STRATEGY AND POLICY COMMITTEE
16 APRIL 2009

REPORT 4
(1215/52/IM)

KARORI WILDLIFE SANCTUARY – FUTURE GOVERNANCE OPTIONS

PUBLIC EXCLUDED

Grounds: Section 48(1)(a) - That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7.

Reasons: Section 7.2(a) – to protect the privacy of natural persons

Section 7.2(b)(ii) – to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or is the subject of the information

1. Purpose of Report

The purpose of this report is to seek confirmation of the Council's preferred option regarding the level and nature of its future involvement in the governance of the Karori Wildlife Sanctuary ("the Sanctuary").

2. Executive Summary

The report presents the findings and recommendations of an external review of past management of the Visitor Centre project and explores the extent of the Council's on-going commitment to and future role in its governance.

Factors having a bearing on the circumstances facing the Council are the somewhat unique nature of its relationship with the Karori Wildlife Sanctuary Trust ("the Trust"), the speed of development of the strategic vision for the Sanctuary, the subsequent risks this has created, and the effectiveness of the Trust's governance arrangements in coping with a far more complex project and operation than was originally envisaged.

The potential options for managing the current and future risks the Council faces in respect of its involvement with the project and the Sanctuary provide three types of response – full or increased control over the Trust's activities (including the project) or withdrawal of financial support and governance input. Implementation of each option has been assessed against a set of key criteria that are a reflection of what officers understand to be the Council's strategic and financial objectives for the development and operation of the Sanctuary and the risks that the Committee should take into account. For example, the continued goodwill of the Sanctuary's volunteer network, whose in-kind support to date has been estimated by the Trust as being worth $25 million, is considered a crucial factor.

All of the options considered come with additional cost, some more than others. However, based on their assessment, officers are recommending the option that delivers increased control and improved governance of the Trust without the considerable limitations and impacts associated with assuming full control or withdrawing financial support. This is because, on balance, it offers the best opportunity short term for securing the desired outcome of a satisfactorily completed Visitor Centre and a successfully operating Sanctuary with minimum delay and at least cost, and for minimising the risks of loss of reputation and damage to third party relationships.

Adopting this option does not prevent the Council considering alternative governance arrangements at a later date, should the Council determine that further changes are necessary. Officers will actively monitor the effectiveness of changes recommended in this report, and report back to SPC Committee no later than December 2009. In the meantime, it will be necessary for the Council to make budgetary provision of $300,000 in the LTCCP for the 3 years to 2011/12 to meet the Trust's expense of remunerating Trustees, which is considered essential to ensure Board members are of the highest calibre. Beyond 2011/12 the Trust will fund the fees from its revenue. It is being recommended that the additional funding is allocated as follows: $160,000 in 2009/10, $100,000 in 2010/11, $40,000 in 2011/12.

The recent stock take of the project by the newly appointed independent Chair of the Trust's Project Steering Group has identified issues regarding project implementation and the adequacy of the project budget. Although there is a reasonable likelihood of a delayed opening, its financial impact is not considered great. It is, however, considered appropriate that the Council agrees to provide additional loan funding of up to $420,000 to provide an adequate project contingency sum. This would be subject to the Trust providing evidence that it had exercised adequate control over project costs, without damaging the integrity of the project, before it is allowed to draw down on the additional sum.

It is also considered critical that the Chair of the Project Steering Group is able to continue to provide high quality independent advice to the Board, as well as feedback on progress to the Council. For this reason, the Council is being recommended to increase its loan to the Trust to enable it to accommodate payment of his fees, which are estimated at $60,000 for the duration of the project.

3. Recommendations

Officers recommend that the Committee:

1) *Receives the information.*

2) *Notes its previous resolution of 6 November 2008 that confirmed the provision of additional loan funding of $1.9 million towards the construction and fit out of the Karori Wildlife Sanctuary Visitor Centre, subject to the introduction of improved project and risk monitoring and reporting, tighter cost control and the commissioning of a review of governance arrangements.*

3) *Notes that:*

   a) *An external review of the Karori Wildlife Sanctuary Visitor Centre project management and governance has been completed*
   b) *The Council's Project Management Office has been monitoring the management of the project as an observer on the Karori Wildlife Sanctuary Trust's Project Steering Group and reporting progress to the Chief Executive on a regular basis*
   c) *The Karori Wildlife Sanctuary Trust Board has agreed that an external quantity surveying specialist be appointed as Chair of the Project Steering Group*
   d) *An officer review of the business case supporting the development of the Visitor Centre has been completed.*

4) *Notes the findings of the external review of the implementation and management of the Karori Wildlife Sanctuary Visitor Centre Project, specifically those relating to the Karori Wildlife Sanctuary Trust's governance arrangements in regard to the Project.*

5) *Notes the observations of the independent quantity surveying specialist appointed as Chair of the Project Steering Group regarding the status of project implementation and the adequacy of the project budget.*

6) *Notes the findings of the officer assessment of the Karori Wildlife Sanctuary Trust's revised business case, assuming the Visitor Centre project proceeds to completion as currently proposed.*

7) *Agrees to recommend to Council that:*

   a) *changes should be made to the future governance of Karori Wildlife Sanctuary in order for the Council to achieve increased control (as opposed to full control or withdrawal from governance).*

   b) *the Karori Wildlife Sanctuary Trust be requested to amend its Trust Deed so as to:*
      i) *increase the number of Council appointed Trustees to 3 (all of whom are to be external appointments using the selection*

process normally adopted for board members of Council Controlled Organisations)

ii) reduce the total Board size from a maximum of 12 to a minimum of 7 and a maximum of 8, ensuring that the Trust does not become a Council Controlled Organisation

iii) specify the capabilities and required skill mix of the Board and the Chair of the Trust, these to be jointly agreed by the Council and the Trust as reflecting the nature and life cycle of the business

iv) provide the Council with the right to approve the Board's selection of the Chair of the Trust

v) allow for the remuneration of all Board members by the Trust at a level to be set at the discretion of the Council

vi) clarify the range of circumstances in which the Council can invoke its ability to assume control over the Trust's governance, including reducing to 3 months the timeframe within which the Trust must demonstrate it has responded to concerns raised by the Council.

c) the Council authorises the Chief Executive to work with the Karori Wildlife Sanctuary Trust Board on the detail of the proposed changes in order that the preferred governance option can be implemented by 31 May 2009.

d) the Council approves a change for the time being to the Council's current Board member remuneration policy to permit fees to be paid to all Karori Wildlife Sanctuary Trustees (not just those appointed by the Council), once the above Trust Deed amendments have been confirmed, at the annual rate of $13,000 for Trustees and $26,000 for the Chair.

e) the Council increases its interest free loan funding for the Visitor Centre project by up to $480,000, taking its maximum total loan commitment to $10.38 million, to cover:

i) an increase in the project contingency sum of up to $420,000 as recommended by the new Chair of the Project Steering Group, subject to the Project Steering Group supplying adequate evidence to the Council that it has exhausted all reasonable avenues for addressing any project cost overrun through alternative means without damaging the integrity of the project

ii) the management fees of the Chair of the Project Steering Group, which are estimated at $60,000 for the duration of the Visitor Centre project.

f) the Council makes provision in the LTCCP for additional transitional funding of $300,000 to meet the Trust's expense of remunerating Trustees for the 3 years to 2011/12 ($160,000 in 2009/10, $100,000 in 2010/11, $40,000 in 2011/12), after which the Trust will meet the expense from its operating revenues.

