

11. CANTERBURY HOCKEY FOUNDATION – LOAN GUARANTEE

Officer responsible Director of Finance	Author Geoff Barnes, DDI 371-1447
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The purpose of this report is to clarify the terms of a previous Council approval committing to grants of \$80,000 per annum to the Hockey Foundation. The provision is in the 2000/01 Annual Plan and in the draft Annual Plan for 2001/02 on onwards.

BACKGROUND

As part of the 2000/01 annual plan process the Council agreed to provide funding to the Hockey Foundation to service a new loan of \$700,000 for funding an artificial turf at Porritt Park. The Council made provision of \$80,000 per annum in response to a request for the full funding for the turf replacement as this was deemed to be sufficient to enable the foundation to service a loan for the full amount.

A report to the April meeting of the Committee outlined the formation of the Hockey Foundation and advised that the foundation had had some difficulty arranging the finance but had achieved agreement from the National Bank to lend it \$700,000 provided the Council provided a guarantee for the loan. The Committee was concerned about the possible extent of the guarantee and requested that more detail be obtained and, if possible, a way be found to overcome the need for the guarantee.

The Council had provided a letter which could be given to the bank advising of the provision of a grant for 10 years in the Council's budget. However, as this was a budget provision only it could not be a categorical commitment satisfactory to the bank and as a result they had requested the guarantee.

The Committee was understandably reluctant to provide a guarantee for such a sum over a long period. This would be the largest guarantee provided by the Council and would set an unreasonable precedent for the future. The Council would be on risk for the term of the guarantee, and for the value of the loan plus accumulated interest. This would be in addition to any commitment to make an annual grant.

A simpler alternative is to enter into a binding commitment with the Hockey Foundation and through the foundation, the National Bank (or other lender), to make an annual grant for the term of the loan (to a maximum of 10 years) and to pay the grant proceeds directly to the bank, to be applied to loan repayment. This would limit the liability of the Council to the value of the grant. The Council had intended to make the grant in any event; therefore no additional liability is incurred.

GRANT PROVISION

The Leisure Unit budget provides for a grant of \$80,000 per annum which commenced this year and it continues in the future to reflect the community share of the provision and maintenance costs of the artificial surface. To be useful as a security for the loan it is recommended that the Council enter into a firm commitment to continue this grant programme for the next 10 years. The bank would have an assured cash-flow to meet most of the debt repayment, and the rest will be sourced from the foundation.

It is suggested that the following conditions be attached to the grant:

- The commitment to make the grant for up to 10 years being contingent upon the foundation receiving a loan of at least \$700,000 from the lender/s.
- The loan being on a table basis with equal instalments including principal and interest.
- The term of the loan may be greater than 10 years, but the Council's grant programme be for the next 10 years only.
- The grants continuing for a further 10 years at \$80,000 plus an adjustment for inflation from and including 2001/02.
- The grant proceeds being payable to the National Bank (or such other lender) on behalf of the Hockey Foundation each year for 10 years or until the loan is repaid, whichever is the sooner.
- No other guarantee or undertaking being obtained by the lender from the Council.
- The loan funds being applied only to the new artificial surface at Porritt Park and the expenditure and completion of the new artificial surface being verified and approved by the Leisure Manager.
- The lender entering into an agreement with the foundation to have the balance of the annual loan servicing paid on an annual basis by the foundation.
- In recognition of the Council undertaking, the bank making best endeavours to restrict its collateral security to those assets financed.

Recommendation: That the Council confirm its commitment to a 10 year grant programme, subject to the conditions outlined above, and that the Director of Finance be authorised to complete all necessary agreements.

**Chairman's
Recommendation:** That the above recommendation be adopted.