

# Financial Strategy

# Financial Strategy 2024-34

The Financial Strategy details how the Council plans to provide a prudent and cost-effective approach to funding the range of assets, facilities and services we need to ensure Christchurch can continue to be an inclusive, equitable and well-functioning city. Our intention is to put people at the centre of developing our city and district, prioritising wellbeing, accessibility, connection and collaborating to build our role as a leading New Zealand city.

The Strategy explains how we will use the funding tools available - a mix of rates, fees and charges, government subsidies and debt to fund the services our community wants and needs in the most affordable way possible.

## 1. Executive summary

This has been among the most challenging financial strategies this Council has yet prepared. Like all other local authorities in New Zealand, we face multiple financial challenges including significantly increased debt servicing costs, significantly increased insurance costs, challenging asset renewal requirements, the costs of climate change adaptation and mitigation, and the general increase in costs that a high rate of inflation has brought.

In addition, we face the final phase of our rebuild following the earthquakes of 2010/11 with additional costs associated with the construction and then operation of key facilities such as Te Kaha (the multi-use indoor arena), Parakiore (our flagship sports and aquatic centre) and Te Whare Tapere (the performing arts precinct).

Our financial direction over the next 10 years strikes a balance between providing reliable infrastructure, facilities and services, building long-term financial resilience, and keeping rates and other council charges as affordable as possible.

Getting this balance right promotes a sound and sustainable financial position where our citizens can look forward to enjoying living in a world-class sustainable city with confidence, pride and optimism.

This Strategy describes how we will sustainably and responsibly fund the services and activities, and projects and programmes of work we will deliver through our Long Term Plan 2024-34 (LTP).

This Strategy closely aligns with our 30-year Infrastructure Strategy. The work programmes identified in the Infrastructure Strategy enable the Council to achieve levels of service agreed with our community and meet required technical standards within a prudent financial framework.

The Infrastructure Strategy takes a long look ahead, planning for our city's infrastructure needs over the next 30 years. This is a bigger picture compared to the LTP and Financial Strategy, which focus on the next 10 years. This difference in how far each plan looks into the future brings some challenges, especially when we think about how much we need to invest in infrastructure and how we're going to pay for it, including the level of rates required after the current LTP period.

For the coming decade, our Financial Strategy provides for rates to rise materially initially. This is to pay for important committed projects, such as Te Kaha. However the plan is to reduce these rate increases and keep them steady in the latter years of the LTP period. On the other hand, our Infrastructure Strategy looks further ahead and indicates we'll need to spend more on infrastructure after the next 10 years. This difference means that when we start working on the next set of plans in 2027 – the next Infrastructure Strategy, Financial Strategy, and LTP – we'll have some further big decisions to make. We'll need to figure out how to keep rates affordable while making sure we meet the need for reliable and sustainable infrastructure that meets both our climate change obligations and our need to accommodate a growing city.

## 2. Key challenges and opportunities

The Financial Strategy needs to consider and respond to the key challenges the Council expects to face over the 10 years covered by this Long Term Plan 2024-34.

### **A. High inflation and interest rates**

This Draft Long Term Plan has been prepared in what appears to be the tail-end of a period of economic volatility and uncertainty caused in a large part by the impacts of the COVID-19 global pandemic.

Inflation increased significantly around the globe following expansionary intervention by governments and central banks (higher spending and lower interest rates) to avoid recession following interruptions to global production and consumption caused by COVID-19, international conflicts and increasing oil prices.

Domestic influences have impacted on local government costs through increased

government and council spending to repair extensive damage from cyclones in the top half of the North Island, high inflation and interest rates and a severe skills shortage in areas critical to local government operations. The Consumer Price Index (CPI) inflation measure peaked at a 30 year high of 7.2 per cent in 2022.

The Reserve Bank of New Zealand (along with other central banks around the world) has responded by increasing interest rates to reduce inflation through reducing spending and demand for goods and services.

From an inflation-reducing perspective this appears to be having the desired effect with inflation expected to track down to a new medium-term average of 3 per cent in 2026/27. However, it is coming at a cost to households and businesses and interest hikes increase costs and lower demand creates uncertainty in the economy.

The environment of increasing costs and higher interest rates continues to challenge the Council as we look to deliver services at acceptable cost for residents. Our borrowing peaks at a lower level compared with our previous Long Term Plan (figure 4 below), but the interest rate we pay on that debt will be significantly more than previously forecast.

## ***B. Providing reliable and resilient infrastructure***

There are a number of key issues influencing our capital investment and funding decisions with respect to infrastructure. In coming to a decision, we have looked to maximise the impact of our capital programme in terms of delivering reliable, cost-effective infrastructure within a realistic funding level and also to keep debt at prudent levels, particularly in the first three years of the Strategy.

### ***i. Renewing ageing infrastructure***

Assets have a finite life after which they need to be replaced to avoid breakdowns and costly repair and maintenance. Significant proportions of our infrastructure networks are either at or coming towards the end of their economic life and need replacing.

We are conscious of the desire to minimise rate increases; however, our asset condition data tells us that increased investment in asset renewals is required to have our infrastructure networks operate reliably and cost-effectively.

Our residents have made it very clear how important it is to maintain or

improve levels of service for roads and footpaths, flood protection, flood control works and water services and in preparing the capital programme we have assessed these assets specifically to ensure that they remain fit for purpose.

### ***ii. Supporting growth***

Christchurch's population is forecast to continue to grow, creating demand for new housing, business premises and community facilities and the infrastructure needed to support these.

In addition, household relocations in response to the impacts of climate change may manifest as growth development. Changes to land use as the city adapts and people move away from hazards including sea level rise and in response to severe weather events will see residents move to safer parts of the district.

The Council needs to provide the right infrastructure at the right time to support sustainable growth and ensure ongoing resilience to the impacts of climate change and natural hazards. We look to fund infrastructure to service growth as much as possible from development contributions and assets provided by developers when undertaking new developments. This means we keep the rates contribution to fund growth infrastructure to a minimum. This is covered in more detail in the Infrastructure Strategy.

## ***C. Delivery and operation of significant new community facilities***

During the next three years we will largely complete an ambitious community facility investment programme to provide facilities that appropriately cater for citizens living in a significant and growing city now and in the future.

