
REPORT 4
(1215/52/IM)

FUNDING ARRANGEMENTS FOR CROSSWAYS COMMUNITY TRUST

1. Purpose of Report

The purpose of this report is to review the funding achieved by the Crossways Community Trust and assess whether it achieves the milestone target established by the Strategy and Policy Committee in June 2007.

2. Executive Summary

During the 2007 Draft Annual Plan process Mt. Victoria residents lobbied for the Council to purchase the Crossways building in Brougham Street, Mt Victoria. The sale of Crossways (currently used as a crèche and community centre) was being driven by the need of St Andrew's on The Terrace to raise capital for the seismic upgrade and refurbishment of the church. Officers advised at the time that utilisation of the community centre was relatively low and most users could easily be accommodated in alternative accommodation. In response to local concerns the Council agreed to give residents an opportunity to fundraise to purchase Crossways by giving a grant to St Andrew's on The Terrace to take the pressure off for immediate sale. A three way agreement between the St Andrews Church, the Crossways Community Trust and the Wellington City Council established some fundraising milestone targets for the Trust, the first being \$450,000 to be raised by 31st March 2008. The Crossways Community Trust has recently received a loan offer of \$450,000 which they believe achieves the milestone fundraising target. Under the three-way agreement the Director, Citizen Engagement is required to approve the donor trust and the conditions attached to any financial contribution. After consideration of the financial sustainability of the offer the Trust has been advised that the Director does not believe the conditions of the contribution meet the terms of the three way agreement. As the decision is not as straight-forward as had been envisaged at the outset of the process, endorsement of officer's advice is being sought.

3. Recommendations

It is recommended that the Committee:

1. *Receive the information.*
2. *Agree that the milestone funding target of \$450,000 required of the Crossways Community Trust by 31 March 2008 has **not** been met.*

3. *Note that if the committee determines that the loan offer from the anonymous donor trust meets the funding milestone then the St Andrews on The Terrace Church will still need to be given an opportunity to review their position as a party to the three-way agreement.*
4. *Note that the Crossways building is protected by the 1930s Demolition rule in the District Plan (Rule 5.3.11) and will be further protected by a heritage listing that is currently in progress.*
5. *Note that officers will work with Crossways user groups to re-locate them to alternative venues.*
6. *Agree that officers will report back in the next month on process issues, timeframes and risks associated with the re-location of the crèche currently housed in Crossways to the Bandoliers site on Mt Victoria.*

4. Background

During the 2007 Draft Annual Plan process the Council received a number of submissions from Mt Victoria residents concerned about the Presbyterian Church's plans to sell the Crossways Community Centre on Brougham Street. Their concerns were two-fold. Firstly residents were concerned that the Crossways building represented a significant part of the local built heritage of Mt Victoria and there were risks that the building would be demolished to make way for an apartment development or similar. Secondly residents were concerned at the loss of the meeting space and associated services currently operating out of the building. The crèche was noted as a particularly valuable part of the existing arrangement, serving both local and more-distant parents and families.

The church's plans to sell the building are driven by its need to raise money for the retention, seismic strengthening and upgrade of St Andrew's on The Terrace, another historic part of Wellington's built heritage. For some years the congregation of St Andrew's on The Terrace has been considering the future of the current church on The Terrace and its suitability as a place of worship now and for the future. After several congregational meetings during 2003-2005 the church decided to remain on The Terrace rather than sell and relocate.

The church requires significant capital expenditure for its restoration and upgrade programme. After the completion of a feasibility study in 2005, the church recognised its need to make a lead contribution to attract other contributions to the fundraising effort. The sale of Crossways was seen as the only realistic option to ensure investment in St Andrew's on The Terrace. While the decision to sell Crossways was not made without significant debate within the congregation, it was recognised that the church has undergone several phases of expansion and retraction during its life in the city with the most recent example being the merging of St Andrew's on The Terrace and Mt. Victoria Presbyterian Church in 2003. At that time the congregation agreed that Crossways would continue to be used as a community centre for at least 3 years.

