

HURUNUI DISTRICT COUNCIL MEETING REPORT



To: Council
Report Prepared By: Hamish Dobbie, Chief Executive
Date: 23 November 2017
Significance Level: High

Potential Purchase of Hurunui Water Project Shares

Recommendation THAT THE COUNCIL:

1. RESOLVES TO PURCHASE UP TO 1190 HURUNUI WATER PROJECT (HWP) SHARES AS SIGNALLED IN THE 2017-18 ANNUAL PLAN, SUBJECT TO:
 - I. AGREEMENT BEING REACHED WITH HWP ON THE PURCHASE DETAILS
 - II. CONSULTATION ON THIS DECISION
 2. INSTRUCTS OFFICERS TO INITIATE CONSULTATION ON THIS DECISION.
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Executive Summary

This is a further report for Council to consider purchase of Hurunui Water Project (HWP) shares and follows on from Council's decision to include the potential purchase of these shares in the Annual Plan 2017-18. The due diligence step has now been completed and officers have found no impediment to Council purchasing the HWP shares on offer.

Officers are of the view that a decision to purchase HWP is in compliance with the Local Government Act 2002.

The Chief Executive Officer recommends that the Council proceeds with the share purchase subject to suitable terms being reached with HWP on the purchase details and appropriate consultation being undertaken.

Background

At its meeting of 27 April 2017 Council resolved to include \$500,000 in the Annual Plan 2017-18 for the potential purchase of Hurunui Water Project shares.
<http://www.hurunui.govt.nz/assets/Documents/AgendasMinutes/Council/2017/27-April-2017-Council-Agenda-reduced-size.pdf>

As the decision to purchase shares was deemed significant a consultation process on this matter was outlined in the paper. Officers have followed the consultation process and this paper reports back following the completion of the due diligence process.

Transaction Process

The paper of 27 April envisaged that any transaction to purchase HWP shares would be a staged process with a number of potential exit points as follows:

1. Council to consider proposal to include potential purchase of shares in the Annual Plan 2017-18 (27 April 2017). This is a binary yes/no decision point and creates an opportunity to engage with the community on this proposal.
 2. Council to hear any submissions on the Annual Plan 2017-18 and adopt or vary the Annual Plan as required (22 June 2017). This creates another opportunity to hear the community's voice and provides an opportunity to
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accept, modify or reject the proposal to include provision in the Annual Plan 2017-18 for a potential share purchase.

3. Council develops and conducts a due diligence process to satisfy itself that it is as fully informed as possible before making a decision to enter into a share transaction with HWP or not. This step will include negotiation of terms of any proposed transaction if due diligence indicates that a transaction is a potential outcome. (Completed September 2017).
4. Council approves a consultation process on its draft proposal to purchase/not purchase HWP shares. (26 October 2017).
5. Council hears submissions on the draft proposal to purchase/not purchase HWP shares and makes a decision to accept, modify or reject the proposal (November 2017).

Steps 1, 2 and 3 of this process have been completed. The due diligence has been undertaken and this paper reports back on the findings of the due diligence process and recommends that Council makes a decision on the purchase of the shares and approves consultation on that decision.

Due Diligence

Due diligence on the potential share purchase from HWP has been completed. Council Officers developed a draft due diligence process and then at a workshop on 27 July 2017 and via subsequent emails, the due diligence process was further developed by Councillors.

The formal due diligence process was carried out by the Chief Executive and Chief Financial Officers of the Hurunui District Council. As is typical in these situations, officers signed a confidentiality agreement and were provided access to HWP information some of which is not in the public domain. The reference files provided by HWP were structured as follows:

1. Background
2. Company Information
3. Present Funding
4. Project Development
5. Communication
6. Other Matters

The information sighted was comprehensive and provided a very frank view of HWP, its history, its current status and future plans. The information responded to all aspects of the due diligence process developed by Council.

As a result of the due diligence process, both the Chief Executive and Chief Financial Officer are not aware of any impediment to the purchase of the HWP shares by the Hurunui District Council.

Financial Considerations

The potential share purchase has been budgeted ion the Annual Plan 2017-18

Financial Markets Conduct Act 2013

Council is defined as a government agency under the Act and is therefore an exempt purchaser from the disclose requirements in Part 3 of the act.

**Local
Government Act
2002**

The proposed purchase of HWP shares is aligned with the stated purpose under s10 of the Act; to meet the current and future needs of communities for good-quality local infrastructure.

The proposed share purchase is being undertaken with the principles outlined in s14 of the Act

**Risks Associated
with Purchase of
HWP Shares**

Investment in irrigation infrastructure is essentially a risky business and the proposal to invest in HWP carries significant risks which are not limited to the following:

- The proposed investment will be unsecured and thus if the Hurunui Water Project does not proceed it is likely this investment in HWP will be lost
- It is not proposed that the shares pay a dividend and thus they are unlikely to generate any cash flow
- Significant capital will be required to build the infrastructure required for the scheme. When this occurs it is likely that the Council's proposed shareholding will be significantly diluted
- The current market for HWP shares appears to be illiquid although some shares have been advertised for sale privately. In addition to this it is likely that the pool of potential purchasers for these shares in the future is likely to be very small as the shares will probably only benefit those property owners within the HWP catchment.
- Investments in irrigation infrastructure are generally long term investments and so any attempt to sell shares prior to scheme maturity is likely to result in a loss to Council

In the proposed transaction Council is considered a wholesale investor and therefore no Product Disclosure Statement from HWP is required (see above)

Significance

This is an issue of high significance to the community. The net cost of this decision could be relatively high and it may have an ongoing effect on the community to which it applies for a considerable time. Whilst a decision on this item is a natural consequence of the Annual Plan 2017-18, there is a high level of community interest in this proposal.

Engagement

Council considered engagement as part of its overall transaction process. There was one round of consultation in conjunction with the consultation on the Annual Plan 2017-18. This resulted in 102 submissions on this topic with 62 opposed and 40 in favour.

It is proposed that there is another round of consultation following the decision to purchase/not purchase the HWP shares.

Options**Option 1: Do Nothing**

This is not an option. Council must make a decision to purchase or not and commence consultation on its decision.

Option 2: Make a decision to purchase the shares subject to suitable conditions being negotiated with HWP and the outcome of the proposed consultation

| <i>Advantages</i> | <i>Disadvantages</i> |
|--|---|
| <ul style="list-style-type: none">• Council becomes a shareholder in a significant piece of local infrastructure and has access to the water it provides• Council invests in a very significant opportunity for economic development for the district | <ul style="list-style-type: none">• The investment comes with a level of risk• The decision is likely to be divisive for the community |

Option 3: Make a decision not to purchase the shares subject to the outcome of the proposed consultation

| <i>Advantages</i> | <i>Disadvantages</i> |
|--|--|
| <ul style="list-style-type: none">• Council is not exposed to risk | <ul style="list-style-type: none">• Council will no longer have access to the water the infrastructure will provide• An opportunity for economic development will be lost• The decision is likely to be divisive for the community |

**Report
Prepared by:**

Hamish Dobbie
Chief Executive Officer

**Officer in
Attendance:**

The report author will be in attendance to speak to this report.
