

SPECIAL REPORT NO. 20

- *National Tennis
Centre Trust*
- *Zoological Board
of Victoria*

APRIL 1993

Accounting in the Public Interest

VICTORIA

Auditor-General
of Victoria

SPECIAL REPORT No. 20

**NATIONAL TENNIS
CENTRE TRUST**

AND

**ZOOLOGICAL BOARD
OF VICTORIA**

Ordered by the Legislative Assembly to be printed

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April 1993

The Honourable the Speaker
Legislative Assembly
Parliament House
Melbourne, Vic. 3002

Sir

Under the provisions of section 48A of the *Audit Act* 1958, I transmit the Auditor-General's Special Report No. 20 on the National Tennis Centre Trust and the Zoological Board of Victoria.

Yours faithfully



C.A. BARAGWANATH
Auditor-General

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FOREWORD

As part of its contribution to improving public sector resource management, my Office continues to undertake a diverse range of performance audits in the public interest.

This Special Report looks at the performance of the National Tennis Centre Trust and the Zoological Board of Victoria which manage major Victorian entertainment and tourist venues attracting large numbers of local and overseas visitors.

Effective management and financial stability will ensure the preservation of significant public sector resources for which the Board and the Trust are responsible, and ultimately lead to minimising each agency's reliance on government subsidisation. In turn, future generations will be able to benefit from the State's investment in these resources.

Further, the ability of the 2 agencies to achieve strong economic returns from their entertainment and tourism activities is important in both directly and indirectly stimulating the Victorian economy.

PART 1

National Tennis Centre Trust

Section 1.1

Executive Summary

OVERALL CONCLUSION

1.1.1.1 The Flinders Park National Tennis Centre was constructed primarily with the aim of ensuring that Melbourne retained the Australian Open; one of 4 Grand Slam tennis events in the world. Although the original feasibility studies for the Centre were prepared on the basis of an estimated construction cost of \$65 million (in 1988 dollars), the costs incurred by the end of the construction period amounted to \$85 million with a further \$9 million in interest capitalised during the construction period. **As a result of the financing arrangements put in place by the Government to meet these costs, the National Tennis Centre Trust faced substantial debt obligations and mounting operating deficits.** At 30 June 1991, the Trust had incurred finance charges of \$47 million and reported an accumulated deficit of \$35 million.

1.1.1.2 Despite the worsening position, it was not until August 1991 that the Government agreed to provide financial assistance to the Trust in the form of an annual grant of \$12 million over 12 years. The assistance is designed to place the Trust on a sound financial footing and ensure that the Australian Open remains at the Centre on a long-term basis, thus providing continuing economic benefits to the State. Audit analysis indicated, however, that **the support package put in place by the Government does not represent the most cost-effective arrangement for assistance to the Trust. An alternative arrangement which more closely matches the projected cash flow requirements of the Trust would result in an overall reduction of around \$20 million in outlays from the Consolidated Fund.**

1.1.1.3 The financial performance of the Trust has been the subject of ongoing examination since the Centre opened in 1988. The current audit, which was undertaken at the request of the Economic and Budget Review Committee, highlighted that positive action has been taken by the Trust to address the majority of the Committee's 1991 recommendations and that **the Trust has been very successful, especially in the last 2 years, in increasing the Centre's revenue base.** Attendances at the Australian Open have increased substantially, the number of entertainment events held has also increased and during 1991-92 sponsorship and international television rights were favourably re-negotiated.

1.1.1.4 The functions of the Trust include responsibility for the care, improvement, use, promotion and financial management of the Centre. In accordance with legislative provisions, the Trust is required to delegate responsibility for the management of the Centre to Tennis Australia. **The 2 parties have entered into formal Management Agreements setting out various aspects of the relationship including arrangements for sharing net revenue generated by events held at the Centre.** While the initial Management Agreement between the parties did not provide sufficient financial incentives for the returns from Centre activities, other than the Australian Open, to be maximised, greater incentive has been provided in a December 1991 agreement. Under the terms of successive Agreements, **Tennis Australia's share of the net revenue of the Centre will continue to increase significantly.**

1.1.1.5 The requirement for the Trust to engage Tennis Australia to manage the Centre creates potential for Tennis Australia to be placed in a conflict of interest situation. **While the Trust has established an effective reporting relationship with Tennis Australia, procedures need to be further strengthened to ensure that the Trust is in a position to effectively undertake its key role of providing an independent overview of the Centre's operations.** In addition, certain aspects of the latest Agreement between the 2 parties require clarification. In particular, the validity of Tennis Australia retaining certain amounts received under television contractual arrangements and the extent, if any, to which Tennis Australia should share in interest received from the investment of excess funds received as part of the government support package need to be clarified. **Cash flow projections approved by the Trust in June 1992 indicate that under current arrangements, Tennis Australia could receive a total of \$3.2 million from this source.**

SUMMARY OF MAJOR AUDIT FINDINGS

FINANCIAL AND OPERATIONAL PERFORMANCE

Page 23

- ▶ After taking account of depreciation and finance charges, the Trust reported operating deficits in its first 4 years.
Para 1.3.5
- ▶ For the year ended 30 June 1992, the Trust reported a surplus of \$7.7 million. The substantial improvement resulted primarily from the receipt of the first of 12 annual government grants to the Trust and from the favourable renegotiation by Tennis Australia of contracts for sponsorship and international television rights associated with the Australian Open.
Paras 1.3.6 to 1.3.7
- ▶ Gross revenue from the Australian Open, the Centre's major revenue source, increased from \$10.6 million in 1988-89 to \$19.4 million in 1991-92. In addition, a progressive increase in concerts and other hiring activities at the Centre has been reflected in an increase in revenue in this area from \$5.1 million in 1988-89 to \$6.6 million in 1991-92. The success in increasing revenue is commendable given prevailing adverse economic conditions.
Paras 1.3.5 to 1.3.24
- ▶ Analyses undertaken by a consultant engaged by the Trust indicate that, since opening in 1988, the Centre has performed well in the area of its entertainment activities compared with other major Australian entertainment centres.
Paras 1.3.14 to 1.3.15
- ▶ Revenue from the public use of tennis courts at the Centre has declined since the Centre opened in 1988.
Paras 1.3.25 to 1.3.27
- ▶ The return on the Trust's assets has increased from 2.5 per cent in 1989-90, as reported by the Economic and Budget Review Committee, to 4.1 per cent in 1991-92.
Para 1.3.23

GOVERNMENT SUPPORT PACKAGE

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- ▶ The Government agreement to provide an annual grant of \$12 million to the Trust over a period of 12 years will enable the Trust to meet its future financial obligations.

Paras 1.4.3 to 1.4.6

- ▶ As the fixed annual support package approved by the Government exceeds the cash flow requirements of the Trust up to the year 1997, it will result in the Trust progressively investing surplus cash amounting to \$43 million.

Paras 1.4.18 to 1.4.22

- ▶ Agreements between the Trust and Tennis Australia need to be amended to clarify the extent, if any, to which Tennis Australia should share in interest received from the investment of excess funds.

Paras 1.4.21 to 1.4.22

- ▶ Audit analysis indicated that a support package which more closely reflects the cash flow requirements of the Centre would result in a reduction in outlays from the Consolidated Fund of \$20 million, in present value terms.

Paras 1.4.14 to 1.4.17

- ▶ A firm commitment by the Trust has not been made for the future payment of a dividend to the Government.

*Paras 1.4.7 to 1.4.8***FINANCING ARRANGEMENTS**

Page 43

- ▶ The projected total cost of financing the construction of the Centre is around \$238 million. However, the cost to the Victoria taxpayer is expected to be limited to Government grants of \$146 million with the balance funded from returns generated through the Centre's operations.

Paras 1.5.9 to 1.5.13

- ▶ Outstanding debt obligations of the Trust amounted to \$184 million at 30 June 1992.

Para 1.5.10

- ▶ The financial support package put in place by the Government will enable the Trust to repay its obligations under current financing arrangements by the year 2003.

Para 1.5.11

- ▶ In the event of an adverse tax ruling, the amount outstanding to the Commonwealth Bank of Australia will increase. Under the terms of the financing arrangement, the Trust and ultimately the Government will be required to meet this additional amount.

Paras 1.5.16 to 1.5.18

RELATIONSHIP WITH TENNIS AUSTRALIA

Page 49

- ▶ The 1991 Management Agreement negotiated between the Trust and Tennis Australia has ensured that, subject to certain conditions, the Australian Open will be staged at the Centre for the next 25 years, thereby providing significant benefits to the State.

Para 1.6.5

- ▶ The legislative requirement for the Trust to engage Tennis Australia to manage the Centre creates the potential for Tennis Australia to be placed in a conflict of interest situation.

Paras 1.6.32 to 1.6.36

- ▶ An effective reporting relationship has been established between the Trust and Tennis Australia. However, to assist the Trust in undertaking its key role of providing an independent overview of the Centre's activities, the range of financial and non-financial indicators used for monitoring purposes needs to be expanded and regularly monitored by the Trust.

Paras 1.6.37 to 1.6.38

- ▶ A periodic independent examination by the Trust of Tennis Australia's financial records would also assist the Trust in its monitoring role and in ensuring that all revenue due under the Management Agreement has been received.

Paras 1.6.37 to 1.6.38

- ▶ The initial 1988 Management Agreement between the Trust and Tennis Australia did not provide sufficient financial incentives for returns from events, other than the Australian Open, to be maximised. Increased incentive is provided in the 1991 Management Agreement.

Paras 1.6.6 to 1.6.12

- ▶ Under the 1991 Management Agreement, Tennis Australia is no longer required to obtain the written consent of the Trust prior to entering into contractual arrangements for television, broadcasting, sponsorship, licensing and advertising rights.

Paras 1.6.25 to 1.6.26

- ▶ The current Management Agreement needs to be amended to clarify the position in relation to the retention by Tennis Australia of certain revenue received under television contractual arrangements.

Paras 1.6.27 to 1.6.31

- ▶ Based on actual results to date and projections to the end of the current 25 year Management Agreement, revenue to the Trust will increase from \$2 million in 1987-88 to \$14 million by 2017. In comparison, revenue to Tennis Australia will increase from \$610 000 to \$6.4 million over the same period.

Paras 1.6.6 to 1.6.21

- ▶ Returns to Tennis Australia in 1987-88 represented 15 per cent of the net revenue of the Centre. This proportion is projected to rise to 31 per cent by the year 2017.

Paras 1.6.6 to 1.6.21

CENTRE MAINTENANCE

Page 61

- ▶ A number of maintenance problems have emerged as a result of the nature of the Centre's design and deficiencies in certain aspects of its construction.

