Review of aspects of the financial position of Christchurch City Council

Final report

17 April 2014

Contents

1 Introduction

In June 2013 Christchurch City Council ('CCC') produced a Three Year Plan ('TYP'). The TYP contained estimates of the costs CCC would have to meet as a result of the Canterbury earthquakes (the 'Rebuild Costs'). The Rebuild Costs cover:

- The immediate response to the earthquakes, known as 'Emergency & Response Costs'.
- Repairing the properties CCC owns, ranging from large assets like the Art Gallery and Town Hall to small facilities like community halls, libraries and CCC's social housing stock.
- CCC's contributions to the Anchor Projects (e.g. Stadium, Metro Sports Facility, etc.).
- Repairing infrastructure, such as roads, fresh and waste-water, sewerage, etc.
- Revenue that has been lost because there are less properties paying rates or rates have been reduced when buildings are demolished, and because CCC is not earning as much from parking and other services.

The TYP also set out how CCC would pay for the Rebuild Costs, from a mix of:

- Rates;
- Contributions from the Crown[1];
- Insurance claims; and
- Debt.

Together the costs and the plan to fund them formed CCC's 'Financial Strategy'. The Financial Strategy starts on page 46 of the TYP.

As is explained in Section 2, CCC appointed KordaMentha to review this Financial Strategy.

We note that this report was prepared before the flooding that affected Christchurch in the week of 3 March 2014. No allowance for any effects of this flooding has been made in our analysis.

[1] This includes cash contributions and money paid by the Crown to purchase land for redevelopment projects and other reasons.

2 KordaMentha review

2.1 Stage 1

In November 2013, CCC appointed KordaMentha to review the Financial Strategy, as part of the newly elected councillors' 'opening the books' exercise. CCC's instructions were to:

- Review the TYP plan to identify key assumptions relating to the financial implications of the earthquakes;
- Review the reasonableness of those assumptions, in the context of the current project status, cost and phasing expectations;
- Assess the robustness of the estimates and areas of risk for Council;
- Assess the impact these risks may have on Council's position; and
- Identify areas where Council could focus to address those risks.

We completed this first stage of our review in December 2013. We presented a summary of our findings to the councillors and some of CCC's senior managers. We also issued a brief summary of our findings that was made public, which is dated 19 December 2013.

Our review identified that the TYP was based on the information available when it was issued but many of those cost estimates were no longer reliable. This was mainly because of one of three reasons:

- Some of the estimates were very old and preliminary high-level assessments;
- Some of the work that needed to be done was different to what was first planned and costed; and
- In some areas, CCC had not or could not determine exactly what needed to be done so it could not work out an accurate cost estimate.

We recommended CCC should do more work to come up with more accurate estimates of the Rebuild Costs.

We also told CCC that the Rebuild Costs would be higher than the estimates contained in the TYP. We recommended they start working to identify how the additional costs would be funded.

2.2 Stage 2

In February 2014, CCC asked us to:

- Review the updated information it had produced since our first review in relation to some of the Rebuild Cost estimates;
- Review the reasonableness of the updated assumptions, in the context of the current project status, cost and phasing expectations, with a particular focus on the extent to which the issues raised in the Stage 1 review have been addressed;
- Across that updated information and the other assumptions contained in the TYP, identify areas of financial risk for CCC;
- Assess the impact these risks may have on CCC's position; and
- Identify areas where CCC could focus to address those risks.

This report summarises our findings based on the information available at the date of this report.

It is important to note that our findings are based on the information CCC has provided. We have not independently verified any of that information. CCC is still working to confirm many of the Rebuild Cost estimates. Some of the Rebuild Costs are still preliminary estimates. The actual final cost of the rebuild work will be different to the costs that we have been provided to prepare this report.

3 Executive summary

Financial strategy in the Three Year Plan ('TYP')

Overview

- In June 2013 CCC produced a TYP that included estimates of the cost to repair damage from the earthquakes and how the cost would be funded (at a macro level the 'financial strategy').
- CCC faced a significant challenge to prepare the TYP and the financial strategy. It had to identify the damage that needed to be repaired, assess what repair work would be needed, estimate the cost of that work and work out how to fund that cost. The scale of this task should not be underestimated. There are thousands of individual things CCC has to fix and there are very large issues that have to be considered. All of this work has had to be done by existing CCC staff, on top of the normal day-to-day functions of a council.
- At an 'all-of-Council' level, the financial strategy was put together by CCC's former CEO and former GM Corporate Services. To conduct this review we had to speak to a lot of different people to obtain information supporting the TYP estimates. No-one person had a detailed understanding of the basis for the various cost estimates in the TYP and the accuracy of those assumptions at the time of our review.
- The lack of detailed understanding represented a big financial risk for CCC. It was no doubt not assisted by the CEO and GM Corporate Services departing within a short time of each other.
- A lot of work has been put in to reassessing the key components of the Rebuild Costs to ensure that CCC has a good understanding of them. CCC did not establish a centralised control point for dealing with the rebuild work. The organisational restructuring CCC is currently undertaking is, in part, aimed at achieving this. There would otherwise have remained a very real risk CCC would not have always had an accurate understanding of the status of all the rebuild work and its financial implications.

TYP Rebuild Cost estimates and funding

- The TYP estimated total Rebuild Costs of $4.431 billion (including a contingency of around 5%), of which CCC would have to pay $1.618 billion:

	TYP $ million
Total cost	4,431
Less Government subsidy	(1,800)
Less Insurance	(1,004)
Less Other contributions	(9)
Net cost to council	**1,618**

- CCC appointed KordaMentha to identify whether:
  - $4.431 billion remains an appropriate estimate of the Rebuild Costs, and, if not, what CCC currently estimates the revised cost to be; and
  - $1.618 billion remains an appropriate estimate of what CCC will itself have to pay.
- CCC essentially had three options to raise the $1.618 billion:
  - Increasing rates, which it did by charging a special earthquake levy.
  - Maximising the return CCHL generates from its assets or, perhaps, selling some. It did neither.
  - Borrowing. CCC planned to borrow around $1 billion.
- CCC borrows money via the LGFA. The TYP showed that the amount CCC was planning to borrow was within the two key LGFA covenants but very close to the upper limit of the net debt:total revenue ratio. We estimated that, all other things being equal (especially CCC's revenue), based on the TYP CCC could borrow another $100 to $150 million before it breached the net debt:total revenue covenant.
- It would be risky for CCC to borrow the maximum amount it could at any point in time because that would leave no flexibility in the future. We consider it has no practical ability to borrow more (based on the TYP assumptions).

Horizontal Infrastructure

- The TYP contained $3.178 billion for HI, to be undertaken by SCIRT (70%) and CCC (30%).
  - $1.8 billion (60%) to be paid by the Crown, per the Cost Sharing Agreement signed in June 2013. We understand this is the maximum the Crown would agree to pay when the Cost Sharing Agreement was signed.
  - $1.378 billion (40%) to be paid by CCC.
- When the TYP was issued, CCC thought the total cost would be $3.576 billion. CCC's view is that HI work was underfunded from the beginning because the Crown would only pay $1.8 billion and CCC would only pay 40% of the total budget.
- The current cost estimate is $3.591 billion. In so far as CCC was concerned, there always was a funding shortfall and that is now estimated at $413 million. Based on the most recent priority assigned to projects, this would result in 83 projects not being undertaken and Christchurch's HI not being restored to its pre-earthquake standard.
- The Cost Sharing Agreement states that the cost of fixing Christchurch's HI will be assessed by someone independent by 1 December 2014, and that the Crown and CCC will then again discuss funding. If the 60/40 funding split between the Crown and CCC remains and the current cost estimate is correct, CCC will have to pay another $159 million. CCC has not budgeted for this additional expense.
- If the Crown does not agree to pay more than $1.8 billion, CCC's options will be to:
  - Pay the full amount itself, which it would have to find.
  - Not complete some of the work. The Horizontal Infrastructure Governance Group ('HIGG') is running a process to prioritise all the projects and identify what should and should not be done. CCC staff recommend against cancelling any projects.
  - Secure cost savings. We are advised that the HIGG is focused on reducing cost, where possible.
  - Complete the work to a lower standard so the cost fits within the budget. This would mean Christchurch's HI will not be restored to the same standard as before the earthquake.

