

# Dunedin City Council Pre-election Report 2 August 2013

From the Office of the Chief Executive

## About Dunedin

The Dunedin City Council (DCC) is a territorial authority with a land area of 3,340 square kilometres that extends from north of Waikouaiti to the Taieri River in the south and inland to Middlemarch and Hyde.

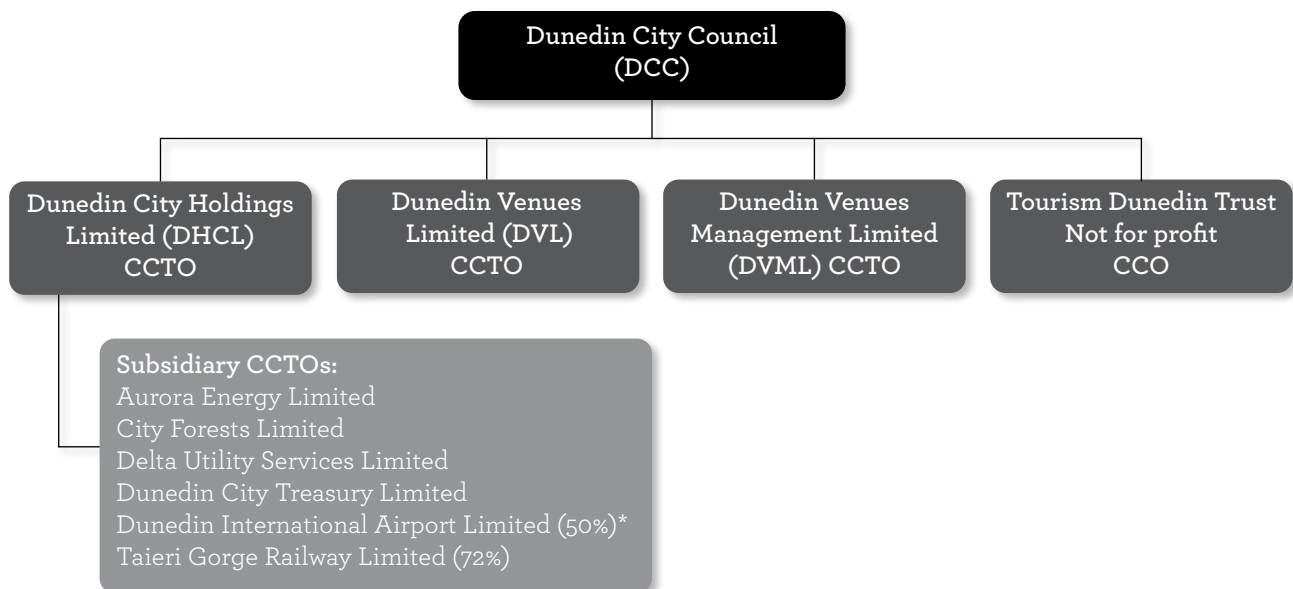
The Council is comprised of the Mayor and 14 Councillors. There are also six community boards. The Council is responsible for the governance of, and setting the strategic direction for, the city and ensuring the DCC works towards meeting the community outcomes set out in the Long Term Plan (LTP).

The DCC receives revenue from a range of sources. About half comes from rates, with the rest from Council companies (see diagram below), Crown subsidies and grants, property, fees, charges, interest and other grants.

The DCC has an overall budget of \$203 million and manages \$3 billion of assets on behalf of residents and ratepayers. These include 1405km of water pipes, about 1050km of sealed roads, 940km of footpaths (including 5km of steps) and just under 13,000 street lights. Other assets owned and maintained by the DCC include 954 housing units, 113 playgrounds, 67 public monuments and 20 cemeteries.

As well as spending on core infrastructure, such as water and waste services, roads and footpaths, the DCC maintains assets such as libraries, museums, sportsfields and swimming pools. The DCC is also responsible for regulatory functions such as planning, building control and environmental health, and for carrying out initiatives in areas such as economic development.

### Structure of the DCC Group (DCC and Council Companies)



\*Dunedin International Airport is an associate company of DCHL, not a CCTO.

The DCC has established a number of Council Controlled Organisations (CCOs) to manage facilities, assets or deliver significant services. The DCC has financial involvement in the CCTOs (Council Controlled Trading Organisations) shown in the diagram. This includes control over DCHL, DVL, DVML and Tourism Dunedin and indirect control over the other entities via DCHL. More information about the CCTOs, including ownership and the nature and scope of their activities, can be found in the LTP section 3 and the 2011/12 Annual Report page 87.

