Christchurch City Council

Pre-election report 2013

Christchurch Ōtautahi

Christchurch City Council

Introduction

Welcome to the Christchurch City Council's pre-election report 2013. The pre-election report provides information to promote discussion leading up to the 2013 local election about the key issues facing the Council.

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.

The information set out in this report is what the Local Government Act requires to be provided in a pre-election report.

Jane R. Parfitt

Jane Parfitt
Acting Chief Executive
Christchurch City Council

Summary

The preparation of this report is a new requirement under Section 99A of the Local Government Act 2002 as amended by the Canterbury Earthquake (Local Government Act 2002 – Christchurch City Three Year Plan) Order 2013 and section 54 of the Local Government Act 2002 Amendment Act 2010, which requires the Chief Executive of a local authority to prepare a pre-election report containing the following:

1. Summary cash flow statement

The summary cashflow statement for the three years prior to the election provides a high level indication of where the Council gets its cash from and how the cash has been used. The summary cashflow statement is based on the cashflow statement from the Council's annual report but provides additional detail regarding cash received from rates and receipts and payments for the sale and purchase of assets.

2. Funding impact statement

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

3. Summary balance sheet

The summary balance sheet for the three years prior to the election and the two years after the election presents a snap shot of the Council's actual or forecast financial position at the end of each financial year.

The summary statement 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).

4. Historic performance against rates and borrowing limits and investment targets

This is a statement comparing rates, rate increases, borrowing and returns on investments for the three years prior to the election.

This section of the report outlines how the Council has performed against the financial strategy set as part of the formal budget setting process. 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 the Three Year Plan.

As the Council was not required to prepare a long term plan for the 2012/13 to 2022/23 period it did not set funding strategy limits for 2012/13. While the Council did not have long term measures we have used the limits and targets outlined in the 2012/13 Annual Plan and the Three Year Plan.

5. Major capital projects planned

An outline of the major capital projects planned for the two years after the election.

In addition, we include the financial strategy as it guides the way the Council makes decisions over income, expenditure, borrowing and investments. It helps explain how the Council plans to balance the books and summarises the implications of these plans for ratepayers. In doing so it links the decisions the Council makes on what services to provide and how they will be paid for.

To assist the reader we have also provided information for the year of the election (2014) in the funding impact statement, summary balance sheet and the major projects planned. This is additional to the requirements of the legislation.

Cautionary note

The information provided in this report is summary information and is based on information provided in Annual Reports and the Christchurch City Three Year Plan. More detailed information can be obtained from these documents, which are available on the Council's website.

The 2013, 2014, 2015 and 2016 financial statements presented here are based on forecasts and assumptions. The financial information presented for the year ended 30 June 2013 is based on a forecast projection of the closing financial position as at 30 June 2013. Actual results are likely to vary from the information presented and the variations may be material.

The information presented in this report is not subject to independent audit. However, certain historic information has been audited as part of the audit of the annual report. The future financial information has not been audited as the Three Year Plan was not required to be audited.

Summary of the Financial Strategy

Introduction

The Council has a financial strategy to manage its share of the earthquake recovery costs along with those costs required to provide its levels of service to the community.

In summary, the strategy requires Council to increase its borrowings over the next eight years to fund its share of earthquake response costs and the costs for rebuilding its infrastructure and facilities. The increased borrowing is repaid through a combination of a Major Community Facilities Rates Charge, savings of $943 million through the capital renewals programme and higher rates revenue after five years of the Special Earthquake Charge. The strategy is outlined in more detail in the Three Year Plan for the Council.

The strategy builds on the previous strategies adopted by Council as part of the 2011/12 and 2012/13 Annual Plans and contains the most recent information on cost forecasts, government subsidies and insurance proceeds. The strategy also takes into account the most recent information on the Crown's recovery plans and its commitments to cost sharing for the rebuild.

The Council will continue to fund its normal activities and capital works programme in accordance with its existing Revenue and Financing and Liability Management Policies.

These policies provide:

- Total operational costs of $410 million in 2013/14 funded by $122 million of fees, charges and operational subsidies with the residual funded through rates, reserves and investment income. Cost and revenue projections are provided in the detail of the Three Year Plan.
- Renewal of existing Council assets of $188 million over three years (excluding earthquake damage) is funded through NZTA subsidies on roading projects and rates.
- Capital projects either for growth or for new or enhanced Council services, are funded through borrowing.

Debt servicing (interest plus debt repayment over 30 years) on growth projects is funded through development contributions, and on other projects by rates. The Three Year Plan forecasts $389 million of growth and aspirational projects over three years (excluding earthquake recovery projects outlined below). The majority of these projects provide infrastructure required for the growth of the city, in particular new subdivisions. In addition to these operating and capital costs, Council faces significant costs for its share of the earthquake response and recovery costs and the costs of rebuilding its major community facilities. Funding for these costs are outlined below.

