Commentary on 10 Year Financial Strategy

- Developed according to established financial management principles, the strategy is imposed by the Council on itself to control the way it responds to the evolving needs of the city. The main objectives of the strategy are to ensure that large infrastructural costs and debt are maintained at manageable levels.
- At the heart of the Long Term Financial Strategy are four ratios which the Council is committed to operate within over a 20 year time frame. These ratios set maximum limits in relation to the key financial drivers and this Plan is constructed to ensure the Council's plans fit inside these limits.
- The four key ratios and the maximum limits are:

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 graphs on page 14 clearly illustrate that the projected ratios from the Strategy are within the maximum levels.
- A fundamental principle of the Strategy is to operate from 1998 onwards with operating surpluses every year, enabling the Council to reduce the dependence on borrowing to fund capital works.
- The Financial Strategy has built into it provision for inflation at the rate 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 to be evaluated and monitored to ensure that they are sustainable in the long term.
- The Overview Statement highlights the projections from the Strategy up to the year 2007 illustrating the impact on revenue and expenditures, borrowings and debt levels.
- Confirming the strength of the Council's overall financial position is the current AA international credit rating, first given by Standard & Poor's in 1993 and re-confirmed in 1995.

Summary of Rates Requirement

	Total	% Increase
• Percentage increase to maintain services at their current level (1)	$112.04M	0.22%
• Percentage increase to fund increased operational services (2)	$114.91M	2.57%
• Percentage increase to fund additional capital expenditure (3)	$112.41M	0.33%
• Percentage increase to fund both the operating and capital initiative	$115.28M	3.12%

Notes:

(1) This excludes the new operating initiatives of $2.86M (see page 19) and the new capital initiatives of $10.15M (see page 20).

(2) This includes the new operating initiatives of $2.86M, but not the new capital initiatives.

(3) This includes the new capital initiatives of $10.15M but not the new operating initiatives.

Financial Forecasts	1996/97 Approved Budget	1997/98 Draft Budget	1998/99 Forecast	1999/00 Forecast	2000/01 Forecast	2001/02 Forecast	2002/03 Forecast	2003/04 Forecast	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast
OPERATING SUMMARY											
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Operating Expenditure	145.06	157.17	162.50	164.47	170.20	176.52	180.81	186.13	191.89	196.68	202.25
Depreciation	45.37	47.96	49.24	49.83	50.66	51.53	52.40	53.34	54.17	54.98	55.83
Interest Expense	4.92	9.21	12.41	14.13	17.18	20.18	23.18	26.04	28.17	30.16	32.49
Total Operating Expenditure	195.35	214.34	224.15	228.43	238.03	248.23	256.39	265.51	274.23	281.82	290.57
Ordinary Revenues	(70.51)	(78.00)	(79.45)	(79.73)	(81.31)	(83.85)	(85.93)	(88.10)	(90.27)	(92.45)	(94.63)
Interest and Dividends from CCHL	(7.96)	(16.12)	(19.76)	(22.10)	(25.59)	(27.79)	(28.30)	(28.81)	(29.30)	(29.77)	(30.24)
Interest Received	(4.08)	(4.43)	(3.46)	(3.73)	(4.24)	(4.72)	(5.35)	(6.18)	(7.17)	(8.29)	(9.56)
Rates	(110.39)	(115.29)	(121.99)	(128.82)	(135.64)	(142.26)	(151.09)	(158.77)	(167.30)	(172.41)	(178.82)
Operating Deficit/(Surplus)	2.41	0.50	(0.50)	(5.95)	(8.74)	(10.38)	(14.29)	(16.35)	(19.81)	(21.11)	(22.67)
Percentage Rate Increase	**2.77%**	**3.12%**	**3.66%**	**3.90%**	**3.68%**	**3.36%**	**4.74%**	**3.71%**	**4.07%**	**1.84%**	**2.53%**
CAPITAL FUNDING SUMMARY											
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Capital Expenditure	108.03	103.51	82.83	87.78	88.44	91.49	97.37	83.66	80.40	85.02	88.89
Carry Forward Capital Expenditure	18.97	22.72									
Provision for Debt Repayment	1.05	4.34	4.32	4.76	5.83	6.92	7.94	9.08	9.91	10.56	11.33
Total Capital Cost	128.05	130.57	87.15	92.53	94.27	98.41	105.30	92.74	90.30	95.58	100.23
Funded by:											
Depreciation & Surplus (Deficit) on Operations	(36.18)	(38.93)	(41.71)	(47.34)	(50.14)	(51.96)	(56.08)	(58.24)	(61.56)	(62.54)	(63.68)
Reserves (includes carry forward funding)	(18.05)	(12.78)	(5.06)	(7.13)	(7.61)	(8.55)	(7.08)	(7.08)	(7.08)	(7.08)	(7.11)
External Funding for Capital Projects	(7.40)	(7.43)	(5.79)	(2.37)		(4.00)	(4.00)				
Sale of Assets/Capital Repatriation	(2.20)		(20.00)								
Borrowing for Carried Forward Expenditure	(18.97)	(21.63)									
Borrowing Required for the Annual Programme	45.25	49.79	14.59	35.69	36.51	33.90	38.14	27.42	21.67	25.97	29.43
KEY ASSETS/LIABILITIES OF CCC & CCHL											
	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M	$M
Gross Debt	225.81	275.49	285.89	317.51	348.83	377.60	410.74	433.27	450.15	471.47	496.36
Less Sinking Funds	(3.12)	(3.97)	(9.05)	(14.67)	(21.78)	(30.51)	(40.90)	(53.21)	(67.27)	(83.02)	(100.72)
Term Debt	222.69	271.52	276.84	302.84	327.06	347.09	369.84	380.06	382.90	388.45	395.64
Less Reserve Funds	(21.77)	(72.76)	(71.88)	(74.09)	(74.06)	(74.26)	(75.22)	(76.31)	(77.53)	(78.89)	(80.32)
Net Debt	200.92	198.73	204.96	228.75	253.00	272.83	294.61	303.75	305.37	309.56	315.32
Total Assets	2,419.86	2,922.72	2,977.44	3,065.32	3,158.76	3,254.01	3,359.26	3,458.75	3,558.90	3,667.51	3,783.68
Realisable Assets	902.89	1,372.58	1,446.00	1,528.18	1,609.97	1,700.16	1,798.44	1,904.87	2,001.84	2,103.04	2,208.38

