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 14). 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 15).
- From 2000/01 provision has been made for additional debt repayments by the Council of $3.6M from dividends received. This additional repayment by the Council offsets a reduction of the debt repayment by Christchurch City Holdings Ltd.
- 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 monitored to ensure they are 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 2000/01 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 to maintain services at their current level (2)	$125.86M	0.07%
• Percentage increase to fund increased operational services (3)	$128.54M	2.21%
• Percentage increase to fund additional capital expenditure (4)	$126.08M	0.25%
• Percentage increase to fund both the operating and capital initiatives	$128.76M	2.38%

Notes:

(1) All four of above lines include the efficiency gains of $3.02M (see page 20).

(2) This excludes the new operating initiatives of $2.68M (see page 19) and the new capital initiatives of $3.05M (see page 19).

(3) This includes the debt servicing and depreciation charges on new operating initiatives of $2.68M, but not the new capital initiatives.

(4) This includes the new capital initiatives of $3.05M, but not the new operating initiatives.

The following table shows the percentage of operating expenditure funded by rates over the last five years:

	Approved Budget 96/97	Approved Budget 97/98	Approved Budget 98/99	Approved Budget 99/00	Draft Budget 2000/01
Rates as a percentage of Total Operating Expenditure	56.51%	53.79%	52.96%	52.91%	54.51%

Financial Forecasts

	1999/00 Approved Budget	2000/01 Draft Budget	2001/02 Forecast	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast	2009/10 Forecast
OPERATING SUMMARY	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Operating Expenditure	176.58	182.47	187.59	190.84	202.48	205.55	207.85	211.37	215.67	218.36	221.88
Depreciation	49.71	48.75	49.80	51.30	52.44	53.36	54.22	55.10	56.02	56.86	57.72
Provision to Fund Landfill Aftercare	0.73	0.75	0.61	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Expense	7.29	4.25	3.34	4.02	6.45	9.04	11.39	13.60	15.54	17.05	18.66
Total Operating Expenditure	234.30	236.22	241.33	246.16	261.37	267.94	273.46	280.08	287.23	292.28	298.26
Ordinary Revenues	(83.79)	(82.11)	(83.89)	(84.30)	(91.69)	(91.19)	(90.21)	(89.92)	(89.78)	(89.36)	(89.13)
Interest and Dividends from CCHL	(24.79)	(28.80)	(28.90)	(29.30)	(30.50)	(32.00)	(33.40)	(34.00)	(34.80)	(35.50)	(36.23)
Interest Received	(6.80)	(7.03)	(4.58)	(3.42)	(3.22)	(3.50)	(3.98)	(4.41)	(4.94)	(5.56)	(6.19)
Rates	(123.96)	(128.76)	(135.09)	(135.95)	(148.73)	(156.13)	(161.34)	(169.59)	(177.12)	(182.75)	(189.09)
Operating Surplus/Contribution to Capital Projects	(5.04)	(10.48)	(11.12)	(10.80)	(12.77)	(14.87)	(15.47)	(17.85)	(19.41)	(20.89)	(22.38)
Percentage Rate Increase	**1.96%**	**2.38%**	**3.31%**	**2.08%**	**4.78%**	**3.58%**	**2.03%**	**3.83%**	**3.22%**	**2.03%**	**2.35%**
CAPITAL FUNDING SUMMARY	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Capital Expenditure	89.16	109.32	101.18	97.88	92.76	91.68	89.54	92.13	84.13	85.22	89.24
Provision for Debt Repayment	2.78	2.61	2.30	2.17	2.98	3.99	4.91	5.74	6.58	7.15	7.71
Total Capital Cost	91.94	111.93	103.48	100.06	95.75	95.67	94.46	97.86	90.70	92.36	96.95
Funded by:											
Depreciation and Surplus on Operations	(46.98)	(51.58)	(53.37)	(54.43)	(57.36)	(60.10)	(61.08)	(63.90)	(65.86)	(67.56)	(69.28)
Provision to Fund Landfill Aftercare	(0.73)	(0.75)	(0.61)	(0.00)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital Repayment/Sale of Assets in Total (Note 1)	(184.50)	(0.00)	(20.00)	(0.00)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Surplus Capital to Reserve for investment	155.23	(41.93)	(19.59)	(2.04)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reserves	(7.87)	(12.23)	(5.44)	(5.58)	(4.89)	(4.72)	(5.91)	(5.91)	(5.91)	(5.91)	(5.91)
External Funding for Capital Projects	(3.37)	(2.29)	(2.52)	(2.69)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.00)	0.00
Borrowing Required for the Annual Programme	3.73	3.15	1.95	35.32	33.48	30.83	27.44	28.03	18.91	18.89	21.75
KEY ASSETS/LIABILITIES	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Gross Debt	85.98	59.68	55.28	82.16	115.50	146.03	173.35	201.29	220.15	239.00	260.69
Less Sinking Funds & Debt Repayment Reserves	(106.30)	(42.60)	(17.99)	(10.26)	(13.91)	(18.79)	(25.00)	(32.49)	(41.34)	(51.38)	(62.68)
Term Debt	(20.32)	17.08	37.29	71.90	101.59	127.24	148.35	168.80	178.81	187.62	198.01
Less Reserve Funds	(24.38)	(21.08)	(20.26)	(19.96)	(20.20)	(22.10)	(22.08)	(22.06)	(22.04)	(20.87)	(19.62)
Net Debt	(44.70)	(4.00)	17.03	51.94	81.39	105.13	126.27	146.74	156.76	166.75	178.39
TOTAL ASSETS (CCC & CCHL)	3,547.98	3,850.65	3,882.03	3,928.61	3,968.94	4,007.26	4,042.58	4,079.60	4,107.70	4,136.06	4,167.58
REALISABLE ASSETS (CCC & CCHL)	1,935.06	2,058.46	2,062.40	2,075.61	2,078.75	2,081.21	2,082.74	2,084.09	2,085.24	2,086.21	2,086.99

