9. REPORT FROM CHRISTCHURCH CITY HOLDINGS LIMITED

Officer responsible	**Author**
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The purpose of this report is to provide information to the Council on recent activities of Christchurch City Holdings Limited ('CCHL'), and to make recommendations on any matters arising.

1. CCHL

Financial Statements for the Year Ended 30 June 2001

The CCHL annual report for the year ended 30 June 2001 has been circulated to Councillors, and a full explanation of the results and operations for the year is contained therein.

The group net profit for the year ended 30 June 2001 was $232.4 million, compared with $52.3 million in the previous year. Both years included a number of one-off gains – in particular, the 2000/01 result included Orion's gain on the sale of its North Island gas assets. The planned capital repatriation of $175 million from Orion to CCHL is still outstanding, pending the outcome of a request for a binding ruling from the IRD.

2. RED BUS LIMITED ('RBL')

Financial Statements for the Year Ended 30 June 2001

RBL's net profit after tax for the year ended 30 June 2001 was $1.08 million, compared with $1.28 million in the previous year. While slightly down, the result was in excess of the target set out in RBL's Statement of Corporate Intent and is considered satisfactory.

There were two major tender rounds during the year. In the first, the company was unsuccessful in some of its tenders, but won all routes tendered for in the April 2001 round. As a result the company will significantly expand, with a further 34 vehicles to be added to its fleet. The competitive nature of the tenders has resulted in reduced margins, and additional debt is required to finance the new vehicles. This will have an adverse effect on performance in the short term, but the company will revert to a strong cash flow position once the vehicle acquisition programme is complete. The absence of tender rounds in the current financial year will allow the company to consolidate and develop its urban operations.

3. CITY CARE LIMITED ('CCL')

Financial Statements for the Year Ended 30 June 2001

CCL recorded a net surplus after tax of $2.4 million from turnover of $44.2 million for the year ended 30 June 2001. This was a satisfactory result that exceeded budget expectations. The company was, however, unsuccessful in its tender for the Christchurch City Council Amenity Cleaning contract, which was awarded to Metallic Sweeping Ltd for a price approximately 20% below CCL's bid.

The results for the year cannot be compared directly with the comparative period, as the latter incorporates the transfer of the former Council's Works Operations Unit to the company part way through the year.

In December 2000, the company acquired the Council's building services, pumps maintenance and QEII maintenance business units. This involved the transfer of 50 staff and some plant assets. The acquisition will broaden CCL's skill base and enable it to tender for a wider range of contracts.

4. JADE STADIUM LIMITED ('JSL')

Financial Statements for the Year Ended 30 June 2001

The company recorded a deficit after taxation for the year ended 30 June 2001 of $1.22 million, compared with $0.16 million in the preceding year. The increased deficit primarily reflects financing costs associated with the development of the new west stand, which is scheduled for completion in March 2002, and depreciation on the new DB Draught stand and the Orion replay screen. The result is in accordance with expectations, and the stadium redevelopment is proceeding to plan.

Work on implementing a succession agreement between Victory Park Board, JSL and the Council continues, although progress is slower than anticipated.

5. CHRISTCHURCH CITY FACILITIES LIMITED ('CCFL')

Financial Statements for the Year Ended 30 June 2001

The company recorded a net deficit of $3.0 million for the year ended 30 June 2001, compared with a $3.7 million loss in the preceding year. This improvement was achieved primarily through improved trading margins, and despite a 12% decrease in gross revenues. The deficit, which is more than accounted for by depreciation – a non-cash expense – is in accordance with expectations.

As has been previously reported, a strategic review of the management and operations of the three facilities owned or leased by CCFL and managed under contract by NCC (NZ) Ltd is currently in progress.

6. SELWYN PLANTATION BOARD LIMITED ('SPBL')

Report for the Six Months Ended 30 September 2001

The company recorded a net profit after tax of $591,000 for the half year, ahead of budget but behind the previous period's result. The first quarter was affected by slow market demand and softer overall pricing, but volumes lifted substantially in the second quarter. Overseas demand and exchange rates will play an important role in determining the outcome for the remainder of the year.

Potential Impact of Kyoto Protocol

The following issue has been raised because it has potential value implications for the Council's investment in SPBL.

There has been recent publicity about the potential impact of the international Kyoto Protocol on New Zealand and the forest industry in particular. While few would argue with the overall aim of the Protocol, concerns have been expressed about its practical impact on New Zealand if it were signed in its present form.

The Protocol's overall aim is to reduce carbon dioxide gas emissions. Amongst other measures, it proposes a system of carbon credits and debits as a means of regulating compliance with emission targets in financial terms.

To qualify as a "Kyoto forest", the forest must have been established after 1 January 1990. A Kyoto forest would receive credits for carbon absorbed, and incur obligations for the loss of carbon during harvesting. Replanting after harvesting would not remove the obligations, but would create a new inflow of credits.

A non-Kyoto forest would not receive any credits, nor incur any obligations on harvesting. However, if it were to change the land use after harvesting, it would incur potentially substantial levies. This provision could have a negative value impact of many New Zealand forestry companies (including SPBL as well as major players such as Fletcher Forests and Carter Holt Harvey), given the age profile of many of their forests.

There is concern that many nations will not sign up to the Protocol, including those in competition with New Zealand. Some analysts fear that if New Zealand ratifies the Protocol, it will create an incentive for forest product companies to relocate to non-Kyoto Protocol countries, with a consequent negative impact on the economy.

Bodies such as the New Zealand Forest Industries Council are wary that ratification of the Kyoto Protocol will adversely affect New Zealand's competitiveness, as well as private property rights, without achieving its stated aims. They are recommending that the Government delay ratification of the Protocol until such issues are clarified and resolved.

The Government is consulting on its climate change policies and is calling for submissions by 21 December 2001. It has produced a comprehensive set of consultation and background documents (too lengthy to reproduce with this report, but available at www.climatechange.govt.nz).

It is recognised that the Council has placed great emphasis on environmental and sustainable issues, and in the wider context, is likely to be supportive of the principles contained within the Kyoto Protocol. It may also be that the Protocol will not in fact have any significant impact on the Council's investment. Nonetheless, CCHL considers it appropriate to draw the concerns being expressed by some parties to the Council's attention, in case it wishes to make a submission.

Recommendation: That the information be received.

(Note: Councillor Wright abstained from the discussion and voting on sub-clause 3.)