

Financial Overview

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This section outlines key changes contained in the 2019/20 Annual Plan compared to what was forecast in the 2018-28 Long Term Plan (LTP). The table below shows the total funding requirements for the Council for 2019/20 and the variance from that detailed in the LTP. Key changes to the financial statements are reflected and explained below.

Operating expenditure

Operational expenditure is \$8.7 million above the level forecast in the LTP. While most costs have been held to the LTP level the significant changes are:

- EcoCentral Recycling Processing fee of \$3.2 million has been added for a further year as we await a long term solution for dealing with those recyclable materials that can no longer be shipped to offshore markets.
- Additional Vbase operational grant of \$2.25 million, with \$2.5 million provided for in the following two years to cover the proposed 2019/20 restructuring costs and increase in contribution to fund social and cultural activities in the refurbished Town Hall.
- Additional legal costs of \$3.4 million relating to several matters currently in dispute.
- Inclusion of planning costs for the Otakaro Avon River Corridor (OARC) (\$1.06 million) and the Canterbury Multi Use Arena (\$0.85 million). The detail had not been resolved when the LTP was adopted but both are now expected to be funded from the Crown's Capital Acceleration Fund.

- Global Stormwater consent costs (\$0.8 million). This is to meet the added requirements resulting from the consent granted recently and relates to additional environmental monitoring and stormwater drainage planning. This detail was not available at the time the LTP was adopted.
- Land Drainage retention basin maintenance costs (\$0.45 million). This is to meet the cost of more frequent mowing and maintenance on stormwater reserves in residential areas and was previously unbudgeted.
- Water Supply improvement programme costs (\$1.05 million) to meet the cost of increased pumping, maintenance, laboratory testing, expanded water safety plans and audits associated with the programme. Also included are maintenance costs for a Pressure & Acoustic sensor network and backflow prevention. The impacts of the improvement programme were not fully identified at the time of the LTP as the programme was only in early investigation and design phase.
- Temporary water supply treatment costs (\$1 million), phasing out over three years.

These increases are offset by the following cost reductions:

- Delay of incurring Port Hills residential red zone maintenance costs until 2020/21 (\$1.5 million reduction), due to the delayed handover of land from the Crown.
- Delay in the Museum Redevelopment grant (\$7.4 million) to match the Museum Trust's revised timelines of 2021 - 2023.
- Lower Housing maintenance (\$1.6 million), adjusted to reflect the capacity to deliver maintenance such as exterior painting and interior redecorations.

The Regenerate Christchurch grant was reduced by \$3 million and the funds reallocated to regeneration initiatives. The following are the major initiatives;

- Southshore and South New Brighton Regeneration Strategy (\$1.3 million);
- maintenance projects in core infrastructure services, particularly roads/footpaths and parks (\$0.9 million); and
- seed funding for activation projects within the Ōtākaro/Avon river corridor (\$0.35 million).

Interest Expense

Interest expense is \$7 million lower, \$3.5 million of which relates to a correction. The LTP expense was overstated with an offset in interest revenue relating to internal borrowing of Capital Endowment Funds. The balance of the decrease reflects lower borrowing of \$110 million by June 2020 compared to the LTP.

Depreciation

Depreciation expense is charged on a straight line basis on both operational and infrastructure assets but not directly rated for. Instead the Annual Plan includes rating of \$130.9 million for the renewal and replacement of existing assets. This is consistent with the Financial Strategy.

Revenue

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

Significant changes from the LTP are:

- Crown funding for OARC planning and the Canterbury Multi Use Arena planning and construction costs (\$18.8 million)
- Retiming from 2018/19 of \$3.2 million CCHL normal dividend to help offset additional costs.

- Additional NZTA operational (\$2 million) revenues.
- Lower interest revenues from funds held (\$3.5 million). Refer to interest expense comment on the Capital Endowment Fund.
- Lower Housing revenues of \$0.9 million, reflecting current income received.
- Lower volumes of resource and building consents (\$2.5 million) reflecting the drop in demand. These are largely offset by cost reductions.
- Development Contribution revenue \$8 million lower due to a provision for Central City rebates carried forward from the 2017/18 year.

