ENVIRONMENTAL SCAN 2023

Long Term Plan 2024–2034 edition

ccc.govt.nz/environmental-scan

Christchurch City Council

Environmental Scan LTP Edition

We're living in unprecedented times. We're experiencing ongoing change and global unpredictability on many fronts, from inflation and supply chain issues to climate change. Traditional models and theories are less relevant as economic predictors, and there's no clear pathway or timeframe towards returning to a sense of 'normal'. The point of stability is unclear, and it seems there will be no quick 'bounce-back'.

As an organisation, we are more vulnerable to external influences outside our control. We need to change how we think about and do things that ensure we are increasingly more agile and can respond decisively to changing conditions outside of our control. To do this, we need to maintain a good understanding of what's going on both internationally and locally and the impacts that it may have on both our long term and annual planning and day to day business and operations.

Scope

The focus of this environmental scan is to set the scene for the Mayor and councillors ahead of developing the Long Term Plan 2024–2034. It has been designed to sit alongside the scan delivered at the start of the current triennium. Where relevant it revisits information in the previous scan and provides updates, alongside additional information and context that should be considered throughout the development of the Long Term Plan (LTP).

The scan does not provide information about potential remedial action or remedial action that is already underway. The focus is on providing a subjective fact-based analysis and interpretation of economic, social, political, environmental, and regulatory issues and trends.

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Setting the scene: the global context

GLOBAL ECONOMY

Highlights

Global growth slowed to **3.2% in 2022** and is projected to remain at below-trend rates in 2023 and 2024. (OECD, March 2023*)

Inflation is projected to moderate over 2023 and 2024, but to remain above central bank objectives until the latter half of 2024 in most countries.

Global growth in 2023 is projected to slow further to **2.6%** (OECD, March 2023*)

Advanced economies are expected to see a particularly **pronounced slowdown in growth.**

Goods price inflation has started slowing in most countries, gradually returning to normal demand for goods post-pandemic. (OECD)

Global inflationary pressure remains high. Central banks have continued tightening monetary policy, albeit at a slowing pace.

The main global impact from the Ukraine war has been a sharp increase in energy and food prices, driven by sanctions and embargoes.

*www.oecd.org/economic-outlook/march-2023

Additional information

The global economy is coming off the back of three years of adverse shocks – the COVID-19 pandemic and Russia's invasion of Ukraine. The future remains highly uncertain.

To dampen demand and reduce underlying inflation, central banks around the world have been raising interest rates since 2021.

This has been happening both at a faster pace and in a more synchronous manner than in the previous global monetary tightening episode just before the global financial crisis. (IMF, April 2023)

Inflation, excluding volatile food and energy prices, has been declining at a three-month rate — although at a slower pace than headline inflation — in most (though not all) major economies since mid-2022. (IMF, April 2023)

China is rebounding strongly following the reopening of its economy. Supply-chain disruptions are unwinding, while the dislocations to energy and food markets caused by the war in Ukraine are receding.

Advanced economies are expected to see an especially pronounced growth slowdown, from 2.7% in 2022 to 1.3% in 2023. (IMF, April 2023)

About 90% of advanced economies are projected to see a decline in growth in 2023. With the sharp slowdown, advanced economies are expected to see higher unemployment.

China's population decreased in 2022 for the first time since the 1960s. Some experts are flagging this as not only a concern for China, but also globally in terms of economic outlooks.

Things to consider

- For decades the world has relied on globalisation and geoeconomics, however recently we have been facing growing global geopolitical risk.
- Accumulating shocks such as the COVID-19 pandemic and the Russia-Ukraine conflict have persisted, significantly reorganising global structures and relationships.
- There is widespread uncertainty around the global economic outlook in the short to medium term (3–5 years).
- Global economic conditions have changed significantly in recent years. Historic trends are currently less likely to be indicative of what coming years may hold.
- The global economy is having more impact than normal on the New Zealand economy. We need to look beyond New Zealand forecasting for signals of what may happen in coming years.
- The world will face high economic costs if we collectively fail to achieve the net zero by 2050 climate goal. Achieving this goal is going to require strong geopolitical and international relationships, and a desire to work towards a common goal.

Looking ahead

- Rising inflation is a global phenomenon that countries across the world are grappling with. Disinflationary monetary policy is expected to hinder economic growth.
- Tightening policies and geopolitical frictions are expected to continue to negatively affect global trade. This is expected to affect the energy and food markets in particular.
- It is unclear how long the Russia-Ukraine war will last. A protracted conflict will likely lead to significant ongoing challenges for the global economy.
- It is likely that we will see ongoing global competition in the labour market, particularly in the face of skills shortages in several areas and border restrictions being lifted.

GLOBAL CLIMATE CHALLENGES

Highlights

Global net anthropogenic Greenhouse Gas (GHG) emissions during the last decade (2010–2019) were **higher than at any previous time in human history.**

The remaining carbon budget for keeping **below 1.5°C of global warming** is equivalent to the cumulative emissions released over the last 10 years.

Global emissions need to **halve by 2030** and reach **net zero by around 2050** to have a **60%** chance of staying below potentially catastrophic levels of climate change (IPCC).

The impacts of climate change are already being felt widely, with recent extreme heat, fires, floods and storms in countries and regions across the globe.

Additional information

Global GHG emissions continue to rise, despite a dip in CO2 emissions from fossil fuel and industry during the COVID-19 pandemic.

The latest nationally determined contributions (NDCs) to decarbonization made at the 2021 United Nations Climate Change Conference of the Parties (COP26) still fall short of the 1.5°C goal set out in the Paris Climate Agreement.

Oxfam's inequality report notes rich countries are responsible for an estimated 92% of all excess historic emissions, and the world's wealthiest 1% create double the carbon emissions of the bottom 50%.

Things to consider

- Climate change is a global issue that goes beyond national borders. All countries depend on an effective global response for their future survival and prosperity.
- The current trajectory is expected to steer the world towards a 2.4°C warming.
- Without stronger action, global capacity to mitigate and adapt will be diminished, eventually leading to a "too little, too late" situation.
- There was a significant increase in disasters in 2021 compared to the previous 20 years, impacting 101.8 million people with US$252.1 billion of economic losses.

Looking ahead

- Rapid global decarbonisation may increase economic and societal disruption in the short term. However, a slower pace would likely entail much larger costs and greater disruption in the long term.
- The global transition to net zero could be as transformative for economies and societies as past industrial revolutions.
- Failure to take climate action and increasing extreme weather events will likely lead to involuntary migration, livelihood crises, food insecurity and social cohesion erosion.
- Global temperature rise above 1.5°C is more likely to trigger six global tipping points. An increase beyond 2°C risks crossing all 16 tipping points and affecting the life-supporting systems of the planet.

Setting the scene: the national context

ECONOMIC OUTLOOK

Highlights

Cyclone Gabrielle has delivered a shock to our key exporting regions. The economic effects will be significant for some export sectors, especially apples.

In December 2022 **54% of New Zealanders indicated that they were worried about interest rates**, a significant increase on **35% in June 2021.** (Roy Morgan)

Inflation in New Zealand rose to a multi-decade high of **7.3% in the June 2022 quarter. As of March 2023, this has declined to 6.7%.**

The level of optimism among consumers remains extremely low. **Consumer confidence lifted one point in April to 79.3 and remained flat in May at 79.2.** (ANZ Consumer Confidence)

New Zealand is in a technical recession after GDP fell for the second consecutive quarter in March 2023.

Between the December 2021 quarter and the December 2022 quarter net **disposable income per household fell 0.4% in real terms from $2275 per week to $2265.**

Unemployment remains low, at **3.4% for the March 2023** quarter. The underutilization rate decreased from 9.3% to 9% in the same quarter.

45% of New Zealanders think that their family is worse off financially than this time last year. (ANZ Consumer Confidence)

32% of households perceived their income as 'not enough' or 'only just enough'. (StatsNZ)

New Zealand saw an increase in Business Confidence (ANZ) from –31.1 in May, to –18 in June. This might be driven by RBNZ seemingly easing on OCR increases, the housing market having found a floor, and businesses being able to fill vacant positions.

Additional information

Inflation is at a multi-decade high and is expected to remain elevated in the near term due to many factors, including the severe storms across the North Island (RBNZ).

RBNZ expects annual inflation to dip back below 5% by the end of 2023, return to between 1-3% in the second half of 2024, and level off at 2% by late 2025.

Cyclone Gabrielle has added to inflationary pressures for some goods and services, and the Reserve Bank now anticipates that this will carry through in the rebuild effort over the medium-term. This extra demand for resources is expected to drive inflationary pressures above what was assumed in the February Monetary Policy Statement. This increases the risk that the OCR may need to peak at a higher rate than previously expected.

Borrowers face an increasingly challenging environment, with the cost of servicing debt escalating significantly in recent months. This increase in borrowing fees is occurring against a backdrop of general upward pressures on the cost of living.

ASB recently estimated that higher consumer prices and borrowing costs could increase household outgoings by an average of $150 per week over 2023, which is equivalent to a yearly increase of almost $8000.

In the year to the March 2023 quarter, all salary and wage rates as measured by the labour cost index, increased 4.3%, compared with 4.1% in the year to December 2022. (StatsNZ)

While public sector wage growth continues to lag behind that of the private sector (Labour Cost Index (LCI), StatsNZ) it's likely that there will be continuing impacts on staff retention and challenges when trying to attract talent into the public sector.

** The LCI adjusts for changes in employment quality. Therefore, employees receiving promotions or moving to different roles do not affect this measure of wage inflation. (SNZ)*

Research from ASB has flagged the labour market as being a key determinant for how long high inflation rates will hold up for. Despite some wobbles in economic activity, the labour market remains tight and wage pressures are expected to remain acute. This is expected to translate into sizeable price increases for the services sector over 2023.

Things to consider

- It is unlikely that New Zealand will be protected if global economic conditions continue to deteriorate.
- There is ongoing uncertainty about the speed at which inflation will reduce. Recent predictions from economists and commentators have proven to be unreliable.
- Wage increases in New Zealand are failing to keep up with inflation. Wage negotiations can take a long time – consequently we have seen more industrial action than normal.
- Talent attraction, retention and addressing skills shortages need to be a priority. Talent attraction and retention will continue to be a challenge with competition from around the country and abroad, particularly while unemployment rates remain significantly lower than normal.
- Consumer confidence is at record lows, an indication that households are under numerous mounting financial pressures.
- Commentators are warning that households across New Zealand may face a livelihood crisis as they face increasing pressure and competing priorities with the rising cost of living.

Looking ahead

- There are mixed predictions from economic commentators and experts about what the short and medium term might look like – a high level of uncertainty.
- Generally, predictions indicate that we should expect weaker activity across most sectors from 2023.
- The Reserve Bank has indicated that the current economic outlook means that higher interest rates will be needed over the coming years.
- Despite government intervention and support, households are still feeling the pinch of the current economic conditions. Record low consumer confidence indicates that households are expecting tough times ahead and are likely to adjust their spending accordingly.
- Increasing and sustained financial pressure on households is likely to make any further pressure extremely unpalatable. There is going to be a need to balance the pressure on households with progress on a range of important issues and projects.
- The increased likelihood of extreme weather events in the future as a result of climate change, addressing concerns about the resilience of the cash sector, the impact of managed insurance retreat and the potential difficulties for borrowers meeting debt repayments will all remain priorities into the future. (RBNZ)

Setting the scene: the national context

LABOUR MARKET & SUPPLY CHAIN

Highlights

Supply chain disruptions from COVID-19 are easing, however a return to normal is unlikely due to political uncertainty and other global risks. COVID-19 highlighted the vulnerability of our supply chains, and businesses are now looking at ways to improve their resilience against future shocks.

The labour participation rate increased to **72%** and employment rate to **69.5%** in the March quarter, both the highest rates on record.

Treasury has put the cost of asset damage from the Auckland floods and Cyclone Gabrielle at **between $9 billion and $14.5 billion.**

New Zealand will have to spend considerable resource on the Cyclone Gabrielle recovery, which will divert capital away from other projects. The recent weather events have also impacted domestic supply chains.

Shipping costs have decreased significantly as a result of China reopening after its COVID-19 lockdowns. This is great news for New Zealand, as China is our largest source of imports (83.2% of concentrated imports).

International trade makes up around **60%** of New Zealand's total economic activity. New Zealand is reliant on imports for key parts of the economy, including technology and energy.

The labour market remained tight over the March quarter, with unemployment remaining unchanged at **3.4%.**

The Construction Supply Chain Report found that **3 in 10 businesses were having issues with supply in February 2023**, a significant decrease from 8 in 10 in July 2021. However, recent weather events have taken a toll, with 31% saying they are now facing delays with domestic freight.

