

# Review of (A) Funding Requirements & Options and (B) Organisational Architecture

**CCC CONFIRMED**

28 JULY 2014

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## Executive Summary

## Background and Approach

### Background

- The Christchurch earthquakes have presented CCC with the opportunity to build a productive, innovative and world-class city by addressing historical inefficiencies / challenges and adopting ideas and best-practices from other successful cities
- The environment is particularly opportunity rich and dynamic at present and CCC has actual and potential funding capacity that it could choose to access
- This requires CCC to adopt a clear and shared vision and strategy. The affordability of CCC's vision and strategy, rebuild and day-to-day operations depends on CCC's willingness to make explicit choices regarding its investment priorities and funding options

### Our Approach

- Our approach to Part A) Funding Requirements and Options is to:
  - Review CCC's LT Forecasts and any potential variance from the forecasts to establish CCC's potential funding requirements (although we note that this is based on the current position and therefore does not include potential changes to CCC's vision and strategy)
  - Establish and review CCC's funding options with a focus on factors that will be key considerations for CCC
- Our approach to Part B) Organisational architecture for CCC's commercial activities is to:
  - Examine and assess CCC's current organisational arrangements in relation to the rebuild
  - Outline a new organisational architecture for CCC's commercial activities that would be aligned to CCC's objectives and support CCC in achieving the best strategic, execution and funding outcomes

## Part A) Funding Requirements and Options

### LT Forecasts + Variance

- We have been provided with LT Forecasts (for the period FY15 – FY22) by CCC management. We note that we have not undertaken a 'forensic' review of the cash flow impacts of the risks identified
  
- We consider that:
  - The LT Forecasts are reasonable, but require review or updating in a number of areas, including rebuild timing assumptions and SCIRT expenditure (we note that CCC will be developing a LTP shortly and expect a comprehensive review of the data and assumptions at that time)
  - CCC follows a well established process to develop its Plans and the financial projections appear to be subject to a robust internal review process
  - Assumptions are based on the best information available to CCC and CCC relies on expert cost estimates / audits for material capital projects
  
- Despite the robust process undertaken to develop the assumptions underlying the LT Forecasts, there is scope for variance, both to projected inflows and outflows due to the extent and challenges of rebuilding the city. As a result, it is unavoidable that some projections will prove to be inaccurate and that there will be changes in the timing and scope of projects
  
- With the assistance of CCC management, we have endeavoured to quantify the extent of any negative variance based on an assessment of the risks – i.e. the likelihood and magnitude and CCC's ability to manage the negative variances
  
- CCC has some ability to manage areas of potential variance although this may impact the availability and quality of services. However, there are material items where the likelihood of variance is relatively high, the impact is large and CCC has limited ability to manage outcomes – specifically estimates of downside outcomes include:
  - SCIRT - ~\$360 million
  - Anchor Projects - ~\$55 million
  - Vbase and EQ recoveries (insurance) - \$220 million

# Executive Summary

## Part A) Funding Requirements and Options

### Potential Funding Requirements

- Under the base case ~\$106 million is potentially unfunded in FY19 (the point at which the funding gap peaks and our focus throughout the report) and the extrapolations of the Three Year Plan (TYP) currently indicate CCC will have no debt capacity at that time
- This is exacerbated by any negative variance from the plans which, based on our analysis, could realistically result in an additional peak funding requirement of up to ~\$527 million (at FY19 assuming variances debt funded). We note that the operating performance of the Anchor Projects also presents a reasonably significant yet unquantifiable risk to the LT Forecasts and further work is required to understand this risk and its potential impact on CCC's ongoing funding requirement
- The aggregate extent of the additional funding requirement depends on actual outcomes (which will only be known over time) and CCC's appetite to push its debt levels towards maximum capacity. For example, we recommend that CCC maintains 'headroom' within its debt facilities for unexpected funding needs (e.g. short-term requirements, potential negative impact on debt ratios) and CCC management has suggested \$150 million would be appropriate. This requires funding from an alternative source
- In addition, there is an anomaly in CCC's funding arrangements, where part of CCHL's debt could be considered to be CCC debt (supported only by CCC's uncalled capital) but not reflected in the LGFA financial covenants. While theoretical, if CCHL's 'CCC Supported' debt is treated as direct CCC debt it would result in an increase in the funding gap by up to ~\$100 million in FY19
- Any new initiatives (e.g. social housing, remediation to a higher standard) that Council may decide to pursue as part of its ongoing vision and strategy setting will obviously also require additional funding
- Taking account of these factors, an additional aggregate funding requirement of ~\$783+ million in FY19 is not unrealistic as follows:

~\$106 million	+	~\$527 million	+	\$150 million	+	~\$0-100 million	=	~\$783-883 million	+	\$?
Base Case potentially unfunded		Potential variance (assuming debt funded)		Debt 'headroom'		Theoretical impact of CCHL 'CCC Supported' debt		Aggregate additional funding requirement		New initiatives

## Part A) Funding Requirements and Options

### Funding Options

- CCC has a range of funding sources / options. A 'pecking order' of these funding options will reflect the Council's objectives (and this should be a priority for the Council to develop)
- However, practical issues will impact the 'pecking order' depending on whether the funding is required at short notice or a longer notice period:
  - In the short-run (i.e. the period covered by the Annual Plan (AP)), CCC's funding sources are practically limited to additional debt
  - In the long-run (i.e. the period covered by the TYP and the soon to be developed Long-term Plan (LTP)), CCC's funding sources include additional debt, increased rates, fees etc, renegotiation of EQ recoveries and asset optimisation (i.e. cash flows available from commercial assets)
- The funding options are inter-related – for instance, increasing rates provides additional revenue but because it improves CCC's revenue to debt ratio it also increases CCC's debt capacity. On the other hand, proceeds from the sale / partial sale of an asset / investment provides immediate cash but a reduced dividend stream and thus reduces debt capacity over time

### Additional Debt

- Debt capacity is a function of lender considerations – i.e. LGFA financial covenants and S&P credit rating:
  - Under the base case (without any mitigating actions):
    - CCC has insufficient debt capacity in FY19 to meet projected funding requirements of ~\$106 million in FY19 under its LGFA financial covenants
    - We consider the risk of an S&P rating downgrade from the current 'A+' rating is low (and we note that this will be a key factor considered by CCC when preparing its LTP)
  - Under a worst case scenario (without any mitigating actions) CCC's debt position deteriorates considerably:
    - Under the LGFA financial covenants the shortfall could realistically be up to ~\$633 million (we estimate the difference between the base case and worst case scenarios is ~\$527 million)
    - There is a relatively high risk of a further downgrade to 'A' – although we consider the risk of a drop below 'A' to be low
- As outlined on the previous page, there are other factors which CCC should also consider when assessing appropriate debt levels:
  - Given the inherent flexibility of debt as a funding source, there are also strong arguments for debt levels to be reduced to provide additional headroom of \$150 million (which will require alternative funding sources)
  - The CCHL funding anomaly - which, in theory, could increase the funding gap by up to ~\$100 million in FY19

## Part A) Funding Requirements and Options

### Increased Rates

- Ultimately, rate increases are a contentious political decision requiring judgements by Council. Nevertheless, they are an important and powerful financial tool for CCC
- Analysis indicates that increased rates could be a source of significant additional funding - particularly over time (due to the increased revenue and impact on debt ratios and therefore debt capacity). We note that CCC's rates levels are currently at the low end of its neighbouring and other New Zealand metropolitan Local Authorities

### Renegotiation of EQ Recoveries

- EQ Recoveries are contractually based and project specific, so CCC has very limited ability to unilaterally alter outcomes for funding purposes
- However, there may be some limited scope for renegotiation with insurers and the Crown regarding both timing and scope of rebuild / new investment and therefore CCC's funding requirements

### Asset Optimisation

- Asset optimisation refers to processes designed to:
  - Improve the performance of the assets CCC owns – i.e. operating performance and capital structure (essentially is there the opportunity to generate and distribute more cash from the asset under current ownership?)
  - Alter the timing of the cash flows available to CCC from the assets in a way that best suits CCC's objectives – i.e. would CCC prefer to receive a regular dividend stream + capital growth versus realising capital immediately through sale / partial sale of an asset?
- A key consideration in asset optimisation is whether CCC needs to partially or completely own certain assets (both current levels of ownership in existing assets and potential new investments) in order to meet strategic objectives
  - At asset-level there is unlikely to be significant funding available from operations, although there may be around \$50-\$150 million available through capital structure optimisation (we recommend further more detailed analysis)
  - There is considerable scope to impact CCC's funding position through partial sale (where CCC retains control) if it considers that its strategic objectives can still be met through partnership or other arrangements



## Part A) Funding Requirements and Options

### Conclusions

- Under its long-term financial projections CCC has a substantial funding requirement. The quantum of the funding requirement will depend on actual outcomes, CCC's risk appetite in relation to its debt levels vs. debt capacity (i.e. CCC's debt 'headroom' requirement) and views on the risk of CCHL 'core' debt
  
- The additional funding requirement is potentially considerable – i.e. ~\$783+ million
  
- In addition, CCC is likely to consider making strategic decisions that have yet to be ratified and which could significantly impact its funding requirements. Funding requirements will be dynamic and continue to evolve, particularly so in the current post-earthquake, opportunity rich environment
  
- CCC has four material funding options with objective and subjective advantages, disadvantages and trade offs. They are:
  - Debt – although we note :
    - Under the current unmitigated forecasts CCC's debt funding capacity is exhausted and will be insufficient to meet funding requirements by ~\$106 million in FY19
    - Given the inherent flexibility of debt as a funding source there are strong arguments for debt levels to be reduced to provide additional \$150 million headroom so that debt can be used for unexpected requirements (which will require alternative funding sources)
    - If CCHL's 'core' debt is treated as CCC debt then CCC's debt position would be worse off by up to ~\$100 million
  - Increased rates, fees etc – while a contentious political decision we note that increased rates can provide significant funding capacity overtime (due to increased revenue and impact on debt ratios and therefore debt capacity)
  - Renegotiation of EQ Recoveries – limited ability for CCC to unilaterally adjust
  - Asset optimisation – unlikely to be significant funding available at the asset-level (although this requires further more detailed analysis) but there is considerable scope to impact CCC's funding position through partial sale (where CCC retains control) if it considers that its strategic objectives can still be met
  
- It is critical, in our view, for CCC to establish a hierarchy amongst its funding options. This will require judgements by Council regarding its priorities and objectives. CCC needs to understand the funding consequences of choices regarding new investments and make explicit choices on that basis

## Part B) Organisational Architecture for the Rebuild

- Cameron Partners has been asked to review the organisational architecture of CCC's commercial assets and activities in the context of the rebuild of the Christchurch central city
- Prior to the earthquakes, CCC was managing a 'steady state' city and economy, seeking incremental improvement within a clearly defined funding envelope
- CCC's current organisational architecture of its commercial assets and activities ('commercial architecture') reflects this 'steady state' approach
- CCC's commercial assets and activities are of strategic and financial importance to the rebuild of the central city
- CCC's current commercial architecture is likely to lead to sub-optimal outcomes from the rebuild
- To optimise outcomes and minimise execution risks associated with the Christchurch rebuild, CCC requires a new entity to consolidate and coordinate CCC's existing commercial activities and assets
- Giving effect to this would require:
  - The establishment of a new Council Controlled Organisation (CommercialCo) as the vehicle responsible for the ownership and monitoring of CCC's commercial assets and activities
  - A consolidation of the resources and capabilities of CCC's existing commercial activities to strengthen CCC's control and decision rights
  - A re-specification and re-alignment of their existing mandates into one which is focussed on CCC's challenges / objectives in relation to rebuilding a new city and managing the transition from Crown involvement to Council control

## Part B) Organisational Architecture for the Rebuild

- CommercialCo's mission and strategy would be aligned to the CCC's overall vision, strategy and objectives for the rebuild
- CommercialCo's key responsibilities would be to:
  - In relation to CCC's existing commercial assets and activities:
    - Provide advice to CCC in relation to choices for optimising its ownership, governance and management of its existing assets and activities to best align them with CCC's strategic and financial objectives for the rebuild
    - Manage and execute any decisions by CCC / Council in relation to this advice
  - In relation to CCC's involvement in the rebuild of Christchurch city:
    - Provide implementation and financing advice to CCC in relation to its participation in rebuild projects
    - Manage and execute any decisions by CCC / Council in relation to this advice
- With representation on the Board of CommercialCo, the Council and the CCC ELT would have direct visibility and control of CommercialCo
- This commercial architecture will ensure that:
  - All of CCC's commercial assets and activities are fully aligned to CCC's vision and strategy for rebuilding the city
  - That CCC has appropriate control and decision rights over its commercial assets and activities in order to direct them to the city rebuild objectives and outcomes as required
- We envisage the following next steps:
  - The completion and ratification by Council of CCC's overall strategy and objectives for the rebuild – this will inform CommercialCo's mandate
  - Further work (including tax structuring advice) undertaken to refine the structure of CommercialCo
  - The setting up of an 'establishment board' to oversee the implementation of the revised commercial architecture

## Introduction, Scope and Layout

## The CCC Environment – Opportunities & Challenges

- The Christchurch earthquakes have presented CCC with the opportunity to build a productive, innovative and world-class city by addressing historical inefficiencies / challenges and adopting ideas and best-practices from other successful cities
  
- Post-earthquake, CCC is facing a number of opportunities and challenges in relation to its existing assets and the central city rebuild:
  - CCC (alongside the Crown) is responsible for executing and providing significant funding for the rebuild of Christchurch's horizontal infrastructure
  - There is a strong financial and strategic rationale for CCC's participation in other central city rebuild projects and it has committed to a Cost Sharing Agreement with the Crown
  - There is a need for CCC to proactively lead the rebuild in a timely manner
  - CCC's capital raising options and the performance of CCC's operating assets have been negatively impacted by the earthquakes
  
- The earthquakes have placed significant operating, financial and budgetary pressures on CCC. Notwithstanding this, CCC remains relatively wealthy, with a strong 'group' balance sheet compared to other Local Authorities and accordingly, for CCC to confidently plan for the future it will need to make choices regarding its activities, investments and funding options
  
- CCC needs a robust, clear and shared strategy, investment / re-build plan and associated funding plan to respond to the above opportunities and challenges in the short, medium and long-term (i.e. AP, TYP and LTP)

## Scope of Review

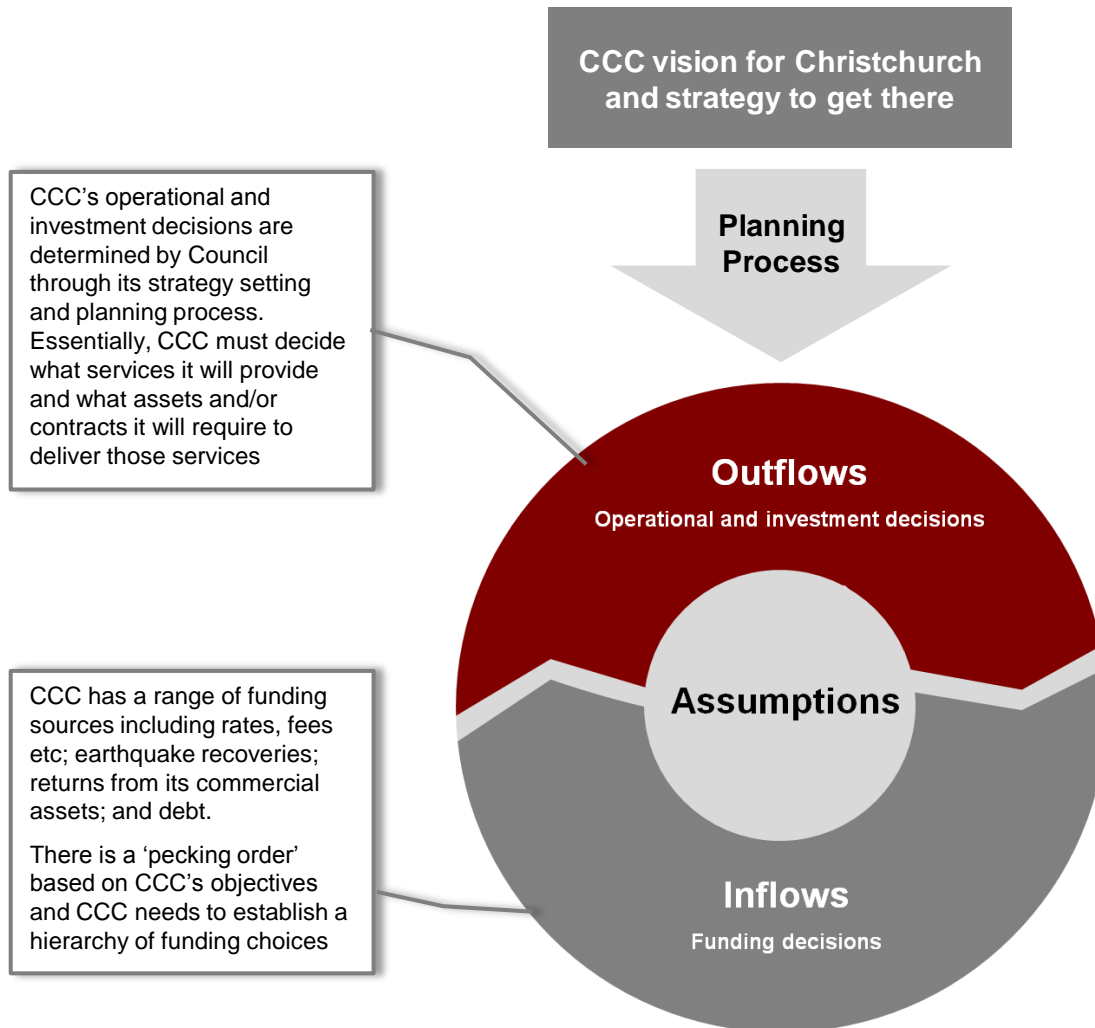
- Cameron Partners' engagement (outlined in our engagement letter dated 5 February 2014) involves a review of:
  - CCC's long term forecasts (LT Forecasts), covering the period FY15 – FY22, and funding options, with a particular focus on Christchurch City Holdings Limited (CCHL) commercial assets
  - Structural alternatives for CCHL and CCC's other commercial assets, mindful of their alignment with CCC's strategic and social objectives
  
- This report contains the review analysis and findings and is structured into two parts as follows:
  - Part A) Funding Requirements and Options
    - Section 1: Approach
    - Section 2: Risks to Plan Projections
    - Section 3: Funding Implications (requirements, sources, capacity and inter-relationships)
    - Section 4: Net Debt
    - Section 5: EQ Recoveries
    - Section 6: Rates, Fees etc
    - Section 7: Asset Optimisation
    - Section 8: Conclusions & Recommendations
  - Part B) Organisational Architecture

## Part A) Funding Requirements & Options

### 1. Background & Approach

# 1. Background & Approach

## CCC's Planning Process

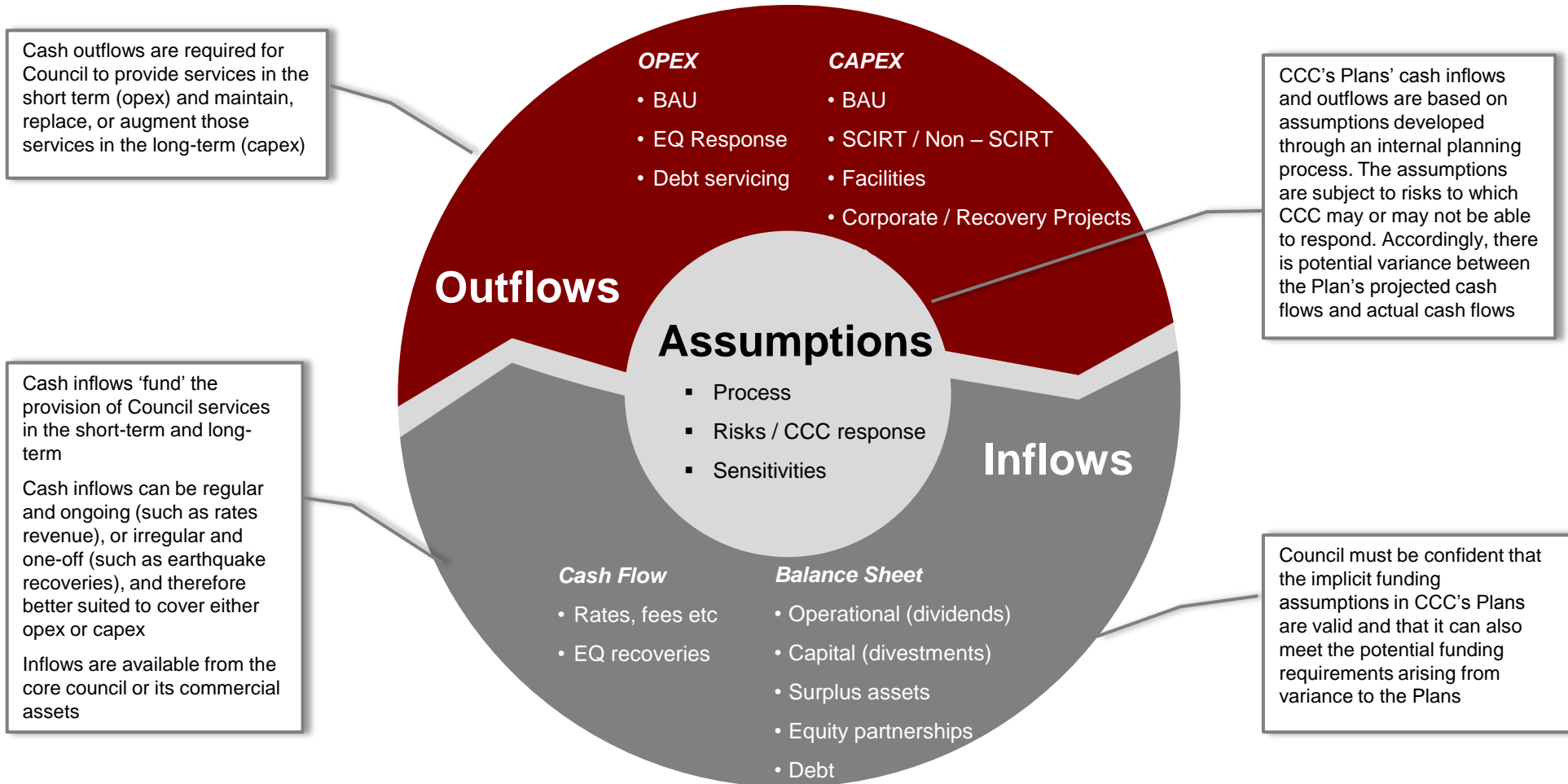


- CCC's planning process is broadly as outlined in the diagram
- CCC's vision and strategy is encapsulated in its AP, TYP and LTP (collectively the CCC Plans)
- CCC Plans represent the Council's intentions at a point in time, but the Council's strategy and plans continually evolve
- Planning will be dynamic at all times, but is especially so in the post-earthquake environment:
  - CCC's investment requirements are large and its choices are extensive
  - CCC's debt capacity is very constrained
  - CCC is committed to multiple asset rebuilds and investments
- Uncertainty and changes to cash flow assumptions will impact funding requirements and options and may in turn require changes to the plan itself
- In any event, CCC will continually have competing objectives and investment decisions and funding constraints that will require it to make explicit choices



