Process

- Focus on understanding 2006/07 position as it forms the base for future years.
- Beyond 2006/07 we have tried to identify volume increases only, e.g. bio-solids change as the inflation factors will account for the price impacts.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

- Finalising
  - Revenue
  - Costs
  - Depreciation
  - Capital

  Before representing the numbers in Groups of Activity.

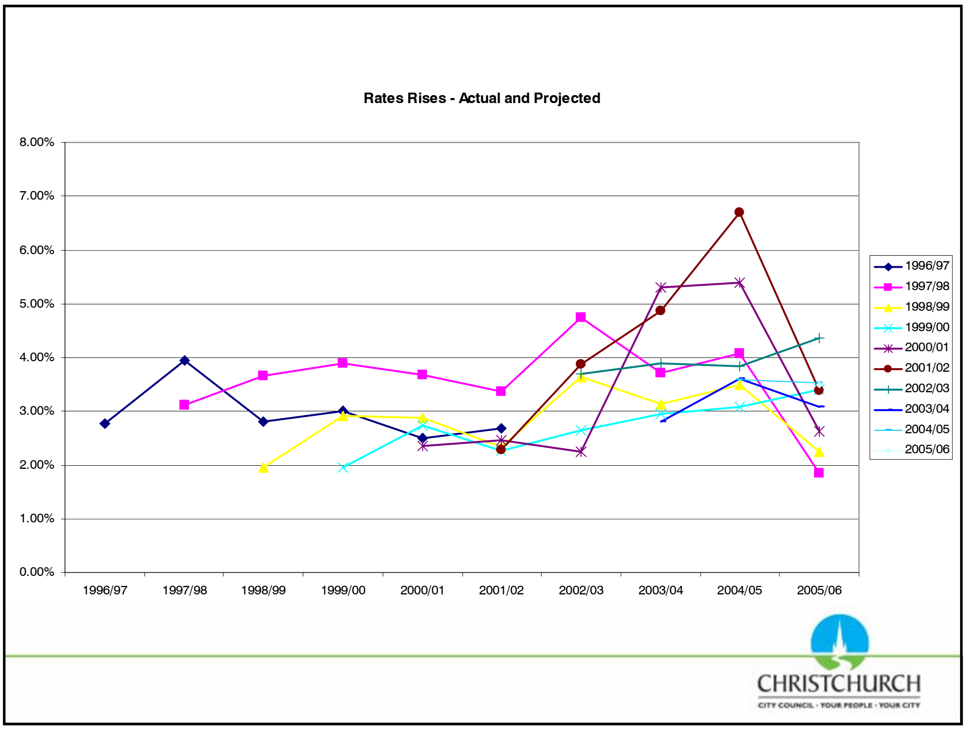
CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

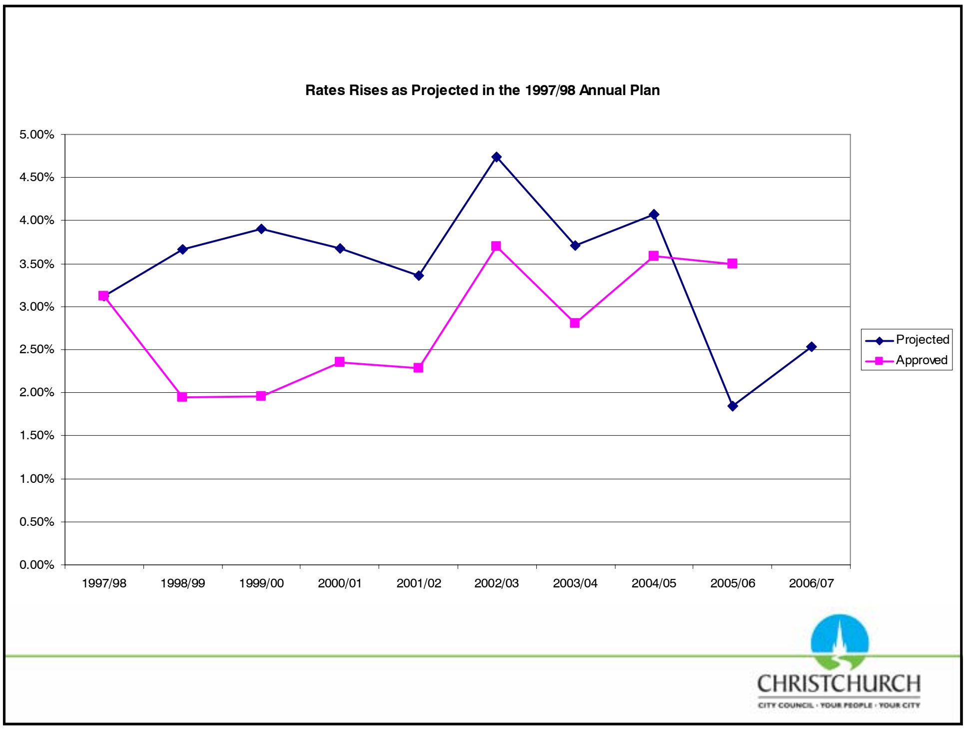
- Showing you **only** numbers in today's dollars, i.e., the inflation factors will be added much later.
- Approach for last few years has been not to use previous year's budget as the basis and just add on all increases.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

