Prospective Financial Statements

Christchurch City Council

Christchurch City Council
Prospective statement of comprehensive revenue and expense

Annual Plan 2019/20	$000	Note	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
	Revenue				
528,066	Rates revenue		552,071	557,225	5,154
12,952	Development contributions		21,873	21,874	1
96,737	Grants and subsidies		59,924	67,497	7,573
213,504	Other revenue	1	225,548	152,719	(72,829)
851,259	**Total income**		**859,416**	**799,315**	**(60,101)**
	Expenditure				
92,308	Finance costs		110,382	88,635	(21,747)
244,937	Depreciation	2	244,821	270,536	25,715
500,063	Other expenses	3	496,473	493,336	(3,137)
837,308	**Total operating expenditure**		**851,676**	**852,507**	**831**
13,951	**Surplus before asset contributions**		**7,740**	**(53,192)**	**(60,932)**
12,132	Vested assets		45,635	45,635	-
26,083	**Surplus before income tax expense**		**53,375**	**(7,557)**	**(60,932)**
(2,142)	Income tax expense		(2,291)	-	2,291
28,225	**Net surplus for year**		**55,666**	**(7,557)**	**(63,223)**
	Other comprehensive revenue and expense				
221,707	Changes in revaluation reserve		226,007	255,218	29,211
249,932	**Total comprehensive revenue and expense**		**281,673**	**247,661**	**(34,012)**

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

Annual Plan 2019/20	$000	Note	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
11,041,543	**Ratepayers equity at July 1**		11,314,613	12,443,811	1,129,198
	Net surplus attributable to:				
	Reserves				
221,707	Revaluation reserve		226,007	255,218	29,211
	Retained earnings				
28,225	Surplus		55,666	(7,557)	(63,223)
249,932	Total comprehensive income for the year		281,673	247,661	(34,012)
11,291,475	**Ratepayers equity at June 30**	8	**11,596,286**	**12,691,472**	**1,095,186**

Christchurch City Council
Prospective statement of financial position

Annual Plan 2019/20	$000	Note	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
	Current assets				
49,338	Cash and cash equivalents		24,893	94,874	69,981
98,301	Trade receivables and prepayments	4	120,319	83,228	(37,091)
3,529	Inventories		3,429	3,262	(167)
17,208	Other financial assets		5,989	5,424	(565)
	Non-current assets				
	Investments				
2,759,850	- Investments in CCOs and other similar entities		2,598,135	2,860,783	262,648
101,913	- Other investments		116,553	139,863	23,310
75,674	Intangible assets		77,805	71,932	(5,873)
1,539,599	Operational assets		1,849,751	1,597,229	(252,522)
7,820,399	Infrastructural assets		8,237,694	9,279,205	1,041,511
1,077,691	Restricted assets		1,172,217	1,174,940	2,723
13,543,502	**Total assets**		**14,206,785**	**15,310,740**	**1,103,955**
	Current liabilities				
141,981	Trade and other payables		151,288	122,460	(28,828)
306,500	Borrowings	5	269,657	268,200	(1,457)
24,815	Other liabilities and provisions	6	26,453	27,292	839
	Non-current liabilities				
1,578,165	Borrowings	5	1,978,329	1,924,863	(53,466)
195,875	Other liabilities and provisions	7	180,298	272,157	91,859
4,691	Deferred tax liability		4,474	4,296	(178)
11,291,475	**Ratepayers equity**	8	11,596,286	12,691,472	1,095,186
13,543,502	**Total equity and liabilities**		**14,206,785**	**15,310,740**	**1,103,955**

Christchurch City Council
Prospective cash flow statement

Annual Plan 2019/20	$000	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
	Operating activities			
	Cash was provided from:			
748,872	Rates, grants, subsidies and other sources	768,942	745,230	(23,712)
26,988	Interest received	31,903	20,115	(11,788)
54,502	Dividends	56,751	27,452	(29,299)
830,362		857,596	792,797	(64,799)
	Cash was disbursed to:			
500,674	Payments to suppliers and employees	493,446	485,068	(8,378)
92,308	Interest paid	110,382	88,635	(21,747)
592,982		603,828	573,703	(30,125)
237,380	**Net cash flow from operations**	**253,768**	**219,094**	**(34,674)**