# 1. Background & Approach

## CCC's Plans Comprise Outflows and Inflows



# 1. Background & Approach

## Our Approach to the Review of LT Forecast Risks and Funding Options

- The feasibility and quality of CCC's Plans ultimately depends on the accuracy of the forecast cash inflows / outflows, the risk of any negative variance from the forecasts, and the ability of Council to fund the base forecasts and any deviations from the forecasts. Consequently, for the Council to have the confidence to approve the Plans, we consider that it needs to understand:
  - The accuracy of the forecast cash flows
  - The validity of its funding assumptions
  - The likely extent of any variance from the forecasts (and its ability to manage this)
  - How it can fund any negative variance
  
- Accordingly, our approach to the review of LT Forecasts is as follows:
  1. Confirm the LT Forecasts' base case assumptions and identify the risk and extent of any variance from the LT Forecasts by:
    - Assessing the robustness of the process employed to develop the projection (supporting data and calculations, information sources, review process etc.)
    - Identifying (and to the extent possible, commenting on the reasonableness of) key assumptions
    - Identifying material risks to achieving the projections (in particular timing vs. permanent changes) and the Council's ability to manage or mitigate those risks
    - Establishing the potential variance from the projection (based on key sensitivities / risks)
  
  2. Establish CCC's ability to fund the LT Forecasts and any negative variance, should this occur, by:
    - Assessing the expected and potential funding requirements (factoring in CCC's ability to respond to any variance to the Plans)
    - Identifying the broad funding options available to CCC – specifically:
      - Cash flow
        - Increasing rates, fees etc.
        - EQ recoveries
      - Balance sheet
        - Additional debt
        - Asset optimisation – essentially confirming which assets CCC must own and understanding the capital management implications of sale or partial sale of assets that CCC does not need to own 100%
    - Confirming the ability to meet both the LT Forecasts implicit funding requirements and any potential funding requirements through assessing the funding implications and capacity

## Part A) Funding Requirements & Options

### 2. Risks to LT Forecasts

## 2. Risks to LT Forecasts

### Introduction

- The LT Forecasts were developed as part of the CCC's 2013 LTP process, but have not been ratified by Council nor published. These have been revised and updated internally but as part of the 2015 LTP process will be formally revised and updated. There is scope for variance from the LT Forecasts due to a combination of new information leading to changes in timing and scope of income and expenditure, and any Council decisions which affect future income and expenditure
- The total quantum of CCC's projected inflows and outflows are significant and any variances to the projections may result in material additional funding requirements
- The LT Forecasts relate to a dynamic and uncertain environment and are subject to various downside risks, summarised below:

Outflows – Risks		Inflows – Risks	
1.	Significant re-scoping of rebuild projects	1.	Lower than expected insurance recoveries
2.	More costly 'betterment' decisions in relation to Facilities rebuild	2.	Continued decline or stagnation in the rating base
3.	Cost overruns	3.	Lower than expected demand for charged Council services
4.	Higher than expected inflation	4.	Delays in rebuild timing
5.	Unidentified or under-budgeted EQ damage	5.	Lower than expected rebuild activity
6.	Failure to achieve cost savings targets – opex and capex	6.	Weaker performance of CCHL's investment portfolio
7.	Delays in rebuild / repair activity		

- We note that the operating impact of the Anchor Projects has not yet been finalised as it is dependent on the final scope / scale, procurement arrangements and extent of CCC ownership of the projects. Given the lack of information , forecast operational performance of the Anchor Projects is either based on historic experience (e.g. car parks) or assumed to be net \$0 (eg Convention Centre, Stadium). This presents a reasonably significant yet unquantifiable risk at this stage. Further work is required to understand this risk and its potential impact on CCC's ongoing funding requirement
- Individually or in combination the downside risks may generate material negative cash flow variances to the LT Forecasts leading to a funding shortfall. CCC has varying ability to control each of the downside risks
- Cameron Partners has undertaken an assessment of the likelihood, impact and mitigants of potential negative variances to the LT Forecasts. Our Risk Assessment Process is discussed below

## 2. Risks to LT Forecasts

### Risk Assessment Process

- The key risk for Council regarding its LT Forecasts is significant variance from the financial projections. Accordingly, our focus is on establishing the likelihood and materiality of potential negative variance from its LT Forecasts (i.e. over the period to FY22), while factoring in CCC’s ability to manage the variance
- In this regard we have worked closely with the CCC Finance Team to:
  - Summarise the LT Forecasts into appropriate cash flow categories – to enable a logical analysis
  - Identify the key assumptions underlying the cash flow projections and confirm the key risks to the cash flows
  - Establish the materiality of the key risks to the LT Forecasts
  - Understand CCC’s ability to manage the key risks
  - Ultimately make an assessment of the likely scale of any negative variance from the LT Forecasts

#### LT Forecast Cash Flow Categories

- The LT Forecasts are broadly comprised of nine cash flow categories (with broadly similar risks) as follows:

Outflows	Inflows
<ol style="list-style-type: none"> <li>1. Operating expenditure</li> <li>2. Capital programme</li> <li>3. Interest and principal repayments</li> </ol>	<ol style="list-style-type: none"> <li>4. Fees, charges and operational subsidies</li> <li>5. Dividends and interest received</li> <li>6. EQ Recoveries</li> <li>7. Other income (asset sales, Metro levy, reserve drawdowns, development contributions, capital grants and subsidies)</li> <li>8. Debt (new borrowings)</li> <li>9. Rates</li> </ol>

## 2. Risks to LT Forecasts

### Risk Assessment Process

#### Assumptions / Key Risks

- Our assessment of the assumptions and key risks is based on review of:
  - The cash flow itself – is it determined / set by CCC or a third party; is it a one-off or a recurring cash flow?
  - The robustness of the process used – we note that CCC appears to have a well developed process that involves multiple levels of review
  - The source and age of the data underlying the assumptions – is it sourced from CCC, CCC engaged ‘experts’ and / or a third party; how up-to-date is the data on which the assumption is based?

#### Stress Test / Sensitivity Analysis

- We note that we have not undertaken a ‘forensic’ review of the cash flow impacts of the risks identified
- We have worked with the CCC Finance Team to develop ‘stress test’ or sensitivity ranges to apply to each cash flow category of the LT Forecasts. **The applied sensitivities do not represent an expected range of outcomes but rather they are reasonable ‘stress tests’** designed to provide insight into the materiality of key risks and the aggregate quantum of any potential funding shortfall relative to the projections in the LT Forecasts
- We apply high level probabilistic modelling (which considers multiple combinations of low and high case sensitivities for each cash flow, in each year) to the LT Forecasts to establish an expected range of any potential funding shortfall

#### CCC Ability to Manage Variance

- We note that, in practice, CCC does actively manage its cash flows within its projected funding envelope. Over a multi-year period CCC has much greater scope to manage and respond to material negative variances to its projections
- In relation to ‘internal’ or BAU expenditure, CCC has strong ability to ‘manage to budget’ whereas CCC’s ability to manage cash flows which have significant EQ related risks or that are dependant on third party decision making, is reduced
- Our assessment of CCC’s ability to manage the key risks reflects the nature of the cash flow and CCC’s ability to influence the timing and quantum of the cash flow through:
  - Income: enhance, supplement or substitute
  - Expenditure: re-scope, re-allocate or defer (in practice this may mean timing delays and lower service quality)

## 2. Risks to LT Forecasts

### Overview of the LT Forecasts

- The LTP is broadly comprised of nine cash flow categories as follows:

OUTFLOWS	
<b>1</b>	<b>Operating expenditure</b>
	BAU Business as usual Council expenditure e.g. personnel, maintenance
	EQ Response Temporary infrastructure works, facility assessments, and other EQ costs
	<b>Total operating expenditure</b>
<b>2</b>	<b>Capital programme</b>
	BAU Renewals and replacement of Council assets
	SCIRT EQ damaged horizontal infrastructure under the SCIRT alliance
	Non-SCIRT EQ damaged non-SCIRT infrastructure
	Facilities & Other EQ damaged community facilities and social housing (incl. Vbase insurance recoveries), Other relates to cost savings, unallocated improvements, escalation contingency, and transport plan expenditure
	<b>Total Capital Programme</b>
<b>3</b>	<b>Debt-related &amp; other outflows</b>
	Debt payments (capital and interest), transfers to special funds
INFLOWS	
<b>4</b>	<b>Fees, charges, subsidies</b>
	Charges for council activities (consents, parking etc), EQ opex recoveries
<b>5</b>	<b>Dividends, interest, transfers</b>
	CCHL dividends, payments from special funds, interest received
<b>6</b>	<b>Other income</b>
	Asset sales, development contributions, BAU capital grants and subsidies
<b>7</b>	<b>Earthquake rebuild recoveries</b>
	CERA, NZTA, and insurance capital expenditure related EQ recoveries
<b>8</b>	<b>Rates</b>
	Council rates income
<b>9</b>	<b><i>Borrowing programme</i></b>
	<b><i>Funding source to meet shortfall between cash outflows and other inflows</i></b>

Source: CCC

## 2. Risks to LT Forecasts

### Overview of the LT Forecasts

	\$ millions	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	Total
<b>OUTFLOWS</b>										
<b>1</b>	<b>Operating expenditure</b>									
	BAU	394	408	424	432	438	457	475	497	3,525
	EQ Response	79	36	22	0	0	0	0	0	139
	<b>Total operating expenditure</b>	<b>473</b>	<b>445</b>	<b>446</b>	<b>432</b>	<b>438</b>	<b>457</b>	<b>475</b>	<b>498</b>	<b>3,664</b>
<b>2</b>	<b>Capital programme</b>									
	BAU	219	197	185	187	189	201	235	245	1,656
	SCIRT	491	487	113	-	-	-	-	-	1,091
	Non-SCIRT	137	44	97	101	38	-	-	-	417
	Facilities & Other	282	6	12	41	109	-	-	-	451
	<b>Total Capital Programme</b>	<b>1,128</b>	<b>735</b>	<b>407</b>	<b>329</b>	<b>336</b>	<b>201</b>	<b>235</b>	<b>245</b>	<b>3,615</b>
<b>3</b>	<b>Debt-related &amp; other outflows</b>	<b>80</b>	<b>112</b>	<b>138</b>	<b>150</b>	<b>159</b>	<b>167</b>	<b>169</b>	<b>174</b>	<b>1,148</b>
	<b>Total outflows</b>	<b>1,681</b>	<b>1,292</b>	<b>991</b>	<b>912</b>	<b>933</b>	<b>825</b>	<b>879</b>	<b>916</b>	<b>8,428</b>
<b>INFLOWS</b>										
<b>4</b>	Fees, charges, subsidies	166	158	154	153	155	161	165	175	1,288
<b>5</b>	Dividends, interest, transfers	84	81	83	86	92	94	97	98	716
<b>6</b>	Other income	51	43	49	35	39	40	55	57	369
<b>7</b>	Earthquake rebuild recoveries	461	271	100	57	29	-	-	-	917
<b>8</b>	Rates	342	376	418	446	469	493	515	542	3,600
<b>9</b>	<b>Borrowing programme</b>	<b>576</b>	<b>363</b>	<b>186</b>	<b>135</b>	<b>148</b>	<b>38</b>	<b>46</b>	<b>45</b>	<b>1,538</b>
	<b>Total inflows</b>	<b>1,681</b>	<b>1,292</b>	<b>991</b>	<b>912</b>	<b>933</b>	<b>825</b>	<b>879</b>	<b>916</b>	<b>8,428</b>

Source: CCC



## 2. Risks to LT Forecasts

★ Material risks

### Summary Assessment

Favourable   Unfavourable 

	\$ millions	LT F'cst Total	Sensitivity		Negative Variance			Comments
			% Range	\$ millions	Likelihood	Impact	Ability to manage	
<b>OUTFLOWS</b>								
<b>1</b>	<b>Operating expenditure</b>							
	BAU	3,525	(1%) - 1%	(\$35) - \$35	●	●	●	CCC able to manage costs to budget or restructure / rate for any ongoing increases, projections include additional BAU contingency of \$31m
	EQ Response	139	(2%) - 2%	(\$3) - \$3	●●	●●	●●	Key risks are Port Hills resolution and potential mass movement costs
<b>2</b>	<b>Capital programme</b>							
	BAU	1,656	(2%) - 0%	(\$33) - \$0	●	●	●	The potential 'savings' represent timing differences in expenditure
	SCIRT	1,091	(0%) - 10%	(\$0) - \$109	●●●	●●●	●●●	Cost savings target may not be fully achieved, Crown may not agree to share any additional expenditure
	Cost Savings Target	(398)	0% - (63%)	\$0 - (\$251)	●●●	●●●	●●●	
	Non-SCIRT	417	(0%) - 5%	(\$0) - \$21	●	●	●	Capped programme of work but work required has not been fully assessed
	Anchor Projects	551	(0%) - 10%	(\$0) - \$55	●●	●●●	●●●	Impacted by rebuild timing, final scope of individual projects as determined by Crown and Council & decisions relating to improvements / betterment
	Community Facilities	379	(0%) - 0%	(\$0) - \$0	●●	●●●	●●●	We understand that Council have made the decision to manage expenditure to budget
	Other	143	(0%) - 0%	(\$0) - \$0	●	●	●	Improvement and contingency capital expenditure
<b>3</b>	<b>Debt-related &amp; other outflows</b>							
		1,148			●	●	●	Linked to Borrowing Programme
<b>INFLOWS</b>								
<b>4</b>	<b>Fees, charges, subsidies</b>							
		1,288	(2%) - 2%	(\$26) - \$26	●	●	●●	Impacted by market demand for services / amenities and the timing of the rebuild
<b>5</b>	<b>Dividends, interest, transfers</b>							
		716	(2%) - 2%	(\$14) - \$14	●	●	●	CCHL has strong capacity to meet dividend target
<b>6</b>	<b>Other income</b>							
		369	(2%) - 2%	(\$7) - \$7	●	●	●●	Affected by rebuild timing assumptions, assets sales yet to be defined
<b>7</b>	<b>EQ CERA &amp; NZTA recoveries</b>							
		657	(0%) - 0%	(\$0) - \$0	●	●	●●	Recoveries have been agreed with CERA / NZTA
	EQ insurance recoveries	260	(0%) - 0%	(\$0) - \$0	●●	●●●	●●●	Insurance based on payouts for like-for-like rebuild, actual payouts may be lower depending on negotiations with insurers, CCC's insurance position is uncertain
	Vbase recoveries	224	(0%) - 0%	(\$0) - \$0	●●	●●●	●●●	Insurance proceeds to fund the repair of Vbase facilities
	Insurance contingency	-	-	(\$220) - \$30	-	-	-	
<b>8</b>	<b>Rates</b>							
		3,600	(1%) - 1%	(\$36) - \$36	●	●	●	Assumes reversal of decline in rating base
<b>9</b>	<b>Borrowing programme</b>							
		1,538			●●	●●	●	Dependent on: robustness of projections, CCC ability to manage cash flow impacts of negative variances; CCC debt capacity

## 2. Risks to LT Forecasts

### Stress Test Results

- The results of our analysis indicate the range of a potential funding shortfall over and above the projected funding in the LT Forecasts

#### *'Worst case' analysis*

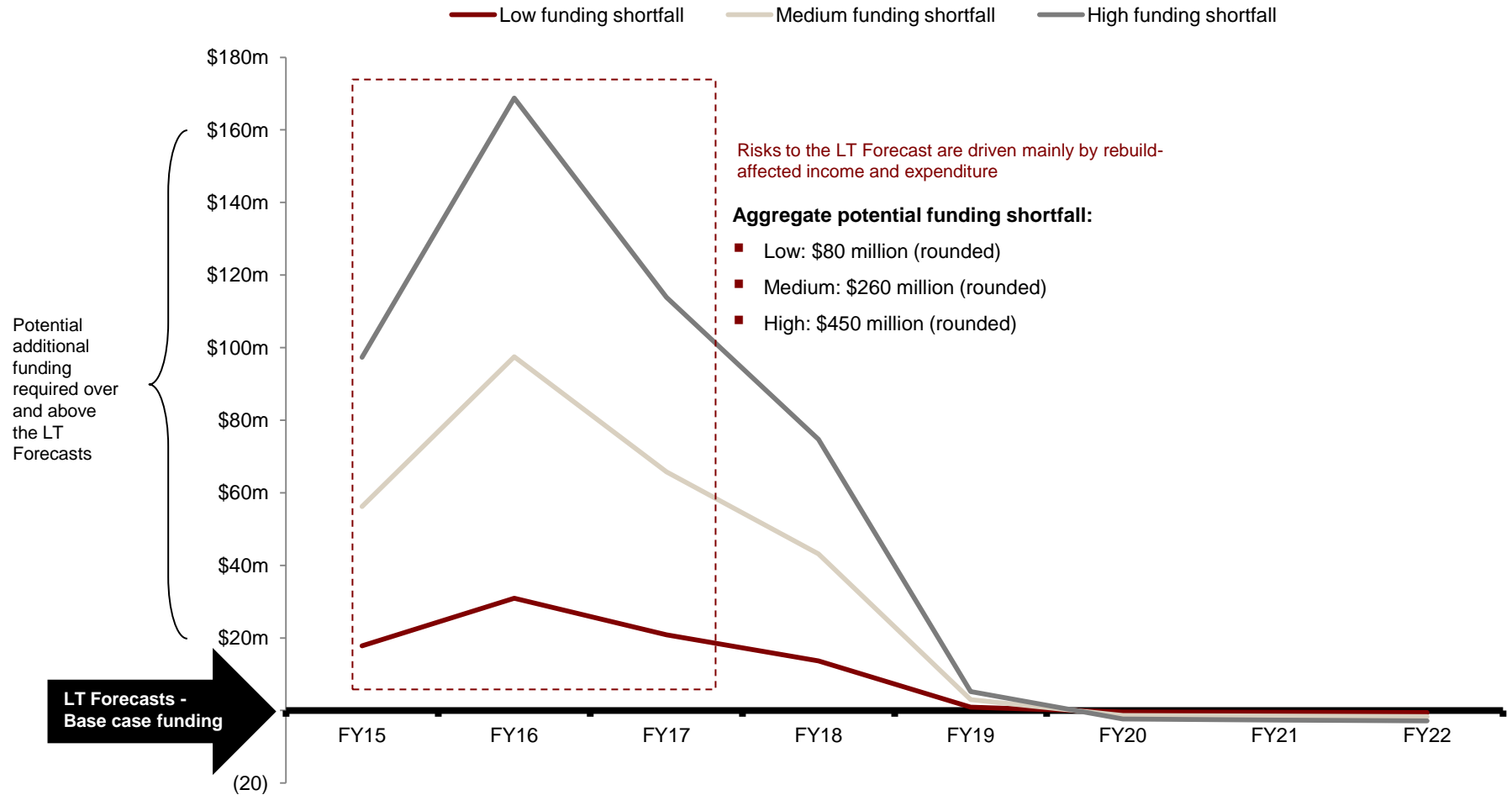
- The sensitivities applied to the LT Forecasts yield a theoretical worst case funding shortfall of up to \$800 million (rounded) (representing the combination of the absolute worst case inflows scenario and the absolute worst case outflows scenario)
- **This is a highly unlikely (and unrealistic) scenario** as it does not reflect:
  - The extremely low probability of worst case inflows combined with worst case outflows persisting for each year of LT Forecasts
  - CCC's strong ability to take corrective action to minimise the cash flow impact of any 'worst case' outflows

#### *Probabilistic analysis*

- The use of probabilistic modelling (which considers multiple combinations of low and high cases for each cash flow) yields a potentially more realistic assessment of the potential funding shortfall in view of the risks associated with the LT Forecasts
- The results of our analysis yields the following assessed range of total potential additional funding required over the LT Forecast period:
  - Low funding shortfall: \$80 million (rounded)
  - Medium funding shortfall: \$260 million (rounded)
  - High funding shortfall: \$450 million (rounded)
- The funding shortfall range of \$80 – \$450 million (rounded) will depend on whether / when significant downside risks eventuate and the extent to which CCC management can / does proactively mitigate any material cash flow impacts
  - The low funding shortfall case reflects a scenario in which few downside risks eventuate and / or CCC manage the cash flows impact of any downside risks (this scenario is implicitly reflected in the current LT Forecasts)
  - The high funding shortfall case reflects a scenario in which significant downside risks eventuate and CCC do not / are unable to mitigate the cash flow impacts (while the quantum of this scenario is a more realistic estimate of the worst case, the scenario remains unlikely since – as will be discussed in the next section – CCC has a 'toolkit' for responding to material negative variances to projections)
- The yearly distribution of the potential funding shortfall range is presented on the next slide

