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**ZEALANDIA PROGRESS REPORT, FUNDING DECISIONS AND  
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**1. Purpose of report**

This paper reports back to Council progress made in developing an enhanced partnership approach with Zealandia. The paper recommends that funding set out in the Long Term Plan 2012-22 be released to the Karori Sanctuary Trust (KST) alongside additional sums for 2013/14 and 2014/15. It also recommends a new governance structure reflected in an amended Trust Deed is approved, and that the Committee grants a ground lease to KST over the Council-owned Karori Sanctuary land.

**2. Executive summary**

In June 2012, the Strategy and Policy Committee (SPC) agreed to develop an enhanced partnership approach with the KST following extensive consultation on different approaches to secure Zealandia's future.

As part of the approach, Council set in place an interim Board to oversee a review of Zealandia's governance, management and operations.

An independent review was completed in November 2012 outlining 19 recommendations to the interim Board, which has considered them and communicated their response.

The interim Board has established four subcommittees in the areas of governance, marketing and fundraising, finance, and stakeholder management. Streams of work have begun in all of these areas.

A key task of the interim Board was to establish a governance structure to give effect to the partnership model.

In discussion with Council and the Guardians, KST has proposed amendments to the Trust Deed to reflect changes in the way Zealandia is governed, to provide greater separation between governance and management, clearer lines of accountability and greater transparency of outcomes for stakeholders. KST intend to adopt the new Trust Deed at their Annual General Meeting on 18 December 2012. Council are asked to agree to the amendments to the Trust Deed.

Officers recommend that funding is released to Zealandia – in the first instance the funding that has been set aside in the Long Term Plan 2012-22 of \$350k for 2012/13, \$700k for 2013/14 and \$700k for 2014/15. In addition officers

recommend a total additional \$350k is included in the 2013/14 and 2014/15 Annual Plan (\$175k each year), bringing the total grant to Zealandia to \$2.1m over three years.

Without this additional funding, current forecasts indicate KST would emerge after the three years with no cash reserves. The additional funding will give Zealandia a higher level of financial security and will enable the Trust to concentrate on implementing strategies for improvement. After this period Council and KST will be in a better position to determine what would be the most appropriate level of support required in the longer term.

Officers also recommend a lease is granted for the Karori Sanctuary land. The rent would be set at \$0.10 per annum until such time as the Council's loan is repaid or expired. Rent will be reviewed at this time. The lease is for a 10 year period with perpetual rights to extend it for periods of 10 years.

### **3. Recommendations**

Officers recommend that the Strategy and Policy Committee:

1. *Receives the information.*
2. *Notes that an independent review of Zealandia's governance, management and operations has been completed and is attached at appendix B.*
3. *Notes KST's response to the review of Zealandia is attached at appendix C.*
4. *Agrees to release funding to Zealandia, \$350,000 for 2013/14, \$700,000 for 2014/15 and \$700,000 for 2015/16, as provided for in the Long Term Plan 2012-22.*
5. *Agrees to recommend to Council to include a total additional \$350K of funding for Zealandia in the 2013/14 and 2014/15 Annual Plans (\$175k each year) bringing the total grant to \$2.1m over three years.*
6. *Notes that this level of funding contains some financial risk for Zealandia, but will also focus the new Board on finding ways of increasing revenue.*
7. *Agrees to reconsider the extent of any ongoing funding for Zealandia as part the Long Term Plan 2015-25.*
8. *Notes that it is proposed to amend the Deed of Trust for the Karori Sanctuary Trust to provide:*

- a. *a clearer separation between the governance and management of Zealandia;*
  - b. *a reduction in board members from seven to five, with two members appointed by Council (including the Chair) and three by the Guardians;*
  - c. *provision for the board to appoint up to two additional board members in discussion with Council and the Guardians;*
  - d. *a list of skills and experience to be represented on the Trust Board;*
  - e. *a new Guardians group established to; appoint KST trustees, and to provide advice and represent stakeholders, comprising:*
    - *one representative appointed by iwi,*
    - *one Councillor appointed by the Council,*
    - *three members,*
    - *one representative of Victoria University of Wellington appointed by Victoria University of Wellington,*
    - *one of Patron or Vice Patron,*
    - *the Chairperson of the Trust Board*
  - f. *provision for Council to appoint an administrator if it is not satisfied with KST's financial position.*
9. *Agrees to recommend to Council that it consents to the amendments to the Trust Deed in Recommendation 8, and delegates authority to the Chief Executive to finalise all matters relating to the Trust Deed.*
10. *Notes that Council will consider the appointment of two new board members, including the Chair, to the Karori Sanctuary Trust, at the Council meeting scheduled for 19 December 2012.*
11. *Agrees to grant a new ground lease to the Kaori Sanctuary Trust.*
12. *Notes the terms of the lease:*
- Location:** *Lot 1 Deposited Plan 313319*
- Term:** *10 years with perpetual rights to extend the lease for periods of 10 years*
- Rent:** *\$0.10 plus GST per annum*
- Reviews:** *Rent will be reviewed at the Funding Repayment Date*
- Use:** *Native Sanctuary*
13. *Agrees that officers will negotiate and finalise all matters relating to the lease.*
14. *Notes that public consultation on a new lease is not required as the land is not held subject to the Reserves Act 1977.*