Paras 1.7.1 to 1.7.5

- ▶ Tennis Australia has developed a comprehensive preventative maintenance program aimed at addressing these problems.

Paras 1.7.6 to 1.7.9

- ▶ The Trust, and ultimately the Government, may incur significant future expenditure to maintain the Centre in optimum condition.

Paras 1.7.1 to 1.7.5

Section 1.2

Audit Review

BACKGROUND

1.2.1.1 Australia's need for a tennis centre of international standing was first identified by the Lawn Tennis Association of Australia in 1979 when the facilities at the Kooyong stadium, located in Melbourne's eastern suburbs, were regarded as no longer adequate for a Grand Slam tennis tournament. Between 1981 and 1983, the Association conducted investigations into the establishment of a complex for tennis or multi-purpose use in Victoria. Approaches were made to both the Victorian and Commonwealth Governments during this period as it was clear that government assistance would be required to fund such a facility.

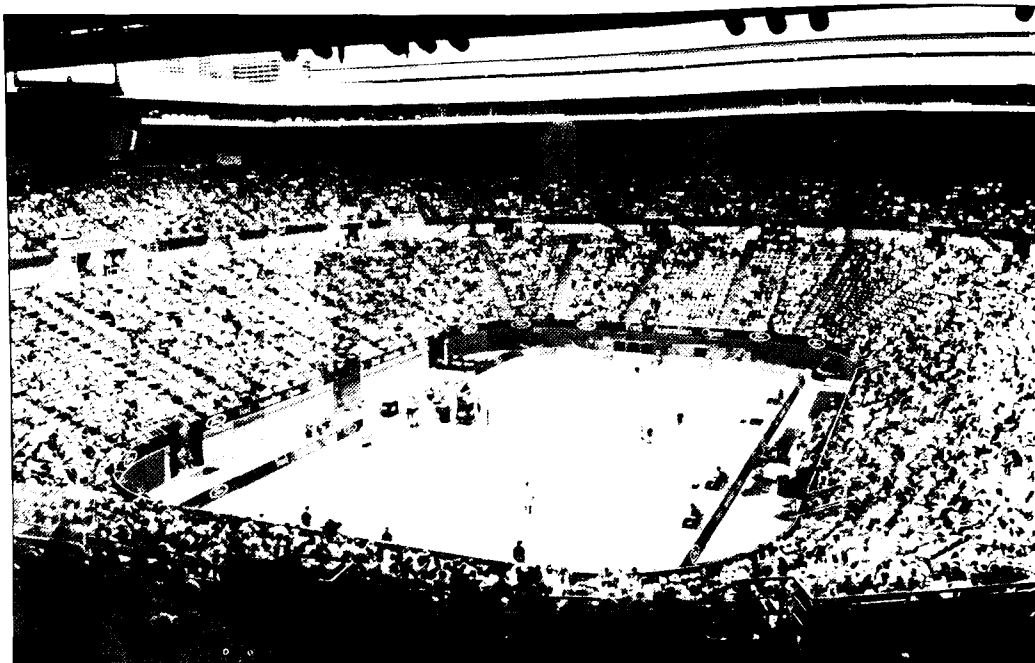
1.2.1.2 The Victorian Government acknowledged these approaches in its *Economic Strategy for Victoria, 1984* which stated that "Melbourne is widely regarded as the sporting capital of Australia. Recognising the importance of sport and sporting facilities in Melbourne's national role, the Government has ... begun moves to assist the location of a new National Tennis Centre in an appropriate Melbourne location close to services ..."

1.2.1.3 The Flinders Park National Tennis Centre was subsequently opened in January 1988 after a 21 month construction period. The construction of the Centre, located adjacent to the Yarra River in close proximity to the Melbourne central business district, resulted from a 1985 agreement between the Victorian Government and the Lawn Tennis Association of Australia, trading as Tennis Australia. The Government effectively underwrote the construction and operation of the Centre and, in return, Tennis Australia committed the staging of the Australian Open to the Centre for a period of 5 years, ending in 1992.



Flinders Park National Tennis Centre in close proximity to Melbourne.

1.2.1.4 The Centre was built primarily to ensure that Melbourne retained the Australian Open, one of only 4 Grand Slam Tennis events in the world. By building the Centre, the Victorian Government achieved an important link with London, New York and Paris, the other host cities of Grand Slam Tennis tournaments, and also retained an event that generates significant economic activity in Melbourne in January each year. Under a revised December 1991 Management Agreement with Tennis Australia, the Australian Open is to be staged at the Centre for a further period of 25 years.



Centre court stadium in use during the Australian Open.

1.2.1.5 The Centre comprises a 15 000 seat centre court stadium (incorporating a retractable roof), 2 outdoor match courts, 5 indoor practice courts and 13 outdoor courts. Although the Centre was designed primarily as a tennis facility, the centre court stadium also represents a world class mass entertainment venue which is used to host a variety of performances throughout the year.

1.2.1.6 The National Tennis Centre Trust was created in 1985. The functions of the Trust, as defined in the *National Tennis Centre Act 1985*, include:

- ▶ responsibility for the care, improvement, use and promotion of the Centre; and
- ▶ responsibility for the financial management of the Centre.

1.2.1.7 The Act specifically requires the Trust to delegate management of the Centre to Tennis Australia. Tennis Australia is made up of State Associations with a council as the senior decision-making body, which comprises representatives from each Association. The primary objectives of Tennis Australia are to organise the Australian Open as a Grand Slam event each year, to promote tennis as a sport in Australia and to provide coaching and related assistance to junior tennis players. Tennis Australia is based at the Centre under terms and conditions outlined in the 1991 Management Agreement with the Trust.

OBJECTIVES AND SCOPE

INTRODUCTION

1.2.2.1 Since the Centre opened in January 1988, the financing arrangements and financial position of the Trust has been the subject of ongoing scrutiny by the Auditor-General and the former Parliamentary Economic and Budget Review Committee.

1.2.2.2 In November 1991, the Committee reported to the Parliament on a range of issues relating to the operations of the Centre. The report included a recommendation that the Auditor-General undertake a performance audit of the Centre's activities. The audit commenced in mid-1992 and a detailed report on the findings was issued to the Trust in February 1993.

1.2.2.3 Details of significant issues arising from the audit, together with the Trust's response to the matters raised, are set out in this Report. Extracts from previous Auditor-General's *Reports on Ministerial Portfolios* have also been included, where appropriate, to provide readers with greater detail on the financing arrangements of the Centre.

1.2.2.4 As this Report primarily addresses issues associated with the financing and operations of the Centre over the period 1988 to late 1992, any reference to the Government relates to the former Government, unless otherwise stated.

OBJECTIVES

1.2.2.5 The overall objective of the audit was to examine the strategies and procedures established by the Trust for the management and operation of the Centre with a view to assessing whether:

- ▶ the relationship and agreements between the Trust and Tennis Australia are conducive to the efficient and effective management of the Centre;
- ▶ the Trust has ensured that Tennis Australia adopts procedures and practices which lead to the economic, efficient and effective utilisation of resources;
- ▶ the financing arrangements put in place by the Government are the most appropriate to enable the Trust to meet its future financial obligations;
- ▶ adequate information systems and reporting processes exist for both management and accountability purposes; and
- ▶ the Trust has initiated positive and timely action to address the 1991 recommendations of the Economic and Budget Review Committee.

SCOPE

1.2.2.6 The following areas were examined during the audit:

- ▶ relevant legislation;
- ▶ the structure and membership of the Trust and its committees;
- ▶ agreements, arrangements and undertakings in place in respect of the financing of the Centre;
- ▶ policies, procedures and guidelines employed by Tennis Australia in its capacity as manager of the Centre;
- ▶ management information systems and reporting procedures;
- ▶ agreed government financial support to the Trust including the rationale underlying the arrangement and the extent to which it adequately addresses the long-term financial requirements of the Trust;
- ▶ action taken to address recommendations of the Economic and Budget Review Committee;
- ▶ contracts and agreements in place which impact on the management and operation of the Centre;
- ▶ expenditure on items such as consultants and building maintenance;
- ▶ sources of revenue of the Centre;
- ▶ initiatives taken and proposed to maximise the net returns from Centre activities;
- ▶ the Trust's investment strategy; and
- ▶ the performance of the Centre, in the entertainment area, in comparison with similar Australian entertainment venues.

1.2.2.7 As the Australian Open is an event which is unique to the Centre, performance in this area, in comparison with other venues, could not be addressed as part of the audit.

Section 1.3

Financial and Operational Performance

INTRODUCTION

1.3.1 Original feasibility studies prepared by the Government in 1984 estimated the cost of constructing the Centre at \$53 million (excluding interest costs). This equates to \$65 million in 1988 dollar terms. However, by the time the construction was completed in 1988 the costs had increased to \$85 million, plus interest costs of \$9 million capitalised during the construction period.

1.3.2 While initial government forecasts indicated that the Centre would generate an operating surplus sufficient to enable the repayment of costs associated with financing the construction, this has not been achieved, to date, due to:

- ▶ the construction cost overruns which increased borrowings required to finance the Centre;
- ▶ higher than projected interest rates in earlier years;
- ▶ lower than projected revenue from non-tennis activities; and
- ▶ higher than projected operating costs.

1.3.3 As a result of the financing arrangements put in place by the Government to meet the construction costs (refer to paragraphs 1.5.1 to 1.5.6 of this Report), the Trust has been faced with substantial debt obligations. Readers of previous Reports of the Auditor-General will be aware that attention has continually been drawn to these obligations and the substantial impact of finance charges on the operating results reported by the Trust.

1.3.4 The Trust also experienced serious cash flow difficulties for a number of years primarily due to the insufficiency of cash derived from operating activities to meet the Trust's loan obligations and the need to fund \$4 million of structural modifications and rehabilitation works at the Centre.

- *RESPONSE provided by Chairman, National Tennis Centre Trust*

The ultimate financial responsibility for the Centre has always rested with the Government. The inadequate financial arrangements organised by the Government for the Trust have led to unjust criticism of the Trust and the managers, Tennis Australia, and this has not been adequately corrected in the audit.

OVERALL FINANCIAL RESULTS

1.3.5 In its first 4 years, the Trust reported operating deficits (after finance charges and depreciation) which totalled around \$35 million at 30 June 1991.