- Traditionally we have been conservative in our approach – under-estimating revenue and planning on delivering more than we can.
  - → Result has been large carry-overs in both capex and opex, and larger than budgeted surpluses.
- We challenge all managers to embed efficiencies into their operation and deliver more with the same money (or less).

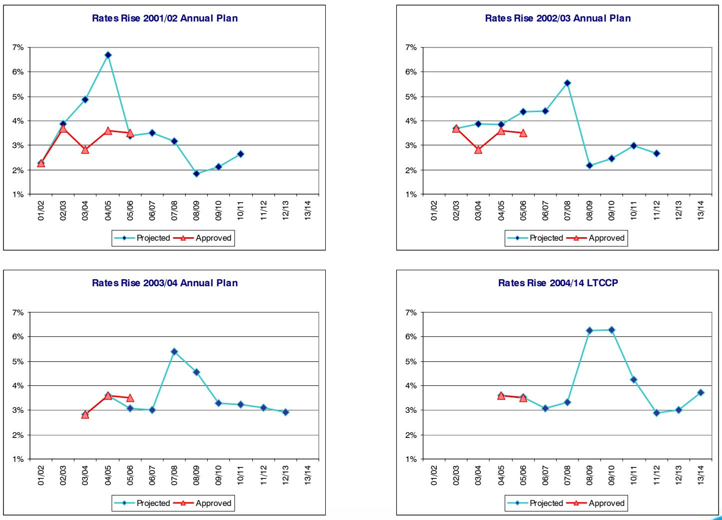
CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY


Rates Rises - Actual and Projected
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
1996/97
1997/98
1998/99
1999/00
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
1996/97
1997/98
1998/99
1999/00
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY


Rates Rises as Projected in the 1997/98 Annual Plan
5.00%
4.50%
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
1997/98
1998/99
1999/00
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
2006/07
Projected
Approved
CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

Christchurch City Council Rates Increases

Projected* Rise v Approved Rise

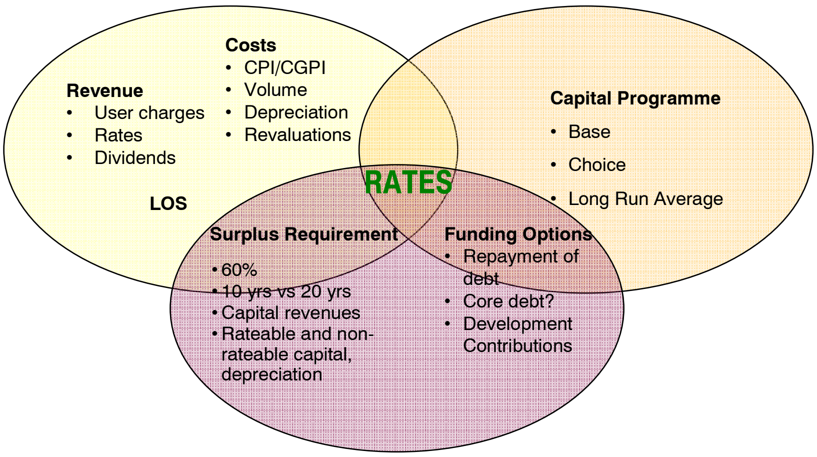


* Projections based on levels of service + capital program. Endorsed and published for consultation.

