

NOTICE OF A RISK AND ASSURANCE COMMITTEE MEETING

**Via Zoom link
Monday, 18 May 2020
Commencing at 10.00am**

ORDER PAPER

APOLOGIES

DECLARATION OF ANY INTERESTS IN RELATION TO OPEN MEETING AGENDA ITEMS

PUBLIC FORUM

	Page
ITEM 01 CONFIRMATION OF MINUTES – RISK AND ASSURANCE COMMITTEE MEETING 2 MARCH 2020	5
ITEM 02 RISK AND ASSURANCE ACTION SHEET	9
ITEM 03 GENERAL MANAGERS’ UPDATE	10
ITEM 04 KOHA REPORT	13
ITEM 05 QUARTERLY REPORT TO 31 MARCH 2020	15
ITEM 06 RISK AND ASSURANCE WORK PLAN	27
ITEM 07 NZTA DRAFT INVESTMENT AUDIT REPORT	30
ITEM 08 LOCAL GOVERNMENT SECTOR COVID-19 FINANCIAL IMPLICATIONS REPORT	40
ITEM 09 RATES REMISSIONS AND NON-PAYMENT	85
ITEM 10 CROWN INFRASTRUCTURE PARTNERS PROJECTS (and verbal update on roading projects)	90
ITEM 11 RECOVERY PROCESS (and verbal update)	102
ITEM 12 RESOLUTION TO EXCLUDE THE PUBLIC	104

PUBLIC EXCLUDED BUSINESS

- ITEM 13 CONFIRMATION OF IN-COMMITTEE MINUTES – RISK AND ASSURANCE
COMMITTEE MEETING 2 MARCH 2020**
- ITEM 14 RESOLUTION TO RESTATE RESOLUTIONS AND READMIT THE PUBLIC**

**A COMMITTEE RISK WORKSHOP WILL BE HELD AT THE CONCLUSION OF THE MEETING:
COVID RISKS – REVENUE AND PROJECT DELIVERY**

Independent Chairperson: Arihia Tuoro

Members: Cr Steve Nelson
Cr Debi Hocart

Ex-Officio: Mayor Lyn Riesterer

Committee Secretary: Gae Finlay

Quorum: 2

LOCAL AUTHORITIES (MEMBERS' INTERESTS) ACT 1968

Councillors are reminded that if you have a pecuniary or non-pecuniary interest in any item on the agenda, then you must declare this interest and refrain from discussing or voting on this item, and are advised to withdraw from the Council chamber.

Aileen Lawrie
CHIEF EXECUTIVE OFFICER

RISK AND ASSURANCE COMMITTEE TERMS OF REFERENCE

1. The Risk and Assurance Committee is a Committee of the Ōpōtiki District Council.
2. **Objective**

The objective of the Committee is to assist the Council in carrying out its duties in regard to financial reporting and legal compliance.
3. **Membership**

Independent Chairperson: Councillor Tuoro
Members: Councillor Nelson, Councillor Hocart
Ex-Officio: Mayor Riesterer
4. **Meetings**
 - 4.1 A quorum is two members.
 - 4.2 The Committee shall meet as needed but in any event, at least annually.
 - 4.3 Notice of meetings shall be in accordance with the requirements set out in the Local Government Act 2002.
5. **Terms of Reference**

The Risk and Assurance Committee will:

 1. *Review Council's annual financial statements with Council management and the Auditors prior to their approval by Council.*
 2. *Oversee statutory compliance in terms of financial disclosure.*
 3. *Monitor corporate risk assessment and internal risk mitigation measures and oversee:*
 - *Council's risk management framework*
 - *internal control environment*
 - *legislative and regulatory compliance*
 - *internal audit and assurance*
 - *oversee risk identification on significant projects*
 - *compliance to Treasury Risk Management Policies.*
 4. *Review the effectiveness of Council's external accountability reporting (including non-financial performance).*
 5. *Conduct the process for the Chief Executive's performance, for report to Council.*
 6. *Draw to the attention of Council any matters that are appropriate.*

7. *Investigate and report on any matters referred to the Committee by Council. The circumstances the Council may refer matters to the Risk and Assurance Committee include:*
 - a. *Any significant issues arising from the financial management of councils affairs.*
 - b. *Any complaints against elected members or alleged breaches of the Council's Code of Conduct.*
 - c. *Any significant issues arising from Audit New Zealand processes.*
 - d. *Due Diligence on strategic asset acquisition or disposal.*
 - e. *Setting up of Council Controlled Organisations.*
 - f. *Development of a Council risk assessment and mitigation strategies.*

6. **Authority**

- 6.1 The Committee is authorised to investigate any activity referred to it by Council resolution. It is authorised to seek any reasonable information it requires from Council staff.
- 6.2 The Committee is authorised by the Council to obtain outside legal or other independent professional advice and to arrange for the attendance at meetings of outside parties with relevant experience and expertise if it considers this necessary.



MINUTES OF AN ŌPŌTIKI DISTRICT COUNCIL RISK AND ASSURANCE COMMITTEE MEETING HELD ON MONDAY, 2 MARCH 2020 IN THE ŌPŌTIKI DISTRICT COUNCIL CHAMBERS, 108 ST JOHN STREET, ŌPŌTIKI AT 10.00AM

PRESENT:

Arihia Tuoro (Chairperson)
Councillor Debi Hocart
Councillor Steve Nelson
Mayor Lyn Riesterer

IN ATTENDANCE:

Aileen Lawrie (Chief Executive Officer)
Bevan Gray (Finance and Corporate Services Group Manager)
Greg Robertson (Chief Financial Officer)
Muriel Chamberlain (Corporate Services Manager)

Deputy Mayor Shona Browne

APOLOGIES

Nil.

DECLARATION OF ANY INTERESTS IN RELATION TO OPEN MEETING AGENDA ITEMS

The Chairperson declared an interest in any item in relation to the Ōpōtiki Harbour Development Project as she is a Director of Whakatōhea Mussels (Ōpōtiki) Limited.

PUBLIC FORUM

Nil.

Councillor Nelson entered the meeting at 10.01am.

1. MINUTES – AUDIT AND RISK COMMITTEE MEETING 25 NOVEMBER 2019

p5

RESOLVED

- (1) That the minutes of the Audit and Risk Committee meeting held on 25 November 2019 be received.**

HWTM/Nelson

Carried

2. RISK AND ASSURANCE ACTION SHEET

p9

The Finance and Corporate Services Group manager spoke to the Risk and Assurance Action Sheet. He expressed confidence around the financial reporting and controls in place, adding that the auditors will be on site in two weeks' time. Any recommendations from the audit will be added to the Action Sheet.

In response to a query from Her Worship the Mayor, the Finance and Corporate Services Group Manager stated that, ideally, there would be a timeframe around items, showing priority and ranking. He further stated that it would be useful if Audit New Zealand could assign a priority on its recommendations.

The Chief Executive Officer noted that often action is taken on items and then Audit say is not good enough. She also noted that not all of the actions on the Action Sheet are from Audit; some are actions which the Risk and Assurance Committee has asked to be added to the Action Sheet.

The Finance and Corporate Services Group Manager will add timelines to items on the Action Sheet.

RESOLVED

- (1) That the Risk and Assurance Action Sheet be received.**

Hocart/Nelson

Carried

3. QUARTERLY REPORT TO 31 DECEMBER 2019

p10

RESOLVED

- (1) That the report titled "Quarterly Report to 31 December 2019" be received.**

Nelson/HWTM

Carried

SECTION 48 LOCAL GOVERNMENT OFFICIAL INFORMATION & MEETINGS ACT 1987

THAT the public be excluded from the following parts of the proceedings of this meeting, namely:

- 6. Evolution Networks Update.**
- 7. Health, Safety, Staff Resources and Wellbeing Report.**

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

Item No	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
6.	Evolution Networks Update	That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists.	Section 48(1)(a)
7.	Health, Safety, Staff Resources and Wellbeing Report	That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists.	Section 48(1)(a)

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act or section 6 or section 7 or section 9 of the Official Information Act 1982, as the case may require, which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public are as follows:

6.	Protect the privacy of natural persons Protect information (commercial sensitivity)	Section 7(2)(a) Section 7(2)(b)(ii)
7.	Protect the privacy of natural persons Protection from improper pressure or harassment	Section 7(2)(a) Section 7(2)((f)(ii)

Hocart/HWTM

Carried

RESOLVED

- (1) That the resolutions made while the public was excluded, be confirmed in open meeting.**

(2) That the public be readmitted to the meeting.

Hocart/HWTM

Carried

RESOLVED

(1) That the report titled "Evolution Networks Update" be received.

Hocart/Nelson

Carried

RESOLVED

(1) That the report titled "Health, Safety, Staff Resources and Wellbeing Report" be received.

Tuoro/HWTM

Carried

THERE BEING NO FURTHER BUSINESS THE MEETING CLOSED AT 11.25AM.

**THE FOREGOING MINUTES ARE CERTIFIED AS BEING A
TRUE AND CORRECT RECORD AT A SUBSEQUENT
MEETING OF THE RISK AND ASSURANCE COMMITTEE
HELD ON 18 MAY 2020**

ARIHIA TUORO

CHAIRPERSON

Risk and Assurance Action Sheet

Issue	Recommendation	Source	Category	To be completed by	Done	Assigned To	Status	Comments	
21	Contract Management Policy and Guidance	Recommend Council develop a contract management policy and guidance, to include procedures and templates for consistency	Audit NZ Management Report	Risk Management and the system of internal controls		<input type="checkbox"/>	Ari Erickson	In Progress	Contract management processes are currently being built, upon completion a Policy will be assembled. Processes are at this stage included in at the wider activity management level so that they can properly consider information systems, resources and responsibilities and a strategic approach to procurement. Asset management and procurement strategies are being drafted in parallel. Councils Contract Management was graded as effective in the latest NZTA investment audit report.
24	Project Management	Recommend a documented approach and methodology, planned approach to undertake post implementation reviews, have independent quality assurance reviews.	Audit NZ Management Report	Risk Management and the system of internal controls		<input type="checkbox"/>	Ari Erickson	In Progress	Included in line with above. Several drafts have been assembled but these need significant refinement to ensure they are streamlined and fit for purpose in the Opotiki Council setting.
32	Asset Management	Monthly reconciliations to be performed between the fixed asset register and the general ledger. These should be independently reviewed.	Audit NZ Management Report	Risk Management and the system of internal controls		<input type="checkbox"/>	Ari Erickson	In Progress	There has been a lot of work done as a project to ensure this process is implemented, as well as aiding the organisation to complete their compliance requirements in the most efficient manner. This process is very near to completion. Some obstacles have slowed this process including the loss of our asset engineer whose role was only recently filled again. With another few months of training this process should get underway.
33	Asset Management	Develop and implement an asset capitalisation policy that states the minimum amount of assets that will be capitalised as well as guidance for the type of expenditure to be capitalised.	Audit NZ Management Report	Development of LTP, financial prudence, and policies		<input type="checkbox"/>	Ari Erickson	In Progress	This is under development as part of the asset management policy. A draft has been completed and requires review.
41	RRC's	Recommendation that Council improves the controls regarding revenue at the RRC's.	Audit NZ Management Report	Risk Management and the system of internal controls		<input type="checkbox"/>	Ari Erickson	In Progress	Refer agenda report May 2019. A full review has been completed an options recommended. Update: After additional occurrences at the RRC another report has been brought to A&R (9 Sept) and recommendations presented.
45	ANZ	Review and report on what would be required to change banks	Council	Internal Audit		<input type="checkbox"/>	Bevan Gray	In Progress	TCC have rolled their contract until September outside of the BOPLASS group and contract. BOPLASS will go to market in May/June. Yet to ascertain from S.B whether this process has been delayed by Covid.
51	IANZ audit update	Once IANZ letter is received an update to be provided back to the Committee	IANZ Audit	Risk Management and the system of internal controls		<input type="checkbox"/>	Gerard McCormack	In Progress	Verbal update provided 15/10/18 Report to be provided to A&R. Second audit underway week of 29 April.
56	Risk Register Reporting	Review structure and reporting	Risk & Assurance Committee	Risk Management and the system of internal controls		<input type="checkbox"/>	Bevan Gray	Complete	Discussed key strategic risks at the last meeting and following OAG workshop.
57	Annual Report Process	Recommend a project approach to preparing the Annual Report, with monitoring to ensure milestones are met. Preparation of substantiation file.	Audit NZ Management Report	Reporting - financial and non-financial		<input type="checkbox"/>	Greg Robertson	Complete	A systematic approach has been implemented that identifies the key tasks and who is responsible for them. With the use of Smartsheet it is clear what tasks are not completed and who is responsible. Given the nature of Audit's input to the Annual Plan, new tasks and further clarification are often required and Smartsheet allows for this flexibility.
61	Contract Management	Implement appropriate processes and procedures for contract management	Audit NZ Management Report	Risk Management and the system of internal controls		<input type="checkbox"/>	Ari Erickson		Refer item 21. Reviews to date indicate Council's project manager is following all appropriate standards and legislative guidance.
64	Contact Centre Module	Review processes to ensure that the time recorded in the Contact Centre Module is based on time taken for matter to be resolved	Audit NZ Management Report	Risk Management and the system of internal controls		<input type="checkbox"/>	Ari Erickson	In Progress	This process has been reviewed and will require a fundamental change to maintenance contracts and data collection methods. This has been an Asset Management goal for a number of years but requires various pre-requisite steps be undertaken first. The issue arises where requests for service cannot or practically should not be resolved immediately. An example of this would be footpath repairs which are scheduled within the footpath repair contract which is carried out over the course of several months. The result is effectively a back log of unresolved service requests which would all require manual review and resolution as much as a year later. The interim solution has been for assessing engineers to log requests as resolved when they have confirmed that work has been programmed for completion. Exceptions to this are those requests that relate to critical services monitored by Council KPI's. All of these requests are recorded as resolved upon completion. This action will take some time to implement but is being worked toward and will be included in the IT systems and operation processes within the asset management policy. Update: With the completion of the E&S department structure review, technical positions have been given this responsibility, we need only fill these roles.
72	RRC's	Recommends Council improve controls in relation to revenue at the RRC's	Audit NZ Management Report	Risk Management and the system of internal controls		<input type="checkbox"/>	Greg Robertson	Complete	A process is now in place whereby variances between daily banking and till-tape reports are investigated and highlighted to management. Also related to RRC issue on line 41. Further controls regarding cash transfers is under way.
74	Capitalisation policy	Recommends Council implement an asset capitalisation policy	Audit NZ Management Report	Development of LTP, financial prudence, and policies		<input type="checkbox"/>	Ari Erickson	In Progress	An asset capitalisation policy is currently in draft alongside all of the above documents.
76	Fixed asset reconciliations	Recommends Council reconcile the fixed asset register on a regular basis	Audit NZ Management Report	Risk Management and the system of internal controls		<input type="checkbox"/>	Ari Erickson	In Progress	Reconciliation processes are being refined with every reconciliation carried out. At this stage reconciliations have been reduced from year end to every 6 months. The intention is to bring this down to quarterly and even monthly. This was almost achieved this year and with the new Asset Engineer having started in the engineering team this is expected to be achieved moving forward. Two reconciliation processes need to be built to enable this, an interim based on expenditure only and a final based on asset population. Again this will be included in the activity management policy. Update: We unfortunately lost our newly recruited Asset Engineer and have once again been set back to the starting blocks.
78	Financial Strategy in LTP	Recommends Council review financial strategy and consider impacts of proposed debt levels beyond the 10 year period	Audit NZ Management Report	Development of LTP, financial prudence, and policies		<input type="checkbox"/>	Bevan Gray	In Progress	Will be considered through the planning of the next LTP which has started. We have submitted significant funding requests to CIP which will have a big impact in reducing proposed debt levels
80	Demand forecasting	Recommends Council refines its process for demand forecasting.	Audit NZ Management Report	Development of LTP, financial prudence, and policies		<input type="checkbox"/>	Bevan Gray	In Progress	Have procured an infometrics report on the impact of Covid, and have engaged Martin Jenkins again to undertake the key assumption forecasting for the LTP. This will also be built into our 30 Year Infrastructure Strategy.
82	Interests	Updates the interest register for elected members and staff to record the nature of the interest, type of conflict and the mitigating actions to manage that conflict.	Audit NZ Management Report	Risk Management and the system of internal controls		<input type="checkbox"/>	Greg Robertson	In Progress	Waiting on coast community board to return their forms, all councilors and senior management have their interests registered
88	Holding accounts/historical payables balance	The District Council seeks to reduce the balances of the liabilities by contacting the parties concerned to arrange a refund of the monies. If this is not possible, we recommended the Council clears these balances.	Audit NZ Management Report	Risk Management and the system of internal controls		<input type="checkbox"/>	Gerard McCormack	In Progress	We are making efforts to confirm whether or not these historical balances are valid, and to take appropriate action to clear these balances.
89									
90	Financial Processes	Requires that funding claims for street cleaning be restricted to 30% of total cost per NZTA policy.	NZTA Investment Audit Report	Financial Processes - Some improvement needed		<input type="checkbox"/>	Ari Erickson	Complete	The mis-claim that raised this issue was considered immaterial. IT should also be noted that previous direction from NZTA funding manager contradicts NZTA policy. Moving forward Council will adhere to the NZTA policy.
91	Procurement Procedures	Recommends Council revise its procurement policy and/or contracts so that they are consistent on submission deadlines.	NZTA Investment Audit Report	Procurement Procedures - Some improvement needed		<input type="checkbox"/>	Ari Erickson	In Progress	This is being done already as a part of procurement strategy
92	Procurement Procedures	Recommends that non price evaluation criteria "Technical Skills" be amended to "Relevant Skills"	NZTA Investment Audit Report	Procurement Procedures - Some improvement needed		<input type="checkbox"/>	Ari Erickson	Complete	This will be done moving forward
93	Procurement Procedures	Suggests expanding policy to include conflict of interest declarations to include staff involved in ongoing management as well as procurement.	NZTA Investment Audit Report	Procurement Procedures - Some improvement needed		<input type="checkbox"/>	Ari Erickson	In Progress	This should not be difficult to do at all.
94	Procurement Procedures	Suggests outdated references in procurement strategy be updated.	NZTA Investment Audit Report	Procurement Procedures - Some improvement needed		<input type="checkbox"/>	Ari Erickson	In Progress	Again this will be done as a part of procurement strategy
95	Investment in Evolution Networks	Chief Executive to report back on where to from here with Evolution Networks investment.	Report to R&A committee	Risk Management and the system of internal controls		<input type="checkbox"/>	Aileen Lawrie	Not Started	Delayed to next meeting due to Covid-19.

REPORT

Date : 11 May 2020
To : Risk & Assurance Committee Meeting, 18 May 2020
From : Finance & Corporate Services Group Manager
Subject : **GENERAL MANAGERS' UPDATE**
File ID : A198764

COVID 19 & ESSENTIAL SERVICE BAU

Through Covid 19 Alert Level 4 staff have been busy ensuring essential services are delivered in the safest possible manner and providing support to the community through the functions of Civil Defence. Most of the organisation were able to continue to work and be productive from home during Level 4, and those that weren't able to work were still paid over the four week lockdown.

Level 3 allowed those that weren't able to work under a full lockdown to start providing some services again, and the impending move to Level 2 will see most services begin again from Council. We will still need to manage social distancing and regular cleaning. There are some strict Health & Safety guidelines that need to be met before staff can all return to work. Government is recommending a staggered return to work, encouraging those that can work from home effectively to continue to do so for some time.

There is much more work to do around this to ensure appropriate processes and equipment is in place before we return to work completely.

CIVIL DEFENCE RESPONSE AND RECOVERY

We are seeing a significant easing off of the response requirements in the EOC, with very little coming through in terms of response needs. We are still seeing a strong need for welfare on the ground, and all indications are that welfare will have a strong part to play in the recovery.

There has still not yet been any decision from Central Government around whether the recovery process will be one under a Civil Defence structure or not. However most Councils have already started taking action towards implementing recovery structures and strategies. More to be provided on this through a verbal update.

ANNUAL PLAN

The Annual Plan Information Document is out at the moment for feedback from the community, of which we are receiving very little back in. The proposed rates increase in the feedback document is 4.25%, this was reduced down from 4.78% in response to Covid. The LTP had a proposed increase of over 5%. Councillors and staff are looking for further reductions at the moment, and are looking to target another 1% reduction, but being mindful on reducing too much as that can jeopardise the delivery of the Long Term Plan, and make reaching the forecast service levels difficult.

2021-31 LONG TERM PLAN

Council management have already started planning for the next Long Term Plan. A few workshops with councillors have already taken place to consider key elements of the Long Term Plan jigsaw puzzle. These will continue over the remaining part of the year, and early next year.

We have started to pull together some of the key assumptions that will underpin the LTP. At the moment we are trying to understand what impact Covid will have in this.

BUSINESS INNOVATION AND IMPROVEMENT

During the lockdown parts of the organisation took the opportunity to implement innovative business improvement solutions. We have successfully implemented an accounts payable scanning system that scans invoices from email and adds them into Ozone to be matched and paid. It has highlighted a number of issues around users creating purchase orders, which is what the auditors also have concern around. So this system will aid in ensuring controls are in place as well as streamlining and automating a reasonably repetitive process that takes a lot of staff time.

We have also made the dog registration process completely online. This came following some dog issues in lockdown. The excuse for owners was that they couldn't come in and register during lockdown. So we removed that excuse and made the process and forms completely online.

RATES AND HARDSHIP

The due date for rates is this week. We will analyse some reports to see if there has been any significant shift in non-payment to gain any insight into whether these is a financial hardship issue with Covid. At the moment we are not receiving any calls from the public even though we have asked for people struggling to contact us on a number of occasions.

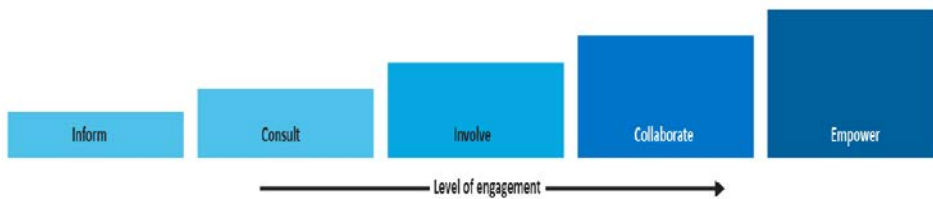
SIGNIFICANCE ASSESSMENT

Assessment of significance

Under Council's Significance and Engagement Policy, on every issue requiring a decision, Council considers the degree of significance and the corresponding level of engagement required. The level of significance for General Manager's Update is considered to be low as determined by the criteria set out in section 17 of the Significance and Engagement Policy.

Assessment of engagement requirements

As the level of significance for General Manager's Update is considered to be low, the engagement required is determined to be at the level of inform according to schedule 2 of the Significance and Engagement Policy.



RECOMMENDATION:

- 1. That the report titled "General Managers' Update" be received.**

Bevan Gray

FINANCE & CORPORATE SERVICES GROUP MANAGER

REPORT

Date : 12 May 2020
To : Risk and Assurance Committee Meeting, 18 May 2020
From : Chief Financial Officer, Greg Robertson
Subject : **KOHA REPORT**
File ID : A198775

EXECUTIVE SUMMARY

The purpose of this report is to provide details of Koha payments made from 20 February 2020 to 12 May 2020.

PURPOSE

The purpose of this report is to provide details of Koha payments made from 20th February 2020 to 12 May 2020

BACKGROUND

Audit New Zealand considers Koha to be sensitive expenditure. To ensure transparency of the size of Koha and the occasions for giving Koha, the Audit and Risk Committee receives regular reports on Koha payments made, disclosing the following information:

- The amount of Koha
- The purpose of the payment
- The reason or justification for the amount.

Koha payments made from 20th February 2020 to 12th May 2020.

Date	Amount	Details	Number of Attendees
9 March	\$30.00	KOHA FOR PARIHAKA MARAE - MARAE VISIT AS PART OF LGNZ TE MARUATA HUI 11 - 12 MARCH 2020	Numerous
9 March	\$60.00	KOHA FOR WAIOKURA MARAE - HOSTING LGNZ TE MARUATA HUI 11 - 12 MARCH 2020	Numerous
9 March	\$100.00	OPEKE (WAIOEKA) MARAE - PGF ANNOUNCEMENTS - MINISTER (MR JONES)	Numerous

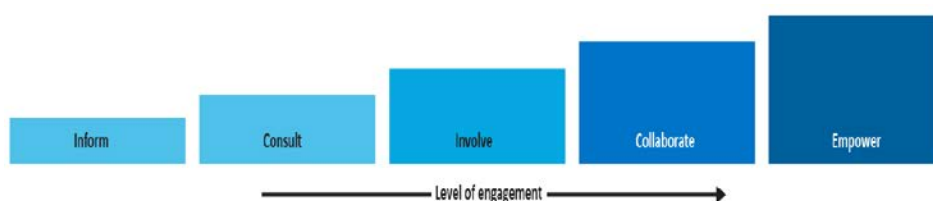
SIGNIFICANCE ASSESSMENT

Assessment of significance

Under Council's Significance and Engagement Policy, on every issue requiring a decision, Council considers the degree of significance and the corresponding level of engagement required. The level of Significance for receiving the Koha Report is considered to be low as determined by the criteria set out in section 12 of the Significance and Engagement Policy.

Assessment of engagement requirements

As the level of significance for receiving the Koha Report is considered to be of low the level of engagement required is determined to be at the level of inform according to Schedule 2 of the Significance and Engagement Policy.



