

Financial Strategy

Financial Strategy 2021-31

Our Council's financial direction over the next 10 years strikes a balance between providing reliable infrastructure networks, facilities and services and addressing the financial impacts of COVID-19. At the same time, we need to maintain financial prudence, and build long term financial resilience within affordable rates and charges.

Getting this balance right means we can achieve our goals, to:

- Build long-term financial resilience
- Provide cost-effective infrastructure and facilities, and
- Ensure rates are affordable and sustainable.

We have had to consider trade-offs to find the optimal financial pathway forward and prioritise what we do. The Financial Strategy promotes a sound financial position where our citizens can look forward to the second quarter of the 21st century and beyond, with confidence, pride and optimism.

About the Financial Strategy

Purpose and scope

The Financial Strategy describes our proposed approach to securing the revenue to support investment that will sustainably and responsibly fund the services and activities, specific projects and programmes of work we provide for in the Long Term Plan 2021-31 (LTP 2021-31).

The Strategy is part of the LTP 2021-31 and sits alongside the 30-year Infrastructure Strategy, along with supporting documents such as the Revenue and Financing Policy, which details how the operating and capital costs of each Council activity will be funded, and the Significant forecasting assumptions. The Infrastructure Strategy describes the significant infrastructure issues for Christchurch over the next 30 years and identifies the principal options for managing these issues along with their

implications. The priority work programmes identified in the Infrastructure Strategy are grounded in the Council achieving the levels of service agreed with our community and meeting required standards (such as for drinking water) within a prudent financial framework.

There is inevitably tension between the Infrastructure Strategy and the Financial Strategy, requiring trade-offs between proposed work programmes and cost. The Financial Strategy must recognise the direction and priorities of the Infrastructure Strategy and plots a course that provides the funding required to best meet the aims of the Infrastructure Strategy within a wider limited financial context. Achieving this balance hasn't been easy and we have gone through the budgets and work programmes in detail to reach what we see as the most favourable proposal that achieves community wellbeing for our citizens and businesses while providing the best value for money possible.

Our approach and proposed option

We are proposing what we see as the optimal work programme and budget for community feedback. As a consequence of COVID-19 the Council received and is forecasting to receive much smaller dividends in the short term from our commercial arm Christchurch City Holdings Limited (CCHL), and we lost some revenue through facilities operating at reduced capacity. The draft LTP 2021-31 rebalances operating income and expenditure to achieve the best outcomes possible from a reduced revenue base. We have identified further temporary and permanent annual savings in operating expenditure following the \$18 million of savings built into the Annual Plan 2020/21. These amount to \$329 million over the LTP 2021-31 period, with \$34.2 million being in the first year 2021/22. Savings have been achieved across the full range of Council activities without impacting levels of service provided to the community.

The core features of the proposed Financial Strategy are:

- Capital funding is sufficient to deliver a core annual capital expenditure programme of \$400-443 million for the first 3 years,

rising to between \$500 and \$550 million per year thereafter. This enables us to deliver the capital renewals necessary to protect the condition of our infrastructure networks.

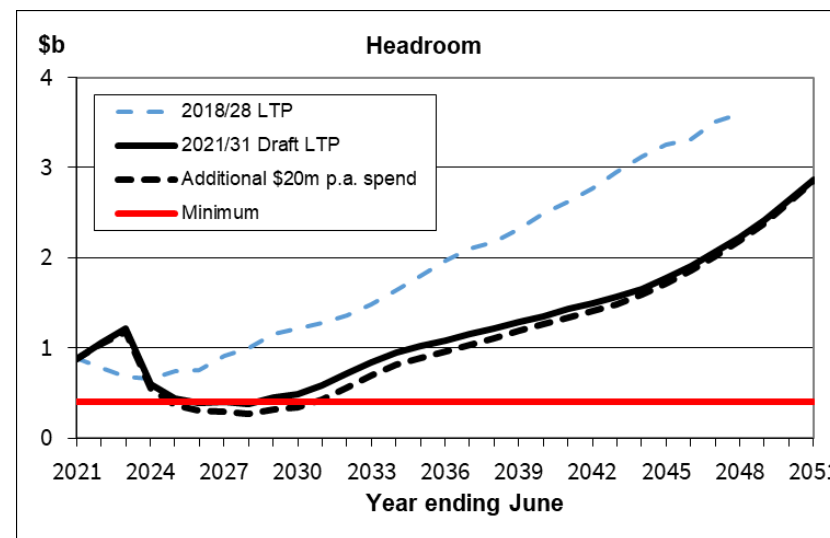
- Capital funding is also sufficient to deliver one-off capital expenditure to deliver major community facilities and shovel-ready projects. This commitment unlocks third-party Government funding contributions for the Metro Sports facility, Canterbury Multi Use Arena (CMUA), Regeneration Acceleration Fund projects and the approved Transport shovel-ready projects.
- Operational expenditure in the early years has been reduced or reprioritised over the long term to accommodate the short term loss of revenue from CCHL dividends post COVID-19, and the new operational expenditure that will occur when the Metro Sports and CMUA are up and running.
- Operational costs have been further reduced in the 2021/22 year with an additional \$26 million reduction on top of the Annual Plan reductions of \$18 million in the 2020/21 year and \$8 million in the 2021/22 year). Further reductions would reduce the levels of service we can deliver to the community and put at risk our ability to deliver the capital renewals programme required to protect our infrastructure networks.
- Debt headroom, (our ability to borrow in the event of an emergency and remain within debt covenant limits) has been maintained at a minimum \$400 million throughout the LTP 2021-31 other than 2026 (\$397 million) and 2028 (\$384 million).
- Our debt to revenue ratio increases until 2028 when the pace of increasing debt declines. This increases debt headroom from that time (our ability to borrow within debt covenant limits).
- Rates will remain affordable though annual increases are likely to be higher than some ratepayers would prefer. The proposed level of rates revenue gives us the ability to protect our infrastructure, deliver major new community facilities, keep debt levels manageable and maintain overall levels of service.

We made some tough decisions following our evaluation of priorities and relevant trade-offs and borrowing limitations. The average rates increase

at 5.56 per cent for 2021/22 is higher than we wanted in the post- COVID-19 environment, despite the significant operating saving made.

In arriving at the level of capital expenditure programme proposed, we have taken into account the need to prevent further deterioration in our asset networks with resulting significantly higher future maintenance costs. We have had to restrain the programme level and resultant borrowing in the first three years to preserve a prudent amount of debt headroom around the 2025/28 period where the net debt ratio peaks.

A further \$20 million of capital spend per annum would cause an ongoing rates increase of 0.15 per cent, but more critically, would drop prudent debt headroom below the minimum \$400 million for an extended period as shown in the graph below.



Rather than present capital programmes and budget options that would undermine the overall wellbeing of our communities and not be prudent, we are proposing a single work programme and budget for community feedback.

While operational savings options of \$35 million were considered, only \$26

million is proposed. Similarly limiting the core capital programme to \$370 million by not replacing water supply and wastewater renewal funding that had been reprioritised to Water supply wells/wellheads and water security priorities was considered but found to be unpalatable in terms of continued deterioration of key network infrastructure and resultant significantly increasing maintenance costs and increasing the risk to public health.

