



Community Consultation

THE PROPOSAL

That Ōtorohanga District Council invests \$2 million in the business trading as Ōtorohanga Kiwi House and Native Bird Park (Kiwi House).

The investment would be a loan to the Ōtorohanga Kiwi House Charitable Trust.

The loan will be used as part funding for the capital costs of the Kiwi House redevelopment.

SUBMISSIONS CLOSE 9 JUNE 2020, 5PM



Why are we consulting?

Council is consulting to be clear that the Ōtorohanga District community supports the proposal. This proposal shows community support for the Kiwi House to advance its redevelopment and access funding opportunities that are available now.

Proceeding with the redevelopment now takes advantage of the post-COVID lull in visitors to undertake the work with less disruption. The construction works and a better Kiwi House experience potentially provide big contributions to our community wellbeing.

The proposal does however come with significant financial risk on the ability of the Kiwi House to service the loan.

With the borders closed domestic tourism is being promoted to support tourism businesses. A Trans-Tasman Bubble is being considered to boost Australian visitors to New Zealand. No-one knows when the borders will open, how domestic tourists will behave or how quickly international tourists will return after the borders open.

The Kiwi House have assumed a 20 % increase in domestic and Australian visitors for two years and then a return to pre-COVID domestic and international visitor numbers in year 3. Visitor numbers then increasing year on year as a result of the benefits of the redevelopment.

If these assumptions are significantly wrong the Kiwi House could close permanently and ratepayers would have to repay the balance of the loan, with the consequence being an up to 2% rates increase.

Council and the Kiwi House have independent reports supporting a growth in tourism numbers and revenue for the Kiwi House that comfortably supports the investment. These reports however are Pre-COVID-19. Council has not sought an update of the reports as no-one can answer the questions on when a vaccine is available and when the borders will open.

What are the options?

Council is considering three options. Variants of these options could also be considered.

Council prefers Option 1: INVEST NOW

OPTION

1

INVEST NOW

- Council provide an unsecured low-interest loan of \$2 million for 10 years starting from the first drawdown of funds, expected in July 2020.
- The community will contribute from rates up to \$80,000 over two years, equal to the interest costs on the loan.
- The Kiwi House advise that other funders will join Council so that it can move closer to its vision “The Ōtorohanga Kiwi House will provide New Zealand’s most personal wildlife tour”.
- The Kiwi House advise that their financial projections support funding the loan costs and repayments.
- There is a high level of uncertainty over future revenue from tourism which could at worst mean the Kiwi House permanently closes and the community would have to repay the loan from rates.

OPTION

2

INVEST LATER

- Council decide to wait until more information is available on domestic tourism, Australian tourism and some clarity on the future of international tourism.
- Risk is potentially reduced depending on how long we wait however, the Kiwi House have advised us that waiting too long would see the permanent closure of the Kiwi House.
- The Kiwi House advise that there is greater uncertainty on the availability of funds from potential funders in the future.
- A future decision to invest a significant amount would be the subject of future community engagement.

OPTION

3

DON'T INVEST

- Council funds should not be used to develop the Kiwi House business.
- The Kiwi House advise that other potential funders would not contribute without a local contribution.
- The Kiwi House advise that the permanent closure of the Kiwi House is likely.

What are the Advantages, Disadvantages and Risk of each Option?

OPTION

1

INVEST NOW

Advantages:

- Provides the Kiwi House with greater certainty for its redevelopment plans.
- Gives the Kiwi House the greatest opportunity to access post-COVID-19 recovery funding.
- Places the Kiwi House in a better position to grow when the tourists return leading to more jobs and wider community benefit.
- Does not impact on planned investment in Council infrastructure.
- Takes advantage of very low interest rates.

