Controller and Auditor-General
Tumuaki o te Mana Arotake

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Observations from our audits of councils' 2024-34 long-term plans

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Observations from our audits of councils' 2024-34 long-term plans

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February 2025

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Deputy Auditor-General's overview

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

Long-term plans play a fundamental part in ensuring that councils are accountable to the communities they serve. Long-term planning also enables communities to have input into decisions councils make about the future.

Councils use long-term plans to set out how they intend to provide services and maintain and renew assets, how much these activities will cost, and how they will be funded – usually through a combination of rates, central government funding, and debt.

As part of the long-term planning process, councils must determine the proportion of their planned expenditure that will be funded by rates. Long-term plans must be adopted before councils are able to set rates. If there are material errors in a long-term plan, the rates a council charges to its community could be wrong.

Councils' planned rates increases in the 2024-34 long-term plans are significantly higher than in previous long-term plans. In our view, it is more critical than ever that the assumptions underlying long-term plans are supported by evidence and form an appropriate basis for calculating the rates charged to communities.

Our audits of long-term plans provide a vital role in ensuring that the information and assumptions that councils have used are reasonable and supportable. Auditors test the assumptions and underlying information that long-term plans are based on. In doing so, we often identify errors or other matters that are corrected before the long-term plan is adopted. This helps to ensure the accuracy of the information underlying long-term plans.

Audits provide independent assurance to each community, as well as Parliament and the wider public, which in turn supports the validity of rates decisions made by councils. Without this independent view, it would be difficult for communities to know whether they could rely on their council's long-term planning and how it will affect them.

In this report, we discuss 32 consultation documents and 58 long-term plans that were audited between June and October 2024. We will report later this year on councils that chose to defer adopting their long-term plans until June 2025.

Councils undertook their long-term planning during significant uncertainty about how water services will be owned, managed, and provided, how transport and roading would be funded, how the Local Government Act 2002 may change, and how they would be affected by policies for improving funding and financing for infrastructure, replacement legislation for the Resource Management At 1991, and a framework for "Regional Deals".

Despite the uncertainty, most councils were able to meet legislative requirements and time frames. This is a significant achievement.

The uncertain operating environment for councils was reflected in our audit opinions. Of the 58 long-term plans we audited, 40 (69%) of our audit reports included emphasis of matter paragraphs or qualified audit opinions drawing attention to uncertainties in the councils' long-term plans.

Two councils, Palmerston North City Council and Chatham Islands Council, received adverse audit opinions. An adverse audit opinion is rare. It means that in our view, the information and assumptions underlying these plans were not reasonable. This is the second consecutive time that Palmerston North City Council has received an adverse opinion for its long-term plan.

Twelve councils received a qualified audit opinion where we drew attention to uncertainties that were fundamental to their long-term plans. There were material uncertainties in council assumptions about:

- central government funding, such as transport and infrastructure projects;
- the delivery of capital programmes;
- forecast cost-savings; and
- risks associated with plans to defer three waters asset renewals outside of the long-term planning period.

We used emphasis of matter paragraphs to draw attention to common areas of uncertainty in 28 long-term plans. These matters included uncertainty about government funding (particularly for local transport projects), the risks to the delivery of capital programmes, and forecasts for renewing three waters infrastructure.

In the 2024-34 long-term plans, councils describe the significant cost pressures they have experienced in recent years. Inflation and interest rates have increased costs, and population growth in some areas has increased the demand for councils' services. At the same time, many councils are addressing the consequences of many years of underinvestment in infrastructure.

To meet these cost pressures, councils are planning to increase rates – much higher than forecast inflation – and to borrow at historically high levels. In the first year of the 2024-34 long-terms plans, rates are planned to, on average, increase by more than 10%. In total, rates revenue is forecast to increase from $8.8 billion in 2024/25 to $15.6 billion in 2033/34.

Total debt for the 58 councils is forecast to reach a peak of $50.9 billion in 2032. Some councils are close to the Local Government Funding Agency borrowing limits in place at the time of our audits (the Local Government Funding Agency recently announced that it is increasing its debt limit for high-growth councils). Other councils are forecasting that they will be close to or exceed the debt limits they have set themselves.

Although high-growth councils may be able to extend borrowing under the new limits, there are risks that some councils will not have the headroom to borrow in response to unexpected events, such as severe weather or other natural disasters.

Special purpose vehicles, arranged through the Infrastructure Funding and Financing Act (2020), provide councils with another means of financing infrastructure. Under these arrangements, councils can raise debt for specific infrastructure projects that does not sit on the council's balance sheet. Councils can then target rates to those residents who benefit from the infrastructure. However, only two councils – Wellington City Council and Tauranga City Council – are currently using this mechanism. We have heard from councils that setting up these arrangements can be complex and take considerable time.

The 58 councils included in this report plan to spend $91.9 billion on assets over the next 10 years (a 34% increase on the 2021-31 long-term plans). Of this, $39.5 billion is planned to be spent on renewing assets.

Councils are planning renewals expenditure to be, on average, 85% of forecast depreciation. This is an improvement to the 82% forecast in the 2021-31 long-term plans. However, with renewals expenditure still well below forecast depreciation, questions remain about whether councils are planning to reinvest enough in their assets to maintain levels of service.

There are also significant risks that councils will not be able to deliver all their planned investment. Historically, we have found that councils have not delivered their capital programmes. In 2021/22, councils spent 76% of the $7.68 billion that they had budgeted for capital expenditure. This improved in 2022/23, when councils spent 94% of the $7.5 billion that they had budgeted. However, the context of a tight labour market in the construction industry and associated cost inflation is likely to exacerbate risks to the delivery of capital programmes. We drew attention to these risks in 14 of our audit opinions.

Long-term plans are often large documents that include a significant amount of information which can be complex to the lay reader. This can make it hard for communities to access and understand the information most important to them. In previous reports, we recommended that the Department of Internal Affairs and the local government sector review the required content for long-term plans so that they focus on what matters most to communities. This would, in our view, add value to the process and reduce the investment required to both prepare and audit these documents.

New Zealand faces a wide range of long-term challenges, including adapting to the effects of climate change, changes in demographics, tackling persistent inequity, and addressing the consequences of underinvestment in infrastructure.

Councils have been required to produce 10-year long-term plans for their communities since 2006. Over that time, while some issues have persisted (such as the need for more reinvestment in infrastructure), we have seen significant improvements in asset planning, financial strategies, and engagement with communities.

Many of the issues facing the public sector require long-term responses from both local and central government. The lack of requirements for comparable long-term planning for central government agencies seems to me to be an important gap for central government to address.

We plan to publish further observations from our audits of long-term plans later this year, including those of councils that chose to defer adopting their long-term plans until 30 June 2025. We will include information about how councils are factoring climate change risks into their long-term plans and what councils know about the condition and performance of their most critical assets.

I acknowledge the dedication, time, and effort that elected members and council officers and staff put into preparing the 2024-34 long-term plans. I also acknowledge my auditors and staff in the wider office who supported our audits.

Nāku noa, nā

Andrew McConnell
Deputy Auditor-General

14 February 2025

The 2024-34 long-term plans at a glance

Financial forecasts from the long-term plans

Revenue to increase by **47%**

$18.7b 2024/25 | $27.4b 2033/34

Operating expenditure to increase by **43%**

$16.2b 2024/25 | $23.2b 2033/34

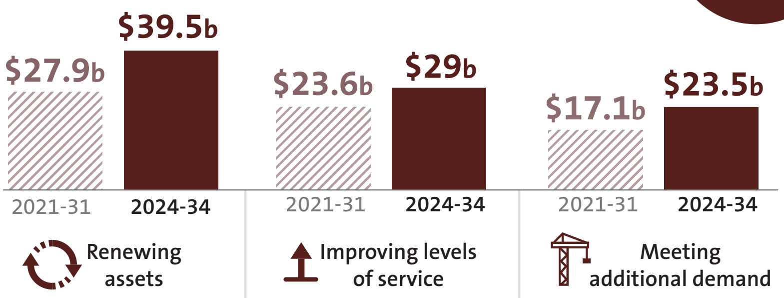
Debt to increase

$32.4b 2024/25 | $50b 2033/34

Forecast capital expenditure

Councils propose to spend 34% more on their assets during 2024-34 than they proposed in their 2021-31 long-term plans.

$91.9b 2024-34



Comparisons between the 2021-31 and 2024-34 long-term plans are between the same 58 councils that completed the 2024-34 long-term plans.

We looked at ...

