Controller and Auditor-General
Tumuaki o te Mana Arotake

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Insights into local government: 2019

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Auditor-General's overview

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

At the time the content of this report was prepared, Covid-19 had not reached New Zealand. Covid-19 has severely disrupted our way of life. The pandemic is a stark reminder of how quickly risk can appear. Although the response to Covid-19 has, quite rightly, been a national one, communities will be looking for local leadership more than ever as we move from response to recovery.

The effects of Covid-19 will create financial stress for many in the community and for the councils that serve them. The full implications are still unclear. However, what is known is that many of the previous assumptions councils made about the future will no longer be reasonable.

Therefore, the need for long-term planning has never been more important than it is now. The recovery from Covid-19 is likely to take many years. Councils will need to be clear with their communities about their revised plans, and the implications of these plans, during this recovery. To do this will require strong governance and an appropriate focus on risk management.

Ongoing and new risks and challenges

Before Covid-19, councils were already facing many complex and difficult issues and risks. Natural hazard events were increasing in frequency and severity, with the effects of climate change becoming more evident. Growth pressures were becoming common throughout the country, not just in the main centres. In some instances, historical underinvestment in core infrastructure, which is often combined with a lack of a full appreciation of the current state of infrastructure, has resulted in asset failures and service disruptions.

Covid-19 has added a significant additional challenge, with several implications for councils. Effective risk management policies and practices are now more vital than ever. The knowledge, governance, and dialogue needed to effectively manage risk have not changed, but have now taken on more significance. To continue to achieve their strategic objectives, I expect councils to:

- understand the expectations central government, ratepayers, and communities have for the services they provide;
- understand the current and predicted asset condition and performance of their assets, as well as future asset needs, particularly for critical assets;
- be properly informed about risks and opportunities to service delivery in order to make relevant decisions and manage the trade-offs of risks with cost and level of service;

- discuss risks, opportunities, and trade-offs with their communities. To do this effectively, priorities, assumptions, and trade-offs need to be transparent and understandable to communities; and
- make evidence-based decisions to address ongoing and future work programmes.

Councils will need to re-visit their assumptions for each of these areas in the light of Covid-19. Central government also has a role in actively working with councils about matters of shared national interest and risk, such as climate change and Covid-19. However, we have seen strained relationships between central and local government. In our work on water management, we found there was no clear agreement across central and local government about the priorities for water management. Without this agreement, there is increased risk that efforts are not being directed to achieving the same outcomes. The Productivity Commission also made the observation recently that there is a lack of appreciation of each other's roles. This will need to change to support councils in providing essential services to their communities.

This report discusses several trends and developments in 2019 and gives some insights into how councils were managing risks before Covid-19.

What we saw in 2018/19

I remain concerned that councils might not be adequately reinvesting in their critical assets. For some time, my Office has reported that annual renewals spending on assets has been less than the annual depreciation of assets. This is commonly referred to as the renewals gap. This trend continued in 2018/19. Without adequate reinvestment, there is an increasing risk of asset failures and service disruption. I expect each council to turn its mind to the robustness of the renewals gap in its context and the funding implications arising. My auditors will be particularly focusing on that as they consider councils' 2021-31 long-term plans. This is not an issue for only asset managers to resolve – it requires input from others, such as finance and strategic planning staff. More importantly, it requires leadership from councillors. Strategic asset management is complex and needs a council-wide response based on good information.

This report provides an example of good practice by Ōpōtiki District Council, which, aware of the climate-related risks facing its community, worked systematically towards getting better information about its wastewater assets to deliver a cost-effective programme. Many councils already work closely together and learn from each other's experiences. Ōpōtiki District Council's experience is one I hope other councils learn from.

In the 2019 calendar year, 16 councils declared a climate emergency, and most councils focused on aspects of climate-related activity in their 2018/19 annual reports. Increased climate-related events pose significant risks to service delivery and solutions often come with significant costs. Major decisions to address the risks of climate change are required, and there is more to do to get better information to inform those decisions. It is important that councils are transparent with their communities about their current understanding of the risks from climate change, what they are doing already in the areas of mitigation and adaptation, and what other action they propose on behalf of their communities. There is also the need for national leadership.

Audit and risk committees help councils better understand their strategic risks and what they can do to eliminate or mitigate them. I am pleased that almost every council now has an audit and risk committee and more than half of councils have, or are planning to appoint, an independent chairperson. I encourage this because having independent committee members and chairpersons ensures that councils receive impartial advice from people who are not involved in decision-making. We have observed increasingly effective working practices of many audit and risk committees. It has been particularly pleasing to see the way that some councils, notably Auckland Council, have used their audit and risk committees during the Covid-19 pandemic.

The costs, risks, and other effects from Covid-19 will be important considerations for councils now and for the future when preparing their 2021-31 long-term plans. Active, integrated, and honest conversations about risks need to involve councillors, staff, management, communities, and stakeholders. The 2021-31 long-term plans are an opportunity for these conversations to occur. Responding to the risks created by Covid-19 will be a significant challenge, but this disruption will also create new opportunities for councils as they consider ways to innovate and promote the well-being of their communities.

My Office will continue to support councils as they plan for the future, build their resilience, and respond to ongoing and new risks and challenges, including the effects of Covid-19 for their communities.

Nāku noa, nā,

John Ryan
Controller and Auditor-General

10 June 2020

2018/19 at a glance

Main financial results of all councils

Total revenue	Total operating expenditure	Total assets	Total liabilities
$13.5 billion	**$12.5 billion**	**$156 billion**	**$24.4 billion**
$6.3 billion from rates		$137 billion is property, plant, and equipment	$17.1 billion is council debt

Spending on assets of all councils

Total capital expenditure was $4.66 billion

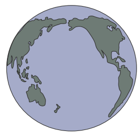
Overall, councils spent	40 councils spent less than	Renewal expenditure was	High-growth councils achieved
82%	**80%**	**79%**	**64%**
of their capital expenditure budgets	of their capital expenditure budgets	of the amount of depreciation recognised	of their demand-related capital expenditure budgets

Sector results and activities

Audit and risk committees

76 councils have an audit and risk committee.
67 have independent committee members or chairpersons.
42 councils have independent chairpersons.

Climate-related actions



16 councils declared climate emergencies in the 2019 calendar year.

Some are putting new governance arrangements in place to consider climate-related actions.

Building and resource consents

34,754 **new** dwellings consented in the year ended 30 June 2019

How did councils perform against the 20-day timeliness requirements for consents?

42 of **67** councils reported 95% compliance, or better, in processing building consent applications.

41 of **67** councils reported 95% compliance, or better, in processing non-notified resource consent applications.

74 councils

adopted their annual report by the statutory deadline.

Three councils that missed the deadline adopted by the end of November 2019, and **one council** adopted by the end of December 2019.

65 councils

had clear audit opinions, which meant that there was **positive assurance over their financial and non-financial performance**. Thirteen councils had modified audit opinions, which meant there were matters of concern or information we highlighted.

How councils responded to forecast infrastructure investment

1

1.1 In this Part, we discuss how well councils reinvested in their assets, built assets needed for growth, and delivered on their 2018/19 capital expenditure budgets.

1.2 The main trend we identified in councils' financial forecasts in their 2018-28 long-term plans (LTPs)[1] was that councils were planning to invest in their assets at levels not seen before. To have a realistic chance of achieving their capital expenditure programme budgets, we said that councils needed to carefully plan, prioritise, and monitor their budgets.

1.3 Councils are required to disclose their capital expenditure in three categories:

- replacing or renewing assets;
- building new assets to meet additional demand; and
- improving service levels.

1.4 Most of the planned capital expenditure in councils' 2018-28 LTPs was to replace or renew council assets. However, this expenditure was less than the forecast depreciation charge for the 10-year period. This indicated to us that, as a whole, councils did not appear to be forecasting to adequately reinvest in their assets. We said that this could result in the quality of their assets deteriorating.

1.5 If councils continue to underinvest in their assets, the cost of reinvestment to reinstate the service potential of existing assets might fall on future generations. We have been concerned about this for some time.

1.6 We also identified that "high-growth"[2] councils had challenges to address, including how they would fund the planned capital expenditure.

1.7 Therefore, we analysed councils' financial information to see what happened in 2018/19, the first year of the 2018-28 LTP period. Specifically, we asked:

- How well are councils reinvesting in their assets?
- How well did councils build the assets they need for ongoing growth?
- How well are councils delivering on their capital expenditure budgets?

How we carried out our analysis

1.8 To carry out our analysis, we considered the local government sector both as a whole and as five sub-sectors. The sub-sectors were:

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

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

2 High-growth councils are defined under the National Policy Statement on Urban Development Capacity. See also Appendix 2.

- regional councils; and
- rural councils.

1.9 See Appendix 2 for more information on the sub-sectors.

How well are councils reinvesting in their assets?

1.10 To consider how well councils are reinvesting in their assets, we compared capital expenditure on renewals with depreciation. We consider depreciation to be the best estimate of the portion of the asset that was "used up" during the financial year.

1.11 Overall, we remain concerned that councils might not be adequately reinvesting in critical assets. If councils continue to underinvest in their assets, there is a risk of reduced service levels, which will negatively affect community well-being.

