

Financial Overview

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The sections below outline significant changes contained in the Draft 2020/21 Annual Plan compared to what was forecast in the original Draft Annual Plan. The table shows the total funding requirements for the Council for 2020/21 and the variance from that detailed in the 2018-28 Long Term Plan (LTP). Overall, operating expenditure and interest costs are \$583.5 million; \$18.2 million lower than the original Draft Annual Plan, and \$23.4 million lower than the LTP. Key changes to the financial statements are reflected and explained below.

Operating expenditure

Operational expenditure is \$17.7 million below the level in the original Draft Annual Plan, significant changes include:

- Reduction in salary and wages by not filling vacancies and reviewing/reducing annual increases (\$5 million).
- Return to the use of glyphosate (\$3.5 million).
- Reduction in external consulting budgets (\$3.3 million).
- Reduction in maintenance to essential work only (\$2.6 million).
- Reduction in grants to ChristchurchNZ and Heritage (\$1.8 million).
- 70% reduction in training and travel for staff and elected members (\$1.6 million).
- Stop funding to Regenerate Christchurch (\$1.0 million).
- Reduction on Heathcote River dredging (\$1.0 million).

There has been a further increase in expenditure since the original Draft Annual Plan for:

- EcoCentral Recycling annual processing fee of \$3.8 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 (\$8.8 million more in total than LTP).
- Funding provision of \$2.9 million to address potential non-compliance with the Holidays Act (\$8.5 million more in total than 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.
- Museum Redevelopment grant (\$7.4 million) deferred one year on Museum Trust's advice.
- IT savings (\$3.1 million), reflecting savings identified.

Significant increases from the LTP include:

- Revaluation of the Council's Infrastructure networks has led to a \$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 \$0.5 million lower than projected in the original Draft Annual Plan due to falling interest rates. Interest expense is now \$21.6 million lower than the LTP, \$3.1 million of which relates to the correction of an error made in the treatment of interest within the LTP. (Interest expense was overstated with a compensating offset in interest revenue.) The balance of the decrease reflects \$29 million less borrowing by June 2021 compared to the LTP, along with 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 Draft 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 \$65.4 million lower than that in the original Draft Annual Plan. The main revenue changes are:

- Reduction in CCHL dividend (\$35.5 million) – reflecting the impact of Covid-19 on the group.
- Reduction in NZTA subsidy of \$23 million as a result of changes in the capital programme.
- Expected reduced revenue from facilities, parking, infringement fees, subvention credits and other sources of \$15 million.
- Reduction in interest revenue (\$3.4 million), with a \$13.5 million reduction from the LTP. \$3.1 million is due to the compensating error mentioned above, the balance is due to falling interest rates.
- Reduced rates penalty revenue of \$1.2 million as a result of reducing the penalty rate from 10% to 7%; partially offset by,
- Additional capital grants revenue from the Christchurch Earthquake Appeal Trust (\$12.7 million).
- Additional revenue from charging for excess usage of water by the top 20% of residential customers (\$2 million.) Note that 20% of residential households use more than 50% of the water supplied to residents.

Significant revenue changes from the LTP include:

- Lower Vbase recoveries (\$8.3 million) – offset by lower costs.
- Lower volumes of building consents (\$5.6 million) reflecting the drop in demand. These are largely offset by cost reductions.

- Reduction in Trade Waste revenues (\$2 million), due to several large clients who have downsized their business.
- Lower Housing revenues of \$2 million, reflecting current income received due to the transfer of housing stock to the Ōtautahi Community Housing Trust.
- Crown funding for the Canterbury Multi Use construction costs (\$5.4 million). The Crown's contribution had not been confirmed when the LTP was adopted

Surplus, operating deficits, and sustainability

The Draft Annual Plan for 2020/21 shows an accounting surplus of \$0.35 million before revaluations of \$232.5 million. Under accounting standards Council is required to show all revenue, including earthquake-related recoveries, and contributions from central Government and NZ Transport Agency, as income for the year. However, some of these recoveries reimburse Council for capital programme expenditure.

Capital programme expenditure

The capital programme is budgeted at \$517.4 million in 2020/21, an increase of \$7.4 million over the LTP.

Since the original 2020/21 Draft Annual Plan was released Council has concluded funding agreements with the Crown and the Christchurch Earthquake Appeals 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:

- Ōtākaro Avon River Corridor (\$12.7 million).
- Canterbury Multi Use Arena Site Decontamination (\$10.0 million)
- Capital Regeneration Acceleration Fund (CRAF) programme (Roads & Footpaths) (\$6.7 million).
- Performing Arts Precinct Site Decontamination (\$1.5 million).

The majority of changes are timing changes with no overall change to LTP funding however the following funding changes have been included.

- Evans Pass Road and Reserve Terrace Remedial Works \$13.3 million (2020/21 – \$6.3 million).
- 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.
- Additional funding has been provided on:
- 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 AC>40mm \$1.35 million in 2020/21.
- Footpath Renewals delivery project \$0.65 million in 2020/21.

Reduced funding has been provided on the 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 Draft Annual Plan includes new borrowing in 2020/21 of \$217.8 million, a reduction of \$29.7 million from the original Draft Annual Plan.

Gross debt at 30 June 2021 is expected to be \$2.22 billion. This is \$29 million lower than planned in the LTP, reflecting funds on hand due to lower capital delivery in 2018/19 and 2019/20. Detail is set out in Note 9 below.