CHRISTCHURCH

CITY COUNCIL · YOUR PEOPLE · YOUR CITY

7



CHRISTCHURCH

CITY COUNCIL · YOUR PEOPLE · YOUR CITY

2006/07
Three Main Areas for Discussion

- Operations:
  - Revenue
  - Costs
  - Capex
- Depreciation
- Financial/Structural Issue (2006/07 and beyond)

These represent…

	Increase	
	$	%
Operations	7.5	4.2
Depreciation	9.2	5.2
Surplus Required	11.3	6.3
		15.7

Obvious conclusion is without LOS changes,
rates will exceed Council's desired 4-4.5% range.

External Revenue Changes 2006 → 2007

-$xx represents an increase in revenue	Change from 2006 => 2007 $m
Service Revenue	-2.7
Usage Revenue	-1.8
Product Sales Revenue	1.6
General Revenue	-35.4
Grants & Subsidies Revenue	-6.5
Development Contributions	-1.1
Total Change in Revenue	**-45.9**

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Revenue Changes 2006 → 2007

Service Revenues: - $2.7m

- $1.1m Transport & City Streets – additional on street parking revenue.
- $0.4m City Water & Waste – additional Waste Minimisation Levy from an expected 10,000 tonnes increase in waste tonnage.
- $0.9m Environmental Services –the increase in Building WOF fees, PIM fees as well as an increase in the number of Notified and Non Notified Resource Consents has resulted in additional Consent and Levy income.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Revenue Changes 2006 → 2007

Usage Revenues: - $1.8m

- $0.6m Commercial Rent increase and charging rental for Plant when Facility Assets transferred the management of the refuse transfer stations to CWW.
- $0.6m increase in City Housing rental income due to planned rent increases (in line with policy).
- $0.5m Recreation Facilities additional revenue resulting from increased memberships and planned fee increases.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Revenue Changes 2006 → 2007

Product Sales Revenues: down $1.6m

- $0.3m reduction in City Water & Waste – when council changed from 52 bags to 26 bags CWW estimated a new level of bag sales however this estimate has proved to be too high resulting in reduction in sales of refuse bags.
- $0.2m reduction in City Water & Waste – less electricity sold to national grid due to the Christchurch Waste Water Treatment Plant processing increased volumes of waste material and the new plant consuming considerably more electricity.
- $1.1m reduction– changes in operations of Pages Rd store (offset by decreased expenditure). This reflects the loss in revenue from the sale of pipe fittings, rubbish bags etc from the Pages Road Store.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Revenue Changes 2006 → 2007

General Revenues: - $35.4m

- $ 31m increase in rates income required.
- $1.0m increase in dividends from CCHL and $1.4m from Transwaste.
- $2.4m increase in interest income. This is driven by a volume increase as well as a rate increase (assumed rate has increased 0.55% to 6.8 %).

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Revenue Changes 2006 → 2007

Grants & Subsidies Revenue: - $6.5m

- $6.6m increase in subsidy received from LTNZ for City Streets capital programme. This is in part due to the planned land purchase for the Bus Exchange as well as increased costs for the delivery of the City Streets Capital Programme.
- (Neither of which are available for rates).

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Revenue Changes 2006 → 2007

Development Contributions Revenue: - $1.1m

- $1m increase in Cash In Lieu Development Contribution received by Greenspace Unit due to the higher levels of subdivisions and developments.
- Note we have not at this stage factored in the proposed new policy.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Cost Changes 2006 → 2007

Personnel Costs	5.1
Office Overheads	0.7
Grants & Promotions	3.7
Services & Contracts	0.09
Material Expenses	
Asset Expenses	2.7
Depreciation Expenses	11.5
Total Change in Costs	**23.8**

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Cost Changes 2006 → 2007

Personnel Costs: $5.1m

- This cost element covers all salary and wages, direct and related costs e.g. training, ACC, recruitment, health and safety, conferences.
- Provides for increases relating to:
  - Civil Defence function moving in-house.
  - provision for new levels of service for Development Contributions.
  - increased resources in the Environmental Services area (offset by revenue increases).
- Some of the increase is offset by reduction in consultants' fees.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Cost Changes 2006 → 2007

Office Overheads: $0.7m

- $0.3m increase in printing costs across the Council (efficiencies expected in future years).
- $0.8m increase in interest expense on borrowings. With the Debt repayment reserve being fully expended, we will need to borrow externally.
- $0.6m decrease in Levies due to Civil Defence function coming in-house (this has been offset by increased staff costs).

