

Report to Council on the audit of

Greater Wellington Regional Council LTP

Long Term Plan Consultation Document for the period
1 July 2015 to 30 June 2025

Management report

Report to the Council

We have completed the audit of the Greater Wellington Regional Council LTP's (the Council) Long Term Plan Consultation Document for the period 1 July 2015 to 30 June 2025. 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 the Council's Long Term Plan Consultation Document (LTP CD) for the period 2015-25 and issued an unmodified opinion on 25 February 2015.

Our conclusions from the CD audit

The Council's Consultation Document was an easily-readable and, in our view, highly engaging document, which avoided drifting down into detail, but provided links to the detail where appropriate.

The control environment for the preparation of the plan was sound.

The Council has recognised that the community's need for quality services along with improved infrastructure will have to be balanced with its ability to fund and finance key capital projects. We found that the Council has been clear in its financial strategy to fund key infrastructure projects from debt, (unless supported by government grant funding) with the debt financing costs financed through rates.

While there are notable increases in rates, particularly in the earlier part of the 10 year plan, we have concluded that this approach is prudent taking into consideration the level of proposed capital projects and resulting debt that will be required to be funded over this period.

Based on our review of the Council's asset-related control environment, its infrastructure strategy, a walkthrough of selected asset management plans, the controls over the asset information and a high level review of a sample of asset information for Public Transportation, Water Supply and Flood Protection, we consider the data drawn from asset management planning in support of the LTP CD is good. We note that this is a significant improvement on previous years.

Future focus

As well as the opinion issued on the LTP CD we will also issue an opinion on the final LTP that will be adopted before 1 July 2015.

We have flagged in this document several areas that we intend to revisit at the final LTP audit.

The Council needs to ensure that 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 2015. These systems will assist with annual reporting, and also internal monitoring and reporting to Council.

Thank you

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



Andy Burns
Audit Director
18 May 2015

1 Our audit opinion

1.1 We issued an unmodified audit opinion

We issued an unmodified audit opinion on the Council's LTP CD on 25 February 2015.

This means that we were satisfied the Council's LTP CD meets the statutory purpose and provides an effective basis for public participation in Council's decisions about the proposed content of the 2015-25 LTP.

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

1.2 Unadjusted misstatements

The LTP 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 LTP CD.

We have discussed any misstatements that we found with management. All misstatements were amended prior to Council adopting the LTP CD.

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 13 November 2014 and are set out in Appendix 2.

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 LTP 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.

The control environment around the overall project was sound. Guidance was provided by the project team supported by the LTP Working Group, the membership of which incorporated staff responsible for preparing aspects of the LTP. Internal peer review through the Working Group contributed to the development of a good quality first draft LTP CD for Councillor's consideration and our audit.

4 Areas of audit emphasis

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

4.1 Affordability

The Council has recognised that the community's need for quality services along with improved infrastructure will have to be balanced with its ability to fund and finance key capital projects.

We found that the Council has been clear in its financial strategy to fund key infrastructure projects from debt, (unless supported by government grant funding) with the debt financing costs financed through rates.

As part of our review we note that the Council has been transparent in its discussions regarding the importance of renewing assets as and when necessary to maintain levels of service. The Council also recognised the challenge that the long term benefits of building increased resilience into its bulk water supply and flood protection infrastructure, will have to be balanced by affordability.

From our review, we discussed the following improvements for which the Council has responded positively and updated in the final LTP CD. The Council:

- emphasised the average rates increase over the life of the 10 year plan of 6.5%, but did not point out that the rates increases were at a higher levels in early years (12% in 2016);
- confirmed in the LTP CD that there has been no compromise in the forecast asset renewal costs as a result of affordability issues;
- provided some indicative data to illustrate expected movements in average rates to be paid over the lifetime of the plan, rather than just in year 1; and
- included additional narrative to explain to the reader the story being told by some of the more complex graphs in the LTP CD.

We also recommended that the Council added additional disclosure regarding the water levy impact being subject to decisions by the territorial authorities, and that the monetary impact on rates is not likely to be significant. The Council did not incorporate recommended wording in the final LTP CD.

Management Comment

Auditors comments are noted.

4.2 Public Transportation

Public Transportation makes up a significant portion of the Council expenditure and continues to be an area of public interest. The Council has made significant investment in this activity in recent years with new Matangi trains and transport infrastructure purchased.