Things to consider

- COVID-19 highlighted the vulnerability of our supply chain, and how unevenly communities, industries and regions can be impacted by supply chain disruptions.
- While recently we have been seeing positive increases in migration, we currently know little about who these people are, how long they intend on staying, or the skills that they bring with them.
- Migration statistics are subject to revision due to the way StatsNZ collect migration data. To classify a border crossing as a migrant movement, StatsNZ need to observe up to 16 months of travel history, and it takes 17 months before final migration estimates are available.
- Preparation is key. Preparation for more frequent shocks that are outside our control will increase the robustness of our supply chain and industry resilience. Understanding what those shocks could be and how these will impact the organisation, and having plans in place to mitigate the impact of shocks will create a more resilient organisation.
- The recovery from the Auckland Weekend floods and Cyclone Gabrielle will likely attract skills and talent away from other regions of the country as more job opportunities open with the certainty of ongoing work in the short-medium term.

Additional information

The labour market is starting to show signs of easing, with online job advertisements down by 20.7% over the year to April 2023. Population growth is accelerating, helping to relieve pressure on labour supply issues, although businesses are demonstrating a level of caution around hiring in the future.

The response to the latest weather events was prioritised over other initiatives originally in the government's Budget. Between $5 billion–$7.5 billion is estimated to relate to central and local government infrastructure.

In the 2023 Budget, the Government has allocated $941 million total operating and $195 million in capital for the next stage in the recovery.

While economic activity will be disrupted in the near term, the recovery will likely add economic growth in the medium term.

Overseas, governments are assessing their supply-chain resilience, with many looking to move towards strategic autonomy (or sourcing materials internally) and 'friend-shoring' (trading between politically aligned countries) to safeguard against geopolitical tensions. We will likely see many New Zealand businesses take a similar approach, choosing more local suppliers to embed resilience into their supply chains.

Looking ahead

- We should likely expect further supply chain and labour force challenges.
  - Shocks from climate change and extreme weather events are likely to interfere with shipping and air freight more frequently, both locally and internationally.
  - The growing geopolitical tensions between China and the United States creates significant economic risk which could have flow-on impacts on trading partners. This is especially prevalent given that China is New Zealand's largest import and one of our biggest export markets.
- Nationally, in the short–medium term, the recovery and rebuild following Cyclone Gabrielle is likely to put pressure on some areas of our labour force and supply chain.
- The labour market is usually one of the last parts of the economy to slow down and will likely begin to cool in the coming months.
- Over the coming months, it is expected that labour pressures will ease as demand for labour softens due to cost pressures on businesses and migration assisting with labour supply.
- According to new research by Sense Partners for BusinessNZ, New Zealand will face a shortfall of 250,000 workers by 2048. As our aging population retires, we will become more dependent on migration supporting our workforce. This issue is not unique to New Zealand, and other countries will also be competing for global talent.
- Ensuring we have a sufficient inflow of people through net migration, and increasing the participation and employment of Māori, Pasifika, women and some older people will help in addressing this labour deficit.

Setting the scene: the national context

GEOPOLITICAL LANDSCAPE

Highlights

Trade is critical to the New Zealand economy; we can only pay for the goods and services we import by selling exports to other countries.

In 2022 total exports (goods and services) grew by **16% to $89.9 billion** and total imports grew by **25% to $107.1 billion**

International trade makes up around **60%** of New Zealand's total economic activity.

The value of New Zealand's two-way trade now sits at **$197 billion**

We are facing a substantially more challenging and complex strategic environment than we have for decades.

Goods exports grew **13% to $72 billion** for the year ending December 2022, while goods imports grew **21% to $80.1 billion**

There are a range of geopolitical challenges playing out globally, including in New Zealand's immediate neighborhood (from Antarctica through to the South Pacific), with direct implications for New Zealand's security and wellbeing.

Additional information

Since the end of World War II, New Zealand has benefited from a strategic environment primarily defined by an international rules-based system that reflected our values and supported our interests.

While imperfect, the system of international law, norms and institutions contributed to broad stability, provided safeguards against major conflict, and enabled collective action on a range of issues.

In the last two years, the COVID-19 pandemic and the China-US tensions have not changed New Zealand's predictable and cautious approach to foreign policy, but they have forced the government to diversify its trade and diplomatic relations.

New Zealand has one of the most open market economies in the world. It is in our interests that there is regional and global stability, and that we have access to a range of global markets.

Despite the impacts of COVID-19, the Russia-Ukraine conflict, and China-US tensions, trade activity has remained strong.

New Zealand and China have a long-standing relationship, with thousands of students and tourists travelling between the countries, the New Zealand-China Free Trade Agreement, and political leaders meeting regularly.

Things to consider

- There is a strong relationship between political instability and economic instability, and we are currently operating in an extremely volatile environment. Globally economies are grappling with conditions leading to high inflation and interest.
- Our economy is heavily reliant on two-way trade. With economic growth declining in many economies across the world, we may see some decline in the exports market. This could have impacts on both our national and local economies.
- While we cannot control what happens in the geopolitical sphere, or rising inflation or interest rates, we can control our approach to managing the risk that arises from these.
- As an organisation we need to be ready, agile, strategic and responsive, including the ability to revise our Long Term Planning accordingly.
- Our three-year election cycle means that there is little room for a government to take a long-term view on issues, but some of the biggest issues we currently face require long-term policy and thinking.

Looking ahead

- Growing strategic competition will increase the potential for confrontation and conflict. We are already seeing evidence of this in the Pacific.
- It is likely that this will play out across a range of theatres (including in space and cyber-space) in ways that will threaten New Zealand's security: this is true of both the wider Indo-Pacific and New Zealand's immediate region.
- Addressing the direct and indirect impacts of climate change will be one of the greatest global challenges of coming decades.
- Climate change impacts also exacerbate the risk factors that contribute to social and political instability, which will mean increased competition for basic resources and greater uncontrolled migration.

Setting the scene: the national context

OUR CHANGING CLIMATE

Highlights

Climate change is one of the greatest threats to New Zealand's security, prosperity, and ultimately wellbeing.

Gross emissions in New Zealand have increased by **20%** since 1990.

Without effective reductions in emissions, **sea levels are projected to rise by more than one metre by 2120.**

Climate change will increase the severity and frequency of the natural hazards that we experience in New Zealand including flooding, heatwaves, drought and wildfire.

Nationally, our climate change work programme focuses on reducing greenhouse gas emissions and adapting to a changing climate.

Additional information

Over the past 100 years, our climate has warmed by 1.1°C.

Sea levels have been steadily rising in New Zealand. Tracking indicates the rate has increased to around 3mm per year.

In 2020 the Government declared a climate emergency, committing to urgent action to reduce emissions.

In 2022 the government released its first Emissions Reduction Plan for New Zealand. This plan has specific roles for local government.

The government also released a National Adaptation Plan to:

- Reduce vulnerability to the impacts of climate change.
- Enhance adaptive capacity and consider climate change in all decisions at all levels.
- Strengthen resilience.

Things to consider

"Now more than ever we need evidence-based decision-making and science-based solutions to reduce emissions and adapt to our changing climate."

Dr Andrew Tait, Chief Scientist, Climate, Atmosphere and Hazards.

- The Climate Change Response Act 2022 puts in place a legal framework to enable New Zealand to meet its international obligations under the United Nations Framework Convention on Climate Change, the Kyoto Protocol and the Paris Agreement.
- New Zealand has made global commitments to do our bit in responding to climate change. The Paris Agreement took effect in 2020, committing us to reduce greenhouse gas emissions based on our Nationally Determined Contribution (NDC). New Zealand's NDC is to reduce greenhouse gas emissions by 30% below 2005 levels by 2030.

Looking ahead

- Increasing extreme weather events, higher temperatures and sea level rise will affect the wellbeing of people, assets and infrastructure, our natural environment and the economy.
- Some groups and communities may be disproportionately affected by climate change, such as youth, low-income households and Māori, and those living in vulnerable locations.
- There are challenges as well as opportunities in the transition to a low carbon economy.
- We may see growing inequity in some communities as we look at responding to and mitigating the impacts of climate change.
- In the case of growing inequity as a result of our response to climate change, it is likely we would see further erosion of social cohesion and increased discontent in some communities across the country.

Setting the scene: the national context

UPDATES ON REFORM AND CENTRAL GOVT. POLICY

Significant, complex and wide-ranging reforms are underway concurrently across a wide range of areas. Key reforms for the Council are water, resource management and Future for Local Government. Many of these reform programmes impact on the roles and responsibilities of local government, yet the future of local government review is rolling out more slowly.

The **Three Waters reform** programme (now Affordable Water Reform) proposes an aggregation of service delivery across New Zealand. Instead of councils being responsible for public three waters delivery, the proposal is for 10 publicly owned water services entities to be established. Christchurch will be in the entity that covers the Canterbury-West Coast region.

The Government has agreed to replace the **Resource Management Act** (RMA) with three new pieces of legislation:

- Natural and Built Environment Act (NBA) to provide for land use and environmental regulation (this would be the primary replacement for the RMA).
- Spatial Planning Act (SPA) to integrate with other key legislation relevant to development and require statutory long-term regional spatial strategies.
- Climate Adaptation Act (CAA) to support New Zealand's response to the effects of climate change.

The **Future for Local Government Review** provides a significant opportunity for us all to think about how local government should evolve over the next 30 years and beyond. This is particularly pertinent in the context of the water and resource management reform programmes, which will remove significant functions and responsibilities from councils.

In addition to the above-mentioned reform, the Government has also proposed a two-tranche **alcohol reform programme**. The first tranche is proposed changes to the Sale and Supply of Alcohol Act. The amendment to the Act will remove appeal rights on provisional local alcohol policies (LAPs) and remove cross examination provisions from district licensing committee hearings.

Additional information

Water Services Legislation Bill (which amends the Water Services Entities Act 2022) has passed its final reading in Parliament. Alongside the other water services legislation already passed, once the Bill receives Royal assent it will form part of a single Water Services Entities Act, detailing the new arrangements for the provision of water services in New Zealand.

The bill finalises the changes announced by the Government in April. Those changes increased the plan from four water entities to 10 smaller ones and delayed the start date of the entities by two years. Entities are now going live between 1 July 2024 and 1 July 2026.

The NBA, SPA and Sale and Supply of Alcohol (Community Participation) Amendment Bills are currently making their way through the House. The Government had initially indicated the Bills would be enacted before the general election, but this now seems unlikely, given the limited number of sitting days left before the House rises on 31 August 2023.

If the Sale and Supply of Alcohol (Community Participation) Amendment Bill is enacted, the Council will be able to proceed with developing a LAP. The Council previously began developing a LAP in 2013. It eventually abandoned the process in 2018, largely due to the indefinite duration of the appeals process making it unlikely the final LAP would reflect community views and preferences.

Things to consider

- The 2023 general election presents some uncertainty with respect to the Government's reform programme – particularly for water reform.
- Water Services Legislation Bill (which amends the Water Services Entities Act 2022) has passed its final reading in Parliament. The Water Services Entities Act was only passed with support from the Labour party. Voting on the first reading of the Water Services Legislation Bill reiterates a lack of support outside of the Labour caucus.
- Similarly, the replacement bills for the RMA and the Sale and Supply of Alcohol Amendment Bill do not share support across the aisle. The makeup of the next Government may impact how these Bills progress.
- The final Future for Local Government report was released in June 2023.
- The Panel recommends:
  - Embedding local government's purpose and wellbeing focus.
  - Growing Te Tiriti-based partnerships.
  - A system renewal – reorganisation lead by local government and supported by central government.
  - Strengthening local and democracy leadership – increasing voter turnout and broad citizen participation.
  - Increasing funding – rates remain the main source of funding, accompanied by significant government funding.
- Regardless of the makeup of the next Government, it is unclear how the proposals of this report will be progressed (or if there will be appetite to do so).
- Is there potential for more unanticipated reforms that the Council may not have planned for or have the current resourcing for?
- As an organisation we need to be ready, agile, strategic and responsive, including the ability to revise our Long Term Planning accordingly.

Looking ahead

- The Council continues to advocate to maintain responsibility and ownership of stormwater assets. Our stormwater system includes naturalised waterways and wetlands, the roading network, and flood protection assets. It is unclear how the greenspace parts of our integrated system would be managed under the proposed structure.
- Transition provisions still need to be clarified with new water reform legislation.
- The Council will likely only have one seat on the Regional Representative Group, despite our size. How does the Council work to ensure local voices are heard under the new structure?
- The implementation of the future resource management system is expected to take 7– 10 years with regions transitioning in tranches over time. There is potential for Canterbury to become a tranche 1 region. These regions are expected to commence preparatory transition work in late 2023/early 2024.
- Councils are already operating under pressure in terms of resourcing, given the shortage of planners in the industry. It is likely that this will only be exacerbated by the new system.
- Climate Adaptation Act is still to be introduced in Bill form. The details of this legislation are unknown at this stage.
- The Council should look for opportunities to present and advocate for solutions that suit our city and region as the reform programme progresses – otherwise we will continue to be led by central government.
- The Council could consider how we, as the biggest South Island territorial authority, can help shape discussions and collaborate with our partners during a period of change that will present opportunities for us as well as challenges.

