Absolutely POSITIVELY Wellington
ME HEKE KI PŌNEKE
WELLINGTON CITY COUNCIL

STRATEGY AND POLICY COMMITTEE
27 MARCH 2012
EXTRAORDINARY MEETING

REPORT 1
(1215/52/IM)

REPORT OF THE ZEALANDIA WORKING GROUP

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1. Purpose of Report

The purpose of this report is to report back the findings and recommendations of the Zealandia Working Group and to seek confirmation of the preferred option(s) for consultation alongside the Council's Long Term Plan.

2. Executive Summary

The Working Group has considered a range of options to address the funding issues at Zealandia ("the Sanctuary"). To evaluate the options the Working Group agreed a set of criteria against which the alternative options would be assessed. Through this process three options emerged that met all of the agreed criteria, these are set out in detail within section 5.2 of this report, the three options in order of preference of the Working Group are:

- To establish a strategic alliance between the Sanctuary, the Wellington Zoo Trust and the Council's Botanic Gardens and Otari-Wilton's Bush within a CCO; (ECO - City CCO model)

This option was favoured by four of the five members of the Working Group.

- To incorporate the Sanctuary within a strategic alliance with the Wellington Zoo Trust; (Wellington Environmental Visitor Attractions model)

This option was favoured as a backup option by four of the five members of the Working Group.

- To incorporate the Sanctuary within a strategic alliance within the Council's Parks and Gardens business unit. (Council Parks and Gardens model)

This option was favoured by one of the five members of the Working Group.

The Working Group did not recommend any option that involved supporting the Sanctuary in a status quo model or a variation of the status quo model that only involved governance changes. Similarly the Working Group did not explore the option of not providing any financial support as the Group considered that this option had already been explored.

The preferred option is for the establishment of a CCO, ECO - City, which would govern and manage the operations of the Sanctuary, the Zoo and Botanic Gardens and Otari-Wilton's Bush. Each of these entities would be maintained as separate operations retaining their unique identities. The entities would not be amalgamated. The single governance and management model will generate material cost savings that reduce the levels of potential funding required from Council.

The combination of these ecological assets provides a strong link into the Council's 2040 vision and strategy, particularly in promoting and demonstrating the Eco-City credentials. The strategic alignment of these operations is expected to provide opportunities in areas of destination marketing, optimising marketing spend, cross-selling, fund raising, education and research, optimising the use of facilities and visitor experience. While assessing the extent of these opportunities is necessarily subjective, it is clear the preferred option of the Working Group provides the most significant opportunities, the most cost benefits and increases the capacity of the resources applied to these entities.

All of the options considered require funding support from Council. The baseline to compare the relative funding requirements is the Sanctuary funding request of $2.85m over three years. The options put forward by the Working Group require funding support as follows:

Option 4 – ECO - City CCO - $1.338m
Option 2 – Wellington Environmental Visitor Attractions - $1.338m
Option 3 – Council Parks & Gardens - $1.614m

3. Recommendations

It is recommended that the Committee:

1. *Receive the information.*

2. *Note the Working Group was established at the Strategy and Policy Committee meeting of 15 December 2011 to review the request for funding from the Karori Sanctuary Trust of $950k per annum for the three years commencing 2012/13 and to report back to SPC with a preferred range of options and a recommended option for consideration by Council.*

3. *Note that the draft Long Term Plan does not include any funding provision for Zealandia and at the SPC meeting of 6 March 2012 the Committee resolved to "Agree funding for Zealandia be dependent on its future governance structure being accepted and confirmed by Council".*

4. *Agrees to recommend to Council that:*

   (a) *The options, as detailed in section 5.2 of this report, be consulted on concurrently with the Long Term Plan.*

(b) *Option 4, ECO – City CCO, as detailed in section 5.2 of this report is the recommended option of the Working Group and requires funding support from Council of $365k in 2012/13, $483k in 2013/14 and $490k in 2014/15.*

(c) *Consult on establishing a new CCO to manage the operations of the Karori Sanctuary Trust, the Wellington Zoo Trust and Botancial Gardens and Otari-Wilton's Bush; and to allow for the Karori Sanctuary Trust to become a CCO using the special consultative procedure concurrently with the Long Term Plan.*

(d) *The Chief Executive Officer is delegated authority to finalise the outline statement of proposal in Appendix 3 of this report to present to Council on 3 April.*

4. Background

The Sanctuary recently completed a new visitor centre at Zealandia, funded from a range of sources but principally from a $6.5m grant from central government and a $10.4m non interest bearing loan from Council.

Since the opening of the visitor centre in April 2010, the visitor numbers and associated admission revenues have been significantly lower than the business case forecasts. Expected visitor number projections have subsequently been revised lower by the Sanctuary as detailed in the table below:

	2011/12	**2012/13**	**2013/14**	**2014/15**
Business Case Forecasts	144,448	172,415	190,902	190,649
Revised Targets	89,643[1]	93,887	97,571	102,999
Reduction in forecast visitation	(54,805) (38%)	(78,258) (46%)	(93,331) (49%)	(87,650) (46%)

In 2010/11 admission revenues were below planned revenues by 54% compared to lower than planned visitor numbers of 38%. This highlights the fact that the Sanctuary financial issues are not simply the result of lower visitor numbers but also that they are not achieving their planned levels of entry revenue per visitor.

The Sanctuary prepared a report to Council entitled "Towards Financial Sustainability" in October 2011. Within this report the Sanctuary set out the actions they had taken in response to the funding issues confronting them. The conclusion of the report was that the Sanctuary sought funding support from the Council of $1.4m in 2012/13, $1.3m in 2013/14 and $1.2m in 2014/15 and that funding support beyond these years would also be required.

[1] This figure is the actual visitor numbers achieved for 2010/11, the first full year of operations post the opening of the visitor centre, and includes 7,259 free entries from the open weekend held.

Following discussions with Council the Sanctuary submitted a revised funding request seeking funding of $950k for the three years from 2012/13. Whilst it is not explicit in the revised funding request, the financial forecast supplied by the Sanctuary to support their request shows a need for continued funding beyond the three years requested.

Without significant ongoing funding support the current Sanctuary business model is unsustainable. The investment in the visitor centre was intended to provide the financial base to secure the Sanctuary's conservation and bio-diversity work such that the combined operations of the Sanctuary were financially self-sufficient and did not require any further Council grant funding. However the investment in the visitor centre has placed the Sanctuary in the position where the Trustee's have advised that without significant funding support the Sanctuary will be insolvent in the near future and as a consequence the conservation and bio-diversity outcomes will be threatened and potentially lost.

In response to the issues at the Sanctuary and their funding request, Council agreed at the Strategy and Policy Committee meeting on 15 December 2011 to establish a Working Group to consider the funding request from the Sanctuary, to develop a range of options to consider for consultation in the 2012/13 Long Term Plan and provide advice on implementation, timing, legal issues and key actions required.

The Working Group membership included:-

- The Chair of the Council Controlled Organisations Performance Subcommittee – Mr Alan Isaac;
- Three elected members – Councillors Lester, Ritchie and Marsh; and
- The Mayor as an ex-officio member.

The Working Group has meet on three occasions and considered a wide range of materials and has consulted with a range of interested stakeholder groups including: The CEO of Te Papa Tongarewa, senior officials at the Department of Conservation, the Chair and CEO of the Karori Sanctuary Trust, the Chair of the Wellington Zoo Trust and officers responsible for Council's Parks and Gardens.

At its meeting of 21 February the Working Group agreed a set of criteria against which they would assess the range of options to be considered. The agreed criteria is set out below:

- Preserve the identity of the Sanctuary as a place for conservation of New Zealand's nature heritage, flora and fauna, wildlife and as an ecological asset to the City;
- Maintain the Sanctuary as a place for visitor attraction and education; and
- Reduce the cost to Council and ratepayers.

In agreeing these criteria the Working Group considered that it was implicit that Council considered that the Sanctuary was a valuable asset to the City and worthy of supporting, but acknowledged that the Sanctuary was not a Council Controlled Organisation and that Council was under no obligation to provide funding.

At the Working Group meeting of 13 March, four options were considered and the Working Group agreed to present three of these options to Council. The four options considered are discussed in detail within section 5.2 of this report. The three options that the Working Group recommends to Council for consultation are noted below in order of preference:

- To establish a strategic alliance between the Sanctuary, the Wellington Zoo Trust and the Council's Botanic Gardens and Otari-Wilton's within a CCO; (ECO - City CCO model)

  This option was favoured by four of the five members of the Working Group.

- To incorporate the Sanctuary within a strategic alliance with the Wellington Zoo Trust; (Wellington Environmental Visitor Attractions model)

  This option was favoured as a backup option by four of the five members of the Working Group.

- To incorporate the Sanctuary within a strategic alliance within the Council's Parks and Gardens business unit. (Council Parks and Gardens model)

  This option was favoured by one of the five members of the Working Group.

In arriving at these options the Working Group was unanimous that no funding support should be provided to the Sanctuary without change in the governance structure but that changes to the governance structure alone would not necessarily result in any material improvement in the financial issues at the Sanctuary.

5. Discussion

The fundamental issue facing the Sanctuary is that their revenues are insufficient to cover their operating costs and under the current business model the Trustees have not been able to address this. The forecasts provided by the Sanctuary indicate that this position will not materially improve under the current operating model and to remain solvent the Sanctuary requires funding support from Council.

