

Council meeting 18 March

Draft Annual Plan 2020/21 and LTP amendment



Sustainable financial management

Community Outcomes

Investment priorities

Growth pressure

Historical underinvestment

Demand for improved services

Maintaining assets and services levels

Acceptable costs

Rates increases

Fee levels

Intergenerational equity

Sustainable borrowings

Balanced budget

Value for Money



Legislative requirement: Prudent financial management

Overview of the process

Dates	Activity
10 December 2019	Council adopted key budget assumptions and provided guidance on a number of budget matters
December & January	Officers preparation and review of budgets
11 February 2020	Council final decisions on budget and consultation matters ahead of external audit
18 March 2020	Outcome of external audit. Council adopts the LTP amendment Consultation Document and underlying info.
6 April to 7 May 2020	Public consultation
13-14 May 2020	Council meet to consider feedback from public consultation
10 June 2020	Council final decisions ahead setting the rates
30 June 2020	Council adopt Annual Plan and LTP amendments, set rates

Capital investment \$814M over next 10 years

\$185M or 29% higher than LTP 2018-2028

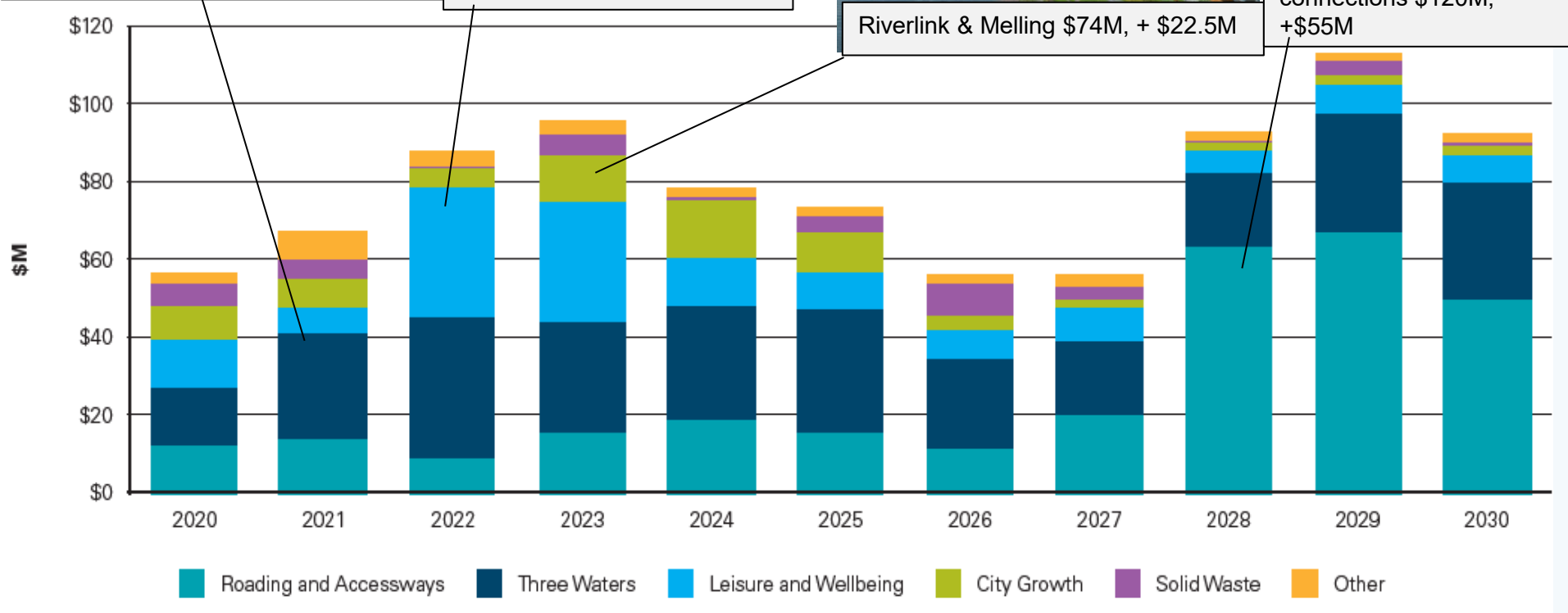


Three Waters \$272M, +\$47M

Naenae pool \$54M, +\$43M

Riverlink & Melling \$74M, + \$22.5M

Cross Valley transport connections \$120M, +\$55M



Operational expenditure

Over 10 years \$136M higher than LTP

Cost increases 2020/21

- Development stimulus package \$4.2M
- Three Waters \$1.8M
- District Plan review \$1.2M
- Solid Waste \$1.3M
- Hutt Valley Tennis \$0.5M, GymSports \$0.5M
- Insurance \$0.4M,
- Depreciation \$3.3M

NB – LTP 2021-2031 LTP includes review of key strategies and priorities

What are my rates spent on now?

For every \$100 you pay in rates, we spend:



We receive \$4.90 of credit from the landfill. This helps to offset the total cost and is reflected in the figures above.

Council decisions to-date to reduce budgets

Opex

- Targeted savings programme \$1M
- Gymsports \$1.5M
- Hutt Valley Tennis \$850k *focus area for DAP feedback*
- Regional Amenities Fund \$200k
- Community funding \$100k
- International co-operating cities \$45k p.a.
- Biodiversity assistance \$65k p.a.
- Suburban Shopping Centre \$50k p.a.