Buildings and facilities rebuild programme

- This category covers the Anchor Projects, other major facilities owned by CCC (such as the Art Gallery), the approx. 1,000 smaller buildings CCC owns and its social housing stock.
- The TYP provided $1.059 billion to cover all categories and estimated the net cost to CCC would be $423 million after insurance recoveries.
- CCC has to pay $783 million for the Anchor Projects regardless of how much it gets from its insurance (although it does have some flexibility around what is spent on parking). The Crown pays the rest. The TYP assumed CCC would only have to pay $413 million because the rest would be covered by insurance. This is a significant financial risk for CCC because it is far from certain how much its insurers will pay. CCC could have to pay more for the Anchor Projects than it can afford.
- There are no updated cost estimates for the remaining major facilities. There is a very real risk the current budget will be exceeded unless CCC shows an appropriate level of discipline and restraint in designing these projects. It needs to be recognised that there are very real limits to what can be afforded.
- The TYP assumed CCC would only have to pay $10 million to fix the 1,000 smaller properties to their pre-earthquake state, on the basis insurance would cover the rest of the cost. The TYP estimate was very preliminary and the actual insurance recoveries are running around 45% of total cost because the previous council decided all buildings should be rebuilt to 67% NBS ('New Building Standard') (which is an improvement on their pre-earthquake state). The latest estimate is that the programme will cost $121 million more, which may include an element of betterment that may be funded by the Improvement Allowance. CCC staff propose only repairing the buildings that are currently closed to the minimum 34% NBS to reduce the cost overrun.
- Social housing is self-funding so CCC can only repair what it can afford from whatever insurance payouts it receives. CCC does not yet know what that will cover but it is also considering many other options (which are commercially sensitive) to ensure the entire social housing stock is properly repaired.

Insurance

- CCC is insured by LAPP, a company that is owned by councils. LAPP did not have a lot of money itself so it was only ever going to able to pay CCC what it received from its own reinsurers.
- CCC's insurance was arranged by a broker and the amount of its insurance was supported by valuations. CCC does not believe the terms of its insurance are what it understood but this is irrelevant now to the financial outcome because it can only claim what the policies allow.
- The TYP assumed $1 billion would be recovered from insurance. $356 million has already been received. CCC will have to pay more than it budgeted for the rebuild if it gets less than $1 billion in total.
- CCC's insurance position is very complicated. There are many issues that need to be resolved:
  - Some relate to the amount CCC can claim. Some assets are not insured, some are insured for too little and CCC and the insurers disagree about what should be paid for some of the large assets.
  - Some relate to the amount LAPP can pay. LAPP and its reinsurers are arguing about what has to be paid under LAPP's own insurance cover.
- CCC's insurance position remains a very big financial risk for CCC.
- It is most likely CCC will receive less than the $1 billion it estimated. It would not be sensible for us to speculate about how much CCC will be paid but all these issues need to be resolved before CCC will know how much money it has.
- Given the importance of the insurance position to the rebuild, we advised CCC that it would be sensible to appoint people with appropriate experience to take control of and oversee the insurance process. We understand this is happening.

Summary and options

- On the information currently available, the Rebuild Costs are presently estimated to be $534 million higher than the TYP estimate before allowing for insurance recoveries to be lower (which is likely):

$ million (variances only)	TYP estimate	Current estimate	Difference
Horizontal infrastructure - total	3,178	3,591	413
Buildings & facilities (inc. Anchor Projects) - net cost to CCC	423	544	121
Net cost to Council - TYP	**3,601**	**4,135**	**534**

  - Some of the Buildings and Facilities cost may be eligible for funding from the Improvement Allowance but CCC has not yet assessed the amount.
- In reality, the cost over-run will most likely be much higher than $534 million because:
  - The amount CCC's insurers will pay is a large risk. It is likely to be lower the $1 billion estimated.
  - Many of the cost estimates are still works in progress so the total estimated cost will change.
- CCC needs to plan for the funding shortfall to be much higher than $534 million, to ensure it has a plan in place to deal with any eventuality. It needs to urgently develop a new financial strategy.
- Based on the TYP estimates, we do not believe CCC can borrow any more money so it has five options:
  - Reducing the Rebuild Costs. CCC needs to consider not doing some of the work it has planned and we understand the HIGG is attempting to reduce the overall cost of the HI work;
  - Negotiating for the Crown to pay more money, or for CCC to pay less toward the Anchor Projects;
  - Increasing core CCC revenue, via rates;
  - Cutting spending in other areas, such as the capital programme; or
  - Improving the performance of investments/assets or disposing of them.
- A mix of all these options will be required, in conjunction with a reassessment of the availability of the original contingency amount.
- In the longer-term CCC has included an assumption that operational savings of $30 million per annum will be achieved from the 2016/17 financial year. We understand CCC has made good progress at identifying how this will be achieved but it will be another financial risk for CCC if it is not.

4 Financial strategy contained in the Three Year Plan ('TYP')

4.1 Overview

CCC produced the TYP in June 2013. CCC was working to prepare a Long Term Plan ('LTP') that covered nine years but the Government passed legislation requiring it to produce the TYP instead.

CCC faced a very significant challenge to prepare the TYP. To estimate the Rebuild Costs, CCC had to:

- identify the damage that had to be repaired;
- assess what work would be needed to repair the damage, which was complicated not only by the scale of the repairs but also by the uncertainty around exactly how some damage could be fixed;
- estimate what it would cost to do the work that CCC expected would be needed; and
- work out how the cost would be funded;

Many parts of CCC have produced information to feed in to the TYP.

We understand however that the Financial Strategy at an 'all-of-Council' level was mainly put together by CCC's CEO and GM Corporate Services.

To conduct this review, we had to spend a lot of time speaking to different people within CCC to obtain information to support the estimates contained in the TYP. No one person within CCC was able to readily provide all that information. This leads us to believe that no one person at CCC had a detailed understanding of the basis for the various Rebuild Cost estimates contained in the TYP and the accuracy of many of those assumption at the time of our review.

This lack of understanding was no doubt not assisted by the CEO and GM Corporate Services no longer being with CCC. The lack of understanding represented a big financial risk for CCC.

By the conclusion of our review, CCC staff appeared to have been able to obtain a much more thorough understanding of the various components of the Financial Strategy.

