

WELLINGTON VENUES LIMITED

**POSITIVELY
WELLINGTON
VENUES**



2014/2015

SOI & BUSINESS PLAN

Positively Wellington Venues
is proud to manage six of
Wellington's most significant
performance and conference
venues located in the heart of the
City's waterfront, arts, culture and
entertainment precinct.

Positively Wellington Venues

*The Positively Wellington Venues
Precinct in the Coolest little
capital in the World*

Our team at Positively Wellington Venues is enormously proud of the portfolio of venues that we manage. They all reside in a walkable and wonderful little harbour side precinct that links through to the heart of our vibrant City. Being in the centre of all that the "Capital of Cool" has to offer is something that really sets us apart from other cities.

Our collection of venues combines heritage and character with state of the art technology. The diverse choice of meeting places and spaces offer versatility and flexibility, we can create innovative set-ups and unique experiences. As a team we are connected with the best creative, artistic and business minds in Wellington which means we can connect them to you! Best of all our proximity to just about everything (including the rest of New Zealand) means you can pack more into a good day in Wellington than anywhere else in Australasia. That's our Precinct promise.

We are Absolutely. Positively. Wellington. New Zealand.

CAPACITIES*

| Venue | Theatre | Classroom | Cocktail | Banquet | Exhibition |
|-----------------------------------|---------|-----------|----------|--------------|------------|
| MICHAEL FOWLER CENTRE AUDITORIUM | 2209 | 1035 | 180 | 140 | - |
| Renouf Foyer | 400 | 180 | 500 | 300 | 28 |
| Lion Harbourview Lounge | 140 | 70 | 180 | 140 | - |
| Pay Richwhite VIP Lounge | 24 | - | 20 | 20 | - |
| TSB BANK ARENA | 3972 | 1560 | 2000 | 1400 | 155 |
| SHED 6 | 966 | 430 | 1200 | 510 | 64 |
| Room 1 (Auditorium) | 460 | 144 | 400 | 170 | 17 |
| Room 2 | 145 | 90 | 240 | 80 | 10 |
| Room 3 | 130 | 60 | 230 | 80 | 9 |
| Room 4 | 205 | 120 | 330 | 130 | 14 |
| Arcade | - | - | 280 | - | - |
| ST JAMES THEATRE | 1552 | 200 | 700 | 289 on stage | 41 |
| OPERA HOUSE | 1381 | - | 150 | 130 on stage | - |
| NZ ACADEMY OF FINE ARTS | 150 | - | 290 | 100 | - |
| WELLINGTON TOWN HALL AUDITORIUM** | 1609 | 375 | 1500 | 550 | 45 |
| Illott Theatre | 302 | - | - | - | - |
| Civic Suite 1 & 2 | 180 | 85 | 180 | 140 | - |
| Civic Suite 3 | 64 | 36 | 50 | 40 | - |
| Square Affair Suite | 80 | 45 | 120 | 90 | - |

* Actual capacity will vary depending on production requirements eg stage and technical sets.

** Wellington Town Hall will be closed for seismic strengthening work until January 2017.

Call us on +64 4 801 4231 or visit pwv.co.nz

Email info@pwv.co.nz

Positively Wellington Venues

111 Wakefield Street, PO Box 2199

Wellington 6140



*Six (plus one) very cool little venues
within five (maybe ten) very easy
minutes walk.*

**POSITIVELY
WELLINGTON
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for extraordinary experiences, visit pwv.co.nz

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Foreword from the Chairman

The team at PWV have prepared our 2014/15 Statement of Intent faced with uncertainty about the future. The ramifications of CCO Amalgamation are yet to be confirmed. The future of the Town Hall as one of the City's anchor venues for both shows and performances and conferences and events is being debated. The development strategies for a new addition to Wellington's conference infrastructure and a performance arena are being shaped and scrutinised.

For some, uncertainty drives even greater determination to succeed. For others it can become a convenient cause to "wait and see".

PWV has shown itself capable of transforming the business and crusading for investments that will support the City's economic vitality and cultural vibrancy. We see no reason not to continue with that approach.

The WCC's Letter of Expectation for 2014/15 asks PWV to comment on "increasing venue utilisation to deliver on the financial projections anticipated in the business case for the refurbished Shed 6 space". In all respects, Shed 6 has surpassed our expectations and the Chief Executive responds to that particular request in the body of the SOI.