Significant community facilities to be completed by 2025/26:

- Matatiki: Hornby Centre - opening in 2024
- Te Whare Tapere - Performing Arts Precinct - opening in 2025
- Parakiore – multi sports and aquatic centre (mostly funded by Government) – scheduled to open in 2025
- Te Kaha - multi-use arena - (co-funded by Government) opening in 2026

Over the life of these projects, investment will contribute new debt of \$1.3 billion.

Once the facilities open, operating costs will increase by around \$141 million over the life of the Long Term Plan. This cost is funded from rates. In addition, the Council needs to rate to provide funding for future asset renewals when required.

### **iii. Development of the Ōtākaro Avon River Corridor**

The Council has worked with Mana Whenua and communities to put in place a co-governance committee to oversee implementation of the [Ōtākaro Avon River Corridor Regeneration Plan](#).

The Plan calls for investment of around \$1.5 billion over 30 years. Over the next 10 years Council has allocated \$490 million of capital development funding across Parks, Transport and Three Waters.

The programmes focus is on the restoration of a river delta environment supporting healthy waterways. This includes significant investment in storm water management and flood protection for surrounding properties and infrastructure within the surrounding areas. Ecological restoration will result in improved natural waterways. The programme embraces the concept of a “Sponge City”, which creates an environment that can provide for increased levels of rainfall and a rise in groundwater levels as a consequence of climate change.

## **D. Responding to climate change**

In 2019 the Council declared a climate and ecological emergency, acknowledging the urgent need for the Council and community to address climate change issues.

The Council’s [Ōtautahi Christchurch Climate Resilience Strategy](#) prioritises actions and sets targets to reduce Council and community emissions and adapt to the impacts of climate change. These are then given effect to through the work programmes and budgets of the various activities in the Long Term Plan.

Climate change will increasingly impact on the Council’s finances in a variety of ways, including:

- Increased maintenance and operating costs as infrastructure is compromised by the effects of climate change such as through sea level rise, water table rise and the impact of extreme weather events.
- Costs associated with retreat or relocation of Council assets to respond to

the effects of sea level rise in particular. This may include the costs to relocate residents from at-risk locations, including coastal areas, to less vulnerable locations. The development of Council policy will be subject to central government policy and there may be scenarios where Council is required to contribute to this relocation.

- The cost to offset Council’s residual emissions from 2030 when our net zero carbon target comes into effect.
- Increased insurance costs and/or insurance retreat.
- Emissions reduction and adaptation may affect Council’s cost of borrowing. The Local Government Funding Agency offers a 0.02% interest rate reduction if loans are linked to meaningful and measurable sustainability outcomes. Inaction could make it more difficult /expensive to borrow money as lenders become increasingly sensitive to climate risks.
- Central government funding is likely to be increasingly linked to climate action. Budget 2023 included funding for local government resilience initiatives and renewable community energy.

Our strategy is to increasingly shift our focus towards more proactive responses and interventions to climate change risks and impacts. Proactive investment in climate change mitigation and adaptation by Council can help lower costs and risks faced over the longer term.

The LTP 2024-34 includes a more comprehensive suite of initiatives to address climate change mitigation and adaptation than previous LTPs have.

## **E. Responding to local government reform**

The local government sector is potentially going through once-in-a-generation change. If implemented, these reforms could mean local government looks quite different in terms of what it provides to communities and how it functions with consequential impacts on council funding.

The changes include:

- Three waters reform – the National-led Government is to repeal the current Water Services legislation, returning asset ownership and infrastructure investment to local government.
- Resource management change – the National-led government has repealed

legislation which significantly changed how councils undertake resource management functions. Future for Local Government review – an independent review panel looked at what councils do and how they do it with a view to seeing more services delivered via local government, central government and community partnership, changes to how councils are funded, how Councils partner with mana whenua/ Māori and how local government is structured.

### 3. Overview of our current financial position

Despite the financial pressures that we have had to address in preparing the LTP our current financial position remains solid. We remain well within our debt, interest and liquidity financial covenants in each year. We continue to not meet the debt servicing benchmark, but this is due to the amounts we borrow in order to make interest-earning loans to CCHL; we have no concern around our ability to service the debt. (These benchmarks are explained in more detail in the section on Financial Prudence Benchmarks).

In response to our significant increase in rate requirement in the short term we have revisited our plan to transition the funding of renewal expenditure from debt to rates. We propose to reduce the level of transition for the first two years of the LTP, where rates increases are at their highest. The consequences of this proposal are;

- reducing the rate requirement by 1.8% in year 1 and 1.2% in year 2
- incurring higher net borrowings of \$94 million by 2030
- not meeting the balanced budget benchmark for the first three years of the LTP, and
- extending the target date to fully fund renewal expenditure from rates by one year to 2032.

While previous LTPs had incorporated the additional debt servicing and operating costs associated with the community facilities programme we had not fully anticipated the additional cost of putting a roof over Te Kaha and the multiple challenges of significantly increased interest and insurance costs, plus the impact

of high inflation. These, coupled with the challenging asset renewal requirements, and the costs of climate change adaptation and mitigation, have led to a number of hard decisions.

We are aware that the proposed rate increase will not be welcomed by many but are also aware that higher levels of asset renewals and maintenance are required to maintain a functioning infrastructure network and retain existing levels of service.

#### **A. Debt**

Our net debt levels are in line with those forecast in the LTP 2021-31 and while servicing costs have increased, we can service current and forecast debt albeit with a higher rates requirement. We have also retained the ability to respond to unexpected events by maintaining available borrowing (headroom) of at least \$600 million.

#### **B. Capital expenditure**

Our core capital programme is proposed to be increased reflecting the challenges associated with ageing infrastructure, climate change and the resulting change in land use and is averaged at \$600 million per annum excluding Parakiore and Te Kaha.

### 4. Financial Strategy Principles

Four guiding principles with associated goals underpin our Financial Strategy. These principles influence how we respond to our key challenges.

#### **A. Provide good stewardship of community assets and resources (look after what we've got)**

Good stewardship of community assets and resources requires us to maintain our existing assets in appropriate condition for current and future generations. We need to ensure funding is available to:

- Invest in improving the quality of asset condition data and analysis and interpretation of that data to ensure we better understand the condition of our assets.
- Use quality asset condition data to make smart decisions about asset management (repair and replacement) including considering the

resilience of our infrastructure networks to climate and natural hazard risks.

