

11 May 2022

Max Shierlaw

fyi-request-19091-1aab01ad@requests.fyi.org.nz

Tēnā koe Max

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

We refer to your official information request dated 8 April 2022 for:

“... all correspondence, meeting notes and any other official information relating to the Philip Jones report on pages 228-257 of the Council agenda papers of 7 May 2020.

Please include any draft reports or part of the full report, either in draft or final, received by the Council preceding the published report, submitted by Philip Jones or Philip Jones & Associates or by staff or colleagues of Philip Jones and any correspondence, file notes, meeting notes or any other official information relating to communication between Jones and the Council about those draft reports.

Please also include any internal emails within the Council about the Jones report, both drafts and final report, including discussions about the preparation of the Council agenda papers and officers' report pertaining to the Jones report.”

Attached is a copy of the **final** report from Philip Jones and communications relating to it. Private information has been withheld from these documents under section 7(2)(a) of the LGOIMA. The final report can be located on the Hutt City Council's website [here](#).

Copies of the **draft** reports and some associated communications are withheld under section 7(2)(f)(i) of the LGOIMA, to maintain the effective conduct of public affairs through the free and frank expression of opinions.

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 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

4 May Mayor, DM, CE, Jarred, Caryn

Out of Scope



Budget - email to all staff going out, budget paper for review. Phillip Jones report. One pager from Jo regarding the report. Requested by Mayor and subcommittee chairs. Touch base before finalised. Phillip Jones to attend?

Out of Scope



Released under the Local Government Official Information and Meetings Act

From: Bruce Robertson s7(2)(a)
Sent: Saturday, 2 May 2020 8:41 am
To: Jenny Livschitz <Jenny.Livschitz@huttcity.govt.nz>
Cc: Philip Jones s7(2)(a)
Subject: Re: Hutt City report

Hi Jenny

Please find attached the requested bio. Apologies for the slightly dramatic photo - any formal one suggests I am younger, haha!

And well done on getting Phil's engagement in to this area. From past involvement with Hutt, I think the sort of review that Phil can provide has been really needed. To date I think Hutt has been somewhat insular to broad developments in the sector - and Phil's work will assist you as a leadership team forge an upgraded path.

Kind regards

Bruce

Bruce Robertson
Director
RBRobertson Ltd

s7(2)(a)



rb robertson

On 1/05/2020, at 2:53 PM, Jenny Livschitz <Jenny.Livschitz@huttcity.govt.nz> wrote:

Hi Bruce

A quick note to thank you for the work that you're doing on this report with Philip. Really appreciated!

I'm wondering if you have a brief bio about yourself. I would like to include this alongside the report when it goes to the Mayor.

Thanks again , and have a great weekend.

Jenny

s7(2)(f)(i)

s7(2)(f)(i)

On 28/04/2020, at 11:04 AM, Philip Jones s7(2)(a) > wrote:

Hi

Attached is my report for your peer review.

One you have read it, do you want to give me call to agree next steps?

Both Jo Miller (CEO) and Jenny Livschitz (CFO) have seen it.

Kind regards

Philip Jones

<image001.jpg>

s7(2)(a)

<Report on current and future financial position Draft for client comment v2.docx>

From: Jo Miller
Sent: Saturday, 2 May 2020 12:44 PM
To: Campbell Barry; CNB; Tui Lewis; Simon Edwards; Deborah Hislop
Subject: Fwd: Hutt City report

Please see attached , Bruce Robertson, former Assistant Auditor General's biography as promised . Bruce has peer reviewed the Philip Jones report which I have shared with you . Philip Jones bio will come on seperate email . Thanks Jo

Sent from my iPad

Ngā mihi nui

Jo Miller
Chief Executive

Hutt City Council, 30 Laings Road Private Bag 31912, Lower Hutt 5010, New Zealand
T [04 570 6773](tel:045706773) **M** [027 213 7550](tel:0272137550)
W www.huttcity.govt.nz

Follow me on Twitter : [@jomillernz](https://twitter.com/jomillernz)



IMPORTANT: The information contained in this e-mail message may be legally privileged or confidential. The information is intended only for the recipient named in the e-mail message. If the reader of this e-mail message is not the intended recipient, you are notified that any use, copying or distribution of this e-mail message is prohibited. If you have received this e-mail message in error, please notify the sender immediately. Thank you.

Begin forwarded message:

Date: 2 May 2020 at 8:40:51 AM NZST
To: Jenny Livschitz <Jenx@xnxz>
Cc: Philip Jones s7(2)(a)
Subject: Re: Hutt City report

Hi Jenny

Please find attached the requested bio. Apologies for the slightly dramatic photo - any formal one suggests I am younger, haha!

And well done on getting Phil's engagement in to this area. From past involvement with Hutt, I think the sort of review that Phil can provide has been really needed. To date I think Hutt has been somewhat insular to broad developments in the sector - and Phil's work will assist you as a leadership team forge an upgraded path.

Kind regards

Bruce

Bruce Robertson
Director
RBRobertson Ltd

s7(2)(a)

A large black rectangular redaction box covers the majority of the page content below the contact information.

Released under the Local Government Official Information and Meetings Act

Bruce Robertson

RBruce Robertson Ltd



Bruce is an established governance and risk expert within the local government sector, with active membership of audit and risk committees since leaving the Office of the Auditor-General in 2015. He has been confirmed as an independent member of 12 Audit and Risk Committees¹ including Auckland, Hamilton City, Tauranga City and Bay of Plenty Regional Councils for the 2019-22 local body triennium..

In most of these roles, as well as leading and participating in the work of the committees and governance of the councils, his work has included a substantial development dimension in supporting the growing understanding and maturity of risk management within the council itself. This work has included workshops on risk (especially to establish a council's highest level risks – the “top 10” – through to seminars with a council's risk management and ‘risk champions’).

As an independent member, he is required from time-to-time, to deal with sensitive issues in support of council's governance. Generally, these are confidential but have involved such matters as staff conflicts of interests and sensitive ratepayer concerns.

Aligned to these roles, Bruce convened a series of risk and assurance seminars nationally in 2018 to develop elected member and senior management's understanding of development of effective audit and risk committees. In February 2020, he will contribute in SOLGM's Risk Management Forum.

Bruce also works as an independent reviewer of organisations and significant council activities. Recent review roles include “health checks” on the overall capability and capacity of entities to “perform and deliver” (DIA, Review of Kaikoura and Hurunui District Councils, 2015; North Canterbury Fish and

¹ Chair of Gisborne District Council, Invercargill City Council, Otorohanga District Council, Southland District Council, Thames Coromandel District Council, Waipa District Council, Waitomo District Council; Deputy Chair of Bay of Plenty Regional Council, Far North District Council, Hamilton City Council; independent member of Auckland Council.



rbrobertson

Game Council, Review of aspects of governance and management, 2018 and Central South Island Fish and Game Council, Management of conflicts of interest; 2019) and review of the capability and capacity of key functions (Hastings District Council, Water operations post-Havelock North, 2017 and 2018; Christchurch City Council, Loss of 'secure' status for its water supply, 2018).

Recently he completed reviews of Okara Park (Whangarei District Council/Northland Events Centre Trust, 2019), events management issues (Tauranga City Council management of Soper Reserve, 2019) and commercial investments (Invercargill City Council, investment in the Don St premises, 2019). Bruce is assisting with risk management of the refurbishment and rebuild of Yarrow Stadium (Taranaki Regional Council) and has recently worked with Whakatane District Council on a review of their internal management functions to ensure Council is fit for the future challenges it will face and can help the community with capturing and maximizing the opportunities developing in the 'Eastern Bay'.

His governance and management engagements have varied across maturity reviews of approaches to risk (Porirua City Council, Risk Maturity Assessment, 2019), providing governance support to decision-makers (Kaikoura District Council; 2018 and on-going), guiding and supporting financial management reform and change management (Invercargill City Council, 2019), "Finance 101" seminars (Whakatane District Council 2019; LGNZ's finance module for new councillors, 2019) through to facilitating strategic priorities seminar (Whangarei District Council, 2019).

Bruce is part of the assessors for Local Government New Zealand's CouncilMARK assessment programme, and he is a recognised facilitator, and presenter of governance and strategy workshops

Previously he was Assistant Auditor-General, Local Government in the Office of the Auditor-General. Through his time in this role, he was heavily involved in the implementation of the planning, financial management and accountability provisions of the Local Government Act 2002 as well as their amendment.

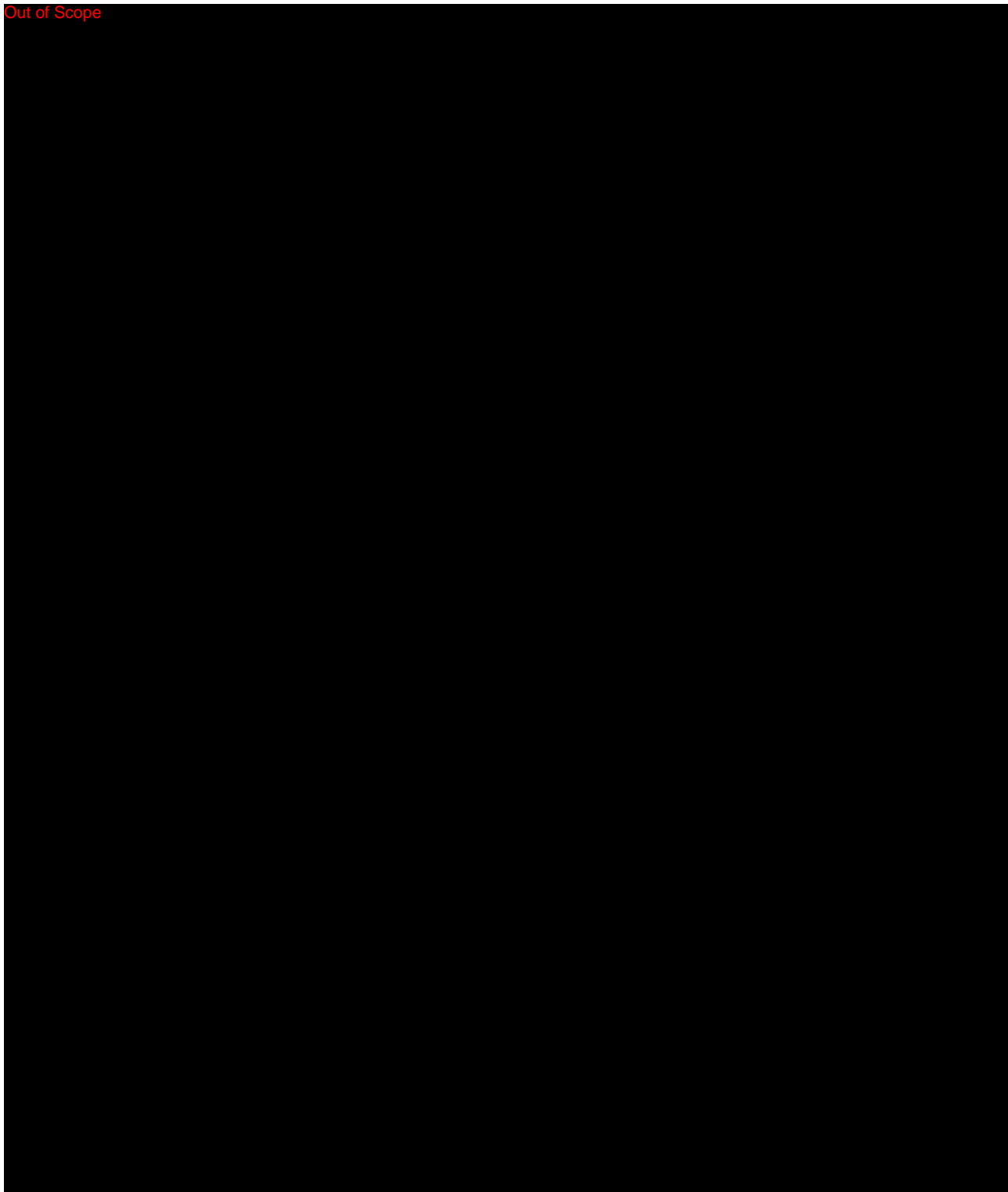
He is a graduate of the University of Otago (Commerce and History) and is a Fellow Chartered Accountant (FCA) of Chartered Accountants of Australia and New Zealand. He maintains an active programme of self-development, as expected of a professional member of the Institute.

Bruce is Queenstown-based, where he lives with Pip, his wife. They have three adult children.

