



COUNCIL 25. 9. 2014

**FINANCE COMMITTEE  
2 SEPTEMBER 2014**

**A meeting of the Community Committee  
was held in the No. 1 Committee Room  
on 2 September 2014 at 9.05am.**

**PRESENT:** Councillor Raf Manji (Chair)  
Councillors Andrew Turner (Deputy Chair), Jimmy Chen, Vicki Buck, Jamie Gough,  
Yani Johanson, Glenn Livingstone.

**APOLOGIES:** An apology for absence was received and accepted from Councillor Paul  
Lonsdale.

Councillor Buck arrived at 9.45am and was absent for Clauses 1, 2, 3, 6, 7, 8 part  
of clause 4.

The Committee reports that:

**PART A - MATTERS REQUIRING A COUNCIL DECISION**

**1. LEASE ASSIGNMENT – HAGLEY OVAL PAVILION - CANTERBURY CRICKET ASSOCIATION TO  
CANTERBURY CRICKET TRUST**

This item was presented way of a Chairperson’s Report to the 33 September 2014 Council  
meeting.

**2. LEASE EXTENSION EPIC 100 MANCHESTER STREET CHRISTCHURCH**

		Contact	Contact Details
<b>Executive Leadership Team Member responsible:</b>	Chief Planning Officer	N	
<b>Officer responsible:</b>	Property Consultancy Manager	N	
<b>Author:</b>	David Rowland, Property Consultant	Y	941 8053

**1. PURPOSE AND ORIGIN OF REPORT**

1.1 The purpose of this report is to seek a decision from the Council on a response to a  
request from the principals of EPIC Christchurch Ltd (EPIC) seeking an extension of  
seven years to their current which expires on the 7 March 2018.

**2. BACKGROUND**

2.1 The Council on the 28 July 2011 resolved to:

“(a) Approve the use of the Para Rubber site by EPIC Christchurch Ltd on a rent-free  
basis for a period not to exceed 3 years.

a. Para Rubber in this instance refers to all Council owned land comprised in  
Identifiers 510696, 510697, 534837, 534838, 534839 and 22K/1339 having a total  
area of 3757m2 or thereabouts.

(b) Delegate to the General Manager Corporate Services the authority to enter into a  
lease to occupy the Para Site on the terms outlined in this report.

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- (c) *Delegate authority to the Chief Executive of the Christchurch City Council to negotiate an Memorandum of Understanding with EPIC regarding working collaboratively to investigate the feasibility of developing the permanent Sigma project in the Central City for recommendation to Council.*
  - (d) *That the Council receive updates 6 monthly (or more frequently if necessary) on progress towards achieving the Sigma project in the Central City.*
  - (e) *That this option to lease be available for 6 months and only be entered into upon the Council being satisfied that all funding is in place to allow the development to proceed.”*
- 2.2 Following considerable effort EPIC were able to satisfy all funding conditions and the centre was one of the first new buildings in the city centre. As a requirement of the major funding agency it was necessary under delegated authorities to grant an additional two years to the lease. Any shorter period would have made the EPIC development proposal uneconomic thereby placing the whole EPIC innovation concept in jeopardy.
- 2.3 The lease became effective from the 8 March 2013 following the issuing of the Code Compliance Certificate, and expires on the 7 March 2018.
- 2.4 Most parties that lease space from the EPIC are low entry generally startup companies who embrace the business concept of working from a “Hub or economic Cluster”. There have been many successes and the majority of businesses are successful and continue to experience business growth. In addition the complex has hosted in excess of 200 public events and functions.
- 2.5 EPIC as part of their initial funding and business case made financial provisions that would enable them to pay off the building over the term of the initial lease. This included providing a two year buy back option to the builder over the building as a condition to secure all funding arrangements. To extinguish that option they are required to meet certain conditions in early 2015, namely buying it out.
- 2.6 Should they not exercise that option it is probable that EPIC in its present format may go into liquidation by March 2018. The granting of a lease extension will enable EPIC to restructure its business model and operating structure but importantly not exceed its borrowing covenants with its bank. Present lines of funding would remain. Independent advice, they have obtained, indicates that they would have the ability to retire the debt owing on the building over a seven year period. This also includes financial provision for a “Cancellation Fee” and building maintenance.
- 2.7 The granting of an extension would enable EPIC in a timely manner to undertake a full review of their business case and funding model. At present they operate by charging occupational rents to cover all operating costs but at a level that is regarded as being below market enabling new start up firms to establish in a collaborative work environment without having undue pressure to meet market rent levels.
- 2.8 It is understood that any new business case would factor in many activities that have to date been “Pro Bono”. As a consequence there is likely to be rent increases however they will remain below market and cost competitive reflecting the intent of the EPIC innovation concept. Should that be the case the Council as a condition of the lease should ensure that operating costs are reasonable to reflect the support that the Council has provided to EPIC and or share in any profit that may accrue.
- 2.9 The site is held in six Certificates of Title and comprises at total land area of 3,903 square metres. CERA has designated the site as part of The Southern Frame which includes provision for facilities for health education and innovation.

