

BDO Review and Lessons Learned Report

1. Purpose

To inform councillors of the outcome and recommendations of the 2021 Rates Setting Review carried out by BDO in July 2022, outline progress made, next steps, and ongoing progress to implement the recommendations in the report.

2. Executive Summary

In April 2022, the CEO engaged BDO to conduct an investigation into the 2021 setting of rates. The purpose and scope of the inquiry was, on the balance of probabilities, establish what occurred, and:

1. Provide a review on how the miscommunication came about and what factors lead to it;
2. Provide an opinion on whether the Consultation Document was fit for purpose, and adequately reflected the rates increase Council required;
3. Provide an assessment of whether the Rates Holiday Borrowing was communicated appropriately;
4. Advise how the miscommunication occurred and what lesson Council could learn;
5. Make recommendations on what Council could do differently in the future, to ensure such miscommunication does not occur again.

The BDO Report describes the governance decision making processes, but the investigation focuses on operational processes that led to the lack of sufficient explanation (described as a miscommunication in the report).

Although the outcome has an impact on the role of elected members, most significantly the trust with our communities, the implementation of the recommendations in this report are largely the responsibility of the CEO and the Executive Leadership Team (ELT) to ensure the recommendations are delivered.

Elected members have a critical role in maintaining healthy relationships with the communities of the South Wairarapa, including mana whenua, through engagement and consultation activities that ensure that all stakeholders have a voice and can be heard on issues they care about.

3. Recommendations

Officers recommend that the Council:

1. Receive the BDO Investigation Report.
2. Note the lessons learned, recommendations and the actions taken to implement the recommendations.
3. Note that the report will be made publicly accessible on the South Wairarapa District Council website.

4. Background

The BDO Report outlines the SWDC structure and Territorial Authority planning and reporting cycles as required under the Local Government Act 2002. It examines the context of the rates setting including examining the workload of key staff and lays out a detailed timeline of events.

Lessons Learned: There were three key themes that came out of the interviews on what could have been done differently on reflection (summarised):

1. The Council potentially should not have taken the *rates borrowing**, even though it was the right decision at the time due to the unknown potential economic and social impact of COVID-19.
2. The impact of the *rates borrowing** should have been communicated better to ratepayers.
3. The communications after the discovery of the miscommunication could have been more timely and conveyed more clearly to ratepayers.

Recommendations: The report makes the following recommendations (summarised):

1. SWDC needs to take action to rebuild the confidence of the ratepayers. This will require open, honest, and authentic communication with the ratepayers moving forward.
2. Implement an online rates calculator.
3. A register of decisions should be kept and referred to in the next planning process round to ensure transparency and assumptions made in future financial modelling.
4. SWDC needs to consider the capacity of staff to deliver projects. It is a very lean team that needs to produce the same number of documents as much larger councils and it can have an impact on the quality of work being delivered.
5. Engage an external peer reviewer for the AP and LTP processes who is not involved in the preparation of the documents.

6. SWDC should engage with interested members of the public as “sanity” checks for the AP and LTP process to seek learned feedback.
7. SWDC should look to create a culture of listening to ratepayers and engaging with those who have valid, well-articulated points on matters before Council.
8. SWDC should review its communications strategy and communication should be timely, accurate, and let the ratepayer know what is being done or when you can let them know.

Additional general recommendations for all territorial authorities made by the Auditor General were included:

“There is a high public interest in rates and rates increases. Therefore, we encourage councils, when they are preparing their consultation document, to take due care in ensuring that the proposed rates increases disclosed are accurate.”

The BDO report was provided to the CEO and ELT in July 2022 at which point legal advice was sought on any employment law risks of making the report public. The advice stated the report could be made public.

5. Prioritization

5.1 Tangata whenua considerations

Engagement considered not required in this case.

5.2 Long-Term Plan alignment

The recommendations have an impact on how the organisation plans and delivers key activities including the next Long-Term Plan.

6. Discussion

The BDO report makes recommendations regarding lessons learned reflecting on systems and process gaps. A number of actions have already been taken or are in the planning stages (dependant on available resources).

1. Examples of specific actions on improving trust through honest, authentic communication include:
 - a. A focus on improving public information management and communication in times of local crisis.
 - b. Support for Community Boards to engage with their communities through drop-in sessions, community forums, and the design of their Community Board Plans.
 - c. Working through the process of publishing LGOIMA requests on our website.

2. A rates calculator has been established on our website and has received positive feedback.
3. Decisions made by ELT are recorded and monitored in the ELT meeting minutes. The Policy and Governance Team maintain decision and open action registers for Council, committees, and community boards. Feedback from engagement and consultation is logged and recorded by the Policy and Governance team. Further work is under way to ensure the information is transparent across the organisation.
4. The workload of staff continues to be an ongoing risk and mitigations are recorded in the risk register. ELT include a risk review in regular meetings and the GM of Policy and Governance is responsible for maintaining the risk register which will be monitored quarterly by the Assurance and Risk Committee during this triennium.
5. Philip Jones has been engaged to provide an independent peer review of key strategic processes. Additionally, a professional independent chair has been appointed to the Assurance and Risk Committee.
6. We are currently looking into setting up community user groups to support engagement and consultation processes and ensure “sanity checks”.
7. We are working to improve our engagement process to genuinely listen to the communities of South Wairarapa, see points 1 and 6 above.
8. An organisational communications strategy is in development.

In addition, the ELT have developed a three-year rolling business plan that is in working draft for the purpose of improving efficiencies in internal systems and processes and improving organisational culture in an environment with limited resources. It has eleven priority areas (in no particular order) being:

1. Improvements to finance and procurement systems.
2. Creating a resilient and adaptable IT and IM systems that are fit for purpose.
3. Building a healthy and strong organisational culture.
4. Nurturing a positive relationship with Māori, mana whenua, hapū, and marae.
5. Strategy, risk, business planning, and reporting processes are fit for purpose and support good quality decision making.
6. Building and maintaining trusted relationships between elected and appointed members, council officers, and South Wairarapa communities.
7. Programmes and projects are well managed using established project management methodology that includes lessons learned reviews.

8. Strategic workforce planning enables staff development that helps future proof the organisation.
9. Communications, engagement, and consultation processes build trust and confidence in Council and improve our social licence.
10. Asset management enables good decision making and investment in infrastructure.
11. The organisation design is future proofed, agile, and prepared for change.

The business plan will be reviewed at least twice a year by the ELT.

It is expected that elected members will remain interested in the progress made against the recommendations and that a clear action plan, with KPIs, and progress reporting could be delivered to the Risk and Assurance Committee at least twice a year.

7. Risks & Mitigations

7.1 Risk Register

Risks (as per the register) include our reputation and social licence to operate and the capacity of the organisation to deliver high quality work within limited resources.

7.2 Communications

A communications plan is in development.

8. Appendices

Appendix 1 – SWDC 2021 Setting of Rates Inquiry

Contact Officer: Amanda Bradley, General Manager; Policy and Governance

Reviewed By: Harry Wilson, Chief Executive Officer

**rates borrowing* refers to the loan that Council took in 2020 to “smooth” the impact of projected rates increases

Appendix 1 – SWDC 2021 Setting of Rates Inquiry



**SOUTH WAIRARAPA
DISTRICT COUNCIL**
Kia Reretahi Tātau

SOUTH WAIRARAPA DISTRICT COUNCIL

2021 RATES SETTING INQUIRY

8 JULY 2022

PRIVATE AND CONFIDENTIAL



DEFINITIONS, ABBREVIATIONS AND GLOSSARY OF TERMS

Abbreviation	Meaning
2020/21 AP	2020/2021 Annual plan
2021/31 LTP	2021/2031 Long term plan
AP	Annual plan
BDO	BDO Wellington Limited
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Councillor(s)	SWDC Councillors (including the Mayor)
FY21	Financial year ended 30 June 2021
FY22	Financial year ended 30 June 2022
GST	Goods and Services Tax
LGA02	Local Government Act 2002
LTP	Long term plan
LTP Consultation Document	2021/31 LTP Consultation Document
M	Million
Miscommunication	SWDC consulting on a rates increase of 17.9% when ratepayers were charged at a level which reflects a 29% increase in rates
Officers	SWDC leadership team
Rates Holiday Borrowing	The \$1.5m of funds borrowed in FY21 to mitigate the impact of rates increases during the COVID-19 pandemic
SWDC, the Council	South Wairarapa District Council
ToR	Terms of Reference dated April 2022



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Dear Harry

In accordance with our engagement letter dated 29 April 2022 we have prepared this report to fulfil the scope of inquiry as outlined in the ToR. The ToR is attached to this report as Appendix B.

