Introduction

We are extremely concerned about the decision of the Hamilton City Council to increase net debt to $780m, total liabilities to $892m, as outlined in the 2018-2028 10 year Plan. This is enormous debt for Hamilton, a small city with a population of just 167,000 and 57,900 ratepayers, with Council's total annual revenue of $235m at the time of this decision. The Council intends to spend $2billion over the next decade on new projects and infrastructure. In the same period the projected population increase is 21,000 (about 7,500 ratepayers) meaning a spending of $95,000 for each new resident, more than $260,000 for each new ratepayer.

While ratepayers do not object to contributing to the provision of new housing there is currently development work on about 10 areas, some of them sites with no infrastructure at all, so that any failure of the market could see many uncompleted subdivisions. Hamilton ratepayers would like to prevent a situation similar to that faced by the Mangawhai ratepayers who became liable for huge Rate increases because of the failure of the KDC to control large increases in debt. A win for their case in the High Court and an apology from the Auditor General was no compensation for Mangawhai ratepayers who were still held liable for paying the debt.

Threats to Income

We can see a number of threats to the security of the predicted future income of the Hamilton City Council.

1. Fewer dwellings completed than predicted, therefore less income from Development charges, fees and compliance costs, and fewer new ratepayers to cover the infrastructure costs that have already been incurred.
2. A significant fall in property values could make Rates unenforceable on ratepayers with high mortgages because the bank/mortgage holder may refuse to increase the mortgage or allow the forced sale of a property to recover unpaid (unaffordable) Rates if a ratepayer's debt becomes greater than their equity.
3. A significant increase in the number of people on low fixed incomes deferring the payment of (unaffordable) Rates.
4. Legal action against the unlawful application of a UAGC to "Separate" parts of rating units, rather than "Separately Used or Inhabited" parts.[3]
5. Legal action against the calculation of Rates on a mix or Land Value and Capital Value (not allowed under Section 13(3) (a) of the LGRA).[1,2]
6. Legal action against Rates set on Capital Value where there is dispute over who actually "owns" a property that has high mortgage debt, and whether such a ratepayer is "wealthy" and therefore "can afford to pay high Rates".

1. http://www.legislation.govt.nz/act/public/2002/0006/latest/DLM131394.html
2. https://www.solgm.org.nz/Folder?Action=View%20File&Folder_id=90&File=Rating%20Guide%20final%20-%20web%20version.pdf
3. https://www.hamilton.govt.nz/our-council/10-year-plan/Pages/Separately-used-or-inhabited-part-of-a-rating-unit-(SUIP).aspx

Our Concerns:-

- Lack of Consultation
- Questionable viability of the 10 Year Plan
- Failure to Meet Financial benchmarks
- Failure to Comply with the LGA and LGRA
- Excessive "Non-Core" Spending
- Debt to Revenue Ratios
- High Staff Costs

Lack of Consultation

There has been no opportunity for the public to vote on decisions to increase debt. There was no place in the Consultation Document for the 2018-28 10-Year Plan to vote for doubling of debt and $2b infrastructure

spending on expansion. In fact responses to the Consultation on the 10 year Plan for 2018-2028 were overwhelmingly in favour of cutting unnecessary spending, reducing debt and limiting rate increases.
https://haveyoursay.hamilton.govt.nz/strategy-research/10yp-2018-2028/
The Mayor and councillors had all campaigned for election on reduction of debt.

Viability of the 10 Year Plan

We are asking the Office of the Auditor General to look at the financial projections of the Hamilton City Council to ensure the 10-year plan is viable and has the appropriate risk contingencies. https://www.hamilton.govt.nz/our-council/10-year-plan/Final%2010Year%20Plan%20Documents/2018-28%2010-Year%20Plan%20FINAL%20for%20WEB.pdf

- **The Local Government Funding Authority** (LGFA) has expressed their concern over the debt level of Hamilton City Council by placing them on a Credit Watch.
- **Fitch Ratings** placed Hamilton City Council on a negative outlook (AA-Negative) in April 2019.
- Hamilton City Council has shown no to ability to reduce debt in the previous 10 years (Tables 1 and 2) and has no plan to reduce debt in the next 10 years as projections in the 2019-2020 Annual Plan show (Table 1 and Figure 1).