RECOMMENDATION:

- 1. That the report titled "Koha Report" be received.**

Greg Robertson

CHIEF FINANCIAL OFFICER

REPORT

Date : 12 May 2020
 To : Audit and Risk Committee Meeting, 18 May 2020
 From : Chief Financial Officer, Greg Robertson
 Subject : **QUARTERLY REPORT TO 31 MARCH 2020**
 File ID : A198865

EXECUTIVE SUMMARY
The Quarterly Report for the quarter ended 31 March 2020 provides the Council with an understanding of progress against Year 2 of the LTP 2018-2028 for the current financial year.

PURPOSE

The purpose of this report is to present the Quarterly Financial Report to 31 March 2020 to Council.

BACKGROUND

This report is for the nine months ending 31 March 2020 and is designed to provide Council with an understanding of progress against year 2 of the LTP 2018-2028.

The report provides a concise but comprehensive overview of the Council’s financial position as at 31 March 2020, and is structured as follows:

Financial Overview2

Capital expenditure.....7

Treasury Report8

Rates Arrears10

Financial Overview

1. Financial Overview

This report summarises the key financial highlights for the quarter ended 31 March 2020. Please note that variances stated without brackets are favorable, whereas variances stated with brackets are unfavorable.

1.1 Income Statement

ŌPOTIKI DISTRICT COUNCIL

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the Period Ended 31 March 2020

	Actual 3rd Qtr 2019 000's	Actual 3rd Qtr 2020 000's	Budget 3rd Qtr 2020 000's	Variance 2nd Qtr 2020 000's	Budget Full year 2020 000's
Revenue					
Rates		8,284	8,256	28	11,008
Subsidies and Grants		2,841	14,062	(11,221)	19,249
Fees and Charges		971	942	29	1,256
Interest Revenue		4	77	(73)	102
Other Revenue		253	193	60	257
Development and financial contributions		3	-	3	-
Total Revenue	-	12,356	23,529	(11,173)	31,872
Expenditure					
Other Expenses		5,644	5,576	(68)	7,501
Depreciation and Amortisation		2,199	2,159	(41)	2,878
Personnel Costs		3,209	3,764	555	5,019
Finance Costs		196	386	190	489
Total Expenditure	-	11,248	11,885	637	15,887
Surplus / (Deficit)	-	1,108	11,645	(11,810)	15,985

1.2. Significant Variances

Revenue

Revenue to date is (\$11,170,000) behind budget. (\$11,220,000) of this is directly related to the delayed Harbour project. Other variances are (\$197,000) Road subsidies claimed from NZTA, \$147,000 unbudgeted Te Kaha Water Supply subsidy was received. Rates income is back in line with budget after writing off (\$315,000) statute barred (unpaid rates over 6yrs old) in February.

Expenditure

Total expenditure to date is \$637,000 lower than budgeted.

Overall other expenses are tracking within budget.

Personnel costs are \$555,000 under budget, this follows on from 2nd Quarter report where most entities are under budget, and namely there were unfilled positions in Engineering, Finance and Regulation & Safety during the first half of the year. Training costs are below budget thus far.

Finance costs are \$190,000 less than budget, borrowings are less than expected due to our CAPEX spend being under budget. (See 2. Capital Expenditure)

1.3. Explanation of Key Variances by Activity

Leadership

Councilor/Mayoral remuneration is (\$36,000) over budget, this was due to changes around local government leadership remuneration earlier in the financial year.

Community Development

No 'Health and Active Communities' grant income has been received this year. This should change in the 4th quarter. Materials & Consumables are \$39,000 below budget and an annual payment has not been made yet to the Motu Trail Trust resulting in total expenditure \$61,000 below budget.

Community Facilities

None of the budgeted grants and subsidies have eventuated yet, resulting in (\$509,000) below budget for revenue, these grants require we do the work and spend the money first, however there has been delays on these projects. There was a \$550,000 grant obtained for the new Library, however, which brings the total for Community facilities to \$41,000 above budget. Personal costs are \$44,000 lower than expected. Other expenses are (\$174,000) over and can be explained by public toilet costs running (\$35,000) higher, freedom camping services costing (\$56,000) however they are mostly offset by \$43,000 of other income from MBIE for freedom camping. A change in how we allocate insurance and rates largely equates for the balance of the (\$174,000) in other expenses.

Economic Development

The i-SITE increased revenue \$22,000 above budget and also increased the grants it received by \$14,000. Expenses are high though, with the decision to celebrate the Harbour approval with a (\$42,000) party and the summer promotions and events of (\$63,000). I-Site personnel costs are running (\$25,000) over as well. While we did receive \$301,000 in grants towards the Harbour, changes in how the Harbour will be funded has Grants and Subsidies (\$11,220,000) below budget, which shows in the personnel costs being \$75,000 under budget with less staff resourcing required. (\$87,000) was spent on consultant's advice for regional growth, while \$54,000 has been received from MBIE towards this advice with further funding expected. Our partnership with TOI-EDA is \$15,000 less than we budgeted to date.

Regulation and Safety.

Revenue across Regulation and Safety is \$22,000 above expected, primarily due to the recovering of animal control court costs. Personnel costs are \$157,000 lower than budget, with unfilled positions earlier in the year, this partially nets off with contractors costing (\$43,000) more than expected. With other areas tracking below budget total expenditure ends \$155,000 below budget.

Resource Management.

Appeals to District plan changes saw legal costs (\$51,000) higher than budgeted, however consultant's costs are \$12,000 below budget.

Solid Waste Management

Revenue is slightly up across all three RRC stations by \$10,000. However expenditure was up by (\$108,000). Personnel costs represent (\$17,000) with the balance spread out right across all areas of all three RRC stations.

Three Waters

Stormwater is tracking \$62,000 below budget with \$43,000 due to lower personnel costs, with unfilled positions earlier this year. Wastewater follows suit with personnel costs \$52,000 below budget, however Ōpōtiki sewerage costs are (\$86,000) higher than expected. Water supply continues the trend with lower personnel costs of \$33,000. Finance's better understanding of engineering's Asset Finda software sees depreciation \$86,000 lower than budgeted. Reticulation and treatment costs of water supply sees other expenses rise (\$82,000) higher than budget. Both wastewater and water supply's higher 'other expenses' can partially be explained by the use of external consultants helping with asset management plans. Also a car crash saw a pump house get written off and replaced. A \$147,000 subsidy for the Te Kaha water supply was granted which originally was budgeted for in 2015.

Land Transport

As a general statement, land transport subsidies are directly related to land transport expenses with NZTA reimbursing around 75%. A three year budget is agreed and all budgeted works should be completed by the end of the three years. We are currently in year two and this year's subsidies are (\$197,000) less than budgeted and expenses are \$255,000 below budget. We expect to see a catch up at some point.

Support Services

Bank interest received is (\$73,000) less than we budgeted for. The expectation was for Harbour funding to flow through our accounts, plus we have used all cash reserves instead of borrowing which lowers our borrowing costs, which are currently \$180,000 less than expected. Personnel costs are 20% less than expected at \$213,000 below budget with unfilled positions and lower training costs. Other expenses end up around \$35,000 below budget, the change in insurance allocations that saw community facilities higher than budgeted is reflected in support services having insurance costs \$86,000 below budget. Software licenses are (\$24,000) higher though and IT costs (\$28,000) higher.

1.4 Cash and Cash Investment Balance

	2018-19 Actual Full Year	2019-20 Actual 3rd Quarter YTD	2019-20 Budget Full Year	2019-20 Variance to Budget
	000s	000s	000s	000s
Cash and Short Term Investments	1,663	2,627	3,938	(1,311)
Term Investments	0	0	0	0
Total	1,663	2,627	3,938	(1,311)

Cash position as at 31 March 2020 was \$2,627,000, with all funds in the bank. Short term deposits were considered but cash flow projections were tight and 30 day terms only pay 0.1% interest and to earn a good return requires 60 or 90 day terms.

1.5 Balance Interest and Debt Level

	2018-19 Actual Full Year	2019-20 Actual 3rd Quarter YTD	2019-20 Budget Full Year	2019-20 Variance to Budget
	000s	000s	000s	000s
Finance Costs	236	186	489	303
Term Loans	5,000	8,500	16,681	8,181

Borrowing is less than anticipated due to large capital projects being deferred, delayed or coming in under budget. Lower finance costs are directly related to less term loans than planned, but also current interest rates are at an all-time low and the \$3,500,000 borrowed this year is at an average rate of 2.27% compared to the 4.41% on the \$5,000,000 carried forward from last year.

Capital expenditure

2. Capital Expenditure

	2019-20 AP Total Budget	Council Resolution	2019-20 3rd Quarter Actual YTD	2019-20 Variance to Budget
	000s	000s	000s	000s
Community Development	5,526	0	942	(4,584)
Economic Development	17,193	0	455	(16,738)
Land Transport	2,376	217	714	(1,879)
Solid Waste Management	163	0	0	(163)
Regulation & Safety	20	0	0	(20)
Support Service	602	0	95	(507)
Stormwater	401	0	219	(182)
Water Supplies	471	103	1,129	555
Wastewater	4,374	440	1,902	(2,912)
TOTALS	31,126	760	5,456	(26,430)

	2019-20 AP Total Budget	Council Resolution	2019-20 3rd Quarter Actual YTD	2019-20 Variance to Budget
	000s	000s	000s	000s
Growth	18,971	73	716	(18,328)
Level of Service	4,933	125	1,708	(3,350)
Renewals	7,222	562	3,032	(4,752)
TOTALS	31,126	760	5,456	(26,430)

Total YTD capital expenditure sits at \$5,456,000, an increase of \$1,357,000 during the third quarter, but still significantly less than the full year budget of \$31,126,000

Delays or deferrals on the following projects represent the majority of (under) budget spend

- Technology and Research Centre (Library) (\$1,403,000)
- Wharf Removal and Rebuild (\$1,256,000)
- Animal Control Building (\$612,000)
- Coastal Reserves Tourism Infrastructure (\$510,000)

- Wastewater Stage 3 (\$3,177,000)
- Subsidised Roding (\$780,000)
- Snells Road Harbour Entrance (\$810,000)
- Cycleways (\$223,000)
- Information Systems (\$233,000)
- Harbour Entrance (\$16,735,000)

Treasury Report

3. Treasury Report

3.1. Debt Position

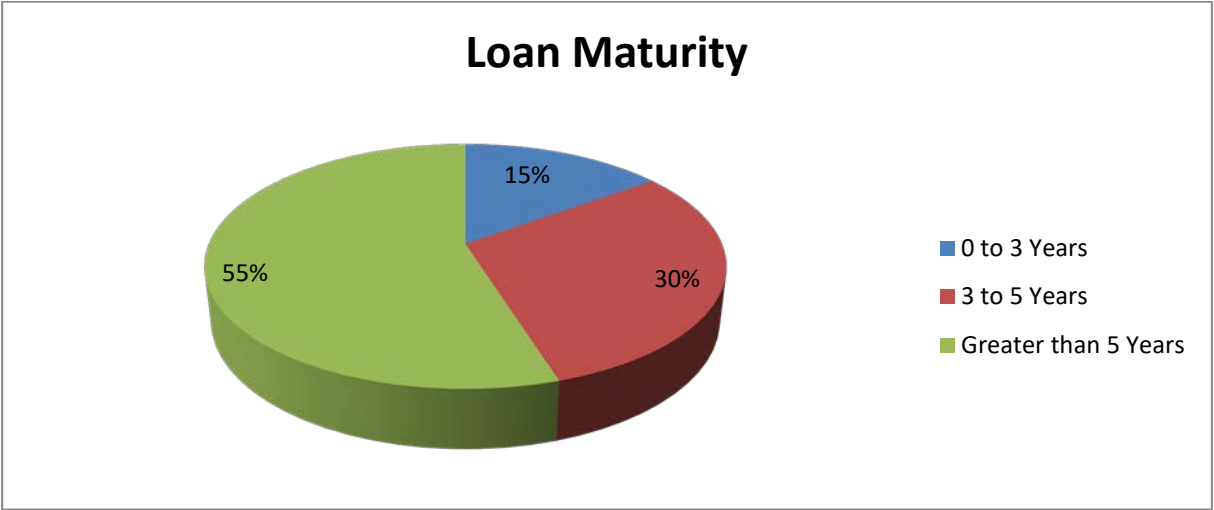
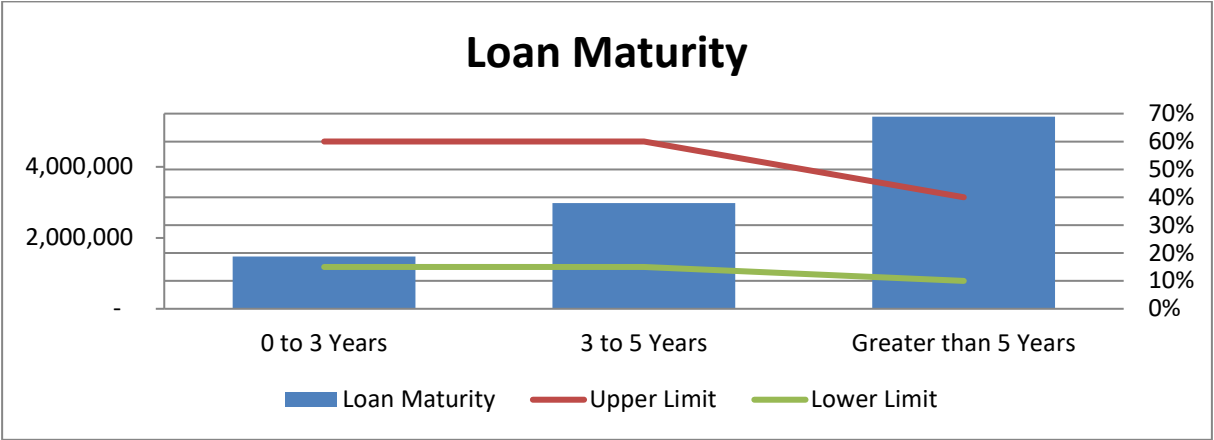
	Actual 2018-19	YTD Actual 2019-20	Budget 2019-20
	000s	000s	000s
Secured loans less than 12 months (Current Liabilities)	0	0	1,500
Secured loans greater than 12 months (Non-current liabilities)	5,000	8,500	23,944
Total Secured Loans	5,000	8,500	25,444

In February 2020, Council borrowed \$1,500,000 with LGFA at 1.7814% with a short maturity date of April 2022. Not only was it a low interest rate, but we started to align our borrowings with the council treasury policy (as defined in the Treasury Risk Management Policy, adopted by Council on 30 June 2018) that once total borrowings exceeds \$10,000,000, we are required to meet certain criteria regards floating vs fixed and <3yrs / 3-5yrs / >5yrs.

3.2. Funding maturity

The chart below illustrates the funding maturity profile of Councils five loans totaling \$8,500,000. Maturing dates are between 2 and 13 years and fixed interest rates between 1.78 and 5.7%. Our forecasts for the final quarter suggest we will hit the \$10,000,000 threshold, meaning any borrowing from 1 July onwards will require that we follow the Treasury Risk Management Policy.

Debt greater than 5 years is currently capped at 40% of total debt. From the table below, it is clear we are above that upper limit now. We currently borrow from LGFA and they offer us loans up to 13-15 years long and at the moment long term interest rates are low. Our Treasury policy is potentially stopping us from implementing the best long term structure for our debt. An external review of our policy and debt structure should be conducted.



Compliance with Liability Management Policy

The specific requirements of the Liability Management Policy are detailed below.

Item	Borrowing Limit	Actual Performance
Net Interest on external debt as a percentage of total revenue	<10%	1.58%
Net Interest on external debt as a percentage of annual rates income	<15%	2.65%
Net cash flows from operating activities divided by interest expense	>2	12.66

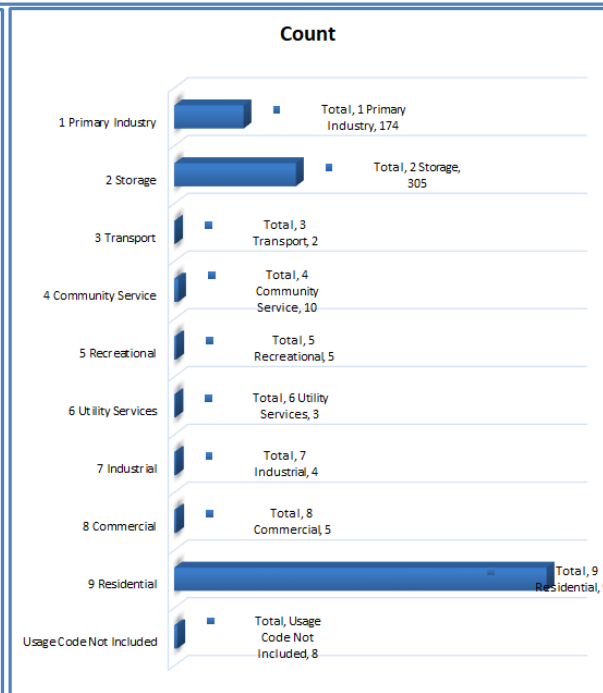
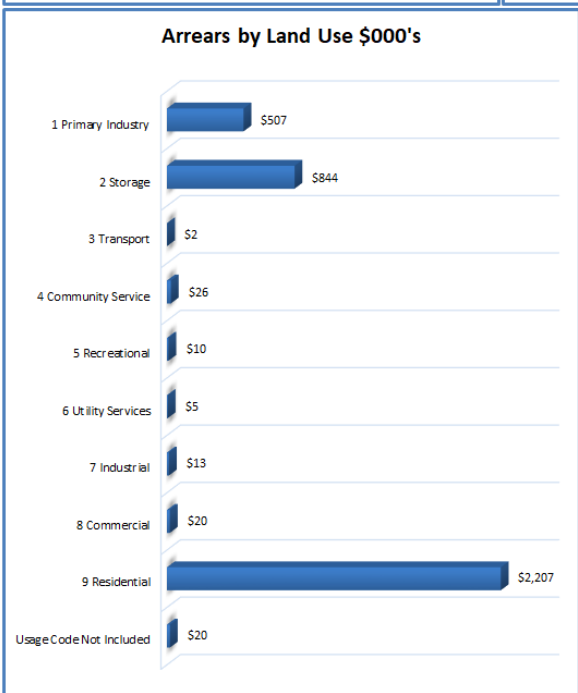
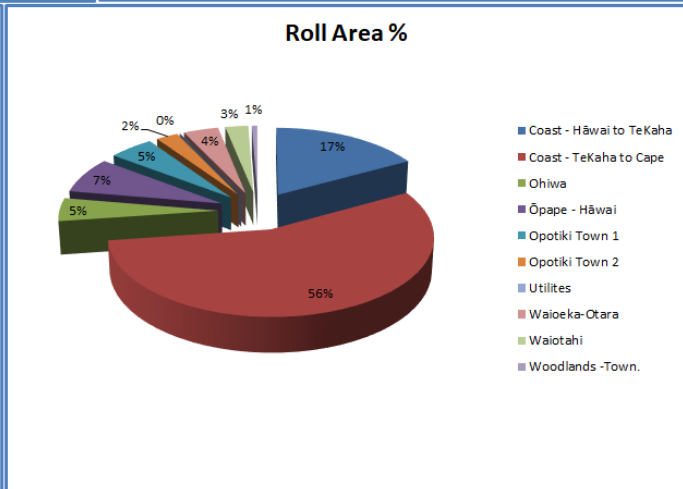
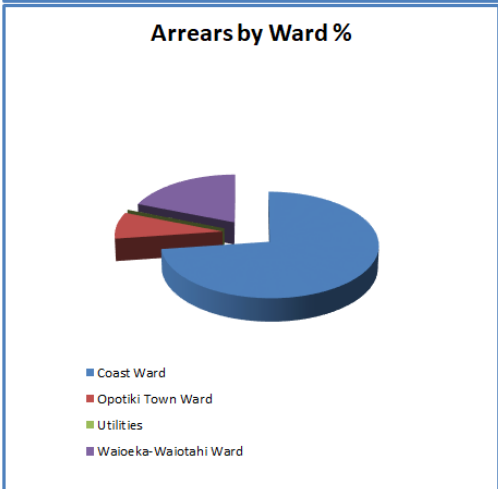
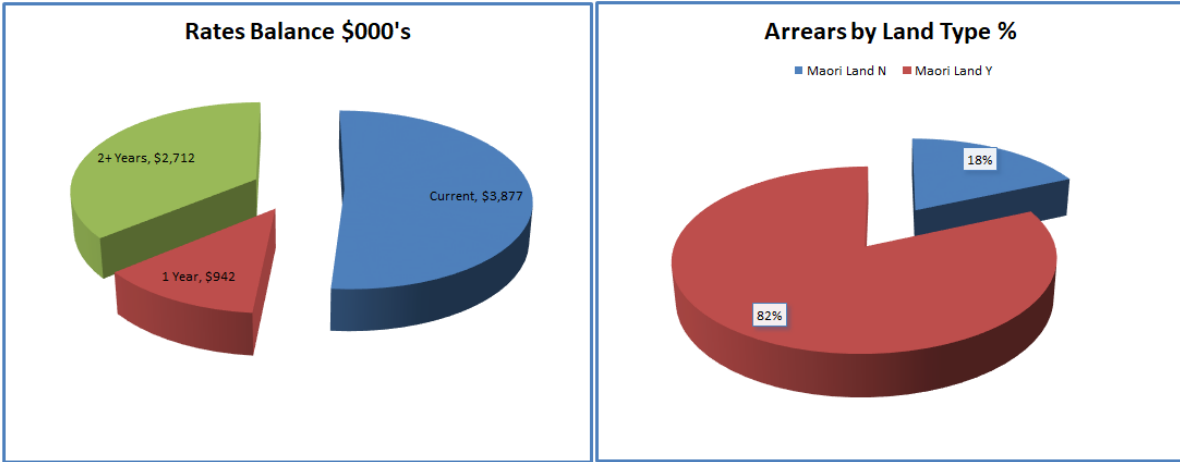
Council is within policy for all of the measures.

Rates Arrears

4. Report on Rates Arrears

82% (\$2,983,000) of arrears relates to Maori land, leaving 18% (\$671,000) on European title.

Local government legislation restricts councils from chasing debt older than 6 years. \$366,000 of unpaid rates and charges from 2013/14 year were written off during this quarter. 96% of these related to Maori land, while the remaining 4% relates to European titled properties. European land currently represents 18% of rates arrears but only 4% of what is ultimately written off, which shows that debt collection does work and eventually we get most of the money owed on European title. The 16 properties, which made up the 4% written off, still currently owe approximately \$125,000 in rates arrears. Some of these 16 properties we don't know who the owners are, others are worth less than the outstanding debt plus court costs and the remaining we could potentially look to force the sale through the courts.



SIGNIFICANCE ASSESSMENT

Assessment of significance

Under Council’s Significance and Engagement Policy, on every issue requiring a decision, Council considers the degree of significance and the corresponding level of engagement required. The level of significance for the Quarterly Report to 31 March 2020 is considered to be low as determined by the criteria set out in section 12 of the Significance and Engagement Policy.

Assessment of engagement requirements

As the level of significance for the Quarterly Report to 31 March 2020 is considered to be low, the level of engagement required is determined to be at the level of inform according to Schedule 2 of the Significance and Engagement Policy.



RECOMMENDATION:

- 1. That the report titled “Quarterly Report to 31 March 2020” be received.

Greg Robertson

CHIEF FINANCIAL OFFICER

REPORT

Date : 6 May 2020
To : Risk & Assurance Committee Meeting, 18 May 2020
From : Finance & Corporate Services Group Manager, Bevan Gray
Subject : **RISK & ASSURANCE WORK PLAN**
File ID : A198695

EXECUTIVE SUMMARY

Following the Office of the Auditor General workshop on effective operation of Risk & Assurance Committees, and at the request of the Chairperson we have developed a high level work plan for the committee. These are the key tasks and timeframes that the committee will undertake over the course of a calendar year.

PURPOSE

To provide the committee with a brief overview of a work plan based on a calendar year.

BACKGROUND

Prior to this triennium Opōtiki District Council had an Audit & Risk Committee, which functioned extremely well, but often got bogged down in operational level discussions. In this triennium the committee was renamed to the Risk & Assurance Committee, and an independent chair was appointed in order to lift the level that the committee operated at.

In February this year the committee attended a presentation run by the Office of the Auditor General, which focussed on providing guidance to committees on effective operation and what the key form and function of the committee was.

DISCUSSION AND OPTIONS SECTIONS

The Chair of the committee was very keen to have some visibility on what the committee does over the course of a year, and when it should be doing it. This report provides a high level work plan for a calendar year that the committee will be responsible for undertaking.

Quarter	Task	Comments
Jan - Mar	LTP and Annual Plan	Provide input into LTP/AP
	Internal Audit	Provide input into internal audit process
	Quarterly Report	Review financial reports on behalf of Council
Apr - Jun	Interim Audit	Meet with auditors to discuss the approach to the interim audit, and any findings.
	LTP and Annual Plan	Undertake final risk review of LTP/AP before adoption. Develop LTP project plan – 12 – 15 month plan.
	Quarterly Report	Review financial reports on behalf of Council
Jul - Sep	Annual Report	Oversee the preparation of Annual Report
	LTP	Provide input into LTP
Oct - Dec	LTP and Annual Plan	Develop AP project plan
	Audit Management Report	Review management report from the audit process and implement recommendations for improvement.
	Quarterly Report	Review financial reports on behalf of Council
Ongoing	Strategic Risk	Identify and manage strategic risk register
	Action schedule	Manage the Action Schedule to ensure improvement

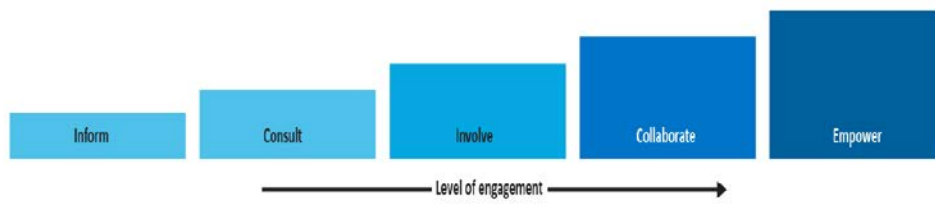
SIGNIFICANCE ASSESSMENT

Assessment of significance

Under Council's Significance and Engagement Policy, on every issue requiring a decision, Council considers the degree of significance and the corresponding level of engagement required. The level of significance for Risk & Assurance Work Plan is considered to be low as determined by the criteria set out in section 17 of the Significance and Engagement Policy.

