

Long-term plans and consultation documents

Having audited long-term plans (LTPs) since 2006, we understand the significant effort that councils invest in preparing them.

We want to make the audit process for the 2021-31 LTPs and the associated consultation documents as straightforward as possible. So, we've put together the following information to help councils to:

- » understand our responsibilities and our main focus areas in the audit;
- » prepare better documents for their communities; and
- » develop project plans that make their LTP process go smoothly.

Where and how can councils improve?

There are several main areas, outlined below, where councils could build on the work they carried out in 2018. These areas, and Covid-19, will be of particular focus in our 2021-31 LTP audits.

Asking and answering the following questions will help councils focus on the key matters that their LTPs and consultation documents need to address:

- » What are the challenges the council and the community face?
- » Where does the council want to get to with those challenges?
- » What does it plan to do to get there?

Covid-19

The LTP is a key mechanism for achieving accountability and transparency. The Covid-19 pandemic has affected all councils. We expect the effects of Covid-19, and councils' planned responses to it, to be reflected in their 2021-31 LTPs. In this environment, the need for long-term planning has never been more important.

The recovery from Covid-19 will take a long time, and councils need to be clear about their plans and the financial implications of these during this recovery. In addition to Covid-19, other long-term issues remain, such as climate change, water quality, and infrastructure renewal.

All councils will face conflicting priorities across a range of areas, from a decrease in revenue to the affordability of services and planned capital expenditure programmes. Councils will need to assess these priorities against their community's expectations for rates increases and levels of service, while still remaining financially prudent. Some councils will have significant decreases in their revenue streams, while central government funding might provide the opportunity to progress key projects and programmes.

Issues arising from Covid-19 will likely have significant effects on your council's financial forecasts in its 2021-31 LTP. These issues also have the potential to seriously affect the council's planned timelines for producing its

2021-31 LTP. Sound project planning and robust project management, alongside close liaison with your auditor, will be very important to achieving planned or statutory deadlines for adopting your 2021-31 long-term plan.

Climate change

Local government has responsibilities to plan for and provide infrastructure, to manage land use, and to avoid or reduce risks from hazards such as floods, storms, and sea-level rise. Climate change is changing the severity and frequency of these events.

In 2018, most councils' LTPs reflected a limited understanding of the risks that natural hazards and climate change posed to their infrastructure assets. Many simply assumed in their 2018-28 LTPs that the effects of climate change would not significantly affect their communities in the next 10 years.

This meant that most 2018-28 LTPs deferred making any decisions about how to respond to the longer-term effects of climate change. A small number of councils acknowledged their limited understanding of the risks involved and had a plan for addressing this.

We expect all councils' 2021-31 LTPs to build on the enhanced understanding of climate change effects that was reflected in their 2018/19 annual reports.

We expect that most councils will identify some effects on their infrastructure assets and associated activities from climate change over the period of the infrastructure strategy. It is important that, as a minimum, the timeframe for each council's assessment of the potential effects of climate change aligns with the period covered by its infrastructure strategy.

Your council should actively seek to understand the potential effects of climate change on its assets and activities. A council's assumptions about climate change and its effects should be key building blocks for its LTP.

A key characteristic of what is reasonable is that all assumptions underpinning your LTP should use the best available information.

Your council's climate change assumptions should cover:

- » the expected effects of climate change for your district, city, or region. This includes sea-level rise, rainfall levels, flood frequency, severity of adverse weather events, and temperature changes;
- » the effects on your council's activities from the expected effects of climate change. It is important that your council demonstrates its level of understanding of the potential effects that climate change will have on its critical assets;
- » the effects on different communities across the district, city, or region from the expected effects of climate change. These should include the social, economic, and cultural effects that could affect your council's revenue (rates take and debt limits); and
- » the effects of climate change on levels of service, council finances, and CAPEX and OPEX work programmes over the period of the LTP.

Your council's climate change assumptions should also cover the most likely scenario for any effects on its infrastructure assets, and how the council will manage and fund this. Wherever possible, this scenario should look out as far as the period covered by the infrastructure strategy.