From the Board's perspective, Shed 6 is emblematic of the approach that we are taking in this SOI - bold ambition.

Securing the funding and agreement to refit Shed 6 was far more difficult than it needed to be even though it was the right thing to do for the City. It has opened up new markets, helped to win more business and created a genuine asset out of an underutilised Shed.

The Board of PWV has signed off on a five year strategy for the business. It is based on bold ambition and a clear vision of the role that Venues could play in this City by 2020. We call that vision "rocking this town".

Our ambitions are based on:

- market development that beats the odds
- audience development that will inspire generations to come
- product development that is international and audacious
- venue development that is out of the ordinary and positively Wellington

Our strategies for delivering on our ambitions are summarised in the sections that follow.

Underpinning the execution of these strategies is our determination to further improve the commercial performance of PWV and the financial and economic contributions that we make to Wellington and the wider region.

As New Zealand's capital city we also play our role in raising the bar on what we stand for at home and abroad. From outstanding cultural programmes to world class business events, the opportunities are ours to seize and we should never compromise our position and lose sight of what's possible.

It is exciting to be in such a strong position to deliver on the commitment that WCC are making to economic transformation and growth. Had the decision to establish PWV and commercialise the business not been taken several years ago, I doubt that we would be able to play such a vital role as a critical partner in delivering on Wellington's ambitions.

Chris Parkin
Chairman
Positively Wellington Venues

1. Overview from the CEO

The 2013/14 financial year is the third full year of Positively Wellington Venues (PWV) trading as CCTO and the final year of the three year “merge, build, grow” strategy that we rolled out back when PWV was established in 2011.

The “merge, build, grow” strategy was all about managing the merger of the two pre-existing organisations that were brought together to create PWV, building a new management structure and commercial operating model and setting the business up for growth.

That three year strategy was also part of a longer-term 2020 vision for PWV.

We call our long term vision “rocking this town” and it’s all about:

*“delivering a stunningly ground year round calendar of grow and show business events,
driving the profitable and sustainable growth of the PWV business
while contributing to the cultural, community and business vibrancy of Wellington
and the vitality of the New Zealand economy”.*

Late last year and with the implementation of our three year “merge, build, grow” strategy almost complete, the Board and leadership team commenced work on extending our strategy to cover the next five years of PWV’s growth and development, outlining the next steps to be taken in realising our 2020 vision.

Over the next five years we have identified five core development strategies that will create a further lift in the contribution that PWV makes to “rocking this town”.

These development strategies are referred to in the Chairman’s introduction and are driven by two very clear overarching goals:

1. **Growing the economic contribution of events to Wellington**
 - retaining entertainment and business spend in Wellington and growing out of town spend and export earnings
2. **Delivering EBITDA of at least \$1.8m per annum by 2016/17**
 - either reinvesting this in PWV’s revenue earning assets or paying a dividend to WCC to contribute to the Council’s ability to fund major development projects

Further details about each of our development strategies are outlined on pages 10 – 17.

Our 2014/15 SOI and budget have been informed by the bigger picture thinking that we have done to build the five year strategy.

For the purposes of guiding our day to day operations and the delivery of our annual business plan we have retained the same strategic framework that we presented last year. That framework – or our “strategy on a page” is presented on pages 22 and summarises how we drive the commercial activities of the business and link those activities to the economic, cultural and community outcomes that Wellington aspires to.

In section 8 we present the financial out turn that we are budgeting for in 2014/15 as well as two further out years.

We are very pleased to be well on our way to making a significant and sustainable contribution to our shareholder and the City.

Setting the stage for 2014/15

Over the past three years PWV have taken the venues business from a subsidised operation with a trading deficit to a trading surplus. In addition we have established new operational disciplines to support the future growth of the business.

An important part of our restructuring was to build the business around a hub and spoke model that enables flexibility of resourcing and scalability of delivery. Rather than dedicated delivery teams at each venue we have built the business model around three core lines of business:

- **C&E** – conventions and events including meetings and trade exhibitions (sometimes we refer to this as our “grow business” stream)
- **P&E** – performances and exhibitions (like wedding and home shows) including shows and live arena concerts and theatre (sometimes we refer to this as “show business”)
- **F&B** – food and beverage including café, performance bars, banqueting etc (sometimes we refer to this as “chow business”)

While working to overhaul the core business, we have had to confront the fallout from the GFC and the impact on our core conference markets (which has not begun to abate until relatively recently). As well, there have been ongoing consequences of seismic activity and seismic strengthening and the resultant impact on Wellington’s venue inventory (the impacts from which continue to affect the business today).

