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8. DRAFT STATEMENT OF INTENT FOR THE COUNCIL'S SUBSIDIARY AND ASSOCIATED COMPANIES FOR YEAR ENDING 30 JUNE 2012



General Manager responsible:	General Manager Regulation and Democracy Services, DDI 941-8462
Officer responsible:	General Manager Regulation and Democracy Services
Author:	Peter Mitchell, General Manager Regulation and Democracy Services

PURPOSE OF REPORT

1. The purpose of this report is to present to Council the draft Statements of Intent (SOIs) of the Council's subsidiary and associated companies to the Council for review and comment. The SOIs for Vbase Ltd, Tuam Ltd and Civic Building Ltd will be separately circulated.
2. SOIs from the following companies are attached:
 - Christchurch City Holdings Ltd (**Attachment 1**).
 - Orion New Zealand Ltd (**Attachment 2**).
 - Christchurch International Airport Ltd (**Attachment 3**) .
 - Lyttelton Port Company Ltd (**Attachment 4**).
 - Christchurch City Networks Ltd (**Attachment 5**).
 - City Care Ltd (**Attachment 6**)
 - Red Bus Ltd (**Attachment 7**).
 - EcoCentral Ltd (**Attachment 8**).
 - Selwyn Plantation Board Ltd (**Attachment 9**) .
3. And Council-owned subsidiaries:
 - Vbase Ltd (including Jet Engine Facility Ltd.)
 - Tuam Ltd.
 - Civic Building Ltd (including the unincorporated joint venture arrangement with Ngai Tahu Property Ltd).
4. The CCHL board has reviewed the Sols of the subsidiary and associated companies, and will relay its comments (summarised in this report under the appropriate company heading) to the companies, together with any from the Council, following the Council's review.

STATUTORY FRAMEWORK

5. The Council's and CCHL'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 Sol to their shareholders. An Sol must set out the entity's objectives and performance measures, as well as certain other information.
6. In the normal course of events, the subsidiary companies are required by the Local Government Act to deliver to their shareholders a draft statement of intent on or before 1 March. They must then consider comments on their Sol from their shareholder(s) received by 1 May, and then to issue a final Sol by 30 June.
7. However, because of the exceptional circumstances of the February earthquake, the Council resolved to seek an extension to this timeframe via an Order in Council in order to give time to the companies time to work through the implications of the earthquake for their businesses. The resolution is as follows:

It was resolved that the Council:

- (a) *Because of the effect of the 22 February 2011 earthquake, it is impracticable to expect Council Controlled Organisations to deliver meaningful statements of intent for the 2011/12 year by 30 June 2011.*
- (b) *The 2010/2011 statement of intent for each Council Controlled Organisation (CCO) is accepted as being the most recent statement of the activities, intentions and objectives of that CCO.*

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- (c) *All Council Controlled Organisations are required to deliver draft statements of intent to their shareholders on or before 31 July 2011.*
 - (d) *Any comments made in respect of the drafts are to be considered by the board of each Council Controlled Organisation by 30 September 2011.*
 - (e) *Completed statements of intent are to be delivered to shareholders on or before 31 December 2011.*
 - (f) *The General Manager, Regulation and Democracy Services, be authorised to take the necessary steps to include in a Local Government Act 2002 Order in Council provision for the extensions of time referred to in this resolution.*
8. The Government has made the Canterbury Earthquake (Local Government Act 2002) Order 2011 which extends by five months the deadlines in the Local Government Act 2002 for the board of a council-controlled organisation to:
 - Deliver a draft statement of intent to its shareholders.
 - Consider shareholders' comments on the draft statement of intent.
 - Deliver the final statement of intent to shareholders.
 9. So the Local Government Act, as modified by the Canterbury Earthquake (Local Government Act 2002) Order 2011 provides that the Council, as 100 per cent shareholder of Christchurch City Holdings Ltd, must make any comments on the Sol to CCHL by 30 September 2011. CCHL must then consider these Council comments and deliver its completed Statement of Intent to the Council by 30 November 2011.
 10. With regard to the statement of intent for the CCHL subsidiaries and associate companies the Council has been asked to provide comment to CCHL which has the statutory role under the Local Government Act 2002 of providing comments, or not as the case may be, to those subsidiary and associate companies by 30 September 2011. The Council's role with those companies is in the nature of providing informal comment to CCHL.
 11. With regard to the three Council owned subsidiaries of Vbase Ltd, Tuam Ltd and Civic Building Ltd the Council itself as the shareholder is entitled to formally make comments on the draft statements of intent for those three companies by 30 September 2011 and those companies must deliver the completed statement of intent to the Council by 30 November 2011.
 6. The CEO of Christchurch City Holdings Limited will be at the meeting to answer questions.

