



Proactive Release

The following document is proactively released by the Department of the Prime Minister and Cabinet, on behalf of Hon Dr Megan Woods, Minister for Greater Christchurch Regeneration:

Title: Joint DPMC-Treasury Report: Christchurch Global Settlement Update: Fiscal Implications
Reference: DPMC-2018/19-984 and T2019/486
Date: 28/02/2019

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Joint Report: Christchurch Global Settlement Update: Fiscal Implications

Date:	28 February 2019	Report No:	T2019/486 DPMC-2018/19-948
		File Number:	TY-2-1-14-6

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	Note the update on Global Settlement negotiations and expected fiscal impacts Indicate your preferences relating to the attached Cabinet paper for the Cabinet Economic Development Committee on 20 March 2019	4 March 2019
Minister for Greater Christchurch Regeneration (Hon Dr Megan Woods)	Note the update on Global Settlement negotiations and expected fiscal impacts Indicate your preferences relating to the attached Cabinet paper for the Cabinet Economic Development Committee on 20 March 2019	4 March 2019

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Angus White	Principal Advisor, Commercial Performance, The Treasury	s9(2)(a)	✓
James Beard	Director, Economic System, The Treasury		
Anne Shaw	Director, Greater Christchurch Group, Department of the Prime Minister and Cabinet		

Actions for the Minister's Office Staff

Return the signed report to the Treasury.
Advise if Ministers would like to discuss with officials.

Enclosure: Yes

[Draft DEV paper - update on Global Settlement progress \(Treasury:4076489v4\)](#)

[Draft DEV paper - Attachment A - Comparison of AIP to Mandate \(Treasury:4076492v3\)](#)

Attachments withheld under section 18(d) - already, or soon to be made publicly available.

Joint Report: Christchurch Global Settlement Update: Fiscal Implications

Executive Summary

The global settlement is a high priority to deliver the Government's vision for the Greater Christchurch Regeneration portfolio. It is an opportunity to make substantive progress towards a positive, normalised relationship with the Christchurch City Council (the Council) with the Council providing local leadership. This is expected to assist with regeneration activity and provide certainty to the community. It is also an opportunity for the Crown to s9(2)(i) address long-term asset ownership questions.

Late last year, Ministers agreed to the fiscal treatment of assets likely to form part of a Global Settlement with the Council [T2018/3197 / DPMC-2018/19-576]. Additionally, on 10 December 2018 Cabinet provided a global settlement negotiation mandate [CAB-18-MIN-0608 refers].

Since then, good progress has been made in negotiations with the Council. Officials are in the final stages of negotiating a proposed Agreement in Principle that is consistent with the intent of the original Cabinet mandate and has got further than officials originally thought may be possible s9(2)(i). Proposed next steps involve a process of due diligence and "tranche 2" negotiations, with the intention of a final negotiated agreement by June 2019. Ministers' and Mayoral approval will be sought of both the Agreement in Principle and final agreement (with report backs to/approvals from Cabinet and Council as appropriate).

The proposed Agreement in Principle supports the original Cabinet objectives with greater clarity on larger, more complex assets

Detailed information is set out in the body of this paper on the expected fiscal impacts of the proposed Agreement in Principle (see **Table 1**, on pages 8-9). It is in the final stages of negotiation and Ministers will be advised if there are any material changes. However, in summary:

- The **Agreement in Principle is broadly consistent with the Cabinet negotiation mandate** s9(2)(i)

s9(2)(i) The proposed in-principle agreements, s9(2)(i) s9(2)(i) have gone further than we had anticipated towards restoring a normalised relationship with the Council, and are a good outcome for both the Crown and Council. The attached draft Cabinet paper summarises the key points of agreement (refer paragraphs 21-49, or for more detail refer to **Attachment A** of the Cabinet paper). s9(2)(g)(i), s9(2)(i)

s9(2)(i)

- **MSF:** there has long been a joint expectation that the MSF would transfer to the Council s9(2)(i)

[Redacted]

- s9(2)(g)(i), s9(2)(i)

[Redacted]

- There is also an **additional cash impact of an estimated** s9(2)(g)(i), s9(2)(b)(ii) [Redacted] based on the proposal that the Crown may reconfigure some land in the residential red zones (RRZ) prior to transfer to the Council, through the use of powers under the Greater Christchurch Regeneration Act 2016 (GCR Act). This decision will support regeneration momentum through providing faster reconfiguration of the land titles, better enabling the Council to co-ordinate regeneration activities. s9(2)(b)(ii), s9(2)(i)

This approach is likely to have regeneration and negotiation benefits that outweigh the cost to the Crown. This will also reduce the time that the Crown is responsible for meeting operating costs associated with maintaining RRZ land (currently around \$2 million per annum). However, further work is required to confirm the approach and its cost.

