the following averages:

- **Roading** – on average, forecast renewals are 83% of forecast depreciation.
- **Water supply** – on average, forecast renewals are 82% of forecast depreciation.
- **Wastewater** – on average, forecast renewals are 67% of forecast depreciation.
- **Stormwater** – on average, forecast renewals are 52% of forecast depreciation.

3.39 The trends shown by these forecasts reinforce our previous concerns that councils as a whole might not be reinvesting adequately in their assets.

3.40 Roading is the only major asset class to differ from trends we have seen previously. This is because metropolitan councils forecast to spend less on renewing roading assets than in previous LTPs.

19 See Controller and Auditor-General (2015), *Matters arising from the 2015-25 local authority long-term plans*, page 11.

3.41 From the work our auditors did, 44 councils identified a gap between forecast renewals and depreciation. Additionally, our auditors identified that not all councils formally analysed whether they had a "renewals gap". This is not good enough given the criticality of the infrastructure in question. All councils need to formally assess what stage in the life cycle their critical assets are at and plan accordingly.

3.42 Councils that have identified a renewals gap used one or more of the following approaches to manage the upcoming renewals peak:

- Putting in place funding sources to pay for the future renewals. The most common approach taken was levying rates to cover their depreciation expense and placing any rates that were not spent on renewals in reserve.
- Progressively increasing renewal expenditure over a period of time. Some councils are actively addressing a backlog of renewals on their major assets, leading to these councils significantly increasing their forecast renewals expenditure.
- Evening out the future renewals forecasts to "smooth" the expected peak.
- Increasing internal staff numbers to ensure that there are enough people to manage a larger capital expenditure renewals programme.
- Focusing on renewing critical assets first, so the most important parts of the council's asset network continue to deliver services.

3.43 Councils with a renewals peak to manage also planned to improve their knowledge of the condition and performance of their assets. This would give them better information to more accurately forecast when they need to renew assets.

3.44 From reviewing councils' financial and infrastructure strategies, we consider that councils could have been clearer about the approaches discussed in paragraph 3.42. We discuss our concerns about how councils set out the implications of their proposals in the financial and infrastructure strategies in Parts 4 and 5.

Priorities for councils when managing their assets

3.45 In general, councils are reporting in their infrastructure strategies a need to improve their asset condition and performance information, especially for assets used to supply three waters services (see also Part 5).

3.46 Councils are also using their incomplete knowledge of the condition and performance of their major assets to model renewal forecasts. Because the information they use is not as complete and robust as it should be, there is greater uncertainty about when assets need to be replaced or when the councils' renewal peaks will be.

3.47 We recommend that, to increase the reliability of future renewals forecasts and the associated funding needs, councils continue to prioritise their understanding of the condition and performance of their most important assets and use this updated information for planning.

3.48 A common comment we hear from councils is that they expect their major assets to last longer than the asset lives they assign to them. Councils use the asset lives to estimate their depreciation expense, which they recognise for financial reporting purposes and use in the LTP financial forecasts.

3.49 However, councils do not believe that they have enough knowledge about their assets to increase the asset life. As councils continue to improve the condition and performance of assets, they should prioritise work on confirming whether the asset lives they have assigned to their assets are accurate.

Councils' funding sources are continuing to increase

3.50 Councils' financial strategies discuss two major funding sources: rates revenue and borrowing.

Rates revenue

3.51 Figure 8 compares rates revenue forecast in the 2018-28 LTPs to what was forecast in the 2015-25 LTPs, for councils as a whole. Rates revenue is forecast to be $6.2 billion in 2018/19 and is forecast to increase to $9.3 billion in 2027/28. This is an increase of slightly more than 50% during the 10-year period. It is similar to the 2015-25 LTP forecasts, where councils forecast an increase of 47% in rates during the 10-year period.

3.52 Council rate increases are primarily because of three factors:

- to fund inflation (the cost of services increasing over time);
- to fund the cost of new services; and
- to reflect increased demand for services (this is relevant for growth councils).

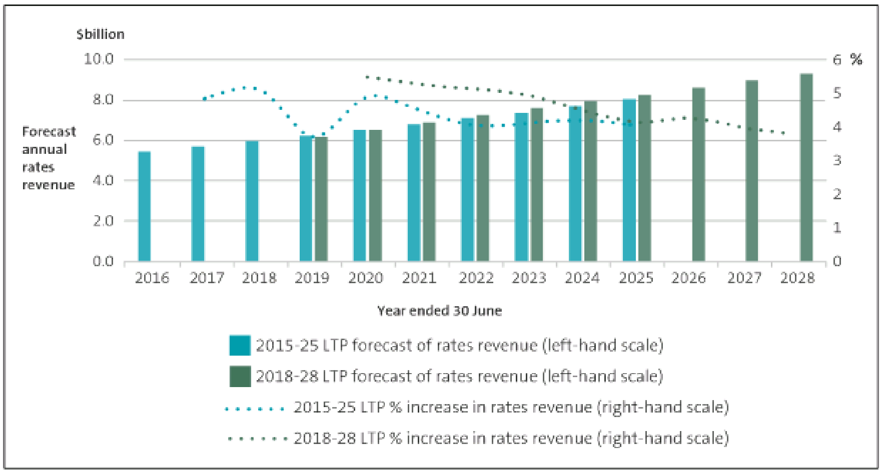
3.53 Projected rates revenue in 2018/19 is similar to what was forecast in the 2015-25 LTPs. However, in the 2018-28 LTPs, rates are forecast to increase at a faster rate compared with the 2015-25 forecasts.

Item 10

Attachment 1

Figure 8
Rates revenue for councils as a whole, as forecast in the 2015-25 and 2018-28 long-term plans

In the latest LTPs, the projected rates revenue for 2018/19 is similar to what was forecast in the 2015-25 LTPs. For the following years, however, rates revenue is forecast to increase at a faster rate compared with the 2015-25 forecasts.



3.54 In their LTPs, councils consistently state that they want to provide affordable services. Figure 8 shows that councils overall forecast that annual rates increases are below 4% in only one year – 2027/28. The annual forecast rates increases in the current LTP forecasts are also higher than that forecast in the 2015-25 LTPs.

3.55 Some of the forecast annual rates increases will be because of growth and therefore more ratepayers. Most of these forecast rates increases will be charged to existing ratepayers.

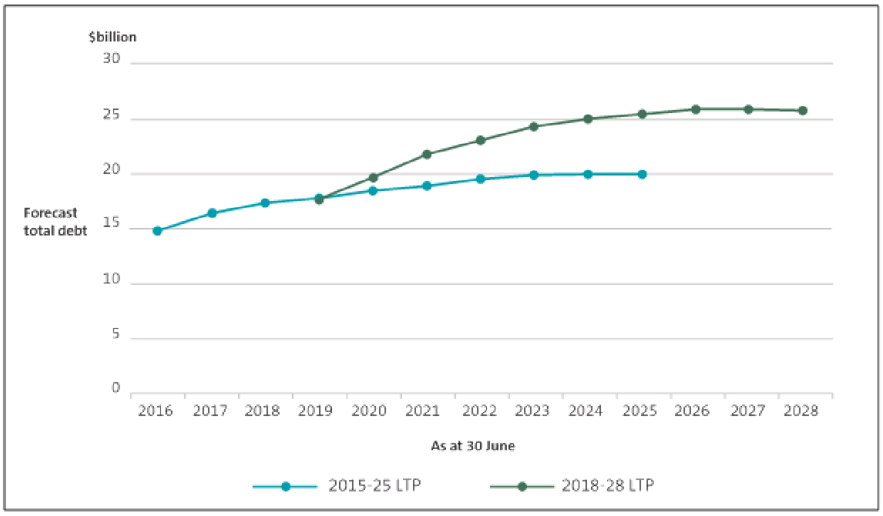
Debt and borrowing

3.56 In the 2018-28 LTP forecasts, councils overall are forecasting to borrow about $5.4 billion more in 2024/25 compared with 2015-25 LTP forecasts (see Figure 9). This is despite the forecast debt position in 2018/19 being almost the same for both 2015-25 and 2018-28 LTPs, at $17.6 billion. Debt is forecast to increase 47% in the 2018-28 LTPs and expected to peak at $25.9 billion in 2026/27.

3.57 Metropolitan councils are forecasting the highest increase in debt during the 10-year period of the LTP, with debt increasing by 72%. The forecast lowest increase in borrowing, 28% for rural councils, is still significant. Auckland Council remains the largest council borrower.

Figure 9
Debt forecast in the 2015-25 and 2018-28 long-term plans

In the 2018-28 LTPs, debt is forecast to increase at a greater rate than was forecast in the 2015-25 LTPs and is expected to peak at $25.9 billion in 2026/27.



3.58 Not all councils are forecasting to have debt. In the current LTP forecasts, between six and eight councils forecast to have no external borrowings. The number increases as some councils forecast to repay their debt in the LTP period. Regional councils are more likely to not borrow.

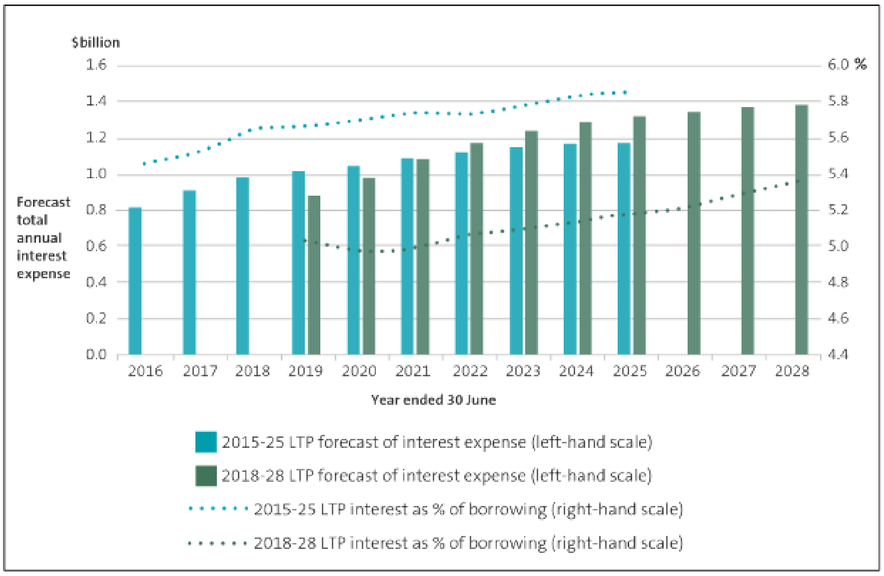
3.59 By and large, the increase in forecast debt is to fund the councils' large capital expenditure programme, as discussed in paragraphs 3.23 to 3.33.

3.60 Some councils (Auckland Council, metropolitan councils, and other high-growth councils) generally have proportionately more debt than other councils. These high debt levels could limit how councils might respond to unexpected events.

3.61 Interest rates have been historically low in New Zealand since the global financial crisis. Based on the current LTP forecasts, councils overall are forecasting lower interest rates compared with 2015-25 (see Figure 10).

Figure 10
Interest expense and interest expense as a percentage of borrowing, as forecast in the 2015-25 and 2018-28 long-term plans

Councils overall are forecasting lower interest rates compared with 2015-25.



3.62 Councils that are borrowing need to have approaches to protect themselves from any significant increase in interest rates. Potentially small increases in interest rates above those forecast might mean that some councils are unable to service what they propose to borrow without making other changes, such as increasing rates or cutting expenditure.

4

Financial strategies

4.1 In this Part, we outline the legal requirement for councils to prepare a financial strategy. We also comment on how effective the financial strategies were in meeting the requirements.

4.2 Financial strategies are a critical part of the LTP. For the readers of the LTP to meaningfully assess the prudence of councils' financial management, the financial strategy must be clear about its goals and trade-offs and presented in a concise way.

4.3 Financial strategies have been required for the last three LTPs. However, we have seen little improvement in how they are presented during this time. We encourage councils to put more effort into their future financial strategies. We suggest that councils could usefully focus on presenting clear and succinct information that is truly strategic.

4.4 As noted in Part 1, we consider that it would be useful for the Department of Internal Affairs and the sector to consider the effects and effectiveness of the current disclosure requirements. The disclosures required by section 101A of the Act and the Local Government (Financial Reporting and Prudence) Regulations 2014, in particular, could usefully be considered to ensure that they remain fit for purpose.

4.5 There is a risk that these disclosures are not helping readers to understand how councils manage their finances and evaluate their council's performance.

Legislative requirements for financial strategies

4.6 The Act sets out the purpose and required content of the financial strategy. The financial strategy must cover the period of the LTP, which is at least 10 years, and must be updated for each LTP.

4.7 The purpose of the financial strategy is to:[20]

- facilitate prudent financial management by the council by providing a guide for the council to consider proposals for funding and expenditure against; and
- provide a context for consultation on the council's proposals for funding and expenditure by making transparent the overall effects of those proposals on the council's services, rates, debt, and investments.[21]

4.8 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 financial parameters in which the council will operate (limits on rates, rates increases, borrowing, and targeted returns for financial investments).

20 Local Government Act 2002, section 101A.

21 This occurs when consulting on the proposed content of the LTP. The consultation document must set out the public interest matters relating to the proposed content of the financial strategy.

4.9 The requirement for a financial strategy fits with the purposes of the LTP, particularly those related to integrated decision-making, long-term planning, and accountability.

Are financial strategies meeting the legislative intentions?

4.10 Financial strategies were introduced into the Act in 2010 and were first required to be included in the 2012-22 LTPs. We have previously said that we were pleased to see the financial strategy included as a compulsory disclosure. This is because it improved the information contained in the LTPs and helped communities to assess the implications of the decisions they were consulted on.

4.11 After reviewing the financial strategies in the 2012-22 LTPs, we noted that the most useful strategies were those that discussed the implications of the chosen strategy in a broad way, rather than including only what is required by the Act. Councils needed to remain focused on the intent of the financial strategy and balance the broader purpose against the specific disclosure requirements.

4.12 We cautioned against any further prescription of disclosure requirements for the financial strategy, which could lead the sector to address the requirements in a mechanistic way.[22]

4.13 After considering the 2018-28 financial strategies, we consider that there remains room for improvement.

4.14 The Act's requirements were included in most of the 2018-28 financial strategies. However, this did not mean we found the financial strategies as effective as they should be.

4.15 In our view, for a financial strategy to be effective, it needs to clearly explain the end goal – and the decisions and trade-offs the council has to consider to reach that goal – in a way that is relevant to readers. In effect, councils should be clear about the implications arising from their financial strategy. In our view, the implications arising from the financial strategy was still not strongly presented in many cases.

4.16 Kāpiti Coast District Council was one of the few exceptions. The Council presented a financial strategy that, in our view, effectively presented the Council's goal and how the Council plans to achieve that goal. It also presents an effective description of how the combined use of rates, capital expenditure, and debt influences the level of service provided to the community.

22 Controller and Auditor-General (2012), *Matters arising from the 2012-22 local authority long-term plans.*

Our challenge for 2021

4.17 We are confident that most councils have a thorough understanding of their financial strategy. Our challenge to councils for the next LTPs is to present a financial strategy in a clear and concise way, in no more than five pages. This will help better meet the strategy's purpose by clearly explaining to the community how the council is managing its finances and why it has chosen to do it that way.

4.18 In working towards this challenge, we also encourage councils to have councillors and members of the community consider draft versions of the strategy. This will test how easy it is to understand.

> *The main target actions are to improve our financial position and give ourselves more room to manoeuvre within the fiscally constrained environment, and to invest only in infrastructure that supports resilience and agreed growth. This will be done by undertaking a reduced capital expenditure programme that will enable us to start paying down our debt earlier than is currently forecast. In the short term, this could lead to an improved credit rating. In the longer term, this means that the Council will be in a better position to manage a substantial renewals programme for our three waters infrastructure.*
>
> *Adapted from Kāpiti Coast District Council, Long-term plan 2018-28, page 18.*

4.19 We acknowledge that the Act requires several disclosures that increase the length of financial strategies. In our view, presenting a clear and concise strategy and then adding (where not already covered) any other required disclosures will produce a more effective financial strategy.

4.20 We have not yet seen a financial strategy that we consider to be an overall good example. However, Hamilton City Council, which presented its financial strategy in five pages, is heading in the right direction. The Council's financial strategy had good opening contextual information, most of its information was in reasonably non-technical language, and included a helpful mix of text and diagrams.

Disclosures required in the financial strategy

4.21 As noted above, the Act requires several disclosures in the financial strategy. The most significant components are:

- information about factors that are expected to have a significant impact on the council; and
- rates and debt limits set by the council.

4.22 For the first component, we consider that councils could focus on improving their explanations about the effects of changes in land use[23] on their finances. This is often missing or poorly described.

23 Section 101A(3)(a)(i) of the Act requires councils to explain changes in land use.

4.23 For the second component, presenting rates and debt limits set by the council is more complicated to summarise. We discuss the presentation of limits below.

Ashburton District Council's financial strategy talks about the effects of Ashburton's changing economy (the ongoing transition from arable farming to dairy and specialised cropping) and discusses the increased facility and service needs resulting from this change. It also notes that the economic growth leading to population growth is accompanied by increased wealth, making the proposed increased rates affordable for most of the community. It also acknowledges that there will be an effect on owners of lower-value properties, particularly with increasing uniform annual general charges.