## Introduction

This Pre-election Report (the Report) provides information to promote discussion about issues facing the DCC and to encourage informed debate in the lead-up to the October 2013 triennial local body elections.

The Report is a new requirement under the Local Government Act and must be prepared by the Chief Executive. The document contains information about the DCC's financial performance since 2010/11 and forecast information through to 2016/17, as well as details of major projects and other significant issues.

In many ways, the past three years have been challenging ones for the DCC. Financial adjustments have been made in order to manage the effects of a significant increase in debt servicing costs following the completion of several major capital projects.

Steps have been taken to develop and implement a more sustainable financial framework, but debt levels remain high and there is no room for additional debt over and above that outlined in the DCC's current LTP.

A key message of this Report is that financial restraint will need to continue if the DCC is to work within self-imposed rates and debt limits. Budgets will need to be subjected to ongoing examination and further operational savings will be required. In addition, the DCC will need to manage effectively several risks to the stability of its financial framework.

The following pages outline the financial transition of recent years and the challenges that the DCC will face in the period ahead.

### How was this report prepared?

This report is based on information contained in the DCC's 2010/11 and 2011/12 Annual Reports, the 2012/13 - 2021/22 LTP and the 2013/14 Annual Plan. All Pre-election Report content is governed by the requirements of the Local Government Act 2002, Schedule 10, Part 4.

Under the legislation, the DCC is required to provide financial information for the three years immediately preceding the election and the three years immediately following the election. Information about major projects for the three years immediately following the election is also required. Content for the 2013/14 year is not specifically required and has been included in some instances for completeness.

The report provides an overview of the DCC's finances and key projects. For more detailed information, go to the DCC website at [www.dunedin.govt.nz](http://www.dunedin.govt.nz).

A glossary of key terms can be found at the end of this document.

## Financial Strategy

Changes in the Local Government Act required local authorities to prepare a Financial Strategy from 2012/13, which must include a statement outlining limits on rates, rate increases and borrowing. The Strategy underpinned the 2012/13-2021/22 LTP and places emphasis on keeping rate increases down, and reducing levels of capital spending and debt while maintaining current service levels.

In particular, the Strategy set self-imposed limits on rate increases of 5% in 2012/13, 4% in 2013/14 and 3% from 2014/15 onwards. It also placed a limit on gross core DCC debt of \$200 million, which is not achieved until 2021/22.

The Strategy aims to help the DCC steer a course between the competing issues of affordability, debt repayment, and maintaining critical infrastructure.

For Dunedin, like other local authorities, the challenge is to control spending in the face of significant financial pressures and community expectations.

## The Debt Burden

The completion of major capital projects over the past five years dominates the financial position of the DCC. The final phase of a 20 year-long upgrade of the city's wastewater systems coincided with significant expenditure on the construction of the new Forsyth Barr Stadium and the redevelopment of the Dunedin Centre and Toitū Otago Settlers Museum.

While representing a significant investment in community infrastructure, the concurrent delivery of such large projects resulted in a sharp increase in the DCC's debt burden. In 2013, the DCC's core debt stands at \$227 million.

Yet this is only part of the picture. At present, \$144 million of debt remains outstanding on the Forsyth Barr Stadium. Ownership of the stadium rests formally with Dunedin Venues Limited (DVL) - a Council Controlled Trading Organisation (CCTO). However, in the end, the liability for Stadium debt rests with the ratepayer.

In addition to DCC and Stadium debt, there is also debt of \$249 million from Dunedin City Holdings Ltd and its subsidiary companies. This adds to the level of debt being carried by the DCC group as a whole, although responsibility for repaying company debt lies with the companies. In 2012/13, the companies expect to earn about \$251 million of revenue. Actual revenue for the 2011/12 year for the DCHL group was \$255 million.

For the DCC, the need to service high levels of debt will represent a primary factor in the Council's financial planning for much of the next decade. In response, the Council is planning to reduce debt to a limit of \$200 million by the 2021/22 year, and Stadium debt repayments have been accelerated over the past two budget rounds. In practical terms, the need to repay high levels of debt serves to limit the scope for new expenditure over and above that outlined in the current LTP.

