Financial Overview

Christchurch City Three Year Plan

Christchurch Ōtautahi

Photographer: Steve Taylor   Title: 'The Golden Light'   Location: New Brighton Pier, Christchurch

Christchurch City Council

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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 $000	Three Year Plan 2013 - 2016 2013/14	2014/15	2015/16
Operating expenditure	454,579	450,912	422,941
Capital programme	932,005	1,086,464	732,021
Transfers to reserves	10,208	9,610	9,828
Interest expense	40,637	57,477	79,061
Debt repayment	8,218	11,502	15,717
Total expenditure	**1,445,647**	**1,615,965**	**1,259,568**
funded by :			
Fees, charges and operational subsidies	142,864	146,961	144,183
Dividends and interest received	64,816	63,733	66,165
Transfers from reserves	89,164	8,326	7,356
Asset sales	75,792	14,268	1,296
Development contributions	13,000	17,466	21,140
Earthquake rebuild recoveries	416,194	449,905	265,997
Capital grants and subsidies	21,546	23,036	19,350
Total funding available	**823,376**	**723,695**	**525,487**
Balance required	**622,271**	**892,270**	**734,081**
Borrowing for capital programme and grants	98,254	107,141	104,143
Borrowing for earthquake recovery	186,884	427,685	246,111
Borrowing for operational costs	4,145	676	1,201
Rates	**332,988**	**356,768**	**382,626**
Nominal rates increase	7.70%	7.14%	7.25%
Percentage rate increase to existing ratepayers	**6.67%**	**6.50%**	**6.50%**

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 rates for $98 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 $394 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 $16.4 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 $1.18 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, 6.5 per cent and 6.5 per cent, inclusive of the 1.93 per cent special charge. Because rates include interest expense and debt repayment, the capital programme causes 3% 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 $7 million have been made, primarily in infrastructure and facility maintenance budgets, although significant cuts have also been made to IT and printing costs. The $7 million is net of a $4.1 million increase for advancing the review of the District Plan. 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 $378 million, only $2 million higher 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 excluding earthquake response costs would have given an upper limit of $387 million, meaning that the overall saving is closer to $13 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 $932 million in the capital programme in year one. The programme increases in years two and three to 1.1 billion, and $0.7 billion 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%

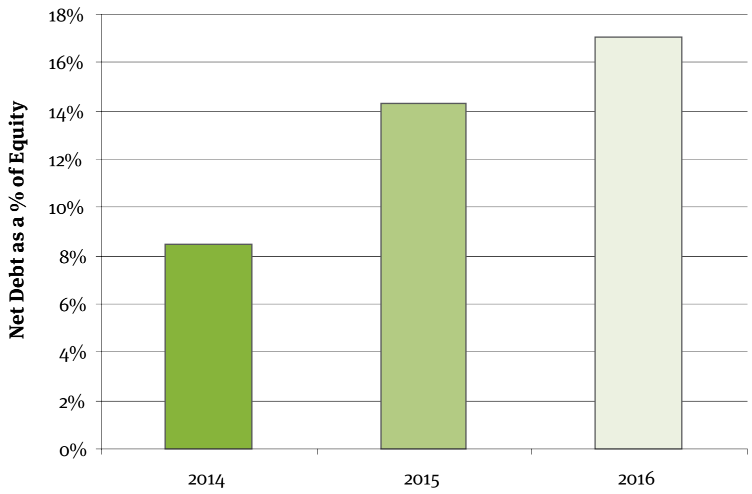
*excludes non government capital contributions

