3. RECOMMENDED DRAFT 2013-16 CHRISTCHURCH CITY THREE-YEAR PLAN

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PURPOSE OF REPORT

1. To put a Draft 2013-16 Christchurch City Three-year Plan (Draft TYP) before the Council for consideration; and

2. To seek approval of the Draft for consultation.

EXECUTIVE SUMMARY

3. Local authorities are required by the Local Government Act 2002 to have a Long-Term Plan (LTP) at all times. It is to continue in force until the close of the third consecutive year to which it relates (section 93(3)).

4. The Council's current 2009-2019 LTCCP was to be reviewed in 2012. The Council was exempted from having to comply with the provisions of section 93(3) in 2012, but must prepare and adopt a LTP before 1 July 2013.

5. Following discussions between the Government and the Council it has been agreed to reduce the term of its LTP from nine years (2013-22) to three years (2013-16).

6. That is the Draft TYP for which approval is now sought. The Government has agreed to pass an Order in Council to reduce the term of its LTP to three years. It is still intended that a special consultative procedure be undertaken to seek the views of the community.

7. Attached to this report are the following documents:

   (a) a statement of proposal containing the Draft TYP; and

   (b) an overview of the Draft TYP including financial information and a summary of the key issues.

8. Supporting information is provided via a series of appendices:

   Appendix 1: Issues & Challenges (strategic overview)

   Appendix 2: Community Outcomes

   Appendix 3: Financial Overview

   (i) Schedule 1: Capital changes

   (ii) Schedule 2: Operational changes

   (iii) Schedule 3: Internal changes

   (iv) Non-Rates funded

   Appendix 4: Financial Strategy

   Appendix 5: Levels of Service (as recommended by the LTP Committee)

   Appendix 6: Detailed Capital Works Programme

   Appendix 7: Financial Statements

   Appendix 8: Assessments of Services

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Appendix 9: Financial Policies

Appendix 10: Development Contributions Policy

Appendix 11: Maori Capacity to Contribute to Decision Making

Appendix 12: Fees and Charges

Appendix 13: Policy on Significance

Appendix 14: Council-Controlled Organisations

9. There have been a number of legislative changes put in place since the Council adopted the 2009-19 LTCCP. These are referred to in the legal considerations section of this report.

10. It is recommended that the Draft 2013-2016 TYP is approved for consultation.

FINANCIAL IMPLICATIONS

11. The Draft Three-year Plan recommends rates increases as follows:

	A / Plan	Three Year Plan		
	12/13	**13/14**	**14/15**	**15/16**
Total Rates Increase	7.61%	7.63%	7.21%	7.25%
less Impact of Growth	-0.19%	1.03%	0.64%	0.75%
Rates Increase to Existing Ratepayers	**7.80%**	**6.60%**	**6.57%**	**6.50%**
Special Earthquake Charge*	1.82%	1.93%	1.93%	1.93%
Major Community Facilities Charge	1.84%			
Ordinary Rates Increase	**4.14%**	**4.67%**	**4.64%**	**4.57%**

FINANCIAL STRATEGY

12. The recommended financial strategy for the Council to manage its share of the costs of the earthquake rebuild (consisting of response, infrastructure rebuild and major community facilities) as well as continue to provides its levels of service to the community is outlined in detail in Appendix 4.

13. The financial strategy represents a continuation of the strategies adopted by Council in the 2011/12 and 2012/13 Annual Plans. Council activities and capital renewals are funded through rates, fees and charges, investment income and NZTA subsidies on eligible roading works. Other growth and aspirational capital works are funded by development contributions and borrowing respectively. Council borrowing is repaid within 30 years.

14. Earthquake response and recovery costs are funded through insurance proceeds and government subsidies. The balance of costs of $1.379 billion is funded initially by Council borrowing, which is repaid over 26 years from part of Council's asset renewal budget and the Special Earthquake rates charge from 2015/16. Finally, the rebuild of Council's major community facilities is funded through insurance receipts together with Council borrowing. Borrowing required that was not budgeted in the 2009/19 LTCCP is repaid through the one-off Major Community Facilities charge that was levied by Council in 2012/13.

