
REPORT 11
(1215/52/IM)

WELLINGTON ZOO TRUST ZOO CAPITAL PLAN

1. Purpose of Report

In pursuit of its strategic objectives, and further to a recommendation from the Strategy and Policy Committee in October 2005, the Zoo Trust has developed a business case for a 10 year capital redevelopment programme for the Zoo. This report considers the business case and assesses to what extent the Council should support the plan. Note that the business case has been separately circulated.

2. Executive Summary

At a previous Strategy & Policy Committee (SPC) meeting in October 2005, it was noted that the recently identified strategic priorities for the next three years did not appear to support immediate investment in the Zoo. However, Councillors asked the Wellington Zoo Trust to prepare a business case in support of the modified Zoo Capital Plan (ZCP), with the key aim of addressing health and safety legacy issues. The ZCP originally comprised an estimated capital funding requirement from Council of \$14.9 million, over a ten year period.

The comprehensive nature of the business case highlights the detail and rigour involved in its preparation. This has given Council officers significant assurance over the integrity of the information presented, particularly with regard to the project cost estimates.

However, the more robust nature of the financials, allied to some extent with the significant increases in construction costs, has also resulted in the scope of the ZCP being severely reduced. A number of planned exhibits have been removed from the scope of the original ZCP and the business case presented, whilst leveraging some exhibit enhancements, is strongly focussed towards addressing health and safety concerns.

The business case prepared by the Zoo Trust requires Council funding of \$15.661 million. Council officers have recommended that the ZCP be approved by Council subject to the adoption of a revised phasing to help smooth out the Council's annual CAPEX funding. The effect of this on the current LTCCP is to reduce Councils asset ownership costs by \$0.5 million over the next ten years. If the ZCP is approved, Council officers will continue to work with the Zoo Trust to develop appropriate funding mechanisms to reduce the financial risk to Council, should external funding not eventuate.

The Zoo Trust has highlighted a number of additional OPEX revenues and costs arising from the ZCP which will ultimately contribute a \$3 million net surplus to the Trust's operating position over the course of the ZCP. Because the contribution is a surplus, and because some of the expenditure is considered to be more aligned to the Trust's strategic plan than to Council's strategic priorities, Council officers recommend that no additional OPEX expenditure be awarded to the Trust in relation to the ZCP.

3. Recommendations

It is recommended that the Committee:

- 1. Receive the information.*
- 2. Agree to approve CAPEX funding to the Wellington Zoo Trust of \$15.661 million for inclusion in the Draft Annual Plan, subject to the revised phasing recommended by Council officers in Appendix 1.*
- 3. Note that the OPEX funding is less than the current LTCCP due to revised phasing of the CAPEX programme.*
- 4. Decline further operational funding to the Trust in relation to its proposed capital investment programme.*

4. Background

In April 2004 Council (via the Community, Health and Recreation Committee) approved the Wellington Zoo Trust (WZT) updated Draft Strategic Plan, though it was noted that any additional funding would need to be considered in future Annual Plan and Long Term Council Community Plan (LTCCP) decisions and consultations.

The Trust initially sought to give practical effect to their strategic plan through the Long Range Development Plan which undertook capital works to improve the Zoo layout, animal accommodation and assist in upgrading the visitor experience.

In October 2005, Council officers reported back to the Strategy and Policy Committee (SPC) with a range of Zoo development options that had been discussed with the Zoo Trust. Council officers recommended that the Trust should submit a business case in support of Option 3 (the modified 10 year development plan). The estimated redevelopment cost of this was \$21 million; the Council's maximum contribution was set at \$14.9 million. The plan 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. 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. It was initially envisaged that the Trust would present their business case to Council officers in time for inclusion in the final LTCCP deliberations in June 2006. However, it was subsequently found necessary to undertake some further preliminary planning work to better inform the business case, hence the draft business case was presented to Council officers in early November. This report provides officer advice on the draft business case, in the form of the Zoo Capital Plan (ZCP).

Council included draft ZCP figures in the LTCCP as prudent recognition of a future funding decision to be made, but this has not committed the Council to either the total draft ZCP funding, or the annual splits thereof.

5. Discussion

5.1 ZCP scope

The comprehensive nature of the business case highlights the detail and rigour involved in its preparation. This has given Council officers significant assurance over the integrity of the information presented, particularly with regard to the project cost estimates.