Rates and debt limits – how are they set and how effective are they?

4.24 The Act requires councils to present quantified limits on rates, rate increases, and borrowing.

4.25 We considered the limits set by all councils in detail as part of our reporting on the 2015-25 LTPs.[24] Although we have not repeated this detailed analysis for the 2018-28 LTPs, the review work we have done has not indicated any change to the nature, range, or types of limits councils apply.

4.26 Previously, we encouraged councils to be clear about what limits they have set and, more importantly, to explain why using that specific limit to assess the financial health or prudence is relevant.[25] We have seen no change in councils clearly explaining the selection of limits in the 2018-28 LTPs, although, as in the past, councils generally explain debt limits better than rates limits.

4.27 Where councils have attempted to explain the rationale for the limits they have set, this is often linked to a view about what is affordable for the community. Councils are generally weak at explaining what affordability means or how it has been assessed.

4.28 Ashburton District Council presents the rates and debt limits in simple terms. This is complemented by a good discussion about the economic context the Council is operating in, which enables a more understandable explanation of affordability for its ratepayers.

4.29 Councils generally approach the development of their rates and debt limits in one of two ways:

- Councils set limits based on a strategy established before the forecasts are prepared – using them as true strategic limits that underpin the development of the forecast spending and drive the council's activity decisions.

24 Controller and Auditor-General (2015), *Matters arising from the 2015-25 local authority long-term plans.*

25 Controller and Auditor-General (2015), *Matters arising from the 2015-25 local authority long-term plans*, Part 2.

- Limits are set to fit around the financial forecasts – and so do not really function as a true limit. When the strategy is less effective, the limits are often set unrealistically low and are readily breached in the LTP forecasts.

4.30 Council debt limits are influenced by the limits imposed by the New Zealand Local Government Funding Agency or mirror those of the Agency and reflect financial market views of prudence. Although the disclosure of debt limits is useful information for the reader of the LTP, they reflect an industry requirement rather than a purely self-imposed financial prudence control. This shows that the legislative prescription is not the main influence on behaviour.

4.31 The rates increase limits continue to be problematic. It remains difficult for most councils to express an effective limit related to rate increases. We have seen rates increase limits that:

- exclude growth in the rating base;
- exclude both rating units and valuation movement impacts; or
- are restricted to reflecting increases in general rates rather than all rates.

4.32 Although, in most instances, councils stick to the limits they set, 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. The challenge remains for councils to identify a more effective way to communicate with ratepayers about value for money from rates and to more effectively justify annual rate movements.

Financial prudence benchmark disclosures

4.33 The Local Government (Financial Reporting and Prudence) Regulations 2014 require councils to outline their planned performance against defined benchmarks. The regulations were intended to improve the ability of ratepayers and stakeholders to assess the council's financial health and compare performance with other councils.

4.34 The multiple benchmarks provide much information on a financial component basis, but are technical in nature. We recommend that the Department of Internal Affairs and the sector consider the effects and effectiveness of the regulations to ensure that they remain fit for purpose.

5 Infrastructure strategies

5.1 In this Part, we outline the legal requirements for infrastructure strategies. We also discuss our observations about the first generation of infrastructure strategies that were part of the 2015-25 LTPs and summarise our observations about the latest infrastructure strategies.

5.2 We saw some improvements to infrastructure strategies in 2018. We saw greater discussion about identifying and managing critical assets. This included more recognition and acceleration of works planned for water supply, stormwater, and flood protection assets. Overall, there was also a new level of sophistication in the discussion and policies for managing assets during their life cycle.

5.3 However, we did not see many of the improvements that we had hoped for and expected to see. In our view, a small number of infrastructure strategies did only the minimum, being more like elaborations on sets of asset management plans than strategies.

5.4 To be more effective, infrastructure strategies could usefully improve in the following ways:

- being clear about the condition of the council's critical assets and what this means for the management of infrastructure assets;
- being better integrated and/or consistent with financial strategies;
- clearly outlining the link between assets and the services they support by better describing the levels of service; and
- covering the main matters all infrastructure assets face.

5.5 We are concerned that, because of these weaknesses, the long-term realism and the affordability of many infrastructure strategies are questionable, especially from 2028. For the many councils responding to growth and/or funding constraints, these are questions that need to be asked in the strategy and answered.

Legislative requirements for infrastructure strategies

5.6 The Act sets out the purpose and required content for infrastructure strategies.[26]

5.7 The purpose of an infrastructure strategy is to identify:

- significant infrastructure issues for a council during the period covered by its strategy; and
- the principal options for managing those issues and the implications of those options.

5.8 The Act requires that an infrastructure strategy cover existing or proposed infrastructure assets used for:

- water supply;

26 Local Government Act 2002, section 101B.

- sewerage and the treatment and disposal of sewage;
- stormwater drainage;
- flood protection and control works; and
- roads and footpaths.

5.9 Infrastructure strategies can also include other assets that a council wants to include, such as community facilities, parks, and solid waste facilities.[27]

5.10 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), funding options, and other matters, such as the need to improve health or environmental outcomes and to manage risks from natural hazards.

5.11 Strategies must also outline the most likely scenario for the management of a council's infrastructure assets during its 30-year period, the estimated costs of managing those assets, the nature and timing of expected significant capital expenditure decisions, and the assumptions on which the scenarios are based.[28]

5.12 Section 101B(3)(e) of the Act requires infrastructure strategies to "provide for the resilience of infrastructure assets". We address our observations on resilience issues separately in Part 6.

5.13 We have previously expressed our support for the introduction of infrastructure strategies. Councils hold significant infrastructure assets, and most of their spending is on infrastructure operations and works. An infrastructure strategy offers the opportunity for councils to present a strategic picture of their infrastructure portfolio and to consider a longer time period.[29]

A summary of our observations in 2015

5.14 In our 2015 report *Matters arising from the 2015-25 local authority long-term plans*, we discussed the first generation of infrastructure strategies, noting some positive features and some common weaknesses. We also suggested how infrastructure strategies could be more effective. In 2015, we took the view that effective infrastructure strategies:

- took a longer than 30-year outlook and included more than the required or mandatory asset activities;
- connected with financial information and the wider context; and
- were clear about the effects of change on infrastructure needs.

27 Local Government Act 2002, section 101B(6).

28 This requirement duplicates clause 17 of Schedule 10 of the Act, which requires the LTP to include significant forecasting assumptions on which the financial estimates in the LTP are based.

29 Controller and Auditor-General (2015), *Matters arising from the 2015-25 local authority long-term plans.*

5.15 We also noted some common weaknesses that were in less effective infrastructure strategies. These included:

- Strategies lacked analysis to show the financial sustainability and affordability of projects in the infrastructure strategy.
- Explanations about how demographic change would be addressed were often unclear.
- Although strategies disclosed uncertainties about asset condition, the likely long-term effects on financial and timing profile of projects and work were unclear.
- The long-term view of economic activities lacked discussion or analysis.

5.16 Many infrastructure strategies were also unclear about where councils would be placed at the end of the 30-year period. They were not as clear as they could have been on the likely scenarios councils faced.

Infrastructure strategies are important

5.17 Since 2015, there has been considerable debate about infrastructure issues – in particular, about water supply and disaster preparedness and recovery. As part of this debate, views have been published and reviews began – for example, the three waters review that the Department of Internal Affairs is carrying out. We have also published several reports about infrastructure issues.[30] Because of this activity, we expected improved infrastructure strategies in 2018.

5.18 Infrastructure strategies are the place to identify the challenges and scenarios a council faces. They are important documents.

5.19 Telling a clear and credible story of how a council plans to manage its current and future infrastructure over the next 30 years or more is difficult to do well. This is because the story will often involve tensions, trade-offs, risks, certainties (not enough money), uncertainties (unplanned expenses), and making difficult decisions.

Asset condition and performance information

5.20 In our 2017 report *Getting the right information to effectively manage public assets: Lessons from local authorities*, we reiterated our views on the importance of councils having a comprehensive understanding of assets:

> *A comprehensive understanding of the age and condition of critical assets, as well as of future demand (for example, increases or decreases depending on demographic changes or changes to environmental standards), is important in assessing whether the actual and planned expenditure is sustainably maintaining assets.*

30 Our most recent observations are reported in Controller and Auditor-General (2017), *Reflections from our audits: Investment and asset management*.

Once local authorities have a comprehensive understanding of their critical assets and the cost of adequately maintaining them, elected members can make informed decisions about managing their assets and have well-informed conversations with their communities about how to fund that cost or the consequences of not doing so.[31]

5.21 An infrastructure strategy should be based on accurate information, particularly information on the condition and performance of critical assets. Most infrastructure strategies discussed, to some degree, information that councils had about their assets.

5.22 However, the level of detail, usefulness, and presentation of asset information varied. This information was often scattered throughout strategies or located in asset management plan-type material towards the back of strategies.

5.23 We issued a modified audit opinion for Westland District Council's 2018-28 LTP. The Council disclosed in its LTP (including in its infrastructure strategy) that it did not have reliable asset condition information to support the forecast renewals programmes for water, wastewater, and stormwater assets (the three waters assets). Consequently, we were unable to conclude that the Council's information to support the renewals programmes forecast for the three waters assets was reasonable.

5.24 Westland District Council also disclosed in its LTP that it plans to invest in improving its knowledge of the condition of its three waters assets. It expects to use this information in preparing its 2021-31 LTP. This will enable elected members to make informed decisions about its critical three waters assets in the future.

5.25 As was the case in 2015, many strategies expressed councils' intentions to complete or start gathering better information on their assets, including reliable information about asset condition. There was also an increased emphasis on gaining a better understanding about critical assets, particularly three waters assets. That said, a third of infrastructure strategies contained little or no information about councils' knowledge of the condition of their assets.

5.26 In 2015, only 10 councils explicitly disclosed and described the programmes they were putting in place to collect better information. We are pleased that more councils provided details about their plans to gather better information in their latest infrastructure strategies.

5.27 The less reliable and complete the asset information is, the more uncertain forecasting or risk management will be. We have previously reported our concerns that councils, on the whole, have consistently underspent when reinvesting in their assets. This trend is most concerning in some councils' critical infrastructure assets, such as water supply and flood protection assets.

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

5.28 If there are gaps or weaknesses in asset condition information, it is important that they and their possible implications are clear to the community. Councils should take a precautionary approach for significant services in the meantime.

Financial sustainability and affordability

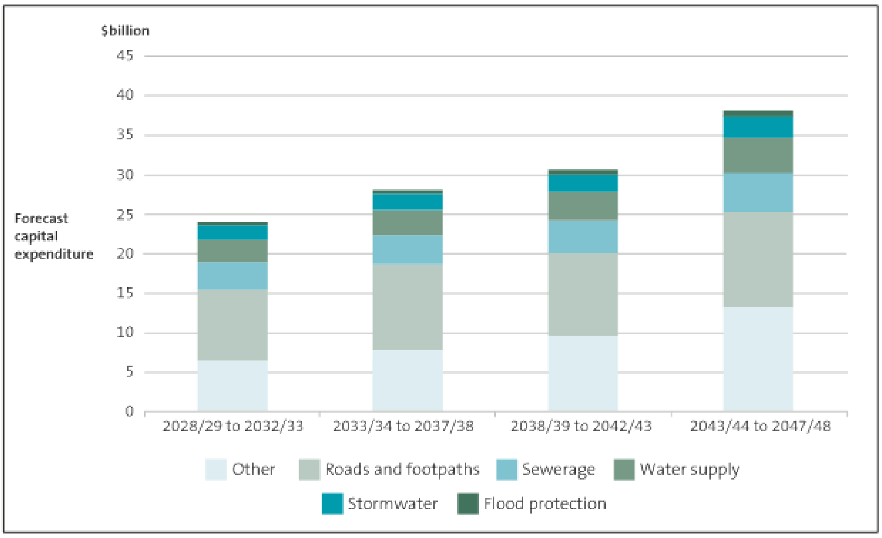
5.29 Affordability is a significant issue for councils. Many 2018 consultation documents and LTPs were explicit about the challenge of balancing affordability with the need to maintain or develop infrastructure assets and services.

5.30 Individual infrastructure strategies are required to contain projected capital and operating expenditure estimates for the next 30 years.

5.31 In Part 3, our analysis of LTPs' financial information included councils' proposed capital spending in the LTPs' 10-year period. Figure 11 outlines the aggregated forecast spending on capital in each subsequent period (in five-year groups) that infrastructure strategies cover.[32]

Figure 11
What councils expect to spend on selected assets, for years 11 to 30 of the infrastructure strategies

Councils' capital expenditure is projected to increase in each five-year period, and to do so at a greater rate in the last five-year period.



32 Figure 11 excludes Wairoa District Council and West Coast Regional Council, which did not have the information available when we prepared this analysis.

5.32 This continued growth in capital expenditure will put significant pressure on councils, particularly those that face growth and high debt levels at the end of the LTP period. Councils might need to make important decisions about the financial sustainability of some services in the future.

5.33 For most councils, their infrastructure strategies were not well integrated with their financial strategies to demonstrate how they were considering the continued affordability of their infrastructure services.

The scope of infrastructure strategies

5.34 All infrastructure strategies covered the 30-year minimum time frame. Five infrastructure strategies covered some aspect of the assets in them for more than 30 years.

5.35 Our view remains that infrastructure strategies should cover the period needed to adequately show the situation of the council involved. For example, if a council reliably forecasts major infrastructure renewals for 2050, then it would be helpful for the council to extend the time frame covered by its infrastructure strategy.

5.36 We were pleased to see that more councils put non-mandatory assets in their infrastructure strategies. Twenty-seven councils included assets such as public transport, community facilities, parks and open space, solid waste facilities, and other assets. For example, Greater Wellington Regional Council included public transport, parks, environmental science, and harbour assets.

5.37 From Figure 11, projected capital expenditure for non-mandatory assets is the largest category of projected capital expenditure for 2043/44 to 2047/48. Projected expenditure for these assets more than doubles for 2043/44 to 2047/48, compared with 2028/29 to 2032/33. Forecast capital expenditure for public transport and community facility assets makes up most of the non-mandatory asset expenditure in Figure 11.

5.38 This shows that the non-mandatory assets individual councils hold can be significant. Our view is that infrastructure strategies should cover the important infrastructure matters facing a council. If these matters relate to non-mandatory assets, the strategy should be expanded to cover those assets.

5.39 It is likely that these 27 councils have taken this view. Other councils with infrastructure strategies that covered only the mandatory assets might want to consider whether they are covering all important infrastructure matters.

How did infrastructure strategies approach levels of service?

5.40 Most infrastructure strategies typically described their approach as maintaining current levels of service, while meeting standards and accommodating future growth.

5.41 For an infrastructure strategy to be effective, levels of service and the reasons for changes to those need to be clearly defined. However, few strategies clearly defined either of these.

5.42 Councils sometimes incorrectly used increases in levels of service to refer to bringing an asset up to a level to meet a current standard and/or resource consent condition(s).

5.43 We expect councils to improve their description of levels of service in future infrastructure strategies.

Early clarity helps

5.44 A high-level strategy can be communicated on a single page, but this is unlikely to be a useful and meaningful account of 30 years or more of infrastructure activities. In our view, certain approaches can improve clarity and make infrastructure strategies more effective and useful.

5.45 Typically, the infrastructure strategies we reviewed began with an executive summary or introduction. Many effectively set the scene and outlined the status quo. Overall, the descriptions of change, challenges, and risks were reasonable.

5.46 However, the starting point of most infrastructure strategies was implicitly "now" or the status quo, and the future state of infrastructure provision at the end of the 30 years was often unclear.

5.47 Auckland Council, Hamilton City Council, and Palmerston North City Council made good use of maps and diagrams to illustrate their strategies.

5.48 We saw infrastructure strategies that ranged from 11 pages to 167 pages. We are not convinced that a short infrastructure strategy document would be useful to decision-makers unless it was clear and refined. Nor are we convinced that a long document could act as a practical guide for decision-making.

5.49 The location of information, its detail, and its presentation, as well as defined "start" and "end" points, are important to defining the overall status quo position, and for measuring progress and judging value during the life of a strategy.

6

How have councils considered resilience?

6.1 Section 101B(3)(e) of the Act requires councils in their infrastructure strategies to:

> *... outline how the local authority intends to manage its infrastructure assets, taking into account the need to ... provide for the resilience of infrastructure assets by identifying and managing risks relating to natural hazards and by making appropriate financial provision for those risks.*

6.2 In this Part, we discuss what councils said in their LTPs – in particular, in their infrastructure strategies – about how they intend to provide for the resilience of their infrastructure assets so that they can continue to deliver services to their communities.

6.3 We consider that there is a need for councils to have a comprehensive discussion about resilience[33] and climate change issues with their communities. The discussion needs to cover financial and non-financial effects. There is the need and opportunity for a national approach to provide leadership for resilience, including the resilience to climate change.

National and international context

6.4 New Zealand's economy is vulnerable to the effects of natural disasters.[34] This risk is exacerbated by the effects of climate change. There is currently no comprehensive national picture of the level of risk that natural hazards, including those from climate change, pose to New Zealand.[35]

6.5 Having effective and reliable infrastructure is vital for providing critical services to communities. Natural hazard events, including those resulting from climate change, can adversely affect council infrastructure, compromising councils' ability to deliver these services and a community's ability to recover after such events.