Capex

- Wainuiomata Sportsville \$2.7M
- Wainuiomata Hub \$3.7M



NB – LTP 2021-2031 LTP will include a full base budget review

Three waters investment

Planning for renewal of ageing infrastructure and growing city



Wellington Water January 2020 report

~\$30M increase in opex over 10 years to improve maintenance of existing infrastructure and allow for robust planning.

~\$240M increase in capex over 10 years for renewals and to meet new demands.

NB – Awaiting further advice to inform LTP 2021-2031

Action taken by HCC in preparation of Draft Annual Plan 2020/21

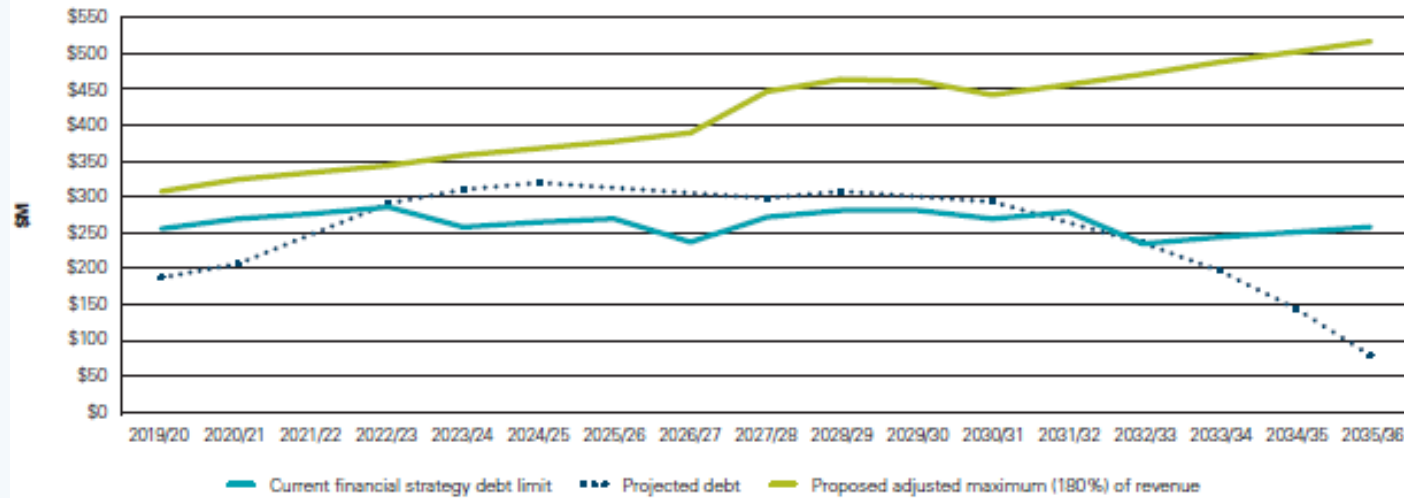
- WS \$10.7M capex over 10 years for reservoirs to support growth and seismic strengthening
- \$200k p.a. to fix water supply leaks
- WW \$23M capex over 10 ten years for Petone Collector Main and Outfall pipeline overflow mitigation
- \$2M renewals to fast track construction of key renewals for pipes in poor condition, as well as renewing a number of critical WW pumps
- Opex \$250k p.a. infiltration issues with WW network
- \$200k for critical asset condition assessment.

Financial strategy – debt management

Projected debt

LTP had net debt peaking at \$228M

With budget changes projected debt would increase to \$441M, \$213M higher than LTP, debt to revenue ratio of 193%



Proposed rates revenue changes result in revised projected net debt of \$321M and debt to revenue ratio of 157%.

