
PART 2

Zoological Board of Victoria

Section 2.1

Executive Summary

OVERALL CONCLUSION

2.1.1.1 The Zoological Board of Victoria (ZBV) is responsible for the zoological gardens in Melbourne, the Healesville Sanctuary and the Werribee Park. The properties maintained by the ZBV are significant tourist attractions with over 1.5 million visitors a year. Despite considerable commitment by the Government from the Consolidated Fund (\$24.4 million over the last 5 years) the ZBV has operated at a deficit in recent years.

2.1.1.2 The audit of the ZBV disclosed that in the past there was a lack of strategic direction provided by the Board and senior management coupled with an indecisiveness in managing change and implementing initiatives. It is considered that this situation adversely effected the efficient, effective and economic operations of the ZBV as evidenced by:

- ▶ deficiencies in accountability mechanisms particularly in terms of the absence of key information provided to the Minister;
- ▶ inadequacy of strategic planning documents, leading to a lack of forward direction based on established performance targets and goals;
- ▶ the number of recommendations arising from consultancies and reviews which were not actioned;
- ▶ instability in the organisational structure and a significant senior staff turnover;
- ▶ insufficient information available to assist management decision-making such as financial statistics, performance indicators and market intelligence;
- ▶ an Education Service which had not been evaluated as to its effectiveness, and which was characterised by apparent low productivity;
- ▶ uneconomic and unproductive use of resources caused by either inadequate or non-existent purchasing and stock management policies and practices, and the absence of a capital investment program including rigorous economic analysis of the capital projects; and
- ▶ an increasing reliance on contributions from the Consolidated Fund.

2.1.1.3 Following the completion of the 1992 audit, the ZBV adopted a positive approach to the issues contained in the review by considering all recommendations. This was evidenced by the preparation by the ZBV of a detailed action program followed by regular progress reports to audit. Audit has since been advised that substantial progress towards implementing the recommendations has been made with positive results. The new management is to be commended for such action.

SUMMARY OF MAJOR AUDIT FINDINGS

ORGANISATIONAL FRAMEWORK

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Accountability and strategic direction

- ▶ Accountability at the Zoological Board of Victoria (ZBV) together with the deficiencies found in the ZBV's long and short-term planning processes, were not sufficient to provide the ZBV and government with the necessary assurance that the ZBV was achieving its organisational objectives in an economical, efficient and effective manner.

Paras 2.3.3 to 2.3.25

- ▶ The reporting process did not differentiate between the ZBV's commercial and community service obligations. As a result, neither the extent to which the commercial operations are self-supporting, or the cost to government of providing community services could be determined, thereby limiting the ability to make sound decisions.

Paras 2.3.11 to 2.3.14

Organisational structure and management

- ▶ A consultancy in January 1992 to review the organisational structure of the ZBV resulted in the second organisational restructure within 3 years. As the restructure was not supported by any documentation it was not possible to ascertain whether the recommendations arising from the review were soundly based. Further, the ZBV did not develop a formalised process to implement the new structure and the Minister had not been notified of the Board's decision.

Paras 2.3.26 to 2.3.32

- ▶ A human resource management strategy had not been developed and performance indicators had not been established.

Para. 2.3.33

- ▶ Extensive organisational change occurred at the ZBV, as evidenced by a number of restructures, significant staff turnover at senior level and the creation of over 30 full-time positions since 1 July 1988. The organisational change experienced by the ZBV was seen as a contributing factor to the lack of progress in implementing both the ZBV's strategic plans and recommendations arising from previous external reviews.

Paras 2.3.34 to 2.3.37

ORGANISATIONAL FRAMEWORK - *continued*

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Information systems

- ▶ There was an absence of a formalised and comprehensive information technology strategy for the ZBV which reduced the effectiveness of its information systems development and operation.

Paras 2.3.38 to 2.3.40

- ▶ Existing information systems were inefficient as they were not networked and integrated to allow the ZBV to obtain maximum benefit from management information essential for decision-making.

*Para. 2.3.41***MANAGEMENT AND OPERATIONS**

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Education Services

- ▶ Audit considered that productivity from the Education Services program could be improved as actual face-to-face teaching hours were on average, approximately half the number of hours stipulated in the staffing agreement and were only two-thirds that required by teachers under the Victorian Teachers Association Agreement which provided for up to 18 hours face-to-face teaching duties each week.

Paras 2.4.6 to 2.4.12

- ▶ Teaching staff numbers had remained stable for the past 14 years, despite changing demands of the program over the period.

Paras 2.4.13 to 2.4.14

- ▶ Although the Education Services program was estimated to cost in excess of \$1 million each year, neither the ZBV or the Department of Education had formulated specific policy, operating and reporting guidelines, and performance measures for the conduct of the program. Therefore, the effectiveness of the program could not be ascertained.

*Paras 2.4.15 to 2.4.19***Catering**

- ▶ The ZBV did not undertake any financial analysis or obtain an independent valuation of the rights conferred to the lessee to establish whether the maximum rate of return would be achieved from the leasing of catering operations at Melbourne Zoo. Further, audit considers that there was scope for increasing the return from leasing catering operations.

Paras 2.4.25 to 2.4.32

MANAGEMENT AND OPERATIONS - *continued*

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Capital works

- ▶ Despite the significance to the ZBV of the need to constantly upgrade facilities and introduce major exhibits to maintain attendance levels, the ZBV's approach to capital investment planning and management had been disjointed and inefficient. The absence of the prioritisation of exhibit proposals and rigorous technical and economic evaluations, resulted in significant inefficiencies in the implementation of the ZBV's capital works program over a number of years.

*Paras 2.4.33 to 2.4.41***Purchasing and stores**

- ▶ Purchasing and stores procedures at the Zoo have not been clearly defined, documented and monitored, leading to inefficient, and wasteful purchasing practices which inhibited the ZBV's ability to maximise its purchasing power and to control inventories.

Paras 2.4.42 to 2.4.44

- ▶ The current financial recording and reporting systems were unable to provide information to management which would allow the analysis of operational requirements and assist in ensuring that the purchasing and stores functions were operating efficiently.

*Paras 2.4.42 to 2.4.44***Marketing and tourism**

- ▶ The absence of a formal and cohesive marketing strategy for the ZBV prohibited it from meeting its marketing needs in an effective and efficient manner.

*Paras 2.4.45 to 2.4.50***Attendances**

- ▶ The growth rate in paid attendances over the last 5 years was 1.4 per cent a year, while the overall growth rate in total attendances was 1 per cent a year. This does not compare favourably with the combined effects of Melbourne population growth of 1.2 per cent a year and a 5 per cent increase each year in tourism in the same period. Furthermore, it compares unfavourably with other similar organisations which have experienced a growth in paid attendances of at least 4 per cent a year.

Paras 2.4.51 to 2.4.54

FINANCIAL POSITION

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- ▶ The audit indicated that the financial position of the ZBV had weakened over recent years leading to a greater reliance on government funding. Specifically an analysis of ZBV's financial position disclosed that:
 - Budgets did not provide sufficient details to justify proposed funding and expenditure levels.

Paras 2.5.6 to 2.5.8
 - There was an increasing reliance on government funding both in absolute real dollar terms from \$3.5 million to \$5.8 million and as a percentage of total revenue with the level of government subsidy per visitor increasing by 56 per cent since 1986-87.

*Paras 2.5.9 to 2.5.10
and 2.5.23*
- ▶ A formal policy or mechanism to facilitate price setting for admissions did not exist, nor were prices justified by an appropriate financial analysis such as recovery rate, or demand and sensitivity analysis.

Paras 2.5.11 to 2.5.24

2.1.3

OVERALL COMMENT FROM THE ZOOLOGICAL BOARD OF VICTORIA

As a broad general response, the Zoological Board of Victoria welcomes the constructive critical comment embodied in the Report and in an energetic and earnest fashion will set in train essential corrective actions.

Audit's specific recommendations will be used by the ZBV in a detailed plan of action which will allocate individual accountabilities for corrective action.

Section 2.2

Audit Review

RESPONSIBILITIES OF THE ZOOLOGICAL BOARD OF VICTORIA

OBJECTIVES AND FUNCTIONS

2.2.1.1 The *Zoological Parks and Gardens Act 1936* was enacted on 14 December 1936 and the Zoological Board of Victoria (ZBV) was established in 1937 as a statutory authority. The ZBV currently operates under the *Zoological Parks and Gardens Act 1967*.

2.2.1.2 The objectives and functions of the ZBV, as set out in the Act, are the :

- ▶ exhibition of zoological specimens to the public;
- ▶ scientific study of zoological specimens;
- ▶ instruction and entertainment of the public;
- ▶ protection, preservation, management and care of wildlife; and
- ▶ protection or preservation of wildlife habitat including native plants and trees.

2.2.1.3 The mission statement of the ZBV as defined in its Business Development Plan is "*to create positive attitudes towards wildlife and conservation of the world's natural living resources*".

2.2.1.4 At the time of the audit review, the ZBV was responsible to the then Minister for Conservation and Environment.

OPERATIONS

2.2.1.5 The ZBV currently administers 3 zoological parks:

- ▶ The Royal Melbourne Zoological Gardens (Melbourne Zoo), which opened on its present site at Parkville in 1871 and displays a representative sample of the world's fauna and flora in appropriate bioclimatic exhibits;
- ▶ The Sir Colin MacKenzie Zoological Park (Healesville Sanctuary), which was placed under the management of the ZBV in June 1978 focuses on the display of Australian fauna in a bushland setting; and
- ▶ The Werribee Zoological Park (Werribee Park), acquired by the Board in 1976 essentially to serve as a holding area for surplus animal stock from the Melbourne Zoo and is now operating as an open range zoo. Various proposals for the future direction of Werribee Park have been discussed including the development of the site to present African and Australian animals in a savannah and woodland environment and a rare species survival centre.

OBJECTIVES AND SCOPE

2.2.2.1 The overall objectives of the audit were to evaluate whether:

- ▶ policies and management processes were in place to assist the achievement of the ZBV's objectives, the effective and efficient utilisation of resources and the provision of an adequate accountability framework;
- ▶ financial and information systems were in place to facilitate economic and effective management of the ZBV's operations; and
- ▶ education programs were properly developed and evaluated.

