Council is already generating healthy surpluses

The HCC CEO is using graphs that shows deficits to justify massive rates increases and blame them on past financial management. The graphs are fundamentally flawed. They do not show Council's audited bottom line results.

On a technical basis, the graphs ignore the fact that Council depreciation charges include the depreciation of asset values that don't require any council expenditure (vested assets, subsidised assets, and revalued asset amounts). No ratepayer funds are required for these items!

If ratepayers are required to fund the full depreciation expense, the extent of the funding must be reduced by the capital subsidies, vested assets and depreciable asset revaluation credits.

This can be easily demonstrated by considering a sample long-life asset as follows:

Example long-life assets full cost	***10,000,000***	
NZTA subsidy	***50%***	
Net HCC cost	***5,000,000***	
Annual asset inflation	***2.5%***	***Revalued 3-yearly***
Asset life	***100 years***	
Total depreciation charged over asset life	***42,219,633***	
Capital funding actually required by Council	***5,000,000***	
Surplus rates collected under CEO's proposal	***37,219,633***	***!!!***
Total revaluation credits	***32,219,633***	
Capital subsidy credits	***5,000,000***	
Total value of credits that need to be recognised to avoid overcharging ratepayers	***37,219,633***	

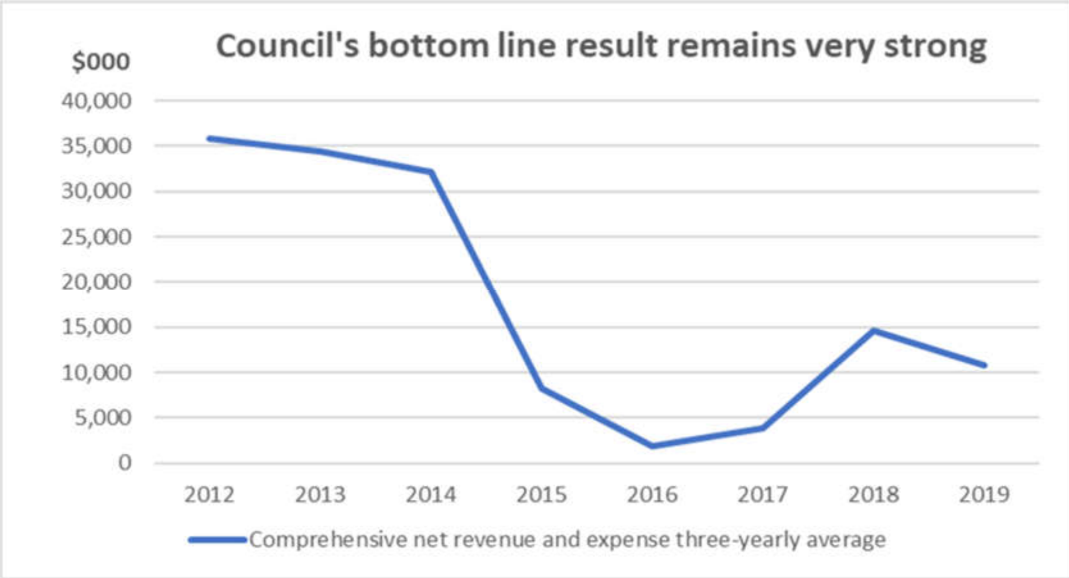
If Council's actual "bottom line" is taken from published audited reports it appropriately reflects the necessary credits highlighted above. That is why accounting standards were designed this way, and not the way the Council CEO has proposed in the misleading graphs.

