

# **Report to the Council on the audit of**

Western Bay of Plenty District  
Council's Long Term Plan  
Consultation Document

For the period 1 July 2021 to 30 June 2031

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## Key messages

This report sets out our findings from the Long Term Plan Consultation Document (CD) audit and draws attention to our detailed findings, and where appropriate makes recommendations for improvement. In addition, this report also provides information on the next step in the audit process, being the audit of the final Long Term Plan (LTP).

Overall, we have the view that the Council has produced a CD that fulfils its primary purpose of providing an effective basis for public participation in decisions on the content of the LTP. The CD includes all the major matters that we expected, provides preferred and alternative options to address these issues and encourages the community to provide feedback.

The development of the LTP is a significant undertaking. The Council provided high quality underlying information documents and CD, all within the planned timeframes. This was due to the Council implementing effective project management and quality assessment processes and maintaining an effective control environment.

### Audit opinion

We have completed the audit of the Council's CD for the period 1 July 2021 to 30 June 2031 and issued an unmodified opinion on 23 February 2021. We included an emphasis of matter paragraph drawing readers' attention to the uncertainties of the three water reforms.

### Matters identified during the audit

The majority of our recommendations we made were implemented prior to the Council adopting the CD. There are a number of recommendations that had no significant impact on the CD (but will impact on the LTP) that management has agreed to consider and/or implement for the LTP including:

- the statement of financial position balances should be based on reasonable assumptions rather than being flat lined across the forecast period (refer to 2.6);
- the financial forecasts should meet the current and liquid ratios set out in the Council's liability management policy (refer to 2.6);
- capital expenditure in the funding impact statements should be classified in line with the definition in the Local Government (Financial Reporting and Prudence) Regulations 2014 rather than the Council's own definition used for other supporting information (refer to 3.3);
- the financial forecasts and accounting policies need to be updated to reflect the adoption of IPSAS 41 financial instruments (refer to 3.4);
- the transportation asset management plan should be reconciled to the approved project listing and financial model (refer to 2.5); and

- the infrastructure strategy could be enhanced by including more information around infrastructure issues, significant decisions, and significant issues in years 11 to 30, the approach to service delivery, levels of service targets and references to the financial strategy (refer to 2.3).

## **Future focus**

As well as the opinion issued on the CD we will issue an opinion on the final LTP that will be adopted before 1 July 2021.

## **Thank you**

We would like to thank the Council, management and staff for their assistance during the audit.

A handwritten signature in blue ink, appearing to read 'Clarence Susan', with a stylized flourish at the end.

Clarence Susan  
Appointed Auditor  
20 April 2021

# 1 Our audit report

## 1.1 We issued an unmodified audit report



We issued an unmodified audit opinion on the CD on 23 February 2021.

This meant we were satisfied that the Council's CD meets the statutory purpose and provides an effective basis for public participation in the Council's decisions about the proposed content of the 2021-31 LTP.

We found the underlying information and assumptions used to prepare the CD provided a reasonable and supportable basis for the preparation of the LTP.

We included an emphasis of matter paragraph drawing readers' attention to the uncertainties of the three water reforms.

## 1.2 Uncorrected misstatements

The consultation document is free from material misstatements, including omissions.

During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial.

The majority of these misstatements which are summarised in section 2 and 3 below were amended prior to the Council adopting the CD.

There are a number of misstatements that have not been corrected because they had no significant impact on the CD (but will impact on the LTP). These have been provided to and discussed with management who have agreed to consider and/or correct them for the LTP.

## 1.3 Project management, reporting deadlines, and audit progress



The development of the CD and LTP is a significant and complex project and a comprehensive project plan is required for a successful LTP process.

The Council had a detailed project plan which included key milestones, deadlines, and the work-stream responsible. This contributed to producing high quality underlying information documents and enabling the Council to meet all key deadlines.

The Council continues to be receptive of our recommendations and is open to continuous improvement. In addition, the Council's staff were available throughout the audit and provided the information requested promptly. Overall, the audit progressed smoothly with no significant issues.

## 2 Matters raised in the Audit Plan



In our audit engagement letter we identified the following matters as the main audit risks and issues:

### 2.1 The content of the Consultation Document (CD)

We found the CD provides an effective basis for public participation in the Council's decision making about the proposed content of its LTP, facilitates the right debate with the community, and meets the legislative requirements of the Local Government Act 2002.

The CD is easy to read with a good amount of contextual information and has been presented in four sections: the big picture, key proposals, what does it mean for you, and have your say. It is clear which issues are being consulted on (including a range of options, the consequences of these choices, and the Council's preferred option) and highlights the critical parts of the proposed financial and infrastructure strategies.

