Controller and Auditor-General
Tumuaki o te Mana Arotake

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Insights into local government: 2023

Photo acknowledgement:
iStock, Lakeview_Images

Insights into local government: 2023

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

August 2024

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

Councils are facing rising inflation and interest rates, workforce shortages, climate change, and the recent severe weather events that caused significant damage and disruption throughout the North Island. How councils respond to these challenges depends on what they and their communities can afford.

In previous reports, we said that councils need to invest more in infrastructure to accommodate growth, build climate resilience into their infrastructure planning, and address the backlog in renewals. For example, many councils will find it difficult to make the significant investment needed to upgrade their water infrastructure to meet new standards.

Councils have been responding to these challenges in recent years. We saw an increase in budgeted investment in infrastructure in councils' 2018-28 and 2021-31 long-term plans, and councils also closed the gap between their spending on renewals and depreciation. Councils have largely delivered on these budgets in recent years. At the same time, they have continued to deliver core services to their communities.

Councils face complex issues

Our audits of councils' 2022/23 reports showed that many councils are finding it difficult to balance what they and their communities can afford against the various complex challenges they face.

For the first time in several years, councils' investment in infrastructure renewals as a percentage of depreciation declined. Councils are not replacing infrastructure at the same rate as it is being "run down", and many councils are not fully funding depreciation.

In 2022/23, councils as a whole invested $7 billion in infrastructure – the highest level of investment in 11 years. Councils are generally funding this investment through debt. As a result, council debt increased by 26% during the past two years.

However, debt is still less than the amount councils budgeted. This indicates that councils are not fully delivering on their infrastructure programmes.

Councils have increased their investment in three waters infrastructure, but we have not observed any improvement in their performance against water quality measures. Although councils continue to increase their investment in water infrastructure, it remains low compared to their investment in other types of assets. Investment in stormwater infrastructure is particularly low.

The lowest performance against water quality measures in both 2021/22 and 2022/23 was "safety of drinking water" measures. Councils achieved 48.3% of safe drinking water measures in 2021/22, but they achieved only 33% in 2022/23. This is an area of significant concern.

We also observed that 45 councils failed to meet the balanced budget benchmark in 2022/23 (an increase from 27 councils in 2021/22 and 19 councils in 2020/21). The balanced budget benchmark compares the council's revenue with its operating expenses and indicates whether the council is generating enough revenue to meet its costs. Some councils' debt levels are getting close to their prudential debt limits.[1]

Councils are responding to these challenges through their 2024-34 long-term plans.

Councils' performance reporting is generally good, but there are opportunities to improve

The annual audits we carry out provide assurance to the public that councils' financial reporting complies with generally accepted accounting practice and that they have prepared and presented it in a manner that we consider to be fair and materially correct. This is not easy for councils, given the challenges they face.

Good financial reporting and robust independent assurance of financial information are not enough to demonstrate a council's competence, reliability, and honesty. Most annual reports are unlikely to be widely read or understood, and the financial information in them can be complex and dense.

Councils have to prepare long-term plans that set out the framework for how they will report on their non-financial performance in their annual reports. When our auditors audit a long-term plan, they assess whether that framework is appropriate for clear and transparent reporting.

As a result, councils' reporting on their non-financial performance is more established than that of other public organisations, whose reporting frameworks do not have the same legal requirements or level of scrutiny.

The large number of qualified audit opinions on councils' service performance information indicates that many council performance reporting systems are not fit for purpose. This makes it challenging for councils to report on their performance completely and accurately, and it could affect the community's confidence in their council's reporting.

1 The Local Government (Financial Reporting and Prudence) Regulations 2014 require councils to prepare a debt affordability benchmark, which compares the council's actual debt with the prudential debt limit specified in its long-term plan.

Common themes from councils' reporting this year

Encouragingly, we have seen more councils voluntarily reporting on climate-related issues and their progress in reducing greenhouse gas emissions in their annual reports. These councils are some of the first public organisations to do this.

This is an evolving area, and both reporting and auditing climate-related information can be complex. I acknowledge the work these councils are doing in leading the sector in this area.

Central government funding packages (such as "better off" funding) have played a part in driving increases in council revenue during the past two years. These packages were available through the Three Waters Reform Programme and cyclone recovery funding, and this type of funding has almost doubled since 2018/19.

However, it is not always clear from councils' annual reports what they have achieved with this funding. Councils should consider explicitly reporting on the funding received.

Councils' timeliness for processing building and resource consent applications continues to decline. Timeliness measures can indicate a council's effectiveness and efficiency in responding to growth.

In 2022/23, most councils did not meet the statutory time frames for processing these applications. A small number of councils continue to not report on their performance against timeliness measures. We expect all councils to report their performance against the statutory time frames.

Most councils published their audited annual reports by the statutory deadline in 2022/23. However, 22 councils missed their reporting deadline (compared with 36 councils in 2021/22).

In 2022/23, our auditors issued qualified opinions to 22 councils (compared with 21 councils in 2021/22). Of these qualified opinions, 19 were about councils' underlying systems that support performance information, such as inaccuracies in how they calculated customer complaint information.

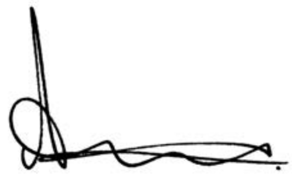
All qualified opinions were limited to specific aspects of a council's annual report.

Acknowledgement

Councils continue to operate in a challenging environment. On the whole, they have continued to deliver services despite the challenges they face. I commend councils for this.

I thank our auditors for continuing to provide assurance to communities about the reliability of the information in councils’ annual reports. Reliable financial and service performance information is critical to the trust and confidence that communities have in their councils.

Nāku noa, nā



Andrew McConnell
Deputy Controller and Auditor-General

13 August 2024

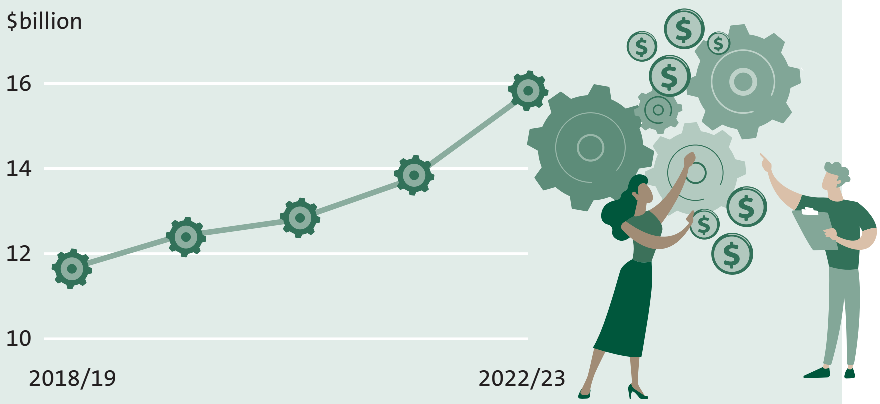
At a glance

NEARLY

$16

BILLION

of operating expenditure



THE MOST CAPITAL SPENDING IN

11

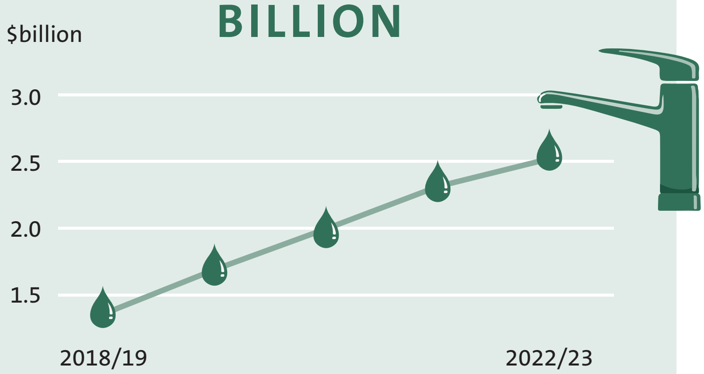
YEARS

$7 BILLION

THE SPENDING ON 3 WATERS ASSETS

$2.6

BILLION



4

More councils reporting on emissions

(13 councils doing it)

The operating environment for councils

1

1.1 In this Part, we describe the environment that councils operate in. Specifically, we look at:

- the economic challenges councils face;
- the significant reform programmes affecting the local government sector and how councils work with central government;
- the effects of the 2023 severe weather events in the North Island;
- councils' reporting on climate change; and
- annual audit completion rates.

Economic challenges facing councils

1.2 Increases in inflation, interest rates, and staff costs, as well as skill shortages and continued supply chain challenges, have created challenging economic conditions for councils in the last two years.

1.3 Under the Local Government Act 2002, councils must prepare and consult on audited long-term plans and accompanying infrastructure and financial strategies. They must also prepare annual plans that outline their activities, revenue, and expenditure for each financial year.[2]

1.4 When some councils prepared their 2021-31 long-term plans, they redrafted their budgets in response to the predicted effects of the Covid-19 pandemic on their communities. These councils minimised rates increases for 2021/22 and 2022/23 or reduced the cost of services that were not funded by rates.

1.5 Councils are required to report their balanced budget benchmark. This compares the council's revenue with its operating expenses and indicates whether the council is generating enough revenue to meet its costs. In 2022/23, 45 councils failed to meet the balanced budget benchmark (an increase from 27 councils in 2021/22 and 19 councils in 2020/21).

1.6 Councils account for depreciation, which enables assets to be replaced in the future. Depreciation costs have been increasing, reflecting the increase in infrastructure asset valuations from higher material and construction costs.

2 In certain circumstances, an annual plan must be consulted on if it proposes material differences to the long-term plan it is implementing.

Reform programmes and working with central government

1.7 Significant reform programmes for water and resource management introduced by the then Government caused uncertainty for councils as a whole in 2021/22 and 2022/23. Council staff were severely stretched, as they were participating in these programmes of work alongside their normal roles.

1.8 In 2023/24, the current Government stopped the water and resource management reform programmes and repealed the related legislation.

1.9 The uncertainty arising from the reform programmes and their subsequent repeal affected councils' ability to plan and prepare their 2024-34 long-term plans and carry out their wider responsibilities.

1.10 The size of a council can affect its ability to engage with central government reform processes. Key sector groups, such as Local Government New Zealand and Taituarā, are important for helping councils of all sizes engage with these processes.

1.11 Although councils are required to implement a range of national legislation through devolved or delegated powers from central government (for example, the Resource Management Act 1991), the responsibilities of regional, territorial, and unitary councils vary. However, all councils have to plan for the long term.

1.12 To respond to the economic challenges they face, more councils are now looking at new approaches to funding and are seeking joint solutions with central government. During the past year, central and local government have also worked together to fund urgent recovery efforts after the severe weather events in early 2023.

The 2023 North Island weather events

1.13 In early 2023, floods in Auckland and Cyclone Gabrielle caused significant damage and disruption to six regions in the North Island. The weather events affected a wide geographical area and placed additional stress on many communities and councils that were already experiencing other pressures, including economic pressures. The rebuild and recovery effort is significant.

1.14 In response, central and local government organisations set up new work programmes under new governance structures and distributed funding to businesses and communities. Immediate funding decisions included money for urgent infrastructure repairs, to assist with temporary accommodation, and for providing business and community support.

1.15 This type of response relies on the public sector's ability to rapidly adapt and respond to unexpected events. In these circumstances, public servants in central and local government often have to work under extreme pressure.

1.16 Central and local government organisations need to co-operate and co-ordinate with each other effectively to support the recovery from severe weather events. There are particular challenges in working out how cyclone damage will be repaired and paid for, as well as in determining what level of resilience can be achieved. Resourcing is a particular challenge for smaller councils.

1.17 The Treasury has forecast that the public and private sectors will invest about $9 billion in cyclone-related rebuild and recovery between 2023 and 2026 (with an additional $1 billion after 2026). About $5 billion of this is for local and central government infrastructure.

1.18 The Treasury monitors and tracks cyclone-related spending by central government. This is an encouraging initiative that supports accountability for this significant amount of government spending.

1.19 In recent years, we have emphasised the importance of transparency and integrity in public spending decisions, particularly in response to crises. Approaches such as high-trust funding arrangements, preparing policies at speed, and urgent procurement processes have resulted in significant spending. Although these approaches have been necessary, they come with risks to probity and can raise questions about integrity and value for money.

1.20 It is important that, in their annual reports, councils provide clear and informative detail on how much central government funding they received in response to such events and how they have applied it. Where it would help support transparency to the public, councils should consider getting assistance with the processes for administering these funds.

Climate change and its effects on planning and investing in infrastructure

1.21 Several factors affect infrastructure investment in New Zealand, including population pressures and increasing construction costs. For many years, we have commented on the need for councils to increase their investment in infrastructure. The effects of the recent weather events also highlight that councils need to include climate resilience into their infrastructure planning and management.

1.22 Many public organisations, including councils, are responsible for meeting commitments under the government's National Adaptation Plan and the

Emissions Reduction Plan. These plans require wide-reaching changes that include adapting legislative and decision-making frameworks, co-ordinating within and between central and local government, and introducing funding mechanisms that enable adaptation to climate risks.

1.23 When we reviewed councils' 2021-31 long-term plans, we noted a marked improvement in climate-related content and approaches compared with their 2018-28 long-term plans. We expect a similar improvement in councils' 2024-34 long-term plans. The 2024-34 long-term plans provide opportunities to focus more on adapting to climate change and reducing council greenhouse gas emissions.

1.24 We expect climate reporting in the local government sector to increase over time as climate reporting becomes more established. We also expect that councils and council-controlled organisations will focus more on climate change mitigation and adaptation. We acknowledge the work councils are doing in leading the public sector in this area.

Annual audit completion rates

1.25 The public audit system is critical for supporting the scrutiny of government spending and performance. Annual audits provide assurance to the public and Parliament that they can rely on the information that public organisations report about their use of public money and their performance.

1.26 In 2022, the Covid-19 pandemic continued to affect the nature and timing of our annual audits. The first half of 2022/23 was particularly difficult. Audits were affected by the global auditor shortage and other effects of the Covid-19 pandemic, including staff illness and shortages in audit service providers and public organisations.

1.27 Given these challenges, we prioritised the most significant audits. These included the audits of the financial statements of the Government, of government departments, and of Financial Markets Conduct Act 2013 reporting entities, such as Auckland Council.

1.28 We have now mostly cleared the backlog of deferred audits, and our audit completion rates are now largely similar to rates before the Covid-19 pandemic. However, some councils continue to struggle to provide robust information for audit in a timely fashion.

Councils' performance in 2021/22 and 2022/23

2

2.1 In this Part, we look at:

- the revenue reported by councils;
- the operating expenditure of councils;
- how councils are progressing with their reporting on central government funding;
- processing times for building consent applications;
- processing times for resource consent applications; and
- three waters performance measures.[3]

Summary of findings

2.2 As a whole, councils' total revenue has steadily increased during the past two years. Total revenue was $17.8 billion in 2022/23 (an increase of 18% since 2020/21). Much of the increase is attributed to "other income" and subsidies and grants, including government funding for recovery from severe weather events and stimulus funding for the Three Waters Reform Programme.

2.3 Councils' total operating expenditure increased by 23% during the past two financial years to $15.8 billion in 2022/23. Inflation is a key cause of this increase because councils' operating costs (for example, employee and insurance costs) and costs to maintain and build infrastructure increased.

2.4 Depreciation is increasing because higher costs of construction have resulted in higher infrastructure valuations. Rising interest rates meant that finance costs also increased during the past two years.

2.5 Performance reporting against the key metrics of building consents, resource consents, and three waters show that most councils have areas they could improve.[4]

2.6 Councils are still struggling to meet timeliness measures for processing building consent applications and resource consent applications. In 2022/23, only three councils processed 100% of building consent applications within the statutory time frame, and only 13 councils processed 100% of resource consent applications within statutory time frames.

2.7 Some councils do not report on this aspect of their performance to their communities.

3 Our analysis for 2022/23 excludes Buller District Council, Rotorua District Council, and West Coast Regional Council. This is because the audited annual reports for these councils were not available when we carried out our analysis. These councils remain in the previous year results because we considered that they are too small to impact our analysis.

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

2.8 For three waters, the results for 2021/22 and 2022/23 highlight that all councils should prioritise improving their performance against water supply measures. A specific concern in 2022/23 was that fewer than 60% of water supply performance measures were achieved.

Revenue reported by councils

2.9 In 2021/22, councils reported total revenue of $16.3 billion, which was 4% more than budgeted. In 2022/23, councils reported total revenue of $17.8 billion, which was 7% more than budgeted (see Figure 1).

2.10 Excluding Auckland Council, councils reported total revenue of $10.6 billion in 2021/22 (7% higher than forecast) and $11.1 billion in 2022/23 (6% higher than forecast).

Figure 1
Total reported revenue, 2018/19 to 2022/23

Year	Total reported revenue (all councils)	Budget variance	Total reported revenue (excluding Auckland Council)	Budget variance
2018/19	$13.3 billion	3%	$8.5 billion	5%
2019/20	$13.9 billion	2%	$8.7 billion	3%
2020/21	$15 billion	11%	$9.7 billion	15%
2021/22	$16.3 billion	4%	$10.6 billion	7%
2022/23	$17.8 billion	7%	$11.1 billion	6%

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

2.11 Figure 2 shows the main categories of revenue for councils from 2018/19 to 2022/23.

Figure 2
Revenue by subcategory, 2018/19 to 2022/23

Year	Development and financial contributions	Other income	Rates	Subsidies and grants
2018/19	3.33%	38.11%	46.61%	11.96%
2019/20	2.94%	34.92%	47.55%	14.59%
2020/21	3.38%	33.87%	46.56%	16.18%
2021/22	3.25%	37.97%	43.83%	14.95%
2022/23	3.35%	35.15%	44.23%	17.27%

Note: Development contributions are contributions from developers that a council collects under the Local Government Act 2002 to help fund new infrastructure required by growth.
Source: Analysed from information collected from councils' annual reports.

