
**Project title: LYALL BAY SURF REEF – REQUEST FOR
ADDITIONAL FUNDING
KAA: NATURAL ENVIRONMENT**

1. Project summary

The Lyall Bay Reef Charitable Trust has made three main proposals in its submission to the 2005/06 Draft Annual Plan (full details of the submission are attached as Appendix 1):

- That Council releases or retains the \$265,000 that it has committed in the 2004/05 budget towards construction of the proposed surf reef at Lyall Bay.
- That Council provides further financial assistance by way of:
 - A \$500,000 interest free loan to be repaid over five years with revenue from signage rights given by Wellington Airport Ltd
 - A \$350,000 non-recourse loan to be paid from naming rights.
- That Council or the Greater Wellington Regional Council (GWRC) takes over ownership and maintenance responsibility for the proposed surf reef.

The Reef Trust presently has \$220,000 in sponsorship grants either in cash at bank or in firm pledges/grants. The Reef Trust has estimated that the total cost of constructing and monitoring the reef is \$1,560,000. Factoring in the Trust funds, pledges, offer of sand from CentrePort (estimated value \$200,000) and Council commitment of \$265,000, this leaves a funding gap of at least \$875,000 excluding maintenance costs.

A full summary of the above costs and responsibilities is included in sections 5.2 and 5.3 of this report.

The major driver for the timing of this funding request/submission from the Reef Trust is that CentrePort is planning to dredge the harbour entrance between March and September 2006. This not only potentially saves the Reef Trust approximately \$200,000 in sand to construct the surf reef, but overcomes the challenge of the Trust having to obtain its own resource consent to source sand. CentrePort is willing to make this sand available for the surf reef.

Centre Port has not dredged the harbour since the 1960's and will probably not dredge the harbour again for a long time. Therefore, this offer of sand is a unique "window of opportunity".

In order to fit in with the CentrePort dredging timetable, the Reef Trust would need to be a position to tender for construction by 30 September 2005.

2. Submissions

A total of 8 submissions were received about the proposed Lyall Bay Surf Reef. All of these submissions were in support of the reef.

Of the submissions, 6 were in support of Council retaining (accruing) the \$265,000 that was budgeted in the 2004/05 financial year. The other 2 submissions requested that Council increases funding for the reef and retains the \$265,000 that was budgeted in the 2004/05 financial year.

3. Relationship to Existing Activities

3.1 Council Contribution to Surfing and Other Sports

Wellington City Council provides annual financial assistance and/or facilities for many sports in the City – e.g. rugby, soccer, hockey, rugby league, aquatic sports, netball, cricket, softball, and basketball. Under Council policy, Sportsfields are subsidised 85% by Wellington City Council. In addition, Council provides capital for sport facilities, e.g. sportsfield upgrades, hockey spectator seating, the artificial courts at Hataitai Park, etc...

The “Sports field Allocation Project (stage 2)” report to the Environment and Recreation Committee in September 2000 highlighted the following operational costs of provision by Council:

Sport	2000/01 Sports Field Cost (Net of Passive Grass Cost)
Cricket	\$471,415
Softball	\$53,641
League	\$56,226
Netball	\$10,263
Hockey	\$21,636
Rugby	\$245,285
Soccer	\$318,364

Council’s financial support of surfing has been minimal (e.g. the changing area at Lyall Bay and car parking). This would be typical of most local authorities mainly because surfing is largely an unstructured activity and does not require much in the way of infrastructure. The exception is South Taranaki District Council which has committed \$1.1M to an artificial surf reef at Opunake.

A number of other city’s around New Zealand are considering the construction of artificial reefs both for surfing and/or coastal protection. These include:

- Mount Maunganui - has received resource consent and requires about \$200,000 more in construction funding).

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- Christchurch (New Brighton) - has conducted a feasibility study for a large artificial reef mainly for coastal protection reasons. The project is currently on hold. The estimated cost of construction is \$3-4M.
- Napier (Westshore beach) - has conducted a feasibility study for a reef for coastal protection.