Disadvantages

- There is a high level of uncertainty over future revenue from tourism.
- Council is relying on Kiwi House financial forecasts and has limited opportunity to undertake its own due diligence.
- External funding is not guaranteed.
- Rates will increase in 2021 and 2022 to pay for an estimated \$80,000 of interest cost on the loan

Risk

- Council has no security for the loan, as the assets sit on Council reserve land. In the event the Kiwi House closed Council could have to reinstate the land.
- COVID-19 has created uncertainty, particularly for tourism. Council has decided that the value of an external tourism forecast is limited.
- The Kiwi House forecasts rely on increased domestic customers and increased Australian customers from a 2020 reopening of borders with Australia.
- In the event that the Kiwi House permanently closes ratepayers would pay any outstanding debt in their rates.

OPTION

2

INVEST LATER

Advantages:

- Provides more time to understand the impacts of COVID-19.
- Provides more time to undertake due diligence and seek external advice on tourism, financial information and funders expectations.
- Council has more debt capacity should more projects require support or unplanned events occur.

Disadvantages

- Leaves the Kiwi House in limbo as to its development plans.
- The opportunities for post-COVID-19 recovery funding may decline as time passes.
- Late investment could lead to missed opportunity to capitalise on tourism growth.
- Although not forecast, interest rates could increase.
- Kiwi House have advised that waiting too long could lead to its permanent closure.

Risk

- COVID-19 has created uncertainty, particularly for tourism. By waiting the Kiwi House should have more certainty for its budgeting and Council should have more confidence in the Kiwi House ability to finance the full loan.
- Should the Kiwi House permanently close ratepayers would pay any outstanding debt in their rates.

OPTION

3

DON'T INVEST

Advantages:

- Council has more debt capacity should more projects require support or unplanned events occur.

Disadvantages

- Kiwi House have advised that no community contribution would lead to the permanent closure of the Kiwi House.
- Permanent closure would lead to a loss of jobs, work for some trades and tourism flow-over to other businesses.
- Council would probably have to reinstate the reserve land

Risk

- Should the community support this option there is low risk to Council.
- Council may have the cost of reinstating the land in the event the Kiwi House permanently closed.

What conditions would Council put on the Loan?

Below are the main conditions of the loan between Ōtorohanga District Council and Ōtorohanga Kiwi House Charitable Trust:

Maximum Amount	\$2 million	Term	10 Years from 2020 to 2030
Interest Rate	Fixed at 2.95% pa	Security	None
Repayment	Interest and principal monthly.	Ranking	In the event of default, this loan ranks behind a loan of up to \$1 million pledged by The Ōtorohanga Charitable Trust.
Other Conditions	Kiwi House have a \$400,000 BNZ loan guaranteed by Council for work completed on Stage 1 of the redevelopment. This loan will become part of the Council \$2 million loan, extinguishing the guarantee. The loan may only be used for the capital costs of the redevelopment as outlined in the Business Case dated May 2020. Funds will only be released on receipt of invoices to the value of 80% of each draw down of the loan. There will be no requirement for interest and principal repayments until July 2022.		

How will this impact on Council's finances?

Council has considered three scenarios for the impact on Council's finances for Option 1: INVEST NOW:

- Scenario 1 (best outcome): Everything happens as planned.
 Scenario 2 (not so good outcome): Other funders don't provide sufficient funding to complete the redevelopment.
 Scenario 3 (undesirable outcome): The Kiwi House permanently closes.