Released under the Local Government Official Information and Freedom of Information Act

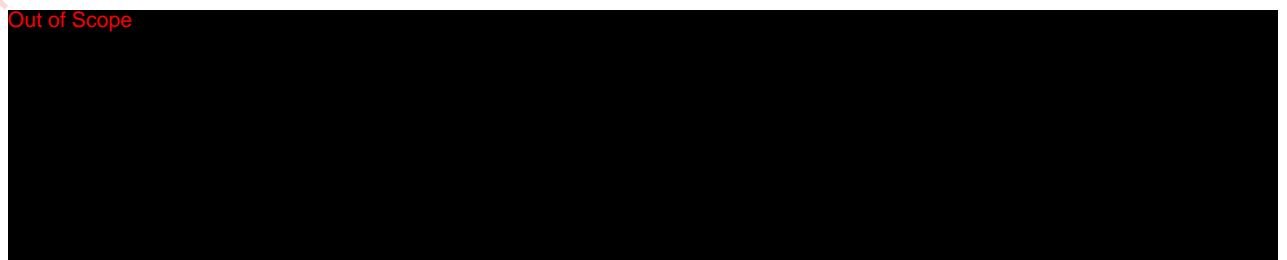
Chief Executive's statement to Council meeting 7 May 2020

Out of Scope



ct

Out of Scope



Rel

Out of Scope

I draw your attention to the 22 page report in your agenda today by Philip Jones from PJ & Associates which has been peer-reviewed by Bruce Robertson, former Assistant Auditor General. The Mayor requested that the report be commissioned and I am pleased that we have done so. The report notes the following in respect of the proposed financial strategy we have pressed pause on:

This is an improvement on the existing strategy and there are further improvements to be made, in particular by defining the need for increased funding for renewal expenditure and considering the impact of a balanced budget and noting the intention to increase revenues over time to “balance the budget”.

In conclusion, the proposed financial strategy and the approach taken in the development of the proposed amendment to the 2018-2028 Long term plan is a significant improvement.

The reason for this improvement from the existing strategy is by clearly explaining the need to increase expenditure and move to a tighter balanced budget test consistent with good practice. This will assist in forming a sound and financially prudent approach for the development of the 2021-2031 Long term plan.

Out of Scope

From: Jo Miller <Jo.Miller@huttcity.govt.nz>
Sent: Saturday, 2 May 2020 10:19 am
To: Jenny Livschitz <Jenny.Livschitz@huttcity.govt.nz>
Cc: Philip Jones s7(2)(a)
Subject: Re: Final report

Fantastic , thanks both

Ngā mihi nui

Jo Miller
Chief Executive

Hutt City Council, 30 Laings Road Private Bag 31912, Lower Hutt 5010, New Zealand
T [04 570 6773](tel:045706773) **M** [027 213 7550](tel:0272137550)
W www.huttcity.govt.nz

Follow me on Twitter : [@jomillernz](https://twitter.com/jomillernz)



IMPORTANT: The information contained in this e-mail message may be legally privileged or confidential. The information is intended only for the recipient named in the e-mail message. If the reader of this e-mail message is not the intended recipient, you are notified that any use, copying or distribution of this e-mail message is prohibited. If you have received this e-mail message in error, please notify the sender immediately. Thank you.

On 2/05/2020, at 10:04 AM, Jenny Livschitz <Jenny.Livschitz@huttcity.govt.nz> wrote:

Thanks again Philip

Jo I have bios from Philip and Bruce which could go alongside these. I'll forward these onto you next I can pull it together in these memo.

Sent from my iPhone

On 2/05/2020, at 9:44 AM, Jo Miller <Jo.Miller@huttcity.govt.nz> wrote:

Thank you so much Philip for doing this at speed .
Could I possibly trouble you to put in the exec summary that it has been prepared by you & peer reviewed by Bruce with details of your joint stature ?
Many thanks . I really appreciate all that you have done . Jo

Ngā mihi nui

Jo Miller
Chief Executive

Hutt City Council, 30 Laings Road Private Bag 31912, Lower Hutt 5010, New Zealand
T [04 570 6773](tel:045706773) M [027 213 7550](tel:0272137550)
W www.huttcity.govt.nz

Follow me on Twitter : [@jomillernz](https://twitter.com/jomillernz)

<hccsmalllogo_12fb0640-f486-4c5a-a775-f4ab1b1dfb5d.jpg>

IMPORTANT: The information contained in this e-mail message may be legally privileged or confidential. The information is intended only for the recipient named in the e-mail message. If the reader of this e-mail message is not the intended recipient, you are notified that any use, copying or distribution of this e-mail message is prohibited. If you have received this e-mail message in error, please notify the sender immediately. Thank you.

On 2/05/2020, at 9:39 AM, Philip Jones s7(2)(a) wrote:

Good morning

Attached is the final report. This has ben a challenge to ensure the right message is given without seriously criticising the previous approach.

Bruce's final comments are:

Professionally we say it will be more robust - and that is defensible simply on the grounds of the tighter test (in line with good practice) and without us having actually say it is the right answer at this point.

Kind regards

Philip Jones

<image001.jpg>

s7(2)(a)

<Final Report 01 05 20 to HCC.pdf>

<hccsmalllogo_12fb0640-f486-4c5a-a775-f4ab1b1dfb5d.jpg>

From: Deborah Hislop <Deborah.Hislop@huttcity.govt.nz>
Sent: Saturday, 2 May 2020 2:43 pm
To: Jo Miller <Jo.Miller@huttcity.govt.nz>; Campbell Barry <Campbell.Barry@huttcity.govt.nz>; Simon Edwards <Simon.Edwards@huttcity.govt.nz>; Tui Lewis <Tui.Lewis@huttcity.govt.nz>; CNB <CNB@huttcity.govt.nz>
Cc: Jenny Livschitz <Jenny.Livschitz@huttcity.govt.nz>; Caryn Ellis <Caryn.Ellis@huttcity.govt.nz>; Jarred Griffiths <Jarred.Griffiths@huttcity.govt.nz>
Subject: RE: Final report

Thank you Jo and Jenny for the bio and the financial report. Both very good reading.

Cheers
Deborah

From: Jo Miller
Sent: 02 May 2020 12:38
To: Campbell Barry; Simon Edwards; Tui Lewis; CNB; Deborah Hislop
Cc: Jenny Livschitz; Caryn Ellis; Jarred Griffiths
Subject: Fwd: Final report

Dear All

Please find attached independent financial report from Philip Jones , peer reviewed by Bruce Stevenson . This accords with our conversations over the last couple of weeks. I will forward Philip and Bruce bios under seperate email . Campbell we can discuss at our Monday morning catch up the best way to get this into the wider council arena etc .

Thanks all , happy to discuss.

Jo

Sent from my iPad

Ngā mihi nui

Jo Miller
Chief Executive

Hutt City Council, 30 Laings Road Private Bag 31912, Lower Hutt 5010, New Zealand
[T 04 570 6773](tel:045706773) [M 027 213 7550](tel:0272137550)
[W www.huttcity.govt.nz](http://www.huttcity.govt.nz)

Follow me on Twitter : [@jomillernz](https://twitter.com/jomillernz)



IMPORTANT: The information contained in this e-mail message may be legally privileged or confidential. The information is intended only for the recipient named in the e-mail message. If the reader of this e-mail message is not the intended recipient, you are notified that any use, copying or distribution of this e-mail message is prohibited. If you have received this e-mail message in error, please notify the sender immediately. Thank you.

Begin forwarded message:

From: Philip Jones s7(2)(a)
Date: 2 May 2020 at 9:39:10 AM NZST
To: Jenny Livschitz <Jenx@xnz>, Jo Miller
<Jo.Miller@huttcity.govt.nz>
Subject: Final report

Good morning

Attached is the final report. This has been a challenge to ensure the right message is given without seriously criticising the previous approach.

Bruce's final comments are:

Professionally we say it will be more robust - and that is defensible simply on the grounds of the tighter test (in line with good practice) and without us having actually say it is the right answer at this point.

Kind regards

Philip Jones

Released under the Local Government Official Information and Meetings Act

From: Jenny Livschitz <Jenny.Livschitz@huttcity.govt.nz>
Sent: Monday, 4 May 2020 2:11 pm
To: Jo Miller <Jo.Miller@huttcity.govt.nz>
Cc: Caryn Ellis <Caryn.Ellis@huttcity.govt.nz>
Subject: Extra report

This is what I have put together quickly – Ok?

Released under the Local Government Official Information and Meetings Act

04 May 2020

File: (20/388)

Report no:

Council financial strategy

DECISION MAKING CHECKLIST

This checklist is designed to assist report writers and decision makers to more easily understand and comply with the obligations of the Local Government Act, whilst providing a legal record of how the process was followed.

There are specific obligations in the Local Government Act 2002 for Council to consider a range of factors when making decisions. The Decision Making Checklist is applicable to all reports *seeking a decision* to SLT, Council, Community Committees or Community Boards.

What is the decision you are seeking in your report? No decision. Noting report only.

Who is responsible for making this decision? Finance & Performance Committee

Check Council's [Terms of Reference](#) the [Delegations Register](#) and [Functions and Delegations for Community Boards 2016-2019](#)

LEGISLATIVE REQUIREMENTS

Does this decision fit the purpose of local government by **enabling local decision-making and action by, and on behalf of, the communities; and promoting the social, economic, environmental, and cultural well-being of communities in the present and for the future**

Does your report show how this decision achieves this purpose (see above) in the most cost efficient way?	Not applicable	yes
Does your report state whether this is a significant decision, and if so, on what basis it is significant? Refer to significance policy	Not applicable	yes
Does the report show that I have considered how this decision will affect people in the community?	Not applicable	yes
OPTIONS		Comments
Have I considered <i>all</i> practicable options in my report?	Not applicable	yes
Does the report show that I have assessed the costs and benefits (or pros and cons) of each of those options?	Not applicable	yes
FINANCIAL CONSIDERATIONS		Comments
Does my report show how this decision would be funded? <i>(If you answer 'existing budgets' please specify the budget year).</i>	yes	
Have I considered the short term and long term financial implications of this decision in my report?	Not applicable	yes
Do I need to prepare a business case with my report?	Not applicable	no
CONSISTENCY WITH OTHER COUNCIL PLANS		Comments
Does the report recommend a decision that would substantially deviate from current plans (including the Annual or Long Term Plan, The District Plan, asset management plans or policies or strategies); or	Not applicable	no
Does the report recommend a decision that supplements or replaces any current plans or policies?	Not applicable	yes
CONSULTATION		Comments
Should this issue be consulted on? Refer to the Community Engagement Strategy	Not applicable	Yet to be determined

If so, have I identified a consultation plan and identified who I need to consult with? <i>Refer to the Community Engagement Strategy</i>	Not applicable	no
Am I aware of any existing community views (including the Youth Council) regarding this decision?	Not applicable	no
Should I consult with Māori on this decision? <i>Refer to Community Engagement Strategy and Contact the Kaitakawaenga Kaupapa Maori</i>	Not applicable	All community if required
OTHER CONSIDERATIONS		Comments
Which other staff members within Hutt City Council should I talk about this decision with?	Yes	Legal, policy
How would I communicate this decision? <i>(Consider both internally and externally)</i>	N/A	
Have I made a plan for the implementation of this decision?	Not applicable	yes
Does this report require specialist input (for example, advice from the legal team, the Communications team, Human Resources, Finance, or Risk Management)?	Not applicable	yes
Health and Safety: Are there any health & safety implications or risks to others in making this decision? If so have these risks been assessed in accordance with the Health & Safety at Work Act 2015 and what actions may be taken to reduce the risk of harm?	Not applicable	no

Purpose of Report

1. For Council receive the report and advice in relation to the Financial Strategy developed for the proposed amendment to the 2028-2028 Long Term Plan.

Recommendations

That Council:

- (i) note the report on the Financial Strategy, attached as Appendix 1 to the report;

Background

2. At the request of the Mayor a report has been prepared on the proposal to amend the 2018-2028 Long term plan and the existing financial strategy, refer Appendix 1. The report was prepared independently by Phillip Jones of PJ & Associates, and has been peer reviewed by Bruce Robertson of RBruce Robertson Ltd. Their bios are attached as Appendix 2 and 3 to this report.
3. Extract from the report

In conclusion, the proposed financial strategy and the approach taken in the development of the proposed amendment to the 2018-2028 Long Term Plan is a significant improvement. The reason for this improvement from the existing strategy is by clearly explaining the need to increase expenditure and move to a tighter balanced budget rest consistent with good practice. This will assist in forming a sound and financially prudent approach for the development of the 2021-2031 Long Term Plan.

Legal Considerations

4. The relevant legislation is referenced in the report, attached as Appendix 1.

Financial Considerations

5. There are no further financial considerations apart from those referenced in the report, attached as Appendix 1.

Appendices

No.	Title	Page
1	Appendix 1 - Report on Council financial strategy	
2	Appendix 2 - Philip Jones bio	
3	Appendix 3 - Bruce Robertson bio	

Author: Jenny Livschitz
Chief Financial Officer

Approved By: Jo Miller
Chief Executive

Released under the Local Government Official Information and Meetings Act

From: Jo Miller <Jo.Miller@huttcity.govt.nz>
Sent: Wednesday, 15 April 2020 7:58 am
To: Jenny Livschitz <Jenny.Livschitz@huttcity.govt.nz>
Subject: Re: LG depn requirements final after comments.doc

Helpful Jenny , thanks

Sent from my iPad

Ngā mihi nui

Jo Miller
Chief Executive

Hutt City Council, 30 Laings Road Private Bag 31912, Lower Hutt 5010, New Zealand
T [04 570 6773](tel:045706773) M [027 213 7550](tel:0272137550)
W www.huttcity.govt.nz

Follow me on Twitter : [@jomillernz](https://twitter.com/jomillernz)



IMPORTANT: The information contained in this e-mail message may be legally privileged or confidential. The information is intended only for the recipient named in the e-mail message. If the reader of this e-mail message is not the intended recipient, you are notified that any use, copying or distribution of this e-mail message is prohibited. If you have received this e-mail message in error, please notify the sender immediately. Thank you.