Surplus, operating deficits, and sustainability

The Annual Plan for 2019/20 shows an accounting surplus of \$28.2 million before revaluations of \$202.4 million. Under accounting standards Council is required to show all revenue, including earthquake-related recoveries, and contributions from central Government and NZ Transport Agency, as income for the year. However, some of these recoveries reimburse Council for capital programme expenditure.

After adjusting for these capital revenues the Annual Plan reflects a balanced budget.

Capital programme expenditure

\$419.8 million will be invested in the capital programme in 2019/20, a decrease of \$35.4 million from to the LTP.

There is a significantly reduced spend in the capital programme in 2019/20 compared to the LTP which relates to:

- Sumner Road (\$13.1 million) - project was completed in the previous financial year.
- Linwood Pool (\$10.4 million) – updated to reflect the current work programme with funding in years 2019/20 – 2021/22.
- Performing Arts Precinct (\$9.6 million) – project is subject to a land transfer from the Crown and development agreement approval.
- Wastewater Reticulation Renewals (\$6.6 million) – the budget is pushed out as there is incomplete work in 2018/19 which will be carried forward to 2019/2020.
- Stormwater and Flood Protection works (\$3.3 million). These were delivered early in 2017/18.
- Naval Point Development Plan (\$2.8 million) consultation has taken longer than originally estimated.
- WS Lyttelton R&R Rail Tunnel Pipeline (\$2.8 million) - timing of the project is driven by an external party.
- Marshlands Road bridge renewal (\$2.4 million) which has been retimed to 2021/22.

- The Square & Surrounds (\$2 million) reflects the expected delivery programme. Funding is spread across four years rather than three.

There has been a significant increase in spend for 2019/20 for the following projects:

- Canterbury Multi Use Arena (\$16.8 million) – due to inclusion of the Crown funded share of the arena over a three year period. This funding had not been confirmed at the time the LTP was adopted.
- Cycleway Projects (\$9 million) originally brought forward to take advantage of the NZTA Targeted Enhanced Funding Assistance Rates (TEFAR). Specific projects can be seen in the Capital programme section.
- Strategic land acquisitions (\$3.7 million) – correction to Strategic Land phasing to align with current programme requirements.
- Hot Salt Water Pools (\$3.4 million) – 2017/18 budget retimed to 2019/20 to complete project.
- Water supply Pressure and Acoustic Sensors (\$1.5 million) – to establish a pressure and acoustic sensor network to enable reconfiguration of the water supply zones and improve pressure management.
- Multicultural Recreation and Community Centre - \$1.5 million budgeted for 2019/20 and 2020/21 to support the development of a multicultural centre in Christchurch.
- Community Parks Development Programme (\$1.5 million) – due to increasing demand

growth for new reserves and funded through development contributions.

Capital programme funding

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

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

Borrowing

The annual plan includes new borrowing in 2019/20 of \$31.8 million. This is \$233.8 million lower than planned in the LTP due to funds on hand. Council hedges its expected debt with forward start hedges. These normally account for around 80% of the expected exposure but with slower delivery of the capital programme created an 'over-hedged' situation which was resolved by early borrowing in the 2018 year. These funds will be utilised during 2019/20 and hence the new borrowing requirement is for only \$31.8 million.

Gross debt in 2019/20 decreases by \$15.5 million to \$1.88 billion; \$110.1 million lower than planned in the LTP. The decrease is because borrowing is planned at only \$31.8 million for the year for the reason set out above, and debt repayment rated for exceeds this figure. Detail is set out in Note 9 below.

The Council exceeds the Debt Servicing Performance Benchmark in 2019/20 by 1%. The Benchmark is set by Statistics New Zealand and is based on the city's expected growth. Council exceeds the Benchmark due to the level of borrowing required for the rebuild of major assets following the earthquakes. In accordance with the financial strategy Council will continue to ensure prudent and sustainable financial management of its operations and will not borrow beyond its ability to service and repay that borrowing.

