introduction from the mayor and chief executive

Draft plan has no surprises – by design and by law

An introduction by Garry Moore, Mayor of Christchurch

This draft annual plan by the Christchurch City Council is another example of changes taking place as a result of recent new law about local government.

For people familiar with past annual plans it will seem slimmer. The reason for that has to do with commitments we made last year.

The new law says that at least once every three years councils must have a serious conversation with their communities, agree about priorities for the coming years and then put together a long-term plan.

We put together our first Long Term Community Plan last year and aim to update it next year, so this is a between year. And in between years, the law encourages councils not to make any radical changes to long-term plans. It does this by making it very difficult to make any big modifications.

So this draft plan is relatively straightforward and very much in line with the commitments we made in last year's long-term plan. The long-term plan is called Our Community Plan and for more on that and information about how you can get involved in reviewing the city's long-term goals, look on the web at www.ccc.govt.nz/Ltccp/CurrentPlan.asp

In this draft of the annual plan, any movements away from the commitments made in last year's long-term plan are set out and there is an explanation of why the adjustment is needed. Often you will find this has to do with revised costings for the work.

We are not, however, going to fiddle with the forecast rates levels. Last year, Our Community Plan predicted that the rates adjustment for 2005/06 would be 3.53 per cent. This draft plan suggests we can probably trim that a little, to 3.49%, and still maintain promised levels of service and the agreed work programmes.

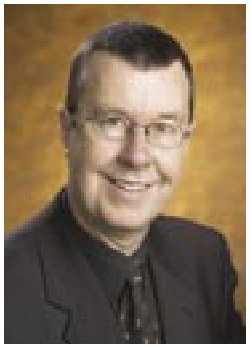
We are lucky as a city that in recent years we've been consistent about keeping up with what needs to be done and that Christchurch City Council continues to maintain its track record of prudent management of public funds.

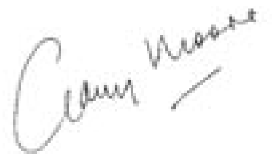
We welcome your comments

One element of the traditional annual planning framework that has not changed, however, is our desire to hear what you, the public, think of our proposals. If you're suggesting a major overhaul, it's possible the elected members will put it aside until later in the year when they start working on the next (2006-16) long-term plan, but that doesn't mean you shouldn't contact us.

What's wrong with our plan – either this update or last year's Our Community Plan? What's right with it? Is there anything missing? Is there something we should be doing that we aren't, or something we are that we shouldn't be? What about the plan itself – do you have any suggestions about how we could better present it?

The business of the City Council touches all of us in many ways and we'd like to hear from you, so let us know. This annual plan is open for public comment for a month, from Monday 11 April until Friday 13 May. If you have a printed copy, there's a form included. If you're reading it on-screen, there'll be a link to the Have Your Say website, at **www.ccc.govt.nz/HaveYourSay**





Garry Moore

Mayor of Christchurch

introduction from the mayor and chief executive

Getting involved in City Council planning

From Dr Lesley McTurk, Chief Executive

This annual plan proposal, as the Mayor has indicated, is best read as an add-on to last year's long-term Community Plan. Because 2005/06 is not a year in which we are updating our long-term plan, this document is perhaps most easily understood as an update, a work-in-progress report covering the single year from 1 July 2005.

It uses the same basic structure as the long-term Community Plan, looking at the various activities the Christchurch City Council undertakes on behalf of the city and setting out how budgets will be spent, whether any revenue is expected which will offset spending and explaining how each activity is connected to and contributes to attaining the high-level goals we call Community Outcomes.

Where there is any difference between last year's long-term plan and projections for the coming year, this draft plan explains those variations.

This draft annual plan proposes a rate increase of 3.49 per cent, slightly below that set out in the long-term Community Plan.

This has not been easy to achieve. The long-term operating forecast contained provision of $2.4 million for inflation but actual cost increases are likely to be more than $6m. It is fortunate that the high level of economic activity in Christchurch will see a growth in the rating base which generates an additional $1.5m in income.

Budgeted income from interest is also $2.8m ahead of earlier forecasts due to the fact that interest rates are about a percentage point higher than last year. Together, these two incomes sources will help us remain within the fiscal envelope in the coming year.

Cost increases are also putting pressure on the capital programme. Its impact on the coming year is manageable but it can be expected to have a bigger impact on next year's revised long-term Community Plan unless there is either a reprogramming of capital works or substitution of projects.

While we are proposing a rate increase slightly lower than projected, the demand for more services, cost and inflation pressures and the fact that some of our income sources – interest levels and growth – cannot be guaranteed means that the development of next year's long-term Community Plan will be challenging.

I encourage you to review our 2005/06 Draft Annual Plan and comment as you think appropriate.

Dr. Lesley McTurk

Chief Executive

a guide to the draft annual plan

This draft Annual Plan shows how the Council will continue with the planned activities and services as set out in the 2004/14 Long Term Council Community Plan (LTCCP).

This document concentrates on plans for the forthcoming financial year (i.e. 1 July 2005 to 30 June 2006) and explains any material differences from the LTCCP.

No significant changes to the LTCCP are proposed in this Annual Plan. For more information on the LTCCP please refer to:

http://www.ccc.govt.nz/Ltccp/CurrentPlan.asp or alternatively paper copies of the document can be obtained from the Civic Offices.

The LTCCP will be reviewed and made available for public submission in April 2006.