On 14/04/2020, at 5:05 PM, Jenny Livschitz <Jenny.Livschitz@huttcity.govt.nz> wrote:

Hi

FYI a paper written by Philip in 2011 and published by LGNZ. OAG also reviewed paper ahead of publication.

A few extracts

- *"In the local authority context depreciation is especially important as it ensures that today's ratepayers pay their fair share of consumption of the assets. Depreciation is therefore a vital component of the process of setting rates and charges."*
- *The LGA provides local authorities with a set of exceptions where they may depart from the requirements of the balanced budget. However, these exceptions do not provide a licence for any local authority to depart at will from a balanced budget (e.g. the political decision to hold back on amount of depreciation a council may "fund" to keep rates down in an election year). They require careful thought and analysis of the funding needs and the overall financial strategy to best deliver sustainable community services over the long term.*

- *As a result of revaluing assets depreciation will increase. However, as the purpose of depreciation is to charge the people who are using the asset their share of that asset, if the value has increased, in theory the people using the asset should pay a greater share. If the value has increased so do the future renewal costs.*

Cheers

Jenny

From: Philip Jones [[mailto:s7\(2\)\(a\)](mailto:s7(2)(a)@...)]
Sent: Tuesday, 14 April 2020 4:06 PM
To: Jenny Livschitz
Subject: LG depn requirements final after comments.doc

<LG depn requirements final after comments.doc>

Released under the Local Government Official Information and Meetings Act

Depreciation in the Local Government context

There has been much comment over the requirement for the local government sector to account for and fund depreciation. The purpose of this paper is to put context around the requirements to include depreciation in the accounts and budgets of local authorities.

The legislation and accounting standards

Section 100 subsection 1 of the Local Government Act 2002 (LGA) states:

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.

The requirement to set operating revenues at a level sufficient to meet operating expenses includes depreciation because section 111¹ (LGA) obliges councils to follow generally accepted accounting practice (GAAP), which defines 'operating expenses'. As depreciation is an operational expense it must be included with other operational costs including interest when a council sets its operating revenue.

What the legislation requires is that councils ensure that projected revenues are at least equal to projected operational expenditure including depreciation, unless it is prudent to do otherwise. The cash or funding generated by the revenue may be used for present capital needs (including renewals), debt reduction or set aside for future capital needs. This helps ensure sound asset management practice and continuity of service to future generations.

Purpose of depreciation

There is confusion over the purpose of depreciation as many believe that the purpose of depreciation is to provide for the replacement of an asset. In fact depreciation reflects the use or consumption of the service potential implicit in an asset. GAAP defines depreciation as follows:

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

As depreciation reflects the consumption of the asset over its useful life, there are two critical factors in determining the expense. The first is the cost or revalued amount, and the second is the useful life. It is therefore not related to the physical wearing out, for example being able to sit on a park bench in year one (or flush toilet) is the same benefit to a ratepayer as being able to sit on park bench in year 15, 16, and 17 (or flush toilet).

The purpose of depreciation is not to provide for the replacement of the asset(s), however this may be an intended or unintended consequence as many councils have assumed that depreciation is for the replacement of an asset.

The approach to depreciation in the local government context is no different than the commercial sector when depreciation is accepted as a legitimate operating expense; the only real difference is

¹ All information that is required by any provision of this Part or of Schedule 10 to be included in any plan, report, or other document must be prepared in accordance with generally accepted accounting practice if that information is of a form or nature for which generally accepted accounting practice has developed standards.

the useful lives of local government infrastructure assets are significantly longer than many assets used in the commercial sector.

Funding or cash implications of depreciation

In the local authority context depreciation is especially important as it ensures that today's ratepayers pay their fair share of consumption of the assets. Depreciation is therefore a vital component of the process of setting rates and charges.

As depreciation, is a non-cash item of expenditure, the inclusion of the depreciation expense with the total operational expenditure will result in a funding surplus from operations. It is then a council's decision as to how that surplus funding should be allocated. Broadly there are four options:

- I. Repay debt
- II. Pay for renewal expenditure
- III. Acquire new assets
- IV. Transfer to a reserve for the replacement or future renewal of an asset.

While these are the most common options, there is no reason why a council can not apply another option if it believes that is a prudent² use of council's funds.

Generally a council should consider all options across its different activities and then that decision should be made as part of its Financial Strategy.

Exceptions to the Balanced Budget Requirement

Much of the concern around section 100 has arisen from the notion that this section requires the 'funding of depreciation' which has been interpreted by many as the transfer of the depreciation expense to a specific reserve or accumulation of cash to be used either for the replacement of an asset or for the loan repayment associated with the acquisition of that asset. In fact, there is no direct legal requirement to "fund depreciation" as many have assumed. However, there is a requirement to be prudent in the setting of funding levels.

Prudence

What the Act does is create a rebuttable presumption that forecasting a surplus is financially prudent.

Financial prudence is not defined in the Act. But the legislation provides some insight into what is intended by this phrase. In the standard dictionary sense prudence means 'careful', 'sensible', or 'habit of acting with careful deliberation'. A local authority that does not operate a balanced budget and has been cavalier in its treatment of the above matters may well be acting imprudently.

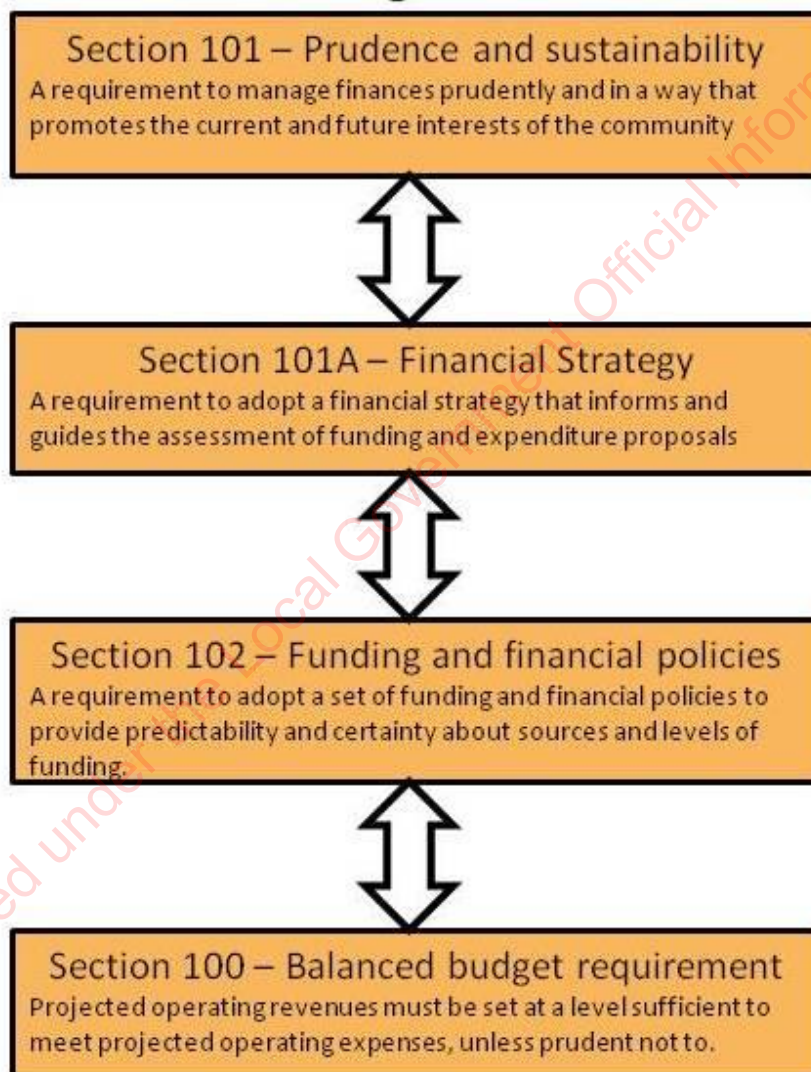
There is one other statutory reference that provides an indication of Parliament's view of what is considered financially prudent. Section 102 specifies certain financial policies which are required to be adopted by every council. The legislative rationale for requiring these policies is 'in order to provide predictability and certainty about sources and levels of funding'. This can be seen as an

² Section 101 requires a council to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community

indication that predictability and certainty of funding levels and sources was seen as an element of being financially prudent.

Application of the concept of prudence in relation to establishing the level of operating revenue for the purposes of LTP forecasting/budgeting would require the local authority to set operating revenue at such a level that applies an unbiased assessment in areas of judgement based on the best available information. The most significant area of judgement that impacts the level of forecast operating expense, and therefore the level of operating revenue needed to enable council to adequately fund the level of service represented by the forecast operating expenses, is the useful life of the numerous components comprising the infrastructure assets of the Council. Other judgements included in the determination of operating revenue include the level of revenue sources other than rates in any period.

Hierarchy of prudent financial management



Section 100 Exemptions

Section 100 is in two parts, the first part relates to the requirement to have a balanced budget as discussed above and the second part relates to the exemptions of where councils can decide not to have a balanced budget and the criteria in which that decision is made.

- (1) 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.
- (2) Despite subsection (1), a local authority may set projected operating revenues at a different level from that required by that subsection **if the local authority resolves that it is financially prudent to do so**, having regard to—
 - (a) the estimated expenses of achieving and maintaining the predicted levels of service provision set out in the long-term plan, including the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life; and
 - (b) the projected revenue available to fund the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life; and
 - (c) the equitable allocation of responsibility for funding the provision and maintenance of assets and facilities throughout their useful life; and
 - (d) the funding and financial policies adopted under section 102.

The LGA provides local authorities with a set of exceptions where they may depart from the requirements of the balanced budget. However, these exceptions do *not* provide a licence for any local authority to depart at will from a balanced budget (e.g. the political decision to hold back on amount of depreciation a council may “fund” to keep rates down in an election year). They require careful thought and analysis of the funding needs and the overall financial strategy to best deliver sustainable community services over the long term.

The legislation requires council to consider all four criteria not just one of them. In summary the subsections refer to:

- i. (a) the estimated expenses of achieving and maintaining the predicted levels of service;
- ii. (b) the projected revenue available to fund i.e. having the cash available at the right time;
- iii. (b) maintaining the service capacity and integrity of assets throughout their useful life; not just in the 10 years of the LTP, but for the whole life;
- iv. (c) the equitable allocation of responsibility for funding to ensure the revenue is fairly charged; and
- v. (d) the funding and financial policies which ensures that there is certainty of the sources of funding required.

Within the Act, the balanced budget test in section 100 focuses on deficits. While an operating deficit may indicate that the local authority's levels of service and/or financial operations are unsustainable and result in current costs being shifted to future generations, a surplus does not necessarily mean that the LTP is financially prudent.

One method a number of councils are using to meet the provisions of section 100 is to use the average of future renewal expenditure to set revenue rather than the forecast depreciation expense. In these cases the depreciation is still recognised as an expense but not used for the setting of

revenue. This is sometimes known as the Long Run Average Renewal approach (LRARA). This approach averages the renewal expenditure for the next 25-35 years and uses this in the calculation of funding requirements. However, LRARA cannot be used to calculate the depreciation expense as it is forward-looking and, this does not comply with the accounting concept of consumption. But more importantly if depreciation is calculated correctly then over the life cycle of an asset (ignoring the impacts of inflation and revaluation) the depreciation expense and LRARA based funding need calculation would be of the same or similar values.

Basis of Depreciation

As depreciation reflects the consumption of the asset over its useful life, there are two critical factors in determining the expense.

Cost or revalued amount

While the cost of an asset is relative easy to ascertain, because councils' assets provide benefit for a long period of time (50-100 years) councils revalue to reflect the fair value (book value) which for all infrastructural assets is based on Depreciation Replacement Cost (DRC) This is the replacement cost based on the replacement value of an equivalent asset, less the accumulated depreciation.

As a result of revaluing assets depreciation will increase. However, as the purpose of depreciation is to charge the people who are using the asset their share of that asset, if the value has increased, in theory the people using the asset should pay a greater share. If the value has increased so do the future renewal costs.

Useful life

One of the most difficult tasks in assessing the depreciation expense is assessing the asset's useful life. While there are standard useful lives and often manufacturers give a minimum useful life, there are a number of factors that dictate the ultimate useful life. However, these can be grouped into either condition based or performance based. Condition relates to the physical attributes of the asset, while performance relates to the ability of the asset to meet the level of service requirements.

The range of useful lives are reflected in each council's accounting policies which are included within the financial statements and these can vary significantly from council to council. It is not uncommon for one council to have a standard useful life of 80 years and another council to have a standard useful life of 160 years for the same asset because of different aspects, including construction methods, environmental constraints, topography and soil types. The change in useful lives results appropriately in a different depreciation expense.

