

35. CIVIC ASSURANCE CAPITAL RAISING PROGRAMME

General Manager responsible:	General Manager Corporate Services, DDI 941-8528
Officer responsible:	General Manager Corporate Services
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PURPOSE OF REPORT

1. This report seeks the Council's approval as a 7.3 percent shareholder in Civic Assurance to vote in favour of a proposal to issue 7,206,790 shares and for the Council to subscribe for up to 953,136 of those shares.

EXECUTIVE SUMMARY

2. Civic Assurance started trading as the Municipalities Cooperative Insurance Company Limited and first issued insurance on 1 April 1961. It was established as a local-government owned insurance and financial services company and has delivered premium rebates and dividends to local authorities estimated to exceed \$200 million. Civic's share registry comprises 67 out of 78 councils and the company has played an important role in improving the terms and prices for insurance provided across the local government sector.
3. Christchurch City Council's 7.3 percent shareholding in Civic is valued at \$743,834 (\$1.60 per share as at 30 June 2011). The Council is the fourth largest shareholder behind Auckland Council (21.1 percent), Wellington City Council (8.2 percent) and Dunedin City Council (7.4 percent). Civic operated profitably in the five years prior to 2010/11 and returned average annual dividends to its shareholders during this period of 11.9 cents per share.
4. Christchurch City Council's above-ground assets were insured with Civic Assurance before switching to NZI for two years on 1 July 2007. Christchurch City Council's policy was returned to Civic Assurance from 1 July 2009 due to the same basis of coverage being offered for a \$391,090 premium saving over the alternative quote.
5. As a result of above-ground claims following the Canterbury earthquakes, Civic Assurance expects to pay claims totalling \$650 million. While most of this will be funded by reinsurers, \$10.8 million will be funded by Civic's reserves (\$3.6 million multiplied by three events). For the 2010/11 period, Civic had arranged uncapped reinsurance cover with unlimited reinstatements. All Civic's reinsurers are rated at A- or better.
6. The \$10.8 million that will be funded from Civic's own reserves means that as at 30 June 2011, Civic's net assets had fallen to \$10.5 million from \$19.5 million two years prior and its AM Best credit rating reduced to B++ (good with a negative outlook). To re-enter the property insurance market for councils in a meaningful way, Civic needs to return its credit rating to at least A- (excellent, stable), which means it needs to increase its reserves. It is beneficial for the Council to have Civic Assurance active in the insurance market to increase the competitiveness of the pricing and terms offered.
7. Civic's ability to rebuild its reserves in 2011/12 has been hampered by the lack of reinsurance, which meant that it has not been able to offer above-ground insurance cover during the current financial year. Civic has proposed a Capital Raising Programme with the goal of raising an additional \$6.475 million. This would return Civic to a credit rating of A- and enable it to once again be active in the local government insurance market.
8. Civic is holding a Special General Meeting on 16 December 2011 to seek shareholder approval for:
 - A change to its constitution to allow an additional 12,000 shares per shareholder to be placed to give those Councils with small shareholdings a meaningful investment. Further detail on the proposed amendment to Civic's constitution are attached as **Appendix 1**. This change also requires the consent of the Minister of Finance under the Municipal Insurance Act 1960. This consent has already been granted.
 - The issue of up to 7,206,790 new shares to existing shareholders at \$0.90 per share.

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9. The proposed Capital Raising Programme received the full support of the Local Government New Zealand National Council at their October meeting. If approved by greater than a 75 percent majority of its shareholders, Civic intends to allocate the new shares in Feb and March 2012. A new credit rating would then be sought in April 2012 to enable Civic to offer insurance again for the council renewals due 30 June 2012.
10. It is recommended that Council resolves to support these resolutions. This will enable Civic to reinstate its credit rating and re-enter the property insurance market. Civic's presence in the local government insurance market helps to keep other insurance providers competitive through a competitive administrative cost structure (half the industry average), policy wordings designed specifically for local government, and a strong incentive to meet council insurance claims. By supporting the placement of new shares, Christchurch City Council is demonstrating its continued support for Civic Assurance and the success it has had in providing insurance to the local government market. If fully subscribed, the Capital Raising Programme will take Civic's equity from \$10.5 million to \$17 million.
11. Under the proposed offer Christchurch City Council has the right to subscribe for 476,568 additional shares at a price of \$0.90 per share (total of \$428,911.20). The proposed price of \$0.90 per share represents a 45 percent discount on the current net asset backing per share of \$1.65.
12. If some Councils choose not to subscribe for the additional shares they are entitled to under this offer, Civic intends to offer them to the other shareholders. If shares are available under this 'Shortfall Offer', it is proposed that the Council approve that up to an additional 476,568 shares are subscribed for, also at a price of \$0.90 per share. This helps to ensure the shares are fully allocated and increases the likelihood that the Council will be able to benefit from ongoing provision of insurance from Civic.
13. The other options available for the Council are to not support the proposal from Civic Assurance and / or to not subscribe for any further shares in the company. These options are not recommended because this would mean the Council is not supporting Civic Assurance's return to the local government insurance market. As outlined above, it is beneficial to the Council and to the local government sector for Civic Assurance to be active in that market.

FINANCIAL IMPLICATIONS

14. It is proposed that the requested investment of up to \$857,822 from Civic Assurance would be funded by borrowing and would add \$102,000 (0.04%) to rates per annum until Civic Assurance returns to profitability and is able to pay a dividend again.

LEGAL CONSIDERATIONS

15. The Council is a current investor in Civic Assurance which has benefitted, and may expect to benefit in the future, from the insurance cover it provides. In the circumstances, the Council's support for the Capital Raising Programme is consistent with its obligations to act prudently and in the current and future interests of its community.
16. The proposal does not trigger any of the mandatory statutory consultation requirements of the Local Government Act 2002 (eg. sections 56 and 97). Under the Council's Significance Policy the Council is authorised to adopt the recommended course of action without consultation because it falls within the exception for matters which are urgent. The formal notice from Civic Assurance was received on 22 November 2011 and the special general meeting is scheduled for 16 December 2011.
17. The acquisition of further shares in Civic Assurance is consistent with objectives in the Investment Policy, and borrowing for this purpose is in accordance with the Liability Management Policy on the basis that Civic Assurance is council-controlled organisation.

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STAFF RECOMMENDATION

It is recommended that the Council:

- (a) **delegates** to the General Manager Corporate Services the authority to exercise the Council's vote in favour of the following resolutions:
 - 1. That in accordance with clause 2.1.1 of the Constitution, Civic Assurance undertakes the Rights Issue, Placement and Shortfall Offer whereby Civic Assurance issues up to 7,206,790 New Shares, for consideration of \$0.90 per New Share.
 - 2. That clause 2.1.2 of the Constitution is deleted.
 - 3. That a new clause 2.1.2 of the Constitution is inserted as follows: "Section 45(1) of the Act does not apply to the issue of shares in the company".
- (b) **agrees** to support the Civic Assurance Capital Raising Programme by subscribing for up to 953,136 shares at a price of \$0.90 per share.
- (c) **authorises** the General Manager Corporate Services and the Corporate Finance Manager (jointly) to borrow in accordance with the liability management policy to enable the Council to purchase the shares under recommendation (b) above.