### 2.2 Financial Strategy

We concluded that the financial strategy is reasonable, financially prudent, based on the financial forecasts, and complies with relevant legislation. The Council has forecasted operating surpluses each year.

The overall structure and key principles that drive the financial strategy have not significantly changed from the previous LTP. The Council has the strategic goals of continuing to manage levels of service, manage rates, and invest in communities and the future of the district. Previous financial strategies have been adopted against the backdrop of high debt, with an emphasis on debt reduction. The Council is no longer operating in the same environment and has adopted a deliberate approach to take on more debt to fund capital expenditure.

### 2.3 Infrastructure Strategy

We found the infrastructure strategy is reasonable, aligned with other underlying information, and complies with relevant legislation.

The infrastructure strategy has not significantly changed from the previous LTP. The strategy is to continue with a business-as-usual approach for infrastructure activities. This means looking after existing assets by ensuring they continue to meet the needs of the community and providing infrastructure to enable further growth to occur.

We provided detailed feedback to the Council for consideration. Our key recommendations were:

- more clarification on the infrastructure issues and significant decisions covered in years 11 to 30;
- clearer statements about the approach to service delivery (particularly in transportation where decision-making is devolved to the contractor within the bounds of the performance framework);
- better detailing of the levels of service targets to determine how the designated levels of service projects are expected to impact on improved levels of service; and
- reference to the financial strategy with more detail on how the Council intends to fund its capital expenditure programme.

These recommendations are considered good practice and as such would help improve the usefulness of the document to readers. The Council should consider these recommendations when preparing the final version of the infrastructure strategy which forms part of the final LTP.

#### **Management comment**

*Consideration will be given to the recommendations provided in developing the final content of the LTP.*

## **2.4 Assumptions**

The significant forecasting assumptions are appropriate, complete, adequately disclosed, and comply with relevant legislation. In addition the underlying information has been prepared using the material assumptions disclosed.

Our review was focused on the assumptions relating to the population growth, climate change, Covid-19, inflation, interest rates, three-waters reform, and capital expenditure do-ability assumptions. Further comments on specific assumptions are included below.

### **2.4.1 Growth**

The growth assumption is reasonable. The Council plans for growth in collaboration with Tauranga City Council, Bay of Plenty Regional Council, iwi and Waka Kotahi and we have confirmed both growth and demographic change assumptions to NIDEA SmartGrowth statistics (which have been further refined based on internal knowledge of planned developments).

The National Policy Statement on Urban Development 2020 classified the Council as a Tier 1 local authority. The Council meets the competitive margin requirements as it is able to

provide sufficient development capacity to meet expected demand for housing and business land over the short, medium, and long term.

#### **2.4.2 Covid-19**

The Covid-19 assumption is reasonable. The Council has made the assumption that the greatest impacts of Covid-19 will be on the economy and population growth, but this will be short-term.

The District's economy has been cushioned from some of the impacts of Covid-19 due to a diverse economy, strong rural sector, low reliance on international tourists and strong population growth. Currently the Council is expecting economic impacts in 2020 and for these to be largely recovered by the close of 2022.

We recommended, and the Council subsequently included, disclosure around the risks and possible impacts of material supplies from overseas being disrupted and the supplier market potentially being unable to cope with the increasing demand.

#### **2.4.3 Climate change**

We found the climate change assumption is reasonable. The Council has formalised a climate change action plan and overall expects there will be more extreme weather and storm events, and increased risk from natural hazards such as coastal erosion and inundation.

The Council is budgeting \$200k each year for the next three years to carry out risk assessments on Council and community assets. This will consider potential climate changes, the impacts of those changes and what that means for those assets. The Council will then use this information to identify adaption actions (the major impacts of climate change are expected outside the 10-year planning horizon).

#### **2.4.4 Three-water water reform**

The three-waters reform assumption is reasonable. The Council has made the assumption that there is currently insufficient detail regarding the possible changes to services and, therefore, it is prudent to plan on a business-as-usual approach to service delivery (as the decisions are still pending).

There is no impact on the financial model, however, an allowance has been made for staff time for the initial phases as indicated by Central Government and the Council proposes to utilise the funding allocation relating to the three-waters review for projects such as reticulation of the Te Puna commercial area and improving marae wastewater services.

#### **Management comment**

*Council has followed sector guidance regarding our Three Waters Reform assumption.*



There is no impact on the financial model, however, an allowance has been made for staff time for the initial phases as indicated by Central Government and the Council proposes to utilise the funding allocation relating to the three-waters review for projects such as reticulation of the Te Puna commercial area and improving marae wastewater services.

#### **2.4.5 Capital expenditure do-ability**

The Council has not included a capital expenditure do-ability assumption. We found this to be reasonable as the Council has a good track record with regards to the delivery of its capital programme. This is supported by an average actual to budget capital expenditure forecast for the last three years of 101% (excluding March 2020 to June 2020 which had a sudden reduction attributed to Covid-19).

