

**STRATEGY AND RESOURCES COMMITTEE
SUPPLEMENTARY AGENDA
SPECIAL MEETING**

**MONDAY 24 JULY 2000
AT 9AM**

PART A - MATTERS REQUIRING A COUNCIL DECISION

2. LYTTELTON MARINA

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Corporate Plan Output: Financial Advice	

The purpose of this report is to provide the Council with advice on issues relating to a request that the Council invest \$500,000 in a LATE to acquire the assets of the Lyttelton Marina so that the project can be completed.

BACKGROUND

At the Strategy and Resources Committee meeting on 17 July a deputation representing a wide range of boating interests persuaded the Committee that it should further investigate the merits of Council becoming involved in the Lyttelton Marina project because of the importance of such a facility to the Christchurch public.

The current marina project requires additional funding of \$1.5 million to enable the project to be completed to a stage where further berths can be sold and the project can proceed on a self-funding basis. Research done by Deloitte indicates that the funding required is to meet a current cash flow need and that these funds will in due course be able to be repaid with a reasonable return.

NEED FOR A MARINA

There is currently no other marina facility in the Canterbury area and this location is the only suitable site that is obviously available.

In many other major urban areas there are marinas which are provided by local authorities. This includes Wellington, Tauranga and Nelson. In Nelson the marina has a capacity of 500 and due to demand plans for a further 250 are being considered.

The Committee has previously been supplied with correspondence from 27 organisations which support the Council's involvement in the marina. Several of these are from groups which provide sailing opportunities for a broad cross section of the community. Some obvious ones are Cansail Charitable Trust, Canterbury Dragon Boat Club, Canterbury Yachting Association and Lyttelton Sea Scouts,

In a written submission by the Canterbury Yacht and Motor Boat Club and the Banks Peninsula Cruising Club it has been pointed out that these two organisations alone have a membership of over 1000 and that 85% of these live in the Christchurch area.

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The submission also indicated that between November 1999 and May 2000 there were 6,000 movements through the control gate to the slipway and that this figure would annualise to 10,000. Each of these movements would be likely to have 2-4 people associated with them. While many of these movements are by the same people, it nevertheless shows that there is clearly a large public demand for even the current primitive facilities.

It is a commonly held view that a significant number of the Christchurch owned boats are domiciled at Waikawa Bay in Picton because of the lack of local facilities. If better facilities were available locally there would be more of these vessels domiciled locally where they can be used on a more regular basis. This would enhance local boating associated industry.

It is perceived that once the breakwater is completed and the Marina ownership is clearly secure that there will be an initial spurt of sales and then a steady growth in interest.

REASONS FOR COUNCIL INVOLVEMENT

Due to the unique situation of the marina and the limited other options for the provision of this needed facility in Canterbury the siting of the marina (once successfully completed) will effectively be in a monopoly situation. On a much smaller scale this is not dissimilar to the airport. Consideration could be given to whether this would be a good reason for local authority ownership especially as there is a need to ensure that there is an ongoing provision of reasonable public facilities in the form of the public boat ramp and the associated land based industry which will develop on the leased land associated with the marina. There is potential for this to attract premium prices and be the funding source in due course for much improved public boat ramp facilities.

If the two Councils are involved then they will be able to ensure that public access to these facilities is protected.

In view of the unfortunate history of the marina to date the development is unlikely to reach a conclusion unless it is re-established under a stable new ownership structure. This could be readily achieved if the owners become Christchurch City Council, Banks Peninsula District Council and Lyttelton Port Company Limited.

The suggestion has been made that the existing company should be allowed to fall over and that some other party will pick it up and develop it. Another equally valid view is that if it falls over under current private ownership potential future berth holders would be extremely wary about buying into another privately owned situation. It is therefore not a foregone conclusion that another private owner could make it a success and Canterbury may continue without satisfactory marina facilities for a long time into the future.

