

### 3. REPORT FROM CHRISTCHURCH CITY HOLDINGS LTD

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The purpose of this report is to seek the approval of the Council of draft Statements of Intent ('Sols') received from subsidiary companies. Christchurch City Holdings Ltd ('CCHL') has performed an initial review of these documents and, in some cases, requested changes which have been reflected in the documents. The draft Sols have been separately circulated to Councillors.

CCHL's own Statement of Intent was approved at the March Council meeting.

#### BACKGROUND

The Local Government Act 2002 has imposed a revised reporting and approval process for draft Sols. Schedule 8 of the Act provides:

- “2. **Statements of Intent for council-controlled organisations**  
*The board of a council-controlled organisation must deliver to its shareholders a draft statement of intent on or before 1 March each year.*
3. **Completion of Statements of Intent**  
*The board must:*
  - a) *Consider any comments on the draft statement of intent that are made to it within 2 months of 1 March by the shareholders or by any of them; and*
  - b) *Deliver the completed statement of intent to the shareholders on or before 30 June each year.”*

Because of the new timing, few of the CCTOs had completed their business planning and financial forecasts by the time they were required to submit their draft Sol. There is therefore a possibility that some CCTOs may seek to make changes to their draft Sol after they have been submitted to the Council but before the final Sol has been formally delivered to the shareholder.

If changes are made, and are considered to be material to the Council as ultimate shareholder, they will be brought back to the Council for further approval. If the changes are minor, it is recommended that CCHL be authorised to approve them.

#### ORION NEW ZEALAND LTD STATEMENT OF INTENT

Last year the Sol contained a caveat relating to the possibility of a revised Sol should the Commerce Commission's review of the industry result in a significant adverse outcome for Orion. This caveat has now been removed, as recently announced threshold decisions provide some predictability for Orion's forecasts. There are still some regulatory issues to be finalised however.

Section D refers, amongst other matters, to possible participation in the government's dry year reserve generation scheme, reliability forecasts, pricing issues and environmental and sustainability policies.

The year to date financial performance of Orion's network has been steady and in line with budget. However, the significant upward revaluation of Orion's network at the previous balance date has resulted in an increased depreciation charge, which will negatively impact on reported profits at year end.

The overall results of the Orion group are also impacted by goodwill amortisation and equity accounted deficits of its non-core investments. The Sol notes that, if appropriate, these investments will be realised over time.

The company made use of its strong balance sheet and surplus imputation credits to pay a special unbudgeted dividend of \$40 million to its shareholders in February 2004 (CCHL share \$35.05 million).

Forecast dividends remain consistent with earlier projections.

At the request of the Committee, the Director Strategic Investment undertook to report back to the Committee prior to 30 June 2004 on the appropriateness of Orion's current debt/equity ratio.

#### **CHRISTCHURCH INTERNATIONAL AIRPORT LTD STATEMENT OF INTENT**

The format of the Sol has been amended to more closely follow the required headings under the Act, but there have been no substantive changes in content.

The company is enjoying a period of sustained growth in passenger numbers. While this is positive for the company and the region, it is placing pressure on the airport's infrastructure. CIAL management are currently evaluating options for an upgrade and expansion of the terminal and car parking facilities, but have yet to finalise a plan. They have undertaken to keep the shareholders informed of developments.

The company's half year report reflects the above-noted growth, with revenues and profits up over the previous equivalent period.

#### **LYTTELTON PORT COMPANY LTD STATEMENT OF CORPORATE INTENT**

Port companies are excluded from the definition of a CCTO under the Local Government Act 2002, and hence LPC's SCI is prepared on the same basis as last year (in particular, it is still referred to as a Statement of Corporate Intent rather than a Statement of Intent, and there is no governance statement). The SCI is required by the company's constitution rather than by statute.

The SCI is very similar in format and content to previous years. While Stock Exchange Listing Rules and securities legislation effectively prevent the company from including forecast financial information in the SCI, it is considered that within these constraints, the document appropriately reflects the priorities of LPC and its shareholders.

The company recently reported its half year result, which was in broadly in accordance with expectations. Volumes in the port's three key trades – coal, containers and bulk fuel – grew, although total volumes through the port remained static.

#### **RED BUS LTD STATEMENT OF INTENT**

The content of the Sol is similar to last year's. In addition to the company's commercial focus, it contains a range of measurable environmental and social objectives.

The company recently presented their interim report for the half year to 31 December 2003. It has been operating successfully with revenues and profits ahead of budget and the previous equivalent period.

#### **CITY CARE LTD STATEMENT OF INTENT**

The form and content is similar to the previous year's.

CCL's interim report for the six months ended 31 December 2003 indicated an overall increase in revenue through success in winning new business, although overall profitability was down on the previous period as the result of a renegotiation of prices on certain contracts with the Council in return for an extension of the contract terms.

#### **SELWYN PLANTATION BOARD LTD STATEMENT OF INTENT**

Again, the form and content is similar to the previous year's. The company has reached a sustainable harvest yield based on its existing forestry resource, and forecast volumes for the next three years are steady.

For the year to date SPBL has been trading ahead of budget.

## **JADE STADIUM LTD STATEMENT OF INTENT**

It is considered that the Sol presents a comprehensive set of performance measures. The company is forecasting operating cash surpluses and a gradually reducing net deficit over the next three years (ahead of earlier projections), as well as principal debt repayments to the Council of between \$1.6 million and \$1.8 million per annum.

JSL's half year report reveals an improvement in revenues, operating cash surplus and net deficit over the previous equivalent period.

## **CHRISTCHURCH CITY FACILITIES LTD STATEMENT OF INTENT**

With regard to CCFL's core operations of managing, through a long term contract with NCC (New Zealand) Ltd, the Town Hall, Convention Centre and Westpac Centre, the projections are broadly consistent with those included in last year's Sol.

The Sol makes reference to CCFL's new wholly-owned subsidiary, Jet Engine Facility Ltd, which is constructing an aero engine test facility at Christchurch International Airport to lease to a joint venture between Pratt & Whitney and Air New Zealand.

For the year to date the company has been trading to budget.

- Recommendation:**
1. That the draft Sols from Orion Group Ltd, Christchurch International Airport Ltd, Lyttelton Port Company Ltd, Red Bus Ltd, City Care Ltd, Selwyn Plantation Board Ltd, Jade Stadium Ltd and Christchurch City Facilities Ltd be approved.
  2. That CCHL be authorised to approve any subsequent minor changes to the Sols arising from the CCTOs' business planning and budgeting process, subject to the proviso that CCHL subsequently informs the Council of such changes, and brings back any major changes to the Council for approval.
  3. That the General Manager Strategic Development investigate and report to the Council on the possibility of benchmarking the cost and performance of City Care in maintaining the city's greenspace.