

COPY

ITEM : 9.2

TO : COUNCIL

FROM : GM: FINANCE & BUSINESS PERFORMANCE

WRITER : IAN SIVYER, GM FINANCE & BUSINESS PERFORMANCE

ISSUE : KERIKERI CIVIC TRUST LOAN GUARANTEE

Executive Summary: This report is to update Council on the loan guarantee agreement for the Kerikeri Civic Trust. This report also seeks support for Council to continue to guarantee the loan and cover interest payments.

REPORT:

1. Background

In 2004, Council resolved to guarantee a loan of \$1.5 million for the Kerikeri Civic Trust, to construct the Centre at Kerikeri, based on a Memorandum of Understanding between Council and the Trust signed in 2003. This was subsequently increased to \$1.9 million in 2005. As part of this MOU and guarantee, Council has paid the interest costs for the loan. The present loan agreement expires on 13 May 2010.

Following discussion at the February Audit and Finance Committee Meeting, the General Manager Finance and Business Performance was requested to work with the Civic Trust to obtain competitive quotes for a new loan. Quotes were obtained from both Westpac (the existing provider) and ASB Bank (Council's primary banker). The renewal terms offered by Westpac were the best offered, and are:

Term: 3 years

Amount: \$1.9 million

Interest Rate: Floating at a margin of 1%. At the time of the offer, this equated to a rate of 4.2% on a 90 day basis. There is an option to convert to a fixed rate at 5 banking days notice. On current interest rates, the annual cost to Council would be \$80,000, less than half the current cost to Council.

Prepayment: As Council has provided for potential repayment of the loan of \$113,000 per annum from 2011/12 through to 2018/19 in its Long Term Community Council Plan, the terms allow for partial repayment of principal at 5 banking days notice. In addition, the Trust's operating company is working on initiatives to generate more income, which could assist in repaying the loan.

The guarantee document has been reviewed by FNDC's Legal Services Team. The document is in standard form, but needs some changes for Council. These will be worked through between Council's legal team and Westpac before signing.

2. Options & Assessment

If the loan is allowed to expire in May 2010, the bank is likely to request repayment of the \$1.9 million from Council as guarantor. By continuing with the guarantee under the revised terms, Council will incur reduced interest costs (refer to Section 3 of this report, Financial Implications).

3. Financial Implications

Savings over interest payments of \$80,000 per annum at present interest rates. Further savings as loan is repaid in the future.

4. Policy Context

Council has an established strategy on this matter. It is in accordance with the Council resolutions in 2004 and 2005. It is also in accordance with the Memorandum of Understanding (Appendix A) that was signed in 2003.

5. Implications for Māori

There are no specific implications for Maori over and above any other ratepayer.

6. Community Board Views

There are no specific implications for Community Boards.

7. Legislative Compliance

The relevant legislation in relation to this issue is Section 12 of the Local Government Act. The information provided in this report and the recommended resolution complies in all respects with relevant legislation.

In relation to Section 79 of the Local Government Act 2002, this issue is considered to be of low significance.

RECOMMENDATION:

That the report, "Kerikeri Civic Trust Loan Guarantee", be received;

And that Council approves the continuation of the guarantee and interest payments under the terms offered by Westpac in accordance with clause 4 A & B of the Memorandum of Understanding between Far North District Council and the Kerikeri Civic Trust.



Ian Sivy

GM: FINANCE & BUSINESS PERFORMANCE

20 April 2010

APPENDIX I**MEMORANDUM OF UNDERSTANDING**

BETWEEN THE FAR NORTH DISTRICT COUNCIL (the Council)
AND THE KERIKERI CIVIC TRUST (the Trust)

BACKGROUND

- A. Both parties are committed to the provision of a new facility for the Far North District to be developed in Kerikeri to provide for the performing and creative arts and indoor recreation needs of the community and to serve as a base for a Centre of Excellence to be established ("the project").
- B. The Trust is recognised as the body which has undertaken the role of raising the necessary funds and to build a new complex in Cobham Road, Kerikeri and to appoint a community based Management Committee to operate such facility.
- C. The Trust now requires the sum of \$1.5 million dollars either by way of a cash grant or several cash grants plus its other revitalised fundraising efforts or failing that by way of underwriting, to enable it to draw down major funding from external charitable trusts and secure other donors to enable construction to start on the new facility.
- D. The Trust has made an approach to the Council to provide a guarantee to enable the project to commence while the Trust continues fundraising the guarantee to be for a maximum of \$1.5 million dollars.
- E. The Council, having satisfied itself as to the prospects of success of the Trust's fundraising efforts, has agreed to enter into a scheme of arrangement to enable the Trust to proceed with construction and to enhance its (the Trusts) ability to secure the necessary funding on the

basis that any call on the guarantee is contingent on the Trust fundraising target not being fully achieved.

- F. The Trust has employed the services of a professional fundraising organisation. The Trust acknowledges that in addition to the efforts of the professional fundraiser, that it has an obligation to demonstrate genuine intent to energetically fundraise itself, and to exhaust all avenues to achieve its fundraising targets with the objective of ensuring that the Council will only be required to provide the guarantee as a last resort.

IT IS HEREBY AGREED

1. The Trust will establish a six monthly meeting programme including a written report to the Council; the report to be on fundraising progress.
2. The Trust will develop a quarterly newsletter to keep all interested parties informed as to progress on fundraising.
3. The Trust will continue with its fundraising efforts in order to secure the balance of the funding needed to provide for the community a new Bay of Islands Cultural Centre incorporating the proposed New Zealand Centre of Excellence.

