

**Mayor and Councillors**  
COUNCIL

2 MARCH 2017

Meeting Status: **Public**

Purpose of Report: For Decision

## **YOUTH DEVELOPMENT CENTRE FIT-OUT FUNDING**

### **PURPOSE OF REPORT**

- 1 This report seeks a decision from Council on contributing and repurposing funding to Zeal Education Trust for the fit-out of the Youth Development Centre.

### **DELEGATION**

- 2 The Council may consider this matter.

### **BACKGROUND**

- 3 The Youth Development Centre is one of six major planned projects in the Long Term Plan 2015. Provision has been made in the Long Term Plan for a capital cost of \$250,000 and annual operating costs, these are outlined in the table below:

	<b>Actuals</b>	<b>Budget</b>	<b>Budget</b>
	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
	<b>Year one</b>	<b>Year two</b>	<b>Year three</b>
Zeal Contract Funding	\$137,470	\$274,860	\$274,860

- 4 The focus in the Long Term Plan for the first three years is developing a funding strategy for the Youth Development Centre.

#### The Contract with Zeal Education Trust

- 5 On 11 August 2015, Council selected Zeal Education Trust (Zeal) as the supplier for the Youth Development Centre. Zeal is one of New Zealand's leading youth development not for profit providers. They currently deliver three youth development centres across the country.
- 6 The Council's contract with Zeal for the Youth Development Centre has a three year term with two rights of renewal contract for three years each. There are two components to the contact with Council. One part commits operational funding for the first three years (until 2017/18) for youth development services and activities. The other part of the contract commits a Council capital cost contribution of \$250,000 towards the refit for the Youth Development Centre facility. The Council's capital contribution is dependent on Zeal securing funds from the Lotteries Community Facility Fund (Lotteries Fund) allowing Zeal to leverage of Council's contribution.

- 7 After the initial contracted three years, an annual investment in the Youth Development Centre is provided for in the Long Term Plan 2015 – 2035, this is outlined in the table below:

	2016/17	2017/18	2018/19	2019/20	2020/21	2020/21	2021/22	2022/23
	Year two	Year three	Year Four	Year Five	Year Six	Year Seven	Year Eight	Year Nine
Youth Development Centre Operation Funding	274,860	274,860	281,732	288,775	295,994	303,394	310,979	318,753

- 8 It is important to note that figures inflate each year due to expected CPI adjustments.
- 9 Built into the contract are safe guards to ensure that Council can end the contract if sufficient funds are not raised to complete a 'fit for purpose' Youth Development Centre, by 30 June 2017. At this point the current contract would be reviewed with new options explored and presented to Council.

#### Contract Deliverables

- 10 Zeal are currently in the second year of their contract with all Year One deliverables being reported on as fit for purpose, timely and performed in accordance with agreed budgets.
- 11 All Year Two deliverables are on target with the exception of securing funding from the Lotteries Fund to commence fit out and build of the Youth Development Centre facility.
- 12 Key deliverables for Year Three are defined in the contract for service and include:
- Establishment for two satellite services
  - A lease of a premise for the Youth Development Centre
  - A capital funding strategy for the fit-out of the Youth Development Centre.
- 13 Zeal have established a Coffee Cart Social Enterprise & Youth Training satellite service in Year One, this service was ahead of expected delivery (Year Two). The Music Box satellite service was launched at the 2017 Waitangi Day Event in Ōtaki. This was also delivered ahead of the expected contracted delivery date.
- 14 Zeal secured a long term lease on 130 Rimu Road as the site for the Youth Development Centre. This lease has a three year term in line with the contract Zeal has with Council. The lease has seven rights of renewal for three years each. The rights of renewal on the lease were extended by Zeal due to advice from the Lotteries Fund to strengthen the September 2016 Lotteries Fund application.
- 15 Approved resource consent and a build price is a requirement of the Lotteries Fund. Resource consent was issued for the Youth Development Centre premise

prior to the Lotteries Fund application in September 2016. The current total build cost is \$1,058,764.

