

8. RECOMMENDED ANNUAL PLAN 2011/12

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PURPOSE OF REPORT

1. (a) To report on the procedure undertaken in respect of the Annual Plan 2011/12;
- (b) To seek Council's approval of the Annual Plan 2011/12.

EXECUTIVE SUMMARY

2. The content of the recommended Annual Plan is as follows:

Appendix 1: Financial Strategy for Earthquake Costs

Appendix 2: Financial Overview:

Summary of Proposed Changes

- (a) Schedule 1: Capital Changes
- (b) Schedule 2: Operational Changes
- (c) Schedule 3: Internal Changes
- (d) Schedule 4: Non-rates Funding

Commentary of Proposed Changes

Appendix 3: Detailed Changes to Capital Works Programme

Appendix 4: Changes to Fees and Charges

Appendix 5: Changes to Revenue and Financing Policy

Appendix 6: Financial Statements

Appendix 7: Proposed Changes to Levels of Service

Appendix 8: Schedule of Rates

3. At its meeting on 9-10 June 2011 the Council received and considered the draft Annual Plan 2011/12 recommended by staff.
4. Pursuant to the proposed Canterbury Earthquake (Local Government Act 2002) Order 2011 the Council adopted a process that allowed the public two weeks in which to comment in writing on the content of the draft Annual Plan.
5. In addition to modifying the process for seeking public comment on the draft Annual Plan, the Order has exempted the Council from compliance with a number of the provisions in the LGA 2002 relating to the content of the draft Annual Plan 2011/12.
6. The result is that the draft Annual Plan contained the level of information permitted by the order. It proposed changes to budgets, the capital works programme, levels of service and to some Council policies. These changes were necessary as a result of the impact of the Canterbury earthquakes on the activities undertaken by the Council. The estimates contained in the recommended Annual Plan are based on the best information available when the Council approved the Draft (10 June 2011). No allowance has been made for further costs incurred or forecast as a result of the 13 June 2011 aftershocks because this information is not yet known.
7. The draft Annual Plan was available for public comment from Friday 10 June 2011. The period in which written feedback can be made expires at 10am on Monday 27 June 2011.

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8. Copies of written comments received as at 1pm on Friday 24 June 2011 are attached as **Attachment 1**. Those received after that date and before expiry of the period will be provided to Councillors separately.

LEGAL CONSIDERATIONS

9. The process undertaken by the Council in preparing and considering its draft Annual Plan 2011/12 complies with the provisions of the Canterbury Earthquake (LGA 2002) Order 2011. As required by the Order, the recommended Annual Plan contains:
 - (a) A funding statement that sets out revenue and financing mechanisms, and the details of proposed rates;
 - (b) A proposed annual budget for 2011/12;
 - (c) A revised capital works programme;
 - (d) Revisions to levels of service arising from the earthquakes.
10. In addition to the opportunity for written comments to be made by the public, Community Boards will be able to appear before the Council to make oral submissions. These will be heard at the meeting on 29-30 June 2011.
11. The Canterbury Earthquakes have had a huge impact on the Council's financial position. It is estimated that an operating deficit of \$73.8 million will be incurred over the next three years. The Council proposes to meet this cost by borrowing the funds required and repaying them by way of a special earthquake charge of 1.76 per cent for each of the next five years.
12. In addition it is recommended that the Council borrows the funding required to meet its share of earthquake recovery costs, including the rebuilding of infrastructure. This debt, plus interest, would be paid through a reduction of the Council's capital renewals programme.
13. In the normal course of events, the Council would not borrow to meet its operating expenses. Nor would it commit to a debt repayment programme of less than 30 years. The nature of the borrowing proposed to fund the operating deficits and the recovery costs is inconsistent with the Council's Liability Management Policy. Section 80 of the LGA 2002 would normally require the Council to indicate how it was going to amend the policy to accommodate this inconsistency.
14. However, as a result of the earthquakes, the Council has been granted an exemption from compliance with Section 80 by the Canterbury Earthquake (LGA 2002) Order 2011.
15. The Canterbury Earthquake (Rating Valuations Act – Christchurch City Council) Order 2011 was made at the same time as the LGA 2002 Order. This authorises the process used by the Council in setting rates for the 2011/12 financial year. The Council has also raised with the Department of Internal Affairs the making of a further Order in Council that would enable rates to be reduced in respect of a demolished building, with effect from the date of demolition, and a new rate levied from the date a replacement building is completed.
16. At a public excluded meeting on 10 June 2011 the Council considered the financial position of Vbase Ltd, a Council-Controlled Organisation. Of the four facilities owned and operated by the company, three were badly damaged in the Canterbury earthquakes. It was publicly announced after that meeting that the Council would enter into a contract with Vbase to manage and rebuild those facilities.
17. The draft Annual Plan 2011/12 contains a proposal that the some of the debt owed by Vbase be transferred to the Council with effect from 1 July 2011. To achieve this the Council will convert up to \$45 million of debt advanced to Vbase Ltd to equity of the same amount.

