
REPORT 10
(1215/52/IM)

CARTER OBSERVATORY REDEVELOPMENT

1. Purpose of Report

This report considers the business case that has been received from the Carter Observatory. The report seeks approval from the Council for the redevelopment proposal, and for the Council's contribution. Note that the business case has been separately circulated.

2. Executive Summary

Carter National Observatory (Carter) proposes to undertake a significant redevelopment.

The Government has signalled for some time its desire to remove Carter from its statutory position as a Crown entity, where it has operated since its inception under the Carter Observatory Act 1938.

Over the last twelve months Carter has developed a business case which would redevelop the observatory into a new attraction for Wellington that will include:

- A larger planetarium with new technology, that will accommodate 50 – 70 people
- A mobile service taking a planetarium to schools in the lower North Island
- A refurbished building with high quality exhibition spaces that provides a totally new visitor experience.

Carter will take a leading role in telling the stories of Maori and Polynesian astronomical history. This will be integrated into the new visitor experience alongside the story of the universe, space and the search for life.

The Crown has set aside funding for this project however this is contingent on Council financial support and the repeal of the legislation.

Carter has requested Council provide the funding of \$300,000 per annum made up of;

1. Maintaining the current operating grant at \$150,000; *plus*.¹
2. Providing an additional operating grant of \$150,000 for ten years to enable it to obtain and repay a bank loan of \$1,000,000 to partially fund the project.

¹ The current (2006/07) operating grant is made up of a \$64,000 ongoing grant and a \$86,000 one off grant.

Partner funding from the Crown and from the Council is being requested. The Council's contribution is \$3.0 million over ten years. From a Net Present Value perspective, the Council's contribution will equate to approximately \$2.2 million in today's dollars.

This opportunity leverages the Crown funding which is accessible only at this point. Officers have assessed the proposal, and found it to be reasonably conservative and realistic. The resulting second tier visitor attraction is a good outcome at a relatively low cost which will be developed quickly. It is proposed that with this funding the new facility will open for Matariki in July 2007.

Carter would be an anchor attraction in the Cable Car precinct. It builds on the work completed such as the Cable Car museum extension, the Cable Car terminal; and importantly is a core element of the planned precinct development.

Officers have worked closely with Carter in assessing and understanding the proposal, and believe the resulting attraction will achieve the outcomes in the business case. It is therefore recommended that the Carter Observatory funding request be approved.

3. Recommendations

It is recommended that the Committee:

1. *Receive the information.*
2. *Agree to recommend to Council that it include funding to Carter of \$300,000 per annum in the Annual Plan for 10 years from 2007/08 subject to the following conditions being met:*
 - *The Crown provides \$1,500,000 of capital funding to Carter*
 - *The Crown provides an acceptable quantum of operating funding to Carter in the 2007/08 year*
 - *The new governance structure is acceptable to the Council*
 - *Carter is included in the quarterly monitoring regime by the Council's CCO Performance Subcommittee.*
3. *Note that Council officers will report back on the proposed governance structure for Carter and implications for the Council.*

4. Background

4.1 The Crown Position

Carter was established by and operates under the Carter Observatory Act 1938 (the Act). It has been funded under this Act however Carter's statutory position has been a point of debate for some time. As an independent observatory not attached to an academic or science institution it has struggled to carry out the function of a "national observatory" and it certainly has not been funded by the Crown to provide services that might be expected of an observatory with that status. In recent years the Crown has provided an operating grant of \$271k per annum, through the Ministry of Research, Science and Technology (MoRST).

The Crown wishes to repeal its empowering legislation, cease its normal operating funding as a statutory body, and allow Carter to establish its own purpose and function separate from the Crown. Under this arrangement Carter can still seek funding from the Crown through contestable funding processes, such as from the Ministry of Education.

The Crown has set aside \$1,500,000 capital for the redevelopment, and MORST is requesting from Cabinet a further one-off operating grant to support the redevelopment which at the time of writing was the subject of negotiation between Carter, the Crown and Council. Crown funding is conditional on Council support and, subject to a Cabinet decision, would be available in the first quarter of 2007 to commence the redevelopment. Officers will provide a verbal update to the committee regarding the request to Cabinet, which at this stage is still in negotiation.

