

MACKENZIE DISTRICT COUNCIL

MINUTES OF A MEETING OF THE FINANCE COMMITTEE HELD IN THE COUNCIL CHAMBERS, FAIRLIE, ON TUESDAY 12 MAY 2009 AT 9.45 AM

PRESENT:

Graham Page (Acting Chairman)
John O'Neill (Mayor)
Leon O'Sullivan (from 12.05 pm)
Graham Smith
Evan Williams

IN ATTENDANCE:

Glen Innes (Chief Executive Officer)
Paul Morris (Manager – Finance and Administration)
Rosemary Moran (Committee Clerk)

I APOLOGIES:

Resolved that apologies be received from Crs McDermott and Pullen, and for lateness from Cr O'Sullivan.

The Mayor/Evan Williams

II MINUTES:

Resolved that the Minutes of the meeting of the Finance Committee held on 31 March 2009, including such parts as were taken with the Public Excluded, be confirmed and adopted as the correct record of the meeting.

Graham Smith/Evan Williams

MATTERS ARISING:

1. Land Swap with the Department of Conservation - Wilding Trees:

It was agreed that the issue of wilding trees in general, and in particular those on the land adjacent to the Pukaki Airport, needed to be addressed. The Chief Executive Officer sought political guidance regarding the most cost effective way of doing it and the source of a budget for the work.

The issue of carbon credits and wilding trees was raised.

The Chief Executive Officer said it had been the subject of a brief session at the recent Zones 5 and 6 meeting. Existing legislation provided rules and the ability to register forest plantings for the trading of emissions units. However the incoming government wished to review the legislation. There was an obligation to advise MAF if pre-1990 forests were harvested. He suggested the Mackenzie Forestry Board would be well advised to monitor the situation and seek good advice. He said it might be possible to clear wildings from boundaries and grow blocks of wildings just for the credits.

The Chief Executive Officer noted that the land adjacent to the Pukaki Airport was in the Pukaki Airport Zone. It would need to be kept clear of wildings for that reason, and also if a land swap with the Department of Conservation was to take place – the Department of Conservation would not want to inherit the liability of wilding trees.

The meeting was adjourned at 10.05 am for morning tea and reconvened at 10.22 pm.

III REPORTS:

1. FINANCIAL REPORT TO 31 MARCH 2009:

This report from the Manager – Finance and Administration was accompanied by the financial reports for the Council for the period ended 31 March 2009.

Resolved that the report be received.

Graham Smith/Evan Williams

The Mayor referred to his concern at the potentially high level of **depreciation on Council's vehicle fleet**. He considered that the vehicle replacement policy might need to be reviewed in an effort to control that situation. The Manager – Finance and Administration suggested that the vehicle replacement budget set by Council could be a more appropriate tool for that purpose. He said that Council's policy set the minimum ages at which vehicles could be replaced. A Council decision to extend the life of vehicles would not be precluded under the policy.

In the light of budget overruns in the **Roading Activity**, the Committee requested that an opportunity to review all the cost centres for Roothing be included on the agenda for the Council meeting on 2 June 2009.

3. ALPINE ENERGY LTD – STATEMENT OF INTENT:

This report from the Manager – Finance and Administration was accompanied by the Alpine Energy Ltd (AEL) Statement of Corporate Intent (SCI) and amended Page 3 of the Draft Statement of Corporate of Intent.

Resolved that the report be received.

Graeme Page/Evan Williams

The Chairman welcomed Steve Thompson, the representative for the Mackenzie and Waimate District Councils on Alpine Energy Ltd's Board of Directors, who joined the meeting at 11.45 am.

Crs Pullen and McDermott also joined the meeting at 11.45 am by way of a telephone conference call.

The Chief Executive Officer referred to the proposal that a Charitable Trust with a South Canterbury-wide focus be set up with the brief to distribute money for projects, such as the proposed new aquatic centre in Timaru, and that along with the Timaru District, the Waimate and Mackenzie District would get a share of the Trust's funds. He said the issue that concerned him, and about which there had

already been discussion, was that it was proposed that a major contributor to the Trust would be AEL who had been asked informally to contribute \$500,000 a year to the proposed Trust over the next ten years.

He said the matter had not been mentioned explicitly in the SCI; however it was one of the reasons why the dividend referred to in that document was less than it had been previously. He said he was yet to be convinced that the proposal was in the best interests of the Mackenzie District. He also expressed his reservations that, in light of significant capital expenditure looming on its horizon, it would be in the best interests of Alpine Energy Ltd.

