7. CAPITAL PROGRAMME FOR 2006/16 LTCCP

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PURPOSE OF REPORT

1. The purpose of this report is to describe and seek Council approval for the financial envelope for the Capital Works programme for inclusion in the 2006/16 Long Term Council Community Plan

EXECUTIVE SUMMARY

2. The capital programme for the 06/06 LTCCP needs to be determined.

3. Cost increases and newly identified projects has resulted in potential capital levels between $300 - $500m higher than the 04/14 LTCCP programme.

4. This has caused a fundamental re-think in approach to prioritising our capital programme. Projects have been re-classified into Base (primarily renewal and replacement programmes which Council has little option but to deliver to maintain our basic infrastructure without reducing service levels) and Choice/New Initiatives.

5. All Choice (projects in the 04/14 LTCCP capital programme not classified as Base) and New Initiative projects (recently identified projects for consideration) have been subjected to a prioritisation process using a matrix to identify Service delivery Gap and Strategic Priority.

6. Projects prioritised as Urgent totalled $480m.

7. Council at a recent seminar indicated a desire to determine an appropriate long run level of capital expenditure (that would reflect affordability, delivery capacity and need) before finalising actual projects.

8. Officers have detailed four options ranging from $110m to $140m per annum long run average capital spend.

FINANCIAL AND LEGAL CONSIDERATIONS

9. The LTCCP must include a 10 year capital programme that supports the Councils Activity Management Plans and supports the services that will be delivered towards achieving Community Outcomes.

10. The LTCCP will be audited, not only as to its content but also to the processes and decision making. The Draft LTCCP needs to be approved by Council by 9 March 2006 to enable sufficient time for consultation and subsequent consideration before being finalised by 30 June 2006.

PROCESS

11. The process for determining the level of capital expenditure (including impact on rates) and the actual capital programme can be described in four stages:

12. Stage 1
Identify the potential projects for inclusion in the LTCCP.

13. Stage 2
Split the capital programme between base, choice and new initiative and prioritise the choice and new initiative projects using the strategy/service level matrix.

14. Stage 3
Determine the financial envelope for the capital programme in terms of affordability (long run average capital expenditure and impact on rates) and capability to deliver.

15. Stage 4
Confirm the capital choice and new initiative projects to be funded in the 2006/16 LTCCP from the group of projects identified in Stage 2 and to fit the financial envelope described in Stage 3.

STAFF RECOMMENDATIONS

It is recommended that the Council:

1. Receive the report

2. Note the impact various capital programme levels have on rates

3. Determine the level of capital expenditure (annual long run average) that Council want to drive the 06/16 LTCCP

4. Initiate the 'Stage 4' process to confirm the projects to make up the agreed capital programme level.

BACKGROUND ON CAPITAL PROGRAMME FOR 06/16 LTCCP

16. During September and October 2005 three seminars were held with Council to describe both the overall cost of the capital works programme and the list of potential capital projects.

