

3. CANTERBURY COASTGUARD – APPLICATION FOR LOAN RR 10649

Officer responsible Director of Finance	Author Bob Lineham
Corporate Plan Output: Corporate Expenses, Revenues and Grants	

The purpose of this report is to advise the Council of a request from Canterbury Coastguard for a loan to fund the purchase of a rescue vessel.

BACKGROUND

Canterbury Coastguard have purchased a new vessel and now face a shortfall in fundraising to pay for their commitment on the purchase and commissioning of this vessel. They applied to the Council for a grant as part of the Annual Plan process and the Council approved a grant of \$7,000 which was tagged for the training of young people as this was one of the justifications used for their request for Council support.

THE NEED

Canterbury Coastguard have purchased a new vessel and the completed project cost including fit-out and commissioning is estimated to be \$509,000. Most of this expenditure has been committed but the organisation has been let down by a major sponsor and now faces a shortfall. They are concerned about the possible consequences if they are unable to meet their financial commitments on this project.

Canterbury Coastguard have raised by way of sponsorship and naming rights the sum of \$358,000 and these funds have been received. They also have pledges for a further \$126,600 which will be received over the next 12 months. Copies of these signed pledges have been sighted. Although they are not legally binding most of them come from sponsors who have supported the project in the past.

The organisation is requesting temporary finance of \$150,000 to meet their immediate needs for the project pending receipt of these pledges over the next twelve months.

CANTERBURY COASTGUARD STRUCTURE

Canterbury Coastguard is a full affiliate member of the Royal New Zealand Coastguard Federation Inc and have produced letters of support from the Federation for the standard of their work. The Coastguard is very active in the Canterbury region and provides a marine search and rescue service as well as providing boat education services (including a youth training programme) for the general public. They are contracted by various parties including the Police for rescue work and supported by St Johns Ambulance who have provided a full complement of equipment for the new vessel. The vessel is manned on a voluntary basis.

The organisation funds its ongoing operations from corporate sponsorship and donations plus contracts with the Police.

Audited annual accounts have been completed and are being made available prior to the meeting.

FUNDING AVAILABILITY FOR A LOAN

Apart from the Community Loans Fund the Council has limited funding available for making loans to such organisations. In the past the Council has made some loan advances as investments of its reserve funds but these are usually for properties which are secured by way of mortgage. Such loans currently total \$2.4 million and this represents approximately 8% of such investments. I believe that this is a reasonably high percentage of the investment portfolio to be held in such a way and therefore do not support any significant extension of loans from this source unless there is very good reason.

The Community Loans Fund is a revolving fund which is used primarily to fund loans to community organisations and most of these loans are on a medium to long term basis with regular repayments of interest and principal. The Grants Committee generally makes loans from the fund in May/June each year of approximately \$250,000 to \$350,000 per year at low interest rates. A major loan of \$150,000 would take a large chunk of that amount for the forthcoming year. However, as the request from the Canterbury Coastguard is for a short term loan of up to 12 months and on the basis of funds currently on hand and the commitments pending from the fund it would appear that the fund could sustain a loan of \$150,000 and still have a reasonable amount available for other requests. Set out below is an assessment of the current capacity of the fund. The Council will need to consider whether it is prepared to commit these funds and accept the risk (however small) that the repayment dates are not able to be met for some reason. If this happened then this project would have received priority over other needs since it is being considered at a different time of the year.

	\$
Current balance in Community Loans Fund	439,500
Less commitments not paid out	193,000
Uncommitted balance	246,500

The question of obtaining security over the vessel for this loan has not been explored. Since this is a community asset I assume that the Council would be unwilling to seek a sale of the vessel in the event of a default and therefore the obtaining of a security over the vessel does not appear warranted. The Council should however recognise that in the event of a default it could face the prospect of writing off the debt. Generally community loans are unsecured although they are documented through a formal loan agreement.

APPROPRIATENESS OF PROVIDING A LOAN

The issue of whether assistance should be provided to this group is a matter for the Council. At the Annual Plan meeting when they applied for a grant of \$100,000 the working party recommended support of only \$7,000 tagged to training. Since that time the organisation has provided more information about their work and funding and community support. Previous concerns that they had made commitments to this project without funds available is not strictly correct since they have been let down by a major sponsor.

If the Council now wishes to provide assistance in the form of a short term loan then I believe it would be wise to make it for no longer than 12 months with progressive repayments during that period to provide an incentive for fund raising to continue.

Recommendation: That a loan of \$150,000 be made from the Community Loans Fund at 2% p.a. interest and that \$50,000 be repayable on 1 March 2000, \$50,000 on 1 June 2000 and \$50,000 on 1 September 2000, subject to any balance outstanding at 1 September 2000 being subject to interest at the Council's rate of borrowing at that time.

(Councillor Howell abstained from the discussion and voting on this clause.)