

2. CHRISTCHURCH CITY COUNCIL: BANKS PENINSULA DISTRICT COUNCIL PROPOSED AMALGAMATION

RR 7029

Officer responsible City Manager	Author Mike Richardson, Alan Dunlop, Unit Managers (BPDC & CCC)
Corporate Plan Output: Various	

BACKGROUND

The Local Government Commission has received a petition from Banks Peninsula constituents requesting an amalgamation of the Christchurch City and Banks Peninsula Councils.

The petition is worded as follows:

“The proposal is to abolish the Banks Peninsula District Council and have its complete region amalgamated with the Christchurch City Council. All the functions, duties and powers presently exercised by the Banks Peninsula District Council will be transferred to the Christchurch City Council.

Representation

The proposers request that consideration be given to Banks Peninsula becoming a separate ward with a similar elected member representation to Christchurch City Council. The proposers additionally request two community boards be established in Banks Peninsula.

Service Centres

Continued at Lyttelton, Akaroa and Little River.

Rating

The city presently has a particular rating system. The proposers requests that this same rating system and sector differentials be applied uniformly over Banks Peninsula.

Proposers

The Lyttelton Harbour Residents Association Inc and a number of individual proposers:

Stewart Bould of Governors Bay

David Bundy of Allandale

Murray Thacker of Okains Bay

Valentine McClimont, Beth Kempen, Stanley Hemsley, Susan Stewart, John Cleaver and Graeme Young, all of Lyttelton.”

The City Manager presented a report to the October 1997 meeting of the Council outlining how the Local Government Commission intended to carry out the review in terms of the Section 37ZZTb of the Local Government Act.

In deciding to carry out the review the Commission also resolved to ask the Banks Peninsula District Council and the Christchurch City Council to jointly undertake an analysis of the likely financial impact of an amalgamation of the district and the city.

ACTION REQUIRED TO BE TAKEN

This report covers the impacts of an amalgamation. At this stage elected members attention is particularly directed towards the issues of operating costs and financial implications. Other issues such as 'community of interest' and 'purpose of local government' are also covered, but these do not need to be agreed between the Councils and referred to the Local Government Commission. These matters will doubtless be considered in considerable depth before the Council adopts a final position on the proposal.

The Local Government Commission has asked the two Councils to prepare a report on the likely financial implications by the end of July 1998. Sections 4 and 5 of this report, together with the appendices, are a draft of such a report. These sections of this report are going to both Councils as an officers' report.

This Committee should consider whether it wishes to amend any of the assumptions made in the report as to service levels. Banks Peninsula District Council is undertaking a parallel process. Representatives of the two Councils will then meet to agree a report to be forwarded to the Local Government Commission.

It is recommended that a working party consisting of elected members of both Councils, say four members each, undertake the task outlined in the preceding paragraph.

That agreed report would then go to both Councils for approval and the findings forwarded to the Local Government Commission.

Note: At this stage there is no requirement for the two Councils to agree on the implications of amalgamation with regard to Community of Interest and other factors.

This report is in five parts:

1. Community of Interest
2. The Issue of Complexity
3. The Purpose of Local Government
4. Summary of Service Level Issues and Financial Implications
5. Executive Summary of Detailed Analysis

1. COMMUNITY OF INTEREST

There has always been a strong community of interest between Banks Peninsula, the Lyttelton Harbour basin in particular, and Christchurch. The first track used by European settlers in Canterbury was the Bridle Path. The rail and road tunnels have enabled Lyttelton to serve as Christchurch's port and facilitate a position whereby approximately half of Lyttelton's residents work in Christchurch.

It is estimated that 50% of Akaroa ratepayers reside outside the district. The bulk of these being bach owners who live in Christchurch.

The functional links between the rest of Banks Peninsula and Christchurch are less strong, certainly in terms of journey to work, but several of the bays, like Akaroa, have strong links to Christchurch in terms of recreation and local tourism with a significant number of the homes being baches owned by Christchurch residents.

In summary, there are strong links in terms of economic functioning, employment, social and family links as well as recreation/holidaying interdependence.

