

**Report 5c**  
(1215/52/IM)

---

## **WELLINGTON ZOO TRUST 2006/07 FUNDING REQUEST**

---

### **1. Purpose of Report**

To report back to the Strategy and Policy Committee on the progress of the Zoo Trust's development of the Zoo Capital Plan (ZCP) and to make recommendations regarding the Zoo Trust's 2006/07 operating budget proposal.

### **2. Executive Summary**

The Zoo Trust is preparing a full business case to support the ZCP which gives effect to the Zoo Trust's Strategic Plan. The draft business case which has been provided by the Zoo Trust details Year 1 of the ZCP and the associated funding required. Council Officers have made recommendations based on the draft business case and the Council's current funding restraints. No decisions on the full ZCP will be made until the full business case has been completed and presented to Council Officers.

The Zoo Trust has also provided its 2006/07 OPEX budget which requests 'business as usual' increases, new initiative increases and ZCP related increases. Council Officers have reviewed the requests and made recommendations accordingly.

### **3. Recommendations**

It is recommended that the Committee:

1. *Receive the information.*
2. *Agree to provide the Wellington Zoo Trust with an additional \$40,000 in OPEX funding in 2005/06 (from savings to be found by the Chief Executive from within the 2005/06 Annual Plan budget) to assist with the preparation of the final business case for the Zoo Capital Plan.*
3. *Agree to 2006/07 OPEX funding of \$2,687,500 comprising the LTCCP base figure of \$2,428,500 plus increases of \$190,000 and \$69,000 relating to staff salaries and depreciation respectively.*
4. *Agree to phase the Zoo Capital Plan Year 1 CAPEX funding requirement over 2006/07 and 2007/08.*
5. *Note that the full business case for the Zoo Capital Plan will be presented to the Strategy and Policy Committee in June 2006.*

## 4. Background

In 2004 the Council approved the Wellington Zoo Trust's Strategic Plan. Since that time, the Zoo have sought approval for implementing their Strategic Plan, initially through their Long Range Development Plan and then through the Zoo Capital Plan (ZCP). The Zoo Trust are working to develop a sufficiently robust business case to enable Council Officers to approve the ZCP and recommend an appropriate amount of long term funding required to go into the Long Term Council Community Plan (LTCCP).

When approving the 2005/06 Annual Plan, the Council agreed to include CAPEX funding of \$2.75 million for Zoo upgrades in the 2005/06 Annual Plan. In addition, an amount of \$0.84 million was brought forward from 2004/05, giving a total amount of funding to be spent on CAPEX upgrades for 2005/06 of \$3.59 million. The proposed work program for 2005/06 was:

	\$m
Chimpanzee enclosure	2.18
Giraffe, zebra and ostrich enclosure	1.20
Sewer upgrade	0.18
Water saving measures	<u>0.03</u>
	<u>3.59</u>

The two principal projects that were recommended in Year 1 of the ZCP supported the trust's Strategic Plan, which was approved in 2004. The Amphitheatre had been part of the originally approved work program for 2005/06 but as a result of the increased costs of the Chimpanzee enclosure and the inclusion of the sewer upgrade, the Amphitheatre had to be deferred.

At the SPC meeting on 13 October 2005 Councillors considered 5 options for future CAPEX programs for the zoo. Of these, Council Officers recommended that Option 3 – the modified ZCP was put forward for consideration. The estimated redevelopment cost of this option was \$21 million; the Council's maximum contribution was estimated at \$14.9 million. It would address the major legacy issues of animal welfare and health and safety and introduce some of the enhancements to the visitor experience or exhibit interpretation. The outline work program to support this option is attached as Appendix 1. A summary of the aims of the proposal can be given as follows:

- To deal with all legacy animal welfare and health and safety issues which pose a significant risk (they are currently being mitigated but this is not a sustainable long term option)
- To deliver a safe, comfortable and enjoyable zoo experience
- To demonstrate the Council's commitment to retaining the zoo
- To reflect professional advice regarding the development of an achievable target and strategy for securing non-Council funding in the first 5 years
- To reduce the overall financial risk to the Council should external funding not eventuate at anticipated levels.

