Financial Overview

Introduction

This section gives a brief overview of the financial implications of the Plan.

- The Plan has been developed within the parameters as set out in the Council's Revenue and Financing Policy (see pages 178 to 180). The main objective of this policy is to ensure that major projects, resulting operating costs and debt are maintained at manageable levels.
- The revenue and financing mechanisms used to cover the estimated expenses of the Council are set out in the Funding Impact Statement (see pages 30 to 35).
- At the heart of the Revenue and Financing Policy are four ratios. These ratios set maximum limits in relation to the key financial drivers.

  The four key ratios and the maximum limits are:

	Policy Limit
Term Debt as a percentage of Total Assets	Maximum 12%
Term Debt as a percentage of Realisable Assets	Maximum 33%
Net Interest as a percentage of Operating Revenue	Maximum 8%
Net Debt in relation to funds flow	Maximum 5 times

- The 10 year projections are within the ratio limits (see ratio graphs on pages 28 and 29).
- An important principle of the Revenue and Financing Policy is to generate surpluses thereby enabling the Council to reduce its dependence on borrowing to fund capital works.
- The projections (operating and capital) include an inflation provision of 2% per annum.
- The Council maintains a 20 year financial model which takes account of all of its plans and financial arrangements. The Model enables any changes to be monitored to ensure that they are sustainable in the long term.
- The financial summary on page 23 illustrates the impact that expenditures and revenues have on borrowings, debt and rate levels.
- Confirming the strength of the Council's overall financial position is the current AA+ credit rating by the international credit rating agency Standard & Poor's.

The new footbridge, which links the Botanic Gardens with North Hagley Park.

Financial Overview Summary

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	Approved Budget	Approved Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
OPERATING SUMMARY	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Operating Expenditure	207.86	215.99	225.90	234.80	238.86	242.98	245.87	249.97	254.92	259.24	263.81
Depreciation	55.34	63.63	64.24	64.85	64.73	65.15	65.90	65.89	66.14	66.72	67.18
Interest Expense	7.07	7.51	8.69	10.08	12.64	15.35	17.58	18.56	20.09	21.65	22.66
Total Operating Expenditure	270.27	287.12	298.93	309.73	316.24	323.51	329.36	334.43	341.15	347.60	353.66
Ordinary Revenues	(92.93)	(103.65)	(105.68)	(105.43)	(106.46)	(106.12)	(104.75)	(104.56)	(104.33)	(104.14)	(103.71)
Interest and Dividends from CCHL	(32.32)	(28.20)	(29.10)	(29.50)	(30.30)	(31.30)	(32.00)	(32.80)	(33.77)	(34.62)	(34.91)
Interest Received	(15.21)	(14.73)	(14.22)	(13.43)	(13.65)	(14.03)	(14.55)	(14.94)	(15.88)	(16.73)	(17.35)
Rates	(145.51)	(154.89)	(162.53)	(169.60)	(176.79)	(188.42)	(199.09)	(207.72)	(216.49)	(225.25)	(233.90)
Operating Surplus/Contribution to Capital Projects	(15.71)	(14.36)	(12.70)	(8.23)	(10.96)	(16.36)	(21.04)	(25.59)	(29.32)	(33.14)	(36.21)
Percentage Rate Increase	**3.70%**	**2.81%**	**3.60%**	**3.08%**	**3.02%**	**5.39%**	**4.55%**	**3.30%**	**3.23%**	**3.09%**	**2.93%**
CAPITAL FUNDING SUMMARY											
Capital Expenditure	115.26	97.54	118.88	107.97	112.20	123.23	98.50	102.50	108.15	106.34	112.96
Provision for Debt Repayment	5.42	4.63	4.27	4.87	6.04	7.25	8.55	9.23	9.81	10.63	11.31
CCFL Equity/Loan Investment *	0.00	24.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Capital Cost	120.68	126.17	123.14	112.84	118.24	130.48	107.04	111.73	117.96	116.96	124.27
Funded by:											
Depreciation and Surplus (Deficit) on Operations	(63.14)	(69.68)	(68.12)	(63.79)	(66.02)	(71.30)	(76.06)	(79.83)	(82.96)	(86.45)	(88.97)
Capital Repayment/Sale of Assets in Total	0.00	(2.19)	(3.65)	(4.11)	(4.02)	(8.85)	(3.77)	(8.83)	(4.08)	(4.24)	(9.41)
Funded from Debt Repayment Reserve	(47.54)	(24.25)	(26.61)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reserves	(6.12)	(4.70)	(3.92)	(5.62)	(7.15)	(7.12)	(4.45)	(3.73)	(3.71)	(3.69)	(3.67)
External Funding for Capital Projects	(2.38)	(0.50)	(0.57)	(0.55)	(0.54)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Borrowing Required for the Annual Programme	1.51	24.85	20.27	38.77	40.50	43.21	22.77	19.34	27.21	22.58	22.22
KEY ASSETS/LIABILITIES OF CCC											
Gross Debt	93.58	96.29	116.31	155.02	195.49	238.67	261.42	280.72	307.92	330.50	352.73
Less Sinking Funds & Debt Repayment Reserves	(51.78)	(38.35)	(16.56)	(22.31)	(29.48)	(38.26)	(48.82	(60.64)	(73.69)	(88.27)	(104.34)
Term Debt	41.80	57.95	99.76	132.71	166.01	200.41	212.60	220.08	234.23	242.23	248.39
Less Reserve Funds	(124.30)	(130.56)	(134.58)	(137.28)	(138.63)	(140.19)	(144.58)	(149.86)	(155.39)	(161.14)	(167.14)
Net Debt *	(82.50)	(72.61)	(34.82)	(4.57)	27.38	60.23	68.02	70.22	78.84	81.08	81.25
TOTAL ASSETS (CCC & CCHL)	3,872.52	4,021.48	4,073.96	4,114.56	4,159.70	4,210.70	4,241.43	4,276.21	4,316.37	4,354.15	4,398.12
REALISABLE ASSETS (CCC & CCHL)	1,858.17	1,943.93	1,945.64	1,947.06	1,948.20	1,949.06	1,949.64	1,949.93	1,949.95	1,949.68	1,949.12
Net Debt (CCC & CCHL)	22.25	32.18	70.03	100.33	132.33	165.18	172.97	175.17	183.79	186.03	186.20

