

What we do

Council's commercial operations includes:

- Gisborne Vehicle Testing
- Waikanae Beach Top 10 Holiday Park
- Commercial Property - includes supporting properties, Gisborne Airport and miscellaneous land. Excludes municipal buildings that will transfer to Gisborne Holdings Ltd in December 2015.
- Commercial Forestry
- Community Housing
- Council Controlled Organisations (CCOs) - including Gisborne Holdings Ltd and its wholly owned subsidiary Tauwhareparae Farms Ltd.

Our commercial operations are made up of a number of commercial investments. The investment portfolio contains a range of mostly locally run businesses and services. Some are run on a commercial basis for the benefit of Council operations, while others are run to supplement Council's rates income.

Why we do it

The primary focus of commercial operations is to operate profitably and provide a non-rates income stream to Council. These operations contribute to a prosperous Tairāwhiti as income generated from these assets is an important income stream for Council which is used to reduce the level of rates.

Council also provides quality and affordable housing for those aged 55 years and over who have difficulty in providing it for themselves with rent not to exceed 90% of the market rate.

This activity contributes to the following Community Outcomes

- Tairāwhiti Wawata
- Tairāwhiti Tangata

Challenges and Opportunities

Council has a significant investment in commercial and semi-commercial assets valued at approximately \$100m. Current net returns on the assets range from 1%-1.5%pa, with a gross return of 5-6%. Council has been through a process of defining its investment strategy and aligning the likely outcomes with its future revenue requirements. Council's investment strategy now has shareholder focused goals aimed at increasing the return from commercial operations assets as well as significantly increasing the income stream to Council over the life of the Long Term Plan.

What are our plans for the next ten years?

Commercial operations

We will review the current structure and implement an appropriate single commercial entity to manage and operate Council's investments aimed at improving the returns over the life of the LTP. Council will assume a shareholder and monitoring role and base its decisions on levels of return against the investment strategy rather than the current operational management.

Individual investment activities

We will continue operating the activities with a best practice approach. Once structural changes are complete, activity growth will be included as a key component of individual business plans and improvement projects moving forward.

Municipal building rebuild

This activity has been transferred to Gisborne Holdings Ltd. The LTP has been amended to reflect this. Refer to [Amendment November 2015](#) for more information about the amendment.

Council's municipal building in Fitzherbert Street comprises several buildings, built from 1953 to 2007. Two buildings are earthquake prone and therefore unsafe under the Building Act 2004. Council approved the option to rebuild the administration centre.

This will be a smaller, single-storey building with sustainable design reducing energy and operational costs by a projected \$30m over the building's 50-year life span. The costs of strengthening were similar to those of a new build, but did not offer the same level of efficiencies across the complex.

This project is to be completed by 2017 with a budget of \$11m. This cost will be incurred by Gisborne Holdings Ltd and is not included in Council's forecast financial information.

Council controlled trading organisations – Gisborne Holdings Limited

Gisborne Holdings Limited (GHL) will form an integral part of the future investment structure of Council. Council is to remain the only shareholder. This Council controlled trading organisation structure will be assessed against

Council's Investment Strategy and changes made where needed to align the structure and goals with improved investment strategy objectives.

What have we been doing?	What will we do in years 1-10?
<ul style="list-style-type: none"> Reviewing the level of return across the commercial investment base. Investigating the appropriate investment structure model to deliver improved returns and revenue growth. Operating activities efficiently and profitably across the investment base. Adapting and improving asset management practises across commercial enterprises. Providing and maintaining a range of community housing one bedroom units (120 in 10 complexes) to enable independent living for people aged 55 years and over. Implementing programme for community housing improvements including replacing outdated heating units and replacing windows with modern double glazed units. Investigating options for the Fitzherbert Street site earthquake prone building issue. Council's preferred option is a new build. 	<p>Years 1-3</p> <ul style="list-style-type: none"> Year 1 - Transfer the municipal buildings to Gisborne Holdings Ltd. Year 1 and 2 – Investigate and implement a new commercial operations model. <p>Years 1-10</p> <ul style="list-style-type: none"> Operate activities efficiently, effectively and profitably across the investment base. Improve Council's capability and performance as a shareholder in order to deliver improved investment returns. Review asset management practises and budgeting to ensure it remains relevant to our customers' needs.
<p>We will achieve these plans by? See above.</p>	

