



CHRISTCHURCH CITY COUNCIL
**PRE-ELECTION
REPORT 2016**
CHRISTCHURCH ŌTAUTAHI





Powhenua Te Pou Herenga Waka, outside the Christchurch City Council Civic Offices.

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INTRODUCTION

Welcome to Christchurch City Council's (the Council's) pre-election report 2016. The pre-election report provides information to promote discussion about the key issues facing the Council in the lead up to the 2016 local body election.

The Local Government Act 2002 requires this report to be prepared by the Council's Chief Executive, and focuses on outlining how the Council has performed over the past three years and projections for future years.

Special care has been taken to ensure that it is politically neutral. The report is presented as an apolitical document and as the Local Government Act states its purpose is to provide information to promote public discussion about the issues facing the Council.



A handwritten signature in black ink, appearing to read 'K Edwards', with a long, sweeping underline.

Dr Karleen Edwards

Chief Executive
Christchurch City Council

SUMMARY

This report is a requirement under Section 99A of the Local Government Act 2002, which requires the Chief Executive of a local authority to prepare a pre-election report containing the following:

Funding impact statement

The funding impact statement for the three financial years prior to the election and the three years after the election shows the revenue and financing mechanisms the Council uses to fund its operating and capital expenditure.

Summary statement of financial position

The summary statement of financial position for the three years prior to the election and the three years after the election presents a snapshot of the Council's actual or forecast financial position at the end of each financial year.

The summary statement of financial position separately discloses total current assets, non-current assets, current liabilities, non-current liabilities and equity. In addition the statement separately identifies public debt (borrowings) and financial assets (investments in cash/bonds and subsidiaries).

Statement on compliance with the financial strategy

This reports on compliance with the financial strategy for the three years prior to the election.

The report compares rates, rate increases and public debt (borrowing levels) and the return on investment with the levels set out in the Council's financial strategy. The Council's financial strategy is published in its Long Term Plan.

As the Council was not required to prepare a Long Term Plan for the 2012 to 2022 period it did not set funding strategy limits for 2013/14 and 2014/15. However, limits and targets were set in the Three Year Plan which was issued on 28 June 2013.

Major capital projects planned

This is an outline of the major capital projects planned for the three years after the election.

Cautionary note

The information provided in this report is summary information and is based on information provided in Annual Reports, the Three Year Plan, the 2015-2025 Long Term Plan and its amendment. More detailed information can be obtained from these documents which are available on the Council's website.

The information presented in this report is not subject to independent audit. However, historic information for 2014 and 2015 has been audited as part of the audit of the Annual Report, and future financial information for year 2018, 2019 and 2020 has been audited as part of the audit of the 2015-2025 Long Term Plan and its amendment.

The financial information presented for the year ended 30 June 2016 is based on a forecast projection of the closing financial position as at 30 June 2016. Actual results are likely to vary from the information presented and the variations may be material.

