

# Ridgway Capital Projects Commentary

**16 September 2010**

## **Funding the Social Cost of Canterbury's Heritage**

Aside from the human impacts of the earthquake, the recovery issues Christchurch will face are heavily tied up with funding. One issue will be the gap between what asset owners can sustain financially and the "social appetite" that ratepayers, taxpayers and philanthropists have to finance reconstruction.

We need to develop a vision for the type of Christchurch we want and then to consider the cost of achieving that vision. Insurers will pay to restore buildings to their condition before the earthquake, but building owners will also need to comply with earthquake standards that may be more stringent and that have accelerated compliance timelines. The problem is compounded because it makes sense to improve buildings at the time of their reconstruction, but many private owners in particular will find it difficult to raise the necessary capital. This is because these costs can not be covered by the building's future rentals, so either someone steps in to fund the gap or owners will consider demolishing their buildings instead.

To help bridge the gap between our reasonable social wants and commercial realities, funds will be needed. Central government and philanthropic support will be vital, but the solutions are most likely to be found at a local level. In this regard, Council rates might be a first choice but rates income will be under pressure because rating valuations are due again and are almost certain to decline. Ratepayers will feel poorer for that and many will be facing income pressure as well because of the economic shock that may yet occur, which is off the back of a prolonged economic downturn anyway.

Councils are likely therefore to have difficulty raising rates other than perhaps establishing a voluntary or mandatory heritage building levy to fund, say, a heritage building reconstruction trust. It seems inevitable then that increasing local authority debt will be needed, but this does not need to come from financial institutions alone because local authority bonds might come back into vogue and there are also strong arguments that can be made for specific heritage and infrastructure bonds. There will be limits to the debt that can be raised however and this may mean we have to start looking at unlocking some of the capital that is embedded in some of our economic infrastructure, which will also have substantial demands for reconstruction capital.

Canterbury local authorities have substantial holdings in economic infrastructure, which helped the responsiveness of our public service providers in the hours and days following the earthquake, but now we have a trade-off to make. Unless we explore other options (but not outright privatisation please) for how we finance our economic infrastructure in future, we may fail to create the supply of funding that we need to meet the costs of the Christchurch we collectively want.

### **Contact:**

Richard MacGeorge, Director  
Ridgway Capital Projects Limited, Christchurch  
Tel (03) 351 5055  
richard.macgeorge@ridgway.co.nz