

22 April 2022

Levi Gibbs  
New Zealand Taxpayers' Union

s7(2)(a)

Tēnā koe Levi

**Request for Information – Local Government Official Information and Meetings Act (LGOIMA) 1987**

We refer to your official information request dated 23 March 2022 for budget information. Specifically, you have requested the following information:

1. *Provide the Total Comprehensive Revenue & Expenses as reported in your 2021 published financial statements and reconcile this figure to your balanced budget obligation under s100 of the Local Government Act, identifying each of the following adjustment items (if applicable) in your reconciliation:*
  - a) *Capital subsidies (eg NZTA/Waka Kotahi)*
  - b) *Asset revaluations*
  - c) *Asset write-offs*
  - d) *Depreciation*
  - e) *Development contributions*
  - f) *Changes in the mark-to-market value of financial instruments*
  - g) *Gains or losses on the disposal or sale of assets*
  - h) *Assets vested or gifted to the Council*
  - i) *Operating subsidies (eg from NZTA/Waka Kotahi)*
  - j) *Other (please specify)*
2. *If your Council's methodology for calculating the balanced budget requirement (having given regard to both subsections (1) and (2) of section 100 of the Local Government Act) excludes revenue from any of the following:*
  - *Capital subsidies*
  - *Vested assets*
  - *Asset revaluations*

*then please state whether the depreciation expense on the asset values generated by these revenue items is similarly excluded. If it is not similarly excluded, please explain how this anomaly is justified to ratepayers in setting the level of rates to be charged.*
3. *State the Council's current financial strategy target for the balanced budget requirement.*
4. *For each of the years in the Council's current Long-term Plan state the budgeted performance against the s100 LGA balanced budget requirement.*
5. *For each of the last five years' annual reports state your Council's actual balanced budget result and the Total Comprehensive Revenue & Expenses.*
6. *For any of the last five years' actual results where the s100 LGA balanced budget requirement as calculated by Council has not been achieved, provide Council's explanation for that non-achievement.*
7. *In the ten forecast years in the current Long-Term Plan, where the s100 LGA balanced budget requirement as calculated by Council is budgeted to not be achieved, provide Council's explanation for that budgeted non-achievement in terms of s100(2) of the LGA.*

The information you have requested from Hutt City Council (the Council) is provided below.

**Provide the Total Comprehensive Revenue & Expenses as reported in your 2021 published financial statements and reconcile this figure to your balanced budget obligation under s100 of the Local Government Act, identifying each of the following adjustment items (if applicable) in your reconciliation:**

- a) Capital subsidies (eg NZTA/Waka Kotahi)**
- b) Asset revaluations**
- c) Asset write-offs**
- d) Depreciation**
- e) Development contributions**
- f) Changes in the mark-to-market value of financial instruments**
- g) Gains or losses on the disposal or sale of assets**
- h) Assets vested or gifted to the Council**
- i) Operating subsidies (eg from NZTA/Waka Kotahi)**
- j) Other (please specify)**

For reporting of the balanced budget benchmark in line with the Local Government (Financial Reporting and Prudence) Regulations 2014, I refer you to page 209 of our 2020/21 Annual Report. I refer you to:

<https://hccpublicdocs.azurewebsites.net/api/download/f5851bd0c5504c249e193eae900e01f5/AR2020-21/ced7362732010824978b6b6a98a2416a589>

The Council's interpretation of s100 (balanced budget requirement) of the Local Government Act 2002 (LGA) used in our preparation of the 2020/21 Annual Plan and included in the Financial Strategy in our Long-term Plan 2021-2031 (LTP), expands the calculation required in the Local Government (Financial Reporting and Prudence) Regulations 2014 so that it more clearly aligns with the provisions of s100 of the LGA.

It is important to note that this interpretation does not replace reporting in line with the Local Government (Financial Reporting and Prudence) Regulations 2014 but is instead, in addition to it. It provides an additional consideration in the development of the Financial Strategy.

