

NEW INITIATIVE (E)

Project title: Karori Sanctuary's Gateway Project

Background: delays in the Gateway Project mean that revenues will now be recognised later than expected and the Trust has a shortfall in funding. They seek transitional funding from the Council to cover this.

It is recommended that the funding be included in the draft annual plan.

1. The Proposal

The Karori Sanctuary Trust seeks:

- an additional 'contingency loan' of \$500,000 to cover any contingencies that may arise for the Gateway Project
- transitional funding of \$1.3 million (spread over three years starting in the current year) to cover operational costs during the transitional period until the Visitor Centre is operational.

2. Background

In March 2005 the Council approved funding for the Gateway Project covering:

- an interest free loan of \$8m towards the estimated total capital costs of \$16.38m
- an additional \$1.165m operational transitional funding in addition to the existing \$1.814m within the 2005/06 LTCCP. No operational funding was allocated beyond 2007/08.
- the release of the loan was conditional upon the Sanctuary securing all remaining capital funding.

The Council subsequently approved the loan as a limited recourse loan on 8 November 2007.

The loan and transitional funding were approved based on a forecast opening date of April 2007 for the Visitor Centre. The current projected opening date of the Visitor Centre is in October/November 2009 which is a two and half year delay.

The delay of the project is due to a number of reasons:

- initiating the resource consent process

- securing government funding was received a year later than expected
- unexpected geotechnical issues. Planned geotechnical site investigation (SI) involving drilling six bore holes commenced on 29 October 2007 following Archaeological Authority Consent granted by Historic Place Trust (HPT). The objective of the investigation was to more accurately assess the historical lower dam boundary and the ground conditions around the proposed visitor centre. A risk analysis was undertaken and the high risk was considered to be the works in relation to the dam not the bank. The bank had already been subject to a Type 1 survey (desktop) and a visual inspection. There was no indication that there were any issues relating to the stability of the bank.

The results of the drilling indicated unexpected poor ground conditions along the rear bank of the proposed visitor centre.

The Sanctuary halted design works until further investigation work was carried out to assess the impact. This was prudent as the solution to address the issue may have affected the final design of the building.

Further work to assess the impact and to evaluate cost effective options to stabilise the bank was undertaken including a geotechnical peer review. The conclusion was that a further anchoring system for the bank, additional surface drainage, wall drainage and the inclusion of a catchment fence would be required to ensure the stability of the bank.

As the Project work was halted for three months pending the assessment of the impact and evaluation of various options to address the issue, there is now an additional three months delay.

These delays mean that the Sanctuary needs to source operational funding to sustain its current operations through to the opening of the Visitor Centre in November 2009.

2. Proposal Costs

Project Component	Operating expenses									
	\$000									
	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17
<i>Transitional Funding</i>	300	300	700	-	-	-	-	-	-	-
<i>Total</i>	300	300	700	-	-	-	-	-	-	-

**Note that \$300,000 will be provided in the current year 2007/08.*

3. Project Outline

There are two matters to consider, the transition funding and increase the loan. These are discussed separately below:

Transitional Funding

Impact of the delay on transitional funding

The Sanctuary aligns strongly with the Council's key outcomes and goals and has shown its support through the approval of the loan and transitional funding. The loan and transitional funding was approved on the condition that the Council would support the Sanctuary during its transition until the Visitor Centre is fully operational.

The Council has provided ongoing operational funding to the Sanctuary since 2002/03. The Sanctuary revenue of around \$2m comes from general admission, tours, sponsorships, philanthropic grants, donations and City Council grant. The average annual operational grant required to maintain the Sanctuary at its current level of operations is around \$800k. The Sanctuary has performed very well over the years and has now around 70,000 visits a year with strong support of the community. As a recipient of the Significant Community Based Projects Fund, it is recognised as a national, regionally and locally significant community organisation.

Due to the delay of the Project, the transitional funding was reallocated and the amount of operational funding allocated in 2008/9 was \$53k with no more funding beyond. The delay of 2 ½ years has two effects on the Sanctuary's funding as follows.

1. A shortfall of two and half years of transitional funding at the current level of operation (\$2m - that is, \$800k per annum for two and half years)
2. The need to maintain momentum during the delay means higher cost of operations.

