Draft Annual Plan 2023-24

Briefing to Council

31 January 2023

Christchurch City Council

Purpose

Today's briefing will provide an update from the 6 December public briefing on the development of the recommended Draft Annual Plan.

- 2 December – Councillor feedback
- 6 December – guidance for setting draft Annual Plan
- 8 December – CEO briefing Community Board Chairs
- 24 January – staff report back to Council on progress for draft AP
- 26 January – follow-up briefing with Community Boards
- 31 January – public briefing on progress for draft AP
- Draft Annual Plan adoption meeting – 28 February

Summary

- Unprecented conditions facing Council, Canterbury and New Zealand
- High inflation environment with uncertain outlook
- Revaluation impacts
- Concerned about compound effect on residents and ratepayers already struggling
- We have worked hard over several months and focused on:
  - Best value for money/efficiencies
  - Reducing the capital programme
  - Mitigation of impacts on residents by adjusting business differential
  - One-off changes to reduce rates increase
- Net result is proposed average rates increase of 5.6% compared to 14.6% at start of the process

We are covering two main topics

For 2023/24, individual ratepayers will be impacted by a revaluation and a rates increase

1. Revaluation
    - Impact of the three year revaluation on capital values
    - Consequential impacts on rates
    - Possible mitigation

2. Annual plan: proposed rates increase
    - Changes made to reduce rates increase
    - Current proposed rates position
    - Next steps

Revaluation rating impact and proposed business differential change

Christchurch City Council

Contents

- Introduction to rates and revaluations
- 2022 Revaluation
- Rates increases
- Business Differential
- Impact on suburbs

Rates in 2022/23

Rate	Differentials	Based on	Charged to	Revenue ($m incl GST)
General rates				
General value-based rate	Standard (1), Business (1.697), Remote Rural (0.75), City Vacant (4)	Capital Value	All rateable	414.4
Uniform Annual General Charge (UAGC)		$145 for each SUIP*	All rateable	27.1
Targeted Rates				
Sewer		Capital Value	Serviced area	104.1
Water Supply	Connected (1). Not connected (0.5)	Capital Value	Serviced area	85.9
Land Drainage		Capital Value	Serviced area	50.8
Waste Minimisation (yellow/green)	Collected (1). Not collected (0.75)	$189.50 for each SUIP*	Serviced area	33.1
Active Travel		$20 for each SUIP*	All rateable	3.7
7 other targeted rates				3.5
Excess Water Rates				
Excess water (Commercial)		Water volumes	Commercial land using water	7.2
Excess water (Residential)		Water volumes	Residential land using water	4.9
TOTAL				734.7

*SUIP = Separately Used or Inhabited Part of a rating unit. A rating unit with 2 flats has 2 SUIPs

Rates calculation

Revenue requirement for each rate

divided by

Tax base ("base values") for each rate
(e.g. Capital Value (CV) of city)

=

Rates decimal for each rate

Example:

Revenue requirement for a rate is $1m. Tax base is $1b for that rate.

Rates decimal is therefore $1m/$1b = $0.001 per $ of CV.

So a $1m property would pay $1m x $0.001 = $1,000 for that rate.

Revaluation and rates allocation

- If you own 1% of the city CV, you pay 1% of the rates
- If everyone's CV increases 50%, no rates impact on anyone
- At a revaluation, inevitably relative values change
  - Specific property rates will change as some properties become more/less valuable relative to others
  - CV is considered the best tool Council has to indicate ability to pay
  - Overall Council gets the same amount of total revenue

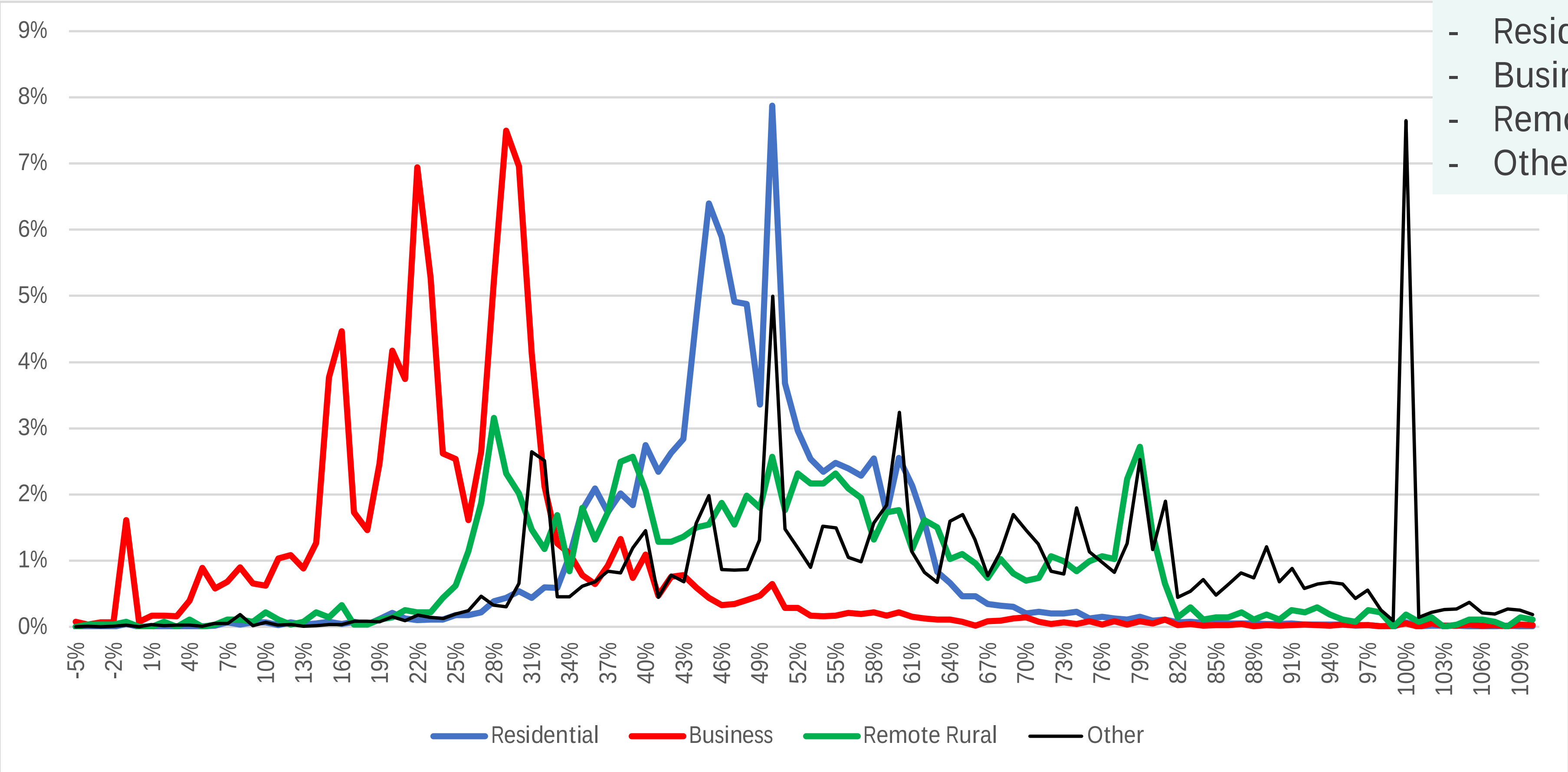
The pie represents our planned rates revenue. Capital values are used to divvy up the pie, to give residents and businesses their share of total rates.