Financial risk management strategy

There is no change to those policies which measure our management of financial risk; (liquidity and funding risk management, interest rate exposure and counterparty credit risk.)

An important element in assessing the value of Council's risk management strategy is its five key financial ratios (two net debt, two interest and one liquidity). These are included within the Financial Prudence Benchmarks section within this document. The Council anticipates staying well within these financial ratio limits for 2019/20.

Notes to Financial Overview

Long Term Plan 2018/19	Note 1 Operating Expenditure	Long Term Plan 2019/20	Annual Plan 2019/20	Variance to LTP
		\$000		
134,094	Communities & Citizens	146,879	141,815	(5,064)
9,200	Flood Protection	4,242	4,561	319
15,731	Governance	17,721	18,103	382
27,252	Housing	23,922	21,273	(2,649)
54,915	Parks, Heritage & Coastal Environment	57,178	68,508	11,330
49,484	Refuse Disposal	47,420	51,132	3,712
53,493	Regulatory & Compliance	55,510	52,276	(3,234)
108,902	Roads & Footpaths	114,941	118,658	3,717
30,575	Stormwater Drainage	31,889	33,728	1,839
42,276	Strategic Planning & Policy	43,017	41,634	(1,383)
20,422	Transportation	24,055	25,805	1,750
94,781	Wastewater	99,047	97,329	(1,718)
62,722	Water Supply	64,426	66,134	1,708
105,535	Corporate	97,264	96,352	(912)
809,382	Total group of activity expenditure	827,511	837,308	9,797
225,000	Less depreciation (non cash)	236,863	244,937	8,074
94,929	Less interest expense shown separately	99,267	92,308	(6,959)
489,453	Operating expenditure	491,381	500,063	8,682

Long Term Plan 2018/19	Note 2 Capital Programme	Long Term Plan 2019/20	Annual Plan 2019/20	Variance to LTP	Expenditure Category		
					Renewals & Replacements	Improved LOS	Increase Demand
		\$000					
85,932	Communities & Citizens	72,652	69,614	(3,038)	61,514	1,931	6,169
16,325	Flood Protection	28,070	24,522	(3,548)	3,637	259	20,626
-	Governance	-	-	-	-	-	-
2,804	Housing	3,661	3,661	-	3,661	-	-
26,217	Parks, Heritage & Coastal Environment	28,833	20,143	(8,690)	16,882	262	2,999
2,532	Refuse Disposal	2,571	2,570	(1)	880	1,690	-
-	Regulatory & Compliance	2	2	-	2	-	-
94,023	Roads & Footpaths	96,015	78,373	(17,642)	17,987	45,963	14,423
18,834	Stormwater Drainage	19,756	19,987	231	19,742	192	53
896	Strategic Planning & Policy	922	872	(50)	-	-	872
59,036	Transportation	21,711	30,483	8,772	1,635	28,426	422
63,683	Wastewater	65,947	58,782	(7,165)	42,651	15,506	625
35,812	Water Supply	36,433	33,154	(3,279)	26,479	3,748	2,927
73,557	Corporate	78,583	77,595	(988)	27,145	35,317	15,133
479,651	Total capital programme	455,156	419,758	(35,398)	222,215	133,294	64,249

Note 3

Transfers to Reserves

4,069	Interest credited to special funds and reserves	3,997	3,980	(17)
-	- Housing cash operating result	-	789	789
186	Dog control cash operating result	147	-	(147)
69	Burwood Landfill capping contribution	69	70	1
1,000	Cathedral fund	1,000	1,013	13
-	- Camping ground reserves	-	32	32
-	- Akaroa Community Health Trust	-	316	316
458	Recovery of 2016/17 opex deficit	-	-	-
5,782		5,213	6,200	987

Long Term Plan 2018/19	Note 4 Interest Expense	Long Term Plan 2019/20	Annual Plan 2019/20	Variance to LTP
		\$000		
63,274	General borrowing	66,204	59,741	(6,463)
8,545	Equity investments	8,573	10,321	1,748
22,902	Advances to Council organisations	23,648	21,404	(2,244)
208	Advances to housing trust	842	842	-
94,929		99,267	92,308	(6,959)