The Committee accepted this proposal and the Zoo Trust, who gave qualified support to this option, were asked to prepare a business case. At a meeting between Council Officers and the Zoo trust in December 2005, a timetable for the delivery of the business case was agreed upon, the details of which are set out below:

8 Feb 2006	Zoo Trust to provide draft business case – this will include 2006/07 in detail and, time permitting, a high level outline of Years 2 – 10.
9 Feb – 22 Feb	Zoo Trust works to finalise “Interim Report”, while Council Officers review and prepare Officers reports
22 Feb 2006	Reports due for publication
1 Mar 2006	SPC deliberates on draft LTCCP
28 Apr 2006	Zoo Trust to provide completed business case with full and robust detail of Years 1 – 10 for Council Officers to review
29 Apr – 9 Jun	Council Officers to review completed business case with Zoo Trust
14 Jun 2006	Deliver final report with Council Officers recommendation to committee members
21 Jun 2006	SPC hears submissions and deliberates on Final LTCCP

## 5. Discussion

In accordance with the timetable outlined above, the Zoo Trust has prepared and presented a draft business case to Council Officers during the week commencing Monday 13<sup>th</sup> February, outlining in detail the proposed developments for Year 1 of the ZCP. The full 10 year work program is still being developed and will be presented to Council Officers in time for them to inform the final LTCCP deliberations.

Therefore it would be inappropriate to make a recommendation on the whole of the ZCP based on the Year 1 figures alone. However, a number of observations can be made regarding the information delivered to date in the draft business case:

- 1) The quality and detail of the analysis and preparation completed to date gives Council Officers confidence that the full, final business case will be an accurate and reliable gauge of the total costs of the ZCP.
- 2) The total Year 1 (2006/07) CAPEX costs according to the draft business case are \$6,733,833 of which the Zoo Trust is targeting external funding of \$2,700,000, leaving the Council CAPEX funding requirement for 2006/07 at \$4,033,833. This compares reasonably with the LTCCP value of \$3,800,000 which was based on the original ZCP, the figures for which were originally estimated in 2004. Clearly since that time, the economy and especially the construction industry has experienced a

notable period of growth, which would help to explain cost escalations between then and now. As a further result of cost increases the Zoo Trust is having to revise its CAPEX program in order to keep it within the original limits of proposed funding, which was a net cost to the Council of \$14.9 million over 10 years. The breakdown of the CAPEX funding requirements for 2006/07 are given below:

	\$
Year 1 (2006/07) ZCP CAPEX requirement	6,733,833
Less Zoo Trust external funding target	<u>2,700,000</u>
2006/07 Council CAPEX funding requirement	<u>4,033,833</u>

A detailed breakdown of the Council CAPEX funding requirement for 2006/07 is given in Appendix 2.

- 3) It must also be pointed out that, as per the draft business case the Zoo Trust has received very encouraging feedback to date with regard to external funding. Medical equipment worth approximately \$700,000 has already been pledged, indeed some \$300,000 has been included in the draft 2006/07 operating budget. This leaves a \$2,000,000 requirement, a significant amount of which is currently being negotiated with promising signs having been received to date. In addition to this, the Zoo Trust has confirmed its intentions not to begin the construction of a given project if they do not have all of the funding in place.
- 4) However, it must also be noted that the business case includes a number of additional OPEX costs, relating to both 2005/06 and 2006/07. The Zoo Trust has also submitted its draft 2006/07 operating budget which comprises 'business as usual increases' as well as a number of new initiative increases. These were not considered in December last year, with the other new initiatives, as due to the obvious inter-relationship between the operating budget and the ZCP it was considered more appropriate for them all to be considered at the same time. The breakdown of the OPEX costs for 2005/06 and 2006/07 are given below:

	\$
2005/06 ZCP related OPEX requirement (In addition to \$2,363,500 OPEX grant already received)	<u>92,275</u>
Year 1 (2006/07) ZCP related OPEX requirement	267,473
2006/07 OPEX grant as per 2005/06 LTCCP	2,428,500
2006/07 OPEX 'business as usual' increases	300,945
2006/07 OPEX 'new initiative' increases	<u>326,589</u>
2006/07 Council OPEX funding requirement	<u>3,323,507</u>

**2005/06 ZCP related OPEX requirement - \$92,275**

This figure includes \$40,000 for the estimated completion costs of the final business case, the cost of the draft business case having cost \$40,000, giving a total cost of \$80,000. The Council have already agreed to contribute \$40,000 towards the costs of developing the business case. In order to be able to make a fully informed decision, the second part of the business case must be completed and so Council Officers recommend payment of this amount.

