CHRISTCHURCH CITY COUNCIL
2011/12 DRAFT ANNUAL PLAN
SUPPLEMENTARY AGENDA

THURSDAY 9 AND FRIDAY 10 JUNE 2011

THURSDAY FOLLOWING THE CONCLUSION OF THE ORDINARY MEETING AND FRIDAY 9.30AM

BOARDROOM, BECKENHAM SERVICE CENTRE, 66 COLOMBO STREET

AGENDA - OPEN

Christchurch City Council

CHRISTCHURCH CITY COUNCIL
2011/12 DRAFT ANNUAL PLAN

Thursday 9 following the conclusion of the ordinary meeting
and Friday 10 June 2011 at 9.30am
in the Boardroom, Beckenham Service Centre, 66 Colombo Street

Council: The Mayor, Bob Parker (Chairperson).
Councillors Helen Broughton, Sally Buck, Ngaire Button, Tim Carter, Jimmy Chen, Barry Corbett, Jamie Gough, Yani Johanson, Aaron Keown, Glenn Livingstone, Claudia Reid, Sue Wells and Chrissie Williams.

1. APOLOGIES

Councillor Williams.

3. RESOLUTION TO BE PASSED - SUPPLEMENTARY REPORT

Approval is sought to submit the following reports to the meeting of the Council on 9 and 10 June 2011:

- Draft Annual Plan 2011/12

The reason, in terms of section 46(vii) of the Local Government Official Information and Meetings Act 1987, why the reports were not included on the main agenda is that they were not available at the time the agenda was prepared.

The report is urgent and cannot wait for the next meeting of the Council.

RECOMMENDATION

That the report be received and considered at the meeting of the Council on 9 and 10 June 2011.

2. DRAFT ANNUAL PLAN 2011/12

General Manager responsible:	General Manager Corporate Services, DDI 941-8528

PURPOSE OF REPORT

1. The purpose of this report is to recommend a Draft Annual Plan 2011/12 to Council. The material that makes up the recommended Draft Annual Plan 2011/12 is listed below:

   (i) Financial Strategy for Earthquake Costs

   (ii) 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

   (iii) Appendix 1: Detailed Changes to Capital Works Programme

   (iv) Appendix 2: Changes to Fees and Charges

   (v) Appendix 3: Changes to Revenue and Financing Policy

   (vi) Appendix 4: Financial Statements

   (vii) Appendix 5: Proposed Changes to Levels of Service

2. Councillors will be asked to:

   (a) Approve the amended fees and charges

   (b) Approve the rates requirement

   (c) Approve the Draft Annual Plan for distribution and consultation.

EXECUTIVE SUMMARY

3. Council was due to meet to consider the recommended Draft Annual Plan 2011/12 on 24 and 25 February 2011 but these meetings were cancelled as a result of the 22 February earthquake. At its meeting on 31 March 2011, Council resolved to change its annual plan process for 2011/12 to enable staff to prepare a revised plan to take into account the necessary changes to budgets, capital works programme, levels of service and Council policies.

4. Council agreed to public disclosure of the recommended Annual Plan 2011/12 in June 2011 and adoption of the Annual Plan 2011/12 before the end of June. In addition, it resolved to seek written feedback, invited from the public and community boards, which would be collated and provided to Councillors before final annual plan deliberations are made. Following Council adoption of the Draft Annual Plan, it is proposed that staff make the plan available for public comment for a period of two weeks through until 26 June 2011. Council meetings are planned for 29 and 30 June to adopt the Draft Annual Plan.

5. The previous Draft Annual Plan for 2011/12 proposed a rate increase of 5.32 per cent. The increase set out for 2011/12 in the LTCCP 2009-19 is 4.36 per cent. The reasons for the increase are included in the information attached to this report.

6. The revised Draft Annual Plan uses the previous Draft as its basis. The revised Draft Annual Plan proposes changes as a result of the earthquake to budgets, capital works programme, levels of service and Council policies. These changes are detailed in the schedules and appendices attached to this report.