This draft Annual Plan is organised as follows:

Overview

This section charts where the Council as a whole would like to head in 2005/06. The Community Outcomes Summary has been copied directly from the LTCCP and describes the kind of society, community, environment and economy, the people of Christchurch want to live in. Also included in the Overview Section is the Financial Overview and Funding Impact Statement. Both describe and compare the financials for 2005/06 with those that were included in the LTCCP for 2005/06.

Plans for Groups of Activities

This section outlines the plans for each of the 13 groups of Activities for 2005/06. Where there are differences with what was planned in the LTCCP these are explained.

Capital Programme

In this section the capital programme is reported on at group activity level and for each group activity there is a breakdown into Metropolitan Projects, Local Projects and Technical Projects. All Metropolitan Projects are detailed. The Local and Technical Projects/Capital items are reported on at the programme level.

Details of the local and technical programmes will be included on the Council's website http://www.ccc.govt.nz

Supportive Information

This section supports the other sections and contains details of the Capital Endowment Fund allocation, the financial statements and a list of elected members and executive staff.

The Strip, Oxford Terrace

summary of community outcomes

Community outcomes describe the kind of society, community, environment and economy, the people of Christchurch want to live in. They are the things which the community think are important for its well-being.

Community outcomes belong to the community, and are identified by the community.

Identifying Community Outcomes

For this plan a quick approach was used to identify community outcomes, based on what people of Christchurch have been telling us for the past few years. We reviewed information gained from prior consultation and research, including

- Results from monitoring trends and other information (more than 500 measures)
- Reviews of prior consultations (5000 submissions, 54 reports)
- Reviews of reports and literature (300 reports)
- Review of Government strategies (187 strategies)
- Review of existing Council strategies and Community Board statements
- Stock-take of existing services and funding from the Council and government agencies
- Interviews with key stakeholders
- Interviews and workshops with elected members
- Discussion papers developed with external stakeholders and reference groups
- Feedback from a specially designed section on the Council's web site

This information was distilled in a number of workshops with elected members into the 9 community outcomes summarised below. In addition to the outcomes, the elected members identified a number of key challenges.

Relationship of Community Outcomes to other Planning Documents and Processes

Over time, community outcomes will form the basis of Council planning and, it is hoped, the planning of other agencies as well.

A simplified model is

- Community identifies its desired outcomes
  - Council decides what its role will be in furthering community outcomes, including aligning its policies and processes to achieve community outcomes.
  - Council prepares business plans for the activities it intends to undertake, and publishes these for community consultation.
  - Council carries out its planned activities and services.
  - Council collaborates with other agencies to deliver community outcomes

Other agencies consider the community's desired outcomes, and consider how they can influence their own planning.

There is already a degree of alignment between the community outcomes and other Council planning documents and processes. The Council's significant policies, including its City Plan, are themselves the outcome of processes in which the community was involved. Submissions on these policies were included in the background research done when identifying the community outcomes. The outcomes may therefore be regarded as a high-level re-statement of principles included in other policies.

summary of community outcomes

Overall the community outcomes for Christchurch are:

Sustainable Christchurch

- a sustainable natural environment
- a learning city
- a prosperous city
- a well governed city

and a city

- with inclusive and diverse communities, with a strong sense of place and identity,
- with healthy and active people,
- which is safe,
- which is cultural and fun,
- which is liveable,
- with an excellent built and natural environment.

The tables which follow provide summary details for each outcome. The "Outcomes" column provides more detail on the outcome itself. The "Challenges and Opportunities" section describes the challenges and opportunities the City has for better achieving the outcome. The "Council Activities" section lists the activities the Council will be providing in support of the outcome. The "Key Indicators" column identifies the kinds of indicators that will be used to measure progress towards achieving the outcomes.

A complete analysis of the outcomes, including details of the activities the Council will undertake, may be found in Volume 2 of "Our Community Plan 2004/14" (also referred to as the LTCCP).

A Sustainable Natural Environment

Outcomes	Challenges and Opportunities	Key Indicators
• Our people enjoy and value our natural environment and take responsibility for protecting and restoring it. • Our city's natural resources, bio diversity, landscapes, and ecosystem integrity are protected and enhanced. • Our people recognise that the natural environment plays a significant role in our prosperity. The whole community ensures that negative impacts on the environment are managed to maintain environmental sustainability.	• Reducing what we extract from the earth's crust (fossil fuels and minerals) • Waste minimization • Protection of the natural environment • Growing motor vehicle population **Council Activity Groups** • City Development • Parks and Open Spaces • Refuse Minimisation and Disposal • Regulatory Services • Sewage Treatment and Disposal • Streets and Transport • Water Supply • Waterways and Land Drainage	• Soil and water quality • Solid waste management and recycling • Climate change

summary of community outcomes

A Learning City

Outcomes	Challenges and Opportunities	Key Indicators
• Our people have the knowledge and skills needed to participate in society, and value lifelong learning. • Our City provides diverse opportunities for learning and innovation. • Our economy thrives on skills, knowledge and innovation.	• Increase educational achievement for all • Ensure a skilled and flexible workforce • Encourage lifelong learning • Foster research, innovation and technology **Council Activity Groups** • Art Gallery, Museum and Our City • Community Services • Democracy and Governance • Economic Development • Library Services • Regulatory Services	• Educational qualifications at all levels • Employment in research and technology • Community education and lifelong learning • Training for employment