The size of slices of the pie change to reflect changes in valuation

2022 Revaluation

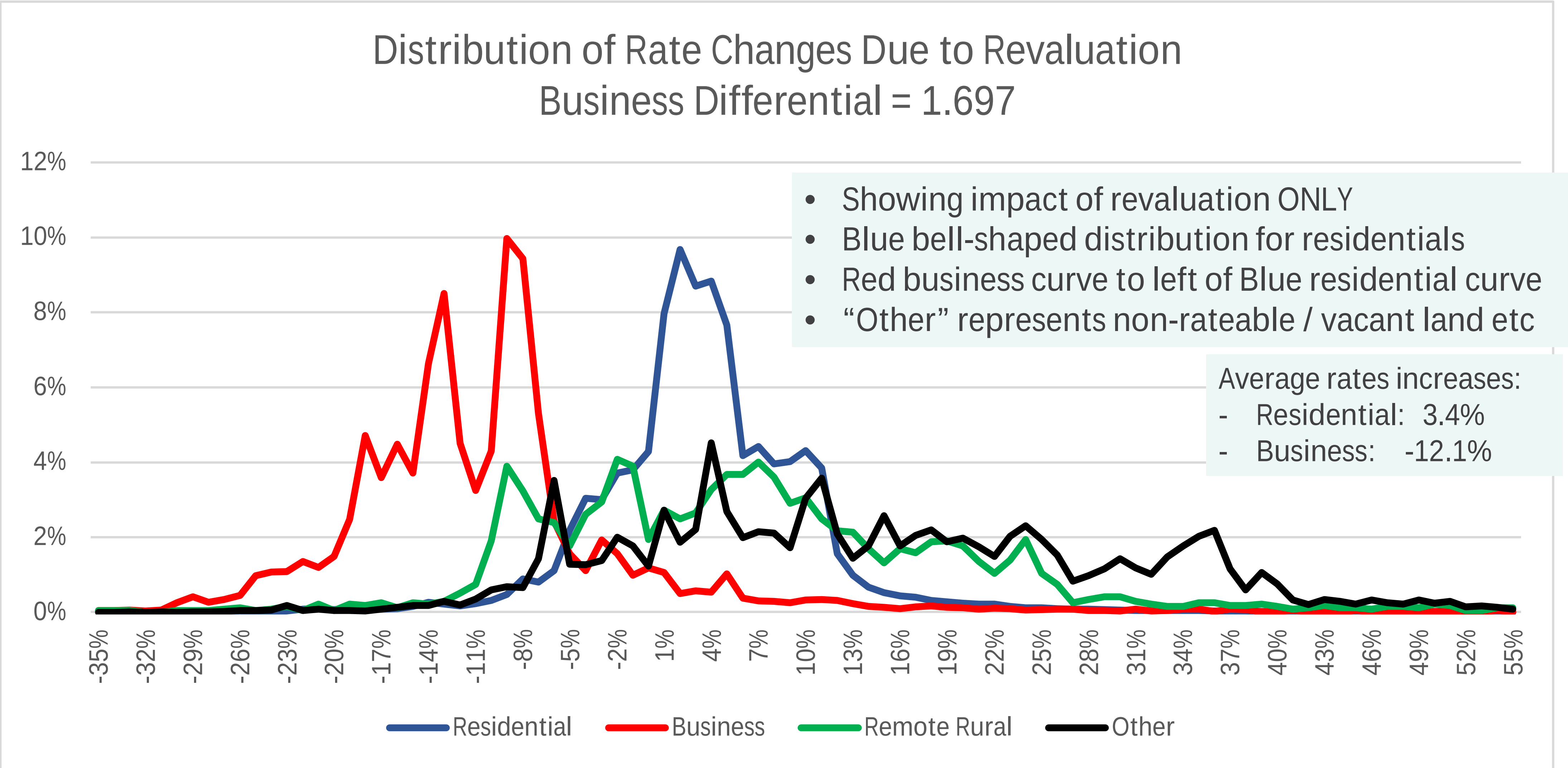
- Must be undertaken every 3 years, last was August 2019.
- Key dates
  - Based on market conditions 1 Aug 2022
  - Based on physical conditions c. 16 Jan 2023. Snapshot
  - Values publicly available from 1 Feb 2023
  - Used for rates from 1 July 2023
- What the data shows: Valuations for residential rating units will increase more than for business rating units
- Impact on rates: Without adjustment, this transfers some of the rates burden from the business sector to residential

Distribution of CV Changes



Average CV increases
(weighted by base values):

- Overall: 43.5%
- Residential: 47.7%
- Business: 24.3%
- Remote Rural: 49.1%
- Other: 49.9%

