

Financial Overview

Financial Overview

The 2016/17 Annual Plan differs significantly from what was proposed in the 2015-25 Long Term Plan as a result of a number of outcomes in the 2015/16 year, including the settlement of the insurance claim for more than was budgeted. In addition, the capital programme was substantially under-delivered in the 2015/16 year which resulted in lower borrowings, and growth within the City's rating base was higher than expected.

These changes, coupled with the decision to smooth the capital programme for the 2016/17 year so that it is better aligned with our ability to deliver, has substantially reduced our need to borrow in this Annual Plan year. As a result the remaining Capital Release has been reduced by \$150 million and deferred to start in 2017/18, and new borrowing has reduced by \$302.8 million in 2016/17.

As a consequence rates to existing ratepayers have reduced from the 7.18% forecast in the Long Term Plan to 4.9%. Full details of rates, including the total rating requirement for general and targeted rates, and indicative rates for individual properties, are provided in the Funding Impact Statement and Rating Policy section.

The key changes to the financial statements are reflected and explained in this overview.

The table below shows the total funding requirements for the Christchurch City Council for 2016/17 and the variance from that outlined in the Long Term Plan.

Operating Revenue and Expenditure

Other than the changes detailed below, we have held our budget within the inflation levels forecast by BERL.

Significant changes from the Long Term Plan are:

Benefits;

- Increased dividend and interest revenue of \$11.5 million, after taking into account deferral of the \$110 million capital release from 2015/16 to 2016/17 and \$200 million from 2016/17 to 2017/18.
- Reduced interest costs of \$12.9 million largely due to the capital programme retiming below.
- Savings from the Fit for Future restructure of \$2.3 million.
- Operating cost reduction from the delayed opening of the new Central Library (\$1.8 million) and Hornby Library (\$1.1 million).

Offset by;

- \$4 million annually to fund Regenerate Christchurch.
- \$4 million of increased costs to complete the District Plan review, of which \$0.7 million is recoverable.
- Some limited provision for alternative weed control treatment (\$2 million)
- Inclusion of \$3.9 million, (primarily the reversal of expected insurance recoveries as a result of early settlement)
- Inclusion of \$4.4 million to fund ongoing litigation costs.
- Costs and revenues for consenting have also been increased to reflect anticipated higher volumes.

Depreciation

Depreciation expense is charged on a straight line basis on both operational and infrastructure assets. Note though that we do not rate for depreciation, rather we rate for the renewal and replacement of existing assets. In 2016/17 we will rate for \$113 million of renewals which is consistent with the Financial Strategy.

Revenue

Our primary source of revenue is property-based rates, although earthquake rebuild recoveries continue to be a major funding source throughout the rebuild. A brief explanation of each source of revenue is included in the Funding Impact Statement and Rating Policy section.

Surplus, operating deficits, and sustainability

The Annual Plan for 2016/17 shows an accounting surplus of \$178.1 million before revaluations of \$403.1 million. Under accounting standards Council is required to show all revenue, including earthquake-related recoveries from central Government and NZ Transport Agency, as income for the year. However, some of these recoveries reimburse Council for rebuild expenditure.

After adjusting for these capital revenues we're budgeting for an operating deficit of \$25.2 million for earthquake response costs in the 2016/17 year. This is the last year that we will borrow for these costs as they are expected to diminish to the level that they can be rated for. We do not consider that this anticipated operating deficit will undermine our financial sustainability.

Borrowing

The Annual Plan includes new borrowing in 2016/17 of \$30.9 million, a decrease of \$302.8 million on the Long Term Plan, primarily due to funds on hand from the insurance settlement and capital release, and the revised capital programme. As a result of lower than planned borrowing, cumulative debt at the end of 2016/17 is planned to be \$1,340.8 million, \$517.8 million lower than the Long Term Plan projected amount.

In accordance with our financial strategy we will continue to ensure prudent and sustainable financial management of our operations and will not borrow beyond our ability to service and repay that borrowing.