6.6 Since the 2015-25 LTPs, several significant natural hazard events have occurred.[36] The policy and regulatory settings continue to change in response to new information about the probability and effects of natural hazards and climate change.

6.7 Examples of this new information include:

- In 2015, the Parliamentary Commissioner for the Environment commissioned the National Institute of Water and Atmospheric Research to provide a

33 "Resilience" is not defined in the Local Government Act 2002. For the purposes of this report, we have used the widely accepted United Nations definition (UNISDR, 2009): "The ability of a system, community or society exposed to hazards to resist, absorb, accommodate to and recover from the effects of a hazard in a timely and efficient manner, including through the preservation and restoration of its essential basic structures and functions through risk management."

34 Insurance Council of New Zealand (2013), *Protecting New Zealand from Natural Hazards*, page 5.

35 See Ministry for the Environment's discussion document on a proposed Zero Carbon Act. Ministry for the Environment (2018), *Our Climate Your Say: Consultation on the Zero Carbon Bill*, page 47.

36 For example, the Edgecumbe floods, the Hurunui/Kaikōura earthquake, and Cyclone Gita.

nationally consistent coastal risk exposure assessment. The Parliamentary Commissioner for the Environment used information from National Institute of Water and Atmospheric Research as the basis for its report *Preparing New Zealand for rising seas: Certainty and Uncertainty*.

- The Ministry for the Environment updated its guidance *Coastal Hazards and Climate Change* in December 2017 in response to updated climate change scenarios.
- The Climate Change Adaptation Technical Working Group recommendations of May 2018, *Adapting to Climate Change in New Zealand*, include preparing a regularly updated national climate change risk assessment and investigating who should bear the costs of climate change adaptation and how it can be funded.[37]

6.8 Work is under way to better understand the probability and effects of natural hazards and climate change. For example, the Deep South National Science Challenge includes several projects that are considering the effects of climate change on council infrastructure, including how climate change will affect critical stormwater and wastewater infrastructure.[38]

6.9 The initial findings from research commissioned by Local Government New Zealand "demonstrate that councils will be significantly impacted by sea level rise, and that certain regions will experience more significant impacts than others". Local Government New Zealand is advocating that central government establish a Climate Change Adaptation Fund to improve local level and community participation in responding to climate change.[39]

6.10 In June and July 2018, the Government consulted on a proposed Zero Carbon Act that would establish a Climate Change Commission. The Zero Carbon Act would also require the preparation of a national climate change risk assessment and national adaptation plans that prioritise actions based on regular risk assessments.

6.11 The proposed model is similar to the United Kingdom's regulatory framework, under which the UK government can require public organisations to carry out their own risk assessment and make plans to address those risks.[40]

6.12 Internationally, New Zealand is a signatory to the Sendai Framework for Disaster Risk Reduction. This includes a target of improving the resilience of critical infrastructure by 2030.[41]

37 See the climate change publications at the Ministry for the Environment website at www.mfe.govt.nz.

38 See *Stormwater, wastewater and climate change* project at www.deepsouthchallenge.co.nz.

39 Local Government New Zealand (2018), "LGNZ work reveals billions at risk from sea level rise" at www.lgnz.co.nz.

40 Section 62 of the United Kingdom's Climate Change Act 2008.

41 See the Chart of the Sendai Framework for Disaster Risk Reduction 2015-2030 at www.preventionweb.net.

6.13 New Zealand is also a signatory to the United Nations Sustainable Development Goals, which include targets for developing resilient infrastructure and taking action to combat climate change and its effects.[42]

How have councils described the risks to their assets from natural hazards?

6.14 Addressing the resilience of infrastructure requires councils to understand risks that are complex, uncertain, and unpredictable.[43] 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);
- the *exposure* of its infrastructure assets to natural hazard events – in particular, the age, condition, and location of its critical infrastructure assets (poorly maintained and/or ageing infrastructure poses a potentially higher risk to councils); and
- the consequent *vulnerability* of those assets to damage from natural hazard events.

6.15 Many councils assumed in their 2018-28 LTPs that, in the next 10 years, the effects of climate change will not significantly affect their communities and that there will be no major natural hazard events.

6.16 In our 2018 report *Long-term plans: Our audits of councils' consultation documents*, we noted that councils are developing an understanding of the risks that natural hazards and climate change effects pose to their communities and their infrastructure assets that will then inform decision-making about investments. This is equally reflected in councils' latest infrastructure strategies.

6.17 How councils described these risks was variable:

- Most councils included a simple generic discussion of natural hazards and climate change based on nationally available information – listing the natural hazards the council's geographic area has experienced or can expect to experience, with limited explanation of what this meant for the resilience of their infrastructure.
- Some councils acknowledged that little is known about these risks and identified actions to address this. For example, Environment Southland noted that Southland councils might have to consider jointly investing in preparing more accurate data to help them understand the extent of the potential effects of sea-level rise and storm surges, so that they plan for and manage those increasing risks.

42 See the sustainable development goals at sustainabledevelopment.un.org.

43 Gallego-Lopez, C., and Essex, J. (2016), *Understanding risk and resilient infrastructure investment.*

- A few councils described the effects that could be reasonably expected from natural hazards and climate change for each asset class/activity area that they are responsible for. For example, Marlborough District Council identified the vulnerabilities of its roading, wastewater, rivers and land drainage, and stormwater assets to natural hazards and climate change.

6.18 From our review of the infrastructure strategies, we noted that councils have a limited understanding of the risks natural hazards and climate change pose to their infrastructure assets. In general, councils have a limited understanding of the condition and performance of their assets, in particular their three waters assets (see also Part 5), and have a variable understanding of the likelihood of natural hazard events occurring. This means that councils are limited in their ability to advise their elected members of these risks, communicate the risks to their communities, and make informed decisions about how to manage their assets in response.

6.19 We note that at present councils do not have clear direction on how to evaluate the resilience of their infrastructure and they do not have clear national standards on which to base their long-term asset management decisions, such as what extent of sea level rise they must plan for. Kāpiti Coast District Council notes in its infrastructure strategy the following challenges for all councils:

- There is little national ownership of risk reduction.
- There is no consistent basis to make natural hazard risk management decisions.
- There is dispersed information and guidance on natural hazards.

6.20 The Council considers that a national policy statement on natural hazards might improve this situation.

6.21 Evaluating resilience starts with understanding the risks. We note that the discussion document for the Government's consultation on a proposed Zero Carbon Act states that:

> *Our first step is determining what the risks are for people, infrastructure, the natural environment and the economy. This information needs to be accessible and standardised to help decision-makers, including iwi and hapū, communities ... and central and local government.*[44]

44 Ministry for the Environment (2018), *Our Climate Your Say: Consultation on the Zero Carbon Bill*, page 48.

Approaches identified to provide for the resilience of infrastructure

6.22 We have taken a broad view of management approaches capturing financial and non-financial activities to avoid, remedy, or mitigate the effects of a natural hazard event (including from climate change) on a council's infrastructure assets.

6.23 From our review of council infrastructure strategies, we identified that a council's management approach depends on several factors. These include:

- the level of understanding of the council's risk exposure;
- the nature of that risk exposure (for example, whether a lot of the council's assets are located on the coast);
- the level of risk its community is willing to accept; and
- the council's financial position/strategy (debt levels, use of reserves, targeted rates).

6.24 The Act requires councils to make appropriate financial provision to address the risks to their infrastructure assets from natural hazards. Councils cannot do this effectively if they have a limited understanding of these risks.

6.25 As we noted in Part 5, councils are forecasting larger capital expenditure during the next 30 years compared with their forecasts for 2015-25. A component of this expenditure will be to address resilience matters.

6.26 The accuracy of these forecasts depends on several assumptions, including the likelihood of a natural hazard event occurring and asset condition information. We expect that expenditure addressing resilience matters will increase as councils get a better understanding of risks.

Risks of natural disasters

6.27 Councils expect to suffer a loss as a result of major natural disasters/shock events. Most councils assume that they will be able to respond to such events through their insurance, by drawing on available debt financing (or, in some instances, reserve funds put aside to address natural hazard events), and/or by receiving central government assistance.

6.28 In general, councils that have experienced a recent natural disaster set out clearer management responses in their infrastructure strategies. For example, Waimakariri District Council has prepared a Risk Assessment and Financing Strategy to assess the financial effects of major natural disasters, based on the worst-case scenario of a major earthquake.

6.29 The Council estimates that the loss or damage to its assets and the costs to recover from a major earthquake will be about $210 million. The Council notes that it will rely on continuing Crown funding support, as well as having prudent insurance arrangements.

6.30 Any of the Council's share of the recovery costs would be funded by borrowing. The Council has provided for some capacity to borrow in its financial strategy. It can use this capacity only to respond to natural hazard events.

Responding to climate change

6.31 We found that most councils are deferring making decisions about how to respond to the effects of climate change because there is too much uncertainty. A small number of councils acknowledged their limited understanding of risk and had a plan for addressing this.

6.32 In its infrastructure strategy, Nelson City Council included a section on specific infrastructure challenges associated with natural hazards for each activity. For each challenge, the Council also set out proposed solutions.

6.33 The Council referred to the Ministry for the Environment's guidance and the 10-step decision-making process for councils and communities to plan for the effects of climate change on coastal hazards.[45] The Council states that, during the next 10 years, it will work with the community to understand, prepare, and respond to climate change and its effects.

6.34 Buller District Council acknowledged that it needs to be more sophisticated in how it thinks about resilience. The Council has been working with other West Coast councils on strategies for managing natural hazards and on longer-term climate change adaptation and mitigation.

6.35 *The Buller District Lifelines Assets Report* (August 2017) discussed the resilience of the Council's infrastructure assets from natural disasters. This has informed the level of insurance the Council holds against natural disasters.

6.36 Several councils take an adaptive management approach, addressing climate change effects when renewing or replacing an asset or where other factors prompt a reassessment of levels of service.

6.37 Hawke's Bay Regional Council referred in its infrastructure strategy to the work it is doing to implement the *Clifton to Tangoio Coastal Hazards Strategy 2120*. An important principle of the strategy is:

45 Ministry for the Environment (updated 2017), *Coastal Hazards and Climate Change: Guidance for Local Government*, page 14.

... to make decisions on a level of community resilience to coastal hazards that is consistent with the likelihood of the risk, the magnitude of the consequences, and the community's appetite for risk acceptance.[46]

6.38 Growth councils have the opportunity to factor in climate change effects when designing new infrastructure and upgrading existing infrastructure. Auckland Council has established a Climate Change Response Fund to address emergency infrastructure repair works, as well as proactively monitor and remediate at-risk infrastructure and provide additional funding to manage the council's coastal assets.

Preparing for the 2021-31 long-term plans

6.39 Councils need to be transparent with their communities about their current understanding of risk and what this means for future decision-making.

6.40 For the 2021-31 LTPs, we consider that there is a need for a comprehensive discussion of resilience and climate change issues with the community. This discussion needs to include financial and non-financial effects.

6.41 It makes little sense for all councils to individually think about how to improve reporting on resilience and climate change issues. There is the need and opportunity for increased leadership on deciding what data is needed, who will collect it, its quality, and what councils need to disclose in future accountability documents, including the LTP. We recommend that central and local government both continue to consider how increased leadership can be provided on these matters.

6.42 This will be an ongoing process. It is important that, over time, councils increase their dialogue with their communities, learn, and improve the information that they provide.

6.43 We acknowledge the work that is already under way on a proposed Zero Carbon Act, and the work of central government agencies on how to manage risks from natural hazards and climate change.

46 Coastal Hazard Committee (2016), *Clifton to Tangoio Coastal Hazards Strategy 2120*, version 2, page 6.

7 What did councils tell us about their long-term plan process?

7.1 As noted in Part 1, the purpose of an LTP is to provide a basis for accountability and act as a vehicle for integrated decision-making and co-ordination of council resources by taking a long-term view.

7.2 We wanted to understand how elected members and management use the LTP to run the "business" of their council. We also wanted to understand the issues that councils face in giving effect to the Act.

7.3 In this Part, we discuss the approaches that two councils, Palmerston North City Council and Gisborne District Council, took to preparing their 2018-28 LTPs.

7.4 We met with elected members and staff from these two councils to discuss their strategic context, the role of the Mayor and chief executive in preparing the LTP, how they use the LTP as an accountability tool, their project management approaches, and what changes to the Act they would like to see. We hope that other councils can learn from these two examples.

7.5 Preparing LTPs is a large task for councils and comes at a cost, including internal staff resourcing and the external audit fee cost. Councils need to be well-prepared for developing their LTPs. If they are not, there are timing and cost consequences. In this Part, we also discuss the external audit fee cost.

Palmerston North City Council

7.6 Preparing the 2018-28 LTP was part of a much wider agenda for Palmerston North City Council (the City Council). This agenda is based on the City Council taking a planned approach to growth.

7.7 Elected members set the City Council's strategic direction, starting with a new vision. They then considered what goals and strategies would achieve that vision.

7.8 City Council staff then reduced the City Council's 28 previous strategies to five. This work was completed before the City Council prepared a spatial plan.

Last year, we developed a vision for Palmerston North: Small city benefits, Big city ambition. This reflects the value we all place on the great quality of life, community spirit, and affordable access to services that come with being a small city, as well our ambition to have the opportunities larger cities offer.

What's the Big Picture – consultation document for Palmerston North City Council's 2018-28 long-term plan, page 2.

7.9 The City Council felt that a spatial planning approach was an easy way to engage with the community and would allow it to reach a broader range of people.

7.10 The LTP was one of the tools to achieve the new vision and goals, and the City Council used the updated strategies and the spatial plan in the LTP to have conversations with the community.

7.11 The staff who we spoke to described this LTP as "strategically driven and integrated", whereas previous LTPs had been prepared separately from strategy. The City Council expects that having a strategy-informed LTP will help it deliver its capital expenditure programme on time and to budget. The City Council treats the LTP as a living document and a tool to give effect to strategy.

7.12 The LTP process was driven by elected members of the City Council, with the Mayor taking a lead role. Plans were prepared to deliver the City Council's five strategies. These went to councillors for their approval and were then costed.

7.13 This led to changes to activities in the draft LTP and informed the prioritisation of what projects would be included. The plans were assigned to Group Managers, who are accountable for their delivery.

7.14 The project team was broader than for previous LTPs, which helped the City Council to be strategy-led. This reflected elected members' desire for strategic alignment and also helped conversations to be strategic and not go straight into talking about the finances.

7.15 When asked about the Act, the City Council officers we spoke to said that:

> *An integrated 10-year plan requires an integrated approach to the review of strategies and the development of the LTP. Councils need to start with good strategic intent, and with the spirit of the Local Government Act and not look at the development of the LTP as a compliance exercise.*

7.16 Staff we spoke to felt that the changes to the Act (described in Appendix 1) have made LTPs less cohesive. They told us that matters for consultation do not fit with real-world time frames.

7.17 Staff noted that the Act assumes that the consultation document is a repository for issues and options. However, this is not always how projects are developed and decisions made. Staff gave the example of the proposal for their wastewater treatment plant. The City Council has not yet decided on a long list of options, but needed to identify issues and options in the consultation document, including indicative costs.

Gisborne District Council

7.18 The 2018-28 LTP for Gisborne District Council (the District Council) was a council-owned process that started with strategic priority-setting. The LTP process was largely led by the chief executive, who had been closely involved in the last three LTPs.

7.19 The District Council signed off the strategic building blocks of the LTP in June 2017. These "building blocks" were the vision, values, strategic priorities, and community outcomes. The following three strategic priorities framed the District Council's decision-making:

- Tairāwhiti Wai – improve the well-being of our waterways and coastal environments, including protection of healthy soils.
- Intelligent infrastructure – invest in existing and future core infrastructure needs, with a focus on cost-efficient and effective designs.
- Intelligent investment – make sensible, long-term decisions on investments and borrowing, and always seek the best value for community money.

7.20 These priorities had been reduced from seven because of affordability issues.

7.21 Elected members chose from four scenarios that were developed ranging from "gold-plated" through to "no frills," with levels of service aligned with each scenario.

7.22 Staff preparing the LTP used the New Zealand Society of Local Government Managers' guidance *Jigsaw 2018: Piecing it together*, referring to it as their "Bible".

7.23 The District Council's leadership drives accountability from the top, with staff inducted into the LTP process and elected members' responsibilities linked back to the LTP.

7.24 The District Council uses an integrated reporting approach, with quarterly reporting against the first year of the LTP. It then integrates this into its annual report. The District Council wants councillors and the community to understand the "whole story" rather than what the Act prescribes, and for the community to understand what level of service it has received.

7.25 A key comment made by District Council staff we spoke to was the need for an integrated planning approach across the Resource Management Act 1991, the Local Government Act 2002, and the Land Transport Management Act, which could result in a spatial plan. They described spatial planning as the "why" for the approaches included in the infrastructure and financial strategies, and noted that this is particularly the case for regional councils.

7.26 The District Council staff we spoke to noted that they would like to start carrying out spatial planning to inform the District Council's strategies and the 2021-31 long-term plan.

