

Financial overview



Financial overview



Financial Management Overview

Financial Analysis

The financial overview has been developed within the parameters set out in the Revenue and Financing policy and is supported by detailed budgets for each of the Council's activities. There is an underlying assumption of continuing business.

The paragraphs which follow give an overview of the factors influencing the financial reports as shown in the following tables.

Inflation has been provided on operating revenue, operating expenditure and capital expenditure with the resulting flow through to the balance sheet. Weighted average calculations have been made based on inflation forecasts provided by Business and Economic Research Limited, (BERL). The adjusters used for each year are set out on page 199:

Operational Revenue

The primary operating revenue is and will be property based rates. Rates revenue is projected to grow from a base of \$202.9 million in 2006/07 to \$328.7 million in 2015/16. Other operating revenues include user charges, Land Transport New Zealand subsidies, development contributions, interest, and dividends from Christchurch City Holdings Limited (CCHL). Land Transport New Zealand capital subsidies and development contributions are used to fund the capital projects to which they relate.

Dividends from the Council's subsidiaries are projected to rise gradually from \$33 million in 2006/07 to \$44 million in 2015/16.

Operational Expenditure

Operational expenditure includes all the day-to-day costs necessary to run a large multi-function organisation.

Operational expenditure is made up of:

- Direct Operating Costs. These costs include staff costs, insurance, energy, computing and maintenance work on the city's infrastructural assets.
- Significant new operating items included within this Community Plan include:
 - New Bio-solids plant - \$1.96 million per annum from 2008/09
 - Bus exchange expansion - \$1.1 million per annum from 2010/11
 - New Botanic Gardens facility - \$450 thousand per annum from 2010/11
 - Waste minimisation initiative - \$1.5 million per annum from 2010/11
 - Metropolitan Christchurch Transport Strategy - \$22.8 million over 10 years
- Debt Servicing Costs. These costs are the interest costs incurred as a result of the Council's borrowing programme. These are projected to increase from \$5.5 million in 2006/07 to \$18.5 million in 2011/12, reducing back to \$17.5 million in 2015/16. This increase reflects the Council's borrowing programme which will be initiated once Debt Repayment Reserve Funds have been fully utilized.
- Depreciation. This has also been included within the operating costs and is explained in more detail in the next section.

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Depreciation

This is charged on both operational and infrastructural assets. Depreciation is on a straight line basis.

The total for all depreciation for 2006/07 is \$83.02 million growing to \$131.85 million by 2015/16. The growth in the depreciation provision can be directly linked to the significant increases in the value of our assets since the 2004/14 LTCCP. The resulting depreciation charge, together with our growing capital programme will add \$10 million extra to our cost structure for the 2006/07 year. The capital programme averages \$189.9 million over the 10 year period

Revenue raised to fund depreciation is used to fund the renewal of assets.

Surpluses

The financial forecasts show (ordinary) operating surpluses, ranging from \$26.42 million to \$76.83 million over the ten year period.

Included within the surplus are capital revenues, such as funding from LTNZ and Development Contributions, which are applied against capital expenditure either in the current year or transferred to a reserve to be used for future capital projects. Because they are “capital” they are not available to subsidise general rates.

The surplus also includes any annual contribution towards the repayment of debt. This figure steadily increases over the 10 year period as debt levels increase.

The Council has confirmed the need to fully account (and rate) for depreciation.

Finally, the surplus also includes the net proceeds of the Council’s Housing and Dogs activities which are not funded from rates.

In the past Council has used 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) to fund a percentage of the average annual forecast capital expenditure calculated from the next 20 year capital programme. This has resulted in some inconsistencies, one, because of the effect of the averaging on large capital projects, and

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two, because it is difficult to accurately forecast and cost capital projects 20 years in advance

This year the Council has replaced the average figure with the current year's capital programme. It is funded in the first instance with the funds generated by rating for depreciation, (as above), along with capital revenues and specific capital reserves which relate to the projects. The balance is borrowed.

The generation of an operational surplus also ensures that the Council complies with Section 100 of the Local Government Act 2002. This section of the Act, which is sometimes referred to as the 'Balanced Budget Requirement', ensures that the Council has adequate funding for the ongoing maintenance of service levels.

Capital Expenditure

The capital expenditure programme includes a number of large projects which are detailed on page xx of this plan. Details of the first three years only are to be found in the capital works programme on page 71.