Many specialists in local government would agree that for councils to operate effectively it is extremely beneficial for them to administer an area which has a strong community of interest. As well as the existence of a sense of identity the significance of this is that many issues which the Council will be called upon to address on behalf of the community will be internalised within its own boundaries. Given the extent of interdependence it would be difficult for the Banks Peninsula District Council to address issues relating to say unemployment and access to cultural facilities without looking in significant part for the solutions to be found within Christchurch. Equally, many of the outdoor recreational needs of the Christchurch population will be met outside of the city's boundaries in Banks Peninsula among other areas.

Often it is the internalisation of such issues within a council area which provides the platform for their effective and efficient resolution.

In many ways the resources of Christchurch and Banks Peninsula are complementary. The boundary of Christchurch is drawn relatively tightly to the urban area. In contrast the Banks Peninsula contains two of the world's finest harbours, a spectacular coast line and extensive areas of both hill and flat country. These are water and land resources which simply do not exist within the current Christchurch boundary. The potential exists therefore for greater use of the Peninsula's resources to meet the demands generated by Christchurch. As well as recreation these include: residential life style alternatives, urban development possibilities, economic development and tourism needs. Viewed in global terms the proximity of such an environmental resource to a large city is most unusual. To take advantage of this it would be critical for the opportunity to be managed in a way which preserves life styles and enhances environmental values while at the same time providing greater access.

To enable some of the city's needs to be met within Banks Peninsula while maintaining the environmental quality would require an increase in investment of assets such as parks and access ways of different sorts. It is relevant, however, that while such expenditure might be located on the Peninsula the needs which it would meet arise within Christchurch.

2. THE ISSUE OF COMPLEXITY

At the present time the Christchurch City Council is able to focus most of its energies on meeting the needs of an urban area. Although there are many senses in which Christchurch and Banks Peninsula have issues in common (as indicated above) there is also a range of challenges which face a council administering sparsely populated hill country which are wholly different from those associated with an urban area. This would give rise to a significant increase in both the diversity and the amount of business to be managed by the council.

In my view one of the key principles by which any unit of government must be seen as operating is “fairness” or “equity”. Since its establishment in 1989 I believe the City Council has achieved a very good reputation in the eyes of its citizens in achieving these principles largely by adopting uniform standards of service and generally uniform funding mechanisms. Achieving fairness or equity will be inherently more difficult for a Council administering a much more diverse area.

3. THE PURPOSE OF LOCAL GOVERNMENT

One view of local government is that it is a “creature of parliament” established by statute and required or empowered to carry out a range of functions. From this perspective the tests for a proposed amalgamation largely revolve around issues of efficiency and effectiveness.

An alternative view sees local government as the only form of collective organisation below the national level which is legitimised by democratic process. It enables communities to come together not simply to meet their basic needs but to give expression to the idea that we are social beings. That we should live and work *together* not simply alongside each other. Such an approach to local government would lead to a proposed amalgamation such as this being addressed in terms not simply of efficiency and effectiveness but also with regard to people’s sense of identity and belonging.

4. SUMMARY OF SERVICE LEVEL ISSUES AND FINANCIAL IMPLICATIONS

There are several ways in which this exercise could have been undertaken. The approach used has been effectively to set alongside each other the annual/corporate plan of the two Councils. It has been assumed that the forward capital programmes will be implemented as currently shown. It is relevant that the Banks Peninsula District Council’s capital programme provides for a significant increase in expenditure during the next five years which will flow through to increased operational costs in terms of debt servicing, depreciation and maintenance. This reflects a commitment to raising service standards particularly in areas of water supply and liquid waste. Much of this expenditure would have been “ramped up” prior to an amalgamation. There are also a range of options as to how new infrastructure schemes in the rural area will be funded. Similarly the city has an extensive forward capital programme in areas such as kerb and channel renewal, undergrounding of wires and the new art gallery. These increases in

capital programme are not regarded as a consequence of the amalgamation. They will be funded by ratepayers regardless of whether the amalgamation proceeds.

