

## 6. REVIEW OF POLICIES RELATED TO THE UNDERGROUNDING OF OVERHEAD WIRING

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### PURPOSE OF REPORT

1. The purpose of this report is to review the Council's current policies and practices relating to the undergrounding of overhead wiring and seek Council approval to rescind ineffective and inappropriate policies, and clarify effective and functional policies.

### EXECUTIVE SUMMARY

2. There are approximately 880km of overhead wires in the city which could potentially be undergrounded. These wires are owned by Orion, Telecom and TelstraClear. The Council does not own any wiring, nor the poles upon which the wiring is supported.
3. Historically, both the Council and the public have indicated they would like to see wiring undergrounded. The visual amenity of wiring removal and safety benefits of pole removal are clear. However, the costs of undergrounding raises questions about whether it is in the best interests of the Council to actually undertake it.
4. The Council has a range of policies relating to undergrounding. They include requirements for undergrounding of new subdivisions; setting timetables for undergrounding of the city; establishing a cost share policy; and policies that relate directly and indirectly to selecting the streets for undergrounding. Current budgets are inadequate to meet the timelines of one policy recommending fully undergrounded city by 2033, and the residents' cost share policy is of limited credibility in the current local government environment. In addition, there are a range of significant problems in trying to implement the 50/50 cost share policy that makes it a significant drain on the Council, and residents' resources, introduces risk into budget setting processes, and creates a source of ill will between both parties.
5. A number of alternative methods of funding for undergrounding have been considered, including use of Orion dividends, rent for poles space, use of Council operational or capital budgets and residents' contribution. If the Council continues to underground, the most practical mechanisms to pay for undergrounding are the use of the Council's operational budget, or development of a properly established residents' contribution process. All other mechanisms explored are either inappropriate under Council practices and procedures, or will ultimately impact on the operational budget.
6. Considering these two funding mechanisms, the most realistic options for an undergrounding programme relate to setting a relatively small programme so that the Council's rates impact is kept low. Further, despite being a funding option, the use of a residents' contribution programme is not recommended, as it carries inherent difficulties, including an element of compulsory participation.
7. There are currently three operative processes through which streets are selected for undergrounding. The Transport & City Streets Unit has a process for selecting arterial and collector roads, based primarily on safety requirements. The Urban Design team selects roads that are part of Neighbourhood Plans, and residents self-select streets by an ability to pay for their share of undergrounding. A further policy for undergrounding narrow streets is due to be set and then implemented in 2006/07.
8. Other than some clarity and transparency issues related to the two former processes, and a clear need to develop the latter narrow streets policy, there do not seem to be any overriding requirements for a detailed review of them. The residents' street selection will drop out of the equation if a residents' contribution policy is specifically not developed.

*The Council considered this report on 17 November 2005, after receiving a deputation from Mr Donaldson of the Hamilton Avenue/Chilcombe Street Action Group (HACSAG). In order to further consider the following points raised by the deputation, and subsequent questions by Council, this report was delayed until 1 December 2005. The deputation's and the Council's points were:*

1. *Clarify the actions resulting from the 1993 policy.*
2. *Evaluate the underground funding option known as Option 5 by the deputation.*
3. *Provide more detail in relation to the setting of a residents' contribution/targeted rate.*
4. *Identify an appropriate way to handle those streets that have already asked about the 50/50 cost share policy at the time of this report.*

*Further explanatory comments from officers relate to:*

5. *Impacts on Orion, Telecom and TelstraClear from changes to the undergrounding programme.*
6. *Other funding sources.*

*All comments in relation to the above points are added to the original report in italics. All text from the original report is unchanged.*

#### **FINANCIAL AND LEGAL CONSIDERATIONS**

9. The recommended policy actions in this paper are cost and rates neutral and therefore have no financial implications.
10. The recommended policy actions in this paper will remove two Council policies that could have legal implications for the Council if they remain in place. Legal implications could arise from the Council not acting in accordance with its policies. Their rescinding has no legal implications. Funding of undergrounding is a matter for the Council, so rescinding the 2000 policy, which allows cost sharing with the residents as a means of funding the undergrounding, will not affect the fact of undergrounding continuing, as decided on by the Council. The 1993 policy referring to the 40 year timeline does not provide the basis for any of the Council's other undergrounding policies, and its rescission will not affect any undergrounding carried out by the Council.

