

STATEMENT OF PROPOSAL

**To establish a new council-controlled trading organisation
to manage the merged operations of the St James Theatre
Charitable Trust and the Wellington Convention Centre**

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1. Introduction

Wellington City Council (**Council**) proposes to merge the operations of the venues that are currently managed by the St James Theatre Charitable Trust and the Wellington Convention Centre. The preferred option for this merger is to manage all the venues under one entity, a Council Controlled Trading Organisation (**CCTO**)¹.

Section 56 of the Local Government Act (**LGA 2002**) requires that a proposal by Council to establish or become a shareholder in a CCTO must be adopted in accordance with a special consultative procedure. This Statement of Proposal, prepared in accordance with LGA 2002 requirements, includes the following information:

- the background to the proposal
- an analysis of the reasonably practicable options available (including the proposal)
- the reasons for the proposal
- costs and benefits / community outcomes

The Council wants to hear the views of the community before making a final decision on the proposal.

2. Background to the proposal

Wellington City Council has an interest in a number of venues which provide spaces for the various cultural and conferencing activities within the city. They include:

- The St James Theatre and the Opera House, which are currently owned and managed by the St James Theatre Charitable Trust (**Trust**), an existing CCTO and its wholly owned subsidiary, St James Theatre Limited (**SJT Ltd**).
- The Wellington Town Hall, and Michael Fowler Centre, which are owned and managed by the Wellington Convention Centre, a Business Unit of Council (**Convention Centre**),
- The TSB Bank Arena and Shed 6 managed under contract by the Convention Centre on behalf of Wellington Waterfront Limited.

As part of the overall vision of positioning Wellington as a vibrant, internationally competitive, and affordable city, the Council is reviewing its strategic direction with regard to cultural and arts positioning, event programming, and the tourism and incentives business it is able to attract.

¹ The Local Government Act 2002 definition of a council-controlled trading organisation is attached as Appendix 1a.

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This has raised the issue of whether the above venues² (**the Venues**) should be managed collectively, and whether there are ways to improve the effectiveness of venue management while retaining Council's desired social and cultural outcomes.

The 2009/19 Long-Term Council Community Plan (**LTCCP**) noted that during the 2009/10 year, Council officers would undertake a review of the Wellington City Venues. The Council appointed the Francis Group to undertake the review, and to look at the synergies between the Venues that could benefit from merged management, and then assess the best governance and management option to take these Venues forward in line with the overall cultural and economic strategies of the Council.

The Francis Group report recommended that:

- there is a strong case for establishing a single management structure for the Venues, and
- the combined management could be achieved by either:
 - bringing all Venues under the existing in-house unit, the Convention Centre, or
 - the establishment of a new CCTO for the management of the Venues.

The report made a strong recommendation that a single CCTO be established to manage the Venues subject to further consideration being given to the legal, financial and tax implications which the Council has now addressed.

In determining the proposed governance and management structure, consideration has been given to a number of key requirements. These are as follows:

- alignment with Council's desired strategic outcomes;
- robust accountability framework;
- preservation of heritage buildings;
- continued high levels of community access;
- greater effectiveness of service delivery;
- savings through operational efficiencies;
- increased utilisation leading to revenue opportunities.

3. The Proposal

The Council proposes that a new CCTO is established to take over the future management of the St James Theatre, the Opera House, the Wellington Town Hall, the Michael Fowler Centre, the TSB Bank Arena and Shed 6 (the Venues).

² St James Theatre, Opera House, Wellington Town Hall, Michael Fowler Centre, TSB Bank Arena and Shed 6.

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The proposed CCTO will be a company that is 100% owned by the Council, and the Council will appoint all the directors to the board of the company.

To provide a robust governance and accountability framework, the proposed CCTO and Council will be required to comply with the requirements set out at part 5 of the LGA 2002, which include:

- The appointment of directors who have the necessary skills, knowledge and experience to guide the company and contribute to the achievement of its objectives;
- All decisions of the company must be made by the company's board of directors in accordance with its constitution and a statement of intent approved by the Council;
- The board of directors must prepare, adopt and adhere to an annual statement of intent that is approved by the Council;
- The Council will be required to regularly undertake performance monitoring of the company;
- The company must provide annual and half yearly reports to the Council;
- The Auditor General will be the auditor of the company.

