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 Principles and Policy (see page 15). 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, within the parameters of which the Council has committed itself to operating. 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 on page 16).
- Provision has been made in 1999/00 for capital repayments and a special dividend of $83.5M from the Council's trading enterprises. This funding has been transferred to a Debt Repayment Reserve.
- An 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 international credit rating agency Standard & Poor's in 1993 and reconfirmed in 1995, 1997 and again in 1999.

Summary of 1999/00 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 (2)	$119.3M	(1.87%)
• Percentage increase to fund increased operational services (3)	$123.6M	1.64%
• Percentage increase (decrease) to fund additional capital expenditure (4)	$119.7M	(1.56%)
• Percentage increase to fund both the operating and capital initiatives	$124.0M	1.96%

Notes:

(1) All four of above lines include the efficiency gains of $2.41M (see page 29).

(2) This excludes the new operating initiatives of $4.27M (see page 27) and the new capital initiatives of $5.86M (see page 28).

(3) This includes the new operating initiatives of $4.27M, but not the new capital initiatives.

(4) This includes the new capital initiatives of $5.86M, but not the new operating initiatives.

The following table shows the percentage of operating expenditure funded by rates:

	Approved Budget 95/96	Approved Budget 96/97	Approved Budget 97/98	Approved Budget 98/99	Approved Budget 99/00
Rates as a percentage of Total Operating Expenditure	57.71%	56.51%	53.79%	52.96%	52.91%

Financial Forecasts

	1998/99 Approved Budget	1999/00 Approved Budget	2000/01 Forecast	2001/02 Forecast	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast
OPERATING SUMMARY	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Operating Expenditure	165.81	176.58	181.67	185.57	196.08	199.87	203.16	205.33	208.82	213.02	215.98
Depreciation	50.50	49.71	50.55	51.71	53.14	54.21	55.14	56.06	56.92	57.80	58.69
Provision to Fund Landfill Aftercare	0.00	0.73	0.64	0.61	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Expense	10.20	7.29	5.92	5.63	6.33	8.29	10.62	12.68	14.51	16.39	18.22
Total Operating Expenditure	226.51	234.30	238.78	243.52	255.55	262.37	268.92	274.07	280.24	287.21	292.89
Ordinary Revenues	(80.02)	(83.79)	(84.73)	(86.13)	(91.78)	(91.70)	(91.16)	(90.80)	(90.62)	(90.52)	(90.25)
Interest and Dividends from CCHL	(17.48)	(24.79)	(25.17)	(26.46)	(26.60)	(27.93)	(28.74)	(32.82)	(33.33)	(34.31)	(34.60)
Interest Received	(9.67)	(6.80)	(5.96)	(3.55)	(2.96)	(3.11)	(3.33)	(3.60)	(3.95)	(4.36)	(4.84)
Rates	(120.08)	(123.96)	(129.21)	(134.19)	(139.78)	(145.97)	(152.52)	(155.05)	(161.94)	(169.14)	(175.90)
Operating Surplus/Contribution to Capital Projects	(0.75)	(5.04)	(6.29)	(6.82)	(5.57)	(6.33)	(6.83)	(8.20)	(9.59)	(11.11)	(12.69)
Percentage Rate Increase	**1.95%**	**1.96%**	**2.74%**	**2.27%**	**2.64%**	**2.95%**	**3.08%**	**0.34%**	**3.11%**	**3.17%**	**2.78%**
CAPITAL FUNDING SUMMARY	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Capital Expenditure	99.67	89.16	116.96	104.56	84.10	94.00	92.65	85.24	88.68	88.67	88.86
Provision for Debt Repayment	4.01	2.78	2.19	1.90	1.92	2.75	3.94	5.07	5.95	6.91	7.83
Total Capital Cost	103.68	91.94	119.15	106.46	86.01	96.75	96.59	90.32	94.63	95.58	96.69
Funded by:											
Depreciation and Surplus (Deficit) on Operations	(43.33)	(46.98)	(48.71)	(50.12)	(50.15)	(51.84)	(53.05)	(55.06)	(56.96)	(58.96)	(60.94)
Provision to Fund Landfill Aftercare	0.00	(0.73)	(0.64)	(0.61)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital Repayment/Sale of Assets in Total (Note 1)	(134.00)	(184.50)	(0.00)	(20.00)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Surplus Capital to Reserve for investment	86.42	155.23	(59.35)	(23.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reserves	(9.90)	(7.87)	(8.33)	(4.83)	(5.10)	(5.21)	(5.79)	(5.79)	(5.79)	(5.79)	(5.79)
External Funding for Capital Projects	(2.88)	(3.37)	0.02	(2.24)	(3.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	0.00
Borrowing Required for the Annual Programme	0.00	3.73	2.14	5.67	27.75	39.68	37.73	29.44	31.86	30.81	29.96
KEY ASSETS/LIABILITIES OF CCC	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Gross Debt	132.67	85.98	75.89	76.138	103.54	142.88	180.25	209.34	240.83	271.27	300.861
Less Sinking Funds & Debt Repayment Reserves	(95.79)	(106.30)	(37.84)	(12.24)	(14.88)	(18.49)	(23.46)	(29.82)	(37.38)	(47.27)	(56.53)
Term Debt	36.87	(20.32)	38.05	63.88	88.65	124.39	156.79	179.52	203.45	225.00	244.33
Less Reserve Funds	(22.96)	(24.38)	(23.60)	(23.48)	(23.99)	(25.07)	(25.87)	(26.77)	(27.71)	(28.70)	(29.74)
Net Debt	13.92	(44.70)	14.45	40.41	64.67	99.32	130.92	152.75	175.74	196.30	214.59
TOTAL ASSETS (CCC & CCHL)	3,465.33	3,547.98	3,614.39	3,647.24	3,678.20	3,717.99	3,755.50	3,784.69	3,816.45	3,847.31	3,877.48
REALISABLE ASSETS (CCC & CCHL)	1,885.90	1,935.06	1,962.31	1,979.84	1,991.78	2,002.49	2,012.54	2,022.35	2,031.90	2,041.22	2,050.28

