

**9. Paul Anderson
Financial Implications
of Urban Limits**

BEFORE THE CANTERBURY REGIONAL COUNCIL

IN THE MATTER of the Resource Management Act
1991

AND

IN THE MATTER of a hearing by the Canterbury
Regional Council Hearing Panel
on Proposed Change No.1 to the
Canterbury Regional Policy
Statement Chapter 12A
(Development of Greater
Christchurch) including Variations
1, 2, 3 and 4

**STATEMENT OF PAUL ANDERSON
ON BEHALF OF CHRISTCHURCH CITY COUNCIL**

1 My full name is **PAUL JOSPEH ANDERSON**

Code of Conduct for Expert Witnesses

2 I acknowledge that I have read the code of conduct for expert witnesses contained in the Environment Court's Practice Note dated 31 March 2005. I have complied with it when preparing my written statement of evidence and I agree to comply with it when I give any oral evidence.

Qualifications and experience

3 I am the General Manager of Corporate Services for the Christchurch City Council and have been in this role since 28 January 2008. Prior to that, for over 8 years, I was employed by Telecom New Zealand in various senior management roles that included Manager of Retail Data Provisioning, Head of Commercial and Finance, and Manager of Performance Management and Reporting. These positions required a strong focus on customer service, leadership, operational excellence and performance management.

4 Prior to my time at Telecom, my role was Project Accountant (Finance Reports) for NatWest Global Financial Markets in London UK. I also have four years experience in working as a policy analyst for The New Zealand Treasury in Wellington, providing advice to Treasury Ministers on Social Welfare organisational service performance, fiscal and economic impact of policy proposals, budget strategy and public sector financial management.

5 I hold the following academic qualifications:

- (a) Master of Commerce in Accountancy (First Class Honours) – University of Canterbury, Christchurch, New Zealand; and
- (b) Bachelor of Commerce (Business Administration / Accountancy) – University of Canterbury, Christchurch, New Zealand.

6 I am admitted as a Chartered Accountant (CA) to the Institute of Chartered Accountants of New Zealand.

Facts Relied Upon and Formation of Opinions

- 7 In my work for CCC I understand the financial requirements of the Local Government Act 2002 (LGA 2002).
- 8 Christchurch City Council is a council partner to the Greater Christchurch Urban Development Strategy 2007 (UDS). I am therefore familiar with the UDS and Proposed Change No.1 to the Canterbury Regional Policy Statement, Chapter 12A (Development in Greater Christchurch) (PC1) that was notified in July 2007 that implements the UDS sub-regional policy framework.
- 9 I have read PC1 and I am familiar with the financial context to the issues, objectives, policies and methods it sets out; particularly Policy 1 on the implementation of Urban Limit lines (ULs) and Policy 2 on Intensification.
- 10 I am also familiar with the financial considerations underpinning Variation 4 being the Revised Airport Noise Contours and the proposed Reallocation of Greenfields Outline Development Plan (Residential) areas (and therefore an expansion of the City's ULs) to the North and South-West (SW) of Christchurch City (Variation 4).
- 11 In my role as the General Manager of Corporate Services I am familiar with the overall impact of development on Christchurch City's financial statements and long term financial planning. I have been closely involved with the development of the Capital Programme a key component of Christchurch City's Long Term Council Community Plan (LTCCP). I am familiar with the development of the financial component of CCC's economic sustainability model. This model, when completed, will be used to monitor and assess the impact of greenfield and intensification development on how Christchurch City's will service debt from borrowing for infrastructure. It will enable the future funding requirements, funding options, and financial risks of those funding options on growth to be better understood.
- 12 I am also familiar with the funding model and cost allocation methodology that has been used to underpin the Development Contributions Policy of Christchurch City for both greenfields and intensification.
- 13 I therefore have a comprehensive understanding of the:

- a) costs of the growth management challenges facing the Christchurch City; and
- b) specific financial considerations underpinning the provision of greenfield development and implementation of ULs for Christchurch City, and Christchurch City's Intensification Policy, which are in line with PC1.