To simply provide grant funding does not tackle the fundamental issues at the Sanctuary, that is, the cost structure is too high for the size of business and it needs to drive its external revenue generating capability, be that through improving the visitor experience, cross-selling, more effective marketing or a greater focus on fund-raising.

The options that have been developed by the Working Group seek to address these issues in two ways. Firstly, by reducing the overheads through aligning the management of the Sanctuary with other entities to provide a more efficient overhead structure and secondly by creating the opportunity for entities to work strategically together to generate and realise other benefits including revenue opportunities. The options are discussed in detail in section 5.2.

It is important to recognise that the purpose of aligning entities is not to amalgamate them within a single entity or to take away the unique identities of the individual entities. The purpose is to deliver better outcomes for the ratepayer, the community and the City.

5.1 Financial Considerations

The base case for looking at the financial considerations is the Sanctuary in its status quo mode. The status quo mode provides the financial and operational metrics to illustrate the issues and to contrast the potential outcomes from each of the options. The table below sets out the financial forecasts upon which the Sanctuary has relied on in making their funding request.

Within the table the three columns on the left entitled “3 year forecast – No WCC grant” show the financial forecast for the Sanctuary with no grant funding from Council. The three columns to the right are identical with the exception that these include the grant funding requested from Council by the Sanctuary.

Zealandia 3 Year Forecast	3 Year Forecast - No WCC Grant			3 Year Forecast - Incl WCC Grant		
	2012/13	2013/14	2014/15	2012/13	2013/14	2014/15
Visitor Numbers	93,887	97,571	102,999	93,887	97,571	102,999
		3.9%	5.6%		3.9%	5.6%
Revenue						
Membership	301,583	301,583	301,583	301,583	301,583	301,583
Donations	60,964	60,964	60,964	60,964	60,964	60,964
Council Grant	0	0	0	*950,000*	*950,000*	*950,000*
Grants	217,460	221,860	221,860	217,460	221,860	221,860
Admissions	1,007,813	1,071,128	1,172,613	1,007,813	1,071,128	1,172,613
F & B Sales	667,537	693,730	732,323	667,537	693,730	732,323
Retail Sales	198,102	205,875	217,328	198,102	205,875	217,328
Total Revenue	2,453,459	2,555,140	2,706,671	3,403,459	3,505,140	3,656,671
		4.1%	5.9%		3.0%	4.3%
Expenditure						
Conservation & Ops	220,953	197,353	197,353	220,953	197,353	197,353
VC services & maint	217,686	217,686	217,686	217,686	217,686	217,686
Community & visitor	450,457	470,457	470,457	450,457	470,457	470,457
Café/Function/Venue Hire	246,989	256,680	270,959	246,989	256,680	270,959
Retail	102,022	106,026	111,924	102,022	106,026	111,924
Admin/Mgmt	264,232	264,232	264,232	264,232	264,232	264,232
Personnel	1,855,714	1,890,647	1,944,628	1,855,714	1,890,647	1,944,628
Total Expenditure	3,358,053	3,403,081	3,477,239	3,358,053	3,403,081	3,477,239
		1.3%	2.2%		1.3%	2.2%
Surplus/(Deficit) before Depn/Int	(904,594)	(847,941)	(770,568)	45,406	102,059	179,432
Depreciation	922,682	922,682	922,682	922,682	922,682	922,682
Net Interest Expense/(Income)	60,000	55,000	39,000	44,000	40,000	34,000
Surplus/(Deficit)	(1,887,276)	(1,825,623)	(1,732,250)	(921,276)	(860,623)	(777,250)
Cashflow						
Opening Cash Balance	504,621	(659,973)	(1,762,914)	504,621	306,027	168,086
Surplus/(Deficit) excl Depn	(964,594)	(902,941)	(809,568)	1,406	62,059	145,432
Community Trust Loan	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Capital Expenditure	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Closing Cash Balance	(659,973)	(1,762,914)	(2,772,482)	306,027	168,086	113,518
Community Trust Loan						
Opening Balance	700,000	600,000	500,000	700,000	600,000	500,000
Repayments	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Closing Loan Balance	600,000	500,000	400,000	600,000	500,000	400,000

Based on these forecasts the Sanctuary is not sustainable without significant funding support and that funding support will be required into the foreseeable future.

The projected deficit before depreciation in 2014/15 is $810k and at this point the Sanctuary is not funding any of its depreciation. The unfunded depreciation means that there are no funds available for the Sanctuary to renew its capital assets, including the exhibits. Given the static nature of the exhibition and the reliance on local visitation, and therefore repeat visitation, this poses a further issue to be addressed in the future.

One of the three criteria agreed by the Working Group was "*To reduce the cost to Council and ratepayers*". To do this in the Sanctuary situation requires a normal business response:

- To reduce costs;
- To increase revenues; and
- To improve efficiency and effectiveness

Whilst the Sanctuary has endeavoured to improve their financial outcomes, the forecasts presented show that the actions and strategies reflected in the forecasts will not deliver significant change and the Sanctuary status quo business model or variations of the status quo are the highest cost options considered.

In reviewing the forecasts presented by the Sanctuary they show a conservative position with some performance improvement across the three years forecast. However, when compared to the financial performance of 2010/11 and the current year's performance the forecasts represent a deteriorating position.

The table below sets out the financial position of the Sanctuary as at 31 January 2012, seven months into the financial year. To get a broad picture of the year end financial position, the actual financial position for the seven months to 31 January 2012 has been added to the last five months of trading from the prior year. Essentially this combined financial position provides an indication of the prospective full year performance of the Sanctuary and cash flow position.

ZEALANDIA - FINANCIAL POSITION PROSPECTIVE	Actual YTD 31-Jan-12	Actual Year to Go 2010/11	Prospective Full Year 2011/12		Zealandia Forecast Full Year 2011/12	Variance
Revenue						
Trading Income	1,361,359	699,661	2,061,020		2,123,771	(62,751)
Other Income	332,456	178,397	510,853		394,424	116,429
Total Revenue (Excluding WCC Grants)	1,693,815	878,058	2,571,873		2,518,195	53,678
			0			
Expenditure			0			
Personnel Costs	1,065,536	710,607	1,776,143		1,844,684	68,541
Other Costs	775,759	513,354	1,289,113		1,573,822	284,709
Total Expenditure	1,841,295	1,223,961	3,065,256		3,418,506	353,250
			0			
Surplus/(Deficit) before			0			
Depreciation and WCC grants	(147,480)	(345,903)	(493,383)		(900,311)	406,928
			0			
WCC Grant	40,000	0	40,000		40,000	0
			0			
Surplus/(Deficit) before			0			
Depreciation	(107,480)	(345,903)	(453,383)		(860,311)	406,928
Cashflow						
Opening Cash Balance		1,337,379				
Movement		(523,878)				
Closing Cash balance	1,337,379	813,501	813,501		504,621	308,880

The prospective financial result for 2011/12, from the table above, indicates that the operating deficit before depreciation (excluding WCC grant) for the Sanctuary for the full year might be expected to be around ($493k). The actual operating deficit for 2010/11, the first full year of operations, was a deficit on the same basis of ($699k). The Sanctuary full year forecast is for an operating deficit before depreciation (excluding WCC grant) of ($900k). This implies that the Sanctuary is forecasting a deficit of ($753k) over the last five months of the year compared to the actual five months trading deficit from last year of ($346k). If the deficit over the last five months is actually as high as ($753k), then it suggests the Sanctuary is extremely seasonal and this should be considered in any go forward plans.

The table below is a comparison of the actual financial performance to 31 January 2012 compared to the same period the previous year. The table shows that the YTD financial performance of the Sanctuary for the current year is $206k better than for the same period last year. This is what you would expect to have seen from the second full year of operations, with increased numbers of paying visitors and better yields. However, this improving operating picture is not reflected in the base case financials provided by the Sanctuary.

Year on Year comparison	Actual YTD 31-Jan-12	Actual YTD 31-Jan-11	Variance
Revenue			
Trading Income	1,361,359	1,206,002	155,357
Other Income	332,456	314,537	17,919
Total Revenue (Excluding WCC Grants)	1,693,815	1,520,539	173,276
Expenditure			
Personnel Costs	1,065,536	1,049,259	16,277
Other Costs	775,759	824,337	(48,578)
Total Expenditure	1,841,295	1,873,596	(32,301)
Surplus/(Deficit) before Depreciation and WCC grants	(147,480)	(353,057)	205,577

The following can be drawn from the Sanctuary base case:

1. *Without funding support and/or change the Sanctuary is not financially sustainable.*

   The Sanctuary financial forecasts are based on continuation of the current business model and clearly show that without funding support and/or change the Sanctuary is financially unsustainable. To illustrate the scale of the challenge, to bridge a funding gap of $500k per annum with average visitor revenue of $17 per visitor, an additional 30,000 visitors would be required per annum. Solutions need to tackle the cost structure and improve revenue opportunities (visitor income, café and function income and fundraising efforts).

2. *The Sanctuary is performing better than the 2011/12 budget*

   The YTD operating performance (before depreciation) to the end of January 2012 is a deficit of ($147k) which is $206k better than budget.

3. *The Funding requirement in year 1 should be significantly less than the $950k requested*

   The Sanctuary's year end forecast cash balance is $505k, the cash balance at the end of January was $1.34m. The cash position should benefit from the improved operating performance and the year end cash position could be around $700k. A higher closing cash position would reduce any funding required in 2012/13 accordingly.

