

Statement of Proposal

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for an Amendment to the Whangarei District Council Long Term Council Community Plan 2009 - 2019

This section of the 2010-2011 Annual Plan document is a Statement of Proposal for an Amendment to Council's Long Term Council Community Plan (LTCCP) 2009-2019.

The Amendment to the 2009-2019 LTCCP has become necessary because Council proposes to make some changes to its property portfolio and to sell some investment property before the next LTCCP is due for consultation. While the properties which it proposes to sell are not considered strategically important, they were vested in Council at the time of the 1989 local government reforms and previously belonged to the Northland Harbour Board and its predecessor, the Whangarei Harbour Board. As these properties are classified as endowment land, Council is required to consult on the proposal to sell prior to amending its LTCCP. Council is taking the opportunity of seeking public input to this proposal at the same time as its consultation on the Draft 2010-2011 Annual Plan.

Should the Amendment be adopted, it is estimated that nine properties will be sold in the 2009-2010 year, valuing approximately \$11.5 million, and a further five sold in the 2010-2011 year, valuing approximately \$8.7 million, with the proceeds applied over time to purchases of investment property more suited to Council's long term needs.

Council will seek the appropriate legal authority to use the proceeds of these sales for the full range of investments and projects undertaken by its property reinvestment reserve fund, otherwise the proceeds will be used only for purposes that are consistent with the original endowment. This is because these properties are endowment land and the Local Government Act 2002 requires that the proceeds of any sale of these properties be

used only in a manner that is consistent with the endowment purpose. However it is open for Council to seek the Minister of Local Government's approval (or other legal authority) to change the original endowment purpose to a more general use. If that approval (or other legal authority) is not obtained, the proceeds may only be used in a manner that is consistent with the original endowment purpose. In accordance with sections 140 and 141 Local Government Act 2002, the Minister of Land Information and the Minister in Charge of Treaty of Waitangi Negotiations have been notified of the proposal.

Background

Council's objective for its property investment portfolio is to acquire and retain a range of properties that will provide a long term source of income and an opportunity for future development that contributes to the economic and social development of the District.

Outcomes from the property portfolio include

- deriving a sustainable income stream
- growing Council's asset base
- facilitating economic development
- facilitating strategic development objectives
- facilitating social and/or community objectives
- encouraging the development of property amenities/destinations.

While the existing property portfolio generates a stable and generally secure return, the nature of the investment - particularly the 'ground leases' where rents are reviewed often only on 20 or 21 year renewal cycles - tends to be very low in actual

cash return. Currently this is estimated at about 4% on the value of the landholdings with which this proposal is concerned.

Council is optimising its commercial property holdings and is focussing on properties of a strategic nature, which generate an acceptable return on investment and support strategic objectives. This approach envisages the only commercial properties Council would retain are those that fit defined strategic or investment criteria.

Where properties do not fall within these parameters they will be considered for sale. Council considers the community will benefit by its adoption of a proactive property strategy and the establishment of a reinvestment fund from the sales of non-strategic investment properties. This will enable the implementation of development projects of benefit to the District which may not otherwise be possible.

Ground lease properties

As outlined in the 2009-2019 LTCCP, Council's property holdings include some 155 'ground lease' properties which are held for investment purposes and managed on a commercial basis.

The properties are leased on perpetually renewable leases commonly known as 'ground leases' which allow each lessee to develop their leased property by constructing their own buildings and using them for commercial and industrial purposes.

These ground leases were granted on various terms but usually for 20 or 21 years, perpetually renewable. Older leases had no periodic rent reviews so that the rent was reviewed only on renewal. The more modern leases have rent reviews on a five or seven-yearly basis.

Many of the lessees of these commercial/industrial properties have advised Council they wish to acquire the freehold title to facilitate the expansion and development of their businesses and to give greater security for bank lending.

Council's 2009-2019 LTCCP does not identify its commercial property holdings (including the 155 ground lease properties) as a strategic asset and at present the rental return on them equates to about a 4% annual cash return on land value.