Setting the scene: the Ōtautahi Christchurch context

ECONOMIC OUTLOOK

Highlights

The labour market has remained tight for the first quarter of 2023, with **the labour force participation rate reaching 74.3% in Christchurch, up from 73.6% the previous quarter.**

This is likely driven by increasing migration, which will play a large part in the economic narrative of 2023.

However, there is a sense that the tight labour market is starting to ease. Christchurch's unadjusted **unemployment rate increased slightly from 3.6% in Q4 2022 to 3.9% in Q1 2023.**

The Jobs Online Index has also steadily been declining from its **peak of 303 in Q1 2022**, to 271 in Q1 2023.

Migration is boosting retail activity, particularly in the central city where visitor dollars are offsetting reduced spending by residents. Overall **visitor spending was up 12.3%** in Q1 2023 in Christchurch, compared to Q1 2019.

The number of transactions by Christchurch residents in the central city was **down 12.7%** when compared to Q1 2021, and the value of spending was in line with Q1 2021. This reflects inflation where residents are spending more on less.

The Consumer Price Index (measuring changes in the price of goods and services) dropped to **6.93%** for Q1 2023 in Canterbury, down from **7.22%** in Q4 2022.

ANZ Business Confidence decreased to –33 over June 2023 in Canterbury, down from –29 in May 2023. This is lower than New Zealand at –18, although still a significant improvement from March 2023, when Canterbury Business Confidence was -74.

Consumer confidence in Canterbury has continued to decline in Q1, at 74.4, with the cost-of-living putting households under pressure. A score above 100 reflects a net positive response.

There has been declining activity in the housing market, with the **median house price in Christchurch at $660,000 in April 2023, down from $680,000 in March 2023.**

Additional information

Record breaking migration inflows over the March quarter have bolstered Christchurch's labour force, where it seems businesses have been able to backfill positions. This is further supported by the decrease in the Jobs Online Index.

If the labour market does ease, it will provide relief to stretched businesses struggling with supply shortages and wage inflation.

The NEET (youth not in employment, education or training) rate in Canterbury increased to 14.1 for those aged 15–19 in Q1 2023. This is up from 10.2 in Q1 2022. The NEET rate decreased for those aged 20–24 years, at 7.6, down from 9.6 the previous quarter.

The overall NEET rate for Christchurch increased to 13.2 in Q1 2023, up from 10.9 the previous quarter. There is not currently an explanation for the increase in the overall NEET rate, however it does tend to increase over the first quarter of each year followed by a decrease in the second quarter. The June quarter data will provide a better understanding of any NEET trends.

Looking ahead

- Rising inflation is a global phenomenon that countries across the world are grappling with. Disinflationary monetary policy is expected to hinder economic growth.
- Tightening policies and geopolitical frictions are expected to continue to negatively affect global trade. This is expected to affect the energy and food markets in particular.
- It is unclear how long the Russia-Ukraine war will last. A protracted conflict will likely lead to significant ongoing challenges for the global economy.
- It is likely that we will see ongoing global competition in the labour market, particularly in the face of skills shortages in several areas and border restrictions being lifted.

Things to consider

- There seems to be a mismatch between consumer and business confidence. Businesses may be feeling cautiously optimistic after benefitting from the influx of migration and increasing tourism, while local consumers continue to feel the pinch.
- We do not currently understand the full extent of migration outflows, but if the number of Kiwis travelling to Australia is anything to go by, this will have an impact on net migration.
- According to the Australian Bureau of Statistics, 12,650 New Zealanders arrived in Australia over Q1 2023, with the intention of staying. This is a 42% increase on Q4 2022.
- The Fair Pay Agreements (FPA) Bill passed into New Zealand law in November 2022. The FPA seeks to regulate working conditions and pay across sectors. Employers and unions can advocate to set a minimum standard for all employees in that industry through a bargaining process. There have been several applications successfully submitted so far. These include:
  - Supermarket and grocery store workers.
  - Waterside workers.
- And groups that have been approved to move to the bargaining stage:
  - Drivers and cleaners of buses.
  - Hospitality workers.
  - Security guards/officers.
  - Commercial cleaners.
  - Early childhood education.

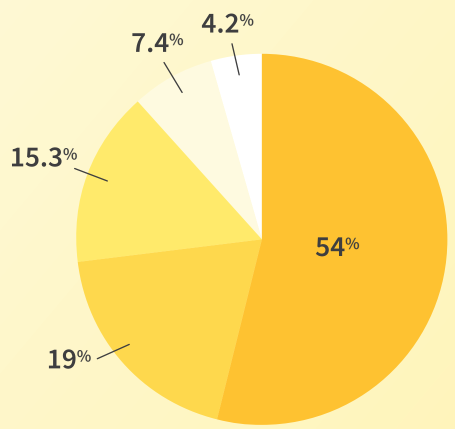
Setting the scene: the Ōtautahi Christchurch context

OUR CHANGING CLIMATE

Highlights

Christchurch's greenhouse gas emissions:

- Transport **(54%)** including 36% from land transport.
- Energy powering our homes, buildings and businesses **(19%)**.
- Agriculture **(15.3%)**.
- Waste **(7.4%)**.
- Industrial product and gas use **(4.2%)**.



We've set targets to **halve our emissions** for the district **by 2030** and reach **net zero emissions by 2045**

The Council has a target to be **carbon neutral by 2030** for its operations

59%

of respondents in our last Life in Christchurch survey were aware of our targets – **36% of respondents didn't think we'd meet our targets, while 35% weren't sure.**

41%

of Quality of Life respondents said they are worried or very worried about the impact of climate change on the future of Christchurch and its residents **(with 50% a little worried or not worried, 7% answering they don't know enough, and 2% not believing in it)**

Additional information

Christchurch is a low-lying coastal city vulnerable to increased flooding from the rivers, rainfall and sea level rise.

Sea levels have already risen by approximately 20cm since the baseline period of 1986–2005.

Under a mid-level projection (RCP 8.5 M), sea level is projected to rise a further 30cm by 2050, 50cm by 2075 and 1m by 2115.

Winters will be wetter, with up to 10% more rainfall.

Summer and autumn are expected to be drier with 5–15% less summer rainfall for Banks Peninsula.

Time spent in drought in eastern New Zealand is projected to double or triple by 2040.

On average, our temperature is expected to rise by around 0.5°C to 1.5°C by 2040, and 3.5°C higher by 2090. Projections suggest up to 40 more very hot days per year by 2040 and up to an additional 60 by 2090.

Extreme daily winds are likely to increase by up to 10% by 2090, especially east of the Southern Alps.

Things to consider

- To reach our emissions reduction targets we need to do things differently, including changing the ways we travel, increasing the use of renewable energy, improving the energy efficiency of our buildings, reducing waste and supporting regenerative agriculture.
- How we plan for future development and growth in our city will have a significant effect on our future emissions and on our ability to respond to climate impacts.
- We need to build a shared understanding with our communities of key climate risks for Christchurch and our preferred pathways for change.
- We need an agile and adaptive response, keeping up to date with new scientific information, government policies and opportunities as they arise.

Looking ahead

- We can do more to reduce our environmental impact and build climate resilience.
- We can lead by example, taking climate action as an organisation, and supporting our communities to take climate action. We need to make sustainable choices easy and accessible for residents.
- Because of the varied emission sources, range of climate impacts and the extent and pace of change needed, we must work across our community and with all levels of government to respond adequately to climate change.
- For local government, this requires building and fostering partnerships that are focused on creating a sustainable and successful city with good quality of life for all our citizens.

POPULATION GROWTH

Highlights

For the development of the 2024 Long Term Plan, we will be using the StatsNZ medium population and household growth scenarios.

Population projections indicate that we should be planning for population growth of around **66,000 people between 2024–2054.**

Household projections indicate that we should be planning for household growth of around **32,500 households between 2024–2054.**

Between 2024 and 2034 the average household size is expected to remain at **2.6 people per household in the metropolitan area of the city and 2.2 per household in Banks Peninsula.**

Over the next 30 years, the proportion of our population older than **65 years is expected to grow from 15% to around 21%.**

The proportion of the population younger than **24 years is expected to decrease from 31% to 25%.**

The average household size isn't projected to decrease any further until around 2048.

We have been seeing a trend of decreasing birth rates over recent years, and these projections suggest that it is likely that this may be a continuing trend.

Additional information

StatsNZ projections provide a low, medium and high projection for both population and households.

While Christchurch has historically tracked closely to the medium projections, the range across the low, medium and high projections for the city suggests that our growth over the next 30 years could be between 960 people (low projection) and 138,000 (high projection).

Overall, the latest StatsNZ projections suggest that population and household growth will be lower than previously projected.

Population change is a combination of natural increase (births minus deaths) and net migration (migrant arrivals minus migrant departures).

Net migration loss (in part due to COVID-19) coupled with a lower natural increase has resulted in lower actual and projected growth nationally.

Things to consider

- Can we adequately provide growth options and deliver services to cater for all demographics e.g. younger adults, families, older people, diverse communities? Or do they have competing interests?
- Do we have the right type of housing for an ageing population?
- How are we going to overcome the workforce issues the city currently faces and may continue to face in the future as our population continues to age?
- Attracting young people and families to the city is going to be important in maintaining our labour force as our population continues to age.
- An ageing workforce could mean labour shortages in some industries if we fail to attract new residents to the city to fill these gaps.
- Is the city going to be somewhere that is attractive to young people?
- We must include the National Policy Statement on Urban Development competitiveness margins in the projections we use for planning for transport and three waters. These require us to provide development capacity over and above what is projected. This could have financial impacts if we are providing the infrastructure to support development well in advance of it being taken up.

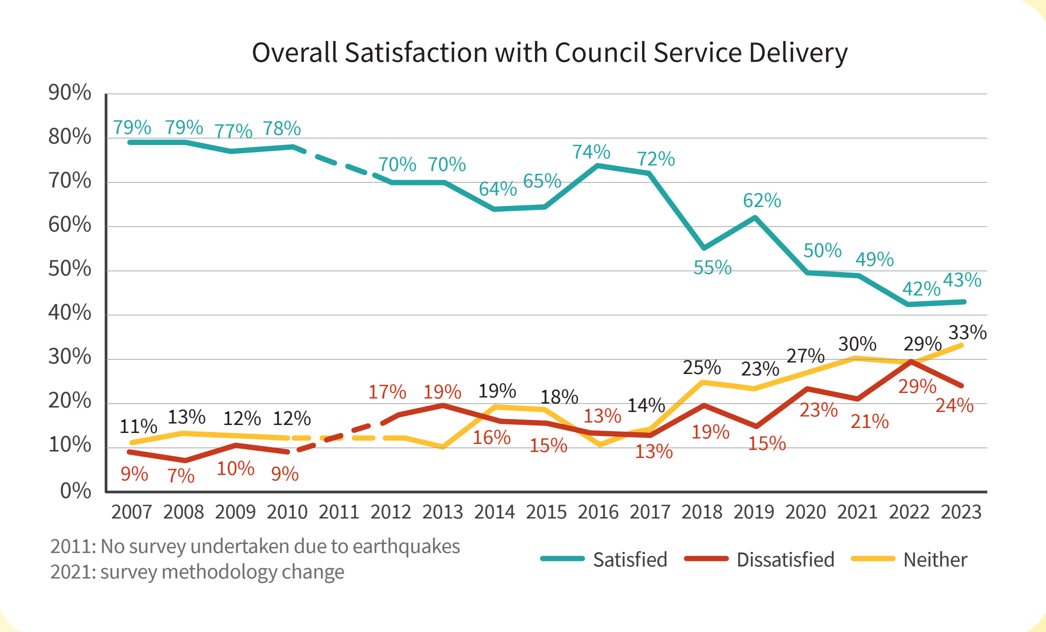
Looking ahead

- The Greater Christchurch Spatial Plan is nearing completion. The outcome of this, and other government reforms, may lead to further settlement pattern changes. Do we need to be looking beyond spatial planning when considering future growth? The Government reforms direct us to plan for growth above and beyond what is currently planned for.
- There remains a degree of uncertainty around what local government will look like in the future. Work is underway on this reform programme – what the impacts will be are not yet known or well understood.
- Population growth in Christchurch is projected to be fairly conservative. There are some aspirations to have even higher growth in Greater Christchurch than what is currently projected or planned for. Is substantial population growth necessarily good for the city and its residents? Is it an outcome that residents want and in what ways would it affect our quality of life and exacerbate existing issues? How would it affect our community outcomes?
- How would we fund such population growth? Growth comes at a cost – do we have infrastructure capacity and financial capacity for such increases in the population.
- Over time, and because there's no natural geographic barrier, the urban forms of Christchurch and Selwyn might grow so close they are essentially merged. Do we need to get "ahead of the game" and better plan for shared sub-regional services and networks? Is a 'super city' a possibility?
- How do we plan for and address the continued pressure of people commuting into the city from Selwyn and Waimakariri?

