

Identifying and Managing the Risk from Your CCO's

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Outline of Presentation

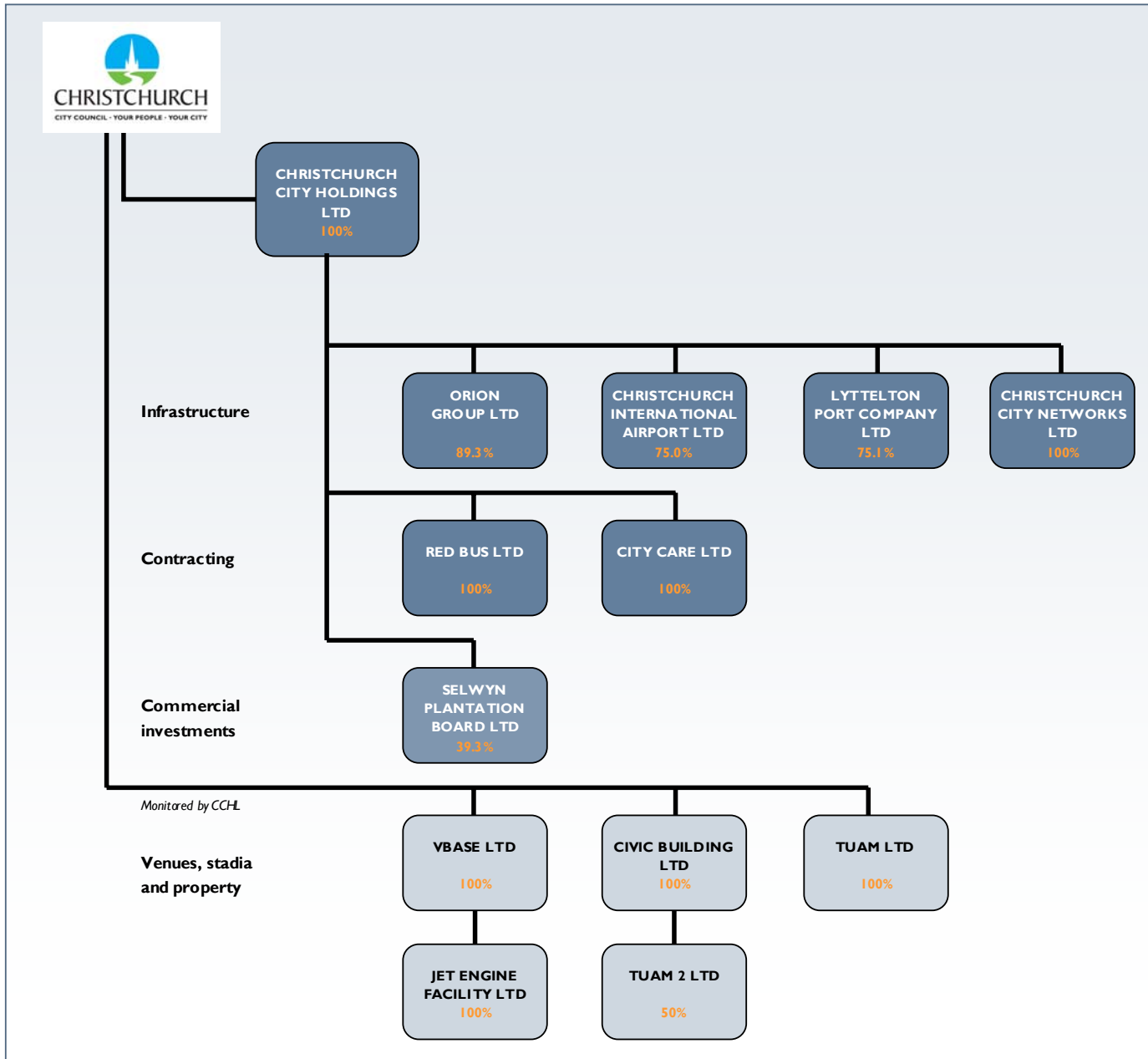
- CCHL – background and structure
- Key Risks
- Managing the risks
 - Accountability and Monitoring
 - Directors and Staff
 - Good Governance Practice
 - Relationships
- Rationale for ownership



CCHL – Background

- Established in 1993 – Equity of \$76m – One Subsidiary
- 2007 - Equity of \$1,159m – seven subsidiaries
- Financial efficiency the original driver
- Monitoring Company the ongoing purpose
- Current Mission –
 - “investing in, and promoting the establishment of, key infrastructure assets in a commercially viable manner to assist the development of Christchurch as a world class boutique city”.
- Since 2004 – looking for new initiatives to support the CCC quest for enhancing the “boutique city” concept





CCHL Objectives

- Monitoring Councils existing investments
- Review and invest in new infrastructure to support regional economy
- Preservation and growth of shareholder value and level of dividends to Council
- Build financial strength through appropriate other commercial investment.
- Advice to Council on issues relating to its trading investments
- Encourage intra group cooperation
- Other initiatives at request of council



