# Prospective Financial Statements

Christchurch City Council

# Christchurch City Council
## Prospective statement of comprehensive revenue and expense

| Long Term Plan 2021/22 | $000 | Note | Long Term Plan 2022/23 | Annual Plan 2022/23 | Variance to LTP |
|---|---|---|---|---|---|
| | **Revenue** | | | | |
| 594,742 | Rates revenue | | 631,087 | 634,092 | 3,005 |
| 24,276 | Development contributions | | 24,115 | 24,115 | - |
| 151,206 | Grants and subsidies | | 225,892 | 206,734 | (19,158) |
| 38,709 | Dividends and Interest | 1 | 53,034 | 63,968 | 10,934 |
| 112,230 | Fees and Charges | | 120,862 | 121,226 | 364 |
| **921,163** | **Total income** | | **1,054,990** | **1,050,135** | **(4,855)** |
| | **Expenditure** | | | | |
| 85,429 | Finance costs | | 85,011 | 96,760 | 11,749 |
| 284,519 | Depreciation | 2 | 302,038 | 295,378 | (6,660) |
| 500,451 | Other expenses | 3 | 514,816 | 527,490 | 12,674 |
| **870,399** | **Total operating expenditure** | | **901,865** | **919,628** | **17,763** |
| **50,764** | **Surplus before asset contributions** | | **153,125** | **130,507** | **(22,618)** |
| 17,000 | Vested assets | | 241,391 | 241,391 | - |
| **67,764** | **Surplus before income tax expense** | | **394,516** | **371,898** | **(22,618)** |
| (2,200) | Income tax expense | | (2,200) | (2,200) | - |
| **69,964** | **Net surplus for year** | | **396,716** | **374,098** | **(22,618)** |
| | **Other comprehensive revenue and expense** | | | | |
| 330,355 | Changes in revaluation reserve | | 359,835 | 347,161 | (12,674) |
| **400,319** | **Total comprehensive revenue and expense** | | **756,551** | **721,259** | **(35,292)** |

# Christchurch City Council
## Prospective statement of changes in net assets/equity

| Long Term Plan 2021/22 | $000 | Note | Long Term Plan 2022/23 | Annual Plan 2022/23 | Variance to LTP |
|---|---|---|---|---|---|
| 12,910,469 | **Ratepayers equity at July 1** | | 13,310,788 | 13,953,703 | 642,915 |
| | Net surplus attributable to: | | | | |
| | **Reserves** | | | | |
| 330,355 | Revaluation reserve | | 359,835 | 347,161 | (12,674) |
| | **Retained earnings** | | | | |
| 69,964 | Surplus | | 396,716 | 374,098 | (22,618) |
| 400,319 | Total comprehensive income for the year | | 756,551 | 721,259 | (35,292) |
| **13,310,788** | **Ratepayers equity at June 30** | 8 | **14,067,339** | **14,674,962** | **607,623** |

# Christchurch City Council
# Prospective statement of financial position

| Long Term Plan 2021/22 | $000 | Note | Long Term Plan 2022/23 | Annual Plan 2022/23 | Variance to LTP |
|---|---|---|---|---|---|
| | **Current assets** | | | | |
| 110,045 | Cash and cash equivalents | | 111,593 | 97,488 | (14,105) |
| 96,281 | Trade receivables and prepayments | 4 | 98,284 | 67,008 | (31,276) |
| 3,386 | Inventories | | 3,457 | 3,197 | (260) |
| 21,659 | Other financial assets | | 22,697 | 24,881 | 2,184 |
| | **Non-current assets** | | | | |
| | Investments | | | | |
| 3,073,418 | - Investments in CCOs and other similar entities | | 3,316,940 | 3,553,021 | 236,081 |
| 137,957 | - Other investments | | 138,415 | 155,949 | 17,534 |
| 77,609 | Intangible assets | | 79,393 | 88,206 | 8,813 |
| 1,751,714 | Operational assets | | 2,062,259 | 2,236,181 | 173,922 |
| 9,684,524 | Infrastructural assets | | 10,047,644 | 9,852,782 | (194,862) |
| 1,236,438 | Restricted assets | | 1,270,285 | 1,392,873 | 122,588 |
| **16,193,031** | **Total assets** | | **17,150,967** | **17,471,586** | **320,619** |
| | **Current liabilities** | | | | |
| 148,472 | Trade and other payables | | 151,590 | 123,722 | (27,868) |
| 314,200 | Borrowings | 5 | 274,700 | 353,900 | 79,200 |
| 23,065 | Other liabilities and provisions | 6 | 23,251 | 28,384 | 5,133 |
| | **Non-current liabilities** | | | | |
| 2,052,228 | Borrowings | 5 | 2,314,330 | 2,072,668 | (241,662) |
| 341,699 | Other liabilities and provisions | 7 | 317,119 | 214,410 | (102,709) |
| 2,579 | Deferred tax liability | | 2,638 | 3,540 | 902 |
| 13,310,788 | **Ratepayers equity** | 8 | 14,067,339 | 14,674,962 | 607,623 |
| **16,193,031** | **Total equity and liabilities** | | **17,150,967** | **17,471,586** | **320,619** |

# Christchurch City Council
# Prospective cash flow statement

| Long Term Plan 2021/22 | $000 | Long Term Plan 2022/23 | Annual Plan 2022/23 | Variance to LTP |
|---|---|---|---|---|
| | **Operating activities** | | | |
| | **Cash was provided from:** | | | |
| 883,917 | Rates, grants, subsidies and other sources | 1,001,347 | 987,631 | (13,716) |
| 17,841 | Interest received | 16,448 | 25,059 | 8,611 |
| 20,419 | Dividends | 36,062 | 37,696 | 1,634 |
| 922,177 | | 1,053,857 | 1,050,386 | (3,471) |
| | **Cash was disbursed to:** | | | |
| 502,911 | Payments to suppliers and employees | 512,459 | 529,845 | 17,386 |
| 85,429 | Interest paid | 85,011 | 96,760 | 11,749 |
| 588,340 | | 597,470 | 626,605 | 29,135 |
| **333,837** | **Net cash flow from operations** | **456,387** | **423,781** | **(32,606)** |

| Long Term Plan 2021/22 | $000 | Long Term Plan 2022/23 | Annual Plan 2022/23 | Variance to LTP |
|---|---|---|---|---|
| | **Investing activities** | | | |
| | **Cash was provided from:** | | | |
| 6,996 | Sale of assets | 6,134 | 8,008 | 1,874 |
| - | Investments realised | 4,000 | 4,159 | 159 |
| 6,996 | | 10,134 | 12,167 | 2,033 |
| | **Cash was applied to:** | | | |
| 570,228 | Purchase of assets | 494,523 | 490,083 | (4,440) |
| 86,284 | Purchase of investments | 192,014 | 123,050 | (68,964) |
| 1,658 | Purchase of investments (special funds) | 1,038 | - | (1,038) |
| 658,170 | | 687,575 | 613,133 | (74,442) |
| **(651,174)** | **Net cash flow from investing activities** | **(677,441)** | **(600,966)** | **76,475** |
| | **Financing activities** | | | |
| | **Cash was provided from:** | | | |
| 371,586 | Raising of loans | 292,385 | 238,389 | (53,996) |
| 371,586 | | 292,385 | 238,389 | (53,996) |
| | **Cash was applied to:** | | | |
| 54,249 | Repayment of term liabilities | 69,783 | 62,107 | (7,676) |
| 54,249 | | 69,783 | 62,107 | (7,676) |
| **317,337** | **Net cash flow from financing activities** | **222,602** | **176,282** | **(46,320)** |
| - | Increase/(decrease) in cash | 1,548 | (903) | (2,451) |
| 110,045 | Add opening cash | 110,045 | 98,391 | (11,654) |
| **110,045** | **Ending cash balance** | **111,593** | **97,488** | **(14,105)** |
| | **Represented by:** | | | |
| 110,045 | Cash and cash equivalents | 111,593 | 97,488 | (14,105) |