Projected debt to revenue limit

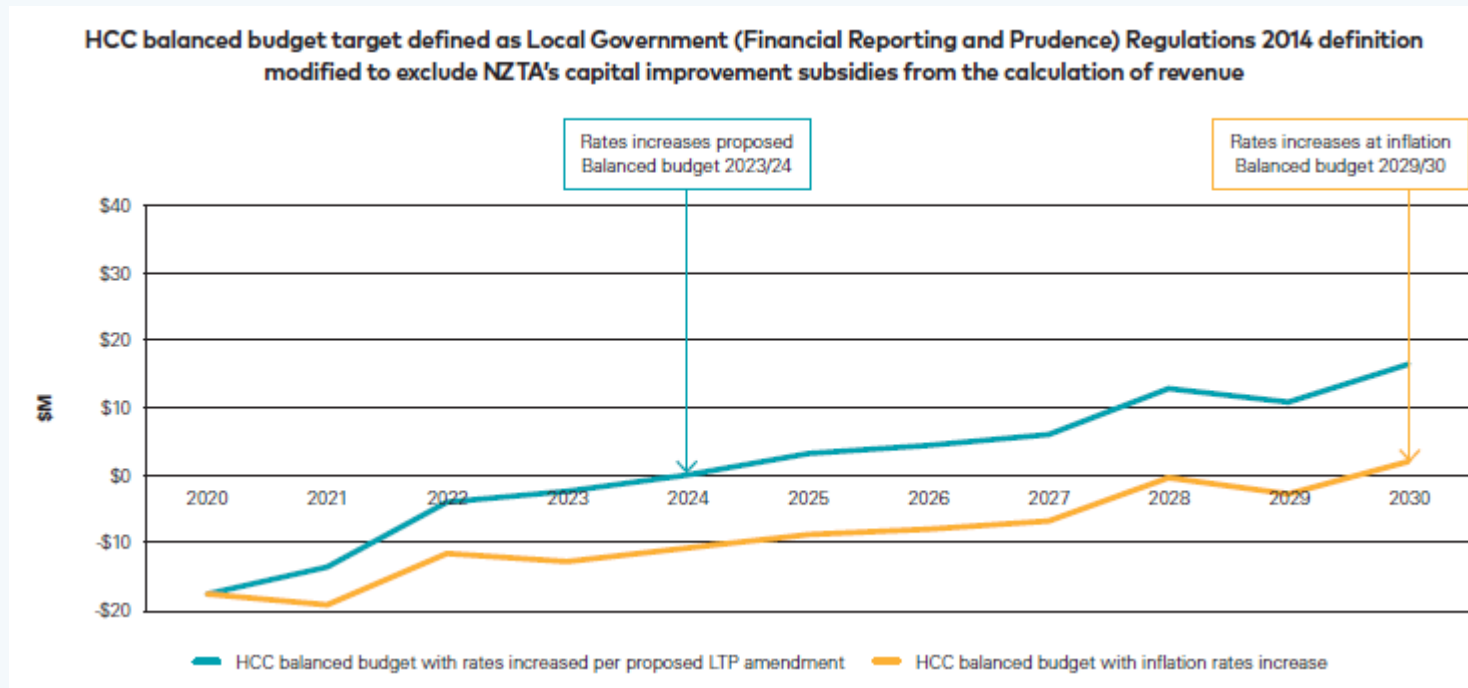


NB – LTP 2021-2031 LTP will include a review of Financial Strategy

Interest to revenue ratio

Limit of 10%. Projected peak well within this limit at 6%

Financial strategy – balanced budget



Checking whether operating revenues are sufficient to meet operating expenditure.

Increases to operating expenditure budgets result in a projected deficit until 2029/30

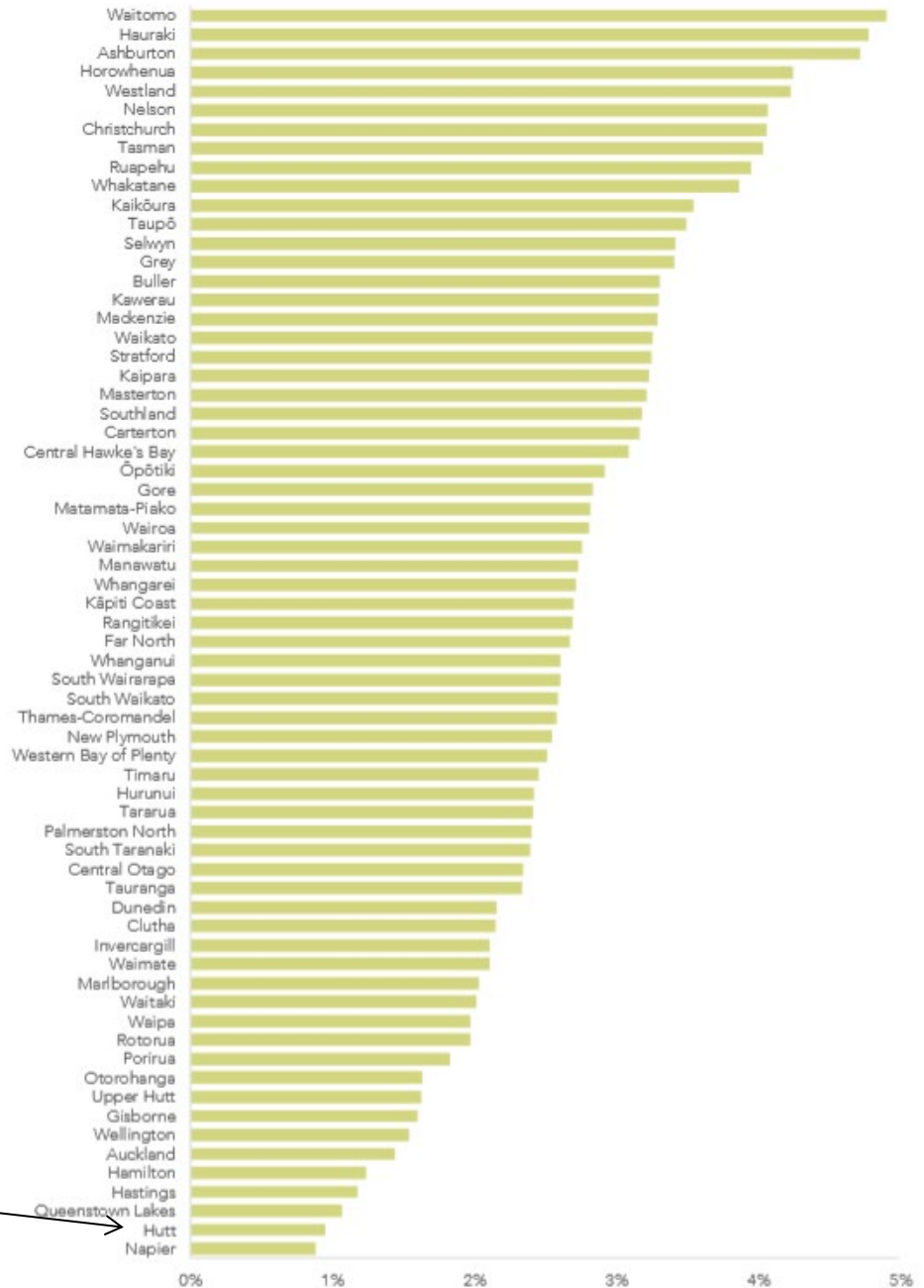
Proposed rates revenue changes result in revised projected deficit until 2023/24.

