

## 1. LYTTELTON MARINA

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Corporate Plan Output: Financial Advice	

The purpose of this report is to provide the Council with advice on issues relating to a request that the Council invest \$500,000 in a LATE to acquire the assets of the Lyttelton Marina so that the project can be completed.

### **BACKGROUND**

At the Strategy and Resources Committee meeting on 17 July a deputation representing a wide range of boating interests persuaded the Committee that it should further investigate the merits of Council becoming involved in the Lyttelton Marina project because of the importance of such a facility to the Christchurch public.

The current marina project requires additional funding of \$1.5 million to enable the project to be completed to a stage where further berths can be sold and the project can proceed on a self-funding basis. Research done by Deloitte's indicates that the funding required is to meet a current cash flow need and that these funds will in due course be able to be repaid with a reasonable return.

### **NEED FOR A MARINA**

There is currently no other marina facility in the Canterbury area and this location is the only suitable site that is obviously available.

In many other major urban areas there are marinas which are provided by local authorities. This includes Wellington, Tauranga and Nelson. In Nelson the marina has a capacity of 500 and due to demand plans for a further 250 are being considered.

The Committee has previously been supplied with correspondence from 27 organisations which support the Council's involvement in the marina. Several of these are from groups which provide sailing opportunities for a broad cross section of the community. Some obvious ones are Cansail Charitable Trust, Canterbury Dragon Boat Club, Canterbury Yachting Association and Lyttelton Sea Scouts,

In a written submission by the Canterbury Yacht and Motor Boat Club and the Banks Peninsula Cruising Club it has been pointed out that these two organisations alone have a membership of over 1000 and that 85% of these live in the Christchurch area. The submission also indicated that between November 1999 and May 2000 there were 6,000 movements through the control gate to the slipway and that this figure would annualise to 10,000. Each of these movements would be likely to have 2-4 people associated with them. While many of these movements are by the same people, it nevertheless shows that there is clearly a large public demand for even the current primitive facilities.

It is a commonly held view that a significant number of the Christchurch owned boats are domiciled at Waikawa Bay in Picton because of the lack of local facilities. If better facilities were available locally there would be more of these vessels domiciled locally where they can be used on a more regular basis. This would enhance local boating associated industry.

It is perceived that once the breakwater is completed and the Marina ownership is clearly secure that there will be an initial spurt of sales and then a steady growth in interest.

#### **REASONS FOR COUNCIL INVOLVEMENT**

Due to the unique situation of the marina and the limited other options for the provision of this needed facility in Canterbury the siting of the marina (once successfully completed) will effectively be in a monopoly situation. On a much smaller scale this is not dissimilar to the airport. Consideration could be given to whether this would be a good reason for local authority ownership especially as there is a need to ensure that there is an ongoing provision of reasonable public facilities in the form of the public boat ramp and the associated land based industry which will develop on the leased land associated with the marina. There is potential for this to attract premium prices and be the funding source in due course for much improved public boat ramp facilities.

If the two Councils are involved then they will be able to ensure that public access to these facilities is protected.

In view of the unfortunate history of the marina to date the development is unlikely to reach a conclusion unless it is re-established under a stable new ownership structure. This could be readily achieved if the owners become Christchurch City Council, Banks Peninsula District Council and Lyttelton Port Company Limited.

The suggestion has been made that the existing company should be allowed to fall over and that some other party will pick it up and develop it. Another equally valid view is that if it falls over under current private ownership potential future berth holders would be extremely wary about buying into another privately owned situation. It is therefore not a foregone conclusion that another private owner could make it a success and Canterbury may continue without satisfactory marina facilities for a long time into the future.

#### **REGIONAL ECONOMIC BENEFIT**

It is considered that the existence of the marina will encourage economic development in the region based on boating and marine support industries such as boat yards and equipment suppliers. This is illustrated by the developments in Picton surrounding the Waikawa Marina and in other similar situations elsewhere.

The marina is also needed to replace the loss of existing berths from within the inner harbour in recent times. This space was needed so that LPC could further develop larger shipping based industries and port related facilities such as cool stores.

Both of these factors are good for the Canterbury economy and the major spin-off will be to the Christchurch area.