STAFF RECOMMENDATION

It is recommended that the Council:

1. (a) Receive the draft Statements of Intent for CCHL and the subsidiary and associate companies.
- (b) Receive the draft Statement of Intent for the Council owned subsidiaries.
2. (a) Decide whether or not to make any formal comment regarding the draft Statements of Intent for CCHL.

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- (b) Decide whether or not to make any informal comment regarding the draft Statements of Intent for:
- Orion New Zealand Ltd.
 - Christchurch International Airport Ltd.
 - Lyttelton Port Company Ltd.
 - Christchurch City Networks Ltd.
 - City Care Ltd.
 - Red Bus Ltd.
 - EcoCentral Ltd.
 - Selwyn Plantation Board Ltd.
- (c) Decide whether or not to make any formal comment on the Statement of Intent for:
- Vbase Ltd (including Jet Engine Facility Ltd.)
 - Tuam Ltd.
 - Civic Building Ltd (including the unincorporated joint venture arrangement with Ngai Tahu Property Ltd).

3. Agree to the Statements of Intent if it does not wish to make any formal comment.

OVERVIEW

7. There are no major surprises or changes in direction signalled in the attached documents. Specific comments on each company are provided in the attached schedule.

Christchurch City Holdings Ltd (CCHL)*Main changes to Sol from previous year*

- Page 3 Insertion of the words “and recovery” into the mission statement, and reference to the need for infrastructure investment following the series of earthquakes in Christchurch.
- Page 4 Reference to an increase in CCHL’s borrowing programme following Enable Networks’ success with the UFB contract.
- Page 5 Updated group structure chart reflecting purchase of EcoCentral from the Council, and the cessation of CCHL’s monitoring role in relation to Vbase and related companies.
- Pages 6-8 Updated overview of each subsidiary.
- Page 11 Updated financial forecasts reflecting earthquake impacts on subsidiaries and consequent dividend flows to the Council.

Orion New Zealand Ltd*Main changes to Sol from previous year*

- Page 2, 3 New general section on earthquake impact.
- Page 4 New section on profitability and return on investment.
- Page 5 Comment in pricing section that Orion will seek to be exempted from regulatory regime for a period of time, post-earthquake.
- Page 5 Re-connection fees for earthquake-damaged buildings being waived, and capacity and equipment charges for major customers during period of non-supply.

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Page 6	New reference to Christchurch Economic Development Strategy.
Page 7	Comment under sustainable energy section that the rebuild of thousands of homes and business premises will provide opportunity to improve overall energy efficiency.
Page 8	Policy of undergrounding most urban network extensions will be reviewed post-earthquakes.
Page 10	New commentary on capital structure and need for conservative gearing. Share buyback to be revisited over next two years.
Page 13	New Appendix regarding earthquake recovery targets.
Page 18	Orion currently unable to quantify reliability performance post-earthquake.
Page 20	Some less significant sustainable energy objectives removed from Sol (e.g. investigating use of electrical smart sockets in head office, undertaking safety and efficiency driving course for employees etc).
Page 21	Intention to appoint several new trainees into engineering training programme.
Page 23	Reduced forecast profits and dividends following earthquake. Previous target to repay \$82 million of share capital removed.
Page 24	Estimated \$250 million reduction in value of assets.

Christchurch International Airport Ltd (CIAL)

Main changes to Sol from previous year

Page 4	Re-worded, re-focused performance improvement steps.
Page 6	New objectives to seek pricing resets to maximum levels allowed by the market, and to progress economic growth initiatives with CDC and other partners – e.g. cargo freight strategy.
Page 6	Updated comments re ITP project, and new comment re earthquake response and financial impact.
Page 7	New comments re property development, and more detail on plans to work with major tourism entities to ensure tourism remains a significant and vibrant contributor to economic growth.
Page 10	New Board Committee established to address aeronautical issues (responsibilities are detailed on page 12).
Page 13	Revised financial performance targets (see commentary below).
Page 16, 17	A few changes to/refinements of the corporate social responsibility performance targets.
Page 18	Directors will take into account the impacts of natural disaster events and the CIAL-targeted credit rating in assessing dividend levels. The forecasts dividend levels are stated to be before any prudential provisions as a result of earthquake impacts.
Page 20	Value of company stated to be equivalent to equity value (in previous years they have estimated a specific value, but this is subject to asset revaluations this year – will be updated in final version once financial statements completed).

