

Financial Overview

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This section outlines key changes contained in the proposed Draft 2017/18 Annual Plan compared to what was proposed in the 2015-25 Amended Long Term Plan (LTP).

The capital release programme as set out in the LTP has been changed reflecting the Council decision not to sell City Care Limited or other Council Controlled Organisations. Of the remaining \$400 million of capital release planned, CCHL now plans to provide \$140 million p.a. over the next two years with the Council borrowing the remaining \$120 million. Higher CCHL dividends are supporting the Council's

funding of this extra debt. The borrowing mix between the parties ensures prudent borrowing levels for both the Council and CCHL.

The capital programme has been further smoothed over the next three to five years to ensure that the programme is both financially sustainable and aligned with Council's ability to deliver. This has substantially reduced Council's need to borrow in this Annual Plan year. As a result proposed new borrowing in 2017/18 is \$117 million lower than the LTP.

The proposed average rates increase to existing ratepayers of 5.5% is slightly higher than the 5.0% forecast in the LTP. 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.

The table below shows the total funding requirements for the Council for 2017/18 and the variance from that outlined in the LTP. Notes to the table are in section 2. Key changes to the financial statements are reflected and explained below.

Annual Plan 2016/17	Financial Overview	Note	Long Term Plan 2017/18	Annual Plan 2017/18	Variance to LTP
\$000					
Funding Summary					
447,097	Operating expenditure	1	406,576	448,473	41,897
535,530	Capital programme	2	640,034	487,892	(152,142)
5,679	Transfers to reserves	3	8,892	4,561	(4,331)
78,051	Interest expense	4	82,547	89,929	7,382
32,269	Debt repayment	5	59,794	47,747	(12,047)
1,098,626	Total expenditure		1,197,843	1,078,602	(119,241)
funded by :					
136,329	Fees, charges and operational subsidies	6	131,950	142,313	10,363
185,660	Dividends and interest received		281,415	236,667	(44,748)
173,032	Transfers from reserves	7	6,146	72,645	66,499
8,003	Asset sales	8	5,902	2,523	(3,379)
13,115	Development contributions		18,113	18,113	-
105,786	Earthquake rebuild recoveries		58,643	21,334	(37,309)
21,874	Capital grants and subsidies		42,809	46,089	3,280
643,799	Total funding available		544,978	539,684	(5,294)
454,827	Balance required		652,865	538,918	(113,947)
30,927	Borrowing	9	202,259	85,212	(117,047)
423,900	Rates	10	450,606	453,706	3,100
414,748	Rates to be levied on 1 July		444,041	446,160	2,119
7.91%	Nominal rates increase on 1 July		7.06%	7.57%	0.51%
4.90%	Percentage rate increase to existing ratepayers		5.00%	5.50%	0.50%

Operating expenditure

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

Significant changes from the LTP are:

- Earthquake repairs to Housing units (\$12 million) carried forward from 2015/16
- Additional fire service levy costs (\$0.7 million) reflecting the change to the legislation
- Additional costs for underground insurance (\$1 million)
- Wastewater road remediation and flow monitoring (\$1 million)
- Increased electricity costs for wastewater pumping due to additional stations / extra pumping as a result of changed land levels (\$0.8 million)

- Additional volume related consenting costs of \$2.2 million
- Funding for continuation of the smart cities programme which targets new "sensing" technologies offering real-time information about issues like traffic congestion, water quality and air pollution (\$0.6 million operational and \$0.9 million capital)
- Funding towards the running costs of the City Foundation (\$0.6 million), an independent foundation with a purpose to drive co-ordinated fundraising for the City
- Creation of an innovation and sustainability fund (\$0.5 million), a grant fund administered by the Innovation and Sustainability Committee
- An adjustment to account for the Council staff employed to service Vbase facilities and functions (\$7.7 million). This is offset by a recovery under Revenue
- Deferral of a \$6.4 million grant to the Canterbury Museum Trust redevelopment project
- Interest expense \$7.5 million higher. Most of this relates to higher on-lending to subsidiaries which is offset by higher interest revenue

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 2017/18 we will rate for \$116.6 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 rating policy section.

