

# **Final Prospective Financial Information Project Subscription Package**



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## **Announcing the Commencement of the ‘Final PFI project’**

This briefing paper is intended to advise interested Councils (finance people principally) of the commencement of the ... ‘Final PFI (prospective financial information) project’.

Many of you will have participated last month in the ‘Pilot PFI’ project ... ([www.kauriglen.co.nz/larry/other/PFImarketing.pdf](http://www.kauriglen.co.nz/larry/other/PFImarketing.pdf)) and as expected, for such an initial project a review of these 26 ‘Pilot’ reports raised as many issues as they addressed. In addition, since the public release of the LTCCP’s there has been unprecedented media and other public comment on the financial implications of Council plans.

I have, over the last two weeks spent considerable time with a number of (North Island) Councils following delivery of the ‘Pilot’ reports in an attempt to ‘determine where do we go to from here’.

It is clear from the extent of interest (with several Councils requesting further work to be done) that the ‘Pilot’ should now roll into a ‘Final PFI project’.

### **Your Council’s participation in the project**

Enclosed you will find a form to complete, amounting to your Council’s commitment and subscription to the Final PFI project.

If, following the reading of this paper you wish to participate in the project then completion and return of the form by 28 July 06 will start for your Council the process described in the flowchart – Appendix 1. Note, this process will include the forwarding to you of your Council’s data from the data we hold for its validation and some further (modest level of) input.

### **Final PFI project objectives**

Assessments made by Councils of the ‘Pilot PFI’ project reports highlighted the major issues to be further studied and analysed within any final project covering three broad headings.

These issues deserved more detailed and focused coverage upon three topic areas ... relating to:

- Rates ... or *‘How do we fare, are our rates considered to be high ... or what?’*
- Assets ... or *‘Does our LTCCP programme of asset development “add up”?’* and
- Debt ... *‘Are we proposing unsustainable debt levels?’*

These topics are the perennial hot buttons/chestnuts anyway, even more so now, as they are amongst the most pressing issues for future Council financial planning.

Their (the issues) profile has risen due to exposure of them within the current round of LTCCP’s ... witness for instance, the impact in the media of proposed rates increases as well as the interest shown in issues concerned with the (debt) funding of infrastructural asset developments.



### **... Give me a simple example (or two) of the ‘issues’ covered by this ‘Final’ project**

The Final PFI project is, above all else intended to provide real, principally quantitative data in support of the ‘live’ and practical issues faced now by Council’s with respect to their long-term financial plans.

Here are just two of a number of case study circumstances that the project will address...

#### Example 1

Problem: The media, for the first time have got hold of Council’s ‘inflated’ LTCCP financial projections, these have been increased-inflated (at the very least) by adding estimates for inflation, often further increased by the inclusion of ‘local District growth’ allowances ... some, in total as high as an additional 5% per annum over 10 years. The impact of the inclusion of these allowances has not made their justification any easier!

Solution: The inflated figures look on first view to be ‘horrificing’. Might it not be a good idea then to restate and report these estimates in nominal 2006 dollars and thereby provide some added balance and perspective to the ‘scary’ numbers ... by showing projected 10-year growth in household incomes as well. The Final PFI project will do this.

#### Example 2

Problem: Proposed debt level maximums have been quoted in the media, often with no reference to the associated growth of assets/ratepayers equity.

Solution: Might it not then be a good idea to show Council debt levels relative to ratepayer’s equity and also as compared to other Councils on the same basis? The Final PFI project will do this.

Many other LTCCP financial scenarios of a similar type will be studied and reported within the Final PFI project’s reports and its findings. Appendix 2 refers to the full set of ‘Final’ reports proposed.

### **What was covered in the ‘Pilot’ and how will these reports be supplemented in the ‘Final’?**

Appendix 2 includes all of the reports of the ‘Pilot’ project. It is the area of the third category (the ‘Specialised’ reports) where most of the ‘Final’ project’s developments will occur. At this stage, these final developments are ‘preliminary only’ as finance officers are at present assisting with report content and design.

Further suggestions are welcomed, (up until mid August) concerned with added Final PFI project ‘Specialised’ reporting. The Pilot project’s Per Capita and Growth reports will be included and will be supplemented with additional other (Specialised) reports with final LTCCP data used wherever it is available/possible.

### **Where angels fear to tread?**

There was general unanimity from ‘Pilot’ project subscribers commentary that there would be a benefit in more closely examining the 2006-16 LTCCP financial data ... some added cautions were



expressed. Agreement was generally reached that we do not know yet enough about the financial implications and significance of the issues raised by the LTCCP's to be comfortable ... particularly in the face of media comments and ratepayer reactions.

