Financial overview

Financial Management Overview

Financial Analysis

The financial overview has been developed within the parameters set out in the Revenue and Financing policy and is supported by detailed budgets for each of the Council's activities. There is an underlying assumption of continuing business.

The paragraphs which follow give an overview of the factors influencing the financial reports as shown in the following tables.

Inflation has been provided on operating revenue, operating expenditure and capital expenditure with the resulting flow through to the balance sheet. Weighted average calculations have been made based on inflation forecasts provided by Business and Economic Research Limited, (BERL). The adjustors used for each year are set out on page 209.

Operational Revenue

The primary operating revenue is and will be property based rates. Rates revenue is projected to grow from a base of $203.0 million in 2006/07 to $328.5 million in 2015/16. Other operating revenues include user charges, Land Transport New Zealand (LTNZ) subsidies, development contributions, interest, and dividends from Christchurch City Holdings Limited (CCHL). Land Transport New Zealand capital subsidies and development contributions are used to fund the capital projects to which they relate.

Dividends from the Council's subsidiaries and associates are projected to rise gradually from $33 million in 2006/07 to $45 million in 2015/16.

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.
- Significant new operating items included within this Community Plan include:
  - New Bio-solids plant - $1.96 million per annum from 2008/09
  - Bus exchange expansion - $1.1 million per annum from 2010/11
  - New Botanic Gardens facility - $0.4 million per annum from 2010/11
  - Waste minimisation initiative - $1.5 million per annum from 2010/11
  - Metropolitan Christchurch Transport Strategy - $22.8 million over 10 years
- 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 $8.4 million in 2006/07 to $28.1 million in 2011/12, reducing back to $27.2 million in 2015/16. This increase reflects the Council's borrowing programme which will be initiated once Debt Repayment Reserve Funds have been fully utilised.
- Depreciation. This has also been included within the operating costs and is explained in more detail in the next section.

Financial overview

Depreciation

This is charged on both operational and infrastructural assets. Depreciation is on a straight line basis.

The total for all depreciation for 2006/07 is $83.0 million growing to $132.8 million by 2015/16. The growth in the depreciation provision can be directly linked to the significant increases in the value of our assets since the 2004/14 LTCCP. The resulting depreciation charge, together with our growing capital programme will add $10 million extra to our cost structure for the 2006/07 year. The capital programme averages $191.9 million over the 10 year period.

The Council has confirmed the need to fully account (and rate) for depreciation.
Revenue raised to fund depreciation is used to fund the renewal of assets.

Surpluses

The financial forecasts show (ordinary) operating surpluses, increasing from $7.6 million to $66.1 million over the ten year period.

Included within the surplus are capital revenues, such as funding from LTNZ and Development Contributions, which are applied against capital expenditure either in the current year or transferred to a reserve to be used for future capital projects. Because they are "capital" they are not available to subsidise general rates.

The surplus also includes an annual contribution towards the repayment of debt.

Finally, the surplus also includes the net proceeds of the Council's Housing and Dogs activities which are not funded from rates.

In the past Council has used 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) to fund a percentage of the average annual forecast capital expenditure calculated from the next 20 year capital programme. This has resulted in some inconsistencies, one, because of the effect of the averaging on large capital projects, and two, because it is difficult to accurately forecast and cost capital projects 20 years in advance.

This year the Council has replaced the average figure with the current year's capital programme. It is funded in the first instance with the funds generated by rating for depreciation, (as above), along with capital revenues and specific capital reserves which relate to the projects. The balance is borrowed.

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 which are detailed on page 81 of this plan. Details of the first three years only are to be found in the capital works programme on page 84.

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 parcels of debt are repaid no later than 30 years after they are initially borrowed.

Our capital programme peaks over the 2008 to 2010 period. This sees us having to raise around $190 million over the first four years and hence our term debt increases. In addition we are borrowing a further $113 million to fund the new civic offices. This borrowing is offset by an increase in the value of our investments as the money has been on lent to Tuam Limited. For the remaining period through to 2016 debt levels drop slightly as a result of increasing depreciation and lower levels of capital expenditure. Contributing towards our funding of capital expenditure are increasing funds from Development Contributions and LTNZ capital revenues.

By 2015/16 our gross debt is $358 million, offset by $325 million in cash and cash equivalents, $104 million of which is the Capital Endowment Fund, (refer to page 304) and $115 million of which is in the loan repayment and debt repayment reserves.

