factors considered when preparing the Long Term Financial Strategy (LTFS)

Whereas the Financial Plan tends to focus on specific projects or programmes, the LTFS reflects the Council's vision for the future. It reflects the Council's judgement as to the way in which the changing needs and demands of the community should be accommodated. The factors which were considered when preparing this LTFS are outlined under the headings:

- Population Growth
- Urban Growth
- Economic Factors

Population Growth

The pattern of demographic change can be expected to have a substantial influence on the demand for the Council's services over the next two decades. These changes will include significant increases in the overall population base of the City, a gradual decline in the population aged under 15 years and a progressive ageing of the population.

The current population of the city is estimated to be in excess of 324,900 (June 2000). The next census will occur this year, with the results later in 2001.

Latest population estimates show that while the number of people living in the City is still growing, the rate of growth has slowed markedly in recent years. The estimated rate of current growth is 0.8% with an estimate of growth ranging down to 0.3% per annum over the next 10 years. The total population in 2011 is estimated to be 346,500.

For further details on the factors contributing to the population changes, see Appendix 1.

Urban Growth

The distribution of urban growth and development over the next 10 years will have significant implications for managing natural and physical resources as well as affecting the demand for Council services. Considerable work has been done to develop an urban growth strategy, incorporated in the City Plan, which minimises adverse effects on the environment while enabling the people and communities of Christchurch to pursue their social and economic objectives.

The main points of the strategy are:

- An emphasis on urban consolidation through developing vacant land in the existing built up area and redeveloping some suburbs at higher densities.
- Selected areas of fringe development for urban purposes where adverse effects are minimal. Originally it was intended that, in addition to numerous relatively small areas of fringe development, only one major new expansion area would be included in the City Plan – at Halswell. However, following the hearing of submissions the Council has added two others – at Yaldhurst and Belfast, although the former is subject to appeal.
- Retention of the focus of commercial development on the Central City and suburban focal points.

The existing urban growth strategy has taken into account rates of expansion above those considered to be most likely at the time of formulation (ie 1996 medium projections). However, if population growth significantly exceeds this, consideration will need to be given to identifying additional land for residential and possibly industrial and commercial use.

The Policy Directorate will continue to closely monitor trends in City growth.

Economic Factors and Assumptions

Real GDP

Nationally the economy is expected to grow by 2.5% in 2001, peaking at 3.4% in 2002 and declining to 2.7% in 2004. This growth is driven by higher export returns flowing through to the domestic sector reflected in higher wages and higher employment. The New Zealand Institute of Economic Research (NZIER) has forecast growth of:

	2001	2002	2003	2004	2005
Annual % GDP growth	2.5	3.4	3.1	2.7	2.9

Government

The Government's operating surplus is projected to increase gradually from $720 million in fiscal year 2001 to $3.2 billion in fiscal year 2005. This may encourage increased social spending.

Inflation

Consumer price inflation is estimated to peak at 4.3% in June 2001, before declining to the middle of the Reserve Bank's inflation target band by mid-2003. Oil prices will remain an issue in the medium term.

The NZIER forecasts inflation to be (this is the same as the Reserve Bank Target):

Prices

(Annual % change)	2001	2002	2003	2004	2005
CPI (As at December 2000)	4.2	2.7	1.8	1.3	1.6

Interest Rates

Interest rates are expected to be stable at around 7% with a modest fall over time. Current NZIER forecasts for key interest rates are:

Interest Rates

(for year ending March)	2001	2002	2003	2004	2005
90 day bills	7.0	7.0	6.4	6.3	6.0

Current Rates (Feb 2001) 6.5

Business

Demand for business products and services will vary significantly across sectors over the next year. Export demand is robust and export returns are being boosted by the low NZ dollar. But domestic demand is weak and will be slow to pick up owing to weakness in the household sector.

Households

Private consumption growth will be constrained in the short term, slowing to 1.4% in the year to March 2001. Consumption growth will improve to 2.5% in the following year as employment and wage growth lift and higher export earnings find their way into consumers' pockets.

Labour Market

Employment growth is predicted to peak at 2.1% in 2002. The unemployment rate will dip to a seasonally adjusted 5.7% during 2002, then increase, reaching 6.1% by 2005.