Borrowing and Consolidated Debt

Provision for the repayment of Council debt is made by annual contributions to sinking fund and loan repayment reserves. These contributions are calculated to ensure parcels of debt are repaid no later than 30 years after they are initially borrowed.

Our capital programme peaks over the 07/08 – 09/10 period. This sees us having to raise around \$200 million over these three years and hence our term debt increases. For the remaining period through to 2016 debt levels drop slightly as a result of increasing depreciation and lower levels of capital expenditure. Contributing towards our funding of capital expenditure are increasing funds from Development Contributions and LTNZ capital revenues.

By 2015/16 our gross debt is \$251 million, offset by \$403 million in cash and cash equivalents, \$104 million of which is the Capital Endowment Fund, (refer page XX).

The reserve funds which are set aside along with borrowing which is available under our existing

limits means that the Council is well placed to carry out projects which may arise in the future and which will benefit the community.

The financial model assumes sinking funds and loan repayment reserves are accumulated in perpetuity whereas in practice opportunity will be taken to repay portions of the debt from these accumulated funds as shorter term maturities are refinanced, typically each 3 to 5 years.

Intergenerational Equity

This means that ratepayers pay their share of the use of assets plus pay for the acquisition of assets over a reasonable period. The effect of this policy is that current ratepayers will leave a legacy for the future.

The Council has put in place the following mechanisms to ensure intergenerational equity:

- All assets are depreciated at a rate assessed to reflect the life of particular assets.
- Loans raised to fund capital works are repaid over a 20 to 30 year period. For this plan we have assumed all loans will be repaid over 20 years.
- Revenue of the Council is required to be sufficient to meet the operational expenses in each year including:
 - depreciation on capital assets employed
 - interest on outstanding debt
 - debt repayment contributions sufficient to fund the repayment of outstanding debt over a maximum 30 year cycle.
 - Asset Management Plans have been developed for all major assets types to ensure that an appropriate rate of renewal of existing assets is planned for and carried out. This renewal work is generally funded by a first call on depreciation funds generated by revenue.



Credit Rating

In 1993 the Council received an AA+ international credit rating from Standard and Poor’s. This rating was last reviewed and confirmed by Standard and Poor’s in 2005.

This high rating reflects the strong overall financial position of the Council and the commitment to achieve an annual operating surplus and control the level of debt through a clearly defined debt management policy.

Financial Ratios

A key part of the Council’s risk management strategy is its four key financial ratios. These ratios relate to the Christchurch City Council and CCHL combined and define the limits within which the Council must maintain its balance sheet and borrowing ratios.

The four key ratios and the maximum limits are:

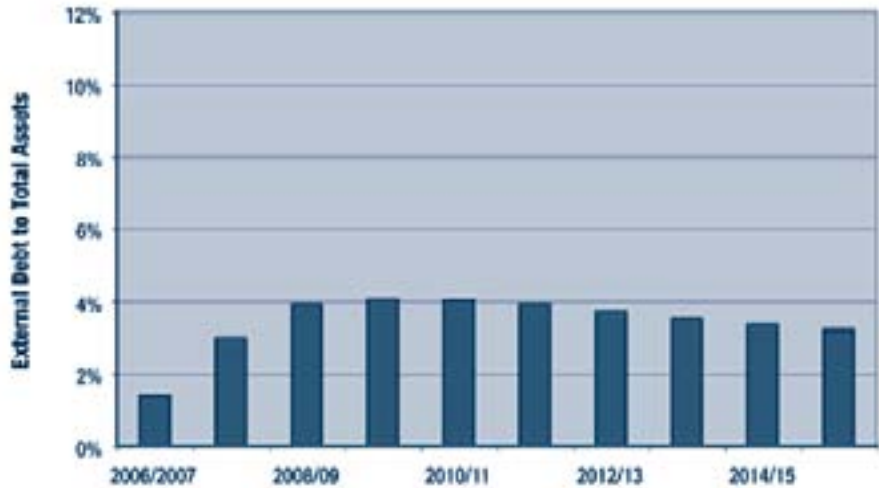
	Policy Limit
Total external debt as a percentage of the total Council/CCHL assets	Maximum 12
Total external debt of the Council/CCHL as a percentage of realisable assets, (all assets excluding infrastructure and restricted)	Maximum 33%
Net interest paid on the total Council/CCHL term debt as a percentage of consolidated gross revenue	Maximum 8%
Net Debt of the Council/CCHL in relation to funds flow from operations	Maximum 5 times

Note 1: ‘term debt’ is defined as total external debt less dedicated debt repayment reserves, and ‘net debt’ is total external debt less all cash reserve funds.