Item	Scenario 1	Scenario 2*	Scenario 3
Rates	Rates will pay interest of \$40,000 p.a. for 2020/21 and 2021/22. Rates would increase by an additional 0.3%. From 2022 to 2030 Council will make a small \$10,000 p.a. interest margin surplus which will recover the interest free loss over the remaining 8 years.	Rates will pay interest of \$40,000 p.a. for 2020/21 and 2021/22. Rates would increase by an additional 0.3%. From 2022 to 2030 Council will make a small \$10,000 p.a. interest margin surplus. which will recover the interest free loss over the remaining 8 years.	Rates will pay interest of \$40,000 p.a. for 2020/21 and 2021/22. Rates would increase by an additional 0.3%. From 2022 to 2030 Council would pay interest and principal repayments of \$270,750 p.a. Rates would increase by an additional 2%.
Council Debt	New borrowing of \$2 million fixed for 10 years to match the loan to the Kiwi House. Council's guarantee removed. \$2 million equates to 5.7% of Council's maximum debt capacity. Council's debt is forecast in the LTP 2018-28 to be less the 0.5 million from 2021/22. The loss of debt capacity is not expected to impact on any planned projects over the term of the loan.	New borrowing of \$2 million fixed for 10 years to match the loan to the Kiwi House. Council's guarantee removed. \$2 million equates to 5.7% of Council's maximum debt capacity.	New borrowing of \$2 million fixed for 10 years to match the loan to the Kiwi House. Council's guarantee removed. \$2 million equates to 5.7% of Council's maximum debt capacity.
Assumptions	<ul style="list-style-type: none"> interest cost to Council is estimated at 2%. 	<ul style="list-style-type: none"> interest cost to Council is estimated at 2%. The Kiwi House continue with a limited redevelopment with funds available. 	<ul style="list-style-type: none"> interest cost to Council is estimated at 2%. The Kiwi House permanently closes in 2022.

* Reports by Horwath HTL (see more information below) make a strong link between the new visitor centre and growth in income. Loss of funding to complete the redevelopment and the subsequent loss of income has not been modelled.

Why is this happening now?

The Kiwi House require a financial commitment from Council now to secure other funding for the redevelopment project.

Kiwi House information



The Kiwi House is a successful tourism and conservation business operating for 49 years, with 58,000 visitors pre-COVID-19.

It has been owned by the Ōtorohanga Zoological Society Inc. - a registered charity with 200 members. From 1 June 2020 the assets and membership will be transferred to Ōtorohanga Kiwi House Charitable Trust who will operate the Kiwi House.

Reports on the redevelopment of the Kiwi House have been prepared since 2005. In 2017 Council, working with the Ōtorohanga District Development Board and the Kiwi House, commissioned Horwath Hotel Tourism and Leisure (HTL) to prepare a Strategic Business Case Analysis for the proposed redevelopment and re-organisation of the Kiwi House. In 2019 Horwath HTL prepared a business case for the redevelopment to support an application to the Provincial Growth Fund (PGF). The 2017 and 2019 reports are available on Council's website as supporting information to the consultation.

The redevelopment is a 3-stage project estimated to cost between \$8 - \$10 million started in 2019 (✓ shows completed)

STAGE 1

Reconfiguration of the park services areas

- New holding aviaries and quarantine facility
- New Mahoenui Giant Weta breed for release centre
- New hospital facility
- Redevelopment of Kea, Kaka and Spring Aviary to make large walk through aviary.

STAGE 2

Construction of new enclosures.

- New large walkthrough Kea enclosure and wetland enclosures and a NZ Natives flying display bird show.
- New keeper kitchen and incubation facility to enable public demonstrations.

STAGE 3

New facilities

- New visitor facility including toilets, a Department of Conservation Information Centre, large retail and ticketing centre.
- New nocturnal enclosures to enable 45-minute guided tours to see Kiwi, Tuatara, Ruru, Longfin eels, Kokopu and geckos.

The Kiwi House advise Council that the redeveloped facility will offer NZ's largest nocturnal experience including interactive augmented reality exhibits and live exhibits showcasing NZ's natives at night. No other wildlife facility has the capacity to replicate this. There will be benefits to the District across all four wellbeings: environmental, social, economic and cultural.

Pre-COVID-19 Horwath HTL reported on the redevelopment, compared the Kiwi House with other regional and national competitors, considered the economic benefits, considered potential growth in customers and the Kiwi House finances. **There has been no post-COVID-19 update of these reports.** From the pre-COVID reports the following comment were made:

"Replacement of aging facilities is well overdue..." " TripAdvisor reviewers comment that the facilities are tired, rundown and neglected ..."