5. The 2007 Council decision

At the time of the final Annual Plan deliberations the Council considered the range of issues facing Crossways. Officers recommended against purchase of the building or a significant financial contribution for the following reasons:

- The building itself was not at risk. The heritage values of the building were effectively protected by the pre-1930s Demolition Rule in the District Plan (Rule 5.3.11) and would be protected further by listing as a heritage building in the District Plan
- The building is old, and has a poor “fit for purpose” as a modern community centre. The spaces are not flexible and the building has high energy costs, is expensive to maintain and during the day the premium downstairs space is appropriated by the crèche activity.
- At the time of the Draft Annual Plan last year there was relatively low patronage from local residents and a significant number were drawn from across the city – around two thirds of usage was estimated as not specific to the local neighbourhood.
- The demographic analysis of Mt Victoria revealed:
 - Significantly higher percentage of 15-29 year olds
 - Fewer children aged under 10
 - Lower percentage of people in their own homes (24% in Mt Victoria compared with 44% in Wellington as a whole and correspondingly more in rental accommodation (70%))
 - Across all age groups a higher rate of churn through residential properties – around 40% of the Mt Victoria population has been resident at their Mt Victoria address for under 1 year
 - 61% of the Mt Victoria residents aged 15 and over have never been married – 18.5% higher than the rest of Wellington
 - Almost 47% of the Mt Victoria population have a degree or postgraduate qualification (14% higher than the Wellington population as a whole)
 - The median household income in Mt Victoria is \$86,700 compared to \$74,200 in the rest of the city
 - Fewer residents receiving Superannuation (6% compared with 9% for the rest of Wellington)
 - Fewer residents in Mt Victoria work part time and more people work longer hours than the rest of Wellington

In brief, Mt Victoria has a significant number of young, mobile residents, urban professionals and students who are most likely to draw on the attractions in the CBD for their recreation and support needs. During the 1980s, Mt Victoria was being re-gentrified and there was a much stronger family orientation and a less vibrant central city.

Given these factors and the mismatch between the current user groups and the Mt Victoria resident population there is a strong argument for a different approach to community development in the suburb.

- The Council's work on a 10 year plan for investment in community facilities was waiting for a stock take to establish a clearer picture of any surplus or shortfall in meeting spaces and it was considered prudent to wait until this work had been completed before any significant investment decisions were made about facilities.

The Council was, however, persuaded by the residents' desire to retain Crossways for community purposes. Ward councillors brokered an arrangement with Mt Victoria residents and the St Andrews on The Terrace Church, with Council's approval, with the following key elements:

- A grant of \$70,000 from Wellington City Council in 2007/08 to St Andrew's on the Terrace to enable them to defer sale of Crossways.
- A 3-way agreement between the Church, Mt Victoria residents that required residents to:
 - develop a fundraising strategy
 - fundraise an initial \$450,000 by 31 March 2008
 - fundraise a further \$550,000 by 1 September 2008
 - finalise a sale with the Church by 1 October 2008
 - all maintenance and upgrade costs to be the responsibility of the eventual owner.
- Council would then consider an appropriate financial contribution as long as each of the fundraising targets was met.
- Any failure to meet milestones would result in the Church being free to sell Crossways.

A full text of the amendment moved at the Strategy and Policy Committee meeting on Thursday 20 June 2007 and subsequently approved is attached as Appendix 1.

6. Funding milestone achievement

6.1. Offer from donor Trust

The three-way agreement that was signed required the first milestone to be achieved by either:

- (1) cash in the bank of the appropriate entity (Crossways Community Trust) or:
- (2) a written commitment from a philanthropic trust or similar which would be paid at a future date that was approved in advance by the Director, Citizen Engagement, in respect of both donor and any conditions.

The Crossways Community Trust recently met with staff and tabled a letter from a donor trust, which wishes to remain anonymous, and is prepared to lend a

substantial amount to purchase the Crossways building. Their offer is essentially:

- the provision of a sum of \$450,000 by way of secured loan
- the loan to be interest free for a period of 3 years and at a commercial rate thereafter if demanded
- forgivable in part or entirely at the option of the donor trust
- for a period of 5 years.

