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Parliamentary paper

Matters arising from Auckland Council's planning document

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Auditor-General's overview

The reform of local government in Auckland brings with it new governance and accountability arrangements. These changes are an important aspect of the reform and significantly affect the audit work that I am required to do.

This report covers aspects of the results of auditing Auckland Council's planning document, *Auckland Council's Long-term Plan, 1 November 2010 – 30 June 2019*, which became its long-term plan on 1 November 2010.

The Auckland Transition Agency's preparation of the long-term plan, and my audit, signifies the completion of a key planning and accountability milestone for Auckland Council and its first step as New Zealand's newest local authority.

It is pleasing to be able to provide assurance to the new, enlarged Auckland community that the planning document was reasonable. Our audit opinion acknowledged the importance of the document in creating a useful transitional position for the new Council.

What the planning document shows

The planning document shows the indicative trends for rates and borrowings, subject to decisions of Auckland Council. Rates are forecast to increase by 3.9% in 2011/12, the first year for which Auckland Council will set rates. This compares with an overall average increase of 6% that the former councils were forecasting for that year in their long-term plans.

In my audit opinion, I highlighted the significant assumption disclosed in the planning document about efficiency savings of \$47.7 million annually from 2011/12. The 3.9% rates increase assumes their realisation, although the sources and timing of these savings were yet to be identified in detail at the time of finalising the planning document.

The planning document also shows the significant scale of Auckland Council's operations and assets. Auckland Council's initial annualised total income is \$2 billion, of which rates is \$1.4 billion. Its opening balance sheet includes total assets of \$29 billion.

The planning document's disclosures about council-controlled organisations confirm the integral part these organisations will play in maintaining and managing core infrastructural assets, and in delivering Auckland Council services across the region.

Although the planning document was based on the information and plans of the former councils, this information was significantly changed to format it in a way

suitable for Auckland Council. For example, the information had to reflect the unique aspects of Auckland Council that the reform created – in particular:

- shared governance and accountability arrangements between Auckland Council's governing body and its local boards; and
- substantial management of infrastructure and service delivery by Auckland Council's council-controlled organisations.

Looking ahead to Auckland Council's 2012-22 long-term plan

The planning document signposts clear opportunities for Auckland Council when developing its own strategic approach. It provides a first step in the detailed aspects of planning that Auckland Council must carry out and which will need to be integrated across the whole group.

The planning document also provides Auckland Council with a useful base on which to prepare its long-term plan for 2012-22, to best meet the long-term plan's purposes and best serve the Auckland community. Matters that will be particularly important for Auckland Council to consider when preparing its long-term plan for 2012-22 are:

- a performance framework that addresses Auckland Council's unique governance and accountability arrangements; and
- a clear financial strategy.

The Auckland reform process

The Royal Commission on Auckland Governance was initiated by the former Government, and reported in March 2009. After that report, the current Government decided to reform local government in Auckland. The process for this significant reform began in May 2009 with the enactment of the Local Government (Tamaki Makaurau Reorganisation) Act 2009. This Act set up the Auckland Transition Agency to prepare the new unitary Auckland Council and its group for operations from 1 November 2010 (the date of transition).

The new arrangements for Auckland Council are provided for by the Local Government (Auckland Council) Act 2009 and the Local Government (Auckland Transitional Provisions) Act 2010.

Aspects of the governance arrangements for Auckland Council differ from those for the former Auckland councils and for other local authorities in New Zealand.

The reform legislation provides for new accountability arrangements, and for how Auckland Council should transition towards them. The date of transition also required changes to the planning and reporting arrangements, which are

usually based on a financial reporting period that ends on 30 June in the local government sector.

I was required to audit the planning document, which is a unique transitional accountability document defined in the reform legislation.

The purpose of the planning document and its audit

The planning document serves as Auckland Council's annual plan for 2010/11 and its long-term plan. It also provides a starting point for, and input into, future planning, decision-making, and management by Auckland Council. Auckland Council will report in its annual report against the budgets, measures, and targets included in the planning document.

The planning document was completed before the date of transition, and our audit opinion is unqualified. In our audit opinion, we draw attention to:

- the planning document's preparation for, rather than by, Auckland Council;
- the underlying assumptions and information being those of the former councils and the Auckland Transition Agency (including the assumed efficiency savings);
- levels of service, which are different across Auckland and its local board areas, being presented on an average basis; and
- financial and funding policies that are still to be integrated by Auckland Council.

I look forward to working with Auckland Council as the significant reform process for Auckland continues.



Lyn Provost
Controller and Auditor-General

9 December 2010

Part 1

The purpose of the planning document

- 1.1 In this Part, we explain the purpose of the planning document, including:
- the basis it provides for accountability and future reporting;
 - its status as an annual plan and long-term plan; and
 - the starting point and input it provides for future planning, decision-making, and management by Auckland Council.

A basis for accountability of Auckland Council

- 1.2 The planning document provides a basis for accountability for Auckland Council in the period after the transition from eight former councils to one unitary council. Auckland Council will report against the budgets, measures, and targets included in the planning document in its annual report.

Auckland Council's annual plan and long-term plan

- 1.3 Every local authority in New Zealand must have an annual plan and a long-term plan at all times.¹ Auckland Council's planning document serves as its annual plan until 30 June 2011, and its long-term plan until 30 June 2012.
- 1.4 The usual provisions of the Local Government Act 2002 for a long-term plan and annual plan do not apply to Auckland Council's planning document. The special provisions for the planning document in the Auckland reform legislation replace those usual provisions.²
- 1.5 The planning document covers the eight-month period from 1 November 2010 to 30 June 2011, and the following eight years. This is the remaining period covered by the former councils' 10-year long-term plans, on which the planning document is based.
- 1.6 The former councils prepared annual plans for the four-month period from 1 July 2010 to 31 October 2010, but set rates levels for the whole of 2010/11. This provided rates revenue for Auckland Council for its first eight-month period. Auckland Council must prepare and adopt its first annual plan, and set rates, for 2011/12. It must also prepare and adopt its first long-term plan for 2012-22 during 2011/12.
- 1.7 The planning document also provides a starting point for, and input into, planning and decision-making by Auckland Council and management by its staff.