Note 2: when calculating financial management ratios, the debt levels and liquid investments of Christchurch City Holdings Limited, parent only, are added to the Council figures. Similarly, any reference to consolidated figures means the sum of the Council and CCHL parent only, numbers.

The 10 year projections are well within the ratio limits (see ratio graphs following).

External Debt to Total Assets
Ratio Policy Limit 12%

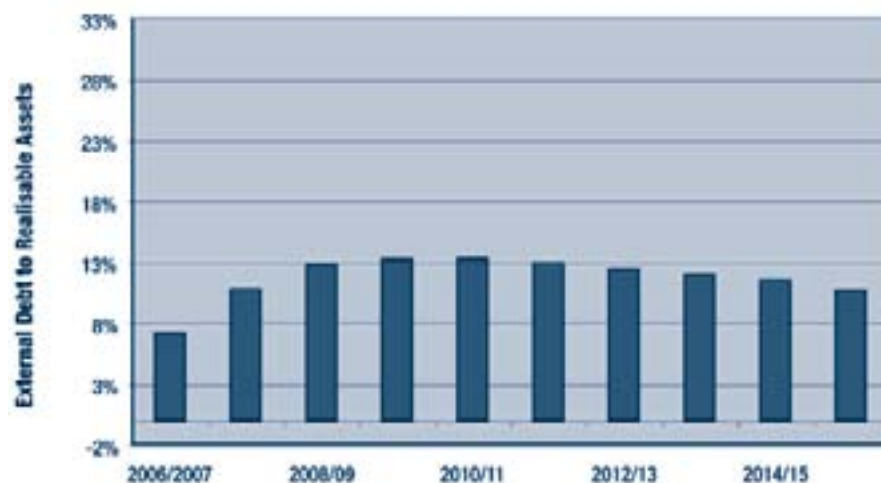


This graph compares the total external debt of the Council with the total assets of the Council/ CCHL and sets a maximum of 12%. It is equivalent to measuring your mortgage against all of your assets.

The ratio is currently 1.4%, reaches a peak of 4.1% in 2010/11 and then falls to 3.2% in 2015/16.

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External Debt to Realisable Assets
Ratio Policy Limit 33%



This graph compares total external debt of the Council/CCHL with a significantly reduced category of assets. The assets excluded from the calculation are those which are basic to the needs of the city, such as roads, sewers, parks and water supply; the assets included are property, vehicles and trading investments.

The ratio is currently 7.5% and reaching a peak of 13.7% in 2013/14 before dropping back to 11.0%.

Net Interest to Operating Revenue
Ratio Policy Limit 8%



This graph measures how much of the Council's income is spent on interest.

It is like comparing how much of your income goes towards servicing your mortgage.

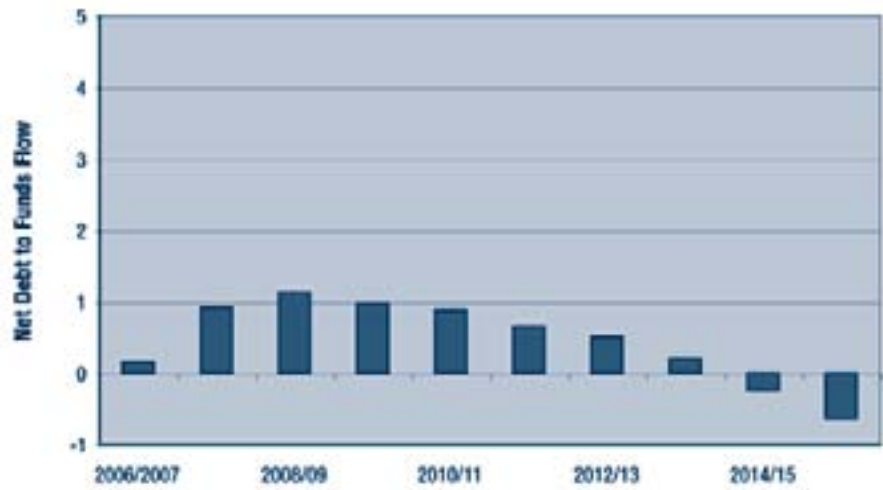
The ratio maximum is 8%.