The Mayor said his major concerns were around the potential effect of the proposal on the District's ratepayers and the current policy demand by shareholders that saw 90% of AEL's profits distributed as dividends.

Mr Thompson clarified that the 90% dividend policy referred to by the Mayor was in fact 100% - every dollar of tax paid profit had been paid back to shareholders. He noted that should AEL suffer say a 50% reduction in profit it would not be possible to maintain the current dividend levels.

In response to a comment that it would be prudent for a sum to be set aside for adverse events, Mr Thompson said there had been cash derived from the sale of Opuha Dam Company shares but the direction from shareholders had been that it should all be paid out. He suggested it was risky for the shareholders to rely on AEL profits as part of their annual revenue when a fluctuation in those profits could catch everyone out.

Mr Thompson went on to explain that while AEL was likely the most profitable lines company in the country, the lines network was operating at absolute capacity and returning the maximum amount of revenue and profit. He said that because there was no ability to gain any more revenue, the Company would need to spend approximately \$50m to take it to the next level which would allow it to earn half as much revenue again.

He explained that the impact of the proposed scenario, whereby \$500,000 from AEL profits was distributed annually to the proposed Trust, would mean a reduced dividend of .5c per share which equated to about \$10,000 per annum for Mackenzie.

He said that AEL considered it could come close to maintaining the current dividend levels and was budgeting on achieving that through future projects. He noted that the proposal did rely on the Commerce Commission allowing AEL to increase line charges as a result of its proposed future spending. He said however, the Commerce Commission could be of the view that AEL could have funded development from retained profits rather than paying out 100% of its profits.

Leon O'Sullivan joined the meeting at 12.05 pm.

Mr Thompson said that if AEL's application to the Commerce Commission to increase line charges was unsuccessful, the Company had nowhere to move.

He explained that it was important for the Council to understand the situation in terms of what the \$500,000 contribution to the proposed Trust meant. He said the Company could afford the contribution but it would be at the expense of shareholders.

Mr Thompson said that there were two particular advantages associated with the payment to the proposed Trust – it would be paid before tax, which represented a \$150,000 benefit, and the Lines Trust had already indicated that it would not want its 40% share of the dividend. For Mackenzie this would mean that while its share of \$500,000 worth of dividend would no longer be available – a \$17,000 reduction – the District’s benefit from the tax and Lines Trust issues could be \$40,000.

Mr Thompson said that he was a tax expert and as such had been retained by the Timaru District Council to review their first draft of a proposed Trust deed. He had rejected that draft and provided a raft of ideas for the Timaru District Council to consider instead. He had included a proposal which was designed to protect the interests of all shareholders in the region, viz that the deed should guarantee Mackenzie a 10% entitlement to funds from the Trust, Waimate 15% and Timaru 75%. He noted that the proposed Trust’s funds would not be derived solely from AEL and that applications for funding would also be made to gaming trusts and other community organisations. He suggested the resulting benefit could be well worth Mackenzie’s initial sacrifice of \$17,000.

In response to a question regarding Mackenzie’s opinion about the proposed Trust as a minority shareholder in AEL, Mr Thompson said the directors agreed position currently was that \$500,000 would not be provided to a trust unless all shareholders agreed.

Mr Thompson confirmed that under the proposed arrangement AEL would have to enter into a contractual arrangement with the proposed Trust to guarantee payments – a normal position for long term donations.

The Chief Executive Officer asked about the level of guarantee that companies had to make charitable donations. Mr Thompson said that the Labour Government had determined that donations were 100% tax deductible; the National Government could change that legislation.

The Chief Executive Officer said that until the Council was provided with a written proposal it would not act.

Mr Thompson said he envisaged the order of events would be:

- a trust formed by a group of well meaning individuals (not councils or council related people)
- The Trust would then approach AEL and request a donation of \$500,000 per annum.
- AEL would consider that request. Working on the assumption that the shareholders were comfortable and agreed with the request, the Timaru District Council could then request a grant from the Trust to help fund the aquatic centre.

The Chief Executive Officer asked how Council might be assured that the trustees were a group of well meaning individuals, that the trust deed included the right safeguards and that the situation wouldn’t be the sort of arrangement the IRD might threaten?

Mr Thompson said if the Council agreed to AEL’s contribution of \$500,000 it would also need to approve the trust deed. He said that it was to the advantage of the

Mackenzie and Waimate Councils that he had been retained to provide tax and business advice because he could make it clear to the Timaru District Council how the trust deed should work. Mackenzie could say to Timaru that it would not support any distribution of AEL funds if it was not satisfied with the terms of the deed. He assured the Council that the trust deed would be a public document.