"The Kiwi House, will attract new visitors to the Ōtorohanga and Waitomo district who would not otherwise visit, and increase visitor's length of stay and therefore increase economic output"

"Redevelopment of the Kiwi House is estimated to employ up to 25-30 FTE workers during peak construction."

"The Kiwi House market split is approximately 80% international and 20% domestic visitors. The redevelopment will help the Kiwi House to gain a significantly greater market share of the group tour and cruise market."

"The redevelopment of the Kiwi House will allow an increase in the number of students who will benefit from education programmes to approximately 4,000 per annum [increased from 2500]"

Post-COVID-19

COVID-19 has seen New Zealand's borders close, which has the potential effect of the Kiwi House receiving more domestic tourism but significantly fewer international customers. A Trans-Tasman Bubble would open Australian tourism to NZ.

Kiwi House have revised their forecast revenue increasing domestic and Australian customers by 20% above pre-COVID levels and have reduced costs. From 2022/23 Kiwi House have assumed the borders have reopened and international visitors return to pre-COVID-19 levels and that the benefits of the redevelopment flow through to increased visitor numbers thereafter.

Council agreed that at this time there was little value in paying for an independent review of visitor forecasts with so much uncertainty on when the borders may open and how the travelling public would behave. Such a report would do little to reduce the risk on this proposal. Council acknowledges that there is significant risk in these assumptions but there is also a lot of opportunity from accessing funding available now.

How Do I Have My Say on this Proposal?

Council prefers Option 1: INVEST NOW

Questions for your consideration:

1. Do you agree that the Kiwi House is important to our Ōtorohanga identity?

2. Council proposes to INVEST NOW to maximise the available funding opportunities. The Kiwi House have advised Council their financial forecasts show sufficient funds are available to operate the Kiwi House and meet the repayment requirements of the loan. This information is based on assumptions of a growth of domestic and Australian customers. There is significant risk in these assumptions.

a. Do you support the INVEST NOW preferred option of Council?

b. If the Kiwi House is unable to service and repay the loan, the ratepayer will need to pay an additional 2% in rates to repay the interest and principal on the loan. Do you agree that it is worth taking financial risk to potentially secure the future of the Kiwi House?

c. Should Council wait for better information on the habits and behaviours of domestic tourists and better information on when the borders will reopen, before making a decision?

3. The Kiwi House have advised that without this Council investment it would likely permanently close. Is it acceptable to you that the Kiwi House would likely close without the proposed Council Investment?

Need more space, use the back page or your own paper

Council's Timeline



SUPPORTING INFORMATION

This proposal is supported by additional information available on Council's website. This includes business cases, Kiwi House financial information and Council reports.

Go to www.otodc.govt.nz and follow the links to the Kiwi House consultation page.

HOW TO MAKE A SUBMISSION

Council offers several ways for you to make a submission. However you provide your submission, please provide the following information

Name

Contact information

State whether you want to speak at the Council Meeting on 16 June.

If you wish to speak at the Council meeting on 16 June 2020, we will contact you with how that will work. In a Level 2 COVID-19 situation we are still considering how to safely do this.

ON-LINE SUBMISSION

Got to www.otodc.govt.nz and follow the links to the Kiwi House consultation page.

EMAIL

Email your submission to: info@otodc.govt.nz with "Kiwi House Submission" as the subject line

DELIVER BY HAND

You can deliver your submission by hand to the Council Office. 17 Maniapoto St, Ōtorohanga

POST

Post your submission to: Ōtorohanga District Council, PO Box 11, Ōtorohanga, 3940

Your submission and all your contact details on the submission form will be made available to Councillors, Council staff and the public as part of this consultation process. Copies of submissions may also be released at any other time, upon request.

SUBMISSION MUST BE RECEIVED BY 5 pm 9 JUNE 2020

SUBMISSION (continued)