- Replace infrastructure when it is at the end of its economic life. We aim to get the most use possible from an asset before replacing it to avoid it failing, causing maintenance costs to rise.

### ***B. Invest to support sustainable growth (looking to the future)***

Christchurch is the largest city in the South Island. Our population is currently 400,000 and is expected to grow to around 475,000 by 2054 and is forecast to increase 0.8 per cent per year on average over the next 10 years.

We will also experience demand on our infrastructure from development outside our district. Selwyn and Waimakariri Districts have a combined population of 142,100 (2022) and are projected to grow to 210,000 residents over the next 30 years. A large proportion of Selwyn and Waimakariri residents travel into Christchurch for work and to access commercial services, shops, and recreation facilities. This makes Greater Christchurch one of New Zealand's high-growth centres.

In addition, any household relocations in response to the impacts of climate change will manifest as growth development. Changes to land use as the city adapts and people move away from hazards including sea level rise and in response to severe weather events will see residents move to less at risk parts of the district. This is likely to be similar to the housing relocation patterns we saw following the earthquakes of 2010/11.

This strategy ensures funding is available to support new development in a resilient and sustainable way, and that appropriate parties fund a fair share of the costs of providing infrastructure to service this growth.

### ***C. Take prudent and sustainable approaches to financial management (long term focus)***

We need to make good financial decisions for the long-term to build and maintain financial resilience. We must also manage debt within our benchmarks and ensure we retain the ability to borrow for unexpected events. This includes defining the role and performance of CCHL and the CCTOs and their contribution to our financial resilience over time.

### ***D. Provide value for money for our community (affordability and deliverability)***

We consider rates affordability / willingness to pay and financial sustainability when setting rates. 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. We must then deliver on what we rate for.

We must balance the quality and reliability of infrastructure and facilities with what we can afford. We also need to consider intergenerational equity (fairness between generations on who pays). This includes prioritising investment in adapting to the impacts of climate change while avoiding maladaptation and sunk costs associated with stranded assets.

When allocating costs to ratepayers we need to consider who benefits from an activity to decide who pays and maximise non-rates revenue streams and opportunities where appropriate. These considerations are detailed in the Council's Revenue and Finance Policy.

## **5. Financial Strategy Response**

The Financial Strategy lays out the approach the Council will take to sustainably fund its planned work programme over the coming 10 years. It presents key financial bottom lines the Council has decided on – rates rise limits, debt limits, and financial prudence parameters such as debt headroom.

Preparing the Financial Strategy requires a range of trade-offs to be considered which boils down to how much can we deliver for our community for the lowest possible rate requirement while maintaining agreed levels of service and keeping debt to an acceptable level. To achieve these trade-offs the Council has a range of policy levers it can employ – these policy levers are at the heart of the Financial Strategy.

### ***A. An affordable and deliverable capital programme***

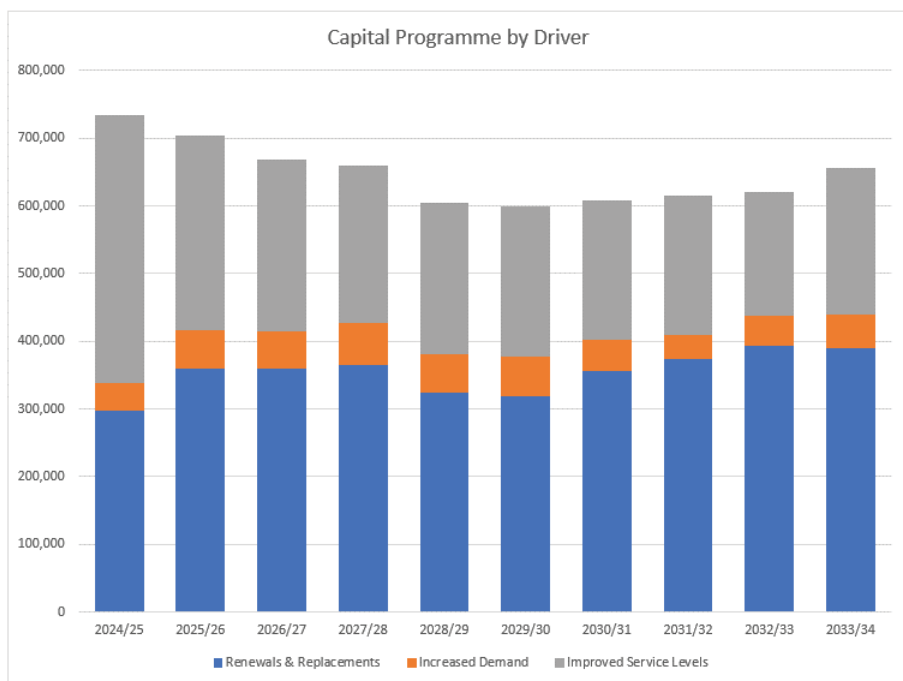
The capital works programme reflects the analysis of infrastructure requirements undertaken in preparing the Infrastructure Strategy, Activity Plans and Asset Management Plans that underpin the LTP 2024-34.

The programme (excluding asset renewals) delivers new assets and is initially funded from borrowing. This enables us to spread the cost over 30 years with the debt repaid from development contributions (for infrastructure to service growth) and rates. Spreading the cost over time enables us to promote intergenerational equity – ensuring today’s ratepayers don’t fund the full cost of new infrastructure that will benefit future as well as current residents.

The capital works programme as shown in figure 1 is our largest area of expenditure where there are clear options available to alter the level of investment, albeit with trade-offs on our ability to provide reliable infrastructure, meet the demands of growth, meet levels of service and comply with regulatory requirements.

We have averaged our core capital works programme to \$600 million per year for the years 2024-34. This enables us to keep our debt to revenue ratio within prudent limits and then to reduce over time. As our debt reduces our debt headroom (the amount we can borrow without breaching debt covenants) will increase, providing additional financial resilience to shocks.