## 2. Risks to LT Forecasts

### Profile of Funding Shortfall



## 2. Risks to LT Forecasts

### Conclusions

- Our analysis has been designed to provide insight to the materiality of key risks and the expected range of any funding shortfall relative to the funding projections in the LT Forecasts
- The results of our analysis are sensitive to the 'stress test' ranges applied to each cash flow category. As noted earlier, the applied sensitivities do not necessarily represent an expected range of outcomes but rather they are reasonable 'stress tests' to the LT Forecasts
- Our high-level analysis suggests that there is a relatively high likelihood of a material funding shortfall over and above the LT Forecasts
- Our assessment reflects:
  - The uncertainty in relation to EQ-related income and expenditure and key decisions / actions by relevant stakeholders
  - The preliminary and long term nature of the LT Forecasts - there is significantly more scope for variance (timing and permanent changes) in the medium to long-term
- We note that, in practice, CCC does actively manage its cash flows within its projected funding envelope. Over a multi-year period CCC also has much greater scope to manage and respond to material negative variances to its projections
- The key risks to the LT Forecasts are:
  - Delays to timing of key rebuild projects and associated escalation risks
  - Failure to achieve the full quantum of SCIRT cost savings
  - Risk of cost overruns or re-scoping of SCIRT, Anchor Projects and Community Facilities projects (notwithstanding CCC's ability to manage these risks)
  - Lower than projected insurance recoveries
- We note that CCC has a lower ability to control these risks relative to other risks impacting the LT Forecasts

## Part A) Funding Requirements & Options

### 3. Funding Implications

### 3. Funding Implications

#### Funding Sources / Options

- CCC has a range of funding sources – with a range of related issues. The funding sources available to CCC can be categorised as:
  - ‘Cash flow’ – Rates, fees etc and EQ Recoveries
  - ‘Balance Sheet’ – optimisation of debt position and CCC’s asset portfolio – strategically, operationally and through partnership arrangements (we note that other funding sources also exist, including - ‘user pays’ arrangements and expect CCC will consider these in due course)
  
- The broad funding sources, issues and availability to meet short-term and long-term funding requirements are as follows:

	Funding source / option	Access issues	Ability to access material funds	
			At short notice	At longer notice
<b>Cash flow</b>	Rates, fees etc	Political decision required Clearly defined consultation process – typically set on an annual basis	✗	✓
	EQ recoveries	Relate to specific projects so not available to meet unrelated funding requirements	✗	✗
	Cost savings	Material cost savings available through service level reductions – require extensive analysis, planning and consultation	✗✓	✗✓
<b>Balance Sheet</b>	Debt	Debt capacity limited by lender considerations - i.e. covenants, credit rating	✓ (if sufficient debt capacity)	✓
	Commercial operational (dividends)	Constrained by the performance / cash requirements of the commercial investments Constrained by the ‘arms-length’ CCHL decision making and CCHL’s own funding capacity (e.g. CCHL currently borrows from CCC)	✗	✗✓
	Commercial capital (divestments)	Political decision required Flow on implications to the dividend returns that CCC can expect to receive Tax efficiency a consideration Contestability key to realising full value	✗	✓
	Surplus assets	Processes in place to recognise and sell surplus assets \$2.4 million currently identified as surplus ~\$40 million ‘redundant’ land currently being assessed	✗	✗
	Equity partnerships	Relate to specific projects	✗	✗

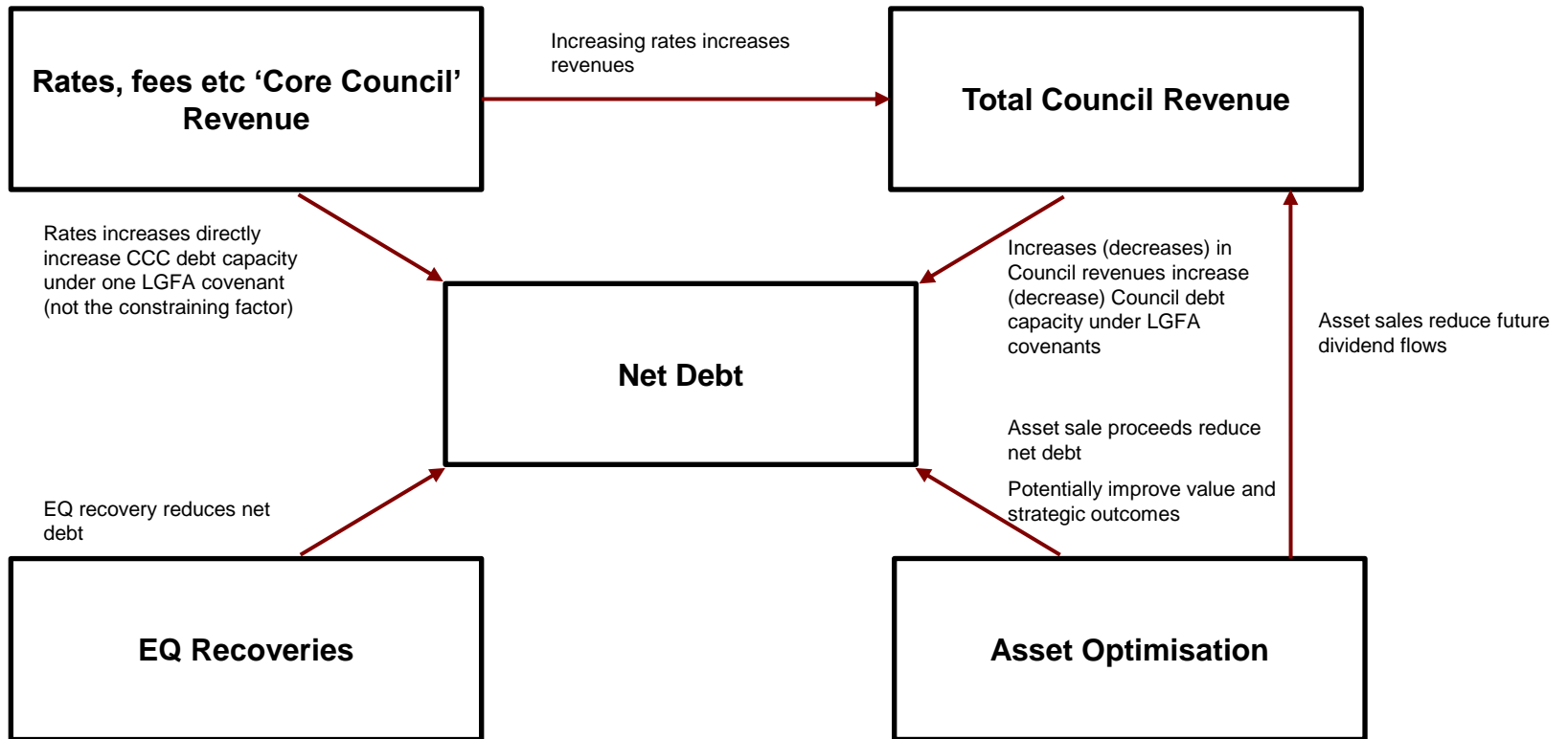
## 3. Funding Implications

### Funding Inter-relationships

- As outlined, we consider that the material funding sources available to CCC are:
  - Raising additional debt – ultimately constrained by LGFA financial covenants and the impact on CCC’s S&P credit rating
  - Renegotiating EQ Recoveries – although the existing arrangements contained in the LT Forecasts are asset specific and contractually based
  - Raising rates – ultimately subject to political judgements and ratepayer growth
  - Accessing the stored value / cash flows in the existing commercial assets that CCC owns:
    - Under current ownership through:
      - Dividend - residual cash flow (after operating costs and capex requirements)
      - Special dividend / One-off capital return – from capital structure optimisation; surplus asset sales
    - By reducing its ownership through either a partial or full sale
  
- The ability to meet any variance from the LT Forecasts depends on the flexibility of the funding source and the degree of control CCC has – for example as outlined EQ Recoveries are asset specific and contractually based with little discretion for CCC to unilaterally make changes, and CCC debt capacity has ‘hard’ financial covenant based constraints
  
- There will be a ‘pecking order’ relating to these funding sources which will reflect the Council’s objectives. However, practical issues will impact the ‘pecking order’ depending on whether the funding is required at short notice or there is a longer notice period:
  - In the short-run (i.e. the period covered by the AP), CCC’s funding sources are practically limited to additional debt
  - In the long-run (i.e. the period covered by the TYP and LTP), CCC’s funding sources include additional debt, increased rates, fees etc , renegotiation of EQ recoveries and asset optimisation (i.e. cash flows available from commercial assets)
  
- these funding options are inter-related, as outlined in the diagram on the following page, and in the following sections, we assess their ability to meet CCC’s funding requirements, as outlined in the LT Forecasts and any potential variance to the LT Forecasts
  
- We note that Public Private Partnerships (PPPs) are often mentioned as a financing solution. However PPPs relate to procurement of an asset / service and while their use is driven by a number of factors but they do not materially change the sources and quantum of private sector financing available for a project / asset. The drivers of PPPs include whole-of-life value for money; service quality; risk transfer (including project delivery timing and costs and other operational and lifecycle risks) and budgeting certainty

### 3. Funding Implications

#### Funding Inter-relationships



N.B. S&P takes a consolidated view of CCC and its CCO subsidiaries. It views revenues from commercial assets as relatively unattractive and, all things equal, would view 100% asset sales as positive.



## Part A) Funding Requirements & Options

### 4. Debt

## 4. Debt

### CCC Debt Capacity

- Debt is the most flexible form of funding available to CCC – it can:
  - Be used to fund long-term core requirements and to achieve inter-generational objectives
  - Assuming sufficient capacity, be used at short notice to meet unexpected financial events - including general variance from forecasts, emergency funding as a result of external shocks and to take advantage of 'valuable' investment opportunities (e.g. social housing)
  
- As outlined, the other sources of material funding - Rates; EQ Recoveries and Asset Optimisation are of limited use in meeting short-term requirements due to the lead times required for approval, contractual requirements for the use of funds and transaction costs and potential value implications of a 'speedy' sale
  
- Given the flexibility of debt, we consider that it is appropriate for CCC to maintain some surplus debt capacity for these purposes. In this regard, our discussions with CCC management suggest ~\$150 million is prudent
  
- CCC's debt capacity is a function of its:
  - LGFA borrowing covenants
  - Standard & Poor's (S&P) credit rating
  
- In the following slides, we assess the impact of CCC's debt levels and debt capacity under the LT Forecasts and any potential variance to the LT Forecasts

## 4. Debt

### S&P Credit Rating

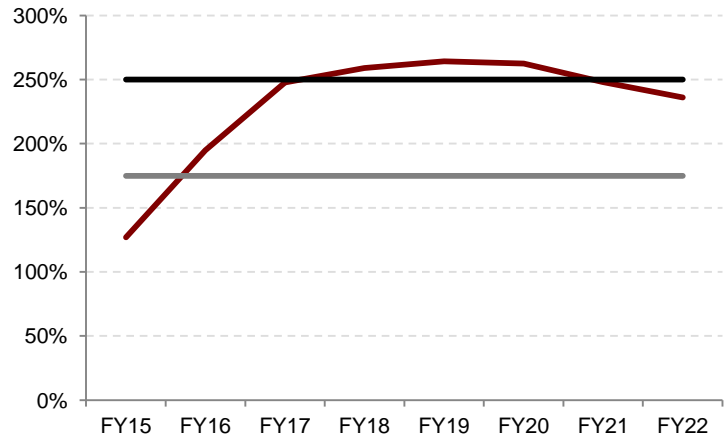
- S&P has a standardised methodology it uses to assign Credit Ratings to Local and Regional Government Authorities globally (S&P's 'Methodology for Rating International Local and Regional Governments' dated 20 September 2010). This methodology assesses a number of factors, including the:
  - National institutional framework (the same for all entities at the same level of Government within a country i.e. state level or municipal level)
  - Profile of the individual entity including an assessment of:
    - Economy
    - Financial Management
    - Budgetary Flexibility / Budgetary Performance
    - Liquidity / Debt Burden
    - Contingent Liabilities
  
- S&P's methodology:
  - Places significant weight on New Zealand's Institutional Framework, which it considers to be "one of the best in the world". This results in all New Zealand Local Authorities currently rated being assessed as having high credit quality
  - Limits the impact of changes in any one factor. As a result, within reasonable bounds, a significant change in debt levels will only have a limited impact on the overall Credit Rating
  
- Given S&P's methodology, under reasonable scenarios we consider it unlikely that CCC's credit rating would be downgraded below 'A':
  - As outlined, financial metrics are only one consideration by S&P, given its strong view of the NZ institutional framework and use of more qualitative measures in the individual entity assessment
  - All other things equal, CCC base case forecasts would not lead to a rating downgrade
  - CCC is already among the lowest rated New Zealand local authorities
  - S&P commentary suggests that based on recent information CCC's credit rating is likely to remain at 'A+' - *"Due to the strength of the institutional framework, we do not currently consider there is a high probability of the long-term rating falling to lower than A+"* December 2012

# 4. Debt

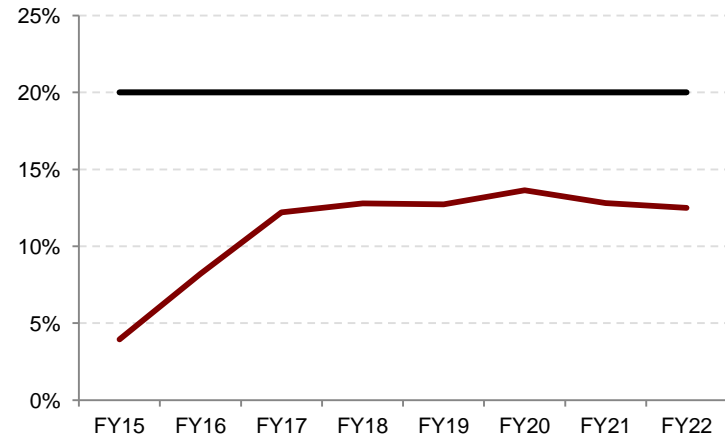
## LGFA Financial Covenants

- CCC's borrowing arrangements with the LGFA is subject to financial covenants
- Provided that CCC maintains a credit rating equal to or greater than 'A', it must comply with LGFA Foundation Policy limits as outlined in black in the graphs
- CCC can apply for bespoke financial covenants that exceed the covenants shown with the approval of an Ordinary Resolution
- In the event that CCC is unrated or its credit rating drops below 'A', it will be required to comply with the LGFA's Lending Policy limits as outlined in grey in the graphs, if different from the Foundation Policy covenants

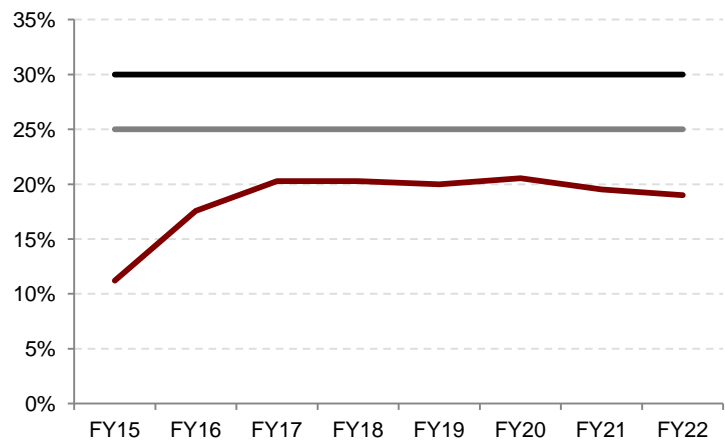
Net Debt / Total Revenue – LGFA Limit 175% (250%)



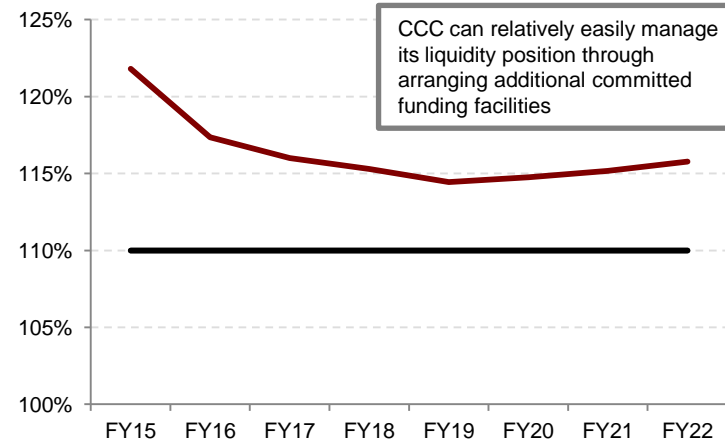
Net Interest / Total Revenue – LGFA Limit 20%



Net Interest / Rates Income – LGFA Limit 25% (30%)



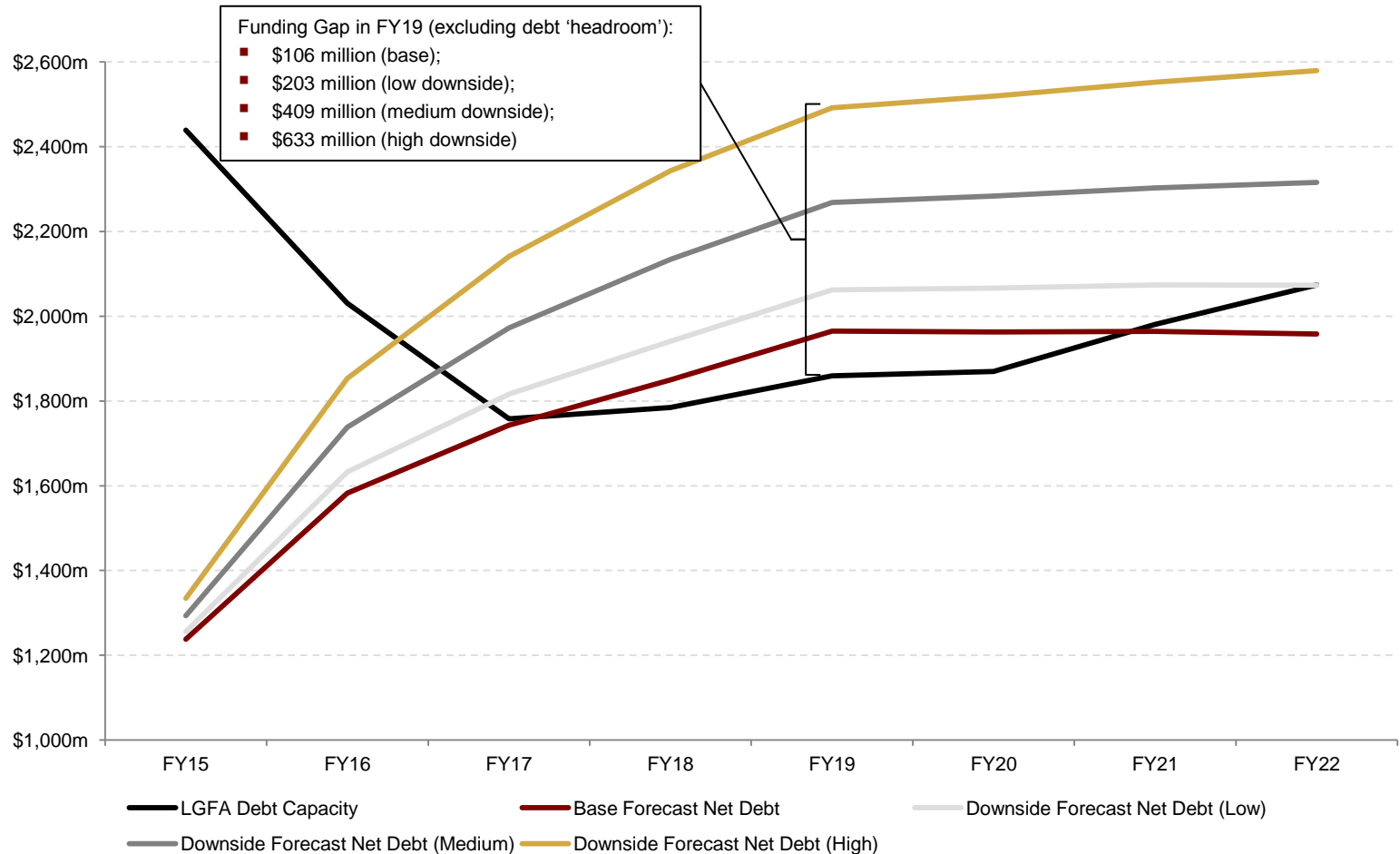
Liquidity – LGFA Minimum 110%



# 4. Debt

## LGFA Financial Covenants

- Under all reasonable scenarios, the key constraint for CCC is the net debt / total revenue covenant
- Base Case forecasts indicate that CCC will reach its debt limits in FY19, and have an 'unfunded' requirement of \$106 million. However, if CCC wishes to maintain \$150 million debt 'headroom', the funding gap expands to \$256 million under the base case
- CCC's choices to address the funding gap are to increase Rates, renegotiate its EQ Recoveries and / or optimise its assets
- The potential negative variance from the Base Case exacerbates the funding shortfall considerably



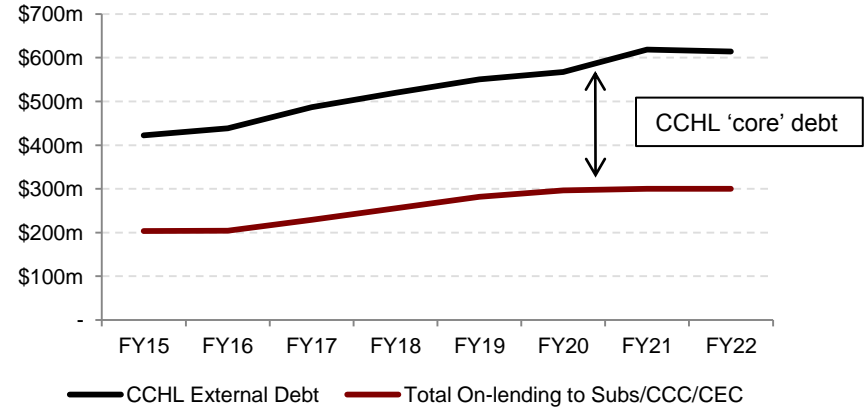
The analysis assumes that downside cases affect CCC's costs only (where CCC is likely to be less able to respond) and, therefore, does not affect CCC's potential borrowing capacity under its LGFA covenants.