The offer presented difficulties and was deemed unacceptable for two reasons:

- (1) there is no public record of the donor trust's financial viability and their anonymity makes it difficult to assess their offer.
- (2) The loan is expected to be secured and only forgivable (in part or entirely) at the option of the donor Trust during the course of the loan. Therefore the Council has no assurance that the fundraising is of any more than a temporary nature. While the loan is initially interest-free, it would be subject to a commercial rate of interest (again at the discretion of the donor Trust) after an initial 3 year period. It is unclear how the Trust would service this. The fundraising strategy provided to us gives no assurance around the servicing of a large loan and the current cash fundraising provides no confidence as it amounts to a sum of around \$20,000 from a fundraising period of about 8 months.

Subsequent to the initial meeting with Crossways' trustees, a further meeting was held to examine whether further progress could be made on these two issues. Further information has been provided by the donor trust with appropriate deletions to preserve its anonymity. Officers are now confident that the donor trust is able to make the financial distribution as outlined in its letter of 29 February 2008.

However the second issue around financial sustainability is still a barrier to accepting the \$450,000 as achieving the funding milestone. The donor Trust was explicit about its contribution being a loan not a grant and that it was prepared to forgive the interest (for 3 years) and perhaps a small portion of the principal at the end of the 5 year period. The \$450,000 sum to be distributed represents a significant amount of the capital available to the Trust so they are keen to have most of it returned for re-distribution.

The Crossways Community Trust has raised \$20,000 cash through local fundraising efforts and have also applied to a wide range of philanthropic organisations and trusts for funding support.

6.2 Financial Context

The three way agreement envisaged that the Director, Citizen Engagement would be able to easily assess the achievement of the funding milestone as donations would be relatively straightforward and would be received in cash or by way of grant to be paid at by the second milestone date. Discussions with

Crossways trustees had clearly outlined that a loan at the front end of the fundraising would be unacceptable.

The total fundraising required of the Trust was \$1 million for a purchase price of around \$1.5 million leaving a gap of around \$500,000 (depending on the final purchase price). The Council's thinking at the time was that if the fundraising milestones were met then Council would make a contribution to the gap (say around \$250,000) and the remainder could be met by way of commercial mortgage.

The offer by the donor trust provides a loan at the front end of the process. It is likely that there will still be a requirement for a further commercial mortgage in October. The fundraising strategy focuses on raising the capital and makes a series of assumptions around the servicing of debt that are high-risk. A copy of the strategy is attached as Appendix 2. It represents the only information made available to officers around the financial sustainability of the Crossways Trust.

The fundraising approach depends to a large part on the creation of an education precinct on the ground floor of the existing building housing the current crèche and the re-location of the kindergarten currently accommodated at Clyde Quay School. Substantial Ministry of Education funding would be required to achieve this. The required funding timeframes are extremely tight and the October purchase timeframe is ambitious.

6.3 Council's need to satisfy itself on financial viability

The Council must be satisfied that the Trust has appropriately and reasonably met the funding raising expectations. Further, the Council has an interest in the nature and conditions of any fundraising and in the general financial viability of the Trust, its operations and its ability to meet and service the capital and operating costs of Crossways. The primary reasons why the Council is interested in the financial position, health and viability of the Trust are:

- The Council has proposed a capital contribution from ratepayer's funds for the purchase and development of Crossways.
- The Council must be satisfied that the funding will deliver the outcomes sought.
- If the Trust is unable to complete its fundraising, service any future financial obligations arising from this fundraising or if the Trust has financial difficulty in continuing to operate Crossways then there is a risk that funding provided by the Council will have failed to deliver the outcomes sought.
- In the event that the Trust's future financial viability is doubtful then the Council needs to assess what potential obligations / risks that the Council may be exposed to (for example, would there be an expectation that the Council will financially support the Trust in the future).

