

Financial Overview

Financial Overview

The sections below outline significant changes contained in the Draft 2020/21 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 2020/21 and the variance from that detailed in the LTP. Overall, operating expenditure and interest costs are \$601.7 million; \$5.2 million lower than the LTP. Key changes to the financial statements are reflected and explained below.

Operating expenditure

Operational expenditure is \$15.9 million above the level forecast in the LTP, of which \$15.6 million relates to the Council's response to the following external influences:

- Revaluation of the Council's Infrastructure networks has led to a \$5 million increase in rates.
- EcoCentral Recycling Processing fee of \$5 million has been added through until the financial year ending 2024 to allow time to develop a long term solution for dealing with those recyclable materials that can no longer be shipped to offshore markets.
- As a result of the way in which MBIE have interpreted the Holiday Pay Act, Council, along with other major employers, are reviewing their treatment of holiday pay and allowances. The project is under way and provision has been made for estimated cost of \$5.6 million.

Other cost changes include:

- Additional legal costs of \$2.9 million relating to several matters currently in dispute.
- Heathcote River dredging costs of \$1.6 million due to a carry forward of unspent funds from the 2018/19 financial year.
- Electricity price increase (\$1.5 million).
- Additional temporary water supply treatment costs (\$0.8 million).

These increases are partially offset by the following:

- Vbase personnel costs (\$8.3 million), offset by cost recoveries. Council no longer provides a payroll service.
- Museum Redevelopment grant (\$7.4 million) deferred one year on Museum Trust's advice.
- IT savings (\$0.9 million), reflecting savings identified.

Interest Expense

Interest expense is \$21.1 million lower, \$3.3 million of which relates to the correction of an error made in the treatment of interest within the LTP. Interest expense was overstated with an offset in interest revenue relating to internal borrowing of the Capital Endowment Funds. The balance of the decrease reflects \$53.6 million of less borrowing by June 2021 compared to the LTP, along with falling interest rates. Borrowing has been reduced because of slower capital delivery.

Depreciation

Depreciation expense is charged on a straight line basis on both operational and infrastructure assets but not directly rated for. Instead the Draft Annual Plan includes rating of \$138.7 million for the renewal and replacement of existing assets. This is consistent with the Financial Strategy.

Revenue

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

Major changes from the LTP are:

- Lower interest revenues from funds held (\$10.2 million). Refer to interest expense comment on the Capital Endowment Fund, and impact of falling interest rates.
- Lower Vbase recoveries (\$8.3 million) – offset by lower costs.
- Lower volumes of building consents (\$5.6 million) reflecting the drop in demand. These are largely offset by cost reductions.
- Reduction in Trade Waste revenues (\$2 million), due to several large clients who have downsized their business.
- Lower Housing revenues of \$2 million, reflecting current income received due to the transfer of housing stock to the Ōtautahi Community Housing Trust.
- Crown funding for the Canterbury Multi Use construction costs (\$5.4 million). The Crown's contribution had not been confirmed when the LTP was adopted
- Additional NZTA operational (\$1.7 million) revenues as a result of Council revising its work programme to take advantage of enhanced subsidies.

Surplus, operating deficits, and sustainability

The Draft Annual Plan for 2020/21 shows an accounting surplus of \$49.3 million before revaluations of \$233.6 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.

Capital programme expenditure

\$512 million will be invested in the capital programme in 2020/21, an increase of \$2 million over the LTP. Excluding any carry forward / bring back of budgets from prior financial years, the increased budget which relates to:

- Christchurch Northern Corridor Downstream Delivery Package 1 & 2 (\$16 million) – bringing forward budgets to address designation conditions regarding the Northern Arterial and Cranford Street Upgrade ahead of the opening of the Christchurch Northern Corridor due mid 2020.
- Cycleway Projects (\$12.5 million) originally brought forward to take advantage of the NZTA Targeted Enhanced Funding Assistance Rates (TEFAR). Specific projects can be seen in the Capital programme section.
- Strategic Land Offset Programme (\$9.4 million) – reprogrammed to reflect changes in timing of related projects.
- Performing Arts Precinct (\$8 million) – funding was planned 2018/19 – 2019/20 in the LTP. Project was retimed due to a delay in the land transfer from the Crown and development agreement approval.
- Linwood Pool (\$6.9 million) – updated to reflect the current work programme with funding through to 2021/2022.
- Well Heads Improvement Programme and Water Safety Plan requirements (\$5.6 million) – bringing forward budgets for further well and well head replacements plus funding added for backflow prevention, rezoning and smart meters to meet the changing safety standards.
- Robert McDougall Gallery Strengthening (\$5.5 million) – project has been rephased to be delivered earlier.
- Wastewater Reticulation Renewals (\$5.3 million) – the budget was pushed out during the 2020 Annual Plan, due to incomplete work in 2018/19 which was carried forward to 2019/20. This resulted in an additional spend planned for 2020/21.
- Old Municipal Chambers (\$4.9 million) – project has been rephased to be delivered earlier.
- Neighbourhood Reserve purchases (\$2.6 million) – due to increasing demand growth for new reserves and funded through development contributions.

- Local Cycleway: Northern Arterial Link Cranford to Rutland Reserve (\$2.6 million) – project was rephased to be delivered earlier.
- Accessible City Projects (\$2.5 million) - reprogrammed within existing budgets.
- QEII Park Master Plan (\$2.4 million) – proceeds from the sale of land allocated to development and implementation of the Master Plan.
- Birmingham to Wrights Route Upgrade (\$2.2 million) – project being delivered earlier than LTP to qualify for NZTA Enhanced Targeted Assistance Rates.
- Land Drainage Recovery Programme - Pump Station 205 upgrade (\$2 million) – to fund additional scope approved by Council from within existing budgets within Stormwater renewals and the LDRP.
- Multicultural Recreation and Community Centre - \$1.5 million budgeted for 2020/21 to support the development of a multicultural centre in Christchurch.
- Thomas Edmond Band Rotunda (\$1.3 million) – project has been rephased to be delivered in the 2021 financial year.
- Okains Bay New Water Supply (\$1.3 million) – project added in the 2019/20 Annual Plan to design and construct a new Council owned water supply scheme to serve the Okains Bay community.

Spending on the following projects has been reduced for the Draft 2020/21 Annual Plan:

- Canterbury Multi Use Arena (\$31.8 million) –the project funding has been re-timed.
- WS Lyttelton R&R Rail Tunnel Pipeline (\$10 million) - timing of the project is driven by an external party.
- Parking Replacement (\$5 million) – budget rephased; further discussions and decisions regarding off-street parking facilities to the north of Cathedral Square is required.
- Strategic Land Acquisitions (\$4.3 million) - reprogrammed to reflect changes in timing of related projects.
- Akaroa Wastewater Scheme (\$3 million) –reprogrammed to the following year to allow for further consultation and consenting activity.

- Metro Sports Facility Equipment (\$3.2 million) – budget rephased to align with opening of facility.
- Route Improvement: Barbadoes St & Madras St (Bealey to Warrington) (\$3.1 million) – now combined into Christchurch Northern Corridor Downstream Delivery Package 1 & 2 noted above.
- Somerfield Wastewater Pump Station and Pressure Main (\$3 million) – deferred to allow further investigation.
- Cranford Street Downstream Intersection Improvements (\$2.5 million) - now combined into Christchurch Northern Corridor Downstream Delivery Package 1 & 2 noted above.
- Road Lighting Renewals (\$2 million) – reprogrammed to reflect expected delivery programme.
- Pages Road Bridge (\$1.8 million) – project rephased due to NZTA funding changes.
- Library Rolling Package Resources (\$1.5 million) – removal of budget provided to stock a new library at Belfast which is no longer included in the plan.

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 Draft Annual Plan provides for \$247.5 million of additional borrowing in 2020/21. This is \$68.8 million lower than planned in the LTP, reflecting funds on hand due to lower capital delivery in 2018/19.

Gross debt in 2020/21 increases to \$2.2 billion; \$53.6 million lower than planned in the LTP as a result of lower capital delivery in 2018/19. Detail is set out in Note 9 below.

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 five financial ratio limits for 2020/21.

