Christchurch City Council
SUPPLEMENTARY AGENDA

Notice of Meeting:

An ordinary meeting of the Christchurch City Council will be held on:

Date:	**Wednesday 7 December 2022**
Time:	**9.30am**
Venue:	**Council Chambers, Civic Offices, 53 Hereford Street, Christchurch**

Membership

Chairperson	Mayor Phil Mauger
Deputy Chairperson	Deputy Mayor Pauline Cotter
Members	Councillor Kelly Barber
	Councillor Melanie Coker
	Councillor Celeste Donovan
	Councillor Tyrone Fields
	Councillor James Gough
	Councillor Tyla Harrison-Hunt
	Councillor Victoria Henstock
	Councillor Yani Johanson
	Councillor Aaron Keown
	Councillor Sam MacDonald
	Councillor Jake McLellan
	Councillor Andrei Moore
	Councillor Mark Peters
	Councillor Tim Scandrett
	Councillor Sara Templeton

5 December 2022

Principal Advisor
Dawn Baxendale
Chief Executive
Tel: 941 8999

Samantha Kelly
Team Leader Hearings & Committee Support
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Note: The reports contained within this agenda are for consideration and should not be construed as Council policy unless and until adopted. If you require further information relating to any reports, please contact the person named on the report.

To watch the meeting live, or a recording after the meeting date, go to:
http://councillive.ccc.govt.nz/live-stream

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TABLE OF CONTENTS

18. Resolution to Include Supplementary Reports 4

19. Council's Strategic Review of Christchurch City Holdings Ltd 5

20. Terms of Reference - Insurance Subcommittee 127

18. Resolution to Include Supplementary Reports

1. Background

1.1 Approval is sought to submit the following reports to the Council meeting on 07 December 2022:

19. Council's Strategic Review of Christchurch City Holdings Ltd
20. Terms of Reference - Insurance Subcommittee

1.2 The reason, in terms of section 46A(7) of the Local Government Official Information and Meetings Act 1987, why the reports were not included on the main agenda is that they were not available at the time the agenda was prepared.

1.3 It is appropriate that the Council receive the reports at the current meeting.

2. Recommendation

2.1 That the reports be received and considered at the Council meeting on 07 December 2022.

19. Council's Strategic Review of Christchurch City Holdings Ltd
20. Terms of Reference - Insurance Subcommittee

19. Council's Strategic Review of Christchurch City Holdings Ltd

Reference / Te Tohutoro: 22/1671747

Report of / Te Pou Matua: Leah Scales, General Manager Resources/Chief Financial Officer (Leah.Scales@ccc.govt.nz)

General Manager / Pouwhakarae: Leah Scales, General Manager Resources/Chief Financial Officer (Leah.Scales@ccc.govt.nz)

1. Nature of Decision or Issue and Report Origin

1.1 In 2021 Council determined that after nearly 30 years in existence it was timely and appropriate to take a forward 30 year look at our commerical holding company to determine if their strategic objectives and purpose were still valid today.

1.2 Northington Partners Ltd were appointed to undertake this review on behalf of Council. This report has been written as a result of receiving their final report and recommendations.

1.3 The decisions in this report are of low significance in relation to the Christchurch City Council's Significance and Engagement Policy. The level of significance was determined as the decisions requested relate only to requesting more information to inform the next Long Term Plan.

2. Officer Recommendations Ngā Tūtohu

That the Council:

1. Receive the Northington Partner report relating to the Strategic Review of Christchurch City Holdings Limited (CCHL).
2. In line with the recommendations from Northington Partners in relation to the scope of CCHL:
    a. The Council develop a clear Value Strategy in relation to building and utilising income or value from CCHL primarily informed by Council's long term requirements;
    b. Working closely with the Council, that CCHL be requested to scope and develop detailed business cases which fully considers the costs and benefits of adopting a hybrid approach to managing the portfolio, including rebalancing and returning capital to council.

    That these two pieces of work are prepared in time to inform and be considered as part of the Draft Long Term Plan 2024-2034.
3. In line with the recommendations from Northington Partners in relation to operational improvements, that the Council:
    a. Maintain the CCHL structure to continue to provide an independent non-political buffer between the Council and the commercial companies. Clarify that CCHL's core role and purpose is to deliver commercial-based outcomes for its shareholder.
    b. Modify the Statement of Expectations process to be a more comprehensive, three year process based on a 10 year planning horizon which becomes part of the LTP process.
    c. Acknowledge that the recruitment of the Board of Directors and Executive of CCHL would need to consider the experience and skill-set required to support the strategy evaluation and implementation.

d. Reduce the number of Councillor Directors on CCHL from four to two, which maintains the valued links between CCC and CCHL, while also providing for the number of independent commercial directors up to six including the Chair, which will be required to support the nature of the work ahead for CCHL.

e. That the remuneration for Councillor Directors appointed to CCHL be considered as part of the review of the Council's Policy of Appointment and remuneration of Directors of Council organisations at the Council meeting on 14th December 2022.

f. Acknowledge that there needs to be a greater level of engagement between Council/CCHL and its subsidiaries. Whilst acknowledging the need to ensure an appropriate balance of transparency (reflecting the public ownership / public interest dynamic) and ensuring that Council is not overstepping into operational matters is important. To achieve this, CCHL be requested to provide:

   i. Six-monthly briefings where the CEOs of the CCTOs present to Council; and

   ii. Council to strengthen its CCO monitoring function to enable more timely reporting and analysis.

g. Request CCHL to seek better engagement with other aligned stakeholders (both other CCOs like CNZ) and aligned partners like Ngai Tahu.

h. Consider all other recommendations as provided by Northington Partners in their report in full following the completion of the work as outlined in resolution 2 above.

3. Reason for Report Recommendations Ngā Take mō te Whakatau

3.1 To allow the Council to consider the Northington Partners Ltd report on the CCHL Strategic Review, and to consider the recommendations as provided in their report in regard to the future direction of CCHL.

4. Alternative Options Considered Ētahi atu Kōwhiringa

4.1 The only alternative is to not consider the recommendations of the report by Northington Partners Ltd.

5. Detail Te Whakamahuki

5.1 Christchurch City Holdings Ltd ("CCHL" or the "Company") is an investment company which owns Christchurch City Council's ("CCC" or the "Council") shareholding in a number of operating subsidiary companies.

5.2 CCHL was established in 1993 to act as an independent and non-political buffer between the Council and the trading companies that it owned. The main objective was for CCHL to invest in and promote the establishment of key infrastructure and the Company now owns a significant portfolio of commercial assets operating across the following sectors: electricity distribution, airport, port, fibre broadband, construction and maintenance and recycling.

5.3 In December 2021, the Council requested CCHL in its Letter of Expectations (LOE):

> *"the Council is asking the CCHL Board to consider the role of CCHL and asks you to reflect after nearly 30 years, whether it's original core purpose remains relevant and/or whether it could be enhanced to provide more support to the city. We ask that you consider this in light of the current environment, our city's experiences*

over the last ten years and the future national and global challenges we are all facing.

The Council sees this initiative as an opportunity to work together to ensure CCHL's future direction is aligned to deliver our strategic priorities and community outcomes."

5.4 Due to personnel changes at CCHL, in August 2022, the Council took over managing the review and appointed Northington Partners Ltd (Northington) to undertaken the review with an expectation that the review would be complete and presented to the new Council in November/December 2022. The terms of reference that were provided for the review are attached as Appendix 2 to this report.

5.5 The full Northington report and recommendations are attached to this cover report as Appendix 1.

5.6 The approach to the review undertaken by Northington is detailed on page 5 of their report, but can be summarised as follows:

- Strategy and Scope – review CCHL's purpose, role and objectives and how these align to support Council's strategic priorities and community outcomes
- Financial – review CCHL's investment mandate/parameters, investment opportunities and optimal capital structure needed to support its role and purpose
- Structure and Governance – review of the current governance structure and identification of areas of improvement to best support CCHL's purpose and objectives.

The review has addressed two important functional questions:

- What is the status of the current structure, effectiveness and performance of CCHL (How is it working?)
- How can CCHL's structure and remit be modified to best meet Council's long term objectives (How could and should it be working?)

5.7 Northington interviewed over 50 people that included key stakeholders, including a number of current and past Councillors, Mayors, Directors and Executives, and other key partners.

5.8 The review has analysed the performance of CCHL and its underlying assets, it has reviewed Council's past and future income requirements, and its debt burden now and in the future as outlined in our current LTP. The review has considered the risks and opportunities of our current portfolio, and considered this in line with our future requirements.

5.9 As part of their review Northington has debated and contested the case for Council ownership:

- *"CCC's investment strategy for CCHL and the case for ownership has not been clearly established. We believe there is a strong case to objectively reconsider CCC's core objectives and develop a strategy for CCHL which assists in delivering those identified priorities."*
- *In our view, the core reasons that CCC owns the CCHL assets fall into the following categories.*
    - *Security of Services / Control of Key Assets*
    - *Income for CCC /Reduce Rate Burden*

- *Build Value*
- *Support CCC Nonfinancial Objectives*

5.10 Reflecting on the answers to the above questions the Northington review has provided a range of alternative operating models and structures that could be considered to improve performance and potentially recycle capital back to Council for debt reduction or reinvestment into other new city investments. The alternative approaches detailed in the report are:

- ***Retain*** *– effectively status quo*
- ***Rebalance*** *– transition to a more active management approach – recycle and reinvest to improve risk/return profile while maintaining control over current assets*
- ***Reduce*** *– transition to a more active management approach, with options to either recycle capital back to Council or redeploy into other assets within CCHL*
- ***Realise*** *– effectively counterfactual to status quo, liquidate portfolio.*

5.11 The Northington report has recommended a hybrid approach, one that considers options under both a rebalance and reduce operating model. It does not recommend either status quo or realise options, as such neither of those options are recommended by staff to pursue.

5.12 The Council current LTP recognises most of the assets held by CCHL as strategic. This means that any consideration of a change to the portfolio would need to be considered as part of the next draft LTP and consulted on.

5.13 The Northington report recommends that two pieces of work are undertaken to prior to any consideration to a change to the portfolio:

Council should set a clear Value Strategy in relation to building and utilise income or value from CCHL:

- This strategy should be primarily informed by Council's long-term requirements, with a deliberate balancing of its target capital structure, financial capacity and requirements, and an acceptable rates path (incorporating a realistic long-term population growth path).
- That strategy should then inform CCHL of Council's requirements, which will allow it to tailor its portfolio to best meet shareholder requirements.

Scoping Studies / Detailed Business Cases – an evaluation of each asset should be conducted to identify the best strategy to release capital. This evaluation should take into account:

- CCC's optimum / minimum strategic shareholding;
- Identifying opportunities that can be unlocked through strategic co-investment;
- Detailed financial analysis / market valuations / investor market soundings; and
- Broad stakeholder consultation process.

The core output from these connected processes should be a range of explicit and market-tested options for introducing co-investment into current CCHL assets and redeploying capital into other investments or to debt repayment.

5.14 The work above will provide options/considerations for the Council and community to consider as part of the draft long term plan next year.

5.15 The Council recognises the significance and importance of the CCHL group to the residents of Christchurch and as such they wish for the public to be part of any decisions relating to the future direction of this portfolio. However, to be able to consider any changes in the draft long term plan, the Council need the work to be completed so detailed options are available and impacts including risk and opportunities are provided for consideration.

5.16 The Northington Report also highlighted a number of operational recommendations that they suggest should be implemented to support the above work that would need to be done, but also to improve current engagement/communications between Council/CCHL and the subsidiaries.

5.17 The review highlighted that a number of things were working well, the original purpose of CCHL to provide a non-political buffer between Council and the commercial entities, does and should continue to work effectively. In addition the core role of CCHL should be to deliver commercially based outcomes for its shareholder.

5.18 However there are a number of improvements that the Northington report are implemented which Council staff support:

- The current Statement of expectations (SOE) process needs to be more comprehensive, and aligned to the 10 year planning horizon of the LTP. The SOE should aim to provide a set of explicit and measureable expectations in relation to long term performance.
- The CCHL Board should be strengthened with directors who have the experience and skill sets to support the recommended strategy evaluation and implementation. In light of this, the Councillor Directors are recommended to be reduced to two from four. This also removes the concern of having so many Councillor Directors having to step back from the discussion and voting around the Council Chamber when recommendations come back from CCHL. This will allow up to six independent Directors be appointed (including the Chair).
- The discussion around whether Councillor Directors should receive remuneration will form part of the review of the Council's appointment and remuneration policy which is scheduled to be received by Council on the 14th December 2022.
- The report recommends a higher degree of scrutiny over the performance of the CCTO's at the CCHL level that includes driving financial performance and being prepared to take action, when results are not satisfactory. To help with this, the report recommends that the CCO monitoring function at Council is refocused to enable Council to monitor, interrogate and communication information provided by CCHL to Councillors. Increasing the transparency between CCHL and Council will be required to achieve this.
- Finding an appropriate balance of transparency (reflecting the public ownership/public interest dynamic) and ensuing that Council is not overstepping into operational matters is important. However a process of trust-building is required and therefore a degree of direct and regular engagement between Council

and the CCTO's is recommended by six monthly briefings in which the CEO's of the CCTO's present to Council.

- The report has noted that CCHL has the capacity to add significantly more value through better engagement with other aligned stakeholders (both other CCO's like ChristchurchNZ (CNZ), and commercially aligned partners like Ngai Tahu holdings. Northington recommend that the Council lead and instruct a tighter relationship between CCHL and CNZ to pursue shared and mutually-beneficial objectives.
- There are a number of other recommendations that are proposed by Northington that are dependent on the proposed model going forward, and as such staff are recommending they are considered once the work proposed under 5.13 above is completed.

6. Policy Framework Implications Ngā Hīraunga ā- Kaupapa here

Strategic AlignmentTe Rautaki Tīaroaro

6.1 This report supports [Council's Long Term Plan (2021 - 2031)].

Policy Consistency Te Whai Kaupapa here

6.2 The decision is consistent with Council's Plans and Policies. Except for recommendation 3(d) which is requesting a change to the current Appointments and remuneration of directors on Council organisations.

Impact on Mana Whenua Ngā Whai Take Mana Whenua

6.3 The decision does not involve a significant decision in relation to ancestral land or a body of water or other elements of intrinsic value, therefore this decision does specifically impact Mana Whenua, their culture and traditions.

6.4 The decisions in this report do not involve a matter of interest to Mana Whenua and will not impact on our agreed partnership priorities with Ngā Papatipu Rūnanga.

6.5 Once the work as requested has been completed and prior to the draft long term plan being agreed, engagement with Mana Whenua will be requested.

Climate Change Impact Considerations Ngā Whai Whakaaro mā te Āhuarangi

6.6 There are no Climate change implications in relation to the decisions being requested in the report.

6.7 The Council will consider climate change implications as part of its value strategy work.

6.8 More regular communication with CCHL and the subsidiaries will give the Council a better understanding of the work that they are doing on emissions reduction and our climate change initiatives.

7. Resource Implications Ngā Hīraunga Rauemi

Capex/Opex Ngā Utu Whakahaere

7.1 Cost to Implement – the cost of resourcing for the work on the detailed business cases will be determined by CCHL.

8. Legal Implications Ngā Hīraunga ā-Ture

Statutory power to undertake proposals in the report Te Manatū Whakahaere Kaupapa

8.1 Local Government Act 2002, and Companies Act 1993

Other Legal Implications Ētahi atu Hīraunga-ā-Ture

8.2 There is no legal context, issue or implication relevant to this decision as the request is to seek more information before any decision is considered as part of the Long Term Plan.

9. Risk Management Implications Ngā Hīraunga Tūraru

9.1 As this report is only seeking a decision to prepare more information, there is no risk to the Council in relation to this report.

9.2 In the event that a decision is made to not seek further work to be undertaken, the risk will be that the Council will not have all relevant information available to it to determine the risks and opportunities of a changed model.

Attachments Ngā Tāpirihanga

No.	Title	Reference	Page
A ⇩	Review of CCHL 2022 - Northington Report	22/1698827	12
B ⇩	CCHL Review Terms of Reference	22/1698842	125

In addition to the attached documents, the following background information is available:

Document Name – Location / File Link
Not applicable

Confirmation of Statutory Compliance Te Whakatūturutanga ā-Ture

Compliance with Statutory Decision-making Requirements (ss 76 - 81 Local Government Act 2002).

(a) This report contains:

- (i) sufficient information about all reasonably practicable options identified and assessed in terms of their advantages and disadvantages; and
- (ii) adequate consideration of the views and preferences of affected and interested persons bearing in mind any proposed or previous community engagement.

(b) The information reflects the level of significance of the matters covered by the report, as determined in accordance with the Council's significance and engagement policy.

Signatories Ngā Kaiwaitohu

Author	Leah Scales - General Manager Resources/Chief Financial Officer
Approved By	Dawn Baxendale - Chief Executive

Christchurch City Council

Review of Christchurch City Holdings Limited

December 2022

Northington Partners

Important Notice

Important Notice

Northington Partners Limited ("**Northington Partners**") was engaged by Christchurch City Council ("**CCC**" or the "**Council**") to undertake a review of Christchurch City Holdings Limited ("**CCHL**") in accordance with the engagement letter dated 22 August 2022 ("**Engagement Letter**"). This report (the "**Report**") contains the results of this work.

This Report is provided for the exclusive use of the Council.

Northington Partners has consented to the Report being published electronically or released into the public domain for information purposes only.

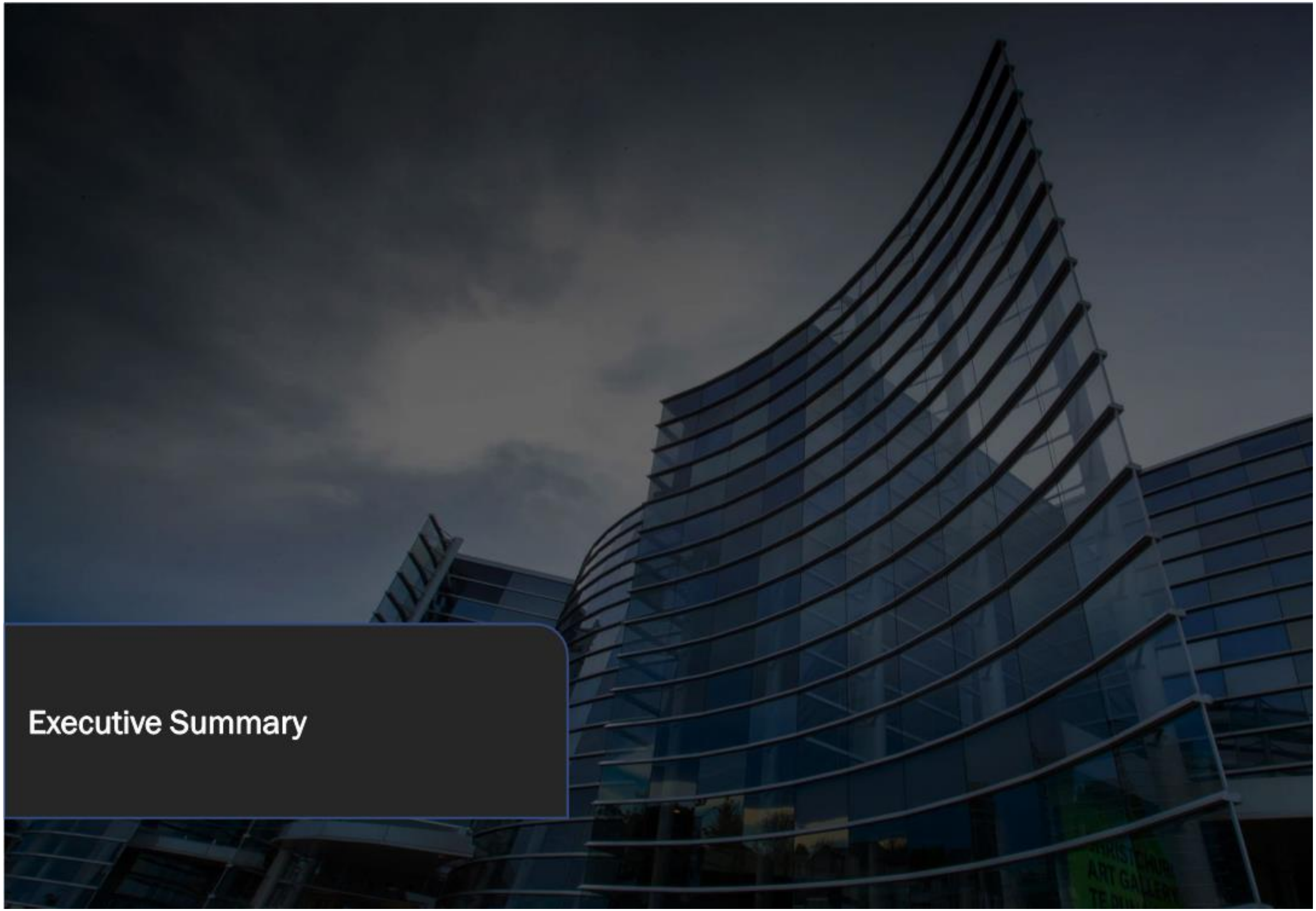
This Report may not be used or relied upon by any other party without the prior written consent of Northington Partners. Any responsibility to any other party who seeks to rely on the Report and liability is expressly disclaimed.

While the Report has been prepared in good faith, no representation, warranty, assurance or undertaking (express or implied) is or will be made, and no responsibility or liability is or will be accepted by Northington Partners or by its officers, employees or agents in relation to the adequacy, accuracy, completeness or reasonableness of this Report. The Council will exercise its own judgement in considering and using the material provided by Northington Partners.

Christchurch City Council

Contents

Section		Page
	Executive Summary	4
Section 1	Review Framework & Background	13
Section 2	Overview of CCHL	21
Section 3	CCHL Performance	27
Section 3a	Individual CCTO Performance	37
Section 3b	Structural Performance and Features of CCHL	48
Section 4	The Case for Council Ownership – Review of Some Existential Questions	63
Section 5	Ownership and Control Alternatives	76
Section 6	Opportunities for CCHL / Alternative Structures	80
Section 7	Recommendations	102
Appendices		110


Executive Summary

Christchurch City Council

Introduction to CCHL and the Review

Christchurch City Council has commissioned this Review of Christchurch City Holdings Limited.

Christchurch City Holdings Limited

Christchurch City Holdings Limited ("**CCHL**" or the "**Company**") is an investment company which owns Christchurch City Council's ("**CCC**" or the "**Council**") shareholding in a number of operating subsidiary companies.

CCHL was established in 1993 to act as an independent and non-political buffer between the Council and the trading companies that it owned. The main objective was for CCHL to invest in and promote the establishment of key infrastructure and the Company now owns a significant portfolio of commercial assets operating across the following sectors: electricity distribution, airport, port, fibre broadband, construction and maintenance, and refuse processing and recycling.

Acknowledging that CCHL has generated significant shareholder value since its inception and has also supported a range of Council's other strategic priorities, CCC now wants to revisit the role, purpose and objectives of CCHL. The intention is to ensure that CCHL is well positioned to meet the requirements of the Council over the long-term.

Strategic Review

This review ("**Review**") addresses a range of questions relating to CCHL, covering the following broad categories:

- Strategy and Scope – Review CCHL's purpose, role and objectives and how these align to support CCC's strategic priorities and community outcomes.
- Financial – Review CCHL's investment mandate / parameters, investment opportunities and optimal capital structure needed to support its role & purpose.
- Structure and Governance – Review of the current governance structure and identification of areas for improvement to best support CCHL's purpose & objectives.

The Review has addressed two important functional questions:

- What is the status of the current structure, effectiveness and performance of CCHL? (**How is it working?**)
- How can CCHL's structure and remit be modified to best meet CCC's long-term objectives? (**How could and should it be working?**)

Consultation

In order to seek relevant perspectives from a range of stakeholders, we have carried out extensive consultation with the following groups and entities:

- CCC: Councillors and Executive[1].
- CCHL: Directors and Executive[1].
- CCTOs: Directors and Executive[1].
- ChristchurchNZ, Ngāi Tahu Holdings.

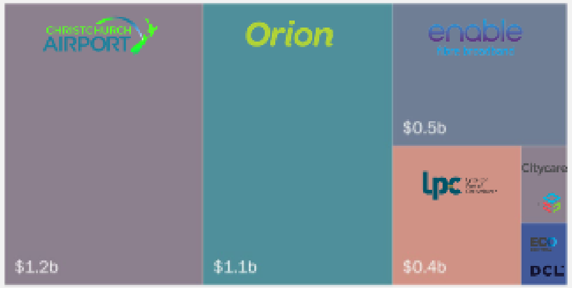
[1] Chief Executive and Chief Financial Officer

Christchurch City Council

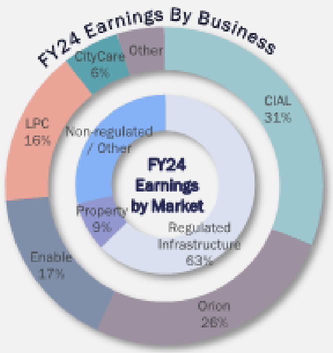
Context of Review

Christchurch City Holdings Limited

Quality Infrastructure Assets with Aggregate Value (FY22) of $3.3b



Predominantly Regulated Earnings with Significant Geographic Concentration in Christchurch



High Debt Levels Impacting on Ability to Deliver Dividend Returns to CCC

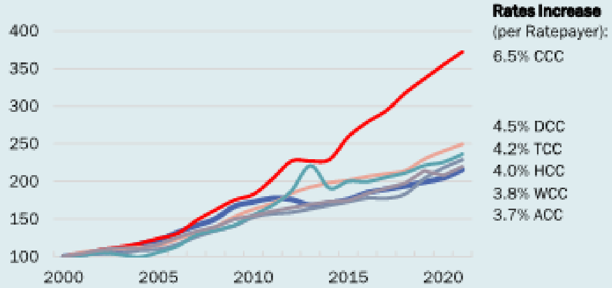
$680m

FY22 CCHL Parent Debt

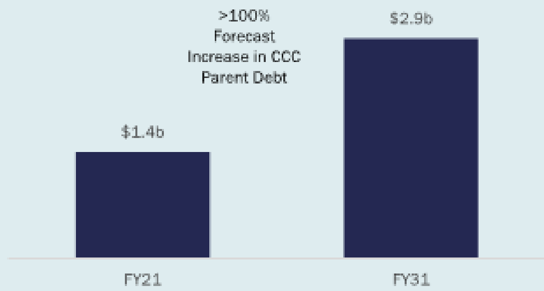
(Net of Borrowings Advanced to Subsidiaries)

Christchurch City Council

Fastest Growing Rates Since 2000 of All Major Councils



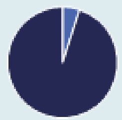
Significant Forecast Increase in Council Debt Levels



Low Income Contribution From CCHL to Support Reduction in City Rates or Debt Burden

<2.0%

Dividend Return on Investment Value



<5% Contribution to CCC Income Sources

Source: NPL analysis, Stats NZ, CCHL.

Item 19

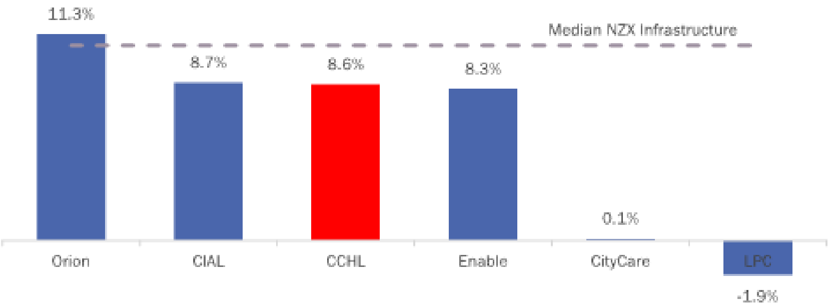
Attachment A

Christchurch City Council

CCHL Performance

Individual portfolio company performance has been satisfactory and consistent with the regulatory framework the CCTO's operate within but CCHL's performance as a portfolio manager could be improved. CCHL's debt levels limit the level of future dividend payments to CCC.

5 Year Total Shareholder Returns (to 30 June 2022)



Average Annual Forecast Dividends to CCC ($m) to 2027

CCHL Financial Performance - Key Takeaways

- The financial performance of most of the CCTOs is acceptable and in line with the regulated nature of their commercial activities.
- Some of the portfolio companies have demonstrated historical performance issues (including LPC, CityCare and RBL). CCHL has been slow to manage these situations.
- CCHL is adding little value as a portfolio manager (e.g. asset / capital allocation, scrutinising CCTO performance), primarily due to the perceived "scope" at CCHL.
- Within the limited "holdco" structure, CCHL is performing satisfactorily but has not actively challenged or reconsidered its broader strategy for some time.
- The $440m Capital Release programme over FY16 – FY19 which supported CCC's post-earthquake recovery, significantly increased CCHL debt and effectively brought forward future dividends.
- The additional debt and lower anticipated CCTO earnings will significantly impact on CCHL's ability to pay meaningful dividends to CCC in the medium term. Projected future dividends to CCC represent an income return of less than 2% on CCC's investment value.

CCHL Operational Performance - Key Takeaways

- CCHL provides a political buffer between the Council and the CCTOs which is effective and critically important to the commercial success of the CCTOs.
- CCHL has not provided Council with a good level of base knowledge about the portfolio (i.e. risks and opportunities).
- CCC has not provided a well-defined, measurable and prioritised set of objectives to CCHL and has no long-term portfolio strategy (e.g. income versus value growth priorities).
- There is no clear benefit of having four Councillor directors (out of a total of eight directors) on the CCHL board.
- CCHL / Council communication and engagement has been poor with very limited engagement between Council and the CCTOs.
- CCHL is not well-aligned with other CCOs (e.g. CNZ) and external organisations or stakeholders (e.g. Ngāi Tahu).

Source: NPL analysis, Capital IQ, CCHL historical financials.

Christchurch City Council

Reconsidering The Case for Council Ownership

CCC's investment strategy for CCHL and the case for ownership has not been clearly established. We believe there is a strong case to objectively reconsider CCC's core objectives and develop a strategy for CCHL which assists in delivering those identified priorities.

The Case for Council Ownership – Existential Questions

Why does CCC own these assets?

- In our view, the core reasons that CCC owns the CCHL assets fall into the following categories.

1. Security of Services / Control of Key Assets

Key Observations

- CCC owns a greater portion of its local assets than any other New Zealand Council.
- The behaviour of the CCTOs is not typically different to that expected under other ownership models.
- Effective "control" can be retained without necessarily owning 100%, particularly for regulated assets.
- CCC appears comfortable not owning other local infrastructure-style assets (e.g. healthcare, fuel terminals, 5G / radio spectrum, datacentres).

2. Income for CCC / Reduce Rate Burden

Key Observations

- The forecast income produced from the CCHL portfolio is modest in relation to current portfolio value (estimated at <2% p.a. for the medium term).
- CCHL dividends make up a small fraction of total Council operating costs (forecast to be <5%).
- Applying proceeds from any asset recycling to Council debt repayment will reduce rates and increase value to ratepayers more than continuation of the status quo.

3. Build Value

Key Observations

- While value growth from the CCHL portfolio has been meaningful over the last 10 years, the existing portfolio is exposed to substantial geographic concentration risks.
- There does not appear to be a clear strategy around value growth objectives and how that value will be accessed and utilised to support Council requirements in the future.

4. Support CCC Non-financial Objectives

Key Observations

- While the CCTOs are actively pursuing CSR / ESG initiatives, this behaviour is typical of most socially responsible businesses operating in the modern commercial environment.
- While there may be some minor non-financial benefits to Council through its indirect ownership of the CCTOs, full ownership is not a prerequisite to maintaining these benefits.

Key messages:

- Some of the rationale for ownership has potentially not been well-understood and the "case for ownership" should be revisited.
- CCC has inherited a portfolio by default. Objective setting has been shaped around the portfolio, rather than the portfolio and direction of CCHL being shaped around the CCC's core objectives.
- CCC should objectively re-visit its core priorities / objectives before resetting the scope and remit of CCHL to deliver on those objectives.

Christchurch City Council

Options for Repositioning the CCHL Portfolio

The CCHL portfolio provides significant opportunity to improve performance and recycle capital back to CCC for debt reduction or reinvestment into other City assets. We have considered a range of alternative operating models and structures which may be suitable.

- We set out a range of alternative management models and approaches that Council could consider for CCHL.
- These examples illustrate different philosophical approaches to the nature of CCHL's activities – broadly, moving from passive to active management and considering co-investment options. In addition, for context we have shown what a complete capital release scenario might look like.

Alternative Approaches

Retain

Effectively Status Quo

"Passive" investor.

Focus on introducing a number of operational changes to improve various aspects of governance, performance and stakeholder engagement.

Rebalance

Transition to a more active management approach.

Recycle and reinvest to improve risk / return profile, while maintaining control requirements over current assets.

Maintain similar total portfolio size. No capital release.

Reduce

Transition to more active management approach.

Introduce co-investors.

Options to either recycle capital back to Council or redeploy into other assets within CCHL.

Realise

Effectively the counterfactual to the Status Quo.

Liquidate the portfolio and recycle capital back to the shareholder.

Potential outcomes, relative to status quo (Retain)

	Retain	Rebalance	Reduce	Realise
Higher Dividends		✓	✗	✗
Capital Release for Council		✗	✓	✓
Lower Rates Burden		✓	✓	✓
Maintain Control		✓	✓	✗
Increased Diversification		✓	✗	✗

Christchurch City Council

Recommendations for Repositioning the CCHL Portfolio

We suggest that Council considers a "hybrid" approach of rebalancing and reducing CCHL's portfolio while re-setting CCHL's strategy to deliver improved performance and provide CCC scope for debt / rates reduction.

Our Recommended Approach

- In our view, CCHL is a significantly under-utilised asset of the Council and the ratepayers of the city.
- We believe that significant value could be added by taking a more active approach to asset management.
- Council should undertake a fully-considered and purposeful strategy reset focused on optimising the performance of CCHL and its assets to meet specific requirements of the Council.
- While the detail of some of these requirements is yet to be established, we believe that adopting a more dynamic mandate for CCHL, along with improvements to some operational features of the Group, will provide the platform to maximise the key outcomes from CCHL.

We suggest a "hybrid" approach:

- Through a recycling programme, CCHL could release a material amount of capital for redeployment and / or debt reduction at Council.
- Determining the balance will depend on CCC's core requirements.

Potential to Provide:

- ✓ Improved CCHL performance.
- ✓ Debt reduction (CCHL and CCC) and / or reinvestment into the City.
- ✓ Reduce rates.

Item 19

Attachment A

Christchurch City Council

More Work is Needed to Determine Council Requirements & CCHL Options

Council should specify its long-term strategic requirements of CCHL, while evaluating the opportunities within the CCHL portfolio in parallel.

Landing on a Rebalance / Reduce Structure

Value Strategy

Council should set a clear **Value Strategy** in relation to building and utilising income or value from CCHL:

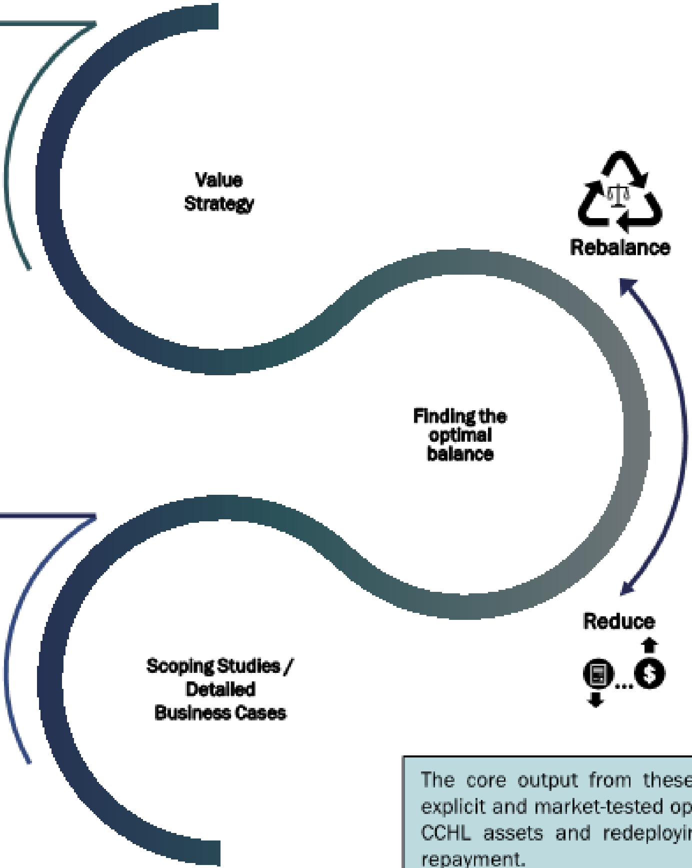
- This strategy should be primarily informed by Council's long-term requirements, with a deliberate balancing of target capital structure, financial capacity and requirements, and an acceptable rates path.
- That strategy should then inform CCHL of Council's requirements, which will allow it to tailor its portfolio to best meet shareholder requirements.

Scoping Studies

An evaluation of each asset should be conducted to identify the best strategy to release capital.

This evaluation should take into account:

- CCC's optimum / minimum strategic shareholding.
- Identifying opportunities that could be unlocked through strategic co-investment or additional capital.
- Detailed financial analysis / market valuations / investor market soundings.
- Broad stakeholder consultation process.



How should Council land on a target structure for its new strategy?

- From which assets will capital be recycled?
- How will capital be released? ie, partial sell-down v leases.
- Where will capital be redeployed?
- How much CCC Group debt would be retired?
- What is the optimum level of capital to repatriate to Council?