#### **STAFF RECOMMENDATIONS**

It is recommended that the Council:

- (a) Rescind the 1993 policy that refers to the strong statement to be included in the City Plan that all city streets to be undergrounded within 40 years (by 2033).
- (b) Maintain the current level of expenditure (approximately \$1.6M pa) on undergrounding until the arterial/collector programme is complete (approximately five years). Subsequent expenditure levels will be determined on policy reviews at that time. (Note: If the expenditure is less, it will potentially free up operating funds).
- (c) Rescind the 2000 policy allowing cost sharing with the residents.
- (d) Does not establish a residents' contribution policy for undergrounding.
- (e) Requests officers to refine and clarify the Council's policies in relation to undergrounding on the basis of safety and tourist routes (arterials and collectors), and amenity improvements, including narrow streets, for adoption by the Council before the commencement of the 2006/07 financial year.

## **BACKGROUND ON POLICIES RELATED TO THE UNDERGROUNDING OF OVERHEAD WIRING**

### **INTRODUCTION**

11. The Christchurch City Council has several policies relating to the undergrounding of overhead wires. There is now some confusion caused by separate policies relating to the same activity, and also a number of issues and difficulties that have arisen in complying with these policies.
12. Three issues in particular are currently raising concern. First, current budget allocations are not sufficient to meet a 1993 policy target of undergrounding all services by 2033. Second, the policy relating to cost-sharing with residents is proving difficult to implement, is placing unexpected pressure on the undergrounding budget, and there is pressure from residents to change it. Third, other Council policies related to undergrounding do not seem clear and transparent to the community and add to the confusion related to their implementation.
13. The Council has therefore requested a review of all policies relating to the undergrounding of overhead services, and the recommendation for a subsequent course of action.

### **UNDERGROUNDING INFORMATION**

14. Of the 1350km of urban streets in Christchurch, there are approximately 880km where overhead wires remain, including 65km of urban streets on hills. These streets are in the older parts of the city. Wires have been laid underground in areas developed since the mid 1960's. Current funding levels permit approximately 2.25km of overhead wires to be undergrounded each year.
15. The Council does not own any wiring. The Council does own streetlighting poles where wiring is already underground. Generally, the poles on one side of the street are owned by Orion and on the other side by Telecom. Telstra Clear attaches its cables to existing poles. Streetlights on all poles are owned by the Council.
16. The Council undergrounds overhead wiring for two primary purposes: safety – whereby wiring poles are removed from the immediate roadside on arterials and collectors; and amenity – whereby streets in Special Amenity or Neighbourhood Plan areas use undergrounding as an enhancement mechanism. Occasionally other undergrounding happens on local roads as a result of the current cost share policy. All undergrounding occurs immediately preceding street reconstruction

### **CURRENT CCC POLICIES**

17. The Christchurch City Council has a number of current policies relating to undergrounding of overhead wires. The policies that directly impact on the Council undergrounding activities are as follows:

#### **Undergrounding of Overhead Services - adopted 14 December 1993**

18. This policy states:
  1. *That a strong statement is included in the City Plan and Strategic Plan that all services are undergrounded within 40 years.*
  2. *That the Council has discussion with the Board of Southpower (now known as Orion) on how this may be achieved.*
  3. *That the Council set policy that all Cable TV cables within the city be undergrounded.*

#### *Explanatory point 1:*

*There is no indication that such a statement was inserted into the 1994/95 Annual Plan, nor the City Plan, which was under development at the time, nor any subsequent plan documents. At the time of the policy, Southpower was fully responsible for undergrounding in the city (albeit in discussion with CCC). It was not possible under the Resource Management Act 1991 to require network operators to underground existing services, hence the policy statement could not be included in the plans, nor given effect to.*

*Discussions with Southpower were ongoing in relation to undergrounding for a number of years, and resulted in control of the undergrounding programme moving to the CCC in 1996.*

*The City Plan can and does require (Vol 3, Part 9, Clauses 4.4.1 and 4.4.2) that wires be undergrounded in all new subdivisions. This provision has existed since 1963, in the succession of planning documents and for this reason new subdivisions since then have services undergrounded. In 2000 a Variation was made to the City Plan primarily relating to the attachment of transmission lines to existing support structures.*

*Revoking the "40 year" policy has no implications for the city plan.*

### **Cost Sharing Undergrounding of Services - adopted 23 November 2000**

19. This policy states:

*That where residents request to have their overhead services undergrounded in association with kerb and channel/street reconstruction work (outside the existing programme) on the basis that they will collectively meet part of the costs, then the Council will do so only on a 50% cost sharing basis provided that:*

- 1. The Council's share is budgeted in the financial year following the request and the work be programmed/reprogrammed for the same year; and*
- 2. Full payment of the residents' share is paid and received before the work commences.*

20. The practice of undergrounding arterial and collector roads during road reconstruction is not clearly expressed as a stand-alone policy, but has been adopted as common practice at least since the CCC took over undergrounding management from Southpower in 1995. Streets undergrounded for amenity purposes are chosen in accordance with Urban Renewal Policy. Narrow streets have been identified as a separate category for undergrounding commencing in 2006/07. Policy for selecting these streets has yet to be written.