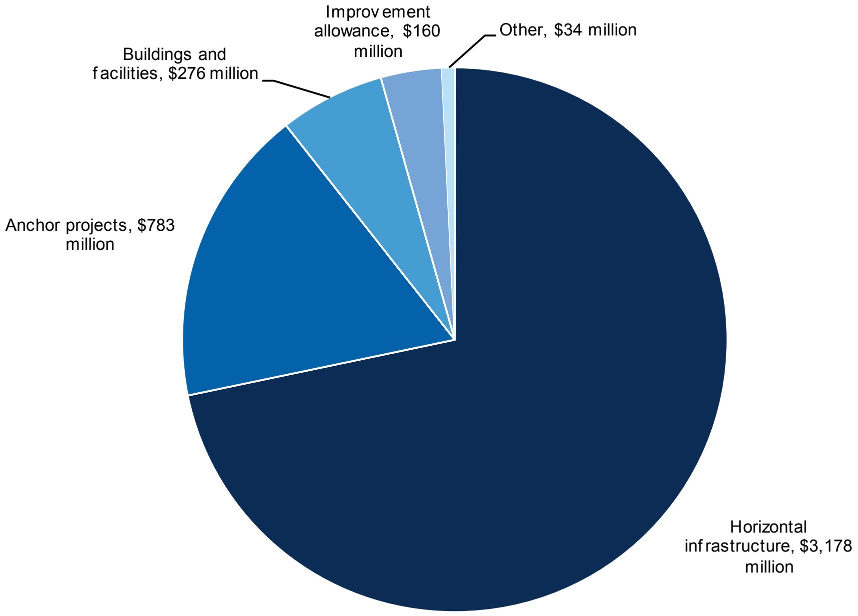
A lot of work has also been put in to reassessing the key components of the Rebuild Costs to ensure that CCC has a good understanding of them. CCC is about to start on its LTP planning process. We understand that the Rebuild Costs will continue to be reassessed through that LTP process.

The scale of this task should not be underestimated. As is explained in this report, there are thousands of individual things CCC has to fix to repair the damage from the earthquakes. There are also some very large issues that have to be considered, such as land drainage across the entire city. All of this work has had to be done by existing CCC staff, on top of the normal day-to-day functions of a council.

CCC did not establish a centralised control point for dealing with the rebuild work. Doing so may have assisted because one person (or group of people) would then have had an overall perspective of the rebuild programme. We understand that the organisational restructuring CCC is currently undertaking is, in part, aimed at achieving this. Without this overall perspective, there would have remained a very real risk CCC would not have always had an accurate understanding of the status of all the rebuild work and its financial implications.

4.2 TYP Rebuild Cost estimates

The TYP estimated total Rebuild Costs of $4.431 billion.[2] The cost of repairing Christchurch's Horizontal Infrastructure ('HI') is the single largest component of the Rebuild Costs.



Approx. $2 billion of this budget has already been spent, or is committed to be spent. By committed, we mean a project is already underway so the cost is already being incurred. Mostly all of this money has been spent on HI, through the Stronger Christchurch Infrastructure Rebuild Team ('SCIRT') (refer section 5).

The net cost to CCC was estimated at $1.618 billion after allowing for central government's contribution of $1.8 billion and $1.004 billion of insurance payouts:

	TYP $ million
Total cost	4,431
Less Government subsidy	(1,800)
Less Insurance	(1,004)
Less Other contributions	(9)
Net cost to council	**1,618**

The TYP included some funds that were not specifically allocated to the work programme but which CCC thought would be required. This may therefore provide a contingency. The amount was originally about 5% of the estimated net cost to council.

The purpose of our review has essentially been to identify whether:

- $4.431 billion remains an appropriate estimate of the Rebuild Costs, and, if not, what CCC currently estimates the revised cost to be; and
- $1.618 billion remains an appropriate estimate of the amount of the Rebuild Cost that CCC will itself have to pay.

[2] Refer page 49 of the TYP.

The TYP split the Rebuild Costs into 21 line items. All those line items can be split into three master categories:

	TYP $ million
Horizontal infrastructure	3,178
Buildings and facilities	1,219
Other	34
Total	**4,431**

This report does not cover the 1,000+ individual components of the rebuild programme. Instead, we discuss the Rebuild Costs for the Horizontal infrastructure and the buildings and facilities categories. This is the way in which CCC manages the overall budget. We do not discuss the other category in this report as it remains unchanged.

4.3 TYP assumptions about how the Rebuild Costs would be funded

CCC did not have $1.618 billion to pay for the Rebuild Costs so the Financial Strategy also explains how CCC will raise enough money to pay them.

At the time CCC essentially had three key options to raise this money:

1. Increase rates

   CCC decided to charge a one off levy of 1.84% for the Metro Sports facility and a special earthquake levy of 1.93% from 2011/2012. Rates have increased and will continue to increase by 1.93% per annum until the fifth year, following which rates will remain at that higher level. Even after charging the special earthquake levy, Christchurch City ratepayers pay much less than most other major centres.[3]

2. Optimise the performance of its investments

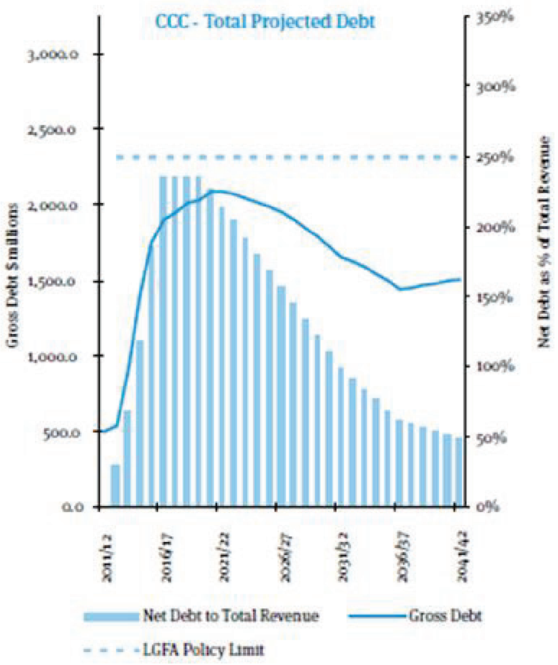
   The net assets of CCC's investment holding company, Christchurch City Holdings Ltd ('CCHL'), were valued at $1.450 billion in CCHL's 30 June 2013 financial accounts. CCC could have worked to maximise the return CCHL generated from its assets or, perhaps, sell some. It did neither.

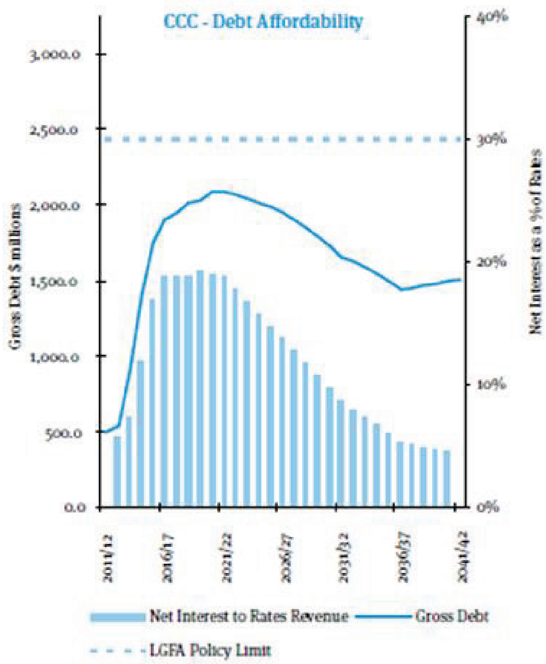
3. Borrowing

   The Financial Strategy explained that CCC would borrow around $1 billion to fund the Rebuild Costs it could not otherwise meet.[4]

CCC borrows money via the New Zealand Local Government Funding Agency ('LGFA'). There are rules (covenants) that limit how much CCC can borrow from LGFA. The TYP showed that the amount CCC was planning to borrow was within the two key covenants but very close to the upper limit of the net debt:total revenue ratio:

[3] Refer page 57 of the TYP.
[4] This borrowing is in addition to CCC's normal borrowing for its capital programme.





The amount CCC can borrow is also affected by the amount of revenue and rates revenue it receives. If revenue is less than CCC expects, it will be able to borrow less, and it can borrow more if revenue is higher.