6.4 Advice on the business plan

The following observations / issues are raised from a review of the Trust's business plan by finance staff.

The Business Plan has a high level indicative capital budget. There is no supporting information to test the robustness of the refurbishment costs. We understand that no contract has been signed for this work and therefore there is no certainty as to the construction cost.

The Trust has not set out the operating budget for Crossways. This would be of significant concern as:

- The Trust will need to service the repayment of principal and interest on the loan from the donor Trust. The donor Trust intends that the funding provided will be repayable.
- The capital contributions “appear” to include cashflows from lease rentals and this could seriously compromise the ability to fund operating expenses. The capital budget for 2007/08 includes \$1m of what appear to be estimated future rental streams – it is unclear how the Trust anticipates receiving these in advance as an upfront payment to pay for the capital programme and property purchase.
- As there is no operating budget, it is unclear how the Trust plans to fund the operating costs associated with the building – electricity/energy, maintenance, rates etc.
- Under the cashflow implications the Trust seems to be “expecting” the Council to fund its “significant” cash flow issues during refurbishment. There is no commitment from Council to provide any further funding to service commercial loans / mortgages etc.

The plan indicates a significant reliance on fundraising/sponsorship. The Council’s experience is that this market is particularly tight and there is significant competition for funds from sponsorship and community trusts. This, and the Trust’s funds raised to date (\$20k) would indicate a high level of risk in this area.

The business plan mentions further funding being sought from the Council. The Council would need to consider the total contribution sought for this project and

It is the officers’ view that the conditions of the loan are unacceptable because they place the Crossways Community Trust in an unsustainable position in the short to medium term.

7. Impacts of decision

There are several impacts if the Council was to decide the funding milestone had not been achieved.

1. Impact on the building
2. Impact on users (excluding the crèche)
3. Impact on crèche users
4. Impact on St Andrews on The Terrace church

7.1 Crossways building

The building is not at risk of demolition or significant change that would affect its heritage values. Any potential purchaser will have to apply for resource consent under the heritage rules to undertake new building work except for

repairs and maintenance and internal alterations. The relocation of the building on the site would also require resource consent.

7.2 Impact on users (excluding the crèche)

Regular user groups number 26. The crèche is the most regular user and the only daily user. Other user groups are either weekly or monthly. In addition there are other event bookings throughout the year. The weekly, monthly and occasional bookings are likely to be relatively easily re-housed. A number of these users are not exclusively (or even predominantly) from Mt Victoria so other nearby locations are possible. The top-line results for the community facilities stock-take has just become available and has indicated that Lambton Ward has significantly higher numbers of spaces across all types compared to any other ward. Over 90% are reported as being in good or very good condition and there is significant space available during peak usage times. Officers do not envisage a problem re-housing weekly, monthly or occasional users.

7.3 Impact on crèche users

The crèche is the most difficult of the user groups to re-house because of the compliance costs, location requirements and ancillary issues such as parking. The crèche has for some time been kept on the Bandoliers site (ex-Women's Bowling Club) off Majoribanks Street but there are a number of difficulties around compliance with the Town Belt legislation and Management Plan and the Reserves Act. Re-location to this site is possible but officers are still working through the process issues and associated risks.

The crèche parents have exhausted the possibilities locally and this paper recommends that the process issues around Council's Town Belt policies and compliance with legislation are worked through with some urgency and reported back to Strategy and Policy Committee in the next month.

7.4 Impact on St Andrews on the Terrace

The non-achievement of the funding milestone allows the church to sell Crossways and allows their refurbishment and fundraising plans for St Andrews on the Terrace to proceed more quickly.

8. Conclusion

The funding milestone target set by the three way agreement for 31 March 2008 was intended to allow the Council and the church to assess whether it was likely a purchase could be achieved relying on local fundraising efforts. The cash raised by the Crossways Community Trust is in the region of \$20,000. It is clear that without the significant and generous offer by the donor Trust to lend \$450,000 the target would be missed by a significant margin. In officers' opinion, the fact that the offer is a loan precludes the acceptance of it as achieving the milestone target.