Capital programme funding and expenditure

We plan to invest \$535.5 million in the capital programme in 2016/17, a reduction of \$262.8 million over the amount in the Long Term Plan. The decrease is due to the smoothing, mentioned above, and building in the latest estimate of the infrastructure rebuild.

The capital programme is funded by earthquake recoveries, subsidies and grants for capital expenditure, development and financial contributions, the proceeds of asset sales and debt. In 2016/17 the funding requirements are significantly lower due to the \$262.8 million reduction and the under-delivery in the current year, as a result of which the insurance proceeds are still available. It is because of this that the next tranche of capital release of \$200 million has been delayed until 2017/18.

Financial Risk Management Strategy

Council's policies to assist in managing its financial risk, including liquidity and funding risk management, interest rate exposure and counterparty credit risk are unchanged in this Annual Plan. An important element in assessing the value of Council's risk management strategy is its five key financial ratios. These are included within the Financial Prudence Benchmarks section within this document. The Council anticipates staying well within its financial ratio limits for 2016/17.

Section 2 – Notes to Financial Overview

Annual Plan	Note 1	Long Term Plan	Annual Plan	Variance
2015/16	Operating Expenditure	2016/17	2016/17	to LTP
		\$000		
54,019	Libraries, arts and culture	65,599	60,426	(5,173)
9,942	Economic development	9,967	15,024	5,057
8,036	Flood protection and control works	5,156	5,157	1
4,153	Heritage protection and policy	4,493	4,154	(339)
37,499	Housing	27,369	23,746	(3,623)
387	Natural environment	403	525	122
35,023	Parks and open spaces	34,266	37,751	3,485
43,664	Refuse minimisation and disposal	45,371	45,548	177
68,907	Regulation and enforcement	57,944	66,531	8,587
30,853	Resilient communities	30,867	30,955	88
89,730	Roads and footpaths	94,192	106,745	12,553
80,389	Sewerage collection, treatment and disposal	79,797	80,941	1,144
33,598	Sport and recreation	35,126	38,342	3,216
23,483	Stormwater drainage	30,913	24,229	(6,684)
22,468	Strategic governance	24,848	24,944	96
11,382	Strategic policy and planning	12,766	12,576	(190)
20,392	Transport	22,186	21,103	(1,083)
46,747	Water supply	47,881	45,258	(2,623)
105,183	Corporate	73,053	70,677	(2,376)
725,854	Total group of activity expenditure	702,197	714,632	12,435
161,166	Less depreciation (non cash)	178,925	189,484	10,559
78,574	Less interest expense shown separately	90,979	78,051	(12,928)
-	Less other non cash expenditure	-	-	-
486,114	Operating expenditure	432,293	447,097	14,804

Annual Plan	Note 2	Long Term Plan	Annual Plan	Variance
2015/16	Capital Programme	2016/17	2016/17	to LTP
63,639	Libraries, arts and culture	65,605	33,133	(32,472)
-	- Economic development	-	-	-
45,836	Flood protection	50,397	13,296	(37,101)
10,569	Heritage protection and policy	11,150	7,297	(3,853)
23,423	Housing	15,696	3,782	(11,914)
-	- Natural environment	-	-	-
33,699	Parks and open spaces	14,272	12,554	(1,718)
3,309	Refuse minimisation and disposal	980	977	(3)
421	Regulation and enforcement	27	26	(1)
17,163	Resilient communities	13,458	13,800	342
276,923	Roads and footpaths	166,113	118,697	(47,416)
185,410	Sewerage collection, treatment and disposal	155,163	113,945	(41,218)
18,245	Sport and recreation	90,523	69,912	(20,611)
72,467	Stormwater drainage	46,935	62,349	15,414
-	- Strategic governance	-	-	-
577	Strategic policy and planning	305	150	(155)
81,880	Transport	45,808	32,115	(13,693)
40,222	Water supply	37,623	23,675	(13,948)
84,425	Corporate	84,227	29,822	(54,405)
958,208	Total capital programme	798,282	535,530	(262,752)

Note 3

Transfers to Reserves

6,764	Interest credited to special funds and reserves	6,035	5,341	(694)
58	Dog control cash operating result	64	22	(42)
65	Burwood Landfill capping contribution	65	66	1
250	Flood defence fund	250	250	-
7,137		6,414	5,679	(735)