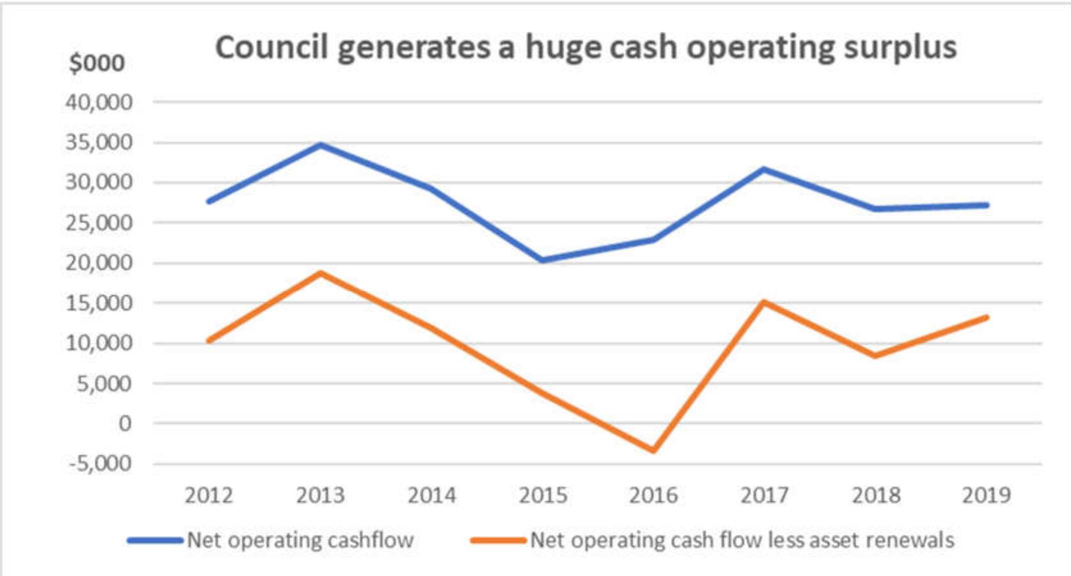
While there is huge variability between years due to the timing of accounting entries, it is apparently that the Council has been running healthy surpluses on a three yearly average basis.

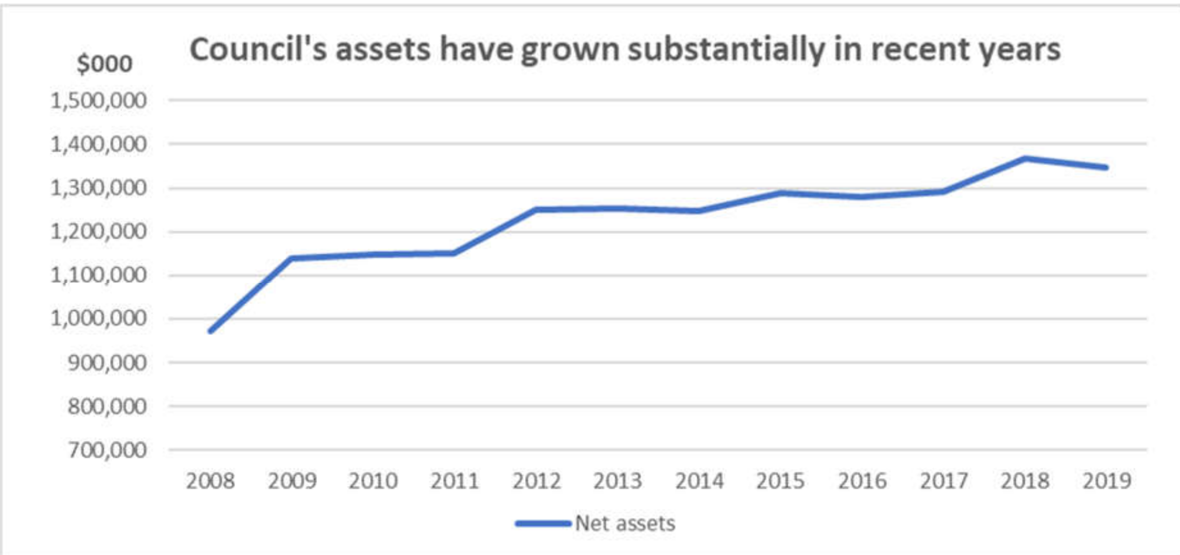
This can also be seen from reading the published audited reports from a cash flow perspective. Very large cash surpluses from operations are reported every year, even after deducting asset renewal expenditure.

Council's net assets have also been increasing significantly over the years. This is another sign of healthy financial management.

If Hutt City Council is proposing massive rates increases, it is actually to finance their increased expenditure and not to correct historical underfunding.


Council's bottom line result remains very strong
$000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
2012
2013
2014
2015
2016
2017
2018
2019
Comprehensive net revenue and expense three-yearly average


Council generates a huge cash operating surplus
$000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
-5,000
2012
2013
2014
2015
2016
2017
2018
2019
Net operating cashflow
Net operating cash flow less asset renewals


Council's assets have grown substantially in recent years
$000
1,500,000
1,400,000
1,300,000
1,200,000
1,100,000
1,000,000
900,000
800,000
700,000
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
Net assets