

Financial Overview

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

Operating expenditure

Operational expenditure is \$8.3 million above the level forecast in the LTP. While most costs have been held to the LTP level the significant changes are:

- EcoCentral Recycling Processing fee (\$3.2 million) has been added for a further year as we await a long term solution for dealing with those recyclable materials that can no longer be shipped to offshore markets.
- Additional Vbase operational grant of \$2.25 million, with \$2.5 million provided for in the following two years to cover the proposed 2019/20 restructuring costs and increase in contribution to fund social and cultural activities in the refurbished Town Hall.
- Interest expense \$1.26 million higher. This largely relates to higher opening debt than planned which is offset by higher interest revenue on the funds held.

- Inclusion of planning costs for the Otakaro Avon River Corridor (OARC) (\$1.06 million) and the Canterbury Multi Use Arena (\$0.85 million). The detail had not been resolved when the LTP was adopted but both are now expected to be funded from the Crown's Capital Acceleration Fund.
- Global Stormwater consent costs (\$0.45 million). This is to meet the added requirements resulting from the consent expected to be granted in 2019 and relates to additional environmental monitoring and stormwater drainage planning. This detail was not available at the time the LTP was adopted.
- Land Drainage retention basin maintenance costs (\$0.45 million). This is to meet the cost of more frequent mowing and maintenance on stormwater reserves in residential areas and was previously unbudgeted.
- Water Supply improvement programme costs (\$0.35 million). This is to meet the cost of increased pumping, maintenance, laboratory testing, expanded water safety plans and audits associated with the

programme. The impacts of the improvement programme were not fully identified at the time of the LTP as the programme was only in early investigation and design phase.

- Delay of incurring Port Hills residential red zone maintenance costs until 2020/21 (\$1.5 million reduction), due to the delayed handover of land from the Crown.
- Lower Housing maintenance (\$1.6m), adjusted to reflect the capacity to deliver maintenance such as exterior painting and interior redecorations.

Depreciation

Depreciation expense is charged on a straight line basis on both operational and infrastructure assets. However, we do not rate for depreciation, rather we rate for the renewal and replacement of existing assets. In 2019/20 we will rate for \$131.1 million of renewals which is consistent with our Financial Strategy.

Revenue

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

Significant changes from the LTP are:

- Crown funding for OARC planning and the Canterbury Multi Use Arena planning and construction costs (\$61.4 million)
- Retiming from 2018/19 of \$3.2 million CCHL normal dividend to help offset additional costs.
- Additional NZTA operational (\$1.9 million) and capital (\$18.7 million) revenues, largely due to capital programme timing changes to take advantage of higher subsidy rates.
- Higher interest revenues from funds held (\$1.8 million).
- Lower Housing revenues of \$0.9 million, reflecting current income received.
- Lower volumes of resource and building consents (\$2.5 million) reflecting the drop in demand. These are largely offset by cost reductions.
- Development Contribution revenue \$8 million lower due to a provision for Central City rebates carried forward from the 2017/18 year.

Surplus, operating deficits, and sustainability

The Annual Plan for 2019/20 shows an accounting surplus of \$80.9 million before revaluations of \$204.4 million. Under accounting standards Council is required to show all revenue, including earthquake-related recoveries, and contributions from central Government and NZ Transport Agency, as income for the year. However, some of these recoveries reimburse Council for capital programme expenditure.

After adjusting for these capital revenues we're budgeting for a balanced budget in the 2019/20 year.

Capital programme expenditure

We plan to invest \$538.1 million in the capital programme in 2019/20, an increase of \$82.9 million over the amount in the LTP.

Significant increased spend in the capital programme in 2019/20 compared to the LTP relates to:

- Canterbury Multi Use Arena (\$59.4 million) – due to inclusion of the Crown funded share of the arena over a three year period.
- Community Parks Development Programme (\$1.5 million) – due to increasing demand growth for new reserves and funded through development contributions.
- Transport Projects brought forward to take advantage of the NZTA Targeted Enhanced Funding Assistance Rates (TEFAR) (\$26.8 million). Specific projects can be seen in the Capital programme section.
- Performing Arts Precinct (\$7.9 million) – 2017/18 budget reprogrammed to 2019/20 to complete project.
- Strategic land purchases offset (\$5.9 million) – 2017/18 budget retimed to 2019/20.
- South West Leisure Centre (\$3.8 million) – 2017/18 budget retimed to 2019/20.
- Hot Salt Water Pools (\$3.4 million) – 2017/18 budget retimed to 2019/20 to complete project.

There has been no significant decreased spend in 2019/20 compared to the LTP other than \$2.8 million of Stormwater and Flood Protection works which were delivered early in 2017/18 and the Marshlands Road bridge renewal which has been retimed to 2021/22.