32 consultation documents

- 10 unmodified opinions
- 19 included emphasis of matter paragraphs
- 3 qualified audit opinions

58 long-term plans

- 16 unmodified opinions
- 28 included emphasis of matter paragraphs
- 12 qualified audit opinions
- 2 adverse audit opinions

Timeliness

1 regional council and **1 district council** adopted their plans a month after deadline.

12 councils deferred adopting their plans by a year.

8 cyclone-affected councils prepared three-year unaudited plans instead.

1 Our audits of councils' 2024-34 long-term plans

1.1 Long-term planning has been a feature of local government in New Zealand for many years. Since 2006, the Local Government Act 2002 has required councils to produce 10-year long-term plans for their communities every three years.

1.2 This report describes the audit results and trends from the 58 long-term plans that councils adopted between June and October 2024.

1.3 The 2024-34 long-term plans show that councils are planning to increase their investment in infrastructure. Councils are also responding to cost pressures by planning to increase rates at higher levels than in previous years and to increase borrowing to fund capital expenditure.

1.4 Twelve councils took the option to defer adopting their long-term plans by a year. Another eight councils that had been affected by severe weather events were not required to prepare 10-year audited long-term plans, and prepared unaudited three-year plans instead.

1.5 Later in 2025, we will provide further analysis of our observations from our long-term plan audits, including for the councils that chose to defer adopting their long-term plans until 30 June 2025.

Why do councils prepare long-term plans?

1.6 Long-term plans describe how councils plan to deliver services to their communities, the outcomes those services will contribute to, how much they are expected to cost, and how they will be paid for.[1]

1.7 Councils have significant powers. They also have an important role in providing the everyday services that New Zealanders rely on, such as supplying drinking water, removing and treating wastewater, and maintaining local roads. These services are underpinned by infrastructure (such as water treatment plants), which require significant capital investment to replace and are expensive to maintain.

1.8 Councils also own and operate community and recreational facilities such as swimming pools, sports grounds, and libraries.

1.9 Long-term plans provide information about the decisions and trade-offs that councils need to make on their communities' behalf and enable communities to hold councils to account for these decisions. The consultation documents for long-term plans provide a basis for councils to seek their communities' input into how they will pay for council services and functions.

1 Section 93(6) of the Local Government Act 2002 sets out what long-term plans are required to include.

1.10 Long-term plans also provide transparency about the rates people can expect to pay, the levels of service they can expect to receive, and how councils plan to respond to future challenges such as changes in population and the effects of climate change.

Our audit work on long-term plans

1.11 Audits of long-term plans include assessing the evidence that councils have used to support the information and disclosures in their long-term plans. We check that the policies councils propose are appropriately reflected in the forecasts they have prepared. In effect, we check whether councils' forecasts are consistent with what they say they will do.

1.12 When auditing long-term plans, our auditors often identify errors or other matters that are corrected before the plan is adopted. This helps to ensure the accuracy of the information underlying long-term plans.

1.13 Our audit opinions on long-term plans provide communities with independent assurance that their council's long-term plan meets its statutory purpose and is based on reasonable and supportable information and assumptions.

1.14 Audit assurance supports communities to have trust and confidence in how their councils are planning for the future. Without this independent view, it would be difficult for communities to know whether they could rely on their council's long-term planning and fully understand how it would affect them – such as the amount they can expect to pay in rates, and the levels and types of service they will receive.

1.15 We last reported on councils' long-term plans in 2022 (for 2021-31). We reported then that:

- councils were taking steps to address historical underinvestment in infrastructure, with a focus on investing in three waters assets (drinking water, wastewater, and stormwater);
- many councils were collecting better information about the condition and performance of their assets;
- to fund increasing costs, councils were setting rates at a higher level than many had previously;
- councils were providing more discussion about the effects of climate change and what they were doing to adapt to and mitigate risks from climate change; and
- significant reforms in three waters and the Resource Management Act (1991) meant that councils were planning in a context of uncertainty.

The context for councils' 2024-34 long-term plans

1.16 In 2024, councils' preparation of their long-term plans was affected by the severe weather events of 2022 and 2023 and by announcements about changes to how water services would be managed and provided.

1.17 Eight councils that were affected by Cyclone Gabrielle and other significant weather events in 2022 and 2023 were exempt from the Local Government Act's requirement to prepare an audited 10-year long-term plan. Instead, they were required to prepare unaudited three-year plans.[2]

1.18 In February 2024, the Government introduced and passed legislation to repeal all water services entities legislation. The Water Services Acts Repeal Act 2024 repealed the Water Services Entities Act 2022, the Water Services Legislation Act 2023, and the Water Services Economic Efficiency and Consumer Protection Act 2023.[3]

1.19 The Act reinstated previous legislation about providing water services (including local government legislation). This continued councils' ownership and control of water services and their responsibility for providing those services.

1.20 The Act included some transitional support options to help councils complete their long-term plans, depending on their local needs and circumstances. These options meant councils could choose whether to have their consultation documents audited and when to adopt their audited long-term plans.[4]

1.21 Some councils could choose to:

- have their long-term plans audited and adopted by 30 June 2024 (these councils could choose not to have their consultation documents audited);
- defer the audit and adoption of their long-term plans by three months to 30 September 2024 (these councils could also choose not to have their consultation documents audited); or
- defer the audit and adoption of their long-term plans by one year to 30 June 2025 (these councils are required to have their consultation documents audited).[5]

1.22 Twelve councils decided to defer adopting their long-term plans until 30 June 2025.

2 See clause 5 of the Severe Weather Emergency Recovery (Local Government Act 2002 – Long-term Plan) Order 2023. The affected councils were Central Hawke's Bay District Council, Far North District Council, Gisborne District Council, Hastings District Council, Hawke's Bay Regional Council, Kaipara District Council, Napier City Council, and Wairoa District Council.

3 See "Local Water Done Well legislation" at dia.govt.nz.

4 Tauranga City Council's Consultation Document was audited before the repeal was enacted.

5 These options were not available to the eight cyclone-affected councils, the Chatham Islands Council, or regional councils (except for Greater Wellington Regional Council). See section 42 of the Water Services Acts Repeal Act 2024.

1.23 Of the 58 long-term plans that were adopted by 31 October 2024:

- Thirty-two councils had their consultation documents audited;
- Thirty-six councils adopted their long-term plans by 30 June 2024;
- One regional council breached the 30 June 2024 statutory deadline and adopted its long-term plan in July 2024;
- Twenty councils adopted their long-term plans between 1 July and 30 September 2024; and
- One district council breached the 30 September statutory deadline for three-month deferrals and adopted its long-term plan in October 2024.

The 2024-34 long-term plans were prepared during significant uncertainty

1.24 When councils prepared their long-term plans, government policies and funding decisions were changing. This affected some of the assumptions the long-term plans were based on.

1.25 Our audit reports for both consultation documents and long-term plans reflected some of the uncertainty that councils faced. Despite the level of change and uncertainty, most councils were able to prepare long-term plans that met legislative requirements and were based on reasonable underlying assumptions and information.

1.26 The Government's Policy Statement on Land Transport was still being drafted when many councils were preparing their consultation documents and long-term plans. The final policy statement was released on 7 June 2024, and the National Land Transport Programme was published on 9 September 2024.

1.27 This meant that councils had to estimate the amount of funding they would receive for local transport projects from the New Zealand Transport Agency Waka Kotahi. Some councils had to make late changes to their long-term plans because the final funding amounts differed significantly from the amounts they had estimated. Our audit opinion reflected where councils had not made the required changes or where there was significant uncertainty.

1.28 The Water Services Acts Repeal Act 2024 was followed by the Local Government (Water Services Preliminary Arrangements) Act 2024. This set up the Local Water Done Well framework and the preliminary arrangements for the new water services system. The Local Government (Water Services Preliminary Arrangements) Act 2024 requires councils to prepare Water Services Delivery Plans by 3 September 2025.

1.29 The Local Government (Water Services) Bill 2024 was introduced in December 2024. The Bill sets out arrangements for the water services delivery and regulatory systems. The Bill provides new water services delivery models for councils to choose from, including new water organisations owned by councils.[6]

1.30 This legislation may require councils to amend the parts of their long-term plans that relate to how they manage their water services assets and provide water services.

