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 12). 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 pages 14 and 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 2000.

Summary of 2001/02 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)	$132.73M	(1.32%)
• Percentage increase to fund increased operational services (3)	$136.80M	+ 1.71%
• Percentage increase to fund additional capital expenditure (4)	$133.51M	(0.74%)
• Percentage increase to fund both the operating and capital initiatives	$137.58M	+ 2.28%

Notes:

(1) All four of above lines include the efficiency gains of $4.39M (see page 25).

(2) This excludes the new operating initiatives of $4.07M (see page 24) and the new capital initiatives of $11.10M (see page 24).

(3) This includes the new operating initiatives of $4.07M, but not the new capital initiatives.

(4) This includes the new capital initiatives of $11.10M, 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 1997/98	Approved Budget 1998/99	Approved Budget 1999/00	Approved Budget 2000/01	Approved Budget 2001/02
Rates as a percentage of Total Operating Expenditure	53.79%	52.96%	52.91%	53.98%	52.67%

Financial Forecasts	2000/01 Approved Budget	2001/02 Approved Budget	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast	2008/09 Forecast	2009/10 Forecast	2010/11 Forecast
OPERATING SUMMARY	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Operating Expenditure	183.94	200.66	205.50	208.09	222.71	226.25	230.14	234.96	238.13	242.17	246.74
Depreciation	48.53	52.15	57.52	58.82	59.77	60.69	61.54	62.47	63.34	64.20	65.11
Provision to Fund Landfill Aftercare	0.77	0.75	0.75	0.74	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Expense	5.25	7.68	7.04	6.66	7.24	8.79	10.28	11.45	11.98	12.48	13.21
Total Operating Expenditure	238.49	261.23	270.82	274.31	289.72	295.73	301.96	308.88	313.45	318.85	325.06
Ordinary Revenues	(83.07)	(86.75)	(89.77)	(91.67)	(90.38)	(90.21)	(89.93)	(90.02)	(89.54)	(89.21)	(89.22)
Interest and Dividends from CCHL	(30.30)	(158.60)	(33.00)	(33.00)	(31.50)	(32.00)	(32.00)	(33.00)	(34.00)	(35.00)	(35.68)
Interest Received	(7.85)	(14.46)	(14.52)	(12.29)	(11.50)	(11.54)	(11.86)	(12.17)	(12.52)	(12.85)	(13.18)
Rates	(128.72)	(137.58)	(144.97)	(154.11)	(166.57)	(174.28)	(182.45)	(190.31)	(195.85)	(202.00)	(209.40)
Operating Surplus/Contribution to Capital Projects	(11.46)	(136.16)	(11.45)	(16.76)	(10.23)	(12.31)	(14.28)	(16.62)	(18.46)	(20.21)	(22.42)
Percentage Rate Increase	**1.96%**	**2.28%**	**3.87%**	**4.86%**	**6.70%**	**3.39%**	**3.50%**	**3.18%**	**1.84%**	**2.10%**	**2.65%**
CAPITAL FUNDING SUMMARY	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Capital Expenditure	114.28	117.07	112.46	95.58	96.62	88.50	92.58	87.11	86.14	91.10	99.49
Provision for Debt Repayment	2.61	2.13	1.95	1.74	1.71	2.46	3.11	3.83	4.16	4.39	4.72
Loan to Jade Stadium *	25.22	22.41	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Capital Cost	142.10	141.61	114.41	97.33	98.33	90.95	95.70	90.94	90.30	95.49	104.20
Funded by:											
Depreciation and Surplus on Operations	(51.96)	(180.47)	(60.81)	(67.30)	(61.56)	(64.32)	(66.83)	(69.79)	(72.12)	(74.38)	(77.12)
Provision to Fund Landfill Aftercare	(0.77)	(0.75)	(0.75)	(0.74)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital Repayment/Sale of Assets in Total	(0.00)	(47.00)	(1.50)	(1.50)	(1.50)	(1.50)	(1.50)	(7.00)	(7.00)	(7.00)	(8.00)
Surplus Capital to Reserve for investment	(45.64)	43.71	(44.50)	(22.79)	(6.51)	0.00	0.00	0.00	0.00	0.00	0.00
Reserves	(11.94)	68.77	(4.95)	(3.76)	(3.76)	(3.29)	(3.37)	(3.33)	(3.30)	(3.26)	(3.23)
External Funding for Capital Projects	(1.59)	(1.99)	(0.49)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	0.00	0.00	0.00
Borrowing Required for the Annual Programme	30.21	23.88	1.41	1.22	24.97	21.82	23.98	10.80	7.88	10.85	15.85
KEY ASSETS/LIABILITIES	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Gross Debt	94.01	101.54	94.61	93.30	117.97	139.68	163.57	174.31	182.15	192.94	208.73
Less Sinking Funds & Debt Repayment Reserves	(47.90)	(93.37)	(43.09)	(19.92)	(16.22)	(19.63)	(23.92)	(29.19)	(35.09)	(41.59)	(48.67)
Term Debt	46.10	8.16	51.52	73.38	101.75	120.05	139.65	145.12	147.05	151.35	160.06
Less Reserve Funds	(27.46)	(101.10)	(101.97)	(103.86)	(106.94)	(110.38)	(113.04)	(115.80)	(117.51)	(119.25)	(121.02)
Net Debt *	18.64	(92.94)	(50.45)	(30.48)	(5.19)	9.67	26.61	29.32	29.55	32.10	39.03
TOTAL ASSETS (CCC & CCHL)	3,855.83	3,826.81	3,881.76	3,918.52	3,955.37	3,983.18	4,014.22	4,033.86	4,051.66	4,073.56	4,102.93
REALISABLE ASSETS (CCC & CCHL)	2,061.37	1,991.98	2,056.62	2,109.68	2,161.68	2,212.47	2,262.53	2,306.91	2,350.61	2,393.63	2,435.97
Net Debt (CCC & CCHL)	**120.33**	**16.21**	**57.92**	**77.63**	**103.35**	**118.34**	**130.43**	**133.25**	**133.60**	**136.27**	**143.21**

