Controller and Auditor-General
Tumuaki o te Mana Arotake

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Insights into local government: 2021

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Insights into local government: 2021

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

December 2022

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Auditor-General's overview

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

For councils, 2020/21 was a challenging year. The Covid-19 pandemic created extraordinary circumstances when councils were completing their 2021-31 long-term plans.

In some instances, councils redrafted their 2020/21 annual plan budgets in response to the predicted impact of the Covid-19 pandemic on their communities. Many councils looked to support their communities by minimising rates increases for 2020/21 or reducing the cost of some services not funded by rates.

Several reform proposals could significantly affect the scale and nature of local government – the Three Waters Reform Programme, proposed changes to the Resource Management Act, and the Future for Local Government review. This has added pressure to councils at a time when nationwide skills shortages, higher turnover, and increased recruitment costs have made delivering services more challenging.

At the same time, the long-term issues councils face have not gone away – such as responding to climate change and the need to maintain and invest in infrastructure assets that support the delivery of services. I recognise that it can be difficult for councils to participate in the reform process while also continuing to deliver core services, improve their organisations, and refine their plans.

Councils are sometimes criticised for the way they operate and how they perform. There are no doubt areas where improvements can be made. That said, I am encouraged by the progress the sector made in 2020/21, particularly in such a challenging environment.

Councils should be commended for generally maintaining services, despite the combined challenges of the Covid-19 pandemic and the reform proposals affecting the sector. This did not occur by chance but through the hard work and dedication of council staff and councillors up and down the country. I thank them for the support they provide to our communities.

In my report *Matters arising from our audits of the 2021-31 long-term plans*, I was pleased to see that councils are moving to address historical underinvestment in their infrastructure. In general, the long-term plans outlined the challenges that this has created and actively considered the implications of previous decisions about the level of investment in assets and what this means for their communities.

Many councils made progress in collecting better condition and performance information about their critical assets to support more accurate decision-making about the nature and timing of asset renewals.

Councils included more discussion about climate change in their long-term plans, including what actions they were planning or taking to adapt to or mitigate climate change impacts and risks.

The context for councils preparing the 2024-34 long-term plans is likely to change if reforms progress as planned. However, long-term integrated planning will remain important. Regardless of context, councils need to continue to reliably and efficiently deliver a range of services to maintain the trust and confidence of their communities.

In 2020/21, councils continued to invest in their infrastructure, including increasing their level of investment in their three waters assets. This has occurred despite the challenges posed by the Covid-19 pandemic. Border closures, a tight labour market, supply chain constraints, and the need to balance budgets have also created challenges for councils. Despite these challenges, councils delivered the highest capital expenditure programme for nine years.

In response to historical underinvestment in their infrastructure assets, councils are increasing their renewals expenditure when compared to depreciation expense. However, a gap remains. Although we remain concerned that councils might not be investing enough in critical assets, we acknowledge that councils are planning to progressively increase this investment. In 2020/21, capital renewal expenditure throughout the sector has increased to 78% of depreciation (in 2019/20, it was 74%).

We looked at key areas of council service delivery that have a high level of public interest. At face value, there was no notable improvement in the times taken to process building and resource consents in 2020/21 compared with the previous year. However, processing times have been affected by the high level of consenting activity and the increasing complexity of consent applications at the same time as processing capacity has been constrained by the impact of the Covid-19 pandemic.

Despite councils' increased investment in three waters assets in recent years, we have not seen an improvement in reported performance. Although increased investment might allow for improvements in performance, it is not a direct causal relationship. There might also be a time lag between increased investment and an improvement in performance.

The lowest performance was for the "safety of drinking water" measures. These measures are used to show whether councils are complying with drinking water standards. We would encourage councils to investigate the reasons for non-compliance and prioritise remedial actions, particularly where this could affect water quality.

Effective governance of councils remains vital, as does the integrity of councillors and staff. In this regard, I am pleased to see continued effort by councils to enhance the effectiveness of audit and risk committees. Councils are increasingly appointing independent chairpersons and members to these committees. Independence allows the committee to provide the best objective advice to support council governance and decision-making. My Office has continued to support good governance in the sector by regularly sharing our insights and observations, including regularly publishing good practice guidance.

Annual reports

The global auditor shortage continued to provide challenges for councils and my auditors during 2020/21. Because of these challenges, the statutory reporting deadline under the Local Government Act 2002 was extended to 31 December 2021. These resourcing challenges have also affected the delivery of this report to Parliament. This is a situation that neither councils nor my auditors wanted to be in.

Despite this, most councils completed their audits within the extended statutory deadline. Twelve councils had their audit opinions signed after the reporting deadline. This was because of a combination of delays – driven by the auditor shortage and the effects of the Covid-19 pandemic, including lockdowns.

My auditors issued a similar number of qualified audit opinions to last year. Six councils received qualified audit opinions on their financial statements, and there were 19 qualifications on aspects of councils' performance information, such as inaccuracies in the calculation of customer complaint information.

In all instances, the qualification was limited to a disagreement or limitation of scope about a specific aspect of the annual report. Given its significance, we also drew attention in our audit reports to uncertainties arising from the Three Waters Reform Programme.

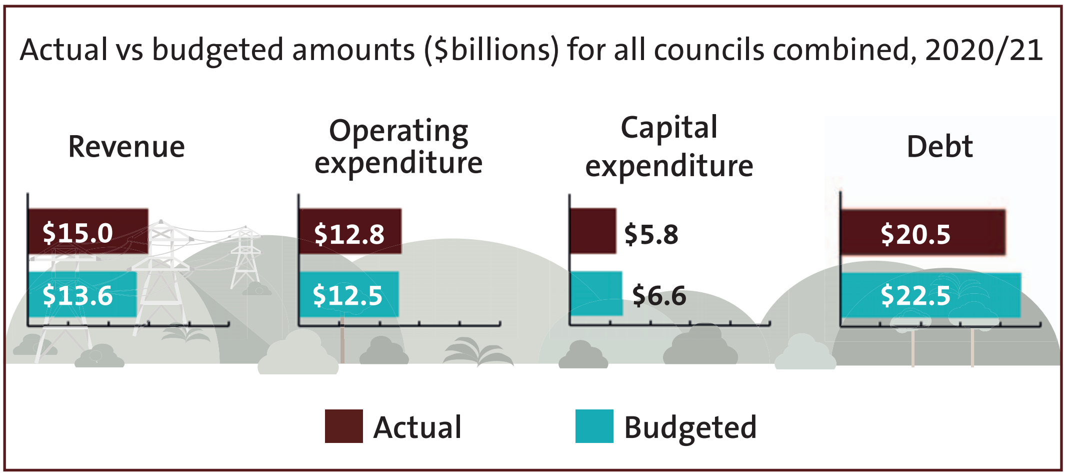
I thank my auditors who have continued to provide assurance to communities about whether councils' annual reports are free from material error – at a time when both financial and service performance information are more critical than ever to the trust and confidence that communities have in their councils.

Nāku noa, nā

John Ryan
Controller and Auditor-General | Tumuaki o te Mana Arotake

8 December 2022

At a glance



In 2020/21, councils were making efforts to address historical underinvestment in infrastructure – capital renewal expenditure was 78% of depreciation (in 2020, this was 74%).

In 2020/21, councils invested ***$2 billion in three waters assets***, which represented 53% of total council capital expenditure on infrastructure assets for the year.

This is ***an increase of $283.9 million*** (17%) from 2019/20.

↑17%

Local Authorities (Members' Interests) Act

During 2020/21, we gave approval to 22 councillors for providing services to their councils under one or more contracts in which payments exceeded $25,000 in the financial year.

Types of audit reports we issued

76 councils

We issued audit reports to 76 councils. Two councils have yet to have their 2020/21 audits finalised.

54 of the audit reports we issued had an emphasis of matter paragraph on the Government's three waters reform.

19 of the audit reports we issued received qualified opinions on performance information.*

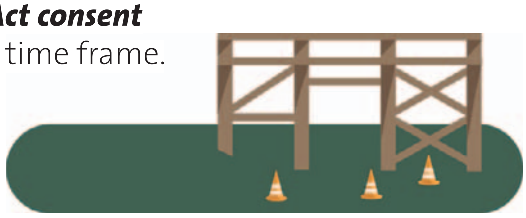
6 of the audit reports received qualifications on their financial performance.*

* Two councils received qualifications for both their financial and performance information.

Building and Resource Management Act consent applications

6 councils (out of 67) reported they had processed 100% of ***building consent applications*** within the statutory time frame.

17 councils (out of 71) reported they had processed 100% of ***Resource Management Act consent applications*** within the statutory time frame.



1 Councils' performance in 2020/21

1.1 In this Part, we consider the performance of councils in 2020/21 based on the information in councils' annual reports.[1] We look at:

- the revenue recorded by councils;
- the operating expenditure of councils;
- processing times for building consents;
- processing times for resource consents; and
- the impact of the Covid-19 pandemic.

1.2 Councils produced their 2020/21 annual plans in early 2020. At the same time, Covid-19 was spreading globally and the first Covid-19 cases were emerging in New Zealand. Because this was a highly uncertain time, councils were generally conservative when setting their budgets.

1.3 However, the economy performed better than expected in 2020/21. This is reflected in councils' overall financial performance. Revenue recorded by councils (from rates, subsidies, grants, and other revenue) was 11% higher than budgeted. Operating expenditure incurred by councils was in line with what had been budgeted for.

1.4 A record number of building consents was processed during 2020/21, including an increase in complex multi-unit consents. Despite this we observed only a marginal decline in the timeliness of processing building consents. High demand, the increasing complexity of consents, a tight labour market, and Covid-19 restrictions affected the time frames for processing consents.

1.5 Councils processed resource consents in similar time frames to 2019/20. However, we noted a significant increase in councils using extended time limits. As with building consents, the increased volume of activity and the tight labour market were reasons councils commonly provided for not meeting the statutory time frames.

1.6 The Government established the Covid-19 Response and Recovery Fund in April 2020.[2] However, we were unable to tell how much funding was received throughout the sector – or how this funding had been used – because there is no requirement for councils to report this information. We have identified six good

1 For 2020/21, we included draft financial information for Ōpōtiki District Council in our analysis because the audit of the financial information was not complete when we carried out our analysis. Chatham Islands Council was excluded from our analysis because it will have its 2020/21 and 2021/22 annual reports audited simultaneously in 2023, so its financial information was not available when we carried out our analysis. These delays were mostly because of the auditor shortage in New Zealand.

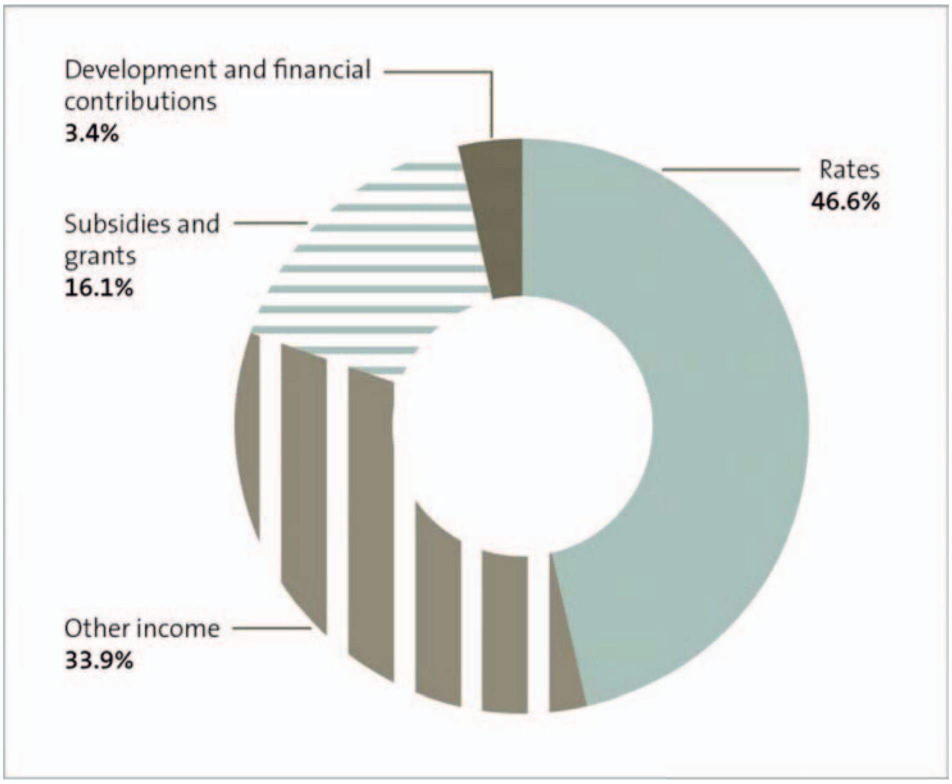
2 The Covid-19 Response and Recovery Fund is a funding envelope for budget management purposes, rather than an actual sum of money ring-fenced in the Government's accounts. The fiscal implications of several new measures were managed against the Covid-19 Response and Recovery Fund during April and early May 2020. As at 14 May 2020, the Government had committed $29.8 billion of the Covid-19 Response and Recovery Fund, of which $13.9 billion had been announced before Budget Day as part of the Government's ongoing response to the Covid-19 pandemic.

practice examples of particular councils proactively and transparently reporting this information (see paragraphs 1.66 to 1.72).

Revenue recorded by councils

1.7 Councils recorded total revenue of $15.0 billion for 2020/21. This was 11% higher than the $13.6 billion budgeted. Excluding Auckland Council, councils recorded total revenue of $9.7 billion, which was 23% higher than councils had forecast ($8.5 billion).

Figure 1
Councils' 2020/21 actual revenue by sub-category



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

1.8 The composition of revenue recognised by councils did not change significantly from the previous financial year.

1.9 Of the total revenue in 2020/21, $7.1 billion was from rates. This was consistent with the amount councils planned to collect in rates and equates to 46.6% of the councils' total revenue (see Figure 1). In 2019/20, rates were 47.6% of councils' total revenue.

1.10 The revenue from development and financial contributions was $119 million (31%) higher than budgeted.[3] This increase reflects the growth that many councils are facing.