CCC does not have an updated long-term revenue forecast against which we could measure how much it can borrow. We are aware that rates revenue is currently lower than expected but we do not know what the long term trend is expected to be. CCC will produce a forecast as part of its upcoming LTP planning exercise.

We estimated that, all other things being equal (especially CCC's revenue), based on the TYP CCC could borrow another $100 to $150 million before it breached the net debt:total revenue covenant. Put another way, if the Rebuild Costs were to increase by more than $100 to $150 million, CCC would have to raise or save money some other way.

It would be risky for CCC to borrow the maximum amount it could at any point in time because that would leave no flexibility in the future to manage variances against its forecasts. For this reason, even if the TYP assumptions are still correct, we do not believe it would be sensible for CCC to borrow the additional $100 to $150 million it could technically borrow. We consider it has no practical ability to borrow more (based on the TYP assumptions).

It is important to bear this in mind when reading the rest of this report.

5 Horizontal Infrastructure (‘HI’)

Summary

- The TYP contained $3.178 billion for HI, to be undertaken by SCIRT (70%) and CCC (30%).
  - $1.8 billion (60%) to be paid by the Crown, per the Cost Sharing Agreement signed in June 2013. We understand this is the maximum the Crown would agree to pay when the Cost Sharing Agreement was signed.
  - $1.378 billion (40%) to be paid by CCC.
- When the TYP was issued, CCC thought the total cost would be $3.576 billion. CCC’s view is that HI work was underfunded from the beginning because the Crown would only pay $1.8 billion and CCC would only pay 40% of the total budget.
- The current cost estimate is $3.591 billion. In so far as CCC was concerned, there always was a funding shortfall and that is now estimated at $413 million. Based on the most recent priority assigned to projects, this would result in 83 projects not being undertaken and Christchurch’s HI not being restored to its pre-earthquake standard.
- The Cost Sharing Agreement states that the cost of fixing Christchurch’s HI will be assessed by someone independent by 1 December 2014, and that the Crown and CCC will then again discuss funding. If the 60/40 funding split between the Crown and CCC remains and the current cost estimate is correct, CCC will have to pay another $159 million. CCC has not budgeted for this additional expense.
- If the Crown does not agree to pay more than $1.8 billion, CCC’s options will be to:
  - Pay the full amount itself, which it would have to find.
  - Not complete some of the work. The Horizontal Infrastructure Governance Group (‘HIGG’) is running a process to prioritise all the projects and identify what should and should not be done. CCC staff recommend against cancelling any projects.
  - Secure cost savings. We are advised that the HIGG is focused on reducing cost, where possible.
  - Complete the work to a lower standard so the cost fits within the budget. This would mean Christchurch’s HI will not be restored to the same standard as before the earthquake.

5.1 Background

HI covers roads, fresh and waste water, and sewerage. Repairing HI is the single largest cost of the rebuild. In the TYP the total cost was estimated at $3.178 billion (or just over 70% of the total estimated Rebuild Costs).

The HI programme is separated into two work programmes:

- Most of the HI repair programme is being managed by SCIRT. SCIRT is responsible for approx. 70% of the budget.[5]
- CCC projects, which account for the remaining budget.[3]

In June 2013, just before the TYP was issued, CCC and the Crown signed a Cost Sharing Agreement. Amongst other things, the Cost Sharing Agreement sets out how much of the HI Rebuild Costs the Crown and CCC will each pay. The Crown does not contribute to everything. There are some projects CCC has to pay the full cost of and the Crown pays different amounts for different things. For example, the Crown pays 83% of the cost of fixing roads and 60% of the cost of fixing the city’s stormwater system, but none of the cost of fixing pump stations and reservoirs.

[5] These figures include emergency repair works that were undertaken in the immediate aftermath of the earthquakes, which have been paid partly by SCIRT and by CCC. This accounts for approx. 20% of the total budget and has mostly been spent already. The only ongoing cost is to maintain services to the few properties in the Residential Red Zone (‘RRZ’) that are still occupied. The cost is a lot compared to the small number of people who remain.

On average, CCC expected it would ultimately have paid around 40% of the total cost and the Crown would have paid the rest.

The Cost Sharing Agreement caps the amount the Crown will pay at $1.8 billion. We understand that CCC's former CEO, Tony Maryatt, represented CCC in the negotiations of the Cost Sharing Agreement. Mr Maryatt advised us that, at the time the Cost Sharing Agreement was being negotiated, the Crown was not willing to pay more than $1.8 billion of the cost of repairing Christchurch's horizontal infrastructure.[6] We have not spoken with the Crown so we do know whether $1.8 billion was the maximum it would pay, or, if it was, why it would only pay $1.8 billion.

5.2 TYP estimate

When the Cost Sharing Agreement was signed CCC expected the Crown to pay 60% of the total cost to fix Christchurch's HI. CCC expected to pay the remaining 40% of the total cost. CCC therefore estimated that it would have to pay $1.378 billion if the Crown paid $1.8 billion. This is how the cost estimate in the TYP was set; by taking the amount the Crown would pay ($1.8 billion) and adding to it the amount CCC would then have to pay to ensure CCC paid 40% of the total budget:

	TYP $ million
Government subsidy	1,800
Council (gross cost prior to insurance recoveries)	1,378
Total horizontal infrastructure	**3,178**

The $3.178 billion estimate included everything SCIRT and CCC were responsible for, and all the work required whether or not it was covered by the Cost Sharing Agreement:[7]

	TYP $ million
SCIRT	2,200
CCC	978
Total horizontal infrastructure	**3,178**

When the TYP was issued CCC actually thought the total cost of repairing Christchurch's HI would be $3.576 billion. CCC believed therefore that the budget was short by $398 million.

CCC's position is that the $398 million funding shortfall arose because the Crown would only pay a maximum of $1.8 billion, and CCC would only pay 40% of the total HI cost.

CCC believed that the Crown should actually pay $2.039 billion, in which case CCC would pay $1.537 billion (an additional $159 million). CCC did not budget in the TYP to raise this additional $159 million, which it logically should have if it thought it was going to have to be paid.

For the purposes of the TYP, the $398 million difference was shown as 'Savings to be agreed with the Crown'. From CCC's perspective, a more accurate description would probably have been something like 'Budget shortfall'.

The Cost Sharing Agreement also says that the total cost of the HI programme will be reassessed by an independent assessor by 1 December 2014, and that this reassessment will 'provide a basis for any final discussions on horizontal infrastructure cost sharing'.[8] When the TYP was being prepared only about half the infrastructure had been properly assessed for damage. CCC expected all the infrastructure to be thoroughly assessed for damage by December 2014 so the cost to fix it could then be accurately estimated.

[6] The Crown is contributing more than $1.8 billion to the Christchurch rebuild but its contribution to HI is capped at $1.8 billion.
[7] As noted in section 5.1 above, the Crown does not contribute to everything.
[8] Clause 4.4 of the Cost Sharing Agreement.

We understand from Tony Maryatt that this process was agreed to ensure there was a mechanism for the budget shortfall to be met.

5.3 Current estimate

A final cost estimate is not yet available. Almost 60% of the Horizontal Infrastructure projects have already been completed or are underway, costing just under $2 billion (note this includes $679 million of emergency response costs). An estimate is therefore only needed for the remaining 328 projects.

The latest estimate is for a total cost of $3.591 billion across all 848 individual projects (including the $2 billion already spent or committed), $413 million higher than the estimate in the TYP:

	Latest estimate $ million	Number of projects
Total programme	3,591	848
Outside CSA	(177)	(134)
Balance	**3,414**	**714**
Committed	1,981	386
Uncommitted	1,433	328
Budget	3,000	631
Unaffordable	**413**	**83**

As is noted above, CCC always thought the HI infrastructure programme was underfunded by $398 million so the current estimate of $413 million is not significantly higher (although CCC never budgeted to fund the shortfall).