- Inflation of 2% on both operating projections and capital projections.
- An annual increase in the rating base of $2m for ordinary rate income growth net of GST.
- An increase in the rating base of $3.78m (net GST) in 2001/02 as a result of infrastructural utilities such as sewage, water, telecom and power networks.
- Costings for 2001/02 capital projects based on developed plans.
- Costings for capital projects in subsequent years based on estimates which will be revised as more detailed planning work is undertaken.
- The impacts of asset management plans are reflected in asset maintenance, replacement and creation programmes for all major infrastructural assets.
- The capital programme for the next year is regarded as committed, with subsequent years supported by the Council but should not be regarded as committed.
- Provision is made for capital expenditures contingencies. This provision has been made to provide for some flexibility in costs as plans are fully developed. The capital contingency provision is between $2m and $4m per annum.

Significant Assumptions and Provisions

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

- Interest rates for borrowing of 7% and 6% for earnings.
- Debt is to be repaid on a rolling basis within 20 years.
- Full depreciation is charged on all operating and infrastructural assets.

Key Issues

The key issues addressed by the LTFS are described below:

Land for Urban Development

Private households in the city are forecast to increase from 117,800 in 1996 (adjusted 1996 figure) to 146,800 by 2021. During the next two decades household growth will become progressively slower. Between 2001 and 2006 household numbers will grow on average by 1.3% each year, falling to 0.7% annually between 2016 and 2021.

As a result of the proposed City Plan, the availability of land for urban development is adequate to meet the needs of the city in the immediate future but extra costs on the Council to service these properties will arise.

Social Initiatives

The role of the Council in facilitating community involvement is expected to change with the passing of the proposed Local Government legislation. The Council expects it will emphasise the rights of and opportunities for, community participation and consultation on accountability and governance, both of service delivery and community change.

The City Council does not accept that it has sole responsibility for addressing issues of community stress. It is vital that Central Government exercises leadership and also that the community at large, including a very wide range of voluntary groups and the commercial sector, recognise that they have a role to play. The Council's primary role will be that of a catalyst and facilitator, although at the margin the Council sees its role as making targeted interventions especially to support initiatives developed within the voluntary sector of the community.

This issue will continue to be a priority for the Council. Examples of the social programmes included in the LTFS include:

- Joint programmes with Central Government to provide supervised work placement for 'high risk' young people.
- Provision of support funding for community development facilitators to strengthen community ties and support community activities.
- Funding of a Youth Advocate and anti graffiti programmes.
- Developing the Housing stock for targeted sectors of the community.

Improving the City Basic Infrastructure

During the next 10 years the Council will be improving the assets capability to meet the needs of the city. Asset management planning addressing the Council's Water and Wastewater networks, Waterways, Roading, Parks, Buildings and Sports Facilities will be benchmarked against best New Zealand practice and upgraded where shortcomings are identified. Improvements are expected in the quality and completeness of our asset registers, in the community consultation process that sets levels of service and in the accuracy of asset valuation, expected asset life and depreciation calculations. The Council also anticipates a better linkage and matching of the asset management plans to its long term financial projections and an outcome of improved decision making and community satisfaction. The expansion of the services through growth demands will be monitored and met.

Significant projects are:

- A major programme of land purchase and protecting, stabilising, improving and revegetating Christchurch's waterways and wetlands to provide an environmentally sustainable asset condition.
- Increasing the rate of land purchase for new sports grounds, new cemeteries, neighbourhood parks and natural areas such as the Port Hills.

- A major upgrade of the capacity, discharge quality and odour control of the Bromley Treatment Plant. The Plant receives the majority of the liquid waste from residences and businesses around Christchurch.
- City Streets developments of, for example, Fendalton Road, Blenheim Road, Woolston Burwood Expressway, Pages and Ferrymead Bridges, and associated work with the southern motorway.

There will be continuing need to expand and maintain the city's networks to meet user demands and increased standards. The Regional Land Transport Strategy will soon be released. This may result in a change in the priorities of projects.

The Council remains concerned about the adequacy of funding for roads and has programmed expenditure on city streets totalling $27m over nine years provided the Government increases its contribution to Roading to finance these works.

An Environmentally Sustainable City

The Council is committed to improving the contribution to sustainability of Christchurch. It has already done many things but there are many other opportunities to improve the way the Council does things. There is a need to think differently about the way we operate so that we can make the City better for people, the environment and reduce costs by considering these three aims together.

