

Financial Overview

Christchurch City Three Year Plan
Christchurch Ōtautahi

Christchurch City Council

Financial Overview

The table below shows the total funding requirements for Christchurch City Council for the Three-year Plan 2013-16. The tables at the end of this appendix splits this funding requirement between Council activities (excluding earthquake rebuild), earthquake response and recovery funding and funding for major community facilities.

Funding Summary	Three-year Plan 2013 - 2016		
	2013/14	2014/15	2015/16
	\$000		
Operating expenditure	448,010	449,604	421,942
Capital programme	862,265	1,016,281	976,182
Transfers to reserves	10,217	9,385	9,590
Interest expense	39,176	52,876	75,123
Debt repayment	8,584	11,647	15,678
Total expenditure	1,368,252	1,539,793	1,498,515
funded by :			
Fees, charges and operational subsidies	143,479	148,177	145,233
Dividends and interest received	65,029	63,715	66,147
Transfers from reserves	105,100	8,126	7,556
Asset sales	58,292	6,768	1,296
Development contributions	18,000	22,604	21,140
Earthquake rebuild recoveries	416,194	434,905	386,011
Capital grants and subsidies	17,649	23,036	19,349
Total funding available	823,743	707,331	646,732
Balance required	544,509	832,462	851,783
Borrowing for Capital programme and grants	89,941	102,004	104,143
Borrowing for Earthquake recovery	121,574	373,746	365,276
Borrowing for separately funded activities	-	-	-
Rates	332,994	356,712	382,364
Nominal rates increase	7.70%	7.12%	7.19%
Percentage rate increase to existing ratepayers	6.67%	6.48%	6.45%

The asset sales listed in the table above relate to land sales to the Central Christchurch Development Unit for The Frame and for the Anchor Projects. A small allowance is also included for the sale of Council vehicles at the end of their useful life and for other surplus Council land sales.

Rates for 2013/14

This Three-year Plan sets total rates for 2013/14 at \$333 million (GST exclusive), an increase of \$24 million, or 7.7 per cent above last year's rates, but a 6.67 per cent increase for existing ratepayers as a result of the 1 per cent increase expected in the rating base.

Full detail of rates, including the total rating requirement for general and targeted rates, and indicative rates for individual properties, is provided in the Funding Impact Statement and Rating Policy section of this Three-year Plan.

Assumptions

In preparing this Plan Council has made a number of significant forecasting assumptions. If actual future events differ they could result in material changes to this Plan. These key assumptions are detailed in the Significant Forecasting Assumptions section. A high level summary is provided below.

Over the next three years Council's growth projections assume that the population of Christchurch will grow by 1, 0.6 and 0.7 per cent per annum as the rebuild gains momentum. These assumptions are based on analysis performed by Market Economics and based on outputs from the Household Growth Model and the Economic Futures Model. Within the model there were several scenarios and the UDS Partners used Residential - Quick Recovery and Commercial - Medium. Any changes will impact on the percentage rate increase to existing ratepayers.

Inflation is based on rates provided by Business and Economic Research Limited (BERL). Inflation is provided on operating revenue and expenditure, and capital expenditure. A corporate weighted average is calculated and applied across all groups of Activities, with the resulting flow through to the balance sheet. The exceptions are grants, the majority of which are not inflated.

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Interest rates are provided by the Council's treasury advisors, PWC, (formerly Asia-Pacific Risk Management Limited) and assume that Council will take advantage of the current low interest rate environment to lock in long-term interest rate swaps to the full extent possible.

Operational Expense

Operational expense includes all of the day-to-day costs necessary to run the Council. These include;

- direct operational costs, maintenance work on the city's infrastructure, insurance, energy and computer and communication costs.
- debt servicing costs. These are the interest and debt repayment incurred under the Council's borrowing programme
- depreciation

Depreciation

Depreciation expense is charged on a straight line basis on both operational and infrastructure assets and is included within the Groups of Activity Statements. However, Council does not rate for depreciation, it rates for the renewal and replacement of existing assets. Council budgets for \$100 million of renewals per year, \$50 million of which has been utilised for the rebuild of earthquake damaged assets since the 2011/12 year. This amount will reduce to \$40 million in year two of the Plan.

Revenue Sources

The primary source of revenue is, and will remain, property based rates. A brief explanation of each source of revenue is included in the Funding Impact Statement section.