Annual Plan 2019/20	Financial Overview	Note	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
			\$000		
	Funding Summary				
500,063	Operating expenditure	1	496,473	512,372	15,899
419,758	Capital programme	2	509,985	511,962	1,977
6,200	Transfers to reserves	3	6,873	6,046	(827)
92,308	Interest expense	4	110,382	89,312	(21,070)
47,308	Debt repayment	5	61,125	45,039	(16,086)
1,065,637	Total expenditure		1,184,838	1,164,731	(20,107)
	<i>funded by :</i>				
159,493	Fees, charges and operational subsidies	6	161,003	145,349	(15,654)
81,490	Dividends and interest received		88,654	79,092	(9,562)
178,573	Transfers from reserves	7	7,901	50,329	42,428
4,986	Asset sales	8	485	4,994	4,509
12,952	Development contributions		21,873	21,874	1
21,453	Earthquake rebuild recoveries		-	5,447	5,447
48,361	Capital grants and subsidies		36,539	49,990	13,451
507,308	Total funding available		316,455	357,075	40,620
558,329	Balance required		868,383	807,656	(60,727)
30,263	Borrowing	9	316,312	247,471	(68,841)
-	Working Capital reduction		-	1,569	1,569
528,066	Rates	10	552,071	558,616	6,545
520,861	Rates to be levied on 1 July		545,143	551,022	5,879
7.70%	Nominal rates increase on 1 July		5.89%	5.79%	-0.10%
4.85%	Percentage rate increase to existing ratepayers		5.00%	4.65%	-0.35%

Notes to Financial Overview

Annual Plan 2019/20	Note 1 Operating Expenditure	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
		\$000		
141,815	Communities & Citizens	152,890	146,268	(6,622)
4,561	Flood Protection	1,459	3,764	2,305
18,103	Governance	16,995	18,274	1,279
21,273	Housing	22,708	21,388	(1,320)
68,508	Parks, Heritage & Coastal Environment	57,272	73,436	16,164
51,132	Refuse Disposal	48,259	53,068	4,809
52,276	Regulatory & Compliance	56,142	49,414	(6,728)
118,658	Roads & Footpaths	121,963	120,318	(1,645)
33,728	Stormwater Drainage	33,479	38,329	4,850
41,634	Strategic Planning & Policy	43,494	42,023	(1,471)
25,805	Transportation	25,644	25,813	169
97,329	Wastewater	104,035	106,958	2,923
66,134	Water Supply	67,999	73,537	5,538
96,352	Corporate	99,337	85,384	(13,953)
837,308	Total group of activity expenditure	851,676	857,974	6,298
244,937	Less depreciation (non cash)	244,821	256,290	11,469
92,308	Less interest expense shown separately	110,382	89,312	(21,070)
500,063	Operating expenditure	496,473	512,372	15,899

Annual Plan 2019/20	Note 2 Capital Programme	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP	Expenditure Category		
					Renewals & Replacements	Improved LOS	Increase Demand
69,614	Communities & Citizens	103,016	118,040	15,024	94,473	1,500	22,067
24,522	Flood Protection	48,346	39,008	(9,338)	7,218	131	31,659
-	Governance	-	-	-	-	-	-
3,661	Housing	4,117	4,117	-	4,117	-	-
20,143	Parks, Heritage & Coastal Environment	28,350	54,246	25,896	47,731	963	5,552
2,570	Refuse Disposal	2,966	2,966	-	1,234	1,732	-
2	Regulatory & Compliance	-	3	3	3	-	-
78,373	Roads & Footpaths	75,826	95,200	19,374	23,824	64,578	6,798
19,987	Stormwater Drainage	22,439	28,087	5,648	28,027	-	60
872	Strategic Planning & Policy	1,020	1,020	-	-	-	1,020
30,483	Transportation	34,405	43,718	9,313	3,845	39,075	798
58,782	Wastewater	85,817	81,883	(3,934)	69,346	11,208	1,329
33,154	Water Supply	53,281	48,476	(4,805)	44,695	2,047	1,734
77,595	Corporate	50,402	(4,802)	(55,204)	15,448	(10,173)	(10,077)
419,758	Total capital programme	509,985	511,962	1,977	339,961	111,061	60,940

The Corporate capital programme includes unspecified carry forwards and Strategic Land offsets.