# Notes to the prospective financial statements

| Long Term Plan 2021/22 | $000 | Long Term Plan 2022/23 | Annual Plan 2022/23 | Variance to LTP |
|---|---|---|---|---|
| | **Note 1** | | | |
| | **Dividends and Interest** | | | |
| | Dividends: | | | |
| 16,075 | Christchurch City Holdings Ltd | 32,418 | 32,418 | - |
| 4,279 | Transwaste Ltd | 3,579 | 5,213 | 1,634 |
| 65 | Other | 65 | 65 | - |
| 20,419 | Total dividend revenue | 36,062 | 37,696 | 1,634 |
| | Interest: | | | |
| 16,312 | Subsidiaries | 13,709 | 21,831 | 8,122 |
| 408 | Special and other fund investments | 877 | 865 | (12) |
| 763 | Short term investments | 972 | 2,088 | 1,116 |
| 807 | Housing trust | 1,414 | 1,488 | 74 |
| 18,290 | Total interest revenue | 16,972 | 26,272 | 9,300 |
| **38,709** | **Total Dividends and Interest revenue** | **53,034** | **63,968** | **10,934** |

| Long Term Plan 2021/22 | $000 | Long Term Plan 2022/23 | Annual Plan 2022/23 | Variance to LTP |
|---|---|---|---|---|
| | **Note 2** | | | |
| | **Depreciation** | | | |
| 27,281 | Communities & Citizens | 32,150 | 23,166 | (8,984) |
| 11 | Economic Development | 4 | 4 | - |
| 348 | Flood Protection & Control Works | 612 | 383 | (229) |
| - | Governance | - | - | - |
| 5,966 | Housing | 6,224 | 5,470 | (754) |
| 22,951 | Parks, Heritage and Coastal Environment | 23,729 | 29,984 | 6,255 |
| 77 | Regulatory & Compliance | 79 | 37 | (42) |
| 2,718 | Solid Waste & Resource Recovery | 3,031 | 2,232 | (799) |
| 22,082 | Stormwater Drainage | 22,947 | 22,294 | (653) |
| 380 | Strategic Planning & Policy | 559 | 402 | (157) |
| 70,992 | Transport | 75,812 | 77,593 | 1,781 |
| 67,809 | Wastewater | 70,294 | 68,527 | (1,767) |
| 40,329 | Water Supply | 42,113 | 40,753 | (1,360) |
| 23,575 | Corporate | 24,484 | 24,533 | 49 |
| **284,519** | **Total Depreciation** | **302,038** | **295,378** | **(6,660)** |
| | **Note 3** | | | |
| | **Other expenses** | | | |
| | Operating expenditure: | | | |
| 203,363 | Personnel costs | 209,996 | 216,313 | 6,317 |
| 52,301 | Donations, grants and levies | 49,922 | 54,452 | 4,530 |
| 244,787 | Other operating costs | 254,898 | 256,725 | 1,827 |
| **500,451** | **Total other expenses** | **514,816** | **527,490** | **12,674** |

| Long Term Plan 2021/22 | $000 | Long Term Plan 2022/23 | Annual Plan 2022/23 | Variance to LTP |
|---|---|---|---|---|
| | **Note 4** | | | |
| | **Current assets** | | | |
| | **Trade receivables and prepayments** | | | |
| 30,719 | Rates debtors | 31,364 | 21,348 | (10,016) |
| 10,444 | Other trade debtors | 10,664 | 9,167 | (1,497) |
| 54,725 | Other receivables/prepayments | 57,747 | 37,257 | (20,490) |
| 1,822 | GST receivable | (5) | 243 | 248 |
| 97,710 | | 99,770 | 68,015 | (31,755) |
| (1,429) | Less provision for doubtful debts | (1,486) | (1,007) | 479 |
| **96,281** | **Total trade receivables and prepayments** | **98,284** | **67,008** | **(31,276)** |
| | **Note 5** | | | |
| | **Debt** | | | |
| 314,200 | Current portion of gross debt | 274,700 | 353,900 | 79,200 |
| 2,052,228 | Non current portion of gross debt | 2,314,330 | 2,072,668 | (241,662) |
| 2,366,428 | **Total gross debt** | 2,589,030 | 2,426,568 | (162,462) |
| 1,588,390 | **Total net debt** | 1,811,957 | 1,645,366 | (166,591) |
| | **Note 6** | | | |
| | **Other current liabilities and provisions** | | | |
| 1,264 | Provision for landfill aftercare | 1,018 | 1,042 | 24 |
| 1,240 | Provision for building related claims | 1,240 | 1,623 | 383 |
| 20,561 | Provision for employee entitlements | 20,993 | 25,719 | 4,726 |
| **23,065** | **Total other liabilities and provisions** | **23,251** | **28,384** | **5,133** |

| Long Term Plan 2021/22 | $000 | Long Term Plan 2022/23 | Annual Plan 2022/23 | Variance to LTP |
|---|---|---|---|---|
| | **Note 7** | | | |
| | **Non-current other liabilities and provisions** | | | |
| 16,088 | Provision for landfill aftercare | 15,069 | 16,435 | 1,366 |
| 3,448 | Provision for employee entitlements | 3,520 | 3,314 | (206) |
| 4,958 | Provision for building related claims | 4,958 | 6,493 | 1,535 |
| 316,040 | Hedge and other liabilities | 293,143 | 187,739 | (105,404) |
| 1,165 | Service concession arrangement | 429 | 429 | - |
| **341,699** | **Total non-current other liabilities and provisions** | **317,119** | **214,410** | **(102,709)** |
| | **Note 8** | | | |
| | **Equity** | | | |
| 1,733,853 | Capital reserve | 1,733,853 | 1,733,853 | - |
| 168,659 | Reserve funds | 169,697 | 185,881 | 16,184 |
| 7,005,255 | Asset revaluation reserves | 7,365,090 | 7,884,709 | 519,619 |
| 4,403,021 | Retained earnings | 4,798,699 | 4,870,519 | 71,820 |
| **13,310,788** | **Total equity** | **14,067,339** | **14,674,962** | **607,623** |

# Statement of significant accounting policies

Christchurch City Council ("Council") is a territorial authority governed by the Local Government Act 2002. The primary objective of the Council is to provide goods or services for the community or for social benefit rather than to make a financial return. It is classified as a Public Benefit Entity.

These draft prospective financial statements are for the Council as a separate legal entity. Consolidated draft prospective financial statements comprising the Council and its subsidiaries and associates have not been prepared as the services which Council provides to the City are fully reflected within the Council's financial statements.

## Basis of preparation

**(i) Statement of compliance**

These draft prospective financial statements have been prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice.

The draft prospective financial statements have been prepared to comply with Public Benefit Entity Standards (PBE Standards) for a Tier 1 entity.

**(ii) Prospective Financial Statements**

The draft prospective financial statements comply with Tier 1 PBE Standards, (including PBE FRS 42 – Prospective Financial Statements).

In accordance with PBE FRS 42, the following information is provided:

<u>Description of the nature of the entity's current operation and its principal activities</u>

The Council is a territorial local authority, as defined in the Local Government Act 2002. The Council's principal activities are outlined within this Draft Annual Plan and the 2021 – 2031 Long Term Plan.

