


### 13. BORROWING FOR NEW CIVIC BUILDING PROJECT AND CAPITAL WORKS



<b>General Manager responsible:</b>	General Manager Corporate Services, DDI 941-8528
<b>Officer responsible:</b>	Corporate Finance Manager
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#### PURPOSE OF REPORT

1. There are a number of purposes for this report:
  - (a) Firstly, to comply with the Council's Liability Management Policy by obtaining authority to borrow \$102 million, being the Council's contribution to the new civic building project (\$62 million) and its capital funding requirements for 2007/08 (\$40 million).
  - (b) Secondly, to advance up to \$56 million of those funds to Civic Building Limited.
  - (c) Thirdly, to obtain approval for the Council to acquire redeemable preference shares in Civic Building Limited to the value of \$6 million.

#### EXECUTIVE SUMMARY

##### Funding CBL - \$62 million

2. On 11 October 2007 the Council adopted the proposal presented to it for the purchase of the New Zealand Post building in Hereford Street and the development of new civic offices on that site.
3. The proposal involved the Council, through a Council-controlled organisation (CCO), Tuam 2 Limited, entering into a joint venture arrangement with Ngai Tahu Property Limited.
4. The Council has the authority to borrow to fund its obligations under the proposal (\$62 million). To comply with the Council's Liability Management Policy authority is sought for staff to enter into loan agreements in respect of those funds on the terms and conditions set out in this report.
5. Authority is also sought for staff to enter into a loan agreement to lend \$56 million to Civic Building Limited and to acquire redeemable preference shares in that company to the value of \$6 million on the terms and conditions set out in this report.
6. At its meeting on 16 August 2007 the Council resolved to subscribe for uncalled capital in Tuam 2 Limited comprising ordinary shares to the value of \$10 million.
7. Since then, the financial structure for development of the new civic building has changed, most importantly by the introduction of Ngai Tahu Property Limited as a joint venture partner.
8. Further, Civic Building Limited has been established for the purpose of borrowing from the Council and on-lending to Tuam 2 Limited the funds required to meet the Council's financial commitment to the project.
9. It is intended that Civic Building Limited will lend \$52.575 million to Tuam 2 Limited over the next three years to fund the purchase and development of the new civic building site. Interest will not be charged to Tuam 2 Limited, but will be payable by Civic Building Limited to the Council along with the loan principal repayment.

##### Capital Works Loan funds - \$40 million

10. The Annual Plan 2007/08, page 16, includes funding of ordinary capital expenditure by loan funds totalling \$59.560 million. This figure has been reviewed by considering the completion timetable of the projects, capital expenditure carry forwards and projects brought forward. Some \$40 million is identified as required borrowing for 2007/08, before 30 June 2008. Further adjustments to the capital expenditure programme are expected and any loan funding impacts will be included in the final sums borrowed which may be less than \$40 million.

11. There is a significant lead time between obtaining authority to borrow and the requirement for funds. This report commences the borrowing process.

## **FINANCIAL IMPLICATIONS**

### **CBL Loan - \$62 million**

12. The LTCCP 2006-16 has budgeted for an amount of up to \$116 million to be borrowed by the Council for the purpose of the new civic building project. As a result of the joint venture arrangement with Ngai Tahu Property Limited funding the Council's contribution to the cost of the project will require the following amounts:

(a)	A one-half share of the purchase and construction costs	\$52.575 million
(b)	Pre-commitment costs	\$1.500 million
(c)	Interest to May 2010 and additional costs	\$7.925 million

<b>Total funding required</b>	<b>\$62.000 million</b>
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13. These funds will be borrowed by the Council progressively from 15 May 2008, the settlement date, and on-lent to Civic Building Limited at a small margin, currently 0.10%, to cover administrative costs. Up to \$6 million will be invested in redeemable preference shares in Civic Building Limited, funded by loan repayments from CBL.
14. Interest costs incurred by Civic Building Limited will be met by that company until such time as the new civic building is completed and rental income is received.
15. The borrowing programme for the project will be carried out in accordance with the Council's Liability Management Policy. Its Investment Policy will govern the advance to Civic Building Limited.
16. Funds borrowed externally are secured over the Council's rates income.
17. The mix of borrowed funds and the issue of redeemable preference shares to the Council will ensure that Civic Building Limited remains solvent during the development phase of the new civic building project.