8) *Notes that the names of the preferred candidates for appointment to the three proposed Council positions on the Karori Wildlife Sanctuary Trust Board will be submitted to the Council for approval at its 27 May 2009 meeting.*

9) *Agrees that officers will report back on the effectiveness of the proposed increased control governance arrangements for Karori Wildlife Sanctuary no later than December 2009.*

4. Background

4.1 The statutory status of the Trust

A Council Controlled Organisation is one over which the Council is able to exercise majority control by virtue of having the ability directly or indirectly to appoint 50% or more of the representatives on the governing body. The Local Government Act 2002 requires the Council to undertake a significant monitoring role in regard to the strategic direction, activities and performance of such entities.

The Karori Wildlife Sanctuary Trust is not a Council Controlled Organisation. The Council has the right to appoint only two members of the Board, which currently has 9 Trustees. The Council's appointees are Cllr Foster and Catherine Judd. In terms of the Local Government Act 2002, this makes it a Council Organisation (CO) because the Council is unable directly or indirectly to exercise majority control over the Trust's affairs.

4.2 The reason for the review

This review of future governance options for the Trust was prompted by Councillors' concerns regarding the scale of the Council's current financial commitment to the Sanctuary (specifically to the Visitor Centre Project) and the viability of its future operations. These concerns were reflected in a 6 November 2008 Council resolution that made provision of the additional loan funding for the Visitor Centre project and additional operational funding requested by the Sanctuary's Board of Trustees ("the Board") contingent among other things upon the Board agreeing to abide by the outcome of the review.

4.3 The scope of the review

Given the increasing extent of ratepayer funding being allocated to the Sanctuary, the Council wants to receive assurance that the governance and management of the Trust's activities, including the implementation of the Visitor Centre project, is fit for purpose. Should the current assumptions in regard to the final cost and timing of completion of the Visitor Centre development and the future projections around the financial viability of the Sanctuary's operation once it is completed prove untenable or unreliable, the long-term financial implications for the Council are potentially very significant.

Against this background, officers have assessed a range of options for reducing the level of financial risk the Council potentially faces. These options can be expressed on a continuum from exercising more direct control over the Trust's affairs to scaling back or even withdrawing from all Council involvement with the Sanctuary. These are assessed in detail in section 9 of this report.

The Trust's business case is based on successful completion of the Visitor Centre project. Accordingly, officers have undertaken a further review to validate and if necessary update the revenue projections. The results of this business case review are covered in section 8 of the report.

4.4 Current situation

The 6 November 2008 report to Strategy and Policy Committee set out both the status of the project and the Trust's overall financial situation, together with a history of the events that had led it to seek additional funding of $2.5 million (including $700,000 in contingency) towards the project, taking the total cost to $17.3 million. The Council subsequently agreed to extend its interest free loan from $8 million to $9.9 million, effectively requiring the Trust to find the remaining $600,000 from other funding sources and/or reducing the project contingency to $100,000.

The following is a summary of what has occurred since that report was tabled:

- an external review of project management and governance has been completed, the results of which have been incorporated into this report.
- the Council's Project Management Office (PMO) has been monitoring the management of the project as an independent observer on the Trust's Project Steering Group and reporting progress to the Chief Executive on a regular basis.
- other officer attendance at the Trust's Project Steering Group meetings has ceased so as to remove any perception that the Council is endorsing the Trust's decisions relating to the project.
- in response to concerns raised by the Council's Chief Executive, the Board has agreed that an independent quantity surveying specialist, Dean Riddell, Director of Davis Langdon, should be appointed as Chair of the Trust's Project Steering Group.
- Mr Riddell has provided a "stocktake" of the project's progress, the results of which have been incorporated into this report.
- a further review of the business case supporting the project has been completed by officers and the results incorporated into this report.
- as at 31 March the Trust has incurred an estimated further $2.3 million in expenditure on the project, bringing the total spent to date up to $7.5 million.
- as at 31 March the Trust has drawn down a further $3.1 million of the Council's loan, bringing the total drawdown to date to $5.5 million.

A summary of the Council's total (committed) funding to date for the Sanctuary project and operation is attached as Appendix 2.

5. The outcome of the external project governance review

The Chief Executive commissioned Ruth Harrison to undertake an external review of the governance of the project to date. This review had the objective of identifying governance matters that need to be addressed principally from a Board perspective. The review report is attached as Appendix 1. Its recommendations and findings are relevant to the review of the overall governance of the Sanctuary because of the critical role a successfully completed Visitor Centre will play in securing its future.

The Committee should note that the Harrison report needs to be read against the background of the improvements that have since been implemented in regard to Council monitoring of the project's progress. While there is some reference to the adequacy of the Trust's original project plan and to the Council's risk management and regulatory processes, the findings of the external review principally relate to the project oversight role of the Board.

5.1 The Trust's project plan

The external review has found that insufficient allowance was made in the original project plan for possible delays around gaining and complying with the necessary resource and building consents. When completion of these processes was subsequently delayed, due principally to late submission of applications, to Historic Places Trust objections to heritage management plan provisions and to geotechnical issues with the proposed Visitor Centre site, it had a significant impact on the implementation timetable.

The result was to delay completion by an estimated 12 months, to add to the cost of the project because of increased consulting requirements and unanticipated technical problems, and to bring forward the Board's request for an increase in transitional funding.

5.2 Risk management specification

The Council has no previous experience of involvement in the funding of the development of a major tourism attraction by an external entity not in its control. As the review report points out, in these circumstances the financial risks of under-performance by the Board in delivering the desired project outcome effectively end up passing on to the Council.

In the report it is suggested it was therefore in the Council's interest to have specified the level of project risk it was prepared to accept and the risk management approach that the Board should adopt in regard to its oversight of the project. The Council has since implemented the measures outlined in section 4.4 to ensure better management of its risks.

5.3 Management of regulatory processes

A number of issues arose during the consent application and approval phase that put "speed bumps" in the way of implementation of the project. There were opportunities to mitigate some of this delay. For example, Council officers could have exercised discretion, adjusted their adherence to standard practice and waived the commissioning of peer review of expert advice provided to the Trust.