The reserve funds which are set aside, along with borrowing which is available under our existing limits means that the Council is well placed to carry out projects which may arise in the future and which will benefit the community.

The financial model assumes loan repayment reserves are accumulated in perpetuity whereas in practice opportunity may be taken to repay portions of the debt from these accumulated funds as shorter term maturities are refinanced, typically each 3 to 5 years.

Intergenerational Equity

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.
- Loans raised to fund capital works are repaid over a 20 to 30 year period. For this plan we have assumed all loans will be repaid over 30 years.
- 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
  - debt repayment contributions sufficient to fund the repayment of outstanding debt over a maximum 30 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.

This means that ratepayers pay their share of the use of assets plus pay for the acquisition of assets over a reasonable period. The effect of this policy is that current ratepayers will leave a legacy for the future.

Financial overview

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 2005.

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

A key part of the Council's risk management strategy is its four key financial ratios. These ratios relate to the Christchurch City Council and CCHL combined and define the limits within which the Council must maintain its balance sheet and borrowing ratios.

The four key ratios and the maximum limits are:

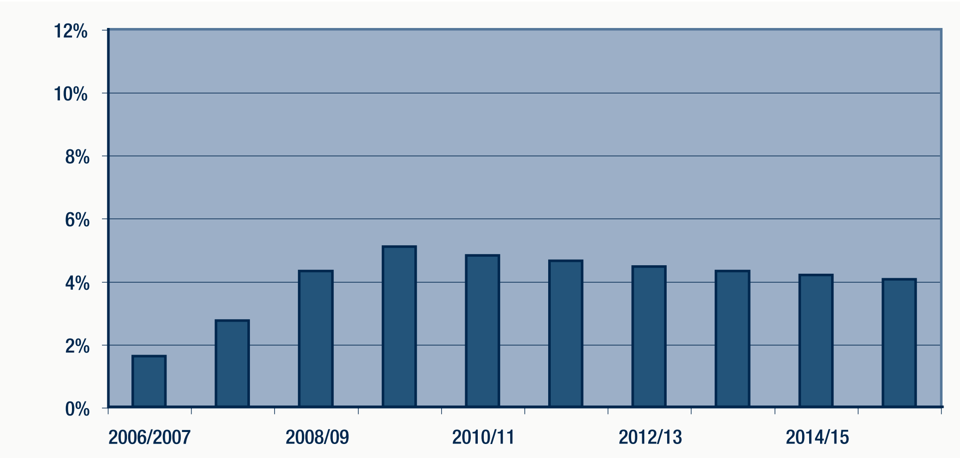
	Policy Limit
Total external debt as a percentage of the total Council/CCHL assets	Maximum 12%
Total external debt of the Council/CCHL as a percentage of realisable assets, (all assets excluding infrastructure and restricted)	Maximum 33%
Net interest paid on the total Council/CCHL term debt as a percentage of consolidated gross revenue	Maximum 8%
Net Debt of the Council/CCHL in relation to funds flow from operations	Maximum 5 times

Note 1: 'term debt' is defined as total external debt less dedicated debt repayment reserves, and 'net debt' is total external debt less all cash reserve funds.

Note 2: when calculating financial management ratios, the debt levels and liquid investments of Christchurch City Holdings Limited, parent only, are added to the Council figures. Similarly, any reference to consolidated figures means the sum of the Council and CCHL parent only, numbers.

The 10 year projections are well within the ratio limits (see ratio graphs following).