One example of incomplete knowledge of Council staff concerned the financial implications of an LTCCP and its fixed assets, (property plant and equipment) and the need to conduct a 'close the loop' test to ensure that depreciation provisions, plus other funding, such as debt and development contributions did in fact meet the proposed funding programmes of asset developments and additions.

But the cautions given, (the usual suspect, that is reservations concerning a mixing of Council comparative 'apples and lemons' data) were associated with this attempt.

We all know that when dealing with the ever present 'apples and lemons' comparisons (comparisons of 'rates' for instance) that we should not expect definitive answers. But to endeavour to obtain some answers '*warts and all*' was considered to be '*better than to leave a vacuum*' thereby to provide some valid basis for responding to the issues (above) raised in the public domain.

### **One answer/viewpoint alone may not be the full picture**

This is not to say that the results of the proposed 'Final' exercise should be lightly discounted either.

Personal experience has lead me to the belief that if we can get '*more than one*' answer to the same question, (sometimes five or six answers reached by differing routes) then we can usually frame satisfactory findings or conclusions. (See rationale for this approach at [www.kauriglen.co.nz/larry/marketing/LTCCPdataFirstPrinciples.doc](http://www.kauriglen.co.nz/larry/marketing/LTCCPdataFirstPrinciples.doc)).

For instance, when (say) four of the five results show that the 'Kiwi DC' is a low rating Council compared to its peers ... we can be 'reasonably' certain, armed with this evidence that this (low rates) is so ... (the ... '*it must be a duck*'! sniff test).

We should, in attempting these exercises try to marshal all of the available evidence, good and indifferent, (discarding the obviously 'bad') from numerous sources to get '*more than one* answer' and thereby achieve reasonable and substantiated assessments upon these issues. The same general approach applies equally to the identified topics of Rates, Assets and Debt ... 'indicative rating comparable data' ... 'prudent levels of debt' ... 'adequate asset based depreciation provisions' and so on.

In spite of the acknowledged difficulties, (the 'cautions' mentioned), there seems to be almost unanimous agreement that we would benefit from knowing a great deal more on these subjects and that we should within the 'Final' project process do what we can to tease out the issues focussing upon the very public concerns associated with Council's Rates, Assets and Debt.

This 'Final' project will arm individual Councils, (many of whom have been criticised by the media for their plans) with reasonably based quantitative and other data relating to their rates, debt and Council owned assets (long term) plans, sufficient to enable them to put their case.



### Isn't someone else doing this?

All I can say is 'sort of' and/or 'they should be' ... but don't hold your breath'.

The *DIA* ('*bless em*'), for example are doing some work to support the *JOG* 'LG Funding' reporting. *LGNZ* are also supporting the sector with funding information.

No other agency or consultancy however to my knowledge is progressing the more specific data related objectives outlined herein<sup>1</sup>.

I sincerely believe that our group of subscribers to the Final PFI project will be better placed to hold informed, substantiated and verifiable views of the issues covered as a consequence of their participation in this exercise.

### Where will all of the data come from?

Well ... the '*NZLG Database*' ([www.kauriglen.co.nz/larry/NZLGDatabase.doc](http://www.kauriglen.co.nz/larry/NZLGDatabase.doc)) is a great place to start. Sure, its data is largely historical but the framework it provides, (for rates comparisons for example, the populations, District areas, their nature, their peer groups, ratepayer numbers, CV/LV data) will all contribute to this exercise. For the assets and debt questions, these are topics much more capable of direct analysis with the final LTCCP's and the '*NZLG Database*', designed originally for financial analytical purpose is 'purpose built' to cover these two topics.

In addition, there is plenty of other 'rating data' publicly available ... principally of course this data can and will be drawn from the financial sections of the 73 TLA's final LTCCP's which are in the process of being fully collected, collated and available for the analysis.

Given the observations concerned with the 'more than one answer' approach (above), relating to data, concerning rates for example, there is presently 'out there' in the public domain a great deal of 'rates' information (some better than others admittedly) that will provide answers/standpoints upon the same issue (the '*Is it a duck*'? test) if you look for it ...consider the following list ...

- The *NZ Herald*'s mid July rates series and survey data covering Auckland TLA's
- The '*Doms*', the '*Press*', the *ODT* and other local paper's 'surveys' and articles editorials on the subject(s)
- The *LGNZ* material quoted in the above (*Herald*) media reports
- SOLGM material ... if available
- The *DIA*'s draft LTCCP data base and the *JOG* report due 'soon'
- The *Napier City*'s annual average residential rates survey
- Specific Council based surveys, (*Hutt*'s and others)
- Enquiries of rates and finance officer within numerous Councils.
- Council's documents, LTCCP's and others, with their rates examples, debt projections/graphs etc etc.