1.3.6 Despite the worsening position, it was not until August 1991 that the Government agreed to provide financial assistance in the form of an annual grant of \$12 million over 12 years to put the Trust on a sound financial footing. As indicated in Table 1.3A, prepared on the basis of the Trust's audited financial statements, **the provision of the first of these grants in 1991-92 resulted in a significant improvement in the Trust's financial result for that year.**

TABLE 1.3A. SUMMARY OF FINANCIAL RESULTS
(\$'000)

| Item | (a) 1987-88 | 1988-89 | 1989-90 | 1990-91 | 1991-92 |
|---|-------------------|-----------------|-----------------|-----------------|-----------------|
| Revenue - | | | | | |
| Australian Open | 8 400 | 10 600 | 13 300 | 14 900 | 19 400 |
| Concert hire | 1 200 | 3 600 | 4 700 | 3 900 | 5 400 |
| Other | 800 | 1 500 | 1 300 | 1 100 | 1 200 |
| | 10 400 | 15 700 | 19 300 | 19 900 | 26 000 |
| Less: Operating expenses(b) | 8 200 | 10 400 | 13 500 | 14 400 | 18 800 |
| Operating surplus before depreciation, finance charges and government grant | 2 200 | 5 300 | 5 800 | 5 500 | 7 200 |
| Less - | | | | | |
| Depreciation | 1 300 | 2 400 | 2 600 | 2 700 | 2 800 |
| Finance charges | 5 300 | 14 300 | 15 400 | 12 100 | 8 700 |
| Add: Government grant | (4 400) | (11 400) | (12 200) | (9 300) | (4 300) |
| | - | - | (c)2 000 | - | 12 000 |
| Operating surplus/(deficit) | (4 400) | (11 400) | (10 200) | (9 300) | 7 700 |
| Accumulated deficit | (d)(4 500) | (15 900) | (26 100) | (35 400) | (27 700) |

(a) Relates to the period January to June 1988

(b) Includes distribution of profit share to Tennis Australia.

(c) Grant provided to alleviate liquidity problems.

(d) Includes costs incurred prior to this period.

1.3.7 In addition to the assistance from the Government, an increase in net returns from Centre operations in 1991-92 also contributed to the improved position. The 30 per cent increase in revenue achieved in that year can be largely attributed to:

- ▶ a significant increase in revenue generated by the 1992 Australian Open due to improved attendances (from 305 000 in 1991 to 329 000 in 1992) and the renegotiation by Tennis Australia of contracts relating to international television rights and sponsorship together with the introduction of official supplier arrangements; and
- ▶ an increase in the number of major hirings of the main stadium to a total of 119, compared with 69 in the previous year.

1.3.8 The level of growth in revenue achieved in 1991-92 is not expected to be sustained in 1992-93 and an overall operating surplus of \$8.5 million is predicted by the Trust for that year.

1.3.9 Audit was advised that the financial performance of the Centre will continue to be influenced, to some extent, by the volatility of the tennis and entertainment industries in general and the music industry in particular. As a result, projections of future operating results for the Centre are subject to a degree of uncertainty.

■ *RESPONSE provided by Chairman, National Tennis Centre Trust*

To ensure a proper performance audit of the Centre, compared with equivalent entities, the operating profit should exclude all capital-related finance charges (no other venue has been expected to pay these charges) and should also exclude depreciation (most other venues are not required to provide for depreciation).

Under this treatment, the Trust has reported an operating profit each and every year since opening. The Centre showed an overall loss for the first 4 years due to finance charges and depreciation but an overall profit in the fifth year when the government subsidy is included. (For performance comparison, the Victorian Arts Centre receives both an operating and a capital subsidy each year, and in addition does not provide for depreciation.)

Table 1.3A is an unfair representation of the facts. The Auditor-General has seen fit to exclude the \$12 million government grant from the revenue figure, but has not seen fit to remove the \$1 million expenditure on Albert Reserve from the operating expenditure. Given that \$1 million of the \$12 million was provided to meet this expenditure, the Auditor-General is not being consistent in his presentation.

OPERATIONAL PERFORMANCE

Performance compared with original Business Plan

1.3.10 In 1987, the Trust commissioned the development of a Business Plan for the Centre. The Plan, prepared by a consultant in conjunction with Tennis Australia and the then Departments of Management and Budget, and Sport and Recreation, superseded the original feasibility study prepared for the Centre in 1984 and was based on more accurate knowledge of:

- ▶ the final projected cost of the construction of the Centre;
- ▶ the final composition of Centre facilities; and
- ▶ market conditions for major tennis and mass entertainment.

1.3.11 The Plan included a number of projections of a financial and non financial nature. Table 1.3B, which compares actual financial results **before finance charges and depreciation** with the financial projections included in the Plan, reveals that the Centre failed to achieve the expected outcome in 4 of the 5 years since it was opened.

TABLE 1.3B. NET OPERATING SURPLUS PRIOR TO FINANCE CHARGES AND DEPRECIATION

| <i>Year</i> | <i>Business Plan projection</i> | <i>Actual result</i> | <i>Variance</i> |
|-------------------------|---|--------------------------|-----------------|
| | (\$'000) | (\$'000) | (%) |
| 1987-88 | 4 000 | 2 200 | (45) |
| 1988-89 | 5 300 | 5 300 | - |
| 1989-90 | 8 900 | 5 800 | (35) |
| 1990-91 | 8 800 | 5 500 | (37) |
| 1991-92 | 10 800 | 7 200 | (33) |
| Cumulative total | 37 800 | 26 000 | (31) |

1.3.12 The net results of the Australian Open exceeded projections included in the Plan. However, variances occurred in relation to other areas of activity primarily due to higher than expected operating expenditure.

1.3.13 Although the preparation of projections contained within the Business Plan involved substantial market, financial and organisational analyses based on information from a range of sources including Tennis Australia and major entertainment venues in Melbourne and Sydney, the Trust and Tennis Australia maintain that the projections were unrealistic, particularly in relation to the operating costs of the Centre.

Performance compared with similar Australia venues

1.3.14 In April 1992, the Trust engaged a planning and management consultant with expertise in the entertainment and leisure industry to assist in the development of a new Business Plan for the Centre. As part of the development process, the consultant compared the entertainment operations of the Centre over the period 1988 to 1992 with other major Australian entertainment centres. The consultant's report, received by the Trust in September 1992, concluded that:

- ▶ The Centre consistently outperformed the Sydney Entertainment Centre on a pro rata basis in terms of market penetration rates and in vital areas such as catering sales;
- ▶ In 1991 and the first half of 1992 (i.e. January to June) the Centre outperformed the Sydney Entertainment Centre in absolute terms in all key areas except sales of merchandise;
- ▶ The Centre outperformed the Brisbane Entertainment Centre in 1988, 1990 and 1991. No comparisons were possible in 1989 and in the first half of 1992 due to the unavailability of data; and
- ▶ The Centre outperformed the Adelaide Entertainment Centre, which opened in mid-1991, during 1991 and in the first half of 1992.

1.3.15 Although audit was not in a position to verify the accuracy of the data upon which the comparisons were based, **the results suggest that the Centre has performed comparatively well in the entertainment area since opening in 1988.**

■ *RESPONSE provided by Chairman, National Tennis Centre Trust*

The Centre has in fact outperformed all other Australian Centres by just about every measure which may be applied. When the Centre was opened in 1988 it quickly established itself as the preferred venue for mass entertainment in Melbourne. The regular patron surveys identify a level of support not achieved elsewhere in Melbourne, Victoria or Australia.

Strategies to increase revenue

Centre events

1.3.16 The majority of Centre revenue is derived from the staging of the Australian Open over 2 weeks in January each year. Revenue from this source amounted to \$19.4 million in 1991-92. In addition, significant revenue is received from the hire of the Centre for other activities, namely:

- ▶ concerts arranged by private promoters involving local or international entertainers;
- ▶ public or private conventions;
- ▶ the hire of function rooms within the Centre complex, generally to corporate clients; and
- ▶ other events such as boxing, iceskating and basketball.

1.3.17 The major proportion of revenue from these other hiring sources (81 per cent in 1991-92) relates to concerts and conventions.

1.3.18 The Economic and Budget Review Committee recommended in its 1991 report that the Trust investigate the promotion of events, other than concerts, as a means of increasing the use of the Centre, particularly over the June to September period.

1.3.19 The following initiatives, some of which had been commenced prior to the Committee's review, were taken by Tennis Australia with the aim of increasing the use of the Centre:

- ▶ Evaluation of the potential to reduce the capacity of the centre court stadium, on a temporary basis, to cater for smaller events;
- ▶ Securement of basketball games at the Centre on a regular basis. This initiative resulted in 31 games during the 1992 season with net revenue to the Centre of approximately \$600 000;
- ▶ Introduction of new catering products in conjunction with an attempt to better target specific audience needs and expand vending techniques;
- ▶ A review of marketing arrangements in place for the Centre; and
- ▶ Establishment of a corporate database to allow marketing of Centre facilities to the business community.

1.3.20 Although the Trust has considered the possibility of becoming a promoter of entertainment events, it has decided not to enter this market because of the associated risks and the potential to become a direct competitor with the Centre's major clients.

1.3.21 The Trust has been advised by the consultant assisting in the development of the new Business Plan that no significant profit centres exist at other Australian venues which are not already in place at the Centre.

1.3.22 Table 1.3C indicates that strategies put in place to expand the use of the Centre have resulted in an increase in the number of hirings of the Centre's facilities.

TABLE 1.3C. CENTRE HIRINGS

| Type of use | (a) 1987-88 | 1988-89 | 1989-90 | 1990-91 | 1991-92 |
|--------------------|-------------|------------|------------|------------|------------|
| Concert | 43 | 38 | 46 | 45 | 59 |
| Convention | 5 | 3 | 22 | 12 | 30 |
| Function room hire | 59 | 167 | 306 | 349 | 313 |
| Other | 2 | 37 | 8 | 12 | 30 |
| Total | 109 | 245 | 382 | 418 | 432 |

(a) Relates to the period January to June 1988.

1.3.23 This trend, particularly the increase in concerts and conventions, is reflected in the increase in revenue from Centre hirings from \$2 million in 1987-88 (6 months) to \$6.6 million in 1991-92. **The additional revenue has contributed to an improvement in the return on the Trust's assets from 2.5 per cent in 1989-90 to 4.1 per cent in 1991-92 (using the Economic and Budget Review Committee's method of calculation).**

1.3.24 Given the impact of prevailing adverse economic conditions on the demand for facilities offered by the Centre, audit considers **the performance in attracting additional events is commendable.**

Tennis court hire

1.3.25 The Centre complex has 18 indoor and outdoor tennis courts which are available for public hire. As highlighted in Table 1.3D **the total hours of hire and revenue from the public use of the courts has steadily declined since the Centre opened in 1988.**

TABLE 1.3D. TENNIS COURT HIRE

| Item | 1988-89 | 1989-90 | 1990-91 | 1991-92 |
|---------------------|---------|---------|---------|---------|
| Hiring time (hours) | 33 745 | 34 130 | 30 600 | 29 690 |
| Revenue (\$'000) | 168 | 204 | 167 | 114 |



Flinders Park outdoor tennis courts during the Australia Open.

