
REPORT 1
(1215/11/IM)

WELLINGTON MUSEUMS TRUST - APPROVAL TO BORROW

1. Purpose of Report

To advise the Council that the Wellington Museums Trust (The Trust) has requested approval to take out a loan for a capital works project, the Cable Car Museum extension. Officers recommend that this approval not be given and the Trust, where possible, uses existing reserves to finance this project; with any remainder to be funded from additional capex provided by the Council.

2. Recommendations

It is recommended that the Council:

- 1. Receive the information.*
- 2. Decline approval for the Wellington Museums Trust to borrow up to \$90,000 for capital works in relation to the Cable Car Museum extension project (CX486).*
- 3. Agree to allocate up to \$90,000 capex to the Cable Car Museum extension project (CX486) from savings, to be found by the Chief Executive Officer from within the 2005-2006 Annual Plan budget.*
- 4. Note that due to timing and the required resolution by the Council, this report has been presented direct to the Council.*

3. Background

The Council as owner of the Cable Car Museum land and buildings site leases the museum to the Trust. The Trust received approval from the Council in the 2004/05 Annual Plan for a capital contribution over two years, of \$650k towards the proposal to extend the Cable Car Museum. The total cost of the project was to be \$850k and the balance of \$200k was to be raised by the Trust from private donations and grants.

This enabled the Trust to extend the museum to bring it up to current compliance standards and incorporate within the museum a restored Grip Car No. 3.

On 17 December 2004, Council officers wrote to the Trust giving approval for the contract to be confirmed and the project to go ahead based on confirmation that the Trust had in place sufficient funds to enable the contract to be completed.

Since the initial plans and costings, the Trust has had to extend the project to meet heritage concerns and this has required an increased fitout cost. The total cost of the project has increased to \$1.0 million, which the Trust plans to fund partly from its own capital budget and the remainder through an unsecured bank loan.

In August 2005, the Trust wrote to the Council requesting approval for the Trust to borrow up to \$90k by an unsecured loan to enable it to complete the project. The loan is planned to be repaid over five years from increased retail income. The Trust does not wish to commit its reserves to the project, as it considers the level of reserves to be insufficient.

The Trust Deed allows the trustees to borrow money on an unsecured basis, provided a special resolution to borrow is made by the Trustees and that the Trustees obtain written consent of the Settlor prior to exercising any power to borrow.

4. Discussion

This proposal raises a number of issues for the Council.

Settlor approval of the loan may set a precedent for Council Controlled Organisations to seek project funding from banks rather than through Council processes. If it is appropriate to fund the project, the Council is able to provide a loan to the Trust as it can finance this at a lower cost than the Trust can achieve. However, the cost of setting up a loan could override this benefit because of the small size of the loan.

Officers recommend that the request be declined and approval is not given to allow the Trust to borrow in this instance. Officers will continue to work with the Trust to ensure it maintains sufficient reserves to meet operating requirements and to contribute to the financing of the project shortfall.

The Council could also opt to provide increased capex funding of up to \$90k from savings (to be identified) within the 2005-2006 Annual Plan budget to meet this need. The consequential opex (interest and depreciation) impact of \$90k capex is estimated at \$8k per annum and this can be accommodated within the existing opex budget for the Wellington Museums Trust (C102).

The Trust plans to vest the full value of the Cable Car Museum building improvements to the Council; this is estimated at \$750k. Therefore, to ensure the smooth completion of the project officers recommend that additional capex be allocated up to \$90k, to meet any shortfall the Trust might have. Grand opening of the newly extended Cable Car Museum is expected to be late November or early December.

The additional capital expenditure requires approval from the Council as this is outside the delegated authority of the Chief Executive.

5. Conclusion

Officers have worked very closely with the Trust on this matter and recommend that the Trust use reserves to part fund the shortfall and that the Council provides up to \$90k additional capex to fund the completion of the Cable Car Museum extension, to be found from savings within 2005-2006 financial year.

Contact Officer: *Amarjit Younger, Portfolio Manager Council Controlled Organisations*

Supporting Information

1) Strategic Fit / Strategic Outcome

The Wellington Museums Trust covered by this report support a variety of strategic objectives as set out in the 2005/06 Draft Annual Plan.

2) LTCCP/Annual Plan reference and long term financial impact

The project is contained in the Council Plan, CX486 and C102.

3) Treaty of Waitangi considerations

There are none arising from this report.

4) Decision-Making

This does not involve a significant decision.

5) Consultation

a) General Consultation

Discussions have been held with the Wellington Museums Trust

b) Consultation with Maori

Consultation is not required for the purpose of this report.

6) Legal Implications

There are no legal implications associated with this report.

7) Consistency with existing policy

Report recommendations are consistent with existing WCC policy.