

TO: Aldo Miccio, Mayor, NCC.
FROM: Sara Chapman, Chairman, TBHT.
RE: Tasman Bays Heritage Trust, Liabilities.
Cc: Hugh Kettlewell
DATE: 1 November 2010

Tasman Bays Heritage Trust has a second Memorandum of Understanding with the Nelson City Council and Tasman District Council, dated 6 October 2010. This is a funding agreement until 30 June 2019, however, the first deadline falls due in 2011. The Trust will not be able to meet the liabilities that fall due in the financial year commencing on 1 July 2011.

An interest free loan of \$1,200,000 due to be repaid by June 30 2012 to Tasman District Council.
An interest free loan of \$1,200,000 due to be repaid by June 30 2012 to Nelson City Council.

The Trust requests that the Trustees and Councils consider the best course of action. Given that there have been changes in personnel among all three parties to the Memorandum of Understanding we have prepared this report for your information.

In November 2001, the Trafalgar Street land and buildings were purchased for \$3.1 million. This was financed by a loan of \$600,000 from each Council, \$200,000 Trust reserves and the balance of \$1.7 million mortgaged to the Bank of New Zealand.

In November 2002, (Report No 5380) the Board of the Tasman Bays Heritage Trust and Chief Executive requested approval from the Tasman District Council and Nelson City Council to proceed with financing of the development of the new Museum at Town Acre 445. The desired outcome being to establish a regional Museum exhibition centre, to house a permanent display on the history of Te Tau Ihu and to create a schools education facility. The Trust is subject to Clause 8 (Deed of Trust) and the conditions adopted were as follows:

THAT the Council approves the Tasman Bays Heritage Trust's development proposal for TA 445, and that the Trust be authorised to raise up to a maximum of \$2.5 million by way of first mortgage secured against the Town Acre proposer and up to a maximum of \$1 million by way of a public bond issue.

THAT the mortgage bonds and other borrowings outstanding at any one point in time total no more than \$3.25million at any one time.

AND THAT the capital expenditure does not exceed the amounts detailed in the proposal.

AND THAT it does not proceed with any stage of the development until the total funds required to finance that stage are in hand.

AND THAT it reports to the Chief Financial Officers of the two Councils on a three monthly basis during the development of the site.

In January 2004, the development costs were reviewed by the two Councils CFO's with Board Trustee Robin Whalley and Chief Executive Wayne Marriott. The development costs were at \$5,536,235 compared to the original figure of \$4,520,000 with building costs reported to be increasing at 1% per month. This presented the Trust with the dilemma of a shortfall in funding, leading to a delay in commencement date (and the domino effect).

The Councils adopted the following recommendations:

THAT the resolution read that the capital expenditure does not exceed the amount of \$5,536,235.

AND THAT an additional grant to the Tasman Bays Heritage Trust of \$600,000 be provided in the 2004/5 Draft Long Term Council Community Plan (LTCCP).

AND THAT the 2004/5 Draft LTCCP provide for a short term loan for a period of up to three years, up to a maximum of \$1.5 million. (a financial review led to an extension to 30 June 2012, by Council resolution)

AND THAT the Council provide for an increase of \$100,000 in its annual funding to the Museum in the 2004/5 Draft LTCCP.

Following the Council decision, the Trust transferred the first mortgage agreement to the Nelson Building Society (NBS) with a loan facility up to \$2.7 million and the development of TA 445 commenced with the launch and opening in October 2005.

In 2006, the Councils adopted a variation to the Memorandum of Understanding. The staffing structure was re-organised with a reduction in staff hours and some redundancies.

2007-10, operational funding has increased annually in line with CPI and the Trust's financial management and annual accounts have received an unqualified opinion from Audit NZ.

In 2009, the Trust established an Audit & Risk Management Advisory Committee and this has led the Trust Board to adopt good practise regarding the NBS loan.

- The Trust adopted a parking arrangement whereby tagged funds are placed on reserve (with a redraw facility at 0.25%) this reduces interest charged on the loan.
- \$1.5 million was placed on a principal and interest repayment term (at fixed interest). This loan stands at \$1,408,755 (11.2010).
- \$1.0 million remains on interest only at the 90 day bill rate plus margin (currently 3.18% + 4.5%). This loan stands at \$960,000 (11.2010).
- The Trust Board has budgeted for the interest rates to increase in the second half of this financial year.

The Trust debt management is a long term plan. At the current level of repayment the Trust will be free and clear of the NBS first mortgage in 2030.

Given this, the Trust Board wishes to discuss the Nelson City Council call on the unsecured loan of \$1.2 million that has a due date of 30 June 2012.