1.3.26 The Economic and Budget Review Committee recommended in late 1991 that the Trust examine periodic membership benefits, commissions or other incentives for the increased use of the courts. In response, the Trust indicated to the Committee that the membership concept was continually under examination and was seen as a potential generator of additional income.

1.3.27 Audit inquiries revealed that it was not until October 1992 that the Trust eventually introduced court hire membership facilities with the expectation that additional revenue will result.

Revenue under contractual arrangements

1.3.28 The Trust engages external contractors to provide a range of services at the Centre including merchandising, catering and the operation of a Pro Shop located in the public tennis court hire area. In accordance with the contracts, the Trust receives a commission or percentage of sales revenue from these activities.

1.3.29 The audit highlighted weaknesses in the procedures adopted for selection of certain contractors, primarily engaged prior to the Centre opening in 1988. Examples included:

- ▶ **Selection of a contractor to manage the Centre's Pro Shop.** A minimum income of \$10 000 a year was guaranteed by the contractor compared with an alternative contractor offering a minimum of \$25 000. Audit was advised that the successful tenderer was selected on the basis that the arrangement would provide a more favourable return if Pro Shop sales reached \$417 000. However, projections contained in the Centre's Business Plan indicated that sales were not expected to reach that level. Actual annual income from this area of activity has ranged from \$12 000 to \$14 500 over the past 3 years; and
- ▶ **The selection of a contractor for the supply and sale of merchandise** such as programs and clothing associated with events staged at the Centre. The selected contractor guaranteed a minimum income from merchandising of \$800 000 over a 3 year period compared with a minimum income of \$1.2 million guaranteed by an alternative tenderer. Adequate documentation was not available to support the selection of the less financially attractive contractor. Actual annual income received by the Trust over the 3 year period amounted to \$883 000.

1.3.30 In the absence of sound tendering and selection procedures, there is no assurance provided to the Trust that income from external contract arrangements is maximised. **It was pleasing to find that more recent procedures adopted for new contract arrangements or re-appointment of existing contractors were comprehensive and well documented.**

Section 1.4

Government Support Package

INTRODUCTION

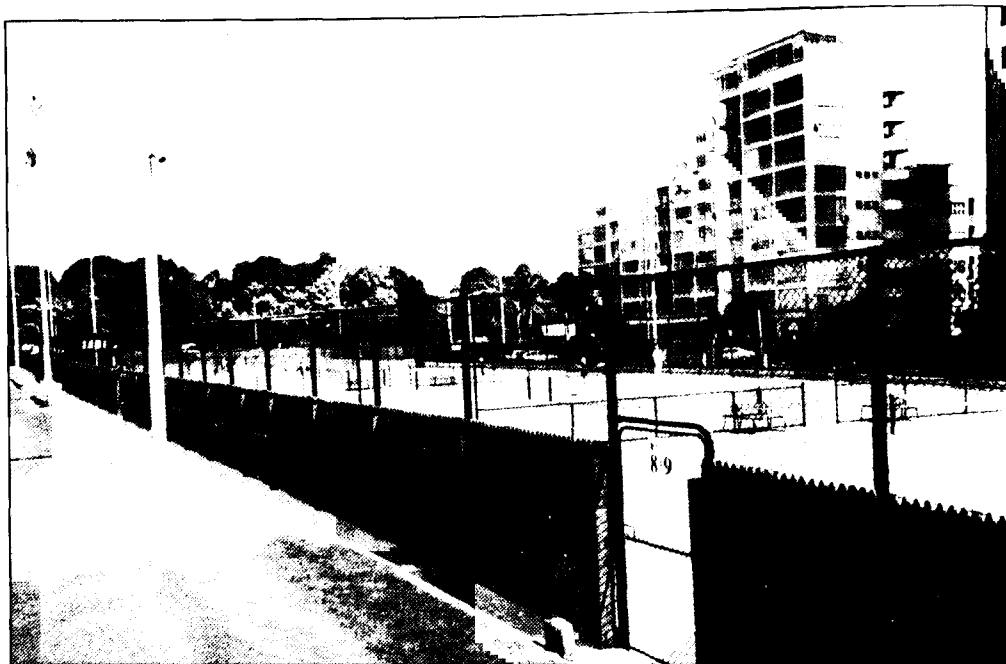
1.4.1 During 1990 and 1991, the Government examined various options to ensure that the Centre was placed on a sound financial footing and that the Australian Open continued to be staged at the Centre on a long-term basis. A commitment from Tennis Australia to stage the Australian Open at the Centre was critical as it provided the primary source of income to the Centre.

1.4.2 During early 1991, discussions took place between representatives of the Department of the Treasury, Tennis Australia and the Trust with a view to reaching a mutually acceptable agreement. In August of that year, Cabinet eventually approved a support arrangement for the Trust conditional on the Treasurer negotiating a Management Agreement with Tennis Australia which would ensure the retention of the Australian Open at the Centre for the next 25 years.

NATURE OF THE SUPPORT PACKAGE

1.4.3 In December 1991, a revised Management Agreement between the Trust and Tennis Australia was entered into on the basis that the Government agreed to:

- ▶ Provide the Trust with annual grants of \$12 million for 12 years commencing in 1991-92;
- ▶ Enter into an agreement with the Trust and Tennis Australia on a brief for the design, funding and completion date for further development of the Centre. The development, referred to as Stage 2, is to comprise the construction of at least 10 additional practice courts and an additional corporate area within the Centre complex together with consideration of measures to address parking and traffic problems within the vicinity of the Centre. The brief is to be agreed prior to the 1995 Australian Open;
- ▶ Ensure appropriate capital funding to the Trust on the basis of recommendations made by the Trust from time-to-time; and
- ▶ Provide at least 6 and up to 10 additional practice courts at the Albert Reserve near Albert Park by the commencement of the 1992 Australian Open. These facilities, comprising 9 courts, were completed in mid-1992.



Practice courts located at Albert Reserve.

1.4.4 The Agreement can be terminated by Tennis Australia, including its obligation to stage the Australian Open at the Centre for 25 years, if the Government fails to implement its commitments in any significant respects.

1.4.5 In January 1992, the then Treasurer of Victoria confirmed the details of the support package and the first government grant to the Trust was made during 1991-92.

1.4.6 Audit analysis indicated that **while the support package approved by the Government will enable the Trust to meet its future financial obligations, it does not represent the most cost-effective application of funds from the Consolidated Fund** and in certain aspects is not in accordance with the 1991 Cabinet decision.

■ *RESPONSE provided by Secretary, Department of the Treasury*

In relation to 1.4.4 and 1.4.5, the Management Agreement has a number of termination events which would also enable the Trust to terminate the Management Agreement. Tennis Australia also has a right to terminate the Management Agreement if the Government does not significantly comply with its undertakings in the Agreement. In Treasury's view although non-compliance can lead to a termination by Tennis Australia it is more likely to result in a re-negotiation of the Agreement.

Implementation of Cabinet decision

1.4.7 The formal approval of annual grants to the Trust of up to \$12 million for 12 years was given by Cabinet in August 1991. At the time of approving the support package, Cabinet noted that the proposed Management Agreement between the Treasurer and Tennis Australia was to provide for the future **payment of a dividend to the Government if the Centre achieved agreed levels of surplus**. A letter from the Treasurer to Tennis Australia and the Trust in January 1992 confirmed the Government's understanding that the financial arrangements would provide for payment of a dividend by the Trust.

1.4.8 Audit found that, in the following 2 respects, the commitments made on the Government's behalf by the then Treasurer and the Trust were not consistent with the Cabinet decision:

- ▶ A firm agreement has not yet been made for the payment by the Trust of a dividend. Similarly, the agreed levels of surplus, referred to in the Cabinet decision, have not yet been defined. While **the Trust has indicated in cash flow projections that an annual dividend of \$10 million will be returned to the Government between the years 2003 and 2017, the operating surplus of the Trust is not expected to reach that amount until the year 2013**. The cash flow projections do not include any outlays by the Trust for the Stage 2 development; and
- ▶ The Management Agreement with Tennis Australia commits the Government to providing subsidies of \$12 million per year rather than an annual grant of **up to** that amount.
- *RESPONSE provided by Secretary, Department of the Treasury*

Treasury considers that the subsequent arrangements are consistent with the Cabinet decision. The Cabinet approval allowed for a grant of up to \$12 million. In Treasury's view this outcome of \$12 million per annum for 12 years, which was the result of commercial negotiations, was consistent with the Cabinet decision.

Funds in excess of the Trust's immediate requirements have been used to repay short-term borrowings from the Victorian Development Fund. Future excess funds can be used to reduce the existing outstanding obligation under the financing arrangement when it expires or needs to be refinanced.

The Management Agreement executed is between the Trust and Tennis Australia and therefore makes no reference to the payment of a dividend. The letter from the then Treasurer to Tennis Australia indicated that the grant for \$12 million per annum for 12 years was conditional on payment of a dividend should agreed levels of surplus be reached.

Basis for government support package

1.4.9 A consultant engaged by Treasury in June 1991 to provide advice on appropriate financing structures for the Centre evaluated, and provided recommendations on, various options open to the Government. The options were evaluated on the basis of the Trust's expected underlying profitability, its projected cash flow and the level of debt it would be capable of servicing.

1.4.10 Based on the results of this work, the consultant concluded that the Trust's practice, at that time, of using short-term finance to meet cash shortfalls (refer to paragraph 1.5.7 of this Report) was counterproductive as the associated interest and principal payments compounded the existing cash flow problem of the Centre. The consultant recommended that a formula-based subsidy would be the most logical method of the Government meeting the Trust's annual shortfall.

1.4.11 The consultant considered that the level of subsidy in any year should be **the greater of** the Trust's:

- ▶ net loss after interest and depreciation as determined by the audited financial statements; **or**
- ▶ net cash flow after finance charges, including both interest and principal payments.

