Where your rates go

The Council relies on rates for about 33 per cent of its income and is proposing to collect $358.1 million (GST exclusive) in rates during 2014/15. This is $5.2 million less than the Three Year Plan forecast and represents an average increase in rates of 7.48 per cent to existing ratepayers.

Much of the Council's spending goes toward providing essential services to keep the city running smoothly. This includes maintaining our roads, parks, sewerage systems and water supply. The Council must also allow for increased demand for new infrastructure such as new roads, subdivisions, parks and open spaces. There is $42 million in rates that would normally be spent on infrastructure renewals that has been transferred across to the rebuild programme.

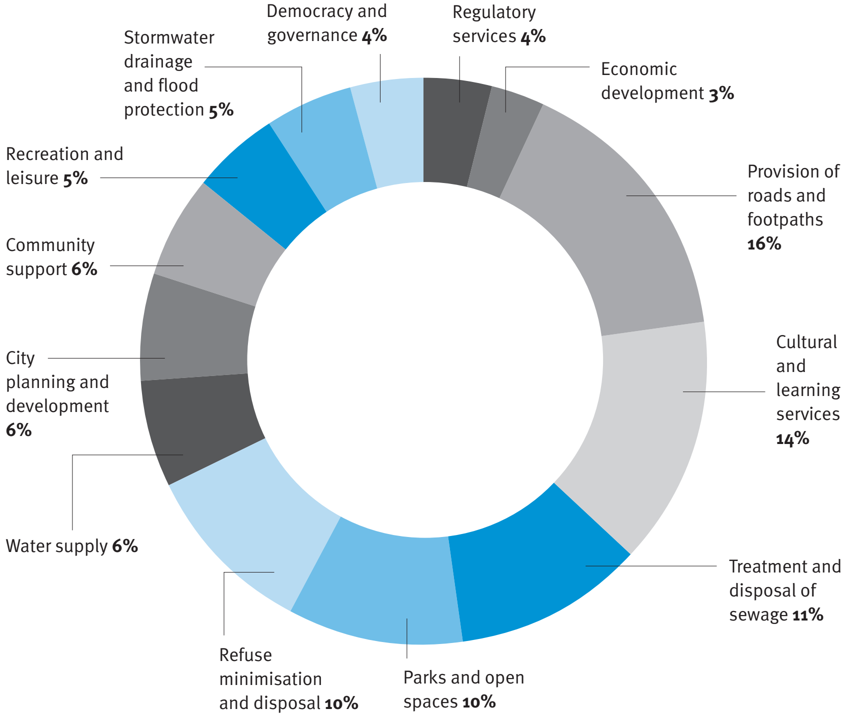
1.93 per cent of the 7.48 per cent increase in rates to existing ratepayers will fund borrowing to meet an operating deficit from additional earthquake recovery costs and the loss of several revenue sources, particularly parking. This surcharge will be applied annually through to 2015/16.

The table and graph below show the activities the Council will provide during 2014/15 and how rates contribute to these activities:

How you rates will be spent 2014/15

Group of activities	*Cents per dollar of Rates*	*Average Residential Rates / week*
Provision of roads and footpaths	15.3c	$5.98
Cultural and learning services	14.0c	$5.47
Treatment and disposal of sewage	10.9c	$4.26
Parks and open spaces	10.4c	$4.07
Refuse minimisation and disposal	10.2c	$3.99
Water supply	6.2c	$2.42
City planning and development	6.1c	$2.38
Community support	5.7c	$2.23
Recreation and leisure	5.4c	$2.11
Stormwater drainage and flood protection	4.7c	$1.84
Democracy and governance	4.3c	$1.68
Regulatory services	3.8c	$1.49
Economic development	3.0c	$1.17
	100.0c	**$39.09**

Proposed rates contribution for each group of activities (2014/15)



Rafael Goncalves at Linwood Library, February 2014

Where our funding will come from

Before the earthquakes, rates were the main source of funding for the Council's activities. As the earthquake recovery gains momentum, earthquake rebuild recoveries (insurance, NZ Government reimbursements, and NZ Transport Agency subsidies) have become the main source of funding. In the 2014/15 year, the Council expects to receive $454 million or 29 per cent of funding from earthquake rebuild recoveries.

In the 2014/15 financial year, the Council is proposing to collect $358.1 million in rates to help pay for essential services such as water supply, roading and wastewater treatment, as well as capital renewal and replacement projects and events and festivals. Included within the general rate is a 1.93 per cent surcharge that is used to fund the operating deficit. This income is supplemented with funding from fees and charges, Government subsidies, development contributions, interest and dividends from subsidiaries.

The Council has kept the proposed rates increase to the level outlined in the Three Year Plan by ensuring costs are kept under tight control.