Assessment of engagement requirements

As the level of significance for Risk & Assurance Work Plan is considered to be low, the engagement required is determined to be at the level of inform according to schedule 2 of the Significance and Engagement Policy.



RECOMMENDATION:

1. That the report titled "Risk & Assurance Work Plan" be received.

Bevan Gray

FINANCE & CORPORATE SERVICES GROUP MANAGER



INVESTMENT AUDIT REPORT

Procedural Audit of **Opotiki District Council**

Monitoring Investment Performance

Report of the investment audit carried out under Section 95(1)(e)(ii) of the Land Transport Management Act 2003.

RON WHEELER

5 MARCH 2020

DRAFT

Approved Organisation (AO):	Opotiki District Council
NZ Transport Agency Investment (2018 – 2021 NLTP):	\$8,591,000 (budgeted programme value)
Date of Investment Audit:	02 – 05 March 2020
Auditor:	Ron Wheeler
Report No:	RARWI-1960

AUTHORITY SIGNATURES

Prepared by:

 Ron Wheeler, Senior Investment Auditor

Approved by:

 Yuliya Gultekin, Practice Manager Audit & Assurance

 Date

DISCLAIMER

WHILE EVERY EFFORT HAS BEEN MADE TO ENSURE THE ACCURACY OF THIS REPORT, THE FINDINGS, OPINIONS, AND RECOMMENDATIONS ARE BASED ON AN EXAMINATION OF A SAMPLE ONLY AND MAY NOT ADDRESS ALL ISSUES EXISTING AT THE TIME OF THE AUDIT. THE REPORT IS MADE AVAILABLE STRICTLY ON THE BASIS THAT ANYONE RELYING ON IT DOES SO AT THEIR OWN RISK, THEREFORE READERS ARE ADVISED TO SEEK ADVICE ON SPECIFIC CONTENT.

EXECUTIVE SUMMARY

Opotiki District Council has made significant improvements to its operating procedures since the previous audit in May 2017. Its procedures and management controls for the delivery of the land transport programme are largely effective. We have raised findings in relation to claims and procurement processes. The underlying issues are administrative in nature and do not adversely affect programme or service delivery.

The recommended improvements include claiming of street cleaning costs, informing its late tenders policy, and correct application of non-price evaluation attributes.

The planned Opotiki Harbour redevelopment project being funded through the Provincial Growth Fund did not include funding for the public access road, which was a requirement of the resource consent for this activity. Separate funding approval from the Transport Agency for the upgrade of the Snell Road access is pending.

The revitalisation of Council's in-house capabilities, already underway, including improvements to its documented processes should enhance its project management expertise.

AUDIT RATING ASSESSMENT

Subject Areas		Rating Assessment*
1	Previous Audit Issues	N/A
2	Financial Processes	Some Improvement Needed
3	Procurement Procedures	Some Improvement Needed
4	Contract Management	Effective
5	Professional Services	Effective
Overall Rating		Some Improvement Needed

* Please see Introduction for Rating Assessment Classification Definitions

RECOMMENDATIONS SUMMARY

The table below captures the audit recommendations. Agreed dates are provided for the implementation of recommendations by the approved organisation.

We recommend that Opotiki District Council:		Implementation Date
R2.1	Claims only 30% of costs for street cleaning activities when claiming expenditure against work category 113.	AO
R3.1	Confirms that its revised later tender policy will be replicated in future contract proposal documents.	AO
R3.2	Confirms the three required non-price attributes will be used for evaluating proposals, as a minimum.	AO

1.0 INTRODUCTION

1.1. Audit Objective

The objective of this audit is to provide assurance that the Waka Kotahi NZ Transport Agency's (hereafter the Transport Agency) investment in Council's land transport programme is being well managed and delivering value for money. We also seek assurance that the Council is appropriately managing risk associated with the Transport Agency's investment. We recommend improvements where appropriate.

1.2. Rating Assessment Definitions

	Effective	Some Improvement Needed	Significant Improvement Needed	Unsatisfactory
Investment management	Effective systems, processes and management practices used.	Acceptable systems, processes and management practices but opportunities for improvement.	Systems, processes and management practices require improvement.	Inadequate systems, processes and management practices.
Compliance	Transport Agency and legislative requirements met.	Some omissions with Transport Agency requirements. No known breaches of legislative requirements.	Significant breaches of Transport Agency and/or legislative requirements.	Multiple and/or serious breaches of Transport Agency or legislative requirements.
Findings/ deficiencies	Opportunities for improvement may be identified for consideration.	Error and omission issues identified which need to be addressed.	Issues and/or breaches must be addressed, or on-going Transport Agency funding may be at risk.	Systemic and/or serious issues must be urgently addressed, or on-going Transport Agency funding will be at risk.

1.3. Council Comments

Prior to this report being approved, Opotiki District Council was invited to comment on the auditors' findings, recommendations and suggestions. Where appropriate, this report has been amended to reflect this dialogue. Any additional auditee response comments are attached in the Appendices.

2.0 ASSESSMENT FINDINGS

Our findings relating to each subject area are presented in the tables below. Where necessary, we have included recommendations and/or suggestions.

1. Previous Audit Issues
<p>The report from the previous procedural audit in May 2017 made six recommendations. All six were considered by Council, five matters relating to claims, contract retentions, tender documents, procurement strategy, and recordkeeping have been implemented. The sixth matter relates to Council's late tenders' policy and remains under consideration. This issue is further discussed in section 3 – Procurement Procedures.</p>

* * *

2. Financial Processes	Some Improvement Needed
<p>Council's claims for financial assistance for the three years from 1st July 2016 to 30 June 2019 were successfully reconciled to the general ledger.</p> <p>For the 2018/19 financial year we found claims for street cleaning activities under work category 113 were not consistent with the Transport Agency's requirements. The policy* requires that funding assistance will be provided for 30 percent of the total cost of cleaning channels, sumps and cesspits in urban areas. For all other qualifying activities within that work category the Transport Agency will provide funding assistance at the regular financial assistance rate (FAR) allocated for maintenance activities. We found Council had claimed for the full costs of the street cleaning activity. We assessed the Transport Agency's share (including administration on costs) at \$33k. An underclaim of \$28k was identified under the environmental maintenance work category during the same period. The \$5k difference is not material however, Council must ensure it claims only 30% of the costs for street cleaning activities in future.</p> <p>The remaining sampled expenditure transactions were correctly coded and eligibility for subsidy confirmed.</p> <p>The retentions account is appropriately managed with regular monitoring and reconciliation processes evident. Activity on a sample of contract retentions was confirmed to source records.</p> <p>* Knowledge Base – WC 113 Routine Drainage Maintenance – Street Cleaning [hyperlink]</p>	
Recommendation	<p>We recommend that Opotiki District Council:</p> <p>R2.1 Claims only 30% of costs for street cleaning activities when claiming expenditure against work category 113.</p>
Opotiki District Council's comment	AO

* * *

3. Procurement Procedures

Some Improvement Needed

Six physical works contracts were reviewed for compliance with procurement procedures (refer [appendix C](#)).

A previous recommendation from the May 2017 audit required Council to ensure that the late tender policy in its contract documents is consistent with its procurement policy. Council's policy reads, "*Tenders (including RFP Proposals, EIO's, etc.) shall be delivered to the place for closing before the closing time. If the tender arrives after the latest date and time required for submission, it may be considered as invalid. However, Council shall reserve the right to extend the period allowed for submission of the tender, at its sole discretion. Any late tender in respect of which Council chooses not to exercise its discretion shall be returned to the supplier unopened.*"

We found a continuance of the inconsistent late tender policy statement still used in tender documents, which reads, "*Tenders not submitted by the due time will not be accepted under any circumstances.*"

Council's response to the previous recommendation emphasised that the policy statement in the tender documents is consistent with its procurement policy, i.e. that contract documents do not allow late tenders. Following further discussion on the matter, Council concurs that an element of ambiguity could be construed by the present wording in the policy. Council has voiced an undertaking to review its policy to remove the ambiguity. For clarity, we recommend that the revised later tender policy be replicated in its entirety in future contract proposal documents.

The non-price attributes of all reviewed contracts proposals used "Technical Skills" instead of "Relevant Skills" as one of the mandatory evaluation attributes (refer [section 10.14](#) of the Transport Agency's Procurement Manual). For any supplier selection method, an approved organisation must evaluate proposals using the following three non-price attributes as a minimum:

- Relevant experience
- Relevant skills
- Methodology

The balance of the reviewed procedures was consistent with the Transport Agency's procurement requirements.

The Transport Agency's endorsement of Council's current Procurement Strategy expires on 30 June 2020. Updates to some references in the existing strategy will need to be considered as part of the review of this document.

Conflict of interest declaration procedures are in place for tender proposal evaluators. We would encourage Council to expand its policy on conflict of interest declarations for all staff immediately engaged in the procurement of contract suppliers, and to staff involved in the ongoing management of the contracts for their duration.

Recommendations	<p>We recommend that Opotiki District Council:</p> <p>R3.1 Confirms that its revised later tender policy will be replicated in future contract proposal documents.</p> <p>R3.2 Confirms the three required non-price attributes will be used for evaluating proposals, as a minimum.</p>
Suggestions	<p>We suggest that Opotiki District Council:</p> <p>S3.1 Considers expanding its policy on conflict of interest declarations to include staff involved in the procurement of suppliers and staff involved in the ongoing management of the contracts.</p> <p>S3.2 Updates outdated references in its Procurement Strategy at its next review.</p>
Opotiki District Council's comment	<p>AO</p>

* * *

4. Contract Management		Effective
<p>Council's contract management and administration procedures are documented, and processes are in place to ensure contracts are effectively managed. Appropriate procedures for managing and monitoring contracts are supported by activity and performance reporting. Recordkeeping and administration of contract files are suitably organised, which greatly assisted the audit process.</p> <p>Controls are in place to ensure variations to contracts are managed within Council's budgeted forecasts.</p> <p>The need to consider road safety audits is understood by Council staff, although Council's programme of maintenance activities has not necessitated any since the previous audit in May 2017. However, Council is reminded that it needs to complete and file an audit exemption declaration on the contract file when it has decided that an audit is unnecessary, in circumstances where an audit needs to be considered.</p> <p>Information reported to the Transport Agency in annual achievement returns was consistent with records provided for the audit.</p> <p>A planned redevelopment of Opotiki Harbour funded through the Provincial Growth Fund does not include the upgrade of Snell Road to provide public access. A decision on a separate application to the Transport Agency for funding from the 2018 – 2021 National Land Transport Fund, for this work, is pending.</p>		
Opotiki District Council's comment	AO	

* * *

5. Professional Services		Effective
<p>Council is revitalising its capability for delivering in-house professional services. How its costs have been determined and allocated is presently being reviewed and these will be documented. Revenue and expenditure for the 2018/19 financial year was consistent with its forecast budget and these appeared reasonable. Administration on costs is applied as a percentage of expenditure, with the rates previously agreed with the Transport Agency. Services being delivered in-house includes oversight of transport activities, road assets, the road maintenance contract, and the coordination and oversight of other external providers.</p> <p>For supplementary and specialist services, external professional services consultants are engaged using expedited procurement procedures.</p> <p>Council has a shared services agreement with both Whakatane and Kawerau District Councils for the delivery of its community programmes, with Opotiki District Council being invoiced for its share of these services.</p>		
Opotiki District Council's comment	AO	

* * *

Council Feedback

DRAFT

Audit Programme

1. Previous audit May 2017
2. Land Transport Disbursement Account
3. Final Claims for 2016/17, 2017/18 and 2018/19
4. Transactions (accounts payable) – 2018/19
5. Retentions Account
6. Procurement Procedures
7. Contract Variations
8. Contract Management & Administration
9. Professional Services
10. Transport Investment On-line (TIO) Reporting
11. Other issues that may be raised during the audit
12. Close out meeting

Contracts Audited

Contract Number	Tenders Received	Date Let	Description	Contractor		
			Physical Works			
143	2	Nov 2017	Urban Street Upgrade 2017/18. Potts Avenue & Buchanan Street	Delta Contracting	Estimate Let Price Final Cost	\$259,801 \$272,312 \$258,174
144	4	Nov 2017	Sealing 2017/18	HEB Construction	Estimate Let Price Final Cost	\$393,741 \$376,267 \$311,868
160	3	Nov 2018	Reseals 2018/19	Johnstone & Masters	Estimate Let Price Final Cost	\$383,534 \$398,044 \$401,022
162	2	Dec 2018	Urban Street Upgrade 2018/19. Buchanan/Payne/Windsor	Delta Contracting	Estimate Let Price Final Cost	\$475,707 \$499,922 \$428,571
174	2	Dec 2018	ODC Footpath Renewals 2018/19	Tracks Concrete	Estimate Let Price Final Cost	\$64,950 \$90,000 \$159,534
183	4	Nov 2019	Reseals 2019/20	Delta Contracting	Estimate Let Price Final Cost	\$361,706 \$343,400 Ongoing

REPORT

Date : 6 May 2020

To : Risk & Assurance Committee Meeting, 18 May 2020

From : Finance & Corporate Services Group Manager, Bevan Gray

Subject : **LOCAL GOVERNMENT SECTOR REPORT**

File ID : A198995

EXECUTIVE SUMMARY

A recent report that was released by DIA looked at the possible impacts on the Local Government sector across the country. This report provides an overview of the report findings and how they apply to Opotiki

PURPOSE

To provide the committee with the report prepared by DIA on the LG sector and the impacts of Covid-19. The full report is included as an attachment.

BACKGROUND

This is the second report prepared by DIA since lockdown late in March. This report has been revised taking advice from sector specialists and participating Councils.

DISCUSSION AND OPTIONS SECTIONS

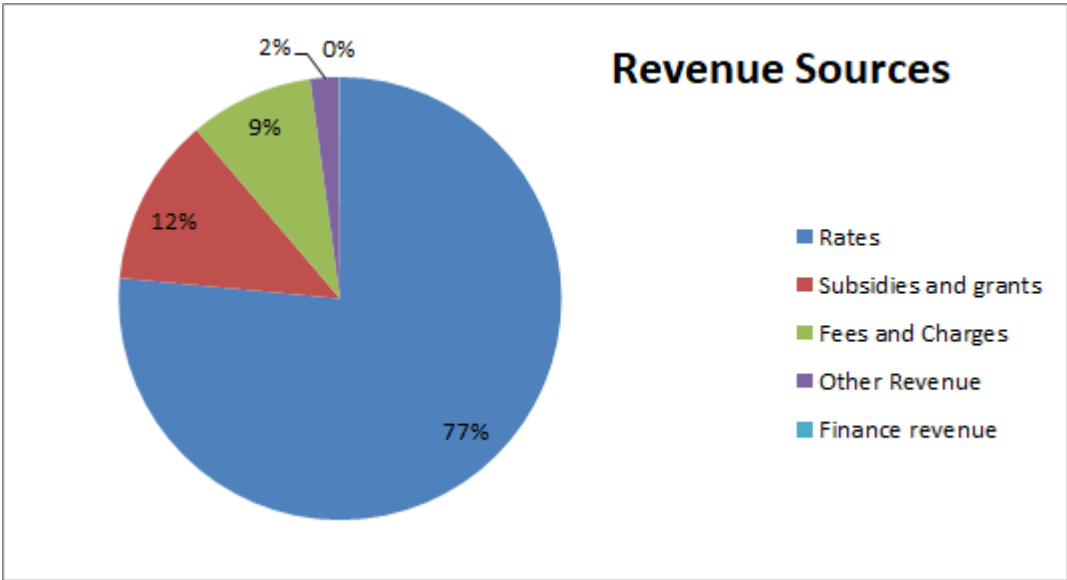
The report highlights a number of areas of the local government sector that might be affected. A brief analysis of these and how they relate to Opotiki is outlined below. For more detail and background please review the attached full report.

The report was prepared by DIA with input from SOLGM, LGNZ, LGFA, and a number of councils, surveys have been sent round councils during the lockdown for feedback.

The analysis contained in the report is based upon modelling the 2020/21 financial years contained in Councils 2018-28 Long Term Plans.

Updated analysis suggests that overall revenues for Councils to be down by 2 to 11 percent across the country from the pre-covid estimates. This was revised from an initial estimate of between 15 and 20 percent reductions in revenue identified in the first report.

Most significant revenue items that influence the estimates are rates, fees and charges, fuel tax for Auckland, and fines and infringements. For Ōpōtiki we are very heavily reliant on rates, only 11% of our revenue is from fees and charges, and other revenue. We are also quite reliant on subsidies and grants but if anything we are expecting increases in subsidies rather than reductions.



Councils most challenged with fees and charges will be those in areas of high tourism dependence, high levels of growth, or those that are heavily reliant on revenue from investments or dividends. We don't have high growth, tourism, or investment revenue yet. But we are working on it.

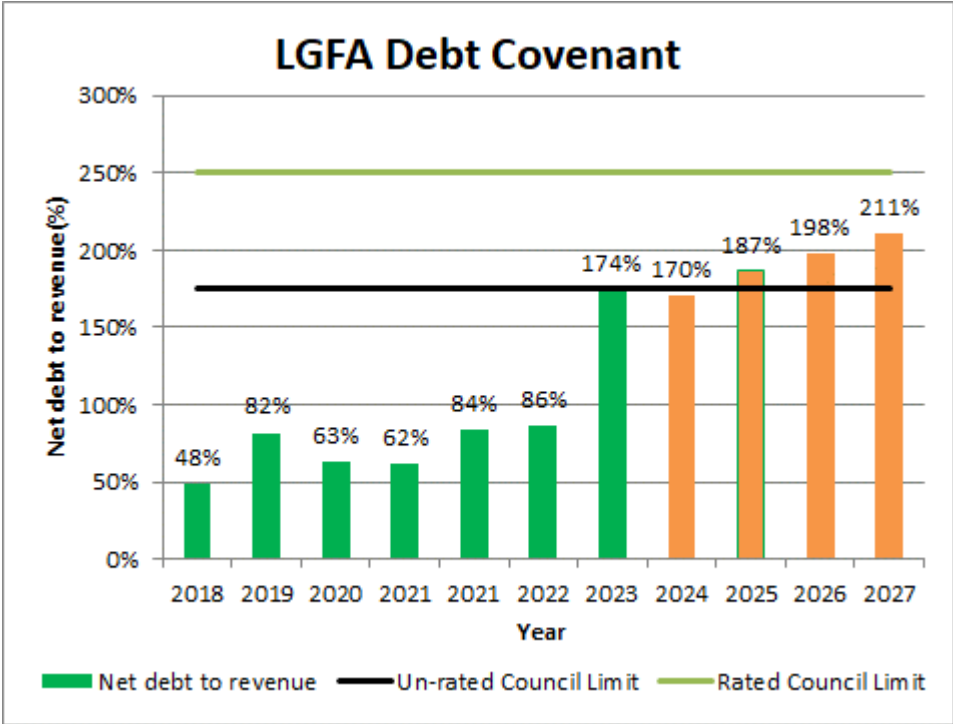
Small reductions in other revenue for some councils may lead to the need for these councils to borrow for operational expenditure. Because of our revenue make up and reliance on rates a small reduction in fees and charges will have little to no effect on our revenue levels. A significant reduction in other revenue would have a minor effect on our overall revenue levels.

For example if our total revenue was say \$10 million, then \$1.1 million would be from other revenue sources. A reduction in other revenue by 40%, which is what some of the high tourism areas are predicting would be a reduction of just over \$400k, or a 4% effect on total revenues. A more likely

scenario however is that our other revenues are reduced by around 10%, which would a 1% impact on total revenue.

Increased borrowing for those councils that need to borrow to fund operational cost could lead to some Councils breaching their LGFA covenants. There are eight councils that are at risk of this, and a further seven councils that are within 20% of their limits. This would mean that they are very limited in terms of their headroom for further borrowing.

We are currently only at 62% for our net debt to revenue where the limit is 175%. So we have plenty of headroom for further borrowing. Should we get a positive decision for any of the Crown Infrastructure Partners projects we have submitted, this would provide even more headroom for future borrowing in the later years of the LTP. As it stands we look to breach the un-rated Council limit in 2023, but will remain within the rated council limits in all years of the LTP.



The report also identifies that there is an expectation that there will be a number of Councils that are proposing deferrals of asset replacements for a period of time to reduce rates. This may increase infrastructure resilience risks, and ultimately long term costs for Councils. High growth councils are likely to come under significant pressure to defer capital projects. We have only proposed small reductions in capital projects with our refined Annual Plan, and have still proposed to undertake most of the capital works proposed in the LTP. We need to keep them programmed so that we can deliver the harbour development and associated growth, which will require renewed and resilient infrastructure assets.

International tourism makes up to 41% of the total tourism expenditure across the country. Otago, Auckland, and West Coast are most affected by this. It will have little impact on Ōpōtiki.

Manufacturing is one of the largest generators of production for some of the small districts. Kawerau derives 41% of its total GDP from manufacturing. Some of these businesses will be significantly impacted. This also has very little impact on us currently, we had a thriving manufacturing industry a decade ago that has all but disappeared now.

The agricultural sector is expected to perform relatively well in the short and long term. Horticulture will be a key sector for Ōpōtiki that is still going strong.

Population growth in high growth councils driven by immigration is likely to be restricted over the next year. Domestic migration could potentially replace international migration in the short to medium term.

The report assumes that most councils have non-collection of rates of between 2% - 6%. Ours is 9% at the moment, and has been at that level for at least the last four years where we have been capturing data.

Most Councils around the country still sent out fourth quarter invoices, and were not expecting immediate impacts of covid on collection of these.

Closure of community facilities to lead to loss of revenue of around 12 percent, we don't collect a lot of revenue from facilities, so this will have little impact on total revenue.

One third of councils expect decreases of other revenue of around 15% or more, four expect decreases of over 20%.

SIGNIFICANCE ASSESSMENT

Assessment of significance

Under Council's Significance and Engagement Policy, on every issue requiring a decision, Council considers the degree of significance and the corresponding level of engagement required. The level of significance for Local Government Sector Report is considered to be low as determined by the criteria set out in section 17 of the Significance and Engagement Policy.

Assessment of engagement requirements

As the level of significance for Local Government Sector Report is considered to be low, the engagement required is determined to be at the level of inform according to schedule 2 of the Significance and Engagement Policy.

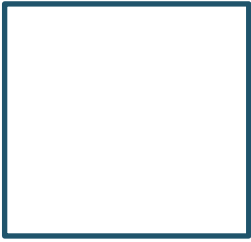


RECOMMENDATION:

- 1. That the report titled "Local Government Sector Report" be received.

Bevan Gray

FINANCE & CORPORATE SERVICES GROUP MANAGER



Local Government Sector

COVID-19 Financial Implications

Report 2 – Alert Level Scenarios, Assumptions and Updated Analysis



Local Government COVID-19 Response Unit
LGGCov19response@dia.govt.nz

Contents

Contents	2
Foreword	3
Snapshot	4
Part 1: Background	5
Local Government COVID-19 Response Unit.....	5
Finance Workstream.....	5
Targeted information gathering	6
Part 2: Scenarios, economic context and assumptions	7
Alert Level scenarios to inform the analysis	7
Economic geography/context.....	8
Importance of sector make up	8
Assumptions.....	11
Part 3: Short term - 2019/20 financial year	13
Part 4: Medium- and long-term (2020/21 and beyond)	16
Revenue forecast for the 2020/21 financial year	16
Informal SOLGM survey results on rates revenue for the 2020/21 financial year ..	16
Modelling results on revenue line items for the 2020/21 financial year.....	17
Further analysis and breakdown of significant revenue line items.....	20
Rates revenue.....	21
Fees and charges	22
Subsidies and grants for operating purposes.....	23
Interest and dividends from investments	25
Fuel tax, fines, infringement fees and other revenue sources	26
Development and Financial contributions	27
Impacts on capital expenditure	28
Impact on debt levels.....	31
Auckland Council.....	32
Implications for recovery	33
Further analysis and reports	33
Appendix 1: Economic geography/context.....	34
Analysis by Territorial authority	34
Key drivers for groups of councils and financial channel impacted.....	35

Foreword

1. As noted in our first, April 2020, financial implications report COVID-19 will have profound impacts on New Zealand's local government sector as well as wider economic and financial systems.
2. The analysis in this report builds on our initial work and provides more detailed information with reference to possible COVID-19 scenarios and impact assumptions. This information confirms the diversity of local government and how COVID-19 impacts will vary considerably in districts and regions around the country. We expect the information will assist with recovery planning at national, regional and local levels.
3. As with our first report, some of the information relates to forecasts undertaken before the COVID-19 pandemic (for example, 2018-2028 Long Term Plans). However, we have also been able to gather further information from councils and other organisations to develop Alert Level scenarios and assumptions about the impacts of COVID-19 in New Zealand. In turn, that has provided a basis for some further analysis of what that might mean for the local government sector over coming weeks and during the 2020/21 financial year.
4. This updated analysis includes summary information on what councils responding to a Society of Local Government Managers (SOLGM) survey said about:
 - the overall financial impacts they expect during the fourth-quarter of the current financial year; and
 - what might happen with rate-setting for the 2020/21 year.
5. Once again, compiling and producing this report has been a team effort with contributions from Local Government New Zealand (LGNZ), SOLGM, Local Government Funding Agency (LGFA), the Treasury and the Department of Internal Affairs (DIA).
6. Several other government agencies were also very generous with their time and information as we worked through the process of formulating scenarios and assumptions. We are very grateful to them and the councils who continue to engage with surveys, give up their time to discuss key issues and questions and share their own analyses and conclusions about COVID-19 and its effects on their communities as well as council revenue and expenditures.
7. We welcome feedback on this report and will continue to support the sector as New Zealand progresses through different Alert Levels and the recovery focus intensifies.
8. Stay safe and well.

