
Report 4
(1215/52/IM)

KARORI SANCTUARY AND MARINE EDUCATION CENTRE FUNDING

1. Purpose of Report

This report seeks an approval for the previously approved Karori Wildlife Sanctuary and Marine Education Centre funding to be provided to the trusts as limited recourse loans.

2. Executive Summary

Council has approved loans, subject to several conditions being met, to both Karori Wildlife Sanctuary and the Marine Education Centre. The details of the loans have not yet been formalised.

Under standard loan conditions, neither Karori Wildlife Sanctuary nor the Marine Education Centre are eligible for central government funding through the Significant Community Based Projects Fund.

This paper recommends approving the funding as limited recourse loans in order to meet the eligibility requirements of the Fund. The timing of any loan documentation and drawdown will be the subject of further reports to Council at the appropriate time.

3. Recommendations

It is recommended that the Committee:

- 1. Receive the information.*
- 2. Agree to recommend that Council allocates the funding provided to Karori Wildlife Sanctuary and the Marine Education Centre as limited recourse loans.*
- 3. Note that, when appropriate, officers will report back to Council for final approval of the funding deeds.*

4. Background

The Council supports Karori Wildlife Sanctuary (KWS) and the Marine Education Centre (MEC) in its regulatory and non-regulatory roles. The Council has shown its support for these projects through the approval of loans. The Council has approved an \$8 million interest free loan to KWS and a \$7 million interest free loan to MEC. The KWS loan relates to the development of a new visitor centre at the Sanctuary. The MEC loan is for building an aquarium and visitor centre at Te Raekaihau.

Both of the loans fund part of the proposed project costs. The provision of the loans is conditional on the trusts securing the remaining funds required from other sources. Both trusts have viewed central government as a likely and appropriate source of funds given their purposes. Without central government funding it is unlikely that either project will go ahead.

Both trusts have been working on their fundraising campaigns and have recently lodged applications for the 06/07 round of the government's Significant Community Based Projects Fund (SCBPF).

5. Discussion

5.1 Significant Community Based Projects Fund

The SCBPF was set up in 2005 to support major community based projects that demonstrate significant support from and participation by the community and have a range of benefits contributing to regional and or national outcomes with particular reference to:

- Arts and cultural
- Sport and recreation
- Conservation and environment
- Tourism
- Economic development.

The fund was launched in 2005 at KWS as it was an example of the type of project that the government thought the fund should support. The government has no other source of funding for these projects.

At the time that the fund was established there was a requirement for the projects to have secured 35% of the project funds. The government did not anticipate that the 'secured' funds would include funds generated through loans. They expected the secured funds to be generated through grants or donations.

A loan is not like a grant or donation due to the fact that at some point it must be repaid. Specifically the government was concerned about the situation where the trusts cannot repay the loan but the Council requires repayment. Should

this result in the trusts having to windup, the government contribution would be lost.

Officers' view is that it is still appropriate to provide the trusts with loans that require repayment as the Council's role is as a catalyst and supporter of these projects rather than as an owner of the projects.

While officers are confident that very little risk exists with the repayment of the loans, there is a need to signal Council's intent to support the projects to the government. We have suggested a similar funding agreement to the one in place with the Stadium on the understanding that this type of arrangement would be considered as secured funds to the project under the terms of the funding application.

5.2 Current funding

The funding agreements have not yet been documented. The default assumption is that the loans will be interest free loans payable over 25 years. That is, a fixed repayment each year is required regardless of the financial position of the trusts.

Both trusts have prepared their business cases on the basis of repayment over 25 years. As part of the requirements for the SCBPF, both business cases have been independently reviewed and verified. The independent reviewers agree that both business cases are robust and that both trusts will be able to make the repayments over 25 years.

When the loans were agreed by Council, officers committed to putting the terms of the loan before Council prior to signing any funding deed. This will still occur at the appropriate time (i.e. once each project is fully funded and ready to commence).

5.3 Limited recourse loan

As mentioned above, officers understand that if the loans were changed to loans similar to that in place with the Stadium they would be sufficient to overcome the hurdle created by the definition of secured funds for the SCBPF. The funding agreement with the Stadium is a limited recourse loan.

Rather than prescribing a set amount to be repaid each year, a limited recourse loan requirements repayment out of the surplus funds the entity, in this case the trusts, have each year.

The meaning of surplus will be defined in the funding deeds and this is something that we would put before Council to gain its agreement before signing the funding deeds.

In the case of the Stadium surplus is defined as the difference between the income (which includes gifts, donations, grants, funds received on the disposal

of any asset and any funds of a capital nature) and costs, expenses, taxes or charges. We would expect something similar to be included in the funding deeds for the trusts.

While under a limited recourse loan the Council is only able to demand a repayment of the loan where a surplus has been made, the Council will have the right to demand the immediate repayment of the loan in full if certain events occur. In case of the Stadium, immediate repayment in full can be demanded where the following occur:

- A receiver or manager is appointed of any of the property or assets of the trust
- The trust is wound up
- The trustees commit a material breach of their obligations
- There is a significant and material adverse change to the financial position of the trust which in the view of the Council threatens the continued financial viability of the trust

Officers' intention is to include something similar in the funding deeds for the trusts. This is another protection for the Council's investment. The loans would continue to be interest free.

The funding deeds will also have the requirement for quarterly and annual reporting. This will enable the Council to monitor the trusts to protect its investment. KWS is already subject to this monitoring regime and MEC has agreed to commence it starting from December 2006.

5.4 Risks to Council

The key risk issue to the Council is the strength of the business case not the type of loan provided.

As discussed above, both trusts have robust, independently verified business cases. Neither business case has changed since the time that they were presented to Council and the change in the type of loan has no effect on either business case. Both business cases show the trusts making a "surplus" even after the repayments of the loans over 25 years.

Officers consider the risk to the Council of changing the loans to limited recourse loans is not heightened, and are still of the view that the loans will be repaid.

6. Conclusion

Given that the two projects are strategically supported by the Council, that a precedent exists for this type of funding, that the funding deed will provide the Council with the ability to monitor the trusts and that there is minimal increase

in risk to Council, officers recommend that the funding provided to KWS and MEC be changed to limited recourse funding.

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Supporting Information
<p>1) Strategic Fit / Strategic Outcome <i>The projects reflect the values and aspirations encapsulated within the Council's recently reviewed strategic direction, particularly in the areas of Environmental, Urban Development, Economic Development and Cultural Well Being. The proposals also align with the 2006-09 priorities particularly aiding in strengthening the city's partnerships with stakeholders to increase environmental awareness, community participation and the achievement of environmental goals and allows the Council to take a proactive role in protecting its local sense of place.</i></p>
<p>2) LTCCP/Annual Plan reference and long term financial impact <i>The funding is already included in the Annual plan. It will not have any long term financial impact.</i></p>
<p>3) Treaty of Waitangi considerations <i>This decision does not have Treaty of Waitangi considerations.</i></p>
<p>4) Decision-Making <i>This is not a significant decision.</i></p>
<p>5) Consultation</p> <p>a) General Consultation <i>The two trusts have been consulted and are happy with the proposed change.</i></p> <p>b) Consultation with Maori <i>Consultation is not required with Maori.</i></p>
<p>6) Legal Implications <i>There are no legal implications.</i></p>
<p>7) Consistency with existing policy <i>This report and recommendations are consistent with existing Council delegations and treasury policy.</i></p>

