## 3. FUTURE MERGER OF JADE STADIUM LIMITED AND CHRISTCHURCH CITY FACILITIES LIMITED

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The purpose of this report is to set out the views and recommendations of CCHL on the merits of merging Jade Stadium Limited (JSL) and Christchurch City Facilities Limited (CCFL).

**GENERAL RATIONALE**

Both companies are involved with the overview and operation of companies which provide for major public events. They both have substantial investment in major public buildings.

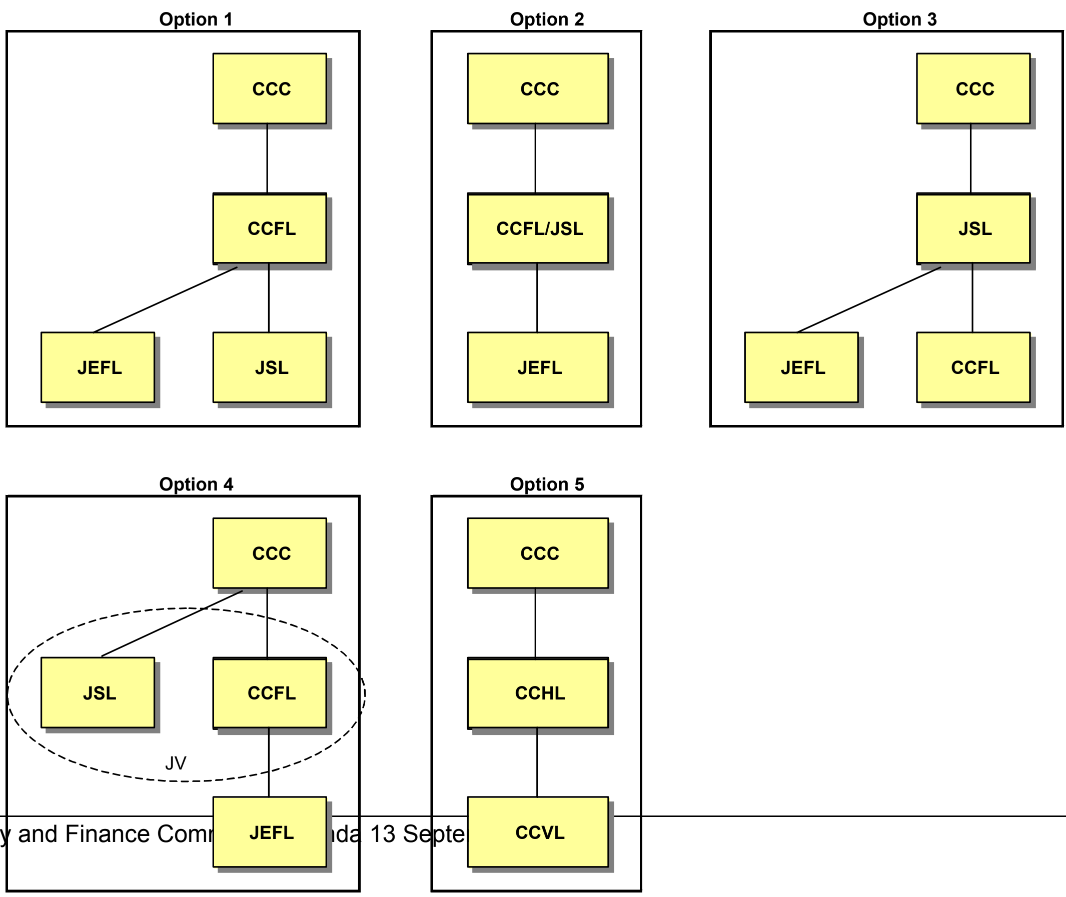
It is considered that there would be benefit for the community as a whole if the two companies were managed in a complementary way so that resources are not wasted through duplication of management and marketing effort. It is also expected that there could be efficiencies by having one board overviewing the work that is currently done by two boards and now that the building development at Jade Stadium is complete the management resources have the capability to contribute to the CCFL needs .