RESIDENT PERCEPTIONS

Highlights

Overall Satisfaction with Council Service Delivery



Higher satisfaction services (2022/23)

- First point of contact customer service – walk in*
- First point of contact customer service – telephone*
- Council-funded community events
- Library service*
- Library programmes and events

* Also higher satisfaction in 2021/2022

Lower satisfaction services (2022/23)

- Public ability to participate in and contribute to decision-making*
- Public understanding of decision-making*
- Stormwater drainage*
- Satisfaction with road condition*
- Satisfaction with footpath condition*

* Also lower satisfaction in 2021/2022

Additional information

We are seeing some consistent key messages from submitters on our plans:

We really want to see you get the balance right. We're concerned about the burden of ongoing rates increases on households, but we don't want to see progress on projects that we care about stop or slow down.

We want to work and partner with you to build strong, resilient communities who live in a city that is prepared for the challenges that we will face in the future.

We're concerned about what the future looks like for the communities and areas that we live in.

Local facilities and services are important to us.

Please don't undervalue the service and sense of community provided by smaller, local facilities.

You've made a good start on climate action initiatives. But we would like to see more evidence that this is a priority and embedded in all that you do.

Looking ahead

- Overall satisfaction with Council performance has shown a continuing downward trend since the 2010/11 earthquake sequence.
- We are seeing increasing expectations from our communities and residents. Managing these expectations in line with what we can realistically deliver will require us to have some brave conversations with our communities.
- How do we work and partner with communities and empower them to take charge of their future?
- How do we ensure that the city continues to move forward while protecting and enhancing the things that residents value?
- We need to strike the right balance between keeping rates affordable, continuing to deliver the services that our residents value and making the improvements that residents are telling us that they want to see.

Things to consider

- The challenges that we face around resident perceptions and satisfaction are not unique to Christchurch. Other cities are grappling with the same challenges.
- We are consistently hearing the same messages from our residents and communities across a range of platforms.
- Resident dissatisfaction is highest for services that require the most capital to address – core infrastructure (roads, footpaths, etc.). This poses challenges at a time when we also need to be considering the rising cost of living and the impacts of rates increases on households in the city.
- Our core infrastructure and essential services were a key focus in the Long Term Plan 2021–2031. We should start to see this increased investment reflected in resident satisfaction over the coming years.
- Submissions on the 2023/24 Annual Plan highlighted that on some issues residents are extremely divided in their opinions, perceptions and preferences.
- Our communities are telling us that they want to be actively involved in making Christchurch a strong, resilient city that is prepared for the challenges that we will face in the future.
- We need to work on building the trust and confidence that residents and communities have in the Council.
- It's important to continue strengthening our customer service culture and engaging in a process of continuous improvement where resident feedback is the basis for considering what we could do differently and better.

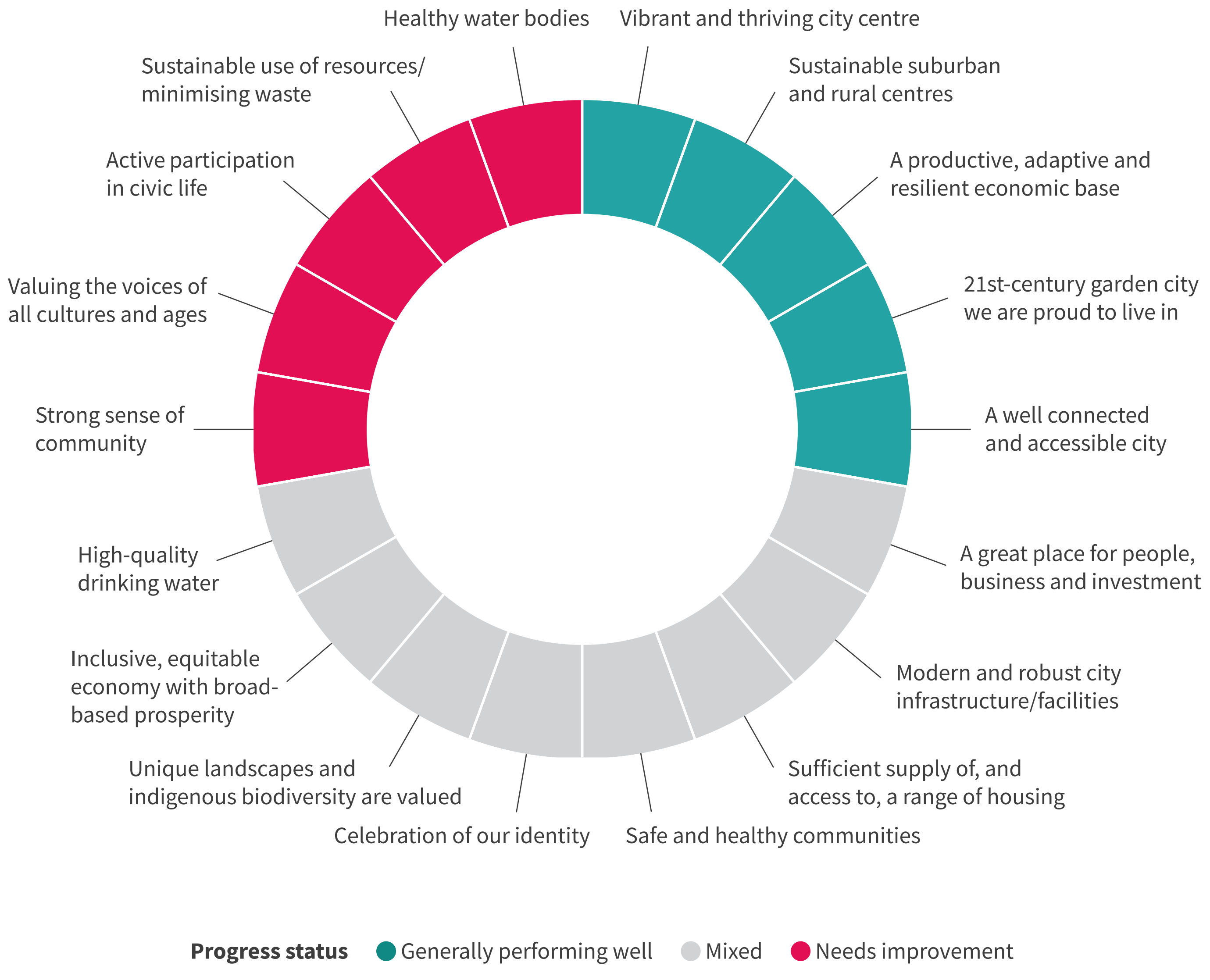
Strategic framework

HOW ARE WE TRACKING?

Theme	Outcome	Progress status (at June 2023)	Level of Council influence
Liveable city	A well connected and accessible city promoting active and public transport	Generally performing well	High
Liveable city	Sustainable suburban and rural centres	Generally performing well	Medium
Liveable city	Vibrant and thriving city centre	Generally performing well	Medium
Liveable city	21st-century garden city we are proud to live in	Generally performing well	High
Prosperous economy	A productive, adaptive and resilient economic base	Generally performing well	Medium
Healthy environment	High-quality drinking water	Mixed	High
Healthy environment	Unique landscapes and indigenous biodiversity are valued and stewardship exercised	Mixed	Medium
Liveable city	Sufficient supply of, and access to, a range of housing	Mixed	Low
Prosperous economy	Great place for people, business and investment	Mixed	Medium
Prosperous economy	Inclusive, equitable economy with broad-based prosperity	Mixed	Low
Prosperous economy	Modern and robust city infrastructure and facilities	Mixed	High
Resilient communities	Celebration of our identity through arts, culture, heritage, sport and recreation	Mixed	High
Resilient communities	Safe and healthy communities	Mixed	Medium
Healthy environment	Healthy water bodies	Needs improvement	Medium
Healthy environment	Sustainable use of resources and minimising waste	Needs improvement	Low
Resilient communities	Active participation in civic life	Needs improvement	Medium
Resilient communities	Strong sense of community	Needs improvement	Medium
Resilient communities	Valuing the voices of all cultures and ages (including children)	Needs improvement	Medium

General progress at June 2023

For each of the 18 community outcomes, an overall progress assessment was assigned based on monitoring data as at June 2023.



STRATEGIC FRAMEWORK

What is important to us?

Our Strategic Framework is a big picture view of what the Council is aiming to achieve for our community.

Our focus this Council term 2022–2025

Strategic priorities

- **Be an inclusive and equitable city which puts people at the centre** of developing our city and district, prioritising wellbeing, accessibility and connection.
- **Champion Ōtautahi Christchurch** and collaborate to build our role as a leading New Zealand city.
- **Build trust and confidence** in the Council through meaningful partnerships and communication, listening to and working with residents.
- **Reduce emissions** as a Council and as a city, and invest in **adaptation and resilience**, leading a city-wide response to climate change while protecting our indigenous biodiversity, water bodies and tree canopy.
- **Manage ratepayers' money wisely**, delivering quality core services to the whole community and addressing the issues that are important to our residents.
- Actively balance the needs of **today's residents** with the **needs of future generations**, with the aim of leaving no one behind.

Adopted by the Council on 5 April 2023

Our goals for this Long Term Plan 2024–2034

Draft Community Outcomes

Collaborative and confident
Our residents have the opportunity to actively participate in community and city life, have a strong sense of belonging and identity, and feel safe.

Green and liveable
Our neighbourhoods and communities are accessible and well connected, supporting our goals to reduce emissions, build climate resilience and protect and regenerate the environment, especially our biodiversity, water bodies and tree canopy.

A cultural powerhouse
Our diverse communities are supported to understand and protect their heritage, pursue their arts, cultural and sporting interests, and contribute to making our city a creative, cultural and events 'powerhouse'.

Thriving and prosperous
Our city is a great place for people, business and investment where we can all grow our potential, where enterprises are innovative and smart, and where together we raise productivity and reduce emissions.

To be adopted by the Council as part of the Long Term Plan 2024–2034

Our intergenerational vision

A place of opportunity for all.

Open to new ideas, new people, new investment and new ways of doing things – a place where anything is possible.

Ngāi Tahu has rangatiratanga over its takiwā – the Council is committed to partnering with Ngāi Tahu to achieve meaningful outcomes that benefit the whole community.

Things to consider

- The Council agreed the new Strategic Framework on 5 April 2023 to inform the development of the 2024–2034 Long Term Plan (LTP).
- Community outcomes are required by the Local Government Act (LGA). The draft outcomes will be adopted as part of the LTP.
- The six strategic priorities have already been adopted and reflect the priorities the Council wants to focus on during this term.
- We need to ensure that the Strategic Framework informs and provides the foundation for the next LTP and guides our work programmes and the allocation of our resources and effort.
- Our wider suite of strategies has a role to play in delivering on our strategic framework.

Looking ahead

- Are we supporting the right activities at the right levels to give effect to the Strategic Framework?
- What do we need to do to progress the strategic priorities?
  - What are key actions or initiatives we need to take?
  - Which services are critical for us to continue?
  - What do we need to do differently?
  - Are there things we need to do more of, or do better?
- What should we stop doing, or do less of, to enable this?

Organisational performance

ORGANISATIONAL SERVICE DELIVERY

The Long Term Plan is where we outline our priorities, our projects and the levels of service we will provide. It describes our activities and the community outcomes that we are working towards.

The LTP must include information on activities, goods or services provided by a council, and specific funding and financial management policies and information.