How Council acquired these properties

This part of Council's commercial property landholding was not acquired as part of a formal land acquisition policy or strategy but as a result of local government restructuring. In 1989 the Northland Harbour Board was dissolved and some of its landholdings were vested in the Whangarei District Council. Parts of the land vested in the District Council were the commercial/industrial areas in the Lower Port Road, Hewlett and Fraser Streets area and along the northern side of Kioreroa Road. These areas had been largely developed from reclaimed land over many years by the Whangarei and Northland Harbour Boards and then let (generally) on perpetually renewable leases allowing the lessees to undertake their own commercial/industrial development. The land was originally endowed upon the Whangarei Harbour Board by the Crown in 1907.

Council has identified a number of properties it owns in Lower Port Road, Fraser Street, Hewlett Street and Kioreroa Road as not being of strategic importance to the District. While these land holdings may have been relevant to the development of Port Whangarei prior to 1989 their ownership by Council is no longer of strategic value, particularly given the closure of Port Whangarei and its relocation at Marsden Point. These areas remain important centres of commercial and industrial activity for the Whangarei region but their location is a matter of historical, not strategic, significance to Council.

Up until now Council has been reluctant to sell properties such as these, primarily because of the lack of any specific need for the capital that such sales would generate; and has preferred to retain

the investment in its existing form as part of a portfolio of investments.

The realisation of the capital held in this part of the investment portfolio will help Council to meet present and future development possibilities without compromising the return on investment currently received – in fact the return on investment should be much improved.

Proceeds of sales – property reinvestment reserve fund

The proceeds of the proposed property sales are to be placed in a property reinvestment reserve fund. This will be a capital fund which over time will be used for the finance and/or purchase and development of land and buildings. However, where money is available in the fund pending future property purchases or development, the funds may be used to offset external debt. Any internal lending of this type would be at interest rates based on Council's Cost of Capital and would be repaid to the property reinvestment reserve within a seven year period, or at the time of future property acquisitions or development if required earlier.

If the appropriate legal authority is obtained, the proceeds from the sale of endowment property will be used for the full range of investments and developments undertaken by the fund. However, if that legal authority is not obtained then the remaining proceeds will only be used from the fund in a manner that is consistent with the original endowment purpose.

Council's revenue and financing and investment policies in the 2009-2019 LTCCP, while generally indicating that commercial property might be sold for debt reduction or for other investments, state that funds received from the sale of investment properties could be used to repay existing debt unless Council specifically directed that the funds be put to another use.

Properties to be sold

Council proposes to sell the following properties over a period of time, provided satisfactory sale agreements are achieved.

1. The properties at **6, 8, 9, 10, 11 and 15 Fraser Street** being Lot 1 DP 110824, Lot 1 DP 78822, Lot 5 DP 348283 and part Lot 15 DP 57216, Lot 1 DP 357603 and Lots 2, 3, 5 and 6 DP 92455.
2. The properties at **4, 5, 6, 8, 10, 14, 17, 19, 23 and 25 Hewlett Street** being Lots 1, 16, 18, 19, 27, 28, 29, 30 and 32 DP 57216, Lot 1 DP 92455 and Lot 1 DP 208370.
3. The properties at **2-4, 18, 36- 50, 58-74 and 86 Kioreroa Road** being Lots 2 and 3 DP 132212, Lot 1 DP 65086, Lot 1 DP 109005, Lot 2 DP 91131 and Lots 2, 3 and 5 DP 96181.
4. The properties at **201, 211 – 219, 239, 241, 243, 245, 253, 255, 257, 259, 261, 267, 269, 271, 273 and 275 Lower Port Road** being Lot 1 DP 55192, Lot 1 DP 32339, Lot 5 DP 417346 and Lots 11 - 14, 18-22 and 25-29 DP 53274.

Council proposes to offer these properties first to the existing lessees, but if satisfactory terms are not negotiated it reserves the right to sell them on the open market, at a price to be determined by Council with the advice of a registered valuer.

Any sales of these properties will follow only if Council resolves, following this Amended LTCCP process, to proceed with them. While it has had expressions of interest from some lessees it will make no decision, and reserves its right not to sell, until it has heard and considered public submissions on this proposal. The particulars of the possible terms of sale and of the commercial parameters to be considered are not provided for reasons of commercial sensitivity.

