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**MARLBOROUGH  
DISTRICT COUNCIL**

1 March 2016

Record No: 1634764  
File Ref: D050-001-02  
Ask For: Mike Porter

## **Notice of An Extraordinary Council Meeting – Monday, 7 March 2016**

Pursuant to clause 22, schedule 7 of the Local Government Act 2002, an Extraordinary Council Meeting will be held in the Council Chambers, 15 Seymour Street, Blenheim on **Monday, 7 March 2016 to commence at 9.00 am.**

### **B U S I N E S S**

As per the Order Paper attached.

MARK WHEELER  
CHIEF EXECUTIVE

## **Marlborough District Council**

**Order Paper for the EXTRAORDINARY COUNCIL MEETING  
to be held in the Council Chambers, 15 Seymour Street, Blenheim  
on MONDAY, 7 MARCH 2016 commencing at 9.00 am**

### **Open Meeting**

1. ASB Theatre Funding

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# 1. ASB Theatre Funding

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(Mayor) (Report prepared by M Wheeler)

C600-005-C01-01

## Purpose

1. The ASB Theatre Trust has a cash flow issue, notwithstanding a successful fundraising campaign, and seeks Council support by way of additional guarantee to enable it to meet its contractual obligations.

## Background

2. Council made decisions over the last decade supporting the construction of a new civic theatre. There have been many challenges including a significant increase in forecast construction costs following the Christchurch earthquakes and consequent engineering requirements.
3. In June 2012, Council provided a guarantee of \$2.750 million to enable the Theatre construction to be tendered and a contract awarded. The Marlborough Civic Theatre Trust ("Trust") awarded the construction contract to local company Robinson Construction Ltd in late 2012 with construction commencing in February 2013.
4. The project was to be originally funded by a Council grant of \$5 million, property sale of \$6 million, fundraising of \$6 million and grant funding from Government of \$4 million.
5. In 2015 the Trust lodged an application to the Significant Projects Fund for \$3.1 million. Owing to the timing of the Lottery Grants Board decisions Council approved an increase of \$850,000 to the loan guarantees in April 2015 taking total guarantees to \$3.6 million. This increased guarantee enabled the Trust to continue to meet the contract obligations in relation to the construction of the Theatre.
6. The total Council loan guarantee is \$3.6 million (ASB \$3.1 million and The Canterbury Community Trust \$500,000). The guarantees are contingent liabilities only called upon if the Theatre Trust cannot repay its loans when they become due.
7. The ASB guarantees would not have been required in the event that the Trust's funding application to the Lotteries Grant Board was successful. Unfortunately the application was unsuccessful and the Trust did have to borrow the funds from the ASB, relying on Council's Guarantee. Council was advised of the Lotteries decision following its announcement last year.
8. The Trust has been actively fundraising. An additional \$1.561 million has been raised since that guarantee approval through pledges, grants and gifts (including a concert piano worth \$250,000). This is a significant achievement. Unfortunately Government support has still not been obtained. Further efforts have been made to secure Government support for the project and it is still possible that support may be forthcoming. It has not been budgeted.
9. In December 2015 significant construction contract variations were claimed. It had previously been reported to the Project Control Group that there would not be any significant variations based on quantity surveyor work and a value management process. Therefore this claim was an unpleasant shock to the Trust. Variations claimed total \$722,000 and are a major contribution to the cash flow issue the Trust now faces. The engineer to the contract is establishing the justification for the claimed variations but we expect they will largely be approved.
10. The additional funds raised are predominantly pledges. These pledges are payable over several years thus are not all immediately available to meet short term cash flow requirements. As of 31 January pledges of \$1.77 million are still receivable. \$1.3 million of the pledges relate to three entities (including the ASB), mostly payable in instalments over a 3, 5 or 10 year period

depending on the size and nature of the pledge. This gives us a high degree of confidence in the future pledge income.

11. The Trust had anticipated that the Canterbury Community Trust loan scheme would provide the loan finance in relation to the pledges but this fund was inundated with requests when it opened and the Trust, as a past recipient, was declined in October 2015.
12. The Trust recently requested further funding from the ASB (\$1.5 million) to be met by the pledges as they are received. Unfortunately the ASB, while happy to provide the loan, has requested that it also be secured by Council guarantee. This advice was received last Friday 19 February and was unexpected given the indications received that the financing arrangements could be achieved.
13. As a result of this decision the Trust is in a position where it requires bridging finance to meet the commitments it has entered into, even though it has secured the monies to meet its contracted obligations through loans and pledges. On Tuesday night 23 February the Trust met and agreed it had no choice but to request Councils additional guarantee of \$1.5 million. A formal request from the Trust was received on Thursday (attached).