HCC Balanced Budget definition which is the Local Government (Financial Reporting and Prudence) Regulations 2014 definition for the balanced budget benchmark (Clause 19) *[Council Revenue excluding development contributions, vested assets, gains on derivatives and revaluations of property, plant and equipment...and operating expenses excluding losses on derivatives and revaluations of property, plant and equipment]* modified to exclude the NZTA “ring fenced” capital subsidies for capital improvement works from revenue.

Rates revenue

Productivity Commission
Report – Average yearly
growth in rates per person
2000 to 2018

Figure 3-2 Average yearly growth in rates per person across territorial authorities, 2000-2018



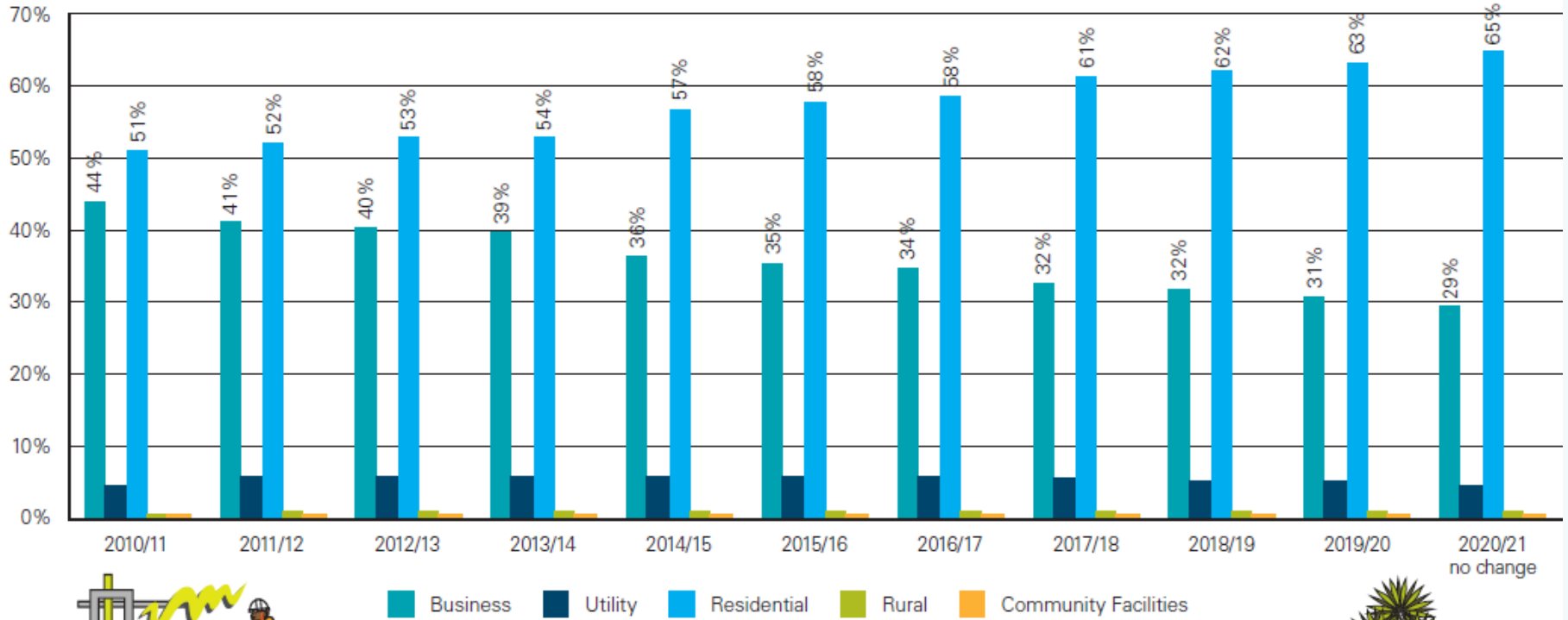
Hutt City Council is at the
very lowest end – one up
from Napier

Source: Stats NZ (2019a, 2019d).

Rating policy

Residential share of general rates pie 51% in 2010/11 and 65% in 2020/21. Original target was 60%

This graph shows the change over the last ten years in the allocation of rates charges between property rating categories



Preferred option for consultation - retain the percentage based on the 2019/20 splits - results in reduction in average residential rates of \$51 per annum.

NB – The 2021-2031 LTP process will include a full review of the Revenue and Financing Policy, which includes the rating policy

For consultation: Proposed rates revenue increases

Projected rates revenue increases in the longer term

	2020/21	2021/22	2022/23	2023/24	2024/25	2025-2030
Rates increase for inflation as per LTP 2018 to 2028 (rates increases based on BERL Local Government Cost Index)	2.8%	2.2%	2.2%	2.3%	2.3%	2.47%
Rates increase to reduce Council's deficit over time	4.1%	1.6%	1.6%	-	-	-
Rates increase for proposed Naenae Pool and fitness centre redevelopment	1.0%	-	0.5%	-	0.5%	-
Total rates increase including Naenae Pool	7.9%	3.8%	4.3%	2.3%	2.8%	2.47%

This excludes assumed growth in the city which is about 1% each year reflecting census figures and more consents being processed for new developments leading to an increase in the number of rateable properties over time.

Note excludes:

- Proposed changes to refuse and recycling targeted rates effective from 2021/22, with estimated 5% increase in rates if preferred option progressed (offset by saving for household in cost of rubbish bags or
- Assumed growth in the rating base assumptions.

