

**FINANCE AND POLICY COMMITTEE MEETING HELD ON WEDNESDAY
16 DECEMBER 2015 AT MEMORIAL HALL SUPPER ROOM,
ESPLANADE, KAIKOURA.**

AGENDA

1. Apologies

2. Matters of Importance to be raised as Urgent Business

3. Reports:

- ◆ *Finance Report* *page 17*
- ◆ *Statement of Financial Position*
- ◆ *Statement of Financial Performance*
- ◆ *Library Report* *page 29*

4. Civic Centre Funding Options *page 31*

5. Disposal of Council Buildings *page 35*

6. Minutes Action and Issues List Update

MEETING	ACTION REQUIRED	BY	DATE ACTIONED
Finance	Breakdown of contractors on Other Expenses Report	Finance Manager	In progress

7. Urgent Business

Finance Report

Statement of Financial Position

We are now live on Ozone, our new computer system. The migration from Authority to Ozone has been relatively smooth, and it is very exciting to be able to present financial reports immediately. There are significant differences in the way Ozone reports various items, such as rates revenue is calculated per instalment rather than for the whole year up front. This is most apparent when looking at Trade & Other Receivables: \$5.5m last month (included the full years rates), down to \$3m this month (only the rates that have been invoiced out and remaining outstanding at 30 November).

Statement of Comprehensive Revenue & Expense

Our operating deficit of \$570,681 includes our payments to the CDHB of \$1,360,445, which is included in Other Expenses.

Statement of Activity Performance

Because we have only just moved to the Ozone platform, there has been very little opportunity to check that budgets have been loaded in correct periods, etc. Some variations to budget are only timing issues against budgets that need to be reappportioned, so several variances are only timing related.

Revenue Variances:

Revenue is up on budget by \$32k overall. The main variances are:

<i>Activity</i>	<i>Variance</i>	<i>Main Reason</i>
Community facilities	Down \$83,183	Lease revenue for the Civic Centre and existing Council office not received
Commercial activity	Up \$127,246	Budget needs to be reappportioned (tenant invoiced for the full year lease but budget is only year to date)

Expenditure Variances:

Expenditure is under budget by \$493k overall, with the main variances as below.

<i>Activity</i>	<i>Variance</i>	<i>Main Reason</i>
Roading	Under \$42,728	Timing of maintenance work.
Sewerage	Under \$49,213	Timing of maintenance work.
Community facilities	Under \$180,898	Savings in loan interest and timing of maintenance. <i>Note that Innovative Waste is a month behind in invoicing.</i>

Statement of Cash Flows

Cash has decreased by \$1.2million for the year to date – the key reason being progress payments on the Civic Centre. Cash is up slightly from last month, but this is largely due to raising loans for the Hospital donations.

Capital Expenditure

Work has commenced in South Bay for underground water pipe replacement, although at this stage very few costs have come through the accounts. The Civic Centre costs have gone down slightly since last month's report – there was an adjustment made for impairment. These costs have been validated against our fixed asset systems and are accurate. Previously only constructions costs were reported by the project manager. Internal financial reporting outlines all project related expenses to date. The full set of costs are in the process of independent review.

In August, the Council requested I disclose the Civic Centre losses in this report. The table below shows the losses plus actual costs for the project itself to date. Impairment losses is the value of the actual roof components being written off, and the expense costs are things like extra labour hours, scaffold and crane hire involved in replacing the roof. It is estimated that \$800,000 remains to be spent in order for the building to be ready to move in – including fit out.

Civic Centre project costs	2014/2015	2015/2016	Total to date
Construction/project costs	4,460,005	899,473	5,359,478
Impairment losses (roof components removed)	341,007	TBC	341,007
Expense costs relating to roof replacement (scaffolding, crane hire, extra building hours, etc)	166,472	TBC	166,472
	4,967,484	899,473	5,866,957

Revenue vs. Expenditure

With Ozone reporting rates revenue substantially different to the way Authority did, this graph has been removed from the report until it can be validated.

Working Capital & Liquidity

Working capital has also been removed from this report until it can be reworked to consistently show rates revenue comparisons over multiple years.

Budget Performance (Revenue YTD and Expenditure YTD)

These are a graphic representation of the Statement of Activity Performance, so you can see at a glance how activities are performing against budget and in comparison with each other.

Revenue & Expenditure Types

Rates (targeted plus general rates) make up 68% of total revenue so far this year, and user fees and charges have dropped to 21.5%. Operating expense makes up close to half of total expenses.

Recommendation: It is recommended that the Finance Report be received.

Author: Finance Manager
Endorsed by the Acting Chief Executive Officer

GLOSSARY OF TERMS: Items on the Statement of Financial Position

Cash & cash equivalents	Bank accounts and term deposits that mature within 90 days.
Trade & other receivables	Debtors and rates accounts (the amount that our ratepayers and customers owe us).
Prepayments & inventory	Bills we have paid in advance (such as insurance), plus stock items.
Other financial assets	Term deposits that mature after 90 days, and carbon credits (intangibles).
Investment property for sale	Property that the council intends to sell within 12 months
Forestry assets	The standing value of trees grown specifically for logging
Investment property	Any property that is owned with the intention of generating a return (e.g. Pyne's building and north wharf buildings).
Property, plant & equipment	All other assets – roads, wharves, water and sewer infrastructure, land, buildings, vehicles, furniture, art works, library books, etc
Trade & other payables	Bills we haven't paid yet, and other amounts we must pay within 12 months (refundable bonds, GST, ECan's share of rates revenue, etc).
Employee liabilities	Annual leave owing to employees
Borrowings – current	Loans that must be repaid within 12 months.
Provisions	Landfill aftercare provision – an estimate of the cost that will be incurred to secure and cap the site once the landfill is closed.
Borrowings – non current	The balance of loans that don't need to be repaid within 12 months.
Other term debt	Our share of Marlborough Regional Forestry debts, and other long term liabilities.
Public equity	A type of equity which records accumulated surpluses and deficits, and other movements in equity not recorded below.
Asset revaluation reserve	A type of equity which records movements in property, plant and equipment values.
Special funds & reserves	A type of equity which records funds set aside for specific purposes (such as grants, targeted rates, development contribution funds, etc)