FUNDING IMPACT STATEMENT

For the years ended 30 June

	2014 Actual \$000	2015 Actual \$000	2016 Forecast \$000	2018 LTP \$000	2019 LTP \$000	2020 LTP \$000
Sources of operating funding						
General rates, uniform annual general charges, rates penalties	228,616	242,121	270,171	310,634	331,384	354,650
Targeted rates	102,056	119,743	123,152	139,972	142,878	148,688
Subsidies and grants for operating purposes	23,956	17,377	18,136	20,939	21,472	22,270
Fees and charges	93,465	114,284	114,944	97,347	103,937	114,295
Interest and dividends from investments	80,957	75,410	165,764	280,848	257,447	56,346
Local authorities fuel tax, fines, infringement fees, and other receipts (1)	28,435	47,725	35,439	14,232	15,895	14,554
Total operating funding	557,485	616,660	727,606	863,972	873,013	710,803
Applications of operating funding						
Payments to staff and suppliers	423,216	431,226	430,527	368,410	369,371	392,433
Finance costs	50,423	63,279	71,384	82,547	89,210	96,912
Other operating funding applications	34,074	65,526	76,436	38,167	40,718	34,702
Total applications of operating funding	507,713	560,031	578,347	489,124	499,299	524,047
Surplus (deficit) of operating funding	49,772	56,629	149,259	374,848	373,714	186,756
Sources of capital funding						
Subsidies and grants for capital expenditure	17,081	14,670	22,884	41,428	20,248	19,949
Development and financial contributions	23,922	33,155	31,233	18,113	24,262	23,082
Increase (decrease) in debt	(17,494)	332,693	327,907	142,465	151,220	177,653
Gross proceeds from sale of assets	35,360	935	15,368	5,902	5,835	4,353
Lump sum contributions	-	-	-	-	-	-
Other dedicated capital funding	269,077	262,171	349,789	60,024	12,679	15,302
Total sources of capital funding	327,946	643,624	747,181	267,932	214,244	240,339
Applications of capital funding						
Capital expenditure						
- to replace existing assets (2)	552,861	434,900	539,079	471,945	463,687	286,398
- to improve the level of service	53,261	42,602	35,373	100,214	88,052	92,857
- to meet additional demand	65,052	58,357	62,091	67,875	41,891	48,436
Increase (decrease) in reserves	(100,861)	(24,252)	104,918	2,746	328	404
Increase (decrease) of investments	(192,595)	188,646	154,979	-	(6,000)	(1,000)
Total applications of capital funding	377,718	700,253	896,440	642,780	587,958	427,095
Surplus (deficit) of capital funding	(49,772)	(56,629)	(149,259)	(374,848)	(373,714)	(186,756)
Funding balance	-	-	-	-	-	-
Footnotes						
1 Earthquake related operating recoveries 2014 - 2016	32,048	17,549	16,876			
2 Earthquake rebuild application of capital funding	503,230	383,507	465,319	361,935	302,019	157,981

Notes to the Funding Impact Statement

The targeted rates and fees and charges amount for 2014 has been adjusted from that reported in the 2014 Annual Report. For the 2014 financial year only, legislation required the Council to include targeted water rates within fees and charges. To aid comparability, the 2014 targeted rates amount above includes targeted water rates.

The decrease in other dedicated capital funding in 2018 onwards reflects the reduction in Crown funding as the SCIRT programme winds up.

The increase (decrease) in investments line reflects the movement in the Council's loan and cash investments. The significant movement from the 2016 forecast to 2018 reflects the Council's move to being a net investor of cash, as a result of its insurance settlement, to a net borrower as the rebuild continues. The amounts in 2019 and 2020 reflect the repayment of investment loans.

SUMMARY STATEMENT OF FINANCIAL POSITION

As at 30 June

	2014	2015	2016	2018	2019	2020
	Actual	Actual	Forecast	LTP	LTP	LTP
	\$000	\$000	\$000	\$000	\$000	\$000
Current assets						
Financial assets	325,600	416,339	513,355	167,432	173,304	179,584
Other current assets	15,428	11,488	3,231	3,744	3,822	3,906
	<u>341,028</u>	<u>427,827</u>	<u>516,586</u>	<u>171,176</u>	<u>177,126</u>	<u>183,490</u>
Non-current assets						
Financial assets	2,046,692	2,311,193	2,758,893	2,003,472	1,819,314	1,818,314
Other non-current assets	6,716,130	8,194,354	8,786,768	10,201,050	10,797,079	11,332,769
	<u>8,762,822</u>	<u>10,505,547</u>	<u>11,545,661</u>	<u>12,204,522</u>	<u>12,616,393</u>	<u>13,151,083</u>
Total Assets	<u>9,103,850</u>	<u>10,933,374</u>	<u>12,062,247</u>	<u>12,375,698</u>	<u>12,793,519</u>	<u>13,334,573</u>
Current liabilities						
Borrowing (public debt)	41,109	77,161	206,369	147,336	149,986	158,050
Other current liabilities	179,735	238,650	285,709	192,669	192,719	196,993
	<u>220,844</u>	<u>315,811</u>	<u>492,078</u>	<u>340,005</u>	<u>342,705</u>	<u>355,043</u>
Non-current liabilities						
Borrowing (public debt)	873,805	1,170,446	1,267,091	1,335,959	1,484,529	1,654,118
Other non-current liabilities	60,169	143,255	356,809	132,453	136,225	135,806
	<u>933,974</u>	<u>1,313,701</u>	<u>1,623,900</u>	<u>1,468,412</u>	<u>1,620,754</u>	<u>1,789,924</u>
Equity	7,949,032	9,303,862	9,946,269	10,567,281	10,830,060	11,189,606
Total Liabilities and Equity	<u>9,103,850</u>	<u>10,933,374</u>	<u>12,062,247</u>	<u>12,375,698</u>	<u>12,793,519</u>	<u>13,334,573</u>