However, the more robust nature of the financials, allied to some extent with the significant increases in construction costs, has also resulted in the scope of the ZCP being severely reduced. A number of planned exhibits have been removed from the scope of the original ZCP and the business case presented, whilst leveraging some exhibit enhancements, is strongly focussed towards addressing health and safety concerns.

An additional consideration that has further reduced the scope of exhibit enhancement is a change in building legislation which enforces the use of more user friendly gradients for circulation paths and access to exhibits within the Zoo. The extent to which the implementation of each building project within the ZCP will trigger a statutory requirement for pathways to be regarded is uncertain, but likely cost impacts have been built into the project programmes.

A review of the ZCP Project register (ZCP Business Case, Appendix B – ZCP Project Register) shows that the majority of planned projects have significant health and safety implications, reducing risks to animals, staff and visitors. The remediation of these risks is being used to leverage some exhibit enhancement

and also to incorporate some commercial opportunities such as the Shop and Café renovation and expansion.

5.2 CAPEX impacts on LTCCP

The Zoo Trust was asked to prepare a business case with an estimated redevelopment cost of \$21 million, with the maximum Council contribution being estimated at \$14.9 million. As can be seen from the funding schedule (ZCP Business Case, Appendix D – Proposed Expenditure & Funding Schedule) the Trust proposes a 10 year capital works programme costing an estimated \$20.8 million and requiring Council funding of \$15.6 million. This is a significant achievement given the increases in construction costs over the last few years; the Capital Goods Price Index for Non-residential buildings increased by 11% between September 2004 and September 2006¹.

As previously stated, Council officers are confident that the cost estimates provided, certainly for the first three years of the ZCP, are realistic and achievable. The estimates for the out years of the ZCP cannot be viewed with as much assurance due to the uncertainty that arises over such a period of time.

Whilst acknowledging that the CAPEX funding required of Council is very close to the targeted \$14.9 million, it should be further noted that Council officers have discussed with the Trust the need for the proposed Council funding to be smoothed out over the 10 year period. The Trust has sought to do this within the constraints of the project programme, and the associated project selection criteria; however, the first triennium proposes Council funding of \$8.3 million, or 53% of the total required from Council. Further to this, the funding schedule shows a \$2.3 million requirement from Council in Year 1 (2006/07) when the agreed funding for this year has already been fixed at \$1.8 million. There is also an estimated funding requirement from Council of only \$200,000 in Year 10 (2015/16).

In order to spread the CAPEX requirements for Council more evenly over the course of the ZCP, and to ease the burden to Council in the early years, an adjusted funding schedule has been proposed by Council officers, as shown in Appendix 1 of this report.

¹ Source: Statistics New Zealand, Capital Goods Price Index: September 2006 quarter

A summary of the Council funding requirements is given below, comparing the Zoo Trust business case version and Council officers amended version:

Period	Timing of Council funding as per ZCP business case (ZCP Business Case, Appendix D – Proposed Expenditure & Funding Schedule)	Adjusted timing of funding as proposed by Council officers (Appendix 1)	Difference
	\$,000	\$,000	\$,000
Triennium 1 (2006/07 – 2008/09)	8,278	5,641	2,637
Triennium 2 (2009/10 – 2011/12)	4,596	5,876	(1,280)
Triennium 3 (2012/13 – 2014/15)	2,638	3,215	(577)
Year 10 – 2015/16	150	929	(779)
Total	15,661	15,661	0

The following observations are noted in relation to this proposal, referring to both the summary information above and the appendices:

- The estimated costs of the ZCP, and Councils contribution to this remain unchanged
- The order of projects has not been amended
- The reduction in the front-loading of Councils CAPEX is effected by spreading both the planning and construction phases of the Hospital project over two years rather than one and moving all the project phases thereafter (Projects 4 and beyond) to one year later within the ZCP
- The splitting of the Hospital construction equally over two years is a guideline rather than an absolute demand as spreading the costs of any project equally over more than one financial year poses obvious practical issues
- The original funding schedule proposes Council funding of \$2.314 million in 2006/07 whereas only \$1.8 million has been formally approved². The revised schedule proposes a funding requirement for 2006/07 of \$1.873 million, still in excess of the amount formally approved but not materially so.

² Given that only \$1.8 million funding has been approved by Council for 2006/07, it is strongly suggested that the Amphitheatre construction, as far as is practicably possible straddles the 2006/07 and 2007/08 financial years if this can be done without jeopardising the Pub Charity donation (which must be spent as soon as possible but in any event, no later than June 2007) and without giving rise to a significant underspend of the 2006/07 capital budget.