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 preparing the 2000 Draft Plan. The modifications are explained below.

Capital Expenditure

(a) **New Items**

The 2000/01 capital programme includes a number of new initiatives ($2.43M). The 1999/00 Long Term Financial Strategy provided an unspecified sum of $1.5M which has covered part of this amount. The new initiatives 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 19.

(b) **Unspecified Sums**

The unspecified sums which have been factored into the forward programme are $4M per year. Half of this is specified in year 2 and the remainder specified when this sum is moved forward to year 1. Thus in each year there is a total of $4M - i.e. $2M in year 1 and $2M in year 2 available to fund capital projects not included in the forward programme.

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 were increased in 1999 to fund additional capital expenditure in addition to the original commitment in respect of debt repayment as provided in the borrowing policy. A formula was established which ensured that the funds generated from a combination of depreciation (less funds appropriated back to reserves and separate accounts) plus the balance of the operating surplus (in excess of debt repayment provision) was sufficient to fund 55% of the average annual forecast capital expenditure over the next 20 year period. A further improvement to this policy for the 2000 plan is an increase from 55% to 60% phased in over the period 2002/03 to 2006/07.

(b) **Depreciation**

Depreciation is provided on both operational and infrastructural assets. Operational assets which include plant, fixtures, computers, library books and office furniture, are depreciated on a diminishing value basis.

Infrastructural assets (roads, sewers, traffic signals, bridges, water pipes and water meters) are depreciated using LRARA (long range average renewals approach). LRARA has been possible following the introduction of Asset Management Plans. LRARA allows for depreciation to be calculated on the basis of the average requirement for renewals as defined by the Asset Management Plans.

The total depreciation provision for 2000/01 is $48.75M and this is projected to increase in a steady fashion to $57M by year 10.

