
REPORT 6
(1215/52/IM)

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

1. Purpose of Report

To seek Council's approval to merge the operations of the St James Theatre Charitable Trust (the Trust) and the Wellington Convention Centre (the Convention Centre), and to consult on a proposal to establish a new Council Controlled Trading Organisation (CCTO) to manage the merged entities.

2. Executive Summary

A review of a number of venues in Wellington was undertaken, with a view to establishing whether there would be benefits to be gained by grouping them together under one management structure and, if so, to determine the most appropriate structure. The review concluded that significant benefits would be obtained from merging the venue operations under a single external entity.

After working through a number of practical implementation considerations, Council officers now recommend that a new CCTO be established to manage the merged operations of the St James Theatre Charitable Trust and the Wellington Convention Centre. Section 56 of the Local Government Act 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. Accordingly a Statement of Proposal, prepared in accordance with LGA 2002 requirements, is attached as Appendix 1.

It is considered that establishing a single CCTO to manage the combined operations of all the venues will enable a one-stop shop approach for hirers, giving them a better service and 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 there will also be 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 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.

The financial impacts of the merger are estimated to be savings of \$528k a year, starting in the first full year of operation, arising largely from operational efficiencies. While increased event activity is anticipated, the savings estimated above do not include a revenue growth component as until the final operating model is determined this is difficult to forecast with any certainty, but it is expected to be positive.

The proposed merger incorporates the transfer of the built assets of the St James Theatre and the Opera House into Council which will give rise to significant opex and capex costs which haven't previously been recognised. However, these costs are to fully fund the maintenance of the two venues and need to be recognised regardless of whether or not the merger takes place.

The proposed CCTO will be accountable to Council under a Management Agreement, as well as being subject to the same monitoring regime as the other CCOs, namely reporting quarterly against an approved annual Statement of Intent to the Council Controlled Organisations Performance Subcommittee (CCOPS).

If the proposal is approved, a Transition Working Group including senior Council officers and some of the current trustees, will be set up to manage the key decisions involved in establishing the new CCTO, disestablishing the Trust and merging the venues operations while still managing business as usual. The Group would report to the Chief Executive, and it is expected that the appointments to it would be made following the Council meeting on 25 June.

3. Recommendations

Officers recommend that the Strategy and Policy Committee:

1. *Receives the information.*
2. *Note that the proposal to establish a new council-controlled trading organisation requires the Council to use the special consultative procedure as outlined in the Local Government Act 2002.*
3. *Recommend to Council that it agree, in principle, that:*
 - (a) *the operations of the St James Theatre Charitable Trust and the Wellington Convention Centre be merged into a single entity;*

- (b) a new council-controlled trading organisation be established to manage the combined operations of the St James Theatre Charitable Trust and the Wellington Convention Centre;*
 - (c) ownership of the built assets of the St James Theatre and the Opera House be transferred to the Council who will take responsibility for their management; and,*
 - (d) the St James Theatre Charitable Trust is wound up.*
- 4. Recommend to Council that it:*
- (a) agree to the Statement of Proposal (attached as Appendix 1), which recommends that a new council-controlled trading organisation be established to manage the combined operations of the St James Theatre Charitable Trust and the Wellington Convention Centre, and agrees to commence the special consultative procedure.*
- 5. Note that, if the Statement of Proposal is approved for consultation:*
- (a) it will be publicly notified on 6 July and submissions will close on 7 August; and,*
 - (b) oral submissions will be heard on 19 August; and,*
 - (c) Council officers will report back to the Strategy and Policy Committee on 9 September with the results of public consultation.*
- 6. Note that if the Statement of Proposal is approved by Council for consultation that a Transition Working Group will be established to manage the initial transition preparations, subject to final Council approval on 29 September.*
- 7. Note that if the proposal to establish a council-controlled trading organisation is approved by Council on 29 September, officers will seek new initiative capex funding for the St James Theatre and the Opera House built assets in the 2011/12 Draft Annual Plan to fund the deferred maintenance and ongoing renewals.*

4. Background

The key providers of Council's cultural and conferencing activities in Wellington are the St James Theatre Charitable Trust and the Convention Centre. The Trust is a CCTO that owns and manages the St James Theatre and the Opera House while the Convention Centre is a business unit of Council that owns and manages the Wellington Town Hall and Michael Fowler Centre, and manages the TSB Bank Arena and Shed 6 through a management contract with Wellington Waterfront Limited.

