NOTICE OF MEETING

Notice is hereby given of an Extraordinary Meeting of the Invercargill City Council to be held in the Council Chamber, First Floor Civic Administration Building, 101 Esk Street, Invercargill on Monday 20 October 2014 at 4.00 pm

His Worship the Mayor Mr T R Shadbolt JP
Cr D J Ludlow (Deputy Mayor)
Cr R L Abbott
Cr R R Amundsen
Cr K F Arnold
Cr N D Boniface
Cr A G Dennis
Cr I L Esler
Cr P W Kett
Cr G D Lewis
Cr I R Pottinger
Cr G J Sycamore
Cr L S Thomas

RICHARD KING
CHIEF EXECUTIVE
AGENDA

1. APOLOGIES

2. REPORT OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES

2.1 Submissions to the Uncalled Shareholdings Proposal

   Appendix 1 – Timetable
   Appendix 2 – Submissions
   Appendix 3 – Summarised Submissions

**********
TO: EXTRAORDINARY COUNCIL
FROM: DIRECTOR OF FINANCE AND CORPORATE SERVICES
MEETING DATE: MONDAY 20 OCTOBER 2014

SUBMISSIONS TO THE UNCALLED SHAREHOLDINGS PROPOSAL

Report Prepared by: Melissa Short – Manager Strategy and Policy

SUMMARY

Submissions to the Uncalled Shareholdings Proposal need to be heard and considered prior to a decision being made.

RECOMMENDATIONS

That the submissions, including the two received after the close of submissions, be received and considered by Council.

IMPLICATIONS

1. Has this been provided for in the Long Term Plan/Annual Plan?
   No.

2. Is a budget amendment required?
   No.

3. Is this matter significant in terms of Council’s Policy on Significance?
   No, this matter is not significant under the Council's Policy on Significance, although it has a relatively high degree of significance. This assessment is also consistent with Council’s proposed Significance and Engagement policy.

4. Implications in terms of other Council Strategic Documents or Council Policy?
   No.

5. Have the views of affected or interested persons been obtained and is any further public consultation required?
   This process is utilised to better understand the views of affected or interested persons.

SUBMISSIONS TO THE UNCALLED SHAREHOLDING PROPOSAL

The Uncalled Shareholding Proposal was publicly notified for submissions on Saturday 27 September 2014 with the closing date for submissions being 10 October 2014. A Community Consultation Clinic was held on 29 September 2014 with seven members of the public and media present.
Submissions to the Uncalled Shareholding Proposal need to be heard and considered prior to a decision being made on the proposal.

**Consultation**

The Proposal was advertised in The Southland Times and on Council’s website and Facebook page. The proposal was available at all Council offices and on the Invercargill City website.

**Submissions**

Eleven submissions, including two received after the closing date for submissions, and one comment on Facebook have been received. Submissions have been collated for consideration (*Appendix 2*).

To assist Council with their deliberations, submissions have been summarised and included in (*Appendix 3*).

Seven submitters have requested to be heard in support of their submission. A timetable, based on an allocation of 10 minutes per submitter, has been developed (*Appendix 1*).
### TIMETABLE

Submissions to the Uncalled Shareholdings Proposal

**MONDAY 20 OCTOBER**

<table>
<thead>
<tr>
<th>Time</th>
<th>Submitter's Name</th>
<th>Submission No.</th>
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<tr>
<td>4.05 pm</td>
<td>Rodney Tribe</td>
<td>002</td>
<td>11</td>
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<tr>
<td>4.15 pm</td>
<td>Kerran Larsen</td>
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<td>4.25 pm</td>
<td>Max Skerrett</td>
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<td>4.35 pm</td>
<td>Blair Hamilton</td>
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<td>4.45 pm</td>
<td>Alan Swallow</td>
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<td>4.55 pm</td>
<td>Louise O’Callaghan</td>
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<td>33</td>
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<td>5.05 pm</td>
<td>Richard McMillan</td>
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The Executive
Invercargill City Council
Esk St.
Invercargill.

Dear Sirs/madams,
I.C.C. Holdco proposed debt expansion.

I do not approve of debt expansion for Holdco. Particularly for investment in Wind Farms which are a 'sunset' technology. Maybe the Council have been requested to help fund these costly and risky projects?

Local Authorities have a very privileged position in that their funds are obtained by 'Demand' from property owners. For this the elected citizen Mayor and Councillors must service and look after the community. The only time debt should be incurred is for local major infrastructure projects. Maintenance before breakdown should come from cash funds. Recent community inconvenience has shown a lack of regard here.

Many people, before me, have warned Council against business risk. The councillor directors enjoy the fees but have no training and no personal responsibility for any business losses. The community bears the loss without any approval.

Pensioner and social housing are important for the community but the maintenance of existing and increased building has been neglected. This shows the incorrect priorities of Council.

No other organisation (not even central government) has this special position. Please do not spoil it.

Yours faithfully,

Lori New

Mrs H. New.
YES, I WANT TO MAKE A SUBMISSION ON THE PROPOSAL TO INCREASE COUNCIL'S UNCALLED SHAREHOLDING IN INVERCARGILL CITY HOLDINGS LIMITED.

NAME: Rodney Tribe

CONTACT PERSON (If the name above is an organisation):

POSTAL ADDRESS: 41 Norwood Street, Newfield

DAYTIME PHONE:

EMAIL ADDRESS: [Redacted]

SIGNATURE: [Signature]
(Note: if you are submitting your comment electronically you don't have to sign)

I WISH TO SPEAK TO THE COUNCILLORS ABOUT MY SUBMISSION:

YES ☑ NO ☐

I wish to speak about my submission but will be out of town on the 25th October so would like to arrange to present at a more appropriate time.