## Tightening our Belt

Prior to budget deliberations for 2012/13, due to the increase in debt servicing costs and a reduced dividend from DCHL, rates were projected to increase by 11.9%. As a result, more than \$12 million had to be found to enable the Council to achieve a 4.9% rate increase. Another \$4 million of savings had to be found to meet the 4% rate increase limit for 2013/14.

The organisation's approach to identifying savings is now well developed. A review of capital expenditure in 2012/13 resulted in projects being removed or deferred for up to three years. Guidance to DCC managers has emphasised the need to absorb inflation, contain cost increases whenever practicable, and identify savings. Non-rates sources of revenue have been reviewed and procurement processes are being improved.

The review of DCC budgets remains a work in progress. Moves have been made to adapt expenditure to new financial realities, but further steps are needed. Departmental reviews continue and internal restructuring is ongoing to better prepare the organisation for the challenges ahead.

At present, it is estimated that minimum additional savings of \$3 million will need to be found to limit the rate increase to 3% in 2014/15. This will require DCC services to absorb inflation to the greatest extent possible.

The upshot is that the focus on operational savings needs to continue. The situation may improve to some degree in 2015/16 when, on current projections, rate increases are closer to rate limits and the DCC will be paying off significant levels of debt each year. However, the immediate challenge for staff is the identification of sustainable year-on-year savings that will enable the Council to continue to work within the parameters of its Financial Strategy.

## Looking Ahead

Financial constraints are reinforced by the need to maintain, and if possible accelerate, the pace of debt repayment. In this context, Standard and Poor's assessment is relevant: "Dunedin's high debt burden... weighs on the [Council's credit] rating, in our view". <http://www.dunedin.govt.nz/standardandpoors>

The DCC's core debt peaks at \$272 million and is then scheduled to fall to the LTP debt limit of \$200 million in 2021/22. From 2015/16, on current projections, the DCC will be repaying more debt than it borrows each year. In the medium term (2016/17 onwards), it will reduce interest expense as a percentage of total DCC revenue, taking it below the self-imposed limit of 8%.

Last year, the Council decided to include an extra \$1 million a year in DCC budgets so Stadium debt could be repaid faster – reducing the payment term of Stadium debt to 23.5 years. This year, following an assessment of risk associated with different categories of debt across the group, the Council decided to increase this by another \$1 million a year. This reduces the term of Stadium debt to 18.5 years, saving about \$25 million in interest.

While this is a positive step, debt remains high and the need to work towards the DCC's debt limit results in little or no headroom for the inclusion of new capital projects. New expenditure would require review and reprioritisation of existing programmes. It remains the case that any kind of modest headroom does not emerge until 2021/22 when the gross debt limit of \$200 million is achieved.

## Capital Expenditure

The Council began this recent triennium with a number of large debt-funded projects. By the end of the three-year period, these had either been completed or were very close to completion.

As a number of major projects were coming to an end, it was essential future commitments were given careful consideration. The DCC's capital expenditure programme was reviewed during the preparation of the LTP and several projects were deferred or, in some cases, removed.

The result is a change in the pattern of capital expenditure, with 2012/13 being the last year to show high levels of capital expenditure on new or discretionary projects. For the 10 years from 2013/14, 70% of capital expenditure involves the renewal of existing infrastructure.

As well as significant treatment upgrade work, parts of the water, wastewater and stormwater networks, such as pipes, are very old and will need to be replaced soon. These costs started at \$8 million in 2012/13 and grow steadily to \$22 million by 2021/22. The intention is to pay for this renewal work from cashflow rather than borrowing. Indeed, for the 10 years from 2013/14, 90% of capital expenditure will be funded out of operational cash flow and New Zealand Transport Agency (NZTA) subsidies. This is a positive trend and, with fewer discretionary projects, moves the DCC into debt repayment mode.

Major capital expenditure projects completed in the past three years include:

- Tahuna Wastewater Treatment Plant upgrades
- Forsyth Barr Stadium\*
- Toitū Otago Settlers Museum Redevelopment\*
- Dunedin Centre/Town Hall Redevelopment
- Regent Theatre Upgrade\*
- Blueskin Bay Library Redevelopment\*
- Parts of the Logan Park Redevelopment: (Union St Pavilion; cricket wickets; development of Sport Centre in the old art gallery building and Academy of Sport relocation to the Stadium site; extension of the University Oval cricket ground)\*
- State Highway 88 Realignment\*
- St Ronan Street to Marion Street and the Vauxhall to Burns Point sections of the ongoing Portobello/Harington Point Road Widening project \*

Projects marked with an asterisk attracted external funding from sources such as NZTA subsidies, central government project funding and community fundraising.