1.11 For example, Central Hawke's Bay District Council's development and financial contributions revenue was up significantly (301%) compared to budget. The Council faced significant growth and development in the district and saw unprecedented resource and building consent numbers for new dwellings.

1.12 The Council's view was that some of this activity was due to developers reacting to the price rises signalled in the draft Development Contributions Policy (which was being consulted on as part of its 2021-31 long-term plan) and acting ahead of the changes to minimum lot sizes signalled in its draft District Plan (which was also under consultation).

1.13 Christchurch City Council's development and financial contributions revenue also increased significantly (203%) compared to budget. This was attributed to increased building activity.

1.14 Auckland Council received an additional $89 million in development and financial contributions (an increase of 65% compared to budget). This was mainly because of new housing built by large-scale developers.

1.15 The increase in development and financial contributions could reflect that some councils are reviewing development-related revenue streams to address historic underinvestment in infrastructure and the associated affordability challenges that the required additional investment creates for their communities.

1.16 Some councils introduced new development contributions policies to help reduce the financial burden on existing ratepayers. Some councils are investing in development. This created a need for development contributions policies, which is reflected in increased revenue from this source.

1.17 Other income was $977 million (24%) higher than planned. Other income includes fees and charges, gains on sale of land, regional fuel tax, and gains on disposal and vested assets. Fuel tax received was higher than planned, mainly because more fuel was used than anticipated.

1.18 Overall, subsidies and grants revenue throughout the sector increased by 16% compared to budget. This reflects the additional funding that the Government made available in response to the Covid-19 pandemic (see paragraph 1.61).

1.19 As an example, Ashburton District Council received subsidies and grants of more than $7 million (194%) higher than budget. The Council received $2 million from

3 Development contributions can be defined as contributions from developers, collected by the council to help fund new infrastructure required by growth as set out in the Local Government Act 2002.

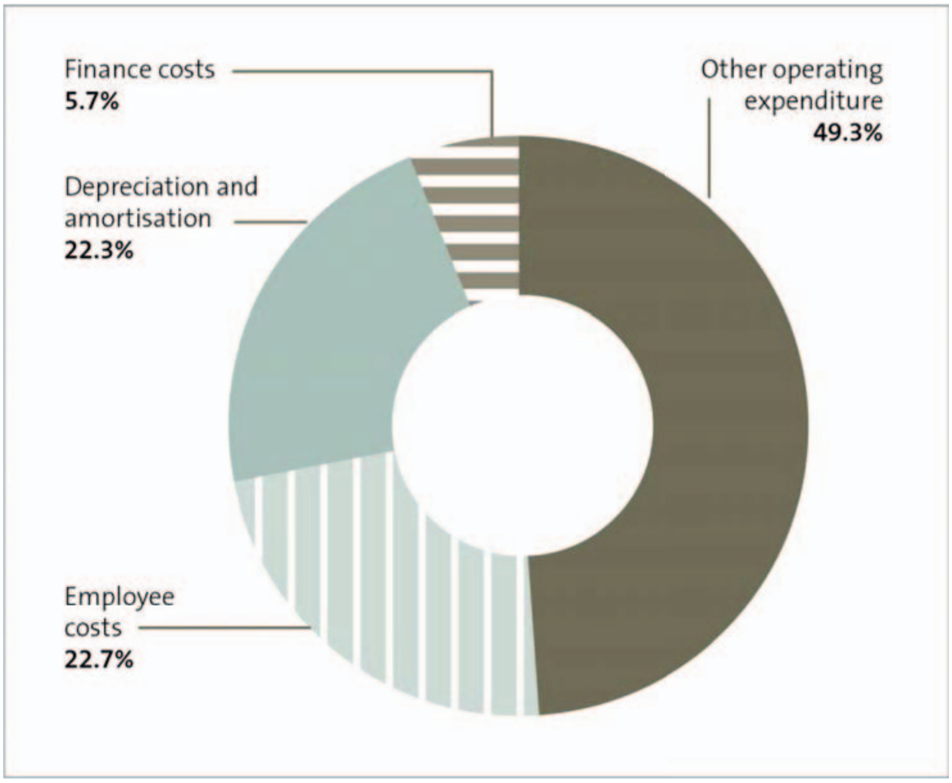
the Provincial Growth Fund as part of a $20 million total contribution towards the new library and civic centre building.

1.20 Ashburton District Council also received nearly $4 million of grants from the Department of Internal Affairs as part of the three waters stimulus funding, which it applied to the Ashburton Relief Sewer Project. The Council had not budgeted for this in its 2020/21 annual plan.

Operating expenditure of councils

1.21 Councils incurred higher than forecast operating expenditure. The total operating expenditure for all councils was $12.8 billion, which was a $307 million (2%) increase from the planned expenditure of $12.5 billion. When Auckland Council is excluded from these results, councils incurred total operating expenditure of $8.24 billion compared with a budget of $8.0 billion. Figures 2 and 3 show a breakdown of expenditure by sub-category.

Figure 2
Councils' 2020/21 actual operating expenditure by sub-category



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

Figure 3
Councils' 2020/21 actual and budget operating expenditure by sub-category

Operating expenditure	2020/21 actual $million	2020/21 budget $million	Expense as a proportion of total actual operating expenditure (%)
Depreciation and amortisation	2,860.6	2,843.1	22.3
Employee costs	2,906.3	2,838.6	22.7
Finance costs	725.1	825.6	5.7
Other operating expenditure	6,316.5	5,994.0	49.3
Total	**12,808.3**	**12,501.2**	**100.0**

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

1.22 Employee costs for all councils increased by 2% to $2.9 billion compared to a budget of $2.8 billion. Provincial and regional councils spent more on employee costs than budgeted (4% and 11% respectively). Spending was close to budget for all other council sub-categories. Changes in staff numbers and salaries have contributed to increased employee costs.

1.23 In our report *Insights into local government: 2020*, we noted a 3.2% increase in employee costs compared to budget. We also noted that we often heard about councils' challenges in recruiting and retaining skilled staff, particularly regulatory and engineering staff.

1.24 We are still hearing this in our regular engagement with councils, and the results show that this is having more of an impact in the provinces. However, many other sectors are also experiencing increased employee costs as a result of the tight labour market.

1.25 Other operating expenditure – including grants, professional and contract costs, IT, insurance premiums, utilities, and rental expenses – was up 5% compared to budget. From our analysis, there was no consistent reason for this. However, the additional funding central government made available in response to the Covid-19 pandemic meant that there was more money available to spend (see paragraphs 1.18 and 1.61).

1.26 Other operating expenditure accounted for $6.3 billion, which was similar to the previous financial year and represented 49.3% of total operating expenditure, indicating that there had been little change in councils' operations. Some councils show a large "other operating expenses" balance in their annual reports, which they do not always break down into further detail.

1.27 We have noted that liabilities from leaky home claims is a long-standing issue that continues to have significant expenditure implications for some councils. We first reported on councils' exposure to liabilities from leaky home claims in our report *Local government: Results of the 2006/07 audits*.[4]

1.28 Auckland Council, Queenstown Lakes District Council, and Tauranga City Council had higher operating expenditure compared to budget because of remediation of weathertightness issues and associated building defects. These issues are complex, and the legal proceedings are at various stages. As a result of this uncertainty, it is difficult for councils to budget for these costs.

1.29 Auckland Council noted in its annual report that, because of the uncertainty about providing for remediation of weathertightness issues and associated building defect claims, these costs are not budgeted for. However, Auckland Council's provision for remediation of weathertightness claims increased by $89 million because of the high estimated costs associated with multi-unit claims.

1.30 Queenstown Lakes District Council increased its provision by $22 million to resolve several building-related legal claims against it.

1.31 Tauranga City Council's weathertightness (and other) provisions expense increased by $26 million (compared to budget) because of two significant property claims against the Council for weathertight repairs that are in various stages of legal proceedings.

1.32 Offsetting higher operating expenditure, finance costs throughout the sector were 22% lower than budgeted for. Generally, finance costs are made up of interest expenses, amounts paid or payable on borrowings and debt instruments, and net realised gains or losses.

1.33 This is consistent with our findings in Part 2. We found that council debt was not as high as forecast (see paragraph 2.63) because collectively councils delivered 88% of their capital expenditure programmes.

1.34 This also indicates that councils were more conservative as they anticipated that there might be further cashflow challenges because of the Covid-19 pandemic. We saw many examples of councils reducing their borrowing, which resulted in lower interest costs. Falling interest rates also reduced finance costs.

1.35 Finance costs were particularly low for rural councils (56% compared to budget). Some councils focused on reducing borrowing and overdraft facilities. Others experienced lower finance costs because of falling interest rates.

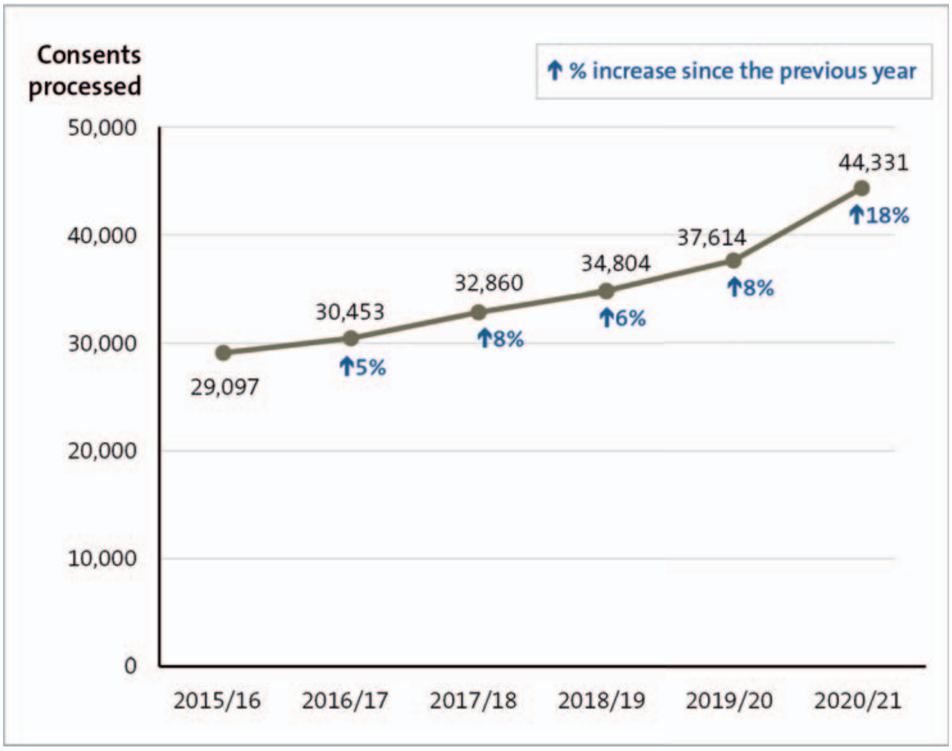
4 Office of the Auditor-General (2007), *Local government: Results of the 2006/07 audits.*

Processing times for building consents

1.36 Councils have a statutory requirement to process most building consent applications in 20 working days (this applies to 67 out of the 78 councils, because the 11 regional councils do not process building consent applications). Our auditors periodically look at how councils meet this requirement as part of their audit of councils' non-financial performance.

1.37 This timeliness requirement can also be used as an indicator of councils' effectiveness in responding to growth. In 2019/20, we reported that most councils did not meet the statutory time frames for processing building consent applications. This trend has continued into 2020/21.

Figure 4
Total number of building consents processed for new dwellings, 2015/16 to 2020/21

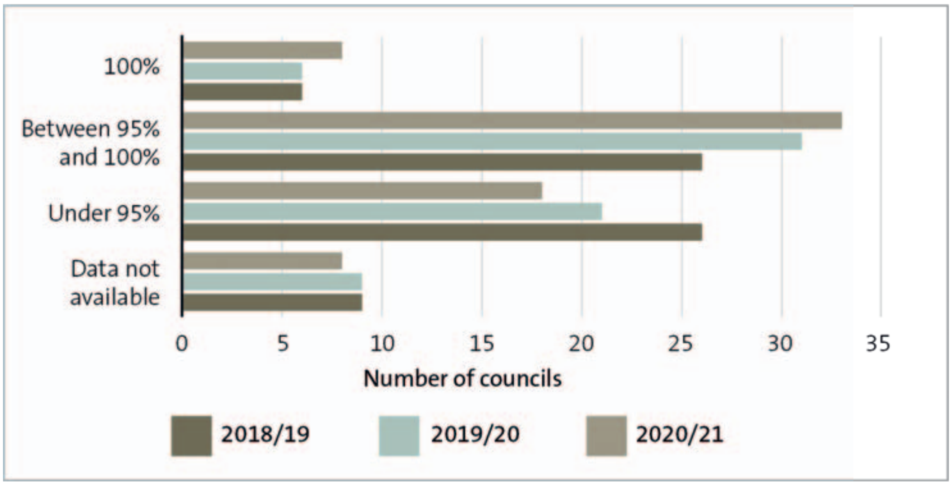


Source: Analysed from information collected from councils' annual reports.

1.38 More building consent applications have been processed in 2020/21 than in any previous year. In total, 44,331 building consent applications were processed. This is an 18% increase from 2019/20 (see Figure 4). This has mainly been driven by Auckland Council, which issued a record 19,036 building consents for new dwellings in the year ended June 2021 (a 29% increase from 2019/20).[5] The Auckland Council figures represent 63% of the total increase in building consents issued between 2019/20 and 2020/21.

1.39 There has also been a significant increase in the number of building consents issued for new multi-unit dwellings throughout the country – this has increased by 28% from the last financial year.[6] Auckland Council is again the main contributor to this change, representing 95% of the total increase in multi-unit building consents between 2019/20 and 2020/21.

Figure 5
Percentage of building consent applications processed within 20 working days, 2018/19 to 2020/21



Source: Analysed from information collected from 67 councils' annual reports.