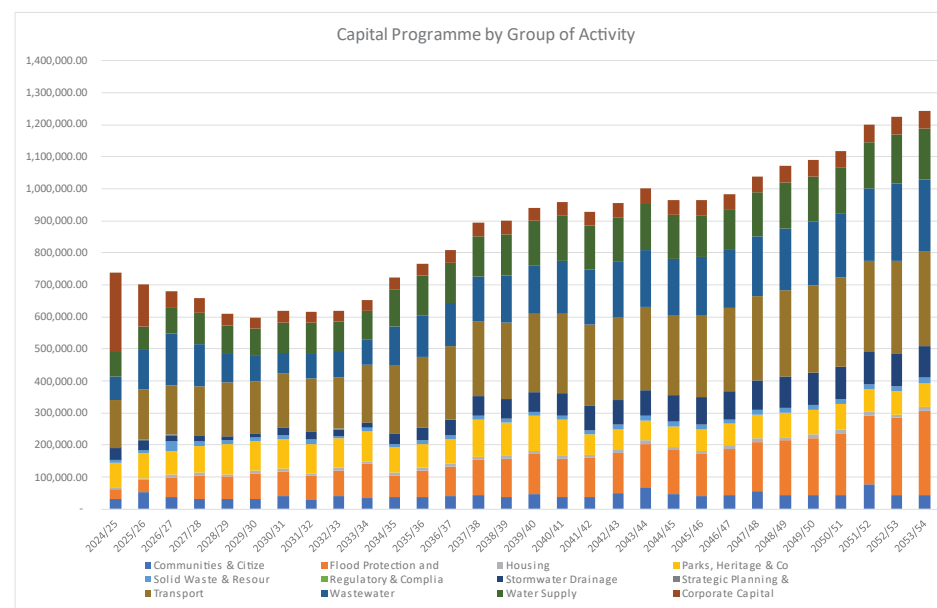
Figure 1. Planned capital expenditure 2024-34



Our asset renewals programme has planned capital expenditure of \$298-\$361 million per year in the first three years and an average annual spend of \$361 million for the following seven years, with a greater emphasis on Transport projects in the latter years.

The proposed capital expenditure programme for the next 30 years (with inflation added) is shown in Figure 2 below.

Figure 2. Capital expenditure for the next 30 years, by Group of Activity



***I. Options considered in proposing the capital works programme***

The Council has considered variations to its proposed capital works programme but believes its preferred option represents the best balance between delivery and cost.

An increased programme was considered but an additional \$20 million of debt-funded capital spend per annum would require an ongoing annual rates increase of 0.14 per cent, while also reducing headroom over time.

Similarly, the Council considered limiting the core capital programme by not replacing water supply and wastewater renewal funding that had been reprioritised to upgrade water supply wells/wellheads and water security

priorities. However, this was considered to be too risky terms of continued deterioration of key network infrastructure and resultant significantly increasing maintenance costs and increasing the risk to public health.

## **II. Funding renewals from rates**

The Council has had a strategy to incrementally increase rating for asset renewals to 100% of long run average renewals by 2031. The Council currently borrows to fund some of the cost of its annual asset renewal programme. Since 2015 we have been transitioning to fully fund renewals from rates (and NZTA subsidy) by 2031. This helps ensure current ratepayers are not subsidised by future generations.

However, given the higher rate requirement in years 1 and 2 of the LTP, we propose to reduce the level of the transition for the first two years of the LTP. This will reduce the rate requirement by 1.8% in year one and 1.2% in year two. The target to fully fund renewal expenditure from rates will be extended by one year to 2032. This change will also mean we will not meet the balanced budget benchmark in the first three years of the LTP.

Other external revenue, mainly from NZTA, assists fund our Transport renewals programme and equates to 9.6 per cent of our total renewal programme.

## **B. Balance financial resilience with rates affordability**

The costs to Council from the 2010/11 earthquakes and the COVID-19 pandemic taught us we need to be in a financial position that enables us to appropriately respond to unexpected events. We need to continue to maintain the ability to borrow sufficient funds at short notice to soften the effects of a fiscal emergency and to deliver services without the need to immediately pass on the usually short-term costs via rates.

To achieve long-term financial resilience the following prudent financial management measures will be used:

### **i. Maintain a balanced budget**

Outside of the first three years we propose to maintain a balanced budget. This will ensure we rate the current generation for sufficient funds to cover the wear and tear on existing assets (represented by depreciation), ensuring a growing liability to maintain these existing assets is not left to future

generations. The goal of fully funding our renewals from rates is a key element in achieving a balanced budget.

### **ii. Operational costs have been further reduced.**

Operating expenditure savings are budgeted to be achieved without lowering levels of service delivered to our community.

We have looked to balance 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.

This strategy supports a prudent work programme and budget with the least possible impact on the overall wellbeing of our communities. As mentioned above non-controllable costs restrict our ability to cut costs. While operational savings of \$182 million were initially considered over the period of the Long-Term Plan, Council decided to implement only \$41 million. This level of savings was considered to be the maximum change that could be made without impacting levels of service.

## **C. Maintain appropriate debt capacity (headroom)**

Debt headroom is the amount Council can borrow before reaching its debt limit. In the 2024/25 year this is 285 per cent of annual rates revenue, however from the 2025/26 year this declines to 280 per cent of annual rates revenue. The Council needs to maintain the ability to borrow to respond to a disaster event.

Our debt headroom was set at \$400m in the Financial Strategy 2021 based on 2019 asset values and using the following assumptions:

- Response to a 1 in 5,000-year disaster event:
  - Crown to fund 40%
  - CCC estimated share \$436m after insurance and Crown contribution
- Response to a 1 in 10,000-year event at \$473m couldn't be provided for

The Financial Strategy 2024 updates the assumptions used:

- Asset reinstatement values increased 32% from 2019 to 2022
- A 1 in 5,000-year disaster event now requires debt headroom of \$600m



- A 1 in 10,000-year disaster event requires debt headroom of \$650m

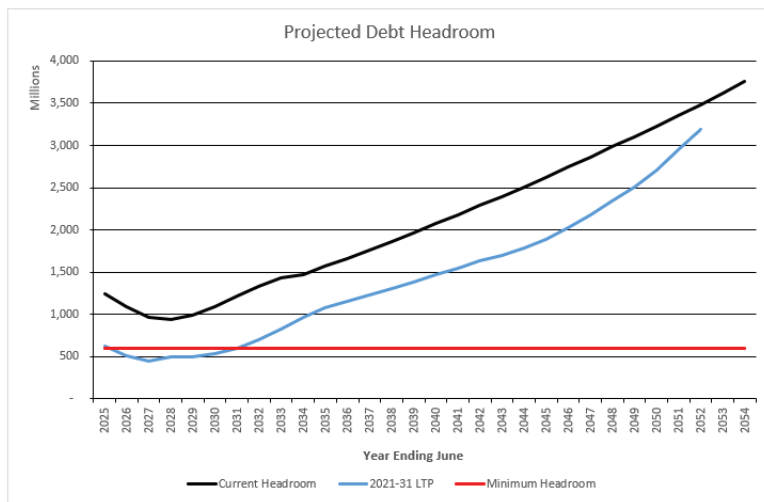
Based on the updated assumptions above Council has set the following debt targets:

- Debt headroom will be at least \$600 million

The minimum debt headroom budgeted capacity in the LTP 2024-34 is \$935 million (lowest point of black line in figure 3).