- 2.10 Parts of the site have been identified for the proposed public realm network to be constructed by the Crown in the South Frame. **Attachment 1** shows the affected areas in green. With the exception of the small strip intersecting the middle of the site, none of the public realm areas are located within the building footprint. At this point in time CERA is not actively seeking to acquire land identified for public realm due to final decisions on the delivery of the South Frame public realm having not yet been made. However those decisions will be made in the near future.
- 2.11 In order to protect CERA's position, the lease should expressly provide for a variation enabling the areas identified for the proposed public realm to be excluded from the leased Premises by notice – the trigger point for the notice being the Crown confirming its requirements for those areas to be developed as public realm.
- 2.12 CERA has advised that it has no requirements for the land that falls outside of the proposed public realm areas. Negotiations with the Crown will be undertaken when they require to protect the proposal as detailed.

3. **LEGAL CONSIDERATIONS**

- 3.1 The present lease does not contain any provisions for renewal and will expire on the 7 March 2018. The parties can, by agreement, vary the lease to reflect any matter they may agree on and if the request for an extension is approved by the Council a variation to the lease is the most effective way forward.

4. **FINANCIAL IMPLICATIONS**

- 4.1 Independent valuation advice has been obtained from Knight Frank Registered Valuers and they comment:

*"We have reviewed the available land sales evidence, and concluded a value as follows:  
3,903 sqm @ \$800 psm = \$3,122,400*

*Say \$3,100,000 plus GST.*

*This assessment is made on an unencumbered freehold basis.*

*The property is leased for a term of 5 years from the date upon which a Code Compliance Certificate was issued, to Epic Christchurch Limited. The rent is a peppercorn amount of \$1 per annum. There is no right of renewal.*

*To arrive at current market value subject to the existing lease, it is necessary to discount the unencumbered value.*

*Assuming three years to run at a discount rate of 6%, this indicates that the current market value of the land, subject to the Epic lease is approximately \$2,600,000."*

- 4.2 Extending the lease for a further seven years will restrict the ability of the Council to dispose of the property after March 2018 as part of any property realisation programme the Council may embark on given our current financial constrains.
- 4.3 Operating costs of just under \$206,000 (primarily rates) have been incurred on this property since purchase. (Rates ceased from June 2011). This is net of car park revenues received 2010 and 2011 of \$87,000.  
Funding: Currently this property is 100 percent debt funded since its original purchase. Interest costs of approximately \$770,000 have been incurred from 1 August 2011 to June 2014. Extending these debt servicing costs till the end of the lease period (7 March 2018) will incur further interest of \$1,160,000 (other costs of ownership are forecast to be minimal with no rates being charged). This lease assistance is effectively a direct subsidy to the project by City Rate payers.

