

10.1 RAINBOW SPORTS CLUB INC - REQUEST FOR REMISSION OF LOAN REPAYMENTS FOR 2013 AND 2014 FINANCIAL YEARS

During the Community Development Committee meeting of 17 September, Councillors agreed that this item be taken in Open Meeting and that the report be made publicly available.

Ref Minutes MCD15-09-17

Decision Required

Report To: Community Development Committee
Meeting Date: 17 September 2015
Report Author: Sandra Hartley, Policy Officer - Strategic Development
Report Number: RCN15-09-04
File Reference:

1 Summary

- 1.1 In 2009 Rainbow Sports Club Incorporated asked the Nelson City Council, Marlborough District Council and Tasman District Council for a suspensory loan of \$90,000 each, to fund infrastructure work at the Rainbow Skifield. All three councils agreed.
- 1.2 Tasman District Council's portion of the loan, \$90,000, commenced on 1 February 2010 and is interest free for a term of seven years.
- 1.3 The terms of the loan call for a repayment of 1/7th of the loan amount to be paid on an annual basis, however Part 2(d) further provides should it not be financially possible or prudent to make this payment, then the Club could apply to the Council for a remission of the amount due.
- 1.4 Council received a request from the Rainbow Sports Club Inc in March this year for a remission of the loan repayments for the 2013 financial year as they had experienced a very difficult season which resulted in a significant financial loss. Council staff requested a copy of the draft accounts for the 2014 year, which showed a turnaround between the two years to a healthy profit.
- 1.5 In light of the above, Council resolved that the Club's request be declined, and asked for the loan payment for the 2013 financial year.
- 1.6 The Club has since submitted their 2014 audited financial statements for 2014, which have been assessed by the Corporate Services staff. Staff noted that the Club had traded at a profit of \$116,300 for the year ended 30 November 2014, which was well up on the \$167,319 loss it traded the year before, their cash-on-hand has increased to \$181,000, and working capital is now \$131,000. Attachments to this report include the Rainbow Sports Club's letter and copy of their audited accounts for 2014.

- 1.7 The administration of this loan takes a significant amount of staff and councillor time each year. We therefore are recommending that if two years payments are made then the balance of the loan be written off.
- 1.8 Outlined below is a breakdown of the Club's last five years financial status, along with Council's decision on remittance requests.

Year	Profit/Loss	Write-off/Payment
2010	\$215,107 Loss	Write-off
2011	\$268,650 Profit	Payment (made in 2013)
2012	\$25,283 Profit	Write-off
2013	\$167,319 Loss	26.03.15 Council declined remittance
2014	\$116,300 Profit	To be decided

2 Draft Resolution

That the Community Development Committee:

- 1 receives the Rainbow Sports Club Inc - Request for Remission of Loan Repayments for 2013 and 2014 Financial Years Report RCD15-09-04; and**
- 2 declines the Club's request for remitting the loan repayments for the 2013 and 2014 financial years; and**
- 3 agrees to remit both the 2015 and 2016 financial years loan repayments on condition the 2013 and 2014 loan repayments, totalling \$25,714, are paid by 30 November 2015; and**
- 4 agrees to release this report and the final resolution from confidential business.**

3 Purpose of the Report

- 3.1 To inform you and obtain a decision on the request from the Rainbow Sports Club Inc for a remission of the loan repayments for the 2013 and 2014 financial years.
- 3.2 To reduce the amount of administration on this loan through recommending that if half the outstanding balance is repaid then the other half be written off.