1.4.12 Audit was advised by Treasury that in negotiating the Management Agreement with Tennis Australia, a range of issues was taken into account prior to agreeing to a fixed annual support package rather than the method of subsidy recommended by the consultant. However, **limited documentation was available within Treasury to substantiate the basis or rationale behind the selected arrangement.**

1.4.13 Audit concluded from documentation examined and discussions held with Treasury and Tennis Australia representatives that **the Government's decision was aimed primarily at ensuring that the Centre would report a yearly profit and at securing an agreement with Tennis Australia to stage the Australian Open at the Centre for a 25 year period.** Tennis Australia has advised that a support package which involved a floating annual subsidy would not have secured such an agreement.

IMPACT OF THE SUPPORT PACKAGE

Outlays from the Consolidated Fund

1.4.14 Under the terms of the support package, a total of \$144 million will be provided to the Trust by the Government over a 12 year period.

1.4.15 Audit analysis indicates that, in comparison, if a formula-based subsidy recommended by the consultant engaged by Treasury had been used to determine the annual amount required by the Trust to meet the greater of its cash needs or annual net loss, total outlays from the Consolidated Fund would have been significantly reduced, particularly in the early years. On the basis of projections prepared by Tennis Australia, **audit estimates that \$33.5 million in excess of the formula-based subsidy will be provided by the Government up to June 1997.**

1.4.16 Details of the outlays from the Consolidated Fund over the first 6 year period, under the 2 alternatives, are set out in Table 1.4A.

TABLE 1.4A. GOVERNMENT SUBSIDY
(\$'000)

| <i>Financial year</i> | <i>Formula based subsidy recommended</i> | <i>Fixed annual subsidy agreed</i> |
|-----------------------|--|------------------------------------|
| 1991-92 | 4 642 | 12 000 |
| 1992-93 | 4 569 | 12 000 |
| 1993-94 | 6 251 | 12 000 |
| 1994-95 | 6 064 | 12 000 |
| 1995-96 | 7 852 | 12 000 |
| 1996-97 | 9 108 | 12 000 |
| Total | 38 486 | 72 000 |

1.4.17 A further audit analysis, prepared on a discounted cash flow basis, indicates that the agreed subsidy to the Trust will amount to \$82 million, in present value terms. However, on the basis of cash flow projections prepared by Tennis Australia and the formula recommended by the consultant, the Government could meet the needs of the Centre with a total outlay of \$62 million, in present value terms, over a period of 20 years. The impact of any payment of dividends to the Government has been excluded from these calculations due to the current uncertainty surrounding the timing and amount of such dividends (refer to paragraph 1.4.8 of this Report).

Investment income on excess funds

1.4.18 As indicated by the consultant engaged by Treasury, the cash flow requirements of any organisation will vary from year-to-year and, as such, a fixed annual subsidy will generally be too much or too little to meet cash requirements. This is particularly true for the Trust which is not required to repay its deferred liability of \$108.9 million, relating to financing arrangements, until 1997.

1.4.19 **The fixed annual support package approved by the Government, consequently, does not match the cash flow requirements of the Centre.** Table 1.4B, prepared solely on the basis of cash flow projections developed by Tennis Australia and approved by the Trust in May 1992, shows the cash surplus (after receipt of the annual Government subsidy) expected to be available to the Trust up until the time the liability is due in 1997. It is proposed that surplus cash will be invested by the Trust up to that time.

TABLE 1.4B. CASH FLOW SURPLUS
(\$'000)

| <i>At 30 June</i> | <i>Cumulative surplus</i> |
|-------------------|---------------------------|
| 1992 | 2 289 |
| 1993 | 14 367 |
| 1994 | 21 997 |
| 1995 | 30 171 |
| 1996 | 36 892 |
| 1997 | 42 639 |

1.4.20 The provision of funds in advance of requirements is not consistent with sound cash management principles or with long standing government policy of retaining cash within the Consolidated Fund until an organisation has need for the money.

1.4.21 Under the terms of revenue sharing arrangements included in the Management Agreement between Tennis Australia and the Trust, Tennis Australia is entitled to receive a portion of all income received from Centre activities including interest income generated by the investment of excess funds. **The Trust's cash flow projections indicate that Tennis Australia could receive income amounting to \$3.2 million from the investment of funds received from the Government which are in excess of requirements.**

1.4.22 It was apparent to audit that the Government support package was not intended to provide this financial benefit to Tennis Australia. While discussions with the Trust and Tennis Australia supported this view, **it is important that action is taken by the Trust to formalise this position within the current Management Agreement** and to establish accounting records which enable interest on these excess funds to be clearly identified and excluded from any revenue sharing calculations.

■ *RESPONSE provided by Chairman, National Tennis Centre Trust*

The 25 year commitment by Tennis Australia of the Australian Open was negotiated between the Government and Tennis Australia with the Trust acting as the facilitator. The 25 year commitment was conditional on the Government fixing the funding arrangements once and for all. Tennis Australia would only accept a once only significant capital injection that reduced the borrowings down to a level that could be adequately serviced by the Trust - as originally planned. Tennis Australia reluctantly accepted the 12 annual instalments of \$12 million at the insistence of the Government as actuarially equivalent to the required lump sum payment. The alternative arrangements now suggested by the Auditor-General involving fluctuating subsidies depending on financial results is inappropriate and unacceptable for a fixed long-term commitment from both sides.

Tennis Australia has never participated in the funding arrangements for the Centre and consequently will not participate in any interest income on that part of investments attributable to the \$12 million a year funding package. Funds management arrangements are being put in place to ensure that any surplus funds resulting from this annual funding will be separately identified and that interest earnings are excluded from profits subject to sharing arrangements with Tennis Australia.

■ *RESPONSE provided by Secretary, Department of the Treasury*

The Government was in the position of having to negotiate an agreement which would have to take a range of issues into account. While ideally the Government and the Trust would have liked to have achieved an unconditional 25 year contract, Tennis Australia had a legitimate right to ensure that the Centre had the capacity to offer the necessary facilities over the 25 year period.

Treasury supports the proposal agreed between the Trust and Tennis Australia to exclude the interest earned on excess funds resulting from grants from the sharing agreements.

Section 1.5

Financing Arrangements

INTRODUCTION

1.5.1 As indicated in the Auditor-General's *Report on Ministerial Portfolios, May 1989* the construction cost of the Centre was initially financed by short-term borrowings from the former Victorian Public Authorities Finance Agency (VicFin). The borrowings were at market rates of interest and were subject to variations resulting from market movements.

1.5.2 In an effort to secure long-term finance and to reduce the loan interest charges which were severely impacting upon the Centre's profitability, the Government co-ordinated an arrangement whereby a unit trust was established to secure a 12 year operating lease on the Centre, with the Trust appointed as managers. In return for the lease, the unit trust lodged a security deposit with the Trust in January 1988 amounting to \$92.5 million. The deposit was used to repay the existing loan liability of \$86.6 million, including interest to VicFin.

1.5.3 To fund the above transaction, the unit trust obtained short-term finance from the former State Bank Victoria. This finance, which was subject to market interest rates, was repayable on 30 September 1988. The overall intention of the arrangement was to attract institutional investors prepared to offer long-term finance at interest rates below prevailing market rates. In return for this concession, the institutional investors were to become lessees of the Centre, and be able to obtain a taxation benefit by claiming depreciation on component parts of the Centre.

1.5.4 It was decided not to proceed with seeking support from institutional investors as the Australian Taxation Office had commenced action to disallow similar schemes in the private sector.

1.5.5 As a result of the deferral of the scheme, the Trust was left with a security deposit of \$92.5 million repayable on 30 September 1988 upon which interest was steadily accumulating.

CURRENT FINANCING ARRANGEMENT

Nature of the arrangement

1.5.6 To enable repayment of the short-term finance, the Government put in place the current financing arrangement. The arrangement was entered into by the Trust and a partnership known as the Flinders Park Partnership in October 1988. The Partnership is owned 95 per cent by a subsidiary of the former State Bank Victoria and 5 per cent by a subsidiary established by the Trust. The Trust borrowed \$110 million from the Partnership (which included \$5.5 million contributed by the Trust's subsidiary). The majority of this amount was used to repay existing borrowings. The following is a brief summary of the arrangements, as previously set out in the Auditor-General's *Report on Ministerial Portfolios, May 1990* and reflected in the Trust's audited financial statements:

- ▶ The Centre is leased by the Trust to the Partnership for a period of 9 years with 4 further 10 year options. The Centre is managed by the Trust on behalf of the Partnership;

- ▶ The Trust receives rent and a management fee from the Partnership and, in return, the Trust is obliged to pass back an equivalent amount from operating funds, which places the Partnership in a continuing break-even position from the arrangements. An additional amount of \$4.4 million is payable to the Partnership at the end of the initial lease period to provide it with a guaranteed share of income from the Centre's operations;
- ▶ The amount of \$110 million borrowed by the Trust from the Partnership in October 1988 is repayable over the initial 9 years of the lease. At the end of that period, if the Bank exercises an option to request the Trust to acquire the Bank's subsidiary and, in effect, settle the subsidiary's loan obligation to the Bank a further amount of \$104.5 million becomes payable;
- ▶ The amount of \$104.5 million equates to an annual interest charge of 10.8 per cent on the \$110 million over a 9 year period. The interest charge is based on an assessed market interest rate of 14 per cent less a discount of 3.2 per cent provided for in the financing arrangements;
- ▶ If market interest rates increase above 14 per cent, the Trust is subject to additional charges which are payable in the period of increase. On the other hand, should market interest rates fall below 14 per cent, the Trust will obtain an immediate benefit in the period; and
- ▶ Levels of repayment of the \$110 million are lower in the earlier years of the 9 year lease period to allow the Trust to benefit from an anticipated improvement in the operating performance of the Centre in later years.

1.5.7 In addition to this financing arrangement, the Trust also found it necessary to progressively borrow \$8 million from the former Victorian Development Fund (VDF) during 1990 and 1991 to meet short-term requirements resulting from ongoing liquidity problems.

1.5.8 The Economic and Budget Review Committee recommended in its 1991 report that the Trust repay outstanding loans to the VDF as a first step towards reducing its level of debt. Borrowings of \$8 million from the VDF were subsequently repaid on 31 March 1992. The repayment was funded from the first grant of \$12 million received from the Government in 1991-92. The Trust has no current borrowings from the VDF.

Liabilities under financing arrangement

1.5.9 In substance, the Trust borrowed \$110 million under the 9 year financing arrangement at an interest rate of 10.8 per cent with total interest estimated at \$104.5 million payable at the end of the 9 year period. Payment of any additional interest, as a result of interest rates moving higher than 14 per cent, is required at the time such movement occurs within the 9 year period.

