

REPORT ON LONG TERM FINANCIAL STRATEGY AND POLICIES

Year Ended 30 June 2000

Each local authority is required to prepare and adopt a long term financial strategy, funding policy, investment policy and borrowing management policy. 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 Annual Plan for the financial year, and the actual achievement of those objectives and policies. This report reflects the second year since these policies were adopted.

1. Long Term Financial Strategy Overall Performance

In the Annual Plan for the year under review, notification was given of a revised formula for calculating operating surpluses. This now ensures that sufficient cash is generated from operations (funded depreciation and surpluses) to fund 55% of the average capital expenditure over a 20 year period plus the annual provision for debt repayment. This has reduced the long-term forecast debt levels of the Council. The Council's actual financial performance and financial position is presented in the Statement of Financial Performance and Statement of Financial Position. The Statements of Service Performance attached to each report on Significant Activities show the Council has substantially achieved the objectives and performance indicators that were adopted in the 1999/00 Annual Plan.

Specific Objectives and Targets

Objective	2000 Targets	2000 Actual Performance	1999 Actual Performance
Maintain four key ratios in the long term:			
Term Debt as a percentage of Total Assets below 12%	2.7%	0.9% ⁺	6.0%
Term Debt as a percentage of Realisable Assets below 33%	5.0%	1.7% ⁺	11.8%
Net Interest as a percentage of Operating Revenue below 8%	2.9%	2.7%	3.8%
Net Debt in relation to Funds Flow below 5 times	1.2 times	(0.1)# times	1.0 times
Operating Surplus	\$46.1 million	\$45.4 million	\$37.5 million*
⁺ The ratio is calculated by deducting \$123 million, being the balance in the Loan Repayment Reserve, and \$6 million of Sinking Funds held from the total debt of both the Council and Christchurch City Holdings Ltd, as these funds are held for repayment of this debt.			
[#] The amount of the Council's short term investments, available for debt repayment, exceeds the term debt owed.			
[*] This surplus includes special dividends of \$30 million received in lieu of planned capital repayments.			

2. Funding Policy

Overall Performance

The implementation of the funding policy has proceeded without any significant variations in respect of the ordinary revenues of Council. However, the variation in user charges is due to the funding policy being calculated inclusive of internal charges that have been eliminated in the financial statements.

Specific Objectives and Targets

Objectives	2000 Targets	Actual Performance	Actual 1999
Proportion of revenue by source			
User Charges	36.3%	22.2%	24.4%
Grants and Subsidies	4.0%	3.8%	4.5%
Corporate Revenue	14.5%	28.5%	22.5%
Capital Value Rating	40.8%	41.1%	43.8%
Uniform Annual Charge	4.4%	4.4%	4.8%
Rates by Sector			
Residential	71.8%	71.8%	70.0%
Commercial/Industrial	25.9%	25.9%	27.7%
Rural	1.5%	1.5%	1.5%
Institutions	0.8%	0.8%	0.8%

3. Investment Policy

Overall Performance

The Council has always had a prudent financial management policy. This was reviewed and further formalised following the receipt of professional advice to ensure that it complied with the legislation introduced from 1 July 1999. Christchurch City Holdings Limited has monitored the performance of all Council investments in LATE's and subsidiaries during the year and reported seven times to the Council through its Strategy and Resources Committee.

There have been no material departures from the Council's investment policy principles during the period.

Specific Changes in Investments

Changes to the list of equity investments in subsidiary companies have however taken place as follows:

- The Council has contributed equity totalling \$8.8 million to City Care Limited which is a wholly owned subsidiary that was expanded during the year by the transfer from the Council of the Works Operations Unit and the Mechanical Services Section of the Plant & Building Services Unit.
- The Council has contributed equity totalling \$1.7 million to Transwaste Canterbury Limited which is a joint venture company between regional local authorities and two private sector companies established to provide a regional landfill.
- The Council has contributed equity totalling \$1.0 million to Jade Stadium which is a wholly owned subsidiary that is operating, managing and redeveloping Jade Stadium and will, once legal issues have been addressed, own all of the stadium and its assets.
- The Council has contributed equity totalling \$0.7 million to Christchurch City Facilities which is a wholly owned subsidiary. It owns the Christchurch Convention Centre and WestpacTrust Centre and is responsible for the development and management of these two facilities plus the Christchurch Town Hall that it leases from the Christchurch City Council.

4. Borrowing Policy

Overall Performance

There are no significant variations or material departures from the Council's Borrowing Management Policy as set out in the Annual Plan.

Specific Objectives and Targets

Objective	2000 Targets	2000 Actual Performance	1999 Actual Performance
Maintain adequate liquidity	No more than 35% of debt maturing in any one year	12.8% matures in 2000/01. Funds are earmarked to provide for repayment	16.1%
	Liquidity ratio at not less than 1:1 (100%) excluding special purpose investments and the current portion of term debt	60.7% due to \$140 million of investments held for debt repayment being excluded from the calculation	51.5%
Provision for debt to be repaid by contribution to a debt repayment reserve	3%	3% achieved	3% achieved
Maintain debt ratios within specified limits	Refer to Long Term Financial Strategy	Within limits	Within limits