The focus of this exercise has been changes, which would result from amalgamation. The extensive material provided by BPDC staff provides a basis for identifying potential cost reductions as a consequence of amalgamation and potential cost increases which would result from raising service standards. Examples of this would be:

- Provision of 52 refuse bags per annum plus a recycling service to the 3,758 properties in Banks Peninsula which receive a weekly domestic collection;
- Provision of a higher standard of library services integrated with that of the city; and
- Increased provision for maintenance of Council buildings.

Operational costs in the first year following an amalgamation are estimated to increase by \$305,000, falling to \$140,000 in the second year and \$74,000 in the third year of a new council. This takes account of savings in administration costs including the assumption that public service/information functions only would be retained at Lyttelton and this office would close as a base for administration. However, the savings are exceeded by increases to fund some service standards increases on the Peninsula to the level of the city. Without analysing the detail of contracts and leases and without decisions having been made on issues such as the staffing levels in service centres and libraries on the Peninsula it is not possible to be more definitive at this stage.

\$305,000 represents an increase of 0.2% expenditure in terms of the Councils' current spending. \$74,000 represents 0.05%.

The analysis also suggests that amalgamation is likely to lead to a higher level of investment in facilities and infrastructure in Banks Peninsula. This is estimated at \$1.5 million in year 1 and \$810,000 in subsequent years.

\$1.5M represents 1.5% of the value of the current (1998/99) capital programme of the combined Councils. From year 2 onwards the increased capital spending would be about 0.8% of this amount.

5. EXECUTIVE SUMMARY OF DETAILED ANALYSIS

The purpose of this section of this report is to give the Committee an overview of various activities in considering the amalgamation of the Christchurch City and Banks Peninsula District Councils.

To undertake these tasks officers of both authorities have worked together to understand the various service level/standards of each authority. To ascertain costs in increased service levels/standards the standards applied in the main are those of the current Christchurch City but are varied as seems appropriate for the various communities. Increasing service levels/standards in some cases would result in increased operational expenditure; in other cases increased capital spending. **The operating cost increases shown in this report do not include any Cost of Capital or Depreciation costs that would flow from such increased capital spending. For this reason the capital figures are in all cases shown separately from the operating expenditure.**

The costs shown in this report have been obtained by incorporating figures provided by the Banks Peninsula District Council and Christchurch City Council staff. Detailed reports of the major activities findings are attached.

Water Supply: The management of the water supply services of a combined authority would not pose any significant difficulty.

The City Council essentially operates one level of service being an untreated unrestricted supply with firefighting capacity city wide. The Banks Peninsula District Council has 10 separate supplies with differing levels of service appropriate to the size of community being served and the availability of water. Significant upgrades are planned by BPDC causing the operational costs to rise by \$400,000 between now and five years time. Taking account of these plans levels of service are not considered to be highly contentious. A new combined authority may come under pressure to address these differences.

The source of funding could very well be the main area of contention. CCC has one rate (\$73 average) whereas BPDC has varying costs between (\$175 and \$208)

There appears to be no net impact on operational cost of water supply resulting from amalgamation.

The estimated cost savings in Capital Expenditure are \$50,000pa.

Land Drainage: Amalgamation would not pose any significant difficulty for land drainage management, however nor would there be major operational savings achieved by amalgamation.

City Council and the Banks Peninsula District Council. Although there is no reason why the operations of the separate authorities could not continue as they are in the event of amalgamation, it would be appropriate to review the functions of each authority within the area, including that of the Regional Council. In the event of the City Council and Banks Peninsula District Council amalgamating, there would still be two authorities undertaking similar functions. This may still be appropriate, however how these functions are split with the Regional Council, and where physical boundaries and rating areas are established could be modified to provide a more logical split between the rural and urban communities and remove anomalies of cross subsidisation of existing districts. There appears to be little or no economies of scale resulting from amalgamation.

A comparison of charges between the two existing authorities show that the average drainage rate for a residential property in the Christchurch City is \$82.65.

If all drainage schemes in the Banks Peninsula area are combined the average charge across the District where uniform annual charges are made for drainage would be \$42.55.

There appears to be no net impact on operational cost of land drainage resulting from amalgamation.