Summary

The core question when considering a forecast operating deficit is whether current ratepayers are paying an appropriate level of rates bearing in mind the services they are receiving. This will typically involve deeper analysis of the apparent position to identify whether, for example, the deficit arises from a mismatch between the period in which expenses and revenues are recognised in terms of GAAP.

From: Philip Jones [s7\(2\)\(a\)](#)
Sent: Friday, 1 May 2020 3:40 pm
To: Jenny Livschitz <Jenny.Livschitz@huttcity.govt.nz>
Subject: RE: Bio

Attached

Kind regards

Philip Jones

[s7\(2\)\(a\)](#)

From: Jenny Livschitz <Jenny.Livschitz@huttcity.govt.nz>
Sent: Friday, 1 May 2020 14:57
To: Philip Jones [s7\(2\)\(a\)](#)
Subject: Bio

Hi Philip

I have to confess that I can't remember where I filed your bio that you gave me previously. Could you please resend.

thanks

Ngā mihi

Jenny Livschitz
Chief Financial Officer

Hutt City Council, 30 Laings Road, Private Bag 31912, Lower Hutt 5040, New Zealand
T 04 570 6736, M 027 238 5980, W www.huttcity.govt.nz

Released under the Local Government Official Information and Meetings Act



Introducing Philip Jones CA of PJ & Associates

Philip Jones has been consulting to a variety of Local Government related organizations since June 2007.

Philip specialises in financial management and strategy, risk and asset management, financial policies and financial governance. He sits as an independent on a number of local authority's Audit and Risk committees both as a member and a chair.



Between 1993–2007 Philip was the Chief Financial Officer and Group Manager Revenue and Finance for Western Bay of Plenty District Council (WBOPDC), Tauranga.

Areas of expertise

Philip has a wide range of financial skills and because of his unique understanding of both asset and financial management, he brings a unique understanding of what can be complex issues. Key areas of expertise include:

Facilitator in Financial Governance providing an understanding of finance for elected members

Development and review of Funding & Financial policies including Treasury, Revenue & financing, Rating and Development & Financial contributions policies

Development and review of Financial Strategies which are unique to each particular Council

Long Term Plans (LTP) development: from the planning stages to the detailed knowledge of the financial & reporting requirements

Risk Management Strategies

Audit & Risk Committee - member and facilitator

Funding evaluations for various capital expenditure requirements

Review of finance functions

Asset Management Plans (AMP): review of financial requirements of asset management plans and the linkage to other processes and documents.

Major work completed since June 2007

Auckland Council – Mayor’s Office

- Development of procurement strategy and policy

Association of Local Government Rating NZ Inc - (On Going)

- Facilitate and develop the annual seminar for rates officers

Bay of Plenty Regional Council

- Assistance with LTPs including Financial strategy
- Assistance with Development of long-term (50 years) funding model for rivers and drainage
- Assistance with Funding Impact Statement and Rates resolution compliance including Rotorua Lakes Targeted Rates

Carterton District Council – (On Going)

- Independent Chair of Audit & Risk Committee

Chatham Islands Council (On Going)

- Provision of external advice on reporting requirements and assistance with LTPs including Financial strategy

Kaikoura District Council

- Revenue Streams Health Check
- Subsequent financial advice including updating of Treasury policy and jointing Local Government Funding Agency

Kaipara District Council

- Financial Health and Sustainability Audit
- Subsequent financial advice
- Assistance with identifying options to resolve rating irregularities

Kawerau District Council – (On Going)

- Independent Chair of Audit & Risk Committee

Hawkes Bay Regional Council

- Development of long-term (50 years) funding model for rivers and drainage
- Review of Delivery of service as required by section 17A LGA
- Assistance with Funding Impact Statement and Rates resolution compliance

Horowhenua District Council – (On Going)

- Independent Chair of Finance, Audit & Risk Committee

Local Government Commission

- Identify the impacts of uniform land value and capital rating for the general rates across the three Wairarapa councils

Local Government New Zealand

- Development and presenter for;
 - New Elected Members,
 - Financial Governance 101,
 - Financial Governance 201, and
 - Audit & Risk Committees - Roles & Functions
- Development of best practice guide for Audit & Risk Committees
- Development and review of specific financial reports and requirements
-

Masterton District Council – (On Going)

- Independent Chair of Audit & Risk Committee
-

NAMS (New Zealand Asset Management Support)

- Development and presenter of a variety of training courses on asset management and levels of service.

Napier City Council – (On Going)

- Development of risk management strategy
- Assistance in developing LTP and associated policies including Development & Financial contributions
- Provision of strategic financial advice
-

Society of Local Government Managers

- Development and presentation of financial integration for LTPs, application of prudent financial management and balanced budget principles
- Development of rewrite of “More Dollars & Sense” for 2015 – 2025 LTPs
- Presenter at a number of courses and seminars

Ruapehu District Council – (On Going)

- Independent Chair of Audit & Risk Committee

South Taranaki District Council

- Assistance with LTPs including Financial strategy
- Assistance with completion of annual report
- Facilitator for the Revenue and Financing Policy Review

Thames Coromandel District Council

- External appointee to Audit & Risk Committee

Wairoa District Council

- External appointee to Finance, Audit & Risk Committee
- Operational Review – Financial compliance
- Ongoing financial and risk advice

Wanganui District Council

- Facilitator for the Revenue and Financing Policy Review

Western Bay of Plenty District Council

- Completed financial contributions for Omokoroa structure plan
- Strategic financial advice
- Preparing revised financial contributions for District Plan review for public consultation February 2009 including a review of submissions and final planners report.
- Assistance with LTPs

Whakatane District Council

- Completed finance review
- Revenue and Financing Policy Review
- Assistance with LTPs including Financial strategy
- Assistance with completion of annual report and annual plans
- Assistance with funding options

Acting General Manager Finance – (Part time)

Whangarei District Council

- External appointee to Audit & Risk Committee

Other clients include:

- Canterbury Earthquake Recovery Authority
- Department of Internal Affairs
- Dunedin City Council
- Environment Canterbury
- Fiji Road Authority
- Hamilton City Council
- Hastings District Council
- Kapiti Coast District Council
- Matamata-Piako District Council
- Nelson City Council
- Northland Regional Council
- New Plymouth District Council
- Rangitiki District Council
- Tasman District Council

- Tauranga City Council
- Southland District Council
- South Wairarapa District Council
- Stratford District Council
- Tararua District Council
- Various Regional Councils - review of rate setting requirements

Released under the Local Government Official Information and Meetings Act

Details of experience prior to 2007

Since 1993, Western Bay of Plenty District Council has seen a considerable amount of growth, (population increased from 28,000 to 42,000). During this time Philip was the senior manager responsible for all finance functions. He was responsible for the development of funding models to provide long term funding of four new or upgraded sewage plants, and three water expansions. He provided advice on the funding and accounting treatment for the first roading Performance-Based Contract which included both operations & maintenance, together with any capital expenditure, including renewals. During that time, WBOPDC external debt has increased from \$4 million to approximately \$80 million. During that time, Philip was instrumental in developing the Treasury policy and procedures to ensure one of the lowest costs of interest in the country.

From 1997 to 2007 Philip has been a lead member of the **Society of Local Government Managers (SOLGM) Financial Working Party**. The working party was set up to provide advice and develop best practice in New Zealand for Financial Management. In this role he has spoken at a significant number of conferences and seminars in both New Zealand and Australia, and was invited to present four sessions to Financial Managers in South Africa run by Applied Fiscal Research Centre, an adjunct of the University of Cape Town.

He was also SOLGM's financial representative on **NAMS (Now New Zealand Asset Management Support** previously **National Asset Management Steering Group**). Resulting from this, Philip has peer reviewed three manuals produced by NAMS – International Infrastructure Management Manual (IIMM) 2000, the IIMM Australia/New Zealand 2002 update and the Valuation & Depreciation Guidelines, including the update for International Financial Reporting Standards (IFRS). He was also on the executive for NAMS.

In 2005/2006, Philip was also the SOLGM representative on the **Joint Officials Group** on the review of funding for Local Authorities.

Also, in 2005/2006 he led the development of the JIGSAW guide on development of **Long Term Council Community Plan (LTCCP now Long Term Plan or LTP)**. This guide which is best practice, was a joint venture between SOLGM & NAMS, bringing together all the requirements of an LTCCP including asset management, financial reporting and policy development.

New Zealand Local Authorities are required to comply with all General Accepted Accounting Practice (GAAP). When the New Zealand Institute of Accountants issued a new Accounting standard on Fixed Assets (Plant Property & Equipment), Philip represented the public sector in reviewing submissions, and made recommendations to the **Financial Reporting Standards Board (FRSB)** as to any changes.

With the new Local Government Act 2002 he has been a member of the **Know How Working Party** on planning and reporting for the implementation of the new act.

Whilst working for WBOPDC, Philip has undertaken **funding policy** review work for other councils in New Zealand, and assisted a large council in South Australia with the **integration of financial and asset management**.

Philip has been the Project Manager for the review and amendment of **Financial Contributions** under the Resource Management Act that were made operative in 2003 without challenge.

Western Bay of Plenty was an early complier with the 1996 amendment to the Local Government Act (known as the No 3 amendment). Philip was the Project Manager to ensure Council's compliance. This included development of Council's first **Assets Management Plans, Funding &** result of this he has continued to develop knowledge of the linkages between finance and asset management.

From: Philip Jones s7(2)(a)
Sent: Tuesday, 28 April 2020 11:04 am
To: Bruce Robertson s7(2)(a)
Cc: Jenny Livschitz <Jenny.Livschitz@huttcity.govt.nz>
Subject: Hutt City report

Hi

Attached is my report for your peer review.

One you have read it, do you want to give me call to agree next steps?

Both Jo Miller (CEO) and Jenny Livschitz (CFO) have seen it.

Kind regards

Philip Jones



s7(2)(a)

Released under the Local Government Official Information and Meetings Act

Kia ora all,

Just under three weeks ago I requested (through the Chief Executive) a report about our existing financial strategy (adopted in 2018), and the changes proposed in the Long Term Plan Amendment and how that proposed budget was put together.

I asked that an expert independent third party prepare a report on the different approaches. As you will be aware, there have been suggestions that the proposed new way of setting our budget is wrong, and was misleading Councillors.

I made this request after discussing the issue with the chairs of our standing committees, and unanimous agreement that the issue needed to be settled so we could all focus on moving forward. I have attached this report for your information. This will also be on the agenda for Thursday as a noting report.

I also attached the bios of Philip Jones (author) and Bruce Robertson (peer reviewed) for your information. I suspect you wouldn't find many others in the Local Government financial management sector who are more qualified.

Personally I found the report very reassuring that we are on the right path with what was in our proposed LTP amendment, and it reinforces the quality of the advice given to us by Council Officers around the setting of our budget.

Kind Regards,

Campbell
Mayor

Released under the Local Government Official Information and Meetings Act



s7(2)(a)

1 May 2020

Report to Hutt City Council on the proposal to amend the 2018-2028 Long term plan and existing financial strategy

Executive summary

In March the Council agreed to go out to the public to consult on a proposed 7.9% rates increase in order to invest in key infrastructure, and put the city on a more secure and sustainable financial footing going forward.

This report considers the existing 2018-2028 Long term plan which includes the existing financial strategy was adopted by Council in June 2018 and the proposed amendment to the 2018-2028 Long term plan which was considered in March 2020 together with the proposed amended financial strategy.

Council, through its proposed amendment to the 2018-2028 Long term plan, has signalled that there would be a total expenditure increase of \$321,815K over the next ten years, of which 58% relates to capital expenditure, and of which 49% will be incurred in the next four years as demonstrated in the table below. The proposed amendment and annual plan key message included in the following comments:

Since the last LTP we have received new reports and information on what's needed to maintain and improve our Three Waters infrastructure and our transport network.

Changes to expenditure Increase/(Decrease)	Total 10 Years	Annual Plan 2021	Forecast 2022	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028	Forecast 2029	Forecast 2030
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Increase (decrease) in operational expenditure	136,636	18,054	12,852	12,172	13,076	14,280	16,062	15,796	10,270	14,142	9,932
Increase (decrease) in capital expenditure	185,179	(7,096)	24,277	48,090	35,070	22,698	(47,912)	(23,824)	42,134	44,773	46,970
Total Increase (decrease) in expenditure	321,815	10,958	37,129	60,262	48,146	36,978	(31,850)	(8,028)	52,404	58,915	56,902

This increase in expenditure has resulted in the Council amending its existing financial strategy.

However, on the 9th April 2020 Council resolved not to progress the Long term plan amendment and rather to develop a one year "emergency budget" Annual Plan 2020/21 at 3.8% rates increase as a result of COVID-19.

A financial strategy is required by section 101A of the Local Government Act 2002 (LGA) and its purpose includes the facilitation of prudent financial management.

Released under the Official Information and Meetings Act

The existing financial strategy that is contained in the existing¹ 2018-2028 Long term plan has three aims:

- Strengthening Council's financial position in anticipation of projects and programmes that may need funding in the next 20-30 years.
- Ensuring rates were affordable to our community and competitive when compared to local authorities with a similar population and a significant urban centre.
- Delivering services more efficiently than our peer local authorities.