- There are a number of factors that mean exact figures could continue to vary as circumstances change (e.g. insurance proceeds, s9(2)(i), s9(2)(b)(ii) [Redacted] and land purchases, revaluations and remediation works). Additionally, we cannot confirm what issues may yet arise in tranche 2 negotiations.

s9(2)(g)(i), s9(2)(i)

[Redacted]

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We recommend you seek an updated negotiation mandate when updating Cabinet on negotiations, s9(2)(g)(i), s9(2)(i)

We propose that you seek an update to the negotiation mandate s9(2)(g)(i), s9(2)(i)

A draft Cabinet paper is attached which:

- updates Cabinet on progress of the global settlement negotiations and seeks an amended negotiation mandate;
- seeks delegated authority for the Minister of Finance and the Minister for Greater Christchurch Regeneration to agree an Agreement in Principle, including the associated financial implications; and
- notes officials will report back to joint Ministers on potential savings across the Greater Christchurch Regeneration Portfolio that could support a global settlement.

Officials welcome any comments on the Cabinet paper, and ask Ministers to indicate if you would like to:

1) seek the proposed changes to the mandate now or once a final agreement is proposed (following tranche 2 negotiations),

2) s9(2)(g)(i), s9(2)(i)

3) s9(2)(g)(i), s9(2)(i), s9(2)(f)(iv)

4) s9(2)(g)(i), s9(2)(i), s9(2)(f)(iv)

We recommend you begin coalition consultation by 4 March 2019 to enable the Cabinet Economic Development Committee to consider the paper by 20 March 2019.

The proposed approach attempts to minimise risks

The proposed approach looks to minimise timing risks, s9(2)(i), s9(2)(g)(i)

Further, officials will be mindful of the need for final agreements to be implementable.

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Recommended Action

We recommend that you:

- a **note** officials are in the final stages of negotiating the proposed Global Settlement Agreement In-Principle with the Christchurch City Council, and the current position reached
- b **note** that the process to date has shown a strong collaborative effort between both the Crown and the Council, and the proposed in-principle agreements have gone further than we had anticipated towards restoring a normalised relationship with the Council, and are a good outcome for both the Crown and Council;
- c **note** the updated fiscal implications expected in relation to the Global Settlement s9(2)(i)

[Redacted]

d s9(2)(i)

[Redacted]

e **indicate** whether you would like the attached Cabinet paper to (all recommended):

<p>1. seek adjustment to the Global Settlement negotiation mandate to include the latest expectations of fiscal implications rather than waiting for a final Global Settlement agreement given the time pressures</p>	<p>Yes/No</p>
<p>s9(2)(g)(i), s9(2)(i), s9(2)(f)(iv)</p> <p>[Redacted]</p>	

f **agree** to take the attached Cabinet paper to the Cabinet Economic Development Committee on 20 March 2019

Agree/disagree.
Minister of Finance

 James Beard
 Director, Economic System

Agree/disagree.
Minister for Greater Christchurch Regeneration

 Anne Shaw
 Executive Director, Greater Christchurch Group

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Minister for Greater Christchurch Regeneration

Joint Report: Christchurch Global Settlement Update: Fiscal Implications

Purpose of Report

1. This report:
 - a updates Ministers on the key positions in the proposed Agreement In Principle (AIP) in the final stages of negotiation between officials as part of Global Settlement negotiations with the Christchurch City Council (the Council). It provides revised forecast fiscal implications of a Global Settlement, s9(2)(i) [redacted] and [redacted]
 - b attaches a draft paper to update Cabinet on negotiations and seek an update to the negotiation mandate.