- 14 I consider that the financial evidence that I intend to present has an important relationship with Part II of the Resource Management Act 1991 (RMA 1991), in particular section 5(2) where as part of "sustainable management", the use, development and protection of natural and physical resources is to be managed in a way or at a rate which enables people and communities to provide for their social and economic well being.
- 15 In my opinion, it is increasingly important that strategic resource management planning is not carried out in isolation from infrastructure, asset, and financial planning under the LGA 2002. The introduction of development contributions (DCs) under the LGA 2002, and their relevance to resource consents and district plan processes has underlined the relationship between these pieces of legislation. Christchurch City's responsibilities under the LGA 2002 cannot therefore be disconnected with its responsibilities under the RMA.
- 16 Given the growth pressures facing greater Christchurch, I am concerned that if local authorities do not take a financially sustainable approach to identifying the costs of growth, and in particular equitable sources of funding, we will not be providing for the social and economic well being of the City's 'people and communities' as per Section 5(2) of the RMA 1991. The costs of both new greenfield and intensification development should be transparently paid for by the growth, primarily through DCs and other non-rate sources where it is clear that the costs are caused by that growth.
- 17 Christchurch City has made a submission to the RPS Change that gives overall support to the proposed change.

SCOPE OF EVIDENCE

- 18 My evidence is presented in two parts. The first part presented in this statement contains the high level principles around how Council will manage the financial component of growth. Part 2 contains the detailed financial data, which is currently under preparation and will be subject to consultation under the LGA 2002, will be completed and presented once Christchurch City has an agreed draft LTCCP in early 2009. The second part will be produced as supplementary evidence in April 2009.
- 19 My evidence should be read in conjunction with the evidence presented by Mr Theelen. In order for Council to manage growth and development effectively, as I noted earlier the two pieces of legislation (the LGA and the RMA) are clearly linked.
- 20 Particularly as it relates to the concept of growth and provision of infrastructure, it needs to be recognised that the RMA and LGA processes "inform" each other. It is very difficult to carry out prudent and accurate financial and infrastructural planning in growth areas without relating that to resource management planning, and vice versa. I consider that there is an increasing community expectation that these processes will fit together, and that also reflects what I consider to be the statutory and policy intention.
- 21 Part 1 of my evidence is two-fold, I provide financial evidence that:
- (a) supports the implementation of growth areas and location of ULs around Christchurch City in line with PC1 and Variation 4; and
 - (b) demonstrates the implementation of Christchurch City's Intensification Policy in line with PC1.
- 22 Therefore in setting out the financial evidence supporting the implementation and location of ULs around Christchurch City in line with PC1 and Variation 4, I will:
- (a) set out the reasoning for the planned growth pattern and how this maximises the efficient use of infrastructure networks particularly with regard to operation, capital expenditure, maintenance and depreciation;
 - (b) discuss how the PC1 land use pattern ties in with Christchurch City's Growth Model and the collection of Development Contributions, to enable the Canterbury Regional Council (CRC) Hearing Panel to consider how the

- staging and timing approach proposed in PC1 and Variation 4 can support different levels of development;
- (c) look at the financial impact to Christchurch City of providing infrastructure for future residential, commercial and industrial development growth, which will also show how unplanned or ad hoc development can impact negatively on council borrowing and debt; and
 - (d) outline the cost differences of servicing infrastructure between the different areas of the City, which will include an overview of some of the significant financial implications for Christchurch City if growth is directed to locations other than (or in addition to) the growth to be accommodated in the planned areas in the SW and North of Christchurch City.

23 In the second part of my evidence, which will be finalised in April 2009, I will cover the financial considerations associated with implementing Christchurch City's Intensification Policy in line with PC1. I will:

- (a) outline the capital commitments and the sources of funding available to CCC to implement our Intensification Policy;
- (b) outline the financial aspects of the commitments which Christchurch City has made to achieving intensification in the Christchurch's Central City and immediate surrounding area which includes, for example, the purchase of strategic inner-city intensification sites; and
- (c) overview the fiscal policies such as development contributions and the capital programme underpinning the funding of intensification implementation in selected areas of Christchurch.

GROWTH PATTERNS THAT MAKE THE BEST USE OF INFRASTRUCTURE NETWORKS

24 A significant portion of the growth development forecasted for the sub-region to 2041 will occur in Christchurch City. In general infrastructure provision in Greater Christchurch has not kept pace with growth. In addition to this Council is now faced with major upgrades, improvements and infrastructure investment. Council has been concerned to ensure that staging of the availability and development of land has generally been timed to align with this new or upgraded infrastructure, while also increasing the capacity of the existing infrastructure network. PC1 reflects this approach.