The agreed purpose and scope of this inquiry is to, on the balance of probabilities, establish what occurred, and:

1. Provide a review on how the Miscommunication came about and what factors lead to it;
2. Provide an opinion on whether the Consultation Document was fit for purpose, and adequately reflects the rates increase Council required;
3. Provide an assessment of whether the Rates Holiday Borrowing was communicated appropriately;
4. Advise how the Miscommunication occurred and what lessons Council could learn;
5. Make recommendations on what Council could do differently in the future, to ensure such miscommunication does not occur again.

We will not comment on any matter outside of the ToR, including (but not limited to) whether or not disciplinary action is or may be appropriate and/or the nature of any potential disciplinary action.

This report must be read in conjunction with the disclaimer attached as Appendix A. Whilst others may seek to use this report for different purposes, it should not be quoted, referred to, or shown to other parties unless so required by court order or a regulatory authority, without our prior consent in writing. For clarity, this includes any requests under the Local Government Official Information and Meetings Act 1987.

In conducting this inquiry we interviewed 15 parties. The list on interviewees is included as Appendix C. All interviews were conducted in accordance with the 'rules of engagement' in section 6 of the ToR.

Information relied upon for the preparation of this memorandum is detailed in Appendix D. We have not carried out any work in the nature of an audit in respect of this information, nor have we attempted to independently confirm the information therein and accordingly express no opinion as to its truth or accuracy.

We circulated a drafts of this memorandum for you to review on 26 May 2022 and 14 June 2022. Your feedback, the feedback of current and past officers, and the feedback of Audit NZ was considered and changes for factual accuracy have been made where necessary.

If you require any clarification or further information, please contact me.

Yours sincerely
BDO WELLINGTON LIMITED

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Director
Corporate Finance

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BACKGROUND

ToR Background and SWDC Staff Workloads

ToR Background

The key points of the ToR background are as follows:

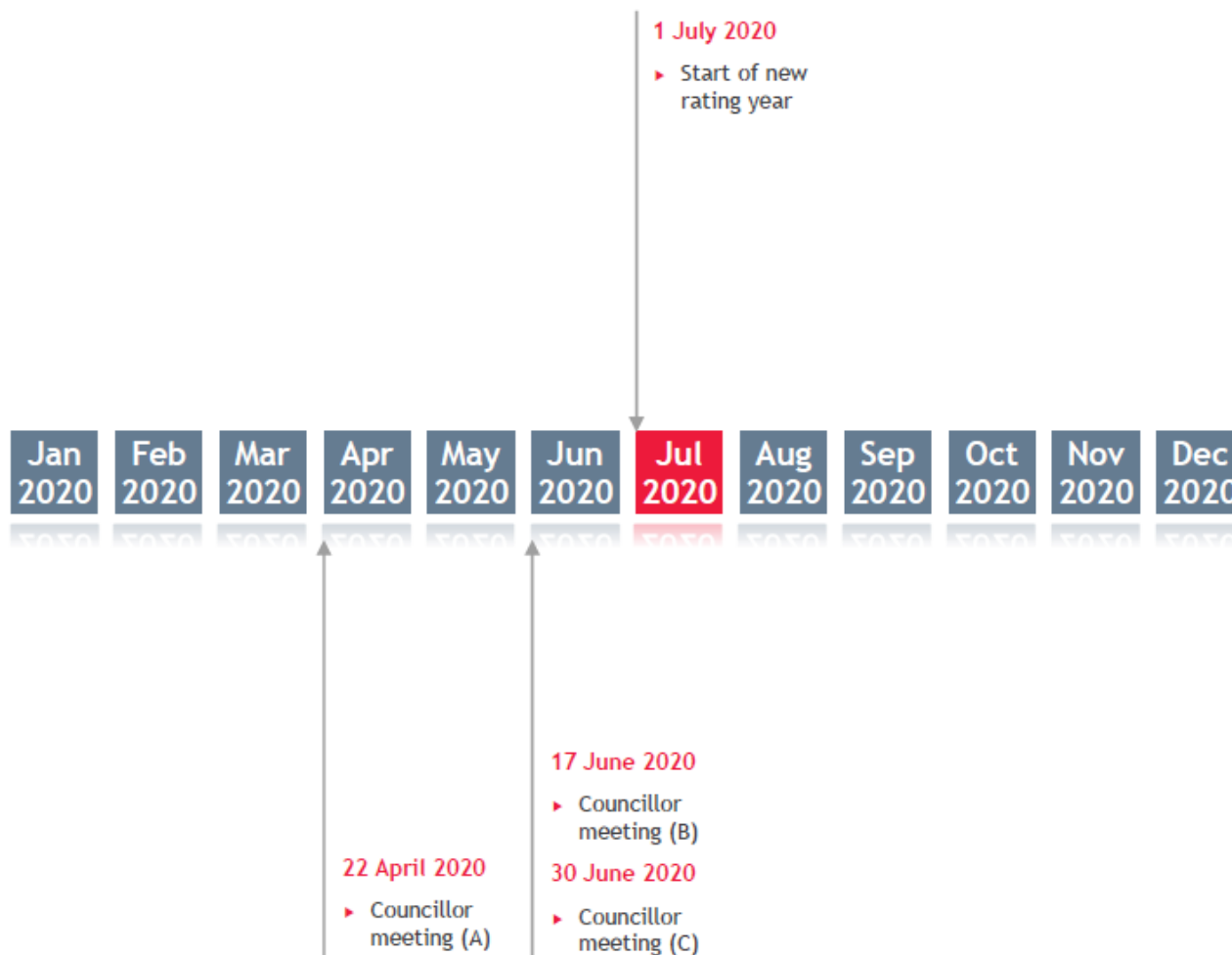
- ▶ In March/April 2021, SWDC consulted with the community on its 2021/31 LTP
- ▶ The LTP Consultation Document issued at this time communicated that SWDC needed to address historic underspend, which had seen a decline in the condition of many of its assets, including water, roading, buildings and amenities
- ▶ The LTP Consultation Document indicated that SWDC needed to collect an extra 17.65% in rates in FY22
- ▶ In early July 2021 SWDC received feedback from ratepayers that based on the ratepayers analysis the rating impact may be higher than what had been explained in the LTP. At that time this was attributed by SWDC to the three-yearly revaluation of properties in the district that was to occur in 2020. This explanation was provided by SWDC to Councillors in a councillor-only workshop in August 2021
- ▶ On 11 August 2021, Audit NZ identified that the rates increase was driven by the Rates Holiday Borrowing
- ▶ SWDC consulted on a rates increase of 17.65% for the LTP, however from the artificially lowered FY21 rate amounts, ratepayers have been charged at a level which reflects an approximately 29% increase in rates
- ▶ As a result, Council, Councillors and members of staff have experienced significant backlash from members of the community about the disconnect between the rates increase Council consulted on, and the actual rates increases it imposed when the LTP was adopted
- ▶ SWDC has subsequently apologised to the community for not fully explaining the impact of the Rates Holiday Borrowing, and the impact it has had on individual ratepayers, and undertook a communication plan to ensure ratepayers had what SWDC believed to be the necessary information

SWDC Additional Workloads

- ▶ As noted above, the SWDC team is not a large organisation.
- ▶ It is possible that additional work loads placed on the SWDC team on top of business as usual workloads may result in the team being stretched too far.
- ▶ In addition to the events the events noted in the timeline on the following pages the previous CFO (concurrent by other Officers and Councillors) advised that the SWDC also had the following workstreams in train (which were over and above business as usual workloads) while undertaking the preparation of the LTP Consultation Document and the 2021/31 LTP:
 - The format of the LTP was completely redesigned for the 2021/31 LTP. This included the approach to the Consultation Document
 - A new financial modelling software package was implemented, which was used in the preparation of the 2021/31 LTP
 - Extensive work on the development and public consultation on the spatial plan was occurring in parallel to the LTP
 - During the 2021/31 LTP production process, SWDC was also responding to the request for information for the Three Waters Reform program by the NZ Government (managed by the Department of Internal Affairs)
- ▶ Having the team stretched too far (which possibly could have been the case with the SWDC team during the 2021/31 LTP preparation process) could result in errors or oversights in their work related deliverables.