   It is noted that the Sanctuary wrote to the Chair of the Working Group on 9 March and indicated within their letter that their previous funding request could be re-phased to be $700k 2012/13, $1.1m 2013/14 and $1.0m in 2014/15.

4. *The operating deficit should not be deteriorating to the extent forecast by The Sanctuary*

   The Sanctuary's operating deficit before depreciation (excluding WCC Grant) for 2010/11 was ($699k) and this should be regarded as the worst case position going forward. With: increased paying visitation; improving yields; and a focus on improving financial performance, the operating deficit should be improving over time. The actual performance YTD shows that this is the case. However, the forecasts provided by the Sanctuary on which their funding request was based, indicate a deteriorating position. The forecast deficit before depreciation for 2012/13 is ($905k).

5. *The Wellington Community Trust (WCT) loan repayments are a significant cashflow burden for the Sanctuary*

   The WCT loan requires capital repayments of $100k per annum in addition to the interest on the loan. The Sanctuary is a significant community asset, but the funding options being considered are largely reliant on Council providing the solution to the Sanctuary's financial issues. The funding of the Sanctuary needs to be considered more as a rescue package to preserve the community asset and public good that the Sanctuary provides. In framing a solution the WCT should be included as part of the potential solution and if the Regional Amenities Fund gets established, funding support for the Sanctuary should be high and early on the agenda. It is noted that the Sanctuary have discussed the loan with WCT without any success.

6. *The fixed cost base of the Sanctuary is too high and must be addressed*

   The overhead required to operate the Sanctuary as a stand-alone entity is too high relative to the size of the business. The Sanctuary is a small business which, based on their three year financial forecasts, has revenues of just over $2m per annum. Council already funds a number of organisations with fixed cost bases and capabilities that could be leveraged off to provide more efficient outcomes and shared services.

7. *Council Loan and Interest costs*

   The Council loan of $10.4m and the associated interest costs of c$650k per annum are not included in the financial analysis as they are Council items and the interest is not charged to the Sanctuary. None of the options considered directly address the Council loan and interest costs. Although as part of any re-structuring the Sanctuary assets would transfer to Council to offset the loan and would include the visitor centre, visitor centre improvements and the perimeter fence.

5.2 Options

The Working Group considered a range of potential options and alternatives and these are discussed below. (Those options and alternatives that were not considered further by the Working Group are set out in Appendix 1).

1. To provide an operational funding grant to the Sanctuary sufficient to ensure operations are maintained but require governance changes such that the Sanctuary becomes a CCO. (Referred to as the CCO model)

2. To incorporate the Sanctuary within a strategic alignment with the Wellington Zoo Trust and provide operational funding. (Referred to as the Wellington Environmental Visitor Attractions model)

3. To incorporate the Sanctuary within Council as part of the Parks and Gardens business unit and provide operational funding. (Referred to as the Council Parks and Gardens model)

4. To establish a strategic alliance between the Sanctuary, the Wellington Zoo Trust and the Council's Botanic Gardens and Otari-Wilton's within a CCO. (Referred to as the ECO - City CCO model)

Each of these options was considered by the Working Group using the agreed criteria and a framework to consider:

- The strategic fit with 2040
- Cost Synergies;
- Revenue Opportunities;
- Soft Benefits or Enablers; and
- Risks

A detailed discussion of each of the options is set out below. Detailed schedules of the analysis of the cost synergies, revenue opportunities, soft benefits and risks considered by the Working Group are contained within Appendix 2.

The cost synergies identified are considered to be highly achievable. For example the first of the cost synergies is the reduction in the numbers of Trustees required. Under the current models there are 5 Trustees at the Zoo and 7 Trustees at the Sanctuary. Under the common governance model options (option 2 and 4 below) there is only a requirement for 6 Trustees in total, resulting in 6 fewer Trustees and bankable savings of $90k per annum in this example.

The revenue opportunities are considered to provide a reliable guide to potential upside benefits. For example across the three operating entities in option 4 there are different arrangements for how cafes and functions are operated and this drives net revenues and also the resource needed to support each different approach. Under common management a best of breed approach will be able to be adopted to maximise these opportunities.

The Working Group noted that the type of model considered under option 2 and option 4, where you have a common governance and senior management structure with distinct operating units is quite common. Examples noted included Wakefield Health and Zoos Victoria.

Option 1 – The CCO model

Under this option Council would provide the Sanctuary with sufficient funding through an annual operational grant to maintain the operations of the Sanctuary on a largely status quo basis. As a requirement of the funding, Council would require the Sanctuary to become a CCO whereby Council appoints the majority, or all, of the Trustees.

When measured against the assessment criteria agreed by the Working Group this option met the first two criteria, namely:

- Preserve the identity of the Sanctuary as a place for conservation of New Zealand's nature heritage, flora and fauna, wildlife and as an ecological asset to the City; and
- Maintain the Sanctuary as a place for visitor attraction and education.

The third criteria was, "*To reduce the cost to Council and ratepayers*" and this option clearly does not meet this criteria.

The estimated grant funding requirement for each of the three years from 2012/13 is set out in the table below.

Option 1 - CCO Model			**($000's)**
Council Grant Funding requirement	**2012/13**	**2013/14**	**2014/15**
Sanctuary Funding Request	950	950	950
Council Grant Requirement	**950**	**950**	**950**
Total Grant Requirement over three years			**2,850**

This financial cost to Council from this option is equal to the grant funding request from the Sanctuary. The only cost savings opportunities available are through the Sanctuary moving onto the Council's back office for financials, payroll and IT support. The savings from this are modest and have been estimated to be around $25k per annum. As noted earlier in the paper, the Sanctuary has subsequently indicated that their funding request could be re-phased to $700k, $1.1m and $1.0m over the three years, a total of $2.9m over the three years.

In October 2011 the Sanctuary requested funding of $1.400m for 2012/13, this was revised downwards in November 2011 to $950k and further revised down in March 2012 to $700k.

The table below considers the main risks associated with this option (further detail is contained within Appendix 2):

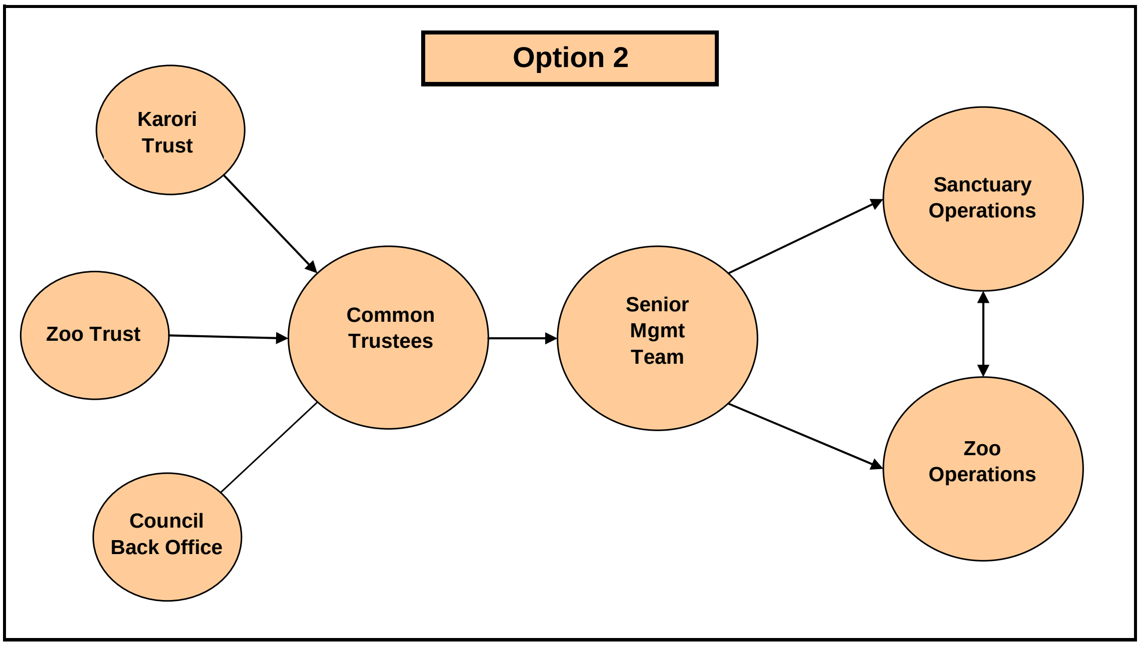
Further Council funding required (high risk)	Under this model Council will always be the primary funder of the Sanctuary. The model does not deliver any material cost savings or revenue upside, without operational change there is a real risk that further funding will be required. The issues around unfunded depreciation are not addressed
Fund-raising cannibalisation (medium risk)	Unplanned and un-coordinated fundraising efforts could produce sub-optimal outcomes on other Council entities
Implementation/execution risk (high risk)	Change of governance will not materially change outcomes alone

The CCO model simply results a change in the governance of the Sanctuary but no change in the actual business model. Without change in the business model; to reduce costs; increase revenue opportunities; and to improve efficiency and effectiveness, then the financial cost to Council and ratepayers is not expected to be different from that achieved by the Sanctuary under the existing business model.

This option was not favoured by any of the members of the Working Group.