- 25 The provision of infrastructure, particularly upgrades and renewal, is a major component of the rationale in selecting the preferred growth areas for the UDS. These growth areas in the North and SW of the City are implemented via the ULs proposed in Policy 1 and associated maps in PC1, and Variation 4.
- 26 Given the LGA 2002 contains reporting and financial accountability requirements, Christchurch City has an obligation under the LGA 2002 to strategically and financially manage the City's urban growth. This necessitates, for funding purposes the need to be clear about the location, size and timing of growth. Therefore in this sense, Christchurch City has statutory obligations to manage growth and as Mr Theelen indicated in his evidence, from a strategic planning perspective the implementation of ULs for Christchurch City aligns with this.
- 27 Mr Theelen notes (paragraph 3.4) the various principles that CCC had to act in accordance with under the LGA 2002. In my view a critical part of Christchurch City being able to manage urban growth in a way that accords with those principles is to manage its financial implications effectively through an integrated planning approach. It is within this context of prudent financial management, in tandem with the numerous factors which have been considered within the resource management planning exercise, that the growth areas for Christchurch City were selected.

PC 1 LAND USE PATTERN, CHRISTCHURCH CITY'S GROWTH MODEL, AND COLLECTION OF DEVELOPMENT CONTRIBUTIONS

- 28 Christchurch City Council has a Development Contributions Policy (DCP) in place. Understanding growth (including factors such as its rate, likely intensity, and location), and how it will be managed is a key part of developing that policy. Section 106(2)(a) and the 13th Schedule of the LGA 2002 requires Christchurch City to:
- (a) identify the total costs of the capital expenditure Council is expected to incur, and
 - (b) attribute these total costs to units of demand by which the impact of growth has been assessed.
- 29 The growth model that underpins the DC policy is consistent with the provision for the allocation of growth and timing of that growth as outlined within the UDS and PC1. This projected growth has been taken forward in developing the capital programme for infrastructure, and from that DCs are collected. Christchurch City's

growth model and the collection of DCs ties into the PC1 land use pattern in the following ways:

- (a) the growth model is consistent with the UDS and PC1, and
- (b) the significant assumptions for the growth model are reflected in the assumptions for the DC:
 - growth will follow the targets as set out in PC1;
 - the allocation of growth and timing of development will occur in greenfield areas and timeframes as outlined;
 - a consistent 32 year (2009 - 2041) timeframe is used, and
 - the key risks outlined are the same.

30 Clause 2(1)(d) in the 10th Schedule of the LGA 2002 sets out Christchurch City's obligations to consider demand for services, service levels and standards, asset capacity and the cost implications in its LTCCPs. This means for example, that the LGA 2002 requires Councils to anticipate the impact of development on infrastructure and to fund for this, so that infrastructure is provided in a timely manner, and that development does not have a negative impact on existing infrastructure.

31 A comprehensive and managed approach to growth management enables councils to identify the infrastructure required, the cost implications, and how this will be attributed to growth. Christchurch City then determines the most efficient and effective means for delivering the infrastructure and plans for this in the LTCCP.

32 As I noted earlier in the absence of a relatively clear picture of where urban development is to occur, it is very difficult to assess future costs when assumptions have to be made about the nature, rate and location of growth. This cannot be separated from consideration of strategic planning under the RMA. The growth picture proposed by PC1 is that which will be used by Christchurch City in the preparation of the draft LTCCP.

33 Development which occurs in areas or in a manner which has not been carefully considered or planned for (particularly in areas which lack the infrastructure to cope with growth), has the potential to undermine the LTCCPs goals, and is likely to adversely impact on Christchurch City's financial position. In my opinion, this can pose considerable financial risks, quite apart from the environment effects which may occur and which are addressed in the evidence of others.

