

Officer responsible Director of Finance	Author Bob Lineham
Corporate Plan Output: Funding Policy	

The purpose of this report is to seek approval for a change in borrowing practice for future debt issues by the Council.

BACKGROUND

In the past the Christchurch City Council has issued local government stock under the Local Authorities Loans Act. However, this Act was repealed with the Local Government Amendment Act No.3 1996 and local authorities must now borrow using existing mechanisms which are consistent with normal commercial practice. Where the Council wishes to borrow from private investors through a retail issue this requires the issue of a prospectus and compliance with the Securities Act and this can be a costly and complex process. The Council could continue to borrow from institutional investors (the wholesale market) as it has done in the past.

Christchurch City Holdings Limited has debt of \$120M and is currently refinancing that debt by issuing commercial bonds. The bonds will be for three and five year terms and offered to institutional investors in minimum parcels of \$100,000. The initial placement of \$100M is likely to be made in August but the programme will be capable of extension as necessary from time to time.

Because of the establishment of the Debt Repayment Reserve, the Council will not need to borrow significant funds until late in the 2000/01 financial year.

BENEFITS OF COMBINED LOAN RAISING

The banking advisers to CCHL have indicated that the bond programme will be more successful as it grows in size. The institutional investor market prefers to invest in bonds which are readily transferable and this is achieved by volume in the market. CCHL has a good market recognition already and the bankers consider that overall there will be a better response if there is no confusion between the borrowing of Christchurch City Holdings Limited and Christchurch City Council. For this reason it is proposed that all future borrowing on behalf of both CCHL and CCC should be through the one bond programme under the CCHL banner.

Under this proposal CCHL would market its bonds and on-lend as necessary to the Council. As security and documentation for funds lent to the Council a debenture document would be drawn up to define the terms of the lending and provide security to CCHL. It is likely that the lenders to CCHL will require the debenture between CCHL and the Council to provide for funds lent to the Council to be repayable by the Council immediately in the event of any default with repayments by CCHL. For this reason it may be necessary for the Council to subscribe for shares in CCHL which are uncalled (no payment made but payable on demand by CCHL) to cover the full amount of borrowing and give security for lenders. This will be dependent on the requirements of Standards and Poors and the degree to which the debenture can give adequate security to the bondholders.

This proposed method of borrowing through CCHL will not alter the recording and presentation of debt liability in the accounts of the Council. The CCC parent accounts will record the liability for borrowings from CCHL and externally. In the consolidated accounts of CCC and CCHL the overall debt position will show only once and be fully transparent in a manner consistent with current practice.

APPROVAL SOUGHT

At this stage it is not intended to actually borrow any significant funds on behalf of the Council but in order for orderly planning to take place with the bankers, and to advise the market of likely future issues, it is necessary for the Council to agree to the proposed change in practice.

In order to advise the market of the securities which will be put in place regarding the lending to the Council, a debenture will need to be drafted and approved. Chapman Tripp are currently drafting such a debenture document on behalf of CCHL and it is proposed that separate legal advice be obtained on behalf of the Council under the oversight of the Legal Services Manager and the Director of Finance.

- Recommendation:**
1. That the Council approve the raising of future Christchurch City Council loans through Christchurch City Holdings Limited.
 2. That the necessary legal documentation be approved by independent legal advice under the oversight of the Legal Services Manager and with the approval of the Director of Finance.