A comparison of the current CX_340 CAPEX provisions in the LTCCP (based on the draft ZCP submitted to Council officers in February 2006) and the revised figures discussed above is given below:

	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	Total
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
Current LTCCP	1,800	4,070	2,050	650	1,070	2,000	1,600	600	550	510	14,900
LTCCP as adjusted for Council officers revised ZCP	1,873	1,921	1,847	2,636	1,288	1,952	1,356	695	1,164	929	15,661
Increase / (Decrease)	73	(2,149)	(203)	1,986	218	(48)	(244)	95	614	419	761

The revised funding schedule more evenly spreads the CAPEX commitment from Council. Whilst LTCCP figures are included for CX_125 (CAPEX renewals) these figures do not change between the two schedules so the variations arise solely from CAPEX upgrades (CX_340). Neither Council officers nor the Zoo Trust anticipate that the new assets comprising the ZCP will give rise to any significant CAPEX maintenance increases over the next 10 years.

A significant aspect of the ZCP CAPEX funding is that it budgets for design and tendering costs, at roughly 10% of the overall project cost, and that generally this cost is incurred in the year before the project is scheduled to take place. This is prudent in that it gives an informed view of the total project, prior to it being undertaken whilst also giving accurate cost estimates to drive future budgets. Some of these planning costs are likely to be more OPEX than CAPEX in nature and Council officers will continue to work through the classification of these costs with the Zoo Trust.

5.3 OPEX impacts on LTCCP

5.3.1 Revenue increases

In the business case the Zoo has sought to show increases in visitor numbers of 2% per annum which equates to 3-4,000 people a year over the entire 10 year period of the ZCP. This would take the visitor numbers from a figure of 170,110 in 2005/06 to 207,370 in 2015/16. The increases are expected to arise chiefly from the improved visitor experience, for example, the well marketed opening of new exhibits, and the reduced dependence on weather resulting from the Amphitheatre construction. Whilst there is rigour in the principles behind the increases, the quantifying of these increases is problematic.

The Zoo asserts that these projected increases are conservative given that the visitor numbers have increased by 3% in total, in the three years of the Trust's existence. However, the Trust has acknowledged stagnation in population growth for their current target market. Currently 85% of visitors are aged 0 – 34, and there will be a small decrease in this sector of the Wellington regional

population over the course of the ZCP, hence the need for the ZCP to drive repeat visitation which the Trust believes it can do through visitor programming and better facilities.

The increased revenues (ZCP Business Case, Appendix E - Revenue & Expenditure forecasts) associated with the increased visitor numbers are also, for the most part, conservative. There are modest annual increases directly in proportion to visitor numbers plus stepped increases to admission prices in Year 5 (2010/11) and Year 10 (2015/16). There is also a projected increase in Café and Shop net revenue arising from their renovation and expansion as part of Stage 1 of the NZ Welcome Plaza. This project is driven by animal and visitor health and safety issues but includes a subsequent improvement to the entrance, where strong first impressions can be formed by visitors.

The business case asserts that the Zoo Trust's operating revenue will increase by an aggregate of \$6 million over the course of the ZCP, growing from \$1.5 million in 2005/06 to \$2.6 million in 2015/16.

5.3.2 Asset ownership costs

Asset ownership costs include depreciation, interest on borrowings, insurance and rates. The two most significant of these are depreciation and interest; analysis of insurance and rating charges has shown that the ZCP has a negligible impact on them. Details of these costs are presented as Appendix 2, and a summary table is shown below:

	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Operating grant	2,688	2,429	2,429	2,429	2,429	2,429	2,429	2,429	2,429	2,429	24,544
Asset ownership costs	877	853	947	1,065	1,191	1,203	1,250	1,365	1,378	1,450	11,580
Total	3,565	3,281	3,375	3,494	3,620	3,632	3,679	3,794	3,807	3,879	36,124
Per LTCCP	3,511	3,355	3,521	3,617	3,637	3,689	3,767	3,822	3,862	3,869	36,649
Increase / (Decrease)	54	(74)	(146)	(123)	(17)	(57)	(88)	(28)	(56)	10	(525)

The table shows that the ZCP, with the CAPEX funding slowed down as suggested by Council officers, gives a reduction in asset ownership costs of \$0.5 million dollars compared to the current LTCCP.