Assumptions

This proposal will also require amending the assumptions section of the 2009-2019 LTCCP. Shown below is a table that outlines the assumptions made in relation to the proposal. This table will be added to the tables starting on page 183 of the 2009-2019 LTCCP should the proposal proceed.

Assumption	Financial Risk	Impact for High Financial Risk Assumptions	Level of Uncertainty	Financial Impact for assumption with high level of uncertainty
Endowment Land Sale				
Council has assumed the change in use of the endowment properties has legal approval	Medium	Not assessed as high financial risk	Medium	Not assessed as high level of uncertainty
Council is assuming sales of \$10.5 million in year 1 (09/10) and of \$8.7 million in year 2 (10/11) of the LTCCP	High	If the land is not sold this will lead to a delay in the capital works programme which may impact on Levels of Service and/or may impact on debt levels.	Medium	\$10.1 million in capital expenditure and/or debt levels per 50% shortfall in targeted property sales.

Financial Statements

There are financial implications surrounding the proposal to sell endowment land. The following pages demonstrate the impact of the amendment on the budget lines of the following tables:

- Prospective Property Activity Statement
- Prospective Statement of Comprehensive Income
- Prospective Balance Sheet
- Prospective Statement of Cashflows.

A table showing the effect on funding has also been included.

Making a submission on this proposal

Please see page 9 of this Draft Annual Plan document for the ways in which you can make a submission to this proposal.

Changes to the Prospective Property Activity Statement

PROPERTY	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
User Fees*	(24)	(386)	(427)	(253)	(66)					
Total Activity Revenue	(24)	(386)	(427)	(253)	(66)	-	-	-	-	-
Total Activity Expenditure	-	-	-	-	-	-	-	-	-	-
Gain/(Loss) on Sale of Assets	4,599	4,624								
Total Activity Surplus/(Deficit)	4,575	4,238	(427)	(253)	(66)	-	-	-	-	-
Less Capital Expenditure			5,000	10,000	5,230					
Sale Proceeds	11,510	8,720								
Less Gain/(Loss) on Sale of Assets	4,599	4,624								
Total Surplus/(Deficit) to Fund:	11,486	8,334	(5,427)	(10,253)	(5,296)	-	-	-	-	-
Transfer to Reserves	(11,510)	(8,720)								
Transfer From Reserves			5,000	10,000	5,230					
General Rates	24	386	427	253	66					
Total Funding	(11,486)	(8,334)	5,427	10,253	5,296	-	-	-	-	-

* Rental Revenue

Please refer to page 124 of the 2009-19 LTCCP for the original Prospective Property Activity Statement

Whangarei District Council Prospective Statement of Comprehensive Income

FORECAST	YEAR 1 2009/10	YEAR 2 2010/11	YEAR 3 2011/12	YEAR 4 2012/13	YEAR 5 2013/14	YEAR 6 2014/15	YEAR 7 2015/16	YEAR 8 2016/17	YEAR 9 2017/18	YEAR 10 2018/19
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Other Revenue	(24)	(386)	(427)	(253)	(66)	-	-	-	-	-
Other Gains	4,599	4,624	-	-	-	-	-	-	-	-
EXPENDITURE										
Finance Costs	(344)	(960)	(1,105)	(724)	(292)	(145)	(157)	(167)	(192)	(205)
NET SURPLUS/ (DEFICIT) BEFORE APPROPRIATIONS	4,919	5,198	678	471	226	145	157	167	192	205
Transfers (to)/from property reserve	(11,510)	(8,720)	5,000	10,000	5,230					
TOTAL COMPREHENSIVE INCOME	(6,591)	(3,522)	5,678	10,471	5,456	145	157	167	192	205

Please refer to page 199 of the 2009-19 LTCCP for the original Prospective Statement of Comprehensive Income