Annual Plan	Note 4	Long Term Plan	Annual Plan	Variance
2015/16	Interest Expense	2016/17	2016/17	to LTP
		\$000		
52,149	General borrowing	62,340	49,412	(12,928)
10,101	Equity investments	10,048	10,048	-
16,324	Advances to Council organisations	18,591	18,591	-
78,574		90,979	78,051	(12,928)

Note 5

Debt Repayment provided for

38	Targeted rate loans	-	-	-
23,678	Ratepayer funded loans	33,398	32,269	(1,129)
2	Housing	-	-	-
				-
23,718		33,398	32,269	(1,129)

Annual Plan	Note 6	Long Term Plan	Annual Plan	Variance
2015/16	Fees, Charges and Operational Subsidies	2016/17	2016/17	to LTP
3,828	Libraries, arts and culture	3,944	3,156	(788)
147	Economic development	150	150	-
-	Flood protection and control works	-	-	-
-	Heritage protection and policy	-	-	-
14,871	Housing	15,514	12,532	(2,982)
85	Natural environment	87	86	(1)
4,734	Parks and open spaces	3,566	2,330	(1,236)
12,029	Refuse minimisation and disposal	12,108	12,076	(32)
46,248	Regulation and enforcement	43,680	49,549	5,869
2,257	Resilient communities	1,775	1,294	(481)
12,854	Roads and footpaths	13,614	13,581	(33)
9,152	Sewerage collection, treatment and disposal	5,583	4,836	(747)
13,667	Sport and recreation	13,886	13,251	(635)
1,570	Stormwater drainage	813	20	(793)
165	Strategic governance	914	911	(3)
519	Strategic policy and planning	448	581	133
12,288	Transport	12,851	12,854	3
1,579	Water supply	884	601	(283)
19,512	Corporate	10,474	9,989	(485)
155,505	Total group of activity operating revenue	140,291	137,797	(2,494)
946	Less non cash revenue	946	1,468	522
154,559	Fees, charges and operational subsidies	139,345	136,329	(3,016)

Annual Plan	Note 7	Long Term Plan	Annual Plan	Variance
2015/16	Transfers from Reserves	2016/17	2016/17	to LTP
327	Reserves a/c - reserve purchases	326	50	(276)
10,192	Housing - net capital programme	13,243	3,783	(9,460)
15,777	Housing cash operating result	4,482	3,707	(775)
415	Dog Account - capital programme	-	-	-
4,167	Capital endowment fund - grants	2,288	2,328	40
-	- Debt repayment reserve	-	163,098	163,098
65	Burwood Landfill remediation	65	66	1
30,945		20,404	173,032	152,628

Note 8

Asset Sales

\$000

60	Plant and vehicle disposals	27	27	-
8,970	Surplus property sales	7,544	7,522	(22)
445	Surplus roading land sales	455	454	(1)
45,196	Earthquake related property settlements	-	-	-
				-
54,671		8,026	8,003	(23)

Annual Plan	Note 9	Long Term Plan	Annual Plan	Variance
2015/16	Borrowing	2016/17	2016/17	to LTP
958,208	Capital Programme	798,282	535,530	(262,752)
2,542	Capital grants	9,131	9,052	(79)
43,992	Earthquake response	32,409	25,225	(7,184)
12,801	Operational costs	-	-	-
1,017,543	Total funding requirement	839,822	569,807	(270,015)
	Funding sources			
54,671	Sale of assets	8,026	8,003	(23)
108,678	Rates (for renewals)	112,756	112,756	-
338	Rates (for landfill aftercare)	351	350	(1)
118,249	Earthquake rebuild recoveries	128,569	105,786	(22,783)
10,999	Reserve drawdowns	13,634	166,996	153,362
200,000	CCHL special dividend	200,000	110,000	(90,000)
17,231	Development contributions	12,831	13,115	284
23,522	Capital grants and subsidies	29,901	21,874	(8,027)
533,688	Total funding available	506,068	538,880	32,812
483,855	Borrowing requirement	333,754	30,927	(302,827)
276,718	Less debt repayment	33,398	32,269	(1,129)
400	Less borrowing on behalf of subsidiaries repaid	400	14,485	14,085
206,737	Net change in borrowing	299,956	(15,827)	(315,783)
1,351,914	Opening gross debt	1,558,651	1,356,657	(201,994)
1,558,651	Closing gross debt	1,858,607	1,340,830	(517,777)