#### **DEVELOPMENT PLANS**

The original design was by Saltwater Marines Limited (SWM) using two engineers, Beca Carter Hollings and Ferner (breakwaters) and OCEL (layout design). Following the storm damage in winter 1999 OCEL redesigned the breakwaters and these have since been subjected to peer review by the internationally recognised Australian firm of Ove Arup and Partners. The final sign off on this peer review is not yet to hand as there are still some remaining questions to be answered. However, those involved seem reasonably confident that this will be received. Clearly, any Council involvement should be subject to receipt of a clear peer review.

Assuming that the peer review validates the new design which attaches the floating breakwaters to the seabed by a different method it is accepted that the problems which occurred in winter 1999 will not recur.

Senior structural engineers from City Design have been requested to review the amended plans and the available details relating to the peer review. In the time available this review could not perform a detailed check of the plans but was intended to provide a measure of reassurance that the peer review has been adequately carried out. The engineers will be available at the meeting to provide verbal comment if required.

#### **PUBLIC BOAT RAMP FACILITIES**

One of the issues raised in newspaper letters and articles and also by the deputation to last Monday's meeting of the committee was the need for continued public access to a boat ramp.

The existing boat ramp was not shown as retained in the final plan for the area but a provided for a new public boat ramp to the east of the rock breakwater with new breakwater to protect it. This is clearly only a long term probability and will be dependent on the successful completion of the rest of marina and the revenue derived from associated land based uses.

However, it is possible for the existing boat ramp to be retained in the meantime, with access into the marina area. Once stage 1 is completed and fully sold there will be sufficient funds available to extend and upgrade the existing boat ramp to six lanes within the marina but in a better location and also to provide a sealed manoeuvring and parking area. This could be made a condition of any Council involvement.

## DEMAND FOR BERTHS

Statistics from other similar regions indicate that the Canterbury population could support at least 600 floating marina berths. In Wellington for instance there are 685 occupied marina berths for a population of 400,000 in spite of 25% of Wellington owned vessels being moored in the Marlborough Sounds.

There are currently 57 berths built and on completion of the current phase of the development there will be 84 new floating berths plus the existing fixed berths (approximately 80). A fully completed stage 1 will have 238 berths. The stage 1 berths in excess of the first 84 will be developed in accordance with demand and it is expected that this could take several years. When fully developed the marina will have approximately 440 berths.

Currently 40 of the berths have been sold. A further 39 berths are currently being rented because of the uncertainty of the current company and it can reasonably be expected that a high proportion of these users will buy in when the ownership has been stabilised. Commitments to the initial development were for 117 berths and industry specialists are certain that there is significant potential to sell all the berths but only if the shareholding of the company becomes more certain.

## STRUCTURE OF PROPOSED COMPANY

The proposal is for the establishment of **a new local government controlled company**. This company would acquire the assets and certain of the liabilities from the existing company for a net purchase price which is expected to be NIL. Subordinated debt currently owing to SWM would not be taken over as a liability.

This new company would have only three participants, namely CCC, BPDC and LPC, and each would contribute \$500,000 and these funds would all be available to provide the capital needed to fund completion of stage 1. **This investment of \$1.5 million would not provide any assistance to the existing private company.**

The new company would be a local authority trading enterprise (LATE). It is envisaged that the capital provided by CCC, BPDC and LPC would be by way of a combination of ordinary shares, redeemable preference shares and debt. The redeemable preference shares would have an option to pay interest (which could be activated once sufficient sales have taken place and ongoing revenues achieved) and could in due course be used to repay a significant proportion of the original contributions.

A shareholders' agreement would be negotiated to ensure that existing shareholders would not sell to any other party without giving pre-emptive rights to one another.

Any new company will need to be tightly managed and therefore a small but strong commercial board will be essential to tightly manage the company and ensure that it is focused on completion of the project in a measured way consistent with available sales.

#### **VIABILITY**

Feasibility studies show that the project is viable provided Stage 1 can be completed and sold. The \$1.5 million capital injection is needed to provide cash flow until stage 1 is completed and sold (238 berths). It is anticipated that the first 84 berths will be sold reasonably quickly. After that point the company will need to proceed at a measured pace according to demand for further berths. A small surplus should be available after stage 1 provided no interest is charged initially.