The strategy has three main elements:

1. Operating deficits

In 2012/13, the Council projected that operating deficits from the earthquakes would persist for three years. These deficits result from lower revenue from parking and central city properties, for example. These annual deficits have not been as large as predicted, but they are now expected to last for five years. The cumulative deficits of $85.6 million over the five-year period are slightly higher than previously estimated. The Council is funding these deficits through a Special Earthquake Charge. A charge of 1.76 per cent in 2011/12 and 1.82 per cent from 2012/13 to 2015/16 raised sufficient revenue to repay the borrowing and interest on the three years of operating deficits. The Three Year Plan includes an increase in the Special Earthquake Charge to 1.93 per cent for its three remaining years (through until 2015/16). This ensures that enough revenue is raised to repay the forecast operating deficits (including interest) by the end of 2015/16.

2. *Earthquake response and recovery costs*

Response and recovery costs include the Council's immediate emergency response costs, the ongoing maintenance of temporary infrastructure and the cost of rebuilding the Council's infrastructure (roads, water, stormwater and wastewater networks) and buildings.

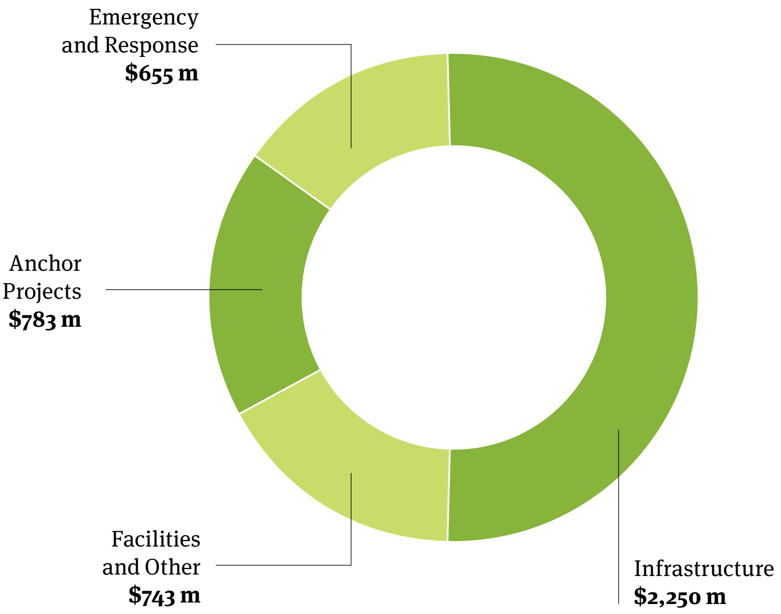
These costs also include an allowance of $225 million for improvements to assets the Council approves during the rebuild process.

The updated financial forecasts for the response and recovery costs in the Three Year Plan have been developed jointly by the Council, New Zealand Transport Agency and CERA based on information provided by SCIRT and verified by a team of independent reviewers. The overall estimate includes a provision of $398 million for savings to be agreed with the Crown and subject to the independent estimation mentioned above. The estimate includes the Council's share of the costs of the Anchor Projects contained in the Central City Recovery Plan. The estimate is split as follows:

($ million)	Estimated Cost	Insurance Cover	Government Subsidy	Other Contributions	Net Cost to Council
Infrastructure (Below Ground)					
Roads	758	-	526	-	232
Sewer	1,450	140	870	-	440
Water	106	28	64	-	14
Stormwater	334	13	200	-	121
Savings to be agreed with Crown	(398)	-	(239)	-	(159)
	2,250	**181**	**1,421**	**-**	**648**
Buildings, Facilities and Other Assets					
Buildings and Facilities	276	266	-	-	10
Anchor Projects	783	370	-	-	413
Sewer above-ground assets	139	139	-	-	-
Water above-ground assets	20	20	-	-	-
Stormwater above-ground assets	2	2	-	-	-
Park Facilities	2	2	-	-	-
Council Buildings / Infrastructure - improvement allowance *	160	-	-	-	160
Increased Costs of Working	21	4	9	-	8
Uninsured Assets (Parks, Stormwater)	94	-	-	7	87
Insurance Excesses	29	-	-	-	29
	1,526	**803**	**9**	**7**	**707**
Emergency & Response Costs					
Roading Emergency Work	96	-	68	-	28
Welfare and other emergency work	68	-	54	-	14
Other response costs	50	2	36	1	11
Maintenance of Temporary Services	335	18	187	1	129
Demolition Costs	11	-	11	0	(0)
Rockfall	84	-	14	-	70
Unbudgeted Staff Costs	11	-	-	-	11
	655	**20**	**370**	**2**	**263**
Total Costs	**4,431**	**1,004**	**1,800**	**9**	**1,618**

* The total allowance is $225 million of which $65 million is included in the Anchor projects

