
Review of the financial position of Christchurch City Council

19 December 2013

Background

As part of the newly elected councilors' 'opening the books' exercise, we were appointed to review Council's financial strategy, including the strategy it put in place to fund the costs of the Canterbury Earthquakes. That strategy forms part of the Three Year Plan ('TYP') Council issued in June 2013, which was not audited at that time.

The earthquake-related costs cover:

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

The TYP budget estimated the total cost would be around \$4.4 billion and explained how Council expected the costs would be paid:

- Contributions from central government.
- Borrowing (debt).
- Insurance claims.

Council planned to borrow around \$1.6 billion and repay that debt within 30 years by charging a special rating levy of 1.93%. The levy was first introduced in 2011/2012. The TYP explains that the rates paid by Christchurch City ratepayers will still be much lower than the rest of the country even after the special levy.

KordaMentha Review

We were asked to review Council's plan to fund the rebuild and identify areas of risk. We have done this by reviewing the estimated costs in the TYP and speaking with the people who are responsible for the rebuild work to:

1. work out what stage all of that work has reached, and
2. work out whether the costs in the TYP are correct.

Current status of rebuild projects

Everyone who lives in Christchurch knows that the rebuild is a massive undertaking. Council estimates that over 1,000 community facilities were damaged, 750km of water and sewerage pipes need to be repaired, 1.3 million square meters of roads need to be fixed and the entire central city needs to be rebuilt.

Three bodies are mainly responsible for delivering the rebuild programme:

- Stronger Christchurch Infrastructure Rebuild Team ('SCIRT') is responsible for repairing most of the roads and the underground infrastructure (like water, sewerage, etc.). Council, NZTA and the Crown (through CERA) pay SCIRT's costs.
- CERA is responsible for most of the Anchor Projects. Council has agreed to pay for some of the cost and the Crown is going to pay the rest.
- Council is responsible for repairing all the other assets it owns (like community facilities, libraries, pools, etc) and for fixing the infrastructure that SCIRT is not covering.

Different parts of the rebuild programme are at different stages. In most cases the stage the work is at determines how well the cost of the work can be estimated.

Our findings so far

Our review is not finished. We have told Council what we have found so far and Council has started working on some of the things we have raised. What we have told Council is summarised below, together with an explanation of the action Council has already started to take.

Accuracy of Estimated Costs

Council needs to update the estimates of the cost of the rebuild work, as soon as possible.

- Some of the estimates are old so they might not be right now.
- Some of the work that needs to be done is different to what was first planned so cost estimates need to be changed too.
- In some areas Council needs to decide exactly what work it is going to do so it can get a proper cost estimate. Council needs information to make these decisions.

We have suggested what cost estimates should be updated and Council has started working on them. Council has also started working on the information it needs to make some final decisions about the work that will be done in some areas.

Insurance

Council's insurance position is very complicated. There are a number of things Council and its insurers do not agree on. There are also disagreements between Council's insurer, Civic, and Civic's own insurers. Council is not directly involved in all those disputes.

The TYP assumed insurance claims would fund about \$1 billion of the rebuild. So far Council has been paid just under \$300 million. The issues with the insurers need to be sorted out before Council will know how much money it will get.

Council has to do most of the rebuild work even if it is not funded by insurance. Council has also said it will pay for some of the cost to build the Anchor Projects whether or not it gets as much as it expected from its insurance.

The amount Council will get from insurance remains a big risk.

Cost Sharing Agreement ('CSA') with Central Government

Council and the Crown signed the CSA in June 2013. It caps the amount the Crown will pay at \$1.8 billion plus the cost of the Anchor Projects. Most of the \$1.8 billion is for fixing infrastructure.

Under the CSA a committee called the HIGG was established to supervise the infrastructure repair process. The HIGG includes CERA, Council, NZTA and Mark Ford (the chairman). The HIGG has started a process to work out what the final cost of the repair work will be and what the current budget will cover. When the CSA was signed Council and the Crown could not agree what the final cost would be. Council believes the cost will be higher than the budget.

The CSA says the final cost has to be worked out by December 2014 and funding (i.e. how much Council and the Crown will pay) will then be discussed again. If Council's view is correct, more money will be needed for infrastructure work or less work will have to be done.

The CSA also fixes Council's contributions to the Anchor Projects and will ultimately result in it having to pay those facilities' operating costs. Those operating costs have not been budgeted.

Funding available

Council will have a better idea of how much it needs to spend on the rebuild when it has better cost estimates in early 2014. Most likely the cost will be higher, if Council wants to do the same work, so Council is looking at a number of things to make sure the rebuild is affordable:

- Raising more money, either by borrowing or from other places (e.g. rates, the Crown, etc.). Council is already planning to borrow \$1.6 billion so it cannot borrow much more.
- Maximising the amount it gets from its investments. Council has announced it is having the performance of its investment in Christchurch City Holdings reviewed, to make sure it is managing that investment well and getting as much return as possible.
- Reprioritising spending to free up money. Essentially Council is looking at whether it can do all the work it originally planned, when it originally planned to do it.

We will finish our review in the first quarter of 2014, when Council has made these decisions.