The CCTO will report to the Council Controlled Organisations Performance Subcommittee (CCOPS), which in turn reports to the Council's Strategy and Policy Committee. The Subcommittee's principal function is to monitor the financial performance and delivery on strategic outcomes of Council organisations, including CCTOs. The full terms of reference for the Subcommittee are attached at Appendix 1b.

The implementation of the proposal will require all of the following actions to occur:

- Ownership of the St James Theatre and the Opera House will be transferred from the Trust to Council;
- With the approval of its directors, St James Theatre Limited will be wound up;
- With the approval of its trustees, the St James Theatre Charitable Trust will be wound up;
- The Council will establish and appoint the new CCTO as the manager of the St James Theatre, the Opera House, Wellington Town Hall, and the Michael Fowler Centre;
- A management contract will be agreed between the Council and the new CCTO to reflect the respective responsibilities of each with regard to the management of the Venues and the maintenance of the associated assets;
- The existing management contract between Wellington Waterfront Limited and the Convention Centre to manage TSB Bank Arena and Shed 6 will be assigned to the new CCTO.

If the proposal is approved, a transition working group will be appointed to oversee the disestablishment of the existing entities (the Trust and the Convention Centre) and to manage the transition of their respective operations into the new CCTO.

4. Reasons for the proposal

The Francis Group report on the Council owned venues made some initial recommendations on the optimal governance structure for the Venues. The Council has now confirmed the rationale of the proposed merger and also clarified a number of issues relating to the practical implementation of the proposal.

The Council has concluded that there is a strong argument for a single management structure. Benefits gained include synergies across the Venues, some economies of scale, and a more consistent marketing approach to enhance the city's economic development and cultural life. There would be a reduction in harmful clashes or competitive situations, which can result in business being lost to the city. There would also be an opportunity for more integrated relationship building with agencies and organisations connected with Wellington's economic development, visitor attraction and cultural life. These benefits have been realised in other cities, when a single management structure has been put in place.

Since the Trust was settled in 1998 it has not been able to fully fund its depreciation and neither has it established a regular funding stream from Council. Accordingly the Trust is carrying significant levels of deferred maintenance and struggles to fund its renewal maintenance programme.

Council has serious concerns over the ongoing maintenance and condition of the St James Theatre and Opera House assets. Bringing these assets back into Council will allow them to be managed more efficiently through the Council's facilities maintenance contract and at the same time allow the CCTO to focus on its core business.

The most compelling reasons for a merged structure lie in the benefits of a more effective delivery of venues management. This will be achieved through the improved co-ordination and flexibility that a single management entity will provide, leading to increased utilisation of the venue space available and a greater ability to meet the needs of hirers. The CCTO will be a single marketing point for all large Wellington venues and will have the flexibility to secure events of all sizes, ensuring that no event opportunities are lost, and creating revenue growth to reduce the amount of ratepayer subsidy.

While the two existing entities have different operating models, the broad similarities in their operations indicates that some operational efficiencies can be achieved through a merger of operations. One of the objectives of the board of the new CCTO would be to realise these operational efficiencies.

The Trust was settled in 1998, and aside from some specific Events Development Fund grants it has operated successfully since then without any operational funding assistance from the Council. However, the Trust continues to experience cash flow pressure which is affecting its ability to operate as full a programme as the Trust and the Council would wish.

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Other cities have found that implementing an integrated model of venue management creates a number of opportunities to do things differently and more efficiently.

These include:

- A collection of venues that covers both those clients who pay market rates, and those for whom subsidy or cheaper rates are required, making it easier to allocate space across venues, and also to have a mix of clients for better management of financial performance;
- The ability to take a proactive approach to risk-sharing with promoters, given a larger asset base to work with, and a stronger combined income stream, offset by a number of economies of scale through combined administration and purchasing power;
- The creation of a one-stop shop for all Council venues that are marketed under one umbrella, leading to consistent levels of customer service being delivered and which advocates for event generation on behalf of the city;
- The ability to attract high quality staff to a larger organisation with more opportunities, choosing the best available within existing structures, and recruiting specialists who can assist in driving the venues to higher performance levels; and
- The ability to provide a structure that allows for future-proofing of events provision in the city, either through better leveraging of existing assets or development of complementary ones.