Significant changes from the LTP are:

- Additional Housing revenues of \$1 million due to additional units available and the Otautahi Community Trust's ability to access rental subsidies
- Additional volume related consenting revenues of \$1.9 million
- Reduced pools revenue of \$2.5 million, primarily due to the planned closure for maintenance of Pioneer and Jellie Park pools
- Recognition of recoveries from Vbase for Council staff employed (\$7.7 million)
- A \$60 million reduction in the CCHL capital release as mentioned above
- An increased normal dividend from CCHL of \$14.3 million partly due to lower capital release requirements for CCHL. This is funding the additional debt that Council is incurring under the amended capital release programme
- Additional interest revenue from CCHL onlending
- Changes to the timing of receipt of NZTA subsidies for Earthquake rebuild and other capital works due to changed project timing (\$24 million)
- Removal of philanthropic capital funding for the new Central library included in the LTP (\$10 million)

Surplus, operating deficits, and sustainability

The Annual Plan for 2017/18 shows an accounting surplus of \$174.7 million before revaluations of \$58.4 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 a balanced budget in the 2017/18 year.

Capital programme funding

The capital programme is funded by earthquake recoveries, subsidies and grants for capital expenditure, development and financial contributions, the proceeds of asset sales, capital release and debt. In 2017/18 the funding requirements are significantly lower than forecast in the LTP due to the deferral of capital expenditure.

Borrowing

The Annual Plan includes new borrowing in 2017/18 of \$85.2 million, a decrease of \$117 million on the LTP, primarily due to the revised capital programme.

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 expenditure

We plan to invest \$487.9 million in the capital programme in 2017/18, a reduction of \$152.1 million over the amount in the Long Term Plan. \$58.8 million of this relates to a net reduction in projects expected to be carried forward from 2016/17 due to higher expected delivery in that

year and more appropriate rephasing of uncompleted work at the end of 2015/16.

Significant decreased spend in 2017/18 compared to the LTP relates to:

- Sumner - Lyttelton Road Corridor rebuild programme (\$24.9 million) - 2017/18 budget deferred to reflect likely spend. This programme is underway and the budget change reflects deferral of programme contingency and future year works. No change to planned outcomes.
- Metro Sports Facility (\$18.5 million) - terms of the development agreement are not yet finalised so final cash flow requirements for Council's \$147 million contribution are not available. The LTP budget has been rephased to reflect the delayed start but within the original timed completion year.
- New Akaroa Wastewater Treatment Plant - required to meet future consent terms (\$14.6 million) - deferred due to the need to address land and consenting issues but still planned in later years to achieve outcomes. Akaroa has a functioning wastewater system that will continue until the new plant is in service.
- Christchurch Wastewater Treatment Plant earthquake repairs programme (\$14.1 million) - initially delayed pending insurance settlement, programme budget now rephased to reflect delivery schedule. These works do not impact the services delivered from the plant but relate to the on-site facility repairs.

- Roads and Footpath Renewals (\$11.6 million) - this is largely moved to 2018/19 but still maintains \$17.5 million for the Annual Plan year.
- Intersection improvement and master plan programmes (\$11 million) - phased over several years to support affordability of the overall programme while still progressing committed works.
- Performing Arts Precinct (\$10.3 million) - budget shift between 2017/18 and 2018/19. Next stage of this cost share project is still unclear. \$7.9 million remains in 2017/18 to commence work.
- Canterbury Provincial Chambers and Old Municipal Chambers (\$8.6 million) - deferred until greater certainty of restoration and funding. No impact on current levels of service.
- An Accessible City projects (\$8m) - minor deferral within the overall programme in the LTP.
- Cost Share Agreement balance of Parking replacement (\$6.3 million) - requirements are not yet defined so budget has been deferred until there is more certainty on what this will be allocated to. Does not impact current plans.
- Jellie Park/Pioneer Recreation and Sport Centres earthquake repairs (\$4.3 million) - budgets rephased between 2017/18 and 2018/19 to reflect delivery schedule but no change to final completion date.

Significant increased spend in 2017/18 compared to the LTP relates to:

- New Central Library /Knowledge Centre (\$18.9 million) - brought forward to reflect contracted completion date which was not finalised at the time of the LTP.
- Northern Arterial extension and Cranford Street upgrade (\$16.7 million) - brought forward to reflect Council works being delivered under the NZTA Christchurch Northern Corridor programme
- QEII (Eastern) Recreation and Sport Centre (\$11.7 million) - brought forward to reflect construction timeline which was not finalised at the time of the LTP.
- Dudley Creek (\$10 million) - 2015/16 budget carried forward to complete work.
- New Brighton Hot Water Pools (\$7.3 million) - new revitalisation project.

Financial risk management strategy

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

An important element in assessing the value of Council's risk management strategy is its five key financial ratios. These are included within the Financial Prudence Benchmarks section within this document. The Council anticipates staying well within its financial ratio limits for 2017/18.