Levels of Service and Performance Measures

Level of Service	Performance measure	Results 2013/14	Target Years 1-3	Target Years 4-10
Operate commercial operations profitably and increase the returns to Council.	Improve the investment return level in order to grow the return from 2% of Council revenue to 10% by 2025.	New measure	2% - 3%	3% - 10%
	Maintain an annual net return of 4% - 6% net including capital growth across the total Commercial operations base.	New measure	4% - 6%	4% - 6%
Suitable and affordable housing is provided to enable independent living for people aged 55 years and over who have difficulty providing it for themselves.	Percentage of customer satisfaction with standard of accommodation and services as found in our annual inspection survey.	97%	95%	95%
	Rent as a percentage of market rate (lower quartile) not to exceed 90%.	Achieved	Achieve	Achieve

Forecast Activity Cost Statement

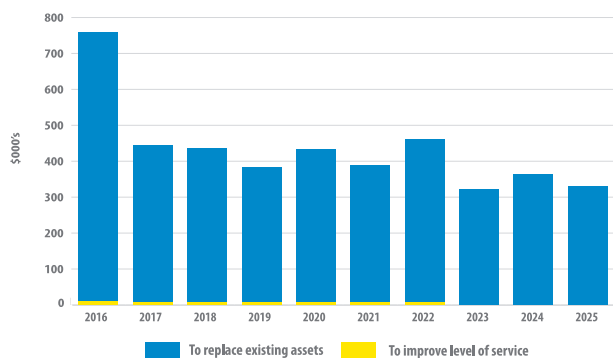
OPERATING REVENUE AND EXPENDITURE (\$000)	Budget 2015/16	Budget 2016/17	Budget 2017/18	Budget 2018/19	Budget 2019/20	Budget 2020/21	Budget 2021/22	Budget 2022/23	Budget 2023/24	Budget 2024/25
Operating Non Exchange Revenue	0	0	0	0	0	0	0	0	0	0
Operating Exchange Revenue	3,588	3,345	3,407	4,723	3,746	4,191	3,983	6,286	6,390	4,416
Operating Expenditure	4,255	3,138	3,150	3,196	3,307	3,376	3,451	3,561	3,657	3,720
Net Cost of Service	667	(207)	(257)	(1,527)	(439)	(815)	(532)	(2,725)	(2,733)	(696)

CAPITAL EXPENDITURE (\$000)	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
- to improve level of service	11	6	6	6	6	6	7	0	0	0
- to replace existing assets	737	432	423	370	422	376	449	321	363	329

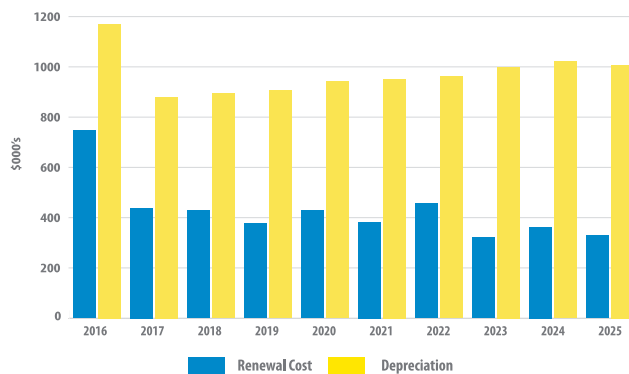
Capital Projects

748	438	429	376	428	382	456	321	363	329
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

Total Capital Projects



Depreciation v renewal capital assets



Capital Expenditure 2015-2025

Description	LOS	Total Cost	2015/16 \$'000s	2016/17 \$'000s	2017/18 \$'000s	2018/19 \$'000s	2019/20 \$'000s	2020/21 \$'000s	2021/22 \$'000s	2022/23 \$'000s	2023/24 \$'000s	2024/25 \$'000s
Municipal Buildings	MAINTAIN	47	47	0	0	0	0	0	0	0	0	0
Commercial Property Renewals and Improvements	MAINTAIN INCREASE	1,771	461	197	187	133	184	136	209	73	113	78
Community/Staff housing Upgrades	MAINTAIN	2,453	240	241	242	243	244	246	247	248	250	251
Totals		4,271	748	438	429	376	428	382	456	321	363	329