1 Sections 95 (relating to the Annual Plan) and 93 (relating to the Long-term Council Community Plan (LTCCP)) of the Local Government Act 2002 apply. At the time of writing this report, new legislation (the Local Government Amendment Act 2010) had just been enacted that effectively renames the LTCCP as the long-term plan.

2 Section 19A of the Local Government (Tamaki Makaurau Reorganisation) Act 2009.

- 1.8 A detailed model underpins the planning document. It provides budgets that will help guide the internal management of Auckland Council and its various organisational divisions.

Part 2

Audit of the planning document

- 2.1 In this Part, we explain the requirement for the planning document to be audited and the overall audit opinion we expressed.
- 2.2 The planning document was completed within the statutory deadline of 31 October 2010. We concluded that the planning document meets the legislative requirements, and provides a reasonable basis for accountability and input into Auckland Council's future planning and decision-making.
- 2.3 In our audit opinion, we also drew attention to certain aspects of the planning document:
- its preparation for, rather than by, Auckland Council;
 - the underlying assumptions and information being those of the former councils and the Auckland Transition Agency;
 - levels of service, which are different across Auckland and its local board areas, being presented on an average basis; and
 - financial and funding policies that remain to be integrated by Auckland Council.

The audit requirement and our approach

- 2.4 The planning document must be audited by the Auditor-General or a person appointed by the Auditor-General. The audit must assess the extent to which the planning document complies with the requirements of the legislation.³
- 2.5 Because the planning document had to be based on the long-term plans of the former councils, which we audited in 2009,⁴ and because of the similarities between the requirements for the planning document and those for long-term plans, we used and updated our existing long-term plan audit methodology. We also used the work from our earlier audits of the former councils where this was possible.
- 2.6 The planning document and its audit are both significant for and unique to the Auckland reform process. In the circumstances, we had to approach our work differently. Major points of difference in our approach were:
- our audit work had to be planned and initiated before the policy development and legislative process had been completed;
 - we completed our audit work concurrently with the preparation work by the Auckland Transition Agency and its workstreams; and

³ Clause 7 of Schedule 2 of the Local Government (Tamaki Makaurau Reorganisation) Act 2009.

⁴ We issued unqualified audit opinions for all these long-term plans. This provided a reasonable basis for planning our audit of the planning document.

- as a result, our audit work was reliant on effective working relationships with a wider range of agencies than would normally be the case.

Our audit opinion

- 2.7 The planning document, including our audit of it, was finalised before the statutory deadline of 31 October 2010. In our audit opinion, we concluded overall that:
- the planning document, prepared by the Auckland Transition Agency on behalf of Auckland Council, complies with the requirements of the legislation in all material respects; and
 - as a transitional document, the planning document provides a reasonable basis for accountability and input into future planning and decision-making by Auckland Council and its communities.
- 2.8 The Appendix sets out the text of our audit opinion.

Aspects of the planning document that we highlighted

- 2.9 In our audit opinion, we included an explanation (mirrored in the planning document) of how the planning document had to be prepared, and the implications of this.

Preparation by the Auckland Transition Agency

- 2.10 Auckland Council's planning document was required to be in place before Auckland Council became operational on 1 November 2010. The Auckland Transition Agency was responsible for preparing it before 31 October 2010.⁵
- 2.11 Because the planning document is based on the long-term plans and annual plans of the former councils, it reflects the cumulative decisions and information of those councils and the decisions of the Auckland Transition Agency.
- 2.12 Because Auckland Council did not exist before 1 November 2010, the Council did not have the opportunity to formally consider the planning document before it was finalised. After 1 November 2010, Auckland Council can assess the extent to which the planning document, as prepared, represents its own aspirations and intent. This assessment may give rise to a range of responses from acceptance to significant revision.

No separate consultation

- 2.13 The reform legislation did not require public consultation when preparing the planning document, although elements included within it have been consulted on by the former councils.

⁵ Section 19A of the Local Government (Tamaki Makaurau Reorganisation) Act 2009.

Other matters we highlighted

2.14 We also highlighted in our audit opinion three key aspects of the planning document:

- *Assumptions and underlying information* – to a large degree, the planning document reflects the assumptions and underlying information of the former councils, and of the Auckland Transition Agency. We noted in our audit opinion the important assumption about efficiencies and cost reductions for which the source and timing are yet to be identified in detail. We refer to this matter in Part 3.
- *Levels of service* – the planning document reflects the consolidation of different existing levels of service, the related financial investment, and the associated performance measures and targets. It presents these on an average basis across the Auckland region and its local board areas.
- *Funding, financial, and accounting policies* – some of the policies used in the planning document are consolidated from the multiple policies of the former councils (the accounting policies and the treasury management policy); others have been brought forward from the former councils (the other interim financial and funding policies) and remain to be integrated by Auckland Council.

Part 3

The form and content of the planning document

- 3.1 In this Part, we explain the significant requirements for the form and content of the planning document and how these requirements were met. Information from the former councils underpins the planning document, but was significantly reorganised and amended to reflect:
- best estimates at the date of transition;
 - the group reorganisation;
 - partial integration of accounting, financial, and funding policies; and
 - the consolidation of the former councils' activities into a consistent activity framework for Auckland Council.