Other options considered

We looked at the impacts of having higher rates rises, which would enable accelerated delivery of asset renewals. This option was ruled out because we wouldn't have the capacity to deliver the projects nor borrow for additional capital works, and higher rates rises would place additional hardship on the most vulnerable citizens in our community.

We also looked at making even more severe cuts to budgets to achieve lower rates rises. However, this wouldn't enable us to look after our assets and would have meant we were passing on failing infrastructure to future generations. We would not be able to complete the major community facilities underway nor grow our city. It would also have required a drop in the levels of service we are able to provide. Some of the options also involved loss of subsidy we receive or additional short term closure costs. In the interests of community wellbeing and our responsibilities to look after our assets, we opted not to take this approach.

Several of the specific options considered and not pursued were:

- Make a 25% reduction in specific roading maintenance areas, amounting to a 10% or \$4.5 million annual reduction in overall roading maintenance. Savings areas include landscaping, amenity mowing, lichen removal, litter removal, road sweeping, drainage inspections and clearing, surface repairs and markings across roads, footpaths and cycleways. This involved a loss of NZTA subsidy of \$2.7 million annually and would have impacted on two important levels of service - resident satisfaction and our target of reducing customer service requests on road condition.
- Defer or discontinue the new Hornby facility, resulting in annual operating cost savings of \$2.2 million. Both options would be very

contentious with the local community. Deferral would lead to cost escalation of about \$0.85 million per year for the period of the delay, while discontinuing would require a write-off of costs already incurred of more than \$0.7 million.

The consultation document outlines further options considered and not recommended.

Key opportunities and challenges

This Financial Strategy has been prepared at a time of constrained budgets and resources. We face four key challenges.

1. *Ensuring we have reliable and resilient infrastructure networks*

Our infrastructure networks need to be fit-for-purpose to deliver social, cultural, environmental and economic wellbeing for our citizens. There are three key drivers influencing our investment and funding decisions to ensure we provide the right infrastructure at the right time while providing best possible value for money.

Asset condition and renewals

Infrastructure assets have a finite life after which they need to be replaced to avoid increasing service interruption and/or costly repair and maintenance. Significant proportions of our water supply and wastewater infrastructure networks are either at or coming towards the end of their economic life and need replacing.

The increasing proportion of post-World War II infrastructure needing replacement has coincided with the earthquake recovery programme, forcing us to make some difficult decisions regarding investment priorities.

Earthquake-related infrastructure repairs undertaken by SCIRT focused on restoring services. This included replacement of badly damaged critical infrastructure and largely patch-repairing the remainder.

In an attempt to keep debt and rate rises to acceptable levels over the past 10 years, we deferred some infrastructure renewals to enable delivery of prioritised replacement infrastructure and facilities. As a result, large parts of the core infrastructure networks are functional but carry a risk of failure. The risks are most acute in the water, wastewater and stormwater networks and to a lesser extent roads and footpaths.

Providing for growth

We expect to experience ongoing population growth. We need to make sure we have the right infrastructure available at the right time to support this and aligns with local and sub-regional growth scenarios.¹ We will need to take into account additional infrastructure required to support the National Policy Statement for Urban Development and enable development capacity.

We primarily fund the provision of infrastructure to service growth from development contributions. Infrastructure within a subdivision development is provided by the developer at no cost to us as a condition of the resource consent. We aim to keep the rates contribution to fund growth infrastructure to a minimum.

2. *Completing delivery of major community facilities*

We are near completion of an ambitious community facility investment programme, driven by the need to replace facilities lost as a result of the 2010/11 earthquakes and providing facilities that appropriately cater for a significant and growing city.

The community facilities construction programme is planned to be completed by 2024/25. This will see the completion of five major new facilities:

- Metro Sports Facility - (co-funded by Government), opening 2022

- Te Pou Toetoe – Linwood Pool - opening in late 2021
- Hornby Centre multi-use facility - opening in late 2022
- Canterbury Multi-Use Arena - (co-funded by Government) opening late 2024 Performing Arts Precinct - to be completed by 2024.

Our investment in these facilities is initially funded from borrowing which is repaid from rates over 30 years. Investment in these facilities contributes to new debt increasing by \$1.2 billion over the first 4 years with a peak debt to revenue ratio of 244 per cent forecast in 2027/28.

3. *Ōtākaro Avon River Corridor*

We have commenced implementing the Ōtākaro Avon River Corridor Regeneration Plan, and taking a co-governance approach by partnering with mana whenua and the community. The Regeneration Plan signals overall investment in the order of \$1.2 billion for network infrastructure and development of the Green Spine over 30 years. Over the next 10 years we have allocated \$316 million of capital development funding across Parks, Transport and Three Waters. Fully implementing the Regeneration Plan is a long-term commitment, and will focus on land transfer, partnership-building, option identification and planning over the next three years.

4. *Prioritising climate change adaptation and mitigation*

In 2019 the Council declared a climate and ecological emergency, acknowledging the urgent need for the Council and community to address climate change issues. We have set targets to reduce the district's emissions, and from our own infrastructure.

Our Climate Change Strategy (we're asking the community for feedback on the draft, as part of this LTP 2021-31) sets the direction of change and prioritises actions. We have some climate change

¹ Our Space 2018-2048 growth strategy and the Ōtautahi Christchurch Spatial Plan (along with other Council plans, such as Project 8011)

initiatives underway but this is a long term commitment that will emerge in more detail over the coming three years.

The LTP 2024-34 will include a more comprehensive suite of initiatives to address climate change mitigation and adaptation that could require investment.

Overview of our current financial position

Our current financial position is solid. Rate increases in the last two Annual Plans have been lower than predicted in the LTP 2018-28, while debt is forecast to be \$2.11 billion at 30 June 2021, which is \$140 million lower than predicted in 2018.

Since the last Financial Strategy was adopted in 2018, the impact of the earthquake legacy in terms of underground infrastructure with shorter life has become clearer. And now, in the last year the economic impacts of COVID-19 have emerged.

The impact of COVID-19 on our finances has largely been felt by the short term loss of dividend income from CCHL. In preparing the 2020/21 revised Draft Annual Plan, operating savings of \$35 million over the years 2020/21 to 2021/22 were identified, with the intention to borrow \$102 million over the 2019/20 to 2021/22 years to fund the shortfall and avoid unacceptable rates increases. It was also recognised further operational savings would be required in the LTP. Currently the expectation is to borrow a total of only \$49.6 million. An improved dividend from CCHL in 2020/21 and proposed sales of surplus land have assisted this reduction. This debt is scheduled to be repaid within five years in order not to burden future generations.

A thorough review of operational costs was commenced in January 2020. This review examined the source and necessity for all operational costs that were being incurred with the purpose of stripping out any excess and inefficiency in processes. This work proved immensely valuable and provided some upside to enable the COVID-19 impact to be addressed without a double digit rates impact.