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<sup>1</sup> .... 'to my knowledge and I hope in stating this that I have not maligned anybody along the way! I also communicated to the OAG in July that there seemed to be plethora of wordy verbiage written about the LTCCP process, no one yet has attempted to discern 'what the numbers mean'!



All of this data is worthy of itself of collecting, reviewing and summarizing. This information will prove ‘more than enough’ data to produce the ‘*more than one*’ (above) answers or indications relating to issues concerned with rates<sup>2</sup>. But we still need more accurate data and we will need your help. (See below).

### **Uh Oh! ... We (you that is) have to do some input!**

‘*Base Stats*’ reports subscribers will know that no input preparation and only minimal dialogue is required from Council staff to produce the annual ‘*Base Stats*’ reports. In this case there will be some modest level of user input, for example the information needed to iron out some of the apples/lemons comparisons of rates ... such as each Council’s refuse and water/wastewater charges.

The data input templates and questionnaire are presently ‘under development’ and will be forwarded to subscribers when they are signed up. The input (your task) of this information will not be unduly onerous consisting in the main of verification of information we hold already.

As part of the final planning, subscribers will be surveyed for their suggestions relating to the content and design of the additional specialised reporting. The final requests, those that get adopted may also necessitate additional data gathering and subscriber input.

### **Conclusion**

Just to reiterate ... the feedback from the ‘Pilot’ project indicated that Council finance people (and some enlightened policy people and CEO’s) were concerned to go behind all of the words and process of the LTCCP exercise ... and determine ‘what the numbers mean’.

As well as this objective they expressed the view that in conducting a more detailed analysis of the LTCCP financial data they would be well placed to deal with the ‘Big Three Issues’ ... Rates, Assets and Debt, the topics most in the public eye and covered by the media ... and not always in a ‘balanced’ fashion.

So ... we have a response ... the ‘Final PFI project’.

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<sup>2</sup> The volumes, (including a spate of surveys) of similar rates data currently available in the media and elsewhere clearly points to the significance (the ‘hot button’ status) of the issues involved ... does it not?



## Final PFI Subscription Form

Name: \_\_\_\_\_

Position: \_\_\_\_\_

Council Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

Phone: \_\_\_\_\_ Email: \_\_\_\_\_

### Please add me to your list of subscribers for:

☐

#### **Final PFI 'Package'**

Tick

The total cost of the project, will be pegged at \$3,500\* per subscribing Council which in addition to you receiving your detailed Final PFI reports and Findings also includes attendances at a one day workshop for the presentation and discussion of the findings.

**Please note first (of two) payments, \$1,750.00 plus gst of \$218.75. Total \$1,968.75**

*\* Excludes gst plus reasonable disbursements but includes your own Council's 'Findings' reports and two Final PFI one day Workshop attendances. Half of the amount (\$1,750) is due and payable upon subscription, the balance upon receipt of the findings and reports.*

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#### **1 Day Workshop (14<sup>th</sup> November 2006, Wellington – Venue to be advised)**