A Prosperous City

Outcomes	Challenges and Opportunities	Key Indicators
• Our people have access to adequate income and opportunities to contribute to the City's well-being. • Our City has the infrastructure and environment to support a job rich economy, while protecting and enhancing our essential natural capital. • Our economy is based on a range of businesses which enable wealth creation and employment opportunities for all.	• Increase wealth creation • Increase number and range of quality jobs • Maintain and develop essential infrastructure • Reduce economic exclusion **Council Activity Groups** • City Development • Economic Development • Streets and Transport • Refuse Minimisation and Disposal • Sewage Treatment and Disposal • Water Supply • Waterways and Land Drainage	• Employment and income • Income and hours worked • Economic activity

summary of community outcomes

A Well Governed City

Outcomes	Challenges and Opportunities	Key Indicators
• Our people participate in decision making and enjoy the rights and responsibilities of living in a democracy. • Our City's infrastructure and environment are managed effectively, are responsive to changing needs and focus on long-term sustainability. • Our economy thrives on strong, proactive and ethical leadership.	• Develop leadership • Improve consultation and participation • Encourage civic responsibility • Strengthen treaty relationship • Improve stewardship • Build collaborative agencies • Develop triple bottom line reporting **Council Activity Groups** • Art Gallery Museum and Our City • City Development • Community Services • Democracy and Governance	• Community involvement in Council decision making • Council credit rating • Community confidence in Council decision making

A City of Inclusive and Diverse Communities

Outcomes	Challenges and Opportunities	Key Indicators
• Our people participate in community life, have a sense of belonging and identity and have opportunities to contribute to the City's well-being. • Our City encourages a diversity of lifestyles, and a sense of social connection, place and identity. • Our economy provides opportunities for all people to participate in wealth creation, develop a sense of belonging and make a contribution. • We recognise our bicultural heritage in our multicultural society.	• Ensure a vibrant voluntary sector • Strengthen communities and neighbourhoods • Maintain and build a sense of identity and place • Reduce social inequalities **Council Activity Groups** • Art Gallery Museum and Our City • City Development • Community Services • Library Services • Parks and Open Spaces • Regulatory Services • Streets and Transport • Waterways and Land Drainage	• Social networks and groups • Satisfaction with the look and feel of the City, including the built environment and heritage protection • Voluntary work • Relationships with neighbours • Emotional health and well-being

summary of community outcomes

A City of Healthy and Active People

Outcomes	Challenges and Opportunities	Key Indicators
• Our people live long and healthy lives. • Our City provides the natural and built environments that enable people to enjoy long and healthy lives. • Our economy is based on practices that promote and improve health.	• Increase healthy lifestyles • Ensure we have healthy homes • Improve environmental health • Reduce health inequalities • Improve mental well-being • Ensure effective health services **Council Activity Groups** • Community Services • Parks and Open Spaces • Refuse Minimisation and Disposal • Regulatory Services • Sewage Treatment and Disposal • Streets and Transport • Water Supply • Waterways and Land Drainage	• Mortality and morbidity • Life expectancy • Air and water quality • Frequency of physical activity • Public open space, including space for sport and recreation • Confidence in the public health system

A Safe City

Outcomes	Challenges and Opportunities	Key Indicators
• Our people are free from crime, violence, abuse and injury. • Our City's urban form and infrastructure maximise safety and security for all people from crime, injury and hazards. • Our economy invests in mitigating threats to safety and security.	• Improve road safety • Reduce crime • Ensure safe neighbourhoods and children, young people and families **Council Activity Groups** • City Development • Community Services • Refuse Minimisation and Disposal • Regulatory Services • Sewage Treatment and Disposal • Streets and Transport • Water Supply • Waterways and Land Drainage	• Perceptions of safety, including child safety • Injury and crime rates • Road safety • Environmental safety

summary of community outcomes

A Cultural and Fun City

Outcomes	Challenges and Opportunities	Key Indicators
• Our people value leisure time and recognise that arts and leisure pursuits contribute to identity, connectedness and well-being. • Our City's infrastructure, facilities, open space and natural environments support a diverse range of arts and leisure activities. • Our economy is strengthened by the arts and leisure sectors.	• Increase participation in arts and cultural activities • Encourage sense of identity through arts and leisure activities • Develop our arts and cultural infrastructure • Develop our sports and leisure infrastructure **Council Activity Groups** • Art Gallery Museum and Our City • City Development • Community Services • Economic Development • Library Services • Parks and Open Spaces	• Participation in the arts and cultural activities • Size of the arts and culture industry • Availability of leisure activities

A Liveable City

Outcomes	Challenges and Opportunities	Key Indicators
• Our people have appropriate housing and live in an attractive and well designed City and neighbourhoods. • Our City provides a choice of housing, easy mobility and access to open spaces, and a range of utilities that allow people to enjoy an acceptable quality of life. • Our economy invests in and benefits from enhancing the liveability of our City.	• Ensure appropriate and affordable housing • Develop liveable neighbourhoods • Ensure an effective transport system **Council Activity Groups** • City Development • Community Services • Regulatory Services • Streets and Transport • Refuse Minimisation and Disposal • Sewage Treatment and Disposal • Water Supply • Waterways and Land Drainage	• Housing affordability; housing crowding • Accessibility of key local services • Availability of public open space