1.12 In 2018/19, all councils' renewal capital expenditure was 79% of depreciation. This means that, for every $1 of assets used up, councils were reinvesting only 79 cents. This percentage was less than the 91% that all councils planned for in their 2018-28 LTPs. For 29 councils, renewal capital expenditure was more than 100% of depreciation, which is the highest number in the last seven years. The majority of these councils had budgeted to spend more than 100% of depreciation on renewal capital expenditure.

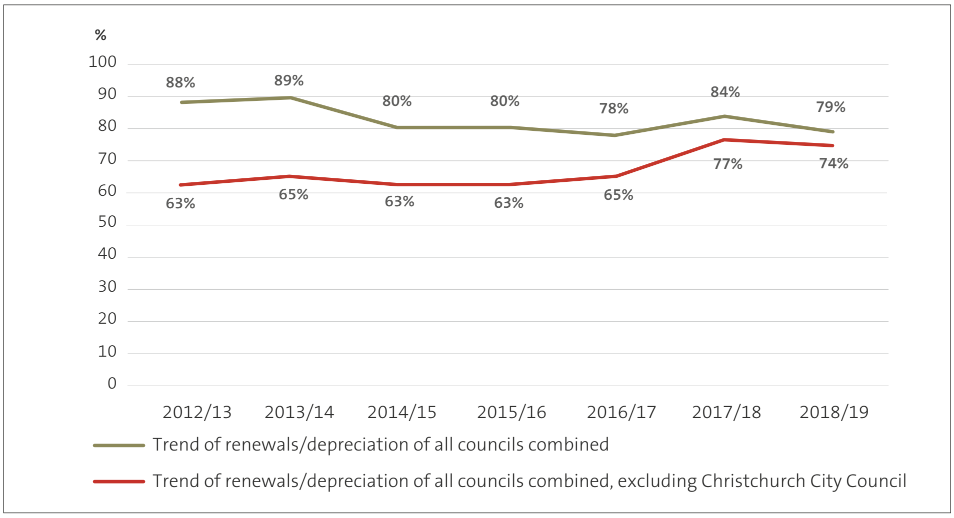
1.13 Figure 1 compares renewal capital expenditure with depreciation for all councils, from 2012/13 to 2018/19. There are two lines on the graph. The green line includes all councils. The red line excludes Christchurch City Council.

1.14 Christchurch City Council's renewal capital expenditure is proportionately higher than other councils because of the rebuilding work it has done since the 2011 Canterbury earthquakes.

1.15 During the past seven years, renewals ranged between 78% and 89% of depreciation for all councils. The effect of Christchurch City Council's rebuild effort after the Canterbury earthquakes did not give a true picture of how much all councils were investing in renewals, mainly from 2012/13 to 2016/17. We have seen a significant improvement in other councils' renewal investment from 2016/17.

Figure 1
Renewal capital expenditure compared with depreciation for all councils, 2012/13 to 2018/19

There are two lines on the graph. The green line includes all councils, and the red line excludes Christchurch City Council. Both lines show that renewal capital expenditure is less than depreciation for the period from 2012/13 to 2018/19, although there has been a significant improvement in councils' renewal efforts since 2016/17.



Source: Analysed from information collected from councils' annual reports.

1.16 When considering council sub-sectors, and excluding Christchurch City Council, two sub-sectors have a different trend to the red line in Figure 1:

- Regional councils' renewals as a percentage of depreciation ranged from 74% (in 2012/13) to 170% (in 2018/19). Greater Wellington Regional Council replacing a significant amount of public passenger vehicles during 2018/19 heavily influenced that year's figure.
- Rural councils' renewals as a percentage of depreciation ranged from 75% (in 2016/17) to 98% (in 2018/19). Rural councils' roading assets are rural councils' largest asset category. A central government subsidy through the New Zealand Transport Agency (NZTA) partly funds these assets. The funding from NZTA gives councils an incentive to replace their roading assets. This funding relationship might explain why they have a different trend to other councils.

1.17 Several factors could be contributing to the gap between renewals and depreciation, which might partially explain the apparent underinvestment in assets. For example, depreciation could be overestimated (because councils have not reviewed and adjusted the remaining useful lives of assets), or there could be changes in prices associated with asset renewal work over time. We discuss the importance of accurate depreciation expense estimates below.

1.18 In our view, each council needs to consider the robustness of the renewals gap in its context and the funding implications arising to ensure that there is adequate financial provision for renewing assets in the future.

1.19 To do this well, councils need to improve their asset management information. In particular, they need:

- good data about their critical assets in order to value, depreciate, and plan renewals;
- good processes and sufficient resources to maintain and update their critical asset data;
- effective working relationships between asset management, finance, and strategic planning staff, all of whom have an important role to play in supporting a council's asset management function; and
- timely engagement with, and involvement by, elected members.

1.20 We provide a good practice example of a council that prioritised collecting better condition and performance information for their assets in Part 2.

1.21 We will continue to encourage councils to prioritise reinvesting in their assets and being transparent with their communities about the condition of council assets and reinvestment strategies.

How councils can improve the reasonableness of the depreciation expense

1.22 Depreciation is a major expense for all councils. It reflects the progressive using up of an asset during its useful life. In 2018/19, depreciation across the local government sector amounted to $2.52 billion.

1.23 Although depreciation is a non-cash cost, it has economic substance. It reflects that assets deteriorate through use and need to be periodically replaced. It is important for councils to ask whether the assessed depreciation charges are reasonable, given the age and condition of their assets.

1.24 Not having a reasonable depreciation expense has some significant risks for a council. For example, the amount of revenue a council collects to renew its assets might exceed or fall short of what is required. Because many councils use rates revenue to fund the renewal of assets, this could mean that councils are collecting too much rates revenue or not enough.

1.25 The reasonableness of depreciation relates to the assumptions used and how they compare to industry expectations, councils' understanding of their assets data (including the condition and performance of critical assets), and the strength of the asset valuation process. Good assumptions to support the depreciation expense is needed for councils to make good decisions about the renewal of their assets.

1.26 We are aware that some valuers are becoming concerned about the quality of councils' asset valuations. In our view, the main valuation challenges that need to be addressed are:

- understanding what an asset's "useful life" is;
- regularly reviewing asset useful lives;
- being over-reliant on asset useful lives that have not been properly assessed for the council's situation;
- collecting enough asset condition and performance data;
- weak records about the cost of asset renewals;
- actively considering new asset replacement techniques;
- ensuring that council staff who rely on valuation information are involved early in the valuation process so the valuation meets everyone's needs; and
- the industry guidance developed by the Institute of Public Works Engineering Australasia that councils use to inform asset valuations is updated.

1.27 We discuss these valuation challenges in Appendix 4. We encourage councils' audit and risk committees to discuss with council staff how their council is considering and addressing these challenges.

1.28 Using their financial strategies and revenue and financing policies, councils will need to assess the extent to which they will fund depreciation through revenue sources such as rates. The Local Government Act 2002 requires councils to be financially prudent. It is far more difficult for a council to demonstrate financial prudence if it does not fully fund its depreciation expense through revenue sources.

1.29 We are concerned that councils are not paying enough attention to assessing the appropriate depreciation expense in conjunction with its periodic valuation of its assets. Some useful steps a council could take to improve the quality of its asset valuations, and therefore the reasonableness of its depreciation expense, are:

- having better processes to identify and plan for when a valuation is required – all relevant parties, including the valuer and the council's finance and asset management staff, should be involved in this process to ensure that all aspects are considered;
- treating the valuation process as a project and using good project management principles;
- incorporating the valuer's suggestions for improvement into work programmes; and
- appropriately measuring work on the improvement areas identified in a valuation process and formally reporting progress to its audit and risk committee.

1.30 Having a more accurate depreciation expense will help inform councils of the right amount of reinvestment their assets need over the medium to long term to continue to deliver services to the community. It will also give councils a better understanding of the current costs of delivering those services.

How well did councils build assets needed for ongoing growth?

1.31 This is the first year we have examined how well councils experiencing population growth have achieved their growth-related capital budgets. We found that most councils did not build all the assets they budgeted for in 2018/19. These councils will need to reassess their future planned budgets to accommodate what was not achieved in 2018/19. We will continue to keep an eye on their performance.

1.32 Some councils are experiencing significant population growth. These councils have been defined as "high-growth" councils under the National Policy Statement on Urban Development Capacity.[3] In their 2018-28 LTPs, high-growth councils forecast making significant investments to meet the additional demand on their infrastructure.

1.33 In 2018/19, high-growth councils spent about $0.93 billion on capital expenditure intended to meet additional demand. This was about 64% of the $1.46 billion budgeted for this purpose. Two councils, Christchurch and Tauranga City Councils, spent more than their growth-related capital expenditure budgets. In contrast, Selwyn and Western Bay of Plenty District Councils spent less than 40% of their budgets.

3 See Appendix 2 for more information about which councils are defined as high-growth.

1.34 In their annual reports, high-growth councils said that delays and "timing differences" in projects were the main reasons why they did not meet their growth-related capital expenditure budgets. The main reason Christchurch and Tauranga City Councils spent more than their budgets was because they brought growth-related projects forward and completed them earlier in 2018/19.

1.35 High-growth councils did not cite funding concerns as a reason why they did not complete their growth-related capital expenditure. High-growth councils received capital subsidies or grant revenue of $0.46 billion – 26% less than the $0.62 billion budgeted. This decrease appears to be because councils had not started projects, rather than the funding not being available to allow projects to begin.