We are also conscious of the desire to reduce rate increases, while being aware that better infrastructure asset condition data was indicating higher levels of maintenance would be required to maintain a functioning network without significantly higher capital investment in renewals. In addition, once the major community facilities under construction are complete, they would require significant operating expenditure to cover running costs.

Debt

Our current debt is lower than planned in the LTP 2018-28. However, while we can service current and forecast debt comfortably, our ability to borrow to respond to unexpected events is more constrained than previously. This is due to:

- **Earthquake recovery** – We are carrying significant debt used to fund investment in infrastructure and facilities repair and replacement. This debt will be repaid from rates over the next 20 – 30 years. Our net debt will continue to increase as we fund construction of the remaining major community facilities. In addition, our horizontal infrastructure has shorter remaining life post-earthquake and higher levels of renewal are required.
- **Funding asset renewals** - The path to funding core infrastructure asset renewals from rates will continue with a decreasing portion of asset renewals funded from borrowing through the LTP 2021-31 period. The expected completion date has moved out from 2029 to 2031. Moving to more appropriately funding renewals from rates rather than borrowing will ensure current ratepayers are not subsidised by future generations.
- **Growth** - New development areas, particularly in the south of the city (Wigram, Halswell and Yaldhurst) and the north (Prestons and Belfast), have offset the loss of red zoned residential areas along the Avon-Otakaro corridor and provided opportunities for new residents and businesses. While this investment is largely funded from development contributions in the long run, it is funded initially from borrowing.

Carrying a relatively high level of debt means that we must focus on retaining our financial resilience and having access to funds at short notice in order to respond to unexpected events. A key feature of this Strategy is to keep minimum available borrowing (headroom) to as close to \$400 million as possible to provide for this. Restraining the increase in debt through the LTP 2021-31 period is therefore key to us maintaining a prudent minimum level of financial resilience and sustainability.

Capital expenditure

In the 2020/21 Annual Plan the core capital programme was set at a deliverable \$400 million. An in depth review of the future capital programme was undertaken, considering deliverability and affordability. Deliverability considerations included taking into account the additional work planned relating to shovel ready (Transport) projects, Water Reform, Canterbury Regeneration Acceleration Fund projects, Metro Sports and the Multi Use Arena which averages over \$210 million p.a. for the next three years.

From a rates affordability perspective, the size of the core capital programme has long term impacts. It is not possible to reduce the capital programme enough to generate a significant rates reduction in the short term; there would be increasing operational maintenance as an increasingly ageing network infrastructure begins to fail. We regard the maintenance and improvement in reliability and resilience of our infrastructure networks as critical, to ensure we deliver the core services our community demands and maintain public health.

We are proposing core capital expenditure of \$400 – 443 million p.a. in the first three years of the LTP, taking into account the additional projects spend above, and then stepping expenditure up to between \$500 and \$550 million for the remaining seven years. The step up largely relates to increased Water Supply and Wastewater renewals. This level of spend and resultant borrowing enables us to maintain minimum debt headroom at close to \$400 million whilst avoiding increased maintenance costs due to failing waters infrastructure.

Our financial goals

Our key strategic financial goals for years 2021 - 2031

The funding decisions we made in the LTP 2021-31 provide our pathway forward towards achieving these goals. Achieving them required prioritising expenditure and carefully considering trade-offs in order to keep rate increases to a minimum.

1. Build long-term financial resilience

The financial impacts on the Council from the 2010/11 earthquakes, and lately the COVID-19 pandemic, have reconfirmed the need for us to be in a financial position to respond to unexpected events. Key to achieving financial resilience is the ability to borrow funds at short notice to soften the effects of a fiscal emergency and continue to deliver appropriate services without the need to pass on these usually short-term costs to rates.

While we have ensured that we have maintained a debt headroom margin of close to \$400 million in the short term to provide sufficient financial capacity to deal with any unexpected event other than a significant disaster, long-term financial resilience will require ongoing prudent financial management to achieve the following goals:

- **Balanced budget.** The LTP 2018-28 contained an unbalanced budget for the period 2020/21 to 2023/24 due to rating for asset renewals being historically too low. Since 2015 we have been addressing this by transitioning to fully funding renewals from rates by 2029. In the proposed LTP 2021-31 this is still occurring at a slightly higher pace to ensure minimum debt headroom is maintained, and has been extended to 2031. In conjunction with projected significant Crown revenues over the next three years, all years now have a balanced budget other than 2024/25 (99.3%).
- **Ensure an acceptable minimum amount of debt capacity (headroom) is maintained.** We must have the ability to access funding through borrowing if the unexpected happens. The earthquakes of 2010/11 taught us the value of overall financial resilience through being able to

access cash when needed. Our net debt ratio is forecast to peak in 2028 at 244%. Minimum debt headroom of \$400 million has been maintained in all years except 2026 (\$397 million) and 2028 (\$384 million). After 2028 the net debt ratio is budgeted to gradually improve and we will have the ability to borrow at least \$580 million without breaching debt covenants by 2031. The net debt/ revenue ratio falls below 180 per cent around 2045.

2. Provide cost-effective infrastructure and facilities

This requires us to balance the quality and reliability of infrastructure and facilities with what we can afford. The financial strategy needs to ensure we have sufficient revenue to deliver the following:

- **Fund the residual repair and replacement of infrastructure and facilities damaged in the 2010/11 earthquakes.** The SCIRT repair programme focussed on patch repairing infrastructure to ensure functionality. Large sections of the infrastructure networks remain in need of more permanent repair or replacement. This work has been integrated into our asset renewal programme.
- **Provide infrastructure and facilities that support growth.** Christchurch is the largest city in the South Island and is expected to experience ongoing growth. We need to ensure we have the right infrastructure in place at the right time to support growth.
- **Limit investment to what we need, what we can deliver and what we can afford.** We have continued to invest in the management of its infrastructure assets and as we learn more about asset condition and useful life we can make better decisions about provision and maintenance.

3. Ensure rates are affordable and sustainable

This requires us to always consider the effects its decisions will have on the rates requirement. At the same time we need to generate sufficient revenue to sustain appropriate investment in infrastructure, facilities and services that deliver broad wellbeing benefits to our citizens and businesses.

- **Operating expenditure** savings budgeted to be achieved without lowering external levels of service.
- **Repay short-term debt** incurred post COVID-19 to cover the reduction in dividend revenue. This debt is budgeted to be fully repaid by 2027.
- **Continue to incrementally increase rating for asset renewals** to around 80 per cent of depreciation by 2031. This increases the rating required for renewals through to that date. Other external revenue, mainly from NZTA, funds 4 per cent of our renewal programme.
- **Set rates at a fair level**, balancing the need for sufficient revenue to provide quality, cost-effect services and infrastructure while recognising that rates affordability can be an issue for some residents and businesses.

Context to developing the Financial Strategy

Population and household growth

Greater Christchurch is the second biggest urban centre in the country. Our population has grown 15.1 per cent since 2006. Only Auckland has grown more quickly.