#### **4. Background**

In June 2012, Council agreed to an enhanced partnership with Zealandia designed to mitigate the risks associated with Zealandia's business model as well as secure Zealandia's future as an important Wellington asset.

To move towards the agreed enhanced partnership model:

1. The Karori Sanctuary Trust would be retained as an independent charitable trust. The Council would continue to appoint three of the seven Trust Board members, and exercises, at least for the transition period, the right to appoint the Chair.
2. A governance review would place to position the Trust for the future. An interim Karori Sanctuary Trust Board would be appointed by Council and the Guardians to oversee the review. This would operate from 1 July 2012 for a period of six months.
3. The Guardians and the Council (as the entities appointing the Trust Board) would sign a memorandum of understanding prior to 28 June 2012. This would agree the roles of the three parties, their shared objectives for Zealandia and give effect to the governance and management reviews. Upon a signed MOU being received, Council would recommend funding of \$350,000 from 1 January 2013 and that provisional funding of \$700,000 per year be included in the LTP for 2013/14 and 2014/15.
4. At the same time, a comprehensive review of Zealandia's business model would take place. The interim Board, in conjunction with Council officers, would develop Terms of Reference for the review and appoint an appropriately experienced person(s), funded and sourced by the Council, to undertake the review of the business model. It would be inclusive of business and operational practices, external support and management structure.
5. Subject to a satisfactory outcome of the reviews and delivery of agreed objectives, Council would commit to funding Zealandia, as detailed above, until July 2015.
6. All parties would work together to re-establish Zealandia's profile as one of Wellington's key ecological treasures. This would include publically recognising the role and value of the voluntary efforts that have established and continue to sustain the social enterprise ethos of Zealandia.

Council committed to Zealandia's vision to ensure it has access to the resources it needs to become financially sustainable in the long term. But Council needs to be satisfied that its investment is moving Zealandia in this direction.

## 5. Discussion

Since Council agreed to an enhanced partnership model with Zealandia, progress has been made in all of the areas outlined above:

- A Memorandum of Understanding was signed between the Guardians and the Council (attached at appendix A). It represents a significant step forward in establishing a productive, future focused relationship between Zealandia and the Council.
- An interim board with seven members was established, to oversee Zealandia's transition into the partnership model. The tenures of these interim board members expire on 31 December 2012.
- The interim board set up four subcommittees: Governance; Marketing and Fundraising; Finance and Stakeholder Management. Streams of work have begun in all of these areas.
- A comprehensive and independent review of Zealandia's governance, management and operations has been completed. The review proposed nineteen recommendations covering governance, management, operations, pricing for admissions, and financial options – attached at appendix B is the review, appendix C is KST's response to the review, and appendix D is a list of the recommendations made, KST's response, and officer comment.
- The interim Board, in discussion with Council and the Guardians, has proposed amendments to the Trust Deed to reflect changes in the way Zealandia is governed, intended to provide greater separation between governance and management, clearer lines of accountability, greater transparency of outcomes for stakeholders and to give effect to the partnership model. KST will seek to adopt the new Trust Deed at their Annual General Meeting on 18 December 2012.

Council now needs to make decisions about; the release of funding provided in the Long Term Plan 2012-22, granting of additional funding, Zealandia's governance beyond the term of the Interim Board and changes to the Trust Deed. Council is also asked to approve a ground lease for the land.

### 5.1 Funding

KST has produced a forecast through till 2014/15 which shows how they will manage with the level of Council funding agreed in the Long Term Plan - \$350,000 for 2012/13, \$700,000 for 2013/14 and \$700,000 for 2014/15. The forecast shows cash losses of between \$900k and \$1m per year before the Council grant. The shortfall between the cash loss and the Council grant will be absorbed by using the cash reserves Zealandia currently holds.