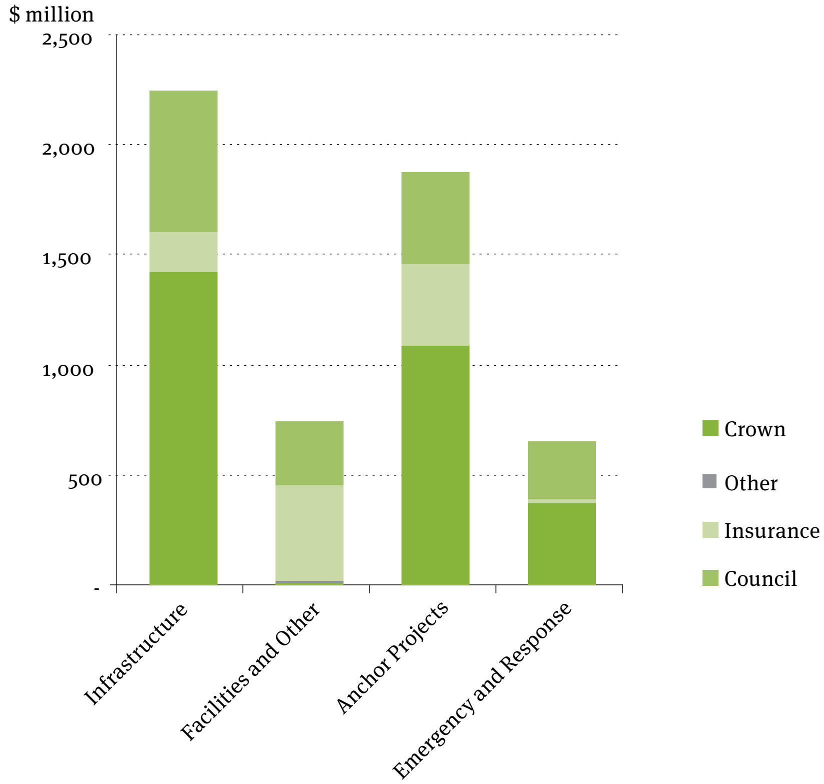
Total Response and Recovery Costs
$4,431 million



The cost of repairing the Council's facilities, excluding anchor projects, is estimated at $276 million. This cost is expected to be covered by insurance on a 'like for like' basis less a 2.5 per cent excess. The Council's estimated contribution to the earthquake response and recovery is $1.618 billion. Of the total costs of $4.431 billion, $1.004 billion is covered by insurance and $1.800 billion is covered by the Crown's expected contribution to the response and recovery costs under the cost sharing agreement. The costs for maintaining temporary services have been updated to reflect the latest projections for vacating the residential red zone and the cost sharing agreed between the Council and the Crown for rockfall.

The infrastructure rebuild programme is expected to rebuild up to 40 per cent of the city's infrastructure; assets that would have been replaced by the Council's normal asset renewal programme over the next thirty years (or longer). For this reason, the Council is using part of its asset renewal budget from that period to repay the debt used to fund its share of the rebuild.

Relative Funding Shares



3. *Major Community Facilities Rebuild and Anchor projects*

The Council's total contribution for the Anchor projects is $782.9 million including escalation.

The Council's contribution to each project is outlined below:

The Stadium
The proposal in the Central City Recovery Plan is for a 35,000 seat covered stadium for sport and entertainment events over three city blocks between Hereford and Tuam streets, bounded by Madras and Barbadoes streets. This agreement caps the Council contribution at $253 million – the amount the Council allowed for rebuilding the original AMI Stadium at Lancaster Park.

Metro Sports Facility
The Crown will lead this project, but the Council will have final approval of the design and scope for the project. The Council is contributing $147 million of the total cost of the Metro Sports Facility which includes a competition pool, an indoor sports stadium and a movement centre.

Transport Interchange
The project includes a new Central City transport interchange, two Central City superstops in Manchester Street and at the Hospital, the Riccarton and Northlands Shopping Centre suburban interchanges and Riccarton road bus priority measures.

The Crown is seeking private sector investment to build and operate the Transport Interchange, The Council's contribution is capped at $30 million.

Avon River Precinct
The Crown is leading this project, with the Council's contribution being $6.4 million.

The Square
The Crown and the Council will work together on a joint project to enhance Cathedral Square with the Council contributing $4.6 million.

Performing Arts Precinct
The Council will consider several options before 31 August this year to save one of the city's landmarks, the Town Hall. These include saving all or part of the Town Hall and developing a cultural arts precinct adjacent to the Theatre Royal. The Council has budgeted $158 million, including the Town Hall rebuild, for this project.

Central Library
The Council will lead this project to build a flagship central library fronting Cathedral Square. The Council has budgeted $60 million for this project.

Car parking
The Council will work with CCDU and the private sector on central city parking. At this stage there is an expected need for three central city car parking buildings. The Council has budgeted $70 million.

Earthquake Memorial
The Ministry of Culture and Heritage is leading this project on behalf of the Crown which is also funding the Memorial. The Council may be required to maintain the Memorial.