(Note 1) $101M of the $134M Capital Repayment for 1998/99 has been rebudgeted in 1999/00.

FINANCIAL OVERVIEW

The table on the previous page summarises the Council's long term financial strategy. The detailed strategy which was published in 1998 has been modified as part of approving the 1999 Plan. The modifications are explained below and on the first part of the next page.

Capital Expenditure

(a) **Capital Reductions**

The long-term financial projections for years 1 - 10 have been reduced as part of the 1999 Annual Plan process. The reduction was signalled when the 1998 Plan was adopted. The objective was to reduce the overall capital programme and consequential borrowing costs. The total reduction achieved amounted to $32.8M over the 10-year period.

(b) **New Items**

The 1999/00 capital programme includes a large number of new initiatives ($5.86M). 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 28.

(c) **Unspecified Sums**

As part of the capital smoothing review, the Council has reduced the unspecified annual sums down to $4M from year 3 onwards. The Council also intends in future years to fund any project overruns from this source rather than increasing the total capital programme. This will mean that existing projects along with new projects would have a call on these funds.

Operating Expenditure

(a) **Operating Surpluses**

The Council's Long Term Financial Strategy which was adopted in July 1998 made provision for operating surpluses. These surpluses along with funds generated by depreciation contribute to the funding of the capital programme. The surplus was based on 1.25 times the debt repayment for 1999/00 and 1.50 times for subsequent years.

As a result of the decrease in the level of depreciation (see (b) below), the formula for calculating the surplus has been amended. This amendment is designed to ensure that there is sufficient funding to keep the debt levels within the four ratio maximums.

The new formula ensures that the combination of depreciation (less funds appropriated back to reserves and separate accounts) plus an operating surplus is sufficient to fund 55% of the average of capital expenditure over a 20 year period plus the annual provision for debt repayment.