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

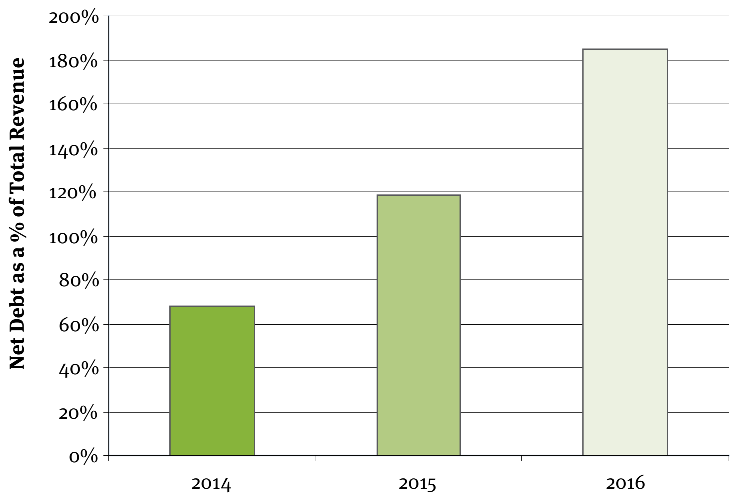
All ratio limits other than 'net debt as a percentage of equity' have been increased to reflect Council's increasing debt and interest over the next six years as detailed in the Financial Strategy. The new ratio limits are based on those set by LGFA and represent good practice. As indicated in the ratio 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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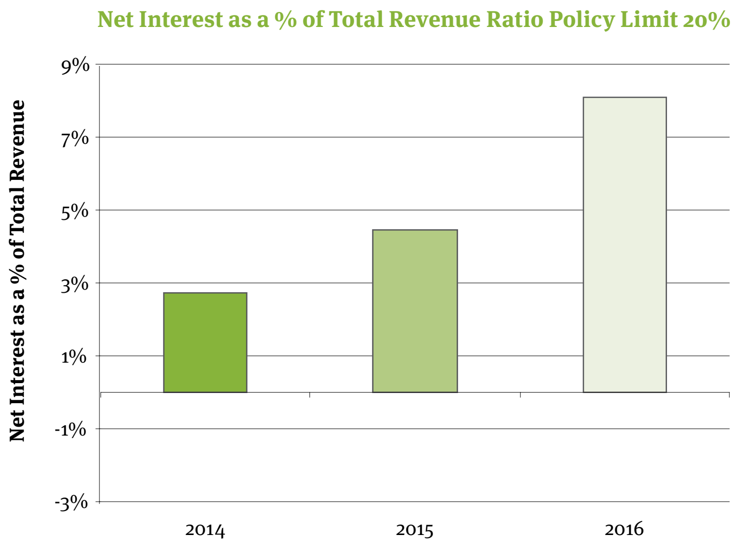

