



# Office of Hon Gerry Brownlee

MP for Ilam

Leader of the House  
Minister of Transport

Minister for Canterbury Earthquake Recovery  
Minister Responsible for the Earthquake Commission

10 SEP 2012

Alex Harris

[fyi-request-467-4ed6b7cc@requests.fyi.org.nz](mailto:fyi-request-467-4ed6b7cc@requests.fyi.org.nz)

Ref: OIA 12/119

Dear Mr Harris

Thank you for your Official Information Act 1982 request, which was received on 1 August 2012. You requested the following:

*"All advice the Minister has received on the potential sale of Christchurch City Council assets to help pay for the rebuild of Christchurch."*

## Information being released

Please find enclosed the following documents:

Item	Date	Document Description
1.	4 April 2011	Treasury Report: Pre-Earthquake Canterbury Local Government Financial Positions
2.	17 November 2011	Treasury Report: Cost sharing discussions with the Christchurch City Council

I have decided to release the relevant parts of the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- section 9(2)(a) – to protect the privacy of natural persons, including deceased people
- section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials
- section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expressions of opinion
- section 9(2)(j) – to enable the Crown to negotiate without prejudice or disadvantage.

### **Information to be withheld**

There is one additional document covered by your request that I have decided to withhold in full under one or more of the following sections of the Official Information Act, as applicable:

- section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials
- section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expressions of opinion
- section 9(2)(j) – enable a Minister of the Crown or any department or organisation holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

You have the right to ask the Ombudsman to investigate and review my decision under section 28(3) of the Official Information Act.

Yours sincerely



Hon Gerry Brownlee  
**Minister for Canterbury Earthquake Recovery**



CROWN OWNERSHIP  
MONITORING UNIT

**Treasury Report:** Pre-Earthquake Canterbury Local Government Financial Positions

<b>Date:</b>	4 April 2011	<b>Report No:</b>	T2011/690
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**Action Sought**

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Note the contents of this report	None
Minister for Canterbury Earthquake Recovery (Hon Gerry Brownlee)	Note the contents of this report	None

**Contact for Telephone Discussion (if required)**

Name	Position	Telephone	1st Contact
Andrew Blazey <i>Withheld under s9(2)(g)(i)</i>	Manager, Sector Monitoring	<i>Withheld under s9(2)(a)</i>	✓
	Graduate Analyst		

**Minister of Finance's Office Actions (if required)**

None.
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**Enclosure:** Yes (attached)

(Council financial capacity pre earthquake AB:2040025)

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4 April 2011

CM-1-3-15-2

## Treasury Report: Pre-Earthquake Canterbury Local Government Financial Positions

1. This report provides a high level summary of the financial position of the Christchurch City Council (CCC), the Selwyn District Council (SDC), and the Waimakariri District Council (WDC) based on information prepared by each council prior to the two Canterbury earthquakes.
2. Although this information has its limitations given the earthquakes in Canterbury, it provides insight into the financial strength of each council and the constraints that each one is likely to be facing. A more accurate view of the financial outlook of each council will be available once the councils complete an assessment of:
  - the timeframe and extent to which their rating bases will be restored;
  - a revaluation of assets on their balance sheets; and
  - the capital requirements to restore key infrastructure and other assets.
3. Leading up to the earthquakes, the councils have been in a reasonable financial position. Although financial leverage has increased in recent years, debt levels are relatively low, equating to less than 6% of assets (based on book value). The gearing across council controlled organisations (CCOs) has also been low. The aggregate value of the Councils' assets was approximately \$9 billion (book value), 80% of which was owned by the CCC. Over the past four years there has been a trend of deteriorating liquidity across the councils, driven by reductions in cash holdings, which is likely to have placed constraints on each council's short term financial flexibility.
4. Following the earthquakes, there are some uncertainties regarding the financial responsiveness of CCC because of the size and structure of its balance sheet. Notwithstanding the limitations of the data in this report, the CCC's financial forecasts are therefore likely to change considerably because of factors including:
  - reduced rates and other revenue which will restrict debt serviceability;
  - devalued assets which may reduce debt capacity; and
  - potential credit rating adjustments which may increase the cost of debt<sup>1</sup>.