* Gross debt has increased by $24M reflecting Council borrowing to invest in Christchurch City Facilities Ltd (CCFL). This debt including repayments will be fully serviced by CCFL.

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 published by the Council in 2001. (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 2003 Annual Plan allowed for a total capital spend of $97.89M. The 2003/04 budget projections total $97.54M for capital. The budget is relatively close to the capital projection despite there being some significant changes to the capital programme. These changes include removing the UV sterilisation capital ($7.95M) from 2003/04 and reprogramming items which total $9.98M from 2002/03 into the 2003/04 year. (Funding for the reprogrammed items is sourced directly from the unexpended funds in the Debt Repayment Reserve.) In addition to the removal of the UV Sterilisation Plant from 2003/04, there were a number of other items which were moved out to subsequent years.

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 57% of the average annual forecast capital expenditure over the next 20 year period. This funding percentage increases from 57% in 2003/04 to 66% by 2011/12.

(b) Depreciation

The depreciation provision of $63.63M is very close to the projected figure of $63.14M. The difference between the 2002/03 budget and the 2003/04 budget figures reflects a combination of the change from LRARA to Straight Line depreciation (this is an accounting Standard change which must be in place by 1 July 2003) and an increase in the value of the asset base.

The depreciation provision is projected to steadily increase to $67.18M by 2012/13.

(c) Ordinary Operating Expenditure

While this year's efficiency gains (total $7.12M) are significant, their impact on the overall expenditure budget has been offset to a large extent by some major cost increases and commitments (total $3.41M). These cost increases/commitments were not known about when the 2003/04 projections were adopted.

