

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

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

INTRODUCTION

Qualifications and experience

1. My full name is Paul Joseph Anderson. I am the General Manager of Corporate Services for the Christchurch City Council.
2. My qualifications and experience are set out in Part 1 of my evidence.
3. The facts relied upon and formation of opinions are set out in Part 1 of my evidence.

SCOPE OF EVIDENCE

4. I intend to outline commitments of Christchurch City Council as signalled in Part 1 of my evidence as presented in December 2008. Part 1 contained the high level principles around how Council will manage the financial component of growth. Part 2, presented here, contains more detailed financial data. This could not be presented earlier as the draft LTCCP was not completed and agreed until now.
5. This evidence should be read in conjunction with Part 1 of my evidence and 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) need to be clearly linked and inform each other.
6. Under LGA requirements prudent and comprehensive financial and infrastructural planning in growth areas needs to be related to resource management planning. 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 and clear linkage to community outcomes.
7. **PART 2** of my evidence:
 - (a) Is the supplementary financial data based on Christchurch City Councils Draft Long Term Council Community Plan (LTCCP), and
 - (b) Is the supplementary financial data from the Draft LTCCP that informs financial modelling of selected scenarios.

8. There are commitments in Part 1 that need to be reiterated here particularly around setting out the financial evidence supporting the implementation and location of growth pockets and ULs around Christchurch City in line with PC1 and Variation 4.

9. I will also cover the financial considerations associated with implementing Christchurch City's Intensification Policy in line with PC1 and the growth pattern that makes the best use of infrastructure. 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 surrounding areas 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.

OVERVIEW OF FINANCIAL POSITION

10. Council in developing the 2009-2019 LTCCP proposed expenditure is funded by:

Rates	\$256M
Fees and charges	\$112M
Dividends and Interest	\$64M
Borrowing for capital programme	\$52M
Transfers from reserves	\$45M
Development Contributions	\$19M
Capital Grants and schedules	\$14
Asset Sales	\$4

11. Council over the next 10 years will spend \$2.458 billion on capital projects across the City. This is made up of:

- \$1023M Renewals - replacing assets at the end of their useful life.
- \$710M Growth related development to achieve PC1.
- \$725M Aspirational – projects that rectify shortfalls or improve existing service provision.

12. Council is proposing to borrow in order to meet increased demands or where it seeks to improve levels of service for growth. Development contributions and other sources of funding such as subsidies from NZTA are sources of funding for growth but because capital projects generally require Council expenditure in advance of receipt of development contributions funding and capital subsidies, Council needs to borrow. When Council borrows for capital expenditure it plans to repay with debt over a thirty year period and it is the cost of servicing and repaying that debt which has an impact on rates.

13. When planning the capital expenditure programme Council uses a number of assumptions to estimate the impact on rates. These are based on when debt is drawn down, the costs and interest.

14. Total debt increases from an opening balance of \$240M to \$846M over the ten year period of the LTCCP. The most significant increase in borrowing is for capital works which increase from \$2M through to \$590M. Despite this anticipated increase Council is continuing to ensure prudent and sustainable financial management of its operations. Council credit rating of AA+ was reconfirmed in December 2008.

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15. Debt relating to capital assets will increase throughout the life of the LTCCP, reaching \$590M by 2019. Beyond then, debt will shrink as payments outstrip costs. By 2041 only \$3M of debt will remain.

16. An important element in assessing the value of Councils risk management strategy is its five key financial ratios. These ratios have been set with the objective of maintaining the A++ rating.

IMPACTS OF URBAN DEVELOPMENT TRENDS ON CHRISTCHURCH CITY INFRASTRUCTURE SERVICING COSTS

17. Growth trends in Christchurch until PC1 indicated that residential development was primarily occurring in peripheral areas and across district boundaries, which was a concern for Christchurch City. As stated in Part 1 of my evidence this type of growth would have significant impact on the Council finances.
18. Without PC1, and in a scenario where recent dispersed 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 renewal and maintenance costs.
19. 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. My evidence indicates that debt thresholds are likely to be breached if growth occurs outside the proposed urban limits. This would drive imprudent financial behaviour by CCC. Without sufficient control of urban development in PC1, CCC would be unable to manage debt levels sustainably. This would result in significant increases in rates to fund inefficient deployment of the strategic infrastructure required to meet the levels of service outlined in the Draft LTCCP.

