FINANCIAL OVERVIEW

Financial Summary For the Six Years 1996/97 to 2001/02

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
CITY COUNCIL OPERATING ACCOUNT						
	$M	$M	$M	$M	$M	$M
Ordinary Operating Expenditure	145.06	147.34	150.54	153.55	158.45	164.15
Depreciation	45.37	46.66	47.39	48.05	48.70	49.40
Net Interest	.84	5.53	8.08	8.81	8.95	10.28
Total Operating Expenditure	191.27	199.53	206.01	210.41	216.10	223.83
Ordinary Revenues	(70.51)	(72.43)	(74.45)	(76.02)	(77.19)	(79.36)
Dividends from CCHL	(7.96)	(11.23)	(13.33)	(14.31)	(14.90)	(16.21)
Rates	(110.39)	(115.37)	(120.26)	(125.51)	(130.29)	(135.42)
Deficit/(Surplus)	2.41	.50	(2.03)	(5.43)	(6.28)	(7.16)
Percentage Rate Increase	**2.77%**	**3.94%**	**2.81%**	**3.00%**	**2.50%**	**2.67%**
CITY COUNCIL CAPITAL ACCOUNT						
	$M	$M	$M	$M	$M	$M
Capital Expenditure	108.03	93.77	73.04	66.62	70.71	76.38
Carry Forward Capital Expenditure	18.97					
Provision for Debt Repayment	1.05	2.40	3.65	9.51	4.19	4.77
Total Capital Cost	128.05	96.17	76.69	76.13	74.90	81.15
Funded by:						
Depreciation & Surplus (Deficit) on Operations	(36.18)	(39.71)	(43.06)	(46.34)	(47.34)	(48.53)
Carrying Forward Funding for Capital	(18.97)					
Reserves	(18.05)	(12.67)	(6.63)	(8.51)	(8.14)	(7.07)
External Funding for Capital Projects	(7.40)	(2.25)	(3.88)	(1.28)		(4.00)
Sale of Assets	(2.20)			(20.00)		
Council Borrowing Required	45.25	41.54	23.12	0	19.42	21.55
KEY ASSETS/LIABILITIES OF CCC & CCHL						
	$M	$M	$M	$M	$M	$M
Gross Debt	225.81	262.97	281.83	272.50	287.11	303.94
Less Sinking Funds	(3.12)	(5.45)	(9.70)	(14.95)	(20.43)	(26.91)
Term Debt	222.69	257.52	272.13	257.55	266.68	277.03
Less Reserve Funds	(21.77)	(15.81)	(17.09)	(16.31)	(15.70)	(15.80)
Net Debt	200.92	241.71	255.04	241.24	250.98	261.23
Total Assets	2,419.86	2,439.29	2,551.06	2,586.99	2,651.12	2,725.23
Realisable Assets	902.89	962.15	1006.20	1027.56	1,075.96	1,131.64
KEY FINANCIAL RATIOS RELATING TO CCC & CCHL						
Term Debt/Total Assets	9.20%	10.33%	10.67%	9.96%	10.06%	10.17%
Term Debt/ Realisable Assets	24.66%	26.77%	27.05%	25.06%	24.79%	24.48%
Net Interest Cost/Operating Revenue	6.40%	7.29%	7.94%	7.85%	7.58%	7.58%
Debt/Funds Flow from Operations	4.35	4.95	4.80	4.19	4.26	4.32

Note: The key assets and liabilities section has been consolidated using an equity basis for trading enterprises. CCHL assets and liabilities are fully consolidated.

General Comments

Like last year's Annual Plan this Plan continues to devote significant resources to the day to day operations of the city ($145.0M) and to renewing and replacing the city's basic infrastructure ($27.1M). In addition the Plan also makes provision for $22.2M on asset improvements and $56.3M on new assets.

All these elements of the 1996/97 Annual Plan have been catered for within the bounds of the Financial Management Policies (see page 18). Put very simply this policy ensures that sufficient revenue is collected each year and at the same time ensures that borrowing is limited to realistic levels.

FINANCIAL OVERVIEW

The key issues relating to the financial summary on the previous page are as follows:

Ordinary Capital Expenditure

The 5 Year capital budget has undergone a number of significant changes. Staff were firstly asked to review their capital budgets and to re-estimate all non current costs into 1996/97 dollars.

As well as updating costs to 1996/97 dollars, a provision for future cost increases has now been added to years 2, 3, 4 and 5 of the programme. These amounts which are global at this stage are based on the projected Consumer Price Index (CPI). They will be used to adjust for all future cost increases and should be sufficient to prevent any further increases in the total programme.