The existing financial strategy is one of affordability i.e. keeping rates low, and building capacity for future expenditure by reducing the borrowing limits. This in itself restricts both operating and capital expenditure, without considering the longer-term impacts.

This existing strategy reflects restrained approach but does not document what the Council considers as being prudent. As one of the purposes of a financial strategy is to facilitate prudent financial management, the strategy should include a statement on how the Council intends to manage its finances prudently.

A review of the last three years Annual reports confirms that the Council has a very constrained approach to financing capital expenditure. By removing the non-cash gains and losses from both the actual and budgeted operating results, this discloses accumulated actual deficits of \$22,849K (budgeted deficits of \$20,095K). This approach is not financially sustainable in the long-term and if not corrected this will ultimately result in a significant rise in rates.

This then, questions whether that existing approach was prudent. The existing financial strategy does not consider prudence nor does it consider the impact of having an unbalanced budget in the first year of a long-term plan. The proposed deficits were commented on briefly in the body of the Long term plan.

To be prudent, a local authority must consider at least the following:

- Current financial position including debt levels and available head room to provide for unanticipated events which require local authorities to undertake additional borrowing.
- Physical state of infrastructure including future needs, and also including maintenance and the funding of asset replacement to meet the intend levels of service.
- Overall approach to funding including the use of depreciation.
- The community's appetite for increase in rates and debt.

The requirement to have a balanced budget is contained with the Local Government Act 2002 and requires all local authorities to set their budgeted revenues at a level meet that year's budgeted operating expenses, until the authority resolves it is not prudent to do so.

While the Financial statements² supporting the proposed amendment to the 2018-2028 Long term plan disclose a significant deficit in the first year, there are surpluses in the following years. However, this forecasted result includes capital revenue, which has been excluded when Council has considered its proposed financial strategy. As the proposed

¹ See Appendix 1 for an extract of existing Financial strategy

² See appendix 2 summary of Revenue and expenditure budgets for the proposed Annual & amendment to LTP

amendment to the 2018-2028 Long term plan discloses surpluses after year 1, therefore Council will have a balanced budget for the remaining periods.

The Council in considering the need for additional operational and capital expenditure has amended³ the financial strategy as part of the proposed amendment to the Long term plan and 2020/21 Annual plan to reflect the following key principles of:

- Promoting the sustainable funding of services
- Affordability of rates
- Delivering services effectively and efficiently
- Achieving intergenerational equity by spreading the costs between both present and future ratepayers
- Maintaining prudent debt levels
- Strengthening Council's financial position.

This is an improvement on the existing strategy and there are further improvements to be made, in particular by defining the need for increased funding for renewal expenditure and considering the impact of a balanced budget and noting the intention to increase revenues over time to "balance the budget".

In conclusion, the proposed financial strategy and the approach taken in the development of the proposed amendment to the 2018-2028 Long term plan is a significant improvement. The reason for this improvement from the existing strategy is by clearly explaining the need to increase expenditure and move to a tighter balanced budget test consistent with good practice. This will assist in forming a sound and financially prudent approach for the development of the 2021-2031 Long term plan.



Philip Jones
Principal

³ See appendix 3 an extract of proposed comments, strategy and principles supporting the proposed Annual & amendment to LTP

Purpose of report

The following issues are considered in the report are:

1. The existing and proposed Financial strategies including how the principle of the balanced budget test as set out in section 100 Local Government Act 2002 (LGA), and consideration the Balanced budget benchmark as set in Local Government (Financial Reporting and Prudence) Regulations 2014 have been considered.
2. How depreciation is calculated including the identification of assumptions and how these change over time including why it is important to consider the revalued amount, not the historical cost when meeting the balanced budget test.
3. Commentary on approach as set out in the 2018-2028 Long term plan for achievement of balanced budget and the results in the Annual reports for the years ended 30 June 2017, 2018 & 2019 focusing on Operating surpluses (deficits) and net operating cash.
4. Commentary on the proposed approach as set out in the proposed amendment to the 2018-2028 Long term plan including proposed amendment to the for financial strategy achievement of balanced budget.

As the report is based on the initial proposal to amend the 2018-2028 Long term plan and financial strategy, these are referred to in the report as proposed amendment to the 2018-2028 Long term plan and the proposed Financial strategy. These are compared with the existing 2018-2028 Long term plan and the existing Financial strategy contained within that plan.

Consideration of prudence

There is a fundamental requirement for prudent financial management contained in section 101 Local Government Act 2002 (LGA) which requires all local authorities to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently.

Section 100 subsection 1 of the LGA states:

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.

However, section 100, then goes on to say:

- 2) *Despite subsection (1), a local authority may set projected operating revenues at a different level from that required by that subsection **if the local authority resolves that it is financially prudent to do so**, having regard to—*
- (a) the estimated expenses of achieving and maintaining the predicted levels of service provision set out in the long-term plan, including the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life; and*
 - (b) the projected revenue available to fund the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life; and*
 - (c) the equitable allocation of responsibility for funding the provision and maintenance of assets and facilities throughout their useful life; and*
 - (d) the funding and financial policies adopted under section 102.*

What the Act does is create a rebuttable presumption that forecasting a surplus is financially prudent.

Financial prudence is not defined in the Act. But the legislation provides some insight into what is intended by this phrase. In the standard dictionary sense prudence means 'careful', 'sensible', or 'habit of acting with careful deliberation'. A local authority that does not operate a balanced budget and has been cavalier in its treatment of the above matters may well be acting imprudently.

There is one other statutory reference that provides an indication of Parliament's view of what is considered financially prudent. Section 102 specifies certain financial policies which are required to be adopted by every council. The legislative rationale for requiring these policies is 'in order to provide predictability and certainty about sources and levels of funding'. This can be seen as an indication that predictability and certainty of funding levels and sources is seen as an element of being financially prudent.

Application of the concept of prudence in relation to establishing the level of operating revenue for the purposes of LTP forecasting/budgeting would require the local authority to set operating revenue at such a level that applies an unbiased assessment in areas of judgement based on the best available information. The most significant area of judgement that impacts the level of forecast operating expense, and therefore the level of operating revenue needed to enable council to adequately fund the level of service represented by the forecast operating expenses, is the useful life of the numerous components comprising the infrastructure assets of the Council. Other judgements included in the determination of operating revenue include the level of revenue sources other than rates in any period.

The requirement to set operating revenues at a level sufficient to meet operating expenses includes depreciation because section 111 (LGA)⁴ obliges all local authorities to follow generally accepted accounting practice (GAAP), which defines 'operating expenses'. As depreciation is an operational expense it must be included with other operational costs including interest when a local authority sets its operating revenue.

What the legislation requires is that a local authority ensure that projected revenues are at least equal to projected operational expenditure including depreciation, unless it is prudent to do otherwise. The cash or funding generated by the revenue may be used for present capital needs (including renewals), debt reduction or set aside for future capital needs. This helps ensure sound asset management practice and continuity of service to future generations.

Purpose of depreciation

There is confusion over the purpose of depreciation as many believe that the purpose of depreciation is to provide for the replacement of an asset. In fact, depreciation reflects the use or consumption of the service potential implicit in an asset. GAAP defines depreciation as follows:

⁴ Section 111 States *All information that is required by any provision of this Part or of Schedule 10 to be included in any plan, report, or other document must be prepared in accordance with generally accepted accounting practice if that information is of a form or nature for which generally accepted accounting practice has developed standards.*

- **Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life.

-

As depreciation reflects the consumption of the asset over its useful life, there are two critical factors in determining the expense. The first is the cost or revalued amount, and the second is the useful life. It is therefore not related to the physical wearing out, for example to be able to sit on a park bench in year one (or flush toilet) is the same benefit to a ratepayer as being able to sit on park bench in year 15, 16, and 17 (or flush toilet).

The purpose of depreciation is not to provide for the replacement of the asset(s), however this may be an intended or unintended consequence as many councils have assumed that depreciation is for the replacement of an asset.

The approach to depreciation in the local government context is no different than the commercial sector where depreciation is accepted as a legitimate operating expense; the only real difference is the useful lives of local government infrastructure assets are significantly longer than many assets used in the commercial sector.

As depreciation reflects the consumption of the asset over its useful life, there are two critical factors in determining the expense. Both of these can change dramatically over the life of the asset.

Cost or revalued amount

While the cost of an asset is relatively easy to ascertain, because councils' assets provide benefit for a long period of time (50-100 years), councils revalue to reflect the fair value (book value) which for all infrastructural assets is based on Depreciation Replacement Cost (DRC). This is the replacement cost based on the replacement value of an equivalent asset, less the accumulated depreciation. It is important to note there is a requirement that an entity annually considers the fair value of its assets and that at least every five years it revalues its assets. Most local authorities revalue at least every three years.

As a result of revaluing assets depreciation will increase based on an equivalent replacement cost. However, as the purpose of depreciation is to charge the people who are using the asset their share of that asset, if the value has increased, in theory the people using the asset should pay a greater share. If the value has increased so do the future renewal costs.

Useful life

One of the most difficult tasks in assessing the depreciation expense is assessing the asset's useful life. While there are standard useful lives and often manufacturers give a minimum useful life, there are a number of factors that dictate the ultimate useful life. However, these can be grouped into either condition based or performance based. Condition relates to the physical attributes of the asset, while performance relates to the ability of the asset to meet the level of service requirements.

The range of useful lives are reflected in each council's accounting policies which are included within the financial statements and these can vary significantly from council to council. It is not uncommon for one council to have a standard useful life of 80 years and another council to have a standard useful life of 160 years for the same asset because of different aspects, including construction methods, environmental constraints, topography and soil types. The change in useful lives results appropriately in a different depreciation expense.

Furthermore, as more and better information becomes available, then the useful life of an asset can increase or decrease.

Conclusion on depreciation

As depreciation is a significant expense for Hutt City Council (24% of operating expenditure), therefore the calculation and how that expense is considered in setting its overall revenue is an important component when defining if the Council is acting prudently.

Importance of the financial strategy as defined in section 101A⁵ LGA

The financial strategy is a key part of telling the story of both the long-term plan and also considering how the local authority is intending to manage its finances in a prudent manner.

While there are two key pieces of legislation that require a local authority to consider prudence, there is often other factors outside of the legislation that council must consider in developing both its financial strategy and its view on prudence. Each Council must consider its own factors including:

- Current financial position including debt levels and available head room to provide for unanticipated events which require local authorities to undertake additional borrowing.
- Physical state of infrastructure including future needs and also including maintenance and the funding of asset replacement to meet the intend levels of service.
- Overall approach to funding including the use of depreciation.
- The community's appetite for increase in rates and debt.
- The overall direction and desired end point for the financial status for the local authority.
- A synthesis of the financial issues and consequences arising from the policy and service delivery decisions elsewhere in the LTP and how the local authority intends to manage those consequences.

Taken together the financial and infrastructure strategy provide the reader with a sense of the costs, risks and trade-offs that underpin the development of the expenditure programmes in the LTP which informs the reader as to the appropriate issue or the "right debate".

Consideration of the Prudence regulations

⁵ Section 101A Financial strategy

- (1) A local authority must, as part of its long-term plan, prepare and adopt a financial strategy for all of the consecutive financial years covered by the long-term plan.
- (2) The purpose of the financial strategy is to facilitate—
 - (a) prudent financial management by the local authority by providing a guide for the local authority to consider proposals for funding and expenditure against; and
 - (b) consultation on the local authority's proposals for funding and expenditure by making transparent the overall effects of those proposals on the local authority's services, rates, debt, and investments.

In 2014 the Government introduced the Local Government (Financial Reporting and Prudence) Regulations 2014 (the Regulations) also known as the Prudence regulations. The purpose of the Regulations was not to define what is prudent, nor is it a definitive measure, however it is a test over a period of time that can be measured against other local authorities. This is one of many other measures that local authorities are required to report against both in long-term plans and annual reports. It is considered a useful guide rather than the definitive answer.

The Regulations define a balanced budget as:

A local authority meets the benchmark for a year if its revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment) for the year exceeds its operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment) for the year.

Council has used this as an appropriate tool in setting its proposed financial strategy, however as noted above it must be considered against other measures of prudence.

Consideration of net cash operating surpluses

Cash operating surpluses are set out in the cashflow statements which are included both in the Annual report and the forecasted financial statements in the Long term plans. These surpluses are part of the consideration of prudence, but it must be remembered that these surpluses are to be used for capital expenditure including renewals and loan repayments. In addition, because Council can receive significant capital subsidies and these subsidies can significantly distort the net cash operating surpluses, the expenditure that the subsidy was received for is disclosed as capital expenditure.

An alternative to using a cash flow statement in which only cash transactions that occurred in the year are reported, is to use a modified funding impact statement approach to reflect cash transactions and then compare surplus with renewal expenditure. This modified approach removes capital income from revenue and depreciation is removed from expenditure.

Existing financial strategy and achievement of balanced budget

The existing financial strategy has the key messages:

- Strengthening Council's financial position in anticipation of projects and programmes that may need funding in the next 20-30 years.
- Ensuing rates were affordable to our community and competitive when compared to local authorities with a similar population and a significant urban centre.
- Delivering services more efficiently than our peer local authorities.