Snapshot

9. This updated analysis in this report is based on modelling against the 2020/21 financial year as per councils' 2018 – 2028 long-term plans (LTPs) and additional survey information received from councils in the last week about likely rates revenue for the 2020/21 financial year. It is also informed by three Alert Level scenarios, initially developed by the Ministry of Transport with reference to Treasury scenarios released on 14 April 2020. The best-case scenario (scenario A) is a progression from the current Alert Level 3 down to Alert Level 0 in early 2021 without having to raise the Alert Level again. The worst-case scenario (scenario C) includes two further periods at Alert Level 4.
10. Our updated analysis suggests that, overall, councils' revenues for the 2020/21 financial year are likely to be between 2.3 and 11 percent lower than the forecast pre-COVID-19 levels. This is quite different to our *Initial Analysis* report, which indicated much higher potential revenue reductions – ranging between 15 and 20 percent. With the 2018 Long-Term Plans forecasting total revenue in 2020/21 of almost \$15.5 billion, this forecast revenue reduction of between 2.3 to 11 percent equates to approximately \$355 million - \$1.5 billion.
11. The most significant revenue items that influence the new estimates of revenue reductions are rates revenue, fees and charges, and fuel tax (primarily Auckland), fines and infringement fees. It would require large rate rises to make up the total estimated revenue shortfall (an average of 9.5 percent in our best-case scenario).
12. This collated national picture needs to be treated with caution as the local government sector is not homogeneous. Within this national picture, there are councils that our analysis shows are in a very challenging situation. Typically, they are councils that were carefully managing budgets and making trade-offs before the COVID-19 pandemic. The pandemic effects have simply amplified or added to their pre-existing difficulties.
13. Councils that are in the most challenging position include those with a high tourism dependence, high levels of growth and/or rely on significant revenue from investments and dividends.
14. Our analysis also shows that even relatively small reductions in revenue can have a large practical impact. Small revenue reductions may lead to increased borrowing to make up the shortfall or reduced expenditure, particularly on capital items, to balance the budget, or some mixture of the two.
15. A key unknown is how the forecast shortfall in the National Land Transport Fund (NLTF) will be treated. If this forecast shortfall is passed through to councils then this pushes the council revenue reduction towards the top of the range.
16. Identified revenue reductions indicate that around eight councils could be at-risk of breaching the Local Government Funding Agency debt covenants (net debt/revenue criteria), in the unlikely event that those councils took no action to maintain revenue or reduce expenditure. A further 7 councils could come within 20 percent of the covenant thresholds, giving little headroom in case of a further financial shock (eg, due to a natural disaster event).
17. We expect that councils will defer the replacement of assets for a period and potentially reduce the priority of capital expenditure so they can sustain service levels. The deferral of asset replacement may increase infrastructure resilience risks and increase long term costs for councils. High growth councils are likely to come under pressure to defer capital expenditure for growth by a year or more.

Part 1: Background

Local Government COVID-19 Response Unit

18. This is the second financial implications report from the Local Government COVID-19 Response Unit, which is a joint initiative of DIA, LGNZ, SOLGM and the National Emergency Management Agency (NEMA).
19. The Unit's focus is to ensure council Mayors, Chairs and Chief Executives can continue to make the necessary decisions to support the wellbeing of their communities to protect New Zealand and eradicate COVID-19.
20. The Unit aims to:
 - 20.1 Co-ordinate and unite with councils to ensure the continued delivery of essential services to all our communities, in alignment with the national response to COVID-19.
 - 20.2 Integrate DIA's national-level response functions with LGNZ, SOLGM, NEMA, other agencies and national command structures.
 - 20.3 Ensure effective two-way communications between central government agencies and councils to enable central government to provide nationally consistent guidance and information to assist councils to understand and comply with relevant requirements of local government legislation. This includes any legislative changes or statutory overrides implemented by the Government.
 - 20.4 Keep the Minister of Local Government informed of urgent issues and provide advice on legislative 'fixes' that may be required.
 - 20.5 Provide guidance and assistance to enable and support recovery post-lockdown by councils and their communities.
21. The Unit includes the following workstreams: Essential Services; Governance and Regulatory; **Finance**; Recovery; Social Wellbeing; and Project Management.

Finance Workstream

22. The main roles of the Unit's Finance Workstream are:
 - 22.1 Identification and resolution, if required, of material legislative constraints and impediments to finance-related processes in varying Alert Level situations (linked to the Governance and Regulatory Workstream).
 - 22.2 Understanding financial implications for the sector, groups of councils and individual councils of the pandemic – revenue, expenditure, borrowings, cashflow, liquidity.**
 - 22.3 Provision of advice and guidance to the local government sector on navigating the COVID-19 situation as it relates to financial processes and practices, including annual rates setting.
 - 22.4 Tracking and reflecting economic forecasts to inform analysis and provision of best possible advice.
23. As per the bold text above, this report relates primarily to understanding the financial implications for the sector.

Targeted information gathering

24. To support this analysis and to supplement readily available data and information on council finances and evolving economic conditions post-COVID-19, SOLGM conducted the following two rapid surveys of councils.
25. Firstly, councils were asked to identify the financial impacts of COVID-19 during the fourth quarter of the 2019/20 financial year (April – June 2020). They were asked to compare their annual plan forecasts with any new, post-COVID-19 estimates. Thirty-one territorial authorities and two regional councils responded.
26. The first survey scope included key revenue, expenditure and balance sheet items. Councils were also asked to note any particular assumptions or areas of risk in the forecast. Each council made its own assumptions about the COVID-19 response and its impact on local economies.
27. Secondly, councils were asked about their rating intentions in March 2020 (i.e. prior to Alert Level 4) and their updated intentions as of the end of April 2020. Councils were also asked to confirm the level of rates income that the 2018 - 2028 LTPs had projected for the 2020/21 financial year. Recognising that many councils are yet to make decisions and may still be formulating and/or consulting on their options they were able to indicate more than one possible option for their updated intentions.
28. Seven of the 37 respondents indicated they were still considering more than one option (most commonly two, though one council presented six). Where councils presented options, there were two sets of data constructed. One of these used the options with the highest level of associated rates income, and one with the lowest associated level of rates income.

Part 2: Scenarios, economic context and assumptions

Alert Level scenarios to inform the analysis

29. What New Zealand’s ongoing response to COVID-19 will exactly involve and when Alert Levels will apply nationally or in different regions or districts is uncertain.
30. For this financial analysis, we have chosen to adapt a Ministry of Transport COVID-19 Alert Level scenario model as summarised in the table below. The Ministry of Transport scenarios align closely with Treasury scenarios and have been built on a month-by-month basis. This disaggregation works well for modelling. We have adapted the first two months of the scenarios to reflect Government decisions on Alert Levels made since the Ministry of Transport scenarios were developed on 8 April 2020.

Table 1: Scenarios and Alert Levels

Actual date, notified decision date and future months	Financial Year (FY)	FY Quarter	Scenario and alert level		
			A	B	C
23 Mar 2020	2020	3	3	3	3
25 Mar 2020	2020	3	4	4	4
28 Apr 2020	2020	4	3	3	3
11 May 2020	2020	4	3 or 2?	3 or 2?	3 or 2?
Jun 2020	2020	4	2	2	2
Jul 2020	2021	1	2	2	1
Aug 2020	2021	1	2	2	4
Sep 2020	2021	1	2	2	3
Oct 2020	2021	2	2	2	2
Nov 2020	2021	2	2	1	1
Dec 2020	2021	2	2	4	4
Jan 2021	2021	3	2	3	3
Feb 2021	2021	3	2	2	2
Mar 2021	2021	3	2	1	1
Apr 2021	2021	4	1	1	1
May 2021	2021	4	1	1	1
Jun 2021	2021	4	1	1	1
Jul 2021 onwards	2022	1	0	0	0

31. The three scenarios are therefore best described as:
- 31.1 **Scenario A:** A progressive reduction in COVID-19 Alert Levels in the 2020 and 2021 calendar years. A successful public health response quickly limits the health impact of COVID-19, enabling the start of the post-COVID-19 period by April 2021. Government financial support and favourable global economic conditions enable a rapid economic recovery. Compliance of the population and technology advancement in case detection and tracing enable successful management of the virus.
- 31.2 **Scenario B:** A reduction in COVID-19 Alert Levels for most of the 2020 calendar year with a return to Alert Level 4 in December 2020, followed by a fast reduction in COVID-19 Alert Levels in the 2021 calendar year. In this scenario, the public health response is somewhat effective. However, limited technology improvement in case detection and tracing results in a growth in the number of cases over time. This post-COVID-19 scenario is likely to start in July 2021 with a slower economic recovery.
- 31.3 **Scenario C: An oscillation between COVID-19 Alert Levels 1 – 4 in the 2020 and 2021 calendar years.** In this scenario, New Zealand both struggles to contain COVID-19, with Alert Level 4 reinstated in both August and December 2020 delaying the economic recovery. There are waves of reinfection causing significant loss of life and deep economic disruption over a prolonged period, delaying recovery.

Economic geography/context

Importance of sector make up

32. As indicated in the following table, how the scenarios impact on each of New Zealand's territorial authorities and regional councils will vary substantially. The short- and long-term impacts on councils are influenced by the differing characteristics of each council district.
33. The short-term refers to the initial shock to the economy, varying between sectors. For commodity good exporters and businesses reliant on imported inputs, the initial shock occurred from the beginning of the year as demand fell from China and other major trading partners.
34. However, most other sectors only began to be affected in the fourth quarter of financial year 2021, when the country entered Alert Level 4. The long-term impact captures the ongoing challenges to sectors as the economy moves into the recovery phase.
35. The impact varies widely, both between and within sectors. Construction, air travel, tourism, manufacturing, transport, and consumer goods industries face significant restrictions under Alert Level 4. Productivity will be severely impacted at Level 3 even if businesses in these sectors are able to operate. However, some businesses within these sectors will be able to get underway or recover quicker than others, especially if they have been able to operate under Alert Level 4.
- The inactivity in the building and construction sector will affect small sub-contractors and supplier industries, such as secondary metal machining.
 - The forestry sector will feel the effects of the combined slowdown in demand from China and the country wide lockdown.
 - Food manufacturers remained in operation under Alert Level 4, but their production may have been restricted due to social distancing requirements.

- Non grocery retailers, including motor vehicle retailing, are closed during the country wide lockdown and will also face reluctant demand from consumers once the lockdown is lifted.
- Layoffs and business failures have a higher chance of occurring in industries that feature a high proportion of small firms. For example, wholesale and retail, hospitality, rental and leasing, tourism and small manufacturers.

Table2: Long- and short-term sector impact and key influencing factors

Sector	Influencing Factors					
	Short term	Long term	Travel Restriction / Reduced travel/ Lockdown in NZ	Supply Chain Interruption	Reduced Consumption/ Interruption to Retail Operation	Working Capital Pressure
Retail trade	M	N	x	X	x	
Construction	H	M	x	x	x	X
Air travel	H	H	x		x	x
Wholesale trade	M	M	x	x	x	
Tourism	H	H	x			
Manufacturing	H	M		x	x	x
Telecommunications	O	O			Increase	
Electricity, gas, water & waste	M	N	x		x	
Transport, postal & warehousing	H	M	x	x		
Consumer goods (luxury goods)	H	M		x	x	x
Financial Services	M	M	x			x

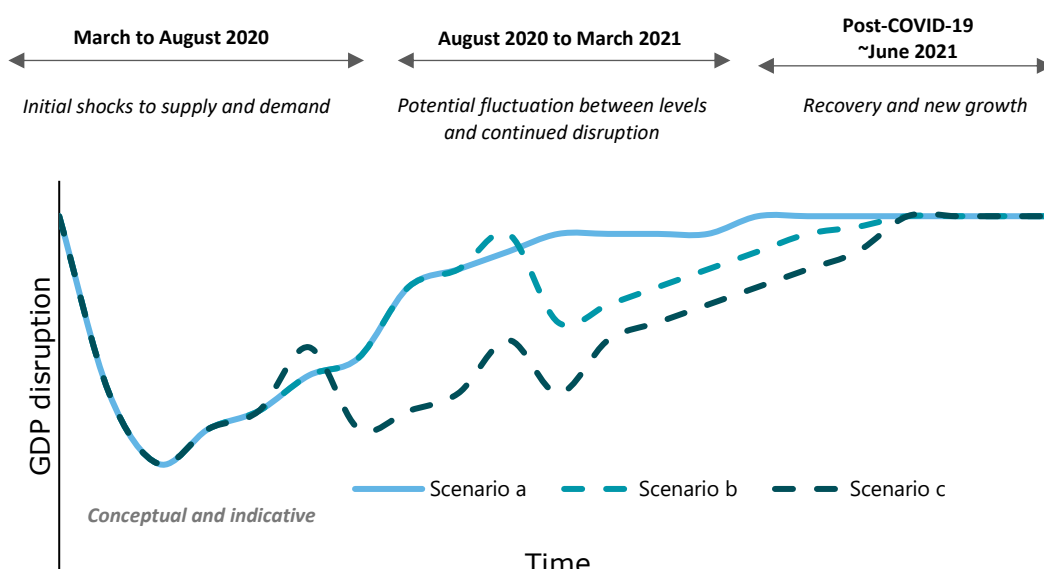
Short term	Impact over the next four to six weeks	H	High impact	N	Neutral or low impact
Long term	Impact through 2020, assume the Governments' response is effective	M	Medium impact	O	High demand/opportunity

Source: Author analysis based on Deloitte

36. We have undertaken a more detailed economic geography analysis of economic impacts and sought to apply this at a local authority level. The results of this are in Appendix 1. Particular points to note include:
- The impact of COVID-19 on businesses is likely to be highly differentiated within industry segments.
 - Local economies exposed to tourism will be hard hit by weaker incomes, higher unemployment, and uncertainty.

- Nationally, international tourism makes up 41 percent of total tourism expenditure and by region, Otago, Auckland, and West Coast have the highest proportions of international visitor expenditure.
 - Manufacturing is the largest or second largest generator of production in many small provincial territorial authorities. According to Statistics New Zealand modelled territorial authority GDP figures, Kawerau, Carterton, South Taranaki District, and Mata-Piako Districts derived 41 percent, 40 percent, 25 percent and 25 percent of total GDP in 2018. Manufacturing is also a significant contributor to GDP in South Waikato, Timaru, and Hastings District.
 - Agriculture is the largest industry by GDP for just over 40 percent of territorial authorities, including Waimate (51 percent of local GDP), Southland (38 percent), and Otorohanga (35 percent). The agriculture sector is expected to perform relatively well in the short- and long-term.
 - High growth councils include Auckland, Hamilton, Tauranga, and Queenstown. Population growth from international migration will be heavily restricted over the next year. However, these councils also receive a relatively high number of domestic tourists each year, with net positive domestic migration in all districts except for Auckland during 2018. Returning New Zealanders and a continuation of domestic migration trends could support growth in these areas.
37. This analysis, along with the economic scenarios developed by The Treasury (released 14 April 2020¹) have informed our assumptions around the GDP impact on local authorities of COVID-19 and fed into the development of three scenarios.
38. The stylised figure below depicts the negative impact on economic activity under the three scenarios described above. Scenario A shows an initial decline in activity, but a rapid recovery as alert levels are reduced. As indicated above, scenarios B and C each have some degree of Alert Level oscillation.

Figure 1: Stylised economic activity at different Alert Levels



¹ <https://treasury.govt.nz/publications/tr/treasury-report-t2020-973-economic-scenarios-13-april-2020>

Assumptions

39. As far as possible this report aligns financial impacts driven by economic activity using Treasury’s assumptions of the levels of output across all of New Zealand under each Alert Level.

Table 3: Alert Levels and economic activity assumptions

Alert Level	Percent of output (midpoint)
4	60
3	75
2	87.5
1	92.5
0	100

Source: Treasury

40. Council expenditure and revenue items that we assume will scale in line with economic output include:
- subsidies and grants for operating purposes, except where specific sensitivities have been incorporated in the analysis (eg, the National Land Transport Programme);
 - development contributions;
 - other Income;
 - interest and dividends from investments; and
 - other operating expenditure.

Rates income (includes general and targeted rates and uniform annual general charges)

41. All modelling assumes the rating increases proposed by councils in the SOLGM Rating Intentions Survey for the 2020/21 financial year. For councils that did not participate in the survey, the average reduction in rating intentions for survey respondents was assumed to apply to those councils’ proposed LTP rating intentions.
42. It is important to note that the proposed rating intentions are just considerations at this stage and may change between now and final adoption of each council’s annual plan (likely to be late June for most councils).

LTP assumptions

43. We assume that councils’ individual 2018 - 2028 LTP assumptions will remain relevant for:
- income from revaluations;
 - employee costs;
 - depreciation and amortisation;
 - investment in council-controlled organisations (CCOs), council-controlled trading organisations (CCTOs) and other entities; and
 - other assets.

Capital expenditure

44. Our analysis of council financial position assumes that councils will continue with the capital expenditure forecast in their 2018 – 2028 LTPs. It is highly likely that councils will consider reprioritising capital projects in order to better manage their recovery efforts and the financial impacts of COVID-19.

Petrol tax, fines, infringement fees and other

45. We assume that petrol tax, fines, infringement fees and other declines in proportion with NZTA's vehicle usage scenarios (presented later in this document).

Provision for rates non-collection

46. Our analysis assumes a non-collection assumption for rates in the range of 2 percent to 6 percent in the 2020/21 financial year, with the rates arrears progressively collected in the following two financial years.
47. Rates non-collection is counted as an increase in debt in 2020/21.

Grants and subsidies

48. For the relevant sensitivity, grants and subsidies are assumed to decline proportionality with estimated reductions in the National Land Transport Fund (NLTF) net revenues.

Part 3: Short term - 2019/20 financial year

49. As outlined above SOLGM assisted with information gathering for this analysis by surveying councils about their estimates of short-term impacts of COVID-19 on revenues. The following is a summary of the key findings from the survey.

Rates revenue

50. Our initial report noted that many local authorities had sent, or were about to send, final 2019/20 rates instalment invoices to ratepayers. The impact of COVID-19 on rates revenues was not expected to be immediate or significant because the range of available collection options and enforcement powers would likely mean any ratepaying difficulties will manifest as payment delays rather than non-payment.
51. Most of the surveyed local authorities anticipate collection of all of the 2019/20 rates. Ten are forecasting some level of non-collection, though seven of the ten forecast collection of 99 percent or better. Only three have forecast levels of non-collection markedly above usual.

Fees and charges

52. The survey results confirm expectations that the closure of community facilities will result in a loss of revenues from fees and charges. Collectively, the surveyed local authorities anticipate an average decrease in revenue from fees and charges of around 12 percent.
53. Around a third are expecting declines in revenues of 15 percent or more. Four of these expect declines of more than 20 percent in revenue from fees and charges. The ten local authorities with the largest forecast losses are all territorial authorities but there is little commonality in factors such as size, location etc.

Interest and dividends from investments

54. A majority of the surveyed councils are expecting a reduced level of income from investments (dividends etc). Twenty of the thirty-three respondent councils forecast reductions in revenue from investments. Christchurch City and New Plymouth District are forecasting reductions of \$26 million and \$28 million respectively (the latter representing a change from a forecast receipt of \$15 million to a loss of \$13 million).
55. Five councils have forecast no change in investment incomes, and six others have forecast increases of 25 percent or more (though in many cases these are relatively small amounts).
56. While some losses appear very large when expressed as percentages, the actual amounts of forecast declines are small in the overall context of the council finances. For example, Hastings District forecasts its actual receipts from investment will be more than 80 percent lower than forecast in the annual plan. The amount involved is approximately \$520,000 or around 0.6 percent of that council's rate take. In contrast, New Plymouth's loss is equivalent to 30 percent of its rate take.

Fuel tax, fines, infringement fees and other revenue sources

57. We expect a reduction in fuel tax (primarily affects Auckland Council through the Regional Fuel Tax – RFT), traffic and parking related fees due to the reduction in vehicle usage from Alert Levels 4 and 3.

58. Parking and traffic infringement revenue will reduce in line with reduced vehicle usage. We note that many councils have not been collecting any parking revenue during the initial Alert Level 4 period. This policy will further reduce parking income for councils during further Level 4 periods, if any.

Development and Financial contributions

59. While slightly more than a third of the thirty surveyed councils that can and do use development contributions (DCs) have forecast decreased revenues, most have forecast that revenues will hold steady or increase. The likely explanation for this counter-intuitive result is that, for many councils, development activities and DC income were running ahead of schedule and or well above LTP forecasts pre-COVID-19. Local authorities typically take a conservative approach with forecasting these revenues, recognising that the risk of any shortfall is an increase in rates or debt.

Impacts on capital expenditure

60. We anticipated that COVID-19 impacts would lead to some councils deciding to defer capital expenditure programmes for the remainder of 2019/20. The survey results indicate that, on average, councils now expect to expend around 73 percent of the planned capital budgets (approximately \$674 million). Twenty-eight of the thirty-three councils expect to be below the annual plan budget, with 17 councils predicting capital expenditure less than 75 percent of budget (including five less than 50 percent).
61. These findings should be viewed with caution. There are a variety of reasons a local authority might not deliver all the planned capital works under 'business as usual' – these include availability of civil construction to do the work, inclement weather, delays in consenting. The Office of the Auditor-General's report on the 2017/18 audits noted that the sector's delivery against capital programmes has been improving in recent years, but in 2017/18 58 of 78 did not deliver all their planned capital expenditure.
62. The degree of underspend in capital budgets in Waikato and Selwyn Districts is more than \$100 million. Hamilton likewise is expecting to underspend by around \$79 million and Wellington is predicting a \$64 million underspend (roughly \$40 million of this was forecast before the Alert Level 4). Each of these are growth councils, and there may be significant ongoing impacts on wider objectives for housing and urban development.
63. Other councils likely to be significantly underspent include smaller provincial centres such as Timaru, Hastings and Marlborough Districts.² Councils did commonly note that the recent calling on councils to identify shovel ready projects would significantly influence their results.
64. It appears most have deferred some capital expenditure, and some cases markedly so, but it is unclear how much, if any, relates to COVID-19.

Operating Expenditure

65. Overall, the surveyed councils forecast staff costs will be within one percent of those budgeted in the annual plan. However, there are some councils predicting a significant variance from budget.

² In February 2020, before COVID-19 impacts, Marlborough was already indicating that internal and external capacity constraints meant it was likely to spend only \$14 million of its \$87 million capital expenditure budget for 2019/20. See a media report about this at: <https://www.stuff.co.nz/national/politics/local-democracy-reporting/119183211/council-spends-fraction-of-infrastructure-budget-due-to-lack-of-resources>

66. Central Otago District predicts it will be 20 percent under annual plan and Otorohanga District predicts 10 percent. These are not necessarily COVID-19 impacts.
67. Likewise, there is currently little indication in the survey responses of sector-wide variance in the forecast expenditure on other direct costs from annual plan.
68. There is an indication of a small reduction in borrowing across the sector which is reflected in a moderate, 10 percent, reduction in finance costs.

Impact on debt levels.

69. There are several dynamics at play with the potential impacts on borrowing. There may be some borrowing reductions by councils that were intending to make significant reductions in capital expenditure, Others might borrow to offset reductions in revenues. The impact of prudential debt limits and the LGFA borrowing covenants would hold sway over all.
70. There is evidence of each of these dynamics at play in the survey results. On average the council responses indicate a collective expectation to borrow slightly less than forecast in annual plans. However, this average masks considerable variability in results – with a couple of councils forecasting they will borrow less than a third of that indicated in annual plans, while ten were forecasting higher borrowings.
71. As would be expected there is a correlation between those councils making significant reductions in capital expenditure and those reducing their borrowing. Six of the ten councils with the largest percentage reductions in debt are amongst those with the highest percentage in capital programmes. Hamilton City and Waimakariri District are also making large dollar reductions.
72. For some councils there may be a relationship between indications of borrowing more than annual plan forecast and anticipated revenue reductions. For example, New Plymouth District has forecast a substantial loss of investment revenues and some loss of development contributions revenues. Hastings District is also forecasting moderate revenue decreases across the board.

Part 4: Medium- and long-term (2020/21 and beyond)

Revenue forecast for the 2020/21 financial year

73. This updated analysis used two data sources to glean revenue forecasts for the 2020/21 financial year.
- As outlined earlier, an informal SOLGM survey that asked councils to provide data on their pre-COVID-19 plans for rates revenue and their best estimate, as of now, for the rating revenue they would strike in their upcoming Annual Plans.
 - A model developed for this analysis to run various scenarios and sensitivity analyses. Based on the 2018 – 2028 LTPs, the model individualised each revenue line item, brought analysis to inform assumptions for each (ie, wider GDP impact) and forecast the revenue for each council.