The LTP contains a step-change in the capital programme primarily related to projects that are “shovel-ready” from the Government's Covid-19 response, or CIP funded projects designed to increase housing supply in Omokoroa (the majority of which have contracts in place). The Council has a programme to resource these projects, is utilising smart procurement procedures, and has increased its staffing levels specifically to manage these projects. The Council is also in constant communication with external suppliers in order to understand market capacity and has built strong relationships with key market suppliers.

### **2.5 Quality of asset-related forecasting information**

Asset management planning processes at the Council provide an appropriate basis for the CD and underlying information.

The Council's infrastructure network is made up of water supply, wastewater, storm water, transportation, solid waste, parks and reserves assets. The most significant asset area is transportation comprising 60% of all infrastructure assets. Our review was focused on transportation pavement rehabilitation and resurfacing, growth projects in Omokoroa, and the Te Puke wastewater treatment plant upgrade.

The Council engaged independent parties to peer review the asset management plans for this LTP which we were able to rely on in determining whether they represent appropriate underlying information to support the CD financial forecasts.

The Council was unable to reconcile the financial forecasts in the transportation asset management plan to the approved project listing or financial model (either in total or at project level). The Council explained this is because the projects have been costed by the alliance partner using their own modelling systems and measures contained in the One Network Roding Contract. While we were able to gain audit assurance by way of evidence and confirmation from the alliance partner, the Council should undertake an exercise to ensure the transportation asset management plan aligns to the project listing and financial model.

## **Management comment**

*Council is comfortable with the approved project lists and the process undertaken by our alliance partner. Additional information will be included in the transportation asset management plan.*

### **2.5.1 Condition and performance information for critical assets**

The Council's documented knowledge of its infrastructure networks indicates:

- large portions of the three-waters networks are relatively new;
- the Council has been investing appropriately in renewal/growth, such that there is no catch-up investment required;
- all networks are performing well; and
- the Council's renewal plans are based on good data and meet the future needs of the District.

There is a well-documented record of each of the infrastructure networks which will enable the Council to form evidence-based decisions about its approach to the operation, maintenance, and renewal of these networks.

The assessment of asset condition and performance is included in the asset management plans. With regards to its critical asset activities, the Council graded as follows:

- Water – intermediate;
- Wastewater – advanced; and
- Storm water – intermediate (lower-end) (considered common in local authorities).

For transportation, asset information is maintained in RAMM by the alliance partner as work is completed. There are performance metrics in the contract related to updating the asset data (including condition and performance). The transportation asset management plan includes good historical data on performance of the network across a number of measures collated and reported through the RCA dashboard.

## **2.6 Financial model and forecasts**

We found the financial model is reasonable, reduces the risk of misstatement, and is accurately reflected in the CD, infrastructure strategy and financial strategy.

We adopted a substantive approach undertaking a variety of data logic, metric, integrity, analytical review, spreadsheet, and data flow testing. Our review identified some deficiencies, the most significant included:

- receivables and prepayments should have a relationship to revenue movements rather than being flat-lined across the forecast period;
- payables should have a relationship to expenditure movements rather than being flat-lined across the forecast period;
- employee entitlements should have a relationship to employee cost movements rather than being flat-lined across the forecast period;
- available for sale assets should be aligned to planned asset sales and then flow through as funding in the following year rather than being flat-lined across the forecast period;
- the current ratio in Council's liability management policy is not forecast to be met;
- The liquid ratio in the Council's liability management policy is not forecast to be met; and
- capital projects related to renewals and growth are incorrectly classified under "to improve levels of service" in the funding impact statements (see 3.3 for further details).

The Council chose not to adjust these deficiencies because they had no significant impact on the CD (but will impact on the LTP). Details have been provided to and discussed with management who has agreed to correct these deficiencies for the LTP.

#### **Management comment**

*Council's financial model is being updated to include the balance sheet elements described above for inclusion in the final LTP document.*

## **2.7 Performance management framework**

The forecast performance framework is appropriate, complies with relevant legislation, and complies with generally accepted accounting practice.

The performance framework remained relatively unchanged from prior years with no significant changes to levels of service or activity structure. There were some performance measures that were revised, removed, and added. However, this was simply to better align the framework to the Council's strategy.

We recommended, and the Council subsequently made adjustments to the framework for improved clarity and to better align measures to the DIA mandatory measures.

## 3 Other matters



In this section, we have detailed our key findings from the audit. We have also detailed our findings in relation to other areas of focus:

### 3.1 Publication of the Consultation Document (CD) on the Council's website

If the Council intends to publish the CD electronically, please allow time for us to examine the final electronic file version of the audit report before its inclusion on your website.