### **COSTS AND BUDGET OF UNDERGROUNDING**

21. The current (February 2005) cost to the Council of undergrounding, where there is no contribution from Telecom, is around \$750,000 per kilometre. There has been no recent undergrounding on the hills and therefore the costs of this are unknown, but will be higher.
22. Network companies (Orion, Telecom and TelstraClear) will only generally underground on their own initiative when it is in their commercial interest to do so. When the Council requires wires to be undergrounded in conjunction with street improvement works, Orion currently contributes 18% of the cost to reflect the betterment they receive. This proportion is established in a formal agreement between the two parties.
23. Telecom pay 50% if the undergrounding is for safety reasons or due to road widening and nothing if it is for amenity reasons. Costs are therefore higher for amenity undergrounding projects.
24. TelstraClear pays 100% of their costs in accordance with the deed agreed between Telstra Saturn and Council on 17 October 2000.
25. The Council pays the remaining 82% of Orion's conversion costs, the remaining amount of Telecom costs and the full cost of street light upgrading.
26. Because the wiring and poles are not a Council asset, undergrounding work is an operational expense. The Council gains no asset value increase from undergrounding, hence cannot spend capital on undergrounding. The costs associated with the new street lighting poles and lights are a capital expense, as the lighting is owned by the Council and is upgraded when undergrounding occurs. The proportion of capital to operational expenditure is approximately 10% to 90%.

27. The Transport & City Streets Unit currently has a budget of approximately \$1.2m per year for undergrounding. This includes \$100,000 per annum set aside to fund the Council's share of the cost share scheme – this requirement was introduced in the 2001/02 Annual Plan. The Planning Strategy Unit has \$250,000 of operational funding for Urban Renewal Projects, most of this is spent on undergrounding. There is an additional \$200,000 per annum operational funding in the City Street's budget from 2006/07 for narrow streets.
28. The total operational budget available as from 2006/07 is therefore \$1,690,000 p.a. As the current cost of undergrounding is around \$750,000 per kilometre the budget is only sufficient to underground 2.25km per year. At this rate it will take around 380 years to underground the remaining overhead wires. This does not include any consideration of financial input from residents.

#### **FUNDING OF UNDERGROUNDING**

29. As indicated, 90% of Council undergrounding costs are met from the operational budget. If any changes to current rates of undergrounding are to be considered, mechanisms for funding need to be evaluated.
30. A number of options have been considered as additional or alternative funding streams for undergrounding. These are considered in detail in the undergrounding report prepared for the Council seminar. In summary, the issues considered are:
  - Lobbying central government for funding – this is not practical, given the likely timeframes and possibility of success.
  - Use of CCHL annual dividend (indirectly from Orion) – not practical as CCHL returns are effectively Council operational income.
  - Direction to Orion to underground – this compromises Orion's commercial independence, and would reduce Orion returns to CCHL.
  - Rates and rent from network companies – the Council cannot rate in excess of appropriate funding formulas.
  - Redirection of capital from kerb and channel – the Council cannot redirect capital sums of this magnitude as capital funds must apply to an increase in asset value. Further, this action would adversely affect the Council's asset renewal programme.

#### *Explanatory point 2*

*The Council currently spends approximately \$15M of capital per year on the programme to renew approximately 21km of kerb and channel. The deputation proposed "Option 5" suggesting that this programme could be reduced by approximately one third (\$5M), and this money redirected to undergrounding all the streets that are to be renewed each year. The suggestion is that the capital funding be directly transferred to the operational budget and that the overall capital and operational total is unchanged.*

*There are several problems with this approach. First, the street renewal programme is paid for out of capital budget. Capital funding is sourced largely through borrowing, and to a lesser extent, through operational income. If the capital programme is reduced by a certain amount, it does not 'free up' a similar operational amount. Reducing the capital programme by \$5M will not free up \$5M to be available for operational funding. The reduction in capital budget reduces the operational budget by a much lower, but proportional amount. In addition, the kerb and channel renewal attracts LTNZ assistance and this reduction would result in the Council foregoing a further \$2M in revenue.*

*Second, the Council cannot directly transfer capital budget to operational projects. Capital expenditure needs to be applied to an asset so that the Council retains the improved value of the asset when the budget is spent. As overhead wiring is not owned by the Council, expenditure on undergrounding does not return any increase in asset value to the Council. The expenditure of capital on operational projects is not permitted under the funding/accounting rules to which the Council adheres.*