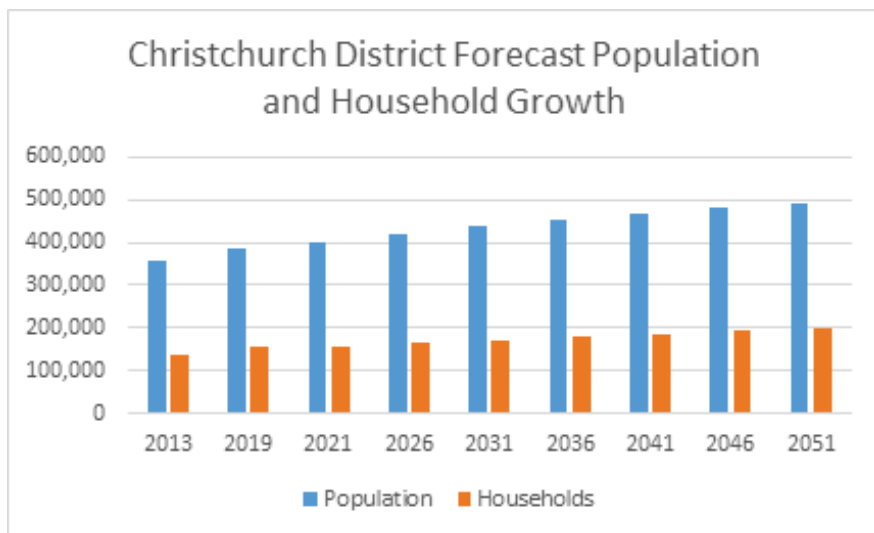
In 2019 our city's population was 385,500 people, and it is expected to grow to around 490,000 in the next 30 years. Selwyn and Waimakariri Districts have a combined population of 128,400 (2019), and this is projected to grow to 210,000 over the next 30 years.

Annual population growth is forecast to be approximately 0.9 per cent for the LTP 2021-31 period, compared with national growth of around 1.03 per cent. Our slower growth rate is due primarily to our ageing population compared with some other parts of New Zealand, particularly Auckland.

As our population ages, the average household size will reduce over time. This means the number of households is expected to grow proportionately faster than the population and it is anticipated there will be around 197,000 by 2051²

² Updated Statistics New Zealand figures are expected to be released later in 2021, which will inform updated population projections

Figure 1. Forecast Population and Household Growth for Christchurch 2021 - 2051



While growth in the number of homes and businesses increases our rating base and spreads the cost of our services across a larger number of ratepayers, the increase in the number of older residents will see a larger proportion of households living on a fixed income, which is likely to impact on resident’s ability and/ or willingness to pay rates.

Land use and planning for growth

We are a member of the Greater Christchurch Partnership which, through its Urban Development Strategy, has an integrated future growth plan for the Greater Christchurch region.

The land use and growth management aspects of the Urban Development Strategy are primarily implemented through the Resource Management Act 1991 Documents. These include the Canterbury Regional Policy Statement, Regional Plans, Mahaanui Iwi Management Plan, and District Plans.

The Partnership has recently undertaken a review of the strategic land use planning framework for Greater Christchurch. Our Space 2018-2048:

Greater Christchurch Settlement Pattern Update outlines land use and development proposals to ensure there is sufficient development capacity for housing and business growth across Greater Christchurch to 2048.

Collectively, the district plans for Christchurch City, Selwyn and Waimakariri already allow for a substantial number of new dwellings to be built in and around their urban areas. This development capacity is provided through greenfield housing areas (new subdivisions) and the redevelopment of existing housing areas. Some additional capacity also exists in rural locations surrounding the main towns in Selwyn and Waimakariri. Most of the capacity (around 80%) in Greater Christchurch is currently provided in the City, with only about 13% provided in Selwyn and 6% in Waimakariri.

For us, the significant capacity in the City is expected to be sufficient over the next 30 years, even with a higher share of growth apportioned to the City over the long term period. The Capacity Assessment undertaken in 2018 shows Christchurch has a housing development capacity of 59,950 homes, providing a medium term (2018 – 2028) excess capacity of 38,875, and a long term (2018 – 2048) excess capacity of 4,000. The report noted that in the medium term, capacity for around 3,500 dwellings in Christchurch is constrained by the provision of necessary infrastructure.

Most residential growth in Christchurch is planned to be through infill development in the central city and medium density zones. These areas generally have infrastructure in place to support growth or have infrastructure planned. Greenfield residential development in the north and south of the city will require investment in infrastructure network extensions and capacity increases to be accommodated.

We have provided for \$620 million of growth related capital expenditure over the LTP period, with the first three years averaging \$68 million per annum.

Economic environment

We are in a challenging economic environment over the short to medium term. The global recession following the COVID-19 pandemic has seen unemployment rise, consumption contract, and business

failures increase. At a local level the tourism sector and accommodation, hospitality and transport in particular, along with retail have been hit hard. However Christchurch has a diverse local economy and sectors such as manufacturing, agricultural support, health sciences and services and business focussed on technology and innovation have shown a high degree of resilience to the overall economic environment.

The big unknown at present is how the global economy will perform with some countries still experiencing varying degrees of lockdown and production, productivity and demand all weak.

Christchurch's current and likely future economic performance is hard to establish with confidence as the metrics tell conflicting stories.

The city's overall economic growth has been slowing as the post-earthquake rebuild has wound down. From the end of the March Quarter 2015 Christchurch GDP growth has been consistently below that of New Zealand as a whole. This performance lag has continued in the post-COVID-19 period with Christchurch GDP declining more than New Zealand as a whole. Overall though the picture remains mixed with some positive and some negative trends.

Specific metrics show varying results:

- The number of building consents for residential developments in Christchurch has remained strong following COVID-19 indicating confidence in the residential property markets. However the value of building activity for residential development was down slightly. There has been a significant drop in the number and value of consents for commercial development over the past year.³
- Job seeker support recipients in Canterbury increased 45 per cent from 14,555, in January 2020 (Pre-COVID), to 21,057 in November 2020. The tourism and hospitality sectors have been particularly hard hit.

- Average weekly earnings in Canterbury over the year to September 2020 increased 1 per cent (to \$1,045), half average increase for New Zealand as a whole (average wage \$1,118).⁴
- Domestic visitor spending in Christchurch increased 35 per cent (to \$197 million) when comparing October 2019 to October 2020. International visitor spending in Christchurch October on October fell 64 per cent (to just \$31 million).⁵

In the wider context, interest rates and inflation are both at historic lows. Since March 2020 the Government has looked to stimulate the national economy through increasing the money supply through quantitative easing. This has seen national GDP rebound strongly after the COVID-19 lockdown with unemployment significantly below earlier estimates.

While the individual data are varied the overall trend evident at the current time is that Christchurch is continuing a slow slide in economic performance compared to New Zealand as a whole as well as the larger cities we benchmark against.

The Council's response has been to look to maintain its investment in the city's infrastructure and facilities, to take advantage of low interest rates and to restructure spending profile in favour of capital expenditure over operational expenditure.