1.31 The Government has started several programmes of work that will have significant implications for councils. These include:

- proposed changes to the Local Government Act 2002 (including the intention to remove the four well-being provisions);
- policies for improving funding and financing for infrastructure;
- replacement legislation for the Resource Management Act 1991;
- the "going for housing growth" policy; and
- a framework for "Regional Deals".[7]

Our audit reports of consultation documents acknowledged this uncertainty

1.32 We audited the consultation documents of 32 councils.

1.33 Consultation documents are meant to provide an effective basis for the public to participate in councils' decision-making processes about their long-term planning. Consultation documents should:

- explain the overall objectives of what the council is proposing to include in its long-term plan;
- explain how what the council is proposing to include in its long-term plan will affect rates, debt, and levels of service in a way that the community can readily understand;
- identify and explain to the community significant issues and choices facing the council and the consequences of those choices; and
- inform discussions between the council and its community about what the council is proposing to include in its long-term plan.[8]

1.34 Figure 1 summarises our audit opinions on councils' consultation documents. We provided 10 councils with an unmodified audit opinion on their consultation

6 See "Local Water Done Well legislation" at dia.govt.nz.

7 Regional Deals is a framework for setting up long-term agreements between central and local government. The agreements provide councils with funding opportunities and resources to make improvements in their region, such as to roads and infrastructure.

8 See section 93b of the Local Government Act 2002.

documents.[9] This means that, in our opinion, the documents provided an effective basis for the public to participate in the councils' decisions about the proposed content of the 2024-34 long-term plans and that there were no matters that we needed to draw the readers' attention to.

1.35 We included "emphasis of matter" paragraphs in the audit reports of 19 council consultation documents to draw attention to aspects of those documents. The most common issues we drew attention to were uncertainty about:

- central government funding for transport and infrastructure projects;
- the delivery of capital expenditure programmes; and
- three waters renewals forecasts – including relying on information based on an asset's age (rather than on its condition or performance).

Figure 1
The type of audit reports we issued on councils' 2024-34 consultation documents, compared with their 2021-31 consultation documents

Audit reports issued	2021-31	Percentage	2024-34	Percentage
Adverse opinion	1	1%	0	0%
Qualified audit opinion	10	13%	3	9%
Unmodified audit opinion that included an emphasis of matter paragraph	60	77%	19	59%
Unmodified audit opinion that included an "other matter" paragraph	0	0%	0	0%
Unmodified audit opinion	7	9%	10	32%
Number of audit reports	**78**	**100%**	**32**	**100%**

1.36 We provided three councils with a qualified audit opinion for their consultation documents. They were West Coast Regional Council, Environment Southland, and Chatham Islands Council.

1.37 West Coast Regional Council's consultation document included plans to improve Westport's flood resilience in the first three years of its long-term plan. The Council assumed that it would have the in-house capacity it needed, that it would have the ability to source appropriate external contractors, and that it would obtain the required resource consents to complete the project within planned time frames.

1.38 Because the Council had not completed the design phase for the full project, we did not consider that these assumptions were reasonable. When the Council prepared its consultation document, it was also preparing the tender and

9 The Appendix explains the different types of opinions we include in audit reports.

resource consent applications for the initial two stages of the project. It was less progressed for all the other stages.

1.39 Because of these matters, the Council might need to adjust its plans if the project is delayed. We were unable to quantify the possible effects that delays could have on the information underlying the consultation document.

1.40 We were also unable to quantify the possible effects that unidentified climate risks could have on the information underlying the Council's consultation document. This is because the Council had not used evidence-based data to consider whether it had identified all the climate risks that it faces.

1.41 Environment Southland's consultation document included an assumption that the government would fund 75% of the $180 million cost of improvements to flood protection infrastructure. We concluded that this assumption was unreasonable because government funding had not been confirmed.

1.42 If the government does not provide funding, or provides less funding, the Council will need to reassess how to proceed with the improvements that it has planned.

1.43 Chatham Islands Council's consultation document included an assumption that future government financial support will be based on 2023/24 government funding plus an annual inflationary adjustment totalling $7 million during the 10-year period of the long-term plan. The consultation document also included an assumption that the Council would make cost savings of $1.8 million.

1.44 We concluded that these assumptions were unreasonable because the amount of government support had not yet been confirmed and there is no history of the government annually adjusting support for inflation. The Council had also not identified how it would make additional cost savings.

Many of our audit reports on long-term plans reflected uncertainty in key assumptions

1.45 Figure 2 sets out the types of audit opinions we issued on councils' long-term plans. We provided 44 councils with an unmodified audit opinion on their long-term plan.

1.46 We included emphasis of matter paragraphs in the audit opinions on 28 long-term plans. The common issues we drew attention to were uncertainty about:

- central government funding for transport and infrastructure projects;
- capital programme delivery;
- forecast cost savings;

- unbalanced budgets;[10] and
- risks associated with councils almost reaching debt limits.

Figure 2
Type of audit reports issued on councils' 2024-34 long-term plans, compared with 2021-31 long-term plans

Audit report issued	2021-31	Percentage	2024-34	Percentage
Adverse opinion	2	2%	2	3%
Qualified audit opinion	9	12%	12	21%
Unmodified audit opinion that included an emphasis of matter paragraph	63	81%	28	48%
Unmodified audit opinion	4	5%	16	28%
Number of audit reports	**78**	**100%**	**58**	**100%**

1.47 For Auckland Council, we also noted uncertainty about storm recovery funding arrangements, costs related to the City Rail Link Project, returns on the proposed Auckland Future Fund, and the impact of the Local Government (Water Services Preliminary Arrangements) Bill.

1.48 We provided 12 councils with a qualified audit opinion on their long-term plans. The common reasons we provided a qualified audit opinion were uncertainty about:

- central government funding, such as transport and infrastructure projects;
- the delivery of capital programmes;
- forecast cost-savings; and
- risks associated with plans to defer three water asset renewals outside of the long-term planning period.

1.49 We provided two councils with adverse opinions on their long-term plans. These were Chatham Islands Council and Palmerston North City Council.

1.50 An adverse audit opinion is quite rare. It indicates that the underlying information and assumptions in the long-term plan were unreasonable. This means that, in our view, the long-term plans of these councils do not provide an effective basis for their long-term decision-making, co-ordination of their resources, and accountability to their communities.

10 The Local Government Act 2002 requires a council to budget operating revenue that meets planned operating expenses for each year of the plan unless, after considering certain matters set out in the Act, the council resolves that it is financially prudent to budget less operating revenue.

1.51 Chatham Islands Council's adverse opinion was due to unreasonable assumptions about central government support and cost savings. The assumptions leading to the qualified audit opinion of its consultation document were reflected in its final long-term plan. Because of the significance of these matters, we concluded that the information and assumptions underlying the long-term plan were not supportable.

1.52 Palmerston North City Council's adverse opinion stemmed from assumptions about the costs, timing, funding, and delivery of capital expenditure projects. We did not audit the Council's consultation document.

1.53 Palmerston North City Council assumed that upgrading its wastewater treatment and disposal system would be entirely funded through the Infrastructure Funding and Financing Act 2020. The Council also assumed that constructing new roads and redeveloping the central library and Te Manawa museum would be funded by a combination of external grants, funding under the Act, public–private partnerships, and developers.

1.54 The Council did not have adequate evidence to support these assumptions. At the time of the audit it had not applied for funding through the Act, nor had it secured other external funding or agreed public–private partnerships. In our view, local government demand on the construction industry also means that it is highly uncertain whether the Council will be able to deliver its capital expenditure programme within the planned time frames.

1.55 As a result, the Council might need to delay or reprioritise some projects. This could have additional cost implications and reduce levels of service.

1.56 We had also provided Palmerston North City Council with an adverse audit opinion for its 2021 long-term plan. That opinion was also about the funding and financing assumptions that the Council had made about upgrading its wastewater treatment and disposal system.

Trends in councils' financial and infrastructure strategies

2

2.1 Financial strategies and infrastructure strategies are the core components of long-term plans. They include information that underpins the long-term plan's content. Financial strategies are typically for the next 10 years, but infrastructure strategies must look ahead at least 30 years.

2.2 In this Part, we discuss some of the trends we have observed in council long-term plans, drawing on information in these strategies.

Operating expenses are forecast to be 38% higher than previously planned

2.3 Councils are facing significant cost pressures. In recent years, high inflation and interest rates have increased costs for councils. Many councils are also experiencing increasing demand for their services while addressing the consequences of decades of underinvestment in infrastructure assets.

2.4 The cost of insuring council assets has also increased significantly in recent years. Climate change has increased the risks of floods, storms, and other weather events, which has affected insurance premiums. Insurance costs have also risen particularly sharply for councils in regions that are at higher risk of earthquakes.

