Revenue and Financing Policy

Introduction

The Local Government Act (2002) requires the Council to adopt a Revenue and Financing Policy which ensures operating revenue is set at a sufficient level to meet the projected operating expenses and that funding for capital expenditure is prudent recognising the service capability of assets throughout their useful life.

The Act, in Part 6, Subpart 3, outlines a series of financial management requirements.

This policy statement reflects those requirements, recognising that this is a transitional year and that further policy requirements will be addressed as part of a comprehensive review of the Council's financial planning policies towards the Long Term Council Community Plan.

The main objective of the policy is to ensure that the Council's long term programme is financially sustainable, that major projects, resulting operating costs, and debt are maintained at manageable levels.

Also it is an important principle of the financial management policy to generate surpluses thereby enabling the Council to reduce its dependence on borrowing to fund capital works.

Financial Management Principles

The following principles underlie the revenue and financing policy on financial and debt management:

- Debt will be repaid within 20 years of raising to ensure inter-generational equity
- At least 56% of average annual capital expenditure will be funded from depreciation and operating surpluses
- The balance of capital expenditure will be funded from loans, reserves and sale of assets
- Operating expenditure will be funded from operating revenue
- The Council should budget for an operating surplus each year

Operating Expenses and Revenue

Operating expenses and revenue are defined by current Accounting Standards which include a provision for depreciation, landfill aftercare, and other costs (see the Statement of Accounting Policies Pages 155 to 159).

The expenses are allocated to Council activities and are grouped into 'Significant Activities' in this Annual Plan. The rationale and nature of each Significant Activity is that published in the Council's Strategic Statement (www.ccc.govt.nz).

Ordinary operating revenue is set for each Activity based on the Funding Impact Statement principles (formally the Funding Policy) generally to recover expenses where there is a defined customer for the services and where Council considers a user charge should be made. The revenue received are fees and charges, grants and subsidies, financial contributions from developers, and other revenue, if any. Revenue from investments is optimised under the policy direction of the Investment Policy.

Capital funding is firstly from depreciation and available surpluses, proceeds from asset sales, utilisation of reserves and, where necessary, borrowing. This is discussed later in this statement.

Rates are used as the residual operational funding source after operating revenues are allocated to rating differential sectors based on the Funding Impact principles.

The net result is a rate requirement for the year as shown on the summary table of Financial Overview on page 23 and on the Summary of the Funding Impact Statement on page 35. This includes the policy on the rating base (Capital Value), extent of uniform charges, the choice of differential sectors, and the type of rates, both general and targeted.

The projections for operational expenditure and capital expenditure shall include provision for inflation.

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Operating Surpluses

The Long Term Financial Strategy, adopted in July 2001, made provision for operating surpluses. These surpluses were increased to fund additional capital expenditure and repay debt. A formula was 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 the debt repayment provision) is sufficient to fund 56% of the average annual forecast capital expenditure over the next 20-year period. This funding percentage increases from 57% in 2003/04 to 66% by 2011/12.

Application of Cash Surpluses

Cash surpluses in excess of budget from any year will be applied to reduce borrowing in subsequent years.

Reserves and Loan Repayment Funds

The Council maintains various cash reserves. Some are a product of legislation eg Cash in Lieu of Reserves Fund and others are a creation of the Council by resolution.

Reserves once created (from reserved external revenue, Separately Funded Account surpluses, or retentions of operating results) will be held in partitioned equity accounts.

The utilization of reserves is by way of Council resolution, typically by the adopted Annual Plan.

Capital Endowment Reserve

This reserve has a number of special conditions which are detailed in the Investment Policy.

It shall be invested and utilized in accordance with that policy and reported on annually in the Annual Plan and Annual Report.

Loan-repayment provisions

A provision by way of reserve or sinking-fund contribution will be made each year for the repayment of all new loans raised by the Council and the existing debt of Christchurch City Holdings Ltd (excluding that serviced by table-loan repayments). The provision will be no less than 3% of the amount borrowed and designed to ensure a repayment within 20 years for each loan. Funds in the Loan-Repayment Reserve or Sinking Fund will be used to retire debt. (See the Liability Management Policy for the full text on this Policy.)

Avoidance of borrowing for capital works

Funds in the Debt-Repayment Reserve will be used in lieu of borrowing to fund capital works and to repay loans as they fall due.

Separately Funded Accounts

The accounts and balances for Dog Control and Housing will be kept separate within the Council's ledgers to ensure the cash balances are maintained. However, for Annual Reporting purposes, the Separately Funded accounts are reflected in the Income Statement and Balance Sheet of the Council.

Financial Ratios

The Council has identified five key financial ratios to measure the prudent management of financial resources. These ratios are reported on each year. Provided the Council maintains its financial projections under the measures identified for each ratio, the Council's finances are considered to be prudent.

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The ratios are:

(a) Net interest paid on term debt by the Council and Christchurch City Holdings Ltd (parent company) combined will not exceed 8% of the consolidated gross revenue, provided interest rates do not rise above 8.5%. This parameter is subject to review in the event of the latter.

(b) Term Debt as a percentage of total assets of the Council and Christchurch City Holdings Ltd (parent company) shall be no more than 12%.

(c) Term Debt as a percentage of realisable assets (includes net-trading enterprise investments 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 not be less than 1:1 at each year's 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.)

Capital and Infrastructural Asset Expenditure

Sufficient expenditure will be applied to maintain the existing asset base at least to current standards or to standards adopted through an asset-management plan for each class of asset.

Depreciation

Depreciation is provided on both operational and infrastructural assets on a straight line value basis.

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.

Long-Term Financial Strategy

The Council will maintain a Long-Term Financial Strategy. This is updated each year and is summarised in the financial table on page 23.

Other Financial Policies

Other policies shall be read together with this Revenue and Financing Policy. They include:

- the Long-Term Financial Strategy (2002 as amended);
- the Funding-Impact Statement;
- the Statement of Accounting Policies;
- the Rating Setting and Rating Policies;
- the Investment Policy;
- the Liability-Management Policy;
- the Policy on Partnerships with the Private Sector; and
- the Policy on Determining Significance.