Annual Plan	Note 10	Long Term Plan	Annual Plan	Variance
2015/16	Rates	2016/17	2016/17	to LTP
384,357	Rates levied 1 July	419,247	414,748	(4,499)
3,425	Rates in year income per Order in Council	-	4,072	4,072
2,780	Excess water charges	2,844	2,836	(8)
2,200	Penalties	2,251	2,244	(7)
<u>392,762</u>		<u>424,342</u>	<u>423,900</u>	<u>(442)</u>

Funding Impact Statement

The total rates required to be levied on 1 July 2016 is \$414.748 million. Three items of rating income are excluded from this figure (and from the specific rates details provided on the following pages):

- § Excess water rates – excluded because it is dependent on actual volumes consumed during the year. Excess water rates are budgeted to be \$2.8 million (excluding GST) in 2016/17.
- § Late payment penalties & surcharges – excluded because they are dependent on actual late rates payments occurring during the year. Late payment penalties and surcharges are budgeted to be \$2.2 million in 2016/17.
- § Changes in capital values during the year – Under the order in Council, Council is required to adjust its rates charges for individual properties during the financial year to reflect any capital value change arising from demolition of substantial construction work; the impact of these adjustments on rates collected is excluded from the table because it is dependent on the extent of demolition and construction activity during the year. The net impact on rates of these adjustments is budgeted to be revenue of \$4.1 million (excluding GST) in 2016/17.

The rates levied on 1 July 2016 are based on the following (figures include non-rateable properties, as they are still liable for certain rates):

	As at 30 June 2016:
Projected number of rating units	168,200
Projected total capital value of rating units	\$92.304 billion
Projected total land value of rating units	\$41.144 billion

The resultant rates to be levied are as follows:

Table of Rates Collected (incl GST)

	2016-17 Annual Plan \$000
Rates Collected	
General Rate	311,489
Uniform Annual General Charge	20,469
Targeted Rates	
Water Supply	
Full Charge	35,121
Half Charge	731
Restricted Supply	148
Excess Water ¹	-
Fire Service Connection	120
Land Drainage	21,573
Sewerage	61,145
Waste Minimisation	22,682
Active Travel	3,482
	476,960
including GST of	62,212
Total Excluding GST	414,748

The Funding Impact Statement below sets out the sources of operating funding Council will use to fund its activities over the 2016/17 financial year. These funding sources were developed from an analysis of the Council activities and funding requirements which is set out in the Revenue and Financing Policy in the Amended Long Term Plan.

Christchurch City Council Funding impact statement

Annual Plan 2015/16		Long Term Plan 2016/17	Annual Plan 2016/17	Variance to LTP
		\$000		
Sources of operating funding				
269,786	General rates, uniform annual general charges, rates penalties	294,064	294,968	904
122,976	Targeted rates	130,278	128,932	(1,346)
19,809	Subsidies and grants for operating purposes	20,841	20,802	(39)
98,371	Fees, charges	98,317	99,704	1,387
277,957	Interest and dividends from investments	264,194	185,138	(79,056)
36,379	Local authorities fuel tax, fines, infringement fees, and other receipts	20,187	16,345	(3,842)
825,278	Total operating funding	827,881	745,889	(81,992)
Applications of operating funding				
421,831	Payments to staff and suppliers	391,907	401,996	10,089
78,574	Finance costs	90,979	78,051	(12,928)
64,283	Other operating funding applications	40,386	45,101	4,715
564,688	Total applications of operating funding	523,272	525,148	1,876
260,590	Surplus (deficit) of operating funding	304,609	220,741	(83,868)
Sources of capital funding				
21,848	Subsidies and grants for capital expenditure	28,543	20,520	(8,023)
17,231	Development and financial contributions	12,831	13,115	284
206,737	Increase (decrease) in debt	299,956	(15,827)	(315,783)
54,671	Gross proceeds from sale of assets	8,026	8,003	(23)
-	Lump sum contributions	-	-	-
119,923	Other dedicated capital funding	129,927	107,140	(22,787)
420,410	Total sources of capital funding	479,283	132,951	(346,332)
Applications of capital funding				
Capital expenditure				
800,763	- to replace existing assets	634,734	428,890	(205,844)
60,846	- to improve the level of service	80,351	45,893	(34,458)
96,599	- to meet additional demand	83,197	60,747	(22,450)
(276,808)	Increase (decrease) in reserves	(13,990)	(167,353)	(153,363)
(400)	Increase (decrease) of investments	(400)	(14,485)	(14,085)
681,000	Total applications of capital funding	783,892	353,692	(430,200)
(260,590)	Surplus (deficit) of capital funding	(304,609)	(220,741)	83,868
-	Funding balance	-	-	-