MY SUBMISSION ON THE PROPOSAL TO INCREASE COUNCIL'S UNCALLED SHAREHOLDING IN INVERCARGILL CITY HOLDINGS LIMITED IS:

As per the attached, 3 pages

(Please turn over)
My submission on the proposal to increase the Council's uncalled capital in Invercargill City Holdings limited is to remain with the status quo (option 1) and for council to conduct a full review of its Holding companies financial strategy with specific emphasis placed on its borrowings, security over borrowings, debt repayment strategy and retirement of uncalled shares.

The current consultation document states that council believe there are no other reasonably practicable options in the circumstances.

However following the public clinic held on the 29th September 2014, it would appear that there are other options that are both "reasonable" and "practicable" that in my view should have been considered, but have not, and in some cases were not put to Councillors as options.

The consultation document clearly states;

As council is restrained from lending money or providing security to Invercargill City Holdings Limited, Council has determined that the three options listed above are the only reasonably practicable options for addressing this issue.

If the "issue" being referred to is the issue of ICHL obtaining loans or finance to grow the business then the statement above in italics is incorrect.

- Mr Johnston stated at the public clinic on the 29th September 2014 that Council were not restrained from lending to ICHL and could in fact do so almost immediately with approval.

The only matter would be that Council could not pass over a cheap interest rate it may obtain to ICHL and that the rate ICHL would have to pay would be that which ICC would have to pay had it not used rates or rates revenue as security over borrowings.

While this may not suit ICHL, it does provide an interest rate margin to ICC which would assist in reducing the overall debt, and the matter for councilors to consider is what is best for ratepayers overall as opposed to ICHL.

- Mr Johnson also advised that even at the rate lending would need to be at above, the investments being considered would still be workable for ICHL.

It was further advised when questioned over ICHL's assets, that ICHL have some form of prohibition placed on them from using assets as security over borrowings.

This is an item that needs addressing as it was made clear that should ICHL be able to use assets as security then the need for "Uncalled Capital" may not be required as the Assets as security would be an "option" without the prohibition.

Based purely on my comments above I believe Council should not approve any further increase in its uncalled capital at this stage.

Rather, Council should consider Lending funds in the interim to ICHL so satisfy current needs with a view to review the points noted in my opening statement

Borrowings, securities, debt repayment strategy and retirement of uncalled shares
As decision makers, Councillors have an obligation to consider the current and future needs of the community as well as the views and preferences of those persons likely to be affected by a decision.

When planning infrastructure replacements etc. Council take out loans to service the debt which is repaid over time, spreading the cost of the infrastructure and loan over current and future generations who use it, this is a sensible and practicable approach to spread the cost over the ultimate users.

However in terms of the current arrangements with ICHL and uncalled capital, with ever increasing debt and what appears to be little in the way of debt reduction (it was stated during the clinic of the 29th September that it has been directed not to reduce debt). What this does is give any immediate gains to current ratepayers potentially in the way of dividends and allows for re-investment of retained earnings, while Debt continues to grow and risk of uncalled capital will be pushed to future generations, as opposed to having a strategy where debt is reduced over time as is risk.

- Under the only registered charge (security deed) dated 30th August 1996 between ICHL and its security representative; 7 (p) limits the ability of both ICHL and ICC to dispose of any shares (in both ICHL and its subsidiaries) as they are tied as security and any attempt to dispose of shares can see security become enforceable, as such ICHL and ICC would need prior consent of the Security representative.

To date no other charge (New or Modified) has been registered with the companies office in respect of security or an updated deed.

Using assets as security over borrowing clearly has inherent risk attached, however if as Council believe, they have systems in place to manage/mitigate risk then rather than having a risk on overall ratepayers for "uncalled capital", the only real risk to ratepayers under an assets as security arrangement is that ultimately dividends derived from those assets and assets may disappear in a worst case scenario.

However under an Uncalled capital arrangement, the same would happen if performing assets were sold, and if a sales value did not cover debt the outcome would be worse, no dividend, no assets and debt.

- Referring to the above mentioned security deed, while it has been stated that there is some form of prohibition over ICHL being able to use its Assets as security, the deed in question clearly lists in on page 7, 3.3 the nature of the security charge which includes "assets"

The key reason and purpose of Council Controlled businesses operating separate to Council is primarily to protect the ratepayer in the event of something going seriously wrong with a CCO/CCTO. They are separate companies and in the event that a company is wound up or liquidated any residual debt does not flow back to the ratepayers, however the current arrangements with Uncalled Capital remove that ultimate safety net.

As one of many ratepayers ultimately responsible for covering the payment in the event of a call on "Uncalled Capital" I would prefer Council Owned Companies were not holding "Uncalled Capital" and that those companies were able to use their assets to secure borrowings as is the case with any other commercial enterprise.
Council should be satisfied that it has the protective measures in place to allow its commercial companies to operate in a manner that minimizes and mitigates the risks to the assets, while being able to grow the business/s without placing ultimate debt with the ratepayer, while remaining comfortable in the knowledge that if a “significant” asset were to ever be subject to potential risk of sale due to a business operation not working out, that it can still provide lending to a CCO/CCTO to protect that asset from sale if the need arose.

While this may require “consultation” if it were to eventuate, it still provides Council will a safety net over assets if need be, and those ratepayers “at the time” get to have a say as opposed to potentially carrying a burden placed on them by a previous generation in the way of “uncalled capital”
From: Mary Ward [mailto:maryward@clear.net.nz]  
Sent: Friday, 10 October 2014 11:00 a.m.  
To: Melissa Short  
Subject: Holdco Uncalled Shareholding

Please be aware that I am totally against any further monies being allocated to Holdco and therefore my submission in respect of this is to maintain the status quo and adopt Option 1.