Stage 2 is the development of a further 200 berths to replace the current fixed structure. Because the breakwaters are already completed as part of stage 1 the cost of these berths are relatively inexpensive costing an estimated \$2 million and having a sales value of \$7 million. At this point there is significant capital gain available and this will compensate for lack of income flow in the early years.

#### **SOURCE OF FINANCE**

In the June reports on this subject I recommended that the investment in the Marina be made by CCHL. This was influenced primarily by the complexity of the likely negotiations and the fact that CCHL has access to some limited reserves.

In the interim I have reflected on this issue and now consider it would be more appropriate for this Council's investment in any new company formed to take over the marina to be directly owned by the Council since this investment is more in the nature of a capital increment investment rather than a regular income earner.

The Council could, however, request CCHL to pay an additional special dividend of \$500,000 during 2000/01 which would provide the necessary cash flow to fund a Council investment in the new company.

#### **PROPOSED CONDITIONS OF COUNCIL INVOLVEMENT**

If the Council agrees to become involved in this project then I believe that it should be subject to the following conditions:

1. A new company is formed to buy specific assets and liabilities from Lyttelton Marina Limited.

2. Banks Peninsula District Council and Lyttelton Port Company contribute equal amounts of capital to the new company as Christchurch City Council and these three be the only participants in the enterprise.
3. There is provision for pre-emptive rights between shareholders should any one shareholder wish to extract themselves.
4. Satisfactory negotiations taking place with Lyttelton Marina Limited so that the new company acquires the net assets for nil cost.
5. Satisfactory negotiations taking place with Banks Peninsula District Council over the conditions of their existing debt and form of debt security.
6. The subordinated debt owing to the Saltwater Marinas Limited (the current shareholder) not being accepted as a liability by the new company.
7. Retention of the existing public boat ramp as a part of the marina development until it can be improved as part of the stage 1 development.
8. Final sign off of the peer review on the redesigned breakwater.
9. A further review of the assets and liabilities of the LML before any final commitment is entered into.
10. Recognition that the new company would need to renegotiate arrangements with existing berth holders.
11. The new company being constituted and managed on a commercial basis with a small commercial board accountable to the owners through a statement of corporate intent and regular reporting.
12. The new company having the rights to the plans for the full development.

The Director of Finance recommended as follows to the Strategy and Resources Committee:

1. That the Council agree to invest \$500,000 in a new company to be formed subject to the conditions 1 to 12 outlined above.
2. That a sub-committee be established with power to approve the final arrangements to be entered into.
3. That the Director of Finance and Director Business Projects be authorised to negotiate with Banks Peninsula District Council and Lyttelton Port Company Limited and Lyttelton Marina Limited on the detailed arrangements and report back to a sub committee for final approval.

4. That the Director of Finance be authorised to engage appropriate professional advice and these charges be met from the contingency fund.
5. That the sub-committee be authorised to approve in conjunction with the other shareholders the appointment of commercial directors who have the skills and the drive to bring this project to an satisfactory conclusion.
6. That a report on the arrangements entered into be provided to the following meeting of the Strategy and Resources Committee.
7. That Christchurch City Holdings be requested to provide a special dividend of \$500,000 during 2000/01 to enable Council to fund this investment.

The above recommendation was not adopted by the Strategy and Resources Committee.

It was reported to the meeting that the peer review of the marina design had been completed and was almost ready for signoff. The Committee noted that City Design staff had not had the opportunity to review this report and comment on the peer review process. In the absence of this advice, the Committee concluded that it was not in a position to make a recommendation to the Council on the request for a review of the earlier decision on Council participation in the joint venture.

The Committee **decided** that a decision be held over until the Council meeting to enable staff to prepare a report on the engineering peer review for the Council's consideration and that, in the meantime, the private sector negotiations continue.

The Structural Design Engineer, City Design Unit reports:

#### **INTRODUCTION**

OCEL Consultants Ltd has been engaged by Saltwater Marinas Limited to carry out the redesign of the floating breakwater system at the Lyttelton Marina. This follows the earlier partial failure of the original design, which was by another consultant.

Ove Arup and Partners of Brisbane, Australia, has been engaged by OCEL Consultants Ltd to peer review the redesign.

