

## 8. MUSIC CENTRE OF CHRISTCHURCH TRUST INC. – ADDITIONAL LOAN \$175,000

<b>Officer responsible</b> Director of Finance – Bob Lineham	<b>Author</b> Associate Director of Finance – Geoff Barnes, DDI 941-8447
---	---

The purpose of this report is to seek the approval of the Council to grant an additional loan of \$175,000 to the Music Centre of Christchurch Trust Inc to allow them to take occupancy and renovate the Portery building.

### BACKGROUND

The Christchurch Music Centre Trust has operated from two listed heritage buildings adjoining the Cathedral of the Blessed Sacrament in Barbadoes Street since the early 1990s. The buildings are the former Convent of the Sisters of Our Missions and the former chapel attached to convent. Both are Group 1 heritage buildings in the City Plan. The head lease from the Sisters is held by the Council. The Council leased the former convent and chapel from the Sisters of Our Lady of the Mission in 1993 for 66 years. The Council then leased the buildings to the trust for the purposes of heritage retention and operation of a music centre.

The Council provided an interest free loan of \$420,000 which, together with grants from the Community Trust and the Lotteries Commission enabled the strengthening, fit-out and establishment of the Music Centre.

The trust has since repaid \$221,116 by annual payments of \$30,150 with a current balance of \$198,884. There is a further 6.5 years to run under the current loan. Although the loan is interest-free to the trust, an internal interest charge has been made by the Council to the heritage grants budget to ensure the income of the special funds is intact.

### NEW PROPOSAL

In October 2001 the trust board of the Christchurch Music Centre entered into a sublease of the Portery and Hostel buildings on the Ferry Road/Barbadoes Street site owned by The Sisters of Our Lady of the Missions. The head lease of the premises is held by the Christchurch City Council. These portery and hostel buildings are an addition to the adjoining former chapel and convent buildings which are also held in a similar sublease by the trust board and have been successfully administered as a Music Centre for the past eight years.

Prior to the Council agreeing to enter into the lease for the additional premises, preliminary investigation was undertaken and estimates prepared of required building upgrading for earthquake and fire protection. The estimated cost to undertake minimum earthquake strengthening and fire protection work was \$400,000, including a \$23,000 contingency sum. This sum did not include additional building upgrading or deferred maintenance items.

On the basis that \$400,000 would bring the buildings to a basic standard for the proposed additional activities of the Music Centre, the Council agreed to make a grant of \$100,000 provided the trust board raised the remaining \$300,000. The trust board has been successful in arranging nearly all the above funding.

The detailed building assessments and plans prepared for tender purposes have estimated the total costs to be near \$500,000. This figure does, however, include electrical wiring replacement (\$74,000), heating (\$24,000), extra fire doors, paving and landscaping (\$20,000). It is considered to be cost effective and less disruptive to future tenants to undertake these necessary works at the initial contract stage. The lowest tender and quotations now received confirm the above estimate to be accurate.

The trust board has a shortfall of \$175,000 and has therefore requested an increase of the Board's current loan by this sum in order to finance and complete all the required work.

The board request that the current loan be increased to \$373,884 and that it pay back \$19,000 every six months. A schedule of anticipated cash flows submitted by the trust board indicates its ability to meet this additional commitment.

In seeking the additional \$175,000 loan, the trust board also ask that the heritage fund continue meeting the loan interest. A submission in this respect has been made to the Annual Plan. The trust board does, however, offer to pay a nominal rate of interest on the new loan but consider it should not exceed 3.75% on the outstanding balance owing to budget restraints and its desire to keep the buildings up to a standard to attract tenants.

## LOAN SERVICING PROPOSED

The Council could extend the loan as requested as an investment of special funds under the Investment Policy. The special funds should continue to receive income at 7.5% and this will need to be met from either the heritage budget or the trust. The total interest cost would be \$28,041 pa in the first year (as compared to \$14,850 pa under the current loan).

The trust has indicated that it is willing and able to pay debt servicing of \$38,000 pa under the new loan of \$373,884. The question is whether or not the trust should pay the interest. The Council could continue the practice of the past, that is interest-free to the trust but this would increase the Council's commitment from its heritage budget by \$13,200 pa. Alternatively, it could charge the trust some or all the interest and extend the period for loan repayment in order to keep within the \$38,000 pa threshold.

A comparison of the various options for a larger loan follows:

1. If the Council continues to provide the loan interest free then it effectively means a repayment term of 10 years instead of the current 6.5 years and a grants expense of \$28,000.
2. If the trust pays all the interest and principal on of the full loan at the rate of \$38,000 pa the loan term would be for 18 years on a table basis.
3. If the trust pays half the interest on the loan the loan term would be 13 years. This would be close to equivalent to continuing the original loan interest-free and charging full interest on the new loan portion.

It is recommended that the Council offer to restructure and extend the existing loan as set out under option 3 or a variation around this theme. The original interest-free loan has been successful and will in essence be continued. This new proposal expands the facility and therefore benefits the trust. The terms offered are appropriate to the proposal and the trust has indicated that it can afford the cash flow. It is unlikely a loan on these premises under lease occupancy would be available from other market sources. The Council will still be granting a concession.

The current heritage budget cost for the interest internal charge is \$14,916 reducing over the next 6.5 years. The proposal under option 3 has a current interest subsidy of \$14,020 and reduces more slowly over 13 years. The interest 'cost' to the Council over the longer term will increase marginally each year compared to the existing obligation but over the next four years is less than \$3600 pa. There will be a minor reduction in next years budget.

Over the next 10 years the amount of interest subsidy under the existing loan and the new loan are compared in the following table:

Year Ended 30 June	Existing Loan	New Combined Loan
	\$	\$
2003	14,351	13,809
2004	12,090	12,946
2005	9,829	12,051
2006	7,567	11,122
2007	5,306	10,157
2008	3,045	9,156
2009	783	8,117
2010	0	7,039
2011	0	5,920
2012	0	4,758

## CONCLUSION

An increased loan over 13 years at a concessionary interest rate to the trust of 3.75% is a reasonable solution to meeting the request of the trust.

## NATURAL + PEOPLE + ECONOMIC STEP ASSESSMENT

#	CONDITION:	Meets condition ✓✓0*	HOW IT HELPS MEET CONDITION:
<b>The Natural Step</b>			
N1	Reduce non-renewable resource use	✓✓	Promotes the use of heritage buildings rather than construct new.
N2	Eliminate emission of harmful substances	✓✓	As above, recycling reduces resource use.
N3	Protect and restore biodiversity and ecosystems	NA	
N4	People needs met fairly and efficiently	NA	NA - See People Step + Economic Step
<b>The People Step</b>			
P1	Basic needs met	✓✓	Heritage is retained.
P2	Full potential developed	✓✓	The buildings continue in a practical community use.
P3	Social capital enhanced	✓✓	
P4	Culture and identity protected	✓✓	Music education and experience is facilitated
P5	Governance and participatory democracy strengthened	✓✓	Significantly funded by the users for benefit of children of Christchurch
<b>The Economic Step</b>			
E1	Effective and efficient use of all resources	✓✓	Community use of heritage buildings is cheaper than construction new purpose built structures
E2	Job rich local economy	NA	
E3	Financial sustainability	✓✓	The occupants pay for the renovation over time.

### Staff

**Recommendation:** That the Director of Finance be authorised to enter into loan arrangements with the Christchurch Music Centre as generally outlined and that the Council's long term forecasts be amended to reflect the extended period of interest subsidy.

### Chair's

**Recommendation:** That the above recommendation be adopted.