2.2.2.2 The audit focused on:

- ▶ accountability and strategic direction;
- ▶ human resources;
- ▶ information systems;
- ▶ the Education Service; and
- ▶ actions taken by the Board to maintain and improve its financial position.

2.2.2.3 As the care and management of animals is seen to be the principal function of the ZBV, the initial focus of the audit included a review of the adequacy of its animal husbandry and veterinary practices. This review indicated that there were no significant issues that warranted further investigation by audit at that time and that there was an over-riding commitment to animal care by management and staff alike.

2.2.2.4 During the audit, regular discussions were held with staff and senior management of the ZBV and the former Department of Conservation and Environment.

Section 2.3

Organisational Framework

OVERVIEW

2.3.1 For an organisation to be successful today, it needs to have sound long and short-term strategic directions in place coupled with appropriate accountability mechanisms. Both elements should be underpinned by management policies, procedures and practices which ensure the organisation operates economically, efficiently and effectively. In establishing this operating environment it is essential that the organisation has access to all relevant information on which to base decisions. In addition, the environment should be conducive to gaining full commitment from both management and staff towards achieving its objectives. The absence of an effective operating environment can lead to:

- ▶ failure to achieve organisational objectives;
- ▶ inefficient operations; and
- ▶ reliance on higher levels of subsidisation from government.

2.3.2 In relation to the organisational framework of the ZBV, audit concluded that, in light of Parliament's significant and increasing financial commitment and the deficiencies in the management and operations, there is an urgent need to:

- ▶ improve the accountability framework to enable independent assessments as to whether the organisational objectives are being achieved with due regard to economy, efficiency and effectiveness;
- ▶ develop a corporate plan which realistically addresses the long and short-term strategic directions of the ZBV;
- ▶ develop a comprehensive information technology strategy which integrates various information systems and provides accurate and timely data to management and the Board for decision-making purposes;
- ▶ maintain organisational stability at a senior level; and
- ▶ ensure that decisive action is taken to implement the ZBV's strategic plans and act upon recommendations arising from external reviews.

ACCOUNTABILITY

Background

2.3.3 Accountability in the public sector was defined by the Royal Commission on Financial Management Accountability, Canada, as:

"... the fundamental prerequisite for preventing the abuse of delegated power and for ensuring, instead, that power is directed toward the achievement of broadly accepted ... goals with the greatest possible degree of efficiency, effectiveness, probity and prudence".

2.3.4 Where public sector organisations are granted greater autonomy to manage day-to-day operations there should be a strong accountability framework which may vary from one organisation to another. It is important that periodic risk assessments are undertaken to ensure the degree of control exercised over the operation of an organisation, such as the ZBV, by the responsible Department and Minister is in line with the level of risk at the time. The risk associated with the particular organisation should, in turn, determine the level of accountability necessary to achieve the dual objective of ensuring that Ministers fulfil their obligations to Parliament while allowing organisations to operate effectively without undue intervention. In this regard, Ministers first need to be provided with complete, understandable and reliable information on an organisation's operations.

2.3.5 Accountability to the Minister for the ZBV's operations provided for:

- ▶ tabling an annual report and audited financial statements in Parliament;
- ▶ participation on the board of the ZBV of a ministerial representative appointed by the Minister;
- ▶ submission of minutes from board meetings to the Minister;
- ▶ various approval requirements under the ZBV's legislation, for example admission price increases, engagement of staff, commencement of capital works; and
- ▶ submission of monthly financial reports to the former Department of Conservation and Environment.

2.3.6 Deficiencies in the accountability framework are detailed in the following paragraphs.

Board meetings

2.3.7 The ZBV is administered by a Board of 12 persons which regulates its own proceedings and is responsible to the Minister for Conservation and Natural Resources. The *Zoological Park and Gardens Act 1967* requires the Board to keep minutes of its meetings and forward a copy to the Minister within 14 days after each meeting. This requirement was not complied with as the Board relied on the Minister's appointed representative to keep the Minister informed. Audit was also advised that the Board met one hour prior to each "*official meeting for confidential discussion*". The records of these discussions and related papers were not kept.

Reporting and monitoring

2.3.8 The ZBV receives both operating and capital funding from the Government through the Consolidated Fund. The Acting Director-General at the time advised that he considered the ZBV an autonomous and separate entity responsible for the management of its own operations. Although the Department participated indirectly in the administration of the ZBV through its ministerial Board appointee and by providing the mechanism by which it received government funding, the Department did not enforce any specific accountability requirements unless requested by the Minister. The audit indicated that such requests were rare.

2.3.9 By way of example, the ZBV experienced a severe unforeseen cash flow crisis in June 1989 which required a significant cash injection of \$1.8 million from the Consolidated Fund. At the request of the Treasurer, the Minister directed the ZBV to forward a monthly financial status report to monitor the ZBV's financial performance and to enable any problems to be identified at an early stage. It was some 9 months later when the Board eventually agreed to supply this information to the Minister.

2.3.10 Audit was advised that, although on occasions advice on specific issues including annual budgets and expenditure on capital works over \$100 000 was provided to the Minister, a formalised monthly reporting process which briefed the Minister on the operations and management of the ZBV was not in place. In addition, there was no evidence that the Department sought to ensure that the Minister was kept informed in line with the monthly reporting requirements.

Community Service Obligations

2.3.11 In November 1991, the Economic and Budget Review Committee (EBRC) in its 32rd Report to Parliament entitled *Out on the Table - The Cost of Community Service Obligations* made recommendations in relation to the costing and reporting of Community Service Obligations (CSOs). In this report which considered CSOs in relation to Victorian government business enterprises the EBRC defined CSOs as arising when an organisation is required by Parliament to "... carry out an activity which it would not elect to provide on a commercial basis, or which would only be provided at a commercially higher price". The EBRC recommended that each CSO should be costed and reported.

2.3.12 The overall aim of reporting CSOs is to clearly distinguish, from a financial perspective, between the commercial and social elements of a public sector agency's operations. The reporting procedures need to enable the clear identification of the financial impact of CSOs, and to allow users of reports to analyse and compare the performance both with and without the implications of CSOs.

2.3.13 While the benefits of CSOs are well recognised but difficult to evaluate in financial terms, the costs can be identified and quantified. The ZBV provides, as well as leisure and entertainment facilities, various CSOs in the areas of school and public education, research and conservation. **The existing management information systems and current structure of the ZBV's accounts do not provide information on CSO costs. This limits the ability to make sound decisions in terms of CSOs and commercial operations.** Although it was not possible for audit to establish the overall cost of the CSOs provided by the ZBV in terms of its education, research and conservation function, these costs would be significant as the annual cost of providing the school and public education program alone was in excess of \$1 million.

2.3.14 The identification of the costs relating to CSOs at the ZBV will enable all commercial operations to be targeted for full cost recovery.

Approval of capital works

2.3.15 The Board is required under its Act to obtain Governor-in-Council approval prior to undertaking any new work estimated to cost more than \$100 000. Although the legislation relating to the approval of capital works has not been amended since 1974, and projects directly or indirectly receive funding from either government or sponsorship, various projects had either commenced or were nearing completion without the ZBV obtaining the necessary approval. A list of works undertaken but not approved by the Governor-in-Council, is detailed in Table 2.3A.

TABLE 2.3A. WORKS NOT APPROVED BY GOVERNOR-IN-COUNCIL

| <i>Project</i> | <i>Year commenced</i> | <i>Estimate completed cost</i> |
|--|-----------------------|--------------------------------|
| | | (\$) |
| Revegetation program - Healesville | 1989-90 | 863 000 |
| Helmeted Honeyeater conservation program - Healesville | 1989-90 | 282 000 |
| Electrical upgrade - Healesville | 1989-90 | 120 000 |
| Computer system - Melbourne | 1990-91 | 503 000 |
| Koala/Wombat facility - Melbourne | 1991-92 | 450 000 |
| Birds of Prey - Healesville | 1991-92 | 363 000 |
| Signage replacements - Melbourne | 1991-92 | 216 000 |
| Bush Birds - Healesville | 1991-92 | 118 000 |

2.3.16 In addition, there was no monitoring and follow-up by the former Department of Conservation and Environment to ensure that only projects approved by the Governor-in-Council proceeded.

2.3.17 The accountability framework existing at the time of the audit was not fully effective in that it did not provide sufficient information flow between the ZBV and the Minister to allow the performance of the ZBV to be monitored and measured, or provide an opportunity for the Minister to give direction where appropriate.

■ *Response provided by Chairman, Zoological Board of Victoria*

Where necessary, the accountability framework for the ZBV's operations will be strengthened, as highlighted. Specifically:

- ▶ *While we believe the current reporting relationships with the Minister and DOE to be appropriate, we will amend as necessary, following discussions with the Minister;*
- ▶ *A process is already underway to communicate, clarify and manage procedures, policies and authorities. A policy manual has already been developed;*
- ▶ *The majority of cases cited by audit as justification for comments concerning Governor-in-Council approval for new projects of \$100 000 and above are, in fact, not "new projects". Nevertheless, we will address the important issue of ensuring that our obligations for such approvals are fulfilled; and*
- ▶ *Audit's comments about distinguishing between CSO and other commercial type services are noted.*

STRATEGIC DIRECTION

Background

2.3.18 Central to the effective management of resources within private and public sector organisations is the establishment of a corporate plan detailing strategies to provide for the future long and short-term direction and control of organisational activity. Within the public sector, the strategic framework should provide the foundation for decision-making concerning the level of government funds to be provided to an organisation for the efficient and effective achievement of program objectives and outcomes in accordance with government policy. The formulation of a strategic direction document for an organisation such as the ZBV should encompass the following areas:

- ▶ financial management;
- ▶ human resource management;
- ▶ marketing and entrepreneurial activities; and
- ▶ information technology.

2.3.19 The long-term strategic direction of the ZBV that had been developed with the assistance of consultants was consolidated and incorporated in individual plans for Melbourne Zoo and Healesville Sanctuary in 1989, and a separate concept plan for Werribee Park in 1988. The strategic plans for both Melbourne Zoo and Healesville Sanctuary are consistent with the broad objectives of the ZBV.



The ZBV attracts over 1.5 million visitors each year.