*Third, the Council's street renewal programme is established to meet asset management and replacement targets, and is forecast into the future well beyond the 20 year end of the deep-dish street renewal programme. Reducing the capital programme for street renewals by a third will fail to meet the expected end date of the deep-dish renewal targets, extending the remaining 20 years of the street renewal programme by a further seven years. Beyond the current 20 year target, however, the kerb and channel renewal programme is intended to increase by approximately 50% over the following 20 years. Delaying the current programme for a further seven years, will effectively mean an increase of over 110% for the following 20 years. In other words, programming in such a delay now, will have extremely significant impacts on the asset management programme 20 years out and beyond. While some streets now "are in good enough condition to sustain a short increase in service life", such a delay in the programme will mean streets due for renewal in future years will most assuredly not be in good enough condition.*

*Further, through its current timing, the street renewal programme completes components of carriageway and footpath resurfacing programmes. Extending the street renewal programme to delay kerb and channel will not, however, delay the need for resurfacing and reconstructing carriageways or footpaths. As such, a delay of \$5M street renewal costs per year will require an additional expenditure of \$3M per year to maintain other asset levels of service. There would effectively only be a reduction of \$2M per year in capital expenditure. In addition, if this required \$3M of maintenance is not undertaken, the likely outcome is total failure of the asset, which will in-turn prove more expensive to rectify than the costs of ongoing, regular maintenance.*

*In conclusion, "Option 5" presented by the delegation on 17 November is not a practical option to provide undergrounding – it cannot be implemented as presented, nor is any variation of delaying kerb and channel an appropriate mechanism to deliver undergrounding. Further, attempting to implement it as presented would result in a net reduction in capital expenditure of only \$2M, and a foregone income of \$2M operational from reduced subsidy.*

- Targeted rate for undergrounding – the setting of a special rate to build up a budget reserve for undergrounding would effectively be the same as increasing rates.
- Residents' contributions – are a possible revenue source for undergrounding, however setting an appropriate rate will require the policy to be set in the LTCCP and a formal process to be established prior to implementing.

*Explanatory point 3.*

*The Council has the power to charge residents or service users for the provision of its services.*

*If the Council reviews the contributions from residents to undergrounding costs a specific process must be followed. Firstly, the Council needs to determine how much of the undergrounding cost should be recovered from residents. There is a specific process to ascertain how much of the benefit of the service goes to the residents, and how much goes to Council/ratepayers generally. It is not impossible that this process may determine that more than 50% of the cost should be recovered from residents.*

*Once the proportion to be recovered from residents is determined, the Council needs to determine how to recover that proportion. Two mechanisms are available:*

- *Lump Sum/Set Fee: The Council may determine to recover the sum it has determined through a lump sum imposition on each property.*
- *Targeted Rate: The Council may choose to recover the undergrounding proportion from residents based on a targeted rate. A rate is levied to recover the per-property sum, usually over a number of years. The longer the rating period, the more complex the Council's job in recovery becomes (as properties get sold or subdivided, and the rate needs to be recalculated each year to accommodate inflationary increases). On the other hand, the shorter the rating period, the more financial impact the residents will feel in any one year.*

*In setting a targeted rate or lump sum payment, the Council should first assess whether the residents in the street in question were prepared to accept the payment and mechanism. The Council would need to inform each property of the cost and process seek a signed agreement that the resident/owner. If any individual in a street does not agree, the Council would have the right to withdraw from the arrangement and not underground the street.*

The Council does have the power to impose targeted rates without agreement, but it is questionable how wise it would be to do this. An option is that the Council could set itself a target level of agreement (say 80% of residents must agree), before imposing a rate.

If the Council chooses to seek lump sums or targeted rates, the policy for their implementation needs to be included in the Council's Revenue and Finance Policy - note this is only the policy that must be included; it does not need to include the list of streets that may experience lump sums or targeted rate. This policy must be identified in the LTCCP.

Where the Council chooses to allocate a percentage of the costs to resident (rather than a fixed value), actual cost uncertainty for the residents will continue right up until the tender is let. In order to reduce this uncertainty, the Council would be wise to set a fixed \$ value for resident undergrounding costs (which may be modified for each street, or each new financial year). This means that residents could gear themselves up much earlier in the process to determine whether they are prepared to meet the costs. The difficulty is that the Council would subsequently carry the financial risk of fluctuations in tendered costs.

- Operational budgets – are the current source of undergrounding budgets and are provided from rates, revenues from services and returns from CCHL. This option is the cleanest and clearest funding mechanism for undergrounding funding.
31. The effective conclusion is that the only practical methods for funding undergrounding is either for the Council to fully fund the work from its operational budget, or to receive some level of residents' contribution. If the Council is to continue with undergrounding, then it is clear that a significant proportion of the cost will be always be met from operational budgets. The debate around residents' contributions is covered later in this paper.