Note 3

Transfers to Reserves

3,980	Interest credited to special funds and reserves	3,985	3,506	(479)
789	Housing cash operating result	1,652	1,155	(497)
-	- Dog control cash operating result	167	-	(167)
70	Burwood Landfill capping contribution	69	72	3
1,013	Cathedral fund	1,000	1,023	23
32	Camping ground reserves	-	3	3
316	Akaroa Community Health Trust	-	287	287
6,200		6,873	6,046	(827)

Annual Plan 2019/20	Note 4 Interest Expense	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
		\$000		
59,741	General borrowing	76,025	59,580	(16,445)
10,321	Equity investments	8,504	9,290	786
21,404	Advances to Council organisations	24,550	19,600	(4,950)
842	Advances to housing trust	1,303	842	(461)
92,308		110,382	89,312	(21,070)

**Note 5
Debt Repayment provided for**

47,308	Ratepayer funded loans	61,125	45,039	(16,086)
47,308		61,125	45,039	(16,086)

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

18,707	Communities & Citizens	18,913	20,499	1,586
-	Flood Protection	-	34	34
703	Governance	-	44	44
15,057	Housing	18,039	16,001	(2,038)
4,842	Parks, Heritage & Coastal Environment	4,138	4,133	(5)
11,096	Refuse Disposal	10,401	9,648	(753)
43,012	Regulatory & Compliance	46,649	40,555	(6,094)
16,450	Roads & Footpaths	15,034	16,144	1,110
16	Stormwater Drainage	17	17	-
1,242	Strategic Planning & Policy	1,151	1,024	(127)
19,446	Transportation	18,887	20,885	1,998
7,232	Wastewater	7,245	5,504	(1,741)
651	Water Supply	650	656	6
21,772	Corporate Revenues & Expenses	20,611	10,938	(9,673)
160,226	Total group of activity operating revenue	161,735	146,082	(15,653)
733	Less non cash revenue	732	733	1
159,493	Fees, charges and operational subsidies	161,003	145,349	(15,654)

Annual Plan 2019/20	Note 7 Transfers from Reserves	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
		\$000		
	- Reserves a/c - reserve purchases	224	156	(68)
3,661	Housing - net capital programme	3,941	4,117	176
3,757	Capital endowment fund - grants	3,667	3,426	(241)
170,000	Debt repayment reserve	-	40,000	40,000
107	Dog control cash operating result	-	139	139
70	Burwood Landfill remediation	69	72	3
978	QEII Redevelopment Plan	-	2,419	2,419
178,573		7,901	50,329	42,428

Debt repayment reserve transfer utilises 2019/20 funds borrowed or loan repayments not made for hedging reasons.

Annual Plan 2019/20	Note 8 Asset Sales	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
		\$000		
19	Plant and vehicle disposals	-	-	-
4,492	Surplus property sales	-	4,509	4,509
475	Surplus roading land sales	485	485	-
4,986		485	4,994	4,509

Annual Plan 2019/20	Note 9 Borrowing	Long Term Plan 2020/21	Annual Plan 2020/21	Variance to LTP
\$000				
419,758	Capital Programme	509,985	511,962	1,977
1,593	Capital grants	8,983	1,564	(7,419)
3,423	Operational costs	-	2,881	2,881
424,774	Total funding requirement	518,968	516,407	(2,561)
Funding sources				
4,986	Sale of assets	485	4,994	4,509
130,940	Rates (for renewals)	138,835	138,678	(157)
610	Rates (for landfill aftercare)	689	689	-
21,453	Earthquake rebuild recoveries	-	5,447	5,447
175,209	Reserve drawdowns	4,235	47,264	43,029
12,952	Development contributions	21,873	21,874	1
48,361	Capital grants and subsidies	36,539	49,990	13,451
394,511	Total funding available	202,656	268,936	66,280
30,263	Borrowing requirement	316,312	247,471	(68,841)
47,308	Less debt repayment	61,125	45,039	(16,086)
3,000	Plus new borrowing for housing trust	-	14,000	14,000
1,500	Less borrowing on behalf of subsidiaries repaid	1,965	1,300	(665)
(15,545)	Net change in borrowing	253,222	215,132	(38,090)
1,900,210	Opening gross debt	1,994,764	1,979,256	(15,508)
1,884,665	Closing gross debt	2,247,986	2,194,388	(53,598)
Note 10				
Rates				
520,861	Rates levied 1 July	545,143	551,022	5,879
3,705	Excess water charges	3,744	3,894	150
3,500	Penalties	3,184	3,700	516
528,066		552,071	558,616	6,545