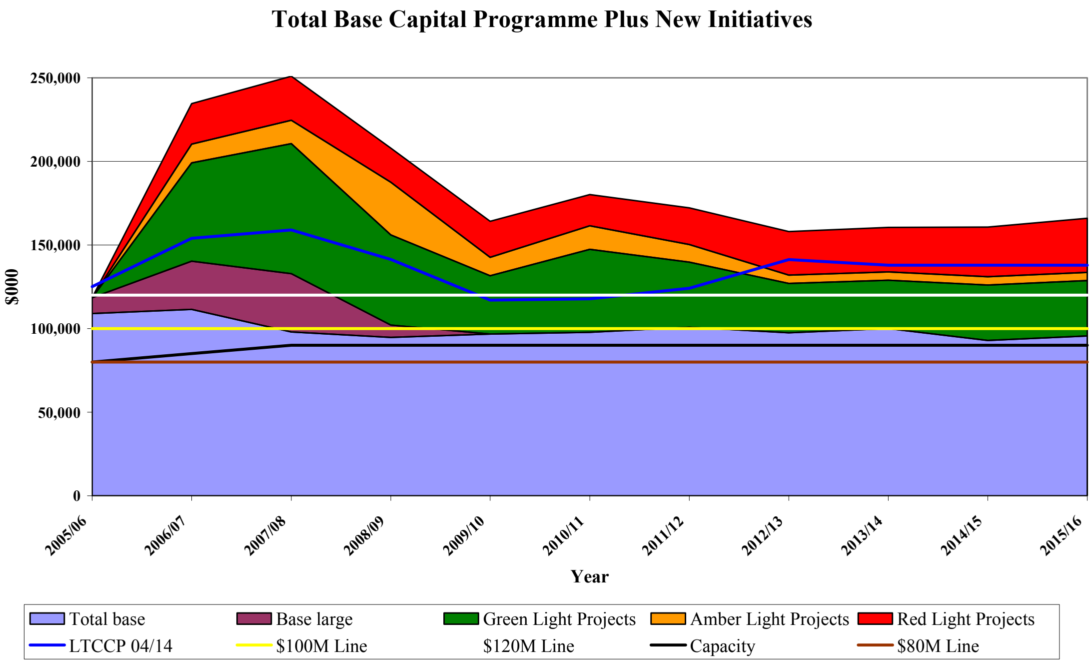
Overall Capital Works Programme

17. The seminars were presented with a series of graphs that described the key factors for consideration:

18. Capacity – the value of capital works that the organisation can deliver each year. For physical construction work (excluding land purchase, fleet purchase and other similar capital) the upper limit for 2006/07 is estimated at $80m. Last year $65m of physical works were delivered. Current planning estimates that the total capital expenditure for the current financial year (2005/06) will be in the region of $100m including all capital items; this is against a capital budget of $169m. A major re-programming exercise will be required.

19. Affordability – the total value of capital work that Council is willing to fund. The seminars discussed 'capping' the capital programme at $100m or $120m.

20. The initial graph that sets out all the potential capital works over the ten years of the 2006/16 LTCCP is as follows:



Note: Inflation is not included.

Potential Capital Projects

21. The capital programme has been split into two major components (as described in the chart above):

22. Base – the projects and programmes undertaken by Council each year that maintain the public asset at the agreed standard. This will include all of the renewal and replacement programmes. Also included in the Base, shown as 'Base Large', is the Ocean Outfall project and the purchase of land for Henderson's Basin. It is to be noted that the Base programme by itself is over the capacity level of $80m per annum.

23. Choice and New Initiatives – the Choice projects or programmes were part of the original capital programme but are considered to be discretionary in that they either improve existing assets or create new assets rather than just replace assets. New Initiatives are those projects newly identified for consideration by Council for inclusion in the 2006/16 LTCCP.

24. The Choice and New Initiative projects/programmes have been prioritised using the following matrix:

Priority	Small	Large
High	**Very Important** Proposals for aligning service with strategy should be ready for the 07/08 or 08/09 financial year, including processes to amend the LTCCP if necessary	**Urgent** Proposals for aligning service with strategy should be ready for the 06/07 financial year, including processes to include the proposal in the 06/16 LTCCP if this is necessary
Low	**Relatively unimportant** May be addressed when time and resources permit	**Important** Proposals for aligning service with strategy should be completed in time for including in the 09/19 LTCCP