Option 2 – Wellington Environmental Visitor Attractions

Under this option the operations of the Sanctuary and the Zoo would be managed by a set of common Trustees and a single shared senior management team. This option is illustrated in the diagram below:-



The main features of this option are discussed in more detail below:

- The Karori Sanctuary Trust and the Wellington Zoo Trust would remain but there would be a single set of common Trustees governing the two Trusts. This would be achieved through the establishment of a Charitable Trust whose Trustees would automatically be appointed to the Sanctuary and Zoo Trusts. The Trust deeds of the Sanctuary Trust and the Zoo Trust would be amended, and the new Trust established with the necessary powers to manage the operations of the Sanctuary and the Zoo. The objects of the Trusts would be preserved.

- There would be a single senior management team reporting to the Trustees who would be responsible for the management of the operations of the Sanctuary and the Zoo. The senior management team would include as minimum a CEO and CFO and other common senior management positions as required.

- The operations of the Sanctuary and the Zoo would be maintained and operated separately, although there would be shared services across functions such as finance, IT systems, marketing and facilities management. There would also be opportunities for further shared services in other areas of the operations.

- While the operations of the Sanctuary and Zoo would be separate and each would retain their own identity, it is expected that the senior management team would ensure that other opportunities to leverage off each of the entities and other Council entities were maximised. This would include cross-selling to visitors and members, utilising the connections and clientele of Venues and making best use of the Council's marketing arm, PWT.

- It is envisaged that the common trustees would be drawn from a cross section of the organisations – No more than six trustees are envisaged.

This option meets all three of the Working Group's assessment criteria and establishes a strong strategic alignment between the Sanctuary and the Zoo. This option is able to be implemented quickly and efficiently, cost effectively and in a way to ensure any risks are well understood and managed.

An alignment between the Sanctuary and the Zoo would enable each entity to leverage off a stronger and better resourced management capability, take advantage of strong synergies created and significantly reduces the cost to Council and ratepayers. This option would provide a solid basis on which the revenues of the Sanctuary and the Zoo could grow further and reduce future funding requirements from Council over time. It is important to note that while this option results in a significantly lower cost to Council, it still requires funding support.

The estimated grant funding requirement for each of the three years from 2012/13 is set out in the table below[2].

Option 2 - Wellington Environmental Visitor Attractions Model			
Council Grant Funding requirement	**2012/13**	**2013/14**	**2014/15**
Sanctuary forecast operating deficit	(965)	(903)	(810)
Wellington Community Trust loan	(100)	(100)	(100)
Sanctuary forecast capex	(100)	(100)	(100)
Forecast cash movement (out)	(1,165)	(1,103)	(1,010)
Sanctuary opening cash forecast	700	100	0
Capex funded by external fund raising	0	50	50
Provision for restructuring costs year 1	(150)	0	0
Wellington Community Trust Support	0	0	0
Cost synergies	350	470	470
Working capital funding provision	(100)		
Council Grant Requirement	**(365)**	**(483)**	**(490)**
Total Grant Requirement over three years			**(1,338)**

To estimate the grant funding requirement the benefits from the cost synergies have been included. These calculations do not incorporate any benefits from the potential revenue opportunities afforded by this option. The table below summarises the revenue opportunities which under this option are quite extensive. If the revenue opportunities can be realised then the grant requirement in future years could be reduced further.

No attempt was made to ascribe any values to the revenue opportunities as this would be largely a subjective assessment. The synergy tables allow each of the options to be compared on a like for like basis to understand which options provide the best revenue outcomes with the highest probabilities. Under option 2 the revenue opportunities are greater than those available under option 3 and virtually identical to those under option 4.

[2] The table includes a $150k provision for restructuring costs – this figure is an estimate off costs for any personnel issues, legal fees and any other establishment costs.

SYNERGIES REVENUE OPPORTUNITIES	Option 2 WEVA Model		
	Opportunity	**Outcomes**	**Probability**
1. Café and Function The café and function operations at Zealandia are, on a fully costed basis marginal, and require management resource. The skills and experience to successfully operate café's and function hire are specialist skills. The opportunity exists to look at outsourcing this function to de-risk, reduce management time and provide a reliable income stream.	**Yes**	**Improved**	**High**
2. Fund-raising External fund-raising is a critical component of operating revenues and capital funding for these type of publically owned visitor attractions. Funding must come from multiple sources to reduce any reliance on ratepayer funding. Zealandia has had success in the past in this area but has no current resource or fund raising strategy and has relied on Council funding in recent times.	**Yes**	**Improved**	**High**
3. Cross selling All of the entities have their own customer base, memberships and supporters. Combined administration of membership databases and communications will facilitate greater opportunities and efficiencies. Alignment creates cross-selling opportunities for increased visitation and revenues.	**Yes**	**Improved**	**High**
4. Visitor Experience It is the visitor experience that determines if visitors return, provide good word of mouth references and generally dictate views on value for money. The Zoo in particular has recognised expertise in this area that could be leveraged off in any alignment	**Yes**	**Improved**	**High**
5. Education and Research All of the entities have strong links to education and research institutions. Alignment would provide opportunities to strengthen relationships and for the education to be a revenue generator and point of difference for the City	**Yes**	**Improved**	**High**
6. Innovation Alignment allows entities to leverage off smart things and new ideas. Different ways to market, events to drive visitation, social media, web sites, etc. Alignment would facilitate the transfer of innovative ideas	**Yes**	**Improved**	**High**
7. Public Relations Maintaining strong and positive public relations is one of the cheapest and most effective marketing techniques. Re-alignment will provide many opportunities for positive PR and to sustain good PR.	**Yes**	**Improved**	**High**

The table below considers the main risks associated with this option (further detail is contained within Appendix 2):

Negative impact on the Zoo's existing operations (medium risk)	The issues of moving to a common governance and management structure and dealing with the performance issues at the Sanctuary could negatively impact on the Zoo's performance. However it is noted that the Zoo management is experienced and has good structures
Further Council funding required (medium risk)	There are no guarantees that the financial issues of the Sanctuary will be fully resolved through the changes contemplated under this option. The cost synergies are

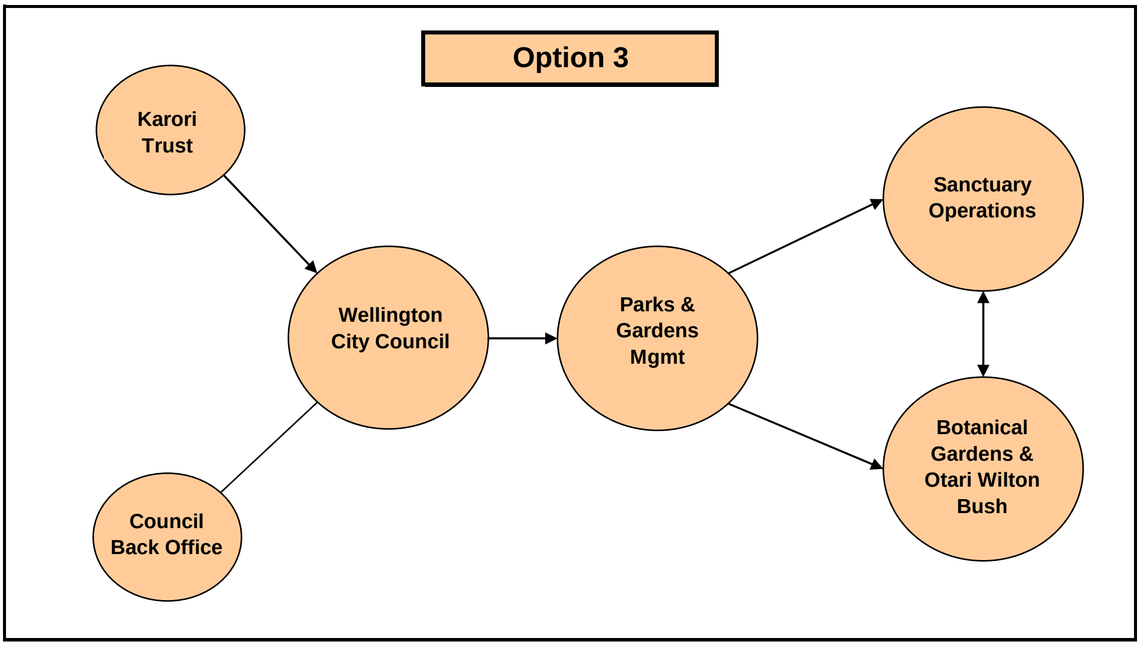
	firm and should be delivered but this still leaves the Sanctuary reliant on Council funding. The issues around unfunded depreciation are not directly addressed
Loss of volunteer support at the Sanctuary (medium)	This option is not about amalgamating the Sanctuary with the Zoo. This option is about securing the future of the Sanctuary and to ensure all of the hard work and effort of the volunteers is not lost because of the failure of the Zealandia model. It is also noted that the Zoo manage a large volunteer network which is common in all of these community assets. Communication and relationship building will be a priority to ensure the volunteers are engaged.

It is important to note that under this option the individual identities of the Sanctuary and the Zoo would be maintained. There will be a shared governance and senior management structure but the operations will be maintained separately. It would be wrong to think of this option as an amalgamation of the Sanctuary and the Zoo, it is not.

This option was favoured by four of the five members of the Working Group as the next best alternative to the preferred option – option 4.