As noted above, one of the purposes of the financial strategy is to facilitate prudent financial management by the local authority by providing a guide for the local authority to consider proposals for funding and expenditure against. The existing infrastructure strategy states that on average, it allows for \$15m in capital replacements and \$17m to improve and upgrade this infrastructure per annum. It also states that this means we can spread the costs to both present and future ratepayers who will benefit from these facilities. This statement is not supported in the detail of the financial strategy.

While the existing financial strategy does not detail what the Council considered as prudent, by reference to the key messages, in my opinion the existing financial strategy is one of affordability i.e. keeping rates low, and building capacity for future expenditure by reducing the borrowing limits. This in itself restricts both operating and capital expenditure, without considering the longer-term impacts. The existing strategy did not provide a rationale for the debt limits to decrease over the period of the strategy.

A useful test to ensure that there is an adequate provision for renewal expenditure is to compare the proposed renewal expenditure of a period of time as outlined in the infrastructure strategy, and compare this with the proposed depreciation. While these two figures will never agree, it is a useful test to understand why there are differences over a 30-year period. Often depreciation can be based on incorrect useful lives, and renewal expenditure is only based on current information. By undertaking this test and understanding the differences between the two amounts, it can lead to a better understanding of future renewal expenditure. The understanding of future renewal expenditure is critical to the development of a robust financial strategy.

The existing financial strategy, while legally compliant, in my opinion does have some deficiencies. The majority of these deficiencies have been addressed in the proposed financial strategy. It must be remembered that this was the previous Council's view and therefore relevant to the views of that Council at the time.

Review of the last three years financial statements

A review of the three years Annual reports for the years ended 30 June 2017, 2018 and 2019 and the budgets and actual results provide confirmation that the Council has a very constrained approach to financing capital expenditure. Appendix 4 is an extract of the results from the three Annual reports.

As part of this report I have not considered the supporting assumptions including whether the deficits in the first years of the Long term plan are solely due to grants being paid to the Community Facilities Trust as noted in the existing financial strategy. Nor have I considered the capital expenditure in the existing plan and that some expenditure has been reclassified as operational in the proposed plan. However, the 2018/19 Annual Report noted that the Council recorded a net deficit of \$17.9M including a loss on revaluation of financial instruments of \$11.7M (compared to a budgeted net deficit of \$2.1M), and the most significant reason⁶ for the increase in the deficit was the additional costs of \$4M which were budgeted as capital expenditure and were transferred to operational expenditure as part of the Annual reporting process.

Extract of Statement of comprehensive revenue and expenses

	Budget		
	2017	2018	2019
Operating surplus (deficit)	(14,563)	(3,453)	(2,079)
Gains (losses) on property revaluations		72,313	
Total comprehensive revenue and expenses	(14,563)	68,860	(2,079)

⁶ Refer to page 10 2018/19 Annual report for further details.

As noted above the reasons for the consistent deficits are not discussed in the financial strategy, nor are the consequences. It has been argued that a Council should include gains (or losses) on property revaluations as part of the balanced budget test. As noted above, generally revaluation only occur every three years, and this is non cash associated gain or loss, therefore it would be imprudent to include the value as part of the balanced budget test. Furthermore, if there was a loss, then a local authority would be funding expenditure for which there would be no related expenditure.

Therefore, the balanced budget test should be undertaken excluding non-cash gain or losses. This is reinforced by Financial Regulations balanced budget benchmark which is defined as "Council Revenue excluding development contributions, vested assets, gains on derivatives and revaluations of property, plant and equipment as a proportion of operating expenses – excluding losses on derivatives and revaluation.

Both these tests are a tighter test than the balances budget test based on total comprehensive revenue and expenses required by Generally Accepted Accounting Standards.

These figures include non-cash gains and losses	Actual		
	2017	2018	2019
Operating surplus (deficit)	974	(11,203)	(17,937)
Gains (losses) on property revaluations		69,781	
Impairment gain (losses) on revalued property			(9,358)
Total comprehensive revenue and expenses	974	58,578	(27,295)

The primary reasons for the differences between budget and actual are:

- 2017 Gain on revaluation of financial instruments (non-cash) \$5M and reduced operating expenses \$10M
- 2018 Loss on revaluation of financial instruments \$3M and reduced subsidies and grants \$4M
- 2019 Loss on revaluation of financial instruments \$12M and increased operational expenditure \$9M (includes reclassification of capital expenditure to operating \$4M).

If non-cash gains and losses are removed over the three years the actual operating deficits amounted to \$22,849K compared with a budget of \$20,095K.

These figures include non-cash gains and losses	Budget		
	2017	2018	2019
Operating surplus (deficit)	(14,563)	(3,453)	(2,079)
	Actual		
	2017	2018	2019
Operating surplus (deficit)	(4,870)	(8,346)	(9,633)

This approach of \$22.8M of actual deficit is not sustainable in the long-term and if not corrected this will ultimately result a significant rise in rates to recover from this position.

A further test of sustainability is to consider the net surplus from operational expenditure, having removed the capital income from revenue and the depreciation removed from expenditure. This is set out in the last table in appendix 4

Rather than using a cash flow statement which only cash transactions that occurred in the year are reported, a modified funding impact statement approach to reflect cash transactions and then compare surplus with renewal expenditure could be used.

This provides an additional perspective as to Council's Long-term funding replacement strategy. It is generally expected to see the surplus figure to be equal or greater than the costs of replacing existing assets. In the 3 years considered there was a consistent shortfall between the amount of the surplus and the value of replacing existing assets, even after allowing for a portion of a capital subsidies being available to replace existing assets. Again, this supports the view that the approach as included in the 2018-2028 Long term plan is not financially sustainable.

Review the proposed approach as set out in the 2020/21 Annual Plan & amendment to the 2018-2028

The following was noted in the proposed 2020/21 Annual Plan & amendment to the 2018-2028 Long term plan:

Since the last LTP we have received new reports and information on what's needed to maintain and improve our Three Waters infrastructure and our transport network. In 2020 we are now set to reach the population figure we did not expect to reach until 2030. Wellington Water has advised us we need to double our investment in our water network to ensure a properly functioning water supply, waste and stormwater system. Our local roading, walking and cycling networks also need investment to accommodate a growing population and provide more options for people moving around our city

This financial statement supports this approach, but the proposed Revenues do not provide sufficient income to equal the total operational expenditure, which results in a significant deficit in the first year, and there are surpluses in the following years. However, this forecasted result includes capital revenue, which has been excluded when Council has considered its proposed financial strategy. As the proposed amendment to the 2018-2028 Long term plan discloses surpluses after year 1, therefore Council will have a balanced budget for the remaining periods.

Because depreciation exceeds renewal in the proposed 2020/21 Annual Plan year, and providing the Council progressively increase revenue over a period of time to ensure a balance budget, and resolves that it has considered all the requirements of section 100 (2), the Council could be considered as being prudent in its approach.

Proposed financial strategy

The proposed financial strategy was developed because the existing financial strategy was breached in terms of rates revenue increase and debt increase and those increases would be for a period of time. This is not the preferred method of developing a financial strategy. However, within the financial strategy that has been developed, there are significant

improvements to the existing financial strategy by defining the need for increased funding for renewal expenditure and considering the impacts of non-cash⁷ items.

The proposed financial strategy considers the impact of a balanced budget mainly due to revenues not covering the full cost of depreciation and notes its intention to increase all revenue over time to “balance the budget”. It has also considered the impacts of the financial regulations⁸ as a measure for a balanced budget. As noted above these are only a measure, and not necessarily the only consideration.

Council could have noted that the financial strategy was breached and resolved to accept the breach, noting that the financial strategy would be reviewed as part of the development of the 2021-2031 Long term plan process. Council was of the opinion that amending the financial strategy was the preferred option, and this should be acknowledged.

It should be noted that in the proposed financial strategy, the Council must review its financial strategy prior to the beginning of the development of the next long-term plan. In my opinion the strategy should be redeveloped, considering the items listed in the paragraph titled “Importance of the financial strategy as defined in section 101A” above.

Conclusion

Within the existing approach including the 2018-2028 Long term plan and financial strategy, which at the time the Council considered to be appropriate, there are risks and consequences which were not articulated in either the Long-term plan or the financial strategy. The strategy did not disclose why the existing approach was prudent.

A Long term plan is only a forecast which is based on the information provided at the time, now there is information on what’s needed to maintain and improve the Three Waters infrastructure and the transport network. This together with refinement of costings and timing of major projects, and the proposed amendment to the 2018-2028 Long term plan, signals that there would be a total expenditure increase of \$321,815K over the next ten years. A change of strategy must be considered and this is entirely appropriate. This then requires an amendment to both the rates and debt requirements and therefore the financial strategy.

This is an improvement on the existing strategy. In particular, defining the need for increased funding for renewal expenditure and considering the impact of a balanced budget and noting the intention to increase revenues over time to “balance the budget”.

⁷ The methodology or definition used above in the financial strategy section of the LTP 2018-2028 for “net surplus/deficit” was the International Public Sector Accounting Standards (IPSAS) financial statement results from the ‘Statement of Comprehensive Revenue and Expenses’ which were then adjusted to exclude the accounting impact for asset revaluations and gains/losses for financial instruments.

⁸ In 2014, Government introduced a number of amendments to the LGA, including the Local Government 2014 Financial Regulations, which established eight benchmarks against which all councils must report. One of these benchmarks is the balanced budget which is defined as “Council Revenue excluding development contributions, vested assets, gains on derivatives and revaluations of property, plant and equipment as a proportion of operating expenses – excluding losses on derivatives and revaluations”.

This definition includes NZTA capital subsidies as revenue and assumes councils fully rate for depreciation.

The proposed financial strategy and the approach taken in the development of the proposed amendment to the 2018-2028 Long term plan is a significant improvement from the existing strategy as it has a tighter balanced budget test which is consistent with sector good practice. The approach will assist in the Council and community forming a view as to what is financially prudent for Hutt City. This then enables a robust financial strategy to be developed as part of the 2021-2031 Long term plan.

Released under the Local Government Official Information and Meetings Act

Appendix 1

The existing financial strategy includes the following:

Council has adopted and followed consistent financial strategies for more than 10 years. The financial strategies have had similar aims:

- *strengthening Council's financial position in anticipation of projects and programmes that may need funding in the next 20-30 years*
- *ensuring rates were affordable to our community and competitive when compared to local authorities with a similar population and a significant urban centre*
- *delivering services more efficiently than our peer local authorities.*

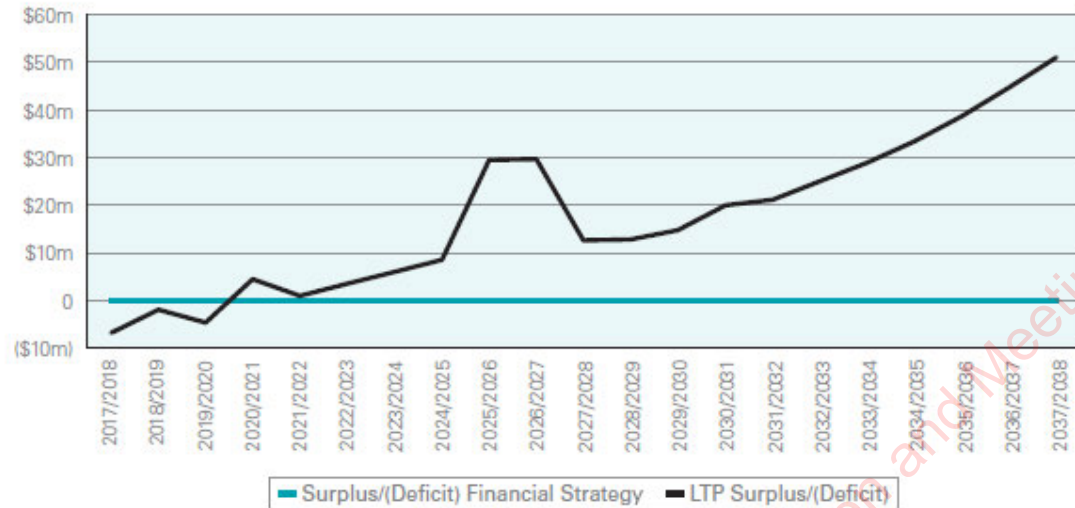
Our Financial Strategy promotes the sustainable funding of services. We maintain \$1.4 billion worth of assets from an annual income of \$158 million - borrowing money to pay for new facilities and infrastructure, and to maintain or upgrade existing facilities.

This means we can spread the costs to both present and future ratepayers who will benefit from these facilities. At the same time, we recognise that affordability of rates is a major issue for many people.

Our limits on rate increases and borrowing were most recently reviewed and agreed with the community in June 2017. Changes were made to the Financial Strategy in order for the programme of rejuvenation and revitalization that commenced in 2014, to continue and to provide greater budgetary flexibility. A more sustainable debt strategy linked to affordability was implemented. Changing the borrowing limits allowed rate increases to be held to the level of inflation while retaining a AA credit rating.