The Council also has responsibility for planning and funding the Metlink public transportation network. One of the key initiatives is the development of the new Public Transport Operating Model (PTOM). The PTOM procurement strategy along with the Wellington Regional Transport Plan will ensure that the Council is in compliance with New Zealand Transport Authority's (NZTA) procurement requirement that promotes efficient delivery of services and value for money.

We considered the robustness of the Council's financial forecasts which includes reviewing expenditure costings and the phasing across financial years for significant projects. We also referred to and confirmed that the capital plans and costings are

consistent with those assessed as required in the asset management plan and Infrastructure Strategy as well as the reasonableness of the underlying assumptions.

We noted that a key aim of the Council is an increase in the frequency of trains, and reduction in travel times on key rail journeys. However, this change in level of service is not presently proposed to be measured within the updated performance framework.

We recommend that the Council consider the appropriateness of including a performance measure and related process to capture and report on the changes in level of service in the final LTP.

Management comments

The timing of proposed changes in levels of service in relation to frequency of trains and reduction in travel times on key rail journeys is planned for 2019/20. This timing is discussed on Page 6 of the consultation document. It would be too early to incorporate additional performance measures at this time. We will incorporate relevant measures and a process for monitoring and reporting on these measures once these changes to levels in service have been implemented.

4.3 Water Supply

The Council has responsibility for the bulk water supply within the Wellington region. We note that studies done indicate that there is a risk that there could be prolonged disruption in the bulk water supply in the event of a natural disaster.

As part of our audit, we considered the robustness of financial forecasts for the significant projects. We also reviewed a sample of significant projects such as the "Cross Harbour pipeline". We noted that the assumptions factored into the costing model allow for costs to be spread over a period of four years. In reality, the project will be delivered over a shorter period, but more work needs to be done to firm up that timing, and key to its progression will be the response of the territorial councils.

While we accept that there will be uncertainty regarding project timing and the related expenses, we were comfortable that the total cost estimate was based on the best information currently available. We plan to revisit to consider any changes to projections during the final LTP audit.

Management Comments

Auditors comments are noted. We will be working the territorial authorities and Wellington Water to firm up on the timing and costings of these significant projects.

4.4 Flood Protection

The Council has included significant capital costs in its out year projections of the long term plan to address the effect of climate change on its communities.

As part of our audit, we considered the Council's planned change in the pace of investment in flood protection and noted that the City Centre Project on the Hutt River catchment is the main driver of capex across the forecast period.

From our review there is little detail on the City Centre Project in the lifecycle management section of the asset management plan, other than some general discussion and a cross reference to the Floodplain Management Plan (a separate detailed plan not yet reviewed). We also noted that the basis for the project's costing was not apparent from the asset management plan.

We selected a sample of significant projects scheduled and obtained support for the underlying data. We noted that the costing of these projects was based on historic information combined with current assumptions for climate changes. We understand that Council staff are still investigating the options available and the costs associated with these projects.

We recommend that, prior to the finalisation of the LTP, management should consider whether the historic plan remains an appropriate base to costing the project.

Management comments

We consider that the Hutt Floodplain Management Plan, of which the City Centre project forms a component, is still the most appropriate plan to base costing in the Long Term Plan.

Budget forecasts have been updated and will be further updated as more accurate forecasts costs are developed through feasibility and then detailed design phases of the project. The numbers used in the 2015-2025 LTP are the most up to date we have and were based on the pre-feasibility work undertaken to date.

Implementation of the City Centre project itself will take many years and if the overall budget needs to be changed there will be opportunity for this during the development of the next LTP for the 2018-2028 period using the estimated costs from the feasibility design stage currently under way.

4.5 Content of the LTP CD

We were satisfied that the LTP CD included appropriate information to enable consultation with the public on key issues.

The key issue we identified during the audit of the draft LTP CD related to the right debate.

4.5.1 The Right Debate

The Consultation Document was an easily-readable and, in our view, highly engaging document, which avoided drilling down into detail, but provided links to the detail where appropriate.

We were initially concerned that an early draft of the LTP CD was implying a higher level of consultation with the community than was actually the case. Given that many of the issues described in the document have been the subject of continuous and ongoing consultation with the community, we suggested that the document was clearer on talking about the level of consultation that had already passed, what the community had told Council, and as a result, what was, and was not being consulted on at the point of issuing the LTP CD.