3.2 The planning document identifies and separates information to support the development of shared governance and accountability arrangements between Auckland Council's governing body and its local boards.

3.3 The planning document also includes forecast performance information, both financial and non-financial, for the major activities that Auckland Council's council-controlled organisations will deliver.

The former councils' underlying information

3.4 The planning document was required to be based on a consolidation of information contained in the 2009-19 long-term plans of the former councils and, to the extent relevant, their annual plans for 2010/11.⁶

3.5 The planning document was prepared from a detailed financial model, whose inputs were the relevant information and forecasts of the former councils. This information was reformatted for consistency and to reflect Auckland Council's new organisational and financial coding structures.

3.6 The planning document also reflects the more general underlying information of the former councils that underpinned their respective forecasts, such as their asset management plans.

Significant reorganisation and amendment

- 3.7 The planning document was required to present reorganised and amended information from the former councils.⁷ Significant changes were made to reflect:
- the allocation of decision-making responsibility for non-regulatory activities between Auckland Council's governing body and its local boards;⁸

⁶ Clause 1(1) of Schedule 2 of the Local Government (Tamaki Makaurau Reorganisation) Act 2009.

⁷ Clause 1(2) of Schedule 2 of the Local Government (Tamaki Makaurau Reorganisation) Act 2009.

⁸ The Local Government (Auckland Council) Act 2009 provides for regulatory matters to be dealt with by Auckland Council's governing body. Other matters are to be dealt with by either local boards or the governing body in keeping with the principles set out in section 17.

- the reorganisation of Auckland Council's group, including the transfer of assets and liabilities, and the establishment of new, and disestablishment of old, council-controlled organisations – in particular, significant operations dealt with by the former councils and their council-controlled organisations were transferred to Watercare Services Limited and the new Auckland Transport Limited; and
- the effective transfer to Auckland Council of the Auckland Transition Agency's remaining assets and liabilities at dissolution on 31 October 2010.⁹ The funding that had been provided for the Auckland Transition Agency's expenditure, both operating and capital, becomes a debt owed by Auckland Council to the Crown.

Other matters requiring adjustment

Generally accepted accounting practice

- 3.8 The planning document was required to be based on generally accepted accounting practice, including meeting the requirements of Financial Reporting Standard 42: *Prospective Financial Statements*.¹⁰ This means that the information included in the planning document had to be updated, where required, to best estimates that were current at the time the planning document was finalised.
- 3.9 A number of adjustments were made to the information of the former councils to reflect best estimates. These include:
- *Transition costs* – The planning document reflects estimates for actual and further potential transition costs that were known at the time of its preparation. For example, it makes allowance for the estimated redundancy costs arising from the transition that were borne by the former councils. These costs were not included in the plans of the former councils, and are reflected in the planning document as adjustments to Auckland Council's estimated opening balance sheet.
 - *Efficiency savings* – The Auckland Transition Agency has set up a new structure for Auckland Council, and the staff costs in the planning document are forecast on this basis. This new structure is anticipated to yield cost savings relative to the staff structures and forecasts of the former councils. As well as these staff reorganisation savings, the planning document includes a further target for efficiency savings by Auckland Council. We cover this in more detail later in this Part.
 - *Leaky building liabilities* – The planning document reflects best estimates of the potential effects of dealing with leaky buildings and includes total liabilities of \$395 million. These are higher than those included in the plans of the former

⁹ Clauses 1 and 2 of Schedule 2 of the Local Government (Tamaki Makaurau Reorganisation) Act 2009.

¹⁰ Clause 9 of Schedule 2 of the Local Government (Tamaki Makaurau Reorganisation) Act 2009.

councils by \$172 million.¹¹ These estimates take account of the Government's new proposed approach to the settlement of issues relating to leaky buildings.

Southern boundary changes to the Auckland region

- 3.10 The planning document excludes the estimated assets and liabilities, and the revenue and expenditure, associated with changes to the southern boundary of the new Auckland region. These were previously included in the plans of the Franklin District and Auckland Regional Councils, and will need to be taken up and reflected in the planning and financial forecasts of the neighbouring councils.¹²

Rating, financial, and funding policies

- 3.11 The reform legislation provides for a transition from the rating, financial, and funding policies of the former councils to fully integrated policies of Auckland Council. The requirements for the planning document reflect this transition.

Approach to rating

- 3.12 The reform legislation provided for the former councils to set 2010/11 rates for the full financial year.¹³ The first four months of this period are accounted for by the former councils, and the remaining eight-month period by Auckland Council. The forecast revenue for this eight-month period is included in Auckland Council's planning document.
- 3.13 Rates revenue included in the planning document for 2011/12 onwards is based on the plans and policies of the former councils, amended as a result of the adjustments made in the planning document's preparation. Rating decisions from 2011/12 are matters for Auckland Council to decide.
- 3.14 The planning document reflects the changes in collection method for rates relating to water supply and wastewater. Over time, Watercare Services Limited will collect all rates for water, except for services in the Papakura area, which continues to be serviced on Auckland Council's behalf by a private sector provider.¹⁴
- 3.15 For 2011/12, Auckland Council is required to set transition rates such that there is a uniform percentage variation for each rating unit from the actual rates set for 2010/11.¹⁵ Auckland Council will also set wastewater rates for 2011/12 for

11 The former councils formally estimated liabilities as at 30 June 2009.

12 These are Waikato and Hauraki District Councils, and Environment Waikato.

13 Section 29B of the Local Government (Tamaki Makaurau Reorganisation) Act 2009.

14 United Water Limited, under a franchise agreement dated 23 April 1997, for a period of 30 years with a renewal option for a further 20 years.