A good example, which the Council has started to apply, is the different way that waterways and wetlands can be developed using natural beautification of drainage areas instead of laying concrete pipes. Not only is this more attractive but it has the potential to save money and provide more community involvement and use all in one project. Doing more projects like this will help make Christchurch a more sustainable environment as well as making it a better place to live and do business.

The community is continuing to want services and facilities to reduce the quantity and type of rubbish collected and disposed of. The Council is intending to continue to facilitate this with kerbside recycling and in partnership with the private sector and the Recovered Materials Foundation intends to focus on the most effective way of reusing and recycling materials. The Council will also develop an undercover composting plant to improve the processing and quality of compost production from its greenwaste collection.

A New Landfill

The existing landfill at Burwood has a limited life and planning over the last few years has resulted in the formation of Transwaste Canterbury Ltd., a company jointly owned by Canterbury local authorities and two private sector waste contractors. A site for waste disposal at Kate Valley, North Canterbury has been acquired, and, following resource consents, plans to develop a new landfill there for operation in 2004/05 to the highest environmental standards. This will significantly impact the rates with effect from that year as the increased cost of the landfill and transport to it first come to charge.

A Vibrant City Centre

This continues to be a principal objective of the Council and the LTFS provides for a continuation of environmental improvements, including the completion of refurbishment of Cathedral Square. The Mayoral Forum is taking initiatives to promote progress which revitalises the central city and make it attractive for inner city living, for business and for visitors. A vibrant city centre is seen as essential for the growth and wellbeing of Christchurch as a whole. Central city marketing and other similar initiatives are designed to encourage Christchurch people to continue to see the city centre as the heart of the community.

Community Facilities

The Council will continue with the library network development by the construction of a new library and service centre at Beckenham together with a learning centre (in partnership with the Government). Other suburban libraries are programmed, for Avonhead and Parklands.

The Council is completing a major rebuild of QEII Pool and plans to continue with the swimming pool development programme by a further development in the west of the city towards the end of the decade. The site is yet to be determined.

Jade Stadium Ltd will continue the redevelopment of the former Lancaster Park with assistance from Council loans fully serviced by the company.

The new Art Gallery is under construction to be commissioned in March 2003 with a capital cost of $39.8m. This will significantly expand the presentation of the visual arts in Christchurch. There will be an increase in the operating expenditure for the Art Gallery over the current budget.

Water Supply

The city has an artesian water supply of extraordinary purity. Conservation measures have stabilised total consumption over the past decade but a succession of dry years could put the supply aquifers under pressure. Long-term planning has been commenced for supply from artesian wells outside the city area, if necessary, to meet growth needs.

Housing

The city has a stock of about 2,500 of public rental and elderly persons housing units. The housing is financed entirely from rents, which are set at 60-85% of the market level. In the past annual surpluses of about $2m have been used to renovate and upgrade older stock and to build or purchase new units. It is planned, towards the end of the decade, to direct expenditure to the replacement of pre-1950s stock. In recent years an increasing number of people with special needs have been accommodated in Council housing. Partnerships have been formed with other organisations to provide care and supervision, a practice which is likely to be extended in response to changing social needs.

Economic Development and Employment

For more than a decade the Council has directed resources into tourist promotion, skills training, job schemes and economic development. The persistence of unemployment has led the Council to establish an economic development fund. It is the intention of the Council, in committing additional resources, to require more direct outcomes in terms of additional production and additional jobs. Investment is expected to be made in the context of the Canterbury Economic Development Strategy, which has been the fruit of co-operation amongst local authorities.

Relationships with Other Local Authorities

Recent co-operative ventures between and among Canterbury local authorities are expected to continue and to develop. In addition to co-operation in waste minimisation, waste disposal, and economic development, as described elsewhere in this statement, councils are working together on civil defence, emergency management, and road reform, and, in some cases, providing services such as dog control under contract. In particular, co-operation in the management of roads has the potential to allow for sharing of professional resources, better allocation of funds and better achievement of regional priorities.

Trading Company Ownership

The Council owns several companies which produce substantial dividend income for the City. The ownership of the companies has a two-fold purpose - a retention in local public ownership of significant infrastructure assets; and the provision of ongoing and significant income stream to reduce the level of rating.