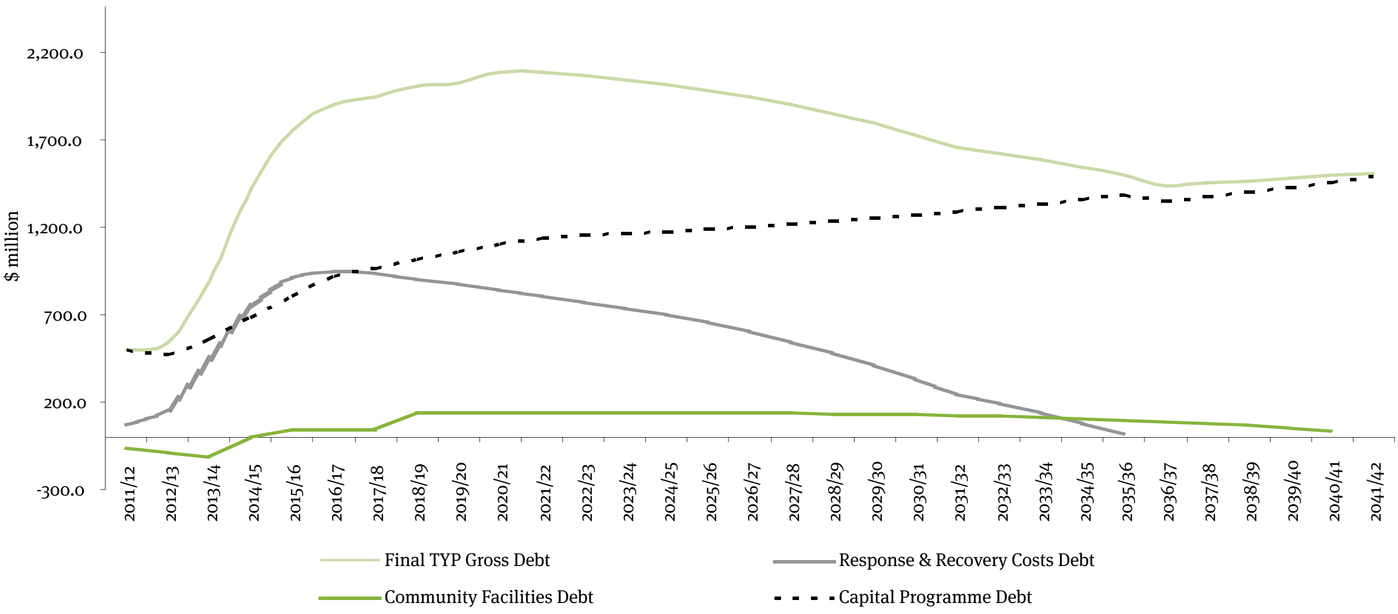
Transport Plan
The Council is providing $27 million towards changes to the layout of the Central City transport network. It is a joint Crown/ Council project.

Convention Centre
The Crown will lead the Convention Centre rebuild. It is hoping to secure private sector investment. There is no Council funding towards this in the form of either capital or operating costs.

The Frame
The Crown is funding this project and when completed will transfer the public areas back to the Council.

The total Council contribution of $782.9 million is partly funded by $370 million of insurance proceeds. The strategy assumes land sales of former sites will generate $94 million, leaving the Council to borrow $319 million to fund its share. This cost to the Council results from recommendations to strengthen or significantly improve these assets. The borrowings will be repaid over 30 years in line with the Council's Revenue and Financing Policy. The Major Community Facilities Rebuild Charge of 1.84 per cent introduced in 2012/13 assists with this.

CCC Total Projected Debt



Rating Base Growth
Before the earthquakes, the Council enjoyed steady growth in its ratepayer base of around 1 per cent per annum, resulting in a $3 million increase to rates revenue each year. However, this growth (for example subdivisions, residential and commercial building activity) declined in recent years due to slower natural population growth and the demolition of earthquake-damaged properties. As at June 2013, the city's capital value is forecast to have reduced by $1.549 billion since 2010/11 after 2200 residential and 1300 commercial demolitions. This is partially offset by subdivision and building activity of $841 million during the same period. Further demolitions to the value of $1.5 billion are expected until 2014/15, including the final demolitions within the CBD cordon and the residential red zones.

Total Council Borrowing
The magnitude of the costs faced by the Council means that if it is to keep rate increases to an affordable level and deliver the rebuild within an acceptable period of time, it must increase its debt levels. The increase in debt required over the next eight years will be repaid by Council within 30 years thereby returning the Council to a financial position similar to where it would have been prior to the earthquakes. The graph above demonstrates this.

The black dotted line represents the Council's ratepayer-funded debt (i.e. excluding debt required for the rebuild). This is the projected debt for aspirational and growth projects on the basis that rates in future years, received from those ratepayers who are benefiting from those new assets, are servicing the debt on those new assets. This is known as intergenerational equity. The level of this debt continues to grow with the size of the city so the relative cost per ratepayer decreases.

