Redland
CITY COUNCIL

Community Financial Report 2012-13

Community Financial Report 2012-13

Purpose

The Community Financial Report is produced each year as part of Council's annual report to provide members of the community, customers, business partners and employees with a better understanding of our financial performance and position over the last financial year. The report uses non-technical language and pictorial aids such as graphs and tables to give all interested readers and stakeholders an easy-to-follow summary of the financial statements for the past financial year.

Summary of key financial performance and sustainability indicators

Strategically, we aim to operate within a set of conservative guidelines to ensure we are financially viable in the short term, whilst sustainable in the medium and long term. As part of our financial strategy, we have adopted seven key financial stability indicators to guide our financial health. In addition to these financial stability indicators, we have five sustainability indicators that have been set by the Department of Local Government, Community Recovery and Resilience to help monitor the long-term sustainability of all councils across Queensland.

Throughout the financial year, these indicators are calculated and reported at monthly Council meetings, as part of a full suite of financial reports. This means that should there be any deviation outside these parameters, the Executive Management and Council will be fully informed and can take timely, corrective action as required.

The table below summarises how we performed against set targets for the seven key financial performance indicators established in our financial strategy. In summary, we achieved or exceeded six of the financial targets, performing well in our ability to generate cash from day-to-day operations, meeting all financial commitments in the financial year and keeping debt to conservative and manageable levels. This was achieved while maintaining community services and making ongoing investment in community infrastructure.

Financial Stability Indicators	Target	Actual Performance	
Level Of Dependence On General Rate Revenue	< 37.5%	33.54%	✓
Ability To Pay Our Bills - Current Ratio	1.1 to 4.1	3.09	✓
Ability To Repay Our Debt - Debt Servicing Ratio	≤ 10%	3.34%	✓
Cash Balance		$82.59M	✓
Cash Balances - Cash Capacity In Months	3 to 4 months	4.98	✓
Longer Term Financial Stability - Debt To Assets Ratio	≤ 10%	3.01%	✓
Operating Performance	≥ 20%	10.55%	

The measures of sustainability are shown in the table below. Overall, the results indicate a sound outlook, with Council meeting three of the targets and forecast to achieve a small operating surplus in 2013-14 as detailed in the 2013-14 Operational Plan and Budget. Achieving the targets for the asset sustainability ratio will be challenging over the coming years, however, we have committed to a long-term financial strategy that works towards meeting this goal. Additionally, three of the ratios below have targets that are set 'on average over the long-term', namely the operating surplus ratio, the net financial liabilities ratio and the asset sustainability ratio, which further demonstrates how challenging these targets are.

Measures of Sustainability	Target	Actual Performance	
Operating Surplus Ratio	0% to 10%	-6.71%	
Net Financial Liabilities	< 60%	14.49%	✓
Interest Coverage Ratio*	0% to 5%	-0.16%	✓
Asset Sustainability Ratio	> 90%	26.95%	
Asset Consumption Ratio	40% to 80%	66.51%	✓

** This is calculated using net interest expense, i.e. interest expense minus interest revenue. The negative number indicates that we have earned more interest than we have spent on our borrowings. Therefore, we have outperformed this target.*

Information at a glance

Following is a series of tables and graphs that illustrate our major sources of income and expenses in addition to the value of our assets and liabilities. Comparisons are made between 2012-13 and 2011-12. The prior year (2011-12) figures have been increased to take account of price changes (CPI - Consumer Price Index) to ensure comparisons are meaningful.

Several of the prior year comparisons reflect the impact of water reform and present a distortion to the relevant 2011-12 values.

The impact of water reform on income attributable to Allconnex Water is highlighted as below:

Information at a glance	2012-13 $ millions	2011-12 $ millions*	Change %
Income			
- Council operations	$241.67	$183.69	31.56%
- Share of profit in associate company	-	$8.99	-100.00%
- Gain on reintegration of water operations (non-cash)	$200.49	-	-
Total Income	$442.16	$192.68	129.48%
Expenditure			
- Council operations	$238.59	$182.55	30.70%
Total Expenditure	$238.59	$182.55	30.70%
Net Result	$203.58	$10.13	1909.67%

See Financial Statements 'Statement of Comprehensive Income' for more information

** CPI adjustment included to ensure comparability*

What was the impact of continued water reform?

Brief History

Following reforms recommended by the Queensland Water Commission in 2007, the Southern SEQ Distributor-Retailer Authority trading as Allconnex Water was established to deliver water and wastewater services to customers of Gold Coast City Council, Logan City Council and Redland City Council from 1 July 2010.

Redland City Council’s total investment, based on 11.1384892% of Allconnex Water’s market value, equated to $251.34M and was made up of an equity investment in Allconnex Water. Additionally, Council provided loans to Allconnex Water that are classified on the financial statements as financial assets and equated to $205.43M.

Discontinuation of Allconnex Water

On 25 July 2011, Gold Coast City Council (GCCC) being the majority shareholder voted to withdraw from Allconnex Water following an announcement by the State Government that year. Redland City Council and Logan City Council also decided to withdraw from Allconnex Water on the 8 August 2011 and 23 August 2011 respectively. Accordingly as at 30 June 2012, Allconnex Water ceased to operate and its assets and liabilities were transferred to the participating Councils on 1 July 2012.