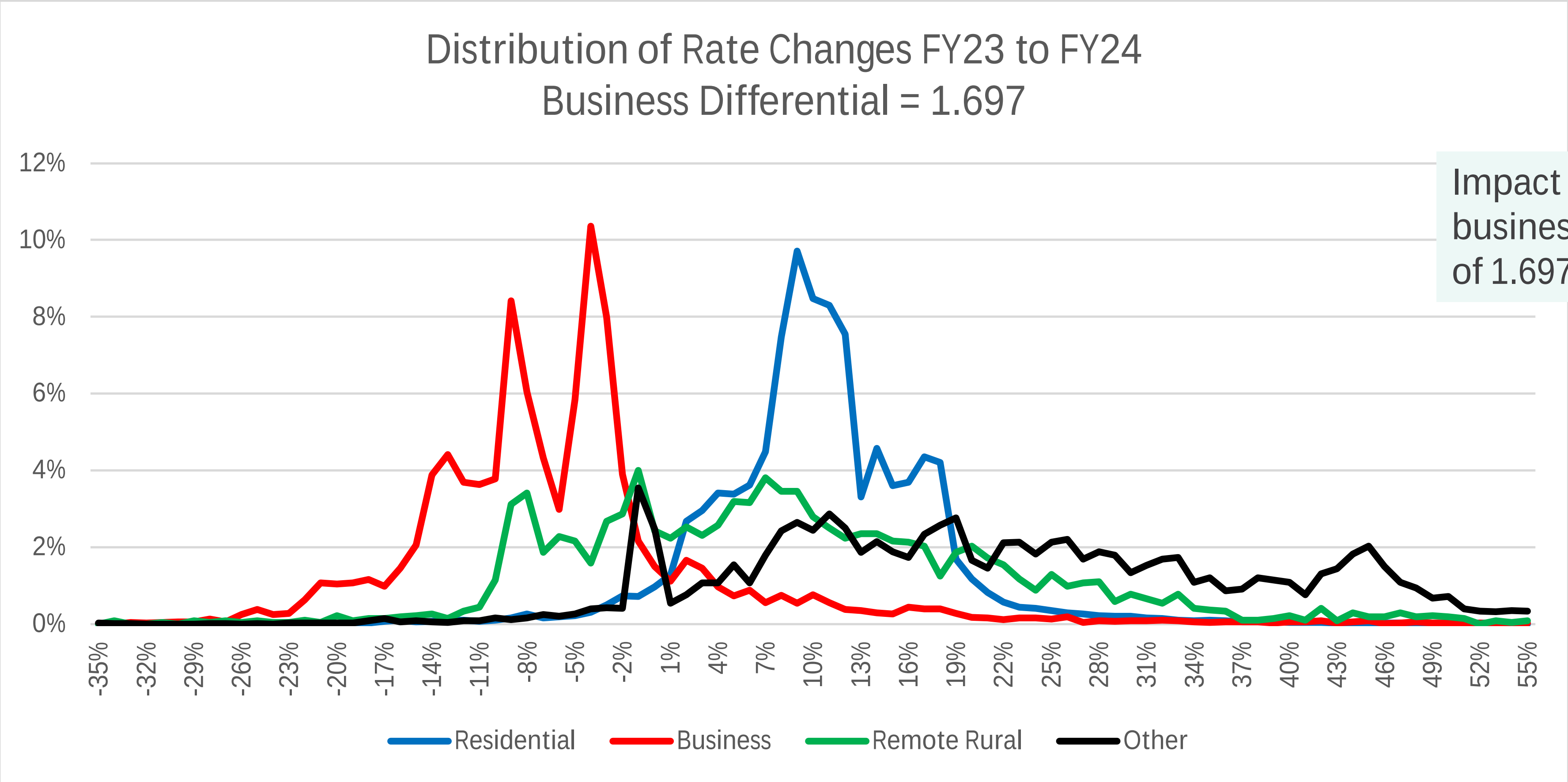

Distribution of Rate Changes Due to Revaluation
Business Differential = 1.697
12%
10%
8%
6%
4%
2%
0%
-35%
-32%
-29%
-26%
-23%
-20%
-17%
-14%
-11%
-8%
-5%
-2%
1%
4%
7%
10%
13%
16%
19%
22%
25%
28%
31%
34%
37%
40%
43%
46%
49%
52%
55%
Showing impact of revaluation ONLY
Blue bell-shaped distribution for residentials
Red business curve to left of Blue residential curve
"Other" represents non-rateable / vacant land etc
Average rates increases:
- Residential: 3.4%
- Business: -12.1%
Residential
Business
Remote Rural
Other

Rates increases: assumptions re growth & composition

- Rates increase to existing ratepayers

% increase in rates: e.g.	6.9%
Less % genuine growth in city	1.3%
= increase to existing ratepayers	5.6%

- 5.6% comprises:
  - Targeted water/sewer/stormwater rates increase ≈16%
  - General rates increase ≈0%
  - UAGC increase of 5.6% from $145 to $153



Impact with current business differential of 1.697 (Option 1)

	Old CV	New CV	% Chg CV	FY23 ($)	FY24 ($)	$ Chg Rates	% Chg Rates
Average house	517,920	764,552	47.6%	3,163	3,495	333	10.5%
Average business	1,962,877	2,440,270	24.3%	15,403	14,269	(1,134)	-7.4%
Average remote rural	1,037,363	1,545,951	49.0%	2,843	3,012	169	5.9%

