

5. REPORT FROM CHRISTCHURCH CITY HOLDINGS LIMITED

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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'), and to make recommendations on any matters arising.

1. CCHL

1.1 Completion of Previously-Budgeted Capital Repatriation

A payment of \$162 million was made by CCHL to the Council on 19 May 2000 to complete the capital repatriation already provided for in the Council's Annual Plan. This capital was primarily derived from the restructuring of Orion and from the proceeds of the sale of Orion's (then Southpower's) retail energy activities. The delay in returning the capital had resulted from the need to obtain binding rulings from the IRD before completing the transaction.

1.2 Proceeds from Sale of Orion's North Island Gas Assets

CHL is continuing to develop a process for evaluating potential uses of surplus funds arising from the sale of Orion's North Island gas assets. The background to this was described in a report to the April Council meeting.

Work undertaken by CCHL to date, in accordance with the Council's mandate, includes:

- A special CCHL strategy session with an outside facilitator;
- A joint meeting of the CCHL and Orion Boards;
- The development of a strategic framework by Orion (in consultation with CCHL) for evaluating future directions;
- Preliminary analysis of taxation issues associated with returning funds from Orion to CCHL and the Council;
- Liaison with Canterbury Development Corporation to identify industry sectors and prime contacts within each sector (with a view to identifying key barriers to economic growth and ensuring the consultation process in respect of enhancing economic growth is as inclusive as possible).
- Preparing consolidated projections for the CCHL and Council-wide groups, and evaluating the financial impact of different scenarios.
- Preliminary evaluation of specific investment opportunities.

While CCHL has a key role to play regarding financial and economic considerations, clearly it will be the Council's role to determine priorities for the use of the funds that can be used for community purposes. Once a number of properly researched specific proposals have been formulated, they will be put to full public consultation.

A seminar for Councillors explaining the process and the progress to date has been scheduled for 9 June 2000. This is likely to be only the first stage of providing information and gathering feedback from Council over the next few months as work proceeds. It is currently anticipated that public consultation will be done in conjunction with the 2001 Annual Plan.

2. ORION GROUP LIMITED

2.1 Asset Management Plan

Orion have recently published their asset management plan, as required under government regulation. It is an important document for Orion, and sets out the company's current asset management practices. It is a key tool in the asset management process that has the following overall purpose:

“To provide, maintain and operate Orion's electricity network while meeting agreed levels of service, quality, safety and profitability”.

An updated version is due to be published by 30 June 2000.

The Plan covers a ten year period, although the main focus is on the first three to five years – for this period, most specific projects have been identified. The planning process includes defining target levels of service, predicting future maximum demands, preparing asset life cycle plans, managing risk, preparing financial forecasts and monitoring asset performance.

At present, Orion's costs per customer are the lowest of all New Zealand line businesses, and in terms of reliability (interruptions per customer) are ranked fifth out of 32 line companies. (Source – Ernst & Young Industry Performance Analysis, year ended 31 March 1999).

The major outcomes of the Plan are:

- Increased investment in the short term for CBD supply security enhancement;
- Increased capital replacement expenditure costs due to a change in accounting policies to capitalise rather than expense pole replacement costs;
- Overall steadily increasing replacement capital expenditure costs in the longer term as assets installed in the growth “bulge” of the 1960s reach the end of their service life;
- A relatively constant level of investment in new connections, extensions, and reinforcement to the network, based on an overall modest growth level with pockets of higher growth in selected areas.

Capital expenditure over the next ten years is forecast at between \$18 million and \$25 million per annum, and maintenance expenditure at between \$7 and \$8 million per annum.

Orion has adopted an interim Security of Supply standard for this Plan in advance of any national guidelines or standards that are currently being debated.

The document is lengthy, and is not attached to this report. However, copies can be obtained via Orion's web-site (www.oriongroup.co.nz).

3. CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED

3.1 Statement of Corporate Intent ('SCI')

Christchurch International Airport Limited ('CIAL') has submitted a draft SCI for the forthcoming financial year. A copy of the document has been separately circulated to the Committee.

The draft SCI and the supporting business plan were discussed in detail at a recent meeting between CCHL and CIAL representatives. Points of note include:

- Positive trading outlook for CIAL;
- Revenue forecast to increase to \$57.6 million in 2000/2001, compared with \$51.4 million in 1998/99;
- Continuing strong growth in international passenger numbers forecast;
- Domestic passenger numbers have also improved;
- An expansion and/or refurbishment of the domestic terminal is likely to occur in the next few years, subject to discussions with airlines
- Subject to capital expenditure requirements, the CIAL Board believes that the payment of a special \$3 million dividend (CCC share \$2.25 million) in each of the 2002 and 2003 years is possible;
- Target equity to total asset ratios are between 50% and 60% over the next three years;
- Employee numbers are forecast to remain constant over the next three years.

CCHL resolved that the SCI be submitted to the Council for approval.

Recommendation: That the Council approve CIAL's draft Statement of Corporate Intent for the year ending 30 June 2001.

4. RED BUS LIMITED

4.1 Statement of Corporate Intent ('SCI')

CCHL has agreed to a delay in the submission of Red Bus's SCI and business plan, pending the result of the current bus route tender round. The documents had initially been scheduled to meet CCHL's internal deadline of 31 May 2000 but, in view of the potential impact of the outcome of the tender round on Red Bus's business, it has been agreed that the documents will now be presented by 31 July 2000. This is still within the statutory timetable.

5. **SELWYN PLANTATION BOARD LIMITED ('SPBL')**

5.1 **Statement of Corporate Intent ('SCI')**

SPBL have submitted a draft SCI for the forthcoming financial year. A copy of the document has been separately circulated to the Committee. Points of note include:

- The company is seeking partners to add value to the business through strategic alliances, technology and the development of further processing operations;
- The production tonnage is forecast to increase from an estimated 101,000 tonnes for the year ended 31 March 2000 to 153,000 tonnes for the current financial year;
- 300 hectares of new planting are budgeted;
- The company is targeting an internal rate of return of 6% post-tax;
- The company will provide quarterly reporting to shareholders.

CCHL will be meeting with SPBL representatives in the near future to discuss their detailed financial projections. In the meantime, CCHL has resolved to submit the draft SCI to the Council for approval.

Recommendation: That the Council approve SPBL's draft Statement of Corporate Intent for the year ending 31 March 2001.

Chairman's

Recommendation: That the above recommendations be adopted.