COUNCIL OPERATING BUDGETS

15. In preparing this TYP Council has recognised the need to ensure costs are kept under tight control and that rate increases are kept as low as realistically possible. Financial forecasts prepared as part of this plan indicate that the rate increase to existing ratepayers for the next three years will be 6.60%, 6.57% and 6.50%, inclusive of the 1.93% special charge.

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Because rates include interest expense and debt repayment, the increased capital programme resulted in a 4.16% per cent rate increase. This includes the impact of bringing forward significant growth-related capital expenditure in the 2012/13 Annual Plan to support the provision of new subdivisions in the city.

16. As a result costs have been closely reviewed and reductions of almost $12 million have been made, primarily in infrastructure and facility maintenance budgets. Included in the $12 million is a $2.5 million reduction in the review of the District Plan as a result of spreading the work over a longer period. Other expenses, with the exception of salaries have been held to 2012/13 levels. The effect of this has been to hold the 2013/14 operating expenditure budget (excluding recovery costs) to $371 million, $5 million lower than in last year's Annual Plan.

17. BERL has estimated inflation to be at 3.0 per cent and applying this rate to the 2012/13 budget would have given an upper limit of $388 million, meaning that the overall saving is closer to $17 million.

18. Costs have also been tightly controlled in year two and three of the plan, with operating savings of $5 million included in 2014/15 budgets.

19. This Plan is based on a number of forecasting assumptions which are detailed in the Significant Forecasting Assumptions section of the Plan. The key assumptions are:

    - Growth; over the next three years Council's growth projections assume that the population of Christchurch will grow by 1, 0.6 and 0.7 per cent per annum as the rebuild gains momentum. These assumptions are based on analysis performed by Market Economics and based on outputs from the Household Growth Model and the Economic Futures Model. Within the model there were several scenarios and the UDS Partners used Residential - Quick Recovery and Commercial - Medium. Any changes will impact on the percentage rate increase to existing ratepayers.

    - Inflation is based on rates provided by Business and Economic Research Limited, BERL. Inflation is provided on operating revenue and expenditure, and capital expenditure. A corporate weighted average is calculated and applied across all groups of Activities, with the resulting flow through to the balance sheet. The exceptions are the grants, the majority of which are not inflated.

    - Interest rates are provided by the Council's treasury advisors, PWC, (formerly Asia-Pacific Risk Management Limited) and assume that Council will take advantage of the current low interest rate environment to lock in long-term interest rate swaps to the full extent possible.

    - Funding from the Crown; at the time this Plan was adopted a process for timely reimbursement from the Crown was still to be determined. The assumption has been made that the Crown will pay its share of SCIRT costs on a monthly basis in accordance with the SCIRT agreement, to which it is a party.

FEES & CHARGES

20. The Council sets just under 700 fees and charges for a range of activities including discharge of waste, burial fees and swimming pool fees.

21. In the recommended 2013/14 Three-Year Plan Council proposes to increase two thirds of these fees, with a median increase of 1%. A summary of changes is set out in the table below:

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Summary

	Fees	Changes	Increases	Average Change	Median Change
Fees set under s. 12					
Art Gallery	21	4	4	10%	0%
Our City	0	0	0	0%	0%
Library	22	14	14	3%	3%
Recreation & Leisure	66	55	55	6%	3%
Community Support	27	22	19	7%	10%
Parks, Open Spaces and Marine	151	151	151	3%	3%
Events & Park Hire	20	20	20	3%	3%
Economic Development	5	5	0	0%	0%
City Plan	1	1	0	0%	0%
City Water & Waste	1	1	0	0%	0%
	314	273	263	3%	2%
Fees set under SCP					
Refuse Minimisation & Disposal	6	5	2	-4%	-6%
District Plan	5	0	0	0%	0%
Regulatory Services	221	130	91	1%	0%
Animal Control	42	0	0	0%	0%
Parking Enforcement	1	0	0	0%	0%
Streets & Transport	63	28	28	1%	0%
Water & Wastewater	22	17	12	6%	3%
	360	180	133	1%	0%
	674	453	396	2%	1%

22. Changes to fees and charges that require explanation are:

Recreation & Sport Centres
The proposed fee increases are in line with inflation except golf and swimming which face post earthquake pressures - reduced usage and increased costs at Rawhiti Golf while swimming pools are at capacity and face increased costs. Golf remains at the lower end of the local market and swimming at the lower end of the market nationally.

