

8. REVALUATION OF CHRISTCHURCH CITY HOLDINGS LIMITED

RR 10469

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Corporate Plan Output: Trading Activities Monitoring	

The purpose of this report is to seek Council approval for the recording of the Christchurch City Council in its financial statements at an updated valuation to reflect the value of CCHL and its subsidiaries.

BACKGROUND

The Christchurch City Council financial statements reflect the investment in Christchurch City Holdings Limited and its subsidiaries at the value of \$524.3 Million as at 30 June 1998. This valuation is based on the underlying asset values of the trading subsidiaries but does not reflect the true market value of these assets as not all of the subsidiaries have a policy of regularly revaluing their assets.

Christchurch City Holdings Limited has recently obtained valuations on the shares of all the subsidiary companies and a valuation of CCHL as a whole including its subsidiaries. This valuation was obtained primarily to support Inland Revenue approvals needed in respect of capital repatriation. However, the valuation is also able to be applied to bring the financial statements into line with the current value of these investments.

IMPACT OF THE VALUATION

Ernst and Young has assessed the valuation of CCHL as at 31 March 1999 at marginally over \$1 Billion. The precise amount is \$1,000,531,000. This represents an increase over the value recorded in the accounts at 30 June 1998 of \$458,208,000.

It will be necessary to change accounting policies to implement this revaluation as it will be necessary to commit to a regular revaluation for a recommended interval of three years. This should present no difficulties since CCHL intends to revalue on a three yearly basis and the same valuation can be used for both purposes.

Since it is only relevant to revalue the assets under the CCHL umbrella, it will also be necessary to create the CCHL investment as a separate class of assets and to draft accounting policies accordingly. Effectively the assets under the CCHL umbrella are the commercial trading investments of the Council whereas other corporatised investments are held primarily for strategic operational purposes.

These revaluations can only apply to the CCC parent accounts as in the consolidated group accounts it is the underlying assets in the lowest level subsidiary which are recorded rather than the investment in the shareholding.

Recommendation:

1. That the Council's investment in Christchurch City Holdings be revalued in accordance with the Ernst and Young valuation as at 31 March 1999 in the CCC parent accounts.
2. That the Director of Finance be authorised to make the appropriate changes to the statement of accounting policies.
3. That the period for revaluation of Christchurch City Holdings be three yearly.