Annual Plan 2019/20	$000	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
	Investing activities			
	Cash was provided from:			
4,986	Sale of assets	485	4,994	4,509
21,453	Earthquake recoveries	-	5,447	5,447
173,873	Investments realised	2,948	143,918	140,970
200,312		3,433	154,359	150,926
	Cash was applied to:			
395,802	Purchase of assets	471,061	487,904	16,843
26,346	Purchase of investments	38,235	31,454	(6,781)
422,148		509,296	519,358	10,062
(221,836)	**Net cash flow from investing activities**	**(505,863)**	**(364,999)**	**140,864**
	Financing activities			
	Cash was provided from:			
33,263	Raising of loans	316,312	206,265	(110,047)
33,263		316,312	206,265	(110,047)
	Cash was applied to:			
48,808	Repayment of term liabilities	63,090	51,929	(11,161)
48,808		63,090	51,929	(11,161)
(15,545)	**Net cash flow from financing activities**	**253,222**	**154,336**	**(98,886)**
(1)	Increase/(decrease) in cash	1,127	8,431	7,304
49,339	Add opening cash	23,766	86,443	62,677
49,338	**Ending cash balance**	**24,893**	**94,874**	**69,981**
	Represented by:			
49,338	Cash and cash equivalents	24,893	94,874	69,981

Notes to the prospective financial statements

Annual Plan 2019/20	$000	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
	NOTE 1			
	Other revenue			
131,162	Fees and charges	136,059	104,814	(31,245)
	Interest:			
22,185	Subsidiaries	26,354	18,395	(7,959)
2,024	Special and other fund investments	3,985	719	(3,266)
2,789	Short term investments	1,096	1,112	16
842	Housing trust	1,303	227	(1,076)
27,840	Total interest revenue	32,738	20,453	(12,285)
	Dividends:			
48,300	Christchurch City Holdings Ltd	51,000	18,800	(32,200)
6,107	Transwaste Ltd	5,641	8,557	2,916
95	Other	110	95	(15)
54,502	Total dividend revenue	56,751	27,452	(29,299)
213,504	**Total other revenue**	**225,548**	**152,719**	**(72,829)**

Annual Plan 2019/20	$000	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
	NOTE 2			
	Depreciation			
23,758	Communities & Citizens	22,563	25,079	2,516
157	Flood Protection	369	300	(69)
-	Governance	-	-	-
7,005	Housing	6,390	6,543	153
22,420	Parks, Heritage & Coastal Environment	11,313	22,039	10,726
2,756	Refuse Disposal	2,869	2,743	(126)
74	Regulatory & Compliance	55	74	19
61,260	Roads & Footpaths	64,989	62,873	(2,116)
13,542	Stormwater Drainage	14,102	20,036	5,934
125	Strategic Planning & Policy	231	200	(31)
5,364	Transportation	6,579	4,650	(1,929)
53,248	Wastewater	56,804	65,768	8,964
35,217	Water Supply	37,552	39,631	2,079
20,011	Corporate Revenues & Expenses	21,005	20,600	(405)
244,937	**Total Depreciation**	**244,821**	**270,536**	**25,715**

Plan 2019/20	NOTE 3 Other expenses	Plan 2020/21	Plan 2020/21	Variance to LTP
	Operating expenditure:			
211,373	Personnel costs	212,875	203,793	(9,082)
41,973	Donations, grants and levies	48,288	38,924	(9,364)
246,717	Other operating costs	235,310	250,619	15,309
500,063	**Total other expenses**	**496,473**	**493,336**	**(3,137)**