A reduction in budgeted headroom (by using more debt to fund Council’s annual work programme) was considered as an alternative to the proposed rate increase but this impacted significantly on one of our key Financial Benchmarks; the need to maintain a balanced budget.

Figure 3. Projected Debt Headroom 2024- 2054



**D. Debt projections and limits**

Debt is an important funding tool, enabling investment in infrastructure to be paid for by both today’s ratepayers and those of the future, promoting intergenerational equity, a key principle of Council’s Revenue and Financing Policy.

While the use of debt promotes equity, we need to balance what we would like and what we can afford. Balance is important in both the short and longer

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

**i. Projected debt level**

Gross debt is the total debt we carry, while 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 4 below) to fund our capital investment programme, while retaining sufficient budget flexibility to respond to unexpected adverse developments.

From 2030 through the remainder of the LTP 2024-34 period, net debt stabilises at around \$2.95 billion.

Figure 4. Forecast net debt – 2024 – 2054

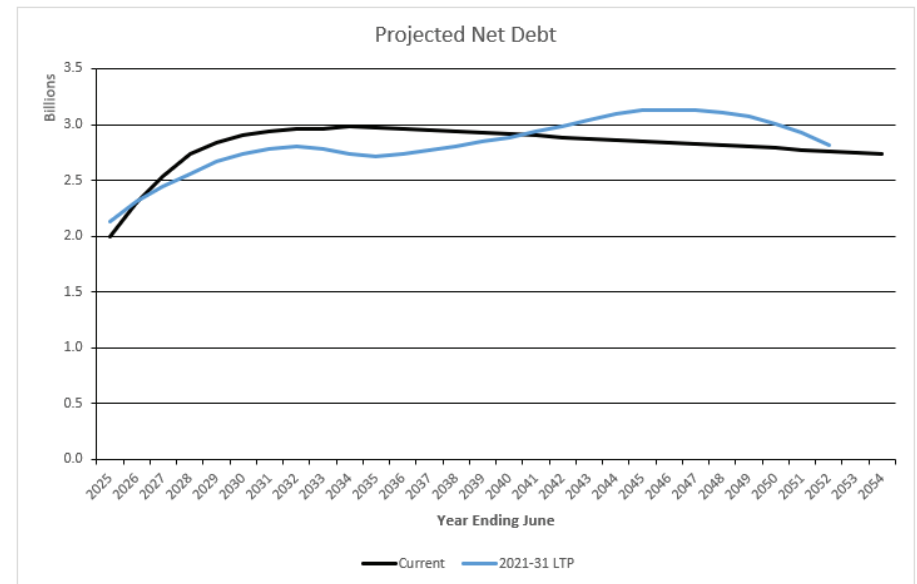


Table 1 quantifies the proposed net debt and resultant headroom from figures 3 and 4 for the LTP period.

Table 1. Proposed net debt and capacity to borrow (debt headroom)

\$million	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
<b>Proposed net debt</b>	2,001	2,298	2,539	2,731	2,840	2,905	2,939	2,956	2,956	2,980
<b>Debt headroom</b>	1,244	1,089	968	935	983	1,088	1,210	1,329	1,432	1,472

**ii. Limit on debt to revenue ratio**

The debt to revenue ratio is an indicator of debt affordability and prudence. The Council maintains covenants with lenders which set limits on borrowing. The Council’s biggest source of debt funding is the Local Government Funding Agency (LGFA) which limits council total net debt to 285 per cent of total operating revenue in the 2024/25 year, before settling at a new long-term limit of 280 per cent from 2025/26.

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

The maximum debt to revenue ratio proposed over the 2024-34 period is 209 per cent in 2027/28 as shown in figure 5, well under the 280 per cent LGFA limit. At this peak we retain debt headroom (the ability to borrow more if required without breaching financial covenants) of \$935 million.

After 2028 the net debt to revenue ratio is planned to gradually improve to 187 per cent in 2033/34. This will give the ability to borrow at least \$1,472 million without breaching debt covenants by 2034.

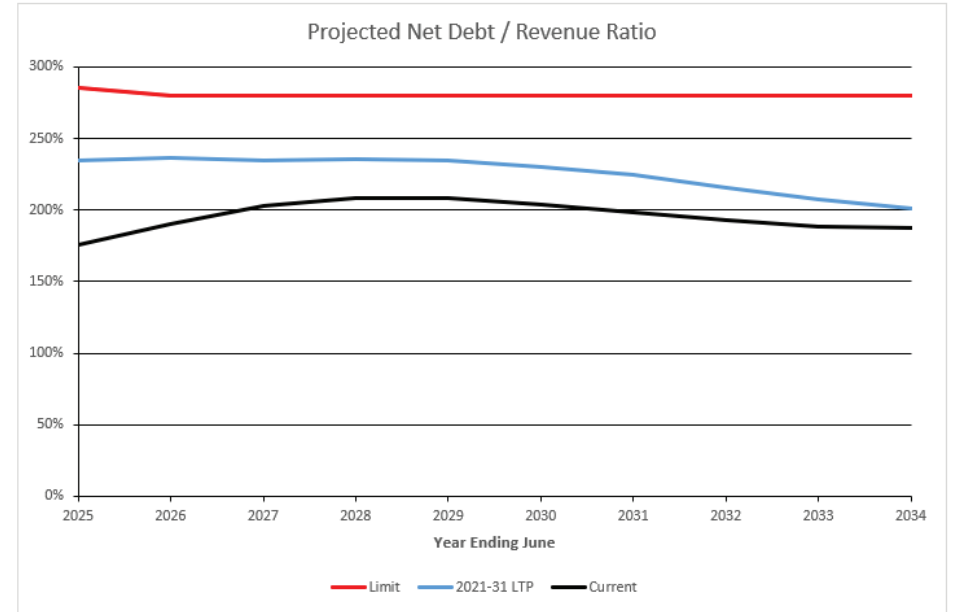


Figure 5. Net Debt to Revenue Ratio 2024- 2034

**iii. Debt affordability benchmark**

We meet our debt affordability benchmark for a year if actual or planned borrowing for the year is within our quantified limit on borrowing. Quantified debt limits are shown in Table 2 below. These have been set at the LGFA limits described above. The limits are a “worst case” maximum borrowing scenario.