KEY INDICATORS

AS AT 30 NOVEMBER 2015

OPERATING RESULT

operating surplus/(deficit)

-\$571k

\$1625k favourable v/s year-to-date budget of -\$2,196k
\$788k unfavourable v/s last year actual of \$217k

OPERATING COSTS

costs to deliver existing levels of service

\$4.38m

\$1,593k favourable v/s year-to-date budget of \$5.97m
\$1,174k unfavourable v/s last year actual of \$3.20m

TOTAL EXTERNAL DEBT

total borrowings from bank

\$7.82m

\$27k unfavourable v/s full year budget of \$7.8m
\$1,232k unfavourable v/s last year actual of \$6.6m

INTEREST ON DEBT

cost to service debt

\$146k

\$20k favourable v/s year-to-date budget of \$167k
\$20k favourable v/s last year actual of \$166k

CAPITAL EXPENDITURE

cost of new &/or replacement of assets

\$1.24m

\$1.3m favourable v/s year-to-date budget of \$2.6m
\$0.0m unfavourable v/s last year actual of \$1.2m

DEVELOPMENT CONTRIBUTIONS

received for district growth

\$0.0k

\$32.0k unfavourable v/s year to date budget of \$32k
\$21k unfavourable v/s last year actual of \$21k

LONG TERM PLAN MEASURES

DEBT AFFORDABILITY BENCHMARK

financing expenses as a % of rates

5.3%

14.7% favourable v/s council approved limit of 20.0%
2.3% favourable v/s last year actual of 7.6%

EBID

earnings before interest and depreciation

\$0.45m

\$1696k favourable v/s year-to-date budget of -\$1.24m
\$697k unfavourable v/s last year actual of \$1.15m

BALANCED BUDGET BENCHMARK

revenue equal or greater than expenses

87%

13% unfavourable v/s council benchmark of 100%
20% unfavourable v/s last year actual of 107%

LONG TERM DEBT TO EQUITY

debt as a % of equity

3.56%

0.08% favourable v/s full year budget of 3.65%
0.28% unfavourable v/s last year actual of 3.29%

STATEMENT OF FINANCIAL POSITION

AS AT 30 NOVEMBER 2015

	BUDGET to year end \$	ACTUAL 30/11/15 \$	ACTUAL 30/11/14 \$
ASSETS			
<i>Current assets</i>			
Cash & cash equivalents	2,909,790	2,108,060	2,977,579
Trade & other receivables	1,077,377	2,989,111	4,999,576
Prepayments & inventory	98,200	74,684	59,064
Non-current assets held for sale	-	755,000	1,858,000
Total current assets	4,085,367	5,926,855	9,894,219
<i>Non-current assets</i>			
Intangible assets	-	185,027	3,036
Forestry assets	2,583,334	2,160,709	2,704,543
Investment property	2,408,000	1,319,875	1,380,000
Property, plant & equipment	167,063,468	160,248,414	159,335,723
Total non-current assets	172,054,802	163,914,025	163,423,302
TOTAL ASSETS	176,140,169	169,840,880	173,317,521
LIABILITIES			
<i>Current liabilities</i>			
Trade & other payables	1,400,004	1,193,783	1,525,634
Employee liabilities	100,000	182,295	112,550
Borrowings – current	1,985,309	2,138,930	1,190,920
Other liabilities – current	-	646,952	-
Total current liabilities	3,485,313	4,161,960	2,829,104
<i>Non-current liabilities</i>			
Provisions	-	390,509	41,657
Borrowings – non current	8,191,882	5,678,280	5,394,160
Other term debt	564,606	331,216	964,607
Total non-current liabilities	8,756,488	6,400,005	6,400,424
EQUITY			
Public equity	80,415,371	87,373,424	92,203,468
Asset revaluation reserve	81,427,688	69,333,563	69,317,174
Special funds & reserves	2,055,309	2,571,928	2,567,352
Total equity	163,898,368	159,278,915	164,087,994
TOTAL LIABILITIES & EQUITY	176,140,169	169,840,880	173,317,521

STATEMENT OF COMPREHENSIVE REVENUE & EXPENSE

FOR THE PERIOD ENDED 30 NOVEMBER 2015

	BUDGET 30/11/15 \$	ACTUAL 31/10/15 \$	ACTUAL 30/11/14 \$
REVENUE			
Rates revenue	2,748,378	2,783,777	2,191,110
Water meter charges	-	(7,511)	7,126
User fees & charges	581,650	632,387	649,222
Grants & subsidies	271,928	232,001	349,754
Development contributions	32,032	-	21,469
Interest revenue	23,460	13,573	25,534
Other revenue ¹	117,970	153,413	177,190
Total revenue	3,775,418	3,807,640	3,421,405
EXPENSES			
Personnel	737,190	673,968	732,961
Depreciation	787,510	878,343	766,987
Financing expenses	166,770	146,464	166,378
Other expenses	3,179,635	2,679,544	1,537,637
Total expenses	4,871,105	4,378,319	3,203,963
Operating surplus/(deficit)	(1,095,687)	(570,681)	217,442
OTHER COMPREHENSIVE REVENUE			
Gains/(losses) on revaluation	-	-	-
Vested assets	-	-	-
Ecan share of MRF profit/loss	-	-	-
Total other comprehensive revenue	-	-	-
TOTAL COMPREHENSIVE REVENUE	(1,095,687)	(570,681)	217,442

¹ Other Revenue includes Marlborough Regional Forestry joint venture revenue, penalties on overdue leases, and petrol tax.