2.12 In 2020/21, $7 billion (46.6%) of councils' total revenue was from rates. In 2021/22, $7.6 billion (43.8%) of councils' total revenue was from rates. In 2022/23, $8 billion (44.2%) of councils' total revenue was from rates. This was largely consistent with the amount of revenue that councils planned to collect from rates.

2.13 We found that other income was $1.9 billion (39%) higher than planned in 2021/22 and $1.1 billion (20%) higher than planned in 2022/23. Examples of other income include fees and charges, gains from land sales, fuel tax, gains on disposal, and new infrastructure that has been vested in councils.

2.14 Examples of other income that increased include:

- constructing more infrastructure assets than were budgeted (which then became vested assets);
- more favourable revenue from fees and charges after growth, in items such as water meter and connection fees or landfill volumes;
- fair value gains from "found" assets;[5] and
- selling land.

2.15 For councils as a whole, subsidies and grants revenue was 5% less than budgeted in 2021/22. However, in 2022/23, it was 14% more than initial estimates (by comparison, it had been 16% more than expected in 2020/21).

2.16 The decrease in subsidies and grant revenue in 2021/22 was from factors such as reduced Waka Kotahi New Zealand Transport Agency (Waka Kotahi) subsidies and

5 A found asset is an asset that an organisation owns but did not initially record as such.

infrastructure projects being behind schedule (which reduced the number and value of infrastructure funding requests).

2.17 Some councils, such as Tauranga City Council and West Coast Regional Council, reported on these reductions, citing delays in their roading and infrastructure projects.

2.18 Tauranga City Council noted that Waka Kotahi had placed limits on its total operating subsidies and that capital project funding was significantly below budget because of a shortage of project managers and contractors.

2.19 Rotorua District Council reported not receiving grant revenue for capital projects because of construction delays and material shortages.

2.20 However, not all councils received reduced subsidies and grant revenue (paragraph 2.47 sets out the main sources of subsidies and grants). Some councils received more external grant funding to support their recovery from severe weather events or as a result of government stimulus funding related to three waters reform.

2.21 In 2022/23, the councils that needed additional support to respond to emergency events received the biggest boost in subsidies and grants revenue. This was particularly the case for councils affected by Cyclone Gabrielle.

2.22 Some councils also received additional government grants to realise local projects. For example, Southland District Council received unbudgeted revenue to improve tourism infrastructure in Manapouri and Te Anau.

2.23 Development and financial contribution revenue has continued to increase since 2020/21, when councils received $509 million (31% higher than budgeted). In 2021/22, development and financial contribution revenue was $566 million (12% higher than budgeted). In 2022/23, it was $607 million (7% higher than budgeted).

2.24 Some districts continued to receive strong development and financial contributions during this period (such as Masterton District Council and Waimate District Council). For example, Waimate District Council's development and financial contributions were linked to a large amount of water and sewer capital contributions and subdivision growth.

2.25 Development-related revenue at Grey District Council was also significantly above what it had budgeted. This was from higher than anticipated building and subdivision activity.

2.26 Some councils introduced new development contribution polices, or amended existing ones, to help reduce the financial burden for ratepayers.

Operating expenditure of councils

2.27 In 2021/22 and 2022/23, councils' operating expenditure was higher than forecast (see Figure 3). In some instances, we consider results for councils under five different subsectors (see the Appendix).

2.28 In 2021/22, the total operating expenditure for all councils was $13.7 billion. This was a 3% increase on what was budgeted ($13.3 billion). In 2022/23, the total operating expenditure for all councils was $15.8 billion. This was a 10% increase on what was budgeted ($14.4 billion).

2.29 When Auckland Council is excluded from these results, councils incurred higher than expected total operating expenditure. In 2021/22, this was $9 billion (compared with a budget of $8.7 billion). In 2022/23, this was $10.5 billion (compared with a budget of $9.3 billion).

Figure 3
Total reported operating expenditure, 2018/19 to 2022/23

Year	Total reported operating expenditure (all councils)	Budget variance	Total reported operating expenditure (excluding Auckland council)	Budget variance
2018/19	$11.7 billion	4%	$7.6 billion	6%
2019/20	$12.5 billion	5%	$8.1 billion	6%
2020/21	$12.8 billion	2%	$8.4 billion	5%
2021/22	$13.7 billion	3%	$9 billion	4%
2022/23	$15.8 billion	10%	$10.5 billion	13%

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

2.30 Figure 4 shows the main categories of councils' operating expenditure, as well as councils' actual operating expenditure.

Figure 4
Subcategories and actual operating expenditure, 2018/19 to 2022/23

Year	Depreciation and amortisation	Employee costs	Finance costs	Other operating expenditure
2018/19	22%	23%	7%	48%
Actual $million	2,524.2	2,643.3	848.4	5,635.2
2019/20	21%	23%	7%	49%
Actual $million	2,661.9	2,876.1	806.8	6,137.4
2020/21	22%	23%	6%	49%
Actual $million	2,863.2	2,907.3	725.1	6,323.8
2021/22	22%	23%	6%	49%
Actual $million	3,039.3	3,153.1	780.0	6,763.0
2022/23	22%	22%	7%	49%
Actual $million	3,539.3	3,393.1	1,074.0	7,808.4

Note: Other operating expenditure may include items such as repairs and maintenance, electricity, ACC levies, discretionary grants/contributions, rental and operating lease costs, "bad debts" written off, maintenance contracts, and impairment of property, plant, and equipment.
Source: Analysed from information collected from councils' annual reports.

2.31 In 2021/22, employee costs for all councils were 3% higher than budgeted. In 2022/23, employee costs for all councils were 8% higher than budgeted.

2.32 In 2021/22, regional and rural councils had the highest increases in employee costs (7% higher than budgeted). In 2022/23, employee costs for regional councils were 8% higher than budgeted, and employee costs for rural councils were 9% higher than budgeted. However, metropolitan councils had the highest increases in employee costs in 2022/23 (18% higher than budget).

2.33 In our 2021 insights report, we highlighted an overall increase of 2% in employee costs. We also said that we often heard about the challenges councils faced in recruiting and retaining skilled staff, particularly in the engineering and regulatory fields.

2.34 We still hear about these challenges in our regular engagement with councils. Although this has generally been more of an issue for smaller councils, skill gaps are becoming more prominent in metropolitan areas as well.

2.35 Other operating expenditure was 4% higher than budgeted in 2021/22 and 8% higher than budgeted in 2022/23. Actual other operating expenditure was $6.8 billion in 2021/22 and $7.8 billion in 2022/23.

2.36 There were several reasons for these increases – including the ongoing impact of inflationary cost pressures, higher insurance premiums, and increasing electricity costs. Another common reason was remediation works in response to severe weather events.

2.37 For example, in 2022/23, Central Hawke's Bay District Council's other operating expenditure was 101% higher than budgeted. This was partly attributed to costs to repair roads damaged by Cyclone Gabrielle.

2.38 Gisborne District Council's expenditure on operating activities was 114% higher than budgeted. The Council's annual report said that operating expenditure was impacted by a total of $67 million of emergency roading works. The Council spent $51 million to fix the damage caused by Cyclone Gabrielle and Cyclone Hale.

2.39 In our 2021 insights report, we noted that liabilities from leaky-home claims were a long-standing issue that continued to have significant expenditure implications for some councils.

2.40 In its 2022/23 annual report, Queenstown Lakes District Council included additional expenditure from leaky-home settlements, legal fees for weathertightness issues, and increased costs for interest, asbestos removal, electricity, insurance, and forestry. As a result, Queenstown Lakes District Council's other operating expenditure was 125% higher than budgeted.

2.41 In 2021/22, finance costs for all councils were 2% lower than budgeted. However, in 2022/23, finance costs were 20% higher than budgeted. Generally, finance costs include interest expenses and amounts paid or payable on borrowings and debt instruments.

2.42 Reasons for the largest decreases in finance costs for 2021/22 included:

- a decrease in the use of bank overdraft facilities (Environment Southland);
- reduced borrowing (Napier City Council);
- unbudgeted favourable non-cash valuation on derivative financial instruments (Palmerston North City Council); and
- not requiring external debt, resulting in minimal external interest incurred (Southland District Council).

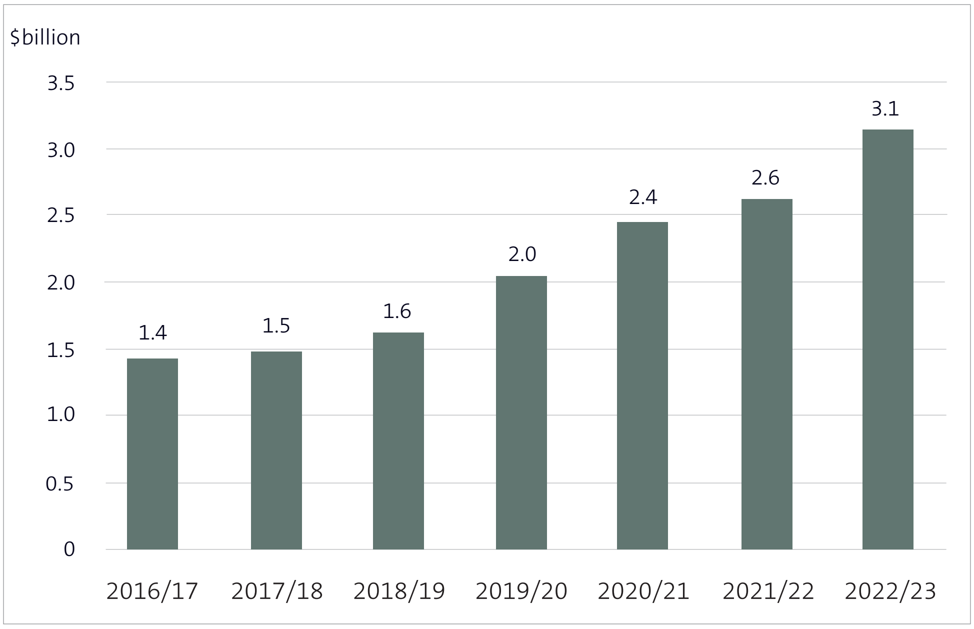
2.43 In our 2021 insights report, we suggested that the 22% decrease in finance costs for 2020/21 indicated that councils were being more conservative. We concluded that councils were likely anticipating that cashflow challenges would continue after the Covid-19 pandemic.

2.44 By 2022/23, finance costs began to increase again. Higher interest costs were one reason for this, which also reflected increasing debt levels to fund more capital expenditure.

Councils' annual reports could better describe how they use central government funds

2.45 Figure 2 shows that a significant amount of councils' revenue comes from subsidies and grants. Subsidies and grants enable councils to provide many of their services to their communities. Subsidies and grants revenue has become increasingly important to councils, and it has almost doubled since 2018/19 (see Figure 5).

Figure 5
Subsidies and grants revenue recognised by councils, 2016/17 to 2022/23



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

2.46 Because councils are not required to consistently report a breakdown of the subsidies and grants they receive in their annual report, it is not clear what is causing this increase.

2.47 We expect that most grants and subsidies that councils receive are from central government. Waka Kotahi co-funds councils' public passenger transport and roading activities. Central government has made several other funds available that councils could apply for, including:

- "shovel ready" funding;
- the Strategic Tourism Assets Protection Programme funding;
- Jobs for Nature; and
- Provincial Growth Funding and the "better off" funding that was made available through the previous government's Three Waters Reform Programme.

2.48 Central government will also financially support councils during emergencies, such as Cyclone Gabrielle.

2.49 When we look at councils' annual reports, it is not always clear what councils have achieved with central government funding. Councils' reporting of what they have achieved with regular and ongoing funding sources (such as from Waka Kotahi) is generally good.

2.50 We have previously stated that councils report information about what they did with other funding sources in a fragmented way.[6] This was still an issue in the 2022/23 annual reports we looked at.

2.51 In our view, councils need to be more transparent in their annual reports about what central government funding they have received and what they used it for. We consider that this is important context for when councils report on what they have achieved. We plan to examine this matter in the future.

Processing times for building consent applications

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

2.53 The requirement to process most building consent applications in 20 working days can also be used as an indicator of councils' effectiveness in responding to growth and development.

2.54 During the past few years, we reported that most councils did not meet the statutory time frames for processing building consent applications. This trend worsened in 2021/22 and slightly improved in 2022/23.

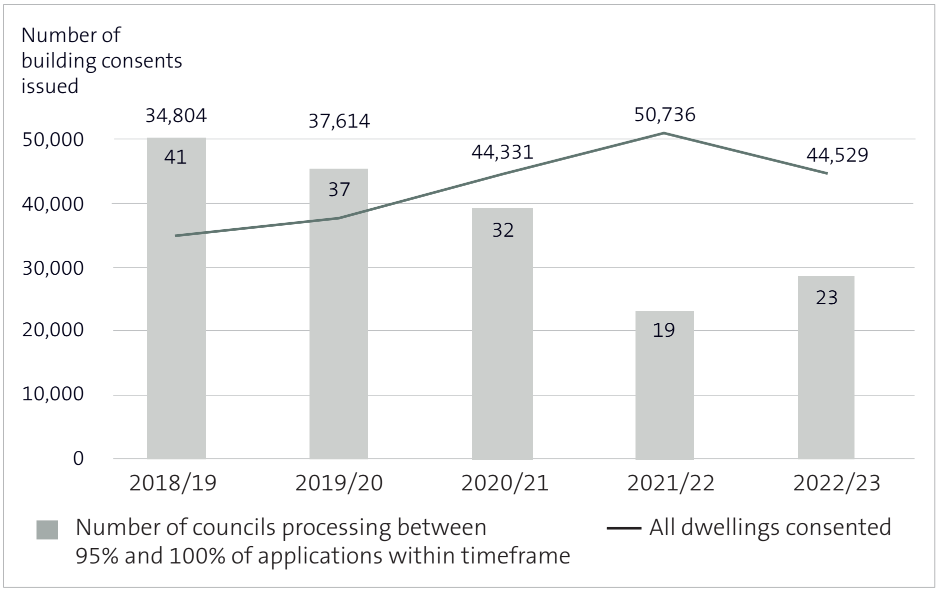
6 For example, see Controller and Auditor-General (2022), *Insights into local government: 2021*, at oag.parliament.nz.

2.55 Although this remains a concern, the total number of building consent applications processed during 2021/22 and 2022/23 increased significantly from previous years. The workload of council staff would have also increased.

2.56 After the significant 18% increase in building consent applications processed in 2020/21 (a total of 44,331 applications processed), building consent applications increased to more than 50,700 in 2021/22 (a 14% increase). This is the highest number of building consent applications processed in a single year ever recorded.

2.57 In 2022/23, the number of building consent applications processed decreased to about 44,500 (a 12% decrease from 2021/22). This reflects the general slowdown in the housing market after significant activity in 2021 and 2022. However, the number of applications is still high compared to previous years. Figure 6 shows the number of building consent applications processed from 2018/19 to 2022/23.

Figure 6
Total number of building consent applications issued for new dwellings and council performance, 2018/19 to 2022/23



Source: Statistics New Zealand.

2.58 The large increase in higher-density housing throughout the country is one of the main reasons building consent applications have increased in the past few years. Between 2020/21 and 2021/22,[7] applications for new multi-unit

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

dwellings increased by 35% to more than 26,800.[8] However, between 2021/22 and 2022/23,[9] applications decreased by 3% to little more than 26,000.

2.59 A large number of building consent applications are in the Auckland region. Auckland Council issued a record 21,609 building consents for new dwellings in 2021/22 (a 13.5% increase from 2020/21).

2.60 The number of building consent applications Auckland Council processed represented 40% of the total increase in building consents issued and 50% of the total increase in multi-unit building consents issued between 2020/21 and 2021/22.[10]

2.61 This trend did not continue in 2022/23, and the total number of building consent applications processed in Auckland decreased to 19,085 (a 11.7% decrease from 2021/22).[11] However, this is the second-highest number of building consent applications processed annually in Auckland. Multi-unit dwellings made up 77% of this total, which shows the significant shift towards high-density development in the region.

2.62 In 2021/22, 59 councils reported on their performance in processing building consent applications.[12] Of those, only two reported that they had processed 100% of building consent applications within the statutory time frame of 20 working days (compared with six councils in 2020/21).[13]

2.63 An additional 17 councils reported that they had processed between 95% and 100% of building consent applications within the statutory time frame (compared with 26 councils in 2020/21). Figure 6 shows this as a total for all councils since 2018/19.

2.64 In 2022/23, 58 councils reported on their performance in processing building consent applications. Of those, only three reported that they had processed 100% of building consent applications within the statutory time frame,[14] and 20 councils reported they had processed between 95% and 100% of building consent applications within the statutory time frame.

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

9 Statistics New Zealand (2023), "Building consents issued: June 2023", at stats.govt.nz.

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

11 Statistics New Zealand (2023), "Building consents issued: June 2023", at stats.govt.nz.

12 Councils that did not have data available to report in 2021/22 included Central Hawke's Bay District Council, Chatham Islands Council, Clutha District Council, Gore District Council, Hamilton City Council, Timaru District Council, and Whakatāne District Council. In addition, Kawerau District Council collects data but does not publish it in its annual report.

