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Introduction

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

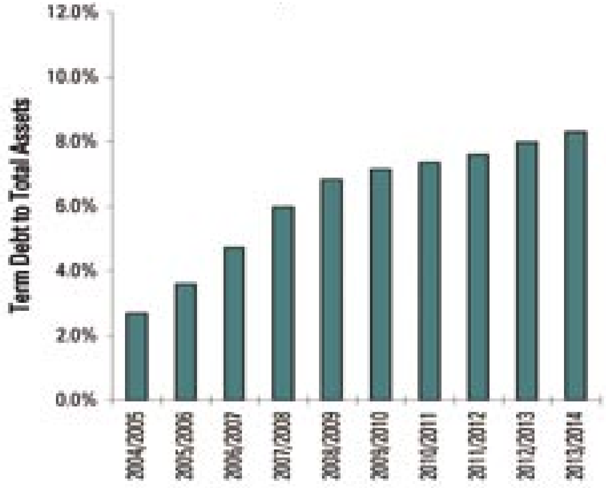
- The Community Plan has been developed within the parameters as set out in the Council's Revenue and Financing Policy (see elsewhere in this Volume). The main objective of this policy is to ensure that major projects, resulting operating costs and debt are maintained at manageable levels.
- The revenue and financing mechanisms used to cover the estimated expenses of the Council are set out in the Funding Impact Statement elsewhere in this Volume.
- At the heart of the Revenue and Financing Policy are four ratios. These ratios set maximum limits in relation to the key financial drivers.

The four key ratios 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 following).

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 2.69 per cent and reaches a peak of 8.30 per cent in 2013/2014. Over a 20 year period it reaches a peak of 11.05 per cent in 2023/2024.

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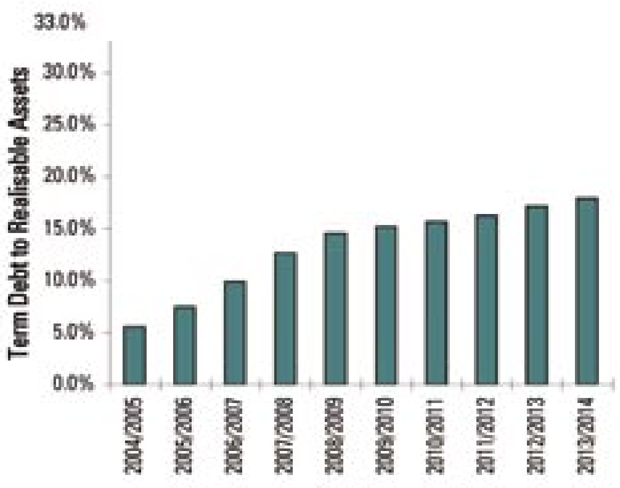
Term Debt to Realisable Assets Ratio
Policy Limit 33%

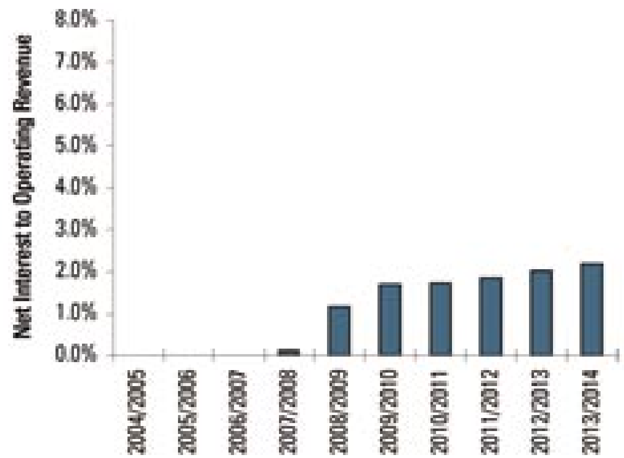


This graph compares total debt with a significantly reduced category of assets which are more normal business type assets.

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 is currently 5.57 per cent and reaches a peak of 17.91 per cent in 2013/2014. Over a 20 year period it reaches a peak of 25.71 per cent in 2023/2024.

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 –2.14 per cent and reaches a peak of 2.17 per cent in 2013/2014. Over a 20 year period it reaches a peak of 3.44 per cent in 2023/2024.