It is noted that following a similar review, Christchurch City Council established a CCTO (Vbase)³ in 2008 to manage city-owned venues. This entity has become very successful as a consequence and is driving the upgrade and redevelopment of Christchurch Convention Centre and Westpac Centre as a consequence of new capacity constraints at a potential cost of \$60 million. It has just completed a new stand at AMI Stadium for RWC2011 at a cost of \$87 million.

5. Analysis of options

The options that have been considered in the development of this proposal are as follows:

1. Retain the status quo;
2. To manage the Venues under a single external entity by establishing a new CCTO with the existing Trust assets being transferred into Council;
3. Bring venue management under the existing in-house business unit, the Convention Centre, by winding up both the Trust and SJT Ltd and transferring the St James Theatre and the Opera House to Council for ongoing ownership and management.

³ Vbase is 100% owned by the Christchurch City Council and is responsible for the ownership and management of the Christchurch Convention Centre, the Christchurch Town Hall for Performing Arts, Westpac Arena and AMI Stadium.

5.1 Status quo

There are a number of reasons as to why retaining the status quo is not a preferred option. The opportunity to benefit from improved co-ordination and flexibility, and having only one marketing point is problematical in a structure involving two distinct entities. In addition, retaining the status quo would likely result in operational funding assistance being needed by the Trust in order for them to achieve Council's desired outcomes. Similarly, not merging the operations means that the opportunity to create a more cost effective operation is also lost. Also, the hierarchical structure of Council can make it difficult for a business unit structure to have the operational and strategic flexibility to react to changing circumstances.

It is noted that transferring the Trust buildings into Council, though not dependent on the final Venues governance structure is critical in giving surety over the long term viability of these heritage assets. It is unlikely that the condition of the St James Theatre and the Opera House will be maintained at icon status unless they are owned and managed by the Council. In addition, retaining the status quo will not achieve synergies with Council's facilities maintenance contract for these buildings.

While retaining the status quo would result in there being no establishment costs, and would avoid any potential cultural and operational issues arising from the merger of two distinct entities, these advantages are relatively minor when compared to the benefits mentioned above.

5.2 Manage merged operations under a new CCTO

The benefits of using a CCTO to manage the venues are the increased synergy through better co-ordination, flexibility and service would lead to greater utilisation of the Venues. Using a CCTO allows for a single marketing point and a consistent strategic approach, and has the potential for economies of scale, particularly through procurement, for example, food and beverage contracts, and back office support.

A CCTO would have the ability to attract a board with a range of skills and connections, and the commercial acumen to drive commercial disciplines within the organisation. A CCTO will be able to create more revenue opportunities than two separate entities and has the ability to access a range of fundraising alternatives.

Creating a CCTO might lead to ratepayer perceptions of a loss of control however a new entity would operate through the well recognised governance structure that a CCTO has, with its clear accountability mechanisms. It is anticipated that the proposed CCTO will generate a surplus, and so reduce the operational grant-funding from the Council over time. The new entity's status as a CCTO would make it a taxable entity however it is not anticipated that there will be any material tax liabilities.

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It is noted that other major councils have adopted the practice of using an external entity to operate their venues management - notably Vbase in Christchurch and The Edge in Auckland, and more recently Dunedin.

5.3 Manage merged operations within Council

Managing the combined Venues operation from within Council would give rise to many of the benefits resulting from a CCTO management structure, such as better synergy, potential economies of scale, a consistent strategic approach and more revenue opportunities. In addition there would be better co-ordination with Council's other in-house business units.

However, an in-house management entity does not have the ability to utilise the benefits of commercial acumen, business experience and commercial networks that come from a Board of Directors. Neither is it appropriate for such an entity to propose publicly a position on venue positioning for the city. Sponsors and private partners are less likely to enter into commercial arrangements with such an entity.

