

Report No:	RCS12-05-06
File No:	
Date:	22 May 2012
Decision Required	

REPORT SUMMARY

Report to: Community Services Committee
Meeting Date: 31 May 2012
Report Author: Lloyd Kennedy, Community Services Manager
Subject: **Council Cottages – Aotea Flats, Richmond**

EXECUTIVE SUMMARY

To update Councillors on the costs of buying land and building four new flats in Hill Street and to consider whether it is necessary to raise a loan to cover the shortfall.

RECOMMENDATION/S

- 1 That this report be received.
- 2 That the Community Services Committee recommend to the Corporate Services Committee that a loan of \$130,000 be raised to offset the net cost of the four new Council cottages and that repayments for such loan be met from the Council cottages closed account.

DRAFT RESOLUTION

THAT the Community Services Committee:

- 1 **Receives the Council Cottages – Aotea Flats, Richmond Report RCS12-05-06; and**
- 2 **Recommends to the Corporate Services Committee that a loan of \$130,000 be raised to offset the net cost of the four new Council cottages and that repayments for such loan be met from the Council cottages closed account.**

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1. PURPOSE

- 1.1 To receive a report updating Councillors on the costs of buying land and building four new flats in Hill Street and to consider whether it is necessary to raise a loan to cover the shortfall.

2. BACKGROUND

- 2.1 In 2009 Council agreed to purchase land next to the existing Aotea Council cottages and to build three new cottages.
- 2.2 Neighbours of the Hill Street cottages offered to sell the back portion of their section as a boundary adjustment. This kept the cost of the land well below normal section value.
- 2.3 The building of three new cottages was tendered on a design and build basis and included the option of building four units, if it was possible to fit four, onto the available land.
- 2.4 The successful tender was for four units which obviously increased the total cost but this meant that the land cost was spread over four units instead of three.
- 2.5 When the tender was accepted Council were advised that there would be a shortfall between the available accumulated funds in the Council cottages account and the final total costs and that, if necessary, a loan would be raised to meet this shortfall.

3. PRESENT SITUATION/MATTERS TO BE CONSIDERED

- 3.1 With the end of the financial year approaching it is necessary to decide on whether the Council cottages closed account carries forward a debit balance or whether a loan is raised to offset the shortfall.

4. FINANCIAL/BUDGETARY CONSIDERATIONS

- 4.1 The shortfall between the total land purchase and building costs and the available accumulated funds is \$130,000.
- 4.2 Should the account be required to carry the debit balance forward it is estimated that it would take up to six years to get the account back into credit.
- 4.3 A loan of \$130,000 would be easily met from the rents received from the four new cottages.

5. OPTIONS

- 5.1 (Option 1) – the current debit balance be carried forward to future financial years with a view to paying it off over a period of six years.
- 5.2 (Option 2) – raise a loan of \$130,000 to be funded from the Council cottages closed account.

6. PROS AND CONS OF OPTIONS

- 6.1 **Option 1** could be achieved however it does reduce the possibility of building up the credit balance to buy further land for more cottages. Carrying a debit balance within this account could also have a significant effect on Council's overall cash reserves.
- 6.2 **Option 2** allows for the build up of the credit balance that can be used to purchase additional land for more cottages. It also has a positive impact on Council's cash reserves.

7. EVALUATION OF OPTIONS

7.1 Option 1:

- Richmond and Motueka have significant waiting lists for Council cottages and Takaka, Brightwater and Wakefield also have a number on their waiting lists.
- Carrying a debit balance forward would reduce the possibility of providing more cottages in any of these towns for a number of years.
- Having limited funds in the account could have a negative impact in the event of some unexpected event eg flooding or fire.
- Carrying a debit balance could have a significant impact on Council's cash reserves.

7.2 Option 2

- Because of the number on the waiting lists, the chance to build up the credit balance for further cottages is very important.
- Raising a further loan does increase Council's loan levels.
- Having a credit balance in this account provides some protection against unexpected events and also has a positive impact on Council's cash reserves.

8. SIGNIFICANCE

8.1 This is not a significant decision according to Council's significance policy.

9. RECOMMENDATION/S

9.1 That this report be received.

9.2 That the Community Services Committee recommend to the Corporate Services Committee that a loan of \$130,000 be raised to offset the net cost of the four new Council cottages and that repayments for such loan be met from the Council cottages closed account.

10. TIMELINE/NEXT STEPS

- 10.1 That the recommendation, if adopted, be referred to the next meeting of the Corporate Services Committee to be held on 27 June 2012.

11. DRAFT RESOLUTION

THAT the Community Services Committee:

- 1 Receives the Council Cottages – Aotea Flats, Richmond Report RCS12-05-06; and**
- 2 Recommends to the Corporate Services Committee that a loan of \$130,000 be raised to offset the net cost of the four new Council cottages and that repayments for such loan be met from the Council cottages closed account.**

Lloyd Kennedy
Community Services Manager

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