

Report to the Council on the audit of  
**Thames-Coromandel District Council's**  
Long-Term Plan Consultation Document for the period  
1 July 2018 to 30 June 2028

# Report to the Council

We have completed the audit of Thames-Coromandel District Council’s (the Council) Long-Term Plan Consultation Document (CD) for the period 1 July 2018 to 30 June 2028. This report sets out our findings from the audit and draws attention to our detailed findings, and where appropriate makes recommendations for improvement.

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## Key messages

We have completed the audit of Thames-Coromandel District Council's (the Council) Long-Term Plan Consultation Document (CD) for the period 1 July 2018 to 30 June 2028 and issued an unmodified opinion on 13 March 2018. Overall, we were satisfied the CD adequately presented the Council's issues and there is enough detail to facilitate consultation with the community.

### Issues identified during the audit

Section	Recommendation	Urgent	Necessary	Beneficial
4.1	<b>Financial strategy</b> The Council should ensure they have processes in place to manage internal borrowing arrangements. The Council will need to consider the implications of the financial strategy beyond the current ten years to ensure the rates burden continues to be set at a level that is fair to current and future ratepayers.		✓	
4.2	<b>Infrastructure Strategy</b> The Council to consider our recommendations for improving the infrastructure strategy.			✓
4.4	<b>Quality of asset-related forecasting information</b> Continue to improve the condition information held for infrastructure assets and, if required, adjust the useful lives of the assets.		✓	

### Future focus

As well as the opinion issued on the CD we will also issue an opinion on the final Long-Term Plan (LTP) that will be adopted before 1 July 2018.

The Council needs to ensure there are systems in place to monitor its actual performance against budgets, levels of service and performance measures included in the LTP from 1 July 2018. These systems will assist with annual reporting, and also internal monitoring and reporting to the Council.

### Thank you

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



Athol Graham  
Audit Director  
23 April 2018

## **1 Our audit opinion**

### **1.1 We issued an unmodified audit opinion**

We issued an unmodified audit opinion on the Council's CD on 13 March 2018.

This meant we were satisfied that the Council's CD meets its statutory purpose and provides an effective basis for public participation in the Council's decisions about the proposed content of the 2018-28 LTP.

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

### **1.1 Unadjusted misstatements**

The CD is free from material misstatements, including omissions. However, in the course of the audit, we found certain misstatements that are individually and collectively not material to the CD.

We have discussed all the misstatements that we found with management. All misstatements have been adjusted.

## **2 Audit scope and objective**

The scope of our audit engagement and our respective responsibilities are contained in our audit proposal and arrangements letter dated 1 December 2017.

## **3 Control environment**

Our approach to the audit was to identify, confirm and assess the Council's key processes and controls over the underlying information and ultimate production of both the CD and the LTP. The purpose of this assessment was to enable us to plan the most effective and efficient approach to the audit work needed to provide our two audit opinions.

From a review of the self-assessment and key controls relating to the underlying information and development of the CD, we noted that:

- the control environment, project planning and quality assurance process are sound;
- the budgeting/planning process is thorough;
- the financial model in place is adequate for the purposes of the CD; and
- the asset management planning undertaken by the Council is adequate for forecasting future costs for both operational and capital spending.

Due to the nature of the CD not all controls were able to be tested for audit purposes and therefore in those instances, we adopted a substantive approach.

## **4 Areas of audit emphasis**

During the planning stage of the audit, and our review of the content of the CD, we identified the following key risks and issues which were areas of emphasis during our audit. In this section of the report, we comment on our findings on those matters.

### **4.1 Financial strategy**

We reviewed the Council's financial strategy (the strategy) for the purpose of understanding how it informs key financial decisions and, as a result, the forecast financial modelling that underlies the CD. The strategy is critical because it enables the Council's strategic intentions to be expressed in terms of the impact on the community's rates and debt.

For the first two years of this LTP, the Council is forecasting to breach its own rates limit of rates increases no more than LGCI plus 2%. This reflects the changes in the strategy that the Council believes are necessary to ensure a fairer allocation of the rates burden across generations of ratepayers.

#### **4.1.1 Addressing historical rates reductions**

A key issue addressed by Council in the proposed strategy is the apparent use of rates collected for the purpose of renewing assets (generally referred to as depreciation reserves) to keep the general rate low. Council's view is that this practice favoured current and past ratepayers but would eventually require future ratepayers to pay a disproportionate increase in rates to make up for the historically low general rate. Therefore the Council is proposing an immediate increase in the general rate to address this issue.

Until the cash collected from the increased general rate is required the cash funds will be used for other activities through the concept of internal borrowing. The idea of internal borrowing (borrowing and lending between activities within Council) is to reduce the Council's need to borrow externally from a third party. However to apply internal borrowing properly the Council will need to maintain detailed records of the internal borrowing arrangements.