Informal SOLGM survey results on rates revenue for the 2020/21 financial year

74. At the time of writing 37 local authorities had responded to the survey - 32 territorial authorities and 5 regions. The largest non-respondent councils included Auckland Council and Dunedin City Council. However, overall, the survey respondents appear to be reasonably representative of the sector as a whole.
75. In LTPs the 37 respondent councils forecast that they would receive a total rates income of \$3.110 billion for the 2020/21 financial year. Prior to COVID-19 this amount would have increased to \$3.152 billion. Based on their best post-COVID-19 estimates at the end of April 2020, the total rates income forecast lay between \$3.022 billion (low rates income) and \$3.079 billion (high rates income). These represent decreases of 4.1 and 2.3 percent respectively.
76. Under the low rates income estimate almost all the surveyed local authorities were expecting to make reductions in the level of rates income over those in the pre-COVID-19 situation. Three local authorities were intending to keep their rates income at pre-COVID-19 levels, 34 were intending to reduce the budgeted level of rates income. Of these 11 were intending reductions of at least five percent – including four of the five regional councils in the survey, four city councils and three district councils. Around two thirds of the surveyed councils were planning reductions below the amounts signalled in the LTP.
77. Under the high rating income estimate 32 of the 37 the surveyed local authorities were expecting to make reductions in the level of rates income over those in the pre-COVID-19 scenarios. Of these 8 were intending reductions of at least five percent – including four of the five regional councils in the survey.
78. It should be noted that local authorities, like central government, are undertaking their annual planning at a time when the uncertainty about the wider economic and social impact of COVID-19 is at its highest. Some councils had not started engaging the public on their 2020/21 annual plans when Alert Level 4 commenced and may change intentions further after engagement, and after elected member decision-making based on the results of that engagement. Even those councils that were well advanced with their annual plans still have many of these same process steps to complete.

79. Where they can, local authorities will first attempt to reduce spending in ways that do not require reductions to service levels, or in ways that could compromise the achievement of levels of service. The levels of reduction signalled above appear consistent with such a strategy. Higher levels of reduction would be more likely to require deferral of larger capital projects.

Modelling results on revenue line items for the 2020/21 financial year

80. The following table demonstrates the change in revenue and expenditure under the three financial scenarios for 2020/21. Under these scenarios, expenditure is kept constant to demonstrate the potential impact on debt, net surpluses. In reality, councils will be able to adjust their expenditure to offset some of the revenue shortfall.
81. A drop of at least 5 percent in operating and capital sources of funding (revenue) could be expected in 2020/21, compared to what was forecast in the 2018 – 2028 LTP. Operating sources of funding is estimated to fall between 6 and 7 percent in the 2020/21 financial year, while capital sources of funding falls by around just 3percent.
82. The drop is primarily driven by the rates default assumption of 2 to 6 percent and a 10 to 15 percent decline in GDP.
83. Under all three scenarios there is an assumed deficit of up to \$1.2 billion.

Table 4: Total Local Government revenue and expenditure scenarios, 2020/21 financial year

Baseline (LTP)	Baseline (LTP) (000s)	Scenario A (000s)	Scenario B (000s)	Scenario C (000s)
Total source of operating and capital funding “revenue”	\$15,455,139	\$14,578,992	\$14,447,048	\$14,283,718
Total application of operating and capital funding “expenditure”	\$15,455,135	\$15,455,135	\$15,455,135	\$15,455,135
Net surplus (deficit)	\$4	-\$876,143	-\$1,008,087	-\$1,171,417
Revenue change from baseline		-5.7%	-6.5%	-7.6%

Source: DIA modelling of scenarios

National Land Transport Programme (NLTP) funding sensitivity

84. A significant proportion of revenue from subsidies and grants is the NLTP funding via the New Zealand Transport Agency (NZTA). A key uncertainty is how this reduced revenue will impact NLTP funding for councils.
85. NZTA is expecting to receive significantly less in revenue due to reduced collection of road user charges (RUC) and fuel excise duty (FED) from private and commercial vehicles.
86. To account for this uncertainty, a second sensitivity was run, assuming that revenue from NZTA decreases in proportion to NZTA’s forecasted decline in revenue. Expenditure is reduced in proportion to the NZTA revenue decline.
- Including this assumption reduces revenue by 7 percent to 11 percent from LTP forecast revenue.
 - In the worst-case scenario, the net deficit declines to \$1.2 billion, due to the simultaneous decline in capital expenditure.

Table 5: Total Local Government revenue and expenditure scenarios, NLTP funding sensitivity

Baseline (LTP)	Baseline (LTP) (000s)	Scenario A (000s)	Scenario B (000s)	Scenario C (000s)
Total source of operating and capital funding	\$15,455,139	\$14,389,247	\$14,014,972	\$13,728,768
Total application of operating and capital funding	\$15,455,135	\$15,265,390	\$15,054,440	\$14,953,959
Net surplus (deficit)	\$4	-\$876,143	-\$1,039,468	-\$1,225,192
Change from baseline		-6.9%	-9.3%	-11%

Source: DIA modelling

Revenue drivers

87. Under the base assumption of no decline in NZTA funding from the LTP forecasts, the key drivers of the revenue reduction are rates revenue, fees and charges, and petrol tax, fines and infringement fees.
88. The tables below displays the top seven contributors to the decline in revenue. The second table indicates the relative importance of each item above to the overall decline in revenue – expressed as the percentage that an item contributes towards the change from LTP forecasts.
 - Rates is the largest revenue source. Intended rates income (set by councils) is expected to decline by 2.9 percent across all scenarios. Despite this relatively small decline, the decrease in intended rates contributes between 17 percent and 23 percent of total variation from the LTP forecasts.
 - Rates non-collected is assumed at 2 percent, 4 percent and 6 percent for scenario A, B, and C respectively. This assumption is also a strong contributor to the total decline in revenue – accounting for between 8 and 30 percent.
 - Fees and charges are the second largest revenue category. An 11 percent decline across all scenarios contributes between 26 and 35 percent to total variation from the LTP forecasts. Approximately half of the revenue from fees and charges is derived from demand driven sources – such as building consent fees and community facilities.
 - Petrol tax, fines, infringement fees and other falls by 16 to 26 percent across the three scenarios. It contributes 16 to 18 percent of the total revenue variation from the LTP forecasts.
 - Development contributions and financial contributions are a relatively small revenue line item. A 6 to 8 percent decline in revenue equates to around 9 to 10 percent of the change from the LTP forecasts.

Table 6: Revenue change from the LTP forecasts and contribution to the total variation, by line item, 2020/21 financial year

Line item	Baseline (LTP) (000s)	Scenario A (000s)	Scenario B (000s)	Scenario C (000s)
Rates income	\$6,916,413	-2.9%	-2.9%	-2.9%
Provision for rates non-payment	\$0			
Fees and charges	\$2,730,608	-11.3%	-11.3%	-11.3%
Subsidies & grants income	\$1,871,635	0.0%	0.0%	0.0%
Petrol tax, fines, infringement fees & other	\$829,657	-16.7%	-20.4%	-25.8%
Development & financial contributions	\$538,577	-18.2%	-18.3%	-19.3%
Total operating revenue	\$15,455,139	-5.7%	-6.5%	-7.6%

Source: DIA modelling of scenarios

Table 7: Contribution to the total variation in revenue change from the LTP forecasts, by line item, 2020/21 financial year

Line item	Scenario A	Scenario B	Scenario C
Rates income	22.8%	19.8%	17.1%
Provision for rates non-payment	7.5%	19.6%	28.2%
Fees and charges	35.1%	30.5%	26.2%
Subsidies & grants income	0.0%	0.0%	0.0%
Petrol tax, fines, infringement fees & other	15.8%	16.8%	18.2%
Development & financial contributions	11.2%	9.8%	8.9%
Other	7.5%	3.5%	1.4%

Source: DIA modelling

Scenario: If NZTA cuts funding proportionate to expected revenue reduction

89. A fall in grants and subsidies revenue in proportion to the expected reduction in NZTA revenue significantly increases the total decline in revenue. Under scenario C the reduction in grants and subsidies explains almost a third of the revenue variation from the LTP forecasts.

Table 8: Revenue change from the LTP forecasts and contribution to the total variation, by line item if NZTA cuts funding proportionate to expected revenue reduction, FY2020/21

Line item	Baseline (LTP) (000s)	Scenario A (000s)	Scenario B (000s)	Scenario C (000s)
Rates income	\$6,916,413	-2.9%	-2.9%	-2.9%
Provision for rates non-payment	\$0			
Fees and charges	\$2,730,608	-11.3%	-11.3%	-11.3%
Subsidies & grants income	\$1,871,635	-10%	-21%	-27%
Petrol tax, fines, infringement fees & other	\$829,657	-16.7%	-20%	-26%
Development & financial contributions	\$538,577	-18%	-18%	-19%
Total operating revenue	\$15,455,139	-7%	-9%	-11%

Source: DIA modelling

Table 9: Contribution to the total variation in revenue change from the LTP forecasts, by line item, if NZTA cuts funding proportionate to expected revenue reduction, FY2020/21

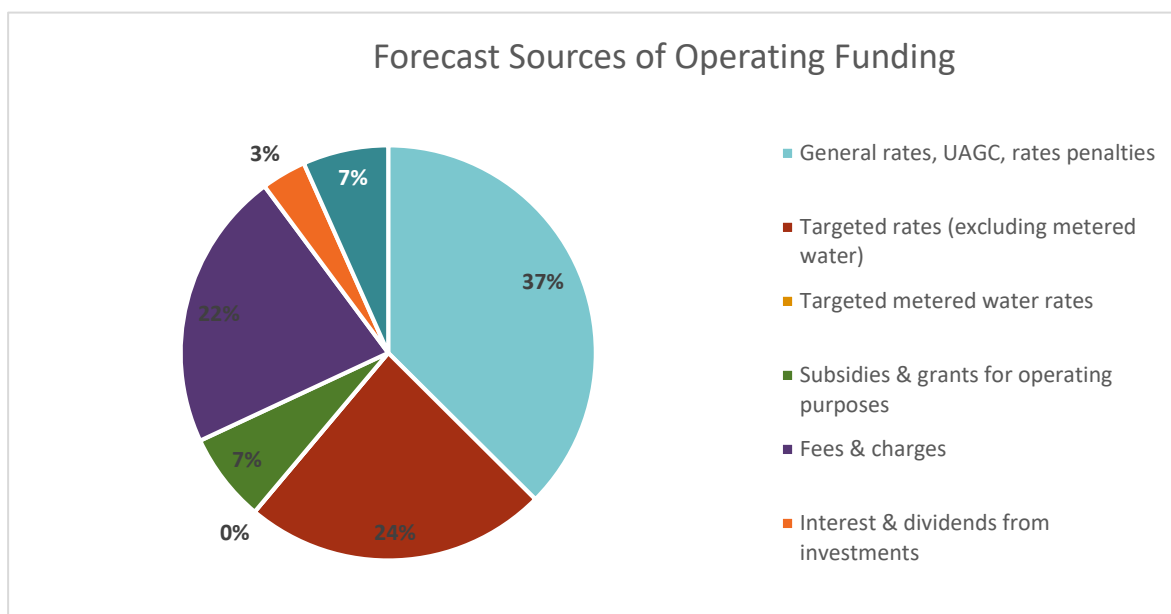
Line item	Scenario A	Scenario B	Scenario C
Rates income	18.8%	13.9%	11.6%
Provision for rates non-payment	6.2%	13.7%	19.1%
Fees and charges	28.8%	21.3%	17.8%
Subsidies & grants income	17.8%	27.8%	29.0%
Petrol tax, fines, infringement fees & other	13.0%	11.7%	12.4%
Development & financial contributions	9.2%	6.9%	6.0%
Other	6.2%	4.6%	4.1%

Source: DIA modelling

Further analysis and breakdown of significant revenue line items

90. As shown in figure 2 below, councils generate the vast majority of their revenue from rates, fees and charges and grants and subsidies.

Figure 2: Sources of operating funding: Forecast data from 2018-2028 LTPs



Source: DIA analysis of council LTPs for the 2019/20 financial year

Rates revenue

91. More significant impacts on rates collection may manifest in the 2020/21 year, as economic conditions post COVID-19 may make it difficult for some ratepayers to pay their rates on time. This is especially the case for residential ratepayers who lose their jobs and commercial ratepayers facing cashflow difficulties themselves or who have business tenants that are unable to pay their full rent on time or at all.
92. In an accounting sense, the deferred payment of rates does not reduce council revenue. Instead, deferred payment will simply impact cashflows unless councils apply a local rates remission policy on certain rates accounts or choose to 'write-off' unpaid rates.
93. Because rates fund essential community services and infrastructure projects (and ratepayers have been and will continue to be supported through other means) wide-scale rates remissions or write-offs seem unlikely. However, many councils will extend due dates, waive late payment penalties and work with individual ratepayers experiencing genuine hardship on a payment plan to clear rates arrears as quickly as possible.
94. As noted above, councils are currently undertaking their annual planning processes, and most have not set their rates for the 2020/21 financial year. Many councils recognise that there will be a growing level of hardship in their communities and are looking to reduce rates increases that might otherwise have gone ahead.
95. Lower rates levels are being funded by:
 - use of council cash reserves;
 - further borrowing;
 - re-prioritisation of projects; and
 - possibly, reducing some service levels.
96. The financial modelling shows that rates income could decline by around 2.9 percent due to council's lower rate collection intentions.

97. In addition, the analysis estimates that there could be between a \$65 million and \$330 million non-collection, based on a non-collection assumption of 2 to 6 percent in the 2020/21 financial year. However, these rates arrears are expected to be collected progressively in the 2021/22 and 2022/23 financial years.

Table 10: Rates income and provision for rates non-payment, FY2020/21

Line item	Baseline (LTP) (000s)	Scenario A (000s)	Scenario B (000s)	Scenario C (000s)
Rates income	\$6,916,413	\$6,716,311	\$6,716,311	\$6,716,311
Provision for rates non-payment	\$0	-\$65,973	-\$197,918	-\$329,867

Source: DIA Modelling

Fees and charges

98. Varying levels of economic activity at different COVID-19 Alert Levels will affect councils' revenue from fees and charges.
99. Across all sectors of the economy, we expect that outputs at the different Alert Levels will be as indicated in table 11 below.

Table 11: Economic output at different Alert Levels

Alert Level	Percent of output (midpoint)
4	60
3	75
2	87.5
1	92.5
0	100

Source: Treasury

100. Council fees and charges largely fall into two categories, namely:
- those affected by activity/demand levels, such as user charges for community facilities and fees for regulatory services such as resource and building consenting; and
 - those that remain relatively constant over time, such as dog licensing fees.
101. The modelling shows a decline of 11 percent in the 2020/21 financial year, or approximately \$300 million.

Table 12: Level and percentage change to fees and charges, FY2020/21

Line item	Baseline (LTP) (000s)	Scenario A-C (000s)
Fees and charges	\$2,730,608	\$2,423,415
% decline from baseline		-11.3%

Source: DIA Modelling

Subsidies and grants for operating purposes

Regional Councils expect reduced public transport fare revenue

102. Public transport fare revenue is expected to be much lower at all COVID-19 Alert Levels for some time. Longer-term public transport patronage will likely be impacted by changes in working practices as more people choose to work from home on a part-time or full-time basis. Higher levels of unemployment will also reduce patronage to some degree.
103. Social distancing requirements at Alert Levels 3 and 4 severely limit the capacity of buses and trains (capacity reductions as high as 80 percent due to the two-metre distancing requirement). The one metre social distancing requirement at Alert Level 2 is still very limiting and may only enable a five percent capacity gain (ie, 25 percent capacity at Alert Level 2).
104. We assume the following levels of public transport patronage when compared to normal pre-COVID-19 patronage levels.

Table 13: Assumptions of public transport patronage at different Alert Levels

Alert Level	Percent of normal patronage
4	2.5
3	20 – 23
2	43
1	80
0	95

Source: DIA with NZTA

105. Assuming that the zero fares in Alert levels 3 and 4 continue until 30 June 2021, the estimated impact on regional council fare revenues under each scenario is:

Table 14: Estimated impact on regional council fare revenue under each scenario

Region	Fare Revenue Loss - 2020 (\$M)			Fare Revenue Loss - 2021 (\$M)		
	Scenario A	Scenario B	Scenario C	Scenario A	Scenario B	Scenario C
Auckland	65.3	65.3	65.3	260.1	260.1	260.2
Bay of Plenty	4.4	4.4	4.4	17.4	17.4	17.4
Canterbury	6.0	6.0	6.0	24.0	24.0	24.1
Gisborne	0.1	0.1	0.1	0.2	0.2	0.2
Hawke's Bay	0.5	0.5	0.5	1.9	1.9	1.9
Manawatu-Wanganui	0.9	0.9	0.9	3.5	3.5	3.5
Nelson-Tasman-Marlborough	0.2	0.2	0.2	0.9	0.9	0.9
Northland	0.5	0.5	0.5	2.1	2.1	2.1
Otago	2.9	2.9	2.9	11.5	11.5	11.5

Southland	0.2	0.2	0.2	0.6	0.6	0.6
Taranaki	0.4	0.4	0.4	1.6	1.6	1.6
Waikato	2.6	2.6	2.6	10.2	10.2	10.2
Wellington	19.7	19.7	19.7	78.4	78.4	78.4
West Coast	0.0	0.0	0.0	0.0	0.0	0.0

Source: DIA analysis based on patronage assumptions and 2018/19 actual public transport revenue.

Public transport subsidy revenue risks

106. Regional councils potentially face a double impact on public transport revenues as a result of estimated reductions in the NLTF net revenues (ie, due to reduced income from RUC and FED).
107. Based on our scenarios, NLTF revenues may be impacted as outlined in the table below.

Table 15: Estimated impact on NLTF revenues under each scenario

Quarter Starting	Percent Change Scenario A	Percent Change Scenario B	Percent Change Scenario C
Jan 2020	-1.4	-3.4	-3.4
Apr 2020	-30.9	-45.0	-45.0
Jul 2020	-12.3	-21.6	-40.5
Oct 2020	-11.7	-33.1	-35.3
Jan 2021	-11.5	-23.3	-23.7
Apr 2021	-5.0	-7.6	-7.7
Jul 2021	-4.3	-5.3	-5.5
Oct 2021	-3.7	-4.8	-5.2
Jan 2022	-3.3	-4.6	-5.0
Apr 2022	-2.1	-3.3	-3.7

Source: Ministry of Transport

108. While the issue has been highlighted, at this early stage of the response, we are not aware of any decisions having been made about whether or how the NLTF revenue shortfall might be addressed.
109. Accordingly, for the purposes of this analysis, we have considered the impact of the following two possible Government policy responses:
- Either, the Crown makes up the shortfall in NLTF revenue and there is no subsequent reduction in public transport subsidies; or
 - Public transport subsidies are proportionately reduced in line with the reduction in NLTF net revenue.
110. Under the first of these possible responses, regional councils will retain the existing levels of subsidy and will be primarily impacted by reduced passenger fare revenue.
111. Subsidies could reduce by the following amounts under the second scenario if losses in NLTF revenue are proportionately spread across local government:

Table 16: Potential reduction in subsidies under each scenario

Region	2020/21 (\$M)			2021/22 (\$M)		
	Scenario A	Scenario B	Scenario C	Scenario A	Scenario B	Scenario C
Auckland	28.02	42.04	42.04	35.31	74.81	93.22
Bay of Plenty	1.55	2.32	2.32	1.95	4.13	5.15
Canterbury	2.11	3.17	3.17	2.66	5.64	7.03
Gisborne	0.03	0.05	0.05	0.04	0.09	0.12
Hawke's Bay	0.19	0.29	0.29	0.24	0.51	0.64
Manawatu-Wanganui	0.35	0.52	0.52	0.43	0.92	1.15
Nelson-Tasman-Marlborough	0.09	0.13	0.13	0.11	0.24	0.29
Northland	0.22	0.33	0.33	0.28	0.59	0.73
Otago	1.03	1.54	1.54	1.29	2.74	3.42
Southland	0.08	0.12	0.12	0.10	0.21	0.26
Taranaki	0.15	0.23	0.23	0.19	0.41	0.51
Waikato	1.06	1.60	1.60	1.34	2.84	3.54
Wellington	6.91	10.37	10.37	8.71	18.45	22.99
West Coast	0.00	0.01	0.01	0.00	0.01	0.01

Source: DIA analysis based on Ministry of Transport estimates of NLTF revenue and 2018/19 actual public transport subsidies.

112. The impact of lower NZTA subsidies on total local council revenue is estimated to be a drop of between \$200 million and \$500 million.

Table 17: Level and percentage change to subsidies and grants income, FY2020/21

Line item	Baseline (LTP) (000s)	Scenario A (000s)	Scenario B (000s)	Scenario C (000s)
Subsidies & grants income	\$1,871,635	\$1,681,890	\$1,470,940	\$1,370,459
% change from baseline		-10%	-21%	-27%

Source: DIA modelling

Interest and dividends from investments

113. As mentioned in our first report, six councils have had investment income greater than 12.5 percent of their rating revenue. Because of the very different investment profiles, we have not been able to forecast the impact of COVID-19 on each council (ie, beyond what councils are estimating themselves).
114. Broadly, we expect the following impacts on different types of council-owned investments over the next three years.

Table 18: Estimated impact on different investment types over the next three years

Investment type	Expected impact
Airport companies	No dividends in 2020, with substantial dividend reductions over pre-COVID-19 expectations in the following two years. ³
Port companies	No dividends in 2020, but dividends should return to normal levels by 2022 assuming international trade is not significantly impacted. ⁴
Civil infrastructure companies	No dividends in 2020 due to reduced productivity under lock down, but dividends should return to normal levels in subsequent years due to stimulus.
Term deposits	Average bank term deposit interest rates have fallen from 3.38 percent in July 2018 to 2.39 percent ⁵ . This is a 29 percent reduction in interest revenue.
Electricity distribution businesses	Minimal change to dividends due to the sectors use of customised and default price path regulation. Potential drop in dividend expectations after next price path reset if risk free rate remains at current low levels.
Property investments	There is a heightened risk of rental income stagnation and lower occupancy rates. No dividends are expected due to many councils offering rent relief and/or rent abatement. We expect some level of non-payment of rent by the commercial sector.
Managed funds	<p>Managed funds across the board have reduced in value. By way of example, in the last three months Mercer’s managed funds⁶ have performed in the following manner:</p> <ul style="list-style-type: none"> • Mercer Conservative Portfolio -3.45 percent • Mercer Moderate Portfolio -5.6 percent • Mercer Balanced Portfolio -9.5 percent • Mercer Growth Portfolio -13.18 percent • Mercer High Growth Portfolio -15.64 percent • Mercer Shares Portfolio -18.11 percent • Mercer Real Assets Portfolio -16.42 percent <p>We expect that managed funds will recover over the long run.</p>

Source: DIA analysis with sources as per footnote

Fuel tax, fines, infringement fees and other revenue sources

115. We expect a reduction in fuel tax (primarily affects Auckland Council through the Regional Fuel Tax – RFT), traffic and parking related fees due to the reduction in vehicle usage.

116. We expect that parking and traffic infringement revenue will reduce in line with reduced vehicle usage (summarised in table 19 below). We note that many councils have not been

³ Source: DIA analysis of global airport company dividend expectations from <https://simplywall.st/>.

⁴ Source: DIA analysis of global port company dividend expectations from <https://simplywall.st/>.

⁵ Source: Interest.co.nz.

⁶ Mercer manages New Plymouth District Council’s Perpetual Investment Fund.

collecting any parking revenue during the initial Alert Level 4 period. This policy will further reduce parking income for councils during further Alert Level 4 periods, if any.

Table 19: Impact on vehicle usage under each scenario

Quarter Starting	Impact on Light Vehicle Travel			Impact on Heavy Vehicle Travel		
	A	B	C	A	B	C
1/04/2020	53%	46%	46%	71%	69%	69%
1/07/2020	72%	72%	51%	89%	89%	71%
1/10/2020	72%	61%	58%	89%	73%	73%
1/01/2021	72%	70%	69%	89%	89%	88%
1/04/2021	93%	93%	93%	91%	90%	90%
1/07/2021	98%	98%	98%	92%	91%	90%
1/10/2021	98%	98%	98%	93%	91%	90%
1/01/2022	98%	98%	97%	94%	92%	90%
1/04/2022	98%	98%	98%	95%	92%	91%
1/07/2022	98%	98%	98%	95%	93%	91%
1/10/2022	99%	98%	98%	96%	93%	92%
1/01/2023	99%	98%	98%	96%	94%	93%
1/04/2023	99%	98%	98%	96%	94%	93%
1/07/2023	99%	99%	98%	97%	95%	93%
1/10/2023	99%	99%	98%	97%	95%	94%

Source: DIA/Ministry of Transport/NZTA

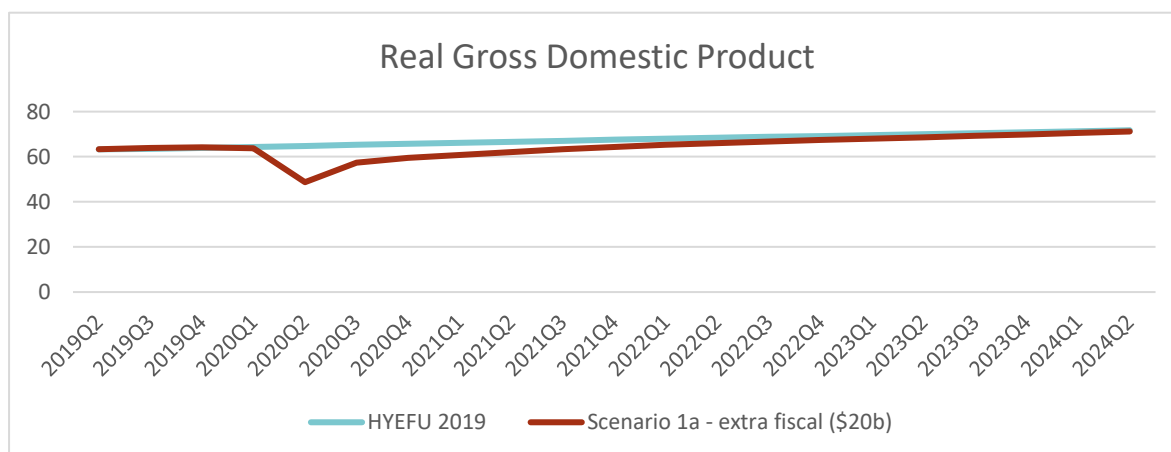
Development and Financial contributions

117. While non-essential building work ceased during the Level 4 Alert and most will not return to pre-alert levels of activity until after New Zealand reaches Alert Level 2, DCs may already have been paid for some of the projects put on hold during Alert Level 4.
118. Only territorial authorities can charge DCs and some councils choose not to use DCs. The triggers for liability for a development contribution (granting of a resource or building consent or authority for a service connection) all occur before construction starts.⁷
119. Council policies and practice around DCs for building consents (and certificates of acceptance) will vary widely. At one end of the scale some will require the DC to be paid immediately on invoicing or on 20th of the month following, while others will not require payment of a DC triggered by a building consent until a code compliance certificate (CCC) is sought – which can be up to 2 years after a consent is granted, or longer with an extension of time for the consent.