13 These councils were Mackenzie District Council and Waitaki District Council.

14 These councils were Mackenzie District Council, Waitaki District Council, and Far North District Council.

2.65 Overall, the number of councils not meeting the statutory time frame for processing building consent applications is large and increasing. In 2022/23, 35 councils reported processing fewer than 95% of building consent applications within the statutory time frame (compared with 26 councils in 2020/21 and 40 councils in 2021/22).

2.66 This is a matter that councils need to address. Although they improved slightly in 2022/23, councils need to process building consent applications more efficiently so that they can meet challenges such as the higher number and complexity of building consent applications (including those for multi-unit dwellings).

2.67 We did not find usable performance information about the timeliness of building consent applications for eight councils in 2021/22.[15] This increased to nine councils in 2022/23.[16] These councils did not have a performance measure or used alternative measures.

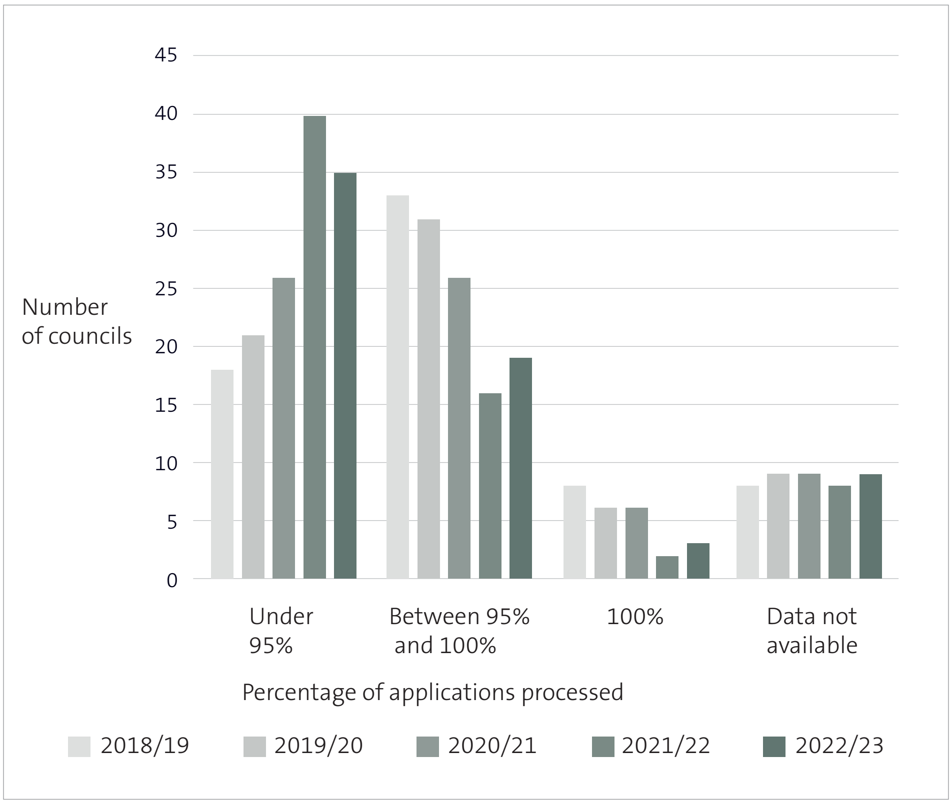
2.68 We expect all councils to report their performance against the statutory time frame, especially Tier 1 councils under the National Policy Statement on Urban Development 2020 (see the Appendix). Because issuing and monitoring building consents is a core council function, we expect councils to report this information.

2.69 Figure 7 shows the overall results in the timeliness of building consent applications processed since 2018/19.

15 These councils include Central Hawke's Bay District Council, Chatham Islands Council, Clutha District Council, Gore District Council, Hamilton City Council, Kawerau District Council, Timaru District Council, and Whakatāne District Council.

16 These councils include Chatham Islands Council, Clutha District Council, Gore District Council, Hamilton City Council, Kawerau District Council, Timaru District Council, and Whakatāne District Council. Buller District Council and Rotorua District Council were not included because the audited annual reports for these councils had not been finalised when we did our analysis.

Figure 7
Percentage of building consent applications processed within 20 working days, 2018/19 to 2022/23



Source: Analysed from information collected from councils' annual reports. Three reports for 2022/23 had not been finalised when we did our analysis.

Processing times for resource consent applications

2.70 Under the Resource Management Act 1991, all councils have a statutory requirement to process resource consent applications within set time frames. Time frames depend on the type of consent.[17]

2.71 This requirement can be used as an indicator of councils' effectiveness in responding to growth and the timeliness of their service delivery. Regional councils process resource consents and coastal, discharge, and water permits.

2.72 In 2021/22, 71 of 78 councils included performance information about processing resource consent applications in their annual reports. We did not find usable performance information in the other seven councils' annual reports.

2.73 In 2022/23, we found usable performance information about processing resource consent applications for 70 of 78 councils. Three of these councils had not adopted their annual reports when we did our analysis. Because issuing and monitoring resource consent applications is a core council function, we expect councils to report this information.

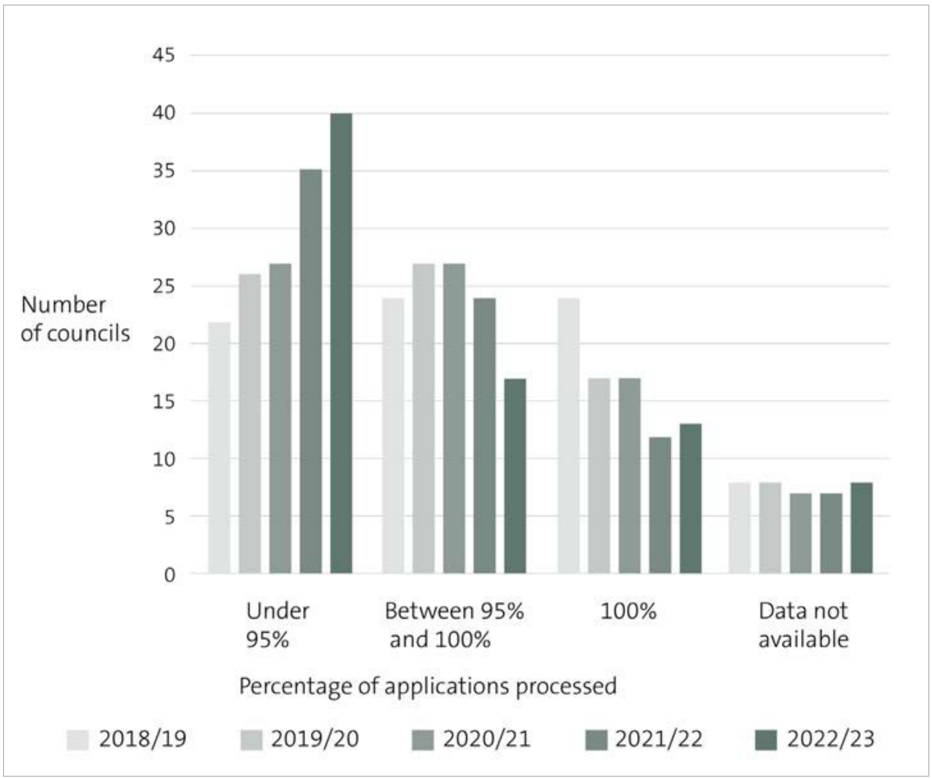
2.74 Figure 8 shows trends in timeliness for all councils' performance in processing resource consent applications from 2018/19 to 2022/23. Performance in 2021/22 and 2022/23 declined compared with 2020/21. This is apparent from the increasing number of councils that processed fewer than 95% of resource consent applications (27 councils in 2020/21, 35 councils in 2021/22, and 40 councils in 2022/23).

2.75 Councils consistently identified high work volumes, planning staff and consultant capacity, the increasing complexity of applications, and the impact of Cyclone Gabrielle as reasons for not achieving performance targets.

2.76 In 2021/22 and 2022/23, none of the 18 Tier 1 councils processed 100% of resource consent applications within the statutory time frame. These councils also reported a steep decline in this area. Twelve of the 18 Tier 1 councils processed fewer than 95% of resource consent applications within the statutory time frame (an increase from eight councils in 2021/22).

17 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.

Figure 8
Councils' compliance with statutory time frames for processing resource consent applications, 2018/19 to 2022/23

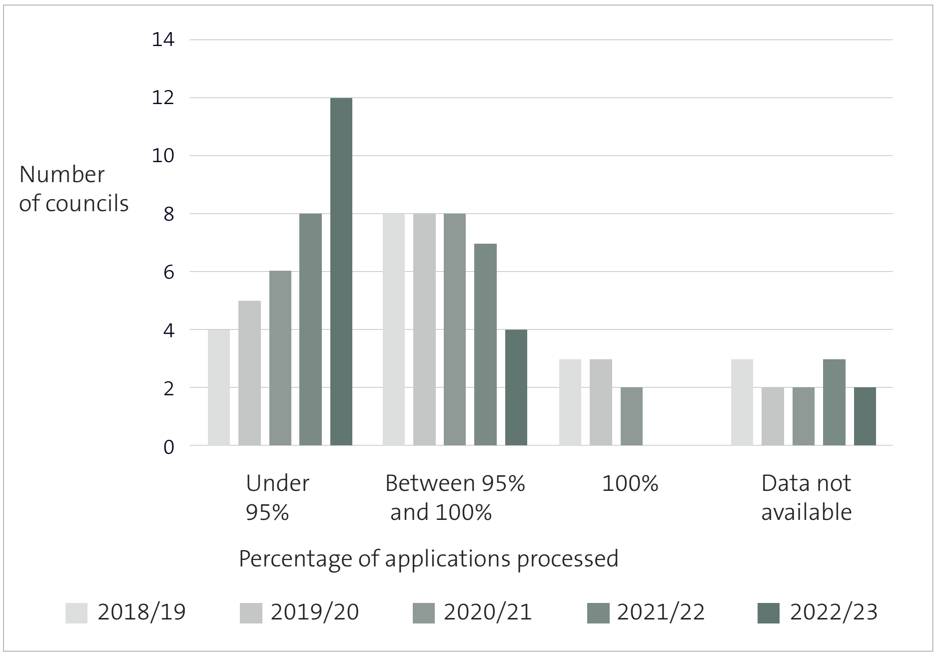


Source: Analysed from information collected from councils' annual reports.

2.77 Auckland Council's performance affected the overall result. Auckland Council processed almost 16,000 resource consent applications in 2021/22, which was about a third of all consents for the year. In the last three years, Auckland Council's performance in processing resource consent applications within the statutory time frame declined from 77.6% in 2020/21 to 71.2% in 2021/22 and 65.7% in 2022/23.

2.78 Figure 9 shows trends in timeliness for Tier 1 councils defined by the National Policy Statement on Urban Development 2020.

Figure 9
Tier 1 councils' compliance with statutory time frames for processing resource consent applications, 2018/19 to 2022/23



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

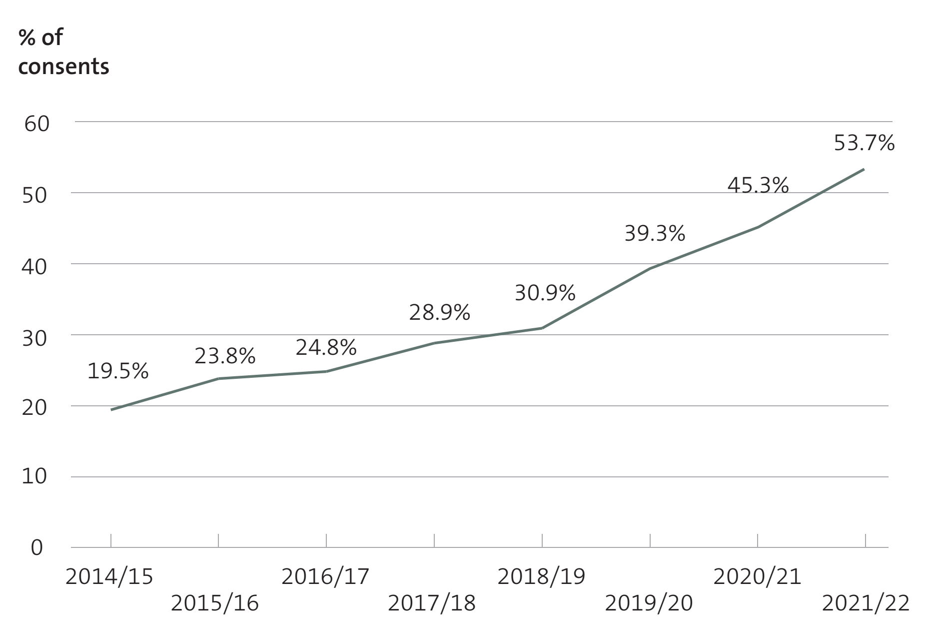
2.79 No complete dataset is available that shows the number of resource consent applications processed by councils in 2022/23. However, the Ministry for the Environment has data for 2021/22.[18]

2.80 In 2021/22, councils processed 39,773 resource consent applications (compared with 37,101 in 2020/21). This was the highest number of resource consent applications processed since 2016/17. When reporting their performance, many councils referenced their high workloads in 2021/22 and 2022/23.

2.81 The Ministry for the Environment also identified an ongoing trend of councils increasing their use of section 37 of the Resource Management Act to extend the time limits for processing resource consent applications (see Figure 10). In 2020/21, councils used section 37 of the Resource Management Act for 45.3% of resource consent applications. In 2021/22, this increased to 53.7%. We do not yet know the percentage for 2022/23.

18 Ministry for the Environment (2023), "Patterns in Resource Management Act implementation: National Monitoring System data from 2014/15 to 2021/22", at environment.govt.nz.

Figure 10
Percentage of resource consent applications that used at least one section 37 (extended time frames) in their processing, 2014/15 to 2021/22



Source: Ministry for the Environment (2023), "Patterns in Resource Management Act implementation: National Monitoring System data from 2014/15 to 2021/22", page 16, at environment.govt.nz.

2.82 Most councils report on performance measures for processing resource consent applications within statutory time frames. However, performance measures relating to timeliness varied between councils, and not all councils explained why 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.

2.83 Local councils do not adopt performance measures for monitoring, compliance, and environmental outcomes as commonly as regional councils. Because of this, the performance information of local councils, including the effects of consenting decisions, is less transparent. This also affects the ability to compare councils.

2.84 We continue to encourage councils to actively review the effectiveness of their resource consent performance measures, to critically evaluate their performance, and to seek to improve their processing times.

Three waters performance measures

2.85 In this section, we consider whether increased investment in water assets translates into improved performance over time and describe how councils reported on their performance measures for three waters.[19]

2.86 In 2022/23, councils as a whole invested more than $2.5 billion in three waters assets. This is 56% of total council spending on infrastructure assets for the year and an increase of $207.7 million (9%) from 2021/22. Although this is smaller than other year-on-year increases since 2018/19, it reflects the recent trend of councils' increasing focus and reinvestment in three waters assets.

2.87 Although councils' total spending on three waters assets has steadily increased since 2012/13, councils are still not adequately reinvesting in their assets. As we highlight in Part 4, renewal-related capital expenditure for councils is less than 100%. This indicates that assets are not being replaced at the same rate as they are being run down. If councils underinvest in their assets, there is a bigger risk of asset failure and a resulting reduction in service levels.

2.88 In the past, we found that renewals spending as a proportion of the depreciation expense was lower for three waters infrastructure than for other infrastructure. In Part 4, we discuss how this trend changed slightly in 2021/22 and 2022/23 (see paragraphs 4.32-4.36). Water supply and wastewater had a higher renewals rate than other infrastructure categories. However, stormwater renewals remain lower than every other infrastructure category.

2.89 Although councils have had a particular focus on three waters in recent years, they are also grappling with affordability issues. In some instances, these issues have constrained the amount of funding available for water asset renewals.

19 Our analysis of three waters performance measures includes the 67 territorial authorities and Greater Wellington Regional Council. Buller District Council and Rotorua District Council were not included in our 2022/23 analysis because the audited annual reports for these councils had not been finalised when we did our analysis. The other 10 regional councils are not responsible for water assets and services, so they do not report these performance measures.

Does increased investment in three waters lead to improved performance?

2.90 Councils are required to report their performance against specific performance measures for three waters.[20] The Department of Internal Affairs' website provides an outline of these measures.[21] Councils report these performance measures' targets as either "achieved" or "not achieved" in their annual reports. We combined the responses from all councils to see what percentage of targets councils reported as "achieved".

2.91 This helps form a picture of which performance measure targets councils are generally achieving and which they are not throughout the country. In some instances, councils did not report whether they achieved a particular target.

2.92 Importantly, this analysis does not take account of the size of the population in each council boundary. Therefore, the results should not be considered as reflecting council performance for the population of New Zealand as a whole.

2.93 At an aggregate level, performance against the wastewater and stormwater measures has been relatively consistent during the past six years. However, performance against the water supply measures has decreased since 2019/20 (see Figure 11). In contrast, councils' annual investment in water infrastructure has increased significantly during the last six years, having doubled since 2017/18.

2.94 Despite the increased investment in three waters assets, there has not been an improvement in reported performance. In fact, there has been a significant deterioration in achievement of water supply performance measure targets.[22]

2.95 Although we expect a time lag between increased investment and an improvement in performance, the increased annual investment in three waters has been consistent during the last six years, with little or no sign of improved performance.