financial management overview

Introduction

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

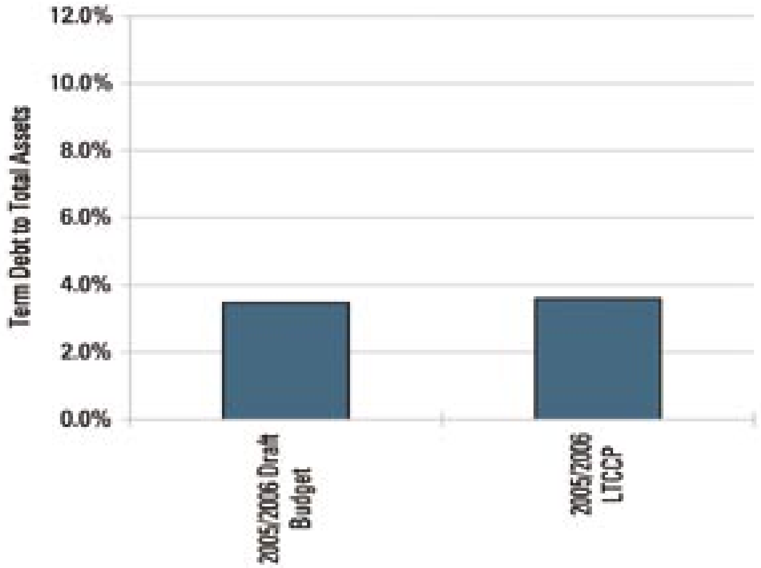
- The draft Annual Plan has been developed within the parameters as set out in the Council's Revenue and Financing Policy (see Volume 3 of the Long Term Council Community Plan). The main objective of this policy is to ensure that major projects, resulting operating costs and debt are maintained at manageable levels.
- The revenue and financing mechanisms used to cover the estimated expenses of the Council are set out in the Funding Impact Statement see elsewhere in this volume.
- 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 2005/06 projections are within the ratio limits (see ratio graphs following).

Term Debt to Total Assets Ratio
Policy Limit 12%



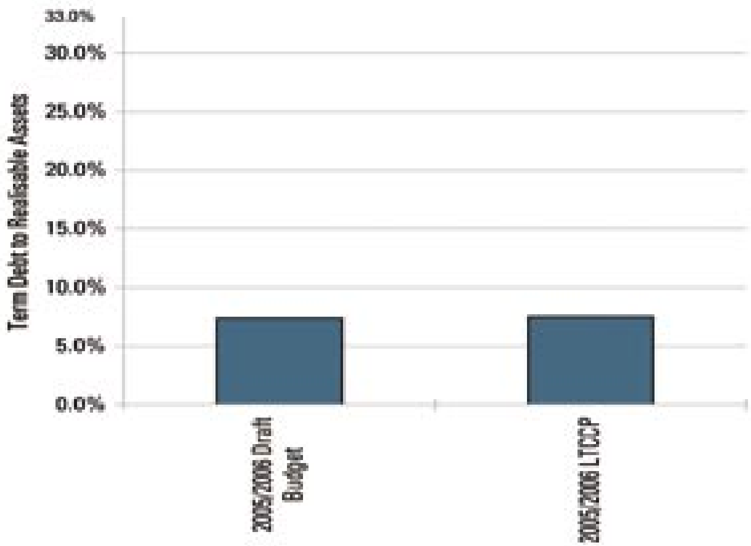
This graph compares the term debt (ie gross debt, less the dedicated debt repayment reserves) with the total assets of the Council and sets a maximum of 12 per cent.

This is like saying how large your mortgage is compared to the value of all your assets.

The ratio is currently 3.47 per cent compared to 3.60 per cent projected in the 2004/05 LTCCP.

financial management overview

Term Debt to Realisable Assets Ratio
Policy Limit 33%



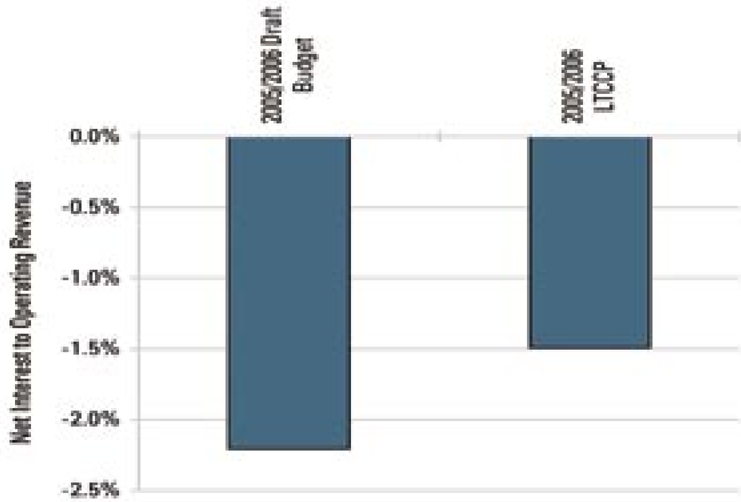
This graph compares total debt with a significantly reduced category of assets which are more normal business type assets.

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.

The ratio is currently 7.37 per cent compared to 7.47 per cent projected in the 2004/05 LTCCP.