# 4. Debt

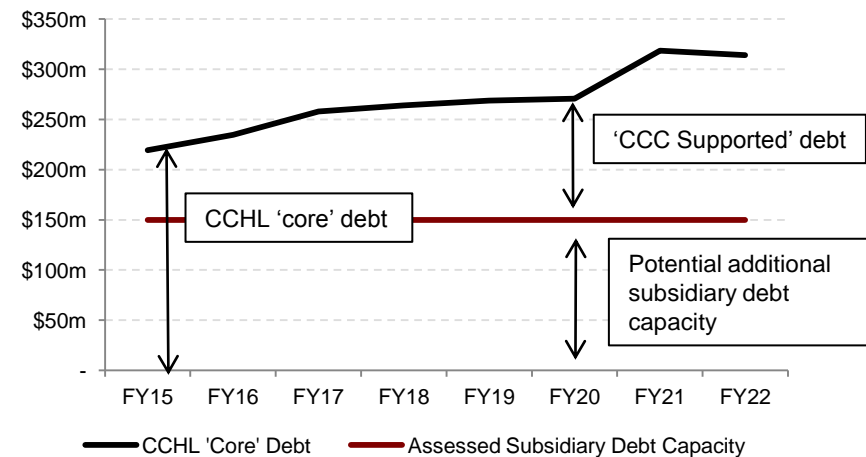
## CCHL Funding Capacity

- CCHL forecast external debt is \$422 million in FY15, rising to \$614 million in FY22. In FY15 \$203 million and FY22 \$300 million is forecast to be on-lent (mainly to CIAL and Enable, although CIAL is forecast to repay its loan in FY16)<sup>1</sup>
  - The remaining debt in CCHL is 'core' CCHL debt
- 
- At a consolidated level, CCHL's debt capacity comprises the aggregate debt capacity of its subsidiaries. As outlined in Section 7, we understand that CCHL's subsidiaries' debt levels are generally close to optimal although there may be ~\$150 million of additional capacity over the LT Forecast period (this requires further detailed analysis)
  - Any debt held by CCHL at a consolidated level that is in excess of the aggregate debt capacity of its subsidiaries is essentially debt that is supported by the uncalled capital from CCC – i.e. 'CCC Supported' debt

CCHL Parent Debt Position



CCHL 'CCC Supported' Debt



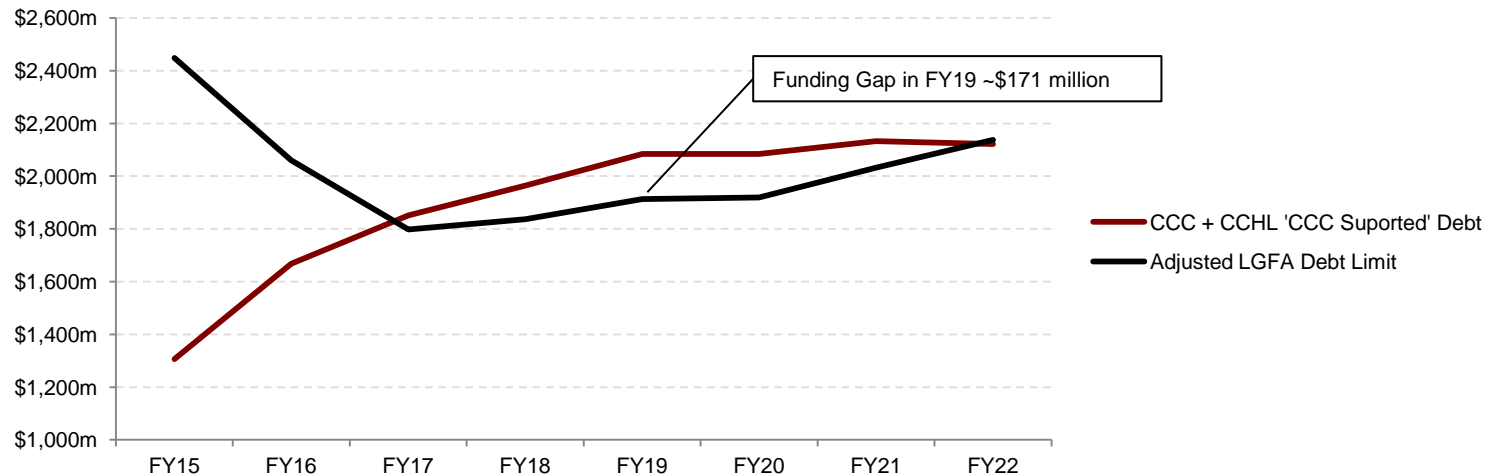
<sup>1</sup> Based on information provided when this report was completed. We note that under the latest forecasts FY22 debt levels for CCHL are substantially lower

# 4. Debt

## CCHL Funding Capacity - Theoretical Impact on CCC Debt Capacity

- We consider that CCC should take this CCHL 'CCC Supported' debt into account:
  - As CCC supported debt increases so too does the risk of CCHL uncalled capital being called
  - If treated as CCC debt (which in effect it is), it will have a negative impact on CCC's debt position (albeit that this is theoretical)
  
- We calculate the theoretical impact of CCHL's 'CCC Supported' debt on CCC's debt position by adding CCHL net revenue (after deducting debt servicing costs on the potential additional subsidiary debt) and 'CCC Supported' debt to CCC's forecasts and recalculating CCC's LGFA debt ratios. As a result, CCC's debt levels increase and CCC's debt capacity also increases (due to additional revenue received). However, on a net basis, CCC's funding shortfall increases by an additional ~\$66 million in FY19. Notwithstanding, the uncertainty in relation to the actual debt capacity within CCHL's subsidiaries suggests a range would be more appropriate - we suggest \$0 - \$100 million

**CCC + CCHL 'CCC Supported' Debt Position**



- Notwithstanding, there appears to be an anomaly in CCC / CCHL's current debt financing arrangements:
  - The LGFA financial covenants only apply to CCC and therefore CCHL debt does not impact CCC's debt capacity as determined by the LGFA (a situation that may not persist over time)
  - S&P undertakes its analysis on CCC on a consolidated basis although, as outlined, its approach is less sensitive to debt metrics than the LGFA

## Part A) Funding Requirements & Options

### 5. EQ Recoveries



## 5. EQ Recoveries

### Funding Implications

- EQ Recoveries comprise around \$43 million of operational recoveries and \$917 million of capital recoveries:

\$millions	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	Total
<b>Rates, fees, operational subsidies</b>									
EQ Response CERA recoveries	14.9	6.9	2.9			-	-	-	24.7
EQ Response NZTA recoveries	3.6	1.3	0.9			-	-	-	5.8
EQ Response Insurance recoveries	5.0	5.1	2.6			-	-	-	12.7
	<b>23.4</b>	<b>13.3</b>	<b>6.4</b>			-	-	-	<b>43.1</b>
<b>EQ Rebuild Recoveries</b>									
CERA recoveries	244.9	107.7				-	-	-	352.6
Insurance recoveries	78.7	77.4	42.4	16.4		-	-	-	214.9
Insurance recoveries - Housing	8.9	9.7	13.5	12.8		-	-	-	44.9
NZTA recoveries	128.7	75.5	43.8	27.4	28.6	-	-	-	304
Other recoveries	0.2	0.2	0.1			-	-	-	0.5
	<b>461.4</b>	<b>270.5</b>	<b>99.8</b>	<b>56.7</b>	<b>28.6</b>	-	-	-	<b>917.0</b>

- All of the arrangements are contractual and CCC has very limited scope to unilaterally influence changes to EQ Recoveries and are project specific
- In addition:
  - The cost sharing agreement with the Crown (covering the CERA recoveries and NZTA recoveries above, as well as anchor project contributions) is to be reviewed in December 2014
  - Insurance recoveries are assumed as replacement cost less a 2.5% excess. There is considerable uncertainty around final insurance outcomes. Further work is required to understand the issues, risks and potential outcomes in relation to EQ recoveries on a asset-by-asset basis
  - Settlements may be possible but this is likely to be on a case by case basis

## Part A) Funding Requirements & Options

### 6. Rates, Fees etc.

# 6. Rates, Fees etc.

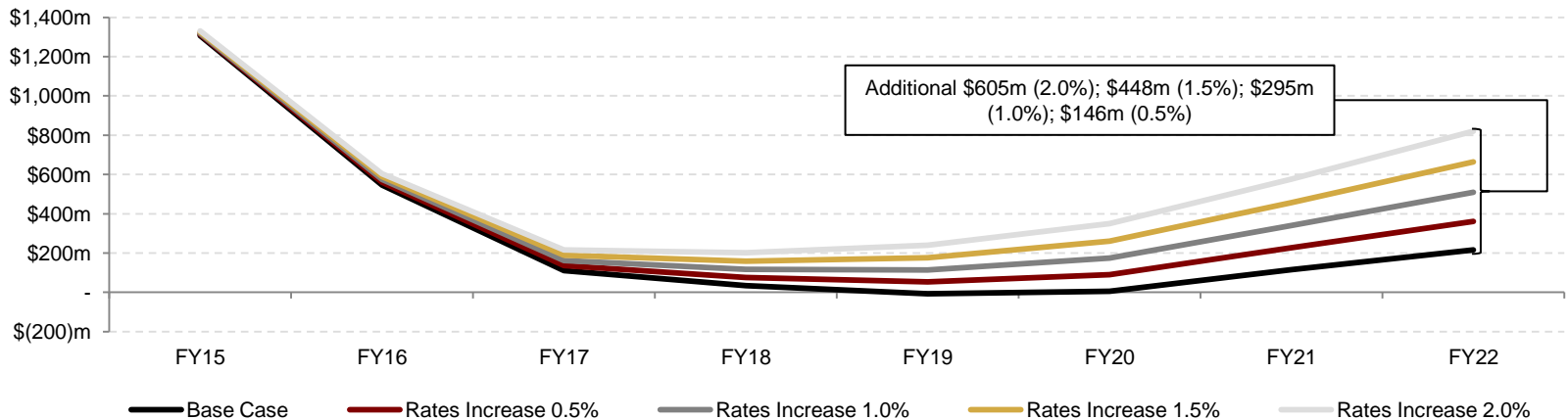
## Impact of Rates Increases

- Increases to Rates improve CCC's funding position in two ways:
  - As a direct funding source
  - By improving the financial covenants monitored by the LGFA (specifically the constraining net debt / total revenue covenant) and thereby increasing CCC's debt capacity
- The current Rates forecast and sensitivity of Rates increases on CCC revenue is outlined in the following table

\$ millions	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	Cumulative
Rates Increase % - Base Case	2.7%	10.0%	11.1%	6.6%	5.3%	5.0%	4.5%	5.2%	
Rates – Base Case	342.1	376.3	418.0	445.7	469.2	492.5	514.7	541.6	<b>3,600</b>
<b>Additional % increase revenue:</b>									
0.5% additional Rates	1.7	3.6	5.8	8.3	11.1	14.0	17.2	20.7	<b>82</b>
1.0% additional Rates	3.3	7.1	11.7	16.8	22.3	28.4	34.8	42.2	<b>167</b>
1.5% additional Rates	5.0	10.7	17.7	25.4	33.8	43.0	53.0	64.3	<b>253</b>
2.0% additional Rates	6.7	14.3	23.7	34.1	45.5	58.1	71.7	87.1	<b>341</b>

- The impact of Rates increases on CCC's net debt capacity is as outlined in the following graph

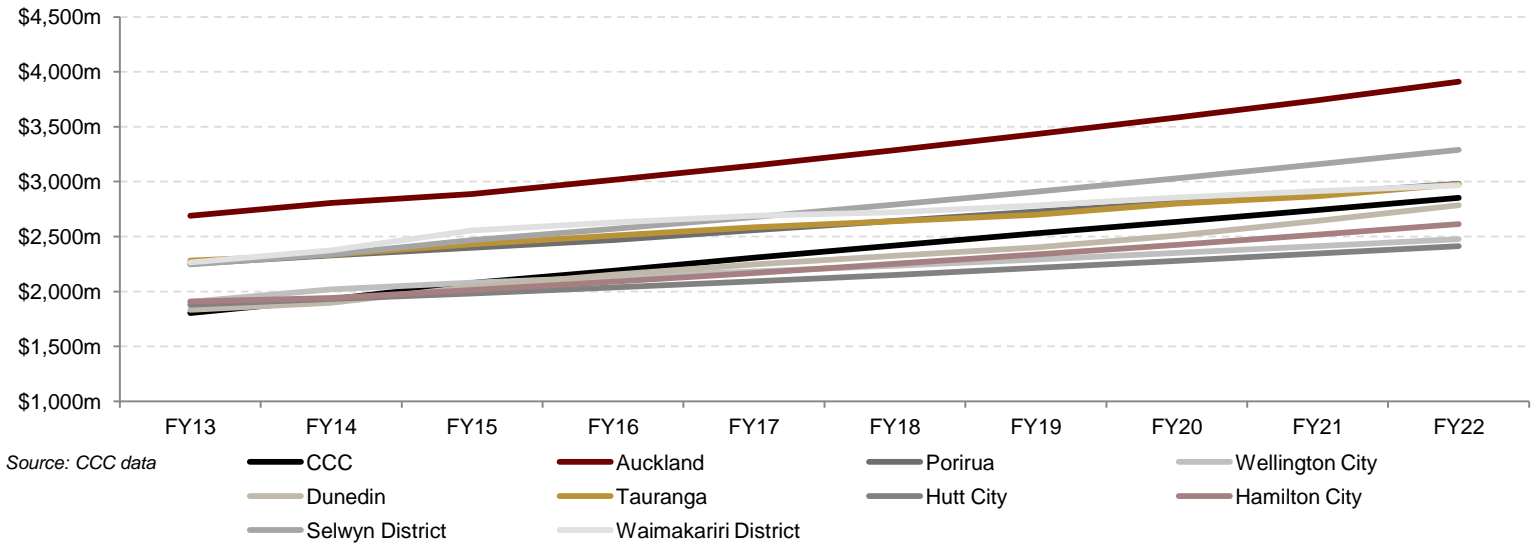
**CCC Debt Capacity**



# 6. Rates, Fees etc.

## Rates Increase Data Points

- Ultimately the level of any Rates increases is a political decision and we understand that CCC currently has a self-imposed cap on further Rates rises
- The following table outlines current and forecast expected Rates per household for CCC, the other metropolitan councils (excluding Upper Hutt and Palmerston North for which data was not available) and neighbouring Selwyn and Waimakariri:
  - CCC Rates per household are currently at the low end of the sample group
  - At the end of the forecast period current proposed Rates rises move CCC to the middle of the group



- A 1.5% additional increase (as outlined on the previous page) would have the effect of increasing CCC's estimated Rates per household to \$3,140 by FY22 – a figure that would still be below Auckland Council (\$3,900) and Selwyn District (\$3,290) at that point in time
- Stats NZ data indicate that in the 10 years to 2012 New Zealand local authorities Rates revenue increased on average by 7.1% p.a. for all New Zealand Councils and 7.0% p.a. for Metropolitan Councils. Over the same period Auckland Council Rates increased on average by 7.3% p.a. and CCC by 8.4% p.a. CCC's average increase for the forecast period is 6.3% p.a.

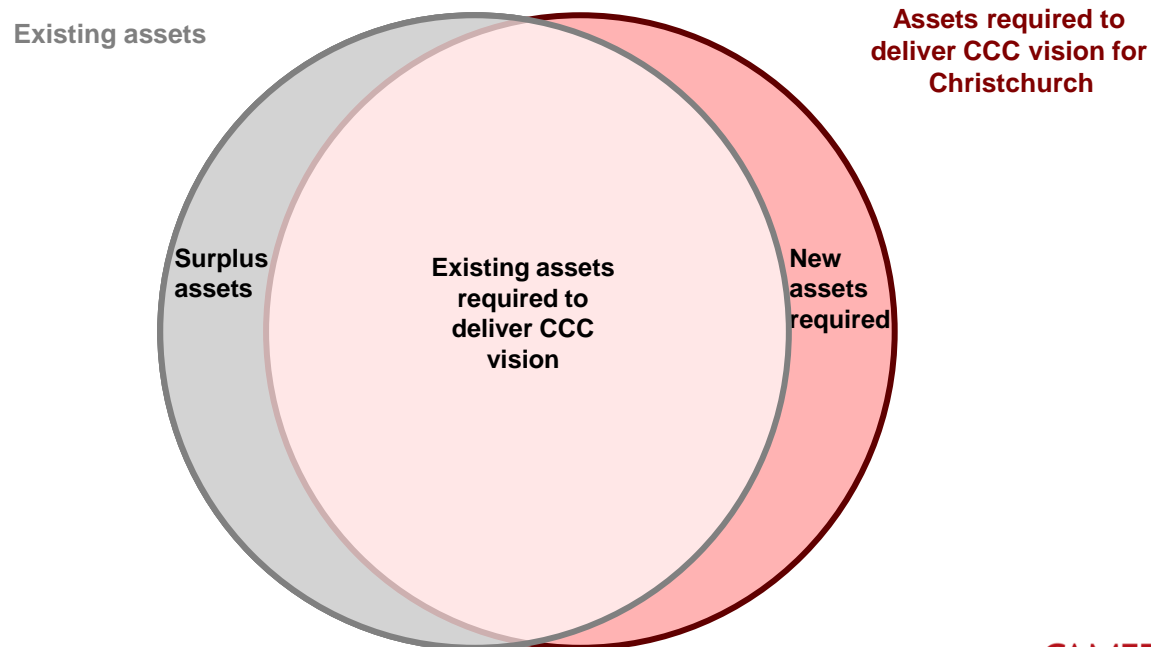
## Part A) Funding Requirements & Options

### 7. Asset Optimisation

# 7. Asset Optimisation

## CCC's Asset Requirements

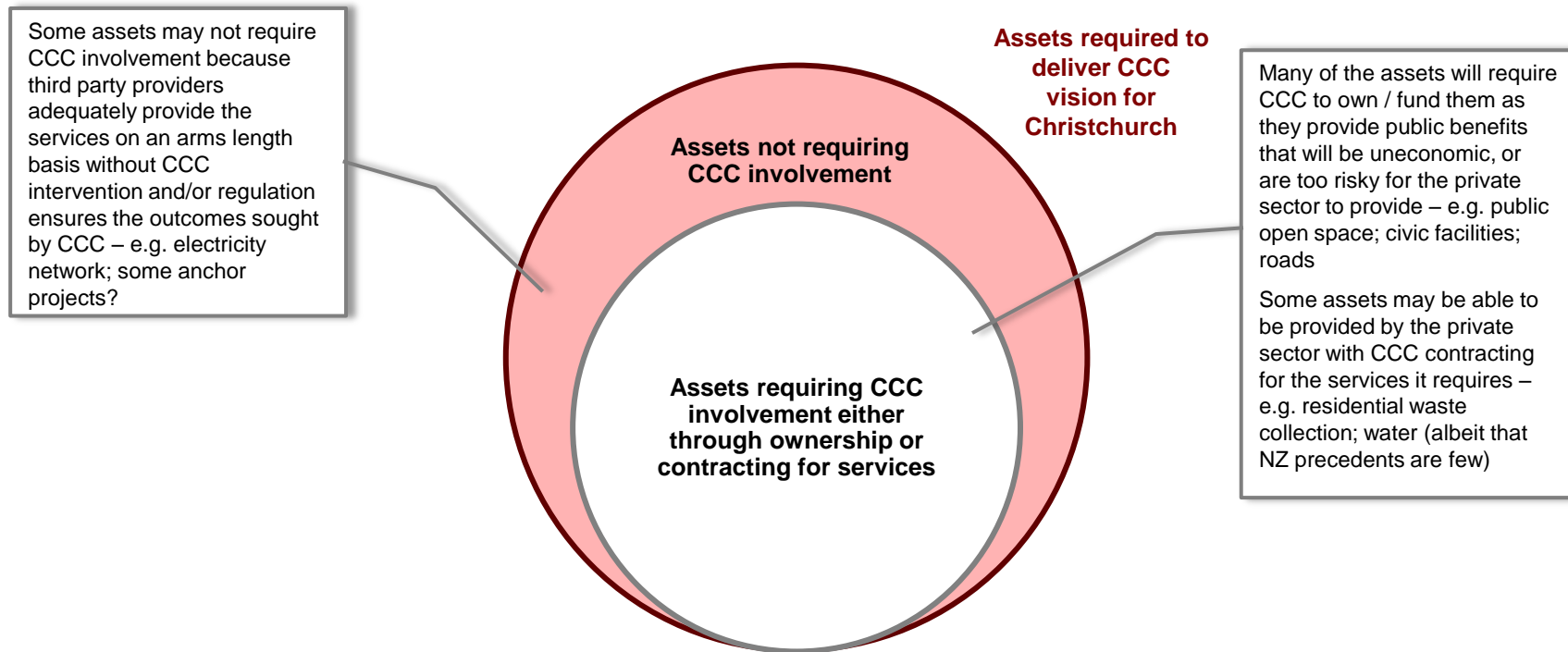
- The assets required to meet CCC's vision and strategy may be different from CCC's existing assets:
  - Most of the required assets will exist within CCC's current asset base, although many require remediation
  - New assets may be required and some assets may be surplus to requirements, potentially being available for sale (including commercial assets and non-commercial yet still valuable assets (e.g. social housing))
  