The LGA (s100) requires that a local authority must ensure that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses. Therefore, the Council's balanced budget target is defined as the Local Government (Financial Reporting and Prudence) Regulations 2014 definition, modified to exclude from the definition of revenue Waka Kotahi's Capital improvement subsidies (not renewals) and central government COVID-19 Response and Recovery co-funding for Naenae Pool and Tupua Horo Nuku/Eastern Bays Shared Path. These exclusions remove revenue that is for investment in capital improvement projects (or new capital investment) and therefore it is not considered operating in nature and does not contribute towards the costs of operating expenses.

The modifications to the balanced budget calculation have been made to support long-term financial prudence of Council decision-making. The modified balanced budget allows better understanding of long-term financial sustainability and therefore promotes improved long-term planning and decision-making.

The calculation for the Council's balanced budget for the 2020/21 year is as follows. There were no items of comprehensive revenue and expense in the 2021 year.

	<b>\$000</b>
Total revenue	205,560
Less NZTA capital improvement subsidies	(7,665)
Less COVID 19 Response and Recovery co-funding	-
Less Development and Financial Contributions	(1,378)
Less Vested Assets	(2,170)
Less: Gains on disposal	(3)
Less: Gains on derivatives	(13,698)
<b>Net Operating Revenue</b>	<b>180,646</b>
<b>Less: Total operating expenses</b>	<b>188,982</b>
<b>Balanced budget result (as per definition detailed above)</b>	<b>(8,336)</b>

The year-end result was an improved result compared to the budget. This was largely due to higher user charges of \$7.8M received for the year together with delayed capital investment resulting in reduced depreciation charge of \$2.9M, reduced interest costs of \$0.8M and delayed operating projects which were deferred to the next financial year.

**If your Council's methodology for calculating the balanced budget requirement (having given regard to both subsections (1) and (2) of section 100 of the Local Government Act) excludes revenue from any of the following:**

- **Capital subsidies**
- **Vested assets**
- **Asset revaluations**

**then please state whether the depreciation expense on the asset values generated by these revenue items is similarly excluded. If it is not similarly excluded, please explain how this anomaly is justified to ratepayers in setting the level of rates to be charged.**

The exclusion of vested assets and asset revaluations is required in calculating the balanced budget benchmark by the Local Government (Financial Reporting and Prudence) Regulations 2014, as they are not operating revenue and do not contribute to covering the cost of operating expenditure.

Subsidies for capital improvements (not renewals) are excluded in the Council's calculation as this revenue by nature is not an operating revenue. The LGA (s100) requires that a local authority must ensure that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses. Capital improvement subsidies are directly for new and improved assets and therefore do not fund operating expenses.

The LTP includes several significant capital improvement projects, such as the Cross Valley Transport Connections (\$199M), Naenae pool (\$68M) or the cycling and micro mobility program (\$67M), which are subject to the receipt of capital subsidies and grants. As these related subsidies and grants are for capital improvement costs and do not contribute (or fund) the city's operating costs, it is not considered financially prudent to include them as revenue in the Council's balanced budget calculations and related decision-making processes.

**State the Council's current financial strategy target for the balanced budget requirement.**

The Council's current financial strategy target is to achieve a balanced budget by the 2028/29 financial year.

The balanced budget result reflects financial strategy decisions made by the Council as part of the preparation of the Long-term Plan. The decisions included balancing the Council's long-term financial sustainability with short-term affordability considerations. The Council considered a range of options balancing key investment decisions with changes to fees and a range of rates increase options.

For key council decisions, refer to the agenda papers listed below.