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

20. When I discuss SW, North and NE Christchurch, I refer to the same areas as defined in the statement of Mr Theelen.
21. 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.
22. Alternatively, where new infrastructure is required it is essential to encourage sufficient scale being reached through targeted growth to ensure infrastructure is used in the most efficient way.
23. 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 some PC1 submitters have suggested. It is noted that

developers state that they will cover the building costs for new infrastructure, and this will in most instances be the case. Christchurch City 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. I address these effects and consequential additional costs below.

- 24.** Council has developed an economic sustainability model to analyse the financial impact on Council of delivering the settlement pattern outlined within PC1. The model also has the capability to model different development scenarios including how this will affect the provision of new and existing infrastructure and funding of infrastructure. This estimates the financial impact on Council of having to deliver on alternative growth scenarios to that outlined within PC1.
- 25.** As stated in Part 1 of my evidence, developing in more or different areas than is currently planned, means that extra infrastructure is required to service these areas. The household numbers remain the same across the City but more infrastructure capacity has been built than is necessary, much of which may remain underutilised until areas are fully developed. This is highly inefficient leading to the suboptimal use of the network infrastructure and resulting in significantly higher long term costs.
- 26.** The scenarios tested represented the two main components of the UDS land use model that could be influenced, that is the number and location of growth areas used and the timing (or staging and sequencing) of growth or a combination of the two. A large number of scenarios were possible. The scenario selected represented the most likely challenge to PC1 growth in the north east of the City around Redwood and Marshlands. This growth would be in addition to the growth areas outlined within PC1 but with the same number of households. The assumption is that growth would be taken from intensification and from planned growth areas outlined within PC1.
- 27.** The three land parcels examined were all growth pockets considered as part of the development of the UDS. Collectively they are capable of providing for over 10,400 households on around 770 hectares.
- 28.** The financial impact on Council of these additional greenfield growth areas were assessed against effects on assets and additional services and activities

needed to cater for that part of the City. The following table shows additional capital expenditure of \$547M is generated from these growth areas.

Activity	Estimated Cost
Community Support	\$2,200,000
Cultural and Learning Services	\$3,050,000
Parks and Open Spaces ¹	\$342,700,000
Recreation and Leisure	\$5,600,000
Streets and Transport	\$125,000,000
Wastewater Collection and Treatment	\$45,300,000
Water Supply	\$22,900,000
Total	\$546,750,000

29. The growth projections and operational expenditure ratios underlying this scenario, as well as the values assigned to each parameter, match those of the UDS and PC1

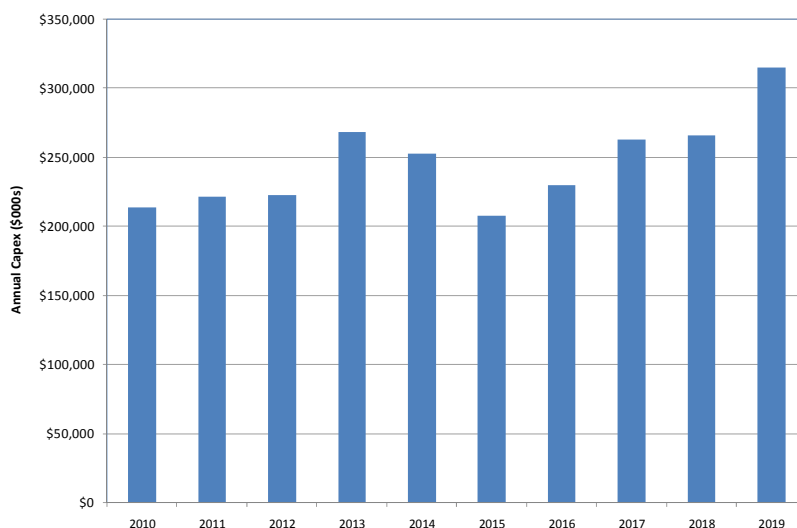
30. In addition this area is low lying and a specific geotechnical report alludes to the area requiring infill. To create sites suitable for development the ground level needs to be raised by between 0.5 and 1.5 metres. It has been estimated the cost of this work is around \$30 per cubic metre depending on market conditions and methods used. Over the entire site it is estimated that the cost is around \$230M. Even though this would be met by private developers Council would be expected to maintain and depreciate the infrastructure (particularly wastewater) where these ground conditions increase these costs.

