

Financial Impact of Destination Coromandel Rent Review

TO	Thames Community Board
FROM	Brian Robson - Thames Community Manager
DATE	17 July 2018
SUBJECT	Financial Impact of Destination Coromandel Rent Review

1 Purpose of report

The purpose of this report is to present the financial costs associated with the refit of the Thames Civic Centre to house Destination Coromandel office and Thames i-SITE and to present the revenue received to date in order for the Thames Community Board to consider its options regarding the rent review for Destination Coromandel.

2 Background

On 3 April 2013 the Council resolved to *'fund (district) two i-SITES at Thames and Whitianga to be operated by Destination Coromandel (DC).'*

Thames i-SITE, at that time operated by an incorporated society of local business people, was scheduled to transition to DC ownership by 1 July 2015.

On 20 August 2014 the Thames Area Manager submitted a report to the Thames Community Board (TCB) on options to relocate the Thames i-SITE. Amongst the key discussion points raised at the meeting was that the i-SITE could take over the promotion and bookings of the Civic Centre (CC), thereby attracting bigger commercial hirers, and that DC could also relocate and become a tenant.

At its meeting of 8 September 2014 TCB *'instructed the Area Manager to commission detailed design and construction plans for the proposed Civic Centre Ticketing Office alterations by 30 September 2014 and storage room alterations for commercial tenancy, and approves funding for the design costs from the Board's discretionary fund. TCB recommended that the Economic Development Committee fund the relocation of the Thames iSite to the Thames Civic Centre ticketing office including the required alteration costs.'*

On 18 March 2015 the Thames Area Manager submitted a report entitled 'Thames War Memorial Civic Centre/i-SITE Project' with a section on Operational Costs in which it is stated that *'the two proposed tenantable spaces within the facility provide the opportunity of additional revenue streams to improve operational sustainability and help offset the cost of operating the facility'*.

At its 13 April 2015 meeting TCB recommended that Council *'approves a capital budget of \$200,000 excluding GST in the 2014/15 financial year for the building alterations and bus/car parking provisions required for the i-SITE and DC relocation into CC to be funded from the Thames Local Consolidated Depreciation reserves. The Project Definition scoping document that was presented to TCB identified 'increased tenancy and revenue at the [CC]' as a project benefit.*

On 29 April 2015 Council approved a total capital budget of \$264,250 in the 2014/15 financial year for the building alterations (\$102,350 to accommodate Thames i-SITE and \$52,900 to accommodate DC) and bus/car parking provisions required for i-Site and DC relocation into CC (\$109,000 local roading) to be funded from the Thames Local Consolidated Depreciation reserves.

Total costs

On 11 September 2015 the Thames Area Manager reported cost overruns of \$40,366. Building costs had overrun by \$31,298, comprised mostly of \$26,781 for unbudgeted resource consent costs. The public toilet upgrade at the CC cost a further \$26,661, overspent by \$8,661.

The total capital expenditure associated with the relocation, including the toilet upgrade, was \$322,616 excluding GST.

At its 28 October 2015 meeting Council '*provided retrospective approval for extra capital expenditure of \$40,366 excluding GST for the Thames War Memorial Civic Centre building alterations for the Thames iSITE project to be funded from the Thames Local Consolidated Depreciation Reserves*'.

In addition to the capital expenditure, the operational expenditure for the i-Site fit out was \$13,266 in 2014/15 and \$34,255 in 2015/6. A total of \$47,521 which was funded by the Economic Development activity. The DC Relocation and Fit Out spending was \$2,895 in 2014/15 and \$27,270 in 2015/16, a total of \$30,165 funded by the Economic Development budget. Items purchased included furniture, power-points, flooring, telecommunication connections, heat pumps. This expenditure was necessary to make the commercial space fully tenable.

Total revenue

The business case for the project assessed the rental value of the two spaces as \$10,800 for the i-SITE and \$8,000 for DC. A total of \$56,400 has been received into Halls Thames - Rent - Commercial i-SITE, being \$18,800 per annum since 2015. This revenue has been used to offset operational costs in all years.

Change in Council policy

On 8 August 2017 Council approved a new 'Leases and Licences to Occupy Policy' which included a new definition for clubs and community groups. Destination Coromandel now qualifies as a community group under this new definition. The recent rent review for the i-SITE and office space therefore recommended a rental of \$350 per annum from 2018/19 onwards .

3 Issue

The expenditure to create a suitable commercial space in the Civic Centre, and to modify the surrounding infrastructure, was covered by local Thames ratepayers with the expectation that a new revenue stream would be provided. Due to the Council policy change commercial rental can no longer be charged to the current tenant; therefore the opportunity cost of having the commercial space in the Civic Centre can no longer be recovered.

4 Discussion

Separate power meters were installed so CC power consumption has not increased as a result of having DC as a tenant. The Deed of Lease defines which outgoings DC, as the tenant, is required to pay. The noted outgoings are rates, water, rubbish collection, telecommunications, Fire Service charges, insurance, cleaning, maintenance and repair charges etc.

Destination Coromandel provides a valuable service but it is a service for the entire Coromandel Peninsula. Thames derives little benefit from having the DC office located in Thames so it is reasonable to request that DC's relocation and ongoing accommodation costs be covered by the whole district.

Options available

1. Request the capital expenditure be replaced by district funding.
Request that Council replace the \$266,216 capital expenditure taken from Thames Local Depreciation Reserve funding, being the total capital expenditure (\$322,616) less the revenue received to date (\$56,400).
2. Request the loss in commercial rental be replaced.
Request that Council replace the lost commercial rent on an annual basis while Destination Coromandel hold the tenancy, to be reviewed in the event that the Leases and Licences to Occupy Policy is reviewed and full market rental is re-established.

Option 1 is preferred by staff as it eliminates the possibility that, due to some future procedural irregularity, the annual replacement does not occur.

5 Suggested resolution(s)

That the Thames Community Board:

1. Receives the 'Financial Impact of Destination Coromandel Rent Review' report, dated 17 July 2018.
2. Recommends to Council to replace \$266,216 (the total capital expenditure to modify the Thames Civic Centre less the three years' of commercial lease revenue) of the Thames Local Consolidated Depreciation reserves from district funding (to be loan funded with operational costs from the 2018/19 surplus/deficit) now that the commercial lease revenue is no longer available given the Council Leases and Licences to Occupy Policy has changed.