FINANCIAL OVERVIEW

Introduction

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

- The Plan has been developed within the parameters as set out in the Council's Financial Management Policy (see page 13). The main objective of the policy is to ensure that major projects, resulting operating costs and debt are maintained at manageable levels.
- At the heart of this policy are four ratios, the parameters of which the Council is committed to operate within. These ratios set maximum limits in relation to the key financial drivers.
- The four key ratio 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 10 year projections are within the ratio limits (See ratio graphs - Long Term Financial Strategy Volume 1)
- Provision has been made in 1998/99 for a capital repatriation of $134M from the Council's subsidiaries. This funding has been transferred to a Debt Repayment Reserve and will enable borrowing for new works and for some renewal loans to be eliminated until the year 2001/02.
- Another important principle of the Financial Management Policy is to generate surpluses thereby enabling the Council to reduce its dependence on borrowing to fund capital works.
- The projections (operating and capital) include an inflation provision of 2% per annum.
- The Council maintains a 20 year financial model which takes account of all of its plans and financial arrangements and enables the impact of these to be sustainable in the long term.
- The financial summary on the next page illustrates the impact of both expenditures and revenues on borrowings, debt and rate levels.
- Confirming the strength of the Council's overall financial position is the current AA international credit rating, first given by the inernational credit rating agency Standard & Poor's in 1993 and re-confirmed in 1995 and 1997.

Summary of Rates Requirement

Approximately half of the Council's operating expenditure is met by interest revenue, dividends from trading activities, and user charges. The balance of this expenditure is funded by rates.

The following table outlines the impact of new operating and capital initiatives on the rates requirement:

	Total	% Increase
• Percentage increase (decrease) to maintain services at their current level (1)	$117.85M	(0.43%)
• Percentage increase to fund increased operational services (2)	$119.78M	1.70%
• Percentage increase (decrease) to fund additional capital expenditure (3)	$118.14M	(0.18%)
• Percentage increase to fund both the operating and capital initiatives	$120.07M	1.95%

Notes:

(1) This excludes the new operating initiatives of $2.90M (see page 21) and the new capital initiatives of $7.97M (see page 22).

(2) This includes the new operating initiatives of $2.90M, but not the new capital initiatives.

(3) This includes the new capital initiatives of $7.97M, but not the new operating initiatives.

The following table shows a steady reduction each year in the percentage of operating expenditure funded by rates:

	Approved Budget 96/97	Approved Budget 96/97	Approved Budget 97/98	Approved Budget 98/99
Rates as a percentage of Total Operating Expenditure	57.71%	56.51%	53.79%	52.96%