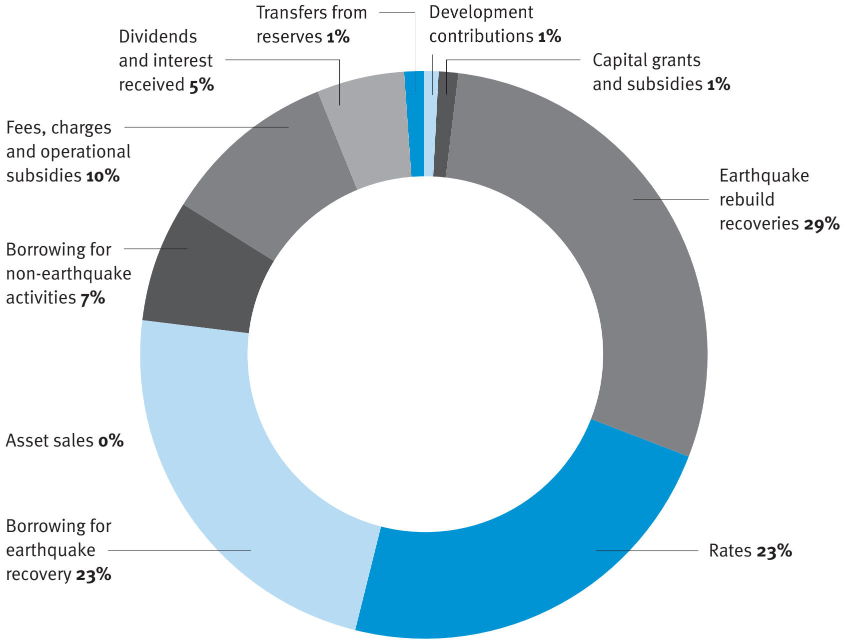
The Council owns shares in major local companies through its wholly-owned subsidiary Christchurch City Holdings Limited (CCHL). These companies include Christchurch International Airport, City Care, Lyttelton Port Company, Orion, Eco Central, Enable Services and Red Bus. CCHL is forecast to pay dividends of $52.0 million in 2014/15, a $6.0 million increase over the amount included in the Three Year Plan.

Borrowing is the other key source of funding. In 2014/15, the Council anticipates borrowing $465.5 million, a decrease of $70.0 million on the Three Year Plan.

Where our funding will come from 2014/15:

Funding Sources 2014/15	*%*	*$000*
Earthquake rebuild recoveries	29%	453,558
Rates	23%	358,126
Borrowing for earthquake recovery	23%	354,748
Borrowing for non-earthquake activities	7%	110,784
Fees, charges and operational subsidies	10%	155,124
Dividends and interest received	5%	74,886
Transfers from reserves	1%	22,130
Asset sales	0%	6,763
Development contributions	1%	18,766
Capital grants and subsidies	1%	21,392
	100%	**1,576,277**

Where our funding will come from 2014/15



How capital expenditure is funded

The Council will invest $1.0 billion in the city's infrastructure in 2014/15.

Capital expenditure funding is a subset of the Council's total funding. Earthquake rebuild recoveries, such as insurance, Central Government reimbursements and NZ Transport Agency subsidies, are a significant source of the Council's funding.

Borrowing and earthquake rebuild recoveries are the largest sources of funding in 2014/15, followed by rates. Collectively these three groups contribute 93 per cent of the capital programme's funding.

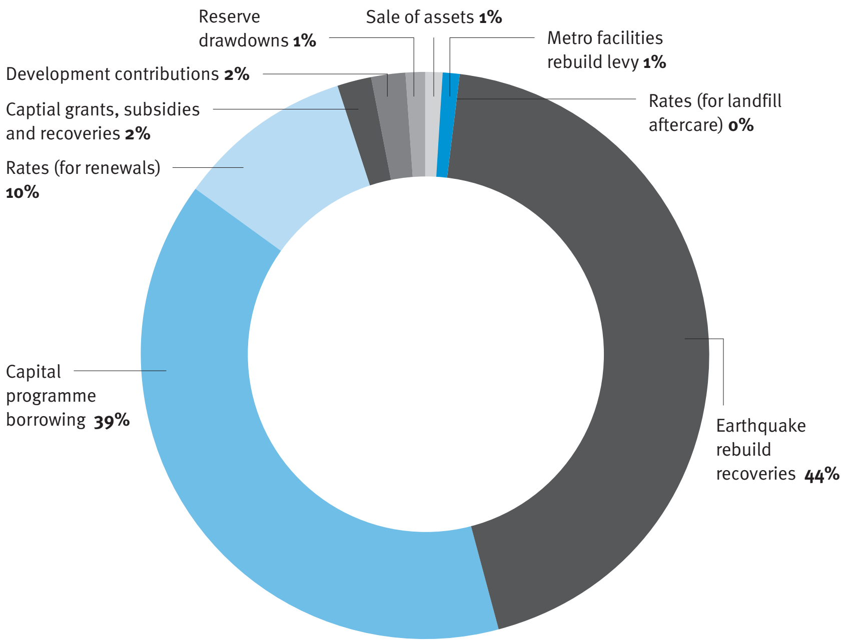
Capital grants, subsidies and development contributions make up 4 per cent.