83 projects costing $413 million cannot be completed under the current funding arrangement based on the current order of work.

The total cost estimate covers the SCIRT projects and those CCC is completing. Increases are forecast on both:

	TYP estimate	Latest estimate $ million
SCIRT	2,200	2,338
CCC	978	1,253
Total horizontal infrastructure	**3,178**	**3,591**

CCC believes the SCIRT cost estimate is reasonably certain. The cost estimate is based on returning the entire HI network to the same average level of service as existed before the earthquakes (put simply). This does not mean everything will be exactly the same as it was before the earthquakes but SCIRT expects that the entire network will function to the same standard as it did before the earthquakes. Council staff assign a 90% confidence ratio to the SCIRT estimate.

CCC's estimate remains less certain because there is not yet a final decision on what work will actually be undertaken. The CCC budget mainly covers:

	Committed $ million	Uncommitted $ million	Total $ million
Emergency works	679	-	679
Waterways	41	160	201
Assessed damage rectification	3	171	174
Wastewater Treatment Plant	46	28	74
Parks	8	40	48
Reticulation	16	2	18
Wells	14	13	27
Compost facility	12	-	12
River banks and stop banks	11	-	11
Other	9	1	10
Total CCC horizontal infrastructure	**840**	**413**	**1,253**

This includes some very large projects such as the Port Hills road and a citywide land drainage scheme.

CCC will not have a final cost estimate for some time. Council staff believe however that the confidence ratio on the estimate has improved from 50% to 75%. We believe there remains a risk the cost estimates will increase as final decisions are made about what can be done, or that CCC will have to limit what it does to stay within budget.

5.4 Options available

The current estimate is that another $413 million will have to be spent if Christchurch's HI is to be returned to the same standard as it was before the earthquakes.

As is noted above, the Cost Sharing Agreement provides that the cost of repairing the HI will be reassessed by 1 December 2014, and contemplates that the Crown and CCC will then rediscuss the funding arrangements.[9] This is the primary way in which the funding shortfall could be addressed. If the Crown paid another $248 million, CCC would have to pay another $165 million.[10]

If the $413 million shortfall cannot be funded, other options would be to:

- Cancel projects. Council staff have recommended against this. This option might reduce the immediate cost but it would probably result in higher ongoing costs to maintain the damaged infrastructure. Section 5.5 below discusses work currently being done on this option.
- Undertake the work to a lower standard, resulting in Christchurch's HI not being repaired to the same standard as existed before the earthquakes. We understand this would be possible.
- Save money on the existing programme. SCIRT and CCC could try to negotiate savings. We understand the HIGG is focused on achieving savings, where possible.

5.5 Prioritisation process

A process is underway to prioritise projects. This will result in an assessment of what projects can be paid for and what will not be done if the budget is not increased.

This process is being run by the HIGG. In the Cost Sharing Agreement, CCC and the Crown agreed to establish the HIGG. The HIGG is made up of:

- One representative from NZTA.
- One representative from CERA.
- One representative from CCC.
- An independent chairperson, Mark Ford. We understand Mr Ford was recommended by the Crown.

[9] Refer "First Joint Clarification, under clause 6.5.1 of the Cost Sharing Agreement dated 26 June 2013.
[10] This split assumes the funding shortfall relates to things to which the Crown contributes.

The HIGG is responsible for determining how the HI budget is spent.

All the HI projects in Christchurch have been assigned a number to reflect their importance. The number is calculated according to a prioritisation framework. The HIGG set the prioritisation framework. SCIRT has been using its system to rank projects for some time. The system to rank CCC's projects was devised in November 2013 and is still being developed.

Once a number has been assigned to each project, all the projects controlled by SCIRT and CCC are then ranked according to their priority number. The project with the highest number is ranked at the top and the project with the lowest number is ranked at the bottom.

There is a cost estimate for every project. As we noted above, the cost of SCIRT's projects is more certain than CCC's.

After all the projects have been ranked, the HIGG works out what projects can be paid for within the current budget. When the budget is all used, the lowest ranking projects cannot be completed.

The current estimate is that the lowest ranking 83 projects will not be completed. This is not the final position, as projects are included or excluded depending on the number they are assigned. We understand the HIGG is still considering how to deal with the estimated budget shortfall and the final ranking of projects.

As it currently stands, if enough money is made available, all the projects can be completed so the prioritisation system will then only determine the order in which projects are done. If the budget remains too low, the prioritisation system will determine what is not done.

6 Buildings and facilities rebuild programme

Summary

- This category covers the Anchor Projects, other major facilities owned by CCC (such as the Art Gallery), the approx. 1,000 smaller buildings CCC owns and its social housing stock.
- The TYP provided $1.059 billion to cover all categories and estimated the net cost to CCC would be $423 million after insurance recoveries.
- CCC has to pay $783 million for the Anchor Projects regardless of how much it gets from its insurance (although it does have some flexibility around what is spent on parking). The Crown pays the rest. The TYP assumed CCC would only have to pay $413 million because the rest would be covered by insurance. This is a significant financial risk for CCC because it is far from certain how much its insurers will pay. CCC could have to pay more for the Anchor Projects than it can afford.
- There are no updated cost estimates for the remaining major facilities. There is a very real risk the current budget will be exceeded unless CCC shows an appropriate level of discipline and restraint in designing these projects. It needs to be recognised that there are very real limits to what can be afforded.
- The TYP assumed CCC would only have to pay $10 million to fix the 1,000 smaller properties to their pre-earthquake state, on the basis insurance would cover the rest of the cost. The TYP estimate was very preliminary and the actual insurance recoveries are running around 45% of total cost because the previous council decided all buildings should be rebuilt to 67% NBS ('New Building Standard') (which is an improvement on their pre-earthquake state). The latest estimate is that the programme will cost $121 million more, which may include an element of betterment that may be funded by the Improvement Allowance. CCC staff propose only repairing the buildings that are currently closed to the minimum 34% NBS to reduce the cost overrun.
- Social housing is self-funding so CCC can only repair what it can afford from whatever insurance payouts it receives. CCC does not yet know what that will cover but it is also considering many other options (which are commercially sensitive) to ensure the entire social housing stock is properly repaired.

6.1 Background

The buildings and facilities rebuild programme covers all the buildings and facilities that CCC owns. CCC categorises them into three groups:

1. Major facilities, which covers the Anchor Projects that CCC and central government are building together and some of CCC's other larger assets (e.g. the Art Gallery).
2. Community facilities, which covers the other approx. 1,000 buildings that CCC owns. These are the facilities that the public use every day, such as toilet blocks, swimming pools, libraries and community centres.
3. Social housing, being the 2,649 residential housing units that CCC owns, spread across approx. 600 individual blocks.

This programme does not cover the above-ground assets that relate to the HI (e.g. sewerage and water pump stations). Those assets are covered under the HI programme.

6.2 TYP estimate

The TYP allowed $1.219 billion for the total cost of the buildings and facilities programme, across all three asset categories, and estimated CCC would have to pay $583 million after it received $636 million from its insurers:

	Estimated cost $ million	Insurance cover $ million	Net cost to council $ million
Buildings and facilities	276	266	10
Anchor projects	783	370	413
Buildings and facilities	1,059	636	423
Improvement Allowance	160		160
Buildings and facilities total	**1,219**	**636**	**583**

6.2.1 Improvement allowance borrowing

In addition, CCC allocated $225 million in the TYP as a 'Council Buildings / Infrastructure improvement allowance'. Originally CCC allocated $150 million which was subsequently increased twice:

- An additional $25 million was allocated in the 2012/13 Annual Plan, taking the total amount to $175 million; and
- A further $50 million was allocated in the TYP, taking the total amount to the current allocation of $225 million.