Changes to the Whangarei District Council Prospective Balance Sheet

FORECAST	YEAR 1 2009/10 \$000	YEAR 2 2010/11 \$000	YEAR 3 2011/12 \$000	YEAR 4 2012/13 \$000	YEAR 5 2013/14 \$000	YEAR 6 2014/15 \$000	YEAR 7 2015/16 \$000	YEAR 8 2016/17 \$000	YEAR 9 2017/18 \$000	YEAR 10 2018/19 \$000
ASSETS										
Non-Current Assets held for sale	4,096	-	-	-	-	-	-	-	-	-
Investment Properties	(11,007)	(11,007)	(6,007)	3,993	9,223	9,223	9,223	9,223	9,223	9,223
TOTAL ASSETS	(6,911)	(11,007)	(6,007)	3,993	9,223	9,223	9,223	9,223	9,223	9,223
LIABILITIES										
Borrowings	(11,830)	(21,124)	(16,802)	(7,273)	(2,269)	(2,414)	(2,571)	(2,738)	(2,930)	(3,135)
TOTAL LIABILITIES	(11,830)	(21,124)	(16,802)	(7,273)	(2,269)	(2,414)	(2,571)	(2,738)	(2,930)	(3,135)
NET ASSETS	4,919	10,117	10,795	11,266	11,492	11,637	11,794	11,961	12,153	12,358
EQUITY										
Retained Earnings	(6,591)	(10,113)	(4,435)	6,036	11,492	11,637	11,794	11,961	12,153	12,358
Reserves and special funds	11,510	20,230	15,230	5,230	-	-	-	-	-	-
TOTAL EQUITY	4,919	10,117	10,795	11,266	11,492	11,637	11,794	11,961	12,153	12,358

Please refer to pages 200 - 201 of the 2009-19 LTCCP for the original Prospective Balance Sheet

Changes to the Whangarei District Council Prospective Statement of Cashflows

FORECAST	YEAR 1 2009/10 \$000	YEAR 2 2010/11 \$000	YEAR 3 2011/12 \$000	YEAR 4 2012/13 \$000	YEAR 5 2013/14 \$000	YEAR 6 2014/15 \$000	YEAR 7 2015/16 \$000	YEAR 8 2016/17 \$000	YEAR 9 2017/18 \$000	YEAR 10 2018/19 \$000
OPERATING ACTIVITIES										
Cash was provided from:										
Rental of property	(24)	(386)	(427)	(253)	(66)	-	-	-	-	-
Cash was applied to:										
Interest on public debt	(344)	(960)	(1,105)	(724)	(292)	(145)	(157)	(167)	(192)	(205)
NET CASH FROM OPERATING ACTIVITIES	320	574	678	471	226	145	157	167	192	205
CASH FLOWS FROM INVESTING ACTIVITIES										
Cash was provided from:										
Proceeds from sale of fixed assets	11,510	8,720	-	-	-	-	-	-	-	-
Cash was applied to:										
Purchase of investments and loans provided	-	-	5,000	10,000	5,230	-	-	-	-	-
NET CASH USED IN INVESTING ACTIVITIES	11,510	8,720	(5,000)	(10,000)	(5,230)	-	-	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES										
Cash was provided from:										
Loan raised	-	-	4,322	9,529	5,004	-	-	-	-	-
Cash was applied to:										
Repayment of public debt	11,830	9,294	-	-	-	145	157	167	192	205
NET CASH USED IN FINANCING ACTIVITIES	(11,830)	(9,294)	4,322	9,529	5,004	(145)	(157)	(167)	(192)	(205)
NET (DECREASE)/INCREASE IN CASH & EQUIV	-									

Please refer to pages 203 - 204 of the 2009-19 LTCCP for the original Prospective Statement of Cashflows

Statement of Proposal

Effect on funding for Whangarei District Council

	YEAR 1 2009/10	YEAR 2 2010/11	YEAR 3 2011/12	YEAR 4 2012/13	YEAR 5 2013/14	YEAR 6 2014/15	YEAR 7 2015/16	YEAR 8 2016/17	YEAR 9 2017/18	YEAR 10 2018/19
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Funding provided from:										
Property Sales	11,510	8,720								
Operating Surplus	320	574	678	471	226	145	157	167	192	205
Debt Increase			4,322	9,529	5,004					
Internal Debt released	11,510	8,720	5,000	10,000	5,230					
Funding Applied to :										
Property Purchase			5,000	10,000	5,230					
Debt Reduction	11,830	9,294				145	157	167	192	205
Internal Debt applied	11,510	8,720	5,000	10,000	5,230					
Net Funds Applied/ (Provided)	-	-	-	-	-	-	-	-	-	-

Office of the Auditor General Opinion

(To be supplied)