STATEMENT OF ACTIVITY PERFORMANCE

FOR THE PERIOD ENDED 30 NOVEMBER 2015

	BUDGET 30/11/15 \$	ACTUAL 30/11/15 \$	ACTUAL 30/11/14 \$
REVENUE			
Roading	620,057	583,480	514,863
Water services	371,138	360,746	301,130
Sewerage	283,196	283,058	229,189
Stormwater	64,234	63,015	49,995
Refuse & recycling	70,886	81,024	62,594
Community facilities	467,987	384,804	358,521
Commercial activities	167,020	294,266	359,045
Leadership & governance	16,125	13,386	20,278
Regulation & control	179,801	171,720	186,140
Safety & wellbeing	138,517	127,209	207,871
District development	201,465	254,626	154,221
Hospital	68,750	68,718	-
General rates & interest revenue	1,126,242	1,121,588	977,558
	3,775,418	3,807,640	3,421,405
EXPENDITURE			
Roading	641,715	598,987	669,557
Water services	451,660	437,379	469,365
Sewerage	334,600	285,387	295,176
Stormwater	62,950	49,934	55,047
Refuse & recycling	163,470	165,995	155,461
Community facilities	729,642	548,744	586,779
Commercial activities	47,708	34,718	61,222
Leadership & governance	336,189	296,375	258,585
Regulation & control	287,316	233,592	245,482
Safety & wellbeing	185,398	138,379	201,700
District development	218,007	209,985	198,184
Hospital	1,409,375	1,366,238	160
Other	3,075	12,606	7,245
	4,871,105	4,378,319	3,203,963
Operating Surplus/(Deficit)	(1,095,687)	(570,681)	217,442

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 NOVEMBER 2015

	BUDGET to year end \$	ACTUAL 30/11/15 \$	ACTUAL 30/11/14 \$
OPERATING ACTIVITIES			
Receipts from rates	5,512,259	1,406,586	1,771,286
Interest received	56,298	13,573	25,533
Receipts from other revenue	3,169,769	638,091	1,303,255
Payments to employees & suppliers	(8,559,436)	(3,837,777)	(2,957,887)
Interest paid	(541,208)	(146,464)	(166,378)
Net Cash from Operating Activities	(362,318)	(1,925,991)	(24,188)
INVESTING ACTIVITIES			
Sale of investment property	-	-	-
Sale of forestry	-	330,000	-
Purchase of property, plant & equipment	(2,150,515)	(1,183,216)	(1,205,801)
Purchase of forestry assets	-	-	-
Purchase of intangible assets	-	(51,457)	-
Payment into term deposits	-	-	-
Net Cash from Investing Activities	(2,150,515)	(904,673)	(1,205,801)
FINANCING ACTIVITIES			
Proceeds from borrowing	4,786,905	1,860,000	1,706,710
Repayment of borrowings	(2,403,095)	(238,850)	(1,631,630)
Net Cash from Finance Activities	2,383,810	1,621,150	75,080
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS	(129,023)	(1,209,514)	(1,154,909)
CASH AT BEGINNING OF THE YEAR	3,038,812	3,317,574	4,132,488
CASH AT END OF THE PERIOD	2,909,790	2,108,060	2,977,579

CAPITAL EXPENDITURE

FOR THE PERIOD ENDED 30 NOVEMBER 2015

Project	Budget	Actual	Percent	Status
ROADING				
Bridge replacement	90,000	-		
Reseals	100,000	-		
Unsealed road renewals	60,000	61,709	103%	Complete
Drainage renewals	50,000	51,252	103%	Complete
Pavement rehabilitation	100,000	-		
Traffic service renewals	9,356	-		
Safety improvements	50,000	5,248	10%	
Footpath renewals	500,000	8,692	2%	Report required
Streetlights	27,644	-		
	987,000	126,901	13%	
WATER SUPPLIES				
Kaikoura (South Bay) renewals	80,000	9,025	11%	More to come
Kincaid renewals	15,000	-		
Oaro water treatment	4,179	-		
	99,179	9,025	9%	
SEWERAGE				
New generator & telemetry	-	44,113	xxx	
Renewals	40,000	-		
	40,000	44,113	110%	
STORMWATER				
Renewals	25,000	749	3%	
Upgrades	-	-		
	25,000	749	3%	
REFUSE & RECYCLING				
Landfill cell capping & aftercare	7,500	-		
	7,500	-	-	
COMMUNITY PROPERTIES				
Memorial hall upgrade	11,500	-		
Library books, CDs & DVDs	36,626	5,780	16%	
Coastal management strategy	20,000	-		
New public toilets*	30,000	-		
Pensioner flats	-	28,967	xxx	
South Bay marina upgrade	170,000	642	0%	
Swimming pool	200,000	11,662	6%	
Cemetery	-	5,386	xxx	
Civic Centre* #	4,900,000	5,359,478	109%	More to come
	5,368,126	5,411,915	101%	