Reversal of Council’s investment in Allconnex on 1 July 2012

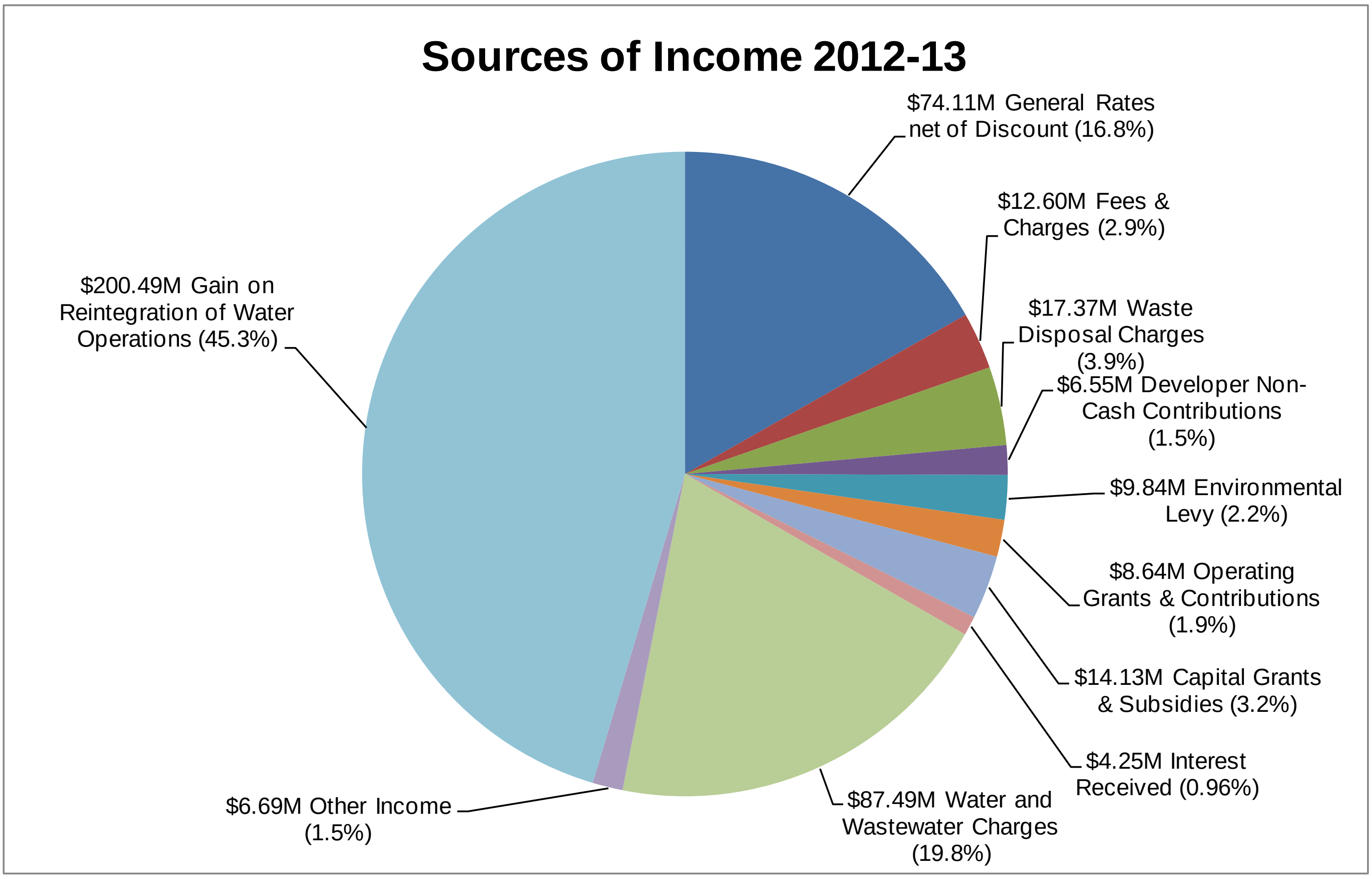
The reversal of the investment in Allconnex and the re-introduction of the water assets in Council books gave rise to a non-cash gain of $200.49M which was recognised as income in 2012-13 financial statements. This gain occurred because the returning water assets were valued at fair value rather than a regulated valuation used when they were part of Allconnex. Although the transaction was non-cash, it significantly increased community equity to reflect the true value of community net assets. For further details of the breakup of the $200.49M, please refer Note 11 of the Council's financial statements in this Annual Report.

Impact of the returning water operations on Council's Net Result

Due to the gain on returning water operations discussed above, the Council's Net Result at 30 June 2013 was $203.57M. If this gain did not exist (i.e. assets were returned at a regulated valuation instead of fair value), the Council's Net Result would have been in a modest deficit position.

What were our major sources of income?

(Statement of Comprehensive Income)



Total income received this year was $442.16M. This result was $249.48M (CPI adjusted), or 129.48%, greater than the 2011-12 financial year.

Rates and utilities income was $190.30M, which equates to 43.01% of total income. The major sources of income are general rates, wastewater, water access and water consumption. Additionally, grants, subsidies and cash contributions received were $22.77M, comprising operating ($8.64M) and capital ($14.13M) elements.