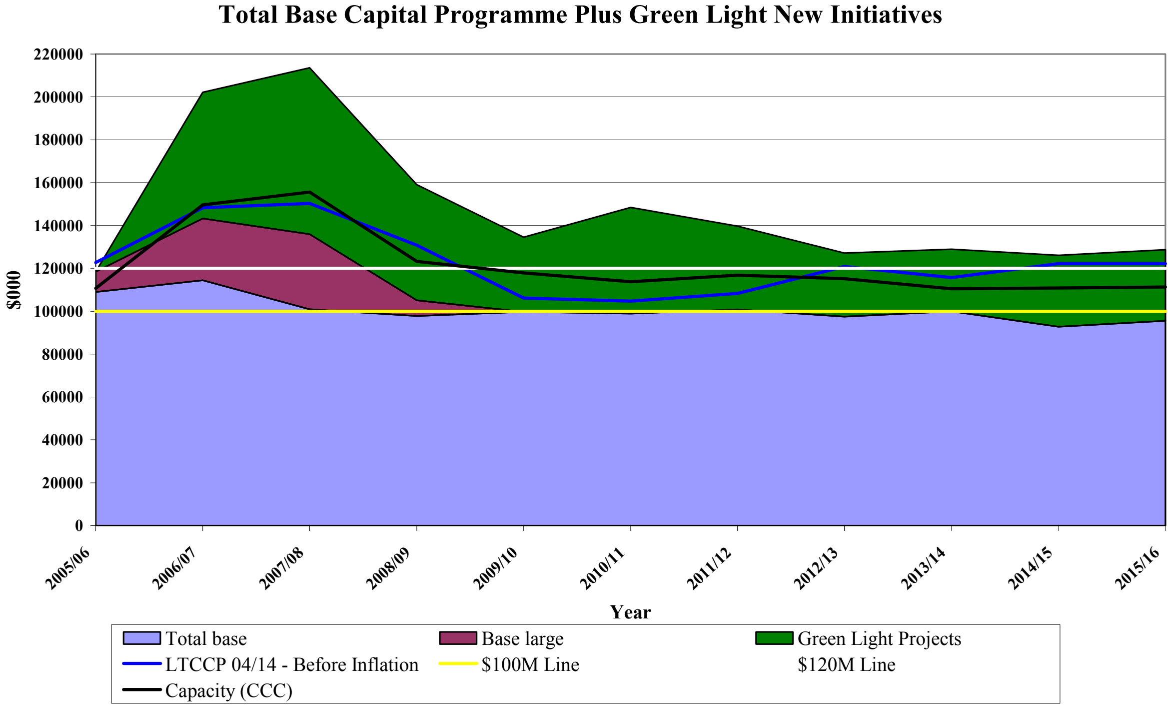
Service Delivery Gap

25. Projects ranked as Urgent (highest service gap and strategic priority) are codified as 'Green Projects', Important projects are 'Amber Projects' and Relatively Unimportant are 'Red Projects'. The full list of projects as prioritised by Council in the seminar process is attached to this report as Appendix A.

26. Officers applied the matrix to all Choice and New Initiative projects through a rigorous process that included consideration of existing strategies and linkages to Community Outcomes. This process resulted in a professional recommendation on relative priorities. Council continued this process through the seminars to produce a revised list of priorities – the total value of 'green' projects was approximately $480m over the ten year period.

Council 'Green Projects

27. The graph for the Council projects indicated as 'green' or urgent priority by the Councillors in the second seminar is as follows:



28. This graph peaks in 2007/08 at $217m and is well above the identified delivery capability and would have a significant upwards impact on rates.

FINANCIAL ENVELOPE OPTIONS (STAGE 3)

29. The following options have been described in terms of the original 2004/14 LTCCP Capital Programme and rates as Option 1. Each option is then shown as a variation to this with the amount of long run average capital expenditure, the impact on rates, the amount of capital spending available after funding Base, Base Large and Base – No Choice programmes and commentary on capacity issues.

30. The calculation for rates is a complex relationship between revenue, operating and capital expenditure. It is not possible at this stage to give a rate prediction with any confidence.

31. One of the most significant factors is the capital programme, for until we know with more certainty what the capital programme is we cannot consider a specific projects impact on operating costs. In addition we are aware of a number of cost type increases (in excess of CPI) that are indicating a challenge on the rate level indicated in the 04/14 LTCCP.

32. We also believe it is timely to review the basis of calculation for the operating surplus (in particular the averaging of capital over 20 years), and the current application of the inter-generational treatment, which sees any capex in any of the LTCCP 10 years having an impact in year one.