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- 4.4 The property has a book value and original purchase price of \$5,282,527.36. The site was purchased in August 2008 as a vacant lot. General market and influencing factors have changed considerably over the past two to three years since the original purchase and there are now many competing vacant site opportunities in the wider Christchurch commercial market. It is considered however that if the site was offered to the market as a vacant lot there will be considerable interest. By 2018 it is considered that interest will increase in this general locality as it is redeveloped and new buildings and business's establish in the area.
- 4.5 Foregone ground/car park rental is estimated to be \$45-50,000 per annum allowing for management fees.

**5. COMMITTEE CONSIDERATION**

- 5.1 When this item was presented to the Finance Committee at its 2 September 2014 meeting the Committee decided there was insufficient information for it to make a recommendation to the Council. The Committee agreed that the report go directly to the Council meeting on 25 September with further information on the likely impact on rates and a detailed business plan to be provided by staff to the Council.
- 5.2 The Committee also requested that staff investigate whether written consent is required from the Earthquake Recovery Minister and whether the use of this site meets the requirements of the designation.

**6. STAFF RECOMMENDATION**

It is recommended to the Council:

- 6.1 That EPIC Christchurch Ltd be granted a further seven year lease term from the expiry of the their present lease on the 7 March 2018 on the similar terms and conditions but subject to:
- 6.1.1 The ability to withdraw part of the site at any stage enabling the areas identified for the proposed public realm to be excluded from the leased Premises by notice as detailed in clause 2.10 in this report and
- 6.1.2 The new business case and rent structure reflecting the principles of the Council leasing this land to Epic. Namely that the lease to Epic is discounted to a nominal rate so that start up businesses can be similarly financially supported by Epic. Should the financial arrangements alter to the extent that Epic unreasonably profits from the Council's financial support then the Council reserves the rights to revisit that lease arrangement.
- 6.2 To delegate authority to the Property Consultancy Manager to:
- 5.2.1 Negotiate, manage and enter into a lease extension with Epic as set out in this report on terms and conditions satisfactory to his discretion.
- 5.2.2 Negotiate, manage and enter into any and all arrangements necessary to determine the public realm issues associated with the Crown. Included but not limited to any issues arising from the designation and any sale or creation of access rights in any other form.

**(Note:** The Committee considered it had insufficient information at this meeting and therefore there is no Committee Recommendation for this item (Refer 5.1 above.)

3. DRAFT STATEMENT OF INTENT FOR THE WORLD BUSKERS FESTIVAL TRUST FOR 2014/15

		Contact	Contact Details
<b>General Manager responsible:</b>	Chief Financial Officer		
<b>Officer responsible:</b>	Corporate Finance Manager		
<b>Author:</b>	External Reporting and Governance Manager	Y	Patricia Christie 941-8113

1. PURPOSE AND ORIGIN OF REPORT

- 1.1 This report presents the draft Statement of Intent (SOI) for the World Busker's Festival Trust (the Trust) for the year ended 30 June 2015, for review and comment.
- 1.2 The origin of this report is the Local Government Act 2002, which requires a Council Controlled Organisation (CCO) to provide its shareholder/stakeholder by 1 March with a draft SOI for review and comment. The CCO is required to consider shareholder/stakeholder comments made on the draft SOI which are received by the CCO by 1 May. CCOs must issue a final SOI by 30 June.

2. EXECUTIVE SUMMARY

- 2.1 The draft SOI submitted by the Trust is attached together with a comparison between the 2013/14 final SOI and 2014/15 draft SOI. (**Attachments 1 and 2.**)
- 2.2 The Trust is required by statute to submit an annual SOI to the Council. The SOI must set out the Trust's objectives and performance measures as well as certain other information.
- 2.2 The Trust has not met the statutory deadline for the submission of its draft SOI. The Trust presented to both the Community and Finance Committees in March and April regarding the management structure of the Festival. As a result of these discussions additional time was required to prepare the draft SOI.