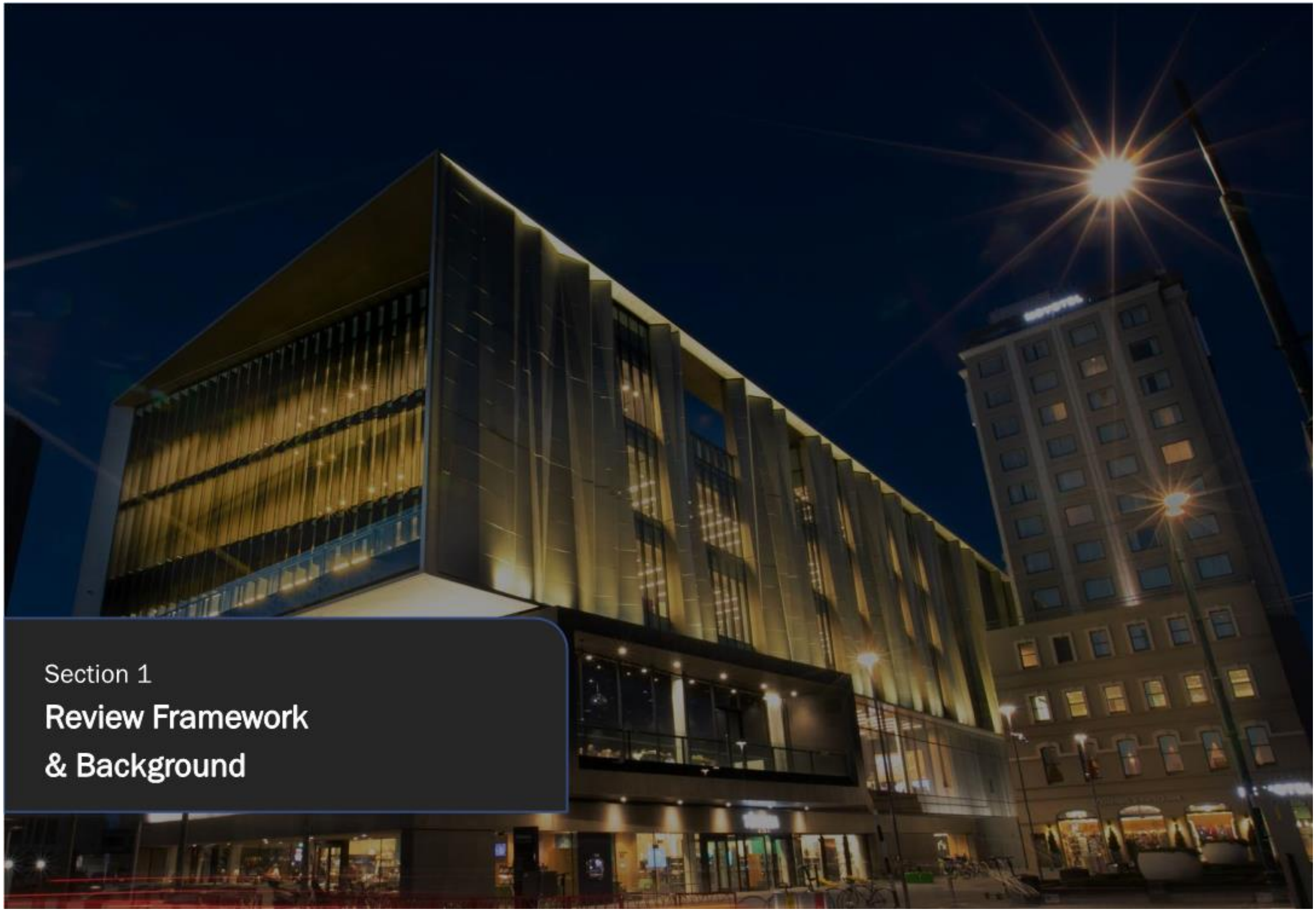
The core output from these connected processes should be a range of explicit and market-tested options for introducing co-investment into current CCHL assets and redeploying capital into other investments or to debt repayment.

Christchurch City Council

Recommended Changes to CCHL's Operating Framework

We have identified a range of operational improvements that should be implemented at CCHL in order to enhance performance and the engagement with CCC.

Area / Feature	Recommendation
Scope & Remit	• Broaden CCHL's scope to encourage a more dynamic and active approach to maximise portfolio performance. • Consult with the public around the strategic asset policy as part of the LTP process commencing in 2023.
Role & Purpose	• Maintain the CCHL structure to continue to provide an independent and non-political buffer between Council and its commercial businesses. • CCC should clarify CCHL's role and purpose with clear quantifiable and commercial objectives. • Establish the level of expected returns required from CCHL and the balance of income versus value growth.
Setting & Balancing Objectives	• Modify the SoE process to be a more comprehensive, three year process based on a 10 year planning horizon which becomes part of the LTP process. • Set measurable expectations in relation to performance.
Governance	• Reduce the number of Councillor directors from 4 to 2 in order to enhance the collective board capability while maintaining links to Council. Strengthen the CCHL board with up to 6 independent directors providing a balance of skills and experience necessary to guide the strategy re-evaluation. • Consistent with best-practice, Council should maintain its policy of not appointing Councillor Directors to the CCHL subsidiary boards.
Dividend Policy	• CCC should establish a formal dividend policy for CCHL consistent with its own requirements and following determination of the Council's Value Strategy. • Establish a clearly defined dividend policy in the interim that looks to support CCC's income requirements.
Performance Monitoring	• Appropriately resource CCHL to provide a higher degree of scrutiny over the performance of the CCTOs and enable an active management approach. • We also suggest that the CCO Monitoring function at Council is refocused to enable CCC to monitor, interrogate and communicate information provided by CCHL to Councillors. This should be supported by enhanced transparency between CCHL and CCC.
Communication & Engagement (Internal)	• CCHL needs to commit to a higher level of engagement between its Executive, Board and the Council to enhance communication and trust. This could readily be established through six-monthly briefings where the CEOs of the CCTOs present to Council. • Establishing an appropriate balance of transparency while ensuring that the Council does not overstep into political / operational matters.
Communication & Engagement (External)	• Re-set with a broader scope and flexibility, CCHL has the capacity to add significantly more value through better engagement with other aligned stakeholders (including other CCOs like CNZ) and partners like Ngai Tahu. • Council should actively lead and instruct a tighter relationship between CCHL and CNZ to pursue shared and mutually-beneficial objectives for the City.



Section 1

Review Framework & Background

Christchurch City Council

Structure of the Review (1/2)

The Review process has been structured to address the two key functional questions.

Structure of our Review

Assessment: What is the status of the current structure, effectiveness and performance of CCHL? (**How is it working?**)

Pages 13 - 20

Review Framework & Background

Structure of Report

Scene Setting:

- Community Context
- Council Income Sources / Rates Growth
- Rates and Council Debt per Household
- Council Debt Funding Requirements
- Is the Current Debt Path Sustainable?

Pages 21 - 28

Overview of CCHL

(How CCHL Currently Operates)

CCHL Overview

Stated Roles & Purpose

CCHL Governance and Executive

Current Reporting & Monitoring Pathways

Policy Framework

Pages 27 - 36

CCHL Performance & Outlook

Introduction and Approach

Where Do CCHL's Earning Come From?

How has CCHL Performed?

How Does CCHL's Performance Compare?

What are CCHL's Expected Portfolio Returns?

How is CCHL Expected to Perform?

Why a Difference in Dividend Performance CCHL v CCC?

What is CCHL's Debt Capacity?

What is an Appropriate Dividend Policy?

Individual CCTO Performance **(pp 37 - 47)**

CCHL Operating Performance and Features **(pp 48 - 62)**

Introduction / Consultation

Scope & Remit of CCHL

CCHL Roles & Purpose

Balancing Objectives

Governance Structure & Processes

Supporting CCTO Strategic Opportunity

Monitoring / Performance

Communication / Engagement

Item 19

Attachment A

Christchurch City Council

Structure of the Review (1/2)

The Review process has been structured to address the two key functional questions.

Structure of our Review

Opportunity / Recommendations: How can CCHL's structure and remit be modified to best meet CCC's long-term objectives? (**How could and should it be working?**)

Pages 63 - 75

The Case for Council Ownership - Existential Questions

Why Does CCC Own These Assets?

Four broad categories / reasons for ownership:

- Asset Security / Control of Assets
- Income for CCC / Reduce Rates Burden
- Build Value for CCC
- Support CCC's Non-financial Objectives

Existential Questions: Conclusion

An Opportunity to Reassess the Case for Council Ownership in its Current Form

Pages 76 - 79

Ownership and Control Alternatives

Operating and Ownership Model

Mixed Ownership Model

Asset Recycling: Australian Perspective

Pages 80 - 101

Opportunities for CCHL / Alternate Approaches

Options for Repositioning the CCHL Portfolio

Alternative Approaches:

- Retain
- Rebalance
- Reduce
- Realise

Alternative Approaches: Summary of Outcomes

Pages 102 - 109

Recommendations

Recommendations for Repositioning the CCHL Portfolio

Potential Capital Released Under Hybrid Approach

Determining How Capital Could Be Redeployed

Recommendations: CCHL Portfolio Strategy

Recommendations: Operating Structure

Statement of Expectations

Christchurch City Council

Scene-setting: Community Context

The strategic framework for the Council is set out as part of its planning process. Acknowledging that the framework is subject to change, it provides strategic context to assess CCHL, its interaction with CCC, as well as CCHL's role and objectives.

FY2023 Letter of Expectations to CCHL from CCC – Key Items

- Undertake a strategic review of CCHL.
- Support strategic priorities.
- Maintain CCHL's purpose and relationship with its shareholder and assist the Council to create civic wealth.
- Higher need from Council to have more engagement with CCHL on its dividend policy.
- Governance:
  - Board Effectiveness review.
  - Diversity.
  - Closing remuneration gap.
  - Communication and reporting of governance initiatives.
- Climate Change:
  - Verified emissions, energy waste and water plan.
  - CCHL's working group on climate change to workshop with council its plan and offsetting costs.
- Measuring performance and reporting:
  - Workshop to provide assurance on CCHLs focus on performance.
  - Standardised reporting and benchmarking.
  - SOI workshop and briefings.
- Living Wage requirement for new contracts by Oct 21.
- Relationships working with broader CCC Group.

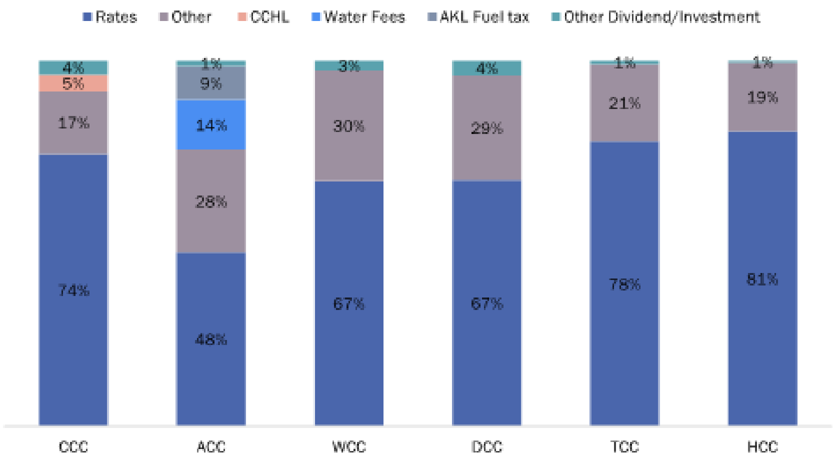
Scene-setting: Council Income Sources / Rates Growth

Despite having the largest investment portfolio of any council, CCC rates growth has significantly outstripped all other major councils and the Council remains heavily reliant on rates for funding.

Councils Sources of Income

- CCC is expected to source approximately 9% of its income from investments (5% from CCHL).
- This is the largest contribution for any major New Zealand council, most of whom do not typically own CCHL-type asset portfolios (DCC is second with only 4%).
- Despite this, CCC still relies on ~74% of its income from rates relative to an average of 68% for the other comparator councils.

Sources of Operating Income (Major Councils)[1]

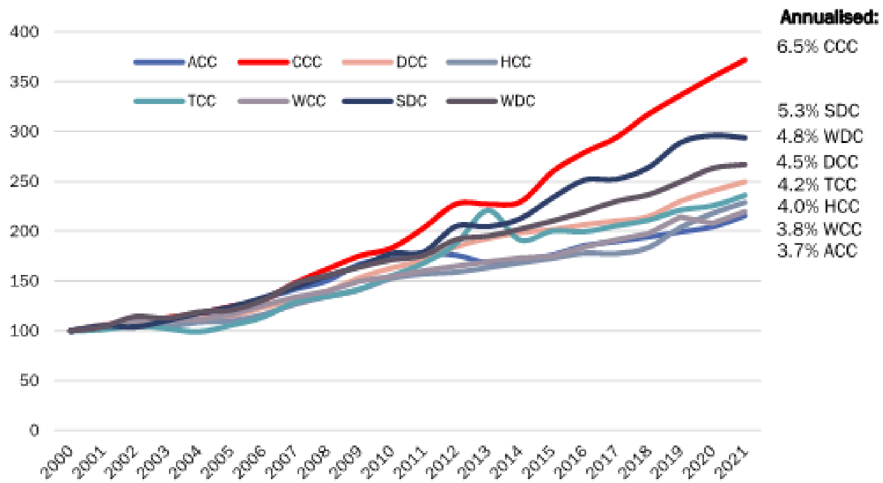


[1] Based on 7-year forecast average operating funding sources from LTP funding impact statements. "Other" primarily includes Fees and Charges. Income sources excludes capital funding sources such as development contributions and debt.
Source: Council LTPs.

Rates Growth

- Despite the contribution from CCHL and other investments, CCC has had the largest increase in rates per capita of any major council in New Zealand, increasing at an annualised rate of 6.5% over 20 years..
- While rate increases have accelerated post-earthquake, CCC rates growth was already higher than other councils prior to the earthquakes.
- Furthermore, the 2021 CCC LTP (revised for Te Kaha) anticipated a further ~6.0% of annualised rates growth over the next 5 years.
- CCC's level of rates increases are arguably unsustainable and significantly exceed both historical and forecast regional household income growth and that of its key peers.

Index of Rates Per Capita Growth (2000 Base Year = 100)



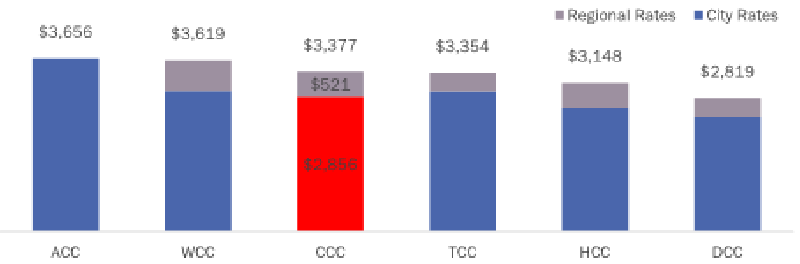
Source: Stats NZ, NPL analysis. Population growth used as a proxy for rating unit growth.
Note: ACC includes the former 7 city and district councils plus the regional council prior to 2012.

Christchurch City Council

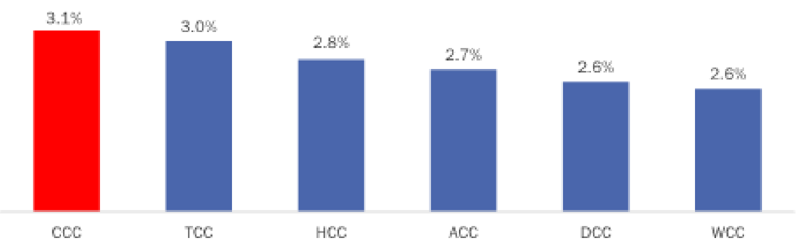
Scene-setting: Rates and Council Debt per Household

The Christchurch rates burden per household is one of the highest in the country, particularly when viewed relative to household income. Council debt per household is also high.

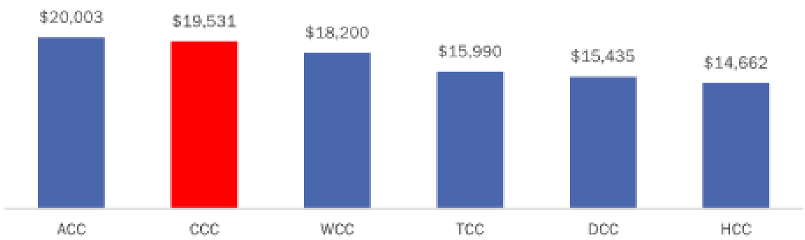
Avg Rates per Household



Avg Rates % of Avg Household Income



Council Debt per Household



Average Rates per Household

- On a like-for-like basis including Regional Council (i.e. ECAN) costs, Christchurch City rates per household are consistent with other major councils.

Average Rates % of Average Household Income

- While Christchurch City's rates were relatively more affordable pre-quakes (i.e. before 2010)[1], the City's average total rates as a percentage of average household income is now higher than all other major councils in NZ.
- On a percentage of income basis, Christchurch City rates are 12% higher than Auckland Council and 20% higher than Wellington.

Council Debt per Household

- CCC also carries the second highest levels of debt, on a household basis, when compared to other major NZ Councils.
- When also factoring in LGFA covenant compliance requirements, CCC therefore has limited flexibility to increase its debt levels.

Source: CCC LTP (with Annual Plan updates plus Te Kaha), Ratepayers Report 2022 and Northington Partners' estimates. Note:
- ACC includes water charges.
- Regional Rates component is an estimate based on a pro rata allocation of 2022 targeted and general rates.

[1] Christchurch City rates relative to income estimated at 2.3% in 2009 vs 3.1% in 2022.

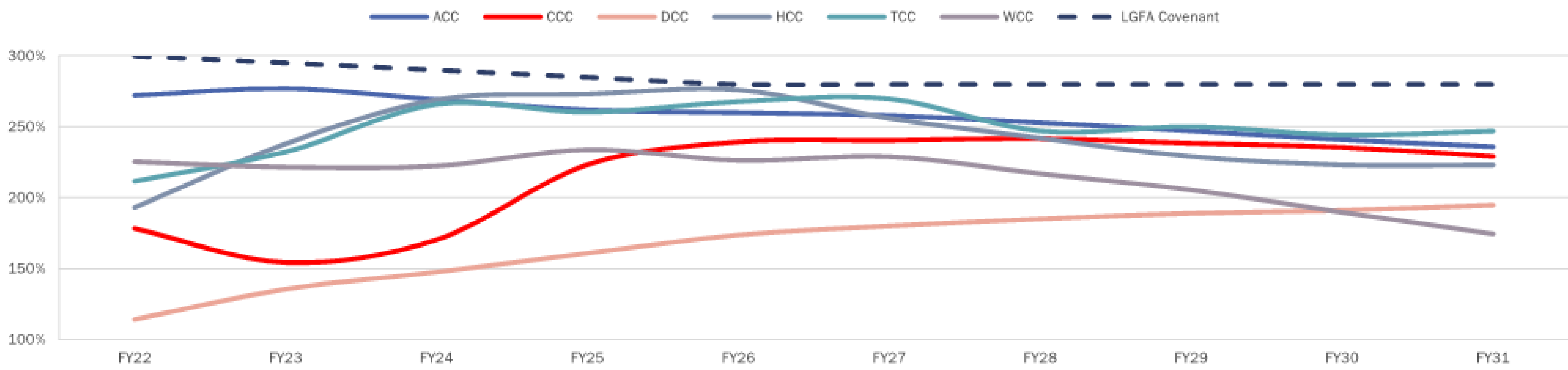
Christchurch City Council

Scene-setting: Council Debt Funding Requirements

CCC is expecting to double its current borrowing levels over the next 10 years to ~$3b (net of loans advanced to CCHL). While this debt target is consistent with other major councils on a debt to revenue basis, it is highly reliant on improved CCHL performance and continued rates increases above the rate of inflation.

- CCC's FY2021 net debt of ~$1.4b is expected to more than double to $2.9b by FY31.
- More critically, the target is expected to result in CCC's net debt to total revenue increasing from 136% in FY2021 to ~242% by FY2028, relative to LGFA covenant levels of 280% (by 2026). This is despite rates also increasing at an annualised rate of ~6% (including resident population growth) over this period.
- This means that CCC is expecting to reach debt levels close to its LGFA imposed ceiling, which will materially reduce the amount of borrowing headroom it would have for any further capex requirements or unforeseen events (e.g. further Covid-19 impacts or natural disasters, etc).
- CCC's debt headroom (the difference between actual debt to revenue and the 280% LGFA covenant) is expected to diminish from over $1b currently to approximately $450m in FY2028.
- Although CCC's forecast debt levels are consistent with all other major Councils, it is exposed to more financial / equity risk through its investment in CCHL - embedded in Council's financial forecasts is the expectation that CCHL dividends will double over the LTP period.
- We also note that CCC's debt to revenue only includes the debt held at the parent level and does not include CCHL debt. If CCHL's debt was included (for instance, if CCHL got into difficulty and was forced to "call" uncalled capital), CCC could potentially breach the LGFA covenant.

Major Council Debt to Revenue (forecast)



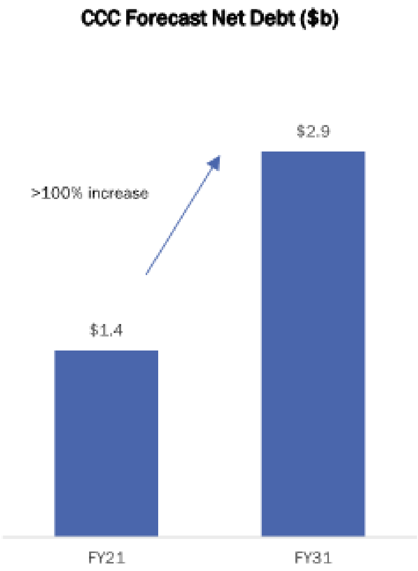
Source: Council LTPs

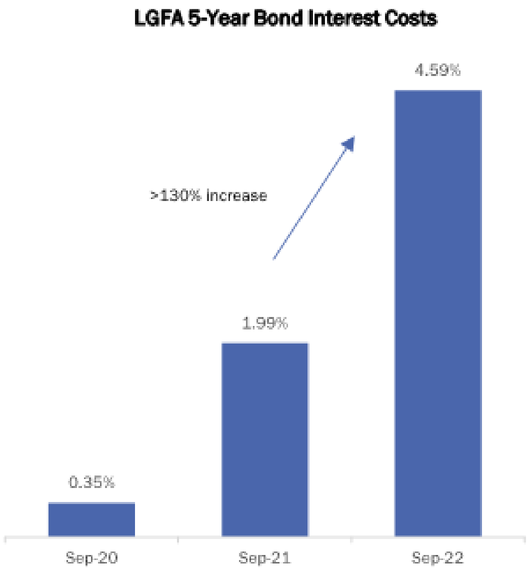
Christchurch City Council

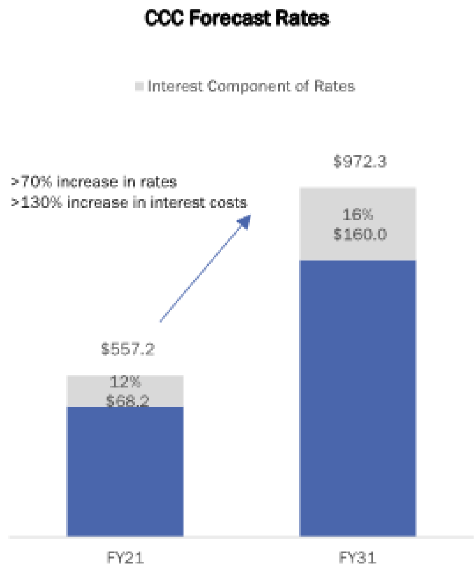
Is the Current Debt Path Sustainable?

CCC needs to make difficult decisions around its critical infrastructure spend and the balance of debt and rates needed to fund the expenditure. As we head into a potential recession, debt levels and rates affordability should be front of mind.

- CCC's 2021 LTP may already be out of date with regard to cost inflation and interest rate expectations.
- The next annual plan and LTP may see considerably higher debt and interest costs which will require hard decisions around the increasing burden on current ratepayers vs future ratepayers (increased debt levels).







Source: CCC LTP (with Annual Plan updates plus Te Kaha). Note forecast interest costs assume 2% higher interest cost than LTP to account for increased LGFA funding costs since the LTP was finalised.


Section 2
Overview of CCHL

Christchurch City Council

CCHL Overview

CCHL is the wholly owned investment arm of the Christchurch City Council. The Company currently has shareholdings in six key trading companies[1].

CCHL was set up 1993 in response to calls for an independent non-political buffer between the Council and the companies it owned. It was established to manage CCC's commercial interests under one umbrella and to provide an interface between the Council and the commercial activities of its CCTOs.

CHRISTCHURCH

100%

CCHL

Christchurch Airport – 75%

Christchurch Airport owns and operates Christchurch international airport, the key gateway to the South Island of New Zealand. In addition to regulated airport activities, the company also has unregulated airport activities and a large industrial and commercial property portfolio.

Orion – 89%

Orion owns and operates the electricity distribution network that provides power to around 211,600 homes and businesses in central Canterbury.

In addition to its regulated activities, the Company has an investment in Connetics, an engineering and contracting business.

enable fibre broadband – 100%

Enable is the fibre broadband network provider for greater Christchurch.

While Enable is regulated under the "softer" Information Disclosure regime, its larger competitor (Chorus) is fully regulated under a Price / Quality regime. Enable is therefore competitively restricted by Chorus' pricing.

lpc – 100%

Lyttelton Port Company owns and operates the largest port in the South Island of New Zealand. It is the key import / export hub for containers, fuel and commodities.

LPC has also made a significant investment in tourism through its new cruise berth.

Citycare Group – 100%

Citycare provides construction, maintenance and management services to infrastructure and amenity / property assets.

ECO CENTRAL – 100%

EcoCentral processes Canterbury's household and commercial refuse and recycling.

[1] CCHL has a number of other smaller subsidiaries

Christchurch City Council

Stated Roles & Purpose

The core role of CCHL is to monitor the Council's existing investments, which largely service the region's existing infrastructure needs. The general objective of the investment portfolio is to deliver strong financial returns and dividends to the Council.

*"**Purpose** is to make a positive difference to our community by ensuring the city's major investments provide commercial returns and at the same time provide leadership in the areas that matter to the wellbeing of our residents and our environment."*

***Mission** is to support the future growth of Christchurch by investing in key infrastructure assets that are commercially viable and environmentally and socially sustainable.*

Governance	To provide best practice governance including board composition and structure which delivers the appropriate mix of industry, sector, strategic, community focus, technical skills and diversity.
	Separation between political and commercial imperatives, whilst ensuring alignment with the views of shareholder.
Financial and Shareholder Value	To build / protect the financial strength of CCHL through appropriately directed commercial investment; in a manner consistent with the approach set out in the acquisition/divestment policy included within the Company SoI, and through efficient financial practices.
	Encourage and facilitate the subsidiary and associated companies to increase shareholder value and regional prosperity through growth, investment and dividend payments.
	To perform financial, custodial and other functions required by the Council, including the grouping together of the Council's ownership of its subsidiary companies.
	Smoothing the cash flows to the Council from its subsidiary companies; Enabling diversification of the city's income streams for the benefit of ratepayers.
Reporting and Monitoring the Investment Portfolio	Monitor the performance of each subsidiary and associated company against their stated economic, environmental and social performance objectives and against relevant benchmarks, and ensure they have proper governance procedures in place.
	Regular reporting to Council on CCHL's performance.
	To advise the Council on strategic issues relating to its trading investments including, but not limited to, ownership structures, capital structures and rates of return.
	To encourage intra-Group cooperation.
Community, Social and Environmental Outcomes	To identify, in conjunction with relevant parties, present and future regional infrastructural needs and to support the establishment and maintenance of resilient infrastructure in Christchurch and Canterbury.
	To seek, on behalf of the Council, investment opportunities that have the potential to enhance the economic well-being of the region and provide an adequate return. In order to balance these objectives, CCHL may in appropriate circumstances accept a lower return or slower route to profitability.
	To promote sustainable business practices.
	Support the Council's strategic priorities.

CCHL Governance and Executive

CCHL's board is responsible for the stewardship of the Company on behalf of shareholders. Its role is to set the strategic direction of the organisation and monitor the performance of the executive which has been delegated authority for day-to-day operations.

Board Composition

- The Board operates under the CCHL Board Charter, which sets out (inter alia):
  - The role of the Board.
  - Relationship with the CCC.
  - Core objectives of the Company.
  - Procedures, responsibilities, protocols, relationship with management etc.
- Under CCHL's Constitution, the Council, as the sole shareholder of CCHL, has the power to appoint and remove directors, within the following parameters:
  - May not be fewer than three and no more than eight directors.
  - At least two directors must be independent from the Council.
  - Over recent years, the Board has typically comprised eight directors – four Councilors and four independent directors.

Sub Committees

- The Board has two standing committees - namely the Audit & Risk Management committee and the Governance, Appointments & Remuneration committee. Other committees are formed for specific purposes and disbanded as required.

Executive

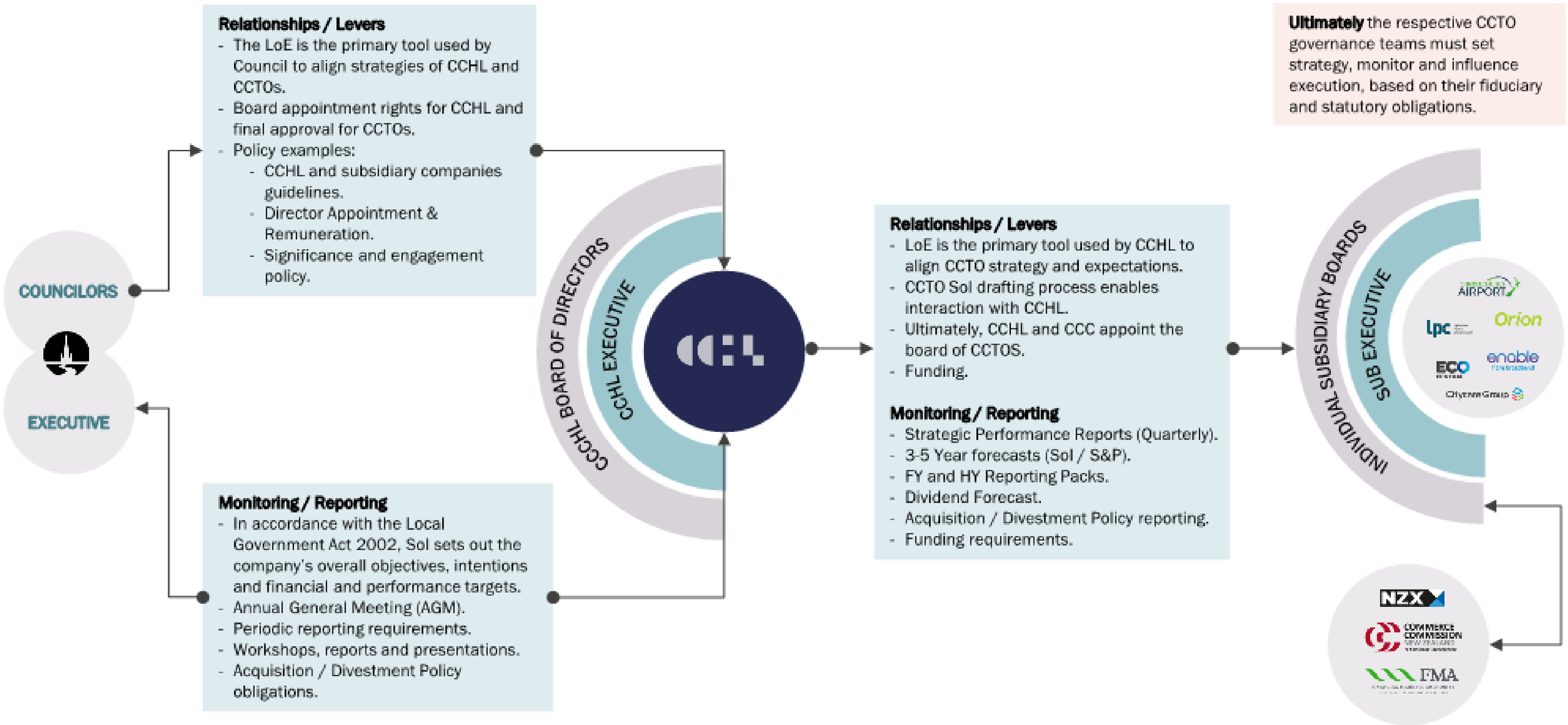
- The CCHL executive team typically comprises of:
  - Chief Executive Officer.
  - Chief Financial Officer.
  - Treasury and Analytical support (1-2).
  - Corporate and Communications Support.
- Given the small size of the team, CCHL utilises external advisory support across legal, financial, accounting and tax matters, as required.

Christchurch City Council

Current Reporting and Monitoring Pathways

CCHL provides an independent, apolitical buffer between the Council and its commercial trading organisations.

CCHL's Reporting and Monitoring Pathways



Christchurch City Council

Policy Framework

A number of the CCTOs are subject to industry-specific legislation as well as the Local Government Act and Companies Act.

CCHL and its subsidiaries are subject to the following legislation:

	CCHL	Orion	CIAL	LPC	Enable	Citycare Group	Eco Central
Companies Act	Y	Y	Y	Y	Y	Y	Y
Local Government Act 2002	Y	Y	Y	Y	Y	Y	Y
Airport Authorities Act (AAA)	N	N	Y	N	N	N	N
Port Companies Act 1988	N	N	N	Y	N	N	N
Financial Markets Conduct Act	Y	Y	Y	N	N	N	N
Commerce Act	N	Y	Y	N	Y	N	N

CCHL Statutory Information Requirements

- The Company will provide an annual Statement of Intent in accordance with Section 64(1) of the Local Government Act 2002.
- CCHL will submit an annual report within three months of year end to comply with the requirements of the Companies Act, Financial Reporting Act, Financial Markets Authority and the NZX listing rules.
  - CCHL Group will also prepare unaudited consolidated accounts by 28 February of each year.

Council Information Requirements

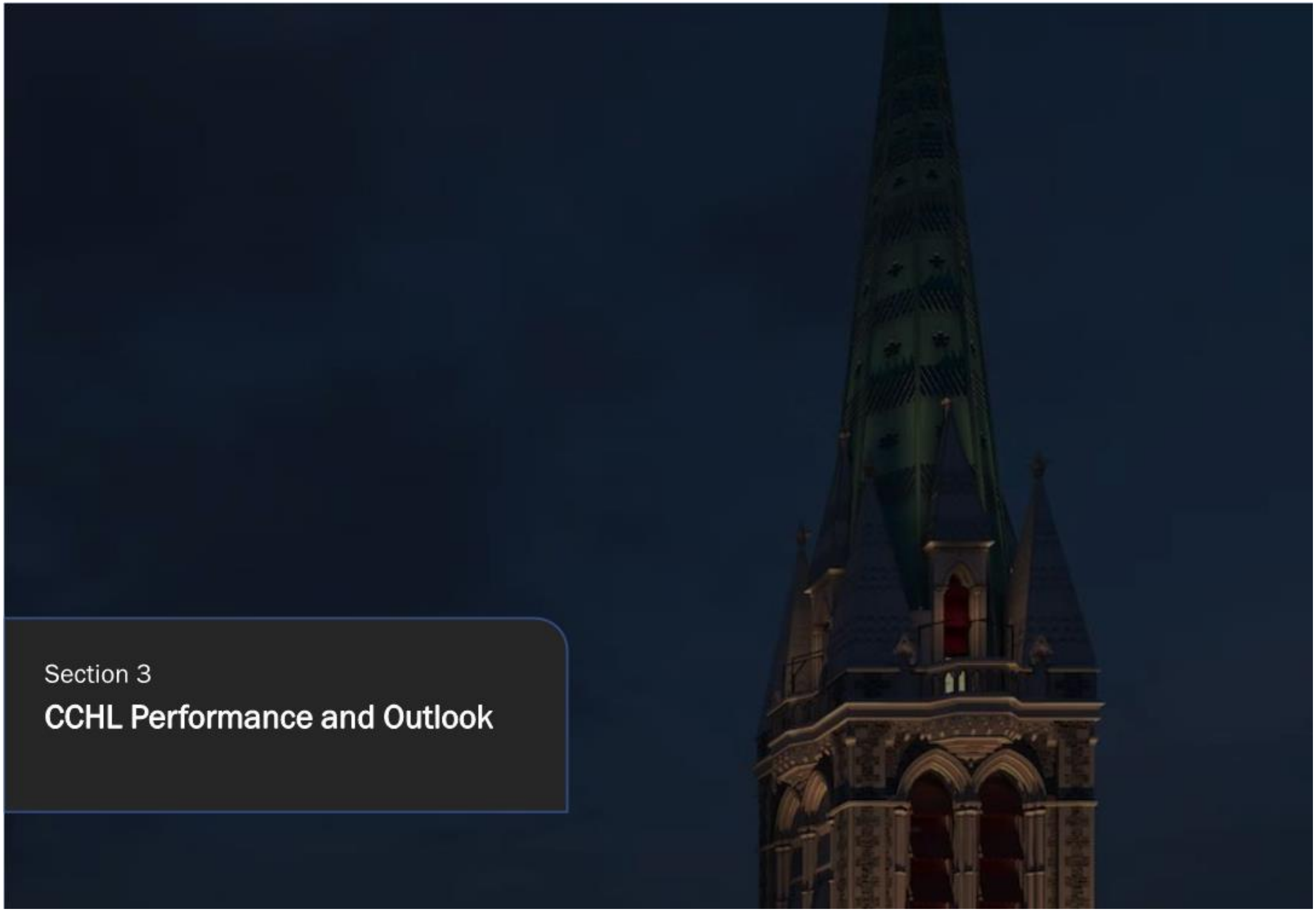
- The Company will provide regular updates to the Council on its activities and that of its subsidiary companies. It will operate on a "no surprises" basis.
- Any reporting is done with due consideration to commercial sensitivity, confidentiality agreements and NZX listing continuous disclosure requirements.

Council Policies

- Living Wage.
- Net Carbon Neutral.