Forecast Financial Statements in the 10-Year Plan show total liabilities increasing to $892m in 2023 and remaining at $891m in 2028. There is no evidence of extra income to repay debt because (after leaving out vested assets which are not actually “spendable” income) Rates provide 70% of total income in 2017/18 and also in 2027/28.
Predicted developer contributions of $313m do not even cover finance/interest costs of $360m.

Hamilton City Council projections indicate that the proposed debt is not manageable in the foreseeable future; projections published in the 2019-2020 Annual Plan (Figure 1) show Net Debt remaining between $720 million and $770 million (Total Debt between $865 million and $891 million) through 2022 to 2028 despite the prediction of more than 11,000 new dwellings/new ratepayers over the 10 years.
https://www.hamilton.govt.nz/our-council/council-publications/annualplan/Documents/Annual%20Plan%202019-20.pdf

Table 1 shows actual data for 2018 and predictions for 2028 from the 2018-2028 10 Year Plan.

Table 1 Hamilton City Council Actual and Predicted Debt					
End June	**Number of Ratepayers**	**Total Revenue**	**Total Debt**	**Total Debt-Total Revenue**	**Total Debt/ Ratepayer**
2008	49,700	$185 million	$246 million	$61 million	$4,955
2018	57,860	$300 million	$511 million	$211 million	$8,831
2028	69,280	$476 million	$891 million	$414 million	$12,860

Figure 1 Actual and Projected Debt
Data from Hamilton City Council 2019-2020 Annual Plan

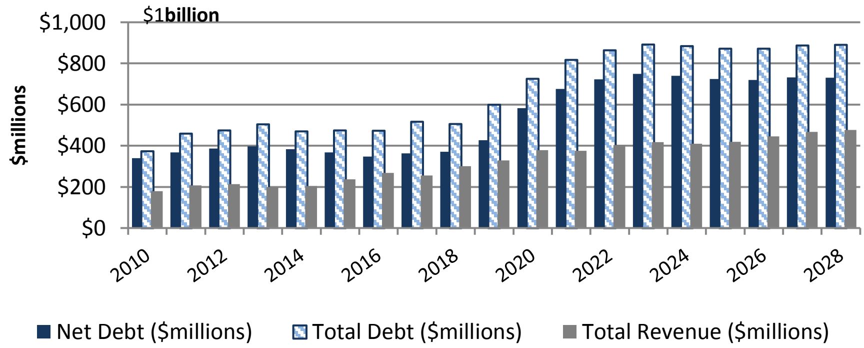
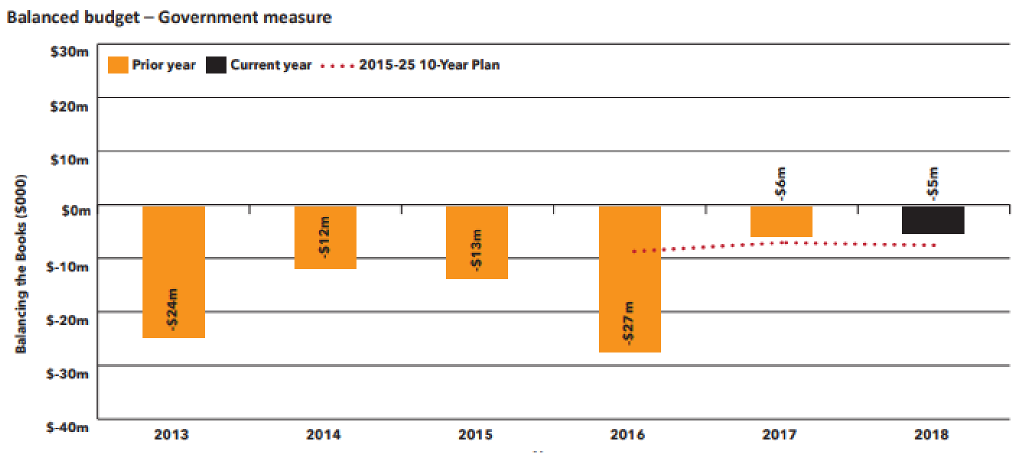


