

Emergency Audit & Risk Committee Agenda - 16 April 2025

Council Chambers
101 Bank Street
Te Awamutu



Deputy Chairperson
Roger Gordon

Members

Her Worship the Mayor SC O'Regan, AW Brown, LE Brown, RDB Gordon, MG Montgomerie, Bruce Robertson, Independent Member - Carol Bellette

16 April 2025 02:15 PM

Agenda Topic	Presenter	Time	Page
1. Apologies	Chairperson	02:15 PM-02:16 PM	2
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3. 2025-34 Long Term Plan Development	Georgina Knapp, James Graham	02:16 PM-02:45 PM	4

Closing Karakia



APOLOGIES



DISCLOSURE OF MEMBERS' INTERESTS

Members are reminded to declare and stand aside from decision making when a conflict arises between their role as an elected member and any private or other external interest they may have.

COMMITTEE REPORT



To: The Chairperson and Members of the Audit and Risk Committee
From: Manager Strategy
Subject: **2025-34 Long Term Plan development**
Meeting Date: 16 April 2025

1 PURPOSE - TAKE

The purpose of this report is to seek approval from the Audit and Risk Committee to recommend to Council the direction to follow in response to matters raised by Audit NZ through the audit of the draft 2025-34 Long Term Plan.

2 EXECUTIVE SUMMARY – WHAKARĀPOPOTOTANGA MATUA

The audit process on the 2025-34 Long Term Plan (LTP) has been taking place since early February 2025. During the course of the audit we have worked through many issues however three key matters have arisen that require resolution.

In order to be able to proceed to the consultation stage, approval from the Audit and Risk Committee is sought on how best to respond to these matters.

3 RECOMMENDATION – TŪTOHU Ā-KAIMAHI

That the Audit and Risk Committee

- a) *Receives the report of Melissa Russo, Manager Strategy, titled '2025-34 Long Term Plan development', (document number 11411864);*
- b) *Notes that Audit NZ have commenced an audit of Council's draft 2025-34 Consultation Document and supporting documents (LTP Documentation) and in doing so have identified three elements within the current documentation that may lead to a 'modified audit' opinion.*
- c) *For the reasons set out in the report, recommends to Council to:*
 - i. *retain water services for the nine years covered by the 2025-34 LTP noting that this will lead to a 'modified opinion' from Audit NZ on that matter;*

- ii. *retain the current growth assumptions, including those for Development Contributions revenue, in the LTP documentation noting that this is likely result in a 'modified opinion' from Audit NZ on that matter;*
 - iii. *amend the approach in the LTP documentation for calculating depreciation to match Audit NZ's inflation-adjusted method on total assets, noting that this approach will not lead to a 'qualified or modified opinion' from Audit NZ on that matter.*
- d) *Notes that Council will receive a modified opinion on the basis of not adopting the 2025-34 LTP before the legislated date of 30 June 2025.*

4 BACKGROUND – KŌRERO WHAIMĀRAMA

Under section 93C of the Local Government Act 2002, a Long Term Plan Consultation Document must include a report from the Auditor-General.

On 29 January 2025, Elected Members approved the 2025-34 Consultation Document and supporting documents for auditing. Audit NZ, on behalf of the Auditor-General, commenced its audit on 4 February 2025 with the audit scheduled to finish after approximately four weeks. However, the audit is still continuing and a report for the purpose of section 93C has not been finalised.

Through the course of the audit, Audit NZ have identified three components within the LTP documents which they consider may lead them to provide a “modified opinion”. A modified opinion does not prevent Council from consulting with the community on its LTP.

As set out below, Council staff have considered these three components and recommend that Council proceeds with its arrangements in the draft LTP for two components (and accepting the modified audit opinion on those matters), while amending the LTP for one component to avoid a modified audit opinion for that component.

As detailed below, staff consider that there are unique circumstances which justify accepting a ‘modified’ audit opinion for two components in this case.

Notwithstanding the above, Council staff consider that the Draft 2025-34 LTP Consultation Document is robust. It clearly and concisely informs the community of the significant issues, plans and projects that the Council intends to deliver over the nine years of the Long Term Plan.