* Gross debt has increased by $41M reflecting Council borrowing to on lend to Jade Stadium Ltd (JSL). Repayments from JSL have been factored in from 2001/2002. The interest costs on the borrowings are fully serviced by JSL.

FINANCIAL OVERVIEW

The table on the previous page summarises the Council's long term financial strategy. For more details about the factors influencing the strategy and the key long term issues for the Council, readers are referred to the Strategic Statement booklet. This has been published in conjunction with the Financial Plan and includes a section on the Long Term Financial Strategy.

Capital Expenditure

New Items

The 2001/02 capital programme includes a number of new initiatives ($11.10M). 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 24.

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 to fund additional capital expenditure in addition to the original commitment to repay debt. 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 increased the 55% to 66%. This will be phased in over the period 2001/02 to 2010/11.

(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 straight line value basis.

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

The Institute of Chartered Accountants of New Zealand has recently advised that due to a change in accounting standards the LRARA approach can only apply for the next three financial years. From 1 July 2003 normal straight line depreciation will apply. If as a result of this change the depreciation charge increases, the increase will be funded by reducing the surplus by an equivalent amount.

The total depreciation provision for 2001/02 is $52.15M and this is projected to increase in a steady fashion to $65.11M in 2010/11.

(c) **Ordinary Operating Expenditure**

This budget takes account of efficiency gains of $4.39M. However, it has also been necessary to factor in inflation of $6.22M. This is currently projected at 4.2% for the year ending March 2001. Other pressures on the operating budget include costs due to growth ($1.32M) and other costs resulting from additional services and commitments made by the Council ($10.61M). Included within the committed cost figure is $2.67M for rates payable on the Council's infrastructural assets. This is a new requirement of the Valuer General's Office. The net cost of this charge is small as a significant part is received back as rates by the Council. The remainder is payable to Environment Canterbury.