## Major Projects 2014/15 -2016/17

The table shows major capital expenditure projects scheduled for 2014/15 -2016/17 in the LTP. No new major projects have been added since the LTP was completed.

Project	Description	Planned Expenditure Long Term Plan 2014/15 \$m	Planned Expenditure Long Term Plan 2015/16 \$m	Planned Expenditure Long Term Plan 2016/17 \$m
Portobello/ Harington Point Road Improvement*	Widening of the road , installation of a walkway/ cycleway and repair of sea walls		2.4	2.8
Strategic Cycle Network*	Upgrade key routes across the city to provide facilities for beginner and existing cyclists that are separated from traffic where possible	1.6	1.1	1.2
Security of Water Supply	Project to provide supply options to maintain security of raw water supply for metropolitan Dunedin during a disaster event or drought at a minimum cost to the ratepayer	0.2		
Tahuna Wastewater Treatment Upgrade – Biosolid Project	Treatment of solid residues from wastewater treatment processes	10.6	5.1	
Library Redevelopment (including South Dunedin Library)	Refurbishment of the City Library in Moray Place and development of a library/community facility in South Dunedin		0.2	1.1
City Wide Amenity Upgrades	Improvements to the city centre and suburban centres		1.0	0.7

\*Project has external funding as well as DCC funding

The capital expenditure programme is reviewed annually as part of the Annual Plan process. During the preparation of the 2013/14 Annual Plan, revision of project costs and timing resulted in some minor changes to the programme. The Biosolids Project at the Tahuna Wastewater Treatment Plant, the most significant project to occur in the three-year period after the election, was left unchanged for the 2013/14 Annual Plan but will be subject to review prior to the 2014/15 Annual Plan being developed.

## Forsyth Barr Stadium

In early 2012, the DCC commissioned Pricewaterhouse Coopers (PwC) to undertake a review of the construction cost of the Forsyth Barr Stadium. PwC concluded that the stadium cost \$224.4 million to build and stated it was delivered “on time, 4% over budget (excluding financing costs) and ended up with the level of debt consistent with expectations”. <http://www.dunedin.govt.nz/pwc-review>

PwC identified a number of ‘learnings’ from the project. In particular, the PwC report asserted that papers for the Council were unnecessarily complicated and did not clearly record in one place the full cost, how the cost was to be met and information enabling the level of ratepayer contribution to be clearly identified.

The DCC’s executive team now routinely considers reports with a view to ensuring appropriate information is provided for Councillors to consider. Reports, whenever necessary, include clear financial information about which decisions can be made by Councillors. A basic principle is that the total costs and budget for individual projects should be made clear at all key stages of decision-making.

In addition to PwC’s analysis of construction costs, a comprehensive collation of all Stadium-related costs from 2004 - 2013 is currently being prepared and will be published on the DCC website in due course.

PwC was also critical of the project management arrangements associated with the delivery of the Stadium. The Council accepted these observations. In summary, the Stadium’s delivery arrangements were too complicated, and lines of accountability were unclear. Consequently, the Council instructed staff to ensure that the lessons highlighted in the PwC report are “implemented during any future project management”. While the DCC’s capital programme is limited in scale and scope over the next decade, future projects will take account of PwC’s contention: “A stronger DCC contribution to [Stadium] project management arrangements and oversights would have increased the ability of the project as a whole to control costs and budget variations.”

## Risks

Audit New Zealand highlighted a number of matters in its opinion on the LTP. These included the DCC’s ability to work within its rate and debt limits, targets for debt reduction, the impact of the stadium on DCC finances, and the lack of insurance for infrastructure assets. In its subsequent report to management from its 2013 interim audit visit, Audit New Zealand has acknowledged the progress the DCC has made in managing each of these areas.

Nonetheless, risks to the stability of the DCC’s financial framework remain. In particular these include:

### 1. Maintaining current levels of dividend from DCHL

A key assumption of the LTP is that the DCC will continue to receive income from DCHL totalling \$10.45 million. In addition, \$5.25 million will be provided to the Stadium, meaning a total annual requirement of \$15.7 million from DCHL. This was reduced from \$23.2 million in 2011/12 to \$15.7 million in 2012/13, with the balancing sum found through DCC savings. In the 2011/12 year, this income represented 10% of the DCC’s revenue budget. The current \$10.45 million annual contribution represents 5% of the revenue budget.