The Council holds its interest in Orion Group, Christchurch International Airport, Lyttelton Port Company and Redbus through its wholly owned subsidiary Christchurch City Holdings Limited. The trading companies operate on a commercial basis, at arms length from the Council, subject to regular monitoring and reporting. The income stream from these companies is significant and is approximately 22% of rates income over the next three years.

Council Activities

The Act requires each local authority to justify why it is undertaking its range of activities.

The *detailed* reasons why the Council operates each activity are set out in Appendix 2. At a more general level the rationale proceeds from the basic purpose for which local government exists, namely to enable people to do collectively those things which it is more difficult, more expensive or perhaps impossible for them to achieve as individuals. The reasons are put in context by the vision for the future (in general terms), the mission statement (which stresses the responsiveness to local needs), and the strategic goals (which are more specific). In reality, however, most Council activities are related to the wide range of services, facilities and functions, including regulatory functions, which the Council is specifically required or empowered by law to provide.

Financial Analysis

The LTFS is a planning document. There are, however, detailed budgets for the first year sitting behind the long term financial projections. All the financial data including a detailed capital works programme has been built into a financial planning model which produces projected balance sheets, cashflows, debt levels, investments and rate requirements. Many scenarios have been modelled and the Council's preferred options relating to each activity are reflected in the Strategy. There is an underlying assumption of continuing business.

The overall objective of the financial analysis is to portray the impact of a complex range of decisions in a way that is financially achievable and economically affordable for the city's ratepayers.

The financial model is updated every year in conjunction with the preparation of the Financial Plan, a summary of the updated model and formal projections is published with the Financial Plan each year.

The paragraphs which follow explain in detail the financial summary which is included in the introductory section of the Strategy.

Operational Expenditure

Operational expenditure includes all the day-to-day costs necessary to run a large multi-function organisation.

Operational expenditure is made up of:

- Direct Operating Costs. These costs include staff costs, insurance, energy, computing and maintenance work on the city's infrastructural assets.
- Debt Servicing Costs. These costs are the interest costs

incurred as a result of the Council's borrowing programme. They are projected to decline (when netted against retained earnings) in years 1, 2, 3 and to increase in subsequent years once the Council recommences borrowing for capital expenditure in 2004/05.

- An inflation provision. A 2% provision per annum has been incorporated within the Model to ensure that the projections are realistic.
- Depreciation. This has also been included within the operating costs and is explained in more detail in the next section.

Depreciation

This is charged on both operational and infrastructural assets. The depreciation on operational assets is based on straight line and of infrastructural assets on long run average renewals (LRARA). Accounting standards have been issued for the latter, which now requires straight line depreciation. Up to 2003/04 LRARA will be used, with straight line being applied thereafter. The impact is estimated to be an increase of $3.7m per annum.

The total for all depreciation for 2001/02 is $52.15m and will grow to $65.11m by 2010/11.

Revenue raised to fund depreciation is used to fund the renewal of assets (less funds appropriated to reserves and separate accounts).

Operational Revenue

The primary operating revenue is and will be property based rates. Other operating revenues include user charge revenues, Transfund subsidies and dividends from Christchurch City Holdings Limited (CCHL).

There is only modest change in total ordinary revenues proposed over the next 10 years although there will be changes in the individual items.

In 2001/02 a one off special dividend revenue of $128m is proposed as the draw down of capital funds from CCHL. This is in addition to the ordinary dividends of $30.6m. This is referred to under the heading of Capital restructuring below.

Surpluses

The LTFS forecasts (ordinary) operating surpluses in each year over the next 10, rising from $8.16m to $22.42m. In the current year the special dividend of $128m is included in the surplus in addition to the ordinary operating surplus.

Surpluses will help to progressively reduce the need to borrow for capital works. They will also provide a significant contribution to the annual repayment of debt.

A formula has been established which ensures 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) is sufficient to fund 55% to 66% of the average annual forecast capital expenditure over the next 20 year period.

Capital Expenditure

The capital expenditure programme includes a number of large projects. These include the Bromley Sewage Treatment Plant expansion, the new landfill, upgrading roads and parks, the Art Gallery, and the Beckenham Library.

Like the operating budgets, the capital projects also include a 2% inflation provision and capital contingency from year 2 onwards. The capital contingency of $2m in year 2 and $4m per annum thereafter enable the Council to meet unforeseen issues and cost increases.