Acquisition / Divestment Policy

- CCHL will seek Council approval of any transaction which results in a significant change to the ownership interest held by CCHL.
- CCHL will consult with Council prior to determining whether or not to approve a major transaction for a Subsidiary.
- CCHL will request that the subsidiary companies consult with CCHL prior to entering into material but not major transaction.
- Before a council-controlled organisation makes a decision that may significantly affect land or a body of water, it must take into account the relationship of Māori and Māori culture.


Section 3
CCHL Performance and Outlook

Introduction and Approach

We have focused our performance analysis on a small set of key metrics, across both CCHL and its subsidiaries, to provide meaningful comparison against peer companies and the broader NZX listed infrastructure sector (as a proxy for equivalent commercial entities).

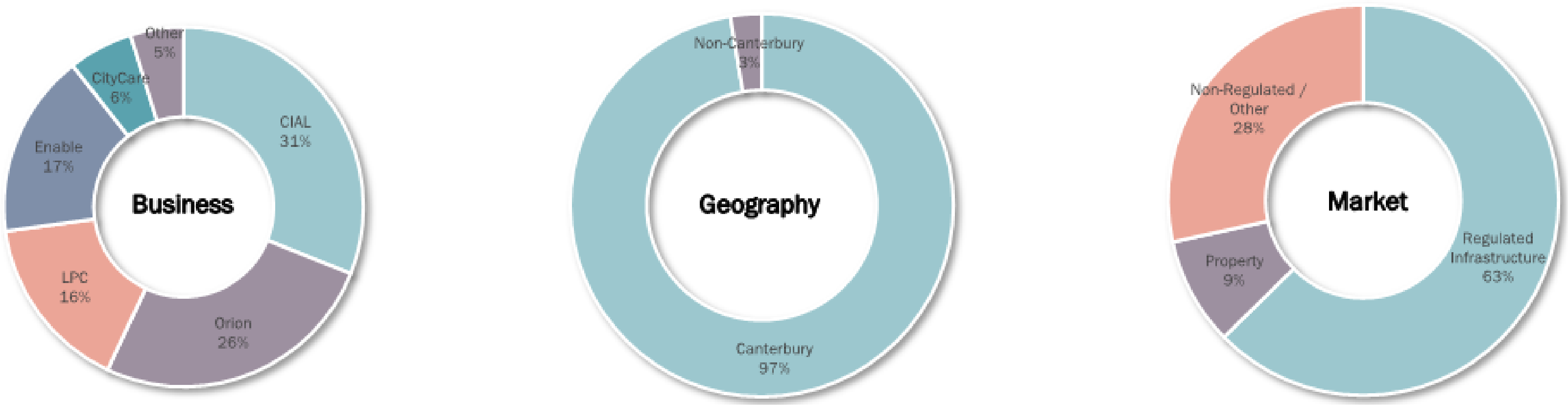
- The purpose of this section is to provide a comparison of the performance of CCHL and its subsidiary companies to relevant comparable companies. This is intended to provide an objective measure of whether, and to what extent, CCHL and its subsidiaries are performing to expectation and creating value for CCC.
- Our analysis includes an assessment of financial returns and the capital structure / dividend policy for each entity (noting that financial leverage and dividend policy influence returns).
- The key performance and benchmarking measures we have utilised include:
  - **Total shareholder returns** ("**TSR**"): measuring total equity returns to CCHL (or CCC in the case of CCHL) comprising both capital returns (change in valuation between periods) and dividend returns. This is most easily assessed on an internal rate of return ("**IRR**") basis and provides for direct comparison against the IRRs of other companies. We note that our calculations of IRR differs to CCHL's own assessment largely due to a difference in methodology (timing for the receipt of dividends and the assumed valuation dates) which results in discrepancies between the calculated IRRs. However, we consider our methodology is more appropriate and consistent with how we have determined IRRs for the peer companies.
  - **Return on invested capital** ("**ROIC**"): ROIC gives a measure of how well a company is using its debt and equity capital to generate returns and allows for a meaningful comparison with its weighted average cost of capital ("**WACC**"). This comparison tests whether invested capital is being used effectively - generally speaking, if a company's ROIC is greater than or equal to WACC, the company is generating an economic return. We measure ROIC on a post-tax basis as EBIT x (1 – Tax) / (opening book equity + net debt). We note that this differs from some of the CCHL subsidiaries' own assessment of ROIC (e.g. CIAL assesses ROIC on a pre-tax basis).
  - **Other operating and productivity measures**: assessed common measures of operating efficiency or productivity for each sector (e.g. passenger growth, crane rates, etc).
  - **Capital structure and dividend policy**: we have focused on debt / EBITDA and debt / debt + equity as key measures of financial leverage. Dividend policy is reflected by dividends as a percentage of profit.
- The performance benchmarks have been compared to both direct comparable companies in New Zealand across the respective sectors and NZX-listed infrastructure companies (as a proxy for the performance of the commercially-focused broader sector).
- Information in relation to CCHL and its subsidiaries has been sourced from CCHL and various public disclosures. Peer information has been sourced from the respective companies and NZX disclosures (where relevant).
- We have split the performance assessment into 2 parts comprising:
  1. An overview of CCHL and the key drivers of return to CCC (CCTO performance and CCHL capital structure and dividend policy).
  2. Individual performance review of the key subsidiaries (Orion, CIAL, Enable and Lyttelton Port). The other CCTO's have not been covered due to their relatively low contribution to overall CCHL performance (the top 4 CCTO's are expected to contribute ~90% of CCHL's consolidated FY24 EBITDA).
- Where performance has not been to expectation, we have provided some high-level views on potential causes.

Christchurch City Council

Where Do CCHL's Earnings Come From?

While CCHL's earnings are diversified by business source, they are highly exposed to the Canterbury region and are largely generated by regulated assets.

Earnings By[1]:



Diversified by business...

- Majority of earnings derived from four main infrastructure businesses (CIAL, Orion, LPC and Enable).

But extreme geographic concentration risk...

- All income (other than >50% of CityCare earnings) comes from within Canterbury.

And limited ability to increase earnings...

- Orion is regulated under a strict price / quality regime while CIAL and Enable are subject to effective regulation through the information disclosure regime (price setting disclosures).
- Only LPC, CityCare and non-regulated components of CIAL (including commercial property) and Orion (collectively ~28% of earnings) have any meaningful opportunity to grow returns beyond their WACC.
- While regulated returns are more resilient, they are also sensitive to prevailing interest rates (which impact on the allowed regulated return).

Source: CCHL and CCTO annual reports and Commerce Commission regulatory disclosures.
[1] Earnings by Business and Geography based on FY24 forecasts; geographic split based on assumption only ~50% of CityCare earnings are from outside Canterbury; earnings by Market based on an average FY17 – FY21 average contributions.

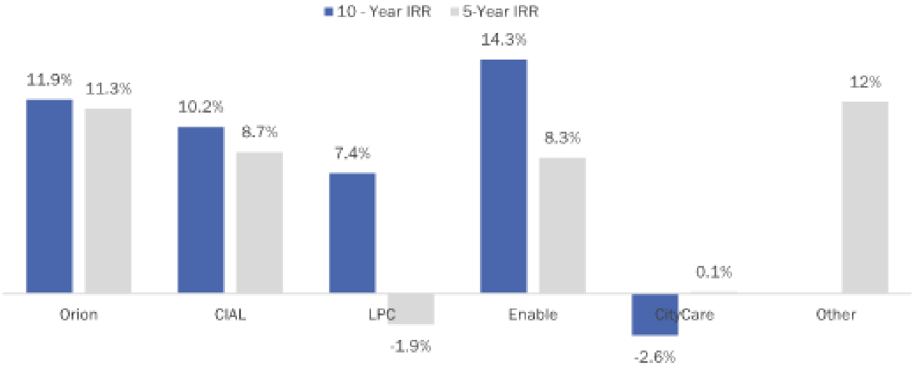
Attachment A Item 19

Christchurch City Council

How has CCHL Performed?

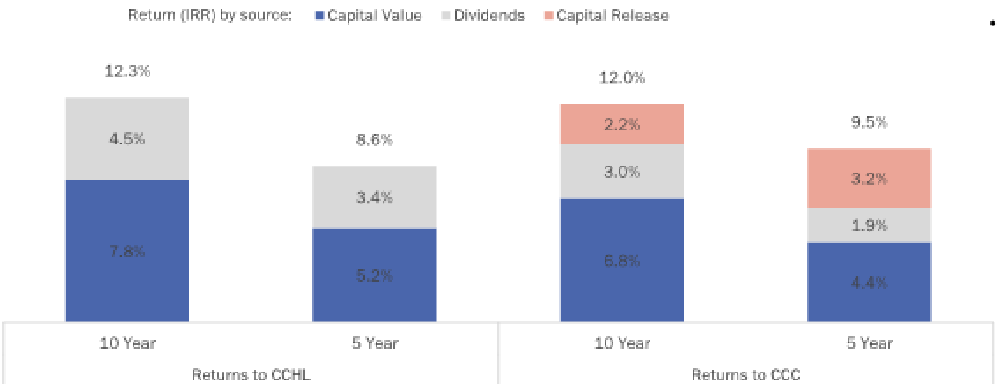
CCHL's subsidiaries have generally delivered total returns commensurate with their risk profile, and returns have been more weighted to capital gains rather than dividends. Pass through returns from CCHL to CCC have been impacted by CCHL's debt levels.

Historically, CCHL's subsidiary performance has been satisfactory:



- Other than LPC and CityCare, most of the subsidiaries have performed satisfactorily with IRRs >8%. These return levels are consistent with their expected equity returns:
  - More recent 5-year returns have generally declined, consistent with lower interest rates and the impact of Covid-19.
  - CityCare's negative return reflects a decline in valuation while poor returns for Lyttelton Port are reflective of overall poor performance.
- However, individual IRRs are generally behind their NZX-listed infrastructure counterparts (see following page).

But the majority of overall returns have been derived from the increase in capital value with dividends impacted by the regulatory nature of earnings:



- While CCHL's returns from its subsidiaries have been acceptable, the cash returns to CCC from CCHL have been impeded by the $440m Capital Release (over FY16 – FY19) and subsequent additional debt at CCHL:
  - CCHL's ability to fully pass on the returns from the subsidiaries is limited by its debt servicing requirements.
  - Additional interest costs have impacted on CCC's dividend returns but these have been offset by the returns from the Capital Release itself.
  - The additional debt incurred by CCHL to pay the Capital Release (~$680m net of advances to the subsidiaries as of FY22) will have a continuing impact on CCC's future dividends.
  - Consequently, other than a return to "normal" post-Covid-19 performance, it is unlikely that CCC's future dividend returns will improve significantly.

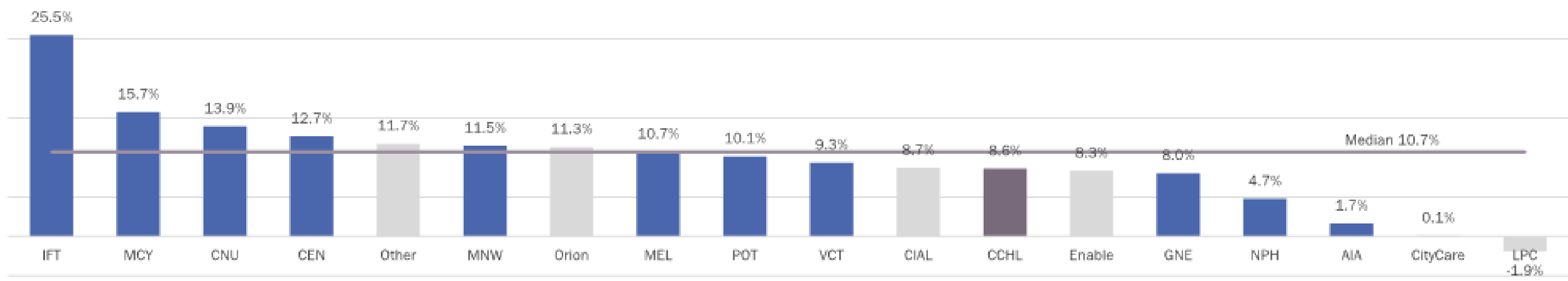
Source: NPL analysis based on 10 year and 5 year IRR assessments to FY22.

Christchurch City Council

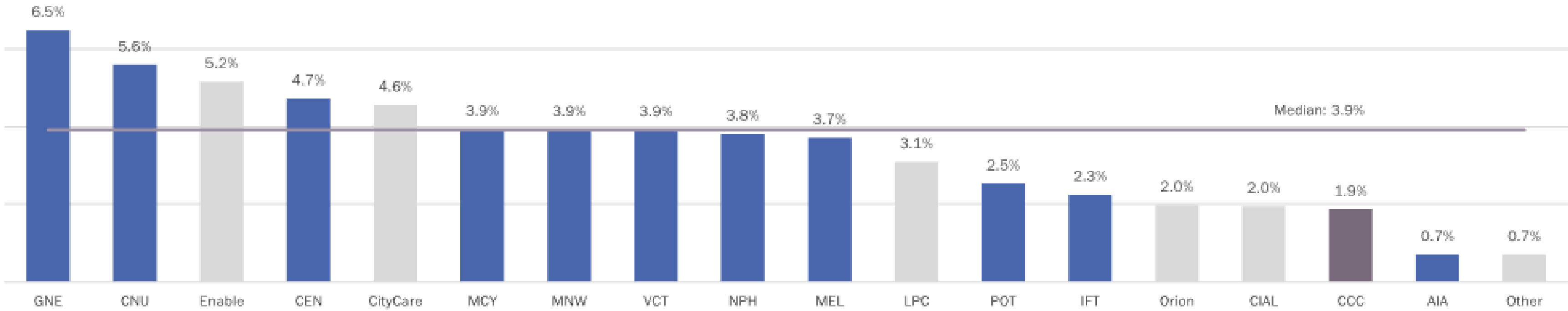
How Does CCHL's Performance Compare to Similar Companies?

CCHL's subsidiary returns have generally performed below the broader NZX infrastructure sector which includes both direct and indirect peer companies.

The CCTO's have generally delivered shareholder returns (5-year IRR) consistent with their regulated nature but below the median return of the broader listed NZ infrastructure sector:



Dividend yields for CCHL's key income earners are also lower than their peers on a relative basis:



Source: Northington Partners, Capital IQ. IRRs based on 5-year total shareholder returns to 30 June 2022 comprising both income and capital returns. Dividend yields based on FY24 forecast dividends and 1 November 2022 equity values for NZX listing companies and 30 June 2022 valuations for CCTOs.

Christchurch City Council

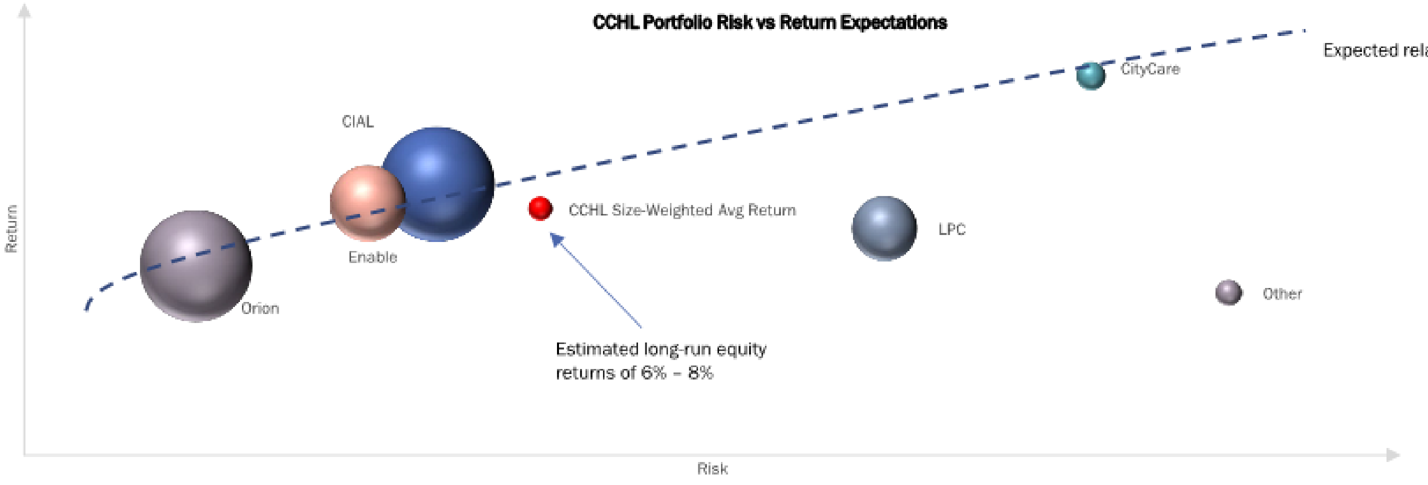
Item 19

Attachment A

What are CCHL's Expected Portfolio Returns?

While forecasting future returns is difficult, the regulated nature of most CCHL portfolio companies provides a higher degree of income certainty.

- Expected returns are a function of risk, with higher risk assets generally expected to deliver higher returns.
- The chart below demonstrates our assessment of CCHL's portfolio risk vs expected returns, based on the following:
  - Expected equity returns for Orion, CIAL and Enable based on their respective cost of equity as determined by the Commerce Commission (for the current pricing periods) and their equity beta used as a proxy for risk.
  - LPC, CityCare and other CCHL subsidiary expected returns based on their FY24 expected ROIC and our assessment of their relative beta risk.
  - The bubble sizes represent the relative equity market value of each subsidiary.
- This analysis demonstrates:
  - CCHL's portfolio is positioned towards the lower end of the risk spectrum with commensurate lower returns.
  - LPC is expected to demonstrate continued underperformance relative to its risk profile.
  - While the returns from CityCare are expected to be in line with the company's risk profile, they (along with the returns from the other subsidiaries) are immaterial to overall portfolio performance.



Source: NPL analysis based on Commerce Commission equity return estimates (Orion, CIAL and Enable) and LTP plan FY24 forecasts for LPC, CityCare and other.

Christchurch City Council

Item 19

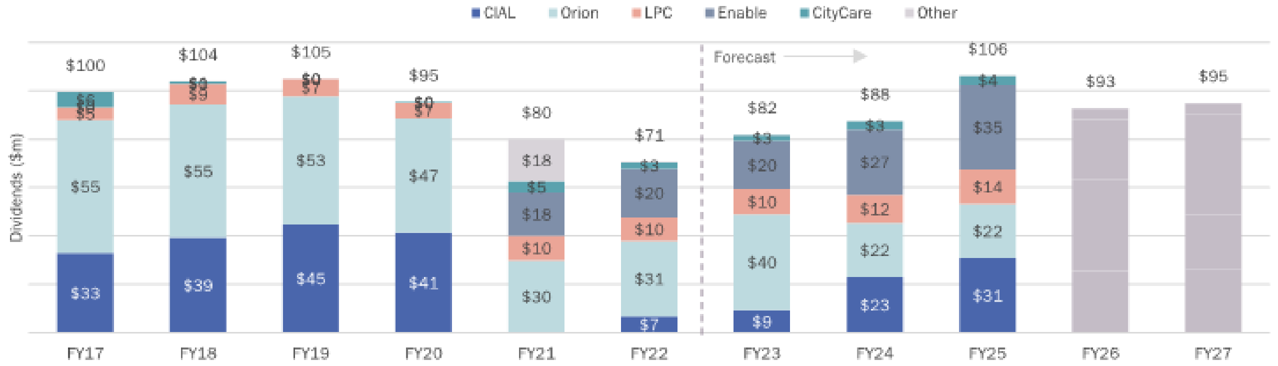
Attachment A

Christchurch City Council

How is CCHL Expected to Perform?

Forecast performance for CCHL's subsidiaries is expected to deliver total dividends lower than historic levels. This reflects reduced distributions from CIAL (due to Covid-19) and Orion (lower regulated returns), partially offset by an increased contribution from Enable.

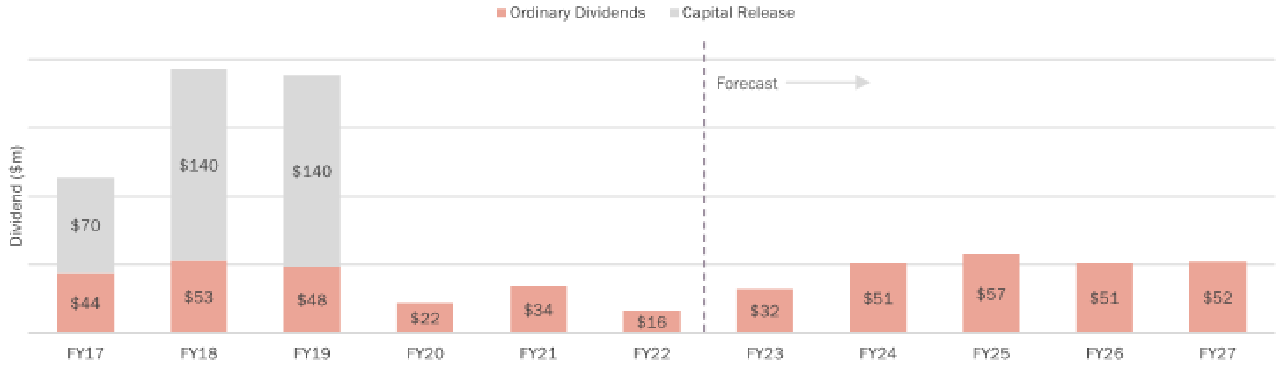
With the majority of earnings regulated and Enable having reached "maturity", the ability for subsidiaries to materially increase dividends to CCHL may be limited:



Note: FY26 and FY27 have been aggregated due to commercially sensitive information.

- The majority of historic dividends have been derived from Orion and CIAL, with increasing forecast contributions from Enable.
- Had it not been for Enable, the loss of CIAL dividends in FY21 (due to Covid-19) could have resulted in a significant decline in CCHL's aggregate earnings.
- Nonetheless, forecast dividends are expected to remain below historical levels.
- This largely reflects the current low regulated returns (Orion), Covid-19 recovery (CIAL) and the subsidiaries' own debt servicing and capex requirements.

And the flow on dividends to CCC will continue to be impacted by the debt servicing at CCHL:



- Of the total forecast dividends received from subsidiaries over FY23 – FY27 (~$460m), approximately half of this (~$240) is expected to be paid to CCC.
- The difference largely reflects CCHL's expected debt servicing costs.

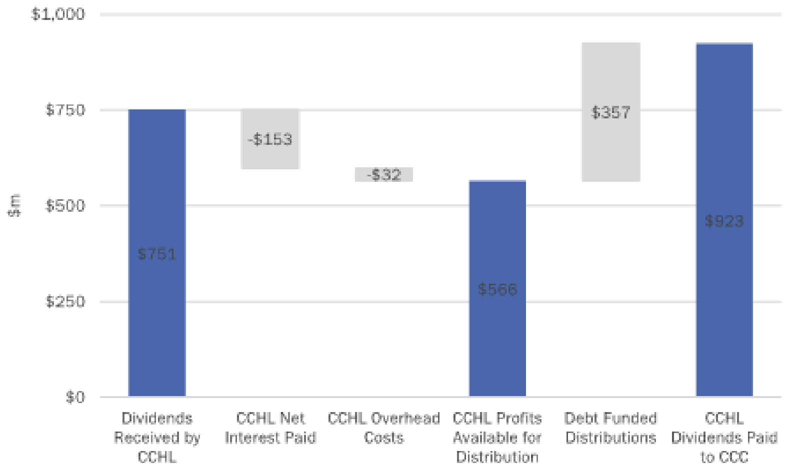
Source: NPL analysis, CCHL annual reports and CCC LTP (adjusted for Te Kaha).

Christchurch City Council

Why is There a Large Difference in Dividend Performance Between CCHL and CCC?

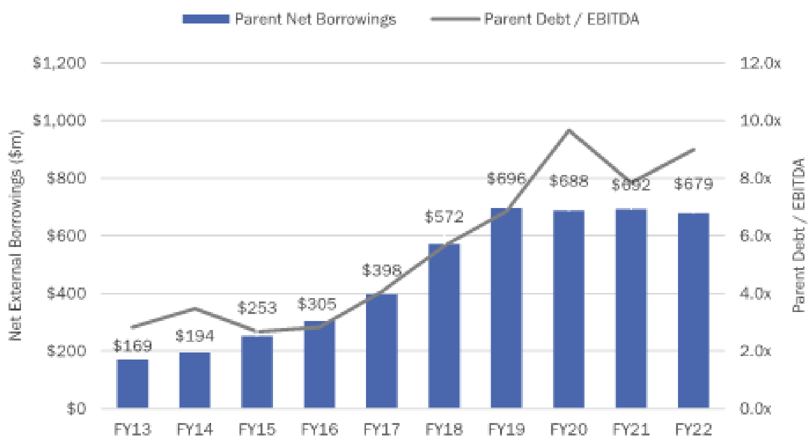
Ignoring overhead costs, CCHL's performance should mirror that of its subsidiaries. However, the large increase in CCHL debt following the Capital Release has meant more cash is needed to service the debt, with the corresponding reduction in dividends paid to CCC.

CCHL's distributions to CCC have far exceeded its income over the last 10 years, primarily as a result of the Capital Release:



- The chart above illustrates the aggregate income and costs of CCHL over the last 10 years.
  - Dividends received over the last 10 years have averaged $75m per annum relative to $92m paid to CCC.
  - Given forecast dividends from the subsidiaries are not expected to materially improve, CCHL's future ability to increase dividends to CCC is limited.
  - In fact, dividends to CCC are expected to decline so that CCHL can reduce its debt level to more manageable levels.

Which has resulted in a significant increase in borrowings, especially relative to income:



- CCHL's net borrowings (total borrowings less borrowings which are simply advanced to its subsidiaries under the IGFF (inter-group funding facility)) have increased from ~$170m to $680m over the last 10 years.
- This has also resulted in a significant increase in CCHL's debt / EBITDA ratio to ~9.0x (net borrowings over EBITDA, comprising dividends received less overheads).
- While CCHL benefits from credit support from CCC (through the uncalled capital facility), on a standalone basis we would suggest CCHL has exceeded its borrowing capacity (see following page for further discussion). This limits the ability to debt fund further distributions to CCC.

Source: NPL analysis, CCHL annual reports and CCC LTP (adjusted for Te Kaha).

Item 19

Attachment A

Christchurch City Council

What is CCHL's Debt Capacity?

We believe that CCHL can readily maintain debt over and above its subsidiary debt. This supports CCC's debt capacity relative to its LGFA covenants but constrains the level of dividends CCHL can pay to CCC.

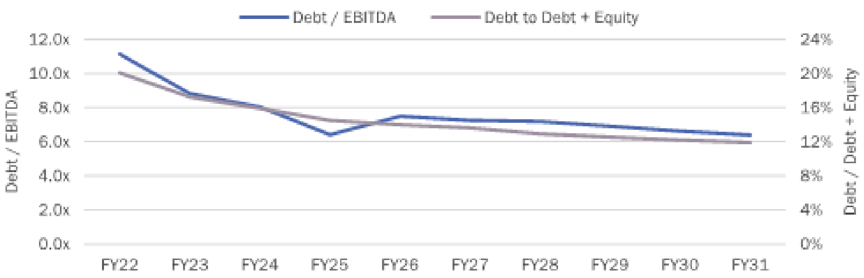
- Core debt at CCHL (excluding subsidiary debt) supports two primary purposes:
  - Maximising capital efficiency and funding distributions to CCC (e.g. the Capital Release programme). Debt can also be used to smooth dividend volatility from the CCHL subsidiaries in order to maintain dividend consistency to CCC.
  - Reducing debt at the CCC level in order to provide CCC with LGFA headroom and to provide capital for social investment.
- However, CCHL's debt capacity is limited by both its ability to service the debt and commercial implications for CCHL and CCC:
  - Credit rating: Standard & Poor's (CCC's credit rating agency) views CCC and CCHL debt on a consolidated basis in determining its credit rating for the Council (currently AA-). CCHL currently benefits from the uncalled capital issued to CCC which explicitly guarantees CCHL debt. Too much debt at CCHL would impact on the Group's credit rating and interest costs.
  - LGFA covenants: as illustrated in Section 1, CCC's debt is limited to 280% of revenue (by FY26). If CCC transferred debt to CCHL to non-commercial levels (i.e. through additional capital returns), there is a significant risk that LGFA would consolidate CCHL debt in its assessment of CCC. This would have implications on CCC's debt to revenue covenant.
- The appropriate levels of debt at CCHL needs to balance CCC's need for dividend income vs commercial implications on CCC's LGFA covenant levels and Group credit rating.
- We therefore suggest that the appropriate level of debt at CCHL should be in line with other holding company structures and based on commercial principles. The adjacent table summarises the debt position for two comparable entities: Infratil (a listed infrastructure holding company) and Quayside Holdings (a publicly owned holdings company).
- On balance, we consider that CCHL's target capital structure should be limited to the higher of:
  - Debt to EBITDA of <6.0x; and
  - Debt to debt plus equity of <20%.

Source: NPL analysis, CCHL annual reports and CCC LTP (adjusted for Te Kaha).

	CCHL	QUAYSIDE	Infratil
Net Debt / Net Debt + Equity	~20%[1]	8%[2]	9% (FY22), ~30% (long-term avg)[3]
Net Debt / EBITDA	~9.0x[1]	4.5x[2]	NA

1 CCHL FY22 net debt excludes IGFF debt on-lent to subsidiaries.
2 Quayside net debt (FY22) includes $200m of perpetual preference shares treated as debt due to their prior ranking over equity and fixed interest obligation.
3 Sourced from Infratil's NZX parent debt disclosures. No Infratil parent level EBITDA figures are available.

CCHL Gearing Metrics



- Based on our assessment of appropriate debt levels for CCHL, it has no further capacity for increased debt and it's immediate focus should balance debt reduction over dividends to CCC.
- This approach to debt reduction is reflected in the current LTP. However, as shown in the above chart, CCHL is not expected to reduce its debt to EBITDA to <6.0x until FY30. The debt / debt + equity ratio reduces below 20% much sooner (this is a function of CCHL's assets having high values but very low dividends relative to value).

Christchurch City Council

What is an Appropriate Dividend Policy?

Until CCC determines its long-term strategy for CCHL, we suggest that an interim dividend policy should be established; this could be set with a minimum dividend threshold and a year-to-year top-up that is influenced by underlying CCHL performance.

- CCC should establish a formal dividend policy for CCHL consistent with its own investment objectives for CCHL. This is consistent with the process in place for Quayside Holdings, where the Bay of Plenty Regional Council (the 100% owner of Quayside) sets its dividend expectations.
- However, until CCC's value vs income strategy for CCHL has been established, defining a long-term dividend policy now is difficult.
- As an interim measure, CCC should establish a clearly defined dividend policy taking into account a number of factors:
  - Given the nature of CCHL's current subsidiaries (the majority of earnings being regulated), CCHL should be capable of delivering consistent dividend levels on a "no surprises" basis.
  - CCHL's current debt level reflects the previous Capital Release payments to CCC. As a consequence, CCHL should apply some of its income for debt reduction in the short to medium term.
- The adjacent table provides an example interim dividend policy that could be applied, comprising a fixed and discretionary component. The fixed component gives CCC a level of certainty over its income from CCHL, while providing CCHL with sufficient flexibility to manage earnings volatility year-to-year.
- The dividend policy should then be updated following completion of CCC's review of CCHL and once it has clearly defined its investment strategy.

Example Interim Dividend Policy

- *The CCHL distribution policy looks to support CCC's income expectations over time with an increased dividend flow aligned to the underlying asset growth in CCHL's portfolio.*
- *In order to support this objective and subject to first satisfying Companies Act requirements, CCHL will make distributions comprising a fixed and discretionary component as detailed below.*
- *Fixed: minimum cash dividend of $30m per annum (reflecting a cash yield on CCC's current CCHL investment value of ~1.1%).*
- *Discretionary: dividend evaluated as 100% of annual "free cash flow" with free cash flow defined as:*
  - *Aggregate income received from CCHL's subsidiary companies (dividend, interest and capital income).*
  - *less CCHL's overhead costs.*
  - *less CCHL's interest servicing costs.*
  - *less debt principal repayments of $15m.*
  - *less the minimum cash dividend of $30m (as above).*
- *To the extent the discretionary dividend component is less than zero, only the minimum dividend component will be paid.*
- *The total annual dividend will comprise an interim and final dividend weighed approximately 50% following the interim results and 50% following the full financial year.*


Section 3a
Individual CCTO Performance

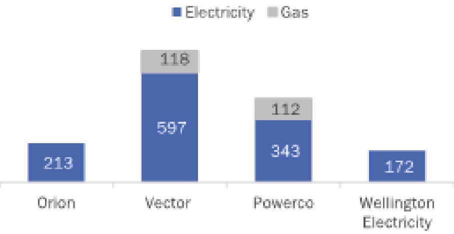
Christchurch City Council

Orion Performance Benchmarking

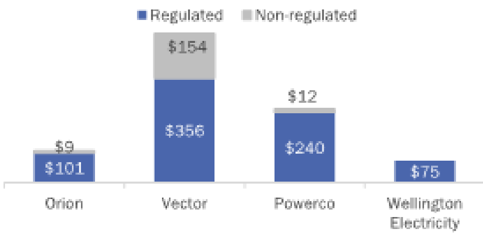
Orion

Peer Overview

EDB and GDB Connections (000's)

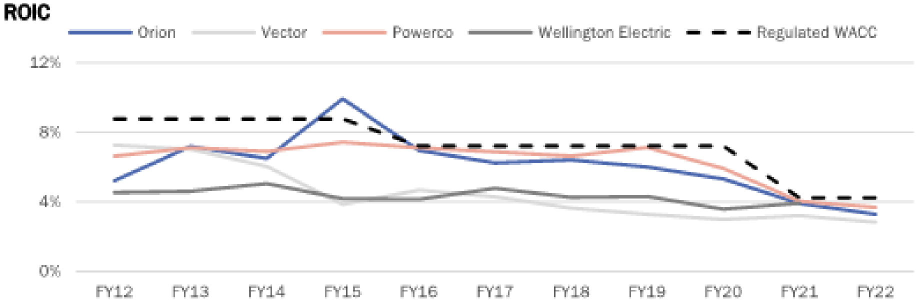


FY22 EBITDA Contribution ($m)

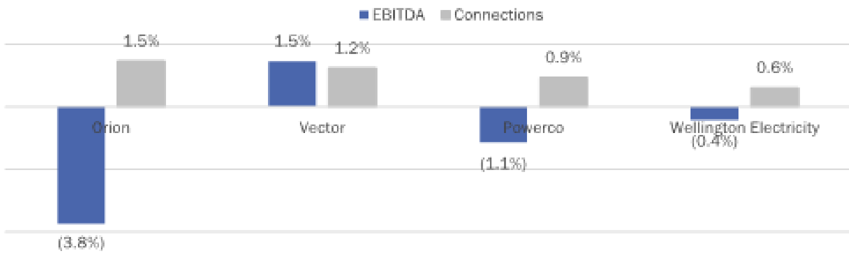


- Orion is New Zealand's 3rd largest electricity distribution business ("**EDB**") with over 200k electricity connections.
- The key peers we have assessed performance against comprise Vector (Auckland), Powerco (North Island) and Wellington Electricity (Wellington).
- Vector and Powerco also have substantial gas distribution businesses which are regulated under the same regime as for EDBs.
- Vector also has significant non-regulated businesses including smart metering and energy solutions.

ROIC



EBITDA and Connections Growth (FY18 – FY22 CAGR)



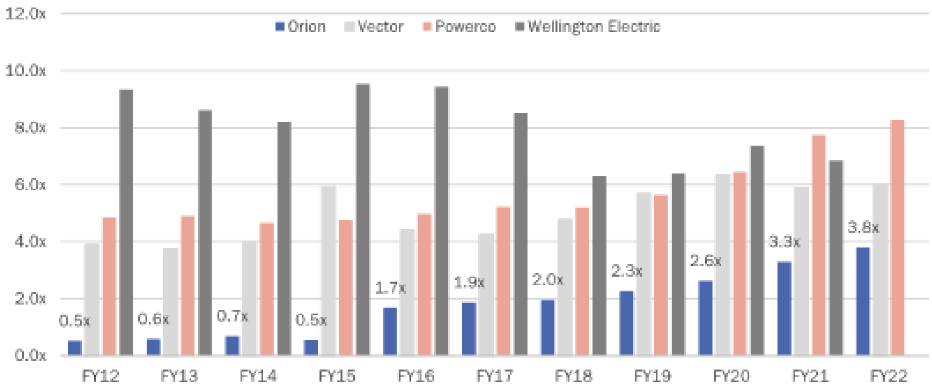
- In line with the regulatory framework, EDB's are only permitted to earn their regulated return over 5-yearly pricing periods (any excess or under performance is "clawed back" in subsequent periods).
- It is therefore not surprising to see that the peer group have generally demonstrated similar returns with a declining trend.
- The decline in returns largely reflects the reset price-path (for FY21 – FY25). This is a function of the Commerce Commission's assessed WACC, which has reduced with interest rates.
- Orion's ROIC over the 10-year period has averaged 6.1%, which we consider is consistent with its regulated WACC and its peers.
- Given the declining regulated WACC over the 2012 – 2022 period, we would expect to see EBITDA declines for all companies in the peer group despite positive connection growth. Vector's relative growth likely reflects its significant investment into non-regulated sectors.
- Orion's EBITDA decline has been greater than that of its peers despite it having the highest connection growth. We suspect some of this underperformance reflects Orion's transition from a "customized price path" (following the Canterbury earthquakes) to a "default price path" from FY20 onwards (CPP from FY15 to FY19 to DPP2 for FY20 and then DPP3 from FY21) as well as the reduced earnings contribution from Connetics (its non-regulated services business).

Source: NPL analysis based on Commerce Commission regulatory disclosures, historical financial data, Capital IQ and annual reports for Orion and the peer companies.