We remain on track to deliver what we are forecasting to be a better than budget bottom line result for 2013/14 but our conference and events revenue line has taken a hit as a consequence of the EQPB status of the Wellington Town Hall and Shed 6 only coming on stream as a venue part way through our financial year. Neither PWV nor the City – particularly with the Amora Hotel also out – was able to host some larger scale events because of this.

Market conditions have improved over the course of the past three years but we will continue to suffer from some quite critical supply side constraints that will have a material impact on the business. This is particularly true during periods of peak C&E and P&E demand and even more acute when those periods of peak commercial demand coincide with legacy hire agreements that don’t contribute to our revenue lines.

These very real supply-side constraints will impact on the event revenue growth objectives that we are able to pursue over the next three or so years. That said, we are targeting 12% revenue growth in 2014/15 as we recover our position in the market.

Beyond that, the release of the City’s “8 big ideas – a growth agenda to transform the City” in December last year could not have been better timed, providing for the first time in a long time a sense that the supply-side constraints that will (and already are) holding the City back will be addressed.

In addition to advancing the idea of a film museum and strengthening the City’s international air connections, the growth agenda proposes the development of new conference and concert facilities for the capital.

Increasing the capacity and quality of Wellington’s conference and concert infrastructure is an essential precursor to enhancing our competitiveness as the “Arts, Culture and Events Capital of New Zealand (WCC LOE, Dec 2013) and securing future growth city and region wide.

In the meantime we must make the most (or more) out of what we’ve got if we are to address the capacity constraints, build our reputation as a venue management business with which people want to partner and create an even stronger platform for growth.

Making the most of what we’ve got is in no way intended to imply that we are considering sitting on our hands or resting on any laurels.

In crude terms it means that we really have to sweat our assets – looking for every opportunity to “plug the gaps” and grow the calendar of events that we offer. This will improve utilisation and the commercial and

community returns that the city earns from our business. This will in turn contribute to funding future growth and development projects. This is the virtuous circle that the City is committed to and we share in that commitment.

Making the most of what we've got will require three essential elements - a compelling vision, a courageous operating philosophy and a commitment to investing in growth

Overlaying these preconditions for success, we are committed to the rolling out our five core development strategies to "supercharge" what we are able to deliver as a venue management business:

- market development that beats the odds
- audience development that will inspire generations to come
- product development that is international and audacious
- venue development that is out of the ordinary and positively Wellington
- commercial development that sets new standards in venue management

A compelling vision

Back in 2011, PWV published a vision for PWV and the city - "It's 2020 and PWV is helping to rock this town". As we note in the introduction to this section of the SOI "rocking this town" has been used as the long term strategic vision for PWV's business and strategic planning.

A summary of our vision is presented in Appendix 2 of this SOI.

We believe that three years on and with the Council's commitment to the "8 big ideas" the city is now in an incredibly strong position to realise all of the elements of this vision and we are "up for" the challenges involved in "making it so".

A courageous operating philosophy

We need to be bold and brave in the way in which we operate over the next few years. There is much that we can do to cement and grow Wellington's position on New Zealand's C&E and P&E map.

Our operating philosophy needs to be based on:

- **plugging the gaps** – actively incentivising hirers and trialling dynamic pricing models to fill our venues when there are gaps in our booking calendar
- **outsmarting where we can't outspend** - pioneering new and different partnerships to land new business – especially where Wellington can create a "sticky" factor
- **creating innovative solutions** for our hirers when we encounter capacity constraints – using new and different temporary spaces that will give our hirers an edge
- **reinforcing and promoting Wellington's reputation** as the event and cultural capital of New Zealand not just by saying it but by showing what we're made of and what we're capable of delivering. We don't have to be the biggest – just the best.

This will mean models that allow for more risk taking, attitudes based on giving it a go, harnessing the collective talents of the newly merged economic development agency and not being afraid to take on the world in securing new business opportunities for the city.