Amended Debt Repayment Provision

Christchurch City Holdings Ltd had previously made provision for debt repayment of $3.6M based on its core debt of $120M. However, it has been agreed that it is more financially efficient for Christchurch City Holdings Ltd to retain its core debt at a minimum of $120M and use the resources to increase the dividend to Council. The Council will make an additional provision for debt repayment of $3.6M p.a. by contribution to the Debt Repayment Reserve, ensuring that the reduction on the combined Christchurch City Holdings Ltd and Christchurch City Council debt remains consistent with the Borrowing Policy.

Economic Development Reserve

As outlined in last year's plan, the Council has made a commitment to establish an Economic Development Fund through uncommitted interest cost savings by making a provision of $750,000 in 2002/03 and $1.5M in 2003/04 and subsequent years.

This recognises the saving in interest costs through capital committed to debt reduction in 1999 and the strong public support for establishing such a fund.

Dividends

Dividend projections from the Council's trading companies are forecast to total $28.8M which, after taking account of the altered arrangements for debt repayment of $3.6M referred to earlier, is in line with the original projection. The steady increase in dividend yields over the 10 year period reflects the improved financial performance which has been projected for all of the Council's trading enterprises in the next three years and provides for inflation thereafter.

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 will be to equity fund Transwaste Canterbury Ltd ($1M), Jade Stadium Ltd ($1.5M) and Christchurch City Facilities Ltd ($650,000).

Rates and Ordinary Revenues

The financial summary shows a rate increase of 2.38% for 2000/01, which is .36% less than the original rates projection.

Ordinary revenues (includes user charges) are projected to increase by $7.01M over the next 10 years. The significant increase in 2003/04 reflects increased waste fees to meet increased costs of the new landfill operation.

Interest Rates and Inflation Provisions

In establishing the projections, interest rates of 6.3% for earnings have been used for 2000/01 and 7.0% 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 2000/01 draft budget allows for $1.8M in additional rates revenue from capital value growth. For subsequent years this has been increased to $2M per annum.

These figures reflect the level of capital value growth in 1999/00 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.

The projected increased level of funding capital expenditure from operating surpluses and the impact on reduced long term net debt will provide additional reassurance to the credit rating agency.

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 current 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.
- 55% of average annual capital expenditure over the next 2 year period (rising to 60% by 2006/07 for the long term) to be funded from depreciation and operating surpluses.
- New asset net additions funded both from loans and internal financing.
- Operating expenditure will be funded from operating revenue.

1. Operating Surpluses

   The operating surpluses are calculated using the formula detailed on page 13. The surpluses for the first four years of the Plan will be:

Year	1999 Draft Plan
2000/01	$10.48M
2001/02	$11.12M
2002/03	$10.80M
2003/04	$12.77M

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 in excess of budget from any year will be applied to reduce the borrowing requirement of the subsequent year.

Underlying Assumptions

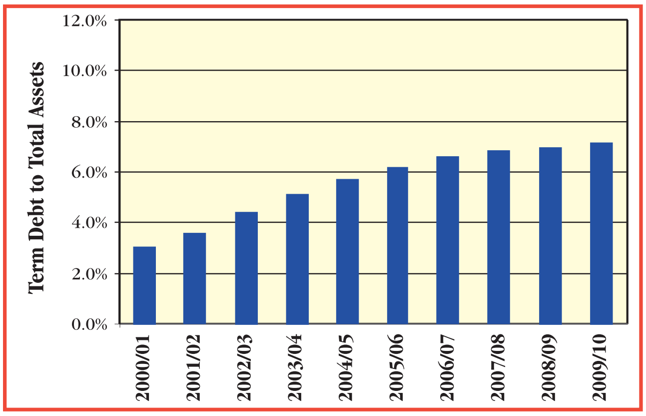
The Financial Management Principles outlined above are based on the following underlying assumptions:

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 7.3% for 2000/01 and 8% for subsequent years.)
2. Zero to 2% inflation parameter. (Operating and capital projections include 2% inflation per annum.)

