

long term financial strategy and policies

Year Ended 30 June 2001

Each local authority is required to prepare and adopt a long term financial strategy, funding policy, investment policy and borrowing management policy. Every local authority must provide in its annual report, sufficient information about each of these 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 Financial Plan for the financial year, and the actual achievement of those objectives and policies. This report reflects the third year since these policies were adopted.

1. Long Term Financial Strategy Overall Performance

In the Financial Plan for the year under review, notification was given of a revised formula for calculating operating surpluses. This now ensures that sufficient cash is generated from operations (funded depreciation and surpluses) to fund 55% of the average capital expenditure over a 20 year period plus the annual provision for debt repayment. The Council's actual financial performance and financial position is presented in the Statement of Financial Performance and Statement of Financial Position. The Statements of Service Performance attached to each report on Significant Activities show that the Council has substantially achieved the objectives and performance indicators that were adopted in the 2000/01 Financial Plan.

Specific Objectives and Targets

| Objectives | 2001 Targets | 2001 Actual Performance | 2000 Actual Performance |
|--|-----------------------|-------------------------------|-------------------------------|
| Maintain four key ratios in the long term: | | | |
| Term Debt as a percentage of Total Assets below 12% | 3.8% | 3.3%* | 0.9%* |
| Term Debt as a percentage of Realisable Assets below 33% | 7.1% | 6.9%* | 1.7%* |
| Net Interest as a percentage of Operating Revenue below 8% | 0% | 1.1% | 2.7% |
| Net Debt in relation to Funds Flow below 5 times | 1.8 times | 0.2 times | (0.1)# times |
| Operating Surplus | \$14.6 million | \$19.0 million | \$45.4 million |

* The ratio is calculated by deducting \$59million, (2000 \$123M) being the balance in the Loan Repayment Reserve, and \$7 million (2000 \$6M) of Sinking Funds held from the total debt of both the Council and Christchurch City Holdings Ltd, as these funds are held for repayment of this debt.

The amount of the Council's short term investments, available for debt repayment, exceeded the term debt owed.

2. Funding Policy Overall Performance

The implementation of the funding policy has proceeded without any significant variations in respect of the ordinary revenues of Council. However, the variation in user charges is due to the funding policy being calculated inclusive of internal charges that have been eliminated in the financial statements.

Specific Objectives and Targets

| Objectives | 2001 Targets | 2001 Actual Performance | Actual 2000 |
|--|-----------------|----------------------------|----------------|
| Proportion of revenue by source | | | |
| User Charges | 35.2% | 24.3% | 22.2% |
| Grants and Subsidies | 3.7% | 5.5% | 3.8% |
| Corporate Revenue | 16.7% | 20.4% | 28.5% |
| Capital Value Rating | 40.1% | 45.1% | 41.1% |
| Uniform Annual Charge | 4.2% | 4.7% | 4.4% |
| Rates by Sector | | | |
| Residential | 71.9% | 71.9% | 71.8% |
| Commercial/Industrial | 25.9% | 25.9% | 25.9% |
| Rural | 1.4% | 1.4% | 1.5% |
| Institutions | 0.8% | 0.8% | 0.8% |

3. Investment Policy

Overall Performance

The Council has always had a prudent financial management policy. This was reviewed and further formalised following the receipt of professional advice to ensure that it complied with the legislation introduced from 1 July 1999. Christchurch City Holdings Limited has monitored the performance of all Council investments in LATEs and subsidiaries during the year and reported seven times to the Council through its Strategy and Resources Committee.

There have been no material departures from the Council’s investment policy principles during the period.

Specific Changes in Investments

Changes to the equity investments in subsidiary and associate companies have however taken place as follows:

- The Council has contributed equity totalling \$2.84 million to Transwaste Canterbury Limited which is a joint venture company between regional local authorities and two private sector companies established to provide a regional landfill.
- The Council has contributed equity totalling \$1.5 million to Jade Stadium, which is a wholly owned subsidiary that is operating, managing and redeveloping Jade Stadium and will, once legal issues have been addressed, own all of the stadium and its assets.
- The Council has contributed equity totalling \$0.65 million to Christchurch City Facilities which is a wholly owned subsidiary. It owns the Christchurch Convention Centre and WestpacTrust Centre and is responsible for the development and management of these two facilities plus the Christchurch Town Hall that it leases from the Christchurch City Council.

4. Borrowing Policy

Overall Performance

There are no significant variations or material departures from the Council’s Borrowing Management Policy as set out in the Financial Plan.

Specific Objectives and Targets

| Objectives | 2001 Targets | 2001 Actual Performance | 2000 Actual Performance |
|---|--|---|---|
| Maintain adequate liquidity | No more than 35% of debt maturing in any one year | 5.7% matures in 2001/02 Funds are earmarked to provide for repayment | 12.8% matures in 2000/01 Funds are earmarked to provide for repayment |
| | Liquidity ratio at not less than 1:1 (100%) excluding special purpose investments and the current portion of term debt | 81.2% due to \$107 million of investments held for debt repayment being excluded from the calculation | 60.7% due to \$140 million of investments held for debt repayment being excluded from the calculation |
| Provision for debt to be repaid by contribution to a debt repayment reserve | 3% | 3% achieved | 3% achieved |
| Maintain debt ratios within specified limits | Refer to Long Term Financial Strategy | Within limits | Within limits |

Construction work continuing at the new Christchurch City Art Gallery