A commitment to investing for growth

The investment priorities that we have set as part of our five year strategy are designed to deliver both an economic and a financial return on investment.

As noted earlier in this introduction we have established two very clear goals and five core development strategies.

The goals:

1. We will grow the economic contribution of events to Wellington

retaining entertainment and business spend in Wellington and growing out of town spend and export earnings
(exact targets and measurement vehicles to be agreed)

2. We will work towards delivering EBITDA of at least \$1.8m per annum by 2016/17

either reinvesting this in PWV's revenue earning assets or paying a dividend to WCC to contribute to the Council's ability to fund major development projects
(based on WCC's formula of every dollar earned or saved enables another \$10 to be raised as debt funding)

The strategies are :

1. Market development

- leading a strong (meaning a highly aggressive) campaign to grow Wellington's share of the business events market

2. Audience development

- growing our home- based and out-of-town audiences - fundamental to "continuing to attract world class music, theatre acts and new arts and cultural events" to Wellington

3. Product development

- attracting and creating new event product to create "a stunningly good year round calendar of grow and show business events"

4. Venue development

- making more out of what we've got and anticipating and influencing what we might have to ensure that our portfolio of venues meets the needs of a wide range of target markets with strong growth potential

5. Commercial development

- "cross cutting" business initiatives that set new benchmarks in the industry including the roll out of our digital strategy and the introduction of dynamic pricing to provide better event experiences for hirers, patrons and delegates, growth in our ancillary revenues and better year round utilisation of our venues

[10]

PWV's development framework



1. Market development that beats the odds

The opportunity

New Zealand's C&E – or business events market - has been relatively flat at an overall “delegate day” level but the dynamics of the market are set to change in a big way – starting now! Our goal is to make sure that Wellington secures more than its fair share of the market and we have set some ambitious targets.

With the Government allocating Tourism New Zealand an additional \$34 million to be spent over a four year period to attract more business event to New Zealand, Wellington needs to be positioned to leverage that investment with a strong growth agenda.

Until very recently we – as Wellington Inc. - have under-invested in aggressively growing the business events market and yet we have a serious competitive edge as a destination and key stakeholders that are committed to growth.

The Convention Bureau has operated with limited funding for many years and now that Shed 6 is on stream and we have a much stronger C&E offering, we have significantly up-weighted our business development work in the C&E market – rolling out our “Power of the Precinct” strategy.

Wellington has the opportunity to carve out a much stronger niche in the business events market so that when new convention centre facilities come on line both here in Wellington and around the country, we are on a strong growth trajectory.

The strategy

Opening up new C&E markets and improving the conversion of new business leads is a core thrust of our Power of the Precinct strategy. The “Power of the Precinct” is based on building on Wellington's current competitive advantages as a C&E destination and anticipating new additions to the stable.

We define our competitive advantages – or what sets PWV's C&E apart from other competing destinations – as being made up of five factors that together create “the power of the precinct”:

- **character** - our collection of venues have heritage and character, they're not just black boxes, they all have their stories

- **diversity** – we offer an interesting and inspiring choice of environments to meet in - there are theatres and galleries, arenas and arcades as well as great flat floor spaces and outdoor areas and “under one roof” solutions
- **versatility** – we’re masters at making the most of all of the spaces in our venues and transforming them to create inspiring and different conference experiences
- **creativity** – located in the heart of the City we have great relationships with Wellington’s creative sector, from artists and performers to entrepreneurs and academics, from business leaders to policy gurus and politicians
- **proximity** – not just between our venues, but to the airport, to Parliament, to the CBD, to a variety of hotels, restaurants and shops, galleries and museums, the waterfront, award winning vineyards, the rest of New Zealand and even Australia

What this means for conference and exhibition organisers, sponsors and delegates is that we can promise that people can pack more and different things into a conference day in Wellington than any other destination in Australasia.

Of course, we can’t leverage these advantages if we don’t get the “beautiful basics” right – F&B that is signature Wellington, A/V that is faultlessly smart, front of house service that is can-do and smiling, and back of house services based on logistical genius.

Our sales objectives are based on enhancing our leadership position in the Wellington market and growing our share of business from the Auckland, Australian and Pacific Rim markets. This strategy is aligned with Tourism New Zealand, Air New Zealand and Business Events Wellington. The research project that we are developing with MBIE and other national partners will help to inform the growth opportunities and level of investment that each market can sustain.