Notes to Summary Statement of Financial Position

The Council recommenced its revaluation programme for property, plant and equipment in 2014, and completed valuations of the water supply and land and buildings assets. In 2015, initial valuations were done of the sewerage and roading network assets, but due to ongoing uncertainties around asset condition the valuations did not meet the standard. Further work has been undertaken during the 2016 financial year to reduce these uncertainties but at the date of publication the outcome is still unknown.

The decrease in current financial assets between 2016 and 2018 is due to the drop in the Council's cash. Note that the 2016 forecast is particularly high as a result of the insurance settlement, and the increase in 2015 was due to a year-on-year increase in trade debtors.

Non-current financial assets have increased significantly since 2014 due to increases in the value of Christchurch City Holdings Limited (CCHL).

The Council's Other non-current asset balance is increasing steadily as the rebuild work progresses, coupled with the effect of asset revaluations.

The increase in borrowings reflects the steady progress of the rebuild. This is in line with the Council's financial strategy.

MAJOR CAPITAL PROJECTS PLANNED FOR THE YEARS ENDING 30 JUNE 2018, 2019 AND 2020

The Council in its 2015-25 Long Term Plan and its 2016 amendment outlined its capital programme for the years ending 30 June 2018, 2019 and 2020. The high level details of this plan are provided as follows. The amended Long Term Plan provides details of all funded projects by capital programme portfolio, activity and type and unfunded projects by capital programme portfolio and activity. A copy of the Long Term Plan is available on our website at ccc.govt.nz/the-council/plans-strategies-policies-and-bylaws/plans/long-term-plan-and-annual-plans/.

Description		Plan 2017/18	Forecast 2018/19	Forecast 2019/20
		\$000	\$000	\$000
Day-to-Day				
Housing	Housing Improvements	3,260	6,750	7,064
Transport	Core Public Transport Route & Facilities: South-West (Wigram & Halswell)	783	2,418	2,285
	Major Cycle Routes:			
	Heathcote Expressway - Section 1 - City to Curries Road	7,195	-	-
	Nor'West Arc - Section 1 - Cashmere Road To Hillmorton	640	3,569	7,646
	Papanui Parallel - Section 3 - Trafalgar to Tomes	5,490	-	-
	Papanui Parallel - Section 4 - Grassmere to Sawyers Arms Road	3,539	-	-
	Rapanui - Shag Rock Cycleway - Section 2 - Aldwins Road to Dyers Road	8,617	-	-
	Rapanui - Shag Rock Cycleway - Section 3 - Dyers Road to Ferry Road Bridge	922	8,080	-
	Quarryman's Trail - Section 1 - Moorhouse Ave to Frankleigh Street	7,251	233	-
	Quarryman's Trail - Section 2 - Hoon Hay Road to Halswell	-	4,933	-
	South Express - Section 1 - Templeton to Main South Road	784	2,761	-
Water Supply	WS Eastern Tce Trunk Main Renewal	4,402	4,513	-
	WS Gardiners New Pump Station	5,043	-	-
Roads and Footpaths	Annex / Birmingham / Wrights Route Upgrade	7,311	1,071	-
	Carriageway Sealing and Surfacing	6,426	4,608	7,487
	Footpath Renewals	4,000	8,000	2,388
	Intersection Safety: Aldwins/ Ensors/ Ferry	1,567	2,730	-
	Marshland Road Bridge Renewal	4,521	-	-
	Road Pavement Renewals & Replacements	3,259	4,454	4,569
	Traffic Signals Renewals	1,812	2,227	2,308
Sewage Collection, Treatment and Disposal	Lyttelton Harbour Wastewater Treatment Plant	8,356	12,481	12,261
	New Akaroa Wastewater Treatment Plant	14,969	16,739	-
	South East Halswell Sewer	8,356	-	-
	Wainui Sewer Reticulation and Wastewater Treatment Plant	-	4,282	4,421
	Mains Renewal - Cranford St / Sherborne St and vicinity	3,523	-	-
Sports and Recreation	Buildings and Plant Replacement and Renewals	1,310	2,769	1,950
	South West Leisure Centre	2,502	10,706	7,140
	Woolston/Linwood Pool	50	3,850	15,400
	District sports park purchases	2,298	2,355	2,417
	Nga Puna Wai Sports Hub Infrastructure	4,209	3,233	33
Flood Protection and Control Works	Sparks road development drainage works	1,536	1,574	538
Day-to-Day Total		123,931	114,336	77,907