33. To make progress, at this point of the 06/16 LTCCP development, the relationship of $1.7m opex = 1% rate, and $20m capex (within the 10 year programme) = 1% rate increase, still holds true, therefore Council can see the impact in a change of capital expenditure level. This has been applied evenly over the ten year period, for example an additional $100m = 5% rate increase = 0.5% per year for ten years and the current policy application has also been described with the impact on year one rates.

OPTION 1 – COUNCIL REMAIN WITHIN THE CURRENT $120M LONG RUN AVERAGE CAPITAL SPEND

	2006/07 $'000	2007/08 $'000	2008/09 $'000	2009/10 $'000	2010/11 $'000	2011/12 $'000	2012/13 $'000	2013/14 $'000	2014/15 $'000	2015/16 $'000	total $'000
Base											
LTCCP 04/14 - Before Inflation	148,286	150,245	130,755	106,149	104,779	108,331	120,808	115,723	122,242	122,242	**1,229,559**
Rates	3.06%	3.32%	6.25%	6.30%	4.24%	2.88%	3.01%	3.73%	2.52%	2.92%	
Base + Base Large	136,659	129,009	105,114	99,681	98,839	100,825	97,512	100,013	92,800	95,566	**1,056,018**
Base - No Choice	9,491	10,286	23,400	13,400	4,900	14,900	5,060	4,900	4,900	4,900	**96,137**
Difference	2,136	10,950	2,242	-6,931	1,039	-7,394	18,236	10,809	24,541	21,775	**77,404**

34. This option is basically as identified in the 2004/14 LTCCP. After taking into account the Base, Base Large and Base – No Choice projects and programmes (Appendix B), there is approximately $80m left over the ten years to allocate on New Initiative or Choice projects. The average rates over the ten year period is 3.82%. This is as per the 04/14 LTCCP and assumes future cost increases are covered by our inflation provision, which has not proven to be achievable in recent years.

35. Significant effort will be required to simplify and improve the delivery processes and the planning capacity to ensure that this level of capital programme can be achieved over the short and long term. This will include addressing project approval processes, delegations and standards as well as the amount of planning effort required.

OPTION 2 – A LONG RUN AVERAGE CAPITAL SPEND OF $110M

Option 2	2006/07 $'000	2007/08 $'000	2008/09 $'000	2009/10 $'000	2010/11 $'000	2011/12 $'000	2012/13 $'000	2013/14 $'000	2014/15 $'000	2015/16 $'000	total $'000
Level of Capex $110M	132,661	134,414	116,978	94,964	93,738	96,916	108,078	103,529	109,361	109,361	**1,100,000**
Rates (approximate)	2.56%	2.82%	5.75%	5.80%	3.74%	2.38%	2.51%	3.23%	2.02%	2.42%	
Base + Base Large	136,659	129,009	105,114	99,681	98,839	100,825	97,512	100,013	92,800	95,566	**1,056,018**
Base - No Choice	9,491	10,286	23,400	13,400	4,900	14,900	5,060	4,900	4,900	4,900	**96,137**
Difference	-13,489	-4,882	-11,536	-18,116	-10,001	-18,809	5,506	-1,384	11,661	8,895	**-52,155**

36. This sees rates reduced to reflect the $100m less being spent over the ten year period. However this level of funding is <u>insufficient</u> to meet the Base, Base Large and Base – No Choice projects and programmes by approximately $60m over the ten year period. There is no scope for New Initiative or Choice projects. The average rates over the ten year period is 3.32% which is down 5% (1% = $20m), theoretically this should impact in year 1 meaning that the rates for 06/07 would be negative! An alternative approach could see this spread evenly as a 0.5% reduction each year.

37. This level of capital programme can probably be delivered successfully with limited changes to current processes and capacity. The exception to this will be the peak of work in the first two years (06/07 and 07/08) and the impact of the size of the 2005/06 capital programme.