Annual Plan 2019/20	$000	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
	NOTE 4			
	Current assets			
	Trade receivables and prepayments			
20,949	Rates debtors	16,944	21,494	4,550
23,376	Other trade debtors	16,671	13,416	(3,255)
54,016	Other receivables/prepayments	86,546	47,309	(39,237)
1,426	GST receivable	1,951	2,227	276
99,767		122,112	84,446	(37,666)
(1,466)	Less provision for doubtful debts	(1,793)	(1,218)	575
98,301	**Total trade receivables and prepayments**	**120,319**	**83,228**	**(37,091)**
	NOTE 5			
	Debt			
306,500	Current portion of gross debt	269,657	268,200	(1,457)
1,578,165	Non current portion of gross debt	1,978,329	1,924,863	(53,466)
1,884,665	**Total gross debt**	2,247,986	2,193,063	(54,923)
1,211,092	**Total net debt**	1,627,781	1,427,971	(199,810)
	NOTE 6			
	Other current liabilities and provisions			
673	Provision for landfill aftercare	623	4,222	3,599
1,504	Provision for building related claims	1,504	1,200	(304)
22,638	Provision for employee entitlements	24,326	21,870	(2,456)
24,815	**Total other liabilities and provisions**	**26,453**	**27,292**	**839**

Annual Plan 2019/20	$000	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
	NOTE 7			
	Non-current other liabilities and provisions			
19,790	Provision for landfill aftercare	24,548	10,125	(14,423)
4,590	Provision for employee entitlements	5,155	4,038	(1,117)
16,212	Provision for building related claims	10,594	4,808	(5,786)
152,647	Hedge and other liabilities	138,101	251,286	113,185
2,636	Service concession arrangement	1,900	1,900	-
195,875	**Total non-current other liabilities and provisions**	**180,298**	**272,157**	**91,859**

Annual Plan 2019/20	$000	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
	NOTE 8			
	Equity			
1,733,853	Capital reserve	1,733,853	1,733,853	-
150,208	Reserve funds	138,989	148,524	9,535
5,582,139	Asset revaluation reserves	5,632,717	6,777,617	1,144,900
3,825,275	Retained earnings	4,090,727	4,031,478	(59,249)
11,291,475	**Total equity**	**11,596,286**	**12,691,472**	**1,095,186**

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 prospective financial statements are for the Council as a separate legal entity. Consolidated 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 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 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 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:

Description of the nature of the entity's current operation and its principal activities

The Council is a territorial local authority, as defined in the Local Government Act 2002. The Council's principal activities are outlined within this Annual Plan and the 2018/28 Long Term Plan.

Purpose for which the prospective financial statements are prepared

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 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 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 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 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

New accounting standards, interpretations and amendments have been issued but are not yet effective. They include PBE IFRS 17 Insurance Contracts effective 1 January 2022, a future standard dealing with disclosure requirements that applies to not-for-profit PBEs only, PBE IPSAS 40 PBE Combinations effective 1 January 2021, a revised standard clarifying the acquisition or amalgamation of PBE entities and PBE IPSAS 41 Financial Instruments effective 1 January 22. This new standard supersedes PBE IFRS 9 Financial instruments and parts of PBE IFRS 29 Financial instruments: Recognition and measurement. Council is working on the early adoption of PBE IPSAS 41 in 2020.

The 2018 annual omnibus amendments to all PBE standards containing editorial corrections, general updates and improvements to PBE standards is effective for the Council financial statements for the year ending 30 June 2020 with the exception of the amendments to PBE IPSAS 2 Cash Flow Statements which comes into effect for the year ended 30 June 2022. These amendments do not have any material impact on the Council's reporting requirements.

The prospective financial statements were authorised for issue on 23 July 2020 by the Council. The Council is responsible for the prospective financial statements presented, including the assumptions underlying the prospective financial statements and all other disclosures.

(iii) Measurement base

The reporting period for these prospective financial statements is the year ending 30 June 2021. 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 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 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.

An inflow of resources from a non-exchange transaction recognised as an asset, is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

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).