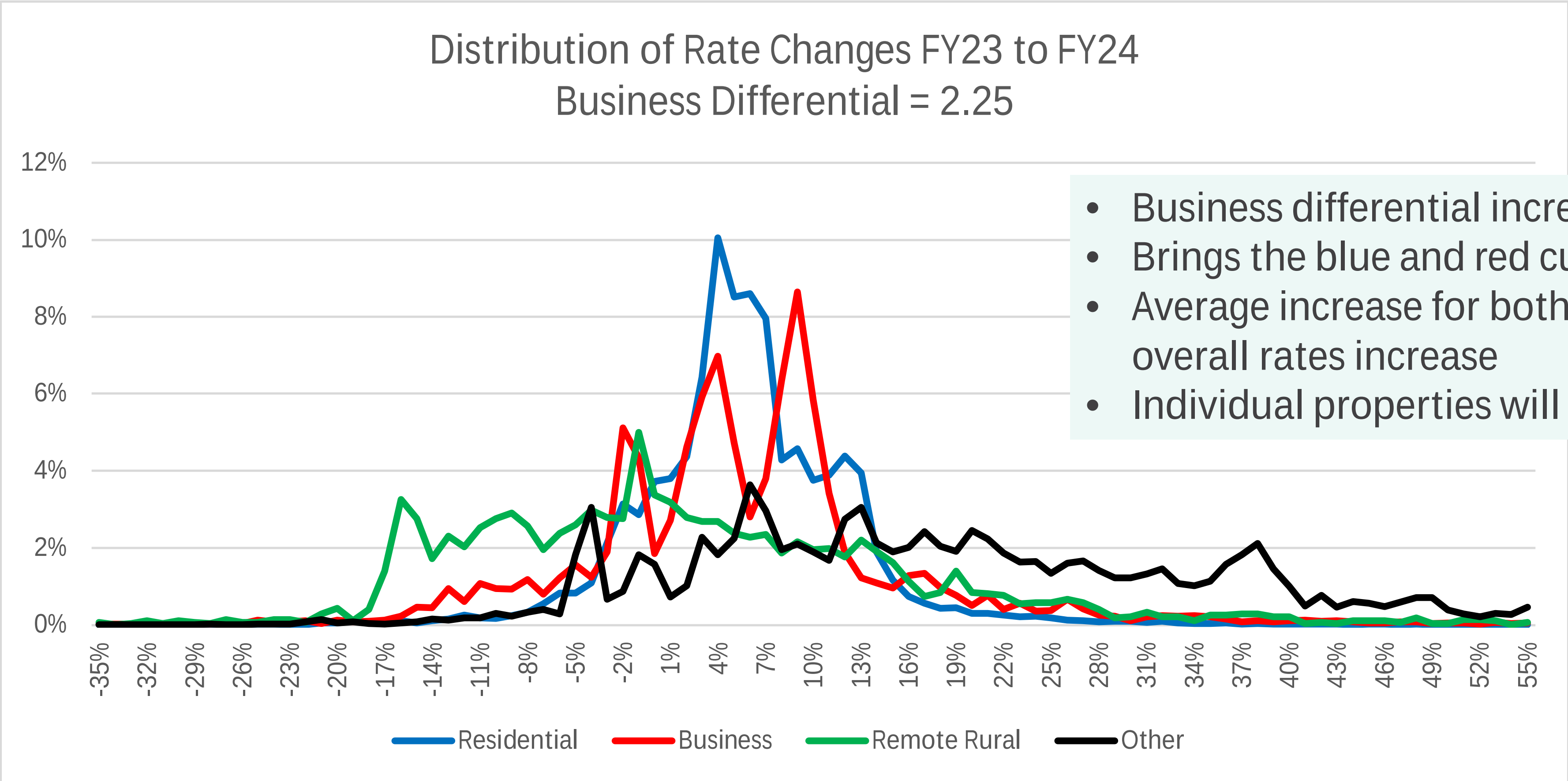
Business differential: what is it and how much?

- Business is any property used for a commercial or industrial purpose, or zoned commercial or industrial (except where purpose is residential). Business properties pay a higher variable portion of the general rate. This is called a business differential and is charged at 1.697 on the CV rated portion.
- Christchurch 1.697
- Auckland 2.642 (explicit policy to reduce this slowly over time)
- Hamilton 2.9765
- Wellington 3.70
- Nelson 2.35 (inner city commercial differential is 3.64)
  (Nelson general rate is based on Land Value)
- Dunedin 2.46

Business Differential proposal

- Option 1: No adjustment
- Option 2: Change the Business differential (recommended)

- The proposal to change the Business differential aims to ensure the different sectors pay the same proportion of rates as they did in 2022/23.
- It moves the red and blue curves closer together.
- Its intent is to prevent a greater rates burden being placed on the residential sector
- Recommend to increase the business differential from 1.697 to 2.25
- Analysis of this under s101(3) of the Local Government Act will be provided to, and considered by, Council

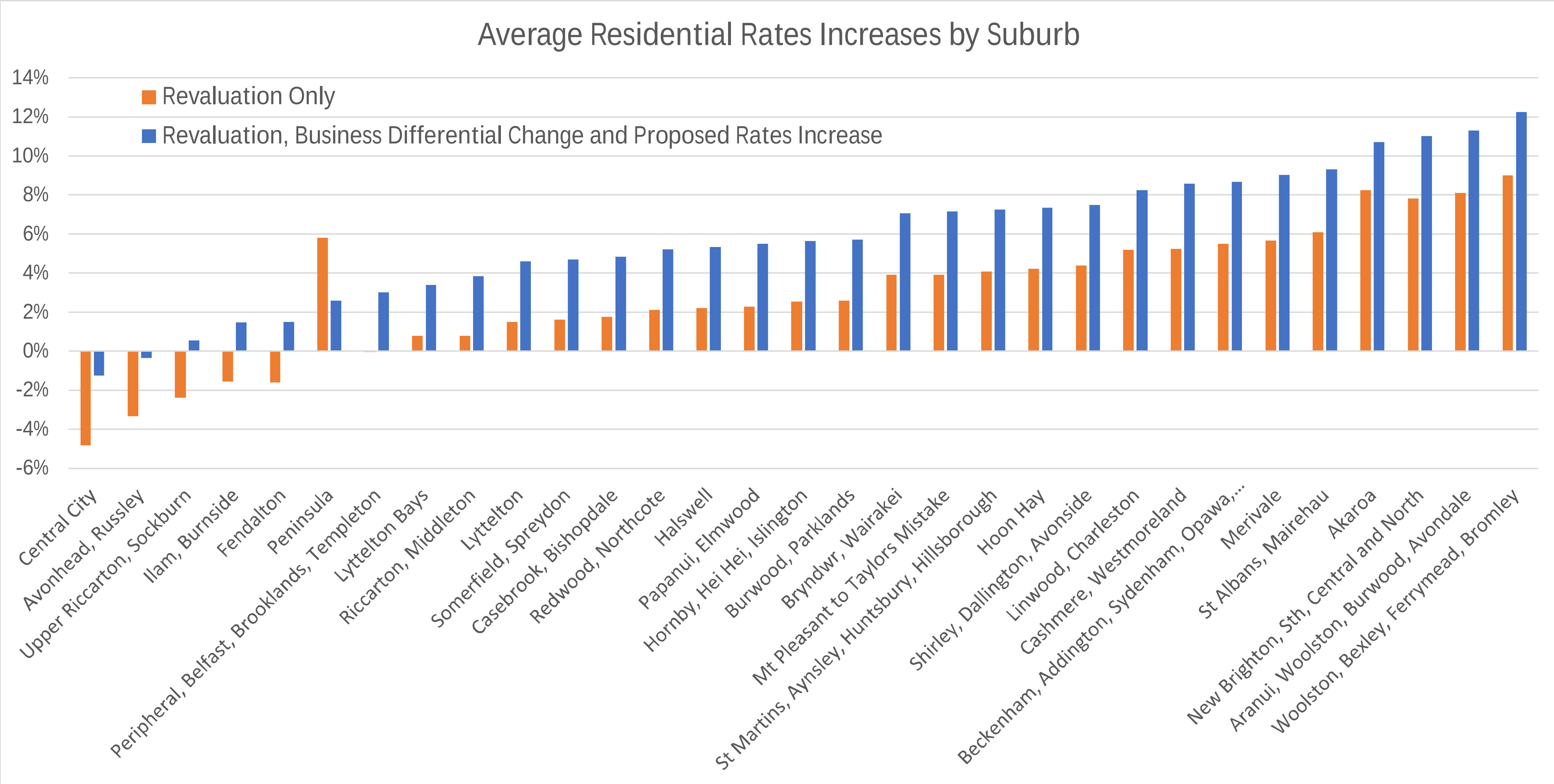


- Business differential increased to 2.25
- Brings the blue and red curves together
- Average increase for both is close to the overall rates increase
- Individual properties will vary