The key issues relating to the Long Term Financial Strategy are described below:

Capital Expenditure

Since last year's Annual Plan, the 10 Year capital budget has undergone a number of significant changes.

(a) Inflation Adjustment

Long term capital budgets have been reviewed. Where costs were no longer current, these have been inflation-adjusted to equate to 1997/98 dollars. These cost re-estimates have been funded from the unspecified inflation provisions which were approved in the current Plan.

(b) New Items

This Plan includes a large number of new items ($10.15M). Included amongst these is expenditure on the Asset Management Plans (AMP) as well as some new capital initiatives. A summary of the new capital initiatives and the AMP expenditure for year 1 is detailed on page 20.

(c) Funding for Travis Swamp

Current estimates suggest the $5.3M originally forecast as necessary to finance this purchase will not be realised in 1997/98. Various scheme changes are required before the identified properties will be available for sale and 2001/02 is now considered a more realistic realisation date. The long term capital budget has been amended to reflect this change.

(d) Sale of Assets/Capital Repatriation

The Draft Plan included $35M for the sale of assets/capital repatriation. Recent professional advice has suggested that $20M is a more attainable figure. This reduction would have had a significant impact on the future capital programme. To neutralise this impact the Council has reduced the capital programme by $15M. These savings will be spread over the existing programme as follows:

1997/98	1998/99	1999/00	2000/01
$4M	$4M	$4M	$3M

At this stage the project reductions have still to be identified. This will, however, be done by Standing Committees of the Council over the next two to three months.

Operating Deficits and Surpluses

This Plan reduces the deficit down to $500,000 in 1997/98 and forecasts an operating surplus in two years. This is in line with the policy adopted in 1994 for the Council to operate an annual surplus rather than a deficit.

Surpluses after 1998/99 will help to progressively reduce the need to borrow for capital works. They will also provide a significant contribution to the annual repayment of debt.

Surpluses are generated at 1.25 times the level of debt repayment in 1999/00, 1.50 times in 2000/01 and 2001/02, 1.80 times in 2002/03 and 2003/04, and 2.00 times from 2004/05 onwards. This exceeds the Council's minimum policy from 2002/03 as set on page 14. These surpluses will increase the rate at which the Council is quitting its debt and reduce the future level of new debt necessary to maintain and enhance the city's services.