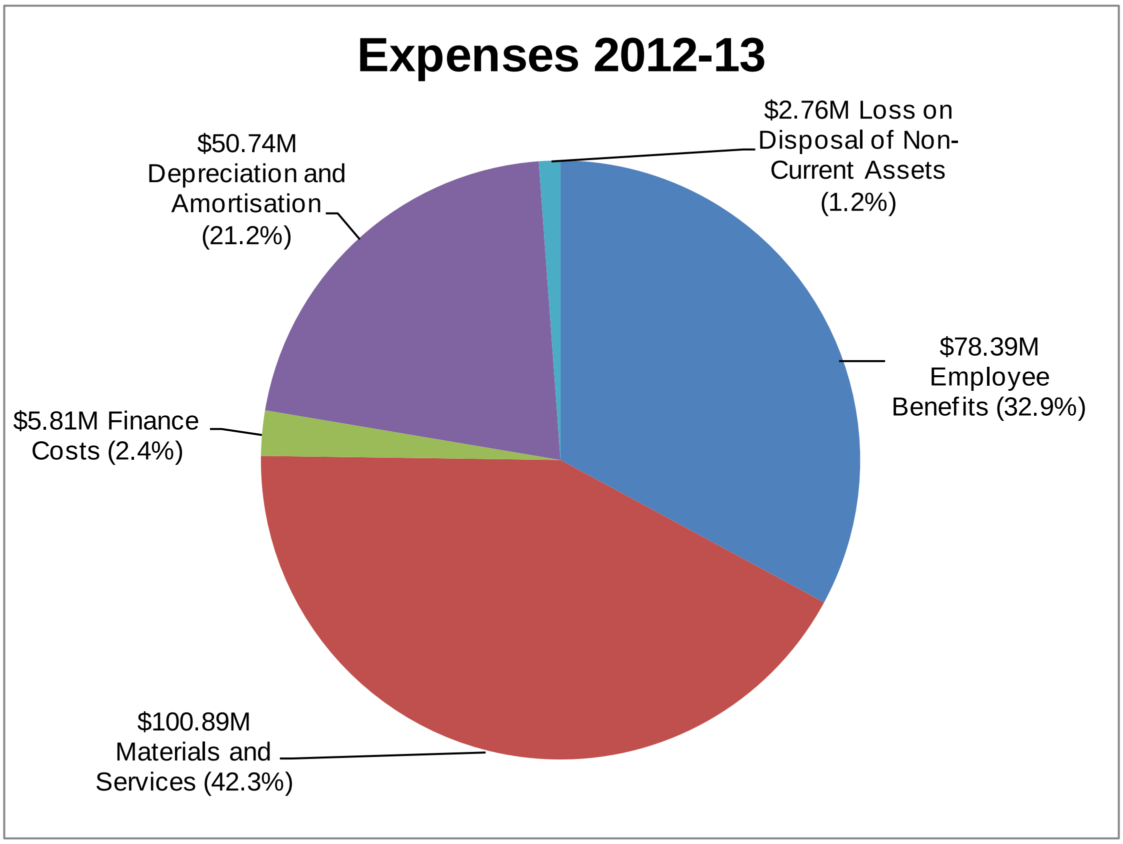
We earned $4.25M, or 0.96% of total income from interest on investments and overdue rates during the financial year and this result reflects sound financial management of cash holdings.

What expenses did we have to meet?

(Statement of Comprehensive Income)

Our expenses for the 2012-13 financial year totalled $238.59M, an increase of 30.70% over the previous year's expenses of $182.55M (CPI adjusted).

The graph below illustrates the breakdown of expenses between the major categories of materials and services, employee costs, depreciation, finance costs and loss on disposal of non-current assets.



Materials and services expenditure includes the costs of all consultancies, contractors and other goods and materials consumed in delivering projects and services to the community. This includes roads, parks, canals, footpaths, bikeways, marine infrastructure, car parks, libraries, waste collection, water treatment, swimming pools, showgrounds, sports fields, community halls and town planning.

Employee costs include wages and salaries, annual leave, long service leave, superannuation and allowances paid to all full-time, part-time and casual staff.

Depreciation expenses refer to the estimated reduction in the value of our assets due to wear and tear or becoming technically out of date. This includes roads and stormwater drainage infrastructure, buildings, marine infrastructure and plant and equipment.

What is the value of the community's assets in our care?

How much debt do we carry?

(Statement of Financial Position)