We need to ensure consistency with the paper-based documents that have been subject to audit. Changes may also be needed to parts of the audit opinion, for example page number references and the inclusion of additional information to readers of the electronic report.

### 3.2 Audit of the final Long Term Plan

The next step in the audit process will be the audit of the final LTP. This is scheduled to be undertaken over three weeks commencing 14 June 2021. To ensure our audit of the LTP is efficient we expect the Council to prepare a schedule of changes to the financial forecasts, draft LTP, and performance framework that were the basis of the CD. This will enable us to assess the extent of changes as a result of community consultation and tailor our audit work accordingly.

Under section 94(1) of the Act, our audit report on the final LTP forms part of the LTP, which the Council is required to adopt before 1 July 2021 (section 93(3)). Our agreed timeframes will enable us to issue our audit report in time for the Council meeting scheduled for 29 June 2021, at which time the 2021-31 LTP will be formally adopted.

We are responsible for reporting on whether the LTP meets the statutory purpose and provides a reasonable basis for integrated decision-making by the Council and accountability to the community. We considered the quality of the underlying information and assumptions as part of the audit of the CD so for the audit of the LTP we will focus on how these are reflected in the LTP. We will consider the effect of the decisions that come out of the consultation process and review the LTP to gain assurance that appropriate, material, consequential changes, and disclosures have been made.

At the conclusion of the LTP audit, we will ask the Council to provide us with a signed management representation letter on the LTP. The audit team will provide the letter template during the LTP audit.

### 3.3 Funding impact statements classification of capital expenditure

The form of the funding impact statements is prescribed by the Local Government (Financial Reporting and Prudence) Regulations 2014. The Council has misclassified a significant amount of capital projects under "to improve levels of service" rather than "to

meet additional demand” and “to replace existing assets”. This creates an inconsistent message between the funding impact statements showing a significant portion of the capital expenditure programme being used to improve levels of service and the CD stating that there have been minimal changes to levels of service.

This misclassification came about because in the Council’s underlying information (such as asset management plans, infrastructure strategy, etc.) capital projects are classified under the levels of service category when the project delivers on the Council’s adopted level of service and are not growth-related or renewals (it is not about new levels of service or any specific change in levels of service).

While the Council’s definition is appropriate to use for the other underlying information, this is different to the definition required to be used in the funding impact statements where only capital projects that improve levels of service are to be classified under this category.

The Council chose not to adjust this deficiency because it has no significant impact on the CD (but will impact on the LTP). This information has been provided to and discussed with management who have agreed to consider it for the LTP.

#### **Management comment**

*Council staff are assessing project classifications in the Funding Impact Statements for the final LTP document.*

### **3.4 IPSAS 41 financial instruments**

PBE IPSAS 41 *financial instruments* becomes effective for the year ending 30 June 2023, or the second year of the LTP. The LTP is required to be prepared in accordance with the accounting policies expected to be used in the future which means that the LTP will need to reflect this new accounting standard.

The Council has performed a high level assessment of the impact of PBE IPSAS 41 and concluded that no adjustment was required to the forecast financial statements included in the underlying information to support the CD (as the Council is not consulting on a matter that may be affected by the application of PBE IPSAS 41).

We understand the Council has decided to early-adopt PBE IPSAS 41 so it takes effect from 1 July 2021, or the first year of the LTP. For the final LTP audit the Council will need to:

- perform a more detailed and robust assessment of the impact of PBE IPSAS 41 on the financial forecasts;
- ensure any material measurement adjustments are made that arise on transition to PBE IPSAS 41 that may affect the forecasts;
- ensure the financial instrument accounting policies disclosed are updated to be consistent with the requirements of PBE IPSAS 41;

- ensure disclosures are made about the change in accounting policy; and
- consider whether the decision to early-adopt PBE IPSAS 41 for the LTP will impact the preparation of the financial statements for the year ending 30 June 2022.

## Appendix 1: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the CD and reporting that opinion to you. This responsibility arises from section 93C(4) of the Local Government Act 2002.</p> <p>The audit of the CD does not relieve management or the Council of their responsibilities.</p> <p>Our audit engagement letter dated 28 August 2020 contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your CD. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to this audit and our audit of the Council's annual report, we have carried out engagements in the areas of debenture trust deed assurance engagement and LTP amendment audit, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Council.</p>
Fees	<p>The audit fee, covering both the CD and the LTP for the period is \$108,900 (excluding GST and disbursements), as detailed in our audit engagement letter dated 28 August 2020.</p> <p>Other fees will be charged in the period for the annual report audit and debenture trust deed assurance engagement.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Council that is significant to the audit.</p>

	<p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Council during or since the end of the financial year.</p>
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