16. 12. 99

REPORT BY THE CHAIRMAN OF THE STRATEGY AND RESOURCES COMMITTEE

1. SECURITY FOR LOAN RAISING

RR 11219

Officer responsible Director of Finance	**Author** Bob Lineham
Corporate Plan Output: Funds Management	

In June 1999 the Council considered a report from the Director of Finance which set out a proposal for the Council to utilise the Christchurch City Holdings Limited borrowing facility (which was in the process of finalisation at that time) for the funding of future Council loans. The Council approved the raising of loans from CCHL, provided the legal documentation was approved by independent legal advice under the oversight of the Legal Services Manager and with the approval of the Director of Finance.

The agenda for this meeting outlines the need for a loan to fund the equity contribution for Canroad Construction. This is likely to be needed before the February Council meeting.

CCHL FACILITY

The CCHL borrowing facility requires that loans from CCHL to the Council are subject to an over-riding repayment on seven days demand in a situation of default. While the CCHL facility allows loans to be made on a wide variety of terms, the initial documentation prevented loans being made on terms which were other than repayable on seven days demand.

Mark Russell of Buddle Findlay was engaged to review the documentation and expressed concern about the uncertainty that this created for the Council's financial arrangements. As a result the CCHL lenders have been approached and have now agreed to amend the documentation so that loans must be repaid on seven days demand only if required by 75% of the lenders to CCHL by extraordinary resolution following an event of default. The likelihood of this happening is considered to be remote.

While all loans by CCHL to the Council will still need to be expressed with an over-riding condition that they are repayable within seven days of demand, the revised documentation will provide that only in extreme circumstances will there be the ability to call up the loans in advance of the intended terms.

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Mark Russell has stated: *"..any loan which is made by CCHL to the Council must still be expressed as being repayable within seven days of demand, and cannot be expressed as being repayable over any longer term. However, on a practical level there is considerable comfort to the Council from the fact that CCHL can only make demand if requested to do so by the required majority of the lenders. In practice, it is inconceivable that such request would be made by the lenders unless there is something fundamentally wrong with the financial position of CCHL and the Council. If the Council is prepared to ignore the theoretical possibility of the 7 day demand being made, it could adopt the position that for all practical intents and purposes this change will allow CCHL to provide longer term funding to the Council."*

Because there is no requirement for specific security to be issued to CCHL other than the uncalled capital already in place, it is understandable that this seven day provision has been required by the lenders. It will be recalled from the earlier report that it is hoped that by concentrating all of the CCC and CCHL borrowing into one facility that there will be interest savings achieved. Since an event of default and an extraordinary resolution of lenders is extremely unlikely it is considered that the arrangements should be approved and authority for this is accordingly recommended.

ALTERNATIVE FUNDING SOURCE – CIVIC BONDS

The New Zealand Local Government Insurance Corporation (Civic Assurance) has recently established a subsidiary called Local Government Finance Corporation (LGFC) which has commenced issuing Civic Bonds in its own name to on-lend to local authorities. It is expected that as the demand for civic bonds increases, they will be able to be issued at fine margins which will benefit their local authority clients. A further advantage of this new facility is that local authorities will not be bound by the Securities Act requirements to issue a prospectus which is an expensive and complex requirement since the changes in local authority borrowing legislation.

Civic bonds are seen to be an alternative source of loan funding which, if competitive with the CCHL facility, may provide an alternative source of loan finance for the Council. The availability of the facility can also provide an additional comfort for the Council against the unlikely event that there is a seven day call made on the CCHL facility.

In order to be able to borrow from LGFC it will be necessary for legal documentation to be put in place which effectively provides a charge over Council rates as security for any debt issued by Council to LGFC.

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A detailed review of the documentation, which has been received in the last few days, is needed before it should be put in place. For this purpose a delegated authority is sought for the execution of these security documents once legal clearance has been received from Council solicitors.

Bob Lineham has advised that he is a director of New Zealand Local Government Finance Corporation. As noted above, the shares in LGFC are held by Civic Assurance and the shareholders of Civic Assurance are most local authorities in New Zealand. This Council is one of the larger shareholders.

Chairman's Recommendation:

1. That the Council approve the borrowing arrangements with CCHL which enable loans to be called up on seven days notice in the event of a default as outlined in this report.

2. That provided the Council's solicitors approve the legal documentation, the Council agree to provide the necessary security to enable borrowing from the New Zealand Local Government Finance Corporation.

CONSIDERED THIS 16TH DAY OF DECEMBER 1999

MAYOR