Surely the $5,000,000 stadium fiasco would send out warning signals to any intelligent thinking people. Time this Council started to realise why they are there and the reason that people actually voted for them. Be nice to think that the current crew were not just bricks in the wall of the Shadbolt establishment.

Mary Ward  
1 Highfield Terrace  
Invercargill
FAVoured Option
Having considered the consultation document and attended the Community Consultation Clinic, I favour Council approving Option 2, but also providing conditional agreement to take up further unpaid shares to meet the cost of the investment in OtagoNet, should EIL resolve to exercise its option.

Rationale
My reasons for favouring this course of action are as follows:
1. This allows for Council’s current commitments and the potential increased investment in OtagoNet to proceed.
2. This restricts any further investments by Holdco without Council scrutiny and further approval, which I believe is appropriate given the level of indebtedness which Holdco will have.
3. The increased indebtedness of Holdco significantly increases its risk profile and vulnerability to unknown future shocks, which warrants the borrowing capability of Holdco being curtailed.

Comments on Strategy
1. At the Community Consultation Clinic, it was stated that the purpose of increased investment by Holdco was to increase Councils other sources of income and reduce reliance on rates.

   While most ratepayers would agree with this goal, the theory is much simpler than the practice. The uncertainty of outcome is significantly increased due to the fact that all funds being used to invest are borrowed. In essence, the directors believe that the investments they can make will produce a return with sufficient margin over the cost of borrowing to enable them to provide both a return to the Council as shareholder and presumably repay debt.

   The risks in this strategy are reasonably clear. Not only does the investment have to perform as expected, but any assumptions made regarding the cost of borrowing or repayment expectations also have to play out as expected.

   Clearly, there are significant unknowns.

2. Investments in the electricity/energy sector could be argued to be lower on the risk scale than other potential investments, however no investments are without risk. One only needs to read the prospectuses produced by the likes of Mighty River Power, Meridian Energy and Genesis Energy to see the risks inherent in this sector.
Conversely, further investment in the forestry sector, which I note has been raised as a possibility in recent days, at a time when Holdco’s balance sheet will be severely stretched, would seem to me to make no sense.

While forestry can at times provide attractive returns, investment in forestry:
- is long term
- provides irregular cashflow
- is reliant on market determined prices which are subject to major fluctuations
- does not suit substantial gearing

SUMMARY
In summary, I am somewhat uncomfortable and uncertain as to whether the Council through Holdco should be building an investment division, albeit with the goal of benefiting ratepayers, while clearly also putting ratepayers at significant risk. However I understand the reasons behind Holdco’s request and have stated my preferred course of action above.

I am not in the habit of making submissions to Council but felt on this occasion, that I should make my views known; while not wishing to be heard in support of this submission, I would be willing and available to clarify or elaborate on any matter should Council so desire.

I appreciate the opportunity to make this submission and urge Council to exercise caution in making their decision.
To Invercargill City Council,

Please be advised that due to time constraints I wish to have the opportunity of making a verbal submission on 20th October 2014.

Regards Kerran Larson
79 Mary Street, Invercargill
Phone 0274 341 030
Max Skerrett  453 North Road  October 9th 2014

Mr Richard King
Chief Executive
Invercargill City Council

Dear Mr King,

Submission on Proposal to Increase Council’s Uncalled Shareholding in Invercargill City Holdings Limited

The airport upgrade: The document says “Earlier this year council approved the investment of $13 million in the Invercargill terminal upgrade and the initial investment of $9,500,000 in the purchase of OtagoNet.”

The bank has advanced funding for these items on the proviso that Holdco increase its uncalled capital at the next possible occasion.

Is that a fait accompli? Have ratepayers no choice but to approve some increase?

Holdco’s loans at June 30th 2014 were $58,661,000.

Invercargill City Forests: Its borrowing facility was increased to $60 million for a period of 3 years on 6th September 2013. The borrowings at last balance date were $22,721,673.

There is no doubt that this is a dangerous situation for the council and the one strong reason, and probably the only reason, why the bank wants an increase in the Uncalled Shareholding.

It appears obvious that had it not been for this City Forests debt, ICHL would not be asking the council to increase its uncalled capital.

My submission to the council is: Option 1 be taken. Status Quo. In order for this option to be taken, the Forestry Company must sell some, or preferably, all of its forests and its land and plant and equipment on the open market to reduce the debt to zero. However difficult this may be to accomplish it seems to be the only way for the council to avoid a substantial loss. It is quite possible that a private sector company could take over the lot at a price and scratch a profit.

Electricity Invercargill: I believe that it is unlikely that any investment opportunities that Electricity Invercargill Ltd could take up are worth the risk of increasing the City Council’s uncalled shareholding in Invercargill City Holdings.
The first example given is an increase in the shareholding in OtagoNet. It has already been clearly shown that this investment is highly suspect. Acknowledged in its own report as the most inefficient network in New Zealand.

An extract from the OtagoNet Management Plan:

Although historical statistics may be utilised for comparison with other networks, going forward the statistics for OtagoNet can be expected to change. The possible closure of its largest customer, publicly reported for circa 2017, taking approximately 50% of the energy and the need to renew the network whilst minimising the capital burden on customers results in challenges not faced by other networks of greater customer density.

The above is just one example illustrating the extreme risk in taking a further share in this network.

I am aware that regardless of whether or not EIL takes over this share it will still be a liability for Invercargill residents in the Power Company area.

Participation in joint ventures and smart meters:
Quite frankly EIL is doing extremely well just operating its own network. I strongly believe that any venture further afield is a risk not worth taking. It was stated that the roll out of smart meters will be a guaranteed immediate return so presumably it will go ahead without the need for any increase in capital.

Yours sincerely,

Max Skerrett

I wish to speak to this submission.
YES, I WANT TO MAKE A SUBMISSION ON THE PROPOSAL TO INCREASE COUNCIL’S UNCALLED SHAREHOLDING IN INVERCARGILL CITY HOLDINGS LIMITED.

