



29. 7. 2004

**SUPPLEMENTARY REPORT BY THE
CHAIR OF THE STRATEGY AND FINANCE COMMITTEE**

PART A - MATTERS REQUIRING A COUNCIL DECISION

1. CENTRAL PLAINS WATER – TEMPORARY BRIDGING FINANCE

Officer responsible Director of Strategic Investment	Author Bob Lineham, DDI 941-8411
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The purpose of this report is to place before the Council a request from Central Plains Water for bridging finance to enable the prospectus to be issued according to the planned timetable.

BACKGROUND

The Council has previously contributed funding of \$494,000 and CEDF has also contributed \$416,666 to this project, a total of \$910,666 from CCC sources. Selwyn District Council has contributed \$1,081,543. These funds have been utilised in the planning of the project and to bring it to a point where the expensive resource consent applications can be proceeded with.

Central Plains Water Trust has been working towards issuing a prospectus which will not only provide the needed funding for the next stage of the project but will also assess the support in the farming community for the project. It is therefore important that the issue of the prospectus is enabled to proceed according to the planned timetable while the current momentum is there.

Central Plains Water approached the Council as part of the LTCCP process for additional equity funding which would have assisted with this financial need on an equity basis and evened up this Council's contribution with the amount contributed by Selwyn District Council but at that time the Council chose not to assist in this way.

The Council became involved in the funding of the feasibility and planning stages of this project because it recognised that there would considerable benefit to the economic development of the region not only in the areas where the irrigation is placed but also through the expected considerable downstream transport and processing of produce which benefit the economy of the city through the provision of jobs.

The current request is for short term bridging finance of up to \$300,000 to enable the prospectus issue to be finalised and marketed. Future funding for the project would come from investors under the prospectus and principally from the benefiting farming area.

A copy of the letter of request received from Central Plains Water is attached.

DISCUSSION

In view of the significant investment which this Council has previously made in this project it is important that the next stage be achieved in a timely manner so that the investment to date will have opportunity to achieve its goal. For this to happen the prospectus, which is nearing completion, still needs to be marketed effectively so that the next stage of funding comes from the affected landowners and tests their commitment to the project in a tangible way. It is important that there are no delays in this next stage or the momentum will be lost and other interests could work against the project.

This request has also been submitted to Selwyn District Council who are considering the request on the same day as this Council. As the outcome from the consideration of each Council cannot be certain it is important that the approval not be conditional on the participation by Selwyn District Council or for only part of the amount as this could leave Central Plains Trust with a shortfall. In any case Selwyn District Council have already contributed a greater amount than CCC as noted in the figures quoted in the introduction.

The Council has sufficient flexibility in its working capital to enable a short term funding of up to \$300,000 to be made from funds on hand.

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Any bridging loan made would be unsecured as the repayment would primarily be possible only if the prospectus issue is successful in raising at least \$3.7 million. If it is unsuccessful and the issue fails then unless alternative direct funding is raised from some other source the loan would need to be written off. On the other hand if the loan is not made there is a risk that the earlier funds the Council has invested in the project will not bear any fruit and would have to be written off.

There has been some prospect of having the prospectus underwritten but at this stage this is uncertain and it would be inappropriate for Council to make this a condition of any loan.

CONDITIONS OF LOAN

While the letter from Central Plains does not specify an interest rate for this loan it does indicate a willingness to pay interest. I consider that interest should be charged and it would be reasonable for this to be at the 90 day bill rate on the day of making the loan plus one per cent. The 90 day bill rate is currently 6.28%.

The loan should be made on the basis that it be an early call on the funds raised by the prospectus within six weeks of the receipt of funding under the prospectus.

Staff

- Recommendation:**
1. That bridging finance of up to \$300,000 be made to Central Plains Water Trust.
 2. That the bridging finance be made at an interest rate of bank bill rate plus one per cent and the loan be repayable within six weeks of the successful raising of the minimum amount of funding under a prospectus to be issued by Central Plains Water Limited.
 3. That the Director of Strategic Investment be authorised to make the necessary detailed arrangements.

Chair's

Recommendation: Not seen by the Chair.

CONSIDERED THIS 29TH DAY OF JULY 2004

MAYOR