Table 2 Data from Hamilton City Council Annual Reports

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
	$ooo	$ooo	$ooo	$ooo	$ooo	$ooo	$ooo	$ooo	$ooo	$ooo
Rates Revenue	$97,400	$108,462	$113,494	$123,243	$121,374	$134,151	$140,375	$147,294	$153,696	$161,356
Total revenue	179,644	$179,758	$206,478	$213,614	$198,800	$204,179	$237,481	$268,174	$256,179	$299,985
Total operating expenses	$196,206	$195,837	$198,396	$211,897	$205,675	$209,183	$212,326	$225,528	$224,420	$235,052
Net Debt	**$264,000**	**$339,000**	**$366,898**	**$385,417**	**$396,485**	**$382,965**	**$367,256**	**$348,005**	**$362,173**	**$370,000**
Total liabilities	**$290,608**	**$373,889**	**$459,482**	**$474,565**	**$504,484**	**$470,602**	**$474,282**	**$473,152**	**$516,630**	**$510,921**
Number of ratepayers	50,400	51,500	53,500	54,100	54,500	54,700	55,500	56,100	57,200	57,860

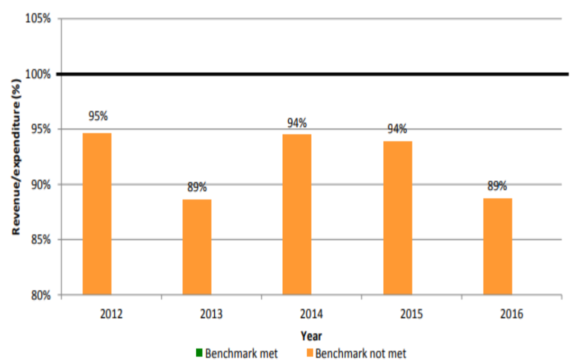
Failure to Meet Financial benchmarks

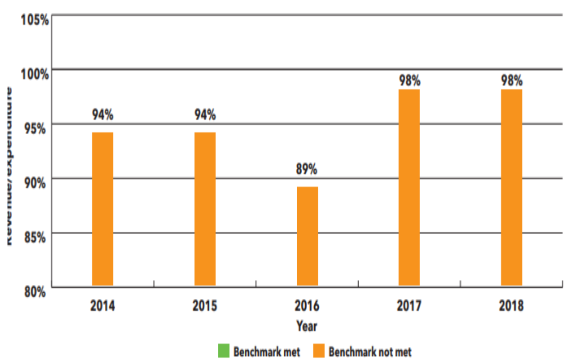
Hamilton City Council has consistently failed to meet the balanced budget benchmark; management have failed to find ways of cutting operating costs to meet this benchmark.



Graphs from Annual Report 2015 -2016 and Annual Report 2017 -2018

The following graphs display the Council's revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment) as a proportion of operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment). The Council meets this benchmark if its revenue equals or is greater than its operating expenses.





Failure to Meet the Requirements of the LGA and LGRA

We are concerned that some of the regulations specified in the LGA and the LGRA are wilfully ignored by Hamilton City Council (HCC), while they continue to claim the power to enforce rates.

1. HCC have informed ratepayers of spending decisions but have offered no chance to vote in Consultation Documents for greatly increased spending and debt increases.

> Section 10 (1)(a) of the LGA — (a) to enable **democratic local decision-making** and action by, and on behalf of, communities;
>
> Section 14 (1) (i) of the LGA - a local authority should conduct its business in an **open, transparent, and democratically accountable manner;**

2. HCC is calculating Rates on a mix of Land value and Capital Value. This is specifically not allowed in LGRA 13 (3).

> Section 13 (3) For the purposes of this section, the rateable value of the land—
>
> (a) must be—
>
> > (i) the annual value of the land; **OR**
> >
> > (ii) the capital value of the land; **OR**
> >
> > (iii) the land value of the land; **and**
>
> (b) must be identified in the local authority's funding impact statement as the value for setting a general rate.