#### **Recommendation**

The Council should ensure they have processes in place to manage internal borrowing arrangements.

### **Management comment**

*Recommendation noted. We have appropriate arrangements for managing the internal borrowing and will continue to maintain those arrangements.*

#### **4.1.2 Refining the long term financial strategy**

One of the challenges we encountered with the Council's financial strategy was understanding the strategy in the longer term. While there is a planned reduction of external debt to only \$4 million by the end of the LTP period it was not clear what Council's strategy was beyond the last year of the LTP. We would expect that the reduced external debt would allow the Council to borrow externally when large renewals projects needed to be completed but it was difficult to see when this might occur from the 30 year infrastructure strategy. Therefore it seemed to us that if the forecast cash flows at the end of the 10 years continued the Council would be in a position whereby they would start to accumulate cash reserves in the following 10 years. While this is long way into the future we recommend that the Council continues to reflect on the financial strategy and the level of rates set to ensure the rates burden continues to be set at a level that is fair to current and future ratepayers.

### **Recommendation**

The Council will need to consider the implications of the financial strategy beyond the current ten years to ensure the rates burden continues to be set at a level that is fair to current and future ratepayers.

### **Management comment**

*The recommendation has been noted.*

#### **4.2 Infrastructure strategy**

The Infrastructure Strategy was assessed against the legislative requirements of the section 101B of the Local Government Act 2002 and good practice guidance. Overall the strategy is of a good standard in that it is succinct, materially meets the legislative requirements and also incorporates much of the additional information that we would expect to see in a good infrastructure strategy.

Our initial review of the draft Infrastructure Strategy identified a number of areas for improvement and the final strategy incorporated many of these suggestions. The remaining areas for improvement would further enhance the strategy.

## **Recommendation**

The Council considers the following areas for improving the infrastructure strategy:

- For significant decisions about capital expenditure, only some projects have had the operating costs disclosed. The inclusion of operating costs for all of the significant capital projects is desirable.
- The impact of the infrastructure issues on assets includes implications of the options disclosed. However these implications focus on the negative possibilities rather than providing a balanced view. The Council should ideally disclose the positive implications as well as the negative.
- Consider showing some preceding years in the capital and operation costs graphs so readers of the strategy can get a sense of the extent to which forecast capital and operation costs is changing relative to historical spend.

## **Management comment**

*We will consider the recommendations when developing the next Infrastructure Strategy.*

## **4.3 Assumptions**

We reviewed the Council's significant assumptions and considered them appropriate. The majority of the assumptions utilised information from external sources, which we consider reliable. Any Council-generated assumptions had gone through an internal challenge process to ensure they were reasonable. We did not identify any assumptions that were outside our expectations based on our client and sector knowledge.

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

We reviewed aspects of the Council's asset management planning, in particular the asset management plans (AMPs) for Water Supply and Pools. We found the AMPs, and the data drawn from them, to be sufficiently robust for the purpose of developing the proposed LTP and CD.

The Council acknowledges that in the 3-Water AMP (Water Supply, Wastewater and Stormwater) some assets lack detailed condition and performance data, especially underground assets. The AMP and infrastructure strategy note this gives rise to a potential risk of financial forecasts for renewals being inaccurate and/or poor lifecycle management plans compromising asset lives and condition. The Council has introduced new asset management software to provide consistent and sustainable management across all of the asset classes. This is expected to help address the condition issues with the Council's asset data and improve asset management.

In addition to storing information about the Council's assets, the new software enables the Council to more effectively and efficiently analyse condition and performance information

to support planning and decision-making. The Council has also introduced new software that provides real time information on how water and wastewater treatment plants are operating and has increased staffing dedicated to maintaining and managing the asset data. Although the Council has made good progress in the last 12 months, further improvements are still needed and this will be an area of focus over the next three years.

#### **Recommendation**

Continue to improve the condition information of infrastructure assets and, if required, adjust the useful lives of the assets.

#### **Management comment**

*Improvements to our asset condition information is ongoing and a priority for the organisation.*

### **4.5 Content of the consultation document**

Key issues identified during our planning that were included in the CD.

#### **4.5.1 Sub-regional aquatic facility**

The current Thames swimming pool is due for replacement by 2027. The Council has investigated the possible design of the aquatic facility, the scope of the services it might offer and possible locations. Three options have been provided with the preferred option being to replace the current Thames pool with a sub-regional aquatic centre with the construction cost estimated as \$21.1 million in total and operating costs of \$1.5 million per annum. The Council assumes that a sub-regional facility will attract \$3 million in external funding from potential funding partners including Hauraki District Council and Sport Waikato. The alternative option is to provide a like-for-like option in Thames within a permanent building.