<u>Purpose for which the draft prospective financial statements are prepared</u>

It is a requirement of the Local Government Act 2002 to present prospective financial statements of the local authority for the financial year to which the Draft Annual Plan relates. This provides an opportunity for ratepayers and residents to review the projected financial results and position of the Council. Prospective financial statements are revised annually to reflect updated assumptions and costs.

Basis for assumptions, risks and uncertainties

The draft prospective financial statements have been prepared on the basis of best estimate assumptions of future events which the Council expects to take place. The Council has considered factors that may lead to a material difference between information in the draft prospective financial statements and actual results. These factors, and the assumptions made in relation to the sources of uncertainty and potential effect, are outlined in this Draft Annual Plan.

Cautionary Note

The financial information is prospective. Actual results are likely to vary from the information presented and the variations may be material.

Other Disclosures

The draft prospective financial statements were authorised for issue on 24 February 2022 by the Council. The Council is responsible for the draft prospective financial statements presented, including the assumptions underlying the draft prospective financial statements and all other disclosures. The draft Annual Plan is prospective and contains no actual operating results.

**(iii) Measurement base**

The reporting period for these draft prospective financial statements is the year ending 30 June 2023. The functional currency of the Council is New Zealand dollars and the statements are presented in New Zealand dollars, rounded to the nearest thousand ($000), unless otherwise stated.

The draft prospective financial statements have been prepared based on the historical cost basis, modified by the revaluation of certain assets and liabilities as identified in this statement of significant accounting policies.

The draft prospective financial statements do not disclose audit fees or imputation credits, and no comment is included regarding the effect on the community of the Council's existence or operations. This information is fully disclosed in the Annual Report.

## Revenue

Revenue comprises rates, revenue from operating activities, investment revenue, gains and finance revenue and is measured at the fair value of consideration received or receivable.

Revenue may be derived from either exchange or non-exchange transactions.

Revenue from exchange transactions

Revenue from exchange transactions arises where the Council provides goods or services to another entity and directly receives approximately equal value (primarily in the form of cash) in exchange.

Revenue from non-exchange transactions

Revenue from non-exchange transactions arises from transactions that are not exchange transactions. These are transactions where the Council receives value from another party without giving approximately equal value directly in exchange for the value received.

Approximately equal value is considered to reflect a fair or market value, which is normally akin with an arm's length commercial transaction between a willing buyer and willing seller. Some services which Council provides for a fee are charged below market value as they are subsidised by rates. Other services operate on a cost recovery or breakeven basis which may not be considered to reflect a market return. A significant portion of the Council's revenue will be categorised non-exchange.

As the Council satisfies an obligation which has been recognised as a liability, it reduces the carrying amount of the liability and recognises an amount of revenue equal to the reduction.

Specific accounting policies for the major categories of revenue are outlined below:

### (i) Rates

Rates are set annually by resolution from the Council and the revenue and relate to a particular financial year. All ratepayers are invoiced within the financial year for which the rates have been set. Rates revenue is recognised in surplus or deficit at the time of invoicing.

### (ii) Goods sold and services rendered

Revenue from the sale of goods is recognised in surplus or deficit when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods or continuing management involvement with the goods.

### (iii) Finance revenue

Finance revenue comprises interest receivable on funds invested and on loans advanced. Finance revenue is recognised in surplus or deficit as it accrues, using the effective interest rate method.

### (iv) Rental revenue

Rental revenue from investment and other property is recognised in surplus or deficit on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental revenue.

Rental revenue is classified as exchange revenue where it is considered to reflect a market/arm's length rental.

### (v) Grants revenue (including government grants)

Grant revenue is recognised on receipt, except to the extent that a liability is also recognised in respect of the same inflow. A liability is recognised when the resources received are subject to a condition such as an obligation to return those resources received in the event that the conditions attached are breached. As the conditions are satisfied, the carrying amount of the liability is reduced and an equal amount is recognised as revenue.

Grant revenue is categorised as non-exchange revenue.

### (vi) Dividend revenue

Dividend revenue is classified as exchange revenue and is recognised when the shareholder’s right to receive payment is established.

### (vii) Finance lease revenue

Finance lease revenue is classified as exchange revenue and is allocated over the lease term on a systematic basis. This revenue allocation is based on a pattern reflecting a constant periodic return on the Council’s net investment in the finance lease.

### (viii) Development contributions

Development contributions are classified as exchange revenue and recognised as revenue in the year in which they are received.

### (ix) Other gains

Other gains include gains from the sale of property, plant and equipment and investments and gains arising from derivative financial instruments (see Hedging below).

**(x) Vested assets and donated goods**

Where a physical asset is received for no or minimal consideration, the fair value of the asset received is recognised as revenue. Assets vested in Council and goods donated are recognised as revenue when control over the asset is obtained. Vested assets and donated goods are categorised as non-exchange revenue.

## Expenses

Specific accounting policies for major categories of expenditure are outlined below:

**(i) Operating lease payments**

Payments made under operating leases are recognised in surplus or deficit proportionally over the term of the lease. Lease incentives received are recognised in surplus or deficit as an integral part of the total lease expense.

**(ii) Finance lease payments**

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**(iii) Finance costs**

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method. The interest expense component of finance lease payments is recognised in surplus or deficit using the effective interest rate method. Interest payable on borrowings is recognised as an expense in surplus or deficit as it accrues.

**(iv) Other losses**

Other losses include losses on the sale of property, plant and equipment and investments *(see* Investment Policy*)* and losses arising from derivative financial instruments (see Hedging below).

**(v) Grant expenditure**

Non-discretionary grants are those grants that are awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received.

Discretionary grants are those grants where the Council has no obligation to award on receipt of the grant application and are recognised as expenditure when approved by the Council and the approval has been communicated to the applicant and any grant criteria are met. Rates remissions are treated as discretionary grants to the recipient of the remission in accordance with the Council's Rates Remission Policy.

## Income tax

Income tax on the surplus or deficit for the year includes current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes at the reporting date.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits or service potential;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to reliably measure the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in surplus or deficit in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

## Property, plant and equipment

The following assets are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation:

- Land (other than land under roads)
- Buildings
- Infrastructure assets
- Heritage assets
- Works of art

For assets being revalued, the total accumulated depreciation prior to the date of valuation is transferred to the gross carrying amount of the asset. The new carrying value amount is then restated to the new revalued amount of the asset.

Valuations are performed with sufficient regularity to ensure revalued assets are carried at a value that is not materially different from fair value.  All other property, plant and equipment (including land under roads), are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Council and the cost of the item can be reliably measured. All other repairs and maintenance are charged within surplus or deficit during the financial period in which they are incurred.

