Cameron Partners Report

Background

Cameron Partners was commissioned to look at the performance of Christchurch City Holdings Ltd and Council-owned trading organisations as part of an “opening the books” exercise initiated by Mayor Lianne Dalziel.

The scope of the resulting report was widened to consider all capital and operational expenditure by the Council.

The aim was to provide residents with a full picture of the Council’s financial position, and options for dealing with it.

The Cameron Partners Report (CPR) follows on from the KordaMentha report which focussed on the cost-share agreement with the Crown and its impact on the projected cost of repairing community facilities and horizontal infrastructure (roads, drinking, waste and storm water).

KordaMentha found there was a potential $534 million potential funding shortfall in the Council’s Three Year Plan completed last year.

In light of that Cameron Partners was asked to review options for funding the Council’s long term financial forecasts from 2015 to 2022.

These options included restructuring and/or the sale or partial sale of Council activities and assets held by its commercial arm, Christchurch City Holdings Limited (CCHL).

Cameron Partners findings on funding requirements

Based on forecasts at least $256 million in extra funding will be needed by 2019

- this includes “headroom” of an extra $150 million in extra borrowing to cover unexpected expenses (e.g. further flooding)
- it excludes the cost of new initiatives - such as repairing facilities to a higher standard - which will require extra funding

Cameron Partners estimates the total additional funding requirement could be between $783 million and $883 million by 2019.

The total amount of extra funding required will depend on:

- Council operating expenditure and services
- Council capital expenditure on wastewater, storm water, fresh water and roading
- timing and scope of anchor projects such as the Metro Sports Facility, stadium, New Central Library, and Town Hall.
- rates revenue
- dividend payments from CCHL companies
- insurance payments

Options for meeting the funding requirements

The report says it is critical that the Council establishes a “pecking order” of funding options based on its priorities and objectives, and practical issues such as whether the money is needed at short notice or in the longer term.

Borrowing

The City Council borrows from the Local Government Funding Agency (LGFA) and the amount it can borrow depends on financial covenants or rules on debt limits, in particular the ratio of net debt to revenue.

The Report indicates that as things stand the City Council would begin breaching the net debt to revenue covenant in 2017. By 2019, the amount of extra funding needed to avoid breaching LGFA debt limits would be $256 million, including $150 million “headroom” debt.

Earthquake Recoveries / Insurance payments.

The report concludes there is limited ability for the City Council to adjust the amount it receives from this source. Earthquake recoveries are mostly made up of insurance payments, but also include contributions from the Canterbury Earthquake Recovery Authority (CERA) and the New Zealand Transport Agency (NZTA). The estimated insurance receipts range from $220 million less than expected up to $30 million more than budgeted for.

Rates

Rates rises can have significant impact because they provide additional income and improve the Council’s net debt to revenue ratio, increasing the amount it can borrow. The report notes that currently, Christchurch rates are at the low end of a sample group including Auckland and Wellington, and by 2022 they would move to the middle of the group.

Asset optimisation

In 2013, Christchurch City Council’s total gross assets were worth about $8.3 billion, of which $2.6 billion were owned by CCHL.

CCHL companies

Orion New Zealand	City Care
Lyttelton Port Company	Red Bus
Christchurch International Airport Ltd	Enable Services
Eco Central	

Council commercial activities

Canterbury Development Corporation	VBase
Christchurch & Canterbury Tourism	

The report finds that the financial reasons for the Council owning the majority of its commercial assets are weak and there is considerable scope for partial sale where the Council retains control.

The main reason for the Council retaining ownership of these assets is to control them so it can pursue objectives that may not maximise their value, but provide non-financial benefits.

The report says that given the Council's difficult financial situation, and that its core business is to provide services rather than own assets for financial returns, it needs to assess its future asset ownership. Proceeds from the sale or partial sale of assets could help meet funding requirements.

Cameron Partners concludes that the Council will need to look at what its strategic objectives are for its assets in terms of quality, availability and price of services, and impact on regional economic development.

Key questions:

- what are the Council's strategic objectives for its assets?
- does it need to retain ownership to ensure those objectives are met?
- can its objectives be met through regulation or policy?
- can it contract for or enter into partnerships to ensure its objectives are met?

Some assets may not require Council involvement because third parties can provide the same services, with regulation ensuring Council's required outcomes are met. The Council may need to own / fund assets which provide public benefits that would be uneconomic or too risky for the private sector to provide. e.g. public open space, civic facilities, roads. Some assets may be able to be provided by the private sector with the Council contracting for the services it requires.

Options for changing asset ownership while meeting the Council's strategic objectives:

- set a sale price that reflects the need to meet Council objectives and ensure contracts with new owners of the business asset are suitably aligned
- partial sell-down with shareholders' agreement / changes to constitution to ensure the strategic objectives are met
- achieve Council's strategic aims through contractual arrangements
- partnering with other like-minded investors / long term strategic partners (Crown, local authorities, iwi)

Future commercial structure

Cameron Partners says the Council's current commercial structure is likely to lead to less favourable outcomes for the rebuild. The report proposes a new structure headed by CommercialCo, a new company with a board made up of the Council's Chief Executive and Chief Financial Officer, the Mayor, Finance Committee Chair, three independent directors and an independent chair. As owner of the Council's commercial assets, it would be responsible for performance and monitoring of all its commercial activities.

CommercialCo's responsibilities

- portfolio management of existing CCHL commercial companies and Vbase
- tourism and economic development advice and execution via Christchurch & Canterbury Tourism, and the Canterbury Development Corporation
- assisting with some rebuild projects by providing implementation and financing advice

Cameron Partners also recommends setting up an establishment board to oversee implementation of the new commercial organisational structure.