Three Waters service delivery

Over the past three years, central and local government have considered solutions to the challenges facing delivery of Three Waters services. This has seen the creation of Taumata Arowai, a national water services regulator, to oversee and enforce a new drinking water regulatory framework, with additional oversight of wastewater and stormwater networks.

³ Statistics New Zealand data <http://archive.stats.govt.nz/infoshare/>

⁴ Statistics New Zealand data <http://archive.stats.govt.nz/infoshare/>

⁵ <https://www.mbie.govt.nz/immigration-and-tourism/tourism-research-and-data/tourism-data-releases/monthly-regional-tourism-estimates/>

The Council has signed a memorandum of understanding between the Crown and local authorities that commits us to work together to explore future service delivery options.

This Financial Strategy, the Infrastructure Strategy and the LTP 2021-31 have been based on the assumption that we will continue to provide water and wastewater services as there is not enough information at this stage on which to base any alternative delivery model. Given the community will continue to require Three Waters services to be delivered, regardless of whether the Council does this or not, the core issues, work programmes and budgets will remain relevant.

If, in future, these services are to be provided by a new entity this will significantly change our financial position as revenue, costs and debt along with asset ownership associated with provision of water and wastewater services transition out of the Council’s books. This would require significant changes to the Financial Strategy, either as part of the process to develop the LTP 2024-34 or as an amendment to this LTP 2021-31.

It is too early in the process to determine the effects should the water and wastewater services be floated off to a new entity.

Capital works programme

The capital works programme reflects the analysis of the city’s infrastructure requirements which was undertaken in preparing the Infrastructure Strategy, Activity Plans and Asset Management Plans that underpin the LTP 2021-31.

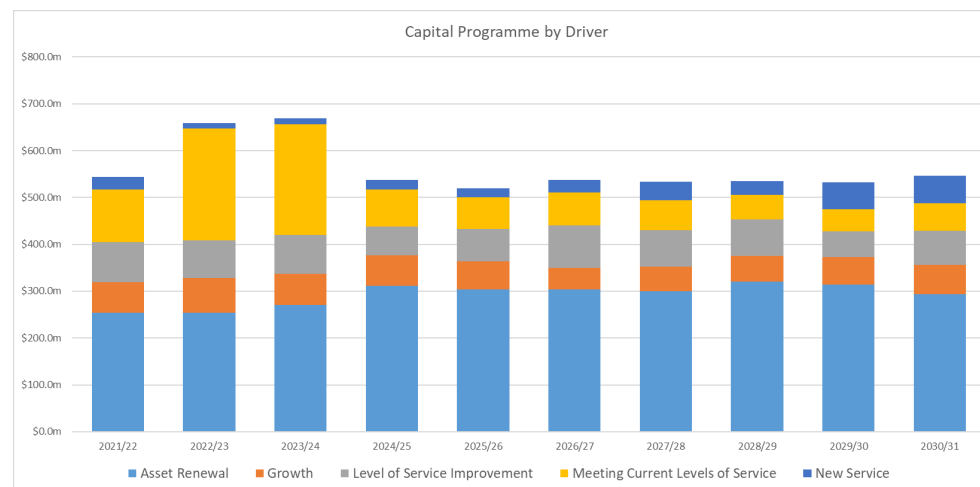
The Infrastructure Strategy details a 30 year plan for our water supply, wastewater, stormwater (including flood protection), transport, parks, facilities, solid waste and communication technology assets.

The capital works programme (other than renewals) is funded from borrowing to provide intergenerational equity – ensuring today’s ratepayers don’t fund the full cost of infrastructure that will provide benefit to future ratepayers.

We have capped the capital works programme, plus inflation, for the years 2021-31. This is to enable us to manage, then reduce, the debt to revenue ratio over time. This will result in increasing debt headroom, which is the amount we can borrow without breaching debt covenants for unforeseen requirements, thereby providing financial resilience to shocks.

The capital works programme is the largest area of our expenditure where there are clear options available around the level of investment, albeit with consequences on our ability to provide reliable infrastructure, meet the demands of growth, meet the community’s expectations in terms of the levels of service provided, and comply with regulatory requirements too.

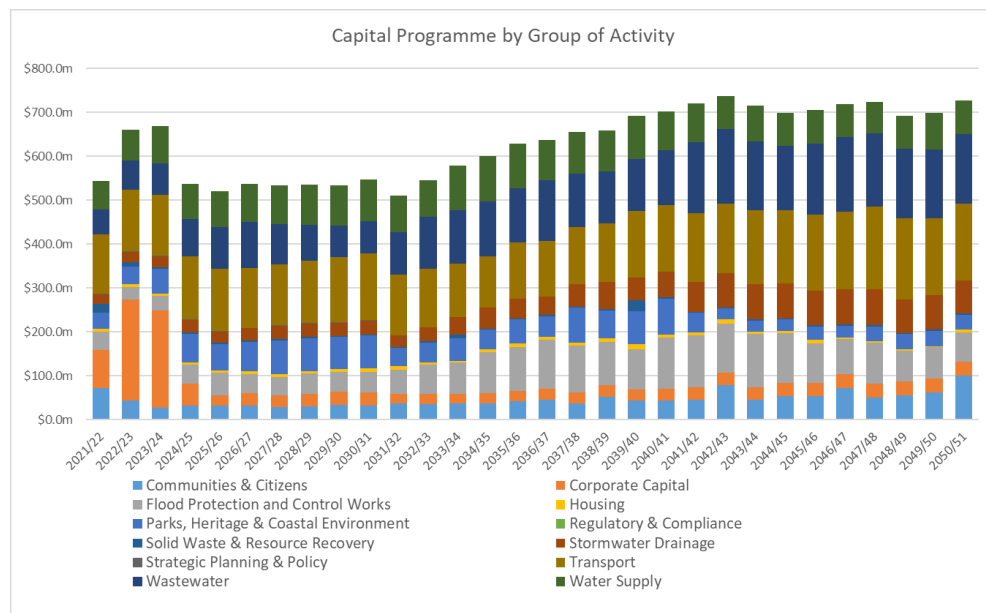
Figure 2. Proposed capital expenditure 2021-31



Asset renewals includes planned capital expenditure of \$175-\$200 million per annum in the first three years on network infrastructure, flood protection, and flood control works required to maintain existing levels of service. For the following seven years the average spend is over \$230 million.

The proposed capital expenditure programme (inflated) for the next 30 years is shown in the graph below.

Figure 3. Capital spend for the next 30 years, by Group of Activity



The total capital programme for the ten years of the LTP 2021-31 includes infrastructure, as well as non-infrastructure programmes for community facilities and internal services such as Information Technology, vehicle fleet and corporate accommodation. It includes a provision for the renewal of existing assets, plus additional capacity to meet demand growth and increasing levels of service.