Context

The Agreement in Principle is a significant step towards a full Global Settlement

2. As you know, the Global Settlement is a high priority to deliver the Government's vision for the Greater Christchurch Regeneration portfolio. It is an opportunity to make substantive progress towards a positive, normalised relationship with Christchurch City Council (the Council) with the Council providing local leadership. This is expected to assist with regeneration activity and provide certainty to the people of Christchurch. It is also an opportunity for the Crown to s9(2)(i) [redacted] address long-term asset ownership questions.
3. On 7 November 2018, the Treasury and Department of the Prime Minister and Cabinet (DPMC) advised you on the potential fiscal impacts of the proposed Global Settlement Negotiations with the Council [T2018/3197 / DPMC-2018/19-576 and T2018/3281 / DPMC-2018/19-600 refer]. Following this, a mandate for negotiations was agreed by Cabinet on 10 December 2018 [CAB-18-MIN-0608 and DEV-18-MIN-0285 refer].
4. The negotiating officials are now in the final stages of negotiating a proposed Agreement in Principle (AIP) with the Council, and recommend that you, as joint Ministers, update Cabinet on the proposed AIP in March 2019 [DPMC-2018/19-862 refers]. The AIP establishes shared outcomes with the Council consistent with Global Settlement objectives on which you advised Cabinet in December 2018. It is intended to frame / bind negotiations on a full and final settlement. Some implementation details are still to be worked through during due diligence and tranche 2 negotiations. The intention is to reach a full Global Settlement agreement by June 2019 at the latest given the timing of local government elections.
5. The process to date has shown a strong collaborative effort between both the Crown and the Council, and the proposed in-principle agreements have gone further than we had anticipated towards restoring a normalised relationship with the Council. Officials consider that the proposed terms are a good outcome for both the Crown and Council, and will strongly support regeneration momentum as well as the transfer back to local leadership. Officials also consider that the AIP appropriately balances the outcomes achieved with the fiscal and precedent implications of those in-principle agreements.

A negotiation mandate exists and decisions on fiscal treatment have been made s9(2)(i)
s9(2)(i)

6. In November/December 2018:

- a The Minister of Finance agreed that operating appropriations to allow for non-cash write-downs associated with the transfer of assets to the Council at below book value not count against budget allowances [T2018/3197, recommendation 13 refers].
- b On 10 December 2018, Cabinet agreed a mandate for negotiation which would: confirm pre-existing commitments, address assets needed for regeneration, position several large and complex assets for the future, address institutional arrangements and confirm the process for implementing existing commitments.
- c Tagged contingencies of s9(2)(i) (operating) and s9(2)(i) (capital) were established with only the latter counting against budget allowances. Joint Ministers were authorised to: 1) enter any global settlement agreement within these parameters, and 2) use the tagged contingencies to either meet 2013 Cost Sharing Agreement commitments or for a Global Settlement within the Cabinet mandate, subject to being satisfied that appropriate savings had been made within the Christchurch Regeneration portfolio.

d It was noted that outside the scope of the Cabinet delegation, in future Cabinet would need to consider s9(2)(i)

Any fiscal implications beyond the fiscal envelope agreed were to be considered as part of Budget 2019 or from reprioritisation within the Greater Christchurch Regeneration portfolio [CAB-18-MIN-0608 and DEV-18-MIN-0285 refer]. A Budget bid was initially submitted to provide for potential additional costs but later was 'triaged' out of the process, on the basis that funding could be sought when amounts were more certain.

Analysis

7. This section provides an update on the expected fiscal implications of a Global Settlement. Exact figures may well change given the breadth of assets involved; the various stages of projects; and the impacts of factors such as: i) insurance proceeds; ii) operating costs; iii) s9(2)(i), s9(2)(b)(ii) and iv) land acquisition, remediation and revaluations. Below we provide an update on the fiscal implication for the Crown, noting negotiations have progressed towards the objectives agreed by Cabinet and to the Crown (and Council's) interests.

s9(2)(g)(i), s9(2)(i)

8. Table 1 shows each of the assets covered by the AIP and for each the appropriations needed relative to those currently available or subject to a tagged contingency. s9(2)(i)

9. s9(2)(i)

10. There have been some other minor changes to reflect updates to cost estimates where costs were part of the initial mandate and changes are within current appropriations.