BACKGROUND

Timeline of the Miscommunication (1)

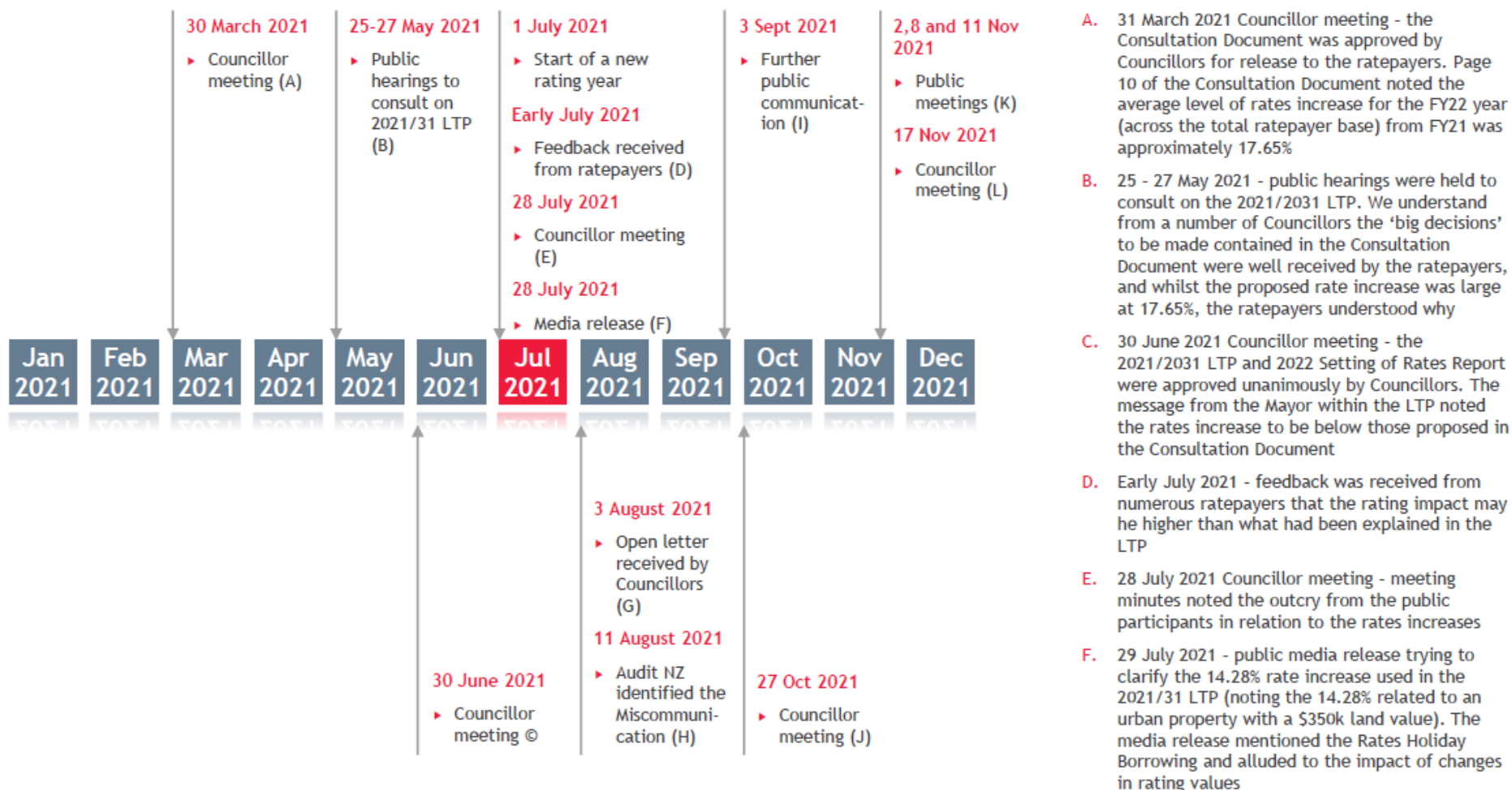


The diagram to the left and notes below summarise the timeline of the Miscommunication based on our interviews and information we were able to obtain from public sources.

- A. 22 April 2020 Councillor meeting - the consultation document for the 2020/21 AP was approved by SWDC and released to the ratepayers. The message from the Mayor in this consultation document discussed the spreading of the FY21 SWDC operating costs over a five-year term, and page 7 detailed the use of the Rates Holiday Borrowing. This indicated an increase in FY21 rates of 2.54% and 1.5% per year for the following four years
- B. 17 June 2020 Councillor meeting - the minutes noted:
- "Mrs Neems [CFO] presented a cashflow model (tabled) and discussed rates smoothing with councillors. The option presented was considered the less risky option as cashflow wasn't impacted, was permitted by the Revenue and Financing Policy, was used by other councils and was endorsed by Local Government NZ. The model presented took the COVID-19 impact into consideration.*
- Council endorsed rate increases being partially funded by raising a loan and smoothing the effect over the next five financial years."*
- C. 30 June 2020 Councillor meeting - the 2020/21 AP and FY21 Setting of Rates Report were unanimously approved; the message from the Mayor in the Annual Plan reiterated the spreading of the FY21 SWDC operating costs over a five-year term. There was no other discussion on the Rates Holiday Borrowing

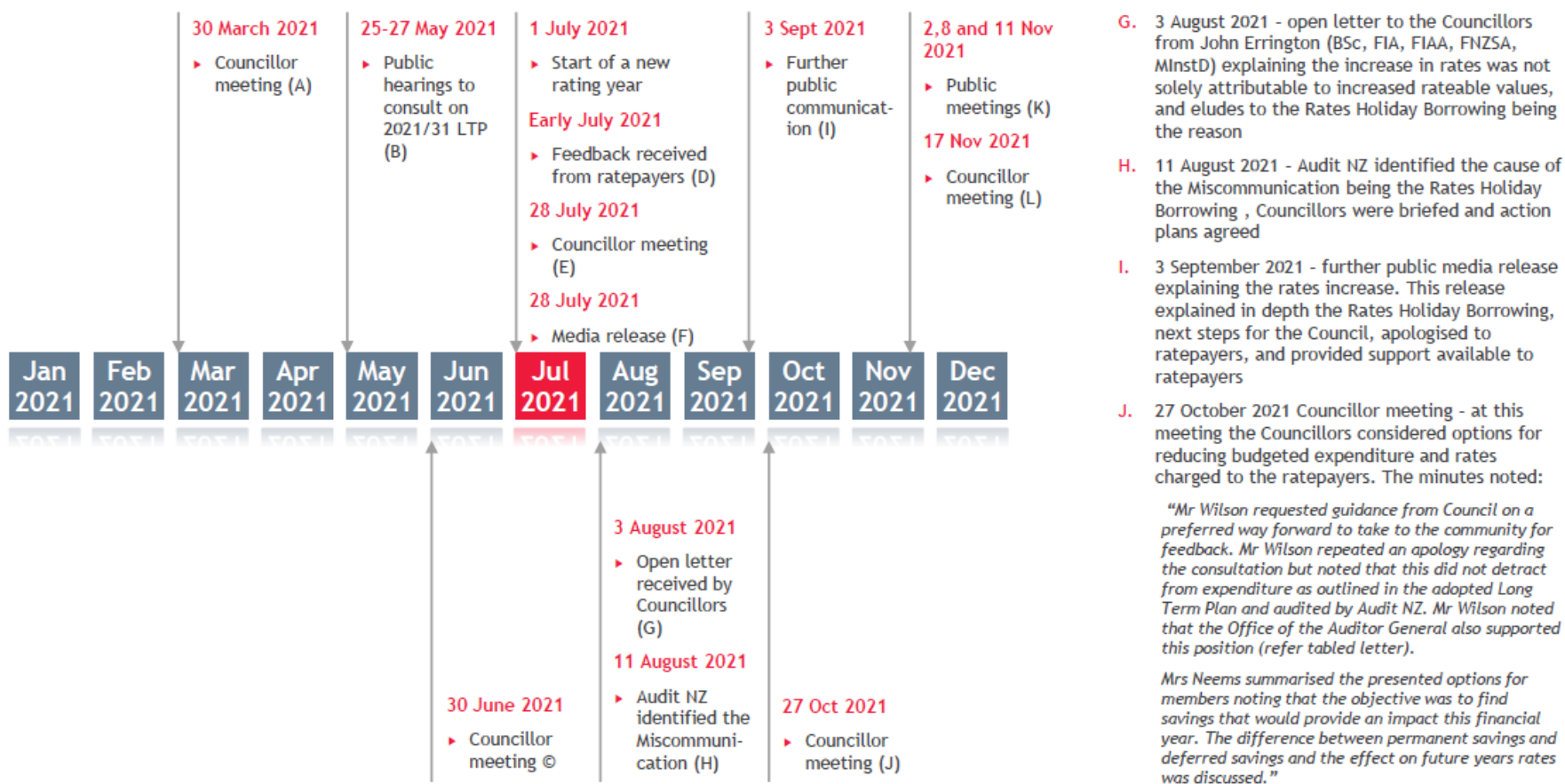
BACKGROUND

Timeline of the Miscommunication (2)