5.3.3 Impacts on Council operating grant

In its business case the Zoo Trust has highlighted a number of areas which they consider will require additional operating funds (ZCP Business Case, Appendix D – Operational Expense Inputs). A summary of the total costs for the 10 year ZCP period, as per the business case, is given below:

Operational expenditure	\$
Asset maintenance costs and animal costs	303,000
Programme Planning & Coordination	162,000
Utilities	40,000
Fundraising	995,000
Marketing	220,000
Interpretation/Learning	400,000
Landscaping & Infrastructure	440,000
TOTAL	2,560,000

Of the above costs, \$1.28 million relates to headcount, an increase of 2.5 FTE plus one contract position; the FTE at the Zoo has risen from 37 to 57 in just over 3 years. In addition, the Zoo Trust has received year on year increases in its operating grant, rising from \$1.97 million in 2003/04 to \$2.687 million in 2006/07.

The largest OPEX item within the business case is in relation to fundraising, representing 40% of the total proposed OPEX increase and comprising one salaried position plus collateral development costs. If Council approves the ZCP then in order to give it the best chance of success, the Zoo Trust needs to reach their external sponsorship targets. The Trust discusses at length its approach to fundraising in the business case and Council officers acknowledge that a significant amount of time and resource must be invested in the pursuit of funds.

Equally though, one of the reasons for setting up Council Controlled Organisations is for their ability to attract external sponsorship, where sponsoring Council directly might not always be an attractive option for potential donors. It might reasonably be expected that a key component of charitable trusts would be the ability to attract/leverage external sponsorship without incurring significant additional operational costs, which are now being requested of Council.

The interpretation and learning costs, whilst likely to improve the visitor experience have no health and safety impacts and are more closely aligned with the Zoo Trust strategic vision than Council priorities. Similarly, the marketing costs are significant, especially when compared to the revenue that will accrue from the conservative visitor increases.

The Trust employs 3 FTE for infrastructural maintenance, as well as already having significant budgets for operational maintenance; there is also a significant AMP budget (\$352k in 2006/07) for CAPEX maintenance already provided for in the LTCCP.

Whilst the ZCP is a part of the Trust's strategic plan, and the two are inextricably linked, there comes a point when the ZCP OPEX related expenses become more closely associated with the Zoo Trust strategy than they perhaps do with the Council's primary concern of addressing the legacy issues of a community asset

If, as the Zoo Trust asserts, the stated operational funding increases are required to properly implement the ZCP then Council officers consider that the Trust will have to find them from within its existing budgets by re-prioritising its activities.

5.3.4 OPEX Conclusion

Excluding Council's asset ownership costs, the business case forecasts a net contribution to the Trust's operating position of a \$3 million surplus over the course of the ZCP. This comprises a surplus in Year 1, followed by two successive years of running deficits before continued surpluses are achieved from Year 4 onwards.

The net surplus noted above makes sense in that, whilst recognising an obligation to address health and safety concerns through capital upgrades, in so doing Council would not want to create assets which ultimately resulted in an increase in their operating grant to the Zoo Trust.

Because the contribution is a significant surplus, and because some of the expenditure is considered to be more aligned to the Trusts strategic plan than to Councils strategic priorities, Council officers recommend that no additional OPEX expenditure be awarded to the Trust in relation to the ZCP.

Council officers will continue to closely monitor the Zoo Trust's operating revenue. If the Zoo Trust achieves its projected revenue targets then there may be an opportunity for the Trust to reduce its financial dependence on Council.

5.4 Risk assessment

The most important considerations when assessing the impact of the proposed CAPEX funding are the risks to Council. It has been previously reported that to do nothing, or to only adequately maintain the zoo assets in their current state and condition would effectively lead to the closure of the Zoo. This would begin with a gradual deterioration in the visitor experience and finish with an unattractive and costly to maintain facility. The reputational risk to Wellington and the Council resulting from this course of action should not be ignored.

If Council were to approve the ZCP, in either its current form or a revised version, then the most serious risk considerations for Council would be financial, potentially arising as a result of budget overruns or the Trust not achieving its external sponsorship target. The Trust already employs a full-time CAPEX development manager, and this, in addition to some tightening of CAPEX related contracts and processes gives greater comfort around the area of project management and cost control.