Withheld under s9(2)(f)(iv) and s9(2)(j)

6. Each of the above options has a different timeframe, process and possibly palatability associated with its implementation; *Withheld under s9(2)(f)(iv) and s9(2)(j)*

<sup>1</sup> CCC is currently on a negative credit outlook by Standard & Poors.

Recommended Action

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We recommend that you note this report.

Andrew Blazey  
Manager, Sector Monitoring  
for Secretary to the Treasury

Hon Bill English  
Minister of Finance

Hon Gerry Brownlee  
Minister for Canterbury Earthquake Recovery

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# Christchurch City Council (CCC)

- **Limited short term financial capacity** - CCC is likely to be constrained in its initial financial capacity to respond to the earthquake and therefore be reliant on short term credit facilities.
- **Large balance sheet and little debt** - A large asset base would ordinarily support additional debt. CCC needs to model how quickly and to what level it expects revenue to stabilise, and to revalue its assets in order to understand its borrowing capacity.

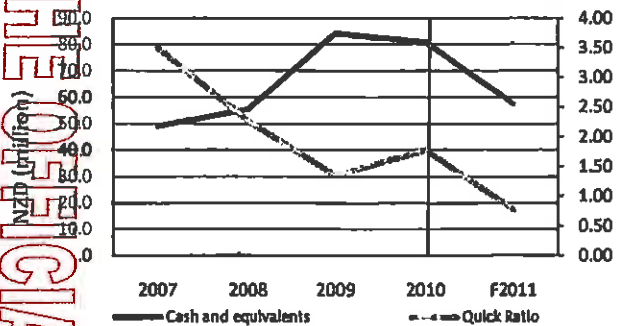
Withheld under s9(2)(f)

Note: Analysis is based on pre earthquake financial reports.

## Liquidity and cash positions constrain response capability

- CCC is likely to face constraints in its short term ability to fund a response to the earthquakes. Pre earthquake forecasts by CCC show a weakening cash position.
- Over the last four years the CCC has experienced a substantial downward trend in short term liquidity (Quick Ratio), which has been driven from fewer liquid current assets and an increase in short term borrowing.
- Based on forecasts in June 2010, non-rating revenue was forecast to decline. Although the fall in rating revenue resulting from the earthquake is not quantified, when added to existing declines in the revenue base, it is likely to exacerbate the pressure on CCC's short term financial position.

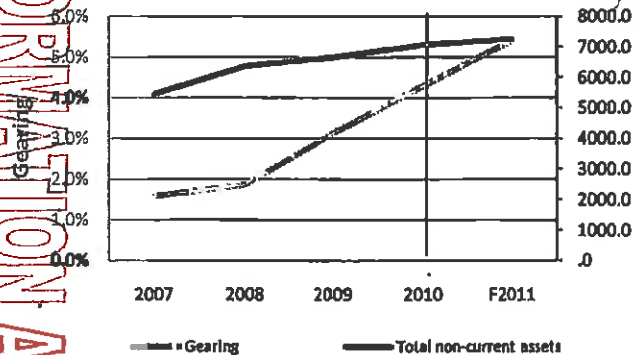
Weakening underlying cash position



## Sizable assets and low debt place CCC in a sound balance sheet position

- CCC has a large balance sheet (over \$6.9 billion), although revaluations will be necessary post the earthquakes given the quake damage.
- Few assets appear convertible to cash in the short term, excluding approx \$30 million in stocks, bonds and deposits.
- Recently CCC increased its debt levels, however, relative to its asset base; gearing is low (4.2%) and interest costs are only a small percentage of CCC's revenue.
- Credit rating is unchanged (AA+), but on a negative outlook.