1.36 Non-council development still occurs in high-growth council areas. In 2018/19, third parties (mainly developers) gifted[4] $0.76 billion of assets to high-growth councils to manage and maintain in the future. This was about 46% more than the $0.52 billion budgeted.

How well are councils delivering on their capital expenditure budgets?

1.37 Most councils did not deliver on their capital expenditure budgets.

1.38 Councils' total capital expenditure in 2018/19 was $4.66 billion, which was the highest amount councils spent on their assets in the last seven years. However, the amount spent was only about 82% of the $5.70 billion budgeted.[5] This is a smaller percentage than in 2017/18, when councils spent 84% of their capital expenditure budgets.

1.39 Project delays or deferrals were the most common reasons given by councils that spent significantly below their capital expenditure budgets. These delays were caused by several matters, including reprioritisation of council projects, internal delays (such as consenting issues), and contractual delays (such as tender processes taking longer than expected).

1.40 On average, all council sub-sectors spent less than 100% of their capital expenditure budgets. The regional council sub-sector was the lowest, spending $175 million or, on average, 66% of their budget. By comparison, Auckland Council spent $1.90 billion or 89% of its budget.

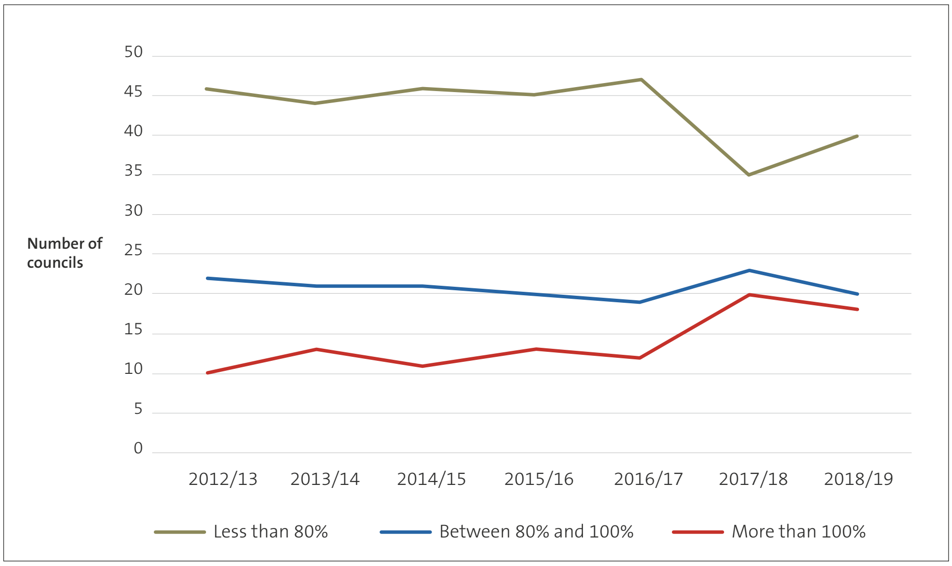
1.41 Looking at individual councils, 40 councils spent less than 80% of their capital expenditure budgets. This continues a trend we have observed over time (see Figure 2).

4 Gifted assets are called "vested assets" in councils' statement of comprehensive revenue and expense statements. They are a type of non-cash revenue. Typically they are roads or pipes connecting properties to the council's networks.

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

Figure 2
How much councils spent of their budgeted capital expenditure, 2012/13 to 2018/19

In 2018/19, 40 councils spent less than 80% of their capital expenditure budgets. This was five more councils than in 2017/18, although it was less than in the other years. Councils spending more than 100% of their budget remained the smallest category.



Source: Analysed from information collected from councils' annual reports.

1.42 Most councils fund some of their capital expenditure through debt. As at 30 June 2019, councils' total debt was $17.1 billion, which was $1.0 billion more than at 30 June 2018. Councils had budgeted to have $17.7 billion of debt at 30 June 2019. However, councils did not need all of this debt because they did not spend all of their capital expenditure budgets.

1.43 In our report on councils' 2018-28 LTPs, we considered that councils would need to carefully plan, prioritise, and monitor their capital programme budgets to have a realistic chance of achieving them.[6] After looking at their 2018/19 performance, our views have not changed.

6 Office of the Auditor-General (2019), *Matters arising from our audits of the 2018-28 long-term plans*, Wellington, paragraph 3.29.

1.44 Councils will soon be preparing their 2021-31 LTPs. During this process, councils should consider how achievable their capital expenditure forecasts are. We encourage councils to consider:

- their previous delivery of capital expenditure budgets;
- their, and the local contracting industry's, capability and capacity to deliver the proposed capital expenditure budgets; and
- other planning needs, such as consent requirements.

1.45 Recently, the Government set up the New Zealand Infrastructure Commission – Te Waihanga. The Commission seeks to improve infrastructure planning and delivery. By doing so, it hopes to improve New Zealanders' long-term economic performance and social well-being.

1.46 One area of focus for the Commission is creating an infrastructure "pipeline"[7] that will be built up over time. The pipeline will give the market more visibility and more certainty about future projects to help suppliers plan and prepare. We encourage all councils to engage with the Commission so that it can begin including their future projects in the pipeline.

1.47 The Commission also provides procurement and delivery advice and support. We encourage councils to investigate how the Commission can support them.

7 The pipeline is a list of intended infrastructure projects provided by central and local government organisations and the private sector.

2 The importance of good asset information

2.1 For some time, we have said that councils should collect better information about the condition and performance of their critical assets.[8]

2.2 In this Part, we describe why having better condition and performance information is important. We describe the approach Ōpōtiki District Council (the Council) took to collect better information about its assets and the benefits it realised. We encourage other councils to consider this example of good practice.

Why having better asset information is important

2.3 Councils own assets so they can provide important services, such as delivering drinking water and protecting communities from floods. As asset managers and stewards, councils need to have the right information about their assets to effectively manage them. This means that councils need to identify which of their assets matter most, based on which are the most critical for the continued delivery of the services they provide.

2.4 All councils need up-to-date knowledge of their critical assets, especially their condition and performance, to make well-informed decisions about maintaining and renewing those assets before they fail.

2.5 Councils also need to know the condition and performance of their assets so they are well equipped to deal with change. Change can come in several ways – for example, changes to regulations, a growing community, or the effect of the changing climate on the severity of storm events and water levels.

2.6 Councils responding to change might need to deliver services in different ways. They will need condition and performance information to do this efficiently and effectively.

Ōpōtiki District Council's wastewater network

2.7 The sewers under the Ōpōtiki township (the main settlement in the district) were first installed in the 1950s. From the early 2000s, the performance of the wastewater network was poor, and many in the township suffered from loss of service. This was because the wastewater network did not have the capacity to deal with heavy rainfall events and the sewerage pipes were reaching the end of their useful lives.

2.8 During periods of heavy rain, the wastewater treatment plant would regularly overflow untreated effluent, which led to concerns for public health. There were also concerns that the wastewater network could not accommodate future development. The Council's approach at the time – to fix it when it broke – was not working and was proving too costly to continue.

8 For example, see our December 2017 report, *Getting the right information to effectively manage public assets: Lessons from local authorities.*

2.9 The Council did not have the information to know what the main cause of the poor performance was, which meant it did not know how to best respond to the network failure.

Why the Council prioritised collecting better information

2.10 Initially, the Council considered how to replace the wastewater network. However, the Council determined it did not have the information it needed to make an informed decision about how to replace the wastewater network or even whether replacing the network was the right decision. Any potential solution also needed to consider the changing climate.

Proper governance processes were put in place

2.11 The Council set up a subcommittee to govern the project to find a solution. It appointed an independent member with an engineering background to the subcommittee. The Council told us that it found the independent member hugely beneficial because they helped ensure that the right questions were asked and that staff provided the right information to effectively govern the project.

What type of information did the Council collect?

2.12 In 2013/14, the Council started collecting a range of information to get a sense of the condition and performance of its sewer networks.

2.13 One of the first things the Council did was check the general state of the pipes and to try to identify how much rainwater was flowing into the wastewater network. This work focused on the worst-known sewer mains, as well as a representative sample of the network. In the end, the Council checked about 15% of the network.

2.14 The Council also increased its monitoring of ground water, river levels, rainfall, and its pump station. From this monitoring, the Council confirmed that rainwater was entering its wastewater network through gully traps and illegal connections. Ground water was also getting into the wastewater network through old broken underground pipes.

2.15 The Council used the information the modelling work collected to develop and evaluate scenarios and options to address its wastewater problem.

Tailored repair work – the Find and Fix project

2.16 In 2015/16, the Council carried out an initial trial in Ōpōtiki's smallest catchment. The trial was known as the Find and Fix project. The project found and fixed areas of water infiltration into the network. It repaired both council-owned wastewater pipes and privately owned pipes.[9] The Council funded the repair work on privately owned pipes.

2.17 The Council also educated its community about the best ways to dispose of rainwater collected on their property. Council management considered that this helped reduce the level of rainwater coming into the wastewater network.

2.18 The Council continued its monitoring programme during the project and observed a significant reduction in the amount of rainwater coming into the catchment's wastewater network once the repair work was completed.

The Council's decision to fix the wastewater network

2.19 Based on the information it collected, the modelling it did, and the results of the Find and Fix project, the Council decided to rehabilitate (fix) the existing wastewater network in 2017. The rehabilitation option was partly an extension of the Find and Fix project.