Financial Forecasts	1997/98 Approved Budget	1998/99 Draft Budget	1999/00 Forecast	2000/01 Forecast	2001/02 Forecast	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
OPERATING SUMMARY											
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Operating Expenditure	157.17	165.81	172.43	176.47	180.45	186.77	190.22	193.52	195.12	199.19	203.47
Depreciation	47.96	50.50	51.80	52.60	53.58	54.51	55.33	56.29	57.23	58.12	59.03
Interest Expense	9.21	10.20	8.52	7.18	7.99	10.80	13.64	16.99	19.95	22.69	25.70
Total Operating Expenditure	214.34	226.51	232.75	236.25	242.01	252.08	259.19	266.80	273.30	280.00	288.21
Ordinary Revenues	(78.00)	(80.02)	(81.06)	(82.44)	(83.65)	(87.11)	(87.28)	(87.58)	(87.72)	(87.93)	(88.14)
Interest and Dividends from CCHL	(16.12)	(17.48)	(18.04)	(20.92)	(21.91)	(23.05)	(24.33)	(25.68)	(27.50)	(28.29)	(28.29)
Interest Received	(4.43)	(9.67)	(9.05)	(6.03)	(4.19)	(4.28)	(4.66)	(5.15)	(5.81)	(6.61)	(7.55)
Rates	(115.29)	(120.08)	(125.65)	(131.32)	(136.43)	(143.46)	(150.01)	(157.32)	(162.89)	(169.18)	(177.78)
Operating Deficit/(Surplus)	0.50	(0.75)	(1.05)	(4.47)	(4.17)	(5.83)	(7.09)	(8.93)	(10.61)	(12.01)	(13.54)
Percentage Rate Increase	3.12%	1.95%	2.92%	2.88%	2.33%	3.64%	3.13%	3.49%	2.24%	2.60%	3.85%
CAPITAL FUNDING SUMMARY											
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Capital Expenditure	103.51	99.67	85.11	99.20	97.15	86.32	97.31	94.50	88.94	92.25	95.67
Carry Forward Capital Expenditure	22.72	0.00									
Provision for Debt Repayment	4.34	4.01	3.71	3.11	2.78	3.88	4.73	5.95	7.08	8.01	9.03
Total Capital Cost	130.57	103.68	88.82	102.31	99.93	90.20	102.03	100.45	96.02	100.26	104.69
Funded by:											
Depreciation and Surplus (Deficit) on Operations	(38.93)	(43.33)	(45.20)	(48.77)	(48.93)	(51.25)	(52.96)	(55.27)	(57.23)	(58.72)	(60.22)
Less Capital from CCHL for Debt Repayment	0.00	(134.00)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Surplus Capital to Reserve for investment	0.00	86.42	(11.14)	(42.89)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reserves (includes carry forward funding)	(12.78)	(9.90)	(7.62)	(9.09)	(7.04)	(7.04)	(7.64)	(7.04)	(7.04)	(7.04)	(7.04)
External Funding for Capital Projects	(7.43)	(2.88)	(4.86)	(1.56)	(3.51)	(3.79)	(0.69)	(0.61)	(0.61)	(0.61)	0.00
Sale of Assets/Capital Repatriation	0.00	0.00	(20.00)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Borrowing for Carried Forward Expenditure	(21.63)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Borrowing Required for the Annual Programme	49.80	0.00	0.00	0.00	40.45	28.11	40.74	37.52	31.13	33.89	37.42
KEY ASSETS/LIABILITIES											
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Gross Debt	151.48	132.67	112.34	100.92	137.48	165.26	205.66	242.83	273.60	307.12	344.18
Less Sinking Funds & Debt Repayment Reserves	(3.97)	(95.79)	(68.81)	(18.85)	(19.28)	(24.66)	(31.29)	(39.63)	(49.71)	(61.48)	(75.13)
Term Debt	147.51	36.87	43.53	82.07	118.20	140.60	174.37	203.20	223.89	245.65	269.05
Less Reserve Funds	(25.79)	(22.96)	(21.72)	(22.95)	(22.64)	(22.85)	(22.97)	(23.74)	(24.62)	(25.58)	(26.60)
Net Debt	121.72	13.92	21.81	59.12	95.56	117.74	151.40	179.46	199.26	220.07	242.44
TOTAL ASSETS (CCC & CCHL)	2,922.72	3,465.33	3,478.63	3,525.23	3,568.80	3,600.61	3,642.59	3,680.79	3,712.50	3,746.64	3,783.27
REALISABLE ASSETS (CCC & CCHL)	1,372.58	1,885.90	1,875.73	1,897.87	1,921.43	1,931.12	1,935.17	1,939.03	1,942.69	1,946.16	1,949.43
Net Debt (CCC & CCHL)	245.73	135.68	139.82	172.47	204.36	222.08	251.37	275.13	290.70	307.37	329.74

More specific comments on the financial projections are noted below:

Capital Expenditure

(a) Capital Smoothing

The long term financial projections were smoothed as part of a capital expenditure review exercise in October of last year. The smoothing was signalled when the 1997 Plan was adopted. The objective was to neutralise the impact of reducing a sale of assets/capital repatriation line item in the capital budget from $35M to $20M. A secondary objective was to ensure that projects were physically achievable within the specified time frame.

(b) New Items

The 1998/99 capital programme includes a large number of new initiatives ($7.9M). They reflect a desire on the part of the Council to provide facilities to meet changing demands; to ensure that the city is environmentally sustainable; to address some of the imbalances in the distribution of facilities and services around the city; and to continue improving the city's basic infrastructure. The list of new capital initiatives can be found on page 21.

Operating Surpluses

1998/99 marks a watershed in terms of the budget process. This will be the first time that an operating surplus has been budgeted for. The $750,000 budgeted surplus reduces the need to borrow for capital works.

Capital Repatriation

This Plan includes a capital repatriation from the Council's subsidiaries of $134M. This funding has been used to set up a Debt Repayment Reserve. This Reserve will be used to reduce debt (repayment of renewal loans) and to eliminate borrowing for new works through to 2001/02).

Dividends

Dividend projections from the Council's subsidiary companies are forecast to be slightly less than the original projection for 1998/99. This reflects the impact of the capital repatriation referred to above.

Borrowing and Consolidated Debt

The capital repatriation of $134M has also helped to reduce the consolidated net debt of the Council and CCHL combined to $139.9M. The net debt is projected to increase gradually to $222.7M by year 5. Despite this increase, the debt levels sit comfortably within the financial ratio parameters.

Rates and Ordinary Revenues

The financial summary shows a rate increase of 1.95% for 1998/99 followed by future rate increases in the 1% to 3% range.

Ordinary revenues (includes user charges) are projected to increase by $8M over the next 10 years.

Interest Rates and Inflation Provisions

In establishing the projections interest rates of 8.7% have been used for 1998/99 and 8.5% for subsequent years. Included within both the operating and capital projections is a cumulative inflation provision of 2%. This is designed to ensure that the long term projections are realistic.