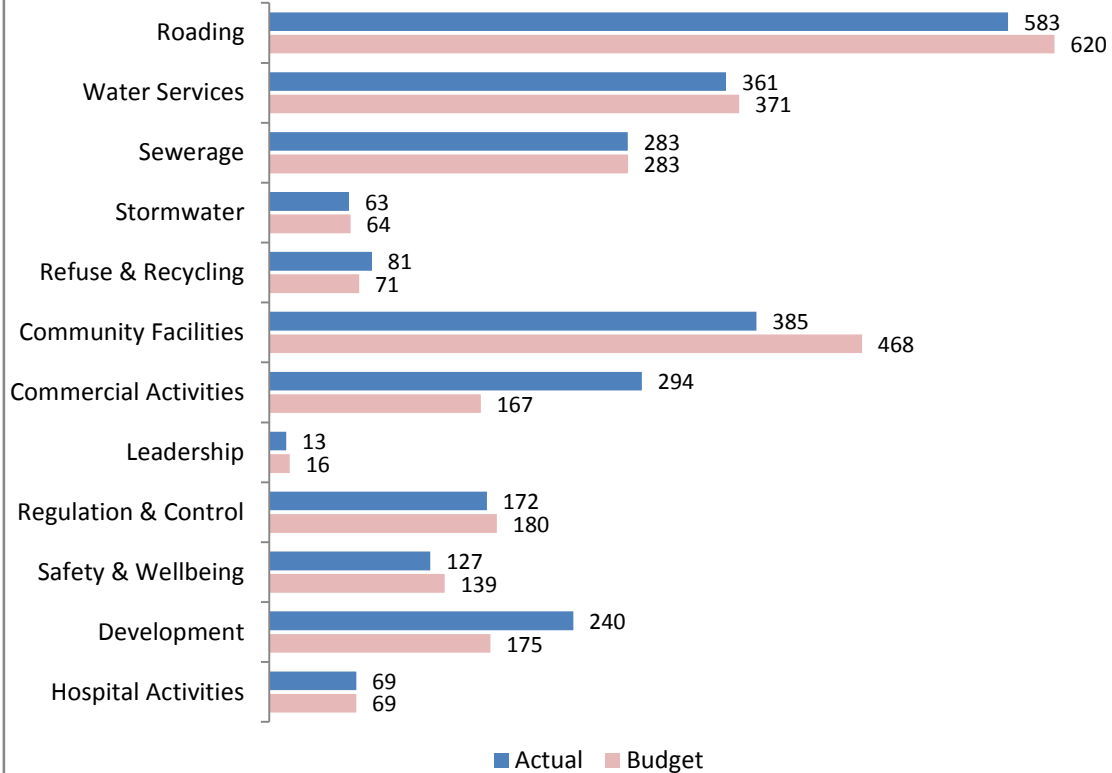
Project	Budget	Actual	Percent	Status
COMMERCIAL ACTIVITIES				
20 Beach Rd	-	-		
Forest pruning & thinning	4,464	-		
	4,464	-	-	
LEADERSHIP & GOVERNANCE				
Office furniture & equipment	10,000	11,973	120%	
Computer equipment	20,000	2,490	12%	
Datacom Ozone project*	-	190,234	xxx	More to come
New plant & equipment	-	3,988	xxx	
Vehicle replacement	20,000	26,087	130%	
	50,000	234,772	470%	
TOTAL	6,581,269	5,827,475	88%	

* The Civic Centre, new public toilet, and Datacom Ozone projects have carried over from the 2014/2015 financial year, and are the accumulative value to date.

The Civic Centre costs from 1 July 2015 to 31 October 2015 have NOT had impairment and additional costs relating to the insurance losses deducted from the total capital project cost. The project manager has not yet identified these costs sufficiently to make this adjustment. See the Finance Report narrative for more information.

