

9. WIND UP OF THE TRAVIS GROUP OF COMPANIES

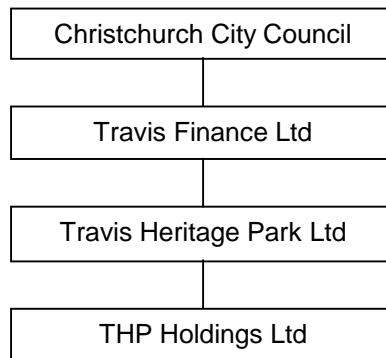
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The purpose of this report is to seek the Council's approval for the restructuring of the Travis group of companies to enable the land known as Travis Wetlands to be acquired from the companies by the Council and simplify the structure.

BACKGROUND

In 1996 the Council acquired the land on which the Travis Wetlands is situated, plus land adjacent to Bottle Lake Forest Plantation, through the purchase of shares in the Travis group of companies.

The Travis Group comprises three companies and the structure is best explained by the following diagram:



The land assets are held by THP Holdings Limited and comprise two separate pieces of land:

1. The land known as Travis Wetlands.
2. 65 hectares of land zoned rural 3 adjacent to Bottle Lake Plantation.

It was always the intention that in the long term the land holdings would become directly held Council assets as soon as it became tax efficient to do so.

The Council funded the purchase of the purchase of these companies by the establishment of Travis Finance Limited and making an advance of \$7.4 million. The interest on this loan has been paid to the Council annually but has depended on capital advances and subvention payments to meet its obligations because the turnover of the companies has been insufficient to meet the outgoings. As a result Travis Finance has negative shareholder's funds.

The Travis Wetlands are being developed by the Council into a wetlands reserve and it is now appropriate that the Council be reimbursed for the improvements they have made to the land and purchase the underlying land assets with a view to formalising this land as a conservation reserve and simplifying the company structure.

The land owned by THP Holdings Limited on which the Travis Wetlands Reserve is located, has been rezoned "Conservation 1" under the new City Plan and has reduced its market value. It is therefore a tax efficient time to transfer the land to the Council and wind up or restructure these companies.

PROPOSAL FOR WINDUP OF GROUP

It is proposed that the land held by the group be purchased by the Council and the three company structure be simplified by the amalgamation of the three companies. It is proposed to retain Travis Finance in the meantime until the Local Government Bill has been passed and it is clearer what structures the Council needs to deliver its services.

Ford Baker Valuation Limited was engaged to value the THP Holding Limited's properties. The Travis Wetlands Reserve land has been valued at \$1,475,000 while the 65 hectare property, zoned Rural 3, bordering Bottle Lake Plantation, was valued at \$800,000. This takes account of the work done on the land and it is appropriate that THP Holdings Limited reimburse the Council for the work it has carried out on the land.

Due to the lack of working capital in the company it will be necessary for the Council to make an advance to the company at a commercial interest rate to enable the payment for improvements to be made to the Council. This advance will be repaid on the completion of the sale of the land.

Professional advice has been obtained from Ernst & Young and Buddle Findlay on the most appropriate course of action. The recommendations made in this report incorporate the advice received.

ADVANTAGES OF THE PROPOSED RESTRUCTURING

It will reduce costs by at least \$10,000 per annum by eliminating the need to register the companies that will cease to exist, prepare audited financial statements for those companies, pay regional council rates, etc.

It will resolve issues regarding the development of a conservation reserve on privately owned land.

It will resolve issues regarding the accounting for the Travis group of companies. The rezoning of the land owned by THP Holdings Limited, on which the Travis Wetlands Reserve is located, to "Conservation 1", resulted in a substantial reduction in its market value. This has resulted in the holding company, Travis Finance Limited, having negative shareholder's funds. This situation has only been able to continue to now because Christchurch City Holdings Limited has made subvention payments to Travis Finance Limited to be able to utilise its tax losses.

The value of the land owned by THP Holdings Limited is likely to increase over time. Therefore, any income tax liability will increase over time.

The opportunity exists to negotiate a reduced price for the Travis Wetlands Reserve land as the valuation includes a premium of 15% to allow for the possibility that the Wetlands would be removed from the site and it would be rezoned for subdivision. It can be strongly argued that the probability of this occurring is virtually nil.

The Council has yet to seek reimbursement from THP Holdings Limited for the costs that the Council has incurred on improvements to the THP Holdings Limited land totalling approximately \$750,000. If this reimbursement is made now then the taxable profit to THP Holdings Limited on the sale of the land will be reduced by the amount of this reimbursement.

BUDGETARY AND FINANCIAL IMPLICATIONS OF THE PROPOSAL

The attachment lists the estimated cashflows from the restructuring proposal.

The Council has already written down the value of its investment in Travis Finance Limited. Therefore, there is no need to record a writedown in the Council's financial statements for the current financial year.

The Council's draft budget for the year ended 30 June 2003 has been prepared on the basis that the loan made by the Council to Travis Finance Limited will only be partially repaid. Therefore, there are no adverse budgetary implications that have not been provided for.

The Council currently claims a tax deduction for the interest payable on the \$7.4 million loan it made to make the investment in Travis Finance Limited. Ernst and Young, the Council's tax consultants have advised that certain procedural issues need to be followed to ensure that this deduction is not lost for the year ended 30 June 2002 and that a tax liability does not arise as a result of all or part of the loan to Travis Finance Limited being written off or remitted. These procedural issues include the Council subscribing for additional shares in Travis Finance Limited and Travis Finance Limited repaying the \$7.4 million loan to the Council.

These procedural issues also include the amalgamation of THP Holdings Limited and Travis Heritage Park Limited with Travis Finance Limited after THP Holdings Limited has sold its land holdings to the Council and repaid the temporary advance to the Council.

Recommendation:

1. That the Council resolve to purchase the land owned by THP Holdings Limited.
2. That the Property Manager be delegated authority to negotiate a purchase price for the land owned by THP Holdings Limited that should not exceed the valuation of Ford Baker Valuation Limited and with the price to be conditional on approval by the Inland Revenue Department.
3. That the Council resolve to make an advance to THP Holdings Limited, at a commercial interest rate, to provide it with working capital until the proposed sale of its land is completed.
4. That the Council resolve to seek reimbursement from THP Holdings Limited for the costs that the Council has incurred on improvements to the THP Holdings Limited land.
5. That the Council resolve to subscribe for additional shares in Travis Finance Limited to eliminate its negative shareholder's funds.
6. That the Council resolve to amalgamate THP Holdings Limited and Travis Heritage Park Limited with Travis Finance Limited after THP Holdings Limited has sold its land holdings to the Council and repaid the temporary advance to the Council.
7. That the Council resolve to retain the restructured Travis Finance Limited as a subsidiary until it is determined whether the changes to be enacted to Local Government Act will make it desirable for the Council to change the structures through which it delivers some of its services.
8. That the Director of Finance and Property Manager be delegated authority to undertake the steps necessary to implement the restructuring outlined above.