Financial Overview

	2001/02 Approved Budget	2002/03 Approved Budget	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast	2009/10 Forecast	2010/11 Forecast	2011/12 Forecast
OPERATING SUMMARY	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Operating Expenditure	200.66	207.86	211.81	228.19	232.12	236.43	241.28	244.10	247.87	252.86	257.15
Depreciation	52.15	54.62	63.14	64.52	65.77	66.92	67.96	69.01	70.01	71.08	72.25
Provision to Fund Landfill Aftercare	0.75	0.72	0.72	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Expense	7.68	7.07	6.55	7.45	9.91	12.04	13.27	14.14	14.98	16.03	17.59
Total Operating Expenditure	261.23	270.27	282.21	300.17	307.81	315.38	322.51	327.25	332.85	339.96	346.98
Ordinary Revenues	(86.75)	(92.93)	(95.18)	(98.37)	(97.52)	(97.26)	(96.97)	(96.33)	(95.79)	(95.63)	(95.37)
Interest and Dividends from CCHL	(158.60)	(32.32)	(28.90)	(29.80)	(30.20)	(31.00)	(32.00)	(32.70)	(33.50)	(34.50)	(35.20)
Interest Received	(14.46)	(15.21)	(13.27)	(12.56)	(12.74)	(12.94)	(13.40)	(13.98)	(14.54)	(15.15)	(15.80)
Rates	(137.58)	(145.51)	(153.25)	(161.21)	(170.34)	(179.95)	(192.03)	(198.24)	(205.16)	(213.36)	(221.09)
Operating Surplus/Contribution to Capital Projects	(136.16)	(15.71)	(8.38)	(1.78)	(3.00)	(5.77)	(11.89)	(14.00)	(16.14)	(18.68)	(20.47)
Percentage Rate Increase	**2.28%**	**3.70%**	**3.89%**	**3.84%**	**4.37%**	**4.41%**	**5.54%**	**2.17%**	**2.46%**	**2.99%**	**2.66%**
CAPITAL FUNDING SUMMARY											
Capital Expenditure	117.07	115.26	97.89	101.71	104.39	88.90	87.86	88.22	92.32	100.54	108.63
Provision for Debt Repayment	2.13	5.42	5.12	5.15	6.24	7.49	8.23	8.71	9.14	9.63	10.29
Loan to Jade Stadium *	22.41	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Capital Cost	141.61	120.68	103.01	106.86	110.63	96.39	96.08	96.93	101.46	110.17	118.92
Funded by:											
Depreciation and Surplus (Deficit) on Operations	(180.47)	(62.42)	(63.16)	(57.57)	(59.62)	(63.12)	(69.71)	(72.26)	(74.77)	(77.72)	(79.96)
Provision to Fund Landfill Aftercare	(0.75)	(0.72)	(0.72)	(0.00)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital Repayment/Sale of Assets in Total	(47.00)	(0.00)	(1.50)	(1.50)	(1.59)	(1.71)	(6.84)	(6.99)	(7.14)	(7.30)	(2.47)
Funded from Debt Repayment Reserve	43.71	(47.54)	(29.36)	3.51	(0.00)	0.00	0.00	0.00	0.00	0.00	0.00
Reserves	68.77	(6.12)	(6.90)	(7.23)	(7.09)	(7.04)	(3.32)	(3.29)	(3.25)	(3.22)	(3.18)
External Funding for Capital Projects	(1.99)	(2.38)	(0.52)	(0.59)	(0.57)	(0.02)	(0.02)	0.00	0.00	0.00	0.00
Borrowing Required for the Annual Programme	23.88	1.51	0.85	36.44	41.76	24.50	16.19	14.39	16.30	21.93	33.30
KEY ASSETS/LIABILITIES OF CCC											
Gross Debt	101.54	93.58	94.29	130.43	172.08	196.49	212.62	226.98	243.21	265.12	298.41
Less Sinking Funds & Debt Repayment Reserves	(93.37)	(51.78)	(28.37)	(31.22)	(39.08)	(48.53)	(59.22)	(70.95)	(83.73)	(97.67)	(113.01)
Term Debt	8.16	41.80	65.92	99.21	133.00	147.96	153.40	156.02	159.48	167.45	185.41
Less Reserve Funds	(101.10)	(124.26)	(122.94)	(122.52)	(122.12)	(121.85)	(124.56)	(126.20)	(122.87)	(129.57)	(131.30)
Net Debt *	(92.94)	(82.46)	(57.02)	(23.31)	10.88	26.11	28.84	29.83	31.61	37.88	54.11
TOTAL ASSETS (CCC & CCHL)	3,826.81	3,875.52	3,907.27	3,949.46	3,983.08	4,005.07	4,019.97	4,034.17	4,051.48	4,075.94	4,112.32
REALISABLE ASSETS (CCC & CCHL)	1,991.98	1,858.17	1,863.72	1,869.08	1,875.12	1,878.86	1,877.40	1,875.74	1,873.88	1,871.81	1,874.50
Net Debt (CCC & CCHL)	16.21	22.29	47.78	81.54	115.78	131.06	133.80	134.78	136.56	142.84	159.06