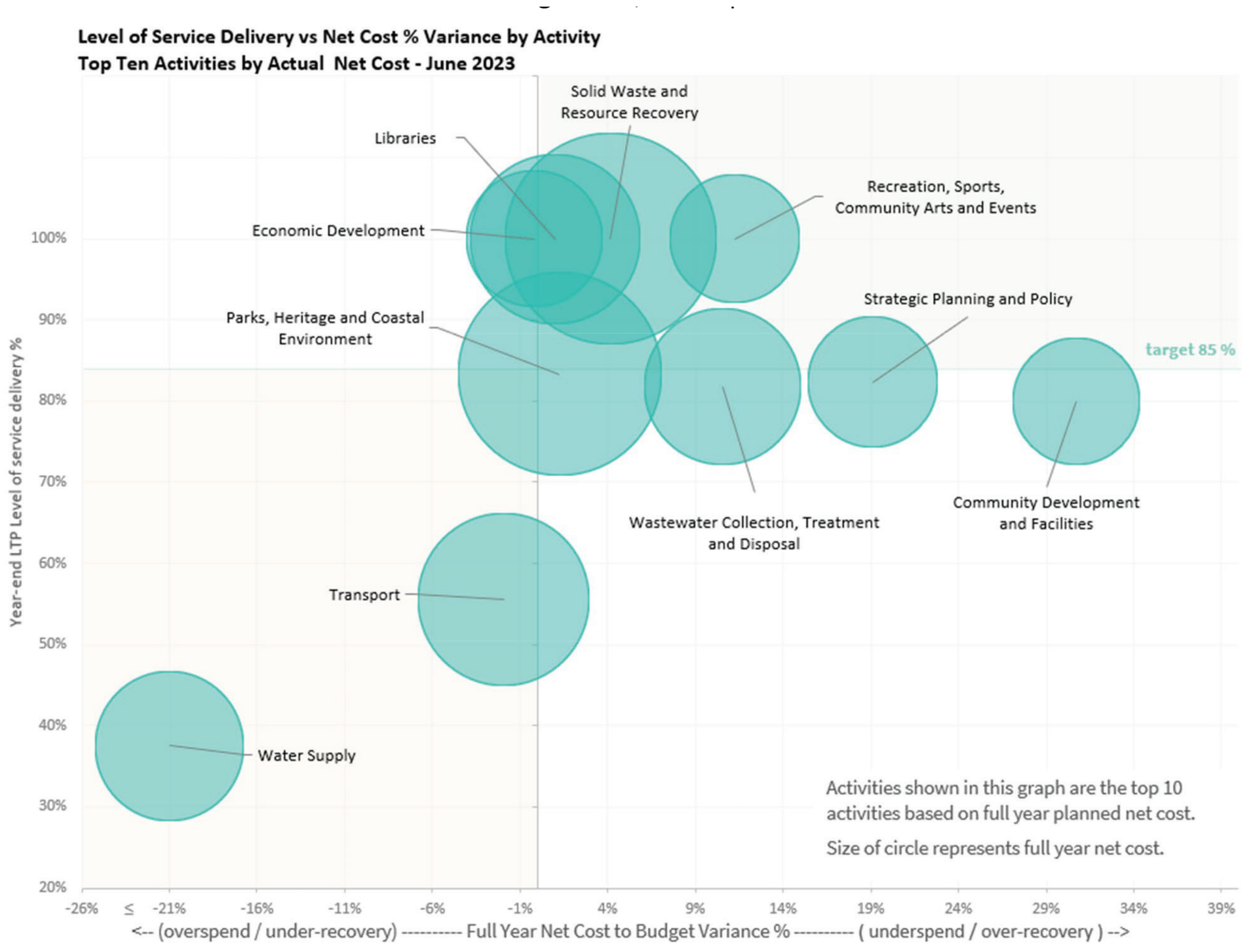
For the ‘Community’ level of service delivery, the most recent forecast (2022/23 - year 2 of LTP 2021–31) shows good improvement at 86% of levels of service delivered to target, up from the post-Audit result for 2021/22, 77% level of service delivery achieved.

A significant factor for the improved overall delivery forecast compared to last year has been a reduction in the number of the Council’s facilities, services and programmes being impacted by COVID-19 restrictions (such as Art Gallery, Akaroa Museum, Recreation, Sports and Events, Civil Defence Emergency Management and Customer Services).

Activities with level of service exceptions across these two financial years include:

- Transport, working to resolve several exceptions related to road and footpath condition, resurfacing, including resident satisfaction, and transport mode-share.
- Various regulatory activities reporting delays in consent processing due to high volumes of consent applications being received, applicant satisfaction with the resource consent process, staff resourcing impacts on building warrant of fitness, code of compliance processing, food control plan verification, and operational monitoring of response to inappropriate noise levels in the community.
- Water supply activity delivery affected by time to attend and resolve urgent callouts, satisfaction with reliability of water supply, and responsiveness to supply problems, backflow prevention compliance, and network water supply consumption and leakage rates.
- Parks exceptions mostly relate to resident satisfaction survey results.
- An interpretation of all resident survey results and details of actions to be taken to improve or maintain resident service satisfaction was presented to the 9 June 2022 Council meeting, a six-monthly update went to the Council on 30 November 2022, and actions continue to be implemented.

The scatter diagram below is an overview of the most recent forecast performance (as at May 2023) of the top 10 activities. The vertical y-axis shows service delivery (LOS) performance. The horizontal x-axis shows budget over/underspend.



(Source: Key Performance Results, May 2023 Forecast Report to Finance and Performance Committee 28 June 2023. Year-end available late August)

Organisational performance

ORGANISATIONAL SERVICE DELIVERY

Additional information

The Council provides a range of activities. Some activities are asset-based, such as water supply, wastewater collection, treatment and disposal, stormwater drainage, flood protection and control works, roading and parks, and a number of facility-based community services (libraries, recreation and sport, Christchurch Art Gallery, museums and community halls). Other activities provide programmes, activities, events and support for community services. The Council also provides a wide range of regulatory functions.

Each activity has a suite of levels of service, performance measures and targets that described what an activity will deliver. Targets for activity levels of service are adopted by the Council through the Long Term Plan process, and are set to meet the Council's strategic outcomes.

Getting the balance right between targets that reflect customer and community expectations and targets we can realistically achieve is a fundamental part of the LTP planning and budgeting process.

Levels of service measure what customers and the community receive from the Council. They are the primary mechanism that we have for understanding service delivery and looking at various aspects of each of the services being delivered (e.g. quantity, quality, effectiveness, efficiency and satisfaction).

Changing levels of service targets may or may not directly impact the rates charged. For example, adjusting a satisfaction target up or down will not directly impact the service delivery (actions, events, programmes, maintenance) staff are asked to deliver. Also, if a maintenance contract has been awarded for a period of time (for instance 2–10 years) and changes are made to levels of service targets then the contracts, and the specifications and financial aspects of the contract, will need to be renegotiated, which may come at a cost to break the contract.

Many of our regulatory functions are expected to be delivered to specific timeframes, which are set by central government. Many of these functions are paid through fees and charges.

Things to consider

- We are seeing growing community expectations, which need to be balanced with our ability to deliver.
- In light of these increasing expectations, our LTP pre-engagement will shed some light on what matters most. It will help us sort the must haves from the nice to haves. It is likely that different groups will have differing views on what is a nice to have versus a must have. These views will need to be carefully balanced to ensure we are meeting the needs of our diverse communities.
- We are already experiencing issues with adequate internal and external resourcing to deliver on a range of programmes and projects. It is likely that these pressures will continue while the labour market remains tight.
- Historically, the Council and residents have been reluctant to cut services.
- Any major changes to levels of service must undergo adequate community consultation, under the provisions of the Local Government Act.

Looking ahead

- How can we balance core Council services, and residents' expectations of these services, while keeping rates increases as low as possible?
- In the past residents have clearly told us that they don't want to see cuts to services that they value and use regularly.
- The Government's reform programme has the potential to be disruptive to Council business (submissions, decisions, responding to change). This needs to be balanced with continued service delivery.

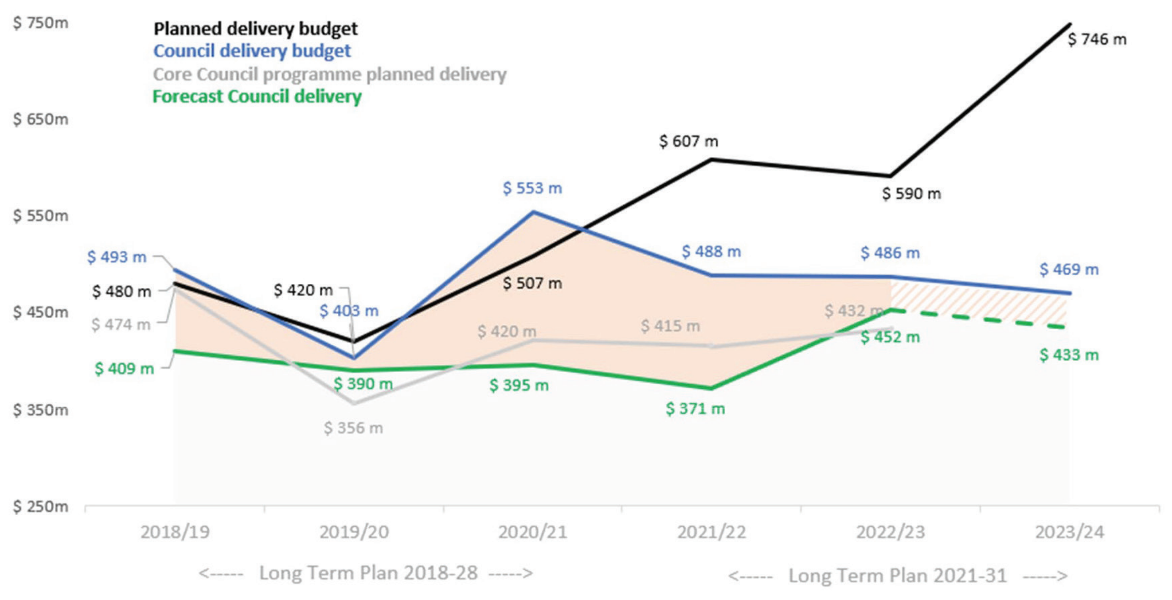
CAPITAL PROGRAMME

Highlights

We are consistently struggling to fully resource and deliver the Capital Programme we commit to in our LTP.

For this year (year 2 of the LTP 2021) the total programme budget set for the Council to deliver is $470 million (blue line). The May 2023 Financial Report forecast for capital financial expenditure is $405 million, which equates to 86% delivery.

This is consistent with what we have seen in previous years.



(TRIM 23/667984)

The year end forecast for capital expenditure is presently at -14% (includes core and externally funded work but excludes Te Kaha and Parakiore).

Unplanned maintenance (which can be up to 50% more costly than planned) is currently 66.4% of works order spend.

Things to consider

- We have struggled to fully deliver the planned capital programme as set in the LTP. Achieving a capital programme in this LTP that is deliverable is going to require us to have some honest conversations both as an organisation and with our residents.
- An evidence-based approach to building the capital programme will be required if we are to land a capital programme that is deliverable, looking back at what we have been able to achieve previously and factoring the impacts of a range of external factors that are out of our control.
- Cyclone Gabrielle has caused significant damage to the northern and eastern parts of the North Island. The resources and investment required to reconnect communities in this area and futureproof infrastructure will be significant.
- The work required in these areas is going to put more pressure on an already stretched construction sector. We are already experiencing issues with internal and external resourcing, and it is likely that these pressures will continue, particularly in light of the work that needs to be undertaken in the North Island.

Additional information

Our current priorities for the capital programme are to:

- Maintain and renew our water supply and stormwater infrastructure.
- Improve our roads and footpaths.
- Maintain our parks and riverbanks.
- Complete the Major Cycle Routes.
- Build new facilities that meet community needs.
- Adapt to climate change.

Our capital programme is funded from a range of sources: Crown contributions, subsidies and grants, development contributions, proceeds from asset sales, rates and debt.

Looking ahead

- What will the capital programme look like in the context of Three Waters reform?
- How do we embed Three Waters assets in the LTP for up to two years (in a 10 year plan)?
- Continuing supply-chain issues, cost escalations, inflation, skills shortages and other global events may impact our ability to deliver planned projects on time and within budget.

SOURCES OF FUNDING

Highlights

Our main source of revenue comes from property-based rates.

This income is supplemented with funding from fees and charges, Government subsidies, development contributions, interest and dividends from subsidiaries.