Where the Council has elected to account for revaluations of property, plant and equipment on a class of asset basis, increases in the carrying amounts arising on revaluation of a class of assets are credited directly to equity under the heading Revaluation reserve. However, the net revaluation increase shall be recognised in surplus or deficit to the extent it reverses a net revaluation decrease of the same class of assets previously recognised in surplus or deficit.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as shown in the following table:

| **Operational Assets:** | **Estimated Useful Life** |
|---|---|
| Buildings | 1-100 yrs |
| Land improvements | 10-60 yrs |
| Office and computer equipment | 1-10 yrs |
| Mobile plant including vehicles | 2-30 yrs |
| Leasehold land improvements | 5-100 yrs |
| Library books | 3-8 yrs |
| Vessels | 5-25 yrs |
| Sealed surfaces (other than roads) | 9-100 yrs |

| **Infrastructure Assets:** | **Estimated Useful Life** |
|---|---|
| Formation | Not depreciated |
| Pavement sub-base | Not depreciated |
| Basecourse | 40-120 yrs |
| Footpaths and cycleways | 20-80 yrs |
| Surface | 2-80 yrs |
| Streetlights and signs | 5-50 yrs |
| Kerb, channel, sumps and berms | 80 yrs |
| Tram tracks and wires | 40-100 yrs |
| Parking meters | 10 yrs |
| Railings | 20-50 yrs |
| Landscape/medians | 8-80 yrs |
| Drain pipes/culverts/ retaining walls | 20-115 yrs |
| Bridges | 70-100 yrs |
| Bus shelters and furniture | 6-40 yrs |
| Water supply | 2-130 yrs |
| Water meters | 25-40 yrs |
| Stormwater | 20-150 yrs |
| Waterways | 10-100 yrs |
| Sewer | 40-150 yrs |
| Treatment plant | 15-100 yrs |
| Pump stations | 5-100 yrs |

| Restricted Assets: | Estimated Useful Life |
|---|---|
| Planted areas | 15-110 yrs |
| Reserves – sealed areas | 10-60 yrs |
| Reserves – structures | 10-80 yrs |
| Historic buildings | 20-125 yrs |
| Art works | 1000 yrs |
| Heritage assets | 1000 yrs |

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These are included as revenue or expenses. When revalued assets are sold, the amounts included in the revaluation reserve in respect of those assets are transferred to retained earnings.

## Distinction between capital and revenue expenditure

Capital expenditure is defined as all expenditure incurred in the creation of a new asset and any expenditure that results in a significant restoration or increased service potential for existing assets. Constructed assets are included in property, plant and equipment as each becomes operational and available for use. Revenue expenditure is defined as expenditure that is incurred in the maintenance and operation of the property, plant and equipment of the Council.

## Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. Further, the liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount.

## Intangible assets

### (i) Computer software

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Council, and that will generate economic benefits exceeding costs beyond one year, are capitalised and recognised as intangible assets. Capitalised costs include the software development employee direct costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives.

### (ii) Other intangible assets

Other intangible assets that are acquired by the Council are stated at cost less accumulated amortisation (see below) and impairment losses (see Impairment).

### (iii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates, and it meets the definition of, and recognition criteria for, an intangible asset. All other expenditure is expensed as incurred.

### (iv) Amortisation

An intangible asset with a finite useful life is amortised on a straight-line basis over the period of that life. The asset is reviewed annually for indicators of impairment, and tested for impairment if these indicators exist. The asset is carried at cost less accumulated amortisation and accumulated impairment losses.

| **Intangible Assets:** | **Estimated Useful Life** |
| --- | --- |
| Software | 1-10 yrs |
| Resource consents and easements | 5-25 yrs |
| Patents, trademarks and licenses | 10-20 yrs |

An intangible asset with an indefinite useful life is not amortised, but is tested for impairment annually, and is carried at cost less accumulated impairment losses. Derivative financial instruments

The Council uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy the Council does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially and subsequently at fair value. Changes in fair value are recognised immediately in surplus or deficit. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see Hedging below).

### Hedging

The Council uses derivatives to hedge its exposure to interest rate risks. The derivatives are designated as either cash flow hedges (hedging highly probable future transactions (borrowing)) or fair value hedges (hedging the fair value of recognised assets or liabilities).

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive revenue and expense, limited to the cumulative change in the fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in surplus or deficit. When the hedging relationship ceases to meet the criteria for hedge accounting any gain or loss recognised in other comprehensive revenue and expense and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in surplus or deficit. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in surplus or deficit.

Changes in the fair value of derivatives that are designated as fair value hedges are recorded in surplus or deficit, together with changes in the fair value of the hedged asset or liability. The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in surplus or deficit. When the hedging relationship ceases to meet the criteria for hedge accounting the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to surplus or deficit from that date.

## Investments

Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the assets (other than financial assets at fair value through surplus or deficit). Transaction costs directly attributable to the acquisition of financial assets at fair value through surplus or deficit are recognised immediately in surplus or deficit.

The Council classifies its investments into the following categories:

(a) Financial assets measured at amortised cost

Financial assets held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest on the principal amount outstanding are subsequently measured at amortised cost.

(b) Fair value through other comprehensive revenue or expense (FVTOCRE)

Financial assets held for collection of contractual cash flows and for selling where the cash flows are solely payments of principal and interest on the principal amount outstanding are subsequently measured at fair value through other comprehensive revenue or expense (FVTOCRE).

Changes in the carrying amount subsequent to initial recognition as a result of impairment gains or losses, foreign exchange gains and losses and interest revenue calculated using the effective interest method are recognised in surplus or deficit. The amounts that are recognised in surplus or deficit are the same as the amounts that would have been recognised in surplus or deficit if these financial assets had been measured at amortised cost. All other changes in the carrying amount of these financial assets are recognised in other comprehensive revenue and expenses. When these financial assets are derecognised, the cumulative gains or losses previously recognised in other comprehensive revenue and expense are reclassified to surplus or deficit.

On initial recognition the Council may make the irrevocable election to designate investments in equity investments as at FVTOCRE. Designation at FVTOCRE is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination to which PBE IFRS 3 applies. Subsequent to initial recognition equity investments at FVTOCRE are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive revenue and expense. The cumulative gain or loss will not be reclassified to surplus or deficit on disposal of the equity investments, instead, they will be transferred to accumulated surplus.

(c) Fair value through surplus or deficit

By default, all other financial assets not measured at amortised cost or FVTOCRE are measured at fair value through surplus or deficit.

Financial assets at fair value through surplus or deficit are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in surplus or deficit to the extent they are not part of a designated hedging relationship.

The net gain or loss recognised in surplus or deficit includes any dividend or interest earned on the financial asset.

**(i) Investment in subsidiaries and unlisted shares**

The Council's equity investments in its subsidiaries and unlisted shares are classified as financial assets at fair value through other comprehensive revenue or expense.

**(ii) Loan advances and investments in debt securities**

General and community loan advances classified as financial assets are measured at fair value through surplus or deficit.

Investment in debt securities are classified as financial assets measured at amortised cost .

# Trade and other receivables

Trade and other receivables are classified as financial assets at amortised cost and are initially measured at fair value and subsequently measured at amortised cost less the recognition of any expected credit losses (ECL) over the life of the asset. An expected credit loss allowance (ECL) has been made for each class of debtor and the estimate is based on the measurement of expected credit losses on historical, current and projected information. The balance of the movement is recognised in net surplus and deficit for the current financial year (see Impairment Policy).

# Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Inventories held for distribution at no charge, or for a nominal amount, are stated at the lower of cost and current replacement cost.

The cost of other inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

# Impairment

**(i) Impairment of financial assets**

The Council recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCRE. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

For all other financial instruments, the Council recognises expected lifetime credit losses when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Council measures the loss allowance for that financial instrument at an amount equal to 12 months of expected credit losses. The assessment of whether expected lifetime credit losses should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime expected credit losses represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 months expected credit losses represent the portion of lifetime expected credit losses that are expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

**(ii) Impairment of non-financial assets**

For the purpose of assessing impairment indicators and impairment testing, the Council classifies non-financial assets as either cash-generating or non-cash-generating assets. The Council classifies a non-financial asset as a cash-generating asset if its primary objective is to generate a commercial return. All other assets are classified as non-cash-generating assets.

Property, plant and equipment measured at fair value however is reviewed and tested for impairment. The carrying values of revalued assets are assessed annually to ensure that they do not differ materially from the assets' fair values. If there is a material difference, then the off-cycle asset classes are revalued.