\$million	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
<b>Proposed gross debt</b>	3,001	3,291	3,536	3,713	3,829	3,891	3,930	3,948	3,941	3,967
<b>Quantified debt limit</b>	4,246	4,379	4,504	4,649	4,812	4,979	5,140	5,277	5,373	5,439

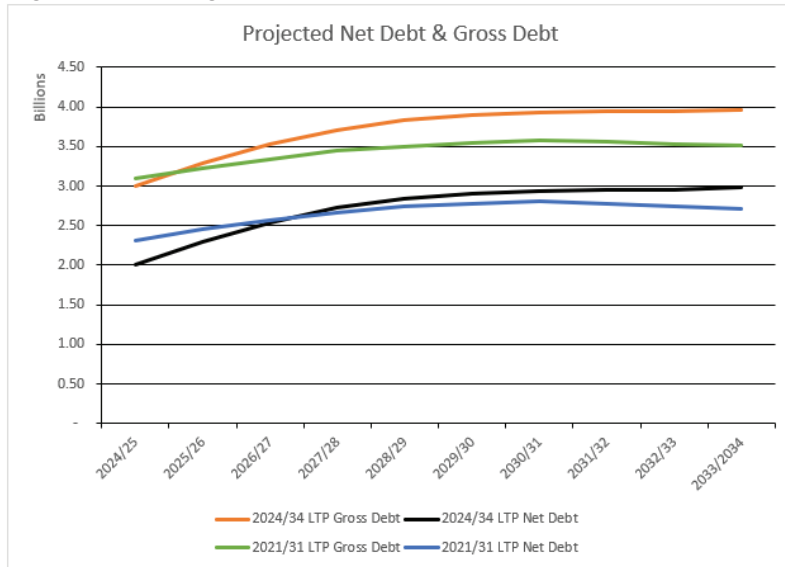
Table 2. Proposed gross debt and quantified limit

We have set the following debt management targets to maintain appropriate capacity to borrow at short notice.

- o Net debt to revenue ratio is forecast to peak in 2028 at 208.6 per cent.

- Debt headroom of at least \$600 million is maintained in all years.
- After 2028 the net debt to revenue ratio is planned to gradually improve and we will have the ability to borrow at least \$1.47 billion without breaching debt covenants by 2034.
- Net debt to revenue ratio reduces to below 190 per cent in 2034.

Figure 6/ Forecast gross and net debt – 2024 – 2034



**iv. Limits on interest costs**

The cost of interest to rates revenue ratio and the cost of interest to total revenue ratio are both debt affordability indicators. The two graphs in Figure 7 below show interest costs remain well within our limits.

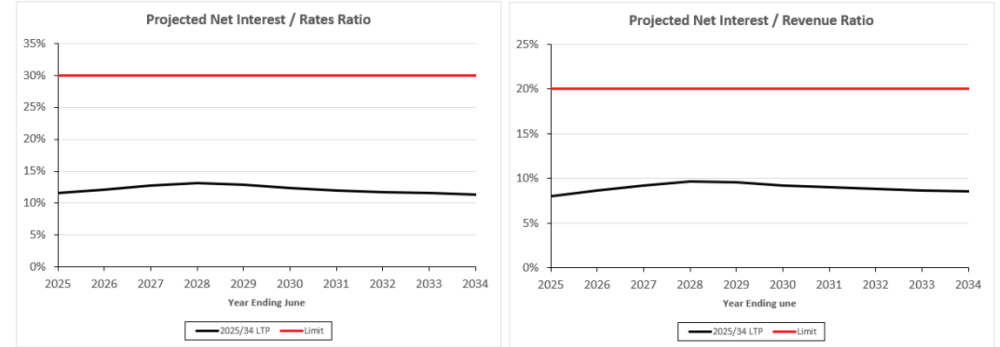


Figure 7. Net interest to rates and to revenue 2024 - 2034

**E. Rates projections and limits**

**i. Annual rates increases**

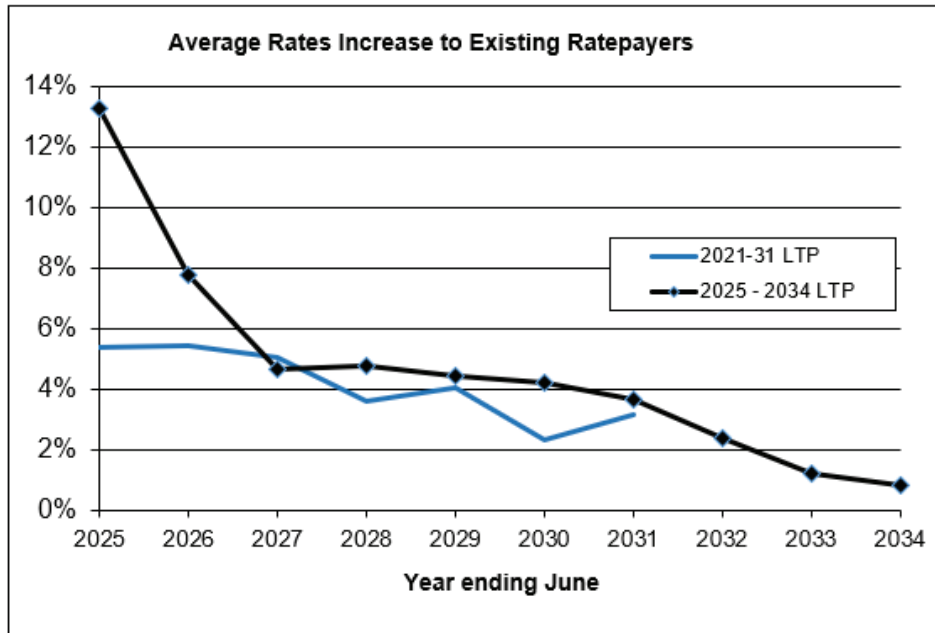
We propose a rates increase of 13.24 per cent in the 2024/25 year. This rise is driven to a large extent by a combination of increased interest rates, increased insurance costs, the capital cost of Te Kaha and the general increase in costs from a high inflation economic environment.