$65 million of the Improvement allowance was allocated to fund the Anchor projects. The remainder of $160 million (shown in the table above) was a general fund.

This 'fund' is now known as the 'Improvement Allowance Borrowing'. The Improvement Allowance was included so some buildings and facilities could be rebuilt to a better standard than they were before the earthquake.

Approx. $170 million has been spent or committed so approx. $55 million remains. CCC has tracked how this fund has been spent but it has not always had a good understanding of what more may be spent.

6.3 Major facilities

The major facilities programme now covers the following Anchor Projects and other CCC facilities:

	Council contribution $ million	Insurance cover $ million	Land sales $ million	Improvement $ million	Net cost to council $ million	Project delivery responsibility
Convention Centre	-	31	11		(41)	Crown
Stadium	253	143			110	Crown
Carparking	70	42	15	13	0	CCC
Metro Sports Facility	147	78			69	Crown
Town Hall/Performing Arts	158	69		51	37	CCC
Memorial	-				-	Crown
Central Library	60	8	27	1	24	CCC
Avon River Park	6				6	Crown
The Square	5				5	Crown / CCC
Transport Interchange	40		40		-	Crown
Transport Plan - Phase 1	27				27	Crown / CCC
Escalation	18		1		17	
Anchor projects	**783**	**370**	**94**	**65**	**254**	
Canterbury Provincial Chambers	25	25			-	CCC
Art Gallery *	57	24		33	-	CCC
South West Library *	12	1			11	CCC
East Pool *	30	7			23	CCC
Athletics Track *	7	4		2	-	CCC
Other CCC facilities	**130**	**62**	**-**	**35**	**34**	
Major facilities	**913**	**432**	**94**	**99**	**288**	

* Not included in the original financial strategy tables

As is summarised below:

- CCC is obligated to contribute $783 million to the cost of the Anchor Projects, regardless of how much it receives from its insurance (although it believes it does have some flexibility around what will be spent on car parking provided the agreed number of parking buildings are built). Unless the Cost Sharing Agreement is renegotiated, CCC will not know how much it needs to pay until it resolves its insurance position. In the meantime, this issue will continue to represent a significant financial risk for CCC and a risk to the balance of the rebuild programme (if money has to be saved elsewhere so CCC can pay for the Anchor Projects.)
- There is insufficient information available to provide a revised cost estimate for the major facilities. We believe however that there is a very real risk that the current budget allocations will be exceeded. It needs to be recognised that there are very real limits to what can be afforded.

6.3.1 Anchor projects

CCC's contribution to the cost of the Anchor Projects is the largest cost item in the buildings and facilities rebuild programme.

The Cost Sharing Agreement fixes CCC's contribution to the Anchor Projects at $783 million so we have not needed to reassess the maximum amount CCC might have to pay.

The TYP assumed that CCC would only have to actually pay $413 million because $370 million of the total cost would be paid from insurance proceeds. The $413 million was to be paid partly by land sales ($94 million) and the rest by borrowing.

The Cost Sharing Agreement says CCC has to pay its $783 million share regardless of how much it gets from insurance. For example, if CCC only gets $270 million from insurance (instead of $370 million), it will itself have to fund $513 million instead of the $413 million allowed for in the TYP.

This provision of the Cost Sharing Agreement presents a large financial risk for CCC. It is far from certain how much money CCC will get from its insurance (refer our comments at section 7 on the issues with CCC's insurance position).

We understand there are many reasons why the Cost Sharing Agreement was signed in June 2013. We have not been asked to form an opinion on whether it was appropriate for it to be signed at that time but the effect of it is that it obligates CCC to pay more than it might be able to afford.

If the Cost Sharing Agreement did not fix its contribution at $783 million, CCC could have decided what it could afford to spend when it knew how much it would receive from its insurers. Instead, CCC has committed to spending $783 million when it does not know how much money it will have.

Unless the Cost Sharing Agreement can be renegotiated, CCC will not know how much it needs to pay until it resolves its insurance position. In the meantime, this issue will continue to represent a significant financial risk for CCC, and a risk to the balance of the rebuild programme (if money cannot be spent elsewhere because CCC has to top up funding for the Anchor Projects).

6.3.2 Other major facilities

The TYP assumed work on CCC's other major facilities would be funded from insurance proceeds and borrowing.

Approximately 37% of the Improvement Allowance has been allocated to two major projects; the Town Hall ($51 million) and the Art Gallery ($33 million).

Exactly what will be built has not yet been confirmed, although in some cases concept designs have been considered. CCC needs to show an appropriate level of discipline and restraint in designing these projects, relative to its financial position. The initial cost estimates for some projects, such as the Town Hall, show them to already be very close to or higher than the cost estimates included in the Financial Strategy.

There is insufficient information available to provide a revised cost estimate for the major facilities rebuild programme. We believe that there is a very real risk that the current budget allocations will be exceeded. It needs to be recognised that there are very real limits to what can be afforded.

The projects have not started so CCC has an opportunity to manage them within an affordable budget. Expectations will have to change to achieve this.

6.4 Community facilities

The TYP assumed CCC would only have to pay $10 million for the community facilities rebuild programme because the rest of the estimated cost ($266 million) would be covered by insurance. Put another way, the TYP assumed that over 95% of the cost of restoring the facilities to their pre-earthquake condition would be recovered from CCC's insurers.

To date only approx. 45% of the total cost of the work undertaken has been recoverable from CCC's insurers so CCC is funding much more (per repair) than it estimated.

We understand that the previous council decided that all CCC buildings should be repaired to 67% NBS but (in very general terms) CCC's insurance only covers the cost to repair the buildings to a lower standard. Any improvements above pre-earthquake standards may be eligible for funding from the Improvement Allowance but there would still be a funding shortfall.

The TYP cost estimate was based on some very high-level assessments of the damage that might have occurred to all the buildings and the potential cost to repair that damage. This approach may have been reasonable at the time given the very large number of buildings involved, and the amount of work that would be required to conduct a detailed assessment of the damage to each and the resulting cost of repair. It did however mean that the estimate in the TYP was not very reliable.

Since our review in late 2013, CCC staff have put a lot of work in to compiling a detailed estimate of the total cost of repairing the community facilities. The latest estimate is $212 million:

- $180 million of core rebuild cost. This is an updated estimate based on detailed work completed since December 2013.
- $32 million of other costs, which have not been updated. These remain the same as the estimate in the TYP, which is unreliable.

If only 45% of the core rebuild cost were recovered from insurance, Council would have to pay approx. $131 million.

It is complicated to work out what the cost increase is because of the way in which the TYP estimate was constructed. A reconciliation is provided below, which shows that the current estimate of $131 million (after insurance recoveries) should be compared with the original estimate of $10 million, so the estimated cost is now $121 million higher:

TYP estimate	**$ million**
TYP total estimate	276
Accounted for in major facilities and HI	(124)
Social housing	(53)
Insurance proceeds	(88)
Net cost to Council - TYP	**10**

Current estimate	**$ million**
Current estimate	180
Est. other costs (not updated)	32
Est. total costs	**212**
Portion est. as claimable under insurance	(81)
Est. net cost to Council - Current	**131**
Estimated cost increase	**121**

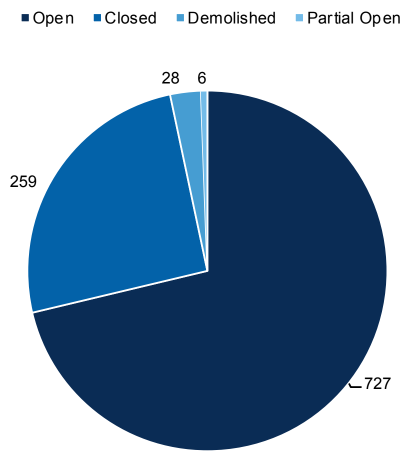
CCC will therefore have to fund another $121 million. Some of this cost overrun may be eligible for funding from the Improvement Allowance but CCC has not calculated the amount.

