



7. CHRISTCHURCH CITY HOLDINGS LTD: STATEMENTS OF INTENT FOR SUBSIDIARY COMPANIES

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PURPOSE OF REPORT

1. The purpose of this report is to seek the approval of the Council of draft Statements of Intent received from CCHL subsidiary companies Orion Group Ltd, Christchurch International Airport Ltd, Red Bus Ltd and City Care Ltd, and to provide brief commentary on their year to date results.
2. The Sols of Lyttelton Port Company Ltd, Christchurch City Facilities Ltd, Jade Stadium Ltd and Selwyn Plantation Board Ltd will be presented to the Council for approval at a later meeting.

EXECUTIVE SUMMARY

Statements of Intent

3. The Council's subsidiary companies are required by statute (or, in the case of Lyttelton Port Company Ltd, the terms of its constitution) to submit an annual Statement of Intent ('Sol') to their shareholders. An Sol must set out the entity's objectives and performance measures, as well as certain other information, and must be approved by the shareholder.
4. CCHL is required by the terms of its own constitution to forward the Sols of the trading companies to the Council for final approval. CCHL has, however, performed an initial review of these documents.
5. The draft Sols of all the above companies are attached.

RECOMMENDATIONS

It is recommended:

1. That the Council approve the draft Sols of Orion Group Ltd, Christchurch International Airport Ltd, Red Bus Ltd and City Care Ltd.
2. That CCHL be authorised to approve any subsequent minor changes to these Sols arising from the business planning and budgeting processes of the subsidiary companies (any major changes will be brought back to the Council for approval).

BACKGROUND ON CHRISTCHURCH CITY HOLDINGS LIMITED - STATEMENTS OF INTENT FOR SUBSIDIARY COMPANIES

6. The Local Government Act 2002 has imposed the following 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.”*

7. Because of the timing requirements of the Act, only those CCTOs with March balance dates 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.

8. 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

9. The Orion Sol is broadly similar to the previous year, with only relatively minor changes including:

Page 2 New paragraph under “Security of supply” referring to Orion’s intention to seek demand-side initiatives such as smart pricing signals to reduce peak demand and hence reduce or defer capital expenditure.

Page 3 New paragraph under “Growth in the regional economy” regarding Transpower’s consultation process re a transmission upgrade for the upper South Island, and the role Orion can play in this.

10. Section D describes Orion’s key objectives, including commercial performance, security of supply, reliability, pricing, social responsibility and community interest, growth in the regional economy, environmental commitment, undergrounding, compliance, governance, human resources and health and safety.

11. Orion’s profit for the year to date is marginally behind budget, but it still continues to trade strongly. Factors contributing to the slight fall back in profit include a higher depreciation charge resulting from a network and building revaluation that was completed after last year’s Sol was finalised, an accounting adjustment re capitalised interest and lower demand following a mild winter.

CHRISTCHURCH INTERNATIONAL AIRPORT LTD STATEMENT OF INTENT

12. While there has been a fair amount of “fine-tuning” of the wording, the CIAL Sol does not contain any major changes. The terminal development plan approved last year will be a key area of focus for the company, with work on the car park building having already commenced. Points of note in the Sol include:

- Section 3.3 New vision statement
- Section 5.1 The financial performance targets are those used in the terminal development plan business case
- Section 8.2 Under new accounting standards, the company will revalue all land, buildings, infrastructural assets, investment properties and sealed surfaces. Annual movements in the value of the investment properties will be recognised through the Statement of Financial Performance.
- Section 10.2 The estimated commercial value of the company is \$419 million.

13. The company has continued to trade successfully in the year to date, although there has been a softening in passenger volumes reflecting poor snow falls in the South island over winter and reduced international tourism flows into New Zealand. Net profit for the year to date is marginally down on the previous year, affected in part by additional airline incentive costs incurred to stimulate airline/passenger growth into Christchurch.

CITY CARE LTD STATEMENT OF INTENT

14. There are no changes of significance in the Sol compared with the previous year.
15. The company has experienced a difficult half year to 31 December, with margins under pressure from increasing direct costs, and dislocation following the resignation of senior executives. However, operating revenue increased significantly from the previous equivalent period, reflecting the ongoing expansion of the company, and profits received a one-off boost from the settlement with the Council regarding the cessation of City Care’s involvement in the refuse business. Indications for the second half of the year are promising.

RED BUS LTD STATEMENT OF INTENT

16. There are no changes of significance in the Sol compared with the previous year.
17. The company has recorded a creditable half year result, with improved revenues and profitability compared with the previous equivalent period. The company successfully defended all but one (minor) of its routes in the last major tender round, which took effect from November 2005. There are now no significant urban bus tenders until 2009, which enables management to focus on identifying and implementing business and operational improvements.