1.40 In 2020/21, building consent performance data was available for 58 councils. Of those, only six reported that they had processed 100% of building consent applications in 20 working days (see Figure 5), which is the statutory requirement.[7] This is the same result as 2019/20.[8] Twenty-six councils reported that they had processed between 95% and 100% of building consent applications

5 Statistics New Zealand Tatauranga Aotearoa (2022), "Building consents issued: June 2022", at stats.govt.nz.

6 Multi-unit dwellings include apartments, retirement village units, townhouses, flats, and units.

7 These councils were Invercargill City Council, South Waikato District Council, Waimakariri District Council, Mackenzie District Council, Ruapehu District Council, and Waitomo District Council.

8 Note this has been updated from five in last year's published report because of a data update and the inclusion of South Wairarapa District Council.

within the time frame (2019/20: 31).[9] The remaining 26 councils reported that they processed fewer than 95% within the time frame (2019/20: 21).[10]

1.41 We did not find usable information about building consent timeliness in nine councils' annual reports. This is consistent with 2019/20. These councils used alternative performance measures instead of the 20-working day requirement. Given that issuing and monitoring building consents is a core council function, we expect all councils to report their performance against the statutory time frame.

1.42 In 2020/21, the number of councils processing building consent applications within 20 working days has not changed from 2019/20. However, fewer councils are reporting that they processed between 95% and 100% of building consent applications within the 20-day time frame. This continues a declining trend since the pre-Covid results in 2018/19.

1.43 Of the six councils that processed 100% of building consent applications within the statutory time frame,[11] only one (Waimakariri District Council) is classified as a Tier 1 local authority under the National Policy Statement on Urban Development 2020 (see Appendix 1). This is the same result (and council) as last year and means that most councils that are experiencing the highest growth are still not meeting the statutory time frame for processing building consent applications.

1.44 However, the performance for processing building consent applications has been affected by the increase in volume of applications, increased complexity because of the increase in multi-use dwellings, staff resourcing issues, and the Covid-19 pandemic affecting the capacity of councils to process these applications.

Processing times for resource consents

1.45 Under the Resource Management Act 1991, all councils have a statutory requirement to process resource consent applications in set time frames. Time frames depend on the type of consent.[12]

1.46 As part of the audit of councils' non-financial performance information, our auditors look at how councils meet this requirement. As with building consent performance, this timeliness requirement can be used as an indicator of local councils' effectiveness in responding to growth and the quality of their service delivery. Regional councils process resource consents and coastal, discharge, and water permits.

9 This has been updated from 33 in last year's published report because of a data update.

10 This has been updated from 22 in last year's published report because of a data update.

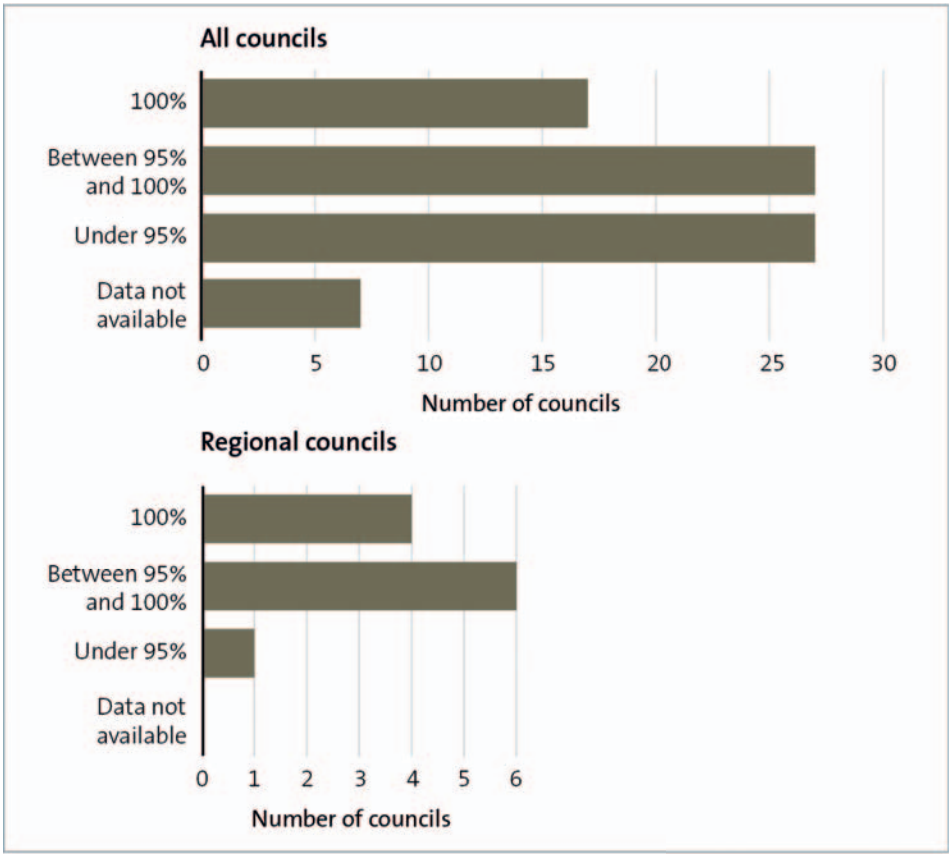
11 Three provincial and three rural councils met the statutory time frame.

12 The time frames are 10 working days for fast-track consents, 20 working days for non-notified consents, within 20 working days after close of submissions for notified consents where no hearing is required, and within 15 working days after the hearing for notified consents where a hearing is required.

1.47 In 2020/21, resource consent performance data was included in the annual reports of 71 out of 78 councils (local, regional, and unitary). We did not find usable information about resource consent timeliness in the other seven councils' annual reports. Because issuing and monitoring resource consents is a core council function, we would expect councils to be reporting this information. For the regional council subgroup, data was available for all 11 regional councils.

1.48 Figure 6 shows councils' performance processing resource consent applications in 2020/21. Councils consistently identified increased work volumes and planning staff resourcing issues as reasons for not achieving processing performance targets.

Figure 6
Number of councils that met the time frames for processing resource consent applications in 2020/21

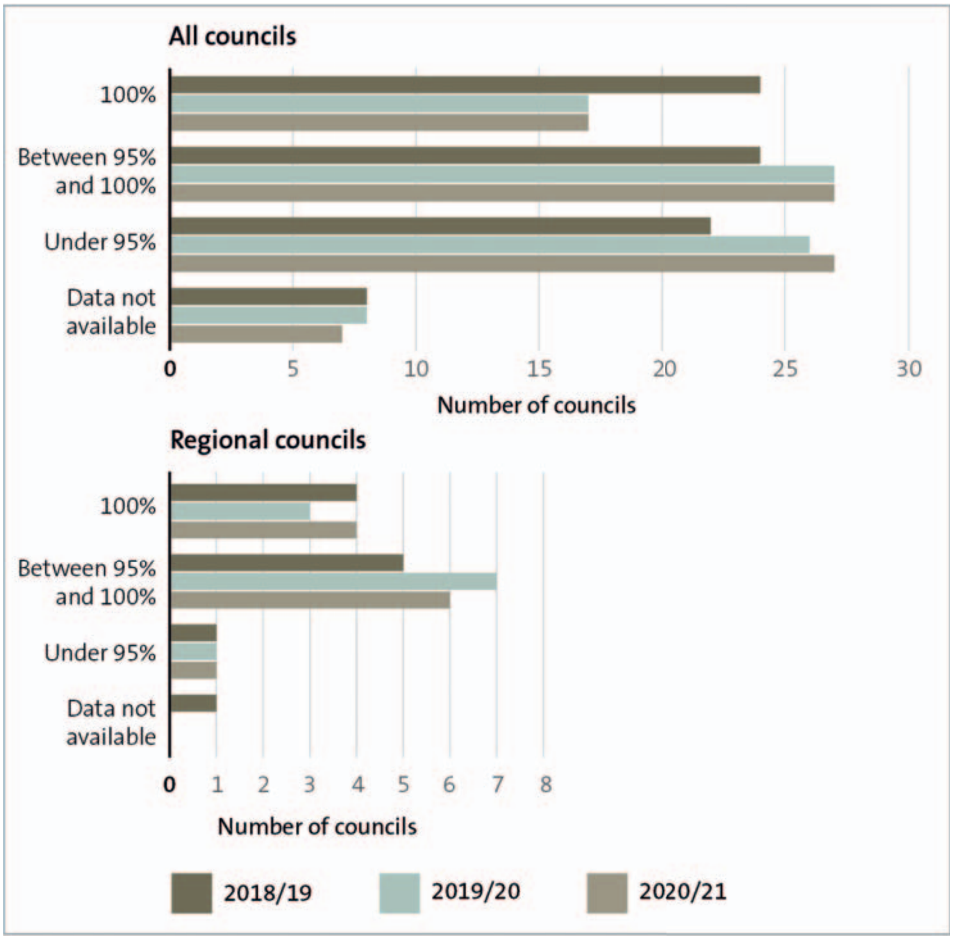


Source: Analysed from information collected from councils' annual reports.

1.49 Figure 7 shows trends in timeliness for processing resource consent applications from 2018/19 to 2020/21. When all councils are combined, performance in 2020/21 is comparable to 2019/20, halting the decline seen between 2018/19 and 2019/20. For regional councils, performance was reasonably consistent during the three-year period and at a consistently higher level compared to the results for all councils.

1.50 However, the Ministry for the Environment has identified a significant and increasing use by councils of section 37 of the Resource Management Act to extend the time limits for processing resource consent applications (see Figure 8).[13]

Figure 7
Councils' compliance with statutory time frames for processing resource consent applications between 2018/19 and 2020/21



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

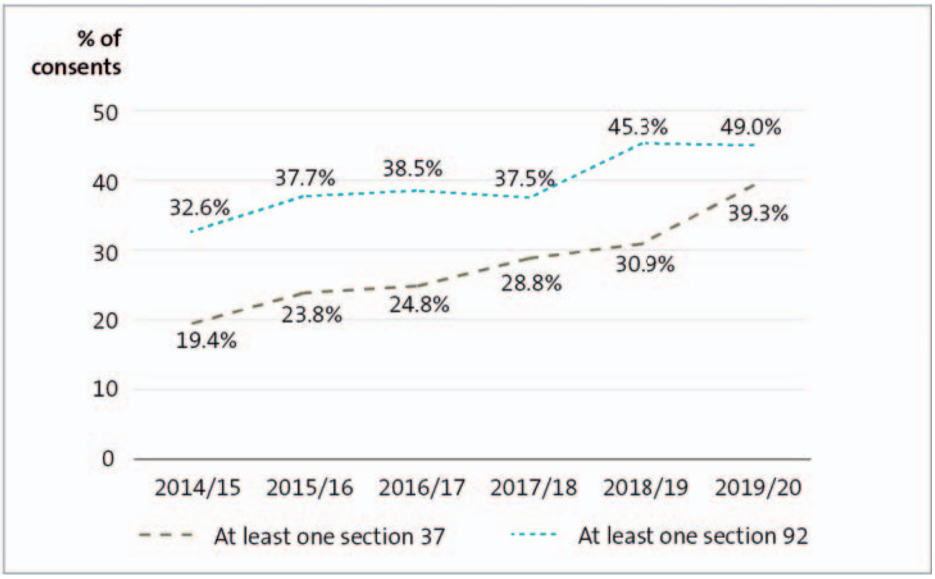
13 Ministry for the Environment (2021), *Patterns in Resource Management Act implementation: National Monitoring System data 2014/15 to 2019/20*, Wellington.

1.51 Of the 17 councils that processed 100% of resource consent applications in the statutory time frame, only one (Waipā District Council) is classified as a Tier 1 council under the National Policy Statement on Urban Development 2020 (see Appendix 1). No local councils identified as high growth under the previous version of the National Policy Statement achieved this result in the previous year.

1.52 Because no complete dataset for the number of resource consent applications processed by councils in 2020/21 is available, our ability to comment is limited.[14] In noting the record numbers of building consent applications processed, we would expect that resource consent numbers would be higher compared to longer-term averages, particularly in areas of high growth.

1.53 However, many councils throughout the country referenced the high workloads they had experienced during the year. Fluctuations in resource consent numbers are likely to be less volatile in comparison to building consent applications, reflecting the different consenting requirements under the Resource Management and Building Acts. For example, a large-scale subdivision typically generates a higher number of building consent applications than resource consent applications.

Figure 8
Resource consents that use at least one section 92 (further information requests) or section 37 (extended time frames) in their processing, 2014/15 to 2019/20



Source: Ministry for the Environment (2021), *Patterns in Resource Management Act implementation: National Monitoring System data 2014/15 to 2019/20*.

14 The Ministry for the Environment's annual reporting is expected to include information on numbers of Resource Management Act consents.

1.54 There is a focus on councils' performance measures for processing resource consent applications in a timely way and that meets statutory time frames. However, performance measures relating to timeliness varied between councils, and not all councils provided an explanation when they missed their targets. It is good practice for councils to explain why they missed targets in their annual reports. We encourage them to do this.

1.55 Although about half of councils measure the timeliness of processing resource consent applications in a straightforward way, other councils variously measure:

- all resource consents;
- non-notified or other sub-categories of resource consents only; or
- timeliness against a different, non-statutory time frame.

1.56 Performance measures for monitoring, compliance, and environmental outcomes are less commonly adopted by territorial local authorities (in contrast to regional councils).[15] These factors limit the transparency of councils' performance, including the effects of consenting decisions and the ability to make comparisons between councils.

1.57 We encourage councils, particularly territorial local authorities, to actively review the effectiveness of their resource consent performance measures as part of the next long-term plan process. We encourage all councils to critically evaluate their performance and seek improvements to processing times. We particularly encourage this for high-growth councils so they can effectively support growth in their communities.

The effects of the Covid-19 pandemic on council services

1.58 The Covid-19 pandemic continued to affect the country in 2020/21. However, it was a period of relative normality given much of the country was at either Alert Level 1 or Alert Level 2 (Auckland was the only region to go into Alert Level 3 during this period).

1.59 We looked at whether the performance information that councils reported indicated a decline in the levels of service they provided during 2020/21. As in 2019/20, our analysis did not indicate any significant decline in the levels of service provided by councils. Many of the services provided by councils are essential services that continued despite alert level restrictions.