Dividends

Improved dividend projections from the Council's subsidiary companies are forecast to increase the dividend Christchurch City Holdings Ltd (CCHL) pays to the Christchurch City Council. CCHL has also reviewed its level of cash reserves. These will be utilised to enhance the projected dividend for 1997/98 and 1998/99.

A capital restructuring is being planned for 1997/98. This has helped to reduce the net debt of CCHL and the Christchurch City Council. The impact of this restructuring has enabled net interest costs to be significantly reduced.

Borrowing and Consolidated Debt

The combined consolidated debt of the Council and CCHL is forecast to grow from $215M in 1997/98 to $378M in 2013/14. These amounts should be related to the combined assets of the Council and CCHL of $2,922M, which are forecast to grow by 79% in the same period, and the revenue streams that service the loans, forecast to grow by 50%. It is worth noting that the debt projections are within the parameters set out in the Financial Management Policies (see page 14).

Rates and Ordinary Revenues

The Long Term Financial Strategy shows a rate increase of 3.12% for 1997/98 followed by future rate increases in the 2% to 4% range.

Ordinary revenues (includes user charges) are projected to increase by $16M over the next 10 years.

One factor which could alter the mix of rates and user charges beyond 1998 is a change to the current funding policy.

Work on the funding policy is well advanced and will be presented for public consultation in August/September 1997.

Financial Ratios

On page 15 of this Plan are the Financial Management Policies. These policies have been devised to ensure that sufficient revenue is collected each year while borrowing is limited to realistic levels. The policy is principally founded on four prudent financial ratios. These ratios are the outer benchmarks constraining the Council's long term expenditure and operations. When the Financial Management Policies were adopted in 1994 interest rates were 7% per annum. This Plan is based on actual rates for 1997/98 of 8.7% and 8.5% for subsequent years.

In spite of these interest increases the forward projections for the next 20 years still fit within the ratios as set out below:

Ratio	Policy Limit	Peak	Peak Year	2016/17
Term Debt/Total Assets	12%	9.63%	2003/04	7.12%
Term Debt/Realisable Assets	33%	17.95%	2002/03	10.73%
Net Interest/Operating Revenue	8%	7.87%	2003/04	6.72%
Net Debt/Funds Flow	5 times	4.16	2002/03	2.79
Term Debt ($)		$377.1M	2013/14	$372.1M

Credit Rating

In 1993 the Council received an AA international credit rating from Standard & Poor's. This rating was reviewed and confirmed by Standard & Poor's in June 1995.

This high rating reflects the strong overall financial position of the Council and the steps taken to eliminate the operating deficit and control the level of debt through a clearly defined debt management policy.