Surplus, operating deficits, and sustainability

Council's budget for 2013/14 shows an accounting surplus of \$404 million before revaluations of \$58 million. Under accounting standards Council is required to show all revenue, including earthquake-related recoveries from

insurance, central Government and NZ Transport Agency, as income for the year. However, these recoveries reimburse Council for emergency response and recovery expenditure as well as compensating it for damage to its assets and infrastructure. Once these revenues are stripped away Council estimates that it will record an operating deficit of \$16.1 million for the 2013/14 year, and \$85.8 million overall for the five years 2011/12 to 2015/16. The funding of this deficit is set out in the Financial Strategy.

Council does not consider that these anticipated operating deficits will undermine its financial sustainability.

Borrowing

The Plan estimates new borrowing of \$1.16 billion over the three year period. Despite this anticipated increase in debt, the Council is continuing to ensure prudent and sustainable financial management of its operations. The implication of this is that Council will not borrow beyond its ability to service and repay that borrowing.

Operating Expenditure

In preparing this Three-year Plan Council has recognised the need to ensure costs are kept under tight control and that rate increases are kept as low as realistically possible. Financial forecasts prepared as part of this plan indicate that the rate increase to existing ratepayers for the next three years will be 6.67 per cent, 6.48 per cent and 6.45 per cent, inclusive of the 1.93 per cent special charge. Because rates include interest expense and debt repayment, the capital programme causes 4.19% per cent of the rate increase. This includes the impact of bringing forward significant growth-related capital expenditure in the 2012/13 Annual Plan.

As a result costs have been closely reviewed and reductions of almost \$12 million have been made, primarily in infrastructure and facility maintenance budgets, although significant cuts have also been made to IT and printing costs. Included in the \$12 million is a

\$2.5 million reduction in the review of the District Plan as a result of spreading the work over a longer period. Other expenses, with the exception of salaries have been held to 2012/13 levels. The effect of this has been to hold the 2013/14 operating expenditure budget (excluding recovery costs) to \$371 million, \$5 million lower than in last year's Annual Plan.

BERL has estimated inflation to be at 3.0 per cent and applying this rate to the 2012/13 budget would have given an upper limit of \$449 million, meaning that the overall saving is closer to \$16 million.

Costs have also been tightly controlled in year two and three of the plan, with operating savings of \$5 million included in 2014/15 budgets.

Capital programme expenditure

Council plans to invest \$862 million in the capital programme in year one which is in line with that of the previous year. The programme increases in years two and three to one billion, and \$976 million respectively. Details of the projects are in the Planned capital programme section.

Credit rating

Council's international credit rating from Standard and Poor's (S&P) is reviewed annually and was downgraded in 2012 from AA negative outlook to AA- a negative outlook. The negative outlook primarily reflected the increased debt and Council's contingent liabilities being the difficulty faced in securing insurance cover, combined with the possibility of future earthquakes. Standard & Poor's also noted that two years after the earthquake, Council's forecasts still include uncertainty regarding the timing of capital grants from the Crown. Mention was made of the Council's good cash reserves and access to debt when required, and of its ongoing prudent financial management.

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Financial Risk Management Strategy

Council has policies to assist in managing its financial risk, including liquidity and funding risk management, interest rate exposure and counterparty credit risk. Further detail is provided within the Liability Management Policy. An important element in assessing the value of Council's risk management strategy is its five key financial ratios.

Key Financial Ratios

net debt as a percentage of equity	<20%
net debt as a percentage of total revenue*	<250%
net interest as a percentage of total revenue*	<20%
net interest as a percentage of annual rates income (debt secured under debenture)	<30%
liquidity (term debt + committed loan facilities + liquid investments to current external debt)	>110%

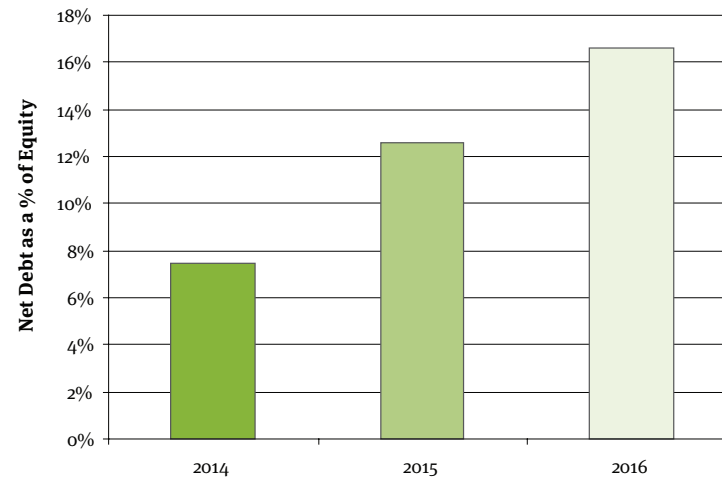
*excludes non government capital contributions

Net debt is defined as total consolidated debt less liquid financial assets/ investments.