⁷ Although Auckland Council did not response to this survey, we note that in Auckland Watercare Services Limited collects infrastructure growth charges as part of their service contract rather than DCs. Some councils collect financial contributions as a condition of resource consents as an alternative to using DCs.

120. Resource consents for subdivisions are where the greatest variability can be expected. A resource consent will usually remain valid for up to 5 years and provided the consented works start within the 5-year period it can go on for years in stages (often 10-15 years and possibly longer). In some cases, the DCs may not need to be paid until certification under RMA s.224 (restrictions on deposit of survey plan), which can be at any point within that long timeframe for different stages of a subdivision.
121. When compared to our baseline of forecast revenue in the 2018-2028 LTP, our modelling shows an 18 percent decrease in revenue from development and financial contributions in the 2020/21 financial year, 16 percent in the 2021/22 financial year and 16 percent in the 2022/23 financial year.
122. The real, longer term impacts on development and financial contributions will not be evident until the COVID-19 impacts on the availability of finance for development and developer cash flows are clear. Some councils expect sustained impacts on economic activity, and this will lead to lower than expected development contributions. By way of example, Queenstown Lakes District Council expects a 20 percent reduction in development contributions across the entire 2020/21 financial year due to the down turn in that district's economy.
123. The graph below (Figure 3) shows an estimate of the effects of COVID-19 on real GDP over time.

Figure 3: Estimate of the effects of COVID-19 on real GDP over time.



Source: Statistics New Zealand, Treasury.

Impacts on capital expenditure

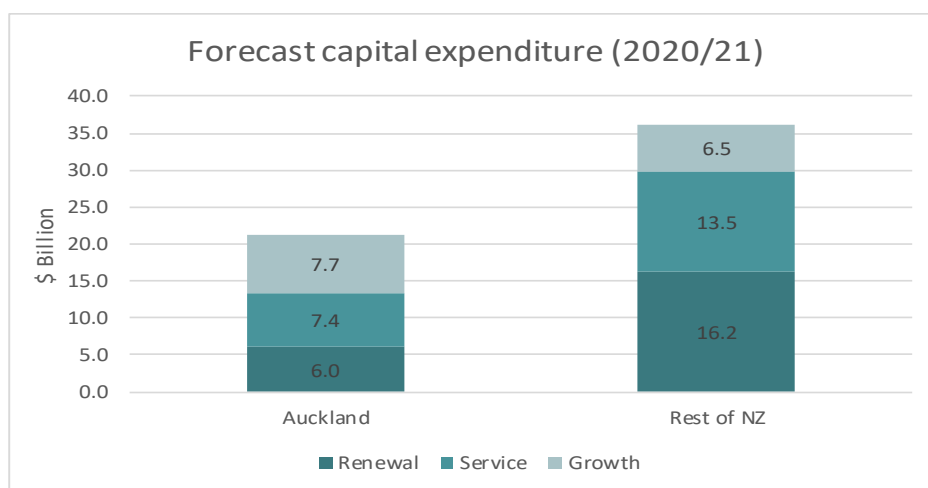
124. In the 2018/19 financial year councils reported capital expenditure of just over \$5.7 billion. Expenditure is reported under three main areas, for growth and increased demand, to improve levels of service, and for the renewal and replacement of existing assets. Overall the most common use for capital expenditure is replacement of existing assets (42 percent), followed by improvements to levels of service (37 percent), and growth (21 percent).
125. Councils also forecast capital expenditure in their LTPs. Currently, the peak forecast year for capital expenditure is 2020/21 (well over \$5.8 billion).
126. For the 2018/19 year, actual expenditure, across all 78 territorial and regional councils, was 84 percent of the LTP forecasts. Reasons for this variance include:
- Some projects may require resource consents and/or land acquisition. Council's will budget for these processes to go smoothly, since they would not want to hold up a consented project where all land had been acquired. In practice there will be delays that result in these projects not being completed to budgeted times frames;

- All projects will include a contingency allowance for unforeseen costs. In practice, some of that contingency will likely be unspent, resulting in some level of under-expenditure while completing scheduled work; and
- There may simply be limits on the available capacity in the contracting sector to do the work, especially when the economy is running well. Relatively little council capital work is done by in-house staff, so the availability of private sector resource is a constraint over which councils have little control.

127. In general, the variance is greatest for growth-related capital expenditure and renewals is lowest. This reflects the impact of some of the uncertainties indicated above.

128. In 2018/19 the Auckland Council spent 41 percent of the total capital expenditure by local authorities. Forecasts indicate it will remain dominant with an average of 39 percent for the first five years of the current LTPs. Compared to all other councils Auckland is forecasting a much higher proportion of capital expenditure on growth (36 percent), with a correspondingly lower percentage on renewals (18 percent).

Figure 4

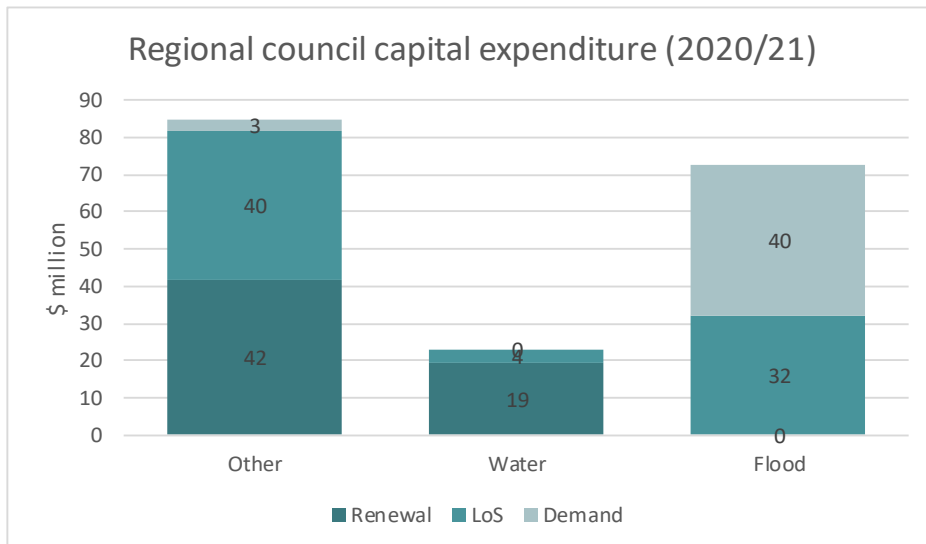


Source: DIA analysis of LTPs

129. The total, combined capital expenditure of regional councils⁸ is less than 4 percent of total expenditure by all councils. Just under half of this regional council expenditure is forecast to be spent on infrastructure (mainly flood protection with some water supply works from Wellington Regional Council). A number of regional councils indicated in their LTPs that they intended to increase spending on flood protection. This is seen in the increase in levels of service-related capital for this activity.

⁸ Excludes unitary authorities and Auckland

Figure 5

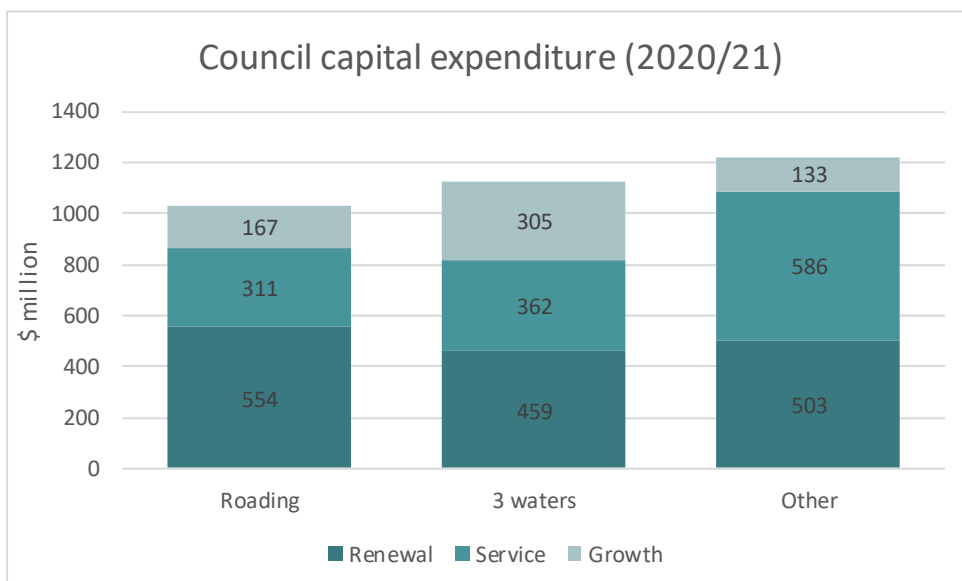


Source: DIA analysis of LTPs

- 130. Most regional councils have strong balance sheets, with minimal external debt and significant investment in port operations.
- 131. Capital expenditure in 2018/19 for the remaining 66 councils (excluding regional councils and Auckland) ranged from almost \$408 million for Christchurch City Council, to \$3 million for Kawerau District Council. The median was \$22 million.
- 132. Councils must provide funding impact statements that include details of capital expenditure for roading, water, wastewater, stormwater and flood protection infrastructure activities. The remaining 'other' capital expenditure includes any remaining activities.

Most (67 percent) forecast capital expenditure on 2020/21 will be spent on the infrastructural activities. Of this, the greatest percentage (47 percent) will be spent on renewals. Over the next four years roading and three waters activities are both forecast to be a little over \$4 billion (each). Roading has a far greater percentage of capital allocated for renewals (52 percent) compared to 3 waters (41 percent). In contrast three waters has a greater percentage forecast for improved levels of service (33 percent) and growth (29 percent).

Figure 6



133. 'Other' capital expenditure shows significant expenditure on improved levels of service in 2020 and 2021 financial years. While the amount decreases in 2022 and 2023 this remains a significant area for capital expenditure. Growth related capital expenditure also decreases over time.
134. There are several trends apparent within the three waters. Water supply services have a significant expenditure in growth and levels of service in 2020 and 2021, dropping away over time. Changes to levels of service are likely to be a result of councils needing to respond to the changes brought about by the Havelock North contamination event. Wastewater has a significantly higher proportion of capital for improved levels of service, reflecting increased environmental compliance. Stormwater has a significant percentage of expenditure marked for improved levels of service, this is also likely to be for improved compliance with fresh water quality standards.
135. It is likely that growth-related capital expenditure would be the easiest to delay (for both infrastructural and 'other' activities). For all three waters activities there could be significant risks if improvements to levels of service was deferred. It may be easier to defer some spending on improved levels of service for 'other' capital, although circumstances would vary between councils.
136. While it might be possible to defer some renewals expenditure, this runs the risk of pushing some councils into a cycle where some assets are at greater risk of failure, leading to higher longer-term costs.

Impact on debt levels

137. We assume that net debt levels will be higher across all councils than forecast in LTPs.
138. Generally, the higher debt levels relate to lower than expected revenues, and a higher than expected level of late or deferred rate payments. In an accounting sense, late rate payments are still treated as revenue by councils and the ratepayers owe money to the councils until the debt is paid, or written off in some rare situations
139. Several councils will exceed debt to revenue limits **if** they do not act to maintain revenue, and/or reduce operating and capital expenditure.
140. The impacts on debt to revenue thresholds over the next three financial years across the sector are shown in the table below:

Table 20: Impact on net debt/revenue thresholds by scenario over the next three financial years

Type	Scenario A			Scenarios B and C		
	Over LGFA threshold	80% LGFA threshold	Under LGFA threshold	Over LGFA threshold	80% LGFA threshold	Under LGFA threshold
Metropolitan	5	-	5	5	-	5
Provincial	3	5	19	4	4	19
Regional	-	-	11	-	-	11
Rural	-	2	22	-	2	22
Unitary	-	-	4	-	-	4
Total	8	7	61	9	6	61

Source: DIA modelling

141. Several high-growth councils are expected to exceed or get close to their LGFA debt to revenue thresholds under these assumptions. We note that many councils have more conservative debt to revenue restrictions in their financial management policies and it is highly likely that several councils will exceed their internal thresholds even if they keep within the LGFA limits.
142. Unrated councils (who are generally the smaller rural councils) may be able to increase their LGFA debt to revenue threshold by getting an external credit rating. This lifts the LGFA threshold from 175 percent to 250 percent. External credit ratings will also lower the cost of borrowing for these councils by at least 10 basis points. The cost of an external credit ratings is approximately \$50,000 per year.
143. Alternatively, unrated councils could request that the LGFA Board increase their debt to revenue threshold above 175 percent and up to 250 percent. This LGFA Board decision would not require LGFA shareholder approval. We understand that no unrated council has approached the LGFA Board for any bespoke financial covenants to date.
144. No regional councils are expected to exceed their LGFA thresholds (these are a mixture of rated and unrated councils). Under scenarios B and C, just over half of regional councils will exceed 80 percent of the LGFA threshold despite strong balance sheets. This is driven by assumptions of high proportions of rates being collected over a longer period.
145. We note that considerable work is underway in these councils to reprioritise operating and capital expenditure. Local government capital expenditure budgets are often underspent by approximately 20 percent. This may mean that councils have lower debt levels we have assumed.
146. Overall the most common use for capital expenditure is replacement of existing assets (42 percent), followed by improvements to levels of service (37 percent), and growth (21 percent). We expect that councils will defer the replacement of assets for a period and potentially reduce the priority of capital expenditure to improve service levels. The deferral of asset replacement may increase the infrastructure resilience risks and increase long term costs for councils.
147. Councils that have high existing debt levels and do not have significant planned future capital expenditure may face greater difficulty managing their debt to revenue levels as they have limited ability to deprioritise capital expenditure.
148. Compared to the past, interest rates are exceptionally low for new debt. This means that councils can comfortably manage all other LGFA financial covenants.
149. Councils will have some management options to keep within the debt-revenue covenants such as maintaining planned rates increases, reducing operating costs and deferring capital expenditure.

Auckland Council

150. Auckland Council has published its own analysis of the possible effects of the COVID 19 outbreak on the council. Given the large scale of this council and some alignment of the Council's analysis with the risk indications in our first report, we include this brief summation here for noting.
151. The primary risk for the Auckland Council is that lower revenue levels mean that the council's debt to revenue ratio policy may be breached. Council officials do not expect the absolute levels of debt to be any greater than previously forecast but, depending on the length and

severity of disruptions to council operations, cash operating revenue for the Council group may be \$450 to \$650 million lower than currently budgeted for 2020/21.

152. Over the last five years, the Council has delivered on average a capital expenditure programme of \$1.6 billion a year. If disruption lasts for six months, it expects to be able to deliver capital expenditure of around \$2.3 billion in each of the current and next financial years. Longer periods of disruption would reduce the programme that could be delivered. The programme could be voluntarily reduced to as little as \$1 billion to stay safely within debt limits

Implications for recovery

153. While we remain at Alert Level 3 and considerable uncertainties remain, the implications for recovery are difficult to predict. However, it seems clear that recovery planning will, among other things, need to account for:
- council revenue reductions of varying, but significant degrees throughout New Zealand;
 - the constraints of debt limits, the relationship with revenue reductions and how councils will respond to resolve these challenges;
 - likely very significant impacts on councils where the local economy is substantially based on tourism activities; and
 - how capital expenditure programmes may change as a result of COVID-19 impacts on growth pressures and councils' reprioritisation to enable revenue to be applied to sustaining other levels of service.
154. The Response Unit partners are now considering the transition to a longer-term recovery programme. As that programme takes shape over coming weeks, these issues will continue to be considered and addressed.

Further analysis and reports

155. The Response Unit has no immediate plans to complete further analyses or to produce additional financial implications reports. However, we expect that, in time, the recovery programme will identify areas where some follow-up and further analysis will assist longer-term planning and advice.

Appendix 1: Economic geography/context

Analysis by Territorial authority

- The table below indicates the proportion of GDP that is expected to have been heavily impacted by COVID-19 in the short and long term, by a selected number of territorial authorities. This analysis takes into account ability to operate under Alert Level 4 (ie the percent of sector deemed an essential services), as well as potential interruption to supply chains, reduced consumer demand, working capital pressure, exposure to tourism, and Government support.

Table 21: Percentage of Territorial authority GDP in industries that are highly affected by COVID-19 in short and long term (top 20 ordered by short term)

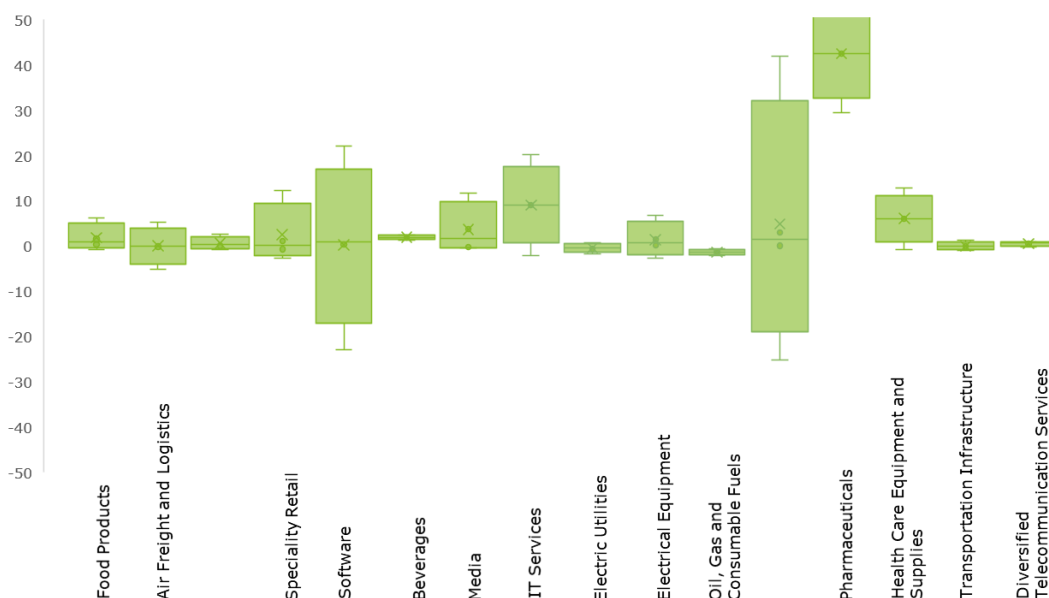
Territorial authority	Largest sector	Second largest sector	Percent of economy in highly affected sectors in short term	Percent of economy in highly affected sectors in long term
Kawerau District	Manufacturing	Construction	59	2
Carterton District	Manufacturing	Rental, Hiring and Real Estate Services	56	7
Upper Hutt City	Manufacturing	Construction	40	5
Matamata-Piako District	Manufacturing	Agriculture	39	4
Timaru District	Manufacturing	Forestry, Fishing, Mining, Electricity, Gas, Water and Waste Services	38	9
Clutha District	Agriculture	Manufacturing	36	5
Westland District	Agriculture	Manufacturing	35	11
Lower Hutt City	Manufacturing	Construction	35	5
Queenstown-Lakes District	Rental, Hiring and Real Estate Services	Construction	35	14
Kaikoura District	Agriculture	Forestry, Fishing, Mining, Electricity, Gas, Water and Waste Services	35	14
Marlborough District	Manufacturing	Agriculture	34	6
Porirua City	Manufacturing	Health Care and Social Assistance	34	4
South Taranaki District	Manufacturing	Agriculture	32	1
Christchurch City	Manufacturing	Professional, Scientific and Technical Services	32	7
Waimakariri District	Construction	Forestry, Fishing, Mining, Electricity, Gas, Water and Waste Services	31	3

Tasman District	Manufacturing	Agriculture	31	5
Southland District	Agriculture	Manufacturing	31	10
Kapiti Coast District	Construction	Health Care and Social Assistance	31	5
South Wairarapa District	Agriculture	Manufacturing	30	5

Authors analysis based on Deloitte, Statistics New Zealand

- The impact of COVID-19 on businesses is likely to be highly differentiated within industry segments. To demonstrate the impact to date from an industry perspective Deloitte undertook analysis of movements in the multiple of Enterprise values over EBITDA over the two weeks to 20 April 2020 relative to the same period a year earlier – presented in the graph below (Figure 7).

Figure 7



Source: Deloitte, Capital IQ

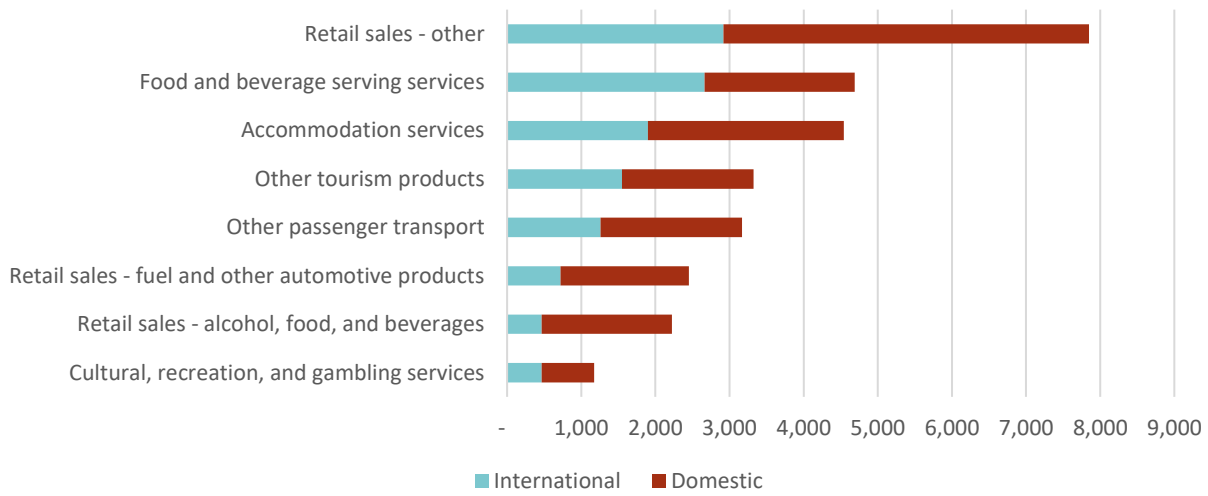
Key drivers for groups of councils and financial channel impacted

Tourism exposed Territorial Authorities

- Local economies exposed to tourism will be hard hit by weaker incomes, higher unemployment, and uncertainty.
- Sectors capturing tourism include retail trade, food services, accommodation, passenger, transport, and other recreation services. The graph below shows expenditure by international and domestic tourists by product in the 2019 calendar year. Retail sales accounted for 27 percent of expenditure in 2019, while accommodation services and food and beverage services each accounted for 15 percent of tourism related expenditure.
- In the longer term, ongoing restrictions on international particularly impacts these businesses in territorial authority deriving significant revenue from tourism. Although domestic tourism

can resume under Alert Level 1 and 2, Territorial Authorities with a high proportion of international spending may face ongoing revenue problems.

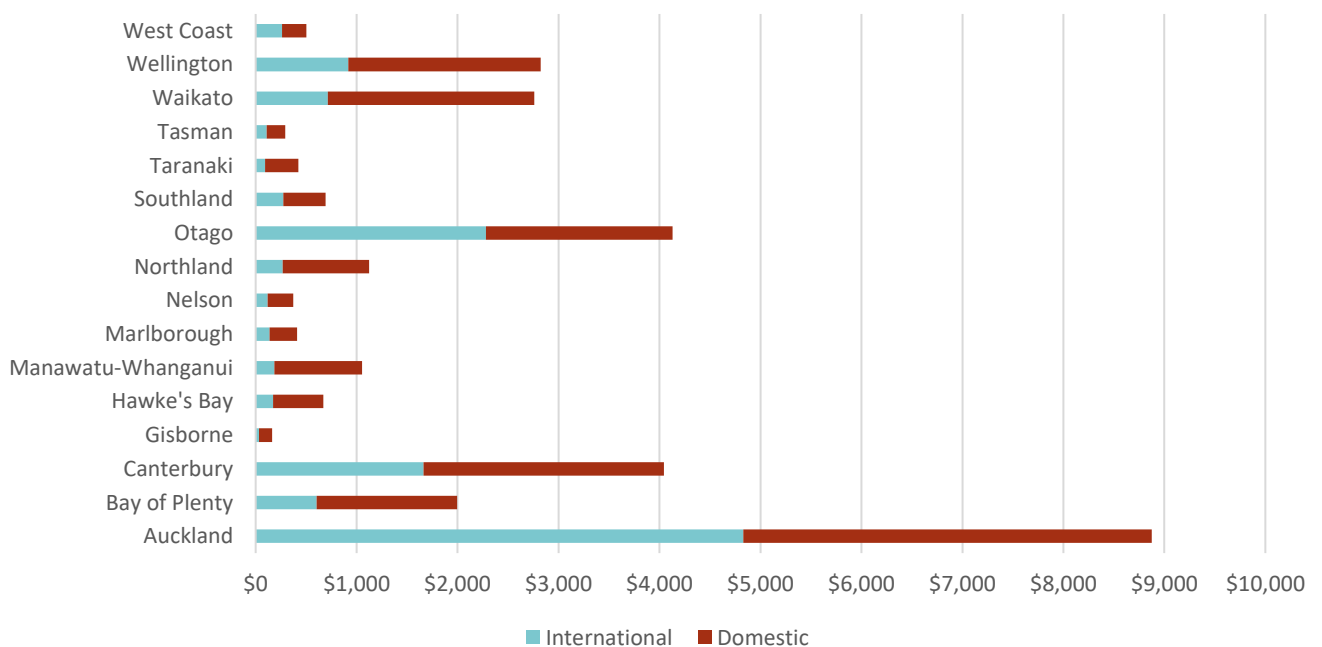
Figure 8 International and domestic tourism expenditure, year to December 2019



Source: International visitor survey, Ministry of Business, Innovation and Employment

6. Nationally, international tourism makes up 41 percent of total tourism expenditure and by region, Otago, Auckland, and West Coast have the highest proportions of international visitor expenditure, as indicated by the graph below.