Our strategy is built on:

- introducing smarter market development disciplines including improved research and data-mining to generate more and better qualified sales leads
- matching leads with our “Power of the Precinct” advantages
- improving our pitch processes and the use of digital marketing tools to support the sales effort
- up-weighting our sales resource to drive improved business conversion
- leveraging key partnerships to get new business over the line

2. Audience development that will inspire generations to come

The opportunity

Whereas the C&E market is all about what Wellington offers as a destination, the P&E market is all about what Wellington offers as a market for live performances and ticketed exhibitions. Whether its home grown shows and productions or international touring product, ticket sales are a very powerful metric of the kind of shows, performances and exhibitions that will entice audiences in what can be a crowded and highly competitive entertainment marketplace.

Wellington has built a reputation for being a “bankable” market across a wide range of P&E genres and it is vitally important that we keep it that way if we are to “continue to attract world class music, theatre acts and new arts and cultural events” to Wellington.

“Programming” to fill a P&E calendar requires a good understanding of what will appeal to different segments of the market and a longitudinal view of audiences. What a child experiences at a family show like “Disney on Ice” today could well convert them to become an avid ballet or live theatre fan tomorrow. PWV has had a strong focus in recent years on growing “family friendly” product with this aim in mind.

Over-saturating the market with a certain type of performance is also a consideration and understanding which “acts” will draw an out-of-town audience is important in terms of contributing to the city’s economic growth agenda.

Equally, understanding which acts will help to keep the entertainment dollar in Wellington is important in terms of “leakage” from the local economy and securing “products” that will appeal to segments of the Wellington market that may be under-served adds to the generational growth and genre mix.

In the C&E market our growth strategy has a strong B2B (business to business) focus, but in P&E we work more directly in the B2C (business to consumer) space.

PWV’s “LIVE in Wellington” strategy is designed to communicate Wellington’s commitment to sustaining and attracting local and touring live shows and performances by providing a sophisticated audience development tool to drive ticket sales. In the last FY with about the same amount of ticketed inventory on sale as we had in the year prior, we increased ticket sales by 15%.

The strategy

Our “LIVE in Wellington” strategy is based on offering a “marketing machine” that provides cost effective channels to market (including digital) to promote upcoming performances to a diverse range of audiences. It’s also about enriching the live performance experience and create long term customer commitment to attending a variety of live shows.

Our objectives are based in growing audience demand and ticket sales to improve the lifetime value of P&E customers, retaining the dominant share of Wellingtonian’s entertainment dollar spend in Wellington and optimising out-of-town spend.

A critical issue for Wellington is how the City accommodates the changing scale and format of live performances. The City has identified the need for a covered concert venue that will work for larger scale arena product. PWV’s position on this is outlined in more detail in section five. We look forward to supporting the development of the business case for this.

3. Product development that is international and audacious

The opportunity

By product development, we mean event development – but we should not just think of live shows and performances. There are opportunities to bring new sporting and business events to Wellington if we are prepared to create new funding and management vehicles that enable a more international and entrepreneurial approach to development. We have to be willing to take on the world.

Demand for our venues follows definite peaks and troughs with different and for the most part, complementary cycles for grow and show business. However there are certain common periods of peak demand where not just the venues but Wellington city risks “spilling” business and losing the contribution to the economy.

With limited venue inventory and until such time as new facilities come on stream, we have to become smarter and more effective at plugging the available gaps in our calendar.

Our approach to plugging the gaps needs to be two pronged:

- attracting new product
- developing new product

The more successful we can be at attracting and developing new product to fill the gaps in our calendar, the more can deliver on our vision of “rocking this town”.

The strategy

Attracting new product involves building strong working relationships with promoters and producers, understanding where there are gaps in our calendar, where there are audience or market development opportunities and being able to structure and package deals to land new business.

Securing “Laneway” is a good example of how this can work. January is traditionally a quiet time of year across the city – there are gaps in our venues, and restaurants and retailers and bars and hotels are looking for business. In terms of audience development we know that Wellington is over-represented (vs. the national average) in the young urban professional segment of the market (22 – 35 year olds) but under-represented with product that appeals to that target audience.