**POTENTIAL STRUCTURES**

A number of possible structures were considered and there may be merit in moving through a two phase process of amalgamation. In the short to medium term the two companies should remain separate legal entities primarily because JSL needs to resolve the issues with its status and not alter the arrangements which are in train for the repeal of the Victory Park Board Act 1919 which will disestablish the Victory Park Board and transfer the assets of the Victory Park Board to JSL. CCFL also has some issues to resolve relating to its management contract with NCC. Nevertheless, the companies could be run by boards comprising the same people and the meetings divided into sections for identification purposes. Staff could also be shared.

The second phase of the process which would follow in due course and be the medium term goal would involve an amalgamation of CCFL and JSL into a single company transferred under CCHL. This would be consistent with the way the Council holds all of its other trading companies.

The following diagrams illustrate potential structures that have been considered as part of this review:



The recommendation of CCHL is that in the short to medium term a joint venture structure be implemented as illustrated in Option 4 above. This would not require a change of legal structures but enable the two companies to work closely together, effectively under a single board.

The medium term intention would be to move to the structure illustrated as Option 5 which would see a single company, say Christchurch City Venues Limited (CCVL), formed from an amalgamation of CCFL and JSL with shares directly held by CCHL. The CCFL subsidiary JEFL would remain as a subsidiary of CCVL.

**IMPACT ON KEY STAKEHOLDERS**

The following table sets out the impact that would result from a merged structure and relationship of the two companies in respect of a range of stakeholders:

| STAKEHOLDERS | IMPACT |
|---|---|
| **JSL related parties -** | |
| Rugby | Relationship is contractual and maintained by staff of JSL. This should be able to continue unchanged. |
| Cricket | Agreement with cricket not yet finalised and until it is it is important that they continue to deal with the existing management and board. Under the proposed medium term structure this would be possible. |
| Other Users | Other events such as concerts and conventions are potential users of CCFL venues as well. Under the proposal there is potential for ensuring that these events are held in the most suitable location for each event and for better co-ordination. |
| **JSL related parties -** | |
| Naming rights holders | Naming rights revenues are critical and would need to stay in place for the duration of existing contract term. In the medium term the use of the name Jade Stadium for the company would be preferable because it has been used for branding of the many aspects of the company's operations to match the major naming rights. There would be some significant expense if the name of the company were changed while the current naming rights continue. However, the company name could be retained through the use of a shelf company, if necessary, in the medium term. |
| Staff | Staff would need to be available to use any available capacity and skill to contribute to joint management. The extent of that capacity would need to be judged by the new board. There would be no need to reduce staff resources since CCFL is under-resourced. |
| Board | Board would need rationalisation. Six directors in total for combined structure should be adequate. All director appointments are at the discretion of the Council and can be changed at any time. |
| **CCFL Related Parties** | |
| NCC | Contractual arrangement provides rights to continue with management contract of the three CCFL facilities until 2006 and with two further rights of renewal. Any thought of changing this would be no different to the current relationship with CCFL but may necessitate the retention of CCFL as a sub-entity while the contract remains or be subject to negotiation. |
| Users | Users will generally not be affected but under the proposal there is potential for ensuring that events which are more suited to an outdoor venue are held in the most suitable location. |
| Staff | No full time staff. Ian Hay and other support is contracted from the Council but has significant knowledge which needs to be secured. |
| Board | Board would need rationalisation. Six directors in total for combined structure should be adequate. All director appointments are at the discretion of the Council and can be changed at any time. |
| Naming rights holders | Naming rights relate to the separate buildings and need not change. |

| STAKEHOLDERS | IMPACT |
|---|---|
| JEFL | Complex legal inter-relationship with CCFL would need to be maintained as currently established because of the contractual obligations to PWANZ joint venture. |
| **Council** | |
| Ownership | Could remove direct relationship of the Council with the companies if ownership transferred to CCHL or another intermediate holding company. Need not alter the actual control currently exerted by the Council through SoI and periodic reporting. |
| Town Hall | The Town Hall is leased to CCFL and managed on behalf of the Council. This would not alter. |
| **CCHL** | |
| CCHL | • Currently has only a contractual arrangement for monitoring of these companies but not direct control.<br>• If brought under direct ownership of CCHL then accounts would be consolidated and there would be a small positive impact on the CCHL bottom line.<br>• Future lending could be direct without having to go through the Council but would mean risk is on CCHL. May require revisiting of banking arrangements but not a major issue. |