* Gross debt has increased by $43M reflecting Council borrowing to on lend to Jade Stadium Ltd (JSL). Repayments from JSL have been factored in from 2001/2002. The interest costs on the borrowings are fully serviced by JSL.

Financial Overview

The table on the previous page summarises the Council's long term financial strategy. For more details about the factors influencing the strategy and the key long term issues for the Council, readers are referred to the Strategic Statement booklet. (This is available from the Civic Offices or at www.ccc.govt.nz.)

Capital Expenditure

New Items

The long term capital projections which were approved as part of finalising the 2002 Annual Plan allowed for a total capital spend of $112.46M. The 2002/03 figures show $115.26M for capital. The $2.8M difference relates to reprogramming from 2001/02 to 2002/03. These are capital projects which were budgeted for in 2001/02 and for a variety of reasons will not now be commenced until 2002/03. Funding for these reprogrammed items is sourced directly from the unexpended funds in the Debt Repayment Reserve.

While there have been other changes to the capital programme these have been accommodated within the overall projection for 2002/03.

Operating Expenditure

(a) Operating Surpluses

The Long Term Financial Strategy which was adopted in July 1998 and confirmed in July 2001 made provision for operating surpluses. These surpluses were increased to fund additional capital expenditure and to repay debt. A formula was established which ensures that the funds generated from a combination of depreciation (less funds appropriated back to reserves and separate accounts) plus the balance of the operating surplus (in excess of the debt repayment provision) is sufficient to fund 56% of the average annual forecast capital expenditure over the next 20 year period. This funding percentage increases from 56% in 2002/03 to 66% by 2010/11.

(b) Depreciation

Depreciation is provided on both operational and infrastructural assets. Operational assets which include plant, fixtures, computers, library books and office furniture, are depreciated on a straight line value basis.

Infrastructural assets (roads, sewers, traffic signals, bridges, water pipes and water meters) are depreciated using LRARA (long range average renewals approach). LRARA allows for depreciation to be calculated on the basis of the average requirement for renewals as defined by the Asset Management Plans.

The Institute of Chartered Accountants of New Zealand has recently advised that due to a change in accounting standards the LRARA approach can only now apply for 2002/03. Roading infrastructural assets (roads, street lighting, traffic signals, bridges and bus shelters) will however change earlier. They will be depreciated on a straight line basis from 1 July 2002. The impact of this change has been to increase the overall depreciation provision by $51,350.

The total depreciation provision for 2002/03 is $54.62M and this is projected to steadily increase to $72.25M by 2011/12.

(c) Ordinary Operating Expenditure

While this year's efficiency gains (total $2.12M) are significant, their impact on the overall expenditure budget has been offset by some very significant cost increases. These cost increases were not known about when the long term projections were adopted.

The most significant of these increases are:

- Electricity $621,500

  While line prices are projected to remain very close to their current levels, the energy component is set to rise. In dollar terms it has been estimated that such an increase will add an extra $621,000 to the Council's total electricity costs.

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- Insurance $657,180

  Following the September 11 terrorist attacks in America there has been a world-wide increase in insurance premiums. The impact on the Council's insurance premiums is approximately 50% or in dollar terms $657,180.
- Environmental Services Net Cost $145,281

  This relates mainly to an adjustment to the revenue targets.
- Art Gallery Net Cost $178,423

  The new Art Gallery operating costs have been calculated more precisely to reflect detailed knowledge of the building.