Community Support
It is that Community Hall fees be increased by 10% to meet increased costs.

Refuse Minimisation and Disposal
Kerbside collection fees are determined by Council's contractors and CCC has secured a better rate for bin swaps for ratepayers. Bin replacements are invoiced directly by the contactor.

Regulatory Services
Fees in this area have been streamlined and simplified in line with more efficient business process which will support the increased volumes of consents being received from the repair and rebuild activity. The overall number of fees charged has been reduced by 36.

FINANCIAL POLICIES

23. Council has policies to assist in managing its financial risk, including liquidity and funding risk management, interest rate exposure and counterparty credit risk. Further detail is provided within the Liability Management Policy.

24. An important element in assessing the value of Council's risk management strategy is its five key financial ratios.

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Key Financial Ratios	Recommended	Prior
net debt as a percentage of equity	<20%	<20%
net debt as a percentage of total revenue*	<250%	<100%
net interest as a percentage of total revenue*	<20%	<10%
net interest as a percentage of annual rates income (debt secured under debenture)	<30%	<15%
liquidity (term debt + committed loan facilities + liquid investments to current external debt)	>110%	>120%

**excludes non government capital contributions*

Net debt is defined as total consolidated debt less liquid financial assets/investments.

25. All ratios other than 'net debt as a percentage of equity' have been increased to reflect Council's increasing debt and interest over the next six years as detailed in the Financial Strategy. The new ratios are based on those set by the Local Government Funding Agency and represent good practice. As indicated in the ratio tables below the Council anticipates staying within its ratio limits for the three years of this Plan. Future forecasts of total borrowings and Council's key debt ratios are included in the Financial Strategy.

26. The previous Council Investment Policy recommended that Council not invest with entities with a long term credit rating below A-. However, over the past four years many entities across the globe have been downgraded including many New Zealand companies and Councils. The New Zealand is small and with the downgrade there are even fewer investment opportunities.

27. BBB+ has always been considered investment grade and it is recommended that the Council's investment policy be amended to permit investment in entities as set out in the table below. It is not proposed to change the maximum limit from that which already exists. The full Investment Policy is included within this Three-year Plan.

Counterparty/ Issuer	Minimum long term / short term credit rating	Investments maximum per counterparty ($m)	Interest rate risk management instrument maximum per counterparty ($m)	Total maximum per counterparty ($m)
NZ Government	BBB+/ A2	unlimited	none	unlimited
LGFA	BBB+	100.0	150.0	150.0
NZD Registered Supranationals	AAA	70.0	none	70.0
State Owned Enterprises [name]	BBB+/ A2	20.0	none	20.0
NZ Registered Bank [name]	BBB+/ A2	100.0	150.0	150.0
Corporate Bonds/ CP [names]*	BBB+/ A2	10.0	none	10.0
Local Government Stock/ Bonds/ FRN/ CP [name]**	BBB+/ A2 (if rated) Unrated	40.0 25.0	none none	40.0 25.0

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28. It is recommended that the business rate differential reduce from 66% to 57% of the general rate as a result of lower costs in the Streets activity, and that this rate be held for the three years through to 2015/16. It is also recommended that the rural differential increase from 75% of the general rate to 67%. Large variances in maintenance costs, particularly in the Sewerage Targeted Rate have resulted in greater fluctuations in the general rate than has ever been the case in the past, which impacts on rural ratepayers who, primarily, pay only general rates.

29. It is intended that over time, the differential will return to 75%.

30. Full details can be found in the Rating Policy.

31. The Stronger Christchurch Infrastructure Rebuild Team is repairing and replacing existing sewage disposal systems damaged by the September 2010 earthquake and aftershocks. In the areas worst affected, existing gravity-fed wastewater disposal will be replaced by a low pressure pump sewer system. This involves installing small chambers on individual properties to collect the household's waste water which is then pumped under pressure to new polyethylene street mains.

32. Because it is a service being provided by the Council, Council will meet the annual electricity supply charges paid by property owners to operate the system.