2.5 For the 58 councils, total annual operating expenditure is forecast to increase from $16.2 billion in 2024/25 to $23.2 billion in 2033/34. Compared to the same councils' 2021-31 long-term plans, total operating expenditure is forecast to be 38% higher. Figure 3 shows the main reasons for this increase.

2.6 At $21.5 billion, interest expenses are forecast to be 108% higher than forecast in the 2021-31 long-term plans. Expenditure on interest will be 17% of forecast rates revenue. Figure 4 shows how interest expense will trend over time, compared with rates revenue.

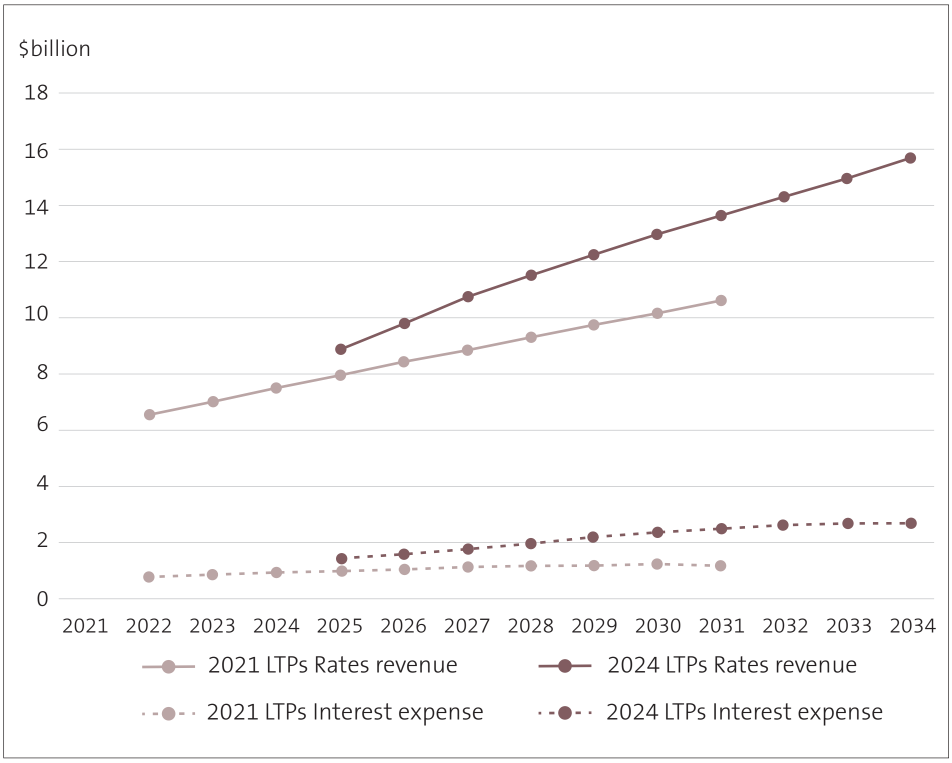
2.7 Interest rates were a significant assumption that our auditors considered. They assessed whether councils' assumptions about interest rates were in line with economic forecasts. Our audit opinions did not identify any significant issues with these assumptions.

Figure 3
Total forecast operating expenditure by type in councils' 2021-31 and 2024-34 long-term plans

	2021-31 long-term plans	2024-34 long-term plans	Percentage change
Employee costs	$27.7 billion (32% of rates revenue)	$36.7 billion (30% of rates revenue)	+32%
Interest expense	$10.3 billion (12% of rates revenue)	$21.5 billion (17% of rates revenue)	+108%
Depreciation and amortisation	$34.5 billion (40% of rates revenue)	$47.1 billion (38% of rates revenue)	+37%
Other operating expenses	$70.8 billion (82% of rates revenue)	$92.3 billion (74% of rates revenue)	+30%
Total operating expenses	**$143.3 billion**	**$197.5 billion**	**+38%**

Note: Other operating expenditure can 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 provisions for property, plant, and equipment.

Figure 4
Interest expense and rates revenue in councils' 2021-31 and 2024-34 long-term plans



Revenue is forecast to increase by 37% compared to the 2021-31 long-term plans

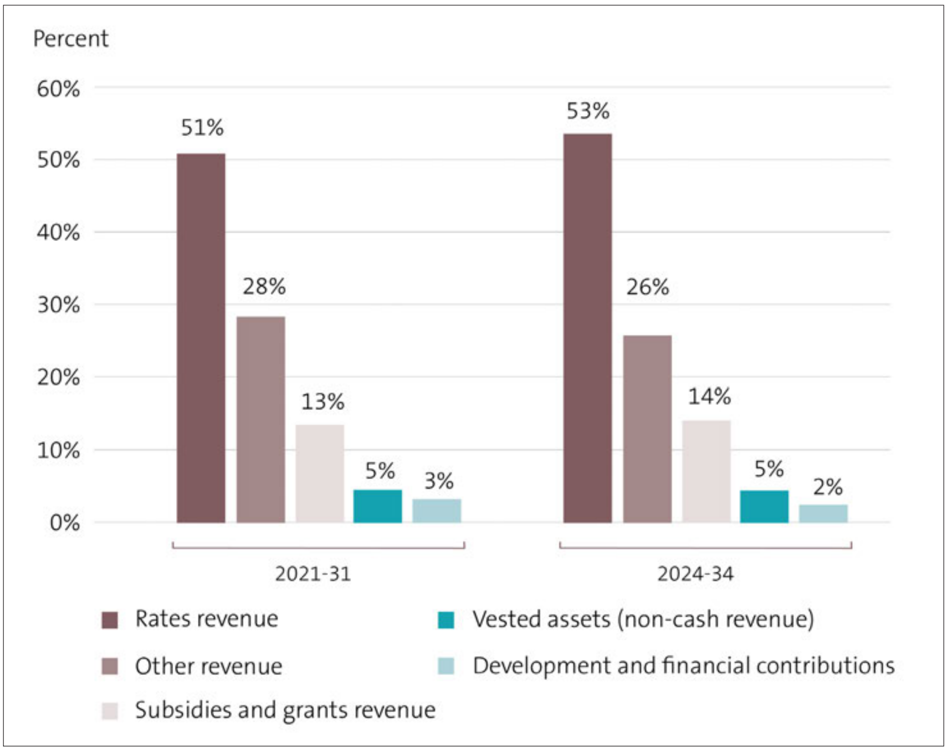
2.8 For the 58 councils, revenue is forecast to be $233.1 billion for the 2024-34 period (an increase of 37% on the $169.6 billion forecast for 2021-31). Revenue is forecast to increase from $18.7 billion in the first year (2024/25) to $27.4 billion in 2033/34. This is an increase of 46% over the 10 years.

Councils plan to increase rates sharply – particularly in the first years of the plans

2.9 Rates typically make up slightly more than half of all council revenue. In the 2024-34 long-term plans, rates will make up 53% of revenue.

2.10 Other sources of revenue include subsidies and grants (such as from the New Zealand Transport Agency Waka Kotahi and other government funding) and other revenue (such as from the fees that councils charge for some services). Figure 5 shows the proportions of these different sources of revenue.

Figure 5
Sources of forecast council revenue in 2021-31 and 2024-34 long-term plans

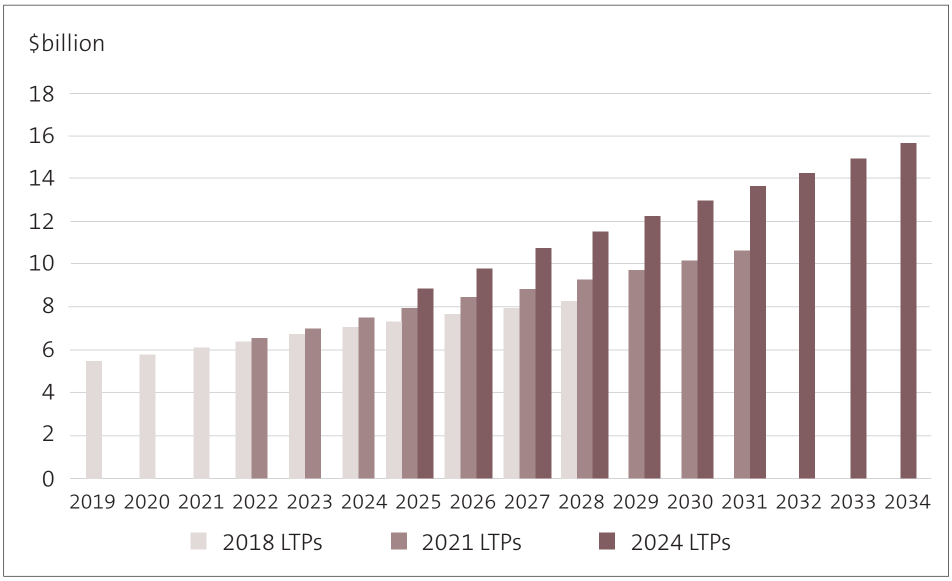


2.11 When deciding to increase rates, councils aim to strike a balance between making rates affordable and receiving enough revenue to provide services and to renew and maintain their infrastructure to required standards. Councils should also consider the consequences of financial decisions on both current and future generations.