Projected Rate Increases

This year's Financial Plan is forecasting increases of 3.89% and 3.84% in years 2003/04 and 2004/05 respectively. These increases reflect the impact of the new Art Gallery, Waste Treatment Plant Upgrade and the new landfill coming on stream from late 2003.

At the meeting to adopt this Plan, the Council resolved to switch to a waster pays system for its rubbish collection and disposal. This 'off rates' scheme has almost halved the projected rate increase in 2004/05 from 6.7% to 3.84%.

Dividends

The dividend projection for 2002/03 is $32.32M which includes a special dividend of $3.4M from Christchurch City Holdings Ltd. The Council will receive an $18M special dividend in 2001/02 from Christchurch City Holdings Ltd and as a result ordinary dividends which the Council had projected to receive over the next seven years will be lower. This special dividend has been placed in a Reserve Fund and will be drawn down progressively over the next five years to smooth future rate increases.

Borrowing and Consolidated Debt

In accordance with existing policy, the Debt Repayment Reserve will be used in lieu of borrowing and to repay loans as they fall due. The $1.51M to be borrowed in 2002/03 relates to borrowing for equity investments ($0.85M), and for additional capital requirements in developing a Central City Park ($0.65M). The total borrowing figure can be broken down as follows:

- Transwaste Canterbury Ltd (Equity Investment) $400,000
- Christchurch City Facilities Ltd (Equity Investment) $450,000
- Central City Park (additional capital requirements) $655,000

Interest Rates and Inflation Provisions

In establishing the projections, interest rates of 5.25% for interest earnings and 6.5% for debt servicing have been factored into year 1 and subsequent years.

Included within both the operating and capital projections is a cumulative inflation provision of 2% from year 2 onwards. This has been included to ensure that the long term projections are realistic.

Growth in the Rating Base

The 2002/03 budget allows for $2.75M in additional rates revenue from capital value growth. Capital value growth includes new subdivisions, additions to existing buildings and developments within the existing urban area.

Credit Rating

In 1993 the Council received an AA international credit rating from Standard & Poor's. This was upgraded in 2001 to AA+.

This high rating reflects the low level of debt in the Council group including its trading

Financial Overview

subsidiaries. This credit rating could change in subsequent reviews if the expenditure forecasts of the group are significantly increased.

Financial Management

In 1994 the Council adopted a Financial Management Policy which provided a framework for ensuring that the Council's long term programme was financially sustainable. Elements of this policy are now required by the Local Government Act. A summary of the current Financial Management Policy is noted below:

Financial Management Principles and Policy

The following principles underlie the policy on financial and debt management:

- Debt repayment programme over 20 years to ensure inter-generational equity.
- 56% of average annual capital expenditure for year 1 (rising in steady progression over the next 10 years to 66%) to be funded from depreciation and operating surpluses.
- New asset net additions funded both from loans and internal financing.
- Operating expenditure will be funded from operating revenue.

1. Operating Surpluses

The operating surpluses are calculated using the formula detailed on page 21. The surpluses for the first four years of the Plan will be:

Year	2003 Plan
2002/03	$15.71M
2003/04	$8.38M
2004/05	$1.78M
2005/06	$3.00M

2. Reserves and Sinking Funds

A provision by way of reserve/sinking fund contributions will be made each year for the repayment of all new loans raised by the Council, plus the existing debt of Christchurch City Holdings Ltd. The provision is based on no less than 3% of the amount borrowed and a repayment time frame of 20 years for each loan.

3. Financial Ratios

(a) Net interest paid on term debt by the Council and Christchurch City Holdings Ltd (parent company) combined will not exceed 8% of the consolidated gross revenue, provided interest rates do not increase above 8.5%. This parameter is subject to review in the event of interest rates rising above this level.

(b) Term Debt as a percentage of total assets of the Council and Christchurch City Holdings Ltd (parent company) shall be no more than 12%.

(c) Term Debt as a percentage of realisable assets (includes net trading enterprise investments but excludes Infrastructural and Restricted Assets) shall be no more than 33%.

(d) Net debt to funds flow from operations shall not exceed five times, ie an ability to repay debt over five years (medium term) before net capital additions.

(**Note**: Funds flow from operations is the net cash surplus of gross revenue over operating cash expenses (excludes depreciation).

(e) The liquidity ratio (current assets: current liabilities) shall be not less than 1:1 at each year end. (Note: Current assets excludes for this purpose cash investments relating to specified reserve funds and current liabilities excludes the current portion of term debt.)