3. COMMENT

- 3.1 The draft SOI is consistent with prior years SOIs, but has some minor amendments to reflect the change in delivery of the festival as a result of the termination of the services agreement with Council.
- 3.2 The draft SOI states that by the 2017 festival it is aiming to be fully reintegrated back into the central city and will be returning to its roots as a street festival. The return to a street festival is expected to reduce the production cost of the festival as the infrastructure necessary to put the festival on in Hagley Park will no longer be required.
- 3.3 The SOI acknowledges the reduction in Council funding from \$230,000 to \$195,000 in 2014/15 – 2016/17 but notwithstanding the termination of the services agreement with the Council in April it does make the statement that the Council will continue to provide accountancy services to the Trust to ensure appropriate oversight and consistency in financial services.
- 3.4 In agreeing to the termination of the management services agreement the Council made several resolutions regarding the governance and reporting of the Trust these included requiring the Trust to:
  - 3.4.1 provide the detailed final event budget for consideration by the Finance Committee by mid-October;
  - 3.4.2 amend its SOI to include more robust governance and management structures;
  - 3.4.3 amend clause 6.2 of the Trust deed to allow the appointment of up to 12 trustees.

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- 3.5 The SOI addresses some of the Council's recommendations but is silent on the provision of the detailed event budget in mid October and on robust governance and management structures. The Trust make a number of statements in the SOI that they are seeking the continued involvement of the Council in providing accounting services and that they will operate on a "no surprises" basis with the Council.
- 3.6 In meetings with the Trust they have indicated that they are happy for a member of Council staff to attend Trust meetings and to meet regularly with the festival staff and Trustees. The Trust has expressed concerns that providing an event budget in mid October may include a number of estimates. To address the Council's desire for information and the Trust's concerns a briefing may be a more appropriate forum than the report to the Finance Committee which the Council resolved.

**4. FINANCIAL IMPLICATIONS**

- 4.1 There are no financial implications to this paper.

**5. STAFF RECOMMENDATION**

It is recommended that the Committee recommends that the Council:

- 5.1 Accept the draft statement of intent for the World Busker's Festival Trust and request that the Trust considers the following comments when finalising the SOI:
- 5.1.1 the Council acknowledges the importance of the World Buskers Festival to the city and the Council would appreciate the opportunity to receive a pre-festival briefing from the Trustees on the 2015 festival including key measures which the Trust and Council will use to measure the success of the festival.
- 5.1.2 note the requests which the Council made in its resolution dated 10 April 2014 regarding the level of reporting to Council and to develop more robust governance and management structures and that these should be reflected in the statement of intent.

**4. FINAL STATEMENTS OF INTENT FOR CHRISTCHURCH CITY HOLDINGS LIMITED, VBASE LIMITED, CIVIC BUILDING LIMITED, TUAM LIMITED, CANTERBURY DEVELOPMENT CORPORATION HOLDINGS LIMITED, NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY, ROD DONALD BANKS PENINSULA TRUST, RICcarton BUSH TRUST AND CHRISTCHURCH AGENCY FOR ENERGY TRUST**

		Contact	Contact Details
<b>Executive Leadership Team Member responsible:</b>	Chief Financial Officer		
<b>Officer responsible:</b>	Corporate Finance Manager		
<b>Author:</b>	External Reporting and Governance Manager	Y	Patricia Christie 941 8113

**1. PURPOSE AND ORIGIN OF REPORT**

- 1.1 This report presents to the Committee the final Statements of Intent (SOI) for the Council Controlled Organisations (CCOs).
- 1.2 The CCOs are required by statute to submit an annual SOI to the Council. A SOI must set out the entity's objectives and performance measures, as well as certain other information.

- 1.3 CCOs are required by the Local Government Act 2002 to deliver to their shareholders a draft SOI on or before 1 March. The CCOs must then consider comments on their draft SOI from their shareholders received by 1 May, and then issue a final SOI by 30 June.

**2. EXECUTIVE SUMMARY**

- 2.1 The following organisations have submitted final SOIs with changes from the drafts reported to the Finance Committee and Council in April. The final SOIs together with comparisons between the 2014/15 draft SOIs and the final SOI are attached.