Main observations

7.27 From talking to these two councils and from our work on councils' LTPs more generally, our main observations about what works well are that:

- it is important to be strategy-led, recognising that preparing the LTP is part of a wider process in which councils agree on the priorities for their communities and the programmes to deliver them;

- elected members set the strategic priorities of their council based on a good understanding of what their community wants and the wider context that their council is operating in, such as changing regulatory standards;
- council staff need to understand the LTP process and how their role aligns with the council's direction; and
- the membership of a council's LTP steering group/project team matters – councils need to ensure that members reflect the skills needed to deliver the LTP. If staff cannot provide these skills, then the council needs to consider contracting people who can. Members of the councils' communication teams featured heavily for both Palmerston North City Council and Gisborne District Council.

What happens when the process goes wrong?

7.28 Palmerston North City Council and Gisborne District Council are examples of LTP processes that have gone well, although both councils acknowledged that they could improve those processes.

7.29 When the LTP process does not go well, councils run the risk of not meeting the statutory deadlines for adopting their LTP and/or incurring significant budget blow-outs. In Part 8, we note that Wairoa District Council and West Coast Regional Council did not meet the statutory deadline for adopting their LTP.

7.30 We have been told by many councils that preparing and consulting on an LTP is a resource-intensive and time-consuming process. We expect councils to adhere to good project management principles, otherwise they risk incurring more costs than planned. This includes additional audit fees if the council does not provide crucial components of its LTP in accordance with its project plan.

Audit fees

7.31 The fees for the 2018-28 LTP audits were based on total fees established for the 2015-25 LTP audits, plus an increase of 5%, reflecting inflation during the three-year period to 2018. The total audit fee proposed was $7.6 million.

7.32 Fees were significantly less than the audit costs actually incurred to complete LTP audits in the past. We considered the total fee level was fair and reasonable to the sector, assuming councils performed to plan.

7.33 The fees agreed with councils were based on the premise that councils performed well in preparing their LTPs. If not, we expected auditors to seek reasonable additional audit fees to cover the cost of councils' poor performance.

7.34 We communicated this expectation to all councils on 9 August 2017. In our communication, we also outlined what we considered to be good performance by a council for an LTP audit engagement. This was based on guidance prepared by the New Zealand Society of Local Government Managers.

7.35 Auditors sought additional audit fees from 29 councils. In most instances, the additional fees were sought because the council had not delivered as we expected. A small number of councils had a change in strategic direction between the consultation stage of the LTP and finalising the LTP. Our auditors also sought increased fees for this additional audit work. The total additional fee recoveries sought were $0.9 million.

7.36 We will take into consideration the results of the 2018-28 LTP audits when considering the audit fee regime for the 2021-31 LTPs.

8

The audit reports we issued

8.1 In this Part, we provide an overview of the audit reports we issued on the 2018-28 LTPs. Of the 77[47] reports we issued, 76 included unmodified opinions, which meant the LTPs audited met the purpose statement in the Act and were based on reasonable information.

8.2 We issued a modified audit opinion for Westland District Council's 2018-28 LTP. This was because the Council did not have reasonable information about the condition of its three waters assets to support some of its financial forecasts. (We discussed this audit modification in paragraphs 5.23 to 5.24.) In 2015, we also issued one modified audit opinion (on Christchurch City Council's LTP).

8.3 In our audit reports for nine LTPs, we drew attention to important disclosures. We did this because, in our view, the community needed to understand and consider the disclosures we drew attention to when reading the LTPs. In 2015, we drew attention to important disclosures in 12 LTPs, including for the Council that received a modified audit opinion.

8.4 Appendix 8 summarises the disclosures included in the 10 non-standard audit reports that we issued.

8.5 The rest of this Part discusses the important matters we drew to readers' attention in our audit reports on the 2018-28 LTPs.

Uncertainty about central government funding

8.6 In the audit reports for four councils,[48] we drew attention to the disclosures about central government funding. We had noted previously that when councils were ready to consult on their LTPs there was uncertainty about the funding that central government would contribute to the projects or initiatives proposed.[49]

8.7 Local and central government have different planning cycles and make funding decisions at different times. When the councils adopted their LTPs, central government had yet to decide whether to support the proposed projects or initiatives, and how much funding it would provide.

8.8 We were satisfied that these four councils reasonably forecast funding amounts from central government based on the information they had when they adopted their LTPs.

47 As noted in footnote 11, we did not carry out an LTP audit for Kaikōura District Council, because it prepared a customised three-year plan instead of an LTP. There was no audit requirement for the three-year plan.

48 Chatham Islands Council, Ōpōtiki District Council, Queenstown-Lakes District Council, and Waikato Regional Council.

49 See Controller and Auditor-General (2018), *Long-term plans: Our audits of councils' consultation documents*, page 7.

8.9 As we noted in our report on councils' consultation documents,[50] there is an increased risk that, if funding from central government differs from what the council forecast, the council might need to do more consultation with the community.

Uncertainty about forecast expenditure

8.10 For three councils,[51] we drew attention to disclosures about significant uncertainty in forecast expenditure.

8.11 Central Hawke's Bay District Council was uncertain about how much it would cost to upgrade some of its wastewater treatment plants to meet resource consent requirements.

8.12 Hamilton City Council assumed it would have cost reductions from being more efficient in how it delivered services, although it was uncertain how this would be achieved.

8.13 Hurunui District Council had uncertainty about how much it needed to spend to repair bridges and water supply assets that were damaged in the Hurunui/Kaikōura earthquake.

8.14 We were satisfied that these three councils reasonably forecast their expenditure based on the best available information they had when they adopted the LTP. However, because of the significance of the uncertain expenditure forecasts, we emphasised the councils' own disclosures in our audit reports.

Decisions to increase the uniform annual general charge and amend the revenue and financing policy without proper consultation

8.15 In its consultation document, West Coast Regional Council included proposals:

- to implement a uniform annual general charge; and
- to increase the amount it spends on civil defence and emergency management, which would be funded by way of a special rate.

8.16 Submissions on the consultation document generally accepted both of these proposals.

8.17 However, instead of adopting the proposals as presented to the community, the Council decided to fund the increase in the civil defence and emergency management activity by increasing the newly implemented uniform annual general charge, rather than using the special rate that it had consulted on. The Council also updated its revenue and financing policy to reflect this change.

50 Controller and Auditor-General (2018), *Long-term plans: Our audits of councils' consultation documents*.

51 Central Hawke's Bay District Council, Hamilton City Council, and Hurunui District Council.

8.18 The implication of this decision was that ratepayers were charged a different amount from what the Council had proposed in its consultation document. The community also did not have an opportunity to comment and provide feedback on the adopted option.

8.19 The Act sets out the principles councils must follow when making decisions. This includes a requirement for councils to give consideration to the views and preferences of persons likely to be affected by, or to have an interest in, the matter.[52] The Act also requires a council to consult with its community before amending an adopted revenue and financing policy.[53]

8.20 In our view, the Council did not meet the requirements of these sections when it made the decisions outlined in paragraph 8.17. The changes the Council made were beyond the scope of what it proposed in the consultation document, and the community did not have the opportunity for input.

8.21 The Act does not require us to give an opinion on whether a council complied with legislation when preparing and adopting an LTP. However, we were of the view that it was important for the community to understand what the Council did in adopting its LTP. Therefore, we emphasised the Council's disclosure of its decision-making process in our audit report.

8.22 We have reported previously on the risks councils face if they do not appropriately follow legislation when levying rates on a community.[54] Because of the Council's approach, it has exposed itself to the risk that its decision could be found unlawful if challenged in the courts.

Late adoption of long-term plans

8.23 The LTP is an important document for the community to hold its council to account. Its primary purpose is to outline the financial and service delivery circumstances that the council faces and the council's proposed response to those circumstances.

8.24 Section 93(3) of the Act requires a council to adopt an LTP before the start of the first financial year it covers. That means that councils needed to have adopted their audited 2018-28 LTPs before 1 July 2018.[55]

8.25 Two councils – Wairoa District Council and West Coast Regional Council – did not meet this statutory deadline. Consistent with 2015, when three councils did not meet the statutory deadline, we referred to this breach in our audit reports.

52 Local Government Act 2002, section 78(1).

53 Local Government Act 2002, section 102(4)(b).

54 See, for example, Controller and Auditor-General (2014), *Local government: Results of the 2012/13 audits*, Part 2.

55 In a practical sense, councils had until 2 July 2018 to adopt their audited LTPs, because 1 July 2018 was a Sunday.

8.26 We consider the delay in providing those two communities with an LTP to be unacceptable. The councils' decision-making has been compromised as a result. The councils' ability to levy their main source of revenue, rates, might also have been compromised because they were unable to set the rates for 2018/19 until the plan was adopted.[56]

8.27 The requirements for preparing an LTP have remained unchanged since 2015. Councils should be able to plan effectively to meet the statutory deadline. The New Zealand Society of Local Government Managers has six principles it recommends councils apply when preparing an LTP. One of these principles is "long-term planning requires project management disciplines".

8.28 We fully endorse using project management disciplines when preparing an LTP. We urge all councils, and Wairoa District Council and West Coast Regional Council in particular, to review their project management processes when preparing their 2021-31 LTPs.

56 Local Government (Rating) Act 2002, section 23.

Appendix 1
The introduction of long-term plans and changes to their content

The Local Government Act 2002

The requirement for councils to prepare LTPs was put into the Act as part of significant local government law reform in 2002 to replace the previous Local Government Act 1974.

Under the 1974 Act, councils could do only what was expressly permitted by legislation. This sometimes limited their ability to carry out activities that they might have considered appropriate to meeting the needs of their communities.[57] The Act changed that by empowering councils to do what was necessary to give effect to the purpose of local government in their city, district, or region. At that time, the purpose was stated to be:

- to enable democratic local decision-making and action, by, and on behalf of, communities; and
- to promote the social, economic, environmental, and cultural well-being of communities, in the present and for the future.[58]

This greater flexibility and general empowerment offered to local government was balanced by some new principles and procedures for consultation and decision-making. These principles and procedures were intended to encourage community participation and enhance accountability through more rigorous planning and reporting practices. The select committee that considered the Bill that led to the 2002 Act noted that:

> *The Bill empowers communities as well as councils, and requires local authorities to be more accountable to their electors. Councils are allowed greater flexibility in their activities but must ensure that their decision-making processes are open to the influence and scrutiny of their communities.*[59]

The LTP was an important new mechanism to strengthen long-term planning, community consultation and participation, and accountability in local government.

As a further measure, after deliberating on submissions on the new legislation, the select committee proposed that the Auditor-General audit the draft and final LTP. The committee noted:

> *Our proposed amendment specifies that the report by the council's auditor would include the quality of information and the assumptions underlying forecast information ... This contributes to the information necessary for communities to assess the quality of the long-term plan in the draft stage and after adoption.*

57 Local Government Bill 2002, as reported from the Local Government and Environment Committee, page 3.

58 This part of the purpose was amended in 2012, from a focus on the well-being of the community to a more restricted focus on core services and cost-effectiveness. In 2018, the Government introduced a Local Government (Community Well-being) Amendment Bill to restore the former well-being purpose into the Act.

59 Local Government Bill 2002, as reported from the Local Government and Environment Committee, page 3.

We recognise that this provision may add to the costs and time involved in preparing draft plans. However, it is essential that communities be enabled to participate in long-term planning for their locality.[60]

Part of the reason for requiring an audit was so that people who wanted to participate in the activities of their council could have confidence in the information contained in the LTPs. The select committee confirmed that the scope of the audit would be the quality and adequacy of the information and performance measures, rather than the merits of any policy content in the LTP.

For the 2006-16 and 2009-19 LTPs, our audit mandate had three aspects. For the LTP adopted by each council, we had to report on:

- the extent to which the council has complied with the requirements of the Act in respect of the plan;
- the quality of the information and assumptions underlying the forecast information provided in the plan; and
- the extent to which the forecast information and performance measures provide an appropriate framework for the meaningful assessment of the actual levels of service provision.

At that time, councils had to prepare a full draft LTP and a summary of the draft for consultation. Our audit report on the draft LTP had to cover the same matters as outlined in the paragraph above.

Reform of the Local Government Act since 2002

The Act has been amended several times since it was enacted.[61] The most substantive amendments that affected the content of the LTP were between 2010 and 2014, after several government reviews.

The 2010 review considered matters of transparency, accountability, and financial management and was known as the TAFM reforms. The 2014 amendments were part of further local government reform known as "Better Local Government". These reforms have led to some related changes to our audit mandate for LTPs.

What is the purpose of the long-term plan?

The purpose of an LTP, as stated in section 93(6) of the Act, is to:

- describe the activities of the local authority;
- describe the community outcomes of the local authority's district or region;

60 Local Government Bill 2002, as reported from the Local Government and Environment Committee, page 14.

61 There have been at least 11 Local Government Act 2002 Amendment Acts since the Act was enacted and numerous other consequential amendments to the Act from other legislation.

- provide integrated decision-making and co-ordination of the resources of the local authority;
- 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.

Change in purpose since 2002

When the requirement was introduced, the LTP had an additional purpose, to:

> *(f) provide an opportunity for participation by the public in decision-making processes on activities to be undertaken by the local authority.*

This requirement was repealed in 2014,[62] as part of the 2014 reforms.

This change illustrates that the consultation document for the LTP, rather than the LTP itself, provides the opportunity for public participation in decision-making processes undertaken by the council.

Therefore, the LTP is not a basis for consultation. It is the end result of the consultation process and the plan that the council will be accountable for during the next three years.[63]

Changes to the content of the LTP since 2002

Some of the changes were intended to simplify the long-term planning process and give LTPs a more strategic focus. These included removing several operational policies from the LTP,[64] merging the community outcomes process with the LTP process, and focusing on the outcomes the council will achieve.[65] Changes also streamlined the annual plan process[66] and reduced the circumstances that would trigger an LTP amendment.[67]

Other changes have added to the required content. There are now 19 clauses in Part 1 of Schedule 10, which sets out the content of the LTP, compared with 11

62 Local Government Act 2002 Amendment Act 2014, section 30(2).

63 For further information about the consultation process, see Controller and Auditor-General (2018), *Long-term plans: Our audits of councils' consultation documents.*

64 The LTP still has to contain the council's revenue and financing policy, but only significant amendments to that policy need to be made by an LTP amendment. The LTP need not contain the liability management policy, investment policy, development contributions policy, and rates remission and postponement policies, including for Māori freehold land.

65 Hon Rodney Hide, 26 November 2010, Decisions for better transparency, accountability and financial management of local government – the Local Government Act 2002 Amendment Act, page 5.

66 Local Government Act 2002, section 95(2A).

67 Local Government Act 2002, section 97, as amended by section 15 of the Local Government Act 2002 Amendment Act 2010.

when the Act was enacted in 2002.[68] That said, some of the original clauses have been amended and simplified or made shorter by putting some of their content into new clauses.[69] The current required content for the LTP compared with the content required when the Act was enacted is below.

1.1
Current required content for long-term plans compared with original requirements

	Current required content	Compared with original content when the Act was enacted
1	Community outcomes	Modified to focus on the council's contribution to community outcomes, and adjusted to focus on good quality infrastructure, local public services, and regulatory functions (as a result of change to the purpose of local government in 2012).
2	Groups of activities	Modified to split out performance and asset information and to add in the prescribed groups of activities.
3	Capital expenditure for groups of activities	Previously part of clause 2, groups of activities.
4	Statement of service provision	Previously part of clause 2, groups of activities. Reference added to standard performance measures specified in a rule made under section 261B of the Act.
5	Funding impact statement for groups of activities	Previously part of clause 2, groups of activities. Form now prescribed by the Local Government (Financial Reporting and Prudence) Regulations 2014.
6	Variation between territorial authority's long-term plan and assessment of water and sanitary services and waste management plans	Simplified – previously had to also summarise the assessment and plan.
7	Council-controlled organisations	Same.
8	Development of Māori capacity to contribute to decision-making processes	Same.
9	Financial strategy and infrastructure strategy	New.
10	Revenue and financing policy	Simplified – LTPs previously had to include all section 102 policies.
11	Significance and engagement policy	Essentially the same, but with new name.

68 Schedule 10 was updated in 2010, by the Local Government Act 2002 Amendment Act 2010, section 48, and further amended in 2014.

69 For example, the original clause on groups of activity has been split into four separate clauses (see clauses 2, 3, and 4 of Schedule 10, compared with clause 2 of Schedule 10 as enacted).

12	Forecast financial statements	Same.
13	Financial statements for previous year	New.
14	Statement concerning balancing of budget	Same.
15	Funding impact statement	Form now prescribed by the Local Government (Financial Reporting and Prudence) Regulations 2014.
15A	Rating base information	New.
16	Reserve funds	New.
17	Significant forecasting assumptions	No significant change.
17A	Additional information to be included in long-term plan for unitary authority with local boards	New.

Financial strategy

When introducing the requirement for the LTP to include the council's financial strategy, Hon Rodney Hide, the then Minister of Local Government, stated that:

> *A financial strategy will help councils and ratepayers prioritise existing and proposed expenditure, by making clear the effect of proposals on services, rates, debt and investments.*[70]

The Act sets out the purpose and required content for the financial strategy. The financial strategy must cover the period of the LTP (at least 10 years), and must be updated for each LTP.