We need to be able to seize these sorts of opportunities when they are presented to us. Not only do they plug a gap but when we help to make them successful we have a better chance of bringing other larger format product from the same or competing promoters to Wellington.

Bringing the New Zealand exclusive of Agatha Christie’s “The Mousetrap” to Wellington was based on a guarantee of loss deal with the promoter. This was a successful deal and as a New Zealand exclusive, attracted strong out of town attendance (and therefore increased visitor spend). Being “open” for this kind of business needs to be an ongoing priority.

The event development fund that we have negotiated with Ticketek is a significant asset to leverage. We are in discussions about another New Zealand exclusive that could be underwritten by this fund.

Recent discussions with the Australian National Basketball League also present growth opportunities – literally on a ‘plug and play’ basis.

Developing product includes backing and growing events that already form part of the City’s event offering - either through product extension (e.g. musical performances to coincide with the Sevens) or expansion strategies around VWOAP and Handmade. There are also opportunities to partner with local companies like “Wellington Musical Theatre” which should perhaps receive support on the same basis that the NZ Festival and Cuba Carnival do?

We also see considerable and under-developed potential to develop new “international weeks” by partnering with the City’s diplomatic community - Australia Week, China Week etc could be made up of cultural performances and business/trade missions aligned with the City’s growth strategy.

Extending business partnerships that leverage the Government’s Growth Agenda, the City’s economic development strategy and successful New Zealand businesses also warrants a major boost. What are the opportunities to partner with Fonterra or Xero to create new business events that will attract delegates to Wellington? Webstock is a great example of business event that was invented here and as a result of how it has been developed by its founders, it has a high “stickiness” factor with Wellington.

4. Venue development that is out of the ordinary and positively Wellington

The opportunity

Wellington City Council’s recent announcements about a new hotel convention centre and the possibility of a purpose built concert arena are literally music to our ears. This is the kind of breakthrough that Wellington needs and deserves both as a capital city and as a city that prides itself on being the capital of culture and events.

We compete for both C&E and P&E business on international and national stages and our events infrastructure has to be of an internationally acceptable standard if we are to win new business.

For Wellington to be competitive in business events and larger scale live performances it is essential that we have infrastructure with adequate capacities, flexible layouts, quality support services (i.e. F&B and A/V) and a distinctively Wellington character.

Of course it's not all about new infrastructure – yes, this will help us to grow and attract new business by expanding our overall offering – but it's also about optimising the use of the existing events infrastructure that we have and this demands a significant maintenance and refurbishment programme.

In our five year development strategy we have scoped the investments required to upgrade - and in some cases transform - our existing venues.

We have established five key criteria against which investment decisions can be evaluated:

- enhancing the competitiveness of our events infrastructure and reinforcing Wellington's reputation for delivering great events
- improving health and safety in our venues including the comfort of delegates and patrons and reducing our environmental footprint (consistent with our ISO certification)
- improving utilisation and functionality and transforming the venues from "halls for hire" into visitor destinations and more productive assets that support the City's growth agenda
- enriching the customer experience and that of hirers and performers so that people want to come back to our venues and Wellington time and time again
- improving operational efficiencies and therefore venue turnaround times

For each of the venues in our current portfolio we have established a vision for developing/improving them and also identified some more immediate and practical priorities required to upgrade them to a suitable standard.

We are in the process of scoping and prioritising these projects and building them into our long term strategic plan. As a first step, the 2014/15 business plan includes some development initiatives in the capex budget.

The St James Theatre and Jimmy Café – back to the future

Our vision for the St James is based on bringing back the glamour of the theatre. At the same time we plan to redefine what this exceptional piece of real estate could offer as a complete entertainment destination.

By re-opening the old box offices that open onto Courtenay Place (instead of being hidden at the back of the Jimmy) and rolling out the red carpet and lighting up the town on opening nights we can in all senses raise the bar on what's on offer on Courtenay Place. If we also drive better cross promotion with what's happening at the Opera House and link in with other theatres we can create more of a "theatre district" feel.

Cabaret on Courtenay (working title only for the wider St James footprint) becomes a range of quirky lounges and pop up bars and restaurants (think Foxglove's walk-in wardrobe). Spaces could also be developed as breakout rooms for conferences and/or more spaces for tenants like the newly created home of the NZ Festival.