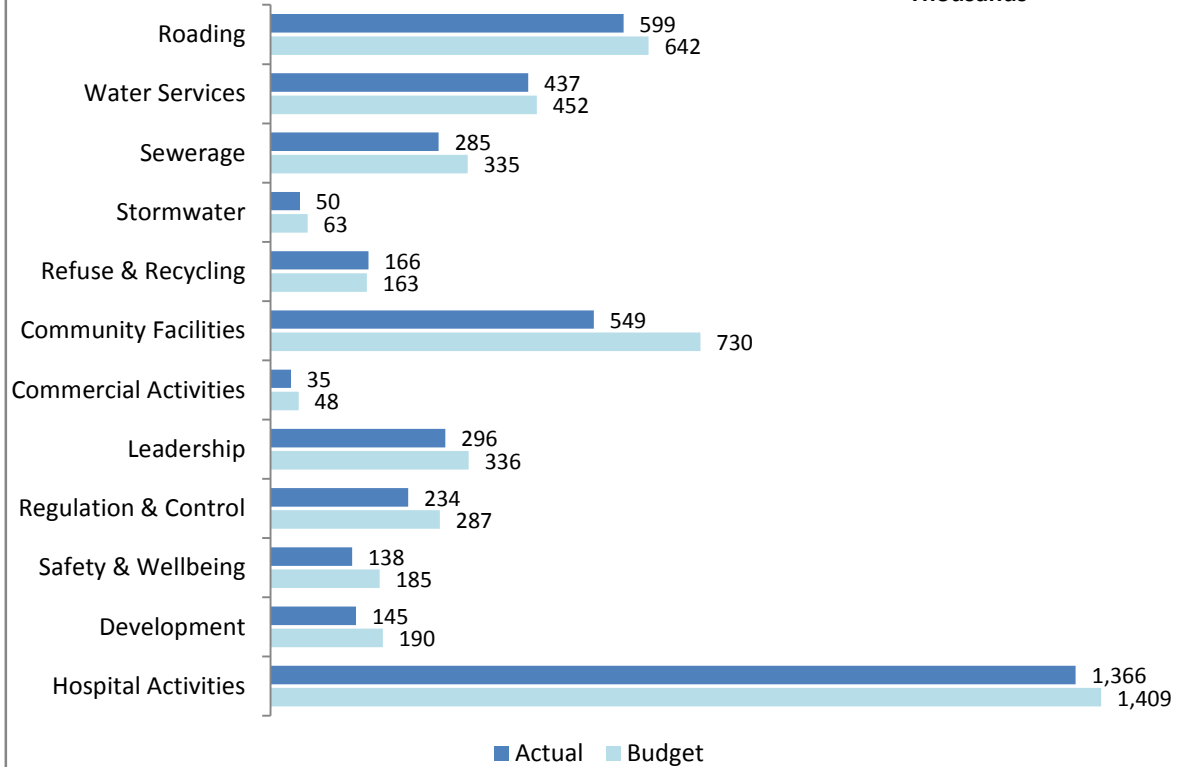
Income YTD by Activity

Thousands

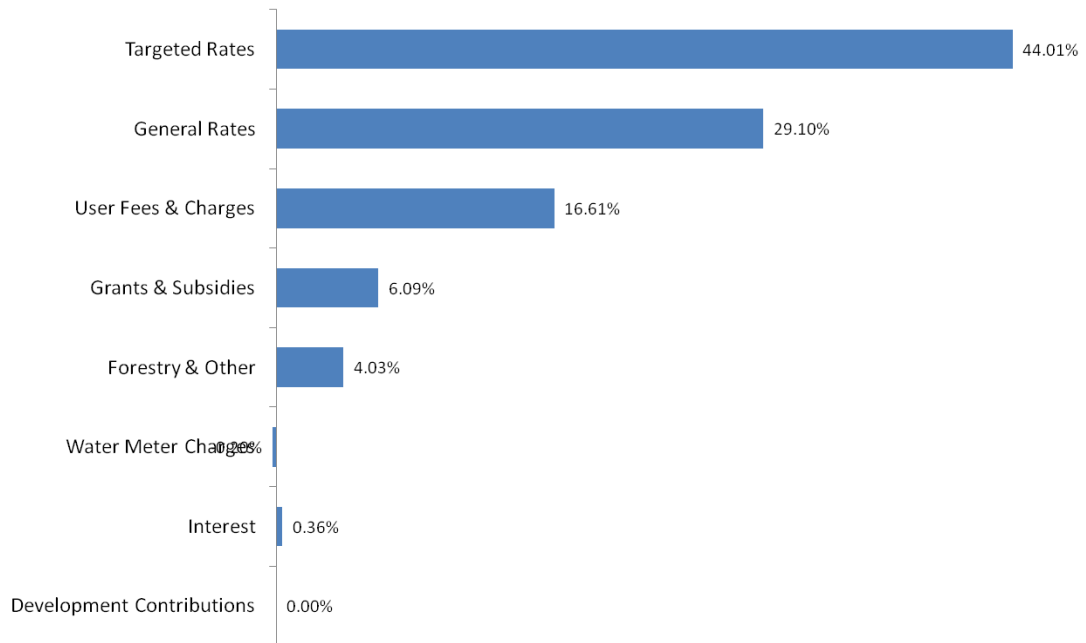


Expenditure YTD by Activity

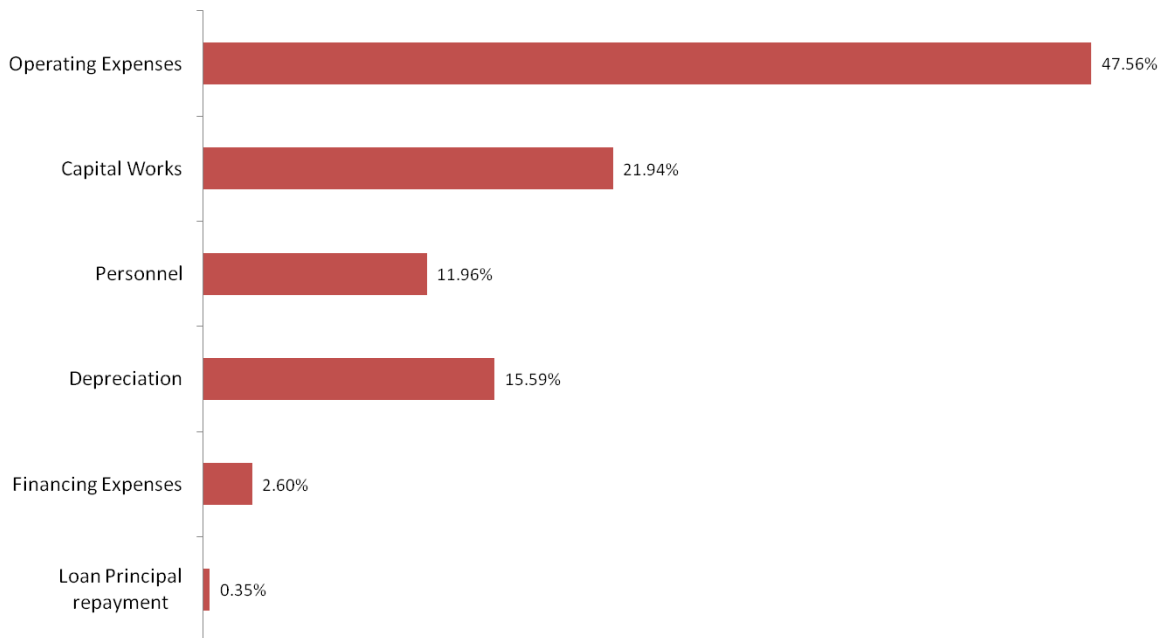
Thousands



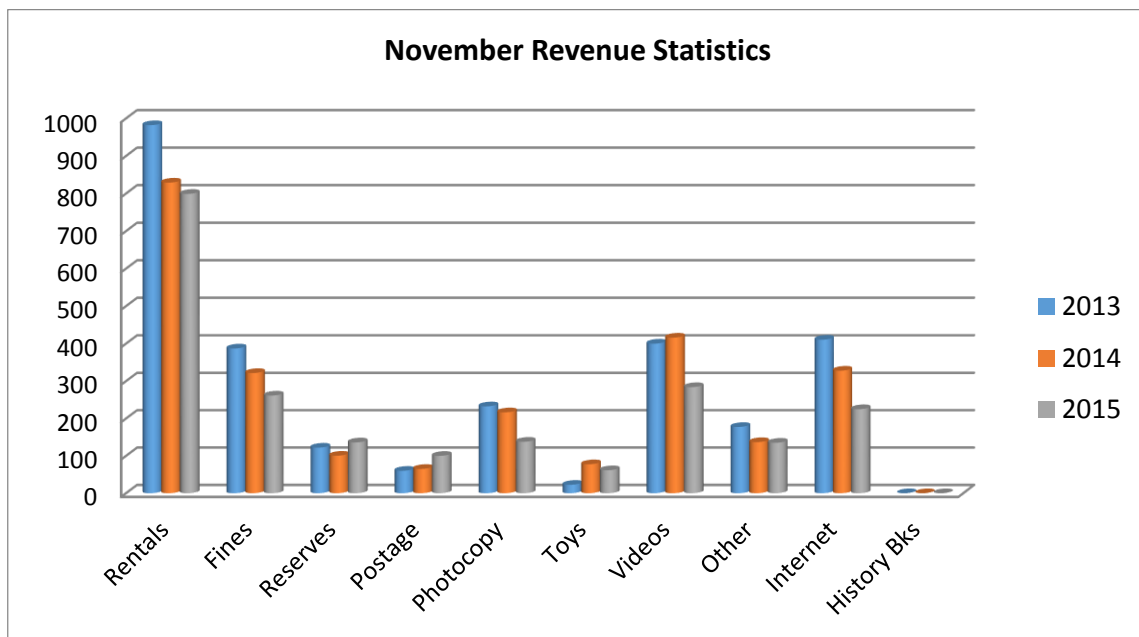
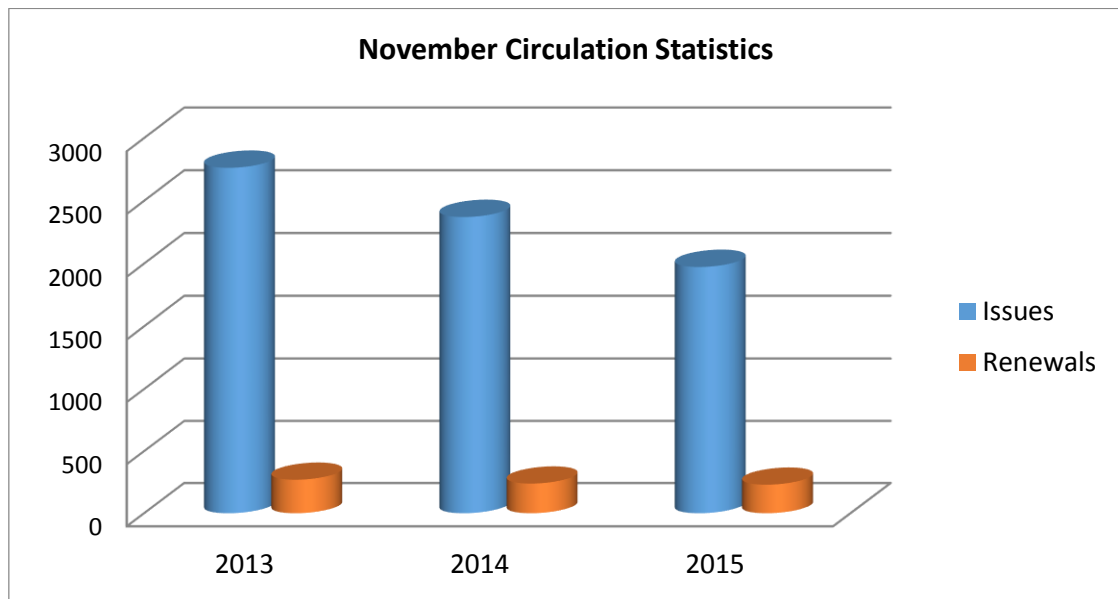
Income YTD by Category



Expenditure YTD by Category



Library Report



Administration

- The 2015 Electoral Rolls have arrived for public display in the library.
- Whalefest display at the Library, which ran from 9th November – 14th November 2015.