1.60 Although the Covid-19 pandemic caused disruptions, councils found ways to adapt and to largely continue their services (for example, by moving services online and providing click and collect library services). The bigger disruptions

15 As a group, regional councils have extensive performance measures relating to their compliance and monitoring functions that are presented as core business, reflecting these councils' responsibilities to manage and report on the state of the environment.

seemed to come from events being cancelled because of alert level restrictions and delays to certain capital projects because of labour and materials shortages.

Funding and expenditure specific to the Covid-19 pandemic

1.61 Councils could apply for different funding initiatives through the Covid-19 Response and Recovery Fund. These initiatives included "shovel ready" funding, the Strategic Tourism Assets Protection Programme funding, Jobs for Nature, Provincial Growth Funding, and the wage subsidy scheme.

1.62 We have reported separately on several of these initiatives.[16]

1.63 In our *Update on the Government's Covid-19 expenditure*, we noted that it is complex to form a complete picture of Covid-19-related expenditure.[17] We reported that it would be difficult, if not impossible, for Parliament and the public to track how the Covid-19 funding decisions (by initiative) have been assigned to the various funding authorities (appropriations) provided by Parliament.

1.64 A partial picture of Covid-19 expenditure by the local government sector can be formed by looking at individual annual reports for the amount incurred against appropriations that were set up exclusively for the Covid-19 response. However, doing this requires knowing which departments administer those appropriations and which of those appropriations authorise Covid-19-only expenditure.

1.65 There was no requirement for councils to separately report or disclose Covid-19 funding and expenditure. Therefore, we could not easily see how each council had used its funding. However, we have identified some examples of good practice where councils reported to their communities the funding they received, and how this funding was used.

1.66 Ashburton District Council received a $20 million grant towards its new library civic centre building from the Government's Covid-19 Response and Recovery Fund. Construction began in 2021, and the Council reported that it was estimated to be completed by the end of 2022. The Council also received $8 million in stimulus funding that it combined with its own contribution of $2 million to bring forward the Ashburton Relief Sewer Project.

1.67 Auckland Council reported receiving a top-up subsidy from Waka Kotahi of $86 million to keep the transport network operating, as during the financial year the number of people taking public transport remained well below what it was before the Covid-19 pandemic.

16 Office of the Auditor-General (2021), *Management of the Wage Subsidy Scheme* and *Implementation of recommendations – Management of the Wage Subsidy Scheme*; Office of the Auditor-General (2021), *Update on the Government's Covid-19 expenditure*; and Office of the Auditor-General (2022), *Inquiry into the Strategic Tourism Assets Protection Programme*.

17 Office of the Auditor-General (2021), *Update on the Government's Covid-19 expenditure.*

1.68 Northland Regional Council reported receiving $12.5 million to fast-track flood mitigation works in the Awanui flood scheme. This meant that the previously planned $15 million, eight-year upgrade would now be able to be delivered in 2022/23, which is earlier than planned. The Council also reported that it was able to carry out additional work – alongside its partners Far North District Council and Waka Kotahi – to make further riverside improvements.

1.69 Queenstown Lakes District Council received a contribution from the Government's "shovel ready" Covid-19 recovery programme. It used this funding to transform Queenstown's town centre and start work on the first stage of the proposed Queenstown Town Centre Arterial Road. The Council reported that this contribution recognised the importance of providing the support the community needed.

1.70 Taranaki Regional Council reported that it had received significant contributions to several of its programmes in the form of "post-Covid-19" funding. The Council's long-running Riparian Management Programme received a $5 million funding boost through the Jobs for Nature initiative. This meant that many farmers paid only $1 for each plant and hired contractors to do the planting. "Towards Predator-Free Taranaki" received a $750,000 grant from the Jobs for Nature initiative, allowing for six extra positions to be created. The Yarrow Stadium Plus redevelopment project received $20 million in government response infrastructure investment funding for repair work.

1.71 Taupō District Council received government funding of $20.6 million for the Taupō Town Centre Transformation project as part of the Covid-19 stimulus package. The project is taking place in four phases over two years. The Council received additional Covid-19 stimulus funding for street revitalisation works in Tūrangi ($6.5 million) and for paving a shared pathway alongside the East Taupō Arterial route, which will be completed over two years.

1.72 Taupō District Council also received $8.3 million, as part of the three waters funding, to bring forward necessary works to drinking and wastewater infrastructure.

Councils' investment in infrastructure

2

2.1 In this Part, we consider how councils:

- reinvested in their assets;
- reported on their three waters assets performance measures (so we could consider whether increased investment in water assets has translated into improved performance);[18]
- delivered on their 2020/21 capital expenditure budgets; and
- built assets needed for growth.

2.2 Because councils generally use debt to fund capital expenditure, we also consider:

- the debt owed by the sector as at 30 June 2021; and
- council hedging practices.

2.3 In our analysis, we considered the local government sector as a whole.[19] In some instances, we considered the following five sub-sectors:

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

2.4 Appendix 1 categorises the councils under each sub-sector.

2.5 Since 2012/13, we have been reporting that councils are not adequately reinvesting in their assets. In 2020/21, councils' renewal related capital expenditure throughout the sector was 78% of depreciation for the year.

2.6 This is a slight improvement on the 74% achieved for 2019/20. However, it remains significantly less than 100%, which indicates that assets are not being replaced at the same rate as they are being used up. In 2020/21, councils spent $0.8 billion (12%) less than they planned to on their assets.

2.7 Many councils acknowledged in their 2021-31 long-term plans that they have been under-investing in their assets, particularly assets related to water infrastructure.[20]

18 The three waters are drinking water supply, wastewater, and stormwater.

19 For 2020/21, we included draft financial information for Ōpōtiki District Council in our analysis because the audit of the financial information was not complete when we carried out our analysis. Chatham Islands Council was excluded from our analysis because it will have its 2020/21 and 2021/22 annual reports audited simultaneously in 2023, so its financial information was not available when we carried out our analysis. These delays were mostly because of the auditor shortage in New Zealand.

20 Office of the Auditor-General (2022), *Matters arising from our audits of the 2021-31 long-term plans*, page 4 and Part 4.

Reinvestment in councils' assets during 2020/21

2.8 We compared capital expenditure on renewals with the annual depreciation charge to see how well councils are reinvesting in their assets. We consider depreciation to be the best estimate of the portion of the asset that was "used up" during the financial year. Assets have long life cycles, so this is only one indicator of whether councils are reinvesting enough.[21]

2.9 If councils underinvest in their assets, there is a bigger risk of asset failure and a resulting reduction in service levels. This will affect services delivered to the community. Overall, based on our analysis of the 2020/21 results, we remain concerned that councils might not be reinvesting enough in critical assets. However, forecasts for the period of the 2021-31 long-term plans indicate that councils are progressively addressing this situation.

2.10 In 2020/21, the combined renewal capital expenditure of all councils was 78% of the depreciation expense throughout the sector (this was 74% in 2019/20). This means that, for every $1 of assets used up, councils were reinvesting 78 cents. For 26 councils, renewal capital expenditure was more than 100% of depreciation (compared with 22 councils in 2019/20).

2.11 However, about a quarter of all councils' renewal capital expenditure was 78% or less than the depreciation expense for the six-year period between 2012/13 and 2017/18. This is the case for Nelson City Council and Tauranga City Council, which were predicted to peak at 72% and 71% respectively in 2021/22. They were then predicted to track down to 48% and 26% respectively in 2030/31 (during the period of their 2021-31 long-term plans).

2.12 Queenstown Lakes District Council has a similar renewals profile, with only two years being above 78% in the 2012/13 to 2030/31 period. Where the average age of infrastructure assets is low, it is expected that the need for assets renewals will be less than for older infrastructure.

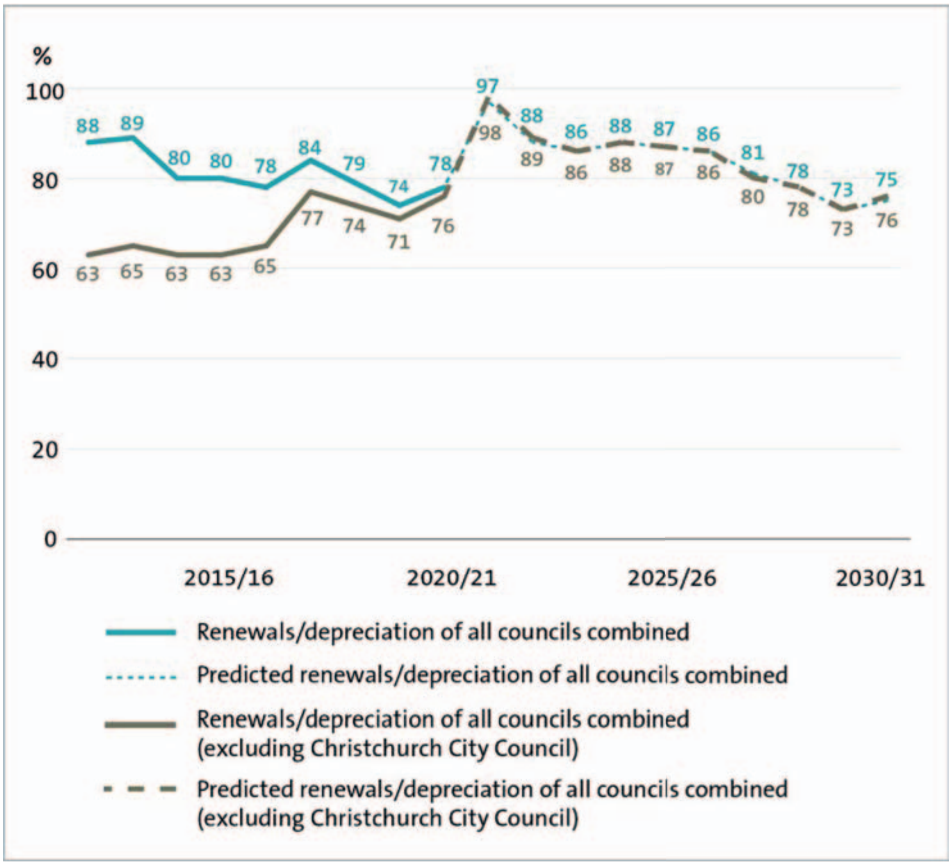
2.13 Figure 9 compares actual renewal capital expenditure with depreciation for all councils, from 2012/13 to 2020/21. It also shows the predicted renewal capital expenditure for the period of the 2021-31 long-term plans. There are two lines on the graph: one that includes all councils, and one that excludes Christchurch City Council.

2.14 Christchurch City Council's renewal capital expenditure has been proportionately higher than other councils because of the rebuilding it has done since the 2011 Canterbury earthquakes. However, the impact of this has been decreasing over

21 Our comparison of depreciation with renewals is used as an indicator only. We would expect any difference between the two to reduce over the life of an asset. Also, where there is high growth, a higher proportion of capital expenditure is on non-renewal assets. Therefore, as a percentage of depreciation, renewals will trend down over time as non-renewal assets are capitalised.

time. After 2020/21, it appears that this difference will no longer be notable (in Figure 9, this is the point where the lines converge).

Figure 9
Renewal capital expenditure compared with depreciation for all councils, actual percentages for 2012/13 to 2020/21 and predicted percentages for 2021/22 to 2030/31



Source: Analysed from information collected from councils' annual reports and 2021-31 long-term plans.

2.15 Between 2012/13 and 2020/21, renewals have ranged between 74% and 89% of the depreciation expense for all councils. Our analysis of councils' 2021-31 long-term plans shows that there is an expected step change in 2021/22 when councils' renewal investment is forecast to increase to 97%. However, this is then forecast to steadily decline to 73% in 2029/30.

2.16 Most councils prepared their 2021-31 long-term plans based on the assumption that territorial local authorities would continue to own water assets and provide water services to their communities. However, in November 2022, the Water Services Entities Bill had its second reading in Parliament, indicating that territorial local authorities will not have water assets on their balance sheets from 1 July 2024. The third reading of the Bill is expected in December 2022.

2.17 In the past, we have found that renewals spending as a proportion of the depreciation expense is lower for three waters infrastructure than for other infrastructure (such as roading and footpaths). Therefore, the profile and performance of councils' renewals spending as a proportion of depreciation could look quite different if three waters assets are transferred from councils to water services entities.

2.18 In 2020/21, three waters assets accounted for about 32% of councils' total renewals spending and 48% of councils' renewals spending on infrastructure.

2.19 Comparing councils' 2020/21 renewals expenditure as a proportion of the depreciation expense by infrastructure asset category (see Figure 10), we can see that renewals spending on:

- roading and footpaths was 80% of depreciation;
- water supply was 94% of depreciation;
- wastewater was 64% of depreciation; and
- stormwater was 42% of depreciation.