Option 3 – Council Parks & Gardens

Under this option the operations of the Sanctuary would be brought within Council and managed within the Council's Parks and Gardens business unit. The Parks and Gardens business unit includes the operations of other environmental assets, the Botanic Gardens and Otari-Wilton's Bush. It is envisaged that under this option the Sanctuary would be a separate business unit retaining its unique identity. This option is illustrated in the diagram below.



The main features of this option are discussed in more detail below:

- The operations of the Sanctuary would come into Council and be managed within the Council's Parks and Gardens business unit.

- The operations of the Sanctuary would be kept separate within Parks and Gardens to ensure the identity of the Sanctuary was maintained. The Sanctuary would sit alongside the Council's other ecological assets, Botanic gardens and Otari-Wilton's Bush.

- The Karori Sanctuary Trust would be maintained as required to assist with fund-raising for the Sanctuary. The objects of the trust would be preserved.

- Shared services would be provided through the Council in the areas of finance, IT systems and facilities management. The Sanctuary would maintain its separate marketing capability and this would be able to be utilised to promote the wider Council collection of ecological assets.

This option meets all three of the Working Group's assessment criteria and establishes a strong strategic alignment between the Sanctuary and the Zoo. This option is able to be implemented quickly and efficiently, however it is noted that Council does not have a core of experience in managing paying visitor attractions.

The estimated Council funding requirement for each of the three years from 2012/13 is set out in the table below.

Option 3 - Council Parks and Garden Model			
Council Funding requirement	**2012/13**	**2013/14**	**2014/15**
Sanctuary forecast operating deficit	(965)	(903)	(810)
Wellington Community Trust loan	(100)	(100)	(100)
Sanctuary forecast capex	(100)	(100)	(100)
Forecast cash movement (out)	(1,165)	(1,103)	(1,010)
Sanctuary opening cash forecast	700	0	0
Capex funded by external fund raising	0	0	0
Provision for restructuring costs year 1	(150)	0	0
Wellington Community Trust Support	0	0	0
Cost synergies	304	405	405
Working capital funding provision	0		
Council Funding Requirement	**(311)**	**(698)**	**(605)**
Total Funding Requirement over three years			**(1,614)**

To estimate the Council funding requirement the benefits from the cost synergies have been included. These calculations do not incorporate any benefits from the potential revenue opportunities afforded by this option.

If the revenue opportunities can be realised then the funding requirement in future years could be reduced further. The table below sets out the revenue opportunities for option 3. Under option 3 the revenue opportunities are not as extensive as those available under option 2 or option 4.

SYNERGIES REVENUE OPPORTUNITIES	Option 3 Council Parks & Garden Model		
	Opportunity	**Outcomes**	**Probability**
1. Café and Function The café and function operations at Zealandia are, on a fully costed basis marginal, and require management resource. The skills and experience to successfully operate café's and function hire are specialist skills. The opportunity exists to look at outsourcing this function to de-risk, reduce management time and provide a reliable income stream.	**Yes**	**Improved**	**High**
2. Fund-raising External fund-raising is a critical component of operating revenues and capital funding for these type of publically owned visitor attractions. Funding must come from multiple sources to reduce any reliance on ratepayer funding. Zealandia has had success in the past in this area but has no current resource or fund raising strategy and has relied on Council funding in recent times.	**Some**	**Minor**	**Medium**
3. Cross selling All of the entities have their own customer base, memberships and supporters. Combined administration of membership databases and communications will facilitate greater opportunities and efficiencies. Alignment creates cross-selling opportunities for increased visitation and revenues.	**Some**	**Minor**	**Low**
4. Visitor Experience It is the visitor experience that determines if visitors return, provide good word of mouth references and generally dictate views on value for money.	**Some**	**Minor**	**Medium**
5. Education and Research All of the entities have strong links to education and research institutions. Alignment would provide opportunities to strengthen relationships and for the education to be a revenue generator and point of difference for the City	**Yes**	**Improved**	**High**
6. Innovation Alignment allows entities to leverage off smart things and new ideas. Different ways to market, events to drive visitation, social media, web sites, etc. Alignment would facilitate the transfer of innovative ideas	**Yes**	**Improved**	**Medium**
7. Public Relations Maintaining strong and positive public relations is one of the cheapest and most effective marketing techniques. Re-alignment will provide many opportunities for positive PR and to sustain good PR.	**Yes**	**Improved**	**Medium**

The table below considers the main risks associated with this option (further detail is contained within Appendix 2):

Implementation/execution risk (medium risk)	The cross section of all of the skills to manage the Sanctuary within Council will not be present at the outset. The key areas of visitor experience and marketing are not enhanced in this option
Further Council funding required (medium risk)	There are no guarantees that the financial issues of the Sanctuary will be fully resolved through the changes contemplated under this option. The cost synergies are firm and should be delivered but this still leaves the Sanctuary reliant on Council funding. The issues around unfunded depreciation are not directly

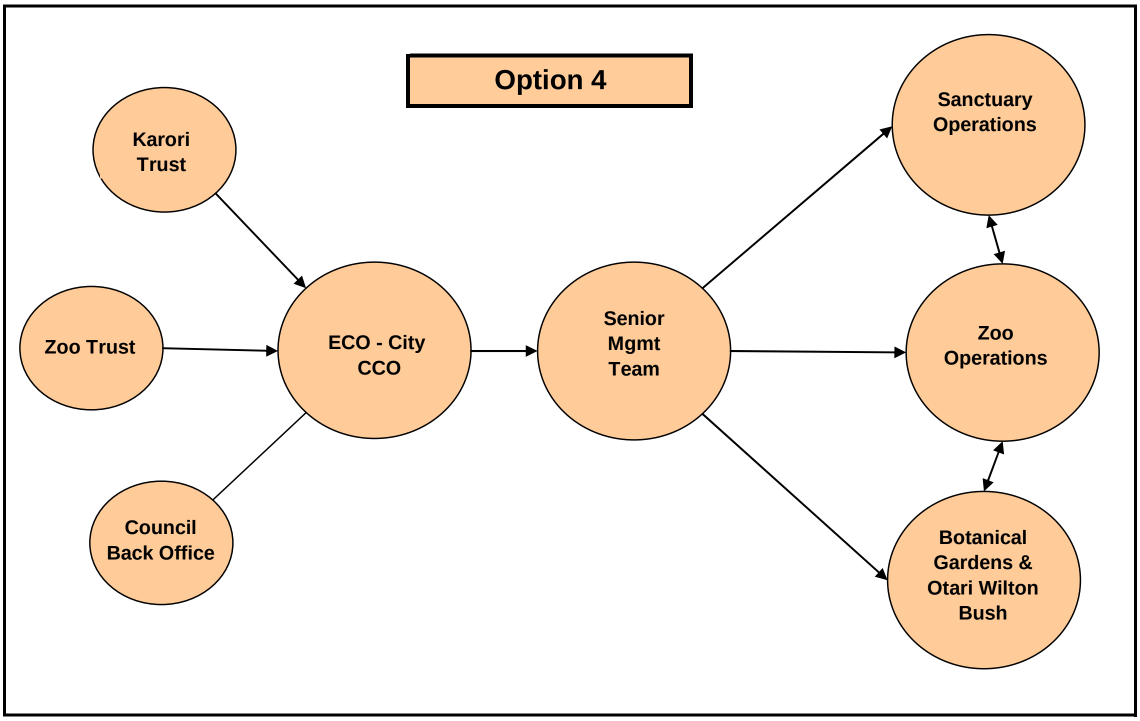
	addressed. Within Council there is always the risk that staff take over roles that volunteers would normally perform and result in cost creep over time.
Revenue cannibalisation (medium risk)	The Sanctuary would be in a Council business unit where the norm is to operate non charging attractions. It will be important to ensure that custom is not drawn away from the Sanctuary in any alignment into Council. There are not the same commercial pressures within Council business units to generate external revenues.

This option meets all three of the Working Group's assessment criteria and enables the Sanctuary to leverage off a stronger and better resourced management capability, takes advantage of cost synergies created and significantly reduces the cost to Council and ratepayers. It is important to note that while this option results in a significantly lower cost to Council, it still requires funding support.

This option was favoured by one of the five members of the Working Group as the preferred option.

Option 4– ECO - City CCO

Under this option the operations of the Sanctuary, the Zoo, Botanic Gardens and Otari-Wilton's Bush would be managed by a set of common Trustees and a single shared senior management team. This option is illustrated in the diagram below:-



The main features of this option are discussed in more detail below:

- The Karori Sanctuary Trust and the Wellington Zoo Trust would remain but there would be a single set of common Trustees governing the operations. This would be achieved through the establishment of a Charitable Trust (ECO - City). The Trust deeds of the Sanctuary Trust and the Zoo Trust would be amended, and the new Trust established with the necessary powers to manage the operations of the Sanctuary and the Zoo, the objects of the trusts would be preserved.

- There would be a single senior management team reporting to the Trustees who would be responsible for the management and strategic direction of the operations of the Sanctuary, the Zoo and Botanic Gardens and Otari-Wilton's Bush. The senior management team would include as minimum the CEO and CFO and other common senior management positions as required.

- The assets of Botanic Gardens and Otari-Wilton's Bush[3] would remain with Council and only the operations of these would pass to the new ECO - City CCO under a management agreement.

- The operations of the Sanctuary, the Zoo and Botanic Gardens and Otari-Wilton's Bush would be maintained and operated separately, although there would be shared services across functions such as finance, IT systems, marketing and facilities management. There would be opportunities for further shared services and co-operation across the operations.