The ratio is currently -3.9%, peaking at 0.6% in 2010/11 before dropping back to -0.7% in 2015/16.



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Net Debt to Funds Flow
Policy Limit 5 Times



Net is total external debt less all cash reserve funds which the Council holds. The graph compares this with the annual cash flow of the Council.

It is like checking how many year's total income it would take to repay your mortgage.

The ratio is currently 0.2 times and reaches a peak of 1.1 times in 2008/09. By 2015/16 it has fallen back to -0.6 times.

Financial Statement Projections

The detailed long term projections are to be found in the financial statements beginning on page 169. They should be read in conjunction with the Statement of Accounting Policies which follow the financial statements.

The financial projections have been prepared in accordance with FRS 41 and FRS 42.



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	2006/07 Plan \$000's	2007/08 Plan \$000's	2008/09 Plan \$000's	2009/10 Forecast \$000's	2010/11 Forecast \$000's	2011/12 Forecast \$000's	2012/13 Forecast \$000's	2013/14 Forecast \$000's	2014/15 Forecast \$000's	2015/16 Forecast \$000's
Operating Summary										
Operating expenditure	271,565	279,638	289,006	300,045	315,042	321,729	329,087	336,687	342,522	348,673
Depreciation	83,023	89,552	98,358	106,621	109,105	117,901	123,849	129,485	132,404	131,852
Interest expense	5,534	7,513	13,353	16,764	18,097	18,534	18,506	18,168	17,822	17,531
Total operating expenditure	360,122	376,703	400,717	423,430	442,244	458,164	471,442	484,340	492,748	498,056
funded by:										
Fees, charges and rates penalties	102,502	109,825	115,483	121,873	128,007	130,519	133,324	136,402	138,374	140,687
Grants and subsidies	24,205	32,879	38,666	45,620	39,515	41,360	38,024	36,664	35,795	37,254
Dividends and interest received	56,972	53,861	52,681	55,221	56,560	59,377	60,755	63,548	65,861	68,245
Total operating revenue	183,679	196,565	206,830	222,714	224,082	231,256	232,103	236,614	240,030	246,186
Required operating surplus (before vested assets)	26,422	40,283	53,644	72,260	72,262	75,483	73,368	73,221	73,583	76,830
Rates required	202,865	220,421	247,531	272,976	290,424	302,391	312,707	320,947	326,301	328,700
Net annual impact of activities undertaken:										
Percentage (%) rate increase including growth and inflation	8.55%	7.03%	10.75%	8.93%	5.21%	3.03%	2.37%	1.64%	0.70%	-0.21%
Percentage (%) rate increase including growth only	8.55%	3.11%	7.14%	5.82%	2.42%	0.28%	-0.15%	-0.64%	-1.35%	-2.26%
Required operating surplus consists of:										
Revenues to fund capital expenditure	32,253	43,454	51,910	61,610	58,293	60,264	57,139	55,942	55,177	56,832
Funding for Debt repayment provision	5,482	4,241	7,459	10,048	11,389	12,508	13,372	14,274	15,255	16,303
Funding for landfill aftercare expenditure	165	165	165	165	512	512	512	512	512	512
Removal of separately funded activities results	-1,422	-106	-960	-2,103	-2,422	-2,435	-2,442	-2,448	-2,460	-2,125
Operational transfers to/from special funds	-10,056	-7,471	-4,930	2,540	4,490	4,634	4,787	4,941	5,099	5,308
Operating Surplus (before vested assets)	26,422	40,283	53,644	72,260	72,262	75,483	73,368	73,221	73,583	76,830
Capital Funding Summary										
Capital expenditure	192,435	246,556	220,132	196,399	179,562	182,695	181,631	174,372	159,473	166,067
funded by:										
Depreciation rated for	78,521	84,949	93,701	102,026	104,507	113,292	119,249	124,877	127,786	127,525
Sale of assets	2,310	7,239	1,404	5,871	1,491	1,531	1,569	1,604	1,635	1,667
Landfill aftercare funded from rates and reserves	1,985	694	512	512	512	512	512	512	512	512
Funding from debt repayment reserve	71,562	8,456	718	766	817	871	313	-11,426	-28,497	-23,560
Funding for capital from other reserves	5,054	2,361	2,314	2,142	2,140	2,064	2,098	2,113	2,111	2,341
Revenues for Capital Projects	32,253	43,454	51,910	61,609	58,293	60,264	57,140	55,942	55,176	56,832
Total funding available	191,685	147,153	150,559	172,926	167,760	178,534	180,881	173,622	158,723	165,317
Borrowing required	750	99,403	69,573	23,473	11,802	4,161	750	750	750	750