**Note 5
Debt Repayment provided for**

39,275	Ratepayer funded loans	46,030	47,308	1,278
39,275		46,030	47,308	1,278

**Note 6
Fees, Charges and Operational Subsidies**

17,440	Communities & Citizens	18,384	18,707	323
-	- Flood Protection	-	-	-
-	- Governance	703	703	-
14,371	Housing	15,949	15,057	(892)
4,302	Parks, Heritage & Coastal Environment	4,053	4,842	789
11,425	Refuse Disposal	11,097	11,096	(1)
44,658	Regulatory & Compliance	45,560	43,012	(2,548)
14,574	Roads & Footpaths	14,939	16,450	1,511
21	Stormwater Drainage	16	16	-
700	Strategic Planning & Policy	797	1,242	445
16,517	Transportation	18,314	19,446	1,132
6,774	Wastewater	6,994	7,232	238
625	Water Supply	637	651	14
29,693	Corporate Revenues & Expenses	20,999	21,772	773
161,100	Total group of activity operating revenue	158,442	160,226	1,784
736	Less non cash revenue	734	733	(1)
160,364	Fees, charges and operational subsidies	157,708	159,493	1,785

Long Term Plan 2018/19	Note 7 Transfers from Reserves	Long Term Plan 2019/20	Annual Plan 2019/20	Variance to LTP
		\$000		
202	Reserves a/c - reserve purchases	153	-	(153)
2,804	Housing - net capital programme	3,586	3,661	75
5,179	Housing cash operating result	-	-	-
3,640	Capital endowment fund - grants	3,646	3,757	111
125,270	Debt repayment reserve	-	170,000	170,000
-	Dog control cash operating result	-	107	107
69	Burwood Landfill remediation	69	70	1
120	QEII Redevelopment Plan	-	978	978
137,284		7,454	178,573	171,119

Debt repayment reserve transfer utilises 2018/19 funds borrowed or loan repayments not made for hedging reasons.

Long Term Plan 2018/19	Note 8 Asset Sales	Long Term Plan 2019/20	Annual Plan 2019/20	Variance to LTP
		\$000		
-	Plant and vehicle disposals	19	19	-
-	Surplus property sales	4,492	4,492	-
465	Surplus roading land sales	475	475	-
465		4,986	4,986	-

Long Term Plan 2018/19	Note 9 Borrowing	Long Term Plan 2019/20	Annual Plan 2019/20	Variance to LTP
\$000				
479,651	Capital Programme	455,156	419,758	(35,398)
2,095	Capital grants	9,005	1,593	(7,412)
2,170	Operational costs	-	3,423	3,423
483,916	Total funding requirement	464,161	424,774	(39,387)
Funding sources				
465	Sale of assets	4,986	4,986	-
123,990	Rates (for renewals)	131,093	130,940	(153)
352	Rates (for landfill aftercare)	610	610	-
-	Earthquake rebuild recoveries	4,600	21,453	16,853
128,344	Reserve drawdowns	3,808	175,209	171,401
140,000	CCHL special dividend	-	-	-
21,215	Development contributions	20,952	12,952	(8,000)
63,634	Capital grants and subsidies	48,093	48,361	268
478,000	Total funding available	214,142	394,511	180,369
5,916	Borrowing requirement	250,019	30,263	(219,756)
39,275	Less debt repayment	46,030	47,308	1,278
13,000	Plus new borrowing for housing trust	17,000	3,000	(14,000)
5,000	Less borrowing on behalf of subsidiaries repaid	1,500	1,500	-
(25,359)	Net change in borrowing	219,489	(15,545)	(235,034)
1,800,634	Opening gross debt	1,775,275	1,900,210	124,935
1,775,275	Closing gross debt	1,994,764	1,884,665	(110,099)

**Note 10
Rates**

483,605	Rates levied 1 July	514,804	520,861	6,057
3,395	Excess water charges	3,565	3,705	140
3,057	Penalties	3,118	3,500	382
490,057		521,487	528,066	6,579