

CONSOLIDATED FINANCIAL OVERVIEW

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INTRODUCTION

The Council's consolidated financial position and performance for the period 1 July 2011 to 30 September 2011 is presented in this section. This includes a Statement of Financial Performance, a Statement of Financial Position, a Statement of Borrowings and an analysis by Strategy Area.

Positive numbers in the financial statements indicate a favourable variance from budget and negative numbers (represented by brackets) indicate an unfavourable variance from budget.

Detailed discussion in respect of strategy area revenue and expenditure for each activity is contained within the body of this report.

FINANCIAL PERFORMANCE AT A GLANCE

Table 1: Statement of Financial Performance

Statement of Financial Performance	YTD Actual 2012 \$'000	YTD Budget 2012 \$'000	YTD Variance 2012 \$'000	Full Year Budget 2012 \$'000
Rates Income	57,709	57,393	316	231,282
Income from Activities	39,674	39,689	(15)	138,390
Lease Income	7,652	7,762	(110)	31,519
Interest Income	1,162	2	1,159	10
Other Income	1,195	645	551	11,876
Development Contributions	496	1,438	(942)	5,753
Total Income	107,888	106,929	959	418,830
General Expenses	42,952	42,945	(8)	161,530
Personnel Expenditure	24,248	24,260	12	95,388
Depreciation & Loss/Gain on Sale	20,721	21,510	789	86,349
Financing Expenditure	5,243	5,549	306	22,194
Total Expenditure	93,165	94,264	1,098	365,462
Net operating surplus/(deficit)	14,724	12,664	2,059	53,369

The year-to-date net operating surplus of \$14.7 million is \$2.1 million higher than the budgeted surplus of \$12.7 million. This favourable variance is attributable to a combination of factors as outlined below.

Income

Year-to-date total income is over budget by \$1.0 million.

Rates income is \$0.3 million over budget – this is largely a timing issue on a total rates income target of \$231 million for the full year.

Lease income is under budget by \$0.1 million. This is due to rental loss during the Housing Upgrade Project.

Interest income is \$1.2 million over budget. Largely due to a gain in the value of the unhedged swap contracts of \$0.9 million. Also contributing to the interest income was interest received from funds on deposit received for the Housing Upgrade Project grant.

Other income is over budget by \$0.6 million. This is primarily due to a surplus made on the sale of some land.

Development contributions are \$0.9 million under budget, which reflects the current downturn in major development activity.

Expenditure

Year-to-date total expenditure is under budget by \$1.1 million.

Depreciation is under budget by \$0.8 million mainly due to the impact of the three-yearly revaluation of transport assets and lower than anticipated capitalisation of assets.

Financing expenditure is under budget by \$0.3 million due to a combination of lower interest rates and lower than budgeted borrowing.

FINANCIAL POSITION AT A GLANCE

Table 2: Statement of financial position

Statement of Financial Position	YTD	Year
	Actual	End
	2012	2011
	\$'000	\$'000
Current assets	85,623	54,048
Non-current assets	6,435,986	6,423,757
Total assets	6,521,609	6,477,805
Current liabilities	244,322	212,419
Non-current liabilities	257,427	253,177
Total liabilities	501,749	465,596
Net assets / equity	6,019,860	6,012,209

The increase in current assets primarily reflects an increase in cash and short term investment deposits held as part of the overall borrowing strategy.

The increase in non-current assets primarily reflects the increase in capitalised assets partially offset by accumulated depreciation.

The increase in current liabilities primarily reflects the unearned revenue in advance (largely housing upgrade monies received in advance) as well as a small increase in short term borrowings.

The increase in non-current liabilities reflects a small increase in long term borrowings.

BORROWINGS AND INVESTMENTS AT A GLANCE

Introduction

Borrowing forecast

Total committed facilities as at the end of September remained unchanged at \$396.0m. Total net borrowings at 30 September 2011 were \$305.5m giving liquidity headroom of \$90.5m.

Annual plan borrowings for the full year are budgeted at \$369m. In terms of forecasting year end debt positions it remains very early but we are using a forecast of \$342m for treasury purposes which factors in a lower than normal capex under-spend of \$15m and the receipt of the special airport dividend. Capex under-spend YTD is \$11.7m, 23% behind plan.

From a borrowing perspective we continue to be well placed with no existing term debt maturing until July 2012. Given the uncertainty in global financial markets this is a good position to be in. We will continue to pick up small parcels of new debt as required to maintain our liquidity profile.

During October we will be working with Westpac and BNZ with respect to our 4 and 6 year facilities to extend the term of these facilities by 12 months to restore them to their full 4 and 6 year terms. We do not anticipate any issues with this and expect to be able to extend the facilities on at least the same pricing terms.