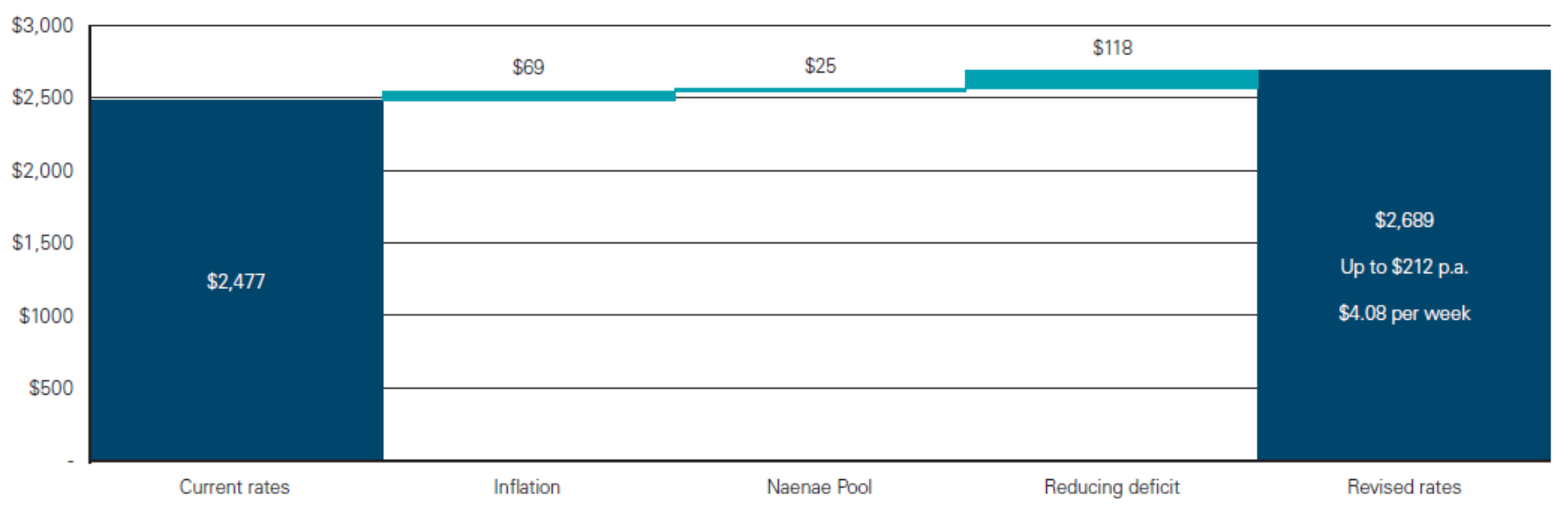
NB – The 2021-2031 LTP process will include a full review of the rates revenue increases as part of Financial Strategy review.

Impact on average residential ratepayer

City wide average - \$4.08 per week

Suburbs range on average from of \$1.18 to \$6.61

Indicative impact of rates changes on average residential property



Average property value now \$627,000

Prior to revaluation in 2019 was \$476,000

Further appendices

Asset value projected at 30 June 2020 \$1.6 Billion

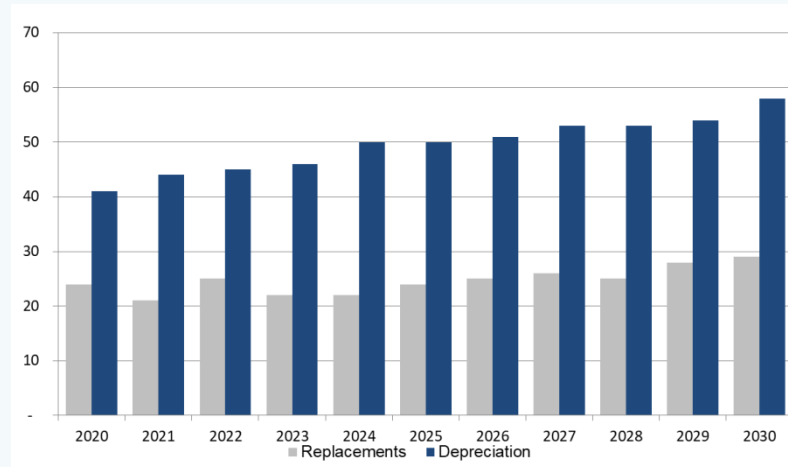
Over next 10 years

Capex of \$814M

- Renewal of assets \$246M
- New/improvement \$568M.