15 Sections 33 and 34 of the Local Government (Auckland Council) Act 2009.

those properties that had a wastewater or sewerage rate in 2010/11. Otherwise, Auckland Council is prohibited from setting rates for 2011/12.¹⁶

- 3.16 From 2012/13, Auckland Council must set general rates using a single rating system based on the capital value of land. Ultimately, Auckland Council will have a single rating system that is applied on a fully unified basis across the Auckland region. However, the reform legislation provides an optional mechanism (a rates transition management policy) for gradually adjusting significant changes arising from the single rating basis over the ensuing three years from 2012/13.¹⁷
- 3.17 In future years, local boards will be able to recommend a local rate to the governing body to generate additional funding for their area.

Approach to financial and funding policies

- 3.18 The reform legislation creates a framework within which the financial and funding policies reflected in the planning document must be either integrated or unintegrated. In some cases, the policies could be integrated at the discretion of the Auckland Transition Agency. Figure 1 summarises this framework.

Figure 1
Policy integration requirements for the planning document

Policies that must be integrated in the planning document	Policies that must not be integrated in the planning document (date by which they must be integrated)	Policies that may be integrated or unintegrated in the planning document (date by which they must be integrated)
Accounting, and associated assumptions	Development or financial contributions (30 June 2012)	Private sector partnerships (30 June 2012)
Liability management and investment	Rates remission and postponement, rates remission and postponement relating to Māori land (30 June 2011)	Revenue and financing (30 June 2012)

Integrated policies

- 3.19 Auckland Council's combined treasury management policy covers the integrated policies for liability management and investment required to be included in the planning document.

¹⁶ Section 35 of the Local Government (Auckland Council) Act 2009.

¹⁷ Section 41 of the Local Government (Auckland Transition Provisions) Act 2009.

Accounting policies and associated assumptions

- 3.20 The integration of accounting policies and assumptions in the planning document means that the forecasts are prepared on the basis that Auckland Council is a single entity. Some adjustments to the former councils' forecasts arose because of the integration of accounting policies. The information and plans of the former councils reflected their individual policies and assumptions, and these were different in many instances.
- 3.21 The planning document includes a set of assumptions and related uncertainties that either reflect the combined assumptions of the former councils or have been revised where the Auckland Transition Agency has deemed it appropriate to do so, on the basis of current best estimates.
- 3.22 The planning document includes an assumed efficiency target. The assumption reflects an estimate of efficiency savings, although the sources and timing for realising these savings have yet to be identified in detail. Auckland Council will decide these matters. The planning document assumes that the savings, of \$47.7 million annually from 2011/12, will directly reduce rates funding from that year onwards. The planning document highlights the importance of this assumption, together with the associated risks, and we have drawn readers' attention to this significant disclosure in our audit opinion.

Unintegrated policies

- 3.23 The policies that were required to be unintegrated were included in the planning document on that basis. The Auckland Transition Agency chose not to integrate the policies whose integration was optional – the policies for private sector partnerships and for revenue and financing – in the planning document.
- 3.24 Auckland Council will need to integrate the remaining policies within the statutory time frames provided for in the reform legislation. These time frames are shown in Figure 1. The remaining integration of financial and funding policies by Auckland Council is a significant matter that we highlighted in our audit opinion on the planning document.

Non-financial performance framework

- 3.25 A performance framework includes the activities and services provided, and the performance measures and targets against which they will be measured, within a strategic context that provides their purpose.
- 3.26 The planning document clearly indicates that, when Auckland Council chooses its strategic direction, it will need to revisit its performance framework to reflect this direction.

Consolidation of former councils' activities

- 3.27 As far as practicable, the planning document is required to consistently identify Auckland Council's activities. However, if this is not practicable, the Council could present this information on the basis of the districts of the former councils.¹⁸
- 3.28 The planning document sets out a new and consistent structure for Auckland Council's groups of activities in Volume 2. This new activity structure is the result of a process the Auckland Transition Agency used to consolidate the activities of the former councils, and identify common and new performance measures as relevant indicators for the future assessment and reporting of organisational performance by Auckland Council. Figure 2 sets out Auckland Council's new groups of activities.

Figure 2
Auckland Council's groups of activities

Groups of activities	
Community	Water supply and waste water
Lifestyle and culture	Stormwater
Economic development	Transport
Planning and regulation	Commercial and investment
Environmental management	Governance
Solid waste	

- 3.29 The planning document also presents Auckland Council's activity structure within a framework of a vision for Auckland and strategic priorities.¹⁹
- 3.30 Despite these changes and new measures, the underlying forecast levels of service reflected in the planning document have generally²⁰ not changed from those being delivered by the former councils.²¹
- 3.31 The planning document's presentation of consolidated activities of the former councils as a consistent activity structure for Auckland Council includes different levels of service across the Auckland region being presented on an average basis. We highlighted this significant feature of the planning document in our audit opinion.

18 Clause 2 of Schedule 2 of the Local Government (Tamaki Makaurau Reorganisation) Act 2009.

19 This is outlined in Volume 2, page 5.

20 There have been some changes in the regulatory area after consolidating the consenting and licensing activities of the former councils.

21 Until Auckland Council decides that they should be changed.

- 3.32 Although the planning document presents Auckland Council's performance measures and targets as being for a new organisation, it also usefully shows the range of comparative actual results from historic information associated with the former councils to provide meaning and context.