HCC must comply with both 13 (3a) and 13 (3) (b). It is not sufficient to comply only with 13 (3) (b)

3. HCC is charging a UAGC on "separate" parts, rather than "separately used or occupied" parts of a rating unit. HCC has (unlawfully) defined a SUIP[3] as a "separate part of a rating unit" rather than a "separately used or occupied part" (i.e. used or occupied by some-one other than the owner and his family) as outlined in the LGRA. Moreover HCC charges a UAGC even if the SUIP is **not** used or occupied.

> Section 20 of the LGRA - Two or more rating units must be treated as 1 unit for setting a rate if those units are—
>
> > (a) owned by the same person or persons; and
> >
> > (b) used jointly as a single unit; and
> >
> > (c) contiguous or separated only by a road, railway, drain, water race, river, or stream.

We estimate about 7,000 ratepayers are being charged 2 SUIPs and 2 targeted rates per a single rating unit, so there may be sufficient numbers where the regulation is applied unlawfully to mount legal action.

Excessive "Non-Core" Spending

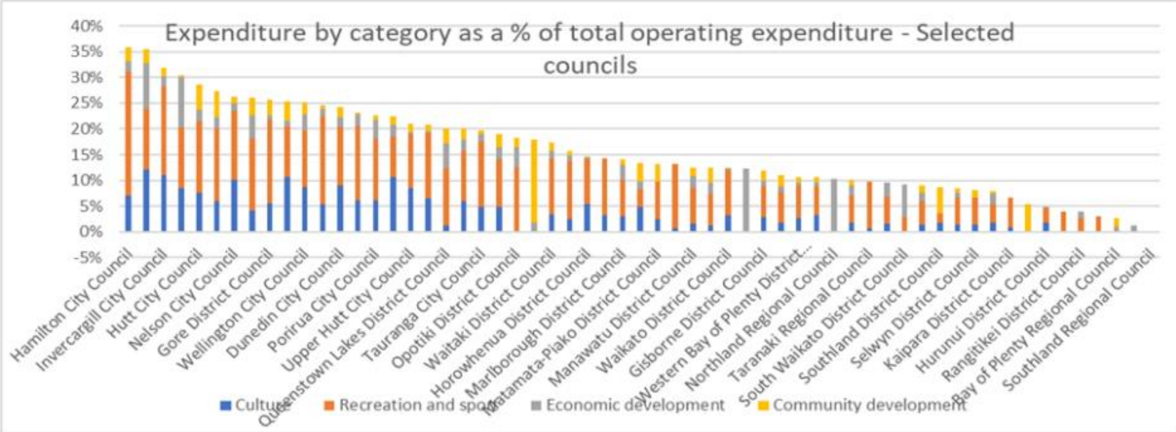
The Local Government Business Forum published a paper on "Local Government Role and Funding" in April 2018 with the following comments indicating that Councils are not following the Local Government Regulations, and containing a graph (1.10 in box below) showing Hamilton City Council is the greatest spender on "non-core" services.

http://www.localgovtforum.org.nz/LGF/files/a3/a33fef94-6e9c-45da-b1af-2d4b5c10499c.pdf

- A 2014 amendment to the Local Government Act has resulted this year in some councils not consulting on their annual plans or only doing so in a perfunctory manner. At least five councils chose not to consult at all on their 2017 Annual Plans.
- There has been a broadening of scope and a shift away from traditional core business in recent years with spending on economic development, sport and recreation and community development increasing as well as new, previously uncategorised, items of expenditure. This is despite 2012 legislative changes intended to narrow the scope.
- It is important that local councils constrain their spending and do not stray outside core business. Local government is not well placed to provide many of the non-core services it is increasingly providing. Many of these services are better left to either central government or the private sector.
- Often the broadening scope (and increased expenditure generally) is councils responding to what they say is community demand. Often this assertion is backed up by very little evidence.
- It is important that the community is made aware of the costs of these activities including the opportunity costs, for example the neglect in core infrastructure like water and waste water, and the costs are allowed to fall on the sections of the community benefiting from the activities (though targeted rates etc.).