Melbourne Zoo and Healesville Sanctuary strategic plans

2.3.20 In 1990 the ZBV completed a review to update strategic plans and to provide a framework for planning over the next decade. The review also involved undertaking some limited market research and financial projections up to the year 2000. **However, audit concluded that the updated plans were optimistic in that there was a failure to give due consideration to significant economic constraints, and the ZBV's organisational and resource limitations. Furthermore, the plans did not properly research and take into account the underlying assumptions of future budget forecasts.**

2.3.21 Specifically, the strategic plans:

- ▶ Were reliant on the ZBV receiving a higher level of government funding than in previous years;
- ▶ Provided for an annual capital development program of \$4 million without assessing whether this scale of development was achievable given the existing level of resources and the low level of capital works achieved in previous years (refer to paragraph 2.4.39 of this Report); and
- ▶ Were based on 1988-89 financial results and 1989-90 financial budgets without taking into account the changing parameters, for example, any increase in tourism, and changes in the budget base. Further, the plans did not address the impact of any changes to given assumptions such as salaries and staff levels, or allow for real increases in operating expenditure resulting from new exhibit development.

2.3.22 Management advised audit that the ZBV's short-term strategic requirements were met by its Business Development Plan which was approved in November 1989. The Business Development Plan was comprehensive and contained clearly stated objectives supported by detailed strategic aims and actions. However, at the time of the audit:

- ▶ the Plan had not been widely circulated as some managers interviewed by audit did not know of its existence;
- ▶ a formal implementation strategy for the Plan did not exist and implementation was unco-ordinated with significant strategies not addressed; and
- ▶ the Plan was premised on receiving government funding far greater than previous levels provided or likely to be provided in the future, and had not been subsequently reviewed in light of the reduced funding available to implement the strategies.

Werribee Park concept plan

2.3.23 The Werribee Park concept plan provides for the development of Werribee Park into a free-ranging African wildlife park and rare species survival centre. The overall estimated cost of this project at the time of the audit was in excess of \$20 million. Subsequent to the preparation of the concept plan, the ZBV extended the scope of Werribee Park to include Australian grassland animals. This change in scope was made without supporting documentation and analysis.

2.3.24 The audit disclosed in relation to strategic planning for Werribee Park that:

- ▶ there was little tangible evidence to suggest that there was either a demand or a requirement for the concept;
- ▶ a comprehensive financial feasibility study, detailing the requirements and costs of establishing such a facility and the expected on-going funding commitment, had not been undertaken; and
- ▶ the ZBV had not obtained the formal approval, from either the responsible department or the Minister, for the Werribee Park concept plan, nor received endorsement of the decision for the extended scope.

2.3.25 In audit opinion, the long and short-term planning process for the 3 zoological parks, did not provide an adequate framework to allow ZBV to realise its full operational potential. In addition, deficiencies in the planning processes contributed towards the ZBV's increasing reliance on contributions from the Consolidated Fund and resulted in poor management of other programs.

■ *Response provided by Chairman, Zoological Board of Victoria*

The ZBV is implementing audit's recommendations. Specifically:

- *realistically reviewing its long and short-term strategic plan for both Healesville and Melbourne in the light of both the current environment and updated financial information, and having due regard for the changing parameters on which these plans are based;*
- *undertaking a comprehensive feasibility study of Werribee Park to determine the level of market demand and/or requirement for such a facility, the anticipated total capital cost and details of the on-going resource requirements; and*
- *such plans and studies will subsequently be submitted to the Minister for formal approval to ensure proper accountability.*

ORGANISATIONAL STRUCTURE AND MANAGEMENT

Background

2.3.26 The ZBV currently employs about 300 staff at its 3 separate locations. Until early 1992 the ZBV generally operated under a centralised structure with the Director of each zoological park reporting to the Chief Executive Officer (CEO). Under this structure, the Melbourne Zoo was responsible for co-ordinating financial and human resources for the 3 locations. The ZBV has gone through extensive organisational change during the past 4 years.

Organisational restructure

2.3.27 In January 1992 a sub-committee of the Board raised serious concerns relating to *"the inter-relationship of management, its effectiveness ..."* This resulted in the Board engaging an external consultant at a cost of about \$10 000 to review the organisational structure of the ZBV.

2.3.28 The process adopted by the Board in relation to the consultant's report disclosed that the Board may not have had adequate information on which to base its decision in February 1992 to change the organisational structure of the ZBV and implement the consultant's recommendations. When audit questioned the basis for the Board's decision it was advised that the organisational restructure proposed by the consultant had been discussed at 2 Board meetings. However, these discussions and related decisions were not recorded in the minutes.

2.3.29 The audit disclosed that the ZBV accepted the consultant's verbal advice which was not supported by a formal report to the Board and consequently audit was not in a position to evaluate whether the decisions were soundly based. In light of the action taken by the ZBV in relation to the recommendations, it was anticipated that there should have been supporting documentation which detailed:

- ▶ the deficiency of the current structure;
- ▶ how the new structure was evaluated;
- ▶ an evaluation of all key positions within the organisation with documentation supporting any proposed reclassification of positions or significant changes in responsibilities;
- ▶ how the new structure was to be implemented; and
- ▶ how any consultative process with staff should be conducted.

2.3.30 A comparison of the recommendations made by the consultant with those of previous consultancy reviews and action taken by management revealed that the consultant's proposal, which provided each of the 3 zoological parks with greater autonomy, was in contrast to the more centralised structure existing at that time. This previous restructure implemented by a former CEO, less than 3 years previously, was supported by the external reviews undertaken for the ZBV in 1989 and 1990 which endorsed a more centralised corporate administration structure in line with the overall size of the ZBV.

2.3.31 In addition, the audit revealed:

- ▶ A failure by the ZBV to inform the Minister of both the review and its findings prior to its implementation, which effectively denied the Minister the opportunity to give direction to the Board in relation to employment of staff as required by the Act;
- ▶ The Board acted to appoint a new CEO and to reclassify 4 senior staff to higher grades. The need for such action was not substantiated by the consultant despite his recommendation to this effect; and
- ▶ Employees were not notified of the organisational changes prior to implementation as evidenced by letters from the relevant union to the Minister. This approach reflected adversely on employer/employee relationships.

2.3.32 In future, in order to fulfil its responsibilities under the Act, the Board should ensure it has all relevant information on which to make decisions, and that the Minister is advised of any proposed changes to the organisational structure prior to implementation. Further, the ZBV should ensure that formal and comprehensive reports are provided by consultants at the completion of their review in order to justify their recommendations.

Organisational change

2.3.33 A review of the ZBV's personnel functions was undertaken by the former Department of Conservation, Forests and Lands in August 1989. The objectives of this review included an assessment of the extent to which the existing personnel function met the human resource management needs of the ZBV. The review highlighted deficiencies in the personnel function including the absence of a human resource management strategy, inadequate assessments to justify positions, and in some cases, appointments to positions without advertisement or evidence that a formalised selection process had been undertaken. Although the review made a series of recommendations affecting recruitment, structure and policy development, audit found that most of the deficiencies highlighted in the departmental review either still existed or had only been partially addressed.

2.3.34 Audit also observed in relation to staffing that:

- ▶ the ZBV over the previous 3 years, experienced significant turnover of staff at the senior level, including 3 Chief Executive Officers, 2 Zoological Park Directors, the Manager Corporate Services, a Development and Marketing Director, and the Chief Veterinarian; and
- ▶ since 1988-89 over 30 new positions had been created.

2.3.35 However, despite the significant impact of such resource changes, appropriate human resource management performance indicators had not been established. This deficiency precluded an assessment of the overall benefits, if any, which may have resulted from increased staffing levels and associated expenditures.

2.3.36 It is a matter of concern that a review commissioned in 1989 which recommended significant change in human resource management practices and procedures at the ZBV had only partially been actioned some 3 years later.

2.3.37 Of even greater concern is that the audit identified other instances where external reviews of various aspects of ZBV operations, including the information technology and marketing functions, had been undertaken over the period 1989 to 1991 and at the time of the audit, the ZBV had failed to implement many of the various review recommendations. However, in the light of the organisational change over this period indicated by the significant turnover in senior staff and organisation restructures, it was not entirely surprising that there has been only limited progress in implementing the ZBV's strategic plans or the recommendations arising from the various reviews over the last 3 years.

■ *Response provided by Chairman, Zoological Board of Victoria*

Audit's comments on the apparent lack of human resource strategies and lack of documentation on job descriptions, positions evaluations, and reclassifications were in some cases incorrect, failing to take account of the implementation policies and approval mechanism already in place, or in process of completion. These policies and mechanisms have now been implemented, and will address virtually all the concerns raised.

MANAGEMENT INFORMATION SYSTEMS

2.3.38 In order to have effective and efficient information management systems, it is essential that there is a strong commitment to the introduction of information systems at the most senior level with expected outcomes being specified. Further, an information technology strategy should incorporate the wider objectives of the organisation, the individual requirements of all operating units and identify areas where reduced costs and productivity gains can be achieved through the implementation of current information technology.

2.3.39 Over the previous 3 years there had been both external and internal reviews which identified the need for improvements to existing information systems and the development of an information technology strategy. The audit of the ZBV's information systems included an evaluation of the findings contained in consultancy reports, and a follow-up of the progress made by the ZBV in implementing the recommendations. While some of the recommendations arising from these reviews had been implemented, several issues still remained unresolved.

2.3.40 Specifically, the audit highlighted that there was still no comprehensive information technology strategy in place and there was an apparent lack of general understanding within the ZBV of information technology and systems. This lack of understanding was instanced by the fragmentation and incompatibility of computer systems, and the purchase of computer hardware and software without due regard for the information technology requirements of the ZBV as a whole.

2.3.41 Indicative of the lack of a comprehensive information technology strategy was:

- ▶ an absence of registry, correspondence and customer information service systems at the ZBV; and
- ▶ the inability to exchange and update central data between the various independent information management systems such as personnel and payroll systems, and between the 4 animal management records systems.

2.3.42 Without the commitment to, and successful implementation of, a comprehensive information technology strategy the ZBV will not have adequate and timely data on which to base decisions. Further, it restricts the ZBV's ability to develop effective long-term strategies and policies in relation to its operations.