2.12 In the 2024-34 long-term plans, rates are forecast to increase more sharply than in previous long-term plans, particularly between 2026 and 2028.

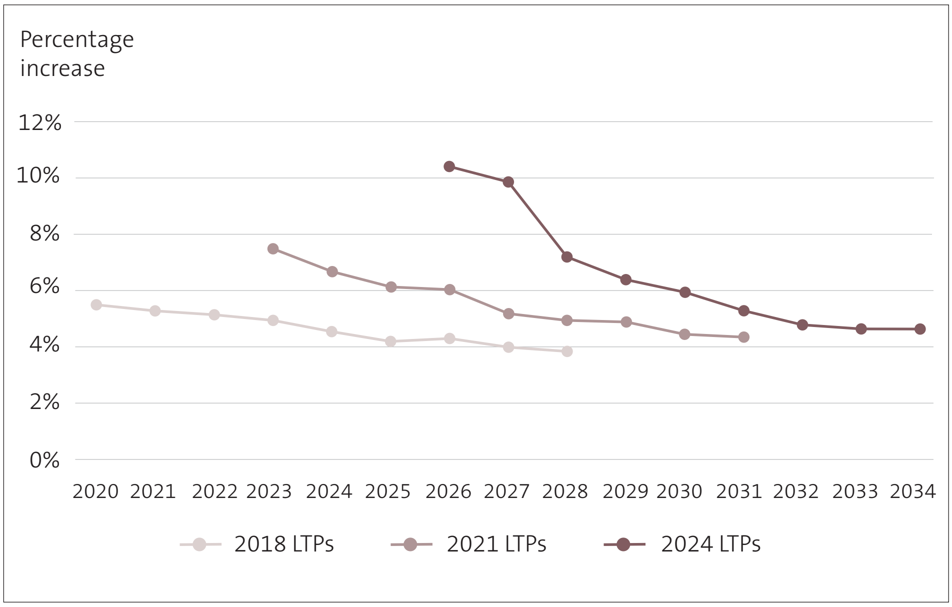
2.13 For the 58 councils, total rates revenue is forecast to be $124.5 billion for 2024-34. This is a 45% increase on the $86 billion that the same 58 councils forecast in their 2021-31 long-term plans. Councils plan to increase rates steeply in 2026 and 2027 (on average, by 10.4% in 2026), after which they plan to steadily reduce rates rises (see Figures 6 and 7). This follows a similar pattern to previous long-term plans.

Figure 6
Forecast rates revenue for all councils in their last three long-term plans



2.14 Figure 7 shows that councils tend to forecast higher rates increases in the early years of long-term plans. Although this is likely to reflect the certainty councils have about their revenue forecasts, it may also indicate that councils could improve their forecasting beyond the first three years of long-term planning periods.

Figure 7
Average percentage increase in rates in councils' last three long-term plans



Councils are planning to address deferred maintenance

2.15 Local government owns and operates 26% of New Zealand's infrastructure assets.[11] This includes essential services such as three waters services, waste management, and roads. Councils also own and operate community facilities, parks, and land assets.

2.16 Together, these assets have a value of at least $76 billion.[12] The decisions councils make about how and where to invest in these assets have long-term, inter-generational implications for their communities.

2.17 For many years, we have reported that councils have not been spending their capital expenditure budgets and have not replaced assets as fast as those assets have been "run down". The result is a widespread backlog of repairs, maintenance, and renewals.

2.18 Most councils are also dealing with an infrastructure deficit. The causes of this deficit can go back decades.

11 New Zealand Infrastructure Commission (2024), *Build or maintain? New Zealand's infrastructure asset value, investment, and depreciation*, 1990-2022, page 6.

12 New Zealand Infrastructure Commission (2024), *Is local government debt constrained? A review of local government financing tools*, page 3.

2.19 Councils were not legally required to fund depreciation (that is, set aside money to replace the use of existing assets) until 1996.[13] There was significant underinvestment in infrastructure from the late 1980s to the 1990s.

2.20 As a result, the condition of the infrastructure that some councils manage has deteriorated. This is now significantly affecting some councils' levels of service, particularly water services.

2.21 When we audited the 2021-31 long-term plans, councils were planning to increase investment in infrastructure. This has continued in the 2024-34 long-term plans.

2.22 Financial and infrastructure strategies show that the 58 councils are forecasting to invest more in their assets than in previous years. Total capital expenditure during 2024-34 is forecast to be $91.9 billion – a 34% increase on forecasts in the 2021-31 long-term plans.

2.23 Of this, councils plan to spend $23.5 billion on new assets (to meet additional demand), $29 billion on improving levels of service, and $39.5 billion on renewing existing assets.

2.24 We compare renewals spending to depreciation because depreciation is a reasonable measure for estimating the portion of the asset that will run down during a financial year.

2.25 A gap between renewals expenditure and depreciation provides some indication that councils will not be replacing infrastructure at the same rate as it is being run down. However, because assets have long life cycles, this is only one indicator of whether councils are reinvesting enough in their assets.[14]

2.26 Figure 8 sets out the proportion of forecast renewal expenditure to forecast depreciation for the last three long-term plans. This shows that renewals expenditure is forecast to be around 100% of forecast depreciation in the early years of 2024-34 but will then decrease steadily over time. This pattern featured in the 2021-31 long-term plans.

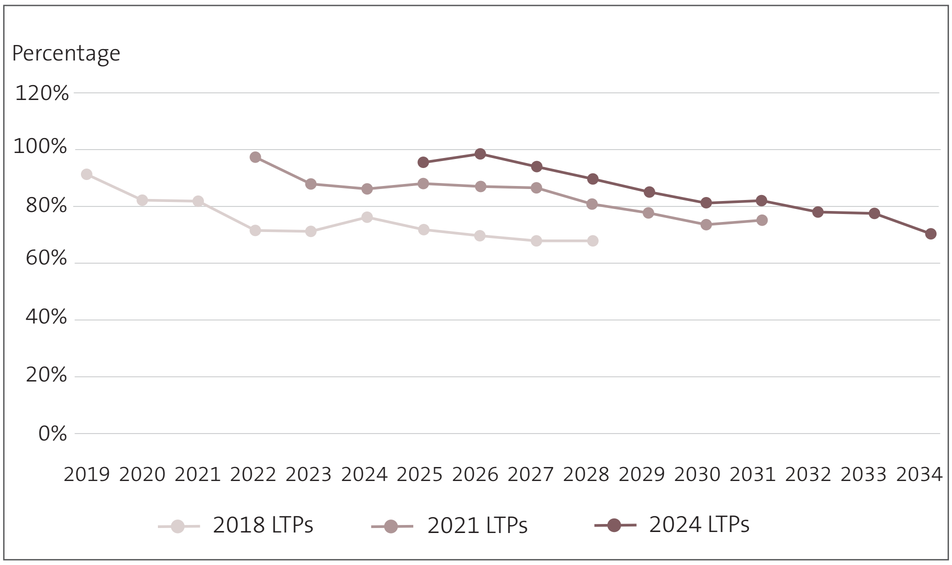
2.27 During 2024-34, forecast renewals expenditure will be, on average, 85% of forecast depreciation. This compares to the 82% forecast in the 2021-31 long-term plans.

2.28 Although this is an improvement, councils still might not be planning to reinvest enough in their assets to maintain levels of service.

13 New Zealand Infrastructure Commission (2024), *Is local government debt constrained? A review of local government financing tools*, page 44.

14 We use our comparison of depreciation with renewals as an indicator only. We expect any difference between the two to reduce during 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.

Figure 8
Average forecast renewals expenditure as a percentage of forecast depreciation in councils' last three long-term plans



Councils are planning to invest more in their water assets

2.29 Many councils are faced with significant challenges associated with ageing water infrastructure. In their long-term plans, councils have reported and acknowledged the consequences of these challenges.