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8 Cont'd**Lyttelton Port Company Ltd (LPC)***Main changes to Sol from previous year*

As usual, LPC is constrained by its listed company status as to what it can disclose in its Sol. There are virtually no changes to the content compared with the existing Sol, other than:

- Third page Last para under the heading "Distributions" refers to the deferral of dividends until the quantum and timing of insurance proceeds are known.
- Last page Market capitalisation at 31 Dec 2010 was \$230 million compared with \$245 million as at 31 December 2009.
- Last page New section headed "Earthquake recovery and enhancement opportunities".

Christchurch City Networks Ltd (CCNL)*Main changes to Sol from previous year*

- Page 3 Two new key objectives re the UFB project. The third one – regarding consistent telecommunications design standards – has been brought forward from last year.
- Page 3,4 New, extended section on nature and scope of activities (last year this was just two paragraphs).
- Page 4 New sub-section under "Governance" entitled "Commitment" – emphasising the need for effective governance, particularly with the UFB contract now in place.
- Page 6 The forecast debt and equity levels are of course substantially higher than were forecast last year, following the UFB contract win.
- Page 7 Additional commentary on forecast financial performance, emphasising the long term nature of the UFB project. Forecast NPAT is positive from 2012 onwards.
- Page 8 Corporate social responsibility targets are unchanged from last year, although the performance measures are slightly changed (in particular, a target for at least 70 per cent of the network to be undergrounded – previously it was 100 per cent).

Red Bus Ltd (RBL)*Main changes to Sol from previous year*

The content of the Sol is similar to last year's, although there are some changes in the performance targets as follows:

- Page 6 Forecast ratio of shareholder's funds to equity for FY12 and FY13 is higher than last year, and forecast debt significantly lower due to sale of surplus buses, cessation of dividends and relatively good cash flows compared with profit (depreciation charges are high).
- Page 7 Forecast revenue for FY12 and FY13 is reduced from last year, reflecting lost urban contracts. Passenger target is 7 million – last year 10 million. Target for percentage of trips starting on time is 90 per cent - last year 97 per cent, reflecting post-earthquake conditions.

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8 Cont'd**City Care Ltd (CCL)***Main changes to Sol from previous year*

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| Page 2 | Amended vision statement (previous one was “to be regarded by our customers, employees, shareholder and competitors as the best in the business”). |
| Page 6 | Comment re increased growth as part of the re-build alliance following the recent earthquakes. |
| Page 6 | Significant improvement in forecast profitability, with return on equity approaching 20 per cent. |
| Page 6 | Performance measure re population served is to maintain current level (last year’s measure was to improve by 5 per cent). |
| Page 7 | Targets for reduction of lost time incident frequency rate and work-related injury hours have reduced from 20 per cent last year to 10 per cent. |
| Page 7 | Forecast dividends for FY12 and FY13 have improved (\$4.9 million v \$2.0 million, and \$4.0 million v \$2.3 million respectively). |
| Page 8 | New comment on earthquake impact. |
| Page 9 | New content regarding Christchurch Economic Development Strategy and City Care’s role in the economy. |

Although some of the performance measures show a lower growth rate in improvements from the previous year, this is more a reflection of CCL’s success in improving performance over recent years. They have reached a stage where the standards are reasonably high it is not practical to keep improving at historical rates.

EcoCentral Ltd (ECL)*Main changes to Sol from previous year*

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| Page 9 | High forecast return on equity, largely reflecting the very high gearing of the company. Debt is forecast to have reduced to \$9.5 million by FY14. |
| Page 11 | Dividends of \$400,000 to \$500,000 forecast over the next three years. |

Selwyn Plantation Board Ltd (SPBL)*Points to note*

The company has substantially completed its asset realisation process, and is expected to be wound up in the 2012 financial year.