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Cost Changes 2006 → 2007

Grants & Promotional Costs: $3.7m

- $75k additional budget for Riccarton Bush Trust (provisional) and $161k for the Museum Trust Board.
- $0.3m dividend budgeted to be received from Terra Nova has been removed from the re-negotiated contract.
- $2.4m of Economic Development grants transferred to correct cost element (previously Services & Contracts).

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Cost Changes 2006 → 2007

Services & Contracts: $0.09m

- In the last two to three years there have been 7% to 8% per annum increases in Contracting costs due to higher fuel, insurance, compliance, cement, and trade labour prices being incorporated into key operational contracts when re-tendered. Additional costs are needed just to maintain current levels of service.
- Lower quality of vested assets require sooner than expected maintenance (this is being addressed).
- $2.4m of Economic Development grants transferred to correct cost element (now Grants & Promotional) .

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Cost Changes 2006 → 2007

Services & Contracts: $0.09m (cont…)

- Increased pressures on costs include:
  - $1m increase in Inner City Refuse Contract
  - $0.6m increase in kerb side recycling
  - $0.7m increase in water supply reticulation maintenance costs
  - $0.6m increase in waste water reticulation maintenance costs
  - $0.3m required for the removal of underground diesel tanks (Ecan requirement)
  - $0.2 m for the water supply and waste water network modelling needed to determine the size of future pump stations and piping
  - $0.2m increase associated with the handling and disposal of large volumes of hazardous waste
  - $0.2m required for the NRPP(Natural Resource Recovery Programme) ground water monitoring and testing
  - $0.5m increase in Black Bag disposal costs due to increased tonnage and Kate Valley fees increasing well beyond the initial indications.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Cost Changes 2006 → 2007

Services & Contracts: $0.09m (cont…)

- Savings include:
  - a reduction in Professional Fees of $0.8m, including $0.3m in the Strategic Development Unit and $0.3m in Corporate Support.
  - a saving of $0.8m in software fees.
  - Upper Riccarton library costs have been absorbed within the existing budget.
- This increase has been held to $2.4m due to increased efficiencies across the Council, but predominately in the City Environment area.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Cost Changes 2006 → 2007

Asset Expenses: $2.7m

- $0.6m increase in City Housing Building Maintenance costs. This is a combination of planned and reactive maintenance.
- $0.8m increase in electricity charges. This has resulted from an increase in the Orion network charge of $250k, increases in City Streets of $207k due to increased length of the network being supplied, and $288k increase in CWW due to increased usage.
- $0.4m increase in insurance costs is in part due to the revaluation of the Housing Complexes and in part to a correction in the plan for Art Gallery insurance which was under budgeted.
- We have been advised by our Insurance Broker to allow for a 10% increase in the premiums and this has been reflected in the plan.
- $0.6m increase in grounds maintenance contracts reflects the increase in the number of parks being maintained by the Greenspace unit and the additional cost of maintaining the Street Landscaping.
- $0.1 in increased asset holding costs due to additional large strategic land purchases.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Cost Changes 2006 → 2007

Depreciation: $11.5m

- Increase partly driven by 2005 revaluation of Land & Buildings and Parks & Reserves.
- Also driven by level of Capex programme in both 05/06 and 06/07.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Revenue Changes 2007 → 2011

-$xx represents an increase in revenue	Change from 2007 => 2008 $m	Change from 2008 => 2009 $m	Change from 2009 => 2010 $m	Change from 2010 => 2011 $m
Service Revenue	-0.6	-0.5	0.2	
Product Sales	-0.1			
Usage Revenue	-0.1		-0.8	
General Revenue	-19.7	2.2	-23.1	-5.6
Grants & Subsidies	-6.9	-2.2	11.9	-1.5
Development Contributions				
Total Change in Revenue	-27.4	-0.5	-11.8	-7.1

Changes in product sales and usage revenues have since been removed

CHRISTCHURCH CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Revenue Changes 2007 → 2011

Service Revenues:

- $0.6m change from 2007 → 2008 is due to increase in Waste Minimisation Levy income resulting from continued tonnage increase.
- $0.5m change from 2008 → 2009 is revenue from carbon credits received for Burwood Landfill Gas production (this is to be removed).
- $0.2m decrease from 2009 → 2010 is reduction in carbon credit revenue received (this is to be removed).