- 16 To date, Zeal has raised \$112,000 capital funding for the fit-out of the Youth Development Centre. These funds are from:
- Infinity Foundation \$25,000
  - Private Philanthropist \$10,000
  - Coastlands Shopping-town \$40,000
  - Lions Club of Waikanae \$20,000
  - Pak and Save Kapiti \$5,000
  - Local Kapiti Church \$2,500
  - Zeal National \$10,000
- 17 A five year memorandum of understanding was signed by Zeal with the Waikanae Lions Club in 2016 for a \$20,000 capital contribution and \$80,000 operational contribution for the Youth Development Centre over that term.
- 18 Zeal applied for \$697,000 to the Lotteries Fund in September 2016. This application was accompanied by 17 letters of support from the community, including three college principals, Police and the Chair of the Chamber of Commerce.

## ISSUES AND OPTIONS

### Issues

Lotteries application for fit out costs

- 19 Zeal's application to the Lotteries Fund in September 2016 did not receive funding. The fund was oversubscribed to due to a high demand across the country for facility funding. The committee re-focused the criteria, preference funding was allocated to projects requiring up to \$500,000 to complete their capital funding projects. This information was not known by Zeal or Council staff prior to the submission of the funding application. This new criteria is likely to continue for subsequent Lotteries Fund rounds.
- 20 The Youth Development Centre fit-out has a current shortfall of \$696,265.
- 21 The next Lotteries Fund round is on 8 March 2017. The Lotteries Community Facilities Fund Advisor has recommended Zeal re-apply to the Lotteries Fund with an application requesting less than \$500,000 to fully complete the project. The advice from the Lotteries Community Facilities Fund Advisor is that;
- the Lotteries Fund committee wanted to see a higher level of "partnership funding" contributing to the capital cost of the fit-out;
  - an application in March 2017 will have 'prioritised consideration' due to the high quality of the application.
  - the March application should be requesting less than \$500,000 to complete the fit-out.

- 22 The March Lotteries Fund round has a total funding pool of \$4 million. A \$500,000 request equates 12.5% of the total funding available. Advice from the Lotteries Community Facilities Fund Advisor is that it is prudent to request less than \$400,000 for the application to have the best chance at receiving funding.

#### Revised application for March funding round

- 23 Zeal is working on a revised design to create savings of \$100,000 in the cost of the fit-out of the Youth Development Centre. The redesign will reduce the amount requested from the Lotteries Fund with an application going to the next round which closes on 8 March 2017.
- 24 The revised design will be presented at today's Council meeting. The revised design will remove the shipping container elements of the fit-out and will not compromise functionality of the Youth Development Centre.

#### Other funding for the fit out and build

- 25 Zeal has pending capital funding proposals for a total of \$260,000 towards fit-out costs of the Youth Development Centre. These are as follows:

- NZ Community Trust                      \$60,000
- Lion Foundation                            \$60,000
- Wellington Community Trust            \$50,000
- IDEA services                                \$90,000

- 26 Zeal has been unsuccessful in securing other funding beyond the \$112,000 it has confirmed so far. A total of \$420,000 in capital funding bids for the fit-out of the Youth Development Centre have been declined. A majority of the funding bids were declined due to lack of funds available and prior funding commitments elsewhere. This means that there are few other capital funding options available in the future for this project. Securing the Lotteries Fund is crucial for this project.
- 27 Zeal will give an update on pending capital funding applications at this Council meeting.
- 28 If Zeal is successful in the March round of the Lotteries Fund, the fit-out will be completed between December 2017 and February 2018.

### **OPTIONS**

There are three options presented in this report.

#### Option 1

Council contributes additional funds to the fit-out of the Youth Development Centre

- 29 This option request additional support to increase the Council's contribution to the fit out by \$75,000, plus repurposing \$75,000 of existing Youth Development Centre contract operational funding to the fit-out, resulting in a total of an additional \$150,000 for fit-out and build costs.
- 30 This option involves two financial changes to the contract with Zeal. The changes are as follows:

- a) Repurpose contract funding to allow Zeal to use \$75,000 of their contract payment for 2017/18 for fit-out.