We also own shares of major local companies through our wholly-owned subsidiary Christchurch City Holdings Limited (CCHL). The significant companies include:

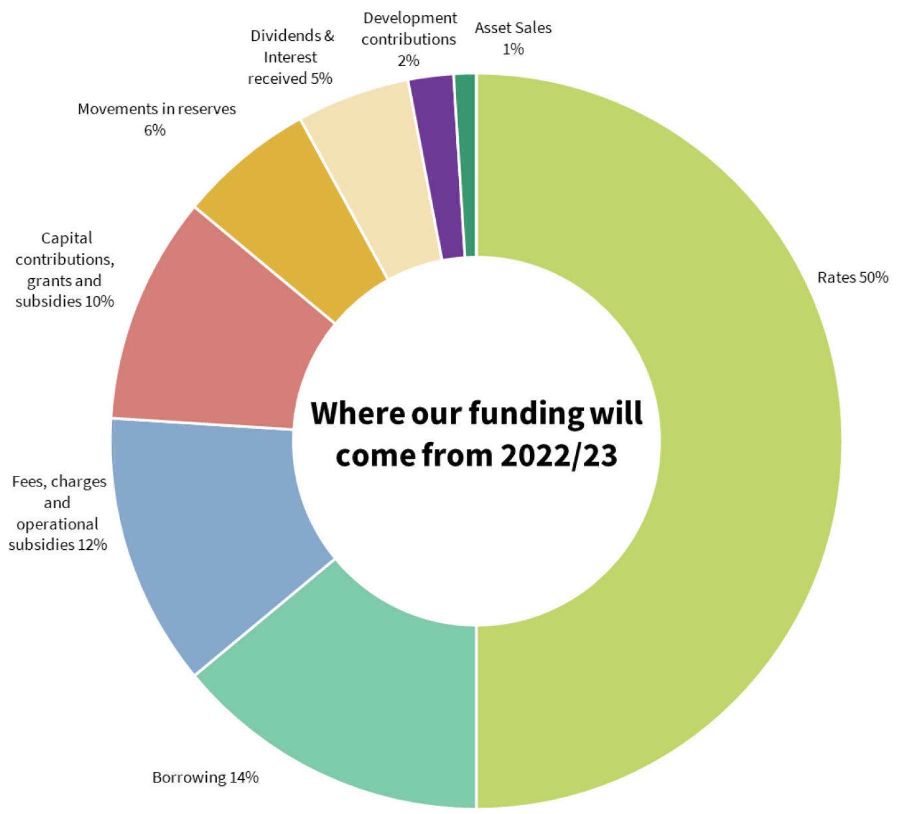
- Christchurch International Airport
- Citycare
- Lyttelton Port Company
- Orion
- Eco Central
- Enable Services.

Funding for our capital programme comes from:

- Crown recoveries
- Subsidies and grants for capital expenditure
- Development contributions
- The proceeds of asset sales
- Debt.

Additional information

The current LTP projects annual rates to increase to $926 million by 2030/31 (rates levied). As a proportion of funding this equates to approximately 47% (LTP 2021–2031).



Source: Our Annual Plan 2022/23

Looking ahead

- We are facing growing expectations and demand on our limited resources from both Central Government and our local communities.
- These expectations and demands are likely to be coupled with additional pressure from inflation, increasing cost of living, skills shortages and a stretched labour market and supply chain, and climate change.
- Our community is divided. We have heard that there is a desire from part of the community to keep rates increases as low as possible, while on the other hand others are concerned that by focusing on keeping rates increases low we will hinder progress on a number important issues and projects.
- Following the Central Government election in October, we may have a new government with different priorities to the current government. Will the future of local government review progress and what impacts will it have on our funding model?

Things to consider

- The Future for Local Government report – *He piki tūranga, he piki kotuku* – highlighted the need for a sustainable, equitable local government funding and finance system, acknowledging that local government has been under significant funding pressure for several years.
- The panel recommended significant changes to the local government funding and finance system, including:
  - Enabling councils to use a wider range of revenue tools (while retaining rating as the primary revenue tool).
  - An annual transfer of revenue equivalent to GST charged on rates.
  - Central government pays rates on Crown property.
  - Cabinet is required to consider the funding impact on local government of proposed policy decisions.
- The panel suggested that we have reached “peak rates” and maintaining the current funding and financial system is unsustainable.
- The report acknowledges that many local government activities directly support national-level wellbeing priorities and outcomes. These have been allocated to local government over the past few decades, often without additional funding to support the activities.
- During the development of the LTP 2021–2031 we explored both having higher rates rises and lower rates rises.
- Higher rates rises would have enabled accelerated delivery of asset renewals. However this was ruled out because we would not have had the capacity to deliver the projects nor borrow for additional capital works, and higher rates rises would place additional hardship on the most vulnerable citizens in our community.
- Lower rates rises were ruled out as they wouldn’t have enabled us to look after our assets and would have meant we were passing on failing infrastructure to future generations. They would also have required a drop in the levels of service we are able to provide, which we received strong and significant community feedback on during consultation on the draft LTP.

Funding the LTP

THE RATING SYSTEM

Highlights

Rates are used to fund the balance of our costs once all other funding sources are accounted for.

The total amount of rates income we need each year is set through our Annual Planning process, and is not related to any changes in market valuations.

We also collect rates on behalf of Environment Canterbury, which sets its own rates.

A typical ratepayer owning an average size house (with a rating value of $764,364) will pay $65 per week in rates (including GST).

Additional information

Rates are set using section 23 of the Local Government (Rating) Act 2002. Some rates are fixed charges, but most are based on each rating unit's rating valuation – these are set by independent valuers, based on property market conditions and consider the land value and any improvement value.

The main purpose of the rating valuation is to equitably distribute rates across the District.

We also have targeted rates that are designed to fund a function or group of functions. These may be applied to all rating units or to only a specified group of ratepayers.

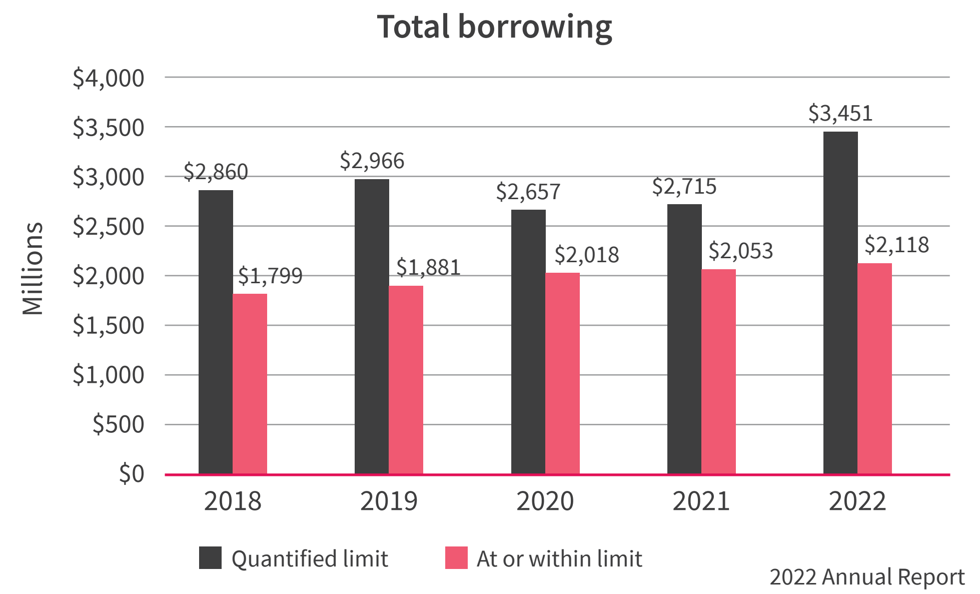
We are required by legislation to update the rating valuations every three years to reasonably reflect property market conditions.

DEBT & ABILITY TO BORROW

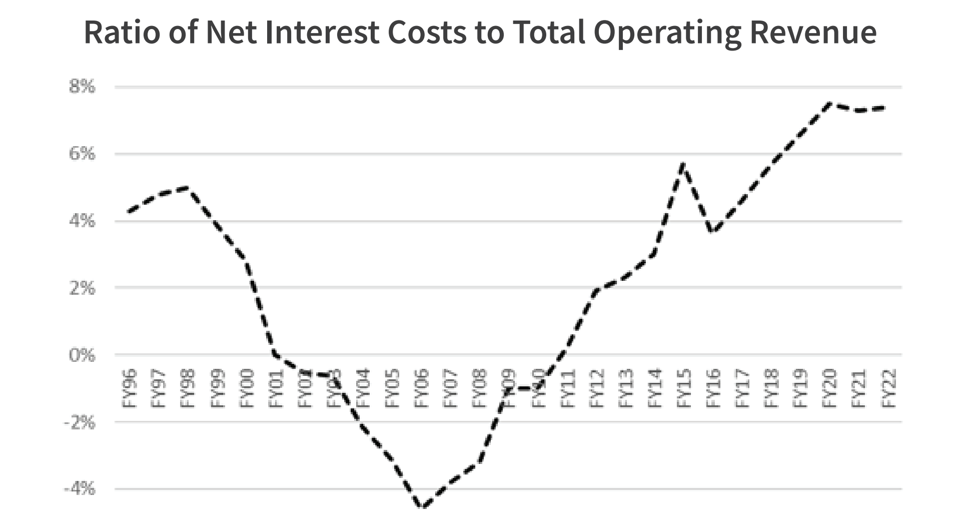
Highlights

We borrow to fund spending where the benefit is perceived to endure for multiple years – for example, capital expenditure on improving assets, or growth prior to the collection of development contributions.

Currently our borrowing is compliant with the total borrowing ratio. The following graph compares the Council's actual borrowing with a quantified limit on borrowing stated in the financial strategy as included in the LTP 2021–2031.



Since 2016 our ratio of net interest costs to total operating revenue has been increasing, peaking in financial year 2020 and remaining reasonably consistent since (7.4% for financial year 2022).



Additional information

One of the biggest challenges we must grapple with is how to pay for capital expenditure. What proportion should be paid for by operational income (e.g. rates) and what proportion should be paid for by debt.

As part of the LTP we must adopt 'revenue and financing' policies which dictate how capital expenditure will be funded and 'liability management' policies, which set interest rate exposure, liquidity, credit exposure and debt repayment approaches.

When considering debt, it is important that inter-generational equity is taken into consideration, each generation that benefits from an investment should contribute to the cost of that asset or service.

The local government act requires us to set financial strategies, which must include a statement of our quantified limits on rates, rates increases, and borrowing. We must also adopt a revenue and financing policy which sets out how capital infrastructure will be funded.

Our 2021 Revenue, Financing and Rating Policy sets out that interest costs on debt relating to the capital works programme (excluding the earthquake rebuild or equity investments) will be allocated to Council activities for budgeting and funding purposes, in proportion to the amount of depreciation generated by that activity. The balance of interest costs will be funded by general rates.

The Revenue, Financing and Rating policy also sets out that proceeds from asset sales will be used to reduce debt or any current borrowing requirement.

Things to consider

- There's a need to consider the long term debt position of the Council.
- Significant borrowing is going to be required to fund the Te Kaha build. This is likely to put pressure on our ability to borrow across the period of the LTP 2024–2034.
- Replacing or building new assets is generally funded via debt. Servicing debt is a component of rates.
- Decisions made as part of the LTP on borrowing and debt levels should consider the inter-generational impacts.
- Three waters reform will significantly change our current debt levels and ability to borrow.
- If the reform programme proceeds as planned, we will receive funding to pay down our current debt.
- However, our three waters assets will also be transferred to the new water entity, which will have an impact on our ability to borrow.

Looking ahead

- It should be expected that at some point in the medium/long term increases to the OCR are likely to lead to changes in the cost of borrowing.
- While the structure of our borrowing will limit the immediate impacts of changes to the OCR, there may be some impacts across the period of the LTP.
- Three waters reform will have significant impacts on our capital programme, and on the financial projections and debt profile in the LTP.

LOCAL GOVERNMENT COST INDICATORS

Highlights

According to the latest Taituarā Local Government cost adjustors (October 2022) we are likely to see significant growth in the cost of doing business across the period of the LTP.

The latest indices (October 2022) reflect the rapid increases in costs experienced in 2021/2022. They then show above average growth rates in the following two years (2023 and 2024) before the rates of increase start to fall.

It is unlikely that we will see the costs faced by local government fall.

We can expect to see the **biggest cost increases** in areas such as roading and water and environment.

We can also expect increases in the planning and regulation, transport and community areas.

The cost indicators suggest that both our opex and capex costs could increase by around 25% across the period of the LTP.

Additional information

The Taituarā Local Government Cost adjustors are generally updated annually, around October.

The CPI is used by policymakers to understand the movements in prices as experienced by households.

In contrast, because the intention of the LGCI is focused on local government costs, it tracks the prices of a basket of goods and services purchased by the average local authority, for example staff labour, contractors, physical infrastructure components, and maintenance services.

The latest Taituarā Local Government cost adjustors (October 2022) were reflective of the economic environment at that time. Since then we have seen some significant shifts, including:

- Further increases to the OCR, which has had significant impact on interest rates and the cost of borrowing.
- Record high levels of inflation.
- New Zealand has entered a technical recession.

Looking ahead

- We can expect to face further increases to the cost of doing business.
- It is not uncommon for local government costs to increase at a greater rate than the CPI across the same period.

