

## 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):

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

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.