The changes above are explained in the Financial Overview.

Detailed information about sources of operating and capital funding are contained in the Funding Impact Statement for the Amended Long Term Plan.

Where our funding will come from

Rates are the main source of funding for the Council's activities. In the 2016/17 financial year, the Council is proposing to collect \$423.9 million in rates to help pay for essential services such as water supply, roading and wastewater treatment, as well as capital renewal and replacement projects and events and festivals. This income is supplemented with funding from fees and charges, Government subsidies, development contributions, interest and dividends from subsidiaries.

The Council has proposed rates increases at a level sufficient to ensure revenue is sufficient and debt low enough to not breach the key financial control ratios outlined in the Annual Plan.

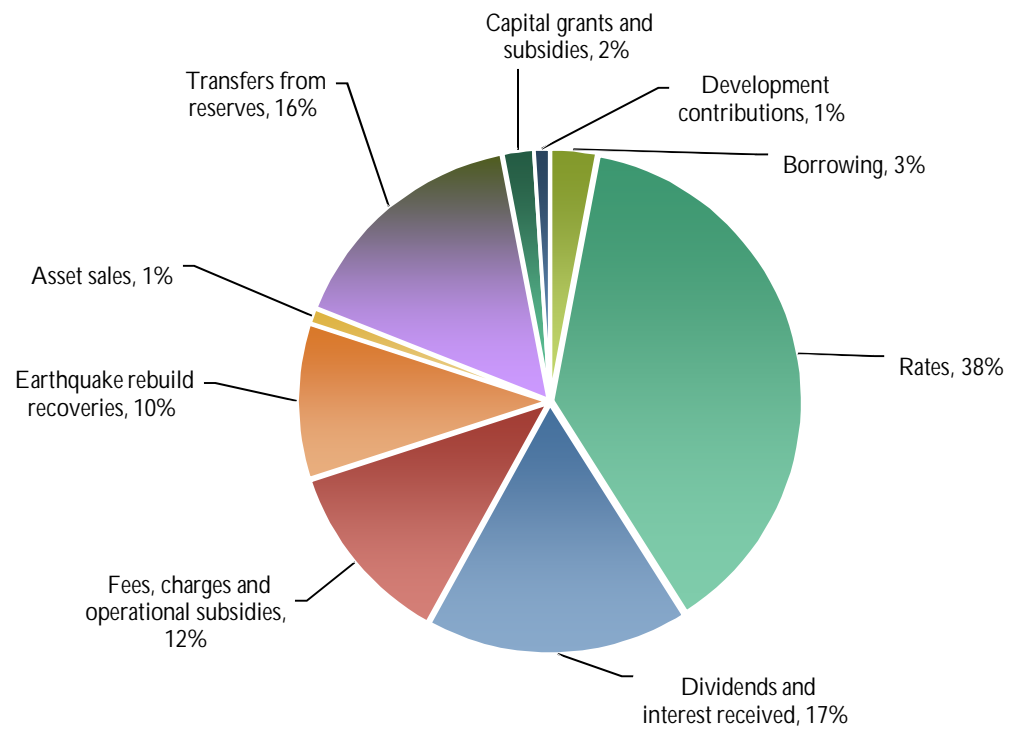
Earthquake rebuild recoveries (NZ Government reimbursements, and NZ Transport Agency subsidies) have reduced now that the SCIRT work is coming to an end but remain at a significant level. In 2016/17 these account for \$105.8 million or 10%.

