

# STAFF REPORT

**TO:** Mayor and Councilors  
**FROM:** Corporate Services Manager  
**REFERENCE:**  
**DATE:** 21 February 2009  
**SUBJECT:** Proposed Holding Company

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## Introduction

This report is prepared to enable Council to consider the relative merits of introducing a holding company for selected assets of Council.

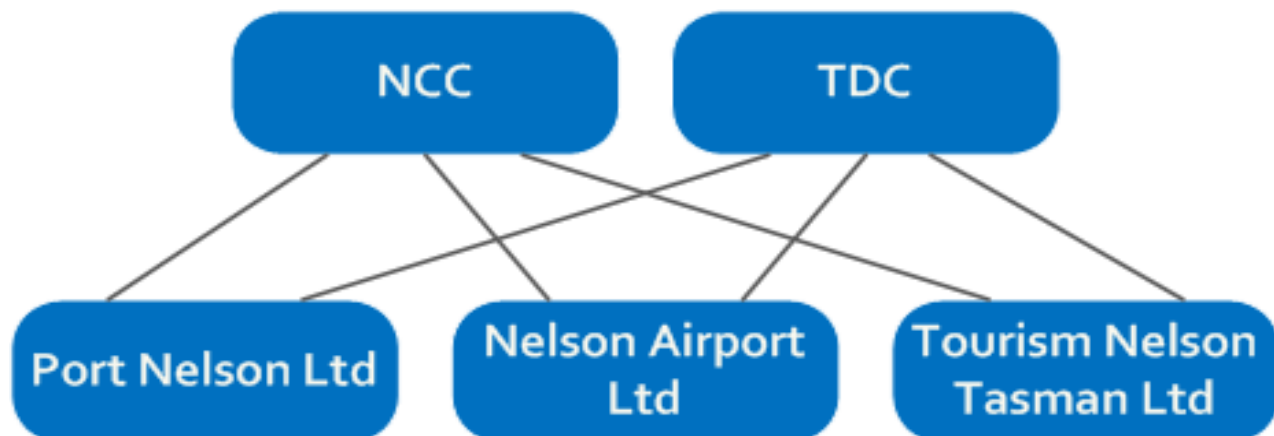
## Background

In the middle of last year both Tasman District Council (TDC) and Nelson City Council (NCC) were approached by Port Nelson Ltd (PNL) asking that a holding company be considered to hold Councils' investments in Port Nelson Ltd (PNL), Nelson Airport Ltd (NAL) and Tourism Nelson Tasman Ltd (TNTL). Deloitte who have undertaken much of this work in New Zealand were duly commissioned to provide advice on an appropriate structure and potential benefits to both TDC and NCC. A peer review of the Deloitte documentation by Council's tax advisors Toovey Eaton and McDonald concurred with the views of Deloitte around the most appropriate structure.

On 19 February 2009 at a Council workshop Deloitte senior staff presented to Council a holding company structure along with the benefits expected to accrue to Council from such a structure.

## Discussion

Council's current reporting and ownership lines are as follows:-



This structure would change significantly as a result of a holding company.

## **Holding Companies in detail**

### **Functions of the holding companies**

- Reviewing statements of intent and reporting to council
- Director appointments to subsidiaries
- Assisting subsidiary boards with strategic issues

### **Accountability of holding companies**

- Negotiation of an annual statement of intent with councils
- Council appointment of directors
- Regular reporting to council

### **Governance pros and cons of holding companies**

#### Pros

- Providing a clear commercial focus by clearly separating between council and the companies they own
- More efficient control and synergies as a group

#### Cons

- None

### **Financial pros and cons of holding companies**

#### Pros

- Access to lower costs of funds with savings to council in the range of \$295,000 to \$320,000<sup>1</sup>
- Improved economic efficiency

#### Cons

- If interest rates were to fall below 3% no quantifiable economic advantage would be obtained from the proposed holding company structure

(Source: Deloitte report December 2008)

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<sup>1</sup> Note that these are indicative only. Final costings will confirm actual savings.