Initial separation of activities between governing body and local boards

- 3.33 Shared decision-making and accountability between the governing body and local boards is a unique governance feature of Auckland Council.
- 3.34 As required by the reform legislation, the planning document (Volume 3) identifies non-regulatory activities for which decision-making responsibility is initially allocated to local boards (local activities).²² For example, under the Community group of activities, each local board area is responsible for decision-making and oversight of local community facilities, including leasing and change of use and developing tailored community programmes. Before it prepares its first long-term plan for 2012-22, Auckland Council may make further allocations of decision-making responsibility to local boards but must not remove or alter the initial allocations included in the planning document.²³
- 3.35 The planning document also identifies, as required, initial local board budgets for 2011/12. These initial budgets are based on achieving levels of service for local activities and providing administration and support in each local board area.²⁴

Major services of Auckland Council provided by its council-controlled organisations

- 3.36 The reorganisation has vested major activities and services – including water supply, waste-water, and transport – into Auckland Council's council-controlled organisations.²⁵ Because council-controlled organisations provide these activities and services on behalf of Auckland Council, relevant key performance measures and targets for these activities have also been reflected in the planning document as part of Auckland Council's performance framework. This information is contained both in Volume 2: *Visions, strategies and activities* and in Volume 4: *Council-controlled organisations*.
- 3.37 We also refer to this in Part 4.

²² Section 19A of the Local Government (Tamaki Makaurau Reorganisation) Act 2009.

²³ Section 48 of the Local Government (Auckland Transitional Provisions) Act 2010.

²⁴ Clause 2 of Schedule 2 of the Local Government (Tamaki Makaurau Reorganisation) Act 2009.

²⁵ We include Watercare Services Limited, which will become a council-controlled organisation from 1 July 2012.

Council-controlled organisations

- 3.38 The planning document reflects the new group structure of Auckland Council (including its new and continuing council-controlled organisations) and provides information about each of its council-controlled organisations in Volume 4. Figure 3 sets out the major subsidiaries in Auckland Council's group.

Figure 3
Auckland Council's group structure

Major subsidiaries
Auckland Council Investments Limited
Auckland Council Property Limited
Auckland Tourism Events and Economic Development Limited
Auckland Waterfront Development Agency Limited
Regional Facilities Auckland Limited
Auckland Transport Limited
Watercare Services Limited

- 3.39 Auckland Council's financial forecasts in the planning document are prepared only for the parent (Auckland Council). They do not consolidate the financial forecasts of Auckland Council's council-controlled organisations.
- 3.40 The planning document also includes detailed forecast financial information about the major council-controlled organisations, which was optional under the reform legislation.²⁶ This makes the financial disclosures more consistent with the disclosure of non-financial performance information, which includes the relevant key performance measures and targets for activities delivered by council-controlled organisations.

Financial forecasts for Auckland Council

- 3.41 Volume 5 contains the financial forecasts for Auckland Council. These forecasts are prospective balance sheets and cash-flow and comprehensive income statements for each relevant period covered by the planning document.
- 3.42 The forecasts also include funding impact statements and, for the 2010/11 and 2011/12 financial periods, summary funding statements on the basis of the districts of the former councils.

²⁶ Clause 3 of Schedule 2 of the Local Government (Tamaki Makaurau Reorganisation) Act 2009.

Part 4

What the planning document shows

- 4.1 In this Part, we highlight certain aspects of the planning document, including:
- the significant effect of the reorganisation and amendment of the former councils' financial information in arriving at the financial forecasts included in the planning document;
 - the trend in rates, including an estimated effective increase of 3.9% for 2011/12;
 - Auckland Council's substantial opening balance sheet, showing assets of \$29 billion, net assets of \$24.9 billion, which includes borrowings of \$3 billion (forecast borrowings peak at \$3.7 billion in the period covered by the planning document and remain within the limits imposed by the liability management policy); and
 - the substantial financial scale of Auckland Council's council-controlled organisations.
- 4.2 Auckland Council did not decide the rates for 2010/11 but will do so from 2011/12 (forecast at around \$1.4 billion). The 3.9% increase assumes the achievement of an efficiency target of \$47.7 million annually, equivalent to around 3.4% of rates.

Forecast rates trends

- 4.3 The rates included in the planning document for 1 November 2010 to 30 June 2011, amounting to \$0.9 billion, were set by the former councils. These rates amounted to \$1.4 billion for the full 2010/11 financial year and include general rates, uniform annual general charges, and targeted rates set in keeping with the former councils' respective policies.
- 4.4 The planning document includes estimated transition rates to be set by Auckland Council for 2011/12. These transition rates replace all rates previously set by the former councils. They are forecast at \$1.4 billion, after allowing for Watercare Services Limited progressively taking over the charging for water services.
- 4.5 This gives an effective estimated rates increase for 2011/12 of 3.9%, compared to an average increase of 6% forecast in the former councils' long-term plans, representing a reduction of about \$30 million. The effective rates increase of 3.9% is after allowing for the assumed efficiency savings of \$47.7 million referred to in Part 3.
- 4.6 The planning document shows estimated effective rates increases in the following seven years of between 2.5% and 5.0% a year.

Borrowings

- 4.7 The planning document includes estimated opening borrowings at 1 November 2010 of \$3 billion, together with cash and cash equivalents of \$0.4 billion. These balances follow debt-raising by the former councils in the period just before their dissolution. The opening borrowings include funding for additional costs of transition that were not funded by the former councils – for example, the funding provided by the Crown to the Auckland Transition Agency.
- 4.8 Auckland Council's borrowings are forecast to reduce during 2010/11, reflecting significant utilisation of cash balances at transition and allocations of debt to council-controlled organisations. After that, they are forecast to increase for six years to fund capital expenditure and peak at about \$3.7 billion, before declining as a result of lower capital expenditure in the final two years covered by the planning document.
- 4.9 The planning document shows the limits relating to borrowing under the liability management policy. The Auckland Council is expected to remain well within the limits.
- 4.10 The planning document discloses the interest rate assumptions that relate to borrowing. The rates applied are 6.10% in 2010/11, rising to 7.10% by 2018/19. It also shows the sensitivity of interest charges to changes in interest rates. If interest rates change by 1%, the interest charges change by about \$30 million each year.
- 4.11 Auckland Council will borrow mainly to fund capital expenditure both for itself and on behalf of its council-controlled organisations. About \$1 billion of Auckland Council's estimated opening borrowings relate to its council-controlled organisations.