2.30 The historical underinvestment in water infrastructure assets is affecting service levels. In our recent article about councils' reporting on the quality of their drinking water,[15] we highlighted that councils achieved just under 60% of their targets for water supply measures in 2022/23. That was a lower result than for the previous two years, when councils achieved about 66% of the targets.

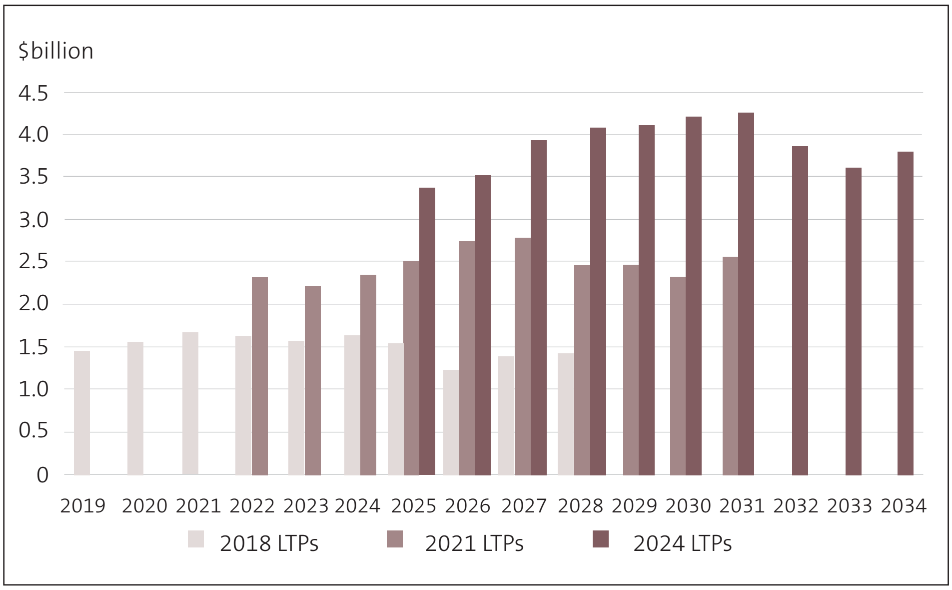
2.31 The 58 councils forecast to spend $24.6 billion on three waters assets in their 2021-2031 long-term plans. The same councils are planning to spend $38.6 billion on these assets during 2024-34 – an increase of 57%.

2.32 Councils report that their main reasons for investing more in three waters assets are a combination of meeting increasing demand from population growth, addressing infrastructure deficits, cost escalation (exacerbated by a workforce shortage in the construction industry), and the need to improve service levels.

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

2.33 Figure 9 compares the capital expenditure on three waters that councils planned in their 2018-28, 2021-31, and 2024-34 long-term plans.

Figure 9
Councils' total planned capital expenditure on three waters assets in their last three long-term plans



2.34 Figure 10 shows that councils plan to reinvest more in water supply assets compared to depreciation (113%). This indicates that councils are seeking to address the infrastructure deficit to improve drinking water service levels.

2.35 However, Figure 10 also shows that the proportion of forecast renewal expenditure to forecast depreciation is much lower for stormwater than for other water assets. We also saw this in the 2021-31 long-term plans.

2.36 This could be of concern, particularly given the increasing frequency of severe weather events associated with climate change.

Figure 10
Proportion of renewals expenditure to forecast depreciation for three waters assets in councils' last three long-term plans

Water asset activity	Capital expenditure as a percentage of depreciation: 2018-28	Capital expenditure as a percentage of depreciation: 2021-31	Capital expenditure as a percentage of depreciation: 2024-34
Water supply (drinking water)	83%	123%	113%
Wastewater treatment and disposal	66%	96%	87%
Stormwater and drainage	53%	51%	43%

Councils' knowledge about their assets' condition and performance

2.37 Councils need good information to inform their decisions and plans for renewing and maintaining their infrastructure. We have regularly reported that councils need to prioritise collecting information about the condition and performance of their critical assets, such as water services, infrastructure, and roads.

2.38 Councils have been working to improve the information that they have about the condition and performance of their critical assets. However, we continue to find that when some councils forecast renewals and maintenance expenditure, they base these decisions on the age of the assets, rather than on condition and performance information.

2.39 Age is only one indicator of when an asset might need replacing. In theory, it is reasonable to expect that an older asset will require replacement before a newer asset. In practice, the opposite might be true depending on the condition and performance of the asset. Making investment decisions based on the asset's age rather than on its condition and performance increases the risk that the asset is planned to be replaced either earlier or later than required.

2.40 If the plan is to replace later (based on age) than required (based on condition and performance), this increases the risk of asset failure and reduced levels of service. It could also lead to councils incurring expenditure on assets before it is necessary to do so.

2.41 Once those councils that deferred their long-term plans until 30 June 2025 have adopted them, we plan to report on councils' infrastructure strategies further to consider whether councils are improving their knowledge about the condition and performance of their critical assets.

The impact of water reform on councils' long-term plans

2.42 As we mentioned in Part 1, the Local Government (Water Services) Bill 2024 was introduced in December 2024. This sets out arrangements for water services delivery and regulatory systems.

2.43 The Bill provides five water service delivery models for councils to choose from:

- Model 1, an in-house business unit (the current delivery model for many councils);
- Model 2, a single council-owned water organisation;
- Model 3, a multi-council-owned water organisation;
- Model 4 mixed council/consumer trust-owned water organisation; and
- Model 5, a consumer trust-owned water organisation.[16]

2.44 Although councils would need to adhere to the principles and settings of the Local Water Done Well framework, they could choose which of the models is the best option for their communities.

2.45 Under Local Water Done Well (specifically, the Local Government (Water Services) Bill 2024), councils that opt for:

- Model 1 would retain their water assets;
- Models 2, 3, and 4 can choose to transfer their water assets to a different type of water organisation; and
- Model 5 would transfer their water assets to a water organisation owned by a consumer trust.

2.46 The impact of water reform on councils' long-term plans would depend on which water services delivery model a council selected and, where applicable, whether a council chose to transfer its water assets. Transferring a council's water assets to a water organisation would significantly impact that council's long-term plan.

16 See "Water Services Policy Future Delivery System" at dia.govt.nz.

2.47 Councils that have already adopted their long-term plans might need to amend these plans if the chosen model in the Water Services Delivery Plan is significantly different from what was in the adopted long-term plan.

2.48 The 12 councils that have deferred adopting their long-term plans by 12 months (until 30 June 2025) are preparing their Water Services Delivery Plans under Local Water Done Well at the same time as they prepare their 2025-34 long-term plans.

2.49 The councils' 2025-34 long-term plans should reflect their intentions for future water services delivery, as set out in their Water Services Delivery Plans.

2.50 Until the legislation is passed and councils' water services delivery models and asset transfers are known, it is difficult to forecast or analyse the impact on councils' long-term plans and balance sheets (particularly on assets and debt). We will revisit our analysis once this information is available.

2.51 The Local Government (Water Services) Bill 2024 is currently being consulted on until 23 February 2025, meaning the Bill could change further before it is enacted.

Common risks to councils' delivery of their capital programmes

2.52 In recent years, we have found that councils generally budget to reinvest more in assets than they actually spend.[17] We have previously reported that most councils have not delivered all their capital expenditure programmes and that some capital projects have either been delayed or not been delivered at all.

2.53 In 2021/22, councils collectively spent 76% of the $7.68 billion that they had budgeted for capital expenditure. This improved in 2022/23, when councils spent 94% of the $7.5 billion that they had budgeted.

2.54 Limitations on the construction industry's capacity, the high level of demand from councils, and uncertainty about external funding for capital projects create significant risks and challenges for councils in completing their capital programmes.

17 Controller and Auditor-General (2024), *Insights into local government: 2023*, at oag.parliament.nz.

2.55 Fourteen of our audit reports on 2024-34 long-term plans drew attention to risks that councils will not be able to deliver their capital programmes. The capacity of available contractors in New Zealand is limited, and there is a high level of demand from local government.

2.56 Several councils are planning to significantly increase their capital programmes. Our audit reports noted that, if these councils do not deliver their programmes, they risk not meeting their planned levels of service or incurring greater costs during the long term.

2.57 Nineteen of our audit reports drew attention to uncertainty and assumptions that councils made about central government funding for capital projects. Much of this related to uncertainty about New Zealand Transport Agency Waka Kotahi funding.