(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 Policy).

(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.

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

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the 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 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
Resource consents and easements	5-10 yrs

Infrastructure Assets:	Estimated Useful Life
Formation	Not depreciated
Pavement sub-base	Not depreciated
Basecourse	40-120 yrs
Footpaths and cycleways	25-80 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.

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	5-10 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 Policy).

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

The Council early adopted PBE IFRS 9 Financial Instruments for the year ended 30 June 2019 to align financial reporting across the entire Council group. 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

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

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

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 loss over the life of the asset (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 trade receivables, the Council applies the simplified approach permitted by PBE IFRS 9, which requires expected lifetime credit losses to be recognised from initial recognition of the receivables.

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 is not required to be 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.

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. Subsequently, assets leased under a finance lease are 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 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.

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 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 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 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
Capital Programme and infrastructure assets			
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 historic 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. 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. Depending on the asset a delay in the rebuild capital works programme could result in higher reactive maintenance and operating costs for the essential services.	Moderate / 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 any year of the annual plan may be carried forward, in line with the financial planning referred to in the Assumption column. The implications of this are: • possible additional reactive opex; not all delays lead to additional costs. • possible reduction in opex if the delay relates to a new facility • projects may cost more than planned due to inflation. • less funds will need to be borrowed in the short term. Delaying new borrowing will impact on the timing of financing costs. • possible reduction to levels of service • 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.
Sources of funds for replacing assets. The sources of funds will occur as projected.	Funding does not occur as projected.	Low	Council is well placed to borrow funds as required being well within its LGFA benchmarks. The impact to ratepayers of every $10 million of additional borrowing for capital works is a 0.08% increase to rates spread over two years. This increase accounts for the interest cost and repayment of the borrowing over 30 years.

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
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)	Damage to assets as a result of the earthquakes is such that their useful lives are shortened significantly.	Moderate	Council has updated its database with the latest information. However, condition information on all water assets is more difficult to obtain as the piped networks are below ground therefore making remaining life difficult to quantify. 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. [This is also discussed in the Infrastructure Strategy.]
Inflation. Growth and Population			
Inflation. The price level changes projected will occur. In developing this plan Council based its inflation projections on information provided by Business Economic Research Limited to all local authorities with an adjustment in early years for the rebuild factor. Different weighted average inflation figures for capital and operational items are used due to the potential impact of the rebuild on capital costs. Inflation adjustments used are: Capital Opex 2020/21 2.3% 2.3%	Inflation will be higher or lower than anticipated Inflation on costs will not be offset by inflation on revenues.	Low Low	Current volatility is low. The one year impact will be low as costs will be managed to budget. Inflation on costs will not be offset by inflation on revenues. The one year impact will be low as costs will be managed to budget.

The following BERL rates were used in determining the weighted average for capital expenditure:

	Weighting	2020/21
Roads	19%	2.2
Earthmoving	29%	2.3
Pipelines	34%	2.7
Other	18%	2.0
	100%	