4. Operating Expenditure

The operating expenditure of the Council shall be met from operating revenues.

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5. Infrastructural Asset Expenditure

Sufficient expenditure will be applied to maintain the existing infrastructural asset base at least to current standards or to standards adopted through an asset management programme.

6. Depreciation

Cash generated from revenue derived to meet depreciation charges will be applied for funding renewal works in the first instance followed by capital works and debt reduction.

7. Application of Cash Surpluses

Cash surpluses in excess of budget from any year will be applied to reduce the borrowing requirement of the subsequent year.

Targets and Objectives for 2002/03

Local authorities are required to prepare and adopt a long term financial strategy, funding policy, investment policy and borrowing management policy. The long term financial strategy and policies are printed in full in the Strategic Statement (available at the Civic Offices or at www.ccc.govt.nz). A summary however is included in this Financial Plan (see pages 19 to 24 for the Long Term Financial Strategy, pages 165 and 166 for the Investment Policy and pages 167 and 168 for the Borrowing Management Policy). Every local authority must provide in its Annual Report, sufficient information about each of those policies to enable an informed assessment to be made of the extent to which the objectives and provisions of the strategy and policies have been met during that year. The information must include an explanation of any significant variation between the objectives and policies of the Long Term Financial Strategy, Funding Policy, Investment Policy, and Borrowing Policy, set out in the Strategic Statement, and the actual achievement of those objectives and policies.

Specific Targets and Objectives for 2002/03 are noted opposite and on the next page:

Long Term Financial Strategy

Objective	2002/03 Target
Maintain four key ratios in the long term:	
Term Debt as a percentage of Total Assets below 12% [(1)]	3.78%
Term Debt as a percentage of Realisable Assets below 33% [(2)]	7.89%
Net Interest as a percentage of Operating Revenue below 8% [(3)]	- 0.52%
Net Debt in relation to Funds Flow below 5 times [(4)]	0.30%
Operating Surplus	**$15.71M**

(1) See page 26 for more details.
(2) See page 26 for more details.
(3) See page 27 for more details.
(4) See page 27 for more details.

Funding Policy

Objective	2002/03 Target
Proportion of revenue by source:	
User Charges	33.50%
Grants and Subsidies	4.11%
Corporate Revenue	17.32%
Capital Value Rating	41.24%
Uniform Annual Charge	3.83%
Rates by Sector	
Residential	71.48%
Commercial/Industrial	26.11%
Rural	1.52%
Institutions	0.89%

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Investment Policy

Objective	2002/03 Target
Compliance with the Policy parameters	No breaches of the various investment policy parameters
Regular reporting of Council investments	Reporting as per Section 5 of the Investment Policy
Compliance with the policy requirements as they relate to the Capital Endowment	No breaches of the Capital Endowment Fund requirements
Regular reporting as it relates to the Capital Endowment Investments	Reporting on the Capital Endowment Fund investments as per the Investment Policy

Cathedral Square

Borrowing Policy

Objective	2002/03 Target
Maintain adequate liquidity	No more than 35% of total debt greater than $30,000,000 maturing in any one year
	Liquidity ratio at not less than 1:1 (100%) excluding special purpose investments and the current portion of term debt
Provision for debt to be repaid by contribution to a debt repayment reserve	Not less than 3% per annum
Maintain debt ratios within specified limits	Refer to Long Term Financial Strategy targets on previous page

Home Demonstration Garden at the Curator's House, Botanical Gardens.