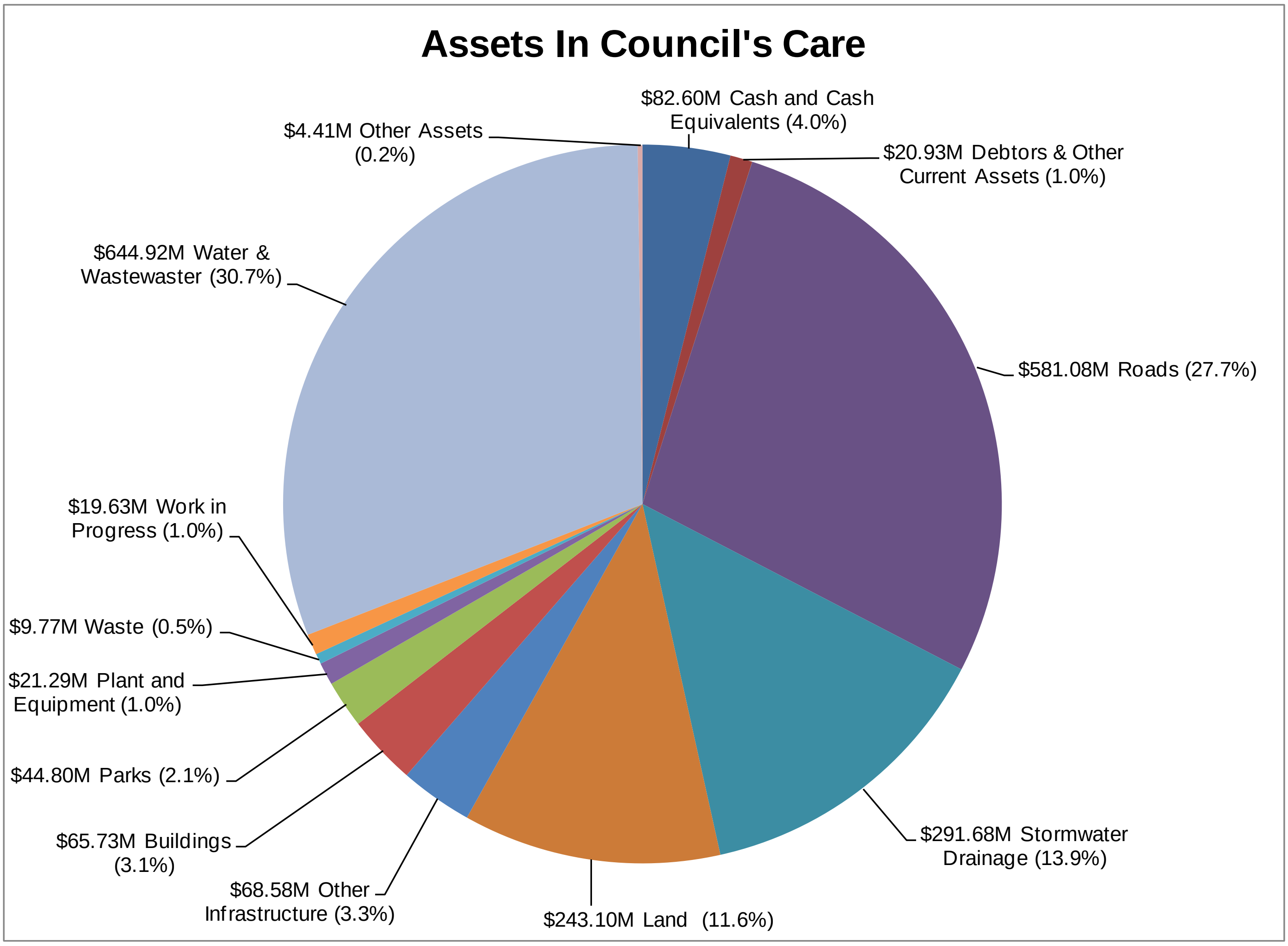
Value of Community Assets	2012-13 $ Millions	2011-12 $ Millions*	Change %
Total Assets	$2,098.58	$1,901.74	10.35%
Total Liabilities	$138.18	$151.85	-9.00%
Net Community Assets	$1,960.40	$1,749.89	12.03%
Cash Held	$82.60	$86.50	-4.51%
Loan Borrowings	$63.10	$63.84	-1.16%

See Financial Statements 'Statement of Financial Position' for more information

** CPI adjustment included to ensure comparability*

Assets

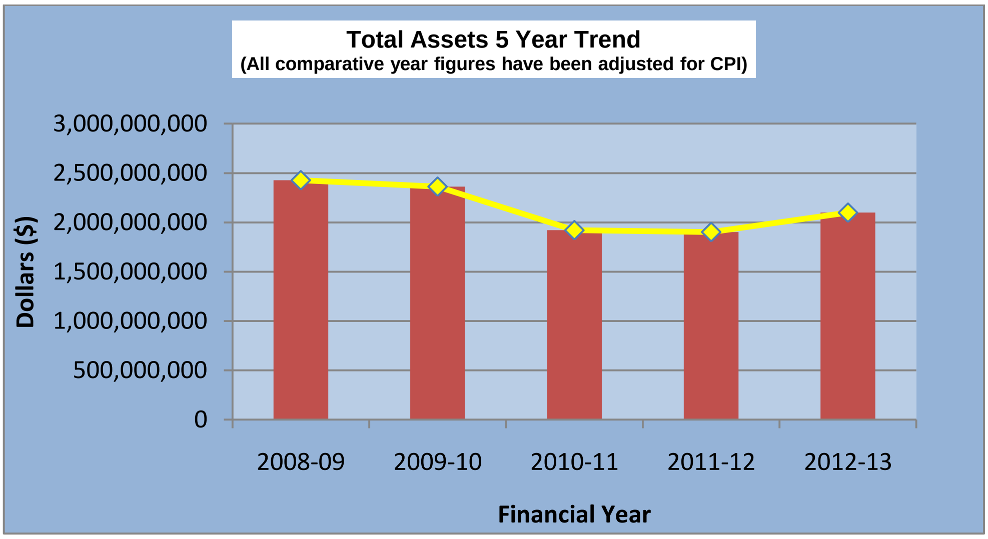
The total value of all assets we controlled was $2.10B at 30 June 2013. This figure is broken down between current assets of $106.2M (5.1%) and non-current assets of $1.99B (94.9%).



Current assets are those that are readily available to meet expenses and mainly include cash and amounts owed from customers. Cash assets were $82.60M and receivables from customers were $20.93M at the end of the 2012-13 financial year.