4.2 The Council Position

The Council was a party to establishing Carter under the Act, transferring land and equipment to Carter and more recently shifting the planetarium to Carter from its city location. The freehold title to the land is held by Carter “in trust”, and if Carter ceased functioning, the Crown Law opinion is that the ownership of the land would revert to the Council. The Council will need to ensure these rights are safeguarded in any structural change.

The Council has provided an annual grant of \$64,000 for several years, which has been increased by \$86,000 to a total of \$150,000 per year for the last four years.

If Carter were to close, and under the assumption that the building reverted to Council ownership, it is likely that the cost to Council would be significant as it is a heritage building in the Botanic gardens that would require renovation for any other use. This could be equivalent to or exceed the cost of the funding requested in the Carter business case. In addition to ownership risks, the Council would have the ongoing operating costs associated with the building, while losing an observatory.

In its current form Carter attracts a relatively low number of paying visitors - 15,000 per annum. The majority of these are international and national visitors and there is potential to increase its market penetration in this area. The business case proposes that visitor admissions increase to 40,000 – 50,000 over a 5 year period. This would provide a viable visitor attraction that is close to the city centre and that integrates with the Cable Car and the Cable Car Precinct development. Currently the Cable Car transports 1 million passengers a year with approximately one third being national and international visitors. In addition, the Cable Car Museum achieves some 200,000 visitors a year. The foot traffic to support the core visitor market is therefore already in place, and the opportunity exists to leverage off this base.

4.3 The Carter Proposal

Over the last twelve months Carter has developed a business case which would redevelop the observatory into a new venue for Wellington that will include

- A larger planetarium with new technology, that will accommodate 50 – 70 people
- A mobile service taking a planetarium to schools in the lower North Island
- A refurbished building with high quality exhibition spaces that provides a totally new visitor experience

This proposal seeks funding for a \$3,000,000 project that remodels the interior of the building to provide a totally new layout and exhibition space. The exhibition areas have been developed to engage the visitor in the knowledge of the universe, space and astronomy with an overlaying theme of the astronomy of Oceania - Maori and Pacific astronomy and the Southern Skies. This theme is recognised as a key point of difference for Carter, and will have special appeal to visitors from the northern hemisphere.

The investment in exhibit development will generate a high quality experience with input and expertise from professional exhibition designers. This will contribute towards a stronger sense of place within Wellington by renewing the facility as a must – see attraction while in Wellington, with a strong sense of nationhood and heritage by its positioning within Oceania astronomy.

In addition the redevelopment would allow Carter to continue its current operations which include amateur astronomical research, linkages with research projects, events, controlled public access to the telescopes, space camps, kids clubs, birthday parties and astronomy courses.

Carter is seeking funding for this project from both the Crown and Council. The \$3,000,000 remodelling project is to be funded by:

- \$1,500,000 from the Crown,
- \$500,000 from other sources, and
- \$1,000,000 from a 10 year bank loan

The loan would be supported by a \$150,000 operating grant from the Council over 10 years which will essentially meet the debt servicing cost of this loan. Carter is also asking the Council to maintain the \$86k special operating grant provided by the Council and the \$64k operating grant previously agreed in the LTCCP. This would bring the annual Council operating grant to \$300k for 2007/08 -2017/18.

The raising of \$500,000 from other sources has commenced with a \$100,000 grant successfully raised for cultural exhibit development.

4.4 Options Considered

Three options were considered for the \$1,000,000 capital funding request:

1. Capital expenditure

Under this alternative the Council would purchase the Carter building. There was no significant benefit to the Council of this option. The asset ownership costs (primarily depreciation and interest) were assessed to be similar to the costs that would be incurred under the other options. However this option would result in the Council taking on the ownership risk and necessarily being more committed to the future of the Carter. For this reason, this option was not preferred.

2. Loan

Council could provide Carter with a loan to fund the capital development. Carter would then manage its cashflow to meet the required repayments. As with option 1, this sees much of the financial risk transferred to the Council, and is therefore not recommended.