Section 2 – Notes to Financial Overview

Annual Plan 2016/17	Note 1 Operating Expenditure	Long Term Plan 2017/18	Annual Plan 2017/18	Variance to LTP
\$000				
30,955	Community services	30,665	30,345	(320)
15,024	Economic development	14,924	14,396	(528)
5,157	Flood protection and control works	2,540	839	(1,701)
4,154	Heritage protection and policy	4,167	4,185	18
23,746	Housing	16,659	30,536	13,877
60,426	Libraries, arts and culture	63,161	60,616	(2,545)
525	Natural environment	538	517	(21)
37,751	Parks and open spaces	35,938	37,789	1,851
45,548	Refuse minimisation and disposal	46,780	46,318	(462)
66,531	Regulation and enforcement	57,311	58,048	737
106,745	Roads and footpaths	109,828	111,051	1,223
80,941	Sewerage collection, treatment and disposal	80,882	88,527	7,645
38,342	Sport and recreation	40,095	39,236	(859)
24,229	Stormwater drainage	28,887	33,630	4,743
24,944	Strategic governance	24,569	23,898	(671)
12,576	Strategic policy and planning	12,284	13,195	911
21,103	Transport	22,603	22,081	(522)
45,258	Water supply	45,613	49,021	3,408
70,677	Corporate	59,918	88,112	28,194
714,632	Total group of activity expenditure	697,362	752,340	54,978
189,484	Less depreciation (non cash)	208,239	213,938	5,699
78,051	Less interest expense shown separately	82,547	89,929	7,382
447,097	Operating expenditure	406,576	448,473	41,897

Note in the LTP **Community services** was called **Resilient communities**.

Increased **Housing** expenditure relates to earthquake repairs.

The increase in **Corporate** mainly relates to the removal or reallocation of \$15.3 million of unspecified savings included in the LTP, an \$8 million accounting recognition of staff costs for Vbase operations and \$7.4 million for increased interest expense. The Vbase costs are offset by additional **Corporate** revenue (Note 3)

Annual Plan 2016/17	Note 2 Capital Programme	Long Term Plan 2017/18	Annual Plan 2017/18	Variance to LTP	Expenditure Category		
					Renewals & Replacements	Improved LOS	Increase Demand
		\$000					
13,800	Community services	5,388	10,945	5,557	9,391	1,554	-
-	- Economic development	-	-	-	-	-	-
13,296	Flood protection	20,911	13,688	(7,223)	7,003	102	6,583
7,297	Heritage protection and policy	11,453	3,497	(7,956)	2,450	1,047	-
3,782	Housing	3,434	3,335	(99)	3,335	-	-
33,133	Libraries, arts and culture	42,268	59,042	16,774	58,723	35	284
-	- Natural environment	-	-	-	-	-	-
12,554	Parks and open spaces	24,553	27,085	2,532	14,974	6,834	5,277
977	Refuse minimisation and disposal	830	768	(62)	743	25	-
26	Regulation and enforcement	11	10	(1)	10	-	-
118,697	Roads and footpaths	123,297	73,737	(49,560)	48,725	6,093	18,919
113,945	Sewerage collection, treatment and disposal	75,511	40,461	(35,050)	20,935	8,323	11,203
69,912	Sport and recreation	75,775	67,654	(8,121)	46,253	10,550	10,851
62,349	Stormwater drainage	67,925	78,300	10,375	78,210	65	25
-	- Strategic governance	-	561	561	561	-	-
150	Strategic policy and planning	332	930	598	-	600	330
32,115	Transport	74,584	71,012	(3,572)	22,860	48,152	-
23,675	Water supply	27,370	21,067	(6,303)	10,370	2,151	8,546
29,822	Corporate	86,392	15,800	(70,592)	(14,967)	9,349	21,418
535,530	Total capital programme	640,034	487,892	(152,142)	309,576	94,880	83,436

Corporate Renewals and Replacements includes provision for \$46.4 million of unspecified net carry forwards.