Net Interest to Operating Revenue Ratio
Policy Limit 8%



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

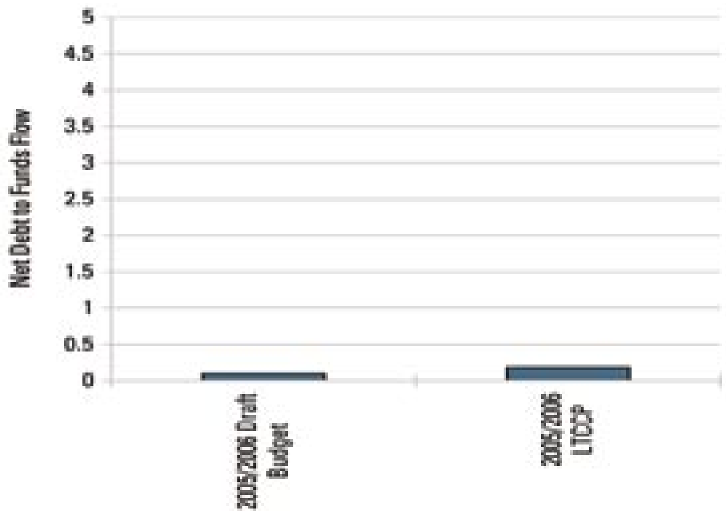
It is like comparing how much of your income goes towards servicing your mortgage.

The ratio maximum is 8 per cent.

The ratio is currently –2.21 per cent compared to –1.49 per cent projected in the 2004/05 LTCCP.

financial management overview

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 ratio is currently 0.09 times compared to 0.19 times projected in the 2004/05 LTCCP.

- 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 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 (following table) illustrates the impact that expenditures and revenues have on borrowings, debt and rate levels for 2005/06.
- 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.

financial management overview

Cost of Proposed Services

2004/05 Plan $M		Draft Budget 2005/06 $M	LTCCP 2005/06 $M
	Operating Summary		
237.67	Operating Expenditure	234.65	248.19
65.07	Depreciation	68.27	68.72
6.71	Interest Expense	5.91	6.47
309.45	**Total Operating Expenditure**	**308.83**	**323.37**
(93.91)	Ordinary Revenues	(78.31)	(93.06)
(19.11)	Grants & Subsidies	(24.30)	(21.01)
(29.10)	Interest & Dividends from CCHL	(30.00)	(29.50)
(18.75)	Interest Received	(18.67)	(16.29)
(164.83)	Rates	(174.21)	(172.72)
(16.25)	Operating Surplus/Contribution to Capital Projects	(16.66)	(9.21)
3.59%	**Percentage Rate Increase**	**3.49%**	**3.53%**
	Capital Funding Summary		
130.84	Capital Expenditure	155.40	125.01
4.68	Provision for Debt Repayment	4.70	4.69
135.52	Total Capital Cost	160.10	129.70
	Funded by :		
(72.31)	Depreciation & Surplus (Deficit) on Operations	(74.58)	(68.15)
(1.85)	Capital Repayment/Sale of Assets in Total	(4.41)	(5.81)
(53.66)	Funded from Debt Repayment Reserve	(73.61)	(47.57)
(5.28)	Reserves	(6.20)	(7.16)
(0.27)	External Funding for Capital Projects	(0.55)	(0.55)
2.15	**Borrowing Required for the Annual Programme**	**0.75**	**0.45**
	Key Assets/Liabilities of CCC		
97.05	Gross Debt	96.27	97.44
(80.43)	less Sinking Funds & Debt Repayment Reserves	(32.91)	(38.66)
16.62	**Term Debt**	**63.36**	**58.78**
(146.21)	Less Reserve Funds	(158.97)	(147.83)
(129.60)	**Net Debt**	**(95.61)**	**(89.05)**
4,456.29	Total Assets (CCC & CCHL)	4,808.11	4,508.36
2,153.92	Realisable Assets (CCC & CCHL)	2,263.71	2,170.88
(26.17)	**Net Debt (CCC & CCHL)**	**7.81**	**(26.17)**

Financial Analysis

The draft Annual Plan is a planning document which concentrates on plans for the forthcoming year (i.e. 1 July 2005 to 30 June 2006). Supporting the summary budgets are detailed budgets. All the financial data including a detailed capital works programme has been built into a financial planning model which produces projected balance sheets, cashflows, debt levels, investments and rate requirements.

The overall objective of this financial overview is to compare the 2005/06 budget with the 2005/06 projections in the Long Term Council Community Plan.

The paragraphs which follow give an overview of the factors which have resulted in significant variations between the two sets of figures.

Operational Expenditures

Operational expenditure includes all the day-to-day costs necessary to run a large multi-function organisation. These costs include staff costs, insurance, energy, computing and maintenance work on the city's infrastructural assets.

The main contributor to the $13.54M difference between the draft Plan and the LTCCP relates to the cessation of the contract costs for operating the Refuse Transfer Stations and the transfer of this activity to the Recovered Materials Foundation (RMF). The expenditure reduction for this change totals $18.72M. (See also page 19 for Revenues and page 60).

Costs have increased in many areas significantly above the normal CPI and reflect the fact that many of our activities are associated with the construction industry.

financial management overview

At the Council meeting to adopt the Draft Annual Plan $500,000 was identified as available for new projects/work areas or to reduce rates. The Council resolved to allocate $270,000 of this amount for the recruitment of additional planning staff. The balance is held in a Contingency Fund and will be allocated by the Council as part of finalising the Annual Plan.

Depreciation

The $450,000 difference between the LTCCP depreciation and the Draft Plan depreciation is a net figure which reflects a 'fine tuning' of the calculations to realign the budget with the actual being charged in the current year.

Interest Expense

The interest expense provision reflects a more up to date estimate of the loan servicing costs for 2005/06.

Operational Revenues

The revenue figure which includes user charge revenue, grants and Transfund subsidies is $11.46M down on the LTCCP projections.

The main factor contributing to this decrease relates to the RMF taking over the operation of the three Refuse Transfer Stations. The impact of this change has been to reduce revenues by $18.5M. (See also page 18 Operational Expenses and page 60).

