

### 3. CENTRAL PLAINS WATER ENHANCEMENT SCHEME : POTENTIAL CHANGES TO THE CANTERBURY ECONOMIC DEVELOPMENT FUND TRUST LOAN CONDITIONS

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This report seeks Council support for a request by Central Plains Water Limited to the Canterbury Economic Development Fund Trust to change the conditions attached to the \$625,000 loan offered to the company by the Trust.

#### BACKGROUND

At its February 2002 meeting the Christchurch City Council resolved to refer the question of further funding for Central Plains Water Enhancement feasibility and scheme refinement work to the Canterbury Economic Development Fund Trust (CEDF). The resolution read in part:

*"That the Council refer the application for funding the next phase of the Central Plains Water Enhancement project to the economic development component of the Capital Endowment fund"*

An application for funding was duly lodged by the Joint Steering Committee established by Selwyn District and Christchurch City Councils to undertake the studies and, in August 2002, the CEDF announced that it would lend \$625,000 towards the cost of the work required to apply for and obtain consents, but on certain conditions. Whereas the Council resolution simply referred "the application" to the CEDF with the intention of having it (if acceptable) approved, the conditions added by CEDF effectively turn a single application into three applications by delaying access to two thirds of the loan until such time as the balance of the funds required to obtain resource consents are raised – a constraint that is likely to have the effect of bringing progress to a premature halt. Central Plains Water Limited is therefore about to approach CEDF to revisit the conditions with the intent of returning to the single sum sought in the original application made to the Council, rather than the current three-part arrangement decided by the CEDF. The Committee's support for this request is sought.

CEDF have also signalled that if the scheme proceeds, the Trust will require repayment of the loan free of interest but may also decide to instead take equity in the scheme, in the same way that both Selwyn District Council and the City Council have done for their direct funding to date..

It is submitted that all equity in the scheme arising from CCC and CEDF should be held by the City Council rather than partly by the Council and partly by the Trust.

#### CEDF TRUST CONDITIONS

When granting the \$625,000 interest free loan the CDC reported to the Steering Committee as follows:

*"At the CDC Board meeting of 23 August 2002 the Board resolved to make the following monies available to the Central Plains Water Enhancement Steering Committee, subject to the conditions described and subject to a legal contract still to be agreed between CEDF and the Steering Committee.*

- (a) *In Round 1, up to \$208,333 to be paid against invoices to consultants and suppliers, only on condition that the panel is satisfied that the \$250,000 from the Ritso Society has been paid to the Central Plains Water Enhancement Steering Committee, and that the conditions that formed part of the CCC resolution to forward the application to the CEDF have been met. These conditions include the expansion of the Steering Committee to include two members nominated by the Parliamentary Commissioner for the Environment, and one member representing Te Runanga O Ngai Tahu.*
- (b) *In Round 2, \$208,333 to be made available subject to the panel being satisfied that the other outstanding \$2.4 million needed to complete Phase 2 Consenting has been assured.*
- (c) *In Round 3, a final \$208,333 to be made available subject to the above conditions still being met. All these loan monies are to be on the condition that if the scheme proceeds the \$625,000 total is to be either repaid at 0% interest, or to be converted to equity in the scheme.*

*Round 1 money will be available from September or early October 2002 onwards.*

*Round 2 money will be available from early February 2003 onwards.*

*Round 3 money is predicted to be available from July 2003.*

*In the next fortnight we shall contact you to effect a contract acceptable to both parties.*

*Congratulations on being awarded CEDF funding for your Central Plains Water project. We wish you well for the Concept Refinement Work to be done and look forward to an ongoing relationship with your Committee on this significant infrastructural addition to the Canterbury economy."*

The conditions in (a) have been met and the first tranche of \$208,333 is currently being made available to the company.

#### **DEVELOPMENT SINCE THE CEDF LOAN DECISION**

In late 2003 the Central Plains Water Enhancement Steering Committee did substantial work to determine the best means of moving forward, particularly in terms of structure, and recommended to the two parent Councils that a Trust be formed to take over the work of the steering committee. The two Councils accepted this recommendation and in the memorandum of understanding signed by the two Councils establishing the Trust they also foresaw the creation of a company that could eventually become the developer of a scheme, should matters progress to that point. Rather than wait until that stage to establish the company, its early establishment was recommended for two key reasons. The first was that it was clear to the Trust that substantial funding would have to be raised from the investing community to allow the work to progress and that a formal prospectus allowing investment in the company was the most promising means of obtaining the funds. Second, there were substantial taxation advantages in having a company carry out the scheme refinement and consent phases of the work on behalf of the Trust.

Accordingly, and as reported to the Strategy and Finance committee, Central Plains Water Limited has been established and will be receiving the CEDF loan funding.

Central Plains Water Trust has been meeting since April this year and has moved on the four fronts seen as critical to progress towards the completion of the next phase (resource consent application):

1. Sourcing funds
2. Refining the scheme and its environmental impacts and opportunities preparatory to consent application
3. Engaging with potential scheme users
4. Developing a land acquisition strategy.

It has estimated that obtaining consents will take three to four years and cost \$6.36 million.

It is clear to the Trust that with the limited funds it currently has at its disposal, the initial focus must be on preparing, publishing and promoting a prospectus to raise the bulk of this funding.

#### **Resources available to the Trust**

Even restricting itself to this focus, the Trust is finding that the cost of carrying out the prospectus work is beyond its resources unless the balance of the CEDF funding could be made available earlier. Professional advice is that a prospectus float aimed mainly at the rural community needs to be open for applications through February, closing in March. However the funds available to the Central Plains Water Trust and Central Plains Water Ltd from 1 July 2003 will only fund the work of the two bodies through to November 2003. Realizing this, the Trust is working to reduce costs but an earlier release of the CEDF funds would be of great assistance.

\$416,000 of the CEDF loan is only due to be allocated at the time the balance of the \$6.36 million required funding has been achieved, i.e. at the end of the prospectus float in March next year. However, at that point, it is far too late.

The requirement is from November 2003 and this is the submission being made to CEDF by Central Plains Water Limited. It should be noted that the Trust is pursuing other funding opportunities, for example an application to the Sustainable Farming Fund, but the outcome cannot be foreseen and certainly not guaranteed.

#### **EQUITY**

Both Selwyn District Council and Christchurch City have made it clear that their contributions to the feasibility and consenting work are interest free loans, which will lapse if no scheme eventuates but which will be converted into equity if a scheme proceeds.

To date these contributions amount to \$1,020,000 from Selwyn District Council and \$494,121 from Christchurch City, with a further \$625,000 through the CEDF. The CEDF Trust has also notified its intention to retain the option of converting its interest free loan into equity if a scheme proceeds but it is the writer's view that such equity should be held by Christchurch City Council for these reasons:

1. This was what was envisaged when the City Council made its initial loan for the Feasibility Study
2. It will be preferable for all of the funding from the City Council (i.e. both the Council's original funding as well as that provided via CEDF) to be held as one investment.
3. It may be desirable in the future for the Council's total investment to be supervised by CCHL, rather than partly by CEDF.

I therefore recommend:

1. That the Council supports the Central Plains Water Limited application to the CEDF Trust for a change in the conditions attached to its interest free loan that will allow earlier release of the balance of the loan.
2. That the Council advises the Canterbury Development Corporation that upon the loan it has made being converted to equity, such equity be in the name of the City Council.

**Recommendation:** That no instructions be given to the Canterbury Development Corporation in regards to CED Funding as this is a matter for discussions between the CDC and Central Plains Water Limited having regard to the merits of the request.