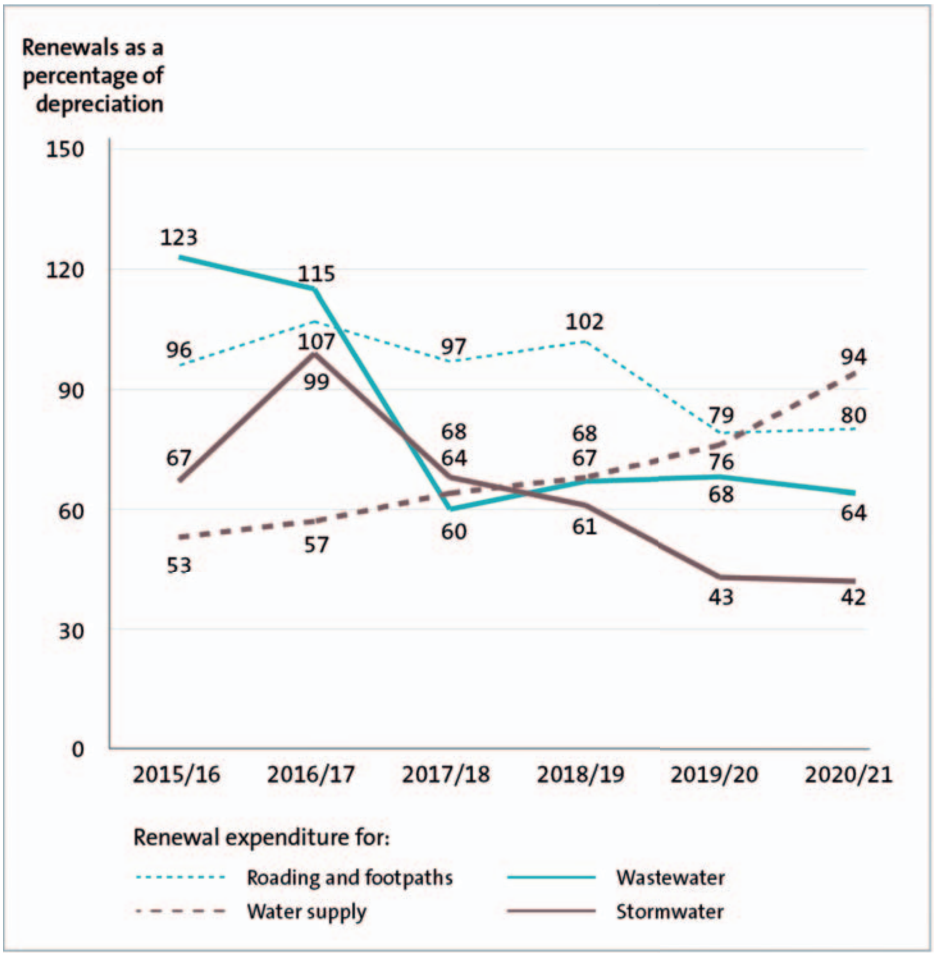
2.20 These percentages are broadly consistent with what we saw in 2019/20. However, the percentage for water supply has increased from 76% in 2019/20 to 94% in 2020/21. This is likely to be in response to widely publicised issues with water infrastructure age and condition and associated issues with water quality.

2.21 There could also be a tendency for councils to prioritise water supply and wastewater over stormwater, particularly as there are other options to manage stormwater depending on local geography (for example, through discharge to land).

2.22 Comparing councils' 2020/21 actual renewals expenditure as a proportion of the renewals budget, we can see that renewals spending on:

- roading and footpaths was 101% of the $733.9 million budget;
- water supply was 103% of the $324.6 million budget;
- wastewater was 71% of the $419.6 million budget; and
- stormwater was 114% of the $69.3 million budget.

Figure 10
Renewal capital expenditure compared with depreciation for all councils combined by infrastructure asset category, 2015/16 to 2020/21



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

2.23 The results are consistent with what we saw for renewals spending as a proportion of the depreciation expense, in that the spending as a proportion of budget was higher for water supply, and roading and footpaths, than wastewater.

2.24 However, in this case, performance was better for stormwater than wastewater, and wastewater was the only area where actual spending was less than budget (noting that the budget for wastewater was six times higher than the budget for stormwater).

2.25 Although spending on renewals is less than the annual depreciation charge and the total capital expenditure is less than budget (at 60%), councils have increased capital expenditure on their three waters assets overall.

2.26 In 2020/21, councils invested nearly $2.0 billion in three waters assets throughout the sector (see Figure 11). This is 53% of total council spending on infrastructure assets for the year and an increase of $283.9 million (17%) from 2019/20. Although this is smaller than the $385.6 million (29%) increase we saw between 2018/19 and 2019/20, it reflects the overall trend of increasing focus and reinvestment in three waters assets in recent years.

Figure 11
Spending on three waters assets as a proportion of other infrastructure assets, by capital expenditure type, 2020/21

Capital expenditure	Three waters assets $million	Total spending on infrastructure assets $million	Percentage of total infrastructure spending on three waters assets
Meet additional demand	758.1	1,041.2	72.8
Improve the level of service	527.8	1,219.6	43.3
Renew existing assets	704.2	1,475.3	47.7
Total	**1,990.1** *(2019/20: 1,706.2)*	**3,736.1** *(2019/20: 3,154.2)*	**53.3** *(2019/20: 54.1)*

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

2.27 We expect this trend to continue in the short term while councils continue to own three waters assets and provide three waters services.

2.28 The 2021-31 long-term plans had a particular focus on reinvestment in three waters assets within a significant proposed capital expenditure programme of $77.2 billion throughout the sector for the next 10 years.[22]

22 Office of the Auditor-General (2022), *Matters arising from our audits of the 2021-31 long-term plans*, page 4.

Three waters performance measures

2.29 Under the Non-Financial Performance Measures Rules 2013 provided by the Secretary for Local Government, councils are required to report their performance against specific performance measures for three waters. The Department of Internal Affairs' website provides an outline of these measures.[23]

2.30 These measures are reported as either "achieved" or "not achieved" in councils' annual reports. We have combined the responses from all councils to see what percentage of each of the measures was reported as "achieved". This helps form a picture of which performance measures are generally being met, and which are not, across the country. In some cases, councils did not report whether they met a particular measure. In those cases, we considered the information to be "not reported". Importantly, this analysis does not take account of the size of the population within each council boundary. Therefore, the results should not be considered to reflect council performance for the population of New Zealand as a whole.

2.31 At an aggregate level, the performance against the three waters measures has been relatively consistent over the past five years (see Figure 12). Despite the increased investment in three waters assets in recent years (see paragraph 2.26), we have not seen an improvement in reported performance.[24] There is also a degree of variability when we look at performance against the individual performance measures in each category. The following provides a breakdown of each of the three waters performance measures for 2020/21 for all councils reporting on these measures.

Water supply

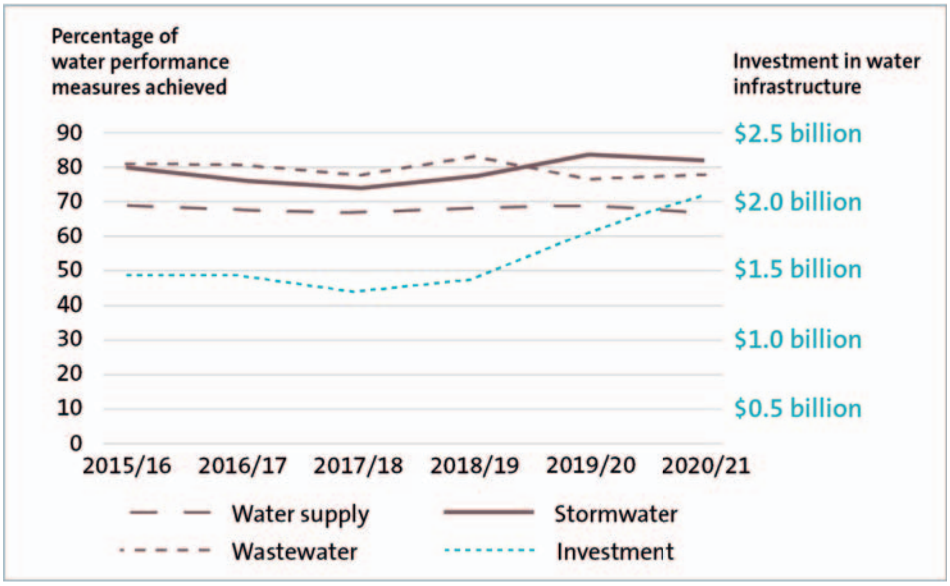
2.32 Overall, 66.3% of water supply measures in 2020/21 could be considered "achieved", which is a slight decrease from last year (2019/20: 68.5%). Figure 13 shows each measure in this category for 2020/21.

2.33 The lowest performance was for the "safety of drinking water" measure (56.7% of safe drinking water measures were achieved) and the "maintenance of the reticulation network" measure (49.5% of maintenance measures were achieved).

23 See dia.govt.nz.

24 Our comparison of investment against performance measures is an indicator only. Although increased investment might allow for improvements in performance, it is not a direct causal relationship. There might also be a time lag between increased investment and an improvement in performance.

Figure 12
Percentage of water supply, wastewater, and stormwater performance measures achieved, 2015/16 to 2020/21, compared to the level of investment in three waters assets



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

2.34 The drinking water measures show the extent to which a council's drinking water supply complies with:

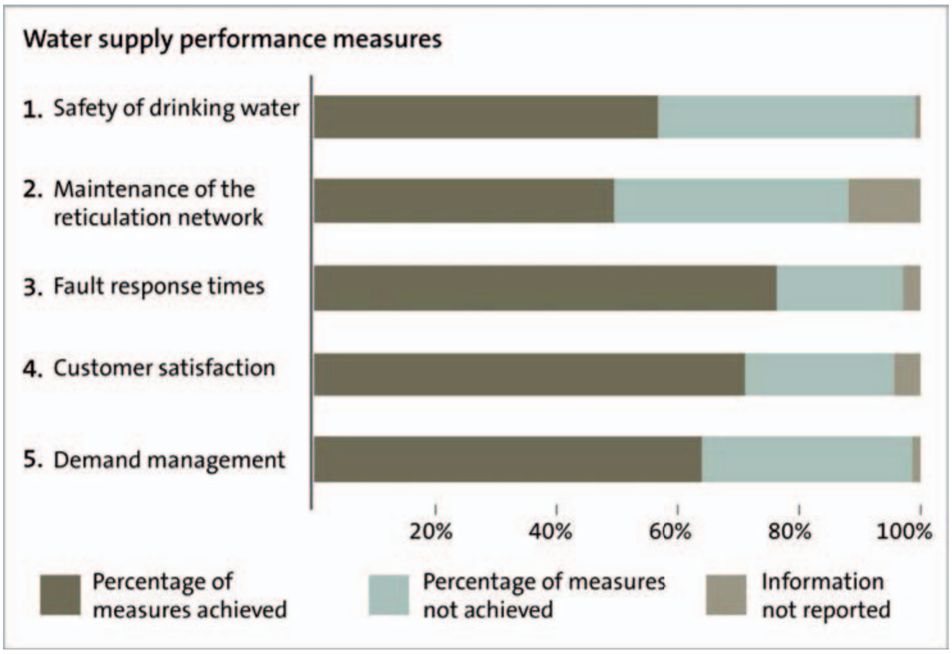
- part 4 of the drinking-water standards (bacteria compliance criteria); and
- part 5 of the drinking-water standards (protozoal compliance criteria).

2.35 Figure 14 shows councils' performance against the safety of drinking water measures by each standard assessed within this (some councils combine these safety measures into one).[25] Overall, 46.7% of the protozoal compliance criteria measures and 64.3% of the bacteria compliance criteria measures were achieved (where these two measures have been combined, 65% were achieved).

2.36 The overall result for protozoa for all councils is affected by the results of provincial and rural councils (when we look at these councils as separate groups, 50% of provincial councils and 31.7% of rural councils achieved this standard).

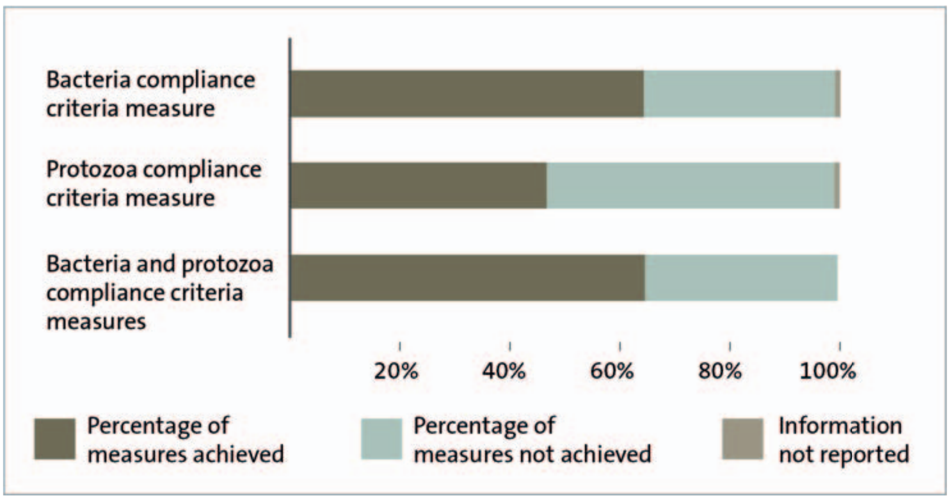
25 These are Nelson City Council, Ōpōtiki District Council, Waitaki District Council, Western Bay of Plenty District Council, and Westland District Council.

Figure 13
Percentage of water supply performance measures achieved in 2020/21 for all councils combined



Source: Analysed from information collected from councils' annual reports.
Note: "Information not reported" refers to circumstances where councils did not report whether they met a particular measure.

Figure 14
Percentage of drinking water measures achieved (part of the "safety of drinking water" measures), 2020/21



Source: Analysed from information collected from councils' annual reports.
Note: "Information not reported" refers to circumstances where councils did not report whether they met a particular measure.

2.37 It is important to note that where drinking water measures are "not achieved", this does not necessarily mean there is an issue with water quality or that the water is unsafe to drink. There are various reasons why a council might not be fully compliant with the Drinking Water Standards New Zealand, as each standard contains multiple criteria. For example, where continuous monitoring of the water is required, a council might be non-compliant if it could not demonstrate this or if data were missing for a short period of time. This reason for non-compliance would not necessarily mean there were any issues with water quality.

2.38 We would encourage councils that have reported their bacteria and/or protozoa measures as "not achieved" to investigate the reasons for non-compliance and prioritise remedial actions, particularly where this might affect water quality.

2.39 The drinking water standards changed in November 2022. Councils will need to ensure that they are compliant with the new standards and continue to work with Taumata Arowai as the drinking water regulator.

Wastewater

2.40 Overall, 78% of wastewater measures were considered "achieved" in 2020/21, which was largely consistent with last year (2019/20: 76.6%). Figure 15 shows each measure in this category in 2020/21.

2.41 Councils did not perform as well against the "system adequacy" measure (70.2% of system adequacy measures were achieved) and "fault response times" measure (74.3% of fault response time measures were achieved).

