

11. CHRISTCHURCH CITY HOLDINGS LIMITED - HALF YEARLY REPORT AND STATEMENTS OF INTENT FOR SUBSIDIARY COMPANIES

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PURPOSE OF REPORT

1. The purpose of this report is to present the interim report of Christchurch City Holdings Ltd ('CCHL') for the six months ended 31 December 2004 for the information of the Council, and to seek the approval of the Council of draft Statements of Intent received from CCHL subsidiary companies Orion Group Ltd, Lyttelton Port Company Ltd, Red Bus Ltd, associated company Selwyn Plantation Board Ltd, and Council-owned company Jade Stadium Ltd.
2. The Statement of Intent of Christchurch International Airport Ltd and City Care Ltd will be presented to the Council for approval in May.

EXECUTIVE SUMMARY

CCHL Interim Report

3. A brief commentary on the results and financial position of the parent company and group is contained in the Chairperson's review on page 2 of the interim report.

Statements of Intent

4. The Council's subsidiary companies are required by statute (or, in the case of Lyttelton Port Company Ltd, the terms of its constitution) to submit an annual Statement of Intent ('Sol') to their shareholders. An Sol must set out the entity's objectives and performance measures, as well as certain other information, and must be approved by the shareholder.
5. CCHL is required by the terms of its own constitution to forward the Sols of the trading companies to the Council for final approval. CCHL has, however, performed an initial review of these documents and, in some cases, requested changes which have been reflected in the attached documents.
6. The draft Sols of all the above companies are attached to this report.
7. CCHL's own Sol was approved by the Council at a Council meeting in March.

RECOMMENDATIONS

It is recommended that the Council:

- (a) Approve the draft Sols of Orion Group Ltd, Lyttelton Port Company Ltd, Red Bus Ltd, Selwyn Plantation Board Ltd and Jade Stadium Ltd.
- (b) Authorise CCHL to approve any subsequent minor changes to these Sols arising from the business planning and budgeting processes of the subsidiary companies (any major changes will be brought back to the Council for approval).
- (c) Receive the CCHL interim report for the six months ended 31 December 2004.

BACKGROUND

8. The Local Government Act 2002 has imposed a revised reporting and approval process for draft Sols. Schedule 8 of the Act provides:

“2. Statements of Intent for council-controlled organisations

The board of a council-controlled organisation must deliver to its shareholders a draft statement of intent on or before 1 March each year.

3. Completion of Statements of Intent

The board must:

- (a) Consider any comments on the draft statement of intent that are made to it within 2 months of 1 March by the shareholders or by any of them; and*
- (b) Deliver the completed statement of intent to the shareholders on or before 30 June each year.”*

9. Because of the new timing, only those CCTOs with March balance dates had completed their business planning and financial forecasts by the time they were required to submit their draft Sol. There is therefore a possibility that some CCTOs may seek to make changes to their draft Sol after they have been submitted to the Council but before the final Sol has been formally delivered to the shareholder.
10. If changes are made, and are considered to be material to the Council as ultimate shareholder, they will be brought back to the Council for further approval. If the changes are minor, it is recommended that CCHL be authorised to approve them.

Orion New Zealand Ltd Statement Of Intent

11. The Orion Sol is broadly similar to the previous year, with the main changes being:
- Page 3 New section entitled “Growth in the regional economy”
- Page 4 Some updating of the Governance statement
- Page 4 Commentary regarding the potential impact of the introduction of international financial reporting standards
12. Section D describes Orion’s key objectives, including commercial performance, security of supply, reliability, pricing, social responsibility and community interest, growth in the regional economy, environmental commitment, undergrounding and compliance.
13. Orion’s trading for the year to date has been on or ahead of budget. The 2004/05 result will be boosted by a gain from the recently-announced sale of most of Orion’s shares in EDL, the proceeds of which have been used to repay debt.

Lyttelton Port Company Ltd Statement Of Intent

14. Port companies are excluded from the definition of a CCTO under the Local Government Act 2002, and hence LPC’s SCI is not prepared on the exactly the same basis as the other companies (in particular, it is still referred to as a Statement of Corporate Intent rather than a Statement of Intent, and there is no governance statement). The SCI is required by the company’s constitution rather than by statute.

15. The main changes from the previous year are:
 - More focused wording of the company's vision and objectives;
 - New section regarding growth in the regional economy.
16. While Stock Exchange Listing Rules and securities legislation effectively prevent the company from including forecast financial information in the SCI, it is considered that within these constraints, the document appropriately reflects the priorities of LPC and its shareholders.
17. The company recently reported its half year result, which was broadly in accordance with expectations. Volumes in the port's three key trades - coal, containers and bulk fuel - grew, although profitability was impacted by additional maintenance charges that had been signalled in last year's AGM.

Red Bus Ltd Statement Of Intent

18. The content of the Sol is similar to last year's, although a new section entitled "Regional contribution" has been included on page 13. In addition to the company's commercial focus, it contains a range of measurable environmental and social objectives.
19. The company recently presented their interim report for the half year to 31 December 2003. While revenues have been maintained, profitability has significantly reduced, reflecting the highly competitive market that now exists, and an increase in fuel costs that in the short term are carried directly by the company. During the period the company was successful in winning tenders for the new Metrostar cross-suburban service and all the ECAN school routes, but lost one urban service.

Jade Stadium Ltd Statement Of Intent

20. It is considered that the Sol presents a comprehensive set of performance measures. The company is forecasting operating cash surpluses and a gradually reducing net deficit over the next three years (ahead of earlier projections), as well as principal debt repayments to the Council of between \$1.6 million and \$1.8 million per annum.
21. JSL's half year report reveals an improvement in revenues, operating cash surplus and net deficit over the previous equivalent period. The British Lions v All Blacks test match in June 2005 will make a further contribution to the company's result for the full year.