4 Background and Discussion

- 4.1 In 2010 the Nelson City Council, Marlborough District Council and the Tasman District Council all agreed to provide a sum of \$90,000 each to the Rainbow Sports Club Inc which is the entity that operates the Rainbow Skifield.
- 4.2 As part to the terms of the loan agreement, Nelson City Council and Marlborough District Council agreed to annually write off 1/7th of the loan amount by way of a grant. The terms of the loan agreement are different for Tasman District Council, in that there is an expectation that the loan will be repaid.
- 4.3 The Tasman District Council's portion of the loan of \$90,000 commenced on 1 February 2010 and is interest free for a term of seven years. The money was funded from District Wide Reserve Financial Contributions.
- 4.4 The terms of the loan call for a repayment of 1/7th of the loan amount to be repaid on an annual basis, however Part 2(d) further provides should it not be financially possible or prudent to make this payment, then the Club could apply to the Council for a remission of the amount due.
- 4.5 In June 2011, the Club wrote to Council requesting a remission of 1/7th of the loan by way of a grant as provided for in the loan agreement. After consideration of the audited accounts for that year, which showed a significant deficit, the Community Services Committee agreed to remit the \$12,857 loan repayment for the 2010 financial year.
- 4.6 In February 2013 the Club wrote to Council requesting a remission of 1/7th of the loan by way of a grant as provided for in the loan agreement for the 2011 financial year. After assessing the audited financial accounts, the Corporate Services Department noted that the Club was in a financial position to repay the portion of the loan for this year. Council declined the remission.
- 4.7 In May 2013 the Club wrote to Council requesting remission of the 2012 loan repayment citing reduced revenue due to poor weather, increases in road expenses, increased vehicle expenses and increased wages. Council's Corporate Services Department staff noted that the current assets had increased, the working capital ratio was well above that usually recommended and the net assets were up 5%. Staff considered that the Club possessed the ability to pay its debts. Council resolved to remit the 2012 loan repayment, subject to the Club making full payment for the outstanding 2011 loan repayment by 20 October 2013. This payment was subsequently paid and the 2012 loan repayment was remitted.
- 4.8 In January 2015 the Club wrote to Council requesting remission of the 2013 loan repayment advising they had experienced a very difficult season which resulted in a significant financial loss, and they had used all their emergency funding. Council resolved not to remit the 2013 loan payment, as the draft accounts for the 2014 had shown a healthy profit.

- 4.9 In August 2015 the Club wrote to Council requesting Council to review its decision on the 2013 loan repayment decision, as this season was one of the poorest on record for Rainbow with a loss of \$167,320. They have not paid the invoice for the 2013 year.
- 4.10 The Club also requested the remission of the 2014 loan repayment citing that although they had had a better year with a profit of \$116,000, their position going into the current season had been very difficult. They had had a tight budget with no reserves to call on. They also had outstanding maintenance from 2013 and 2014 and significant additional expenses in terms of resource consent requirements and platter design verification work, both of which were critical in terms of being able to open. In addition an extreme weather event flattened their groomer shed earlier this year which had to be urgently rebuilt.
- 4.11 The Club's audited financial statements for 2014 have been assessed by the Corporate Services Department. The Department notes that the Club had traded at a profit of \$116,300 for the year ended 30 November 2014 (which was well up on the \$167,319 loss it traded the year before), cash on hand had increased to \$181,000, and working capital \$131,000. The Department also noted that 75% of their rental plant and equipment was older than five years, and 35% older than eight years, and pointed out that if the equipment wasn't kept up to date that more maintenance and more funds would be required for this work in the future.
- 4.12 We are not experts in skifield management and have no means of verifying the statements made by the Club on how much maintenance is required, or what a reasonable cash potions for starting each season should be. Our recommendation is therefore based on what we think is fair and reasonable given the financial results of the Club and the original agreement that loan payments would be made when possible.