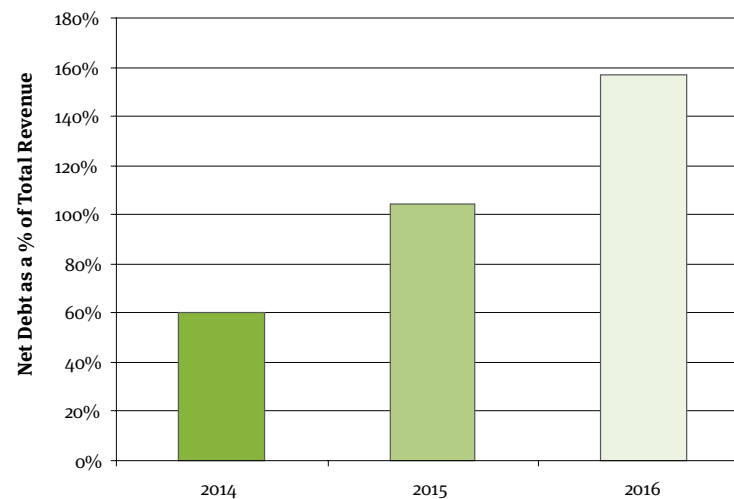
All ratio limits other than 'net debt as a percentage of equity' have been increased to reflect Council's increasing debt and interest over the next six years as detailed in the Financial Strategy. The new ratio limits are based on those set by LGFA and represent good practice. As indicated in the ratio tables below the Council anticipates staying well within its ratio limits for the three years of this Plan. Future forecasts of total borrowings and Council's key debt ratios are included in the Financial Strategy.

Ratio tables

Net Debt as a % of Equity Ratio Policy Limit 20%



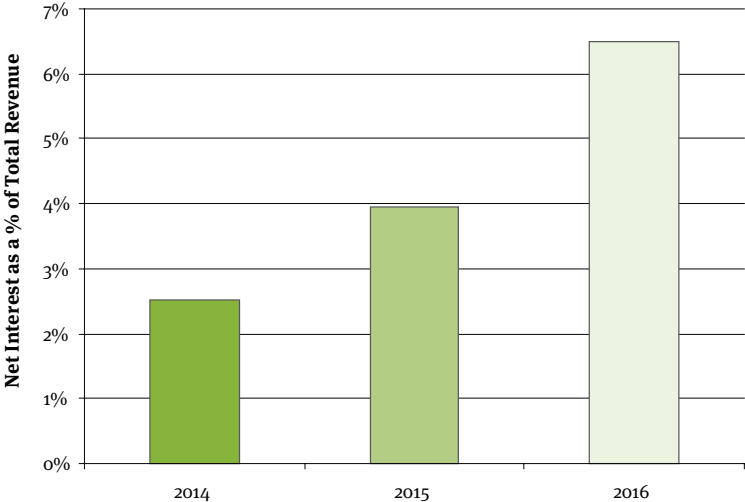
Net Debt as a % of Total Revenue Ratio Policy Limit 250%



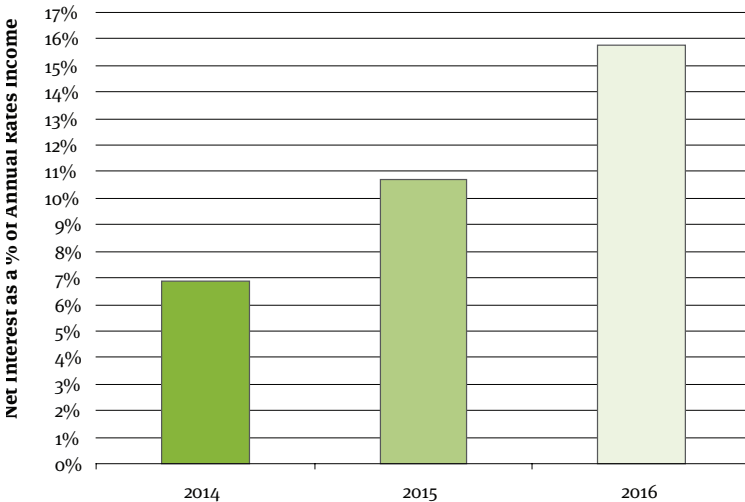
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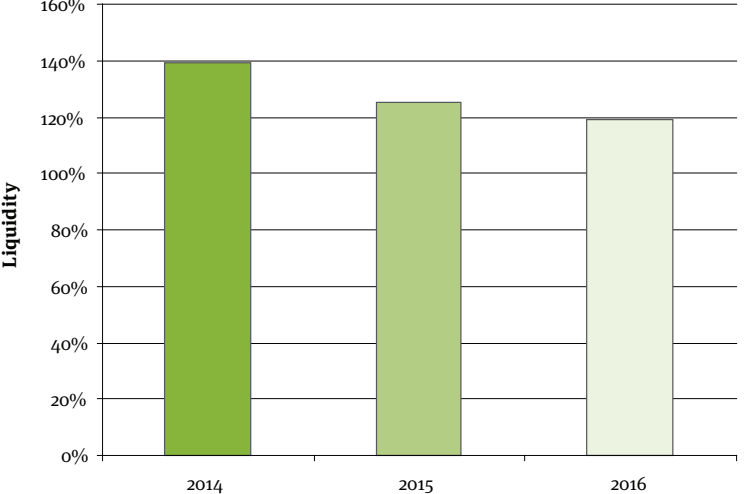
Net Interest as a % of Total Revenue Ratio Policy Limit 20%