Infrastructure strategy

The requirement for LTPs to include a 30-year infrastructure strategy was made after the 2014 Better Local Government reforms. This requirement was introduced because of concerns about variable asset management planning in the sector and that LTPs did not always refer to significant challenges beyond the 10-year planning period.

The 2014 reforms made the following changes about infrastructure delivery and asset management to the Act:

- reinforcing the importance of asset management planning as part of a council's prudent stewardship of resources;[71]
- requiring councils to prepare an infrastructure strategy for at least a 30-year period and to incorporate this into their LTPs from 2015; and

70 Hon Rodney Hide speech 19 November 2010, *The Next Phase of Local Government Reforms*.

71 Local Government Act 2002, section 14(1)(g), as amended by section 8(2) of the Local Government Act 2002 Amendment Act 2014.

- requiring councils to disclose risk management arrangements, such as insurance, for physical assets in their annual reports.

What do long-term plans now include?

As noted above, although some of the changes since the Act was enacted have reduced the content required in an LTP, other changes have added to the content.

In summary, the content required in an LTP is a mixture of:

- **Activities and outcomes** – what the council is trying to achieve, what its activities are, how it will measure its performance.
- **Strategies and policies** – to support prudent financial management and to guide the council's decisions, activities, and approach to consultation and engagement.[72]
- **Financial information** – forecast financial statements for the period of the plan, how funding needs will be met, whether the budget is balanced, and significant forecasting assumptions and risks underlying the financial estimates.
- **Other miscellaneous disclosures** – about council-controlled organisations, Māori involvement in decision-making, variations with the council's water and sanitary services assessments and waste management plans, and the projected number of rating units during the period of the plan.

The content of the LTP reflects the document's purpose by providing comprehensive information about planned activities, outcomes, forecast financial and non-financial performance, and strategies and policies. This sets the LTP up to be a basis for accountability, and a vehicle for integrated decision-making and co-ordination of resources, taking a long-term view.

Our audit mandate

Our audit mandate for LTPs covers:

- whether the plan gives effect to the purpose set out in the Act; and
- the quality of the information and assumptions underlying the forecast information provided in the plan.[73]

Our audit report must not comment on the merits of any policy content in the LTP.

72 The financial strategy and infrastructure strategy, the revenue and financing policy, and the significance and engagement policy.

73 Local Government Act 2002, section 94.

Appendix 2
Sub-sectors and the high-growth councils

Sub-sectors

Local Government New Zealand defines four types of sub-sector:[74]

- Metropolitan (populations exceeding 90,000).
- Provincial (populations between 20,000 and 90,000).
- Rural (populations below 20,000).
- Regional (regional councils and unitary authorities).

We followed these definitions but, because of its size, considered Auckland Council as its own sub-sector separate to the other metropolitan councils.

For the purposes of our analysis, we have grouped the unitary authorities in their respective provincial or rural sub-sectors.

The councils that make up each sub-sector are listed in the table below.

2.1
The five sub-sectors

Auckland sub-sector		
Auckland Council		
Metropolitan sub-sector		
Christchurch City Council	Dunedin City Council	Hamilton City Council
Hutt City Council	Palmerston North City Council	Porirua City Council
Tauranga City Council	Upper Hutt City Council	Wellington City Council
Provincial sub-sector		
Ashburton District Council	Far North District Council	Gisborne District Council
Hastings District Council	Horowhenua District Council	Invercargill City Council
Kāpiti Coast District Council	Manawatu District Council	Marlborough District Council
Masterton District Council	Matamata-Piako District Council	Napier City Council
Nelson City Council	New Plymouth District Council	Queenstown-Lakes District Council[75]
Rotorua Lakes Council	Selwyn District Council	South Taranaki District Council
Southland District Council	Tasman District Council	Taupō District Council
Thames-Coromandel District Council	Timaru District Council	Waikato District Council
Waimakariri District Council	Waipa District Council	Waitaki District Council

74 See http://www.lgnz.co.nz/about-lgnz/membership-representation/sector-groups/.

75 Local Government New Zealand lists Queenstown-Lakes District Council as a member of both the metropolitan and provincial sub-sectors. For the purpose of our analysis, we have included this council in the provincial sub-sector.

Appendix 2
Sub-sectors and the high-growth councils

Western Bay of Plenty District Council	Whanganui District Council	Whangarei District Council
Whakatāne District Council		
Rural sub-sector		
Buller District Council	Carterton District Council	Central Hawke's Bay District Council
Central Otago District Council	Chatham Islands Council	Clutha District Council
Gore District Council	Grey District Council	Hauraki District Council
Hurunui District Council	Kaikōura District Council	Kaipara District Council
Kawerau District Council	Mackenzie District Council	Ōpōtiki District Council
Otorohanga District Council	Rangitīkei District Council	Ruapehu District Council
South Waikato 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 sub-sector		
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	

High-growth councils

We defined high-growth councils as those 11 councils that the National Policy Statement on Urban Development Capacity 2016 indicated had high population growth.[76]

We did not include regional councils because none had high growth throughout their entire region.

Councils that met the definition for "high growth" when the 2018-28 LTPs were prepared were:

- Auckland Council;
- Christchurch City Council;
- Hamilton City Council;
- New Plymouth District Council;
- Queenstown-Lakes District Council;
- Selwyn District Council;
- Tauranga City Council;
- Waimakariri District Council;
- Waipa District Council;
- Western Bay of Plenty District Council; and
- Whangarei District Council.

76 See http://www.mfe.govt.nz/publications/towns-and-cities/national-policy-statement-urban-development-capacity-2016.

Appendix 3
Auckland Council's forecast financial results

This Appendix provides a summary of Auckland Council's group LTP financial forecasts. The data presented below is based on our own analysis of Auckland Council's group LTP, unless otherwise stated.

In this Appendix, we have combined and presented financial information prepared by Auckland Council. We do not have a view on the merits of its financial forecasts other than what we express in the main body of this report.

3.1
Operating revenue for Auckland Council, as forecast in its 2015-25 and 2018-28 long-term plans

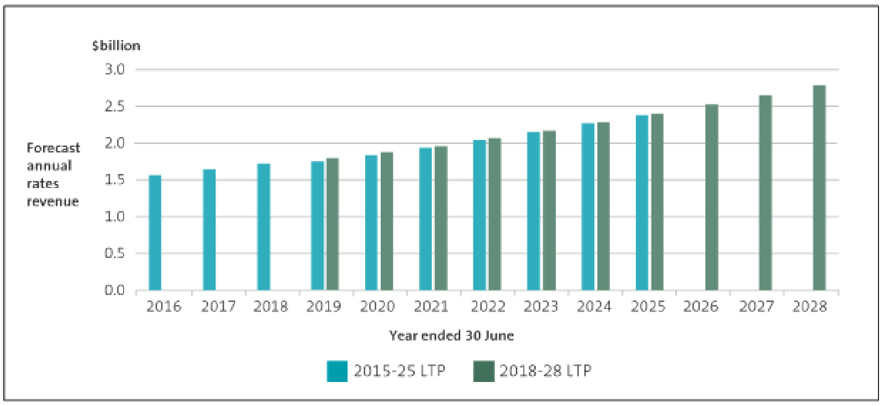
In Auckland Council's 2018-28 LTP, the forecast operating revenue is 25% more than what was forecast for 2015-25.

Revenue	2015-25 LTP $billion	2018-28 LTP $billion	% increase
Rates revenue	19.3	22.5	17
Subsidies and grants revenue	5.8	8.4	44
Other revenue	17.5	21.4	22
Development and financial contributions	2.4	2.9	21
Vested assets (non-cash revenue)	1.9	3.3	76
Total	**46.9**	**58.5**	**25**

Auckland Council's forecast rates revenue is its largest revenue source, at 38% of forecast total revenue in its 2018-28 LTP. This is less than other sub-sectors, because Auckland Council produces a group LTP in which the revenue for subsidiaries does not include rates revenue. All other councils prepared an LTP that included council-only financial forecasts.

3.2
Auckland Council's rates revenue forecasts in its 2015-25 and 2018-28 long-term plans

Auckland Council's forecast rates revenue for 2018-28 is similar to what it forecast in its 2015-25 LTP for the years in common.



Note: The forecast rates revenue does not include the revenue Auckland Council forecast to receive from the Auckland regional fuel tax. The forecast revenue from this source is included in "other revenue".

Auckland Council's rates revenue is forecast to increase by 55% ($1.8 billion to $2.8 billion) during the period of the 2018-28 LTP.

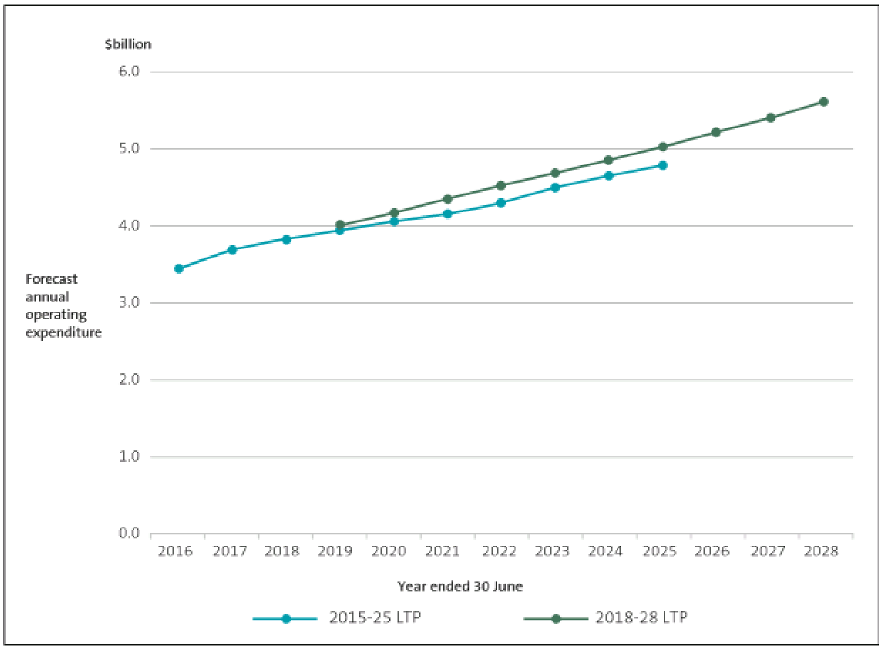
3.3
Forecast operating expenditure, according to Auckland Council's 2015-25 and 2018-28 long-term plans

The operating expenditure that Auckland Council expects to pay across 2018-28 is 16% more than what was forecast for 2015-25.

Operating expenditure	2015-25 LTP $billion	2018-28 LTP $billion	% increase
Employee costs	8.3	10.1	22
Interest expense	5.6	6.1	8
Depreciation and amortisation	10.1	12.2	21
Other operating expenses	17.4	19.6	12
Total	**41.4**	**47.9**	**16**

3.4
Auckland Council's total operating expenditure, as forecast in its 2015-25 and 2018-28 long-term plans

In its 2018-28 LTP forecast, Auckland Council expects to pay more on operating expenditure than it had forecast for each comparable year of the 2015-25 LTP.



3.5
Auckland Council's forecast spending on capital in its 2015-25 and 2018-28 long-term plans

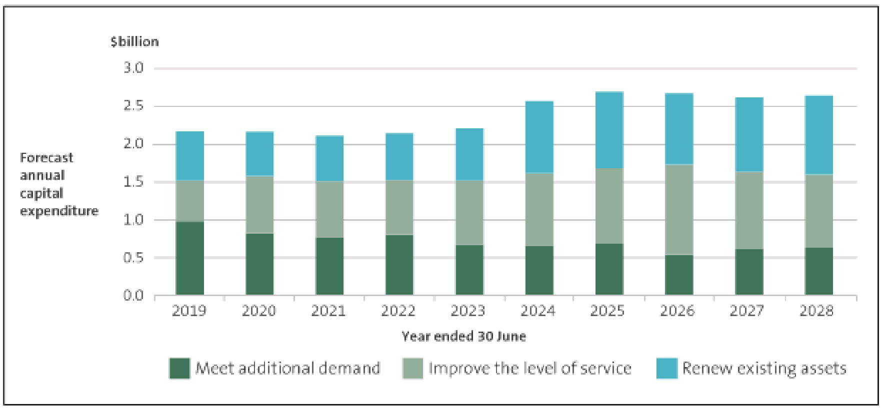
Overall, Auckland Council's capital expenditure is forecast to increase by 29% for 2018-28 compared with the forecast for 2015-25. The largest percentage increase in forecast capital expenditure is to meet additional demand in the city.

Capital expenditure	2015-25 LTP $billion	2018-28 LTP $billion	% increase
Meet additional demand	5.1	7.2	41
Improve the level of service	6.8	8.7	29
Renew existing assets	6.8	8.1	19
Total	**18.7**	**24.0**	**29**

Appendix 3
Auckland Council's forecast financial results

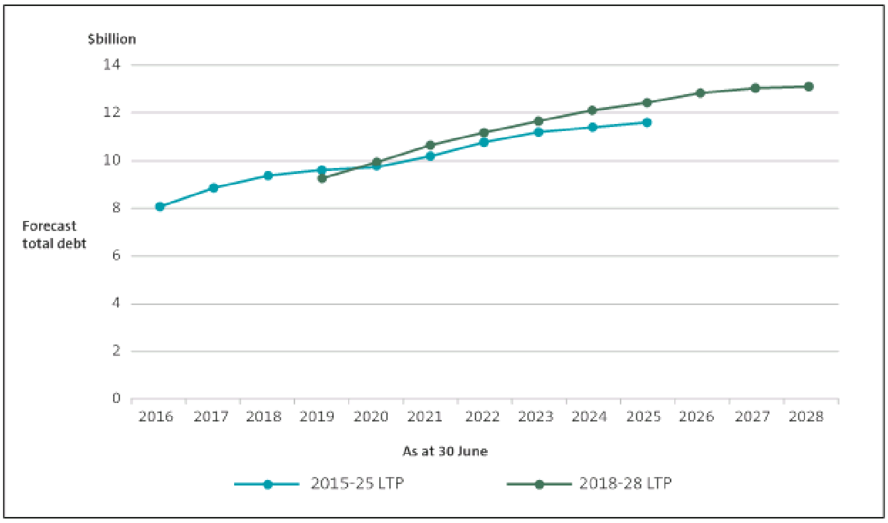
3.6
What Auckland Council plans to spend on capital by year according to its 2018-28 long-term plan

During the 10 years, Auckland Council's focus is expected to progressively change from meeting additional demand to improving service levels and renewing assets.



3.7
Total debt by year, as forecast in Auckland Council's 2015-25 and 2018-28 long-term plans

Auckland Council's debt is forecast to increase from $9.2 billion to $13.1 billion from 2018/19 to 2027/28. This is an increase of 42%.

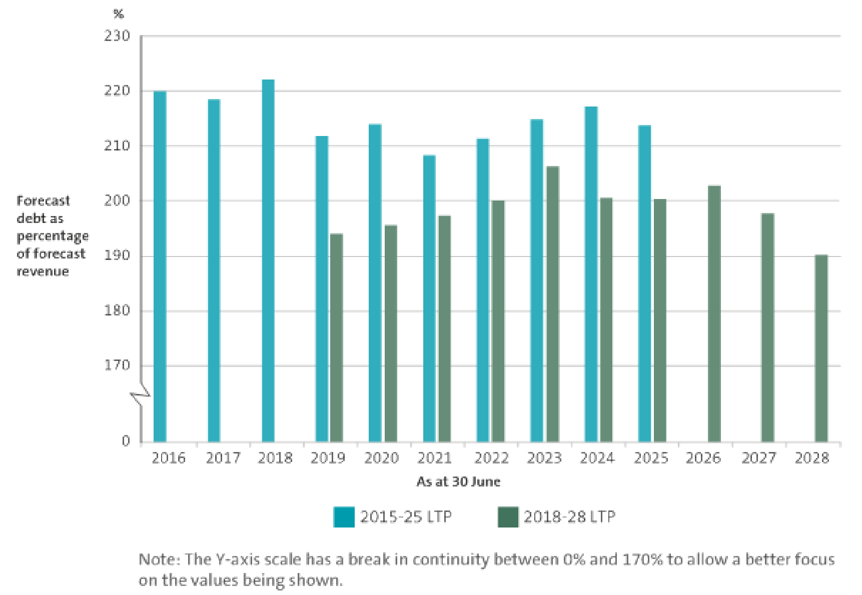


Auckland Council's debt remains more than 50% of the total local government sector debt.

3.8

Total debt as a percentage of total revenue, by year, as forecast in Auckland Council's 2015-25 and 2018-28 long-term plans

This graph shows Auckland Council's debt as a percentage of all of the Council's forecast revenue streams.



The above graph shows Auckland Council's debt as a percentage of all of the Council's forecast revenue streams. However, a significant portion of Auckland Council's revenue cannot be used to service its debt, as the Council has received it to fund capital expenditure (for example, development contributions), or the revenue is non-cash (vested asset revenue). Auckland Council also makes adjustments to its debt (for example, treating operating lease commitments as debt) when calculating its debt-to-revenue ratio.

When making these adjustments, Auckland Council's debt as a proportion of revenue in its 2018-28 LTP forecasts is more than the 2015-25 forecasts from 2019/20 onwards. Its debt as a proportion of revenue reaches 264% in 2020/21, and remains at that level until 2023/24, before reducing to 243% in 2027/28. Auckland Council has a debt limit of 270%.