5 Options

- 5.1 There are a number of different options that you can consider for the remaining portion of the loan. We support option 1, which would be payment of half the outstanding balance of the loan and writing off the balance.
- 5.2 **Option 1** - request the Club to pay both the 2013 and 2014 loan payments totalling \$25,714, by 30 November 2015 and remit the 2015 and 2016 loan payments, being the remaining two years of the loan (recommended).
- 5.3 Advantages – repayment of the 2013 and 2014 loan repayments would improve the financial position for the Reserve Financial Contributions for the following two years, would assist the Club for the remaining years of the loan, and result in a saving in staff and councillor time in future years.
- 5.4 Disadvantages – writing off the 2015 and 2016 year loan repayments would result in reduced Financial Contributions balances in future years. The decision to write-off the balance of the loan might set a precedence for other loans provided by Council.
- 5.5 **Option 2** – agree to the Club's request to write-off both the 2013 \$12,857 loan repayment and the 2014 \$12,857 loan repayment. The 2015 and 2016 balances would be considered in future years (not recommended).
- 5.6 Advantages – this is the Club's request and would assist their financial position.
- 5.7 Disadvantages – writing off this amount reduces the balance of the Reserve Financial Contributions account. Additional administration time would be required to consider whether the 2015 and 2016 payments should be made or written off.

- 5.8 **Option 3** – require the Club to pay the \$12,857 loan repayment for the 2013 financial year, along with the \$12,857 loan repayment for the 2014. The 2015 and 2016 balances would be considered in future years (not recommended).
- 5.9 Advantages – repayment of this loan amount would reduce the drawdown of funds from the Reserve Financial Contributions account. The repayment by the Club would result in an improved financial position for the Reserve Financial Contributions account.
- 5.10 Disadvantages – this might put the Club in a difficult financial position for future years. There would be additional administration required for assessing the 2015 and 2016 scheduled loan repayments.
- 5.11 **Option 4** – write off the 2013 \$12,857 loan repayment as requested on condition the Club pays the \$12,857 loan repayment for the 2014 year by the end of November 2015. The 2015 and 2016 balances would be considered in future years (not recommended).
- 5.12 Advantages – this would partially assist the Club’s financial position.
- 5.13 Disadvantages – writing off the 2013 loan repayment would reduce the Reserves Financial Contributions account. There would be additional administration required for assessing the 2015 and 2016 scheduled loan repayments.

6 Strategy and Risks

- 6.1 A risk with requiring the Club to pay the loan back for the 2013 and 2014 financial years is that it will put the Club in more unfavourable financial position for future years. If this is the case, however, Council can remit the loan repayments in those years.
- 6.2 It is possible that the 2015 year will be a good year for the Club, as we understand that there have been good snowfalls this year. This might mean that the Club is in a better financial position than in 2014.
- 6.3 There is a potential risk of Council being seen as unsupportive to this facility by requiring the Club to pay back the loan, whereas Nelson City Council and Marlborough District Council have not required the repayment. However, both those councils agreed to write-off the loans and their agreements with the Club did not provide for repayment.

7 Policy / Legal Requirements / Plan

- 7.1 There are no policy or legal requirements relating to this matter. The agreement Council has with the Club is clear about the terms and conditions and Council is complying with them.

8 Consideration of Financial or Budgetary Implications

- 8.1 The \$90,000 loan was provided from the District Wide Reserve Financial Contributions. The budget took a conservative view and did not assume that the \$12,857 would be repaid. However, if the money is repaid that will improve the financial provision of the Reserve Financial Contributions account.

9 Significance and Engagement

- 9.1 This matter is of relatively low significance in terms of Council's Significance and Engagement Policy, as it has only a minor financial impact and is unlikely to be of major public interest.
- 9.2 The matter would be of reasonably high significance to the Club as the repayment could mean that they have less cash available for maintenance and other projects.
- 9.3 The initial proposal to provide the \$90,000 loan to the Club came about through consultation on the Ten Year Plan 2009-2019. No further consultation is required in relation to remitting the 2014 year's portion of the loan, as the repayment is provided for in terms of the agreement entered into with the Club.

10 Conclusion

- 10.1 Although we are not in a position to fully understand the skifield business, the recommended option provides for payment of half of the outstanding loan balance and would save considerable administration time for the next two financial years.

11 Next Steps / Timeline

- 11.1 If the Council passes the draft resolution to require the Club to meet the loan repayments for the 2013 and 2014 financial years by 30 November 2015 and remit the loan repayments for the 2015 and 2016 financial years, this will be advised to the Club and the Club will be invoiced accordingly.