### **Construction Project Funding**

14. Appendix One provides the latest project financing information for the construction of the Civic Theatre. It excludes operating requirements.
15. This shows a small surplus of funds from the construction project of \$66,023 once all pledges are received. It should be highlighted that further fit-out of the Theatre is required over the coming year to provide for its full functionality, eg kitchen fit-out and studio theatre to meet its potential to host conventions. We have not budgeted for the capital cost of these facilities nor any revenue from them. As construction is nearing completion there is now a high level of confidence in the construction costs to provide an effective functional theatre including variations.
16. The Theatre will be in operation from March, although some less immediately essential aspects of the construction will be incomplete. A formal opening is planned for May at which time the construction project will be complete (albeit without the kitchen or studio theatre). The capital costs estimate does not include these additional facilities.

### **Cash Flow Budgets**

17. It is important to note that \$20 million has already been spent out of a total construction capital cost estimate to \$23 million. To default on contract payments now could put all that work and the funding provided at risk with nothing to show except an incomplete Theatre. The Trust's pledge income would be applied to interest payments and eventually Council would be required to honour its guarantees, ie; make loan and interest repayments, without any of the positive community benefits the Theatre undoubtedly would provide.
18. Attached (Appendix Two) is a cash flow forecast, through to 30 June 2017, incorporating the latest information on fundraising, construction costs, operating costs and projected interest costs on the Trust's borrowings. Fundraising continues to be a focus of the Trust but only currently committed pledges are included in the cash flow budget.
19. Operating revenues and costs have been reviewed based on current bookings only with a small allowance only for future bookings. In the year July 2016 to June 2017 there are 189 days currently booked. There is every chance further bookings will be made and accordingly it is expected that the operating projections are reliable and conservative. A working capital provision of \$200,000 is also budgeted.
20. For the year to date to 31 January 2016 the Trust has incurred an operating deficit of \$250,000 which it has also had to fund. Presently, until the Theatre opens and is fully operational, the Trust is incurring a deficit of \$50,000 per month which is the cost of operation while receiving

little revenue from operations or its previous rental income. We have included these deficits in the cash flow forecast.

21. Interest cost projections are based on the current ASB borrowing rate applicable to a Council-guaranteed facility. The facility in place with ASB is interest-only at present and accordingly no allowance has been made for principal repayment which is likely to be outside the Trust's financial capability at present. There remains a possibility that Central Government will assist the Trust. ASB loan principal is not payable until late 2019 (four years from first draw down). Provision for Canterbury Community Trust interest and principal repayments has been made.
22. The cash flow budget shows that:
  - a) A cash deficit will be evident by the end of March 2016 and will reach \$1.48 million by the end of April 2016.
  - b) The cash deficit peaks in June 2016 at \$1.5 million but remains \$1.49 million by June 2017.
  - c) As at 31 January 2016 there are committed pledges outstanding of approximately \$1.8 million; as at 30 June 2017 remaining pledges are expected to total \$1 million.
  - d) The existing ASB and Canterbury Community Trust loan balances at 30 June 2017 will total \$3.53 million. Interest on the new \$1.5 million loan (if approved) is shown at the bottom of the spreadsheet. Assuming an overall interest rate of 4.5% on ongoing annual interest cost of \$220,000 would be incurred.
  - e) The operating deficit (operations only, no capital, depreciation nor interest) for year ended 30 June 2017 is forecast at \$158,000 ie; it is less than Council's ongoing grant of \$200,000.
23. Given this budget, a \$1.5 million additional borrowing facility is needed and can be obtained from the ASB with Council's guarantee.
24. The Trust needs to have funding in place by the end of March to continue to fund both construction progress payments to completion and the on-going operation of the Theatre.
25. The Trust has been working extremely hard to secure funding and financing arrangements to complete the Theatre without resorting to further Council support. Unfortunately all alternative avenues have not yielded a satisfactory outcome for the Trust. The extent of community support evident from the fundraising commitments has been exceptional and indicates the community is excited about the new Theatre. However, to enable the community to enjoy the new facility, its completion and opening does require further Council support.

## Summary

26. Although the Trust continues to work hard to attract more funds there is no short term alternative which will ensure the Theatre is completed and opened, other than Council supporting the Trust with its cash flow problem, by providing an additional loan guarantee of \$1.5 million. The terms of the current \$3.1 million facility provide a four year principal repayment holiday.
27. If Council does not approve this further guarantee the Trust will be unable to make payments to its contractors (and in turn subcontractors) at the end of March. Work will stop, the Theatre will remain unfinished and probably not operational. \$20 million out of a total project capital cost of \$23 million will have been wasted. Significant grants and pledges already made will have been ineffectual and there will be demands for their repayment. Council's guarantees to the ASB Bank and Canterbury Community Trust will ultimately be called on to repay loans totalling \$3.6 million.