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
Economic Environment. Treasury has forecast that real production GDP will contract by 4.6% in the year to June 2020 (Budget Economic and Fiscal Update, May 2020). A further contraction of 1.0% is forecast for the year to June 2021. Economic activity in Christchurch will continue to receive some support from the delivery of key anchor projects - the convention centre, metro sports centre and Canterbury Multi Use Arena. Council has prepared this Plan on the basis that the current predictions about the economy will prove correct.	That there are further unexpected local, national or international economic shocks such as further restrictions on movement and economic activity from a second wave of the COVID-19 virus. (Coronavirus). This would further exacerbate the contraction in economic activity.	Moderate	Further economic contraction will impact on the rating base and on ratepayers' ability to pay. It could force Council to borrow more heavily or reduce facilities and services.
Growth development contributions revenue. Council collects development contributions from property developers to fund the capital costs of providing infrastructure capacity to service growth development. 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. Development contribution revenue is dependent on the forecast growth materialising over the funding life of the particular growth assets provided.	If the number of new properties paying development contributions is 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. If the timing of growth differs significantly from forecast this will impact on Council's cash flows and may necessitate changes to planned borrowing. The location and timing of development is determined by a number of factors outside the control of the council such as market factors.	Low Low	The timing of growth, and its impact on Council's development contributions revenue, can have a low impact on the borrowing and interest expense assumptions in this Plan. Any shortfall in development contributions revenue must be funded by borrowing.
Population. Planning for activities, and thus the likely cost of providing those activities is on the assumption 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. That population growth is lower than projected, and the Council will be required to support excess levels of infrastructure and service delivery.	Low Low	Population projections are based upon a standard set of demographic assumptions. However, the impact of the earthquake and the speed of the rebuild could alter these assumptions. The level of risk is low but could impact the cost of providing activities Net increases in inward migration fuelled by a rebuild are difficult to predict as is their sustainability in the medium term. The medium term impact of COVID-19 on migration is unknown at this point.

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
Rating Base The capital value of Christchurch is expected to increase during 2019/20 which will cause an increase in the rating base. The rating base is the expected income from rates assuming rating decimals remain unchanged. Growth in the number of rating units and the capital value of rateable properties is expected to increase the rating base by $8.5 million (1.63%) during 2019/20. In addition, rates income in 2019/20 is $1.3 million higher than anticipated at the time of the 2019/20 rates strike ("2019/20 overstrike"). Adding those two figures together gives assumed rating base growth (relative to the rates strike model for 2019/20) of $9.8 million (1.9%) for 2019/20.	Rating base grows at a 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 and Council staff work closely with QV in the period leading up to year end in order to have as accurate as assessment as possible. Variances between the forecast and actual growth in the rating base will cause changes to the total rates revenue collected and we try to slightly underestimate growth in order to avoid overstating rating revenue.
Impact of policies and external factors			
Council policy. There will be no significant changes to Council policy as summarised in this plan.	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.
New Zealand Transport Agency subsidies. Requirements and specifications for the performance of subsidised work will not alter to the extent they impact adversely on operating costs. The Current Funding Assistance Rate (FAR) is 51% on qualifying expenditure.	Changes in subsidy rate and variation in criteria for inclusion in subsidised works programme.	Moderate	Changes to the funding priorities of New Zealand Transport Agency are outside Council control and they vary from project to project. The maximum financial impact would be the elimination of the subsidy. Council has been informed of potential changes to NZTA funding and this has meant there is uncertainty around funding availability on some projects. Council is in discussions with NZTA to gain more clarity on projects eligibility for funding.
Resource Consents. Conditions of resource consents held by Council will not be significantly altered.	Conditions required to obtain/maintain the consents will change, resulting in higher costs than projected, and these costs will not be covered by planned funding.	Moderate / Low	Advance warning of likely changes is anticipated. The financial impact of failing to obtain/renew resource consents cannot be quantified. Council is currently working through the Akaroa wastewater consent issues. The Comprehensive Stormwater Consent was finalised in December 2019 and costs have been incorporated in the Annual Plan.

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
Legislative and Regulatory change. Council will continue to operate within the same general legislative environment, and with the same authority, as it does at the time this Plan is published.	Should the local government legislative environment change, the activities and services the Council plans to provide over the period of this Plan could change.	Moderate	The Government has several taskforces reviewing different aspects of local government, with some legislative change having occurred and further expected to occur within the period of this Plan. 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 the impact is likely to be low for an Annual Plan because of the time allowed for implementation.
Borrowing Related			
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 recommended to fund the shortfall in CCHL dividends.	Low	Council's credit rating with Standard and Poor's was upgraded from A+ to AA- on 10 December 2019 with a stable outlook. As always, there is some risk that our credit rating might be downgraded in future. 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. In such an event, interest costs in 2020/21 could increase by $0.4 million.
Borrowing Costs. Ratepayer cost of borrowing (including current and projected debt) is projected to be around 4.46% in 2020/21.	Interest rates will vary from those projected.	Low	Projections are based on assumptions about future market interest rates. Projected debt is largely hedged to minimise exposure to market rate fluctuations and hence the impact for the Annual Plan would be low. Council manages interest rate exposure in accordance with its Liability Management Policy, and in line with advice from an independent external advisor.
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.
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.