Details of the first five years of the capital expenditure programme are to be found in the capital budget of the Financial Plan.

Borrowing and Consolidated Debt

Provision for the repayment of Council debt is made by annual contributions to sinking fund and loan repayment reserves. These contributions are calculated to ensure tranches of debt are repaid no later than 20 years after they are initially borrowed. The financial model assumes sinking funds are accumulated in perpetuity whereas in practice opportunity will be taken to repay portions of the debt from accumulated sinking funds as shorter term maturities are refinanced, typically each 3 - 5 years.

For the purpose of presentation it is essential to recognise debt repayment reserves and sinking funds as an offset against gross debt. The net result, called 'Term Debt', reflects the actual projected indebtedness each year.

The Council also has reserve funds set aside for future projects and consistent with normal commercial practice this is offset to determine the 'Net Debt' of the Council.

Intergenerational Equity

The principle of intergenerational equity requires today's users to meet the true costs of utilising Council assets but does not expect them to meet the full cost of long term assets that will benefit future generations.

The Council has put in place the following mechanisms to ensure intergenerational equity:

- All assets are depreciated at a rate assessed to reflect the life of particular assets.
- Between 34 and 45% of capital works are funded by loans serviced (or debt repayment reserve funds) and repaid over a 20 year period from surpluses and depreciation generated in the operating account.
- Revenue of the Council is required to be sufficient to meet the operational expenses in each year including
    - depreciation on capital assets employed
    - interest on outstanding debt
    - surpluses sufficient to fund the repayment of outstanding debt over a 20 year cycle.

- Asset Management Plans have been developed for all major assets types to ensure that an appropriate rate of renewal of existing assets is planned for and carried out. This renewal work is generally funded by a first call on depreciation funds generated by revenue.

Capital Restructuring

During 2001/02 Christchurch City Holdings Ltd, a 100% Council owned holding company, will receive from Orion Group Ltd, $175m being (essentially) its share of the surplus from the sale of Enerco Gas Networks. This has been reported extensively in the Statement of Corporate Intent between CCHL and Orion, the February 2001 Council Meeting Agenda and commented on in the media.

The Council has considered how best to return this to the City and has proposed to have CCHL declare a special dividend of $128m in 2001/02, in addition to the ordinary dividends and also to have CCHL purchase the Council's shareholding in Selwyn Plantation Board and if necessary, City Care Limited, at valuation which is currently assumed to be $47m for the two enterprises. In this way the total $175m will be transferred to the Council.

Council have concluded that the proceeds are applied:

- $100m to the Debt Repayment Reserve to repay debt or to avoid debt as a result of capital expenditure, and
- $75m to be invested in a Capital Endowment Fund managed to ensure income is available after the provision for inflation, to provide for economic development and civic and community projects that will enhance the city or region as identified by the Council in the future.

An objective of the Capital Endowment Fund is to ensure the capital remains intact for future generations to enjoy.

- That the income from the Capital Endowment Fund be applied to:
  - (i) maintaining the value of the fund after inflation; and
  - (ii) providing for:
    - economic development projects - 70%
    - civic and community projects - 30%
- That the Capital Endowment Fund requires an 80% voting majority of the Council before the capital can be used.
- That to maintain accountability for the protection of the capital and use of the proceeds of the Capital Endowment Fund, the structure of the Fund be outlined in the Council's Funding Policy and reported on separately in the Financial Plan and Annual Report of the Council.

At this stage there are no further specific capital restructuring proposals with CCHL or the subsidiaries. However, the Council believes that it is reasonable to expect modest special dividends from its trading enterprises on a seven year cycle and has provided for $20m to be recovered spread over years 7 to 10 of the plan.

The Council is considering the best method of financing Jade Stadium Ltd (JSL) with $41m loan funds, either by loans financed externally or via CCHL debt funds. The net effect on the Council is the same; it will be fully serviced by JSL. This will be the largest Council loan investment financed fully by debt. As security, the Council owns all of the equity of JSL and holds a debenture over its assets. The title to the underlying land is due to be vested in the Council as a Reserve following the enactment of a local Bill of Parliament. JSL has an operating plan to service the Council loans fully from revenues.