*Explanatory point 6*

*While this paper considers the Council's operational budget or a residents' contribution to be the only practical sources of undergrounding operational revenue, this does not preclude residents or other organisations and businesses choosing to fully fund undergrounding in their streets. In such cases, the Council can offer mediation and management services only (not including fund raising).*

**POLICY REVIEW – UNDERGROUNDING DISTANCE AND 40-YEAR TARGET POLICY**

32. Despite saying only that "a strong statement is included in the City Plan and Strategic Plan that all services are undergrounded within 40 years", the 1993 policy is interpreted, particularly in the minds of the interested communities, as a strong policy direction (the fact that the statements did not and could not appear in the planning documents notwithstanding). It is therefore appropriate to review this policy.
33. The following table gives three different scenarios that illustrate costs associated with different undergrounding rates. The figures are based on 880km of overhead wiring that could potentially be undergrounded, at an average cost of \$750/m for undergrounding.

Rate of undergrounding	Per Annum	Years to complete
Complete 2.25km p.a. This is the current approximate rate of undergrounding using routine u/g, urban renewal u/g, and narrow sts u/g	\$1.69M	380
Complete 10km p.a. This rate will ensure that all streets undergoing k&c renewal are undergrounded at the same time.	\$7.50M	88
Complete 31.5km p.a. This rate would see all undergrounding complete within the 40 time frame from 1993 (complete by 2033 as per 1993 policy)	\$23.50M	28

34. It is reasonable to say that there will be inadequate funding available, from any operational budget source, to underground the city streets within 40 years from 1993. At a minimum of \$23.5M per year, this option would equate to a rise in current rates of approximately 9% (\$21.2M above existing expenditure), or substitution of expenditure to that level. The scrutiny and pressures on Council operational budgets would make this magnitude of rate rise, for undergrounding only, unpalatable to Christchurch ratepayers and the Council.
35. It is therefore clear that the 1993 Council policy to have the city fully undergrounded within 40 years (ie by 2033) will not happen. To provide a further practical limit to the length of undergrounding per year, it is reasonable that undergrounding should not occur faster than the equivalent length of streets undergoing kerb and channel renewal (i.e. 10.5km of undergrounding per year). Undergrounding at a greater rate than this would require trenching in streets that would otherwise have no work undertaken. There are aesthetic and maintenance benefits to limiting undergrounding to streets that will subsequently be fully reconstructed.
36. Options around a practical and affordable length of undergrounding each year are as follows:
- Option 1: Maintain the status quo.
  - Option 2: Increase undergrounding to the equivalent length of kerb and channel
  - Option 3: Cease undergrounding completely
  - Option 4: Variable lengths between 0 and 10.5km per year.

### **Assessment of Undergrounding Distance Options**

37. Option 1: Maintaining the status quo

This option requires the retention of the approximately \$1.69M per year operational expenditure, distributed between the Transport and City Streets arterial/collector programme, the Urban Design neighbourhood improvement programme, and the narrow streets programme.

- The existing rate of undergrounding meets safety requirements through the undergrounding of arterials and collectors.
- The existing rate provides some amenity benefits in areas of amenity significance – although typically at a rate slower than the kerb and channel renewal programme, meaning some neighbourhood plan areas are reconstructed without undergrounding occurring.
- Maintenance at existing levels provides relative budgetary certainty into the programme.
- Residents seeking undergrounding of their local roads would remain unsatisfied.

38. Option 2: Increase undergrounding to the equivalent length of kerb and channel

This option would mean increasing undergrounding lengths to 10.5km per year.

- Undergrounding 10.5km at today's costs will cost approximately \$7.5M per year, or the equivalent of 2.5-3% of existing rates take (\$6M above existing expenditure).
- All streets, regardless of amenity significance or hierarchy would be undergrounded at time of reconstruction
- All residents' complaints about lack of undergrounding during reconstruction would be resolved.
- The completion of the street reconstruction programme will be dependent upon undergrounding being completed first, adding a further variable into the reconstruction planning process – it may mean more streets are delayed, requiring carryforwards.
- The programme would load an additional \$1.2M on to Orion's costs, and unspecified additional costs to Telecom and TelstraClear, all of which may be opposed by them.

#### *Explanatory point 5*

*Through the mechanisms and agreements in place with Telecom, Orion and TelstraClear, any increase in the undergrounding programme will load additional costs on to these organisations. The Council has received no signals from these organisations that further undergrounding is either sought or desirable – each of these organisations can and do underground at a rate that is commercially appropriate for them. The Council's current undergrounding programme exceeds this.*



*Further, compelling additional undergrounding from Orion up to the 10.5km per year of this option will increase their operating costs by \$1.2M per year, which may subsequently reduce their returns to CCHL.*

- The extended work programme would load the contracting industry which would need to gear up to match the programme – i.e there is not an immediate capability to match this workload.