Contact Officer: Wendy Walker - Director, Citizen Engagement

Supporting Information

1) Strategic Fit / Strategic Outcome

This paper is linked to the Social and Recreation Strategy, Community support cluster, activity 6.4.6 community centres and halls

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

The project is included in the 2008/09 Draft Annual Plan for consultation as a possible initiative. The milestone target date falls in the consultation period.

3) Treaty of Waitangi considerations

There are no Treaty of Waitangi considerations

4) Decision-Making

This is not a significant decision.

5) Consultation

a) General Consultation

No formal consultation has taken place on this issue but the Crossways Community Trust and the Mt. Victoria Residents Association have kept the local community up to date with issues as they have arisen. However residents have not been advised of officers' views on the acceptability of a loan

b) Consultation with Maori

Maori have not been separately consulted

6) Legal Implications

The Council's lawyers were consulted around the development of the three way agreement and subsequently on the milestone target. Their advice was that the target was not achieved

7) Consistency with existing policy

There is no conflict with existing policy.

APPENDIX 1

Wellington City Council Te Kaunihera O Poneke

EXTRACT OF MINUTES STRATEGY AND POLICY COMMITTEE

MEETING OF THURSDAY 20 JUNE 2007

158/07P **2007/08 DRAFT ANNUAL PLAN: REPORT ON NEW FUNDING
REQUESTS RAISED DURING CONSULTATION**

Report of various officers.

(1215/52/IM)

(REPORT 6)

Moved Councillor Shaw, seconded Councillor McKinnon the following amendment:

2e)

- i. Agree that a grant of up to \$70,000 is made in 2007/08 to St Andrews on The Terrace Church (the amount to be calculated equating to the church's foregone income from interest off investments) to allow them to progress the essential capital works on St Andrews On the Terrace without the immediate sale of the Crossways Community Centre on Brougham Street, Mt Victoria in order to give residents of Mt Victoria the opportunity to raise sufficient funds to purchase Crossways for community use
- ii. Agree that this grant is conditional on the development of a three way agreement between the Church, a representative group of Mt Victoria residents (that requires them to be legally constituted before 31 July 2007) and Wellington City Council. This agreement is to be formalised by 15 August 2007
- iii. Agree that the key elements of this agreement shall require:
 - (i) the Mt Victoria resident's entity to:
 - a. develop a fundraising strategy and provide it to Wellington City Council, and St Andrews on the Terrace Church by 31 August 2007
 - b. fundraise an initial \$450,000 by 31 March 2008
 - c. fundraise a further \$550,000 by 1 September 2008
 - d. finalise a sale with the church by 1 October 2008
 - e. take responsibility for all ongoing maintenance and upgrade costs
 - (ii) the Wellington City Council will consider an appropriate financial contribution to the Mt Victoria residents' entity by 30 September 2008 as long as each of the fundraising targets have been met. This amount will be included in the Draft Annual Plan for 2008/09.

APPENDIX 1

Wellington City Council Te Kaunihera O Poneke

EXTRACT OF MINUTES STRATEGY AND POLICY COMMITTEE

MEETING OF THURSDAY 20 JUNE 2007

- iv. Note that any failure by the “Crossways Trust” or legal entity to meet milestone events will result in the Church selling Crossways. Milestone events include the legal constitution of the entity, the development and provision of a fundraising strategy and fundraising timeframes.
- v. Note that the Church will require the three way agreement to enable them to sell Crossways if a suitable buyer is found who will agree to retain the community centre functions even if milestone events are being achieved by the residents’ entity.
- vi. Note that the tripartite agreement will be binding on all parties.
- vii. Note that the sale price for Crossways is to be determined by the Church.
- viii. Note that the Church has formal processes to undertake before it can agree to any delay in sale.
- ix. Agree that officers continue to provide advice and support to Mt Victoria crèche in its search for alternative accommodation, including further exploration of the Bandoliers site, noting the various legal opinions.