The Council owns shares in major local companies through its wholly-owned subsidiary Christchurch City Holdings Limited (CCHL). These companies include Christchurch International Airport, City Care, Lyttelton Port Company, Orion, Eco Central, Enable Services and Red Bus. CCHL is forecasting to pay a normal dividend of \$40.6 million in 2016/17. This amount will decrease over the next few years as the capital release occurs.

Where our funding will come from:

<u>Funding Sources 2016/17</u>	%	\$000
Borrowing	3%	30,927
Rates	38%	423,900
Dividends and interest received	17%	185,660
Fees, charges and operational subsidies	12%	136,329
Earthquake rebuild recoveries	10%	105,786
Asset sales	1%	8,003
Transfers from reserves	16%	173,032
Capital grants and subsidies	2%	21,874
Development contributions	1%	13,115
	100%	1,098,626

Where our funding will come from 2016/17



How capital expenditure is funded

The Council will invest \$535 million in the city's infrastructure over the period of the 2016/17 Annual Plan.

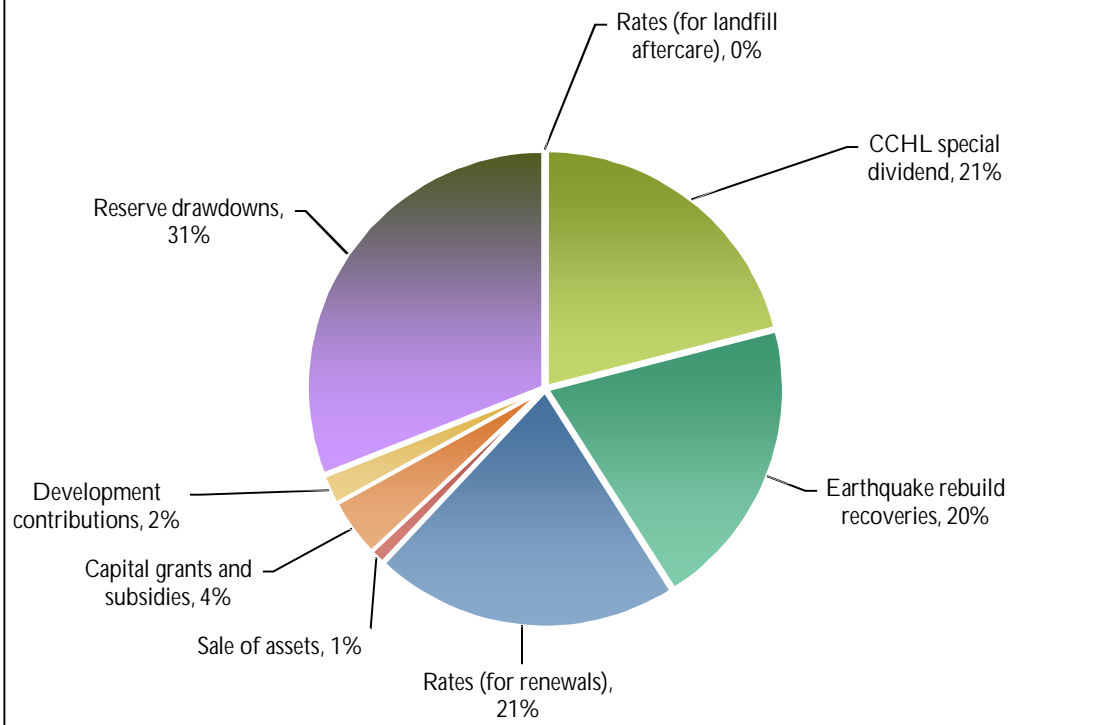
Capital expenditure funding is a subset of the Council's total funding. Earthquake rebuild recoveries, such as Central Government reimbursements and NZ Transport Agency subsidies, are a significant source of the Council's funding in 2016/17.

