



25. 3. 2003

REPORT BY THE CHAIR OF THE ANNUAL PLAN SUBCOMMITTEE

PART A - MATTERS REQUIRING A COUNCIL DECISION

1. STATEMENT OF PROPOSAL AND SUMMARY OF INFORMATION IN THE PROPOSAL

The Local Government Act 2002 requires that the special consultative procedure be used for the adoption of the Annual Plan.

The special consultative procedure requires the Council to go through a formal process of preparing a Statement of Proposal and a summary of the information contained in the Statement of Proposal. The draft Financial Plan and Programme document is effectively the statement of proposal together with the policies being adopted by the Council at this time.

A formal statement and summary have been prepared and these are attached for approval by the Council.

Chair's

Recommendation: That the draft Statement of Proposal and Summary of Information in the Proposal be approved.

2. RESTRUCTURING OF CHRISTCHURCH CITY HOLDINGS LIMITED EQUITY

Officer responsible Director of Finance	Author Bob Lineham, DDI 941-8411
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The purpose of this report is to advise the Council about an opportunity that may exist to benefit the Council during 2003/04 of a restructuring of CCHL equity.

BACKGROUND

The Council current holds 100% of the shares in CCHL and thereby controls CCHL.

Staff have recently received advice that there could be significant financial advantage for the Council by splitting the shares into ordinary shares which carry the voting control over CCHL and into preference shares bearing a fixed dividend which would have no voting rights. The preference shares could then be sold by the Council on the market without affecting the Council's ability to continue to fully control CCHL.

The advantages of such a capital restructure would include the ability of the Council to raise proceeds from its investment in CCHL to invest in other projects without conceding any control, the opportunity to gain a cost-competitive permanent source of capital, removing the need for regular re-financing, and utilising an instrument that minimises the impact on CCHL's credit rating and hence its cost of funds.

DISCUSSION

This is an issue which needs to be fully researched and reported on in detail to both the Council and CCHL Board before any commitment is made. However, the staff believe that on the surface it has the potential to provide substantial net revenue gain for the Council with very little downside and therefore the Council should proceed with an investigation of the issue during 2003/04.

The equity of CCHL is currently recorded in the Council's accounts at \$720 million and the amount of redeemable preference shares which may be issued under this proposal could be in excess of \$100 million. This transaction could therefore be deemed to be significant in terms of the Local Government Act.

2 Cont'd

It is likely, after thorough investigation and reporting, that the Council may wish to proceed immediately to carry out the restructure. It would therefore be prudent to include the possibility of the transaction in the Annual Plan so that the Council is not prevented from proceeding with the matter during the 2003/04 financial year if on analysis it is deemed prudent to do so.

NOTIFICATION IN THE ANNUAL PLAN

It is recommended that to give the Council flexibility on this matter that the following statement be included in the Draft Annual Plan:

“During 2003/04 the Council intends to investigate the possibility of restructuring its share capital in Christchurch City Holdings Limited to provide for the issue of non voting preference shares which could be sold by the Council. If after full investigation the Council is assured that it could still retain full control of Christchurch City Holdings and substantially improve the net revenues of the Council from such a transaction it may proceed to implement this proposal.”

The insertion of such a statement in the draft annual plan places the Council under no obligation to proceed to implement such a proposal but gives it the flexibility to do so if it is satisfied with the arrangement after full investigation and consideration of detailed professional advice.

Staff

Recommendation: That the statement be included in the draft annual plan.

Chair's

Recommendation: That the above recommendation be adopted.

CONSIDERED THIS 25TH DAY OF MARCH 2003

MAYOR