Helping to offset the $18.5M revenue reduction are increases of $1.4M to Environmental Services revenues. The increase here relates to more robust forecasting of revenue targets and a buoyant building sector.

A further significant offset is an increase to the Transfund subsidy. The subsidy is $2.0M more than projected in the LTCCP and this increase can be attributable to an increase in the dollar value of the capital programme and an expansion to the categories of work on which a subsidy may be claimed.

Other revenue offsets include Cash in Lieu reserve contributions ($550,000), Water Sales ($245,000), Trade Waste Charges ($330,000) and Cell Site Rentals ($170,000).

Interest and Dividends

The CCHL dividend has been revised upwards by an additional $500,000 on the LTCCP projection.

The revision to the interest earnings figure reflects larger than anticipated cash balances for working capital, the Capital Endowment Fund and Special Funds. This has enabled the interested earned figure to be revised upwards from $16.29M to $18.67M.

Surpluses

Surpluses reduce the need to borrow for capital works. They also provide a significant contribution to the annual repayment of debt.

A formula has been 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 debt repayment provision) is sufficient to fund 55% to 66% of the average annual forecast capital expenditure over the next 20 year period. The funding percentage for the 2005/06 year is 60%.

The generation of an operational surplus also ensures that the Council complies with Section 100 of the Local Government Act (2002). This section of the Act, which is sometimes referred to as the 'Balanced Budget Requirement', ensures that the Council has adequate funding for the ongoing maintenance of service levels.

The increased surplus for 2005/06 reflects the increased financial contributions and capital revenues which need to flow through to the Balance Sheet.

Looking Forward

The Council is aware of some significant capital increases in subsequent years. These include the Civic Offices project, the Ocean Outfall project, and strategic land purchases. The Council have also resolved to review the Flatwater Facility project and the funding for such a facility beyond 2005/06. The $600,000 in the 2005/06 budget for the Flatwater Facility will be used for capital improvements to the existing flatwater facility at Kerrs

financial management overview

Reach. All these issues will be addressed as part of the 2006/16 LTCCP review which will take place during 2005/06.

Capital Expenditure

The changes to the capital programme primarily relate to revised costings. The cost construction index has risen by 7.79% in the 12 month period through to September 2004. This has placed considerable pressure on the capital budgets which were last reviewed in October / November 2003.

Most of the cost increases have occurred in the City Environment Group:

Greenspace	+$265,568
Transport and City Streets	+$4,375,996
City Water and Waste	+$4,542,879

There has also been an increase in IT capital expenditure that reflects our internal infrastructural requirements.

ITS	+$1,891,767

In addition to the above cost increases $20M has been added to the Capital Programme for unspecified carry forward projects. This is an estimate of the likely projects which will not be complete and/or will not have been started and need to be carried forward to 2005/06. Carry forward projects will be funded from the Debt Repayment Reserve.

At the Council meeting to adopt the Draft Annual Plan the Ocean Outfall project costs for 2005/06 were adjusted upwards. This adjustment was to ensure that there was sufficient budget available for the work planned for in 2005/06. The funding of this adjustment has been met by an unspecified reduction of $1.95M to the 2005/06 capital programme. The details of this reduction will be developed between draft and final Annual Plans and will involve moving some projects currently in 2005/06 out to subsequent years.

Borrowing and Consolidated Debt

Provision for the repayment of Council debt is made by annual contributions to sinking fund and loan repayment reserves. These contributions are calculated to ensure tranches of debt are repaid no later than 20 years after they are initially borrowed. The financial model assumes sinking funds and loan repayment reserves are accumulated in perpetuity whereas in practice opportunity will be taken to repay portions of the debt from these accumulated funds as shorter term maturities are refinanced, typically each 3 - 5 years.

For the purpose of presentation it is essential to recognise debt repayment reserves and sinking funds as an offset against gross debt. The net result, called 'Term Debt', reflects the projected indebtedness each year.

The Council also has reserve funds set aside for future projects and consistent with normal commercial practice this is offset to determine the 'Net Debt' of the Council.

Intergenerational Equity

The principle of intergenerational equity requires today's users to meet the costs of utilising Council assets but does not expect them to meet the full cost of long term assets that will benefit future generations.

The Council has put in place the following mechanisms to ensure intergenerational equity:

- All assets are depreciated at a rate assessed to reflect the life of particular assets.
- Between 34 and 45% of capital works are funded by loans serviced (or debt repayment reserve funds) and repaid over a 20 year period from surpluses generated in the operating account.
- Revenue of the Council is required to be sufficient to meet the operational expenses in each year including:
  - depreciation on capital assets employed

financial management overview

- interest on outstanding debt
- surpluses sufficient to fund the repayment of outstanding debt over a 20 year cycle.

• Asset Management Plans have been developed for all major assets types to ensure that an appropriate rate of renewal of existing assets is planned for and carried out. This renewal work is generally funded by a first call on depreciation funds generated by revenue.

Credit Rating

In 1993 the Council received an AA+ international credit rating from Standard and Poor's. This rating was last reviewed and confirmed by Standard and Poor's in 2003.

This high rating reflects the strong overall financial position of the Council and the commitment to achieve an annual operating surplus and control the level of debt through a clearly defined debt management policy.

Financial Ratios

The impact which the Council's financial projections have on the four key financial ratios are as graphed previously. These ratios relate to the Christchurch City Council and CCHL combined. The policy limits are defined in the statement alongside each graph. These limits represent the outer bench marks for the Council to live within over the long term.