Appendix 4
Metropolitan councils' forecast financial results

This Appendix provides a summary of metropolitan councils' LTP financial forecasts. Metropolitan councils have populations exceeding 90,000 and do not include Auckland Council (which is included in Appendix 3). The data presented below is based on our own analysis and represents averages of data across councils in this sub-sector, unless otherwise stated.

In this Appendix, we have combined and presented financial information prepared by the metropolitan councils. We do not have a view on the merits of these councils' financial forecasts, other than what we express in the main body of this report.

4.1
Operating revenue for metropolitan councils, as forecast in the 2015-25 and 2018-28 long-term plans

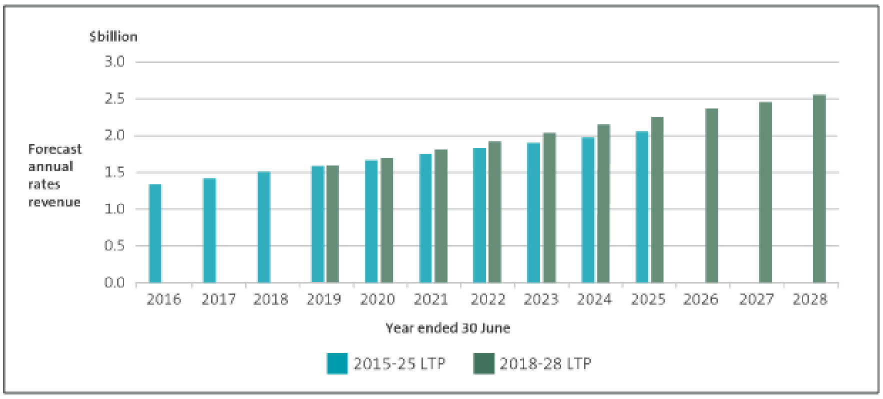
In metropolitan councils' 2018-28 LTPs, the forecast operating revenue is 22% more than what was forecast for 2015-25.

Revenue	2015-25 LTP $billion	2018-28 LTP $billion	% increase
Rates revenue	17.1	20.9	22
Subsidies and grants revenue	1.9	2.2	20
Other revenue	7.2	8.2	15
Development and financial contributions	0.6	1.0	58
Vested assets (non-cash revenue)	0.8	1.3	52
Total	**27.5**	**33.6**	**22**

Hamilton City Council and Tauranga City Council revenue is forecast to increase by more than 50% from what was forecast for 2015-25.

4.2
Rates revenue of metropolitan councils, as forecast in the 2015-25 and 2018-28 long-term plans

Metropolitan councils' rates revenue is forecast to increase by 60% ($1.6 billion to $2.6 billion) across the 2018-28 LTPs.



Metropolitan councils' forecast rates revenue as a proportion of total revenue ranges from 57% for Tauranga City Council to 76% for Upper Hutt City Council.

4.3
Operating expenditure of metropolitan councils, as forecast in the 2015-25 and 2018-28 long-term plans

Operating expenditure forecast in the metropolitan councils' 2018-28 LTPs is 23% more than what was forecast for 2015-25.

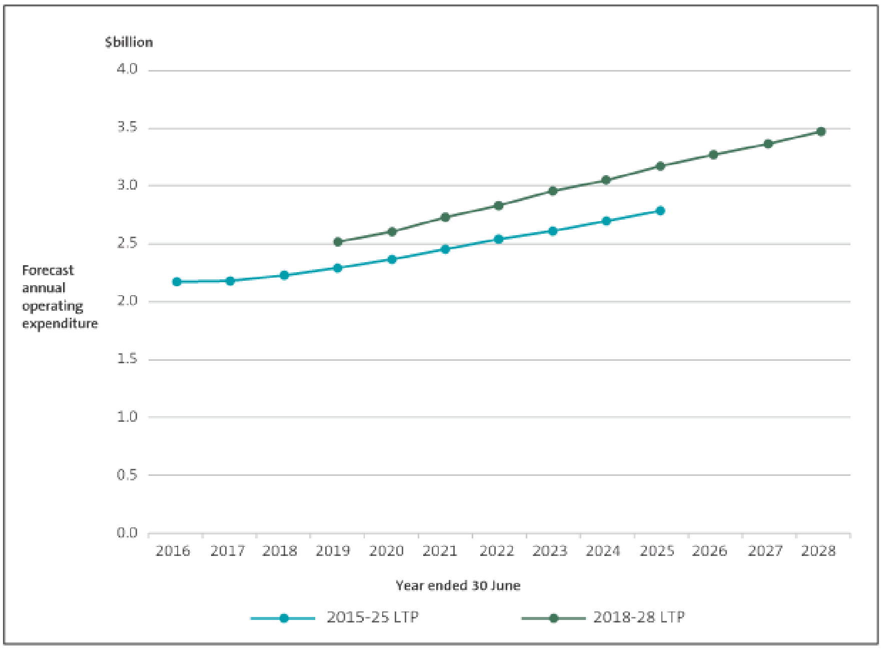
Operating expenditure	2015-25 LTP $billion	2018-28 LTP $billion	% increase
Employee costs	4.6	5.5	19
Interest expense	2.4	3.0	26
Depreciation and amortisation	6.3	8.2	32
Other operating expenses	11.1	13.3	20
Total	**24.4**	**30.0**	**23**

Tauranga City Council's expenditure is forecast to increase by more than 50% from what was forecast in the 2015-25 LTPs.

Appendix 4
Metropolitan councils' forecast financial results

4.4
Total operating expenditure of metropolitan councils by year, as forecast in the 2015-25 and 2018-28 long-term plans

By 2024/25, metropolitan councils' operating expenditure as forecast in the 2018-28 LTPs is expected to be 14% more than what was forecast in the 2015-25 LTPs.



4.5
Metropolitan councils' forecast spending on capital in the 2015-25 and 2018-28 long-term plans

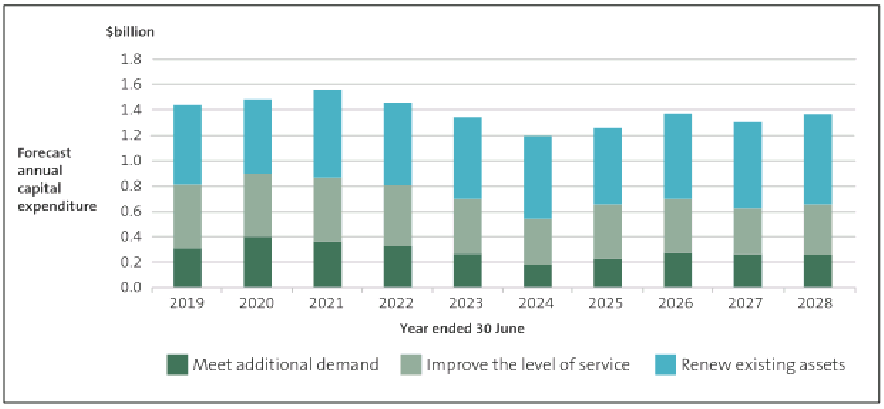
Capital expenditure for metropolitan councils is forecast to increase by 35% for 2018-28 compared with the forecast for 2015-25.

Capital expenditure	2015-25 LTP $billion	2018-28 LTP $billion	% increase
Meet additional demand	1.6	2.9	83
Improve the level of service	2.5	4.4	76
Renew existing assets	6.1	6.6	7
Total	**10.2**	**13.8**	**35**

Metropolitan councils are forecasting to spend relatively more to meet additional demand and to improve levels of service compared with the 2015-25 LTPs.

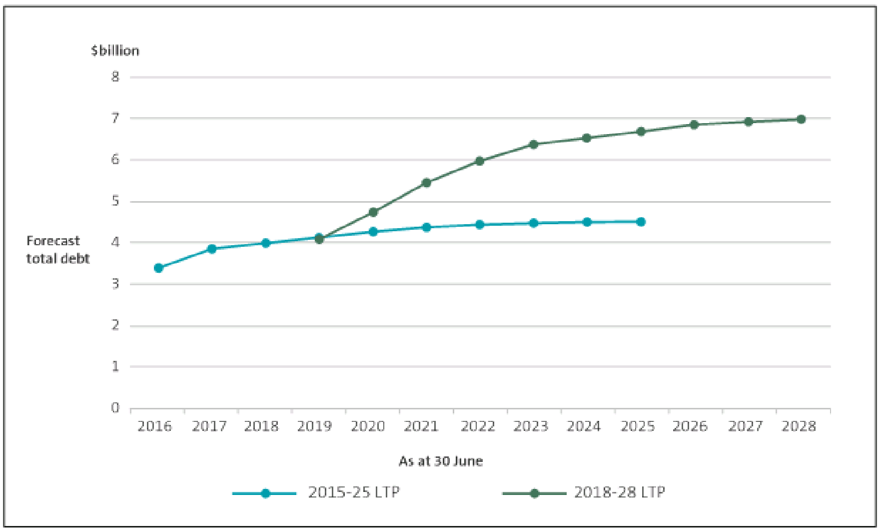
4.6
What metropolitan councils plan to spend on capital, by year according to the 2018-28 long-term plans

Metropolitan councils' capital expenditure is forecast to be largest (at more than $1.4 billion each year) from 2018/19 to 2021/22.



4.7
Total debt by year, as forecast in metropolitan councils' 2015-25 and 2018-28 long-term plans

In the metropolitan councils' 2018-28 LTPs, debt is forecast to increase from $4.1 billion to $7.0 billion from 2018/19 to 2027/28. This is an increase of 72%.

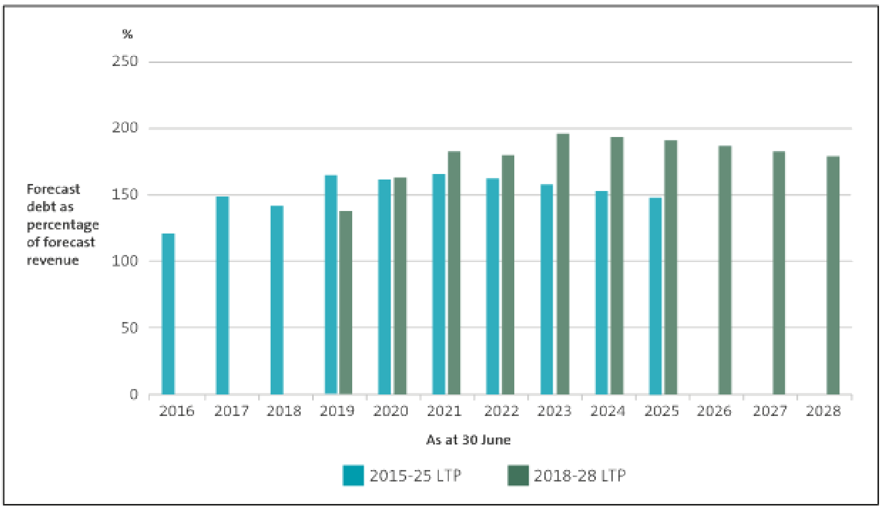


Metropolitan councils' debt is forecast to be 27% of the total sector debt by 2027/28. The increase in forecast debt compared with the 2015-25 LTPs is mainly from funding some of the high-growth councils' capital expenditure forecasts.

4.8

Total debt as a percentage of revenue, by year, as forecast in metropolitan councils' 2015-25 and 2018-28 long-term plans

Except for 2018/19, metropolitan councils' forecast debt burden is forecast to be more for each year than what was forecast in the 2015-25 LTPs and, as a percentage of revenue, is forecast to peak in 2022/23.



Appendix 5
Provincial councils' forecast financial results

This Appendix provides a summary of provincial councils' LTP financial forecasts. Provincial councils have populations between 20,000 and 90,000. The data presented below is based on our own analysis and represents averages of data across the councils in this sub-sector, unless otherwise stated.

In this Appendix, we have combined and presented financial information prepared by the provincial councils. We do not have a view on the merits of these councils' financial forecasts, other than what we express in the main body of this report.

5.1
Operating revenue for provincial councils, as forecast in the 2015-25 and 2018-28 long-term plans

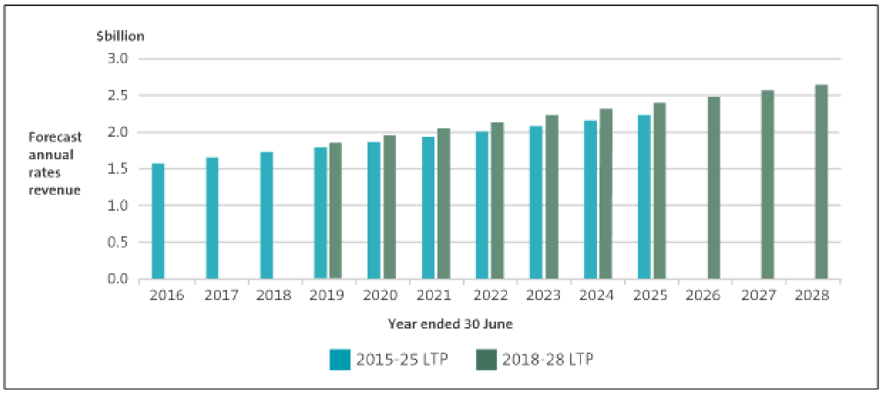
In provincial councils' 2018-28 LTPs, the forecast operating revenue is 20% more than what was forecast for 2015-25.

Revenue	2015-25 LTP $billion	2018-28 LTP $billion	% increase
Rates revenue	19.1	22.7	19
Subsidies and grants revenue	2.9	4.0	37
Other revenue	7.4	7.6	3
Development and financial contributions	0.9	1.3	48
Vested assets (non-cash revenue)	0.4	1.1	162
Total	**30.6**	**36.6**	**20**

Operating revenue increases compared with the 2015-25 LTP forecasts range from 1% for Whanganui District Council to 66% for Queenstown-Lakes District Council.

5.2
Rates revenue of provincial councils, as forecast in the 2015-25 and 2018-28 long-term plans

Provincial councils' rates revenue is forecast to increase 43% ($1.9 billion to $2.7 billion) across the 2018-28 LTPs.



Eight provincial councils forecast 70% or more rates revenue as a proportion of total revenue.

5.3
Operating expenditure of provincial councils, as forecast in the 2015-25 and 2018-28 long-term plans

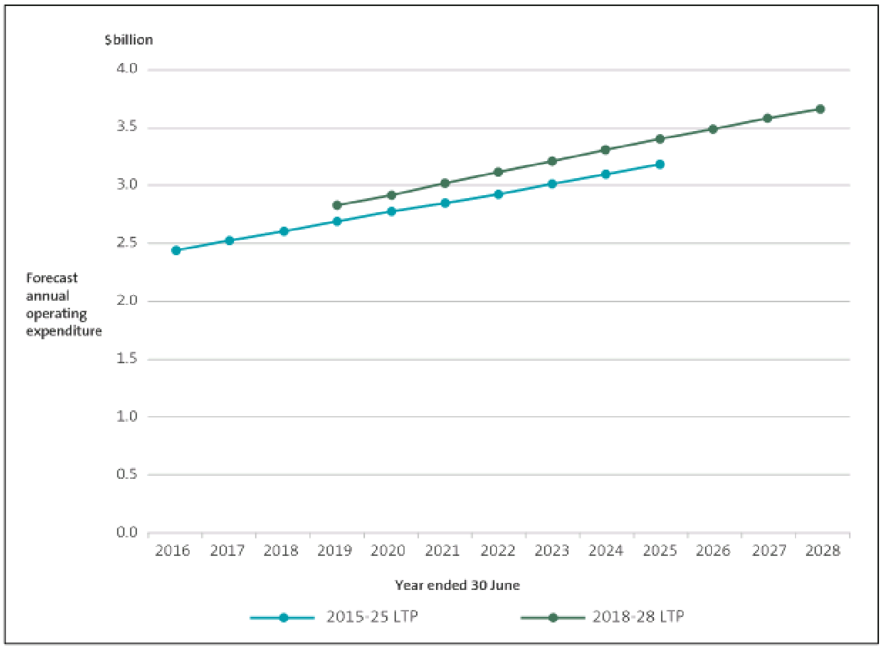
Operating expenditure forecast in the provincial councils' 2018-28 LTPs is 16% more than what was forecast for 2015-25.

Operating expenditure	2015-25 LTP $billion	2018-28 LTP $billion	% increase
Employee costs	5.5	6.5	18
Interest expense	1.8	2.2	21
Depreciation and amortisation	7.4	8.3	12
Other operating expenses	13.4	15.6	17
Total	**28.1**	**32.6**	**16**

For seven provincial councils, the expenditure is forecast to increase by less than 10% from what was forecast in the 2015-25 LTPs.

5.4
Total operating expenditure of provincial councils by year, as forecast in the 2015-25 and 2018-28 long-term plans

In the 2018-28 LTPs, operating expenditure for provincial councils is forecast to be more than forecast for each comparable year of the 2015-25 LTPs.