- *Response provided by Chairman, Zoological Board of Victoria*

While audit's comment that "there appears to be a general lack of understanding within the ZBV on the role of information technology and systems" is rather harsh, ZBV welcomes audit's helpful recommendations and will implement the thrust of such recommendations.

Section 2.4

Management and Operations

INTRODUCTION

2.4.1 Most organisations undertake both core operating functions, for example purchasing, stores, revenue, and asset management, and functions which are characteristic of the organisation itself. Functions which are characteristic of the ZBV include the management and care of animals, the operation of an education service for schools and the public, marketing, and provision of catering facilities at Melbourne Zoo and Healesville Sanctuary. All functions need to be undertaken in a manner which achieves an organisation's objectives.

2.4.2 The audit disclosed that the management procedures and processes necessary to allow efficient and effective operations were not always in place and that this situation may have contributed to the ZBV requiring increased financial assistance from the Consolidated Fund. Audit considers that the inability of the ZBV to operate in the most effective and efficient manner was largely due to:

- ▶ an absence of timely and accurate information including performance monitoring procedures on which to base decisions, for example, detailed knowledge of the market in which it competes;
- ▶ a lack of policies and guidelines in relation to many functions including the Education Service, purchasing and stores; and
- ▶ the failure to fully evaluate and cost options in relation to the Education Service, catering and capital works.

2.4.3 Details of ZBV operations which warrant improvement are detailed in the following paragraphs. Redress of these matters should assist the ZBV in achieving its objectives. Notwithstanding the inefficiencies identified, the preliminary review of ZBV's operations did not raise any significant issues in relation to animal management which is its major function.

ZBV EDUCATION SERVICE

Background

2.4.4 The aims of the ZBV's Education Service are to develop environmental awareness and to foster positive attitudes and values towards animals and conservation among the general community through school and public education programs. The Education Service also invests considerable time in the development of programs and materials for the Victorian Certificate of Education.

2.4.5 The Education Service was established in 1969 and now engages a total of 18 teachers, with 14 at Melbourne Zoo and 4 at Healesville Sanctuary. The Department of Education (DOE) through its Extension Education Services provided 14 teachers to the Education Service, at a cost of \$545 000 excluding on-costs such as superannuation, payroll tax and long service leave. In addition, the Catholic Education Office meets the cost of 3 teachers (approximately \$120 000 plus on-costs), while the ZBV pays the salary costs of one teacher and provides on-site resources which represent an annual investment by the ZBV of approximately \$500 000. Additional costs include the employment of extra ticket sellers to cater for peak school periods and the provision of central administrative services which are not charged to the Education Service.

Teaching agreement

2.4.6 DOE teachers attached to the ZBV Education Service are appointed under the terms and conditions of the State School Teacher Support Agreement 1989, 1990 and 1991 School Model. In practice Catholic Education Office teachers, while not appointed under this agreement, also work under the same terms and conditions.

2.4.7 Education Service teachers are required under this model to be in attendance at the ZBV for 38 hours per week to provide a range of services, the most important of which is the face-to-face teaching of students. Time not spent on face-to-face teaching is spent on a diversity of tasks including curriculum development, in-service programs, student interviews and participation on project teams relating to ZBV operations such as exhibit development. ZBV teaching duties therefore are not considered to vary significantly from those of teachers in traditional schools.

2.4.8 The optimum face-to-face teaching load is not stipulated in the agreement but is determined by the host organisation. In this regard the Education Service decided on a maximum weekly workload of 12 face-to-face teaching hours per teacher in 1992, compared with only 10 hours per teacher in 1991. However, not all teachers are allocated the maximum teaching load as reductions are made according to the respective administrative responsibilities assigned to each teacher. Because the Education Service program is demand driven, this theoretical maximum weekly teaching load can be further reduced as class scheduling is dependent on the level of bookings received each week.

2.4.9 Teachers appointed under the Victorian Secondary Teachers Association agreement with the DOE were allocated up to 18 hours for face-to-face teaching duties. The ZBV Education Service allocation of a maximum teaching load of 12 hours per week per teacher in 1992 therefore represents only two-thirds that required from teachers in traditional schools. Based on the above comparison of workloads, audit considers that there is significant scope for increased productivity.

2.4.10 Further, since DOE teachers are required only to teach school education programs, the staffing of the Education Service by DOE teachers was restrictive in meeting the ZBV's community education objective. Specifically, as teachers working under the School Model are entitled to school holiday periods (i.e. 10 weeks per year) the current staffing agreement restricts the use of DOE teachers in staffing holiday programs and public education programs during school holidays. Direct contributions to the community education programs had only been made possible through the funding of a teacher by the ZBV since July 1991. The agreement also restricted the level of the ZBV's influence over the administration of the Education Service operations.

2.4.11 Due to the absence of any assessment or quantification of these activities by the ZBV, audit was unable to substantiate the:

- ▶ appropriateness of the appointment of ZBV teachers under the School Model; and
- ▶ whether there was a need to consider alternative agreements which would enable teachers to be employed under wider terms of reference and allow greater productivity to be achieved.

Teaching duties

2.4.12 A sample of weekly booking sheets for Melbourne Zoo, representing 25 per cent of the total available teaching time in 1991, disclosed wide fluctuations in the actual weekly face-to-face teaching load. The booking sheets examined indicated that the actual aggregated time spent at the Melbourne Zoo in face-to-face teaching ranged from 54 hours to 112 hours per week with the average around 80 hours per week compared with a theoretical maximum allocation of 140 hours per week (i.e. 10 hours each week per teacher). These fluctuations were stated by the ZBV to be due to a variety of reasons including fewer bookings in some school weeks/terms, class cancellations and more time devoted to other activities such as curriculum development. **Nevertheless, this equates to less than 6 hours face-to-face teaching per teacher each week.**



Teaching children about animals and conservation at Melbourne Zoo.

Level of staffing

2.4.13 The number of teaching staff in the Education Service remained stable for the past 14 years while the demands from the ZBV, the DOE and from clients on the Education Service has changed, as have the range of services offered and the methods of program delivery.

2.4.14 **In spite of these changes, there has not been any formal analysis of duties and education service activities to ascertain the appropriateness or otherwise of the present teacher staffing establishment in meeting its educational commitments.**

Evaluation and monitoring

2.4.15 In essence, the Education Service is a collaborative venture between the DOE and the ZBV. An agreement dated December 1989 between the ZBV and the DOE sets out general terms and conditions under which DOE teachers are released to work in host organisations. There is no formal agreement between the Catholic Education Office and the ZBV.

Monitoring by the DOE

2.4.16 The DOE had not formulated specific policy, guidelines and operating requirements for the Education Service. Monitoring and evaluation by the DOE was primarily informal with the exception of statistical information on the number and type of schools serviced, the number of students who participated and the number of professional development activities conducted etc. **There was no information provided to facilitate a quantitative or qualitative analysis of course programs, curriculum content, effectiveness of the service or student satisfaction.**

Monitoring by the ZBV

2.4.17 The Education Service has only undertaken limited monitoring and evaluation of its programs and services in terms of the efficiency and effectiveness of delivery. Statistics on students attending face-to-face sessions are recorded, but this measure alone does not reflect the effectiveness of the face-to-face teaching program or identify areas of under-productivity. Although some informal feedback is sought from teachers during curriculum development activities and through post-course questionnaires, the Education Service has found that the response to these questionnaires is minimal. The monitoring and evaluation of Education Service activities did not include:

- ▶ the establishment of formal performance indicators by the Education Service; and
- ▶ costing of individual programs and curriculum materials with a view to evaluating the cost-effectiveness of the program compared with alternatives.

2.4.18 It is essential that all programs, curriculum development and other Education Service activities are appropriately costed and evaluated against predetermined benchmarks to:

- ▶ facilitate management decisions concerning the optimum mix of programs offered;
- ▶ justify funding submissions; and
- ▶ determine the productivity of teachers in terms of face-to-face teaching hours.

2.4.19 Overall, audit considers that there has been a lack of monitoring and evaluation of performance in relation to the provision of educational services at the ZBV. Therefore, there is no basis for assessing whether its objectives in the area of Education Services have been met. The issues included in this Report warrant action by the ZBV in conjunction with the Department of Education.

- *Response provided by Chairman, Zoological Board of Victoria*

The ZBV with the DOE is implementing audit's recommendations against the background of the detailed comments offered by audit. Teaching staff are now engaged under public sector model terms, i.e. 4 weeks leave etc. for 1993.

CATERING

Level of commission

2.4.20 The catering function of Melbourne Zoo is leased by the ZBV to a single private operator. The rights include the use of a range of facilities owned by the ZBV including an *a la carte* restaurant, function rooms, bistro, kiosks, the licensed Butterfly Cafe and assorted catering equipment. The ZBV incurs significant expenses as a result of providing the caterer with these facilities including an annual interest cost of approximately \$45 000 on loans specifically raised for the construction of catering facilities. Additional expenses are also incurred in the form of depreciation charges, cleaning and administrative costs.

2.4.21 In return for the rights to operate and use the various facilities at Melbourne Zoo, the caterer is required to pay an annual licence fee based on commission equating to 11.7 per cent on gross sales, or \$180 000, whichever is greater. In addition, the caterer is required to pay:

- ▶ a sum of \$300 000 over 5 years to improve catering facilities; and
- ▶ direct operating costs such as gas and electricity, and an amount equivalent to one per cent of all kiosk sales as a contribution towards the cleaning of public areas.

2.4.22 Table 2.4A indicates catering commission at Melbourne Zoo and a decline in real catering revenue per visitor since 1988-89.

TABLE 2.4A. CATERING REVENUE
(\$)

| <i>Year</i> | <i>Total commission</i> | <i>Commission per visitor</i> | <i>Commission per visitor(a)</i> |
|-------------|-------------------------|-------------------------------|----------------------------------|
| 1988-89 | 448 670 | 0.44 | 0.50 |
| 1989-90 | 423 459 | 0.39 | 0.41 |
| 1990-91 | 467 609 | 0.42 | 0.42 |
| 1991-92 | 470 296 | 0.42 | 0.42 |

(a) In 1991-92 constant dollars.