39. Option 3: Cease undergrounding completely

Under this option, undergrounding would cease.

- No undergrounding would free up approximately \$1.69M from the Council's operational budget. This budget could either be diverted to other operational projects or used to fund capital borrowing.
- Neighbourhoods seeking undergrounding for amenity benefits would be disappointed.
- Clear policy direction of no undergrounding would resolve all matters of debate over which streets are undergrounded and why.
- The safety benefits currently obtained from undergrounding can be managed through pole movement or other actions. Capital costs may therefore be slightly higher – but not to the same magnitude as undergrounding costs.
- It would also remove an element of risk from budgets in relation to growing undergrounding costs.
- There would be no projects delayed due to planning, design or construction delays in undergrounding.

40. Option 4: Variable lengths of undergrounding

There is a further option, to choose lengths of undergrounding, from zero to 10.5km per year. There are various drivers for choosing different lengths per year, such as safety requirements, amenity improvements, community expectations etc. Ideally, the length to be undergrounded should be set a couple of years in advance (developed at LTCCP time) so that budgets can be confirmed and the construction elements geared up. Ideally, variable lengths of undergrounding should be driven by other street selection policies, which are discussed later.

### **Selection of Preferred Undergrounding Distance Option**

41. The recommended option for the length of undergrounding per year is to deliver at the current rate (maintain status quo) of approximately \$1.69M per year (2.25km), primarily because of the consistency it allows the undergrounding construction programme and operational budget. Increasing the length of undergrounding is not recommended, mainly owing to the increased loading on the operational budget. Similarly a variable rate of undergrounding is not recommended owing to the uncertainty and inconsistent loading on the budgets. The cessation of undergrounding appeals from a budget and project management perspective. However, the Council has thus far clearly signalled the regular provision of some undergrounding for amenity and safety reasons, hence this is not the preferred option.

### **POLICY REVIEW – UNDERGROUNDING COST SHARE POLICY**

42. The November 2000 50/50 cost share policy was formulated after residents of Waiwetu Street in Fendalton argued for undergrounding of wiring to occur during their street reconstruction. After considerable debate, the Council agreed to undergrounding on a 50/50 cost share basis. The policy was intended to be enabling – i.e. it was intended to allow the residents to contribute the 50% that they wanted to do. Since that time, however, the policy has become less enabling, and more enforcing.
43. Since policy introduction, only five streets in the city have been undergrounded on a cost share basis. Two other streets have recently attempted to achieve the required 50% cost contribution for the undergrounding but were unable to obtain the necessary residents' contribution. Currently, the residents of Hamilton Avenue and Chilcombe Street are investigating the opportunities for partaking in the cost share policy. The residents noted the cost of the work, and submitted to the 2005 Annual Plan requesting a change to Council policy on the undergrounding of residential streets.

44. The cost share policy has proven to be not an effective, enabling policy, and has created a number of problems when officers have tried to implement it. These are summarised as follows:
- Different perspectives on the 50/50 policy can mean either that the Council is required to find undergrounding funding if the residents manage to achieve their share, or could decline to participate (on budget grounds) even if residents achieve their share.
  - Over the last year, approximately \$55,000 of the undergrounding budget has been spent on managing design and tender processes for projects that did not come to fruition.
  - The implementation of the policy takes considerable officer resources – even if the project does not come to fruition.
  - The policy can be interpreted as favouring streets and residents in affluent areas.
  - Street reconstruction projects tend to get delayed to allow the investigative and fund raising work to occur.
  - Changing the policy to a different cost share scheme could raise issues with residents who have already contributed to a cost share scheme.
  - Residents question the legality and ethics of the funding lobbying and collection that they are required to do.
  - It is questionable whether the way the cost share policy was established is appropriate in today's legislative and policy environment
45. The above issues indicate a policy review is appropriate.

#### **Assessment of Cost Share Policy Options**

46. Three policy options are considered for contributions by residents to undergrounding.
- Option 1: Maintain the status quo
  - Option 2: Rescind the existing 50/50 policy and develop a revised resident contribution policy
  - Option 3: Rescind the existing 50/50 policy and do not establish a further cost-share policy.

47. Option 1: Maintain the Status Quo.

This policy option to maintain the status quo will leave the opportunity for residents to participate in undergrounding. The only perceived advantage to retaining the status quo is that some residents may appreciate the opportunity to have their streets undergrounded (despite the fact that they may be contributing to that). However, the disadvantages (as indicated above) remain.