The assumptions your council makes, including an assumption that there will be minimal effect, should have appropriate supporting information.

Delivering capital expenditure programmes

The ability of councils to deliver their capital expenditure forecasts is another area that auditors will look at closely as part of their audits of the 2021-31 LTPs.

The capital expenditure forecasts produced by a local authority are an assumption about what it can achieve over time. Councils spent, on average, only 77% of their capital expenditure budgets from 2012/13 to 2018/19. In each of these financial years, a majority of councils spent less than 80% of their capital expenditure budgets.

Continual under-delivery of the forecast capital expenditure programme can lead to doubt over the reasonableness of councils' capital expenditure budgets.

Under-delivery of capital expenditure budgets can have significant implications for the council and the community. Ratepayers pay for work that has not been performed, planned improvements to levels of service are not completed, and there are even reductions in levels of service where necessary renewals are not undertaken. A low completion rate also increases the risk that the priority assigned to each project is overlooked, and other factors determine which ones are actually undertaken.

It is important that the forecast capital expenditure programme in your council's LTP is subject to robust scrutiny as to whether it is achievable.

The publication, *Asset management and long-term planning*, on Audit New Zealand's website, provides useful guidance for you in preparing your infrastructure strategy.

Consultation documents

Consultation documents are expected to concisely and clearly present the significant issues, plans, and projects that councils intend to include in their LTPs. Key issues should be

presented in a way that is easy for people to understand and respond to.

The Local Government Act 2002 (LGA) states that a consultation document's purpose is to provide an effective basis for public participation in local authority decision-making processes relating to the content of an LTP. A good consultation document should not attempt to summarise the contents of the LTP. It should describe the key issues proposed for the LTP, while presenting the key choices and implications clear to your community.

Identifying your key consultation issues early will help focus your LTP preparation. It will also give you the framework to prepare an effective consultation document.

Having seen how consultation documents worked in 2015 and 2018, we all now have a better understanding of what constitutes a good consultation document. SOLGM guidance on consultation documents is a useful reference. For inspiration, you can also look at the consultation documents of the finalists in SOLGM's 2018 Great CD Competition.

Infrastructure strategies

Infrastructure strategies are important documents, as they identify significant challenges and scenarios that a council faces.

Presenting a clear and credible perspective of how a council plans to manage its current and future infrastructure challenges over the next 30 years, and more, is a difficult task. This is because the story will often involve tensions, trade-offs, risks, certainties (not enough money), uncertainties (unplanned expenses), and making difficult decisions.

Infrastructure strategies were included in LTPs for the first time in 2015. In 2018, we did not see as many of the improvements from 2015 as we expected. Some infrastructure strategies reflected a minimalist approach. Rather than

being strategic, they were more like elaborations on sets of asset management plans.

To be more effective, infrastructure strategies could improve in the following ways:

- » be clear about the condition of the council's critical assets, and what this means for the management of infrastructure assets;
- » be better integrated and/or consistent with financial strategies;
- » clearly outline the link between assets and the services they support, by better describing the levels of service;
- » consider the potential effects of climate change on each asset group; and
- » address the main matters across all of the council's infrastructure asset groups.

We expect infrastructure strategies to be better developed in 2021 than in 2018. For many councils, this means their infrastructure strategy will need to better reflect a sound knowledge of their assets' condition, performance and lives. A good infrastructure strategy will be supported by sound asset management plans and will align with the financial strategy.

We will also be looking for a greater focus on the high-level challenges facing councils and their communities than in the 2018 strategies. We encourage councils to look beyond the explicit specifications in the legislation. For example, several councils have indicated that they will extend their infrastructure strategy's forecast period beyond the 30-year minimum. In our view, a good infrastructure strategy would cover a full renewal cycle. Councils that are extending the period covered by the infrastructure strategy should also take account of how issues identified during the extended period might affect, and be reflected in, their financial strategy.

Your infrastructure strategy should be transparent about the nature and extent of any uncertainty in the reliability of your underlying asset information, and the implications of that uncertainty. It should also clearly identify the nature and extent of the uncertainties associated with significant assumptions, including climate change and the council's ability to complete the proposed capital expenditure programme.