External Debt to Total Assets
Ratio Policy Limit 12%

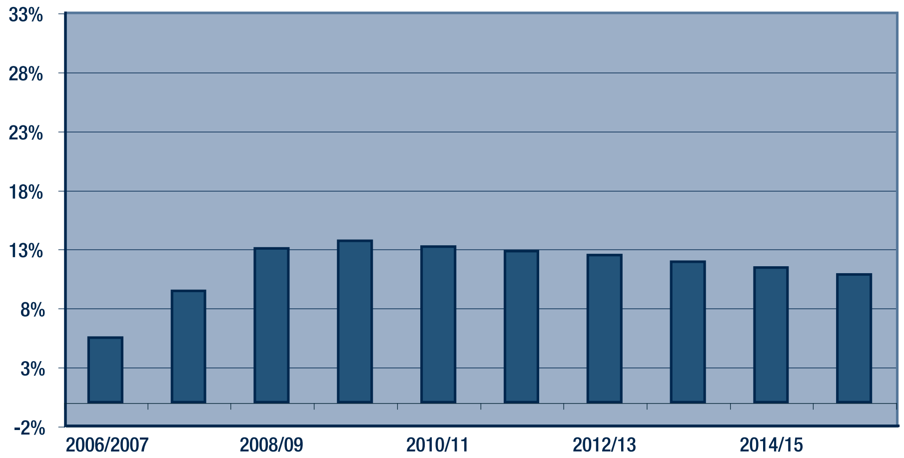


This graph compares the total external debt of the Council with the total assets of the Council/ CCHL and sets a maximum of 12%. It is equivalent to measuring your mortgage against all of your assets.

The ratio is currently 1.6%, reaches a peak of 5.1% in 2009/10 and then falls to 4.1% in 2015/16.

Financial overview

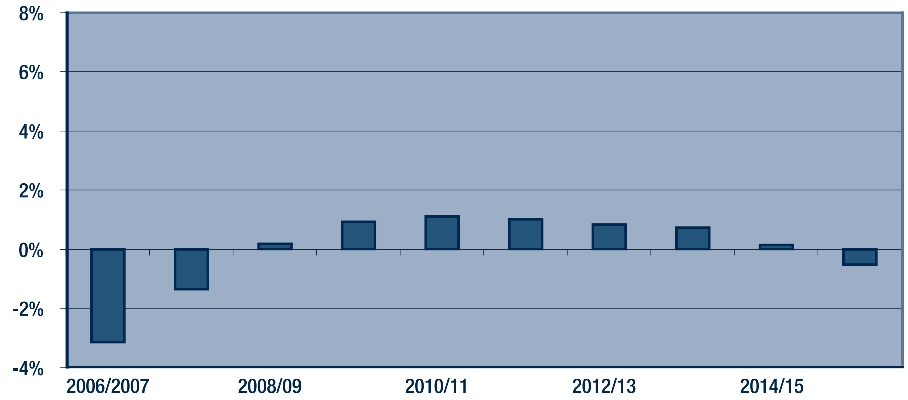
External Debt to Realisable Assets
Ratio Policy Limit 33%



This graph compares total external debt of the Council/CCHL with a significantly reduced category of assets. The assets excluded from the calculation are those which are basic to the needs of the city, such as roads, sewers, parks and water supply; the assets included are property, vehicles and trading investments.

The ratio is currently 5.7% and reaching a peak of 13.8% in 2009/10 before dropping back to 11.0% in 2015/16.

Net Interest to Operating Revenue
Ratio Policy Limit 8%



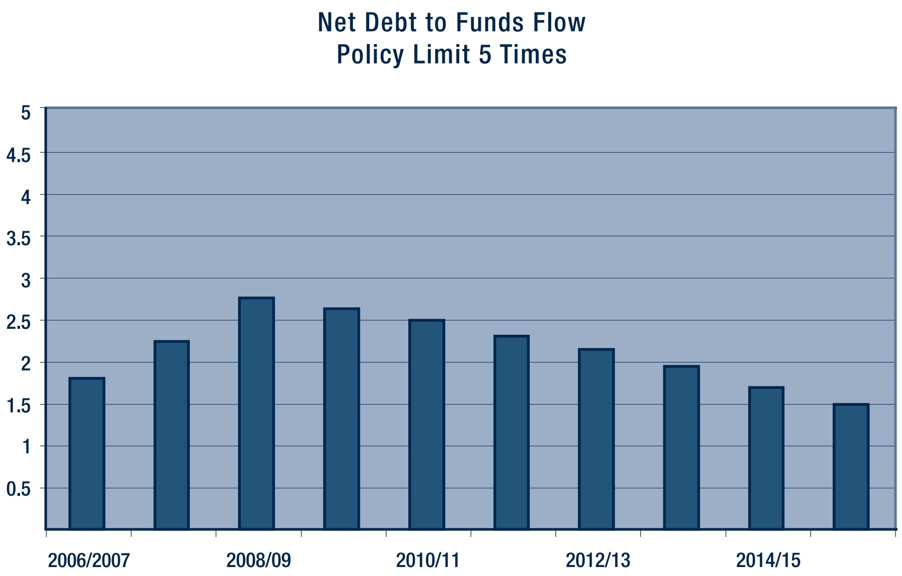
This graph measures how much of the Council's income is spent on interest.