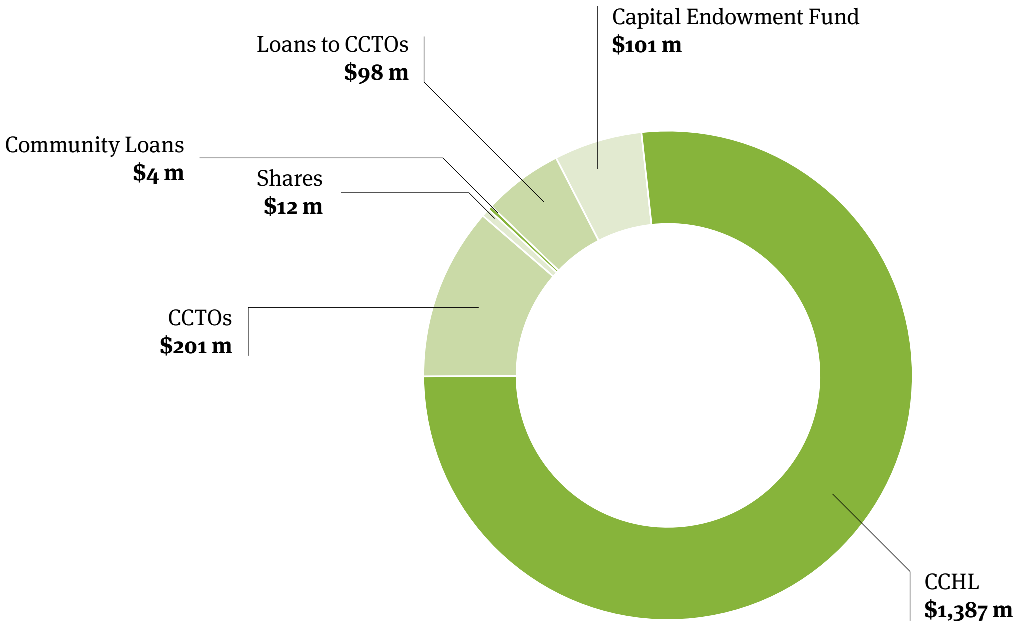
The blue line on the graph shows the Council's total debt projection as a result of the infrastructure rebuild and facilities rebuild borrowing required.

The graph shows that to fund its share of the rebuild, the Council needs to borrow more funds over the first eight years than would have been the case in the absence of the rebuild. The Council is conscious both of the amount of debt it needs to take on, as well as the affordability of that debt. The Local Government Funding Agency (LGFA) established debt covenants that govern the total amount of debt a local authority may borrow from the Agency. The Council has ensured it remains within both the affordability (net interest / rates) and quantum (net debt / total revenue) ratios. Compared with the LGFA's limit of 250 per cent for net debt to total revenue and 30 per cent for net interest to rates income, Council's ratios are forecast to peak in 2016/17 at 236 per cent and 19 per cent respectively.

Although Council's total debt levels climb over the next eight years as a result of the rebuild, the strategy for repaying this debt ensures the city's total debt declines over time. In addition, because the city continues to grow, so does its rates and total revenues. By controlling the increase of debt following the rebuild process, the Council's key debt covenants decline to conservative levels, which will in turn restore the Council's high credit rating.

Investments
Excluding short-term cash balances, the Council holds $1.8 billion of investment assets made up as follows:

Total Council Investments at 30 June 2012 – $1,804 million



The Council discussed its ongoing ownership of these investment assets when it considered its financial position during the development of the Three Year Plan. As a result, the financial strategy does not propose that any Council investments are sold during the life of the Three Year Plan. The financial returns from the investments are built into the forecast revenues in the financial strategy.

The table below provides a summary of the Council's financial strategy:

Funding required for	Consisting of	External Sources of Funds	Council Share Funded by
Council Activities – Operating Costs	Operational costs of $1.275 billion over three years.	Fees and Charges under the Revenue & Financing Policy cover 32% of operating costs NZTA subsidies available for eligible roading works (approx $44 million over three years)	Rates including Special Earthquake Charge Interest and dividends
Council Activities – Capital Renewals	Capital costs of $188 million over three years	NZTA subsidies on eligible works	Rates
Council Aspirational and Growth Projects	Aspirational and growth capital programmes of $389 million over three years	NZTA subsidies on eligible works	Borrowing per Liability Management Policy Growth Projects funded by Development Contributions
Earthquake Response & Recovery Costs	Total costs of $4.431 billion, with a net cost to Council of $1.618 billion.	Government subsidies estimated at $1.800 billion subject to review by 1 December 2014 Insurance proceeds of $1.004 billion	Deferral of $943 million of capital renewals over 20 years Increased rates revenue from Special Earthquake Charge from 2016/17 ($32.8 million per annum)
Anchor Projects (included in above line)	Total Council contribution of $783 million	Insurance proceeds ($370 million)	Council Infrastructure / Buildings Shortfall Allowance ($65 million) Proceeds from land sales of $94 million Borrowing of $254 million funded by Major Community Facilities charge and rates over 30 years

1. Summary Cash Flow Statement

For the years ended 30 June	2011 Actual $000	2012 Actual $000	2013 Forecast $000
Cashflows from operating activities			
Rates received	276,420	297,615	304,069
Other operating activities	(306,470)	(247,402)	(213,550)
Net cash provided by/(used in) operating activities	**(30,050)**	**50,213**	**90,519**
Cashflows from investing activities			
Payments for property, plant and equipment	(179,837)	(390,449)	(621,613)
Proceeds from the sale of property, plant and equipment	9,237	392	223
Other investing activities	76,447	241,853	297,053
Net cash (used in)/provided by investing activities	**(94,153)**	**(148,204)**	**(324,337)**
Cashflows from financing activities			
Net cash provided by/(used in) financing activities	**91,728**	**167,841**	**262,149**
Net decrease in cash and cash equivalents	**(32,475)**	**69,850**	**28,331**
Cash and cash equivalents at beginning of year	**80,892**	**48,417**	**118,267**
Cash and cash equivalents at end of year	**48,417**	**118,267**	**146,598**

There has been a significant increase in net cash flows from other operating activities and other investing activities due to insurance recoveries and Crown contributions received for the Christchurch rebuild. Similarly as the rebuild has progressed since 2011 there has been an increase in the cash outflows for property plant and equipment. This trend is expected to continue during the rebuild period.