Even so, the inability of DCHL to deliver the reduced level of dividend identified in the LTP is a risk that needs to be managed. The Council has made it clear that any future dividends from DCHL and its companies should not be funded by borrowing. A failure by DCHL to meet the dividend level could lead to an increase in the operational savings required by the DCC. The Board of DCHL is continuing to review the operation and governance of its companies in order to minimise the risks. A report from the Board is expected before the end of 2013.

To strengthen financial management across the group and to further minimise risk, the post of Group Chief Financial Officer has been created to monitor and manage the finances of the DCC group as a whole.

## 2. Forsyth Barr Stadium

The Stadium represents a large financial commitment. In addition to the extra \$2.0 million allocated to accelerate the repayment of stadium debt, the DCC currently directly allocates \$1.875 million to the Stadium. In addition, a subvention sum of \$5.25 million (\$7.292 million after tax impacts) comes directly from DCHL (a sum that could otherwise be used to support DCC budgets and offset rates). Stadium revenue has increased since the opening of the facility, and the Stadium operator (Dunedin Venues Management Limited) is projecting an improved financial position for the next three years following an increase in DCC financial support. However, there remains a risk that insufficient cash flow will serve to further increase the pressure on DCC finances.

## 3. St Clair Seawall

Recent high tides undermined a 40m section of the St Clair seawall to the north, causing the slumping of paving bricks on the esplanade behind the wall in late May. Stabilisation work has been carried out, but any costs of a long-term solution, which are still to be determined, will be considered in the development of the Draft 2014/15 Annual Plan.

It is also clear that the DCC now has less flexibility to deal with unexpected events. For example, there is no discretionary fund to deal with extreme weather events. This will add to the challenge of managing budgets in the years ahead.

## Strategies

Over the past three years, work has been undertaken to prepare a range of strategies and plans that provide strategic direction and priorities for Dunedin's development as a city. These include the Three Waters Strategy, the Spatial Plan, the Economic Development Strategy and the Social Wellbeing Strategy.

The DCC's strategic framework sets out a vision for Dunedin to develop as 'one of the world's great small cities'. This builds on Dunedin's competitive strengths: a strong knowledge base; creative talent and cultural richness; the city's heritage setting; stunning natural environment; active lifestyle; compactness and accessibility.

The strategic framework guides DCC work programmes, budgets and planning. Strategies and plans need to be consistent with the DCC's Financial Strategy.

The DCC takes a partnership approach to developing its strategies. This is achieved by engaging and assisting neighbourhood and community groups, working collaboratively with organisations and businesses across the city and regular liaison with Government agencies.

Work is underway on the Transport Strategy, with the first stage of public consultation underway, and preliminary work has begun on the Arts and Culture Strategy and a Parks and Recreation Strategy. An Environment Strategy is due to be prepared over the next 12 months.

Work has also begun on an Energy Plan for the city, with a discussion paper released in June. Public consultation on the proposed Waste Management and Minimisation Plan 2013 was undertaken in July. Progress continues on the Second Generation District Plan - a new District Plan for Dunedin - with public consultation on preferred options to take place in August.

## Financial Information

The next pages contain retrospective and prospective financial information for the DCC for the years 2010/11 -2012/13, 2013/14 and 2014/15- 2016/17.

- Statement of Cashflows for the years 2010/11 - 2012/13
- Funding Impact Statement for 2013/14, 2014/15 - 2016/17
- Balance Sheet for the years 2010/11 - 2016/17
- Statement of compliance with the Financial Strategy

The financial information for 2010/11 and 2011/12 is sourced from the DCC's Annual Reports and has been audited by Audit NZ.

The financial information for 2012/13 is the DCC's draft reporting for this year. This information has not been audited as the final audit work had not formally started when this report was produced. The Council's audited 2012/13 Annual Report will be available in the week before the local body elections. There may be some variances between the information included here and the final audited financial statements as a result of audit and year end processes.

Financial information has been included for the 2013/14 year from the 2013/14 Annual Plan adopted on 24 June 2013. This is not legislatively required but is included for completeness. Please note, there is no requirement for the 2013/14 Annual Plan to be audited.

Financial information for 2014/15- 2016/17 is taken from the audited 2012/13 -2021/22 LTP.

