

# **LATE REPORT NO. 1 STRATEGIC COMMITTEE MEETING 14 FEBRUARY 2018**

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## **MANNING VALLEY HOCKEY ASSOCIATION – LOAN EXTENSION**

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Trades**

**File No. / ECM Index**   **S1675**  
**Date of Meeting**        **14 February 2018**

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### **SUMMARY OF REPORT**

This report seeks the approval of Council to increase the loan facility provided to the Manning Valley Hockey Association (MVHA) (by the former the GTCC) from \$600,000 to \$1,039,000 in order to allow for the completion of the 3<sup>rd</sup> hockey field.

### **SUMMARY OF RECOMMENDATION**

That Council approve the MVHA's request subject to:

1.     The MVHA providing the past 3 years audited financial records, a business plan and a multi-year budget so as to assess their financial capability to service loan repayments and meet the ongoing operational and capital expenses of the facility.
2.     An appropriate agreement being drafted and signed by both parties that formally outlines the obligations of the MVHA in respect of meeting the required repayments and the actions that may be taken by Council if the MVHA is no longer able to meet its obligations.
3.     The Mayor and Acting General Manager are satisfied that the financial assessment demonstrates that the MVHA have the financial capacity to meet the repayments associated with the increased loan facility.

### **FINANCIAL/RESOURCE IMPLICATIONS**

Financial implications in relation to the proposal are set out in the body of the report.

### **LEGAL IMPLICATIONS**

It will be necessary for Council and the MVHA to enter into an agreement that addresses the obligations of the MVHA in respect of meeting the required repayments and the actions that Council may take in the circumstances that the MVHA is no longer able to meet its obligations.

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### **BACKGROUND**

The MVHA was successful in obtaining grant funding for the construction of a 3<sup>rd</sup> synthetic hockey field and an extension of the existing clubhouse facility which is also now occupied by the Manning Valley Cycling Club (MVCC).

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The project is funded from a number of sources including:

- a grant from the Federal Government under the Community Development Grants Program (\$780,000 to the MVHA)
- a grant from the State Government under the Community Building Partnership program (\$75,000 to the MVCC). It should be noted that the MVCC has also contributed an amount (\$6,763) towards approved variations to the building contract.
- a loan facility from the former Greater Taree City Council for a maximum amount of \$600,000 to the MVHA.

The total funding available for the project was set down at \$1,461,763 with these funds being drawn down as required.

Late last year, it became apparent that there were insufficient funds available to complete the project. This was essentially because of two unplanned costs:

1. The subsurface foundation material for the field was not considered suitable. It should be noted that although the design of the field factored in the kind of material encountered, it did not consider the quantum required to be removed. This incurred an additional cost of \$235,711.
2. The other cost can be attributed to a MVHA initiated scope change for the clubhouse extension. The original estimate for the building was in the order of \$250,000 to \$300,000. The successful tender was awarded for \$411,750. Several client variations were also made which make up the remainder of the expense. These details are provided in **Attachment A**.

At this point in time, there is a shortfall in funding of \$439,000 to complete the project. The majority of this funding is required to lay the synthetic surface on top of the 3<sup>rd</sup> field. It should be noted that the synthetic surface required to complete the 3<sup>rd</sup> hockey field has not been ordered by Council given the identified funding shortfall.

The MVHA have now formerly requested that MidCoast Council extend the loan facility previously approved by Greater Taree City Council by the amount required to complete the project (\$439,000).

#### **DISCUSSION**

The former Greater Taree City Council agreed to utilise its borrowing capacity on behalf of the MVHA to provide \$600,000 towards the project. The letter of approval provided to the MVHA contained the following terms:

*"Greater Taree City Council (GTCC) has agreed to provide \$600,000 to the MVHA for partner funding for a new hockey field and clubhouse extensions.*

*The funds will be sourced through Council's borrowing facility and will be repaid by MVHA through a lease agreement for a period of up to 20 years at \$4,000 per month. Council will treat this arrangement as a pass through of payments to our lenders and make no financial gain on the transaction.*

*Council recognises that we are underwriting the loan to MVHA but are pleased to do so given their outstanding record, longevity and financial management."*

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Based on the monthly rental and the maximum period of the lease agreement this would see MVHA repay a total of \$960,000 with an interest rate on the borrowings of 5.12%.

Due to the funding shortfall outlined above the MVHA have now requested that Council consider increasing that loan facility to \$1,039,000. In line with the original agreement the MVHA would be required to make monthly lease payments that equal the loan repayments that Council will be required to make on the increased amount.

It is important to note that interest rates have decreased since the original approval / agreement. To this end, Council borrowed funds from TCorp in June 2017 at approximately 3.00%. While rates have increased from this level they are still lower than the level in 2016 and this decrease assists the MVHA in being able to service a larger loan for a similar period.

As an indication the monthly repayments on a \$1,039,000 loan for a 20 year period at an interest rate of 3.00% is \$5,762 and the total amount repaid including principal and interest is \$1,382,944.57. The repayments for an interest rate of 3.50% are \$6,025 with the total sum repaid \$1,446,187.55.

A second repayment option also exists should Council approve the extension of the loan facility. In this instance Council could borrow and repay the funds over a 10 year period but allow the MVHA to make payments over a 20 year period. This potentially benefits the MVHA in that the total amount that they would be required to repay is less and essentially represents a discount on the interest rate at which they are getting the funds.