Table 1: Assets covered by the proposed Agreement in Principle (\$m)

Asset	Capital Expenditure	Operating Write-down	Receivables from Council	Consistency with Cabinet fiscal envelope
Bus Interchange	s9(2)(i)	(34.0)	23.0	✓ Tagged contingencies already secured for s9(2)(i) and write-down of asset
Margaret Mahy Playground		-	6.6	✓ Money not yet received from Council
North, South, East Frames		(110.5)	6.4	✓ Non-cash tagged contingency already secured for write-down. s9(2)(i), s9(2)(g)(i)
Ōtākaro Avon River Corridor RRZ		(35.9) [TBC]	0 [TBC]	✓ Non-cash tagged contingency already secured for write-down. Highly likely to be transferred for \$0
Other RRZ		(38.8)	40.6	✓ Non-cash tagged contingency already secured for write-down. Funds will not be received until a global settlement
RRZ reconfiguration		s9(2)(i)	-	s9(2)(i)
Performing Arts Precinct		(12.37)	-	✓ Tagged contingencies already secured for s9(2)(i) and write-downs – s9(2)(i), s9(2)(b)(ii)
		s9(2)(i)	-	s9(2)(b)(ii)
Cathedral Square	(4.6)		-	✓ Existing tagged contingency/appropriations to meet this payment. May be operating, not capital
Ōtākaro's surplus CBD land	s9(2)(i)		TBC	✓ To be considered in tranche 2. s9(2)(g)(i), s9(2)(i)
	s9(2)(i)		s9(2)(i)	s9(2)(i)

Asset	Capital Expenditure	Operating Write-down	Receivables from Council	s9(2)(i)
Metro Sports Facility	-	s9(2)(i)	-	

11. s9(2)(i)

Metro Sports Facility

12. The Crown and Council are jointly funding Ōtākaro to construct the MSF. Ōtākaro owns the land. As the Crown owns Ōtākaro and the asset sits on Ōtākaro's balance sheet, the Crown is deemed to be responsible for construction and therefore must provide its funding as capital. This funding is already set aside s9(2)(i)

13. The 2013 Cost Sharing Agreement (CSA) with the Council provided for either the Council or the private sector to take ownership of the MSF once complete. The AIP currently reflects the joint expectation that was included in the 2017 CSA Refresh that the Council will take ownership of MSF. This will support the transition to local leadership.

14. s9(2)(i)

Convention Centre

15. The Convention Centre is solely Crown funded, with Ōtākaro owning the land and managing the build. As the Crown owns Ōtākaro and the asset sits on Ōtākaro's balance sheet, the Crown has been contributing capital funding for the build s9(2)(i)

Page 10 withheld in entirety under s9(2)(i).

s9(2)(i)

Reconfiguration of RRZ land

23. As part of the AIP, negotiators have proposed that the Crown reconfigures some of the RRZ land in Christchurch before it is transferred to the Council (or an agreed nominee), using processes under the Greater Christchurch Regeneration Act 2016 (GCR Act).
24. Further work is needed to confirm the process, detail costs, and a number of assumptions (including that the approach can be implemented by various GCR Act decision-makers), but if this approach is feasible the estimated financial impact for the Crown is approximately [REDACTED] s9(2)(i), s9(2)(g)(i)
25. s9(2)(i) [REDACTED] this approach was considered an appropriate course of action, as GCR Act powers are much better placed than normal statutory processes to enable reconfiguration, where required, in extraordinary circumstances such as regeneration. In comparison to normal processes, they offer significant time and cost benefits that are likely to support regeneration momentum in the RRZ areas and support the Council in taking on leadership responsibilities. As such, this approach is in line with joint objectives for global settlement, and has also generated significant goodwill with the Council. This will also reduce the time that the Crown is responsible for meeting operating costs associated with maintaining RRZ land (currently around \$2 million per annum). s9(2)(i) [REDACTED] However, further work is required to confirm the approach and its cost.
26. We also note that to support streamlined decision making in regards to the Ōtākaro Avon River Corridor (OARC), we recommend that the Minister for Greater Christchurch Regeneration advises her colleagues that she will update Cabinet orally on her decision on the Regeneration Plan for the area. This will help to provide greater certainty on the future use of the OARC to align with any decision on future ownership arising from the global settlement. It may also support an expedited reconfiguration process.

Aligning communications on the OARC CRAF funding with Regeneration Plan and global settlement decisions

27. In October 2018, you earmarked up to \$40 million for OARC projects under the Christchurch Regeneration Acceleration Facility (CRAF) based on the Council's investment proposal.