The information presented for the 2014/15 -2016/17 years represents planning at the time that the LTP was prepared and actual results for the years concerned may differ. The information shown for 2013/14 is from the final Annual Plan 2013/14. Due to the time difference between the preparation of the two plans the information should not be directly compared. The Annual Plan 2013/14 contains re-forecasts for the 2014/15 -2016/17 years which are not provided here in accordance with the legislative requirements for this report.

The basis of accounting for the documents concerned can be found in the statement of accounting policies in each document and these are available on the DCC website.

### **Web links to source documents:**

Annual Report 2010/11: [www.dunedin.govt.nz/annualreport2010-11](http://www.dunedin.govt.nz/annualreport2010-11)

Annual Report 2011/12: [www.dunedin.govt.nz/annualreport2011-12](http://www.dunedin.govt.nz/annualreport2011-12)

Long Term Plan 2012/13 -2021/22: [www.dunedin.govt.nz/longtermplan2012-13](http://www.dunedin.govt.nz/longtermplan2012-13)

Annual Plan 2013/14: [www.dunedin.govt.nz/annualplan](http://www.dunedin.govt.nz/annualplan)

# Dunedin City Council - Retrospective Financial Information

## STATEMENT OF CASHFLOWS FOR THE YEARS ENDED 30 JUNE

	Actual 2011 \$000	Actual 2012 \$000	Forecast 2013 \$000
<b>Cash flow from operating activities</b>			
<i>Cash was provided from operating activities</i>			
Rates	103,603	111,669	118,140
Other revenue	104,357	96,543	76,273
Interest received	10,197	18,046	8,299
Dividend received	16,791	12,002	6,387
	234,948	238,260	209,099
<i>Cash was applied to:</i>			
Suppliers and employees	(139,298)	(146,355)	(141,634)
Finance costs paid	(10,527)	(20,100)	(11,194)
Taxation paid			
Net GST paid	640	428	1,029
	(149,185)	(166,027)	(151,799)
<b>Net cash inflow (outflow) from operating</b>	<b>85,763</b>	<b>72,233</b>	<b>57,300</b>
<b>Cash flow from investing activities</b>			
<i>Cash was provided from investing activities</i>			
Sale of assets	6,118	217,380	2,788
Reduction in loans and advances			
Decrease in investments			812
	6,118	217,380	3,600
<i>Cash was applied to:</i>			
Increase in investments	(5,082)	(75,412)	(1,943)
Increase in loans and advances	(1,757)	(1,934)	
Capital expenditure	(165,327)	(99,490)	(80,297)
	(172,166)	(176,836)	(82,240)
<b>Net cash inflow (outflow) from investing</b>	<b>(166,048)</b>	<b>40,544</b>	<b>(78,640)</b>
<b>Cash flow from financing activities</b>			
<i>Cash was provided from financing activities</i>			
Loans raised	92,540	44,936	20,000
	92,540	44,936	20,000
<i>Cash was applied to:</i>			
Loans repaid	(6,240)	(151,911)	(10,769)
	(6,240)	(151,911)	(10,769)
<b>Net cash inflow (outflow) from financing</b>	<b>86,300</b>	<b>(106,975)</b>	<b>9,231</b>
<b>Net increase (decrease) in cash held</b>	<b>6,015</b>	<b>5,803</b>	<b>(12,109)</b>
<b>Opening cash</b>	<b>1,311</b>	<b>7,326</b>	<b>13,129</b>
<b>Closing cash</b>	<b>7,326</b>	<b>13,129</b>	<b>1,020</b>

The actual results for the years ended 30 June 2010 and 2011 have been audited. The results shown for the year ended 30 June 2013 are estimates and are subject to confirmation by Audit NZ in the DCC's 2012/13 Annual Report.