- While the operations of the various entities would be separate and each would retain their own identity, it is expected that the senior management team would ensure that other opportunities to leverage of each of the entities and other Council entities were maximised. This would include destination marketing, aligning membership systems, cross-selling to visitors and members, utilising the connections and clientele of Venues and making best use of the Council's marketing arm, PWT.

- It is envisaged that the ECO - City Trustees would have a cross section of skills and experience drawn from the across the organisations – No more than six trustees are envisaged.

This option meets all three of the Working Group's assessment criteria and establishes a strong strategic alignment across the range of environmental assets of Council enabling each entity to leverage off a stronger and better resourced management capability takes advantage of strong synergies created and significantly reduces the cost to Council and ratepayers. This option would provide a solid basis on which the revenues of the Sanctuary and the Zoo could grow further and reduce future funding requirements from Council. It is

[3] Decisions around Bolton Street Memorial Park and Truby King Park would need to be made, these are currently within the Botanic Garden business unit.

important to note that while this option results in a significantly lower cost to Council, it still requires funding support.

The estimated grant funding requirement for each of the three years from 2012/13 is set out in the table below.

Option 4 ECO - City CCO Model **Council Grant Funding requirement**	**2012/13**	**2013/14**	**2014/15**
Sanctuary forecast operating deficit	(965)	(903)	(810)
Wellington Community Trust loan	(100)	(100)	(100)
Sanctuary forecast capex	(100)	(100)	(100)
Forecast cash movement (out)	(1,165)	(1,103)	(1,010)
Sanctuary opening cash forecast	700	100	0
Capex funded by external fund raising	0	50	50
Provision for restructuring costs year 1	(150)	0	0
Wellington Community Trust Support	0	0	0
Cost synergies	350	470	470
Working capital funding provision	(100)		
Council Grant Requirement	**(365)**	**(483)**	**(490)**
Total Grant Requirement over three years			**(1,338)**

To estimate the grant funding requirement the benefits from the cost synergies have been included. These calculations do not incorporate any benefits from the potential revenue opportunities afforded by this option. The table below summarises the revenue opportunities which under this option are very similar to option 2 with a marginal improvement from the inclusion of Botanic Gardens and Otari-Wilton's Bush.

SYNERGIES **REVENUE OPPORTUNITIES**	**Option 4** **ECO - City CCO**		
	Opportunity	**Outcomes**	**Probability**
1. Café and Function The café and function operations at Zealandia are, on a fully costed basis marginal, and require management resource. The skills and experience to successfully operate café's and function hire are specialist skills. The opportunity exists to look at outsourcing this function to de-risk, reduce management time and provide a reliable income stream.	**Yes**	**Improved**	**High**
2. Fund-raising External fund-raising is a critical component of operating revenues and capital funding for these type of publically owned visitor attractions. Funding must come from multiple sources to reduce any reliance on ratepayer funding. Zealandia has had success in the past in this area but has no current resource or fund raising strategy and has relied on Council funding in recent times.	**Yes**	**Improved**	**High**
3. Cross selling All of the entities have their own customer base, memberships and supporters. Combined administration of membership databases and communications will facilitate greater opportunities and efficiencies. Alignment creates cross-selling opportunities for increased visitation and revenues.	**Yes**	**Improved**	**High**
4. Visitor Experience It is the visitor experience that determines if visitors return, provide good word of mouth references and generally dictate views on value for money. The Zoo in particular has recognised expertise in this area that could be leveraged off in any alignment	**Yes**	**Improved**	**Medium**
5. Education and Research All of the entities have strong links to education and research institutions. Alignment would provide opportunities to strengthen relationships and for the education to be a revenue generator and point of difference for the City	**Yes**	**Improved**	**High**
6. Innovation Alignment allows entities to leverage off smart things and new ideas. Different ways to market, events to drive visitation, social media, web sites, etc. Alignment would facilitate the transfer of innovative ideas	**Yes**	**Improved**	**High**
7. Public Relations Maintaining strong and positive public relations is one of the cheapest and most effective marketing techniques. Re-alignment will provide many opportunities for positive PR and to sustain good PR.	**Yes**	**Improved**	**High**

The table below considers the main risks associated with this option (further detail is contained within Appendix 2):

Implementation/execution risk (medium risk)	This option involves more change than any of the other options and involves moving operations out of the Council. The nature of this implies there will be more implementation challenges, this will be able to be managed through appropriate planning. The early establishment of the governance structure and management and ensuring resources are committed to the implementation will mitigate this risk.

Further Council funding required (medium risk)	There are no guarantees that the financial issues of the Sanctuary will be fully resolved through the changes contemplated under this option. The cost synergies are firm and should be delivered but this still leaves the Sanctuary reliant on Council funding. The issues around unfunded depreciation are not directly addressed. The greater concentration and strategic positioning should assist delivery of benefits.
Negative impact on the existing operations (medium risk)	The issues of moving to a common governance and management structure and dealing with the performance issues at the Sanctuary could negatively impact on the other entities performance. However it is noted that the Zoo and Botanic Gardens are relatively mature operations with well established models
External stakeholders loss of support (medium)	Friends of Botanic Garden and the Otari-Wilton's Bush Trust and the various volunteer groups that support each of these entities – the loss of their support could be significant, this is primarily a relationship and communication issue that will need to be managed upfront and as a priority. This option is to secure the future of the entities and enhance them.

It is important to note that under this option the individual identities of the Sanctuary, the Zoo, Botanic Gardens and Otari-Wilton's Bush would be maintained. There will be a shared governance and senior management structure but the operations will be maintained separately. It would be wrong to think of this option as an amalgamation of the Sanctuary, the Zoo, Botanic Gardens and Otari-Wilton's Bush, it is not.

This option requires significantly more change than the other options and will require a strong implementation plan dealing with the establishment phase, transition issues around integrating the entities, segregating operations from within Council and the funding mechanisms. There will also need to be an early and comprehensive communication plan to deal with the multiple stakeholder interest and staff.

This option was the preferred option for four of the five members of the Working Group and was therefore the preferred option.

5.3 Climate Change Impacts and Considerations

The retention of the Sanctuary as an environmental asset to Wellington and the establishment of a focused ECO - City CCO to manage some of the City's prime environmental and conservation assets and attractions are seen as making a positive impact to climate change.

5.4 Long-Term Council Community Plan Considerations

The Working Group's preferred option, to establish the Nature Wellington CCO incorporating the Sanctuary, the Zoo and Botanic Gardens and Otari-Wilton's Bush, will require consultation and this will take place concurrently with the 2012-2022 Long Term Plan. The consultation will include:-

- The options identified by the Working Group
- That any funding implications will need to be addressed in the final Council Long Term Plan following the outcome of the consultation and any Council decision.
- the requirements of the special consultative process to enable The Karori Wildlife Sanctuary Trust to become a CCO of Council and the establishment of the umbrella, Nature Wellington, CCO under which the operations of the Sanctuary, the Zoo and Botanic Gardens and Otari-Wilton's Bush would be managed. (Section 56 of the LGA 2002 requires that a proposal to establish a CCO must be adopted in accordance with the special consultative procedure.)

The special consultative procedure in the LGA 2002 requires a Statement of Proposal be prepared. The outline statement of proposal covering the establishment of the two required CCOs is attached as Appendix 3. This may need to be amended to reflect the decisions of SPC in relation to the options to be consulted on.

6. Conclusion

The business case on which the visitor centre was built was meant to preserve the environmental successes and future of the Sanctuary through enabling the Sanctuary to be financially self-sufficient. However less than 2 years after the opening of the visitor centre the situation is that the current business model under which the Sanctuary is operating is not financially sustainable and that without financial support the Trust will become insolvent. The Trustees indicate that this will be during the 2012/13 financial year and so have approached the Council for financial assistance.

The Working Group believes that the operations of the Sanctuary are important to the City and the Community and that the Council should provide financial support to ensure the operations of the Sanctuary continue into the future. However the Working Group concluded that funding should not be provided without significant changes to the governance and operations of the Sanctuary. The changes recommended by the Working Group are aimed at: reducing the cost structure associated with the Sanctuary; providing opportunities for revenue growth in the future; and increasing the capability and capacity of the management resources able to be applied to oversee the operations.

The Working Group also concluded that these changes provide an opportunity for Council to establish a focused umbrella entity to manage and oversee the City's strategic collection of ecological assets. This would involve bringing the operations of the Sanctuary, the Zoo and the Botanic Gardens and Otari-

Wilton's Bush together within a single CCO, ECO - City, whilst maintaining the unique and individual identities of each of these entities. This brings the main environmental assets and attractions together in a City approach to managing and promoting the Wellington ecological story, showcasing the values and respect for the natural environment Wellington aspires to and in doing so protect and grow the lifestyle features that make Wellington a place where talent wants to live.

The efficiencies and opportunities created by this alignment of environmental assets and attractions will assist in ensuring their future survival as community assets, the environmental outcomes they contribute to are maintained and enhanced and showcase what is valued about Wellington and how Wellingtonian's interact with the environment.

Contact Officers: *Peter Garty, Chief Financial Officer; Danny McComb, Manager Treasury and CCO's*

Supporting Information

1) Strategic Fit / Strategic Outcome
The options outlined in this paper all contribute to and are consistent with Council's strategic direction and the Council strategic outcomes in the areas of Eco City and Connected City.