Things to consider

- We are currently operating in a highly volatile and changeable environment. These indicators are only updated annually and may not be the best reflection of the current state. Much has changed since these were produced in late 2022.
- It is important to remember that a low rate of increase in the CPI does not undo any previous increases in the actual prices of goods. The price increases compound each year. This is also true of the LGCI.
- Our suppliers and contractors are signalling a limited appetite for taking on additional risk related to increasing labour costs, material costs, and operating costs. This may have an impact on how we do business.

External factors that are likely to impact the LTP

AFFORDABILITY

The median house price in Christchurch for April 2023 was **$660,000**, a decrease from **$680,000** in March 2023.

Housing affordability in Christchurch has been improving steadily this year, sitting at 6.4 for the March Quarter. This is down from a peak of 7.1 in the March 2022 quarter.

Highlights

Consumer confidence remains fairly unchanged for May 2023, at 79.2. This is still an extremely low level. Households continue to feel the pressure of inflation and the increasing cost of debt, especially for the 38% of households with mortgages. There is also the lingering uncertainty about the RBNZ's next move to bring inflation down.

Ordinary weekly earnings in Christchurch have been increasing as the result of a tight labour market.

The average weekly earnings for a female in the March 2023 quarter was **$1246**. This is nearly a $100 increase from the previous quarter.

The average weekly earnings for a male was **$1584**, an increase of $40 from the previous quarter.

This bought the percentage difference between the average female and male weekly earnings down to **27%**, compared to **34%** the previous quarter.

Historic rates of inflation are shrinking household disposable incomes and supressing confidence and spending by consumers.

Rental affordability has improved slightly when compared to March 2022, improving by 2% for March 2023 (MHUD).

When looking at rental affordability over a longer time period, it has continued to deteriorate in Christchurch, with the rent to income ratio at 20.5% for Q4 2022, up from Q4 2017 at 19% (CoreLogic). With this in mind, it is now relatively cheaper to rent in Wellington or Auckland.

There has been a large increase in demand for rental properties in Christchurch of about 25% and a decrease in supply by 2%. According to TradeMe, tenants are paying an average of $1820 more per year for rentals compared to a year ago.

Additional information

In the latest Quality of Life report:

- 46% of respondents from Christchurch said they have enough or more than enough money to meet everyday needs. 36% have just enough money and 15% don't have enough.
- Of the 34% of respondents from Christchurch who said their quality of life had decreased compared to the 12 months prior, 53% said this was due to reduced financial wellbeing.

The improvement of housing affordability is positive news for our first home buyers. First home buyers currently make up 27% of property purchases in Christchurch.

The Change in Housing Affordability Indicators (CHAI) by the Ministry of Housing and Urban Development, show how the affordability of rent, servicing a mortgage, and saving for a deposit change over time.

- The affordability of servicing a mortgage is improving, although March 2023 is still down 14% compared to the year prior.
- The ability to save for a deposit has improved since March 2022, up 14%.

According to CoreLogic, the annual change in rental rates increased by 9%, now sitting at $480. This was the highest percentage increase across the main New Zealand centres. These factors have created an extremely competitive rental market in Christchurch and is placing further strain on those already struggling with the cost of living. This has driven more people into temporary or insecure housing.

- In Q1 2023, there were more than 2300 applicants on the Canterbury Housing Register, a 10% increase from the previous quarter.

Things to consider

- Increasing migration inflows may spark some life into the housing market, as it adds to the demand for homes, particularly in the rental market. This could lead to an even tighter rental market.
- On average, our rates have increased 6% over the last 13 years, compared to household incomes that have increased on average 3.7% per year.
- Although the decrease in house prices is good news for first home buyers, it means a decrease in asset values for homeowners.
- Recent data suggests that Canterbury is one of just two regions nationally where house price falls are easing, potentially foreshadowing a turn in the market.
- A competitive rental market means property managers and landlords can be picky about who they choose as their tenants. This will likely see added pressure on those who are already vulnerable (those without a perfect tenancy history or credit records), as securing a rental property becomes more difficult.
- Competition in the rental market is likely to drive up rental prices. We are already seeing some evidence of this in Christchurch.
- Landlords likely to pass on any rates increases to their tenants. However, should the Council choose to take action to reduce the pressure on low-income households, landlords are under no obligation to pass any reduction in rates on to their tenants.

Looking ahead

- Increasing rates will add to the pressure households are already feeling with the cost of living.
- Households are at the mercy of the RBNZ and the future OCR that is set. This creates a lot of uncertainty for households' futures, as the effects of the OCR influence everyday costs and mortgage rates. Being clear and transparent about changes to rates and other costings that may impact residents will help alleviate some of that financial uncertainty.
- Our population is ageing. A larger proportion of our population will be on fixed incomes, which will place pressure on Council spending and rates increases.
- How does the Council fund the work it needs to do, while not placing a disproportionate burden on older, low or fixed income households? This will become an increasing problem as the Council grapples with the increasing costs of future issues and expectations.

External factors that are likely to impact the LTP

INFLATION

Highlights

Inflation, while still at levels not seen since the 1990s, has fallen for two consecutive quarters. At March 2023 inflation was 6.7%, down from a 30-year high of 7.3% in June 2022.

Statistics New Zealand notes food was the largest contributor to the March 2023 annual inflation rate, followed by housing and household utilities.

Local government has not been immune to rising inflation, the latest Taituarā Local Government cost adjustors reflect the rapid increases in costs experienced in 2021/2022. They then show above average growth rates in the following two years (2023 and 2024) before the rates of increase start to fall.

Additional information

Inflation has reached 30-year highs in many economies around the world (RBNZ). This has caused sharp increases in the cost of goods imported by New Zealand.

One of the main drivers of inflation is demand outpacing supply (too much money is available to purchase too few goods and services).

The labour shortage exacerbates the shortfall in the supply of goods and services and leads to an acceleration in wage growth, supporting household incomes, but adding upward pressure to domestic inflation through increased business costs (RBNZ)

Things to consider

- It is important to remember that a low rate of increase in the CPI does not undo any previous increases in the actual prices of goods. The price increases compound each year.
- While wage growth has been strengthened by record low unemployment, wage increases in New Zealand are failing to keep up with inflation.
- In common with many other organisations, **the Council is experiencing significant cost escalation, labour shortages and increasing inflation.**

Looking ahead

- New Zealand is reliant on external funding, making us highly vulnerable to disruption in overseas financial and funding markets (RBNZ).
- With the global economy being so volatile, projections around inflation and interest rates are inherently laced with risky assumptions.
- As the challenges associated with record high inflation continue, we are likely to see households and businesses being more cautious with their spending. It's likely that this will result in reduced household spending and business investment (NZIER).

External factors that are likely to impact the LTP

INTEREST

Highlights

The tightening of monetary policy by the MPC in response to multi-decade high inflation will continue to push up interest rates into the near term.

The OCR currently sits at 5.5% (May 2023), and the RBNZ expects it will need to remain at a restrictive level for the foreseeable future to combat persistent inflation. This is the expected peak, with cuts anticipated from the third quarter of 2024 and eventually decreasing to 3.3% by mid-2026.

Additional information

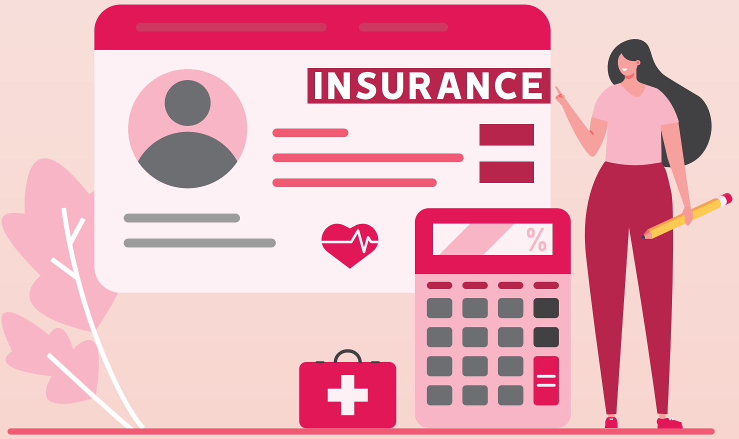
Our principal investment revenues are the dividends received from our commercial subsidiaries (most importantly Christchurch City Holdings Ltd). Cash investments (e.g. term deposits with banks) are generally held only for liquidity purposes, as we are a net borrower.

Things to consider

- Our borrowing costs are likely to increase in the short to medium term as banks and lenders respond to changes made by the reserve bank and the current economic climate.
- While the structure of our borrowing will limit the immediate impacts of changes to the OCR, it is likely we will see some impacts across the period of the LTP.
- Our commercial subsidiaries are going to be operating in a challenging economic environment for the coming months and potentially years.

Looking ahead

- If inflation does not return to between 1% and 3% with current and projected interest rate increases, sharper increases could be required to push inflation back to that base level as set by RBNZ/MPC.
- There's likely to be uncertainty around interest rates and future tightening of monetary policy throughout the development of the LTP. We need to ensure that the LTP 2024–2034 leaves us in a position where we can be agile and respond to the highly changeable environment that we are currently operating in.



External factors that are likely to impact the LTP

INSURANCE

Highlights

We have $2.4 billion of cover over 1900 above ground assets and $580 million of cover over underground infrastructure assets.

A five-year strategy was developed to guide insurance decisions. Its aim is to provide a risk-based framework that allows the Council to:

- Improve confidence in risk profiling and transfer.
- Ensure adequate understanding of policy coverage.
- Review professional indemnity risk and required insurance profile.
- Better understand the options we have to manage the premium versus the coverage equation.
- Understand medium to long term climate change, sustainability, and Environmental, Social and Governance (ESG) impacts on sourcing insurance capacity.

Additional information

The increased knowledge of the Council's significant assets and the associated risk profile developed over the past few years has proved beneficial in attracting cover. It has differentiated us from others seeking capacity in a constrained market.

Underground asset cover has increased over the past two years as better information has been made available to underwriters.

Traditional insurance covers may only be part of the Council's insurance programme in the future, with risk transfer alternatives being considered.

Things to consider

- The annual Capital Programme indicates that further significant increases in values are likely. This will increase the cost of insurance and stress capacity availability.
- Inflationary pressures on reinstatement cost of assets.
- Council assets (from a natural catastrophe perspective) are all located in a small, earthquake-prone geographical region.
- Recent weather events around the country may accelerate long-term changes to the New Zealand insurance market.
- We may see further increased premiums in locations with high flood or landslide risks.
- Particularly high-risk locations may become uninsurable.

Looking ahead

- Insurers are indicating significant premium rate increases (>20%) over the next few years, on top of increases relating to higher reinstatement costs. In some cases, policy conditions may become more restrictive as underwriters begin to assess risk on an individual property basis.
- Council-related Professional Indemnity and liability exposures across the country are worsening including the likelihood of further class actions. Councils are often the "last man standing" under joint and several liability so bear a larger proportion of the cost of any settlement.
- The growing threat of climate change has direct implications for the insurance industry. Historic trends and modelling, especially for weather events, are no longer valid.
- This is likely to lead to them working to better understand the risks, rebuilding their risk models and pricing assumptions.
- The reinsurer Swiss Re estimates that up to US$183 billion of premiums could be generated globally by 2040 as a result of climate change, mostly in the property insurance segment, given the threat of exposure to catastrophes such as floods, earthquakes, and extreme weather events like storms and wildfires. (PWC, Insurance 2025 and beyond)

External factors that are likely to impact the LTP

CAPITAL PROGRAMME CHALLENGES

Additional information

We are consistently struggling to fully resource and deliver the capital programme we commit to in our LTP.

This forces us to push projects out, which can create flow-on problems, such as increased costs to subsequently fund deferred projects, greater need for reactive 'just in time' maintenance where preventative works have been deferred, and compounding deliverability issues as projects are pushed out year-on-year.

Unplanned maintenance (which can be up to 50% more costly than planned) is currently 66.4% of works order spend, so deferring renewals in our Capital Programme due to deliverability constraints can further impact long-term affordability.

Highlights

Unemployment and underutilisation remain low, signalling little spare capacity in the labour market.

Low unemployment and higher average earnings are supporting households through a period of economic uncertainty. This also means that labour costs continue to rise for businesses.

The March 2023 Capital Good Price Index (CGPI) indicates that the cost of civil construction continues to increase.

The cost of transport ways increased by 11.7% in the March 2023 quarter, compared to March 2022. The cost of systems for water and sewerage increased by 13.4% over the same period.

Although supply chain issues are easing, we will likely see more frequent disruptions occur in the future as a result of the evolving geopolitical landscape and climate change. This may impact the deliverability of the capital programme.

Mitigating natural hazards and adapting to climate change is likely to come at a large cost, and uncertainty remains around who pays.