33. For single dwelling properties, it is recommended that this be done by remitting the annual rate charge for each affected property by an amount equivalent to that estimated to be the additional cost incurred. For the 2013/14 year this remission is set at $23.50 plus GST per property.

34. For multiple dwelling properties serviced by a single pump, an additional meter may be installed and Council will pay the charges directly.

35. Full details of this proposed new remission is available in the Rates Remission Policy.

36. Remission does not apply to:
    - a low pressure pump sewer system that was owned and installed by a property owner prior to the date the policy came into effect;
    - the future subdivision of a property in an area in which the system is required to be installed;
    - land that was vacant prior to 4 September 2010.

37. Previous policies have included a numeric range for the revenue received from each of user charges, other revenue, targeted rates and general rates which has led to the need to consult each year on minor variations when the revenue source has moved outside of the range. This draft Plan recommends using descriptors such as Full, Majority, Residual, Market to describe the process followed by Council in considering revenue sources. The full list is set out in the Revenue and Financing Policy.

CAPITAL PROGRAMME

38. The recommended Draft TYP includes a proposed capital programme that totals $3.0 billion on a range of capital projects across the city including updates for the latest estimates for the facility and infrastructure rebuild programmes. The total programme has been split into four portfolios to differentiate between the continuing capital programme; the major community facilities programme; the facilities rebuild programme and the infrastructure rebuild programme. Please refer to Appendix 6 for details.

DEVELOPMENT CONTRIBUTIONS

39. The Development Contributions Policy (Appendix 10) has been revised with the post-earthquake environment in mind. Growth can only be accommodated when infrastructure is provided to the right standards, in the right place and at the right time. This policy is based on the premise that it is reasonable for those who require the infrastructure to make a contribution towards these substantial costs, and that additional costs should not be borne unfairly by the current rate-paying community, many of whom have already contributed their fair share to growth in the past.

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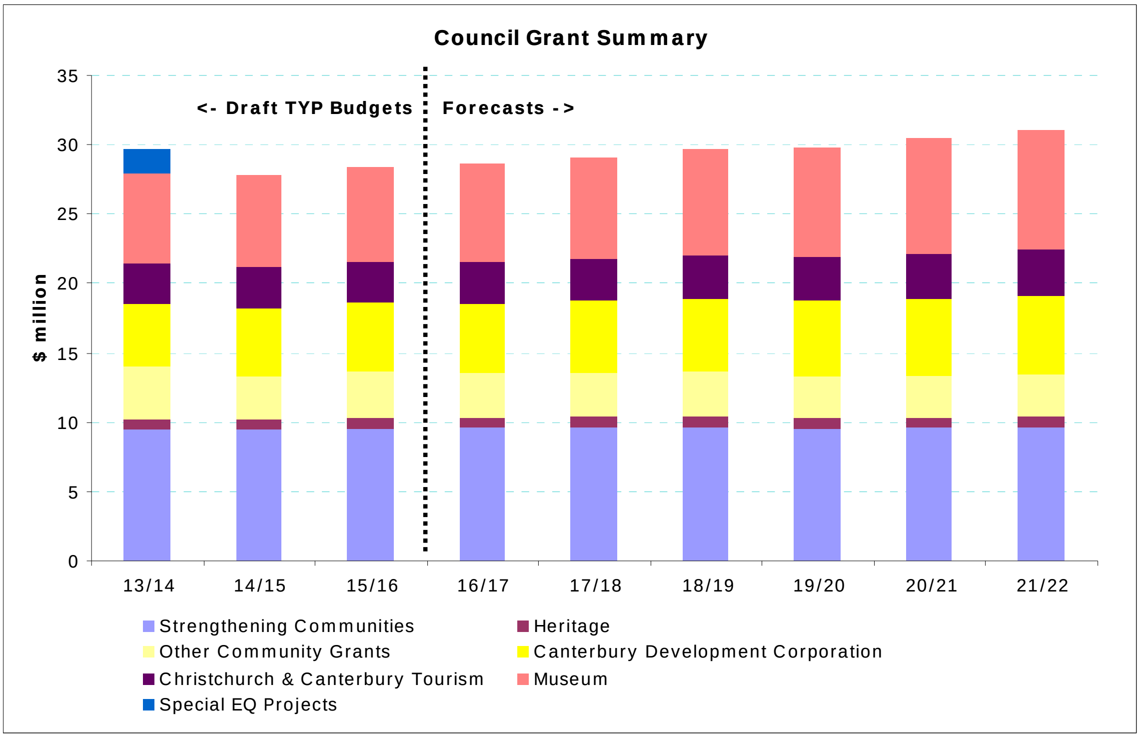
40. The Council is also mindful of the need to ensure intergenerational equity. The burden of growth development costs is thus spread across time (over which benefits from the initial capital expenditure will continue to flow) so as not to impose the full financial cost on the current growth community.