The most significant of these increases are:

• Graffiti Removal	$250,000
• Burwood Landfill Contract	$300,000
• Burwood Landfill Cover Material	$210,000
• Burwood Landfill Gas Control	$800,000
• Increased insurance costs	$449,890

In addition to these cost increases, the Council has also included some new operating initiatives in 2003/04. Some of the more significant new operating initiatives are:

• Resources for City Plan Zoning	$317,000
• Canterbury Museum Revitalisation Project	$337,000
• Clearwater Classic - Event Funding & Underwriting	$400,000
• Provision of 26 Black Rubbish Bags	$587,965
• Economic Development	$550,000
• Road Network Improvements - Planning work	$180,000

Financial Overview

(d) Revenue

The revenue figure which includes user charge revenue, grants and Transfund subsidies is $8.47M up on the projected revenue figure. This is made up of a wide variety of increases ranging from sewer cost shares, hazardous waste charges, tipping fees, Jellie Park revenue, car parking fees, the Robert McDougall Gallery lease, Art Gallery venue hire and shop sales.

The ordinary revenue figure for 2003/04 can be broken down as follows:

• Fees and charges	$85.46M
• Grants and subsidies	$18.19M
	$103.65M

Projected Rate Increases

At the meeting to adopt the Draft 2003 Plan, the Council resolved to reduce the 2005/06 rates requirement of $176.87M by $10M. While the target was more than achieved ($13.83M), some of the savings were later utilised by the Council in order to fund the partial reinstatement of black rubbish bags.

The rate reductions are noted below:

	2003/04	2004/05	2005/06	2006/07	2007/08
2004 Plan	2.81%	3.60%	3.08%	3.02%	5.39%
Original Projection*	4.73%	6.80%	4.72%	3.81%	5.30%

* As per the Draft 2003 Financial Plan.

Dividends

The dividend projection for 2003/04 was $28.90M and this has remained the same in the Plan. The Council is not anticipating any special dividends in 2003/04.

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 $24.85M to be borrowed in 2003/04 relates to borrowing for equity investments. 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
- Christchurch City Facilities Ltd (Equity/Loan Investment) *	$24,000,000

* For funding the Christchurch Engine Centre see page 43 for more details.

Interest Rates and Inflation Provisions

In establishing the projections, interest rates of 5.50% for interest earnings and 6.75% 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 2003/04 budget allows for $3.74M 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. That policy statement is now part of the Revenue and Financing Policy (see below).

Revenue and Financing Policy

The Local Government Act requires that the Council adopt a Revenue and Financing Policy which ensures operating revenue is set at a level sufficient to meet the projected operating expenses and that funding of the capital expenditure programme is prudent. (Refer to pages 178 to 180 for the Policy.)

Targets and Objectives for 2003/04

Local authorities are required to prepare and adopt a Long Term Financial Strategy, Funding Impact Statement, Investment Policy and Liability Management Policy. The Long Term Financial Strategy is printed in full in the Strategic Statement (available at the Civic Offices or at www.ccc.govt.nz). 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 Impact Statement, Investment Policy, and Liability Management Policy, set out in the Strategic Statement, and the actual achievement of those objectives and policies.

Specific Targets and Objectives for 2003/04 are noted below and on the next page:

Long Term Financial Strategy

Objective	**2003/04 Target**
Maintain four key ratios in the long term:	
Term Debt as a percentage of Total Assets below 12% (1)	4.05%
Term Debt as a percentage of Realisable Assets below 33% (2)	8.37%
Net Interest as a percentage of Operating Revenue below 8% (3)	- 0.62%
Net Debt in relation to Funds Flow below 5 times (4)	0.42%
Operating Surplus	**$14.36**

(1) (2) See page 28 for more details. (3) (4) See page 29 for more details.

Funding Impact Statement

Objective	**2003/04 Target**
Proportion of revenue by source:	
User Charges	34.36%
Grants and Subsidies	5.39%
Corporate Revenue	14.22%
Capital Value Rating	41.90%
Uniform Annual Charge	4.13%
Rates by Sector	
Residential	72.24%
Commercial/Industrial	24.95%
Rural	1.57%
Institutions	1.24%

Financial Overview

Liability Management Policy

Objective	2003/04 Target
Maintain adequate liquidity	No more than 35% of total debt 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