While costs and funding from partners have been included in the forecasts these are still highly uncertain. Possible locations for the new facility are still being investigated and therefore construction costs and the operating costs may vary from the current proposal.

We are satisfied that the CD provides a reasonable basis for consultation on this project by explaining the uncertainty of the project and the impacts on rates, debt and level of service.

#### **4.5.2 Extending road maintenance level of service on currently unmaintained roads**

There are 24 Council owned roads, or parts of those roads, in the district which Council do not currently maintain. For public safety reasons Council is proposing to provide some maintenance on these roads and has provided three options for consideration.

We are satisfied the information in the CD provides a reasonable basis for consultation.

## **5 Other issues considered during planning**

### **5.1 Library pre-consultation**

The Tairua-Pauanui and Mercury Bay Community Boards wanted to know what their communities thought about different ways of running the Whitianga and Tairua libraries. The Council undertook a month long community engagement process in November and December 2017 to hear from residents and ratepayers on alternative library models and services. The responses showed those communities do not want to see a decrease in the level of services. The Council has taken that feedback on board and no changes to library services are proposed in this LTP. The pre-consultation process and the Council's decision have been clearly disclosed in the CD.

### **5.2 Coastal management**

Climate change and coastal hazards have been identified as a significant infrastructure issue in the Infrastructure Strategy and the options for managing the issues have been discussed. While the Council sees this as an important issue, it is not planning any significant changes to infrastructure in the short term. We have reviewed the climate change assumption used by the Council and consider it reasonable. The results of further research on the risks will inform the Council's response in the future. We are satisfied that the Council's assessment of coastal management and the planned response have been appropriately included in the Infrastructure strategy and discussed in the CD.

### **5.3 Development Contribution policy**

The Council was initially considering whether the development contributions policy is necessary, given low growth projections for the coming 30 years. After consideration the Council has made the decision to keep the development contribution policy at this time, with some updates to project costings rather than any changes to the policy application itself. The Council has noted in the CD that minimal changes have been made to this policy and it is provided as part of the supporting documentation.

### **5.4 Drinking Water Standards Upgrade project**

The issue with drinking water in Havelock North raised awareness of the public risk surrounding public water schemes. The Council will be upgrading all water treatment plants over the next three years and has budgeted \$15 million to undertake this programme of work. There is a strong likelihood that actual construction costs will be different as the Council has not started the tender process and therefore contract costs have not been finalised.

No consultation options have been provided for consideration because the Council believes it has to make sure all water provided to the communities is safe to drink and compliant with the standards. We are satisfied that the disclosure of the issues in the CD is sufficient.

## **6 Adopting and auditing the underlying information**

The Council prepared and adopted the underlying information necessary to support the CD. We have reviewed the underlying information but we have not specifically audited the Council's policies and rates compliance with legislative requirements. It is the Council's responsibility to ensure they comply with all legislative requirements.

## **7 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 was well prepared for the audit of the CD and had a good project plan in place. The Council worked well with us to ensure key deadlines were met in a timely manner.

## **8 Audit of the final LTP**

The next step in the LTP audit process will be the audit of the final LTP. This is scheduled to be in the week commencing 11 June 2018.

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 quickly assess the extent of changes as a result of community consultation and tailor our audit work accordingly. We will then review the draft LTP document to ensure it is consistent with the CD and the outcomes of the consultation.

Under section 94(1) of the Act our audit report on the final LTP forms part of the LTP and the Council is required to adopt the final LTP before 1 July 2018 (section 93(3)). Our agreed timeframes will enable us to issue our audit report in time for the Council meeting on 26 June 2018, at which time the 2018-28 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 all appropriate, material, consequential changes and disclosures have been made.

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

## Appendix 1: Mandatory 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 2018-28 Long-Term Plan Consultation Document (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 proposal and audit arrangements letter dated 1 December 2017 contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carry out our audit in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (revised): <i>Assurance Engagements Other Than Audits or Reviews of Historical Financial Information</i>, the International Standard on Assurance Engagements 3400: <i>The Examination of Prospective Financial Information</i>, and the Auditor-General's Auditing Standards.</p>
Auditor independence	<p>We confirm that, for the audit of the Council's CD for the period 1 July 2018 to 30 June 2028, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.</p> <p>In addition to this report on the Council's CD and all legally required external audits, we have provided an assurance report on certain matters in respect of the Council's Debenture Trust Deed. This assignment is compatible with those independence requirements. Other than this assignment, we have no relationship with or interests in the Council.</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>
Unresolved disagreements	<p>We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the CD. Management has not sought to influence our views on matters relevant to our audit opinion.</p>