Table 3: Statement of Borrowings

Statement of Borrowings	YTD	Year
	Actual	End
	2012	2011
	\$'000	\$'000
Facilities at start of year	391,000	361,000
New / matured facilities (net)	5,000	30,000
Facilities at end of period	396,000	391,000
Borrowings at start of year	310,000	280,500
Change in core borrowing + (-)	7,505	29,500
Repayment of loans + (-)	0	0
Change in working capital requirement + (-)	(12,005)	0
Actual Borrowings at end of period	305,500	310,000
Plus unutilised facilities	90,500	81,000
Total Borrowing Facilities Available	396,000	391,000

*Note: 'Borrowing Facilities' excludes \$5 million of uncommitted funding lines

* Facilities do not include short term commercial paper or deposits

Figure 1: Forecast Debt Profile

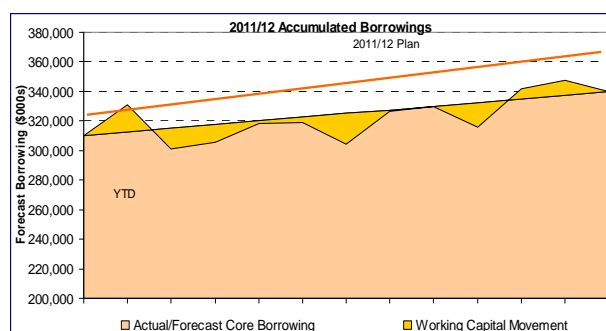


Figure 1 shows the expected debt profile for the 2011/12 year. The main features are: lower than plan opening borrowings; the impact of the housing grant; and the impact of the airport special dividend.

Cost of funds

YTD Net Interest costs are \$4.9m compared to the plan of \$5.5m, a favourable variance of \$0.6m. This largely reflects the benefit from lower debt arising out of the special airport dividend, lower than plan opening debt position and lower than plan YTD capital expenditure.

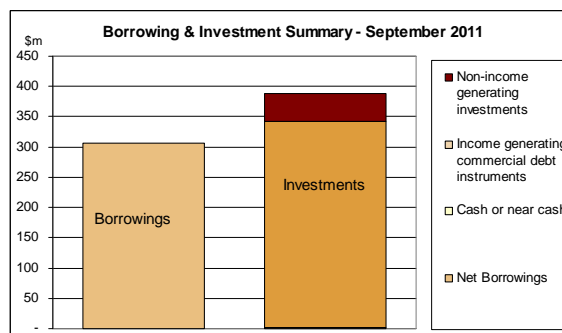
Treasury policy compliance

At 30 September 2011 all of the core policy compliance requirements were achieved as shown in Table 4 below.

Investments summary

The total net borrowings as at 30 September 2011 of \$305.5m compares to total investments of \$389m as shown in Chart 2 below. The table has been updated to reflect the investment values per the 2010/11 annual report. The main components of Investments are the investment property portfolio and the investment in Wellington International Airport. The non-income generating investments are primarily the investments in Council controlled organisations.

Figure 2: Borrowing and investment summary



Note: For the purposes of the graph above, the definition of investments includes all Council investments as reported in its Annual Report

Table 4: Prudential treasury limits

Prudential limits	Policy Limit	Actual	Compliance
Borrowings as a % of equity	<10%	4.9%	Yes
Borrowings as a % of income	<150%	72.9%	Yes
Net interest as a % of annual rates income	<15%	9.6%	Yes
Notes:			
* Equity is based on the 30 June 2011 annual report Equity			
* Net interest, Annual Rates and Income are based on 2011/12 annual plan			
Interest rate risk control limits (interest rate exposure)	Policy Limit	Actual	Compliance
Fixed interest proportion	50% - 95%	86%	Yes
Broken down as follows:			
1 - 3 year bucket	20% - 60%	23%	Yes
3 - 5 year bucket	20% - 60%	26%	Yes
5 - 10 year bucket	20% - 60%	51%	Yes
Liquidity/funding risk (access to funds)	Policy Limit	Actual	Compliance
Liquidity/funding risk (access to funds)	>110%	115%	Yes
Broken down as follows:			
0 - 3 year bucket	20% - 60%	46%	Yes
3 - 5 year bucket	20% - 60%	34%	Yes
5 - 10 year bucket	15% - 60%	20%	Yes
Notes:			
* "Liquidity" is defined as: Current borrowings + committed loan facilities divided by 12 month peak borrowings (for the purposes of measuring liquidity short dated Commercial Paper is excluded)			

Credit Rating Review

On 30 September Standard & Poor's (S & P) lowered the NZ Sovereign credit rating from AAA to AA+ based on concerns about the levels of debt within the NZ economy. As a direct consequence the Council credit rating has been downgraded from AA+ to AA. The rationale for the downgrade of the Council's credit rating is that the Council (any council) cannot hold the same rating as the NZ Sovereign rating. The direct impact on the Council will be a marginal increase in our cost of funds of between 5–10 bps (0.05% - 0.10%) for long term debt and 3–5 bps (0.03% - 0.04%) for short term borrowings. The impact on long term debt is only felt as we re-finance maturing debt, we do not have any maturing debt in the current financial year and so are not greatly impacted until the 2012/13 year and beyond. We consistently have between \$90m and \$100m of short-term commercial paper and the estimated impact will be up to \$50k of additional funding costs.