The question has arisen as to whether some or all of the venues should be managed collectively, and whether there are ways in which a more satisfactory return could be generated, either commercially, or in terms of the wider economic development objectives of the city.

Council commissioned a review to identify where there are synergies between venues that would be best served by merged management, and then to 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 undertook the review and recommended that the venue operations be merged, and that the preferred form of this merger would be a CCTO. Officers have worked through the legal, tax and financial implications of the recommendations and assessed the alternatives and propose that a new CCTO be established to manage the combined operations of the Trust and the Convention Centre.

The Local Government Act 2002 states that a Council must undertake a special consultative procedure before it can establish a new CCTO. A Statement of Proposal is attached as Appendix 1 to this report.

5. Discussion

It is recommended that Council should establish a new CCTO 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 benefits of using a CCTO to manage the venues are the increased synergy through better co-ordination, flexibility and service that 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, experience 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.

5.1 Financial Considerations

5.1.1 Operational impacts

The proposed merger of the two entities will result in a more effective delivery of venues management, leading to greater utilisation and revenue growth. The benefit of a more commercial focus and operational efficiencies arising from the merger, including savings from personnel, IT and insurance are estimated to be \$528k, in the first full year of operation. This represents savings of \$4.75 million over a ten year period.

There will be some transitional costs incurred in the initial year however officers expect these to be offset by the operational savings being realised.

Officers note that no revenue growth component has been included in the merged entity forecasts. Anticipated revenue growth is supported by a more effective service delivery and increased utilisation that will result directly from the merged operations. However it is difficult to forecast these increases until the final operating model for the new CCTO has been established.

5.1.2 Tax issues

Officers have worked through the issues around potential tax liabilities arising from the transfer of the Trust assets into Council and have received advice advising that there will be little, or more likely, no tax arising from the transfer.

In addition, officers note that the proposed CCTO structure creates an entity that is liable for income tax on its surpluses. The new CCTO would be expected to reduce its reliance on Council with respect to the operational grant funding anticipated in the early years of the CCTO's operations. Officers expect tax liabilities to be minimal in the future.

5.1.3 Impacts of Council taking ownership of Trust assets

The proposed transfer of the Trust assets into Council, for their ongoing ownership and management has significant financial impacts, both in terms of opex and capex. Some of these costs have only recently come to light following the development of an asset management plan (AMP) for the Trust, and also subsequent investigations by officers as part of the proposed merger.

The Trust has not been able to fully fund the maintenance of the St James Trust and the Opera House, hence the development of an AMP and subsequent new initiative requests to Council in the 2010/11 Draft Annual Plan (DAP) for funding assistance with its capex renewals programme.

The cost of fully funding the maintenance of the St James Theatre and the Opera House needs to be recognised by Council regardless of the governance structure for the management of the venues. Accordingly, these costs are

independent of the decision-making process to determine whether or not to establish a CCTO to manage the merged venue operations.

Ownership and responsibility for the ongoing maintenance and renewals funding for the St James Theatre and Opera House, as well as the Michael Fowler Centre and Wellington Town Hall will reside within the Property Business unit in Council.

This unit will also be responsible for the ongoing maintenance and renewal obligations required within the management agreement for TSB Bank Arena.