Buskers in Cathedral Square

funding impact statement

The Funding Impact Statement for 2005/06 discloses the revenue and financing for the Council based on the mechanisms selected under the LTCCP. These in turn are based on the Revenue and Financing Policy.

Changes in revenue mechanisms from last year

The significant change this year is the impact of the revaluation of the rating base. The new capital values will be first applied from 1 July 2005. This will effect the distribution of rates between sectors in addition to the change of rates for any property. Council has decided to retain the rate allocation principles of the Revenue and Financing Policy as they are still relevant. It has decided against any attempt to negate the impact of the revaluation.

There has been no significant change to fee setting or other revenue sources.

Revenue and Financing Mechanisms

The revenue and financing mechanisms were developed from an analysis of the Council activities and funding requirements under the Revenue and Financing Policy. The process and analysis includes:

- For operational expenditure:
  - the nature of the services supplied by each activity,
  - the period over which the services are supplied,
  - the gross cost and the allocation of this cost to the users of services and ratepayers,
  - the direct benefits of services and any charges made for these,
  - the allocation of the shortfall of user charges to ratepayers,

  the allocation of costs to ratepayers by differential sectors
- For capital expenditure:
  - the gross cost,
  - timing of the budget provision,
  - funding sources including loans.

The capital expenditure financing is detailed on the Financial Summary

The Council has budgeted to receive revenue from a number of sources and these are detailed in the table which follows. (Net of GST).

Budgeted operating expenditure:

	2005/06 Plan $m	2005/06 LTCCP $m
Budgeted operating expenditure (Note 1)	308.83	323.38
General revenue made up of:		
Interest & Dividends from CCHL	30.00	29.50
Interest	18.67	16.29
Fees and charges	69.60	86.35
Financial Contributions	7.52	5.52
Grants and subsidies	24.30	21.01
Total General Revenue	150.09	158.67
Rates:		
General rates	110.96	110.58
UAGC	15.81	15.43
Targeted rates	47.43	46.70
Total Rates set	174.20	172.71
Rates penalties	1.20	1.20
Total Rates	175.40	173.91
Budgeted operating surplus	16.66	9.21

Notes:
1. The operation of the refuse transfer stations have been assigned to the Recovered Materials Foundation. The costs and revenues are consequently reduced by $17.3M.

funding impact statement

Financing capital expenditure:

	2005/06 Plan $m	2005/06 LTCCP $m
Capital expenditure financing:		
Depreciation and surplus funds used	74.58	68.15
Capital repayments / sales of assets	4.21	5.81
Reserves used - Debt Repayment Reserve	73.61	47.50
Reserves used - Other Reserves	6.20	7.16
External funding for capital expenditure	0.55	0.55
Borrowing	0.75	0.45
Total Capital Financing	**160.10**	**129.70**

Notes:
Carry forwards of unspent capital expenditure is now disclosed in the Annual Plan. Funding is from reserve funds.

Rate Setting and Rating Policies

The Council proposes to set rates in accordance with this draft Annual Plan for the financial year 2005/06 which total $174.206 million.

The Council has resolved on a range of rating policies, as detailed in the LTCCP statement. These are generally a continuation of those used last year.

The Valuation System used for rating

The valuation system used for rating is the Capital Value system.

The value of each rating unit has been revised as at 1 August 2004. These revised values will be first used for rating from 1 July 2005. As a consequence there is estimated to be a shift in the incidence of rates of (excluding the impact of rates requirement changes for 2005/06):

- Residential sector increases by 3.13%
- Business Sector decreases by 7.17%
- Rural sector increases by 2.44%
- Non rateable sector decreases by 40.94%

Council is not proposing to change the rating policies this year to mitigate the impact of revaluation.

Inspection of rates information for each rating unit:

The Capital Values, the District Valuation Roll, and the Rate Information Database information and the estimated liability for rates for 2005/06 for each rating unit is available for inspection on the Council's Internet site (www.ccc.govt.nz) under the heading 'Ratesinfo' or by enquiry at any Council Service Centre.

Differential system used:

Differential rating will be used for general rates only. Each rating unit is assigned to a category, based on land use and City Plan zoning, and the sum of all categories is the basis of allocation of rates.

The differential categories used are:

- Sector A – Business
- Sector B – Residential and other
- Sector C – Rural

The full text of the differential categories is detailed in the LTCCP.

funding impact statement

The categories used for differentiation are land use and zoning as allowed under Schedule 2, Clause 1,2,& 3 of the Local Government (Rating) Act 2002.

The objective of the differential policy is to implement the Revenue & Financing Policy and in particular:

- Allow for a higher of rate requirement on the Business sector from the City Streets 'Vehicleway' activity more than that applied to the Residential & other and the Rural sectors. Vehicleways activity is the only activity identified in the LTCCP as appropriate for specific differential treatment.
- A reduced general rate applied by capital values for the 'Rural' sector to reflect generally the remote location from services and the assumed lower consumption of services for each rating unit. The reduced rates are 75% of the General Rate decimal applicable to the Residential and Other sector.

In line with last year, Council proposes to set other rates of:

- General Rates - Cents in the $ Capital Value:
  - Sector A – Business – 0.37730
  - Sector B – Residential and other – 0.25262
  - Sector C – Rural – 0.18894
- A Uniform Annual General Charge of $115 is assessed on each rating unit or separately occupied part thereof.
  - Targeted Rates - Cents in the $ of Capital Value:
  - Water targeted rate – 0.036021 (half for non connected)
  - Sewerage targeted rate – 0.051157
  - Land Drainage targeted rate – 0.030314

There are no differentials for targeted rates in that for each rate a common rate in the $ of Capital Value applies to all rating units inside the serviced area.