1.5.10 Since October 1988, the Trust has made quarterly repayments of the borrowings of \$110 million. **At 30 June 1992, the remaining obligations of the Trust to the Partnership amounted to around \$184 million** comprising \$75 million in principal, \$104.5 million in interest due in 1997 and the \$4.4 million guaranteed share of income from the Centre's operations.

1.5.11 Cash flow projections approved by the Trust indicate that, after taking into account the annual \$12 million subsidy from the Government (refer to paragraph 1.4.3 of this Report), further borrowings of \$55 million will be required in 1997 to enable outstanding obligations to the Partnership to be met. **It is projected that all debt associated with the Centre construction will be repaid by the end of the 12 year period of government support.**

1.5.12 In accordance with the Trust's projections, the total cost of financing the initial construction of the Centre will amount to a total of around \$238 million representing outlays under the current and proposed arrangement to be put in place in 1997. However, **the total cost to the Consolidated Fund, and therefore the Victorian taxpayer, is expected to be limited to government grants of \$146 million** with the remainder funded from the returns generated through Centre operations.

1.5.13 As the borrowings under existing financing arrangements are guaranteed by the Treasurer of Victoria, repayments would need to be made from the Consolidated Fund in the event that the Trust is unable to meet its obligations under the existing or proposed financing arrangements.

1.5.14 At the time of approving the construction of the Centre, the Government gave an undertaking that the 6 hectares of public land on which the Centre was built, primarily within Flinders and Yarra Parks, would be replaced during the construction phase. This commitment was in line with the State Conservation Strategy which indicated that *"Government agencies will not sell or restrict the use of any open space which has high current or potential value for conservation or recreation unless it simultaneously makes a net improvement in open space quantity and quality by reserving alternative land in the immediate area"*.

1.5.15 Two options were considered at that time as replacement open space, namely, land within the Jolimont railway yards and land occupied by an Army Barracks and car park on the north side of Swan Street. Audit has been advised that the Government subsequently obtained control of the land in Swan Street. However, **it is proposed that the issue of public land replacement will not be addressed until the proposed Stage 2 development is undertaken.** As indicated in Section 1.4 of this Report further outlays from the Consolidated Fund will be necessary to fund future development at the Centre, including Stage 2.

Taxation implications

1.5.16 Audit was advised by Treasury that the Trust's current financing arrangements entered into with the former State Bank Victoria involved the Trust providing certain warranties as to the taxation assumptions underlying the arrangements. Treasury also advised that the State Bank Victoria, prior to its merger with the Commonwealth Bank of Australia, paid an amount to the State of Victoria equivalent to the income tax which it would have paid to the Commonwealth Government had it not been a State-owned bank. The amount of tax paid was determined by an individual appointed by the Victorian Government. This individual was required to apply the *Income Tax Assessment Act 1937* in determining the amount of tax to be paid. Prior to entering into the transaction, the State Bank Victoria received an opinion from this individual that the transaction was in accordance with the Income Tax Assessment Act. Following the merger of the former State Bank Victoria with the Commonwealth Bank of Australia, a request was lodged by the Bank, in consultation with the Trust, in December 1992 for a taxation ruling with the Federal Commissioner of Taxation.

1.5.17 **In the event of a negative tax ruling, the amount outstanding to the Commonwealth Bank of Australia will increase. Under the terms of the financing arrangement, the Trust and ultimately the Government will be required to meet this additional amount.**

1.5.18 At the time of approving the support package to the Trust in 1991, Cabinet noted that an additional amount of up to \$2 million a year may be required in the event that the present tax effective financing structure needs to be replaced with a non-tax effective arrangement.

- *RESPONSE provided by Chairman, National Tennis Centre Trust*

As the Government arranged the original financial package for the Trust and as the Government arranged the merger of the State and Commonwealth Banks, it is only right that the Government and not the Trust should be ultimately responsible for any tax liabilities which may result if the ruling is unfavourable.

Section 1.6

Relationship with Tennis Australia

INTRODUCTION

1.6.1 The *National Tennis Centre Act 1985* provided for a body corporate known as the National Tennis Centre Trust to be established to oversee the construction of the Centre and subsequently to be responsible for its management.

1.6.2 The Act requires Tennis Australia to be engaged to manage the Centre and authorises the Trust to delegate to Tennis Australia the powers necessary to carry out the functions of the Trust with respect to financial management of the Centre. This has been achieved through 2 successive Management Agreements between the Trust and Tennis Australia. The initial Agreement took effect from the date the Centre first opened in January 1988 and the second was effective from July 1991.

1.6.3 While there are provisions within the Management Agreements for the Trust to terminate the Agreements under certain conditions, there is no specific provision within the Act for the termination of Tennis Australia as manager of the Centre. Consequently, in the event of any breach of the Agreement by Tennis Australia, the Trust would be required to enter into a revised Agreement.

MANAGEMENT AGREEMENTS

1.6.4 The initial Management Agreement between the Trust and Tennis Australia specified the terms and conditions under which the Trust engaged Tennis Australia to manage the Centre. The Agreement also specified the rights and responsibilities of each party in respect of a range of matters, including:

- ▶ revenue sharing arrangements;
- ▶ preparation and monitoring of budgets and operational forecasts;
- ▶ maintenance of the Centre;
- ▶ control over broadcasting, sponsorship, merchandising, licensing and advertising rights;
- ▶ financial records and reporting;
- ▶ determination of fees, terms and conditions for events held at the Centre;
- ▶ audit requirements;
- ▶ court hire arrangements; and
- ▶ provision for free use of courts by Tennis Australia and the Victorian Tennis Association.

1.6.5 The 1991 Management Agreement is very similar in content to the initial Agreement. However, as indicated in Section 1.4 of this Report, a significant feature of the Agreement is that it contains a commitment by Tennis Australia to stage the Australian Open at the Centre for a 25 year period. This commitment represents a significant economic benefit to the State in terms of increased tourist activity during January each year. The 1991 Agreement also specifies revised revenue sharing arrangements between the parties.

Revenue sharing arrangements

Initial Management Agreement

1.6.6 The revenue sharing arrangement between the Trust and Tennis Australia in the initial Management Agreement provided for Tennis Australia to annually receive **the greater of:**

(1) \$500 000 indexed by Consumer Price Index;

or

(2) an amount being the sum of:

- ▶ 10 per cent of the adjusted net revenue from the Australian Open up to \$5 million; **plus**
- ▶ 30 per cent of the adjusted net revenue from the Australian Open between \$5 million and \$10 million; **plus**
- ▶ 50 per cent of the adjusted net revenue from the Australian Open above \$10 million; **plus**
- ▶ 10 per cent of adjusted net revenue from all other events.

1.6.7 **Audit found that this revenue sharing formula was not conducive to maximising the financial return to the Trust.** While the minimum share of revenue payable to Tennis Australia of \$500 000 (in 1985 dollars) was indexed to movements in the Consumer Price Index, the revenue thresholds pertaining to the Australian Open, of \$5 million and \$10 million, were not similarly indexed. If continued, this formula would have resulted in Tennis Australia receiving substantial annual increases in its management fee as revenue from the Centre increased with inflation. On the other hand, there would have been no advantage to the Trust unless revenues increased at a rate above that of the inflation rate.

1.6.8 In addition, **the revenue sharing formula did not provide sufficient incentive for Tennis Australia to maximise revenue from events other than the Australian Open.** The formula provided for Tennis Australia to receive a flat rate of 10 per cent of revenue generated by these events rather than a graduated scale, as applied to the Australian Open revenue.

- *RESPONSE provided by Chairman, National Tennis Centre Trust*

It is correct that the new agreement does provide increased incentives for events other than the Australian Open. However, it is not correct to state that the original agreement did not provide sufficient financial incentives. To assert that Tennis Australia did not try hard enough to attract events because of lack of financial incentive, confirms a lack of understanding by the Auditor-General of the entertainment industry and the way it operates.

1991 Management Agreement

1.6.9 The revised revenue sharing arrangement, effective from July 1991, provides for Tennis Australia to annually receive:

- (1) The greater of:
- ▶ \$900 000;
- or**
- ▶ 15 per cent of the adjusted net revenue from the Australian Open up to \$5 million; plus
 - ▶ 35 per cent of the adjusted net revenue from the Australian Open between \$5 million and \$10 million; plus
 - ▶ 60 per cent of the adjusted net revenue from the Australian Open above \$10 million.

PLUS

- (2) The greater of:
- ▶ \$300 000;
- or**
- ▶ 15 per cent of the adjusted net revenue from all other sources up to \$2 million; plus
 - ▶ 35 per cent of the adjusted net revenue from all other sources above \$2 million.

1.6.10 Tennis Australia's minimum remuneration and the revenue thresholds in the revenue sharing formula are all to be indexed by the Consumer Price Index less 2 per cent each year. If the Consumer Price Index is below 2 per cent in any year, no adjustment to revenue sharing will occur in that year.

1.6.11 The major change to the revenue sharing arrangement was that Tennis Australia's minimum guaranteed remuneration increased from \$786 000 (\$500 000 indexed by the Consumer Price Index) to \$1.2 million, an increase of 52.6 per cent. In addition, Tennis Australia's percentage share of each revenue threshold increased.

1.6.12 **The revenue sharing formula in respect of events other than the Australian Open was also altered to provide Tennis Australia with increased incentive to maximise revenue from these events** in that it provided for Tennis Australia to receive an increased percentage of net revenue above \$2 million.

1.6.13 The 1991 Agreement provides for the revenue sharing arrangements to be renegotiated if any of the following events occur:

- ▶ Tennis Australia receives only the minimum guaranteed revenue share in 3 successive financial years;
- ▶ total Centre revenue from all sources for any 5 year period varies by more than 50 per cent from projections contained in the Agreement;
- ▶ the Government causes the construction of a similar venue which adversely impacts on the financial performance of the Centre; or
- ▶ the total debt relating to the financing of the Centre is repaid from revenue generated by the Centre.

1.6.14 In a report to the Trust in September 1989, a consultant stated that while the Trust delegates management control of the Centre to Tennis Australia, no financial risk or penalty is borne by Tennis Australia if the Centre does not perform satisfactorily. Ultimate responsibility for the performance of the Centre rests with the Trust.

1.6.15 This situation is still the case under the 1991 Management Agreement with the minimum guaranteed remuneration to Tennis Australia payable irrespective of the performance of the Centre. It was not until 1991-92 that an amount above the minimum remuneration was received by Tennis Australia.