2.4.23 By comparison, Table 2.4B indicates Taronga Zoo in Sydney after contracting out its catering function in 1989-90 receives a far greater level of commission even though visitor numbers are less than Melbourne Zoo. Audit was advised that Taronga Zoo receives more than twice the level of commission on gross sales compared with Melbourne Zoo. It is also apparent from this table that visitors at Taronga Zoo spent more money on food and refreshments than visitors at Melbourne Zoo. However, due to the confidential nature of the Taronga Zoo catering agreement, audit was unable to investigate the reasons for such a wide discrepancy between the catering revenue earned by these 2 major zoological parks.

TABLE 2.4B. CATERING REVENUE COMPARISON
(\$)

| <i>Year</i> | <i>Total commission(a)</i> | | <i>Commission per visitor</i> | |
|-------------|----------------------------|----------------|-------------------------------|----------------|
| | <i>Melbourne</i> | <i>Taronga</i> | <i>Melbourne</i> | <i>Taronga</i> |
| 1989-90 | 423 459 | 952 500 | 0.39 | 1.16 |
| 1990-91 | 467 609 | 1 261 561 | 0.42 | 1.35 |
| 1991-92 | 470 296 | 1 447 804 | 0.42 | 1.43 |

(a) Excludes capital contribution.

2.4.24 Based on this information, audit considered that prior to entering into the new arrangements discussed below, scope existed for the ZBV to increase the return from its investment in the catering facilities at Melbourne Zoo.

Renegotiation of agreement

2.4.25 The existing caterer has held the catering contract with the ZBV for the past 8 years. In February 1992, at the request of the caterer, negotiations were finalised to extend the existing agreement for a further 5 years from 1997. The new lease binds the ZBV with the existing caterer for 10 years to 2002 on terms similar to those specified in paragraph 2.4.21.

2.4.26 Prior to granting leases or renegotiating existing leases, normal commercial practice dictates that the lessor should first seek a valuation. Valuations can be obtained from valuers, real estate organisations, accountants and stockbrokers. Subsequent to the valuation, the sale or commitment to a lease can be negotiated through a variety of mechanisms including public tender and registration of interest.

2.4.27 Before commencing and during negotiations, the ZBV did not obtain an independent valuation. An examination of lease files and subsequent discussions with management revealed that no in-house analysis was undertaken to establish either the costs of providing the facilities, or a target rate of return. Audit was informed that although management did compare the commission levels of a similar organisation, this was not documented. **In the absence of such documentation, audit was not in a position to assess whether management had sufficient knowledge to enter into informed negotiations with the current caterer and to make a sound commercial decision.**

2.4.28 In April 1989, the ZBV received a formal expression of interest for the catering rights to Melbourne Zoo from a caterer operating in an interstate zoological park. The expression of interest, which was financially attractive, was declined at the time because the existing agreement committed the ZBV for a further 7 years. However, this expression of interest which may have resulted in a greater return to the ZBV confirmed the audit view that consideration should have been given to the public tender of the new lease.

2.4.29 Audit considers that in future, prior to negotiating the catering lease, an independent valuation of the lease rights should be sought to determine the market value conferred on the lessee by the agreement. Further, this information should be used by management to set appropriate licence fees for the new lease or used in the evaluation of tenders. This would not only determine the market value of the lease but give management a greater breadth of information upon which to base its decision.

Healesville Sanctuary catering operations

2.4.30 Since modernisation of the Healesville Sanctuary's facilities in December 1987, catering services were provided initially by a large contractor up to December 1988, and subsequently by a small operator. Audit was advised that, in July 1989, in view of the difficulties experienced in engaging suitable catering contractors, operations reverted to in-house management. Since this time, a profit from the catering operations has been reported. However, key expenditure items such as depreciation, central administration and finance costs were not included in the profit determination. As the key expenditure items had not been costed in relation to Healesville Sanctuary's catering operations, audit could not determine the profitability or otherwise of the in-house arrangement.

2.4.31 A full evaluation of all options was not carried out before management decided to use in-house resources to undertake the catering function at the Healesville Sanctuary. Furthermore, since this decision the ZBV had not evaluated the various options available including the feasibility of outsourcing the catering operations.

Conclusion

2.4.32 Audit concluded that the ZBV had not evaluated all available options relating to the catering functions at the Melbourne Zoo and Healesville Sanctuary, and there was scope for the ZBV to increase its return from catering operations.

■ *Response provided by Chairman, Zoological Board of Victoria*

In October 1991, the ZBV carried out a feasibility study of zoo catering and decided that the profit shares between the caterer and the Board were appropriate to the industry. The ZBV was satisfied with the co-operation, food quality and service of the current contractor and is aware that the contractor must make a profit. The ZBV also seeks to keep the cost of a zoo outing moderate for its visitors.

The value of the contract was compared to a recent contract awarded to another caterer by a similar institution and found to be comparable. The ZBV negotiated with the caterer for an up-front payment starting in 1992 in return for an extended contract to 2002. The ZBV is very short of funds and considered the current payment was preferable to nothing until 1997, and then the possibility of some unknown commission from an open tender situation that may be better or worse.

The concept of calling for quotations in 1992 for 1997 was considered and rejected as commercially unsound.

In 1988-89 Healesville Sanctuary tried 2 distinct catering options utilising outside contractors. These arrangements were considered unsuccessful both from Healesville's and the contractors' point of view. Given that the ZBV had direct experience with 2 different types of catering contractual arrangements, it is difficult to understand what other options could have been evaluated before deciding to use in-house resources to manage catering, particularly since the second of the 2 contractors was engaged after a lengthy process of advertising for expressions of interest.

CAPITAL WORKS

2.4.33 Organisations which are most successful in meeting capital works objectives inevitably have clear, effective and formalised processes for planning capital investment. This is usually reflected in a detailed capital works program, often referred to as an investment plan, which documents and prioritises the organisation's future capital expenditure proposals in line with its overall strategic direction. Key factors for effective investment planning include formalised systems for the management of the capital investment plan, physical control of individual projects, and financial planning, monitoring and reporting of capital projects.

2.4.34 In order to have a successful capital works program, managers must ensure that:

- ▶ proposals effectively contribute to an organisation's priorities and objectives;
- ▶ proposals are subjected to rigorous technical and economic evaluations so that the best alternatives are selected and issues of size, timing and cost are fully explored; and
- ▶ appropriate staff are involved in consultation and review at each stage of a project's development.

2.4.35 The ZBV also considers that constant upgrading of facilities and exhibits is demanded by visitors and a failure to meet these demands would impact adversely on visitor numbers. During 1991-92 the ZBV spent \$2.1 million refurbishing, upgrading and creating exhibits.



An example of an outdated exhibit.

2.4.36 Major capital projects which have been completed in recent times include the Japanese Garden (\$473 000) and the gorilla rain forest extension (\$500 000) at Melbourne Zoo. Significant projects which are currently, or soon to be underway, include the Revegetation Program (\$863 000) and the Koala/Wombat facility (estimate \$450 000) at Healesville Sanctuary, and the Pygmy Hippo/Mandrill exhibition at Melbourne Zoo (estimate \$1.7 million).

2.4.37 The audit of the management of capital works at the ZBV disclosed that:

- ▶ No detailed project evaluations were undertaken to assess the financial and economic contribution that each works proposal would make to the ZBV's priorities and objectives;
- ▶ Although works programs were prioritised and approved by the Board on an annual basis, the level of supporting documentation was often deficient with no policy guidelines existing on the rationale for prioritising these works;
- ▶ Capital expenditure was often dependent on the projected cash surplus and the level of fund raising;
- ▶ Works proposals and costs estimates approved by the Board as part of the annual budget process were in most cases no more than concepts which required significant revision at a later stage;

- ▶ The absence of appropriate planning processes was a factor contributing to poorly designed exhibits which resulted in substantial delays and cost overruns. Examples included:
 - The gorilla rain forest completed in 1991 at an estimated cost of \$500 000 including revised works costing \$100 000 for the replacement of soil and improved drainage systems required when the completed works proved inadequate.



The gorilla rain forest exhibit developed in keeping with the natural environment.

- The Seal Pool completed in 1988 at a cost of \$909 000 was well in excess of the budgeted \$690 000. Audit was advised that poor design and construction limited the expected life span of the pool to between 5 and 8 years. Major design faults altered the chemical balance in the pool and contributed to poor water circulation and large water loss due to leaks. In addition, off-limits facilities for husbandry and veterinary needs were not available. To address these problems, the ZBV needed to significantly reduce the type and number of seals exhibited, construct a holding yard costing \$75 000 and employ 2 additional keepers at an annual cost of approximately \$60 000 to balance and monitor pool chemical levels.
- The Japanese Garden was originally planned at a cost of \$250 000 with an anticipated completion date in 1989-90. The project was not completed until 1991-92 at a cost of \$473 000.

2.4.38 The practice of the Board approving concept proposals prior to the preparation of detailed project costings of capital works projects necessitated the ZBV having to consistently recast approved capital works budgets in subsequent years. Examples included the:

- ▶ Koala/Wombat facility, originally approved in 1990-91 at a cost of \$270 000 was re-scoped and re-costed in 1991-92 at \$450 000 and subsequently proposed to be incorporated in an Australian Native Animals Project costing over \$1 million.
- ▶ Revegetation program was originally budgeted in 1989-90 at a cost of \$341 000. However, at the time of the audit review, the estimated cost exceeded \$863 000.
- ▶ Helmeted Honeyeater conservation program was originally approved in 1989-90 at a cost of \$183 000. At the time of the audit review the estimated cost was \$282 000.

2.4.39 Capital works budgets over the last 5 years have been consistently over-optimistic with regard to the level of development that could be achieved. Table 2.4C indicates that for the previous 5 years the ZBV's actual capital development has failed to meet budgeted targets. Discussions with management in relation to the 1991-92 capital works program indicated that no implementation strategy existed.