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REGIONAL ECONOMIC BENEFIT

It is considered that the existence of the marina will encourage economic development in the region based on boating and marine support industries such as boat yards and equipment suppliers. This is illustrated by the developments in Picton surrounding the Waikawa Marina and in other similar situations elsewhere.

The marina is also needed to replace the loss of existing berths from within the inner harbour in recent times. This space was needed so that LPC could further develop larger shipping based industries and port related facilities such as cool stores.

Both of these factors are good for the Canterbury economy and the major spin-off will be to the Christchurch area.

DEVELOPMENT PLANS

The original design was by Saltwater Marines Limited (SWM) using two engineers, Beca Carter Hollings and Ferner (breakwaters) and OCEL (layout design). Following the storm damage in winter 1999 OCEL redesigned the breakwaters and these have since been subjected to peer review by the internationally recognised Australian firm of Ove Arup and Partners. The final sign off on this peer review is not yet to hand as there are still some remaining questions to be answered. However, those involved seem reasonably confident that this will be received. Clearly, any Council involvement should be subject to receipt of a clear peer review.

Assuming that the peer review validates the new design which attaches the floating breakwaters to the seabed by a different method it is accepted that the problems which occurred in winter 1999 will not recur.

Senior structural engineers from City Design have been requested to review the amended plans and the available details relating to the peer review. In the time available this review could not perform a detailed check of the plans but was intended to provide a measure of reassurance that the peer review has been adequately carried out. The engineers will be available at the meeting to provide verbal comment if required.

PUBLIC BOAT RAMP FACILITIES

One of the issues raised in newspaper letters and articles and also by the deputation to last Monday's meeting of the committee was the need for continued public access to a boat ramp.

The existing boat ramp was not shown as retained in the final plan for the area but a provided for a new public boat ramp to the east of the rock breakwater with new breakwater to protect it. This is clearly only a long term probability and will be dependent on the successful completion of the rest of marina and the revenue derived from associated land based uses.

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However, it is possible for the existing boat ramp to be retained in the meantime, with access into the marina area. Once stage 1 is completed and fully sold there will be sufficient funds available to extend and upgrade the existing boat ramp to six lanes within the marina but in a better location and also to provide a sealed manoeuvring and parking area. This could be made a condition of any Council involvement.

DEMAND FOR BERTHS

Statistics from other similar regions indicate that the Canterbury population could support at least 600 floating marina berths. In Wellington for instance there are 685 occupied marina berths for a population of 400,000 in spite of 25% of Wellington owned vessels being moored in the Marlborough Sounds.

There are currently 57 berths built and on completion of the current phase of the development there will be 84 new floating berths plus the existing fixed berths (approximately 80). A fully completed stage 1 will have 238 berths. The stage 1 berths in excess of the first 84 will be developed in accordance with demand and it is expected that this could take several years. When fully developed the marina will have approximately 440 berths.

Currently 40 of the berths have been sold. A further 39 berths are currently being rented because of the uncertainty of the current company and it can reasonably be expected that a high proportion of these users will buy in when the ownership has been stabilised. Commitments to the initial development were for 117 berths and industry specialists are certain that there is significant potential to sell all the berths but only if the shareholding of the company becomes more certain.

STRUCTURE OF PROPOSED COMPANY

The proposal is for the establishment of **a new local government controlled company**. This company would acquire the assets and certain of the liabilities from the existing company for a net purchase price which is expected to be NIL. Subordinated debt currently owing to SWM would not be taken over as a liability.

This new company would have only three participants, namely CCC, BPDC and LPC, and each would contribute \$500,000 and these funds would all be available to provide the capital needed to fund completion of stage 1. **This investment of \$1.5 million would not provide any assistance to the existing private company.**

The new company would be a local authority trading enterprise (LATE). It is envisaged that the capital provided by CCC, BPDC and LPC would be by way of a combination of ordinary shares, redeemable preference shares and debt. The redeemable preference shares would have an option to pay interest (which could be activated once sufficient sales have taken place and ongoing revenues achieved) and could in due course be used to repay a significant proportion of the original contributions.