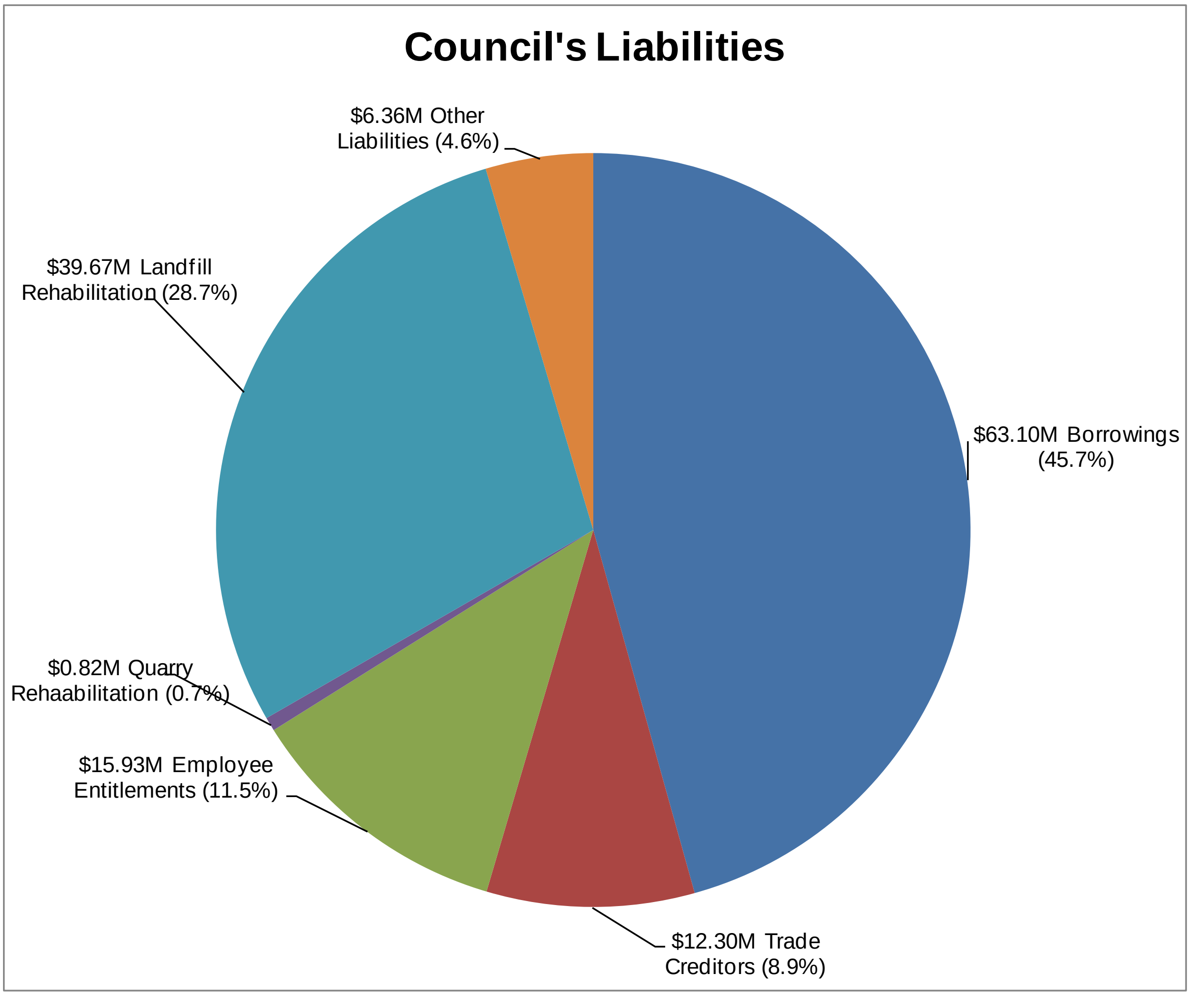
Our property, plant and equipment assets of $1.99B include freehold land, buildings, roads, stormwater drainage, water, wastewater, waste, parks infrastructure and plant and equipment.

The graph below shows the value of total assets over the past five years. The trend over the five-year period highlights the impact of the transfer of water and wastewater assets to Allconnex Water in 2011 and the overall reduction in the value of Council's land, due to the revaluation reflecting the market values at that time.