Rates projections and limit

Annual Rates Increases

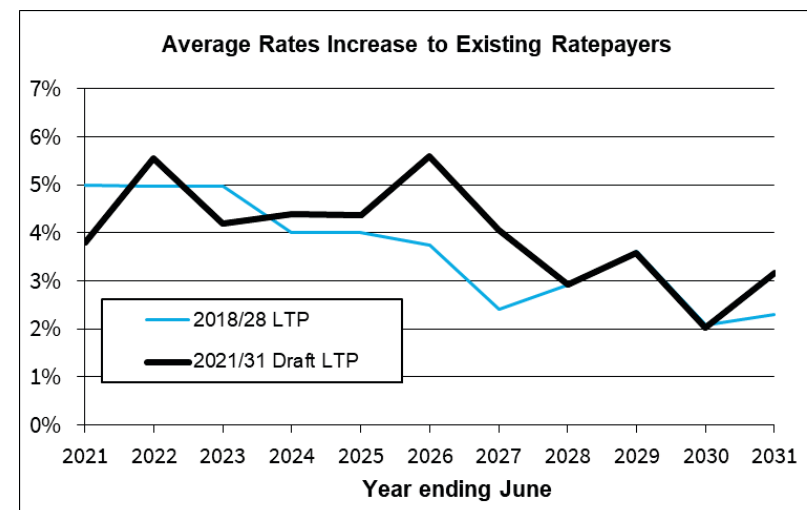
We propose a rates increase of 5.56 per cent in the 2021/22 year. This enables a capital investment programme to be delivered progressing the major facilities and prioritised water and wastewater infrastructure renewals, while also accommodating repayment of debt relating to the short term reduction in our dividend revenue.

The table below indicates the proposed increases to existing ratepayers over the period of the LTP.

Table 1. Annual rates increase for existing ratepayers

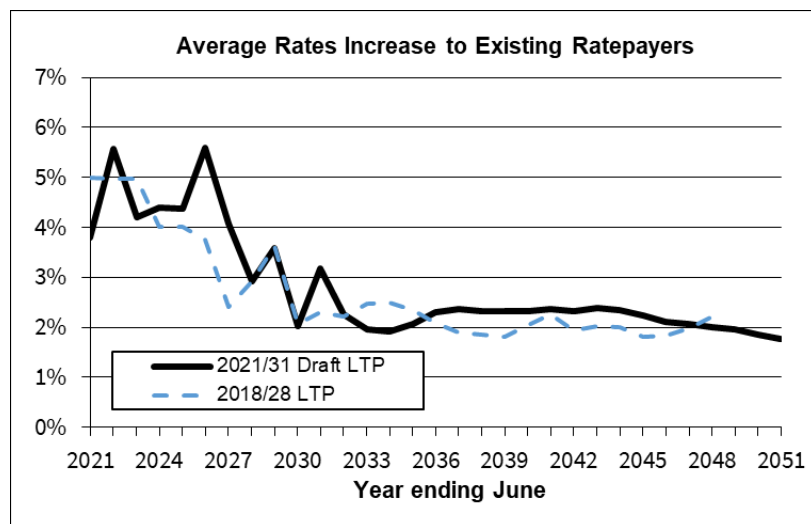
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Proposed Rates increase	5.56%	4.19%	4.40%	4.37%	5.59%	4.07%	2.93%	3.60%	2.03%	3.18%

Figure 4: Average annual rates increase for existing ratepayers – 2021 - 2031



Over the longer term, average annual rates increases are forecast to settle at around 2.3 per cent for existing ratepayers as the level of new borrowing reduces. The peak in 2025/26 is largely due to a higher than normal CCHL dividend planned for 2024/25.

Figure 5: Average annual rates increase for existing ratepayers – 2021 - 2051



Rates changes

We are consulting on a number of targeted rates changes in the LTP 2021-31. These include new targeted rates for Heritage, a grant to the Arts Centre and a grant to the Central City Business Association. We’re also consulting on expanding the Land Drainage rate to a city wide rate incorporating all ratepayers. This would transition in over three years. Details of these proposed rates can be found in the Funding Impact Statement – rating information.

It is also proposed to limit rates remissions to only those charities that have more limited funds on hand, (relative to their rates). Please refer to the proposed Rates Remission Policy for details.

Rates affordability benchmark

We meet our statutory rates affordability benchmark if actual or planned rates increases for any year are equal or less than the quantified limit on rates increases.

We have set limits on total annual rate increases at 1 per cent higher than the rate increases proposed in the LTP 2021-31, as shown in the table below. This provides some flexibility in the event of unexpected adverse developments in our financial position or operating environment. The limit is a ‘soft limit’ in that we can choose to exceed it in any year but must explain why we believe it is prudent to do so. We report on compliance with rates limits through the Annual Report and the Pre-Election Report.

Importantly, they are also based on total rates income (i.e. including natural growth from the development of new properties) – the increase to existing ratepayers will always be lower as long as the number of ratepayers continues to grow. For this reason, existing ratepayers should focus on the previous table as an indicator of likely future rates increases rather than the table below.

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Proposed increase	6.7%	5.0%	5.2%	5.2%	6.4%	4.9%	3.7%	4.4%	2.8%	4.0%
Rates increase limit	7.7%	6.0%	6.2%	6.2%	7.4%	5.9%	4.7%	5.4%	3.8%	5.0%

Debt projections and limits

Use of debt

Debt is a key funding tool as it enables capital investment in infrastructure to be paid for by both today’s ratepayers and those of the future. This approach provides intergenerational equity, a key principle that underpins the Revenue and Financing Policy.

While we use debt as a beneficial tool to promote equity, there needs to be a balance between what we would like and what we can afford. We need to

ensure balance is in place in both the short and the longer term.

Our ability to borrow is limited by the willingness of lenders to provide credit and the ability and willingness of ratepayers to service interest costs and principal repayments.

Projected debt level

Gross debt is the total debt we are carrying. Net debt has cash holdings and debt (advances) owed to us deducted.

We propose to materially increase debt over the next four years (as shown in Figure 6 below) to enable the funding of the proposed capital investment programme, while retaining budget flexibility in the event of unexpected adverse developments in our position or operating environment.

Debt levels are initially lower due to the Crown funding the initial costs of the Canterbury Multi Use Arena, but increase in the medium term due to continuing borrowing for asset renewals and improvement in infrastructure. By the end of the LTP 2021-31 period debt levels stabilise at around \$3 billion for a period of time.

Gross debt is closer to net debt than in the LTP 2018-28 due to CCHL intending to borrow directly for its own requirements in future rather than via us.