2. Funding Impact Statement

For the years ended 30 June	2014 3 Year Plan $000	2015 3 Year Plan $000	2016 3 Year Plan $000
Sources of operating funding			
General rates, uniform annual general charges, rates penalties	233,473	252,341	272,129
Targeted rates	101,515	106,543	112,738
Subsidies and grants for operating purposes	20,555	22,285	21,320
Fees, charges and targeted rates for water supply	88,656	96,199	99,421
Internal charges and overheads recovered	24,756	24,578	25,381
Earthquake recoveries	20,721	15,139	8,019
Interest and dividends from investments	64,816	63,733	66,165
Local authorities fuel tax, fines, infringement fees, and other receipts	10,931	11,223	13,181
Total operating funding	**565,423**	**592,041**	**618,354**
Applications of operating funding			
Payments to staff and suppliers	390,571	390,850	386,054
Finance costs	40,637	57,477	79,061
Internal charges and overheads applied	24,756	24,578	25,381
Other operating funding applications	64,007	60,063	36,886
Total applications of operating funding	**519,971**	**532,968**	**527,382**
Surplus (deficit) of operating funding	**45,452**	**59,073**	**90,972**
Sources of capital funding			
Subsidies and grants for capital expenditure	21,546	23,036	19,350
Development and financial contributions	13,000	17,466	21,140
Earthquake recoveries	416,194	449,905	265,997
Increase (decrease) in debt	281,065	524,000	335,738
Gross proceeds from sale of assets	75,792	14,268	1,296
Lump sum contributions	-	-	-
Total sources of capital funding	**807,597**	**1,028,675**	**643,521**
Applications of capital funding			
Capital expenditure			
· to replace existing assets	64,643	74,531	81,838
· earthquake rebuild	744,069	870,399	528,125
· to improve the level of service	60,286	54,593	33,262
· to meet additional demand	63,007	86,941	88,796
Increase (decrease) in reserves	(78,956)	1,284	2,472
Increase (decrease) of investments	-	-	-
Total applications of capital funding	**853,049**	**1,087,748**	**734,493**
Surplus (deficit) of capital funding	**(45,452)**	**(59,073)**	**(90,972)**
Funding balance	**-**	**-**	**-**

3. Summary Balance Sheet

As at 30 June	2011 Actual $000	2012 Actual $000	2013 Forecast $000	2014 3 Year Plan $000	2015 3 Year Plan $000	2016 3 Year Plan $000
Current assets						
Financial assets	184,941	270,374	291,917	217,592	222,194	230,147
Other current assets	214,738	349,605	356,632	3,914	3,974	4,088
	399,679	**619,979**	**648,549**	**221,506**	**226,168**	**234,235**
Non-current assets						
Financial assets	1,693,401	1,786,100	1,834,040	1,786,406	1,788,746	1,811,508
Other non-current assets	5,500,646	5,597,194	5,762,431	6,527,446	7,720,314	8,671,769
	7,194,047	**7,383,294**	**7,596,471**	**8,313,852**	**9,509,060**	**10,483,277**
Total Assets	**7,593,726**	**8,003,273**	**8,245,020**	**8,535,358**	**9,735,228**	**10,717,512**
Current liabilities						
Borrowing (public debt)	24,600	80,001	233,002	118,109	122,324	128,624
Other current liabilities	151,220	172,299	156,336	154,998	158,293	163,653
	175,820	**252,300**	**389,338**	**273,107**	**280,617**	**292,277**
Non-current liabilities						
Borrowing (public debt)	337,057	461,843	569,743	779,566	1,299,351	1,628,789
Other non-current liabilities	188,102	208,095	172,680	189,130	188,066	187,126
	525,159	**669,938**	**742,423**	**968,696**	**1,487,417**	**1,815,915**
Equity	**6,892,747**	**7,081,035**	**7,113,259**	**7,293,555**	**7,967,194**	**8,609,320**
Total Liabilities and Equity	**7,593,726**	**8,003,273**	**8,245,020**	**8,535,358**	**9,735,228**	**10,717,512**

The aftermath of the 2010 and 2011 Canterbury earthquakes has had a significant impact on the Council's balance sheet.

It has not been possible to determine an accurate value for the Council's property, plant and equipment due to continued uncertainties as to the extent and cost of damage suffered in the earthquakes. An impairment estimate has been made for damage to the Council's assets, and assets that have been demolished have been removed from the balance sheet. It is anticipated that the Council will be able to recommence its revaluation programme in 2014.

The significant decrease in other current assets in 2014 and later years is based on the assumption in the Three Year Plan that there is no significant earthquake related receivables such as insurance and crown contributions outstanding at each balance date. It is forecast that at 30 June 2013 earthquake related receivables account for $347 million of the balance.

Despite the impairment estimate, the other non-current assets balance has increased since 2011 from costs incurred to date in the rebuild of the city's infrastructure assets. It is expected this trend will taper off as projects are delivered and the assets they replace are written off.

Funding the Council's share of the rebuild has resulted in increased non-current borrowing. As outlined in the financial strategy the Council will use borrowed funds for a significant portion of its contribution.