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7. From a financial perspective, the earthquake presents three challenges for Council. Firstly, staff are forecasting an operating deficit of $22.7 million in 2010/11 as a result of Council's share of the unexpected costs incurred in managing the states of emergency and repair work. Council has also experienced a decline in revenue from parking, dividends and rates in the 2010/11 financial year. It is recommended that borrowing is used to fund the 2010/11 deficit and this has been built into the budget in the recommended Draft Annual Plan. Secondly, operating deficits totalling $73.8 million, largely as a result of lower revenue, are expected over the next three years. Options for funding these deficits are outlined in this paper. Finally, the Council will need to fund a share of the ongoing rebuild of the city, mainly through the infrastructure rebuild programme. In the coming year, it is recommended that the Council's share is funded through reducing the Council's normal capital renewals programme given that significant portions of the city's infrastructure will be replaced by the rebuild programme.

8. The recommended Draft Annual Plan proposes an average rates increase of 5.32% together with an earthquake rates premium of 2.21% over three years to cover the cost of the Council's operating deficits over that period. Staff estimate that due to loss of dividends, fees and charges, and lower growth in the rating base, deficits over the three years will amount to $73.8 million. An earthquake rates premium of 2.21% over three years will raise sufficient revenue over five years to completely repay the borrowing required for these deficits. This report also contains other options for Council to consider in funding these operating deficits. Although project funding is recommended in the Draft Plan for the Central City Plan project, no allowance has been made for capital implementation costs. Any implementation costs for the Central City Plan will be considered when this plan is adopted by Council.

LEGAL CONSIDERATIONS

9. Section 95 of the Local Government Act 2002 requires the Council to prepare and adopt an Annual Plan for each financial year.

10. At its meeting on 31 March 2011 the Council resolved to seek an Order in Council to modify a number of the obligations imposed by the Act. The Order will modify the Annual Plan process as follows:

    (a) the Council will not have to undertake a special consultative procedure before it adopts the Annual Plan for 2011/12;

    (b) the Draft Annual Plan will be made available to the public and written feedback sought over a period of 2 weeks;

    (c) Community Boards will have the opportunity to provide written feedback and will also be invited to make oral submissions to the Council when it meets to consider and adopt the 2011/12 Annual Plan;

    (d) the Draft Annual Plan contains the proposed annual budget and funding impact statement for the 2011/12 year.

11. Council staff have ensured that the Draft Annual Plan includes the following information:

    (a) a funding impact statement that sets out revenue and financing mechanisms and full details of proposed rates;

    (b) the proposed annual budget for 2011/12;

    (c) a revised capital works programme;

    (d) revisions to levels of service necessary as a result of the earthquake.

12. The Order in Council modifying the relevant provisions of the Local Government Act 2002 has been supported by the Department of Internal Affairs and by the Cabinet. The Order is currently being drafted and will be in place by the time the Council meets to adopt the Annual Plan on 29 and 30 June 2011.

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STAFF RECOMMENDATION

It is recommended that the Council resolves to:

(a) Approve the rates requirement of $288,533,804 (net of GST) for the year 2011/12.

(b) Approve the draft Annual Plan 2011/12.

(c) Adopt the following timetable for public notification:

- Publication in "The Star", "The Press" and on the Council's website Saturday 11 June 2011.
- closing date for written feedback is 5.00 pm on Saturday 26 June 2011.
- Council meeting to formally adopt the Annual Plan 2011/12 held on Wednesday 29 June and Thursday 30 June 2011.

(d) Authorise the General Manager Corporate Services to make any necessary amendments to the documents referred to in this resolution.

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BACKGROUND

Impact of the Earthquake on Capital Value Growth

13. Council relies on rates for approximately 55 percent of its income. The majority of rates (approximately 85 percent) are calculated based on Capital Value (CV). However, the disruptions caused by the Canterbury earthquakes currently prevent Council, along with Waimakariri District Council and Environment Canterbury, from complying with the valuation and rating law necessary to set and assess rates on CV.

14. The scale of property damage caused by the February earthquake is greater than that caused by the September earthquake and Earthquake Commission figures suggest that all, or nearly all, properties within Christchurch will have suffered some degree of damage. The widespread nature of this damage would mean that, in order to maintain the District Valuation Roll and reflect earthquake damage in the property values used to set rates for the 2011/12 year, Council's valuers would be required to inspect all properties in the City. This is logistically impossible to complete by 30 June when 2011/12 rates are assessed.