This level of rates increase enables a capital investment programme to be delivered progressing the major facilities and prioritised infrastructure renewals, while also accommodating the reduction in our dividend revenue. The table below indicates the proposed increases to existing ratepayers over the period of the LTP. These are shown in graph form in figure 8.

Table 3. Annual rates increase for existing ratepayers.

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Proposed Rates increase	13.24%	7.76%	4.67%	4.79%	4.43%	4.23%	3.65%	2.40%	1.21%	0.80%

Figure 8. Average annual rates increase for existing ratepayers – 2024 – 2034



**ii. Rates affordability benchmark**

We have set limits on total annual rate increases at 1 per cent higher than the rate increases forecast each year in the LTP 2024-34. This provides some flexibility in the event of unexpected adverse developments in our financial position or operating environment.

These are ‘soft limits’ in that the Council can choose to exceed it in any year but must explain why it believes it prudent to do so. We report on compliance with our rates limits through the Annual Report and the Pre-election Report.

Our rates limits are based on total rates income (i.e. including rates revenue from new properties) – the increase to existing ratepayers will always be lower as long as the number of rateable properties continues to grow. For this reason, existing ratepayers should focus on the previous table as an indicator of likely future rates increases rather than table 4 below.

Table 4. Notional rates increase and limit.

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
<b>Proposed increase</b>	14.4%	8.7%	5.7%	5.8%	5.4%	5.2%	4.6%	3.4%	2.2%	1.8%
<b>Rates increase limit</b>	15.4%	9.7%	6.7%	6.8%	6.4%	6.2%	5.6%	4.4%	3.2%	2.8%

**6. Other options considered**

**A. Increase investment**

For the sake of completeness we did consider the option of having higher rates rises to enable accelerated delivery of new assets and asset renewals. This option was ruled out because:

- we don’t have the capacity to deliver more or bigger scale projects
- our debt headroom would have been reduced which would compromise our financial resilience
- higher rates would be onerous for most households.

**B. Reduce investment**

We looked at having lower rates rises, primarily by reducing investment in new projects and asset renewals. This option was ruled out because:

- it would contribute to higher rates of asset failure, reducing service reliability and increasing maintenance costs
- we would risk not meeting levels of service agreed with the Council and community
- we would not complete new major community facilities within current timeframes.
- we would be likely to be passing on failing infrastructure to future generations.

### **C. Reduce our scope of services**

The option of reducing levels of service currently agreed with the community was considered and rejected by the Council as it is contrary to the feedback we are receiving from residents and ratepayers.

### **D. Sale of surplus assets.**

The Council considered a proposal to instruct CCHL to develop a business case for the CCHL subsidiaries to carry out active portfolio management which would enable the subsidiaries to make changes to their asset ownership structures. On review the Council declined this proposal at the initial report stage. The sale of other surplus assets is considered by the Council on an ongoing basis.

## **7. Other considerations**

### **A. Rating base growth**

We expect the number of rating units will continue to grow each year due to development of new subdivisions and buildings. New development increases demand for Council services and infrastructure but also increases the number of properties the rate requirement is spread over.

We have assumed the number of rating units (including residential and commercial) will increase by 0.8 per cent per annum, slightly less than the pace of household growth, which results in the projections for the number of rating units in the LTP period shown in table 5.

Table 5. Projected rating base growth

June Years	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Rating Units	182,256	183,714	185,184	186,665	188,159	189,664	191,181	192,711	194,252	195,806

### **B. Inflation**

We base our assumptions of future inflation on the BERL Local Government Cost Adjustors which are the basis of inflation forecasts for most New Zealand councils. BERL is an external research-led consultancy organisation which

provides independent economic research to assist organisations decision making. Councils focus on inflation for the types of goods and services they buy and provide rather than the consumer price index. Key drivers of local government inflation include energy costs and construction costs, particularly relevant in a period when New Zealand is looking to increase investment in infrastructure provision to catch up following decades of under-investment.

Inflation is currently higher than it has been for many years with forecast local government inflation over the next 10 years ranging between 2.0 – 3.4 per cent per year. A high inflation environment increases the risk that forecasts aren't accurate and the council needs to be conservative in its inflationary expectations and how these are built in to budgets.

The assumed inflation rates used in LTP budgets are included in the Significant Assumptions section of the LTP.

### **C. Interest**

Council repays most borrowing over a 30 year period, which aligns with the average life of our assets. Borrowing for investment in new assets ensures today's ratepayers don't fund all the cost of assets that will provide benefits to future ratepayers/generations which promotes the principle of intergenerational equity.

We are in a period of high interest rates, with the cost of new Council borrowing forecast to remain between 4.5 and 5.5 per cent over the coming 10 years. This will increase our overall cost of borrowing compared with previous forecasts. As with inflation, the high interest rate environment increases the risk that our forecasts aren't accurate and again we have budgeted conservatively to mitigate this risk.

Interest rates used in LTP budgets are included in the Significant Assumptions section of the LTP.

### **D. Insurance**

The Council has restored insurance cover on assets as insurers re-gained confidence in the resilience of our assets following the 2010/11 earthquakes.

Based on external modelling we identified the maximum probable loss of above-ground infrastructure and current insurance provides for two significant earthquake events in any 12 month period.

In the event of another significant earthquake, we have planned to use a combination of insurance and borrowing to fund our 40 per cent share of the cost of repairs. 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 repairing or replacing underground assets following the 2010/11 earthquakes.

#### **E. Local Government Funding Authority (LGFA) – debt limits**

LGFA is our main source of debt funding. It raises funds by issuing bonds at lower interest rates than councils could achieve by themselves, due to its size and credit rating. To manage risk, LGFA requires councils to operate within prescribed debt to revenue ratio limits.