Limits	Measure	Target
Overall operating result	Surplus each year	Budgeted surplus
Limits on revenue	Increase in rates revenue	Maximum annual rates income increase % and dollars, with increase to be no more than LGCI after allowing for estimated average growth of 1%
Limits on borrowings	Net interest to revenue	Below 10%
	Net debt maxima	Year 1-3 <150% to revenue, Years 4-6 < 130% to revenue, Years 7 -12 < than 110% Years 13+ < than 90% of total revenue

SURPLUS / DEFICIT

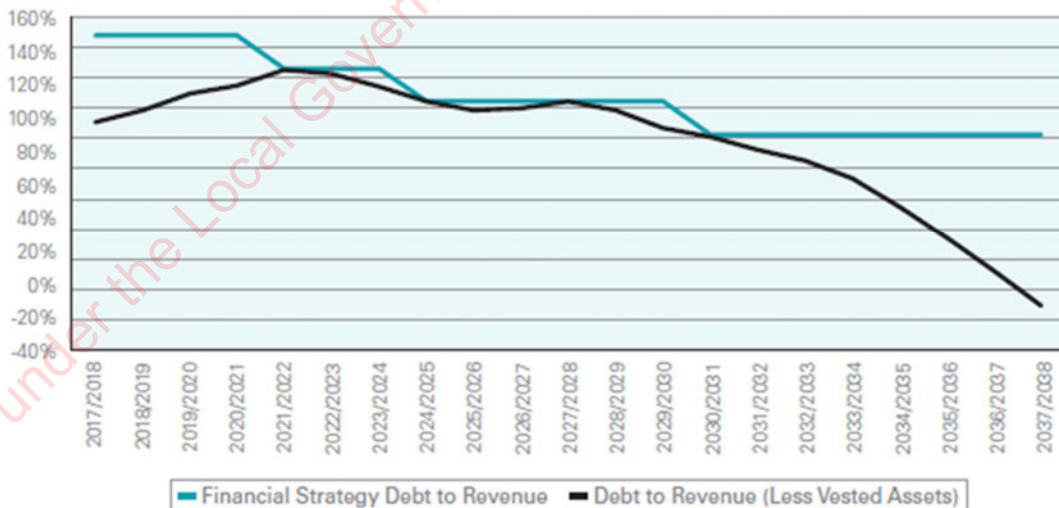


OVERALL OPERATING RESULT

Council's strategy is to produce financial surpluses each year. The above graph shows a deficit in 2017-2018 to 2019-2020. The deficits are due to grants being paid to the Community Facilities Trust (CFT) that are required to be treated as operating expenditure but are for capital works carried out by the CFT.

The peaks in 2025-2026 and 2026-2027 are due to additional subsidies for Roothing Network Improvements that are programmed for these years.

DEBT TO REVENUE RATIO



LIMITS ON BORROWING - NET DEBT TO REVENUE

Council's financial strategy is to maintain debt within limits expressed as a percentage of revenue. Debt is not to exceed; 150% of total revenue in years 1 to 3 of the plan, 130% of total revenue in years 4 to 6, 110% of total revenue in years 7 to 12, and 90% of total revenue in year 13 and beyond.

For the year ending 30 June

DRAFT ANNUAL PLAN 2020/2021

	Annual Plan	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
REVENUE										
General rates & other rate	117,685	123,452	130,242	134,800	140,192	145,239	150,468	155,885	161,653	167,634
User charges	40,769	42,076	40,423	42,091	43,315	44,067	45,106	46,283	47,421	48,661
Operating Subsidies & Grants	4,503	4,619	4,704	4,811	4,927	5,045	5,166	5,295	5,428	5,565
Capital Subsidies	6,695	4,617	7,567	9,705	8,005	6,001	6,227	32,107	34,108	25,375
Upper Hutt CC Operating	2,113	2,160	2,209	2,260	2,314	2,370	2,427	2,487	2,549	2,613
Development & Financial	2,802	2,863	604	617	633	648	663	681	697	715
Interest earned	796	1,018	1,037	1,052	1,073	1,088	1,103	1,123	1,153	1,183
Dividends from LATEs	6	6	215	220	335	343	466	478	490	502
Gain/(loss) on Disposal of Assets	-	-	-	-	-	-	-	-	-	-
Vested Assets	858	878	899	917	940	962	988	1,011	1,035	1,063
Other revenue	4,901	4,948	4,135	3,936	4,031	4,392	4,230	4,340	4,729	4,561
Total revenue	181,128	186,637	192,035	200,409	205,765	210,155	216,844	249,690	259,263	257,872
EXPENDITURE										
Employee costs	38,460	38,903	38,871	40,856	41,838	42,870	43,871	44,967	46,120	47,242
Operating costs	96,140	93,715	94,547	91,710	93,620	97,866	99,717	99,509	107,452	103,925
Support costs/internal charges	-	-	-	-	-	-	-	-	-	-
Interest expenditure	8,598	8,726	10,029	11,289	11,899	12,159	11,111	10,376	10,188	10,675
Depreciation	44,441	44,949	46,072	49,603	50,257	50,715	53,219	53,103	53,804	57,569
Total expenditure	187,639	186,293	189,519	193,458	197,614	203,610	207,918	207,955	217,564	219,411
SURPLUS/(DEFICIT)	(6,511)	344	2,516	6,951	8,151	6,545	8,926	41,735	41,699	38,461

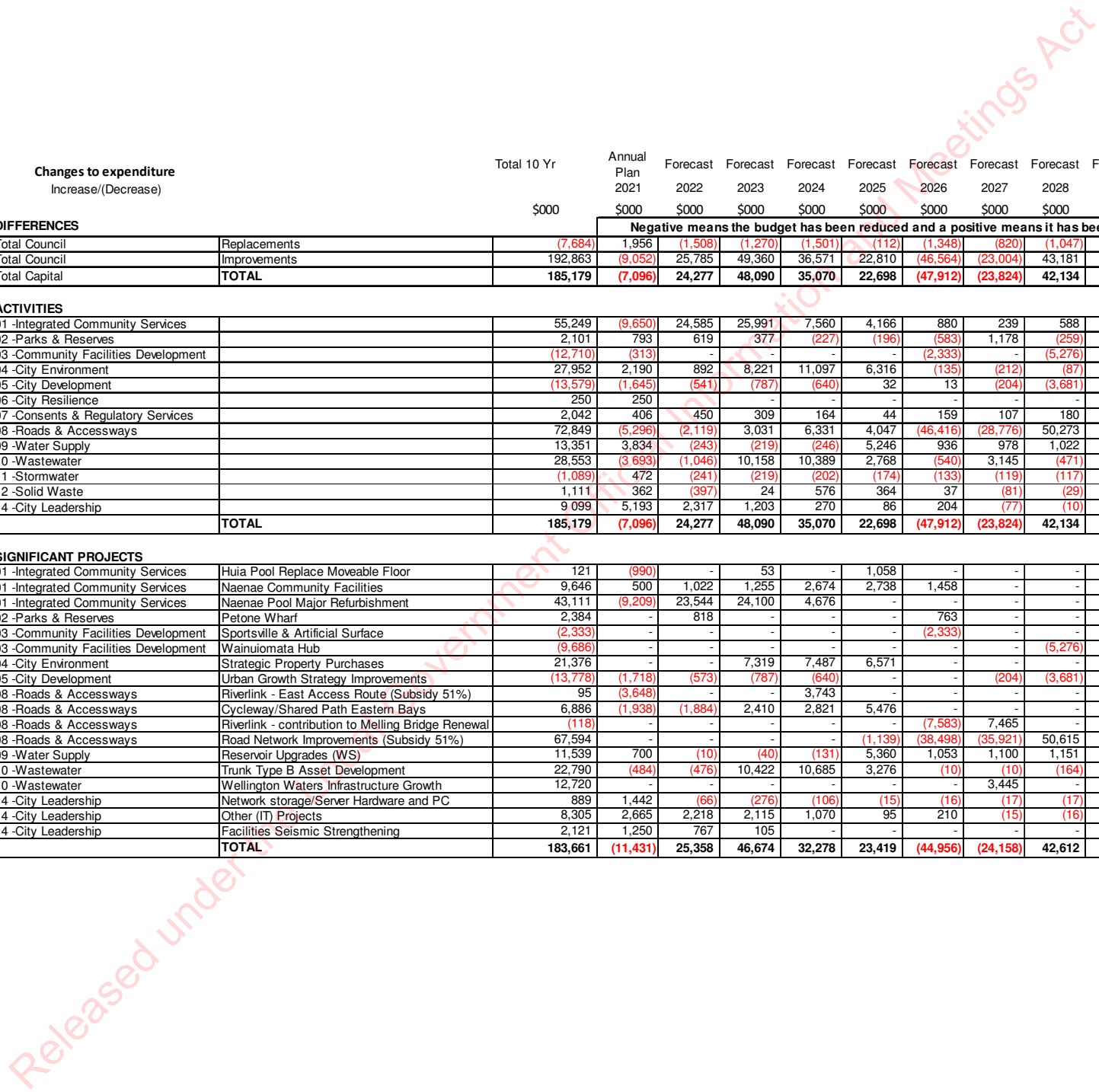
Appendix 2 Details of changes in operational expenditure

Released under the Local Government Information Act

Changes to expenditure Increase/(Decrease)	Total 10 Yr	Annual Plan 2021	Forecast 2022	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028	Forecast 2029	Forecast 2030
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
REVENUE											
General rates & other rate	126,318	6,917	9,141	11,705	11,879	12,604	13,435	14,186	14,831	15,521	16,099
User charges	2,875	1,378	1,860	(875)	(116)	166	220	145	134	11	(48)
Operating Subsidies & Grants	2,460	222	244	234	239	249	255	255	257	254	251
Capital Subsidies	40,618	(2,316)	(756)	1,455	3,577	2,450	(19,416)	(18,082)	26,031	28,543	19,132
Upper Hutt CC Operating	(5,687)	(512)	(522)	(532)	(544)	(555)	(567)	(584)	(602)	(624)	(645)
Development & Financial	207	1,696	1,893	(388)	(398)	(404)	(415)	(425)	(437)	(451)	(464)
Interest earned	(199)	(199)	-	-	-	-	-	-	-	-	-
Dividends	(504)	6	(207)	(3)	(114)	(7)	(124)	(12)	(13)	(14)	(16)
Gain/(loss) on Disposal of Assets	-	-	-	-	-	-	-	-	-	-	-
Vested Assets	(211)	(20)	(18)	(17)	(21)	(20)	(20)	(18)	(22)	(27)	(28)
Other revenue	(3,553)	(13)	691	(432)	(512)	(519)	(502)	(548)	(806)	(304)	(608)
Total revenue	162,324	7,159	12,326	11,147	13,990	13,964	(7,134)	(5,083)	39,373	42,909	33,673
EXPENDITURE											
Employee costs	15,352	1,074	1,421	553	1,669	1,751	1,809	1,797	1,783	1,785	1,710
Operating costs	89,038	15,538	12,369	11,387	6,767	6,798	8,409	7,949	5,054	10,730	4,037
Interest expenditure	(14,227)	(1,880)	(2,678)	(1,929)	(656)	176	351	(1,191)	(2,179)	(2,479)	(1,762)
Depreciation	46,473	3,322	1,740	2,161	5,296	5,555	5,493	7,241	5,612	4,106	5,947
Total expenditure	136,636	18,054	12,852	12,172	13,076	14,280	16,062	15,796	10,270	14,142	9,932
FAVOURABLE / (UNFAVOURABLE) DIFFERENCE	25,688	(10,895)	(526)	(1,025)	914	(316)	(23,196)	(20,879)	29,103	28,767	23,741

