

22. 6. 2000

**SUPPLEMENTARY REPORT BY THE
CHAIRMAN OF THE STRATEGY AND RESOURCES COMMITTEE**

1. LYTTELTON MARINA

Officer responsible Director of Finance	Author Bob Lineham
Corporate Plan Output: Capital Projects	

At the Strategy and Resources Committee meeting on Monday 12 June, consultants engaged by Banks Peninsula District Council (BPDC) presented a case for this Council to join BPDC and Lyttelton Port Company Limited (LPC) in making a joint investment of \$1.5 million in Lyttelton Marina Limited to enable it to complete the project.

The Committee resolved as follows:

- 1. That the Director of Finance report to the Council on the issues raised by the deputation, with a view to the Council participating in a joint venture with Banks Peninsula District Council and the Lyttelton Port Company to secure the development of the Lyttelton Marina.*
- 2. That the Director of Finance also report on the funding of the Council's contribution and the form of a shareholders' agreement to protect the Council's interest.*

BACKGROUND

Lyttelton Marina Limited (LML) is a private company which was established to build a marina at Magazine Bay in Lyttelton Harbour to replace the former unsatisfactory facility protected by a floating tyre breakwater.

There is no other marina in the Canterbury area and considerable pressure was exerted on Banks Peninsula District Council to facilitate the building of an adequate marina in its area. The need for this facility has become even more necessary with the removal of the inner harbour moorings to make way for further commercial development of the inner port area.

BPDC contracted with Saltwater Marines Limited (SWM) to develop this facility on a commercial basis and LML was established. The structure is a complex one involving a majority offshore shareholder (75%) and the remaining 25% shareholding held by the principals of SWM. There is also provision for B shares to be subscribed for by berth holders.

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The development has suffered two major setbacks, firstly when the original financiers failed in 1998/9 and secondly when the outer floating breakwater failed in a storm in 1999 due to a design fault. This resulted in project delays, loss of berth holder confidence and sales. As a result LML has cash-flow and financial difficulties.

A revised design has been completed to correct the design fault and construction continues based on this design. Engineering sign off, and a peer review of the revised design by expert international consultants are due imminently.

As at 31 March 2000 the marina is constructed to the point of 57 berths, a charter berth, 74% completion of a fixed rock breakwater, and partial completion of the floating breakwaters. 40 of the 57 berths have been sold.

CURRENT STRUCTURE AND NEED

The current financial structure is complex and cannot currently service any further debt. However, the projections indicate that if the existing work can be completed, this would provide a total of 84 berths and once these are sold that LML would be able to finance the further expansion of further floating berths to meet demand. The existing design allows for a total of 238 berths within the stage 1 breakwater. The estimated cost to complete 84 berths is a further \$1.5 million.

The consultants have concluded, after making industry enquiries, that there are very reasonable expectations that all 238 berths could be sold over a maximum of the following six years. Industry enquiries indicate that the current lack of investment confidence will disappear once the structure is successfully completed. Until completion is achieved and the shareholding of the company is shown to be stable, berth holders are not likely to commit to the project. Hence the need for investment capital to complete the project and allow time for sales to be made.

BPDC are unable to commit the full amount required to rescue this project, hence the approach to CCC and LPC.

REGIONAL ECONOMIC BENEFIT

BPDC have approached CCC for assistance in this project because it considers that most of the users of the marina will be ratepayers of Christchurch. In addition, 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.

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The marina will also facilitate the resiting of existing berths from within the inner harbour releasing needed space for LPC to further develop larger shipping based industries and port related facilities such as cool stores.

All of these factors are good for the Canterbury economy, a lot of which will be spent in Christchurch.

STRUCTURAL OPTIONS

There is a wide range of structuring options which could be utilised to establish a sound financial structure to successfully complete the development. It will be necessary to have detailed negotiations with the development company and other creditors and lenders to the project before a particular structure can be agreed upon.

Some of the options are:

- Establish a joint venture of CCC, BPDC and LPC to acquire all the shares in LML and make arrangements with existing lenders and creditors to restructure the existing liabilities.
- Form a new company to acquire the assets of the existing company and make arrangements for a significant amount of existing debt to be converted into non-voting preference shares.
- Convert existing debt into share capital and lend the needed additional capital of \$1.5 million by way of first ranking debenture.
- Combinations of the above 3 points.
- Based on any of the above options there are variations available relating to restructuring of existing secured and unsecured debt and the proportion of shareholding held by each party.

FINANCIAL PROJECTIONS

A substantial report on the financial position of the LML group and options for achieving a solution has been prepared on a confidential basis for BPDC and this has been supplied to CCC on condition that the detailed material contained therein remains confidential. This is because it is commercially sensitive and at this stage personal to the existing shareholders of LML.

The financial projections indicate that a further injection of \$1.5 million will be sufficient to enable the company to complete the structure so that 84 berths can be sold and that following the sale of further berths there will be a financial return on the new investment. However, the financial return is small and would be some years away. The principal goal of this investment must be viewed as ensuring that this facility is preserved. While the return is projected to be small, forecasts show that it is viable provided the sales of berths take place.

More detail of the forecasts and options is provided for the Council on a confidential basis in the public excluded section of the agenda.

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SOURCES OF FINANCE

The Council has no existing unallocated source of finance immediately available to it for an investment in LML unless it was to add it to the draft budget capital provision. An alternative possibility is to request that Christchurch City Holdings Limited (CCHL) undertake this investment on behalf of the Council. CCHL has significant capacity in its banking facility and an investment of the size envisaged would be possible from that source. In addition there is some capacity to utilise existing reserves which have been held to smooth out variations in dividend flows in previous years.

In view of the need for significant negotiations with affected parties before the detail of an investment can be finalised, and the ability and knowledge within CCHL to carry out this analysis, it is concluded that CCHL would be the best investor in this project provided it has Council approval in principle. It is reasonable to expect CCHL to only make such an investment if it is satisfied after further detailed investigation, that such an investment is sound.

- Recommendation:**
1. That the Council authorise Christchurch City Holdings Limited to make an investment in Lyttelton Marina after it has investigated the proposal in detail and satisfied itself that the investment proposal is sound.
 2. That any necessary modification is made to the Statement of Corporate Intent of Christchurch City Holdings Limited to facilitate this investment.

Chairman's

Recommendation: That the foregoing recommendation be adopted.

CONSIDERED THIS 22ND DAY OF JUNE 2000

MAYOR