The carrying amounts of the Council's other assets, other than investment property (see *Investments Policy*) and deferred tax assets (see *Income Tax Policy*), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised through surplus or deficit, unless the asset is carried at a revalued amount in which case any impairment loss is treated as a revaluation decrease and recorded within other comprehensive revenue and expense.

For intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

**(iii) Calculation of recoverable amount**

The recoverable amount of the Council's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial instruments) and adjusted for expected credit loss. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their market value less cost to sell and value in use.

As a PBE, Council uses depreciated replacement cost to assess value in use where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where Council would, if deprived of the asset, replace its remaining future economic benefits or service potential. For the Group, where an asset does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

The value in use for cash-generating assets is the present value of expected future cash flows. The discount rate used reflects current market assessments of the time value of money and the risks specific to the asset.

## Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits, and other short-term highly liquid investments with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Council's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows, and in current liabilities on the statement of financial position.

## Interest Bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in surplus or deficit over the period of the borrowings on an effective interest basis.

## Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

## Provisions

A provision is recognised in the statement of financial position when the Council has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits, the amount of which can be reliably estimated, will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

## Employee entitlements

The employee compensation policy is based on total cash remuneration: a single cash payment in compensation for work, where the employee is responsible for and able to individually decide how best to use their remuneration to meet their needs over time in the mix and type of benefits purchased. Provision is made in respect of the Council's liability for the following short and long-term employee entitlements.

**(i) Short-term entitlements**

Liabilities for annual leave and time off in lieu are accrued at the full amount owing at the pay period ending immediately before the reporting date.

Liabilities for accumulating short-term compensated absences (e.g. sick leave) are measured as the amount of unused entitlement accumulated at the pay period ending immediately before the reporting date that the entity anticipates employees will use in future periods, in excess of the days that they will be entitled to in each of those periods.

**(ii) Long-term entitlements**

The retiring gratuity and long-service leave liabilities are assessed on an actuarial basis using current rates of pay taking into account years of service, years to entitlement and the likelihood staff will reach the point of entitlement.

Obligations for contributions to KiwiSaver are accounted for as defined contribution superannuation schemes and are recognised as an expense in surplus or deficit when incurred.

Superannuation is provided as a percentage of remuneration.

## Leases

### (i) As lessee

Leases in which substantially all of the risks and rewards of ownership transfer to the lessee are classified as finance leases. At inception, finance leases are recognised as assets and liabilities on the statement of financial position at the lower of the fair value of the leased property and the present value of the minimum lease payments. Any additional direct costs of the lessee are added to the amount recognised as an asset. Aright of use asset is recognised as the Council has full benefit under a finance lease and is depreciated as if the assets are owned.

### (ii) As lessor

Leases in which substantially all of the risks and rewards of ownership transfer to the lessor are classified as finance leases. Amounts due from lessees under finance leases are recorded as receivables. Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

## Net Assets / Equity

Net assets or equity is the community's and ratepayers' interest in the Council. It is measured as the difference between total assets and total liabilities. Net assets or equity includes the following components:

- Asset revaluation reserve
- Fair value through other comprehensive revenue and expense reserve
- Hedging reserves
- Reserve funds
- Capital reserves
- Retained earnings

## Third party transfer payment agencies

The Council collects monies for many organisations. Where collections are processed through the Council's books, any monies held are shown as accounts payable in the prospective statement of financial position. Amounts collected on behalf of third parties are not recognised as revenue, but commissions earned from acting as agent are recognised as revenue.

## Goods and Services Tax

The draft prospective financial statements are prepared exclusive of GST with the exception of receivables and payables that are shown inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

The net GST paid to, or received from the Inland Revenue Department, including the GST relating to investing and financing activities, is classified as an operating cash flow in the prospective statement of cash flows.

## Donated services

The Council receives the benefit of many services provided by volunteers. These services are greatly valued. They are, however, difficult to measure in monetary terms, and for this reason are not included in the draft prospective financial statements, as their value from an accounting point of view is considered immaterial in relation to total expenditure.

## Cost allocations

The costs of all internal service activities are allocated or charged directly to external service type activities. External service activities refer to activities which provide a service direct to the public. Internal service activities provide support for the external service activities.

Where the recipient of an internal service can be identified, the cost recovery is made by way of a direct charge. Where this is not practical or the linkage is indirect, the costs are allocated by way of corporate overhead.

Corporate overhead is allocated either directly or indirectly to external service activities as follows:

- Property costs: pro rata based on the number of desks held for use for each unit.
- IT costs: pro rata based on the total number of active IT users.
- Human Resources and Payroll Services cost: pro rata based on the total number of planned employee work hours.
- All other costs: pro rata based on the gross cost of external service activities.

## Critical judgements, estimates and assumptions in applying Council's accounting policies

Preparing draft prospective financial statements to conform to PBE Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances.

These are outlined in the Significant Forecasting Assumptions section.

These estimates and assumptions have formed the basis for making judgements about the carrying values of assets and liabilities, where these are not readily apparent from other sources.

Subsequent actual results may differ from these estimates. Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the period if the change affects only that period, or in future periods if it also affects future periods.

# Significant Forecasting Assumptions

In preparing this Draft Annual Plan it was necessary for Council to make a number of assumptions about the future. The following tables identify those forecasting assumptions which are significant in that if actual future events differ from the assumptions, it will result in material variances to this Plan. The table also identifies the risks that underlie those assumptions, the reason for that risk, and an estimate of the potential impact on the Plan if the assumption is not realised.

A number of assumptions have such a high level of uncertainty the financial impact of a change in the assumption is not able to be quantified. In these situations a description of the impact has been provided.

| Assumption | Risk | Level of Uncertainty | Reasons and Financial Impact of Uncertainty |
|---|---|---|---|
| **1. Capital Programme and infrastructure assets** | | | |
| 1.1 **Capital Works.** Programmes and projects are assumed to be delivered within budget and on time. The capital programme is generally managed within overall budget allocations requiring changes to programme or project budget to be found within available budgets. At a corporate level provision is made for delayed delivery by forecasting an annual capital budget carry forward based on delivery trends. There may also be some projects delivered ahead of forecast and these will be managed within borrowing allowances via bring backs. | Actual costs will vary from estimates, due to higher input prices and/or delivery delays, resulting in budget shortfalls. These are partially offset by the delay in borrowing.<br><br>However, Council has tendered significant work and estimates are based on the best available information. Delays could also be due to consenting and consultation requirements.<br><br>See also 3.8 for Covid impact. | Moderate/<br>Low | To the extent possible Council staff seek to proactively manage the delivery of capital works, substituting projects within a programme where necessary. Those that are unable to be completed as planned in the Annual Plan may be carried forward. The implications of this are:<br>• possible additional reactive opex; not all delays lead to additional costs.<br>• possible reduction in opex if the delay relates to a new facility.<br>• projects may cost more than planned due to inflation.<br>• less funds will need to be borrowed in the short term. Delaying new borrowing will impact on the timing of financing costs.<br>• possible reduction to levels of service. |