Orion Dividends & Capital Structure

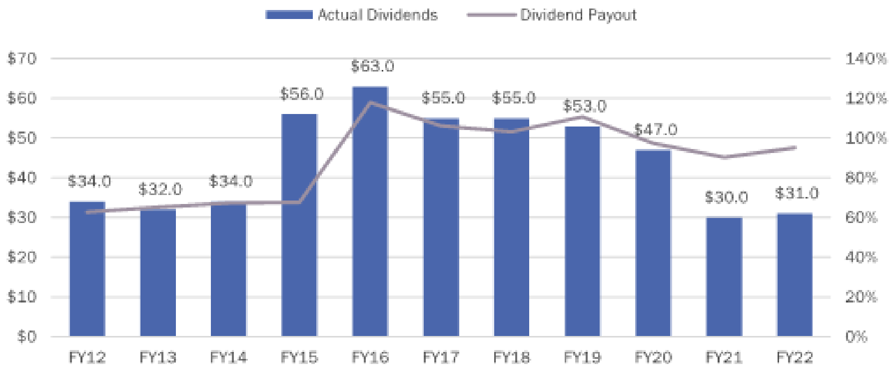
Orion

Capital structure (Debt / EBITDA)



- Orion has historically maintained a highly conservative capital structure compared to its peers, with a current debt to EBITDA ratio of 3.8x vs Vector and Wellington Electricity at ~6.0x and Powerco at >8.0x.
- While Orion may argue that it needs more debt capacity to allow for catastrophe risk or its significant capital expenditure program, we would suggest:
  - The same applies to its peers (particularly Wellington Electricity as it relates to earthquake risk).
  - The maximum regulated allowable return for EDBs effectively assumes that they utilise gearing of 42% of the regulated asset value, whereas Orion is currently only geared to ~30%. Orion could target more efficient use of debt capital towards the 42% level in order to improve equity returns.
  - It would be more efficient to recapitalize Orion to a higher debt level (i.e. return capital to its shareholders) and for the shareholders to control decisions around capital efficiency (i.e. inject more equity if and as required in the future).

Dividends ($m)



- Since FY2016 when it reset its dividend policy, Orion has consistently distributed ~100% of profits to shareholders.
- Given the revised price path under DPP3 has resulted in significantly reduced profits (as a result of a reduced regulatory WACC), dividends have reduced by ~$25m relative to the previous price path (DDP2 and CPP).
- Any improvement in dividends over the short term is unlikely as DPP3 does not roll off until FY2025 and any improvement in dividends will only result from either:
  - Higher interest rates and WACC in 2024 when the DPP4 prices are established.
  - A dividend payout ratio of >100% (unlikely to be sustainable in the long-term).

Source: NPL analysis based on Commerce Commission regulatory disclosures, historical financial data, Capital IQ and annual reports for Orion and the peer companies.

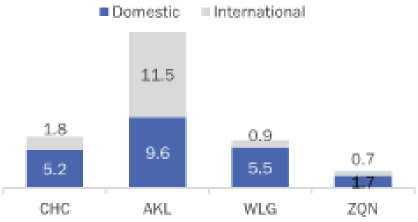
Christchurch City Council

CHRISTCHURCH AIRPORT

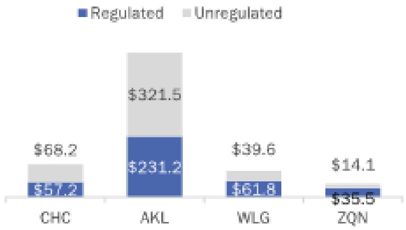
CIAL Performance Benchmarking

Peer Overview

FY19 Passenger Numbers (million)

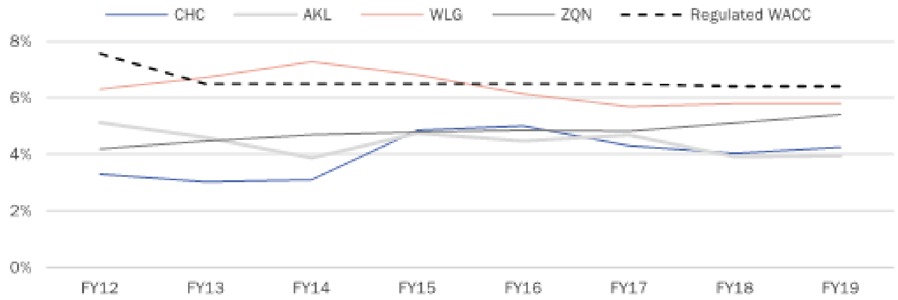


FY19 EBITDA Contribution

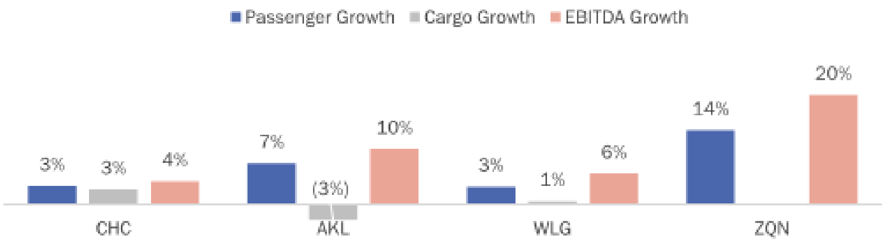


- CIAL is New Zealand's 2nd largest international airport with over 6.9 million passengers travelling through Christchurch's gateway in 2019.
- The key peers we have assessed CIAL's performance against include New Zealand's other key international airports: Auckland (AKL), Wellington (WLG), and Queenstown (ZQN).
- AKL is New Zealand's gateway airport with higher reliance on international travel than CIAL, WLG and ZQN.
- AKL also has higher earnings contributions from non-regulated activities (~60%) relative to CIAL (~55%). Non-regulated activities are most commonly commercial property related (retail, carparking, hotels).

ROIC (Pre-Covid)



Volume & Earnings Growth (FY15 – FY19 CAGR)

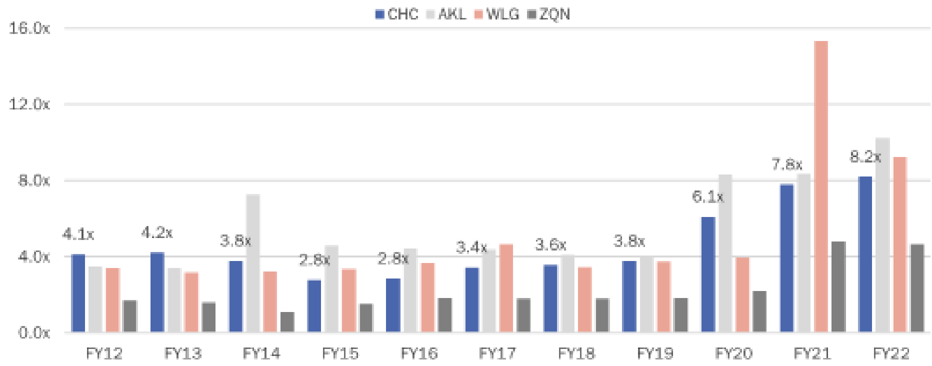


- CIAL, AKL and WLG (ZQN is not included) operate under the Commerce Act price disclosure regime for its aeronautical services (airfield, passenger terminal / check-in and aircraft servicing prices).
- While this is more of a light-handed form of price regulation relative to the price/quality regime applied to Orion, it limits CIAL's ability to earn above its WACC for its regulated aeronautical services. Prices for each 5-year period are established in line with the price input methodologies set by the Commerce Commission after a customer consultation process.
- The airport operators' returns are largely dictated by the regulatory WACC for regulated assets and the degree of non-regulated earnings (which may have returns greater than regulated WACC).
- CIAL's ROIC has been in-line with AKL and ZQN (WLG performance has been better) although is below its WACC (some of this is likely attributable to methodology).
- Nonetheless, we note that the new price regime for the next FY23 – FY27 period uses a WACC of 6.65% to establish aeronautical prices. Therefore, while CIAL's earnings have been further supported by increased investment in non-aeronautical services (retail, carparking, property), there is a risk that future returns will not increase to pre-covid levels for some time.

Source: NPL analysis based on Commerce Commission regulatory disclosures, historical financial data, Capital IQ and annual reports for CIAL and the peer companies.

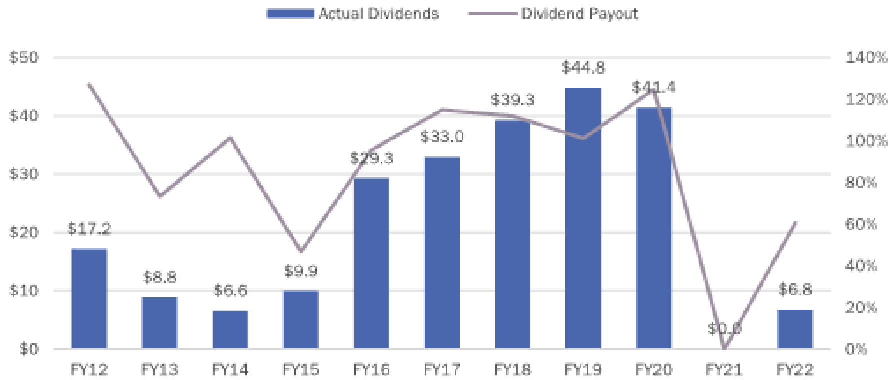
CIAL Dividends & Capital Structure

Capital structure (Debt / EBITDA)



- Historically, CIAL has maintained debt levels consistent with its peers.
- However, the impact of Covid-19 has significantly impacted airport performance and relative debt to EBITDA levels. This is illustrated by the following:
  - AKL raised $1b through an equity capital raising to support deteriorating performance at the height of the pandemic – despite this, debt to EBITDA has increased to >8.0x.
  - Wellington airport obtained $76m of shareholder support (undrawn commitment from Infratil and Wellington City Council) in order to provide credit comfort to its lenders.
- Despite CIAL's debt to EBITDA also increasing to over 8.0x, it has not required additional capital from CCHL demonstrating strong earnings resilience (supported by its investment in property).

Dividends ($m)



- Similar to Orion, CIAL has generally distributed at least 100% of its profits to CCHL since 2016 (and prior to Covid-19).
- Covid-19 has had a significant impact on CIAL's dividend payments, reducing from $41.4m in FY20 to zero in FY21 and then $6.8m in FY22.
- Given the ongoing impact of Covid-19, the introduction of the new price regime and the continued property investment, it is unlikely that CIAL will be capable of increasing dividends above its current SoI forecasts (~$26m by FY27).

Source: NPL analysis based on Commerce Commission regulatory disclosures, historical financial data, Capital IQ and annual reports for CIAL and the peer companies.

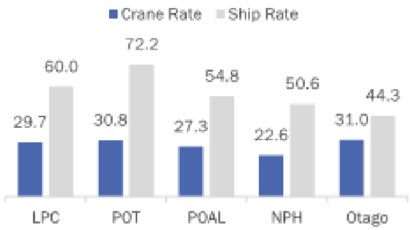
Christchurch City Council

lpc Lyttelton Port of Christchurch

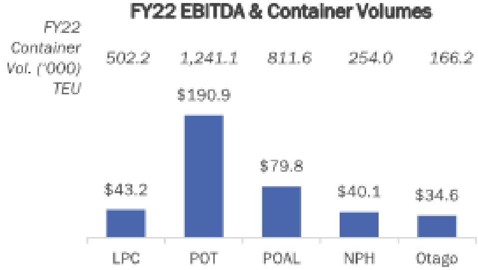
LPC Performance Benchmarking

Peer Overview

FY21 Productivity Measures

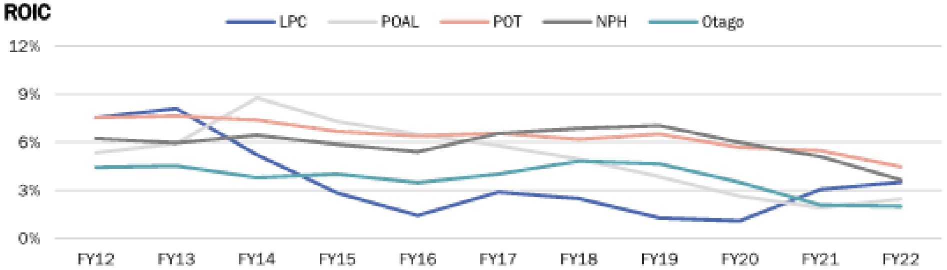


FY22 EBITDA & Container Volumes



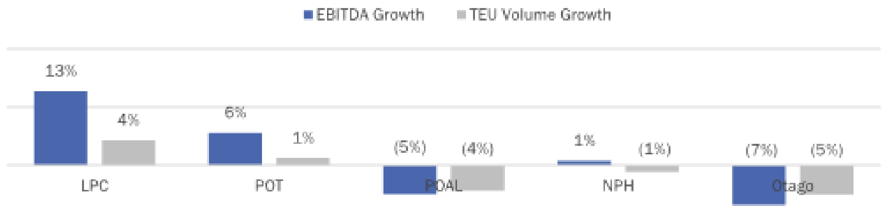
- LPC is New Zealand's third largest container port and the largest port in the South Island.
- We have assessed LPC against New Zealand's other major container and bulk cargo ports comprising Ports of Auckland (POAL, council owned), Port of Tauranga (POT, NZX listed), Napier Port (NPH, NZX listed), and Port Otago (council owned).
- Our high-level review illustrates that while LPC's productivity measures (crane and ship rates) are consistent with its peers (other than POT), its profitability per unit of volume (TEU or tonnes) is significantly lower.

ROIC



- We note that ROIC is influenced by revaluation gains/losses. In particular, LPC's $190m write-down in FY2020 positively impacts ROIC for FY20 and beyond.
- Despite commendable crane and ship productivity levels and high volume and EBITDA growth, LPC has historically significantly underperformed it's key peers with ROIC of ~3%.
- For example, LPC has container and total trade volumes (tonnes) which are approximately 100% and 17% higher respectively than those of NPH but has similar profitability (EBITDA). This difference is hard to reconcile, especially when considering that LPC has higher productivity measures (both crane and ship rates).
- As its not within our scope, we have not analysed the reasons for underperformance, but our initial observations and stakeholder feedback suggests:
  - LPC's labour productivity (per unit of labour) is low with a highly unionised workforce. This compares to POT which competitively tenders for key stevedoring and marshalling services on its wharfs.
  - LPC's wage costs per tonne of cargo is approximately double that of POT (wages and contractor costs).
  - Investment in the cruise birth has reduced observed ROIC in the short term because of the there has been no cruise ship traffic.

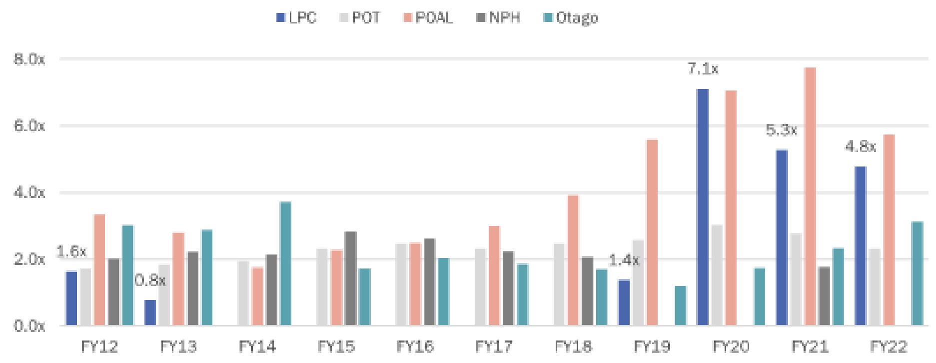
Volume & Earnings Growth (FY18 – FY22 CAGR)



Source: NPL analysis based on historical financial data, Capital IQ and annual reports for LPC and the peer companies, Ministry of Transport Freight Information Gathering System.

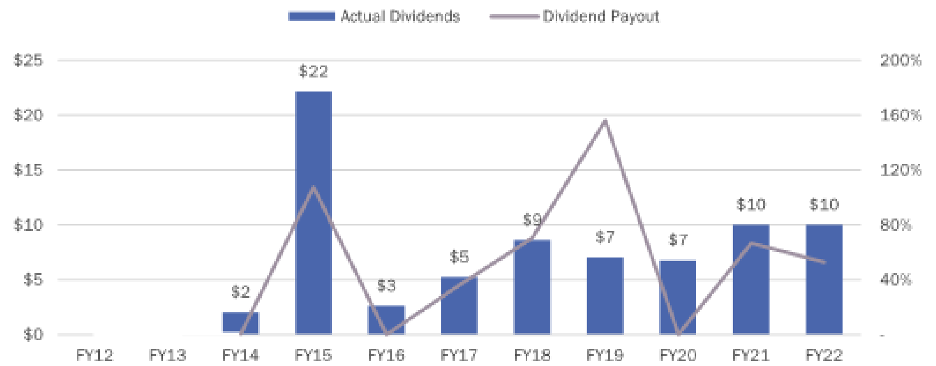
LPC Dividends & Capital Structure

Capital structure (Debt / EBITDA)



- Given LPC's large insurance proceeds in FY14 ($385m), the company has carried a net cash position until redevelopment work of the wharf infrastructure utilised the cash and required debt draw-downs starting in FY18.
- Following completion of remediation works and the cruise terminal, net debt to EBITDA peaked at 7.1x (FY21). We note this level is consistent with its peers such as POAL (which was impacted by its significant investment in terminal automation) and reflects reduced earnings due to the impact of Covid-19.
- However, increased port utilisation and reduced debt levels have since reduced LPC's debt to EBITDA ratio to ~5.0x.
- Based on LPC's peers and risk profile, we would suggest a long-run target of approximately 2.5x – 3.0x debt to EBITDA.

Dividends ($m)



- Despite LPC's performance being impacted by the 2010/2011 earthquakes and subsequent recovery, it has exhibited long-run under-performance (reflected in both ROIC and dividend yield).
- We also expect that future dividends will be limited by the following:
  - In order to meet a suitable capital structure (<3.0x debt to EBITDA), current net debt of ~$203m due to the wharf rebuild and cruise berth investment will need to be paid down and prioritised over dividend growth.
  - LPC is forecasting significant capital investment over the next 5 years.
  - Expected increases in EBITDA are not commensurate with the capital investment resulting in low returns (ROIC) limiting its ability to pay any significant increase in dividends in the short-term.

Source: NPL analysis based on historical financial data, Capital IQ and annual reports for LPC and the peer companies.

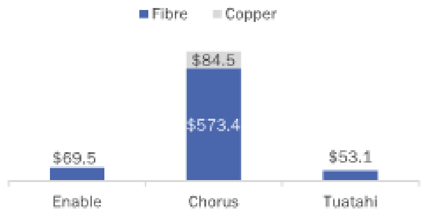
Christchurch City Council

Enable Performance Benchmarking

enable fibre broadband

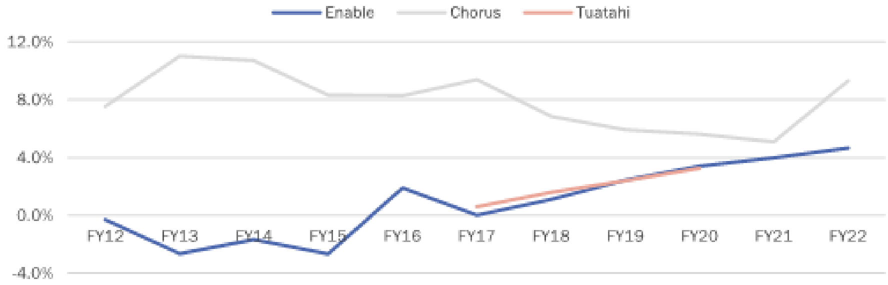
FY22 Connections & Uptake	Connections	Uptake %
Enable	143,331	70.3%
Chorus	959,000	69.0%

FY22 EBITDA

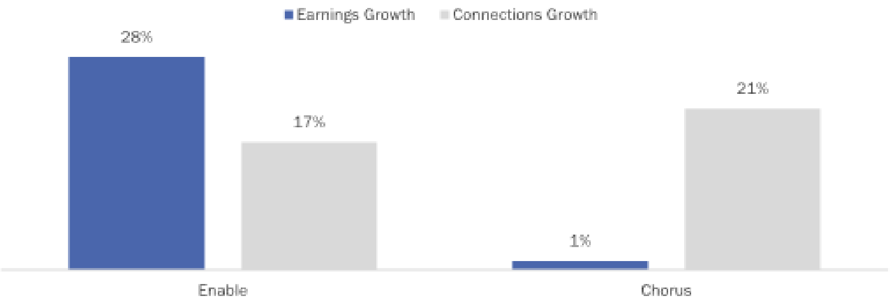


- Enable provides the Fibre broadband network for Christchurch and surrounding districts. It services over 200,000 homes, businesses and schools.
- Enable's key peers are NZX listed Chorus and Australian owned Tuatahi Fibre (formerly Ultra Fast Fibre).
- Tuatahi primarily services the Waikato, Bay of Plenty and Taranaki regions. Chorus largely services the remainder of the country including Auckland and Wellington.
- Chorus operates both a nationwide Fibre broadband network and a legacy copper network, both of which produce significantly larger earnings than Enable.
- While Chorus has significantly more total connections, both Chorus and Enable have around 70% uptake in connections.

ROIC



Volume & Earnings Growth (FY18 – FY22 CAGR)

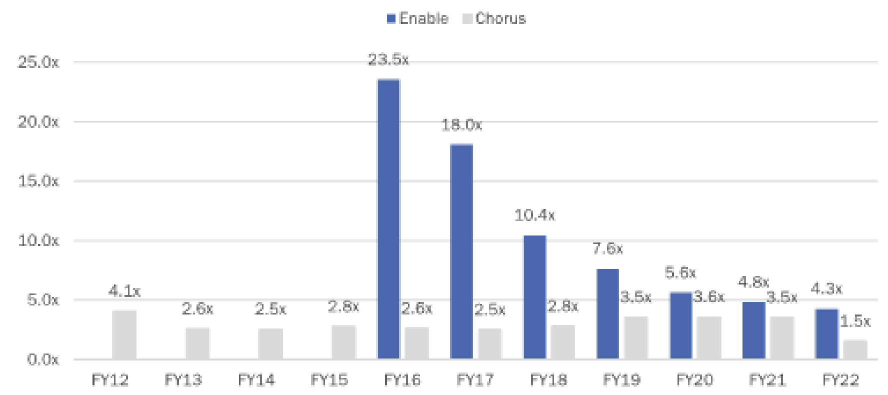


- Enable's performance during the fibre development stage makes a meaningful comparison with Chorus difficult, but its performance has largely been consistent with Tuatahi.
- Chorus also includes both its unregulated copper network, which has been declining in performance (as customers switch from copper to fibre), and fibre network.
- However, Enable has demonstrated steadily improving performance and is now close to full rollout and contributing returns more aligned to its peers and regulated cost of capital (5.54% WACC for FY23 to FY27).
- Effective from January 2022, Enable as well as Chorus, Tuatahi and NorthPower Fibre face regulatory controls under the Telecommunications Act 2001.
- For Enable (and Tuatahi and NorthPower Fibre), the regulatory regime is based on information disclosure similar to CIAL. Chorus' fibre network is subject to price/quality regulation similar to Orion.
- Enable's target regulated WACC is 5.54%, which limits its charges to internet service providers ("ISPs" including Vodafone, Spark, etc). Moreover, given Chorus' fibre prices are fixed and key ISPs customers are large national operators, it is unlikely Enable could charge any premium to Chorus (i.e. in essence, it is likely that Enable and Chorus' prices will be similarly constrained by the regulatory framework).
- Unlike EDBs such as Orion, Enable is subject to substitution risk from mobile (e.g. 5G and fixed wireless) and new technologies (e.g. SpaceX Starlink) which present unique competitive and technological risks for this business.

Source: NPL analysis based on Commerce Commission regulatory disclosures, historical financial data, Capital IQ and annual reports for Enable and the peer companies.

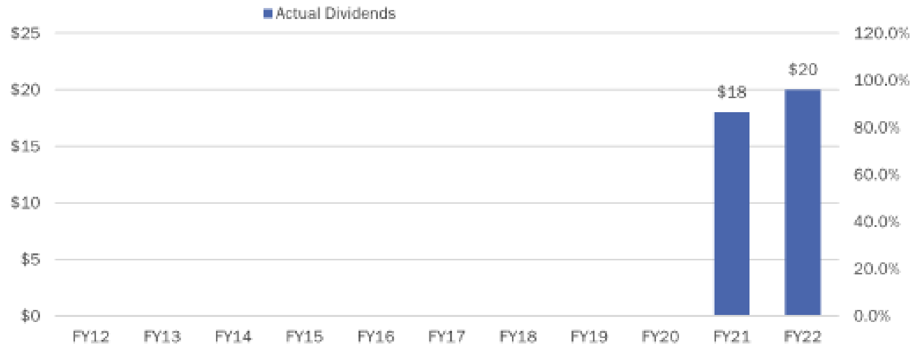
Enable Dividends & Capital Structure

Capital structure (Debt / EBITDA)



- Enable's debt and earnings profile is similar to any long-term infrastructure project with large upfront capital costs and no associated earnings for a period of time.
- Consequently, it is hard to draw meaningful conclusions on Enable's historical debt position on a debt / EBITDA basis.
- However, we note that now Enable has largely reached its earnings capacity (connections are only expected to grow from 70% penetration to 75% over the next 5 years), EBITDA growth over the medium term is likely to be more modest.
- Enable's forecast FY23 debt / EBITDA is 4.0x which is consistent with Chorus' long-run position of ~3.0x after accounting for Chorus' non-regulated and declining copper network (which would support lower debt levels).
- We believe a longer-term target of 3.5x – 4.0x is consistent with Enable's unique regulatory position and risk profile.

Dividends ($m)



- Enable has only recently commenced paying dividends following the roll-out phase of the fibre network. Enable paid a $20m dividend to CCHL in FY22.
- Forecast dividend growth is relatively low due to the regulatory constraints and limited connection growth potential in the greater Christchurch area.

Source: NPL analysis based on Commerce Commission regulatory disclosures, historical financial data, Capital IQ and annual reports for Enable and the peer companies.

Christchurch City Council

CCTO Financial Information: Other

Citycare Group

Key Financial Information ($m)

	FY19	FY20	FY21	FY22
Revenue	$298.8	$285.0	$319.0	$306.4
EBITDA	$8.2	$20.3	$20.4	$14.6
Total assets	$106.3	$130.0	$130.0	$134.0
Net debt / (cash)	$12.5	($8.3)	($9.1)	($12.2)
Equity	$54.4	$59.0	$60.0	$61.0
Dividend Paid to CCHL	$0.0	$0.3	$4.6	$2.6

- Citycare is a construction, maintenance and management services contractor servicing infrastructure and amenity / property sectors.
- Citycare has two key operating divisions, Citycare Water and Citycare Property.
- Following the acquisition of Spencer Henshaw in September 2022, Citycare has significantly expanded its exposure outside of the Canterbury region and is now the leading social housing maintenance provider in New Zealand.

ECO CENTRAL

Key Financial Information ($m)

	FY19	FY20	FY21	FY22
Revenue	$35.3	$34.6	$39.5	$43.5
EBITDA	$3.6	$4.2	$8.0	$7.5
Total assets	$14.3	$21.3	$22.2	$31.0
Net debt / (cash)	($3.0)	($2.8)	($7.9)	($8.4)
Equity	$9.3	$9.3	$11.2	$13.6
Dividend Paid to CCHL	$0.3	$0.0	$0.5	$0.3

- EcoCentral processes Canterbury household and commercial refuse and recycling with the objective of mitigating the region's level of waste.
- EcoCentral operates 3 main services - EcoDrop, EcoShop and EcoSort.
- EcoCentral is 100% owned by CCHL.

RBL Property

- RBL Property was formerly Red Bus Limited.
- When CCHL sold Red Bus, the property was retained.
- RBL Property is the holding company for this residual asset.

DCL

- Development Christchurch Limited (DCL) holds land assets relating to the development of Christchurch City, including the Christchurch Adventure Park.

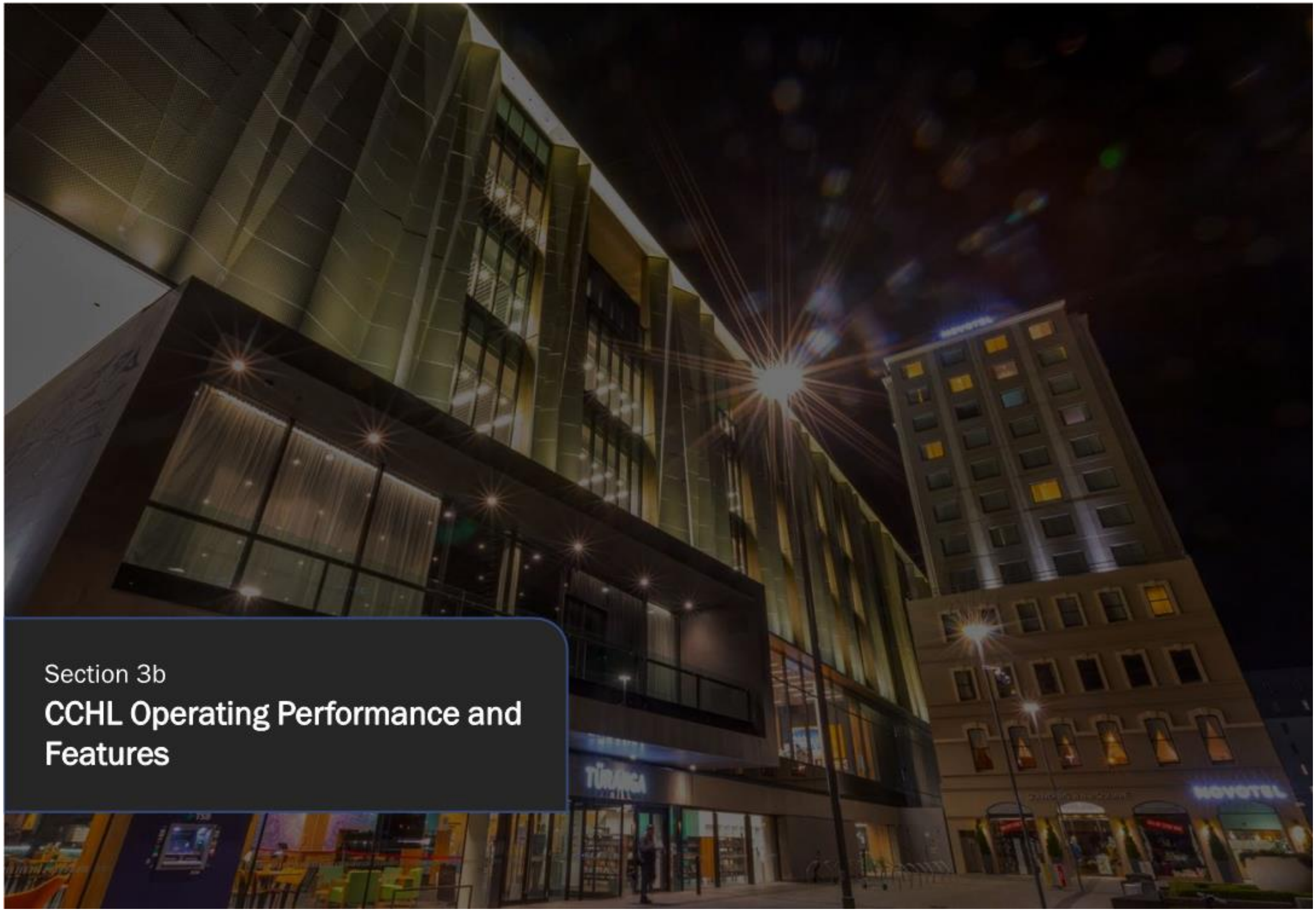
Source: NPL analysis based on historical financial data, Capital IQ and annual reports for respective CCTOs.

Christchurch City Council

Performance Conclusions

While individual subsidiary performance has generally been acceptable, CCHL's performance as a "portfolio manager" should be better. Improvements could be derived from increased scrutiny for underperformers (LPC), ensuring greater capital efficiency (Orion) and more actively identifying new portfolio opportunities to increase value (further investment or asset recycling).

- The regulated nature of CCHL's portfolio is probably not well understood. Extracting improved performance from Orion, CIAL and Enable will be difficult unless the businesses focus more on non-regulated activities (e.g. similar to Vector or what CIAL has done with its commercial property portfolio).
- Much of CCHL's portfolio also has high capital expenditure programmes (particularly Orion and LPC) which will impact on their ability to pay dividends over the medium term.
- Of the meaningful portfolio companies, we believe that LPC performance could be improved significantly under more commercial settings.
- CCHL currently operates on the basis that its mandate is limited to that of a holding company, focused predominantly on monitoring performance of the existing portfolio companies. This relatively passive approach will likely inhibit its ability to improve overall performance.
- We therefore suggest that improved performance could be generated from increased scrutiny by CCHL of the subsidiaries and maximising capital efficiency at the portfolio level. Some incremental improvements could include:
  - Orion remains relatively conservatively geared compared to its peers. This could allow further capital to be distributed to CCHL (estimated >$50m).
  - CIAL's performance should improve but is reliant on increased international travel. Continued investment in adjacent activities may also support returns above its WACC.
  - CCHL appears to rule out opportunities for divestment or new investment on the basis it does not have the mandate to consider value enhancing opportunities. This is significantly constraining its performance as a portfolio company (we discuss this further in the following sections).
- While balancing levels of debt between CCC and CCHL should be considered (see Opportunities for CCHL / Alternative Approaches), CCHL's current debt levels and CCC's income expectations appear mismatched. CCC needs to make fundamental decisions around its growth versus income expectations from its investment in CCHL – in the meantime, CCHL needs to prioritise reducing debt to maintainable levels (debt to EBITDA <6.0x). This will result in continued low dividend returns for the medium term in the absence of meaningful change.
- Broadly, the most effective ways to optimise overall portfolio performance is for CCHL to take more of an "active" management mandate (see Recommendations). This may include:
  - **Management**: a larger commercially focused CCHL management team that is actively involved in driving subsidiary performance and is pro-active in assessing strategic opportunities and supporting the subsidiaries in their growth opportunities.
  - **Increased flexibility on capital allocation**: adopting a more dynamic process to capital allocation decisions to respond to changing expectations, including recycling out of existing businesses into new ones and making subsidiaries compete for capital (i.e. only invest in the best returning opportunities).
  - **Diversification**: search for other return opportunities that deliver greater return potential and diversification without necessarily introducing additional portfolio risk.
- These decisions may also require a trade-off of potentially lower dividends to CCC in order to support CCHL's investment for longer-term value enhancement.


Section 3b
CCHL Operating Performance and Features

Christchurch City Council

Introduction / Consultation

We have addressed the performance and effectiveness of CCHL based on a range of structural categories and features of CCHL.

In this section we set out our findings in relation to the current structure and performance of CCHL. We have addressed performance and effectiveness based on the following structural categories and features of CCHL:

- Scope and Remit.
- Role and Purpose.
- Functional Responsibilities / Objectives.
- Balancing Objectives.
- Governance Structures and Processes.
- Effectiveness at supporting CCTO's strategic opportunities.
- Monitoring and Performance.
- Communication and Engagement.

This assessment has been informed through a consultation process with key stakeholders to ensure all relevant perspectives are considered. We have sought feedback in relation to CCHL from a wide group of stakeholders, including:

- CCC: Councillors and Executive.
- CCHL: Directors and Executive.
- CCTOs: Directors and Executive.
- ChristchurchNZ, Ngāi Tahu Holdings.

While our interviews traversed a wide range of subjects, our findings in this section focus on common feedback (coupled with our own observations and assessment) in respect to the overarching questions:

- "what is working well at CCHL?"
- "what is not working well at CCHL?"
- "what are the areas of opportunity for CCHL?"

Christchurch City Council

Scope & Remit of CCHL

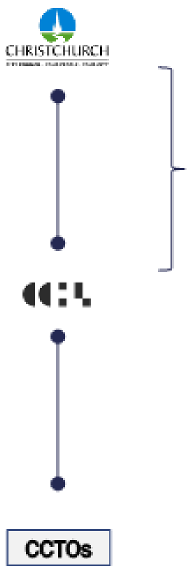
Council has determined that it should be the owner of core infrastructure assets; this has a significant bearing on the scope of CCHL.

Key questions:

- What can CCHL do / what can't CCHL do?
- Are the operating parameters of CCHL well-defined?
- How does the strategic asset policy affect CCHL operational scope?

Key observations:

- Council has deemed most of CCHL's investments as "strategic assets".
- This constraint significantly limits what CCHL can do.
- Within this constrained "holdco" remit, CCHL is performing reasonably well.



- Council has determined that CCHL needs to be the owner of particular core infrastructure assets in Christchurch.
- Accordingly, most of the CCHL assets are deemed "strategic assets" and cannot be sold without public consultation.
- One of the core parameters of CCHL's scope and remit is to operate within this constraint.
- As should be expected, this core constraint has had a significant influence in shaping the way CCHL operates.
- CCHL operates within a narrow scope, effectively performing a holdco monitoring and compliance role.
- On balance, and within this limited scope, we think that CCHL has been performing that role reasonably well.

New Council.. New Scope?

- The Council has just been through an election cycle and now includes a number of new Councillors and a new Mayor. Given these changes, we expect a greater interest in understanding broader opportunities for CCHL and potentially re-visiting CCHL's scope.
- Senior Council executive is relatively new and, while acknowledging the traditional role that CCHL has performed, are open-minded with respect to the future scope of the group.

CCHL's Roles & Purpose

CCHL is broadly perceived as a passive investment holdings company.

Key questions:	Key observations:
• What do key stakeholders believe CCHL's core role and purpose to be? • Is this well-defined and well-understood? • Is CCHL performing this role?	• Feedback from CCTO executives and directors nearly unanimously agree CCHL is performing well as a political buffer. • CCHL has not provided Council with a good level of base knowledge about the portfolio (ie, risks and opportunities). • CCHL is adding little value as a portfolio manager. • Mixed views regarding whether CCHL should be a passive holdco or active investor. • Also mixed views regarding the role of CCHL and CCTOs in pursuing social initiatives.