- CCC has transitioned from a 'steady state' asset management position to an active, dynamic asset remediation / investment position
  
- CCC's vision and strategy is not independent of its funding position - ultimately CCC must make choices about the services it wishes to provide and its ability to fund these



# 7. Asset Optimisation

## Assets Requiring CCC Involvement

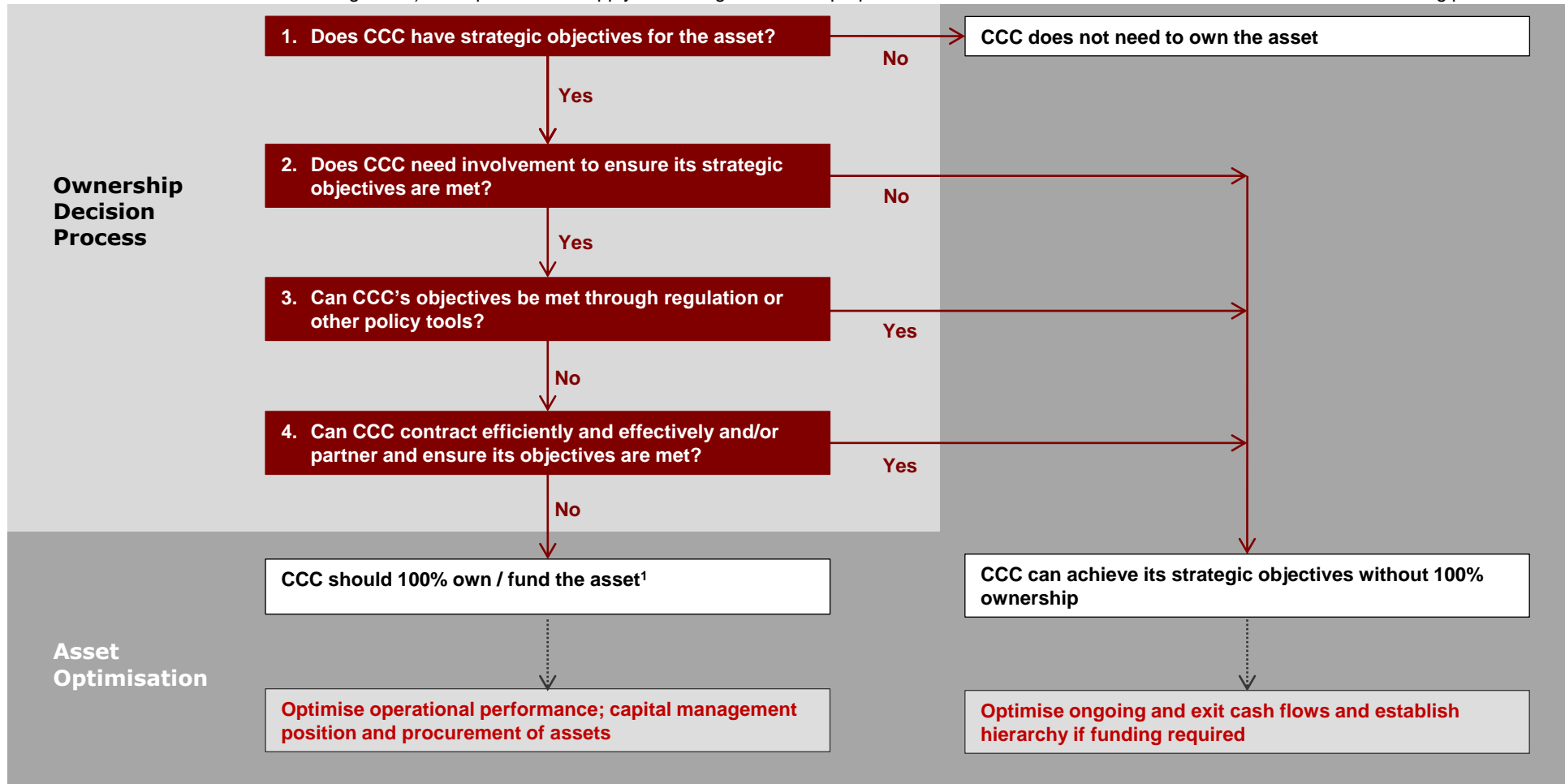
- Once CCC has established the assets that are required to deliver its vision, it needs to screen these to establish which assets require its involvement (i.e. ownership / funding and / or contracting for specific services) to ensure that its strategic objectives are met
- CCC owns total gross assets ~\$8.3 billion – of which CCHL total gross assets = ~\$2.6 billion (and provide CCC with the most funding flexibility)



# 7. Asset Optimisation

## Assets Requiring CCC Involvement – Decision Framework

- The process for assessing whether CCC involvement is required or not is broadly as outlined in the following flow chart (with commentary on the following slides) . The process can apply to existing assets and proposed asset investments to assist in the investment decision making process



<sup>1</sup> An exception could be where an investor is aligned with CCC and is happy for its non-value maximising objectives to be pursued – e.g. Govt; other local authorities; iwi; philanthropic sources)



## 7. Asset Optimisation

### Assets Requiring CCC Involvement – Decision Framework

#### Framework principles / assumptions

- The framework is based on the principles that:
  - An owner owns an asset because it receives :
    - Economic rights – the right to receive the financial benefits and other non-financial benefits generated by the business / asset
    - Control rights – the right to decide what the asset does and what its objectives are (i.e. set the strategy and the business plan)
  - Owners of assets primarily seek to maximise the value of those assets
  
- We consider that there are no compelling arguments for CCC to own certain assets for purely financial reasons:
  - Analysing the performance of CCC’s commercial assets has challenges – exacerbated by the earthquakes. However, nothing in our analysis suggests that the commercial assets owned by CCHL have provided anything other than a fair return on a risk-adjusted basis (return comprises dividends plus capital gain) or that they will not continue to do so
  - CCC’s core business is not to own assets for financial returns but rather to deliver certain key services
  - CCC’s current ownership of commercial assets reflects the historically significant financial flexibility within CCC and, from a purely economic point of view, is essentially a portfolio management decision (albeit that we acknowledge CCC’s strategic objectives for these assets)
  - In a BAU environment the historic approach is reasonable (essentially a portfolio management decision). However, in the current capital constrained situation with multiple ‘high value’ investment opportunities (e.g. water reticulation remediation, flood protection, anchor projects), CCC needs to make active choices about its asset holdings / investments
  
- Accordingly, the financial reasons for CCC owning assets are weak and instead we consider that the primary rationale for CCC owning assets is to control them in order to pursue objectives that may not be value maximising and to receive non-financial benefits. If CCC’s objectives and the availability of non-financial benefits do not conflict with maximising value then it is possible for the asset to be owned by a third party
  
- The framework therefore focuses on establishing:
  - What CCC’s strategic objectives are for its assets
  - Whether it needs to be involved to ensure its strategic objectives are met
  - Whether its objectives can be met through regulation or other policy tools
  - Whether CCC can contract effectively and efficiently and / or partner and ensure its objectives are met

## 7. Asset Optimisation

### Assets Requiring CCC Involvement – Decision Framework

#### Does CCC have strategic objectives for the asset?

- The framework requires CCC to clearly define its specific strategic objectives for each asset and assess their materiality
- CCHL and CCC have stated strategic objectives for each asset. In general we note that these strategic objectives relate to:
  - Service – i.e. quality, availability and / or price
  - Regional economic development

#### Does CCC need involvement to ensure its strategic objectives are met?

- We consider that there are three broad situations where CCC may need to be involved to ensure its objectives are met:
  1. CCC's strategic objectives have a cost (and are non value maximising), therefore another owner would not pursue these objectives unless compelled to or compensated for doing so
  2. CCC is concerned that another owner could implement a business plan that is value maximising for the asset but that would have negative consequences for the regional economy
  3. CCC is concerned that there is market failure – i.e.:
    - a) Competitive failure (as per CCL in relation to an efficient contracting services market in Christchurch)
    - b) Regulatory failure (as per Orion in relation to asset reliability)
- If these situations do not exist then CCC can achieve its strategic objectives without 100% of the asset

#### Can CCC's objectives be met through regulation or other policy tools?

- In some cases (e.g. those where a natural monopoly exists) CCC's objectives may be to minimise risks for its constituents (e.g. to ensure monopoly powers are not abused). In many cases these risks may be mitigated through regulation (e.g. Orion) or the threat of regulation (e.g. CIAL)

## 7. Asset Optimisation

### Assets Requiring CCC Involvement – Decision Framework

#### Can CCC contract efficiently and effectively and/or partner to ensure its objectives are met?

- Efficient and effective contracting requires the objectives being pursued to be:
  - Clearly defined
  - Readily quantifiable
  
- Where CCC's non-value maximising objectives can be quantified and contracted for, then it may be possible for CCC to:
  - Simply acquire the outcomes it is seeking and therefore not need to own / control the asset
  - Sell (all or part of) the asset at a discount (to reflect the cost of the non-value maximising objectives) and contractually bind the business / asset (with the prior knowledge of the new owner) to deliver the outcomes
  
- Mechanisms available to ensure CCC's objectives are achieved include:
  - A Shareholders Agreement (in the situation where CCC were to partially sell-down)
  - Changes to the constitution
  - Arm's length contractual arrangements
  
- Partnering with other investors may be possible:
  - While still ensuring CCC's objectives are met
  - Providing capital management benefits for CCC (i.e. enabling it to make a choice between realising value immediately in a lump sum rather than overtime through a dividend stream)
  
- In addition, there are long-term strategic partners that may provide synergies, introduce capabilities and capital that augment existing business plans and add value

## 7. Asset Optimisation

### Assets Requiring CCC Involvement – Decision Framework

#### Can CCC contract efficiently and effectively and/or partner to ensure its objectives are met?

- The nature of any strategic partner will be an important consideration:
  - General public and listed markets impose constraints that typically drive towards value maximisation and protect minority shareholder rights (e.g. the Government's MOM model)
  - There may be strategic investors that are very aligned with CCC strategic objectives that may require no concessions including the Crown; other local authorities; iwi; and philanthropic sources
  - Long-term strategic investment partners exist that are structured to specifically work with Local Authorities (and similar public sector entities) and with special focus on infrastructure assets and that may be able to add value to CCC assets
  
- There are a number of considerations regarding the impact of different levels of ownership, including those contained in the Companies Act, Takeovers Code, Overseas investment Act and Securities Markets Act. If not specifically addressed in contractual arrangements that bind shareholders, the impact of different levels of ownership on CCC's control rights and tax position include:
  - >10%: Blocking stake – applicable to takeover code companies only (listed companies or companies with 50 or more shareholders and parcels of shares)
  - >25%: Block special resolutions – these are required to adopt or change a constitution; approve a major transaction; approve an amalgamation of the company; or put the company into liquidation
  - >50%: Control of the board, strategy, business plan etc. (and status as a CCO) albeit subject to various regulatory constraints – e.g. directors must act in the best interests of the company
  - 66% or greater: threshold to qualify for common ownership, allowing the company to transfer tax losses with other group companies
  - >75%: Special resolution – see above. Also, a sale below this level may require OIO approval if to a foreign buyer (25% stake and/or the value exceeds \$25 million, or a 25% stake of any value if sensitive land is involved)
  - >90%: Code companies only – the threshold beyond which remaining shares can be compulsorily acquired
  - 100%: Complete control over business plan including pursuit of non-value maximising objectives free from any regulatory constraints (e.g. having to contract between group entities, minority share-holder buyout rights / claims of oppression or unfair conduct)

## 7. Asset Optimisation

### Optimisation approach

- Asset optimisation comprises two parts:
  - At asset level optimising:
    - Operational performance – i.e. ensuring the business' strategy, business plan and implementation is maximising value (within the constraints of CCC's non-value maximising objectives)
    - Capital management position – i.e. ensuring capital structure, funding arrangements and distribution policies are optimal and no surplus assets exist
  - At CCC level (for those assets that do not require 100% CCC ownership) optimising the capital management position i.e. making explicit choices regarding realising the stored value immediately versus receiving an ongoing dividends

#### Asset-level optimisation

- At asset level we note that our analysis :
  - Suggests that the assets are performing satisfactorily (although a more detailed analysis may be worthwhile)
  - The capital management position of each of CCC's assets appears, in general, to be close to optimal except for Orion where there appears to be some additional debt capacity

#### CCC-level optimisation

- At CCC level optimising the access to the stored value / cash flows in CCC's existing assets requires an understanding of the following issues
- CCC's objectives in relation to its funding options – we expect there is a 'pecking order' that the Council will follow :
  - EQ Recoveries – CCC has only limited ability to adjust EQ Recoveries
  - Increased Debt – forecasts indicate that CCC is reaching its debt capacity over the forecast period
  - Rates increases – within political constraints (CCC has a self imposed restriction on increases in rates)
  - Asset sell downs

## 7. Asset Optimisation

### Optimisation approach

- Funding requirements at CCC – in particular :
  - The profile over time (e.g. a small funding shortfall could possibly be met through a partial sale of one of CCHL's larger assets or the full sale of one of the smaller assets)
  - CCC's ability to manipulate the funding requirements
  
- The funding implications of sale / partial sale of an asset including :
  - The timing / quantum of cash flows available / foregone – for example :
    - CIAL has recently completed a major capex programme and therefore should have significant free cash flows available for distribution, whereas Enable is at an early stage in its development and will be cash flow negative, requiring investment from CCC for the foreseeable future
    - Orion and CIAL are (by a considerable margin ) CCC's largest investments and can materially change CCC's funding profile even with a partial sell-down
  - Value considerations including:
    - The investor 'story', buyer set and proposed sale structure – an attractive offering is required to maximise value
    - Pricing transparency
    - Access to strategic buyers which may enhance the assets business plan and value
  - Sale process timeframes:
    - A typical process can be completed in four to six months
    - Consultation requirements and political considerations / approvals may extend this
  - Tax leakage – which is potentially a material issue and will need to be analysed on a case by case basis depending on the proposed asset sale, structure and use for the capital freed up, for example considerations will include:
    - Tax loss considerations
    - Tax grouping
    - Returning capital proceeds

## 7. Asset Optimisation

### Preliminary analysis

- In terms of our preliminary analysis we note:
  - At asset level there appears to be limited scope to access additional cash flows under existing ownership arrangements:
    - Operating performance is generally in line with peers (although in some cases impacted by the earthquakes)
    - Capital structures are generally at appropriate debt levels although:
      - There may be some scope for a one-off distribution from Orion in the short-term and increased dividend flow from CIAL in the medium to long-term
      - LPC may have some surplus funding capacity (although this is by no means certain) but under current ownership arrangements CCC will have limits on its ability to dictate capital structure decisions
  - At CCC-level there is considerable scope to impact CCC's funding position through partial sale (where CCC retains control) if it considers that its strategic objectives can still be met:
    - Partial sale of the assets could raise between \$21 million and \$314 million, and provide an immediate increase in debt capacity (i.e. sale proceeds less decrease in debt capacity) by \$21 million to \$265 million
    - In most cases the dividend yield from the subsidiaries is lower than CCC's assumed interest rates – as a result using the proceeds from the sale of shares in the subsidiaries to pay down / replace debt provides a positive impact on CCC's funding position . Notwithstanding, we note it does not factor in the potential growth in capital value foregone by selling the shares – albeit from an economic perspective we consider the position to be neutral once the associated risks are taken into consideration)
- We consider it will be useful for CCC to apply this approach across all its existing assets (including the smaller commercial assets e.g. Red Bus and larger 'core' council assets such as the water network) as it confirms its funding hierarchy

## Part A) Funding Requirements & Options

### 8. Conclusions



# 8. Conclusions

## Funding Requirements

### LT Forecasts + Variance

- We consider the LT Forecasts are reasonable although there is scope for significant negative variance from financial projections
  
- CCC has some ability to manage areas of potential variance. However there are material items where the likelihood of variance is relatively high, the impact is large and CCC has limited ability to manage outcomes – specifically estimates of downside outcomes include:
  - SCIRT - ~\$360 million
  - Anchor Projects - ~\$60 million
  - Vbase and EQ recoveries (insurance) - \$220 million

### Potential Funding Requirements

- Under the base case there is an additional funding requirement for CCC over the LT Forecast period of ~\$106 million in FY19. This is exacerbated by any negative variance from the plans which, based on our analysis, could realistically result in an additional peak funding requirement of up to ~\$527 million (at FY19)
  
- The aggregate extent of the additional funding requirement depends on actual outcomes (which will only be known over time) and CCC's appetite to push its debt levels towards maximum capacity.
  
- We recommend that CCC maintains 'headroom' within its debt facilities for unexpected funding outcomes (e.g. short-term requirements, potential negative impact on debt ratios) and CCC management has suggested \$150 million would be appropriate. This requires funding from an alternative source
  
- CCHL's 'CCC Supported' debt, could, in theory, increase the funding gap by up to ~\$100million in FY19
  
- Any new initiatives (e.g. social housing, remediation to a higher standard) that Council may decide to pursue as part of its ongoing vision and strategy setting will obviously also require additional funding
  
- Taking account of these factors an additional aggregate funding requirement of ~\$783+ million is not unrealistic

## 8. Conclusions

### Funding Options

#### Funding

- CCC material funding sources are:
  - Debt – however under the current forecasts CCC's debt funding capacity is exhausted and will be insufficient to meet funding requirements by ~\$106 million in FY19. Given the inherent flexibility of debt as a funding source there are strong arguments for debt levels to be reduced to provide additional headroom so that debt can be used for unexpected requirements (which will require alternative funding sources)
  - Increased rates, fees etc – while a contentious political decision we note that increased rates can provide significant funding capacity overtime (due to increased revenue and impact on debt ratios and therefore debt capacity)
  - Renegotiation of EQ Recoveries – limited ability for CCC to unilaterally adjust
  - Asset optimisation – unlikely to be significant funding available at the asset-level (although this requires further more detailed analysis) but there is considerable scope to impact CCC's funding position through partial sale (where CCC retains control) if it considers that its strategic objectives can still be met
- The funding options are inter-related – e.g. increasing rates provides additional revenue but because it improves CCC's revenue to debt ratio it also increases CCC's debt capacity.

#### Conclusions

- Under its LT Forecast financial projections CCC has a funding requirement to meet in FY19. The quantum of the funding requirement will depend on actual outcomes and CCC's risk appetite in relation to its debt levels vs. debt capacity
- In addition CCC has wider strategic decisions to make that could significantly impact its funding requirements. Funding requirements will be dynamic and continue to evolve, particularly so in the current post-earthquake opportunity rich environment
- CCC has four material funding options with objective and subjective advantages, disadvantages and trade offs
- It is critical in our view for CCC to establish a funding option hierarchy. This will require judgements by Council regarding its priorities and objectives - CCC must make explicit choices regarding new investment based on the funding consequences

## Part B) Organisational Architecture for the Rebuild

# 1. Organisational Architecture for the Rebuild

## Introduction

- Cameron Partners has been asked to review the organisational architecture of CCC's commercial assets and activities in the context of the rebuild of the Christchurch central city
- Prior to the earthquakes, CCC was managing a 'steady state' city and economy, seeking incremental improvement within a clearly defined funding envelope
- CCC's current organisational architecture of its commercial assets and activities ('commercial architecture') reflects this 'steady state' approach
- The earthquakes and the subsequent plan to rebuild Christchurch have generated a dynamic and opportunity-rich, but also higher risk, environment for CCC to navigate
- The Christchurch earthquakes have presented CCC with an unprecedented opportunity to transform Christchurch into a world-class city with a revitalised economy. CCC has the opportunity to build a modern city by learning from and leveraging international models for the rejuvenation of cities and by deploying global best practices in relation to city council ownership, financing and management of assets and activities
- This is a critical time in the rebuild of Christchurch – CCC has the opportunity to show strong, pro-active leadership in responding to the rebuild opportunities and challenges
- The Crown and private sector will respond positively to leadership by CCC
- To optimise outcomes and minimise execution risks associated with the Christchurch rebuild, CCC requires a revised commercial architecture which ensures that:
  - all of CCC's commercial assets and activities are fully aligned to CCC's vision and strategy for rebuilding the city
  - that CCC has appropriate control and decision rights over its commercial assets and activities in order to direct them to the city rebuild objectives and outcomes

# 1. Organisational Architecture for the Rebuild

## Introduction

- Organisational architecture refers to the arrangement of the key features of an organisation<sup>1</sup> to achieve its objectives:
  - ‘*Software*’ i.e. values, vision, strategy and culture of the organisation
  - ‘*Hardware*’ i.e. formal structures and processes – legal and functional entities, and decision, control and reward systems
  - ‘*People*’ i.e. the organisation’s human resources with requisite capabilities
- Christchurch’s commercial assets and activities are currently owned and managed by the following subsidiaries:
  - Christchurch City Holdings Limited (CCHL)
  - Vbase Limited (Vbase)
  - Canterbury Development Corporation Holdings Limited (CDC)
  - Christchurch & Canterbury Tourism (CCT)
- In this section we provide an overview and assessment of the current organisational architecture of CCC’s commercial assets and activities followed by our recommended approach

<sup>1</sup> See for example, *Harvard Business Review: The CEO as Organizational Architect: An Interview with Xerox’s Paul Allaire*