A shareholders' agreement would be negotiated to ensure that existing shareholders would not sell to any other party without giving pre-emptive rights to one another.

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Any new company will need to be tightly managed and therefore a small but strong commercial board will be essential to tightly manage the company and ensure that it is focused on completion of the project in a measured way consistent with available sales.

VIABILITY

Feasibility studies show that the project is viable provided Stage 1 can be completed and sold. The \$1.5 million capital injection is needed to provide cash flow until stage 1 is completed and sold (238 berths). It is anticipated that the first 84 berths will be sold reasonably quickly. After that point the company will need to proceed at a measured pace according to demand for further berths. A small surplus should be available after stage 1 provided no interest is charged initially.

Stage 2 is the development of a further 200 berths to replace the current fixed structure. Because the breakwaters are already completed as part of stage 1 the cost of these berths are relatively inexpensive costing an estimated \$2 million and having a sales value of \$7 million. At this point there is significant capital gain available and this will compensate for lack of income flow in the early years.

SOURCE OF FINANCE

In the June reports on this subject I recommended that the investment in the Marina be made by CCHL. This was influenced primarily by the complexity of the likely negotiations and the fact that CCHL has access to some limited reserves.

In the interim I have reflected on this issue and now consider it would be more appropriate for this Council's investment in any new company formed to take over the marina to be directly owned by the Council since this investment is more in the nature of a capital increment investment rather than a regular income earner.

The Council could, however, request CCHL to pay an additional special dividend of \$500,000 during 2000/01 which would provide the necessary cash flow to fund a Council investment in the new company.

PROPOSED CONDITIONS OF COUNCIL INVOLVEMENT

If the Council agrees to become involved in this project then I believe that it should be subject to the following conditions:

1. A new company is formed to buy specific assets and liabilities from Lyttelton Marina Limited.
2. Banks Peninsula District Council and Lyttelton Port Company contribute equal amounts of capital to the new company as Christchurch City Council and these three be the only participants in the enterprise.
3. There is provision for pre-emptive rights between shareholders should any one shareholder wish to extract themselves.
4. Satisfactory negotiations taking place with Lyttelton Marina Limited so that the new company acquires the net assets for nil cost.

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5. Satisfactory negotiations taking place with Banks Peninsula District Council over the conditions of their existing debt and form of debt security.
6. The subordinated debt owing to the Saltwater Marinas Limited (the current shareholder) not being accepted as a liability by the new company.
7. Retention of the existing public boat ramp as a part of the marina development until it can be improved as part of the stage 1 development.
8. Final sign off of the peer review on the redesigned breakwater.
9. A further review of the assets and liabilities of the LML before any final commitment is entered into.
10. Recognition that the new company would need to renegotiate arrangements with existing berth holders.
11. The new company being constituted and managed on a commercial basis with a small commercial board accountable to the owners through a statement of corporate intent and regular reporting.
12. The new company having the rights to the plans for the full development.

- Recommendation:**
1. That the Council agree to invest \$500,000 in a new company to be formed subject to the conditions 1 to 12 outlined above.
 2. That a sub-committee be established with power to approve the final arrangements to be entered into.
 3. That the Director of Finance and Director Business Projects be authorised to negotiate with Banks Peninsula District Council and Lyttelton Port Company Limited and Lyttelton Marina Limited on the detailed arrangements and report back to a sub committee for final approval.
 4. That the Director of Finance be authorised to engage appropriate professional advice and these charges be met from the contingency fund.
 5. That the sub-committee be authorised to approve in conjunction with the other shareholders the appointment of commercial directors who have the skills and the drive to bring this project to an satisfactory conclusion.
 6. That a report on the arrangements entered into be provided to the following meeting of the Strategy and Resources Committee.
 7. That Christchurch City Holdings be requested to provide a special dividend of \$500,000 during 2000/01 to enable Council to fund this investment.

- Chairman's Recommendation:** That the above recommendation be adopted.