- Of particular concern is the fact that it is usually very late in the project development process that residents are able to confirm, or not, their ability to contribute. This prevents robust budget planning, and will always create an element of risk that both residents and the Council carry right up until final tenders are received.
- A further, significant disadvantage of retaining the residents' 50/50 policy is that some interpretation of the policy wording is required. It is currently unclear as to whether the Council is required to match the residents' contribution, should they prove able to contribute; or whether the prerogative is to decline undergrounding if the budget is inadequate. If the latter is appropriate, the future of residents' cost share undergrounding is shaky as a policy programme, as existing undergrounding budgets are inadequate to underground all but the shortest of residential streets (approximately 250m).
- The 2000 cost share policy was not developed according to currently acceptable processes and is difficult to implement with any degree of credibility.

48. Option 2: Rescind the existing 50/50 policy and develop a revised resident contribution policy

The development of a new residents' contribution is an option for the Council. A new contribution policy will need to be developed according to appropriate statutory processes, as indicated earlier in this report.

49. The advantages of developing a new residents' policy is that structure of the policy would be fully compliant with the now-standard processes that Councils use for establishing costs of services. It would also offer some certainty to residents on their required level of contributions.
50. The disadvantages of maintaining even an improved resident's contribution policy are significant:
- The Council should not impose a rate/fee upon the residents without determining a threshold of agreement from residents, above which all residents could be made to pay. If the threshold of agreement was reached, it is clear that not all residents would wish to pay for undergrounding, which would mean that some would have the fee/rate imposed upon them.
  - The issue of equity would still remain – it is reasonable to presume that only those in the wealthier neighbourhoods would seek a residents' contribution for undergrounding.
  - To allow the residents to assess whether they wish to contribute, the amount of residents' contribution would need to be fixed early in the process (that is, much earlier than the stage at which the project goes to tender). This means, therefore, that the Council will need to take the financial risk associated with cost fluctuations.
  - If the policy changes to require a lesser proportion of residents' contribution, it is possible it would raise some dissatisfaction amongst those who contributed at the higher rate.
  - The contribution policy needs to be established through the LTCCP process.
  - The level of obligation on the Council would need to be resolved (i.e could the Council refuse to participate if budgets were inadequate), or alternatively a selection policy would be required to limit Council exposure to costs where a number of streets meet the contribution thresholds.

51. Option 3: Rescind the Existing 50/50 Policy and do not establish a Residents' Contribution Policy

There is an option to fully rescind the 2000 policy relating to residents' cost share, and subsequently not develop a cost share policy. This action would have the advantages of:

- Allowing robust and predictable forward planning of the undergrounding budget.
- Reducing officer and resident workload in attempting to administer a cost share policy.
- Would allow streets to be undergrounded in accordance with clear and defined policies, rather than economic capabilities of individual streets.

52. Other than not permitting a residents' contribution to cost/share undergrounding, this policy option would not appear to have any disadvantages. There have not been any requests from residents to refine the existing cost share policy – only abolish the requirement for it, and have the Council fund 100% of undergrounding. This policy action would not, however, preclude residents from contributing 100% of the cost of undergrounding, should they so wish. In such circumstances, the Council could act as an initial facilitator between network operators and residents, but would not expend any operational budget on the activity.

### **Selection of Preferred Residents' Contribution Policy Option**

53. The foregoing explanation of the various options indicates that the existing 50/50 cost share policy is difficult to implement, generally ineffective in enabling residents to participate in undergrounding their streets and loads uncertainty and risk into both Council budgets and resident fund raising efforts. It is recommended that the 50/50 cost share policy be rescinded.
54. It is possible to develop an improved residents' contribution policy that would be more in line with local government cost collection policies, however there is no clear requirement for a cost share policy at all. There have been no calls for an improved cost share policy. An improved cost share policy is not recommended.

*Explanatory point 4*

*At the time of this review, residents of three Christchurch streets have made known to Council officers their desire to consider undergrounding of their streets – their desire to participate in the 50/50 cost share policy is not so clear. At this time, the 2006/07 undergrounding budget has insufficient funding to participate in cost share undergrounding of any of the three streets (Hamilton Avenue, Chilcombe Street and Thornycroft Street), and the residents have been advised accordingly.*

*Compelling participation in the cost-share policy for these streets will either require an increase in the undergrounding budget (estimated increase of \$700,000 – operational) or the deferring or cancellation of undergrounding on two major arterial roads (Blighs and Wairakei Roads) which are already programmed and being designed.*