5.4 The Trust's procurement strategy

The Board decided in July 2007 to proceed with a procurement strategy that assumed it would still be possible to manage the project to satisfactory completion within the previously agreed budget and timeframe. This objective was optimistic and put the Board under a significant amount of pressure to keep on top of the situation.

Because of its desire to restrict the financial impact of the delay by moving forward as quickly as possible, this level of pressure resulted in the Board engaging the main contractor, Fletcher Construction, to commence construction before all pre-construction issues had been fully resolved. This was a high risk strategy under the circumstances - the delay to commencement of the contract ultimately cost the Trust $250,000 in compensation to Fletcher Construction.

Implementing such a strategy required constant monitoring of progress and an ability to recognise critical triggers and their impacts, and to respond accordingly. The Board is considered to have under-performed in this regard.

5.5 The quality of project governance by the Trust

The Trust's Project Steering Group effectively operates as a sub-committee of the Board. When established, it comprised the Chair, one other trustee and the Sanctuary CEO, none of whom are project management experts. Given the size and complexity of the Visitor Centre project, the Project Steering Group relies heavily if not exclusively for some issues on external expertise in project management for its advice.

The Board as a whole, to whom the Project Steering Group is accountable, is perceived by the review as lacking the skills needed to exercise proper oversight in regard to the project or to appreciate the consequences and impacts of the information being presented to it by the Project Steering Group. This lack of relevant expertise is viewed as contributing to the Board not adequately reviewing and addressing the risks associated with its procurement strategy.

6. The outcome of the external stock take of project progress

Having recently been appointed as independent Chair of the Trust's Project Steering Group, Dean Riddell has completed a stock take of project progress. His findings, and the financial consequences of his involvement, are discussed in the following paragraphs.

6.1 Risk of delayed completion

Based on Mr Riddell's assessment of issues around project delivery, the risk of a delayed opening is medium to high. This is principally because the contract completion date is 26 March 2010, which clearly leaves no margin for error in order to deliver the 1 April 2010 opening which the Trust is aiming for. Going live in the short time allowed following completion is already a big ask and carries a reasonable degree of risk of “bugs” impacting operations on opening day.

Mr Riddell’s main concern relates to the time needed to ensure the building and exhibition components interface properly on completion. With such a tight timeframe between completion and opening, any issues surrounding integration of the exhibition within the building could create significant delay. As it is, building construction is already 10 days behind schedule although Fletcher Construction is confident it will make this time up.

An option is to accelerate the building programme as a means of avoiding or reducing the risks associated with a delayed opening. In effect, this would mean the Council agreeing to incur the cost now of the additional contractor resource required to speed up construction rather than provide the additional transitional operating funding that may be required later in the (at present still uncertain) event of a delayed opening. However, while it may ease some of the pressure of opening on 1 April 2010, this option is not considered financially viable based on the analysis in section 8.3.1.

6.2 Adequacy of project contingency

In November 2008, the Council agreed to provide $1.9 million of the $2.5 million additional funding requested by the Trust, taking into account $600,000 of Lotteries grant money that the Trust had applied for. However, that grant application was not successful, which effectively reduced the project contingency sum that formed part of that request from $700,000 to $100,000.

The current forecast total cost of the project is set out in Appendix 3. The current $78,000 contingency sum represents less than 1% of the remaining budgeted outlay of $9.2 million on the project. This leaves little room for manoeuvre in the handling of a project cost overrun and, according to Mr Riddell, is unlikely to prove sufficient should unforeseen events leading to cost increases occur between now and opening day.

Since the project got under way cost overruns to date have totalled just under $3 million. Most of them, totalling $2.1 million, relate to the resolution of the geotechnical issues associated with the selected site for the Visitor Centre; another $700,000 is accounted for by higher than anticipated tender prices. Some project scope reductions have already had to be made to accommodate these cost overruns.

Mr Riddell is of the view that the Trust’s Project Steering group will need to work very hard to find more scope reductions as opportunities are obviously diminishing as the project progresses and will become negligible once the building is “closed in” (scheduled for October 2009). He is therefore recommending that the budgeted contingency sum is increased by $420,000 and that access to further funding of this order is made available.

As indicated in paragraph 8.2 the Trust has minimal room to manoeuvre from a cash flow perspective and could technically become insolvent if it ended up having to fund further cost overruns of this magnitude itself. So it appears the Council is faced with the option of either agreeing now to increase the loan to accommodate the additional project contingency sum or waiting until the contract is completed in March 2010 for any actual cost overrun to be fully determined. The implications of increasing the loan are considered in section 8.3.2.

6.3 On-going involvement

Mr Riddell's involvement in the governance of the project has already been of great benefit and the Chief Executive considers the high quality independent advice he provides to the Board, as well as the feedback on progress he provides to the Council, is crucial to the continued effectiveness of the new governance arrangements. While Mr Riddell's fees for completing the stock take have been accommodated from within existing Council budgets, additional funding will be required to sustain an on-going role.

His monthly fees are estimated at $5,000; this equates to a total of $60,000 for the 12 months from May 2009 to April 2010. As this expense can legitimately be capitalised by the Trust, it is being recommended that the Council funds this cost by increasing its loan to the Trust accordingly.

7. Additional officer commentary on Council involvement

The vast majority of the external entities in which the Council has invested significantly are ones it has created (and controls) and whose activities the Council would otherwise undertake itself. This does not characterise the Council's relationship with the Trust, which has presented a different set of tensions.

Another key lesson learned from the Council's involvement centres on the way in which the vision of the Trust has evolved, in the process turning the Sanctuary into a much more complex operation than was originally envisaged. The result has seen the Council as a significant funder to the project taking on a level of financial risk which, while commensurate with the anticipated level of economic benefit for the city, could be significant and on-going in the event the business case projections are not realised.

7.1 Vision "creep"

The original intent of creating the Sanctuary was to preserve and enhance a unique natural heritage area that might otherwise be lost to the city and to New Zealand. This was expressed in the form of a "500 year plan", which focussed the Trust's efforts on saving the indigenous biodiversity of what was to become the Sanctuary by first removing threats to the continued existence of what already remained and then slowly enhancing it by reintroducing native flora and fauna that had previously died out.

However, in order to achieve this strategic vision, the Trust recognised that it needed an on-going source of revenue to finance its activities that did not rely solely on membership fees and "at risk" discretionary grants from the Council and other organisations. The Trust felt this could only be achieved by providing a level of service and experience that the public would be prepared to pay for. This brought forward a range of ideas, including the development of a visitor centre that would interpret the Sanctuary experience.

The Council saw merit in developing a first-class visitor centre as a cornerstone of a unique attraction that would bring more overseas visitors to Wellington and more particularly encourage more of them to stay longer and to spend more. This was driven by expert opinion that said the city suffered in overseas markets from being unable to promote sufficient commissionable tourist product and that a superior Sanctuary visitor experience would help fill that gap.