2.20 The Council would continue to fix broken pipes – both private pipes and those owned by the Council. For the main reticulation pipes, the Council relined the existing pipes instead of installing new pipes. This would extend the life of the pipes, although for a shorter time than if new pipes had been installed.

2.21 The rehabilitation project was budgeted at $12 million and was scheduled to start in the 2018 financial year and finish in 2020. At the time of writing this report, the Council was nearing the end of the rehabilitation project as it initially had planned.

2.22 The Council has spent about $5 million on fixing the wastewater network, which is less than it expected. It has assessed that the average daily flows going through the wastewater network have reduced by at least 25% because of the work of the rehabilitation project.

2.23 Council staff believe that the Council will need to continue to collect the information we discussed in paragraphs 2.13 and 2.14. This information will be used again to target repairs where they are most needed and to maintain a sustainable system in the future.

9 These are the laterals that connect a private property to a council's reticulation system.

The benefits of, and lessons from, collecting better information

2.24 We asked council management about the main benefits of, and the lessons learned from, its work on the wastewater network. Council management saw three main benefits:

- The Ōpōtiki community is receiving a significantly better level of service. There are fewer wastewater overflows, and the wastewater treatment plant no longer reaches capacity during heavy rainfall events.
- The Council identified an effective solution through an evidence-based decision-making process, which saved the Council and its community money. However, the cost was significant, because the Council had to quickly make up for years of underinvestment.
- The Council learned the value of investing in data systems to gain good information about assets to inform decisions. The Council told us that, if councils decide to collect better information, they need to commit to data collection and budget accordingly. A council will not get the full benefits if it does not properly invest in the investigative stage.

2.25 We encourage councils, especially those that do not have good-quality information about the condition and performance of critical assets, to learn from the Council's initiative.

3 Responding to growth: Consenting development

3.1 In this Part, we look at information in councils' annual reports on building and resource consenting decisions, and statistical information on recent sector trends. We also look at narratives from some councils' annual reports about their consenting operations to understand their performance and the reasons they give for it.

3.2 Managing growth is a challenge for many councils. Responding to growth pressures for housing, associated infrastructure, community facilities, and services is complex, time critical, and expensive. We acknowledge that councils are often the last resort for liability claims when things go wrong.

3.3 We regularly comment on infrastructure challenges in our reports on the local government sector, including this report. The Productivity Commission's 2019 report *Local government funding and financing* noted that growth is one of the most significant challenges councils face.

3.4 A particular challenge is supplying enough infrastructure for urban growth. The Commission said that "[t]he failure of high-growth councils to supply enough infrastructure to meet housing demand is a serious problem".

3.5 Ineffective development planning and consenting are regularly raised as reasons for excessive development costs and delays, particularly to housing development.

3.6 Most councils did not meet the statutory time frames for processing building consent applications and non-notified resource consent applications, although many came close.

Council responsibilities

3.7 Councils have primary responsibility for planning and regulating land use and building under the Resource Management Act 1991 and the Building Act 2004.

3.8 Councils have a statutory requirement to process most building consent and non-notified resource consent applications within 20 working days.[10] As part of the audit of councils' non-financial performance, our auditors often look at how councils meet this requirement.

3.9 Meeting timeliness requirements for building and resource consent applications is only an indicator of councils' effectiveness in responding to growth. The information contained in councils' annual reports does not give a measure of the quality of the development proposals, decision-making, or planning. We also recognise that speed and cost are indicators of efficiency but not necessarily indicators of regulatory quality or value for ratepayers.[11]

10 The statutory days exclude days where the applicant provides further information or the processing end date has been extended.

11 However, other organisations do assess regulatory quality and value. For example, International Accreditation New Zealand does biannual assessments of building consent authorities to check that they have, and consistently and effectively implement, the minimum policies, procedures, and systems a building consent authority must have to perform building control functions.

3.10 In addition to planning for growth and consenting, councils are exposed to liabilities from regulatory and implementation failures. Weathertightness claims continue to be significant.

3.11 It takes only one failure to result in a significant cost to ratepayers. For example, the Bella Vista development in Tauranga, where the near-completed housing development was found to have serious structural and geotechnical defects.

3.12 Tauranga City Council ultimately purchased the site developed by Bella Vista. The Council is currently in a public tender process to re-sell the site for development to cover the cost of its purchase. The cost to ratepayers, not including the Council's insurance proceeds, is currently more than $3.5 million.[12]

3.13 Councils also meet the costs of policing (and prosecuting) unconsented and unlawful activity. Councils are also often the last resort for meeting liability claims, even where others are partly or fully responsible, creating an incentive to be cautious.

Performance of regulatory functions: Building and resource (land-use) consenting

3.14 Typically, councils have a target to process 100% of consent applications within 20 working days, but we did see some variations. For example, Hutt City Council had a target to process 80% of building and resource consent applications within 18 working days, and Rotorua Lakes Council had a target to process 60% of building and resource consent applications within 15 working days. Other councils had targets of less than 100% in 20 working days, which is not consistent with statutory obligations.

3.15 New or substantive building works often require a building consent but not a resource consent. Therefore, councils usually process more building consent applications than resource consent applications.

3.16 We looked at annual report information for building consent applications and non-notified resource consent applications for 67 territorial and unitary authorities. We did not look at notified resource consent applications, because these are usually complex and take more than 20 working days to process.

3.17 Regional councils also process consent applications for matters in their areas of responsibility, including major earthworks to do with buildings. We did not include these applications, because they are a minority and are not usually substantive for approving building developments.

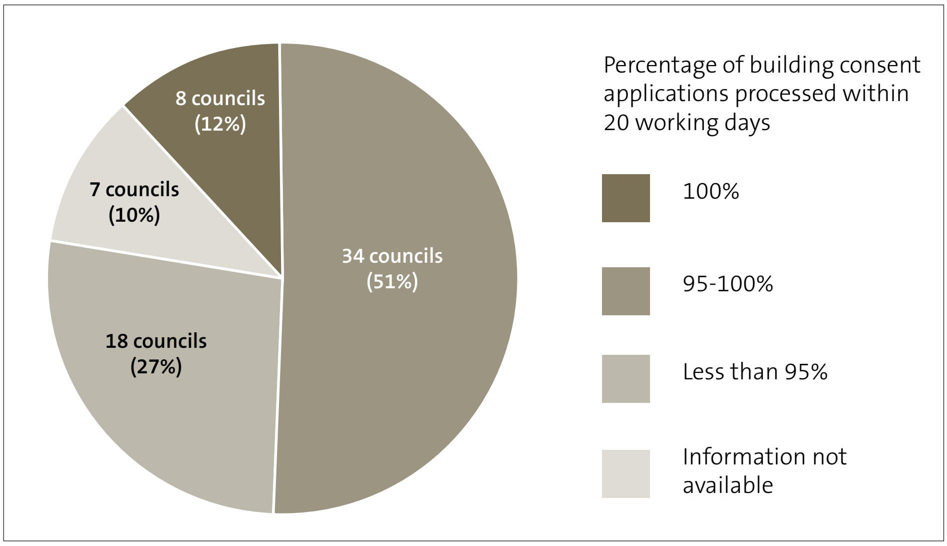
12 Tauranga City Council press release, (6 December 2019), "Tauranga City Council sells 22 properties" at tauranga.govt.nz.

Building consent delivery performance

3.18 Eight councils reported that they had processed 100% of building consent applications within 20 working days, which is the statutory requirement.[13] Thirty-four councils reported that they processed between 95% and 99% of building consent applications, and 18 councils reported that they processed fewer than 95%. We did not find usable information about the processing of building consent applications in seven councils' annual reports.

Figure 3
Building consent applications processed by councils within 20 working days in 2018/19

In 2018/19, eight of 60 councils reported that they processed 100% of building consent applications within 20 working days, which is the statutory requirement. Thirty-four councils processed between 95% and 99% of building consent applications within 20 working days. Eighteen councils processed fewer than 95% of building consent applications within 20 working days. We could not find usable information on building consent timeliness for seven councils.



Source: Collated from 67 councils' annual reports.

3.19 Invercargill City Council (which processed 64% of building consent applications) remarked on a significant increase in the number and value of building consent applications compared to the previous 12 months. It also stated that "resources

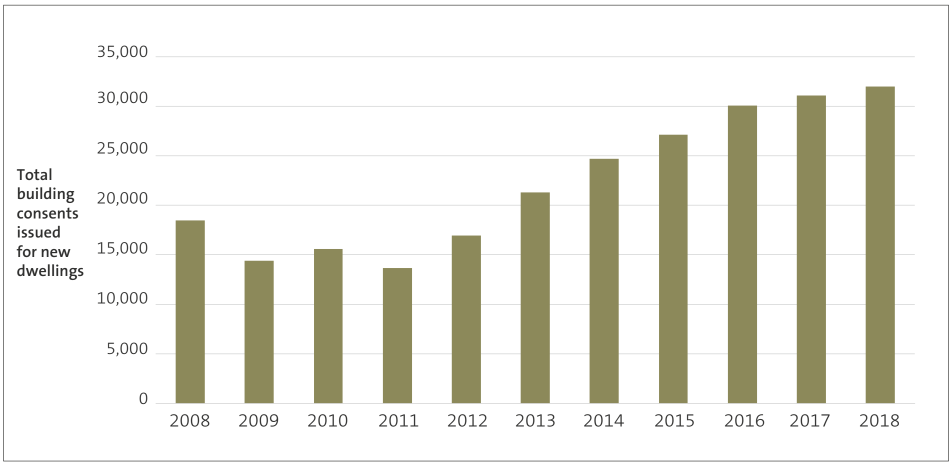
13 These councils are Kāpiti Coast District Council, Kawerau District Council, Ruapehu District Council, South Wairarapa District Council, Upper Hutt City Council, Waipa District Council, Wairoa District Council, and Whanganui District Council.