Figure 6: Forecast gross and net debt – 2021 - 2051

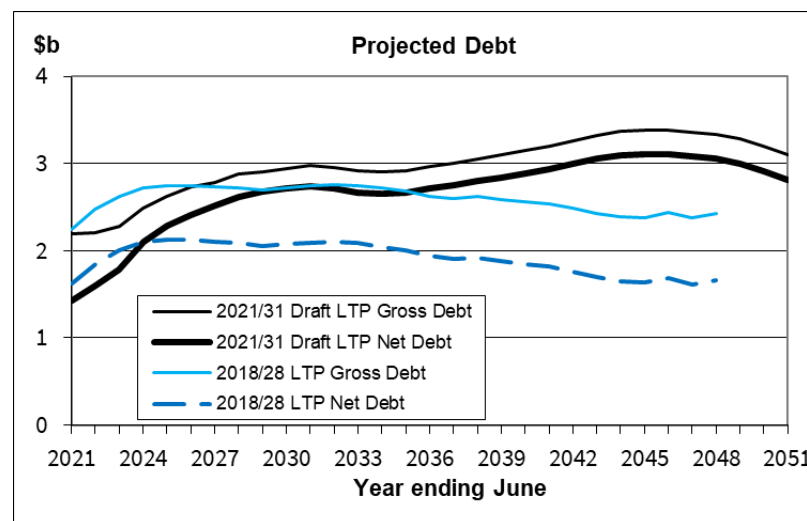


Table 2. Proposed net debt and capacity to borrow (debt headroom)

\$million	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Proposed net debt	1,600	1,789	2,099	2,282	2,407	2,524	2,621	2,674	2,708	2,735
Debt headroom	1,063	1,220	596	443	397	403	384	452	492	589

Limit on debt to revenue ratio

The debt to revenue ratio is an indicator of debt affordability.

The Council maintains several covenants with lenders which set specific limits on borrowing – most importantly, that total net debt may not exceed 300 per cent of total operating revenue in the 2021/22 year, then dropping 5 per cent a year before settling at a new longer term limit of 280 per cent from 2026. The higher short-term limit is to enable councils to invest in infrastructure as part of the COVID-19 economic recovery process.

A prudent debt strategy should restrict planned borrowing to materially less than this covenant limit, to provide budget flexibility in the event of unexpected adverse changes to our financial position or operating environment.

The maximum debt to revenue ratio proposed over the 2021-31 period is 244 per cent in 2027/28, well under the 280 per cent LGFA limit. At this peak we retain “headroom” (the ability to borrow more if required without breaching financial covenants) of \$384 million.

Figure 7: Forecast net debt to total revenue ratio – 2021 - 2051

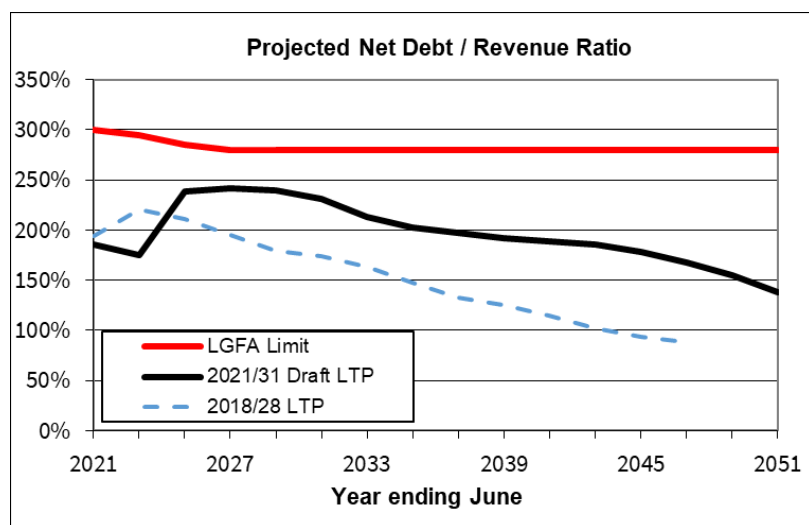


Table 3. Net Debt as a % of Total Revenue

2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
180.3%	175.4%	225.9%	238.7%	240.4%	241.5%	244.2%	239.5%	236.9%	230.4%

Debt affordability benchmark

Legislation requires local authorities to state a maximum debt limit over the LTP period. We meet the debt affordability benchmark for a year if actual or planned borrowing for the year is within each quantified limit on borrowing.

Quantified debt limits are shown in the table below. These have been set at the LGFA limits described above. The limits are a “worst case” maximum borrowing scenario.

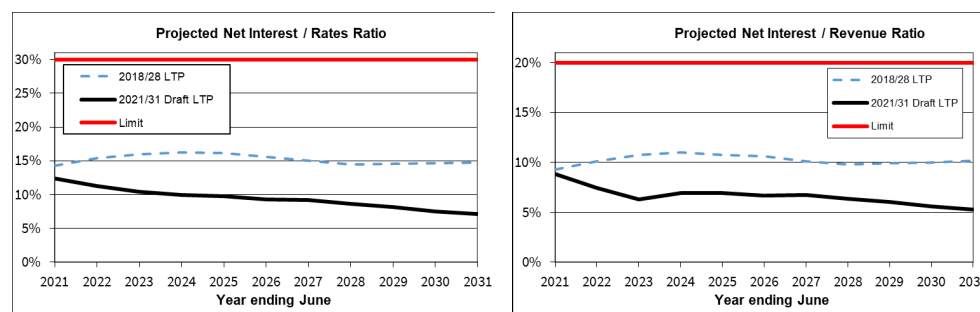
Table 4. Proposed gross debt and quantified limit

\$million	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Proposed gross debt	2,207	2,285	2,489	2,620	2,737	2,785	2,885	2,911	2,949	2,979
Quantified debt limit	3,269	3,505	3,085	3,062	3,134	3,188	3,269	3,363	3,441	3,568

Limits on interest costs

The cost of interest to rates revenue ratio and the cost of interest to total revenue ratio are both further debt affordability indicators. The two graphs in Figure 8 below show interest costs remain well within our limits.

Figure 8: Net interest to revenue 2021 - 2031



Current and forecast low interest rates contribute to the reduced cost of interest relative to both rates and total revenue.

Other considerations

Rating base growth

We expect the number of rating units will grow each year due to the development of new subdivisions and buildings. This will increase demand for Council services and infrastructure.

This Financial Strategy assumes growth in the number of rating units (including residential and commercial) will tend to grow at a rate of 0.8 per cent per annum, slightly less than the pace of household growth. This assumption results in the following projections for the number of rating units in the LTP 2021-31 period.

June Years	2021	2022	2023	2024	2025	2026/	2027	2028	2029	2030
Rating Units	177,146	178,563	179,992	181,432	182,883	184,346	185,821	187,307	188,806	190,316

Inflation

We use the BERL Local Government Cost Adjustors which are the basis of inflation forecasts for most New Zealand councils. We used the “mid-scenario” adjustors as this is considered to best align with the economic and population growth expected for Christchurch district over the next 10 years. Forecast inflation ranges between 2.1 - 2.9 per cent per year and is included in the Significant Assumptions section of this LTP.

Interest

Interest rates are important to us as borrowing (usually over a 30 year term) is used to fund new capital asset investment and for some of the cost of asset renewals. Borrowing to fund capital assets ensures today’s ratepayers don’t fund all of the costs of assets that will provide benefits over a long period.

We are in a period of low interest rates with future interest rates forecast to remain below 2.2 per cent over the coming 10 years. This is reducing the cost of borrowing over time as fixed rate debt is refinanced or repaid.

Forecast interest rates used in the LTP are included in the Significant Assumptions section of this LTP.

Insurance

We have gradually increased our insurance cover on assets as insurance providers have re-entered the Christchurch market following the 2010/11 earthquakes and as insurers gain more confidence in the resilience of our assets.