2.58 Several councils had also made assumptions that we did not consider reasonable about levels of government funding for capital projects such as flood and shoreline protection.

2.59 Councils also considered the impacts of climate change in their infrastructure strategies. The future condition of councils' assets will be affected by the impacts of climate change – such as rising sea levels causing coastal inundation and flooding. This will impact councils' capital expenditure.

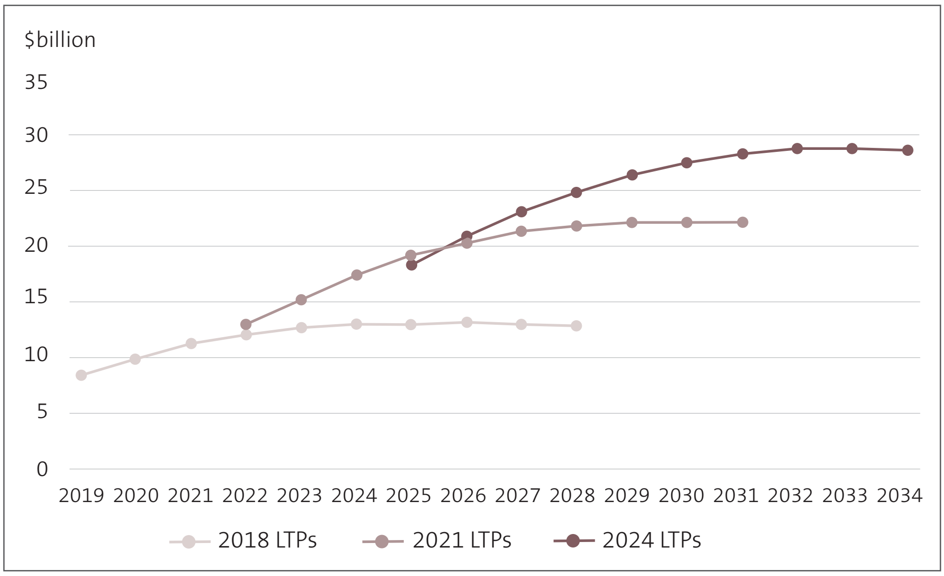
2.60 Because the timing and extent of the future impacts of climate change are uncertain, the effects on councils' infrastructure strategies are often difficult to determine. Once those councils that deferred their long-term plans until 30 June 2025 have adopted them, we will provide further analysis and comment on how councils have considered climate change in their long-term plans.

Councils plan to increase borrowing to finance investment in infrastructure

2.61 Councils use debt to spread the costs of building, maintaining, and renewing their long-term infrastructure. Debt financing infrastructure allows councils to share the costs and benefits of investments among those who benefit from them over time.

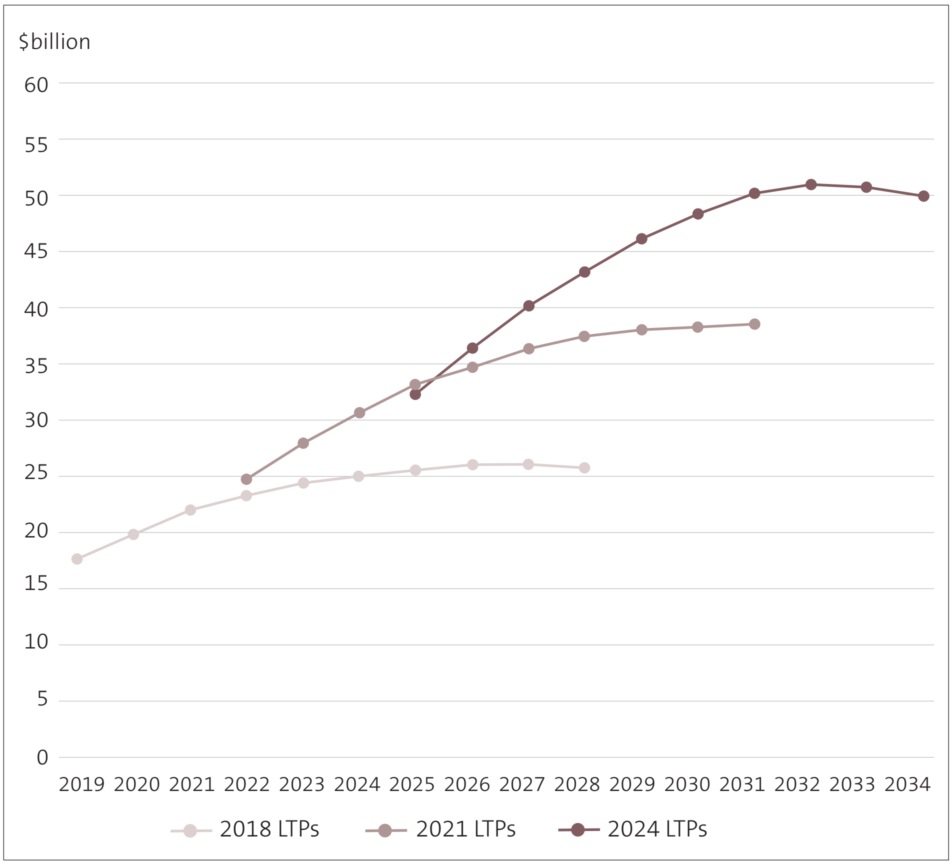
2.62 In their 2024-34 long-term plans, councils are planning to borrow at historically high levels (compared to previous long-term plans). Figure 11 shows that, excluding Auckland Council, total council debt is forecast to reach a peak of $28.8 billion in 2033. We separated Auckland Council's debt from other councils because it has historically accounted for more than 50% of the total debt for all councils.

Figure 11
Total forecast debt in councils' last three long-term plans, excluding Auckland Council



2.63 Figure 12 shows that, including Auckland Council, total debt is forecast to peak at $50.9 billion in 2032.

Figure 12
Total forecast debt in councils' last three long-term plans, including Auckland Council



Some councils have almost reached the debt limits in their financial strategies

2.64 Most councils borrow through the Local Government Funding Agency (the LGFA).

2.65 The LGFA sets limits on how much councils can borrow. These limits include a debt-to-revenue limit that prevents councils from borrowing more than 280% or 175% of their revenue, depending on their credit rating.

2.66 The LGFA recently announced that it is increasing its debt limit for high-growth councils to 350% of total revenue.[18] Any increase in limit is also subject to the approval of the LGFA Board. It made this announcement after the 58 councils had prepared the long-term plans that we discuss in this report.

2.67 Most councils also set their own debt limits below LGFA limits. Keeping within their own debt limits means that councils would be able to borrow more to meet the costs of an unexpected event, such as an earthquake or severe weather.

2.68 Councils' own debt limits vary significantly. Some councils have debt limits that are much lower than LGFA limits. In some instances (such as Marlborough District Council, New Plymouth District Council, Waikato Regional Council, and Environment Southland), the limits are lower than, or close to, 100% of total revenue.

2.69 Other councils (such as Clutha District Council, Hauraki District Council, and Kāpiti Coast District Council) have not set separate debt limits from the LGFA.

2.70 Figure 13 shows the average level of debt by councils as a percentage of total income (excluding Auckland Council). Borrowing by these councils will, on average, be at its highest in 2030 – at 204% of total revenue. Figure 14 includes borrowing by Auckland Council.

2.71 The forecast debt-to-revenue ratio is lower in 2024/25 than was forecast in the 2021-31 long-term plans. However, by 2028, the average debt to revenue ratio is forecast to be at historically high levels (200%).

2.72 Some councils' borrowing is forecast to get close to the LGFA limits. When councils are close to LGFA debt limits they might be less able to respond to the costs of unforeseen events, asset failures, or changes to the timing of their capital programmes.

18 See "LGFA increases borrowing capacity to support high growth councils" at beehive.govt.nz.

2.73 For example, our audit reports on Hamilton City Council's and Tauranga City Council's long-term plans drew attention to risks associated with debt levels that will be close to the LGFA borrowing limits set at the time. This reduces the ability of these councils to borrow more than currently forecast within the 2024-34 period. However, we note that, after the LGFA's recent announcement, high-growth councils may now choose to extend their self-imposed debt limits.

2.74 Although borrowing for most other councils is well within LGFA limits, some councils are forecasting that they will be very close to or will exceed their self-imposed debt limits within the 2024-34 period.