1. Inclusion of waters for the nine years covered by the 2025-34 LTP

For the purposes of the LTP, the assumption was made to retain water services for the full nine years of the plan. This was despite the planned consultation on Council’s

future model for delivery of water services, which included the option of water services being delivered through a Council Controlled Organisation from year 2 of the LTP.

This approach was taken as:

- a) Consultation on the LTP is a separate statutory process from consultation on the future water services delivery model.
- b) There is no guarantee what the outcome of the consultation on the future water services delivery model will be.
- c) If the LTP did not include water services delivery from year 2, this could increase legal risk of the water services delivery model being considered 'pre-determined' and may create uncertainty around the recovery of development contributions.

Early in the audit process, Audit NZ advised staff of the inconsistency between the assumption made in the LTP and the consultation planned on the future model for delivery of water services. They advised that this inconsistency could lead to a 'qualified opinion' in this respect. This has been further clarified as the audit has progressed.

In addition, in March 2025, the Minister of Local Government provided further guidance from the Department of the Internal Affairs prepared in conjunction with the Office of the Auditor General advising that if there is a lack of alignment between the financial information underlying the consultation on the Council's LTP and the financial information presented in its water services consultation, the audit report on the consultation document for the LTP would be modified.

Recommendation

Waipā District Council is facing a unique challenge in that it must approve its LTP in the same year as consulting on its future water services delivery model. Given this, it is proposed that Council accepts a modified audit opinion on this point. There is no realistic alternative to avoid this as the outcome of the waters consultation is not yet known.

It is intended that Council will undertake public consultation for both the LTP and the delivery of water services in parallel. The LTP Consultation Document will include information about the parallel process, ensuring full transparency with the community.

2. Development contributions

The second matter raised by Audit NZ relates to the assumptions on the level of growth that will occur in the district and the corresponding revenue Council is forecasting to collect from development contributions.

A large portion of the growth projected in our development contribution revenue modelling in the district is non-residential (industrial and commercial) which does not necessarily translate directly to growth in population. Growth in population is what

Audit NZ believe is commonly used when projecting development contribution revenue, and therefore have struggled to draw the connection between to the land we have enabled for non-residential development and demand. Given this, Audit NZ consider that the assumed growth is reasonable but too uncertain and this will likely result in a modified audit opinion.

The Waipā District is a Tier 1, high growth Council, and has planned and enabled infrastructure to meet the obligations of enabling growth to occur. We are also located in close proximity to Hamilton, a tier 1 high-growth metropolitan city. It has been reported that there is an inadequate supply of land for industrial development in Hamilton and Waipā is likely to experience increased industrial development, even without the corresponding population growth. As such, Council staff consider that regard must be had to the sub-regional context and that there is justification in not basing growth predictions solely on population growth. Accordingly, Council staff have a different perspective on the methodology used to predict growth than that used by Audit NZ. Additional evidence to support our assumptions has been sourced and provided to Audit NZ, including updated population projections provided by Professor Michael Cameron of Te Ngira (formerly NIDEA) at the University of Waikato.

Notwithstanding this, Audit NZ maintains that the assumed revenue is still too high, which will likely result in a modified audit opinion.

Recommendation

Staff consider the assumptions made with respect to growth and development contributions revenue are reasonable, particularly given the wider sub-regional context. On this basis, staff recommend that Council retains the current assumptions, notwithstanding this will likely result in a modified audit on this point.

3. Depreciation

Council has a significant growth in assets over the nine-year plan moving from a total asset valuation of assets in year one of \$2.7 billion to \$4 billion in year nine.

The depreciation calculation models the timing of asset additions and disposals, useful life of assets, project delivery into finished assets and revaluations on a regular basis through the LTP cycle. Given the size of the asset portfolio and the many moving parts in modelling depreciation, small adjustments can result in large changes.

After working with Audit NZ we have reduced our variance in depreciation calculation by over 80% and believe that the revised depreciation number Audit NZ has presented is a fair and reasonable reflection to ensure we are collecting sufficient rates to replace assets over the long term.