| Assumption | Risk | Level of Uncertainty | Reasons and Financial Impact of Uncertainty |
|---|---|---|---|
| | | | • Any inflationary increase in Council's costs that is not offset by efficiency gains or revenue is likely to impact the timing of future works or increase borrowing. |
| 1.2 **Sources of funds for replacing assets.** The sources of funds will occur as projected. | Funding does not occur as projected and borrowing is required. | Low | Council is well placed to borrow funds as required and remain within its LGFA benchmarks. The impact to ratepayers of every $10 million of additional borrowing for capital works is a 0.11% increase to rates spread over two years. This increase accounts for the interest cost and repayment of the borrowing over 30 years. |
| 1.3 **Asset life.** Useful life of assets is as recorded in asset management plans or based upon professional advice (the Accounting Policies detail the useful lives by asset class). | Useful live of an asset/s is significantly shorter than expected. | Moderate | Council maintains its databases with the latest condition information. However, piped networks are below ground making remaining life more difficult to assess.<br><br>Ideally assets need to be replaced just in time. Earlier replacement would put more pressure on the Council's capital programme, leading to higher depreciation expense and financing costs. Late replacement leads to more expensive replacements costs plus generally greater impacts on the operational costs, community and the environment. |
| 1.4 **Carrying value of assets.** The opening statement of financial position reflects the correct asset values.<br><br>The carrying value of assets are revalued on a regular basis. | Asset revaluations will differ to that planned and change projected carrying values of the assets and depreciation expense. | Low | Land and buildings were revalued as at 30 June 2021.<br><br>Waste water, water supply and stormwater, were revalued at 30 June 2020.<br><br>Roading assets were revalued at 30 June 2019.<br><br>The valuation of the Council's facilities and infrastructural assets at optimum depreciated replacement cost involves a significant amount of judgement in estimating the replacement unit cost, asset condition (for underground assets) and the remaining useful life of the assets. |

| Assumption | Risk | Level of Uncertainty | Reasons and Financial Impact of Uncertainty |
|---|---|---|---|
| **2. Inflation. Growth and Population** | | | |
| 2.1 Inflation. The price level changes projected will occur. Council has considered both information provided by Business Economic Research Limited to all local authorities and a weighted mix of its own cost inputs in determining appropriate inflators. Different forecast inflation figures for capital and operational items are used in developing the plan due to the differing mix of cost inputs in each. Inflation adjustments used are:<br><br>2022/23<br>Capital 2.3%<br>Opex 2.1% | Inflation will be materially higher or lower than anticipated.<br><br>Inflation on costs will not be offset by inflation on revenues. | Moderate<br><br>Low | Any short term impact will be managed by managing costs to budget without impacting levels of service where possible. |
| 2.2 Economic Environment. It is difficult to predict the future economic environment for Christchurch, Canterbury and New Zealand with a high degree of certainty as Covid-19 continues to impact on economic life.<br><br>Treasury's Half Year Economic and Fiscal Update 2021 (issued in December) highlights the complex economic situation:<br><br>• Strong demand leading up to the Delta outbreak resulted in stronger-than-expected economic activity, tax revenues exceeding forecasts and record-low unemployment. GDP rose | That there are further unexpected local, national or international economic shocks such as further restrictions on movement and economic activity from future waves of the COVID-19 virus. This would further exacerbate the uncertainty around future economic activity. | Moderate | A significant deterioration in Christchurch's economic environment could impact on ratepayers' ability to pay rates. If revenue was negatively impacted it could lead the Council to decide to borrow more heavily or cut facilities and services provided to reduce the rate requirement.<br><br>However, this is unlikely to eventuate within a single rating year and any decision to cut services or increase debt to reduce rates would be more likely to be addressed in a future Annual Plan or Long Term Plan. |

| Assumption | Risk | Level of Uncertainty | Reasons and Financial Impact of Uncertainty |
|---|---|---|---|
| by 4.1% over the first half of 2021 and unemployment fell to 3.4% in the September 2021 quarter.<br>• Unemployment is expected to fall to 3.1% in the March 2022 quarter before slowly increasing to 4.1%. Wage inflation is expected to be above 4.0% throughout the forecast period.<br>• Supply chain disruptions and strong demand has seen capacity pressures intensify, contributing to higher inflation, which is forecast to peak at 5.6% in the March 2022 quarter, before trending down. As a result, interest rates are expected to rise faster and to a higher level than previously forecast.<br>At a regional level the Canterbury economy is performing well with the ASB Regional Economic Scoreboard for December 2021 showing Canterbury as the best performing region with strong results across the range of metrics used.[1]<br>Council has prepared this Plan on the basis that the current predictions about the economy will prove correct. | | | |
| 2.3 **Development contributions revenue.** Council collects development contributions from | If the number of new properties paying development contributions is | Low | The timing of growth, and its impact on Council's development contributions revenue, will have a low |

[1] See Regional Scoreboard: Canty's back baby (asb.co.nz)

| Assumption | Risk | Level of Uncertainty | Reasons and Financial Impact of Uncertainty |
|---|---|---|---|
| property developers to fund the capital costs of providing infrastructure capacity to service growth development.<br><br>Development contribution charges are based on apportioning the cost of providing growth infrastructure to the forecast number of new residential, commercial, industrial and other properties. This forecast is based on Council's Growth Model.<br><br>The Council has assumed development will reflect the population and business growth model growth forecasts and has budgeted its development contributions revenue accordingly. | significantly less than forecast over the funding life of assets then revenue from development contributions will not be sufficient to fund the growth component of the Council's capital programme.<br><br>If the timing of growth differs significantly from forecast this will impact on Council's cash flows and may necessitate changes to planned borrowing.<br><br>The location and timing of development is determined by a number of factors such as market forces which are outside the control of the council. | Low | impact on the borrowing and interest expense assumptions in this Plan.<br><br>Any shortfall in development contributions revenue must be funded initially by borrowing which is funded from rates over the relevant debt financing term. |
| 2.4 Population. Planning for activities, and thus the likely cost of providing those activities assumes that the population of Christchurch will increase at the rate forecast by Council's growth model. | That population growth is higher than projected, and Council will need to provide additional unplanned services and infrastructure.<br><br>That population growth is lower than projected, and the Council will be required to support excess levels of infrastructure and service delivery. | Low<br><br>Low | Population projections are based upon a standard set of demographic assumptions. The level of risk is low but could impact the cost of providing activities.<br><br>The impact of COVID-19 on migration is unknown at this stage. |
| 2.5 Rating Base. The capital value of the city increases annually due to subdivisions and development which leads to an increase in the rating base. | Rating base grows at a materially different rate from that projected. | Low | Actual growth in the rating base is never known until year end because of the process by which it's measured. Council staff work closely with QV in the period leading up to year end in order to have as accurate an assessment as |

| Assumption | Risk | Level of Uncertainty | Reasons and Financial Impact of Uncertainty |
|---|---|---|---|
| Growth in the number of rating units and their capital value is expected to increase the rating base for 2022/23 by $7.2 million (1.2%) compared to 2021/22. | | | possible. Variances between the forecast and actual growth in the rating base will cause changes to the total rates revenue collected. |
| 2.6 **Aging population.** The number of people over the age of 65 is expected to increase by 80% by 2051 to 117,800 (24%).<br><br>By 2051 the number of people over the age of 80 is expected to be around 10% of the population, compared to around 4% in 2021. | If the mix of ages within the population is significantly different from that forecast the range and types of services that have factored in the needs of older persons may need to change. | Low | Age projections are provided by Statistics New Zealand on a nation-wide basis. The projections for people who will be in post- retirement age groups is determined by the current population structure which does not change significantly, especially in the ages from 45 to 65 years, which will be the retirement age group in the next 20 years. |
| **3. Impact of policies and external factors** | | | |
| 3.1 **Council policy.** Given the significant extent of government reform, there will be regular updates to Council policy in response to legislative changes and emerging strategic issues. | New legislation is enacted that requires a significant policy response or business change from Council or, Department of the Prime Minister and Cabinet (DPMC) uses its statutory powers such that a change is required to Council policy. | Low | Dealing with changes in legislation is part of normal Council operations. |
| 3.2 **Waka Kotahi subsidies.** The Current Funding Assistance Rate (FAR) of 51% on qualifying expenditure will not change. We will receive the total amount of subsidy that we have assumed we will receive. | Changes in the FAR, changes to the overall amount in the National Land Transport Fund, changes to government transport priorities, and changes to eligibility criteria for projects could impact on the amount of subsidy we receive from Waka Kotahi. | Moderate | Changes to government funding priorities and Waka Kotahi funding decisions are outside Council control and the risk varies from project to project. The maximum financial impact would be the elimination of the subsidy, which is extremely unlikely.<br><br>Decisions on what projects will be funded through the National Land Transport Fund will not likely be confirmed until after 30 June 2022, and this means there is some uncertainty around funding for some projects. The |