Expenditure Control

This year's Financial Plan is forecasting increases of 4.86% and 6.70% in years 2003/04 and 2004/05 respectively. These increases reflect the impact of the new Art Gallery, Waste Treatment Plant and new landfill coming on stream from late 2003. Given the rating implications the Council has put in place the following measures:

- For the next three years all draft budgets are to be within the financial model with new initiatives being funded from efficiency gains or substitutions.
- The unspecified capital provision for future years has been removed although a Capital Contingency Fund has been provided to meet unexpected costs and cost increases only.
- The Unspecified Operating Sum in years 2, 3 and 4 have been abolished.

Amended Debt Repayment Provision

During 2001/02 Christchurch City Holdings Ltd (a 100% Council owned holding company) will receive from Orion Group Ltd, $175M being its share of the surplus from the sale of Enerco Gas Networks. Part of the proposed application of these monies is to transfer $100M to the Debt Repayment Reserve. This Reserve Fund is utilised to reduce debt. The $100M will be added to that currently in the Debt Repayment Reserve and will help reduce forecast net debt to $39.03M by year 10.

Also contributing to the reduced net debt in year 10 is a $20M provision spread over years 7 to 10 for either the sale of an asset or for capital repatriation from Council owned subsidiaries.

Capital Endowment Fund

It is proposed to transfer $75M of the Orion Gas proceeds into a Capital Endowment Fund. A portion of the income from this Fund will be reinvested to protect the fund against inflation and the remainder will be available for economic development and civic and community projects. The 2001/02 income from the fund is projected to be $3.4M. For more detail see pages 29 to 30.

Dividends

Dividend projections for 2001/02 include a special dividend of $128.0M which is part of the Orion gas proceeds and $30.6M in ordinary dividends. The $30.6M represents dividends from Christchurch City Holdings Ltd. The $128M special dividend is not normal operating income and is being transferred to the Debt Repayment Reserve and the Capital Endowment Fund.

Borrowing and Consolidated Debt

In accordance with existing policy, the Debt Repayment Reserve will be used in lieu of borrowing and to repay loans as they fall due. The $23.88M to be borrowed relates to borrowing for equity investments and to on lend to Jade Stadium Ltd. The equity borrowing includes $1.07M to fund Transwaste Canterbury Ltd and $400,000 to fund Christchurch City Facilities Ltd. Also included within the borrowing figure is $22.41M to on lend to Jade Stadium Ltd. The interest costs on this debt are fully serviced by Jade Stadium Ltd.

Rates and Ordinary Revenues

The financial summary shows an average rate increase for 2001/02 of 2.28% which is 0.19% below the projected rates figure. Projected rate increases for the next 10 years are in the 2% to 4% range. The exception to this is year 4 (2004/05) with a projection of 6.70%. This is primarily caused by the impact of new capital projects like the new Art Gallery, the Bromley Treatment Works, and increased costs associated with the new landfill/waste minimisation.

Interest Rates and Inflation Provisions

In establishing the projections interest rates of 6% for interest earnings and 7% for debt servicing have been factored into year 1 and subsequent years.

Included within both the operating and capital projections is a cumulative inflation provision of 2% from year 2 onwards. This has been included to ensure that the long term projections are realistic.

Growth in the Rating Base

The 2001/02 budget allows for $5.78M in additional rates revenue from capital value growth. This includes $2M for ordinary capital growth from subdivisions and new buildings plus an additional $3.78M from the inclusion of both Council and private sector infrastructural asset networks on the rating roll.

Credit Rating

In 1993 the Council received an AA international credit rating from Standard & Poor's. This was reconfirmed again in 2000.

This high rating reflects the steps taken to eliminate the operating deficit and control the level of debt through a clearly defined debt management policy and 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 for year 1 (rising in steady progression over the next 10 years to 66%) to be funded from depreciation and operating surpluses.

  [Note: The average percentage has been increased from 60% to 66% and spread over 10 years.]
- 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 11. The surpluses for the first four years of the Plan will be:

Year	2002 Plan
2001/02	$8.16M *
2002/03	$11.45M
2003/04	$16.76M
2004/05	$10.23M

* Has been adjusted to remove the effect of the Orion Gas Proceeds of $128M

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 debt reduction.