In effect the vision of the Sanctuary shifted from being that of a community-based conservation operation with tourism attraction aspirations to that of a high-profile visitor and tourist attraction of strategic importance to the city that relied on promotion of conservation values. Although coming at it from different directions – the Trust seeking to satisfy an operational imperative that would secure its survival and ability to deliver on conservation outcomes, the Council anticipating an economic benefit but wanting repayment of its investment – the two parties landed in common territory where making the Sanctuary a self-funding operation became the top tactical priority.

7.2 Board capability

The vision of the Sanctuary has therefore become a lot more ambitious than the Trust's original 500 year plan, accelerating the rate of Sanctuary development. This has resulted in additional pressure on the Trustees to perform at a much higher level than might otherwise have been the case. However, in the view of officers, the required improvement in the overall performance of the Board of Trustees has not occurred.

Mirroring the focus of the original 500 year plan, there remains an influential caucus among many of the Sanctuary's members and volunteers that tends to view achievement of short-term economic and financial objectives as secondary to the achievement of the desired long-term conservation outcomes. It is probable that this view has at times influenced the Board's deliberations and it should not be overlooked as a factor in the Board not adopting a more robust and appropriate governance style.

Also, the Board as a whole has perhaps not appreciated the need to secure a broader range of skills among its membership. This has worked against the introduction of a more business-like approach to the governance of the Trust and to the management of the Visitor Centre project. An improvement in the overall governance capability of the Board is therefore considered both critical and an immediate priority.

8. Assessment of financial risk

In light of concerns raised over the level of financial risk the Council could now face in regard to its funding of the Sanctuary, officers have completed a further review of the business case supporting the Visitor Centre development. These concerns have in part been prompted by the global economic downturn and its potential impact on tourism, availability of external funding and operating costs.

The review has drawn together input from a variety of sources, including officer assessment of the underlying financial budgets and feedback from external parties, including other CCOs, on the overall feasibility of the business case.

Dean Riddell's feedback in regard to current project timing and cost assumptions has also been taken into account.

8.1 Business case in context

The key assumptions behind the current business case are that:

- the Visitor Centre project opens on 1 April 2010, having been completed within the current budget of $16.7 million and to the current planned level of specification
- a successfully operating Visitor Centre delivers a self-funded Sanctuary operation with no need from 1 July 2011 onwards for further on-going Council financial support (other than the subsidy covering the unpaid interest on the Council's loan)
- the $9.9 million Council loan will be repaid on schedule within the agreed 25 year timeframe commencing 1 July 2012.

In the event these projections hold good (the best case scenario), the Council's financial liability will be restricted to covering the interest cost of the $9.9 million loan contribution it is currently committed to make towards the Visitor Centre project. This is estimated to cost the Council $665,000 in 2011/12, gradually reducing over the life of the loan. It would be roughly equivalent to an initial annual $3.50 subsidy for every one of the projected 200,000 or so visitors and compares favourably with the levels of per visitor subsidy that the Museum and Zoo Trusts are currently enjoying, at $13 and $20 respectively.

Had the Council not supported the idea of a new Visitor Centre but were to continue to provide operating funding support to the Trust, its financial liability would be running at between $800,000 and $1 million annually. Ultimately, by supporting the Visitor Centre project, the Council is giving itself the opportunity of reducing this level of annual subsidy over 25 years to an average of $350,000, in the process achieving a potentially major strategic outcome for the city.

8.2 Financial implications if all goes according to plan

The Trust is forecast to achieve its first operating surplus of $5,335 in 2012/13. Between now and then its cumulative operating deficits are anticipated to total $3.4 million (including provision for depreciation).

Cash flow wise, the Trust is currently in a sound position having accumulated cash reserves of $2.3 million as at 30 June 2008. However, cumulative operating cash deficits (excluding depreciation) of $1.5 million in 2008/09 and 2009/10 will absorb most of these reserves, which are subsequently forecast to fall to $134,000 in 2009/10 and a low of $37,000 in 2010/11.

A high level of monitoring will be crucial during this time. The Trust's inability to cover depreciation for the first four years of operating after the opening of the new Visitor Centre means that short to medium term capital renewals will have to be carefully managed. High level estimates have been built into the current operating model and the Trust is working on a detailed asset management plan which will allow them to manage this more efficiently going forward.

In summary, this analysis demonstrates the Trust has little room to manoeuvre from a cash flow perspective in the event the current business case projections are not achieved.

8.3 Financial implications if all does not go according to plan

The principal factors having an adverse impact on the business case are:

- the delayed opening of the Visitor Centre
- an increase in the costs of completing the project to the current specification
- lower than anticipated post-opening visitor numbers.

8.3.1 Impact of delayed opening

It might be expected that a delay in opening the Visitor Centre would result in the Trust having to carry higher operating costs for longer without the benefit of the revenue from increased visitor numbers. However, the Trust estimates that for every month's delay beyond 1 April 2010, it would incur an additional operating deficit of $15,000 to $20,000.

Although this figure appears to be very conservative, it accurately reflects the pre-opening level of revenue occurring as the 2009/10 visitor season winds down into winter[1] and the ability of the Trust to defer deployment of the additional staff (guides and front of house) that would otherwise be required if the new Visitor Centre were instead opening at the height of the summer season. The financial impact of a delayed opening is therefore manageable within reason.

It would take a delay of well in excess of 3 months, which is on the outer limit of what is considered likely under a worst case scenario, before it would make economic sense to have attempted to avoid it by paying contractors to speed up building construction. This is because achieving a shorter timeframe for building completion is estimated to come at a cost of anywhere between $50,000 to $100,000 (for completing work 2 weeks earlier) and $200,000 to $250,000 (4 weeks earlier). Under these circumstances, speeding up construction is not financially viable.

8.3.2 Impact of an increase in project costs

Mr Riddell has recommended increasing the project contingency to provide for any potential cost overrun. At a 6.75% rate of interest, a $420,000 cost overrun covered by increasing the Council loan would add $28,000 in Opex in 2009/10, reducing to $1,100 in the year the loan is forecast to be fully repaid.

On balance, officers are of the view an immediate commitment to increasing the total loan by this amount should be given to provide some assurance to the

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[1] Pre-opening monthly admissions revenue, based on an anticipated 55,000 visitors in 2009/10, averages $38,000. Post-opening, this increases to $209,000 based on an anticipated 145,000 visitors in 2010/11.

Project Steering Group that it has an adequate "backstop". However, this assurance should be subject to any additional increase in the loan for this reason being limited to $420,000 and only after the Project Steering Group has demonstrated to the Council that it has implemented all other available measures for reducing the final project cost (without damaging the integrity of the project).