(b) **Depreciation**

There have been a number of significant changes to the depreciation calculations. Depreciation rates used for buildings have been revised to reflect the buildings' probable economic life and disposal value. The deferred maintenance component of building upgrades have been treated as operating expenditure. Similarly the movement of inner partitions and other alterations that do not increase the value of a building have also been treated as operating expenditure. The impact of these changes has been to add $3.97M to the total depreciation provision.

This increase however has been more than offset by decreases in depreciation on infrastructural assets. The infrastructural changes relate principally to the introduction of a refined method of depreciation known as LRARA (long range average renewals approach) which has been possible following the introduction of Asset Management Plans. This new approach allows for depreciation to be calculated on the basis of the average requirement for renewals as defined by the Asset Management Plans. The impact of this change has been to reduce the infrastructural depreciation calculation between 1998/99 and 1999/00 by $3.6M.

Special Dividends and Return of Capital

In addition to the $134M provided in the 1998 Plan, this Plan provides for a further $83.5M to be received from the trading subsidiaries. All of this is to be allocated to the Debt Repayment Reserve for repayment of loans and to be used in lieu of future borrowing.

The public consultation process produced strong support for the establishment of an Economic Development Fund but this was matched by equally strong views that the funds should be applied to debt repayment.

While the Council was keen to establish an Economic Development Fund, it recognised that there were significant benefits through uncommitted interest cost savings if the funds were applied to debt repayment ($750,000 in 2002/03 and $1.5M in 2003/04 and subsequent years).

The additional interest earnings will be used to establish an Economic Development Fund. While initially this will provide a smaller fund than was envisaged in the Draft Plan, this has the potential over time to build to a significant sum which could be used directly for funding worthwhile projects or used to lever additional funding if larger amounts are needed.

Dividends

Dividend projections from the Council's trading companies are forecast to total $24.7M, which is significantly more than the original projection for 1999/00. This reflects the improved financial performance of trading subsidiaries and a lower interest rate environment.

Borrowing and Consolidated Debt

The Debt Repayment Reserve established in 1998 will be utilised to partially fund capital expenditure and to repay loans as they fall due. The only borrowing requirements in 1999/00 and 2000/01 will be to equity fund Transwaste Canterbury Ltd and Jade Stadium Ltd.

Rates and Ordinary Revenues

The financial summary shows a rate increase of 1.96% for 1999/00, followed by future rate increases of the same order for the next two years.

Ordinary revenues (includes user charges) are projected to increase by $5M over the next 10 years.

Interest Rates and Inflation Provisions

In establishing the projections, interest rates of 5.0% for earnings have been used for 1999/00 and for subsequent years. Included within both the operating and capital projections is a cumulative inflation provision of 2% for all subsequent years. This is designed to ensure that the long-term projections are realistic.

Growth in the Rating Base

The 1999/00 budget allows for $1.5M in additional rates revenue from capital value growth. For 2000/01 this has been increased to $1.8M and to $2M for subsequent years. This reflects the level of capital value growth in 1998/99 and projected future developments.

Credit Rating

In 1993 the Council received an AA international credit rating from Standard & Poor's. This was confirmed in 1995, 1997 and was confirmed again in July 1999.

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 together with a debt repayment reserve.

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. 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

   The cash surpluses are calculated using the formula detailed on page 14. The cash surpluses for the first four years of the Plan will be:

Year	1999 Plan
1999/00	$5.04M
2000/01	$6.29M
2001/02	$6.82M
2002/03	$5.57M

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.

(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 operating revenues.

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 6% per annum for short term borrowings and for borrowings of two years or longer. (Current interest rates are budgeted at 6% for 1999/00 and 6% for subsequent years.)
2. Zero to 2% inflation parameter. (Operating and capital projections include 2% inflation per annum.)

