

15. YMCA BISHOPDALE

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The purpose of this report is to present potential mechanisms for the provision of funds for the YMCA Bishopdale project as an equity investment and to seek resolution on those to be adopted.

BACKGROUND

At its meeting on 30 June 2004 the Council considered a report from the chairperson of the Metropolitan Funding Subcommittee that sought approval for the Grants to Community Organisations Fund to be increased by \$1m for 2004/05 to enable a Recreation and Youth Centre in Bishopdale to be developed by the YMCA.

As a result the following resolutions were passed:

- “1. *That the Council provide funding of \$1 million for 2004/05 only in the Long Term Council Community Plan to enable the Council to contribute towards a recreation and youth centre in Bishopdale.*
2. *That the Council request staff to negotiate the provision of funds for the project as an equity investment.*
3. *That the funds be provided from the Income Equalisation Reserve.”*

We understand the rationale for the resolutions above particularly 2, to be as follows:

- That the YMCA do not unduly profit from the benefit of public funds.
- Ensure social objectives are met.
- That the funds are applied to this specific project

OPTIONS

Council officers have met with the YMCA to explore the options that might give effect to the second resolution above and these are outlined below:

1. **Land Ownership**

The Council to purchase the land and lease it back to the YMCA. Although not their preferred option, the YMCA would be prepared to sell the land to the Council for \$1.26m. Their original purchase price was \$1.25m though they have just received a revaluation at \$1.26m. This would be conditional upon leasing back the property for a minimum period of 100 years at a peppercorn rent i.e. \$1 per annum.

Advantages

- Increases Council control.
- Easy to set up with clear roles and responsibilities.
- Provides the Council with a tangible asset.
- Might provide a return on investment.

Disadvantages

- YMCA paid more for the land than the \$1m funding provision.
- Lack of ownership could constrain YMCA to raise debt funding.
- Not the preferred option of the YMCA.
- Creates a level of ongoing administration.
- Cannot be achieved within current budget i.e. \$256,000 short fall.

2. **Equity Share**

Equity in Assets

It is difficult without relating this type of arrangement to tangible assets to envisage how this might work. The purchase of land is mentioned above with the overriding disadvantage being the fact that the YMCA does not support such an arrangement and the values are not equivalent.

Purchase of a portion or element of the built improvements is similarly not supported and equally fraught with difficulties not the least of which are:

- Creates an ongoing liability in terms of maintenance, upgrade and replacement.
- Difficult to set up an administrator.
- Would produce an environment in which confusion would be rife over roles and responsibilities.

Equity/Business Operation

The creation of equity in the business is also an unviable proposition. The YMCA is an incorporated charitable trust and plan to fund the Bishopdale project through debt and equity over a range of their business assets and cash flows. The Council taking a stake/share holder position in the YMCA is not something the YMCA wishes to entertain, nor would it be a straight-forward proposition for the Council.

Although the Council funding is a reasonable amount compared to the Bishopdale project it is not in terms of the YMCA's overall operations and therefore even if achievable the objectives the Council is endeavouring to achieve would not warrant the employment of this mechanism.

3. **Loan Arrangement**

The proposal of securing the funding by way of mortgage over the property was discussed and generally supported in the following format:

- An interest free loan.
- Lowest priority behind other secured creditors.
- Progressively written off at \$50,000 per annum i.e. over 20 years.
- Outstanding principal repaid on sale or change of use away from delivering community outcomes.

Advantages

- Provides incentive to ensure delivery of desired outputs.
- Creates equity type status.
- Could easily be adjusted to provide a return.

Disadvantages

- Small set up cost and ongoing administration.
- Security risk as lowest ranked mortgagee.

4. **Purchase Property Rights**

Right of First Refusal

The YMCA would be prepared to grant the Council a right of first refusal i.e. in the event they decided to sell the property the Council would have first option to purchase.

Encumbrance

This proposal is similar to the encumbrance mechanisms utilised to ensure the protection of heritage values on heritage properties. It takes the form of a document registered against the title that sets out the rules and conditions for the use of the property and in this instance would ensure the delivery of a community facility and related outputs.

Advantages

- Easy to document.
- Assist in achieving the Council's objectives.
- Both are a form of equity e.g. purchase of property rights/interest – the Council receives something in return for its funding

Disadvantages

- Takes rights away from the YMCA and therefore imposes some constraints. These should, however, not affect delivery outputs.
- Does not provide a return.

ISSUES

The establishment of an “*equity investment*” in relationship to what is essentially grant funding contains some fundamental flaws. Equity by definition is an interest in something e.g. asset, business etc, and as outlined the mechanisms recommended in this report do that while also assisting in achieving the Council's objectives.

The difficulties arise in trying to translate the funding into an investment. Approaching funding applications in this nature poses very difficult and quite likely unpalatable issues in terms of:

- Establishing equitable arrangements around returns, risks and rewards.
- Appointment and creation of value/or ownership.
- Some assets/interests come with liabilities.

Quite simply the Council is not taking any of the business risk and therefore apart from the above issues it is questionable whether they should expect to share in those risk related rewards, bearing in mind this also can be a double edge sword – not all investments transpire in profits.

In economic terms the Council could equally only expect to get a reasonable return related to the risks associated with their investment. In this instance the funding arises from a grant application and therefore the desire to create return for risk is somewhat incongruous.

If the Council were concerned with undue profiteering from public funds or getting a return on the outlay, a commercial type loan with interest facility would be the best mechanism to protect against both. Though it would then be questionable why the Council would get involved, in the capacity of what would then effectively be a lender, unless other objectives were being met e.g. social, or seeding a project that would otherwise not be viable, in which case no interest or a discounted rate might be appropriate. Such grant application would then need to be supported by a full financial and feasibility study to ensure the appropriateness of the Council's role.

CONCLUSION

In exchange for the \$1m funding the YMCA would agree to provide the Council with the arrangements as generally outlined in 3 and 4 above ie:

- Loan arrangement i.e. mortgage
- Purchase of property rights i.e. Right of first refusal
Encumbrance

It is considered these mechanisms adequately achieve both the general objectives of the Council and generally give effect to the resolution while appearing fair and reasonable in terms of the relationships between the parties and level of the Council's funding.

The alternative of purchasing the land and leasing it back to the YMCA is equally an effective mechanism, and in some respects better, but would require the funding of \$1m approved by the Council in June 2004 to be increased to \$1.26m. There is, however, a possibility to establish and deferred settlement with the \$256,000 funded from next year's annual plan – 2005/06.

Staff

- Recommendation:**
1. That the \$1m funding be explicitly for the YMCA Bishopdale project and therefore conditional upon that project proceeding.
 2. That the Council funding of \$1m be secured by way of mortgage as generally outlined in the above report.
 3. That, in exchange for the funding, the YMCA provide the Council with a right of first refusal and encumbrance as generally outlined in the above report.
 4. That the General Manager Corporate Services and General Manager Community Services be authorised to finalise the detailed arrangements in accordance with the principles outlined.

Chair's

Recommendation: That the above recommendation be adopted.