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**

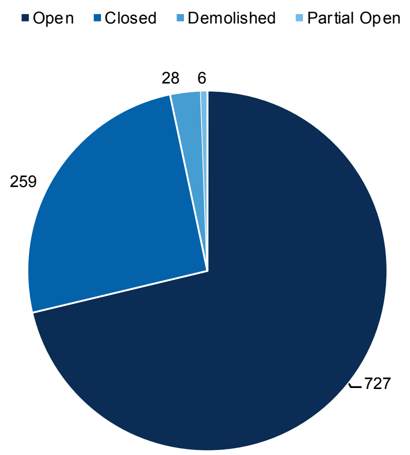
CCC will therefore have to fund another $121 million. Some of this cost overrun may be eligible for funding from the Improvement Allowance but CCC has not calculated the amount.

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.



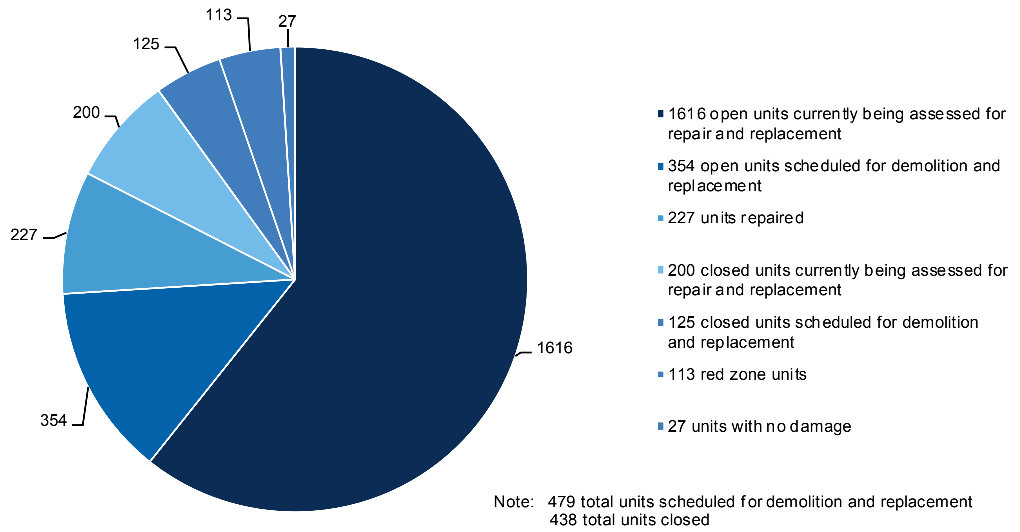
Under the revised strategy, CCC would repair the 259 buildings that the public cannot currently use. This is estimated to reduce the cost overrun to $73 million after insurance recoveries.

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:



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.