TABLE 2.4C. CAPITAL EXPENDITURE: BUDGET VERSUS ACTUAL

| <i>Year</i> | <i>Budget</i> | <i>Actual</i> | <i>Unexpended</i> | |
|-------------|---------------|---------------|-------------------|-----|
| | (\$'000) | (\$'000) | (\$'000) | (%) |
| 1987-88 | 2 864 | 2 722 | 142 | 5 |
| 1988-89 | 1 153 | 816 | 337 | 29 |
| 1989-90 | 2 387 | 1 627 | 760 | 32 |
| 1990-91 | 3 043 | 2 130 | 913 | 30 |
| 1991-92 | 3 045 | 2 158 | 887 | 29 |

2.4.40 In conclusion, the ZBV did not have:

- ▶ a formalised process for the planning and management of capital works; and
- ▶ an investment plan incorporating economic evaluations of individual proposals, or an implementation plan for approved projects outlining the monitoring and management of each project's physical and financial progress.

2.4.41 Audit is of the view that the non-achievement of budgeted expenditure was due predominantly to the absence of both an investment plan and an annual capital works implementation plan. Further, the lack of rigorous technical and economic evaluations, and effective management of capital works projects led to cost overruns and inappropriately designed exhibits.

■ *Response provided by Chairman, Zoological Board of Victoria*

Overall, the Board accepts that its performance in this area is not perfect, but the recent staff moves at Melbourne Zoo are already achieving an improvement in planning and scheduling. Audit needs to appreciate that standard buildings are not being developed - each exhibit is a one-off and requires extensive research, most of which is conducted by staff.

Audit's recommendations are being implemented.

PURCHASING AND STORES

2.4.42 The purchase of stores such as furniture, office requisites, plumbing, hardware and animal feed is arranged centrally at the Melbourne Zoo, while the souvenirs purchased for retail and veterinary supplies are acquired by the respective departments. This is in contrast to the practice at Healesville Sanctuary and Werribee Park where purchasing is performed on a decentralised basis with the acquiring department responsible for the purchase of its individual requirements.

2.4.43 Audit revealed the following deficiencies to purchasing and stores operations at the ZBV:

- ▶ There were no formal purchasing and stores management policies and procedures.
- ▶ The ZBV had not always purchased stores economically. For example, there were instances of:
 - purchasing specific items requested despite the availability of alternative brands/suppliers at lower cost;
 - crisis buying; and
 - not taking advantage of bulk purchasing for commonly used items.
- ▶ The absence of formalised purchasing and inventory systems precluded analysis of purchasing history records. Information on frequently used items, quantities and prices would increase the ZBV's bargaining power and enable economic bulk contracts to be made with suppliers.
- ▶ The purchasing/stores officer at Melbourne Zoo did not have the necessary level of authority in terms of purchasing delegations, budgetary accountability and the ability to veto unsuitable or uneconomic orders.

- ▶ Stock control systems in food stores which would assist in the detection of stock losses resulting from short supply or unauthorised use were not in place, with re-ordering of produce limited to the inspection of food available. This led to a lack of control over the receipt, distribution and monitoring of food provided to animals.
- ▶ Animal food requirements were not tendered and there was a repeated use of the same suppliers in some cases for more than 7 years.
- ▶ Although no official general stores facility existed at Melbourne Zoo, many areas such as works, plumbing, and electrical carried unofficial stocks of regularly used items without stock control systems in place. Also, there was unrestricted access to the stores areas and many items of equipment were unnecessarily duplicated.

2.4.44 The audit concluded that the purchasing and stores practices in operation at the ZBV were not economic, efficient and effective due to:

- ▶ **an absence of purchasing and stores policies;**
- ▶ **inadequate purchasing and stores management procedures;**
- ▶ **a purchasing and stores function which was decentralised without a proper system of follow-up and review;**
- ▶ **unclear lines of responsibility for persons fulfilling these functions; and**
- ▶ **insufficient information available to analyse operational requirements which would enable informed decision-making in relation to purchasing and stores.**

■ *Response provided by Chairman, Zoological Board of Victoria*

In general terms audit's recommendations will be actioned. A management review is now in process on inventory control systems, computerisation and produce deliveries. A review of authorities and accountabilities of the purchasing function at Melbourne Zoo has resulted in a restructuring of duties and reduction in staff members.

MARKETING AND TOURISM

2.4.45 The 3 ZBV facilities represent major Victorian tourist attractions and would be expected to gain significantly from the recent growth in both international and interstate visitors, as well as meeting demand from within the local leisure industry. International visitors to Victoria increased from 632 000 in 1985 to 935 000 in 1991. Further, the Bureau of Tourism Research, an agency of the Commonwealth Government which provides statistics and analysis to the tourism industry and to government, has predicted that tourism will continue to grow into the 21st century. Given the size of this market, a marketing and tourism strategy defining objectives, roles, activities and identifying priorities is required to enable the ZBV to attract its share of increased tourism in Victoria. Fundamental to such a strategy is the need for management to understand the diverse needs of both current and potential users as well as the market in which it competes. Market survey techniques are commonly used by industry to gain this insight.

2.4.46 Marketing and promotional activities for the ZBV are conducted through a variety of media including newspapers, pamphlets, promotions and advertising in various trade and retail literature. The ZBV also receives a large amount of free electronic media exposure. Discussion with senior management and staff indicated that the ZBV still did not have a formal strategy for advertising and promotion, or performance measures to assess the effectiveness of these activities. Audit was referred to the increasing attendances as a measure of the success of its promotional activities.

2.4.47 In August 1991, a consultancy firm engaged by the ZBV to review the communication functions made certain recommendations in relation to the areas which warranted improvement. The consultant reported that there was no communications strategy, and that the ZBV's marketing was generally only targeting the Victorian public and that more specific targeting of its audience was necessary.

2.4.48 Audit disclosed that there was still insufficient data on the users, their needs and the market in which the ZBV operates. In addition, the marketing departments were unable to substantiate for audit the reasons why people visit the ZBV's facilities. Audit acknowledges that a detailed market survey has since been completed by the ZBV which should assist in ensuring that there is an appropriate targeting of marketing resources.

2.4.49 Audit considers that further refinements are necessary including the establishment of:

- ▶ Performance indicators to monitor the effectiveness of the marketing department and particular activities such as media coverage; and
- ▶ Formal and cohesive linkages between the ZBV and the Victorian Tourism Commission and other major Victorian, interstate and international tourist organisations. At the time of the audit review, Healesville Sanctuary was in the process of addressing this issue.

2.4.50 It is obvious that the ZBV has not in the past had adequate knowledge of the market in which it competes, demographics of its current and potential users, and an understanding of their preferences. The absence of such knowledge and data has restricted the development of an effective and efficient marketing strategy which will hopefully be remedied by the detailed market survey recently undertaken.

- *Response provided by Chairman, Zoological Board of Victoria*

It is true that further money needs to be spent on market research to better the ZBV understanding of its market, and this has always been a major problem given the budgetary constraints in which the ZBV properties have operated. However, this issue is now being addressed through the Schweppes marketing review and through various other surveys. It should be noted, however, that a major market survey was conducted as part of the 1988-89 Strategic Plan Review by Evans Ellenport and Camakaris. Even after expenditure of a relatively large sum of money (approximately \$40 000), the results were of limited value and therefore, it must be recognised that sampling the visitor market is an extremely difficult exercise and one which requires vast amounts of resources to achieve a completely satisfactory coverage. Therefore, difficult cost-benefit decisions will always have to be made with limited data.

A system has now been established to implement sponsorship and marketing plans for each property.

ATTENDANCES

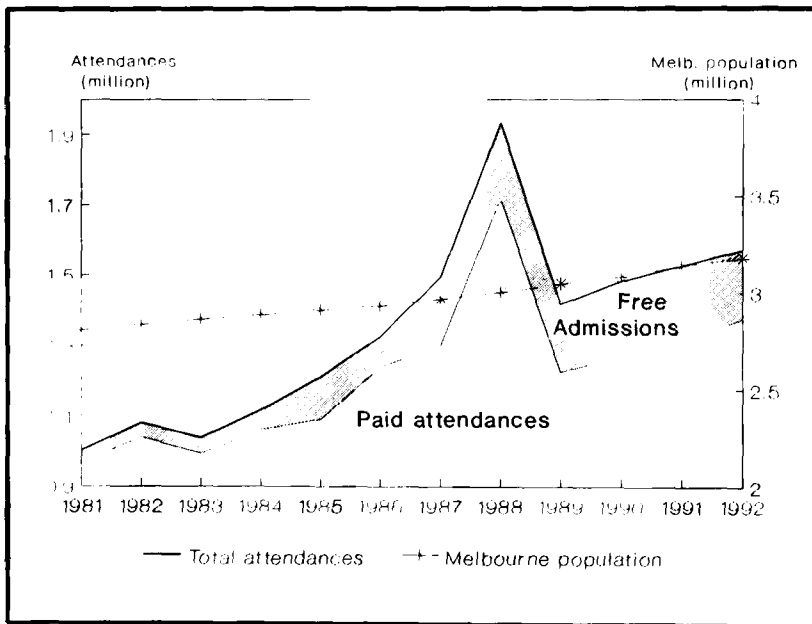
General attendances

2.4.51 Management at the ZBV has often referred to the increasing level of attendances as evidence of its successful operations. However, a detailed analysis of attendances undertaken by audit did not support this assertion.

2.4.52 Audit is of the opinion that population growth and tourism are significant factors impacting on changes to attendance level. Therefore, growth in ZBV attendances should reflect the combined effects of population increases, tourism growth and marketing initiatives. Between June 1987 and 1991, Melbourne's population grew by approximately 1.2 per cent a year and international tourism to Victoria increased from 773 300 in December 1987 to 935 300 in December 1991, representing an annual growth rate of 5 per cent a year. It is reasonable to expect, all things being equal, that these factors would result in similar increases in ZBV attendances.

2.4.53 Chart 2.4D details attendance levels for the last 10 years. Audit was unable to quantify the effect of tourism growth on the ZBV due to the absence of a ZBV visitor profile. However, if one accepts the proposition that the ZBV is popular among both interstate and international visitors (as consistently canvassed by ZBV management), then this popularity should be reflected in increased attendances. However, an analysis of data for the 4 years to June 1991 revealed that growth in paid attendances to the ZBV had slowed to 0.3 per cent a year while overall attendance had slowed to 0.6 per cent a year. The inclusion of 1991-92 attendance levels in the analysis discloses a slight improvement. The overall increase in attendance levels for the ZBV over the last 5 years has been 1 per cent, while paid attendances have grown by 1.4 per cent. However, even this growth in attendances has been marked by an increasing level of free admissions over the same period. The paid attendance levels are significantly lower than other organisations that operate in the tourism and leisure industry, such as the National Gallery of Victoria which experienced 5 per cent growth, and the Alpine Resorts Commission and the Penguin Reserve which each experienced 4 per cent growth over the same period.