**POLICY REVIEW – STREET SELECTION POLICY**

55. All selected streets are undergrounded when the street is due for kerb and channel renewals. This is a practical measure from which there are no compelling reasons to change. However, the option exists to underground at the same time as footpath renewal/resurfacing to minimise overall amenity impact of the underground trenching.
56. The matter of limited budget constrains the debate on which streets should be undergrounded. Unless budgets are extended to include all streets in the kerb and channel programme (which is not a recommended option), a selection policy is needed to identify the limited number of streets for undergrounding within that programme.
57. Currently the CCC selects roads for undergrounding based on:
- Safety and minor amenity consideration – arterials and collectors prioritising process
  - Amenity – neighbourhood plan areas
  - Amenity – narrow streets policy (yet to be determined).
  - Resident requests - under the half share policy, based on residents' and Council's ability to pay.
58. If the recommendation to rescind a residents' half share policy is accepted, then the latter selection process above is eliminated.
59. The options that present themselves are to either:
- Option 1: Fully re-determine the policies under which streets are chosen for undergrounding;
  - Option 2: Retain the status quo.
  - Option 3: Maintain the existing policies with some clarity and refinement of how streets within the policies are selected.
  - Option 4: Addition of further selection policies.
60. Option 1: Fully re-determine the policies under which streets are chosen for undergrounding:
- To date, there is minimal debate over the policies under which streets are selected for undergrounding. The Neighbourhood Areas and Collector/Arterials tend to be generally accepted. It is therefore not considered that a full policy review here is appropriate or necessary.
61. Option 2: Retain the status quo:
- On the other hand, in an open and transparent policy environment, a clear explanation on street selection process in the public information forum is appropriate and necessary. Therefore, simple maintenance of the status quo is not adequate.

62. Option 3: Maintain the existing policies with some clarity and refinement of how streets within the policies are selected.

This option is the preferred and recommended approach.

63. Option 4: Addition of further selection policies.

There is the possibility of adding further criteria upon which to select streets for undergrounding, while remaining within the recommended current-expenditure limit. In particular, it may be considered appropriate to extend the arterial/collector and narrow streets policy to include central city streets (of which there are an estimated 5km within the four avenues), and link these streets in to be undergrounded when (for example) there is a reduced distance of arterial road to be undergrounded in any one year.

### **Selection of Preferred Street Selection Policy Option**

64. As indicated above, there has been little debate over the value and integrity of the existing undergrounding selection policies, so it is not recommended that a full review is justified or necessary. However, there is room to clarify and promulgate to selection policies for the safety and neighbourhood policies, making option 3 the recommended approach, noting that the narrow-streets component needs to be integrated into the neighbourhood/amenity policies.

65. The option of extending the existing policies (option 4) is a practical option.

### **SUMMARY OF RECOMMENDED POLICY OPTIONS**

#### **Rates Neutral Policy Option Package**

66. The foregoing has recommended three policy review positions which:
- Rescind the 1993 policy requiring all city streets to be undergrounded within 40 years (by 2033). With the length of undergrounding yet to achieve, and the increasing costs, plus the financial loading that this would place on Telecom, TelstraClear and Orion as well as the Council, this policy is clearly unachievable.
  - Maintain a yearly undergrounding budget that aims to achieve approximately 2.25km per year. This is approximately the current budget for undergrounding, and maintaining it does not place further pressure on either the existing operational budget (rates take), nor require substitution from elsewhere in the operational budget. It does, however, continue with undergrounding to meet the benefits that the Council seeks.
  - Rescind the 2000 policy allowing cost sharing with the residents. This policy is proving hard and costly (in time and budget) to implement, places considerable uncertainty on both the Council and the residents' budgets, and it is of questionable status as a policy relating to residents' contributions to a Council service in the current legislative environment.
  - Do not establish a residents' contribution policy for undergrounding. Aside from the administrative process required to develop one (formal process to determine benefits, promulgate in LTCCP etc), such a policy would still carry equity concerns and inevitably would require compulsory fees or rates loaded on non-willing participants. It would load uncertainty onto the Council's budgets.
  - Refine and clarify the Council's policies in relation to undergrounding on the basis of safety and tourist routes (arterials and collectors), and amenity of neighbourhood plan areas including narrow streets. Ensuring clear and transparent policy is a generic Council requirement.
  - This combination of policy steps is effectively rates-neutral for the Council.

### **Do Nothing Policy Option Package**

67. The option to do nothing implies that the 1993 policy statement to underground all wiring by 2033 will remain, as will the cost share policy, and the current rate of undergrounding. The disadvantages of the 2033-goal policy is that it is impossible to achieve at current undergrounding rates. The cost share policy is difficult to implement. There are no advantages to the Council or community by doing nothing.

### **Other Policy Options Packages**

68. Other combinations of the policies and modifications to them are possible. The rates of undergrounding can be varied to suit a range of Council goals and objectives. However, no clear, specified goals have yet been identified for which undergrounding is a cost-justified implementation tool – noting that undergrounding will cost the Council approximately \$750,000 per km (equating to 0.36% rate rise per km). There appears to be no justification to retain or develop an improved residents' cost share policy.