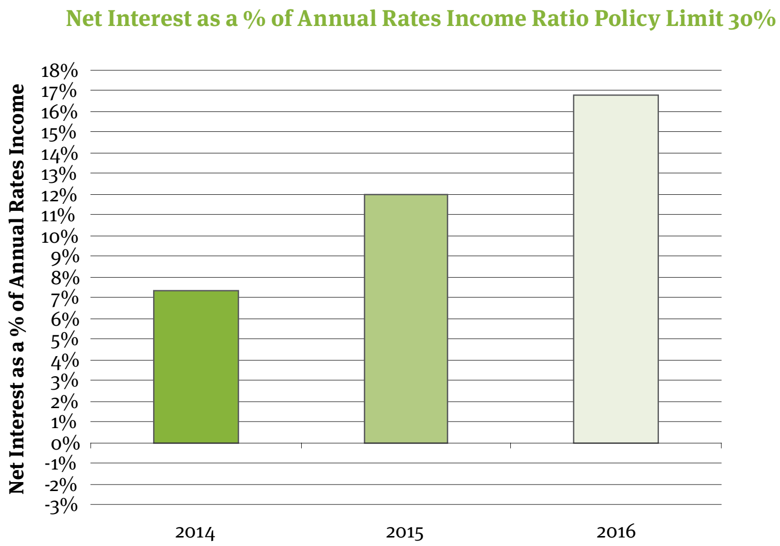

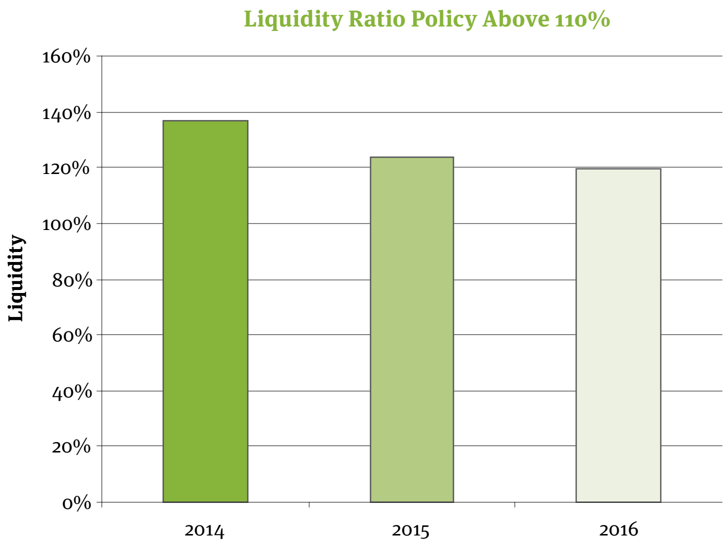

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Table 1 - Council funding excluding earthquake rebuild

$000	Three Year Plan 2013 - 2016 2013/14	2014/15	2015/16
Operating expenditure	375,331	383,212	391,655
Capital grants	2,300	2,335	6,666
Capital programme	194,965	243,575	251,601
Transfers to reserves	59,005	51,422	53,312
Interest expense	32,792	37,317	43,404
Debt repayment provision	8,218	11,502	15,717
Landfill aftercare	330	350	338
Total expenditure	**672,941**	**729,713**	**762,693**
funded by :			
Operating revenue	122,143	132,227	136,599
Dividends received	48,744	48,940	51,271
Interest received	14,868	14,793	14,895
Transfers from reserves	14,337	8,326	7,356
Asset sales	1,192	6,768	1,296
Development contributions	13,000	17,466	21,140
Capital grants and subsidies	26,686	31,942	29,093
Total funding available	**240,970**	**260,462**	**261,650**
Balance required	**431,971**	**469,251**	**501,043**
Borrowing			
Borrowing for capital programme	104,484	126,544	143,392
Borrowing for operating deficit	129	(8,064)	(18,589)
Total borrowing	**104,613**	**118,480**	**124,803**
Rates			
Ordinary rates	311,051	327,364	344,995
Special earthquake charge*	16,307	23,407	31,245
Total rates (excludes facilities charge)**	**327,358**	**350,771**	**376,240**

$000	Three Year Plan 2013 - 2016 2013/14	2014/15	2015/16
Total Rates Increase	7.70%	7.14%	7.25%
Rates increase incl growth	6.67%	6.50%	6.50%
Special Earthquake Charge*	1.93%	1.93%	1.93%
Ordinary Rates Increase incl Growth	**4.74%**	**4.57%**	**4.57%**

Table 1a - Operating deficit included in above

$000	Three Year Plan 2013 - 2016 2013/14	2014/15	2015/16
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	1,536	1,443	1,056
	16,436	**15,343**	**12,656**
funded by :			
Borrowing for earthquake operating deficit	129	(8,064)	(18,589)
Special earthquake charge*	16,307	23,407	31,245
	16,436	**15,343**	**12,656**
Debt balance	**27,963**	**19,899**	**1,310**

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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	613,557	637,417	333,644
Emergency and response costs	76,947	65,366	24,620
Buildings / infrastructure improvement allowance	25,000	8,525	43,275
Interest expense	7,845	23,219	34,999
	723,349	**734,527**	**436,538**
funded by :			
Operational subsidies	20,721	14,735	7,585
Rebuild subsidies and recoveries	371,970	373,656	200,476
Transfers from reserves	31,628	41,812	43,484
Borrowing	299,030	304,324	184,993
	723,349	**734,527**	**436,538**
Debt balance	**414,630**	**718,954**	**903,946**

Table 3 - Major community facilities funding

	Three Year Plan 2013 - 2016		
	2013/14	**2014/15**	**2015/16**
$000			
Rebuild programme	125,238	223,849	184,486
Interest expense	-	(3,059)	658
Transfers to reserves	1,203	-	-
	126,441	**220,790**	**185,144**
funded by :			
Insurance recoveries	39,084	67,343	55,776
Interest revenue	1,203	-	-
Transfers from reserves	93,199	-	-
Central City land sales	74,600	7,500	-
Use of improvement allowance	25,000	8,525	43,275
Borrowing	(114,360)	112,699	41,658
Ordinary rates	2,085	18,727	38,049
Major community facilities rates charge**	5,630	5,996	6,386
	126,441	**220,790**	**185,144**
Debt balance	**(114,360)**	**(1,661)**	**39,997**