A detailed analysis of the Council's policy for funding its capital programme is available in the Revenue and Financing Policy, and the funding of the rebuild is explained in the Financial Strategy, which are both in the Three Year Plan. The table and graph below details funding for the Council's capital programme for 2014/15.

How we fund our capital programme:

Funding Sources 2014/15	%	$000
Earthquake rebuild recoveries	44%	453,558
Capital programme borrowing	39%	401,574
Rates (for renewals)	10%	101,716
Capital grants, subsidies and recoveries	2%	21,392
Development contributions	2%	18,766
Reserve drawdowns	1%	13,193
Sale of assets	1%	6,763
Metro facilities rebuild levy	1%	5,996
Rates (for landfill aftercare)	0%	350
	100%	**1,023,308**

Funding sources for the 2014/15 capital programme



Financial overview

The 2014/15 Annual Plan is largely based on Year 2 of the Three Year Plan (TYP). A few changes have occurred due to changing circumstances. The key changes are reflected and explained in this overview.

The financial strategy the Council outlined in its Three Year Plan continues to apply and the targets set for 2014/15 remain in place.

The table below shows the total funding requirements for the Christchurch City Council for 2014/15 and the variance from that outlined in the Three Year Plan.

Plan 2013/14	*Financial Overview*	*Note* $000	*TYP 2014/15*	*Plan 2014/15*	*Variance to TYP*
	Funding Summary				
456,222	Operating expenditure	1	452,662	481,903	29,241
932,005	Capital programme	5	1,086,464	1,023,308	(63,156)
10,208	Transfers to reserves	2	9,610	238	(9,372)
40,637	Interest expense	3	57,477	60,482	3,005
8,218	Debt repayment provision	4	11,502	10,346	(1,156)
1,447,290	**Total expenditure**		**1,617,715**	**1,576,277**	**(41,438)**
	funded by :				
138,214	Fees, charges and operational subsidies	6	142,122	155,124	13,002
64,816	Dividends and interest received		63,733	74,886	11,153
89,164	Transfers from reserves	7	8,326	22,130	13,804
75,792	Asset sales	8	14,268	6,763	(7,505)
13,000	Development contributions		17,466	18,766	1,300
416,194	Earthquake rebuild recoveries		449,905	453,558	3,653
21,546	Capital grants and subsidies		23,036	21,392	(1,644)
818,726	**Total funding available**		**718,856**	**752,619**	**33,763**
628,564	**Balance required**		**898,859**	**823,658**	**(75,201)**
98,254	Borrowing for capital programme and grants		107,141	110,108	2,967
186,884	Borrowing for earthquake recovery		427,685	354,748	(72,937)
4,145	Borrowing for operational costs		676	676	-
339,281	**Rates**	9	**363,357**	**358,126**	**(5,231)**

Plan 2013/14	*Financial Overview*	*Note* $000	*TYP 2014/15*	*Plan 2014/15*	*Variance to TYP*
334,631	**Rates to be levied on 1 July** (comparatives are restated to include remissions on uninhabitable properties)	9	358,518	351,811	(6,707)
7.70%	Nominal rates increase		7.14%	5.13%	-2.01%
6.67%	**Percentage rate increase to existing ratepayers**		**6.50%**	**7.48%**	**0.98%**

The notes to the above table are in section 2 below.

Rates for 2014/15

The total rates levied for the 2014/15 year were set at $351.8 million (GST exclusive), a decrease of $6.7 million, on the rates proposed in the Three Year Plan. Despite the decrease in total rates required, the rate increase of 7.48 per cent to existing ratepayers is higher than the Three Year Plan because of a decrease in the Council's rating base during the 2013/14 year. This decrease has arisen because earthquake related demolitions have exceeded rebuilds by a larger amount than was assumed in the Three Year Plan.

The 7.48 per cent rates increase to existing ratepayers consists of:

Ordinary rate increase including negative growth	5.55%
Special earthquake charge	1.93%
Average rate increase to existing ratepayers	**7.48%**

The ordinary increase includes rates to recover a forecast $3.25 million cash operating deficit for 2013/14. This is a change from the draft Annual Plan and contributes 0.99% to the increase.

The special earthquake charge of 1.93% remains unchanged from the Three Year Plan. This rate funds the ongoing operating deficit which resulted from the loss of revenue and increased costs directly associated with the earthquake.