15. Staff have therefore been working with other local authorities, Land Information New Zealand, the Valuer-General and the Department of Internal Affairs (DIA) to identify a practical basis for setting and assessing rates, at least for the 2011/12 financial year and possibly for a further two years.

16. A number of possible systems have been considered and discussed. The preferred option is to limit the situations in which roll maintenance can take place to those where:
    - rating units are created or abolished, or the boundaries between rating units are adjusted (i.e. subdivisions);
    - new work or building takes place which increases the value of improvements beyond that currently on the DVR for that rating unit;
    - errors exist that pre-date 4 September 2010, or omissions;
    - individual buildings on a rating unit have been totally demolished or total demolition has been ordered by an appropriate authority – the local authority, CERA, or the National Civil Defence Controller during the state of national emergency;
    - changes have occurred in the provisions of an operative district plan; or
    - administrative alterations (e.g. changing the name of a ratepayer as a result of a property sale).

17. Effectively this means that property valuations will not reflect any change in value resulting from the earthquake. The only changes to property values will be to reflect subdivisions, new buildings or improvements, demolitions, zoning changes, or error corrections. A separate report on the subject will be presented to obtain Council's support for this approach in June.

18. Staff have estimated that the demolition of rateable properties as a result of the earthquake during 2010/11 will lower the City's total capital valuation by $0.5 billion (see below). In addition, the Council would normally expect its rating base to grow by $3 million each year. However, due to economic and seismic conditions, growth during the City has grown at half the expected speed. The combined result of slower growth and earthquake damage has been to reduce Council's rating base by $1 million from that in 2010/11. This is a $2.5 million fall from the $1.5 million growth which underpinned the rates calculation that was to be presented to Council in February as part of the Proposed Draft Annual Plan, and $4.0 million below the previous Draft Annual Plan forecast.

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Christchurch City at 1 July 2010					Rates Impact
Values ($millions)	***Capital***		***Land***	***Improvements***	
City	78,771		37,023	41,747	
Four Avenues	6,619	*8%*	3,249	3,370	
Cordoned Area	2,104	*3%*	1,033	1,071	
Christchurch City at 1 July 2011					
Opening Value	78,771		37,023	41,747	
Natural Growth	483		68	415	1.500
Demolitions to 30 June					
Commercial					
(equates to approx 40% of cordoned area, or 662 buildings total by 30 June)	(408)			(408)	(2.106)
Residential (500 properties)	(101)			(101)	(0.423)
Value at 1 July	78,744		37,092	41,653	(1.029)
Christchurch City at 1 July 2012					
Opening Value	78,744		37,092	41,653	
Natural Growth *(25% of 'normal')*	198		93	105	0.750
Retreat zones	(958)		(450)	(507)	(2.981)
replacement subdivisions	270		270		0.841
replacement homes completed	203			203	0.632
Demolitions	-				
Commercial	(206)			(206)	(0.925)
Residential	(406)			(406)	(1.264)
Rebuilds					
Commercial	168			168	0.753
Residential	330			330	1.027
Value at 1 July	78,344		37,005	41,339	(1.167)
2011 Rates impact of reassessing rates as it is demolished and rebuilt					
Natural Growth *(25% of 'normal')*					0.375
Retreat zones					(2.608)
replacement subdivisions					0.420
replacement homes completed					0.316
Demolitions					
Commercial					(0.462)
Residential					(0.632)
Rebuilds					
Commercial					0.376
Residential					0.514
					(1.701)

Rates Remissions

19. In addition to the rating valuation Order in Council mentioned above Council staff are seeking Council approval for a further Order in Council that will modify s.34 of the Local Government (Rating) Act to enable the Council to reassess rates on those properties which have an increase or decrease in capital value during the year at the same time as the change in capital value is entered on to the District Valuation Roll.