<b>Council Operational Funding for the Youth Development Centre Zeal Contract, Year 3 (2017/18) Opex</b>	
<b>Current Youth Centre Operational Funding</b>	\$274,860
<b>Proposed operational funding to be used for fit-out</b>	\$75,000
<b>New proposed operational funding</b>	\$199,860

- b) Increasing Council's one off capex funding by \$75,000 (from existing commitment of \$250,000 to \$325,000). There will be no rates impact as the additional depreciation and interest costs on the \$75,000 will be offset by reducing Zeal's operating grant by the same amount. This is detailed in the financial considerations section (paragraph 53) of this report.

<b>Council Capital Contribution to Youth Development Fit out Zeal Contract, Capex (pending Lotteries Fund Outcome)</b>	
<b>Current capital contribution</b>	\$250,000
<b>Proposed additional capital contribution</b>	\$75,000
<b>New proposed capital contribution</b>	\$325,000

- 31 It is important to note that Council's funding commitment would be dependent on the confirmation of funding approval from the Lotteries Fund.
- 32 This is the recommended option.

Impact on Zeal's application to the Lotteries Fund in March

- 33 This option would allow Zeal to apply to the Lotteries Fund in March with a request for under \$400,000. It would maximize the chances of receiving significant funding for the Youth Development Centre from the Lotteries Fund.

Impact on Zeal's service delivery

- 34 The reduction of \$75,000 to the operational budget for 2017/18 (Year Three) has minimum service delivery impact. Zeal will maintain current service delivery and ensure that the two satellite services are well utilised across the district. Paid staffing would be kept at current levels (1.8FTE), strengthening this with five youth work interns in 2017. The impact on service would be limited to resource and equipment purchases for 2017/18 outside of those required for the Youth Development Centre fit-out.

Under this option, the Lotteries Fund application could look like this:

<b>Council Funding</b>	Current Capital Contribution	\$250,000	Confirmed
	Additional Capital Contribution	\$75,000	Proposed
	Operational Funding for fit-out	\$75,000	Proposed
<b>Secured Funding</b>		\$112,000	Confirmed
<b>Potential Funding</b>		\$90,000	Proposed and may be less.
<b>Lotteries Fund request</b>		\$357,000	Proposed and may be less.
<b>Maximum cost of the redesigned build</b>		\$959 ,000	Proposed and may be less.

35 Strengths of Option 1

- Council’s \$75,000 capital contribution will be rates neutral and not result in increased rates for the district.
- Repurposing \$75,000 of existing Youth Development Centre contract operational funding to the fit-out will not require additional budget.
- Council’s capital contribution could reduce if Zeal obtains other philanthropic funding after the outcome of the Lotteries Fund is known.
- Zeal is committed to keeping current service delivery levels in 2017/18 despite the operational budget available being reduced by \$75,000.
- The request from the Lotteries Fund is significantly less than the \$500,000 threshold which would boost the application’s chance of success.

36 Weaknesses of Option 1

- This option is dependent on proposed funding including the Lotteries Fund which may or may not be successful.

Option 2

Partnership funding of one third, one third and one third

37 This option proposes that the Council fund up to one third of the capital funding required for the Youth Development Centre. The expectation is that Zeal will provide funds for one third and the final third would come from the Lotteries Fund.

38 This would equate to approximately \$320,000 from each of the three parties. Under this option, a Lotteries Fund application would not be viable in March 2017.

<b>Option Two: One Third Capital Contributions</b>			
<b>Zeal 1/3 contribution</b>  <b>\$320,000</b>	Zeal has raised so far	\$112,000	
	Zeal 1/3 contribution - shortfall	\$208,000	\$260,000 pending applications with \$90,000 potentially coming in prior to Lotteries Fund
<b>Council 1/3 contribution</b> <b>\$320,000</b>	Current Capital contribution	\$250,000	
	Additional Capital contribution	\$70,000	Funded by allowing Zeal to use operational funds for fit-out
<b>Lotteries 1/3 request</b>  <b>\$320,000</b>		\$320,000  (plus \$208,000)	This is a prudent amount of funding to request from Lotteries.  However the shortfall from Zeal's 1/3 contribution would push the application request up \$208,000 and over the \$500,000 threshold.
<b>Maximum cost of the redesigned build</b>		\$959,000	This is proposed and may be less.