Description	Plan 2017/18 \$000	Forecast 2018/19 \$000	Forecast 2019/20 \$000
Facility Rebuild			
Performing Arts Precinct	18,161	7,911	-
Town Hall Rebuild	45,313	12,455	-
Sumner Community Facility (Centre & Library) Rebuild	4,245	-	-
Coastal Pathway Project	209	3,606	3,098
Construction of new Central City Transport Interchange	-	22,911	-
Lichfield Car Parking Rebuild Capex	16,149	-	-
Avon River Park	6,400	-	-
Accessible City project:			
Hereford Street (Manchester-Cambridge)	2,191	2,141	-
Kilmore Street (Fitzgerald-Park) two way conversion	2,833	2,883	-
Salisbury Street	2,101	3,747	-
Victoria Street	4,223	-	-
South Library and Service Centre	508	3,594	11,335
New Hornby Library and Service Centre	1,323	11,469	275
Central Library (Knowledge Centre)	32,379	19,698	-
Jellie Park Recreation and Sports Centre	5,412	-	-
Metro Sport Facility	37,120	38,048	34,800
Nga Puna Wai Sports Hub-Community Athletics Track	3,069	-	-
QEII (Eastern) Recreation & Sport Centre	9,449	18,687	-
Canterbury Provincial Chambers Stage 1 Works	7,886	16,277	5,393
Old Municipal Chambers	1,859	8,185	-
Facility Rebuild Total	200,830	171,612	54,901
Infrastructure Rebuild			
Stormwater Drainage	Land Drainage Recovery Programme:		
	Dudley Creek	16,474	-
	Cranford Basin Active Management	3,409	-
	Bells Creek	10,027	-
	Temporary stop bank management	3,963	-
	Estuary Drain	14,073	-
	City Outfall Drain	5,703	-
	Upper Heathcote Storage	3,072	-
Water Supply	Bexley Pump Station EQ Replacement in Rawhiti Zone	3,133	-
Parks and Open Spaces	New Brighton Pier	4,648	5,373
	Red Zone Earthquake Parks	4,412	-
	Resurfacing CBD Including Four Avenues	1,586	5,908
Roads and Footpaths	Sumner Road Zone 3B Haul Road	4,126	-
	Sumner Road Zone 3B Risk Mitigation	33,994	-
	Sumner Road Zone 3B Roding	3,865	-
Sewage Collection, Treatment and Disposal	Christchurch Wastewater Treatment Plant - Building earthquake repairs	4,182	-
	Christchurch Wastewater Treatment Plant - Channels Restoration	3,499	-
Infrastructure Rebuild Total	120,166	11,281	1,098

STATEMENT ON COMPLIANCE WITH FINANCIAL STRATEGY

The Council's financial strategy was first set out in the Three Year Plan, which covered the 2014 and 2015 financial years. This was amended in the 2015-2025 Long Term Plan. The information below compares actual performance for the 2014 and 2015 financial years against targets set out in Council's Three Year Plan and forecast performance for the 2016 financial year against the financial strategy as set out in Council's 2015-2025 Long Term Plan.