NAME: Blair Hamilton

CONTACT PERSON (if the name above is an organisation):

POSTAL ADDRESS: 48 Margaret St

DAYTIME PHONE: 2177883

EMAIL ADDRESS:

SIGNATURE: [Signature]

(Note: if you are submitting your comment electronically you don’t have to sign)

I WISH TO SPEAK TO THE COUNCILLORS ABOUT MY SUBMISSION:

YES [ ] NO [ ]

MY SUBMISSION ON THE PROPOSAL TO INCREASE COUNCIL’S UNCALLED SHAREHOLDING IN INVERCARGILL CITY HOLDINGS LIMITED IS:

I support option 0

Council only has one Investment. That is an asset. and it subsidises the others. Stick to your core activities.

(Please turn over)
Invercargill Infrastructure:
- Roads
- Public
- Water
- Sewerage

This is what the Council should invest in!
YES, I WANT TO MAKE A SUBMISSION ON THE PROPOSAL TO INCREASE COUNCIL'S UNCALLED SHAREHOLDING IN INVERCARGILL CITY HOLDINGS LIMITED.

NAME: Alan Swallow

CONTACT PERSON (if the name above is an organisation): 

POSTAL ADDRESS: 1629, Chelmsford Street, Invercargill

DAYTIME PHONE: 217-4759

EMAIL ADDRESS: swallowz@xnet.co.nz

SIGNATURE: 

(Note: if you are submitting your comment electronically you don't have to sign)

I WISH TO SPEAK TO THE COUNCILLORS ABOUT MY SUBMISSION:

YES ☑ NO ☐

MY SUBMISSION ON THE PROPOSAL TO INCREASE COUNCIL'S UNCALLED SHAREHOLDING IN INVERCARGILL CITY HOLDINGS LIMITED IS:

See accompanying (5) documents.

(Please turn over)
Thank you for the opportunity to again present my views on this momentous proposal.

Previously, in response to its inclusion in the Draft 2014/15 Annual Plan, I opposed it mainly on the grounds of insufficient information and again at the Community Clinic held on September 29 following the distribution of the Consultation Document.

While this proved to be very informative, it failed to convince me that endorsement of the proposal, by council, was not in the best long-term interest of the city.

**Voting potential arising from Councillors Conflict of Interest.**

The number of Councillors holding directorship on the Holdco group of companies could lead – I believe – to unbalanced and unrepresentative decisions being arrived at on the ratepayer’s behalf.

I.C.H.L. register of directors include; - The Mayor, Crs. Sycamore, Boniface, Dennis, Thomas and Ludlow making up a total of six of the thirteen elected representatives on the full council.

Assuming conflicting interests would preclude these six for voting on future Holdco proposals, then the outcome could be decided by only a maximum of seven councillors.

In the event of a proposal going to a split vote among the seven, then the issue could be determined by only a maximum of seven councillors. This could unfairly place the perceived onus for a contentious outcome on the voting preference of a small number of councillors.

**Invercargill City Holding Company.**

As I recall the events of some sixteen years ago the Holding Company was established to take advantage of a tax system which allowed the ‘laying-off’ of the tax liability of one company, within a group of companies, against losses incurred by another.

In this way the profits accruing to the Holding Company would be returned to the City Council and used to reduce the call on ratepayers, to an extent that it was claimed rate increases would be a thing of the past.

This has yet to happen despite Holdco’s increasing involvement in commercial activities normally taken on -or rejected - by the private sector.

Unfortunately, with the exception of Electricity Invercargill Ltd., Holdco’s involvement in commercial enterprises such as Invergas, Bond Contracting, Pro-Drainage, Rodgers Contracting, Awarua Industrial park, International-is-
airport, Forestry investments including the Hedgehope landfill site, Purchase of empty buildings, Auckland Island Pigs, have collectively delayed fulfilment of the ‘No rate Increases’ commitment.

Holdco's previous ‘track record’ of disappointing financial outcomes, or long delayed returns, would surely suggest a course of retrenchment, not expansion into more of the same.

I oppose the proposal by the Council to meet I.C.H.L.’s request to increase its uncalled shareholding to $200,000,000. Nothing I have seen or heard to date justifies putting the ownership or viability of our assets at such enormous risk.

The ability to draw on such a large funding reserve could lead to a complacent acceptance on the grounds that it; “Won’t affect the rates”.

**Priorities.**
Core business, not risky commercial ventures, should be the overriding strategy. I would draw councillors’ attention to the present situation arising from the lack of an alternate city water supply. At present we have a 5 day reserve.

As yet we still have to learn the cost and statutory implications of the Government’s yet-to-be revealed earthquake building code.

**OtagoNet Asset Management Plan 2014-2024**
Having obtained a copy of this document I am surprised, going by what I have read, that we could ever consider becoming further involved. This must be compulsory reading for anyone involved in the decision-making process.

**Electricity Invercargill Ltd**
Not to be overlooked is the fact that this company derives its main income from those Invercargill consumers who are connected to its network. This is the only company in the Holdco group that is consistently profitable and pays a dividend to the parent company.

A situation resulting from our past investment over the years, its monopoly status and an acceptance, by the consumers, of high line charges.

**Options Considered by Council**

**Option 1: - Maintain the Status Quo**
No further shares are taken up and the Council’s contingency liability remain at $67.650m. Preferred Option.

The fact that this option limits I.C.H.L.’s borrowing capability is the strongest reason for adopting it.

Holdco seems to have exceeded its mandate by committing to a $13m investment in the Airport Terminal upgrade and a $9.5m purchase in OtagoNet without entering into public consultation. By not taking this step Council/Holdco is assuming public acceptance.

