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Corporate Plan Output: Trading Activities Monitoring	

The purpose of this report is to provide information to the Council on recent activities of Christchurch City Holdings Limited ('CCHL').

## 1. CCHL PARENT COMPANY

### 1.1 Draft Budget

A draft budget for the CCHL parent company was approved by the Board in January. It indicated a projected dividend to the Council for the year ending 30 June 2000 of \$19.2 million. This represents an increase of \$1.6 million on the dividend forecast in last year's Annual Plan – the improvement largely stems from the reduction in borrowing costs as a consequence of the current low interest rate environment.

The Council has recently requested that CCHL review its budget for 1998/99, to assess whether there is any flexibility to increase the dividend to compensate for a shortfall in the Council's income which has arisen principally from delays in capital repatriation and lower interest rates on investments. This review has been performed, but until the end of year results are to hand, the Board is unable to comment on an increased dividend. The CCHL Board has agreed to discuss with Orion the possibility of an increased dividend from that company to compensate for the delay in the return of capital. Once CCHL's end of year results are to hand, the request for an increased dividend to the Council will be given serious consideration.

### 1.2 Interim and Special Dividends

Following the receipt of a special fully-imputed dividend of \$57.8 million from Orion in December 1998, CCHL paid an interim dividend of \$15 million to the Council and a special dividend of \$30 million. In addition, it repaid a \$5 million advance from the Council.

### 1.3 Capital Repatriation to the Council

The dividend of \$57.8 million from Orion referred to above represents the completion of the first half of the budgeted \$131.4

million capital repatriation. The balance is expected to be paid in the current financial year.

Additionally, a further \$61.3 million (representing the residual proceeds of the sale of Orion's retail operations) is also expected in the current financial year.

The balance of the retail sale proceeds was applied by Orion to the purchase of the shares held by Enerco minorities, enabling Orion to gain significant efficiencies from a merger of the two networks and add value to the Council's investment.

Orion are currently in the process of obtaining binding rulings from the IRD to ensure that there are no adverse tax consequences arising from the return of this capital to CCHL.

CCHL has taken external advice regarding the most efficient method of returning the surplus cash to the Council, and a strategy, involving the repayment of share capital, has been agreed upon. Again, binding rulings will be sought from the IRD.

#### **1.4 Utilisation of Net Proceeds of Retail Sale**

In December 1998 the Council asked CCHL to report in March on an appropriate utilisation by the Council of the residual proceeds of the sale of the Southpower retail business.

The CCHL Board has considered a number of issues in relation to the capital structures of its subsidiaries, and the utilisation of excess capital. While recognising that it is for the Council to decide on how the additional \$61.3 million of cash is applied, the Board is of the opinion that its capital nature should not be overlooked, and that the ultimate use of this money should reflect this.

**Recommendation:** The CCHL Board recommends that, as a matter of principle, the Council utilise the proceeds from the sale of Orion's retail business for either capital reinvestment or debt reduction.

#### **1.5 CCHL Borrowing**

In the current financial year, CCHL has repaid \$4 million of external debt, in addition to the \$5 million Council advance. Total debt is now \$120 million, compared with \$129 million at 30 June 1998.

As CCHL's medium term notes mature in July, the opportunity has been taken to seek tenders for cost-efficient financing from banks. These are in the process of being evaluated as this report goes to print.

The Board has approved a revised financial risk management (or treasury) policy, although this will be reviewed once CCHL's debt has been re-financed.

## **1.6 Statements Of Shareholder Expectations**

The CCHL Board believes there is merit in clarifying the relationship between CCHL and the companies it monitors, and in particular to set out its reporting requirements, through the mechanism of a Statement of Shareholder Expectations ('SSE'). An SSE was jointly-issued with the Crown to Christchurch International Airport Ltd last year, and discussions are under way with CCHL's remaining subsidiaries. Additionally, a separate report is being brought to the Strategy & Resources Committee regarding a proposal by CCHL to extend this concept to the companies owned directly by the Council.