He noted that the three Districts would be entitled to their share of all the monies that came into the Trust, not just the AEL contribution.

The Manager – Finance and Administration endorsed his recommendation that the draft SCI not be approved. He said his opinion was that approval of the SCI would indicate Council's implicit agreement that the grant should be made.

The Chief Executive Officer expressed his surprise that the draft SCI had not mentioned the request for the \$500,000 donation to a Trust.

Mr Thompson said that if had been identified as a shareholder directed donation, it wouldn't be tax deductible.

Mr Thompson said he had some sympathy with the Manager – Finance and Administration's view and suggested that the answer could be the agreement of all parties to the donation, contingent upon everyone being happy with the proposed Trust Deed. He proposed that the three parties meet to make a final attempt to come to that agreement.

The Mayor agreed with the proposal. Mr Thompson confirmed that he would be available for such a meeting,

Mr Thompson suggested that in the meantime, the Council could adopt the draft SCI with the comments:

- that Council believes the profitability is understated
- that it wants AEL to reconsider the SCI
- that Council believes the payout should be \$500,000 higher based on its calculations.

He said that if the Local Government Act provided for a subsequent change to the SCI that could be a way forward. AEL could then notify the shareholders of its intention to make the \$500,000 donation, with the resulting reduction of dividends, if they agreed.

The Chief Executive Officer confirmed that there was provision in the Local Government Act to change the SCI.

The Mayor thanked Mr Thompson for attending the meeting.

Graham Smith left the meeting at 1.00 pm.

The meeting was adjourned at 1.00 pm for lunch and reconvened at 1.35 pm.

3. ALPINE ENERGY LTD – STATEMENT OF INTENT (Continued)Resolved:

1. That the Mackenzie District Council declines to agree to the draft Statement of Intent of Alpine Energy Ltd in its current form.
2. That in order to agree to the Statement, the Council would ask the Alpine Energy Ltd Directors to revisit their budgets in order to increase the profitability of the Company and retain dividends at or about the level predicted in the 2009 Statement of Intent.

Evan Williams/The Mayor

2. BANCORP QUARTERLY REPORT:

This report from the Manager – Finance and Administration advised Councillors of the performance of the Council's investment portfolio managed by Bancorp Treasury Services Limited.

Resolved that the report be received.

Evan Williams/The Mayor

IX PUBLIC EXCLUDED:

Resolved that the public be excluded from the following part of the proceedings of this meeting namely:

1. Public Excluded Minutes of Finance Committee Meeting held on 17 February 2009
2. 20 Market Place Twizel

<u>General subject of each matter to be considered</u>	<u>Reason for passing this resolution in relation to each matter</u>	<u>Ground(s) under Section 48(1) for the passing of this resolution</u>
Public Excluded Mins of 17 Feb 2009		
20 Market Place Twizel	Commercial Sensitivity	48(1)(a)(i)

This resolution is made in reliance on Section 48(1)(a)(i) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act, which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public are as follows: *20 Market Place, Twizel*, To protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied it, section 7(2)(b)(ii).

Leon O'Sullivan/The Mayor

The Committee continued in Open Meeting.

FAIRLIE MEDICAL CENTRE:

The Mayor reported that he had met with Drs Arundel and Hyde that morning to discuss proposals for the extension of the Fairlie Medical Centre.

He said a draft application for support for the project to the Transpower Community Grants fund had been prepared. He suggested that the application be amended to include reference to the vast geographic area of the Mackenzie District, its relatively small permanent population and large numbers of visitors and tourists and the need to secure the ongoing provision of excellent medical services, including ambulance services.

Cr Page suggested that a one-off uniform charge could help fund the project. The Chief Executive Officer noted the need for funding applications to include a component of Council money for the project.

The Mayor suggested that the Otago Medical School might be approached, recommending the training of medical students which was being undertaken by the Doctors in Fairlie and seeking the School's support.

It was suggested that the availability of funding from Meridian, Federated Farmers, Rural Women and the Mid South Canterbury Trust be investigated. Evan Williams undertook to contact Federated Farmers and the Mayor undertook to contact Rural Women.

**THERE BEING NO FURTHER BUSINESS THE
CHAIRMAN DECLARED THE MEETING CLOSED AT 2.26 PM**

CHAIRMAN: _____

DATE: _____