### **Capital Works Loan Funds - \$40 million**

18. The need for loan funding was highlighted in the 2007/08 Annual Plan and has since been reviewed as the project timetables are known. The Council needs the loan funds to ensure liquidity levels will be met at 30 June 2008.

### **Impact on the Council Financial Ratios**

19. The Annual Plan has already included the financial impact of the borrowing and investment. The following table shows that the Council remains well within its financial ratios policy limits:

Ratio	08/09 Plan	08/09 LTCCP	Policy Limit
External Debt to Total Assets	3.6%	4.2%	12%
External Debt to Realisable Assets	9.7%	11.5%	33%
Net Interest to Operating Revenue	-0.8%	0.2%	8%
Net Debt to Funds Flow	2.7	2.6	5

### **Do the Recommendations of this Report Align with LTCCP 2006-16 budgets?**

20. Yes.

## **LEGAL CONSIDERATIONS**

### **CBL Loan - \$62 million**

21. At its meeting on 11 October 2007 the Council resolved to enter into a joint venture arrangement with Ngai Tahu Property Limited for the new civic building project and to adopt a financial structure to support the Council's contribution to the cost of the development. The documentation required to enable the project to proceed has been completed and signed on behalf of all parties.
22. The Council has the authority to borrow the funding required to fulfil its obligations as one of those parties. This authority is set out in the LTCCP 2006-16. The Council's Liability Management Policy requires approval by resolution of the terms and conditions on which those funds are obtained.
23. The ability to borrow money and to issue redeemable preference shares is provided for in Civic Building Limited's constitution.
24. Section 62 of the Local Government Act 2002 states that the Council must not give any guarantee, indemnity or security in respect of the performance of any obligation by a Council-controlled trading organisation (CCTO). The issue of redeemable preference shares to the Council does not breach this provision.
25. The Council is prevented by Section 63 of the Act from lending money to a CCTO on terms and conditions that are more favourable to the CCTO than those that would apply if it was the Council that was borrowing the money. The proposed financial transactions referred to in this report comply with the provisions in Section 63.
26. The advance to Civic Building Limited complies with the Council's investment policy.
27. This means that resolution 7 of the 16 August 2007 minutes needs to be amended to remove item 7(e)(ii) and delete the words "and (ii)" from item 7(e)(iii).

### **Capital Works Loan funds - \$40 million**

28. Borrowing under the Liability Management Policy requires authorisation by Council resolution. This report will provide that authorisation. The specific terms of the loans will be determined by the lending market conditions prevailing at the time of borrowing, as well as those required under the policy such as debt repayment provision.
29. This report requests delegated authority granted to the General Manager Corporate Services and the Corporate Finance Manager to determine the specific terms of the loans. This in turn will determine the terms of on-lending to Civic Building Limited.

## **ALIGNMENT WITH LTCCP AND ACTIVITY MANAGEMENT PLANS**

30. The recommendations of this report support references to the new civic building project in the LTCCP 2006-16.

## **ALIGNMENT WITH STRATEGIES**

31. The recommendations align with the Council's strategies.

## **CONSULTATION FULFILMENT**

32. The Council consulted on the funding for the proposed new civic building in the 2006-16 LTCCP.

## **STAFF RECOMMENDATION**

It is recommended that the Council resolve to:

- (a) Borrow \$102 million on the usual terms and conditions available to the Council in respect of external borrowing, in accordance with the Liability Management Policy.
- (b) Advance \$56 million to Civic Building Limited on terms which match, as far as practicable, the same terms on which the Council has borrowed externally, plus a margin to cover administrative costs.
- (c) Subscribe for redeemable preference shares issued by Civic Building Limited to a value of \$6 million.
- (d) Authorise the General Manager Corporate Services and the Corporate Finance Manager (jointly) to approve the detailed terms and conditions of the funding transactions, including the subscription for shares, and to enter into all documentation required to complete those transactions.
- (e) Amend the Council minutes of 16 August 2007, resolution 7, as follows:
  - (i) Delete clause (e)(ii); and
  - (ii) Delete the words "and (ii)" from clause (e)(iii).