3. Operating grant to support commercial loan

Similar to the St James Theatre Trust arrangement, under this alternative the Council would provide an annual operating grant that would be used to fund the interest and capital payments on a loan taken out by Carter. The loan would be on fully commercial terms with a bank, and would likely be over a ten year term. This option is preferred as it results in least risk for the Council, and sees the Carter remaining independent. If this arrangement is approved, there may be guarantees required. Officers will work through these implications with Carter, and will seek approval from Council should a guarantee be required. This detail will be finalised in February 2007.

5. Discussion

5.1 Council Strategic Fit/Strategic Outcome

The funding for Carter Observatory sits within activity *3.1.2 - Visitor attractions* in the Economic Development strategy of the LTCCP. It contributes towards the long term outcome of a Stronger Sense of Place where Wellington will be a prime tourist and conference destination, with diverse and changing attractions that fit and highlight Wellington's best features. It will contribute towards this by creating a high quality centre which both visitors to Wellington and locals will visit.

In cultural heritage terms, it will link strongly with nationhood by highlighting key aspects of astronomy that are unique to New Zealand including Maori, Polynesian and the European discovery of New Zealand.

It will maintain and enhance the traditional link between the Botanic Garden and astronomy.

Astronomy is a gateway science which means it attracts youth into the sciences generally, and therefore has a contribution to the government's education objectives. Carter will rebuild its focus on amateur astronomical research and contribute to Wellington's priority for developing its status as a centre for creativity and innovation.

5.2 Business Case / Plan

Officers have worked with Carter staff and board over the past 12 months as the business case has been developed. This has provided officers with a sufficient degree of confidence in the robustness and veracity of the final product to be able to support the proposal. From the outset officers were involved in workshops with Ken Gorbey and with Story Inc. These workshops assessed the Carter proposition from the bottom up, to understand what the offer was, what the market would be, and most importantly how the product would be delivered. Story Inc has extensive international experience in designing visitor experiences, and has been closely involved in the proposal that has now been presented to the committee.

The resulting business case recognises that a sustainable business operation requires a broad range of revenue streams, to reduce reliance on any one element. To this end, the Carter proposal recognises the related streams of tourism, education and (to a limited extent) research.

Officers note that the proposal is conservative in its visitor number projections, and realistic in its assessment of the other revenue and expenditure categories. Input has been received from Positively Wellington Tourism with regard to the tourism elements. PWT has advised that the Carter redevelopment can result in a valuable addition to the city's range of attractions, especially given the fit with the desirable commissionable product mix. While Carter is not a major draw in its own right, PWT has regularly noted that the city will benefit from the development of a range of small to mid-level offerings.

The business plan presented by Carter is achievable with good management. The plan shows a surplus before depreciation. When depreciation is included the business plan shows a break even position in the later years. This will allow Carter to refresh its exhibitions, important for its ongoing viability.

There is uncertainty around some of the revenue lines. The distance learning and outreach programmes will have to perform extremely well to meet their revenue targets. However the risk of not achieving these targets can be mitigated by reducing associated costs.

The grant income included in the business case is also uncertain, however the higher profile gained through the marketing spend will make it easier to attract sponsorship for one off events, for example key astronomical events, the space camp and the mobile planetarium.

Further mitigation of the uncertain revenue lines occurs due to the likelihood of over achieving on other revenue lines. Visitor numbers are conservative. A 20,000 increase in visitor numbers would eliminate the need for grant income. The amount of Friends of Carter income is also low compared to other membership programmes.

The expenses included in the business case look reasonable for the size of operation. The most effective way for Carter to cut expenditure and leverage access to greater capability will be working with other similar organisations to share the costs of management, administration and marketing.

The new visitor experience will be supported by a targeted marketing plan that will focus on being well brochured for international and national visitors, and will be underpinned by building a Friends of Carter network with local Wellingtonians.

5.3 Resource Consent

The resource consent was approved in November 2006, enabling this project to commence detailed design and tender processes. The resource consent has covered earthquake strengthening, fire, structural and traffic engineering requirements. If funding is approved the project would go to tender in early 2007, to enable the project to be completed and opened for Matariki in July 2007.