CHART 2.4D. ZBV ATTENDANCES



Note:

- Melbourne population data including 1992 estimates represent data provided by ABS (Catalogue No. 3010.0).
- In 1986-87, the level of free attendances increased due to the inclusion of children under 4 years old in the ZBV's statistics.
- The significant increase in attendance in 1987-88 was due to the International Panda Exhibition.

2.4.54 On this basis, audit considers that the ZBV has not maximised its potential to achieve a satisfactory level of growth in attendances, nor has ZBV done as well as other similar organisations in attracting additional visitors. Action should be taken to obtain and analyse all data necessary to monitor attendance trends experienced by the ZBV and other organisations which operate in a similar environment within Victoria and interstate. The information gained from such an analysis should then be used to assist in the development of the ZBV's overall strategic direction, as well as its marketing and admission pricing policies. Further, guidelines should be established to assist in controlling the increasing proportion of free admissions.

■ *Response provided by Chairman, Zoological Board of Victoria*

The increasing gap between the total and paid admittance highlights the substantial lift in concessional attendances imposed by Community Service Obligations.

The slow down in percentage increases in the last 4 years reflects in part the difficulties faced by the Board in raising attendances when it has been denied access to adequate works and services funding to continue the process of asset refurbishment and development necessary to retain and increase attendances.

Tourism increases are hard to achieve without support from the Victorian Tourism Commission in gaining access to inbound tourist packages and despite many attempts to achieve this objective, it was only last year that increased support was obtained. Overseas visit restrictions make it impossible to undertake this sort of promotion unless under the banner of a delegation and even this has been severely hampered by OVC rules. Even with visits, the lead time to achieve results is about 2 years.

Our best potential for tourist increases is at Healesville Sanctuary, as Melbourne Zoo, although one of the top 10 zoological parks in the world, has many counterparts. Healesville Sanctuary visitation has grown from 286 000 in 1985-86 to an estimated 380 000 in 1991-92.

Comparison with organisations like the National Gallery of Victoria, the Alpine Resorts Commission and the Penguin Reserve over recent years is irrelevant as all of these organisations are starting from a much lower performance base than the ZBV. The correct comparison would be over the full 10 year period, when the ZBVs overall growth rate of 4.3 per cent a year would compare favourably with these other organisations, which lagged well behind the ZBV in the early 1980s.

Section 2.5

Financial Position

OVERVIEW

2.5.1 Managing the future viability of any organisation is essential for its long-term survival. Determining whether an organisation's future financial position is secure requires an evaluation of many factors both internal and external to the organisation.

2.5.2 The analysis conducted by audit, clearly indicated that the financial position of the ZBV has weakened over recent years leading to a greater reliance on government subsidies. Although specific measures have been taken to address immediate pressures and problems, a comprehensive strategic approach to address the ZBV's many competing needs has not been developed. This lack of detailed analysis and strategic approach to financial management together with the deficiencies in management practices and procedures outlined in Section 2.4 of this Report may also have undermined ZBV's ability to achieve its long-term objectives.

2.5.3 Specifically, the analysis of financial information, disclosed that since 1988-89 there had been:

- ▶ an increasing reliance on government funding, both as a percentage of total revenue and in real dollar terms of nearly \$2.3 million;
- ▶ a \$3.5 million or 30 per cent increase in the ZBV's operating expenditure, in real terms;
- ▶ a 24 per cent real increase in costs per visitor; and
- ▶ a 56 per cent increase in the level of government subsidy per visitor.

2.5.4 In addition, since 1987-88 there had not always been sufficient funding to cover immediate payments.

2.5.5 The following paragraphs outline the factors which have contributed to the deterioration of ZBV's financial position.

BUDGET PREPARATION

2.5.6 Audit reviewed the ZBV 1991-92 budget bids to evaluate the level of detail provided to justify funding. In most cases, budget bids at Melbourne Zoo and Werribee Park consisted of only the aggregated amount required without full justification of each item of proposed expenditure, while Healesville Sanctuary's operating budgets were constructed by using previous year's actuals indexed by the Consumer Price Index. Budgets were then submitted to the Chief Executive Officer and corporate managers for discussion.

2.5.7 A review of the budget process revealed that:

- ▶ the level of detail in budget submissions provided insufficient justification to management and government to approve proposed funding and expenditure levels; and
- ▶ expenditure budgets were developed independently of revenue budgets.

2.5.8 **The budgetary mechanism did not allow for a full evaluation of the ZBV's funding proposals. Given that the annual budget represented the main form of financial planning and target settings by management, the entire budget process must be assigned greater significance with the rationale behind budget bids clearly articulated.**

ANNUAL OPERATING RESULTS

2.5.9 An analysis of operating results detailed in Table 2.5A indicates that:

- ▶ The ZBV's operating deficit in real terms peaked at \$5.1 million in 1989-90 and that while there have been substantial reductions in the operating deficit in subsequent years; the deficit before government contributions continues to remain at a high level. For the period 1986-87 to 1991-92 the real increase in government contributions was \$2.3 million or 64 per cent; and
- ▶ The proportion of revenue derived from admissions, donations, retail, catering and other income has declined since 1986-87 from 70 per cent to 66 per cent in 1991-92.

TABLE 2.5A. ZBV OPERATING RESULTS
(In constant 1991-92 dollars, \$'000)

| | 1986-87 (a) | 1987-88 | 1988-89 | 1989-90 | 1990-91 | 1991-92 |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Income (b) | 8 328 | 12 123 | 8 467 | 8 102 | 9 659 | 11 532 |
| Operating expenditure | 11 683 | 14 512 | 13 361 | 13 172 | 13 931 | 15 231 |
| Deficit | 3 355 | 2 389 | 4 894 | 5 070 | 4 272 | 3 699 |
| Government contributions(c) | 3 530 | 3 553 | 5 659 | 5 694 | 5 312 | 5 788 |

(a) Increased income and expenditure in 1987-88 was a result of higher attendances due to the International Panda Exhibition.

(b) Excluding government contributions.

(c) Excludes government contributions for capital works.

2.5.10 **The increasing reliance by the ZBV on contributions from the Consolidated Fund may be difficult to sustain in a period where greater emphasis is given by government to reducing Consolidated Fund outlays.**

ADMISSION PRICING

2.5.11 Under the *Zoological Parks and Gardens Act 1967*, the Governor-in-Council may, on the Minister's recommendation, make regulations with respect to prescribing and collecting charges for admissions to zoological parks administered by the ZBV.

Admission pricing mechanism

2.5.12 Government fees and charges guidelines have been issued annually since 1982. These guidelines set the minimum and maximum ceiling on price increases for each year usually based on the previous year's Consumer Price Index. In addition, there were provisions in the guidelines which allowed departments and statutory bodies to seek higher increases where these were justified. Since July 1990, the government guidelines have required all fees and charges (with the exception of particular authorities such as the Public Transport Corporation) to be set at levels which will recover the full cost of the service or, if higher, reflect the value of the services provided. In this context, 1990-91 and the 1991-92 fees could be increased by up to 15 per cent and 20 per cent, respectively, with agencies required by government to aim for full cost recovery by 1992-93.

2.5.13 Management informed audit that admission prices which fall into 3 major categories (individual, family and concessional groups) were approved by the Board on the recommendations of Zoo directors and the Chief Executive Officer. When recommending prices, audit was advised that management considered:

- ▶ value-for-money;
- ▶ impact on users;
- ▶ comparative prices of other organisations fulfilling a leisure and entertainment function, for example admission charges to the National Gallery of Victoria, and the Australian Football League in relation to admittance prices to football; and
- ▶ the Government's Social Justice Strategy.

2.5.14 No other rationale or substantiation for the fee levels set, was provided to audit.

2.5.15 It is considered that the absence of a pricing policy has inhibited the effectiveness of price increases. Further, no financial analysis such as determination of recovery rates or demand and sensitivity analysis could be provided to justify past or proposed levels.

2.5.16 The ZBV increased admission prices in December 1991 to the Melbourne Zoo and the Healesville Sanctuary and proposed further increases as outlined in Table 2.5B.

TABLE 2.5B. PRICE INCREASES AND FORECASTS

| | 1990 | 1991 | 1992 | 1993 | 1994 |
|-------------------------------|------|------|-------|-------|-------|
| Adult (\$) | 7.50 | 9.00 | 10.00 | 11.00 | 11.50 |
| Percentage increase (nominal) | - | 20 | 11 | 10 | 5 |

2.5.17 By way of contrast, adult admission prices in 1991-92 in NSW (Taronga Zoo, \$12.70 and Western Plain Zoo, \$11.60) are well above their Victorian counterpart in terms of current prices and were also in excess of future prices proposed by the ZBV.

2.5.18 With regards to admission prices, audit also makes the following observations:

- ▶ the increases were not in line with the Government's 1991-92 pricing guideline limits as the Government did not approve the increases in charges sought by the ZBV;
- ▶ admission prices were not part of any overall strategy or linked to the ZBV's corporate objectives;
- ▶ there was no apparent connection between the cost of providing services and the charges set as required by the guidelines; and
- ▶ future increases may provide the ZBV with greater financial autonomy, but this will be dependent upon a number of operational factors including minimising the real level of expenditure growth and maximising price attendances.

2.5.19 As a result of the above factors, the Government's objective of full cost recovery is unlikely to have been achieved to date.

2.5.20 Audit recognises that in recent years the ZBV has attempted to increase prices and generate a greater level of financial independence. In addition, the various community service obligations (refer to paragraphs 2.3.11 to 2.3.14 of this Report) provided to various patrons in relation to concessional attendances need consideration when determining future attendance fees. However, with the exception of these community service obligations, admission prices are considered to be commercial in nature and therefore should be set with a view to fully recovering associated costs.