IMPACTS OF URBAN DEVELOPMENT TRENDS ON CHRISTCHURCH CITY'S INFRASTRUCTURE SERVICING COSTS

- 34 Growth trends in Christchurch until PC1 indicated that residential development was primarily occurring in peripheral areas and across district boundaries. This was a key concern for Christchurch City as this type of growth, if left unimpeded, as Mr Theelen highlights, can produce adverse environmental outcomes and is unlikely to produce integrated resource management outcomes. If the UDS partner councils had continued to individually manage growth, there would continue to be a significant variability in approach and resourcing, which would not create a situation whereby certainty for each District and the sub-region could be delivered. PC1 provides an integrated resource management approach to urban development and represents a cross-boundary policy framework which can deliver the certainty that the people and communities of Greater Christchurch have indicated that they seek.
- 35 An absence of an integrated policy framework at the regional level and across district boundaries would propound concerns that development results in increased costs for, and places an unfair burden on, existing and future ratepayers. By developing in more or different areas than is currently planned, extra infrastructure is required to service these areas even though the amount of development may be the same. This results in more infrastructure capacity being built than is necessary, much of which may remain underutilised until areas are fully developed. With ad hoc planning, some areas may never fully develop. The consequence is it would take longer to collect sufficient DCs to cover the cost up-front. This means servicing more debt to pay for that additional infrastructure, which leads to higher per unit costs.
- 36 Without PC1, and in a scenario where recent growth patterns are left to continue there is likely to be a significant increase in the capital costs associated with this infrastructure provision as well as the ongoing depreciation and maintenance costs. Further investigation into these costs is in preparation and should be available by March 2009. This will be presented as supplementary evidence.
- 37 Christchurch City Council's Liability Management Policy as outlined within the LTCCP describes Council's desire to maintain debt at sustainable levels and in a prudent manner. Once the draft LTCCP is completed, I intend in Part 2 of my evidence to show how these debt thresholds are likely to be breached where

unmanaged growth and growth outside the proposed urban limits drives imprudent financial behaviour by CCC.

INFRASTRUCTURE COST CONSIDERATIONS OF LOCATING GROWTH AND ULs IN AREAS OTHER THAN PROPOSED IN PC1

38 When I discuss SW, North and NE Christchurch, I refer to the same areas as defined in the statement of Mr Theelen.

39 Given Christchurch City's duty to maintain and renew infrastructure and services in a resource efficient manner, infrastructure must be suitable for long term use and, as Mr Theelen outlines, be resilient and adaptable. It is in the community's interest to accommodate growth that can be adequately serviced by existing infrastructure (or upgrades to it) and equitably funded.

40 In accommodating urban growth in the City, upgrading the existing transport, water, wastewater and stormwater infrastructure in the SW and North is more cost-effective than constructing new infrastructure needed to service any growth to the NE as PC1 submitters have suggested. I acknowledge that developers state that they will cover the building costs for new infrastructure, and this will in most instances be the case. Christchurch City's must, however, under the LGA maintain and renew that infrastructure and manage the incremental flow on effects to the wider existing network, particularly for transport.

41 The network capacity of dispersed infrastructure is often underutilised, resulting in greater long-term maintenance costs. For example, optimal minimum and maximum flows are required to maintain the effective functioning of wastewater systems. It is the whole community who pays for these costs through increased rates. This can increase the costs of borrowing and negatively impact on Council's borrowing and debt. It is harder to provide and upgrade infrastructure to meet potential demand when the rate of uptake is unknown, as would most likely happen if large areas of the city were rezoned or developed in an unplanned way.

Wastewater

42 As outlined by Mr Theelen, the trunk wastewater system experiences capacity during wet weather events and is therefore not meeting consent standards. Key trunk sewer upgrades are planned for the SW and North and have to happen

regardless of growth. This series of upgrades of sewers provides an opportunity to create additional capacity for growth at relatively little additional cost. This means that for these areas capacity for growth can be created efficiently and cost effectively in comparison to areas that require new infrastructure, such as would be the case for the NE (putting to one side the environmental and natural hazards considerations that would apply in that location).

- 43 To build wastewater infrastructure anew, or extend the existing infrastructure out to the NE to accommodate any proposed growth would incur significant costs. Even though developers may be prepared to meet these development costs through DCs, this does not cover infrastructure costs in the short to medium term to service and maintain this and existing under-utilised infrastructure. Therefore Council borrows and this debt servicing results in additional costs to the community through rates.

Water

- 44 For urban Christchurch it is relatively inexpensive for Council to supply water to the public because drinking water comes from groundwater sources that are under pressure and relatively easy to access. In general terms this means that pumping and reticulation costs are relatively low. In addition and generally speaking the quality of water is very high and does not require treatment. Increasing the amount of infrastructure required to service areas outside of what is currently planned puts additional maintenance and renewal costs on Council.

Stormwater

- 45 In Christchurch, there is a significant challenge for managing stormwater and flood flows. It usually requires large tracts of land and specific design if the outcomes sought by Christchurch City are to be achieved. Putting in place improved stormwater management systems is required for the SW and the North in order to meet resource consent obligations with Environment Canterbury.
- 46 Development within the SW also provides a unique opportunity to manage the downstream impacts on areas outside of the SW within the Halswell and Heathcote Catchments. This will provide additional benefit to areas that would otherwise not receive improvements.