Full details of rates, including the total rating requirement for general and targeted rates, and indicative rates for individual properties, are provided in the Funding Impact Statement and Rating Policy section.

Assumptions

In preparing this Annual Plan Council has updated several significant forecasting assumptions. Events in 2013/14 to date have meant that some of the assumptions used in the preparation of the Three Year Plan are no longer appropriate.

Financial overview

The most significant change is to the growth projection. In the Three Year Plan it was assumed that the rating base would grow by 0.9% in 2013/14. In reality the rating base decreased by 2.2% partly as a result of the continuing number of demolitions, but mainly due to the revaluation of the residential red zone as a result of the citywide revaluation. This had the effect of accelerating previous assumptions regarding the rate of loss of capital value.

The growth projection for 2014/15 is consequently slightly higher than in the Three Year Plan (0.9% v 0.6%). These assumptions were reviewed by Market Economics Limited to ensure that they continue to be appropriate for 2014/15.

Interest rates used in the Annual Plan are based on the Council's current and expected interest rates and take into account long-term interest rate swaps. Rates for new borrowing are 1% higher than they were in the Three Year Plan.

Operational Expenses

In preparing this Plan, Council has recognised the effect that rating for the 2013/14 deficit has had on this year's rates and sought out further savings in order to keep the rates increase to existing ratepayers as low as possible. Inflation on many items has been absorbed.

The cost of providing Building Consenting and Inspections services has increased by $12.5 million, being a combination of the improvements recommended by the Crown Manager in his review of building consent activities, and the expected increase in consent volumes in 2014/15. This increase in costs is to be funded through fees and charges. Hourly rates have increased by around 16%. The actual increases in fees will be significantly less as a result of increased efficiencies which the Crown Manager has introduced. More information is provided in the Fees and Charges section.

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, instead it rates for the renewal and replacement of existing assets. Council has rated for $102 million of renewals in 2014/15, $42 million of which will be used to rebuild earthquake damaged assets. This is consistent with the Three Year Plan and the Financial Strategy.

Revenue

The primary source of revenue after earthquake rebuild recoveries (proceeds from insurance policies and Crown rebuild funding and NZTA subsidies) is property-based rates. Earthquake rebuild recoveries will continue to be a major funding source throughout the rebuild. A brief explanation of each source of revenue is included in the Funding Impact Statement and Rating Policy section.

Surplus, operating deficits, and sustainability

The Annual Plan for 2014/15 shows an accounting surplus of $428.2 million before revaluations of $55.6 million. Under accounting standards Council is required to show all revenue, including earthquake-related recoveries from insurance and 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 removed Council estimates that it will record an operating deficit of $13.9 million for the 2014/15 year, as indicated in the Three Year Plan. The Council is currently borrowing to fund this deficit and using the 1.93% special earthquake charge included within rates to fund the borrowing.

Council does not consider that this operating deficit will undermine its financial sustainability, and expects to be setting a balanced plan, i.e. with no deficit within two years.

Borrowing

The Annual Plan estimates new borrowing in 2014/15 of $465.5 million, a decrease of $70 million on the Three Year Plan. The decrease is largely due to updated information from CERA on the timing of CERA led Anchor projects. As a result of lower than planned borrowing in 2012/13 and lower than forecast borrowing in 2013/14, cumulative debt at the end of 2014/15 is planned to be $1,366.3 million, $55.3 million lower than the Three Year Plan projected.

Council will continue to borrow in 2014/15 to fund the advancement of the district plan review and the operating deficit as outlined in the financial strategy.

The Council is continuing to ensure prudent and sustainable financial management of its operations and will not borrow beyond its ability to service and repay that borrowing.

Operating Revenue and Expenditure

Significant changes from the Three Year Plan are:

- Increased dividend and interest revenue of $11.2 million including a $6.6 million increase in dividends from CCHL and Transwaste.
- $12.5 million of increased expenditure relating to building consenting and inspections. This addresses the issues relating to loss of accreditation and reflects the expected increase in volume. The increased expenditure has been offset by an increase of $10.2 million in fee revenue as this business activity is a user pays activity in accordance with the funding policy. The balance is met by ratepayer funding as there is a component of public good.
- $2.5 million of increased costs relating to weathertight homes' settlements and claims management.

Financial overview

- Facilities assessment costs relating to the rebuild programme of $7 million were not included in the Three Year Plan. $3.4 million is expected to be recovered from insurance.
- Earthquake repairs to Social Housing Units of $11.5 million.
- Inclusion of $2.5 million project funding for projects including Sensing City and others in the areas of participatory democracy, and resilience and environmental sustainability.
- $1.1 million of additional costs for the Christchurch Transport Operations Centre, a new joint partnership with Environment Canterbury, NZTA and Council. This cost is partially offset by funding from NZTA for the operations centre.
- Inclusion of $4.3 million of cost share funding for earthquake related temporary stormwater works.
- Grants have been reduced by $1.4 million. This affects the Canterbury Development Corporation, Christchurch and Canterbury Tourism, the Arts Centre, and Landmark Heritage grants.