In addition, staff were asked to reshuffle their detailed 4 year programme into a smoothed and realistic 5 year programme. This task was approached using a number of different techniques. While in some instances whole projects have been moved across to subsequent years, others have been spread over two financial years. By spreading a project the planning work can be done in the first year and the physical work done in the second year.

In the case of Water Services and City Streets, known carry forwards have also been identified and rebudgeted for in 1996/97. Both Units have as a consequence been able to move items forward to future years and reduce borrowing in 1995/96.

The reshuffles and spreading of some projects over two years will help to ensure that projects are completed on time and that the end of year carry forwards are markedly reduced.

The reshuffles also enabled a larger unspecified provision to be created in years 1 and 2. The unspecified provision in year 1 (1996/97) has now been utilised. (See Capital Add ons page 26). The year 2 (1997/98) unspecified provision amounts to $2.6M and this will allow high priority projects or new initiatives to be introduced as part of the 1997/98 Annual Plan without affecting the total already provided.

Operating Deficits and Surpluses

In the past the Council calculated its rate requirement after taking into account operating and capital expenditure and other funding sources such as loans and reserves. However, the full implementation of accrual accounting together with increased depreciation highlighted a significant deficit in the operating account. This problem was recognised in the 1994/95 Annual Plan and steps were taken to reduce the deficit over a five year period.

This Annual Plan reduces the deficit down to $2.4M.

This reduction is faster than originally envisaged and is the result of two factors:

- Reserve contributions have now been credited to the operating account. Previously they were credited directly to the Reserve Fund.
- Southpower have advised of additional dividends.

The application of both to the deficit reduction helps to reduce the amount of borrowing and alleviates what would otherwise have been a substantial rate increase in 1997/98.

Surpluses after 1998/99 will ensure that the reliance on borrowing for capital works is progressively reduced and that a significant contribution to the repayment of debt is made annually.

Borrowing and Consolidated Debt

While the consolidated debt of the Council and CCHL combined grows from $222.69M in 1996/97 to $294.2M in 2005/06, these amounts should be related to the combined assets of $2,400M and the revenue streams that service the loans. It is worth noting that the debt projections are within the parameters set out in the Financial Management Policies (see below).

Rates and Ordinary Revenues

The financial summary shows a rate increase of 2.77% followed by rate increases in the 2% to 3% range.

Ordinary revenues (includes user charges) are projected to increase by 8.15M over the next 6 years.

One factor which could alter the mix of rates and user charges in years 2 and beyond is a change to the current revenue policy. At present the Council is working through a review of its revenue policy with the intention of establishing an appropriate mix of funding sources for all its activities. Before any decisions are made affecting the mix between rates and user charges the Council will consult with the public on the issues involved.

Financial Ratios

On page 18 of this Annual Plan are the Financial Management Policies referred to earlier. These policies embody a series of prudent financial ratios which are outer benchmarks for the Council to live within. When the Financial Management Policies were adopted in 1994 interest rates were 7% per annum. This Annual Plan is based on actual rates for 1996/97 of 9.4% .

In spite of these interest increases the forward projections still fit within the ratios as set out below:

Ratio	Policy Limit	Peak	Peak Year	2015/16
Term Debt/Total Assets	12%	10.67%	1998/99	6.16%
Term Debt/Realisable Assets	33%	27.05%	1998/99	11.81%
Net Interest/Operating Revenue	8%	7.99%	2003/04	6.22%
Net Debt/Funds Flow	5 times	4.95%	1997/98	2.75%
Term Debt ($)		$294.2M	2005/06	$253.9M

Credit Rating

In 1993 the Council received an AA international credit rating from Standard & Poors. The rating was reviewed and confirmed by Standard & Poors in June 1995.

This high rating reflects the strong overall financial position of the Council and the steps that have been taken to eliminate the operating deficit and control the level of debt through a clearly defined debt management policy.

