

11. RESOLUTION TO RAISE THE CAPITAL FUNDING LOAN 2003 \$24M

Officer responsible Director of Finance	Authors Geoff Barnes/Paul Baldwin, DDI 941-8853
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The purpose of this report is to seek authorisation from the Council to borrow up to \$24m required to fund the engine test cell investment approved by the Council at its 27 February 2003 meeting.

Council Approval for the Project

The Council considered the project at the February 2003 meeting as a public excluded item and has delegated authority to Christchurch City Holdings Ltd ('CCHL') and the Director of Finance to enter into an arrangement with the Pratt & Whitney/Air New Zealand joint venture ('PWANZ') for the construction and financing of a V2500 engine test facility.

To facilitate this arrangement, a new company, Jet Engine Facility Ltd ('JEFL'), will be established and fully-owned by Christchurch City Facilities Ltd ('CCFL'). JEFL will fund and own the test facility and lease it to PWANZ.

JEFL will be funded by a mixture of equity (via CCFL) and loans from the Council. In turn, the Council will borrow the required amounts from CCHL.

The \$24m loan requirement was included in the adopted Annual Plan for 2003/04 (page 23).

Council Borrowing Powers

The Council's borrowing powers are conferred by the Local Government Act 2002, section 12 (general powers) and section 112 (borrowing provisions) and the Liability Management Policy adopted by Council. The policy provides:

- 4.1 *All external debt of the Council including financial leases must be authorised by resolution of the Council.*

Other policy statements applicable to new borrowing are set out in the current Annual Plan. These include matters to be considered, maximum term of the loan, limits on borrowing generally and delegations allowed.

The proposed loan will be within the Financial Management Policy limits confirmed in the Annual Plan and complies with the terms of the Liability Management Policy adopted by the Council.

Loans are normally borrowed for the economic life of the asset purchased or constructed and to the maximum of 20 years as set out in the Liability Management Policy. The policy requires the Council to make annual provision for repayment of the amount borrowed within the original term of the loan. Interest costs and annual repayment provision are required to be met from operating revenue.

Terms and Details of the Loan Proposed

In order to provide for the long-term capital funding for Christchurch City Facilities Ltd and Jet Engine Facility Ltd, it is necessary for the Council to pass the following resolution.

Staff

- Recommendation:**
1. That, in exercise of the powers vested in it by the Local Government Act 2002 and in terms of the Liability Management Policy adopted by Council, the Christchurch City Council resolves to raise a loan of \$24,000,000 in accordance with the following conditions:
 - (a) The loan is to be known as the Capital Funding Loan 2003 - \$24m.
 - (b) The purpose of the loan is to the fund Council's investment (either directly or through a Council controlled organisation) in the joint venture test cell facility to be constructed and operated at the Christchurch Airport.
 - (c) the maximum amount of the loan is \$24,000,000.

- (d) the maximum term of the loan is 20 years.
 - (e) the loan or any part thereof shall be repaid by either:
 - annual payments to a debt repayment reserve at a rate not less than 3 per cent per annum until the reserve and accrued interest earned is sufficient to repay the amount borrowed within the term of the loan, or
 - by table loan repayments over 20 years.
 - (f) For the purpose of s.115 of the Local Government Act 2002 the Council charges its rates or rates revenue as security for the loan and any associated incidental arrangement.
 - (g) The Council is satisfied that the general terms and conditions of the borrowing or incidental arrangement and of the security to be given in relation to the borrowing or incidental arrangement will be in accordance with the Liability Management Policy.
 - (h) The Council may borrow the amount required up to the maximum amount of the loan in several tranches as funding is required.
 - (i) The Council may enter into incidental arrangements associated with this loan subject to the requirements of the Liability Management Policy.
2. That delegated authority to act to raise funds under the loan, to agree the precise terms and conditions of the loan or any tranche thereof including all renewals within the maximum term of the loan or to enter into any incidental arrangement associated with this loan shall be granted to any two of the Director of Finance, the Funds and Financial Policy Manager, or the Funds Accountant.

**Deputy Chairman's
Recommendation:**

That the above recommendation be adopted.