

# long term financial strategy and policies

## Year Ended 30 June 2002

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

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 2001/02 Financial Plan.

#### Specific Objectives and Targets

Objectives	2002 Targets	2002 Actual Performance	2001 Actual Performance
Maintain four key ratios in the long term:			
Term Debt as a percentage of Total Assets below 12%	3.0%	3.0%	3.3%*
Term Debt as a percentage of Realisable Assets below 33%	5.8%	6.3%	6.9%*
Net Interest as a percentage of Operating Revenue below 8%	(1.4%)	1.5%	1.1%
Net Debt in relation to Funds Flow below 5 times	0.1 times	(0.6)# times	0.2 times
<b>Operating Surplus</b>	<b>\$140.6 million</b>	<b>\$174.6 million</b>	<b>\$19.0 million</b>

\* The ratio is calculated by deducting \$137 million (2001 \$59M) being the balance in the Debt Repayment Reserve, \$4 million (2001 \$3M) being the balance in the Loan Repayment Reserve, and \$7 million (2001 \$7M) of Sinking Funds held from the total debt of both the Council and Christchurch City Holdings Ltd. 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 owned.

### 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 two main factors. Firstly, the Council received \$153.9 million of special dividends from Christchurch City Holdings during the year. This was \$25.6 million higher than budgeted thus increasing the proportion of corporate revenue funding. Secondly, the funding policy was calculated inclusive of internal charges that have been eliminated in the financial statements.

#### Specific Objectives and Targets

Objectives	2002 Targets	Actual 2002	2001 Actual Performance
<b>Proportion of revenue by source</b>			
User Charges	23.5%	16.1%	24.3%
Grants and Subsidies	3.0%	2.8%	5.5%
Corporate Revenue	41.8%	48.8%	20.4%
Capital Value Rating	28.9%	29.4%	45.1%
Uniform Annual Charge	2.8%	2.9%	4.7%
<b>Rates by Sector</b>			
Residential	71.4%	71.4%	71.9%
Commercial/Industrial	26.3%	26.3%	25.9%
Rural	1.4%	1.4%	1.4%
Institutions	0.9%	0.9%	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 nine times to the Council through its Strategy and Finance 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 \$0.6 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 \$0.4 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.
- In March 2002, the Council sold its shareholdings in City Care Limited and Selwyn Plantation Board Limited to its wholly owned subsidiary Christchurch City Holdings for a total of \$39.4 million being the market value assessed by Deloitte Touche Tohmatsu at the time.

### 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	2002 Targets	2002 Actual Performance	2001 Actual Performance
Maintain adequate liquidity	No more than 35% of total debt maturing in any one year	26.9% matures in 2002/03 Funds are earmarked to provide for repayment	5.7% matures in 2001/02 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	121.3% due to \$75 million being held in short term investments awaiting finalisation of the investment strategy for the Capital Endowment Fund	81.2% due to \$107 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