To illustrate this option using 3.00% as the interest rate, Council would borrow the \$1,039,000 over a 10 year period. Total interest payable over the life of the loan would be \$167,493.29 which means that the MVHA would repay to Council \$1,206,493.29 by way of monthly instalments of \$5,027.05. The effective interest rate to MVHA over the life of the repayments would be 1.53%.

Under this option Council's operational budget would be subsidising the MVHA in that Council's quarterly repayments would be \$30,162.33 while the quarterly payments made by the MVHA would only amount to \$15,081.15.

These options are summarised in the table below for a loan of \$1,039,000:

Options Available	Council Loan Term	MVHA Repayment Term	Interest Rate payable by MVHA	Monthly Repayment	Total Repayment
1 – Standard TCorp Loan (pass through of costs)	20 yrs	20 yrs	3.5%*	\$6,025	<b>\$1,446,187.55</b>
	20 yrs	20 yrs	3%*	\$5,762	<b>\$1,382,944.57</b>
2 – Council Subsidised Loan	10 yrs	20 yrs	1.53% (based on Council paying 3% interest)	\$5,027	<b>\$1,206,493.29</b>

\*THE INTEREST RATES SHOWN ARE TO BE USED AS EXAMPLES ONLY

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Should Council be of a mind to approve the request by the MVHA for additional borrowings it should also be satisfied that the MVHA has the financial capacity over the longer term to meet this increased commitment. To facilitate that assessment the MVHA should provide Council with previous financial statements (preferably the last 3 years of audited financials) and a medium to long term business plan / financial plan which outlines the anticipated revenues and expenses (both operating and capital) of the Association.

#### **CONSULTATION**

Several meetings have been held between the MVHA Executive and Council staff to identify options to complete the project.

#### **COMMUNITY IMPACTS**

The Project will serve to enhance a community facility for both local residents and visitors. Upon completion the facility will also deliver a significant positive impact to the local economy through the hosting of tournaments that bring visitors who inject significant funds into the local economy.

#### **ALIGNMENT WITH COMMUNITY PLAN/OPERATIONAL PLAN**

This project aligns with the current MCC Operational Plan and assists with the delivery of Community Spaces, Recreation and Trades objectives.

#### **TIMEFRAME**

It is anticipated that the project will be completed by the end of March 2018.

#### **BUDGET IMPLICATIONS**

The current budget includes Council borrowing the initial \$600,000 during the current financial year. Repayments would commence during the 2018/2019 financial year and be matched by a revenue stream from the MVHA.

The request for an extension of the loan facility has the same impact on the operational budget. It should be noted however that it does increase the total borrowings of Council and this in turn increases the debt ratios of Council. It should be noted that Council's ratios are within industry benchmarks indicating that it does have the capacity to extend the loan facility as requested.

#### **RISK CONSIDERATION**

The major risk should Council agree to the request to extend the loan facility is that the MVHA will be unable, at a point in the future, to service the loan repayments. This would have an impact on Council's operating budget as it would be necessary to re-prioritise Council's operating budget to meet those repayments.

However should Council choose not to extend the loan facility there are also a number of public reputational risks that arise from having a partially completed sporting facility.

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**RECOMMENDATION**

That Council approves the Manning Valley Hockey Associations request to increase its loan facility from \$600,000 to \$1,039,000 in order to allow for the completion of the 3<sup>rd</sup> hockey field subject to:

- a) The Manning Valley Hockey Association providing the past 3 years audited financial records, a business plan and a multi-year budget so as to assess their financial capability to service loan repayments and meet the ongoing operational and capital expenses of the facility.
- b) An appropriate agreement being drafted and signed by both parties that formally outlines the obligations of the Manning Valley Hockey Association in respect of meeting the required repayments and the actions that may be taken by Council if the Manning Valley Hockey Association is no longer able to meet its obligations.
- c) The Mayor and Acting General Manager being satisfied that the financial assessment demonstrates that the MVHA have the financial capacity to meet the repayments associated with the increased loan facility.

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## ANNEXURES

### A. Project Cost Register

#### MVHA - Project Cost Register

<b>Funding</b>			
MVCC	CBP Grant	\$75,000	
MVCC	Variation Contribution	\$6,763	
MVHA	Council Loan	\$600,000	
MVHA	Grant	\$780,000	
			\$1,461,763
<b>MVHA</b>			
<b>3rd Field</b>			
	Contract amount	\$826,618	
Variation No.1	Top soil removal	\$229,466	
Variation No.2	Latent condition	\$6,245	
S&I Synthetic surface		\$397,215	
			3rd Field Total (A) \$1,459,544
<b>Building</b>			
	Contract Amount	\$421,750	
Variation No.1	Concrete slabs	\$2,500	
Variation No.2	Piers & footings	\$4,840	
Variation No.3	Hotwater Supply	\$1,560	
Variation No.4	Coor Drilling	\$300	
Variation No.5	External Concrete & Pit	\$3,300	
Variation No.6	New Storm water line	\$2,000	
Variation No.7	Water Proofing wall	\$1,000	
Variation No.8	Upstairs cornice lining	\$540	
Variation No.9	Electrical	\$3,283	
			Building Total (B) \$441,073
<b>Balances</b>			
	<b>Funding</b>		\$1,461,763
	<b>Contracts &amp; Variations</b>		\$1,900,617
	<b>Additional Funding Required</b>		-\$438,854