The effect of transition

- 4.12 Volume 5 of the planning document includes a note to the prospective financial statements that shows the effect of transition.²⁷
- 4.13 This note explains the overall effect of the transition on funding for 2010/11 and for 2011/12, and on the opening balance sheet at 1 November 2010. The explanation is in the form of a reconciliation of (that is, adjustments made to) the financial information of the former councils on which the planning document is based and the equivalent financial information in Auckland Council's own forecasts.

- 4.14 The note highlights the significant reorganisation and amendment of information from the former councils in Auckland Council's planning document. The major changes relate to:
- the reorganisation of the group, including the transfer of assets and liabilities to Auckland Council's council-controlled organisations, together with associated revenue and expenditure;
 - the net effect of transition costs and efficiency savings; and
 - additional provisions to cover the estimated costs of dealing with leaky buildings.

Auckland Council's opening balance sheet

- 4.15 The planning document shows an estimated opening balance sheet at 1 November 2010, and discloses this in the Prospective Statement of Financial Position within the financial forecasts in Volume 5.
- 4.16 Auckland Council starts its operations with estimated total assets of \$29 billion and estimated total liabilities of \$4.1 billion. Its total net assets are therefore \$24.9 billion.²⁸
- 4.17 Figure 4 provides context for these numbers in relation to the whole of the local government²⁹ and central government³⁰ sectors.

Figure 4
Estimated value of Auckland Council assets and liabilities compared with the local government and central government sectors

	Total assets \$billion	Total liabilities \$billion	Total net assets \$billion
Auckland Council (as at 1 November 2010)	29.0	4.1	24.9
Local government (as at 30 June 2009)	98.8	7.5	91.3
Central government (as at 30 June 2010)	223.4	128.4	95.0

- 4.18 The actual opening balance sheet for Auckland Council will be finalised only once the final annual reports of the former councils have been completed.

²⁸ These amounts are before the consolidation of council-controlled organisations. The amounts do, however, include investments in subsidiaries that reflect their net asset values.

²⁹ See www.localcouncils.govt.nz – the numbers include the former Auckland councils.

³⁰ *Summary Financial Statements of the Government of New Zealand for the year ended 30 June 2010*, page 4.

Council-controlled organisations

- 4.19 Auckland Council's council-controlled organisations – in particular, Auckland Transport Limited and Watercare Services Limited – are of a scale and nature not matched elsewhere in New Zealand local government.
- 4.20 Auckland Transport is a new organisation created by the reform. It takes over the public transport operations of the former Auckland Regional Transport Authority and the other transport operations, principally roading, of the former councils. For 2018/19, the planning document shows total income of \$1.2 billion and total net assets of \$16 billion.
- 4.21 Watercare Services is a continuing organisation that has assumed all water operations, except stormwater, from the former councils and, where applicable, their water-related council-controlled organisations. For 2018/19, the planning document shows it will have total income of \$0.7 billion and total net assets of \$6.6 billion.
- 4.22 Figure 5 indicates the financial significance of these subsidiaries within Auckland Council's group.³¹

Figure 5
Percentage share of assets/transactions between Auckland Council and its financially significant subsidiaries

Indicative financial information*	Auckland Council	Auckland Transport	Watercare Services	Other substantive council-controlled organisations
Property, plant, and equipment (asset value – average \$36.1 billion)	34%	38%	24%	4%
Capital expenditure (annual – average \$1.3 billion)	34%	36%	26%	4%
Income (third party annual – average \$3.5 billion)	64%	17%	14%	5%
Operating expenditure (annual – average \$3.2 billion)	46%	28%	18%	8%

* Based on averages over the term of the planning document, adjusted for group funding where applicable.

31. Percentages represent averages over the period covered by the planning document.

- 4.23 The prospective financial statements included in the planning document are for Auckland Council only and do not consolidate the prospective financial information of its council-controlled organisations. Volume 4 usefully sets out prospective information about the subsidiaries in Auckland Council's group.
- 4.24 We note in Part 3 how the planning document deals with the non-financial performance aspects of services delivered by Auckland Council's council-controlled organisations, including Auckland Transport and Watercare Services, on an integrated basis.
- 4.25 The planning document's disclosures about Auckland Council's council-controlled organisations confirm the integral part they will play in maintaining and managing core infrastructural assets and services in the Auckland region.

Part 5

Auckland Council's next long-term plan

- 5.1 In this Part, we highlight important matters for Auckland Council to consider when developing its long-term plan for 2012-22. We cover:
- the heightened interest in transparency, accountability, and financial management of local authorities;
 - Auckland Council's strategic direction and the importance of consistency and integrated planning across the whole group;
 - the significant planning that Auckland Council will need to do, including the long-term plan for 2012-22 and the spatial plan; and
 - key matters the long-term plan for 2012-22 will need to address, including:
 - a performance framework that addresses Auckland Council's unique governance and accountability arrangements; and
 - a clear financial strategy.