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

The ratio maximum is 8%.

The ratio is currently –3.1%, peaking at 1.2% in 2010/11 before dropping back to –0.4% in 2015/16.

Financial overview



Net debt is total external debt less all 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 year's total income it would take to repay your mortgage.

The ratio is currently 1.8 times and reaches a peak of 2.7 times in 2008/09. By 2015/16 it has fallen back to 1.5 times.

Financial Statement Projections

The detailed long term projections are to be found in the financial statements beginning on page 180. They should be read in conjunction with the Statement of Accounting Policies which follow the financial statements.

The financial projections have been prepared in accordance with FRS 41 and FRS 42.

Financial overview

Financial Overview

Operating Summary	Plan 2006/07 $000's	Plan 2007/08 $000's	Plan 2008/09 $000's	Forecast 2009/10 $000's	Forecast 2010/11 $000's	Forecast 2011/12 $000's	Forecast 2012/13 $000's	Forecast 2013/14 $000's	Forecast 2014/15 $000's	Forecast 2015/16 $000's
Operating expenditure	277,053	280,563	289,276	300,018	315,803	322,590	330,066	337,732	343,680	350,100
Depreciation	82,980	89,888	98,050	108,267	113,289	118,974	124,621	130,091	133,072	132,823
Interest expense	8,443	10,502	18,600	26,583	27,533	28,147	28,075	27,828	27,438	27,205
Total operating expenditure	368,476	380,953	405,926	434,868	456,625	469,711	482,762	495,651	504,190	510,128
funded by:										
Fees, charges and rates penalties	84,173	87,489	90,192	92,756	95,547	97,521	99,674	102,061	103,471	105,296
Development contributions	9,093	20,504	23,843	27,299	30,867	31,504	32,156	32,756	33,282	33,821
Grants and subsidies	18,843	25,305	39,670	44,042	32,762	37,658	36,105	34,642	30,778	31,458
Dividends and interest received	60,983	57,928	59,942	65,044	64,983	67,354	67,993	70,589	73,564	77,176
Total operating revenue	173,092	191,226	213,647	229,141	224,159	234,037	235,928	240,048	241,095	247,751
Required operating surplus (before vested assets)	7,568	30,189	50,193	61,880	60,323	68,225	67,602	67,063	64,067	66,107
Rates required	202,952	219,916	242,472	267,607	292,789	303,899	314,436	322,666	327,162	328,484
Net annual impact of activities undertaken:										
Percentage (%) rate increase including growth and inflation	8.20%	6.78%	8.77%	9.02%	8.20%	2.74%	2.46%	1.65%	0.46%	-0.51%
Percentage (%) rate increase including growth only	8.20%	2.80%	5.11%	5.75%	5.46%	0.10%	-0.05%	-0.72%	-1.61%	-2.55%
Required operating surplus consists of:										
Revenues to fund capital expenditure	20,243	37,888	55,285	62,711	54,570	59,754	58,497	57,278	53,591	54,547
Funding for Debt repayment provision	3,613	2,233	3,276	4,778	5,528	6,079	6,513	6,986	7,467	7,981
Funding for landfill aftercare expenditure	165	219	1,315	512	512	512	512	512	512	512
Removal of separately funded activities results	-1,952	-2,178	-2,246	-2,212	-2,384	-2,399	-2,394	-2,387	-2,383	-2,073
Operational transfers to/from special funds	-14,501	-7,973	-7,437	-3,909	2,097	4,279	4,474	4,674	4,880	5,140
Operating Surplus (before vested assets)	7,568	30,189	50,193	61,880	60,323	68,225	67,602	67,063	64,067	66,107
Capital Funding Summary										
Capital expenditure	183,964	223,930	245,383	208,523	180,360	187,596	185,501	179,386	159,427	165,156
funded by:										
Depreciation rated for	78,465	85,230	93,310	103,560	108,552	114,216	119,887	125,361	128,342	128,396
Sale of assets	5,670	7,239	1,404	5,871	1,491	1,531	1,568	1,603	1,634	1,666
Landfill aftercare funded from rates and reserves	1,715	1,515	1,315	512	512	512	512	512	512	512
Funding from debt repayment reserve	66,092	22,882	718	766	817	871	930	-7,827	-27,109	-22,652
Funding for capital from other reserves	11,029	2,012	1,910	1,738	1,736	1,660	1,693	1,709	1,707	1,937
Revenues for capital projects	20,243	37,888	55,285	62,711	54,570	59,754	58,497	57,278	53,591	54,547
Total funding available	183,214	156,766	153,942	175,158	167,678	178,544	183,087	178,636	158,677	164,406
Borrowing required	750	67,164	91,441	33,365	12,682	9,052	2,414	750	750	750