20. Under existing rating legislation the Council is required to assess rates based on the state of a property as it exists on 1 July each year. This means that rates charged for properties demolished or constructed during the year remain unchanged until the following rating year. The proposed Order in Council would allow the Council to reduce the rates on a demolished building with effect from the date of demolition. Similarly, it would allow Council to begin rating a new building from the date of completion.

21. Such a change would have two significant implications for Council:
    - any rates remissions policy would not need to reflect demolitions carried out during the year;
    - as the rebuild of Christchurch proceeds Council's rating base will expand during the year, helping to defray the impact on existing ratepayers of the capital value lost as a result of the Canterbury earthquakes.

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22. In 2011/12, with demolitions likely to exceed new building completions, this represents a $1.7 million cost to the Council. In 2012/13, as new subdivisions and rebuilds outstrip demolitions, the net revenue gain to Council would be $2 million.

23. In addition to the authority conferred by this proposed Order in Council, the Council could choose to extend and/or vary its existing earthquake-related rates remissions policy. On 28 April 2011 the Council resolved to provide the following rates relief for the owners of earthquake-damaged buildings:

- 40 percent rates remission for residential and non-rateable properties that are unable to be occupied;
- 30 percent rates remission for business properties demolished or classified by Council as R1 (significant damage repairs strengthening possible) and R2 (severe damage demolition likely);
- 30 percent rates remission for business properties classified by Council as R3 (unsafe due to adjacent property);
- 30 percent rates remission for business properties located within the Red Zone as at 28 April 2011.

24. The Council also resolved that this relief, and the rates remissions adopted following the 4 September earthquake, should cease on 30 June 2011, and that an earthquake-related rates remission policy for 2011/12 be developed through the Annual Plan process.

25. Should the Council seek to extend and/or vary its 2010/11 rates remissions policy, a number of options and costs are set out below:

(a) **Option 1:** extend current policy

Cost of extending the rates remission policy		2011/12 estimate	2012/13 estimate	2013/14 estimate	TOTAL
Amount	**Criteria**				
Extension of Current Policy					
Residential & Other					
40%	Unable to be occupied	$0.478	$0.000	$0.000	$0.478
Business					
30%	Unsafe	$0.775	$0.520	$0.310	$1.605
30%	Unsafe due to adjacent property	*included above*			
30%	Within Cordon	$1.159	$0.580	$0.232	$1.971
		$2.412	$1.100	$0.542	$4.054

Option 1a: extend and limit current policy

Cost of extending the rates remission policy		2011/12 estimate	2012/13 estimate	2013/14 estimate	TOTAL
Limit Current Policy					
Residential & Other					
40%	Unable to be occupied	$0.478	$0.000	$0.000	$0.478
Business					
0%	Unsafe				
0%	Unsafe due to adjacent property				
30%	Within Cordon	$1.159	$0.580	$0.232	$1.971
		$1.637	$0.580	$0.232	$2.449

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(b) **Option 2:** extend current policy but reduce level of remission

Cost of extending the rates remission policy		2011/12 estimate	2012/13 estimate	2013/14 estimate	TOTAL
Reduced remission					
Residential & Other					
15%	Unable to be occupied	$0.179	$0.000	$0.000	$0.179
Business					
15%	Unsafe	$0.387	$0.260	$0.155	$0.802
15%	Unsafe due to adjacent property	*included above*			
15%	Within Cordon	$0.580	$0.290	$0.116	$0.986
		$1.146	$0.550	$0.271	$1.967

(c) **Option 3:** extend current policy and remit all rates on improvements (effectively land value rates)

Cost of extending the rates remission policy		2011/12 estimate	2012/13 estimate	2013/14 estimate	TOTAL
Land Value Based Remission					
Residential & Other					
avg 60%	Unable to be occupied	$0.718	$0.000	$0.000	$0.718
Business					
avg 57%	Unsafe	$1.477	$0.991	$0.591	$3.059
avg 57%	Unsafe due to adjacent property	*included above*			
avg 57%	Within Cordon	$2.210	$1.105	$0.442	$3.757
		$4.405	$2.096	$1.033	$7.534

26. Staff recommend that Option 1a, which extends the existing earthquake-related remissions for residential properties and business properties within the cordon only, be adopted by the Council. This is estimated to cost $1.637 million in 2011/12.