Tick

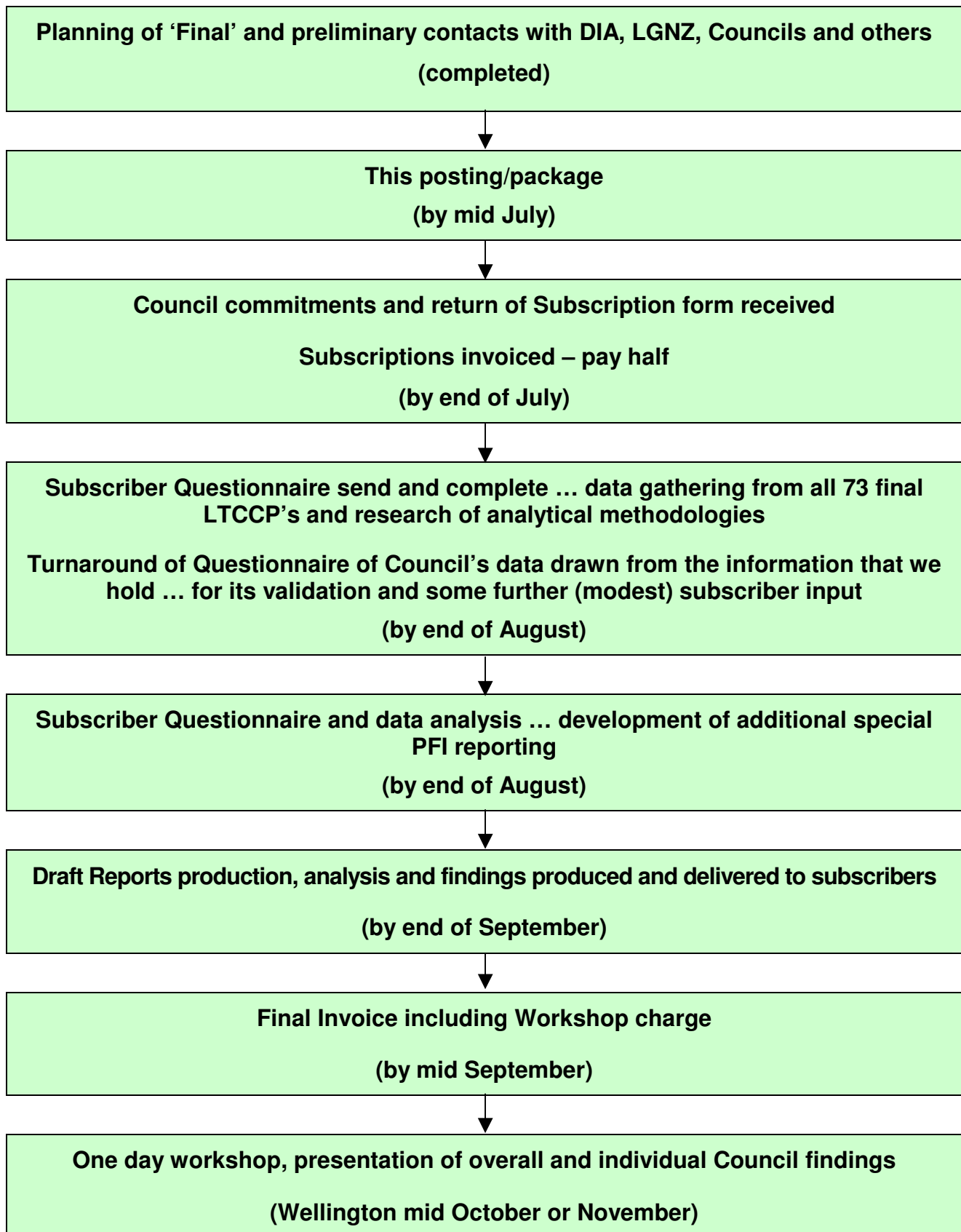
This one-day Workshop is open to all comers and forms part of the PFI 'package deal' detailed above. The Workshop is to be held in Wellington on the day before the *Conferenz 'LG Fin 06'* November 14th. The sessions will cover all of the usual suspects, the FAQ's relating to financial plans associated with rates, ('are ours too high?') debt, ('is ours still prudent?') and assets, ('are we providing sufficient depreciation?') and so on. Further particulars and session details are included in the PFI 'package' (available upon request). **Cost is \$950 per attendee.**

**Post form to Larry.N.Mitchell, PO Box 103, Puhoi, North Auckland or Fax to 09 422 0700**

***Make cheques payable on receipt of Invoice to  
Larry. N. Mitchell, PO Box 103, Puhoi, North Auckland***



## The 'Final PFI project' process and timetable flowchart







## Final PFI Project Report Definitions

We are now completing the report definitions for the Final PFI project. If subscribers would like to add others, then provided the data is available we will attempt to accommodate any requests received before 21<sup>th</sup> August.

The proposed reports for the ‘Final PFI project’ are listed as follows.

### ‘Growth’ Datasets – all updated for the ‘Final’ project

Measure or Ratio	Explanation and Comments
Property, Plant & Equipment Growth	Most of these measures are ‘self explanatory’ ... the ‘Growth’ dataset reports show the relative (%) changes of each subject item (for example PPEq) comparing the 2006/07 total with the 2016 total as well as showing % increases over the 10 yr LTCCP period. The ‘Debt’ measure uses <u>total</u> liabilities (current plus term) ... and population growth data that is based on available 2005 estimated <i>StatsNZ</i> data (not 2006 census) which is incremented/compounded at the estimated annual rate of increase/decrease from the same <u>2005</u> source.
Debt Growth	
Operating Expenditure Growth	
Capital Expenditure Growth	
Development Financial Contributions Growth	
Depreciation Growth	
Operating Revenue Growth	
Surplus Growth	
Subsidies Growth	
Investments Growth	
Ratepayers Equity Growth	
Financial Interest Paid Growth	
Population Growth	