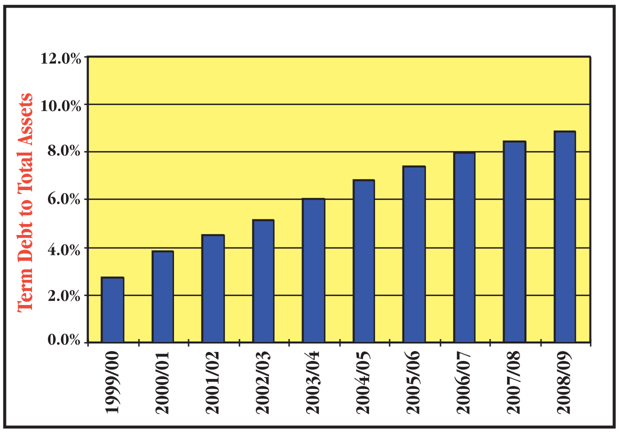
FINANCIAL OVERVIEW

The four financial ratios referred to on pages 12 and 15 are described and graphed below:

Term Debt to Total Assets Ratio
Policy Limit 12%

This ratio compares the term debt (ie gross debt, less the dedicated debt repayment reserves) with the total assets of the Council and sets a maximum of 12 per cent.

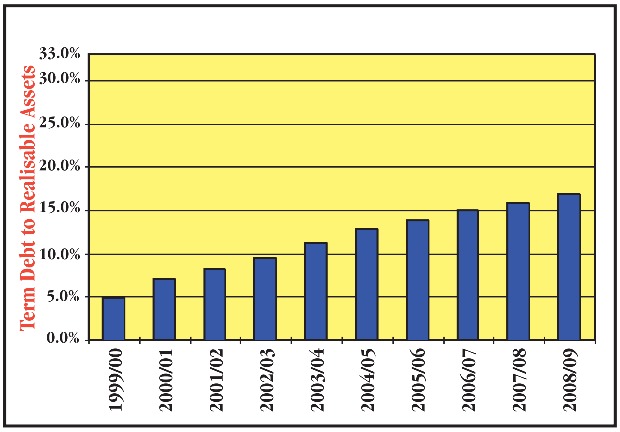
This is like saying how large your mortgage is compared to the value of all your assets. The ratio is currently 2.71 per cent and reaches a peak of 8.88 per cent in 2008/09.



Term Debt to Realisable Assets Ratio
Policy Limit 33%

This ratio compares total debt with a significantly reduced category of assets which are more normal business type assets.

The assets used as the measurement base exclude those which are basic to the needs of the city, such as roads, sewers, parks and water supply but includes property, vehicles and trading investments. The ratio has a maximum of 33 per cent. It is currently 4.96 per cent and reaches a peak of 16.79 per cent in 2008/09.

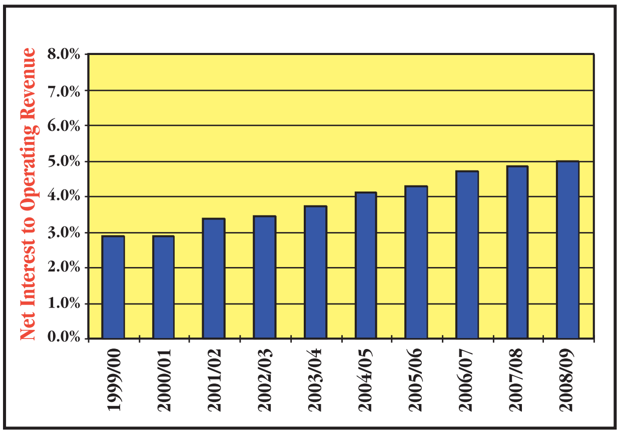


Net Interest to Operating Revenue Ratio
Policy Limit 8%

This ratio measures how much of the Council's income is spent on interest.

It is like comparing how much of your income goes towards servicing your mortgage.

The maximum is 8 per cent. The ratio is currently 2.87 per cent and reaches a peak of 4.99 per cent in 2008/09.



Net Debt to Funds Flow Ratio
Policy Limit 5 times

Net debt is total debt less all other cash reserve funds which the Council holds. The ratio compares this with the annual cash flow of the Council.

It is like checking how many years' cashflow would be necessary to repay net debt or comparing how many years' total income it would take to repay your mortgage.

The maximum of 5 indicates that net debt could be repaid with five times the annual cashflow. Currently the ratio is 1.17 times and reaches a peak at 4.03 times in 2008/09.