CHRISTCHURCH

- We received a range of views from Councillors regarding CCHL's role and purpose; some expected only a passive function focused primarily on maintaining ownership and aiding CCC's pursuit of social initiatives, others believed CCHL should be a more active asset manager focused on maximising shareholder value.
- There is a perception that communication with Council needs to improve generally, and in our view specifically with respect to the attributes (e.g. risk) and opportunities for CCHL.

CCHL

- At the CCHL level, we believe that there is largely a consensus view regarding the role and purpose of CCHL, and we think that this is consistent with the stated roles and purposes.
- Based on our discussions with CCHL directors, our impression is that directors see themselves in a role primarily monitoring and supporting a largely static portfolio, albeit one in which activity, development and growth has occurred at the subsidiary level.
- There has been some evaluation of new opportunities at CCHL (e.g. investment in social housing), but these are infrequent and our impression, based on interviews and our observations, is that this is not a significant or prioritised part of CCHL's role.

CCTOs

- CCHL is adding little value as a portfolio manager (e.g., asset allocation, capital allocation, scrutinising and driving CCTO performance) – primarily due to perceived "scope" at CCHL.
- All directors and executives of the CCTOs commented on the importance of providing an effective political buffer as central to CCHL's role; separation from Council is paramount, with the consensus being that CCHL has performed this function well.
- In addition to this core purpose, critical elements to its role include providing shareholder support through director appointments, provision of funding and funding support and a strategic connection to the CCHL group and Council as its ultimate shareholder.
- With respect to this purpose and these roles, CCHL has been generally performing well.

> *"model of separation between political and commercial imperatives has been successful and the Council is committed to maintaining this."*
>
> *Source – 2023 CCC Letter Of Expectations*

> *"The core role of CCHL is to monitor the Council's existing investments, which largely service the region's existing infrastructure needs."*
>
> *"Preserve and grow shareholder value and the level of dividends to the Council."*
>
> *Source - CCHL Board Charter*

Christchurch City Council

CCHL's Role & Purpose (Supporting CCC Community Outcomes & Strategic Priorities)

Council should avoid "cluttering" CCHL with a role and purpose which is any broader than it needs to be as a commercial entity.

Key question:

- Are there changes or enhancements to the CCHL purpose and role that CCHL and Council should consider to better support the Council achieving its strategic priorities and community outcomes?

Key observations:

- CCHL's ability to deliver meaningful results will be enhanced by ensuring its role, purpose and objectives are narrow in scope, specific and aligned to its core capability.
- Where possible, avoid imposing objectives that do not support its basic function.

Community Outcomes
Resilient Communities
Liveable City
Healthy Environment
Prosperous Economy

SPs to support and deliver COs

Christchurch City Council

CCHL Christchurch City Holdings Limited

CCC Strategic Priorities		Relevance for CCHL Role
Enabling active and connected communities to own their future.	✗	Not relevant to CCHL (Relevant to some CCTOs as a function of their businesses).
Meeting the challenge of climate change through every means available.	✓	Relevant to CCHL / CCTO within CSR framework (see overleaf).
Ensuring a high quality drinking water supply that is safe and sustainable.	✗	Not relevant to CCHL.
Accelerate the momentum that the city needs.	✗	Unsure what this means. Not relevant to CCHL (but may be relevant to some CCTOs as a function of their businesses).
Ensuring rates are affordable and sustainable.	✓	Primary Focus.

Areas of relevance

Role / Purpose

The core role of CCHL is to monitor the Council's existing investments, which largely service the region's existing infrastructure needs. The general objective of the CCHL investments is to deliver strong financial returns and dividends to the Council.

"Multiple conflicting objectives create accountability and monitoring problems." - NZ Productivity Commission

Having a clear primary objective focuses directors and improves accountability. This does not mean companies can't have additional supplementary or complementary objectives (e.g. CSR initiatives).

Christchurch City Council

CCHL's Roles & Purpose (Supporting "Civic Wealth Creation")

While CCHL and the CCTOs pursue CSR objectives, the creation of Civic Wealth should sit squarely within Council's area of responsibility.

Key questions:

- Are there options for CCHL to assist the Council in creating "civic wealth" ("**CW**") and which parts of the civic wealth definition should CCHL's purpose and objectives be focused on?

Key observations:

- As commercial entities, CCHL and the CCTOs pursue a range of CSR initiatives, which form part of being a good corporate citizen.
- It is obviously beneficial where these initiatives support Council's broader Civic Wealth objectives.
- Council should avoid imposing obligations which compromise core objectives.

CCHL's Objectives	CSR	CW
Governance Best Practice	✓	✓
Financial Returns	✓	✓
Enhanced Shareholder Value	✓	✓
Reporting and Monitoring	✓	
Community, Social and Environmental Outcomes	✓	✓

"Enhanced financial returns can fund the delivery of non-commercial objectives, either directly or via other council-controlled entities." – Productivity Commission

CCHL / CCTOs
Corporate Social Responsibility

CSR involves the balancing of commercial, environmental and social imperatives into business operation and activities ("triple bottom line").

Key CSR issues include (among others):

- Corporate governance.
- Gender equality.
- Environmental impacts.
- Stakeholder engagement.
- Employment opportunities.
- Social equity (eg, closing the digital divide, inclusive infrastructure in CCHL's case).

The natural overlap here is convenient, and should be embraced, but care taken to not extend past CSR issues.

However, there should be a "set of behaviours" that ensure CCTOs & CCHL engage with Council, where appropriate to support CCC's non-financial objectives.

We expect local authorities to engage with large (infrastructure) businesses around CSR / CW issues in any case; this "set of behaviours" arguably should make it easier to effect this engagement.

Council / CCOs
Civic Wealth

Civic Wealth is not well-defined, but we think that Council's "Community Outcomes" do a good job in describing what CW should look like:

- Resilient Communities.
- Liveable City.
- Healthy Environment.
- Prosperous Economy.

In our view, the primary responsibility for creating CW should belong to Council.

Civic Wealth Spectrum

Tangibles (hard assets)

Material resources (parks, water, roads, facilities...)

Intangibles (soft features)

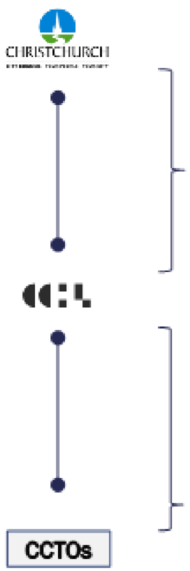
Communities
Health
Happiness
Social Justice
Social Connection
......

Balancing Objectives

Despite structured LoE / SoI processes with its shareholder and subsidiaries, CCHL has a "default" approach to balancing objectives.

Key questions:
- How does CCHL prioritise its overall objectives?
- How does CCHL balance its financial / non-financial objectives?

Key observations:
- CCC has not always provided CCHL a well-defined, measurable and prioritised set of core objectives.
- CCC needs to be explicit in its primary objective(s), and where there are potentially conflicting requirements, CCC should prioritise expectations explicitly.



- The diversity of Councillors and their constituencies naturally mean there will be a range of views regarding the expectations for CCHL and CCTOs.
- There is a view among those we have interviewed that the LoE is becoming a "laundry list" of disparate and sometimes conflicting expectations.
- Some non-financial material is appropriate, but the requests and expectations are general and in most respects measurement and assessment frameworks are non-existent.
- In some respects, the same is true for the financial expectations. This reflects our general observation that the objectives are often vague and not prioritised.
- We believe the inclusion of misguided, or unrealistic expectations / aspirations risks undermining the credibility of the process, driving unwanted outcomes. For example:
  - "*Remunerate directors on a fair and reasonable basis which includes taking into account the public service nature of the positions*," could limit CCHL's ability to attract suitable candidates.
  - "*Seek a target for all Council owned companies to be net carbon neutral by 2030*". In some instances, this is not possible with current technology. This stance has subsequently been moderated.
- Some requests appear to be mutually exclusive, which call into question whether Council has an informed understanding of the trade-offs involved in achieving each objective.
- The LoEs (to CCTOs) that we have reviewed are generic and not tailored to each CCTO. LoEs typically don't include stipulated, measurable expectations, particularly with respect to financial performance.
- The LoE / SoI process between CCHL and CCTOs does a decent job of cutting through some of the more abstract and unworkable objectives and requests that are included from CCC.
- As discussed above, there are examples of issues and objectives which have been included in the LoE from Council for which the implications on the CCTOs are not well-understood.

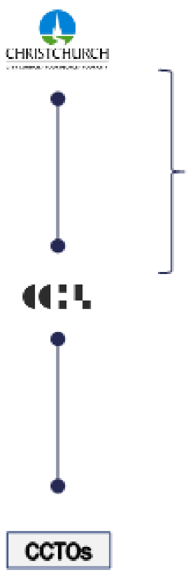
How can this be improved?
- Change takes time in large entities and can have large financial implications. We think there is merit in CCC providing its expectations every three-years with a 10-year view (much like the LTP). This could be achieved through a tailored statement of expectations (discussed further in the recommendations section).
- There may be a legislative requirement to do something each year (which could still be satisfied), but a more considered and fulsome process applied less often would allow:
  - Council to more deliberately set objectives.
  - CCTOs sufficient time to deliver results.
- We believe this would provide more clarity and certainty to CCHL and CCTO boards, and provide greater opportunity for CCC to engage with CCTOs in a more meaningful way, building better understanding and enhancing the relationship between the CCC group as a whole.
- Clear and measurable expectations of both financial and non-financial performance should be provided to each entity by CCHL through the expectation setting process. (Discussed further in our recommendations).

Christchurch City Council

Governance Structure & Processes (1/2) – CCHL Governance

CCHL has a board structure which supports its limited operating scope, but arguably not suited to a >$3b commercial enterprise.

Key question(s):	Key observations:
• Is the CCHL governance structure fit-for-purpose?	• The CCHL board has too many Councillor appointees; this limits the scope to have a broader set of independents with strong commercial skills and relevant experience. • The board has functioned effectively as a unit, albeit conservatively / limited scope. • Different directors with different skillsets and experience will be required if CCHL were to shift from a pureplay holdco towards a more active investment scope. • All directors should receive fees for their services, obligations and liabilities.



- Currently eight directors, split 50 / 50 between councillor directors and independent directors.
- Based on our interviews, there is a common view that four councillor directors is too many; we agree (refer discussion to the right).
- Councillor directors are omitted from Council discussions and decisions through perceived conflict; this has the potential for significant impact on the effectiveness and nature of these Council decisions.
- Depending on the ultimate remit of CCHL, we would also suggest that a smaller board of 6-7 should be sufficient.
- Feedback from the CCTOs also noted that the CCHL's board is very conservative and risk-averse.
- The current CCHL board composition is suited to a holdco structure only. Broadening the investment scope of CCHL would require different skills and asset management experience at the board level.
- Based on interview feedback, we understand that the current board typically works well and is effective as a unit.
- Councillor directors are not paid director fees. Given the significant workload and additional director liabilities associated, this seems unfair and does not appropriately recognise director contributions equally. It also runs the risk of creating undesirable behaviours with respect to equitable workloads and process engagement.

Advantages of having Councillor Directors at CCHL	Disadvantages / Risks of having Councillor Directors at CCHL
Provides a direct link between Council and CCHL, supporting a consistent, clear local authority view at CCHL.	No guarantee that skills and experience of Councillors is suited to CCHL governance role.
Ensures Council perspective at CCHL regarding council processes that might be relevant to a decision at CCHL.	Councillor directors may face potential difficulties reconciling their roles as both a Councillor and a CCHL Director.
Potential to improve CCHL's responsiveness to community views.	Councillor directors are considered conflicted and excluded from Council discussions and decisions regarding CCHL.
	Councillor directors potentially have less time to commit to CCHL - unequal workloads among directors.

On balance, we believe that the benefits of having Councillor directors on the CCHL board can be achieved through having a smaller number of Councillor appointees.

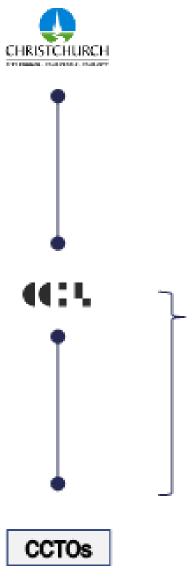
Christchurch City Council

Governance Structure & Processes (2/2) – CCTO Governance

The governance appointment processes work well for CCTOs. CCHL has a board structure which supports its limited operating scope.

Key questions:
- How effective is the director appointment process for CCTOs?
- Should Councillors sit on the boards of CCTOs?

Key observations:
- CCTO board recruitment and composition is working well; effective CCHL support.
- Generally, CCTO boards are high calibre, with appropriate mix of skills and experience.
- Ensuring CCTO governance opportunities are well-remunerated and CCTOs are apolitical will support the performance and value growth of the companies.
- Consistent with best-practice, Council should maintain its policy of not appointing Councillor Directors to the CCHL subsidiary boards.



- In general, we note that the CCTO boards are of high-quality and appear to have a good balance of skill-sets and relevant experience.
- Through our interviews with both CCTO boards and executives, it has been clear there has been a "maturity" in the board appointment process for CCTOs.
- This appears to be attributable to CCHL involving CCTO chairs in the governance and appointments process to assist in the skill-matching process which is aiming to ensure a balanced and complementary board composition at CCTOs.
- General feedback from CCTOs directors is that Council ownership not a notable deterrent to the recruitment of high-quality candidates at a CCTO level, although this would likely change in the absence of CCHL, or the inclusion of Councillor directors at a CCTO level.
- We are not close to the actual detail regarding director appointments, but there does appear to be a tendency to appoint "known and local candidates".
- Maximising the governance talent pool is critical to generating performance and diversity:
  - CCC should enable and support CCTOs to remunerate talent at market rates. Ultimately, CCHL owns a stable of 'billion dollar' corporations, which have high skill and time demands. CCTOs are recruiting in an ever more competitive market (both nationally and increasingly internationally) for talent.
  - Maintaining an apolitical environment for CCTO boards to operate will be a key contributor to maximising the potential pool of directors, enabling diversity and ultimately CCTO performance.
- The CCHL Group Intern and Associate Director ("AD") programmes have been beneficial for the companies and make an important "civic wealth" contribution by fostering governance skills, which can be accessed by others in the wider community.

Should Councillors sit on the boards of CCTOs?

This question has been raised a number of times through the Review. In our view, Councillors should not be CCTO directors.

At present, while publicly-owned, the CCTOs are considered commercial entities in the market. Direct Council representation would compromise that status, and would likely have the following detrimental impacts:

- Make it more difficult to recruit quality independent directors and executive.
- Expose the CCTO to inappropriate direct Council influence (conflicting with a primary goal of the CCHL construct – non-political environment).
- Potential for conflicts, tension and ineffectiveness of the Councillor directors (at CCHL level) scrutinising the performance of other Councillor directors (at the CCTO level).

We believe that this suggestion from Councillors stems from frustration about the lack of engagement from CCHL and that Council doesn't feel it knows what is happening at the CCTOs; in our view, there are better mechanisms to address these issues (which we discuss later).

Christchurch City Council

Supporting CCTO Strategic Opportunity

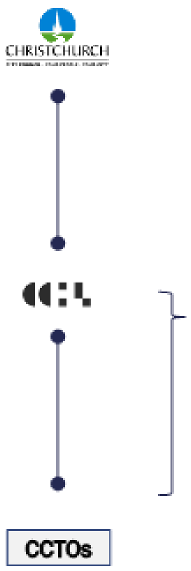
There is some evidence that the current ownership structure is restricting CCTO performance and strategic ambition.

Key questions:

- Does the current ownership structure allow CCTOs to fully exploit their market opportunity?
- Is value and performance being maximised?
- Are CCHL processes for new investment / divestment decisions working well?

Key observations:

- In general, the subsidiaries are well-supported to capture market opportunities.
- There are some restrictions associated with being publicly owned and having a static shareholder base with limited available capital; both of these elements manifest in strategy activation, in some instances.
- Improvements at CCHL for CCTO transactional support are needed.



- A large portion of the CCHL portfolio is subject to some form of regulation and this has significant bearing in terms of stipulating commercial returns, and also guiding asset management and investment.
- That aside, our engagement with the CCTOs has given rise to examples which suggest that the subsidiaries have parred back "activation" of some elements of their strategic opportunity to ensure a compliant fit with (either perceived or explicit) expectations of their shareholders.
- Although hypothetical, the clear message from some of the larger CCTO's is that they would go "harder and faster" with a different shareholder. The implications are important; some CCTOs are limiting their ambitions due to a perceived lack of risk appetite and capital reserves of their shareholder.
- This also implies that some improvements in value and financial performance are being "left on the table". This is not uncommon or unexpected given the public-ownership structure.
- We also note there is not a lot of corporate transactional activity across the Group, which is surprising for a $5.5b portfolio.
- Our key take-away is CCHL has backed itself into a relatively passive role, probably as a result of perceived or explicit shareholder expectations (rightly or wrongly).
- Clarity around some of the approval and funding processes at CCHL (in respect to CCTO commercial activity) would be useful for the subsidiary businesses.

Public ownership compromises performance

Market oriented reforms through the 1980s and 1990s have effectively halved worldwide public ownership of assets (NZ Treasury 2012), with one of the key drivers being to improve the efficiency and profitability of the companies.

A large number of empirical studies on the effects of privatisation have been undertaken with surveys generally showing that "Privatisation improves the financial and operating performance" (Megginson 2017).

Studies sponsored by the World Bank have shown, with respect to privatisation, there were "no case where workers are made significantly worse off" (Galal 2012).

NZ's experience has also been studied with "time-series analyses illustrating a significant improvement in profitability post-privatisation" (Chan 2017).

The government's Mixed-ownership Model provided important examples of the benefits which can be achieved by shifting from full public ownership structure.

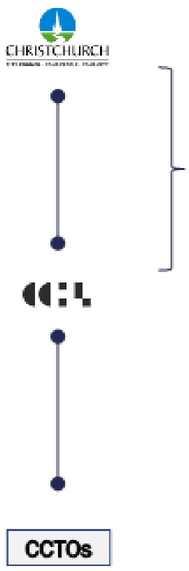
Christchurch City Council

Monitoring / Performance (1/2)

CCC would benefit from strengthening its monitoring of CCHL, and applying more scrutiny to CCHL performance.

Key questions:
- Are CCC's monitoring processes working well to support CCC's objectives?
- How is financial / non-financial performance scrutinised and managed?

Key observations:
- CCC is not applying enough scrutiny to CCHL's performance or providing the required context to allow Councillors to make informed decisions.
- CCC's monitoring function is under resourced.



Current Reporting	Current Monitoring	Commentary
• CCHL provides quarterly performance reporting by way of traffic light reports. • CCHL provides a strategic update that underpins its quarterly report. • Reporting should provide more detail on the performance of the businesses as investments, and also include more performance benchmarking. • CCHL could provide information (in draft form) earlier than the LGA stipulated time, to allow council officers more time to interrogate material. • We note that key SoI performance metrics for CCTO's are absent from the quarterly traffic light report provided to CCC's monitoring function. (e.g. ROIC for Orion and LPC).	• CCC has a monitoring function within its broader Resources Group. • We understand this function includes: – Facilitating the SoI process. – Interrogating performance of CCHL and the subsidiaries against SoIs and providing advice to CCC. – Acting as a key point of contact between CCHL and CCC to foster a strong working relationship. – Reviewing CCHL board effectiveness. • We understand that procedurally all of these things are occurring. • However, based on our review, improvements in reporting material and better coordination of timing of information would facilitate a more comprehensive and effective monitoring function.	• All SoI performance metrics should be included in quarterly reporting material. • It would be beneficial to provide a time series of metrics to highlight systemic underperformance or trends to readers. • Based on our observations, we believe the monitoring function has limited resources within CCC's organisational structure to monitor, interrogate and communicate information provided by CCHL to Councillors. We note this was a concern raised in the 2016 review: – "The monitoring role which Council needs to perform requires strengthening. Council does not have an appropriate mechanism to monitor CCHL beyond statutory reporting and commentary on SoIs. " – 2016 review. • This resource requirement will be more acute if CCHL moves to a more active approach, where Councillors will need to be more informed on investment decisions and implications. • We caution against over-reliance on high-level investment performance metrics and performance benchmarking, without full understanding of the approach and assumptions made in producing this data. Example: CCTOs all provide ROIC metrics but use different definitions in the measurement of ROIC.

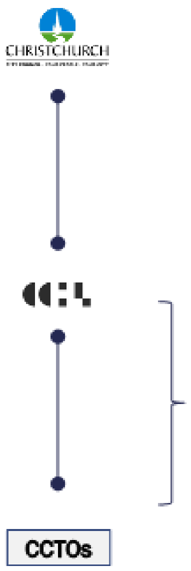
Christchurch City Council

Monitoring / Performance (2/2)

On a procedural basis, CCHL is monitoring the CCTOs effectively, but is not driving performance as hard as it could.

Key questions:
- Are the CCHL monitoring processes working well to support CCTO's and CCHL's own objectives?
- How is financial / non-financial performance scrutinised and managed?

Key observations:
- CCHL monitoring of performance is procedurally efficient, however as the shareholder, CCHL is not scrutinising and driving financial performance of its investments as hard as it might. This extends to CCTO capital structure.
- CCHL has been slow to activate "performance management" measures.



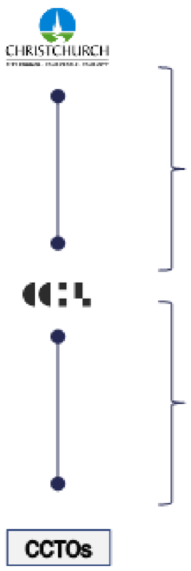
Current Reporting	Current Monitoring	Commentary
• Regular reporting processes consist of quarterly Strategic Performance Reports and half-year / full year Reporting Packs. • Other information requirements include: – 3-5 year forecasts. – SoI requirements. – Tax information. – Business plans. – Financial reporting packs.	• We received consistent feedback that CCHL does not closely scrutinise CCTO performance or hold CCTOs to account. • While it is the CCTO board that is directly responsible for business performance, this widespread feedback was interesting. • It's also consistent with the general observation that publicly-owned commercial businesses are not driven as hard in respect of performance (both financial and non-financial).	• Reporting processes works well, with the required level of detail provided (albeit in a non-standardized form). • General view that CCHL does not adequately scrutinise performance. This could be evidenced by the performance of certain CCTOs, for example: – In the past, CCHL has been slow to act on sub-standard performance, such as LPC, which in our view illustrates the more risk-averse nature of the public-ownership structure. A more commercially disciplined and active shareholder would typically act faster in similar situations. – Capital structure is arguably not optimised at Orion at the moment.

Christchurch City Council

Communication / Engagement – "Internal"

CCHL / CCTO engagement processes are generally working well. Communication back up to the Council could be improved.

Key questions:	Key observations:
• Are communication and stakeholder engagement processes working well between CCHL and the CCTOs? • Are communication and stakeholder engagement processes working well between CCHL and the Council?	• In general, CCHL / CCTO relationships have been working well. • While the mechanical functions of monitoring are in place, there is a breakdown in communication with CCC. Trust levels need to be improved and CCHL should take opportunities to improve Councillors' understanding of CCHL risks / opportunities. • The engagement dynamic can be improved by regular CCTO briefings to Council.



- Some have noted that there is poor communication back to Council, at both the executive and Councillor level. This appears to be a function of ongoing tension and frustration between the shareholder and CCHL. Our sense is that some element of trust has been lost and the parties are now only doing what is procedurally required to maintain the relationship.
- There has been poor engagement with Council in relation to the CCHL Group and its portfolio – i.e. true risks and opportunities for CCHL; the leadership for the "education" process of Council should sit with CCHL.
- Ideas and opportunities are coming up through the CCTOs, but effectively stop there – probably due to an expectation that exists at CCHL that Council will not be receptive to anything "out of the box".

- In general, the communication between CCHL and CCTOs is good and the level of engagement has been high, especially over recent years. All CCTOs commented that the executive and directors of CCHL have a good understanding of the key issues in their respective businesses and work collaboratively to support the CCTOs.
- There were some notable process issues in relation to a recent acquisition made by one of the subsidiaries. These issues primarily related to a lack of clarity regarding the associated approval pathways (related to both the acquisition and the associated funding which was provided by CCHL). We understand that there is no formal investment policy (or process documentation) at CCHL to support these processes. Requirement for a formal investment policy could be addressed through a tailored Statement of Expectations (discussed further in recommendations).

There is risk that Council doesn't know enough about the CCHL Group to be making strategic decisions about it

- Councillors should be well-informed about the CCTOs and CCHL so they can make balanced decisions, based in knowledge and fact.
- Doing nothing (informed or not) is making a decision.
- CCHL needs to "front-up" to Council more.

Communication to Council has to be improved

- We reiterate that we do not think the best solution for improving Council engagement is through Councillor directors at the CCTO level.
- A better (and much less risky) approach is to encourage more direct CCTO / Council interaction.
- Acknowledging that the purpose of CCHL is to ensure CCTOs can operate in an apolitical environment, trust and transparency needs to improve. To overcome this, we suggest the following:
  - Strengthening the current CCTO monitoring function so that it is more effective.
  - Instituting regular CCTO briefings for Council, where CCTO executive can engage with and present directly to Council (PX where necessary).

Christchurch City Council

Communication / Engagement – "External"

A more active level of engagement between CCHL and other aligned organisations could unlock missed opportunities.

Key questions:
- Is CCHL engaging effectively with other local stakeholders (both Council and other) to maximise its opportunities?

Key observations:
- We understand CCTOs are generally working well with CNZ.
- However, a more cohesive strategic approach between CCHL and CNZ may provide opportunities to meet shared objectives.
- There has been limited engagement between CCHL and Ngāi Tahu (and other institutional investors), and we suspect significant opportunities are being missed.

ChristchurchNZ

- ChristchurchNZ has a broad mandate to foster economic development of the city and promote Christchurch to people who want to do business, invest, visit, study and live in the city.
- ChristchurchNZ is pursuing a large number of initiatives in respect of these objectives, some of which are directly engaged with the CCTOs as key stakeholders and partners.
- At the CCHL level, we understand that there is little engagement.
- Given that CCHL and CNZ should have a natural strategic alignment, it is unfortunate that there is not a more cohesive approach to delivering overlapping and mutually beneficial objectives (population growth, productivity gains, ESG initiatives).

CCHL

NGĀI TAHU Holdings

- Our focus on Ngāi Tahu Holdings here is primarily because it is the commercial arm of the local Iwi, and has significant financial capacity. We do note however, that CCHL's engagement with other large institutional investors (eg, ACC, NZ Super) is similarly relevant.
- In respect to Ngāi Tahu Holdings, we understand that there has been little direct engagement, which is surprising given CCHL and NTHC are the two biggest South Island investment portfolio managers.
- In general, we think that the lack of engagement is probably due to CCHL believing that it doesn't have a mandate to either transact on the current portfolio or the mandate or capacity to actively invest in new opportunities (which might create the opportunity for co-investment). We suspect that this "perceived status" is also reflected on the Ngāi Tahu side.

How can CCHL and CNZ be better aligned and whose responsibility is this?

- Ultimately it is the Council's responsibility to ensure that its CCOs are structured in a way that delivers the benefits that it could be and should be targeting – this goes to instruction and expectations of its CCOs.
- That said, CCHL is clearly mandated with "enhancing the economic well-being of the region" and in our view, that could quite comfortably include actively working with CNZ on bolder initiatives, taken with a longer-term view, to create mutually beneficial outcomes.
- CNZ requires funding to execute its strategy.
- CCHL could potentially look at ways that it diverts some income (with the Council's agreement based on a business case) to CNZ to fund and facilitate initiatives which will drive population growth and productivity growth higher / faster than it would otherwise – this would meet CNZ objectives and add value to CCHL portfolio assets.

Christchurch City Council

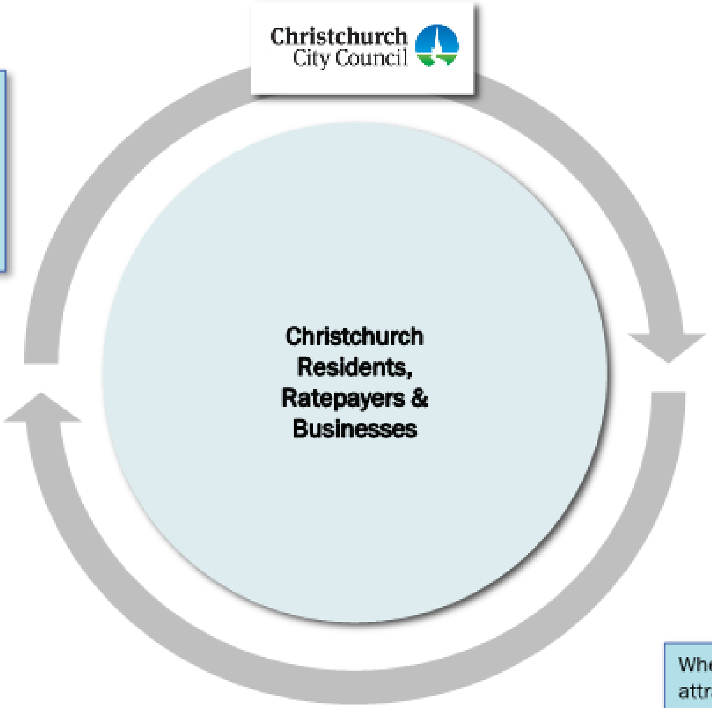
Communication / Engagement – "External"

Prima facie, there is a clear circular and beneficial relationship between the "market-facing" CCO's (CCHL and CNZ). In our view, the apparent lack of meaningful engagement, alignment and collaboration suggests that there is a good chance that opportunities are being missed.

Where CCHL is successful, the result is stronger and more resilient financial performance (value and generation of higher surpluses which can be used for distribution or reinvestment). Inter alia, stronger performance will create new opportunities for operational flexibility, innovation and further diversification.

CCHL Christchurch City Holdings Limited

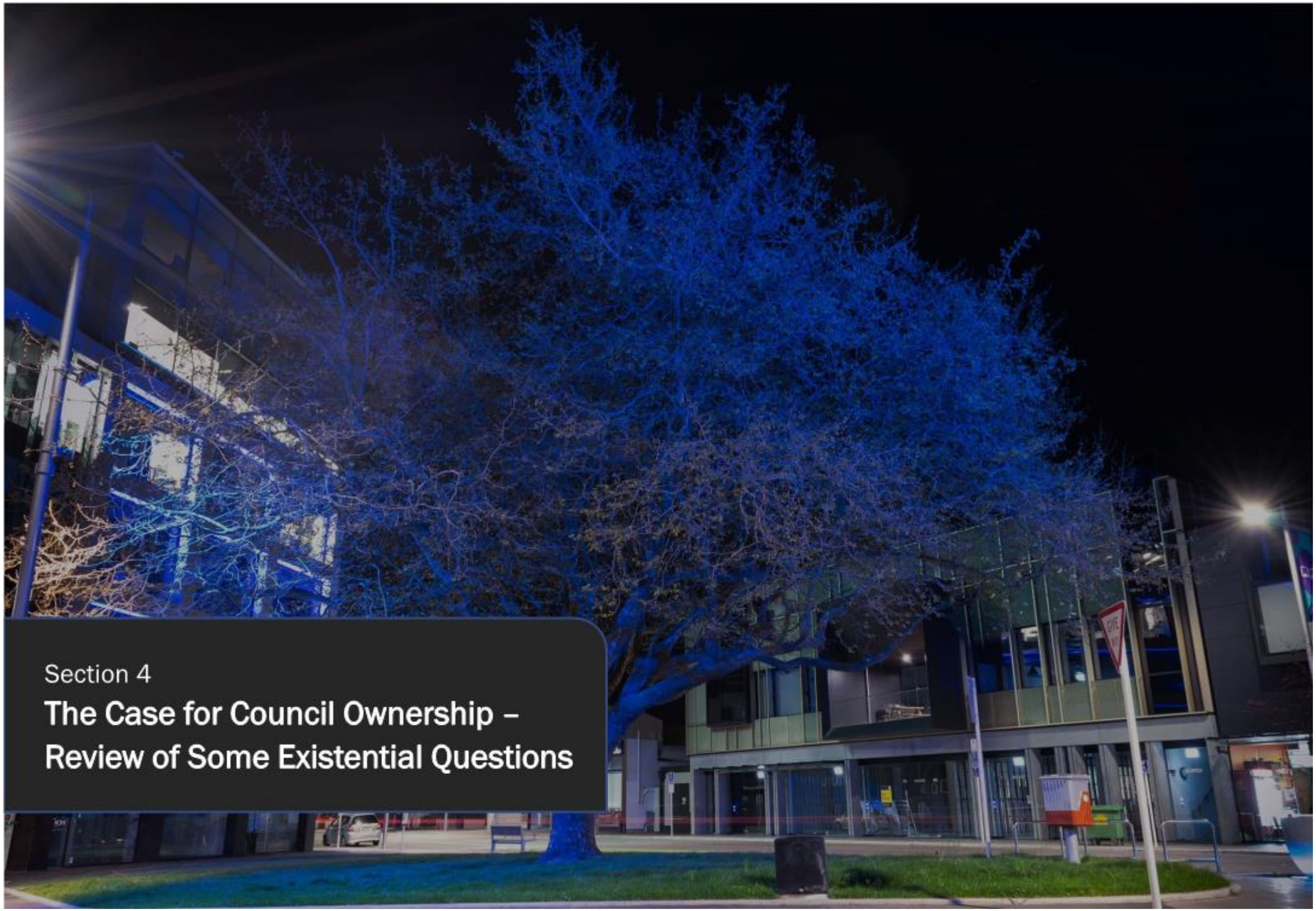
- Providing critical city infrastructure.
- Providing financial returns and assisting in minimising rates burden.
- Platform for innovation.
- Platform to support civic wealth through relevant CSR initiatives.



ChristchurchNZ

- Economic Development & City Profile Agency.
- Prioritised with growing jobs, improving the economic, social and environmental competitiveness of Christchurch businesses.
- Promote Christchurch to people who want to do business, invest, study and live in the city.
- Enable and deliver urban development projects and activities.

Where CNZ is successful, people and businesses are attracted to the city; population increases faster than it would otherwise. This in turn generates value in the CCHL portfolio, which in general is tied to patronage, connections / users, general commercial activity.



Section 4

The Case for Council Ownership – Review of Some Existential Questions

Core Existential Question: Why Does Council Own these Assets?

There are a number of key reasons traditionally used to justify CCC's ownership of the CCHL assets.

Existential Question

Why does CCC own these assets?

In our view, the core reasons that CCC owns the CCHL assets fall into the following categories:

1. Security of Services / Control of Key Assets
2. Income for CCC / Reduce Rates Burden
3. Build Value
4. Support CCC Non-financial Objectives

- We believe that these are the conventional reasons that may be given for Council ownership of the CCHL portfolio of assets.
- We suggest that an objective evaluation of this rationale is useful to test actual performance against expected performance (with respect to each reason category).
- We consider each of these reasons in the remainder of this section.

Christchurch City Council

1: Asset Security / Control (1/4): How does CCC compare?

CCC is an outlier among its peers, retaining majority ownership of a significant portfolio of commercial assets.

View: Council ownership of CCHL assets provide critical security and control over key infrastructure.

The table below summarises how CCC's ownership of commercial infrastructure compares to other councils:

	Airport	Port	Electricity Distribution	Fibre	Transfer Stations	Landfill
Auckland	✓ 18%	✓ 100%	✗ Trust / Public	✗ Public (Chorus)	✓ Some CKI	✗
Christchurch	✓ 75%	✓ 100%	✓ 89%	✓ 100%	✓ 100%	✓ 39%
Wellington	✓ 34%	✓ 77%	✗ CKI	✗	✓	✓
BOP	✓ 100%	✓ 54%	✗ (QIC - Powerco)	✗ First Sentier	✓	NA
Hamilton	✓ 100%	Inland Port (POT, Iwi, Council)	✗ Trust	✗ First Sentier	✗ Waste Mgmt	✗ Envirowaste
Dunedin	✓ 50%	✓ 100% (Regional Council)	✓ 100%	✗	✗ Waste Mgmt	✓
Whangarei	✓ 50%	✓ 54%	✗ Trust	✗ Trust	NA	✓ 50%

Discussion

- CCC became the "accidental owner" of a number of the CCHL assets through industry reforms and corporatisation.
- In other regions, some level of continued Council ownership of airports and ports is common. Outside of this asset class, Council's typically don't own commercial infrastructure.
- Arguably, in most instances, this makes little discernible difference to the quality of the lives of residents in each region.

Christchurch City Council

1: Asset Security / Control (2/4): Would a “commercial” owner behave differently?

There are limited examples of the CCTO’s behaving markedly differently to any other commercial owner.

View: Council ownership of CCHL assets provides critical security and control over key infrastructure.

To help address this claim, we test the hypothetical question: Would another owner behave differently to CCHL?

- As discussed previously, we believe that the CCTOs are equipped with a capable executive supported by high-quality boards. Both the executive and governance structures are in line with what we would expect to see in similar or competitor companies, regardless of the nature of their ownership.
- That is, the CCTOs are commercial organisations, largely operating like any other business to maximise shareholder value and returns.
- Within the CCHL portfolio, we note that there are examples of CCTO behaviour which may have targeted a social benefit style of return, rather than an outright commercial return. We discuss these below.

Orion: Redundancy Investment

- We understand that in the early 2000’s a decision was taken to commit significant capital to improving the resilience of the local electricity distribution network by increasing the number of grid exit points.
- The Commerce Commission determined that this capex was not required to deliver on the target price / quality path and therefore would not allow a return (by way of Orion increasing user charges).
- CCHL and Council agreed that this investment would improve the resilience of the network and made the investment – post-quakes, these improvements shortened the time it took to restore power to many customers.
- To the extent that another owner may not have agreed to this early capital investment to build redundancy, then it could potentially be argued that this decision benefited the community (after the earthquakes).
- We are not in a position to make a balanced judgement on whether this investment was either justified (balancing incremental network recovery speed against the financial cost / lack of return on capital) or solely driven by Orion ownership structure.