The Council is currently approving Zoo Trust capital funding on an annual basis. The Trust feels that to better enable them to achieve their funding targets, they need the Council to commit to a long term programme of investment. If Council approves the ZCP, it would undertake to provide the agreed level of funding over the 10 years of the ZCP but that does not mean that the (revised) annual funding targets would be released, without question, at the beginning of each financial year. The ZCP in its current form aims to deliver a number of projects, each with their own 'value'. At the beginning of each financial year, the Trust would need to review the impacts of creating this same 'value' for future projects and present an up-to-date assessment of the financial implications of this, in much the same way as Council currently manages all of its CAPEX projects.

The Zoo Trust has highlighted the need to consider the impacts of cost escalations over the course of the ZCP, given that it has been presented in 'today's' dollars. CAPEX figures for the Zoo Trust in the LTCCP are currently adjusted upwards by 3% to reflect inflation. As noted in the business case, cost escalations in construction (as measured by the CPGI for non-residential buildings) are currently between 4% and 5%. Consideration therefore needs to be given to ensuring the inflation-adjusted CAPEX figures for the out years of the ZCP accurately reflect the likely cost of delivering the previously identified level of 'value' through use of the most appropriate index.

As noted by the Zoo Trust in its business case, should Council approve the ZCP then consideration needs to be given to the funding mechanisms to be used. Council officers would work closely with the Trust to reach an understanding on this, but the key principles in any funding arrangement would be:

- 1) No project can start, other than for appropriate pre-construction planning and design development, until all funding is secured (including contingencies),
- 2) Should external sponsorship targets not be reached by the Zoo Trust, there may need to be a re-scoping of the ZCP and a reassessment of Councils funding contribution,
- 3) Particularly in the beginning, it is important that the Trust does not over-extend itself by taking on too many projects at once, subject to the constraints noted above.

It should be noted that the Zoo Trust are very optimistic about the likelihood of receiving external sponsorship, not unreasonably given the significant Pub Charity and Southern Cross donations received to date. Further to this the Trust is keen to ensure that they will not be penalised for achieving any ZCP sponsorship over and above what is currently targeted. Additionally it may be that potential donors are keen to fund other projects not currently included within the scope of the ZCP, for example the Discovery Centre and their sponsorship may be tagged specifically to this project.

In both the above instances Council officers consider it appropriate that the Trust not be penalised in the event of their exceeding sponsorship targets,

though it is recommended that any non-specific (non-tagged) sponsorship received in excess of triennium targets should be put towards future triennium targets before being diverted to a new, non-ZCP project.

6. Conclusion

The Zoo Trust has prepared a business case for the ZCP to begin the process of implementing their strategic plan. The ZCP in its current form has been pared down considerably from what was originally anticipated, in terms of visitor enhancements. The ZCP chiefly addresses the health and safety concerns, but does not fully address the Trusts strategic goals. Therefore it must be acknowledged that the ZCP is part of an ongoing process; the Trust will still require significant capital funding from the Council if they are to achieve their goals and, based on the continuation of current service levels it is unlikely that their OPEX funding requirements from Council will reduce during the course of the ZCP.

It is recognised that the staff at the Zoo have markedly improved the standard of the Zoo, both in terms of health and safety, and visitor experience. Whilst the former was and is critical, the latter is viewed differently by the Zoo Trust and Council. The option 3 (modified ZCP) business case requested by the Council in October 2005 did not provide for the Zoo Trust's strategic vision for Wellington Zoo, but focused on health and safety.

Council officers recommend that the ZCP be approved, and that the Zoo be granted the \$15.661 million CAPEX funding (appropriately adjusted for cost escalations) over the course of the ZCP. The phasing of this funding will be as advised in the revised funding schedule shown in Appendix 1, subject to the Zoo Trust achieving its targeted external sponsorship. The Zoo Trust has highlighted additional OPEX requirements arising from the ZCP but Council officers recommend that no additional OPEX funding be awarded in relation to the ZCP.

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Supporting Information

1) Strategic Fit / Strategic Outcome

The strategic alignment of the ZCP was considered at a previous SPC meeting in 2005.

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

The Council gives an annual operating subsidy to the Wellington Zoo Trust (CO46) and provides CAPEX funding for renewals (CX125) and upgrades (CX340). This report relates to the future phasing and amounts of CX340, plus any potential impacts on CO46 and CX125.

3) Treaty of Waitangi considerations

There are none.

4) Decision-Making

This is not a significant decision in the context of Council's significance policy and has already been considered through the inclusion of draft ZCP figures within the LTCCP.

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.