6.4.1 Options available

CCC recognises that the community facilities cost over-run needs to be minimised. CCC staff have recommended that:

- only the facilities that are still closed should be fixed, so the public can at least use everything; and
- CCC should change its policy so all buildings only have to be repaired to 34% NBS.

CCC's most recent assessment shows that 70% of the approx. 1,000 buildings are already open and available for use. A very small number have been demolished and 259 still have to be repaired so the public can use them again.



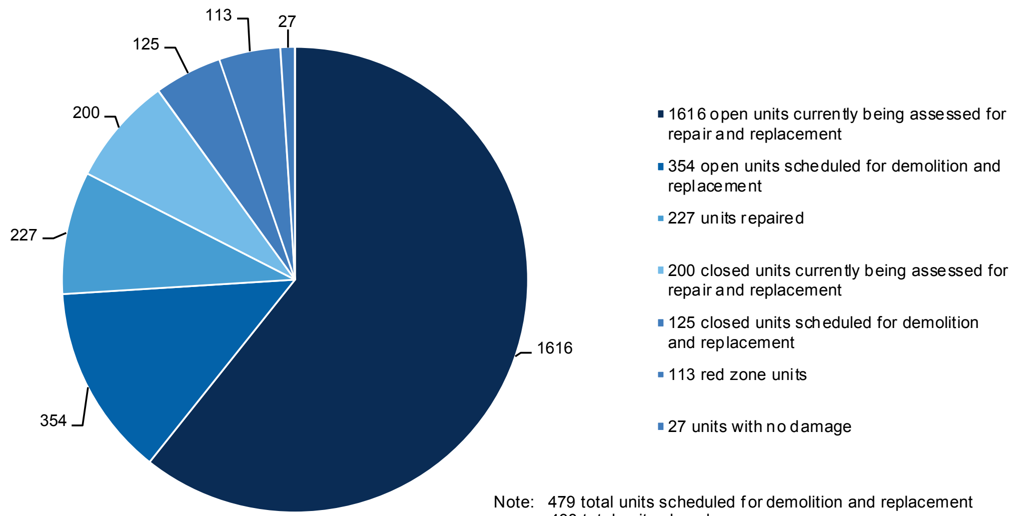
Under the revised strategy, CCC would repair the 259 buildings that the public cannot currently use. This is estimated to reduce the cost overrun to $73 million after insurance recoveries.

CCC is still considering how it can pay to repair the rest of the buildings. We understand the work will probably be spread over many years, as part of CCC's normal works programme (i.e. rather than it being done now as part of the earthquake response).

In practical terms, this would mean all the community facilities could be used and it will be many years before they were all properly repaired. Spreading the cost over a number of years is a prudent financial management approach but we are not in a position to consider whether it is appropriate from a construction or policy perspective.

6.5 Social housing

CCC owns 2,662 social housing units. Damage assessments have been completed on 75% of the units. CCC estimates that 90% need to be repaired or are beyond repair:



Note: 479 total units scheduled for demolition and replacement
438 total units closed

We understand that CCC's social housing has to be self-funding (i.e. only money received for social housing is meant to be spent on social housing).

The TYP assumed that $53 million would be spent fixing the housing stock, on the assumption the same amount could be recovered on insurance. We understand that the position remains that the repair bill will have to be funded entirely from insurance.

CCC will have to assess what work can be done when it knows how much money it has to spend. This may mean CCC cannot undertake all the work.

We understand CCC is considering other options to have the damaged units repaired, which may not require CCC to fund the full cost. These discussions are commercially sensitive so we cannot discuss them in this report but it does appear CCC is exploring a wide variety of alternatives to ensure the social housing stock is properly repaired.

7 Insurance

Summary

- CCC is insured by LAPP, a company that is owned by councils and provided them with insurance. LAPP did not have a lot of money itself so it was only ever going to able to pay CCC what it received from its own reinsurers.
- CCC's insurance was arranged by a broker and the amount of its insurance was supported by valuations. CCC does not believe the terms of its insurance are what it understood but this is irrelevant now to the financial outcome because it can only claim what the policies allow.
- The TYP assumed $1 billion would be recovered from insurance, of which $356 million has already been received. If CCC gets less than $1 billion in total, it will have to pay more for the rebuild than it budgeted.
- CCC's insurance position is very complicated. There are many issues that need to be resolved:
  - Some relate to the amount CCC can claim. Some assets are not insured, some are insured for too little and CCC and the insurers disagree about the amount that should be paid for some of the large assets.
  - Some relate to the amount LAPP can pay. LAPP and its reinsurers are arguing about what has to be paid under LAPP's own insurance cover.
- CCC's insurance position remains a very big financial risk for CCC.
- It is most likely CCC will receive less than the $1 billion it estimated. It would not be sensible for us to speculate about how much CCC will be paid but all these issues need to be resolved before CCC will know how much money it has.
- Given the importance of the insurance position to the rebuild, we advised CCC that it would be sensible to appoint people with appropriate experience to take control of and oversee the insurance process. We understand this is happening.

7.1 Background

CCC is insured by the Local Authority Protection Programme Disaster Fund ('LAPP'). LAPP provided insurance to many councils. Civic Assurance administers LAPP. Civic Assurance is owned by many councils. CCC owns 12.85% of Civic Assurance.

Like other insurance companies, LAPP has its own insurance from reinsurers. We understand that LAPP itself did not have a lot of money but we have not reviewed LAPP's financial position. The amount of insurance payouts CCC can receive therefore depends on the amount LAPP collects from its reinsurers.

CCC instructed a broker to arrange its insurance. The broker (not CCC) negotiated the insurance terms with LAPP and advised CCC what they were.

The amount of CCC's insurance was based on valuations of its assets. CCC appointed a valuer to prepare those valuations and the valuer's advice was an important factor when CCC decided how much insurance it needed.

CCC does not believe that the terms of its insurance are what it understood and expected. As a result, CCC cannot claim as much as it originally thought it would be able to. CCC knew this before the TYP was issued so this is not relevant to whether it can claim the $1 billion it estimated. It is however a key reason why it cannot claim any more. If the terms of the insurance were what CCC thought, CCC believes it would be able to claim more than $1 billion.

7.2 TYP estimate

The TYP assumed that CCC would be paid $1 billion from its insurance. Approximately $356 million has been paid so far.

CCC is going to have to pay the Rebuild Costs whatever it receives from its insurer, unless it decides not to undertake all the work it originally planned. If CCC gets less than $1 billion in total, it will have to find more money.

Alternatively, CCC will not be able to complete all the rebuild work if it gets less from its insurer and it cannot raise more money in some other way. As is noted at section 6.3.1, the Cost Sharing Agreement requires CCC to pay its share of the Anchor Projects no matter what it gets from its insurance. Unless that is renegotiated, CCC can only cut back on its own projects if its gets less from its insurance.

The amount CCC receives from its insurer is therefore a big financial risk to the completion of the rebuild. As is described below, it is uncertain how much CCC will receive.

7.3 Insurance issues

CCC's insurance position is very complicated. We cannot comment on it in too much detail because doing so might affect how much CCC receives from its insurer.