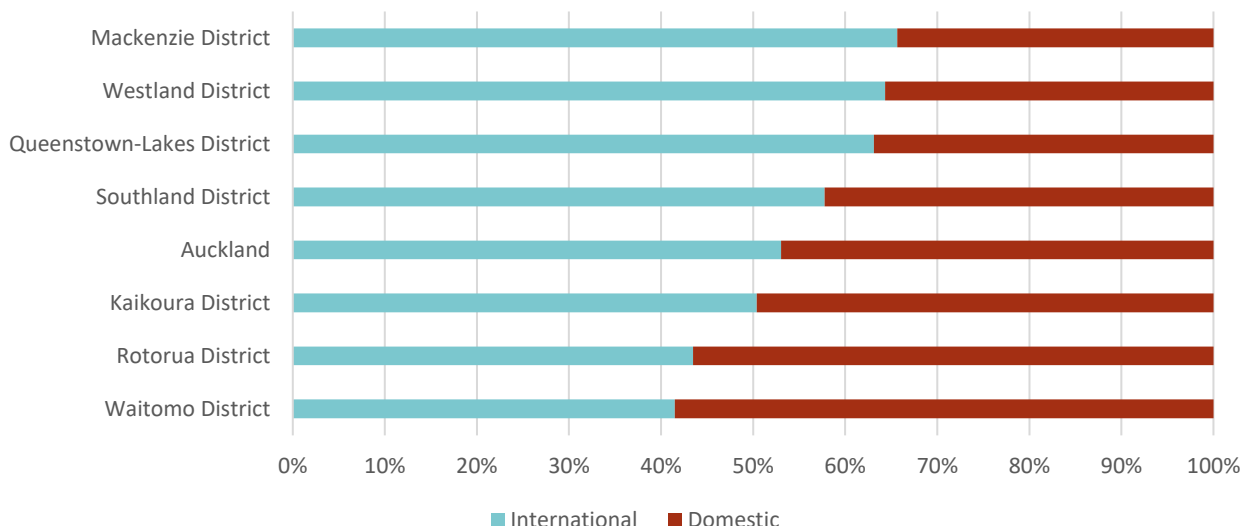
Figure 9: International and domestic tourism expenditure by Region, year to December 2019



Source: International visitor survey, Ministry of Business, Innovation and Employment

7. Mackenzie District, Westland District, and Queenstown-Lakes District each derive almost two-thirds of tourism revenue from international visitors.

Figure 10: The proportion of international and domestic tourism expenditure, TAs above the national average for percent of international expenditure

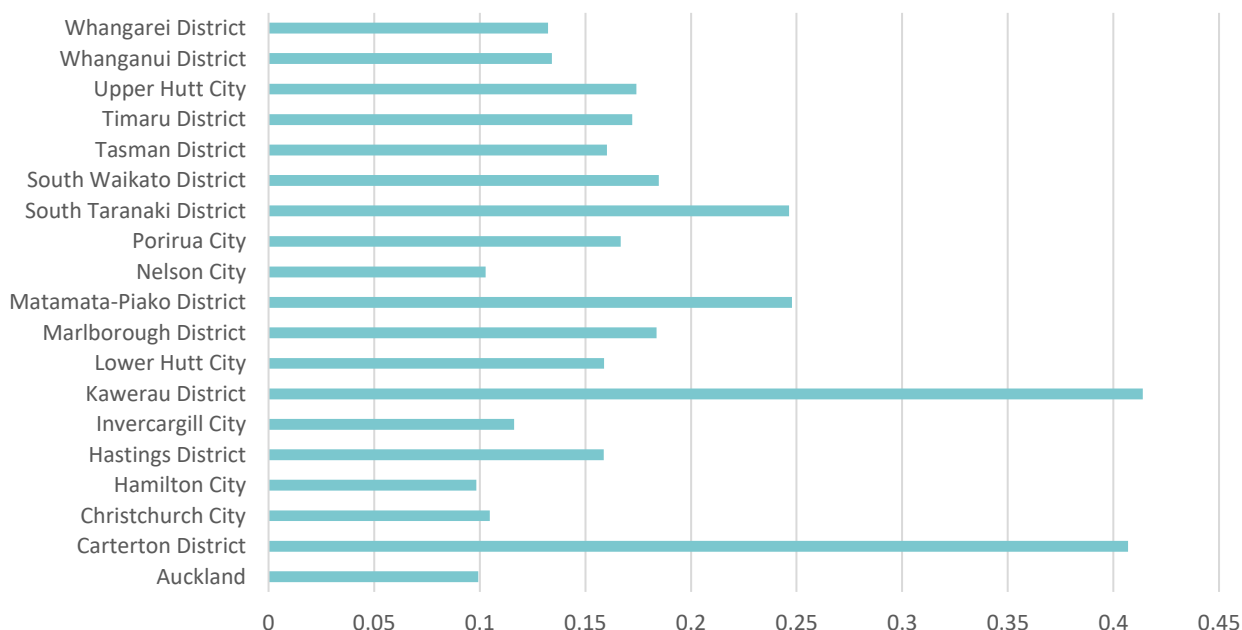


Source: International visitor survey, Ministry of Business, Innovation and Employment

Territorial Authorities with high shares of manufacturing GDP

- Manufacturing is the largest or second largest generator of production in many small provincial Territorial Authorities. According to Statistics New Zealand Modelled Territorial Authority GDP figures, Kawerau, Carterton, South Taranaki District, and Mata-Piako Districts derived 41 percent, 40 percent, 25 percent and 25 percent of total GDP in 2018. Manufacturing is also a significant contributor to GDP in South Waikato, Timaru, and Hastings District.

Figure 11 % of GDP derived from manufacturing sector



Source: Modelled Territorial Authority GDP, Ministry of Businesses, Innovation, and Employment

9. Territorial Authorities with a high proportion of manufacturing sector GDP could be disproportionately affected in the short term. With the expectation of food and essential item producers, many manufacturing firms have been unable to operate under Level 4. Some manufacturers will have faced supply chain pressure. The long term impact will vary between types of manufacturing firms, depending on the degree of behavioural shift from consumers and long term effects on employment and wealth (and therefore demand).

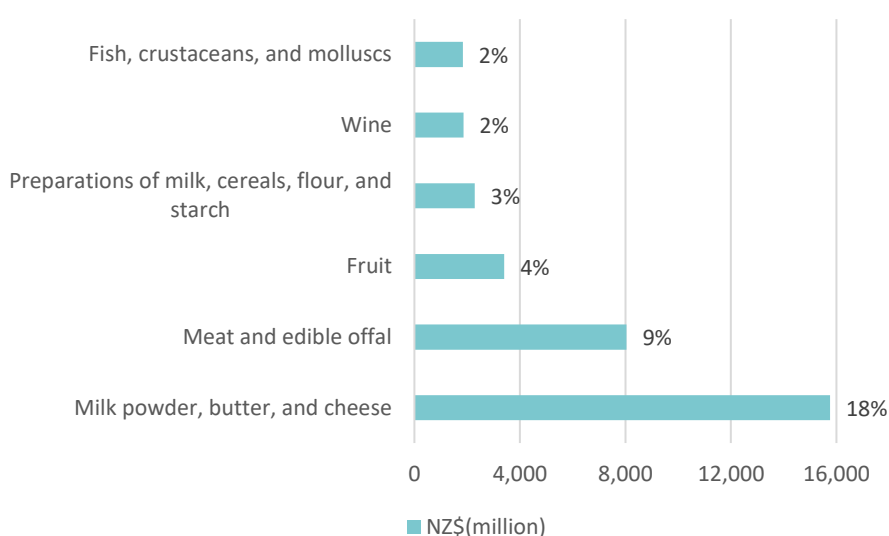
Territorial Authorities with high shares of agriculture GDP

10. Agriculture is the largest industry by GDP for just over 40 percent of territorial authorities, including Waimate (51 percent of local GDP), Southland (38 percent), and Otorohanga (35 percent).

11. The agriculture sector is expected to perform relatively well in the short and long term. Farming has been able to continue during Alert Level 4.

- Dairy prices have fallen and milk volumes are expected to trail last year for the final three months of the season.
- Lamb returns have stabilised after a recent fall. Lamb was diverted to the Middle East and Europe whilst the China market was in shutdown, generally worked well. China is looking positive again for sales of lamb and mutton. However, the wool market remains weak as brokers are no longer accepting stock due to the country wide lockdown.
- The horticulture sector can operate under lockdown, but strict rules limits production. Crops are in good condition, therefore, the challenge will be getting all the fruit picked and processed. Another challenge is getting the produce onto ships in a timely manner as ports are congested with non-essential items that are not being cleared.
- Forestry is not deemed an essential service which could hamper the industry and slowing exports will drastically cut incomes for exporters.

Figure 12 Level of international food exports and % of total exports, year to December 2019



Source: Statistics New Zealand

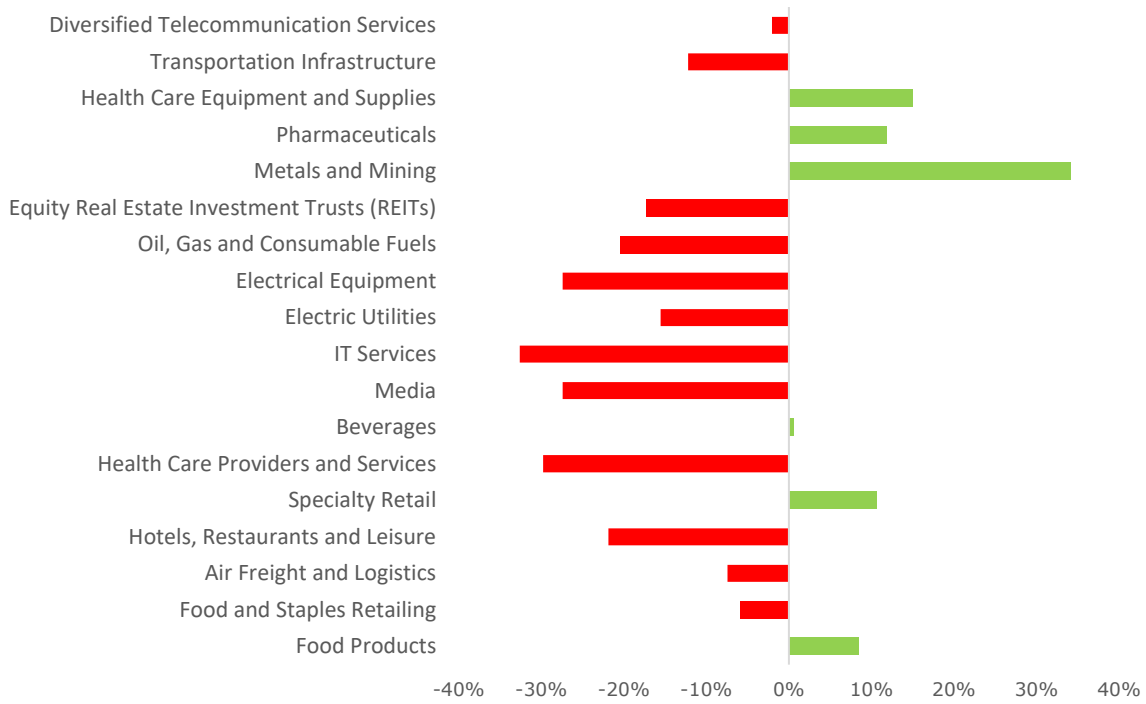
High growth councils

12. High growth councils include Auckland, Hamilton, Tauranga, and Queenstown.
13. Population growth from international migration will be heavily restricted over the next year. However, these councils also receive a relatively high number of domestic tourists each year, with net positive domestic migration in all Districts except for Auckland during 2018. Returning New Zealanders and a continuation of domestic migration trends could support growth in these areas.
14. The high growth council's economies are not highly concentrated in sectors which could be heavily impacted by COVID-19 in the short or long term, with the exception of Queenstown-Lakes District.
 - After manufacturing, Auckland's largest industries are professional, scientific and technical services and financial and insurance services. The impact in the short term on these businesses will be low as most employees will be able to work from home.
 - Manufacturing and healthcare and social assistance both make up around 10 percent of economic activity in Hamilton city.
 - Tauranga's largest industries are Rental, Hiring and Real Estate Services and Construction. Both these industries have operated with limited capacity in Level 4 but are able to operate in Level 3. Low house price confidence and a permanent reduction in income may weaken demand in the medium to long term, particularly if house prices begin to decline as they have in Australia.
 - Queenstown's largest industries are also Rental, Hiring and Real Estate Services and Construction. In addition, the district is exposed to the tourism industry, limiting recovery in the long term.

Councils with high investment dividends

15. Councils who derive a large proportion of revenue from investment dividends will be exposed to market movements.
16. The graph below indicates the change in enterprise value of businesses on the NZX in the four weeks to April 2020. This analysis is only a snapshot of the short-term impact of COVID-19 on listed businesses. However, councils whose investment portfolios are heavily exposed to industries expected to suffer loss in value may be at risk of lower than expected dividend revenue.
17. In the four weeks to April 2020, the value of transportation infrastructure dropped by around 12 percent and Air Freight and logistics fell by 7.5 percent. The value of hotels, restaurants and leisure businesses fell by almost 30 percent. In contrast, health care equipment and supplies and pharmaceuticals rose by 15 percent and 12 percent, respectively over the same period.

Figure 13: Percentage change in enterprise value - 20 Feb 2020 to 20 April 2020



Source: Deloitte based on Capital IQ

REPORT

Date : 6 May 2020

To : Risk & Assurance Committee Meeting, 18 May 2020

From : Finance & Corporate Services Group Manager, Bevan Gray

Subject : **RATES REMISSIONS AND NON-PAYMENT**

File ID : A198487

EXECUTIVE SUMMARY

Our district suffers from high levels of social deprivation, and has some of the lowest median incomes in the country. We also have the lowest rates in the country, but face a lot of challenges that other TAs don't face. This report outlines the arrears, non-payment of rates, and remissions that we are applying to try to address some of these issues.

PURPOSE

To provide the committee with an overview of the rates remissions that we are providing those in the community that are struggling financially as we start to come to grips with the impacts of Covid-19 and the impacts that it is having in the district.

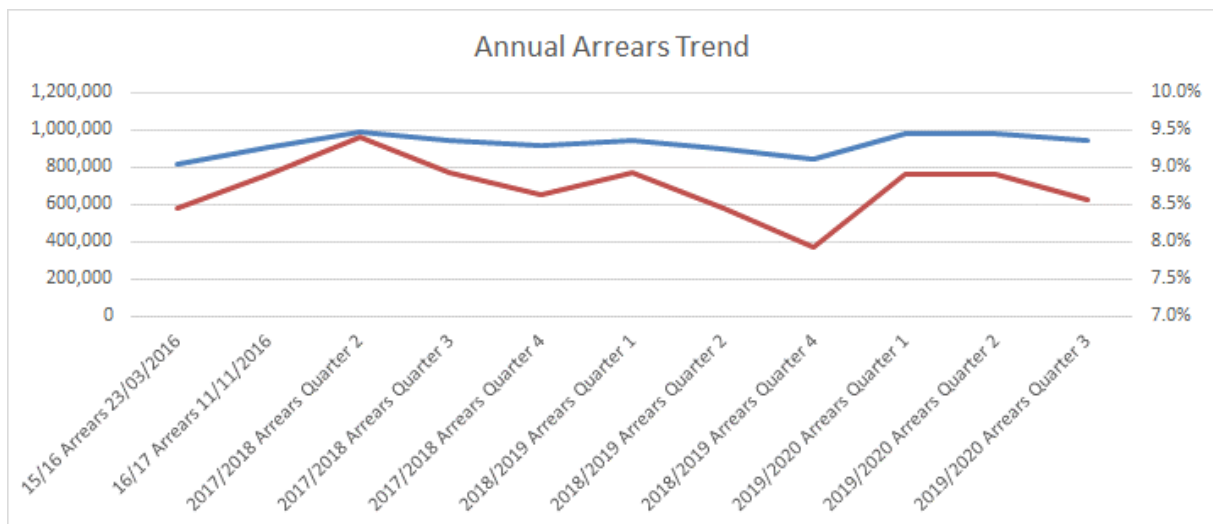
BACKGROUND

Council has for a long time had issues with non-payment of rates, and as such has developed very broad remission policies that staff can apply to properties for a various number of reasons.

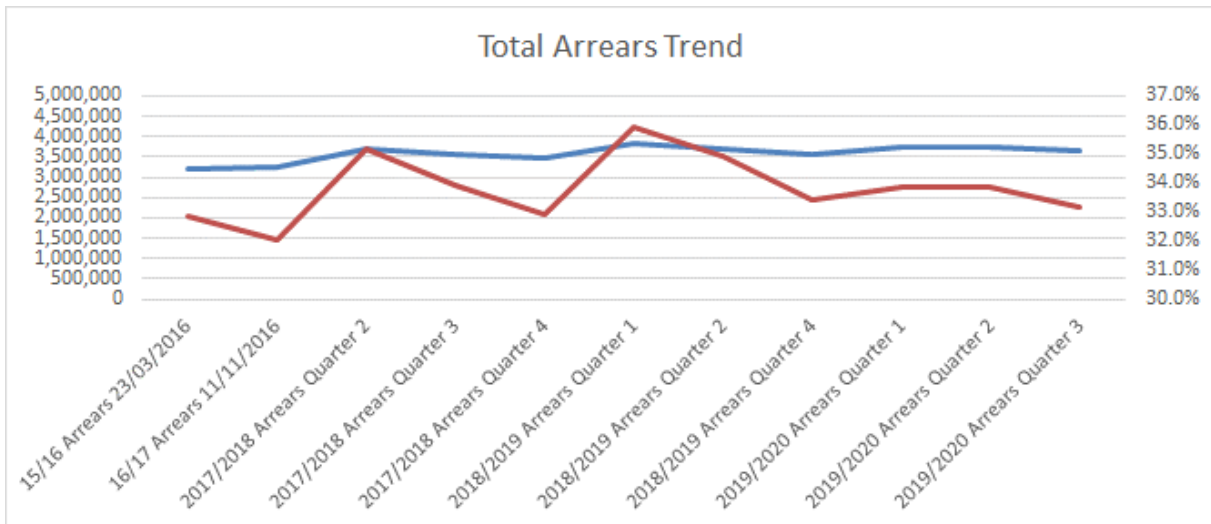
Every year Council also has to write off rates debts that are six years old as they become statute barred, and we are legally not allowed to collect unless there is already an existing collection process underway. Council is doing a number of things to try to get the outstanding debt and arrears under control, however it is a very complex process and there are a multitude of different issues at play. Some examples of these are:

- Māori land that is difficult to collect rates from
- Land that is unusable
- Land where we do not know who the owners are
- Land where there is a willingness of some owners to use, but not if they have to pay for arrears created by others
- High deprivation and low incomes which could create affordability issues.

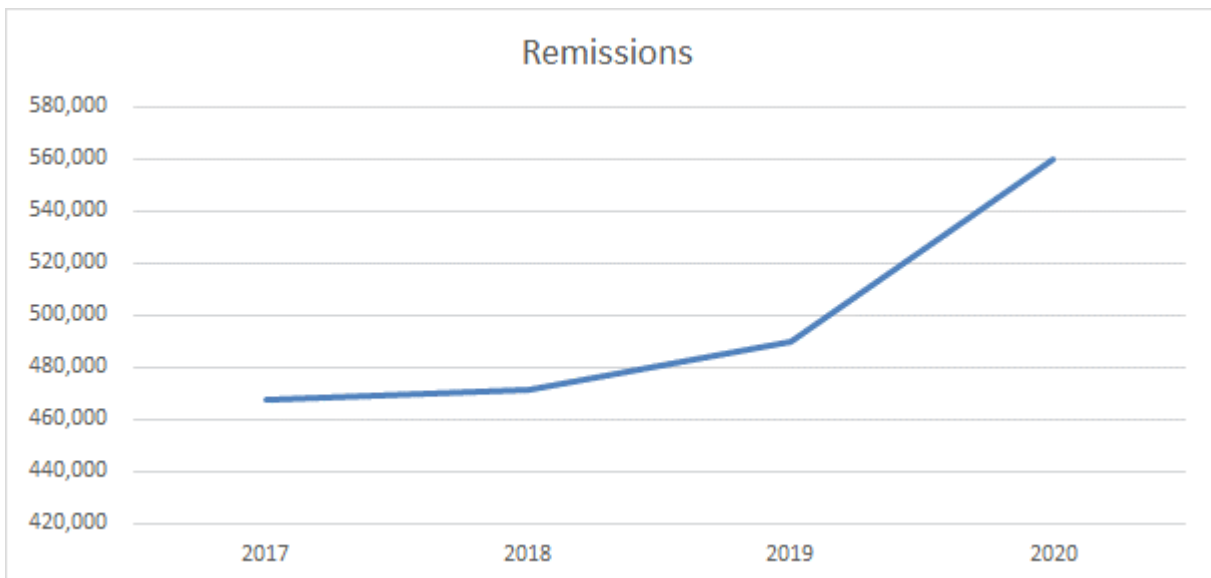
We have a significant amount of rates arrears, currently at \$3.6 million which is approximately 32% of our annual rates. Our annual rates arrears is approximately \$950k, which is close to 9% of our annual rates that we set, and it has been reasonably consistent at that level since 2016.



The chart above highlights the movement in annual arrears, which is arrears for each rating year that we have struck, i.e. what is left to pay of current rates at the end of that rating year. As you can see it has been fairly consistent since 2016. We will keep track of this as we head into a recovery process to gain an understanding whether there are any new issues emerging.



The graph above outlines the movement in total arrears since 2016. This has also been relatively consistent since 2016. We are starting to see a bit of a trend of the total arrears relative to annual rates revenue reducing which is good to see, but we need to further analyse the data to see whether it is more payment we are receiving, or more remissions we are applying.



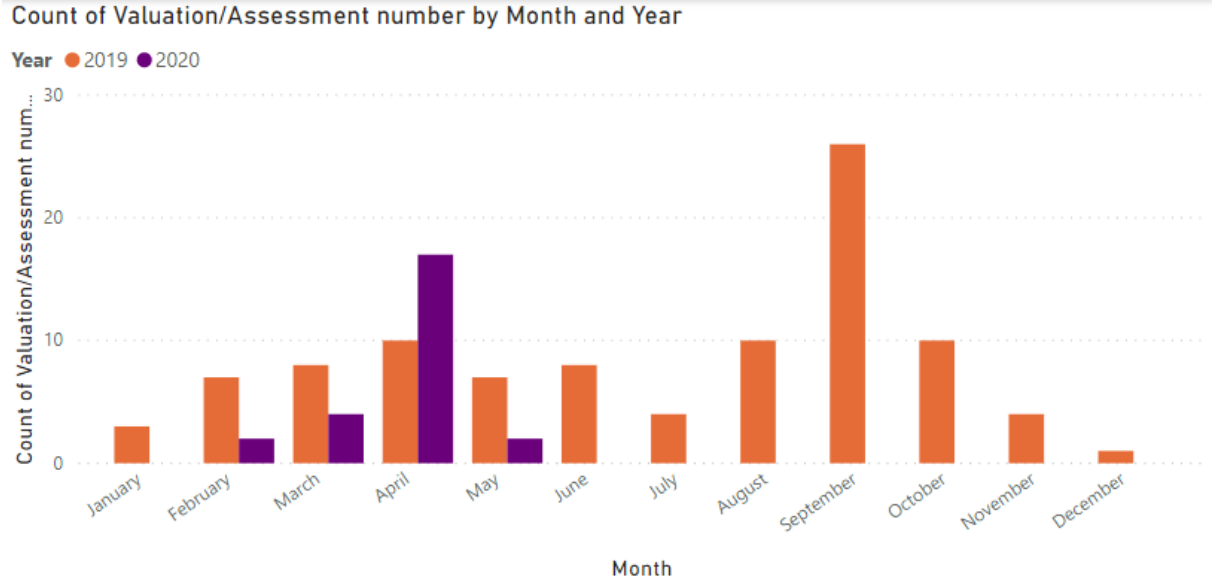
The graph above shows the remissions that we have provided over the last four years, including this financial year which is still two months away from ending. This year we have seen an increase in remissions applied of around \$80k, which is likely contributing to the reduction in the percentage of arrears to rates revenue.

Over the last month whilst we have been in lockdown the finance team have been ringing those with arrears and putting in place payment arrangements, and where applicable applying remission policies

to reduce the level of rates arrears. Prior to April we had noted a reduction in people applying for remissions, this is because when we make recommendations for remissions these are usually applicable for more than one year, so over time we would expect to see the numbers of new remissions decreasing until the review date, where we would undertake another evaluation against policy.