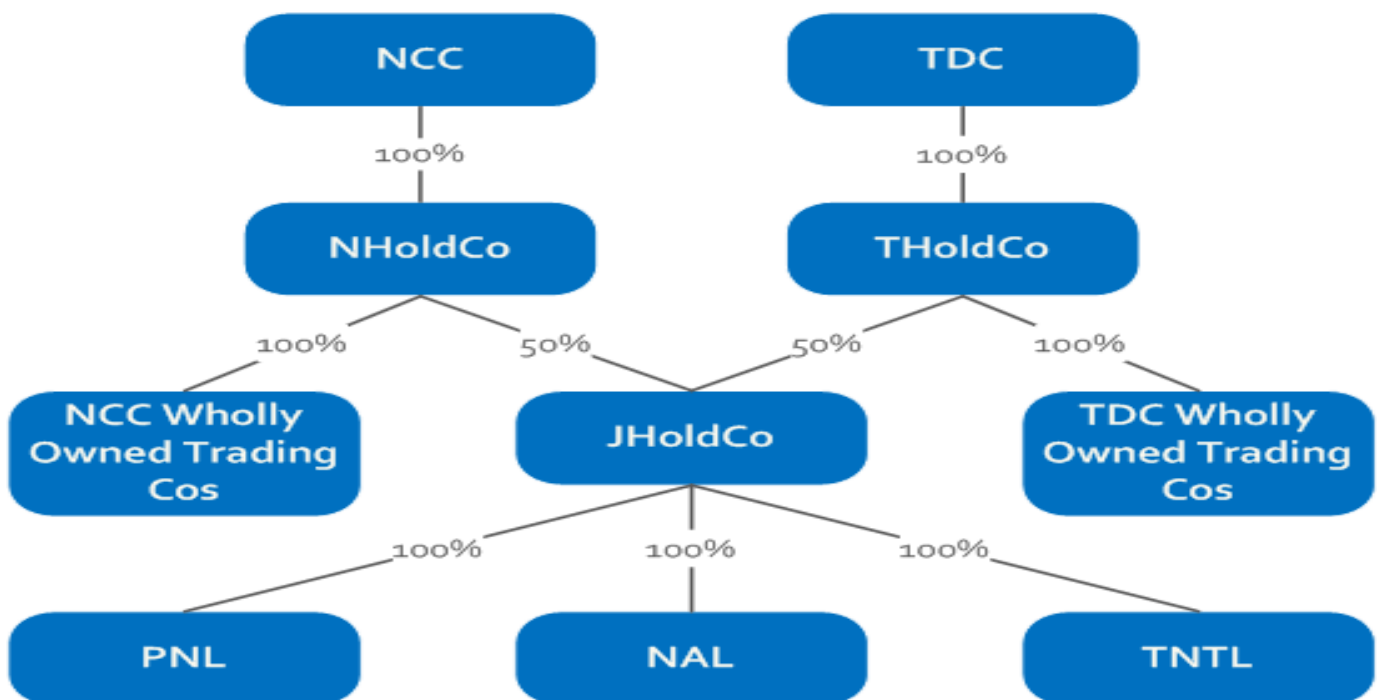
## Holding Company Alternatives

There are currently two alternatives being considered with the choice being dependent on whether NCC follows the same path.

### Alternative 1 (TDC and NCC)

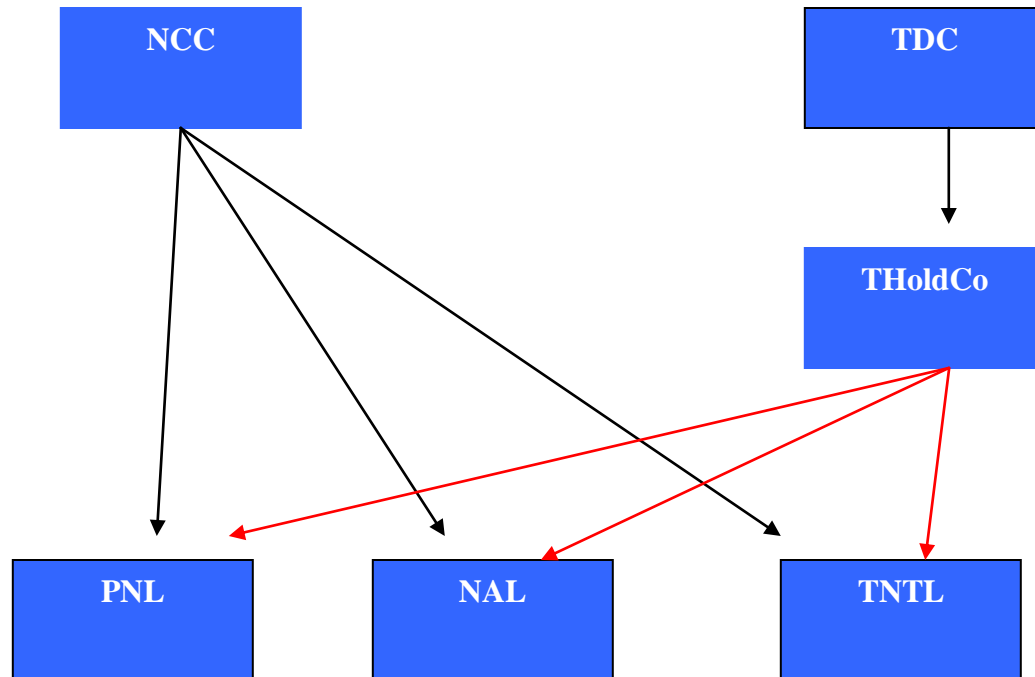
This is a two-tiered approach involving a joint holding company with Nelson City Council (NCC) This structure would involve both Councils current half share of the assets in PNL, NAL and TNTL being transferred to a joint holding company (JHoldCo) with each council's respective shares in those entities being held by an additional council wholly-owned holding company (NHoldCo and THoldCo) . The two-tiered approach means that in the future if any wholly -owned council assets were considered to be better managed via a holding company then the mechanism would already be in place.

It is important to note that the joint holding company would only be for joint NCC and TDC assets. This option provides enhanced governance benefits over the one-tiered approach.



## Alternative 2 (TDC only)

A one-tiered approach could be considered should NCC not wish to be involved. This would involve only one holding company (THoldCo) which would hold Council's share of the assets of PNL, NAL and TNTL. While this alternative provides less governance benefits than alternative 1, improved governance will still occur and there will still be economic benefits.



## Summary

Regardless of whether a joint holding company or just a single TDC holding company is formed it is very clear that there are benefits to TDC in the form of improved governance and economic efficiency.

## Significance

In accordance with Council's policy on significance, investments in PNL and NAL are considered strategic and require consultation via the special consultative procedure before any final decision is made.

By including this proposal in the draft 2009-2019 LTCCP the provisions of the special consultative process will have been complied with.

## **Options**

### **Option 1**

Remain with the status quo. This will result in improved governance and economic efficiencies being lost

### **Option 2**

Support the recommendation that this proposal be included in the draft 2009-2019 LTCCP. This will ensure that Council will receive improved governance and economic efficiencies.

## **Recommendation**

That Council includes in its 2009-2019 LTCCP the proposal to create a holding company structure to hold Council's share of Port Nelson Ltd, Nelson Airport Ltd and Tourism Nelson Tasman Ltd

and

A one- or two-tiered structure be adopted depending on the final decision by Nelson City Council.

Murray Staite  
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