### 39 Strengths of Option 2

- Council would save the \$250,000 capital contribution if the project is delayed or cancelled.
- This option has no impact on rates.

### 40 Weaknesses of Option 2

- This option does not allow enough time for Zeal's pending funding applications to add to a one third contribution and their contribution would have a shortfall which would push the request to the Lotteries Fund over the \$500,000 maximum funding threshold.
- An application to the Lotteries Fund under this option is likely not to receive funding and therefore the Youth Development Centre would not have enough funding for fit-out in 2017.
- The fit-out would likely be delayed for an indeterminate amount of time and affect the Council's outcomes under the Long Term Plan 2015.
- If the Youth Development Centre does not reach the funding required, alternative actions would need to be undertaken which may include a greatly

reduced design for the facility with less functionality or cancelation of the facility project.

- This option could have an adverse effect on public expectations regarding the Council's role with the Youth Development Centre and Council's reputation could be affected.

### Option 3

No additional support given for fit out

41 In this option the Council does not provide changes to the contract with Zeal and the capital contribution for the fit-out remains at \$250,000. Under this option, a Lotteries Fund application would not be viable.

42 Strengths of Option 3

- Zeal could focus on increased mobile activity and satellite service delivery if Youth Development is delayed or cancelled due to lack of capital funding for the fit-out.
- Negotiation in a new contract (Year 4 – 6) could occur with Zeal to develop a third satellite service in Year 4 (2019/20) in lieu of the Youth Development Centre.
- Council would save the \$250,000 capital contribution if the project is delayed or cancelled.

43 Weaknesses of Option 3

- This option does not recognise the advice that the Lotteries Fund committee is seeking an increase in partnership funding from the Council, which means an application to the Lotteries Fund is not likely to receive funding.
- The fit-out would likely be delayed for an indeterminate amount of time and affect the Council's outcomes under the Long Term Plan 2015.
- If the Youth Development Centre does not reach the funding required, alternative actions would need to be undertaken which may include a greatly reduced design for the facility with less functionality or cancelation of the facility project.
- This option could have an adverse effect on public expectations regarding the Council's role with the Youth Development Centre and Council's reputation could be affected.

## CONSIDERATIONS

### Policy considerations

44 In February 2017, the Council endorsed the Youth Action Plan 2017 – 2018. The goals and activities in the Action Plan provide a foundation for all activities undertaken or supported by the Council which relate to youth and youth development.



45 The goals of the Youth Action Plan 2017 are:

- Communities which are safe for and supportive of our diverse youth communities
- A Council which values and listens to its young people
- A district which has youth friendly spaces and places
- A district where there is lots for young people to do
- A district which supports strong positive youth development.

46 The Youth Development Centre is a key project in the Youth Action Plan and contributes to the Long Term Plan 2015 vision of a vibrant, diverse and thriving Kāpiti.

## Legal considerations

47 There are no legal considerations at this stage. If the Council decides to approve the recommendations in the report, Council's legal advisers will be involved in the process as necessary.

## Financial considerations

### Capital funding

48 Provision has been made in the 2016/17 Annual Plan for a capital cost of \$250,000. The proposed option means that:

49 The existing capital fund of \$250,000 will be carried forward from 2016/17 to 2017/18.

50 Additional capital funding of \$75,000 will be allocated to the fit out and build of the centre.

The table below shows capital funding over the Long Term Plan period.

### Option 1 capital funding

	Budget 2016/17 Year two	Budget 2017/18 Year three	Budget 2018/19 Year Four	Budget 2019/20 Year Five	Budget 2020/21 Year Six	Budget 2021/22 Year Seven	Budget 2022/23 Year Eight	Budget 2023/24 Year Nine
<b>Proposed</b>								
Funding for fit out already allocated		250,000						
additional \$75k capex		75,000						
<b>Total Council Capex Funding</b>	-	<b>325,000</b>	-	-	-	-	-	-

## Operational Funding

- 51 The proposed option repurposes existing Zeal contract operational funding by:
- Allocating \$75,000 in 2017/2018 to contribute to fit out and building costs of the centre.
- 52 In year 2017/18, \$75,000 is used for fit out and building of the centre leaving \$199,860 for Zeal contract operational costs. Operational funding over the Long Term period is shown below.