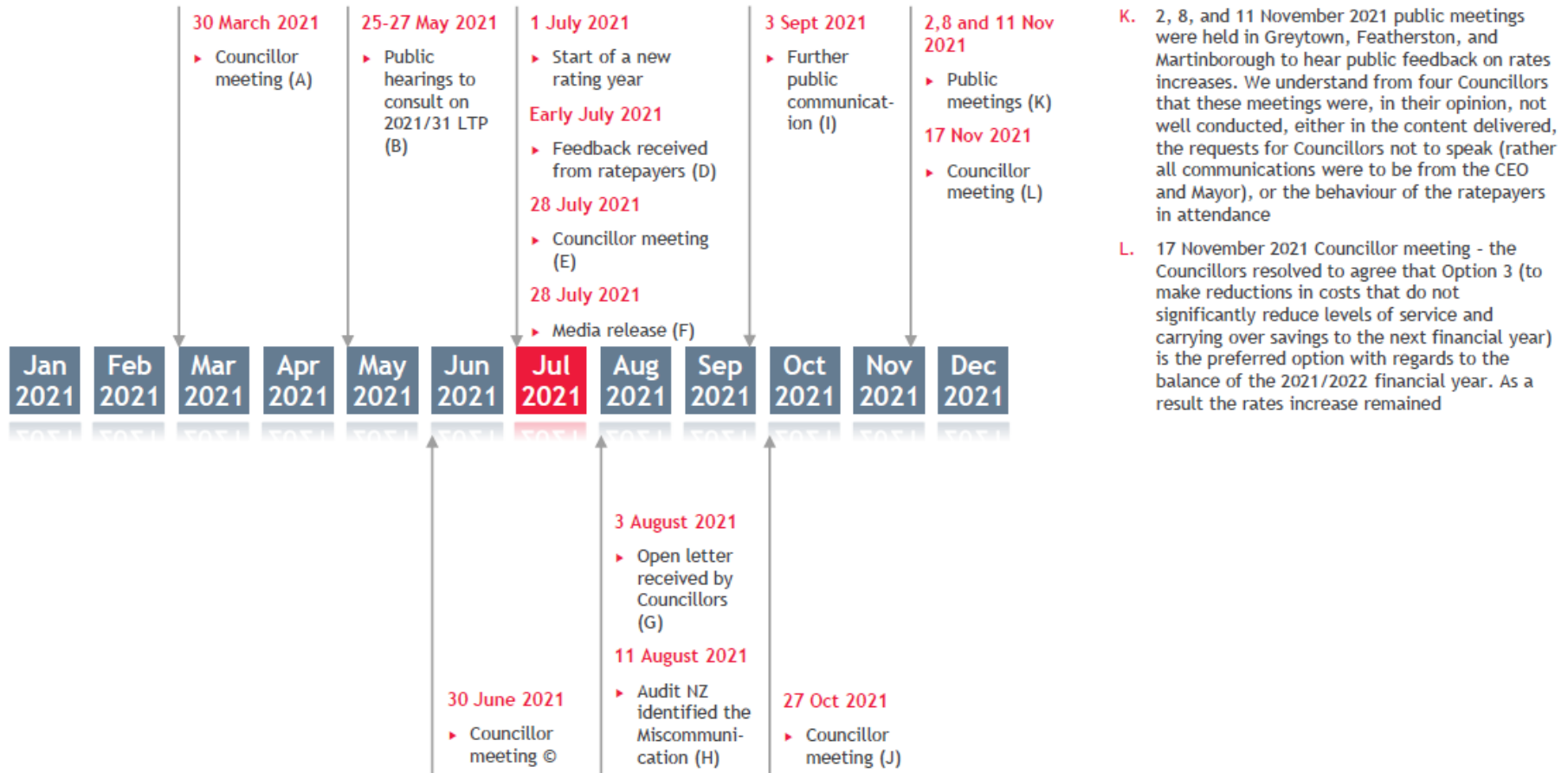
BACKGROUND

Timeline of the Miscommunication (3)



BACKGROUND

Timeline of the Miscommunication (4)



BACKGROUND

2020/21 AP

Whilst the scope of our inquiry is primarily focused on the LTP Consultation Document, the genesis of the Rates Holiday Borrowing (being the primary cause of the increase in rates paid between FY21 and FY22) was in the 2020/21 AP.

Observation

- ▶ The \$1.5m borrowed that was the Rates Holiday Borrowing was well documented in the 2020/21 AP and its related consultation document
- ▶ SWDC Officers have confirmed the Rates Holiday Borrowing remains owing the Local Government NZ as at the date of our report

1. The 2020/21 AP consulted on and implemented the Rates Holiday Borrowing.
2. The Rates Holiday Borrowing had the following effect:
 - a) Due to the impact of COVID-19 in March and April 2020 the New Zealand Government was placing pressure on local authorities (including SWDC) to reduce the impact of rates increases on ratepayers due the impending economic uncertainties
 - b) SWDC's average rate increase for FY21 was supposed to be 13.17% before the impact of the Rates Holiday Borrowing
 - c) The Rates Holiday Borrowing totalled \$1.5m, drawn down in FY21
 - d) The impact of the Rates Holiday borrowing was to reduce the average rate increase in FY21 to 2.54%. From there it was forecast to increase rates for the next four years by 1.5% per annum (on top of proposed increases required). It could be argued the messaging around the 1.5% was not clear as it could have simply been a 1.5% increase or been on top of the already proposed increases
3. The details of the term loan drawn down as the Rates Holiday Borrowing were as follows :
 - a) Loan principal amount - \$1.5m
 - b) Loan issue date - 17 May 2021
 - c) Loan Maturity Date - 15 April 2026
 - d) Interest only loan repayable in full at maturity
4. As at the date of our memorandum SWDC confirmed the total loan balance remains outstanding at the date of our report.
5. The 2021 Setting of Rates report (approved by unanimous resolution at the 30 June 2020 Councillor meeting) proposed the FY21 rates as being \$17.84m (including GST). The \$17.84m being the amount of rates required to fund a balanced budget, less the \$1.5m Rates Holiday Borrowing.

Legislative Reference - LGA02 - Section 95(5)

Purpose of the annual plan

The purpose of an annual plan is to—

a) contain the proposed annual budget and funding impact statement for the year to which the annual plan relates; and

b) identify any variation from the financial statements and funding impact statement included in the local authority's long-term plan in respect of the year; and

c) provide integrated decision making and co-ordination of the resources of the local authority; and

d) contribute to the accountability of the local authority to the community.

SCOPE ITEM 1

Cause of the Miscommunication (1)

Question 1: Provide a review on how the Miscommunication came about and what factors lead to it

Summary Answer: The Miscommunication came about as a result of the messaging in the LTP Consultation Document and 2021/31 LTP being silent on the Rates Holiday Borrowing. The LTP Consultation Document and 2021/31 LTP should have referenced the rates increases to both pre and post the effect of the Rates Holiday Borrowing.