$3.5 million of capital from the capital endowment fund is being utilised to fund $1 million of community grants and $2.5 million for projects including Sensing City and others in the areas of participatory democracy and resilience and environmental sustainability.

Capital programme funding and expenditure

Council plans to invest $1.02 billion in the capital programme in 2014/15, a decrease of $63.2 million over the Three Year Plan. The main reason for this reduction is a $116.5 million net decrease primarily relating to CERA managed anchor project timing changes, where project timing has been aligned to that recently published by CERA. This is partly offset by:

- $42.6 million of work in progress which was carried forward at the end of June 2013 to the 2014/15 year. This comprised earthquake repairs of $17 million for the Art Gallery, $8 million for water reticulation, $6 million for other facilities, and normal works of $11.6 million, and;
- a $10.7 million increase due to a timing change for improvement allowance funded work which has been brought forward from future years.

The major components of the capital programme are;

- Normal capital programme $214 million
- Earthquake rebuild $795 million, comprising:
  - Infrastructure rebuild $628 million,
  - Facilities rebuild $140 million,
  - Unallocated improvement allowance $27 million.
- Net carried forward work expected to be completed $13 million

The capital programme is funded by earthquake recoveries, subsidies and grants for capital expenditure, development and financial contributions, the proceeds of asset sales and debt. In 2014/15 there is an increase of $5 million of capital funding (excluding debt) from the amount in the Three Year Plan. The main reasons for the increase are a:

- $3.7 million increase in earthquake recoveries as a result of timing changes will now be utilised in 2014/15;
- $9.2 million increase from reserves, principally the use of EQC funds received in 2013/14 for Housing earthquake rebuilds;
- $1.3 million increase in development contributions as a result of the proposed changes to the development contributions policy, offset by,
- $1.6 million decrease in NZTA subsidies as a result of changes in the timing of a number of transport projects; and
- $7.5 million decrease in the expected funds from asset sales.

The balance of the increase in the capital programme is funded from debt.

Credit rating

Council's international credit rating from Standard and Poor's (S&P) is reviewed annually and was downgraded in July 2013 from AA- to A+. The downgrade was a result of the Council losing its Building Accreditation and the employment issues surrounding the Chief Executive.

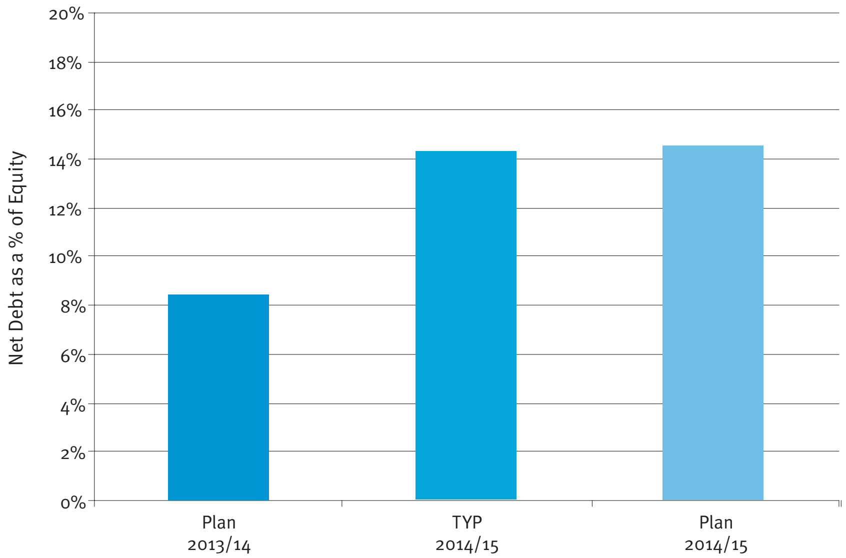
Financial Risk Management Strategy

Council's policies for managing its financial risk, including liquidity, funding, interest rate exposure and counterparty credit risk are unchanged in this Annual Plan. An important element in assessing the value of Council's risk management strategy is its five key financial ratios.