# 1. Organisational Architecture for the Rebuild

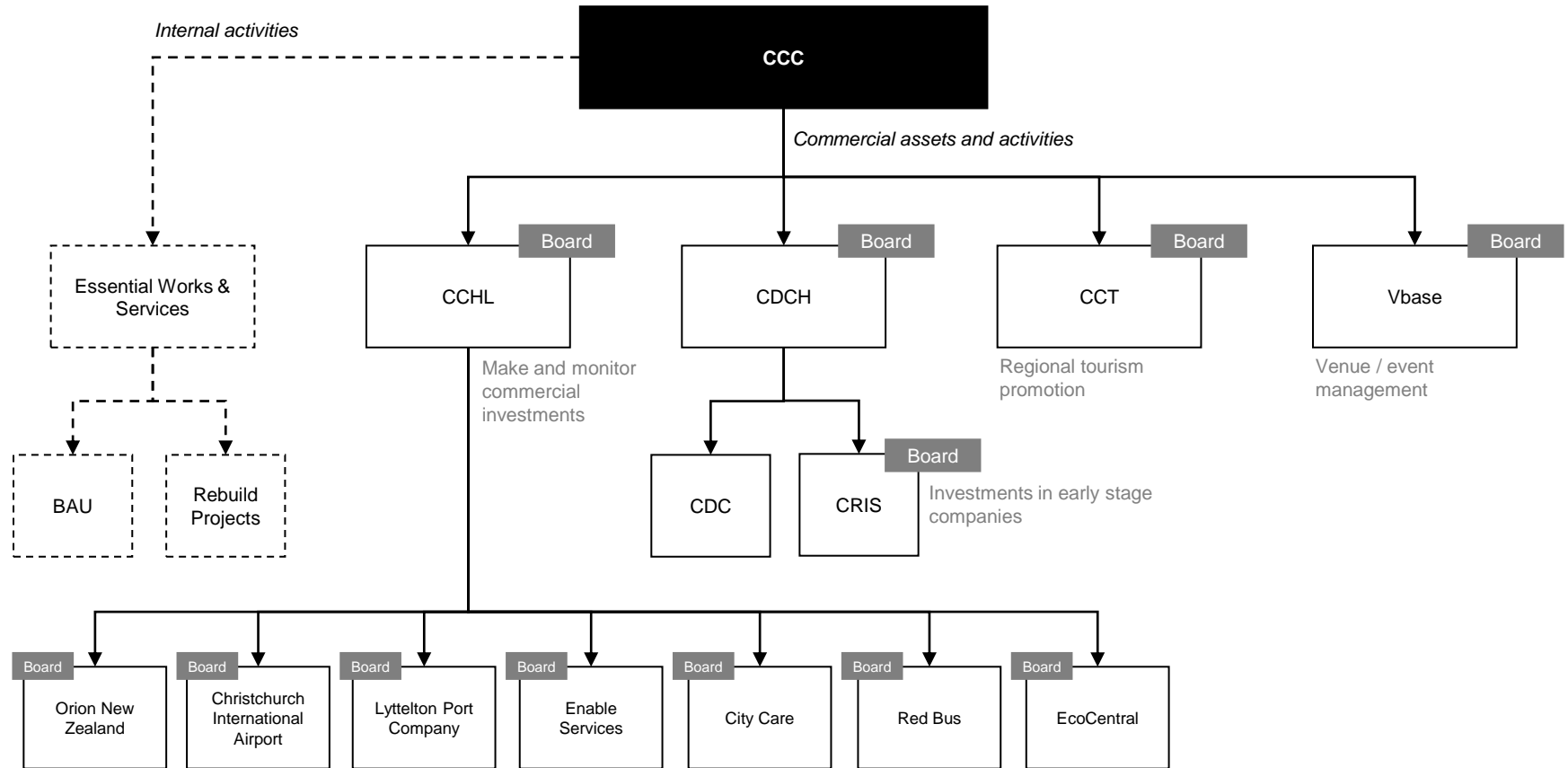
## Current Commercial Architecture

- The table below presents an overview of CCC's commercial assets and activities. A more detailed, diagrammatic representation is presented on the next slide

Objectives	Mandate	Governance and management	Operating expenses	Assets	Key capabilities
<b>CCHL</b>	<ul style="list-style-type: none"> <li>Invest / divest and monitor commercial investments</li> </ul>	<ul style="list-style-type: none"> <li>8 member Board</li> <li>Management team</li> </ul>	<ul style="list-style-type: none"> <li>\$ 2.2m (June 2013, excl. finance costs)</li> </ul>	<ul style="list-style-type: none"> <li>\$1.7 billion (carrying value of commercial investments)</li> </ul>	<ul style="list-style-type: none"> <li>Investment management</li> <li>Asset monitoring</li> </ul>
<b>Vbase</b>	<ul style="list-style-type: none"> <li>Venue and event management</li> </ul>	<ul style="list-style-type: none"> <li>4 member Board</li> <li>Management team</li> </ul>	<ul style="list-style-type: none"> <li>Approx. \$9 million (FY13 estimate, excl. F&amp;B expenses)</li> </ul>	<ul style="list-style-type: none"> <li>Lancaster Park, Christchurch Town Hall, Christchurch Convention Centre Land and Horncastle Arena</li> <li>Asset value: \$238 million (2009)</li> </ul>	<ul style="list-style-type: none"> <li>Operations management</li> <li>Private sector engagement</li> </ul>
<b>CDC</b>	<ul style="list-style-type: none"> <li>Economic development</li> <li>Early stage company investments</li> </ul>	<ul style="list-style-type: none"> <li>7 member Board</li> <li>Management team</li> </ul>	<ul style="list-style-type: none"> <li>\$5.4 million (June 2013)</li> </ul>	<ul style="list-style-type: none"> <li>\$8.5 million (June 2013)</li> </ul>	<ul style="list-style-type: none"> <li>Strategic planning</li> <li>Private sector engagement</li> <li>Crown engagement</li> </ul>
<b>CCT</b>	<ul style="list-style-type: none"> <li>Regional tourism promotion</li> </ul>	<ul style="list-style-type: none"> <li>7 member Board</li> <li>Management team</li> </ul>	<ul style="list-style-type: none"> <li>\$5.4 million (June 2013)</li> </ul>	<ul style="list-style-type: none"> <li>\$1.5 million (June 2013)</li> </ul>	<ul style="list-style-type: none"> <li>Strategic planning</li> <li>Marketing &amp; communications</li> </ul>

# 1. Organisational Architecture for the Rebuild

## Current Commercial Architecture



# 1. Organisational Architecture for the Rebuild

## Framework for Assessing Commercial Architecture

- Below we set out a set of objectives against which CCC can evaluate its current commercial architecture:

Objectives	Comments
<b>Enhance organisational alignment</b>	<ul style="list-style-type: none"> <li>Alignment of the individual mandates of CCC's commercial assets and activities into a single mandate directed at achieving CCC's vision and addressing the financial challenges associated with the rebuild</li> </ul>
<b>Maintain political-commercial separation</b>	<ul style="list-style-type: none"> <li>Maintain separation between policy / political decision making and management of commercial assets and activities</li> <li>CCC's ownership and control of commercial assets and activities serves to ensure alignment to its overall strategy while organisational separation enhances commercial focus</li> </ul>
<b>Enhance CCC's control and decision rights</b>	<ul style="list-style-type: none"> <li>Ensure CCC maintains appropriate control and decision rights over its commercial assets and activities and is able to direct them to the rebuild as required and optimise its funding position</li> </ul>
<b>Synergies and cost savings</b>	<ul style="list-style-type: none"> <li>Capture synergy benefits (financial and non-financial) and cost saving opportunities</li> <li>Minimise duplication of governance, mandates and resources</li> </ul>
<b>Commercial monitoring</b>	<ul style="list-style-type: none"> <li>CCC's commercial assets and activities should be monitored by an 'office' with commercial capabilities and experience to optimise performance and ensure strategic and financial alignment with CCC's objectives for the city</li> </ul>
<b>Commercial support for the rebuild</b>	<ul style="list-style-type: none"> <li>CCC's commercial assets and activities are of strategic and financial importance to the rebuild of Christchurch</li> <li>CCC will benefit from being able to leverage the skills and experience located within its portfolio of commercial activities</li> </ul>



# 1. Organisational Architecture for the Rebuild

## Assessment of Current Commercial Architecture

- CCC currently has a 'functional' organisational architecture – separate, self-governing and semi-autonomous organisations are mandated to focus on specific functions e.g. investment management, tourism promotion and economic development
- These organisations have been set-up as formal (legal) subsidiaries, each with its own Board and management team
- An advantage of a functional approach to organisational architecture is that it allows for greater focus and specialisation at the functional level
- In a dynamic environment where the focus is on rebuilding the city and managing the financial challenges, the major disadvantage of the functional approach to organisation structure is that it creates barriers between different functions (which each control different resources and capabilities) increasing the risk of misalignment with CCC's overall strategy and lack of coordination
- Measured against the objectives presented above, CCC's current commercial architecture is likely to produce sub-optimal outcomes:

Objectives	Assessment
<b>Political-commercial separation</b>	<ul style="list-style-type: none"> <li>▪ The current structure maintains an appropriate separation between political decision making and the governance and management of commercial activities</li> </ul>
<b>Organisational alignment</b>	<ul style="list-style-type: none"> <li>▪ Resources and capabilities are dispersed across a number of organisations, each pursuing individual mandates</li> <li>▪ Absence of a single overarching rebuild-focussed mandate / strategy to which the activities of the commercial activities may be aligned</li> <li>▪ We note that the Board of CCHL is proactively taking steps to realign its activities to CCC's requirements and overall strategy for the rebuild</li> </ul>
<b>Control and decision rights</b>	<ul style="list-style-type: none"> <li>▪ Limited ability for CCC to direct the resources and activities of its subsidiaries toward the city rebuild objectives and outcomes</li> </ul>
<b>Synergies and cost savings</b>	<ul style="list-style-type: none"> <li>▪ Management structures, systems &amp; processes and resources &amp; capabilities have been duplicated in a number of areas</li> <li>▪ Significant cost savings opportunities may exist</li> </ul>
<b>Commercial monitoring</b>	<ul style="list-style-type: none"> <li>▪ At present CCC is directly responsible for monitoring the performance and strategic alignment of its commercial activities (CCHL, CDC, CTC, Vbase). In respect of CCC's commercial company investments (Orion etc.), monitoring is outsourced to CCHL</li> </ul>
<b>Support for the rebuild</b>	<ul style="list-style-type: none"> <li>▪ Individual subsidiaries lack scale to respond effectively to rebuild challenges</li> <li>▪ Limited ability to leverage capabilities as they are dispersed across a number of organisations</li> </ul>

# 1. Organisational Architecture for the Rebuild

## Proposed Commercial Architecture

### Overview

- As noted above, to optimise outcomes and minimise execution risks associated with the Christchurch rebuild, CCC will require a revised commercial architecture which ensures that:
  - all of CCC's commercial assets and activities are fully aligned to CCC's vision, strategy and financing of the rebuild
  - that CCC has appropriate control and decision rights over its commercial assets and activities in order to direct them to the rebuild as required
- Giving effect to this will require:
  - The establishment of a new Council Controlled Company (CommercialCo) as the vehicle responsible for the ownership of CCC's commercial assets and, the performance and monitoring of its commercial activities
  - A consolidation of the resources and capabilities of CCC's existing commercial activities to strengthen CCC's control and decision rights
  - A re-specification and re-alignment of their existing mandates into one which is focussed on CCC's challenges / objectives in relation to rebuilding a new city and managing the transition from Crown involvement to Council control
- A consolidation of CCC's commercial assets and activities is likely to offer significant cost saving opportunities
- CommercialCo would be responsible for the ownership and management of all of CCC's commercial assets and activities. It would have the following focus areas:
  - Christchurch central city rebuild: Advice to CCC and responsibility for execution of some rebuild projects
  - Commercial investment portfolio: Monitoring and optimising CCC's commercial investment portfolio
  - Tourism and Economic Development: Advice and execution
- We discuss CommercialCo's mandate and governance in greater detail below

# 1. Organisational Architecture for the Rebuild

## Proposed Commercial Architecture

### Mandate

- CommercialCo's mission and strategy will be aligned to the CCC's overall vision, strategy and objectives for the rebuild
- As noted above, CommercialCo would be responsible for the ownership and management of all of CCC's commercial assets and activities
- An organisation with CommercialCo's resources and capabilities means it will be ideally placed to function as CCC's 'rebuild delivery vehicle' – planning and executing CCC's involvement in 'commercial' (e.g. Anchor Projects) and other rebuild projects (in Appendix 2, we provide an outline of the key implementation decisions in relation to the rebuild)
- Assigning responsibility for execution of specific rebuild projects to CommercialCo relative to internalising that responsibility within CCC offers the following benefits:
  - Ensures arms-length governance and management of commercial projects
  - Provides flexibility to invest and partner unencumbered by public sector constraints
  - Enhances CCC's ability to attract private sector investment partnerships by operating commercially and being regarded as commercial
  - Enables CCC to attract commercial expertise and capabilities to the organisation
- CommercialCo's key responsibilities will be to:
  - In relation to CCC's existing commercial assets and activities:
    - Provide advice to CCC in relation to choices for optimising its ownership, governance and management of its existing assets and activities to best align them with CCC's strategic and financial objectives for the rebuild
    - Manage and execute any decisions by CCC / Council in relation to this advice
  - In relation to CCC's involvement in the rebuild of Christchurch city:
    - Provide implementation and financing advice to CCC in relation to its participation in rebuild projects
    - Manage and execute any decisions by CCC / Council in relation to this advice

# 1. Organisational Architecture for the Rebuild

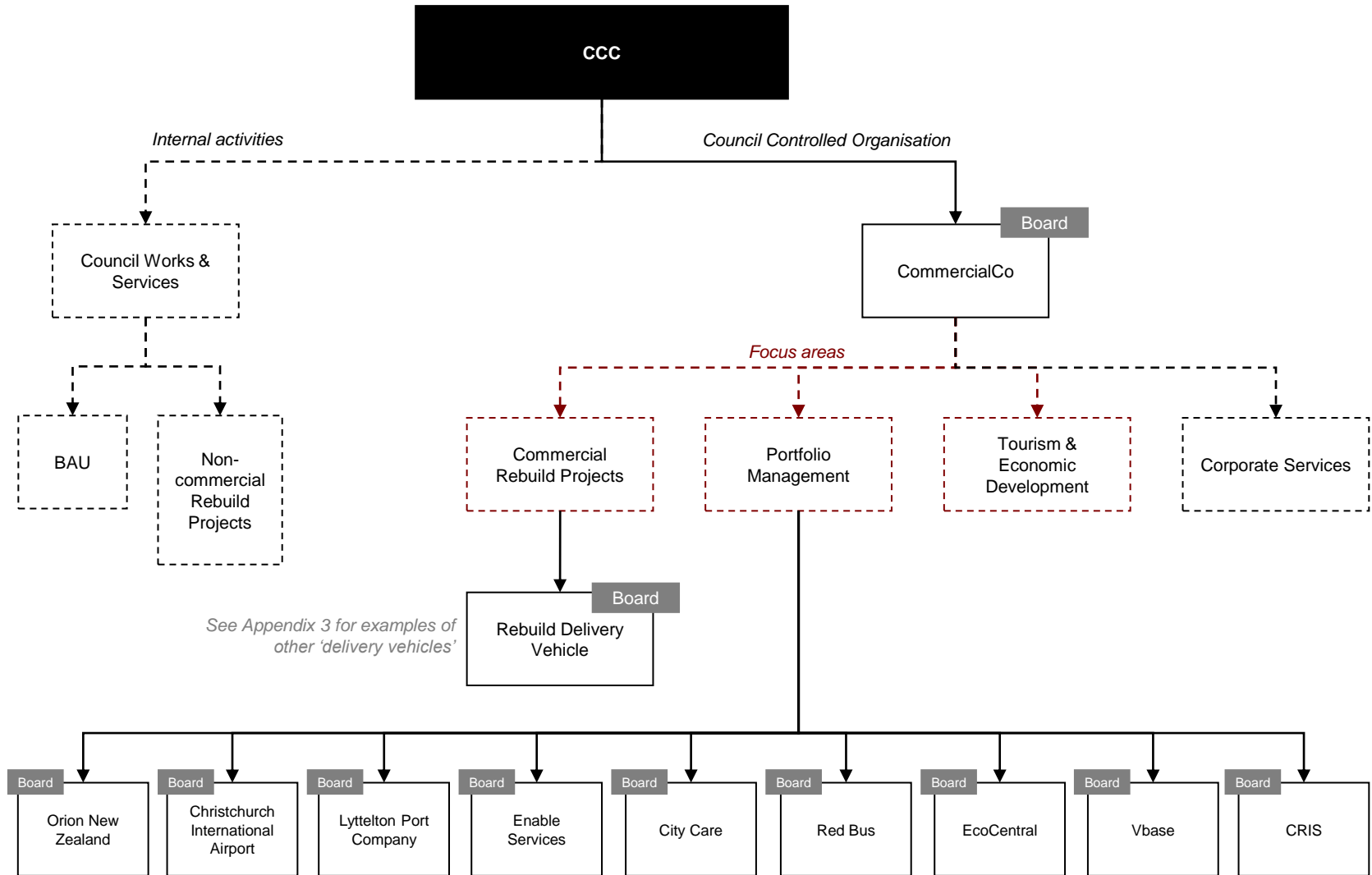
## Proposed Commercial Architecture

### Governance and management

- It is imperative that Council and the CCC Executive Leadership Team (ELT) have direct visibility and control of CommercialCo
- We propose that CommercialCo have a Board of Directors comprised of:
  - CCC's CEO and CFO
  - Two Council representatives (most likely the Mayor and Chair of the Finance Committee)
  - Three independent directors
    - This is an appropriate number of independent directors given the scope of the Board's activities and responsibilities
    - Appointing three independent directors will also enable Council to select a broader range of skills and experience
  - An independent Chairperson, in addition to the three independent directors above
- The Board would be directly accountable to Council
- CommercialCo's management team would be drawn from existing subsidiaries and augmented by new resources or advisors as required
- The proposed commercial architecture is presented diagrammatically on the next slide

# 1. Organisational Architecture for the Rebuild

## Proposed Commercial Architecture



# 1. Organisational Architecture for the Rebuild

## Summary & Next Steps

### Summary

- CCC's commercial assets and activities are of strategic and financial importance to the rebuild of the central city
- CCC's current commercial architecture is likely to lead to sub-optimal outcomes from the rebuild
- To optimise outcomes and minimise execution risks associated with the Christchurch rebuild, CCC requires a new Council Controlled Organisation (CommercialCo) to consolidate and coordinate CCC's existing commercial activities and assets
- With representation on the Board of CommercialCo, the Council and the CCC ELT will have direct visibility and control of CommercialCo
- This revised commercial architecture will ensure that:
  - All of CCC's commercial assets and activities are 'realigned' to CCC's vision and strategy for rebuilding the city
  - That CCC has appropriate control and decision rights over its commercial assets and activities in order to direct them to the city rebuild objectives and outcomes as required

### Next steps

- We envisage the following next steps:
  - The completion and ratification by Council of CCC's overall strategy and objectives for the rebuild – this will inform CommercialCo's mandate
  - Further work (including tax structuring advice) undertaken to refine the structure of CommercialCo
  - The setting up of an 'establishment board' to oversee the implementation of the revised commercial architecture

## Appendix 1 – Cash Flow Category Risk Analysis

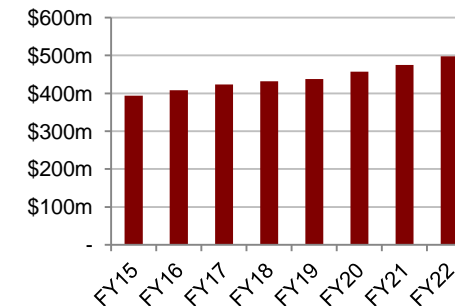
# Appendix 1 - Cash Flow Category Risk Analysis

## Operating Expenditure – BAU



### BAU opex projections

\$ millions	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Personnel costs	165.1	173.8	184.3	197.1	203.5	209.7	219.3	230.6
Office expenses	9.8	10.0	10.4	10.6	11.0	11.4	11.7	12.1
Grants and levies	31.6	37.4	42.6	38.6	32.6	33.8	34.9	36.1
Professional Advice costs	22.4	17.9	16.5	17.0	15.6	16.3	16.9	17.1
Operating costs	126.0	130.1	127.8	123.7	128.4	136.8	140.3	146.6
Maintenance costs	71.1	73.2	77.0	81.1	83.9	87.7	91.7	95.9
Internal reallocations	(32.0)	(34.0)	(35.0)	(36.1)	(37.3)	(38.6)	(39.7)	(41.1)
<b>Total</b>	<b>394.0</b>	<b>408.4</b>	<b>423.6</b>	<b>432.0</b>	<b>437.6</b>	<b>457.1</b>	<b>475.1</b>	<b>497.3</b>



Overview & key assumptions	Issues / Risks	Variance Analysis	Long Term Assessment
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- BAU cost base well understood - Personnel and contract-based costs are able to be forecast relatively accurately
- Assumptions
  - Projected personnel needs
  - Estimated growth in volumes of CCC services e.g. wheelie bin collection
  - Escalation provisions contained in service contracts; generally CPI-based
  - Opex savings targets

- Affected by timing of major capital programmes which have opex components
- Failure to achieve savings targets
- Material underestimation of service contract volumes

- CCC consider BAU opex to be relatively predictable
- CCC is capable of 'managing expenditure to budget'
- CCC would likely take swift action to address any material negative variance
- Foreseen increases in BAU opex would likely be rated for to eliminate negative cash flow impacts

- Likelihood of negative variance: ●
- Impact / materiality of negative variance: ●
- CCC ability to manage negative variance: ●



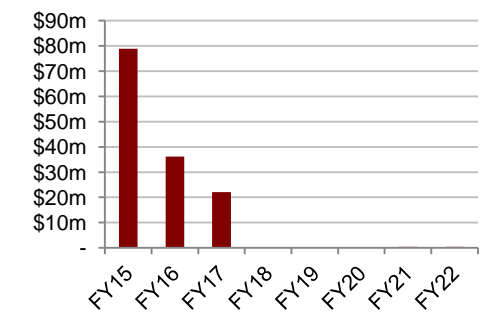
# Appendix 1 - Cash Flow Category Risk Analysis