Note 3

Transfers to Reserves

5,341	Interest credited to special funds and reserves	5,333	4,162	(1,171)
-	- Housing cash operating result	3,170	-	(3,170)
22	Dog control cash operating result	73	81	8
66	Burwood Landfill capping contribution	66	68	2
250	Flood defence fund	250	250	-
5,679		8,892	4,561	(4,331)

Annual Plan 2016/17	Note 4 Interest Expense	Long Term Plan 2017/18	Annual Plan 2017/18	Variance to LTP
		\$000		
51,640	General borrowing	57,012	59,949	2,937
8,458	Equity investments	8,299	8,210	(89)
17,953	Advances to Council organisations	17,236	21,770	4,534
78,051		82,547	89,929	7,382

*Note the LTP comparative interest split was incorrect in the Amended LTP and has been restated

**Note 5
Debt Repayment provided for**

32,269	Ratepayer funded loans	59,794	47,747	(12,047)
-	Housing	-	-	-
32,269		59,794	47,747	(12,047)

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

1,294	Community services	1,322	1,210	(112)
150	Economic development	153	138	(15)
-	Flood protection and control works	-	-	-
-	Heritage protection and policy	-	-	-
12,532	Housing	12,109	13,176	1,067
3,156	Libraries, arts and culture	3,371	2,600	(771)
86	Natural environment	88	88	-
2,330	Parks and open spaces	2,376	2,833	457
12,076	Refuse minimisation and disposal	11,919	11,695	(224)
49,549	Regulation and enforcement	46,897	48,826	1,929
13,581	Roads and footpaths	13,252	13,530	278
4,836	Sewerage collection, treatment and disposal	4,806	5,804	998
13,251	Sport and recreation	13,620	11,080	(2,540)
20	Stormwater drainage	21	21	-
911	Strategic governance	172	172	-
581	Strategic policy and planning	465	556	91
12,854	Transport	13,664	14,571	907
601	Water supply	613	613	-
9,989	Corporate	8,615	16,349	7,734
137,797	Total group of activity operating revenue	133,463	143,262	9,799
1,468	Less non cash revenue	1,513	949	(564)
136,329	Fees, charges and operational subsidies	131,950	142,313	10,363

Annual Plan 2016/17	Note 7 Transfers from Reserves	Long Term Plan 2017/18	Annual Plan 2017/18	Variance to LTP
		\$000		
50	Reserves a/c - reserve purchases	326	153	(173)
3,783	Housing - net capital programme	3,353	3,335	(18)
3,707	Housing cash operating result	-	10,126	10,126
	- Dog Account - capital programme	-	-	-
2,328	Capital endowment fund - grants	2,401	2,412	11
163,098	Debt repayment reserve	-	56,551	56,551
	- Housing debt repayment	-	-	-
66	Burwood Landfill remediation	66	68	2
173,032		6,146	72,645	66,499

Housing cash operating result was an expected surplus in the LTP as shown in Note 3. Earthquake repairs now mean a cash reduction is planned.
Debt repayment reserve transfer utilises remaining insurance proceeds to fund the rebuild programme.

**Note 8
Asset Sales**

27	Plant and vehicle disposals	58	58	-
7,522	Surplus property sales	5,379	2,000	(3,379)
454	Surplus roading land sales	465	465	-
	- Earthquake related property settlements	-	-	-
8,003		5,902	2,523	(3,379)

Annual Plan 2016/17	Note 9 Borrowing	Long Term Plan 2017/18	Annual Plan 2017/18	Variance to LTP
\$000				
535,530	Capital Programme	640,034	487,892	(152,142)
9,052	Capital grants	8,878	2,467	(6,411)
25,225	Earthquake response	-	-	-
-	Operational costs	-	-	-
569,807	Total funding requirement	648,912	490,359	(158,553)
Funding sources				
8,003	Sale of assets	5,902	2,523	(3,379)
112,756	Rates (for renewals)	117,082	116,624	(458)
350	Rates (for landfill aftercare)	359	357	(2)
105,786	Earthquake rebuild recoveries	58,643	21,334	(37,309)
166,996	Reserve drawdowns	3,745	60,107	56,362
110,000	CCHL special dividend	200,000	140,000	(60,000)
13,115	Development contributions	18,113	18,113	-
21,874	Capital grants and subsidies	42,809	46,089	3,280
538,880	Total funding available	446,653	405,147	(41,506)
30,927	Borrowing requirement	202,259	85,212	(117,047)
32,269	Less debt repayment	59,794	47,747	(12,047)
14,485	Less borrowing on behalf of subsidiaries repaid	-	-	-
(15,827)	Net change in borrowing	142,465	37,465	(105,000)
1,356,657	Opening gross debt	1,340,830	1,666,039	325,209
1,340,830	Closing gross debt	1,483,295	1,703,504	220,209

**Note 10
Rates**

414,748	Rates levied 1 July	444,041	446,160	2,119
4,072	Rates in year income per Order in Council	1,384	1,357	(27)
2,836	Excess water charges	2,892	3,189	297
2,244	Penalties	2,289	3,000	711
423,900		450,606	453,706	3,100