CHRISTCHURCH CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Revenue Changes 2007 → 2011

General Revenues:

- Increase from 2007 → 2008 primarily relates to special dividend from CCHL received in 2008 only (this has subsequently been removed and has been replaced by a Special Dividend of $17.9 m this year).
- $13.6m increase in rates income for 2009 required, to offset by drop from single year of special dividend.
- Increases from 2009 → 2010 and 2010 → 2011 are additional rates revenue required.
- Includes $3m rates growth year upon year.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Revenue Changes 2007 → 2011

Grants & Subsidies Revenue:

- Changes between years relate to subsidy received from LTNZ for City Streets capital programme.
- This reflects the anticipated LTNZ subsidy on the cost of the new Bus Exchange over a three year period.
- $11.9m reduction from 2009 → 2010 results from end of subsidy for Bus Exchange.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Cost Changes 2007 → 2011

$xx represents an increase in costs	Change from 2007 => 2008 $m	Change from 2008 => 2009 $m	Change from 2009 => 2010 $m	Change from 2010 => 2011 $m
Personnel Costs			0.2	
Office Overheads	4.8	5.2	2.6	2.3
Grants & Promotions	-0.7	-0.2	0.3	0.2
Services & Contracts		2.1	1.2	-0.3
Material Expenses		0.1		-0.1
Asset Expenses	-0.2		0.5	
Depreciation Expenses	2.1	3.1	4.3	0.3
Total Change in Costs	**6.0**	**10.3**	**9.1**	**2.4**

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Cost Changes 2007 → 2011

Personnel Costs:

- Change from 2009 → 2010 relates to additional training costs in the Regulatory Services area.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Cost Changes 2007 → 2011

Office Overheads:

- Additional interest expense on borrowings:
  - $3.5m between 2007 and 2008, $5m between 2008 and 2009, $2.3m between 2009 and 2010, and $1.1m between 2010 and 2011.
- Levies for the Museum Trust Board (details to be provided on Wednesday 15th February).
- Election in 2008 increases costs by $840k. This funding is removed in 2009.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Cost Changes 2007 → 2011

Grants & Promotional Costs:

- Relates to increases and decreases across Council activities.
- Strategy and Planning – unspecified allocations of the Capital Endowment Fund increases each year (this is offset against interest revenue and has no rates impact).
- Strategy and Planning – grant of $140k for the Cathedral of the Blessed Sacrament finishes in 2008.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Cost Changes 2007 → 2011

Services & Contracts:

- City Environment contract costs increases are fuelled by the growth of the city infrastructure and the associated costs of maintenance. $1m between 2007 and 2008, $0.6m between 2008 and 2009, $0.9m between 2009 and 2010, and $0.1m between 2010 and 2011.
- City Environment Planned MCTS project has driven increases of $0.1m per year in the Consultants costs in the years 2008 to 2011.
  - → This will be reviewed in future years and an assessment made regarding the capitalisation of this cost.
- Strategy and Planning Unit contract costs decreases of $0.5m between 2007 and 2008, $0.2m between 2008 and 2009, and $0.2 between 2010 and 2011.
- Refuse disposal fees increase by $1.5m from 2008 to 2009. It has been anticipated that the Biosolids Plant will not be completed in 2009 and this will result in the additional cost of disposing the waste product at Kate Valley.
- Refuse Recreation Facilities increase in contracts between 2008 and 2009 of $0.5m is the operational costs associated with a Choice Project - the Northern Pool and Pioneer Childs Pool
- The City Planning Team in ESU has received funding for 3 years from 2006 to 2008 and this funding of $0.1m has been removed in 2008/2009.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Cost Changes 2007 → 2011

Material Expenses:

- Additional cost of Mechanical Materials between 2008 and 2009 of $0.1m reflects the cost of the demolition and disposal of the Belfast Pumping Station over the 2009 and 2010 years.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Cost Changes 2007 → 2011

Asset Expenses:

- The movement in the building maintenance costs reflects the more detailed planning for each housing facility complex and indicates the costs expected to be incurred under a planned maintenance programme. There is a $0.2m decrease in asset maintenance costs between 2008 and 2009 and an increase of $0.3k between 2009 and 2010.
- The reduction of $0.2m between 2007 and 2008 reflects the completion of the essential maintenance project at the Sockburn Service Centre.
- Maintenance of the Peacock Fountain in the Botanic Gardens is planned for in 2007. The reduction of equipment maintenance costs between 2007 and 2008 reflects the completion of this project.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

External Cost Changes 2007 → 2011

Depreciation:

- Increase driven by the Capital programme.
- The loss on disposal of assets of $0.4m between 2007 and 2008 is for the write off of Pump Station A.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

Depreciation – Up $11.5m

- The concept of depreciation is that it "provides" the money to ultimately replace the asset. Depreciation recognises the change in value over time.
- Under NZGAAP (and international standards) we are required to provide for depreciation.
- The financial standards (IFRS even more strongly) require us to regularly revalue our fixed assets.
- Since 2001, our fixed assets (excluding land) have increased in value by some $380m.