No changes in capital expenditure are anticipated.

Solid Waste: The service and standards provided by Banks Peninsula and the Council are equivalent in the areas of weekly domestic collection, CBD collection, provision of transfer stations, domestic composting promotion, the handling of hazardous wastes (Banks Peninsula hazardous wastes are processed through the city's system), and the monitoring of old landfills for leachate and landfill gas.

The areas of service that differ and where it is expected that the cost of the activity will increase to either maintain existing levels of service or achieve consistent levels of service are; annual delivery of refuse bags, commercial waste auditing, city composting, kerbside recycling and promotion, and waste analysis surveying. (Note: Additional landfill costs should not be regarded as a consequence of amalgamation as they should be provided for in long term financial projections.)

The estimated increase in Operational Expenditure vary from \$89,300 to \$104,300 over the period.

No changes in capital expenditure are anticipated.

Liquid Waste: The service and standards provided by Banks Peninsula and the Council are the equivalent in the areas of response to interruptions of service (blockages and overflows), disposal and reuse of solids, Trade Waste Services, Laboratory Services, Resource Consents, Bylaw enforcement, and PIMs/LIMs processing. The cost of these activities is unlikely to change.

The areas of service that differ and where it is expected that the cost of the activity will increase to either maintain existing levels of service or achieve consistent levels of service are; reticulation and pumping maintenance, CCTV inspection work, provision of plan and GIS information.

The estimated increase in Operational Expenditure is \$41,000 pa.

No changes in capital expenditure are anticipated.

***Parks:** In comparing the reserves in the two Council areas, some major differences were highlighted in the management of the reserves, and also the number and type of reserves. The standards of the facilities provided within the reserves were also markedly different. It is anticipated that additional operational resources would be required for: landscape and resource management plans, parks maintenance and harbour structures maintenance. These would add some \$80,000 pa.*

While it is essential to preserve the rural nature of many of the Banks Peninsula reserves, assets within these areas are in need of upgrading to the standards found in the city. This would involve a capital upgrading programme especially for fixed assets, estimated at \$255,000 pa.

The estimated increase in Operational Expenditure is \$80,000pa.

The estimated increase in Capital Expenditure is \$255,000pa.

Housing and Property: The property portfolio of the BPDC is small compared to that of the CCC. Some of its properties will need work to comply with Government regulations such as building warrants of fitness and health and safety plans. Also asset management plans are required.

Some of the properties are of a lower standard and surplus property needs to be disposed of.

It is estimated that \$75,000 pa will need to be added to the amount budgeted for maintenance of buildings to reach an appropriate standard. There will also be one-off costs of around \$200,000 (which could be spread over 1-2 years) in order to put in place health and safety plans and undertake feasibility studies.

The rationalisation of buildings could also be considered such as libraries and service centres. BPDC has provided for no capital expenditure budget for buildings over the next five years.

The figures shown below provide for \$700,000 upgrade/new Library/Service Centre in year 1. There may be an option of selling the existing building and leasing space for a facility.

The estimated increase in Operational Expenditure is \$75,000 pa ongoing with one-off costs of \$50,000 additional in years 1 and 2.

The estimated increase in Capital Expenditure is \$800,000 in year 1 and \$100,000 in subsequent years.

Leisure and Community Services: Other than providing additional funding for operating the swimming pool \$10,000 pa - (provisional) and the possibility of upgrading which could be self funding, by the sale of an adjoining property, the service standard is similar to those of the Christchurch City Council based on current policy.

The estimated increase in Operational Expenditure is \$10,000pa.

Service Centres: In general the present service provided by the Council through the service centres recognises the needs of a sparsely populated area and one where some form of access to Council services is important. As has been stated the majority of walk-in customers to the service outlets relate to postal services. However, this does not diminish the need of ratepayers to have reasonable access to Council officers. All service delivery points have cash receipting facilities.

Currently there is no Council office in Diamond Harbour or the adjacent bays. However, should a demand become evident, integration with existing library services would be the obvious option.

There could be some rationalisation of Service Centres by including that activity within another Council activity (ie Library, Museum) or by having an external service provider.

