

2. RESOLUTION TO RAISE PROPERTY PURCHASE LOAN 2002

Officer responsible
Director of Finance

Authors
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The purpose of this report is to obtain authority from the Council for borrowing from Christchurch Polytechnic Institute of Technology Foundation (CPITF) to fund part of the cost of the purchase of the land known as the Turners and Growers site.

BACKGROUND

The CPITF have offered to provide funding to meet the difference between the Council's available funding and the purchase price. This will be in the form of a loan and as such it is necessary to have a specific loan authority from the Council.

CPITF have advised that they will be seeking to ensure that the terms and conditions of the loan will meet their trustees' requirements including the following:

- Principal and interest guarantees
- Commercial floating interest rate
- Prudent risk test
- Added value generated to the Christchurch Polytechnic Institute of Technology and inner city development.

Initial discussions with the Chairman of CPITF indicate that the rate of return expected by the Foundation is approximately 8% and clearly there will need to be some negotiation on how the commercial floating interest rate can be reasonably determined on a fair basis for both parties.

It would not normally be the Council's policy to provide principal and interest guarantees given the credit rating of the Council and the fact that all loans are secured against a Council rate. Clearly the interest expectations of CPITF are based on the interest rates payable on short term borrowing arrangements and the Council would normally borrow more competitively from its traditional sources or it could fund it internally. Time is needed to make an offer to CPITF and negotiate the details.

It is normal to leave flexibility to negotiate all loan terms to Council staff and the proposed resolution is no different in that regard to the normal arrangements. In the current situation it is clearly the desire of CPITF to assist the Council with this project and every endeavour will be made to come to a mutually beneficial outcome. However, the Council should at this time keep its options open.

The Council's borrowing powers are conferred by the Local Government Act 1974 (as amended) which sets out the procedures to be followed by the Council before a loan may be raised. This report and the recommendation comply with the requirements of the Act in respect of the borrowing. The proposed borrowing also complies with the borrowing management policy adopted by the Council.

Should the final outcome be that these funds are not required to be borrowed then the loan resolution set out below would not be activated. However, in order to provide for the possibility of borrowing these funds from CPITF, it is necessary for the Council to pass the following resolution:

1. *That, in exercise of the powers vested in it by the Local Government Act 1974, the Christchurch City Council resolves to raise a loan, to be known as Property Purchase Loan 2002 of \$700,000, in accordance with the following terms:*

(a) *The purpose and terms of the borrowing are:*

- (i) *to fund part of cost of the Council's acquisition of land in the block bounded by Tuam, Madras, Lichfield and Barbadoes Streets*
- (ii) *the maximum amount of the borrowing is \$700,000*
- (iii) *the maximum term of the borrowing is 20 years*
- (iv) *the borrowing 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,
or by one or more lump sums.*

- (b) *For the purpose of S.122ZE the Council charges its rates and ordinary revenue as security for this loan.*
 - (c) *The Council has considered the risks and benefits to the Council of the borrowing or incidental arrangement and of the security to be given in relation to the borrowing or incidental arrangement.*
 - (d) *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 current borrowing management policy as adopted by the Council under section 122R of the Local Government Act 1974 and in particular, the limits and guidelines set out in the borrowing management policy.*
2. *That any two of the following persons be delegated authority to act jointly on behalf of the Council to agree the precise terms and conditions of the loan or incidental arrangement:*

<i>Robert A Lineham</i>	<i>Director of Finance</i>
<i>Geoffrey W Barnes</i>	<i>Funds and Financial Policy Manager</i>
<i>Paul A Baldwin</i>	<i>Funds Accountant</i>

- Recommendation:**
- 1. That the above resolution be adopted.
 - 2. That, in the event that the terms and conditions of this loan cannot be negotiated to the satisfaction of the designated Council staff, the project be funded from internal resources.
 - 3. That, based on the outcome of the negotiations, the appropriate amendments be made to the Financial Plan and Programme for 2002/03 to reflect the acquisition and funding of this project.

Chair's

- Recommendation:** That the above recommendation be adopted.