8.3.3 Impact of lower than anticipated visitor numbers

Visitor numbers are the key driver of the Trust's future revenues and the current business case forecasts are based on Positively Wellington Tourism's (PWT) latest "most likely" scenario, which in turn is based on the most recently available Ministry of Tourism projections (October 2008) and has been independently peer reviewed by McDermott Millar. This scenario was the basis for the analysis included in the 6 November2008 report to SPC.

In an international context, the visitor segments targeted by the Trust vary according to country. The UK/Ireland target market (which represents 28% of NZ overseas visitors) is seen as older couples visiting friends and relatives and younger singles on extended holiday breaks, who want to experience NZ's natural environment; the US target market (21%) is predominantly older couples, characterised by cruise ship passengers on a 24 hour layover, who want a high quality experience within a short timeframe and involving minimal travel; the target market in Australia (17%) is seen as young and empty nester couples interested in city based short holiday breaks.

For the purpose of this report PWT has revisited its forecasts in terms of current anecdotal trends in these markets. While they have indicated they see potential for a fall in numbers within the next 5 years, they believe the international appeal of the rebranded "Zealandia" product will continue to support increased visitor numbers in the longer term. Therefore their revised forecasts, set out in Table 1 overleaf, are largely unchanged from the current business case projections. There remains a risk though that these may prove unrealistic if the current global economic recession deepens significantly.

To enable the Committee to put these forecasts into context, Appendix 4 provides a summary of the visitor numbers enjoyed by other major tourist attractions around the country.

Table 1: Analysis of PWT's latest visitor number forecasts

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Locals		60,855	64,958	69,084	65,562	65,856
Domestic		49,999	60,249	70,307	65,189	65,101
International		33,594	47,208	51,511	59,898	63,219
TOTAL	**60,660**[2]	**144,448**	**172,415**	**190,902**	**190,649**	**194,176**
Bus. case		(144,448)	(172,415)	(195,942)	(196,236)	(199,177)

[2] This figure is a Trust forecast based on the Visitor Centre opening in April 2010 as planned.

A sensitivity analysis has been undertaken by the Trust to assess to what degree it could accommodate lower than these anticipated visitor numbers. The Trust's analysis, which has been peer reviewed by Council officers, suggests the Trust will be able to repay the Council's loan and still break even if actual visitor numbers are 20% lower than projected between 2010/11 and 2014/15. It could accommodate a further 10% reduction (ie. a total 30% reduction) between 2012/13 and 2014/15 and still break even but this would be at the expense of repaying the loan. If it eventuated, the latter scenario would marginally increase the amount of interest subsidy the Council would bear in its accounts.

The sensitivity analysis therefore gives the Trust and the Council a degree of comfort that the business case is robust enough to withstand a temporary lull in the level of visitor numbers, should the global economic situation adversely impact international tourism in the short term. However, PWT has issued a caveat that it believes the immediate marketing of a rebranded "Zealandia" Sanctuary visitor experience is crucial to ensuring international markets respond as projected. For this to be effective, the Visitor Centre must deliver on its promise as soon as possible.

PWT has also emphasised the need for a co-ordinated approach between itself, the Council, the Trust and all other Council sponsored visitor attractions to ensure that all marketing opportunities are appropriately leveraged. The need for such an approach will be addressed by the Council Controlled Organisations Performance Subcommittee through the Statement of Intent approval process.

9. Discussion of options

An assessment of the options the Council could consider in regard to its role in the Sanctuary's future funding and governance are discussed in sections 9.3 onwards. These options have been assessed against a set of key criteria.

9.1 Key decision criteria

Before considering the decision criteria it is worth restating the desired outcome. It is:

- completion of the Visitor Centre project more or less on time, within budget and with the current planned level of specification
- a successfully operating Visitor Centre that delivers a self-funded Sanctuary operation in line with the current business plan with no need for further on-going Council financial support
- repayment of the $9.9 million Council loan within the agreed timeframe
- an efficient and effective operation that attracts other external funding
- the preservation of the reputations of the city, Council and Sanctuary
- the maintenance, preferably enhancement, of the current level of community and volunteer support for the Sanctuary
- the conservation of the biodiversity of the Sanctuary.

The preferred option will therefore be one that offers the most realistic opportunity of achieving this. The key decision criteria have been established in support of this outcome.

9.1.1 Cost

This covers both direct and indirect costs of implementation as well as potential impact on the Sanctuary's future viability. Clearly, the lower the costs and the financial impact, the better the option from both a Council and Trust perspective.

9.1.2 Timeliness

Timeliness is seen as a crucial factor, since introducing unnecessary delay in achieving implementation could further increase the level of the Council's financial risk. The preferred option will have no impediments to immediate implementation once the decision is taken to proceed. It will also need to provide certainty of outcome - it should, for example, offer no grounds for legal challenge or should at least minimise the opportunity for legal challenge by any party (particularly by the Trust, if it does not agree with what is proposed) that could otherwise delay or frustrate implementation.

Officers have made their assessment of possible options on the basis that the ideal outcome would be to have any alternative governance arrangement in place by 31 May 2009.

9.1.3 Reputation

It is considered important that the reputations of the city, Council, Sanctuary and Trust governing body are not unnecessarily impacted as a result of any decision. The Visitor Centre has been promoted as an international and leading-edge tourist attraction. From a city perspective the Sanctuary needs to deliver. Likewise, any decision that is perceived as raising questions about the competence of the Council or the Trust could limit the ability to act on new, potentially beneficial opportunities in the future.

The Trust has gained an enviable reputation amongst the conservation community both here and abroad for the quality of its biodiversity protection work. Any risk to this reputation should be minimised. An added concern for the Trust is that its ability to retain or attract external funding from sources other than the Council is not compromised due to concerns over its management capability or future viability.

9.1.4 Damage to third party relationships

The Sanctuary relies heavily on local community support in terms both of the revenue generated by the patronage of Wellingtonians through membership and entrance fees, and the in-kind operational input provided by volunteers that helps to keep down the Sanctuary's running costs. The latter is estimated by the Trust CEO to have saved $25 million in payroll costs since the Sanctuary opened. Clearly, the preferred option should not put this community goodwill at risk in the future.

9.2 Options not put forward

Given the Committee's response to the 6 November 2008 report, and even allowing for the changes that have occurred in the meantime, the status quo (the "do nothing" option) is not considered a viable response by officers.

In addition, it is assumed the Council is not prepared to take on total risk or responsibility for completing the project and running the Sanctuary by bringing its management in-house. For one thing it would involve uncertainty and therefore delay arising from the need for the Trust to assign the project contracts to the Council. More fundamentally, it would represent a significant shift in Council activity as staff have no direct involvement or expertise in the provision of commercial visitor attractions.

Two interim options present themselves and these are discussed further below.