	2016/17 Year two	2017/18 Year three	2018/19 Year Four	2019/20 Year Five	2021/22 Year Six	2021/22 Year Seven	2022/23 Year Eight	2023/24 Year Nine
<b>Proposed</b>								
Zeal Contract Funding - used for operations	274,860	199,860	269,232	276,275	283,494	290,894	298,479	306,253
Contract Funding - used for fitout		75,000						

- 53 This option does not occur any additional operational funding as it repurposes funds within current budgets. The additional capital funding of \$75,000 will be repaid at \$12,500 depreciation funding per annum starting in 2017/18 until 2023/24.

	Budget 2016/17 Year two	Budget 2017/18 Year three	Budget 2018/19 Year Four	Budget 2019/20 Year Five	Budget 2020/21 Year Six	Budget 2021/22 Year Seven	Budget 2022/23 Year Eight	Budget 2023/24 Year Nine
<b>Proposed</b>								
Zeal Contract Funding - used for operations	274,860	199,860	269,232	276,275	283,494	290,894	298,479	306,253
Contract Funding - used for fitout		75,000						
Depreciation funding used to repay additional \$75k capex		-	12,500	12,500	12,500	12,500	12,500	12,500
<b>Total Council Opex Funding</b>	<b>274,860</b>	<b>274,860</b>	<b>281,732</b>	<b>288,775</b>	<b>295,994</b>	<b>303,394</b>	<b>310,979</b>	<b>318,753</b>

## Tāngata whenua considerations

- 54 Te Whakaminenga o Kāpiti were represented and advice sought in the feasibility and procurement stages of the project.

- 55 Zeal has worked with Te Whakaminenga o Kāpiti on the role of tāngata whenua and how the Centre can best meet the needs of rangatahi Māori. Zeal last met with Te Whakaminenga o Kāpiti on 12 July 2016 to discuss iwi involvement.
- 56 The youth group Te Puāwaitanga O Ngā Kākano have been actively involved with the Zeal's planning and activities across the district.

## **SIGNIFICANCE AND ENGAGEMENT**

### Degree of significance

- 57 This matter has a moderate degree of significance under Council policy. This is related to the public interest in the project.

### Consultation already undertaken

- 58 No engagement plan is required.

### Engagement planning

- 59 The engagement plan will focus on advising the community about Council's decision and providing information to explain that decision.

### Publicity

- 60 Zeal and Council have a joint communications plan for the development of the Youth Development Centre and associated services. Matters arising from this report will be discussed within the context of the communications plan.

### Other considerations

- 61 Zeal are working on a contingency plan for a significantly reduced build to present to Council if the Lotteries Fun application in March is unsuccessful.
- 62 Zeal will provide a brief presentation to the Council on 2 March.

### Next Steps

- 63 The following timeline is proposed for the recommended Option (Option 1):
- |           |  |
|-----------|--|
| 8 March   | Lotteries Application submission deadline.   |
| May       | Lotteries Fund outcome known.  |
| June      | Zeal provide a briefing to Council on the outcome of the Lotteries Fund application.   |
| 1 July    | Revised contract in place with Zeal.   |
| 31 August | Report back on Year 2 outcomes of the Youth Development Centre contract with Zeal. This report will be presented to the Strategy and Policy Committee. |

## RECOMMENDATIONS

- 64 That the Council approves recommendations in Option1 of this report, to:
- 64.1 re-purpose \$75,000 of the 2017/2018, Zeal Education Trust contract funding, for fit-out of the Youth Development Centre.
  - 64.2 increase its one off capital funding contribution to the Youth Development Centre fit out by \$75,000. Resulting in a capital contribution of \$325,000 in 2017/2018 (from \$250k to \$325K).
- 65 That the Council delegate authority to the Chief Executive Officer to write a letter to the Lotteries Community Facilities Fund prior to March 8 stating the Council has approved an additional \$150,000 for the fit-out of the Youth Development Centre.
- 66 That Zeal present the outcome of their Lotteries Fund application, once the decision is known, in a briefing to Council.

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