	Old CV	New CV	% Chg CV	FY23 ($)	FY24 ($)	$ Chg Rates	% Chg Rates
Average house	517,920	764,552	47.6%	3,163	3,342	179	5.7%
Average business	1,962,877	2,440,270	24.3%	15,403	16,262	859	5.6%
Average remote rural	1,037,363	1,545,951	49.0%	2,843	2,779	(64)	-2.3%

Further analysis of Rates increase

- Impact on residential properties by suburb
  - Some suburbs have increased more in value than average
  - Increased property owner wealth, but correspondingly higher rates increase
  - Differences between suburbs are an unavoidable feature of CV-based rating and the general revaluation.
- Sample properties


Average Residential Rates Increases by Suburb
Revaluation Only
Revaluation, Business Differential Change and Proposed Rates Increase
14%
12%
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
Central City
Avonhead, Russley
Upper Riccarton, Sockburn
Ilam, Burnside
Fendalton
Peninsula
Peripheral, Belfast, Brooklands, Templeton
Lyttelton Bays
Riccarton, Middleton
Lyttelton
Somerfield, Spreydon
Casebrook, Bishopdale
Redwood, Northcote
Halswell
Papanui, Elmwood
Hornby, Hei Hei, Islington
Burwood, Parklands
Bryndwr, Wairakei
Mt Pleasant to Taylors Mistake
St Martins, Aynsley, Huntsbury, Hillsborough
Hoon Hay
Shirley, Dallington, Avonside
Linwood, Charleston
Cashmere, Westmoreland
Beckenham, Addington, Sydenham, Opawa,...
Merivale
St Albans, Mairehau
Akaroa
New Brighton, Sth, Central and North
Aranui, Woolston, Burwood, Avondale
Woolston, Bexley, Ferrymead, Bromley

Example Residential Properties (CCC rates only)

Indicative increases based on 5.6% Council rates increase – numbers don't include Ecan rates

				Avonhead	Riccarton	Location Burwood	Cashmere	Merivale	Bromley
CV		Old	$	550,000	435,000	530,000	740,000	790,000	345,000
		New	$	760,000	630,000	780,000	1,120,000	1,200,000	550,000
			% Change	38.2%	44.8%	47.2%	51.4%	51.9%	59.4%
Rates	FY23		$	3,336	2,714	3,228	4,364	4,635	2,227
	FY24	Bus.Diff.=1.697	$	3,477	2,944	3,559	4,953	5,281	2,616
			$ Change	**140**	**229**	**331**	**589**	**646**	**388**
			% Change	**4.2%**	**8.5%**	**10.2%**	**13.5%**	**13.9%**	**17.4%**
		Bus.Diff.=2.25	$	3,324	2,817	3,402	4,728	5,040	2,505
			$ Change	**-12**	**103**	**174**	**364**	**405**	**278**
			% Change	**-0.4%**	**3.8%**	**5.4%**	**8.3%**	**8.7%**	**12.5%**

As we move right, property values are increasing by a larger percentage. So are rates.

Example Non-residential Properties

				Remote Rural	Commercial	Industrial	Non-rateable
CV		Old	$	670,000	1,440,000	1,300,000	27,800,000
		New	$	920,000	1,760,000	1,690,000	38,850,000
			% Change	37.3%	22.2%	30.0%	39.7%
Rates	FY23		$	2,642	11,396	10,684	47,000
	FY24	Bus.Diff.=1.697	$	2,725	10,392	10,353	54,327
			$ Change	**83**	**-1,004**	**-331**	**7,327**
			% Change	**3.1%**	**-8.8%**	**-3.1%**	**15.6%**
		Bus.Diff.=2.25	$	2,587	11,829	11,734	54,327
			$ Change	**-56**	**433**	**1,049**	**7,327**
			% Change	**-2.1%**	**3.8%**	**9.8%**	**15.6%**

e.g. Lifestyle block

e.g. Schools, Hospitals, Churches

Revaluation Next Steps

- Audit clearance (from Valuer-General) was given Friday 27 January
- New valuations available on Council website from Wed 1 February
- Ratepayers will receive letters in week following Waitangi weekend
- Ratepayer objections must be submitted to QV by 16 March 2023
- Will be used to set rates from 1 July 2023

2023/24 Draft Annual Plan update

Christchurch City Council

2023/24 Annual Plan – timeline

31 August 2022	Brief ELT
5 Sept – 11 Oct	Planning period opens
14 Oct	HoS budgets sign-off
19 Oct	GM budgets sign-off
28 Oct – early Nov	BERL Inflation info available
Nov – Dec	Briefings
Mid-Dec	Council confirms draft AP in general terms
Staff prepare Annual Plan and Consultation Doc (if required)	
24 Jan 2023	Council confirms draft AP in general terms (px).
31 Jan	Final public briefing date scheduled for 31 January.
22 Feb	ARMC report due (latest possible date)
23 Feb	Council report due (latest possible date)
27 Feb	ARMC meet
28 Feb	Council adopt draft AP
10 Mar – 10 Apr	Open for consultation (Note: school holidays from Easter, Fri 7 Apr – Sun 23 Apr)
24 Apr	Officer responses and final coded report to EMs (finish coding by Mon 17 Apr / Officer responses & GM approval by 24 Apr)
27 Apr – 2 May	Submissions / Hearings (5 May as possible back-up)
10 May	Thematic Analysis of submissions (including key themes from Hearings)
10 May (24 Apr–3 May)	Officer responses to questions raised during Hearings to EMs
Provides space for Hearings questions to be responded to and digested, before briefings and amendments	
15 – 26 May	Councillor briefings
31 May (17 – 31 May)	Amendments due
8 June	Docs ready/ELT agenda
14 June	ELT meet
15 June	ARMC agenda
21 June	ARMC meet
22 June	Council agenda
27 or 29 June	Council adopt final AP

Christchurch City Council

Reminder - what has changed?