Net Interest as a % of Annual Rates Income Ratio Policy Limit 30%



Liquidity Ratio Policy Above 110%



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Table 1 - Council funding excluding earthquake rebuild

	Three-year Plan 2013 - 2016		
	2013/14	2014/15	2015/16
	\$000		
Operating expenditure	371,245	383,795	392,059
Capital grants	2,300	2,335	6,666
Capital programme	186,552	243,575	251,601
Transfers to reserves	58,755	51,197	53,074
Interest expense	32,602	36,670	42,560
Debt repayment provision	8,582	11,647	15,667
Landfill aftercare	330	350	338
Total expenditure	660,366	729,569	761,965
funded by:			
Operating revenue	123,307	133,443	137,648
Dividends received	48,744	48,940	51,271
Interest received	14,823	14,775	14,877
Transfers from reserves	12,370	8,126	7,545
Asset sales	1,192	6,768	1,296
Development contributions	18,000	22,603	21,140
Capital grants and subsidies	22,788	31,942	29,093
Total funding available	241,225	266,596	262,870
Balance required	419,141	462,973	499,095
Borrowing			
Borrowing for capital programme	92,026	120,731	142,191
Borrowing for operating deficit	(248)	(8,475)	(19,074)
Total borrowing	91,778	112,257	123,117
Rates			
Ordinary rates	311,056	327,309	344,733
Special earthquake charge*	16,307	23,407	31,245
Total rates (excludes facilities charge)**	327,363	350,716	375,978

Table 1a - Operating deficit included in above

	Three-year Plan 2013 - 2016		
	2013/14	2014/15	2015/16
	\$000		
Increased operating costs	6,900	6,400	6,400
Lower operating revenue	6,800	5,400	3,900
Interest revenue reduced	1,200	500	500
Rates growth lost	-	1,600	800
Higher interest expense	1,159	1,033	570
	16,059	14,933	12,170
funded by:			
Borrowing for earthquake operating deficit	(248)	(8,475)	(19,074)
Special earthquake charge*	16,307	23,407	31,245
	16,059	14,933	12,170
Debt balance	27,586	19,111	37

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Table 2 - Earthquake response and recovery funding

(includes Infrastructure rebuild programme)

	Three-year Plan 2013 - 2016		
	2013/14	2014/15	2015/16
	\$000		
Rebuild programme	576,590	560,726	525,447
Emergency and response costs	74,466	63,472	23,216
Buildings / infrastructure improvement allowance	25,500	27,100	24,200
Interest expense	6,574	21,090	34,086
	683,129	672,388	606,948
funded by :			
Operational subsidies	20,172	14,735	7,585
Rebuild subsidies and recoveries	346,670	308,406	310,116
Transfers from reserves	62,949	41,812	43,484
Borrowing	253,338	307,435	245,763
	683,129	672,388	606,948
Debt balance	345,199	652,634	898,397

Table 3 - Major community facilities funding

	Three-year Plan 2013 - 2016		
	2013/14	2014/15	2015/16
	\$000		
Rebuild programme	100,878	230,358	236,847
Interest expense	-	(4,884)	(1,523)
Transfers to reserves	1,462	-	-
	102,340	225,475	235,324
funded by :			
Insurance recoveries	64,384	117,593	66,150
Interest revenue	1,462	-	-
Transfers from reserves	79,779	-	-
Central City land sales	57,100	-	-
Use of improvement allowance	25,500	27,100	24,200
Borrowing	(133,600)	56,059	100,540
Ordinary rates	2,085	18,727	38,049
Major community facilities rates charge**	5,630	5,996	6,386
	102,340	225,475	235,324
Debt balance	(133,600)	(77,541)	22,998

