

# Financial Overview

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The sections below outline significant changes contained in the 2020/21 Annual Plan compared to what was forecast in the 2018-28 Long Term Plan (LTP). The table shows the total funding requirements for the Council for 2020/21 and the variance from that detailed in the LTP. Overall, operating expenditure and interest costs are \$582 million, \$24.9 million lower than the LTP. Key changes to the financial statements are reflected and explained below.

## Operating expenditure

Operational expenditure is \$3.1 million below the level forecast in the LTP. Significant expenditure reductions from the LTP include:

- Vbase personnel costs (\$8.3 million), offset by cost recoveries. Council no longer provides a payroll service to Vbase.
- Lower costs in Building Consents (\$7.9 million), reflecting lower volumes.
- Museum Redevelopment grant (\$7.4 million) deferred one year on Museum Trust's advice.
- Reduction in external consulting budgets (\$3.3 million).
- IT savings (\$2.3 million), reflecting savings identified.
- Reduction in grants to ChristchurchNZ and Heritage (\$1.8 million).
- 70% reduction in training and travel for staff and elected members (\$1.6 million).
- Reduction in insurance premiums (\$1.2 million).
- Ceasing funding to Regenerate Christchurch (\$1.0 million). \$3 million was also repurposed to other regeneration activities.

There has been an increase in expenditure from the LTP for:

- EcoCentral Recycling annual processing fee of \$8.8 million. This continues through to 2024 to allow time to develop a long term solution for dealing with those recyclable materials that can no longer be shipped to offshore markets.
- Funding provision of \$8.5 million to address potential non-compliance with the Holidays Act.
- Revaluation of the Council's Infrastructure networks has led to a \$4.5 million increase in rates that Council pays itself.
- Additional legal costs of \$2.9 million relating to several matters currently in dispute.
- Electricity price increase (\$1.5 million).
- Additional temporary water supply treatment costs (\$0.8 million).

## Interest Expense

Interest costs are \$21.7 million lower than the LTP, \$3.1 million of which relates to the correction of an overstatement in the LTP. (Interest expense was overstated with a compensating offset in interest revenue.) The balance of the decrease reflects a \$54.9 million reduction in borrowing by June 2021 compared to the LTP and savings through lower interest rates. Borrowing has been reduced because of slower capital delivery.

## Depreciation

Depreciation expense is charged on a straight line basis on both operational and infrastructure assets but not directly rated for. Instead the Annual Plan includes rating of \$138.7 million for the renewal and replacement of existing assets. This is consistent with the Financial Strategy.

## Revenue

Property based rates are the primary source of revenue. A brief explanation of each source of revenue is included in the Funding Impact Statement rating policy section of the LTP.

Total revenue excluding rates is \$62.5 million lower than that in the LTP. The main decreases in revenues are:

- Reduction in CCHL dividend (\$32.2 million) – reflecting the impact of COVID-19 on the group.
- Reduction in interest revenue (\$12.3 million). \$3.1 million is due to the LTP overstatement mentioned above, the balance is due to falling interest rates.
- Lower volumes of building consents (\$10.5 million) reflecting the drop in demand. These are largely offset by cost reductions.
- Lower Vbase recoveries (\$8.3 million) – offset by lower costs above.
- Expected reduced revenue from facilities, parking, infringement fees, subvention credits and other sources of \$6.8 million reflecting the impact of COVID-19.
- Reduction in NZTA capital subsidy of \$5.4 million as a result of changes in the capital programme.
- Lower Housing revenues (\$2.7 million), reflecting current income received due to the transfer of housing stock to the Ōtautahi Community Housing Trust.
- Reduction in Trade Waste revenues (\$2 million), due to several large clients who have downsized their business.

Significant revenue increases from the LTP include:

- Additional capital grants revenue from the Christchurch Earthquake Appeal Trust (\$7 million).
- Higher Transwaste dividends (\$2.9 million), with \$2.5 million brought forward from 2021/22.
- Crown funding for the Canterbury Multi Use Arena construction costs (\$5.4 million). The Crown's contribution had not been confirmed when the LTP was adopted.

## Surplus, operating deficits, and sustainability

The Local Government Act 2002 requires that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses (i.e. a balanced budget). For 2020/21 two significant issues are driving an operating deficit. The first is the significant post COVID-19 revenue reduction. The largest contributor is the lower CCHL dividend (\$32.2 million), along with a reduction in operating revenues and subvention credits of \$6.8 million.