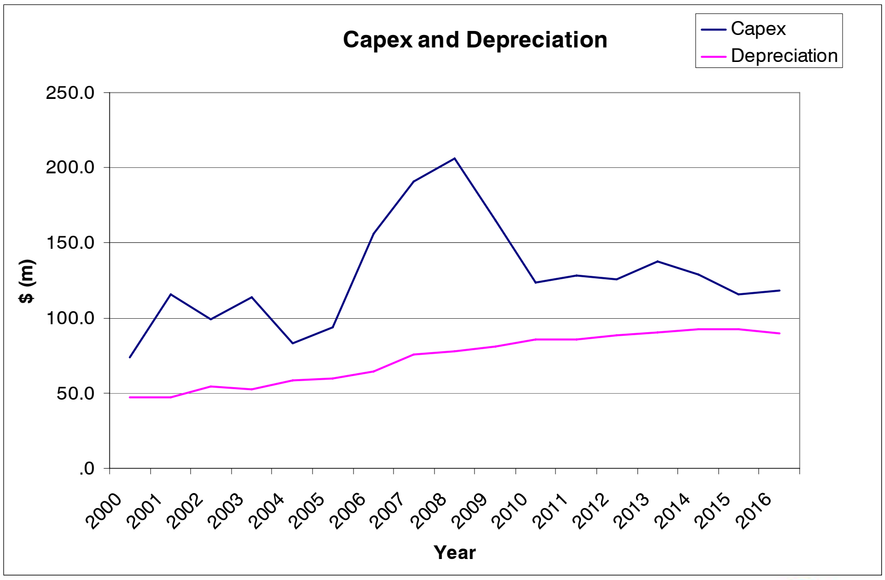
CHRISTCHURCH CITY COUNCIL · YOUR PEOPLE · YOUR CITY

This has led to significant increases in:

	2001	2002	2003	2004	2005
@ 2% Deprec.	.303	1.337	2.945	1.445	1.598

This averages about a 1.2% rate increase p.a. over the last three years.

CHRISTCHURCH CITY COUNCIL · YOUR PEOPLE · YOUR CITY



CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

- The 2005/06 depreciation budget was $65m. Actual is forecast at $71m due to a revaluation from 1/7/06.
  - → Depreciation for 2006/07 is estimated at $76m.
- We have yet to allow for a revaluation of CWW underground pipes and pumping stations.
  - → Costs for pipes have been increasing by 7-8% p.a. over recent years. We estimate the revaluation could impact on rates by at least 1%.
- Looking forward we need to consider depreciation on our base component differently from the “choice” from a rating perspective.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

- The average depreciation rate for any years capex over the next 10 years varies from 3.3 to 4.6%. Normal appears to be 4% with lower average for years of heavier infrastructure, eg bus exchange and ocean outfall, and higher in years of higher IT etc. expenditure.

- Average is 4% for first 3 years then 3.5% then 3%.

- So a $10m capex spend in year 1 will cause depreciation of:
  - → Year 1 200k (6 months)
  - → Year 2 400k
  - → Year 3 400k
  - → Year 4 400k
  - → Year 5 350k
  - → Year 6 300k

- This should be valid for general scenarios if we presume we can change capex evenly across categories of spend. If we have particular capex changes in mind we could be a lot more specific.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY

When adding in Interest Expenses and LRR at 3% you end up with:

$10m capex in year 1

	Year 1	**Year 2**	**Year 3**
Depreciation	2%	4%	4%
Interest	3% (5mths)	7%	7%
LRR	0%	3%	3%
Total	**5%**	**14%**	**14%**

So $35m of rate funded capex will cause a 1% rate rise in year 1 and a further 1.8% increase in year 2 - total 2.8% change. Or $12.5m will cause a 0.36% increase in year 1 and a further 0.64 in year 2 - total 1% change.

Opex maintenance, capital revenue subsidy would also affect.

CHRISTCHURCH
CITY COUNCIL · YOUR PEOPLE · YOUR CITY