toronto ZOO

STAFF REPORT

To: Board of Management

From: Paul K. Whittam
Director – Finance & Computer Services

Subject: **COMPASS GROUP CANADA LTD. – CONTRACT AMENDMENTS**

Date: 2019-10-10

SUMMARY:

This report recommends amendments to the contract with Compass Group Canada Ltd. for food services operations at the Toronto Zoo based on negotiations and a review of the relationship in the first five (5) years of the current Agreement.

RECOMMENDATION:

It is recommended that the Board approve amendments to the current Agreement with Compass Group Canada Ltd., including:

1. **Extension of the Agreement for a period of 5 years from the current end date of March 31, 2025;**

2. **A contribution of $3.0 million to the Toronto Zoo Wildlife Conservancy from Compass, payable in two (2) instalments of $1.5 million on November 30, 2019 and October 31, 2020 respectively, replacing a 2020 capital payment of $0.5 million and minimum annual margin guarantee moving forward;**

BACKGROUND:

The current Food Services Management Agreement was awarded to Compass Group Canada Ltd. by the Board of Management on 2014-11-27. For further details, follow the link below.

http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.ZB36.3

The term of the current Agreement is for a ten year period expiring on 2025-03-31. The Agreement includes a provision for extension by the Board for an additional five year period subject to mutual agreement by the parties.

COMMENTS:

Compass has successfully managed the food services operations for the Board since 2001 and we have been satisfied with the level of service, customer satisfaction and food quality provided by Compass over the years.

The rationale for initiating discussions to amend the Agreement at this time relates primarily to the impact of the margin guarantee requirement negotiated by the Zoo team in 2014. Although very favourable for the Zoo, the terms result in managing the business based on meeting a specific margin target as opposed to balancing this priority while also focusing on the mutual objectives of growing the business through quality product offerings and excellence in customer service. The minimum margin guarantee has resulted in an annual payment from Compass to the Toronto Zoo in each year of the current Agreement.

In order to accommodate a scenario of eliminating the margin guarantee for the remainder of the current Agreement, the parties reached consensus on a $3.0 million contribution to the Toronto Zoo Wildlife Conservancy from Compass. The contribution would be restricted for the purposes of making technical infrastructure and facilities improvements throughout the Zoo site, including the new front entrance project approved by the Board. To make this financially viable for Compass, it is necessary to exercise the extension provision in clause 4.2 of the current Agreement at this time. This will extend the current Agreement by a further five (5) years, if approved. All other terms of the current Agreement (2015) shall remain unchanged in the amendment.

In assessing the proposed amendments, an analysis completed by the Financial Services team indicates a differential in the present value of the contribution scenario versus the scenario of continuing with the margin guarantee in the range of $0.730 million in favour of the contribution scenario.

From a qualitative perspective, the amendment would ensure stability and consistency in the food services operation for the Toronto Zoo that spans a period of time that would include the 50th Anniversary of the Toronto Zoo and the redevelopment the front entrance / conservation campus.

Paul K. Whittam
Director – Finance & Computer Services