Council plans to borrow \$36.25 million to cover this operational shortfall, plus a further \$21.15 million in 2021/22 as lower CCHL dividends are expected for several years.

Most other revenue is expected to recover by 2021/22. All COVID-19 related borrowing is planned to be repaid over five years. Borrowing

for this short term but significant loss of revenue, and repaying the debt over a five year timeframe is considered a financially prudent response to this event.

The second issue is a significant increase in the valuation of Three Waters infrastructure which has led to an increase in annual depreciation. Depreciation is included as a cost for the balanced budget determination. Council does not rate for depreciation, but for long run average asset renewals. The intention is to steadily increase the level of rating for renewals in line with the Financial Strategy.

## Capital programme expenditure

The capital programme is budgeted at \$507.1 million in 2020/21, a decrease of \$2.9 million from the LTP. The majority of changes are in the timing of delivery with no overall change to LTP funding although the following capital project changes have been included.

- Evans Pass Road and Reserve Terrace Remedial Works \$13.3 million (2020/21 – \$4.8 million).
- Housing – Warm and Dry Initiative (\$7.4 million) funded by the Housing Fund.
- Carriageway Reseals – Chipseal (\$4.5 million) – additional pre-sealing programme to provide for earlier resealing in 2021/22.
- Traffic Signal Cabinets Safety Improvements \$3.2 million (2020/21 – \$1.6 million) to

- address signal box safety issues.
- Bexley Closed Landfill - Foreshore Remediation Project \$1.5 million (2020/21 – \$1.0 million) via funding substitution from the Inner City Waste Collection System project.
- Safety Improvements: Guardrails - Dyers Pass route \$5.8 million (2020/21 – \$2.9 million).
- Pedestrian/Cycle Safety Improvements - Dyers Pass route \$1.5 million (2020/21 – \$0.7 million).
- Carriageway Smoothing Accessible City>40mm \$1.35 million in 2020/21.
- Footpath Renewals delivery project \$0.65 million in 2020/21.

Council has concluded funding agreements with the Crown and the Christchurch Earthquake Appeal Trust to deliver regeneration works in the City and has added these to the Annual Plan. The planned spend for these projects in 2020/21 is:

- Canterbury Multi Use Arena including site decontamination (\$15.4 million)
- Ōtākaro Avon River Corridor (\$7 million).
- Capital Regeneration Acceleration Fund (CRAF) programme (Roads & Footpaths) (\$0.7 million).
- Performing Arts Precinct including site decontamination (\$2.7 million).

Reduced budget has been provided for Christchurch Art Gallery Collections Acquisitions - \$0.25 million in 2020/21.

## Capital programme funding

The capital programme is funded by earthquake recoveries, subsidies and grants for capital expenditure, development contributions, the proceeds of asset sales and debt.

The capital release programme from CCHL was completed in 2018/19.

## Borrowing

The Annual Plan includes new borrowing in 2020/21 of \$192.3 million, a reduction of \$124 million from the LTP.

Gross debt at 30 June 2021 is expected to be \$2.19 billion as shown in Note 7 below. This is \$54.9 million lower than planned in the LTP, reflecting funds on hand due to lower capital delivery in 2018/19 and 2019/20.

## Financial risk management strategy

The Council has five financial ratios which form a key part of its financial risk management strategy and are the limits for Council's borrowing from the Local Government Funding Agency. These define the limits within which the Council must maintain its balance sheet and borrowing ratios. The Council anticipates staying well within these five financial ratio limits for 2020/21. In addition there are a further eight ratios required under the Local Government (Financial Reporting and Prudence) Regulations

2014 (two are Annual Report only ratios) which determine the financial prudence of Council's budgets. Two of these benchmarks are not met, the balanced budget benchmark which is 90% principally due to the impact COVID-19 has had on Council revenue, and the Debt Servicing benchmark which is 11.5%. This unbalanced budget is considered financially prudent given it is for the 2020/21 year only and forecast to be back within benchmark limits in the 2021/22 year. Forecast results against the benchmarks are included within the Financial Prudence Benchmarks section of this document.