Financial overview

Operating Budget Summary

Revenue	Plan 2006/07 $000's	Plan 2007/08 $000's	Plan 2008/09 $000's	Forecast 2009/10 $000's	Forecast 2010/11 $000's	Forecast 2011/12 $000's	Forecast 2012/13 $000's	Forecast 2013/14 $000's	Forecast 2014/15 $000's	Forecast 2015/16 $000's
City development	1,004	1,036	1,067	1,091	1,119	1,146	1,170	1,192	1,212	1,233
Community support	13,798	14,191	14,617	15,020	15,404	15,769	16,103	16,412	16,685	16,966
Cultural and learning services	3,545	3,678	3,808	3,913	4,013	4,108	4,195	4,276	4,347	4,419
Democracy and governance	-	330	-	-	358	-	-	382	-	-
Economic development	167	172	177	182	155	157	161	163	167	169
Parks, open spaces and waterways	7,769	10,574	11,417	12,273	13,142	14,143	14,583	15,007	15,403	15,810
Recreation and leisure	9,240	10,270	10,704	11,122	11,538	11,854	12,114	12,356	12,571	12,788
Refuse minimisation and disposal	4,678	4,986	5,242	5,387	5,524	5,653	5,774	5,886	5,983	6,083
Regulatory services	19,082	19,496	20,002	20,553	21,080	21,576	22,033	22,457	22,831	23,213
Streets and transport	31,063	41,480	56,883	62,299	52,063	57,553	56,450	55,407	51,923	52,987
Wastewater collection and treatment	6,138	10,334	11,863	13,379	14,943	14,567	14,726	14,858	14,951	15,045
Water supply	5,416	6,277	6,960	7,526	8,104	8,066	8,192	8,301	8,391	8,481
	101,900	122,824	142,740	152,745	147,443	154,592	155,501	156,697	154,464	157,194
Other revenue										
Rates	202,952	219,916	242,472	267,607	292,789	303,899	314,436	322,666	327,162	328,484
Dividends	33,019	34,189	35,041	37,041	37,541	39,541	40,041	42,041	43,541	44,928
Interest	27,964	23,739	24,901	28,003	27,442	27,813	27,952	28,548	30,023	32,248
Other income	10,209	10,474	10,965	11,352	11,733	12,091	12,434	12,762	13,067	13,381
	274,144	288,318	313,379	344,003	369,505	383,344	394,863	406,017	413,793	419,041
Total operating revenue	376,044	411,142	456,119	496,748	516,948	537,936	550,364	562,714	568,257	576,235

Financial overview

Operating Budget Summary

Expenditure	Plan 2006/07 $000's	Plan 2007/08 $000's	Plan 2008/09 $000's	Forecast 2009/10 $000's	Forecast 2010/11 $000's	Forecast 2011/12 $000's	Forecast 2012/13 $000's	Forecast 2013/14 $000's	Forecast 2014/15 $000's	Forecast 2015/16 $000's
City development	16,191	14,377	13,901	14,411	13,817	13,933	13,987	14,087	14,384	14,455
Community support	33,445	33,105	34,633	35,606	36,970	37,791	38,436	38,997	39,674	39,964
Cultural and learning services	42,345	43,781	46,089	48,351	50,655	51,962	53,079	54,332	55,691	56,942
Democracy and governance	9,814	13,000	12,468	12,651	14,165	13,490	13,629	15,003	14,224	14,276
Economic development	10,717	10,410	10,915	11,622	12,294	12,665	13,060	13,423	13,774	14,116
Parks, open spaces and waterways	44,340	45,595	47,295	48,832	50,441	51,510	52,617	53,521	54,437	53,805
Recreation and leisure	27,250	27,232	29,503	31,046	32,539	33,468	34,324	35,076	35,785	36,325
Refuse minimisation and disposal	19,571	20,475	21,749	24,641	25,603	25,862	26,427	26,948	27,417	27,720
Regulatory services	25,126	25,697	26,370	27,147	28,092	28,682	29,248	29,664	30,065	30,485
Streets and transport	73,374	77,570	83,669	92,183	99,368	103,622	107,752	112,029	113,966	115,953
Wastewater collection and treatment	32,172	34,486	37,894	40,751	43,408	45,622	47,695	49,706	51,391	52,280
Water supply	18,985	19,691	20,879	22,134	23,154	24,016	24,474	24,637	25,295	25,863
	353,330	365,419	385,365	409,375	430,506	442,623	454,728	467,423	476,103	482,184
Other expenditure										
Corporate	15,146	15,534	20,561	25,493	26,119	27,088	28,034	28,228	28,087	27,944
Total expenditure	368,476	380,953	405,926	434,868	456,625	469,711	482,762	495,651	504,190	510,128
Operating surplus	7,568	30,189	50,193	61,880	60,323	68,225	67,602	67,063	64,067	66,107