In June 2020 LGFA increased the Net Debt to Total Revenue financial covenant ratio limit applying to councils with a credit rating of “A” equivalent or higher. The ratio limit reduced from 290% to 285% in 2024/25, reducing again to 280% per cent from 2025/26 onwards.

The Council will look to keep its debt to at least \$600 million less than its debt covenant limit to provide the ability to borrow in an emergency. This is a key component of our approach to financial resilience.

#### **F. Credit rating**

The Council’s credit rating affects our access to lending and the interest rate we have to pay. This Financial Strategy seeks to support the retention of our current “AA (Stable)” Standard & Poor’s credit rating. Governance and debt levels are key to maintaining this rating, and it may come under pressure during the period covered by this Strategy due to projected debt growth.

A one notch downgrade to our credit rating (to “AA-“) would increase the cost of our borrowing by at least 0.05 per cent. Although relatively marginal (especially as it would only affect our overall costs gradually as existing borrowing instruments are refinanced), this would increase rates by around 0.15-0.20 per cent over the LTP period. Our credit rating should be supported over time as our net debt/ revenue ratio is forecast to return to more conservative levels by the early 2040s.

#### **G. Policy on securities**

Like most councils, our debt is secured against future rates revenue. Lenders like this as security and it helps keep our interest rates low. Having rates as security means our lenders can make us repay debt from rates. That is why it is important we keep debt at a sustainable level. We may sometimes offer other security, including physical assets, in certain circumstances. The full policy on giving securities can be found in the Investment and Liability Management Policy on our website.

Security may be offered by providing a charge over one or more specified assets, but this 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.

#### **H. Investments in companies**

Council’s main investment is in Christchurch City Holdings Limited (CCHL) which holds equity investments on behalf of the Council. These investments provide dividend returns used to reduce the rate requirement and/or reduce Council debt. The dividend yield on our CCHL investment has averaged 1.3 per cent in the last three years and 2.3 per cent in the last ten years. In December 2023 Council agreed with CCHL that CCHL would adopt an enhanced status quo dividend policy and they would collaborate on strategies to increase returns to Council.

We hold other shareholdings principally to achieve efficiency and promote community outcomes and wellbeing rather than for a financial return on investment. The risk to the Council from investing in these companies is low.

Any equity investment carries a risk that the value of the investment and the dividend paid can go down. The COVID-19 lockdown and recession 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.

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

There are no plans to change our shareholdings. In accordance with good practice, however, this is reviewed regularly.

## ***I. Cash investments***

We hold cash for three main reasons:

- I. To support the balance of our special funds and reserves.*** When special funds are not required in the short term they are used as working capital. The exception is the Capital Endowment Fund (CEF) which is lent internally or invested externally. This provides an ongoing income stream that is used to fund economic development activities and community events and projects. The CEF is projected to return \$4.5 million in 2025, decreasing through the LTP period to \$4.1 million p.a. as the Official Cash Rate decreases from its current elevated level.
- II. To ensure strong lines of liquidity and access to cash.*** Cash is supplemented by committed banking facilities.
- III. To provide the funds for maturing debt.***

Cash is invested on short-term deposit to assist manage cash flows. Our targeted return is to exceed the average 90-day bank bill rate.

## ***J. Other investments***

- ***Community loans***  
From time to time the Council makes loans to community groups to enable them to pursue their stated objectives. The return on these loans currently in place range from interest free through to 5.4 per cent, depending on when they were granted and the conditions imposed.
- ***LGFA.*** Under the terms of the LGFA, each time we borrow from them we are required to invest a small portion of our borrowing in their convertible bonds (“Borrower Notes”). This ensures the stability of the 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. We earn interest on these bonds at the same market “base” rate as our related borrowing.

## Company investments

Company and activity	Shareholding %	Principal reason(s) for investment	Investment value \$million <sup>6</sup>	Targeted return
<b>Christchurch City Holdings Limited (CCHL)</b> - Holding company for our equity investments	100	<ul style="list-style-type: none"> <li>• Provide a return on investment to offset rates.</li> <li>• Strategic investments that add to our economic development and economic, social and environmental resilience</li> </ul>	3,166	FY-25 \$38m FY-26 \$46m FY-27 \$54m Future Projections \$69m-\$96m p.a.
<b>Venues Ōtautahi Limited</b> - Venue management and event hosting	100	<ul style="list-style-type: none"> <li>• Promote local economic development</li> </ul>	200	Nil
<b>Civic Building Limited</b> - Holds our 50 per cent investment in the joint venture that owns the Civic Building offices.	100	<ul style="list-style-type: none"> <li>• Strategic property investment</li> </ul>	41	Nil
<b>ChristchurchNZ Holdings Limited</b> - Delivers Economic development, destination marketing, major events and urban development functions.	100	<ul style="list-style-type: none"> <li>• Promote local economic development</li> </ul>	2	Nil
<b>Transwaste Canterbury Limited</b> - Owner/ operator of the Kate Valley Canterbury regional landfill	38.9	<ul style="list-style-type: none"> <li>• Shared service provider (co-owned with all other Canterbury local authorities)</li> </ul>	6	\$5.4 - \$7.3 million p.a.
<b>New Zealand Local Government Funding Agency - (LGFA)</b> Lends money at sub-market rates to member councils	8.3	<ul style="list-style-type: none"> <li>• Access to borrowing at preferential rates.</li> <li>• Shared service provider (co-owned with most other NZ local authorities)</li> </ul>	9	\$90,000 p.a.
<b>Civic Financial Services Limited</b> - Supplies financial services such as superannuation, Kiwisaver to the local govt sector	12.9	<ul style="list-style-type: none"> <li>• Access to specialised financial services.</li> <li>• Shared service provider (co-owned with most other NZ local authorities)</li> </ul>	2	Nil
<b>Theatre Royal Charitable Foundation</b> - Operates the Isaac Theatre Royal		<ul style="list-style-type: none"> <li>• Promote cultural wellbeing</li> </ul>	1	Nil
<b>Endeavour Icap</b>	12.8	<ul style="list-style-type: none"> <li>• Economic development</li> </ul>	0.1	Nil

<sup>6</sup> The value of the investments in CCHL, Venues Ōtautahi Limited, Civic Building Limited and ChristchurchNZ Holdings Limited were assessed by independent valuers, Deloitte as at 30 June 2023.