The adoption of a combined Service Centre and Library in Lyttelton could result in a saving of approximately \$150,000 pa, which in the main relates to consolidation in one building, at this stage assumed to be the library. This on experience is very contentious both politically and with the local community.

The estimated cost savings in Operational Expenditure are \$150,000pa.

Financial Services: The quantum of these savings is difficult to assess at this stage but would include processing costs, postage costs, stationery costs.

The estimated cost savings in Operational Expenditure are \$68,200pa.

Management Information Systems: BPDC's computing environment is virtually identical to that of Christchurch City Council (CCC), being based on a network of PCs running Microsoft operating systems and applications software. Specialised systems such as local government operations (financials, rates, dogs etc.), libraries, and geographic information systems (GIS), are different from their CCC counterparts.

Initially it would be necessary to continue to operate separate systems. Therefore there are unlikely to be any direct savings from combining these activities to begin with. Subsequently it would be desirable to combine all operations into a single set of systems. This would then eliminate on-going license and support costs for a redundant collection of software, however there would probably be quite significant conversion costs involved which are impossible to estimate at this time.

Fixed computer costs would stay the same initially because of the need to keep operating BPDC's systems. Subsequently part of these costs could be eliminated as systems were combined. GIS costs are unlikely to change in the immediate short term.

The estimated net savings in Operational Expenditure vary from \$7,600 in year 1 to \$38,600 in year 5.

No changes in capital expenditure are envisaged at this time.

Environmental Services: Comparisons are somewhat difficult, but the workload in the regulatory area shows that Banks Peninsula has from between 3 and 5% of the number of applications or licences as is the case in Christchurch City. Banks Peninsula use contractors for most environmental health work and dog control (indeed the CCC provides some of that contract service for dog control).

At some stage in the future we would be faced with bringing City and District plans together, but that is likely to occur after the two Plans become operative, and possibly some years down the track.

It is considered that with the combined staff these activities would be able to be catered for without any cost increases.

There appears to be little or no change to operating costs resulting from amalgamation.

Library Services: All residents would have the same access to library and information services irrespective of which part of the total city and district they live in.

Opening the 'borders' between the two library systems will be an improvement for Banks Peninsula residents and ratepayers in that they will have access to a much wider range of materials and resources. There are currently 1,683 BPDC residents registered as members of the library of which 855 are required to pay non-city fees (\$6,500-\$7,000).

To provide the same level of Library service to the BPDC area, however, would require the continuation of the existing libraries at Lyttelton, Diamond Harbour, Akaroa and Little River. *Lyttelton would be fully integrated into the city's library network.. Akaroa, which is a school community library, would be managed under an agreement with the School; Diamond Harbour and Little River would remain largely voluntary with some paid professional support staff of between 12-15 hours per week per library.* There are no projected savings from the merger which would result in increased costs of \$44,500 pa in the first year of operation. Capital costs in the first year would be \$32,000 for improved technology and book resources.

The estimated increase in Operational Expenditure is \$44,500pa.

The estimated increase in Capital Expenditure is \$32,000 in year 1 and varies between \$22,000 and \$37,000 in the remaining years.

Roading: There are marked differences between the Banks Peninsula District Council's roading system and that of the Christchurch City Council. Differences in the natural environment, ie topography, soils, and climate, as well as traffic loadings (Christchurch roads have approximately 1000 times more vehicle kilometres per annum than Banks Peninsula roads), service levels, and ratepayer expectations have all led to differing standards between the two networks.

It is unrealistic for “city” standards to be adopted for the Peninsula area in any new amalgamated authority. *However, a detailed schedule has been developed (see appendix) to provide for some raising of service standards.*

The topographical differences between the two authorities lead to marked differences in the expenditure required to maintain and improve the asset. The cost of construction at hillside locations is approximately twice the cost of those on the “plains”, and figures supplied by BPDC staff indicate that the maintenance expenditure required is 70% higher for sealed roads. These factors are used to provide an indication of the likely costs of improving service levels.

The additional operational costs would result in a net increase of \$70,000pa. Capital cost increases would be \$482,450pa for the first five years.

