
REPORT 1
(1215/52/IM)

**ESTABLISHMENT OF 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 report back on the results of public consultation and to seek approval 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.

2. Executive Summary

In June 2010, the Council agreed in principle that the operations of the St James Theatre Charitable Trust and the Wellington Convention Centre be merged into a single entity and that a new council-controlled trading organisation (CCTO) be established to manage their combined operations.

The Local Government Act 2002 required the Council to undertake a special consultative procedure before it can establish a new CCTO. Accordingly, a Statement of Proposal recommending that a new CCTO be established was publicly consulted on during July and August 2010.

A total of twenty-three submissions were received. The majority (70%) of submitters supported the proposal, while a small number of submitters sounded a note of caution around the lost ability of hirers to negotiate with two different organisations.

Officers recommend that no changes be made to the Statement of Proposal and that the Strategy and Policy Committee recommend to Council that it approve the establishment of the new CCTO.

3. Recommendations

Officers recommend that the Strategy and Policy Committee:

- 1. Receive the information.*
- 2. Note that in June 2010 the Committee recommended to Council that it 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 that it agree to commence the special consultative procedure.*
- 3. Note that the public consultation on the Statement of Proposal took place during July and August 2010.*
- 4. Agree to recommend to Council that it approve the proposal 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.*
- 5. Note that if the proposal to establish a council-controlled trading organisation is approved by Council on 29 September 2010, 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 Wellington Convention Centre. The Trust is a council-controlled trading organisation (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.

In June 2010, the Council agreed in principle that the operations of the St James Theatre Charitable Trust and the Wellington Convention Centre be merged into a single entity and that a new CCTO be established to manage the combined operations of the St James Theatre Charitable Trust and the Wellington Convention Centre.

In addition, it was agreed in principle that the 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 upkeep, and that the St James Theatre Charitable Trust will be wound up.

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

The key requirements of the Statement of Proposal were that it outline:

- 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 Statement of Proposal was publicly consulted on from 6 July to 9 August. The Statement of Proposal, a Summary of Information and submission forms were available at the Council Service Centre, from Council libraries and at the Michael Fowler Centre and the St James Theatre.

Submissions could be made by post or email, or by completing a submission form online in the Have Your Say / Public Input section of www.wellington.govt.nz. Also all submitters were given the opportunity to make oral submissions to the Strategy and Policy Committee at its meeting on 19 August.

In addition, two stakeholder meetings were held which were open to the public and also included invitations to over 250 users of the venues.

5. Discussion

5.1 Consultation and Engagement

Twenty-three submissions were received during the consultation process, eleven from individuals and twelve from organisations, with two people asking to make an oral submission, though ultimately neither submitter elected to attend. The majority of the submissions received supported the proposal to establish a new CCTO, though there were some submissions in opposition and some recurring concerns over aspects of the proposal.

Of the twenty-three submissions received, fourteen were supportive of the proposal with four opposing it and five neither opposing nor supporting it, while voicing some concerns.

5.1.1 Submissions in support

The main reasons given for supporting the proposal were the anticipated improved co-ordination of venues and the better service provided to hirers from a 'one-stop shop' leading to increased volume and quality of patronage, and therefore increased revenue. Also mentioned were cost savings from a more

efficient management structure and shared services, and that greater operational flexibility could provide greater opportunities for community access.

It was also felt that cost savings and increased revenue could help to fund future capital maintenance and upgrades. There was also support for the ownership of the assets being brought into Council to ensure their long-term viability.

Several submissions acknowledged the excellent service that had been provided to them in the past by members of the St James Trust, and that consideration should be given to these persons leading the new CCTO.

Several submissions also noted that an integrated model having been successfully introduced into other cities was also a positive statement in support of the proposal. That said, one submitter noted previous negative experience from operating in Christchurch.

5.1.2 Submissions in opposition

The main note of caution, from the submitters opposing the proposal and also some who didn't support or oppose it, was concern over the potential for monopolistic behaviour and the loss of competing organisations for hirers to negotiate with in order to gain the most beneficial terms for hiring the venues.

There was also concern from two submitters over the Council taking back the ownership of the St James Theatre and the Opera House, though more submissions were in support of this aspect of the proposal.

Other concerns included ensuring that the venues remained a financially viable option for community groups, and that this might be done by allowing hirers to provide, for example, their own catering, security, bar and ticketing services.

5.1.3 Officers response to submissions

Officers note the following in relation to the main concerns arising from submissions:

- The creation of a single management structure as opposed to having two competing organisations should lead to a more efficient and effective service to hirers which should deliver cost savings and revenue growth which will ultimately benefit the ratepayers.
- Concerns that the new CCTO would have a monopoly over the conferencing and events markets, leading to uncompetitive venue hire costs and lower service levels are unfounded. Any monopolistic behaviour by the new CCTO would be detrimental to, and work against the rationale for its creation which is to provide a better and more efficient service to reduce costs and increase the utilisation of the venues. If venue pricing is not managed competitively then the likely result would be a decrease in

utilisation, lack of revenue growth and possibly greater grant funding from the ratepayer.

- The other main concern arising from the submissions is with regard to community access to the venues, and part of the rationale for the merger is to increase the already high levels of community access to the venues, and to spread them more evenly across all the venues.
- The following items of feedback arising from the consultation will be forwarded to the new CCTO to see what opportunities exist to incorporate them into its future operations:
 - opportunities for schools and community groups to provide their own food, bar, security and/or ticketing services
 - ensuring that a variety of catering options (in terms of style and price) are maintained at the different venues
 - consideration of establishing facilities to cater for multi-stream conferences and functions
 - removal of the \$1.50 levy at the St James Theatre and the Opera House.

5.1.4 Summary of submissions

A number of concerns have been raised, notably by hirers and in relation to pricing and the lost ability to negotiate between two different organisations. These concerns will be forwarded to the new CCTO for its consideration.

However, the majority of submissions (70%) supported the proposal to establish a new CCTO to manage the combined operations of the St James Theatre Charitable Trust and the Wellington Convention Centre. Accordingly officers recommend that no changes be made to the Statement of Proposal and that the Strategy and Policy Committee recommend to Council that it approve the establishment of the new CCTO.

5.2 Financial and Long-Term Council Community Plan Considerations

The opex and capex impacts of the proposed merger are not expected to impact the 2010/11 Draft Annual Plan. 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 St James Theatre and Opera House into Council would impact the current LTCCP figures. It should be noted that the costs of fully funding the maintenance of the built assets will be incurred regardless of whether or not the proposed merger takes place.

Initial forecasts indicate 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.

The combined opex impact over ten years of the proposed merger under a CCTO, and the transfer of the Trust's built assets into Council 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. If the merger did not take place, the Council would have to recognise the full ten year impact of taking over the responsibility of the asset maintenance for the St James Theatre and Opera House of \$5.549 million.

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.

5.3 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 St James 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.

6. Conclusion

This report recommends that Council approve the Statement of Proposal to establish a new CCTO to manage the combined operations of the St James Theatre Charitable Trust and the Wellington Convention Centre.

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Supporting Information

1) Strategic Fit / Strategic Outcome

The proposal supports the Council's overall vision of Wellington as the events 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.