Community facilities

- 47 A new library is planned for the SW and for the North. However, no new community infrastructure is planned for areas outside the proposed ULs. If growth was located in areas which are not proposed for growth or intensification in PC1, it is inevitable that there would be an expectation of provision of community facilities, which would in turn have financial implications for Council.

Transport

- 48 In Christchurch significant major transport system improvements are planned or are being undertaken to accommodate growth in the SW and North. Upgrades and new road infrastructure are required in the North to service the proposed growth and development. These matters are covered in the evidence of other witnesses. However, in common with other areas of infrastructure expenditure, there are likely to be significant financial implications associated with adequately servicing the transport needs of unplanned or ad hoc residential development in areas such as the NE.
- 49 I also note the point made in the evidence of Mr Woods, that the urban consolidation approach of PC1 is an important tool to enhance the efficiency of new and existing transport infrastructure and services particularly the provision of public transport. It is more effective and efficient to provide public transport to areas that develop in a staged manner. It is not efficient to fund public transport infrastructure and services to development that is spread out over a number of growth areas.

CAPITAL COMMITMENTS FOR INTENSIFICATION IMPLEMENTATION

- 50 Christchurch City Council is committed to intensification to implement the preferred settlement pattern as outlined within the UDS and PC1. This settlement pattern was strongly supported by the community when the various development options were consulted on in 2005. Intensification is also reflected in a number of planning documents and strategies of Council. A special emphasis has been placed on intensification as a critical component of achieving growth targets for the City. The Central City Revitalisation programme aims to reinvigorate the city centre with residential and commercial activity.
- 51 There is provision within the 2006-2016 LTCCP for Central City Revitalisation including the purchase of strategic land. The updated funding in the 2009-2019

LTCCP for the Central City will be provided as supplementary evidence. Projects include the:

- (a) City Mall renovations;
- (b) transformation of the lanes;
- (c) Avon River upgrade;
- (d) new Council building;
- (e) new transport interchange;
- (f) improving pedestrian amenity; and
- (g) streetscape work and tree planting.

52 Implementing the intensification policy will occur through a number of mechanisms, including LTCCP provisions. Figures will be outlined once the draft 2009-2019 LTCCP has been released. This will be addressed in Part 2 of my evidence.

53 Currently Christchurch City's Intensification Policy is a work-in-progress and focuses on central city intensification expenditure. The Strategic Intensification Review aims to review the current provisions for higher density housing, including renewal and brownfield development, and establish what changes are required to meet PC1 household growth targets.

54 In summary, Christchurch City has made a financial commitment to implementing intensification within the City. While there are up front costs involved with supporting higher densities, in my opinion these are not likely to be as great as peripheral urban expansion in Greater Christchurch. Also, some of the capital works identified for intensification have long-term benefits and will ultimately reduce other costs over time. For example, the Central City Transport Interchange will promote greater use of public transport to and within the CBD by attracting more shoppers and visitors to the Central City.

CONCLUSIONS

55 With the implementation of ULs and the emphasis on major future suburban growth areas in both the North and SW, I consider that PC1 proposes the best fit between future land use needs and minimising the financial impact on Council and the community. For the reasons outlined in this evidence, departures from the allocation of new growth areas contained in PC1 will have a detrimental effect on

Christchurch City's finances, its ratepayers and the broader economic prosperity of the City.

- 56 Development in the NE is not sustainable from a financial perspective. Similarly, all of the other requests for extensions of the ULs will enable development in too many locations. It will also dissipate Christchurch City's recovery of trunk infrastructure services investment from DCs. Finally, it will promote the unnecessary provision of surplus infrastructure which has to be maintained and renewed through specific funding in the LTCCP.
- 57 In terms of intensification, Christchurch City is creating the climate (especially within the Central City) for this to occur. While the proposed scale of this investment will be contained within Part 2 of my evidence, Christchurch City is investing significant sums of money in public domain improvements in order to provide market confidence for existing and increased levels of private sector investment in the future. Council has made significant land purchases in order to provide both confidence and stimulation to the current levels of activity within the Central City.
- 58 A well planned staged growth pattern is the most economic and effective way to provide quality and cost effective infrastructure to the community. It should be noted that the LGA 2002 strictly proscribes what DCs can be recovered from, and while such charges are generally quite high around the country, they do reflect the cost of continuing to build new infrastructure, the need to meet higher environmental standards, and achieve community agreed levels of service for infrastructure and facilities.

Paul Joseph Anderson

19 December 2008