Based on external modelling we identified the maximum probable loss of above ground infrastructure and current insurance provide for two significant events.

In the event of another significant earthquake, we will rely on a combination of insurance and borrowing to fund the 40 per cent share of the cost of damage repair. The remaining 60 per cent would be funded by the Government under the National Civil Defence and Emergency Management Plan, depending on eligibility. This provides approximately \$6.7 billion of cover for assets with a replacement value of \$10.4 billion. To put this into context, the Council has spent around \$3 billion on repairing or replacing underground assets following the 2010/11 earthquakes.

Local Government Funding Authority (LGFA) – debt limits

The LGFA is our main source of loan funding. It raises funds by issuing bonds and on lends to councils, usually at a sub-market rate. To manage its risk the LGFA requires councils to operate within prescribed debt to revenue ratio limits. In June 2020 LGFA shareholders approved changes to allow the Net Debt to Total Revenue financial covenant ratio limit applying to councils with a credit rating of “A” equivalent or higher to increase from 250 per cent annual revenue to 300 per cent for the 2020/21 and 2021/22 financial years. The limit will then reduce 5 per cent per year until it reaches the new long term limit of 280 per cent in the 2025/26 financial year.

Credit rating

The Council’s credit rating affects our access to lending and the interest rate charged. This Financial Strategy seeks to support the retention of our current “AA- (Stable)” Standard & Poor’s credit rating. This credit rating may be at risk in later years due to increasing debt levels.

Any downgrade in the credit rating would have only a marginal impact on interest rates charged but could increase annual interest costs by as much as \$1.1 million in the later years of the LTP 2021-31. Should a downgrade occur, it is expected that our credit rating would be restored over time as the net debt/ revenue ratio returns to more conservative levels by the early 2040s.

Security on borrowing

Borrowing is secured by way of a charge over future rates revenue. Security may be offered by providing a charge over one or more specified assets but will only be done where there is a direct relationship between the debt and the purchase or construction of the asset being funded, such as an operating lease or project finance, and the Council considers a charge over the asset to be appropriate. There are no such arrangements currently in place.

Financial investments and equity securities

Working capital

We routinely holds a significant working capital cash balance to fund timing differences between income and expenditure.

Our Investment Management Policy requires a conservative approach to external investment of these balances – generally limited to cash and short-term bank deposits, reflecting the funds being needed relatively frequently to meet payment requirements.

Reserves and special funds

We hold funds in various Reserves and Special Funds. These are listed in this LTP. When not immediately required for the purpose they are held these are used as working capital. The exception is the Capital Endowment Fund (CEF) which is lent internally or invested in bank deposits to provide an ongoing income stream that is applied in place of rates to fund economic development activities, community events and projects. The projected returns of the CEF in 2022 is \$3.2 million, declining through the LTP period to \$2.5 million p.a.

Borrower notes

Under the terms of its shareholding in the Local Government Funding Agency (LGFA), each time we borrow from LGFA we must invest a portion of the borrowing back into LGFA in the form of Borrower Notes. This ensures the stability of LGFA's financial position and provides a high level of confidence

that the LGFA will continue to be a cost-effective source of the bulk of our long-term borrowing requirements. At 30 June 2021 \$35.1 million is expected to be invested with projected returns of \$0.3 million in 2022, increasing through the LTP 2021-31 period to \$0.8 million annually.

Community loans

From time to time we make loans to community groups to enable them to pursue their stated objectives. The return on these loans ranges from interest free through to 2 per cent, depending on when they were granted and the conditions imposed. The total face value of these loans at 1 July 2020 was \$7.3 million.

Equity investments

Our main investment is in Christchurch City Holdings Limited (CCHL) which holds equity investments on behalf of the City to provide dividend returns which we use to reduce the rate requirement and/or reduce debt. The dividend yield on our CCHL investment has averaged 2.2 per cent in the last three years and 2.4 per cent in the last ten years.

We have shareholdings in a further six companies. These are held principally to achieve efficiency and promote community outcomes and wellbeing rather than for a financial return on investment. The risk to us of investing in these companies is low.

Any equity investment carries risk in that the value of the investment and the dividend paid can go down. The COVID-19 lockdown and recession has had a significant negative impact on the earnings of some of the companies in the portfolio resulting in lower dividend payments for the years 2020 – 2023.

To mitigate future risk, we will look to structure the use of dividend income to minimise the impact on our business if dividend income unexpectedly reduces.

Further information on CCHL's subsidiary companies is provided in this LTP and in the companies' Statements of Intent.

Company and activity	Council shareholding	Principal reason(s) for investment	Value of investment ⁶	Targeted return
Christchurch City Holdings Limited (CCHL) (consolidated) <ul style="list-style-type: none"> • Holding company for our equity investments 	100%	<ul style="list-style-type: none"> • Return on investment 	\$2,133 million	Dividends of \$16.1 - \$64.2 million per annum. Heavily impacted by COVID-19 in the next two years.
Vbase Limited <ul style="list-style-type: none"> • Venue management and event hosting 	100%	<ul style="list-style-type: none"> • Promote local economic development 	\$178 million	Nil in LTP 2021-31 period
Civic Building Limited <ul style="list-style-type: none"> • Holds our 50 per cent investment in the joint venture that owns the Civic Building offices. 	100%	<ul style="list-style-type: none"> • Strategic property Investment 	\$8 million	Nil in LTP 2021-31 period
ChristchurchNZ Holdings Limited <ul style="list-style-type: none"> • Promotes tourism, major events, city profile and economic development. 	100%	<ul style="list-style-type: none"> • Promote local economic development • Visitor attraction/ destination management 	\$4 million	Nil
Transwaste Canterbury Limited <ul style="list-style-type: none"> • Kate Valley Canterbury regional landfill owner/ operator 	38.9%	<ul style="list-style-type: none"> • Shared service provider (co-owned with all other Canterbury local authorities) 	Circa \$44 million	\$3.3 - \$3.8 million per year
New Zealand Local Government Funding Agency <ul style="list-style-type: none"> • Lends money at sub-market rates to member councils 	8.3%	<ul style="list-style-type: none"> • Access to borrowing at preferential rates • Shared service provider (co-owned with most other NZ local authorities) 	\$7 million	\$65,000 per year
Civic Financial Services Limited <ul style="list-style-type: none"> • Supplies local government with financial services such as superannuation, Kiwisaver 	12.9%	<ul style="list-style-type: none"> • Access to specialised financial services • Shared service provider (co-owned with most other NZ local authorities) 	\$1 million	Nil
Theatre Royal Charitable Foundation <ul style="list-style-type: none"> • Operates the Isaac Theatre Royal facility 		<ul style="list-style-type: none"> • Promote local economic development 	\$1 million	Nil
Endeavour Icap	12.8%	<ul style="list-style-type: none"> • Economic Development 	\$0.2 million	Nil

⁶ The value of the investments in CCHL, Vbase Limited, Civic Building Limited and ChristchurchNZ Holdings Limited were assessed by independent valuers, Deloitte as at 30 June 2020.