(both internal and external) had been insufficient to meet the demand. This increase in applications is a nation-wide trend, as is the shortfall in qualified staff".[14]

3.20 Statistics New Zealand reports increasing numbers of building consents issued, mainly for housing, which has been sustained since 2012/13.[15]

Figure 4
Total building consents issued for new dwellings, 2008-18

In 2018, all councils issued more than 30,000 consents for new dwellings. In 2011, all councils issued fewer than 15,000 consents for new dwellings. The graph shows a steady increase in consents issued between 2011 and 2018.



Source: Statistics New Zealand.

3.21 Statistics New Zealand recorded that Auckland Council processed 14,956 building consent applications in 2018/19, which is 37% of all building consent applications (40,855). Only five other councils processed 1000 or more consent applications: Christchurch City Council (2746), Hamilton City Council (1696), Tauranga City Council (1375), Queenstown-Lakes District Council (1364), and Wellington City Council (1016).

Resource consent delivery performance

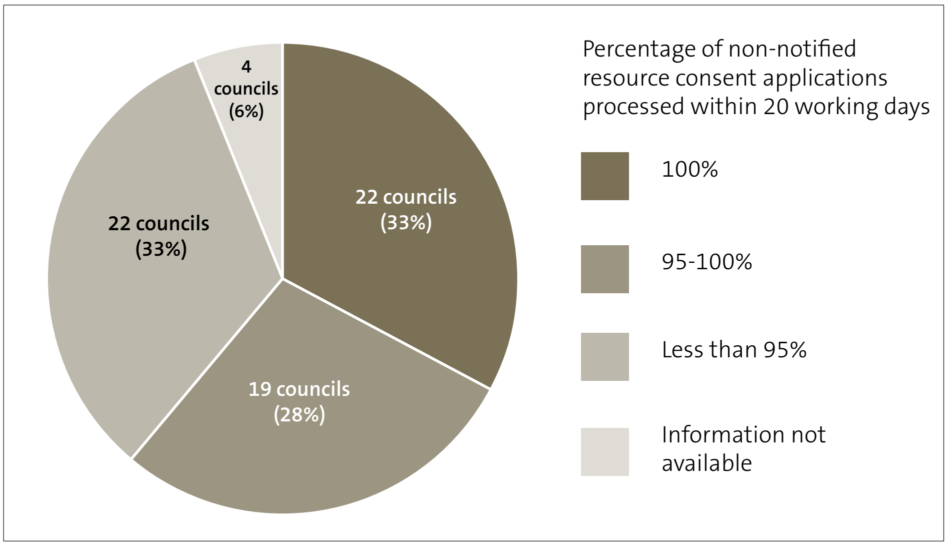
3.22 For non-notified resource consent applications, 22 of the 67 councils reported that they processed 100% of them within 20 working days. Nineteen councils reported that they processed between 95% and 99%, and 22 councils reported that they processed fewer than 95%. We did not find usable resource consent application processing information in four councils' annual reports.

14 Invercargill City Council (2019), *Annual Report 2018/19*, page 51.

15 See Statistics New Zealand (2019), "Building consents issued: June 2019", at www.stats.govt.nz.

Figure 5
Non-notified resource consent applications processed by councils within 20 working days in 2018/19

In 2018/19, 22 of 63 councils reported that they processed 100% of non-notified resource consent applications within 20 working days, which is the statutory requirement. Nineteen councils processed between 95% and 99% of non-notified resource consent applications within 20 working days. Twenty-two councils processed fewer than 95% of non-notified resource consent applications within 20 working days. We could not find usable information on resource consent timeliness for four councils.



Source: Collated from 67 councils' annual reports.

3.23 Auckland Council reported that it processed 56% of non-notified resource consent applications within 20 working days. Auckland Council said:

> *The disappointing results ... continue to underline the complex and challenging consent environment bought about by an enabling Unitary Plan and the significant number of complex commercial, and residential apartment and terrace housing developments driven by growth.*[16]

3.24 In 2017/18, Auckland Council received a modified audit opinion on the statement of service performance in its annual report for building consent and non-notified resource consent applications. This was because of inaccuracies in how it recorded processing times for these performance measures.

3.25 Central Hawke's Bay District Council (which processed 60% of building consent applications) remarked in its annual report[17] that resource shortages and a dramatic increase in the number of consent applications had led to it exceeding

16 Auckland Council (2019), *Auckland Council Annual Report 2018/19 Volume 1*, page 99.

17 Central Hawke's Bay District Council (2019), *Annual Report 2018-19*. page 29.

"... time limits in many cases. Most cases where limits were exceeded were only by a number of days."

Consenting costs

3.26 We looked at council schedules of fees and charges, including deposit fees and charges for processing residential building and resource consent applications. We found that both thresholds and schedules of costs varied widely. Some councils specified a deposit fee, and others specified hourly rates only. This is not an unexpected finding, and reflects that councils have their own circumstances and policy approaches to setting fees.

3.27 For example, Auckland Council charged a building consent application deposit fee of $1,766 (for 60% of building consent applications processed), while Christchurch City Council charged $6,840 (for 99% of building consent applications processed). Waimakariri District Council charged a $164 hourly rate for processing building consent applications, while Queenstown-Lakes District Council charged a $272 hourly rate. Nelson City Council charged a non-notified resource consent application deposit fee of $1,300, while its neighbour, Tasman District Council, charged a $950 fee.

Implications for growth

3.28 Information in councils' annual reports does not clearly explain the inter-relationship between consenting performance and outcomes, nor how consenting timeliness relates to development and growth. Annual reports also do not record how long councils took to process applications where the time taken exceeded 20 working days nor, in most cases, what efforts they made to solve staff shortages. These concerns are about more than timeliness – they create risks for quality and compliance.

3.29 It seems reasonable to expect that pressures on consenting authorities will continue. It is not possible, from the information in annual reports, to understand the full effect that consenting performance has in responding to growth pressures. The information in annual reports also does not fully describe how building and resource consent requirements and conditions affect the cost, time, or location of development.

3.30 Building and resource consenting are matters of interest to communities as well as to applicants, and enable significant economic activity. We encourage councils to present meaningful numerical and narrative information about consenting performance and circumstances in their annual reports.

3.31 In this way, applicants, regulators, communities, and other stakeholders get better insights into their council's circumstances and any steps it is taking to respond to pressures and improve its performance.

4 Audit and risk committees

4.1 In our May 2019 report *Our 2018 work about local government*, we reinforced the importance of effective audit and risk committees for councils. They can provide external and independent perspectives on the risks, issues, and challenges councils face.

4.2 In this Part, we discuss the importance of audit and risk committees to support the good governance of councils. We also look at the status of audit and risk committees after the 2019 local government elections, including their membership and terms of reference.

What are audit and risk committees and what is their value?

4.3 Audit and risk committees provide guidance and advice to councillors, typically on the council's financial reporting, risk management, system of internal controls, and external and internal audit matters.

4.4 Importantly, they can provide different and independent perspectives on the risks, issues, and challenges councils face. Although audit and risk committees should improve the governance of councils, they do not replace that governance.

4.5 In our view, effective audit and risk committees help provide assurance to councillors and management on councils' financial management and main systems and controls. They can also provide assurance that the council's strategies and plans are achieving their strategic objectives.

4.6 Audit and risk committees should focus on providing assurance to councillors that the council is managing risk well. An audit and risk committee that focuses only on compliance limits its value.

4.7 The Productivity Commission and the Institute of Directors expressed views on the use of audit and risk committees in local government. In its submission on the Commission's draft local government funding and financing report, the Institute said that it "strongly endorse[s] the Commission's recommendations to help build governance and financial capability."

4.8 The Commission's final report recommended that "[t]he Local Government Act 2002 should be amended to require all local authorities to have an audit and risk committee". This has also been our position for some time.

4.9 At the time of writing this report, the Government was considering the Commission's recommendations.

4.10 Most councils have an audit and risk committee. We looked at the number and make-up of audit and risk committees before the 2019 local government elections. We found that only five councils did not have an audit and risk committee or an equivalent.

4.11 At that time, 60 councils had an independent or external member(s), and 30 of these also had an independent chairperson. We looked at the status of audit and risk committees again after the 2019 local government elections and found that 76 councils had an audit and risk committee or an equivalent.

4.12 At the time of writing, the remaining two councils were still considering it. Of the 76 councils, 67 had or planned to appoint one or more independent members, and 42 had or planned to appoint an independent chairperson.

Figure 6
Numbers of council audit and risk committees before and after the 2019 local government elections

Audit and risk committees	2020	2019
Standing committees (confirmed or proposed)	76 (97%)	73 (94%)
With independent members (including chairpersons)	67 (86%)	60 (77%)
With independent chairpersons	42 (54%)	30 (38%)
No standing committees	2 (2%)	5 (6%)

Source: Office of the Auditor-General survey of councils.