Observation

- ▶ The \$1.5m borrowed that was the Rates Holiday Borrowing was well documented in the 2020/21 AP and its related consultation document
- ▶ The LTP Consultation Document and 2021/31 LTP was silent on the Rates Holiday Borrowing impact
- ▶ The LTP Consultation Document was focussed on the expenditure required by SWDC to achieve the 'big decisions'
- ▶ The LTP Consultation Document and the 2021/31 LTP did not mention the Rates Holiday Borrowing, or the impact of that on the rate increase in the eyes of the ratepayer

BDO Comments

1. In the 2020/21 AP consultation document the Rates Holiday Borrowing was mentioned both in the message from the Mayor, and on page 7. The comments on page 7 were as follows:

The proposed Annual Plan for next year requires an increase of 13.17% in rates that would need to be collected from ratepayers, compared with last year...

However, in response to the long-term uncertainty due to Covid-19 and the impact on the economy, Council instead proposes to smooth the impact of this rates increase through extra borrowing. We propose to do this by increasing debt by \$1.5 million, paid back over five years. This reduces the growth-adjusted average rates increase for next year to 2.54% and adds an extra 1.5% increase to rates for each of the following four years.

2. In the 2020/21 AP, in the message from the Mayor on pages 1 and 2, the following comment was made regarding the Rates Holiday Borrowing:

As we recognise the need to minimise the financial burden of the resulting rates increase, particularly in these uncertain times. To minimise the impact on rates, we're taking advantage of low-interest loans and spreading the cost of infrastructure upgrades over generations of ratepayers, all of whom stand to benefit from the investment. This considerably lowers the average rates increase for next year to 2.27% with an expected additional increase of 1.5% for each of the following four years. This works out in real terms to an estimated increase of \$1.86 per week for the average urban ratepayer next year; \$1.77 per week for the average commercial ratepayer; and \$0.18 cents per week for the average rural ratepayer.

Nowhere else in the 2020/21 AP was the Rates Holiday Borrowing mentioned or explained to ratepayers.

3. As a result of the Rates Holiday Borrowing rates paid by ratepayers were artificially lowered in FY21 to provide financial assistance during what was expected to be uncertain economic conditions during the COVID-19 pandemic.
4. When the LTP Consultation Document was released to the public, the document referred to average rates increases of 17.65%. The LTP Consultation Document and the 2021/31 LTP were silent on Rates Holiday Borrowing and the impact of the same.

SCOPE ITEM 1

Cause of the Miscommunication (2)

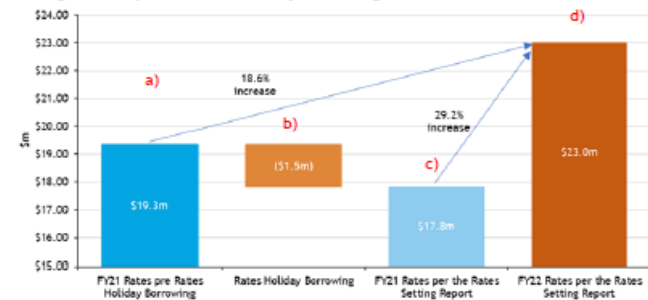
Question 1: Provide a review on how the Miscommunication came about and what factors lead to it

Summary Answer: The Miscommunication came about as a result of the messaging in the LTP Consultation Document and 2021/31 LTP being silent on the Rates Holiday Borrowing. The LTP Consultation Document and 2021/31 LTP should have referenced the rates increases to both pre and post the effect of the Rates Holiday Borrowing.

BDO Comments (cont.)

5. The proposed increase of 17.65% was calculated off a FY21 base rate amount before the Rates Holiday Borrowing artificially lowered the rates payable in the FY21 financial year. The chart in figure 2 summarises the bridge between the FY21 rates amount and FY22 rates amount.
6. When identified by the public in early July 2021, we understand from some of our interviews with Councillors and Officers that some ratepayers approached the Council requesting explanations or trying to explain to SWDC where they believed the rates increase arose from. These same interviewees indicated that SWDC took the time to meet with these ratepayers and understand the ratepayers views however they felt that this may not have taken into account by SWDC and the ratepayers points were conveyed as being incorrect.
7. Following the identification of the rates increases being higher between the FY21 and FY22 rates invoices received by ratepayers and the figures proposed in the LTP Consultation Document and 2021/31 LTP, the Councillors and Officers convened to agree an action plan and response to the ratepaying public.
8. As noted in the background timeline section the first ratepayer wide communication from SWDC was released on 29 July 2021 (over four weeks after the 2021/31 LTP was adopted). This communication referred to both the impact of the increases in rateable values and the Rates Holiday Borrowing but it could be argued that it was light on detail and did not apologise for the impact the increases had on ratepayers.
9. A more detailed communication was distributed to ratepayers on 3 September 2021 titled 'Explanation of the Rates Increase from your Council'. This was over two months after the 2021/31 LTP was approved and initial enquiries were received from the ratepayers. This communication provided a much more detailed explanation and provided options to support ratepayers.

Figure 2: Impact of Rates Holiday Borrowing



Notes to chart:

- a) FY21 rates as proposed in the 2020/21 AP (excluding Rates Holiday Borrowing)
- b) Rates Holiday Borrowing amount
- c) Artificially lowers FY21 rates level (which are the rates as documented in the 2021 Rates Setting Report)
- d) FY22 rates levied

SCOPE ITEM 1

Cause of the Miscommunication (3)

Question 1: Provide a review on how the Miscommunication came about and what factors lead to it

Summary Answer: The Miscommunication came about as a result of the messaging in the LTP Consultation Document and 2021/31 LTP being silent on the Rates Holiday Borrowing. The LTP Consultation Document and 2021/31 LTP should have referenced the rates increases to both pre and post the effect of the Rates Holiday Borrowing.

Controller and Auditor General Comments

10. The Controller and Auditor General of New Zealand prepares a report each year on their observations from auditing the LTP consultation documents for all territorial authorities. The excerpts to the right are comments from their report dated December 2021 (i.e. after the Miscommunication became public knowledge) that support our findings on the previous two pages.

Section 2.19

After South Wairarapa District Council adopted its 2021-31 long-term plan, the Council and our Office received correspondence from members of the community asking about the size of the 2021/22 rates increase. The rates being charged in rates invoices were significantly higher than what had been indicated in the South Wairarapa District Council's consultation document.

Section 2.20

Like some other councils, South Wairarapa District Council provided rates relief by reducing the proposed increase in the 2020/21 rates because of concerns about the economic impact of Covid-19. This rates relief ended in 2021/22. However, the Council's consultation document did not clearly outline how the 2021/22 rates would be affected by the required catch-up. This was also not something that was identified as part of the audit. In response to the concerns raised, the Council published a statement to explain to its community what had happened and what it planned to do in response.

SCOPE ITEM 2

Was the LTP Consultation Document Fit for Purpose (1)

Question 2: Provide an opinion on whether the Consultation Document was fit for purpose, and adequately reflects the rates increase Council required

Summary Answer: While the LTP Consultation Document was in our opinion fit for purpose it did not adequately reflect the rate increase required from the FY21 rate amounts paid by ratepayers which were artificially lowered due to the Rates Holiday Borrowing.

Observation

- ▶ The LTP Consultation Document was well supported by the ratepayers with its addressing of the district's infrastructural asset issues
- ▶ The LTP Consultation Document and 2021/31 LTP was silent on the Rates Holiday Borrowing impact
- ▶ By not mentioning the Rates Holiday Borrowing, or the impact of that, the LTP Consultation Document did not adequately reflect the rate increase in the eyes of the ratepayer

BDO Comments

1. As noted above for the LTP Consultation Document SWDC took a completely new approach to the consultation focusing on the 'big decisions' required as a result of SWDC facing infrastructural asset issues. This approach engaged the community with nearly 1,000 submissions for the 2021/31 LTP. We understand from Councillors and Officers that this was unprecedented, usually there would be closer to 150 submissions. We understand from our interviewees that at consultation hearing meetings ratepayers praised the approach taken by SWDC.
2. Section 93B of the LGA02 legislates the purpose of the LTP Consultation Document (text of legislation in blue box). In our opinion the LTP Consultation Document met the requirements in section 93B in subsections a), b), and c), and was easily understood by ratepayers (as noted in the feedback received above).
3. While the LTP Consultation Document was in our opinion fit for purpose it did not adequately reflect the rate increase required from the FY21 rate amounts paid by ratepayers which were artificially lowered due to the Rates Holiday Borrowing.
4. The 17.65% rates increase for FY22 indicated in the LTP Consultation Document was factually accurate when starting from a \$19.5m rates base (being the FY21 rates before they were artificially lowered by the Rates Holiday Borrowing), however it was not accurate in the eyes of the ratepayers.
5. As there was no explanation of the Rates Holiday Borrowing effect in the LTP Consultation Document or the 2021/31 LTP, ratepayers were of the belief that the artificially reduced rates for FY21 were the actual rates and therefore the increase to FY22 rates was substantially higher than the 17.65% indicated.