2) LTP/Annual Plan reference and long term financial impact
No funding for the Sanctuary has been included in the 2012-22 draft Long Term Plan. Any financial implications will be addressed in the final Long term Plan following the outcome of the consultation process

3) Treaty of Waitangi considerations
The preservation of the unique local heritage site owned by the Council and occupied by the sanctuary is an important issue for Mana Whenua. The existing Trust deed has provision for the Tenths Trust to be represented on the Karori Sanctuary Trust Board. This will need to be addressed in the event that changes to the trust deed and representation on the trust are contemplated

4) Decision-Making
This is not a significant decision. The report sets out a number of options and reflects the views and preferences of the Working Group and those with an interest in this matter who have been consulted with.

5) Consultation
a)General Consultation
A range of potentially affected or interested parties have been consulted with in the development of this paper. Affected parties will be identified as part of the special consultative process.

b) Consultation with Maori
Mana whenua will be provided with a draft of this paper and any public consultation documents

6) Legal Implications
Council's lawyers have been consulted during the development of this report.

7) Consistency with existing policy
None noted

APPENDIX 1

Options and alternatives considered but not pursued further.

At the Working Group meeting of 21 February a range of options were presented to the Working Group and after considering each of the options it was decided that three of the options should not be pursued any further. They are briefly:

1. To provide an operational funding grant to Zealandia sufficient to ensure operations are maintained with no governance changes.	The view of the Working Group was that they could not envisage any situation where Council would provide operational funding without a requirement for governance changes
2. To maintain the operations of the valley and seek alternative uses for the visitor centre building.	The Working Group were of the view that it was too early to consider closure of the visitor centre and alternative uses for the building.
3. The “Phoenix” approach whereby interested individuals with the commercial acumen, passion for Wellington and the environment and the financial means to attract capital to Zealandia are sought.	The Working Group agreed that this would potentially provide a solution but was not an option that could be developed. The Working Group noted that with a proper fundraising strategy and management focus this could still be achieved.

Other potential strategic partners were considered and the Working Group decided that an alignment with any of these organisations was not a viable option to consider further. Although it was acknowledged that there would be opportunities to work with these organisations in the future to assist Zealandia going forward. A brief summary of the potential strategic partners not seen as viable partners is as follows:-

Department of Conservation (DOC)[4]	DOC does not currently have the financial resources and operational capability in Wellington to participate. They noted that if Council did not support Zealandia and it was at risk of failure it was unlikely preserving Zealandia would be a funding priority for DOC given the current fiscal environment. DOC observed that the most logical alignment was with the Zoo. They also noted that they have strong ties with both organisations and would

[4] Reference to DOC’s perspectives are the views expressed by a Senior DOC Official at a meeting with the Chair of the Working Group and the Council CFO.

	support through access to birds, assistance with sponsorship and other areas of common interest.
Te Papa Tongarewa[5]	Te Papa expressed a view that the Zoo would be a more logical partner to align with than Te Papa. Te Papa could provide some services to Zealandia.
Wellington Museums Trust	This was not considered further as this alternative only offers shared governance, management and back office benefits which can be gained through an alignment with the Zoo.

[5] Reference to Te Papa perspectives are the views of the CEO of Te Papa expressed at a meeting with the Chair of the Working Group and the Council CFO.

Option Analysis

SYNERGIES COST SYNERGIES (net)	Option 1 CCO Model			Option 2 WEVA Model			Option 3 Council Parks & Garden Model			Option 4 ECO - City CCO Model		
	Opportunity	Estimated Value	Probability	Opportunity	Estimated Value	Probability	Opportunity	Estimated Value	Probability	Opportunity	Estimated Value	Probability
1. Trustee Costs A single set of Trustees would govern the entity. The savings would arise from having a single set ot Trustees compared to the alternatives whereby there are more than one set of Trustees.	No	0	High	Yes	$90k	High	Yes	$105k	High	Yes	$90k	High
2. Senior Executive Costs Alignment options provide opportunities to leverage off a single common senior management structure. Savings would arise where duplicate or overlapping roles are merged or eliminated. The estimated savings here are net of any consequential cost increases.	No	0	High	Yes	$125k	High	No	$150k	Medium	Yes	$125k	High
3. Shared Services - Marketing Alignment options provide opportunities to combine marketing and communications resources and efforts across entities. Costs can be reduced in a common marketing structure and greater focus on marketing outcomes.	Limited	0	Medium	Yes	$110k	High	Limited	0	Medium	Yes	$110k	High
4. Shared Services - Back Office Zealandia currently operates a stand alone back office service covering finacials, payroll and IT. These services could be provided under a shared service environment under all of the options.	Yes	$40K	High	Yes	$40K	High	Yes	$40K	High	Yes	$40K	High
5. Shared Services - Facilities Management All of the options require asset management plans, maintenance programmes and facilities management. With multiple sites there is an opportunity to combine the oversight and management of the facilities function.	Limited	0	Medium	Yes	$70K	Medium	Yes	$100K	High	Yes	$70K	Medium
6. Operational Overlaps In aligning entities there will be areas of clear operational overlap. There are opportunities to a number of areas working closely across multiple entities and be able to utilise resources more efficiently.	Limited	0	Medium	Yes	$35k	Medium	Limited	0	Medium	Yes	$35k	Medium
Potential Cost Synergies	$25k (High Prob)			$470k (Medium to High Prob)			$405k (Medium to High Prob)			$470k (Medium to High Prob)		

APPENDIX 2

SYNERGIES REVENUE OPPORTUNITIES	Option 1 CCO Model			Option 2 WEVA Model			Option 3 Council Parks & Garden Model			Option 4 ECO - City CCO Model		
	Opportunity	Outcomes	Probability	Opportunity	Outcomes	Probability	Opportunity	Outcomes	Probability	Opportunity	Outcomes	Probability
1. Café and Function The café and function operations at Zealandia are, on a fully costed basis marginal, and require management resource. The skills and experience to successfully operate café's and function hire are specialist skills. The opportunity exists to look at outsourcing this function to de-risk, reduce management time and provide a reliable income stream.	Yes	Improved	Low	Yes	Improved	High	Yes	Improved	High	Yes	Improved	High
2. Fund-raising External fund-raising is a critical component of operating revenues and capital funding for these type of publically owned visitor attractions. Funding must come from multiple sources to reduce any reliance on ratepayer funding. Zealandia has had success in the past in this area but has no current resource or fund raising strategy and has relied on Council funding in recent times.	Yes	Improved	Medium	Yes	Improved	High	Some	Minor	Medium	Yes	Improved	High
3. Cross selling All of the entities have their own customer base, memberships and supporters. Combined administration of membership databases and communications will facilitate greater opportunities and efficiencies. Alignment creates cross-selling opportunities for increased visitation and revenues.	Yes	Improved	Low	Yes	Improved	High	Some	Minor	Low	Yes	Improved	High
4. Visitor Experience It is the visitor experience that determines if visitors return, provide good word of mouth references and generally dictate views on value for money. The Zoo in particular has recognised expertise in this area that could be leveraged off in any alignment	Yes	Improved	Medium	Yes	Improved	High	Some	Minor	Medium	Yes	Improved	Medium
5. Education and Research All of the entities have strong links to education and research institutions. Alignment would provide opportunities to strengthen relationships and for the education to be a revenue generator and point of difference for the City	Yes	Improved	Low	Yes	Improved	High	Yes	Improved	High	Yes	Improved	High
6. Innovation Alignment allows entities to leverage off smart things and new ideas. Different ways to market, events to drive visitation, social media, web sites, etc. Alignment would facilitate the transfer of innovative ideas	Yes	Improved	Medium	Yes	Improved	High	Yes	Improved	Medium	Yes	Improved	High
7. Public Relations Maintaining strong and positive public relations is one of the cheapest and most effective marketing techniques. Re-alignment will provide many opportunities for positive PR and to sustain good PR.	Yes	Improved	Low	Yes	Improved	High	Yes	Improved	Medium	Yes	Improved	High

APPENDIX 2

SYNERGIES SOFT BENEFITS/ENABLERS	Option 1 CCO Model			Option 2 WEVA Model			Option 3 Council Parks & Garden Model			Option 4 ECO - City CCO Model		
	Opportunity	Outcome	Probability	Opportunity	Outcome	Probability	Opportunity	Outcome	Probability	Opportunity	Outcome	Probability
1. Management Capability Alignment will deliver material savings from reduced management operating costs, however of equal or greater value is the increase in capacity and capability that operating within a larger organisation provides.	No	No change	High	Yes	Improved	High	Yes	Improved	Medium	Yes	Improved	High
2. Branding Brand independence for operating entities is important. Zealandia requires strong support from locals for it to continue to improve. Anecdotally the re-branding has alienated many locals, re-alignment provides an opportunity to re-consider the branding and change if deemed necessary.	No	No change	High	Yes	Improved	Medium	Yes	Improved	Medium	Yes	Improved	High