**Invercargill Airport Ltd. Pg 32. Borrowings.** The average interest rate on the runway extension rate (5.72%). Interest has been waived until the commencement of international flights at the airport
Holdco, remember, was established on the basis of eliminating rate increases NOT burdening the ratepayers with further contingency liabilities.

'—An ability to respond to future investment opportunities in a timely manner.' While the proposed further purchase in OtagoNet (subject to a favourable due diligence report), is seen as another example of Holdco's thinking being a further case of 'hope overriding experience' the planning that has already gone into to investing in three wind farms is itself a powerful reason for not agreeing to increasing Holdco's borrowing capability.

Enough data has been accumulated to cast serious doubt about the wisdom of becoming involved in this technology. The capital costs and high maintenance of the equipment are proving to be a stumbling block to profitability, a market for the energy produced has not been identified locally and finally, where is the interest for this type of investment among the private sector?

These are the identified claimed 'investment opportunities' but what should concern us even more is the reference to 'responding to future investment opportunities' whatever these may be, calls for a strong expression of caution.

While it is acknowledged that many millions of dollars is needed to make the OtagoNet network reliable this prospect must be tempered by the information contained in the domestic energy price (2012) review.

This shows OtagoNet prices to be the highest in the country at 18 cents/kWh - 2 cents higher than the next company. E.I.L. (eighth cheapest) at 9 cents /kWh.

This and other factors indicate that OtagoNet is highly unlikely to ever be able to generate enough income to finance the upgrading the line company requires, much less provide the rate of return on investment Holdco or the ratepayers are entitled to expect.

Sections 62 & 63 of the Local Government Act 2002
While I accept that this proposal has been framed to avoid conflict with these two sections, I suggest that the way it is being employed here is against the spirit of the Act.

The proposal provides 'comfort' to Holdco by assuring a line of credit through Council's shareholding.

Options 2 and 3 do not come into consideration... 'The Council has considered what, if any other options, it might have to help support I.C.H.I.' This statement seems to miss the fundamental concept that Holdco was established to reduce the rating burden on the ratepayers, not the other way round.

Also; - 'The disadvantage of increasing the uncalled shareholding is that Invercargill City Council may triple its potential liabilities if the full $200m were to be called. Council would most likely need to borrow money which would then need to be repaid via (increased) rates This could potentially and significantly increase rates in both the long and short terms. It could also significantly affect Council's ability to incur additional debt, (borrow more money), which could constrain other Council (Core) activities.'
Directors would act quickly to protect the value of the assets and to ensure there was no loss of revenue flowing to ratepayers. These measures could include the sale of Electricity Invercargill Ltd. assets ———— a suitable buyer for the assets could easily be found. ————The total amount of dividend lost would depend on which asset is sold.

**Such a possibility has no place in this discussion.**

If the need to sell E.I.L.'s assets arises the current dividend would cease and line charges would be increased by the new owner.

However does it make good business sense to continue to own and persevere with non performing assets that absorb grants, loans subsidies to keep them afloat?

Time to review the past performance and future prospects of these so-called assets with a view to capitalising them and ‘investing’ the proceeds in infrastructure relief, debt reduction.

I would point out that the value of these non-performing assets, in cash terms, represent money withdrawn from circulation and diverted from the local economy.

To continue the mistakes of the past and create another credit line of access to the vagaries of the financial markets and risky, unspecified, undertakings makes no sense.

Do we have any means to stop or influence these actions? *In some circumstances the Invercargill City may choose to undertake a public consultation process before approving a major transaction* ---this offers cold comfort

**Invercargill City Forests:**

This company was launched initially with the aid of cheap loans as part of a Government policy to encourage local authorities to establish forestry plantations.

These loans were phased out over time and forestry was expected to maintain itself and generate profit. This proved difficult to do and in many cases they were ‘cashed up’ and/or sold off.

Unfortunately in Invercargill’s case it was decided to not only continue but also expand the operations with help from Holdco. This has put the company on a treadmill of increasing its debt to expand its operations in order to pay off debt and produce a dividend.

The ‘roller-coaster’ nature of the company’s fortunes reflects the insecurity of market demand, going prices, preferred species, overseas control of the supply chain and the effect on price and supply to the local market all mark this as a field best left to the private sector to play on. Certainly not one holding up to $200m. of uncalled public shares to call on if needed.

The enclosed opening paragraphs, and website, taken from the New Zealand Farm Foresters report give, I think, a good balance to the glowing predictions we are receiving from Invercargill City Forests.

By reading the full N.Z.F.F. report councillors would become well equipped to judge the wisdom, or otherwise of allowing Holdco to continue carrying - much less – increasing - I.C.F.L’s level of indebtedness.
The dose of sleeping sickness surrounding the China market predicted in my last report in *Tree Grower* was already old news by the time you read it, so apologies if you thought it was all second hand. However the expected case of sleeping sickness turned in to something much more severe.

In the six weeks from mid-May to the end of June we experienced an unprecedented 25 per cent drop in settlements in China from US$162 down to $120. It has left the forest industry reeling and many forest owners with net royalties falling up to 80 percent.

Many have been able to cushion the blow with domestic sales. Over most regions it looks like domestic prices have remained stable or softening in line with export price parity. Forest owners and log sellers who worked to ensure a casual or formal link to export log prices might now be contemplating their folly. I have always maintained there should only be a very minor link between export and domestic log prices. The far stronger link is the domestic price for framing grade timber or international price for cut log timber for the industrial segment.

Backbone of the industry

Whatever the result of the current debacle, which you will read later lies mainly at the feet of New Zealand exporters, the domestic market has proved once again to be the backbone of our industry. The sales profile has been consistent and prices relatively stable. However, it is acknowledged that the troubles of our domestic segment are significant. The recent closure of the Southern Cross Group is causing all sorts of problems and left a lot of people and companies unpaid. Perhaps the alternative is that there are more credit risks in this segment and it is an industry and government challenge for the future.

