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Costs of Proposed Services

	2005/06 Plan $m	2005/06 LTCCP $m
OPERATING SUMMARY		
Operating Expenditure	242.62	248.19
Depreciation	67.70	68.72
Interest Expense	5.91	6.47
Total Operating Expenditure	**316.23**	**323.37**
Ordinary Revenues	(82.38)	(93.06)
Grants and Subsidies	(23.14)	(21.01)
Interest and Dividends from CCHL	(30.00)	(29.50)
Interest Received	(18.82)	(16.29)
Rates	(174.21)	(172.72)
Operating Surplus/Contribution to Capital Projects	(12.31)	(9.21)
Percentage Rate Increase	**3.49%**	**3.53%**
CAPITAL FUNDING SUMMARY		
Capital Expenditure	163.50	125.01
Provision for Debt Repayment	4.70	4.69
Total Capital Cost	168.20	129.70
Funded by :		
Depreciation and Surplus (Deficit) on Operations	(72.23)	(68.15)
Capital Repayment/Sale of Assets in Total	(4.41)	(5.81)
Funded from Debt Repayment Reserve	(78.90)	(47.57)
Reserves	(10.51)	(7.16)
External Funding for Capital Projects	(0.55)	(0.55)
Borrowing Required for the Annual Programme	**1.60**	**0.45**
KEY ASSETS / LIABILITIES OF CCC		
Gross Debt	97.12	97.44
less Sinking Funds and Debt Repayment Reserves	(32.63)	(38.66)
Term Debt	**64.49**	**58.78**
Less Reserve Funds	(153.30)	(147.83)
Net Debt	**(88.80)**	**(89.05)**
Total Assets (CCC and CCHL)	4,816.76	4,508.36
Realisable Assets (CCC and CCHL)	2,262.21	2,170.88
Net Debt (CCC and CCHL)	**14.62**	**14.42**

Financial Analysis

The Annual Plan is a planning document which concentrates on plans for the next 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 following gives an overview of the factors which have resulted in the main 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, professional consultancy, computing and maintenance work on the city's infrastructural assets.

The main contributor to the $5.57m difference between the Annual Plan and the LTCCP relates to the transfer of the operation of the Refuse Stations to the Recovered Materials Foundation (RMF). The expenditure reduction for this change totals $15.2m. (See page 38).

This reduction was offset by an additional $4.0m of inflationary cost above what was budgeted, reflecting that many Council costs are related to construction. The construction index increased 7.79 per cent in the 12 months to September 2004.

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Depreciation

The $1.02m difference between the LTCCP depreciation and the Annual 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 Revenue

The revenue figure which includes user charge revenue, grants and Land Transport NZ subsidies is $8.55m down on the LTCCP projections.

The main factor contributing to this decrease relates to the RMF taking over the operation of the three Refuse Stations. The impact of this change has been to reduce revenues by $15.5m (see reduction in operating costs above).

Helping to offset this reduction are increases of $1.4m to Regulatory 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 in the Land Transport NZ subsidy. The subsidy is $1.7m more than projected in the LTCCP and is because of 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 of Reserve contributions ($550,000), Water Sales ($245,000), Trade Waste Charges ($330,000) and Cell Site Rentals ($170,000).

Interest and Dividends

The Christchurch City Holdings Ltd (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 interest earned figure to be revised upwards from $16.29m to $18.82m.

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 expenditure increases in future years. These include the Civic Offices project, the Ocean Outfall project, and strategic land purchases. The Council has 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 Reach. All these issues will be addressed as part of the 2006/16 LTCCP review which will take place during 2005/06.

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Capital Expenditure

The changes to the capital programme primarily relate to revised costings. The increase in the construction index has placed considerable pressure on capital budgets which were developed in October / November 2003.

Most of the cost increases have occurred in the infrastructure area as shown in the Capital Expenditure programme on page 19.

In addition, a net $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 and have no rates impact.

Changes between the draft and final versions of the Annual Plan

The draft Annual Plan was released on 11 April 2005 and was available for public comment until 13 May 2005.

Most of the 198 submissions received related to matters that the Council will look into as it develops the 2006/16 LTCCP.

While reviewing the final budgets, several minor adjustments were made, both up and down, to expenditure and revenue. These have no rating impact because while costs did increase, compensating savings were found.

Capital Expenditure was increased by $8.1m, the bulk of which was an additional $5.0m of capital expenditure carried forward from the 2004/05 year. In addition a further $2.0m was provided for Social Housing. Neither of these changes has any impact on rates.

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 debt is repaid no later than 20 years after it is initially borrowed. These reserves are used to repay debt as each portion of debt matures, and are shown in the financial summary as a deduction from Gross Debt.

The Council has other reserve funds set aside for future projects, and in accordance with normal practice, these are also 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 reserve funds) and repaid over a 20 year period from surpluses and depreciation 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
  - interest on outstanding debt
  - and in addition, produce a surplus 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.

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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 defined in the Council's Revenue and Financing Policy are shown below. These ratios relate to the Christchurch City Council and CCHL combined. The policy limits represent the outer bench marks for the Council to live within over the long term.

	Annual Plan	LTCCP	Policy Limit
Term Debt to Total Assets ratio	3.47%	3.6%	12%
Term Debt to Realisable Assets ratio	7.39%	7.47%	33%
Net Interest to Operating Revenue ratio	-2.17%	-1.49%	8%
Net Debt to Funds Flow ratio	0.19 times	0.19 times	5 times

Buskers in Cathedral Square

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Operating Budget Summary

	2005/06 Plan $000's	2005/06 LTCCP $000's
Expenditure (After Internal Recoveries)		
Art Gallery, Museum and "Our City"	13,968	13,775
City Development	14,133	12,812
Community Services	58,211	52,618
Democracy and Governance	9,552	11,071
Economic Development	11,228	10,483
Library Services	27,267	26,811
Parks and Open Spaces	27,549	26,841
Refuse Minimisation and Disposal	14,023	29,066
Regulatory Services	16,699	16,023
Wastewater Collection, Treatment and Disposal	25,029	25,460
Streets and Transport	62,543	63,506
Water Supply	16,424	15,461
Waterways and Land Drainage	11,982	11,276
Provision for Inflation		2,493
Internal Service Providers	1,589	(272)
	310,198	**317,425**
Other Expenditure		
Corporate/Sundry Expenditure	6,035	5,948
Total Expenditure	**316,233**	**323,372**

	2005/06 Plan $000's	2005/06 LTCCP $000's
Revenue		
Art Gallery, Museum and "Our City"	(964)	(1,124)
City Development	(1,189)	(1,154)
Community Services	(22,174)	(21,971)
Democracy and Governance	-	-
Economic Development	(173)	(173)
Library Services	(2,245)	(2,102)
Parks and Open Spaces	(5,714)	(5,042)
Refuse Minimisation and Disposal	(5,235)	(20,764)
Regulatory Services	(11,625)	(10,257)
Wastewater Collection, Treatment and Disposal	(5,644)	(5,100)
Streets and Transport	(34,514)	(32,547)
Water Supply	(3,797)	(3,400)
Waterways and Land Drainage	(588)	(587)
Internal Service Providers	(1,589)	272
	(95,451)	**(103,949)**
Other Revenues		
Rates[1]	(175,409)	(173,920)
Dividends	(30,114)	(29,680)
Other Income	(27,570)	(25,030)
Total Revenue	**(328,544)**	**(332,579)**
Operating Surplus	**(12,310)**	**(9,207)**

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