Events & Activities

- Planning is under way for the annual Toddler-time end of term celebrations.

Class Visits

- Adult learning centre enjoyed 4 visits on the 4th, 6th, 9th & 12th November 2015.

Technology

- No on sight visit this month. Liberty error connection on the 30th November, Kyle from Hurunui IT support was contacted with a good outcome and library software up and running by 10am.

Christmas Hours

- The library opening hours between Christmas and New Year will be as follows:

Monday 21 st Dec	9.30-5.30pm
Tuesday 22 nd Dec	9.30-5.30pm
Wednesday 23 rd Dec	9.30-5.30pm
Thursday 24 th Dec	9.30-5.30pm
Friday 25 th Dec	Closed
Saturday 26 th Dec	Closed
Sunday 27 th Dec	Closed
Monday 28 th Dec	Closed
Tuesday 29 th Dec	9.30-5.30pm
Wednesday 30 th Dec	9.30-5.30pm
Thursday 31 Dec	9.30-5.30pm
Friday 1 st January	Closed
Saturday 2 nd January	Closed
Sunday 3 rd January	Closed
Monday 4 th January	Closed

Normal hours resume on Tuesday 5th January 2015

Author: District Librarian
Endorsed by the Acting Chief Executive Officer

Civic Centre Funding Options

The purpose of this report is to consider funding options to meet the anticipated shortfall for the Civic Centre project, with total costs now estimated to be \$6,670,000, and a shortfall of \$1.77m.

Summary of the proposal

The museum, library and council offices were originally budgeted to cost \$4.4million to construct back in 2012. Costs have been revised to reflect that total costs (including insurance claim related expenses) have already reached \$5.87million, with \$800,000 estimated required for the building to be ready for the Council to occupy it. Note that we have taken a minimalist approach to the interior fit out, such as using second-hand furniture and fittings. This brings the total project cost to \$6.67million, with the potential to recoup a reasonable portion of this from the insurance claim on losses. Even if the insurance claim is approved, we will still need to pay all costs until the claim is received, and so these costs are included in this funding options report.

	Original budget 2012	First revision June 2015	Second revision December 2015
Project total cost (including insurance losses)	4,400,000	4,900,000	6,670,000
Funding sources			
Grant funding	400,000	-	-
Loan	1,740,000	1,740,000	1,740,000
Forestry reserve	500,000	1,000,000	1,000,000
Community facilities reserve	1,760,000	2,160,000	2,160,000
	\$4,400,000	\$4,900,000	\$4,900,000

Funding shortfall: \$1,770,000

The purpose of this report is to consider funding options for the shortfall of \$1.770 million, but first, in order to meet the requirements of the Local Government Act (2002) and the Council's own Significance and Engagement Policy, the Council should consider the significance of the proposal.

Assessment of significance

The Civic Centre project is by far the most significant undertaken by this Council, and the community has taken a great deal of interest in progress at the site, as well as financial impact on the rates. The building's construction is, however, well under way and there would be additional cost simply in the delays incurred by providing for any public consultation process.

Council's own Significance and Engagement Policy provides that Council, in considering the degree of significance of any matter, will be guided by the extent to which a decision flows logically and consequentially from a decision already made in a Long Term Plan or Annual Plan. The Council has confirmed the Civic Centre go ahead since it was first installed in the Long Term Plan 2012-2022, and the purpose of this report is only to consider the funding sources for the additional costs rather than reconsider the project itself.

Known issues, views and preferences

Given that time is of the essence, and cost commitments have already been made, rather than pursue a public consultative process, the Council may consider that the community's views and preferences are already well known. The Council may reasonably conclude that the community would prefer **not** to incur any more long-term debt for the project that would affect rates, that available and appropriate special funds be utilised in the first instance, and that Council will sell property that doesn't serve a strategic purpose or generate a solid net return, if necessary.

If, in fact, the Council were to conclude that this proposal is of high significance and requires public input, it should be clear that we are incurring the costs of the project regardless and that, in lieu of a decision, we will need to raise short-term loans until public consultation could be completed.

Recommendation: That Council determines the proposal does flow logically and consequentially from the Long Term Plan, and that public consultation is not required in order to consider options for the funding shortfall of the Civic Centre project.

Sources of funds available

Funding Sources	As at 30 November 2015
Cash & term deposits	\$2,108,060
<i>Including special funds and reserves made up of:</i>	
Forestry fund	1,404,260
Property fund	136,744
Community facilities fund*	(315,419)
	\$1,225,585
Properties available to sell	
20 Beach Road (unoccupied house), 25 Beach Road (Arts Society, Op Shop, and others), 34 Esplanade (the existing council offices)	\$1,600,000

* the Community facilities fund is already overdrawn because costs have been ongoing without any decisions made on the funding shortfall.

The Options

Rather than attach a dollar figure to any particular funding source, each of the sources are ranked in order of preference. This is because we have not fully quantified the insurance costs, and any attempt to do so in public forum may compromise the success of the claim itself.

Funding Sources	Option 1	Option 2	Option 3
Forestry, property & facilities funds	1 st choice	1 st choice	2 nd choice
Short term loan (pending insurance recoveries)	2 nd choice	3 rd choice	1 st choice for insurance costs
Property sales (with surplus to replenish the property fund)	3 rd choice	2 nd choice	3 rd choice
	\$1,770,000	\$1,770,000	\$1,770,000

I draw your attention to the following important considerations:

None of the options provided will have an impact on rates, other than a potential loss of interest earned on term deposits – assuming that the insurance claim is successful, and approved within this financial year.