Impact of revenue sharing arrangements

1.6.16 The Economic and Budget Review Committee in its November 1991 *Report on matters arising from the Auditor-General's 1989-90 Report on Ministerial Portfolios*, found that the revenue sharing arrangements between the Trust and Tennis Australia would lead to a substantial increase, over time, in the amount received by Tennis Australia. In response, the Trust stated that although there is a substantial increase in the short-term Tennis Australia would have received a similar amount over the 25 years, in present value terms, had they contracted on the basis of the revenue sharing arrangement in the initial Management Agreement. In addition, the Trust identified that the revenue sharing arrangement in the initial Agreement did not allow for indexation of thresholds and if continued into future agreements may have given Tennis Australia a disproportionate share of the Centre's profits.

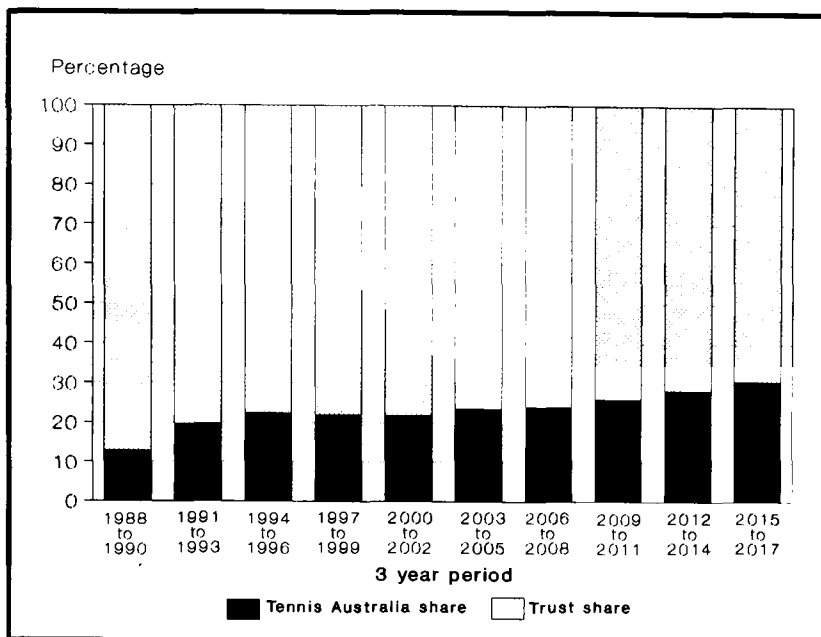
1.6.17 Audit concluded that, under the 1991 Agreement, Tennis Australia will continue to receive an increasing proportion of the Centre's net revenue.

1.6.18 As indicated in Chart 1.6A Tennis Australia's share of the net revenue of the Centre will rise from 13 per cent in the early years, to 31 per cent by the end of the 1991 Agreement.

1.6.19 The chart has been prepared on the basis of:

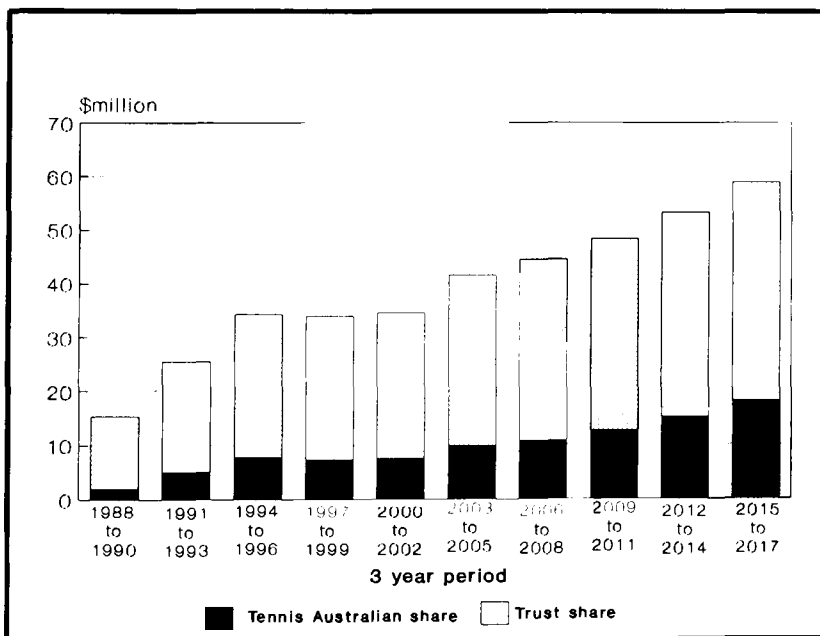
- ▶ actual results under the initial Agreement during the period 1987-88 to 1990-91;
- ▶ actual result under the 1991 Agreement in 1991-92; and
- ▶ projected results between 1992-93 and 2016-17, based on cash flow projections prepared by Tennis Australia.

CHART 1.6A. SHARE OF NET REVENUE
(percentage terms)



1.6.20 In dollar terms, Tennis Australia’s share of the net revenue will increase from \$610 000 in 1987-88 to \$6.4 million in 2016-17. In comparison, the Trust’s share will increase from \$2.2 million to \$14 million over the same period. This situation is illustrated in Chart 1.6B.

CHART 1.6B. SHARE OF NET REVENUE
(dollar terms)



1.6.21 As highlighted in the Chart, the change in the terms of the revenue sharing had a significant impact in 1991-92. Audit analysis indicated that if the initial arrangements had continued in that year, Tennis Australia would have received \$1.5 million rather than the \$2.2 million received under the revised revenue sharing arrangements.

■ *RESPONSE provided by Chairman, National Tennis Centre Trust*

Tennis Australia is contributing the Australian Open to the Centre as an asset and consequently entitled to a significant share of revenue from that source and one which increases as the Australian Open improves.

The emphasis on percentage share rather than actual dollar received is unfortunate and is an example of bias in the way facts are presented. Both Tennis Australia and the Trust will receive substantially increased amounts if projections are correct, and Tennis Australia's share will naturally increase as the majority of the projected growth is in the Australian Open (Tennis Australia's asset).

Disclosure of revenue sharing arrangements

1.6.22 The Economic and Budget Review Committee recommended in 1991 that the Annual Report of the Trust provide a clear statement of the adjusted net revenue from the Australian Open and other activities, so that the impact of the revenue sharing arrangements with Tennis Australia would be transparent.

1.6.23 In response, the Trust indicated to the Committee that it is reluctant to prepare its Annual Report in the manner recommended as both the Trust and Tennis Australia regard the profit generated by the Australian Open as commercially sensitive information.

1.6.24 It was therefore surprising to read recent media statements, attributed to Tennis Australia representatives, in relation to the expected profit from the 1993 Australian Open and the method of calculating the share of the profit to be received by Tennis Australia. Audit is of the view that such disclosures would be more appropriate within the Trust's Annual Report.

Broadcasting rights

1.6.25 Under the terms of the initial Management Agreement, Tennis Australia could not enter into any contractual arrangements for television, broadcasting, sponsorship, licensing and advertising rights directly or indirectly related to the Centre without the prior written consent of the Trust. The Agreement effectively gave Tennis Australia the power to negotiate the fees for such rights while giving the Trust the power of veto over any contractual arrangements proposed by Tennis Australia which were considered inappropriate.

1.6.26 The 1991 Agreement, contains a similar clause. However, **under this Agreement, Tennis Australia is no longer required to obtain the written consent of the Trust prior to entering into contractual arrangements in respect of these rights.**

1.6.27 The current contract in respect of Australian television rights for the Australian tennis circuit provides the Australian Television Network with exclusive broadcasting rights for 5 tennis tournaments controlled by Tennis Australia including the Australian Open, Davis Cup and Federation Cup. In return for these rights the Network pays Tennis Australia the following 4 annual fees:

- ▶ **Tournament rights fees** which are specific fees in respect of each of the 5 tennis tournaments. The amount of the fee for each tournament is separately identified in the Agreement;
- ▶ **A general rights fee** to be used by Tennis Australia to maintain the status of the 5 tournaments;
- ▶ **An administration fee**; and
- ▶ **A marketing fee** to be used by Tennis Australia to market, within Australia, tennis generally and the 5 tournaments in particular.

1.6.28 While the Agreement does not identify the amounts of the general rights fee, administration fee and marketing fee specifically attributable to each of the 5 tournaments, it is clear that a portion of each fee relates to the Australian Open.

1.6.29 Both the initial and the revised Management Agreements require Tennis Australia to ensure that all gross receipts recovered from events held at the Centre are deposited in the Trust's bank accounts and included in revenue sharing calculations. The definition of gross receipts in respect of the Australian Open includes revenue received from television and broadcasting rights. Accordingly, Tennis Australia transfers the tournament rights fee in respect of the Australian Open to the Trust each year in addition to a portion of the marketing fee. However, **it retains the other 2 fees.**

1.6.30 While this situation is not consistent with the terms of the Management Agreements, Tennis Australia maintains that the arrangement is consistent with long standing practice and with their understanding of the terms of the Agreement.

1.6.31 In view of the apparent uncertainty surrounding this matter, the position needs to be clarified within the Management Agreement.

- *RESPONSE provided by Chairman, National Tennis Centre Trust*

The reason that the written consent provision was removed was that it was impractical and inconsistent with the concept of delegated management. Tennis Australia are clearly the appropriate body to negotiate and agree to the contractual arrangements listed. In part, this is proven by the increased revenue being provided as a result of these arrangements.

The Trust has examined commercially sensitive information dealing with the television contract and is satisfied with the manner in which the funds associated with broadcasting rights are dispersed.

As an additional precaution the Trust has set in place a review of this issue in accordance with Clauses 5.7 and 5.8 of the Management Agreement. This review will include completion of an audit statement which will provide final clarification of this issue.

Monitoring of Tennis Australia by the Trust

1.6.32 The Act specifies the required composition of the Trust to include representatives nominated by the relevant Minister, Tennis Australia, the Victorian Tennis Association, Melbourne City Council, Melbourne Cricket Club Trustees and Olympic Park Committee of Management. Audit examination found the current membership of the Trust to be in accordance with the requirements of the Act.

Potential conflict of interest

1.6.33 The relationship between the Trust and Tennis Australia is unusual in the context of the Victorian public sector. While the Trust is ultimately responsible to the Parliament for the administration, financial management and care of the Centre, it is required by legislation to engage Tennis Australia, **one of the major users of the Centre**, to undertake this management function. In addition, the Trust has no employees to assist in monitoring the performance of Tennis Australia. **The Secretary to the Trust is an employee of Tennis Australia** and the majority of information provided to the Trust for decision-making purposes is either prepared or provided by Tennis Australia.