The spike in current borrowing in 2013 is due to $115 million of debt maturing in July 2013, which was classified as non-current borrowing in 2012.

4. *Historic Performance against Rates and Borrowing Limits and Investment Targets*

Under the Local Government Act 2002 as amended by the Canterbury Earthquake (Local Government Act 2002) Order 2012 and the Canterbury Earthquake (Local Government Act 2002 – Christchurch City Three Year Plan) Order 2013 the Council did not have to prepare a Long Term Plan in 2012 nor set limits for rate increases or targets for investments. The Three Year Plan prepared for the 2014, 2015 and 2016 years has set targets within its financial strategy for rate increases and investment returns. Actual rates increases and investment returns for 2011, 2012 and forecast 2013 results are provided below although there were no limits set for those years.

Rates levels	2011 Annual Plan $000	2011 Actual $000	2012 Annual Plan $000	2012 Actual $000	2013 Annual Plan $000	2013 Forecast $000
Total rates	**269,357**	**273,813**	**287,313**	**297,614**	**309,173**	**302,648**
Rate increase to existing ratepayers	**3.97%**		**7.10%**		**7.80%**	

Borrowing levels and limits	2011 Annual Plan $000	2011 Actual $000	2012 Annual Plan $000	2012 Actual $000	2013 Annual Plan $000	2013 Forecast $000	Current Limits	Future Limits
Total Borrowing	**392,998**	**671,661**	**475,465**	**932,408**	**784,855**	**932,408**		
Net debt as a percentage of equity	2.7%	4.8%	2.7%	6.1%	9.5%	9.5%	<20%	<20%
Net debt as a percentage of total revenue	40.0%	43.7%	40.0%	40.6%	66.7%	76.3%	<100%	<250%
Net interest as a percentage of total revenue	-0.3%	0.2%	-0.3%	1.9%	1.9%	2.3%	<10%	<20%
Net interest as a percentage of annual rates income (debt secured under debenture)	-0.5%	0.5%	-0.5%	6.6%	5.6%	6.7%	<15%	<30%
Liquidity (term debt + committed loan facilities + liquid investments to current external debt)	152.1%	134.4%	152.1%	136.2%	135.2%	144.7%	>120%	>110%

In relation to borrowing limits, the Council has a borrowing policy which has set limits for certain financial ratios in each of the 2011, 2012 and 2013 financial years together with planned performance. The table above compares the actual or forecast ratios against both 2012/13 annual plan and the Three Year Plan policy limits.

Notwithstanding the increased borrowing by the Council, its ratios continue to be within the current limits sets by the Council's investment policy. The Three Year Plan provides for amendments to the ratio limits to align them with the limits sets by the Council's principal lender.

Investment revenue

The Council was not required to have targets for investment returns in its 2011, 2012 or 2013 Annual Plans. To assist the reader the Three Year Plan targets have been provided.

Christchurch City Holdings Limited	**2011 Actual $000**	**2012 Actual $000**	**2013 Forecast $000**	**Three Year Plan Target**
Investment	1,306,568	1,387,300	1,438,820	
Dividend income	43,325	35,449	36,324	$46–48 million
Total Return (revaluation and dividend income)	4.6%	8.9%	6.3%	9%

The Council's objective for owning Christchurch City Holdings Limited (CCHL) is for the company to monitor the Council's existing investments which largely service the city's infrastructure assets. Including the appreciation of the capital value of its investments, CCHL has achieved returns over the past five years in excess of 9 per cent per annum. The Council is targeting dividend payments from CCHL over the three years of the Three Year Plan of between $46 million and $48 million.

Capital endowment fund	**2011 Actual $000**	**2012 Actual $000**	**2013 Forecast $000**	**Three Year Plan Target**
Total fund balance available at 30 June	99,734	102,091	104,123	
Return	5.69%	5.11%	5.34%	5.02%
Income received	5,499	5,095	5,455	
Income distributed by the fund	(2,340)	(2,738)	(3,423)	

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 is projected to make returns averaging 5.02 per cent over the life of the Three Year Plan.

Share Investments	2011 Actual $000	2012 Actual $000	2013 Forecast $000	Three Year Plan Target
New Zealand Local Government Funding Agency Limited				
Investment	-	2,000	1,866	
Dividend	-	-	-	Return equal to LGFA cost of funds plus 2%
New Zealand Local Government Insurance Corporation Limited				
Investment	**744**	**1,829**	**1,653**	
Dividend	**-**	**-**	**-**	**0%**
Revaluation	**(673)**	**1,085**	**(88)**	
Transwaste Limited				
Investment	6,196	6,196	6,196	
Dividend	2,190	2,424	2,684	
Return	35%	39%	43%	9%
Endeavour Icap				
Investment	4,541	2,454	2,134	
Dividend / (Redemption)	(276)	-	(92)	0%
Investment / (Revaluation)	149	(2,087)	(228)	

The Council has made several equity investments in companies that provide services to local government or to facilitate economic development.