All options deplete, or significantly deplete, cash reserves held by the Council, which may result in our need to raise short-term funding, or refinancing of existing term loans, or reprioritisation of other projects, in order to meet day-by-day cash commitments.

In all instances, there is the potential for the Council to recover the insurance losses, so property funds could be replenished, or short-term loans repaid, once funds are received. It is prudent to provide for the insurance claim to take some months (even a year or two) to resolve.

This report considers the capital costs of the project only. The Long Term Plan 2015-2025 assumes operating expenses (insurance, cleaning, security, etc), as well as lease revenues from the old office building and floor space in the new building, that have not been reviewed.

Options discarded

The option to do nothing has not been included – costs are being incurred regardless of the decision, and short-term loans (cash advances) are already being raised to meet commitments.

The option to raise a long-term loan for the shortfall has also not been included – this would require an amendment to the Long Term Plan, which is not insurmountable, but does add a level of complexity to the decision (including timing delays), which is likely to be rejected anyway due to the inevitable impact on rates.

Option 1: Special funds, then short term loan, then property sales

The forestry fund has already provided \$1million towards the project, and there is another \$1.4 million in that fund available. This fund was established for strategic purposes and to reduce the impact of rates, which is a broad purpose and seems appropriate to fund the Civic Centre. The Community Facilities fund is the current default source of funds for the project and is now overdrawn, which needs to be taken into account; and the Property fund would be replenished by any subsequent property sales.

Advantage: Option 1 uses special funds for their intended purpose, gives rapid access to short-term funds until the insurance claim is resolved, and provides for property to be sold without undue pressure (i.e. not a “fire sale” approach). Any interest on the short-term loans would become part of the costs claimed under insurance.

Disadvantage: the forestry fund would be depleted, removing the opportunity for future strategic use, such as other property purchases, debt repayment, etc. Interest earned on term deposits would be substantially reduced. Interest expenses would apply to the short-term loans and exposes Council to the risk for loans to become longer in term, if the insurance claim is rejected.

Option 2: Use special funds first, then sell property, then short term loans

Similar to Option 1, this option proposes that we deplete the available forestry, community facilities and property funds, and sell those properties already held for sale (20 Beach and 25 Beach Rd properties), and/or sell the existing council office at 34 Esplanade. The Esplanade office will be surplus to requirements once we are able to move into the Civic Centre. Sale of the Esplanade offices are considered in a separate report in this month's agenda.

Advantage: Special funds are used for appropriate purposes. The existing council office is sold because it no longer has any strategic purpose for the Council. Interest expenses would be minimal because short term loans may not be required at all.

Disadvantage: Properties are sold at "fire-sale" prices to meet the urgency of cost commitments.

Option 3: Insurance claim costs are covered entirely by short term loans

This option provides that all costs being claimed under insurance are funded in the first instance by short term loans. Any costs to complete the building, fit out, etc, are covered by special funds, and property sales would meet any final overrun and replenish those special funds.

Advantage: Where short-term funds are used to cover insurance claim costs, the interest expenses would be included in the insurance claim. Council's funds and property assets are less likely to be fully depleted.

Disadvantage: The actual insurance claim amount is yet to be verified, and the claim itself is yet to be approved.

Strategic Challenges / Risks

A substantial amount of the shortfall is related to the insurance claim and associated costs, and are reliant upon that claim being successful. The exact amount to be claimed is not confirmed at the time of writing this report. If the claim is not successful, any reference to "short-term" funds will need to be considered in the longer term, and may impact on rates in future.

Option 1 preferred

The forestry fund is the most appropriate fund to use in the first instance, being established for strategic purposes – there is no doubt that the Civic Centre, once constructed, will be considered a strategic asset by the Council. The deficit in the Community Facilities needs to be taken into account, and the property fund is also available and appropriate for this purpose. Short-term loans are already being utilised pending the Council's decision, with interest expenses able to form part of the insurance claim. Property can then be sold in a timely – but not hurried – manner.

Recommendation: It is recommended that the Civic Centre shortfall of \$1,770,000 be funded, in order of preference, by;

- 1. The net balance of the Forestry special fund, Property special fund, and Community Facilities special fund,***
- 2. Short-term loans (limited to the amount to be claimed under insurance)***
- 3. Sale of council properties, namely at least one of 20 Beach Rd, 25 Beach Rd or 34 Esplanade.***

Author: Finance Manager
Endorsed by the Chief Executive Officer

Disposal of Council Building

In consideration of funding, Council has sold the property commonly known as the Pynes Building in the West End. Also for sale are the properties at 20 Beach Road and 25 Beach Road. The property at 25 Beach Road is for sale by tender and closes at the end of January. The disposal of 34 Esplanade is also a possibility for disposal.

The options are as follows:

- Lease at Commercial value. No valuation for this option has been obtained.
- Sell tenanted in the current state. A valuation has been obtained for budgeting purposes.
- Sell untenanted after the occupation of the new Civic Centre.

There is some interest from government departments to lease the building; however, no offers have been made. It is recommended that valuations be sought on the options to lease and sell. These valuations will be returned to the Council for full discussion at the first meeting for 2016. It is envisaged that the new CEO will take up her position at this time and can make recommendations on options.

Author: Acting Chief Executive Officer