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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	454,579	450,912	422,941
844,662	Capital programme	5	932,005	1,086,464	732,021
17,010	Transfers to reserves	2	10,208	9,610	9,828
36,384	Interest expense	3	40,637	57,477	79,061
4,313	Debt repayment	4	8,218	11,502	15,717
1,338,495	**Total expenditure**		**1,445,647**	**1,615,965**	**1,259,568**
	funded by :				
153,821	Fees, charges and operational subsidies	6	142,864	146,961	144,183
61,343	Dividends and interest received		64,816	63,733	66,165
210,547	Transfers from reserves	7	89,164	8,326	7,356
1,205	Asset sales	8	75,792	14,268	1,296
8,655	Development contributions		13,000	17,466	21,140
386,137	Earthquake rebuild recoveries		416,194	449,905	265,997
9,032	Capital grants and subsidies		21,546	23,036	19,350
830,740	**Total funding available**		**823,376**	**723,695**	**525,487**
507,755	**Balance required**		**622,271**	**892,270**	**734,081**
141,075	Borrowing for capital programme and grants		98,254	107,141	104,143
57,507	Borrowing for earthquake recovery		186,884	427,685	246,111
-	Borrowing for operational costs		4,145	676	1,201
309,173	**Rates**		**332,988**	**356,768**	**382,626**
7.61%	Nominal rates increase		7.70%	7.14%	7.25%
7.80%	**Percentage rate increase to existing ratepayers**		**6.67%**	**6.50%**	**6.50%**

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 1

Annual Plan 2012/13	Operating Expenditure	Three Year Plan 2013 - 2016 2013/14	2014/15	2015/16
	$000			
26,359	City planning and development	25,680	25,633	25,340
42,125	Community support	42,528	41,179	42,359
49,343	Cultural and learning services	47,442	51,221	58,501
12,517	Democracy and governance	13,548	12,886	12,906
9,483	Economic development	9,845	10,271	10,332
44,014	Parks and open spaces	45,457	43,767	44,143
33,835	Recreation and leisure	33,555	35,518	38,094
43,560	Refuse minimisation and disposal	43,758	44,616	46,444
49,390	Regulatory services	46,431	49,265	47,892
108,262	Provision of roads and footpaths	95,366	99,039	103,182
73,748	Treatment and disposal of sewage	64,128	61,754	59,471
31,580	Water supply	30,975	31,258	31,976
24,289	Stormwater drainage and flood protection	24,184	24,787	25,680
37,950	Corporate activities	78,683	90,820	77,047
586,455	**Total group of activity expenditure**	**601,580**	**622,014**	**623,367**
113,579	Less depreciation (non cash)	106,364	113,625	121,365
36,384	Less interest expense shown separately	40,637	57,477	79,061
366	Less other non cash expenditure	-	-	-
436,126	**Operating expenditure**	**454,579**	**450,912**	**422,941**

Annual Plan 2012/13		Three Year Plan 2013 - 2016 2013/14	2014/15	2015/16
	$000			
	Note 2			
	Transfers to Reserves			
10,367	Interest credited to special funds and reserves	6,686	6,595	6,669
176	Ratepayer funding of 8% of Dog Control costs	184	187	191
843	Housing cash operating result	2,225	2,910	3,062
165	Dog Control cash operating result	(161)	(153)	(165)
5,459	Earthquake rebuild fund interest	1,203	-	-
-	Burwood Landfill capping contirubtion	71	71	71
17,010		**10,208**	**9,610**	**9,828**
	Note 3			
	Interest Expense			
9,159	Existing capital works	15,297	20,154	25,862
11,605	Earthquake related costs	9,381	21,603	36,713
8,102	Equity investments	9,234	9,238	9,410
7,503	Advances to Council organisations	6,725	6,482	7,076
15	Separately funded activities borrowing	-	-	-
36,384		**40,637**	**57,477**	**79,061**
	Note 4			
	Debt Repayment provided for			
74	Targeted rates - loan principal	38	38	38
4,232	Existing capital works debt	8,178	11,464	15,668
7	Housing loan repayment	2	-	11
4,313		**8,218**	**11,502**	**15,717**