Financial overview

Capital Budget Summary

Capital Expenditure Summary	Plan 2006/07 $000's	Plan 2007/08 $000's	Plan 2008/09 $000's	Forecast 2009/10 $000's	Forecast 2010/11 $000's	Forecast 2011/12 $000's	Forecast 2012/13 $000's	Forecast 2013/14 $000's	Forecast 2014/15 $000's	Forecast 2015/16 $000's
City development	1,224	537	5,914	6,101	6,280	7,034	621	634	646	659
Community support	8,869	7,901	2,399	2,063	2,127	2,089	2,186	2,247	2,294	2,893
Cultural and learning services	6,837	6,589	6,943	6,711	7,266	7,440	7,797	8,296	7,503	7,433
Democracy and governance	16	17	17	18	18	19	19	20	20	20
Economic development	343	90	80	136	147	207	139	142	95	147
Parks, open spaces and waterways	29,273	35,402	34,170	32,458	27,778	24,061	24,252	24,921	25,824	26,439
Recreation and leisure	5,957	14,957	6,500	4,338	3,399	2,685	2,616	2,677	2,725	4,685
Refuse minimisation and disposal	4,728	1,769	23,197	802	813	820	811	1,227	998	868
Regulatory services	200	389	415	36	117	404	40	40	41	42
Streets and transport	45,910	61,624	92,227	92,249	71,878	82,132	79,097	76,660	69,561	71,771
Wastewater collection and treatment	53,820	68,873	47,642	32,837	28,809	29,316	40,189	34,134	21,183	21,821
Water supply	8,037	9,498	13,043	14,811	18,813	13,315	11,491	13,571	13,522	12,694
Corporate	18,750	16,284	12,836	15,963	12,915	18,074	16,243	14,817	15,015	15,684
Total capital programme	183,964	223,930	245,383	208,523	180,360	187,596	185,501	179,386	159,427	165,156

Key Assets / Liabilities of Christchurch City Council and Christchurch City Holdings Ltd

	Plan 2006/07 $000's	Plan 2007/08 $000's	Plan 2008/09 $000's	Forecast 2009/10 $000's	Forecast 2010/11 $000's	Forecast 2011/12 $000's	Forecast 2012/13 $000's	Forecast 2013/14 $000's	Forecast 2014/15 $000's	Forecast 2015/16 $000's
Gross debt	95,748	173,092	299,048	372,519	373,033	379,297	372,346	366,794	362,580	358,169
less sinking funds, debt and loan repayment reserves	29,664	9,098	12,415	16,640	22,209	27,909	34,464	50,309	85,290	115,964
Term debt	66,084	163,994	286,633	355,879	350,824	351,388	337,882	316,485	277,290	242,205
Gross debt (CCC and CCHL)	177,628	299,780	432,710	486,181	483,695	485,809	474,081	462,246	450,891	436,980
Total assets (CCC and CCHL)	6,111,528	6,455,989	6,835,866	7,264,346	7,606,488	7,917,720	8,128,820	8,336,649	8,527,335	8,714,576
Realisable assets (CCC and CCHL)	3,102,954	3,197,097	3,322,724	3,518,958	3,665,465	3,780,476	3,811,639	3,853,729	3,909,587	3,957,487