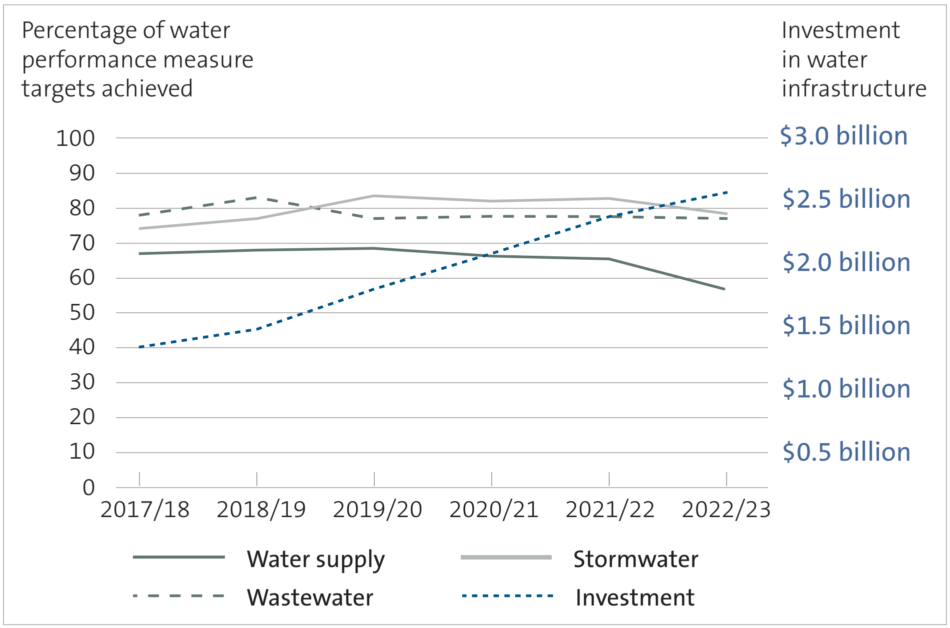
20 These requirements are set out in the Non-Financial Performance Measures Rules 2013 provided by the Secretary for Local Government.

21 See the "Local Government Policy" section on the Department of Internal Affairs website, at dia.govt.nz.

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

Figure 11

Percentage of water supply, wastewater, and stormwater performance measure targets achieved, compared to the level of investment in three waters assets, 2017/18 to 2022/23



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

2.96 Overall, the results for 2021/22 and 2022/23 show that councils' achievement of water supply measure targets is their lowest area of performance. Councils achieved fewer than 60% of water supply performance measure targets in 2022/23. Councils that report "not achieved" against the mandatory drinking water performance measure targets should prioritise actions to improve performance.

2.97 The historical underinvestment in three waters infrastructure might have contributed to overall performance. Councils have an opportunity to address this in their 2024-34 long-term plans by planning to spend more on their water assets. However, we recognise that uncertainty about the water reforms, as well as councils' affordability issues, make this challenging.

2.98 We provide further detail on council performance for each of the three waters. In some instances, we consider councils under five different subsectors (see the Appendix).

Councils' performance against water supply measures

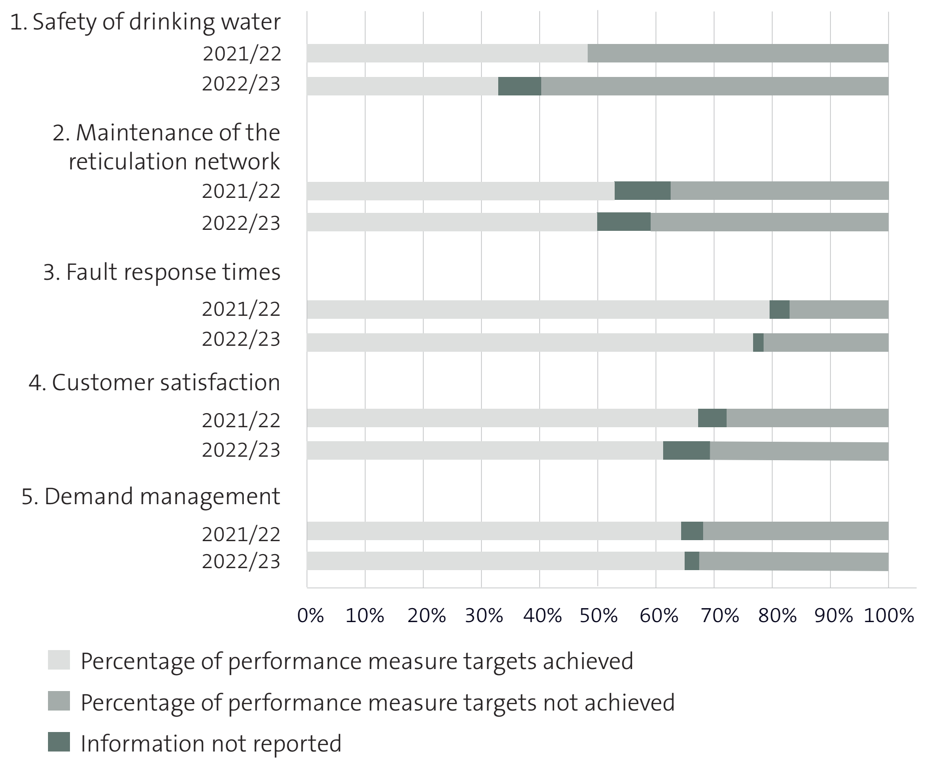
2.99 Overall, 56.9% of water supply performance measure targets in 2022/23 could be considered "achieved", which is a decrease from the previous two years (66.3% in 2020/21 and 65.5% in 2021/22). Figure 12 shows each measure in this category for 2021/22 and 2022/23.

2.100 The lowest performance in both 2021/22 and 2022/23 was for "safety of drinking water" measures. Councils achieved 48.3% of safe drinking water performance measure targets in 2021/22, but achieved only 33% of these targets in 2022/23.

2.101 This is an area of significant concern. Our article "Testing the water: How councils report on drinking water quality" provides further analysis on the issues behind this low rate of performance.[23]

23 See Controller and Auditor-General (2024), "Testing the water: How councils report on drinking water quality", at oag.parliament.nz.

Figure 12
Percentage of water supply performance measure targets achieved in 2021/22 and 2022/23



Note: "Information not reported" means councils have not measured that aspect of their performance.
Source: Analysed from information collected from councils' annual reports.

Councils' performance against wastewater measures

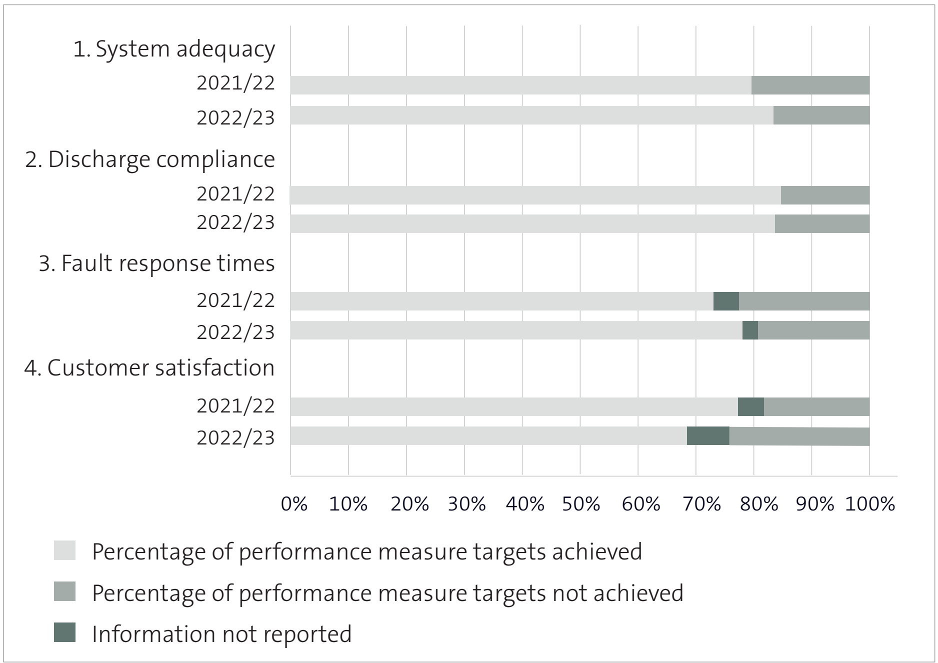
2.102 Overall, 77.1% of wastewater performance measure targets were considered "achieved" in 2022/23, which was largely consistent with the last two years (77.8% in 2020/21 and 78.2% in 2021/22). Figure 13 shows each measure in this category in the previous two financial years.

2.103 Councils did not perform as well against the "fault response times" measure in 2021/22 (73% of fault response time performance measure targets were achieved) and the "customer satisfaction" measure in 2022/23 (68.4% of customer satisfaction performance measure targets were achieved).

2.104 The performance against the "fault response times" measure in 2021/22 appears to be mainly affected by poor performance by rural councils. As a group, rural councils achieved only 61.1% of these performance measure targets.

2.105 It appears that the performance against the "customer satisfaction" measure in 2022/23 is mainly affected by poor performance by metropolitan councils (excluding Auckland Council) and rural councils. As a group, metropolitan councils achieved only 65.2% of these performance measure targets and rural councils achieved only 62.1%.

Figure 13
Percentage of wastewater performance measure targets achieved in 2021/22 and 2022/23 for all councils



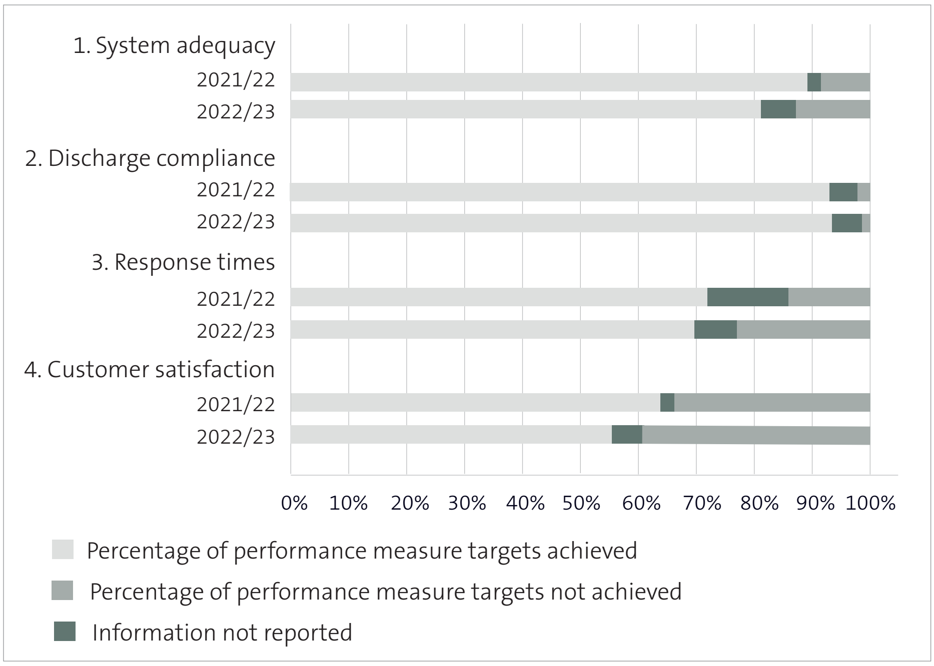
Note: "Information not reported" means councils have not measured that aspect of their performance.
Source: Analysed from information collected from councils' annual reports.

Councils' performance against stormwater measures

2.106 Overall, 78.6% of councils' stormwater performance measure targets were considered "achieved" in 2022/23. This is a decrease from 2021/22, where 82.8% of stormwater targets were considered "achieved". Figure 14 shows each measure in this category for 2021/22 and 2022/23.

2.107 "Customer satisfaction" was the poorest performing measure in the category in 2021/22 (64% of customer satisfaction performance measure targets were achieved) and in 2022/23 (55.7% of targets were achieved). These results were mainly due to poor performance by rural councils (rural councils achieved only 40% of these targets in 2022/23).

Figure 14
Percentage of stormwater performance measure targets achieved in 2021/22 and 2022/23 for all councils



Note: "Information not reported" means councils have not measured that aspect of their performance.
Source: Analysed from information collected from councils' annual reports.

Auditing councils' greenhouse gas emissions

3

3.1 In this Part, we describe some of the issues and challenges councils and auditors face when councils voluntarily report on their efforts to reduce greenhouse gas (GHG) emissions.[24] We discuss:

- the complexities involved with measuring and reporting GHG emissions;
- our auditing of councils' reporting on their GHG emissions; and
- issues and challenges that councils and auditors identified.

3.2 We also set out our observations from our audits of councils' performance reporting, the measures and targets they used, and some of the challenges that arose. See Part 5 for more information on audit reporting issues.

Summary of findings

3.3 We are encouraged to see that councils are including climate-related performance targets and measures in their long-term plans. This will allow them to assess and report on progress and be accountable to their communities, including those who want more done to address the effects of climate change.

3.4 Councils that have formally reported their progress on climate actions are among the first public organisations to do so. They are well positioned to report on their contribution to the government's targets to reduce GHG emissions over time.

3.5 This is an evolving area with inevitable challenges. We acknowledge councils' efforts to measure, reduce, and report their GHG emissions and other climate-related activities.

Measuring and reporting greenhouse gas emissions

3.6 Some councils are giving greater consideration to how their activities affect the climate. They are doing this by measuring and reporting their GHG emissions as part of their broader climate action plans and strategies.

3.7 Councils that included climate-related performance measures in their 2021-31 long-term plans have begun reporting against these measures in subsequent annual reports. Measuring and reporting GHG emissions involves having systems to record and measure emissions from activities (such as fuel use) and converting them into metric tonnes of carbon dioxide equivalent (tCO2e).

3.8 Councils need to be clear about what sources of emissions they report. Councils also need to be clear about any significant sources of GHG emissions that they have not measured and reported.

24 A small number of local government organisations are subject to mandatory climate reporting under the Financial Markets Conduct Act 2013 (as amended by the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021).

3.9 Disclosures should also describe any significant uncertainties about the council's quantification of its GHG emissions, as well as the standards, methodologies, and assumptions it used to calculate or estimate emissions.[25]

Guidance and support are available

3.10 Because of the complexities involved in measuring and reporting climate-related activities, including establishing a GHG emissions baseline, some councils get help from external providers.

3.11 There is considerable guidance available for reporting on GHG emissions, including from the External Reporting Board,[26] the Ministry for the Environment,[27] and international frameworks such as the Task Force on Climate-Related Financial Disclosures.[28]

3.12 We expect that, during the next few years, the climate reporting regime will evolve and mandatory assurance for GHG emissions disclosures for climate reporting entities will be introduced.[29] Councils that choose to report on their emissions will be able to learn from climate reporting entities that are required to report on their emissions.

Measures and targets in long-term plans

3.13 Our 2021/22 and 2022/23 audits considered how councils with climate-related measures reported against targets in their 2021-31 long-term plans.

3.14 Examples of measures and targets that councils included in their 2021-31 long-term plans are:[30]

- a reduction target from a baseline starting year decreasing over time, expressed in tCO2e;
- a reduction target expressed as a percentage (for example, a 10% decrease year on year in gross GHG emissions from the council's corporate emissions), or applying to certain emissions only (for example, fuel use in council-owned vehicles);

25 For example, see Appendix 1 of Wellington City Council (2023), *2022/23 Te Pūrongo ā-Tau Annual Report*, which sets out the Council's approach to these matters.

26 See "Aotearoa New Zealand Climate Standards", at xrb.govt.nz.

27 See Ministry for the Environment (2024), "Measuring emissions: A guide for organisations: 2024 detailed guide", at environment.govt.nz.

28 The Task Force on Climate-Related Financial Disclosures has stopped its activities, but resources will remain on its website for a period of time. See fsb-tcfd.org.

29 For a definition of climate reporting entity, see section 461O of the Financial Markets Conduct Act 2013 (as amended by the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021).

30 See Controller and Auditor-General (2022), *Matters arising from our audits of the 2021-31 long-term plans*, at oag.parliament.nz.

- tangible measures such as increasing the number of electric vehicles/buses in the council fleet by specified targets each year; and
- targets that are aligned with central government targets.

3.15 Some councils also included measures for GHG emissions for all their subsidiaries and business units (and their share of jointly owned council-controlled organisations based on ownership share).

3.16 Some councils had district-, city-, or region-wide measures, including:

- a percentage reduction of GHG emissions from public transport services and assets;
- a reduction in total city GHG emissions over a time period (for example, 43% reduction by 2030);
- waste reduction targets with associated emissions reductions; and
- the number of native trees planted in the region.

Auditing councils' reporting on greenhouse gas emissions

3.17 When we audit councils' performance information about their progress towards achieving climate-related measures, we need enough evidence to conclude that it is materially correct. This evidence must be based on reliable and current information.

Reporting by councils in 2021/22

3.18 In our article "Results of the 2021/22 council audits", we briefly described audit issues that a small group of councils had with their measures of GHG emissions in their performance information.[31] We said that we:

- issued two modified audit reports for GHG emissions reporting by Wellington City Council and Greater Wellington Regional Council; and
- included emphasis of matter paragraphs in the audit reports for Auckland Council, Hawke's Bay Regional Council, Palmerston North City Council, Hutt City Council, Wellington City Council, and Greater Wellington Regional Council, drawing attention to their disclosures about the inherent uncertainties involved with estimating and quantifying their GHG emissions.

Reporting by councils in 2022/23

3.19 More councils reported against performance measures for GHG emissions in their 2022/23 annual reports (13 councils) than in their 2021/22 annual reports (nine councils).

31 See Controller and Auditor-General (2023), "Results of the 2021/22 council audits", at oag.parliament.nz.

3.20 Despite making some progress with their reporting, Wellington City Council and Greater Wellington Regional Council received qualified audit reports in 2022/23. The reasons for this were the same as for 2021/22 (see paragraphs 5.46-5.52).