Annual Plan 2019/20	Financial Overview	Note	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
			\$000		
	<b>Funding Summary</b>				
500,063	Operating expenditure	1	496,473	493,336	(3,137)
419,758	Capital programme	2	509,985	507,090	(2,895)
92,308	Interest expense	3	110,382	88,635	(21,747)
47,308	Debt repayment		61,125	50,629	(10,496)
<b>1,059,437</b>	<b>Total expenditure</b>		<b>1,177,965</b>	<b>1,139,690</b>	<b>(38,275)</b>
	<i>funded by :</i>				
159,493	Fees, charges and operational subsidies	4	161,003	127,999	(33,004)
81,490	Dividends and interest received		88,654	47,567	(41,087)
4,986	Asset sales	5	485	4,994	4,509
12,952	Development contributions		21,873	21,874	1
69,814	Capital grants and subsidies		36,539	43,579	7,040
172,373	Movement in reserves	6	1,028	142,618	141,590
-	Working Capital reduction		-	1,569	1,569
<b>501,108</b>	<b>Total funding available</b>		<b>309,582</b>	<b>390,200</b>	<b>80,618</b>
<b>558,329</b>	<b>Balance required</b>		<b>868,383</b>	<b>749,490</b>	<b>(118,893)</b>
30,263	Borrowing	7	316,312	192,265	(124,047)
<b>528,066</b>	<b>Rates</b>	8	<b>552,071</b>	<b>557,225</b>	<b>5,154</b>
520,861	<b>Rates to be levied on 1 July</b>		545,143	550,831	5,688
7.70%	Nominal rates increase on 1 July		5.89%	5.75%	-0.14%
<b>4.85%</b>	<b>Percentage rate increase to existing ratepayers</b>		<b>5.00%</b>	<b>3.80%</b>	<b>-1.20%</b>

## Notes to Financial Overview

Annual Plan 2019/20	Note 1 Operating Expenditure	Long Term Plan 2020/21 \$000	Annual Plan 2020/21	Variance to LTP
141,815	Communities & Citizens	152,890	142,907	(9,983)
4,561	Flood Protection	1,459	2,616	1,157
18,103	Governance	16,995	17,905	910
21,273	Housing	22,708	21,668	(1,040)
68,508	Parks, Heritage & Coastal Environment	57,272	71,454	14,182
51,132	Refuse Disposal	48,259	56,505	8,246
52,276	Regulatory & Compliance	56,142	41,697	(14,445)
118,658	Roads & Footpaths	121,963	118,481	(3,482)
33,728	Stormwater Drainage	33,479	42,957	9,478
41,634	Strategic Planning & Policy	43,494	36,406	(7,088)
25,805	Transportation	25,644	25,068	(576)
97,329	Wastewater	104,035	113,995	9,960
66,134	Water Supply	67,999	75,475	7,476
96,352	Corporate	99,337	85,373	(13,964)
<b>837,308</b>	<b>Total group of activity expenditure</b>	<b>851,676</b>	<b>852,507</b>	<b>831</b>
244,937	Less depreciation (non cash)	244,821	270,536	25,715
92,308	Less interest expense shown separately	110,382	88,635	(21,747)
<b>500,063</b>	<b>Operating expenditure</b>	<b>496,473</b>	<b>493,336</b>	<b>(3,137)</b>

Annual Plan 2019/20	Note 2 Capital Programme	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP	Expenditure Category		
					Renewals & Replacements	Improved LOS	Increase Demand
69,614	Communities & Citizens	103,016	111,946	8,930	92,529	1,500	17,917
24,522	Flood Protection	48,346	24,376	(23,970)	2,631	162	21,583
-	Governance	-	-	-	-	-	-
3,661	Housing	4,117	11,527	7,410	11,527	-	-
20,143	Parks, Heritage & Coastal Environment	28,350	26,993	(1,357)	14,501	8,633	3,859
2,570	Refuse Disposal	2,966	2,966	-	2,277	689	-
2	Regulatory & Compliance	-	3	3	3	-	-
78,373	Roads & Footpaths	75,826	87,357	11,531	21,477	60,600	5,280
19,987	Stormwater Drainage	22,439	21,863	(576)	21,803	-	60
872	Strategic Planning & Policy	1,020	904	(116)	-	-	904
30,483	Transportation	34,405	14,976	(19,429)	2,395	12,483	98
58,782	Wastewater	85,817	55,757	(30,060)	44,232	10,132	1,393
33,154	Water Supply	53,281	35,459	(17,822)	31,742	1,983	1,734
77,595	Corporate	50,402	112,963	62,561	34,791	88,249	(10,077)
<b>419,758</b>	<b>Total capital programme</b>	<b>509,985</b>	<b>507,090</b>	<b>(2,895)</b>	<b>279,908</b>	<b>184,431</b>	<b>42,751</b>

The Corporate capital programme includes unspecified carry forwards of \$88.7 million.