There has been a lot of comment in recent years about "the renewals gap", which is the difference between depreciation and the level of renewals work undertaken. Where significant gaps are identified, your infrastructure strategy should explain why the gap exists, its implications, and the council's planned response, if one is required. Where depreciation rates do not align with renewals cycles, they should be amended to reflect the reality of the assets' lives.

The publication, *Asset management and long-term planning*, on Audit New Zealand's website, provides useful guidance for you in preparing your infrastructure strategy.

Financial strategies

Financial strategies are a critical part of the LTP. Your council's financial strategy should be clear about the council's financial goals and trade-offs, and present these in a clear but concise way.

Your financial strategy should demonstrate that the council's proposed approach is financially prudent. It should also address any longer-term issues with a perspective well beyond the minimum 10 years of the LTP. It should reflect all the significant issues that have been identified by your infrastructure strategy or other aspects of your council's planning process.

While financial strategies have been required for the last three LTPs, we have seen little overall improvement in their content or how they are presented during this time. We encourage all councils to improve their financial strategies in 2021-31. A useful place for most councils to start would be to focus on presenting clear and succinct information that is truly strategic.

Assumptions

The LTP is required to identify the significant forecasting assumptions. The key assumptions we expect to see underpinning all LTPs in 2021-31 include:

- » the life cycle of significant assets;
- » sources of funds for future replacement of significant assets;
- » the effects of climate change and Covid-19;
- » projected growth;
- » demographic changes, including factors such as the effects of an ageing population;
- » potential climate change effects; and
- » future price changes (inflation).

These should be complemented by a range of lower-level and more activity-specific assumptions.

Your LTP should include enough detail about the uncertainties around significant assumptions, and the potential effects of these uncertainties, for your readers to understand the full implications and risks associated with them. The LGA requires that the LTP disclose the potential effects on the financial estimates caused by any high level of uncertainty.

Performance frameworks and performance measures

The performance framework in the LTP has two key parts.

First, it should clearly identify the community outcomes. These are the outcomes that the council believes will promote the present and

future social, economic, environmental, and cultural well-being of its district or region.

The community outcomes, along with other information on the local authority's objectives and priorities, are important to providing a succinct, medium-term, strategically-oriented view of the local authority's goals. The LGA also requires councils' LTPs to identify any significant negative effects of their activities on the social, economic, environmental, and cultural well-being of the local community.

Secondly, the performance framework sets out the levels of service, performance measures, and targets for each group of activities. It presents, the intended levels of service, in detail for the first three years of the LTP and in outline for the remainder. This forms the basis for the council's public accountability.

Importantly, these two parts of the performance framework need to align in the groups of activities statements. On the one hand, the community outcomes should be part of the rationale for the delivery of activities. On the other hand, the service performance information should reflect what the council does to contribute towards achieving community outcomes.

A well-designed, cohesive performance framework will clearly show the links between the forecast performance information, at the activity level, and relevant community outcomes. It is good practice to also have a small set of well-being indicators as part of the performance framework. These would provide a strong foundation from which the council can report meaningfully on the effects of its activities on the four well-beings, and on its performance in delivering planned levels of service.

It is important that the council selects appropriate forecast performance measures and targets, so it can provide a meaningful picture of its activities and levels of service.

This includes considering the significance of each activity along with aspects of service and performance that are of greatest importance to the community.

The performance measures in your LTP should focus on key aspects of the services and key risks. When developing your frameworks and selecting performance measures, don't compromise by choosing performance measures that are easily measured but not relevant.

If there is no relevant measure, find an alternative way of presenting the issue or risk in your LTP. You might also consider having fewer, but more relevant, measures. Remember, however, that your council must report all (relevant) mandatory performance measures.

Be aware that you will need sufficiently specific definitions for your performance measures, so that it is clear what is (and isn't) measured. You will also need robust systems behind each measure, which allow you to report your performance reliably.