27. It is considered that the remissions recommended above along with the proposed Order in Council allowing rates to be reset during the year as buildings are demolished, if adopted by Government, provides adequate relief for ratepayers that is affordable by Council.

28. In relation to residential properties, the majority of damaged properties remain habitable and continue to receive the services that rates are paid for, albeit with some restrictions. Also, a distinction needs to be drawn between those properties which are damaged or lacking in services, for which rate remissions may be an appropriate response, and ratepayers suffering hardship through loss of income or other personal circumstances. It is not generally the role of councils to provide assistance by way of rate remission in the latter case. Generally situations of personal hardship are addressed by central government and charitable organisations such as the Red Cross through mechanisms such as the accommodation supplement, rate rebates and other forms of social welfare assistance

29. In the case of business properties, except where properties are inaccessible because they are behind cordons, property owners will be able to either demolish damaged buildings and take advantage of reduced rates assessed on land value only, or commence the repair works necessary to bring the building back into use.

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VBASE

30. In the previous Draft Annual Plan 2011/12, staff made a recommendation to Council that $45 million of Vbase debt be transferred to Council from 1 July 2011. The details of this proposal are outlined below. A separate report on this agenda outlines the additional impact of the earthquake on Vbase and makes further recommendations with regards to the structure and funding of Vbase.

31. Vbase Ltd, a 100% subsidiary of Council and monitored by CCHL, was established as a CCO in 2005 to own and manage the city's main event and entertainment venues – AMI Stadium, CBS Canterbury Arena, Christchurch Town Hall for Performing Arts and Christchurch Convention Centre. The purpose of the business is to commercially manage these public assets for economic, social and cultural benefit.

32. The Vbase business model is based on generating positive cashflow from operations; supplementing these with taxation subvention receipts from other CCC tax group entities, and using these in aggregate to meet debt servicing (both interest and principal repayments); working capital; and business-as-usual capital expenditure requirements focused on maintaining the venues. This model reduces the cost to ratepayers as compared to direct Council ownership and management of the facilities.

33. Vbase carries and services a high level of debt as a result of the redevelopment of AMI Stadium, which it has largely debt financed. Vbase has $74.7 million debt solely related to AMI Stadium. This debt results in an annual interest cost for Vbase of over $6 million, which has been serviced from total revenue of $30 million.

34. Vbase has successfully operated under this business model, however recent changes in Government policy and trading conditions have severely affected its cashflows. The two issues are:
    - Tax Depreciation on Buildings. A change in building depreciation deductibility for taxation purposes means tax subvention receipts will be reduced by more than $2 million per annum.
    - AMI Stadium Forecasts. Revenue from AMI Stadium is forecast to be between $1.8 million and $2.6 million lower per annum than was expected when Council agreed to the business case for the borrowing against the Stadium on 23 March 2007. The impact of economic conditions on rugby in particular have negatively impacted trading expectations.

35. Staff have worked with Vbase and CCHL to seek a solution to this funding issue. A number of options were not considered feasible because they would be likely to increase the Council group's tax liability. These options include:
    - Transfer of land and buildings to Council
    - Assets owned by charitable trust
    - Assets managed by Council
    - Vbase borrow further to fund operating losses
    - Assets owned by CCHL
    - Vbase owned by CCHL.

36. The feasible options considered and their rating impact are outlined in the table below:

Option	Cost to Council	Comments
1. Transfer $45 million Vbase debt to Council	Increase rates by $2.6 million per annum (0.9%)	• Recommended option
2. Vbase assets and operations taken into Council	Increase rates by $8 - $9 million per annum (3% - 3.5%)	• Loss of tax deductibility on operating expenses and interest costs
3. Vbase operations taken into Council / Vbase retains assets	Increase rates by $8 - $10 million per annum (3% - 4%)	• Loss of tax benefits on operating expenses

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37. Option 1 above is recommended by staff and has been recommended in the Draft Annual Plan for Council's consideration. This option means Vbase retains $30 million of debt before consideration of the further impacts of the earthquake. It assumes that the convention centre expansion proceeds with Council and central government funding.