Capital programme funding

The capital programme is funded by earthquake recoveries, subsidies and grants for capital

expenditure, development contributions, the proceeds of asset sales and debt.

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

Borrowing

The annual plan includes new borrowing for the capital programme in 2019/20 of \$172.8 million. This is \$77.3 million lower than planned in the LTP due to funds on hand.

Gross debt in 2019/20 increases by \$141.6 million to \$2.06 billion. This is \$67.1 million higher than planned in the LTP, largely due to \$50 million of new onlending to CCHL.

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

Financial risk management strategy

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

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

Long Term Plan 2018/19	Financial Overview	Note	Long Term Plan 2019/20	Annual Plan 2019/20	Variance to LTP
\$000					
Funding Summary					
489,453	Operating expenditure	1	491,381	498,407	7,026
479,651	Capital programme	2	455,156	538,068	82,912
5,782	Transfers to reserves	3	5,213	5,975	762
94,929	Interest expense	4	99,267	100,524	1,257
39,275	Debt repayment	5	46,030	46,621	591
1,109,090	Total expenditure		1,097,047	1,189,595	92,548
<i>funded by :</i>					
160,364	Fees, charges and operational subsidies	6	157,708	158,509	801
230,155	Dividends and interest received		81,748	86,864	5,116
137,284	Transfers from reserves	7	7,454	97,645	90,191
465	Asset sales	8	4,986	4,986	-
21,215	Development contributions		20,952	12,952	(8,000)
-	Earthquake rebuild recoveries		4,600	64,021	59,421
63,634	Capital grants and subsidies		48,093	66,767	18,674
613,117	Total funding available		325,541	491,744	166,203
495,973	Balance required		771,506	697,851	(73,655)
5,916	Borrowing	9	250,019	172,757	(77,262)
490,057	Rates	10	521,487	525,094	3,607
483,605	Rates to be levied on 1 July		514,804	517,889	3,085
8.09%	Nominal rates increase on 1 July		6.45%	7.09%	0.64%
5.72%	Percentage rate increase to existing ratepayers		5.50%	4.96%	-0.54%

Notes to Financial Overview

Long Term Plan 2018/19	Note 1 Operating Expenditure	Long Term Plan 2019/20 \$000	Annual Plan 2019/20	Variance to LTP
134,094	Communities & Citizens	146,879	149,897	3,018
9,200	Flood Protection	4,242	4,537	295
15,731	Governance	17,721	18,056	335
27,252	Housing	23,922	21,284	(2,638)
54,915	Parks, Heritage & Coastal Environment	57,178	68,472	11,294
49,484	Refuse Disposal	47,420	51,109	3,689
53,493	Regulatory & Compliance	55,510	52,663	(2,847)
108,902	Roads & Footpaths	114,941	117,078	2,137
30,575	Stormwater Drainage	31,889	33,031	1,142
42,276	Strategic Planning & Policy	43,017	42,524	(493)
20,422	Transportation	24,055	25,765	1,710
94,781	Wastewater	99,047	97,942	(1,105)
62,722	Water Supply	64,426	64,359	(67)
105,535	Corporate Revenues & Expenses	97,264	100,330	3,066
809,382	Total group of activity expenditure	827,511	847,047	19,536
225,000	Less depreciation (non cash)	236,863	248,116	11,253
94,929	Less interest expense shown separately	99,267	100,524	1,257
489,453	Operating expenditure	491,381	498,407	7,026

Long Term Plan 2018/19	Note 2 Capital Programme	Long Term Plan 2019/20	Annual Plan 2019/20	Variance to LTP	Expenditure Category		
					Renewals & Replacement	Improved LOS	Increase Demand
\$000							
85,932	Communities & Citizens	72,652	80,807	8,155	60,933	431	19,443
16,325	Flood Protection	28,070	25,981	(2,089)	2,880	259	22,842
-	Governance	-	-	-	-	-	-
2,804	Housing	3,661	3,661	-	3,661	-	-
26,217	Parks, Heritage & Coastal Environment	28,833	29,291	458	23,908	678	4,705
2,532	Refuse Disposal	2,571	2,570	(1)	880	1,690	-
-	Regulatory & Compliance	2	2	-	2	-	-
94,023	Roads & Footpaths	96,015	98,701	2,686	35,164	48,305	15,232
18,834	Stormwater Drainage	19,756	19,091	(665)	18,540	192	359
896	Strategic Planning & Policy	922	922	-	-	-	922
59,036	Transportation	21,711	45,215	23,504	3,635	41,158	422
63,683	Wastewater	65,947	66,259	312	50,118	15,506	635
35,812	Water Supply	36,433	36,466	33	30,465	3,074	2,927
73,557	Corporate	78,583	129,102	50,519	73,185	38,627	17,290
479,651	Total capital programme	455,156	538,068	82,912	303,371	149,920	84,777

Corporate includes provision for \$59.4 million for the new Canterbury Multi Use Arena.