LPC – Cruise Berth

- In 2017, having investigated the proposal to build a new berth to accommodate larger cruise ships, LPC determined that it was not commercially viable.
- Council had the view that the new berth would provide a range of economic benefits to the city that should be taken into account in addition to returns directly to LPC; and on that basis wanted LPC to proceed. Given LPC’s position, the Council agreed to reduce its dividend requirements from the company as a concession to LPC making the investment.
- The cruise berth was completed in Nov 2020, in the middle of the Covid-19 disruption. However, we understand that forward bookings are now very promising and outstrip the forecasts initially prepared by LPC.
- Prima facie, the arrangement struck between LPC and CCC seems sensible given the positions of both entities. In fact, it reinforces that the CCTOs make decisions primarily on a commercial basis (with respect to the business only).
- In our view, a similar concessionary arrangement could have been agreed between the Council and the port, even if it wasn’t Council-owned, to achieve the same outcome.

Discussion

- For the most part, we believe that the CCTOs are operating as we would expect any other commercially-owned company would operate. Their core focus is to deliver on commercial objectives.
- There may be some examples of behavioural differences which are attributed to Council ownership, but these are limited and arguably would have happened under private ownership as well.

Christchurch City Council

1: Asset Security / Control (3/4): What does control mean?

Full ownership is not required to achieve effective control of a business.

View: Council ownership of CCHL assets provides critical security and control over key infrastructure.

Effective control / significant influence over a company can be achieved without necessarily having full ownership, as discussed below.

Level of shareholding	Control Considerations
100%	
75%	Above 75% provides "super-majority" control, which is effectively the same as full ownership from a control perspective.
50%	51% provides majority control over most day-to-day decisions. This level would typically provide comfort in relation to continued investment in maintaining asset quality and long-term strategic decisions.
25%	However, for regulated assets, where asset quality is explicitly controlled, % shareholding could be lower (e,g, a 25% shareholding would maintain negative control over important governance decisions), with little practical difference with respect to asset quality.
0%	Special shares can also be used to effect control. Eg, "Kiwishare" which the Government still holds in Enable.

Other Council Examples

Across other Councils, we can see examples where full ownership is not required:

- Auckland Council owns 18% of the shares in Auckland International Airport.
- Wellington City Council owns 34% of the shares in Wellington International Airport.
- BOPRC owns 54% of the shares in the Port of Tauranga.

Tax Consolidation Considerations

Companies that share common ownership greater than 66% constitute a group for tax purposes, which means they can offset losses.

This is only a relevant consideration for CCHL if it expects to be generating tax losses (which are otherwise unlikely to be used in the future by the loss generator).

Discussion

- Owning 100% of commercial infrastructure businesses is not necessary to maintain direct control or influence.

Christchurch City Council

1: Asset Security / Control (4/4): “Infrastructure” is evolving

The classification of infrastructure is changing; there are types of “critical” infrastructure assets which CCHL does not have exposure to.

View: Council ownership of CCHL assets provide critical security and control over key infrastructure.

Question: Does the Council actually own the city's infrastructure assets?

Traditional types of infrastructure:

- Transport (eg, roads, rail, airports).
- Energy and Power.
- Airports.
- Recreation Facilities.
- Waste Management.
- Water Systems.
- Telecommunications.

CCHL's assets sit in this category of “traditional infrastructure”

But, infrastructure now includes:

- Data.
- Healthcare.
- Social Housing.
- Aged care.
- Logistics & freighting.
- Water & Food.
- Financial sector / Monetary systems.

What about?

- EV charging stations.
- Virtual services – cloud computing.
- Education / Research.
- Digital infrastructure (eg, cell towers).

“Infrastructure” is evolving.

Discussion

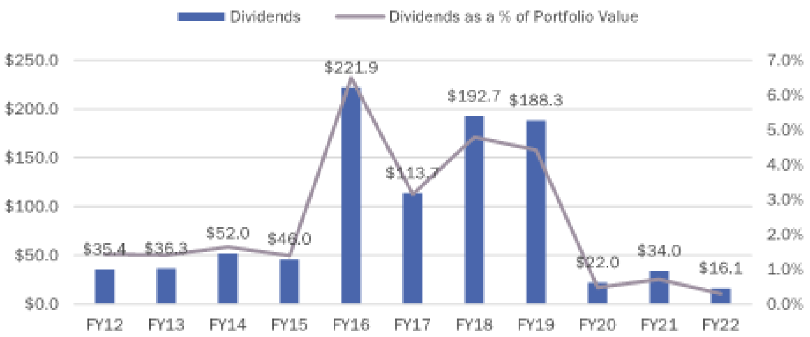
- The CCHL portfolio can be largely classified as traditional infrastructure, but the definition of infrastructure is changing.
- There are new infrastructure asset classes which CCHL (and the Council) has little or no direct exposure to, and even less direct control.
- As technology advances, “new” infrastructure becomes critical to support changing lifestyles and changes in population demographics. The cellular network is a good example of this – critical infrastructure which is privately owned.

Christchurch City Council

2: Provide Income to CCC / Reduce the Rates Burden

Relative to the size of the CCHL portfolio, the income generated for CCC which can be used to reduce the rates burden is underwhelming.

View: CCHL provides valuable dividends to CCC, which reduce the rates burden on residents.



$m	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
CCC Operating Budget	$1,361	$1,086	$1,109	$1,066	$1,276	$1,354	$1,272	$1,455	$1,559	$1,508	$1,415
CCHL Dividend paid to CCC	$43.7	$52.7	$48.3	$22.0	$34.0	$16.1	$32.4	$50.7	$57.2	$51.1	$51.8
Capital Release	$70	$140	$140	-	-	-	-	-	-	-	-
Div. / CCC Op Budget	3%	5%	4%	2%	3%	1%	3%	3%	4%	3%	4%
Cap. Release / CCC Op Budget	5%	13%	13%	-	-	-	-	-	-	-	-
CCHL Portfolio Div Yield %	2.0%	2.5%	2.3%	1.0%	1.4%	0.6%	1.2%	1.9%	2.1%	1.8%	1.9%

Discussion

- The Capital Release programme (FY2016 – FY2019) introduced a significant component of debt to CCHL which requires servicing and will therefore reduce dividends available to the shareholder in the future.
- Setting the Capital Release aside, the return to CCC is small relative to the size of the CCHL portfolio.
- The current CCHL dividend paid to CCC represents <3% of the Council annual operating budget, and is forecast at 1-4% per annum over the next five years.
- It could certainly be argued that:
  - Christchurch has had some extraordinary events that have had a negative impact on financial performance. But, this is reflective of the equity risk which the portfolio is exposed to on an on-going basis and shouldn't be dismissed as a one-off event.
  - CCHL has been through a major capex programme, including the development of Enable. However, large capex requirements are standard for most infrastructure assets, and we note that at least three of the larger CCTOs have significant capex requirements ahead of them over the medium term. All else equal, this will supress cashflow available for dividends for some time.
- The composition of the CCHL portfolio is not designed to maximise yield. A portfolio with a greater weighting toward property assets (for example) would likely provide greater income for CCHL and its shareholder (albeit, with a different risk profile and long-term value proposition).

Source: NPL analysis based on historical financial data and CCC annual and long term plans.

Christchurch City Council

3: Build Value for CCC (1/2)

In our view, Council and CCHL lack a well-articulated value growth rationale and supporting strategy.

View: The CCHL portfolio will build value for the Council (and ratepayers) through time.

Discussion – "Why Build Value?"

- Prima facie, the intent to build value is sensible.
- However, before we can determine the best approach to building value, we need to understand "why" we are building value. We consider this from the shareholder perspective:

Question	Discussion / Elaboration	Implications
What is the purpose of building value?	• Is the intention to maximise value growth indefinitely? Or • Provide a particular level of dividends within an expected timeframe?	• Typically there is a trade-off between value growth and dividends. • Cash that is taken out of a business (via dividends or capital returns) isn't available to reinvest in building business value. • We note that the CCHL assets are largely mature businesses and are categorised as "yield businesses"; however, this trade-off still exists at each business (and was reinforced in the CCTO interview process).
Who will benefit from the increase in value?	• What is the intention regarding targeted beneficiaries of increases in value? (current generation vs later generations?) • Are ratepayers today effectively bearing the cost of building future value (which presumably would benefit ratepayers in the future)?	• This goes to the long-term targeted capital structure of Council. • Value which is built in CCHL can be used to offset either: – the cost of Council debt (through dividends); and / or – the reduction of Council debt (through capital release).
How will value be unlocked or realised for beneficiaries?	• The utility of increased value can be realised in the following ways: – Higher dividends. – Increased leverage / capital release. – Equity release.	• We assume that Council expects to receive higher dividends through time, and also perhaps retain the option to repatriate capital growth (if "needed") through increased leverage at CCHL / CCTOs.

- In our view, it is not apparent that either Council or CCHL has deliberately set a strategy in relation to building and utilising value from the CCHL portfolio.
- Instead, the approach seems to be that the value component will provide two things:
  - Some level of dividends which will contribute to Council income.
  - Financial flexibility "for a rainy day."
- But there is not a value growth strategy in place that explicitly balances value growth, income and risk. Such a strategy would back into and support a broader target capital structure / rates pathway plan at the Council level.
- Without a clear understanding of the targeted outcomes and pathway for achieving value growth, CCHL is not in a strong position to optimise the management of its assets to meet these requirements.

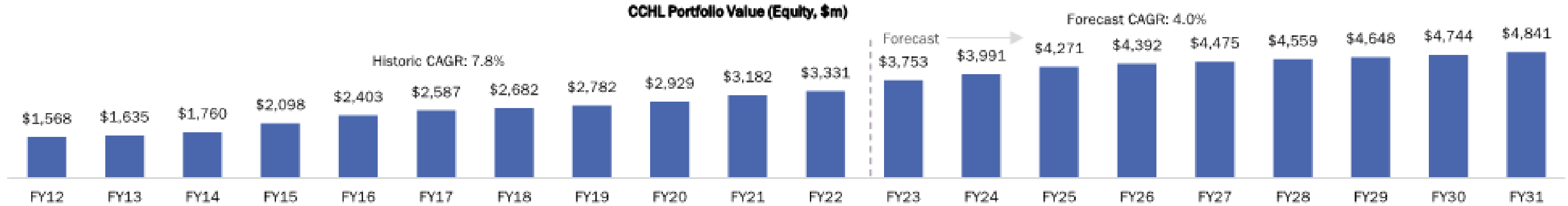
Christchurch City Council

3: Build Value for CCC (2/2)

The CCHL portfolio has performed well historically but is not structured or managed optimally to maximise value growth.

View: The CCHL portfolio will build value for the Council (and ratepayers) through time.

Setting aside the discussion regarding a value growth strategy, the following charts summarise the historical and forecast performance of CCHL with respect to total value.



Discussion

- To the extent that a primary motivation is to build value for the city, we need to ask whether the CCHL portfolio is optimised to meet this objective.
- In this evaluation, we have set aside the current constraint of selling assets / recycling capital; we can then consider the value question without necessarily determining how Council might access that value (i.e. through dividends, incremental leverage or another capital release mechanism – as previously discussed).
- With respect to historical performance, we note:
  - The CCHL portfolio has provided a capital return of 7.8% over the last ten years.
  - This is a reasonable return based on the nature of the portfolio assets, but is below the equivalent capital return of the NZX50 over the same period (8.6%).
  - We note that the CCHL portfolio carries significant concentration risk due to same geographical exposure, which is particularly relevant when comparing its returns against a diversified portfolio; all else equal, shareholders should require a greater return to account for this particular risk.

- Where maximising total shareholder return is the core objective, the following elements would typically be considered (from the status quo position):
  - Introduce institutional co-investor expertise and disciplines.
  - Tilt the asset mix towards a greater balance of unregulated return.
  - Introduce more diversification (by both geographic location and asset class).

Source: NPL analysis based on historical financial data and CCHL forecast models, Capital IQ.

Christchurch City Council

4: Support for CCC's Non-financial Objectives (1/2)

Non-financial objectives are increasingly important in the commercial environment, regardless of asset ownership structures.

View: Council ownership of CCHL (and the CCTOs) supports important non-financial / civic wealth benefits which accrue to the community from the CCTOs.

We discussed this concept earlier (in relation to CCHL objectives), and noted that while corporate CSR objectives appropriately fit within the purview of CCHL (and the CCTOs) and have a natural overlap with civic wealth constructs, we believe that the CCHL Group is doing little more than any other "commercial" organisation would.

To illustrate this point, we consider some expected benefits in the table below:

Expected Benefit	Discussion	Valid?
Council ownership ensures that the business operates with a high level of corporate social responsibility. Eg, commitment to higher level of CSR / ESG initiatives and performance.	The prioritisation of CSR / ESG initiatives is increasingly important for businesses, regardless of ownership. We provide some examples on the following page. Empirical evidence is now illustrating that institutional ownership is associated with higher firm-level environmental and social metrics (Kordsachia (2021), Dyck et. al (2019)).	No
CCTOs can be utilised to pursue other Council objectives. For example, the introduction of the Living Wage.	In 2017, Council committed to paying all staff the Living Wage. It then also indicated that suppliers who pay staff the Living Wage would be viewed more favourably than those that didn't, all else equal. Council requested that CCTOs also consider paying the Living Wage, but we note that ultimately that is a decision for CCTOs to make. While there has been some reticence from some CCTOs to adopt the Living Wage because it may put them at a disadvantage to competitors, it is now fully implemented and we understand that there has not been any material disruption to business and has actually supported some CCTOs in tendering for work.	Yes. However, Council's ability is limited with respect to requiring CCTOs to act uncommercially, even if it conflicts with other Council objectives.
Business assets are maintained at a higher level than they would under commercial ownership, resulting in improved user / customer outcomes.	As discussed earlier, there are limited examples of where CCHL's assets have been managed markedly differently to private ownership to the benefit of customer outcomes. A good illustration of this is the performance of privately owned EDBs in New Zealand, which as a group perform at least as well as the publicly-owned peers.	No
Keeping prices down for residents.	As previously discussed, CCTOs are commercially focussed, first and foremost. We believe that all CCTOs will be maximising their revenue within the scope allowed under relevant regulated or competitive environments.	No
Provide direct support to targeted groups in the community.	In our view there are examples of this happening, with LPC providing a good example. While LPC is in Council ownership, the current relationship with the union and unionised workers will likely stay in place; the union explicitly lobbies to keep Council ownership. Under alternative ownership, a more commercial approach might see port worker remuneration at lower levels and / or more automation (in line with widespread transition in the industry) to drive better commercial returns (more in line with returns of other comparable ports). Against the counterfactual, rate-payers could view the current situation as providing LPC workers with higher wages at the expense of themselves (by suppressing earnings and dividends from LPC to CCHL / Council).	Yes, but there are associated downsides.

Christchurch City Council

4: Support for CCC's Non-financial Objectives (2/2)

Non-financial objectives are increasingly important in the commercial environment, regardless of asset ownership structures.

View: Council ownership of CCHL supports the important non-financial / civic wealth benefits which accrue to the community from the CCTOs.

While the CCTOs are actively pursuing CSR / ESG initiatives, this behaviour is typical of most socially responsible businesses operating in the modern commercial environment. We set out some examples below:

Orion

1. Powering the Low Carbon Economy.

2. Diversity and inclusion programme, Ubuntu, and Inclusion Council.

Christchurch Airport

1. Net Carbon Zero by 2030.

2. Ensure CIAL complies with 65 dB L_{dn} noise contour.

LPC – Lyttelton Port of Christchurch

1. 10% reduction in scope 1 and 2 operational emissions from baseline year 2018.

2. Six-monthly reporting on Workplace Culture Action Plan implementation progress.

enable fibre broadband

1. Reduce scope 1,2 and scope 3 (excluding staff commute) emissions by 17% (against audited FY20 base year) to 581 tonnes of CO2 equivalent.

2. Increase females in leadership from 25% to over 33%.

Citycare Group

1. 100% of new (non-operational) passenger vehicles to be hybrid or EV.

2. Collaborate with community stakeholders to deliver the safe coordination of >15,000 volunteer hours.

CSR objectives and programmes of similar businesses, not (fully) publicly owned:

√ Vector
1 Carbon Handprint Strategy.

2 First NZ corporate to become an Accredited Living Wage Employer.

√ Powerco
1 Net Carbon Zero by 2030.

2 10% of workforce identify as Māori by 2025.

√ Auckland International Airport
1. Net Carbon Zero by 2030.

2. Ensure AKL complies with the 60 & 65 dB L_{dn} noise limits .

√ Wellington International Airport
1. Net Carbon Zero by 2030.

2. Ensure WLG complies with the 65 dB L_{dn} noise limit.

√ Port of Tauranga
1. 10% reduction in CO2 emission intensity since 2018.

2. By 2025 minimum of 40% females manager level positions.

√ Port of Napier
1. Aiming for zero net emissions by 2050.

2. Established 'Good Neighbourhood Programme' - to regularly engage with local communities.

√ Chorus
1. 62% reduction in Scope 1 and 2 emissions by 2030, based on 2020 levels.

2. Achieve and maintain 40:40:20 gender split at all levels.

√ Spotless (Downer)
1. Continue to pilot EVs and commit to at least three more pilot trials of EVs.

2. Engage with not-for-profit and community organisations to provide opportunities for culturally diverse groups and people.

Discussion

- The modern operating model for a wide range of business now includes the embedded expectation of a commitment to operating in a socially responsible manner. That includes the prioritisation of CSR / ESG initiatives, and a rebalancing of business objectives to include these.
- These initiatives are widespread and can not be attributed solely, or even substantially, to the "public-ownership" model.

Christchurch City Council

Existential Questions: Conclusion

The rationale for Council ownership should be revisited, especially within the context of rates affordability and Council's financial sustainability.

As discussed, each of the key conventional reasons that might be given to rationalise CCC's ownership of the CCHL portfolio can be challenged. In most cases, we believe there is little merit to most of the arguments.

Rationale	Key Observations
Security / Control	• CCC owns a greater portion of its local assets than any other New Zealand Local Council. • The behaviour of the CCTOs is not typically different to that of similar companies under commercial ownership. • Effective "control" can be retained without necessarily owning 100%, particularly for regulated assets. • CCC appears comfortable not owning other local infrastructure-style assets (e.g. the copper network, fuel terminals, 5G / radio spectrum, datacentres).
Income for Council / Reduce Rates Burden	• The income produced from the CCHL portfolio is modest in relation to portfolio value (cash return on value is only 1.9% over the last five years). • CCHL dividends make up a small fraction of total Council operating costs (<4% forecast). • Applying proceeds from any asset recycling to Council debt repayment will reduce rates and increase value to ratepayers more than the status quo.
Build Value	• While value growth from the CCHL portfolio has been meaningful over the last 10 years, the existing portfolio is exposed to substantial geographic concentration risks. • There does not appear to be a clear strategy around value growth objectives and how that value will be accessed and utilised to support Council requirements in the future.
Support Council's Non-financial Objectives	• While the CCTOs are actively pursuing CSR / ESG initiatives, this behaviour is typical of most socially responsible businesses operating in the modern commercial environment. • There are some benefits extracted by Council through ownership - it's easier for Council to engage with these businesses, but full ownership is not a prerequisite to maintaining these linkages.

Key messages:

- Some of the rationale for ownership has potentially not been well-understood and the "case for ownership" should be revisited.
- CCC has a portfolio by default. In our view, objective setting has been shaped around the portfolio in place, rather than the portfolio and direction of CCHL being shaped around the core objectives of CCC.
- A balanced risk-based assessment needs to be applied to the existing portfolio (i.e. what are the risk vs rewards of continued ownership in current form?).
- CCC should objectively re-visit its core priorities / objectives (informed through an evaluation of its options). Then it should set the scope and remit of CCHL to deliver on those objectives. The aim should be to:
  - Retain or enhance those aspects of the key reasons which do have merit.
  - Potentially reposition CCHL to deliver a stronger outcome for CCC (and ratepayers), without unnecessarily compromising the core beneficial attributes that the assets afford through ownership.

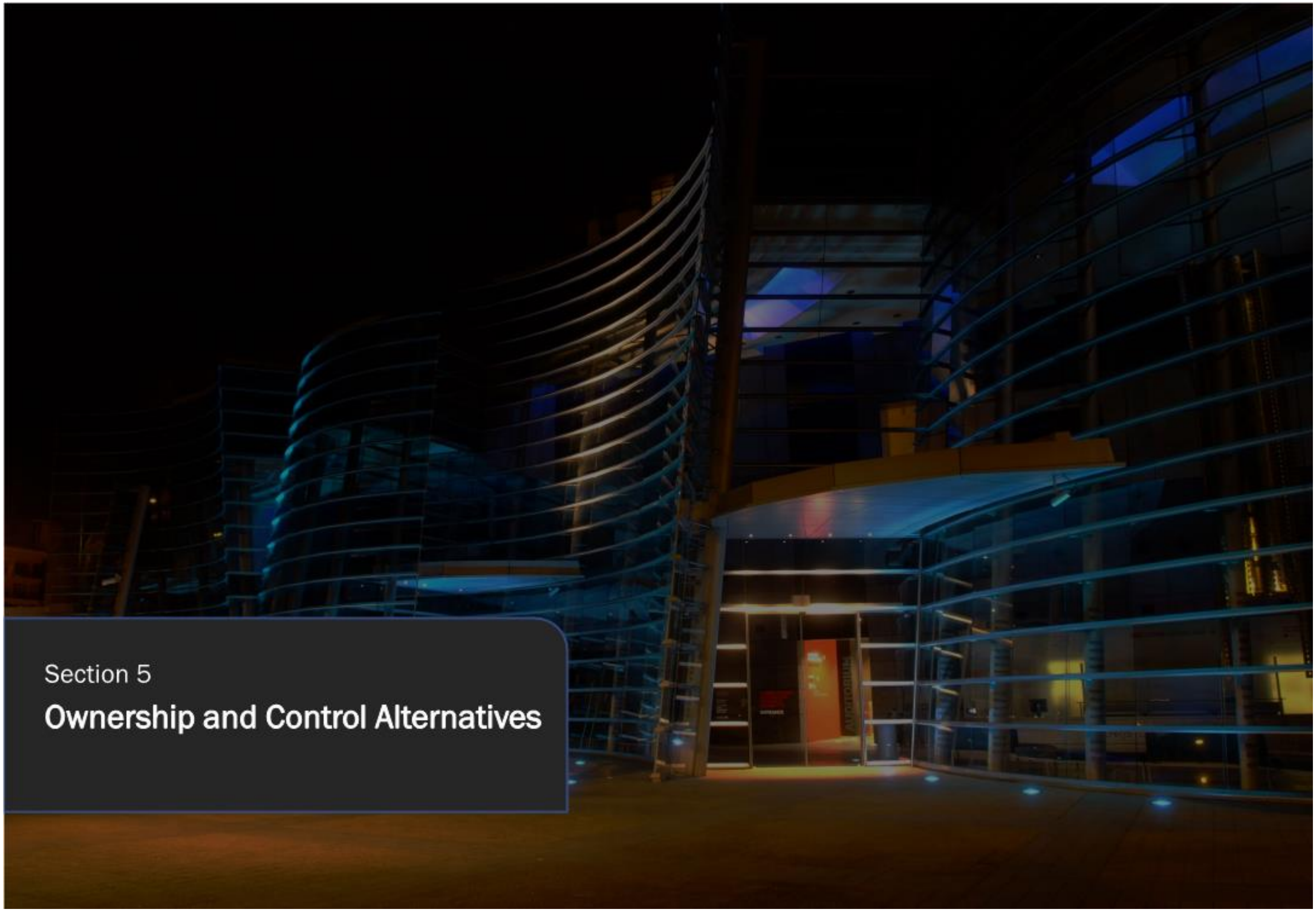
Christchurch City Council

An Opportunity to Reassess the Case for Council Ownership in its Current Form.

We believe that a rigorous framework should be established for CCC to objectively test the case for asset ownership.

- CCC's decision to retain ownership of commercial assets should consider the alternative use (opportunity cost) of the capital invested and the strategic benefit of ownership (if any).
- In a capital constrained environment, CCC has implicitly decided to prioritise asset ownership over reducing the rates burden to rate payers or investing in alternative community assets and services.
- Given CCC's core objective is to provide certain community services and outcomes while ensuring rates are affordable and sustainable, we suggest a framework for determining whether CCC has a strategic imperative for control, or whether its objectives can be met without control, should be established.
- We propose a possible framework and how that may be applied to CCHL's current key commercial assets in the adjacent matrix, including potential answers to the ownership decision.
- Having "unpacked" some of the rationale for Council ownership of the CCTOs, in our view there is an opportunity to re-evaluate:
  - The effectiveness of the CCHL portfolio in delivering on the requirements Council has through current ownership levels.
  - The importance and relative value of each of the criteria.
  - The effectiveness of Council ownership in its current form.
- We examine some alternatives ownership structures in the next section.

	Orion	Christchurch Airport	Lpc	enable fibre broadband	Citycare Group
1. Does the asset represent key infrastructure that could be constrained or compromised under private ownership vis-a-vis CCC ownership?	No. (majority of NZ EDB's are currently in community or private ownership).	Possibly?	Possibly?	No.	No.
2. Is CCC's involvement needed to ensure its control imperatives are met (could control imperatives be met through regulation)?	No. Fully regulated under price & quality regime.	Possibly but could be achieved through <75% ownership and regulation (information disclosure as well as council control on consenting, sound contours, etc).	Possibly but could be achieved through operator lease model (see following section).	No. Regulated under information disclosure regime.	No.
3. Would private ownership result in negative social outcomes or reduced performance?	No.	No.	No.	No.	No.
4. Implications for continued ownership	No obvious case for ownership.	Possible case for >50% ownership.	Possible case for land ownership but no strong case for control of port operations.	No obvious case for ownership.	No obvious case for continued ownership.


Section 5
Ownership and Control Alternatives

Christchurch City Council

Operating and Ownership Models

CCHL could realise significant value from its portfolio assets without losing control or "ownership". Mixed ownership and lease or concession arrangements for publicly owned infrastructure assets are common operating models.

There is a wide spectrum of ownership models for infrastructure assets, particularly assets that service a community good. While not commonly utilised in the New Zealand context, these models could be directly applied to the majority of CCHL's assets as summarised below.

more Council Ownership / Control

Model	Government / Council Ownership	Not-for-Profit	Management Contract	PPP / Concession	Lease	Mixed Ownership	Privatisation
Overview	Full local or state government ownership (i.e. CCHL status quo).	Asset is run with the objective of reinvesting profits back into the infrastructure or distributing profits to the community.	Full ownership of the asset is retained but a contractor is appointed to operate certain aspects (e.g., an airport terminal for a certain period).	A common participation model for the private sector where they are provided a concession to operate public assets such as prisons, roads and schools, but also infrastructure assets including airports, for a period of time.	Full rights to operation and profits of asset are ceded to private operator under a long-term lease (typically 49 – 99 years) and returning to public ownership at the end of the term.	Co-ownership between government and private investors whereby government maintains control and influence but the asset benefits from private sector expertise and discipline.	Full public to private sale of asset.
Examples	Council Libraries DHB Hospitals.	Rising Luton: Luton Airport owned by Luton Council, but profits are reinvested into the airport or distributed to community projects.	Duty Free operators at airports Container terminal operators at ports (e.g., Port Melbourne which contracts its container terminal operations to Patrick and DP World).	School PPPs including Avonside/SBHS in Christchurch and Hobsonville in Auckland Road PPPs including Transmission Gully.	Australian Airport Privatisation Programme: Brisbane, Melbourne, Perth (1997) and Sydney (2002) airports sold under 99 years leases. Majority of Australian ports including Port Melbourne and Port Botany (Sydney) (see overleaf).	NZ Government's MOM programme for the 49% sale of Meridian, Mercury and Genesis Energy and Air NZ Infratil and Wellington Council co-ownership of Wellington Airport.	NZ Government sale of BNZ.

Ideal candidate models for LPC, CIAL, Orion.

Christchurch City Council

Mixed Ownership Model

The government's Mixed-ownership Model illustrates the benefits that can be achieved.

- The Mixed Ownership Model ("**MoM**") refers to companies partly owned by public entities and partly owned by private investors.
- There are many successful examples of this structure throughout New Zealand. The examples which have had the most scrutiny are the gentailers which were partly divested by the Crown through the GSO programme.
- Between 2011 and 2014, the NZ government reduced its shareholding in Meridian, Mercury and Genesis Energy to 51%, by listing 49% on the NZX.
- At the time, the key rational for the process was to:
  - Reduce government borrowing.
  - Enable investment in core government services (health, education infrastructure).
  - Allow ordinary New Zealanders to co-invest in large proven companies.
  - Align performance incentives.
  - Provide companies access to capital to grow.

Examples in New Zealand

Views on the MoM model

- "Without the GSO programme, the Crown probably would not have received all of the dividends that the companies are now forecasting. There are strong pressures on listed entities to pay consistent, reliable and attractive dividends" – Treasury (2016).
- "Disciplines forced onto these businesses through regular and transparent reporting, proper and commercial executive and board frameworks and general accountability have been highly effective." - Devon Funds (2019)

A Review of the Mixed Ownership Model

- In 2018, corporate finance firm TDB Advisory undertook a review of the performance of MoM companies post listing. The findings of this study illustrate the improved performance of the businesses under this model. Key findings from this report are listed below:
  - The change in dividends pre to post IPO depends on the analytical approach applied; however, "under any measure, the dividends did not fall in line with the lower Crown holding."
  - All three MoM gentailers:
    - increased their dividends significantly.
    - reduced their capital expenditure.
    - lowered their debt to earnings and debt to equity ratios.
  - The MoM gentailers improved across earnings metrics and return on assets, both converging with private sector peers.
  - The total shareholder returns of the three MoM gentailers from IPO until June 2017 were 26% (Meridian), 22% (Genesis) and 12% (Mercury), significantly larger than those achieved by Contact and Trustpower (both 7% annualised) over broadly the same period.
  - Dividend paths for Contact and Trustpower were close to flat over the entire pre and post-MoM periods. In contrast, the dividend paths of the three MoM gentailers all showed a large increase post-listing.

Christchurch City Council

Asset Recycling: Australian Perspective

Australia has widely implemented asset recycling, predominantly through lease structures, with the Asset Recycling Initiative used by the Australian Federal Government to incentivise State Governments to recycle capital into much needed new infrastructure investment.

Australian Federal and State Governments have widely adopted leasing models to release capital from infrastructure assets to invest in new, or revitalise existing, infrastructure that will support regional economic growth and enhance productivity.

In order to accelerate infrastructure investment, the Australian Government introduced the Asset Recycling Initiative ("**ARI**") between 2014 – 2019. Under the ARI, when a State monetised an asset and those proceeds where reinvested into new infrastructure, it received an additional 15% of the proceeds reinvested as an incentive from the Federal Government. Over 20 assets were sold across the various Australian States as part of the ARI, realising billions of dollars for new infrastructure investment and over A$3.3b in extra funding from Federal incentive payments. The adjacent table summarises some of the asset recycling achieved under the ARI, focusing on major port or lines infrastructure businesses (relevant to LPC and Orion). We have also included other relevant asset recycling programmes outside of the ARI (Port Botany and Sydney Airport) to illustrate their ability to attract significant value and highlight that all utilised the lease model.

Company	Buyer(s)	Year	Terms	Proceeds (A$m)	Multiple	Multiple Basis
Major Public Assets Recycled Under the ARI						
Ausgrid	Aussie Super funds - AustralianSuper & IMF Investrors	2016	50.4% Lease for 99 Years	$16,200	1.4x	RAB
Transgrid	Consortium -Hastings Funds Management, Spark Infrastructure, Caisse de depot et placement du Quebec, Sovereign Wealth funds in Abu Dhahi and Kuwait	2015	100% Lease for 99 Years	$10,258	1.6x	RAB
Endeavour Energy	Consortium -Macquarie, AMP Capital, British Columbia Investment Management Corporation, Qatar Soverign Wealth fund	2017	50.4% Lease for 99 Years	$7,624	1.5x	RAB
Port of Melbourne	Consortium - Future Fund, QIC, Global Infrastructure Partners, OMERS	2016	50-year lease	$9,700	25.0x	EBITDA
Port of Darwin	Landbridge Group	2015	99-year lease	$506	NA	NA
Other Asset Recycling Examples						
Port Botany & Port Kembla	Industry Funds Management (IFM), Australian Super and QSuper, and Tawreed Investments	2013	99-year lease	$5,070	25.0x	EBIT
Sydney Airport	Global Infrastructure Partners and IFM Investors	2022	99-year lease	$23,600	50.4x	EBITDA

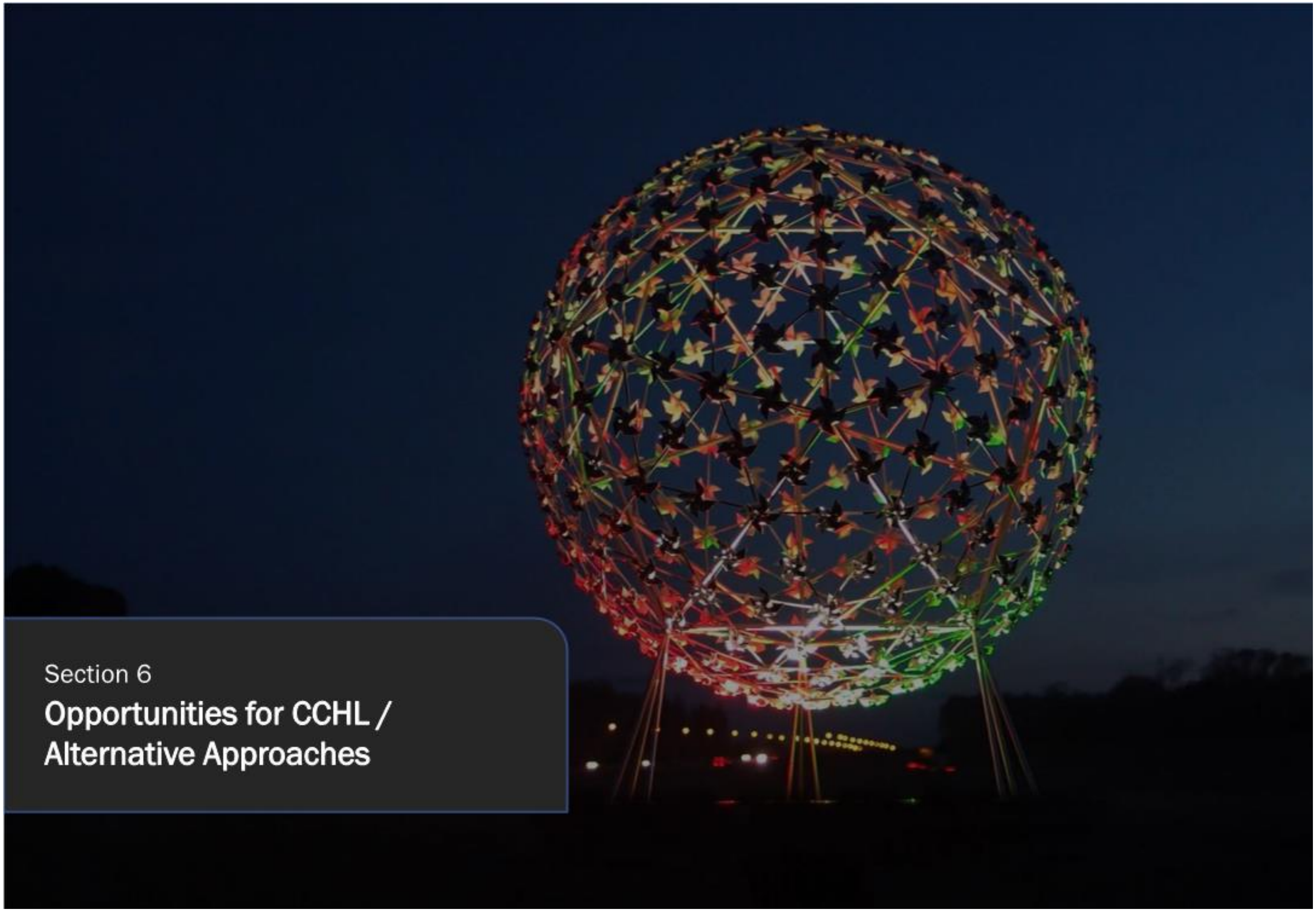
Conclusion

We consider that a lease partnership model could readily be utilised by CCHL to recycle capital out of LPC, Orion, Enable and CIAL providing the following key benefits:

- Maintain "ownership" while realising capital to recycle into the City.
- Introduce private sector expertise and disciplines to improve performance (e.g. LPC).
- Flexibility to include lease terms that impose some requirements for activities that support social objectives (e.g. require Orion to underground lines).
- Realise value equivalent to freehold value.

A Galaxy research survey of 1,000 NSW residents found that if the benefits of asset recycling are properly explained, 61% of respondents supported the policy, with 23% neutral and only 9% opposed. Furthermore, 71% favoured leasing rather than raising taxes or increasing public debt to support new infrastructure investment.

Galaxy research, September 2016


Section 6
Opportunities for CCHL / Alternative Approaches

Options for Repositioning the CCHL Portfolio

CCHL could be restructured to operate in a range of different ways.

In this section, we set out a range of alternative models and approaches that Council could consider for CCHL. These examples illustrate different philosophical approaches to the nature of CCHL's activities – broadly, moving from passive to active management and considering co-investment options. In addition, for context we have shown what a complete capital release scenario might look like.

We note:

- Regardless of the structure considered, we have framed the core purpose / objective of CCHL as providing maximum shareholder value (linking directly to Council's strategic priority of "ensuring rates are affordable and sustainable").
- Other benefits (e.g. Civic Wealth), while important, are treated as ancillary benefits.

Retain

Effectively Status Quo

"Passive" investor.

Focus on introducing a number of operational changes to improve various aspects of governance, performance and stakeholder engagement.