Officers have reviewed the forecast and are of the view it is robust, but acknowledge risks exist with this level of funding which, without improvements

to revenue generation and fundraising, will completely exhaust Zealandia's cash reserves.

The interim Board recommends that the funding be increased to \$350k in 2012/13, \$875k in 2013/14 and \$875k in 2014/15 (totalling \$2.1m)

The table below shows the forecast cash position of Zealandia over the period of the current Long Term Plan including the Council grant as proposed:

	<b>2012/13 \$000's</b>	<b>2013/14 \$000's</b>	<b>2014/15 \$000's</b>
Forecast cash position at beginning of year	\$1,066	\$415	\$387
Revenue	\$2,392	\$2,500	\$2,575
WCC grant	\$350	\$875	\$875
Operating expenditure (excluding depreciation)	\$3,225	\$3,282	\$3,286
CTW Loan repayment	\$100	\$100	\$100
Capital asset replacement	\$68	\$21	\$100
Cash surplus/(deficit)	(\$651)	(\$28)	(\$36)
Forecast cash position at year end	\$415	\$387	\$351

These figures take into account savings made from Council undertaking back office functions on behalf of Zealandia, including payroll and IT, as well as increased revenue from sponsorship and donations. After three years, Zealandia is forecast to end up with cash reserves of \$351k.

Officers also expect funding to be required past 2014/15. The quantum will be influenced by KST's success over the coming years at improving their income levels.

The independent review examined Zealandia's financial position and presented three options:

1. WCC to provide operating grants at the level already agreed in the Long Term Plan - \$350,000 for 2013/14, \$700,000 for 2014/15 and \$700,000 for 2015/16 (\$1.75m in total).
2. WCC to provide operating grants at a higher level than currently agreed - \$1.2m each year for three years (\$3.6m in total).
3. Transform KST into a CCO

The interim Board has reviewed the options. While their preference is for the Council grant to be increased to \$1.2m each year for three years; it believes that with \$350k in 2012/13, \$875k in 2013/14 and \$875k in 2014/15 (totalling \$2.1m) it will give the Trust sufficient funding and time to determine the impact

of its planned improvements. The Trust also seeks Council's commitment to consider a more sustainable level of funding beyond 2015 once they have had the opportunity to implement a range of approaches to improve their financial position.

Officers have reviewed these options. Option three, transforming KST into a CCO, is not considered in any depth in this paper. This is largely due to Council's previous decision to retain KST as a separate entity.

In terms of the level of funding provided to Zealandia, officers support the recommendation of KST; the amount already agreed in the Long Term Plan with an increase of \$350k to be included in the 2013/14 and 2014/15 Annual Plans (\$175k each year). This level of funding will clearly focus the new board on increasing revenue from a variety of sources and controlling costs as much as possible, but without completely stripping KST's cash reserves. Currently Zealandia is forecasting to still have cash reserves of \$351k after three years as a result of being funded at this level. After this period, it will be clearer whether the strategies employed by the board to improve Zealandia's financial situation have worked and to what extent. The priority for the new board will be reviewing and producing plans around pricing, visitor experience, fundraising (membership, sponsorship and donations) and the café/retail. There has not been sufficient time yet for the board to complete the reviews, develop plans and implement them so we can see the effect they have on revenue.

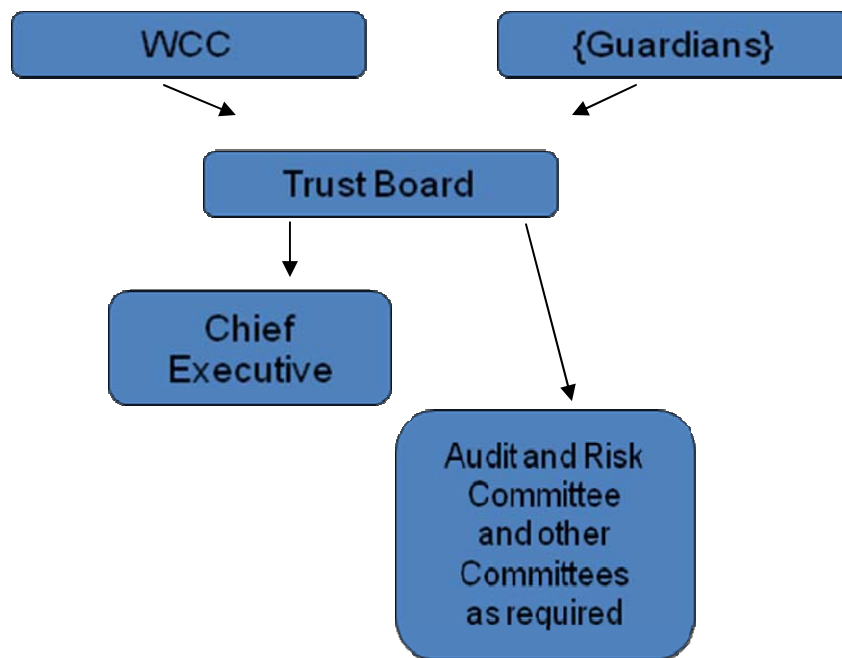
This option provides Zealandia with certainty of funding through to the next LTP to give the board time to develop and implement strategies and see the impact they deliver.