3.2 Links to Council Strategies

Recreation Strategy

The aims of the proposal are consistent with the following Recreation Strategy goals:

- 1.1: To ensure the availability of a diverse range of recreation opportunities that satisfy the needs of Wellington citizens and visitors
- 1.2: To increase the number of quality recreation opportunities that enhance the health and well-being of Wellington citizens and visitors
- 1.3: To improve the access for all citizens to sport, recreation and leisure facilities and activities.
- 2.1: To increase participation in all forms of sporting, recreational and leisure activity in Wellington.
- 3.1: To increase the profile of the city as an attractive sport, recreation and events destination.
- 3.2: To increase the economic benefits that sporting and recreational events contribute to the city's economy.

Events Strategy

The aims of the proposal are consistent with the following Events Strategy goals:

- 5) optimise use of city venues and assets;
- 7) enhance the profile of Wellington as the leading events destination in New Zealand;

4. Proposal Costs

The Reef Trust has estimated that the total cost of constructing and monitoring the reef is \$1,560,000.

The Reef Trust presently has \$220,000 in sponsorship grants either in cash at bank or in firm pledges/pledges. Factoring in the Trust funds, pledges, offer of sand from CentrePort (estimated value \$200,000) and Council commitment of \$265,000, this leaves a funding gap of at least \$875,000 excluding maintenance costs.

The Reef Trust is seeking loans of \$850,000 from Council. The balance of \$25,000 would be funded from grants to come.

The table below outlines the project costs if Council was to undertake the following:

- retains the \$265,000 contribution to construction
- provide a five year interest-free loan for \$500,000 ("loan 1" interest cost = \$234,500)

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- provide a \$350,000 non-recourse loan (“loan 2” interest cost = \$115,854). This figure assumes the non-recourse loan is not repaid.

(For full details of the loan proposal refer to sections 5.2, 5.3 and “Appendix 1”).

OPEX	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	TOTAL
Grant	265,000										265,000
Interest	56,950	53,321	46,621	39,921	33,221	26,521	23,450	23,450	23,450	23,450	350,354
Maintenance	?	?	?	?	?	?	?	?	?	?	-
Total	321,950	53,321	46,621	39,921	33,221	26,521	23,450	23,450	23,450	23,450	615,354

Other Funding	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	TOTAL
Loan 1	500,000	- 100,000	- 100,000	- 100,000	- 100,000	- 100,000	-	-	-	-	0
Loan 2	350,000	-	-	-	-	-	-	-	-	-	350,000
Total	850,000	- 100,000	- 100,000	- 100,000	- 100,000	- 100,000	-	-	-	-	350,000

Note: the maintenance costs are unknown at this point in time.

5. Project Outline

5.1 Background

Council was approached by the Lyall Bay Reef Charitable Trust in 2000 to fund a feasibility study to investigate the potential for an artificial surf reef at Lyall Bay. Council allocated funding of \$67,000 for the feasibility study to be conducted.

Following the results of the feasibility study, Council approved funding of \$400,000 in the 2001/02 Annual Plan towards the reef. In the 2002/03 Annual Plan, following a request from the Reef Trust, Council reallocated the funding as follows:

- \$135,000 for the resource consent process (paid to the Reef Trust in 2002 and 2003)
- \$265,000 towards the construction of the reef (allocated in project C298 in the 2004/05 financial year)

Release of the \$265,000 towards the construction of the reef is subject to the Trust raising at least \$400,000 towards the cost of the reef (Council resolution June 2002). The Reef Trust made an undertaking to fund the balance of the reef cost. It is noted that at the time the estimated cost of construction of the reef was \$700k to \$1.3M.

The Trust obtained resource consent in September 2003. Following a number of appeals against the resource consent and a mediation hearing, a consent order was granted in January 2004. The resource consent conditions place a number of constraints – in particular:

- the type and quality of the sand that can be used
- shape/design of the reef
- location of the reef

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- type of materials that can be used to construct the reef
- the level of monitoring that is required of the beach profile and reef after construction.

Since February 2004 when the Reef Trust received resource consent it has approached every conceivable funding organisation. To date the Trust has raised \$220,000 in sponsorship grants or pledges towards construction of the surf reef.