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.

Targets and Objectives for 2001/02

Local authorities are required to prepare and adopt a long term financial strategy, funding policy, investment policy and borrowing management policy. The long term financial strategy and policies are printed in the Strategic Statement which is published in conjunction with this Financial Plan. Every local authority must provide in its Annual Report, sufficient information about each of those policies to enable an informed assessment to be made of the extent to which the objectives and provisions of the strategy and policies have been met during that year. The information must include an explanation of any significant variation between the objectives and policies of the Long Term Financial Strategy, Funding Policy, Investment Policy, and Borrowing Policy, set out in the Strategic Statement, and the actual achievement of those objectives and policies.

Specific Targets and Objectives for 2001/02 are noted below:

Long Term Financial Strategy

Specific Objectives and Targets

Objective	**2001/02 Target**
Maintain four key ratios in the long term:	
Term Debt as a percentage of Total assets below 33% [(1)]	3.03%
Term Debt as a percentage of Realisable Assets below 33% [(2)]	5.82
Net Interest as a percentage of Operating Revenue below 8% [(3)]	- 1.36%
Net Debt in relation to Funds Flow below 5 times [(4)]	0.07
Operating Surplus	$136.15M

Funding Policy

Specific Objectives and Targets

Objective	**2001/02 Target**
Proportion of revenue by source:	
User Charges	23.5%
Grants and Subsidies	2.96%
Corporate Revenue	41.83%
Capital Value Rating	28.85%
Uniform Annual Charge	2.80%
Rates by Sector	
Residential	71.35%
Commercial/Industrial	26.32%
Rural	1.44%
Institutions	0.89%

(1) See page 14 for more details.
(2) See page 14 for more details.
(3) See page 15 for more details.
(4) See page 15 for more details.

Investment Policy

Specific Objectives and Targets

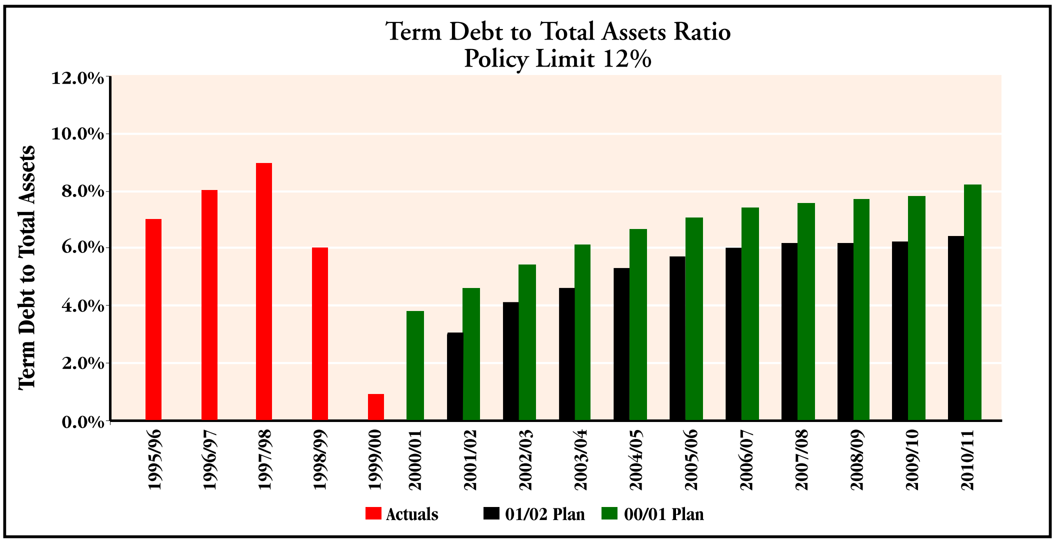
Objective	**2001/02 Target**
Compliance with the Policy parameters	No breaches of the various investment policy parameters
Regular reporting of Council investments	Reporting as per Section 5 of the Investment Policy
Compliance with the policy requirements as they relate to the Capital Endowment	No breaches of the Capital Endowment Fund requirements
Regular reporting as it relates to the Capital Endowment Investments	Reporting on the Capital Endowment Fund investments as per the Investment Policy