4.13 We are pleased that almost every council now has an audit and risk committee, and that the number of councils with independent chairpersons has increased. The real value of these audit and risk committees, and their independent members and chairpersons, will be whether the councils they serve judge them to be effective.

How can audit and risk committees be effective?

4.14 In our view, there are four principles for an effective audit and risk committee. They are independence, clarity of purpose, competence, and open and effective relationships.

Independence

4.15 Independent and external perspectives, experience, and knowledge enable audit and risk committees to test and challenge councils. We consider that audit and risk committees need independent members – in particular, independent chairpersons – to be able to give truly independent advice.

Clarity of purpose

4.16 Councils need to be clear about what they want from audit and risk committees to get the most value from having one. Clarifying all parties' expectations keeps audit and risk committees focused on supporting governance. Strong terms of reference help enable clarity.

Competence

4.17 Audit and risk committees need a mix of skills and experience to provide the right level and type of oversight needed, particularly on risk. Having a diverse team brings a variety of perspectives and backgrounds and enables the audit and risk committee to scrutinise and debate issues.

Open and effective relationships

4.18 Effectiveness is achieved when audit and risk committees operate in an environment of openness and trust. Audit and risk committees more effectively support councils when chairpersons and councils promote open and proactive dialogue, including with management, staff, and councillors.

Mandate and relationships

4.19 A right mix of members and strong terms of reference are essential for audit and risk committees to succeed. To be effective, they need a wide mandate in their terms of reference.

4.20 We looked at terms of reference for some audit and risk committees. Most covered:

- risk management;
- internal controls;
- internal audit;
- external audit;
- external accountability; and
- compliance with legislation, policies, and procedures.

4.21 The terms of reference that councils set for audit and risk committees are important. A scope that is too narrow, meetings that are too few, or vague areas of focus could undermine the effectiveness of audit and risk committees in identifying and managing risks or scrutinising non-financial performance.

4.22 Several terms of reference that we looked at included requirements for independent member(s) and/or independent chairpersons. Matamata-Piako District Council’s charter and terms of reference included a requirement that the chairperson be “an external appointment with skills and experience to provide value to the Council”. Hutt City Council included a matrix table to record the “experience, skills and personal qualities” of each independent member.

4.23 Several terms of reference that we looked at explicitly included oversight of LTP development and/or progress, including financial and capital spending concerns.

4.24 Most terms of reference included references to risks and emerging risks that were focused mainly on systems and controls and financial implications. This might be too vague. Councils face many areas of challenge and risk. Audit and risk committees are a mechanism to help clarify and manage these risks.

The next steps

4.25 Councils have acted on our recommendation for them to have an audit and risk committee. They have voluntarily chosen to establish and develop an audit and risk committee or an equivalent.

4.26 We hope that this will continue to build council staff and the community's confidence in their councils and become embedded in councils' culture and governance.

4.27 We consider that, to be effective, audit and risk committees need to have independent members – in particular, an independent chairperson – and a strong mandate (terms of reference).

4.28 We encourage councils to continue to consider the membership and terms of reference for their audit and risk committees. We also encourage councils to clarify areas of ambiguity and complexity, such as the role audit and risk committees have in managing:

- transitioning to a disrupted climate and low-emissions future;
- funding and financing uncertainty;
- cyber security;
- regulatory and legislative compliance;
- significant project, operational, and development-related risks;
- infrastructure planning; and
- Covid-19 implications.

4.29 We will continue to support effective audit and risk committees in our capacity as auditors – in particular, audit and risk committees' contribution to managing risks. We and others have prepared material about audit and risk committees and guidance on enabling an effective committee.

4.30 We have met with several councils since the 2019 local government elections and will continue to work with our appointed auditors and audit and risk committees to support them in being effective.

5 Councils' activity on climate change

5.1 Councils are, in many ways, at the forefront of responding to climate change. Communities are demanding that more needs to be done to manage the effects of climate change.

5.2 In this Part, we discuss what councils said about their climate change activities in their 2018/19 annual reports and what climate change actions they have taken more generally.

5.3 We discuss Waikato Regional Council's climate action committee and Environment Canterbury's climate change integration programme. We also comment on the role of audit and risk committees and what, in our view, councils should consider for their future accountability documents.

Councils disclosed a broad range of climate change activity

5.4 In our report on councils' 2018-28 LTPs, we found that most councils were deferring making decisions about how to respond to the effects of climate change because there was too much uncertainty.

5.5 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.

5.6 Our review of councils' 30-year infrastructure strategies found that councils have a limited understanding of the risks natural hazards pose and how climate change could affect their infrastructure assets. This means that councils have a limited ability to:

- advise their councillors of these risks;
- communicate these risks to their communities; and
- make informed decisions about how to manage their assets in response and what it will cost.

5.7 We are pleased to see that councils are giving greater consideration to climate change effects. In their 2019 annual reports, most councils disclosed that they had carried out some activity related to climate change during the year.

Declaring climate emergencies

5.8 In the 2019 calendar year, 16 councils declared climate emergencies, and six of them mentioned this in their annual report. Whanganui District Council declared a climate emergency on 11 February 2020.

5.9 Some of these climate emergency declarations came as a direct response to submissions from the public to prioritise climate action. However, several councils noted that there were no inherent statutory or legal implications associated with the declaration of a climate emergency.

5.10 Councils said that making these climate emergency declarations signalled to the community that they recognise the importance and urgency of addressing climate change. They also said that the declarations acted as a mechanism for the council to centralise its climate change work and report back to councillors on progress.

5.11 The implications of declaring a climate emergency on council decision-making are not yet clear. However, we expect that declaring an emergency would result in some tangible response to accelerate council actions or programmes relating to climate mitigation and/or adaptation in the form of governance, management, and prioritisation of council activity and investment.

Climate change strategies and policies

5.12 Four councils reported that they had consulted on, or adopted, a climate change strategy or policy. Ashburton District Council adopted a climate change policy in May 2019 to:

- enable the Council to respond to climate change in a more integrated manner to ensure the sustainability of the Council's assets and services;
- enhance the resilience and preparedness of households and businesses; and
- manage the Council's carbon emissions.

5.13 The policy has six principles to guide the Council's decision-making:

- kaitiakitanga/stewardship;
- anticipatory governance;
- equity/justice;
- informed decision-making;
- work as one; and
- resilience.

Integrating climate change into council decision-making

5.14 Several councils describe how they currently, or plan to, consider the effects of climate change into their decision-making.

5.15 Environment Canterbury set up a climate change integration programme to:

- increase the visibility of council staff's climate change work to councillors, the executive team, and the community;
- break down silos within the Council; and

- ensure consistency in the Council's use of Representative Concentration Pathways scenarios and its input into science modelling.

5.16 The climate change integration programme has two main objectives:

- robustly and visibly incorporate consideration of the effects of climate change into advice by council staff that informs decision-making by councillors; and
- carry out activities that educate the community about climate change.

5.17 Environment Canterbury is considering how to incorporate information into its LTP to meet potential reporting requirements under the Climate Change Response (Zero Carbon) Amendment Act 2019 (the Zero Carbon Act). This will include incorporating the results of its organisational climate change risk assessment, which is currently in progress, into its planning for the 2021-31 LTP.

5.18 Environment Canterbury convenes a regional climate change working group for Canterbury. The group includes territorial local authorities and Ngāi Tahu. Its work programme includes developing a climate change risk assessment in order to develop an understanding of risks throughout Canterbury. The group also advocates to central government, highlighting the leadership role that local government is taking with climate change.

Emission reduction targets

5.19 A small number of councils noted their emissions reductions targets in their annual reports. The targets were variable – carbon neutral by 2030, carbon neutral by 2040, carbon zero by 2030, and reducing emissions by a percentage each year.

Collaborating across councils

5.20 Several councils in four regions are collaborating on climate change.

5.21 The four Southland councils – Southland District Council, Invercargill City Council, Gore District Council, and Environment Southland – jointly commissioned an independent assessment of the regional impacts of climate change for the Southland region.

5.22 The Wellington Region Climate Change Working Group was set up to enable a collaborative regional response to climate change issues. Its members are all nine councils in the Wellington region and three representatives from Ara Tahi, a leadership forum of Greater Wellington Regional Council and its six mana whenua partners.

Dedicated staff and funding

5.23 In September 2019, Carterton and South Wairarapa District Councils created a new role – climate change advisor. The district councils are planning to release a climate change strategy in mid-2020 and then develop a more in-depth list of actions.

> *It's an exciting opportunity, this climate forum is the first of its kind in New Zealand, it's a community-lead initiative that's allowing for community involvement, community engagement in climate change in a way that we haven't seen before.*
>
> Chris Cameron, Nelson City Council climate change champion.

5.24 In its annual report, Nelson City Council noted that it had approved funding for various climate change initiatives, including appointing a dedicated climate change staff member, setting up a climate forum and taskforce, and measuring and reducing the Council's organisational greenhouse gas emissions.

5.25 In May 2019, the Hawke's Bay Regional Council's Coastal Hazards Joint Committee recommended that a coastal contributory fund be established to help meet the future costs of constructing infrastructure, such as sea walls, to manage climate risks.