## Operating Expenditure – EQ Response



### EQ response opex projections

\$ millions	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Water-related	24.4	18.7	12.4	0.3	0.3	0.3	0.4	0.4
Other infrastructure	9.0	4.7	2.1	-	-	-	-	-
Facilities-related	12.9	12.9	7.6	-	-	-	-	-
Rock fall budget	32.6	-	-	-	-	-	-	-
<b>Total</b>	<b>78.8</b>	<b>36.2</b>	<b>22.1</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>	<b>0.4</b>



Overview & key assumptions	Issues / Risks	Variance Analysis	Long Term Assessment
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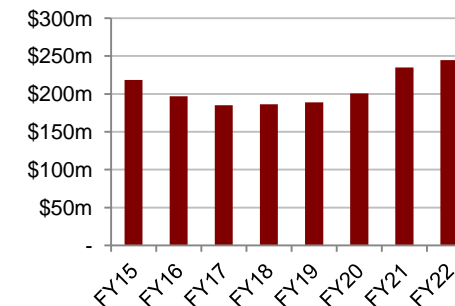
<ul style="list-style-type: none"> <li>Covers temporary infrastructure works, facility assessments, temporary increased costs of working, contribution to Port Hills land resolution</li> <li>Detailed budgets compiled by CCC based on assessed damage and work requirements</li> <li>CCC has a cost sharing agreement with CERA in relation to Port Hills</li> <li>EQ response costs are not expected to be incurred beyond FY17 except for \$300k - \$400k p.a. in land damage protection costs</li> </ul>	<ul style="list-style-type: none"> <li>Progress with insurers may impact EQ response opex</li> <li>Unexpected (and material) changes to timing and quantum of rebuild programme</li> <li>Timing and quantum of resolution of Port Hills land</li> <li>Mass movement issue may significantly increase costs – up to \$17 million in additional expenditure</li> </ul>	<ul style="list-style-type: none"> <li>Any negative variance in projected expenditure is likely related to reactive expenditure beyond CCC's control</li> <li>A material negative variance may result if Port Hills land resolution and mass movement costs escalate</li> </ul>	<ul style="list-style-type: none"> <li>Likelihood of negative variance: ● ●</li> <li>Impact / materiality of negative variance: ● ●</li> <li>CCC ability to manage negative variance: ● ●</li> </ul>
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# Appendix 1 - Cash Flow Category Risk Analysis

## Capital Programme – BAU



\$ millions	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Corporate	26.5	27.7	28.5	18.9	20.4	20.3	21.1	25.4
Cultural and learning services	18.6	7.4	7.6	10.2	21.1	18.3	10.8	10.5
Provision of roads and footpaths	58.9	76.8	43.1	45.6	47.7	52.0	90.0	90.3
Sewerage treatment and disposal	49.8	32.5	54.0	61.3	43.9	39.9	35.4	41.9
Stormwater	13.2	14.2	15.3	16.7	19.2	21.5	22.2	22.3
Water supply	19.2	11.7	10.0	8.3	9.6	9.7	15.8	17.6
Other	32.4	26.6	26.4	25.5	27.1	39.0	39.6	36.8
<b>Total</b>	<b>218.6</b>	<b>196.9</b>	<b>185.0</b>	<b>186.5</b>	<b>188.9</b>	<b>200.8</b>	<b>234.9</b>	<b>244.7</b>



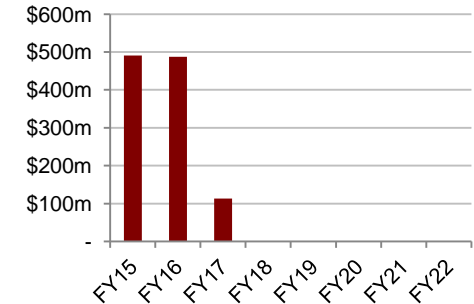
Overview & key assumptions	Issues / Risks	Variance Analysis	Long Term Assessment
<ul style="list-style-type: none"> <li>Detailed modelling to develop the projections</li> <li>Leverages detailed analysis undertaken to prepare LTCCP and TYP</li> <li>Key projects with significant spend are generally estimated by external advisors</li> <li>Some contingencies are included in project cost estimates</li> <li>Carry overs included in the projections:                             <ul style="list-style-type: none"> <li>FY15 Includes \$75m of carry over capex</li> <li>\$65m from FY15 to FY16</li> <li>\$55m from FY16 to FY17</li> <li>\$45m carried over each year from FY17</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Reflects the view on rebuild timing contained in the TYP</li> <li>Cost estimates are updated as projects progress; confidence levels are higher for more mature projects</li> <li>NZTA subsidies are linked to the actual (rather than planned) timing of expenditure</li> <li>Industry capacity to undertake the planned work</li> <li>Works often require consultation with key stakeholders and relevant consents</li> <li>Scope for deferring or reducing BAU capital programme if funding constraints arise</li> </ul>	<ul style="list-style-type: none"> <li>BAU capex projections are supported by detailed cost analysis</li> <li>CCC is capable of 'managing expenditure to budget'</li> <li>CCC would likely take swift action to address any material negative variance</li> <li>Foreseen increases in BAU capex would likely be rated for to eliminate negative cash flow impacts</li> </ul>	<ul style="list-style-type: none"> <li>Likelihood of negative variance: ●</li> <li>Impact / materiality of negative variance: ●</li> <li>CCC ability to manage negative variance: ●                             <ul style="list-style-type: none"> <li>Use contingency funds</li> <li>Defer or reprioritise expenditure</li> </ul> </li> </ul>

# Appendix 1 - Cash Flow Category Risk Analysis

## Capital Programme – SCIRT



\$ millions	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
SCIRT	490.7	487.5	112.8	-	-	-	-	-
Crown Cost Share Target Savings	-	(223.5)	(129.4)	(45.4)	-	-	-	-



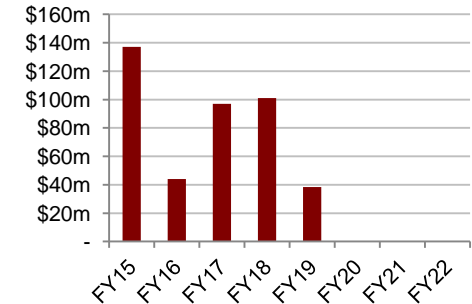
Overview & key assumptions	Issues / Risks	Variance Analysis	Long Term Assessment
<ul style="list-style-type: none"> <li>Estimates are based on the October 2012 estimate provided by the SCIRT alliance</li> <li>First principles, bottom-up approach to cost estimates</li> <li>Estimates reviewed by external cost auditors</li> <li>Cost sharing agreement with Crown for eligible water infrastructure (via CERA) and roading (via NZTA)</li> </ul>	<ul style="list-style-type: none"> <li>Flexibility of the Cost Share Agreement with the Crown</li> <li>Delays in rebuild activity</li> <li>Constraints in the construction / labour market</li> <li>Uncertainty related to the Red Zone</li> <li>Failure to achieve savings targets</li> <li>Limited ability to amend SCIRT programme and could compromise wider rebuild</li> </ul>	<ul style="list-style-type: none"> <li>CCC consider it unlikely that SCIRT expenditure will be below projected levels</li> <li>SCIRT estimate includes cost savings target of \$398 – if cost savings are not achieved then CCC will liable for the amount unless the Crown agrees to share part of the expenditure</li> <li>We understand that approx. \$150m in cost savings have already been identified</li> </ul>	<ul style="list-style-type: none"> <li>Likelihood of negative variance: ●●●                             <ul style="list-style-type: none"> <li>Actual costs may be materially higher than assessed costs</li> </ul> </li> <li>Impact / materiality of negative variance: ●●●                             <ul style="list-style-type: none"> <li>Large scale project</li> </ul> </li> <li>CCC ability to manage negative variance: ●●●                             <ul style="list-style-type: none"> <li>Multi-organisation project</li> <li>Project contributes to overall rebuild and recovery</li> </ul> </li> </ul>

# Appendix 1 - Cash Flow Category Risk Analysis

## Capital Programme – Non-SCIRT



\$ millions	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Non-SCIRT	137.2	43.9	96.9	101.1	38.3	-	-	-



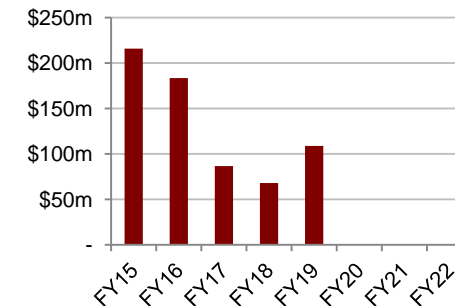
Overview & key assumptions	Issues / Risks	Variance Analysis	Long Term Assessment
<ul style="list-style-type: none"> <li>CCC estimates reviewed by BECA for non-SCIRT infrastructure</li> <li>Cost sharing agreement with Crown for eligible water infrastructure (via CERA) and roading (via NZTA)</li> <li>Fixed contribution for anchor projects (approx. \$800m)</li> <li>Co-funded elements under new governance and a further capital rationing process is underway</li> </ul>	<ul style="list-style-type: none"> <li>High degree of uncertainty for non-SCIRT infrastructure estimates</li> <li>Definitions of rebuild solutions for waterways, lifelines and the roading and hardscaping items is still in progress and subject to a number of key decisions. This will likely delay the programme timing</li> <li>Less than 100% of damaged infrastructure has been assessed (expected to reach 100% in the next few months)</li> </ul>	<ul style="list-style-type: none"> <li>CCC considers that it will be able to manage expenditure to budget and does not anticipate any material negative variance to the long term projections</li> <li>Programme delays may result in deferral of expenditure but this is expected to be netted out over the long term</li> <li>Timing affected by key decisions such as red-zone waterways and scope of the Lyttelton / Sumner road corridor treatment</li> </ul>	<ul style="list-style-type: none"> <li>Likelihood of negative variance: ●                             <ul style="list-style-type: none"> <li>Policies and controls limit expenditure above budget</li> <li>Damage has yet to be fully assessed</li> </ul> </li> <li>Impact / materiality of negative variance: ●</li> <li>CCC ability to manage negative variance: ●                             <ul style="list-style-type: none"> <li>Expenditure would be deferred or reprioritised</li> </ul> </li> </ul>

# Appendix 1 - Cash Flow Category Risk Analysis

## Capital Programme – Facilities & Other



\$ millions	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Art Gallery Repairs	17.2	-	-	-	-	-	-	-
Central Library	26.1	19.9	15.0	-	-	-	-	-
East Pool	27.8	-	-	-	-	-	-	-
Metro Sports	80.5	50.0	-	-	-	-	-	-
Carpark repairs	20.9	27.2	6.7	-	-	-	-	-
Facilities Rebuild Plan: Insurance Funded	45.8	38.8	40.4	16.8	-	-	-	-
Town Hall	52.3	50.6	-	-	-	-	-	-
Other	(54.7)	(2.9)	24.6	51.2	108.8	-	-	-
<b>Total</b>	<b>216.0</b>	<b>183.5</b>	<b>86.7</b>	<b>68.0</b>	<b>108.8</b>	-	-	-



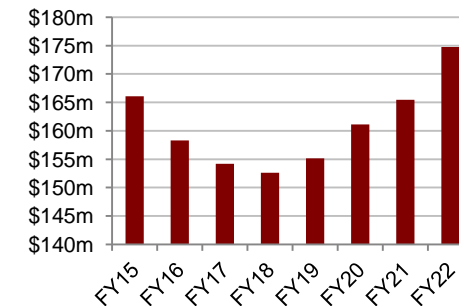
Overview & key assumptions	Issues / Risks	Variance Analysis	Long Term Assessment
<ul style="list-style-type: none"> <li>Repair / rebuild of metropolitan and community facilities and social housing utilises the same long-term planning process as BAU capex (i.e. TYP update), including some CERA cost estimates for anchor projects</li> <li>Major facilities / anchor projects are part of the cost share agreement with CERA and the bulk of the programme is under CCDU management</li> <li>Improvement allowance established in April 2011 (and not updated since) for improvements or strengthening of Council assets in excess of pre-earthquake condition</li> <li>CCC has assumed insurance settlements for rebuild / repairs will be paid out in full (less a 2.5% excess)</li> </ul>	<ul style="list-style-type: none"> <li>The improvement allowance is insufficient</li> <li>Insurance settlement delays or issues around quantum</li> <li>Issues with insurance in regard to the Civic building</li> <li>Changes to Council policy – may reduce the level of rebuild required above insured values</li> <li>Market capacity to deliver projects may be insufficient</li> <li>Consultation requirements may hold up the rebuild</li> <li>Improvement allowance not being sufficient to cover additional facilities capex</li> </ul>	<ul style="list-style-type: none"> <li>CCC consider a low likelihood of material negative variance occurring barring a significant re-scoping of anchor projects</li> <li>We note that some key decisions in relation to the improvement of facilities have yet to be made and which could influence the level of expenditure required</li> <li>A top up of the improvement allowance may be required</li> <li>CCC consider that that the programme expenditure can be managed to budget</li> <li>CCC's contribution to Anchor Projects is limited to approx. \$800m per the Cost Sharing Agreement</li> </ul>	<ul style="list-style-type: none"> <li>Likelihood of negative variance: ●●</li> <li>Impact / materiality of negative variance: ●●●</li> <li>CCC ability to manage negative variance: ●●●                             <ul style="list-style-type: none"> <li>Limited control over timing of Anchor projects</li> </ul> </li> </ul>

# Appendix 1 - Cash Flow Category Risk Analysis

## Fees, Charges & Operations Subsidies



\$ millions	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Term Rentals	25.1	25.7	29.6	30.6	31.4	32.5	33.5	34.6
Entry/Usage Fees	18.9	19.3	23.6	29.4	30.4	31.4	32.4	37.2
Professional Services	50.9	51.0	45.0	42.3	43.4	44.5	45.7	47.3
Grants and Subsidies	41.2	28.8	24.2	20.6	21.3	21.5	22.5	23.4
Other	30.0	33.5	31.8	29.7	28.5	31.3	31.3	32.2
<b>Total</b>	<b>166.1</b>	<b>158.3</b>	<b>154.2</b>	<b>152.6</b>	<b>155.2</b>	<b>161.1</b>	<b>165.4</b>	<b>174.8</b>



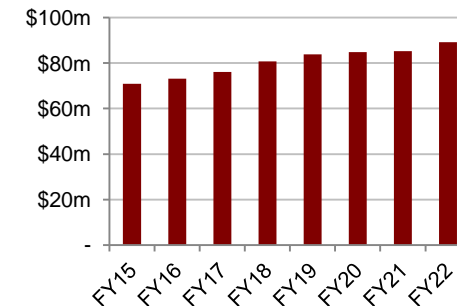
Overview & key assumptions	Issues / Risks	Variance Analysis	Long Term Assessment
<ul style="list-style-type: none"> <li>Based on an update of the TYP through the regular long-term planning process</li> <li>Updated for volumes and fee change impacts</li> <li>Includes some earthquake response recoveries</li> <li>Assumes initial increase in consenting activity forecast which then peaks and then reduces / stabilises</li> </ul>	<ul style="list-style-type: none"> <li>Volumes not achieved in consenting, parking, and other activities</li> <li>Likely to vary with the speed of the Christchurch rebuild and related activity</li> </ul>	<ul style="list-style-type: none"> <li>Fees and charges revenue is linked to user demand and is sensitive to rebuild timing (over which CCC has limited control)</li> </ul>	<ul style="list-style-type: none"> <li>Likelihood of negative variance: ●                             <ul style="list-style-type: none"> <li>Sensitive to timing in rebuild recovery</li> </ul> </li> <li>Impact / materiality: ●</li> <li>CCC ability to manage negative variance: ●●</li> </ul>

# Appendix 1 - Cash Flow Category Risk Analysis

## Dividends & Interest Received



\$ millions	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
<b>Dividends</b>								
CCHL	51.3	53.7	57.0	56.1	58.5	62.3	65.5	66.0
Transwaste	3.4	3.4	3.5	3.9	4.4	4.7	4.8	4.7
LGFA	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest received	16.1	16.0	15.4	16.5	16.4	15.5	15.4	15.3
<b>Total</b>	<b>70.9</b>	<b>73.2</b>	<b>76.1</b>	<b>76.5</b>	<b>79.4</b>	<b>82.7</b>	<b>85.8</b>	<b>86.2</b>



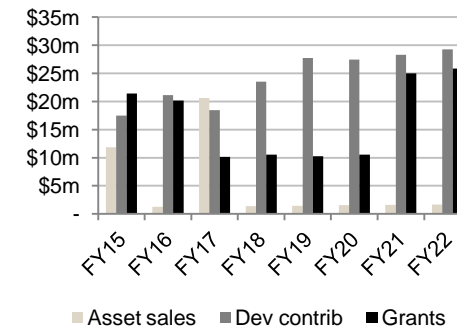
Overview & key assumptions	Issues / Risks	Annual Sensitivity	Assessment
<b>Dividends</b>			
<ul style="list-style-type: none"> <li>Consultation with CCHL and Transwaste</li> <li>CCHL and Transwaste target paying dividends in line with statements of intent</li> <li>Dividend payments are subject to company Board approval</li> </ul>	<ul style="list-style-type: none"> <li>Poor operating performance by CCHL and / or Transwaste</li> <li>CCHL has sufficient borrowing capacity to enable it to meet its dividend target</li> </ul>	<ul style="list-style-type: none"> <li>Dividend paying ability of CCHL and Transwaste is a function of the economic conditions, underlying asset performance and capital structure and dividend policies</li> <li>CCC consider CCHL to have very reliable dividend paying ability</li> </ul>	<ul style="list-style-type: none"> <li>Likelihood of negative variance: ●                             <ul style="list-style-type: none"> <li>CCHL high ability to pay</li> </ul> </li> <li>Impact / materiality: ●</li> <li>CCC ability to manage negative variance: ●●</li> </ul>
<b>Interest</b>			
<ul style="list-style-type: none"> <li>Interest received relates to advances made by CCC to CCO's</li> <li>Projection based on interest rate advice, detailed assessment of special fund projections and current advance agreements</li> </ul>	<ul style="list-style-type: none"> <li>CCO failure to pay (low risk)</li> </ul>	<ul style="list-style-type: none"> <li>No range estimated for Interest Received</li> </ul>	<ul style="list-style-type: none"> <li>Likelihood of negative variance: ●</li> <li>Impact / materiality: ●</li> <li>CCC ability to manage negative variance: not applicable</li> </ul>

# Appendix 1 - Cash Flow Category Risk Analysis

## Other Income



\$ millions	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Asset sales	11.9	1.3	20.6	1.4	1.5	1.5	1.6	1.7
Development contributions	17.5	21.1	18.5	23.5	27.7	27.4	28.3	29.2
Capital grants and subsidies	21.4	20.2	10.2	10.5	10.3	10.6	25.0	25.8
<b>Total</b>	<b>50.7</b>	<b>42.6</b>	<b>49.3</b>	<b>35.5</b>	<b>39.5</b>	<b>39.5</b>	<b>54.9</b>	<b>56.8</b>



Overview & key assumptions	Issues / Risks	Variance Analysis	Long Term Assessment
<ul style="list-style-type: none"> <li>Projection for FY15 – FY16 for Other Income have been adopted from the TYP with minor modifications</li> <li>Projections for periods beyond FY16 are based on work done to create the Long Term Plan which has not been finalised / published – the assumptions may require updating</li> <li>Development contribution income based on growth assumptions for new subdivisions and is consistent with CERA's Land Use Recovery Plan</li> <li>NZTA subsidies are linked to roading expenditure in the BAU capital programme – projection is developed with NZTA</li> </ul>	<ul style="list-style-type: none"> <li>Asset sales delayed</li> <li>Slower than expected pace of new subdivision development</li> <li>Delays in the BAU roading capital programme</li> </ul>	<ul style="list-style-type: none"> <li>Revenue from development contributions is dependent on timing and volume of rebuild activity</li> <li>Capital grants and subsidies are mainly comprised of NZTA subsidies for the provision of roads</li> <li>Assets sales projections beyond FY15 are placeholders and the assets to be sold have not yet been specifically identified</li> </ul>	<ul style="list-style-type: none"> <li>Likelihood of negative variance: ●</li> <li>Impact / materiality: ●</li> <li>CCC ability to manage negative variance: ●●                             <ul style="list-style-type: none"> <li>Development contributions depend on external factors</li> <li>Minor asset sales are discretionary but require significant preparation and lead time</li> </ul> </li> </ul>

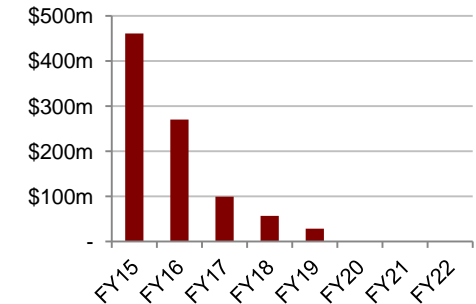


# Appendix 1 - Cash Flow Category Risk Analysis

## Earthquake Recoveries



\$ millions	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
CERA recoveries	244.9	107.7	-	-	-	-	-	-
Insurance recoveries	78.7	77.4	42.4	16.4	-	-	-	-
Insurance recoveries - Housing	8.9	9.7	13.5	12.8	-	-	-	-
NZTA recoveries	128.7	75.5	43.8	27.4	28.6	-	-	-
Other recoveries	0.2	0.2	0.1	-	-	-	-	-
<b>Total</b>	<b>461.4</b>	<b>270.5</b>	<b>99.8</b>	<b>56.7</b>	<b>28.6</b>	-	-	-



Overview & key assumptions	Issues / Risks	Variance Analysis	Long Term Assessment
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- Based on earthquake capital expenditure
- 60% recoveries on eligible water infrastructure (via CERA)
- 83% on eligible road network spend (via NZTA)
- Insurance assumed as rebuild / repair of facility assets on a like-for-like basis (less 2.5% excess)
- An independent review of the Cost Sharing Agreement is schedule for December 2014 – the CCC and Crown will engage after the results of the review are published to finalise their respective positions