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
Opening Debt: The opening debt of $2,039 million is made up of; • $239 million of equity investments, mainly in CCTOs (Vbase $187 million), • $643 million of money borrowed for on-lending, (in accordance with the Council's Liability Management Policy), • $1,063 million of capital works and earthquake related borrowing. There is an additional $89 million borrowed internally from the Capital Endowment Fund. • $94 million finance lease (Civic Building).	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.
Investment related			
Return on investments. Interest received on cash and general funds invested is projected to be 0.78% for 2020/21. The internal return on the Capital Endowment Fund is calculated at 3.23% for 2020/21. Almost all of the Fund is internally borrowed at agreed fixed rates in lieu of external ratepayer borrowing.	Interest rates will vary from those projected.	Low	Financial impact is unlikely to be significant.
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.	High	CCTOs are monitored by their Statements of Intent and a quarterly reporting process. Returns are expected to continue as forecast in this Plan. Should additional dividend income be received the level of borrowing forecast in this plan will be reduced.
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. Due to COVID-19 it has been assumed that insufficient profits will be made within the wider group to enable any subvention receipts to be available.	Subvention payments will be lower than planned.	Nil	CCTOs are monitored by the Statement of Intent and a quarterly performance reporting process. Returns are expected to continue as forecast in this Plan.

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
Services and Operations			
Social housing. Social housing assets are leased to Otautahi Community Trust while asset ownership, including long term maintenance, is the responsibility of Council. Social housing asset long term maintenance is funded through the lease payments.	Social housing remains ring-fenced from rates, through a separate Social Housing Fund. The ongoing revenue source for this fund is the lease payments from the Otautahi Community Housing Trust. Modelling for the Social Housing Fund indicates that its sustainability is sensitive to small changes and there is a risk that: • The lease payments are not sufficient to enable the social housing portfolio to be financially viable in the long term. • Higher than expected expenditure (e.g. due to asset failure or external events) reduces the financial sustainability in the short term (2 years).	Low	Council is committed to upgrading units to improve the warmth, dryness and quality of units within the portfolio and if necessary will reprioritise other social housing expenditure.
Regional Land Transport Plan. Council's Annual Plan aligns with the Regional Land Transport Plan (RLTP).	NZTA has not enough financial resource to deliver the RLTP so the variations sought will not get approval.	Moderate	Any change to the approved projects would require a review of priorities as New Zealand Transport Agency funding is guided by the Regional Land Transport Plan. If projects are not included co-funding is unlikely to be available. There is a significant level of uncertainty about the NZTA funding with NZTA recently reallocating some funding from Auckland and transferring this across the rest of NZ. The impact on Christchurch has still to be fully determined
Contract Rates. Re-tendering of major contracts will not result in cost increases other than those comparable with the rate of inflation.	There is a significant variation in price from re-tendering contracts.	Moderate	Where possible Council would review the appropriate scope of work, otherwise additional budget may be required to deliver Levels of Service.

Assumption	Risk	Level of Uncertainty	Reasons and Financial Impact of Uncertainty
Insurance cover and natural disaster financing			
Insurance cover The Council has full Material Damage cover for all major above ground buildings which are undamaged and fire cover for significant unrepaired buildings.	Risk of major loss through fire	Low	Council has been unable to secure full Material Damage cover for its above ground assets for some time but the results of modelling carried out during the 2019/20 year suggests that the maximum loss is below the cover available. Financial impact is not expected to be significant.
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. Creating this ability from rates would unfairly burden the current ratepayer but it could be achieved by the further sell down of CCHL's investments.