2.1.1 Christchurch City Holdings Limited (**Attachments 1 and 2**)

2.1.2 Vbase Limited (**Attachment 3 and 4**)

2.1.3 Canterbury Development Corporation Holdings Limited (**Attachment 5 and 6**)

2.1.4 New Zealand Local Government Funding Agency (**Attachment 7 and 8**)

2.1.5 Rod Donald Banks Peninsula Trust (**Attachment 9 and 10**)

2.1.6 Riccarton Bush Trust (**Attachment 11 and 12**)

2.1.7 Christchurch Agency for Energy Trust (**Attachment 13 and 14**)

- 2.2 Specific comments on each organisation and a summary of the changes between the draft and final SOIs is provided in the respective comparison documents.

- 2.3 It is noted that the SOI for CRIS Limited (a subsidiary of Canterbury Development Corporation) was provided to staff but is not required to be received by Council as CCOs are only required to provide their shareholder with a copy of their final SOI

- 2.4 The following CCOs have submitted unchanged final 2014/15 SOIs. Their final SOIs are attached:

2.4.1 Tuam Limited (**Attachment 15**)

2.4.2 Civic Building Limited (**Attachment 16**)

- 2.5 It is noted that all the SOIs were received by Council staff before the 30 June statutory deadline.

**3. STAFF RECOMMENDATION**

It is recommended that the Committee recommend to the Council that it receive the final Statements of Intent of:

3.1 Christchurch City Holdings Limited

3.2 Vbase Limited

3.3 Civic Building Limited

3.4 Tuam Limited

3.5 Canterbury Development Corporation Holdings Limited

3.6 New Zealand Local Government Funding Agency

3.7 Rod Donald Banks Peninsula Trust

3.8 Riccarton Bush Trust

3.9 Christchurch Agency for Energy Trust.

4. **COMMITTEE CONSIDERATION**

Members of the Committee considered that the 30 June 2015 date for reaching agreement on the Uni Cycle Route through the Riccarton Bush site was not earlier enough and asked that the Trust reconsider the date with a view to bringing it forward.

5. **COMMITTEE RECOMMENDATION**

It is recommended that the Council:

5.1 received the final Statements of Intent of:

5.1.1 Christchurch City Holdings Limited

5.1.2 Vbase Limited

5.1.3 Civic Building Limited

5.1.4 Tuam Limited

5.1.5 Canterbury Development Corporation Holdings Limited

5.1.6 New Zealand Local Government Funding Agency

5.1.7 Rod Donald Banks Peninsula Trust

5.1.8 Riccarton Bush Trust

35.1 Christchurch Agency for Energy Trust.

5.2 Request that staff write to the Riccarton Bush Trust and ask for the timing of the cycleway agreement to be reconsidered and brought forward as this is a matter of urgency.

5. **EARTHQUAKE CLAIMS UPDATE AS AT 31 JULY 2014**

		Contact	Contact Details
<b>General Manager responsible:</b>	Chief Financial Officer		
<b>Officer responsible:</b>	Acting Corporate Finance Manager		
<b>Author:</b>	Earthquake Claims Manager	Y	Adrian Seagar DDI: 941 6345

1. **PURPOSE AND ORIGIN OF REPORT**

1.1 This report is a regular monthly update on insurance matters relating to the earthquakes. It provides details of the status of these matters as at 31 July 2014.

2. **EXECUTIVE SUMMARY**

2.1 Attached are appendices with brief notes of explanation for:

2.1.1 Recoveries summary status as at 31 July 2014 (**Appendix 1**) – provides information on costs incurred and recoveries accrued and received.

2.1.2 Main Claim Head progress summary as at 31 July 2014 (**Appendix 2**) – provides a brief summary of the current insurance status for each claim head and the actions planned for the next two months.

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- 2.1.3 Insurance update and progress on anchor projects as at 31 July 2014 (**Appendix 3**) – provides the project and insurance status and payment on claims' details for each of the major facilities.
- 2.1.4 Earthquake claim progress summary as at 31 July 2014 (**Appendix 4**) – provides financial information for each of the main claim heads, including major facilities. It is anticipated that claims for all assets will be lodged by 30 September 2014.
- 2.1.5 Building and Infrastructure Improvement Allowance balance as at 31 July 2014 (**Appendix 5**) – provides details of allocations made from the allowance and the current balance available.