31. The operational expenditure of the \$316M (\$546M excluding the \$230M for infill) has been assumed to be 3.9% in the first year and rising 5% per annum each year for the life of the infrastructure.

32. Depreciation has been calculated on the basis that the cost of building or buying the infrastructure is known and outlined within the LTCCP, and includes data on the expected life of that infrastructure and how much it will cost to replace. This sets the level of depreciation that will make sure the replacement cost can be achieved.

33. Capital expenditure for the LTCCP under the alternative scenario totals \$3 billion with annual expenditure reaching \$395 million by 2019. The following graph shows the capital expenditure required until 2019.

¹ This includes geotechnical mitigation (fill) costs of \$230 million, which will not be funded by Council, but will require ongoing Council-funded maintenance.



34. If alternative scenarios proceeded debt would peak in 2019 at \$610M, representing an increase in debt to fund growth related costs (compared to debt relating to growth as in PC1).

35. An overview of the financial impacts of the alternative scenario in relation to the UDS can be summarised as a:

- 20% increase in nominal capital expenditure (from \$2.46 to \$3 billion)
- Higher proportion of growth-related capital works (from 27% to 38%)
- Greater reliance on loans (from \$1.57 to \$1.86 billion); and
- Shift towards development contributions for debt recovery (from 40% to 52%)

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36. In addition, there will also be a

- 19% increase in peak nominal debt (from 1.26 to \$1.5 billion)
- 19% increase in annual rates per household (from 2013 onward); and
- 58% increase in development contributions (from 2013 onwards).

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CAPITAL COMMITMENTS FOR INTENSIFICATION IMPLEMENTATION

37. As outlined in Part 1 of my evidence Christchurch City Council is committed to intensification to implement the preferred settlement pattern as outlined within

the UDS and PC1. This settlement pattern is strongly supported by the community and is reflected in 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.

- 38. Growth for additional greenfield areas will take away potential growth from the Central City and intensification areas.
- 39. Provision was also provided for Central City Revitalisation within the 2006-2016 LTCCP including the purchase of strategic land and also includes \$57M funding for the new Council building.
- 40. The 2009-2019 LTCCP identifies specific budget areas for the Central City. The City is making a substantial financial commitment to intensification. The policy approach is credible since it is supported by substantial amounts of capital expenditure. The following table outlines some but not all funding specifically dedicated to Central City and intensification.

City Mall renovations	\$5,777,500
Urban renewal	\$2,400,000
Centennial pool upgrade	\$2,500,000
New transport and suburban interchanges	\$103,627,247
Inner city transport	\$23,400,000
Central City bus priority	\$7,800,000
Active transport	\$59,000,000
Central City, signs and trees	\$1,337,500
Central City Library	\$62,800,000
Tram	\$10,966,250
Total ²	\$279,608,497

- 41. As stated above Christchurch City's Intensification Policy focuses on Central City intensification expenditure. Between 2006 and 2041, 90% of household growth will be in one person households and couple only households. The Strategic Intensification Review aims to review the current provisions for higher

² Council is building on the Avon River upgrade as part of the Western Interceptor Sewer Project to add capacity for growth in the Central City, south west and west of the City. The primary purpose of the sewer upgrade, however, is to meet statutory requirements and reduce wastewater overflows into the Avon River. Costs are attributed to renewal.

density housing, including renewal and brownfield development, and establish what is required to meet PC1 household growth targets. While there are up front costs involved with supporting higher densities, in my opinion these are not likely to be as great as the long-term costs of peripheral urban expansion in Greater Christchurch. Capital projects for intensification rely more on improving scale and asset upgrades than the higher and ongoing renewal cost of entirely new infrastructure.

CONCLUSIONS

- 42.** 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. Any amendments to it other than minor changes are likely to have significant financial impacts on Council, the ratepayers and broader economic prosperity of the City.
- 43.** Development in the NE is not sustainable from a financial perspective if the City is to maintain its existing standards and services. Similarly, the other requests for extensions of the ULs will enable development in too many locations and lead to suboptimal utilisation of Council infrastructure. It will 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.
- 44.** In terms of intensification, Christchurch City is actively facilitating and participating in the market to ensure intensification (especially within the Central City) is to occur. Christchurch City is also investing significant sums of money in public domain improvements 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.
- 45.** 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. Alternative growth scenarios will increase the cost of borrowing thus increasing rates for all the community.

Paul Joseph Anderson

19 March 2009