Audit and risk committee involvement

In developing their LTP project plans, councils should consider where and how their audit and risk committee can contribute to a more robust process. This needs to be limited to areas related to the committee's own role – for example, reviewing the financial strategy and assessing overall prudence. It should not cross over into reviewing decisions the council makes as part of its role in developing the LTP.

The committee's external appointees are not part of the council's planning and decision-making responsibility. However, their specialist skills, combined with their separation from the planning process, can add valuable perspectives.

Project plans and timetables

Preparing an LTP is a large task for councils, which requires significant internal staff time. There are also external costs, which include the audit fee. Councils need to prepare well for developing their LTP, to avoid timing delays and cost increases.

We are seeing councils around the country that are at different stages in the process. Some councils are well-advanced and have undertaken some pre-consultation with their communities.

As in previous LTP audit rounds, Audit New Zealand is committed to working with councils to meet their obligations and statutory deadlines. Bear in mind that LTP audits place additional demand on our resources as well as yours. Covid-19 issues, and the compressed time frames from the later-than-usual completion of 2019/20 annual reports, will place additional demands on both councils and auditors in 2020 and 2021.

The statutory framework means most councils run to a similar LTP timetable. We will have little flexibility where a council does not deliver information to us according to the agreed schedule, or has delays in the development of its LTP. Please consult with your auditor as part of developing your project plan, set realistic time frames for the key milestones within your LTP project, and actively monitor and manage your work streams to meet these. If issues arise or you encounter problems, talk to your auditor early.

As part of our audit engagement letter, we will agree to timeframes. We will also establish when we need you to provide information. Please keep in mind when you are planning that we will need sufficient time with the information that you provide, in order to complete our work and help you to achieve the agreed deadlines.

Audit New Zealand's approach

Auditing the consultation document involves reporting on:

- » whether the consultation document provides an effective basis for public participation in the council's decisions about the proposed content of its LTP; and
- » whether the underlying information and assumptions are reasonable.
- » Auditing the LTP involves reporting on whether it provides a reasonable basis for;
- » long-term, integrated decision-making and co-ordination of the Council's resources; and
- » its accountability to the community.

We also assess whether the information and assumptions underlying the forecast information are reasonable and report on the Council's disclosures under Part 2 of the Local Government (Financial Reporting and Prudence) Regulations 2014.

The Office of the Auditor-General has refreshed its LTP audit methodology. While our emphasis and expectations have evolved in the areas identified above, there is no substantive change to our overall approach. The nature of the work we do is unchanged from 2018. We will work with your council's LTP project management team to identify how we can ensure that the audit process runs smoothly for both parties.

In addition, Audit New Zealand is reviewing its approach to ensure that it continues to:

- » carry out work efficiently;
- » provide our auditors with up-to-date guidance and precedent advice, so they are consistent in their judgements and their advice; and
- » share audit perspectives with the local government sector.

- » Our in-house specialists continue to support our audit teams' work on councils' financial models, asset management plans, and infrastructure strategies.

As in previous years, we will operate a central support function that resolves issues and distributes guidance to our auditors and, where appropriate, to councils.

For specific guidance and advice, your council can use SOLGM's good practice guides, approach SOLGM directly, or discuss matters with its advisors.

You can also refer to the Office of the Auditor-General's website for two reports on the 2018-28 LTP round:

- » *Long-term plans: Our audits of councils' consultation documents; and*
- » *Matters arising from our audits of the 2018-28 long-term plans.*

SOLGM has updated its LTP good practice guides, most of which councils will be familiar with from previous LTPs. The 2021-31 suite of guides comprises:

- » Jigsaw 2021: Piecing it Together;
- » Dollars and Sense 2021: Finance, infrastructure and the LTP;
- » Your Side of the Deal 2021;
- » Telling Our Stories 2021: Guide on Consultation Documents;
- » Living Through the LTP 2021;
- » Navigating the post-lockdown LTP: A practice note; and
- » Climate change in the 2021-31 LTP

These guides can be accessed by councils through the SOLGM website. To access the information in this website visitors will need their council password.

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