

## 9. CHRISTCHURCH CITY HOLDINGS LIMITED - CITY CARE LIMITED - ADDITIONAL CAPITAL

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### PROPOSAL/PURPOSE OF REPORT

That Christchurch City Holdings Limited provide additional capital of \$2.5 million to its subsidiary City Care Limited (CCL), to enable the Company to expand its contracting base.

### RECOMMENDATION

That the Council approve an equity investment by CCHL of \$2.5m in City Care Limited.

### BACKGROUND

In July 2004 CCL indicated to CCHL that it projected a need for an additional capital of \$5 million to support the growth of the company as it expands its operation and tenders for significant new contracts. At that time the board of CCHL (with Council approval) agreed to provide additional equity for the company of \$2.5 million and consider the provision of a further \$2.5 million later in the year depending on the company's needs at that time.

### Request for Capital

CCL have now approached CCHL outlining their current position and requesting that an additional \$2.5 million equity be made available to strengthen their balance sheet so that they are able to fund capital assets which would be needed if they are successful in some large tenders which are under consideration.

City Care Limited is a profitable company which needs to keep growing in order to remain viable in the long term. It is endeavouring to broaden its contract base by tendering for a wide range of contracts with other local authorities in areas where it has expertise. It is in the interests of the shareholder of City Care Limited that the company is able to broaden its base so that it does not become dependent upon one local authority and any one contract in particular.

In the Statement of Intent for City Care the principle objective of the Company is stated to be *"to operate a profitable, sustainable and innovative business so as to maintain a strong market presence in all areas of construction and maintenance of the infrastructure and amenity assets owned by the Christchurch City Council.*

*In defining operations and markets to be involved in, the Company will ensure:*

- *It will continue to compete in Christchurch markets and aggressively target a significant share of work offered for tender by CCC.*
- *It will maximise the success of its business in terms of sustainable market share, growth into new markets in new market areas (in and beyond Christchurch and Canterbury region) and by focusing on profitability and diversifying its client and activity base."*

New business opportunities such as major tenders often require new equipment and investment in working capital. The Company's balance sheet is such that it needs to increase its equity because its level of debt cannot reasonably be expanded without additional equity.

CCHL recognises that CCL need to know, when they are submitting bids for new contracts, that they are able to fund any major capital requirements which are needed to support the contracts. They therefore need to have an adequate line of credit available. While their current and forecast debt/equity ratios are within reasonable commercial bounds at the moment, their current banking facilities could soon reach their limit. They are therefore seeking this equity injection of \$2.5 million to provide sufficient flexibility. CCL have illustrated that excellent rates of return will be available from investment of any additional capital in support of new contracts.

CCHL intends that the long-term capital needs of the company be reviewed in the process of developing the Statement of Intent in 2005. However, in the meantime CCHL supports the provision of an additional \$2.5 million of capital and intends that while that amount of capital will be subscribed for it will not be paid up until there is a specific and justifiable need.

The Christchurch City Holdings Statement of Intent requires that any new investment in shares by CCHL be approved by Christchurch City Council. The support of the Council is therefore sought for this additional investment by CCHL.