9.2.1 Zoo Trustees become KWST Board

One option that has been considered but discounted at this time is the idea that the Trust and the Wellington Zoo Trust (WZT) share a common set of Trustees, as a first step towards integration into a single purpose CCO. The anticipated benefit of this arrangement would be improved governance for at least the duration of the Visitor Centre project. However, in order for this option to work, the Trust would have to agree voluntarily to replace its current Board with the current members of the WZT. Officers believe it is virtually certain that the Trust's agreement would not be forthcoming because of its concern over perceived incompatibility of objectives.

9.2.2 "Press pause"

An interim option would be to put the Visitor Centre construction on temporary hold to enable the Trust's Project Steering Group and the Council's Project Management Office to get a full picture of the risks and costs associated with completion of the project before the Council makes a decision regarding its future level of involvement. The advantage of such a break is that it might also help identify opportunities for a rework of the building specification that could reduce the overall project contract cost.

On the down side, it is anticipated that implementing this option could involve considerable delay. This delay would negate the benefit of the international marketing of the rebranded Sanctuary product that has already been initiated. Sponsorship that has been aligned with this marketing and rebranding exercise would also be put at risk.

While the various building construction, exhibition development and consulting services contracts involved have suspension of activity type clauses in them, putting construction on hold would incur additional costs in the form of contractor recovery of on-going fixed costs and/or "remobilisation" expenses.

Materials that have already been ordered but not yet delivered might end up being re-priced by suppliers if their market price increases during the pause period.

There could also be extra expense for making the construction site safe and weatherproof (to the extent this is deemed necessary). Although considered unlikely, it is also possible a contractor might not be in a position due to other contractual commitments, or simply might not be willing, to restart the contract later on, resulting in the need to find an alternative contractor who is prepared to complete their role in the project to a fixed price. This could further increase the delay.

The financial impact of a 3 month suspension in work is difficult to ascertain at this stage. Obviously the delay would set back the opening of the Visitor Centre and the Trust would lose some visitor revenue in the meantime, although this would not be significant (refer to paragraph 8.3.1). Based on past experience, Fletcher Construction's recovery of fixed costs would be anticipated to be in the order of $100,000 during this pause. However, remobilisation costs could add significantly to this figure – the exhibition development contract is with a US based company and any suspension of work could involve the need for extensive reorganisation of their staff schedules leading to potential loss of revenue from other jobs, which they would look to recover from the Trust.

The Trust would no doubt look to the Council to fund any resulting funding shortfall. The benefit of a pause in construction might therefore be more than offset by the additional costs that would accrue. The Council might also find itself in no better an informed position to make a decision in three months time than it is now, having just received feedback from Mr Riddell's stock take.

In any case, implementing this option would ultimately require the Trust's co-operation as the Council is not party to the contracts involved and has no ability to enforce such a break. It is by no means certain that this co-operation would be forthcoming as, for all the above reasons, the Board is likely to be reluctant to take increased financial liability on itself under current circumstances.

Ultimately, this interim option is not considered feasible or practicable by officers.

9.3 The range of feasible responses

Taking into account the above exclusions, there are three potentially feasible responses which the Council could consider in regard to the Sanctuary's future governance. The Council could:

- increase its involvement and effectively assume full control over the Trust's affairs ("full control")
- withdraw both its project and operational funding of the Sanctuary and also remove Council appointed trustees from the Trust Board ("withdrawal")

- increase its involvement to a level that, while falling short of control, still ensures improved governance over the project and the Sanctuary's affairs ("increased control").

The effectiveness of each of these is considered in the following paragraphs.

9.4 The "full control" options

Officers have identified four full control options. They are:

- Option 1 - assume control over the Trust (via appointment of 50% or more of the Trustees) and create a standalone Council Controlled Organisation (CCO)
- Option 2 - assume control over the Trust (via appointment of 50% or more of the Trustees) and then merge it with the Wellington Zoo Trust (WZT) to create a new "super" Wildlife Visitor Attraction CCO
- Option 3 - amend the objects of the WZT's Trust Deed to facilitate it taking control over the Sanctuary's operations (ie. an expanded WZT) and wind up the Trust in the expectation that the assets of the Trust will be transferred to WZT
- Option 4 - negotiate with both Trusts for WZT to assume responsibility for the Sanctuary's operations under a management agreement but leave the Trust intact.

Specific issues impacting on implementation of these options are discussed below.

9.4.1 Negotiation versus "takeover"

Sections 25.01(c) and 25.01(d) of the Trust Deed give the Council the ability to appoint and remove all trustees or to wind up the Trust if a range of financial circumstances apply. These clauses are reproduced in Appendix 5.

The risks associated with the Council's use of either of these clauses to try to take over the Trust's affairs are discussed in sections 9.4.2 and 9.4.3 below. What this discussion highlights is that the Council is more likely to achieve full control through some form of negotiated agreement with the Trust Board that sees it voluntarily agreeing to a change in the Trust's governance.

However, despite the Board agreeing to abide by the outcome of a governance review, it is the view of officers that the Board would not willingly negotiate the passing of control over the Sanctuary's affairs to the WZT (ie. Options 1 to 4). This is because a majority of the Trust membership and volunteer support is considered likely to raise objections to such a move, arguing incompatibility between the current objectives of the two organisations. While it should be possible to address such concerns, the likely lengthy delay in reaching a negotiated agreement may prove costly and damaging to relationships.

9.4.2 Implications of winding up the Trust

If the provisions of clause 25.01(d) of the Trust Deed are used (on the basis that the Trust is in default of its obligations to Council under the funding arrangements), a two year remedial period is required before Council can require winding up. A resolution by the Board in support of a voluntary winding up requires a majority vote of 75% of the Trustees and they would have to approve a charitable purpose 'as similar as practicable to the Sanctuary Trust' to vest any surplus Trust assets. A 75% majority vote in favour of a voluntary winding up is considered unlikely.

On winding up, the disposal of surplus assets must be determined by the High Court. Legal advice is that the Council would have to be prepared to defend any enforced winding up in the High Court, should the Board or Sanctuary members choose to challenge the Council's use of Section 25.01(d) for this purpose. In light of the uncertainty around how long it would take for such a process to reach court, a better approach would be to attempt to reach a negotiated agreement with the Trust Board. Again, this may not be forthcoming. There is also no certainty that the High Court would agree the Trust's assets should be vested, on winding up, in either an existing or new CCO of the Council's choice.

Implementation of any option that effectively invokes the winding up of the current Trust therefore introduces delay and uncertainty into the process, which would not work in favour of the Council's desire for swift changes to current governance arrangements. These potential drawbacks apply to Options 2 and 3 as their implementation would involve winding up the current Trust.

9.4.3 Need for public consultation

The establishment of a new CCO automatically invokes the requirement for the Council to complete a Special Consultative Procedure as set out under the Local Government Act 2002. Public consultation may also be necessary in the event the Council opts for either of the options that envisage the expansion of the WZT or its involvement in the management of the Sanctuary's operations.