In addition to the items above, the loss of Transfund subsidy will amount to \$166,000 based on 1998/99 budgets, as the subsidy rate will reduce from 50% for the BPDC component to 43% for an enlarged city.

The estimated net increase in Operational Expenditure is \$236,000pa.

The estimated increase in Capital Expenditure is \$482,450pa.

Public Accountability: While the petitioners have requested that the Banks Peninsula District be a separate ward with two Community Boards this Council has expressed some concerns with regard to the ratio of elected members to citizens. The Local Government Act allows for factors other than population to be taken into account, and such factors are likely to be pertinent in this context, the extent of such disparity in representation is a concern. As proposed it would leave the city with a Council of a Mayor plus 26 Councillors, plus 8 Community Boards.

For the purposes of costing we have adopted the petitioners’ proposal. It is estimated there would be a minimal cost saving of \$50,000 on current rates of payment to elected members. An estimated additional \$10,000 savings would be incurred in Administration costs.

The estimated cost savings in Operational Expenditure are \$60,000pa.

Staffing: It is not envisaged any savings in staff costs over the first year. In ongoing years with the standardisation of systems and the way business is carried out there is likely to be a staff saving of up to \$200,000.

The estimated cost savings in Operational Expenditure are \$50,000 in year 1 and \$200,000 from year 2 onwards.

SUMMARY OF FINANCIAL IMPLICATIONS OF AMALGAMATION

Changes in Operational Activity Costs: Summary

	Year 1	Year 2	Year 3	Year 4	Year 5
Additional Activity					
Administration Savings					
- Service Centres	-150,000	-150,000	-150,000	-150,000	-150,000
- Financial Services	-68,200	-68,200	-68,200	-68,200	-68,200
- Management Info System	-25,600	-25,600	-56,600	-56,600	-56,600
- Roading	-25,000	-25,000	-25,000	-25,000	-25,000
- Public Accountability	-60,000	-60,000	-60,000	-60,000	-60,000
- Staff Savings	-50,000	-200,000	-200,000	-200,000	-200,000
Total: Admin. Savings	\$-378,800	\$-528,800	\$-559,800	\$-559,800	\$-559,800
Operational Increases					
- Solid Waste	104,300	89,300	104,300	89,300	104,300
- Liquid Waste	41,000	41,000	41,000	41,000	41,000
- Parks	80,000	80,000	80,000	80,000	80,000
- Housing & Property	125,000	125,000	75,000	75,000	75,000
- Leisure & Com Services	10,000	10,000	10,000	10,000	10,000
- Management Info System	18,000	18,000	18,000	18,000	18,000
- Library	44,500	44,500	44,500	44,500	44,500
- Roading	261,000	261,000	261,000	261,000	261,000
Total: Operational Increase	\$683,800	\$668,800	\$633,800	\$618,800	\$633,800
Net Total	\$305,000	\$140,000	\$74,000	\$59,000	\$74,000

Changes in Capital Activity Costs: Summary

	Year 1	Year 2	Year 3	Year 4	Year 5
Additional Activity					
Capital Savings					
- Water	-50,000	-50,000	-50,000	-50,000	-50,000
Total: Capital Savings	\$-50,000	\$-50,000	\$-50,000	\$-50,000	\$-50,000
Programme Changes					
- Parks	255,000	255,000	255,000	255,000	255,000
- Housing & Property	800,000	100,000	100,000	100,000	100,000
- Library	32,000	22,000	22,500	27,500	37,000
- Roading	482,450	482,450	482,450	482,450	482,450
Total: Capital Increase	\$1,569,450	\$859,450	\$859,950	\$864,950	\$874,450
Net Total	\$1,519,450	\$809,450	\$809,450	\$814,950	\$824,450

- Recommendation:**
1. That any changes be made to assumptions as to likely levels of service (and so costs) and that the financial impacts of amalgamation be then discussed with the Banks Peninsula District Council.
 2. That a working party of four, led by the Chairman of the Strategy and Resources Committee be appointed to undertake these discussions and report back to the Council.