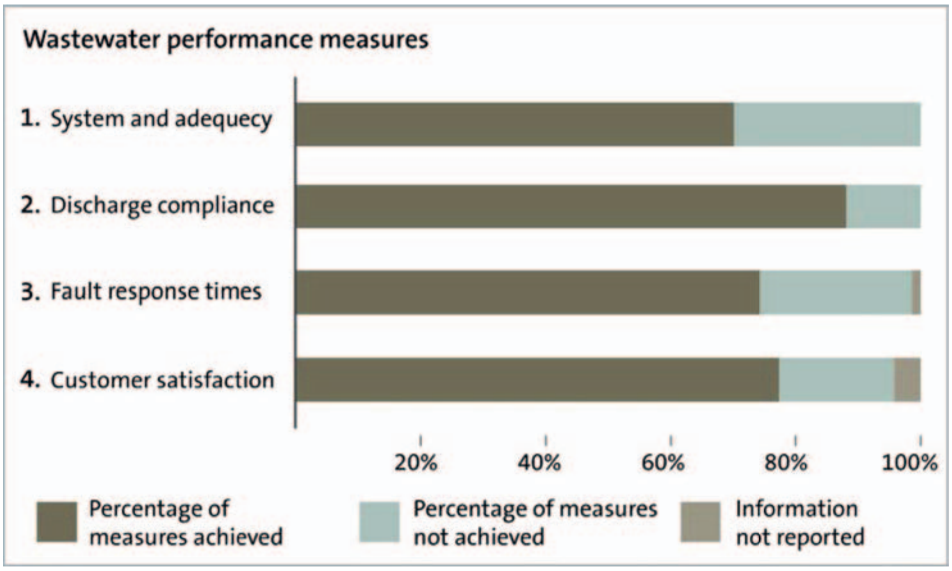
2.42 It appears that the performance against the "system adequacy" measure is mainly affected by metropolitan councils (excluding Auckland Council). As a group, only 45.5% of metropolitan councils achieved this measure.

Stormwater

2.43 Overall, 82% of stormwater measures were considered "achieved" in 2020/21, which is consistent with last year and is the strongest area of performance against the three waters measures (2019/20: 83.6%). Figure 16 shows each measure in this category in 2020/21.

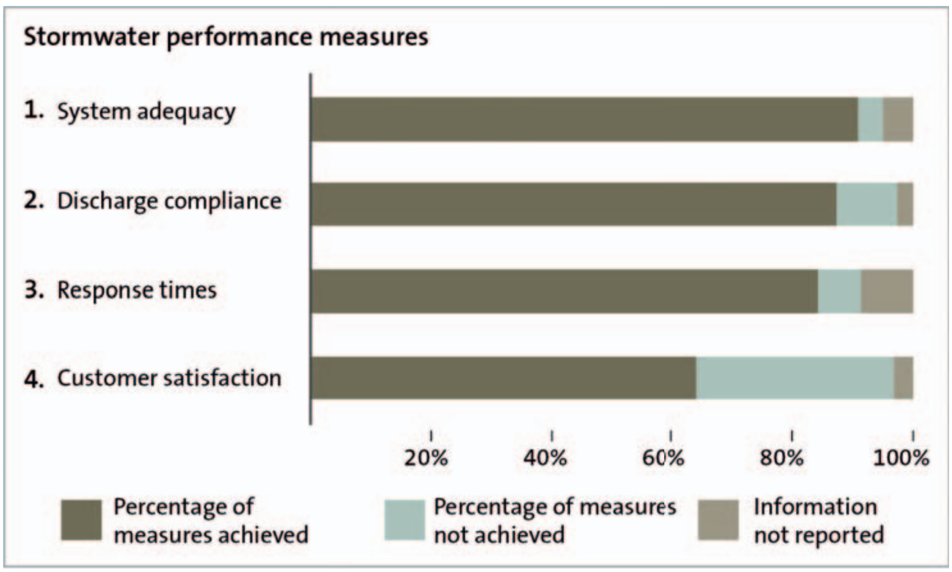
2.44 The poorest performance in this category was against the "customer satisfaction" measure (64.2% of customer satisfaction measures were achieved). It appears that this was mainly affected by rural councils – as a group, only 57.1% of rural councils achieved this measure.

Figure 15
Percentage of wastewater performance measures achieved in 2020/21 for all councils combined



Source: Analysed from information collected from councils' annual reports.
Note: "Information not reported" refers to circumstances where councils did not report whether they met a particular measure.

Figure 16
Percentage of stormwater performance measures achieved in 2020/21 for all councils combined



Source: Analysed from information collected from councils' annual reports.
Note: "Information not reported" refers to circumstances where councils did not report whether they met a particular measure.

2.45 Overall, performance against the three waters measures remains largely consistent with the previous five years (as shown in Figure 12). However, there are areas for improvement, and results can vary between urban and rural councils.

2.46 The results for 2020/21 highlight that lifting councils' performance against water supply measures should be a priority for the whole sector. Specifically, those councils that are reporting "not achieved" against the mandatory drinking water standards should prioritise actions to support performance improvements.

2.47 The historic underinvestment in three waters infrastructure might have contributed to overall performance. However, we were encouraged in our recent report on the 2021-31 long-term plans[26] to note councils are now planning to spend more on renewing their water supply networks compared to forecast depreciation.

2.48 For example, forecast renewals for water supply networks have lifted from an average of 82% of depreciation during the 10 years of the 2018-28 long-term plans to an average of 122% of depreciation during the 10 years of the 2021-31 long-term plans.

Delivery of capital expenditure programmes

2.49 In 2019/20, we reported that most councils did not deliver all of their capital expenditure programmes.[27] The 2020/21 results show that this has continued. As a result, some capital projects are either delayed or not being delivered at all, which could affect the levels of service that communities receive in the future.

2.50 Councils' total capital expenditure in 2020/21 was $5.80 billion, which was the highest amount councils spent on their assets in the last nine years. The amount spent was 88% of the $6.58 billion budgeted.[28] However, this was the largest spending as a proportion of budget in the last nine years and an increase from 79% in 2019/20.

2.51 In our recent report on the 2021-31 long-term plans,[29] we observed that a tight labour market and supply chain challenges are causing capacity issues. This creates risks to current service delivery, the delivery of future capital projects, and ultimately their cost.

2.52 There might also be a backlog of projects that were put on hold during Covid-19 lockdowns. Some councils might also have decided to defer individual capital

26 Office of the Auditor-General (2022), *Matters arising from our audits of the 2021-31 long-term plans.*

27 Office of the Auditor-General (2021), *Insights into local government: 2020*, Part 2.

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

29 Office of the Auditor-General (2022), *Matters arising from our audits of the 2021-31 long-term plans*, page 5.

projects to manage budgetary pressures (noting that some councils' capital expenditure was over budget – see Figure 17).

2.53 On average, all council sub-sectors spent less than 100% of their capital expenditure budgets. As was also the case in 2019/20, the regional council sub-sector was the lowest, spending $155 million or, on average, 68% of their budget. By comparison, Auckland Council spent $2.05 billion or 95% of its capital expenditure budget.

2.54 Looking at individual councils, 28 councils spent less than 80% of their capital expenditure budgets. This is a change in the pattern we have seen since 2012/13 (see Figure 17). Twenty-four fewer councils spent less than 80% of budget than in 2019/20 (in the previous eight years, the highest number in this category was 52 councils in 2019/20).

2.55 This indicates that, overall, councils are pushing to deliver their capital expenditure programmes, despite the challenges resulting from the Covid-19 pandemic. These challenges include a backlog of projects and constraints in the availability of contractors, specialists, and associated resources in New Zealand.

Figure 17
Number of councils spending less than 80%, between 80% and 100%, or more than 100% of their budgeted capital expenditure, 2012/13 to 2020/21

	Spent less than 80% of budget	Spent 80%-100% of budget	Spent over 100% of budget
2012/13	46	22	10
2013/14	44	21	13
2014/15	46	21	11
2015/16	45	20	13
2016/17	47	19	12
2017/18	35	23	20
2018/19	40	20	18
2019/20	52	13	13
2020/21	28	24	25

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

2.56 In our report on the 2021-31 long-term plans,[30] we found that councils are moving to address historical underinvestment in their infrastructure. The long-term plans had a richer discussion of the implications of previous decisions for investing in assets and what this meant for the future. Councils are forecasting to invest more in their assets than in previous long-term plans. Assuming councils

30 Office of the Auditor-General (2022), *Matters arising from our audits of the 2021-31 long-term plans*, pages 4-5.

can substantially deliver this planned investment, this is a positive change. Historically, this has not been the case.

Investing in assets needed for growth

2.57 Some councils are experiencing significant population growth. We consider high-growth councils to be those defined as "Tier 1 local authorities" under the National Policy Statement on Urban Development 2020, which came into effect on 20 August 2020 (see Appendix 1).

2.58 Population growth is a key assumption underlying councils' long-term plans. Councils, particularly those with high growth, need to consider the impact of this on increased demands on their infrastructure and plan to invest in their assets accordingly. We saw evidence of this in councils' 2021-31 long-term plans.[31]

2.59 This is the third year we have examined how well high-growth councils have achieved their growth-related capital budgets.[32] In 2020/21, we found that most of these councils did not build all the assets they had budgeted for. This was also the case in 2018/19 and 2019/20. We encourage high-growth councils to reassess their future planned budgets to accommodate what they have not achieved to date.

2.60 In 2020/21, high-growth councils spent about $1.14 billion (2019/20: $1.04 billion) on capital expenditure intended to meet additional demand. This was 84% of the $1.35 billion budgeted in 2020/21 for this purpose. Three councils spent more than their growth-related capital expenditure budgets. In contrast, four councils spent less than 50% of their budgets.

2.61 High-growth councils might not have been able to complete their capital programmes for the same reasons as other councils (see paragraphs 2.51 to 2.52).

2.62 We note that some councils revised their growth forecasts in their 2021-31 long-term plans, either because growth has not been as high as expected or because higher-than-forecast growth has occurred.[33] Therefore, the definition and impacts of "high growth" could apply to different councils in the future.

Council debt trends

2.63 Councils generally use debt to fund capital expenditure, which is consistent with the intergenerational nature of many of the sector's assets. The total amount of budgeted debt for all councils for the year ended 30 June 2021 was $22.56 billion. The actual total debt was $20.56 billion, which was $2 billion, or 9%, less than

31 Office of the Auditor-General (2022), *Matters arising from our audits of the 2021-31 long-term plans*, pages 44-45.

32 There are 18 councils in Tier 1. However, for the purposes of our analysis, we have excluded the four regional councils in Tier 1 (Waikato, Bay of Plenty, Greater Wellington, and Canterbury) because none had high growth throughout their entire region..

33 Office of the Auditor-General (2022), *Matters arising from our audits of the 2021-31 long-term plans*, page 44.

budgeted. The 9% lower-than-anticipated debt is consistent with the lower-than-anticipated capital expenditure (see paragraph 2.50).

2.64 We considered Auckland Council's debt separately from other councils because it accounted for 52% of the total debt for all councils as at 30 June 2021. Auckland Council had $10.69 billion of debt as at 30 June 2021, which was $352 million less than budget.

2.65 In its annual report, Auckland Council reported that borrowings were less than planned because of stronger operating cash inflows and less capital expenditure than anticipated.[34] For all other councils, the total amount of debt as at 30 June 2021 was $9.87 billion, compared with a budget of $11.52 billion.

2.66 Although actual total debt for all councils (including Auckland Council) was less than budget, this was still $910.1 million, or 5%, more than actual total debt for the year ended 30 June 2020. Our report on the 2021-31 long-term plans indicated that increasing council debt is a trend we expect to see continue during the next 10 years.[35] However, this will largely depend on the three waters reform programme.

2.67 With a significant increase in infrastructure investment being forecast, debt is forecast to be more than $38 billion by the end of the long-term plan period in 2031. By comparison, in their previous (2018-28) long-term plans, councils had forecast that debt would peak at about $25 billion.

Council hedging practices

2.68 Hedging is designed to protect councils against changes in interest rates and currency exchange rates. It includes the use of financial instruments such as derivatives.[36] For example, to reduce interest rate risk, a council could use interest rate hedging (that is, entering into a contract for a fixed interest rate over a set period of time) to provide certainty over what its interest payments will be during that time. Even if interest rates rise, the council will continue to pay the rate agreed in the contract. This helps to provide certainty to ratepayers that councils are managing the interest rate and currency risks on their debt.

2.69 It is increasingly common for councils to adopt hedging practices to reduce interest rate and currency risks to their borrowing and investments. For example, Auckland Council has used several different types of derivatives to help mitigate risks associated with foreign currency and interest rate fluctuations that affect its debt for several years now.

34 Auckland Council (2021), *Auckland Council Annual Report 2020/21*, Volume 3, page 56.

35 Office of the Auditor-General (2022), *Matters arising from our audits of the 2021-31 long-term plans*, pages 5 and 26.

36 A derivative is a contract between two or more parties which uses an underlying asset as security. For example, property could be used as security for a loan.

2.70 As we noted in our report on our audits of councils' 2021-31 long-term plans, given increasing interest rates, councils with significant debt levels need to closely monitor interest costs and ensure that their treasury management policies and practices are appropriate.[37]

2.71 As more councils adopt hedging practices, we expect them to establish good governance for their treasury management practices. This includes the role of audit and risk committees and treasury management steering groups (including the use of independent experts) to provide oversight of treasury management strategy, policy, and implementation.

2.72 Councils should also ensure that they seek appropriate independent advice and carry out detailed assessments to derive fair values for any hedging instrument used.

37 Office of the Auditor-General (2022), *Matters arising from our audits of the 2021-31 long-term plans*, page 6.

The audit reports we issued

3

3.1 Each year, our auditors issue an independent opinion on each council's financial statements and performance information (statements of service performance). This information is an important part of the council's annual report and its accountability to its community.

3.2 The audit opinion lets the reader know whether they can rely on the audited information in the council's annual report (including whether the council's reported performance in the annual report fairly reflects their actual performance for the year).

3.3 In this Part, we discuss:

- when councils adopted their 30 June 2021 annual reports and whether they met the deadlines for doing so;
- the types of audit reports we issued – including emphasis of matter paragraphs about the three waters reform; and
- the impact of the Covid-19 pandemic on our audits.

When councils adopted their 2020/21 annual reports

3.4 The Local Government Act 2002 requires councils to:

- complete and adopt an annual report that contains audited financial statements and service performance information within four months of the end of the financial year;
- make the audited annual report publicly available within one month of adopting it; and
- make an audited summary of the annual report publicly available within one month of adopting the annual report.