- → Global influences having more of an impact on our national and local economies than usual.
- → Mixed and often conflicting views on the mid-term and long-term outlook, geopolitical influences are having wide-ranging impacts.
- → In common with many other organisations, we are experiencing significant cost escalation, supply chain issues, labour shortages and increasing inflation.
- → Domestic economy and inflation experiencing ongoing cost pressures.
- → Employers are struggling to attract and retain talent and skilled workers in a highly competitive market, with record low unemployment.
- → Our suppliers and contractors are signaling a limited appetite for taking on additional risk related to increasing labour costs, material costs, and operating costs.
- → Need to be looking beyond our normal forecasts and be increasingly more agile to respond to external influences.

Summary

1. Challenging circumstances likely to continue for some time, supply chain, labour and geopolitical instability.
2. Focus on deliverability, re-shaping capital programme.
3. Need to balance the needs of wards with the city as a whole.
4. Maintain levels of service as far as possible.
5. Need to balance finances (affordability) with responsible stewardship of asset base.
6. Revaluation has no impact on overall rates revenue.
7. Worked hard to identify further opportunities for savings to drive rates increase lower.

Three Waters

- Current direction from central government is that Three Waters will not be included in 2024-34 council Long Term Plans.
- Until 2024 LTPs take effect, Council will continue to fund and maintain the Three Waters networks to fit-for-purpose standards set in LTP 2021.
- Date of transfer proposed is 30 June 2024. 2023/24 A/P will not show financial change but will mention estimated balance sheet impact in significant assumptions.
- DIA has released draft guidance on now legislated oversight of DIA onto Council decision making during the transition period to the new water services entities.
- Part of their guidance requires review of our Annual Plan, we will continue to engage with DIA in this process.

Opex Update

Reminder - Rates position at 6 Dec briefing

Starting position for 2023/24	14.6%
Update of current and next years capex delivery	-1.2%
Removal of staff service level proposals	-1.4%
Updated staff capitalisation	-0.5%
Lower direct subvention receipts	0.1%
Rating base growth 0.8% to 1.2%	-0.6%
Rating for debt repayment and asset renewals	-2.1%
Position at 6 December	8.9%

Rates changes post 6 December briefing

Position at 6 Dec briefing		8.9%	
Updated staff capitalisation	-0.2%		
Medium risk option on opex inflation	-0.5%	8.2%	Christmas Break update to Councillors
Increase in rates on 3W pipe networks from general revaluation	+0.23%		
Roving Pothole repair team. $2m ($980k net of subsidy)	+0.16%		
Event Ecosystem funding $2.051m	+0.32%		
Bringing $6m CRAF funded capex expenditure forward to 23/24	+0.02%	8.89%	
Opening debt reassessment	-0.46%		
Further savings and revenues identified	-0.13%		
Review for FTE efficiencies	-0.11%		
Increase rating growth estimate 1.2% -> 1.3%	-0.11%	8.08%	
One off reductions			
Recommended utilising additional CEF funds for rate funded grants ($1m)	-0.16%		
Additional tax subvention receipts	-2.34%	5.58%	

Significant Opex changes in recommended Draft

Rates increase		Rates reduction	
Events eco-system funding	$2.1m	Additional Group subvention receipts	$11.1m
Burwood landfill revenue correction	$1.2m	Parakiore timing change	$2.2m
Burwood landfill market competition	$0.9m	Higher parent subvention receipts	$2.2m
RMA Housing bill implementation	$0.8m	Lower recycling processing fees	$2.0m
Roving Pothole team	$1.0m	FTE efficiencies	$1.9m
Closed landfill maintenance	$0.7m	Return rates penalties to 10%	$1.2m
Road condition and risk assessment	$0.4m	Higher Transwaste dividend	$0.7m
Dam safety regulations	$0.2m	Venues Ōtautahi grant reduction	$0.5m
Hydraulics modelling obligations	$0.1m		
Central City Shuttle investigation	$0.1m		

Grants

- The Capital Endowment Fund (CEF) has higher planned income due to higher interest rates.
- Recommendation: utilise $1m to fund rate funded grants in 23/24 only – rates reduction 0.16%. This leaves sufficient funds in the CEF for normal level of requests.

CEF 22/23 balance of funds unallocated	320k
Less expected to allocate this year	-150k
CEF 23/24 balance of funds unallocated	1,377k
Less recommended transfer to rates grants	-1,000k
CEF balance of funds available for allocation in 23/24	547k

Fees and Charges

- Summary of key changes recommended:

  - Community facilities - nil/minimal changes for community groups and not for profits, around 5% for other, higher for Parks
  - Rec & Sport – nil/at market rates other than camping grounds and hot pools
  - Cemeteries 2.2%
  - Parking - nil
  - Water and Trade waste – more material changes
  - Licencing around 5%
  - Consenting largely nil – at market rates

Capital Programme Update

Christchurch City Council

Capital programme expenditure (Capex)