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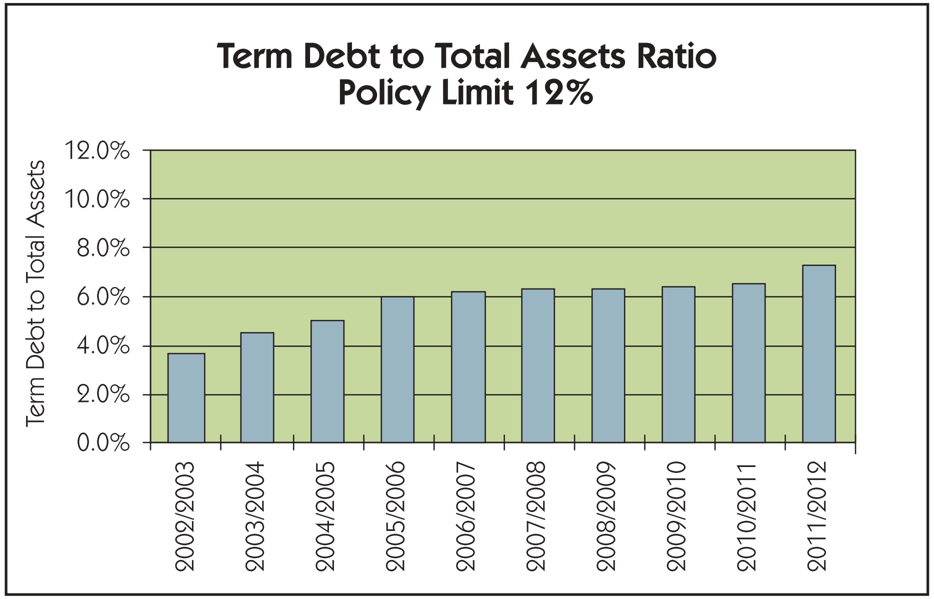
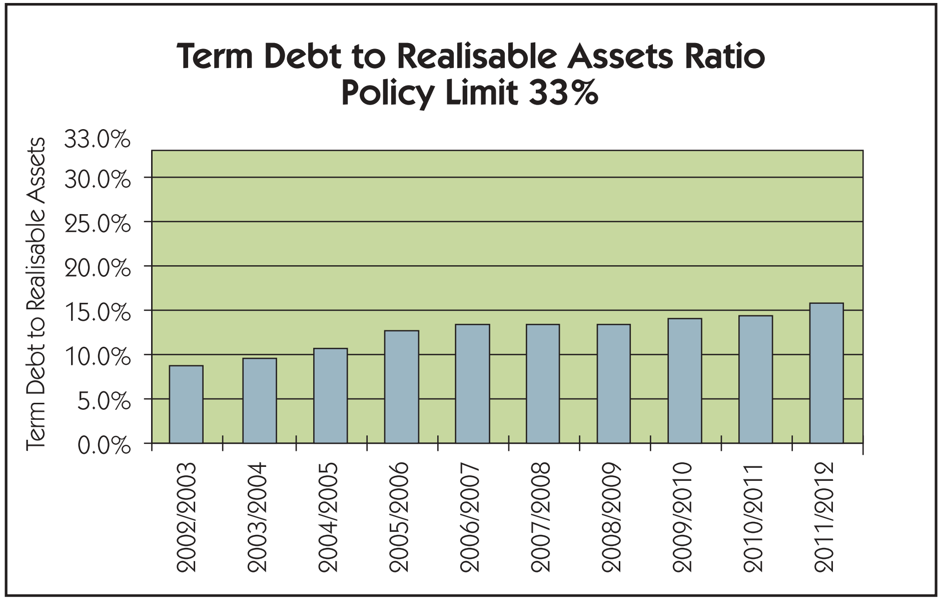
The four financial ratios referred to on pages 19 and 23 are described and graphed below:



Term Debt to Total Assets Ratio - Policy Limit 12%

This graph compares the term debt (ie gross debt, less the dedicated debt repayment reserves) with the total assets of the Council and sets a maximum of 12 per cent.

This is like saying how large your mortgage is compared to the value of all your assets. The ratio is currently 3.78 per cent and reaches a peak of 7.06 per cent in 2011/12. Over a 20 year period it reaches a peak of 7.50 per cent in 2016/17.



Term Debt to Realisable Assets Ratio - Policy Limit 33%

This graph compares total debt with a significantly reduced category of assets which are more normal business type assets.

The assets used as the measurement base exclude those which are basic to the needs of the city, such as roads, sewers, parks and water supply but includes property, vehicles and trading investments. The ratio has a maximum of 33 per cent. It is currently 7.89 per cent and reaches a peak of 15.49 per cent in 2011/12. Over a 20 year period it reaches a peak of 17.19 per cent in 2020/21.