A detailed analysis of the Council's policy for funding its capital programme is available in the Revenue and Financing Policy, and the funding of the rebuild is explained in the Financial Strategy. The table and graph below details funding for the Council's capital programme for 2016/17.

How we fund our capital programme:

<u>Funding Sources 2016/17</u>	%	\$000
CCHL special dividend	21%	110,000
Earthquake rebuild recoveries	20%	105,786
Rates (for renewals)	21%	112,756
Sale of assets	1%	8,003
Capital grants and subsidies	4%	21,874
Development contributions	2%	13,115
Reserve drawdowns	31%	163,646
Rates (for landfill aftercare)	0%	350
	100%	535,530

Funding sources for the 2016/17 capital programme



Where your rates go

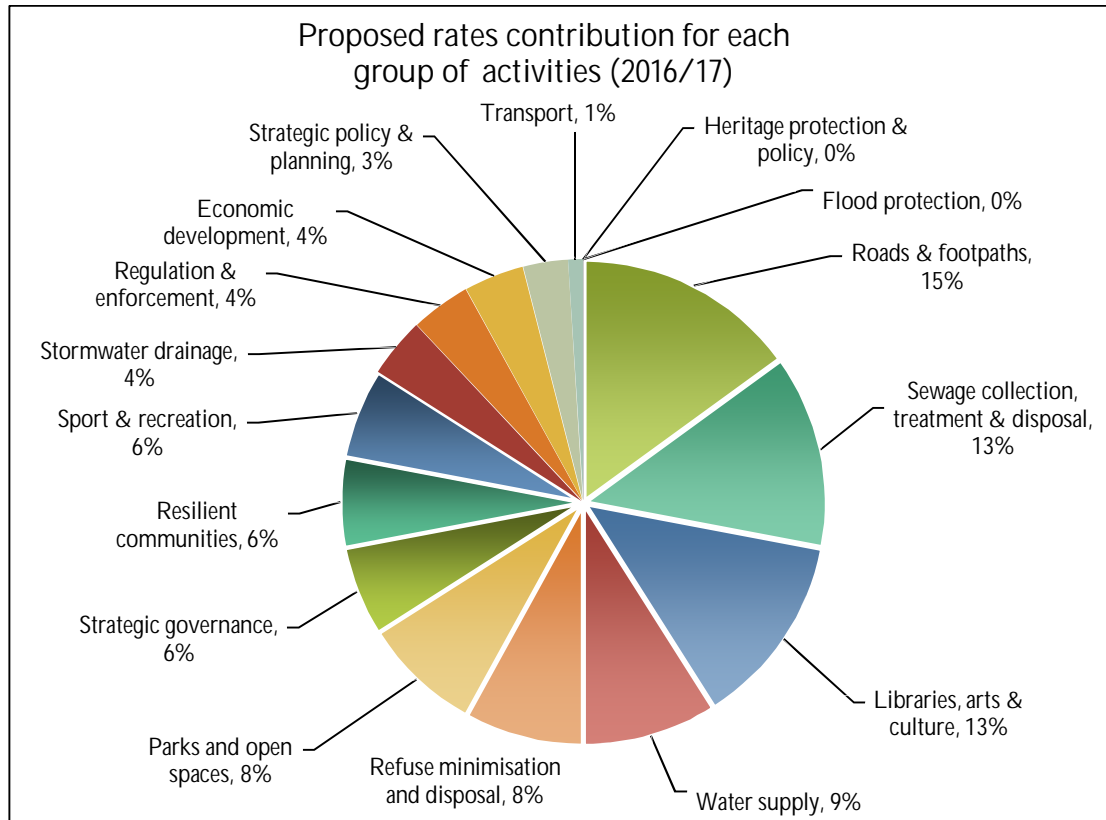
In 2016/17 the Council relies on rates for about 48 per cent of its income and is proposing to collect \$423.9 million (GST exclusive) in rates. This represents an average increase in rates of 4.9 per cent to existing ratepayers.