Context for the 2012-22 long-term plan

- 5.2 The Auditor-General is required to audit all local authorities' long-term plans, and will next be doing so for the long-term plans for 2012-22. These audits will be carried out in the context of heightened interest in transparency, accountability, and financial management created by the Local Government Amendment Act 2010.

Auckland Council's strategic direction

- 5.3 After the election of Auckland Council's first new members – for the governing body and local boards – and the formal start of its operations from 1 November 2010, Auckland Council can begin to develop its own strategic approach through consultation.

Integration of planning

- 5.4 The planning document was in place on 1 November 2010, and provides useful context for considering strategy. Auckland Council's strategic direction will help guide the various aspects of the Council's planning.
- 5.5 Auckland Council needs to do significant planning, and it will be important that the various aspects are integrated and aligned with the Council's chosen strategic direction. It will also be important to align Auckland Council's planning with that of its council-controlled organisations. Key aspects of Auckland Council's planning include:
- integrating the underlying information of the former councils and of their council-controlled organisations – for example, their respective asset management plans;

- preparing the annual plan for 2011/12, and setting transition rates for that year;
- developing a spatial plan; and
- preparing Auckland Council's long-term plan for 2012-22.

5.6 The planning document acts as Auckland Council's long-term plan until the Council develops the 2012-22 long-term plan. The Local Government Act 2002 provides the mechanism for changing a long-term plan, and Auckland Council will need to use this mechanism if it decides to change the planning document before it has developed the 2012-22 long-term plan.

Significant planning needs

5.7 Auckland Council has unique features of governance that are reflected in the planning document and that will need to be developed further in its long-term plan for 2012-22. This is so that the purpose³² of the long-term plan for 2012-22 can be met in a way that reflects Auckland Council and its unique features.

Shared governance and accountability between the governing body and local boards

- 5.8 The planning document makes an initial allocation of decision-making to local boards and sets initial budgets for each local board for 2011/12.
- 5.9 The reform legislation provides mechanisms for developing local board agreements and plans between the governing body and each local board, in conjunction with a local board funding policy. Through these mechanisms, Auckland Council will need to confirm or change the initial arrangements reflected in the planning document and set a long-term basis for determining these matters.
- 5.10 Over time, Auckland Council will need to establish levels of service delivery in each local board area. It will also need to develop a detailed performance framework that addresses the accountability of both aspects of its shared governance.

Substantial subsidiaries

5.11 It will be important for Auckland Council to establish detailed performance expectations and accountability arrangements for its council-controlled organisations to ensure that their objectives are aligned with those of Auckland Council.

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

- 5.12 This will include developing a policy on accountability for substantive council-controlled organisations and individual statements of intent for each of the council-controlled organisations.
- 5.13 The planning document includes information about the financial and non-financial aspects of Auckland Council's council-controlled organisations. It will continue to be important to present these financial and non-financial aspects in an integrated way, as this will provide a clear overall performance picture of critical areas of Auckland Council's service delivery.

Other key aspects of the 2012-22 long-term plan

Service performance

- 5.14 The different levels of service of the former councils were carried over to Auckland Council on 1 November 2010. The planning document presents these as consolidated on an average basis across the Auckland region.
- 5.15 Auckland Council will need to decide the appropriate levels of service, and the associated investment and funding arrangements. It will also need to progressively identify relevant levels of service at the local board level.
- 5.16 The measures and targets included in the planning document require Auckland Council to have underlying systems and processes to record, manage, and ultimately report its actual performance in its annual report. These systems are being developed after the transition, and will also need to keep pace with Auckland Council's development of strategy and the detailed content of its overall performance framework.

Developing a long-term financial strategy

- 5.17 We have for some time emphasised the importance for a local authority to have a clear financial strategy – and that this is a major issue that should be clearly presented to the community.³³
- 5.18 The planning document reflects the consolidation of the financial approaches of the former councils. Auckland Council will need to decide its own financial strategy to meet the requirement that all local authorities manage their finances prudently.

³³ Amendments to section 101A of the Local Government Act 2002 created a new statutory requirement for preparing and adopting a financial strategy, and including it in a long-term plan.

- 5.19 Auckland Council will need to decide its financial strategy in the context of:
- completing the integration of the financial and funding policies of the former councils;
 - establishing approaches to setting transition rates for 2011/12, a single rating system from 2012/13, and a rates transition management policy for up to a further three years from that year; and
 - finalising the funding arrangements for Auckland Council's local boards, and between Auckland Council and its council-controlled organisations.

Appendix

Text of our audit opinion on the planning document

Report of the Auditor-General to the readers of Auckland Council's long-term plan for the period of eight years and eight months commencing 1 November 2010

I have audited the Auckland Council's Long-Term Plan (the Planning Document), prepared by the Auckland Transition Agency (ATA), using my staff and resources.

The Planning Document is defined by section 19A of the Local Government (Tamaki Makaurau Reorganisation) Act 2009 (the Act). It must be prepared by the ATA for the Auckland Council before the Auckland Council comes into existence on 1 November 2010. The Planning Document, which is a transitional document, is not required to be consulted upon and has not been considered or adopted by the Auckland Council.

Opinion

In our opinion:

- the Planning Document incorporating volumes 1 to 6, dated 29 October 2010, and prepared by the ATA acting on behalf of the Auckland Council, complies with the requirements of the Act in all material respects; and
- as a transitional document, the Planning Document provides a reasonable basis for accountability and input into future planning and decision making by the Auckland Council and its communities.

Actual results are likely to be different from the forecast information since anticipated events frequently do not occur as expected and the variation may be material. Accordingly, we express no opinion as to whether the forecasts will be achieved.