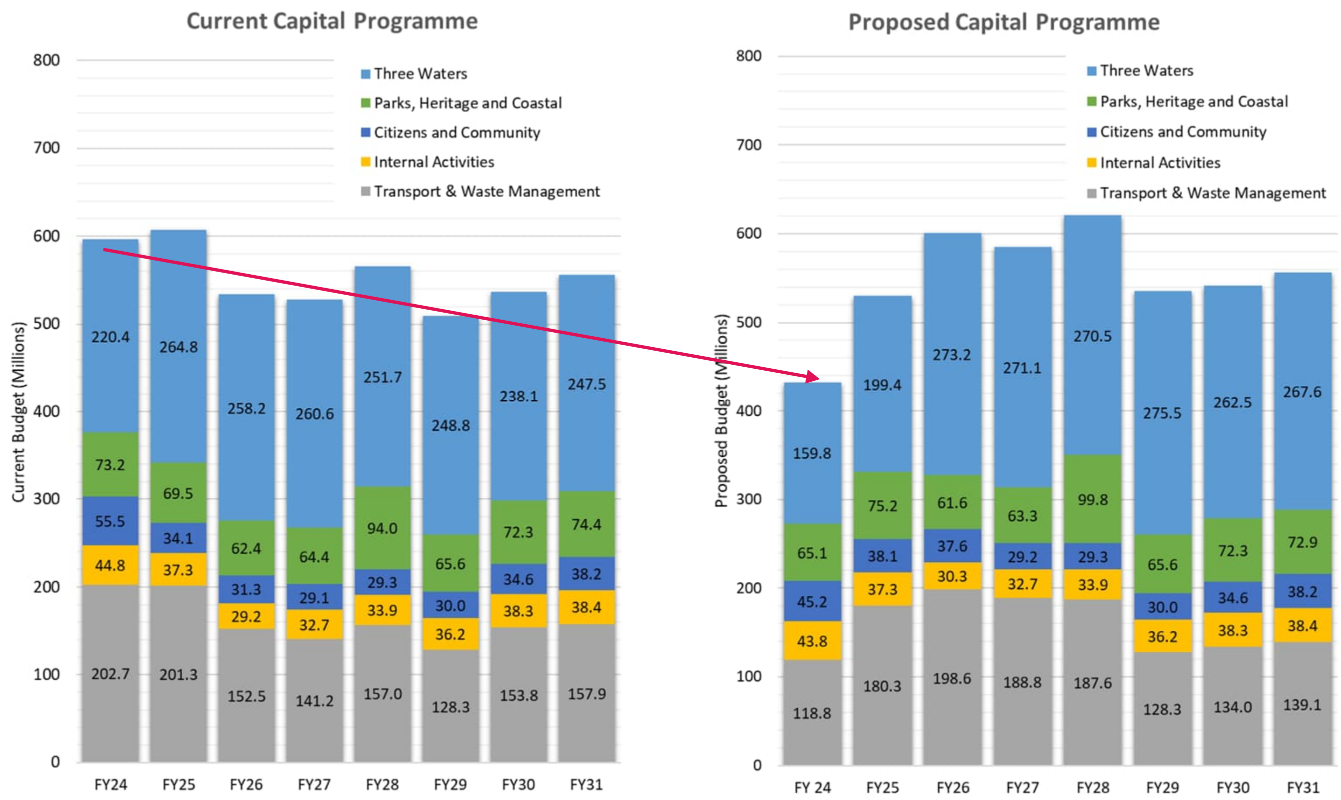
Reminder:

- FY24 capital programme reviewed and proposed changes made to achieve a deliverable programme.
- Current FY24 $597m was reduced by $164m (through re-phasing) to proposed $433m.
- Councillor guidance from 6 December supported the $433m programme.

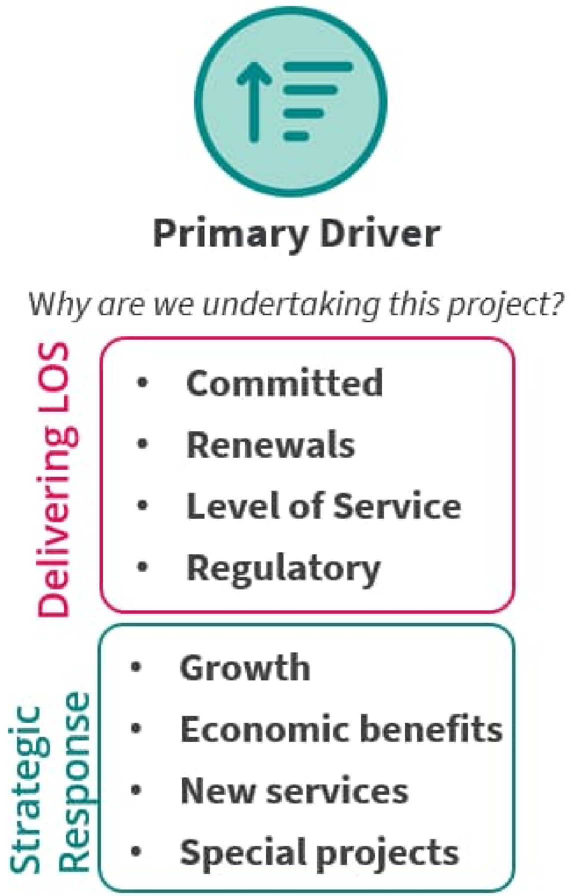
AP24 Draft Capital Programme in a Nutshell : $433m

- Reminder from 6 December.
- $164m reduction from Current Annual Plan of $597m (by re-phasing)
- Realistic capital programme.
- *Core Infrastructure definition:
    - excludes Te Kaha and Parakiore.
    - Includes gross expenditure fron all funding sources (DIA, CRAF, Shovel Ready, Waka Kotahi, etc *and* CCC Funds).

LTP challenge of deliverability and affordability in FY25 beyond remains.



Total Capital Programme: Prioritisation Criteria taken into account



- LTP21-31 re-phasing has taken into account
  - In-flight projects incl FY22 carry-forwards
  - Critical LOS
  - Project Synergies
  - Regulatory requirements

  >>Net Zero change across LTP years.

  HOWEVER:

- LTP24-34 starts soon - requires more detailed engagement on *prioritisation criteria* (eg addressing things like Climate Change effects) and will draw on Strategic Framework including:
  - Infrastructure Strategy
  - Financial Strategy

  >>SF/IS/FS being developed during <u>early 2023.</u>

Our approach to Deliverability

- Set realistic but demandingly achievable targets.

  Track record as future indicator of performance and capacity, taking into account inflationary demands.

- Manage inflationary pressures.

  Manage within Programmes, Project Contingencies and Bring Backs.

- Accommodate carry forward “bow wave” to avoid significant re-phasing, and additional demand.

  Intention is for net zero effect on FY24 by substitution.

Our approach to Deliverability

- Ensure more in-depth assessment and re-set as part of LTP.

  Infrastructure Strategy (and Financial Strategy) will inform priorities and future impacts. The AP24 can't solve everything now.
  Reprioritisation opportunity in LTP24-34.

- Secure additional External Funding sources where appropriate.

  Caution on the impact of (attractive) additional external funds.