Looking ahead

- How can we scale the size of our capital programme as and when required, recognising inflation and the potential need for flexibility, to ensure it is deliverable?
- Infrastructure assets have a finite life after which they need to be replaced to avoid increasing service interruption and/or costly repair and maintenance. Significant proportions of our infrastructure networks are either at or coming towards the end of their economic life and need replacing.
- We need to have honest and robust conversations with our community about the struggle of balancing priorities with the increasing costs of building, operating, managing and maintaining assets for their lifespan.
- There is a need to consider budgeting for the whole-of-life (including divestment) operating costs of assets in all projects (as is possible). Would this include fully funding depreciation?
- Climate change, especially sea level rise and increased storm frequency, will increase the risk of natural hazards such as flooding, coastal inundation and tsunami above current levels.
- Despite uncertainty about who will pay, we know that the shape of our city must change over coming decades as we transition development away from the areas most at risk from climate impacts, and focus on intensifying development in centres and along transport corridors.
- We have some way to go to build community understanding and acceptance of areas associated with multiple hazards, especially in areas people have called home for a long time.

Things to consider

- We have never successfully reduced the capital programme so that it is deliverable.
- The LTP letter of expectation was clear that the capital programme for the 2024 must be deliverable across all years of the LTP.
- There are a range of external factors, many of which are outside of our control, that will have an impact on our ability to both fund and deliver the capital programme.
- We need planning processes in place which allow us to be responsive to the changing (and growing) needs of our community, but also enable us to prioritise the basics.
- Our challenge is to make the right decisions to prioritise and invest our limited resources, based on a data-driven approach to decision-making – to work smarter, more efficiently and effectively for our community.
- Our suppliers and contractors are likely to have a limited appetite for taking on additional risk related to increasing labour costs, material costs, and operating costs. This may have an impact on how we do business.
- We need to be thinking about not only delivering new infrastructure but also maintaining our current assets. Anything new that we deliver will also have ongoing maintenance requirements and implications.
- Historically we have underspent on maintenance, which is exacerbated the more we defer renewals, with assets then requiring increased maintenance. Reactive maintenance can be much more expensive (up to 50% more costly than planned maintenance).
- In light of the damage caused by Cyclone Gabrielle, are we promoting a shared understanding of the risks and costs associated with natural hazards faced by our infrastructure and communities?

External factors that are likely to impact the LTP

TECHNOLOGY CHANGE

Highlights

Cyber-attacks are becoming an increasing concern as more people fall victim to them. This quarter saw a 66% increase in direct financial loss from reported incidents compared to Q4 2022.

Reports of fraud and deception increased from 288,000 in 2021 to 510,000 in 2022. Only 6.5% of fraud and cybercrime offences are reported to police.

Artificial intelligence has recently gained traction, with the likes of ChatGPT being launched into the public realm – a platform that you can have a conversation with, ask questions, solve problems or even use to generate reports. This has already proven to be a powerful tool for professionals and businesses.

AI does come with risks as well, and can make some scams easier to pull off, such as phishing and investment scams. ChatGPT's developer even signed a statement warning about the risk of human extinction associated with AI.

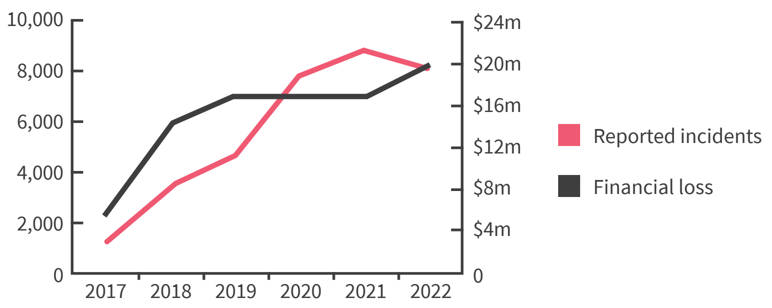
Because this technology is new and quickly evolving, many of the risks it poses are still unknown.

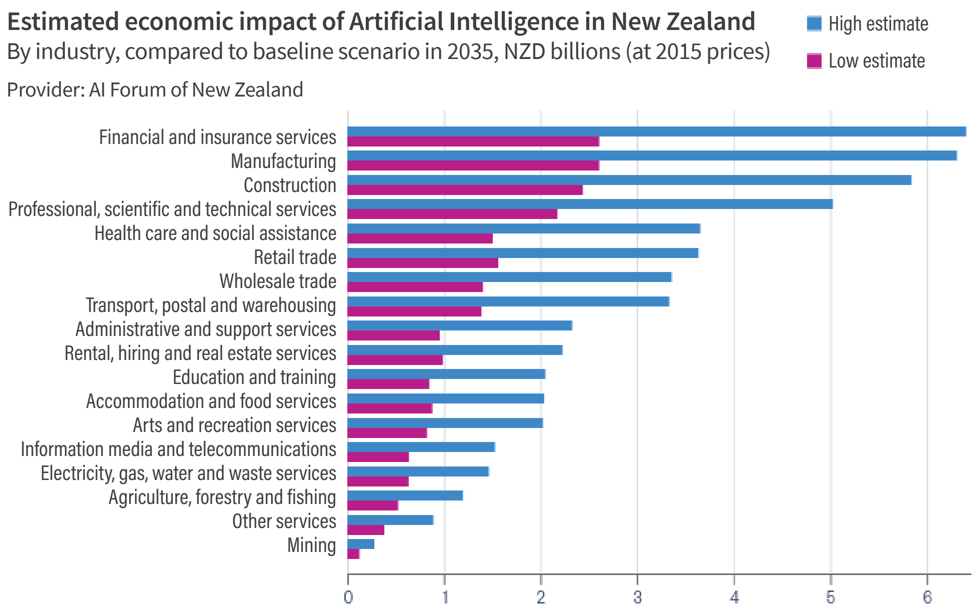
Additional information

Cyber incidents cost the world economy about US$1 trillion in 2022, with an average of US$4 million for data breaches, according to insurer Allianz.

In 2022, 8160 incidents were reported to CERT from around New Zealand. This is an 8% increase from 2021. There was a combined financial loss of $20 million. The top three incident categories were phishing and credential harvesting reports, scams and fraud reports, and unauthorised access.

Artificial intelligence can be used to increase productivity levels and contribute to areas like the environment and health. Environment Canterbury is already using AI technology to scan photos for plant pests.





Looking ahead

- New technology could ease the workload for staff, allowing energy to be focused on more complex tasks, while simple everyday tasks are more efficiently completed with the assistance of tech.
- Technological advances are becoming more continual and rapid in evolution. We will have to be able to adapt and keep up with the continual technology upgrades and advances, so we are not left behind.
- Heightened vigilance when using technology, especially when confidential information is concerned, is a priority as technology continues to evolve and cyber-attacks become more frequent.
- The spread of disinformation and misinformation may increase with the use of AI, considering it has the ability to create images, videos and audio that appears real but is not.
- The amount of disinformation littered throughout the internet may drive people back to credible information sources, or it may mean people go further down the rabbit hole. This is particularly dangerous in a political context. The Independent Electoral Review Interim Report flagged AI as an issue since it can be used to help spread disinformation.
- What impacts will the spread of misinformation have on trust and confidence in the Council and on resident satisfaction?
- As we know, there is work to do around improving our reputation and trust with residents. To ensure we don't risk a decrease in trust and reputation, when AI is used to interact with our communities, we need to be transparent and open about its use.
- Reputational risk needs to be carefully managed when handling AI. Ensuring that the outputs of AI are reviewed for accuracy and truth, and then approved will mitigate the risk around reputation.

> **AI applications are in their infancy in New Zealand and, in some cases, in the world. This means that the estimates are subject to a relatively high degree of uncertainty compared to more mature technologies.**
>
> – AI Forum of New Zealand

Things to consider

- MBIE has banned its staff from using AI technology due to data and privacy risks around sensitive information. There is currently no AI-specific regulation or legislation in New Zealand, however according to the Department of Internal Affairs, the government is working on guidance for agencies that will soon be available.
- Other major international companies have also banned staff use of ChatGPT e.g. Apple, Samsung, Amazon, and various banks and financial institutions. Some schools, and even some countries have banned ChatGPT.
- AI has the potential to lead to improved productivity and efficiency, freeing time to focus on more complex tasks. It is estimated that AI could increase world GDP by 1.4 percentage points per year.
- A 2018 report by AI Forum said AI technology could boost New Zealand's economy by $54 billion by 2035.
- There are concerns that AI will lead to widespread job losses. A McKinsey report predicts AI could affect 15% of the global workforce between 2016 and 2030. Historically the displacement of jobs from automation has been offset by the creation of new jobs in the long term.
- There are potential privacy risks associated with AI. The Office of the Privacy Commissioner has expectations for agencies implementing AI:
  - Have senior leadership approval.
  - Review whether a generative AI tool is necessary and proportionate.
  - Conduct a Privacy Impact Assessment.
  - Be transparent.
  - Engage with Māori.
  - Develop procedures about accuracy and access by individuals.
  - Ensure human review prior to acting.
  - Ensure that personal or confidential information is not retained or disclosed by the generative AI tool.

External factors that are likely to impact the LTP

PEOPLE, CAPACITY AND CAPABILITY

Looking ahead

- Competition for talent and in-demand skills is likely to continue in the short/medium term.
- There will likely be an expectation from future employees that we are set up to support alternative ways of working.
- There is a general understanding from employers that developing the right workplace model is important for the success of their organisation, however only 25% of those surveyed feel their organisation is ready to address this trend. (Deloitte, 2023 Human Capital Trends)
- Could changes to our workplace model support us in reaching our climate goals?

Highlights

The organisation has experienced a high turnover rate over the past few years:

- **June 2021 – 14.6%**
- **June 2022 – 21.4%**
- **May 2023 – 18.8%** (June 2023 not yet available)

The average staff turnover since Q4 2005 is 16%.

Following the earthquakes in 2011, there was an increase in turnover similar to the one that we have seen following COVID-19. Turnover took around four years to fall below the average following the post-quake peak.

In the year to June 2022 private sector wages increased by 3.4% over the year, while public sector wages increased by 3%.

The average annual salary in the Public Service in 2022 was $90,800, up 3.7% from $87,600 last year. Pay increases have continued to benefit those towards the lower end and middle of the pay distribution.

The average age in the Public Service is trending downwards. It is 44.0 years, after peaking at 44.8 years in 2015/16.

Public servants under the age of 35 now make up 31% of the workforce, compared with 25% in 2012.

Additional information

The public sector employed around 448,200 people in 2022, 18.7% of New Zealand's total workforce. The majority (88%) work in central government (395,000) and 12% in local government (53,200).

While public sector wage growth continues to lag behind that of the private sector (Labour Cost Index, StatsNZ) it's likely that there will be continuing impacts on staff retention and challenges when trying to attract talent into the public sector.

** The LCI adjusts for changes in employment quality. Therefore, employees receiving promotions or moving to different roles do not affect this measure of wage inflation. (SNZ)*

Public Services Commission data shows that the total public service workforce headcount (excluding local government) increased by around 4000 between 2020 and 2021. Over the same period the gender pay gap reduced by one percentage point from 9.6% to 8.6% (Canterbury figure).

The latest Deloitte Global Human Capital Trends report highlighted how much things have changed since the beginning of the global COVID-19 pandemic.

Organisations are traversing new landscapes as the traditional boundaries that existed around work and workplaces fall away. Digital and virtual technology has advanced rapidly, changing the way we work and the expectations that employees have around ways of working.

The shift towards more flexible working arrangements is being driven by two main factors: worker agency and technological advancement. There has been a shift in employee sentiment and expectations, and employees are now more likely to advocate for the workplace models that best support their needs and wellbeing (Deloitte, 2023 Human Capital Trends).

Recent research published by Unispace suggests that *"the workplace has the power to be the retention tool".* While salary was the top reason for respondents accepting a new position, the company culture came second.

Things to consider

- There is strong competition for talent from the wider public sector. With Government reform programmes expected to continue, it's unlikely that this demand and competition will subside in the coming months.
- The cost of addressing wage growth challenges need to be balanced with the risk of not addressing them, which could have significant impacts on our ability to continue delivering services.
- High turnover is likely to have impacts on our ability to deliver. Onboarding new staff detracts resource and attention away from other work.
- Recent research suggests that workers in New Zealand are more likely to suffer burnout than in any other country (70% versus the global average of 59%) (Unispace Global Workplace Insights, 2023).
- The main reasons cited for burnout were:
  - The workload is too high (51%)
  - The time spent in the office (33%)
  - The need to 'always be on' (30%)
- We should expect to see changes to our ways of working and ensure that as an organisation we are agile enough to respond. Prospective employees are likely to have expectations around more flexible ways of working.

Christchurch
City Council