Rates levels

The levels below are the upper limits set in the Financial Strategy.

	2014 Actual	2014 Three Year Plan Limit	2015 Actual	2015 Three Year Plan Limit	2016 Forecast	2016 Long Term Plan Limit
Total rates (\$ million)	337	338	362	358	393	397
Rates increase	8.60%	7.50%	7.20%	6.10%	8.69%	10.67%

Borrowing levels and limits

The levels below are the upper limits set in the Financial Strategy.

	2014 Actual	2014 Three Year Plan Limit	2015 Actual	2015 Three Year Plan Limit	2016 Forecast	2016 Long Term Plan Limit
Total Borrowing (\$ million)	915	898	1,248	1,366	1,473	2,956
Net debt as a percentage of equity (%)	7.61%	20%	8.36%	20%	5.34%	20%
Net debt as a percentage of total revenue (%)	71.18%	250%	116.34%	250%	51.97%	250%
Net interest as a percentage of total revenue (%)	3.03%	20%	5.68%	20%	4.35%	20%
Net interest as a percentage of annual rates income (debt secured under debenture) (%)	7.66%	30%	10.86%	30%	11.31%	30%
Liquidity (term debt + committed loan facilities + liquid investments to current external debt) (%)	151.45%	110% minimum	143.86%	110% minimum	163.94%	110% minimum

The Council's borrowing policy sets limits for certain financial ratios in each financial year together with planned performance. The table above compares the actual or forecast ratios against the financial strategy limits.

Notwithstanding the increased borrowing by the Council, its ratios continue to be within the current limits set by the Council's Treasury Risk Management Policy.

Return on investment

Christchurch City Council Holdings Limited

	2014 Actual	2015 Actual	Three Year Plan Target	2016 Forecast	2016 Long Term Plan Target
Investment (\$ million)	1,654	2,022		2,311	
Dividend income (\$ million)	52	46	46-48	132	246
Total Return (revaluation and dividend income) (%)	9.5%	15.2%	9.0%	20.8%	

CCHL monitors the Council's existing investments in the city's infrastructure assets such as the port, airport, electricity lines and high speed fibre network. Taking into account the historic increase in the value of its investments, CCHL has achieved returns over 2014 and 2015 in excess of 9 per cent per annum.

The CCHL target changed in the 2015-25 Long Term Plan from a percentage return target to a dollar dividend target for easier monitoring.

CCHL has not met the 2016 dividend target due to the delay in the sale of City Care Limited. This is expected to be completed early in the 2017 financial year.

Council Controlled Trading Organisations (CCTOs) excluding CCHL

	2014 Actual	2015 Actual	Three Year Plan Target
Investment in CCTOs (\$000)	215,836	152,024	
Increase in valuation (\$000)	11,206	(62,660)	No dividends
Dividend Income (\$000)	-	-	0.0%
Return (percentage) (%)	5.5%	-29.0%	
Loans to CCTOs (\$000)	91,123	92,275	
Interest income (\$000)	7,771	6,786	Market rate
Average interest rate (%)	8.5%	7.4%	

The Council has made equity investments in Vbase Limited, Tuam Limited, Civic Building Limited and Canterbury Development Corporation Holdings Limited and, when required, extends loans to these companies at market rates. The Council does not expect any regular dividends from these companies and therefore the target has been removed in the 2015-25 Long Term Plan.

A \$20 million return of capital was due from Tuam Limited arising from its asset sale and insurance settlement. This is now scheduled for early 2017.

The decrease in the value of investments in 2015 was principally the result of a reduction in the value of Vbase Limited due to the impairment of its buildings and work in progress balance. The impairment arose as a result of Vbase Limited choosing to adopt a value in use valuation approach.