Rebalance

Transition to a more active management approach.

Recycle and reinvest to improve risk / return profile, while maintaining control requirements over current assets.

Maintain similar total portfolio size. No capital release.

Reduce

Transition to more active management approach.

Introduce co-investors.

Options to either recycle capital back to Council or redeploy into other assets within CCHL.

Realise

Effectively the counterfactual to the Status Quo.

Liquidate the portfolio and recycle capital back to the shareholder.

Christchurch City Council

Alternative Approaches: Measures

We have assessed a range of measures under the alternative approaches.

We have assessed each alternative structure using a range of measures, where the results are considered relative to the status quo (Retain).

Measure	Description
Incremental Dividends to CCC (To end of LTP)	• Forecast impact on dividends received by CCHL from portfolio companies, which can then be passed on to Council.
Rates Reduction	• Impact on rates assuming that only dividend income and any reduction in interest costs are passed on to ratepayers. • Assumes that none of the increased debt headroom is applied to rates reductions.
CCC Debt Reduction	• Impact on CCC borrowings.
Cashflow Impact (Over LTP Period)	• Nominal impact on: – Dividend income to CCC from CCHL. – Interest costs at CCC.
Control	• Likely impact on control of subsidiaries.
Portfolio Risk	• Impact on diversification / risk of CCHL investment portfolio.
CSR	• Likely impact on CSR / non-financial performance of CCHL and portfolio companies.

Christchurch City Council

Retain (HoldCo)

Under the status quo, CCHL would continue to operate as a largely passive holding company while targeting some functional improvements.

Description

Essentially the status quo.

CCHL would continue to hold the same portfolio with the same risk and return profile and capital structure.

Functional Improvements

The main focus be to improve and optimise some of the elements of the current operational structure which require attention. We set these out in more detail in the Recommendations section, but these broadly include:

- Modified CCHL governance structure and composition.
- Re-setting commercial focus and clarifying CCHL performance targets.
- Improving shareholder and stakeholder engagement processes.

Measure	Likely impact (relative to the status quo)
Income (Applied to Rates Path)	No change
Value	No change
Control	No change
Portfolio Risk	No change
CSR	No change
Ancillaries	No change

Is there a case for removing the CCHL entity?

We believe that maintaining CCHL is critical.

If CCHL was removed and the CCTOs are directly owned by Council, there would be a number of detrimental impacts on the commercial position of the businesses and their ability to operate successfully, including:

- Exposing the CCTOs to direct political interference.
- Substantially reducing the ability of the CCTOs to attract high-quality directors and executives.
- Altering the market-facing characteristics and perception of the businesses.

There is no counter-balancing upside to removing CCHL.

Christchurch City Council

Co-investment Partners

The subsequent Rebalance and Reduce scenarios would involve the introduction of co-investment partners in order to release capital from the CCHL portfolio for redeployment. Co-investment has the potential to introduce new strategic opportunities, as well as further financial expertise and enhanced governance disciplines.

Key advantages of introducing co-investors:

- Two core benefits of co-investors:
  - Release capital which could be used elsewhere in the CCHL or Council group.
  - Introduce an investor with skills complementary to those of CCHL:

Targeted outcome:

- Introduce new strategic opportunities.
- Improved governance.
- Improved monitoring and scrutiny.
- Broader capital base to capture growth opportunities / new investments.
- Improve financial performance of CCHL / CCTOs.

Types of Co-investors

- Financial institutions (Kiwisaver Funds, ACC, banks, insurers, etc).
- Infrastructure funds (e.g. Infratil).
- Sovereign wealth funds (e.g. NZ Super Fund).
- Strategic partners (e.g. airport or port owners).
- Retail investors (e.g. through IPO as under the Government mixed ownership model).

A Review of the Mixed Ownership Model (TBD 2018) highlighted improved performance of NZ Gentailers following listing.

Mercury genesis ENERGY Meridian.

49% Listed by Crown, 51% retained.

"MoMs increased earnings through a more efficient use of their assets and by focusing on core business."

+4% Aggregate post-MoM EBITDAF.

+69% MoM Dividend compared to +43% by Contact / Trustpower.

Christchurch City Council

Rebalance (Active InvestCo) (1/10)

As an active manager, CCHL would tailor its investment portfolio by increasing, maintaining, or decreasing investment holdings.

Description

This strategy would involve CCHL transitioning to become a more active portfolio manager, deliberately rebalancing the portfolio to expressly manage risk and return within defined parameters.

Goals

- Target higher portfolio returns.
- Improve ability to manage specific portfolio risk elements (e.g. geographic concentration risk, ESG risks).

Key Activities

- Change in asset mix: a rebalancing of investment exposure away from regulated returns in favour of a higher return / higher risk strategy, for some portion of the overall portfolio.
- Geographic Diversification: a rebalancing of the CCHL portfolio to include a meaningful component of asset exposure outside of the Christchurch / Canterbury area.
- Adopt a more explicit approach to the management of environmental issues, risks and objectives through active portfolio allocation and management. This is illustrated by examples of investment managers (e.g. NZ Superfund) now integrating climate change impacts into investment decisions.

Core changes in Scope, Activities and Capability

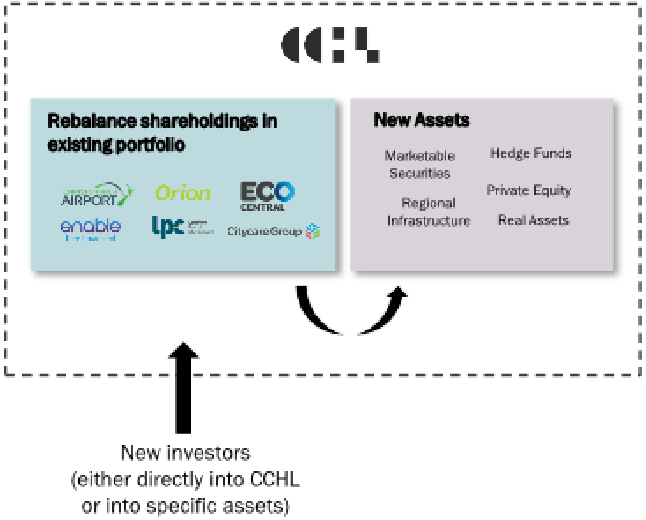
Council would need to provide CCHL with a broader mandate to use its commercial discretion (within parameters) to meet the re-set long-term commercial objectives of CCHL:

- Ability to rebalance the portfolio and recycle capital from existing assets.
- Re-set the dividend policy, balancing a sustainable "core" distribution of profits along with a more discretionary component with could either be paid or reinvested to generate future returns.
- Employ specific investment management skills in the executive team or engage external management.
- Appoint a Board with requisite skillset and experience to guide the new executive team.
- Build credibility in the financial markets (need to improve some perception issues eg, stalled Citycare process).
- Provide access to capital markets.
- Maintain an apolitical operating environment.

We note that in the past, CCHL has made investment decisions of an "active" nature, for example:

- The acquisition and eventual divestment of Enerco (from Orion in 2001); and
- The establishment of Enable (led by the Parent in 2007).

Reallocation of Capital and Risk



Strategic pivot facilitated by:

Christchurch City Council

Rebalance (Active InvestCo) (2/10)

As an active manager, CCHL would tailor its investment portfolio by increasing, maintaining, or decreasing investment holdings.

How Active / How Much Rebalancing?

That depends on what the shareholder wants, once it is fully informed of the spectrum of options.

- The key components to consider will include:
  - Minimum level of ownership in existing assets; this will determine how much capital can be recycled within the portfolio.
  - The risk profile that the shareholder is targeting; this will determine where in the portfolio capital is released and what sort of assets are targeted for reinvestment. For example:
    - A rebalancing of investment exposure away from regulated returns in favour of a higher return / higher risk strategy, for some portion of the overall portfolio.
    - Geographical diversification strategy within the portfolio.
    - Re-balancing to mitigate Environmental, Social and Governance (ESG) risks. Example: NZ Superfund Framework to Integrate Climate Change Impacts into Valuation.
  - The shareholder's objectives and requirements with respect to:
    - Dividends – what level of ongoing dividends is required and how much scope is there for CCHL to reinvest in other assets?
    - Value – what are the long-term objectives and strategies with respect to portfolio value? Specifically, how will increased value support CCC's objectives (e.g. via capital release, increased leverage in the future, higher dividends).

Introduction of Co-Investors Would be Required to Rebalance the Portfolio

To rebalance, Council would need to sell down some assets. There are two primary approaches:

- List on the NZX: there are good examples of this in the local market e.g. Napier Port.
- Institutional co-investors: we discuss this option more in the next section.

Rebalancing Could Occur within CCHL

Under a more active strategy, CCHL might look to rebalance within its own portfolio by:

- Recycling capital out of particular assets; to
- Facilitate further investment into others

This would utilise the same fundamental approach of risk management / value maximisation; shifting capital investment to capture opportunities adjacent to certain current CCHL assets.

By way of (hypothetical) example:

- Orion facilitating a partial EDB roll-up;
- CIAL pursuing the development of the Central Otago development;
- CIAL merging or acquiring a stake in WLG as part of strategic alliance.
- LPC in roll-up / strategic alliance arrangement.

Christchurch City Council

Rebalance (Active InvestCo) (3/10)

Many different approaches could be taken to recycle capital from the CCHL portfolio, depending on the requirements and preferences of the shareholder; for illustrative purposes, we have modelled a hypothetical reduction in three CCTOs.

To illustrate the potential financial outcomes under an active investment management strategy, we have modelled a hypothetical scenario under which CCHL reduces its holdings within the current portfolio assets and then reinvests into new asset classes.

Key assumptions are set out below:

Reduce Holdings By:

Christchurch Airport	24%
Orion	38%
enable fibre broadband	75%

Reduce Holdings By:

Sale Proceeds (based on Book Value) $1.25b.

Reinvested in New Investments.

Examples could include:

- Marketable securities.
- Alternative assets.
- Regional opportunities.
- Property.
- Horticulture / Forestry.

Post Transaction:

Co-investors		CCHL
49%	Christchurch Airport	51%
49%	Orion	51%
75%	enable fibre broadband	25%

\+

New Investments

Future Performance Assumptions

- Yield: ~50bps yield improvement across existing assets, attributable to co-investor benefits.
- Value: baseline growth per CCHL forecasts.

- Yield: New investments yield same as (improved) current portfolio.
- Value: ~150bps incremental capital growth on new investments (i.e. higher than current assets).

Risk / Return Relationship

To illustrate expected returns relative to risk we note:

- "Beta" is a measure of risk relative to the broader market. The weighted average Commerce Commission equity beta for CIAL, Orion and Enable is 0.67.
- CIAL, Orion and Enable have considerably less equity risk than the market which has an equity beta of 1.0.
- The "market" can effectively be replicated by holding a diversified portfolio of NZX50 companies. Over the long-run the NZX50 has delivered post-tax equity returns over the risk free rate of ~7.5% (equity risk premium).
- Therefore, holding the NZX50 over the long run should deliver an equity premium to a portfolio of CIAL, Orion and Enable of 2.48% (0.33 x 7.5%).
- While clearly a high level simplification, this underpins our assumption that rebalancing the portfolio will deliver 2.0% improved performance (0.5% dividend and 1.5% capital growth) over the medium to long term.

Christchurch City Council

Rebalance (Active InvestCo) (4/10)

Introducing a more active approach to portfolio management would provide CCHL (and Council) with a range of benefits.

- Recycle ~$1.25b from existing assets.
- Reinvest to target higher returns and diversification.

Likely impact (relative to the status quo)

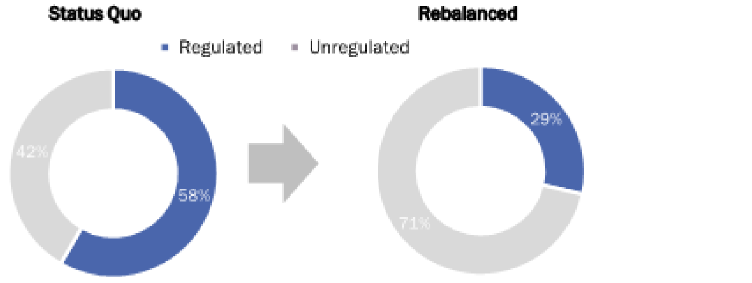
Measure		Rebalance
Incremental Dividends to CCC (To end of LTP)	▲	• $200m increase in dividends over the LTP period.
Rates Reduction	▼	• $925 savings per household over the LTP Period. • Avg. household rates ~$100 pa. lower.
CCC Debt Reduction	▶	• Debt Unchanged. • $60m incremental headroom supported by higher council income.
Cashflow Impact for CCC (Over LTP Period)	▲	• $200m incremental dividends passed on to ratepayers.
Control	▶	• Can be tailored to meet control requirements.
Portfolio Risk	▼	• Increased asset diversification delivers lower portfolio risk.
CSR	▲	• Potentially improved CSR disciplines (with co-investors).

Note: Table contains rounding

Rebalance (Active InvestCo) (5/10)

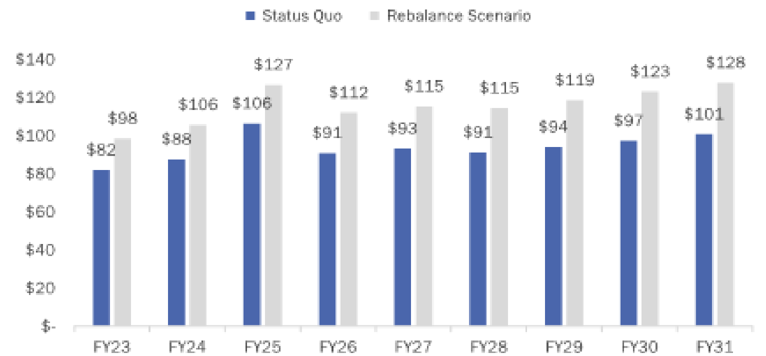
Introducing a more active approach to portfolio management would provide CCHL (and Council) with a range of benefits.

Portfolio Composition / Diversification (By Value)



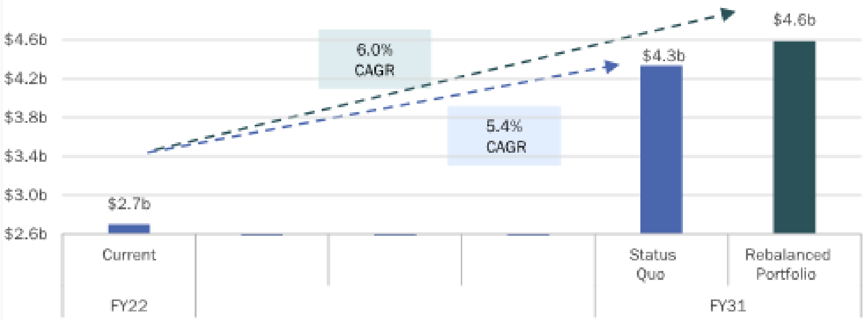
Opportunity for CCHL to rebalance and diversify both sector and regional concentration risk.

Dividend to CCHL ($m)



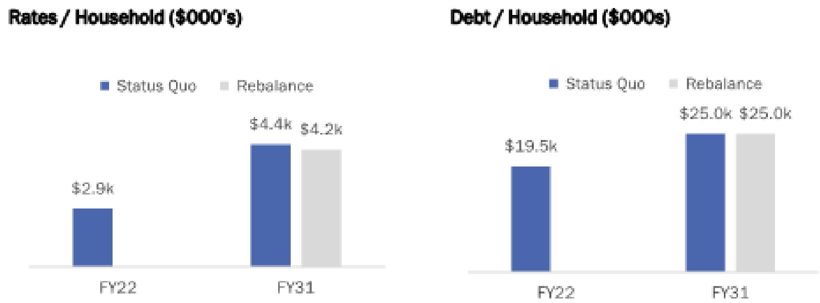
Increased dividends over the forecast period from higher yield and capital growth. Average portfolio yield increased from 2.1% to 2.6% meaning ~$200m of incremental yield passed on to ratepayers.

Forecast Capital Growth (CCHL Equity Value $b)



Improved capital growth driven by move to higher risk / higher return assets.

Impact on Ratepayers ($ per Household)



Lower rates per household driven by improved yield, reducing CAGR ~30bps from 4.8% to 4.5%.

Source: NPL analysis based on historical financial data and CCHL forecast models, Stats NZ.

Christchurch City Council

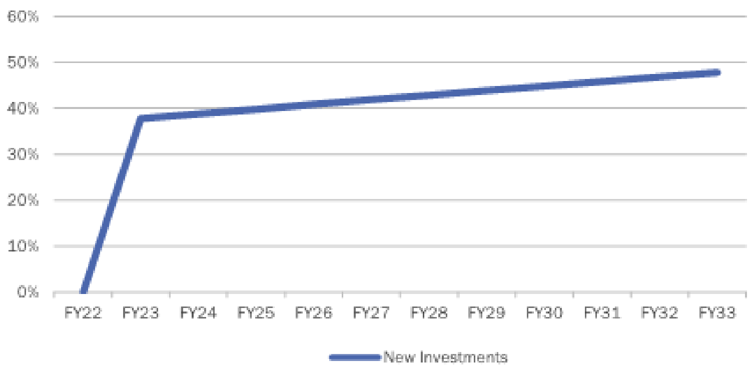
Rebalance (Active InvestCo) (6/10) - Reinvest "for Value"

If viewed as a strategic priority, CCHL could reinvest all returns from new investments to build value for the future (beyond FY31).

Description

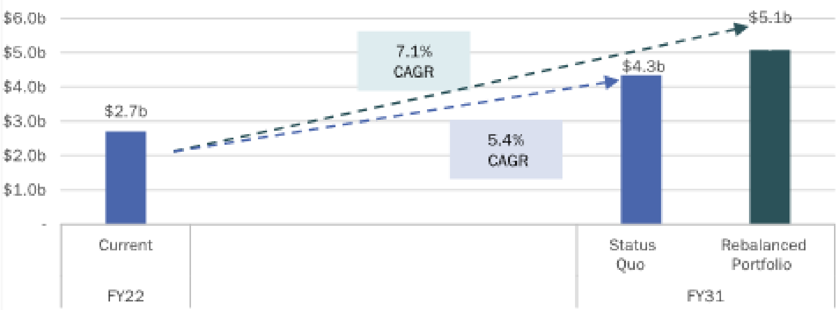
- If value creation in the medium / long term was considered a strategic priority, CCHL could reinvest dividends to generate further growth.
- For illustrative purposes, we've assumed that CCHL reinvests both the sale proceeds and dividends generated from those assets into alternative investments.

Portfolio Composition / Diversification



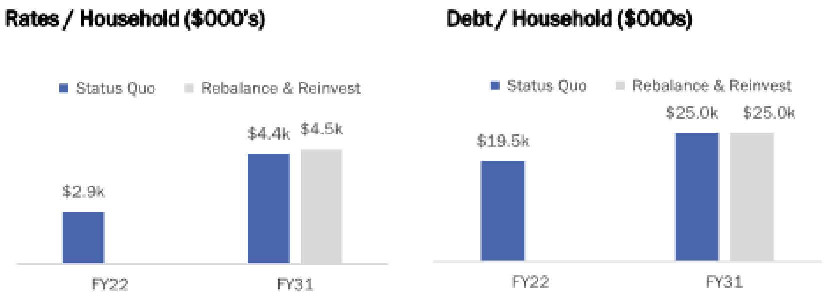
New investments add diversification through time as dividends are reinvested in diversification assets.

Forecast Capital Growth (CCHL Equity Value $b)



Improved capital growth driven by the compounding effect of reinvesting dividends.

Impact on Ratepayers ($ per Household)



Higher rates per household (5.1% CAGR) driven by lower dividend income to CCC during the forecast period.

Source: NPL analysis based on historical financial data and CCHL forecast models, Stats NZ.

Christchurch City Council

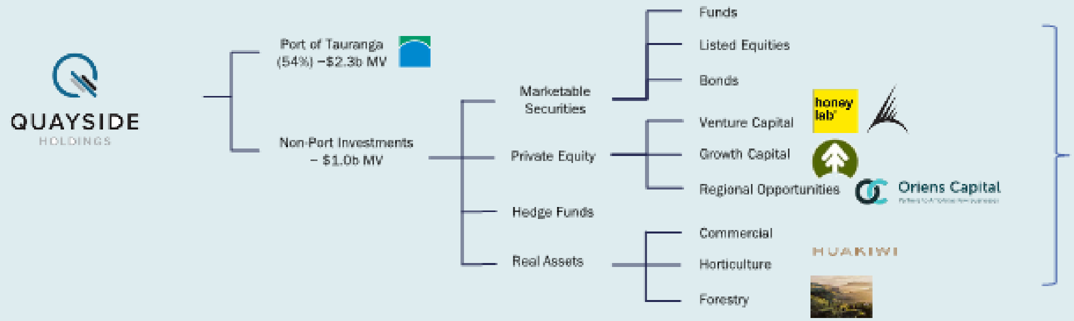
Rebalance (Active InvestCo) (7/10) - Example: Quayside

Quayside is an example of an active Council-owned investor, with a portfolio underpinned by regional infrastructure assets.

Local Authority Investor
Active Investment Manager

Quayside Holdings

Feature	Discussion
Overview	• Established in 1991 to acquire and manage the shareholding in Port of Tauranga. • Quayside is the investment arm of the Bay of Plenty Regional Council. Assets under management of $3.2b (at 30 June 2022). • "Bay of Plenty Regional Council treats the port as a financial asset rather than an asset to control" Productivity Commission 2012.
Purpose	• "Our role is to deliver sustainable long-term returns to our shareholder which in turn provides prosperity to the region. Through world class asset management, Quayside's team pursues bold initiatives to provide a brighter future for the Bay of Plenty".
Mandate	• "Our mandate comes from a desire to efficiently separate commercial and investment assets from the Council operations, to improve the Bay of Plenty across multiple generations." – Quayside Annual Report
Asset Classes	• Listed assets, private equity, alternative assets. Active diversification strategy (see below).
Executive	• Quayside has an executive of ~15 people, led by management with specific investment and fund management experience. This team has been established with the capability, capacity and sector specific experience to assess and execute new investment opportunities.
Governance	• Seven directors. Four independents, Two councillor directors, Council CEO.
Financial Returns	• 10.7% 5yr IRR on non-port assets. • Dividend policy: Target 70%-100% of cash profits, ~35% NPAT.



Broad Investment Base

Quayside is comfortable investing along the risk spectrum, including exposures to listed securities, capital markets, private equity (including venture capital and growth capital opportunities) and direct investments.

Christchurch City Council

Rebalance (Active InvestCo) (8/10) – Example: NZ Super

NZ Super Fund was established with a clear, specific strategic purpose.

In the previous section, we discussed the importance of having a clear strategy around value growth such that:

- It can tie in and support Council's long-term financial requirements and objectives.
- CCHL can then be purposely designed to best meet these requirements.

By way of reference, NZ Super Fund is a good example of a clear strategy and purposeful functional design.

Strategic Clarity
Active Mandate with Purpose

NZ Super Fund ("NZSF")

Feature	Discussion
Overview	• NZSF established in 2001 with a pool of assets from the Crown's balance sheet. The Fund has also received subsequent contributions from the Crown. • The Guardians of New Zealand Superannuation ("GNZS") established to manage the Fund.
Purpose	• The Fund will be used by the Government to help pay the future cost of providing universal superannuation. The Fund helps smooth the cost of superannuation between today's taxpayers and future generations.
Mandate	• GNZS is charged with managing and growing the Fund, which is a long-term, growth orientated, global investment fund. GNZS must invest the Fund on a prudent, commercial basis.
Timeframe	• The government will begin to withdraw money from 2035 to help pay for NZ superannuation although the Fund is not expected to reach peak size until the ~2070s.
Asset Classes	• The Fund is invested across most asset classes on a global basis, adhering to ethical investing principles and applying prudence in respect to concentration risk.
The Manager (GNZS)	• The Manager consists of a large team of professional investment and risk managers.
Governance	• The Board of the Fund comprises of six directors (NZ and Australian based), with extensive leadership, investment and portfolio management expertise.
Financial Returns (10 years to 30 June 2022)	• 12.06% p.a. pre-tax IRR. • 2.65% p.a average over-performance to reference portfolio return. • Value added: $11.2b (v's reference portfolio return).

NZSUPERFUND

Clear mandate (fully delegated authority? apolitical)

Very specific purpose.

Organisational structure designed to optimise NZS's ability to deliver on this purpose.

We're not suggesting that this is the model that Council should necessarily pursue for CCHL.

But it is a good example of a very specific structure and mandate being applied to meet a discrete purpose (with respect to value objectives).

Item 19

Attachment A

Christchurch City Council

Rebalance (Active InvestCo) (9/10) - Examples: Others

Other active infrastructure-based investors have generated impressive results for their shareholders and stakeholders.

Infratil

- Active investment manager, specialising in infrastructure. Typically use co-investment models.
- NZ-based, listed on NZX and ASX.
- Key assets:
  - Renewable Energy (e.g. Manawa Energy).
  - Digital Infrastructure (e.g. CDC Data Centres).
  - Healthcare (e.g. Qscan, Pacific Radiology).
  - Airports (e.g. WLG).
- Sector and geographic diversification.
- Predominantly unregulated assets.

Group Assets :
~$7.1b

- Target Shareholder Return: 11% - 15% per annum.
- 10 Year TSR: 21.6%.

QIC

- The Queensland Investment Corporation is an active institutional investment manager for the Queensland regional government, market leader in alternatives.
- Manages Queensland defined benefit scheme and the Queensland Future Fund.
- Purpose: "deliver optimum investment outcomes."
- Key assets:
  - Infrastructure (e.g. toll roads, airports, water).
  - Real Estate (commercial property investment).
  - Private Capital (private equity).
  - Liquid Markets.
  - Private Debt.
- Sector and geographic diversification.
- Core focus on ESG factors in investments.

Assets under Management:
~$100b

TEMASEK

- Singapore state holding and investment company
  - sovereign wealth fund. Active investor and shareholder.
- Purpose: "so every generation prospers."
- Key assets:
  - Financial Service.
  - Transport & Industrials.
  - Telecoms, Media & Technology.
  - Consumer & Real Estate.
  - Life Sciences & Agri-food.
- Sector and geographic diversification.

Assets under Management:
~$S400b

- TSR (since inception): 14% per annum.

Common success factors:

Active management mandates / professional management capability, unambiguous commercial focus, long-term strategies.

Christchurch City Council

Rebalance (Active InvestCo) (10/10) – Outsourced Management

Elements of portfolio management can be outsourced to specialists.

Outsourced Management

CCC could consider engaging a specialist investment manager for the CCHL portfolio.

- This is a common approach to the management of infrastructure assets. There are examples in New Zealand and Australia of managers which have demonstrable track-records of driving growth and value across a range of infrastructure assets.
- A good local example is Morrison & Co ("**Morrison**"), the manager of Infratil and a number of other funds and assets.
- Key advantages of an external manager:
  - Simplicity. Council would oversee the external manager function.
  - Specialist manager with the capability of driving optimised long-term financial returns.
  - Clear separation from Council. The manager's mandate would need to be clearly set and delegated.
  - Mandate flexibility to meet core Council objectives. Could be restricted to existing portfolio or a broader investment instruction.
- Challenges / Disadvantages of an external manager:
  - Likely to be more expensive than current CCHL management structure, however we would expect higher returns to outweigh cost.
  - Council would need to set the manager mandate with arguably more detail and purpose than it currently does with CCHL. However, this required discipline could be viewed favorably.
  - Investment mandate would need careful structuring to appropriately align incentives and Council objectives.

While potentially useful for some particular assets or asset classes (e.g. listed equities), our current view is that the Council would be better served by establishing this functional capability at CCHL; this should provide more control and a higher level of connectedness with CCC and other local stakeholders.

Reduce (1/5)

Introducing investment partner(s) would release capital from the CCHL portfolio for redeployment and has the potential to introduce new expertise, financial and governance discipline.

Description

- This strategy is effectively a variant of the previous Rebalance strategy; the primary difference is that rather than reinvesting all of the recycled capital, proceeds are provided back to Council to redeploy.
- Options for co-investors include strategic partners (e.g. local and aligned partners like ACC, NZ Super, or Iwi) or public markets via public listing (potentially with local investor incentives).
- Sell-down could occur at a portfolio level or at an individual asset level.

Goals

- Release capital for redeployment or debt reduction at CCC.
- Reduce portfolio size, reduce total investment risk to Council and ratepayers.
- Improve overall CCHL portfolio performance.

Christchurch City Council

Reduce (2/5)

Many different approaches could be taken to recycle capital from the CCHL portfolio, depending on the requirements and preferences of the shareholder; for illustrative purposes, we have modelled a hypothetical reduction in three CCTOs.

To illustrate the potential financial outcomes under an active investment management strategy, we have modelled hypothetical scenarios under which CCHL reduces its holdings within the current portfolio and repatriates capital back to Council (Reduce).

Key assumptions are set out below:

Reduce Holdings By:

Christchurch Airport	24%
Orion	38%
Enable fibre broadband	75%

Reduce Holdings By:

Sale Proceeds (Book Value) $1.25b.

- Reduce CCHL debt by $350m.
- Repatriate balance to Council.

Post Transaction:

Co-investors		CCHL
49%	Christchurch Airport	51%
49%	Orion	51%
75%	Enable fibre broadband	25%

Future Performance Assumptions

- Yield: ~50bps yield improvement across existing assets, attributable to co-investor benefits.
- Value: baseline growth per CCHL forecasts.

[1] "Reduce Holding" in this example refers to equity interest, and could be achieved through a sale of shares (as set out here) or other mechanisms such as concession or lease.

Christchurch City Council

Reduce (3/5)

The capital release to CCC could support an improvement in debt sustainability and rates affordability in the long-term.

- Recycle ~$1.25b from existing assets.
- Repatriate $900m of capital back to CCC, with the remainder used to repay debt at CCHL.

Likely impact (relative to the status quo)

Measure	Reduce
Incremental Dividends to CCC (To end of LTP)	▼ • $140m lower dividends over the LTP period. ▲ • $900m capital release.
Rates Reduction	▼ • $765 saving per household over the LTP Period. • Avg. household rates ~$85 lower per annum.
CCC Debt Reduction	▼ • CCC debt per household $7,600 lower in FY31. • $850m incremental headroom at CCC.
Cashflow Impact for CCC (Over LTP Period)	▲ • $(140m) Dividend foregone. • $300m Interest cost saving.
Control	► • Can be tailored to meet control requirements.
Portfolio Risk	► • Depends on assets targeted. • Lower aggregate equity exposure.
CSR	▲ • Potentially improved CSR disciplines (with co-investors).

Note: Table contains rounding

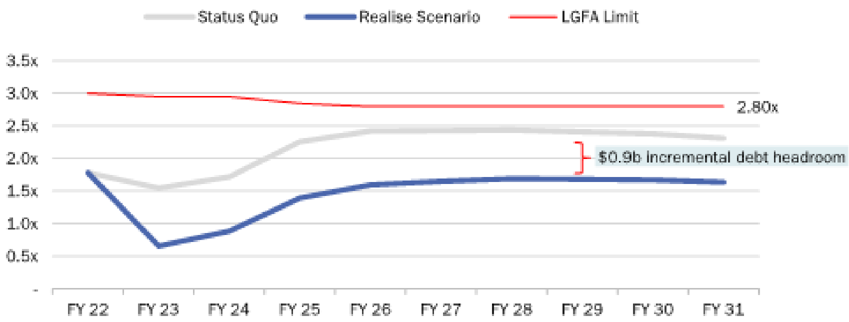
Christchurch City Council

Christchurch City Council

Reduce (4/5)

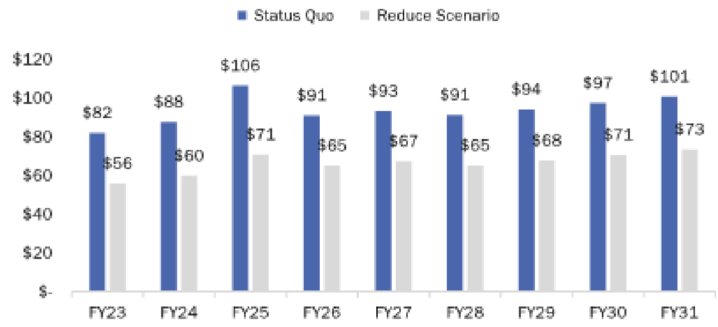
Introducing the right co-investor(s) will improve the performance of portfolio companies, which combined with capital release will improve CCC's debt sustainability and rates affordability in the long-term.

Reduced Debt at CCC (Debt / Revenue Ratio)



CCC uses $900m of sale proceeds to reduce its debt, bringing long term gearing inline with current levels and providing more headroom for CCC to respond to uncertainty in the future or reduce the rates profile further.

Dividend to CCHL

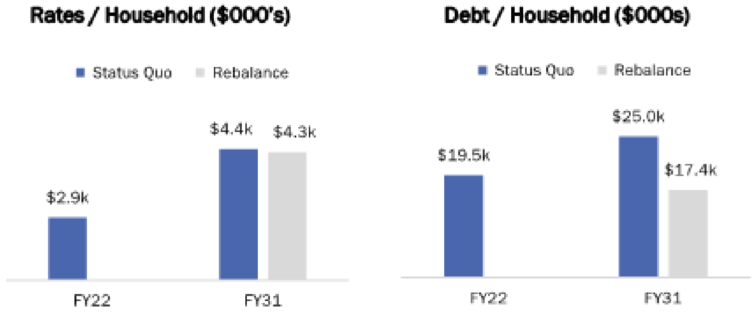


While dividend income is expected to reduce because of reduced shareholding, consistent with the MoM experience, we expect that better discipline and accountability would mean dividends won't reduce proportionate to shareholding.

Forecast Capital Growth (CCHL Equity Value $b)

In addition to achieving more prudent debt levels, CCC would still maintain a material investment in CCHL.

Impact on Ratepayers ($ per Household)



Lower rates per household driven by lower debt servicing costs at CCC, reducing CAGR for future rate increases to 4.6% (from 4.8%).

Source: NPL analysis based on historical financial data and CCHL forecast models, Stats NZ.

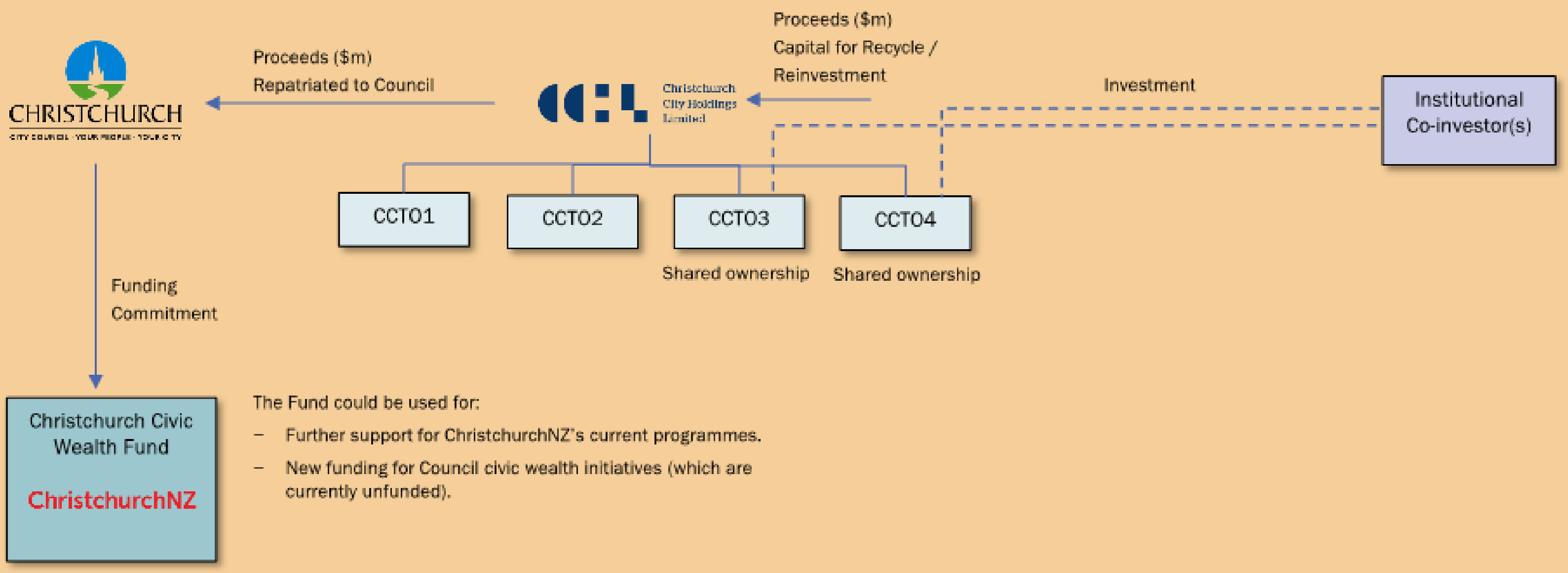
Item 19

Attachment A

Reduce (5/5) – Creating Financial Flexibility

Recycling capital out of the CCHL portfolio would increase financial flexibility for Council to deploy capital elsewhere.

Civic Wealth Fund



The Fund could be used for:

- Further support for ChristchurchNZ's current programmes.
- New funding for Council civic wealth initiatives (which are currently unfunded).

We note that this type of construct could also be targeted under the Rebalance Scenario. Options for seeding this sort of fund could come from either.

- Capital repatriation.
- Dividend flow (e.g. from the rebalance scenario, targeting a portion of "overperformance").

Christchurch City Council

Realise (Recycle Capital out of Commercial Assets)

This scenario is a useful counterfactual to the continued ownership of any commercial assets.

Description

- As discussed earlier, in our view most of the non-financial benefits that accrue to the city from the CCHL assets would in fact continue to be realised regardless of the actual ownership structure of each CCTO.
- The own / sell discussion should therefore be focused more on financial considerations.
- With that in mind, we have assessed the hypothetical scenario where the Council sells CCHL and applies the released capital to reduce its debt levels.