- For the draft LTP  
[http://infocouncil.huttcity.govt.nz/Open/2020/12/LTPAP\\_21122020\\_AGN\\_2864\\_AT.PDF](http://infocouncil.huttcity.govt.nz/Open/2020/12/LTPAP_21122020_AGN_2864_AT.PDF)
- For review following consultation 24 May 2021  
[http://infocouncil.huttcity.govt.nz/Open/2021/05/LTPAP\\_24052021\\_AGN\\_2978\\_AT.PDF](http://infocouncil.huttcity.govt.nz/Open/2021/05/LTPAP_24052021_AGN_2978_AT.PDF)
- Further decisions following consultation 9 June 2021  
[http://infocouncil.huttcity.govt.nz/Open/2021/05/LTPAP\\_24052021\\_AGN\\_2978\\_AT.PDF](http://infocouncil.huttcity.govt.nz/Open/2021/05/LTPAP_24052021_AGN_2978_AT.PDF)
- Council decisions 30 June 2021  
[http://infocouncil.huttcity.govt.nz/Open/2021/06/HCC\\_30062021\\_AGN\\_2954\\_AT.PDF](http://infocouncil.huttcity.govt.nz/Open/2021/06/HCC_30062021_AGN_2954_AT.PDF)

Of particular note is the Council's decision of 30 June 2021 when the LTP was being adopted and the Council was required to pass a resolution as follows:

*“ resolves that it is financially prudent to have an unbalanced budget until 2028/29 as detailed in Section E”;*

Below is an extract of the report which is particularly relevant to the questions in this LGOIMA (refer page 36 of the Council agenda).

*“Section E - Balanced budget requirement and financial prudence*

*22. Sections 100 and 101 of the Local Government Act 2002 (LGA) are the relevant legislation to be considered. The overarching requirement in this legislation is to act prudently and in a manner that promotes the current and future interests of the community.*

*23. Financial prudence is not defined in the Act. In the standard dictionary sense prudence means ‘careful’, ‘sensible’, or ‘habit of acting with careful deliberation’.*

*24. Council has considered the legislative requirement for a balanced budget and financial prudence a number of times in the preparation of the draft LTP and ahead of finalising decisions for the LTP. Factoring in the economic environment as a result of COVID-19 and affordability of rates has been front of mind in these decisions.*

*25. In deciding on the LTP investment programme and the rates revenue settings, Council has worked to find a pragmatic response aiming to take into consideration the pressures on current ratepayers and ensuring the Council remains financially sustainable into the future, whereby the actions of today do not significantly impact unfairly on ratepayers in the future.*

26. The financial projections included in the LTP show:

- A projected underlying net operating deficit in 2021/22 of \$14.7M,
- A balanced budget projected to be achieved in 2028/29 (refer graph 2),
- Net debt is projected to peak at \$573M in 2028/29,
- Net debt to revenue peaks at 191%, which is within the financial strategy limit of 250% (refer graph 3).

27. The rates revenue decisions included in the LTP (refer paragraph 18), are a key driver of the balanced budget being achieved in 2028/29. Graph 2 shows this projected balanced budget position over the period of the LTP, whilst graph 3 shows the projected net debt to revenue ratio is retained well within the limit of 250% throughout the period of the LTP.

28. Officer advice is that Council can resolve that it is financially prudent to have an unbalanced budget until 2028/29, as revenues are increasing over the ten year period of the LTP and repayment of the debt is occurring so as avoid a significant impact on future ratepayers. The projected balanced budget position does not impact on the Council’s ability to maintain its levels of service, undertake asset renewals and is consistent with the Revenue and Financing Policy.”

**For each of the years in the Council’s current Long-term Plan state the budgeted performance against the s100 LGA balanced budget requirement.**

2022 \$M	2023 \$M	2024 \$M	2025 \$M	2026 \$M	2027 \$M	2028 \$M	2029 \$M	2030 \$M	2031 \$M
(14.74)	(24.63)	(16.13)	(15.69)	(12.99)	(11.22)	(4.69)	2.21	9.01	23.89

Note: This is based on the HCC calculation methodology described above.

