

4. ALLOCATION OF SPECIAL DIVIDEND

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Corporate Plan Output: Financial Advice	

The purpose of this report is to seek approval to transfer a special dividend received from Christchurch City Holdings Limited to the Capital Development Reserve.

BACKGROUND

In October 2000 Lyttelton Port Company Limited paid a special dividend to its shareholders in addition to the final ordinary dividend for the year ended 30 June 2000. As a result Christchurch City Holdings Limited received an unbudgeted payment of \$6.67M. Christchurch City Holdings in turn has increased the final dividend paid to Christchurch City Council by the equivalent amount.

Although the cash payment of this dividend is being paid to the Council in December of this year it relates to the financial period ending 30 June 2000 and has been accrued as income in the accounts of both CCHL and the Council in that year.

PROPOSED ALLOCATION

As this special dividend is, in effect, a capital repayment it is appropriate that it be reserved for capital purposes and this can be achieved by making a transfer to the Capital Development Reserve.

The Capital Development Reserve is a fund which, by way of policy, the Council has set up to maintain at a minimum level of \$5M. This forms part of the Council's strategic approach to provide for the restoration of infrastructure in the event of a major disaster. The fund is also available to finance unexpected capital expenditures which have not been provided for in the annual plan but must be reimbursed out of subsequent budgets to its minimum \$5M level. It is normal in each annual plan to appropriate any balance significantly in excess of \$5M to contribute to funding the capital expenditure programme of that year. This reduces the need for the Council to borrow to the extent that it is applied in this way.

The Council is currently negotiating with the A & P Association for the acquisition of its land and if these negotiations are successful the source of funds would be the Capital Development Reserve. For this reason I believe the funds from the special dividend should be transferred in to the Capital Development Reserve and any balance remaining at 30 June will be applied to next year's capital expenditure.

Recommendation: That a transfer of \$6.67M be made to the Capital Development Reserve.