5.4 Cable Car Precinct

The Cable Car Precinct's location makes it one of the closest tourist and visitor attractions to the CBD and is convenient to visitors with limited time available. The Council is undertaking a project to upgrade the precinct to "capture the audience" that currently ride the cable car, drawing them deeper into the wider area. While it will not

have the impact of a major “bringer” attraction it will be leveraging a second tier attraction (Carter Observatory) which is consistent with the objectives of Positively Wellington Tourism.

Carter Observatory is one of four organisations within the “Cable Car Precinct”. The upgrade of Carter’s Observatory will complement other projects and initiatives within the area, including the recent upgrade to the Cable Car Museum and the upgrade to the Lambton Terminal. The Carter Observatory provides a key anchor attraction within the precinct, and is expected to draw visitors further into the precinct.

5.5 Implications of Not Supporting the Proposal

If the Council does not support this proposal Carter is expected to cease functioning from 30 June 2007. Currently it has no Crown funding from this point and will not be able to access the Crown capital funds for redevelopment without Council support. While this may attract some media attention, the Crown has clearly signalled this intention for some time.

If Crown funding ceases the Council would be the logical party that Carter could turn to for support.

- The Council could replace the Crown funding of \$271,000 per annum and maintain it in its current format, but this increases the funding even more and does not address its core functions or provide a renewed facility for the city.
- Council could fund the full development cost without capital from the Crown. This is unlikely.
- If Carter ceased functioning, the Council would inherit ownership of the land, and would have to enter discussions with the Carter board and the Crown on the ownership, use and disposal of the building and other assets.
- If the building was then to be renovated and fitted out for other uses, the Council would incur the full cost of this upgrade. This would be expected to cost at least as much as the cost of this proposal.

5.6 Project Risks

There are a number of project risks.

Risk	Level	Comment
Project cost overruns	Medium	<p>Council will ensure a person has responsibility within Council to monitor the project and be part of the project planning.</p> <p>Carter will report monthly to the CCO unit during the development of the project</p> <p>Detailed costing and tender processes will ensure that the project remains within cost and scope.</p>
Visitor numbers are not achieved	Low	<p>The visitor numbers included in the business case are not ambitious compared to the numbers visiting other locations in the city.</p> <p>With a quality product and sound promotional planning Carter is expected to have the ability to exceed these projections.</p>

Management	Medium	<p>The ongoing development of management at Carter is a critical success factor.</p> <p>The renewed clarity of the business case will enable new management to be appointed with a clear vision and purpose which has been lacking previously.</p> <p>There is a strong core team that is committed to making Carter work.</p> <p>Council may require Carter to obtain its approval of Carter's business and marketing plans each year for the term of the loan..</p>
Viability	Medium	<p>Long term viability will always be at risk. This project aims to create a core visitor experience that will enable Carter to be viable with less reliance on central and local government funding.</p>
Insufficient attention is provided to the visitor experience	Low	<p>Story Inc have been engaged in the development of the visitor experience and costings have been based on their international experience for similar projects.</p>

5.7 Governance Issues

The current board intends to create a charitable trust to operate the new entity. The Crown will transfer the ownership of the Carter assets to the new trust and repeal the current legislation.

The intention is to create a trust with wide representation of the groups with an interest in Carter. This could include Maori, education, science, astronomy, and the city.

Currently the Council nominates a person to the board who is appointed by the Minister under the Act. With the establishment of the new trust, the Council would appoint a representative directly. This will result in the trust being classified as a Council Organisation.

For the duration of the loan funding, it is recommended that the trust is subject to the same monitoring as a Council Controlled Organisation. That is, monthly meetings are held, quarterly reports are required and the Statement of Intent and business plan must be submitted for approval.

5.8 Other considerations

Relative contributions from the Council and the Crown

Partner funding from the Crown is being requested at a level that compares to the Council's contribution of \$3.0 million over ten years. From a Net Present Value perspective, the Council's contribution will equate to approximately \$2.2 million in today's dollars. Given the significantly improved observatory that will result from the upgrade, this is considered to be a relatively modest contribution.

Timing

The Crown is seeking a commitment from the Council now, as it has set aside the \$1.5m for redevelopment in its 06/07 budget only. The proposed development has been on the Crown's agenda for a long time. It wishes to commence with the transition to a

new governance structure as soon as possible. There is a small threat that it may withdraw the funding should a decision not be made. More importantly, the Crown has asked for the Council's commitment as a prerequisite condition for releasing Crown funds.