6. Costs and benefits / community outcomes

In analysing each option, Council is required to consider the costs and benefits of each option in terms of the present and future social, economic, environmental and cultural wellbeing of the region. Council must also have regard to the extent to which community outcomes described in its 2009/19 LTCCP would be promoted or achieved in an integrated and efficient manner by each option.

It is considered that establishing a CCTO to manage all the Venues will enable greater utilisation of venues and provide a better service to users, leading to a greater number and range of cultural and conferencing events being held in the City. This increased utilisation will generate larger revenue streams and economies of scale through combined administration and purchasing power resulting in lower operating costs.

The more effective and co-ordinated management of the venues will also enable the Council to at least maintain the currently high levels of community access, and also to spread them across a wider range of venues. These outcomes will support the Council's social, economic and cultural wellbeing strategies.

Retaining the status quo would also likely result in operational funding assistance being needed by the Trust in order for them to achieve Council's desired outcomes.

In addition, the proposed CCTO would contribute to a number of the desired community outcomes identified for Wellington in 2005 and 2006 and included within the current LTCCP. The principle outcomes that will be contributed to are as follows:

- Wellington will be a prime conference destination;
- Wellingtonians will experience a high quality of life;

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- Wellington city and its amenities will be accessible to all Wellingtonians;
- Wellington's communities will have ready access to multi-use indoor facilities and spaces;
- Wellington will be recognised as New Zealand's arts and cultural capital, encouraging visual and performing arts;
- Wellington will have venues that suit a range of events and reflect the needs of the city;
- Wellington will protect its heritage buildings.

7. Have Your Say

Council is requesting public feedback on this proposal prior to making a final decision in September 2010. To make a submission, read the Summary of Information and/or the Statement of Proposal and complete the submission form online in the Have Your Say / Public Input section of www.wellington.govt.nz. The deadline for feedback is **5.00pm on 7 August 2010**.

Alternatively, the Statement of Proposal, Summary of Information and submission form are available:

- at the Council Service Centre at 101 Wakefield Street
- from Council libraries
- at the Michael Fowler Centre and at the St James Theatre
- by post and email - phone the Council on (04) 499 4444 or email venuesmergerproposal@wcc.govt.nz with your request.

APPENDIX 1a

Local Government Act 2002 – Meaning of a council-controlled trading organisation

Meaning of council-controlled organisation

- (1) In this Act, unless the context otherwise requires,—
council-controlled organisation means a council organisation that is—
 - (a) a company—
 - (i) in which equity securities carrying 50% or more of the voting rights at a meeting of the shareholders of the company are—
 - (A) held by 1 or more local authorities; or
 - (B) controlled, directly or indirectly, by 1 or more local authorities; or
 - (ii) in which 1 or more local authorities have the right, directly or indirectly, to appoint 50% or more of the directors of the company; or
 - (b) an entity in respect of which 1 or more local authorities have, whether or not jointly with other local authorities or persons,—
 - (i) control, directly or indirectly, of 50% or more of the votes at any meeting of the members or controlling body of the entity; or
 - (ii) the right, directly or indirectly, to appoint 50% or more of the trustees, directors, or managers (however described) of the entity

council-controlled trading organisation means a council-controlled organisation that operates a trading undertaking for the purpose of making a profit

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Council Controlled Organisations Performance Subcommittee – terms of reference

The Subcommittee will have responsibility and authority for:

- 1.0 making recommendations to the Strategy and Policy Committee regarding the approval of business plans, strategic plans and (where applicable) statutory adoption of statements of corporate intent;
- 1.1 monitoring Council's interests in its CCTOs, CCOs and COs through the review of their quarterly reports, annual reports, business plans, strategic plans and (where applicable) statements of corporate intent;
- 1.2 bringing to the attention of the Strategy and Policy Committee any matters that it believes are of relevance to the Committee's consideration of the financial performance or the delivery of strategic outcomes of Council's CCTOs, CCOs and COs;
- 1.3 monitor the performance of members on Council's CCOs.