**POTENTIAL SYNERGIES**

Both CCFL and JSL are property companies specialising in the provision of public venues and function facilities. They have many common characteristics and while each venue has its own special purpose they sometimes compete for the same customers/events at the margin. Both companies have a role to play in attracting events to Christchurch and there should be considerable benefit from being able to share in closer marketing of the facilities with the benefit of Christchurch people having access to more events and the economy benefiting from more people being attracted from out of the city to those events.

In particular the following potential synergies have been noted:

- Best venue use through closer liaison and combined marketing.
- Elimination of duplicate governance arrangements.
- Opportunity to provide some dedicated staffing resource for CCFL and eliminate the need for directors to take on executive roles.
- Economies of scale and synergies for asset management functions.
- A bigger company will help to retain and attract talented management.
- In a merged CCVL structure the financial outcomes are complementary by merging the good equity position of CCFL with the limited equity of JSL and the cash flow/profits of JSL likely to be achieved in the medium term will balance the longer term forecast losses of CCFL.
- Greater management capacity to undertake new Council related projects.

**POSSIBLE DISADVANTAGES**

There are no significant disadvantages seen to arise from a merger of the two companies.

**MANAGEMENT AND STAFFING REQUIREMENTS**

JSL have an established staffing structure with competent management and financial skills. CCFL on the other hand has no dedicated staff of its own drawing its resources on a contractual basis from Council staff on an as required basis. Ian Hay, as Company Secretary, has prime responsibility but has a wide portfolio of other responsibilities for the Council. Accounting resource is drawn from the Council's Financial Services Unit, specialist financial work is undertaken by the Financial Analyst for CCHL and funds management by the Council's Funds Accountant. Operational issues for CCFL are the responsibility of NCC as per the management contract between CCFL and NCC.

The CCFL board have the view that as board members they need to undertake a quasi management role in the company, especially when special projects are being considered, because of the lack of dedicated CCFL resources. It should not be overlooked, however, that Council staff do put in significant effort and time to the needs of CCFL.

It is possible that there may be some spare capacity within the resources of JSL now that the development project is complete and that this could be applied to some of the administrative, board servicing and building maintenance overview issues of CCFL. However, it may well be necessary to expand the management resources above those which currently exist in JSL in order to met the proper needs of the company. Once the companies are operating under a joint management structure there will be a framework on to which the necessary additional resources can be grafted.

**RELATIONSHIP WITH NCC**

When CCFL was established, a contract was entered into with NCC for management of the facilities. The impetus for this arrangement was because NCC had international linkages and this was expected to be beneficial in bringing shows, conferences and events to the city. The contract is due for review in 2006 and has two further rights of renewal at five yearly intervals. NCC have requested a renewal quite recently in anticipation of 2006.

The Board of CCFL have been putting considerable effort into managing this contract with NCC to ensure that a fair and worthwhile result is achieved for the community. There have been concerns about performance and some progress has been made in improving it. The contract renewal negotiations will provide opportunity to address any issues of concern. Areas where there is room for CCFL to take a more direct role in the future are:

- Reporting
- Governance
- Co-ordination of Venues

A continuing role for CCFL will be:

- Asset management
- Approval of Capital Expenditure
- Approval of Budget and Business Plan
- Development of Objectives and Policies

Because of the existence of the contract it will not be possible for JSL resources to be applied in substitute for NCC in the areas where NCC currently take responsibility. The role, if any, would be limited to assisting the management of the relationship with NCC.

