

9. POLICY ON SIGNIFICANCE: DEFINITION OF STRATEGIC ASSETS

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PURPOSE OF REPORT

1. The purpose of this report is to provide advice to the Council with regard to the policy on significance, and the definition of strategic assets which forms part of the policy. This report relates to a subset of those strategic assets which are primarily Council Controlled Trading Organisations. This report should be read in conjunction with the report on the policy on significance which was held over from a meeting on 20 December 2005.

EXECUTIVE SUMMARY

2. The format of the current list of strategic assets is not clear as to whether the individual subsidiaries of CCHL are separate strategic assets or part of the CCHL asset and this needs to be clarified.
3. Provision needs to be made for the ownership of Jade Stadium Limited and Christchurch City Facilities Limited to be moved under the umbrella of Christchurch City Holdings Limited within the term of the next LTCCP.
4. Recognition needs to be given to the Council's intention to merge Jade Stadium Limited and Christchurch City Facilities Limited into one company. This is a decision which has been acknowledged in principle by the Council earlier but is awaiting legislation to wind up the Victory Park Board. Such a merger would not in any way affect control and ownership of both entities and is not considered to breach the listing of them separately as strategic assets but it is considered sensible to note this to avoid misunderstandings.
5. City Care Limited and Red Bus Limited are both contracting companies and, as such, not considered to be key infrastructure of the city. Christchurch City Holdings Limited does not consider that they need to be listed as strategic assets. Whether or not they are owned by CCHL or the Council will not affect the delivery of service by the Council. There are currently no proposals for sale of these companies but flexibility should be retained in case circumstances change.

FINANCIAL AND LEGAL CONSIDERATIONS

6. Sections 84, 90(2) and 97(b) of the Local Government Act require that assets which the Council considers to be strategic be listed in the policy on significance which is consulted on as part of the LTCCP and once adopted as part of the LTCCP those assets may not have ownership or control transferred to or from a local authority without a change to the LTCCP.
7. The purchase of the Council's shares in Jade Stadium Limited and Christchurch City Facilities Limited by Christchurch City Holding Limited could enable a financially efficient transfer of capital from Christchurch City Holdings Limited to the Council without changing effective control, retention and operation of those companies.

STAFF RECOMMENDATIONS

It is recommended that the policy on significance to be included in the 2006-16 LTCCP provide for the following:

- (a) An acknowledgement that during the period of the plan the ownership of Jade Stadium Limited and Christchurch City Facilities may change from the Council to Christchurch City Holdings Limited and that the two companies may be merged together.
- (b) Non inclusion of City Care Limited and Red Bus Limited in the list of strategic assets.
- (c) Format and wording of the strategic assets part of the policy as it relates to Council Controlled Trading Organisations be as set out in clause 11 in the body of this report.

BACKGROUND ON POLICY ON SIGNIFICANCE: DEFINITION OF STRATEGIC ASSETS

8. On 20 December 2005 the Council had on its agenda a report on the policy on significance which included a similar definition on strategic assets to that which was adopted by the Council in 2004 for the current LTCCP. As CCHL wished to have the definition of strategic assets revised, the report was left to lie on the table pending a report from CCHL on the matter. That is the purpose of this report.
9. CCHL wishes to have this policy revised from the following points of view:
 - A clearer definition of the status of companies which are subsidiaries of CCHL
 - Revision of which companies should be included in the list of strategic assets
 - Clarity over the extent of the assets which are strategic.
10. The effect of an item being listed as a strategic asset in the policy on significance is that it is restricted from having its ownership or control moved to or from the Council during the period of the LTCCP. The only way this could be achieved during the term of the LTCCP for one of these assets is by a change to the LTCCP which would require public consultation. Often changes relating to subsidiaries have a complexity and commercial sensitivity to them which would be very hard to explain in the context of public consultation. It is therefore important that this list is compiled in such a way that any changes anticipated or possible during the three year LTCCP period are provided for.

DISCUSSION

11. The strategic asset list in the policy is extensive and is attached as Appendix A in the way it is presented in the 2004/14 LTCCP. The specific assets from that list which are the subject of this report are as follows:
 - CCHL
 - Lyttelton Port Company Limited
 - Christchurch International Airport Limited
 - City Care Limited
 - Orion Group Limited
 - Red Bus Limited
 - Jade Stadium Limited
 - Christchurch City Facilities Limited
 - Christchurch Town Hall (*this asset is not actually a CCTO and no changes are proposed except that it needs to be identified separately from Christchurch City Facilities*)
 - Transwaste Canterbury Limited
12. The current structure of the clause on strategic assets is not clearly worded in respect of the companies which are subsidiaries of CCHL. This is because some of the companies are owned by CCHL and so are not directly assets of the Council. Other subsidiaries of CCHL are listed as subsets and it is unclear whether it is intended that these be treated as significant assets in their own right or treated as part of a bigger whole. The confused presentation can largely be corrected by better wording and correct bullet pointing levels. Legal advice suggests that in the normal course of events subsidiaries of CCHL are not strategic assets of the Council but it can be assumed that the Council's purpose in listing them in 2004 was to identify the fact that CCC regards them as strategic and proposed that they be constrained by the provisions of the Local Government Act, the same as other assets on the list.
13. The CCHL Board has given consideration to the assets listed above to determine which of them it truly believes should be treated as strategic. Generally CCHL believes that these should be **“those assets which provide an irreplaceable piece of the city's infrastructure”**.