41. The Draft TYP will be effective until 2015/16, however it is essential that projects driven by growth be forecast beyond that time frame. The recommended Development Contributions Policy (Appendix 10) contains the list of growth-related capital projects for nine years.

COUNCIL GRANTS AND CAPITAL ENDOWMENT FUND

42. The recommended Draft TYP includes provision for Council grants totalling $86 million over three years to other organisations (excluding capital grants). The recommended budget for grants in 2013/14 is $29.7. The chart below provides a summary of the proposed grants budgets and forecasts; further detail is provided with the financial statements.



43. At $9.5 million per annum, the largest pool of grants Council provides is from the strengthening communities fund. The grants are approved by the Metropolitan Funding Committee and are made to support community-focused organisations whose projects contribute to the strengthening of community wellbeing in Christchurch.

44. The Draft TYP assumes that Council grants are kept at the same level as 2012/13, with the exception of the following:

- Council resolved to suspend inflation-proofing of the Capital Endowment Fund for 2012/13 and 2013/14 to make funds available for special one-off recovery / transitional projects or events. The recommended budget does not make provision for these grants to continue after 2014/15.

- Operating grants for the Canterbury Development Corporation (CDC), Christchurch & Canterbury Tourism (CCT) and the Canterbury Museum are adjusted on an annual basis for inflation. This enables these organisations to continue to provide their agreed levels of service with budgets that are protected from the impact of inflation.

- Council provides some specific grants through its capital programme (Canterbury Museum Redevelopment and Riccarton Bush Capital) or through its earthquake response budgets (transitional incentive grants). More detail on these grants can be found in the capital programme detail.

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45. The detailed grants schedule in the financial statements section shows that nearly 90% of Council's operational grants are sourced directly from rates. The remainder ($3.3 million per annum) is provided from the earnings of the Capital Endowment Fund (CEF).

46. The CEF was established in 2001 using the Council's share of the proceeds from the sale of an investment in a gas company. It provides an ongoing income stream which has been applied to economic development (70%) and civic and community projects (30%) after the fund is inflation protected. As noted above, the exception to this is 2012/13 and 2013/14 where the Council resolved that the inflation-protection funding should be allocated to for special one-off recovery / transitional projects or events.

47. Council's practice has been to commit the available earnings from the CEF to economic development and community events and this has resulted in earnings being split 50/50 between these categories. Few applications have been made over the past four years for civic and community projects, partly because Council also has significant funding available for this purpose through its Strengthening Communities Fund ($9.5 million per annum).

48. There are two existing funding requirements from the CEF:

- **Community Events.** Several of Council's Iconic events are funded from the CEF: Cup & Show Week, Antarctic Festival and the Women's Golf. The Buskers Festival and Ellerslie Flower Show are also Iconic Events, but are self-funding. These Iconic Events require $1.050 million per annum from the CEF. In addition, in the past Council has reserved $200,000 per annum for allocation to one-off events (note that Council has already resolved to allocate funds to World Bowls and to the FIFA Under 20 World Cup in 2013/14 – 2015/16).

- **Economic Development.** Council has made grants to CDC and CCT special projects using this part of the fund. CDC has expressed its desire to restore its investment in the Canterbury Regional Innovation System (CRIS) to $1 million per annum (Council has provided $350,000 per annum for the past three years but previously provided $1 million per annum). CCT has requested project funding at least in line with previous years ($850,000) and has noted the need for additional promotional spend in future years.

49. This ongoing funding requirement of $3.25 million exceeds the CEF's current earnings forecasts (after inflation protection). Based on current interest rate forecasts of 5% per annum and inflation of 2% - 3% per annum, the initial CEF earnings are not sufficient to provide this funding requirement and fully inflation-protect the fund.

