

Officer responsible Director of Finance	Author Bob Lineham
Corporate Plan Output: Financial Advice	

The purpose of this report is to obtain Council approval for the raising of a loan to fund the purchase of shares in Canroad Construction Limited.

BACKGROUND

The Council has previously approved the acquisition by Canroad Construction Limited of the assets and business of the Works Operations Unit and the Plant & Building Services Unit from the Council to the Establishment Unit.

Currently the final details of the assets to be transferred are being finalised and valuations obtained. It is expected that the Council will also be required to provide capital to fund a number of accrued staffing obligations which will be transferred to the company from the Council and provide initial working capital.

FUNDING PROPOSAL

In order for the company to be able to pay for the assets and be funded with the necessary working capital, the Council as the 100% shareholder in Canroad Construction will need to subscribe for additional share capital and debt instruments to be issued by the company. The mix of debt and equity has yet to be determined by the Establishment Committee.

As no specific provision has been made in the Annual Plan for the provision of this working capital, it will be necessary for the Council to borrow the funds to subscribe for the capital. The debt servicing of the loan will be met from the dividends paid by the company. This is a financially efficient method of financing the transaction since all income received from the LATE will be taxable in the hands of the Council.

At this stage the assets are still being valued by professional valuers and the final capital structure of the company being finalised. Until this is done the exact amount which needs to be borrowed cannot be determined. However, it is expected to be no more than \$15 million. Authority is therefore sought for the approval of a loan of this amount and only the amount actually required will be borrowed. It is currently expected that the capital will be issued by Canroad in January/February 2000.

SECURITY, RISKS AND BENEFITS

The security for this loan should be a special rate secured over all ratepayers of the city. This will provide the best security for the lenders and minimise the cost to the Council. The impact of this loan is expected to be positive for the Council due to income flows expected from the investment. The company is 100% controlled by the Council and will be monitored on behalf of the Council by Christchurch City Holdings Limited.

INTERIM WORKING CAPITAL

As the company will need working capital to fund its initial operation, the Council will temporarily lend funds to Canroad as necessary on commercial terms pending the permanent funding being put in place. This temporary funding is being treated as a short term investment of general funds in accordance with Clause 3.1.2. and 4.3 of the Council's Investment Policy. It will be repaid when the permanent funding is received.

Recommendation: 1. That the Council pass the following resolution:

“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 the Capital Funding Loan (No.2) 1999 of up to \$15,000,000 in accordance with the following terms:

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

- (i) to fund the Council's equity investment in Canroad Construction Limited*
- (ii) the maximum amount of the borrowing is \$15,000,000*
- (iii) the maximum term of the borrowing is 20 years*
- (iv) the borrowing shall be repaid by either:*
 - Annual payments to a loan repayment reserve at a rate of not less than 3%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*

(b) For the purpose of Section 122ZE(2) of the Local Government Act 1974 the Council charges a special rate as security for this loan.

(c) The Council has considered the risks and benefits to the Council of the borrowing or incidental arrangements and of the security to be given in relation to the borrowing or incidental arrangements.

(d) The Council is satisfied that the general terms and conditions of the borrowing or incidental arrangements 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 on behalf of the Council to agree the precise terms and conditions of the loan or incidental arrangement:

Robert A Lineham, Director of Finance
Geoffrey W Barnes, Funds and Financial Policy Manager
Paul A Baldwin, Funds Accountant

3. That the interim arrangements for funding working capital for the company be approved and the Director of Finance be authorised to approve the terms of any interim loan.

Chairman's

Recommendation: That the above recommendation be adopted.