

To the reader

Independent auditor's report on Dunedin City Council's 2015-25 Long-Term Plan

I am the Auditor-General's appointed auditor for Dunedin City Council (the Council). Section 94 of the Local Government Act 2002 (the Act) requires an audit report on the Council's Long-Term Plan (the plan). I have carried out this audit using the staff and resources of Audit New Zealand. We completed the audit on 29 June 2015.

Opinion

In my opinion:

- the plan provides a reasonable basis for:
 - long-term, integrated decision-making and coordination of the Council's resources; and
 - accountability of the Council to the community;
- the information and assumptions underlying the forecast information in the plan are reasonable; and
- the disclosures on Section 3, pages 57 to 62 represent a complete list of the disclosures required by Part 2 of the Local Government (Financial Reporting and Prudence) Regulations 2014 and accurately reflect the information drawn from the Council's audited information.

Uncertainty about achieving the total savings in the Long Term Plan

Without modifying our opinion, we draw your attention to the fact that the Council needs to find approximately \$101 million of savings and efficiencies throughout the 10 year period of the long term plan to meet its aim of keeping rate increases within 3% and to complete its planned renewal programme.

On pages 3 to 7 of Section 1 of the Long Term Plan, the Council discusses the major issues it faces over the life of the plan and how it plans to address them.

Within this discussion, the Council outlines that the level of rates it has forecast in the Long Term Plan exceed its desired 3% limit on rates increases, in seven out of 10 years of the plan. There is a gap of \$74 million of savings required from 2016/17 to enable forecast rates to be reduced to come within the Council's desired 3% limit. This is set out in Table 1 on page 4 of Section 1 of the Long Term Plan.

The Council also outlines the significant level of renewals required over the next 30 years and the need to catch up on an estimated \$60 million backlog of renewals in the water and waste area. This includes assets that have exceeded their useful lives and are/or are not capable of delivering suitable service levels. The Council has forecast extra spending over the next 30 years, but there is a still a gap (\$88 million) between the Council's proposed funding levels (\$612 million) and the theoretical cost of the renewals needed (\$700 million). The Council notes that it expects that, through a combination of refining cost assumptions and delivering projects for less money, it can close the 16% gap between theoretical and actual cost to allow the backlog of renewals to be caught up by 2039/40. This gap totals \$27 million over the 10 years of the Long Term Plan.

The Council is committed to consulting the community if the 3% rates target cannot be met without reducing services or where it considers "exceptional circumstances" require a rate greater than 3%.

We draw your attention to these matters because, if the Council is not able to realise such savings, it may well adversely impact on rates, levels of service, and debt projections.

In drawing your attention to these uncertainties, we are not commenting on the merits of the content that they reflect. We consider the disclosures in the Long Term Plan to be adequate.

This opinion does not provide assurance that the forecasts in the plan will be achieved, because events do not always occur as expected and variations may be material. Nor does it guarantee complete accuracy of the information in the plan.

Basis of Opinion

We carried out our work in accordance with the Auditor-General's Auditing Standards, relevant international standards and the ethical requirements in those standards.¹

We assessed the evidence the Council has to support the information and disclosures in the plan and the application of its policies and strategies to the forecast information in the plan. To select appropriate audit procedures, we assessed the risk of material misstatement and the Council's systems and processes applying to the preparation of the plan.

Our audit procedures included assessing whether:

- the Council's financial strategy, and the associated financial policies, support prudent financial management by the Council;

¹ The International Standard on Assurance Engagements (New Zealand) 3000 (Revised): *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and The International Standard on Assurance Engagements 3400: *The Examination of Prospective Financial Information*.

- the Council's infrastructure strategy identifies the significant infrastructure issues that the Council is likely to face over the next 30 years;
- the information in the plan is based on materially complete and reliable asset and activity information;
- the Council's key plans and policies have been consistently applied in the development of the forecast information;
- the assumptions set out within the plan are based on the best information currently available to the Council and provide a reasonable and supportable basis for the preparation of the forecast information;
- the forecast financial information has been properly prepared on the basis of the underlying information and the assumptions adopted and complies with generally accepted accounting practice in New Zealand;
- the rationale for the Council's activities is clearly presented and agreed levels of service are reflected throughout the plan;
- the levels of service and performance measures are reasonable estimates and reflect the main aspects of the Council's intended service delivery and performance; and
- the relationship between the levels of service, performance measures and forecast financial information has been adequately explained within the plan.

We did not evaluate the security and controls over the electronic publication of the plan.

Responsibilities of the Council and auditor

The Council is responsible for:

- meeting all legal requirements affecting its procedures, decisions, consultation, disclosures and other actions relating to the preparation of the plan;
- presenting forecast financial information in accordance with generally accepted accounting practice in New Zealand; and
- having systems and processes in place to enable the preparation of a plan that is free from material misstatement.

I am responsible for expressing an independent opinion on aspects of the plan, as required by sections 94 and 259C of the Act. I do not express an opinion on the merits of the plan's policy content.

Independence

We have followed the independence requirements of the Auditor-General, which incorporate those of the External Reporting Board. Other than our work in carrying out all legally required external audits, we have no relationship with or interests in the Council or any of its subsidiaries.

A handwritten signature in black ink, reading "Ian Lothian". The signature is written in a cursive, flowing style.

Ian Lothian

Audit New Zealand

On behalf of the Auditor-General, Dunedin, New Zealand