It is estimated it would take at least 3 months to complete the Special Consultation Procedure required prior to making a decision to establish a new CCO. Unfortunately, the timing would require this to be a standalone process as it will come too late for the proposal to be included as part of public consultation on the Draft Long Term Council Community Plan. This will therefore incur some additional cost to the Council.

Of itself, the delay created by having to consult publicly is manageable. However, if the process identified a significant level of public resistance to the option being consulted upon this could put the Council in an awkward situation and cause the Board to become unnecessarily diverted during a critical phase of the project. Should the Council still decide to proceed in such circumstances, the risk of members or volunteers of KWS attempting to prevent implementation is considered reasonably high. This could introduce unacceptable delay and be damaging to the reputation of the Council and the city.

The public consultation requirement definitely applies to Options 1 and 2, and possibly to Options 3 and 4.

9.4.4 WZT response

WZT Board members may also be reluctant to agree to implement any of the full control options if it results in some or all of them being replaced against their will with new Trustees. This would only occur though if the Council felt the current range of Trustee competencies was lacking in some aspect. Any subsequent appointment process could be protracted, depending on the availability of candidates with the desired skill set and attributes to exercise common governance over both entities.

9.4.5 Assessment of the "full control" options against key decision criteria

A summary of the officer assessment of Options 1 to 4 is provided in Appendix 6. All of the options come with potentially significant drawbacks and do not lend themselves to an immediate and timely intervention by the Council in the Trust's governance.

9.5 The "withdrawal" options

These are:

- Option 5 – withdraw immediately from providing project and operational funding, and exit from Board membership, or
- Option 6 – continue financial support of the project until it is more or less completed then withdraw operational funding, with or without continued Board membership.

Particular issues impacting implementation of these options are discussed below.

9.5.1 Direct costs of withdrawal from the project

A decision to withdraw project funding would cause work on the construction of the Visitor Centre to cease. This would result in the Trust being faced with claims from contractors for compensation for loss of profits and other costs incurred on termination and with the cost of making the construction site safe. Preliminary estimates are that these could be anywhere between $500,000 and $1 million.

9.5.2 Access to Government project funding

The Government's $6.5 million funding of the Visitor Centre project is currently contingent upon the Trust having secured all the other funding it needs to complete the project. Given the current economic environment and the strong cost control stance the Government has been seen to be taking lately in regard to some of its capital commitments, officers are strongly of the belief that the Government would use any withdrawal by the Council from the funding of the project, certainly if this were shy of the $8 million it originally committed, as grounds to withdraw its funding.

Government withdrawal from the project would produce a disastrous outcome both for the Trust and the Council. The Visitor Centre would not be completed and the risk it would become nothing more than an empty shell of a structure that serves no useful purpose would be high. Such an outcome could render the Sanctuary's future operation uneconomic and cause the Trust to fail. The result could be that the Council is forced at some time in the future to assume responsibility for a failed business enterprise and unusable and run down assets situated on its land. Moreover, the reputations of the city, the Council and the Sanctuary would be severely impacted in the process.

9.5.3 Impact of operational funding withdrawal on the business case

Option 6 would see the Council withdrawing all future operational funding only after meeting its current commitment to provide up to a $10.38 million loan[3] so at least the Government's project contribution is locked in. The combined funding of $17.18 million (including $300,000 in other external funding) should enable the Trust to complete the Visitor Centre to the desired specification and within the latest revised timeframe, assuming no further reasons for delay or added cost.

The most recent business case projections might then hold up, giving the Council some assurance that the Sanctuary can eventually become self-funding. There would still be an assumption though that in order to remain viable in the meantime the Trust would be able either to find alternative external funding to replace that no longer committed by the Council or to "cut its cloth" in terms of the range of services it provides and the activities it undertakes in order to balance its books.

In the current economic climate, gaining access to alternative funding might prove extremely difficult so the latter outcome would be more likely. This would be achievable only by reducing the scale of the visitor experience and/or the Sanctuary's biodiversity conservation activities, potentially undoing some of the good work it has already done and impacting on its reputation in the process.

A variation on this scenario would see the Council restricting its loan contribution to the previously agreed $8 million which should still guarantee the Trust access to the Government's funding contribution (subject to DIA confirmation). This would be possible because, to date, the Trust will have only drawn down an estimated $5.5 million of the loan. Any decision to restrict the further loan funding would though need to be on the basis that the Trust had failed to implement the requirements of the review of governance arrangements, or that there had been some other failure by the Trust to comply with the terms of the funding deed.

[3] Assuming the Council agrees to the recommendation to increase the loan by up to $480,000 to increase the project contingency sum and cover the Project Steering Group Chair's fees.

Under this scenario the Trust should be able to complete the project, albeit after making major adjustments to the building and exhibition specification. Adopting this approach requires the Council to establish a breach by the Trust (as indicated above), which if disputed could either derail this option or in a worst case scenario expose the Council to the possibility of a legal claim from the Trust for breach of contract.

Of more concern would be that the finished Visitor Centre may not then meet visitor expectations, result in lower than projected visitor numbers and consequently have an adverse impact on the Sanctuary's principal revenue stream. Given the potential fragility of the current business case, such an outcome would have even more significant repercussions for the Sanctuary's future viability. Despite the Council's withdrawal from future operational funding, the risk of the Council having to become involved in the future could be on a par with that associated with implementation of Option 5. The difference would be that it would at least take over a usable asset.

9.5.4 On-going governance involvement

Whichever withdrawal option is implemented, the assumption is the Council would remain committed to involvement in the governance of the project until building work is either stopped and the unfinished structure made safe or the Visitor Centre construction is completed. The intention would be to ensure that the Council's loan contribution does not exceed $10.38 million.

However, there is a potential drawback to the Council remaining involved in the governance of the Trust while withdrawing funding. Continued involvement in governance exposes the Council appointed Trustees to increased risk. The Trust could also be left with the impression that the Council could still be approached as a "funder" in the event the viability of the Sanctuary is later threatened. This would clearly not be the Council's intention so withdrawal from Trust governance would help send a strong signal to the Trust (and to other entities) that future financial support is far from guaranteed, particularly in the current economic climate.

On the other hand, withdrawing from membership of the Board at the same time as discontinuing funding will signal that the Council does not value the Sanctuary as a city visitor attraction. This could reinforce the already voiced ratepayer perception of the Council having sunk between $8 million and $10.38 million in loan funding and $6.5 million in operational funding into supporting an eventual "white elephant". As well as damaging the Council's reputation, withdrawal might also damage its relationship with (parts of) the community and limit its future interaction with key volunteer networks.

9.5.5 Assessment of the "withdrawal" options against key decision criteria

A summary of the officer assessment of Options 5 and 6 is provided in Appendix 6. In light of the above analysis in particular, neither option is considered likely to deliver a good outcome for either the Trust or the Council.