Legislative Reference - LGA02 - Section 93B

93B Purpose of the consultation document for long-term plan

The purpose of the consultation document is to provide an effective basis for public participation in local authority decision-making processes relating to the content of a long-term plan by—

a) providing a fair representation of the matters that are proposed for inclusion in the long-term plan, and presenting these in a way that—

(i) explains the overall objectives of the proposals, and how rates, debt, and levels of service might be affected; and

(ii) can be readily understood by interested or affected people; and

b) identifying and explaining to the people of the district or region, significant and other important issues and choices facing the local authority and district or region, and the consequences of those choices; and

c) informing discussions between the local authority and its communities about the matters in paragraphs (a) and (b).

SCOPE ITEM 2

Was the LTP Consultation Document Fit for Purpose (2)

Question 2: Provide an opinion on whether the Consultation Document was fit for purpose, and adequately reflects the rates increase Council required

Summary Answer: While the LTP Consultation Document was in our opinion fit for purpose it did not adequately reflect the rate increase required from the FY21 rate amounts paid by ratepayers which were artificially lowered due to the Rates Holiday Borrowing.

Controller and Auditor General Comments

6. The observations from Controller and Auditor General's December 2021 report from auditing the LTP consultation documents for all territorial authorities are provided in the excerpts to the right.
7. Audit NZ (on behalf of the Auditor General of NZ) opined that the LTP Consultation Document provided an effective basis for public participation in SWDC's decisions in accordance with section 93B of the LGA02. Their audit report was included on page 14 of the LTP Consultation Document. Audit NZ advised the content requirements of section 93C of the LGA02 are the responsibility of SWDC.
8. A number of Councillors and Officers advised during our interviews that they believed Audit NZ, in conducting the audit of the LTP Consultation Document, should have identified the silence around the Rates Holiday Borrowing and the effect this had on perceived rates increases to ratepayers.
9. Whilst we are of the view the comments in the LTP Consultation Document were accurate in respect of the rates increase between FY21 and FY22, we understand why Councillors and Officers may have the opinion noted at point 7 given the requirement under subsection 93C(2), paragraph (e) of the LGA02 that "the consultation document must describe using graphs or charts, the direction and scale of change to the local authority's rates", and paragraph (g) of the LGA02 that states "the impact of proposals on the rates assessed on different categories of rateable land with a range of property values, by the provision of examples as provided for in clause 15(5) of Schedule 10".

Section 1.6

Deciding what to include in a consultation document can be challenging. What might be an important issue for some members of the community might not be for others. Elected members need to consider the issues carefully and be satisfied that what is included are the important issues facing the council and the community. They also need to be prepared to engage with members of the community on matters that are not included in the consultation document, but which the community might consider important.

Section 1.13

Our [Audit NZ] role is to assess whether the consultation document is fit for purpose and covers what it needs to. We are not required to give a view on whether a council has met all the requirements of the Act from a legal perspective.

Section 1.14

However, there is an element of legislative compliance to our role, including considering the mandatory content requirements for consultation documents. We consider whether the information that must be included has been. We do not check that every detail complies with the Act, regulations, or prescribed forms.

Section 1.16

Instead, our audit involves checking that the policies proposed by a council are appropriately reflected in forecasts they have prepared. In effect, we check whether councils' forecasts are consistent with what they say they will do.

SCOPE ITEM 3

Rates Holiday Borrowing Communication

Question 3: Provide an assessment of whether the Rates Holiday Borrowing was communicated appropriately

Summary Answer: In our opinion we do not believe the Rates Holiday Borrowing was appropriately communicated over the entirety of the period impacted.

Observation

- ▶ The impact of the Rates Holiday Borrowing was to artificially lower the rates payable by ratepayers for the single financial year (FY21)
- ▶ Council should keep a register of these decisions made and make sure the register is reviewed as a part of the AP/LTP process

1. As noted in the background timeline section the Rates Holiday Borrowing was mentioned in the following documents (in chronological order):
 - a) The consultation document for the 2020/21 AP included a message from the Mayor discussing the spreading of the FY21 SWDC operating costs over a five year term, as well as the Rates Holiday Borrowing being detailed on page 7
 - b) The 2020/21 AP included a message from the Mayor in the annual plan reiterating the spreading of the FY21 SWDC operating costs over a five-year term
 - c) The public media release on 29 July 2021 noted the “Council softened the impact on ratepayers by borrowing \$1.5 million”
 - d) SWDC provided a further public explanation of the rates increase in its 3 September 2021 communication to ratepayers
2. Whilst it is evident the Rates Holiday Borrowing was appropriately communicated to the ratepayers in the 2020/21 AP (and the preceding consultation document), it is evident that there was insufficient communication at the time of the LTP Consultation Document and the 2021/31 LTP to remind rate payers of the effect of the Rates Holiday Borrowing on the rates for FY22. As noted above, we believe this was the root cause of the issues raised by ratepayers.
3. In our opinion we do not believe the Rates Holiday Borrowing was appropriately communicated over the entirety of the period impacted.
4. As noted above the impact of the Rates Holiday Borrowing was to artificially lower the rates payable by ratepayers for the single financial year (FY21). Given the quantum of the “reduction” offered by the Rates Holiday Borrowing it would have been prudent for SWDC to re-communicate this impact in the LTP Consultation Document and the 2021/31 LTP.
5. Going forward, Council should keep a register of these decisions made and make sure the register is reviewed as a part of the AP/LTP process. Based on that review there could be the need to recommunicate matters to the ratepayers to mitigate the impact of historic decisions made.

SCOPE ITEM 4

How the Miscommunication occurred and what lessons Council could learn

Question 4: Advise how the Miscommunication occurred and what lessons Council could learn

Summary Answer: Scope item 1 details how the Miscommunication occurred. We have not reiterated our findings in this section. Lessons the Council could learn have been detailed below.

Lessons Learned:

1. In addition to our own review and analysis of the Miscommunication we asked each interviewee what the Council could have done differently and what the Council could learn for the future.
2. Comments provided to us by Councillors and Officers on what the Council could have done differently included:
 - a) The Council should not have taken the Rates Holiday Borrowing. Councillors believed they were making the right decision to support ratepayers at the time of the 2020/21 AP due to the potential economic and social impact of COVID-19. However, a number of interviewees commented that with hindsight the economic impact was not as bad as feared and therefore the loan was not required.
 - b) The impact of the Rates Holiday Borrowing should have been communicated better to ratepayers as many ratepayers have conveyed to Councillors that if they knew the impact of the Rates Holiday Borrowing on their rates they would have accepted a higher increase in the FY21 year instead of taking the Rates Holiday Borrowing.
 - c) The communications after the discovery of the Miscommunication could have been more timely and conveyed more clearly to ratepayers.

Controller and Auditor General Recommendations:

The observations from Controller and Auditor General from auditing the LTP consultation documents for all territorial authorities provides the following observations for lessons learned.

Section 2.18

Most councils use the "sample rates information" contained in the consultation document to give individual ratepayers an indication of the size of the increase they will face in their rates. For this to work well, councils need to include all rates a ratepayer might face. We recognise that this can be challenging, particularly where councils have many different rates. Online rates calculators can be used to address this challenge (see paragraph 2.42).

Therefore, we encourage councils, when they are preparing their consultation documents, to take due care in ensuring that the proposed rates increases disclosed are accurate.

Section 2.21

There is a high public interest in rates and rates increases. Therefore, we encourage councils, when they are preparing their consultation documents, to take due care in ensuring that the proposed rates increases disclosed are accurate.