Capital Release

Sold at current aggregate equity value of $2.7b (book value).

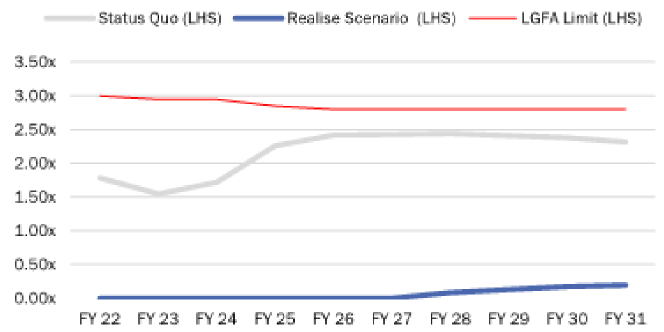
$0.5b CCC loans to CCHL repaid

Capital Deployment Options

Reduce CCC debt.

Deploy some funds to CCC capital projects (driving Civic Wealth).

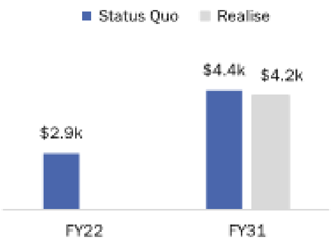
Reduced Debt at CCC (Debt / Revenue Ratio)



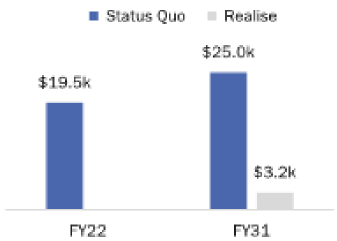
CCC can apply the released capital to reduce its own balance sheet leverage.

Impact on Ratepayers ($ per Household)

Rates / Household ($000s)



Debt / Household ($000s)



Lower rates per head of forecast population driven by lower debt servicing costs at CCC, reducing rate CAGR ~30bps to 4.5%. Rates path could be further flattened by redrawing council debt.

Measure		Discussion
Incremental Dividends to CCC (To end of LTP)	▼	• $500m lower dividends over the LTP period.
	▲	• $3.2b capital release.
Rates Reduction	▼	• $2,080 saving per household over the LTP Period. • Avg. household rates $230 lower per annum.
CCC Debt Reduction	▼	• CCC debt per household $21,900 lower in FY31. • $2.5b incremental headroom at CCC.
Cashflow Impact (Over LTP Period)	▲	• ($500m) Dividends foregone. • $0.9b Net interest saving.
Control	▼	• Loss of Control.
Portfolio Risk	▶	• No remaining equity risk.

Source: NPL analysis based on historical financial data and CCHL forecast models, Stats NZ.

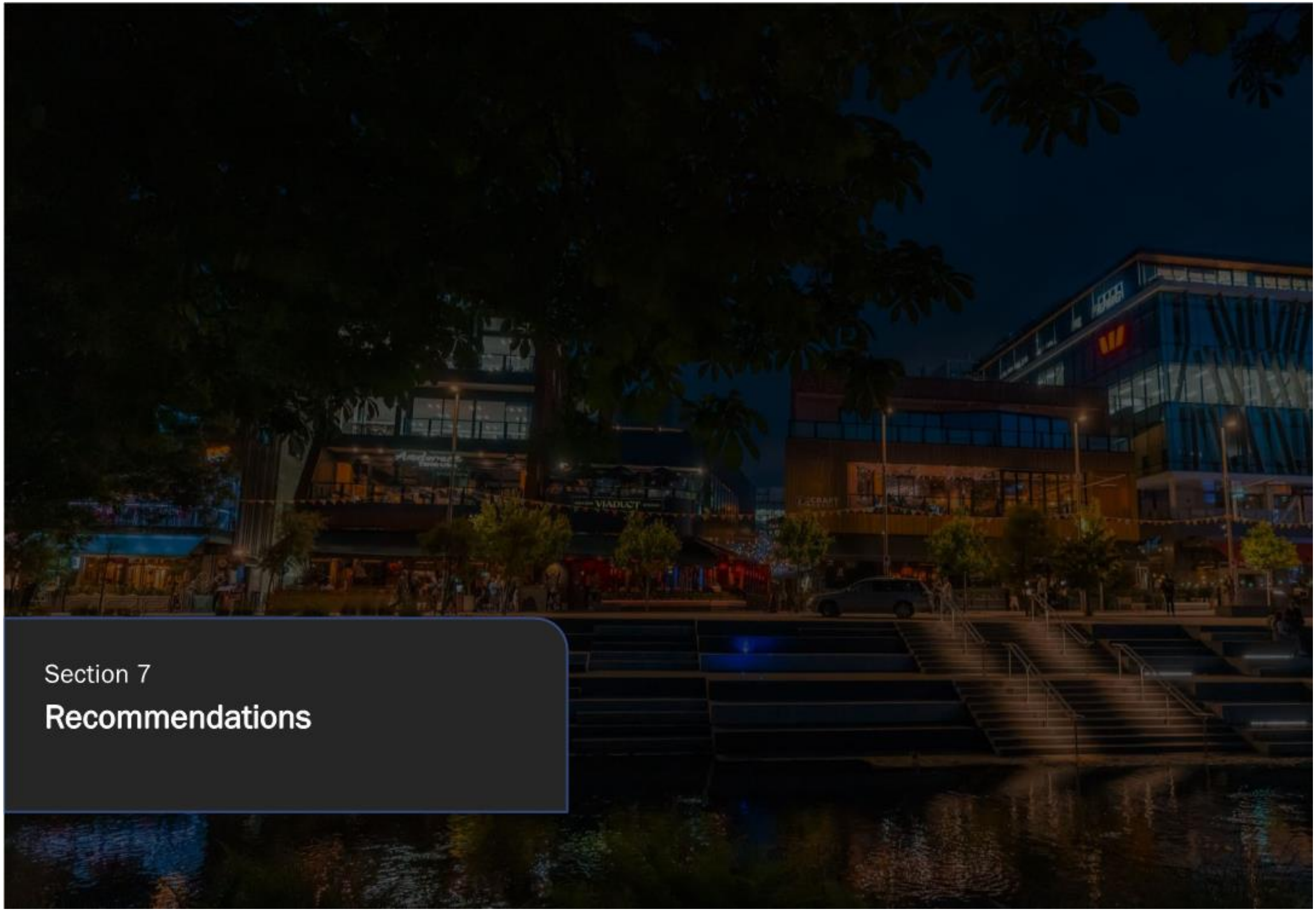
Christchurch City Council

Alternative Approaches: Summary of Outcomes

Likely impact (relative to the status quo)

Measure	Retain	Rebalance	Reduce	Realise
		• Recycle ~$1.25b from existing assets. • Reinvest to target higher returns and diversification.	• Recycle ~$1.25b from existing assets. • Repatriate capital back to CCC.	• Liquidate all CCHL assets. • Repatriate capital (equity and loans) back to CCC.
Incremental Dividends to CCC (To end of LTP)	No change	▲ • $200m increase in dividends over the LTP period.	▼ • $140m lower dividends over the LTP period. ▲ • $900m capital release.	▼ • $500m lower dividends over the LTP period. ▲ • $3.2b capital release.
Rates Reduction	No change	▼ • $925 saving over the LTP period. • Avg. household rates ~$100 lower per annum.	▼ • $765 saving per household over the LTP period. • Avg. household rates ~$85 lower per annum.	▼ • $2,080 saving per household over the LTP period. • Avg. household rates $230 lower per annum.
CCC Debt Reduction	No change	▶ • Unchanged debt position but improved headroom.	▼ • CCC debt per household $7,600 lower in FY31. • $850m incremental headroom at CCC.	▼ • CCC debt per household $21,900 lower in FY31. • $2.5b incremental headroom at CCC.
Cashflow Impact for CCC (Over LTP Period)	No change	▲ • $200m incremental dividends passed on to ratepayers.	▲ • ($140m) dividend foregone. • $300m Interest cost saving.	▲ • ($500m) dividend foregone. • $0.9b Net interest saving
Control	No change	▶ • Can be tailored to meet control requirements.	▶ • Can be tailored to meet control requirements.	▼ • Loss of Control.
Portfolio Risk	No change	▼ • Increased asset diversification – lower portfolio risk.	▶ • Depends on assets targeted. • Lower aggregate equity exposure.	▶ • No remaining equity risk.
CSR	No change	▲ • Potentially improved CSR disciplines (with co-investors).	▲ • Potentially improved CSR disciplines (with co-investors).	▶ • Undetermined. • Responsibilities lie with new owners.

Note: Table contains rounding


Section 7
Recommendations

Christchurch City Council

Recommendations for Repositioning the CCHL Portfolio

We suggest that Council considers a "hybrid" approach to re-setting CCHL's strategy.

Our Recommended Approach

- In our view, CCHL is a significantly under-utilised asset of the Council and the ratepayers of the city.
- We believe that significant value could be added by taking a more active approach to asset management.
- Council should undertake a fully-considered and purposeful strategy reset focused on optimising the performance of CCHL and its assets to meet specific requirements of the Council.
- While the detail of some of these requirements is yet to be established, we believe that adopting a more dynamic mandate for CCHL, along with improvements to some operational features of the Group, will provide the platform to maximise the key outcomes from CCHL.

We suggest a "hybrid" approach:

- Through a recycling programme, CCHL could release a material amount of capital for redeployment and / or debt reduction at Council.
- Determining the balance will depend on CCC's core requirements.

Potential to Provide:

- ✓ Improved CCHL performance.
- ✓ Debt reduction (CCHL and CCC) and / or reinvestment into the City.
- ✓ Reduce rates.

Christchurch City Council

Potential Capital Released Under Hybrid Approach

Through a recycling programme, CCHL could release a material amount of capital for redeployment and / or debt reduction at Council.

Example scenarios of reduced shareholding in CCHL's current portfolio investments

			Gross Proceeds ($m) at Differing Ownership		
CCTO	**FY22 Equity Value ($m)**	**Current Ownership**	**75%**	**51%**	**25%**
Orion	$1,121	89%	$157	$426	$717
CIAL	$1,176	75%	$0	$282	$588
LPC	$376	100%	$94	$184	$282
Enable	$523	100%	$131	$256	$392
CityCare	$74	100%	$19	$36	$56
Other	$60	100%	$15	$30	$45
Total[1]	**$3,331**		**$415**	**$1,215**	**$2,081**

[1] Assumed gross proceeds based on FY22 valuations prior to any debt repayment at CCHL Parent and fees.

Christchurch City Holdings Limited

Capacity applied to :

- Debt reduction (initially).
- Rebalance the portfolio (e.g. geographic diversification).
- Investment into new opportunities or asset classes.

Through a recycling programme, CCHL could release a material amount of capital for redeployment and / or debt reduction at Council. Determining the balance will depend on CCC's core requirements – as discussed on the following page.

Christchurch City Council

Repatriated capital applied to debt reduction at Council

Rebalance

Finding the optimal balance

Reduce

Christchurch City Council

Recommended Approach to Determine Council Requirements & CCHL Options

Council should specify its long-term strategic requirements of CCHL in the first instance.

Landing on a Rebalance / Reduce Structure

Value Strategy

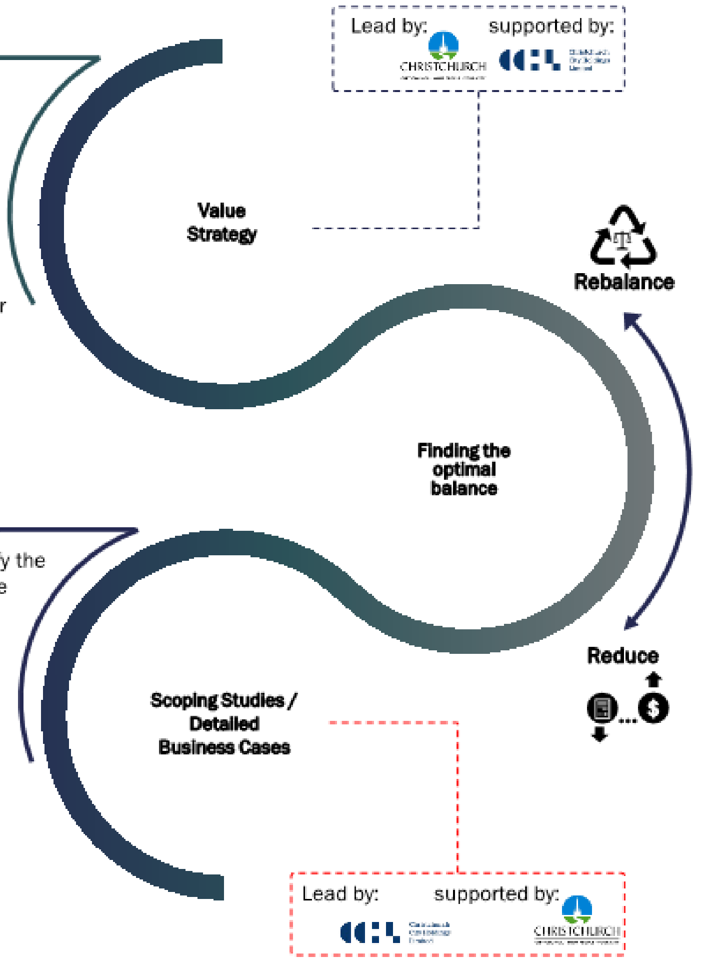
Council should set a clear **Value Strategy** in relation to building and utilising income or value from CCHL:

- This strategy should be primarily informed by Council's long-term requirements, with a deliberate balancing of its target capital structure, financial capacity and an acceptable rates path (incorporating realistic long-term population growth projections).
- That strategy should then inform Council of its requirements from CCHL, which will allow CCHL to tailor its portfolio to best meet shareholder requirements.

Scoping Studies

An evaluation of each asset should be conducted to identify the best strategy to release capital. This evaluation should take into account (similar to MoM scoping studies):

- CCC's optimum / minimum strategic shareholding.
- Identifying opportunities that can be unlocked through strategic co-investment.
- Detailed financial analysis / market valuations / investor market soundings.
- Broad stakeholder consultation process.



Council could re-direct some released capital to other unfunded Council initiatives that it considers a priority.

How should Council land on a target structure for its new strategy?

- From which assets will capital be recycled?
- How will capital be released? ie, partial sell-down v leases.
- Where will capital be redeployed?
- How much CCC Group debt would be retired?
- What is the optimum level of capital to repatriate to Council?

The core output from these connected processes should be a range of explicit and market-tested options for introducing co-investment into current CCHL assets and redeploying capital into other investments or to debt repayment.

Recommendations: CCHL Portfolio Strategy

In our view, CCC and CCHL should conduct further investigation to develop detailed options to be included in the coming LTP process.

Recommended Next Steps

Based on the findings from our Review, we recommend that Council and CCHL conduct further detailed work to develop tangible options for a restructured CCHL, which can then be included for consideration in the LTP processes in 2023.

The two key workstreams required to inform these options are (as discussed on the previous page):

- Council's Value Strategy.
- CCTO Scoping Studies / Business Cases.

The core output from these connected processes should be a range of explicit and market-tested options for introducing co-investment into current CCHL assets and redeploying capital into other investments or to debt repayment.

Christchurch City Council

Recommendations: Operating Structure (1/2)

We have identified a range of operational improvements that should be implemented at CCHL in order to enhance performance and the engagement with CCC.

Suggested Operational Improvements

We set out below our recommended improvements in relation to particular operational aspects of CCHL. There are two categories of recommendations:

- Base: These are recommended improvements regardless of the nature of the CCHL model that is adopted.
- Model Dependent: specific recommendations which will depend on the model adopted by CCC for CCHL.

Area / Feature	Type	Recommendation
Scope & Remit	Model	• Broaden CCHL's scope to encourage a more dynamic and active approach to maximising both the performance of the current portfolio and investment in a broader suite of investment opportunities. • Potentially changing the strategic asset policy (or consulting with the public) to enable this flexibility (pre-emptively).
Roles & Purpose	Base	• Maintain the CCHL structure to continue to provide an independent and non-political buffer between Council and the CCTOs. • Clarify that CCHL's core role and purpose is to deliver commercially based outcomes for its shareholder. • Acknowledge and embrace the important CSR work that CCHL and the CCTOs are doing, but Council should refrain from asking the Group to pursue civic wealth objectives that are poorly defined and inconsistent with the core commercial objectives.
Setting & Balancing Objectives	Base	• Modify the SoE process to be a more comprehensive, three year process based on a 10 year planning horizon which becomes part of the LTP process. The SoE should aim to provide a set of explicit and measurable expectations in relation to long-term performance.
Governance Structures & Processes - CCHL	Model Base	• The CCHL board should be strengthened with directors who have the experience and skill-sets to support the strategy evaluation and implementation. • As a consequence, reduce the number of Councillor Directors from four to two. We believe this number is sufficient to maintain the valued links and continuity between CCC and CCHL, while also providing increased scope for increasing the number of independent directors to support the nature of the work ahead for CCHL. • All CCHL directors should be paid market rates of renumeration for their services and be selected on the basis of their capability for the role. We believe that remuneration is important when considering the additional work and liability faced by company directors.
Governance Structures & Processes - CCTO	Base	• Council should maintain its policy of not appointing Councillor Directors on the CCHL subsidiary boards. • This will support the non-political environment for CCTOs, minimise potential conflicts, and is in line with Auditor-General recommendations in relation to best-practice CCO governance.
Dividend Policy	Base / Model	• CCC should establish a formal dividend policy for CCHL consistent with its own investment objectives for CCHL and following determination of the Council's Value Strategy. • As an interim measure, establish a clearly defined dividend policy that looks to support CCC's income expectations over the short-term, potentially comprising a fixed and discretionary component. • For example, a fixed minimum annual dividend of $30m plus a discretionary component of 100% of free cash flows (where free cash flows are defined as CCHL Parent net income less allowance for $15m of debt repayment less the fixed dividend component).

Christchurch City Council

Recommendations: Operating Structure (2/2)

We have identified a range of operational improvements that should be introduced to CCHL in order to enhance performance and the engagement with CCC.

Suggested Operational Improvements

Area / Feature	Type	Recommendation
Supporting CCTOs Strategic Opportunity	Model	• An "active" CCHL strategy would likely require the introduction of co-investors to the existing CCTOs. • This presents an opportunity to identify partners who can capture and maximise the strategic opportunity for these businesses (as well as capital to facilitate execution). • This opportunity should be valued by all stakeholders (Council, CCHL and the CCTOs). Clear agreement should be reached between CCC and CCHL as to the required attributes of any co-investor.
Monitoring / Performance	Base	• A higher degree of scrutiny over the performance of the CCTOs is required at the CCHL level. • That includes driving financial performance and being prepared to take action, without unnecessary delay, when results are not satisfactory. • We also suggest that the CCO Monitoring function at Council is refocused to enable CCC to monitor, interrogate and communicate information provided by CCHL to Councillors. This should be supported by increased transparency between CCHL and CCC.
Communication / Engagement (Internal)	Base	• Council clearly feels as though it is not "in the loop" in relation to the CCTOs. • CCHL needs to commit to a higher level of engagement between its Executive, Board and Council. • Finding an appropriate balance of transparency (reflecting the public ownership / public interest dynamic) and ensuring that Council is not overstepping into operational matters is important. • We recognise that a process of "trust-building" is required now, and believe that a direct and regular line of engagement between Council and the CCTOs should be established. A proposed approach is as follows: – Six-monthly briefings in which the CEOs of the CCTOs present to Council. – Council to strengthen its CCO monitoring function. • We think that these actions will: – Improve transparency and visibility of the CCTOs. – Restore trust between Council and the CCHL Group, which we are confident will also reinforce to Council that these CCTOs are run and governed by capable and credible teams. – Improve the base level of commercial understanding at Council, which we believe will ultimately benefit and support shareholder decisions regarding CCHL in the future.
Communication / Engagement (External)	Base / Model	• Re-set with a broader scope and flexibility, CCHL has the capacity to add significantly more value through better engagement with other aligned stakeholders (both other CCOs like CNZ) and aligned institutions like Ngai Tahu. • Council should actively lead and instruct a tighter relationship between CCHL and CNZ to pursue shared and mutually-beneficial objectives.

Christchurch City Council

Statement of Expectations

The Group would benefit from developing a tailored Statement of Expectation for CCHL (and potentially other CCOs). This document would serve to consolidate several policies providing clarity of role and purpose. Key components of this document are listed below.

Item	Current Policy / Features	Rationale / Key Components of Statement of Expectations
Purpose and Strategic Context – **Why does CCHL exist** – **What are we trying to achieve**	• Role as non-political buffer is well articulated including in the LoEs.	• Consistent with obligations under the LGA, CCC should have a well articulated purpose and objective from its ownership of CCHL. These will be paramount to informing how CCHL should be run.
Defining Roles – **Role of Executive and Governance functions**	• LoE includes directives regarding diversity and remuneration. • CCHL Board Charter (2019) documents the board's mandate.	• Need to further define and articulate the role of each function: **Trading Subs** / **CCHL** / **CCC** Executive / Executive / Executive Board / Board / Councillors
Board and Governance Expectations	• Broadly covered by: – Appointment and Remuneration of Directors policy (2017). – CCHL Board Charter. – Expectations added through annual LOEs.	• Statement provides an opportunity to consolidate and refine concepts from a number of documents. Should include key expectations / policies with regard to: – Appointment policies. – Remuneration. – Conflicts. – Political neutrality. – Relationship with CCC. – Board effectiveness reviews.
Non-financial Performance Expectations	• Broadly set through LoEs (example Climate policy work). • CCC Investment Policy states 'all investments held should be low risk'.	• Statement provides an opportunity to ensure alignment of strategy with purpose and strategic context of CCC. • Ensuring risk tolerances are aligned with CCC investment policy.
Financial Performance Expectations	• Broadly set through LoEs through no clear targets. Request to work with CCC on dividend policy in FY23. • Investment Policy has a general objective to 'earn acceptable rate of return on all equity investments.'	• Outlining the financial performance expectations which CCC require to meet its strategic objectives. • In our view, CCC should provide explicit quantified expectations of dividend and capital growth in the context of acceptable risk.
Planning and Reporting	• LGA sets SoI process. • LoEs have included timetables and metrics for reporting.	• Set out the planning and negotiated SoI process including expectation of timing and shareholder input. • Business case requirements and ex-post reviews of business cases. • Setout periodic reporting expectations. • Periodic external review requirements. • AGM expectations.

Appendices

Appendix I: Qualifications, Declarations and Consents

Declarations

This report is dated 2 December 2022 and has been prepared by Northington Partners Limited ("**Northington Partners**") at the request of the Christchurch City Council (the "**Council**"). This report, or any part of it, should not be reproduced or used for any other purpose. Northington Partners specifically disclaims any obligation or liability to any party whatsoever in the event that this report is supplied or applied for any purpose other than that for which it is intended.

Qualifications

Northington Partners provides independent corporate advisory services to companies operating throughout New Zealand. The company specialises in mergers and acquisitions, capital raising support, expert opinions, financial instrument valuations, and business and share valuations. Northington Partners is retained by a mix of publicly listed companies, substantial privately held companies, and state-owned enterprises.

The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons), Ph.D, Mark Cahill B.Sc, M.Com, Jonathan Burke B.Com (Hons) and Sunen Bopitiya B.Com, MAF. Each individual has a wealth of experience in providing independent advice to clients relating to a wide range of commercial and governance issues.

Disclaimer and Restrictions on the Scope of our Work

In preparing this report, Northington Partners has relied on information provided by the Council and related entities. Northington Partners has not performed anything in the nature of an audit of that information, and does not express any opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

Northington Partners has used the provided information on the basis that it is true and accurate in material respects and not misleading by reason of omission or otherwise. Accordingly, neither Northington Partners nor its Directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which this report is based proving unjustified.

We reserve the right, but will be under no obligation, to review or amend our report if any additional information which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

Furthermore, our assessment is reliant on a number of key assumptions that have been outlined in this report. Should any of these assumptions not be accurate, our assessment and our conclusions could be materially affected.

Indemnity

The Council has agreed to indemnify Northington Partners (to the maximum extent permitted by law) for all claims, proceedings, damages, losses (including consequential losses), fines, penalties, costs, charges and expenses (including legal fees and disbursements) suffered or incurred by Northington Partners in relation to the preparation of this report; except to the extent resulting from any act or omission of Northington Partners finally determined by a New Zealand Court of competent jurisdiction to constitute negligence or bad faith by Northington Partners.

The Council has also agreed to promptly fund Northington Partners for its reasonable costs and expenses (including legal fees and expenses) in dealing with such claims or proceedings upon presentation by Northington Partners of the relevant invoices.

Christchurch City Council

Appendix II: Glossary

Term	Description	Term	Description	Term	Description
ACC	Auckland City Council	EBITDA	Earnings before Interest, Taxes, Dep. & Amort.	NZSF	New Zealand Super Fund
AGM	Annual General Meeting	EBITDAF	EBITDA less Fair Value adjustments	OAG	Office of the Auditor-General
AKL	Auckland Airport	Ecan	Environment Canterbury	POAL	Ports of Auckland
ARI	Asset Recycling Initiative	EDB	Electricity Distribution Business	PX	Public Excluded
Bps	Basis Points	ESG	Environmental, Social, Governance	RFR	Right of Refusal
BOPRC	Bay of Plenty Regional Council	FY	Financial Year	POT	Port of Tauranga
CAGR	Compound Annual Growth Rate	GNZS	Guardians of New Zealand Superannuation	PPP	Public Private Partnership
Capital Release	CCHL prog. to return $440m to CCC (FY16 – FY19)	HCC	Hamilton City Council	RBL	Red Bus Limited Property
CCC	Christchurch City Council	HY	Half Year	ROIC	Return on Invested Capital
CCHL	Christchurch City Holdings Limited	IGFF	Inter-group Funding Facility	SDC	Selwyn District Council
CCO	Council Controlled Organisation	IRR	Internal Rate of Return	SOE	State-owned Enterprise
CCTO	Council Controlled Trading Organisation	ISP	Internet Service Provider	SoI	Statement of Intent
CD	Councillor Directors	LoE	Letter of Expectation	TCC	Tauranga City Council
CIAL	Christchurch International Airport Limited	LGA	Local Government Act	TEU	Twenty-foot Equivalent Units
CHC	Christchurch International Airport Limited	LGFA	Local Government Funding Agency	TSR	Total Shareholder Return
CNZ	Christchurch NZ	LPC	Lyttelton Port Company	WACC	Weighted Average Cost of Capital
CSR	Corporate Social Responsibility	LTP	Long Term Plan	WCC	Wellington City Council
CW	Civic Wealth	MOM	Mixed-ownership Model	WDC	Waimakariri District Council
DCC	Dunedin City Council	NPAT	Net Profit after Tax	WLG	Wellington Airport
DCL	Development Christchurch Limited	NPH	Napier Port	ZQN	Queenstown Airport
DPP	Default Price Path	NPL	Northington Partners Limited		
EBIT	Earnings before Interest & Taxes	NTHC	Ngāi Tahu Holdings Corporation		

Christchurch City Council

Item 19

Attachment A

Northington Partners

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Christchurch

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CCHL Strategic Review - Terms of Reference

The terms of reference for this review seek to address the following questions in relation to CCHL:

1. What is the current core purpose and role of CCHL?

2. Are there any changes or enhancements to the CCHL purpose and role that CCHL and Council should consider to better support Council achieving its strategic priorities and community outcomes which are:
    a. Resilient communities
    b. A liveable city
    c. A healthy environment
    d. A prosperous economy?

3. What should the role of CCHL be to deliver on other (non-financial / non-commercial) shareholder expectations (for example as set out within annual letters of expectation)?

4. Are there options for CCHL to assist Council creating 'civic wealth' (as defined below) and which parts of the 'civic wealth' definition should CCHL's purpose and objectives be focused on?

5. What are the pros and cons (or benefits and risks) for CCHL and Council of asking CCHL to focus on:
    a. each individual aspect of 'civic wealth'; and
    b. <u>all</u> aspects of 'civic wealth'?

6. To the extent that the 'civic wealth' definition includes financial/commercial wealth or value, what realistic investment opportunities are there (generically) that CCHL could invest in and:
    a. what are the potential returns from each area?
    b. what risk appetite would be required to supported investment in each area?;
    c. to what extent would these investment opportunities be strategically supportive of other Council strategic priorities and community outcomes?
    d. how would these investment opportunities potentially sit within and support Councils' objectives? ;and
    e. what would be required from Council as the shareholder to enable this to happen?

7. Does the CCHL strategic asset framework/policy appropriately guide and support CCHL to deliver on its current SoI objectives, which include: "*CCHL's purpose statement is focused on supporting the future growth of Christchurch by investing in key infrastructure assets that are commercially viable and environmentally and socially sustainable*", and what modifications or enhancements could be made to this framework/policy to better support CCHL delivering on its core role and purpose?

8. How should CCHL and Council determine the appropriate CCHL Group target capital structure, which needs to address:

a. CCHL dividend policy (for dividends to Council), including an assessment of the pros/cons of an agreed fixed dollar dividend commitment v. a variable dividend payout ratio based on a percentage of NPAT or FCF;
b. A target level of CCHL Group gearing, which by implication includes a target level of financial flexibility within CCHL for future, but currently unknown/unbudgeted borrowings (either for new investment opportunities or to assist responding to unexpected events).

9. What are the pros and cons of the current CCHL governance structure and what recommendations (if any) could be made to improve the governance arrangements, including consideration of the optimal size and makeup of the CCHL Board, to support the purpose and objectives of CCHL and any future purpose of objectives identified?

10. What is the optimal engagement between CCHL, CCC and its subsidiaries, how can we improve the engagement/relationship between the entities, to ensure the shareholders have influence in strategic direction for its entities, but not delve into operational matters.

11. Are the two recommendations from the 2015/16 Council review of CCHL that have not been implemented by Council still worth implementing? – specifically:
    a. Developing a subsidiary monitoring framework to be documented in a subsidiary governance manual; and
    b. Completing an effectiveness review of the CCHL Board, including a review of the structure of the Board.

12. The scope of the review does <u>not</u> include a review of the CCHL model or CCHL structure.

The scope of the Review requires bringing together:

- Independent financial, commercial, governance and shareholder relationship experience and expertise, including experience working in a CCO environment; along with
- Relevant stakeholder feedback (including from both Council and CCHL) through a series of independent discussions, the themes from which will be considered against a 'current state' assessment of where CCHL and Council currently 'sit' in relation to each question included in the terms of reference above.

Civic Wealth Definition

For the purposes of this review the term 'civic wealth' is defined broadly to include both financial/commercial wealth/value along with wider city/regional economic growth, noting that CCHL's key role is to generate financial returns that enhance the equity and revenue of the Group so that the wider definition of civic wealth can be achieved in collaboration with others in the group including CNZ, CCC and the other CCO's

Christchurch City Council

20. Terms of Reference - Insurance Subcommittee

Reference / Te Tohutoro: 22/1676649

Report of / Te Pou Matua: Helen White, Head of Legal & Democratic Services (helen.white@ccc.govt.nz)

General Manager / Pouwhakarae: Dawn Baxendale, Chief Executive (Dawn.Baxendale@ccc.govt.nz)

1. Nature of Decision or Issue and Report Origin

1.1 This is a decision to adopt new Terms of Reference for the Insurance Subcommittee.

1.2 This is a staff report arising out of the matters before the Insurance Subcommittee.

1.3 The decision in this report of low significance in relation to the Christchurch City Council's Significance and Engagement Policy. The level of significance was determined by considering the impact of this decision against the factors identified in the Policy.

2. Officer Recommendations Ngā Tūtohu

That the Council:

1. Adopts the Terms of Reference for the Insurance Subcommittee in Attachment A.

3. Reason for Report Recommendations Ngā Take mō te Whakatau

3.1 The Terms of Reference in Attachment A expand the current responsibilities of the Subcommittee to encompass final decisions including settlements. It maximises the benefit of the expertise of the Insurance Subcommittee and reduces the potential for duplication of decision-making.

3.2 The Insurance Subcommittee has been consulted informally and its members have indicated agreement to the change in responsibilities.

4. Alternative Options Considered Ētahi atu Kōwhiringa

4.1 It would be open to the Council to make no change. This is not recommended as the Subcommittee has received extensive specialist internal and external advice on complex matters within its remit. It is not an effective use of resources to duplicate the knowledge sharing to the parent Committee or Council solely to make final decisions on the matters that have been extensively considered by the Subcommittee.

4.2 Alternatively, the final decisions could be delegated to named individuals by the Council. This is not recommended as the Subcommittee has received the specialist and in-depth information on matters before it. Delegation to the Subcommittee allows for increased governance oversight. It would be open to the Subcommittee with its experience to further delegate in its discretion.

5. Detail Te Whakamahuki

5.1 On 2 November 2022, the Council received the Mayor's governance committee structure. One of the principles in the Mayor's memorandum to councillors that was before that meeting (page 8 of that Agenda) is that decisions should be made once.

5.2 At 3.10 of the accompanying staff report (page 6 of that Agenda), it is recorded that committees will review their respective Terms of Reference and 'propose amendments to the council for consideration.'

5.3 The Subcommittee was established to provide governance oversight and interim decision making in relation to significant insurance claim and other significant insurance related matters. Attachment A contains Terms of Reference that are expanded to provide responsibility for all decisions relating to these matters.

5.4 The Subcommittee receives detailed and in-depth information about the complex and nuanced matters within its remit. This information is provided from a range of highly skilled specialists.

5.5 It is staff advice that the Subcommittee is best placed to make all decisions relating to these matters as it:

5.5.1 Already provides governance oversight to the progress of matters, gives interim direction and makes interim decisions.

5.5.2 Receives in-depth specialist and technical advice from both internal and external sources.

5.5.3 Reduces the need to duplicate resources in order to provide sufficient information for final decision making at the parent Committee or the Council.

5.5.4 Increases the governance options for decisions to be taken at pace if required as matters progress.

5.6 On this basis, the Subcommittee is best placed, given its knowledge of the matters before it, to further delegate any of its responsibilities and decisions on such terms as it sees fit.

5.7 For logistical reasons, the Subcommittee was not able to consider and recommend these Terms of Reference to Council. However, the members of the Subcommittee have informally indicated it supports the changes recommended.

6. Policy Framework Implications Ngā Hīraunga ā- Kaupapa here

Strategic AlignmentTe Rautaki Tīaroaro

6.1 This report supports the Council's Long Term Plan (2021 - 2031):

6.1.1 Activity: Governance and decision-making

- Level of Service: 4.1.28.3 Establish and maintain documented governance processes that ensure compliance with the local government legislation - Governance processes are maintained and published on council's website.

Policy Consistency Te Whai Kaupapa here

6.2 The decision is consistent with the Council's Plans and Policies.

Impact on Mana Whenua Ngā Whai Take Mana Whenua

6.3 The decision does not involve a significant decision in relation to ancestral land or a body of water or other elements of intrinsic value, therefore this decision does specifically impact Mana Whenua, their culture and traditions.

6.4 The decision does not involve a matter of interest to Mana Whenua and will not impact on our agreed partnership priorities with Ngā Papatipu Rūnanga.

6.5 This matter relates to the decision making responsibilities of a Subcommittee.

Climate Change Impact Considerations Ngā Whai Whakaaro mā te Āhuarangi

6.6 Not applicable.

Accessibility Considerations Ngā Whai Whakaaro mā te Hunga Hauā

6.7 Not applicable.

7. Resource Implications Ngā Hīraunga Rauemi

Capex/Opex Ngā Utu Whakahaere

7.1 None.

Other He mea anō

7.2 None.

8. Legal Implications Ngā Hīraunga ā-Ture

Statutory power to undertake proposals in the report Te Manatū Whakahaere Kaupapa

8.1 The Local Government Act 2002 allows the Council to appoint subordinate decision-making bodies as it considers appropriate (cl 30 Sch 7).

8.2 The Council is able to delegate any matter to a subordinate decision-making body, unless it is expressly prohibited by the Local Government Act 2002. The delegations within Attachment A are not prohibited (cl 32 Sch 7).

Other Legal Implications Ētahi atu Hīraunga-ā-Ture

8.3 None additional.

9. Risk Management Implications Ngā Hīraunga Tūraru

9.1 No direct implications.

Attachments Ngā Tāpirihanga

No.	Title	Reference	Page
A ⇩	Insurance Subcommittee - Terms of Reference	22/1683563	131

In addition to the attached documents, the following background information is available:

Document Name – Location / File Link
Not applicable

Confirmation of Statutory Compliance Te Whakatūturutanga ā-Ture

Compliance with Statutory Decision-making Requirements (ss 76 - 81 Local Government Act 2002).
(a) This report contains:
  (i) sufficient information about all reasonably practicable options identified and assessed in terms of their advantages and disadvantages; and
  (ii) adequate consideration of the views and preferences of affected and interested persons bearing in mind any proposed or previous community engagement.

(b) The information reflects the level of significance of the matters covered by the report, as determined in accordance with the Council's significance and engagement policy.

Signatories Ngā Kaiwaitohu

Author	Helen White - Head of Legal & Democratic Services
Approved By	Dawn Baxendale - Chief Executive

Insurance Subcommittee - Terms of Reference / Ngā Ārahina Mahinga

Chair	Cllr MacDonald
Deputy Chair	Cllr Henstock
Membership	Cllr Barber Cllr McLellan
Quorum	Two
Meeting Cycle	Twice yearly and as required
Reports To	Finance and Performance Committee of the Whole

Responsibilities and Delegations

- Oversee the conduct and progress of the ongoing review of the Council's 2010/11 insurance portfolio.
- Make all decisions, with full delegation to progress the conduct of that review and associated actions of any nature including final resolution.
- Oversee the conduct and progress of any significant claim processes.
- Make all decisions including final decisions, with full delegation to progress and settle all significant claims.
- Report back to the next practicable Finance & Performance Committee or Council meeting on any final resolutions.
- Power to sub-delegate any of these responsibilities or delegations to Subcommittee Members and/or Council Officers, including settlement and final decisions.