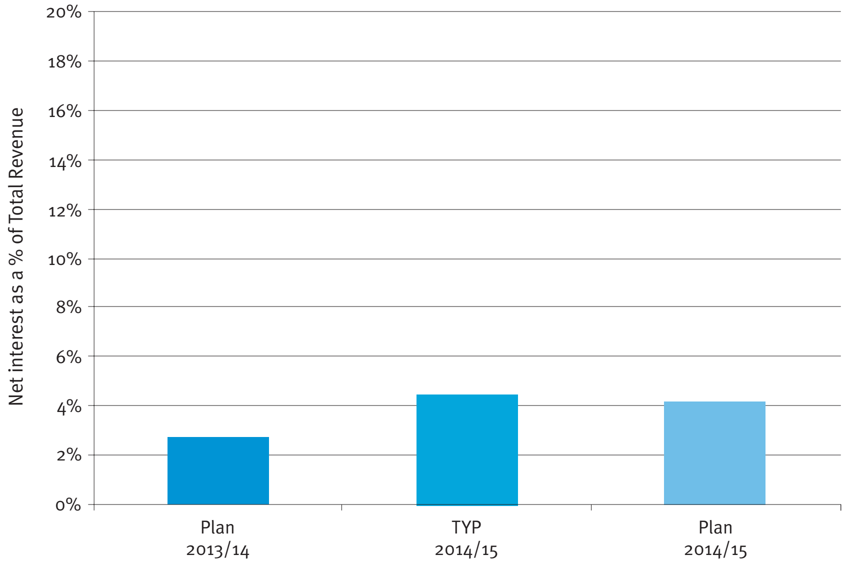
As indicated in the ratio tables below the Council anticipates staying well within its financial ratio limits for 2014/15.

Financial overview

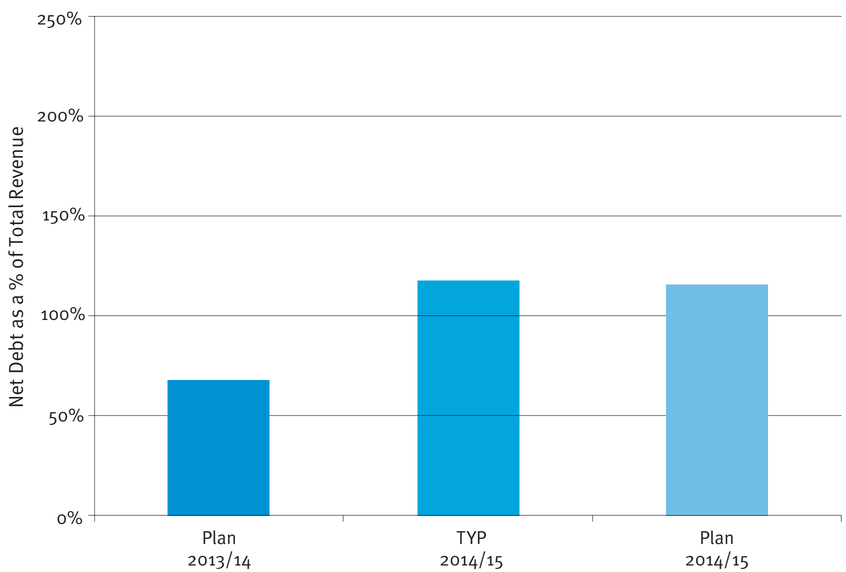
Net debt as a % of Equity Ratio Policy Limit 20%



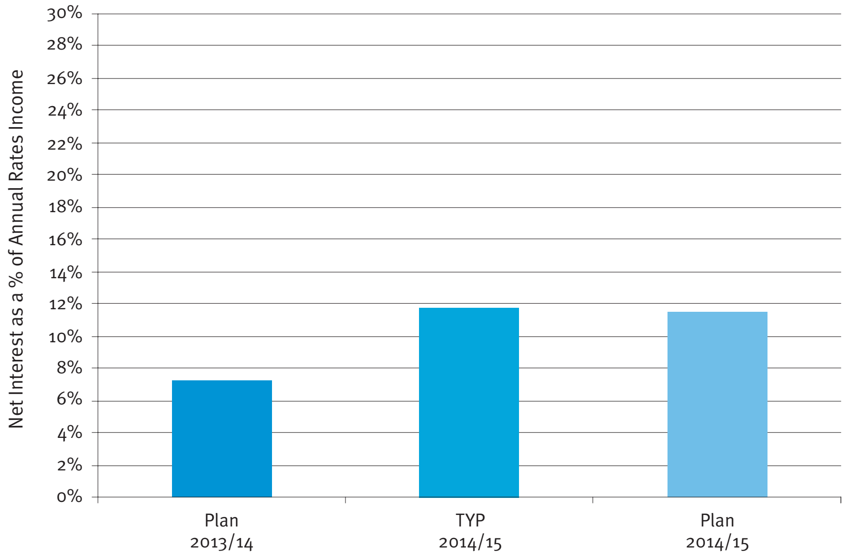
Net interest as a % of Total Revenue Ratio Policy Limit 20%