SCOPE ITEM 5

Future Recommendations

Question 5: Make recommendations on what Council could do differently in the future, to ensure such miscommunication does not occur again

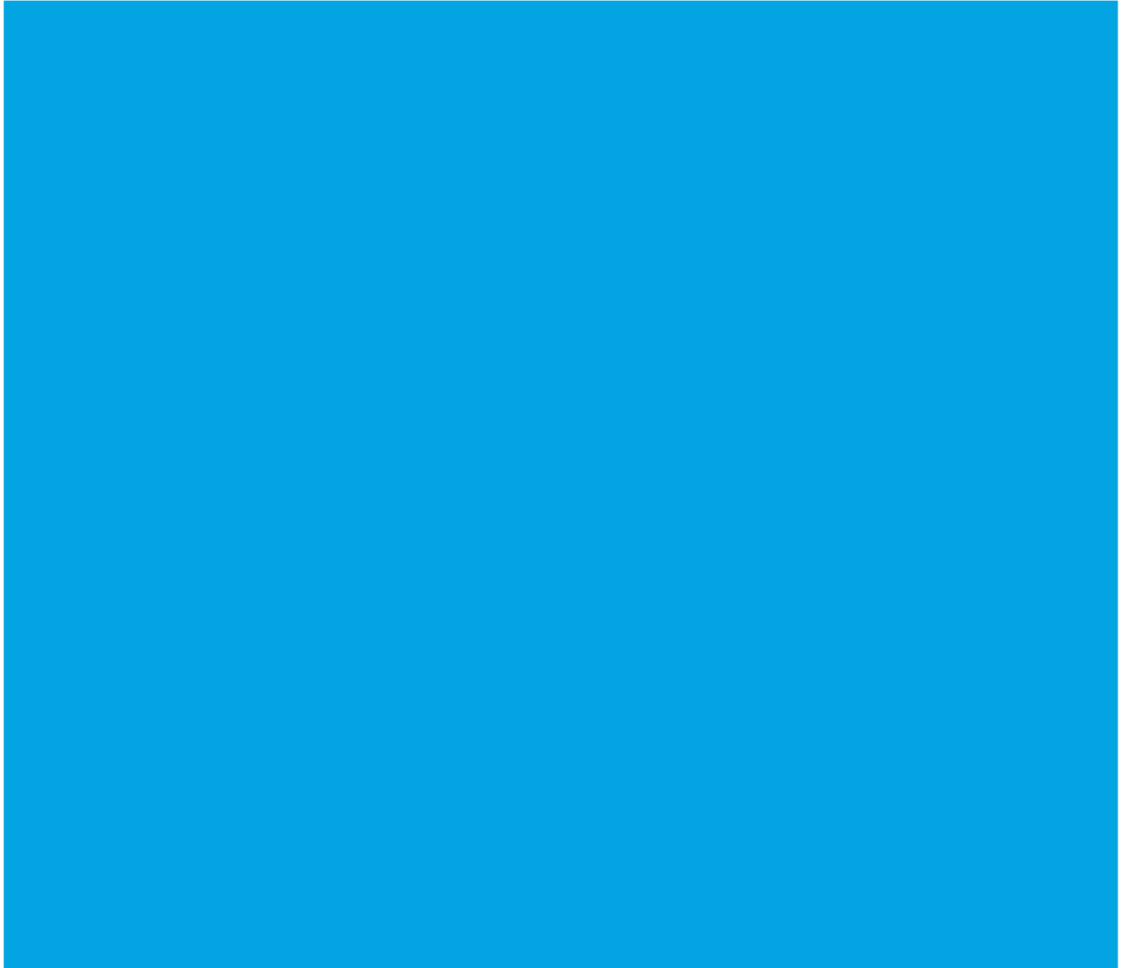
BDO Recommendations:

1. As indicated in our interviews, the Councillors and Officers noted they have learned how quickly trust can be damaged with the ratepayers. SWDC needs to take action to rebuild the confidence of the ratepayers. This will require open, honest and authentic communication with the ratepayers moving forward.
2. Rates calculator - other territorial authorities have a rates calculator on their website that allows ratepayers to enter their property values and calculate what the changes to rates will be. This facilitates earlier engagement around significant changes. We understand SWDC has implemented a rates calculator for the engagement process on the 2022/23 AP.
3. Where decisions of Council have a longer-term impact than the 12 months in question in an AP a register of these decisions should be kept and referred to in the next planning process round (whether it be an AP or LTP). This will facilitate Officers and then Councillors being aware and ensuring transparency around these decisions and then the assumptions applied in future financial modelling
4. When SWDC engages new projects consideration should be given as to whether the team has the capacity to undertake the project alongside business as usual. The overall SWDC team is very lean for a territorial authority who needs to produce the same number of documents as much larger territorial authorities. The Councillors and CEO need to be conscious of the number of projects staff are asked to engage in and the impact this could have on the quality of the work being delivered.
5. Engage an external peer reviewer for the AP and LTP processes who is not involved in the preparation of the documents. Whilst the officers involved in the preparation should have the necessary skills for the processes (due to them being a part of their job descriptions), an independent view point can assist the preparation process. We understand SWDC has already undertaken this process by engaging Philip Jones, who we understand from Councillors is an expert in financial strategy, management, and governance in local authorities.
6. SWDC should look to engage with interested members of the community as "sanity" checks for the AP and LTP process. As was evidenced by the detailed and articulated feedback received to the FY22 rates increase there are ratepayers in the district who have valid contributions to make. SWDC should look to engage with these ratepayers as a part of the planning process to seek learned feedback.
7. SWDC should look to create a culture of listening to ratepayers and engaging with those who have valid, well articulated points on matters before the Council.
8. We recommend SWDC reviews its communication strategy for matters such as the Miscommunication. It took over four weeks for the first public communication to be made following the setting of the FY22 rates (noting this communication was light on detail), and over two months for a more detailed explanation to be distributed. This is likely to be too long in such emotionally charged situations. Communication on these sort of matters needs to be timely, accurate, and let the ratepayers know what is being done (or when you will be able to let them know some options).



SECTION 1

APPENDICES



APPENDIX A

Disclaimer

This report was prepared on SWDC's specific instruction to conduct an independent inquiry to understand and inform the public on 'lessons learned' from the 2021 rates setting process.

This report is not issued for any purpose other than to, on the balance of probabilities, establish what occurred in relation to the Miscommunication. It is not intended for general circulation or publication. Neither the whole nor any part of this memorandum, nor any reference thereto, may be included in any other document without our prior written permission in each specific instance. For clarity, this includes any requests under the Local Government Official Information and Meetings Act 1987.

We assume no responsibility or liability for losses to any other party as a result of the circulation, publication, reproduction or use of our report or extracts from it contrary to the provisions of this paragraph. Neither will we have liability to any other persons who may seek to rely on the opinions we express.

We have evaluated information through analysis, enquiry and examination for the purposes of preparing this report, we have not verified the accuracy or completeness of any of the information. Accordingly, we cannot accept any responsibility for the consequences of errors or omissions contained therein. We do not imply, and it should not be construed, that we have carried out any form of audit or due diligence on the financial or other records listed in the Appendices and nor do we express any opinion on this information.

The opinions recorded in this report are expressed at the date of this report.

We reserve the right, but not the obligation, to review all opinions included or referred to in this report and, if we consider it necessary, to revise our opinion in the light of any information existing at the date of this report which become known to us after.



APPENDIX B

Terms of Reference

Inquiry to understand and inform the public on lessons learned from the 2021 rates setting.