Borrowing Policy

Specific Objectives and Targets

Objective	**2001/02 Target**
Maintain adequate liquidity	No more than 35% of total debt greater than $30,000,000 maturing in any one year Liquidity ratio at not less than 1:1 (100%) excluding special purpose investments and the current portion of term debt
Provision for debt to be repaid by contribution to a debt repayment reserve	Not less than 3% per annum
Maingain debt ratios within specified limits	Refer to Long Term Financial Strategy

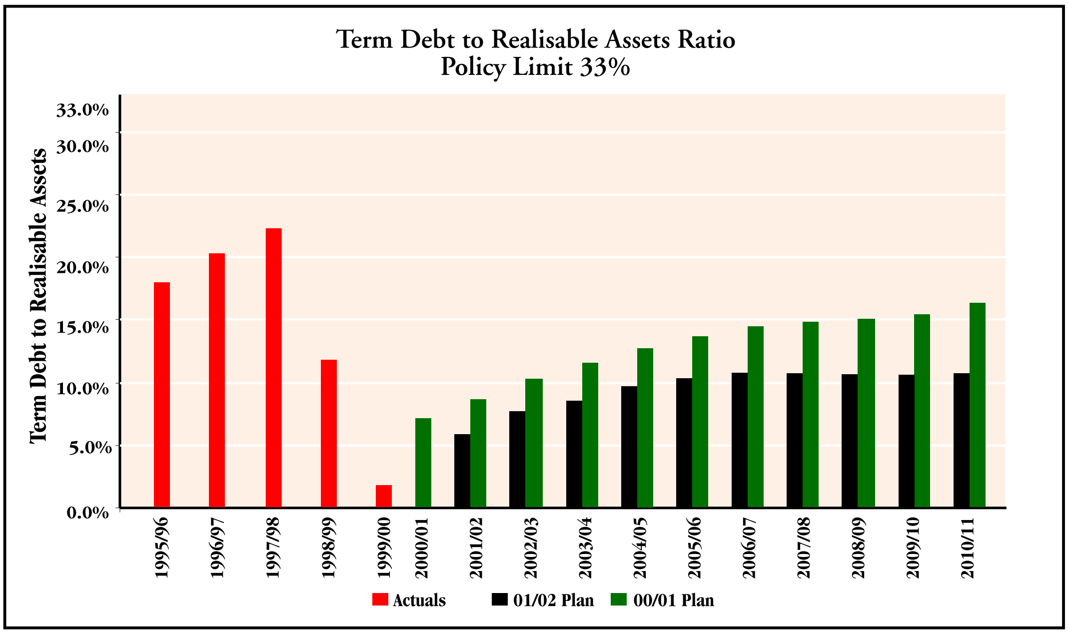
The four financial ratios referred to on pages 9 and 12 are described and graphed below:



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. Included on the graph are details from last year's Financial Plan and actuals from previous years. This comparison helps to highlight the impact the Orion monies will have on Council debt.