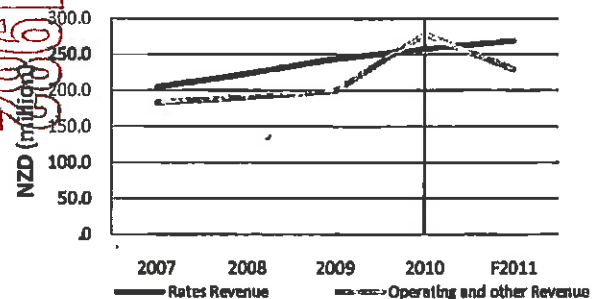
Gearing is increasing, but conservative



## Considerations

- Financial modelling by CCC is likely to reveal how quickly revenue will stabilise. That modelling will inform the extent to which CCC can fund infrastructure projects.

Rates robust, but total revenues at risk?



Withheld under s9(2)(f)

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[Not relevant to request]

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[Not relevant to request]

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COMMERCIAL-IN-CONFIDENCE

Christchurch City Council

Selected Financial Information (\$ million)	2007	2008	2009	2010	*F2011
<b>Liquidity</b>					
Current Assets	229.6	175.3	197.8	245.5	158.1
Current Liabilities	65.1	76.8	145.4	136.9	202.1
Inventory	1.3	1.3	1.4	1.5	1.4
Quick Ratio	3.50	2.26	1.35	1.78	0.77
Cash and equivalents	49.1	55.4	84.4	80.9	57.5
<b>Long term position</b>					
Other financial assets	156.3	73.7	37.2	116.9	59.8
Total non-current assets	5,440.6	6,377.4	6,650.4	7,069.1	7,256.7
Borrowings	85.2	117.8	142.3	262.1	272.8
Total non-current liabilities	114.8	146.6	183.8	310.0	310.4
Total Liabilities	179.9	223.4	329.3	446.9	512.5
Net Assets	5,490.2	6,329.3	6,518.9	6,867.7	6,902.2
<b>Gearing ratio</b>					
Debt	87.7	119.9	209.0	307.4	393.9
Total Equity	5,490.3	6,329.2	6,518.9	6,867.7	6,902.2
Gearing	1.57%	1.86%	3.11%	4.28%	5.40%
<b>Finance costs</b>					
Finance costs	6.4	6.0	11.0	17.3	21.0
Interest as a Percentage of Revenue	1.64%	1.42%	2.33%	3.00%	4.21%
<b>Revenue</b>					
Rates Revenue	204.6	223.4	243.7	257.4	269.3
Operating and other Revenue	182.6	190.4	199.4	278.4	228.7
Total Income	388.5	418.2	469.7	559.9	498.1
<b>Earnings</b>					
EBITDA (excluding "vested assets")	111.7	124.6	152.9	235.7	154.9
<b>Ongoing cash</b>					
Net change in cash and cash equivalents	3.2	6.3	28.9	-3.5	0.0
Cash Year End	49.1	55.4	84.4	80.9	57.5
<b>Reserves</b>					
Reserves	3,817.4	4,562.2	4,652.5	4,905.9	4,952.9
Capital reserves	1,733.9	1,733.9	1,733.9	1,733.9	1,733.9
Reserve funds	239.9	186.1	147.6	189.4	147.7

Source: Christchurch City Council Annual Reports and Budget  
 \* Forecast prepared by the Council prior to the earthquakes