1.6.34 The Centre's original Business Plan prepared in 1987 identified a number of potential problems which could eventuate from this management arrangement. The potential conflicts of interest highlighted in the Plan continue to exist as a result of:

- ▶ the dual role of Tennis Australia in promoting tennis and undertaking the management of the Centre; and
- ▶ Tennis Australia preparing operational budgets and related financial information in addition to incurring certain costs.

1.6.35 **The ongoing potential for Tennis Australia to be placed in conflict of interest situations due to its dual role as Centre manager and Australia's major tennis promotional organisation was clearly illustrated in its November 1992 decision to stage a Davis Cup tie against the United States of America at the Kooyong Lawn Tennis Club in late March 1993 rather than at the Centre.** Audit was advised that the decision to hold the tie at Kooyong, on a grass surface, was aimed at providing Australia with a better opportunity of success.

1.6.36 This decision was in accordance with the current Management Agreement, which requires only the final of the Davis Cup to be played at the Centre. It will, however, result in a loss of revenue to the Centre.

- *RESPONSE provided by Chairman, National Tennis Centre Trust*

Conflict of interest occurs in all fields of corporate life and there are adequate safeguards to protect this. It is not uncommon in the venue management field where promoters are involved in the management of the Brisbane, Sydney and Perth Entertainment Centres.

However, unlike all of these the Tennis Australia Annual Report and Audited Financial Statements are publicly available.

Monitoring procedures

1.6.37 The Trust utilises a range of instruments to monitor the performance of the Centre and has established a sound reporting relationship with Tennis Australia. However, audit considers that the effectiveness of the Trust in providing an independent overview of the Centre's activities needs to be further strengthened.

1.6.38 In this regard, the Trust **should periodically exercise its power under the Management Agreement to initiate an independent examination of Tennis Australia's financial records.** It also needs to establish a set of pre-determined financial and non-financial targets against which to monitor Tennis Australia's performance. It was pleasing to find that the Trust included the development of specific performance objectives for each functional area of Centre operations in the April 1992 brief for the development of a new Business Plan for the Centre.

1.6.39 The Act provides for Trust members to be appointed for a period of up to 3 years with the option for re-appointment at the end of that time. Audit found that as many of the original Trust members appointed in 1985 had been re-appointed in accordance with these provisions, there has been little change in the composition of the Trust since its inception.

1.6.40 A consultant appointed by the Trust to conduct a review of the management organisation of the Centre reported to the Trust in September 1989 that, inter alia, the Trust should consider appointing additional individuals with broad business experience in entertainment as Trustees to assist determination of policy and evaluation of performance. Although, the Government did not implement this recommendation, such an appointment would further assist the Trust in its key role of overseeing the Centre's operations.

■ *RESPONSE provided by Chairman, National Tennis Centre Trust*

The Trust directly, and as well as via its Management Advisory and Finance Sub-Committees, does provide an adequate monitoring service over Tennis Australia. Monthly financial and statistical data is presented against pre-determined budgets and significant variations are explained. This level of monitoring is greater than that required under the Management Agreement. Additional targets (performance indicators) have been prepared as a part of the Trust's revised approach to business planning.

Section 1.7

Centre Maintenance

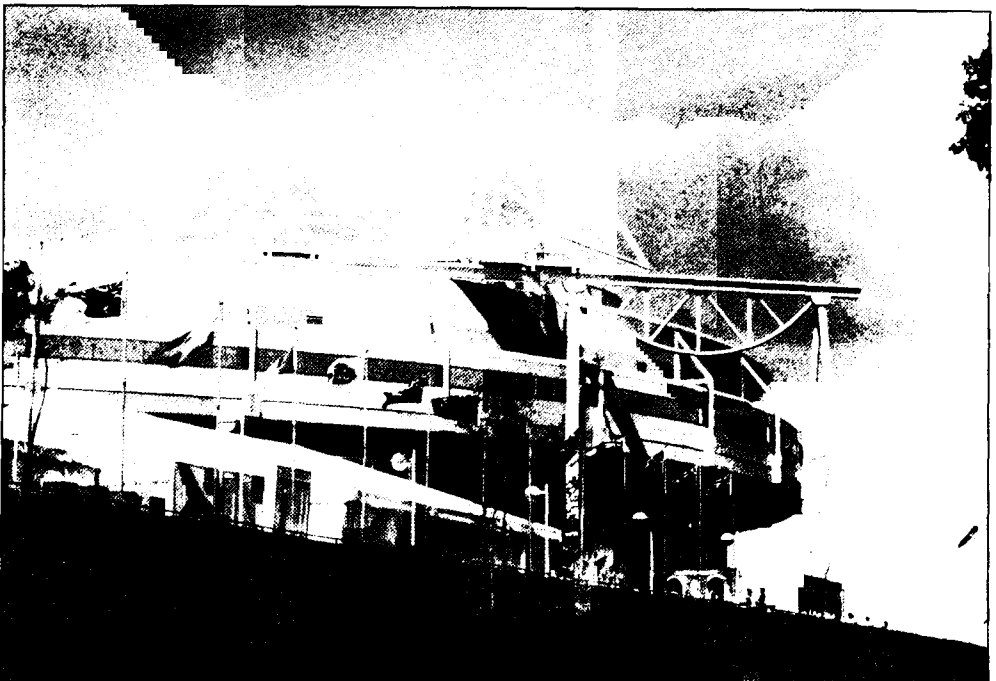
MAINTENANCE COSTS

1.7.1 Construction of the Centre began in March 1986 and was completed by December 1987 in time to stage the 1988 Australian Open. Due to the short period available for its completion, the design and construction of the Centre was fast-tracked.

1.7.2 Documentation prepared by Tennis Australia indicates that preventative maintenance was not included as a criterion in the original brief given to the Centre's architects. In addition, an exceedingly tight initial budget was set for the construction of the Centre. A series of cuts in the quality of materials made to minimise costs, together with the fast-track construction method adopted, heightened the risk of less than satisfactory construction and finish.

1.7.3 The maintenance of the Centre has also been made more complex by its design and nature of operation, in particular:

- ▶ the retractable roof over centre court requires significant maintenance work to ensure that it is in proper working order for the limited time it is in use during the Australian Open and other events;



Retractable roof over centre court.

- ▶ the Centre's multi-purpose nature requires it to be used frequently and for many varied events. The setting-up for such events often involves heavy equipment, movement and replacement of temporary seating, installation and dismantling of staging equipment and the installation and removal of materials such as earth and ice;

- ▶ there is often a limited changeover period available between different events necessitating concentrated periods of high activity in order to ensure that down time is minimised and the Centre's availability for events is maximised; and
- ▶ the frequency of events at the Centre and the high level of patronage of these events by the public imposes significant wear and tear on the Centre's facilities especially the seating.



Setting-up centre court for live entertainment.

1.7.4 Due to the nature of the original design and the method of its construction, **the Trust has estimated that it will be required to incur significant future expenditure to maintain the Centre in optimum condition.** Additional costs incurred to date include:

- ▶ The circular foyer to the Centre was remodelled at a cost of approximately \$2 million to rectify design deficiencies;
- ▶ The Centre's car park entrance has dropped a number of centimetres due to ground subsidence. This problem was recognised while the Centre was still under warranty and subsequent negotiations between the Trust and the company responsible for project management during the construction of the Centre have resulted in an agreement whereby both parties bear half the cost of the rectification works (approximately \$70 000 each);

- ▶ The retractable roof over centre court has suffered from rust and is being repainted at an approximate cost of \$120 000;
- ▶ Tiles in various parts of the Centre have required replacement at an estimated cost of well in excess of \$400 000 to date, due to on-going problems with the quality of materials and workmanship during the construction of the Centre; and
- ▶ Problems have arisen throughout the Centre due to the installation of poor quality doors during construction of the Centre. According to internal documentation this problem may ultimately require a level of expenditure in excess of the amount which would have been incurred if quality materials had been selected and installed in the construction of the Centre.

1.7.5 The Government may be required, under existing arrangements with the Trust, to fund part or all of future expenditure of a capital nature or associated with major maintenance works.

PREVENTATIVE MAINTENANCE PROGRAM

1.7.6 The design characteristics of the Centre combined with the fact that the Centre is required to be available for use on a year-round basis, mean that careful scheduling is necessary for major rectification, maintenance or replacement works.

1.7.7 A report on the future maintenance costs of the Centre was commissioned by Tennis Australia in October 1988 to provide well founded data on the short and long-term maintenance. The report disclosed that the Centre's "... *service requirements are high, its intensity of service demand is highly variable and available information on its construction had not been well oriented towards maintenance strategy considerations*".

1.7.8 The Centre has recently developed an improved computerised preventative maintenance program which records all work performed on components of plant and equipment at the Centre. This information is used to identify and plan for maintenance or rehabilitation requirements.

1.7.9 **Audit is of the view that appropriate action has been taken to put in place a comprehensive preventative maintenance program for the Centre.**

- *RESPONSE provided by Chairman, National Tennis Centre Trust*
The Trust agrees with the findings.

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*

Page 87

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**

Page 101

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*

Page 101

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

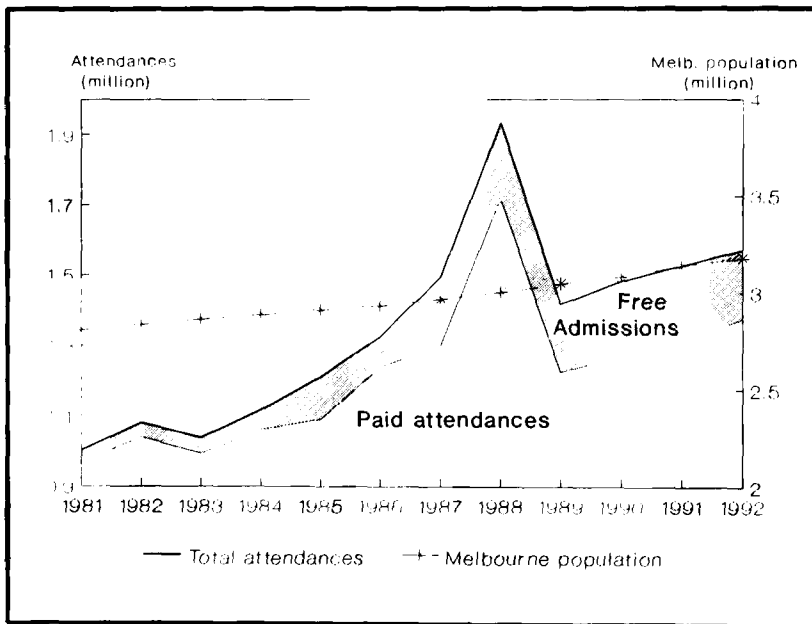
General attendances

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.*