Depreciation \$504M

Capex renewals vs. depreciation



In 2020/21

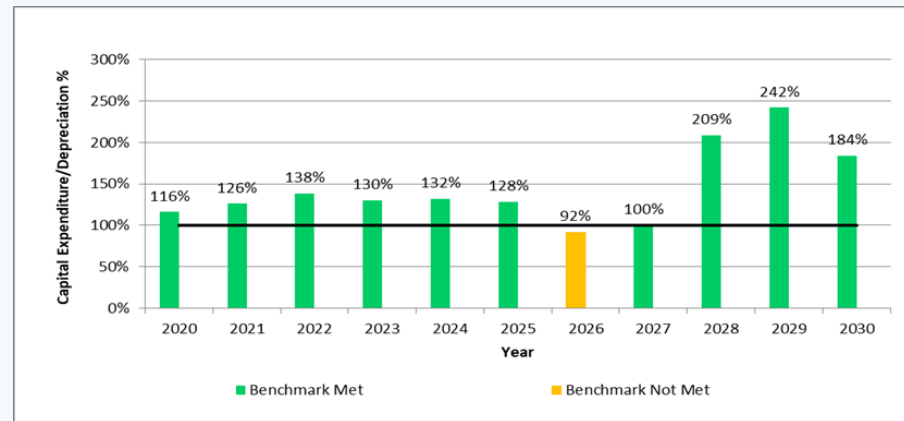
Capex planned \$67M

- Renewal of assets \$21M
- New/improvement \$46M

Depreciation \$44M

Essential Services benchmark

All capex on network services as proportion of depreciation on network services

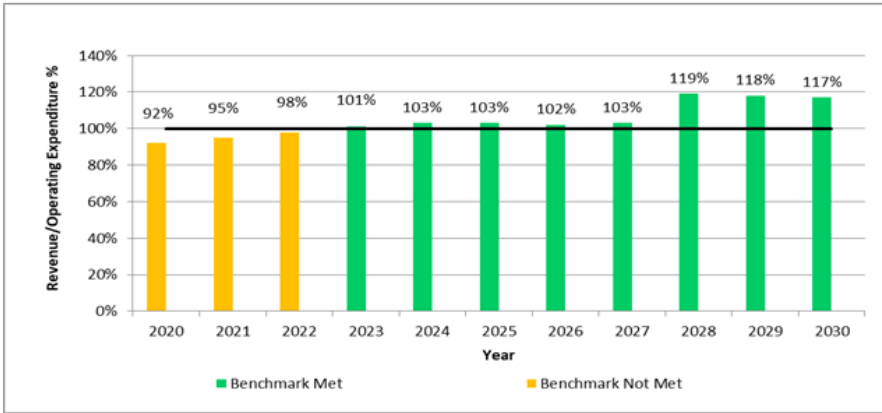


NB – LTP 2021-2031 includes Infrastructure Strategy Review

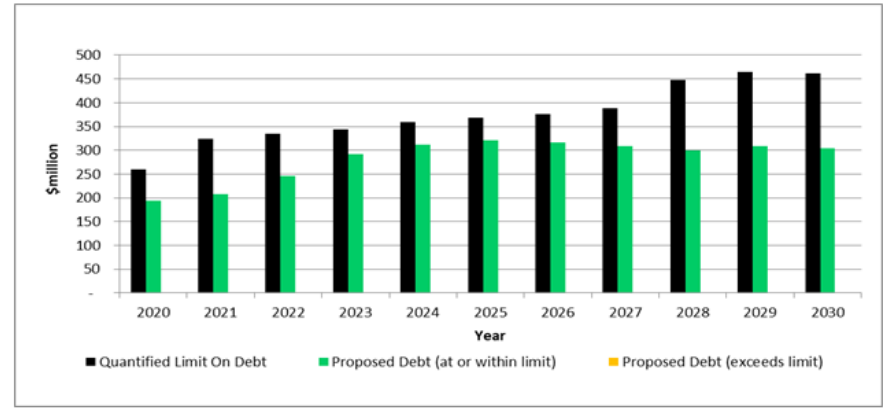
Significant risks highlighted by Wellington Water indicating need to increase capex renewals

Prudential benchmarks page 327

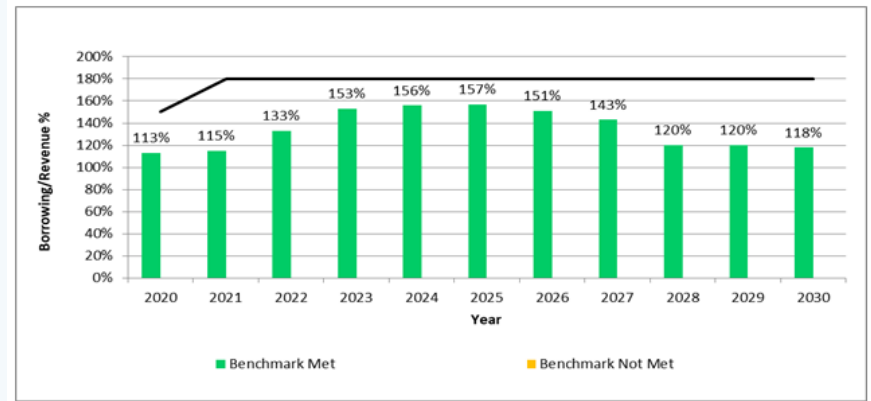
Balanced budget benchmark - planned revenue greater than planned expenditure



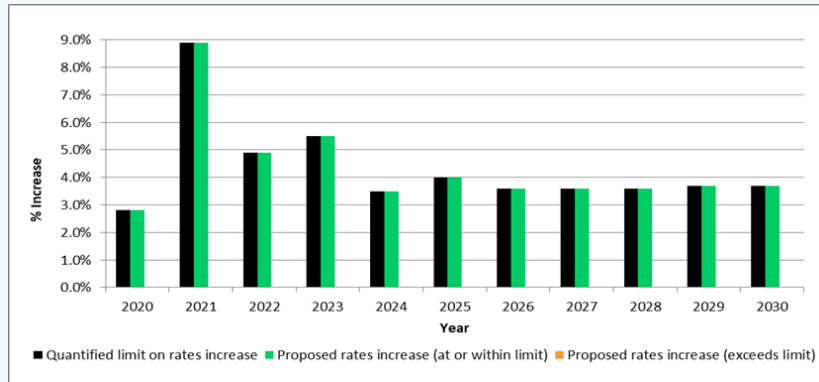
Debt affordability benchmark - planned debt compared to debt limits