Some councils have made changes to their governance structures

5.26 As well as what was reported in councils' 2018/19 annual reports, a small number of councils had established climate change committees for the 2019-22 triennium at the time of writing this report.

Waikato Regional Council Climate Action Committee

5.27 We spoke with the chairperson of Waikato Regional Council's Climate Action Committee (the Committee). We wanted to understand the Council's reasons for establishing the Committee and what role the Council expected it to play in decision-making.

5.28 The Committee has two main objectives:

- receive scientific evidence and matauranga Māori to inform strategic leadership on how the Waikato region could mitigate and adapt to the effects of climate change; and
- inform the development of objectives for mitigating and adapting to the effects of climate change, share information, and facilitate collaborative action to reduce greenhouse gas emissions and prepare for the effects of climate change.

5.29 The Committee has five members and a quorum of four. It meets quarterly and reports to Waikato Regional Council, with the power to make recommendations that relate to any one of the eight scopes of activity set out in its terms of reference. Its recommendations inform how the Council sets its strategic direction on climate change.

5.30 The eight scopes of activity relate to four areas:

- developing a comprehensive risk assessment and action plan for the region;
- advising on actions to deliver on responsibilities that will arise from the future Climate Change National Adaptation Plan to be developed under the Zero Carbon Act;
- ensuring that evidence and guidance on climate change informs the Council's work programmes and that decisions explicitly consider the effects of climate change; and
- enabling collaboration.

5.31 The Council noted to us the importance of council officials/senior management, councillors, and the chairperson of each council committee having a common understanding of, and approach to, climate change so that their advice is consistent when they advise the full Council.

5.32 One lesson the Council stressed is that focusing council business on climate change needs to be embedded in a council and not be treated as an "add-on". Council staff and councillors need to have a base-level understanding of climate change to achieve this.

5.33 The chief executive has a critical role in being the "glue" between the planning and doing of a council through the tone that they set.

Preparing for future accountability documents

Increasing the visibility of council climate change work

5.34 Our general observation is that many councils are giving greater attention to climate change in their governance and decision-making – regardless of whether they declared a climate emergency. This is particularly the case for regional councils and unitary authorities given their responsibility for managing natural hazards.

5.35 We commend this effort and see benefit in councils improving the visibility of their work on climate change. Providing this information helps communities to improve their understanding of the actions that their council is taking to manage the risks and opportunities that a changing climate presents. This is important when dealing with an issue such as climate change where the nature, severity, and urgency of the effects are unknown.[18]

5.36 In our report *Matters arising from our audits of the 2018-28 long-term plans*, we said that, for the 2021-31 LTPs, councils need to comprehensively discuss resilience[19] and climate change issues with their community. This discussion should cover both financial and non-financial effects.

5.37 Council staff and councillors have an important role in helping their communities to understand the risks of climate change. This includes discussing what risk communities are prepared to accept and what they are prepared to pay.

Transparency about current understanding of risks from a changing climate

5.38 It is important that councils are transparent with their communities about their current understanding of the risks from climate change. Councils should explain that their understanding will evolve over time. Councils should increase dialogue with their communities and improve the information about climate change that they provide.

5.39 Information helps communities hold their council to account, communicate their expectations, and engage in future council decision-making processes, such as the LTP process.

5.40 However, in our report *Matters arising from our audits of the 2018-28 long-term plans*, we said that it makes little sense for all councils to individually consider how to improve their reporting on climate change issues.

5.41 We said that there is the need and opportunity for increased leadership on deciding what data is needed, which organisation will collect it, its quality, and what councils need to disclose in future accountability documents, including their LTP. We recommended that central and local government both continue to consider how they can provide increased leadership on these matters.

18 The criteria nature, severity, and urgency are the basis for the National Climate Change Risk Assessment. See www.mfe.govt.nz.

19 The *2009 UNISDR Terminology on Disaster Risk Reduction* defines resilience as "[t]he 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". See United Nations Office for Disaster Risk Reduction (2009), *2009 UNISDR Terminology on Disaster Risk Reduction*, at www.undrr.org.

Council audit and risk committees have a role to play in addressing climate change effects

5.42 As discussed in Part 4, an important role of audit and risk committees is to assist and advise councillors on risk management. This supports councillors to provide assurance to their community.

5.43 Risk is the effect of uncertainty on achieving a council's objectives. Climate change poses risks to council business, and council business affects the climate. A council's audit and risk committee should consider what effect a disrupted climate might have on the council achieving its objectives – in particular, its ability to deliver services to the community.

5.44 Audit and risk committees and other council committees, as appropriate, should also consider the implications that might arise for their council from potential reporting obligations under the Zero Carbon Act.

5.45 The Zero Carbon Act enables the Minister for Climate Change or the Climate Change Commission to request that a reporting organisation (which includes councils and council-controlled organisations) provide information about its governance, risk identification, and management as it relates to climate change.

5.46 The intention is that any information gathered from reporting organisations will inform the development of the national climate change risk assessment and national adaptation plan.

A refocus on well-being

6

6.1 In this Part, we discuss the changes to the Local Government Act 2002 (the Act) that reinstated councils' focus on well-being.

6.2 In May 2019, the Act was amended to give councils the mandate to promote the social, economic, environmental, and cultural well-being of their communities in the present and for the future. The amendments restore the position to when the Act was enacted in 2002.

6.3 In 2012, amendments to the Act changed the statutory purpose of local government to require councils to focus on infrastructure, local public services, and regulatory functions in the most cost-effective manner.

6.4 The 2012 amendments removed references in the Act to social, economic, environmental, and cultural well-being. However, councils still had to report on the identified effects of their activities on community well-being generally. This applied to reporting periods from 2013 to 2018.

6.5 As a result of the 2019 amendments, the Act's decision-making, planning, and reporting regime returned the focus to well-being. Councils have to consider the four aspects of well-being when making decisions and planning how their activities will contribute to the desired outcomes for their communities.

6.6 Councils' LTPs have to describe the community outcomes they seek for the region or district, identify how their activities contribute to community outcomes, and identify any significant negative effects that their activities have on well-being.[20]

6.7 Councils also have to explain in their annual reports:

- what they do (their groups of activities);
- why they do them (the community outcomes to which the group of activities primarily contributes);
- the results of any measurement of progress towards the achievement of those outcomes during the year; and
- any identified effects that any activity within the group of activities has had on the social, economic, environmental, or cultural well-being of the community.

6.8 Our audit report is required to confirm that councils have complied with these disclosure requirements. We also audit the statement of service provision, which sets out the council's actual levels of service to the community against its planned levels of service.[21]

20 Local Government Act, clauses 1 and 2 of Schedule 10.

21 Local Government Act, section 99 and clause 25 of Schedule 10.

6.9 Councils have found reporting on community well-being outcomes to be an ongoing challenge. We reported on how well councils reported on these outcomes in their annual reports from 2004 to 2010, after the requirement was introduced. We summarise what we found below.[22]

Councils did not previously report on well-being outcomes effectively

6.10 Although councils were broadly reporting their activities to their communities from 2004 to 2010, many were not clearly reporting the identified effects of their activities on social, economic, environmental, and cultural well-being.

6.11 An "identified effect" is a measured or observed effect that can be positive or negative. However, some councils were reporting their intended effects, rather than identified effects.

6.12 We said that councils needed systems for measuring the effects of their activities on social, economic, environmental, or cultural well-being so that they could report on them. They needed to actively consider how their activities would affect these four aspects of well-being.

6.13 To report on those effects, councils needed to have measures and indicators of well-being as part of their performance frameworks. However, these were either lacking or in development.

6.14 It was challenging for councils to identify and report on the full range of effects that an activity could have on social, economic, environmental, and cultural well-being. Some effects were more visible and easily identified than others. However, other effects were less tangible and more difficult to identify, such as the effects of providing museums, art galleries, and community centres on social and cultural well-being.

6.15 Overall, we observed little improvement in the information councils presented about the effects of their activities on social, economic, environmental, or cultural well-being from 2004 to 2010. To improve compliance with the reporting requirement, and provide more useful accountability to their communities, we recommended that councils:

- move from restating their intended effects and making general statements related to well-being to specific analysis and reporting of actual identified effects of their activities on well-being; and
- ensure that the performance management framework was an integrated package that linked community outcomes and the rationale behind their

22 We have not evaluated how councils reported on well-being in their 2018/19 annual reports. This is because the requirement to report on the four aspects of well-being was reintroduced in May 2019, near the end of the 2018/19 reporting period.

activities to performance measures, targets, and levels of service. With such a linked framework, it would be easier for councils to report on progress towards community outcomes and the identified effects of activities.

6.16 We recognised the challenges involved but also the significant benefits of being able to report to communities about the effects of council activities on their well-being.

Productivity Commission commentary on well-being and outcomes reporting

6.17 The Productivity Commission considered local government reporting on community well-being outcomes in its 2019 report *Local government funding and financing*. It also noted the importance of an integrated and linked framework.

6.18 The Commission said:

> *Consistent with good practice, outcomes reporting should focus on a small number of meaningful metrics that meet well-established criteria for good indicators. An important consideration is the cost-benefit of gathering and analysing the data (measures that are so expensive to generate that they do not provide a net benefit should not be pursued).*
>
> *Another consideration is the overall coherence of the reporting framework. Reporting measures should strategically align – linking the inputs, outputs, outcomes and costs for each activity (or group of activities). They should also not duplicate across these dimensions.*[23]

6.19 The Commission recommended a first-principles review of the performance reporting framework in the Act. It considers that the current performance reporting requirements (financial and non-financial) are too detailed, inappropriately focused, and not fit for purpose.