The indicative 10 year costs for fully funding the maintenance of the St James Theatre and the Opera House are given in the table below:

	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	Total
Operational expenses \$000	-	378	473	611	531	626	658	767	768	737	5,549
Capital expenses \$000	-	925	489	199	173	238	138	20	49	73	2,305

The opex costs comprise the following components:

- depreciation costs of the St James Theatre and the Opera House,
- credit for the Council operating grants intended to fund the Trust's capital maintenance and renewals programme following its new initiative funding request received in late 2009, and approved for inclusion in the 2010/11 DAP,
- opex impacts of capex – interest and depreciation on the capex costs incurred by Council (deferred maintenance and renewals) on the Opera House and St James Theatre

The capex costs comprise the following components:

- deferred maintenance on the Opera House and St James Theatre
- ongoing renewals for the Opera House and St James Theatre

Officers note that should the Proposal be approved, officers will put forward a new initiative as part of the 2011/12 DAP seeking to include the capital funding requirements outlined above, from 2011/12 onwards.

5.1.4 Shared services

Officers are continuously looking for opportunities to consolidate and rationalise costs, without adversely impacting the levels of service. This work is being extended to all CCOs and the proposed merger of the Trust and the Convention Centre represents a good opportunity to share back-office functions to deliver these services at lower cost.

5.1.5 Major Event and Community Access

Wellington Convention Centre provides significant support for Community Events. These funds have enabled over 70 community events annually to access venues at discounted rates. It has funding provided to facilitate this activity through:

C101A - \$200,000 – Community Access Fund
C130A – \$45,000– Venue Grants

It is proposed that, should this request to establish a new CCTO be approved, officers will roll up C101A into C130A - Venue Grants. This will provide a grant fund of \$245,000 per annum that is available for community groups to access by way of a modified grant application process, through the Grants Unit.

In addition officers will write clauses into the Management Contract with the CCTO, that will provide for up to \$250,000 of venue hire value to Community Groups, to be reported quarterly to Council via CCOPS. This combined pool will enable adequate access for Community based activity to access all venues within the CCTO.

Council also supports a wide range of Iconic event activity across the six venues. Officers intend within the Management Agreement to document the level of support required to deliver these activities to current standards and event contracts. These support services will be reviewed annually.

5.1.6 Summary of opex impacts

From the above forecasts, it can be seen that the proposed merger would lead to operational savings of \$4.752 million over ten years (\$528k a year, for nine years). Over the same period, the transfer of the built assets into Council would lead to additional operating costs of \$5.549 million. Therefore, a feature of the proposal to establish a CCTO to manage the combined venues operation is that it gives rise to significant savings that offset the impact of the recognition of the asset maintenance costs.

As noted previously, the costs of fully funding the maintenance of the built assets will be incurred regardless of whether or not the proposed merger takes place. The combined opex impact over ten years of the proposed merger under a CCTO, and the transfer of assets is an additional \$797k cost to Council, excluding revenue growth not yet forecast. Assuming no increase in the cost of sales, revenue would only need to increase by \$77k (or 0.74%) a year for the net operating impact to be zero over ten years.

5.2 Consideration of Risks

A number of risks have already been identified and subsequently eliminated, for example, the incurrence of tax on the proposed transfer of the Trust assets into the Council. Further risks have been identified, and it is important that these risks are managed throughout the ongoing process, and particularly leading into and during any implementation programme.

Some further risks that have been identified include, but are not limited to:

- possible culture clashes arising from the merger of the two entities,
- staff disaffection leading to the loss of institutional knowledge,
- errors in some of the assumptions used in any business modelling to date, including subsequent recognition of currently unidentified costs, and
- lack of anticipated revenue growth.

5.3 Transition Working Group

If the Proposal is approved following consultation, there would be a significant amount of work involved to establish the new CCTO, and to disestablish the St James Trust and the Convention Centre business unit and merge them into the new CCTO. All this must be done at the same time as both existing organisations continuing to manage business as usual.

Accordingly, officers recommend that a small Transition Working Group be established to manage a range of business decisions to facilitate the transition, whilst leaving the existing Board in place to manage business as usual and the process of winding up the Trust.

The proposed Transition Working Group would consist chiefly of senior Council officers and members of the current Trust board. This approach has been discussed with the Chair of the Trust who has indicated his agreement.