Impact of current admission pricing

2.5.21 Table 2.5C details the nominal and real value of ZBV adult admission prices for the Melbourne Zoo and the Healesville Sanctuary between 1986 and 1991.

TABLE 2.5C. ADMISSION PRICES FOR MELBOURNE ZOO AND HEALESVILLE SANCTUARY, AT DECEMBER
(In constant 1991-92 dollars)

| <i>Prices</i> | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|--------------------------|------|------|------|------|------|------|
| Nominal adult prices(\$) | 5.00 | 5.30 | 5.60 | 6.00 | 7.50 | 9.00 |
| Real adult prices(\$) | 6.54 | 6.47 | 6.37 | 6.32 | 7.60 | 9.00 |

2.5.22 An analysis of admission prices discloses a 38 per cent real increase between 1986-87 and 1991-92 which would normally be reflected by a similar increase in attendance income. However, an analysis of Table 2.5D illustrates that only a 31 per cent real increase in attendance income has been achieved since 1986-87. This highlights the monetary effect of the shift from adult and child admittances to free and concessional attendances. In reality, the real income per visitor has only increased by 25 per cent since 1986-87. Further, any benefits resulting from the increase in attendance income has been more than offset by the \$3.5 million real increase in operating expenditure over the same period (refer to paragraphs 2.5.25 to 2.5.29 of this Report).

TABLE 2.5D. ATTENDANCE INCOME PER VISITOR

| | | 1986-87 | 1987-88 | 1988-89 | 1989-90 | 1990-91 | 1991-92 |
|------------------------------------|----------|---------|---------|---------|---------|---------|---------|
| Attendances | ('000) | 1 494 | 1 932 | 1 420 | 1 484 | 1 527 | 1 570 |
| Nominal income | (\$'000) | 4 903 | 7 343 | 5 150 | 5 648 | 6 892 | 8 393 |
| Real income (a) | (\$'000) | 6 408 | 8 966 | 5 856 | 5 953 | 6 982 | 8 393 |
| Real attendance income per visitor | (\$) | 4.29 | 4.64 | 4.12 | 4.01 | 4.57 | 5.35 |

(a) In constant 1991-92 dollars.

2.5.23 The current admission pricing mechanism has contributed to the need for increased subsidies from the Government. Table 2.5E indicates that the government subsidy per ZBV visitor has increased by \$1.33 or 56 per cent in real terms since 1986-87. This is consistent with other analysis within this Section of the Report which indicates the increase in government contributions is not a reflection of increased attendances.

TABLE 2.5E. GOVERNMENT SUBSIDY PER VISITOR

| | | 1986-87 | 1987-88 | 1988-89 | 1989-90 | 1990-91 | 1991-92 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Attendances | ('000) | 1 494 | 1 932 | 1 420 | 1 484 | 1 527 | 1 570 |
| Govt contributions | (\$'000) | 2 701 | 2 910 | 4 997 | 5 463 | 5 244 | 5 788 |
| Nominal recurrent subsidy per visitor | (\$) | 1.81 | 1.51 | 3.52 | 3.68 | 3.43 | 3.69 |
| Govt contributions(a) | (\$'000) | 3 530 | 3 553 | 5 659 | 5 694 | 5 312 | 5 788 |
| Real recurrent subsidy per visitor | (\$) | 2.36 | 1.84 | 3.99 | 3.84 | 3.48 | 3.69 |
| Operating expenditure (a) | (\$'000) | 11 683 | 14 512 | 13 361 | 13 172 | 13 931 | 15 231 |
| Total real cost per visitor(a) | (\$) | 7.82 | 7.52 | 9.41 | 8.88 | 9.12 | 9.70 |

(a) In constant 1991-92 dollars.

Conclusion

2.5.24 Audit is of the view that the current price setting mechanism is not a proper basis for setting admission prices to the 3 zoological parks as evidenced by the diminishing cost recovery and greater reliance on government funding. In line with government policy, after allowing for the identified cost of community service obligations, the ZBV should implement a pricing policy which progressively moves towards an admission price structure reflecting full cost recovery.



Animal management at the ZBV.

OPERATING EXPENDITURE

2.5.25 A major increase in operating expenditure which occurred in 1987-88 was due predominantly to the International Panda Exhibition from China. This increase was offset by greater proportional increases in attendances, and operating revenue, and as a result the deficit in real terms reduced from \$3.4 million in 1986-87 to \$2.4 million in 1987-88. In 1988-89, even though operating revenue (in real terms) and attendances returned to previous levels, real operating expenditure did not reduce proportionately. Further, the \$4.9 million operating deficit before government contributions was well above budget estimates and, as reported previously, the ZBV experienced a severe cash flow crisis in June 1989 which required an injection of \$1.8 million from the Consolidated Fund.

2.5.26 The increase in operating expenditure over this period without corresponding increases in attendance income has meant that the ZBV has been required to place increasing reliance on funding from the Consolidated Fund as outlined in paragraphs 2.5.9 to 2.5.10.

2.5.27 A major component of the growth in operating expenditure has been a real increase in salaries costs since 1988-89 of nearly 23 per cent, as disclosed in Table 2.5F.

TABLE 2.5F. EXPENDITURE ON SALARIES
(\$'000)

| <i>Period</i> | <i>Actual expenditure on salaries</i> | <i>Salaries in constant 1991-92 dollars</i> |
|---------------|---|---|
| 1988-89 | 6 819 | 7 753 |
| 1989-90 | 7 669 | 8 083 |
| 1990-91 | 8 945 | 9 061 |
| 1991-92 | 9 562 | 9 562 |

2.5.28 This increase in salaries expenditure has been due predominantly to increasing staff numbers as well as national wage case adjustments and the introduction of the requirement for the ZBV to pay superannuation contributions. Nevertheless, since 1 July 1988 over 30 new full-time positions were created at the ZBV and a further 5 positions were proposed for Healesville as a result of a recent organisational restructure (refer to paragraphs 2.3.26 to 2.3.32 of this Report). The strategic planning documents for the ZBV did not identify the need for these increases in the number of staff and associated salary expenses, nor allowed for changes in resource requirements.

2.5.29 The increase in salaries of \$1.8 million substantially resulted from the increase in staff numbers of 11 per cent over the period and occurred without due regard to the ZBV's weakening financial position and is considered inconsistent with the current economic circumstances. Over this period the general trend in both the public and private sectors has been to achieve productivity gains which obviate the necessity to recruit additional staff.

LIQUIDITY POSITION

2.5.30 An organisation's short-term financial strength depends on its ability to meet its short-term obligations. Financial resources represented by current assets are commonly known as working capital and the excess of current assets over current liabilities is known as net working capital. Net working capital provides a pool of resources which may be used to meet current commitments as they fall due. The safety of an organisation's short-term financial position is therefore often interpreted as varying directly with the size of net working capital, or may be measured by the organisation's current ratio (current assets as a proportion of current liabilities).

2.5.31 Based on an analysis of the ZBV's liquidity, Table 2.5G highlights that until 1991-92, liabilities falling due within the next 12 months exceeded assets available to meet these liabilities. In 1991-92, the ZBV's liquidity position had improved. If the ZBV's short-term financial stability is to be assured, this improvement must be maintained by implementing strategies which improve the cash flow, for example reducing discretionary expenditures and increasing the level of paid attendances and admission prices.

TABLE 2.5G. LIQUIDITY POSITION

| | | 1987-88 | 1988-89 | 1989-90 | 1990-91 | 1991-92 |
|---------------------|---------|---------|---------|---------|---------|----------|
| Current assets | (\$000) | 2 585 | 2 601 | 2 994 | 3 478 | (a)3 537 |
| Current liabilities | (\$000) | 2 838 | 2 544 | 3 262 | 3 665 | 3 038 |
| Net working capital | (\$000) | (253) | 57 | (268) | (187) | 499 |
| Current ratio | (%) | 0.91 | 1.02 | 0.92 | 0.95 | 1.16 |

(a) Excludes investments of \$1 221 million representing borrowings for capital works.

■ *Response provided by Chairman, Zoological Board of Victoria*

In relation to the ZBV's financial position:

- *ZBV recognises that its budgetary processes need strengthening in some areas, e.g. zero basing, and corrective action is being undertaken. However, ZBV cannot accept audit's all embracing comment that it does not have a meaningful budget process and therefore is not in a position to justify funding requirements to the Government. The format of our budget process has been built up to operate the ZBV on a commercially responsible basis while attempting at the same time to meet the requirements of the Department of Education.*
- *Audit is incorrect in stating that the ZBV does not have a formal pricing policy. It has always been Board policy to maximise its revenue from admissions, but at all times this has been constrained by government edict. After the Government "Fees and Charges" guidelines of July 1990 were issued, the Board immediately requested increases in an effort to move towards increased cost recovery. The increases implemented since October 1990 were dictated by the Department of the Treasury presumably after communication with the Ministry of Finance. The introduction of a family ticket when prices were raised substantially was designed to provide a more sensitive pricing policy in a difficult economic climate.*
Every pricing increase is discussed in detail and approved by the Board. The Board will continue to accommodate the Government's Community Service Obligations (CSO) in relation to concessional attendances, but does require a freedom to act on prices based on commercial considerations.
- *The Board agrees with audit's view on admission recovery but feels that audit has not given adequate consideration to the restraints imposed by the Government in increasing admission charges in a period of high inflation and assumption of increased CSO obligations by the Board. This restraint was not lifted until October 1990 and the raising of admission charges since that date has allowed a much better recovery from admissions. However, the request for an increase to adult price of \$10 from 1 July 1992 was deferred and this causes some concern.*

- *Salaries expenditure increases reflect many changing situations in the Board's requirement to meet rising standards of accountability in areas such as industrial relations, occupational health and safety, visitor services to enable zoological parks to hold market share, promotion and events such as late night openings. As well as these areas, the Board has made a concerted effort to increase its revenue from other sources and this has required increased staff with up-front spending on salaries, which is now starting to yield results at all properties under difficult circumstances. The comments also ignore the Board's increased commitment to conservation, research and education.*
- *The Board agrees that its previous current ratios were not strong but finds this very difficult given the Government's refusal to consider funding of non-cash items such as annual and long service leave provisions, thereby giving us little opportunity to build up cash reserves to cover these liabilities.*