3.21 Upper Hutt City Council also received a qualified audit report because it relied on 2007 data about spend-based emissions factors, which was the most recent available. However, there was not enough evidence that these factors were relevant to measuring the Council's 2022/23 emissions (see paragraphs 5.53-5.55).

3.22 We also continued to draw attention to disclosures by councils about inherent uncertainties involved in measuring and estimating GHG emissions by including emphasis of matter paragraphs in their audit reports (see paragraphs 5.95-5.96).

Issues and challenges identified by councils and auditors

Incomplete reporting

3.23 Some climate-related performance measures and targets did not cover all emissions sources. For example, some councils' initial reporting focused on scope 1 and 2 emissions (although some of these councils intend to begin measuring and reporting scope 3 emissions).[32]

Timing issues and delays

3.24 Some councils' reporting on their emissions was in arrears or for the previous year rather than for the current reporting period.[33]

3.25 Some councils relied on out-of-date data about spend-based emissions factors. There was not enough evidence that these factors were relevant to measuring the council's current emissions. There also was no other evidence to enable us to conclude that the reported performance was materially correct.[34]

3.26 Some councils needed to adjust baseline emissions data and restate previous results when better information became available.

3.27 Some councils were not yet able to report on set targets and measures because they had issues with data or verification or had delays in putting measurement and reporting systems in place.

32 Scope 1 emissions are GHG emissions directly from sources owned or controlled by the council – for example, emissions from combustion of fuel in council vehicles. Scope 2 emissions are GHG emissions produced indirectly from the consumption of purchased electricity, heat, or steam. Scope 3 emissions are much broader and include other indirect GHG emissions that occur because of the council's activities. However, these emissions are generated from sources the council does not own or control – for example, emissions caused by suppliers of goods and services to the council.

33 These councils include Central Otago District Council and Greater Wellington Regional Council.

34 For example, Upper Hutt City Council (2023), *Mahere ā-Tau Annual Report 2022-23*, at upperhuttcity.com, and Wellington City Council (2023), *2022/23 Te Pūrongo ā-Tau Annual Report*, at wellington.govt.nz.

Mistakes or lack of supporting evidence

3.28 Some councils lacked systems and controls to produce reliable evidence to support the data inputs and estimations used to measure emissions, including data provided by third parties. These councils received a qualified audit report.

3.29 Some councils understated the total amounts of emissions reported by omitting data for some of the less significant emissions sources. However, for these councils, the resulting error was within the allowable threshold.

Unrealistic targets

3.30 When councils set GHG reduction targets they need to have realistic plans for achieving them, otherwise targets or time frames might need to be adjusted.

Effect of severe weather events

3.31 In some instances, GHG emissions are increasing because of factors a council cannot control. For example, Bay of Plenty Regional Council aimed for a 5% decrease in GHG emissions from the previous year in 2022/23. Instead, the Council reported a 52% increase in GHG emissions.

3.32 This largely came from operating flood pumps during significant wet weather events. The Council is investigating electrifying its drainage pumps to help reduce these emissions.[35]

3.33 Similarly, Hawke's Bay Regional Council reported a 37% increase in emissions from 2021/22 to 2022/23. The Council attributes this to the increased use of vehicles and equipment for the recovery efforts and rapid rebuild from Cyclone Gabrielle in February 2023.[36]

Scope 3 emissions

3.34 The following are some of the issues and challenges councils have when measuring and reporting scope 3 emissions:

- For some scope 3 GHG emissions activities, measuring relies on modelling and assumptions that have limitations.
- Some measuring relies on historical spend-based emissions factors where the factors used do not reflect any changes in the underlying causes of emissions or subsequent methodological changes in how GHG emissions are measured since that date.[37]
- It is challenging to report scope 3 emissions comprehensively, and it can be harder to provide assurance over that information.

35 Bay of Plenty Regional Council (2023), *Pūrongo ā-tau Annual Report 2022/23*, at atlas.boprc.govt.nz.

36 Hawke's Bay Regional Council (2023), *Pūrongo ā-tau 2022-2023 Annual Report*, at hbrc.govt.nz.

37 See Wellington City Council (2023), *2022/23 Te Pūrongo ā-Tau Annual Report*, at wellington.govt.nz.

3.35 There can be significant differences between reported emissions and actual emissions. Therefore, climate reporting entities need to make appropriate disclosures about the inherent uncertainties in measuring and estimating their GHG emissions. Our audit reports draw attention to those disclosures.

The need for clear language and definitions

3.36 Clear language and concepts are also important. Councils should be careful about using terminology that might be misunderstood. Care is needed with terms such as "carbon-neutral", "net-zero", and "climate positive". It is important for councils to explain exactly what these terms mean to them to assist transparency and reduce any risk of "greenwashing".[38]

3.37 Councils that want to develop climate action plans have plenty of good examples and experience from other councils to draw on. There is also guidance and direction from the External Reporting Board and international frameworks such as the Task Force on Climate-Related Financial Disclosures framework.

What we expect to see in long-term plans

3.38 When we reviewed councils' 2021-31 long-term plans, we noted a marked improvement in climate-related content and approaches from their 2018-28 long-term plans. We expect a similar improvement in councils' 2024-34 long-term plans. There is likely to be a greater focus on adaptation as well as reducing GHG emissions in the next round of long-term plans.

3.39 We expect that climate reporting in the local government sector will increase over time as councils and council-controlled organisations increase their focus on the effects of climate change and mitigation and as climate reporting becomes more established.[39] We acknowledge the work councils are doing in leading the sector in this area.

38 See our blog post "Climate reporting and the need to avoid greenwashing", at oag.parliament.nz/blog.

39 We have not focused on council-controlled organisations in this Part. However, we are aware that several of them report on their GHG emissions.

Councils' investment in infrastructure

4

4.1 In this Part, we consider:

- how councils reinvested in their assets;
- how councils delivered on their capital expenditure budgets; and
- debt owed by councils and indicators of financial sustainability.[40]

Summary of findings

4.2 Since 2012/13, we have been reporting that councils are not adequately reinvesting in their assets. In both 2020/21 and 2021/22, councils' capital expenditure for renewals was 78% of depreciation. In 2022/23, councils' capital expenditure for renewals was 76% of depreciation.

4.3 Since 2012/13, for every $1 of assets run down, councils have annually reinvested between 74 and 89 cents.

4.4 The performance of councils as a whole in this regard remains significantly less than 100%, which indicates that councils are not replacing their assets at the same rate as they are being run down.

4.5 In 2022/23, councils' total capital expenditure was $7 billion. This was a significant increase from the previous year, and it is the most councils have spent on their assets in the last 11 years. The amount spent (94% of the $7.5 billion budgeted) was also the largest spending as a proportion of budget in the last 11 years (and a significant increase from the 76% of the budgeted amount spent in 2021/22).

4.6 Council debt increased by $5.4 billion (26%) to $26 billion in the last two years. This is broadly consistent with the amount councils budgeted to hold at 30 June 2023. This increase indicates that councils as a whole are increasingly using debt to invest in assets. Despite this increase in debt, we have not seen a significant decline in councils' financial sustainability.

40 Our 2022/23 analysis excludes Buller District Council, Rotorua District Council, and West Coast Regional Council. This is because the audited annual reports for these councils were not available when we did our analysis. These councils remain in the previous year results because we considered that they were too small to impact our analysis.

Reinvestment in councils' assets

4.7 We compared capital expenditure on renewing assets with annual depreciation to see how much councils are reinvesting in their assets. We consider depreciation to be a reasonable way of estimating the portion of the asset that was run down during a financial year. However, because assets have long life cycles, this is only one indicator of whether councils are reinvesting enough.[41]

4.8 Councils' underinvestment in their assets increases the risk of asset failure. In turn, this increases the risk of a reduction in the quality of services that councils provide to their communities. Based on our analysis of the 2021/22 and 2022/23 audit results, we remain concerned that councils as a whole might not be reinvesting enough in their critical assets.

4.9 Many councils have recently adopted their 2024-34 long-term plans or are preparing information for their 2025-34 long-term plans.[42] This is an opportunity for them to re-examine how much they are reinvesting in their assets.

4.10 We will report on the findings from our audits of these long-term plans and consider whether councils are planning to reinvest more in their assets.

Reinvestment in assets remains less than what has been run down

4.11 Figure 15 compares actual renewal capital expenditure with depreciation for all councils, from 2012/13 to 2022/23. It also shows the predicted renewal capital expenditure for the period of the 2021-31 long-term plans.

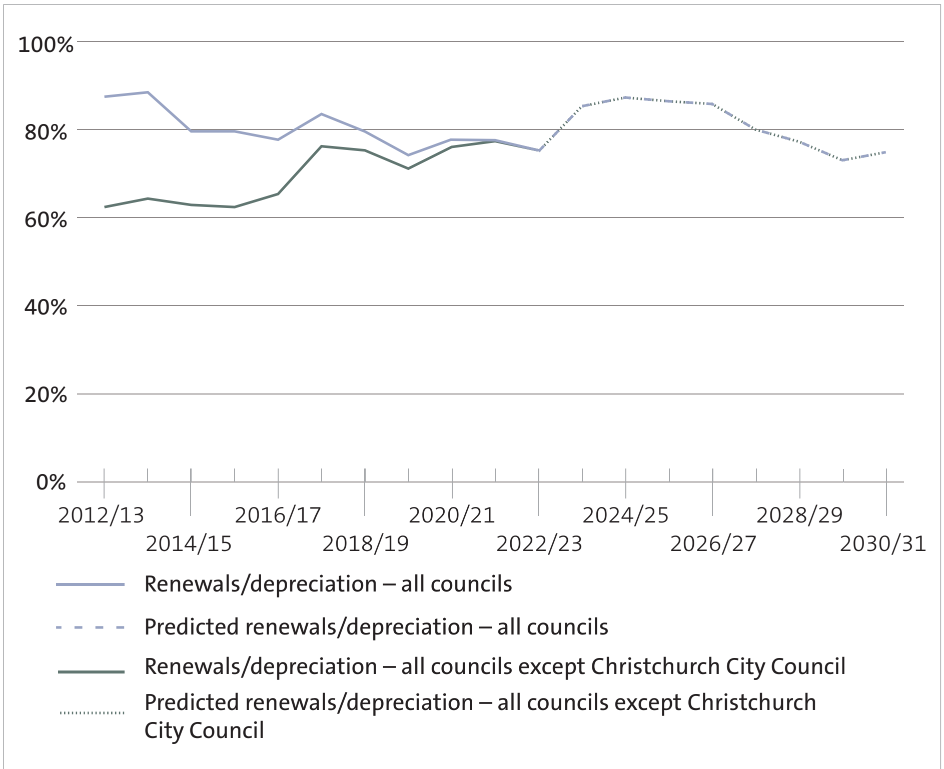
4.12 There are two lines on the graph: one that includes all councils and one that excludes Christchurch City Council. Christchurch City Council's renewal capital expenditure was proportionately higher than other councils because of the rebuilding it has done since the 2011 Canterbury earthquakes.

4.13 However, the effect of this has been decreasing over time. After 2020/21, this difference is no longer notable.

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

42 The Water Services Acts Repeal Act 2024 gave affected councils the option to defer preparation of their 2024-34 long-term plans for one year. Councils that chose this option have to prepare a 2025-34 long-term plan. When we wrote this report, we were aware that some councils had chosen this option.

Figure 15
Renewal capital expenditure compared with depreciation for all councils, actual percentages for 2012/13 to 2022/23 and predicted percentages for 2023/24 to 2030/31



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

4.14 For the 19 years of actual and predicted results in Figure 15, council renewal expenditure remains less than 100% of depreciation.

4.15 In both 2020/21 and 2021/22, the combined renewal capital expenditure of all councils was 78% of depreciation. In 2022/23, it was 76%.

4.16 Between 2012/13 and 2022/23, renewal capital expenditure of all councils ranged from 74% to 89% of depreciation. In dollar terms, councils have cumulatively spent $5.5 billion less on renewal capital expenditure than they have recognised as depreciation. However, when excluding the performance of Christchurch City Council's renewal capital expenditure, the percentage is much lower.

4.17 Excluding Christchurch City Council, renewal capital expenditure of councils ranged from 63% to 78% of depreciation between 2012/13 and 2022/23. Cumulatively, renewal capital expenditure was $7.3 billion less than depreciation.

4.18 Our analysis of councils' 2021-31 long-term plans shows that there is a step change expected from 2023/24, when councils' renewal investment is predicted to range from 86% to 88% for the next four financial years. However, this is forecast to steadily decline to 73% by 2029/30.

Some individual councils are reinvesting more than has been run down

4.19 Looking at a council's performance for an individual year does not generally provide a good view of how well councils are reinvesting in their assets. This is because the rate of asset renewal can spike (especially when large-value assets such as bridges and treatment plants are renewed).

4.20 Depreciation, in contrast, is spread evenly over the life cycle of an asset. Therefore, we expect that the rate of asset renewals over a period of time (generally the life cycle of an asset) will align with depreciation for that period.

4.21 Figure 16 looks at the performance of individual councils between 2012/13 and 2022/23. It shows that 21 councils spent, in total, more on renewing assets than they lost through use.[43]

4.22 These councils tended to be regional councils (who are responsible for less infrastructure) or smaller rural councils.[44] This group also includes councils that were significantly affected by natural disasters such as earthquakes. Damage caused by earthquakes in 2011 and 2016 meant that these councils needed to reinvest in their infrastructure to enable key services to continue.[45]

43 These councils were Bay of Plenty Regional Council, Buller District Council, Central Hawke's Bay District Council, Christchurch City Council, Environment Canterbury, Gisborne District Council, Hawke's Bay Regional Council, Horizons Regional Council, Kaikōura District Council, Mackenzie District Council, Northland Regional Council, Ōpōtiki District Council, Ruapehu District Council, Taranaki Regional Council, Timaru District Council, Waikato District Council, Waikato Regional Council, Waimakariri District Council, Wairoa District Council, Waitomo District Council, and West Coast Regional Council.

44 Sixteen of the 21 councils are rural or regional councils.

45 Christchurch City Council, Environment Canterbury, Kaikōura District Council, and Waimakariri District Council's renewals were all greater than depreciation. The infrastructure owned by these councils experienced significant damage after the 2011 Canterbury earthquakes and the 2016 Hurunui/Kaikōura earthquake.

Figure 16
Average renewal capital expenditure compared with depreciation, 2012/13 to 2022/23

Average renewals compared to depreciation for 2012/13 to 2022/23	Number of councils
Greater than 100%	21
Between 90% and 100%	9
Between 80% and 90%	10
Between 70% and 80%	12
Between 60% and 70%	17
Less than 60%	9

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

4.23 Nine councils renewed less than 60% of their depreciation between 2012/13 and 2022/23.[46] Six of these nine councils were provincial councils. It is unclear to us why they have renewed relatively less than depreciation compared to other councils.

4.24 However, some of these councils are managing significant growth in their districts, which includes needing to build new assets. Newer assets do not require as much reinvestment as older assets.

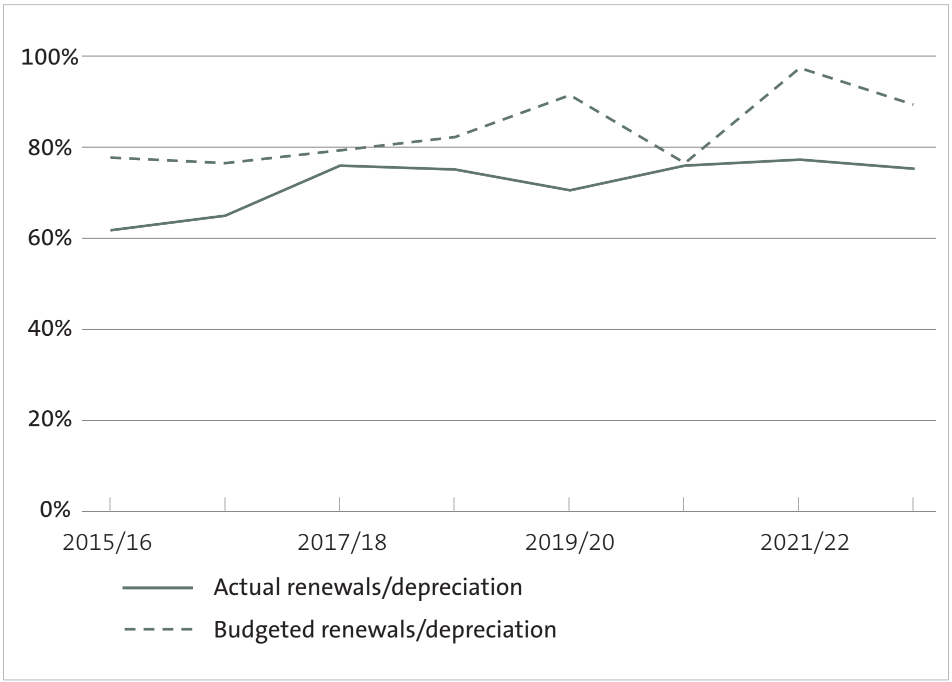
Councils' reinvestment in assets has historically not met their budgets

4.25 Councils have generally budgeted to reinvest more in assets than they have actually spent. Figure 17 sets out budgeted and actual renewal capital expenditure with depreciation for all councils (except for Christchurch City Council) from 2015/16 to 2022/23.

4.26 We excluded Christchurch City Council because its renewal capital expenditure was proportionately higher than other councils as a result of the rebuilding it has done since the 2011 Canterbury earthquakes. Excluding Christchurch City Council gives a more accurate picture of the reinvestment councils have made in their assets.

46 These councils were Kāpiti Coast District Council, Nelson City Council, Otago Regional Council, Selwyn District Council, Taupō District Council, Tauranga City Council, Thames-Coromandel District Council, Upper Hutt City Council, and Western Bay of Plenty District Council.