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Note 5

Annual Plan 2012/13	Capital Programme Summary	Three Year Plan 2013 - 2016 2013/14	2014/15	2015/16
	$000			
1,116	City planning and development	493	496	577
10,583	Community support	10,347	13,642	13,864
43,414	Cultural and learning services	40,014	47,096	29,631
-	Democracy and governance	-	-	-
167	Economic development	179	187	194
33,403	Parks and open spaces	29,283	16,189	19,591
5,563	Recreation and leisure	25,475	111,531	53,715
2,301	Refuse minimisation and disposal	4,567	1,066	789
85	Regulatory services	309	218	171
196,435	Provision of roads and footpaths	259,829	283,698	200,109
300,945	Treatment and disposal of sewage	392,086	399,539	200,304
105,373	Water supply	29,771	26,150	14,737
43,923	Stormwater drainage and flood protection	76,430	82,096	49,295
101,354	Corporate	63,222	104,556	149,044
844,662	**Total capital programme**	**932,005**	**1,086,464**	**732,021**
	funded by :			
1,205	Sale of assets	75,792	14,268	1,296
95,944	Rates (for renewals)	98,000	101,713	104,808
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	449,905	265,997
202,088	Reserve drawdowns	82,874	3,966	3,222
8,655	Development contributions	13,000	17,466	21,140
9,032	Capital grants and subsidies	21,546	23,036	19,350
708,923	**Total funding available**	**713,366**	**616,700**	**422,537**
135,739	**Capital programme borrowing**	**218,639**	**469,764**	**309,484**

Annual Plan 2012/13		Three Year Plan 2013 - 2016 2013/14	2014/15	2015/16
	$000			
5,336	Borrowing for grants	2,298	2,335	6,666
57,507	Borrowing for earthquake response	64,201	62,727	34,104
-	Borrowing for operational costs	4,145	676	1,201
198,582	Total new borrowing	289,283	535,502	351,455
4,357	Less debt repayment (incl housing)	8,218	11,502	15,717
194,225	**Net change in borrowing**	**281,065**	**524,000**	**335,738**
784,855	**Cumulative debt**	**897,675**	**1,421,675**	**1,757,413**

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Note 6

Annual Plan 2012/13	Fees, Charges and Operational Subsidies $000	Three Year Plan 2013 - 2016 2013/14	2014/15	2015/16
1,399	City planning and development	944	697	1,153
15,874	Community support	15,703	16,892	17,378
4,109	Cultural and learning services	3,028	4,068	4,248
-	Democracy and governance	350	-	-
47	Economic development	22	22	23
3,505	Parks and open spaces	3,373	3,507	3,250
12,935	Recreation and leisure	14,232	15,033	18,698
9,069	Refuse minimisation and disposal	9,720	9,986	10,274
38,304	Regulatory services	36,247	40,493	40,384
20,867	Provision of roads and footpaths	18,987	20,861	19,114
21,300	Treatment and disposal of sewage	17,964	13,370	9,739
4,714	Water supply	5,499	4,920	4,302
4	Stormwater drainage and flood protection	20	21	21
22,640	Corporate activities	17,719	18,064	16,599
154,767	**Total group of activity operating revenue**	**143,808**	**147,934**	**145,183**
946	Less non cash revenue	944	973	1,000
153,821	**Fees, charges and operational subsidies**	**142,864**	**146,961**	**144,183**

Annual Plan 2012/13	$000	Three Year Plan 2013 - 2016 2013/14	2014/15	2015/16
	Note 7			
	Transfers from Reserves			
-	Reserves a/c - reserve purchases	3,020	314	22
1,098	Housing - net capital programme	3,560	3,499	3,049
80	Dog Account - capital programme	264	154	152
3,165	Capital endowment fund - grants	5,830	3,939	4,122
-	Income equalisation fund - carry forward funding	458	420	-
206,197	Earthquake recovery fund - rebuild	76,030	-	-
7	Housing debt repayment	2	-	11
210,547		**89,164**	**8,326**	**7,356**
	Note 8			
	Asset Sales			
219	Plant and vehicle disposals	218	229	238
560	Surplus property sales	548	6,094	595
426	Surplus roading land sales	426	445	463
-	Earthquake related land sales	74,600	7,500	-
1,205		**75,792**	**14,268**	**1,296**