5.4 Consultation and Engagement

Section 56 of the LGA 2002 requires the Council to undertake a special consultative procedure if it wishes to establish or become a shareholder in a CCTO. A special consultative procedure is also required if the Council wishes to wind up an existing CCTO, which is what is currently proposed with regard to the existing St James Trust. Accordingly this report seeks the Council's approval to publicly consult on the Statement of Proposal, attached as Appendix 1.

Clearly the proposed merger will have implications for the staff of both the Convention Centre and the St James Trust. If the proposal is approved for public consultation, there would also be a consultation process with all staff members directly affected by the proposal.

Further to the above, a summary of the key recommendations of the Francis Group report was forwarded to all staff in March. A subsequent staff update has recently been distributed, outlining the key elements of the Statement of Proposal and noting the timelines around consultation.

Further staff advice is planned in June, once the Strategy and Policy Committee has considered the Statement of Proposal.

In order to obtain feedback from other stakeholders, consultation meetings will be undertaken with key hirers of the current venues including the NZSO, Vector Wellington Orchestra, Chamber Music New Zealand, the Orpheus Choir, NZ Ballet and Opera New Zealand, Positively Wellington Tourism and the NZ Hotel Council, Wellington Branch.

5.5 Climate Change Impacts and Considerations

The Wellington Convention Centre currently has an existing AMP which identifies any significant effects that its activities may have on the environment, and ways of managing them.

In the Trust's 2010/11 Statement of Intent it has outlined its approach to matters such as climate change, the Council's obligations under the Waste Minimisation Act, and the likely passing of the Emissions Trading Scheme legislation in the near future.

It is not anticipated that the proposed merger will have a significant impact on any climate change practices that either venue currently employs.

5.6 Long-Term Council Community Plan Considerations

The opex and capex impacts of the proposed merger are not expected to impact the 2010/11 DAP. However from 2011/12 onwards it is expected that the combined effects of the operational savings arising from the merger, and the impacts of the transfer of the built assets (the costs of which need to be recognised regardless of the final governance model) would impact the current LTCCP figures, as outlined in sections 5.1.1 and 5.1.3 above.

If the Statement of Proposal is approved by the Council, officers recommend that the outyears of the LTCCP be updated through the 2011/12 DAP and 2012/22 LTCCP processes.

5.7 Timeline

If Council agrees to the Statement of Proposal and initiates the special consultative procedure, the indicative timeline for this process is as follows:

Action	Timeline
Statement of Proposal to Council's Strategy and Policy Committee (SPC) seeking a recommendation to Council to consult	2 June
Council decision	25 June
Public consultation	6 July to 7 August
Oral submissions	19 August
Report back to SPC post-consultation	9 September
Council decision	29 September
Implementation of decision by:	1 January 2011

6. Conclusion

Following a review of Council venues, officers have concluded that the operations of the St James Theatre Charitable Trust and the Wellington Convention Centre should be merged together into a new CCTO. Officers recommend that this new CCTO should manage the venue operations only, while the existing Trust built assets and the Convention Centre assets be owned and managed within the Council.

The report recommends that the Council approves the proposed merger of the Convention Centre and the Trust and that it undertakes the necessary special consultative procedure required for the formation and winding up of a CCTO.

Contact Officer: *Neville Brown, Director, City Services*

Supporting Information

1) Strategic Fit / Strategic Outcome

The proposal supports the Council's overall vision of Creative Wellington – Innovation Capital, and specifically its position as the Arts and Cultural Capital of New Zealand.

2) LTCCP/Annual Plan reference and long term financial impact

Refer to appropriate section of report.

3) Treaty of Waitangi considerations

This report raises no new treaty considerations.

4) Decision-Making

This is not a significant decision.

5) Consultation

a) General Consultation

Section 56 LGA02 requires the Council to undertake a special consultative procedure (SCP) if it wishes to establish or become a shareholder in a CCO or a CCTO. A SCP is also required if the Council wishes to wind up an existing CCO or CCTO, which is what is currently proposed with regard to the existing St James Trust.

b) Consultation with Maori

See section 3, above.

6) Legal Implications

Council's lawyers have been consulted during the development of this report.

7) Consistency with existing policy

This report is consistent with existing WCC policy.