14. Two of the CCHL subsidiaries, City Care Ltd and Red Bus Limited, do not strictly fall into this category as their role is to tender for contracts which could be provided by other entities. CCHL does not currently have any proposals to sell these assets, but contends that if market conditions caused it to put them up for sale, there would not need to be public concern since there are other companies which could provide the service needed. In the case of City Care Limited, there are a multitude of other contractors in the local market and in the case of Red Bus Limited it needs to be recognised that the body responsible for the provision of public transport in the city is ECAN and not the City Council . While Red Bus Limited is a prime quality provider of bus services it could continue to carry out this function for ECAN no matter who owned it. There is also no guarantee that Red Bus Limited will always be successful in winning tenders from ECAN to be the prime bus service provider in the city. CCHL believes that in these circumstances City Care and Red Bus should be removed from the list of strategic assets. This would give no authority to CCHL to dispose of these companies without approval from the Council but it would mean that the Council would not need to consult the public on the issue over and above the consultation which will take place as part of the adoption of the new LTCCP.
15. Christchurch City Facilities and Jade Stadium are two companies that are held directly by the Council. In the medium term it is likely that CCHL should acquire the shareholdings in these companies, which would also enable a capital transfer to be made from CCHL to the Council. The timing of this will depend on the availability of capital within CCHL and the status of legislation to enable the winding up of Victory Park Board. These companies should continue to be treated as strategic assets but the wording should facilitate the ability to make this transfer without an amendment to the LTCCP and further public consultation.
16. A further aspect which needs to be provided for is the intention to merge together Jade Stadium and Christchurch City Facilities once the dissolution of Victory Park Board has been completed. The two companies are being operated with joint management already. This merger would not in any way alter the ownership and control of the companies but for the sake of clarity it is sensible that it be made clear that any successor to these companies will also remain a strategic asset.
17. The Local Government Act (section 97(2)) states that “a decision to transfer ownership or control of a strategic asset to or from a local authority” can only be taken if provided for in the LTCCP. For most of the assets listed and owned directly by the Council, the assets are discrete physical assets. However, in the case of companies, the description has to relate to the ownership of businesses which are not as clearly related to a specific asset but rather the control of an operating entity through a shareholding. The current LTCCP is inconsistent in how it describes each of the company assets. Some are described simply by the name of the company and others with the preamble “its equity in...”. The Act refers to “ownership” or “control”. The level of shareholding which Council holds in the various companies varies, some are owned 100% and some have only a partial ownership. From time to time there may also be a need for companies to restructure their capital for some reason and the important bottom line is for the entities to remain within Council “control”. To be consistent in the description it is proposed that the strategic asset be defined as the “controlling equity” in each company. An exception is needed for Transwaste Canterbury because the current shareholding is less than 50%.

PREFERRED OPTION

18. The following table provides a comparison of the sub list of strategic assets listed in the 2004 LTCCP and those which are proposed for the 2006 LTCCP:

Listed in 2004 LTCCP	Proposed for 2006 LTCCP
Its equity in Christchurch City Holdings Ltd and its equity holdings in Lyttelton Port company	Its controlling equity in Christchurch City Holdings Ltd
	The controlling equity which CCHL holds in Lyttelton Port Company Ltd
Christchurch International Airport Ltd	The controlling equity which CCHL holds in Christchurch International Airport Ltd
City Care Limited	(Remove from list)
Orion Group Limited	The controlling equity which CCHL holds in Orion Group Limited
Its equity in Red Bus Limited	(Remove from list)
Its equity in Jade Stadium Limited	The controlling equity in Jade Stadium Limited or its successor held either directly by CCC or through CCHL
The Town Hall and the Council's equity in Christchurch City Facilities Limited	The controlling equity in Christchurch City Facilities Limited or its successor held either directly by CCC or through CCHL
	Christchurch Town Hall
The city's equity in Transwaste Canterbury Limited	Its equity in Transwaste Canterbury Limited

19. Based on the above proposal for the 2006 LTCCP it is recommended the format of the Strategic Asset list for these assets be as follows:

Section 90 (2) requires the Council to identify and list the assets it considers to be strategic assets.

The assets that Christchurch City Council considers to be strategic assets include:

- **Its controlling interest in Christchurch City Holdings Ltd**
- **The controlling interest that Christchurch City Holdings Ltd holds in each of the following subsidiaries (each subsidiary to be treated as a separate strategic asset for the purposes of this policy):**
 - **Lyttelton Port Company Limited**
 - **Christchurch International Airport Limited**
 - **Orion Group Limited**
- **The controlling interest in Jade Stadium or its successor held either directly by Christchurch City Council or through Christchurch City Holdings Limited**
- **The controlling interest in Christchurch City Facilities Limited or its successor held either directly by Christchurch City Council or through Christchurch City Holdings Limited**
- **Christchurch Town Hall**
- **Its equity in Transwaste Canterbury Limited.**