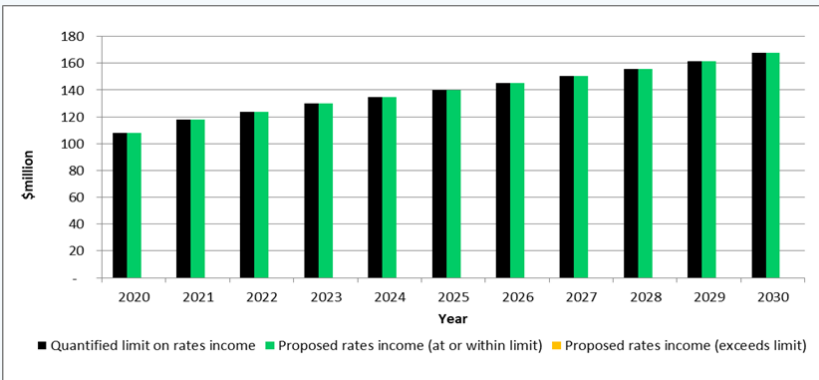
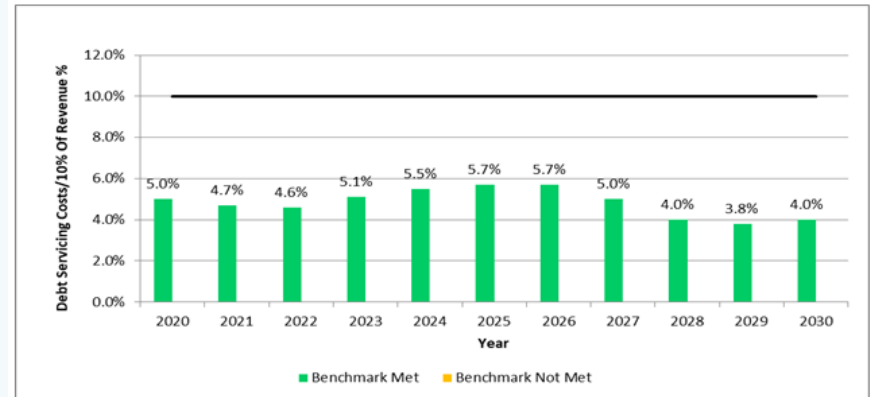
Debt affordability benchmark – planned debt as a percentage of revenue



Rates affordability benchmarks – rates increases and rates income



Debt servicing benchmark - borrowing costs less than 10%



Extract from Annual Report - year ended 30 June 2019

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSES

For year ended 30 June 2019

	NOTES	COUNCIL			GROUP	
		ACTUAL 2019 \$000	BUDGET 2019 \$000	ACTUAL 2018 \$000	ACTUAL 2019 \$000	ACTUAL 2018 \$000
Revenue						
Rates	4.	105,316	105,123	102,082	105,036	102,091
Fees, charges and metered rates for water supply	5.	40,012	38,663	36,965	44,398	41,061
Development and financial contributions		665	561	1,030	667	1,030
Subsidies and grants	5.	14,893	17,573	13,258	14,893	13,258
Finance income	6.	1,300	968	969	730	408
Other revenue	5.	7,206	5,711	6,562	7,817	7,613
Gain on revaluation of financial instruments	7.	-	-	-	-	-
Gain on disposal	7.	3,253	-	18	7,397	10,088
Total revenue	3.	172,645	168,599	160,884	180,938	175,549
Expenses						
Employee costs	8.	35,841	36,319	34,532	37,311	35,866
Other expenses	9.	96,033	87,397	90,914	97,475	91,687
Finance costs	6.	8,042	8,781	7,039	8,042	7,039
Loss on revaluation of financial instruments	7.	11,557	-	2,875	11,557	2,875
Depreciation and amortisation expenses	16 - 18.	39,109	38,181	36,727	40,940	38,326
Total expense		190,582	170,678	172,087	195,325	175,793
Share of associate's surplus/(deficit)	19.	-	-	-	6	(6)
Surplus/(deficit) before tax		(17,937)	(2,079)	(11,203)	(14,381)	(250)
Income tax expense/(benefit)	10.	-	-	-	436	(247)
Surplus/(deficit) after tax		(17,937)	(2,079)	(11,203)	(14,817)	(3)
Surplus/(deficit) attributed to Hutt City Council:		(17,937)	(2,079)	(11,203)	(14,817)	(3)
Other comprehensive revenue and expenses						
<i>Items that will not be reclassified to surplus/(deficit)</i>						
Gain/(losses) on property revaluations	26.	-	-	69,781	4,031	74,801
Impairment gain/(losses) on revalued property	26.	(9,358)	-	-	(9,358)	-
Deferred tax on revaluation	10.	-	-	-	369	(310)
Total other comprehensive revenue and expenses		(9,358)	-	69,781	(4,958)	74,491
Total comprehensive revenue and expenses		(27,295)	(2,079)	58,578	(19,774)	74,488
Total comprehensive revenue and expenses attributed to Hutt City Council:		(27,295)	(2,079)	58,578	(19,774)	74,488