The New Zealand Local Government Funding Agency Limited (LGFA) was set up in 2012 to provide Council shareholders with access to funding at lower interest rates than what each could individually access. Over the life of the Three Year Plan the Council is targeting dividend returns of 2 per cent above the LGFA's cost of funds. LGFA have indicated in their statement of intent that this is the methodology that it will use to set the dividend payment amount.

The New Zealand Local Government Insurance Corporation Limited trades as Civic Assurance and provides insurance services to Local Government. Over the life of the Three Year Plan the Council is expecting no investment return.

Transwaste Limited provides the Council with its non-hazardous regional landfill. Over the life of the Three Year Plan the Council is targeting returns of 9 per cent on its capital investment.

The Endeavour Icap Fund is an investment fund for start up, early development and for existing businesses looking to expand in global markets operating in CleanTech, ICT and advanced manufacturing with a sustainability theme. Over the life of the Three Year Plan the Council is expecting no financial return as the investment is maintained for economic development objectives.

CCTOs	2011 Actual $000	2012 Actual $000	2013 Forecast $000	Target
Investment in CCTOs	192,604	200,708	202,104	
Increase in valuation	(3,583)	8,104	1,396	
Dividend Income	-	-	-	No dividends
Return (percentage)	-1.83%	4.21%	0.7%	0%
Loans to CCTOs	121,134	109,480	110,054	
Interest income	14,705	9,933	8,265	
Average interest rate	12.1%	9.1%	7.5%	Market rate

The Council has made equity investments in Vbase Limited, Tuam Limited, Civic Building Limited and Canterbury Development Corporation Holdings Limited and from time to time extends loans to these companies at market rates. The CCTOs have been established to enable administrative efficiencies to be achieved, for example as property owner for Council assets where a commercial business model is appropriate.

Over the life of the Three Year Plan the Council expects to receive a market rate of interest on loans advanced but no immediate financial return is expected on the equity investment.

Community Loans	2011 Actual $000	2012 Actual $000	2013 Forecast $000	Three Year Plan Target
Loans advances	4,512	4,503	3,843	
Interest revenue	47	39	27	
Average interest rate	1.0%	0.9%	0.7%	0%–8% interest rate

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 8% depending on when they were granted and the conditions imposed on them at the time.

5. Major capital projects planned for the years ended 30 June 2014, 2015 and 2016

The Council in its Three Year Plan outlined its capital programme for the years ended 30 June 2014, 2015 and 2016. The high level details of this plan are provided as follows. The Three Year 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 three year plan is available on our website at http://www.ccc.govt.nz/thecouncil/policiesreportsstrategies/ltccp/index.aspx.

The planned capital programme for 2014 - 2016 is $2.7 billion. Capital programmes look forward and include projects to provide new infrastructure and facilities as Christchurch grows. Rebuilding the Council's 1600 damaged facilities and repairing infrastructure is also included in the capital programme.

The capital programme is split into four portfolios:

- the continuing capital programme
- the major community facilities programme
- the facilities rebuild programme
- the infrastructure rebuild programme.

a) Continuing Capital Programme

The capital programme includes $578 million budget for the maintenance and renewal of Christchurch's extensive existing infrastructure, as well as the development of new services, buildings and networks (excluding the rebuild). This includes providing infrastructure to cope with new growth in the north and south-west of Christchurch.

Key projects include:

- Botanic Gardens Visitor Centre
- Ferrymead Bridge
- Belfast Library and Service Centre
- Akaroa and Wainui sewer and water upgrades
- Northern arterial motorway extension between Cranford Street and QEII
- Cycle Network

b) Major Community Facilities

There is $519 million budgeted to repair or rebuild 10 earthquake-damaged major community facilities. These facilities include anchor projects in CERA's Christchurch Central Recovery Plan and key Council community facilities.

As part of the Council's 2012/13 Annual Plan, the Council agreed to rebuild or repair:

- Christchurch Town Hall
- Christchurch Convention Centre
- Former AMI Stadium
- Christchurch Art Gallery
- Central Library
- Central City Multi-Sport Facility
- South-West Library and Service Centre
- Lichfield and Manchester Street Carparks
- Eastern Aquatic Facility
- Athletics Track replacement for the track lost at QEII

These financial commitments were made by the Council in the 2012-13 Annual Plan. In adopting the Three Year Plan Council has included the recently agreed cost sharing agreement commitments made with the Crown. Our planned contribution will be funded through a mix of insurance proceeds, land sales and borrowing.

c) Facilities Rebuild Programme

There is $122 million set aside as the estimated cost of reinstating the 1600 other Council facilities damaged in the earthquakes, including social housing. Many of the 1600 facilities still need to be fully assessed. The cost of improving or strengthening Council facilities above their pre-earthquake strength is not covered here but is included in the Council buildings and infrastructure improvement allowance built into the financial strategy.

d) Infrastructure Rebuild

The estimated cost of repairing and replacing damaged infrastructure over the next three years has risen to $1.5 billion. This is due to more underground pipe damage than first thought, particularly to sewer and stormwater pipes. Previous estimates were based on visual inspections, but the revised estimate is based on closed circuit television inspections and predictive modelling.
The estimated cost of repairing roading – including roads, footpaths, cycleways, street lighting, bridges and retaining walls remains unchanged.

Pre-election Report 2013
Christchurch Ōtauahi 19

Christchurch
City Council