The balance of \$52,275 is made up of concept design and strategy costs for further elements of the ZCP, namely site access/circulation, Forests will Flourish and Islands in Isolation. Whilst these projects would not be completed until after Year 1 of the ZCP, the need for forward planning, involving appropriate planning and design work is required to inform the overall business case. That said, until the ZCP has been agreed in its entirety it would be inappropriate for the Council to release further OPEX funding for a project which may or may not take place so Council Officers do not recommend funding of these costs.

### **Year 1 (2006/07) ZCP related OPEX requirement - \$267,473**

This figure comprises \$80,000 for specialist marketing fundraising services and \$20,000 for market research. Given the promising feedback the Zoo Trust has received to date without significant professional guidance there would appear no need to grant this funding at this stage. Council Officers do not believe that market research would add value to the business case over and above that already gleaned from the existing historical data. Also, there is reason to believe that, if necessary, further information may be leveraged through other avenues such as PWT and the Council's own research units. Also within this figure is \$41,973 for Year 2 ZCP projects concept design costs relating to the Entry Building, Islands in Isolation and the Archibald Centre. As stated above, in spite of the accepted merits of forward planning to inform future decisions it would be inappropriate to release further OPEX funding for these projects which are part of the ZCP and may or may not take place. Thus Council Officers do not recommend Council to release further funding for these OPEX costs. The balance of these costs, \$125,500, relates to animal acquisition costs. Due to the restrictive environment in which the zoo works with regard to acquiring new animals, sometimes the process of acquiring animals must be undertaken well in advance of the time in which they are due to be exhibited according to the ZCP. Notwithstanding this, as stated in relation to other future ZCP costs, they cannot be recommended by Council Officers until such time as the ZCP is itself approved.

### **2006/07 OPEX 'business as usual' increases - \$300,945**

This relates to the general operating costs of the zoo and so specifically excludes any costs relating to new initiatives. The total figure of \$300,945 is made up from budget variances on almost every income and expenditure line item. The most significant of these figures and the ones that Council Officers believe have the most justification are the salaries increase of \$190,000 and the increased depreciation of \$69,000 relating to the newly received medical equipment. The salaries increases represent a 6% increase on 2005/06, to address cost of living increases which is not unreasonable when compared to the Council's own salary budgets. One of the zoo's key assets is the increasing quality and professionalism of its staff and to not recognise this in the form of remuneration is a significant risk for both the Zoo Trust and Council. In summary, Council Officers recommend approving \$190,000 and \$69,000 in relation to salaries and depreciation and declining the balance of \$41,945.

## **2006/07 OPEX 'new initiative' increases - \$326,589**

Included within this figure is \$70,600 for new staff positions relating to the ZCP which cannot reasonably be justified until such time as the ZCP is formally approved and also for the further reasons given below. Also included is \$100,000 towards the Zoo Centenary budget of \$250,000 which Council Officers do not consider to be a priority or a reasonable use of the limited operating grant funding available for 2006/07. The balance of this figure is \$155,989 in relation to non-managerial salary increases to address below market rate levels which, as mentioned above, involves significant risk to the zoo and Council. However, Council Officers consider that the 'business as usual' increases recommended go a long way towards addressing the salary concerns.

As outlined above, Council Officers believe that the commitment, hard work and professionalism of the zoo staff has contributed significantly to the increased visitor numbers and vastly improved reputation of the zoo in recent years. On this basis, significant salary increases have been included in the 2006/07 OPEX budget and subsequently recommended by Council Officers. However, it must be pointed out that the number of Full Time Employees at the zoo has increased significantly from 39 in 2002/03 to 54 in 2004/05. This increase has been significantly funded by the Council as can be seen from the Zoo Trust's budgeted operating income (excluding grant and subsidies) only increasing by \$300,000 from 2003/04 to 2006/07. This agrees with the visitor number data which shows an average increase of 1,000 - 2,000 for the last few years. It must be borne in mind that for every new staff member that is paid \$30,000 per annum, an annual visitor number increase of 2,500 (or other revenue generation, for example, from a higher valued product) is required to cover the resultant employment costs. This issue of service level is fundamental to the running of the zoo and the consequent effects on its OPEX funding requirements. The Council and the Zoo Trust need to ensure that the Zoo Trust's approach to service levels aligns with Council priorities and long term strategies.

A summary of the proposed OPEX increases is given as Appendix 3. Also to be noted is that the 2006/07 budget, attached as Appendix 4, shows a budgeted surplus of \$300,000. This is a direct result of the \$300,000 of medical equipment to be received as part of the CAPEX funding in 2006/07. It is a non-monetary surplus and does not impact on the Zoo Trust operating grant requirement.