Growth in the Rating Base

The 1998/99 budget allows for $2.5M in additional rates revenue from capital value growth. This projection is based on advice from Valuation New Zealand and reflects the steady growth in residential construction throughout 1997 and the first half of 1998. The projections for subsequent years have been estimated at $2M per annum.

Credit Rating

In 1993 the Council received an AA international credit rating from Standard & Poor's. This was confirmed in 1995 and again in 1997.

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

An aerial view of the Christchurch Pier. This view is taken from the sea end and shows New Brighton in the background.

Financial Management

In 1994 the Council adopted a Financial Management Policy which provided a framework for ensuring that the Council's long term programme was financially sustainable. Elements of this policy are now required by the Local Government Act and have been incorporated in the Long Term Financial Strategy and also in the Funding, Borrowing and Investment Policies. Both the Long Term Financial Strategy and these Policies have been printed in Volume 1.

A summary of the Financial Management Policy is noted below:

Financial Management Principles and Policy

The following principles underlie the policy on financial and debt management:

- Debt repayment programme over 20 years to ensure inter-generational equity.
- Ordinary renewal expenditure to be funded from depreciation charges.
- New asset net additions funded both from loans and internal financing.
- Operating expenditure will be funded from operating revenue.

1. Cash Surpluses

Cash surpluses will be phased in from 1998/99 based on a formula. The formula for the phase in of surpluses will be:

Year	Multiple of Debt Repayment	Dollar provision for surplus in the 1998 Plan
1998/99	Fixed Amount	$750,000
1999/00	1.25 times*	$1.05M
2000/01	1.50 times*	$4.47M
2001/02	1.50 times	$4.17M

* Also includes a special reduction of $3.6M in 1999/00 and $200,000 in 2000/01 to help smooth the impact of the rate increases.

2. Reserves and Sinking Funds

Provision by way of reserve/sinking fund will be made each year for repayment of all new loans raised by the Council, plus the existing debt of Christchurch City Holdings Ltd, at no less than 3% of the amount borrowed, ie to fix a debt repayment time frame of 20 years for the City Council.

3. Financial Ratios

(a) Net interest paid on term debt by the Council and Christchurch City Holdings Ltd combined will not exceed 8% of the consolidated gross revenue, provided interest rates do not increase above 8.5%. This parameter would be reviewed in the event of interest rates rising above this level. *

* (Although interest rates for 1998/99 have been increased to 8.7% and from 1999/00 onwards to 8.5%, this is to reflect current market conditions. The threshold parameter will not be exceeded in the 10 year forecast period.)

(b) Term Debt as a percentage of total assets of the Council and Christchurch City Holdings Ltd shall be no more than 12%.

(c) Term Debt as a percentage of realisable assets (includes net trading enterprise assets but excludes Infrastructural and Restricted Assets) shall be no more than 33%.

(d) Net debt to funds flow from operations shall not exceed five times, ie an ability to repay debt over five years (medium term) before net capital additions.

(Note: Funds flow from operations is the net cash surplus of gross revenue over operating cash expenses (excludes depreciation).

(e) The liquidity ratio (current assets: current liabilities) shall be not less than 1:1 at each year end. (Note: Current assets excludes for this purpose cash investments relating to specified reserve funds and current liabilities excludes the current portion of term debt.)

4. Operating Expenditure

The operating expenditure of the Council shall be met from the operating revenues of the Council subject to the policy of reducing the operating deficit as outlined in point 1 above.

5. Infrastructural Asset Expenditure

Sufficient expenditure will be applied to maintain the existing infrastructural asset base at least to current standards or to standards adopted through an asset management programme.

6. Depreciation

Cash generated from revenue derived to meet depreciation charges will be applied for funding renewal works in the first instance followed by capital works and Council debt.

7. Application of Cash Surpluses

Cash surpluses from any year will be applied to reduce the borrowing requirement of the subsequent year.

Underlying Assumptions

The Financial Management details outlined above are based on the following underlying assumptions:

1. Interest rates no more than 7% per annum for short term borrowings and 8.5% per annum for borrowings of two years or longer. (Current interest rates are budgeted at 8.7% for 1998/99 and 8.5% for subsequent years.)
2. Zero to 2% inflation parameter. (Operating and capital projections include 2% inflation per annum.)

Statement on Possible Variations in Shareholdings in Trading Activities

The Council is likely to be offered minority shareholdings in existing trading enterprises from time to time.

If it is likely to be of advantage to ratepayers in the medium term consideration will be given to acquiring additional shares on a commercial basis.

Any decision to commit funds for such purchases will be balanced against other financial needs of the Council.

In 1996 the Council consulted the public regarding the possible disposal of its shareholding in Selwyn Plantation Board Ltd. This issue remains on the Council agenda for consideration after the forestry market improves.