5.5
Provincial councils' forecast spending on capital in the 2015-25 and 2018-28 long-term plans

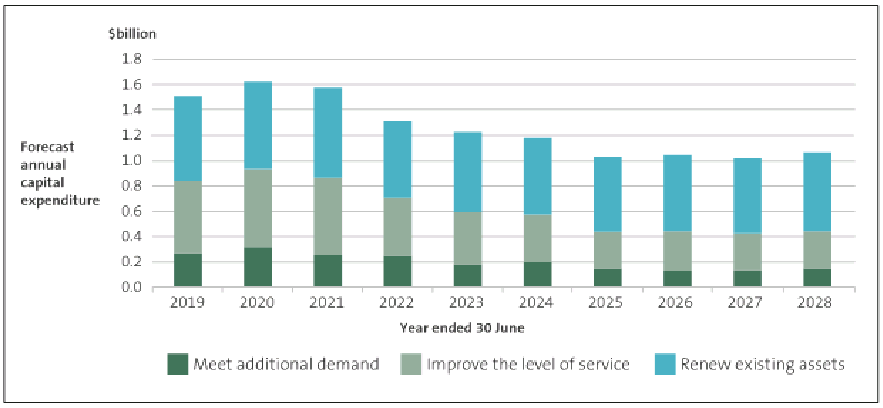
Capital expenditure for provincial councils is forecast to increase by 32% for 2018-28 compared with the forecast for 2015-25.

Capital expenditure	2015-25 LTP $billion	2018-28 LTP $billion	% increase
Meet additional demand	1.4	2.0	41
Improve the level of service	2.9	4.2	46
Renew existing assets	5.2	6.4	22
Total	**9.5**	**12.6**	**32**

Three provincial councils' capital expenditure is forecast to be less compared with 2015-25. In contrast, Queenstown-Lakes District Council's capital expenditure is forecast to increase by 165%.

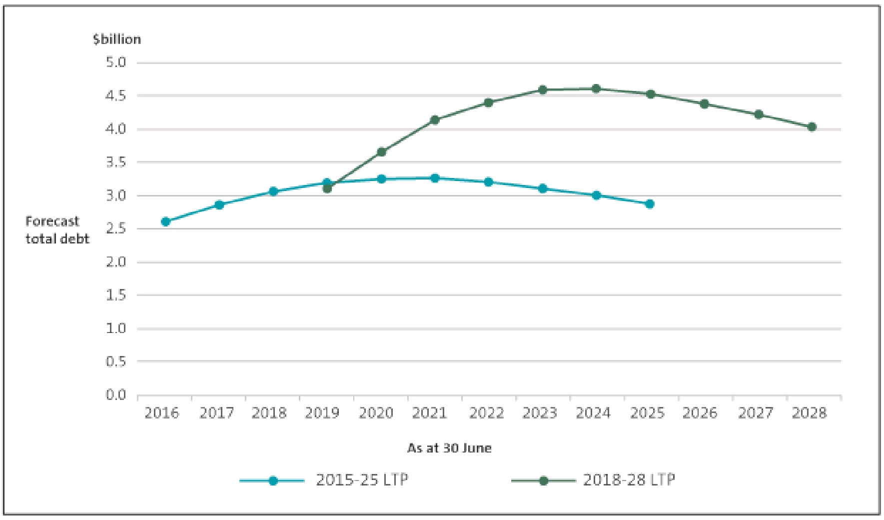
5.6
What provincial councils plan to spend on capital by year, according to the 2018-28 long-term plans

Provincial councils' capital expenditure is forecast to be largest (at more than $1.4 billion each year) from 2018/19 to 2020/21.



5.7
Total debt by year, as forecast in provincial councils' 2015-25 and 2018-28 long-term plans

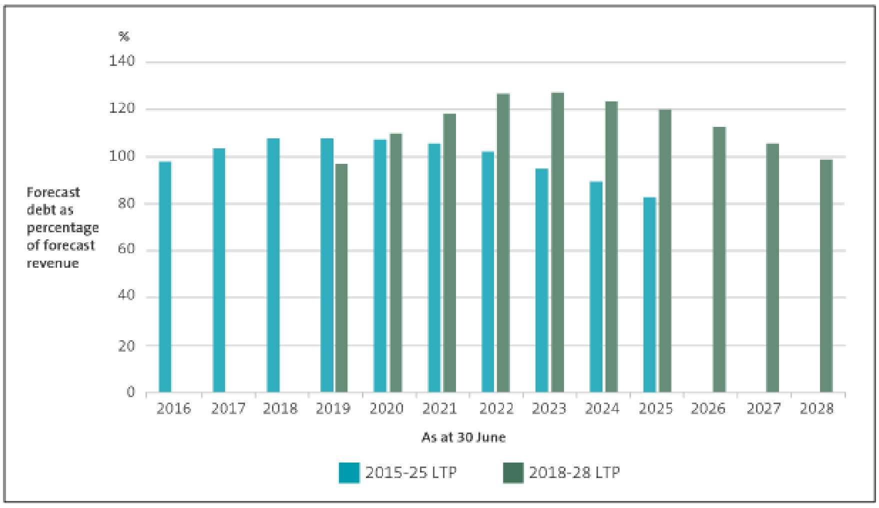
In the provincial councils' 2018-28 LTPs, debt is forecast to increase from $3.1 billion to $4.0 billion from 2018/19 to 2027/28. This is an increase of 30%.



Twelve of the provincial councils' forecast debt in 2024/25 is more than $50 million higher than what was forecast in the 2015-25 LTPs.

5.8
Total debt as a percentage of revenue, by year, as forecast in provincial councils' 2015-25 and 2018-28 long-term plans

Except for 2018/19, provincial councils' debt burden is greater in the 2018-28 LTP forecasts than in the 2015-25 LTP forecasts, and debt as a percentage of revenue is forecast to peak in 2021/22 and 2022/23.



Appendix 6
Regional councils' forecast financial results

This Appendix provides a summary of regional councils' LTP financial forecasts.[77] Regional councils do not include unitary authorities, which for the purposes of our analysis we have grouped in their respective provincial or rural sub-sectors. The data presented below is based on our own analysis and represents averages of data across councils in this sub-sector, unless otherwise stated.

In this Appendix, we have combined and presented financial information prepared by the regional councils. We do not have a view on the merits of these councils' financial forecasts, other than what we express in the main body of this report.

6.1
Operating revenue for regional councils, as forecast in the 2015-25 and 2018-28 long-term plans

In regional councils' 2018-28 LTPs, the forecast operating revenue is 19% more than what was forecast for 2015-25.

Revenue	2015-25 LTP $billion	2018-28 LTP $billion	% increase
Rates revenue	5.2	6.4	25
Subsidies and grants revenue	1.6	2.0	25
Other revenue	4.0	4.4	10
Total	**10.7**	**12.8**	**19**

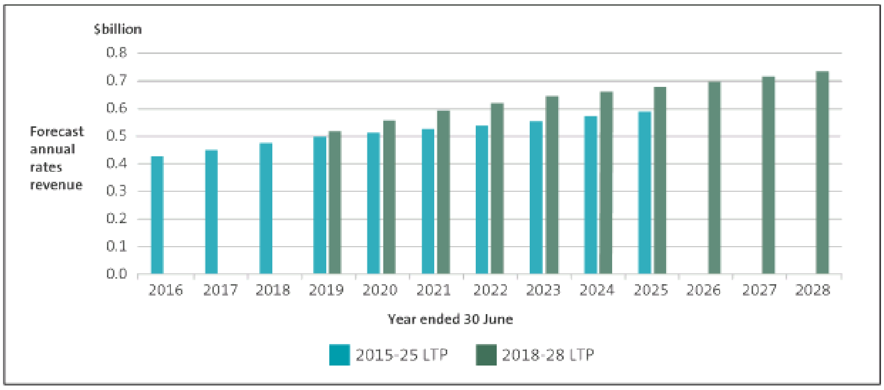
Regional councils receive 34% of their total forecast revenue from "other revenue" (such as grants and subsidies, or dividends from investments), which is proportionately more than the other sub-sectors (other than Auckland Council).

77 Our analysis excludes West Coast Regional Council because its LTP was not available when this report was written.

6.2

Rates revenue of regional councils, as forecast in the 2015-25 and 2018-28 long-term plans

Regional councils' rates revenue is forecast to increase 41% ($0.5 billion to $0.7 billion) across the 2018-28 LTPs.



Regional councils' forecast rates revenue as a proportion of total revenue ranges from 35% for Taranaki Regional Council to 72% for Horizons Regional Council. Dividend revenue from subsidiaries is a significant revenue source for some regional councils such as Taranaki Regional Council.

6.3

Operating expenditure of regional councils, as forecast in the 2015-25 and 2018-28 long-term plans

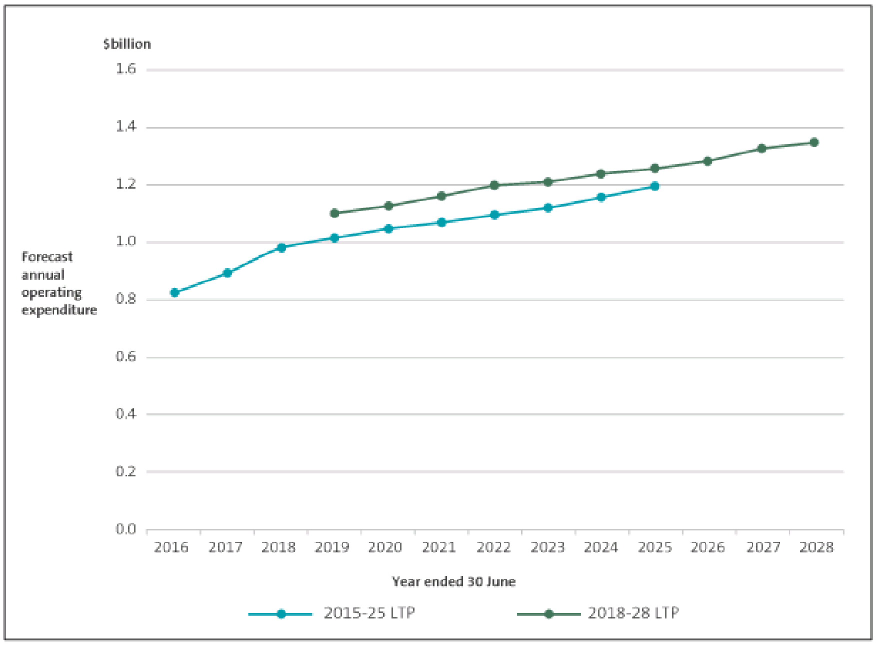
Operating expenditure forecast in the regional councils' 2018-28 LTPs is 18% more than what was forecast for 2015-25.

Operating expenditure	2015-25 LTP $billion	2018-28 LTP $billion	% increase
Employee costs	2.4	3.0	27
Interest expense	0.4	0.5	33
Depreciation and amortisation	0.6	0.8	43
Other operating expenses	7.1	8.0	12
Total	**10.4**	**12.3**	**18**

Increases in forecast operating expenditure compared with the 2015-25 LTP forecasts range from 7% for Environment Canterbury to 56% for Otago Regional Council.

6.4
Total operating expenditure of regional councils by year, as forecast in the 2015-25 and 2018-28 long-term plans

In the regional councils' 2018-28 LTPs, operating expenditure is forecast to be more than for each comparable year of the 2015-25 LTPs.



6.5
Regional councils' forecast spending on capital in the 2015-25 and 2018-28 long-term plans

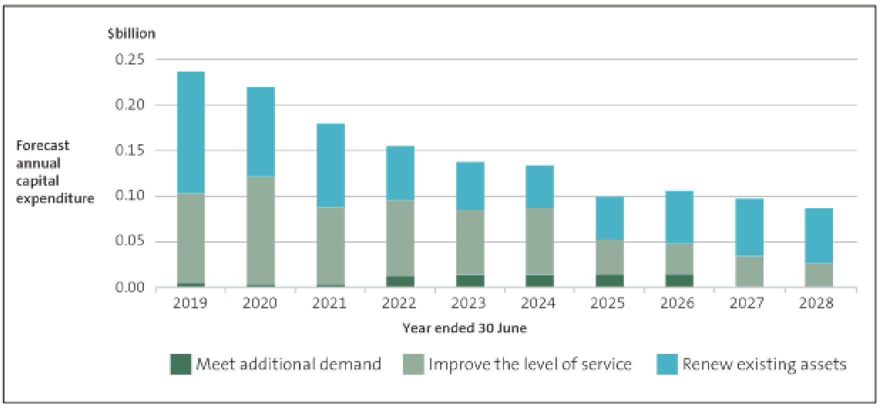
Capital expenditure for regional councils is forecast to increase by 38% for 2018-28 compared with the forecast for 2015-25.

Capital expenditure	2015-25 LTP $billion	2018-28 LTP $billion	% increase
Meet additional demand	0.0	0.1	243
Improve the level of service	0.6	0.7	14
Renew existing assets	0.5	0.7	57
Total	**1.1**	**1.5**	**38**

Greater Wellington Regional Council is forecasting about 50% of all regional councils' capital expenditure. This is primarily on public passenger transport and bulk water assets, reflecting its particular range of responsibilities and significant scale compared to other regional councils.

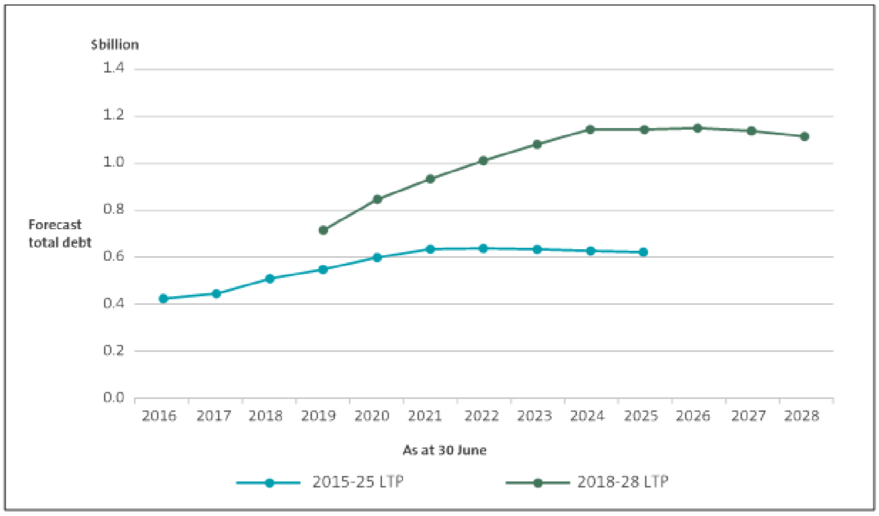
6.6
What regional councils plan to spend on capital by year, according to the 2018-28 long-term plans

Capital expenditure for regional councils is forecast to decline steadily during the 2018-28 period.



6.7
Total debt by year, as forecast in regional councils' 2015-25 and 2018-28 long-term plans

In the regional councils' 2018-28 LTPs, debt is forecast to increase from $0.7 billion to $1.1 billion from 2018/19 to 2027/28. This is an increase of 56%.

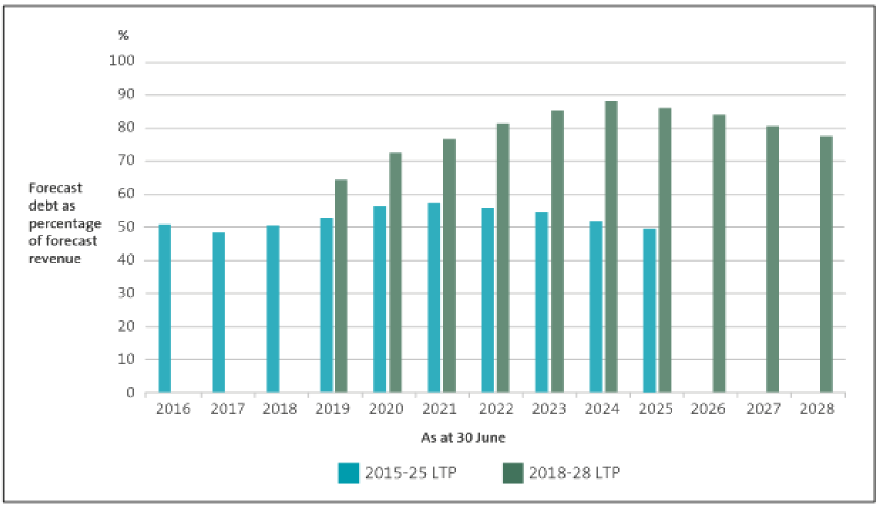


Four regional councils are forecasting to have no external debt by 2027/28.

6.8

Total debt as a percentage of revenue, by year, as forecast in regional councils' 2015-25 and 2018-28 long-term plans

Regional councils' debt burden is forecast to be greater in the 2018-28 LTP forecasts compared with the 2015-25 LTP forecasts, but remains low compared with the sector as a whole.



When excluding regional councils that are forecast in the 2018-28 LTPs to not borrow externally, the percentage of forecast debt to revenue remains below 100% over the 10-year period.

Appendix 7
Rural councils' forecast financial results

This Appendix provides a summary of rural councils' LTP financial forecasts.[78] Rural councils have populations below 20,000. The data presented below is based on our own analysis and represents averages of data across councils in this sub-sector, unless otherwise stated.

In this Appendix, we have combined and presented financial information prepared by the rural councils. We do not have a view on the merits of these councils' financial forecasts, other than what we express in the main body of this report.