Note also that the LTP includes ‘prudence reporting’ on page 160, which is the reporting on the benchmarks by the Local Government (Financial Reporting and Prudence) Regulations 2014. I refer you to the following link:

[440b9c5218195f094ac08eb9119955a5ee0b \(hccpublicdocs.azurewebsites.net\)](https://www.hccpublicdocs.azurewebsites.net/440b9c5218195f094ac08eb9119955a5ee0b)

**For each of the last five years’ annual reports state your Council’s actual balanced budget result and the Total Comprehensive Revenue & Expenses.**

Year	2017 \$M	2018 \$M	2019 \$M	2020 \$M	2021 \$M
Surplus/(Deficit)	1.0	(11.2)	(17.9)	(21.5)	16.6
Gain/(losses) on property revaluations	0	69.8	(9.4)	69.0	0
Comprehensive Revenue and Expense	1.0	58.6	(27.3)	47.5	16.6
HCC Balanced budget	(8.6)	(14.2)	(18.1)	(16.5)	(8.3)

The surplus/deficit and gains and losses on fixed assets resulting from revaluations have been included as a reference. By their nature as fair value adjustments, gains and losses on fixed assets resulting from revaluations on fixed assets are not a funding source for Council expenditure.

Note the balanced budget result has been calculated consistent with the balanced budget approach in the LTP. As noted above, the Council's target is modified, to exclude from the definition of revenue Waka Kotahi's Capital improvement subsidies and central government COVID-19 Response and Recovery co-funding for Naenae Pool and Tupua Horo Nuku. These exclusions remove revenue that is for investment in capital improvement projects (new assets); it is not considered operating in nature and does not contribute towards the costs of operating expenses.

**For any of the last five years' actual results where the s100 LGA balanced budget requirement as calculated by Council has not been achieved, provide Council's explanation for that non-achievement.**

The results reflect the Council's decisions made in individual years and the operating variances across the Council in those years. For full details, I refer you to relevant Annual Plans/Long-term Plans and Annual Reports for each year. These can be found through the following link: [www.huttcity.govt.nz/council/annual-plans-and-publications](http://www.huttcity.govt.nz/council/annual-plans-and-publications)

**In the ten forecast years in the current Long-Term Plan, where the s100 LGA balanced budget requirement as calculated by Council is budgeted to not be achieved, provide Council's explanation for that budgeted non-achievement in terms of s100(2) of the LGA.**

The balanced budget result reflects financial strategy decisions made by the Council as part of the preparation of the LTP - such as increased funding to support a wide range of cost pressures and Council decisions regarding the affordability of rates increases (with the associated phasing of increases over the medium- to long-term).

The LTP cost pressures included a \$1M pa increase for bulk water costs, a \$5.1M increase for the District Plan review, \$0.56M pa for homelessness prevention, as well as providing for capital investment such as a \$331M investment in the Three Waters asset renewals. They also include \$199M for the Cross Valley Transport Connections, \$68M for the rebuild of Naenae Pool, and \$138M for RiverLink.

I refer you to our response to your second point for further details on matters considered by the Council in relation to the timeline to achieve a balanced budget and also the extract of the Council report of 30 June 2021.

For key council decisions:

- For the draft LTP, refer to:  
[http://infocouncil.huttcity.govt.nz/Open/2020/12/LTPAP\\_21122020\\_AGN\\_2864\\_AT.PD](http://infocouncil.huttcity.govt.nz/Open/2020/12/LTPAP_21122020_AGN_2864_AT.PD)  
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- For review following consultation, refer to:  
[http://infocouncil.huttcity.govt.nz/Open/2021/05/LTPAP\\_24052021\\_AGN\\_2978\\_AT.PD](http://infocouncil.huttcity.govt.nz/Open/2021/05/LTPAP_24052021_AGN_2978_AT.PD)  
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The Council's financial strategy can be found in the LTP at:

[https://hccpublicdocs.azurewebsites.net/api/download/f5851bd0c5504c249e193eae900e01f5/\\_minorproj/440b9c5218195f094ac08eb9119955a5ee0b](https://hccpublicdocs.azurewebsites.net/api/download/f5851bd0c5504c249e193eae900e01f5/_minorproj/440b9c5218195f094ac08eb9119955a5ee0b)

You have the right to seek an investigation and review by the Ombudsman of this response. Information about how to make a complaint is available at [www.ombudsman.parliament.nz](http://www.ombudsman.parliament.nz) or freephone 0800 802 602.

Please note that this letter may be published on the Council's website.

Nāku noa, nā



Susan Sales

**Senior Advisor, Official Information and Privacy**