The Trust has identified Stage I of the project and this has a budget of \$5.675 million dollars (as at 30 June 2003) and the balance of fundraising referred to in this clause is \$1.6 million dollars.

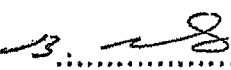
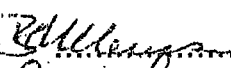
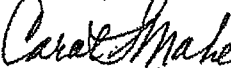
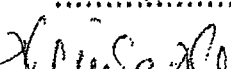
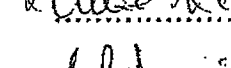

The Trust will give first priority to raise the \$1.6 million dollars but will not be precluded from accepting funds for other specific purposes if this is deemed by Council to be advantageous to the project. These funds (if any) will be held separately from those held for Stage I.

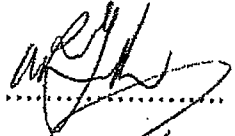
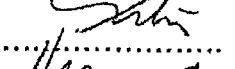
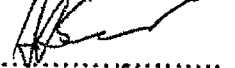
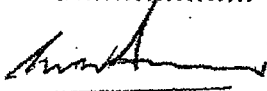
The above clause shall not be used by the Trust to shelter funds from the Trusts first obligation to repay the total amount of any principal owing to its banker including the \$500,000 referred to in clause 6.

4. The Trust will if cash flow requires seek from its bankers a loan to a maximum of \$1.5 million dollars on the following basis:
 - (a) The application for loan will be supported by a guarantee from the Council to the level required by the Lender
 - (b) The Trust will endeavour to secure an interest only loan with flexible repayment options and the Council will pay the interest as it falls due.
5. That the Trust will undertake that from the drawdown of any loan facility any monies received by the Trust as the result of continuing Stage 1 fundraising efforts will be applied to the reduction in the amount of the loan principal thereby reducing the interest cost to the Council; provided that no reduction shall be made until final costs of Stage 1 have been provided for.
6. Five years after the guarantee is triggered, the Council shall have the option to call up any liability under the guarantee from the Trust provided that if the balance is less than \$500,000.00 the Council will write off the liability of the Trust by using its statutory powers to raise the funds by a charge on properties in the Eastern Ward (or the same area if subsequently renamed) on terms fixed by the Council.
7. In the event that the Council is required to indemnify the Trust for unfunded principal by way of a rate, per clause 6 above, the Council be credited with an equivalent value of access to the Cultural Centre over the period of the rate by way of a discount on seat prices or such other method the Trust through its Management Committee deems appropriate; the distribution of such discount to be agreed between the Council and the Bay of Islands Cultural Centre Management Committee.

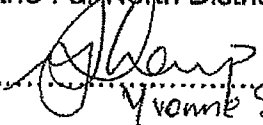
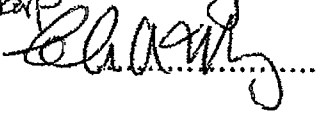
8. The Council agrees to publicly endorse the Stage 1 fundraising by any reasonable means when requested by the Trust and to encourage new donors to come forward.
9. It is also agreed that before assent is able to be given to this agreement by Council that the following conditions are met to Council's satisfaction:
- (a) A three year business plan for the Cultural Centre is produced showing estimated operational income and expenditure and key assumptions made in its creation. And that this business plan be signed off by two trustee members and two community members of the management committee, and that the business skills of the management committee be outlined in that business plan.
 - (b) That the Trust produces a statement to the effect that it intends to own and operate the Cultural Centre after its construction and to direct the ongoing management of the facility.
 - (c) That the Trust produces an up to date report on building cost estimates signed by the Project Manager.

For the Kerikeri Civic Trust

NAME	SIGNATURE	DATE
Brian Roberts		23/7/03
Bruce A. Munro		23/7/03
CAROL S. MAHER		23-7-03
DEWSE DEANSLEY		23.07.03
MARION RAE DAVIES		23.07.03
JOHN LIVER GRIFFITH		23.7.03

MURRAY RONALD FORSYTH		23/07/02
ERNEST LELLIE WATSON		23/07/02
DAVID ALAN TURNER		24/7/03
MICHAEL WALLACE SIMON		24/7/03

For the Far North District Council

	Mayor	6/8/03
CLIVE A. MANLEY		6/8/03

24 March 2010

The Trustees
Kerikeri Civic Trust
C/- Ian Sivyer,
GM Finance and Business Performance
Far North District Council
Private Bag 752
Kokakohe 0440

Dear Ian,

OFFER OF CONTINUATION OF FUNDING FOR KERIKERI CIVIC TRUST

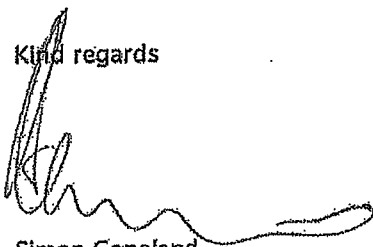
We are pleased to present our offer of continued finance for the Kerikeri Civic Trust. Please also find enclosed a copy of our guarantee and loan documentation for the review of the council as requested.

Our mission at Westpac is to "earn all our customers business" so we place a high value on developing relationships that delight our clients. I am personally committed to providing all resources necessary to meet and exceed your expectations to continue delivering the services we are offering. We look forward to continuing and growing a mutually successful banking relationship.

Should you require any further information about our proposal, please feel free to contact me on either of the following numbers;

Phone (09) 367 3842
Cellphone 0274 400 559
Email simon_copeland@westpac.co.nz

Kind regards



Simon Copeland
Senior Corporate Manager
Westpac New Zealand Limited