City Design has been engaged by the Christchurch City Council to report on the peer review process. We have not carried out a review of the design itself.

#### **OCEL CONSULTANTS LTD**

OCEL Consultants Ltd are a specialist marine consulting engineering firm, with offices in Christchurch and New Plymouth. They have extensive experience in marine and harbour engineering works and we would regard them as experts in this field. We are satisfied they are sufficiently qualified to carry out the redesign of the Lyttelton Marina.

## **OVE ARUP AND PARTNERS**

Ove Arup and Partners are one of the world's major consulting engineering firms, with over 5,000 staff in seven countries. We are satisfied they have the expertise and resources necessary to carry out a thorough and rigorous peer review of OCEL Consultants' work.

## **DESIGN FINALISATION AND PEER REVIEW**

We understand that the breakwater has a design life of 35 years, with allowance for one complete replacement of metal parts, including anchor chains, during this period. OCEL have indicated that the life of the breakwater can be extended beyond this with appropriate maintenance.

OCEL Consultants initially provided calculations to Ove Arup, setting out their design criteria, principles and direction, together with some detailed design. On the basis of their review of these calculations, and subsequent discussions and correspondence, Ove Arup have stated that they see "no fatal flaw in the proposed design that will make it unworkable".

Both OCEL and Ove Arup have stated that the performance of the new breakwater to date, during some rough weather, supports the view that the design is sound. However, as detailed design work by OCEL has been continuing, Ove Arup have been unable to provide a complete sign-off.

Particular elements of detailed design that OCEL have been working on include the flexibility of six of the floating breakwater units at the eastern end of the marina. These units will receive the greatest influence from waves or swell coming up the harbour. Close attention has been given to ensuring that the units can articulate during this action without overstressing the components.

Close attention has also been given to the design of the chain anchoring system, with springs being introduced to reduce the tensions in the chains.

These items, although matters of detail, are nevertheless vital to the success of the design and should be included within the scope of the final sign off by Ove Arup. Latest indications from OCEL are that Ove Arup's sign-off will be completed by 28 July.

## **CONCLUSION AND RECOMMENDATIONS**

We recommend that OCEL Consultants Ltd and Ove Arup and Partners each provide acceptably worded "producer statements" to certify the work covered by their respective responsibilities. This would constitute final sign-off by both parties.



Based on the information that we have received, our knowledge of the companies involved, and on receipt of the certification recommended above, we would be satisfied that the engineering design of the floating breakwater, and the associated peer review of the design, have been carried out to acceptable standards.

The Director of Finance comments:

As can be seen from the above report the final peer review has not yet been completed but is expected within a matter of days. The report indicates an expectation that the redesign and peer review process will be completed in an acceptable way within that time.

It will be noted that in the original report Condition 8 required a final sign-off of the peer review on the redesigned breakwater. In the event of the Council agreeing to become involved in this project it is suggested that, to provide additional assurance for the Council, this condition be strengthened by replacing the wording with the following:

“No 8. OCEL Consultants Ltd, Ove Arup and Partners each provide acceptably worded ‘producers’ statements’ to certify the work covered by their respective responsibilities.”

At the Strategy and Resources meeting on 24 July questions were asked regarding future operational costs of the company. While I am satisfied that there will be sufficient cashflow to meet these costs, I believe it would be appropriate for the proposed subcommittee to be satisfied with future forecasts before they finally approve the final arrangements to be entered into. I would therefore suggest an additional condition be added:

“No 13. That forecasts of operational costs be prepared and approved prior to final commitment by the subcommittee.”

The Chairman comments:

On balance, I consider that the proposal for a local government-controlled company to own and complete the marina is the most cost-effective way of ensuring the completion of the marina and the provision of better launching facilities for small boat owners.

If the existing company collapses, this is likely to jeopardise facilities for small boat owners and result in unnecessary losses for berth holders and the Banks Peninsula District Council. In the future the marina would be on sold to an investor but in the present circumstances the terms a private investor would impose could be severely disadvantageous. The option for the separate provision by the Council of launching facilities for small boat owners is much more expensive to the Council.

**Chairman’s**

**Recommendation:** That the recommendations of the Director of Finance be adopted, including new recommendation 8 (engineering design) and new condition 13 (operating costs).