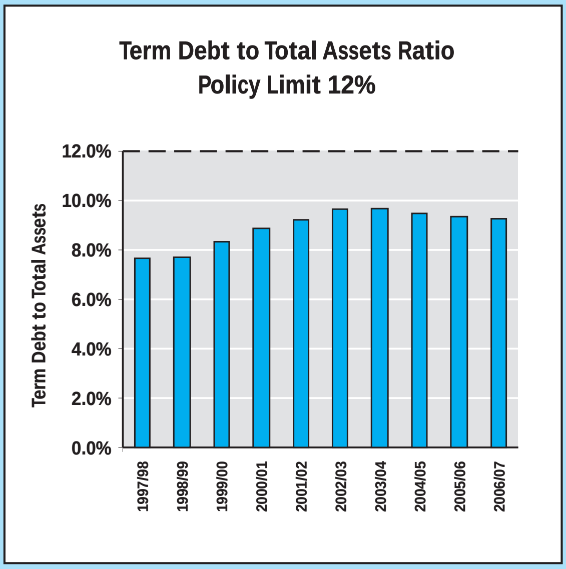
Assumptions

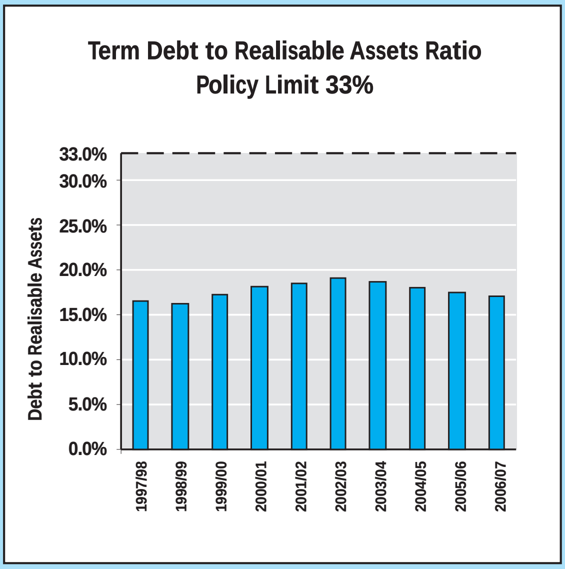
In establishing the financial forecasts and projections, a number of assumptions have been made. The main ones are:

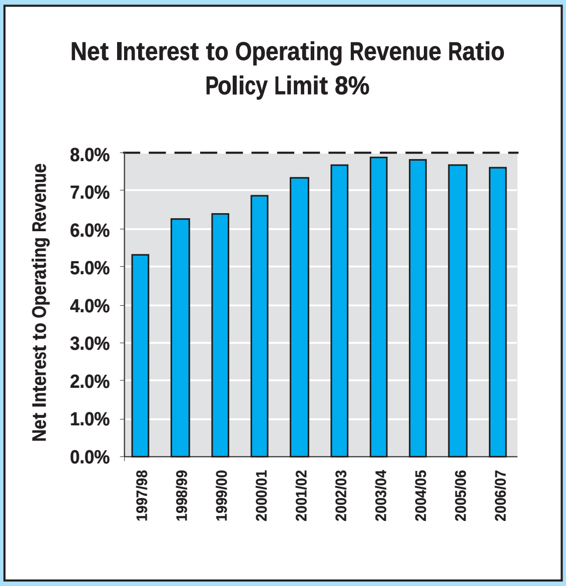
- Interest rates of 8.7% for 1997/98 and 8.5% for subsequent years.
- Debt repayment of all borrowings on a 20 year rolling basis.
- Full depreciation of infrastructural assets.
- Inflation of 2% on both operating projections and capital projections.
- An increase in the rating base of $2.4M for 1997/98 and 1998/99 and $2M from 1999/00 onwards.
- Costings for 1997/98 capital projects are based on developed plans.
- A $15M reduction from the current 4 year capital programme of yet to be identified projects.
- Costings for capital projects in subsequent years are generally based on estimates which will be revised as more detailed planning work is undertaken.
- The Council is committed to implementing year 1 of the capital programme.
- Projects listed for subsequent years are supported by the Council but should not be regarded as committed.

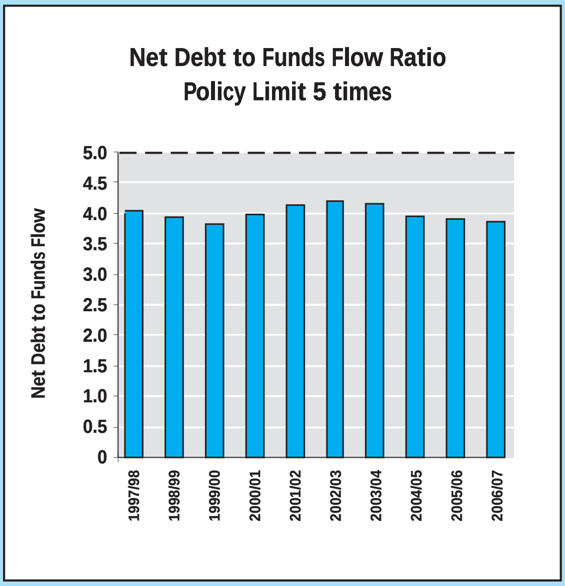
The Financial Ratios and the Long Term Financial Strategy

The impact which the Council's 10 year financial projections have on the four key financial ratios are graphed below. These ratios relate to the CCC and CCHL combined. The policy limits are defined in the Statement of Financial Management Policies (see page 14) and represent the outer bench marks for the Council to live within the long term.









Note:

CCC	=	Christchurch City Council
CCHL	=	Christchurch City Holdings Ltd