## **1.7 CCHL Strategy Day**

On Saturday, 20 February, the CCHL Board and related staff met to discuss various strategic issues, both in relation to CCHL and its role, and to the strategic issues associated with its subsidiary companies. The day was productive, and gave rise to a number of actions and initiatives, which are being progressed and will be reported to the Council at appropriate times.

## **1.8 Director Training**

The CCHL Board believes that Councillor directors would benefit from attending Institute of Directors (or similar) courses on the responsibilities of being a director, and has agreed to sponsor a training course for all Councillor directors. Further details will be provided when arrangements have been finalised.

## **2. CHRISTCHURCH INTERNATIONAL AIRPORT LTD ('CIAL')**

### **2.1 Six Monthly Report**

CIAL recently reported their financial results for the six months to 31 December 1998.

While net profit after tax dropped marginally from the previous equivalent period (from \$5.39 million to \$5.14 million), the result is considered pleasing in view of the extra depreciation and interest costs associated with the new international terminal. An increase in international passenger numbers of 4.7% was the main factor behind the better than budgeted result. However, the domestic market has continued to contract, with passenger numbers down 4.5% compared with the previous equivalent period.

### **2.2 Crown Shares**

Preparatory work continues regarding the possibility of the Crown advising that it wishes to dispose of its 25% shareholding in CIAL. As yet, no firm indication has been received from the Crown regarding its intentions.

## **3. LYTTTELTON PORT COMPANY LTD ('LPC')**

### **3.1 Six Monthly Report**

LPC recently reported their financial results for the six months to 31 December 1998.

While the container trade continued to perform strongly, with a 5% increase in TEUs (twenty foot equivalent units) through the international container terminal, coal volumes decreased by 26% and total volumes through the port fell by 3.5%. Bulk fuel volumes grew by 7%.

As a result of lower coal volumes and interest costs on new borrowing, net profit after tax fell from \$6.0 million to \$5.4 million. In the context of the aforementioned factors, this is considered a creditable result, and management have been successful in controlling costs.

#### **4. CHRISTCHURCH TRANSPORT LTD ('CTL')**

##### **4.1 Six Monthly Report**

CTL recently reported their financial results for the six months to 31 December 1998.

Net profit after tax (but before 'one-off' gains on sales of assets) increased from \$510.6 million to \$706.7 million – a very creditable result, particularly in the context of declining patronage on many routes. Efficiencies from the sale of the diesel vehicle servicing centre to Blackwell Motors and the higher proportion of modern Super Low Floor buses, combined with an expanding charter business, have all contributed to the improved operating result.

##### **4.2 Directors**

The CCHL Board believes that, in view of the imminent retirement of Mr Spence as Chairman of CTL and the short term nature of Mr Boyce's appointment, there is a need for an additional commercial director on the CTL Board. A sub-committee has been formed to review suitable candidates, and a recommendation for appointment will be made to the Council in due course.

##### **4.3 Other Matters**

Various issues of a strategic nature have been considered, and will be the subject of a separate report to the Council.

#### **5. CHRISTCHURCH CITY FACILITIES LTD ('CCFL')**

##### **5.1 Annual Report and Statement of Corporate Intent**

CCFL recently reported their financial results for the year ended 30 June 1998, and presented a draft Statement of Corporate Intent for the 1998/99 year.

The annual report represents a net deficit of \$3.5 million. Deficits are forecast to gradually reduce in future years. The

WestpacTrust Centre property is to be transferred from the Council to CCFL in the current financial year.

The draft SCI has been referred back to the CCFL Board, as the CCHL Board wish to gain clarification on certain aspects. When this document is in a suitable form, it will be brought forward to the Council for approval.

## **5.2 Governance Issues**

The nature of CCFL's governance and accountability has been discussed by the CCHL Board. Currently, NCC (the contract manager of operations) reports direct to the Council, whereas CCFL (the owner of the assets) reports through CCHL. As the operational finances are consolidated into the financial statements of CCFL, this leads to a confused accountability regime. In addition, the Board of CCFL has not been a proactive Board. In view of the financial structure, the CCHL Board considers that governance issues need to be reviewed. A further report will be produced once CCHL has conducted their review and has recommendations to make.

### **Chairman's**

**Recommendation:** That the information be received.