28. s9(2)(i), s9(2)(f)(iv) [REDACTED]

s9(2)(i), s9(2)(f)(iv)

29.

30.

The Performing Arts Precinct and Ōtākaro’s Surplus CBD land

31. Currently, there are no new fiscal implications associated with the Performing Arts Precinct (PAP) and Ōtākaro’s surplus CBD land. However, there is still some uncertainty about the final approach to be taken for the PAP and Ōtākaro’s surplus CBD land, and in the next stage of negotiations we expect Council will seek some commitments by the Crown which carry additional exposure. s9(2)(i), s9(2)(g)(i)

[Redacted text block]

Officials are working to manage remaining issues appropriately and within existing negotiating parameters, but will keep you advised if there are any issues.

s9(2)(i), s9(2)(g)(i)

[Large redacted area]

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s9(2)(i), s9(2)(g)(i)

The Canterbury Multi-Use Arena will be dealt with through the Investment Case process

s9(2)(i), s9(2)(g)(i)

35. In the AIP, the parties agreed officials would work on the funding and institutional arrangements as part of the CMUA Investment Case but that the Council (or a nominee) will be the end owner. s9(2)(i), s9(2)(f)(iv)

This is expected to feed into the CMUA investment case process and we will provide further advice on the fiscal implications of different options.

36. s9(2)(i), s9(2)(g)(i), s9(2)(f)(iv)

37.

38.

s9(2)(i), s9(2)(g)(i), s9(2)(f)(iv)

Risks

39. There remain a number of risks to completing a global settlement and transitioning to local leadership. Key risks relating to this paper include:
- a **Timing:** If a decision or changes to tagged contingencies /appropriations are not made at the planned DEV and Cabinet meetings, it may not be possible to make changes prior to the Budget moratorium. If a decision is deferred until the time of a final agreement, appropriation changes will not be possible until after the budget moratorium and no changes affecting 2018/19 will be possible as the Supplementary Estimates will have closed. Delays would also impact the ability to reach a final agreement prior to local body elections.
 - b **Order of consideration:** The timing for taking the attached paper to Cabinet is driven by both the requirement to keep DEV updated as well as the budget moratorium. It results in the Crown considering the proposed AIP prior to the Council. This runs the risk that the Council seeks changes, which have fiscal implications that Cabinet cannot consider during the Budget moratorium or fund in 2018/19. If this is the case, officials will keep Ministers informed and continue negotiations, noting that any further implications would need to be considered by Cabinet as part of a final agreement (and any proposed changes would need to be worth the Crown considering).
 - c **Momentum and Fiscal:** There is a possibility that tranche 2 negotiations and due diligence result in the inability to move from the proposed AIP to a final agreement or that the fiscal implications need to vary from that outlined in this paper, requiring a subsequent update to the negotiation mandate. Officials will be mindful of this in negotiations and consider altering the mandate now positions the Crown better for negotiations and could make the likelihood of reaching a final agreement before the end of June more likely (or the process more streamlined at least). s9(2)(g)(i)
 - d **Implementation:** A number of separate workstreams are expected to run in parallel over the next few months, including an RRZ workstream and development of investment cases to access the Christchurch Regeneration Acceleration Facility. There are risks of delay in any individual workstream that have the potential to impact a Global Settlement. However, officials are committed to continuing to work constructively with the Council through any such issues.
 - e **Communications:** Communications will need to be contained and carefully managed. While both parties wish to keep the public informed as much as possible, these are negotiations and public statements need to be carefully managed prior to the final agreement being signed. The risk of information being released prematurely and in an ad-hoc manner will need managed by careful coordination between negotiating parties.

Next Steps

40. Ministers are asked to provide any feedback on the attached Cabinet paper, position expected to be reached in the proposed AIP, and/or the potential portfolio savings (and timing/treatment of this).
41. We propose the following milestones for Ministers for this paper:
 - a provide any comments to officials by 4 March
 - b undertake coalition consultation from 4 March
 - c offices lodge paper by 13 March.

Data Sources and References

42. Information has been gathered from Ōtākaro Limited, the Treasury, the Department of the Prime Minister and Cabinet, and Land Information New Zealand to inform this report.

Attachments withheld under section 18(d) - already, or soon to be made publicly available.

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