**3. COMMENT**

**3.1 Claim Status**

- 3.1.1 Our focus on all asset categories is to continue to quantify the damage on as many assets as possible.
- 3.1.2 Claims on assets continue to be prepared and formally lodged.
- 3.1.3 Samples were taken some months ago from those buildings with steel reinforcing and testing has been conducted to identify possible damage. The reports on these assets have been received and are now being reviewed.
- 3.1.4 The Crown – CERA paid SCIRT \$15.3 million in July for their estimated share of SCIRT June works.
- 3.1.5 Insurance claims – details of the status of each main claim head are outlined in Appendix 2. Councillors on the Insurance Sub Committee have been briefed on the reinsurance issues that are being worked through. Appendix 4 outlines financial information for each main claim head.

**3.2 Building/Infrastructure Improvement Allowance Borrowing**

- 3.2.1 There have been no allocations from the allowance during July.
- 3.2.2 There are a number of projects that are being funded from the allowance ahead of insurance settlements. The insurance estimates at the time of Council funding approvals were \$3.97 million. Any insurance proceeds for these projects will be credited to the allowance as funds are received. There is also \$1.15 million allocated as pitch underwrites which will be credited to the allowance once recoveries are received.
- 3.2.3 A full list of allocations made from the allowance is attached to this report as Appendix 5.

**4. FINANCIAL IMPLICATIONS**

- 4.1 There are no direct financial implications from this report.

**5. COMMITTEE AND STAFF RECOMMENDATION**

It is recommended that the Council receive the report.

## **PART B – REPORTS FOR INFORMATION**

### **6. DECLARATION OF INTEREST**

Councillor Turner declared an interest in Clause 4 as he is a Board Member of the Rod Donald Banks Peninsula Trust and the Canterbury Development Corporation.

Councillor Chen declared an interest in Clause 4 as he is a Board Member of the Riccarton Bush Trust

Councillor Manji declared an interest in Clause 2 and Clause 4 as he is a Board Member of Christchurch City Holdings Ltd and has an interest in EPIC.

Councillors Buck and Johanson declared an interest in Clause 4 as they are Board Members of Christchurch City Holdings Limited.

Councillor Gough declared an interest in item Clause 4 as he is a Board member of Christchurch City Holding Limited, Vbase and Civic Building.

Councillor Livingstone declared an interest in Clause 2 and Clause 4 as he is a Board member of Christchurch Agency for Energy Trust and has a family members involved with EPIC.

### **7. DEPUTATIONS BY APPOINTMENT**

#### **7.1 CANTERBURY CRICKET TRUST**

Sir John Hansen and Mr Lee Robinson from the Canterbury Cricket Trust, addressed the Committee in support of the reassignment of the lease for Hagley Oval from the Canterbury Cricket Association to the Canterbury Cricket Trust.

Following questions from the Committee the Chairperson thanked Sir Hansen and Mr Robinson for their deputation.

#### **7.2 CANTERBURY CRICKET ASSOCIATION**

Messrs Cran Bull, Chairperson, and Lee Germon, CEO, from the Canterbury Cricket Association, will address the Committee in support of the reassignment of the lease for Hagley Oval from the Canterbury Cricket Association to the Canterbury Cricket Trust.

Following questions from the Committee the Chairperson thanked Messrs Bull and Germon for their deputation.

## **PART C – DELEGATED DECISIONS**

### **8. APOLOGIES**

An apology for absence was received and accepted from Councillor Paul Lonsdale .

### **9. RESOLUTION TO EXCLUDE THE PUBLIC**

The Committee **resolved** that the resolution to exclude the public as set out on page 215 of the agenda, be adopted.

The Committee **resolved** to readmit the at 10.05am

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The meeting concluded at 10.06am.

**CONSIDERED THIS 25TH DAY OF SEPTEMBER 2014**

**MAYOR**