- Targeted rates for water supply services of:
  - Water Supply Fire Connection – The targeted rate will be set on a uniform basis to the rating units serviced, at $100 per fire service connection
  - Targeted rates for water consumed, measured by meter, and supplied to other than private residential consumers

These two water targeted rates fund part of the water supply activity costs.
A full definition of the rates is contained in the LTCCP.

Rates to be set and the rate types:

The following rates have been set (GST Inc):

	2005/06 Plan $m	2005/06 LTCCP $m
General Rates		
Residential	88,865,178	85,539,987
Business	33,717,404	36,733,877
Rural	2,247,631	2,133,770
Total General Rates by Capital Value	**124,830,213**	**124,407,634**
Uniform Annual General Charge	**$115**	**$115**
Residential	15,786,625	15,453,585
Business	1,806,420	1,698,895
Rural	193,315	211,370
Total Uniform Annual General Charge	**17,786,360**	**17,363,850**

funding impact statement

Targeted Rates		
Water	16,176,038	15,306,622
Water - Half for non connected	27,020	-
Sewerage	23,517,575	24,517,848
Land Drainage	13,329,181	12,644,168
Water Fire connection Targeted Rate - $100	70,300	70,300
Total Targeted Rates	**53,364,114**	**52,538,938**
Rates for Revenue Policy	195,980,686	194,310,422
Excess Water Supply Targeted rate	2,081,250	1,927,125
Total Rates	**198,061,936**	**196,237,547**
Rates Sector Total		
Residential	146,574,482	140,633,340
Business	45,101,779	48,485,921
Rural	2,856,844	2,749,188
Non-rateable	1,447,581	2,441,973
Total Rates	**195,980,686**	**194,310,422**

Rates Payable - Draft 2005/06 on the new Capital Values (1 August 2004)

	2003/04 Plan
UAGC	**$115**
Residential	**Rates (GST inclusive)**
Capital Values	**$**
80,000	411
100,000	485
200,000	855
300,000	1,225
400,000	1,595
500,000	1,965
600,000	2,335
Business	
100,000	610
200,000	1,104
300,000	1,599
400,000	2,093
500,000	2,588
600,000	3,083
Rural	
100,000	304
200,000	494
300,000	683
400,000	873
500,000	1,062
600,000	1,252

funding impact statement

Notes:

1. Residential and Business rates are those on fully serviced properties, and include a single uniform annual charge of $115 per property
2. Rural properties are assumed to not pay Water, Sewerage or Land Drainage Targeted rates. They include a uniform annual charge of $115 per property
3. Rates include GST but do not include the Canterbury Regional Council Rates.
4. Some properties may also be liable for the Targeted Water Supply Fire Connection rate of $100 per connection per property.
5. The City Council is the rate collecting agent for Environment Canterbury (the Canterbury Regional Council). Their rates are in addition to those above. Combined assessments and invoices will be issued by the City Council as in the past.
6. The revaluation in capital values means that the planned rate per property cannot be compared on a fixed line basis to the previous years rates. To compare to previous rates, a ratepayer should use the figures on the chart attached compared to their current rate assessment.

The Funding of Operating Expenditure and rates

The Revenue and Financing Policy determines the funding allocation for the Council. The policy is included in the LTCCP. This Funding Impact Statement reflects this policy.

Operating Budget Summary

		2005/06 Budget $000's	2005/06 LTCCP $000's
Expenditure (After Internal Recoveries)			
Art Gallery, Museum and "Our City"		14,000	13,775
City Development		14,989	12,812
Community Services		52,266	52,618
Democracy and Governance		11,633	11,071
Economic Development		10,651	10,483
Library Services		26,669	26,811
Parks and Open Spaces		27,515	26,841
Refuse Minimisation and Disposal		11,360	29,066
Regulatory Services		15,881	16,023
Wastewater Collection, Treatment and Disposal		24,748	25,460
Streets and Transport		63,228	63,506
Water Supply		16,612	15,461
Waterways and Land Drainage		11,885	11,276
Provision for Inflation			2,493
Add back Service Provider Income			(272)
		301,438	**317,425**
Other Expenditure			
Corporate/Sundry Expenditure		7,391	5,948
Total Expenditure		**308,830**	**323,372**
Revenue			
Art Gallery, Museum and "Our City"		(951)	(1,124)
City Development		(1,200)	(1,154)
Community Services		(22,292)	(21,971)
Democracy and Governance		-	-
Economic Development		(193)	(173)
Library Services		(2,175)	(2,102)
Parks and Open Spaces		(5,721)	(5,042)
Refuse Minimisation and Disposal		(1,325)	(20,764)
Regulatory Services		(11,638)	(10,257)
Wastewater Collection, Treatment and Disposal		(5,443)	(5,100)
Streets and Transport		(35,935)	(32,547)
Water Supply		(3,796)	(3,400)
Waterways and Land Drainage		(587)	(587)
Add back Service Provider Income			272
		(91,255)	**(103,949)**
Other Revenues			
Rates	1	(175,405)	(173,920)
Dividends		(30,114)	(29,680)
Other Income		(28,712)	(25,030)
Total Revenue		**(325,486)**	**(332,579)**
Operating Surplus		**(16,656)**	**(9,207)**

Notes:

1. Rates figure includes $1.2m rates penalties and is net of GST.