Terms of Reference – April 2022

1. BACKGROUND

- 1.0 → In early 2021, South Wairarapa District Council (The Council) consulted with the community on its Long Term Plan (LTP).
- 1.1 → As part of the LTP consultation, Council produced a Consultation Document. The Consultation Document communicated that Council needed to address historic underspend, which had seen a decline in the condition of many of its assets, including water, roading, buildings and amenities.
- 1.2 → The Consultation Document indicated that Council needed to collect an extra 17.9% in rates. It was this figure which Council communicated to its community and the figure that was discussed with the community throughout the consultation process.
- 1.3 → Council began to receive informal feedback that the rating impact may be higher than what had been explained in the LTP, but this was attributed to a three-yearly revaluation of properties in the district. The explanation that the rates increase was driven by the three-yearly revaluation of properties in the district was provided to Councillors in a councillor-only workshop in August 2020.
- 1.4 → On 11 August 2021, Council's auditors identified that the rates increase was driven by something other than the revaluation of properties. Council's auditors considered that the ratings increase was driven by the impact of a rates holiday from 2020.
- 1.5 → It subsequently became apparent that Council required a rates increase of 29%, and ratepayers have been charged at this higher level, which is not in line with the increase set out in the Consultation Document. Council understood that the 17.9% figure referred to in the Consultation Document did not adequately reflect Council borrowing of \$1.5m in 2020, which was used to fund a revenue shortfall and reduce the average rates increase for all ratepayers that year. The borrowing has been described as providing a "rates holiday" for ratepayers in the 2020 year, but would need to be repaid subsequently.
- 1.6 → In summary, Council consulted on a rates increase of 17.9%. Ratepayers have, however, been charged at a level which reflects a 29% increase in rates. It appears that the "rates holiday" borrowing was not adequately referred to, or otherwise explained sufficiently in the Consultation Document.
- 1.7 → The Mayor was advised of the issue on Wednesday 11th August and Councillors were advised on Sunday 15th August 2021.
- 1.8 → As a result, Council, Councillors and members of staff have experienced significant backlash from members of the community about the disconnect between the rates increase Council consulted on, and the actual rates increases it imposed when the LTP was adopted.

- 1.9 → Council has subsequently apologised to the community for not fully explaining the impact of the 2020/21 rates holiday, and the impact it has had on individual ratepayers. Council prepared a communication plan, which included an "advertorial", to inform the community about what had happened. The advertorial was produced in consultation with Council's auditors and legal advisors.
 - 1.10 → It has become clear that Council's reputation has been damaged as a result of these events, and that steps need to be taken to rebuild trust and confidence.
 - 1.11 → Council has requested the Chief Executive enable an independent inquiry, to understand and inform the public on 'lessons learned' from the 2021 rates setting.
 - 1.12 → Council anticipates that the person conducting the inquiry will speak with the Chief Executive Officer and the Chief Financial Officer in the first instance. Other parties may include the General Manager, Policy & Governance, the Finance Manager and Audit New Zealand. An external person will be appointed to conduct the inquiry.
- #### 2. PURPOSE AND SCOPE
- 2.1 → The purpose and scope of this inquiry is to, on the balance of probabilities, establish what occurred, and:
 - 2.1.1 → provide a review on how the Miscommunication came about and what factors lead to it.
 - 2.1.2 → provide an opinion on whether the Consultation Document was fit for purpose, and adequately reflected the rates increase Council required.
 - 2.1.3 → provide an assessment of whether the Rates Holiday borrowing was communicated appropriately.
 - 2.1.4 → Advise how the Miscommunication occurred and what lessons Council could learn.
 - 2.1.5 → Make recommendations on what Council could do differently in the future, to ensure such miscommunication does not occur again.
 - 2.2 → The person conducting the inquiry will not comment on any matters outside of these terms of reference, including (but not limited to):
 - 2.2.1 → Whether or not disciplinary action is or may be appropriate and/or the nature of any potential disciplinary action.
- #### 3. APPOINTMENT OF PERSON TO UNDERTAKE INQUIRY
- 3.1 → Aaron Titter, Partner, BDO, has been appointed by Council to undertake the inquiry into the matters set out in this terms of reference.
 - 3.2 → The contact person within Council for making arrangements and accessing documents will be Paul Gardner, General Manager HR and Corporate Services.



APPENDIX B

Terms of Reference

3.3	⇒ In the event the person conducting the inquiry identifies any potential or actual conflicts of interest during the course of the inquiry, he must immediately cease the inquiry, disclose the actual or potential conflict, and seek instructions from Council as soon as is practicable. ¶
4.	⇒ APPROACH ¶
4.1	⇒ The person appointed will undertake the inquiry in accordance with these Terms of Reference. --¶
4.2	⇒ The person undertaking the inquiry will ensure that fairness to all parties is observed throughout the inquiry and that the principles of natural justice are complied with. ¶
4.3	⇒ All parties must be given a fair opportunity to provide any information to the inquiry they think is relevant. It will be for the person conducting the inquiry alone to determine the relevance and weight to be given to the information with which he is provided. ¶
5.	⇒ REPORTING ¶
5.1	⇒ The person conducting the inquiry will provide a written report in relation to the matters covered by the scope of the terms of reference. The report is to be provided to the Chief Executive in the first instance. --¶
5.2	⇒ Interviewees will be advised that any information they provide may be appended to, and used in, the Reviewer's report, and may otherwise be put to other interviewees/witnesses for comment. --¶
6.	⇒ WITNESSES AND INTERVIEWS ¶
6.1	⇒ The person conducting the inquiry will interview those he considers relevant to the inquiry, at his discretion. ¶
6.2	⇒ Interviewees must keep the content of the interview (including questions asked and answers given) confidential, and may not discuss it with other employees, without first seeking the agreement of the person conducting the inquiry. ¶
6.3	⇒ As a matter of fairness, there will be no "off the record" discussions between witnesses and the person undertaking the inquiry. ¶
6.4	⇒ All interviewees will have the right to attend the interview with a support person and/or representative. However: ¶
	⇒ This person must not be a person who is otherwise involved in the <u>inquiry</u> . ¶
	⇒ They must agree to treat the information received as confidential. ¶
7.	⇒ DOCUMENTS ¶
7.1	⇒ The person conducting the inquiry will be provided with relevant documentation relating to the scope of the inquiry. ¶
7.2	⇒ The following documentation is attached, to assist the inquiry. ¶

Appendix 1	⇒ Consultation Document ¶
Appendix 2	⇒ Explanation of the Rates Increase From Your Council ¶
8.	⇒ TIMEFRAMES ¶
8.0	⇒ The inquiry report is to be submitted no later than Monday 9 May 2022, unless there are reasons that are beyond the control of the person appointed to undertake the inquiry. Any extension to timelines must be discussed with the Chief Executive as soon as reasonably possible. --¶
	Authorised by: ¶
	 ¶
	Harry Wilson ¶
	Chief Executive Officer ¶



APPENDIX C

Interviewees

Date	Interviewee
5 May 2022 - in person	<ul style="list-style-type: none">▶ Sheil Priest (General Manager Communications & Engagement)▶ Amanda Bradley (General Manager Policy & Governance)▶ Mayor Alex Beijen▶ Councillor Leigh Hay
9 May 2022 - via Microsoft Teams	<ul style="list-style-type: none">▶ Katrina Neems (previous CFO)
17 May 2022 - via Microsoft Teams	<ul style="list-style-type: none">▶ Councillor Brenda West▶ Councillor Alistair Plimmer▶ Councillor Pip Maynard
19 May 2022 - in person	<ul style="list-style-type: none">▶ Harry Wilson (CEO)▶ Councillor Rebecca Fox▶ Councillor Pam Colenso▶ Councillor Garrick Emms▶ Councillor Brian Jephson
20 May 2022 - via Microsoft Teams	<ul style="list-style-type: none">▶ Karen Yates (previous General Manager Policy & Governance)
20 May 2022 - in person	<ul style="list-style-type: none">▶ John Whittal and Laura Cannon (Audit NZ)

APPENDIX D

Information Provided/Obtained

- ▶ LTP Consultation Document
- ▶ 2020/21 AP and consultation document
- ▶ 2021/31 LTP
- ▶ Excerpts from the LGA02
- ▶ SWDC Code of Conduct dated 15 December 2021
- ▶ Correspondence with Katrina Neems (previous CFO)
- ▶ Correspondence with Charly Clarke (SWDC Finance Manager)
- ▶ Explanation of Rates Increase from your Council dated 3 September 2021
- ▶ Presentation slides from the public meetings on 2, 8, and 11 November 2021
- ▶ FY21 annual report of SWDC
- ▶ Report of the Controller and Auditor-General titled “Consulting matters: Observations on the 2021-31 consultation documents” dated December 2021
- ▶ Minutes from the following Council meetings:
 - 22 April 2020
 - 17 June 2020
 - 30 June 2020
 - 30 March 2021
 - 30 June 2021
 - 28 July 2021
 - 27 October 2021
 - 17 November 2021



FOR MORE INFORMATION:

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