5.2 Lyall Bay Reef Trust Submission to 2005/06 Draft Annual Plan

The Reef Trust submission is seeking the following from Council. (full details of the submission are attached as Appendix 1):

- That Council releases or retains the \$265,000 that it has committed in the 2004/05 budget towards construction of the proposed surf reef at Lyall Bay. The Trust believes it has reached the \$400,000 threshold for Council to release the \$265,000 funding. However, because the Trust has only obtained \$220,000 in grants and cash, Council officers do not believe the threshold has been reached.
- That Council provides a \$500,000 interest-free five year loan to be repaid by funding from signage.
- That Council provides a \$350,000 non-recourse loan to be repaid from funds secured from a naming rights sponsor.
- That WCC or the GWRC takes over ownership responsibility for the surf reef.
- That WCC or the GWRC takes over maintenance and monitoring responsibility for the surf reef
- That Council makes a funding and ownership decision by 30 September 2005 to enable linking in with the CentrePort dredging which is scheduled to occur between March and September 2006. The Reef Trust has stated that if it can not link in to the CentrePort dredging the project is unlikely to happen.

CentrePort Dredging

As outlined in section 5.1 the resource consent that the Reef Trust obtained for construction of the surf reef requires that sand similar to Lyall Bay is used.

CentrePort has recently been through a lengthy consent process to obtain resource consent to dredge the harbour. Centre Port has not dredged the harbour since the 1960's and will probably not dredge the harbour again for a long time. Core samples have revealed that there is sand in the harbour entrance similar to Lyall Bay.

CentrePort is planning to dredge the harbour entrance between March and September 2006. This not only potentially saves the Reef Trust approximately \$200,000 in sand to construct the surf reef, but overcomes the challenging task of the Trust having to obtain its own resource consent to source sand. CentrePort is willing to make this sand available for the surf reef.

In order to fit in with the CentrePort dredging timetable, the Reef Trust would need to be a position to tender for construction by 30 September 2005.

5.3 Risk

There are a number of risks associated with the proposed surf reef submission/proposal:

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- The Reef Trust has requested a \$500,000 interest free loan over 5 years from Council. In their submission, the Reef Trust had proposed repaying the loan with revenue from signage space that Wellington Airport has offered. However, Wellington Airport has since stipulated that the signage can only be used for a naming rights sponsor, not for general advertising and this reduces the value of this sponsorship offer. Any signage would also be subject to resource consent. Wellington Airport is willing to explore with the Reef Trust and Council other options to potentially fund the surf reef.
- The Reef Trust has requested a \$350,000 non-recourse loan from Council. In their submission, the Reef Trust had proposed repaying the loan with revenue from naming right sponsorship. Given that the Reef Trust has not yet secured a naming-rights sponsor there is a risk that this loan would not be able to be repaid. It is noted that a naming rights sponsor would also probably want signage rights and that this would be subject to approval by Wellington Airport and resource consent.
- The Reef Trust does not own any assets- this means that Council would not have the ability to recourse either loan.
- The Reef Trust has not tendered construction and there are limited contractors that could perform the work. The construction cost that the Reef Trust has submitted is 12 months old and cost is likely to have increased since then.
- The Reef Trust has a number of pledges (value = \$217,500) from various funding agencies towards construction. There is a risk that some of these organisations may recall the funds if progress with the reef does not occur in the near future.
- If Council was to accept ownership of the surf reef, it would become responsible for public liability.
- The Reef Trust has proposed that WCC or the GWRC would become responsible for maintenance – these costs are unknown and have not been budgeted. If there was damage to the reef, the cost of repair could be high because of the need to bring specialised equipment/boat to the site.
- There is some uncertainty that the sand type required by the resource consent may not be available in sufficient quantity and quality.
- The resource consent conditions place a number of stringent constraints on the construction of the surf reef (see section 5.1).
- No surf reef has yet been constructed in New Zealand and this presents some associated risks.

The table below identifies the difference between the original surf reef proposal (2001) compared to the proposed commitment in the Reef Trust 2005/06 Draft Annual Plan submission.