In our view this message was effectively addressed in the final LTP CD.

4.6 Adopting and auditing the underlying information

4.6.1 Infrastructure Strategy & Asset Management Plans

This is the first time that the Council has had to prepare a 30 year Infrastructure Strategy.

Council prepared and adopted the underlying information necessary to support the LTP CD. We reviewed the Council's Infrastructure Strategy and Asset Management Plan (AMPs) with a focus on Public Transportation, Water Supply and Flood Protection based on our risk assessment.

The review of the Council Infrastructure Strategy identified areas for improvement in order to support the Consultation Document effectively. The draft Strategy needed to be more specific about the decisions that have been made and related assumptions. We also noted that the strategy needed to present its financial forecasts more clearly and make the link to defined Levels of Service.

The review also focused on whether the Regional Council AMP's levels of service, financial forecasts and the underlying information are consistently reflected in the Infrastructure strategy and the consultation document.

The Council has considered and responded to our feedback in this area.

Our review of the Public Transport and Water Supply AMPs did not highlight any significant issues. We note that while the quality of the Flood Protection AMP is good, there is little detail on the City Centre Project in the lifecycle management section, other than some general discussion and a cross reference to the Floodplain Management Plan (refer to section 4.4 above).

Based on our review of the Council's asset-related control environment, its infrastructure strategy, a walkthrough of selected asset management plans, the controls over the asset information and a high level review of a sample of asset information for Transportation, water supply and flood protection, we consider the data drawn from asset management planning in support of the LTP CD is good.

We also note that Council had up-to-date AMPs for each class of its activities which is a significant improvement on previous LTP audits (Refer to Appendix 1 for detail).

4.6.2 Funding and financial strategy

The financial management principles and requirements are set out in subpart 3 of Part 6 of the Local Government Act 2002 (the Act):

- Section 101 establishes a general requirement for local authorities to manage financial matters prudently and in a manner that promotes the current and future interests of the community.
- Section 100 requires the Council to balance the budget (breakeven or surplus) or forecast a deficit where it is financially prudent to do so having regards to the various elements set out in section 100.

The Council has proposed increases in rates peaking at 12% during the first three years of the plan (6.5% average increase over the 10 years). We also observed that Council's cash levels increase by \$48m over the 10-year plan, along with total debt increase of \$360m, due to the heavy investment being made in PPE (asset infrastructure) over the period.

While there are notable increases in rates in the earlier part of the 10 year plan, we have accepted that this approach is prudent taking into consideration the level of proposed capital projects and resulting debt that will be required to be funded over this period.

4.7 Project management, reporting deadlines and audit progress

The development of the LTP CD and LTP is a significant and complex project and a comprehensive project plan is required for a successful LTP process. The Council took a positive approach to developing the LTP CD, with the overall project management provided by the Strategy & Community Engagement Group.

The project plan identified key deliverables with appropriate sponsors and key timelines. There was a high level of engagement with the Councillors and the Executive Leadership Team.

Council staff and management worked well with the audit team, and we were able to carry out our work to plan. Also having a good quality first draft of the LTP CD to audit was an important contributor in making our audit progress smoothly.

4.8 Self-assessment

Council provided a self-assessment in order to assist our audit planning. From our review of the Council's self-assessment, we noted that it clearly identifies the key areas of risk and issues facing the Council and the proposed response.

5 Other matters arising from our audit

We completed our planned work on the modules detailed in our audit proposal and arrangements letter and did not identify any further matters that need to be brought to your attention.

6 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 undertaken in the week commencing 15 June 2015. To ensure our audit of the LTP is efficient we expect Council to prepare a schedule of changes to the financial forecasts, draft LTP and performance framework that were the basis of the LTP 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 2015 (section 93(3)). Our agreed timeframes will enable us to issue our audit report in time for the Council meeting on 30 June 2015, at which time the 2015-25 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 LTP 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 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.

Appendix 1: Asset Management Plans

Our Specialist Audit and Assurance Services (SASS) specialist has reviewed the Council's Asset Management Plan (AMPs) with a focus based on risk assessment on Public Transportation and Water Supply.

From our review we noted that the Council has included significant capital costs in its out year projections of the long term plan to address the effect of climate change on its communities. As such we also carried out a desktop review to establish whether the Flood Protection AMP adequately support this position.