9.6 The "increased control" option

This is:

- Option 7 – proceed with current funding arrangements but require the Board to amend the Trust Deed to increase the number of Council appointed Trustees to 3 while at the same time reducing the Board size from 12 to 7, ensuring that the Trust does not become a CCO and tightening the focus and improving the capability and skills mix of the Board.

Issues concerning implementation of this option are discussed below.

9.6.1 Assurance over outcome

The key purpose of implementing this option would be to supplement the improved level of oversight that has been introduced in regard to the Visitor Centre project (through the Council appointment of a quantity surveying specialist to the Trust's Project Steering Group) with a similar improvement in the capability of Trustees at Board level. The Council would jointly agree with the Board the ideal range of skills that is required to improve the level of Board oversight and use its appointments to ensure that identified skill gaps are filled.

As a consequence of wanting to ensure that the appropriate range of skills is represented at a critical phase in the Trust's lifecycle, officers are recommending that provision is made for all three of the proposed Council appointed Board members to be external appointments. This will mean replacing the current Councillor representative on the Board. The selection process would follow current practice for CCO appointments. While not being responsible for the selection of the Chair, the Council will retain right of approval over the Board's nominee.

Implementation of this option will require the voluntary co-operation of the Board as it will necessitate changes to the Trust Deed. Some flexibility may also be required on the Council's part, for example in regard to the retention of some current Trustees to provide continuity. However, Board co-operation is seen as more likely to occur with this option as its preserves the separate identity of the Trust and its status as a Council Organisation under the Local Government Act 2002. In regard to timeliness, the legal process for bringing about the desired change is not lengthy.

It is true that the Council's control over the Trust's affairs will not be total and the risk that the level of the Council's future financial support could increase remains a live issue. However, the improved quality of Board governance is on the whole anticipated to reduce the probability this risk will eventuate and provide the Council with greater assurance that a positive outcome in regard both to the project and the Sanctuary's future viability will be achieved.

It is anticipated that it will be necessary to introduce trustee remuneration to secure the services of appropriately skilled persons who are willing to take on the level of risk and responsibility associated with managing the Sanctuary's affairs under the current circumstances. It would be the intention that the Council would hold discretion over the setting of remuneration levels for all of the trustees and, given the level of their responsibilities, would apply the Council's current scale of fees for CCO Board members. Payments to 7 trustees (including the Chair) would add $104,000 annually to the Trust's operating costs.

The Trust's lack of room to manoeuvre in terms of management of its cash flow has already been highlighted. Under the current business case, introducing Trustee remuneration will therefore require the Council to provide additional transitional funding from 2009/10 through to 2011/12. To help ease the Trust's cash flow situation in 2009/10 in particular, officers are recommending that payment of this funding is front end loaded - 2009/10:$160,000, 2010/11:$100,000 and 2011/12:$40,000. Thereafter, the Trust should be in a position to fund Trustee remuneration out of its anticipated operating surpluses.

9.6.2 Adaptability

This option can be implemented without restricting the Council's ability to change course at a later date, should it appear the improved governance arrangements are not delivering the desired outcome. The changes already made to the Trust Deed would facilitate any future move to bring the Trust's affairs under total Council control.

9.6.3 Assessment of the "increased control" options against the key decision criteria

The key feature of Option 7, as set out in Appendix 6, is that it appears to offer the best vehicle for getting the Board to agree to move forward in the short term and address the Council's governance concerns. Also, it:

- has the potential to minimise risk to the delivery of the immediate outcomes the Council desires for the project (ie. on time, within budget and to the desired standard)
- is adaptable enough to allow future fine tuning of governance arrangements once the project has been completed
- can be implemented with minimal delay, by 31 May at the latest
- protects the reputation of both parties
- offers the least cause for the community, Sanctuary membership and volunteer base to take issue with the Council's increased involvement in the Sanctuary's affairs.

10. Conclusion

It seems clear that withdrawing from the funding of the Visitor Centre project at this late stage is not be recommended as it would expose the Council to claims of wasteful expenditure and potentially present it with an unusable $8 million "asset", a failed business enterprise and unmet international tourism and local community expectations regarding the future look of the Sanctuary. If the Council waits until after the project is completed to withdraw operational funding, the asset would at least be usable but the other risks would be only marginally reduced.

While delivering greatly increased control over and, with it, improved governance of the Trust's affairs, the issues around implementation of the "full control" options are numerous and very likely to limit the Council's efforts to address its concerns in a prompt manner. A focus on resolving these issues could in fact divert attention from the immediate business in hand of ensuring the Visitor Centre project is successfully completed, increasing rather than decreasing the level of financial risk for the Council.

On balance, Option 7 best meets the agreed decision criteria. It offers the best opportunity for securing the desired outcome with minimum delay and at least cost and for minimising the risks of loss of reputation and damage to third party relationships. It is therefore the preferred option of officers in regard to the Council's future involvement in the governance of the Trust.

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Supporting Information
1)Strategic Fit / Strategic Outcome *The activities of the Karori Wildlife Sanctuary, including the development of the new Visitor Centre, are consistent with the achievement of the Council's desired strategic outcomes for the Environment (in terms of nature conservation) and for the Economy (in terms of tourism attraction).*
2) LTCCP/Annual Plan reference and long term financial impact *The Council provides operational funding support for the Karori Wildlife Sanctuary under project A288, sitting in the Environmental Visitor Attractions section of the Environment Strategy contained in the LTCCP. This operational funding support (excluding the subsidy covering interest on the Council's interest free loan to the Sanctuary Trust for the Visitor centre project) is anticipated to terminate in 2011/12 after the new Visitor Centre has opened.*
3) Treaty of Waitangi considerations *The preservation of the unique local heritage site occupied by the Karori Wildlife Sanctuary is an important issue for Mana Whenua. Provision is made in the Trust Deed for the Tenths Trust to be represented on the Sanctuary Trust Board.*
4) Decision-Making *The recommendations contained in this report do not invoke application of the Council's significance policy. However, the report sets out a number of alternative options, which if implemented instead, could invoke application of the significance policy.*
5) Consultation **a)General Consultation** *Officers have been provided relevant information by the Karori Wildlife Sanctuary Trust and other external parties and have consulted with them regarding the content of this report to the extent needed at this stage of the decision making process.* **b) Consultation with Maori** *Mana Whenua have not been consulted over the content and recommendations of this report.*
6) Legal Implications *The Council's lawyers have been consulted during the development of this report. The recommendations, if implemented, will require amendment of the Karori Wildlife Sanctuary Trust Deed.*
7) Consistency with existing policy *The recommendations contain measures which are inconsistent with existing WCC policy in regard to the remuneration of Council appointed Trustees. Remuneration of Trustees appointed to what will remain a Council Organisation is being recommended as an exception in this case to facilitate the appointment of Trustees of the highest possible calibre.*