In the same way that the Council is automatically downgraded alongside a crown downgrade the Council will also be upgraded automatically if S & P upgrade the NZ Sovereign rating in the future.

Local Government Funding Agency

The Council has now approved investment as an establishment shareholder in the Local Government Funding Agency (LGFA). The establishment board are endeavouring to have the LGFA incorporated during November 2011. The LGFA is currently going through the important process of obtaining a credit rating from S & P and Fitch, it is expected that the LGFA will attain a rating equivalent to the NZ Sovereign rating.

Markets

There is a great deal of uncertainty in the financial markets and they remain quite fragile as the Euro and USA sovereign debt crisis continues to play out and the fear of contagion to particularly European banks increases. Central banks have been intervening in the markets to provide liquidity to the markets and avert gridlock. Ultimately NZ is not immune from the impact, and we have seen the NZ Sovereign rating downgraded and the cost of borrowing for NZ/Australian banks has increased. However, the major risk to the NZ economy will be if the fall out spreads to the Asian and Australian markets.

STRATEGY AREAS AT A GLANCE

Tables 5, 6, 7 and 8 summarise the Council's revenue and expenditure by strategy area for the three months ended 30 September 2011.

Table 5: Operating revenue by strategy area

Operating Revenue by Strategy Area	YTD	YTD	YTD	FULL YEAR
	Actual	Budget	Variance	Budget
	Revenue	Revenue	Revenue	Revenue
	2012	2012	2012	2012
	\$000	\$000	\$000	\$000
Governance	64	69	(5)	245
Environment	4,796	3,213	1,583	13,489
Economic Development	225	62	163	248
Cultural Wellbeing	186	283	(97)	1,195
Social and Recreation	25,108	25,059	49	78,028
Urban Development	2,413	2,959	(546)	11,164
Transport	8,562	8,648	(86)	33,429
Total Strategy Area	41,354	40,293	1,061	137,798
Council	66,534	66,636	(102)	281,032
Total Revenue	107,888	106,929	959	418,830

Table 6: Operating expenditure by strategy area

Operating Expenditure by Strategy Area	YTD	YTD	YTD	FULL YEAR
	Actual	Budget	Variance	Budget
	Expenditure	Expenditure	Expenditure	Expenditure
	2012	2012	2012	2012
	\$000	\$000	\$000	\$000
Governance	3,340	3,689	349	14,659
Environment	34,122	33,366	(756)	133,511
Economic Development	5,762	5,709	(53)	19,967
Cultural Wellbeing	4,028	3,810	(218)	15,126
Social and Recreation	25,038	26,122	1,084	97,367
Urban Development	5,740	6,320	580	25,035
Transport	13,045	13,834	789	54,297
Total Strategy Area	91,075	92,850	1,775	359,962
Council	2,090	1,415	(675)	5,500
Total Operating Expenditure	93,165	94,265	1,100	365,462

Table 7: Net operating expenditure by strategy area

Net Operating Expenditure Strategy Area	YTD	YTD	YTD	FULL YEAR
	Actual	Budget	Variance	Budget
	Net	Net	Net	Net
	Expenditure	Expenditure	Expenditure	Expenditure
	2012	2012	2012	2012
	\$000	\$000	\$000	\$000
Governance	(3,276)	(3,620)	344	(14,414)
Environment	(29,326)	(30,153)	827	(120,022)
Economic Development	(5,537)	(5,647)	110	(19,719)
Cultural Wellbeing	(3,842)	(3,527)	(315)	(13,931)
Social and Recreation	70	(1,063)	1,133	(19,339)
Urban Development	(3,327)	(3,361)	34	(13,871)
Transport	(4,483)	(5,186)	703	(20,868)
Total Strategy Area	(49,721)	(52,557)	2,836	(222,164)
Council	64,444	65,221	(777)	275,532
Net Operating Surplus / (Deficit)	14,723	12,664	2,059	53,368

Table 8: Capital expenditure by strategy area (including carry forward projects)

Capital Expenditure by Strategy Area	YTD	YTD	YTD	FULL Year
	Actual	Budget	Variance	Budget
	Expenditure	Expenditure	Expenditure	Expenditure
	2012	2012	2012	2012
	\$000	\$000	\$000	\$000
Governance	0	0	0	31
Environment	5,929	5,819	(110)	34,881
Economic Development	26	453	427	2,533
Cultural Wellbeing	171	243	72	275
Social and Recreation	22,983	25,366	2,383	68,255
Urban Development	692	2,950	2,258	9,885
Transport	7,190	12,362	5,172	46,334
Total Strategy Area	36,991	47,193	10,202	162,194
Council	2,896	4,447	1,551	20,005
Total Capital Expenditure	39,887	51,640	11,753	182,199

Note: the Council line within Table 8 reflects capital expenditure incurred by the Council in providing IT hardware and systems, replacement of vehicles and equipment, and meeting health and safety requirements.