Net debt as a % of Total Revenue Ratio Policy Limit 250%

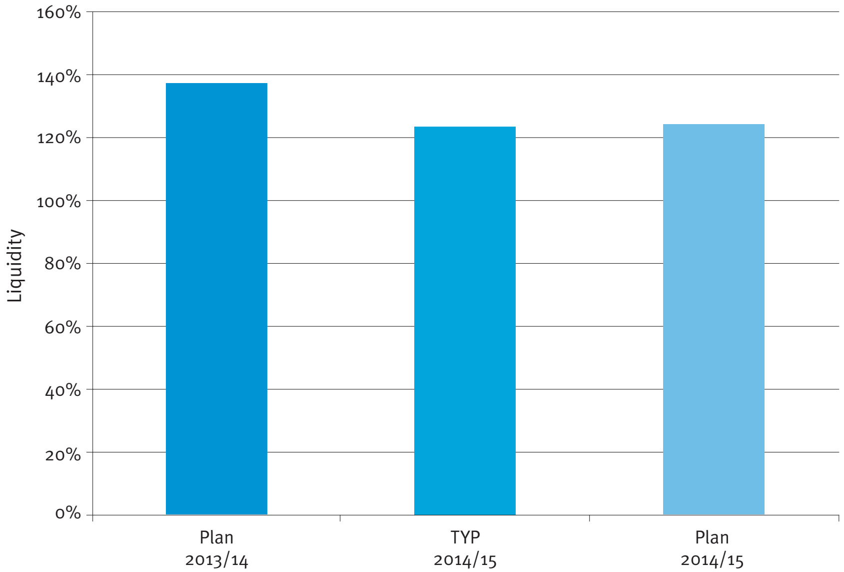


Net interest as a % of Annual Rates Income Ratio Policy Limit 30%



Financial overview

Liquidity Ratio Policy Above 110%



Financial overview

Section 2 – Notes to the Financial overview

Plan 2013/14	$000	TYP 2014/15	Plan 2014/15	Variance to TYP
	Note 1			
	Operating Expenditure			
25,680	City planning and development	25,633	23,715	(1,918)
42,528	Community support	41,179	54,330	13,151
47,442	Cultural and learning services	51,221	53,520	2,299
13,548	Democracy and governance	12,886	16,994	4,108
9,845	Economic development	10,271	12,168	1,897
45,457	Parks and open spaces	43,767	46,832	3,065
33,555	Recreation and leisure	35,518	32,749	(2,769)
43,758	Refuse minimisation and disposal	44,616	44,266	(350)
46,431	Regulatory services	49,265	64,745	15,480
95,366	Roads and footpaths	99,039	100,446	1,407
64,128	Treatment and disposal of sewage	61,754	63,084	1,330
30,975	Water supply	31,258	31,547	289
24,184	Stormwater drainage and flood protection	24,787	25,572	785
80,326	Corporate activities	92,570	88,273	(4,297)
603,223	**Total group of activity expenditure**	**623,764**	**658,241**	**34,477**
106,364	Less depreciation (non cash)	113,625	115,856	2,231
40,637	Less interest expense shown separately	57,477	60,482	3,005
-	Less other non cash expenditure	-	-	-
456,222	**Operating expenditure**	**452,662**	**481,903**	**29,241**
	Note 2			
	Transfers to Reserves			
6,686	Interest credited to special funds and reserves	6,595	7,394	799
184	Ratepayer funding of 8% of Dog Control costs	187	-	(187)
2,225	Housing cash operating result	2,910	(10,382)	(13,292)
(161)	Dog Control cash operating result	(153)	(95)	58
1,203	Earthquake rebuild fund interest	-	-	-
71	Burwood Landfill capping contribution	71	71	-
-	Operating deficit 2013/14	-	3,250	3,250
10,208		**9,610**	**238**	**(9,372)**

Plan 2013/14	$000	TYP 2014/15	Plan 2014/15	Variance to TYP
	Note 3			
	Interest Expense			
15,297	Existing capital works	20,154	18,192	(1,962)
9,381	Earthquake related costs	21,603	22,276	673
9,234	Equity investments	9,238	8,217	(1,021)
6,725	Advances to Council organisations	6,482	11,796	5,314
-	Separately funded activities borrowing	-	1	1
40,637		**57,477**	**60,482**	**3,005**
	Note 4			
	Debt Repayment provided for			
38	Targeted rates - loan principal	38	38	-
8,178	Existing capital works debt	11,464	10,308	(1,156)
2	Housing loan repayment	-	-	-
8,218		**11,502**	**10,346**	**(1,156)**