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Table 1:

Requested WCC Financial Contribution	Original	Current
	2001	2005
Resource Consent	\$ 135,000	\$ 135,000
Construction	\$ 265,000	\$ 265,000
Interest - \$500k Loan	\$ -	\$ 115,854
Interest - Non recourse loan \$350k	\$ -	\$ 234,500
Non recourse loan	\$ -	\$ 350,000
Total	\$ 400,000	\$ 1,100,354

Total Project Estimated Cost **\$700k to \$1.3m** **\$ 1.8M plus**
 % of project funded by Council (Estimate) **31% to 57%** **61%**

The table below identifies other differences between the original surf reef proposal (2001) compared to the Reef Trust submission (2005).

Table 2:

Requested WCC Contribution

Original Proposal (2001)	Proposed by Lyall Bay Reef Charitable Trust (May 2005)
Reef Trust would own reef (it is noted there was some ambiguity about ownership)	WCC or GWRC own reef
Reef Trust responsible for maintenance of reef	WCC or GWRC responsible for maintenance of reef
Reef Trust responsible for monitoring of reef	WCC or GWRC responsible for monitoring of reef

5.4 National Research

The New Zealand Sport and Physical Activity Survey 2001 results which were recently released in January 2003, highlight the popularity of surfing:

- 10% (135,000) of adult men surf. This was the 10th highest “active leisure” activity.
- 16% of 18-24 year olds surf. This was the 10th highest “active leisure” activity.
- 8% of Maori adults surf. This was the 10th highest “active leisure” activity.

5.5 Options

The ability to link in with the CentrePort dredging is a critical factor. Without this option, the project costs escalate by at least \$200,000, and the Trust is faced with the challenge of obtaining resource consent to source the sand.

The main options available for Council are:

1. Council does not retain \$265,000 towards construction because the Reef Trust has not achieved the \$400,000 threshold, and does not provide any loans to the Reef Trust.
2. Council retains \$265,000 towards construction and releases to the Reef Trust once it has met the \$400,000 threshold.
3. Council retains \$265,000 and provides a loan of up to \$850,000 to the Reef Trust (note: the cost of construction could escalate, and this figure does not include maintenance costs).

6. Conclusion

The submission to the 2005/06 Draft Annual Plan by the Lyall Bay Reef Charitable Trust proposes placing a significant amount of extra financial responsibility and risk on to Council. This Reef Trust submission/proposal was not budgeted for in the 2005/06 Draft Annual Plan.

These risks include construction cost escalation, loan repayment, performance of the surf reef, unknown maintenance costs, monitoring, ownership responsibility and the need for resource consent if the sand is not sourced from CentrePort dredging.

The Lyall Bay Reef Charitable Trust has raised \$220,000 towards the construction cost. Council officers believe the Trust is unlikely, at this point in time, to be able to repay the two proposed loans that are required to construct and maintain/monitor the reef.

The proposed dredging of the harbour entrance during March to September 2006 by CentrePort is a “window of opportunity” for construction of the reef. Use of this sand would not only reduce the cost of the surf reef by about \$200,000 but would remove the need for the Reef Trust to obtain a separate resource consent to source the required sand – this alternative would most likely be a difficult, costly and time consuming process. The Reef Trust has stated that if it can not link in to the CentrePort dredging the project is unlikely to happen. In order to link in with the dredging timeframe, the Reef Trust would need to start its construction tendering process by late September 2005.

The strongest argument for Council increasing its financial support and involvement in the surf reef is from an equity point of view in terms of the funding assistance that it provides to other high participations sports such as rugby, cricket, soccer, and hockey. However, if Council was to increase its funding of the surf reef, there would still be a number of other associated risks and costs as identified in this report.

Wellington Airport Ltd. has expressed a willingness to explore funding options for the proposed surf reef and it is recommended that Council officers and the Reef Trust continue these discussions.

7. Recommendation

It is recommended that Committee:

1. Does not release the \$265,000 contained in project C298 in the 2004/05 financial year because the Lyall Bay Reef Charitable Trust has not achieved the \$400,000 threshold for release of these funds.
2. Notes that there is insufficient financial information on costing and revenue, as well as risk assessment and mitigation to warrant the funding of an \$850,000 loan to the Lyall Bay Reef Charitable Trust.
3. Notes that Wellington Airport Limited has expressed a willingness to continue discussions with Lyall Bay Reef Charitable Trust and Council officers to explore potential funding of the surf reef.
4. Notes that Council officers will continue to work with and provide assistance to the Lyall Bay Reef Charitable Trust.