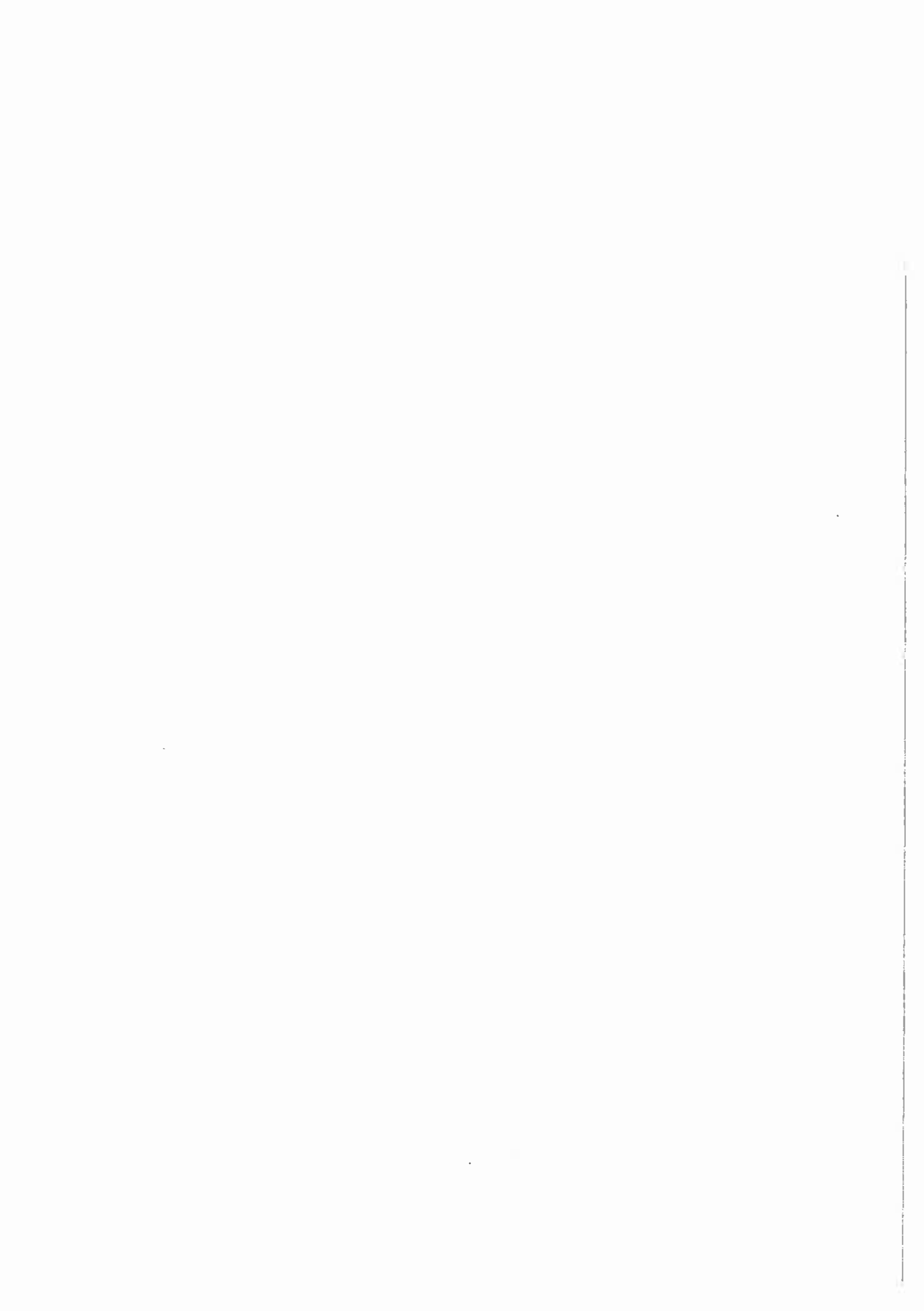
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(Not relevant to request)

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[Not relevant to request]

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DEC 2011

Hon Bill English



THE TREASURY  
Kaitiaki Take Kōwhiri

ORIGINAL

Treasury Report: Cost sharing discussions with the Christchurch City Council

Date:	17 November 2011	Report No:	T2011/2423
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Action Sought

Action Sought	Deadline
Minister of Finance (Hon. Bill English)	End November  Following meeting with Minister for Canterbury Earthquake Recovery
Minister for Canterbury Earthquake Recovery (Hon Gerry Brownlee)	End of November  Following meeting with the Minister of Finance

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[Redacted]	Analyst, Earthquake Co-ordination Team	[Redacted]	✓
Tom Hall	Manager, Earthquake Co-ordination Team	[Redacted]	

Minister of Finance's Office Actions (if required)

Arrange a meeting between the Minister of Finance and the Minister for Canterbury Earthquake Recovery to discuss.

Enclosure:

*Need to discuss with Minister Brownlee ✓*

19 DEC 2011

Treasury:2149519v3

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17 November 2011

TY-2-1-8

**Treasury Report: Cost sharing discussions with the Christchurch City Council**