- Recoveries received after completion of rebuild work (except for insurance settlements) – and vary with actual capex spend
- Insurance: for the major rebuild projects contract-specific policy payout limits have been assumed; for other assets the insurance estimate is based on somewhat outdated assessments of damage
- Insurance timing has assumed to be in line with initial rebuild spend, i.e. initial expenditure is covered by insurance, residual expenditure assumed to be funded through borrowing
- CCC considers there is potential for insurance payouts to be materially lower than its budget

- CERA and NZTA recoveries have been agreed with these organisations
- Depending on the results of additional discussions with the Crown the quantum of CERA recoveries may be increased
- The timing and amount of insurance recoveries remain uncertain
- Insurance recoveries are dependent on Crown and Council rebuild decisions and the outcome from CCC's negotiations with insurance companies

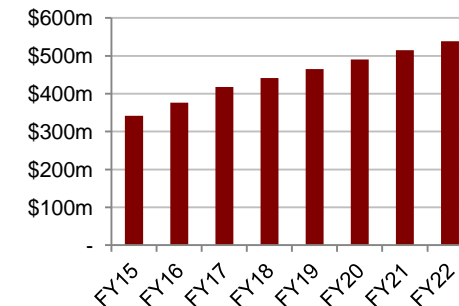
- Likelihood of negative variance: ●●
  - Related to outcome from insurance negotiations
- Impact / materiality of negative variance: ●●●
  - Related to outcome from insurance negotiations
- CCC ability to manage negative variance: ●●●
  - Related to outcome from insurance negotiations
  - CERA and NZTA recoveries are agreed

# Appendix 1 - Cash Flow Category Risk Analysis

## Rates



<i>\$ millions</i>	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Special Earthquake Charge	23.5	31.4	33.0	34.6	36.3	37.8	39.3	40.9
Metro Facilities Levy	6.0	6.4	6.7	7.0	7.3	7.6	7.9	8.2
Rates for asset renewals	101.7	104.8	111.5	116.9	122.6	128.7	135.0	141.9
Rates for debt repayment	10.3	14.6	20.7	24.5	29.0	31.4	33.6	36.1
Balance of rates funding opex	200.5	219.1	246.2	262.7	273.9	287.0	298.9	314.4
<b>Total</b>	<b>342.1</b>	<b>376.3</b>	<b>418.0</b>	<b>445.7</b>	<b>469.2</b>	<b>492.5</b>	<b>514.7</b>	<b>541.6</b>



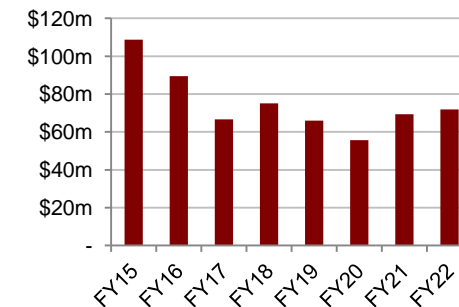
Overview & key assumptions	Issues / Risks	Variance Analysis	Long Term Assessment
<ul style="list-style-type: none"> <li>Rates projection is set with reference to projected operating and capital inflows and outflows</li> <li>Council maintains a comprehensive database of rating units and assessed capital - a general revaluation is occurring currently which will incorporate the wider valuation impacts caused by the earthquakes</li> <li>The LT Forecasts assume the decline in the rating base is reversing                             <ul style="list-style-type: none"> <li>Demolition activity is declining</li> <li>Subdivision activity is increasing</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The projected Rates figure in the Annual Plan has been approved by the CCC Executive Team and is relatively fixed at this point</li> <li>Rates projections beyond FY15 have not yet been finalised by CCC</li> <li>Risk of further decline in the rating base                             <ul style="list-style-type: none"> <li>Additional demolitions</li> <li>Slower pace of rebuilds</li> <li>Valuation adjustments as a result of assessed earthquake damage</li> <li>Reduction in capital value as a result of possible rezoning decisions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The Council's rating ability is linked to a variety of external factors including growth in the ratings base, pace of rebuild activity, demolitions volumes and capital appreciation</li> <li>CCC confident decline in rating base is reversing</li> </ul>	<ul style="list-style-type: none"> <li>Likelihood of negative variance: ●</li> <li>Impact / materiality of negative variance: ●</li> <li>CCC ability to manage negative variance: ●</li> </ul>

# Appendix 1 - Cash Flow Category Risk Analysis

## Debt-related Inflows & Outflows



\$ millions	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
<b>New borrowing</b>								
BAU capital programme	108.7	89.4	66.7	75.1	66.1	55.7	69.4	72.0
Capital grants	-	4.4	8.9	4.6	0.1	0.1	0.0	0.0
Operational costs	0.7	1.2	-	-	-	-	-	-
Operational deficit	13.9	11.6	-	-	-	-	-	-
Earthquake related	453.2	256.4	110.8	55.6	81.7	(17.9)	(23.0)	(27.0)
<b>Total new borrowing</b>	<b>576.5</b>	<b>363.0</b>	<b>186.4</b>	<b>135.3</b>	<b>147.9</b>	<b>37.9</b>	<b>46.4</b>	<b>45.0</b>
Debt repayment provision	10.3	14.6	20.7	24.5	29.0	31.4	33.6	36.1



Overview & key assumptions	Issues / Risks	Variance Analysis	Long Term Assessment
<ul style="list-style-type: none"> <li>Prepared by Treasury Management Team incl. external advisor PwC</li> <li>The Borrowing Programme reflects the residual CCC funding requirement</li> <li>80% of borrowing sourced via LGFA with the balance being bonds and commercial paper</li> <li>Compliance with LGFA lending covenants and regard for impact on S&amp;P rating</li> <li>Debt position is continuously monitored</li> <li>CCC targets 80% / 20% mix of fixed / floating interest charges</li> <li>New borrowing is assumed to be in place for 40% of the year to calculate interest</li> </ul>	<ul style="list-style-type: none"> <li>Based on rebuild timing contained in the TYP – this has not been reviewed for material changes</li> <li>Capital 'carry overs' from current financial year may impact borrowing</li> <li>Risks                             <ul style="list-style-type: none"> <li>Capital programme accelerated (low likelihood)</li> <li>Delays / reductions in earthquake recoveries (medium likelihood)</li> <li>CERA requires CCC contribution earlier than expected (low likelihood)</li> </ul> </li> <li>Debt payment is rated for</li> <li>Earthquake related interest is paid from borrowings</li> </ul>	<ul style="list-style-type: none"> <li>No range estimated for Borrowing Programme – residual funding requirement after taking all other inflows and outflows into account</li> </ul>	<ul style="list-style-type: none"> <li>Likelihood of negative variance: ●●                             <ul style="list-style-type: none"> <li>Depends on CCC ability to actively manage cash shortfalls</li> <li>CCC monitors its forecast cash flow position regularly</li> </ul> </li> <li>Impact / materiality: ●●                             <ul style="list-style-type: none"> <li>Depends on CCC ability to actively manage cash shortfalls</li> </ul> </li> <li>CCC ability to manage negative variance: ●</li> </ul>

## Appendix 2 - Rebuild Implementation & Delivery

## Framework

### Framework for implementation

- The execution of the rebuild programme and individual projects is comprised of two types of decisions, those relating to:
  - Investment decision making (scoping, planning, designing and partnering)
  - Execution decision making (procurement, structuring, financing, construction, operations)

Investment decisions	Execution decisions
<ul style="list-style-type: none"><li>■ What is the vision for the project?</li><li>■ What are the desired outcomes?</li><li>■ Who are the key stakeholders?</li><li>■ What scope, scale and design of the project are most likely to achieve the desired outcomes?</li><li>■ What range of 'tools' does CCC have at its disposal to achieve the desired outcomes?</li><li>■ What are the implications for economic ownership and control by the relevant stakeholders?</li></ul>	<ul style="list-style-type: none"><li>■ What is the most appropriate procurement process?</li><li>■ Which procurement structure maximises value for money?</li><li>■ What is the optimal capital structure for the project?</li><li>■ Who will assume lead responsibility for the delivery of the project?</li><li>■ Once completed, how will the project be operated? Are any particular governance structures required?</li></ul>

### Key implementation decisions

- The key decisions framework below will enable CCC to make appropriate judgements about execution that are consistent with the joint-objectives of maximising the probability of success for implementing individual projects and achieving the CCC's overall objectives for the rebuild of Christchurch

# Appendix 2 - Rebuild Implementation & Delivery

## Key implementation decisions

Decision area	CCC considerations				
<b>Project outcomes and strategy</b>	<ul style="list-style-type: none"> <li>■ What is the vision for the project? What outcomes is CCC seeking to achieve?</li> </ul>				
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th data-bbox="712 396 1346 428" style="text-align: center;">Procurement outcomes</th> <th data-bbox="1346 396 1968 428" style="text-align: center;">Operating outcomes</th> </tr> </thead> <tbody> <tr> <td data-bbox="712 428 1346 648"> <ul style="list-style-type: none"> <li>■ Value for money procurement</li> <li>■ Innovation in design/construction</li> <li>■ Investment opportunities for private sector</li> </ul> </td> <td data-bbox="1346 428 1968 648"> <ul style="list-style-type: none"> <li>■ Innovation &amp; collaboration</li> <li>■ Resource sharing</li> <li>■ Economic density</li> <li>■ Better public service delivery</li> <li>■ Regional economic benefits</li> <li>■ Social benefits</li> </ul> </td> </tr> </tbody> </table>	Procurement outcomes	Operating outcomes	<ul style="list-style-type: none"> <li>■ Value for money procurement</li> <li>■ Innovation in design/construction</li> <li>■ Investment opportunities for private sector</li> </ul>	<ul style="list-style-type: none"> <li>■ Innovation &amp; collaboration</li> <li>■ Resource sharing</li> <li>■ Economic density</li> <li>■ Better public service delivery</li> <li>■ Regional economic benefits</li> <li>■ Social benefits</li> </ul>
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<ul style="list-style-type: none"> <li>■ What is the strategy for achieving the desired outcomes?</li> </ul>					
<b>Stakeholder identification</b>	<ul style="list-style-type: none"> <li>■ Who are the key stakeholders?                             <ul style="list-style-type: none"> <li>■ Crown</li> <li>■ Council</li> <li>■ Investors</li> <li>■ Precinct/project users</li> </ul> </li> <li>■ What is the engagement strategy for each stakeholder?</li> </ul>				
<b>Precinct scope, scale and design</b>	<ul style="list-style-type: none"> <li>■ What is the optimal scope, scale and design to achieve desired outcomes?                             <ul style="list-style-type: none"> <li>■ Parcel configuration and ownership</li> <li>■ Bulk &amp; location requirements/objectives</li> <li>■ Permitted and desirable site use</li> <li>■ Access and traffic plans</li> </ul> </li> <li>■ <i>This determination will depend on private sector engagement which may require CCC to form preliminary judgements about the 'shape' of the project</i></li> </ul>				
<b>Master Plan</b>	<ul style="list-style-type: none"> <li>■ Does the project require a master planned approach to development?</li> <li>■ What role will CCC play in specifying and controlling the master plan?</li> </ul>				

# Appendix 2 - Rebuild Implementation & Delivery

## Key implementation decisions

Decision area	CCC considerations
<b>On-going operations</b>	<ul style="list-style-type: none"> <li>■ What are the project-specific operational requirements? Is there a requirement for particular management and governance of precinct operations? What arrangements will achieve this?</li> <li>■ Management and governance of the ongoing operations of the project may be required for some or all of the project and may range from having no formal management or governance to having a high degree of internal coordination</li> <li>■ This determination will depend on desired outcomes and feedback from the private sector and other relevant stakeholders</li> </ul>
<b>Anchor Projects</b>	<ul style="list-style-type: none"> <li>■ What are the different components of the Anchor Projects:                             <ul style="list-style-type: none"> <li>■ Commercial investment opportunities (assets, parcels/titles/blocks)</li> <li>■ Crown and/or CCC sponsored developments</li> <li>■ Public facilities/amenities/space</li> </ul> </li> </ul>
<b>Project risk and return</b>	<ul style="list-style-type: none"> <li>■ What are the risk and return characteristics of the projects?</li> <li>■ <i>This will be influenced by engagement with the private sector</i></li> <li>■ <i>The scope, scale and design of the project will determine the project cash flows (capital expenditure and operating cash flows) and risk profile which will influence the project's ability to attract private sector investment or support specific capital structures</i></li> </ul>
<b>Private sector participation in the capital structure</b>	<ul style="list-style-type: none"> <li>■ Can this project attract private financing?</li> <li>■ Will the private sector own/control land, buildings or operations?</li> <li>■ <i>This determination depends on private sector engagement and specifically, the ability for the private sector to influence the scope, scale and design of the project</i></li> </ul>
<b>CCC participation in the capital structure</b>	<ul style="list-style-type: none"> <li>■ Does the Council have a strategic imperative to invest in this project?</li> <li>■ Will the Council own/control land, buildings or operations?</li> <li>■ How much financing does the Council have available to invest in this project/sub-project?</li> </ul>

# Appendix 2 - Rebuild Implementation & Delivery

## Key implementation decisions

Decision area	CCC considerations
<b>Crown participation in the capital structure</b>	<ul style="list-style-type: none"> <li>■ What is the requirement for the Crown to provide direct financing or financing? Will this be in the form of debt, equity or subsidy?</li> <li>■ Will the Crown own/control land, buildings or operations?</li> <li>■ <i>This determination will depend on CCC and private sector interest, any strategic imperative for Crown Ownership, any tactical (short term) requirement for Crown ownership</i></li> </ul>
<b>Land acquisition</b>	<ul style="list-style-type: none"> <li>■ Does CCC need to acquire project land?</li> <li>■ Are existing land owners interested in participating in project development?</li> </ul>
<b>Crown control and step-in rights</b>	<ul style="list-style-type: none"> <li>■ Is the Crown proposing to control the master plan design?</li> <li>■ Is the Crown proposing to maintain step-in rights to ensure project delivery?</li> <li>■ This determination will depend on, among other things, the:                             <ul style="list-style-type: none"> <li>■ <i>Crown's economic interest in the project</i></li> <li>■ <i>Materiality of the project in relation to the wider rebuild Programme</i></li> <li>■ <i>Project specific risks</i></li> </ul> </li> </ul>
<b>Responsibility for execution</b>	<ul style="list-style-type: none"> <li>■ Does CCC need to take responsibility for execution of the project?</li> <li>■ Which stakeholder should assumed responsibility for execution?</li> </ul>
<b>Procurement</b>	<ul style="list-style-type: none"> <li>■ Does CCC need to control/manage the procurement process?</li> <li>■ Which procurement strategy best reflects:                             <ul style="list-style-type: none"> <li>■ Interests of the economic owners</li> <li>■ Value for money</li> <li>■ Precinct outcomes?</li> </ul> </li> <li>■ What project governance structures – steering group, project control group and user group – need to be put in place?</li> </ul>
<b>Advisors</b>	<ul style="list-style-type: none"> <li>■ Does CCC require any specialist advice or assistance to facilitate or execute the project?</li> </ul>



## Appendix 3 - Delivery Vehicle Examples

# Appendix 3 – Delivery Vehicle Examples

Decision area	Date	Description	Form / Ownership
<b>Crown Asset Management Limited</b>	2012	Set up to acquire the assets of finance companies repaid by the Government under its Retail Deposit Guarantee Scheme. The aim was to operate provide a better financial return to the Crown and operate commercially, on a financially sustainable, self-funding basis.	Crown Owned Company
<b>Crown Fibre Holdings</b>	2009	Formed to build a fibre to the home network through a public-private partnership. Three local fibre companies were created as part of the Crown Fibre Holdings public-private partnership, in addition to a partnership with Chorus	Crown Owned Company
<b>Irrigation Acceleration Fund</b>	2013	The fund is to be managed by a Crown Owned Company (with Government initiating the establishment of such a company in January 2013). The Crown intends to invest as a minority partner on commercial terms in financially viable regional water storage and off-farm irrigation infrastructure.	Crown Owned Company
<b>New Zealand Railways Corporation and Kiwirail Holdings Ltd</b>	2012	NZRC is to be split into a landholding entity and operational entity. NZRC will continue to hold and manage railway land, while Kiwirail Holdings will take on the operational business. NZRC is not expected to earn a financial return, while the goal is for Kiwirail Holdings to become self-sufficient.	State Owned Enterprise
<b>Tamaki Redevelopment Company</b>	2012	New Zealand's first urban redevelopment company with the aim of transforming Glen Innes, Point England and Panmure over the next 20-25 years through co-ordinated economic, social, and housing initiatives.	Crown Owned Company, with 59% Crown ownership and 41% Council ownership
<b>Waterfront Auckland</b>	2010	Responsible for the development of 45 hectares of waterfront property.	Auckland Council Controlled Organisations
<b>Barangaroo Delivery Authority</b>	2009	Role is to manage the city waterfront development of a vacant 22 hectare former container wharf. One of the main objectives is to be financially viable with continuing profitability, maximising public returns and value.	New South Wales Government agency

# Appendix 3 – Delivery Vehicle Examples

Decision area	Date	Description	Form / Ownership
<b>London Dockland Development Corporation</b>	1981 - 1998	Set up to undertake the regeneration of eight square miles of Newham, Southwark and Tower Hamlets through the encouragement of industry, commerce, housing, and social provision, including better transport and general urban infrastructure.	Non-departmental public body (quango) established under the Local Government, Planning and Land Act 1980
<b>London Legacy Development Corporation</b>	2012	Established as the manager and custodian of the Queen Elizabeth Olympic Park after the 2012 Games. Aims are to deliver social, economic and environmental benefits and convergence for East London, while delivering financial returns over the long term.	Mayoral Development Corporation established under the Localism Act 2011
<b>Lower Manhattan Development Corporation</b>	2002	Established to help plan and co-ordinate the rebuilding and revitalisation of Lower Manhattan following the September 11 terrorist attacks. The corporation works with its partners in the public and private sectors to co-ordinate long-term planning for the World Trade Centre site and surrounding communities	Joint State-City corporation governed by a 16 member Board (50% appointed by the Governor and 50% appointed by the Mayor)
<b>New York City Economic Development Corporation</b>	2012	NYCDEC was formed in 2012 when the former corporation of the same name merged into the not-for-profit New York City Economic Growth Corporation. Its mission is to encourage economic growth in each of the five boroughs of New York City by strengthening the City's competitive position and facilitating investments that build capacity, generate prosperity and catalyze the economic vibrancy of City life as a whole	Non-profit Component Unit of the City of New York (legally separate entity for which the elected officials of New York City are financially accountable). Board appointments are mostly selected by the Mayor
<b>South Bank Development Corporation (Brisbane)</b>	1989	Oversees the redevelopment and management of Brisbane's South Bank, including promotion, facilitation, carrying out and controlling development, disposal and management of land and other property within the corporation area	Queensland Government statutory corporation established under the South Bank Corporation Act 1989

# Appendix 3 – Delivery Vehicle Examples

Decision area	Date	Description	Form / Ownership
<b>Victorian Comprehensive Cancer Centre PPP</b>	2011	A\$1 billion cancer centre with the aim of driving the next generation of progress in the prevention, detection, and treatment of cancer. Organisations to use the new buildings will be the Peter MacCallum Cancer Centre, Melbourne Health and the University of Melbourne	PPP structure with the State and Federal Governments providing the funding and the private sector (Plenary Group) responsible for design, construction, and maintenance for 25 years
<b>Illawara International Health Precinct</b>	2011	A\$315m Private hospital development to include a 350 bed hospital, 280 bed aged-care facility, medical and research centre as well as space for specialist suites and other facilities	Private Sector (La Vie Developments Pty Ltd)
<b>22@Barcelona</b>	2000	A Government led urban regeneration effort aimed at converting a dilapidated industrial district into the city's technological and innovation district, as well as increasing leisure and residential spaces. A large amount of individual development plans in the district a private sector led	Municipal Society established by the City Council
<b>Biopolis</b>	2003	Singapore Government conceived \$500m international research and development centre for biomedical sciences, housing public and corporate research facilities. Construction was carried out by a government-owned industrial infrastructure specialist and facility management is overseen by a government entity (A*STAR)	Government Owned Entity
<b>Britomart Precinct</b>	2002	Cooper and Company won the Britomart Development contract put up for tender by Auckland City Council in 2002. Day to day property, facilities, and precinct management of Britomart and the Britomart Carpark is provided by Britomart Group Management Company, while Cooper and Company has responsibility for strategic asset management, including property development	Private Development (Auckland City Council granted the development rights)

# Appendix 3 – Delivery Vehicle Examples

Decision area	Date	Description	Form / Ownership
<b>Newleaf Housing Development</b>	2007	Newleaf Communities was selected by Housing NSW as the private developer to undertake a A\$733m redevelopment of Bonnyrigg. The project will see the replacement of 833 existing social housing dwellings with 2,330 new homes. 699 of the new homes will be social housing and the remainder will be sold to home buyers	Public Private Partnership
<b>Melbourne Convention and Exhibition Centre</b>	2009	A\$500m convention centre development which was fully integrated with the Melbourne Exhibition Centre in 2009. Total capacity for over 12,000. The developer took on construction risk	Public Private Partnership development. Ownership is with a State Government owned Trust Authority
<b>Darwin Convention Centre</b>	2006	\$110m Convention Centre that is part of the wider \$1.1 billion Darwin Waterfront project. The delivery model was a 25 year build, own, operate and transfer (BOOT) arrangement with the private sector responsible for finance, design, construction, operation, and maintenance	Public Private Partnership development
<b>Telstra Dome</b>	1997	53,000 Stadium built as the centrepiece to kick-start redevelopment of the Docklands area (an initiative of the Victorian Government). A consortium led by Baulderstone won the rights for the BOOT contract. The AFL has pre-purchased ownership and management rights for the end of the BOOT period	Private Sector
<b>Pegasus Town</b>	2006	Greenfield private sector led residential development near Pegasus Bay begun in 2006. The original aim was for 1,700 dwellings and a population of around 7,000 residents	Private Sector (Infinity Investment Group)