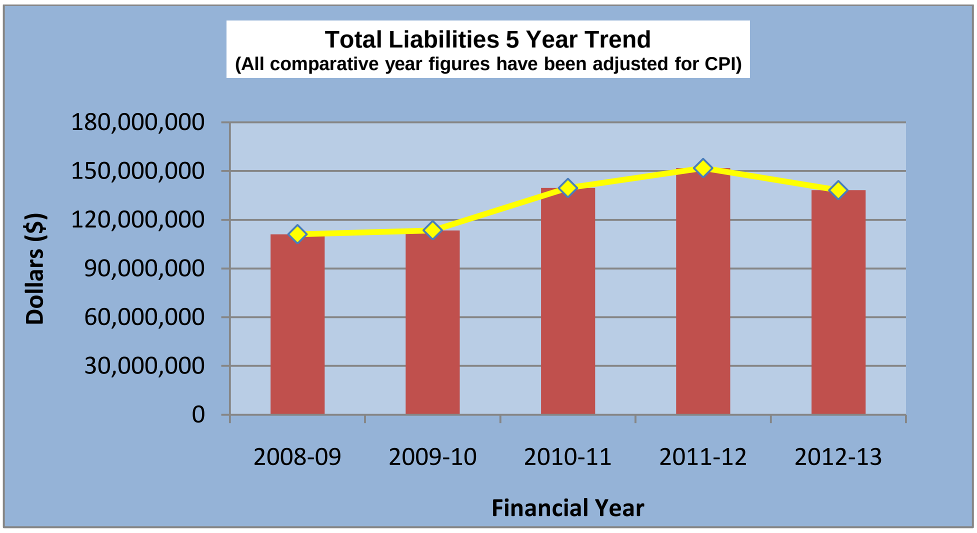


Liabilities

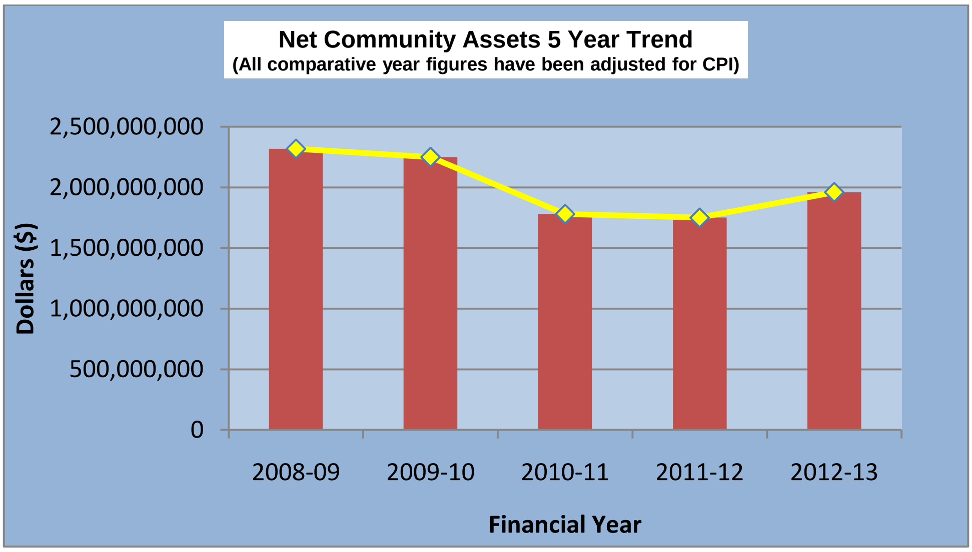
Liabilities are amounts owing at 30 June 2013 and totalled $138.18M. The largest single debt we owed at 30 June 2013 was to Queensland Treasury Corporation (QTC). QTC is the state government-owned lending agency from which most local governments and state authorities borrow to finance their large-scale infrastructure projects**.** At the end of the financial year, we owed QTC a total of $63.10M, with $4.12M payable in the next 12 months and $58.98M due in subsequent years.



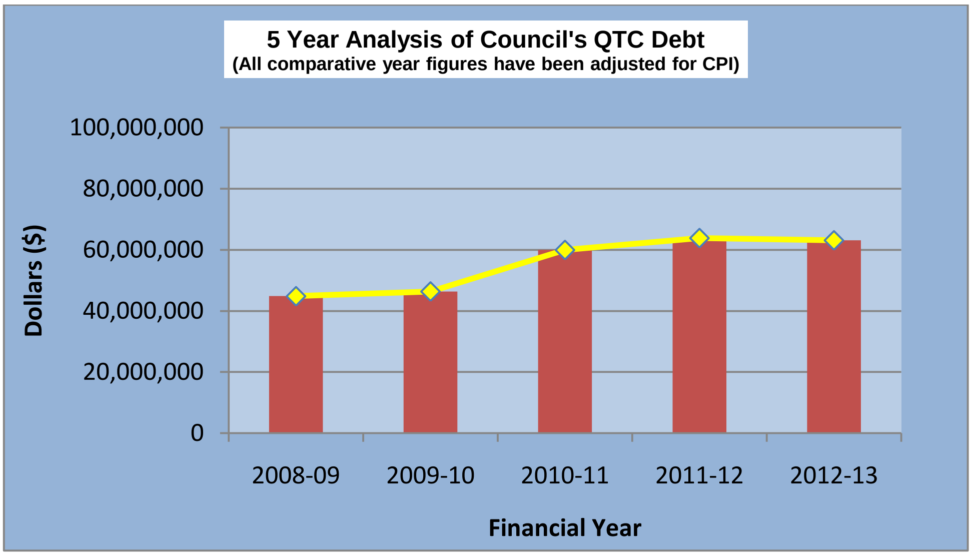
The following graph shows our total liabilities over the past five years.



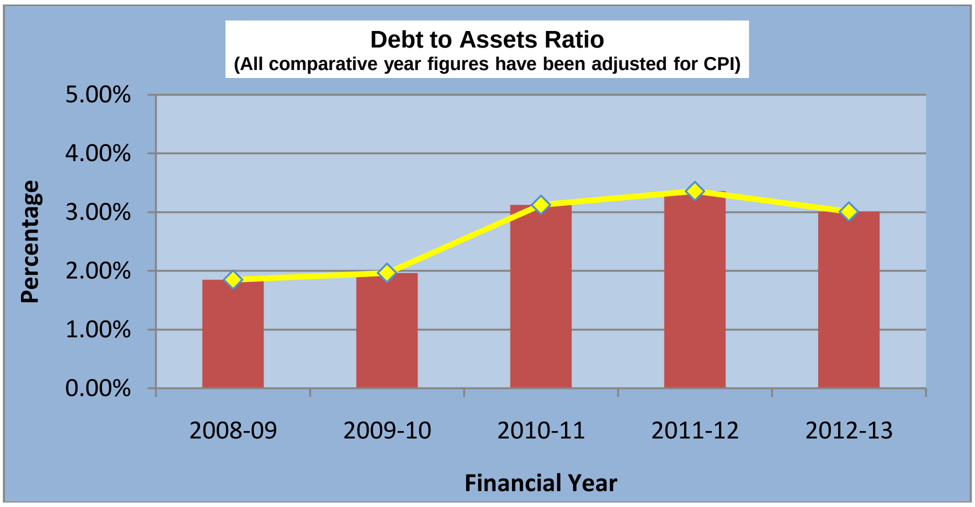
Net community assets are our total assets less our total liabilities and represent our net worth. The following graph shows our net community assets over the last five years.