Figure 17
Actual and budgeted renewal capital expenditure compared with depreciation for all councils excluding Christchurch City Council, 2015/16 to 2022/23



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

4.27 Figure 17 shows that, every year, councils as a whole (except for Christchurch City Council) budgeted for renewals to be less than depreciation.

4.28 Figure 17 also shows that, every year, the budgeted proportion of renewals to depreciation is higher than the actual proportion of renewals to depreciation. The largest margins between budgeted and actual were in 2019/20 (21%) and 2021/22 (20%). In 2022/23, the margin between budgeted and actual was 14%.

4.29 For most years, the reason that councils did not meet their renewals goal was because they did not deliver on their capital expenditure budgets. For example, councils (except for Christchurch City Council) reinvested $2.1 billion in their assets in 2021/22, which was less than the $2.6 billion budgeted.

4.30 In 2022/23, actual renewals capital expenditure was $2.4 billion compared to budgeted renewals capital expenditure of $2.6 billion (excluding Christchurch City Council). However, the underspend in this case was smaller. Councils' depreciation expense increased significantly, reflecting updated expectations of the amount of assets that would be run down in 2022/23.

4.31 The analysis in paragraphs 4.25 to 4.30 shows that, based on historic performance, it will be challenging for councils to achieve the predicted renewal capital expenditure outlined in Figure 15. We discuss how well councils delivered their capital expenditure programmes in paragraphs 4.43 to 4.50.

Council reinvestment in different classes of infrastructure

4.32 In the previous years, we found that renewals spending as a proportion of depreciation expense is lower for three waters infrastructure than for other infrastructure. This trend has partly changed when looking at councils' reinvestment in their assets for 2021/22 and 2022/23.

4.33 Figure 18 sets out the renewal capital expenditure compared with depreciation by type of infrastructure owned by councils for 2015/16 to 2022/23. Figure 18 does not include Christchurch City Council (as discussed in paragraph 4.12, this is because of the rebuilding it has done since the 2011 Canterbury earthquakes).

4.34 We have included "other infrastructure" in Figure 18. Other infrastructure covers all other assets owned by councils that are not separately shown in Figure 18. Other infrastructure includes assets such as community facilities, ports (airports and seaports), and public transport assets (buses and trains).[47]

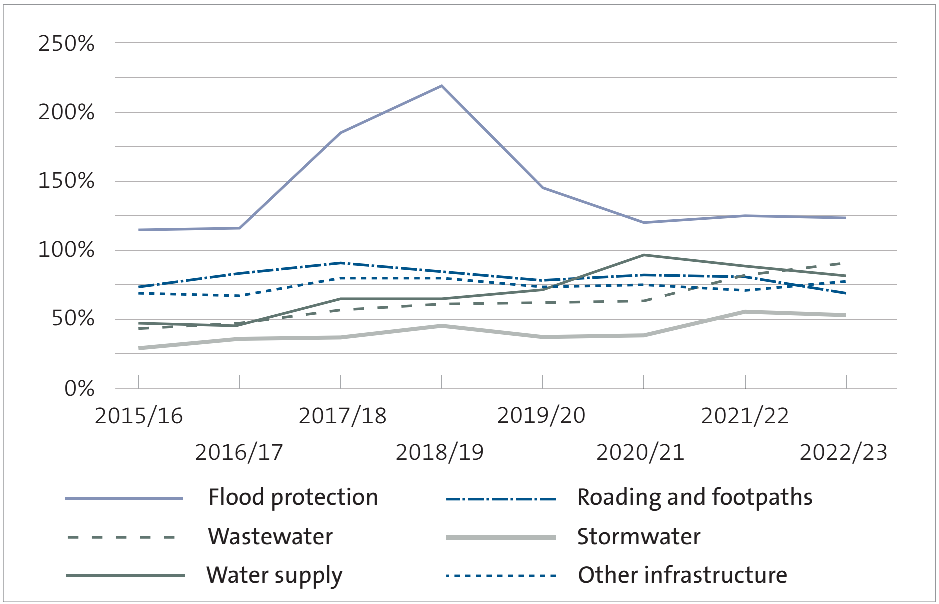
4.35 Figure 18 shows that reinvestment in flood protection infrastructure was consistently above depreciation from 2015/16 to 2022/23. All other categories of infrastructure reinvestment remained less than depreciation.

4.36 Despite this, there has been a steady improvement in the amount that councils have reinvested into three waters' infrastructure since 2015/16, with:

- stormwater supply renewals increasing from 30% of depreciation in 2015/16 to 53% of depreciation in 2022/23;
- water supply renewals increasing from 48% of depreciation in 2015/16 to 81% of depreciation in 2022/23; and
- wastewater supply renewals increasing from 44% of depreciation in 2015/16 to 91% of depreciation in 2022/23.

47 For further information on the other types of infrastructure councils own, see Part 4 of Controller and Auditor-General (2022), *Matters arising from our audits of the 2021-31 long-term plans*, at oag.parliament.nz.

Figure 18
Renewal capital expenditure compared with depreciation for all councils excluding Christchurch City Council by type of infrastructure asset category, 2015/16 to 2022/23



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

4.37 This steady improvement reflects that councils are particularly focusing on reinvesting in three waters, which was set out in the 2021-31 long-term plans.[48]

4.38 The level of investment in stormwater infrastructure remains lower than in water supply and wastewater infrastructure – renewals were 56% of depreciation for 2021/22 and 53% of depreciation in 2022/23. We have previously reported on our concerns with the level of investment in stormwater infrastructure.[49]

4.39 Councils need to consider increasing their investment in stormwater infrastructure, as it is likely that there will be more heavy rainfall events in New Zealand that will put pressure on stormwater systems.

4.40 Renewals in roading infrastructure peaked at 92% of depreciation in 2017/18 and declined to 69% in 2022/23. Councils' reinvestment in their local roads has generally been high, partly because Waka Kotahi provides co-funding.

48 See Part 4 of Controller and Auditor-General (2022), *Matters arising from our audits of the 2021-31 long-term plans*, at oag.parliament.nz.

49 See Controller and Auditor-General (2018), *Managing stormwater systems to reduce the risk of flooding*, at oag.parliament.nz.

4.41 In our view, the steep decline in 2022/23 is related to councils updating their depreciation estimates in 2022/23, rather than any decrease in renewals. Renewal expenditure for roading infrastructure increased by $0.1 billion between 2021/22 and 2022/23.[50] It is likely that councils' future reinvestment in local roads will need to increase in line with the recent changes in depreciation to maintain services.

Looking forward

4.42 When we wrote this report, many councils were in the process of finalising their long-term plans. In preparing these plans, councils will review their planned reinvestment in infrastructure. The change in level of reinvestment is a matter that we will consider when we analyse and report on these long-term plans.

Delivery of capital expenditure programmes

4.43 In 2020/21, we reported that most councils did not deliver all their capital expenditure programmes.[51] This continues to be the case in 2021/22 and 2022/23. As a result, some capital projects either have been delayed or are not being delivered at all. This could affect the levels of service that councils provide to their communities.

4.44 Councils' total capital expenditure in 2021/22 was $5.8 billion, which was consistent with 2020/21. The amount spent in 2021/22 was 76% of the $7.68 billion budgeted, 12% less than the amount spent against budget in 2020/21 (88% of $6.58 billion budgeted).[52]

4.45 Councils' total capital expenditure in 2022/23 increased significantly to $7 billion, which is the most councils have spent on their assets in the last 11 years (see Figure 19). The amount spent was 94% of the $7.5 billion budgeted. This was the largest spending as a proportion of budget in the last 11 years and a significant increase from 76% in 2021/22.

4.46 On average, all council subsectors spent less than 100% of their total capital expenditure budgets in 2021/22. This was also the case in 2020/21. In 2021/22, regional councils spent $185 million or 57% (on average) of their capital expenditure budget. By comparison, in 2021/22, Auckland Council spent $1.8 billion or 78% of its capital expenditure budget.

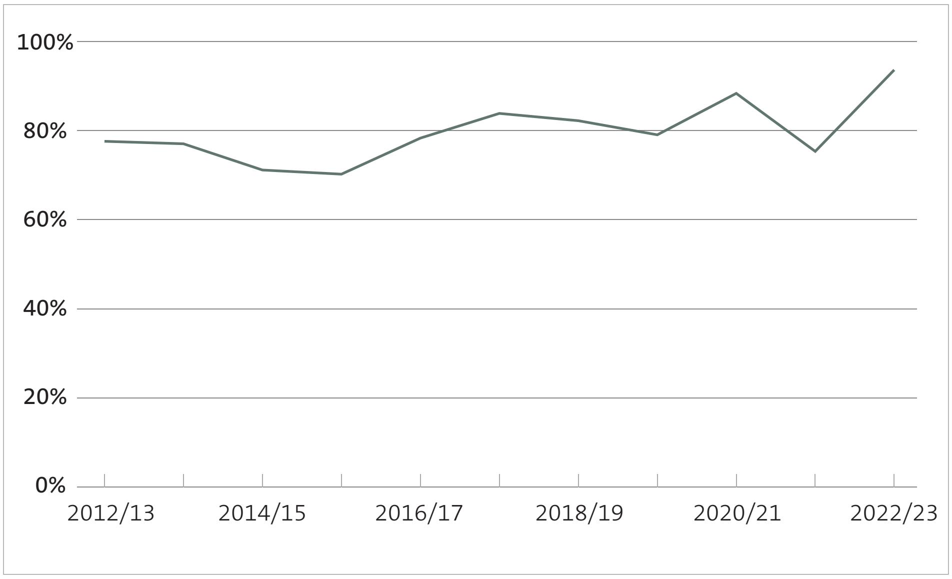
50 These amounts exclude the roading renewals spent by Christchurch City Council. If these were included, the amount of renewal expenditure would remain steady at $0.8 billion in both years.

51 Controller and Auditor-General (2022), *Insights into local government: 2021*, at oag.parliament.nz.

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

4.47 In 2022/23, Auckland Council spent 107% of its capital expenditure budget (or $2.32 billion). All other subsectors spent less than 100% of their capital expenditure budgets in 2022/23. Consistent with the previous year, regional councils spent the lowest in 2022/23 – $262 million or, on average, 69% of their budget.

Figure 19
Average percentage of capital expenditure budget spent for all councils, 2012/13 to 2022/23



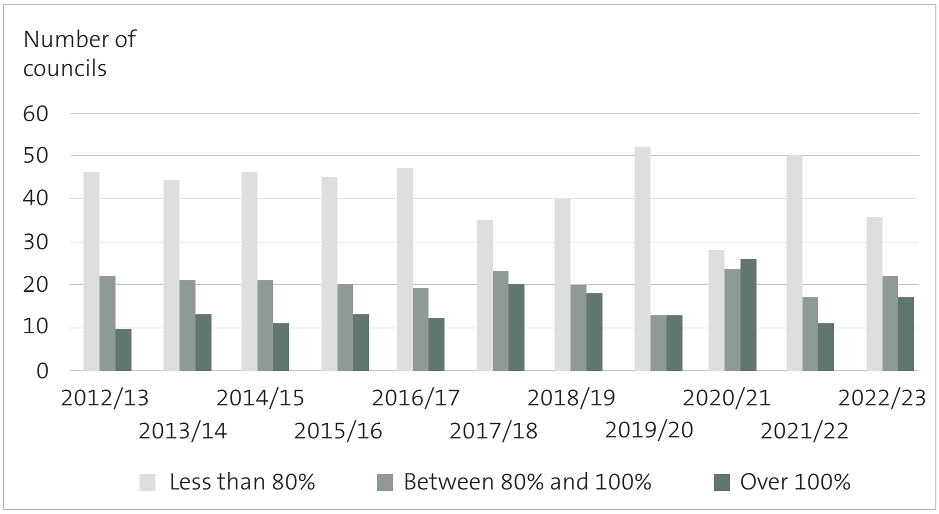
Source: Analysed from information collected from councils' annual reports.

4.48 In 2021/22, 50 councils spent less than 80% of their capital expenditure budgets. This is a significant increase from the 28 councils in 2020/21 and is close to the highest number in this category in the last 11 years (as Figure 20 shows, the highest was 52 councils in 2019/20). However, in 2022/23, 36 councils spent less than 80% of their capital expenditure budgets.

4.49 This indicates that, overall, councils still face challenges in delivering their capital expenditure programmes. Key challenges include ongoing inflationary pressures and resource constraints throughout the local government sector.

4.50 We expect councils to continue to seek to address historical underinvestment in their infrastructure, in accordance with their 2021-31 long-term plans. We also expect councils to continue focusing on having properly scoped and realistic capital programmes. This is a focus for our audits of their long-term plans.

Figure 20
Number of councils spending less than 80%, between 80% and 100%, and more than 100% of their budgeted capital expenditure, 2012/13 to 2022/23



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

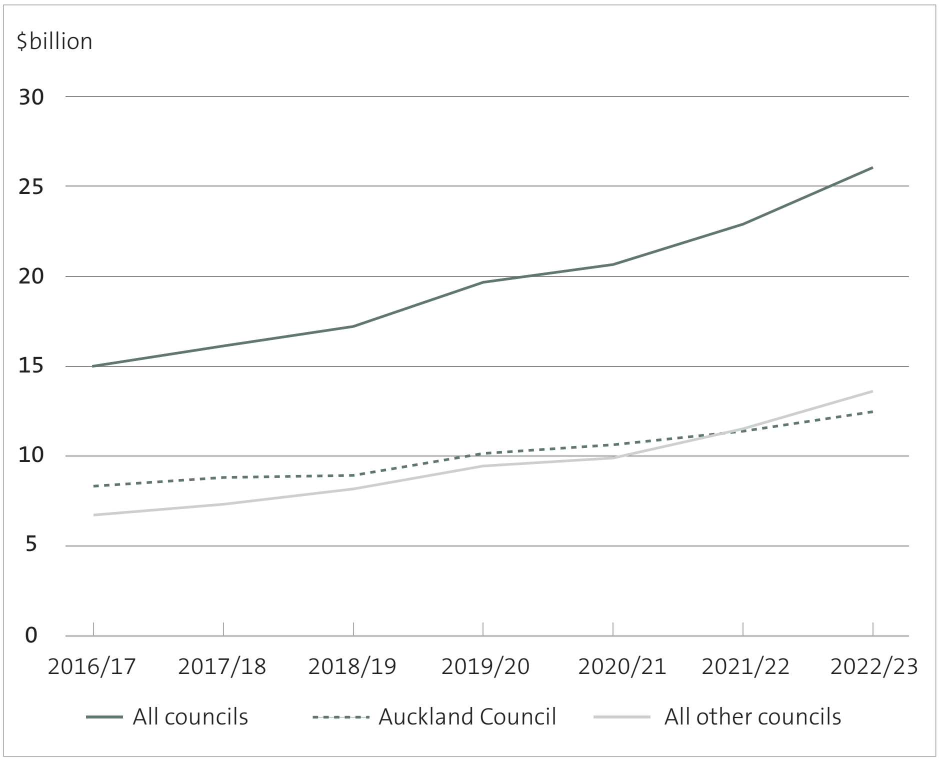
Debt and financial sustainability

4.51 Councils generally use debt to fund capital expenditure. This is appropriate given the long-term nature of public assets, because it allows future generations to share these costs. In the last two financial years, the total amount of debt for all councils continued to increase.

Council debt continues to increase

4.52 Figure 21 sets out the amount of debt held by councils from 2016/17 to 2022/23. Figure 21 also shows Auckland Council's debt separately from other councils' debt. We separated Auckland Council's debt from other councils because it has historically accounted for more than 50% of the total debt for all councils.

Figure 21
Council debt, 2016/17 to 2022/23



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

4.53 Figure 21 shows that all council debt was $26 billion in 2022/23. This compares to $22.9 billion in 2021/22 and $20.6 billion in 2020/21. All council debt has increased by $5.4 billion (26%) in the last two financial years.

4.54 In 2022/23, all council debt (excluding Auckland Council) increased by 36% to $13.5 billion. In contrast, Auckland Council debt increased at a slower rate of 17% to $12.5 billion in the same financial year. Since 2021/22, other council debt has been more than Auckland Council's debt.

4.55 The increase in council debt during the last two years was mainly to fund investment in infrastructure. During the last two years, councils have invested $12.8 billion in their assets (see paragraphs 4.43 to 4.50).

4.56 In our report on the matters arising from our audits of the 2021-31 long-term plans, we stated that council debt was forecast to increase during the 10-year period to 2031.[53] We are seeing this trend play out.

4.57 Despite the increase in council debt during the last two years, it was still below budgeted levels. Debt was 8% less than budgeted in 2021/22, and it was 1% less than budgeted in 2022/23. Because councils as a whole did not achieve their budgeted capital expenditure in these two years (see Figure 19), this is not unexpected.

4.58 In 2022/23, council debt (excluding Auckland Council) was 5% less than budgeted. In comparison, Auckland Council's debt in 2022/23 was $0.4 billion (or 3%) more than budgeted.

4.59 Auckland Council's annual report said that debt was more than planned because of working capital movements and foreign exchange movements.[54] The Council also reported on 31 August 2023 that it had sold a portion of its shareholding in Auckland International Airport Limited with the intention of reducing its debt.[55]

4.60 Given the increase in council debt, Figure 22 sets out how much debt is carried by all councils other than Auckland Council. We have focused on the last three financial years, reflecting the significant increase described in Figure 21.

4.61 Figure 22 shows that most councils' debt increased during the last two years. By 30 June 2023, 34 councils had more than $100 million in debt (excluding Auckland Council), 10 more than in 2020/21. In comparison, 15 councils had debt less than $25 million (10 fewer than in 2020/21).