| Assumption | Risk | Level of Uncertainty | Reasons and Financial Impact of Uncertainty |
|---|---|---|---|
| | | | Council is regularly in discussions with Waka Kotahi to gain more clarity on which projects will receive funding. |
| 3.3 **Resource Consents.** Conditions of resource consents held by Council will not be significantly altered. | Conditions required to obtain/maintain the consents will change, leading to the costs to obtain resource consents and/or implement consent conditions being higher than anticipated. These costs would not be covered by planned funding.<br><br>Council is currently working through the Akaroa wastewater consent issues. | Moderate/ Low | Advance warning of likely changes is anticipated.<br><br>The financial impact of failing to obtain/renew resource consents cannot be quantified. |
| 3.4 **Legislative and Regulatory change.** The Government has initiated three significant reform programmes that will in time impact on the legislative and regulatory frameworks within which local government currently operates.<br><br>These reform programmes are; three waters reform, resource management reform and the future for local government review.<br><br>Given the expected timelines of the review processes the Council has assumed that no significant legislative or regulatory change will impact on the Council in the coming year.<br><br>The reform programmes are each covered in more detail below. | Should the local government legislative environment change, the activities and services the Council plans to provide over the period of this Plan could change which could impact on Council's costs and revenue requirements. | Low | The Government has several review programmes in progress which will significantly change the roles and responsibilities of local government as changes are implemented over time.<br><br>At the time of preparing this Plan the Council is unable to determine how any potential legislative change might impact its operations or quantify the potential financial impact, but any significant change is likely programmed to impact post 2022/23.<br><br>Expected costs relating to enactment of the RMA (Housing Bill) and to the Council's involvement in Government reform processes have been incorporated in this Plan. |

| Assumption | Risk | Level of Uncertainty | Reasons and Financial Impact of Uncertainty |
|---|---|---|---|
| 3.5 **Three Waters Reform.** The Council will continue to deliver three waters services over the life of the Annual Plan. | The Crown is proposing to establish publicly-owned water service delivery entities of significant scale to deliver three waters services. The entities are proposed to take ownership of Council three waters assets with councils retaining nominal ownership of the entities. This will significantly affect Council assets, liabilities, debt limits and operating expenditure and revenues from 2024/25.<br><br>The following water activities are affected:<br>• Water Supply<br>• Wastewater Collection, Treatment and Disposal<br>• Stormwater Drainage<br>• Land Drainage | Moderate | These activities have planned direct costs in the 2023 financial year of $98.7 million, with a further $14.4 million of debt servicing and $7.9 million of other internal charges/overheads. Operating revenues total $7.6 million.<br><br>The closing book value of these assets at 30 June 2021 was $5.9 billion, with a replacement cost of $10.2 billion.<br><br>Council does not borrow separately for these activities, but estimates debt relating to these activities is in the order of $1 billion at 30 June 2021.<br><br>There will be probable second order impacts, which Council will assess as part of its analysis of the reform proposal. |
| 3.6 **Potential climate change impacts.** The Ministry for the Environment and Stats NZ Environment Aotearoa 2019 report states all aspects of life in New Zealand will be impacted by climate change. The Council has developed a draft climate change strategy, which identifies action programmes to respond to the impacts of climate change and the legislative requirements to consider the impacts of climate change. | The timing or severity of any climate change impacts could be worse than expected, meaning the Council is not sufficiently prepared. | Low | Variability in changes to the climate and its impacts and how we respond could result in different financial impacts.<br><br>We have significant work to do to have a better understanding of our exposure and vulnerability to the impacts of climate change on our assets and how we adapt, to determine the financial impacts. |

| Assumption | Risk | Level of Uncertainty | Reasons and Financial Impact of Uncertainty |
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| The projected local changes to climate that we must prepare for are:<br>a. 0.5 metre rise in sea-level by 2075 and 1 metre sea-level rise by 2120;<br>b. average temperatures will rise 0.5°C – 1.5°C by 2040 and by 3°C by 2090<br>c. changes in rainfall and extreme weather events. | | | |
| 3.7 Future for Local Government Review. The Minister of Local Government has established a Ministerial Inquiry into the Future for Local Government.<br><br>The overall purpose of the review is to *“identify how our system of local democracy needs to evolve over the next 30 years, to improve the well-being of New Zealand communities and the environment, and actively embody the treaty partnership.”*<br><br>The review includes, but is not limited to, the following:<br>• roles, functions, and partnerships<br>• representation and governance and<br>• funding and financing<br><br>The review panel is scheduled to present its final report to the Minister in April 2023.<br>The Council has assumed the reform programmes will not materially impact on its costs or financial position in the 2022/23 year. | While the review could recommend significant change to what local government is and does, there is no information available on the likely direction for the review at this time, although detailed review timelines have been provided. | Moderate | If the Government fast-tracked one or more of the reform programmes so that change was required in the 2022/23 year this could have a significant impact on work programmes and budgets.<br><br>Council considers it unlikely that any recommendations could take effect before 1 July 2024 – particularly for changes to roles or functions. Any changes that are made will be incorporated in the 2024-34 long-term plan.<br><br>Unless specifically stated otherwise, Council has prepared the plan on the assumption its existing role and functions will continue for the life of the plan.” |

| Assumption | Risk | Level of Uncertainty | Reasons and Financial Impact of Uncertainty |
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| Changes to what services local government delivers and how these are delivered will be implemented from the 2024/25 year onwards. | | | |
| 3.8 Impact of Covid – 19<br>Operational and Capital Programme delivery will be able to occur without further significant financial, staffing or deliverability issues due to Covid-19. | Multiple risks around lockdowns, access to facilities and availability of vaccinated staff to continue delivering services.<br>Also risks in securing external goods and services in a timely manner as required to deliver services and the capital programme. | High | Councils Covid-19 vaccination policy aims to minimise risk to staff and the public while continuing to provide services.<br>Deliverability is a key factor in determining the Councils overall capital programme, taking into account a number of strategies to minimise costs and delay.<br>However the future impact, or any Government or Council response cannot be pre-determined. |
| **4. Borrowing Related** | | | |
| 4.1 Credit Rating. The current rating is maintained. | Council's credit rating with Standard and Poor's is downgraded as a result of the additional borrowing required to meet the capital programme. | Low | Council's credit rating with Standard and Poor's was upgraded from A+ to AA- on 10 December 2019 with a stable outlook. The outlook was upgraded to positive in December 2021. There is low risk of a credit downgrade given the additional borrowing required to meet the capital programme planned for the next four years. If the Council falls one notch from its current credit rating (i.e. from AA- to A+) the cost of ***new*** borrowing and ***refinanced*** borrowing will increase by 5 basis points (0.05 percentage points) for the life of the borrowing.<br>In such an event, interest costs in 2022/23 could increase by $0.20 million. This could increase to $1.5 million annually by 2027/28. |

