Foreword: Below is my draft Chairman's Report to the Hamilton City Council's Finance Committee meeting of Tuesday 22 May 2018. On 15 May 2018 I was advised by the Hamilton City Council CEO that he would not allow this report to be included in the Agenda of that meeting. I disagreed and/or could not understand the COE's reason/s for his not allowing the Chairman's report to be included on the agenda. I shall not attempt to articulate his reasoning at the risk of misinterpreting and/or misrepresenting his reasoning - that would be unfair to the CEO. Please note the figures have been confirmed as accurate by David Bryant, General Manager Corporate in an email dated 14 May 2018. Read on at your peril …

Hamilton City Council – Finance Committee

Tuesday 22 May 2018

Chairman's Report

I hope this report will add some context around Council's financial position. I don't expect total, majority or even any agreement with the conclusion I offer but I hope you'll have a wider understanding of how and why we've arrived at our current financial position. A financial position I'm convinced will worsen if we continue as we are.

The Council of 2010-13 set out to fashion a more sustainable economic track after suffering, among other things, a collapse in growth and Development Contributions (DC's), the V8's debacle and early signs of financial woe at the Claudelands Events Centre. That Council resolved to increase rates by 8% (2012) followed by annual rate increases of 3.8% for the rest of the 2012-2022 Ten Year Plan. The 8% increase was, by historical standards, an extremely high rate increase and the following 3.8% annual increases were significantly higher than the prevailing rate of inflation and economic growth. The community were told these rate increases were necessary to (1) balance the Council's books (2) reduce Debt and (3) provide 'Rates Certainty' to ratepayers.

Now, in 2018, this Council is reaping our Community's response to the draft 2018-2028 Ten Year Plan knowing that the preceding large rate increases did not (1) balance the Council's books, (2) did not provide 'Rates Certainty" (3) and any reduction in Debt came about largely due to enormous growth in DC's and a consistent failure to complete Council's capital works programme.

There is significant and justified dismay over the proposed rate hikes in the 2018-2028 Ten Year Plan. The proposed rate hikes to existing ratepayers, 9.5% (ye 2019) and 9.5% (ye 2020) followed by 3.8% every year through 2028, are larger than 2012 rate increases and, in some cases, they are financially debilitating. Things are getting worse for many ratepayers.

Elected members, residents and ratepayers have been advised that these very high rate increases are caused by the rapid growth Hamilton has faced and will likely face in the future. This rapid growth is driving SOME of the rate increases. But further analysis suggests that growth is not the ONLY thing, and may not even be the MAJOR thing, driving the rate increases. This further analysis suggests that this Council, along with its predecessors, has failed to address its ever growing and ever expanding day-to-day expenditure, sometimes called Business As Usual (BAU) expenditure. For example our draft 2018-28 Ten Year Plan has:

1. Total expenses increase 11.8% in 2018/19 and 55.9% over the 10-year plan.
2. Personnel costs increase 8.7% in 2018/19 and 42.9% over the 10-year plan.
3. Depreciation/amortisation increase 6.12% in 2018/19 and 65.8% over the 10-year plan.
4. Finance costs increase 9.8% in 2018/19 and 32.6% over the 10-year plan.
5. Operating/maintenance costs increase 23.3% in 2018/19 and 90.6% over the 10-year plan.
6. Professional costs increase 52.1% in 2018/19 and 34.4% over the 10-year plan.
7. Administration costs increase 8.1% in 2018/19 and 45.6% over the 10-year plan.
8. Property costs increase 3.8% in 2018/19 and 35.6% over the 10-year plan.
   (Source: Council Agenda 27 March 2018 pg 535 of 612)

In all cases the first year (2018/19) of the plan expenditure is greater than expected CPI and, in many cases, materially greater. This growth in expenditure occurs over the entire ten years. As we move through the ten years, starting from zero, a small portion of the increase in BAU will come from Operating Expenditure associated with Growth Assets/Services. However most of the increase in BAU expenditure comes from growth in the cost of operating and maintaining EXISTING facilities and/or services with little or no, increase in "Level of Service" for our community from those existing facilities and/or services.

As a glaring example of the impact of this enormous growth in BAU expenditure I've compared:

1. **The "additional" rates revenue Council collected 2012-2018.** (This additional rates revenue came (1) mostly through rate increases to existing ratepayers e.g. the 8% 2012 increase and the subsequent 3.8% annual increases and (2) a smaller amount came from new ratepayers.)

Versus

2. **The losses sustained by H3 over that same 2012-2018 period.** (H3 consists primarily of the Claudelands Events Centre, FMG Stadium, Seddon Park and iSite. It included Founders Theatre prior to its closure.)

   The attached spreadsheet shows that the **"additional"** rates revenue Council collected via (1) the 8% rate increase in 2012 (2) the subsequent 3.8% annual increases plus (3) the rates collected from new ratepayers over the period 2012-2018 is **$47,271,000.**

   The attached spreadsheet also shows over that same 2012-2018 period H3 delivered losses of **$116,876,062.**

   That means every single additional dollar Council collected from the 2012-2018 rate increases has been swallowed up by H3. H3's losses were $69,605,062 more than the additional rates collected. This massive shortfall is not caused by growth, this is day-to-day Business As Usual. And it's been reported to this and previous Council's for at least the past 3-4 years.

"Baby what a big surprise - Right before my very eyes"

But it gets worse …

We've done absolutely nothing to address this issue. The H3 results are reported to the Finance quarterly. It's **"Right before our very eyes".** Consider this:

1. Council's draft 2018-2028 Ten Year Plan proposes an increase to existing ratepayers of 9.5%.

2. Rates for ye 2018 are budgeted $160,765,000.
3. Next year (ye 2019) if the 9.5% rate increase is applied to $160,765,000 (i.e. to existing ratepayers) those existing ratepayers will pay another $15,272,675 in rates.
4. So that 9.5% increase, which is causing havoc amongst many ratepayers and giving some Elected Members the heeby-jeebies, doesn't even cover H3's $16,981,996 budgeted loss for 2018!

We are doing our ratepayers a huge injustice by "Balancing the Books" from their wallets. Council has chosen to increase revenue rather than reduce expenditure. As I've said before **"we don't have a revenue problem, we have a spending problem."**

And that's only H3. 'Just off the top of my head' you can add about $500,000 pa that iSite loses, about $800,000 pa that free CBD Parking will lose, about $6,500,000 pa that the CBD Library loses and many, many more - it's hard to see any respite for ratepayers.

Unless Council address its massive growth in spending, it's very likely that in the not too distant future, Council will once again be faced with looming deficits and once again ratepayers will be faced with huge rate increases in order that Council can (1) balance the Council's books (2) reduce Debt and (3) provide 'Rates Certainty' to ratepayers.

kind regards

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