Specific Objectives and Targets	2000/01 Targets
Maintain four key ratios in the long term:	
Term Debt as a percentage of Total Assets below 12%	3.04%
Term Debt as a percentage of Realisable Assets below 33%	5.69%
Net Interest as a percentage of Operating Revenue below 8%	0%
Net Debt in relation to Funds Flow below 5 times	1.62 times
Operating Surplus	$10.50M

FINANCIAL OVERVIEW

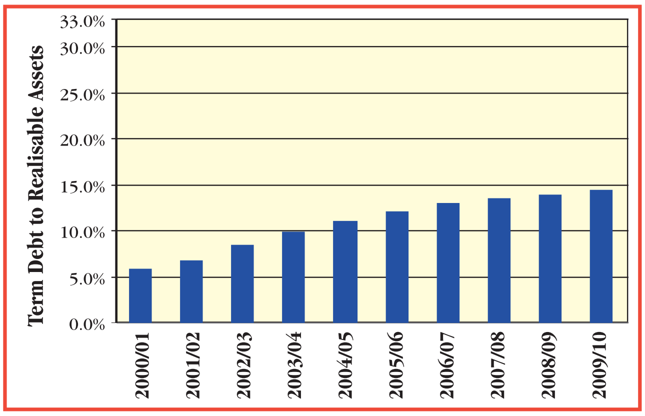
The four financial ratios referred to on pages 11 and 14 are described and graphed below:



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.

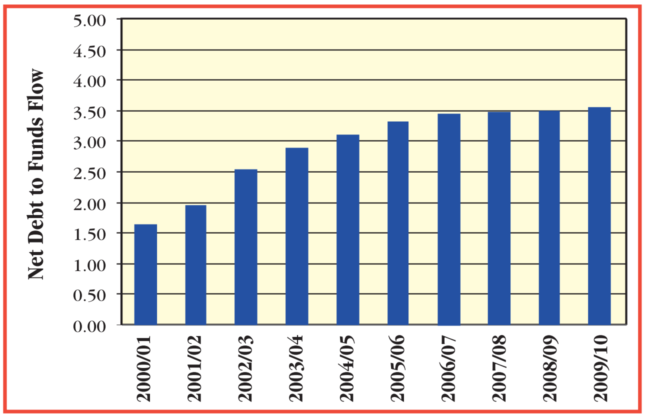
This is like saying how large your mortgage is compared to the value of all your assets. The ratio is currently 3.04 per cent and reaches a peak of 7.15 per cent in 2009/10. Over a 20 year period it reaches a peak of 8.55 per cent in 2016/17 and declines thereafter.



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 5.69 per cent and reaches a peak of 14.28 per cent in 2009/10. Over a 20 year period it reaches a peak of 13.54 per cent in 2018/19 and declines thereafter.

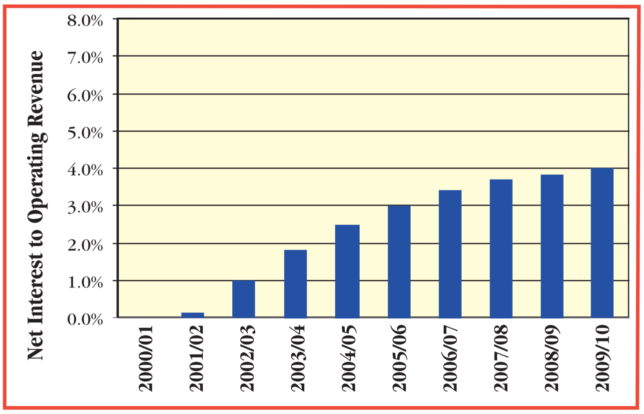


Net Interest to Operating Revenue Ratio
Policy Limit 8%

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 ratio maximum is 8 per cent. The ratio is currently -0.83 per cent and reaches a peak of 3.96 per cent in 2009/10. Over a 20 year period it reaches a peak of 5.04 per cent in 2016/17 and declines thereafter.



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 1.61 times and reaches a peak at 3.53 times in 2009/10. Over a 20 year period it reaches a peak of 3.81 times in 2013/14 and declines thereafter.