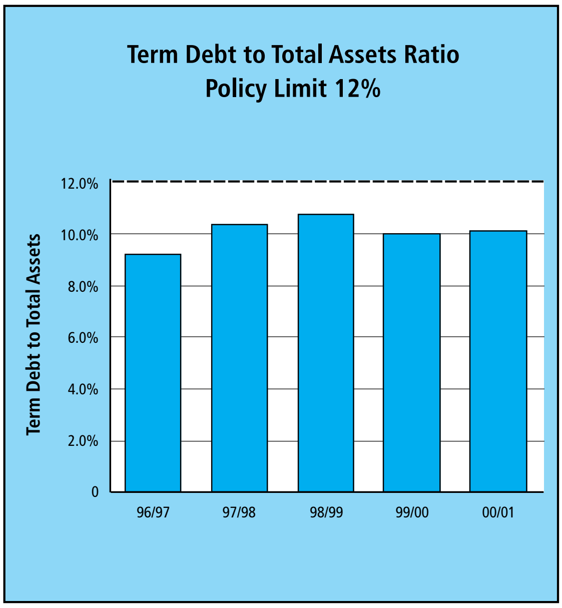
Assumptions

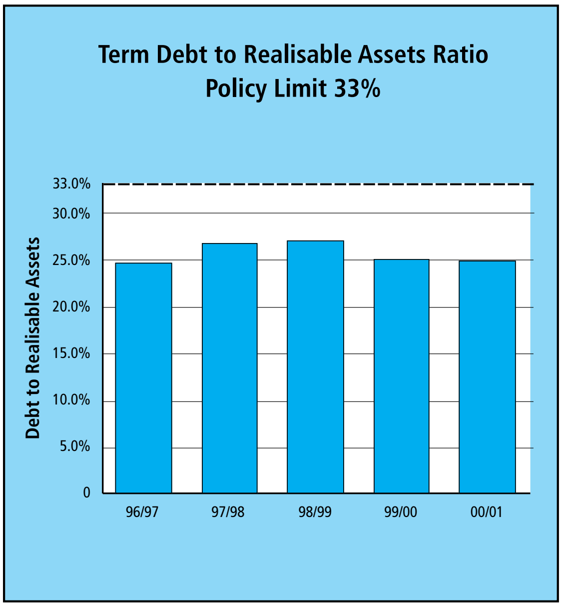
In establishing the financial projections a number of assumptions have been made. The main ones are:

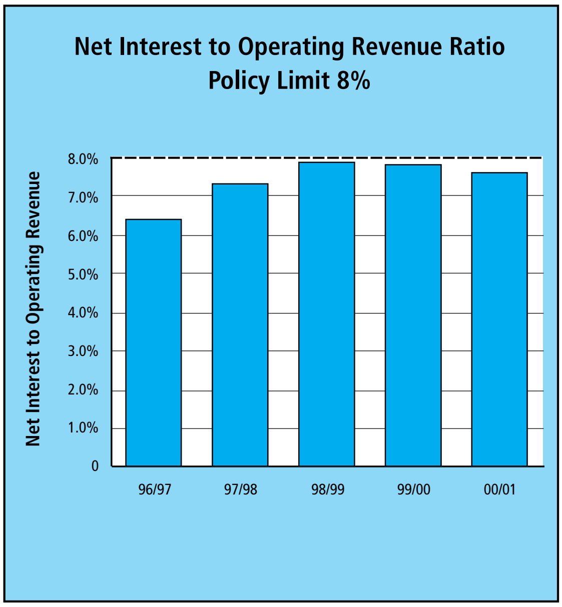
- Interest rates of 9.4% and 8.5% from 1997/98 onwards.
- Debt repayment of all borrowings on a 20 year rolling basis.
- Full depreciation of infrastructural assets.
- Inflation of 2% on both operating projections and capital projections.
- An increase in the rating base of $1,800,000 per year.

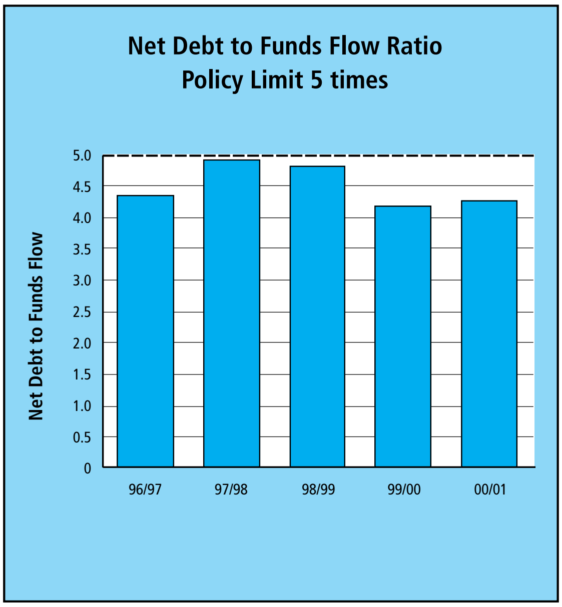
The Financial Ratios Over the Long Term

The impact which the Council's 5 Year financial projections have on the four key financial ratios are graphed below. These ratios relate to the CCC and CCHL combined. The policy limits are defined in the Statement of Financial Management Policies (see Page 18) and represent the outer bench marks for the Council to live within the long term.









Note:

CCC	=	Christchurch City Council
CCHL	=	Christchurch City Holdings Ltd