Investment Policy

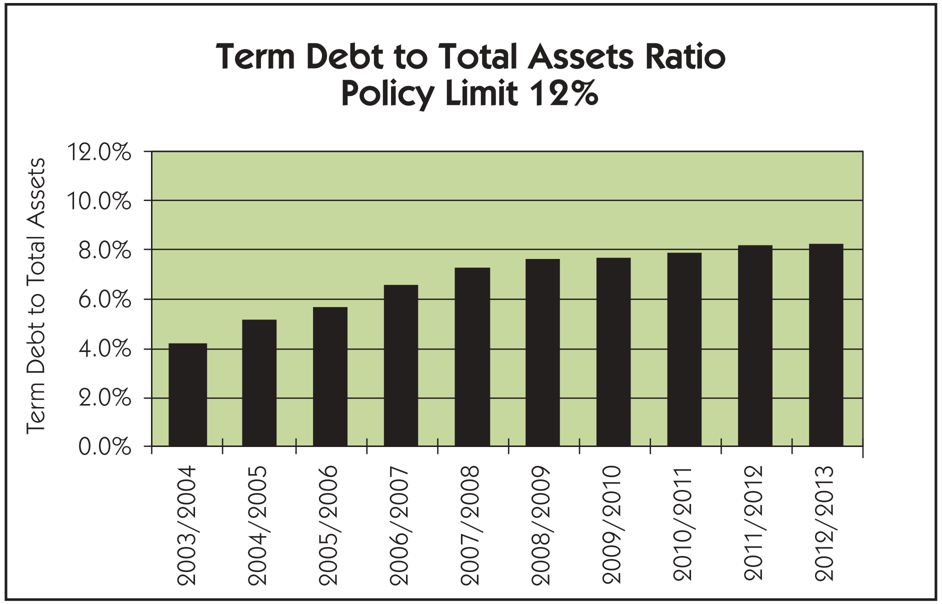
Objective	2003/04 Target
Compliance with the Policy parameters	No breaches of the various investment policy parameters
Regular reporting of Council investments	Reporting as per Section 5 of the Investment Policy
Compliance with the policy requirements as they relate to the Capital Endowment	No breaches 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

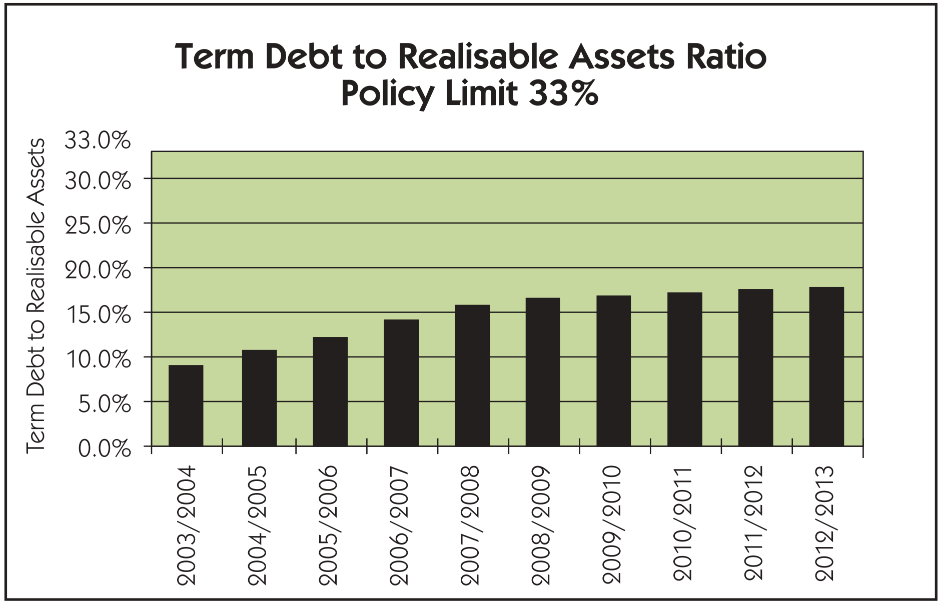
Hagley Park in autumn.

Hagley Park in spring.

Financial Overview

The four financial ratios referred to on page 22 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.

