

11. TRANSFER OF CAPITAL FROM ORION

Officer responsible Director of Finance	Author Bob Lineham, DDI 371-1411
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The purpose of this report is to obtain authority from the Council to transfer shares in two Council-owned companies to Christchurch City Holdings Limited in order to facilitate the transfer of capital from Orion to the Council in accordance with the Annual Plan.

BACKGROUND

As part of the Annual Plan process the Council considered the proposal that capital of \$175 million be transferred from Orion through Christchurch City Holdings Limited to the Council. These funds were derived by Orion from profits on the sale of its investment in Enerco.

The Council resolved that \$100 million of the proceeds would be applied to reduction of debt and that \$75 million would be invested in a long term fund to be known as the Capital Endowment Fund.

TRANSFER MECHANISMS

It is currently intended that the funds will be transferred from Orion to CCHL by a combination of repayment of Optional Convertible Notes and a fully imputed dividend. This is subject to the obtaining of a binding ruling from Inland Revenue which is awaited.

In order for the transfer of capital to be done in a financially efficient way it is intended that CCHL will pay the Christchurch City Council for the acquisition of shares in City Care Limited and Selwyn Plantation Board Limited. The balance will be paid as a fully imputed special dividend using accumulated imputation credits and the credits attaching to the Orion Special dividend to CCHL.

City Care Limited and Selwyn Plantation Board Limited are fully commercial trading enterprises which are consistent with the other companies which CCHL holds directly in its own portfolio on behalf of the Council. CCHL undertakes the monitoring role for those companies and the fact that these two remain directly held by CCC is a result of history rather than design. CCHL is 100% owned and controlled by the Council and the practical relationship of the Council to these would not change significantly by the transfer of ownership.

TRANSFER PRICE

Deloitte Touche Tohmatsu were commissioned to undertake a valuation of the companies on a fair value basis in order to establish an appropriate and sustainable value at which to transfer the shares in the two companies.

The Deloitte valuations for transfer purposes are:

Selwyn Plantation Board Limited	\$24.0 million
City Care Limited	\$15.1 million.

Full copies of the valuations are laid on the table and available for inspection.

TIMING

The Annual Plan assumed that the transfer of capital would take place at the end of September 2001. However, Orion are still awaiting an answer to their request for a binding ruling and it is currently uncertain just when that will be available. It is important that the funds be transferred from CCHL to CCC as soon as they are available from Orion so that the funds can be invested and begin to earn interest for the Council. Authority to effect the share transfer is therefore requested in advance as the transaction is likely to be required during the Council recess.

Recommendation: That the Director of Finance be authorised to take all the necessary actions to arrange the transfer of the Council's shares in City Care Limited and Selwyn Plantation Board Limited to Christchurch City Holdings limited at the valuations prepared by Deloitte Touche Tohmatsu.

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