

MAHARA GALLERY OPERATIONAL FUNDING – INTERNAL REVIEW

At the Strategy and Operations Committee meeting on 22 September 2022 the Committee resolved [to]:

Instruct[s] the Chief Executive to start an internal review in relation to the Mahara Gallery project cost shortfall. That the review be brought back to the new Council.

This summary has been collated by the Council Finance and Place and Space Groups in line with this resolution.

Context

The Mahara Gallery is a District-wide facility located in Mahara Place Waikanae. It opened in 1996 and is operated by the Mahara Gallery Trust. The Gallery was established in the original Waikanae library building.

In around 2010 the Trust identified a need to upgrade the Gallery to better accommodate collections and exhibitions in a way that was commensurate with the aspirations and needs of Kāpiti residents. The Trust drove this initiative for more than a decade, and it is anticipated that the new \$6.5m gallery will be opened in the middle of 2023.

The new gallery is a step change in the quality of asset and in the level of service to the community. While it exists within the same footprint of the previous library, the design almost trebles the existing exhibition space.

Operating costs shortfall

The Gallery's operating costs are currently met almost exclusively through a Council grant that has been adjusted across the years and currently sits at around \$219,000 per annum.

Financial Year	2009/10 Actuals	2010/11 Actuals	2011/12 Actuals	2012/13 Actuals	2013/14 Actuals	2014/15 Actuals	2015/16 Actuals	2016/17 Actuals	2017/18 Actuals	2018/19 Actuals	2019/20 Actuals	2020/21 Actuals	2021/22 Actuals
Grants	125,000	126,000	132,446	163,272	163,214	166,967	181,635	184,328	203,932	206,855	211,754	211,867	218,647

The budget for 2022/23 is \$223,239 and for 2023/24 it is \$339,591.

The new gallery is an upgraded facility that requires more staff effort, energy, security, insurance, depreciation and other operating costs. The required increase in operating costs was identified at a high level in a report to the Environment and Community Development Committee in September 2010. The Trust estimates the new operating cost to be around \$704,000, but with \$60,000 funded through sponsorship and other non-Council revenue. There is some uncertainty around the exact nature and costs of the gallery's operation, and officers consider that the shortfall in budget that is likely to be between \$325 and \$400k. This equates to around 0.5% increase in rates.

Ideally the requirement would have been identified and resolved through the 2021-4 Long Term Plan, which is where tradeoff and funding decisions around service levels take place. However this did not occur, and there is no obvious reason for the

omission. At the time the focus was on the construction of the new asset and the omission of operating costs increases appears to have been an oversight.

On 15th February 2022 the Trust wrote to the Council identifying the shortfall and seeking to discuss how this might be addressed.

Better Off Funding

On 4th April 2022 the Government called for proposals for the Better Off Funding allocated as part of the Three Waters Reform program. Officers identified that the Better Off Funding was available to fund operating costs, and might be deployed to help cover the increased costs of Mahara Gallery.

Officers prepared advice to this effect and recommended that the Strategy and Operations Committee approve Mahara Gallery Operational Funding for three years, a total of \$1.2m of the \$5.2m available to KCDC.

The Committee did not accept the recommendation and resolved to provide the Gallery with one year of funding \$400,000.

Current Status

The new Gallery is currently funded to the increased service level from 1 July 2023 – 30 June 2024. Beyond that, funding will be subject to the 2024 LTP.

This presents a difficulty for the Trust in recruiting staff and other contractual commitments.

If no substantial funding is available from 1 July 2024 the Trust will need to reduce the level of service provided. In practice this means a new facility will not be able to deliver on its potential.

Officers are currently engaged with the Trust to work through potential courses of action.

Key findings

Operating costs were not identified through the LTP. Where a new asset is constructed or vested, the new service level and additional operating costs must be considered and presented to decision makers at the same time as the capital cost. This should be built into business cases and presented to decision makers as the total expenditure of any capital investment.

The Long Term Plan is the appropriate process for total expenditure decisions to be made, and officers must ensure that key issues are highlighted during that process.

Elected members were not aware of the operating impact of the new Gallery. Where there are emerging issues that may be high profile, officers should ensure these are communicated to Councillors as early as possible.

The next tranche of the Better Off Funding will need to be cognisant of these findings.

Recommendations

- That the LTP business case template includes opex implications of any capital investment.
- That emerging issues be shared with Elected Members as early as possible via the briefing/meeting forward programme that is already established.