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Operating Budget Summary

	2006/07 Plan \$000's	2007/08 Plan \$000's	2008/09 Plan \$000's	2009/10 Forecast \$000's	2010/11 Forecast \$000's	2011/12 Forecast \$000's	2012/13 Forecast \$000's	2013/14 Forecast \$000's	2014/15 Forecast \$000's	2015/16 Forecast \$000's
Revenue										
City Development	1,194	1,232	1,269	1,298	1,331	1,362	1,391	1,418	1,442	1,466
Community Support	14,144	14,596	15,034	15,448	15,845	16,218	16,563	16,881	17,162	17,449
Cultural and Learning Services	3,543	3,675	3,806	3,911	4,011	4,106	4,193	4,273	4,345	4,417
Democracy and Governance		330			358			382		
Economic Development	173	179	184	189	194	198	203	207	210	213
Parks, Open Spaces and Waterways	9,012	9,659	10,319	10,983	11,654	12,485	12,863	13,225	13,564	13,910
Recreation and Leisure	8,251	8,619	8,986	9,344	9,697	9,974	10,196	10,401	10,585	10,773
Refuse Minimisation and Disposal	7,311	8,211	8,563	8,799	9,024	9,237	9,433	9,614	9,775	9,938
Regulatory Services	19,072	19,605	20,114	20,669	21,198	21,698	22,158	22,584	22,961	23,344
Streets and Transport	38,657	48,696	55,509	63,509	58,421	60,849	57,956	57,008	56,510	58,346
Wastewater Collection, Treatment and Disposal	8,947	10,165	11,549	12,963	14,417	14,081	14,242	14,374	14,471	14,567
Water Supply	5,569	6,100	6,651	7,228	7,817	7,763	7,876	7,980	8,061	8,145
Total	115,873	131,067	141,984	154,341	153,967	157,971	157,074	158,347	159,086	162,568
Other revenue										
Rates	202,865	220,421	247,531	272,976	290,424	302,391	312,707	320,947	326,301	328,700
Dividends	33,020	34,179	33,865	36,111	36,611	38,611	39,111	41,111	42,611	43,998
Interest	23,952	19,682	18,816	19,110	19,949	20,766	21,644	22,437	23,250	24,247
Other income	10,834	11,637	12,165	13,152	13,555	13,908	14,274	14,718	15,083	15,373
	270,671	285,919	312,377	341,349	360,539	375,676	387,736	399,213	407,245	412,318
Total operating revenue	386,544	416,986	454,361	495,690	514,506	533,647	544,810	557,560	566,331	574,886

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Operating Budget Summary

	2006/07 Plan \$000's	2007/08 Plan \$000's	2008/09 Plan \$000's	2009/10 Forecast \$000's	2010/11 Forecast \$000's	2011/12 Forecast \$000's	2012/13 Forecast \$000's	2013/14 Forecast \$000's	2014/15 Forecast \$000's	2015/16 Forecast \$000's
Expenditure										
City Development	14,185	15,869	15,203	15,645	15,046	15,213	15,282	15,401	15,711	15,803
Community Support	33,755	33,864	34,710	35,486	36,915	37,804	38,641	39,410	40,100	40,291
Cultural and Learning Services	41,831	43,497	46,132	47,637	50,089	51,332	52,617	54,151	55,408	56,521
Democracy and Governance	12,074	13,390	12,875	13,042	14,438	13,750	14,028	15,308	14,492	14,698
Economic Development	10,377	10,120	10,622	11,224	11,912	12,279	12,647	13,002	13,342	13,665
Parks, Open Spaces and Waterways	41,989	43,421	45,041	46,252	48,048	49,243	50,336	51,258	52,134	51,603
Recreation and Leisure	23,883	24,727	26,997	28,245	29,707	30,634	31,429	32,141	32,796	33,258
Refuse Minimisation and Disposal	18,246	19,332	21,405	24,603	25,635	26,129	26,694	27,223	27,700	27,971
Regulatory Services	26,517	27,400	28,078	28,891	29,993	30,650	31,258	31,723	32,158	32,590
Streets and Transport	72,060	77,010	84,072	89,557	94,861	102,218	106,581	110,709	112,974	114,913
Wastewater Collection, Treatment and Disposal	32,031	34,672	38,392	40,856	43,685	45,932	47,995	49,949	51,556	52,368
Water Supply	18,812	19,651	20,903	21,982	22,926	23,752	24,248	24,412	24,990	25,462
	345,760	362,953	384,430	403,420	423,255	438,936	451,756	464,687	473,361	479,143
Other expenditure										
Corporate	14,362	13,750	16,287	20,010	18,989	19,228	19,686	19,653	19,387	18,913
Total expenditure	360,122	376,703	400,717	423,430	442,244	458,164	471,442	484,340	492,748	498,056
Operating surplus	26,422	40,283	53,644	72,260	72,262	75,483	73,368	73,221	73,583	76,830