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 which determine the financial prudence of Council's budgets.

Two of these benchmarks are not met, the balanced budget benchmark which is 90% and the Debt Servicing benchmark which is 11.7%. 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 eleven of the thirteen benchmarks are included within the Financial Prudence Benchmarks section within this document.

Notes to Financial Overview

Annual Plan 2019/20	Note 1 Operating Expenditure	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
\$000				
141,815	Communities & Citizens	152,890	143,324	(9,566)
4,561	Flood Protection	1,459	2,630	1,171
18,103	Governance	16,995	17,543	548
21,273	Housing	22,708	21,184	(1,524)
68,508	Parks, Heritage & Coastal Environment	57,272	68,972	11,700
51,132	Refuse Disposal	48,259	56,590	8,331
52,276	Regulatory & Compliance	56,142	47,461	(8,681)
118,658	Roads & Footpaths	121,963	117,634	(4,329)
33,728	Stormwater Drainage	33,479	37,877	4,398
41,634	Strategic Planning & Policy	43,494	36,218	(7,276)
25,805	Transportation	25,644	25,093	(551)
97,329	Wastewater	104,035	105,883	1,848
66,134	Water Supply	67,999	73,298	5,299
96,352	Corporate	99,337	85,281	(14,056)
837,308	Total group of activity expenditure	851,676	838,988	(12,688)
244,937	Less depreciation (non cash)	244,821	255,525	10,704
92,308	Less interest expense shown separately	110,382	88,761	(21,621)
500,063	Operating expenditure	496,473	494,702	(1,771)

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	111,682	8,666	92,340	1,500	17,842
24,522	Flood Protection	48,346	24,609	(23,737)	2,223	162	22,224
-	Governance	-	-	-	-	-	-
3,661	Housing	4,117	4,117	-	4,117	-	-
20,143	Parks, Heritage & Coastal Environment	28,350	32,721	4,371	14,504	14,358	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	81,404	5,578	19,924	56,200	5,280
19,987	Stormwater Drainage	22,439	21,628	(811)	21,568	-	60
872	Strategic Planning & Policy	1,020	904	(116)	-	-	904
30,483	Transportation	34,405	14,376	(20,029)	2,395	11,883	98
58,782	Wastewater	85,817	57,575	(28,242)	45,980	10,132	1,463
33,154	Water Supply	53,281	33,642	(19,639)	29,905	2,003	1,734
77,595	Corporate	50,402	131,777	81,375	41,517	100,337	(10,077)
419,758	Total capital programme	509,985	517,404	7,419	276,753	197,264	43,387

The **Corporate capital programme** includes unspecified carry forwards of \$108 million and will be repositioned after year end.

Note 3 Interest Expense

59,741	Capital programme / earthquake recovery	76,025	56,515	(19,510)
10,321	Equity investments	8,504	14,312	5,808
21,404	Advances to Council organisations	24,550	17,769	(6,781)
842	Advances to housing trust	1,303	165	(1,138)
92,308		110,382	88,761	(21,621)

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	15,426	(3,487)
-	Flood Protection	-	34	34
703	Governance	-	44	44
15,057	Housing	18,039	16,001	(2,038)
4,842	Parks, Heritage & Coastal Environment	4,138	3,434	(704)
11,096	Refuse Disposal	10,401	9,576	(825)
43,012	Regulatory & Compliance	46,649	39,244	(7,405)
16,450	Roads & Footpaths	15,034	15,220	186
16	Stormwater Drainage	17	17	-
1,242	Strategic Planning & Policy	1,151	1,024	(127)
19,446	Transportation	18,887	19,068	181
7,232	Wastewater	7,245	5,504	(1,741)
651	Water Supply	650	656	6
21,772	Corporate Revenues & Expenses	20,611	3,448	(17,163)
160,226	Total group of activity operating revenue	161,735	128,696	(33,039)
733	Less non cash revenue	732	734	2
159,493	Fees, charges and operational subsidies	161,003	127,962	(33,041)

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	-
4,986		485	4,994	4,509

Note 6
Movements in reserves

(3,980)	Interest credited to special funds and reserves	224	(3,315)	(3,539)
(2,220)	Deposits	3,941	(89,692)	(93,633)
178,573	Withdrawals	-	227,165	227,165
172,373		7,901	134,158	126,257

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	517,404	7,419
1,593	Capital grants	8,983	1,564	(7,419)
3,423	Operational costs	-	50,131	50,131
424,774	Total funding requirement	518,968	569,099	50,131
Funding sources				
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	137,253	133,018
12,952	Development contributions	21,873	21,874	1
69,814	Capital contributions, grants and subsidies	36,539	46,757	10,218
394,511	Total funding available	202,656	351,288	148,632
30,263	Borrowing requirement	316,312	217,811	(98,501)
3,000	Borrowing for onlending	-	14,000	14,000
47,308	Less debt repayment	61,125	50,296	(10,829)
1,500	Less borrowing on behalf of subsidiaries repaid	1,965	1,300	(665)
(15,545)	Net change in borrowing	253,222	180,215	(73,007)
1,900,210	Opening debt	1,994,764	2,038,727	43,963
1,884,665	Closing debt	2,247,986	2,218,942	(29,044)

Note 8
Rates

520,861	Rates levied 1 July	545,143	547,981	2,838
3,705	Excess water charges	3,744	5,894	2,150
3,500	Penalties	3,184	2,500	(684)
528,066		552,071	556,375	4,304