The Sanctuary was aware of the impact of the delay and has implemented a number of strategies to minimise the transitional funding shortfall through various fundraising activities, increased visitors, and reduced costs. The results of these strategies enable the Sanctuary to reduce the transitional funding shortfall from \$2 million to \$1.3 million.

What are the options?

There are essentially two options available to Council

1. Not provide any increase of additional funding
2. Provide some form of transitional funding

As commented above the Sanctuary has been able to decrease the level of operational funding required from \$2 million to approximately \$1.3 million.

Essentially the Sanctuary can not operate unless it has sufficient operating funding. If we were not to provide the Sanctuary with any funding assistance essentially it would have to close its doors creating not only legal implications in regard to existing staff contracts and committed funds from other sources but would also severely jeopardise the Sanctuary's ability to successfully operate the Visitor Centre when it is built.

The Council has been aware of the delay in the Visitor Centre project and that the Sanctuary would require some level of transitional funding to tide it over before it starts making a positive cash flow as a result of the increase of visitors becoming self efficient financially.

Officers consider it unwise not to give the Sanctuary transitional funding and therefore recommend that transitional funding is provided over three financial years as follows:

- 2007/08 – provide \$300K, offset against the interest savings arising from the late drawdown on the KWS loan and the non draw down of the Marine Education Centre loan during the 2007/08 year
- 2008/09 Provide \$300K Opex
- 2009/10 Provide \$700K Opex

Officers will continue to work with KWS on reducing the amounts needed in 2008/09 and 2009/10 by seeking alternative funding. This is outlined in the project cost section of this report.

Increase the Loan

The estimated cost to address the geotechnical issues outlined earlier is around \$500k. At the stage of writing this report, KWS could not confirm the costings until further evaluation work which would not be completed until late February.

The Project has allowed for contingencies of 10% excluding escalations and professional fees (\$1.126k) which was seen to be appropriate. To-date, \$360K has already been used with a remaining \$766k. The Project would not have a firm total costs until all the contracts have been let which is around August 2008. So while the \$500k could be absorbed in the contingency sum, given the early stage of the Project, the Sanctuary considers it would be prudent to request an additional loan of \$500k to cover any contingencies that may further arise. To ensure that the \$500k would only be spent if it needs to, the Sanctuary proposes that the Council approve an extra loan of \$500,000 on the condition that prior approval from Council officials is required before drawdown of any extra funds.

What are the options?

Council has essentially three options

1. Request that the KWS re-design the whole centre to absorb the increase in cost
2. Add \$500K now onto the loan with conditions
3. Wait and see what the tender comes in at

Design the whole centre to absorb the increase in cost

If this were done, due to the project being at the end of detailed design phase, it would mean that the cost associated in doing this would be similar if not higher due to the increase in consultant's cost to re-design the proposed visitor centre project. There would also be an additional project delay.

There is also the high risk that the completed visitor centre would not be as high a quality as it could have been nor deliver the high level of expensive that is being sort and required to draw in the forecasted increase in visitor numbers. This then could have a further on flow effect that due to the decline in projected visitor numbers, as the experience isn't as good as it could have been due to the re-design, that KWS do not become as financially self sufficient and therefore the Council may be approached to provide further additional operating funding.

Add \$500K now onto the loan now

The Council has an \$8million interest free loan with KWS. This loan could be increased to \$8.5 Million which results in an increase of \$37.5K interest cost per year for 25 years. As outlined above at the stage of writing this report, KWS could not confirm the costings until further evaluation work was undertaken.

KWS have stated that to ensure that the \$500k will only be spent if it needs to, it is proposed that The Council approve an extra loan of \$500,000 on the condition that prior approval from Council officials is required before drawdown of any extra funds

Wait and see what the tender comes in at

By waiting and seeing what the tender comes in at allows an accurate figure to be identified. There is a risk that this figure could be more than \$500K however a paper would go forward to Council to make a decision at the time. There is the possibility however that there could be a delay in the project while the Council considers the paper and deliberates.

4. Conclusion

Officers recommend the following:

1. Provide transitional funding to Karori Wildlife Sanctuary in the form of Opex \$300K in 2007/08, \$300K in 2008/09 and \$700K in 2009/10.
2. Wait and see what the tender price of the visitor centre comes in at and assess then what value the loan will be increased to.