In addition, the upgrade project is able to start in the New Year if funding is approved, as it has resource consent. As noted, a start in January will allow the opening to leverage off Matariki, in July 2007. Officers therefore recommend that a decision is best made now, rather than being deferred for consideration in the Draft Annual Plan process.

Visitor subsidy

A mid point visitor number projection of 40,000 for Carter represents a per visitor subsidy from the Council of around \$7.50 per visitor (\$300,000 divided by 40,000 visitors). This compares to \$13.90 per visitor at Wellington Zoo, \$15.26 at the City Gallery and \$11.17 for the Museums of City and Sea.

Carter management

Over a number of years Carter has suffered from a lack of focus, with management that was usually interested in astronomy, but that lacked business management skills. A review of the Carter operation (the Bessell report) noted that this factor, when allied to a lack of central government support, has caused a steady decline in the performance of Carter. The lack of performance has then resulted in decreased Crown funding, thus creating a downward spiral for the Carter operation.

In the last two years (in particular) the Carter board has engaged with the Council and other parties, and has demonstrated its commitment to survival by making a number of important decisions relating to its operation and future. This included steps to dramatically reduce its cost structures, so that the operation is now making a small surplus. The staff that have been retained are passionate, committed and highly skilled in their field – and have through their efforts already initiated programmes that have resulted in a noticeable upturn in visitor numbers.

The board and staff have also driven the concepts for the upgrade, and – as has been noted - the result will be a unique offering with its focus on the southern skies and in particular the Maori and Oceania perspective. Support for this has already been demonstrated with a \$100k grant to the project.

This commitment and vision provides Council officers with confidence that the board and staff can and will deliver on the business case.

6. Conclusion

The proposal presents an opportunity for Council to enable Carter to be redeveloped into an asset for the city, which would contribute to the range of the city's visitor attractions. It will enhance the sense of place for the city by being a centre for Maori, Polynesian and southern skies astronomy. It has the ability to increase visitor spend within the city and to attract a much larger number of international and domestic visitors than it achieves currently.

This opportunity leverages the Crown funding which is accessible only at this point. Officers have assessed the proposal, and found it to be reasonably conservative and realistic. The resulting attraction is a good outcome at a relatively low cost which will be developed quickly – in time for Matariki in July 2007.

Carter would be an anchor attraction in the Cable Car precinct. It builds on the work completed such as the Cable Car museum extension and the Cable Car terminal; and importantly is a core element of the planned precinct development.

There are risk-avoidance reasons for providing funding to the Carter upgrade, such as the potential cost to Council should Carter close. However the opportunity that is presented is seen as a good fit with the city's needs for commissionable tourism attractions. Further, the opportunity exists for the upgraded Carter to deliver growth in visitors that exceeds the forecasts – and therefore offers the potential to reduce reliance on the Council as a funding source.

Officers have worked closely with Carter in assessing and understanding the proposal, and believe the resulting attraction will achieve the outcomes set out in the business case. It is therefore recommended that the Carter Observatory funding request be approved.

Contact Officer: *Sarah Polaschek, Portfolio Manager, Council Controlled Organisations*

Supporting Information

1) Strategic Fit / Strategic Outcome

The policy supports Council's overall vision of Creative Wellington – Innovation Capital.

Carter will support the following strategic areas;

- Economic development*
- Cultural Wellbeing*
- Social and Recreation*

It will also contribute to meeting the WCC outcomes specifically:

- Stronger sense of place*
- More eventful*
- More prosperous*

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

The project is contained in Council Plan projects C659 (\$84k special grant) and C659 (\$64k ongoing funding)

3) Treaty of Waitangi considerations

There are no specific Treaty considerations

4) Decision-Making

This is not a significant decision..

5) Consultation

a) General Consultation

All affected parties have been identified and consulted with.

b) Consultation with Maori

No consultation between the Council and Maori has taken place. Carter takes advice from Maori groups on the content of its displays and presentations.

6) Legal Implications

A Crown Law opinion is available that states that if an observatory ceases to exist in the current Carter Observatory building, the land will revert to the Council.

7) Consistency with existing policy

This activity is consistent with existing policy.