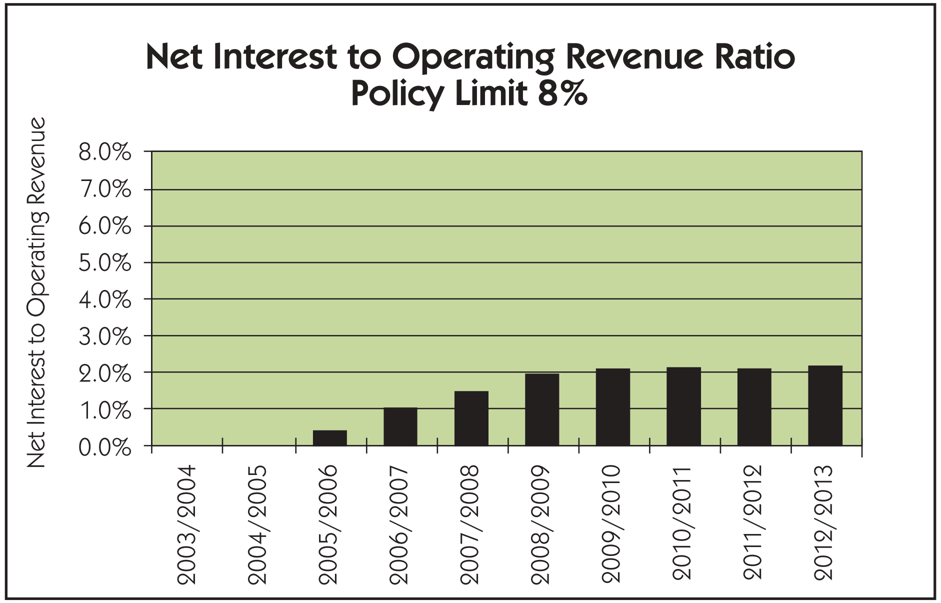
This is like saying how large your mortgage is compared to the value of all your assets. The ratio is currently 4.05per cent and reaches a peak of 8.03 per cent in 2012/13. Over a 20 year period it reaches a peak of 8.81 per cent in 2021/22.

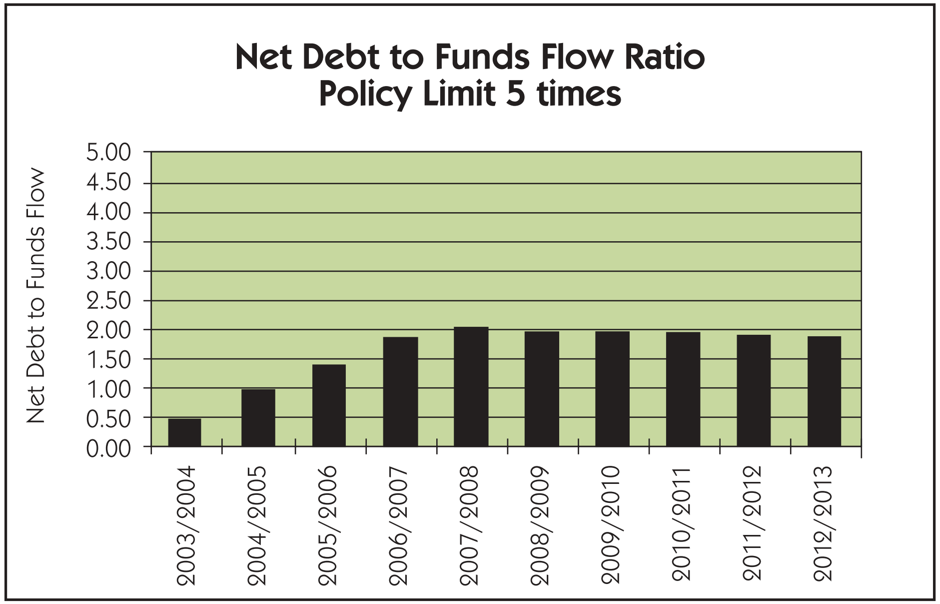
Term Debt to Realisable Assets Ratio - Policy Limit 33%

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 8.37 per cent and reaches a peak of 18.13 per cent in 2012/13. Over a 20 year period it reaches a peak of 22.81 per cent in 2022/23.

Financial Overview





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 -0.62per cent and reaches a peak of 2.17 per cent in 2012/13. Over a 20 year period it reaches a peak of 2.36 per cent in 2016/17.

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 0.42 times and reaches a peak at 2.04 times in 2007/08. Over a 20 year period it reaches a peak of 2.04 times in 2007/08 and declines thereafter.