Financial Statement Projections

The detailed long term projections are to be found in Appendix 4. They should be read in conjunction with the Statement of Accounting Policies. The Statement of Accounting Policies is published in Financial Plan.

The financial projections have been prepared in accordance with the Institute of Chartered Accountants of New Zealand Reporting Standard 29 (FRS 29). Disclosures relating to FRS 29 are detailed in Appendix 3 (Page 37).

Credit Rating

In 1993 the Council received an AA international credit rating from Standard and Poor's. This rating was last reviewed and confirmed by Standard and Poor's in 2000.

This high rating reflects the strong overall financial position of the Council and the commitment to achieve an annual operating surplus and control the level of debt through a clearly defined debt management policy.

Financial Ratios

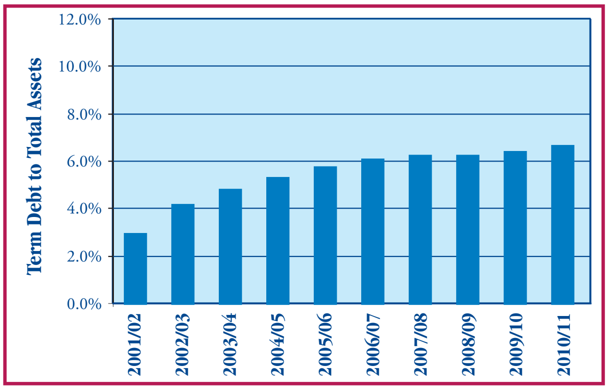
The impact which the Council's LTFS has on the four key financial ratios are graphed at the right. These ratios relate to the Christchurch City Council and CCHL combined. The policy limits are defined in the statement alongside each graph. These limits represent the outer bench marks for the Council to live within over the long term.

The ratio limits are highlighted by the top line on each graph.

Term Debt to Total Assets Ratio Policy Limit 12%

This graph 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.

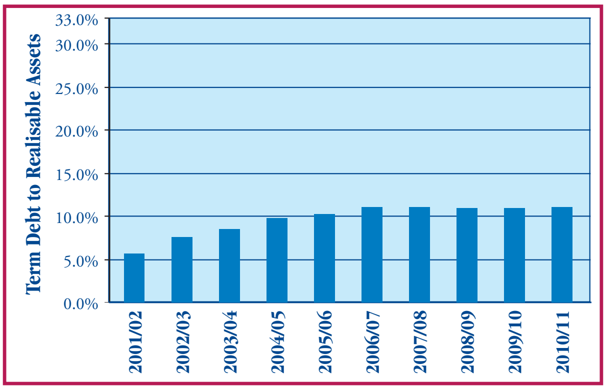
This is like saying how large your mortgage is compared to the value of all your assets. The ratio is currently 3.03 per cent and reaches a peak of 6.39 per cent in 2010/11. Over a 20 year period it reaches a peak of 8.0 per cent in 2020/21.



Term Debt to Realisable Assets Ratio Policy Limit 33%

This graph 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 5.82 per cent and reaches a peak of 10.76 per cent in 2010/11. Over a 20 year period it reaches a peak of 12.51 per cent in 2020/21 and declines thereafter.

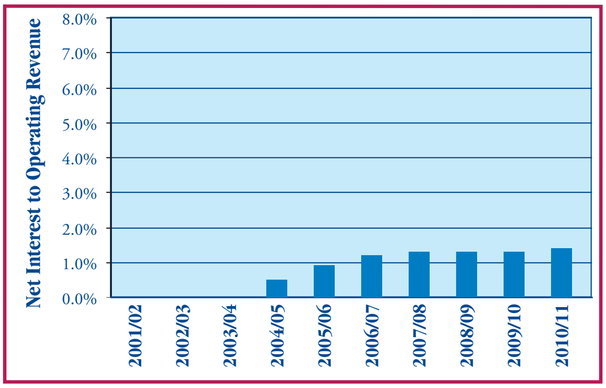


Net Interest to Operating Revenue Ratio Policy Limit 8%

This graph 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 -1.36 per cent and reaches a peak of 1.22 per cent in 2010/11. Over a 20 year period it reaches a peak of 2.13 per cent in 2020/21.



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 0.07 times and reaches a peak at 1.70 times in 2006/07. Over a 20 year period it reaches a peak of 1.89 times in 2019/20 and declines thereafter.