

7. CAPITAL REPATRIATION FROM ORION NETWORK SALE

Officer responsible Director of Finance	Author Bob Lineham, DDI 371-1411
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The purpose of this report is to advise the Council of the impact of delays in the transfer of capital from the Orion network sale.

BACKGROUND

The Council approved, as part of its Annual Plan process in mid 2001, the allocation of \$100,000,000 to the debt repayment reserve and \$75,000,000 to a Capital Endowment Fund being the Council's share of proceeds from the profit on the sale of the Orion North Island gas network assets. The Annual Plan provides for these funds to be transferred to the Council by 30 September 2001 and the Budget was structured to assume that interest would be earned on the funds for the remaining nine months of the year.

The mechanism for the repatriation of the capital from Orion to Christchurch City Holdings Limited (CCHL) requires a binding ruling from the Inland Revenue Department which is currently awaited. There are some technical issues which are taking some time to consider and the advice from Orion's tax advisers at this point is that the capital repatriation should await that binding ruling. CCHL Board is monitoring this issue closely and if no progress is made in early 2002, alternative plans will be put in place to transfer the capital. In the meantime it is reasonable to assume that the capital is unlikely to be transferred before 1 April 2002. As a consequence, the Council's income from interest will be significantly reduced. There will, however, be a partly compensating increase in dividends and interest earned by CCHL from Orion although the interest portion will be subject to tax within CCHL. CCHL should, however, be able to pay an increased dividend to the Council.

Taking account of reduced interest rates and the delay in repatriation together with increased dividend income, it is estimated that there will be a shortfall on budgeted income for the Council of approximately \$2 million in the current financial year. It is important therefore that this likelihood is taken into account and appropriate holds be put on expenditure provided for in the Annual Plan.

ANNUAL PLAN PROVISION

The \$100 million destined for the Debt Repayment Reserve is factored into the budget so that any interest earnings are treated as ordinary income of the Council. This therefore needs to be treated as the priority for any income which is received.

The Capital Endowment Fund was estimated to produce income for allocation of \$2.3 million. The Council made a number of specific allocations and left some amounts unallocated. The following is a summary of the proposed division of the estimated interest from the Fund.

Committed Projects:

Central City Special Character Upgrade	200,000
Central City Project Team	100,000
Central Plains Irrigation Feasibility Study	295,000
Domestic Marketing Campaign	175,000

	\$750,000

Other Specified Projects

Central City New Business Initiatives	100,000
Central City Attractions	100,000
Museum Redevelopment	250,000

Unallocated

Economic Development	850,000
Unspecified Community Projects	250,000

	\$2,300,000

It will be noted from the above table that commitment has already been made to expenditure of \$750,000 for two central city projects, as well as the Central Plains Irrigation Feasibility Study, and the Domestic Marketing Campaign through Christchurch & Canterbury Marketing.

While some of the other projects may be well down the planning path it would be imprudent to allow commitments of the other amounts when the interest income is so uncertain. I would therefore propose that the Council should put on hold the expenditure of all the other projects and the application of the unallocated funds until such time as there is certainty regarding the amount of income likely to be achieved in the current year.

Recommendation: That, apart from the commitment already made to Central Plains Irrigation Feasibility Study, the Domestic Marketing Campaign and the two Central City Projects, all other projects to be funded from the Capital Endowment Fund be put on hold until there is more certainty about the income likely to be achieved in the current year.