Financial overview

Plan 2013/14	$000	TYP 2014/15	Plan 2014/15	Variance to TYP
	Note 5			
	Capital Programme Summary			
493	City planning and development	496	3,913	3,417
10,347	Community support	13,642	16,708	3,066
40,014	Cultural and learning services	47,096	46,228	(868)
-	Democracy and governance	-	-	-
179	Economic development	187	183	(4)
29,283	Parks and open spaces	16,189	17,303	1,114
25,475	Recreation and leisure	111,531	7,779	(103,752)
4,567	Refuse minimisation and disposal	1,066	1,066	-
309	Regulatory services	218	217	(1)
259,829	Roads and footpaths	283,698	272,451	(11,247)
392,086	Treatment and disposal of sewage	399,539	411,905	12,366
29,771	Water supply	26,150	34,273	8,123
76,430	Stormwater drainage and flood protection	82,096	82,723	627
63,222	Corporate	104,556	128,559	24,003
932,005	**Total capital programme**	**1,086,464**	**1,023,308**	**(63,156)**
	funded by :			
75,792	Sale of assets	14,268	6,763	(7,505)
98,000	Rates (for renewals)	101,713	101,716	3
330	Rates (for landfill aftercare)	350	350	-
5,630	Metro facilities rebuild levy	5,996	5,996	-
416,194	Earthquake rebuild recoveries	449,905	453,558	3,653
82,874	Reserve drawdowns	3,966	13,193	9,227
13,000	Development contributions	17,466	18,766	1,300
21,546	Capital grants and subsidies	23,036	21,392	(1,644)
713,366	**Total funding available**	616,700	621,734	5,034
218,639	**Capital programme borrowing**	**469,764**	**401,574**	**(68,190)**

Plan 2013/14	$000	TYP 2014/15	Plan 2014/15	Variance to TYP
2,298	Borrowing for grants	2,335	2,063	(272)
64,201	Borrowing for earthquake response	62,727	61,219	(1,508)
4,145	Borrowing for operational costs	676	676	-
289,283	Total new borrowing	535,502	465,532	(69,970)
8,218	Less debt repayment	11,502	10,346	(1,156)
-	Less borrowing on behalf of subsidiaries repaid	-	1,200	1,200
281,065	**Net change in borrowing**	**524,000**	**453,986**	**(70,014)**
897,675	**Cumulative debt**	**1,421,675**	**1,366,346**	**(55,329)**

Financial overview

Plan 2013/14	$000	TYP 2014/15	Plan 2014/15	Variance to TYP
	Note 6			
	Fees, Charges and Operational Subsidies			
944	City planning and development	697	527	(170)
15,703	Community support	16,892	16,252	(640)
3,028	Cultural and learning services	4,068	3,386	(682)
350	Democracy and governance	-	-	-
22	Economic development	22	22	-
3,373	Parks and open spaces	3,507	6,151	2,644
14,232	Recreation and leisure	15,033	12,588	(2,445)
9,720	Refuse minimisation and disposal	9,986	9,581	(405)
36,247	Regulatory services	40,493	52,024	11,531
18,987	Roads and footpaths	20,861	20,706	(155)
17,964	Treatment and disposal of sewage	13,370	13,235	(135)
2,849	Water supply	2,197	2,139	(58)
20	Stormwater drainage and flood protection	21	4,340	4,319
15,719	Corporate activities	15,948	15,119	(829)
139,158	**Total group of activity operating revenue**	**143,095**	**156,070**	**12,975**
944	Less non cash revenue	973	946	(27)
138,214	**Fees, charges and operational subsidies**	**142,122**	**155,124**	**13,002**
	Note 7			
	Transfers from Reserves			
3,020	Reserves a/c - reserve purchases	314	314	-
3,560	Housing - net capital programme	3,499	12,718	9,219
264	Dog Account - capital programme	154	161	7
5,830	Capital endowment fund - grants	3,939	8,517	4,578
458	Income equalisation fund - carry forward funding	420	420	-
76,030	Earthquake recovery fund - rebuild	-	-	-
2	Housing debt repayment	-	-	-
89,164		**8,326**	**22,130**	**13,804**

Plan 2013/14	$000	TYP 2014/15	Plan 2014/15	Variance to TYP
	Note 8			
	Asset Sales			
218	Plant and vehicle disposals	229	224	(5)
548	Surplus property sales	6,094	6,094	-
426	Surplus roading land sales	445	445	-
74,600	Earthquake related land sales	7,500	-	(7,500)
75,792		**14,268**	**6,763**	**(7,505)**
	Note 9			
	Rates			
334,631	Rates levied 1 July	358,518	351,811	(6,707)
-	Rates in year income per Order in Council	-	1,465	1,465
2,650	Excess water charges	2,723	2,650	(73)
2,000	Penalties	2,116	2,200	84
339,281		**363,357**	**358,126**	**(5,231)**