APPENDIX 2

RISKS	Option 1 CCO Model			Option 2 WEVA Model			Option 3 Council Parks & Garden Model			Option 4 ECO - City CCO Model		
	Risk	Likelihood	Comments	Risk	Likelihood	Comments	Risk	Likelihood	Comments	Risk	Likelihood	Comments
1. Revenue cannibalisation This is the risk that changes may result in one or more entities growing their revenues but at the direct detriment to the other entiy	No	Low	Not affected under a basic status quo model	Yes	Low	Whilst this is a risk, with good management the cross-selling opportunites are more relevant	Yes	Medium	The Council entities in this space are non-charging. It will be important to ensure custom is not drawn away from Zealandia in any alignment	Yes	Medium	The Council entities in this space are non-charging. It will be important to ensure custom is not drawn away from Zeal/Zoo in any alignment
2. Fund raising cannibalisation This is the risk that an increased focus on fund-raising by individual entities results in an overall reduction in funds raised externally	Yes	Medium	Unplanned and unco-ordinated fund-raising efforts could produce sub-optimal outcomes impacting other entities	Yes	Low	Done well this is actually a major benefit. Any risk here is mitigated with a good strategy and dedicated resource	Yes	Medium	Unplanned and unco-ordinated fund-raising efforts could produce sub-optimal outcomes impacting other entities	Yes	Low	Done well this is actually a major benefit. Any risk here is mitigated with a good strategy and dedicated resource
3. Loss of volunteer support The risk that changes to the current models result in the loss of support from the important volunteer base	No	Low	Not affected under a basic status quo model	Yes	Low	Both entities experienced in managing volunteers and resourced to do	Yes	Low	Both entities experienced in managing volunteers and resourced to do	Yes	Low	All entities experienced in managing volunteers and resourced to do so
4. Implementation/Execution risk The risk that in making change things get worse rather than better because the change is poorly thought out, resourced and too much is undertaken at one time	Yes	High	Change of governance alone will not make a great deal of difference.	Yes	Low	Across organisations sufficient skills and experience present to manage transition	Yes	Medium	Cross section of all of the needed skills not present at the outset. The key issues of visitor experience and marketing not enhanced	Yes	Medium	Across organisations sufficient skills and experience available but the transition is much greater and a larger alignment will detract from the issue of improving Zealandia
5. Negative impact on other operations The risk that in any alignment of entities, existing entities which are performing well see their performance suffer as more time and resource is dedicated to change and the newer entity.	Yes	Medium	The real issues have not been addressed under this option and further resources can be expected to be diverted in future	Yes	Medium	The issues of moving to a common management structure could negatively impact the Zoo. Management is very experienced however.	Yes	Low	Councils operations are mature, however the skills to manage Zealandia would require development but unlikely to detract from existing Council operations	Yes	Medium	The issues of moving to a common management structure could negatively impact each of the entities.
6. Further Council funding required The primary factor in looking at change is the failure of the Zealandia model. Rather than being a financially self sustainable model it has become a model that can only survive with Council funding support. The risk is that the changes contemplated do not address or fully address the issues and we end up in the same place in the future	Yes	High	Under this option Council will always be the funder of first resort and as a CCO Council will have more responsibility to provide financial support in the future. Without material operational change this is almost certain.	Yes	Medium	While expected to deliver a more robust financial position the issues of future capex and unfunded depreciation still exist	Yes	Medium	While expected to deliver a more robust financial position the issues of future capex and unfunded depreciation still exist	Yes	Medium	While expected to deliver a more robust financial position the issues of future capex and unfunded depreciation still exist

APPENDIX 2

APPENDIX 3

Draft statement of proposal for two new CCOs

ECO - City

INTRODUCTION

The Council is considering how it can most efficiently and effectively manage various ecological assets within Wellington. The key assets currently owned by, and directly or indirectly controlled and managed by, the Council, are:

- Wellington Zoo (through the Wellington Zoo Trust, a council controlled organisation (**CCO**))
- Otari-Wilton's Bush (managed by the Council's Parks and Gardens business unit)
- Botanic Gardens (managed by the Council's Parks and Gardens business unit).

In addition, Council has an interest in Zealandia, through its ability to appoint trustees to governing body of Zealandia, the Karori Wildlife Sanctuary Trust.

The Karori Wildlife Sanctuary Trust has requested funding from the Council to maintain the viability of Zealandia. The Council is prepared to provide funding to secure the future operations of Zealandia, on the basis that the Council is entitled to appoint all of the trustees of the Karori Wildlife Sanctuary Trust. This means the Karori Wildlife Sanctuary Trust would become a CCO.

If Karori Wildlife Sanctuary Trust becomes a CCO, then the Council sees benefit in consolidating its ecological management activities under one umbrella.

Accordingly, the Council also proposes to establish a new ecological CCO (**ECO - City**) to manage Zealandia, the Wellington Zoo, and ultimately the Botanic Gardens and Otari-Wilton's Bush.

LOCAL GOVERNMENT ACT REQUIREMENTS

The Local Government Act 2002 (**LGA 2002**) requires the Council to consult on any proposal to establish a CCO using the special consultative procedure. The Council has decided to consult on these proposals at the same time as it consults on its draft 2012-2022 Long Term Plan.

The requirement to consult arises under section 56 of the LGA 2002 which requires that a proposal to establish a CCO must be adopted in accordance with the special consultative procedure.

The Council does not consider that section 97 of the LGA 2002 applies to either proposal individually, or to the two proposals taken together, as:

- Management of the ecological assets of the City is not considered a 'significant activity' of the Council, and
- there will be no 'strategic assets' transferred.

Karori Wildlife Sanctuary Trust as a CCO

REASONS FOR THE PROPOSAL

The Council is of the view that Zealandia, as both a visitor attraction and ecological asset, should be supported by the Council, but that if the Council is to provide the significant further financial support required to maintain the future operations of Zealandia, then the Council must have greater influence over the governance and management of Zealandia.

Council has determined that it is not prepared to consider the provision of any funding, to maintain the future of Zealandia, without Zealandia becoming a CCO of Council and for Council to have the right to appoint all of the Trustees.

REASONABLY PRACTICABLE OPTIONS

In identifying the reasonably practical solutions Council has applied the following criteria against which to assess a range of alternative options to determine a set of the practical alternatives and to assist in the decision making process:

- *Preserve the identity of the Sanctuary as a place for conservation of New Zealand's nature heritage, flora and fauna, wildlife and as an ecological asset to the City.*
- *Maintain the Sanctuary as a place for visitor attraction and education.*
- *Reduce the cost to Council and ratepayers.*

The range of reasonably practicable options that were developed and assessed are as follows:

1. To provide an operational funding grant to the Sanctuary sufficient to ensure operations are maintained but require governance changes such that the Sanctuary becomes a CCO. (Referred to as the CCO model)

2. To incorporate the Sanctuary within a strategic alignment with the Wellington Zoo Trust and provide operational funding. (Referred to as the Wellington Environmental Visitor Attractions model)

3. To incorporate the Sanctuary within Council as part of the Parks and Gardens business unit and provide operational funding. (Referred to as the Council Parks and Gardens model)

4. To establish a strategic alliance between the Sanctuary, the Wellington Zoo Trust and the Council's Botanic Gardens and Otari-Wilton's within a CCO. (Referred to as the ECO - City CCO model)

An analysis of each option is set out in Appendix 1.

THE KARORI SANCTUARY TRUST

The Council's favoured option to achieve the objectives of preserving the identity of the sanctuary, maintaining the sanctuary as a place of visitor attraction and education and reducing the cost to Council and ratepayers, is that Karori Sanctuary Trust become a CCO.

This can be achieved by the Council appointing the majority of the trustees to the Karori Sanctuary Trust. It is not considered that there will be any benefit in changing the nature of the legal entity which governs Zealandia, from a charitable trust to any other type of legal entity.

ECO - City CCO

The Council believes that once Karori Wildlife Sanctuary Trust is a CCO, a better strategic alignment between the City's ecological assets can be achieved if they are all managed by a single entity.

To this end, the Council proposes to establish a new ecological CCO, ECO - City, to manage Zealandia, the Wellington Zoo, and the Botanic Gardens and Otari-Wilton's Bush.

In all cases the individual identities of Zealandia, the Zoo, Botanic gardens and Otari-Wilton's Bush would be retained. The ECO - City CCO is intended to be an umbrella organisation to provide strategic direction, common management and leadership services to the individual entities and in doing so reduce the costs of management and the provision of back office services and open up an array of revenue and marketing opportunities. In addition the joining of these entities within a common umbrella CCO will provide strategic opportunities for ecological leadership, strong marketing of Wellington's ecological assets and ensure the future of these community assets.

CONCLUSION

The Council believes that option 4 - the establishment of a new CCO, ECO - City, for this purpose best achieves the objective of establishing alignment between Zealandia, the Zoo and Botanic Gardens and Otari-Wilton's Bush.

Currently the Wellington Zoo is managed by the Wellington Zoo Trust, and Zealandia is managed by Karori Sanctuary Trust, both of which are charitable trusts registered under the Charities Act. For ease of administration it is proposed that a new CCO, ECO - City, would also be a charitable trust registered under the Charities Act.

To fund the Sanctuary outside of any of the strategic alignments considered has an incremental cost to Council of $950k per annum, which over a three year period equates to $2.85m

Under option 4, the ECO - City CCO, the incremental funding requirement is $1.338m over a three year period. Significantly less than the status quo, in addition the ECO - City option offers potential revenue and operations gains not able to be achieved in a stand alone Sanctuary scenario. While the cost synergies under option 4 are the same as in option 2 and slightly lower in option 3, it is considered that option 4 provides a better strategic framework for the continued maintenance, development and promotion of the Councils environmental assets.