### **Further Considerations**

Given the current environment in which the Council is aiming to significantly reduce 2006/07 CAPEX, some consideration should be given to the Zoo achieving their aims in other ways. Specifically, the ZCP is notable for the front loading of the CAPEX funding from the Council, whereas a CAPEX plan with a more even distribution of funding over the next 10 years, and specifically a reduced CAPEX requirement for 2006/07 may better align itself with Council priorities and constraints. Some alternatives to the current Year 1 funding proposal are considered below:

1. The latest internal CAPEX report shows that the Zoo has spent less than \$40,000 of the approved \$1.2 million funding for the giraffe, zebra and ostrich enclosure. Council Officers considered the possibility of re-allocating this funding to the

ZCP Year 1 but concluded that the inherent priorities within the building of the giraffe enclosure meant that this was not possible.

2. The Hospital development including design, consent, tender and construction is currently scheduled to be completed within a 14 month period. In order for this 14 month construction to be finished before the end of June 2006, the developed design must be started in May. Given the uncertainty over the Councils available pool of CAPEX funding, and the completion and approval of the full 10 year business case, a phasing of the Hospital development over 2006/07 and 2007/08 might be a more realistic alternative. Subject to further investigation, an assumed equal split of funding over the two years would give a Council CAPEX funding requirement for the Hospital alone of \$1.2 million in both years.
3. The Amphitheatre, whilst also a health and safety issue, could be deferred to a later year of the ZCP which would reduce the 2006/07 funding requirement from the Council by \$600,000. This is a discrete project and has no direct linkages with other components of the ZCP, so its deferral will cause minimal impact to the overall ZCP project phasing.

Refer to Appendix 2 for a prioritised list of planned CAPEX expenditure.

Allowing for the smaller items within the planned Year 1 expenditure to also be phased over the two years, 2006/07 and 2007/08, the ZCP year 1 proposed spending might be allocated as follows:

	\$ million
2006/07	1.8
2007/08	<u>2.2</u>
Original Year 1 funding	<u>4.0</u>

Council Officers have not addressed the implications of this suggested phasing on the Year 2 funding requirements, currently stated in the draft LTCCP as being \$1,870,000. On presentation of the final business case, Council Officers will then be able to evaluate any impact.

## **6. Conclusion**

The Zoo was asked to prepare a business case with a 10 year funding requirement of \$20.0 million, with the Council to provide a maximum of \$14.9 million of this and a budgeted figure of \$3.8 million for Year 1. The draft business case to date gives a Year 1 funding requirement of \$4.0 million and supports this with a detailed planning schedule. However, in light of the Council's current funding pressures, consideration of alternatives has had to be given.

As a result of the CAPEX considerations outlined above, Council Officers recommend that the planned 2006/07 program be spent over two years. The effect of this phasing on the 2007/08 program (and later years) would be considered as part of the final business case.

Council Officers recommend that additional OPEX of \$40,000 for 2005/06 be given to the Zoo Trust in order to complete the business case. In addition, Council Officers recommend that a 2006/07 OPEX budget of \$2,687,500 including increases of \$190,000 for salaries and \$69,000 for depreciation of medical equipment be approved.

It is acknowledged that the business case produced so far is a draft and whilst it may impact the draft LTCCP, a final decision on the suitability and merits of the full ZCP, and the associated funding implications for the Council will not be made until such time as the full business case is presented to Council Officers.

Contact Officer:        *Ian Clements, Portfolio Manager, WCC*



## **Supporting Information**

### **1) Strategic Fit / Strategic Outcome**

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

*The Council gives an annual operating subsidy to the Wellington Zoo Trust (C046) and provides CAPEX funding for renewals (CX125) and upgrades (CX340). This report relates to the future content and phasing of CX340 and the level of C046 for 2006/07.*

### **3) Treaty of Waitangi considerations**

*There are none.*

### **4) Decision-Making**

*This report summarises and assesses the views and preferences for the ZCP as set out in the draft business case as well as presenting some alternatives in light of the Councils reduced available funding.*

### **5) Consultation**

#### **a) General Consultation**

*The Wellington Zoo Trust has been consulted over the contents of this report.*

#### **b) Consultation with Maori**

*None has taken place.*

### **6) Legal Implications**

*There are none at this stage.*

### **7) Consistency with existing policy**

*Not applicable.*