Released under the Local Government Information and Meetings Act

Changes to expenditure Increase/(Decrease)	Total 10 Yr \$000	Annual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
		Plan 2021 \$000	2022 \$000	2023 \$000	2024 \$000	2025 \$000	2026 \$000	2027 \$000	2028 \$000	2029 \$000	2030 \$000	
DIFFERENCES												
Negative means the budget has been reduced and a positive means it has been increased												
Total Council	Replacements	(7,684)	1,956	(1,508)	(1,270)	(1,501)	(112)	(1,348)	(820)	(1,047)	(680)	(1,353)
Total Council	Improvements	192,863	(9,052)	25,785	49,360	36,571	22,810	(46,564)	(23,004)	43,181	45,453	48,323
Total Capital	TOTAL	185,179	(7,096)	24,277	48,090	35,070	22,698	(47,912)	(23,824)	42,134	44,773	46,970
ACTIVITIES												
01 -Integrated Community Services		55,249	(9,650)	24,585	25,991	7,560	4,166	880	239	588	845	46
02 -Parks & Reserves		2,101	793	619	377	(227)	(196)	(583)	1,178	(259)	(230)	630
03 -Community Facilities Development		(12,710)	(313)	-	-	-	-	(2,333)	-	(5,276)	(4,788)	-
04 -City Environment		27,952	2,190	892	8,221	11,097	6,316	(135)	(212)	(87)	(230)	(100)
05 -City Development		(13,579)	(1,645)	(541)	(787)	(640)	32	13	(204)	(3,681)	(6,139)	14
06 -City Resilience		250	250	-	-	-	-	-	-	-	-	-
07 -Consents & Regulatory Services		2,042	406	450	309	164	44	159	107	180	49	175
08 -Roads & Accessways		72,849	(5,296)	(2,119)	3,031	6,331	4,047	(46,416)	(28,776)	50,273	55,111	36,664
09 -Water Supply		13,351	3,834	(243)	(219)	(246)	5,246	936	978	1,022	976	1,067
10 -Wastewater		28,553	(3,693)	(1,046)	10,158	10,389	2,768	(540)	3,145	(471)	(887)	8,730
11 -Stormwater		(1,089)	472	(241)	(219)	(202)	(174)	(133)	(119)	(117)	(173)	(183)
12 -Solid Waste		1,111	362	(397)	24	576	364	37	(81)	(29)	277	(23)
14 -City Leadership		9,099	5,193	2,317	1,203	270	86	204	(77)	(10)	(37)	(50)
	TOTAL	185,179	(7,096)	24,277	48,090	35,070	22,698	(47,912)	(23,824)	42,134	44,773	46,970
SIGNIFICANT PROJECTS												
01 -Integrated Community Services	Huia Pool Replace Moveable Floor	121	(990)	-	53	-	1,058	-	-	-	-	-
01 -Integrated Community Services	Naenae Community Facilities	9,646	500	1,022	1,255	2,674	2,738	1,458	-	-	-	-
01 -Integrated Community Services	Naenae Pool Major Refurbishment	43,111	(9,209)	23,544	24,100	4,676	-	-	-	-	-	-
02 -Parks & Reserves	Petone Wharf	2,384	-	818	-	-	-	763	-	-	-	804
03 -Community Facilities Development	Sportsville & Artificial Surface	(2,333)	-	-	-	-	-	(2,333)	-	-	-	-
03 -Community Facilities Development	Wainuiomata Hub	(9,686)	-	-	-	-	-	-	-	(5,276)	(4,410)	-
04 -City Environment	Strategic Property Purchases	21,376	-	-	7,319	7,487	6,571	-	-	-	-	-
05 -City Development	Urban Growth Strategy Improvements	(13,778)	(1,718)	(573)	(787)	(640)	-	-	(204)	(3,681)	(6,174)	-
08 -Roads & Accessways	Riverlink - East Access Route (Subsidy 51%)	95	(3,648)	-	-	3,743	-	-	-	-	-	-
08 -Roads & Accessways	Cycleway/Shared Path Eastern Bays	6,886	(1,938)	(1,884)	2,410	2,821	5,476	-	-	-	-	-
08 -Roads & Accessways	Riverlink - contribution to Melling Bridge Renewal	(118)	-	-	-	-	-	(7,583)	7,465	-	-	-
08 -Roads & Accessways	Road Network Improvements (Subsidy 51%)	67,594	-	-	-	-	(1,139)	(38,498)	(35,921)	50,615	55,499	37,038
09 -Water Supply	Reservoir Upgrades (WS)	11,539	700	(10)	(40)	(131)	5,360	1,053	1,100	1,151	1,125	1,230
10 -Wastewater	Trunk Type B Asset Development	22,790	(484)	(476)	10,422	10,685	3,276	(10)	(10)	(164)	(435)	(13)
10 -Wastewater	Wellington Waters Infrastructure Growth	12,720	-	-	-	-	-	-	3,445	-	-	9,275
14 -City Leadership	Network storage/Server Hardware and PC	889	1,442	(66)	(276)	(106)	(15)	(16)	(17)	(17)	(19)	(20)
14 -City Leadership	Other (IT) Projects	8,305	2,665	2,218	2,115	1,070	95	210	(15)	(16)	(17)	(19)
14 -City Leadership	Facilities Seismic Strengthening	2,121	1,250	767	105	-	-	-	-	-	-	-
	TOTAL	183,661	(11,431)	25,358	46,674	32,278	23,419	(44,956)	(24,158)	42,612	45,569	48,296

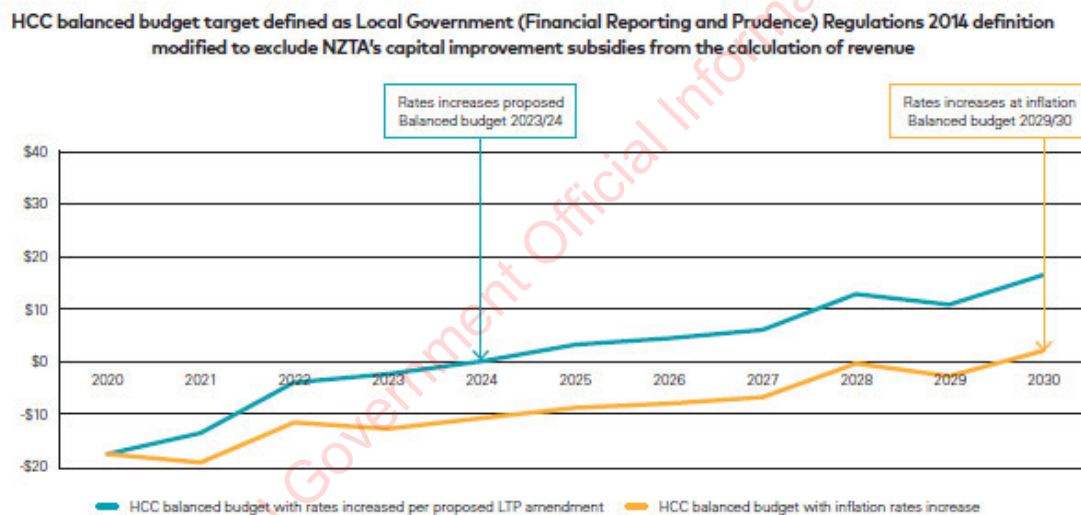


Appendix 3

The key messages in the consultation document are:

Since the last LTP we have received new reports and information on what's needed to maintain and improve our Three Waters infrastructure and our transport network. In 2020 we are now set to reach the population figure we did not expect to reach until 2030. Wellington Water has advised us we need to double our investment in our water network to ensure a properly functioning water supply, waste and stormwater system. Our local roading, walking and cycling networks also need investment to accommodate a growing population and provide more options for people moving around our city.

Our financial strategy needs to consider current and future needs and ensure expenditure is spread across both present and future ratepayers. If we want to fund all our plans we need to make changes to our financial strategy. The changes proposed would allow for greater rates revenue rises and an increased borrowing limit. We are proposing a 7.9% rates revenue increase for 2020/21, a change to limits on borrowing and to work towards having a balanced budget by 2023/24.



Principles of the proposed financial strategy

1. The financial strategy enables Council's contribution to the vision for Lower Hutt.
2. Fairness and equity

The funding of expenditure is equitable across both present and future ratepayers.

- a) Intergenerational equity – the cost of long term assets should be met by ratepayers over the life of that asset. This is reflected by debt funding new assets and funding the replacement or renewal of assets from rates.
- b) Balanced Budget – projected operating revenues over the lifetime of the LTP is set at a level sufficient to meet projected operating expenses, ensuring that current ratepayers are contributing an appropriate amount towards the costs of the services

they receive or are able to access i.e. 'everyday costs are paid for from everyday income'.

3. Prudent sustainable financial management – budgets are managed prudently and in the best interests of the city in the long term. Debt must be maintained at prudent levels and be affordable.

4. Ability to pay (affordability) - affordability is an important consideration as it ensures that the ability of our diverse community to pay rates is transparently considered as part of the decision making process. Consideration will be given at both the macro level (i.e. generally affordable to most) and also at the micro level (i.e. for a specific individual where rates rebates, remissions or postponement policies may be required).

5. Value for Money – any proposals must contribute to the strategic outcomes agreed with the community and the total cost must be reasonable. The cost effectiveness of the funding mechanism must be considered.

6. Prioritisation of investment choices – careful consideration is given to investment choices and options, with priority given to core infrastructure investment and 'invest to save' options.

7. Good financial governance and stewardship

Good stewardship of the Council's assets and finances require Council to ensure that its actions now do not compromise the ability of future councils to fund future community needs. Under this principle:

- a) Assets must be maintained at least at current service levels to avoid placing a financial burden on future generations.
- b) Debt must not be used to fund operating expenditure other than in specific exceptional circumstances.
- c) The level of debt is regularly reviewed to ensure that it is at a level that will not restrict a future council's ability to fund new assets through debt.
- d) The consequential operational expenditure implications of capital expenditure decisions are considered.

Appendix 4 Extract of financial statement from the Annual reports for the years ended 30 June 2017, 2018 & 2019

Extract of Statement of comprehensive revenue and expenses	2017 \$,000		2018 \$,000		2019 \$,000	
	Actual	Budget	Actual	Budget	Actual	Budget
REVENUE						
Rates	99,311	99,007	102,082	102,559	105,316	105,123
Fees, charges and metered rates for water	33,409	33,429	36,965	35,241	40,012	38,663
Development & Financial Contributions	450	561	1,030	561	665	561
Subsidies & Grants	10,523	15,013	13,258	17,418	14,893	17,573
Finance income	1,040	687	969	686	1,300	968
Other revenue	7,373	5,740	6,562	5,662	7,206	5,711
Gain on revaluation of financial instruments	5,152	-	-	-	-	-
Gain on Disposal of Assets	692	-	18	-	3,253	-
Total revenue	157,950	154,437	160,884	162,127	172,645	168,599
EXPENDITURE						
Employee costs	32,338	32,110	34,532	33,491	35,841	36,319
Operating costs	83,015	93,228	90,914	90,072	96,033	87,397
Interest expenditure	6,145	7,187	7,039	7,193	8,042	8,781
Loss on revaluation of financial instruments	-	-	2,875	-	11,557	-
Depreciation	35,478	36,475	36,727	34,824	39,109	38,181
Total expenditure	156,976	169,000	172,087	165,580	190,582	170,678
SURPLUS/(DEFICIT)	974	(14,563)	(11,203)	(3,453)	(17,937)	(2,079)
Other comprehensive revenue and expenses						
Gains (losses) on property revaluations			69,781	72,313		
Impairment gain (losses) on revalued property					(9,358)	-
Total comprehensive revenue and expenses	974	(14,563)	58,578	68,860	(27,295)	(2,079)

Extract of Statement of comprehensive revenue and expenses excluding non cash gains and losses	2017 \$,000		2018 \$,000		2019 \$,000	
	Actual	Budget	Actual	Budget	Actual	Budget
REVENUE						
Rates	99,311	99,007	102,082	102,559	105,316	105,123
Fees, charges and metered rates for water	33,409	33,429	36,965	35,241	40,012	38,663
Development & Financial Contributions	450	561	1,030	561	665	561
Subsidies & Grants	10,523	15,013	13,258	17,418	14,893	17,573
Finance income	1,040	687	969	686	1,300	968
Other revenue	7,373	5,740	6,562	5,662	7,206	5,711
Total revenue	152,106	154,437	160,866	162,127	169,392	168,599
EXPENDITURE						
Employee costs	32,338	32,110	34,532	33,491	35,841	36,319
Operating costs	83,015	93,228	90,914	90,072	96,033	87,397
Interest expenditure	6,145	7,187	7,039	7,193	8,042	8,781
Depreciation	35,478	36,475	36,727	34,824	39,109	38,181
Total expenditure	156,976	169,000	169,212	165,580	179,025	170,678
SURPLUS/(DEFICIT)	(4,870)	(14,563)	(8,346)	(3,453)	(9,633)	(2,079)
Accumulated Surplus(Deficit) over the last three years	(22,849)	(20,095)				

Modified Funding Impact statement	2017 \$,000		2018 \$,000		2019 \$,000	
	Actual	Budget	Actual	Budget	Actual	Budget
REVENUE						
Rates	99,311	99,007	102,082	102,559	105,316	105,123
Fees, charges and metered rates for water	33,409	33,429	36,965	35,241	40,012	38,663
Operating Subsidies & Grants	6,246	6,450	5,844	6,091	5,304	4,611
Finance income	1,040	687	969	686	1,300	968
Other revenue	7,373	5,740	6,562	5,662	7,206	5,711
Total revenue	147,379	145,313	152,422	150,239	159,138	155,076
EXPENDITURE						
Employee costs	32,338	32,110	34,532	33,491	35,841	36,319
Operating costs	83,015	93,228	90,914	90,072	96,033	87,397
Interest expenditure	6,145	7,187	7,039	7,193	8,042	8 781
Total expenditure	121,498	132,525	132,485	130,756	139,916	132,497
SURPLUS/(DEFICIT)	25,881	12,788	19,937	19,483	19,222	22,579
Add capital funding sources						
Increase in debt	11,891	68,709	39,987	37,345	15,479	33,088
Capital Subsidies	4,277	8,563	7,414	11,327	9,589	12,962
Development & Financial Contributions	450	561	1,030	561	665	561
Deduct Capital expenditure						
Additional demand	-	-	-	-	3,795	8,644
Increased level of service	33,285	66,009	47,936	56,783	26,414	46,179
Replace existing assets	16,599	26,177	18,235	22,073	14,017	17,804
Total Capital expenditure	49,884	92,186	66,171	78,856	44,226	72,627
Increase (reduction) in reserves/cash	(7,385)	(1,565)	2,197	(10,140)	729	(3,437)