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Annual Plan 2012/13	Financial Overview	Note	Three-year Plan 2013 - 2016		
			2013/14	2014/15	2015/16
			\$000		
	Funding Summary				
436,126	Operating expenditure	1	448,010	449,604	421,942
844,662	Capital programme	5	862,265	1,016,281	976,182
17,010	Transfers to reserves	2	10,217	9,385	9,590
36,384	Interest expense	3	39,176	52,876	75,123
4,313	Debt repayment	4	8,584	11,647	15,678
1,338,495	Total expenditure		1,368,252	1,539,793	1,498,515
	funded by :				
153,821	Fees, charges and operational subsidies	6	143,479	148,177	145,233
61,343	Dividends and interest received		65,029	63,715	66,147
210,547	Transfers from reserves	7	105,100	8,126	7,556
1,205	Asset sales	8	58,292	6,768	1,296
8,655	Development contributions		18,000	22,604	21,140
386,137	Earthquake rebuild recoveries		416,194	434,905	386,011
9,032	Capital grants and subsidies		17,649	23,036	19,349
830,740	Total funding available		823,743	707,331	646,732
507,755	Balance required		544,509	832,462	851,783
141,075	Borrowing for Capital programme and grants		89,941	102,004	104,143
57,507	Borrowing for Earthquake recovery		121,574	373,746	365,276
309,173	Rates		332,994	356,712	382,364
7.61%	Nominal rates increase		7.70%	7.12%	7.19%
7.80%	Percentage rate increase to existing ratepayers		6.67%	6.48%	6.45%

The asset sales listed in the table above relate to land sales to the Central Christchurch Development Unit for The Frame and for the Anchor Projects. A small allowance is also included for the sale of Council vehicles at the end of their useful life and for other surplus Council land sales.

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Note 5									
Annual Plan	Capital Programme Summary	Three-year Plan 2013 - 2016			Annual Plan	Three-year Plan 2013 - 2016			
2012/13		2013/14	2014/15	2015/16	2012/13	2013/14	2014/15	2015/16	
	\$000					\$000			
1,116	City planning and development	493	496	577	5,336	Borrowing for grants	2,300	2,335	6,666
10,583	Community support	9,847	13,642	13,864	57,507	Borrowing for earthquake response	60,619	56,469	29,119
43,414	Cultural and learning services	40,014	47,096	31,505	198,582	Total new borrowing	211,515	475,750	469,419
-	Democracy and governance	-	-	-	4,357	Less debt repayment (incl housing)	8,584	11,647	15,678
167	Economic development	179	187	194	194,225	Net change in borrowing	202,931	464,103	453,741
33,403	Parks and open spaces	29,283	16,189	19,591					
5,563	Recreation and leisure	25,475	83,296	58,070	784,855	Cumulative debt	812,241	1,276,344	1,730,085
2,301	Refuse minimisation and disposal	4,567	1,066	789					
85	Regulatory services	309	218	171					
196,435	Provision of roads and footpaths	210,516	268,093	170,931					
300,945	Treatment and disposal of sewage	392,086	399,539	383,418					
105,373	Water supply	29,771	26,150	18,720					
43,923	Stormwater drainage and flood protection	76,430	82,096	85,681					
101,354	Corporate	43,295	78,213	192,671					
844,662	Total capital programme	862,265	1,016,281	976,182					
	funded by:								
1,205	Sale of assets	58,292	6,768	1,296					
95,944	Rates (for renewals)	98,002	101,710	104,806					
575	Rates (for landfill aftercare)	330	350	338					
5,287	Metro facilities rebuild levy	5,630	5,996	6,386					
386,137	Earthquake rebuild recoveries	416,194	434,905	386,011					
202,088	Reserve drawdowns	99,572	3,966	3,222					
8,655	Development contributions	18,000	22,604	21,140					
9,032	Capital grants and subsidies	17,649	23,036	19,349					
708,923	Total funding available	713,669	599,335	542,548					
135,739	Capital programme borrowing	148,596	416,946	433,634					

The asset sales listed in the table above relate to land sales to the Central Christchurch Development Unit for The Frame and for the Anchor Projects. A small allowance is also included for the sale of Council vehicles at the end of their useful life and for other surplus Council land sales.

