

Mangawhai Museum Loans – July 2022

Meeting: Kaipara District Council
Date of meeting: 27 July 2022
Reporting officer: Graeme Coleman, Finance & Risk Manager

Purpose | Ngā whāinga

To seek authority to reset the terms and conditions on two loans made to the Mangawhai Museum in 2014 that are due for full repayment in October and December 2022.

Executive summary | Whakarāpopototanga

Mangawhai Museum have two loans that were advanced to them in 2014 that are due for repayment later in 2022. The Museum have written to Council advising that they are not in a position to be able repay the loans in full when they fall due and have requested that Council forgive the debt. Subsequent to discussions held with councillors at the July 2022 briefing it is recommended that the loans be reset but as table loans (interest and principal repayment) over the life of the recently renewed Licence to Occupy the Museum has over the Council land that the building sits on.

Recommendation | Ngā tūtohunga

That Kaipara District Council:

- a) Agree the following options be offered to the Mangawhai Museum as loan repayment options:
 - 1) Resetting both loans as table loans (interest and principal repayments) from the date they currently mature with the following terms and conditions:
 - term of 30 years
 - interest rate set at Council's average cost of funds reset annually (currently 4.4% as at 30 June 2022)
 - repayments half yearly.
 - 2) Council becomes a guarantor of a loan, if Mangawhai Museum refinance the loans through a different provider.
- b) Notes that only one option provided for in a) can be chosen by Mangawhai Museum
- c) Delegates authority for the Chief Executive to finalise the final loan repayment agreement.

Context | Horopaki

In 2014 Council made two advances to Mangawhai Museum of \$50,000 each for the development of the new facility. The details of the two loans are shown in the following table:

Loan	Issue Date	Maturity Date	Amount
Loan 1	31 March 2014	7 October 2022	\$50,000
Loan 2	18 December 2014	22 December 2022	\$50,000

Both loans are interest only so no principal has been repaid over the life of the loans and both are due for repayment later this year. The interest rate has been set at Council annual internal rate of borrowing at an average cost per year of \$4,500 to \$6,000 over the last 10 years.

Discussion | Ngā kōrerorero

The Mangawhai Museum Board have written to Council seeking forgiveness of two loans advanced in 2014 totalling \$100,000. The Museum Board have set out their reasoning for the forgiveness in their letter (Attachment A).

The only other Council loans to third parties is a \$15,000 loan to the Hakaru Community Hall & Domain Society Incorporate. This loan is currently considered doubtful and is included in the provision for doubtful debts in Council's balance sheet.

Council does not have a policy on providing loans to community organisations, such a policy would set out the conditions under which Council may offer loan funding and on what terms and conditions. This is something that Council could ask the policy team to investigate and report back separately. In the meantime, the following possible options are available to Council:

1. Renew the loans as a table loan:

Council has recently put in place a new Licence to Occupy (LTO) agreement with the Mangawhai Museum that expires in 2057 or 35 years.

In recognising the tenure this option is:

- to offer the Mangawhai Museum the option of resetting both loans as a table loan (interest and principal) with a term of 30 years.
- the interest rate will be set at Council's average cost of funds reset annually (currently 4.4% as at 30 June 2022)
- repayments half yearly
- A \$100,000 loan with a term of 30 years at 4.4% and two payments per year would cost \$6,107 per annum (a term of 35 years would result in repayments of \$5,700 per annum at 4.4%)
- If the Mangawhai Museum choose to refinance the loans through a different provider Council would, instead of the above offer would act as a guarantor

2. Renew the loans as interest only loans:

Council could renew the loans as interest only with the interest rate set at council's annual average cost of borrowing for a term of two years while a formal policy is developed on the provision of loan funding by Council to community organisations.

3. Forgive the loans:

Council could forgive the loans. Writing them off could however create a precedent for other community organisations seeking loan funding from Council.

4. Enforce the loans:

Council could decline to forgive or renew the loans therefore requiring the Museum to repay the loans on the due dates but as they Board has explained they do not have sufficient funding so in all likelihood would default. It would not be Council's best interest put the Museum into a situation of financial hardship.

Affordability

Attached are the Museum's financial statements to 31 March 2022 (Attachment B). They show that the Museum made a small surplus in 2021 of \$796 but a loss in 2022 of \$11,984.

Over the last 10 years of interest only payments the Museum has paid on average \$4,500 to \$6,500 per year.

The following table shows the cost sensitivity of the annual interest rate changing each year for a \$100,000 table loan with two repayments per year over either a 30 or 35 year term:

Term	Interest Rate	Annual Repayments (Interest & Principal)
30 years	4.4%	\$6,035.55
30 years	5.0%	\$6,470.68
30 years	5.5%	\$6,844.00
30 years	6.0%	\$7,226.59
35 years	4.4%	\$5,626.53
35 years	5.0%	\$6,079.42
35 years	5.5%	\$6,468.44
35 years	6.0%	\$6,867.33

For either term the annual repayments are not too different from those of the interest only repayments that the Museum have been making for the last 10 years. The recommended option above is option 1 with a 30-year term. The 30-year term is recommended over the 35-year term of the LTO as 35-year term loan are very uncommon.

Significance and engagement | Hirahira me ngā whakapāpā

The decisions or matters of this report do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via agenda on the website.

Next steps | E whaiake nei

Advise the Mangawhai Museum of Council's decision and implement as required.

Attachments | Ngā tapiritanga

	Title
A	Mangawhai Museum loan forgiveness request.pdf
B	MMHS Financial Report 2022 FINAL SIGNED.pdf