

## 25. CHRISTCHURCH CITY FACILITIES LIMITED – REDEEMABLE PREFERENCE SHARES

<b>General Manager responsible:</b>	General Manager Corporate Services, DDI 941-8540
<b>Officer responsible:</b>	Legal Services Manager
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### PURPOSE OF REPORT

1. The purpose of this report is to seek from the Council a resolution that will enable the directors of Christchurch City Facilities Limited to better deal with the matter of Redeemable Preference Shares issued to the Christchurch City Council in 2004.

### EXECUTIVE SUMMARY

2. Christchurch City Facilities Limited (CCFL) is a Council controlled organisation. The Council owns all of the shares in the company.
3. In 2004, as part of financing arrangements involving Jet Engine Facility Limited, CCFL issued Redeemable Preference Shares to the Council. The shares were redeemable at the option of the Council upon it giving CCFL five working days notice.
4. Under the International Financial Reporting Standards adopted by the Council's CCTOs, preference shares that give the holder a right to require the company issuing those shares to redeem them at or after a determinable date for a fixed amount, is a financial liability. As such, this would have to be classified as debt rather than equity on the CCOs Statement of Financial Position. This would cause the companies' equity to reduce by the value of the shares issued.
5. It is recommended that the terms of the redeemable preference of shares issued by CCFL are changed so that they are redeemable at the discretion of CCFL rather than the Council. This will enable CCFL to comply with the appropriate financial standards.
6. The change has already been effected by the board of Jet Engine Facility Ltd. In order to complete the matter it is now necessary for CCFL to do the same, with the consent of the Council.
7. A suggested form of consent by the Council to the change together with the resolution to be signed by the directors of CCFL are attached.

### FINANCIAL IMPLICATIONS

8. If the Council agrees to change the terms of the Redeemable Preference Shares issued in respect of CCFL, the Council will no longer be entitled to give CCFL notice requiring that the shares be redeemed. Given that the Council would never contemplate giving notice in circumstances in which CCFL would struggle to comply, the financial implications arising from the recommended change are minimal.
9. Likewise, if the recommendation in this report is accepted, CCFL would not issue a notice to the Council unless, for example, it was agreed by the parties as part of future financing arrangements.
10. The recommended change is to ensure that all steps required to comply with the International Financial Reporting Standards and to complete a process agreed to by both Jet Engine Facility Ltd and CCFL some time ago.

### LEGAL CONSIDERATIONS

11. The Council's consent to the change is required urgently so that CCFL can comply with the requirement that its statements of account are completed by 30 September 2007. The form of consent and director's resolutions are to be executed before the company's auditors can approve the accounts.

12. CCFL is closely monitored by Christchurch City Holdings Limited and by the Council through the half yearly and annual reporting obligations and CCFL's Statement of Intent. From a practical point of view, the recommended change to the Redeemable Preference Shares issued to the Council will have no effect on the operation of CCFL.

#### **THE OPTIONS**

13. The first option is for the Council to do nothing. The result of this would be that CCFLs auditors would be unable to approve the company's accounts in accordance with the International Financial Reporting Standards that have been adopted by the company. CCFL would also be in breach of its obligation to complete statements of accounts by 30 September 2007.
14. The second option is to consent to the change recommended in this report. For the reasons given, this is the preferred option.

#### **STAFF RECOMMENDATION**

It is recommended that the Council resolve to:

- (a) Consent to the change to the terms of issue of Redeemable Preference Shares in Christchurch City Facilities Limited.
- (b) Authorise the common seal of the Council to be affixed to the form of consent attached to this report.