It is fair to say there are many issues with CCC's insurance that will affect the amount it receives. Some of the issues relate to the amount CCC can claim from its insurer. This includes:

- Some assets not being insured at all, by accident; and
- Some assets being insured for too little. CCC believes this resulted from valuation issues.

CCC's insurance arrangements were always going to be complicated. It has a very large number of assets and they are unusual assets to insure. The above issues highlight the importance of getting very good advice when insurance is being arranged.

There are a number of other very complicated issues that affect the amount CCC will be paid by its insurers. These include:

- Disputes about the amount the insurer should pay for some assets. Some of these disputes are for very large amounts of money.
- Disputes between LAPP and its reinsurers, about the amount the reinsurers should pay to LAPP. As we noted above, LAPP does not have any money to pay CCC other than whatever it receives from its reinsurers. CCC is not directly involved in the disputes between LAPP and its reinsurers but these disputes will determine how much CCC will receive. Ideally CCC and LAPP would agree a way for CCC to be more involved, given the outcome only really affects CCC.

Given the large amount involved, CCC's insurance position remains a very big financial risk for CCC. All these issues need to be resolved before CCC will know how much money it will receive from its insurer, and therefore how much of the Rebuild Costs it has to pay. As we noted above, it would not be sensible for us to speculate about how much CCC will be paid.

We advised CCC that it would be sensible to appoint someone with appropriate experience to take control of the insurance process, given how important it is to CCC's financial position. We also recommended that CCC establish an advisory committee to guide the resolution of all its insurance claims. We understand both are being implemented.

8 Summary and options

Based on the information currently available, the Rebuild Costs are presently estimated to be $534 million higher than the estimate contained in the TYP before allowing for insurance recoveries to be lower (which is likely):

$ million (variances only)	TYP estimate	Current estimate	Difference
Horizontal infrastructure - total	3,178	3,591	413
Buildings & facilities (inc. Anchor Projects) - net cost to CCC	423	544	121
Net cost to Council - TYP	**3,601**	**4,135**	**534**

As noted previously, some of the Buildings and Facilities cost may be eligible for funding from the Improvement Allowance but CCC has not yet assessed the amount.

In reality, the cost over-run will most likely be much higher than $534 million because:

- The amount CCC will be paid by its insurers is still a large financial risk. We believe it is very likely to be less than the $1 billion CCC estimated in the TYP, which will directly increase the funding shortfall.
- Many of the cost estimates are still works in progress so the total estimated cost will continue to change. In particular:
  - The estimates for CCC's HI projects are still being worked on;
  - There is still much work to do to determine the design and cost of CCC's own major facilities; and
  - There are some elements of the community facilities rebuild cost estimates that have not been updated since they were originally prepared, sometime before the TYP was issued.

CCC therefore needs to plan for the funding shortfall to be much higher than $534 million, to ensure it has a plan in place to deal with any eventuality. It needs to urgently develop a new financial strategy.

Based on the TYP estimates, we do not believe CCC can borrow any more money so it has five options:

- Reducing the Rebuild Costs. CCC needs to consider not doing some of the work it has planned and we understand the HIGG is attempting to reduce the overall cost of the HI work;
- Negotiating with the Crown for it to pay more money, or for CCC to pay less toward the Anchor Projects;
- Increasing core CCC revenue, via rates;
- Cutting spending in other areas, such as the capital programme; or
- Improving the performance of investments/assets or disposing of them.

A mix of all these options will be required, in conjunction with a reassessment of the availability of the original contingency amount.

In the longer-term CCC has included an assumption that operational savings of $30 million per annum will be achieved from the 2016/17 financial year. We understand CCC has made good progress at identifying how this will be achieved but it will be another financial risk for CCC if it is not.

Some of the specific actions CCC is considering or working on are as follows:

Horizontal infrastructure

1. The Cost Sharing Agreement provides that an independent assessment of the final cost of the Horizontal Infrastructure work will be completed by 1 December 2014, and the Crown and CCC will then rediscuss funding arrangements. If the estimated $413 million funding shortfall is correct and the same 60/40 split of funding between the Crown and CCC remains, the Crown would pay approx. $248 million more and CCC would pay $165 million.
2. Cancelling projects (i.e. not completing some work). CCC staff do not support this.

3. Completing the remaining work to a lower standard, which would mean Christchurch's HI would not be repaired to the same standard as before the earthquakes. We understand this would be possible but it would also increase the running costs of the network, which would have to be paid from rates.
4. Saving money on the existing programme. This may happen anyway if some of the work does not have to be done but it seems unlikely it would be possible to save the estimated $413 million and still complete the same work.

Buildings and facilities

1. Only repairing the buildings that are still closed, and only repairing them to 34% NBS (rather than the present CCC policy of repairing all buildings to 67% NBS). This is expected to reduce the immediate funding shortfall on this programme from $121 million to $73 million.
2. Not completing some of the larger projects at this time, so money can be used for other things.
3. Reducing the amount CCC has to pay for the Anchor Projects. This would have to be negotiated with the Crown.
4. Considering other options to ensure social housing is repaired. These options are commercially sensitive.

Optimise the performance of CCC's investments

1. CCC appointed an advisory firm to review CCHL and advise how CCC can get more money from its investments.
2. The review is also considering whether CCC should structure its other commercial activities differently and alternatives to raise money for the Anchor Projects.

No one solution will solve the funding problem.

Appendix A – Earthquake response and recovery cost estimates

Earthquake response and recovery cost estimates - 2013 - 16 Three Year Plan Forecast

	Estimated cost $ million	Insurance cover $ million	Government subsidy $ million	Other contributions $ million	Net cost to council $ million
Infrastructure (below ground)					
Roads	758		526	-	232
Sewer	1,450	140	870	-	440
Water	106	28	64	-	14
Stormwater	334	13	200	-	121
Savings to be agreed with Crown	(398)		(239)	-	(159)
	2,250	**181**	**1,421**	**-**	**648**
Buildings, facilities and other assets					
Buildings and facilities	276	266	-	-	10
Anchor projects	783	370	-	-	413
Sewer above-ground assets	139	139	-	-	-
Water above-ground assets	20	20	-	-	-
Stormwater above-ground assets	2	2	-	-	-
Park facilities	2	2	-	-	-
Council buildings / infrastructure - improvement allowance*	160	-	-	-	160
Increased costs of working	21	4	9	-	8
Uninsured assets (parks, stormwater)	94	-	-	7	87
Insurance excesses	29	-	-	-	29
	1,526	**803**	**9**	**7**	**707**
Emergency & response costs					
Roading emergency work	96	-	68	-	28
Welfare and other emergency work	68	-	54	-	14
Other response costs	50	2	36	1	11
Maintenance of temporary services	335	18	187	1	129
Demolition costs	11	-	11	0	(0)
Rockfall	84	-	14	-	70
Unbudgeted staff costs	11	-	-	-	11
	655	**20**	**370**	**2**	**263**
Total costs	**4,431**	**1,004**	**1,800**	**9**	**1,618**

* The total allowance is $225 million of which $65 million is included in the Anchor projects

Appendix B – Restrictions

We do not assume any responsibility or liability for any losses occasioned to any party as a result of the circulation, publication, reproduction or use of this report.

In preparing this report we have relied on information provided to us by others. We have not independently audited or verified that information. We reserve the right (but will be under no obligation) to review this report and if we consider it necessary to revise the report in light of any information existing at the date of this report which becomes known to us after that date.

The information provided to us included forecast of future revenues and expenditures, profits and cashflows, prepared by the client. Forecasts by their very nature are uncertain, and some assumptions inevitably will not materialise. Therefore the actual results achieved may vary significantly from those in the forecasts.

In addition to the above, this report is submitted pursuant to an engagement letter that is dated 20 February 2014 and the terms and conditions that are outlined therein.