6.20 The Commission favours a small set of mandatory measures for financial and non-financial performance, but not for outcomes reporting. The Commission noted that there is a need for flexibility, and that councils should continue to determine the most important outcomes for their communities, based on local preferences and circumstances, and use these to prioritise their activities.

6.21 The Commission said that central government could assist by providing guidance on developing robust well-being metrics and supporting the use of consistent data sources (both among councils and between central and local government), where appropriate.

23 Productivity Commission (2019), *Local government funding and financing*, pages 115-116.

Councils should consider their priority areas for well-being in the 2021-31 long-term plans

6.22 Councils giving greater emphasis to well-being is consistent with the Government's current well-being approach. Examples of the Government's approach include the 2019 *Wellbeing Budget* and work by the Treasury on a *Living Standards Framework* to advise successive governments about the likely effects of their policy choices on New Zealanders' living standards and well-being over time.

6.23 The local government sector is doing work to help councils with their well-being indicators and frameworks, and is considering how local and central government can work together on this. The Society of Local Government Managers is encouraging councils to produce a "well-being long-term plan".

6.24 Attention is also being given to improving how entities report to their stakeholders and making annual reports more useful for readers. Examples include encouraging disclosures about risks and opportunities associated with climate change and applying more sophisticated reporting approaches, such as integrated reporting.

6.25 A greater focus on well-being by central and local government, and the various improved reporting initiatives, provide a significant opportunity for collaboration on improving the well-being of New Zealanders and the environment and for more meaningful reporting on results.

6.26 As part of preparing their 2021-31 LTPs, councils should consider their priorities for promoting social, economic, environmental, and cultural well-being and their desired outcomes. Councils will need to ensure that their reporting framework links their activities to outcomes and well-being indicators, so that they can report to their communities on the identified effects of their activities on these four aspects of well-being, drawing on the guidance available to help with this.

Appendix 1
When councils adopted their annual reports and released their annual reports and summary annual reports

When councils adopted their annual reports

When the annual report was adopted	Number adopted for financial year				
	2014/15	2015/16	2016/17	2017/18	2018/19
Within two months after the end of the financial year	1	0	0	0	0
Between two and three months after the end of the financial year	16	27	15	15	20
Between three and four months after the end of the financial year	59	49	60	56	54
Subtotal: Number meeting statutory deadline	**76**	**76**	**75**	**71**	**74**
Percentage of councils meeting statutory deadline	*97%*	*97%*	*96%*	*91%*	*95%*
Between four and five months after the end of the financial year	0	0	2	3	3
More than five months after the end of the financial year	1	1	1	2	1
Not issued as at the date of compilation	1	1	0	2	0
Total	**78**	**78**	**78**	**78**	**78**

When councils released their annual reports

Time after adopting annual report	Number released for financial year				
	2014/15	2015/16	2016/17	2017/18	2018/19
0-5 days	25	28	23	27	34
6-10 days	19	15	19	11	13
11-20 days	8	14	8	16	11
21 days to one month	23	17	22	22	17
Subtotal: Number meeting statutory deadline	**75**	**74**	**72**	**76**	**75**
Percentage of local authorities meeting statutory deadline	*96%*	*95%*	*92%*	*97%*	*96%*
Number not meeting the deadline	1	3	6	0	3
Not issued as at the date of compilation	2	1	0	2	0
Total	**78**	**78**	**78**	**78**	**78**

When councils released their summary annual reports

Time after adopting annual report	Number released for financial year				
	2014/15	2015/16	2016/17	2017/18	2018/19
0-5 days	14	16	7	15	14
6-10 days	12	14	15	11	8
11-20 days	8	11	11	10	14
21 days to one month	39	29	32	37	36
Subtotal: Number meeting statutory deadline	**73**	**70**	**65**	**73**	**72**
Percentage of councils meeting statutory deadline	*93%*	*90%*	*83%*	*94%*	*92%*
One month to 40 days	1	6	9	2	6
41-60 days	0	1	4	1	0
More than 60 days	1	0	0	0	0
Not issued as at the date of compilation	3	1	0	2	0
Total	**78**	**78**	**78**	**78**	**78**

Appendix 2
Sub-sectors and the growth councils

Sub-sectors

Local Government New Zealand defines four types of sub-sector:[24]

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

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

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

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

Rural sub-sector		
Buller District Council	Carterton District Council	Central Hawke's Bay District Council
Chatham Islands Council	Clutha District Council	Gore District Council
Grey District Council	Hauraki District Council	Hurunui District Council
Kaikōura District Council	Kawerau District Council	Mackenzie District Council
Ōpōtiki District Council	Ōtorohanga District Council	Rangitikei District Council
Ruapehu District Council	South Wairarapa District Council	Stratford District Council
Tararua District Council	Waimate District Council	Wairoa District Council
Waitomo District Council	Westland District Council	
Regional 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 that the National Policy Statement on Urban Development Capacity indicated had high growth.[25] We did not include regional councils because none had high growth throughout their entire region. Councils that meet the definition for high growth when we prepared this report were:

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

25 For more on the National Policy Statement on Urban Development Capacity, see www.hud.govt.nz.

Appendix 3
Councils that declared a climate emergency in 2019

In the 2019 calendar year

- Auckland Council – 11 June 2019
- Bay of Plenty Regional Council – 27 June 2019
- Central Otago District Council – 25 September 2019 (the Council declared a "climate crisis")
- Christchurch City Council – 23 May 2019
- Dunedin City Council – 25 June 2019
- Environment Canterbury – 16 May 2019
- Greater Wellington Regional Council – 21 August 2019
- Hawke's Bay Regional Council – 26 June 2019
- Hutt City Council – 27 June 2019
- Kāpiti Coast District Council – 23 May 2019
- Nelson City Council – 16 May 2019
- Ōpōtiki District Council – 5 September 2019
- Porirua City Council – 26 June 2019
- Queenstown-Lakes District Council – 27 June 2019
- Wellington City Council – 20 June 2019
- Whangarei District Council – 25 July 2019

Appendix 4
Valuation challenges that we believe need to be addressed

This Appendix expands on the valuation challenges we list in paragraph 1.26.

Valuation challenge	Comment
Understanding what an asset's "useful life" is	The useful life of an asset is the least of its physical life, economic life, legal life, or the service benefit it provides. These types of lives are defined as: • physical life: the period of time that an asset remains functional and would take account of the condition and performance of the asset; • economic life: the period of time that an asset remains useful to the owner and would take account of technical obsolescence; and • legal life: the period of time that the asset can be legally used. For the service benefit an asset might provide, councils should look to the level of service the asset provides. If an asset is not meeting the service levels expected of it, then its useful life should be reassessed. Too often, councils consider only the physical life when assessing an asset's useful life.
Regularly reviewing asset useful lives	Councils and valuers will generally reassess asset lives when revaluing assets. Accounting standards require councils to review asset lives in the intervening years. This is not always evident.
Being over-reliant on asset useful lives that have not been properly assessed for the council's situation	The Institute of Public Works Engineering Australasia produces guidance on valuations. This guidance provides indicative ranges of asset useful lives for common council assets. The guidance stresses that this is merely a starting point for each council to make specific assessments. However, many valuations appear to default to the template range without considering the council's own circumstances, such as ground conditions and soil type.
Collecting enough asset condition and performance data	Condition assessments focus on the structural integrity of an asset, while performance assessments measure whether an asset is "performing its job". Aside from being crucial for broader asset management in a council, condition and performance data provides a valuation input on the expected remaining useful life of an asset. Many councils do not yet have systematic and comprehensive asset condition and performance information, so this is not able to assist asset valuations.
Weak records about the cost of asset renewals	To arrive at reliable replacement costs, councils should keep good records on the cost breakdowns of all its renewal and replacement contracts. Often, these records are not as complete as they should be.
Actively considering new asset replacement techniques	Asset revaluations tend to assume traditional methods of renewing assets. Increasingly, new techniques for renewing assets are being identified, often at a lower cost than the traditional methods. Revaluations often do not consider these new techniques, which might mean that the replacement cost of the asset and the resultant depreciation is more than it should be.

Valuation challenge	Comment
Ensuring that council staff who rely on valuation information are involved early in the valuation process so the valuation meets everyone's needs	We tend to find that the key people involved in an asset valuation, the valuer and councils' asset management, finance, information technology and planning staff, are not involved early enough in the valuation process. This lessens the effectiveness of the resulting valuation, because the valuation process does not consider all relevant views. Effective collaboration, especially at the initial stage, would set the valuation parameters, agree the valuation methodology and articulate the valuation assumptions in a way that works for all.
The industry guidance developed by the Institute of Public Works Engineering Australasia that councils use to inform asset valuations is updated	The Institute of Public Works Engineering Australasia guidance was last updated in 2006. The Institute of Public Works Engineering Australasia has signalled that an update is an urgent priority. Although the core methodology is still sound, the guidance needs to be reviewed to take account of: • the latest financial reporting standards; • increasing the types of assets covered by the guidance; and • updating common asset useful lives where they have changed.

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