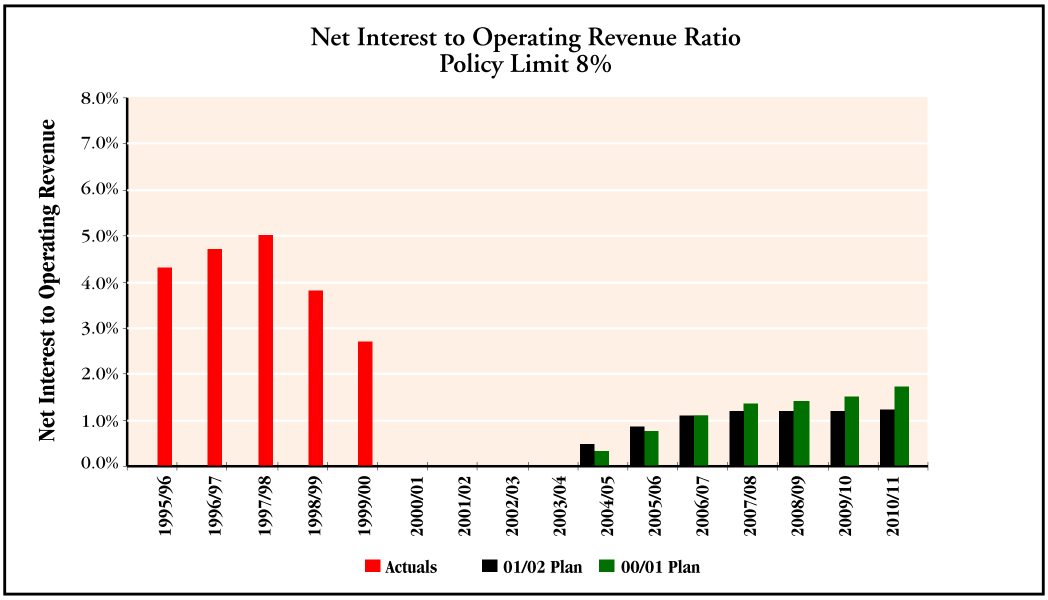
This is like saying how large your mortgage is compared to the value of all your assets. The ratio is currently 3.03 per cent and reaches a peak of 6.39 per cent in 2010/11. Over a 20 year period it reaches a peak of 8.00 per cent in 2020/21.



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. Included on the graph are details from last year's Financial Plan and actuals from previous years. This comparison helps to highlight the impact the Orion monies will have on Council debt.

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.

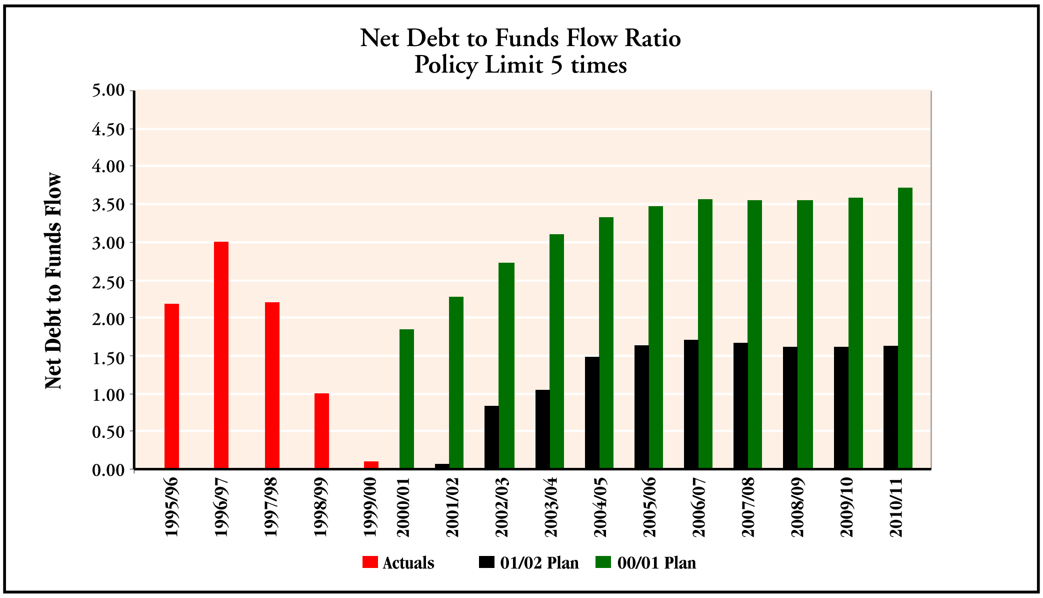


Net Interest to Operating Revenue Ratio
Policy Limit 8%

This graph measures how much of the Council's income is spent on interest. Included on the graph are details from last year's Financial Plan and actuals from previous years. This comparison helps to highlight the impact the Orion monies will have on Council debt.

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 graph compares this with the annual cash flow of the Council. Included on the graph are details from last year's Financial Plan and actuals from previous years. This comparison helps to highlight the impact the Orion monies will have on Council debt.

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.