4.62 Auckland Council, Christchurch City Council, and Wellington City Council had more than $1 billion of debt as at 30 June 2023. These three councils had 61% of the total council debt.

53 Controller and Auditor-General (2022), *Matters arising from our audits of the 2021-31 long-term plans*, at oag.parliament.nz.

54 Auckland Council (2023), *Auckland Council Annual Report 2022/23,* Volume 3, page 59. Auckland Council also reported that its debt included $252 million of unrealised foreign exchange losses on debt that were denominated in foreign currencies. These losses have been hedged using derivative financial instruments and will not result in a loss in economic terms.

55 Auckland Council (2023), *Auckland Council Annual Report 2022/23,* Volume 3, page 99. Auckland Council reported that this yielded $833 million, net of any fees, and was $32 million (or 4%) below the budgeted proceeds of $865 million.

Figure 22
Levels of debt by number of councils (excluding Auckland Council) for 2020/21, 2021/22, and 2022/23

Debt	2020/21	2021/22	2022/23
More than $1 billion	1	2	2
$500 million to $1 billion	4	3	4
$250 to $500 million	1	5	6
$100 to $250 million	18	18	22
$50 to $100 million	15	15	12
$25 to $50 million	13	16	13
$0 to $25 million	20	16	14
No debt	5	2	1

Note: The 2022/23 results do not include Buller District Council, Rotorua District Council, or West Coast Regional Council because the audited annual reports for these councils were not available when we did our analysis.
Source: Analysed from information collected from councils' annual reports.

How debt is affecting the financial sustainability of councils

4.63 Given the increase in debt, we are interested in the overall financial sustainability of councils. Therefore, we looked at the financial reporting and prudence benchmarks (the prudence benchmarks).

4.64 The Local Government (Financial Reporting and Prudence) Regulations 2014 (the Regulations) require councils to prepare prudence benchmarks. Prudence benchmarks are intended to improve the ability of ratepayers and stakeholders to assess a council's financial health and compare it with other councils.

4.65 For this report, we have looked at two benchmarks that the Regulations require. They are:

- the **debt affordability benchmark**, which compares actual debt with a council's quantified limit (or limits)[56] on debt specified in the council's long-term plan; and
- the **balanced budget benchmark**, which compares the amount of revenue generated with the amount of operating expenses.[57, 58]

4.66 We chose these benchmarks because they indicate a council's level of indebtedness and whether a council is generating enough revenue to cover its costs.

Almost all councils are within their debt affordability benchmarks

4.67 From our review of the debt affordability benchmarks disclosed by councils, we found that one council did not meet this benchmark in the last five financial years.

4.68 Ruapehu District Council set its debt limit at twice its annual rates revenue. It reported that it was above the debt limit in the debt affordability benchmark for 2022/23. Despite this, the Council reported that other limits on borrowing set in its Treasury Management Policy were in the "acceptable range".

4.69 The other councils are within the limits described in their debt affordability benchmarks. Despite that, some councils are beginning to get close to, or remain close to, their debt limit.

4.70 These councils need to actively monitor the amount of debt they borrow to ensure that they remain prudent. They may also be constrained by how much they can reinvest in their assets or respond to unexpected events (such as natural disasters).

More councils are not meeting the balanced budget benchmark

4.71 In every year since 2018/19, some councils did not meet their balanced budgeted benchmark. This meant that these councils were not generating enough revenue to cover their ongoing operational costs. In 2022/23, the number of councils that did not meet their balanced budget benchmark increased significantly (see Figure 23).

4.72 The number of councils that did not meet their balanced budget benchmark in 2022/23 is the highest in the last five years. We expect that this is partly because some councils underestimated how much their expenditure increased

56 The Regulations allow councils to have more than one debt affordability benchmark. For more information on the types of debt affordability benchmarks councils use, see Part 2 of Controller and Auditor-General (2022), *Matters arising from our audits of the 2021-31 long-term plans*, at oag.parliament.nz.

57 The Regulations specify that the revenue used in the calculation excludes development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment.

58 The Regulations specify that the operating expenses used in the calculation exclude losses on derivative financial instruments and revaluations of property, plant, or equipment.

because of inflation when setting how much revenue to recover through rates, fees, and charges.

Figure 23
Number of councils that did not meet their balanced budget benchmark, from 2018/19 to 2022/23

Year	Number of councils not meeting the benchmark
2018/19	26
2019/20	36
2020/21	19
2021/22	27
2022/23	45

Note: The number of councils reported above do not include Buller District Council, Rotorua District Council, or West Coast Regional Council because the audited annual reports for these councils were not available when we did our analysis.
Source: Analysed from information collected from councils' annual reports.

4.73 Some councils consistently do not meet their balanced budget benchmark. During the last five years, seven councils did not meet their balanced budget benchmark for the entire five years.[59] A further eight councils did not meet their balanced budget benchmark for four of the last five years.[60]

4.74 The most common reasons these councils gave for not meeting the balanced budget benchmark was that they were not "fully funding" depreciation or that they had incurred costs that they had not planned for.[61] If councils are not fully funding depreciation, they may not have enough funds to replace the assets when they need to.

4.75 The councils that did not meet the balanced budget benchmark did not always explain why this had happened in their annual report. Although the Regulations do not require them to do so, we consider that it is good practice for councils to be transparent about why they did not meet the balanced budget benchmark or any other prudence benchmarks in their annual report.

59 These councils were Hutt City Council, Matamata-Piako District Council, New Plymouth District Council, Otago Regional Council, Upper Hutt City Council, Waimakariri District Council, and Waitaki District Council.

60 These councils were Clutha District Council, Horowhenua District Council, Hurunui District Council, Kawerau District Council, Napier City Council, Queenstown-Lakes District Council, Selwyn District Council, and South Wairarapa District Council.

61 Where a council's total depreciation is not covered by an equivalent amount of revenue, we say that the council is not "fully funding" depreciation.

4.76 Hutt City Council explained why it did not meet the balanced budget benchmark in its annual report. The Council also set out when it was forecasting to meet the benchmark.[62] We encourage other councils that do not meet the benchmark to also explain why and when they expect to meet it.

4.77 We will consider and analyse how increasing debt levels are affecting the financial sustainability of councils when we report on their long-term plans.

Councils need to take due care when preparing their financial reporting and prudence benchmarks

4.78 When reviewing the debt affordability benchmark disclosures in councils' annual reports, we identified several errors with how they were reported. These errors included:

- not reporting all debt limits contained in the financial strategy;
- presenting reported debt limits that were not included in the financial strategy;
- presenting graphs with incorrectly calculated or incorrectly presented results;
- presenting graphs that did not follow the format that the Regulations require;
- presenting graphs that did not align with the text supporting them; and
- presenting graphs that were incorrectly labelled.

4.79 We found that one council reported that it had not met one of its debt affordability benchmarks when in fact it did.

4.80 These errors show that councils need to take due care when preparing the prudence benchmark disclosures. Incorrectly presented information might mean that readers of councils' annual reports form the wrong conclusions about the council's financial prudence. Our auditors have also been reminded of the importance of these disclosures.

62 See Hutt City Council (2023), *Pūrongo ā-Tau Annual Report 2022-23*, page 30.

5 The audit reports we issued

5.1 Every year, we 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.

5.2 An 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).

5.3 In this Part, we discuss:

- when councils adopted their 30 June 2023 annual reports and whether they met the deadlines for doing so;
- the type of audit reports we issued;
- the emphasis of matter paragraphs we issued; and
- the key audit matters that the auditor of Auckland Council is required to report on.

When councils adopted their 2022/23 annual reports

5.4 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.

5.5 In our article "Results of the 2021/22 council audits", we reported a change in timeliness for councils adopting their annual reports.[63] We observed that this reflected the ongoing effects of the Covid-19 pandemic, even though the reporting time frames had been extended.[64]

63 Only 42 of the 78 councils adopted their annual report on time in 2021/22, and 10 councils were more than five months late.

64 Legislation extending the reporting time frames was passed in May 2020. The extension applied to 2020/21 and 2021/22. See the Annual Reporting and Audit Time Frames Extensions Legislation Bill 53-1 (2021) at legislation.govt.nz.

5.6 For 2022/23, reporting time frames returned to normal. This was in accordance with the Local Government Act 2002,[65] which required the removal of the two-month extension put in place during the Covid-19 pandemic.

5.7 In 2022/23, 22 councils (28%) had their audit opinions signed after the reporting deadline, compared to 35 councils (45%) in 2021/22. Reasons for this included:

- resourcing constraints that councils experienced during the audit and that affected audit delivery and readiness;
- councils' capacity and capability affected by short-staffed teams;
- requests to the audit team to prioritise audits of long-term plans; and
- delays caused by third parties (such as valuers not being able to provide their valuation in time).

5.8 When we wrote this report, two councils were yet to complete their annual audits.[66]

5.9 Although timeliness of reporting remains an issue, it is improving. Most councils completed and adopted their annual reports in line with section 98(3) of the Local Government Act 2002. Figure 24 shows how many councils adopted their annual reports on time from 2018/19 to 2022/23.

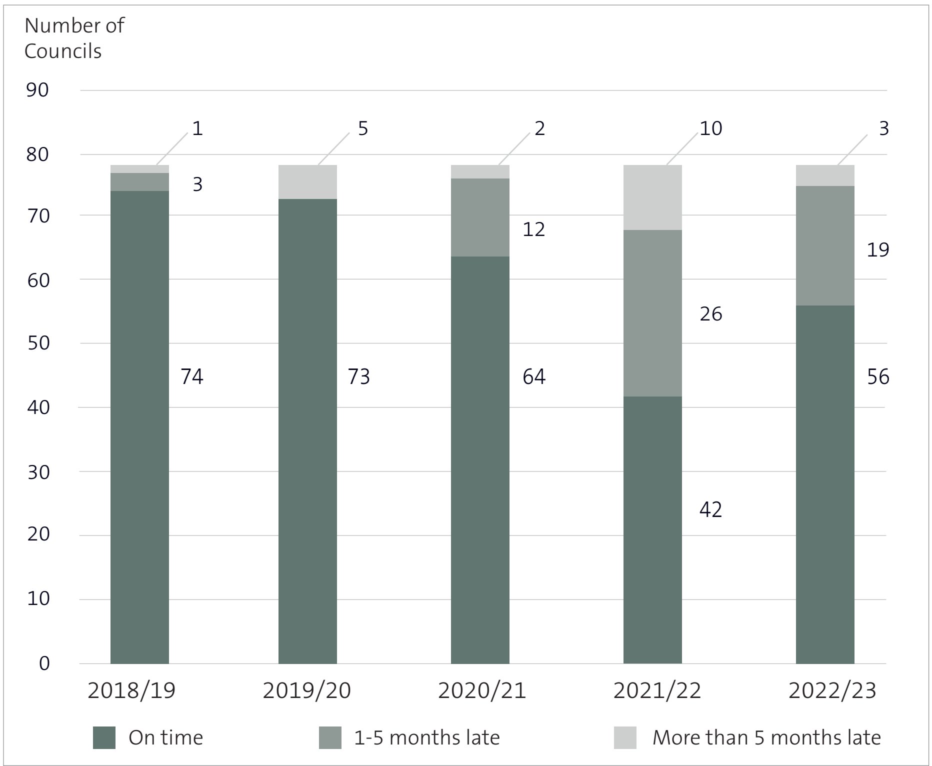
5.10 In 2022/23, 56 of the 78 councils adopted their annual report on time and 19 councils were one to five months late. This is an improvement on 2021/22, when 42 councils adopted their annual report on time and 26 councils were one to five months late.

5.11 In 2021/22, 76 councils (97%) made their annual reports publicly available within a month of adoption and 70 councils (89%) released their summary annual reports on time. In 2022/23, 71 councils (91%) made their annual reports publicly available within a month of adoption and 67 councils (85%) released their summary annual reports on time.

65 Section 98(3) of the Local Government Act 2002 states that each annual report must be completed and adopted by resolution within four months after the end of the financial year that it relates to. Section 98(4) of the Act states that a local authority must, within one month after adopting its annual report, make publicly available its annual report and a summary of the information in its annual report.

66 These are Buller District Council and West Coast Regional Council. The audit of Rotorua District Council was signed in May, and its annual report was made public in June 2024.

Figure 24
When councils adopted their annual reports, 2018/19 to 2022/23



Note: The statutory time frame was extended to 31 December for 2020/21 and 2021/22 because of the Covid-19 pandemic.

The types of audit reports we issued

5.12 In 2022/23, we issued audit reports for 76 councils' financial statements and performance information (compared to 78 in 2021/22).

5.13 An audit report will be either standard or non-standard.[67] A non-standard audit report is one that contains:

- a qualified audit opinion; and/or
- an "emphasis of matter" paragraph.

5.14 If a material aspect of a council's financial statements or performance information does not comply with accounting standards or the council cannot provide evidence to support that information, we issue a qualified audit opinion. A qualified audit opinion does not mean that the issue is pervasive; it just means that the auditor disagrees with a specific aspect of the audited information.

67 For a plain language explanation of audit opinions, see our blog post "The Kiwi guide to audit reports", at oag.parliament.nz.

5.15 We issued 22 qualified audit opinions on councils' financial statements and performance information for 2022/23.[68]

5.16 An auditor might also include an emphasis of matter paragraph in the audit report. An emphasis of matter paragraph does not mean that the auditor has found anything wrong.

5.17 Instead, the auditor is drawing attention to a matter or matters presented or disclosed that are of such importance that they are fundamental to the reader's understanding of the audited information. Paragraph 5.91 describes the emphasis of matter paragraphs we issued in 2022/23.

5.18 An audit report can contain one or more qualified audit opinions and/or one or more emphasis of matter paragraphs.

5.19 Figure 25 summarises the audit reports we issued to councils in 2021/22 and 2022/23.

Figure 25
The type of audit reports issued in 2021/22 and 2022/23

Type of audit report	2021/22	2022/23
Standard audit report	8	8
Unmodified audit opinion that included one or more emphasis of matter paragraphs	49	46
Qualified audit opinions	21	22
Total reports issued	78	76*

* When we wrote this report, the audits of the annual reports of Buller District Council and West Coast Regional Council were still in arrears.

5.20 In the last four years, we have seen a significant increase in the number of non-standard audit opinions. This highlights the increasingly complex and uncertain environment that councils operate in.

68 Six of the 22 councils that received qualified audit opinions had more than one modification.

Audits and the statement of service performance

5.21 The statement of service performance includes important information about the services a council provides to its community and what the council has achieved. A council's performance information should tell a coherent story about:

- the services it delivers and why it delivers them;
- the standards it is looking to meet in delivering those services; and
- what difference it intends to make for its community.

5.22 We often refer to the statement of service performance as non-financial performance reporting. Good quality non-financial performance reporting should provide enough information for a reader to determine what the council has achieved in the year and what the council needs to improve.

5.23 Twenty of the 22 qualified audit opinions we issued in 2022/23 related to the statement of service performance (compared to 17 in 2021/22). In our last three reports on local government audit results, most qualified audit opinions related to issues with councils' performance information.

5.24 As we have previously reported, the large number of qualified audit opinions on councils' service performance information indicates that many council performance reporting systems are not fit for purpose. Weaknesses in these systems make it challenging for councils to report on their performance completely and accurately, which could make communities lose confidence in their council's reporting.

5.25 We want to see councils improve their performance reporting systems so they are robust and produce reliable information. Without effective performance reporting systems, councils will find it difficult to clearly understand their performance and where they need to focus their resources to maintain appropriate levels of service.

5.26 Ineffective performance reporting systems also mean that councils are not clearly or accurately reporting their performance, which makes it difficult for their communities to hold them to account.

5.27 In January 2024, we published "Local government planning and reporting on performance". This guidance is intended to support local government to improve its performance reporting.

Performance reporting systems

5.28 For the past six years, Kaikōura District Council has not had reliable systems and processes to accurately report on more than a quarter of its performance measures.[69] In 2022/23, the Council made slight improvements. However, as in 2021/22, the Council could not report any performance information or reported incomplete performance information for three material measures.

Performance measures about three waters

5.29 The Secretary for Local Government sets rules for how councils report on their performance in providing drinking water, wastewater, and stormwater services. The Department of Internal Affairs has issued guidance to help councils apply these rules, including how to count complaints.

5.30 The mandatory performance measures include the total number of complaints (for every 1000 properties connected) that councils received about:

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

5.31 We identified issues with the information about these performance measures that 14 councils reported. The issues were with:

- the total number of complaints received for water supply, wastewater, and stormwater; and
- the quality of comparative year information about maintenance of the reticulation network for water supply.

5.32 We issued a qualified audit report to these councils for not meeting these reporting obligations.[70]

5.33 In 2021/22, we issued this qualified audit opinion to 13 councils. Two councils that received this qualified audit opinion in 2021/22 (Rangitīkei District Council and Southland District Council) have resolved the issue and did not receive a qualified opinion this year.

69 For the previous six years, the 2016 Kaikōura earthquakes impaired Kaikōura District Council's ability to measure and report against some of its performance measures. The Council's focus on emergency response and recovery has meant that it has not recorded information for management and external reporting purposes in a robust and reliable way.

70 These were Dunedin City Council, Hastings District Council, Horowhenua District Council, Hutt City Council, Napier City Council, Palmerston North City Council, Porirua City Council, South Taranaki District Council, Tararua District Council, Taupō District Council, Upper Hutt City Council, Wellington City Council, Whakatāne District Council, and Whanganui District Council.