| Assumption | Risk | Level of Uncertainty | Reasons and Financial Impact of Uncertainty |
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| 4.2 **Borrowing Costs.** Net cost of ratepayer funded borrowing (i.e. including current and projected debt) is projected to be 4.3% in 2022/23. | Interest rates will vary from those projected. | Moderate | Projections are based on assumptions about future market interest rates. Projected debt is mostly hedged to reduce exposure to market rate fluctuations, but a moderate amount of risk remains. Market interest rates 0.5% higher than projected would increase interest costs by around $3m in 2022/23. Council manages interest rate exposure in accordance with its Liability Management Policy, and in line with advice from an independent external advisor. |
| 4.3 **Securing External Funding.** New, or renewal of existing borrowings on acceptable terms can be achieved. | That new borrowings cannot be accessed to refinance existing debt or fund future capital requirements. | Low | The Council minimises its liquidity risk by maintaining a mix of current and non-current borrowings in accordance with its Liability Management Policy. |
| 4.4 **LGFA Guarantee.** Each of the shareholders of the LGFA is a party to a deed of Guarantee, whereby the parties to the deed guarantee the obligations of the LGFA and they guarantee obligations of other participating local authorities to the LGFA, in the event of default. | In the event of a default by the LGFA, each guarantor would be liable to pay a proportion of the amount owing. The proportion to be paid by each respective guarantor is set in relation to each guarantor's relative rates income. | Low | The Council believes the risk of the guarantee being called on and any financial loss arising from the guarantee is remote. The likelihood of a local authority borrower defaulting is extremely low and LGFA has recovery mechanisms that would be applied prior to any call on the Guarantee. All of the borrowings by a local authority from the LGFA are secured by a rates charge. |
| 4.5 **Opening Debt:** The opening debt of $2,250 million is made up of;<br>$222 million of equity investments, mainly in CCTOs (Venues Ōtautahi Ltd (formally Vbase) $185 million),<br>$661 million of money borrowed for on-lending, (in accordance with the Council's Liability Management Policy),<br>$1,278 million of capital works and earthquake related borrowing. There is an additional $71.5 | Actual opening debt differs from forecast. | Low | Council's debt requirements are well understood and closely managed. It is unlikely that opening debt will be significantly different to forecast. |

| Assumption | Risk | Level of Uncertainty | Reasons and Financial Impact of Uncertainty |
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| million borrowed internally from the Capital Endowment Fund.<br>$89 million finance lease (Civic Building). | | | |
| **5. Investment related** | | | |
| 5.1 **Return on investments.** Interest received on cash and general funds invested is projected to be 1.5% for 2022/23.<br>The return on the Capital Endowment Fund (most of which is currently invested internally) is calculated at 3.0% for 2022/23. | Interest rates will vary from those projected. | Low | Financial impact is unlikely to be significant. |
| 5.2 **Value of Investment in Subsidiaries** The opening statement of financial position reflects the correct investment values.<br>The carrying value of CCO investments are revalued on a regular basis. | CCO revaluations will differ to that planned and change projected carrying values of the investments. | Low | The valuation of the Council's investments in subsidiary and associated companies at fair value has a material impact on the amounts recognised in these prospective financial statements and involves a significant amount of judgement. Independent valuers are commissioned to perform these valuations on a periodic (currently annually) basis, at intervals sufficient to ensure that the fair value of these investments does not differ materially from their carrying value. |
| 5.3 **CCTO income.** CCHL will deliver dividend income at the levels forecast in this Plan. | CCHL will deliver a lower than projected dividend and Council will need to source alternate funding. | Low | CCTOs are monitored by their Statements of Intent and a quarterly reporting process. Returns are expected to be as forecast in this Plan.<br>Should additional dividend income be received the level of borrowing forecast in this Plan will be reduced. |

| Assumption | Risk | Level of Uncertainty | Reasons and Financial Impact of Uncertainty |
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| 5.4 **Tax planning.** The Council (parent) will be operating at a tax loss for the period covered by this Plan due to the availability of tax deductions on some Council expenditure. This allows the Council's profit-making subsidiaries to make payments (known as subvention payments) to Council instead of tax payments. | Subvention payments will be lower than planned. | Low | CCTOs are monitored by the Statement of Intent and a quarterly performance reporting process. Returns are expected to continue as forecast in this Plan. |
| **6. Services and Operations** | | | |
| 6.1 **Community housing.** Community housing assets are leased to Otautahi Community Trust, who are responsible for operations, maintenance and renewals. Council retains asset ownership. | Community housing remains ring-fenced from rates, through a separate Housing Fund. The ongoing revenue source for this fund is the lease payments from the Ōtautahi Community Housing Trust.<br>Modelling for the Housing Fund indicates that its sustainability is sensitive to small changes and there is a risk that:<br>• The lease payments are not sufficient to enable the social housing portfolio to be financially viable in the long term.<br>• Higher than expected expenditure (e.g. due to asset failure or external events) reduces the financial | Medium | With a focus on repairing earthquake damage, lifting quality standards and addressing deferred maintenance, there has been significant expenditure from the fund over the last 5 years. The fund is now in a depleted state, and is not anticipated to accumulate until 2026/27. During this period it is at a heightened risk, albeit this is mitigated by the ability to defer programmes if necessary. |

| Assumption | Risk | Level of Uncertainty | Reasons and Financial Impact of Uncertainty |
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| | sustainability in the short term (2 years). | | |
| 6.2 **Contract Rates.** Re-tendering of major contracts will not result in cost increases other than those comparable with the rate of inflation.<br><br>There is currently some post covid increase in cost around the supply chain.<br><br>Additionally some contracts are impacted by the Councils 2021 living wage decision. | There is a significant variation in price from re-tendering contracts. | High | Where possible Council would review the appropriate scope of work, or alternatively adjust the budget between services to free up additional funding.<br><br>Inflation is currently running at 5.9%. On its own, this presents a real risk. However, there also remains volatility in the supply chain and shortages of construction materials, which will undoubtedly place further upward pressure on costs. The 'post covid increase' appears greater now than a few months ago, with no sign of its influence diminishing anytime soon. Similarly, the labour market is also under considerable pressure, with organisations routinely increasing wages to retain and secure staff. Inevitably this will impact contract rates.<br><br>Some potential cost increases may be mitigated or offset through the negotiation period by revising the scope of services or accepting a lower level of services, such as inspections and cleaning frequencies. We will also be challenging/tasking Contractors to identify and suggest cost savings and improved efficiencies and consolidating services within existing contracts where possible. However, it is unlikely that any potential savings will outweigh increased contractor and supply costs, so some budgetary adjustments may be necessary. |

| Assumption | Risk | Level of Uncertainty | Reasons and Financial Impact of Uncertainty |
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| **7. Insurance cover and natural disaster financing** | | | |
| 7.1 **Insurance cover.** The Council has adequate Material Damage cover for all above ground buildings which are undamaged and fire cover for significant unrepaired buildings. | Risk of major loss through fire | Low | The results of external and independent modelling carried out during 2019 suggests that the cover taken is sufficient to meet two times the maximum loss. This modelling will be updated prior to 30 June 2022. Any financial impact is not expected to be significant. |
| 7.2 **Natural disaster financial implications.** The Christchurch region is susceptible to further damage from earthquake, flooding and tsunamis. | Council has limited insurance cover in place for damage to infrastructure networks from flooding, tsunami and earthquake events and relies on the strength of its statement of financial position plus access to central government emergency funding in the event of another major event. | Moderate | Financial implications of another significant event are large, particularly when our ability to borrow may be limited due to the high debt to revenue ratios forecast.<br><br>This risk is considered in preparing forecasts and particular attention is paid to the financial headroom for each year. Financial headroom is a measure of Council's ability to borrow in the event of an emergency. |