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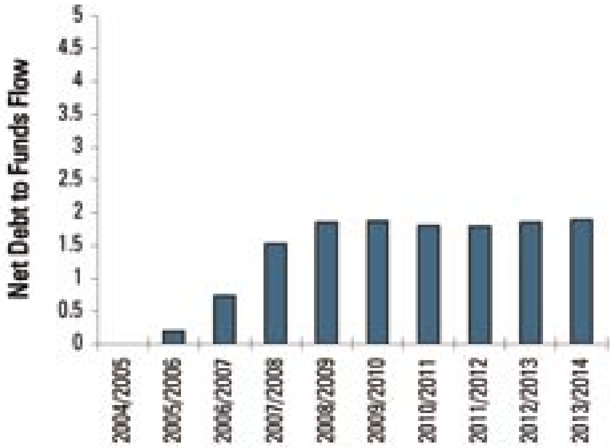
Net Debt to Funds Flow Ratio
Policy Limit 5 times



Net debt is total debt less all other cash reserve funds which the Council holds. The graph 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 ratio is currently -0.32 times and reaches a peak of 1.88 times in 2013/2014. Over a 20 year period it reaches a peak of 2.08 times in 2017/2018.

- An important principle of the Revenue and Financing 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. The Model enables any changes to be monitored to ensure that they are sustainable in the long term.
- The financial summary (following table) illustrates the impact that expenditures and revenues have on borrowings, debt and rate levels.
- Confirming the strength of the Council's overall financial position is the current AA+ credit rating by the international credit rating agency Standard & Poor's.

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	Budget CCC 2004/05 $M	Forecast CCC 2005/06 $M	Forecast CCC 2006/07 $M	Projection CCC 2007/08 $M	Projection CCC 2008/09 $M	Projection CCC 2009/10 $M	Projection CCC 2010/11 $M	Projection CCC 2011/12 $M	Projection CCC 2012/13 $M	Projection CCC 2013/14 $M
Operating Summary										
Operating Expenditure	237.67	248.19	251.42	254.25	257.01	261.63	266.71	270.76	275.64	282.95
Depreciation	65.07	68.72	71.84	74.67	76.93	78.79	80.29	82.18	84.28	86.29
Interest Expense	6.71	6.47	7.62	11.23	15.40	18.25	20.05	21.81	23.96	26.13
Total Operating Expenditure	**309.46**	**323.38**	**330.89**	**340.15**	**349.35**	**358.67**	**367.04**	**374.76**	**383.88**	**395.37**
Operating Revenue	(131.78)	(130.36)	(129.50)	(132.31)	(132.55)	(130.81)	(132.26)	(133.79)	(135.03)	(136.27)
Rates	(164.83)	(172.72)	(180.06)	(188.11)	(202.00)	(216.86)	(228.15)	(236.78)	(245.96)	(257.22)
Interest & Dividends from CCHL	(29.10)	(29.50)	(45.30)	(31.30)	(32.00)	(32.80)	(33.77)	(34.62)	(35.48)	(36.59)
Operating Surplus/Contributions to Capital Projects	**(16.25)**	**(9.21)**	**(23.97)**	**(11.58)**	**(17.20)**	**(21.81)**	**(27.13)**	**(30.43)**	**(32.59)**	**(34.70)**
Percentage Rate Increase	**3.59%**	**3.53%**	**3.06%**	**3.32%**	**6.25%**	**6.30%**	**4.24%**	**2.88%**	**3.01%**	**3.73%**
Capital Summary										
Capital Expenditure	130.84	125.01	154.10	159.01	141.38	117.01	117.77	124.17	141.23	137.95
Debt Summary										
Gross Dept	97.05	97.44	141.38	211.57	265.78	294.98	322.01	351.98	391.65	431.20
Less Sinking Funds & Debt Repayment Reserves	(80.43)	(38.66)	(28.43)	(36.02)	(46.13)	(58.42)	(72.27)	(87.70)	(104.87)	(124.18)
Term Debt	**16.62**	**58.78**	**112.95**	**175.55**	**219.65**	**236.56**	**249.74**	**264.28**	**286.78**	**307.01**
Less Reserve Funds	(146.21)	(147.83)	(148.36)	(147.04)	(147.65)	(152.24)	(159.15)	(166.37)	(173.90)	(181.78)
Net Debt	**(129.60)**	**(89.05)**	**(35.41)**	**28.51**	**72.00**	**84.32**	**90.59**	**97.91**	**112.88**	**125.23**

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Financial Analysis

The Community Plan is a planning document. Supporting the long term financial projections are detailed budgets. 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. Various scenarios have been modelled and the Council's preferred options relating to each activity are reflected in this Community Plan. There is an underlying assumption of continuing business.