3.5 In response to the Covid-19 pandemic, Parliament passed legislation to extend the statutory reporting time frames for councils (as well as other public entities) by two months. For councils, this moved the statutory reporting deadline from 31 October to 31 December 2021. The statutory time frames were extended so that council staff and auditors could ensure that the quality of financial and performance reporting was not affected by the impacts of the Covid-19 pandemic.

3.6 Twelve councils had their audit opinions signed after the reporting deadline. This was because there were delays both in councils providing information to auditors and in audits being completed (because of an auditor shortage in New Zealand and the consequential effects of the Covid-19 pandemic, including lockdowns). This meant that some of our audits were completed later than required by the Local Government Act 2002.

3.7 Seventy-two councils (92%) made their annual reports publicly available within a month of adoption, and 64 councils (82%) released their summary annual reports within a month of adopting their annual report.

3.8 We consider that this is likely because the statutory reporting deadline was extended until the end of December 2021. This meant that the deadlines for making the annual reports and the summaries available often occurred during the holiday period.

3.9 Appendix 2 gives more detail on when councils adopted and publicly released their annual reports and summary annual reports.

The types of audit reports we issued

3.10 Audit reports were issued for 76 councils' financial statements and performance information for the financial year ended 30 June 2021.

3.11 If a material aspect of a council's financial statements or performance information does not comply with accounting standards or the organisation cannot provide us with the evidence needed to support that information, we issue a "qualified audit opinion".[38]

3.12 We issued 23 qualified audit opinions on councils' financial statements and performance information for 2020/21.

Qualified opinions – statement of service performance information

3.13 Of the 23 qualified audit opinions, 19 (82%) related to issues with the performance information that councils reported.

3.14 The statement of service performance contains important information about the services a council has provided and what the council has achieved. The performance information that a council reports should tell a coherent story about the services it delivers, why it delivers them, what standards it is looking to meet in delivering those services, and what difference it intends to make for the community it delivers services to.

3.15 Good quality reporting of both non-financial and financial information allows informed consideration by readers of what has been implemented and what could be improved further. Of the audit opinions we issued for the year ended 30 June 2021, 19 of 76 (25%) included qualifications about aspects of the non-financial information reported by councils. This is a decrease from 27% in 2019/20.

38 Office of the Auditor-General (2014), "The Kiwi guide to audit reports", at oag.parliament.nz.

3.16 Eighteen of the performance information qualifications we issued were related to the measures that councils are required to report, as set out in the Non-Financial Performance Measures Rules 2013 (the Rules) provided by the Secretary for Local Government.

3.17 These mandatory performance measures include the total number of complaints (per 1000 properties connected) received about:

- drinking water clarity, taste, odour, pressure or flow, continuity of supply, and the council's response to any of these issues;
- sewage odour, sewerage system faults and blockages, and the council's response to issues with the sewerage system; and
- the performance of the stormwater system.

3.18 The Department of Internal Affairs has issued guidance to help councils apply the Rules. This includes guidance on how to count complaints.

3.19 In some instances, councils had incomplete records of complaints, so we were unable to determine whether the results the council reported for these performance measures were materially correct.

3.20 These measures are important because numbers of complaints are indicative of the quality of services received by ratepayers as well as the scale of the issues that are the subject of the complaint.

3.21 Five of the qualifications on performance information (excluding the one for Greater Wellington Regional Council) related to councils who used information provided by Wellington Water Limited.[39] Our auditors identified issues with the following performance measures:

- maintenance of the reticulation network (for water supply);[40]
- total number of complaints received (for water supply, wastewater, and stormwater);[41]
- fault response time (for water supply and wastewater); and [42]
- number of dry weather sewerage overflows (for wastewater).[43]

39 Six councils, including Wellington City Council, are joint shareholders in Wellington Water Limited. Wellington Water reports its performance in providing water services to the six councils. The six councils are also required to report this performance in their respective statements of service performance.

40 Four councils that received a qualification had an issue with this measure.

41 Four councils that received a qualification had an issue with this measure.

42 One council that received a qualification had an issue with this measure.

43 One council that received a qualification had an issue with this measure.

3.22 For the five councils where we issued qualified audit opinions, Wellington Water was unable to provide reliable information on the performance measures because:

- it was unable to report reliable water loss percentage because the percentage is estimated using information obtained from water meters throughout the reticulation network;
- the complete records of complaints were not available, and it did not classify complaints; and
- it was unable to accurately report on the three waters fault response time and the number of dry weather wastewater overflows.

3.23 Kaikōura District Council did not have reliable systems and processes in place during the year to accurately report on several performance measures. For just under half of the performance measures, the Council was either not able to report any performance for the year or has reported performance as incomplete. As a result, we were unable to obtain sufficient appropriate evidence over the reported performance against these performance measures.

3.24 The large number of qualifications on councils' non-financial information indicates that many performance systems are not robust or, in some instances, not fit for purpose, resulting in poor performance reporting.

3.25 To produce reliable data, councils need robust performance management systems. Otherwise, it is difficult for a council to clearly understand its performance and where it needs to focus its finite resources to maintain the appropriate levels of service for its communities. It also means that councils are not clearly demonstrating their performance to their communities, which undermines public accountability.

Six councils received a qualified opinion on their financial statements

Asset revaluations (Kaikōura District Council, Invercargill City Council, Dunedin City Council, and Taranaki Regional Council)

3.26 Kaikōura District Council and Invercargill City Council received qualifications relating to their asset revaluations.

3.27 Councils that measure their assets at fair value are required to carry out regular revaluations to identify any differences between the revalued amounts and the carrying amounts of the assets. Where there are significant differences, councils are required to carry out an updated revaluation and show the revalued amounts for those assets in their financial statements.

3.28 Market and cost information available since the previous revaluation indicated that there could have been a significant difference between the revalued amounts and the carrying amounts of the assets. These indications would normally trigger a revaluation. However, because Kaikōura District Council and Invercargill City Council did not carry out revaluations as at 30 June 2021, it was not practical for the auditors to determine the amount of any adjustments needed.

3.29 Dunedin City Council received a qualified opinion on its financial statements with respect to the valuation of its three waters infrastructure assets. There was some evidence that the methodology that the Council applied might have resulted in the valuation being based on replacement costs that were significantly lower than the recent contract rates incurred by the Council for renewing these assets.

3.30 Dunedin City Council disclosed that it intended to engage experts to review its current valuation methodology to determine whether it is still appropriate. This review could lead to a different approach that might materially alter the carrying values of the assets. Because this review had not been carried out, the scope of the audit was limited.

3.31 We issued a qualified opinion on Taranaki Regional Council's financial information because there was limited information available to assess the accuracy of the carrying value of the Eastern and Western Stands of Yarrow Stadium.

The auditor's work was limited over the comparative year financial information relating to a related entity (West Coast Regional Council)

3.32 In their annual reports, councils are required to disclose comparative financial and non-financial information so that current year results can be compared with the previous year's results. In 2020/21, we issued a qualified audit opinion on West Coast Regional Council's comparative (2019/20) financial information. The results for 2020/21 were not qualified.

3.33 In its 2019/20 financial statements, West Coast Regional Council included information relating to a former investment in an associate[44] where the council was able to exercise significant influence. The auditor for the associate was unable to obtain appropriate audit evidence to form an opinion on the going concern assumption in the associate's financial statements. Therefore, the auditor issued a disclaimer of opinion on the financial statements of the associate for the year ended 31 March 2020.

3.34 Because of this, we were also unable to obtain sufficient audit evidence to support the financial information relating to the associate for the year ended 30 June 2020. Any misstatement of this financial information could affect the regional

44 An associate is an entity over which the investor (council) has significant influence. Examples of significant influence include representation on the board, participation in policy-making processes, material transactions between the two entities, interchange of managerial personnel, or provision of essential technical information.

council's comparative year statement of financial position and statement of comprehensive revenue and expense.

Post-balance date clarification of tax position (Greater Wellington Regional Council)

3.35 Greater Wellington Regional Council's subsidiary company, CentrePort Limited, received formal communication from Inland Revenue that resolved the uncertainties associated with estimating the tax expense and deferred tax liability after the reporting date.

3.36 Events after the reporting date considered to be an adjusting event should result in adjustments to the financial statements. Therefore, the financial statements of the Group should have been adjusted to reflect the clarified taxation position. However, the Council did not make the required adjustments to the subsidiary companies' financial statements. Therefore, the Group tax expense and deferred tax liability were overstated, and the financial statements did not comply with generally accepted accounting practice in relation to this matter.

Emphasis of matter paragraphs

3.37 Of the 76 audit reports we issued, 54 reports (71%) included an emphasis of matter paragraph. Emphasis of matter paragraphs are included in audit reports to draw readers' attention to a matter that, in the appointed auditor's professional judgement, is fundamental to readers' understanding of the audited information.

Three waters reform

3.38 In 2020, the Government announced the Three Waters Reform Programme (the three waters reform) to establish four publicly owned water services entities to take over responsibilities of service delivery and infrastructure from local authorities from 1 July 2024. If these reforms are legislated as proposed, councils will no longer provide three waters services and will no longer own three waters assets.

3.39 As a response to the three waters reform, we included emphasis of matter paragraphs in 53 council audit reports to draw attention to the relevant disclosures about the effects of the reform that each entity made in its financial statements and performance information.

3.40 In July 2022, the Office provided a submission to the Finance and Expenditure Committee on the Waters Services Entities Bill.[45]

3.41 We highlighted the importance of clear accountability arrangements through good performance reporting, independent assurance of performance, and engaging with respective communities. These factors will be key to maintaining public accountability and transparency of the proposed water services entities.

45 Office of the Auditor-General (2022), *Submission on the Water Services Entities Bill*, at oag.parliament.nz.

Significant valuation uncertainty due to Covid-19 (Queenstown Lakes District Council and Mackenzie District Council)

3.42 Because of the continuing impact of the Covid-19 pandemic, the auditor of Queenstown Lakes District Council highlighted a significant valuation uncertainty over specific infrastructure, including land, building, and taxiways.

3.43 The auditor of Mackenzie District Council noted significant valuation uncertainties related to estimating the fair value of the council's investment properties.

Adjustment to fair value of operational port land (Greater Wellington Regional Council)

3.44 For the Greater Wellington Regional Council, fair value of operational port land was adjusted for the remaining resilience work required to support the land after the Kaikōura earthquake. The cost of completing the land resilience work has been estimated with reference to the cost of completed work and third-party estimates, which are sensitive to change.

Key audit matters

3.45 The auditor of Auckland Council reported on key audit matters. This is because Auckland Council is a Financial Markets Conduct reporting entity.

3.46 Key audit matters are matters that are considered complex, have a high degree of uncertainty, or are important to the public because of their size or nature. Auditors include them in audit reports to assist readers to understand the key matters that attracted the auditor's attention during the audit.

3.47 The auditor of Auckland Council included the following key audit matters in their audit report:

- valuation of property, plant, and equipment;
- valuation of the weathertightness and associated building defect claims provision;
- valuation of derivatives; and
- reporting performance on three waters, transport, and housing in response to population growth.

The impact of the Covid-19 pandemic on our audits

3.48 The Covid-19 pandemic significantly affected the way auditors completed their 2020/21 audits. There were also additional uncertainties and complexities that auditors needed to consider in carrying out their work. In many instances, this resulted in extra audit work and, sometimes, in additional audit fees, although audit inefficiencies were not recovered.

3.49 The Covid-19 pandemic also affected logistics. For example, audit teams were frequently required to work remotely and often at late notice, particularly as parts of the country moved in and out of alert levels. At times, this meant that the audit work was not carried out as efficiently as it could have been and took longer to complete than would normally be the case.

3.50 Our priority was to maintain the health and well-being of our staff while responding to the Covid-19 pandemic and during the lockdowns in Alert Levels 3 and 4.

3.51 In 2020/21, only two councils received audit reports containing emphasis of matter paragraphs related to the Covid-19 pandemic and its impact on assumptions used in asset valuations, including investment properties.

Our work to support good governance and accountability of councils

4

4.1 For public organisations to operate effectively and achieve outcomes for their communities, it is essential that they have the public's trust and confidence. Factors that significantly influence the public's trust and confidence in councils include how well the councils carry out their governance and management responsibilities, how transparently they make their decisions, and the reliability of the information they use to make those decisions.

4.2 In this Part, we discuss the work we carried out during 2020/21 – and since – to support councils in achieving good governance, accountability, and transparency. We discuss:

- inquiries and correspondence about council matters;
- compliance with the Local Authorities (Members' Interests) Act 1968;
- management of council staff conflicts of interest;
- our observations from councils' long-term plans for 2021-31; and
- our work since 2020/21.

Inquiries and correspondence

4.3 For 2020/21, we carried out 20 inquiries about councils. These inquiries related to issues such as conflicts of interest, concerns with procurement process, and codes of conduct. We also considered about 160 items of correspondence about council matters.

4.4 We published our responses to two matters related to procurement processes.

Council matters we looked into

Tauranga City Council car park building project

4.5 In May 2021, we wrote to Tauranga City Council after looking into the procurement process for its car park building project. The project started in 2018 but was cancelled in June 2020 because of seismic design issues with the building.

4.6 We said that aspects of the project did not meet good procurement or governance practice, such as the lack of a business case or an overall plan for procurement. An external review of the Council's project management process also identified several issues, including inconsistent processes for managing and delivering programmes, and a lack of internal project management capability.

4.7 We encouraged the Council to ensure that its policies and procedures recognise the importance of good procurement and project management processes.

Engagement of consultants at Queenstown Lakes District Council

4.8 We wrote to Queenstown Lakes District Council after concerns were raised with us about its procurement of service from a local consultancy firm. The concerns included inconsistency in the use of the Council's procurement policy or guidelines and a lack of focus on identifying or managing potential conflicts of interest.

4.9 We identified improvements that Queenstown Lakes District Council could make to strengthen its procurement and subsequent contract management processes, and the Council had started to address the issues we highlighted.