The impact of this is higher average rates increases for years 4 and 5. The details of this are included in the table below.

Year	Average rate increases currently projected	Average rates increases projected including the recommended approach
1	15.50%	15.50%
2	10.70%	10.70%
3	6.90%	6.90%
4	2.80%	6.50%
5	2.80%	4.50%
6	2.30%	2.30%
7	2.30%	2.30%
8	2.30%	2.30%
9	2.30%	2.30%

Recommendation

Staff recommend accepting the Audit NZ recommendations on increasing depreciation inflation.

This approach will likely not result in a modified audit opinion.

Timing of adoption of LTP

In addition to the matters raised by Audit NZ as described above, Council will also receive a qualified audit opinion on its Long Term Plan due to not meeting the 30 June 2025 legislative deadline to adopt the plan.

5 SIGNIFICANCE & ENGAGEMENT – KAUPAPA WHAI MANA ME NGĀ MATAPAKINGA

Staff have considered the key considerations under the Significance and Engagement Policy, in particular sections 7 and 8 and have assessed that the matter(s) in this report have a med-high level of significance. Council will be consulting on the LTP.

6 OPTIONS – NGĀ KŌWHIRINGA

Option	Advantages	Disadvantages
<u>Option 1:</u> Accept the staff recommendations.	<ul style="list-style-type: none"> Most likely option to enable a rate strike of year one rates. Minimal additional staff resourcing required. Limits the additional auditing costs. 	<ul style="list-style-type: none"> Will likely receive a modified opinion on the basis of the waters and growth, including development contribution revenue, assumptions. May negatively impact on Council's reputation.
<u>Option 2:</u>	<ul style="list-style-type: none"> May not result in any modified opinions. 	<ul style="list-style-type: none"> Rework of the financials and supporting information required.

Accept Audit's recommendations, fully or in part.		<ul style="list-style-type: none"> Rates strike will be delayed resulting in significant logistical, financial and reputational issues.
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The recommended option is Option 1. The reason for this that it presents a reasonable, pragmatic risk management approach that addresses Audit NZ's concerns whilst avoiding significant delays, increasing costs and further complications to the project.

7 OTHER CONSIDERATIONS – HEI WHAIWHAKAARO

Council's Vision and Strategic Priorities

Legal and Policy Considerations – Whaiwhakaaro ā-Ture

Staff confirm that the staff recommendations comply with Council's legal and policy requirements.

Section 94 of the Local Government Act 2002 requires that the LTP contains a report from the Auditor-General assessing the plan based on the legislated purpose an LTP.

Financial Considerations – Whaiwhakaaro ā-Pūtea

The total costs to amend the draft LTP Consultation Document and supporting material in accordance with the recommendations contained in this report are not significant.

Risks - Tūraru

The following significant risks have been identified and will be treated as set out below:

Risk Description	Current Residual Risk Rating	Current Treatments	Target Residual Risk Rating – if different from current rating	Planned Additional Treatments
Negative impact on Council's reputation due to a modified audit opinion	High	Communication of the current operating environment and context for decision making e.g. changes to waters legislation	Medium	Communication of the reasons for modification.

Iwi and Mana Whenua Considerations - Whaiwhakaaro ki ngā Iwi me ngā Mana Whenua

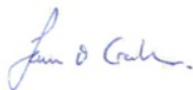
There are no known matters in this report that relate specifically to iwi and mana whenua.

8 NEXT ACTIONS

Action	Responsibility	By When
Present the recommendations of the Audit and Risk Committee to Council to align with approval of the draft 2025-34 Long Term Plan Consultation Document and supporting documents for consultation	Strategy	ASAP



Melissa Russo
MANAGER STRATEGY



Reviewed by James Graham
ACTING CHIEF FINANCIAL OFFICER



Reviewed by Georgina Knapp
ACTING GROUP MANAGER BUSINESS SUPPORT



Approved by Kirsty Downey
ACTING DEPUTY CHIEF EXECUTIVE/ GROUP MANAGER STRATEGY