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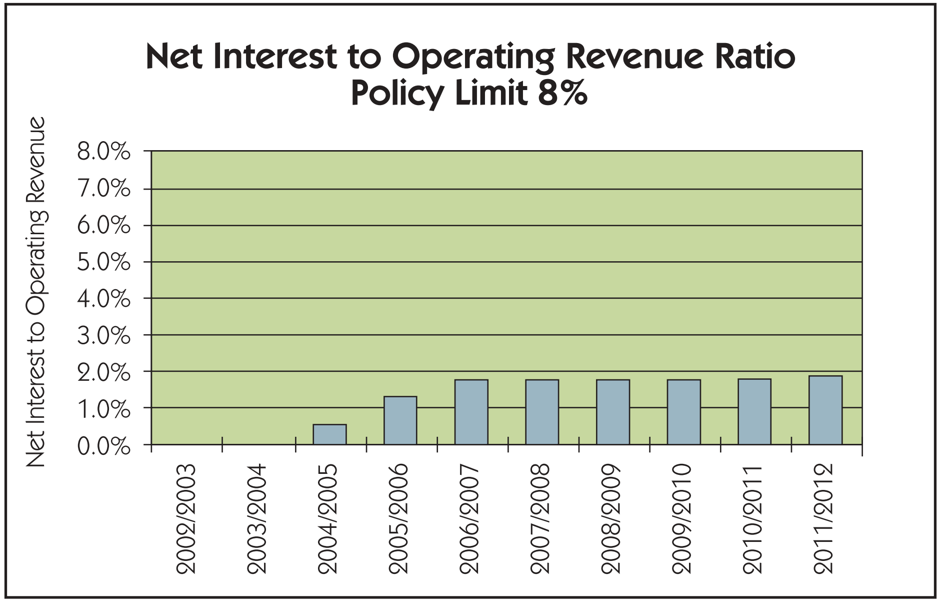

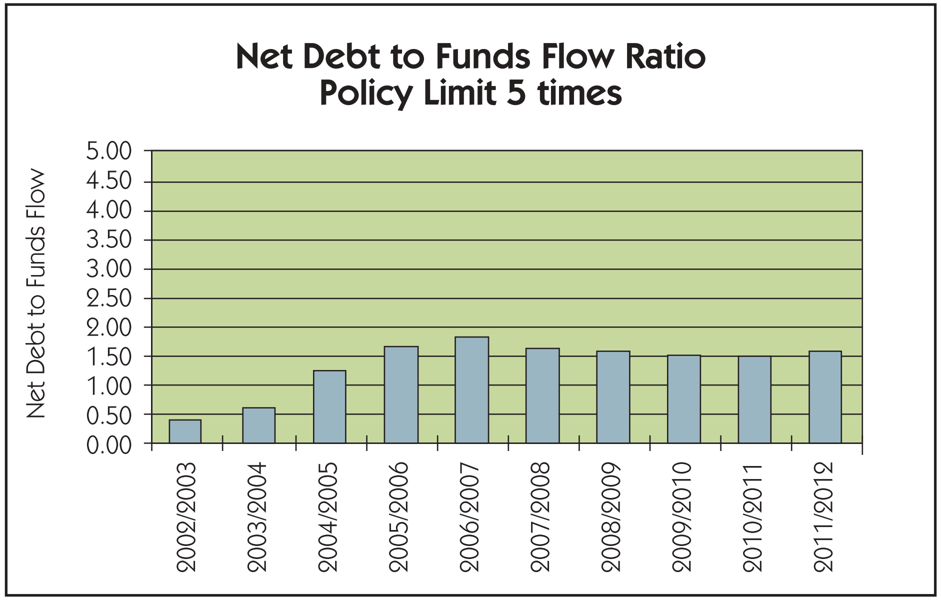

Net Interest to Operating Revenue Ratio - Policy Limit 8%

This graph measures how much of the Council's income is spent on interest.

It is like comparing how much of your income goes towards servicing your mortgage.

The ratio maximum is 8 per cent. The ratio is currently -0.52 per cent and reaches a peak of 1.82 per cent in 2011/12. Over a 20 year period it reaches a peak of 2.20 per cent in 2017/18.

Net Debt to Funds Flow Ratio - Policy Limit 5 times

Net debt is total debt less all other cash reserve funds which the Council holds. The graph compares this with the annual cash flow of the Council.

It is like checking how many years' cashflow would be necessary to repay net debt or comparing how many years' total income it would take to repay your mortgage.

The maximum of 5 indicates that net debt could be repaid with five times the annual cashflow. Currently the ratio is 0.30 times and reaches a peak at 1.78 times in 2006/07. Over a 20 year period it reaches a peak of 1.78 times in 2006/07 and declines thereafter.