1.10 What is Core-business?

The following graph looks more closely at the topical categories culture; economic development; recreation and sport; and community development. By some peoples reckoning these make up non-core business although this is a subjective term and it is too simplistic to make this assertion. There are also issues around how different activities have been categorised by different councils which could muddy the data.



The graph illustrates the wide range of variations across all councils and across each of the four categories. 35% of Hamilton City Council's expenditure is made up of the four categories, dominated by recreation and sport all the way down to Rangitikei's 4%. Regions spend the least, proportionality, on this type of expenditure; then districts; and cities spend the most.

Data extracted from Hamilton City Council Annual Reports show that spending on "non-core" services has averaged 37% of operating expenses over the last 9 years and 39% - 42% over the last 5 years (Table 3), compared with an average of 17% over all Councils.

Table 3 Core and "Non-Core" Spending from Hamilton City Council Annual Reports

	% of operating costs									average
	2009-2010	**2010-2011**	**2011-2012**	**2012-2013**	**2013-2014**	**2014-2015**	**2015-2016**	**2016-2017**	**2017-2018**	
	Core infrastructure									
waste minim	3.1%	1.0%	3.0%	4.0%	4.0%	3.2%	5.4%	3.6%	3.8%	
storm water	3.8%			6.0%	6.0%	3.7%	5.0%	5.2%	5.3%	
waste water	9.0%			13.0%	13.0%	11.7%	10.9%	11.6%	11.3%	
water supply	8.1%			7.0%	7.0%	8.4%	8.1%	8.9%	8.9%	
water management		7.3%	23.0%							
transportation	20.6%	24.1%	21.0%	21.0%	21.0%	20.3%	21.0%	20.7%	20.9%	
	45%	**32%**	**47%**	**51%**	**51%**	**47%**	**50%**	**50%**	**50%**	**47%**
	Core services									
City Planning and Safety										
City profile	8.8%	19.8%	8.0%	13.0%						
City planning & Dev				3.0%	4.0%	2.9%	5.7%	6.1%	5.7%	
urban development	5.5%	9.6%	5.0%							
City safety	2.0%	3.5%	2.0%	1.0%	1.0%	4.8%	2.4%	2.5%	2.5%	
	7%	**13%**	**7%**	**4%**	**5%**	**8%**	**8%**	**9%**	**8%**	**7.7%**
	"non-core" services									
Attractions and venues, park and reserves, recreation, Arts and Community										
Community services	9.8%	9.3%	9.0%	3.0%	3.0%	4.0%	2.4%	2.3%	2.2%	
Parks & open spaces	15.0%			9.0%	9.0%	7.6%	9.8%	10.6%	11.3%	
Events and cultural venues	11.5%	14.2%	12.0%		12.0%	14.6%	11.5%	12.2%	12.2%	
Recreation (&arts)		10.8%	14.0%	17.0%	17.0%	15.9%	7.3%	5.5%	5.6%	
Arts and Culture							8.2%	8.0%	8.1%	
	36%	**34%**	**35%**	**29%**	**41%**	**42%**	**39%**	**39%**	**39%**	**37%**
Council Support										
Democracy	**2.8%**	**0.5%**	**3.0%**	**3.0%**	**3.0%**	**2.9%**	**2.2%**	**2.6%**	**2.4%**	**2.5%**

Debt to Revenue Ratios

The LGFA requires that Council debt to revenue ratio remains below 250% (used to be 180%). Therefore, before a loan from the Housing Infrastructure Fund is taken up, a large increase in revenue is required, **NOT to increase services to ratepayers** but to ensure the debt to income ratio is maintained below 250%.
Total Revenue is increased by "non-spendable" vested assets and the perceived "fair value" from the HIF interest free loan.