28. Alternatively if the additional \$1.5 million guarantee is provided the Theatre can operate and provide the community benefits expected.
29. Operating revenue and Council's operating grant are estimated to cover operating costs and most of the Canterbury Community Trust principal repayment (\$50,000 per annum).
30. Ongoing interest payments of an estimated \$220,000 (assuming no principal repayment and current interest rates of 4.5%) will still require funding from 1 July 2017 and ASB Loan principal (\$4.6 million) will require repayment or refinancing late 2019. By that time Theatre Fundraising will have continued and its operating position will be much clearer.
31. Major projects of this kind usually challenge the communities in which they are undertaken. This project is no exception. The pressures that Council now need to deal with have come from causes such as the additional engineering demands brought about by the Christchurch earthquakes and also, the absence so far of significant Government assistance. The Theatre is a very significant addition to the cultural and wider economic welfare of this region. Council needs to take long-term views.

### **RECOMMENDED**

**That Council guarantee an additional \$1.5 million ASB loan facility on terms and conditions equivalent to the current \$3.1 million guarantee.**

# Civic Theatre Financial Report

## Appendix One

As at 31-Jan-16

Capital Expenditure	Budget	Funding	Budget	Received	Variance
Construction	16,831,295	Public	6,250,312	4,474,105	1,776,207
Fees	3,756,537	Council	5,000,000	5,000,000	0
Theatrical Services	1,500,000	Property Sales	6,000,000	6,000,000	0
Stage Lift	250,000	Community Facilities Fund	833,000	833,000	0
Variations (as advised TMCo report)	722,020	Significant Activities Fund	500,000	500,000	0
<b>Total Budget</b>	<b>23,059,852</b>	Interest	117,065	117,065	0
		CCT Loan	500,000	500,000	0
			<b>19,200,377</b>	<b>17,424,170</b>	<b>1,776,207</b>

### Spent To Date

Construction	15,046,596
Fees	3,840,617
Theatrical Services	977,598

### Note

Public funding includes all new pledges as at 31/1/16

Stage Lift	182,932
<b>20,047,743</b>	

**Remaining Expenditure 3,012,109**

Funding To be Received **1,776,207**

**Finance Required 1,235,901**

Bank Accounts as at 31/1/16	686,071
Net Current Accounts	-174,146
Finance ASB Remaining	<u>790,000</u>
Total	1,301,924