Basis of preparation of the Planning Document, which the Auckland Council has not had the opportunity to consider

The Planning Document is a transitional document prepared by the ATA for the Auckland Council. The Planning Document enables the Auckland Council to commence with a reasonable basis for accountability and input into future planning and decision making. However, the Auckland Council has not had the opportunity to consider the merits of any of the information presented in the Planning Document, including assumptions and underlying information, service levels and performance targets, and funding, financial and accounting policies.

Assumptions and underlying information

The assumptions in the Planning Document, together with the underlying information, which have been used to prepare financial forecasts, are based on updated assumptions and underlying information supporting the 2009-19 Long-Term Council Community Plans (LTCCPs) of the previous Auckland local authorities, and their annual plans. Significant forecasting assumptions and their associated level of uncertainty are set out on pages 41 to 48 of volume 5 of the Planning Document. Page 23 of volume 1 of the Planning Document highlights the significant assumption that the total general rates requirement can be reduced by \$47.7 million per annum from 1 July 2011 onwards by realising efficiency gains and cost reductions. The Planning Document has been prepared on the basis that the Auckland Council will identify and implement such gains and cost reductions.

Service levels and performance targets

The levels of service and performance measures in the Planning Document are based on a consolidation of levels of service and performance measures of the previous Auckland local authorities. As far as practicable, activities across Auckland have been consistently identified and grouped. As a result, the levels of service and performance targets represent an average of what is expected to be delivered by the Auckland Council, rather than the levels of service and performance targets expected to be delivered within particular local areas.

Funding, financial and accounting policies

The interim funding, financial and accounting policies in the Planning Document include:

- the following policies that have been consolidated from the multiple policies of the previous Auckland local authorities:
 - a single set of accounting policies;
 - a single liability management policy; and
 - a single investment policy; and
- other funding and financial policies that have been carried forward from the previous Auckland local authorities, such as multiple Revenue and Financing Policies, and multiple Development and Financial Contributions Policies.

The Auckland Council will be required to engage and consult with its communities on all of the above matters as required by relevant legislation.

Our report was completed on 29 October 2010, and is the date at which our opinion is expressed.

The basis of the opinion is explained below. In addition, we outline the responsibilities of the ATA, the Auckland Council and the auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the International Standard on Assurance Engagements 3000: *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards. Also, we examined the forecast financial information in accordance with the International Standard on Assurance Engagements 3400: *The Examination of Prospective Financial Information*.

We planned and performed our audit to obtain all the information and explanations we considered necessary to obtain reasonable assurance that the Planning Document, which is a transitional document, does not contain material misstatements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

Our audit procedures included assessing whether:

- the presentation of the Planning Document complies with the requirements of the Act;
- the process of consolidating the relevant information in the 2009-19 audited LTCCPs and Annual Plans of the previous Auckland local authorities was adequate, and the transition and other adjustments are reasonable and supportable;
- the policies adopted by the ATA for the Auckland Council have been consistently applied in the development of the forecast information;
- the assumptions set out in the Planning Document are based on the best information currently available to the ATA acting on the Auckland Council's behalf, and provide a reasonable and supportable basis for the preparation of the forecast information;
- the forecast information has been properly prepared on the basis of the underlying information and the assumptions adopted, and the forecast information complies with generally accepted accounting practice in New Zealand;
- the intended levels of service provision are appropriately reflected throughout the Planning Document;

- the performance targets and other measures by which actual levels of service provision may meaningfully be assessed reflect the key aspects of the intended service delivery and performance;
- the relationship between the intended levels of service and the performance measures and forecast financial information has been adequately explained in the Planning Document; and
- the financial approach outlined by the ATA for the Auckland Council and reflected in the financial overview, supported by the policies included in the Planning Document, has been clearly communicated in the Planning Document.

We do not guarantee complete accuracy of the information in the Planning Document. We evaluated the overall adequacy of the presentation of information. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the ATA and the Auckland Council

The ATA is responsible under the Act for preparing the Planning Document for the Auckland Council, by applying assumptions and presenting the Auckland Council's forecast information in accordance with generally accepted accounting practice in New Zealand. The ATA's responsibilities arise from section 19A of the Act.

The Planning Document is required to be based on the best information currently available to the ATA acting on the Auckland Council's behalf, and to comply with the provisions of Schedule 2 of the Act. Clause 1 of Schedule 2 of the Act requires the Planning Document to be based on a consolidation of the relevant information contained in the 2009-19 LTCCPs of the previous Auckland local authorities (that will be dissolved on 31 October 2010), and, to the extent relevant, on their Annual Plans.

The Auckland Council's responsibilities commence on 1 November 2010. Consequently the Auckland Council has not had the opportunity to consider the merits of the Planning Document, which reinforces that it is a transitional document. For the period from 1 November 2010 to 30 June 2012, the Planning Document serves as the Auckland Council's LTCCP that local authorities are required to have in accordance with section 93 of the Local Government Act 2002. For the period from 1 November 2010 to 30 June 2011, the Planning Document serves as the Auckland Council's Annual Plan that local authorities are required to have in accordance with section 95 of the Local Government Act 2002.

Responsibilities of the auditor

We are responsible for expressing and reporting to you an independent opinion on the Planning Document that includes the extent to which it complies with the requirements of the Act. This responsibility arises from section 15 of the Public Audit Act 2001 and clause 7 of Schedule 2 of the Act.

It is not our responsibility to express an opinion on the merits of any policy content in the Planning Document.

Independence

Other than this report, the audits of the previous Auckland local authorities and the ATA, and as auditor of the Auckland Council and its subsidiaries, we have no relationship with, or interests in, the Auckland Council or the ATA.

Lyn Provost
Controller and Auditor-General

Wellington
New Zealand

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