Share investments

	2014 Actual	2015 Actual	Three Year Plan Target	2016 Forecast	2016 Long Term Plan Target
<u>Transwaste Limited</u>					
Investment (\$000)	6,196	6,196	6,196	6,196	6,196
Dividend (\$000)	4,152	5,290	2,820	5,757	9,200
Return on capital (%)	15.7%	19.2%	9.0%	-	-
<u>New Zealand Local Government Funding Agency Limited</u>					
Investment (\$000)	1,866	16,786	Return equal to LGFA cost of funds plus 2%	21,699	1,866
Dividend (\$000)	113	132		120	120
Return (%)	6%	1%		-	-
Borrower's notes (%)	-	-		-	3.5%
<u>New Zealand Local Government Insurance Corporation Limited</u>					
Investment (\$000)	1,658	1,658	1,658	1,658	1,658
Dividend (%)	-	-	0%	0%	0%
Revaluation (\$000)	83	-	-	-	-
<u>Endeavour Icap</u>					
Investment (\$000)	1,850	1,073	-	426	-
Dividend / (Redemption) (%)	-	-	0%	0%	0%
Investment / (Revaluation) (\$000)	-	-	-	-	-

The Council has made equity investments in companies either to facilitate economic development of in support of an entity that provides services to local government.

Transwaste Limited provides the Council with its non-hazardous regional landfill. Dividends from Transwaste in 2014 and 2015 have been significantly higher than the target of 9 per cent as set in Council's Three Year Plan. The 2015-25 Long Term Plan changed the target to a dollar return for easier monitoring.

The New Zealand Local Government Funding Agency Limited (LGFA) was set up in 2012 and is owned by local authorities and the government. Its objective is to provide councils with access to debt funding at lower interest rates than each could individually access. The Council targeted dividend returns of 2 per cent above the LGFA's cost of funds in its Three Year Plan, and this changed to \$120,000 in its 2015-25 Long Term Plan. In 2015 dividend payments were below target due to a significant increase in LGFA's investments and borrowings, which pushed down the percentage return on investment.

The Council also holds investments in the New Zealand Local Government Insurance Corporation Limited (NZLGICL) and the Endeavour Icap Fund (EIF). NZLGICL provides insurance services to local government. EIF is an investment fund for start-up and growth businesses all of whose investments are in the process of being exited. The Council does not expect to receive any return from these investments, and the targets have been removed in the 2015-25 Long Term Plan.

Capital Endowment Fund

	2014 Actual	2015 Actual	Three Year Plan Target	2016 Forecast	2016 Long Term Plan Target
Total fund balance available at 30 June (\$000)	104,907	101,132	100,535	101,148	98,148
Return (%)	4.8%	4.8%	5.0%	4.3%	4.5%
Income received (\$000)	4,986	5,061	4,705	4,394	4,405
Income distributed by the fund (\$000)	(4,201)	(8,836)	(3,939)	(4,379)	(4,166)

In April 2001, the Council set up the Capital Endowment Fund using the proceeds from the sale of Orion's investment in a gas company. The Fund provides an ongoing income stream which is applied by the Council to economic development and community events and projects. The Fund is invested according to the Council's Investment Policy and was budgeted to make returns of around 5 per cent per annum in the Three Year Plan. This target was reduced to 4.5 per cent for 2016 in the 2015-25 Long Term Plan due to lower than expected returns across the financial market.

The reduction in the total fund balance in 2015 was the result of Council's decision to apply the cash normally retained to inflation protect the capital of the Capital Endowment Fund to the one-off community grants scheme. A further \$1 million from the capital of the fund was also used to fund normal community grants.

Community loans

	2014 Actual	2015 Actual	Three Year Plan Target	2016 Forecast	2016 Long Term Plan Target
Loans advances (\$000)	3,544	6,894	3,544	8,830	5,544
Interest revenue (\$000)	29	34	-	34	-
Average interest rate (%)	0.8%	0.5%	0% - 8% interest rate	0.4%	0-4.4%

From time to time, the Council makes loans to community groups to enable them to pursue their stated objectives. The return on these loans ranges from interest free to market rate depending on when they were granted and the conditions imposed on them at the time.

The target has changed from 0 - 8 per cent to 0 - 4.4 per cent in the 2015-25 Long Term Plan reflecting the interest movement across the financial markets.