The overall objective of this financial overview 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 paragraphs which follow give an overview of the factors influencing the financial forecasts as shown in the previous table.

Operational Expenditures

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.
- Significant operating items included within this Community Plan include:
  - YMCA – Contribution to new facility at Bishopdale - $1M (2004/05)
  - Trial for Residential Putrescible (kitchen waste) collection - $125,000 (2004/05)
  - Flat Water Facility Feasibility Study - $200,000 (2004/05)
  - Additional weekend opening hours for Community Libraries - $87,000 per annum
  - Metropolitan Christchurch Transport Strategy - $22.8M over 10 years
  - Putrescible (kitchen waste) collection and processing – Up to $5.83M per annum
- Debt Servicing Costs. These costs are the interest costs incurred as a result of the Council's borrowing programme. These are projected to increase from $6.71M in 2005/06 to $26.13M by 2013/14. This increase reflects the Council's borrowing programme which will be recommenced once the Debt Repayment Reserve Funds have been fully utilized.
- 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 is on a straight line basis.

The total for all depreciation for 2004/05 is $65.07M and this will grow to $86.29M by 2013/14. The growth in the depreciation provision can be directly linked to the capital programme. The capital programme averages $134M over the 10 year period

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

Operational Revenues

The primary operating revenue is and will be property based rates. Rates revenue is projected to grow from a base of $164.83M in 2004/05 to $257.22M by 2013/14. Other operating revenues include user charge revenues, Transfund subsidies and dividends from Christchurch City Holdings Limited (CCHL). The changes to these revenue types

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are projected to remain relatively constant over the 10 year period.

Dividends from the Council's subsidiaries are projected to rise gradually from $29.10M in 2004/05 to $36.59M by 2013/14. The exception to this is a special dividend of $15M in 2006/07. The impact of this special dividend is to increase the 2006/07 dividend line item to $45.30M.

Surpluses

The financial forecasts show (ordinary) operating surpluses/contributions to capital projects in each year over the next 10, ranging from $9.21M to $34.70M.

Surpluses reduce the need to borrow for capital works. They 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. The funding percentage for the 2004/05 year is 59%.

The generation of an operational surplus also ensures that the Council complies with Section 100 of the Local Government Act (2002). This section of the Act, which is sometimes referred to as the 'Balanced Budget Requirement', ensures that the Council has adequate funding for the ongoing maintenance of service levels.

Capital Expenditure

The capital expenditure programme includes a number of large projects. These include:

Putrescible Processing & Collection	$10.94M
Ocean Outfall and Associated Works	$51.46M
Christchurch Treatment Works Pond Modifications	$9.28M
Civic Offices	$53.71M
Belfast Wastewater Pipeline	$4.65M
Metropolitan Transport Strategy	$80.11M
Botanic Gardens – Staff & Visitor Facility & Greenhouse Replacement	$10.35M
New Indoor Multiuse Facility (Location has yet to be identified)	$10.21M
New Leisure Centre (Location has yet to be identified)	$10.00M
Jellie Park Upgrade	$6.19M

Like the operating budgets, the capital projects also include a 2% inflation provision and capital contingency of $4M from year 2 onwards. The capital contingency is to 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 5 year capital works programme in Volume 1.

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 and loan repayment reserves are accumulated in perpetuity whereas in practice opportunity will be taken to repay portions of the debt

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from these accumulated 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 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 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.

Financial Statement Projections

The detailed long term projections are to be found in the financial statements following this Overview. They should be read in conjunction with the Statement of Accounting Policies which immediately follows the financial statements.

The financial projections have been prepared in accordance with the Institute of Chartered Accountants of New Zealand Reporting Standard 29 (FRS 29).

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 2003.

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 financial projections have on the four key financial ratios are as graphed previously. 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.