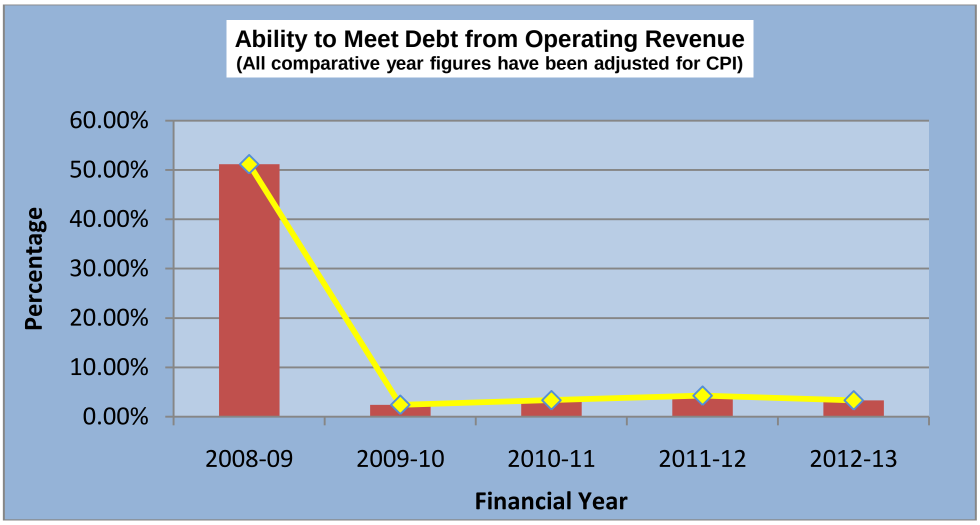
The graph below illustrates the level of our QTC debt over the past five years.



The graph below outlines the ratio of our total loans compared to total assets over the past five years. At the end of the 2012-13 financial year, total debt as a percentage of total assets was only 3.01%. This puts into perspective the relatively low level of borrowings compared with total assets.



The following graph shows how much of our revenue is consumed in the repayment of interest and principal to QTC.



In 2012-13, only 3.34% of operating revenue was spent repaying interest and principal on our borrowings. This is relatively low, being comparable to 2009-10 onwards and falling very comfortably within our Financial Stability Ratio targets.

What were the major sources of cash in and cash out?

(Statement of Cash Flows)

The table below outlines the main sources of cash receipts and applications of cash payments between 1 July 2012 and 30 June 2013.

Sources of Cash In and Out	2012-13 $ Millions	2011-12 $ Millions*	Change%
Net Cash Received from Operations (excluding interest and borrowing costs)	$22.03	$18.20	21.04%
Purchase and Construction of Assets	$37.73	$37.06	1.81%
New Loans Taken Out	$5.72	$8.20	-30.24%
Repayment of Debt	$5.20	$3.17	64.04%

See Financial Statements 'Statement of Cash Flows' for more information

** CPI adjustment included to ensure comparability*

The cash flow statement is summarised into three activities:

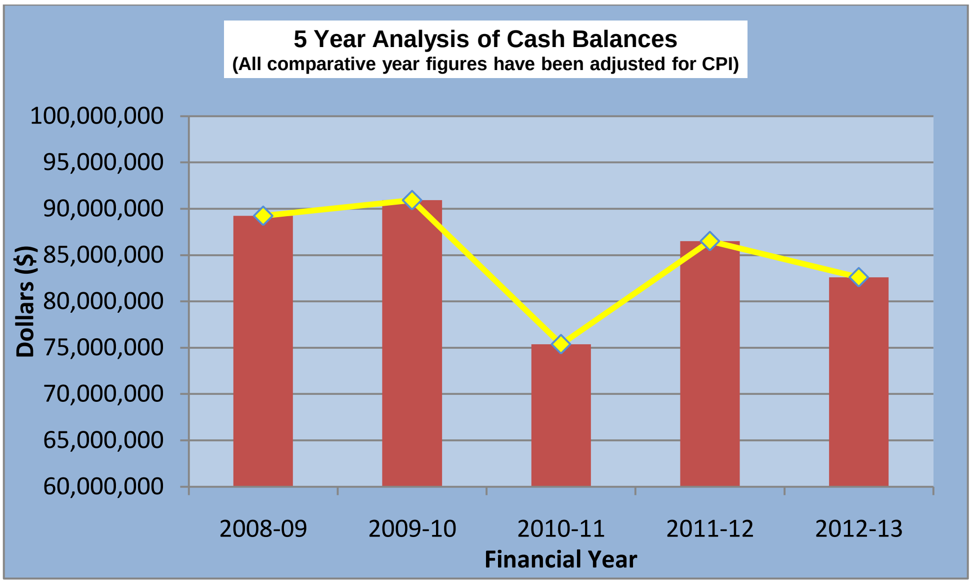
- *Operating activities* - our normal day-to-day functions. These include receipts of rates, fees and charges and operating grants offset by payments for employee costs, materials and services and interest costs.