I am quite ready to accept any justified corrections to misunderstandings, flawed conclusions or conflicting statements you detect in this submission.

Alan Swallow.

October 10 2014

Ph: 217-4759.
E-mail swallowz@xnet.co.nz
We are against the proposal for HOLDCO to increase its uncalled capital by any amount. If Holdco is ever unable to honour its debts, then why should the ratepayer be liable? Instead of surveying ratepayers about the prospect of uncalled for debt, we would have preferred to have a public vote on EIL and The Power Co purchasing Otago net. We are dismayed that the purchase went ahead when there appears to be no good business reason for doing so except to expand our Southland empire, without any prospect of good financial gain. Likewise, we are uneasy about Holdco going further into debt.

We strongly agree with Councillor Pottinger, on local TV 9th October, that we should follow other Councils in commissioning a professional review of our LATES and the custom of appointing Directors who are also Councillors, to LATES. Dunedin City Council’s Mayor criticized us for appointing Councillors to these companies, but Mayor Tim laughed it off by saying Dunedin is in no situation to criticize, (after their Council Carfleet rort and Michael Swan’s shameful stealing of funds from the SDHB). However this is no excuse for not having our practice of appointing Councillors onto LATES, professionally investigated like several other Councils have. We urge ICC to do this immediately, and if it shows there is no conflict of interest and that all the decisions made regarding our LATEs have been in the best interests of the City, and were good business decisions, then that would be the best outcome. If not, then Council should be appointing only experienced business and professional people to all our LATEs immediately, and not buying any more property or investments until the survey is done.
ICC Submission

Uncalled Shares.

(We do not want to be heard,
32 thank you)
I submit that Council should DECLINE HoldCo's call that Council increase its uncalled shareholding in any amount. The status quo should remain.

I wish to speak to my submission

I am one of the majority of Invercargill ratepayers who do not understand the need, or logic behind assuming this $100-200m liability of uncalled capital and who has no confidence in the perceived benefits.

Benefits are touted as return for ratepayers, and jobs...
I believe that equal and better return can be obtained for ratepayers via alternative investment, with less risk.

I believe that the risk associated with an increase in uncalled capital is too high, given the nature of the investments proposed, and the current/future governance structure.

A) Ad hoc. Driven by HoldCo and not by sound planning and strategies of Council.
Without adequate oversight and guidance: full debate, and 'number crunching' only sought as consequence of this issue being brought into the public arena.

The Chairman of HoldCo is quoted espousing the benefits of increasing this investment, such as providing jobs and lowering rates, yet states he has not read the OtagoNet Asset Management Plan...and is unaware of the issues and reported risks around OtagoNets purchase because he is too busy...

This OtagoNet Asset Management Plan gives a red flag that there are clear clear risks of an aging network, with significant uneconomic lines that need replacement, and major capital expenditure as a consequence of decades of deferred maintenance. This ought to be known by every HoldCo Board member, including the chair. And long before this point. I can have no faith in the adequacy of the decision making process...or that there have been adequate oversight and guidance.

Can I be assured that elected City Councillors understand the detail and logic behind Holdco proposal, any more than the HoldCo Chair and Board?

It seems that wheels start turning...due to a momentum from network company staff...then a Holding Company Board with wider aspirations on the "Monopoly Board"... And that once started, that momentum becomes a perpetual motion... with bountiful expression of the "potential benefits" yet an absence of expression and detail of potential investment risks.
.. The proposal arrives “ad hoc” on Council's desk: based on the ‘needs’ of a Holding Company with a vested interest in persuading Council of the benefits.

Worst still, ratepayers read the matter reported as a ‘done deal’− with Councillors seemingly placed in the position they must acquiesce to an increase in uncalled Capital as HoldCo "has already begun spending". “No going back ‘ The council can't take no” reports the Southland Times. The public submission process a farce.

My question of Council is this: where is the sound planning and strategies, where Council has driven and shaped its investment decisions, with goals based around
1) security of investment
2) Return of investment: (what specifically are the forecast returns and when...)
3) Diversity of portfolio /managed risk)

Why does HoldCo drive Council's investment (and savings) strategy? Are the ‘needs’ of the HoldCo Board for aggressive investment of infrastructure consistent with the needs of ratepayers? And is this the only means of achieving 'returns' or 'savings' for ratepayers?

Are there reliable and consistent returns projected for ratepayers for year FY2016, FY 2017, FY2018 and the next 10 years? Yes or no? What are those projected returns?

B) What are the ‘risks’ of HoldCo's intended investments relative to the projected benefits of jobs and outside income that HoldCo Chairman touts?

1) Otago Net

The Asset Management Report on OtagoNet says.... “many lines remain uneconomic but need replacement”....‘the reality is the previous owners of the network deferred maintenance and capital expenditure and unfortunately the savings of the past now have to be funded ....to ensure the safety of the network and to maintain reliability of supply”

When the chair quotes the benefits of “increased jobs and outside income” ..... does this offset the risk to Invercargill ratepayers (via HoldCo) of funding 50 yrs of deferred maintenance and capital expenditure for our otago neighbours? Are Councillors confident that is the case, and that there will be a reasonable and consistent return on HoldCo’s (ratepayers) investment? It must be a very good return if it is to return profit to HoldCo over and above the interest on a $200million bank loan...

What makes investment/liability in the Ownership of an aging Otago Lines company the ‘best’ path forward for ratepayers/

“Because HoldCo insist”?