**RETENTION OF IN-HOUSE KNOWLEDGE**

There is a considerable amount of in-house knowledge has built up both within JSL and within Council management in respect of CCFL. It will be important to ensure that this knowledge is not lost by a wholesale sudden cutting of ties from existing resources.

It should be recognised, however, that transitions can be made and be effective provided it is planned for.

**FUTURE OPTIONS (NEW BUILDINGS ETC)**

In the future there may be opportunities for new Council facilities to be developed for Council use and managed by either CCFL or a new combined entity. This opportunity would remain the same whether it be through the existing structure or a new combined entity.

**LEGAL ISSUES**

Simon Mortlock has undertaken a detailed legal analysis of issues raised by this proposal. Key issues he has identified are:

- NCC's contractual relationship with CCFL
- JEFL's contractual relationship/covenants with PWANZ
- VPB relationship with JSL
- Valuation issues on consolidation
- Name protection
- Companies Act issues

The conclusions of the legal analysis are:

- Until the NCC renewal negotiations are complete there will be some difficulty in determining the extent to which JSL could assist in the governance and management of CCFL facilities.
- It is essential that the separate company identities be retained because of legal issues relating to contracts and other arrangements which depend on the status quo for definition (e.g. PWANZ contract and VPB Disestablishment Bill).
- Practical difficulties of drafting joint venture arrangements until NCC negotiations are complete.
- Ultimately JSL and CCFL could enter into a joint venture arrangement to run their common facilities and management agreements where there is commonality of function and purpose.

**FINANCIAL CONSOLIDATION**

A simple consolidation of the forecasts of both companies has been prepared and analysis shows that cash flow and financial position are positive. The analysis shows that the combination of these two companies smooths out the extremes of gearing, profit and cash flow that are found in the individual companies.

Standard and Poors were requested to advise whether transferring the companies under the CCHL umbrella would affect the credit rating of CCHL and have confirmed that it would make no difference.

**TAX ISSUES**

Deloittes were engaged to consider whether there are any tax issues which would need to be taken into account in developing a solution.

The key issues raised in the opinion are:

- There are no tax impediments to any of the options being considered.
- There may be some opportunities to improve tax efficiency.
- It is important that if there is any sale of shares involved that it be at market value.

Deloittes have noted that there may be some financial benefits in the long term from the acquisition of the separate companies by CCHL from the Council.

**CONCLUSIONS**

1. There are synergies which could be effectively developed between JSL and CCFL although they will be primarily through joint marketing, co-ordination and reduced governance costs and not necessarily be a cost saving overall.

2. The ultimate goal should be to have a full merger of JSL and CCFL but this cannot be achieved in the short to medium term as the identities of the two companies need to be retained meantime. It should be noted for reconsideration by the Council following the passing of the local bill to repeal the Victory Park Board Act 1919.

3. A sensible short to medium term goal should be for the board membership of the two companies to be restructured so both boards have common membership and the meetings can be readily combined. Arising from this common membership of the boards there would be an expectation that a joint venture would be established between the boards, with the blessing of the Council, which defines the objectives of the joint venture and the way that the two companies will work together.

**TIMELINE FOR TRANSITION**

The recommended timeline for the implementation of this proposal including the restructuring of the two boards is:

| | |
|---|---|
| October 2004 | CCFL commence renegotiations with NCC |
| February/March 2005 | CCFL and JSL Boards reformed with common membership |
| Post NCC Contract Renewal | Joint Venture Agreement between JSL and CCFL entered into |

| | |
|---|---|
| Post VPB Bill enactment | The Council to reconsider merging the two companies and transferring under CCHL |

**Staff Recommendation:**

1. That approval be given for the Boards of Jade Stadium Limited and Christchurch City Facilities Limited to enter into a joint venture agreement to provide for joint governance and management of the two companies.

2. That arrangements be made for the boards of Jade Stadium Limited and Christchurch City Facilities Limited to have the same directors and CCHL be authorised to make arrangements for this to take place within the terms of the Council's policy for the appointment and remuneration of directors.

**Chair's Recommendation:** That the above recommendation be adopted.