Officers recommend a total additional \$350k be included in the 2013/14 and 2014/15 Annual Plans (\$175k each year bringing the total grant to \$2.1m over three years). Over this period, however, it will be critical for KST to develop and implement a range of strategies to improve their financial position to secure their long term viability.

Officers also recommend that the level of funding provided is again reviewed alongside the preparation of the next Long Term Plan.

## **5.2 Governance**

An interim board, with seven members, was put in place to oversee the transition of Zealandia into the enhanced partnership model. The board has recommended a new governance model as follows:



Key aspects of the model include:

- a clearer separation between the governance and management of Zealandia;
- a reduction in board members from seven to five, with two members appointed by Council (including the Chair) and three by the Guardians;
- provision for the board to appoint up to two additional board members in discussion with Council and the Guardians if additional skills are required;
- a list of skills and experience to be represented on the Trust Board;
- board members to be restricted to a maximum of two three-year terms;
- the Trust Board to be the primary governance and decision-making body with overall responsibility for Zealandia;
- a new Guardians group established to; appoint KST trustees, and to provide advice and represent stakeholders, comprising:
  - one representative appointed by iwi,
  - one Councillor appointed by the Council,
  - three members,
  - one representative of Victoria University of Wellington appointed by Victoria University of Wellington,
  - one of Patron or Vice Patron,
  - the Chairperson of the Trust Board; and



- provision for Council to appoint an administrator if it is not satisfied with KST's financial position.

The new Guardians group now has a much clearer remit and is more representative of its key stakeholders. There is also provision to ensure a regular rotation of members meaning new ideas and thinking are being brought in. Their role and powers are clearly set out – in particular the Guardians will be responsible for appointing three of the board members.

The proposed amendments to the Trust Deed reflect the new governance structure. KST will be considering the proposed amended Deed, with a view to approving it at its AGM on 18 December. As settlor of the Trust, the Council is required to consent to the changes to the Trust Deed.

The terms of the interim board members all expire on 31 December 2012. It is essential that new trustees are appointed to ensure there is no period where Zealandia does not have a board. Council will be asked to approve two new board members, including the Chair, to the Karori Sanctuary Trust, at the Council meeting scheduled for 19 December 2012.

One of the board's first tasks will be appointing a new Chief Executive. In the interim a Council officer<sup>1</sup> will be acting in the position of Chief Executive from 1 January 2012 until an appointment is made.

### **5.3 Granting a ground lease for Zealandia**

The land on which Zealandia is located was previously vested with the Greater Wellington Regional Council (GWRC). In 1999, GWRC transferred the land to KST for the sum of \$1. Council subsequently purchased the land from KST. A Heads of Agreement signed in 1998 recorded the WCC's intention to lease the land to KST for the purposes of establishing and maintaining a native wildlife sanctuary. Since Council purchased the land, the parties were unable to reach agreement over the terms of the lease until now.

Officers have reached an agreement with KST, subject to Council approval, to grant a new lease over the Karori Sanctuary land. The rent would be set at \$0.10 per annum until such time as the Council's loan is repaid or expired. Rent will be reviewed at this time. The lease is for a 10 year period with perpetual rights to extend it for periods of 10 years.

As the land is fee simple, it is not classified under the Reserves Act 1977. It is, however, zoned open space and is captured in the Outer Green Management Plan which requires that the Strategy and Policy Committee makes the decision on whether to approve this lease.

The site is subject to easements for right of way which affect part of the land proposed to be leased, although these are outside of the fenced area.

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<sup>1</sup> Council will continue to meet the employment costs of the officer.