Based on a review of the Council's self-assessment, a high level assessment of its planning systems, its infrastructure strategy, and a walkthrough of the asset management plans for Bulk Water Supply and Public Transportation the overall quality and material completeness of Asset Management Plans is "Good". Our assessment is based on the following:

- Planning is well coordinated, detailed and carried out to a timetable that ensures it integrates well with the Council's overall planning timetable.
- Lifecycle strategies are well considered and detailed. Financial forecasts link well to them.
- The quality of asset information appears good.
- Assumptions are clear and well thought out.

In conducting our review we also take into consideration the following:

Control environment

In conducting our assessment of the Council's asset management control environment we

- Perform a high level assessment of the Council's planning systems.
- Took note that a significant improvement programme has been underway and continues in Public Transportation.

Based on a review, we have assessed the Council's asset management control environment has "Good" for the purposes of supporting the CD/LTP.

Data Reliability

Public Transportation reliability is graded as "Reliable" (Grade B). Whilst reliability is not so explicit in Water Supply, our own testing indicates that there is good quality data on which to base planning - particularly given the lifecycle strategies that the Council employs.

When combined with the approach to putting the forecasts together (based largely on specific work programmes), and the nature of the work planned (some major capital projects, allocated renewals budgets, significant O&M), the data appears reliable as a basis for robust planning.

Based on a review of the Council's asset management plan, the controls over the asset information and a high level review of a small sample of asset information for "Bulk" Water Supply and Public Transportation, the data drawn from asset management planning is "Good" in support of LTP.

Financial Information

The need for major capital projects was evidenced and linked to clear organisational objectives. Costing for these projects makes appropriate use of external expertise to supplement the Council's own resources.

There is a sound basis for renewals forecasts, with further work planned to strengthen this further as criticality ratings are assigned and further condition information becomes available.

Based on a review of the Council's asset management plans and supporting information for Bulk water Supply and Transportation, the financial information in the AMPs is "Good" at linking the asset management strategies and forecast maintenance, renewal and capital programmes in the LTP. The financial information in the AMPs reflects reasonable underlying cost estimates and their coverage of the lines of expenditure we expect, their basis and support for Schedule 10(3) requirements being met by the financial forecasts in the LTP.

Assumptions

Planning processes are well aligned and the clear documentation of assumptions, both corporately and within the AMPs themselves is very clear. Identification of the sensitivity of assumptions is an example of very good practice.

Based on a review of the Council's asset management plans for "Bulk" Water Supply and Public Transportation, asset related assumptions are "Excellent" in their completeness and appropriateness. There is consistency between Asset Management Plans and LTP.

Level of Service

From our review of the Council's asset management plans for Public Transportation and "Bulk" Water Supply we noted that:

- There was a good process undertaken by Council to establish levels of service.
- They are clearly expressed, link to Council Outcomes and cover the aspects of performance we would expect.
- There are clearly stated objectives for each activity, although further work is needed to confirm the service levels for bus infrastructure.
- Financial forecasting has been informed by work to meet service levels.

Based on a review of the Council's asset management plans for "Bulk" Water Supply and Public Transportation, levels of service are "Good".

Flood Protection

As noted above we carried out a desktop review of the Flood Protection plan. Overall we assessed the quality of the plan is "Good", however we noted that:

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- The City Centre Project on the Hutt River catchment is the main driver of capex across the forecast period and across the whole activity.
 - There is little detail on the City Centre Project in the lifecycle management section of the asset management plan, other than some general discussion and a cross reference to the Floodplain Management Plan (a separate detailed plan not yet reviewed).
 - The basis for the project's costing was not apparent from the asset management plan.

Other than the points noted above we found that the assumptions are clearly documented and appear reasonable, along with good reference to level of service within the AMP.

Appendix 2: 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 2015-25 Long Term Plan Consultation Document (LTP 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 LTP CD does not relieve management or the Council of their responsibilities.</p> <p>Our audit proposal and audit arrangements letter dated 13 November 2014 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 Greater Wellington Regional Council's LTP CD for the period 1 July 2015 to 30 June 2025, 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>Other than our work in carrying out all legally required external audits, we have no relationship with or interests in the Council or any of its subsidiaries.</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 Greater Wellington Regional Council LTP 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 Greater Wellington Regional Council LTP 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 LTP CD. Management has not sought to influence our views on matters relevant to our audit opinion.</p>