Just because HoldCo insist, does NOT mean it is the best means of ‘lessening rates or providing income for ratepayers’ in the years ahead. (Which i assume is the justification for this enterprise)

There are better, more reliable, less risk, investment/savings vehicles that can return income or savings to Council.
2) **Renewable Energy/planned Windfarm investments**

HoldCo is also reported (Sthd Times) as “eyeing renewable energy”. I am told that no windfarm in NZ is yet making a profit. More so, it is said there is currently an oversupply of electricity to the market such that there is further risk to the future economic viability of windfarms. HoldCo are also considering windfarm investment in a generation environment where there is substantial reality to Tiwai Point closing in 2017 or in the short term, creating further oversupply to the electricity market and risk to HoldCo’s investment strategy.

HoldCo in its enthusiasm to take on debt for renewable energy investment, also does not seem to adequately heed that there is very real future downside risk to the Electricity generation market from political risks of central government regulation.

If Council wish to invest in the power generation market, they can find lower risk options, more diversified options with better returns from the outset. (Perhaps some blue-chip shares in Meridian, genesis, Might River, Infratil, who have their eggs in many baskets?) What exactly is Councils desired outcome for ratepayers? Its confusing to me. It seems there is a money-go-round... With ratepayers as funders. As a ratepayer I strongly oppose that.

C) **What are the consequences of bad decision making?**

- low return?
- delayed return?
- no return?
- liability for losses or bad debts???

Are councillors confident that positive returns are guaranteed for ratepayers and HoldCo?

Are councillors confident there is no likelihood of liability for losses, where ratepayers would incur debt repayments? If so, How would this impact on rates?

Ratepayers may not have flooded Council with submissions: it is a symptom that this is too complex and beyond ratepayers understanding: especially when they read in the media that the Council- HoldCo machine has created a ‘done deal’.

But councillors know the ratepayer expectation: No ratepayer wants Council to acquiesce to HoldCo needs, if there is ANY risk for liability for bad debts. The ratepayer expectation is for accountability and responsibility and prudent governance. This is not prudent in my lay opinion, or likely to meet the desired objectives of ratepayers whom you represent.
D) This is not the best way to keep rates down. Or provide income or savings for ratepayers

Why the focus on making money and profit, via a complicated financial arrangement with subsidiary of HoldCo, and with significant risks?

1) There are alternative, more reliable, less risk investment/savings options that can also bring ‘returns’ to ratepayers, if that is the aim.

2) Why not focus on saving money for ratepayers?

   I will mention again that Council could undertake a Review of core Council services and operations:
   I’d argue that there is much more certainty of consistent savings than the ‘promise’ of a ‘notional’ return from a Forestry Company after 30 years Council ownership.

3) Stick to your knitting, and incur debt for capital expenditure on necessary infrastructure of Invercargill ratepayers.

   This Council has major infrastructure expenditure ahead—earthquake buildings, possible stadium liability, water supply source replacement; water pipe network replacement; street lighting from the ark not meeting national standards.

   Perhaps we should take the lesson of OtagoNet—that deferred maintenance and capital expenditure ‘hits you in the pocket later’.

   Wouldn’t $100-200million debt be best incurred for the purpose of investment in this necessary infrastructure now, at 2014 costs, at less cost than would be incurred if deferred to 15 years time. Is that too not a ‘saving’ ‘which will benefit ratepayers now and lessen costs for the ratepayers of the future’

   Perhaps my logic is askew: But I like the simplicity. I like transparency. And I like the conservatism of this concept, which meets heeds the expectations of ratepayers.

   In borrowing to invest in capital expenditure on the lines network of Otago-ites, do Invercargill city residents risk becoming (quote) “the dense urban network ‘to offset the number of rural customers in the rural OtagoNet areas’”?

Thankyou for consideration.
Council should retain the status quo in its holding of uncalled shares and heed the expectation of ratepayers for prudent and conservative governance.
A submission on the proposal to increase council's uncalled shareholding in Invercargill City Holdings Limited from:

Richard McMillan

My submission on the proposal to increase council's uncalled shareholding in Invercargill City Holdings Limited (HOLDCO):

Firstly, I would like to thank Council for the opportunity to comment on the above proposal.

Holdco is the holding company charged with managing the assets of Invercargill city. It was formed to place the assets of the city at arms length from Invercargill City Council.

Its sole purpose is to see to the day to day running of those assets without having to continually refer to the City Manager or to Council heads of departments. It reports to Invercargill City Council on a 6 monthly cycle, otherwise it operates without oversight.

It is not Holdco's mandate to increase the assets under its management. Indeed the New Zealand Government has cautioned councils around the country, that they should sell off "non-core assets", gained over time and concentrate only on the day to day operation of their core functions.

There is a case for the airport and Electricity Invercargill Limited (EIL) to be owned by the city. However the same would have to be questioned in regard to Invercargill City Forests Limited (ICF). It is my understanding that ICF owes Holdco $22m and has only recently produced its first profit of $2m. ICF is not a core asset and should not be further increased in size.

EIL is not a core asset but has been beneficial to Invercargill. We should however, not be increasing the city debt level to fund the purchase of the assets of another district or province when there is
likely to be heavy infrastructure costs to maintain that asset. The Power Company is happy with their level of ownership in OtagoNet and EIL should not be spending more $m to increase its stake in OtagoNet.

What HOLDCO does, is to put the city into debt but at a remove from Invercargill City Council. Please correct me if I am wrong but as I understand the situation, HOLDCO can spend 20% of its capital base for any purchase without reference to council.

If the uncalled shareholding is increased to $200m, HOLDCO can now increase its asset base significantly without reference to its shareholders – the ratepayers of Invercargill.

While everything is running along smoothly, there is not a problem. Of course the banks are going to lend money – they can't lose. It is not their problem if the ratepayers have to pick up the tab – at a premium – if the economy turns sour.

Holdco was set up so that ratepayers were unable to query or challenge the council on the actions of specific "trading companies" which had previously been able to be checked and balanced by ratepayers.