Returns to Council since 1993

Ordinary Dividends	\$293.2m
Special Dividends	\$287.8m
Capital Repaid	\$162.0m
Subvention payments	\$12.6m
Total Payments to Council	\$755.6m



CCHL Board & Staffing

- CCHL is a buffer between political shareholder and trading subsidiaries
- Board of 8
 - Four external commercial directors
 - Four Councillors selected with professional input
- Councillors appointed to CCHL to give the Council confidence
- Staff of three
- Office co-located with Council – important for liaison and confidence of Council



Key Risks

- Dependability of Income
- Capital requirements
- Council's insatiable appetite for income
- Financial stability of companies
- Company failure affecting Council reputation
- Loss of key personnel
- Bad publicity
- Public loss of confidence



Accountability and Monitoring

Quarterly reporting

- Subsidiaries submit detailed quarterly reports
- Free flow of information depends on respect for confidentiality
- CCHL monitors through analytical reports to board
- Subsidiaries required to submit regular reports on statutory compliance
- CCHL reports at a high level to Council at least six times a year – no breach of confidences – provides assurance to Council
- Six Monthly Financial reports to Council
- Annual Report – wide distribution
- Annual General Meetings



Accountability and Monitoring Statements of Intent

- Each company must prepare Sol by 1 March each year
- Contains high focus on the agreed objectives and forecasts
- Company document with opportunity for shareholder/Council input
- Opportunity for Council/CCHL to influence broad company direction
 - Preferably give guidelines before preparation
 - Opportunity for Council to encourage companies to consider Council focus
- CCHL conducts first review
- Seminar for Council before formal recommendation for approval
 - Difficult to make last minute requests
- Examples of recent requests
 - Urban development strategy
 - Energy Conservation
 - Environmental issues
- Council needs to take care not to try and manage detail
- Requires sensitivity to bring harmony into commercial and Council issues



Accountability and Monitoring Business Plans

- All good companies have a business plan
- Detailed documents containing
 - Objectives, strategies
 - Forecasts
 - SWOT analysis
 - Performance targets
 - Action Plans
- Commercially sensitive
- Boards reluctant to make them public
- Review by CCHL
- Not available to Council or public



Directors and Staff

- The key to good company performance is the quality and focus of the boards of directors
- Council's Director Appointment and Remuneration policy based on principles:
 - Appointment on merit
 - Corporate governance best practice
 - Selection for contribution not representation
 - Compliance with Code of Conduct for directors
 - CCHL the interface and monitoring body between Council and subsidiaries



Directors and Staff(2)

- Significant and professional effort on director selection
- All companies must have good director evaluation process
- Succession Planning – especially for Chairperson
- Pay attention to dysfunctional boards
- Any Councillors on boards must be selected for their particular skills
- Key staff also important but a board responsibility
- Select good people and mandate them to do the job



Good Governance Practice

- Non interference of shareholder in operations
- Directors required to perform and be accountable
- Commercial confidentiality
- Separation of governance and management
- Good accountability – arises from responsibility & non interference



Relationships

- Good relationships with subsidiaries essential to an effective model
 - Chair to Chair
 - CEO to CEO
 - Board to board
- Confidentiality is the key to maintaining confidence
 - basis of openness to CCHL
 - many years to get to a good level of trust
 - learnt by experience
- Operating companies have commercial sensitivities
 - confidentiality is for the long term good of the ultimate shareholder
- Accountability depends on non interference
- If Councillors have issues with any companies they should take them up with CCHL Chairman or CEO



Relationships (2)

- Information Exchange and Education important to maintain trust with Council
 - reduces desire to interfere and direct
- CCHL has performance target to hold at least two seminars a year to allow a free flow of information
- No Surprises policy
 - Subsidiaries to CCHL
 - CCHL to Council on significant issues
- Site visits for all Councillors to subsidiary companies
 - gives sense of knowledge and not being outside the loop
 - companies able to give a good overview of their plans and objectives
 - Briefing on the issues which affect each company



Rationale for ownership

- Shand report critical of local authority ownership of assets without good rationale
 - Generally fair comments
 - Simplistic analysis
 - Influence is possible at high level
- Philosophical view that LA's not suitable owners
 - Founded on prejudice not fact
 - Can work well if structured properly
- Most CCO's are the result of history
- Good practice to review purpose of ownership
- LG Act requirements
 - Investment Policy to state policies and objectives
 - LTCCP – each CCTO including rationale for ownership
 - Policy on Significance – Strategic Assets



Rationale for ownership

The Christchurch Case

- Most CCTO's the result of legislation
- Infrastructure focus including new
 - Network company established 2007
- Christchurch Community want ownership
 - e.g public reaction to 2007 port takeover and sale proposal
- If corporatisation required – do it well
- Control over strategic assets
- Revenue to reduce rates
- Strong and growing asset base
- Decisions based on business cases
- Generally companies fund own capital needs



Conclusion

- A balanced portfolio of strategic assets is worthwhile and risk is minimised if –
- Directed and managed commercially
 - Monitored carefully
 - Good governance is in place
 - Good relationships are established
 - Political interference is minimised