5.34 We issued this qualified audit opinion to three additional councils (Napier City Council, Whakatāne District Council, and Whanganui District Council) for 2022/23. These councils had incomplete records of complaints, so we could not determine whether the results the councils reported for these performance measures were correct.

5.35 In 2021/22, Horowhenua District Council and Tararua District Council could not provide enough evidence about the number of complaints they received about water supply, wastewater, and stormwater services or their response. Both councils resolved the issue for 2022/23, but we still issued a qualified audit opinion because the current year performance information could not be directly compared to the reported 2021/22 information.

5.36 Four of the 14 councils that received qualified audit opinions are shareholders of Wellington Water Limited.[71] Those four councils used information from their own systems in combination with information provided by Wellington Water Limited to report the results for the performance measures. We could not gain assurance over the completeness and accuracy of the reported results.[72]

5.37 In 2021/22, we issued a qualified audit opinion to Porirua City Council, one of Wellington Water's shareholding councils. However, in 2022/23, the Council made significant efforts to improve the level of information that its new system recorded for water complaints. This meant that the Council's 2022/23 information was correct, but it still received a qualification on its comparative information for 2021/22.

5.38 We also issued qualified opinions to Hastings District Council and Napier City Council for other water-related measures.

5.39 Hastings District Council could not provide enough evidence for the water loss percentage it reported.[73] In 2021/22, the Council used alternative measurement techniques to measure water loss percentage. However, the Council could not confirm the accuracy of that measure.

5.40 Napier City Council was unable to accurately report on fault response times for each of the three waters services for 2021/22 and 2022/23.

71 These are Hutt City Council, Porirua City Council, Upper Hutt City Council, and Wellington City Council.

72 Six councils (Hutt City Council, Porirua City Council, Upper Hutt City Council, Wellington City Council, Greater Wellington Regional Council, and South Wairarapa District Council) are joint shareholders in Wellington Water Limited. A committee represented by a member of each shareholding council monitors the performance of 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.

73 Hastings District Council also had issues with the number of complaints for three waters services.

5.41 This is the third year we have issued multiple qualified audit opinions relating to the Department of Internal Affairs' mandatory performance measures. These measures are important because they make transparent the number of complaints from ratepayers about water services and the scale of the issues that are complained about.

5.42 These findings highlight the need for councils to invest in fit-for-purpose systems and controls to enable them to deliver consistent, high-quality critical lifeline services to their communities.

Greenhouse gas emissions

5.43 Councils are giving greater consideration to how their GHG emissions affect the climate. For example, councils are measuring and reporting on their GHG emissions. The 2022/23 audit results show that this trend continues. This is also evident in the increased number of emphasis of matter paragraphs we issued on this topic (see paragraphs 5.95-5.98).

5.44 Quantifying GHG emissions is subject to uncertainty. This is because the scientific knowledge and methodologies to determine emission factors and processes to calculate or estimate quantities of GHG sources are still evolving. GHG reporting and assurance standards are also evolving.

5.45 We issued qualified audit opinions about their reporting of GHG emissions to:

- Greater Wellington Regional Council;
- Upper Hutt City Council; and
- Wellington City Council.

5.46 Our audit of Greater Wellington Regional Council's GHG emissions was limited for 2021/22 and 2022/23. Specifically, we were concerned about uncertainties with the Council's measurement of CO_2 emissions generated from public transport services.

5.47 We issued qualified opinions in 2021/22 and 2022/23 because the Council did not provide enough evidence that its performance reporting was materially correct. This was because the Council was still developing the systems and controls needed to produce reliable evidence to support its measurement of GHG emissions.

5.48 In our 2022/23 audit report, we also drew attention to the inherent uncertainty in quantifying GHG emissions.

5.49 The uncertainty arises because the scientific knowledge and methodologies to determine the emissions factors and processes to calculate or estimate quantities of GHG sources are still evolving, as are GHG reporting and assurance standards.

5.50 Wellington City Council's performance information included a measure of the quantity of GHG emissions. The Council could not provide enough evidence to measure the GHG emissions associated with certain goods and services, including capital goods for the years ending 30 June 2022 and 30 June 2023.

5.51 In some instances, the Council used historical spend-based emission factors for measuring its GHG emissions. There was not enough evidence to show that those factors were still relevant. There was no other evidence to confirm that this was materially correct.

5.52 This meant that the scope of our audit was limited, and we issued a qualified audit opinion. We also drew attention to disclosures outlining the inherent uncertainty in the reported GHG emissions.

5.53 Upper Hutt City Council chose to include a measure of the quantity of GHG emissions in its performance information for 2022/23. This includes emissions that the Council generates directly and indirect emissions from the products and services that the Council uses.

5.54 In measuring the GHG emissions from certain goods and services purchased by the Council, including capital goods, the Council relied on spend-based emissions factors based on 2007 data. There is not enough evidence to show that these factors are relevant for measuring the Council's GHG emissions for the year ended 30 June 2023.

5.55 We were unable to get enough alternative evidence to conclude that the reported performance is materially correct. Without further modifying our opinion, we also drew attention to the inherent uncertainty of GHG disclosures.

5.56 For all three councils, we considered their performance measures on GHG emissions to be material because the councils have declared a climate emergency and because of the public interest in information about climate change.

5.57 We are currently carrying out a performance audit that looks at how well councils are implementing climate change actions. We expect our findings will support councils to engage more effectively with their communities about their climate change actions.

5.58 See Part 3 for more information about GHG reporting.

Applications for building consents

5.59 Councils have a statutory requirement to process most building consent applications within 20 working days. There is guidance on how the days should be counted.[74]

5.60 This timeliness requirement can indicate a council's effectiveness in responding to growth. This is because the timely processing of building consent applications indicates how responsive councils are to an increasing demand for infrastructure.

5.61 The two councils that received a qualified audit opinion for 2021/22 also received a qualified audit opinion for 2022/23.

5.62 Dunedin City Council received a qualified audit opinion for 2021/22. The Council had not been counting days taken to process building consent applications in accordance with the guidance. For 2022/23, we could determine that the Council had resolved the issue.

5.63 However, the Council had not recalculated the 2021/22 comparative year information for the timeliness of processing building consent applications (in keeping with the guidance). Therefore, our comparative year work was limited, and we had to issue a qualified audit opinion.

5.64 Manawatū District Council also received a qualified audit opinion for processing building and resource consent applications within statutory time frames for 2022/23 and 2021/22.

5.65 The sample of consent applications we looked at had recorded processing times that were inconsistent with the information Manawatū District Council had to support the consent applications. The extent of the inaccuracies meant that we could not determine whether the Council's reported results for these two measures were materially correct.

Smooth travel exposure

5.66 Smooth travel exposure is a mandatory performance measure under the Non-Financial Performance Measures Rules 2013 set by the Secretary for Local Government.[75] It measures the smoothness of driving on local roads, as indicated by the percentage of vehicle travel on roads that is below a defined roughness threshold.

74 The Ministry of Business, Innovation and Employment has issued guidance to help councils in applying regulation 7 of the Building (Accreditation of Building Consent Authorities) Regulations 2006, including how to count the number of days for processing.

75 This is performance measure 2 (road condition). See the "Local Government Policy" section on the Department of Internal Affairs website, at dia.govt.nz.

5.67 All local councils are required to report on smooth travel exposure in their annual report. In 2022/23, we issued a qualified audit opinion to three councils for their smooth travel exposure performance measures.

5.68 For Dunedin City Council, we could not get assurance over the accuracy of the performance measure on smooth travel exposure for 2022/23. During our audit, we found that the average daily traffic count and vehicle kilometres travelled data entered into the Council's road assessment and maintenance management database differed from the source data that the Council's independent contractor supplied.

5.69 The Council could not explain why these were different. As a result, our work was limited, and there were no practicable audit procedures we could apply to get assurance over the accuracy of smooth travel exposure reported against the performance measure.

5.70 For Invercargill City Council, our audit was limited because we could not get enough audit evidence of the performance measure for the accuracy of smooth travel exposure. The Council did not maintain an accurate record of the traffic count data used to calculate it.

5.71 Because the Council could not provide enough audit evidence for a material performance measure and the possible effects of the misstatements could be material, we issued a qualified audit opinion.

5.72 Palmerston North City Council had not carried out a road smoothness survey within the last two years. As a result, this was the third consecutive year that the Council used outdated road smoothness survey results, and we issued a qualified audit opinion.

Residents survey

5.73 Carterton District Council's performance framework includes several performance measures that are based on satisfaction surveys completed by residents in the district. The Council decided not to carry out its resident satisfaction surveys for 2022/23. Instead, it reported results from the previous year's survey, with a disclosure explaining why it had not carried out the surveys.

5.74 Carterton has 12 resident satisfaction survey measures. We do not consider that any of these measures are material individually. However, the cumulative impact of not meeting these measures is material.

5.75 Because of this, Carterton District Council's performance information was limited. We issued a qualified audit opinion because actual levels of resident satisfaction might differ from those reported. Resident satisfaction is an important part of the Council's performance information because it indicates the quality of the services provided to residents.

Audits and the financial statements

5.76 Seven councils received qualified audit opinions on asset valuation aspects of their financial statements. They were:

- Dunedin City Council;
- Hawke's Bay Regional Council;
- Invercargill City Council;
- Kaikōura District Council;
- Napier City Council;
- Marlborough District Council; and
- Waitaki District Council.

Qualified audit opinions because of asset valuations

5.77 Asset valuations are a critical part of effective and efficient asset management. Asset valuations reflect the actual cost to renew and replace assets. They assist councils in assessing the condition and performance of their assets to inform their planning for repairing and replacing community-funded assets.

5.78 Accounting standards require councils that measure assets at fair value to carry out revaluations on a regular basis to ensure that revalued assets are not included at a value that is materially different to their fair value.

5.79 Revaluations also provide councils with more realistic costs for delivering services. This keeps councils accountable to their communities for their financial decisions and resource management.

5.80 Asset valuations can directly affect the accuracy of a council's balance sheet and its ability to provision accurately for service costs and the future needs of its community. Councils have assets that are worth a significant amount of money, and an inaccurate asset valuation can result in a material misstatement of a council's financial statements.

5.81 For Hawke's Bay Regional Council, our audit was limited because of the valuation and impairment of infrastructure assets that were damaged by Cyclone Gabrielle. The Council and Group's infrastructure asset valuations were based on an external valuation done in 2020.

5.82 The Council and Group recognised an impairment on the stop banks infrastructure assets based on the amount of repair costs incurred up to 31 August 2023 after Cyclone Gabrielle. As a result of the damage and the method the Council and Group used to calculate the impairment and market changes since the last valuation, the fair value of the infrastructure assets could differ significantly from their recorded carrying value. For these reasons, we could not get enough audit evidence of the fair value of the assets as at 30 June 2023.

5.83 We issued Napier City Council and Waitaki District Council with similar qualified audit opinions. This was because (based on an analysis of relevant indices and advice to the councils from independent expert valuers) there was evidence that there could be a material change in the fair value of their water supply, wastewater, and stormwater assets, operational land and buildings, and, for Waitaki District Council, roading.

5.84 In 2020/21, we issued Kaikōura District Council and Invercargill City Council with similar qualified audit opinions to Napier City Council and Waitaki District Council. Both councils received qualified audit opinions on their comparative 2021/22 information.

5.85 We issued these councils with a qualified audit opinion in 2020/21 because, based on an analysis of relevant indices, there was evidence that there could be a material change in assets that had not been revalued. Because we did not know whether the 2020/21 balances were accurate, it was impracticable for us to determine the amount of the adjustment required.

5.86 Any subsequent misstatement of the carrying value from 2020/21 would consequently affect the revaluation in 2021/22. This meant we could not get enough audit evidence to support the comparative asset revaluation movement recognised in the 2022/23 financial statements, and we issued a qualified audit opinion.

5.87 Marlborough District Council revalued its water supply, wastewater, and stormwater assets as at 30 June 2022. In the previous year, there was evidence that the Council's methodology to revalue its three waters infrastructure assets as at 30 June 2022 might have resulted in the valuation being based on unit rates that did not appropriately reflect the current contract rates incurred by the Council for renewal of three waters assets.

5.88 The scope of our audit was limited, and it was impracticable to determine the amount of any adjustment that might be needed. This matter remained unresolved as at 30 June 2023.

5.89 We also issued Dunedin City Council with a qualified audit opinion on its financial statements because of a qualification on the 2021/22 comparative year information. In 2021/22, there was some evidence that the Council's methodology might have resulted in the valuation being based on replacement costs that were significantly lower than they should have been.

5.90 The Council revalued its three waters infrastructure at 30 June 2022. We got enough evidence for this valuation. However, any misstatement from 2020/21 would affect the revaluation in the statement of comprehensive revenue and expense for the comparative year ended 30 June 2022.

Emphasis of matter paragraphs

5.91 Of the 76 audit opinions we issued to councils in 2022/23, 67 (88%) included one or more emphasis of matter paragraphs. This is compared to 69 (88%) of the 78 audit opinions issued to councils in 2021/22. We include emphasis of matter paragraphs in audit reports to draw readers' attention to a disclosed matter that is fundamental to the readers' understanding.

Three Waters Reform Programme

5.92 In April 2023, the then Government proposed amendments to the Affordable Waters Reform, previously known as the Three Waters Reform.[76] The key change was an increase in publicly owned water service entities from four to 10.

5.93 The water service entities' establishment dates were to be staggered, with all the water services entities intending to become operational between 1 July 2024 and 1 July 2026. However, the change in government has added uncertainty because the new Government repealed the water services reform legislation and replaced it with new proposals.

5.94 In response to these factors, we included an emphasis of matter paragraph in 64 councils' audit reports that highlighted the uncertainties about the unknown establishment date of the water service entities and the transfers of assets and other matters. In 2021/22, we included a similar emphasis of matter paragraph in 67 councils' audit reports.

76 Department of Internal Affairs (2024), "About the Water Services Reform Programme", at dia.govt.nz.

Inherent uncertainties in the measurement of greenhouse gas emissions

5.95 In 2022/23, we issued nine emphasis of matter paragraphs because of the inherent uncertainties in the measurement of GHG emissions (compared to four in 2021/22).

5.96 The councils that chose to include GHG measures in their performance information were:

- Auckland Council;
- Bay of Plenty Regional Council;
- Central Otago District Council;
- Hawke's Bay Regional Council;
- Hutt City Council;
- Palmerston North City Council;
- Queenstown Lakes District Council;
- South Taranaki; and
- Waikato District Council.

5.97 In 2021/22, we issued Auckland Council, Hawke's Bay Regional Council, Palmerston North City Council, and Hutt City Council with an emphasis of matter paragraph related to GHG emissions.[77]

5.98 Considering the public interest in climate change information, we drew attention to disclosures outlining the uncertainty in the reported emissions. Quantifying GHG emissions is subject to inherent uncertainty because the scientific knowledge and methodologies to determine the emissions factors and processes to calculate or estimate quantities of GHG are still evolving, as are GHG reporting and assurance standards.

Uncertainties in the fair value of CentrePort Limited shares

5.99 For Manawatū-Wanganui Regional Council (Horizons), we drew attention to disclosures outlining the uncertainties over the estimation of the fair value of CentrePort Limited shares. The assumptions underpinning the valuation are sensitive to change. In 2021/22, we also drew attention to disclosures outlining the uncertainties about the estimation of the value of CentrePort Limited shares.[78]

77 Controller and Auditor-General (2023), "Results of the 2021/22 council audits", at oag.parliament.nz.

78 Controller and Auditor-General (2023), "Results of the 2021/22 council audits", at oag.parliament.nz.

Severe weather events

5.100 For Auckland Council and Nelson City Council, we drew attention to the uncertainty of the financial impact of the cost-sharing agreements with the government to co-fund the costs of recovery from the severe weather events in early 2023. Both councils agreed to consult publicly on cost-sharing arrangements with the government.

Key audit matters

5.101 The auditor of Auckland Council is required to report on "key audit matters" because Auckland Council is a Financial Markets Conduct Act 2013 reporting entity.

5.102 Key audit matters are matters that are 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 help readers understand the main matters that drew the auditor's attention.

5.103 The audit report for Auckland Council included the following key audit matters:

- valuation of property, plant, and equipment;
- valuation of weathertightness issues and associated building defect claims provision;
- valuation of derivatives; and
- reporting performance information about the Council's stormwater network.

Appendix
Subsectors and Tier 1 councils

Subsectors

We use the following five subsectors for our analysis in this report. We consider Auckland Council as its own subsector because of its size, and we group the other unitary authorities in their respective provincial or rural subsectors.

The following tables list the councils that make up each subsector.

Auckland
Auckland Council

Metropolitan		
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	Whangārei District Council	

Provincial		
Ashburton District Council	Central Otago District Council	Far North District Council
Gisborne District Council	Hastings District Council	Horowhenua District Council
Invercargill City Council	Kaipara District Council	Kāpiti Coast District Council
Manawatū District Council	Marlborough District Council	Masterton District Council
Matamata-Piako District Council	Napier City Council	Nelson City Council

Provincial (continued)		
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
Waipā District Council	Waitaki District Council	Western Bay of Plenty District Council
Whakatāne District Council	Whanganui District Council	

Rural		
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		
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	

Tier 1 councils

There are 18 Tier 1 councils. These councils are defined as "Tier 1 local authorities" under the National Policy Statement on Urban Development 2020, which came into effect on 20 August 2020.[79] The National Policy Statement categorises all urban environments into three tiers, based on their population size and growth rates. Tier 1 urban environments are high growth areas.

The following table lists the councils that are defined as Tier 1 local authorities.

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, Kāpiti Coast District Council
Christchurch	Environment Canterbury, Christchurch City Council, Selwyn District Council, Waimakariri District Council

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

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