### ‘Per Capita Datasets’ – all updated for the ‘Final’ project

Measure or Ratio	Explanation and Comments
Debt Per Capita	Most of these measures are ‘self explanatory’ ... the ‘Per Capita’ dataset reports show the relative per person statistic (in the resident population) ... ‘ <i>per capita</i> ’ results, for example, Debt which compares the 2006/07 Debt totals, (from 2006 LTCCP debt data) per capita for all individual 2006-2016 years showing % increases over the 10 yr LTCCP period.
Capital Expenditure Per Capita	
Operating Revenue Per Capita	
Operating Expenditure Per Capita	
Subsidies Per Capita	
Rates Per Capita	
Financial Interest Per Capita	



<b>Specialised Ratios Datasets – all updated for the ‘Final’ project</b>	
<b>Measure or Ratio</b>	<b>Explanation and Comments</b>
<b>Debt to Equity</b>	The specialised ratio’s dataset reports, contain ‘some’ useful ratios, most are familiar/ubiquitous requiring no added explanation and all are clearly labelled within the column headings of each report. The Debt to Equity ratio for instance is self explanatory and is commonly used for financial management ... just as many of the other ratios are.
<b>Rates Income Increase</b>	The parameters for the Rates to Income measure are more complex. The rates survey data used has gst excluded from the totals but each measure, (where present, mostly for larger Councils) the Rates figure includes all other known ratepayer service charges including water charges so that as far as has been possible, the rates figures used are ‘comparable’. The ‘rates increase’ totals referred to are the 2006 and 2016 rates totals disclosed in the 2006-2016 LTCCP’s statement of financial performance.
<b>Infrastructural Assets Growth to Total Assets Growth</b>	The specialised ratio’s dataset reports ‘some’ useful ratios, most are familiar/ubiquitous requiring no added explanation and all are clearly labelled within column headings of each report.
<b>Financial Interest Growth to Operating Revenue Growth</b>	
<b>Depreciation Growth to Property, Plant &amp; Equipment Growth</b>	
<b>Average Residential Rates Graph</b>	Where (smaller) Council rates comparisons have not been made for the Rates Income Increase data (above), the 2005 and when it is available the 2006 Napier City survey results have been included as this survey is the only alternative rates comparison data available.
<b>Further Recent (New) Reports Developed</b>	
<b>Rates (New)</b>	Additional rates survey data obtained from Council sources is reported and added analysis will be incorporated into the findings and workshop sessions.
<b>Assets (New)</b>	‘Close the loop’ asset test results are made proving out and identifying the sources of all asset funding providing findings relating to the adequacy of depreciation and other sources of capital funds.
<b>Debt (New)</b>	Proof of the reasonability of future debt projections for all LTCCP debt and debt servicing information ... tests of prudence
<b>Adjusted ‘Pilot’ Reports (New)</b>	‘Pilot’ tables, (using inflated figures) adjusted to <u>2006 nominal</u> dollars using suitable ‘gdp deflator’.
<b>Rates per Household ratio (New)</b>	Rates \$ <u>totals</u> taken from 2006 LTCCP’s for every Council and their group* and over the whole sample divided by the <u>number of</u> households expressed as a % for 10 years ... <i>the average amount of rates per household.</i> * Groups consist of ‘peers’ and are based on ‘ <i>Base Stats</i> ’ standard cohorts



<b>Rates to Household Income ratio (New)</b>	Rates \$ <u>totals</u> taken from 2006 LTCCP's of the group – for 10 years ... a very revealing ratio that indicates the proportion (%) of <i>an average City or District household's income that is spent upon rates</i>
<b>Interest Expense to Rates ratio (New)</b>	Interest \$ <u>totals</u> compared to rates \$ <u>totals</u> – for 10 years. Indicates <i>the capacity of a council to meet its debt servicing costs</i> .
<b>Assets to Debt ratio (New)</b>	Assets \$ <u>total</u> compared to Debt \$ <u>total</u> – for 10 years. Indicates <i>the level of debt associated with assets</i> (and their build up) over 10 years.

In all, the 'Final' project delivers 33 '*special*' reports at this stage plus the additional 'gdp deflator' adjusted reportage ... another 20 or more reports. All will be utilised in developing the separate 'Council Findings Reports' produced ... for subscriber Councils only.

These *special* reports will be supplemented further with a number of '***Base Stats with Trendz***' tables and graphs as they relate to the Findings and Workshop topics of Rates, Assets and Debt.