# Dunedin City Council - Prospective Financial Information

## FUNDING IMPACT STATEMENT FOR THE YEARS ENDED 30 JUNE

	Annual Plan 2014 \$000	Long Term Plan 2015 \$000	Long Term Plan 2016 \$000	Long Term Plan 2017 \$000
<b>Sources of operating funding</b>				
General rates, uniform annual general charges, rates penalties	61,988	65,877	68,237	70,439
Targeted rates (other than a targeted rate for water supply)	60,126	67,140	70,433	73,105
Subsidies and grants for operating purposes	8,565	8,725	9,066	9,317
Fees, charges, and targeted rates for water supply	51,781	55,033	56,911	58,991
Interest and dividends from investments	14,876	14,656	14,656	14,656
Local authorities fuel tax, infringement fees, and other receipts	3,543	3,865	3,994	4,127
<b>Total operating funding</b>	200,880	215,295	223,296	230,635
<b>Application of operating funding</b>				
Payment to staff and suppliers	138,048	145,050	149,124	154,239
Finance costs	18,587	18,703	17,901	18,035
Other operating funding applications	665	783	783	783
<b>Total operating funding</b>	157,300	164,535	167,808	173,057
<b>Surplus (deficit) operating funding</b>	43,581	50,760	55,489	57,577
<b>Sources of capital funding</b>				
Subsidies and grants for capital expenditure	12,266	8,979	12,023	12,767
Development and financial contributions	797	851	880	910
Increase (decrease) in debt	(1,215)	(1,264)	(7,898)	(11,076)
Gross proceeds from sale of assets	3,375	59	61	63
Lump sum contributions				
<b>Total sources of capital funding</b>	15,223	8,625	5,066	2,662
<b>Application of capital funding</b>				
Capital expenditure				
- To meet additional demand	3,053	2,468	1,785	2,472
- To improve the level of service	23,386	15,297	15,051	12,278
- To replace existing assets	34,067	34,286	38,237	41,115
Increase (decrease) in reserves				
Increase (decrease) of investments	(1,702)	7,334	5,482	4,375
<b>Total applications of capital funding</b>	58,804	59,385	60,555	60,240
<b>Surplus (deficit) of capital funding</b>	43,581	(50,760)	(55,489)	(57,577)
<b>Funding balance</b>	0	0	0	0

# Dunedin City Council – Financial Information

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE

	Actual 2010/11 \$000	Actual 2011/12 \$000	Forecast 2012/13 \$000	Annual Plan 2013/14 \$000	Long Term Plan 2014/15 \$000	Long Term Plan 2015/16 \$000	Long Term Plan 2016/17 \$000
<b>Current Assets</b>							
Cash and cash equivalents	7,326	13,129	1,020	22,987	30,675	34,709	37,643
Other current financial assets	13,125	16,813	21,317	18,015	10,415	10,415	10,415
Trade and other receivables, inventories and prepayments	18,508	45,005	43,684	13,522	20,122	20,709	21,314
<b>Total current assets</b>	38,959	74,947	66,021	54,524	61,212	65,833	69,372
<b>Non-current assets</b>							
Other non-current financial assets excluding subsidiaries	58,403	53,532	59,432	57,652	63,365	63,814	64,254
Finance assets held in subsidiaries	115,551	194,080	194,843	197,805	194,537	195,537	196,537
Property, plant, equipment, and intangibles	2,846,338	2,726,382	2,746,363	2,931,068	3,022,070	3,106,692	3,193,010
	3,020,292	2,973,994	3,000,697	3,186,525	3,279,972	3,366,043	3,453,801
<b>Total assets</b>	<b>3,059,251</b>	<b>3,048,941</b>	<b>3,066,718</b>	<b>3,241,049</b>	<b>3,341,184</b>	<b>3,431,875</b>	<b>3,523,173</b>
<b>Current Liabilities</b>							
Short term borrowings		3,600	3,000				
Derivative financial instruments	18,201	24,900	18,574	19,658	18,201	18,201	18,201
Accounts payable and accruals	48,454	32,779	32,411	35,731	48,879	49,467	50,072
Current portion of term loans	6,760	12,836	13,657	12,486	13,200	13,868	13,680
<b>Total current assets</b>	73,415	74,115	67,642	67,875	80,280	81,536	81,953
<b>Non-current liabilities</b>							
Term loans	319,113	202,722	213,355	256,590	258,959	250,393	239,505
Provisions and other non-current liabilities	7,845	8,529	7,376	8,971	9,260	9,668	10,102
	326,958	211,251	220,732	265,561	268,218	260,061	249,606
<b>Equity</b>	2,658,878	2,763,575	2,778,345	2,907,612	2,992,686	3,090,278	3,191,614
<b>Total equity and liabilities</b>	<b>3,059,251</b>	<b>3,048,941</b>	<b>3,066,718</b>	<b>3,241,049</b>	<b>3,341,184</b>	<b>3,431,875</b>	<b>3,523,173</b>