4.10 In 2022, we published our responses to two of the other matters raised in the 2020/21 period.

Masterton Civic Facility Project

4.11 In May 2022, we wrote to the Chief Executive of Masterton District Council after concerns were raised with us about aspects of the Council's Civic Centre Project. The concerns related to the business case for the civic facility and whether the Council had appropriately considered alternative options. One complainant also suggested that four councillors might have had a conflict of interest.

4.12 Based on the documents we reviewed, the Council considered various options for the civic facility, and obtained and considered expert advice to inform decisions.

4.13 We suggested that the Council should ensure that it records the reasons for key decisions, particularly where those decisions were different from what it had been advised.

4.14 The Council has since taken steps to improve the transparency of its decision-making, including keeping minutes of key discussions and decisions.

4.15 Given the significance of the civic facility project to the Council, our appointed auditor will take an ongoing interest in the project.

Queenstown Lakes District Council – Development of Lakeview land

4.16 In March 2022, we replied to concerns about the Queenstown Lakes District Council's decision to sell the block of land known as Lakeview. Some ratepayers perceived that the financial return to the Council under the agreement would not deliver good value for money.

4.17 Our work can include examining whether a public organisation has followed an appropriate or agreed process in making a particular decision and whether it has adequate controls in place to account for the money it spends and to deliver value for money. However, it is not our role to express a view about the merits of a particular decision or the policy sitting behind that decision.

4.18 Based on the documents we reviewed, it appeared that, when making its decision, the Council had considered its position, its options, and what it was trying to achieve from the arrangement. Therefore, we did not identify any issues with the council's processes that warranted further inquiry by us.

Local Authorities (Members' Interests) Act 1968

4.19 The Local Authorities (Members' Interests) Act 1968 (the Act) is an important part of the legal framework for local democracy.

4.20 The Act has the following two main rules:

- Section 3 states that members cannot benefit from contracts with the local authority if more than $25,000 of payments are made under those contracts in any financial year. We refer to this as the "contracting rule".
- Section 6 states that members cannot participate in matters before their local authority that they have a financial interest in, other than an interest in common with the public. We refer to this as the "non-participation rule".

4.21 The role of the Auditor-General in administering the Act includes:

- deciding applications for exemptions from, or declarations about, the discussing and voting rule in the Act;
- deciding applications for the approval of contracts worth more than $25,000 in a financial year;
- providing guidance to elected council members and officers to help them comply with the Act in particular situations; and
- investigating and prosecuting alleged offences against the Act.

4.22 During 2020/21, we approved 21 elected members to provide services to their councils under contracts where payments exceeded $25,000 in the financial year.[46] We approved total payments of $2.2 million for 27 contracts.[47] The largest amount approved was $303,000. The average amount paid was $85,351.

4.23 We also provided guidance and investigated a small number of complaints about the non-participation rule and gave one approval for councillors to participate in a matter (parking entitlements for councillors) where they had a pecuniary interest.

46 This included one member of a licensing trust.

47 Several councillors had more than one contract.

Managing staff conflicts of interest

4.24 In 2021, we published a guide to managing conflicts of interest for council employees.[48] We selected four councils of various size and location as case studies to highlight good practice and areas for improvement. We saw many examples of good practice, and all four councils we looked at had a reasonably up-to-date and clear policy.

4.25 We arranged our findings under three main components of effective conflict of interest management. These include:

- having robust policies and procedures;
- promoting an ethical culture in an organisation; and
- ensuring that there is an understanding of how well conflicts of interest are being managed.

The 2021-31 long-term plans

Our observations on the 2021-31 consultation documents

4.26 We published *Consulting matters: Observations on the 2021-31 consultation documents* in December 2021. Our overall observation was that most councils had realistically confronted the challenges they face and, for the most part, produced clear consultation documents.

4.27 Councils faced a lot of uncertainty, in part because of the economic implications arising from the Covid-19 pandemic, as well as the reforms and reviews that were under way. This uncertainty was reflected in the increased number of "emphasis of matter" paragraphs included in our audit reports on councils' consultation documents.

4.28 Despite this challenging environment, councils were well placed to engage directly with their communities about the issues they face and how they plan to respond. This engagement also meant being clear on the investment needed to address those challenges.

Our audits of the 2021-31 long-term plans

4.29 In July 2022, we published *Matters arising from our audits of the 2021-31 long-term plans*. We found that, for the most part, councils had produced good quality long-term plans in challenging circumstances.

4.30 Many in the sector told us that the 2021-31 long-term plans were the most difficult to prepare since the plans were first required. The most significant

48 Office of the Auditor-General (2021), *Getting it right: Managing conflicts of interest involving council employees*, at oag.parliament.nz.

challenge for councils to navigate was the impact of the Covid-19 pandemic, including the disruptions caused by lockdowns.

4.31 In response to the economic downturn caused by the lockdowns, many councils looked to support their communities by minimising their rates increases for 2020/21 or reducing the cost of some services not funded by rates. Some councils also brought forward programmes of work to support their local economies.

4.32 For their 2021-31 long-term plans, councils needed to consider whether they could continue to provide the Covid-19-related support they had put in place in 2019/20. Some councils could not continue to minimise their main funding source – their rates revenue – without affecting the levels of service they provide.

4.33 At the same time, the long-term issues facing councils had not gone away. These included responding to climate change, improving critical services such as providing safe drinking water, and adequately reinvesting in infrastructure.

4.34 In the 2021-31 long-term plans, we saw that:

- councils are starting to address historical underinvestment in their infrastructure and that the long-term plans had a richer discussion of the implications of previous decisions about investing in assets and what this meant for the future;
- many councils had made tangible progress in collecting better condition and performance information about their critical assets to support more accurate decision-making about the timing and need for asset renewals;
- councils were setting rates at higher levels than previously to fund the increasing costs that they expect to face; and
- there was more discussion about climate change in councils' long-term plans, including what actions they were planning or taking to adapt to or mitigate climate impacts and risks.

4.35 We issued two adverse audit opinions and nine qualified audit opinions on the 2021-31 long-term plans. In our view, the two councils that received an adverse audit opinion had not presented plans that were fit for purpose. They did not have a credible plan based on reasonable and supportable assumptions to address the challenges that they faced, so their plans did not set out a proper basis to be accountable to their communities.

4.36 It is a serious matter to give an adverse audit opinion on a long-term plan, and councils that receive them need to have greater regard to the needs of their communities.

4.37 Our audit reports on the 2021-31 long-term plans also included more emphasis of matter paragraphs than in the past, to draw readers' attention to the significant uncertainties councils faced in preparing their long-term plans. These uncertainties included:

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

4.38 We repeated our recommendation from our report on the 2018-28 long-term plans for the Department of Internal Affairs and the local government sector to review the required content for long-term plans so that they remain fit for purpose and do not include requirements that have limited value to their communities.

Other work since 2020/21

Supporting effective council audit and risk committees

4.39 Audit and risk committees provide assurance to elected members (and council management) that risk is being well managed. They also support the council in thinking longer term, beyond the issues and risks at hand.

4.40 We have continued to reinforce our expectation that all local authorities have an effective audit and risk committee. In our view, committees having an independent member, who ideally is the chairperson, supports such effectiveness because it promotes free and frank debate and provides councillors with objective advice and assurance.

4.41 This message has been conveyed to all council chief executives, mayors, and chairpersons in our letters and to elected members at our workshops. Before the local government elections in October 2022, 55 committees had an independent chairperson. However, committee memberships and chairpersons are likely to change because of the elections.

4.42 The focus of our work is now on supporting councils in improving the effectiveness of their committees. To do this, we are placing greater emphasis on our relationships with the chairpersons of committees.

4.43 During 2020/21, we ran a series of workshops for audit and risk committee chairpersons. These covered:

- effective agendas and terms of reference for audit and risk committees;
- how audit and risk committees can support the process for preparing long-term plans (including the financial and infrastructure strategies that support the long-term plan);
- areas of audit focus for councils' long-term plans; and
- understanding the process and links between the annual plan, long-term plan, financial statements, and annual report.

4.44 Our more recent topics have covered the audit and risk committee's role in relation to risk management, loans and debt in the local government environment, internal and external audit, addressing and managing workplace bullying and harassment, and climate change reporting.

4.45 We have recently published frequently asked questions on what "good" looks like for audit and risk committees in the local government sector.[49] We will continue to support these committees in maintaining and improving their effectiveness.

Considerations for councils when setting rates

4.46 Rates are a significant component of a council's revenue. This is reflected in the audited financial statements in the annual report.

4.47 The Local Government Act 2002 and the Local Government (Rating) Act 2002 contain tightly prescribed rules about how councils' power to set rates must be used and what kinds of rates can be set. For councils, failing to comply with rating law and the associated accountability requirements can create legal and financial risks.

4.48 In June 2022, we published *Setting rates: Potential issues for councils to watch for*. This highlights some rate-setting issues we saw when reviewing a small sample of rates set for 2021/22.

4.49 We highlighted that it is essential that councils:

- recognise how important it is to follow the prescriptive legal requirements;
- get the details between the revenue and financing policy, funding impact statement, and rates resolution perfectly consistent – near enough is not good enough;
- stay within the range of options in the Local Government (Rating) Act;

49 Office of the Auditor-General (2022), *Setting up a council's Audit and Risk Committee*, at oag.parliament.nz.

- put in place an effective quality assurance system to check rating documents; and
- get legal advice on their rates setting.

Council communications during the 2022 pre-election period

4.50 From 8 July 2022, candidates for elections started promoting their candidacy. This included current elected members (sitting candidates) who decided to stand for re-election.

4.51 Councils need to take care to make sure that council communications are not used, or appear to be used, for political purposes.

4.52 In July 2022, we published our *Council communications during the 2022 pre-election period* material. This highlights some of the main considerations councils should make when providing communications (such as media releases and interviews) during the pre-election period.

4.53 We also recommended that councils draft and implement a communication protocol for the pre-election period. The communication protocol should be based on the following principles – that information is timely, accurate, complete, fair, and neutral.

Appendix 1
Sub-sectors and high-growth councils

Sub-sectors

Local Government New Zealand defines four types of sub-sector:[50]

- 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	Palmerston North City Council	Porirua City Council
Queenstown Lakes District Council	Tauranga City Council	Upper Hutt City Council
Wellington City Council	Whangarei District Council	

Provincial 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 District 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
Whakatāne District Council	Whanganui District Council	

50 For more on the sub-sector groups, see lgnz.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	Rangitīkei 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

For the purposes of our analysis, we consider high-growth councils to be those defined as "Tier 1 local authorities" under the National Policy Statement on Urban Development 2020, which came into effect on 20 August 2020.[51]

There are 18 Tier 1 local authorities. However, we did not include the four regional councils in our analysis because none had high growth throughout their entire region. Councils categorised as high-growth when we prepared this report were:

Tier 1 urban environment	Tier 1 local authorities
Auckland	Auckland Council
Hamilton	Waikato Regional Council, Hamilton City Council, Waikato District Council, Waipā District Council
Tauranga	Bay of Plenty Regional Council, Tauranga City Council, Western Bay of Plenty District Council
Wellington	Greater Wellington Regional Council, Wellington City Council, Porirua City Council, Hutt City Council, Upper Hutt City Council, Kapiti Coast District Council
Christchurch	Environment Canterbury, Christchurch City Council, Selwyn District Council, Waimakariri District Council

51 For more on the National Policy Statement on Urban Development Capacity 2020, see environment.govt.nz.

Appendix 2
When councils adopted their annual reports and released their annual and summary annual reports

When councils adopted their annual reports

When the annual report was adopted	Number adopted for financial year					
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Within two months after the end of the financial year	0	0	0	0	0	0
Between two and three months after the end of the financial year	27	15	15	20	6	6
Between three and four months after the end of the financial year	49	60	56	54	16	14
Between four and five months after the end of the financial year*	-	-	-	-	13	8
More than five months after the end of the financial year*	-	-	-	-	38	48*
Subtotal: Number meeting statutory deadline	**76**	**75**	**71**	**74**	**73**	**64**
Percentage of councils meeting statutory deadline	97%	96%	91%	95%	94%	82%
Between four and five months after the end of the financial year	0	2	3	3	0	0
More than five months after the end of the financial year	1	1	2	1	0	0
Not issued as at the date of compilation	1	0	2	0	5	2
Total	**78**	**78**	**78**	**78**	**78**	**78**

* Because of the Covid-19 pandemic, Parliament passed legislation on 5 August 2020 to extend the statutory reporting time frames for various public entities, including local authorities, by two months. The statutory deadlines for local authorities moved from 31 October to 31 December 2021. The statutory time frames were extended to ensure that there was no reduction in the quality of financial and performance reporting because of the impact of the Covid-19 pandemic. In 2020/21, 14 councils missed the revised deadline to complete and adopt their audited annual report by 31 December 2021.

* Forty-eight councils did not adopt their annual reports within five months of the end of the financial year. However, 36 of the 48 councils still met the extended statutory audit deadline of 31 December 2021, which was six months after the end of the financial year.

When councils released their annual reports

Time after adopting annual report	Number released for financial year					
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
0-5 days	28	23	27	34	31	38
6-10 days	15	19	11	13	9	12
11-20 days	14	8	16	11	12	11
21 days to one month	17	22	22	17	16	11
Subtotal: Number meeting statutory deadline	**74**	**72**	**76**	**75**	**68**	**72**
Percentage of councils meeting statutory deadline	95%	92%	97%	96%	86%	92%
Number not meeting the deadline	3	6	0	3	5	4
Not issued as at the date of compilation	1	0	2	0	5	2
Total	**78**	**78**	**78**	**78**	**78**	**78**

When councils released their summary annual reports

Time after adopting annual report	Number released for financial year					
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
0-5 days	16	7	15	14	16	24
6-10 days	14	15	11	8	11	8
11-20 days	11	11	10	14	9	13
21 days to one month	29	32	37	36	28	19
Subtotal: Number meeting statutory deadline	**70**	**65**	**73**	**72**	**64**	**64**
Percentage of councils meeting statutory deadline	90%	83%	94%	92%	82%	82%
One month to 40 days	6	9	2	6	7	7
41-60 days	1	4	1	0	2	4
More than 60 days	0	0	0	0	0	1
Not issued as at the date of compilation	1	0	2	0	5	2
Total	**78**	**78**	**78**	**78**	**78**	**78**

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