In April, however, with the team ringing we saw an increase of new remissions, which means we are starting to reach some of those hard to contact ratepayers and having discussions with them around arrears. A total of 17 new remissions were approved amounting to approximately \$16k worth of rates that would be unlikely to be received.

This tool will be very useful to monitor whether we see a lot of new requests for financial hardship coming through over the next number of months.



The idea is that if we deal with rating arrears now then we don't need to carry that cost for 6 years until we have to write it off.

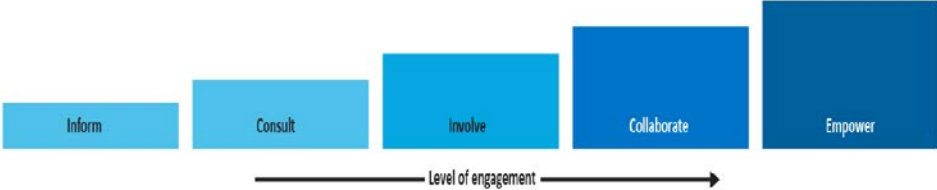
SIGNIFICANCE ASSESSMENT

Assessment of significance

Under Council's Significance and Engagement Policy, on every issue requiring a decision, Council considers the degree of significance and the corresponding level of engagement required. The level of significance for Rates Remission and Non-Payment is considered to be low as determined by the criteria set out in Section 17 of the Significance and Engagement Policy.

Assessment of engagement requirements

As the level of significance for Rates Remissions and Non-Payment is considered to be low, the engagement required is determined to be at the level of inform according to Schedule 2 of the Significance and Engagement Policy.



RECOMMENDATION:

- 1. That the report titled "Rates Remission and Non-Payment" be received.

Bevan Gray

FINANCE & CORPORATE SERVICES GROUP MANAGER

REPORT

Date : 6 May 2020
To : Risk & Assurance Committee Meeting, 18 May 2020
From : Finance & Corporate Services Group Manager, Bevan Gray
Subject : **CROWN INFRASTRUCTURE PARTNERS PROJECTS**
File ID : A198484

EXECUTIVE SUMMARY

Government recently sought submission of “shovel ready” projects for funding in order to kick-start the recovery process around the country. Opotiki submitted \$66 million dollar’s worth of projects in conjunction with Kawerau and Whakatane to total over \$250 million across the Eastern Bay of Plenty.

PURPOSE

To provide the Committee with the list of projects that were submitted to Crown Infrastructure Partners as “shovel ready” for the Opotiki District.

BACKGROUND

In response to the potential impacts of Covid-19 on the economy the government announced that it would look at opportunities to speed up the recovery process through funding projects across the country that are shovel ready and are infrastructure and construction related in nature. The thinking behind it is to create immediate jobs in certain sectors that will help kick-start the economy again following lock down.

DISCUSSION AND OPTIONS SECTIONS

Representatives from Opotiki, Kawerau, and Whakatane District Councils met to review the requirements, and through the Mayors and CE’s agreed to submit a joint bid to Crown Infrastructure Partners as individually we might struggle to meet the \$10 million minimum that was required.

Together we spent the best part of a week to pull together the list of projects. These were based on Annual Plan and Long Term Plan projects initially to meet the “shovel ready” requirements.

Attached are the applications that were submitted for review for the Eastern Bay of Plenty. (Appendix A).

For Ōpōtiki we submitted the following projects for consideration.

Primary Category	Project Grouping	Employment Contribution	Whole Project Cost
Building & Structures	Opotiki CBD improvement	146	\$11,864,883
Cycleways	EBOP Cycle Ways	210	\$8,624,939
Other Infrastructure	Opotiki Tourism Infrastructure	22	\$1,890,900
Three Waters	Hikutaia network expansion	214	\$17,279,717
Three Waters	Opotiki Infrastructure upgrades	87	\$6,975,065
Three Waters	Opotiki surface flooding mitigation	137	\$11,234,077
Transport	Opotiki Roding Projects	104	\$8,418,652
Total		920	\$66,288,233

For the employment contribution we used a PWC report into the construction sector that used a multiplier of \$81,300 of capital cost equates to 1 new job created, including indirect jobs as well.

OUTLINE OF PROJECTS SUBMITTED:

Three Waters

Opotiki District Council has had an 8 year journey investigating, understanding and investing in our three waters networks. Work is underway renewing, upgrading and extending the 3 waters systems to provide resilience, capacity for growth and targeted levels of service in alignment with the Ōpōtiki Harbour, a flagship PGF funded project. Estimated at \$33M, the three waters upgrades will provide for:

- Adaption for climate change by enabling development out of the flood plain, increasing resilience of existing infrastructure and improving flood mitigation.
- Solutions for water quality and the environment through improved treatment and eliminating septic tanks.
- Solutions for growth stemming from the catalytic projects of the Eastern Bay “surge” region through network upgrade and extension.
- 70ha of new developable land, appropriately zoned with existing services including internet, schools, roads and reserves.
- Rate management in an area of high deprivation.

Transport:

Opotiki District Council has a suite of roading projects identified for completion over the next 12 months to provide;

- Critical provincial growth infrastructure. Access to Opotiki Harbour
- Town wide upgrade of substandard footpaths reaching end of life.
- Economic and safety improvements for rural roads. Forestry, Kiwifruit, Dairy.

Building and Structures:

Ōpōtiki District Council has a suite of projects focussed on revitalising the town centre and ensuring that the CBD meets the needs of a growing community by;

- Providing for upgraded wharf facilities to allow the PGF funded aquaculture industry to develop and grow.
- Building a new central community facility that will provide a hub for digital learning, technology and innovation.
- Undertaking significant earthquake strengthening work on CBD properties.
- Incorporating the CBD with the newly developed harbour environment and allowing Whakatōhea to realise their aspirations and connection to the sea.

Other Infrastructure:

Ōpōtiki District Council has a suite of tourism infrastructure projects that will compliment the cycleway developments and build on the Governments focus to provide coastal tourism infrastructure.

Cycleways:

Construction of a 62km shared use trail that will form an extension to the existing Motu Trails Great Ride. The proposed trail will form an important off road link between Opotiki, Ohiwa, Kutarere, Ohope and Whakatane.

Our projects are based on as stated Annual Plan projects for next year, with the full costs of the projects brought from the 2018-28 Long Term Plan. The only project that was revised was the cycle trail as all three Councils worked together to provide a joint cycleway application.

Management recently attended a webinar with Minister Jones where he talked about the projects and the process. The government allocated \$50 billion of funding for this process, they received in excess of 2,000 applications and \$100 billion worth of projects. Not all of them meet the criteria

He expects that a first round of funding will be decided on 11 May and then included into the budget on 14 and 15 May, and not to despair if projects don't make the first cut. There will be more opportunities.

Minister Jones also stressed that the PGF was still up and running, and to submit PGF type projects in the normal manner.

SIGNIFICANCE ASSESSMENT

Assessment of significance

Under Council's Significance and Engagement Policy, on every issue requiring a decision, Council considers the degree of significance and the corresponding level of engagement required. The level of significance for Crown Infrastructure Partners Projects is considered to be low as determined by the criteria set out in section 17 of the Significance and Engagement Policy.

Assessment of engagement requirements

As the level of significance for Crown Infrastructure Partners Projects is considered to be low, the engagement required is determined to be at the level of inform according to schedule 2 of the Significance and Engagement Policy.



CONSIDERATIONS

Financial/budget considerations

These projects for the most parts were expected to be funded by loan. Should a positive funding decision be made through this process we will have a lot more capacity to borrow in the future, and we will be able to reduce rates in the next long term plan as the debt servicing costs of these projects will not need to be funded.

Policy and planning implications

If any of these projects are funded in the first round of funding then we can make further savings and rate reductions in the proposed budget for next year. If we get a positive decision in future funding rounds then we will need to assume that these will be loan funded, and rate for the debt servicing costs next year.

Risks

Government are conscious of spreading the projects and funding evenly round the country so as not to overheat the contractor market and push pricing up. For us with a limited supply of contractors in the Eastern Bay of Plenty this would be a very real concern.

The Government want quick completion of these projects, so are wanting new and innovative procurement methods to be used so that there are no roadblocks to development getting underway.

RECOMMENDATION:

- 1. That the report titled "Crown Infrastructure Partners Projects" be received.**

Bevan Gray

FINANCE & CORPORATE SERVICES GROUP MANAGER

14 April 2020

Tēnā koe,

The Eastern Bay of Plenty is well positioned to take up the Crown Infrastructure Partners Fund offering. Identified as a “Surge Region” by the Provincial Development Unit, with some of the worst economic and social deprivation in Aotearoa New Zealand, the sub-region has completed significant work over the last two years to identify, prioritise and advance key developments.

The Eastern Bay of Plenty contributes to the regional and national economies through a significant primary production sector, a manufacturing sector ranging from boutique to large industry, and offers some of the country’s most loved domestic tourism destinations.

The suite of projects identified by the three TLA’s; Kawerau District Council, Ōpōtiki District Council and Whakatāne District Council clearly indicate where they can accelerate and augment the underpinning infrastructure required to capitalise on the Crown PGF Co-investment to date, and to help buffer the worst effects of Covid-19 on our communities as a result.

The Eastern Bay of Plenty has a proven track record of collaboration between Local Government, Iwi and key sectors, and this will continue to underpin our delivery. Our projects will provide stimulus and job creation, guided by the Eastern Bay of Plenty spatial plan, Long Term Plans and some innovative sub-regional projects.

Accelerating the right infrastructure projects will enable our productive sectors, the Māori economy and our communities to be positioned to recover and build resilience from both Whakaari eruption and Covid-19 in a timely, sustainable manner.

Thank you in advance for funding these projects and we look forward to working with your teams to ensure immediate roll out of these initiatives.

Nāku iti noa, nā



Lyn Riesterer
Mayor
Ōpōtiki District Council



Malcom Campbell
Mayor
Kawerau District Council



Judy Turner
Mayor
Whakatāne District Council



Eastern Bay of Plenty CIP Summary

Background & Context – Eastern Bay of Plenty

As one of the more deprived regions in New Zealand, with a GDP of only \$1.9 billion and a population of approximately 48,000, the Eastern Bay of Plenty has been identified as a “surge region” by the Provincial Development Unit. The Eastern Bay of Plenty has recently secured over \$180 million in Provincial Growth Fund (PGF) co-investment, which will – in time – result in an additional potential 7,000 jobs for our region. While this is a significant step-change forecast in the region’s social and economic trajectory due to the PGF co-investment, additional infrastructure is needed to create much needed stimulus post Covid-19, provide critical infrastructure to underpin the PGF related developments and support the forecast growth in employment and population.

There is currently a material legacy infrastructure deficit in the Eastern Bay of Plenty. This is a result of aging infrastructure, population stagnation and decline, and changes in industry profiles over the decades. Coupled with a very limited scope for reinvestment due to the chronic deprivation levels in the region significant investment is needed to provide a platform for future growth and improved wellbeing and resilience.

In 2018 a single strategic economic development strategy for the Eastern Bay of Plenty was created. This prioritised the catalytic clusters of aquaculture, high-value horticulture, Kawerau/Putauaki industrial development, manufacturing and tourism sectors for targeted investment and growth. These were chosen due to the existing competitive advantages of the region and their ability to provide the maximum uplift in jobs. The growth clusters are creating jobs in some of the most remote parts of our already isolated region, but are now putting significant burden on councils already stretched balance sheets to improve local services and infrastructure.

The Strategy has been endorsed by the leaders of 8 local Iwi, the District and Regional Councils (Kawerau District Council, Opotiki District Council, Whakatane District Council and the BOP Regional Council), who together form the Regional Growth Leadership Group (RGLG) Forum. There is widespread consensus and support for the strategic direction of the region, and there is strong and effective collaboration between Councils, Iwi, the business sector and the community.

However, the challenges of the region are significant. Within a short period of time, our communities have been hit hard by both the Matatā Debris Flow, Edgecumbe floods and Whakaari tragedy. The local tourism sector has experienced a near-total collapse in international visitors since December 2019’s Whakaari eruption – and the impact of Covid19 is compounding an already dire situation for the tourism, retail, hospitality and associated services sectors.

The Eastern Bay of Plenty is a major forestry region, and many of our remote communities are totally dependent on this sector. The disruption to the international commodity trade due to Covid-19 has created significant layoffs in the sector, impacting the already high levels of regional unemployment, which is currently running at 12.6%. No alternative employment options exist in these communities. It is possible that without significant intervention steps some remote communities will fall to zero employment as a result of this pandemic, placing a heavy burden on an already stretched social fabric.



Some 44% plus of our regional population identify as Māori. It is in many of these most remote and isolated Māori communities (and reflected across the sub-region) that some of the highest social and economic deprivation indicators occur. Most economic modelling shows that the pandemic will have a disproportionate impact on Māori, so there is a very significant risk that the economic and social burdens of the pandemic are about to fall on these communities.

Between the region's reliance on a small pool of industries, our exposure to international commodity markets and the low average incomes currently found in the region, the Eastern Bay of Plenty is expected to be much more impacted by the pandemic than other parts of Aotearoa New Zealand. We believe this justifies a significant, integrated and sustainable national response, which is beyond the resources of our Councils and our communities to deliver.

Capital Infrastructure Projects

To ensure there is a collective and coherent view of the investments in our communities, the three local Councils have collaborated to form a single sub-regional view. This is intended to maximise job retention and creation, and cost effectively minimise the impact on our small and less affluent ratepayer base, while future-proofing the region's growth opportunities.

The key programmes of work are summarised on the following page for Eastern Bay of Plenty. These projects have already been identified in the Annual Plans, Long Term Plans, or have been assessed to ensure their compatibility with the development foreseen with the PGF investments that have been announced in the past three months.



Category	Programme Description	Cost \$	Employ #*	Benefits	Shovel readiness
Three Waters	<p>Opotiki: Hikutaia expansion / infrastructure upgrades / surface flooding mitigation, with potential water quality and other environmental outcomes</p> <p>Whakatane: Infrastructure upgrades & replacements/ alternative water supply</p> <p>Kawerau: Infrastructure upgrades / stormwater improvements</p>	\$81M	1000 FTE	<p>Social: Improved health outcomes for communities – drinking water improvements.</p> <p>Environmental: WWTP & pipe renewals will result in improved freshwater water quality and other environmental outcomes (such as Harakeke habitat)</p> <p>Economic: Infrastructure will support additional housing needs, supporting PGF (7,000 jobs in EBOP)</p>	Some of these projects are already underway, but can be fast tracked. Majority can be started within the next 6 months, as covid19 restrictions are lifted. Risk: Low
Transport	<p>Whakatane: Safety improvements / road sealing southern transport link / new route Minginui to Taupo District</p> <p>Kawerau: Culvert replacements / Town centre parking & stormwater improvements</p> <p>Opotiki: Seal extensions / new road / bridge replacement / Footpath upgrade</p>	\$78M	962 FTE	<p>Social: Improved road safety</p> <p>Environmental: Culvert replacements, supporting flood management</p> <p>Economic: Road sealing, reduced transport times, supporting increase in domestic tourism.</p>	All projects can proceed within next 6 - 12 months. Risk: Low
Buildings and Structures	<p>Opotiki: CDB development and earthquake strengthening.</p> <p>Whakatane: CDB property development</p>	\$36M	446 FTE	<p>Social: Improved road safety</p> <p>Environmental: Culvert replacements, supporting flood management</p> <p>Economic: Supporting increase in domestic tourism and fast tracking development of Council property for private sector development</p>	All projects can proceed within next 6 - 12 months. Risk: Low
Other Infra	<p>Opotiki: Parks & reserves improvements</p> <p>Regional: Flood management improvements for Rangitaiki / Otago / Waioeka / Whakatane</p>	\$20M	248 FTE	<p>Social: improved community spaces and wellbeing</p> <p>Environmental: increased resilience in the face of climate change; improved public land use options</p> <p>Economic: improved risk profiles for businesses operating in flood prone areas; creating a desirable place to live to attract talent; improved land use options; lessening the insurance burden to society</p>	Many projects are underway and all projects can proceed within the next 6-12 months Risk: Low
Cycle Ways	Cycle trails – Linking up existing trails in the EBOP to create 1 connected trail through the EBOP	\$30M	365 FTE	<p>Social: road safety improvements and improved social / health outcomes</p> <p>Environmental: reduced carbon emissions and encouraging alternative transport means</p> <p>Economic: increased tourism spend in remote locations across the EBOP; supporting the PGF Tourism strategy to create more local products</p>	Many projects are underway and can be accelerated. Risk: Low
TOTAL		\$245M	3021 FTE		



Economic benefits

The employment impacts in the table above have been estimated using the PwC methodology contained in their “Valuing the role of construction in the New Zealand economy” report, published in 2016 by the Construction Strategy Group. While both costs and benefits from construction projects have evolved since the report was developed, the underlying methodology is regarded as both robust and relevant to the proposed investments.

Employment impacts include:

- Direct employment as a result of the project proceeding
- Indirect employment throughout the supply chain as a result of the project proceeding.

Induced employment is not included in the numbers stated above. The impacts are also confined to the construction phase only; ongoing operational roles once the various projects have been completed have not been calculated, but will be additional to the numbers above.

Employment can take two forms: it can be the creation of new roles as a result of the project proceeding, which is the case if the investment would not have been made at all. It can also be the retention of existing roles if the project is underway but would have been cancelled due to the impacts of Covid-19.

The FTE figures include both regional and national impacts, so not all roles will be created or retained in the Eastern Bay of Plenty. While the detailed economic analysis to assess the regional employment benefits could be done, it was felt to be out of scope for the application given the timelines for Ministerial consideration.

Social benefits

This infrastructure investment plan creates significant impact across the entire sub-region by not only creating jobs in the construction industry and supporting services sectors, but also providing a lifeline to communities that would otherwise have no other options for employment.

The generations of deprivation in these communities, which have been profoundly impacted by unemployment, crime, poor education options, and some of the country’s worst healthcare statistics, will be further compounded by the impacts of Covid-19 without this intervention and investment.

The precise social impacts of the pandemic are hard to estimate, but there is an expectation that there will be negative wellbeing implications for individuals and whanau across the region, due to the economic uncertainty, job losses and business failures that are certain to eventuate. And data shows that steeply reduced wellbeing results in increased substance abuse, domestic violence and crime, with negative social consequences that extend well beyond the confines of the people affected and their families.

These investments, coupled with the already committed PGF projects, will create an enduring impact on the region’s social fabric. The construction sector will be the immediate beneficiary and there will be significant opportunity to upskill displaced workers into this sector, resulting in improved wellbeing across a range of deprived communities.



Environmental benefits

The region's aging infrastructure carries significant environmental risk and exposure to global warming challenges (as evidenced by the Edgecumbe floods). These investments have been prioritized to maximize the environmental impacts in the regions.

As guardians of the district the Councils are aware of their responsibilities to the environment and are directly responsible for a number of the UN Sustainable Development Goals including: Clean Water & Sanitation, Life Below Water, Life on Land; Responsible Consumption & Production and Sustainable Cities & Communities. In order for Councils to show leadership and kaitiakitanga in these areas and other environmental initiatives the projects will be physical demonstrations of the collective commitment to the environment.

The procurement approach for most projects has been "local first", for reasons of both regional economic support and environmental stewardship. Sourcing materials, expertise and labour locally will decrease the embedded carbon within structures, reduce the carbon content inherent in materials and people travelling to site during construction phases, and provide some possible efficiencies in the generation and management of waste from the construction process.

In addition, some projects are designed to reduce the community's carbon footprint from the outset. This includes the cycleway package, which will provide a low-carbon active transport alternative for communities and visitors alike.

Readiness

Successful workforce development plans are already in place by Toi EDA and their partners for various sectors, and this model will be able to quickly pivot to ensure rangatāhi and newly displaced workers are able to be trained across the region. Partnership models with various iwi and training organizations have already proven successful in developing the skills required at the local level, and will be scaled up and rolled out accordingly.

Next Steps

The Eastern Bay of Plenty is poised ready to progress these capital infrastructure projects, as soon as funding is confirmed.

In addition to progressing this immediate capital infrastructure programme of work, we will regroup the RGLG Partnership, together with local iwi partners, to identify any other potential capital projects that will support wider recovery.

The region has some very distinct competitive advantages that may be able to be leveraged to support future job growth, including:

- Further expansion of sustainable and environmentally-friendly land use developments (such as kiwifruit/organic farming) and the supporting infrastructure needed to support their growth (packhouses and coolstores)
- Expansion of the Kawerau industrial site, leveraging the available geothermal resources
- Supporting the rapid restart of local forestry operations as global trade recommences



- Accelerate the penetration of internet connectivity into our remote regions
- Accelerate the circular economy development and green energy (hydrogen) based on abundant geothermal resources
- Invest in local tourism packages to support the development of the domestic market in the medium term, to buffer the immediate impacts of both Covid-19 and Whakaari eruption
- Capital projects to address affordable housing
- Accelerate the deployment of Predator Free NZ programs into our unique native forests

These and other projects will be assessed and pursued by the RGLG Partnership, with the aim of bringing further opportunities to the attention of government as requested.





4 May 2020

Tēnā koutou katoa

COVID-19: WE ARE HERE TO HELP

I realise this is an extremely busy and challenging time for you and your council. I wanted to let you know that the Office's Local Government team is here to help you where we can.

I'm aware that Covid-19 is creating complex challenges for councils in maintaining critical service delivery and "business as usual", and also in terms of understanding and forecasting the potential impact of the pandemic when planning. Your appointed auditor will be keeping in contact with you and your staff as our audit work progresses.

Your sector manager is the contact point for any matters that you wish the Auditor-General to be aware of, or as a sounding board for discussion. We are keen to ensure that Parliament, central government entities, and citizens understand the impact of the Covid-19 pandemic on the sector, and the sector's contribution to recovery.

Some changes to the Local Government team

We have made some changes to the Local Government team to better tailor our engagement with you and provide more insightful products. We have two new sector managers, including one in Auckland, and we have reallocated some portfolios.

For most of you there is no change – the contact details and portfolios for each sector manager are attached.

Your audit and risk committee has an important role to play at this time and beyond

Audit and risk committees can be crucial to helping your council work through issues associated with the response to, and recovery from, the pandemic. Balancing risks and providing advice when hard decisions are required is one of the key functions of an audit and risk committee, and one we strongly recommend you use their expertise for.

We have already seen some excellent examples of this working in practice. [Our blog](#) on this topic also highlights the role that your committee plays in supporting your council to think longer term, beyond the crisis at hand.

Our focus on risk management

Our recently released [draft annual plan](#) outlines our increased focus on risk management practices of councils, which will encompass the role of the audit and risk committee. We are interested in identifying examples of good practice to share with you. If you have any thoughts on this, or any other topics we are proposing to look at, we would be very interested in your views.

We will keep in touch, but please feel free to contact your sector manager if you have any questions or issues that we may be able to help with.

Nāku noa, nā

Andrea Reeves

Assistant Auditor-General, Local Government



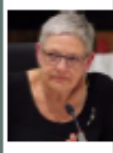
Local Government Sector Managers



Andrea Reeves – Assistant Auditor-General

Portfolio: Auckland Council

Email: andrea.reeves@oag.parliament.nz Tel: 021 222 8521



Deborah James – Sector Manager

Portfolio: Auckland Council subsidiaries and selected Auckland public organisations

Email: deborah.james@oag.parliament.nz Tel: 021 222 9756



Amanda Gray – Sector Manager

Portfolio: Local authorities and their subsidiaries in Taranaki, Whanganui-Manawatu and Hawkes's Bay regions, and selected public organisations in energy sector

Email: amanda.gray@oag.parliament.nz Tel: 021 222 4824



Tony Appleyard – Sector Manager

Portfolio: Local authorities and their subsidiaries in Northland, Wellington and Nelson-Marlborough regions, and selected public organisations in energy sector

Email: tony.appleyard@oag.parliament.nz Tel: 021 222 8523



Kristin Aitken – Sector Manager

Portfolio: Local authorities and their subsidiaries in Waikato, Bay of Plenty and Gisborne regions, and selected public organisations in environment sector

Email: kristin.aitken@oag.parliament.nz Tel: 021 222 4451



Jonathan Keate – Sector Manager

Portfolio: Local authorities and their subsidiaries in Otago and Southland regions, and selected public organisations in environment sector

Email: jonathan.keate@oag.parliament.nz Tel: 021 222 4003



Hugh Jory – Sector Manager

Portfolio: Local authorities and their subsidiaries in Canterbury and West Coast regions, and ports sector

Email: hugh.jory@oag.parliament.nz Tel: 021 222 6230

REPORT

Date : 12 May 2020

To : Risk and Assurance Committee Meeting, 18 May 2020

From : Chief Executive Officer, Aileen Lawrie

Subject : **RESOLUTION TO EXCLUDE THE PUBLIC**

SECTION 48 LOCAL GOVERNMENT OFFICIAL INFORMATION & MEETINGS ACT 1987

THAT the public be excluded from the following parts of the proceedings of this meeting, namely:

13. Confirmation of In-Committee Minutes – Risk and Assurance Committee Meeting 2 March 2020.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

Item No	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
13.	Confirmation of In-Committee Minutes – Risk and Assurance Committee Meeting 2 March 2020	That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists.	Section 48(1)(a)

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act or section 6 or section 7 or section 9 of the Official Information Act 1982, as the case may require, which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public are as follows:

13.	Protect the privacy of natural persons Protect information (commercial sensitivity) Protection from improper pressure or harassment	Section 7(2)(a) Section 7(2)(b)(ii) Section 7(2)(f)(ii)
-----	---	---