Council deficit \$27.3M

Group deficit \$19.8M

Extract from Annual Report – year ended 30 June 2016

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSES

For the year ended 30 June 2016

	NOTES	COUNCIL			GROUP	
		ACTUAL 2016 \$000	BUDGET 2016 \$000	ACTUAL 2015 \$000	ACTUAL 2016 \$000	ACTUAL 2015 \$000
Revenue						
Rates	4.	95,458	95,474	92,871	95,200	92,611
Fees, charges and metered rates for water supply	5.	32,653	33,113	32,667	36,295	36,103
Development and financial contributions		307	570	556	304	555
Subsidies and grants	5.	10,186	14,108	9,865	10,186	9,865
Finance income	6.	1,092	850	1,167	330	480
Other revenue	5.	5,203	6,172	6,235	7,448	8,592
Gain on disposal	7.	-	-	104	-	828
Total revenue	3.	144,899	150,288	143,465	149,763	149,034
Expenses						
Employee costs	8.	30,968	30,545	28,837	32,167	29,906
Other expenses	9.	82,298	89,133	86,033	79,694	74,749
Finance costs	6.	5,561	7,810	5,474	5,561	5,474
Loss on disposal	7.	392	-	-	303	-
Loss on revaluation of financial instruments	7.	7991	-	2,702	7,991	2,702
Depreciation and amortisation expenses	16 - 18.	33,568	33,729	31,446	34,652	32,455
Total expense		160,778	161,217	154,492	160,368	145,286
Share of associate's surplus/(deficit)	19.	-	-	-	84	154
Surplus/(deficit) before tax		(15,879)	(10,929)	(11,027)	(10,521)	3,902
Income tax expense/(benefit)	10.	-	-	-	-	166
Surplus/(deficit) after tax		(15,879)	(10,929)	(11,027)	(10,521)	3,736
Surplus/(deficit) attributed to Hutt City Council:		(15,879)	(10,929)	(11,027)	(10,521)	3,736
Other comprehensive revenue and expenses						
Items that will not be reclassified to surplus/(deficit)						
Gain/(losses) on property revaluations		89	-	37,371	89	38,538
Impairment of property plant and equipment		-	-	-	-	-
Deferred tax on revaluation	10.	-	-	-	79	66
Total other comprehensive revenue and expenses		89	-	37,371	168	38,604
Total comprehensive revenue and expenses		(15,790)	(10,929)	26,344	(10,353)	42,340
Total comprehensive revenue and expenses attributed to Hutt City Council:		(15,790)	(10,929)	26,344	(10,353)	42,340

Explanations of the major variances against budget are provided in note 34.

The information is derived from an internal part of these Financial Statements.

Council deficit \$15.8M

Group deficit \$10.4M

Standard and Poor's Credit Rating

- Extract from report August 2019

“Downside scenario....We would lower our ratings if the council’s fiscal strategy allows liquidity coverage to structurally weaken or if the strategy allowed a substantially weaker budgetary performance and higher debt levels”.

Six point scale – with 1 as strongest and 6 is weakest score

Ratings Score Snapshot

Key Rating Factors

Institutional framework	1
Economy	2
Financial management	2
Budgetary performance	4
Liquidity	2
Debt burden	4

Indicative impact for suburbs at 7.9% rates increase

Per annum \$61 to \$344; Weekly \$1.18 to \$6.61

Residential Suburbs	Capital Value July 2019	2019-2020 Rates	Capital Value July 2020	% Change in Property Value	2020-2021 Rates	\$ Change Annual	\$ Change Weekly	% Change Amount
ALICETOWN	\$529,000	\$2,645	\$660,000	25%	\$2,775	\$130	\$2.51	5%
AVALON	\$459,000	\$2,423	\$605,000	32%	\$2,631	\$209	\$4.01	9%
BELMONT	\$546,000	\$2,699	\$705,000	29%	\$2,893	\$194	\$3.73	7%
BOULCOTT	\$589,000	\$2,835	\$735,000	25%	\$2,971	\$136	\$2.62	5%
EASTBOURNE	\$747,000	\$3,336	\$930,000	24%	\$3,480	\$144	\$2.78	4%
EPUNI	\$521,000	\$2,619	\$660,000	27%	\$2,775	\$156	\$2.99	6%
FAIRFIELD	\$474,000	\$2,470	\$620,000	31%	\$2,670	\$200	\$3.85	8%
HARBOUR VIEW	\$542,000	\$2,686	\$685,000	26%	\$2,840	\$154	\$2.97	6%
HAYWARDS	\$312,000	\$1,956	\$405,000	30%	\$2,109	\$152	\$2.93	8%
HUTT CENTRAL	\$689,000	\$3,152	\$855,000	24%	\$3,284	\$132	\$2.55	4%
KOROKORO	\$584,000	\$2,819	\$785,000	34%	\$3,102	\$283	\$5.43	10%
MAUNGARAKI	\$543,000	\$2,689	\$685,000	26%	\$2,840	\$151	\$2.91	6%
MELLING	\$414,000	\$2,280	\$545,000	32%	\$2,474	\$195	\$3.74	9%
MOERA	\$382,000	\$2,178	\$505,000	32%	\$2,370	\$192	\$3.68	9%
NAENAE	\$336,000	\$2,033	\$490,000	46%	\$2,331	\$298	\$5.73	15%
NORMANDALE	\$520,000	\$2,616	\$660,000	27%	\$2,775	\$159	\$3.06	6%
PETONE	\$629,000	\$2,962	\$755,000	20%	\$3,023	\$61	\$1.18	2%
STOKES VALLEY	\$344,000	\$2,058	\$485,000	41%	\$2,318	\$260	\$5.00	13%
TAITA	\$343,000	\$2,055	\$485,000	41%	\$2,318	\$263	\$5.06	13%
WAINUIOMATA	\$297,000	\$1,909	\$460,000	55%	\$2,252	\$344	\$6.61	18%
WAIWHETU	\$477,000	\$2,480	\$620,000	30%	\$2,670	\$191	\$3.67	8%
WATERLOO	\$553,000	\$2,721	\$695,000	26%	\$2,866	\$146	\$2.80	5%
WOBurn	\$769,000	\$3,406	\$950,000	24%	\$3,533	\$127	\$2.44	4%