Table 5 Debt to Revenue Ratios - Data from Hamilton City Council Annual Reports

Calculate debt to revenue ratios

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Figures from HCC Annual Reports					**210%**	**187%**	**170%**	**173%**	**167%**
Calculated from data in Table 2									
Net debt / Rates revenue	313%	323%	313%	327%	285%	262%	236%	236%	229%
Net debt/Total Revenue	189%	178%	180%	199%	188%	155%	130%	141%	123%
Total Liabilities/Total Revenue	208%	223%	222%	254%	230%	200%	176%	202%	170%
Total Liabilities/Rates Revenue	345%	405%	385%	416%	351%	338%	321%	336%	317%

The Council has had to get inventive because although a Rate increase of about 17% was required to achieve a 250% ratio of debt to revenue the elected Councillors would not vote for a rate increase greater than 9.7% for one year and then 3.8% per year after that. Therefore a UAGC of $500 has been applied to all Rates, and to each SUIP (Separately used or inhabited part of a rating unit), even it is neither used nor occupied, or is used by a family member.
Councillors voted against the immediate addition of $500 UAGC, but did vote for it to be phased in over 3 years. This requires ratepayers to find an increase in income of $165 per year for the next 3 years and $500 every year after that, not a small amount for ratepayers on low or fixed incomes.

The vote in the 10 Year Plan Consultation was 71% against a UAGC.

High Staff Costs

Despite consistently failing to meet the balanced budget benchmark Hamilton City Council management have failed to find ways of cutting costs. For the last 10 years and the predicted future 10 years spending is greater than income. The CEO (Richard Briggs) was given a salary increase of $60,000 by the newly elected Mayor and Councillors, bringing his salary to $440,000. That is just $30,000 less than the salary of the Prime Minster and 150% of the salary of the Minister of Finance. This for a small city of 165,000 residents, 58,000 ratepayers and total revenue of less than $300 million, in which a considerable number of ratepayers earn less than $60,000 per annum.

We are of the opinion that because Local Body staff members are paid from public money the salary of Senior Staff for every Local Body should be included in the Local Government Members (2019/20) Determination 2019.

The Hamilton City Council Annual Reports show that staff wages account for 46% of Rates Revenue and 27% of Total Revenue (Table 6). If the costs of Consultants and legal fees are added the cost is 51% of Rates Revenue.

Many Council staff are employed for "non-core" functions. One of the Councillors (Garry Mallett) has published the cost of the council-operated H3 groups, responsible for Hamilton's event facilities such as the Claudelands Events Centre and FMG Stadium. He states that over the period 2012-2018, H3 delivered losses of $116,876,062. The other elected Councillors were not prompted by this information to demand reduction in spending on venues, events and visitor attractions. We are concerned that the elected Councillors do not act as a team in making important decisions.
https://www.nzherald.co.nz/hamilton-news/news/article.cfm?c_id=1503366&objectid=12058380

Table 6 Data from Hamilton City Council Annual Reports									
	2009-2010	**2010-2011**	**2011-2012**	**2012-2013**	**2013-2014**	**2014-2015**	**2015-2016**	**2016-2017**	**2017-2018**
	$millions	$millions	$millions	$millions	$millions	$millions	$millions	$millions	$millions
Rates Revenue	$108	$113	$123	$121	$134	$140	$147	$154	$161
Total revenue	$180	$206	$214	$199	$204	$237	$268	$256	$300
Personnel costs	$53	$54	$55	$55	$57	$66	$64	$71	$75
Consultants and legal fees						$6.3	$7.8	$8.4	$7.3
Sum of Personnel +Consultants and Legal Fees	**$53**	**$54**	**$55**	**$55**	**$57**	**$72**	**$72**	**$79**	**$82**

Costs as Percent of Revenue										
	2009-2010	**2010-2011**	**2011-2012**	**2012-2013**	**2013-2014**	**2014-2015**	**2015-2016**	**2016-2017**	**2017-2018**	**average**
Personnel/Rates Revenue	**49%**	**48%**	**45%**	**45%**	**43%**	**47%**	**43%**	**46%**	**46%**	**46%**
Personnel/Total Revenue	30%	26%	26%	27%	28%	28%	24%	28%	25%	**27%**
Personnel +Consultants and Legal / Rates Revenue						**51%**	**49%**	**51%**	**51%**	**51%**