7.1
Operating revenue for rural councils, as forecast in the 2015-25 and 2018-28 long-term plans

In rural councils' 2018-28 LTPs, the operating revenue is 15% more than what was forecast for 2015-25.

Revenue	2015-25 LTP $billion	2018-28 LTP $billion	% increase
Rates revenue	4.5	5.1	15
Subsidies and grants revenue	1.3	1.5	17
Other revenue	1.1	1.2	10
Development and financial contributions	0.0	0.1	123
Vested assets (non-cash revenue)	0.0	0.0	140
Total	**6.9**	**7.9**	**15**

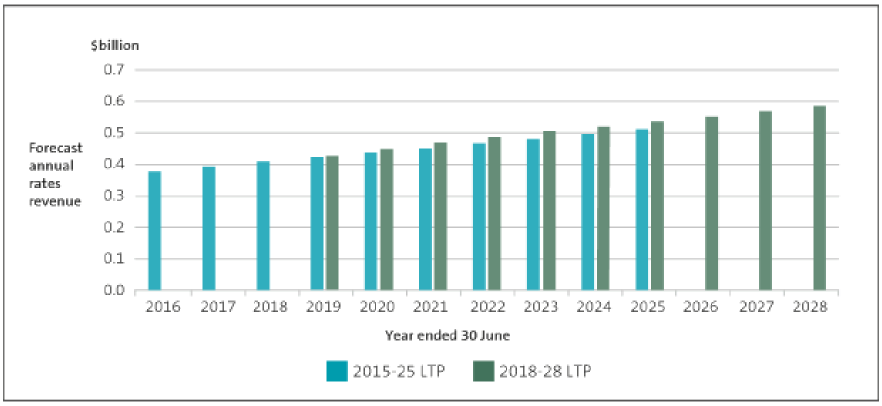
Operating revenue movements compared with the 2015-25 LTP forecasts range from a 12% decrease for Chatham Islands Council to a 42% increase for Mackenzie District Council.
Chatham Islands Council forecasts the least amount of rates revenue as a proportion of total revenue at 6% because it receives significant funding from the Crown to fund council operations. By comparison, five rural councils forecast more than 70% of their total revenue from rates revenue.

78 As noted in footnote 11, our analysis excludes Kaikōura District Council because it prepared a customised three-year plan instead of an LTP. Our analysis also excludes Wairoa District Council because its LTP was not available when this report was written.

7.2

Rates revenue of rural councils, as forecast in the 2015-25 and 2018-28 long-term plans

Rural councils' rates revenue is forecast to increase 37% ($0.4 billion to $0.6 billion) across the 2018-28 LTPs.



7.3

Operating expenditure of rural councils, as forecast in the 2015-25 and 2018-28 long-term plans

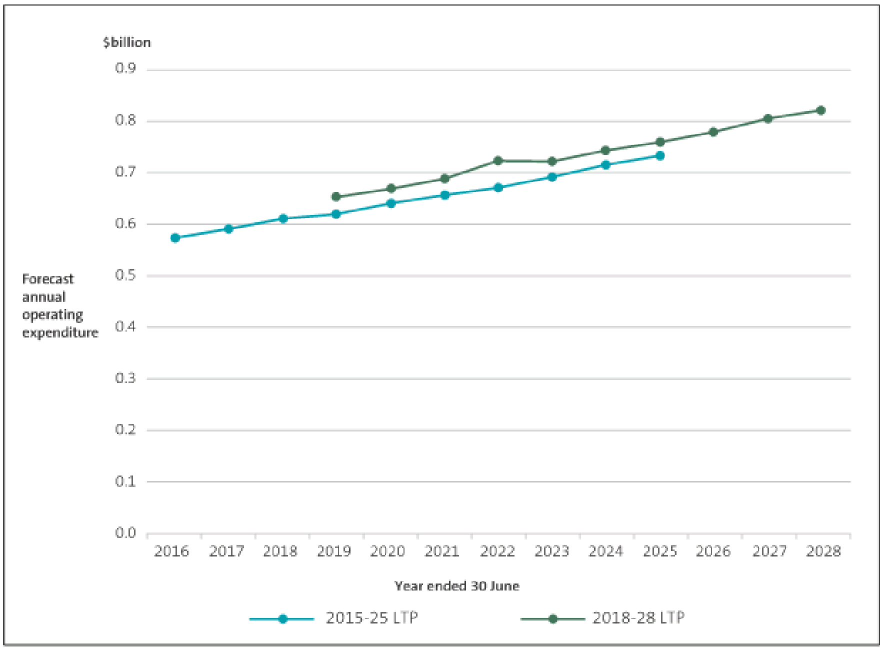
Operating expenditure forecast in the rural councils' LTPs is 13% more than what was forecast for 2015-25.

Operating expenditure	2015-25 LTP $billion	2018-28 LTP $billion	% increase
Employee costs	1.0	1.5	44
Interest expense	0.3	0.3	1
Depreciation and amortisation	1.8	2.0	12
Other operating expenses	3.4	3.6	6
Total	**6.5**	**7.4**	**13**

Operating expenditure movements compared with the 2015-25 LTP forecasts range from a 2% decrease for Chatham Islands Council to a 35% increase for South Waikato District Council.

7.4
Total operating expenditure of rural councils by year, as forecast in the 2015-25 and 2018-28 long-term plans

There is a sharp increase in rural councils' forecast operating expenditure for 2021/22, which relates to Buller District Council forecasting the gifting of roading assets to the New Zealand Transport Agency.



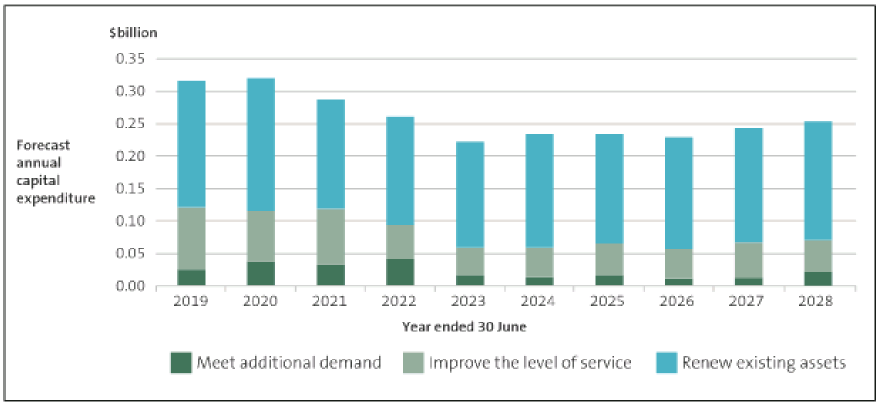
7.5
Rural councils' forecast spending on capital in the 2015-25 and 2018-28 long-term plans

Capital expenditure for rural councils is forecast to increase by 25% for 2018-28 compared with the forecast for 2015-25, with most of the forecast capital expenditure being for renewing existing assets.

Capital expenditure	2015-25 LTP $billion	2018-28 LTP $billion	% increase
Meet additional demand	0.1	0.2	114
Improve the level of service	0.5	0.6	26
Renew existing assets	1.5	1.8	19
Total	**2.1**	**2.6**	**25**

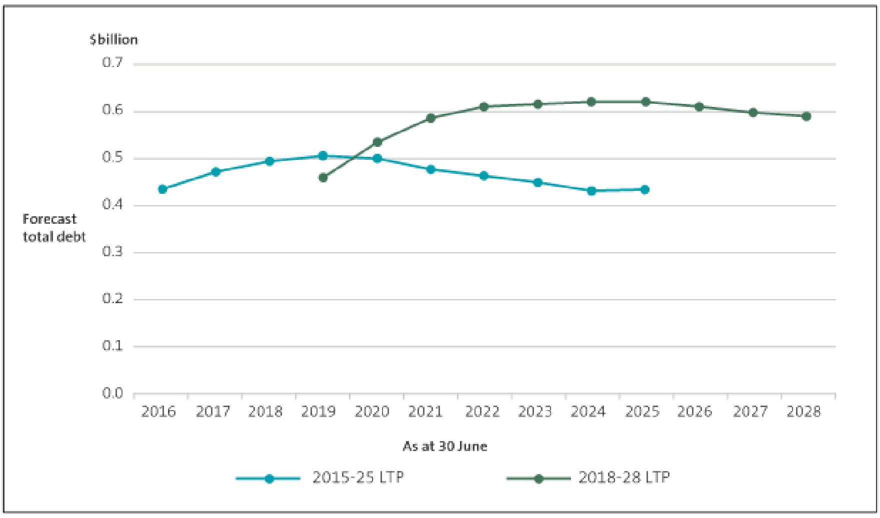
7.6
What rural councils plan to spend on capital by year, according to the 2018-28 long-term plans

More than 50% of the forecast capital expenditure for rural councils to improve levels of service and to meet additional demand is expected to be incurred from 2018/19 to 2021/22.



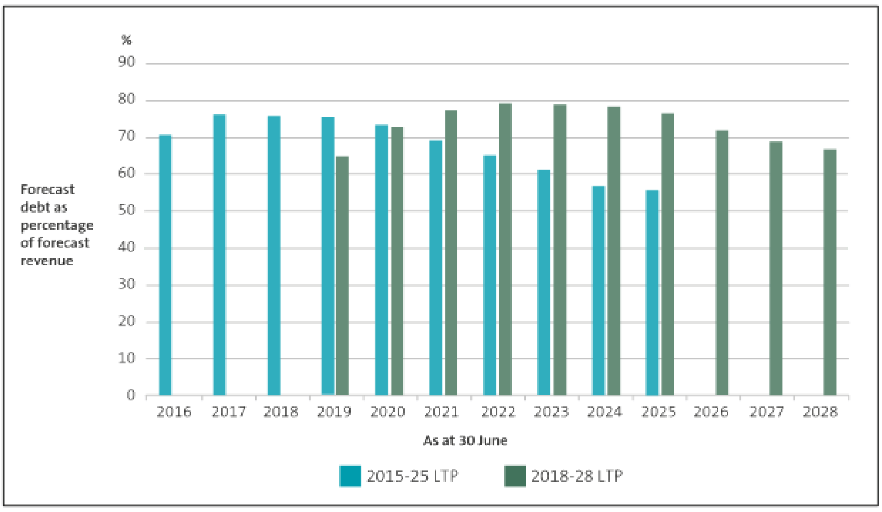
7.7
Total debt by year, as forecast in rural councils' 2015-25 and 2018-28 long-term plans

In the rural councils' 2018-28 LTPs, debt is forecast to increase from $0.5 billion to $0.6 billion from 2018/19 to 2027/28 (an increase of 28%), with most of the new borrowing planned for 2019/20 and 2020/21.



7.8
Total debt as a percentage of revenue, by year, as forecast in rural councils' 2015-25 and 2018-28 long-term plans

Other than for 2018/19 and 2019/20, rural councils' debt burden will be higher based on the 2018-28 forecasts, although it remains low compared with the sector as a whole.



Rural councils are forecasting to require the least proportion of revenue to be able to service their debt of any sub-sector.

Appendix 8
Non-standard audit reports

In this Appendix, we set out summarised extracts from the 10 non-standard audit reports that we issued for the 2018-28 LTPs.

Modified audit opinion – qualified opinion

Westland District Council

Because the Council does not have reliable information about the condition of its three waters assets, we could not conclude that the condition information used to support the three waters assets was reasonable.

The Council's financial forecasts provide for the renewal of only critical three waters assets, as defined by the plan. As a result, the Council is forecasting an increase in its cash investments in the forecast statement of financial position to $24.4 million in 2028.

The Council plans to invest in improving its knowledge of its three waters assets. Once it has better knowledge, the Council will re-forecast its renewals programme for all of its three waters assets. The Council believes that this will result in higher costs than it has forecast for renewing those assets. Because the Council expects the costs to be higher, it does not expect the high cash balances that it has forecast will eventuate and has assumed that these high cash balances will not generate any interest revenue.

Unmodified opinions with "emphasis of matter" paragraphs

Central Hawke's Bay District Council

We drew attention to disclosures in the long-term plan about the resource consent breach for the Waipukurau and Waipawa wastewater treatment plants. More investigative work is required to find a viable solution before remedial work can be carried out that will meet resource consent requirements. The cost of this work is uncertain and could be significant. These costs will be in addition to those included in the financial forecasts in the plan. As a result, the Council expects to carry out formal consultation with the community once viable options have been identified and funding options determined.

Chatham Islands Council

We drew attention to disclosures in the long-term plan about the Council's significant reliance on central government funding support to continue to operate and provide services to its community. This funding support is negotiated periodically. The Council is also borrowing externally to fund some capital expenditure. The total amount of borrowings including bank overdraft is forecast to reach a peak of $4.2 million in 2020/21, reducing to $1.3 million in 2027/28.

The plan has been prepared on the basis that sufficient support will be obtained from central government to fund planned operating and capital expenditure. We drew attention to these matters because any significant reduction in funding support from the forecast levels could affect rates, debt, investments, borrowings, expenditure, or levels of service over the 10-year period of the plan.

Hamilton City Council

We drew attention to disclosures in the long-term plan about the assumptions made in relation to planned efficiency savings and the forecast financial impacts of these savings. The Council has forecast to achieve $94.498 million (inflation adjusted) of savings over the 10-year plan period. Council expects the savings to be made through changes in current procurement and service delivery models. However, there is uncertainty as to whether savings will amount to the levels estimated and in the years expected. If the savings are not realised, the Council has stated that it would need to increase rates or reduce the capital programme to stay within its debt-to-revenue limits. If the savings are not realised, and no changes are made to rates or the capital programme, the Council would breach its debt-to-revenue limits.

Hurunui District Council

We drew attention to disclosures in the long-term plan about earthquake recovery. This outlines some uncertainty over the full extent of damage that has been done to Council-owned bridge and water supply assets as a result of the Hurunui/ Kaikōura earthquake, and the forecast costs to repair that infrastructure. Some of these costs will be met by Council debt, which will be repaid through a separate earthquake rate. Should the actual cost of repairs be greater than the financial forecasts, the Council will incur additional debt. It will need to reassess the proposed period to repay debt and amount of the rate required to repay the debt.

Ōpōtiki District Council

We drew attention to disclosures in the long-term plan about uncertainties over the proposed Ōpōtiki Harbour Transformation project. There is uncertainty about the estimated cost of the project because a revised business case has not been completed for reconsideration. As a result, there is uncertainty about whether the amount of external funding needed for the project will be made available and, if funding is made available, when the project will proceed.

The District Council has committed to draw down $5.4 million of borrowings to contribute to the project. If external funding is not available, the District Council has stated that the project will not proceed because the District Council does not have the financial resources to carry out the project on its own. Should the project not proceed, the expected economic and social benefits to the District Council and the community as reported in the plan are unlikely to eventuate.

Queenstown-Lakes District Council

We drew attention to Queenstown-Lakes District Council's assumption about funding, which could affect the timing and extent of capital expenditure projects to be carried out during the next 10 years.

The Council has proposed a capital expenditure programme of $990 million over 10 years, which is a significant increase from $380 million proposed in the 2015-25 Long-Term Plan. A number of the projects in the capital expenditure programme are for the Queenstown Town Centre Master Plan, and these projects are interconnected. A significant project in the Queenstown Town Centre Master Plan is the Queenstown Arterials Programme, which is expected to cost $148.8 million, where the Council has assumed that the New Zealand Transport Agency will provide $119 million (80%). A decision by the New Zealand Transport Agency about whether it will provide this funding is not expected until 2019.

If the funding from the New Zealand Transport Agency is significantly less than assumed, the Council has stated that it will need to defer some of the projects in the Queenstown Town Centre Master Plan, which might include parking, public transport, street upgrades, and walking/cycling facilities. As a result, actual capital projects and the level of capital expenditure might differ significantly from forecast, which could affect proposed levels of service.

Waikato Regional Council

We drew attention to disclosures in the long-term plan about the assumptions made about funding the proposed Hamilton to Auckland passenger rail service.

The Council is planning to collect $1.625 million in rates from year two of its long-term plan to fund its share of the start-up passenger rail service. The estimated cost of running the service is expected to be $8.8 million. The Council has assumed that it will receive a subsidy from the New Zealand Transport Agency of $5.7 million to fund 75% of the operating costs (after taking into consideration annual fare revenue of $1.5 million). The Council has also assumed that, before the service commences:

- KiwiRail will fund the purchase and refurbishment of the passenger carriages and locomotives to run the service; and
- Hamilton City Council, Waikato District Council, and the New Zealand Transport Agency, along with KiwiRail, will undertake the upgrades to the infrastructure at railway stations.

The Council has stated that the service will not proceed if it does not receive at least $5.7 million from the New Zealand Transport Agency and the necessary upgrades to the railway stations and passenger carriages and locomotives are not completed. This means the Council will not collect the rates it has proposed and the Council will not be involved in providing a passenger rail start-up service to the community.

Wairoa District Council

We drew attention to disclosures in the long-term plan that outlined that 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.

West Coast Regional Council

We drew attention to two disclosures in the long-term plan. The first disclosure outlined that the Council increased the uniform annual general charge by $450,000 to fund the proposed increase in emergency management activities, rather than fund the increase from the emergency management rate, and amended the Revenue and Financing policy accordingly.

The second disclosure outlined that 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.

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