50. The Draft TYP budgets recommend that Council allocates $1.25 million per annum to Community Events and $2.0 million per annum to Economic Development ($1.7 million in 2013/14). Taking into account forecast inflation, this means the fund will not be able to be fully inflation protected in the initial years of the TYP unless real interest rates are higher than forecast. In the next LTP, CEF earnings are forecast to be higher, which will allow the fund to be fully inflation protected and to recover some of the lost inflation-protection in the earlier years. These funding allocations and earnings forecasts will be reviewed in the 2015/25 LTP.

LEGAL CONSIDERATIONS

51. Section 93(3) of the LGA 2002 was modified by the Canterbury Earthquake (Local Government Act 2002) Order (No.2) 2011. Instead of complying with that section in 2012 the Order requires the Council to prepare and adopt a LTP before 1 July 2013 covering a period of not less than nine years starting on that date. The Order also provides that the LTP adopted by the Council continues in force until the close of the second consecutive year to which it relates.

52. Following discussions with the Government, the Council has agreed to reduce the term of its LTP from nine years to three years.

53. The Order will be amended to reflect this, but the purpose of the TYP will be consistent with the purpose of a LTP.

54. Section 93 sets out the purpose of a LTP. It is to:

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(a) describe the activities of the Council;

(b) describe the community outcomes of the Council's district;

(c) provide integrated decision-making and co-ordination of the Council's resources;

(d) provide a long-term focus for the Council's decisions and activities;

(e) provide a basis for accountability of the Council to the community;

(f) provide an opportunity for participation by the public in decision-making processes on activities to be undertaken by the Council.

55. The Draft TYP attached to this report complies with these requirements.

56. Normally a LTP covers a period of not less than 10 consecutive financial years. As indicated earlier, this has been reduced to three years for the 2013-2016 TYP.

57. In previous long-term plans the Council was required by the LGA 2002 to carry out a process for identifying community outcomes. It also had to report every 3 years on the progress made by the community in achieving those outcomes. These statutory provisions were repealed in 2010, but the obligation still remains for the Council to describe community outcomes.

58. Further changes have been made by the Local Government Act 2002 Amendment Act 2011, which came into force on 4 December 2012. Previously community outcomes were the outcomes the Council aimed to achieve in order to promote the social, economic, environmental and cultural well-being of its district. Now they are to be aimed at meeting the current and future needs of communities for good-quality local infrastructure, local public services and performance of regulatory functions (section 5 of the Amendment Act).

59. In June 2011 the Council resolved to introduce a special earthquake charge to meet the borrowing and interest costs incurred in funding an operating deficit. This has been necessary as a result of lost revenues and increased costs. Further information is set out in the financial strategy, attached as Appendix 4.

60. Section 100(2) of the LGA 2002 allows the Council to operate a deficit, if the Council resolves that it is financially prudent to do so. It is recommended that such a resolution be made.

CONSULTATION FULFILMENT

61. Section 93(2) of the LGA 2002 requires the Council to use the special consultative procedure before adopting a LTP (now referred to as the 2013-2016 TYP).

STAFF RECOMMENDATION

It is recommended that the Council resolves to:

(a) Adopt the schedule of fees and charges attached to the Draft 2013-2016 Christchurch City Three-year Plan (Draft TYP);

(b) Operate a financial deficit for the period covered by the Draft 2013-2016 TYP;

(c) Approve the rate requirement of $332,771,387 million (net of GST) for the year 2013-14;

(d) Adopt the Draft 2013-2016 TYP;

(e) Approve for distribution and consultation the statement of proposal for the Draft 2013-2016 TYP;

(f) Authorise the General Manager Corporate Services to make any necessary amendments to the documents referred to in this resolution to reflect Council's resolutions;

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(g) adopt the following timetable for consultation:

(i) Public notices ("The Star", "The Press" and the Council's website) in preparation for community consultation commencing 16 March 2013;

(ii) Closing date for submissions: 19 April 2013;

(iii) Oral submissions heard: 13, 14, 15, 17, 20, 21 May 2013;

(iv) The Council will meet to formally adopt the Draft 2013-2022 TYP: 24, 25 and 26 June 2013.