## Dunedin City Council – Statement of Compliance with Financial Strategy

	<b>Forecast 2012/13</b>	<b>Annual Plan 2013/14</b>	<b>Long Term Plan 2014/15</b>	<b>Long Term Plan 2015/16</b>	<b>Long Term Plan 2016/17</b>
Rate increase limit	5.0%	4.0%	3.0%	3.0%	3.0%
Rate increase actual	4.9%	4.0%			
Rate increase forecast	11.9%	7.6%	5.5%	4.3%	3.5%
Gross debt limit	\$274.5m	\$269.1m	\$272.2m	\$264.3m	\$253.2m
Gross debt actual	\$227.4m				

Planned rate increases exceed the limits in the years 2014/15 – 2016/17. The DCC will need to make savings in these years in order to comply with the limits set in the Financial Strategy. Savings were made in the 2012/13 and 2013/14 years to achieve the Strategy limits.

The DCC's eventual gross debt limit of \$200 million is forecast to be reached by the 2021/22 year.

### Return on Investments

	<b>Actual 2012/13</b>	<b>Target Annual Plan 2013/14</b>	<b>Target Long Term Plan 2014/15</b>	<b>Target Long Term Plan 2015/16</b>	<b>Target Long Term Plan 2016/17</b>
DCHL Interest & Dividend	Achieved	\$10.45m	\$10.45m	\$10.45m	\$10.45m
Waipori Fund Dividend	Achieved	\$3.42m	\$3.07m	\$3.07m	\$3.07m
City Property Investment Dividend	Achieved	\$4.6m	\$4.4m	\$4.4m	\$4.4m

The annual distribution from the Waipori Fund was increased by \$350,000 per annum during the 2013/14 Annual Plan process.

### Debt Ratios

<b>Ratio and Limit</b>	<b>Actual 2012/13</b>	<b>Annual Plan 2013/14</b>	<b>Long Term Plan 2014/15</b>	<b>Long Term Plan 2015/16</b>	<b>Long Term Plan 2016/17</b>
Interest as % of Rates (target less than 20%)	13.8%	15.3%	14.4%	13.6%	12.6%
Interest as a % of Total Revenue (target less than 8%)	7.8%	8.6%	8.4%	7.8%	7.3%
Number of times that operating cash flow pays the interest (target 2.5)	3.6	3.0	3.2	3.6	3.9

The DCC is forecasting that it will be in breach of one of the prudential debt ratios, interest expense as a percentage of total revenue, which should be less than 8%, until the 2015/16 year.

## Glossary

**Annual Plan** – budget, project and performance information prepared annually by local authorities as required by the Local Government Act 2002.

**Annual Report** – report on the DCC’s performance against the annual plan. Content is specified by the Local Government Act 2002 and the document is audited.

**Council Controlled Organisation (CCO)** – a council organisation that is a company. There are three kinds of CCO: not-for-profit CCOs; non-trading CCOs and Council Controlled Trading Organisations.

**Council Controlled Trading Organisation (CCTO)** – a council controlled organisation that operates as a trading company for the purpose of making a profit.

**Dunedin City Holdings Limited (DCHL)** – the parent company of many of the Council Controlled Trading Organisations.

**Dunedin Venues Limited (DVL)** – CCTO that owns the Forsyth Barr Stadium.

**Dunedin Venues Management Limited (DVML)** – CCTO that manages and operates the Forsyth Barr Stadium, and other venues including the Dunedin Centre.

**Financial Year** – a period of 12 months ending on 30 June.

**Investment Property Portfolio** – the DCC’s investment property portfolio provides property investment income that is used to reduce the overall rates requirement.

**Long Term Plan** – audited 10-year plan prepared by local authorities under the Local Government Act 2002. Contains strategic planning including the Financial Strategy, and provides 10-year budgets, expenditure programmes and performance targets.

**New Zealand Transport Agency** – a Government agency with responsibility for planning and investing in the land transport network, managing the state highway network, and providing access to, and use of, the land transport system. The agency co-funds, (with local and regional government), local roads, public transport infrastructure and services.

**Standard and Poor’s** – international company providing independent credit risk research, benchmarks and credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities.

**Subvention Sum** – a payment made from a profit company to a loss company

**Waipori Fund** – a fund based on invested revenue from the sale of the Waipori electricity generation scheme which provides a source of non-rates funded revenue for the Council which can be offset against rates.