The complexities of HOLDCO are now putting people off commenting because most do not understand the whole setup and control of HOLDCO.

Councillors, it is my submission that no further uncalled shares be taken in HOLDCO. If HOLDCO requires funding for anything, they should make application to Council and have that funding request scrutinised by the funders concerned i.e. the ratepayers.

PLEASE NOTE: I wish to be heard on this submission.

[Signature]
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<tr>
<td>001</td>
<td>Lois New</td>
<td>Oppose debt expansion for Invercargill City Holdings Limited. Submits that the only time debt should be incurred is for major infrastructure projects. Councillor directors have no personal responsibility for any business loss and the community will bear the loss without any approval to the project. Submits that Pensioner and Social Housing is important and has been neglected and that there are incorrect priorities at Council.</td>
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<td>002</td>
<td>Rodney Tribe</td>
<td>Submission in support of Option 1 – remain with status quo. Requests Council conduct a full review of its Holding companies financial strategies with specific emphasis on its borrowings, debt repayment strategy and retirement of uncalled shares. Submits that there are other reasonable and practicable options that were not considered. • Council could lend to ICHL which would provide an interest rate margin to ICC which would assist in reducing overall debt. • Must address that ICHL have a prohibition placed on them from using assets as security over borrowings. As should ICHL be able to use assets as security then the need for Uncalled Capital may not be required. The current proposal gives any immediate gains to current ratepayers potentially in the way of dividends and allows for re-investment of retained earnings, while debt continues to grow and risk of uncalled capital will be pushed to future generations, as opposed to having a strategy where debt is reduced over time as is risk. The key purpose of a CCO is to protect the ratepayer in the event of something going seriously wrong with a CCO. The current arrangements with uncalled capital remove that ultimate safety net. Council should be satisfied that it has the protective measures in place to allow its commercial companies to operate in a manner that minimises and mitigates the risk to assets, while being able to grow the business without placing ultimate debt with the ratepayer.</td>
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<td>003</td>
<td>Mary Ward</td>
<td>Submission in support of Option 1 – remain with status quo. Surely the $5,000,000 stadium fiasco would send out warning signals to any intelligent thinking people. Time this Council started to realise why they are there and the reason that people actually voted for them.</td>
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| 004 | Stephen O'Connor | Submission in support of Option 2 – with the conditional agreement to take up further unpaid shares to meet the cost of investment in OtagoNet, should EIL resolve to exercise its option.  
This allows for Council’s current commitments and the potential increased investment in OtagoNet to proceed. This restricts any further investments by Holdco without Council scrutiny and further approval, which I believe is appropriate given the level of indebtedness which Holdco will have. The increased indebtedness of Holdco significantly increases its risk profile and vulnerability to unknown future shocks, which warrants the borrowing capability of Holdco being curtailed. |
| 005 | Kerran Larson  | Unable to make submission due to time constraints, but wishes to be heard.                                                                                                                                   |
| 006 | Max Skerrett   | Submission in support of Option 1. But in order for this option to be taken the Forestry Company must sell some, or preferably, all of its forests, land, plant and equipment on the open market to reduce the debt to zero.  
Submits that due to Council already approving the Invercargill terminal upgrade and initial investment in OtagoNet ratepayers have no choice but to approve some increase.  
Submits that if it were not for City Forests debt, Invercargill City Holdings Limited would not be asking the Council to increase its uncalled capital.  
Submits that it is unlikely that any investment opportunity that EIL could take up is worth the risk of increasing the City Council’s shareholding in ICHL. |
| 007 | Blair Hamilton | Submission in support of Option 1 – remain with status quo.  
Council only has one investment that is an asset and it subsidises the others. Council should invest in its core activities such as roading, rubbish, water and sewerage. |
| 008 | Alan Swallow   | Submission in support of Option 1. Holdco seems to have exceeded its mandate by committing to a $13m investment in the Airport Terminal upgrade and a $9.5m purchase in OtagoNet without entering into public consultation. By not taking this step Council / Holdco is assuming public acceptance.  
Oppose the proposal to meet ICHL’s request to increase uncalled shareholding to $200,000,000. Nothing I have seen or heard to date justifies putting the ownership or viability of our assets at such enormous risk.  
Core business, not risky commercial ventures should be the overriding strategy.  
Submit that although the proposal is not in conflict with section 62 and 63 of the Local Government Act 2002, it is against the spirit of the Act. The proposal provides ‘comfort’ to Holdco by assuring a line of credit through Council’s shareholding. |
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<td>009</td>
<td>Peter Cruickshank</td>
<td>Councillors should read the full NZFF report to better judge the wisdom, or otherwise of allowing Holdco to continue carrying – much less increasing – ICFL’s level of indebtedness.</td>
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<td>Oppose debt expansion for Invercargill City Holdings Limited.</td>
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<td>Request a professional review of our CCOs and the custom of appointing Directors who are also Councillors to the CCOs.</td>
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<td>010</td>
<td>Louise O'Callaghan</td>
<td>Submission in support of Option 1 – retain the status quo.</td>
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<td>Submit that the risk associated with an increase in the uncalled capital is too high, given the nature of the investments proposed and the current/future governance structure.</td>
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<td>Diane Philip Todd</td>
<td>It’s a disgrace to even think they have the mandate to load a debt risk onto the public. And we are not even going to be told what for. It’s a just in-case thing. Not a single business plan, strategy document or indication of what the public can expect in return for the risk. And for those who think there is no risk think back to the millions of dollars Holdco wrote off over Bond Contracts. You the public paid for that. We elect councils to get on and govern the day to day running of the city, not force us into propping up their secret business ambitions. If they want to be business people they should do what the rest of us do, put their hands in their pockets and take the risk themselves.</td>
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