See appendix E for a map of the area covered by the lease.

#### **5.4 Consultation and Engagement**

Extensive consultation was carried out prior to Council's decision to establish a partnership approach with Zealandia, including a focus group, an on-line survey, and written and oral submissions. This paper is reporting back progress as a result of this decision.

#### **5.5 Financial considerations**

These are covered in 5.1 of this report.

This report recommends that funding of \$2.1m over three years is released to Zealandia. This level of funding will enable KST to emerge with some cash reserves and therefore a level of financial security, but will also require the Trust focus on increasing its revenues in order to build a more secure financial position going forward.

Additional funding of \$175k above what was provided in the LTP is recommended to be included in the 2013/14 Annual Plan and a further \$175k in 2014/15.

#### **5.6 Climate change impacts and considerations**

There are no climate change impacts or considerations as a result of this paper.

#### **5.7 Long-term plan considerations**

This report recommends that any further on-going funding requirements for Zealandia are considered as part of the Long Term Plan 2015-2025.

## **6. Conclusion**

Progress has been made in setting in place an enhanced partnership model with Zealandia. The interim board's proposed new governance structure will enable a better relationship between the Council and Zealandia, provide clearer lines of accountability, and enable the new board to focus on improving Zealandia's financial security going forward. It also provides clarity of purpose for the Guardians group, ensuring there are opportunities for their continued input and strategic oversight.

Once a new board is in place and new strategies are developed and implemented to generate more revenue, Council will have more clarity about the level of support Zealandia will require in the longer term. Officers therefore recommend Council fund Zealandia \$2.1m over three years. This level of funding will result in Zealandia still having some cash reserves at the end of the period, but will focus the Board on improving Zealandia's financial security post 2015. It will also enable a clearer picture to emerge as to the extent of ongoing funding required, which officers propose be reviewed alongside the development of the next Long Term Plan 2015-25.

Top priorities for the new board will be appointing a new Chief Executive, developing a Statement of Intent for 2013/14 and addressing all of the matters raised in this report and the independent review.

**Attachments:**

**Appendix A: Memorandum of Understanding relating to Karori Sanctuary Trust between Guardians and Council**

**Appendix B: Independent review of Zealandia**

**Appendix C: KST's response to the review recommendations**

**Appendix D: Summary of KST and Council officer's response to review of Zealandia**

**Appendix E: Map of the Karori Sanctuary Land**

**Contact Officer: Danny McComb, Treasury and CCO Manager, and Phil Becker, Executive Officer**

## SUPPORTING INFORMATION

### 1) Strategic fit / Strategic outcome

*The paper addresses the ongoing financial sustainability of Zealandia, a community project which is closely aligned with the Council's vision for Wellington.*

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

*The current Long Term Plan has set aside \$1.75m over three years for Zealandia. This report recommends that this funding is increased by \$350k to \$2.1m in total. It is proposed the additional \$350k is included in the 2013/14 and 2014/15 Annual Plans (\$175 each year) and that the Long Term Plan 2015-2025 considers any further on-going funding requirements.*

### 3) Treaty of Waitangi considerations

*The paper discusses key relationships for Zealandia, including with Mana Whenua. The Karori Sanctuary Trust (KST) has proposed the establishment of a new Guardians group to appoint KST board members, provide advice and represent stakeholder interests. It is proposed that Iwi is represented on this group.*

### 4) Decision-making

*This is not a significant decision. The report sets out a number of options and reflects the views and preferences of those with an interest in this matter who have been consulted with.*

### 5) Consultation

#### a) General consultation

*This paper reports progress made since Council agreed in June 2012 to develop an enhanced partnership with Zealandia. The decision made by Council in June was based on extensive consultation as part of the Long Term Plan process as well as a representative survey of residents. Since this decision a review of Zealandia's governance, management and operations has been carried out. The views of KST have been sought for this paper.*

*In respect to the proposed lease, the proposed land could be considered a park under section 138 of the Local Government Act 2002 (land acquired for or principally used for community, recreational, environmental, cultural or spiritual purposes), but will generally not interfere with access by the public. The land was acquired from the Trust for this purpose and has been subject to the lease Heads of Agreement since the date of Council's purchase.*

#### b) Consultation with Maori

n/a

### 6) Legal implications

*Council's lawyers have been consulted during the development of this report.*

### 7) Consistency with existing policy

*The report recommends Zealandia's new board members are appointed and remunerated in line with Council policy. It also notes Zealandia is monitored using the Council's current processes for CCOs.*