- *Investing activities* - include payments for the purchase and construction of property, plant and equipment and proceeds from the sale of surplus assets.

- *Financing activities* - are repayments of principal on our loans, as well as the inflows from new loans drawn down in the year. Financing activities also include the interest returns from Allconnex Water.

We started the 2012-13 financial year with $84.80M cash in the bank and ended the year with $82.60M exceeding the target for cash capacity in months.

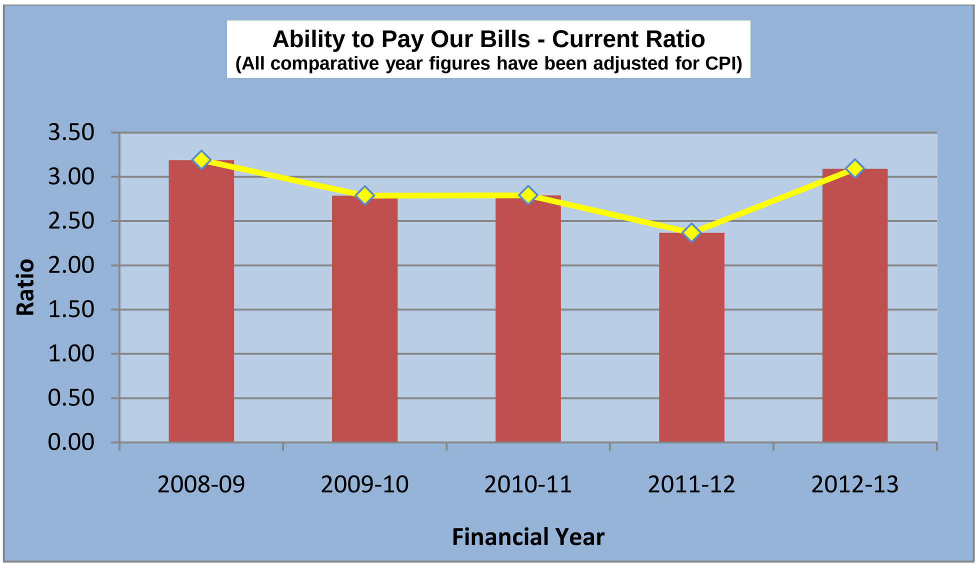
The following graph shows our total cash holdings for the past five years.



To maintain our strong financial position on behalf of the community, we must maintain and manage sufficient cash from our day-to-day operations to fund purchases of property, plant and equipment, repay interest and principal payments on loans and leave enough in reserves for future requirements.

An essential requirement for any business, including Council, is its ability to pay its bills as and when they fall due. A good benchmark for measuring this capacity is called the current ratio, which is the ratio of current assets to current liabilities.

The following diagram illustrates that the ratio has been greater than 2.00 for the past five years, remaining at a healthy level of 3.09 in 2012-13 (increase from 2011-12).



Summary

Your Council delivered a large program of operational and capital works during the 2012-13 financial year, whilst at the same time welcoming back your commercial water business Redland Water. We achieved this delivery while still exceeding six out of seven of the key financial performance indicators.

On an annual basis, Council reviews its long term financial strategy and key financial policies to ensure it continues to travel in the right financial direction and in 2012-13 we continued to meet all financial commitments and keep debt at low and very manageable levels. Council balances its long term strategies and outlook with in-year priorities like the clean up of your city following storms or floods. Additionally, Council monitors its financial position and performance on a monthly basis and formally revises its budget each quarter, where required. These regular reviews are complimented by an annual credit review conducted by the Queensland Treasury Corporation to ensure the short, medium and long term financial sustainability of your Council.

Redland City Council is once again in a strong financial position to deliver the planned program of projects and services for the next financial year and beyond.

Definition of Ratios

Ratio	Definition
Level of Dependence on General Rate Revenue: Target less than 37.5%	General Rates - Pensioner Remissions Total Operating Revenue - Gain on Sale of Developed Land
Current Ratio: Target between 1.1 and 4.1	Current Assets Current Liabilities
Debt Servicing Ratio: Target less than or equal to 10%	Interest Expense + Loan Repayments Total Operating Revenue - Gain on Sale of Developed Land
Cash Balance - $M:	Cash Held at Period End
Cash Capacity in Months: Target 3 to 4 Months	Cash Held at Period End [[Cash Operating Costs + Interest Expense]/12]
Debt to Asset Ratio: Target less than or equal to 10%	Current and Non-current loans Total Assets
Operating Performance: Target greater than or equal to 20%	Net Cash from Operations + Interest Revenue and Expense Cash Operating Revenue + Interest Revenue
Operating Surplus Ratio: Target between 0% and 10% (on average over the long-term)	Net Operating Surplus Total Operating Revenue
Net Financial Liabilities: Target less than 60% (on average over the long-term)	Total Liabilities - Current Assets Total Operating Revenue
Interest Cover Ratio: Target between 0% and 5%	Net Interest Expense on Debt Service Total Operating Revenue
Asset Sustainability Ratio: Target greater than 90% (on average over the long-term)	Capital Expenditure on Replacement of Assets (Renewals) Depreciation Expenditure
Asset Consumption Ratio: Target between 40% and 80%	Written Down Value of Infrastructure Assets Gross Current Replacement Cost of Infrastructure Assets