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18. Council staff are advised that the conversion of debt to equity will have no effect on the risk profile of the Council's investment in Vbase. Therefore no issues arise in terms of the LGA 2002 or the Council's Long-Term Plan. Vbase will continue to be operated as a Council-Controlled organisation.
19. The increase to the annual rate resulting from this transaction is contained in the information set out in Appendix 2.
20. The Council has approved the establishment of a number of shelf companies for use by Christchurch City Holdings Ltd and the Council. The purpose of these is to enable both organisations to respond in a timely manner to any new initiative that becomes available.
21. At its meeting on 23 June 2008, the Council resolved to grant the shelf companies named in the resolutions attached to this report, exemption from being Council-Controlled Organisations.
22. The effect of this is that the companies are not required to comply with the reporting obligations contained in the Local Government Act 2002. This includes being part of the Annual Report and having to prepare statements of intent.
23. Section 7 of the Act states that the Council must review exemptions that it has granted within three years, and thereafter at intervals of not less than three years. It is recommended that the Council grant the shelf companies named in the resolutions exemption for a further three years.
24. It is stressed that the exemptions will remain in place only whilst the companies continue to be non-trading entities. The exemptions can be revoked at any time should staff bring a proposal to the Council that one or more of the companies be activated for any particular purpose.

STA FF RECOMMENDATION

It is recommended that the Council:

- (a) Adopts the 2011/12 Annual Plan consisting of the draft 2011/12 Annual Plan and any changes adopted by further Council resolution.
- (b) Sets the rates for the financial year commencing on 1 July 2011 and ending on 30 June 2012 as set out in Appendix 8.
- (c) Adopts the fees and charges set out in Appendix 4.
- (d) Authorises the General Manager Corporate Services and the Corporate Finance Manager (jointly) to borrow in accordance with the liability management policy to enable the Council to meet its funding requirements as set out in the 2011/12 Annual Plan.
- (e) Authorises the General Manager Corporate Services to make any necessary amendments required to ensure that the published 2011/12 Annual Plan is in accordance with the Council's resolutions of 29-30 June 2011.
- (f) Delegates to the GM City Environment and GM Corporate Services the authority to set the fees for off-street Council owned or operated parking "at ground" areas at between \$0 to \$25 per day or part thereof.
- (g) Agrees to extend its existing rates remissions policy for all residential properties, and business properties within the central city cordon to provide:
 - 40 per cent rates remission for residential and non-rateable properties that are unable to be occupied, and
 - 30 per cent rates remissions for business properties located within the central city cordon as at 1 July 2011 and for the period they remain within the cordon.

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- (h) Agrees to fund its operating deficits for the years 2011/12 to 2013/14 of \$73.8 million as a result of the earthquakes through borrowing to be repaid by way of an additional special earthquake charge of 1.76 per cent for five years.
- (i) Agrees to borrow to cover its share of the earthquake recovery costs, including the infrastructure rebuild programme, and repay the debt and interest costs through reducing its capital renewals programme
- (j) Agrees to fund any interventions it resolves on as part of the Central City Plan through increased borrowing in accordance with its Liability Management Policy.
- (k) Agrees to the conversion of up to \$45 million of debt owed to the Council under its cash advance facility with Vbase Ltd to equity by subscribing and paying for up to 45 million shares in Vbase at \$1 per share.
- (l) Authorises the General Manager to approve and sign all documentation required to complete the transaction referred to in (k) above.
- (m) Grant a further exemption under section 7 of the Local Government Act 2002 to each of the companies named in the schedule below, whilst they continue to be non-trading entities.

CCHL 2 Ltd
CCHL 3 Ltd
CCHL 4 Ltd
CCHL 5 Ltd
CCHL 6 Ltd
CCHL 7 Ltd
CIAL Holdings Number 1 Ltd
CIAL Holdings Number 2 Ltd
CIAL Holdings Number 3 Ltd
CIAL Holdings Number 4 Ltd
CIAL Holdings Number 5 Ltd
AMI Stadium Ltd
Ellerslie International Flower Show Ltd
CCC One Ltd