**Net Funding Position 66,023**

ASB Finance	
Facility	3,100,000
Drawn	2,310,000
Balance	790,000

Marlborough Civic Theatre																		Appendix Two			
Cashflow Forecast through to 30 June 2017																					
	2016									2017											
	To Date	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total Movement	Outstanding	Total
<b>Operations</b>																					
Pledges and Grants from Fund Raising	4,474,105	39,954	238,998	35,131	159,781	29,781	58,031	6,281	15,481	16,231	38,975	36,509	6,859	8,259	24,459	2,509	55,592	4,259	777,088	999,119	6,250,312
Operating Grant MDC		0	0	0	0	0	200,000	0	0	0	0	0	0	0	0	0	0	0	200,000		
Operating Income		47,600	197,459	138,446	297,683	123,671	94,760	269,974	160,993	256,293	188,333	143,408	55,303	119,558	180,668	220,703	227,378	194,818	2,917,041		
Cost of Sales		20,357	120,150	87,781	154,679	59,128	34,349	136,167	70,505	111,565	86,295	70,805	22,090	66,005	75,485	111,885	121,655	82,055	1,430,956		
Operating costs		95,310	99,888	90,256	98,629	87,319	158,387	108,038	94,618	107,379	81,599	101,549	126,842	108,355	91,542	101,342	98,742	102,892	1,752,688		
<b>Net Cashflow on Operations</b>		<b>-28,113</b>	<b>216,419</b>	<b>-4,461</b>	<b>204,156</b>	<b>7,005</b>	<b>160,055</b>	<b>32,049</b>	<b>11,351</b>	<b>53,579</b>	<b>59,414</b>	<b>7,562</b>	<b>-86,771</b>	<b>-46,543</b>	<b>38,099</b>	<b>9,984</b>	<b>62,572</b>	<b>14,129</b>	<b>710,486</b>		
<b>Financing</b>																					
Interest (ASB Loan and CCT)		12,955	12,955	12,955	12,955	12,955	12,955	12,955	12,955	12,955	12,955	12,955	12,955	12,955	12,955	12,955	12,955	12,955	12,955	220,235	
Principal Repayment CCT		4,175	4,261	4,199	4,244	4,218	4,265	4,240	4,251	4,297	4,273	4,318	4,294	4,305	4,416	4,228	4,371	4,350	72,705		
Principal Drawdown ASB	2,310,000	790,000																			3,100,000
<b>Net Cashflow from Financing</b>		<b>772,870</b>	<b>-17,216</b>	<b>-17,154</b>	<b>-17,199</b>	<b>-17,173</b>	<b>-17,220</b>	<b>-17,195</b>	<b>-17,206</b>	<b>-17,252</b>	<b>-17,228</b>	<b>-17,273</b>	<b>-17,249</b>	<b>-17,260</b>	<b>-17,371</b>	<b>-17,183</b>	<b>-17,326</b>	<b>-17,305</b>	<b>497,060</b>		
<b>Capital Expenditure</b>																					
Construction Contract	20,047,743	728,269	1,061,201	922,639	100,000	100,000	0	0	0	0	0	0	0	0	0	0	100,000	0	3,012,109		23,059,852
<b>Net Movement in Cashflows</b>		<b>16,489</b>	<b>-861,998</b>	<b>-944,254</b>	<b>86,957</b>	<b>-110,168</b>	<b>142,835</b>	<b>14,854</b>	<b>-5,855</b>	<b>36,327</b>	<b>42,186</b>	<b>-9,711</b>	<b>-104,020</b>	<b>-63,804</b>	<b>20,728</b>	<b>-7,199</b>	<b>-54,754</b>	<b>-3,176</b>	<b>-1,804,563</b>		
Plus Opening Bank Balance (net of current Accounts)		511,925	328,413	-533,585	-1,477,838	-1,390,881	-1,501,050	-1,358,215	-1,343,361	-1,349,216	-1,312,889	-1,270,702	-1,280,413	-1,384,434	-1,448,237	-1,427,510	-1,434,709	-1,489,463	511,925		
Less Working Capital Requirement		200,000																	200,000		
<b>Closing Bank Balance</b>		<b>328,413</b>	<b>-533,585</b>	<b>-1,477,838</b>	<b>-1,390,881</b>	<b>-1,501,050</b>	<b>-1,358,215</b>	<b>-1,343,361</b>	<b>-1,349,216</b>	<b>-1,312,889</b>	<b>-1,270,702</b>	<b>-1,280,413</b>	<b>-1,384,434</b>	<b>-1,448,237</b>	<b>-1,427,510</b>	<b>-1,434,709</b>	<b>-1,489,463</b>	<b>-1,492,639</b>	<b>-1,492,639</b>		
<b>With New \$1.5 million ASB loan guaranteed by Council</b>																					
Principle draw down			600,000	900,000																	1,500,000
Interest (@ 4.5%)			2,250	5,625	5,625	5,625	5,625	5,625	5,625	5,625	5,625	5,625	5,625	5,625	5,625	5,625	5,625	5,625	86,625	4.50%	
Opening Bank Balance			328,413	64,165	14,287	95,619	-20,175	117,035	126,264	114,784	145,486	182,048	166,712	57,066	-12,362	2,740	-10,084	-70,463			
Closing Bank Balance			328,413	64,165	14,287	95,619	-20,175	117,035	126,264	114,784	145,486	182,048	166,712	57,066	-12,362	2,740	-10,084	-70,463	-79,264		



**Appendix Three**



Manages the following  
Performing Arts, Entertainment  
& Event Facilities and Activities:



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Fax 03 578 0667  
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Marlborough Civic Theatre Trust Building,  
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www.tdtasman.co.nz  
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Operates from the  
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*"The mission of the  
Marlborough Civic Theatre Trust  
is to grow a viable and dynamic  
community owned arts and theatre centre  
for the people of Marlborough.  
Providing an environment, in which  
the diversity of skills can be  
nurtured, encouraged and celebrated  
while striving for excellence."*

P.O. Box 163  
Blenheim  
7240  
New Zealand



Only Marlborough



Wednesday 24th February 2016

Mr M S Wheeler  
Chief Executive  
Marlborough District Council

Dear Mark,

As discussed the Theatre Trust has regrettably been unable to secure either government or ASB Bank funding sufficient to cover our short term cash flow requirements.

You have received updated Cash flow and construction budgets which support a requirement for a further \$1.5 million loan.

The ASB Bank has indicated they would lend the Trust this sum if it were guaranteed by Council. They will not agree to a loan secured against pledges alone.

Unfortunately to enable the Trust to complete construction and operate the Theatre in the short term Council is requested to consider urgently the guarantee of a further \$1.5 million ASB loan.

Yours Sincerely

Kevin Moseley  
Chairman  
Marlborough Civic Theatre Trust

Open for business early 2016



Book your dates now.  
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