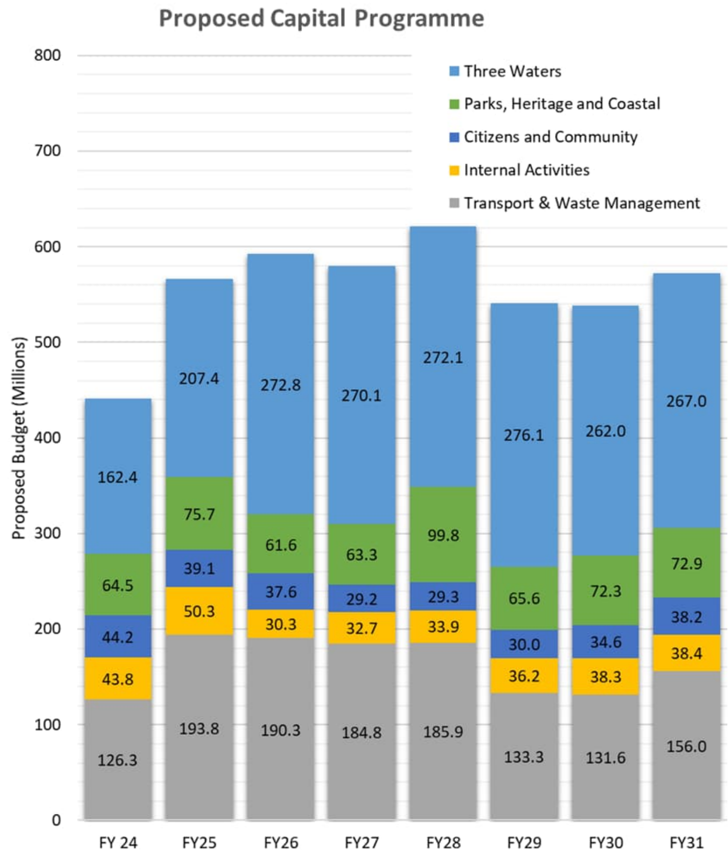
- Focus on Transport & Three Waters as the main components of Capex.

  $164m reduction in AP24 (re-phased through balance of LTP).

Updates to Capital Programme

Refinement of Capital Programme to $439m

- The capital programme schedules have been refined to accommodate minor changes through the capital programme execution.
- The refinements have produced a $439m programme (which is considered a minor change from $433m agreed in December and still considered both deliverable and affordable).
- The proposed changes are reflected in the graph opposite.
- Schedules 1-3 are included and updated for Councillors detailing the changes.



FY24 Changes by Primary Driver to get to refined $439m

FY24 Budget Change (excl. Corporate Capital)	Renewal Of Assets	Infrastructure to meet backlog demand	Provision of infrastructure to support growth	Improved level of Service	New Service	Grand Total
Transport & Waste Management	-11.8 m	-25.7 m	-10.4 m	-25.7 m	-2.4 m	-75.8 m
Internal Activities	0.0 m	0.0 m	-1.0 m	0.0 m	0.0 m	-1.0 m
Citizens and Community	-11.3 m	0.0 m	0.0 m	0.0 m	0.0 m	-11.3 m
Parks, Heritage and Coastal	-4.2 m	-0.6 m	-2.8 m	-1.2 m	0.2 m	-8.6 m
Three Waters	-39.8 m	-9.9 m	-7.5 m	0.0 m	-3.4 m	-60.6 m
Grand Total	-67.1 m	-36.2 m	-21.6 m	-26.9 m	-5.6 m	-157.4 m

External Funding Update

Better Off Funding (includes some capital items)

Minimal impact on deliverability in FY24 and future years. Approx. $16m over 5 years (some opex)

Pending final confirmation before inclusion.

Climate Emergency Response Fund (CERF) - Transport Choices

Potential funding source from Waka Kotahi supporting Active Transport, School Travel, Public Transport.

Significant impact on deliverability in FY24: $34.5m.

Current provisions in LTP provide for 10% ratepayer funded to access the 90% Fund (the latter not yet included in AP).

Staff are working through the options on how to deliver this programme and will report back to Council for consideration as soon as possible.

Capex Summary

- The budget re-phasing of $164m proposed to present a Deliverable Programme of $433m was agreed by Council on 6 Dec. Nothing was cut – it has been moved (re-phased) into FY25-31.
- The $164m re-phase results in approx. 0.5% rates reduction in FY 24 accumulating to 2% in FY25.
- Further work and refinement, including prioritising the CRAF Programme, has resulted in an Capital Programme of $439m. Updated Schedules 1-3 provide further details.
- The opportunity for further consideration and prioritisation of deferred projects remains during the LTP24-34 process. During this period 3W position will become clearer.

Capex Summary (cont.)

- External Funding sources impacting the Capital programme commitment, (Better Off Funding and Transport Choices) will be further monitored and managed and reported back separately once confirmed.
- The Carry Forward positon will be further updated through the balance of the FY with intention for a net zero impact on FY24.
- The refined $439m programme maintains a good balance between prudent financial management and stewardship of the Council's assets and remains a Deliverable Programme.

Summary

- Unprecented conditions facing Council, Canterbury and New Zealand
- High inflation environment with uncertain outlook
- Revaluation impacts
- Concerned about compound effect on residents and ratepayers already struggling
- We have worked hard over several months and focused on:
  - Best value for money/efficiencies
  - Reducing capital programme
  - One-off changes to reduce rates increase
  - Mitigation of impacts on residents by adjusting business differential
- Net result is proposed average rates increase of 5.6% compared to 14.6% at start of the AP process

Rates Rebates

- Ratepayers can apply for a rebate on their rates bill for the current rating year
- It's for eligible, low-income ratepayers who pay rates on their home to the council
- You need proof of income
- Calculator and application forms available:

https://www.govt.nz/browse/housing-and-property/getting-help-with-housing/getting-a-rates-rebate/

- Applications are due by 30 June each year

Next steps

- Staff proceed to finalise preparation of the Draft Annual Plan for Council consideration.
- Draft Annual Plan report is notified to the community 23 February (noting ARMC meeting is scheduled for 27 Feb, and Council 28 Feb).

Communications and engagement approach

- Consultation period: 10 March – 10 April (4 weeks).
- Have Your Say webpage plus printed documents in libraries and service centres.
- Online search tool, to make it easier to see what's changed.
- Promoted via:
  - Council communication channels (Newsline, website, social media, etc).
  - Email to stakeholders and networks, with standing offer to attend community meetings held during the engagement period.
  - Marketing campaign.
- Some targeted engagement to encourage a diverse range of voices in the conversation.
- Dedicated number / email for people to get in touch with any questions.