Long Term Plan 2018/19	Note 3 Transfers to Reserves	Long Term Plan 2019/20	Annual Plan 2019/20	Variance to LTP
4,069	Interest credited to special funds and reserves	3,997	3,966	(31)
-	Housing cash operating result	-	768	768
186	Dog control cash operating result	147	119	(28)
69	Burwood Landfill capping contribution	69	70	1
1,000	Cathedral fund	1,000	1,020	20
-	Camping ground reserves	-	32	32
458	Recovery of 2016/17 opex deficit	-	-	-
5,782		5,213	5,975	762

Long Term Plan 2018/19	Note 4 Interest Expense	Long Term Plan 2019/20	Annual Plan 2019/20	Variance to LTP
		\$000		
63,274	General borrowing	66,204	66,032	(172)
8,545	Equity investments	8,573	10,196	1,623
22,902	Advances to Council organisations	23,648	23,454	(194)
208	Advances to housing trust	842	842	-
94,929		99,267	100,524	1,257

**Note 5
Debt Repayment provided for**

39,275	Ratepayer funded loans	46,030	46,621	591
39,275		46,030	46,621	591

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

17,440	Communities & Citizens	18,384	18,268	(116)
-	- Flood Protection	-	-	-
-	- Governance	703	703	-
14,371	Housing	15,949	15,057	(892)
4,302	Parks, Heritage & Coastal Environment	4,053	4,542	489
11,425	Refuse Disposal	11,097	11,096	(1)
44,658	Regulatory & Compliance	45,560	43,185	(2,375)
14,574	Roads & Footpaths	14,939	16,700	1,761
21	Stormwater Drainage	16	16	-
700	Strategic Planning & Policy	797	792	(5)
16,517	Transportation	18,314	18,914	600
6,774	Wastewater	6,994	7,233	239
625	Water Supply	637	651	14
29,693	Corporate Revenues & Expenses	20,999	22,086	1,087
161,100	Total group of activity operating revenue	158,442	159,243	801
736	Less non cash revenue	734	734	-
160,364	Fees, charges and operational subsidies	157,708	158,509	801

Long Term Plan 2018/19	Note 7 Transfers from Reserves	Long Term Plan 2019/20	Annual Plan 2019/20	Variance to LTP
		\$000		
202	Reserves a/c - reserve purchases	153	156	3
2,804	Housing - net capital programme	3,586	3,661	75
5,179	Housing cash operating result	-	-	-
3,640	Capital endowment fund - grants	3,646	3,758	112
125,270	Debt repayment reserve	-	90,000	90,000
69	Burwood Landfill remediation	69	70	1
120	QEII Redevelopment Plan	-	-	-
137,284		7,454	97,645	90,191

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

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

Long Term Plan 2018/19	Note 9 Borrowing	Long Term Plan 2019/20	Annual Plan 2019/20	Variance to LTP
\$000				
479,651	Capital Programme	455,156	538,068	82,912
2,095	Capital grants	9,005	9,005	-
2,170	Operational costs	-	-	-
483,916	Total funding requirement	464,161	547,073	82,912
Funding sources				
465	Sale of assets	4,986	4,986	-
123,990	Rates (for renewals)	131,093	131,093	-
352	Rates (for landfill aftercare)	610	610	-
-	Earthquake rebuild recoveries	4,600	64,021	59,421
128,344	Reserve drawdowns	3,808	93,887	90,079
140,000	CCHL special dividend	-	-	-
21,215	Development contributions	20,952	12,952	(8,000)
63,634	Capital grants and subsidies	48,093	66,767	18,674
478,000	Total funding available	214,142	374,316	160,174
5,916	Borrowing requirement	250,019	172,757	(77,262)
39,275	Less debt repayment	46,030	46,621	591
13,000	Plus new borrowing for housing trust	17,000	17,000	-
5,000	Less borrowing on behalf of subsidiaries repaid	1,500	1,500	-
(25,359)	Net change in borrowing	219,489	141,636	(77,853)
1,800,634	Opening gross debt	1,775,275	1,920,215	144,940
1,775,275	Closing gross debt	1,994,764	2,061,851	67,087

Note 10

Rates

483,605	Rates levied 1 July	514,804	517,889	3,085
3,395	Excess water charges	3,565	3,705	140
3,057	Penalties	3,118	3,500	382
490,057		521,487	525,094	3,607