Figure 13
Debt as a percentage of total revenue, excluding Auckland Council

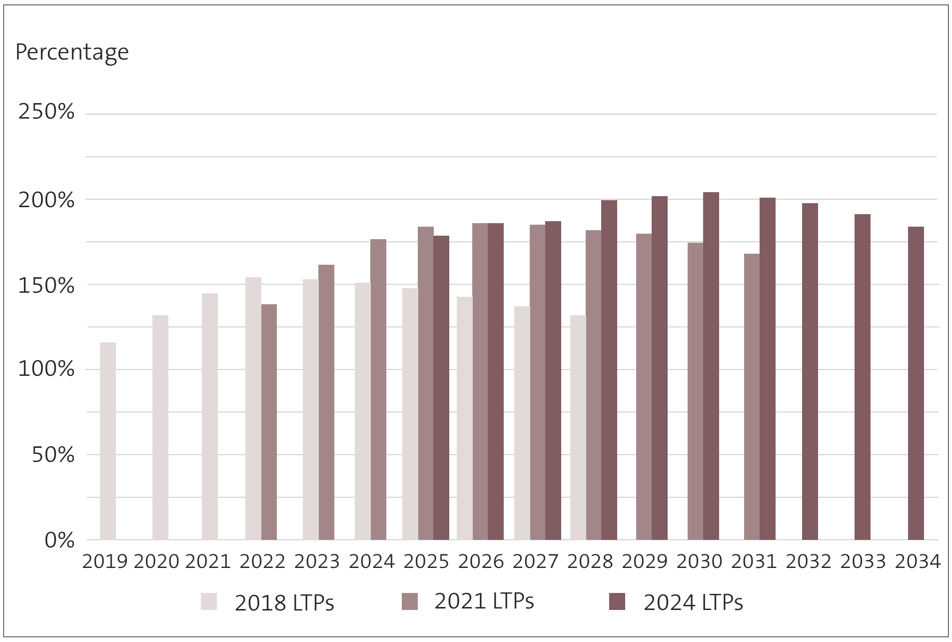
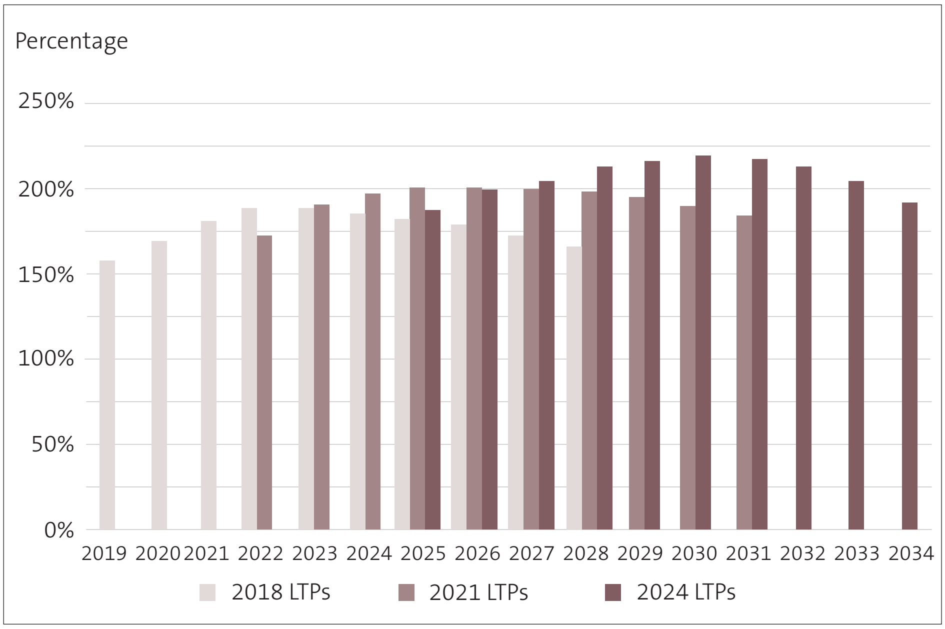


Figure 14
Debt as a percentage of total revenue, including Auckland Council



2.75 The costs of borrowing have risen sharply in recent years, and councils will need to carefully consider how further borrowing might affect their expenses over time. Some councils' credit ratings were downgraded after they adopted their 2024-34 long-term plans because of their weak financial positions and rising debt.

2.76 These downgrades will lead to relatively higher interest rates for those councils. This will increase their borrowing costs and could limit the amount of further debt that they can take on. This could also have consequences for their ability to fund the costs of unforeseen events or emergencies.

Only two councils are using special purpose vehicles to fund infrastructure investment

2.77 As well as borrowing from the LGFA, the Infrastructure Funding and Financing Act 2020 provides a mechanism for councils to finance infrastructure projects with help from the National Infrastructure Agency (formerly Crown Infrastructure Partners).

2.78 Under this Act, councils can, under certain conditions, access finance through special purpose vehicles. This provides councils with another option for financing infrastructure investment and is typically at a fixed rate for a longer term (for example: 30 years) than what the LGFA can offer.

2.79 By using a special purpose vehicle, councils can fund specific infrastructure projects through borrowing that is not included on the council's balance sheet and charge a levy to those who benefit from the infrastructure. This method of borrowing is not subject to LGFA debt limits.

2.80 Only two councils are currently using special purpose vehicles. They are Wellington City Council (to finance the Sludge Minimisation Facility) and Tauranga City Council (to fund the Western Bay of Plenty Transport System Plan).

2.81 There are few indications in long-term plans that councils plan to use the finance facilities available through the Infrastructure Funding and Financing Act 2020.

2.82 Palmerston North City Council had signalled its intention to fund several of its capital projects using the Act. These projects included the planned upgrade of its wastewater treatment and disposal system and the redevelopment of its central library.

2.83 However, the Council had not applied for funding under the Act when it prepared its long-term plan. This was one of the reasons for our adverse opinion of Palmerston North City Council's 2024-34 long-term plan.

2.84 Councils have indicated that the process of putting a levy in place under the Act can be complex and take considerable time and effort.

2.85 These factors might be acting as a barrier to councils choosing these arrangements. We understand that the Ministry of Housing and Urban Development is leading work on improving the Act.[19]

19 See Cabinet Paper ECO-24-SUB-0076: Improving Infrastructure Funding and Financing, 22 May 2024.

3 Conclusion

3.1 Councils prepared their 2024-34 long-term plans during a time of significant change and uncertainty. Notably, the Government was developing legislation to change how water services will be owned, financed, and operated. The timing of the Government's transport policy announcements and funding decisions also did not align with the time frames for councils' long-term plans.

3.2 Most councils responded to this uncertainty well. They were able to complete long-term plans that met the required standards and provided their communities with a reliable view of how councils will provide and pay for services.

3.3 The 2024-34 long-term plans also show that councils face significant financial and infrastructure challenges that they will need to carefully manage.

3.4 Rising operating costs and the need to increase capital expenditure are putting pressure on many councils. In response, councils are increasing rates at historically high levels. To pay for much-needed investment in infrastructure, councils are also increasing their debt to some of the highest levels in decades.

3.5 As a result, some councils are close to or exceeding their self-imposed debt limits.

3.6 These factors create risks to councils' long-term financial sustainability and to their ability to respond to unforeseen events such as earthquakes or severe weather. Councils will need to carefully manage these risks.

3.7 The changing operating context for local government highlights the importance of a strong strategic and agile approach to long-term planning. We continue to recommend that the Department of Internal Affairs and the local government sector review the required content for long-term plans so that they remain fit for purpose and focus on what matters most to communities.

3.8 Long-term plans (and their supporting finance and infrastructure strategies) should be actively used to drive councils' delivery and performance and to provide accountability to their communities.

Appendix
Types of audit reports that we can issue

An audit report will be either standard or non-standard.[20] A non-standard audit report is one that contains:

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

An adverse opinion is quite rare and means that the auditor disagrees with the entity. It indicates that, in the auditor's professional opinion, the underlying information and assumptions in the long-term plan are unreasonable.

An adverse opinion or qualified opinion can also be called a modified opinion. An auditor will include an emphasis of matter paragraph or an "other matter" paragraph in the audit report to draw attention to:

- a breach of law; or
- a matter or matters presented or disclosed that are of such importance that they are fundamental to readers' understanding of the audited information.

An emphasis of matter paragraph does not necessarily mean that the auditor has found anything wrong. Instead, the auditor wants to draw readers' attention to a matter or matters that are fundamental to understanding the long-term plan.

An audit report can contain more than one modification to the audit opinion or more than one emphasis of matter paragraph.

20 For a plain-language explanation of the different forms of audit report, see our blog post "The Kiwi guide to audit reports", at oag.parliament.nz.

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