OPTION 3 – LONG RUN AVERAGE CAPITAL SPEND OF $130M

Option 3	2006/07 $'000	2007/08 $'000	2008/09 $'000	2009/10 $'000	2010/11 $'000	2011/12 $'000	2012/13 $'000	2013/14 $'000	2014/15 $'000	2015/16 $'000	total $'000
Level of Capex $130M	156,781	158,853	138,246	112,230	110,781	114,537	127,729	122,352	129,245	129,245	**1,300,000**
Rates (approximate)	3.56%	3.82%	6.75%	6.80%	4.74%	3.38%	3.51%	4.23%	3.02%	3.42%	
Base + Base Large	136,659	129,009	105,114	99,681	98,839	100,825	97,512	100,013	92,800	95,566	**1,056,018**
Base - No Choice	9,491	10,286	23,400	13,400	4,900	14,900	5,060	4,900	4,900	4,900	**96,137**
Difference	10,631	19,557	9,733	-850	7,042	-1,187	25,157	17,439	31,544	28,778	**147,845**

38. This sees rates increased to reflect the additional $100m being spent over the ten year period. This level of funding creates approximately $150m over the ten year period to allocate to New Initiative and Choice projects. The average rates over the ten year period is 4.32%, theoretically this would impact in year one as an increase of 5% making the 06/07 rates 8.06%! An alternative approach could see this spread evenly as a 0.5% increase each year.

39. This level of capital expenditure will be a stretch to deliver and most likely it will take some time to build up effective and efficient processes as well as capacity to the point that there is confidence in delivering the total programme.

OPTION 4 – LONG RUN AVERAGE CAPITAL SPEND OF $140M

Option 4	2006/07 $'000	2007/08 $'000	2008/09 $'000	2009/10 $'000	2010/11 $'000	2011/12 $'000	2012/13 $'000	2013/14 $'000	2014/15 $'000	2015/16 $'000	total $'000
Level of Capex $140M	168,841	171,072	148,881	120,863	119,303	123,348	137,554	131,764	139,187	139,187	**1,400,000**
Rates (approximate)	4.06%	4.32%	7.25%	7.30%	5.24%	3.88%	4.01%	4.73%	3.52%	3.92%	
Base + Base Large	136,659	129,009	105,114	99,681	98,839	100,825	97,512	100,013	92,800	95,566	**1,056,018**
Base - No Choice	9,491	10,286	23,400	13,400	4,900	14,900	5,060	4,900	4,900	4,900	**96,137**
Difference	22,691	31,777	20,367	7,783	15,564	7,623	34,982	26,851	41,486	38,720	**247,845**

40. This sees rates increased to reflect the additional $200m being spent over the ten year period. This level of funding creates approximately $250m over the ten year period to allocate to New Initiative and Choice projects. The average rates over the ten year period is 4.82%, theoretically this would impact in year one as an increase of 10% making the 06/07 rates 13.05%! An alternative approach could see this spread evenly as a 1% increase each year.

41. It is unlikely that the processes, systems or capacity exists to deliver this level of capital programme at least until the next LTCCP in three years.

OPTION EVALUATION

42. To help Council consider the implications of the Capex envelope and selected long run average capital spend, officers have looked at a programme of capital projects that support Councils current strategic framework which is generally well understood, namely:

Greater Christchurch Urban Development Strategy (UDS)

43. This strategy, while not completed, is indicating the need for Council to consider a number of strategic land purchases to develop nodes or greater concentrations of residential development, for example in the central city.

Metropolitan Christchurch Transport Strategy (MCTS – projects included in 04/14 LTCCP)

44. This strategy sets out the need for substantial investment to reduce congestion and improve safety. This investment will be required across the full range of transport related infrastructure including passenger transport and cycling.

Central City Revitalisation Strategy Stage 1

45. The first stage of the strategy has set the framework for a range of initiatives aimed at strengthening the vibrancy of the central city.

46. Given the impact and relative importance of these strategies, and the scope and scale of the capital projects that are required to implement them, these have been assumed as the most significant priorities for Christchurch at this time.