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Capital Budget Summary

Capital Expenditure Summary	2006/07 Plan \$000's	2007/08 Plan \$000's	2008/09 Plan \$000's	2009/10 Forecast \$000's	2010/11 Forecast \$000's	2011/12 Forecast \$000's	2012/13 Forecast \$000's	2013/14 Forecast \$000's	2014/15 Forecast \$000's	2015/16 Forecast \$000's
City Development	10,517	6,236	5,915	573	590	605	620	634	646	659
Community Support	5,177	7,023	2,935	2,510	3,102	2,561	2,717	2,789	2,798	3,152
Cultural and Learning Services	6,274	6,589	6,377	6,712	7,268	7,441	8,429	8,296	7,504	7,434
Democracy and Governance	16	17	17	18	18	19	19	20	20	20
Economic Development	110	90	80	136	147	83	139	142	95	147
Parks, Open Spaces and Waterways	24,495	35,199	33,887	31,540	27,369	23,212	24,117	24,783	25,733	26,331
Recreation and Leisure	5,610	14,324	5,214	4,339	3,400	2,691	2,617	2,678	2,726	4,686
Refuse Minimisation and Disposal	3,157	973	22,433	856	883	906	913	1,343	1,125	1,007
Regulatory Services	199	389	415	36	117	404	40	40	41	42
Streets and Transport	55,526	75,722	78,324	89,187	78,131	84,338	74,396	71,582	69,533	72,336
Wastewater Collection, Treatment and Disposal	54,935	73,124	39,590	30,750	28,292	28,831	39,645	33,577	20,616	21,243
Water Supply	9,293	11,029	11,926	14,576	17,131	13,315	11,490	13,571	13,522	12,696
Corporate	17,126	15,841	13,019	15,166	13,114	18,289	16,489	14,917	15,114	16,314
Total capital programme	192,435	246,556	220,132	196,399	179,562	182,695	181,631	174,372	159,473	166,067

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Key Assets / Liabilities of Christchurch City Council and Christchurch City Holdings Ltd

	2006/07 Plan \$000's	2007/08 Plan \$000's	2008/09 Plan \$000's	2009/10 Forecast \$000's	2010/11 Forecast \$000's	2011/12 Forecast \$000's	2012/13 Forecast \$000's	2013/14 Forecast \$000's	2014/15 Forecast \$000's	2015/16 Forecast \$000's
Gross debt	73,591	170,577	238,272	259,143	268,776	270,149	264,716	259,701	255,487	251,075
<i>less sinking funds, debt and loan repayment reserves</i>	17,108	12,976	20,476	29,971	41,400	53,530	67,559	94,292	138,449	178,353
Term debt	56,483	157,601	217,796	229,172	227,376	216,619	197,157	165,409	117,038	72,722
Gross debt (CCC and CCHL)	165,253	262,239	329,934	350,805	360,438	361,811	356,378	351,363	347,149	332,737
Total assets (CCC and CCHL)	5,266,951	5,671,327	6,025,348	6,320,757	6,585,259	6,843,576	7,089,773	7,320,560	7,543,011	7,761,732
Realisable assets (CCC and CCHL)	2,214,741	2,350,829	2,478,992	2,560,845	2,628,055	2,705,079	2,774,012	2,845,233	2,933,795	3,012,785