Much of the Council's spending goes toward providing essential services to keep the city running smoothly. This includes maintaining our roads, parks, sewerage systems and water supply.

The table and graph below show the activities the Council will provide during 2016/17 and how rates contribute to these activities:

How your rates will be spent 2016/17

Group of Activities	Cents per dollar of Rates	Average Residential Rates / week
Roads & footpaths	14.2c	\$6.26
Sewage collection, treatment & disposal	13.4c	\$5.91
Libraries, arts & culture	12.6c	\$5.55
Water supply	8.6c	\$3.79
Refuse minimisation and disposal	8.2c	\$3.61
Parks and open spaces	7.5c	\$3.31
Strategic governance	6.1c	\$2.69
Resilient communities	5.9c	\$2.60
Sport & recreation	5.9c	\$2.60
Stormwater drainage	4.3c	\$1.90
Regulation & enforcement	4.2c	\$1.85
Economic development	4.0c	\$1.76
Strategic policy & planning	2.8c	\$1.23
Transport	1.4c	\$0.62
Heritage protection & policy	0.5c	\$0.22
Flood protection	0.4c	\$0.18
	<hr/>	
	100c	\$44.08



Financial Prudence Benchmarks

Annual plan disclosure statement for year ending 30 June 2017

What is the purpose of this statement?

The purpose of this statement is to disclose the Council's planned financial performance in relation to various benchmarks to enable the assessment of whether the Council is prudently managing its revenues, expenses, assets, liabilities and general financial dealings.

Benchmark (as set in)	Note	Long Term Plan	Annual Plan	Met
Rates affordability benchmark	1			
- income		428,585	423,900	Yes
- increases		9%	8%	Yes
Debt affordability benchmark	2	2,713	1,341	Yes
Net debt as a percentage of equity		20%	9%	Yes
Net debt as a percentage of total revenue		250%	101%	Yes
Net interest as a percentage of total revenue		20%	6%	Yes
Net interest as a percentage of annual rates income		30%	11%	Yes
Liquidity		110%	142%	Yes
Balanced budget benchmark	3	100%	122%	Yes
Essential services benchmark	4	100%	254%	Yes
Debt servicing benchmark	5	10%	9%	Yes

Notes

1 Rates affordability benchmark

(1) For this benchmark -

(a) the Council's planned rates income for the year is compared with a quantified limit on rates contained in the financial strategy included in the Council's long term plan; and

(b) the Council's planned rates increases for the year are compared with a quantified limit on rates increases for the year contained in the financial strategy included in the Council's long term plan.

(2) The Council meets the rates affordability benchmark if -

(a) its planned rates income for the year equals or is less than each quantified limit on rates; and

(b) its planned rates increases for the year equal or are less than each quantified limit on rates increases.

2 Debt affordability benchmark

- (1) For this benchmark, the Council's planned borrowing is compared with a quantified limit on borrowing contained in the financial strategy in the Council's long term plan.
- (2) The Council meets the debt affordability benchmark if its planned borrowing is within each quantified limit on borrowing.

3 Balanced budget benchmark

- (1) For this benchmark, the Council's planned revenue (excluding development contributions, vested assets, financial contributions, gains on derivative financial instruments and revaluations of property, plant or equipment) is presented as a proportion of its planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant or equipment).
- (2) The Council meets the balanced budget benchmark if its revenue equals or is greater than its operating expenses.

4 Essential services benchmark

- (1) For this benchmark, the Council's planned capital expenditure on network services is presented as a proportion of expected depreciation on network services.
- (2) The council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services.

5 Debt servicing benchmark

- (1) For this benchmark, the Council's planned borrowing costs are presented as a proportion of planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments and revaluations of property, plant or equipment).
- (2) Because Statistics New Zealand projects that the Council's population will grow slower than the national population growth rate, it meets the debt servicing benchmark if it's planned borrowing costs equal or are less than 10% of its planned revenue.

The Council is required to include this statement in its annual plan in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014 (the regulations). Refer to the regulations for more information, including definitions of some of the terms used in this statement.

