

<b>Officer responsible</b> Director of Finance	<b>Author</b> Bob Lineham
Corporate Plan Output: Financial Advice	

The purpose of this report is to seek Council approval to a revised method of funding Council share capital in two new LATEs.

#### **BACKGROUND**

The Council has provided capital funding in its annual plan for equity contributions to be made to provide the initial capital for the establishment of Jade Stadium Limited and Environment Canterbury Limited. The specific approval to make the funding available has been given previously by the Council.

The Annual Plan makes no provision for any capital funding in the current year from loans as the plan envisaged funding being drawn from the Debt Repayment Reserve in lieu of loans until it is exhausted in 2000/01.

With respect to equity investments, it is financially efficient for the funding to be provided from borrowing and it is therefore appropriate to seek Council approval for a variation to the method of funding for this type of investment.

As outlined in a separate report on this agenda, it is intended that all future borrowing for the Council should be by way of a bond issue by CCHL which will on-lend to the Council. Documentation by way of a global debenture will be needed and the earliest availability of funds from the CCHL source will be in August. The first contributions will be needed in June for Jade Stadium Limited (\$500,000) and Environment Canterbury Limited (\$950,000). Temporary borrowing will be necessary in the interim.

#### **COUNCIL APPROVAL REQUIRED**

The Council's borrowing policy requires that all external debts of the Council be authorised by resolution of the Council. It is therefore necessary that a resolution be passed enabling the raising of loans to meet the full Council obligation to these two projects. The actual contributions will be spread over several years but one resolution approved now will suffice. Funds will be raised only as they are needed. The full amounts are:

Jade Stadium Limited	\$4.0 million
Environment Canterbury Limited	\$4.2 million

It is suggested that the final Annual Plan be amended to show the amounts to be borrowed in 1999/00 and 2000/01.

## **IMPACT ON COUNCIL DEBT LEVELS**

As these projects were provided for in the Annual Plan, to effectively be funded from the Debt Repayment Reserve, that reserve will not need to be drawn-down to fund the amounts funded by way of loan. The balance at any time remaining in the Debt Repayment Reserve is offset against gross debt to provide the term and net debt position. As the Debt Repayment Reserve will be larger than budgeted for by the same amount that the gross debt increases, the term and net debt positions will be unaltered. Effectively all that happens is that that borrowing is brought forward and utilisation of the Debt Repayment Reserve in lieu of borrowing is delayed.

## **METHOD OF TEMPORARY FUNDING**

It is important that the raising of the necessary loan finance coincide with the dates on which the respective investments in the companies are made. However, as pointed out there will be delay receiving permanent borrowing via CCHL until August and therefore I recommend that a temporary facility be put in place with a trading bank as an interim measure.

The borrowing policy authorises the use of bank overdraft to cover short term cash shortfalls up to a maximum of \$1M and I have authorised the initial borrowing in respect of the Jade Stadium investment under this authority pending approval by Council. The investment in Environment Canterbury Limited is due on 15 June following the meeting of this committee and if the committee is agreeable I would suggest that the \$1 million limit be exceeded by \$450,000 in the period from 15 June to the Council meeting on 24 June. On 24 June the Council resolution would specifically authorise those loans and although they would still be funded on a bridging finance basis it would be under specific borrowing authority of the Council rather than the temporary authority.

- Recommendation:**
1. That the Council authorise the borrowing of a loan of \$4 million to fund the purchase of shares in Jade Stadium Limited.
  2. That the Council authorise the borrowing of a loan of \$4.2 million to fund the purchase of shares in Environment Canterbury Limited.
  3. That the final annual plan be amended to provide for the borrowing of the above mentioned loans.
  4. That the Council approve a temporary extension of \$450,000 in the overdraft limit in clause 4.13 of the Borrowing Policy for the period 15 June to 24 June.

### **Chairman's**

**Recommendation:** Not seen by Chairman.