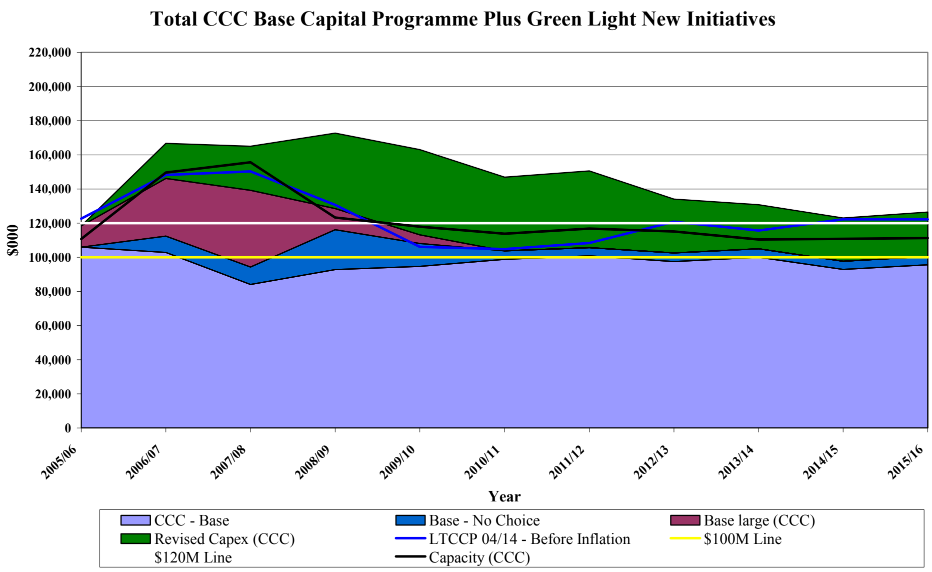
47. Based on the above strategic considerations projects have been selected from the list in Appendix A and a possible programme developed. Details of these projects are in Appendix B. These projects also support Councils Traction projects.

48. The ten year programme for this expenditure is summarised below. This expenditure programme has been constructed to reflect the long lead times required for a number of these projects. In addition a 'rolling fund' has been proposed for the strategic land acquisitions that once created will only need to be topped up as expenditure occurs. Any subsequent re-sale of land can also be put to this fund.

Year	1 06/07	2 07/08	3 08/09	4 09/10	5 10/11	6 11/12	7 12/13	8 13/14	9 14/15	10 15/16	Total
MCTS	$5,717	$4,939	$9,836	$21,052	$32,519	$34,465	$15,637	$20,445	$19,489	$20,400	
Central City	$300	$5,489	$6,000	$500	$700	$500	$800	$600	$900	$700	
Strategic Land Acquisition	$5,000	$5,000	$5,000	$15,000	$5,000	$5,000	$0	$0	$0	$0	
Sub-Total - Green Projects	**$5,311**	**$10,504**	**$11,021**	**$15,537**	**$5,738**	**$5,540**	**$816**	**$621**	**$920**	**$721**	
Base and Base Large	$136,659	$129,009	$105,114	$99,681	$98,839	$100,825	$97,512	$100,013	$92,800	$95,566	
Base - No Choice	$9,491	$10,286	$23,400	$13,400	$4,900	$4,900	$15,060	$4,900	$4,900	$4,900	
Total	**$157,167**	**$154,723**	**$149,350**	**$149,633**	**$141,958**	**$145,690**	**$129,009**	**$125,958**	**$118,089**	**$121,566**	**$1,393,142**
04/14 LTCCP	$148,286	$150,245	$130,755	$106,149	$104,779	$108,331	$120,808	$115,723	$122,242	$122,242	$1,229,559

49. This programme suggests an additional $170m of capital spending over the 04/14 LTCCP level, this equates to an additional 8.5% rates in year one or 0.85% increase per annum if we adopted a different approach.

50. The revised capital expenditure graph is as follows:



51. Clearly such a programme is only achievable with a significant rates increase. It is staff professional advice that this programme provides the best available balance between the achievement of agreed strategic aims, identified Traction projects, movement towards Community Outcomes and affordability.