### Note 3 Interest Expense

59,741	Capital programme / earthquake recovery	76,025	56,389	(19,636)
10,321	Equity investments	8,504	14,858	6,354
21,404	Advances to Council organisations	24,550	17,223	(7,327)
842	Advances to housing trust	1,303	165	(1,138)
<b>92,308</b>		<b>110,382</b>	<b>88,635</b>	<b>(21,747)</b>

Equity investments interest expense includes Vbase equity (\$7.2 million) and the Civic Building Finance Lease (\$6.6 million).

Annual Plan 2019/20	Note 4 Fees, Charges and Operational Subsidies	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
\$000				
18,707	Communities & Citizens	18,913	17,684	(1,229)
-	Flood Protection	-	34	34
703	Governance	-	44	44
15,057	Housing	18,039	15,381	(2,658)
4,842	Parks, Heritage & Coastal Environment	4,138	3,685	(453)
11,096	Refuse Disposal	10,401	9,577	(824)
43,012	Regulatory & Compliance	46,649	33,309	(13,340)
16,450	Roads & Footpaths	15,034	15,596	562
16	Stormwater Drainage	17	17	-
1,242	Strategic Planning & Policy	1,151	1,024	(127)
19,446	Transportation	18,887	18,490	(397)
7,232	Wastewater	7,245	5,504	(1,741)
651	Water Supply	650	656	6
21,772	Corporate Revenues & Expenses	20,611	7,732	(12,879)
<b>160,226</b>	<b>Total group of activity operating revenue</b>	<b>161,735</b>	<b>128,733</b>	<b>(33,002)</b>
733	Less non cash revenue	732	734	2
<b>159,493</b>	<b>Fees, charges and operational subsidies</b>	<b>161,003</b>	<b>127,999</b>	<b>(33,004)</b>

**Note 5  
Asset Sales**

19	Plant and vehicle disposals	-	-	-
4,492	Surplus property sales	-	4,509	4,509
475	Surplus roading land sales	485	485	-
<b>4,986</b>		<b>485</b>	<b>4,994</b>	<b>4,509</b>

**Note 6  
Movements in reserves**

(3,980)	Interest credited to special funds and reserves	(3,985)	(3,472)	513
(80,808)	Deposits	(91,210)	(88,917)	2,293
257,161	Withdrawals	96,223	235,007	138,784
<b>172,373</b>		<b>1,028</b>	<b>142,618</b>	<b>141,590</b>



Annual Plan 2019/20	Note 7 Borrowing	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
\$000				
419,758	Capital Programme	509,985	507,090	(2,895)
1,593	Capital grants	8,983	1,564	(7,419)
3,423	Operational costs	-	39,131	39,131
<b>424,774</b>	<b>Total funding requirement</b>	<b>518,968</b>	<b>547,785</b>	<b>28,817</b>
<b>Funding sources</b>				
4,986	Sale of assets	485	4,994	4,509
130,940	Rates (for renewals)	138,835	138,678	(157)
610	Rates (for landfill aftercare)	689	1,732	1,043
175,209	Reserve drawdowns	4,235	144,663	140,428
12,952	Development contributions	21,873	21,874	1
69,814	Capital contributions, grants and subsidies	36,539	43,579	7,040
<b>394,511</b>	<b>Total funding available</b>	<b>202,656</b>	<b>355,520</b>	<b>152,864</b>
<b>30,263</b>	<b>Borrowing requirement</b>	<b>316,312</b>	<b>192,265</b>	<b>(124,047)</b>
3,000	Borrowing for onlending	-	14,000	14,000
47,308	Less debt repayment	61,125	50,629	(10,496)
1,500	Less borrowing on behalf of subsidiaries repaid	1,965	1,300	(665)
<b>(15,545)</b>	<b>Net change in borrowing</b>	<b>253,222</b>	<b>154,336</b>	<b>(98,886)</b>
1,900,210	Opening debt	1,994,764	2,038,727	43,963
<b>1,884,665</b>	<b>Closing debt</b>	<b>2,247,986</b>	<b>2,193,063</b>	<b>(54,923)</b>
<b>Note 8 Rates</b>				
520,861	Rates levied 1 July	545,143	550,831	5,688
3,705	Excess water charges	3,744	3,894	150
3,500	Penalties	3,184	2,500	(684)
<b>528,066</b>		<b>552,071</b>	<b>557,225</b>	<b>5,154</b>