More immediately there are basic improvements to be made. The auditorium is in desperate need of a decent air conditioning system, the backstage areas need new furniture and fittings, the café and bar need re-concepting and the kitchen facilities need to be upgraded.

[15]

The Opera House – the opera ain't over 'til...

The Opera House is a grand old lady in need of much more than a face lift. With seismic strengthening on the drawing board, there is an opportunity to reinvent the Opera House – retaining everything that we love about it today while creating more of a multipurpose venue. It is worth noting that with the Town Hall out of use at the moment, demand for the Opera House is increasing.

Our vision – inspired by Shand Shelton – is to enclose the Opera House in an amazing glass case – adding display areas for old costumes and posters and theatre paraphernalia to create a mini “museum” that people could visit even when the theatre isn't in use.

Enclosing the balcony area within the “case” also creates a new hospitality space that can be used year-round, and an underground laneway bar adds to the transformation of Opera House Lane, an hydraulic ground floor enables theatre or cabaret style seating, and the refurbishment of the boxes completes the look.

More immediately, like the St James the Opera House is in urgent need of an adequate air conditioning system. An exterior paint job (taking the Opera House back to its original colour palette) has been recently completed and is being matched with internal refurbishment – the plastic seats in the upper gallery are being replaced and as part of the seismic upgrade access for elderly and disabled patrons will be improved. The backstage areas including the dressing rooms are being upgraded and while the chip-board floor in the auditorium will be replaced as part of the seismic project, carpet runners are being added to reduce noise. There are also opportunities to change the bar set up and pre and post show hospitality spaces and a project to replace draping and improve the gilt work inside the auditorium is being scoped as part of celebrating the Opera House's 100 year birthday.

The Michael Fowler Centre – the star turn

The Michael Fowler Centre has won awards for its architecture and accolades for its acoustics. It is a fabulous performance venue that is also used as an anchor venue for conferences.

Standing shoulder to shoulder with the stately Wellington Town Hall, the MFC has become a bit walled in - inadvertently turning its back on the spaces and places that surround it. It does not connect as well as it could with Cuba Street, Civic Square or the waterfront.

Our vision is based on repurposing the portico space and relocating the Ticketek box office. Converting the spaces from a badly lit taxi-rank-cum-service-area into a light, bright and welcoming entrance way with a reception area and café and bar that links to Cuba St.

By extending the Lion Harbour View Lounge and opening it up to access from Civic Square and the bridge, we can create a great connected indoor/outdoor space that embraces both Civic Square and the Harbour. And, if the Town Hall is to become more of a music hub and home to the likes of the NZSO there are office spaces within the MFC that could be developed as additional break-out spaces to replace the ample breakout and functions spaces that we have lost with the closure and possible repurposing of the Town Hall. The concept of putting the MFC car park underground and creating a park and performance amphitheatre could become part of this re-development.

Our short term priorities are to refit the bars in the Renouf Foyer and remove the temporary storage spaces that were built in the Promenades. With the removal of the production kitchen from the Town Hall, the MFC kitchens should be re-instated.

We call and use the MFC as “the hub” of PWV's operations and we think that there is huge scope to make it an entertainment and meetings hub as well, bringing a lot more life into the MFC lobby and better connecting to the heart of the City.

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The Wellington Town Hall – the next stage

The closure of the Wellington Town Hall for seismic strengthening and the current reassessment of what the next stage in the project should encompass is a vitally important decision for the City.

Whether the Town Hall is used primarily as a performance and conference venue or a centre for scoring and performing music is currently being explored. The prospect of building a hotel convention centre is also part of this equation – compensating for the loss of the Town Hall spaces.

Whatever is decided about its core use, the Town Hall will always have a place as an elegant heritage venue that will be sought after for special performances, banquets and dinners.

Once the future of the Town Hall is decided, we have some suggestions for consideration.

TSB Bank Arena – to be or not to be?

It would seem that one characteristic of venue development in Wellington is that having built a venue for a specific purpose, we then re-purpose it for other uses. TSB Bank Arena is no exception.

Originally developed as a sports arena, TSB Bank Arena has become the City's largest under cover performance and exhibition space and with the closure of the Wellington Town Hall and refurbishment of Shed 6 and the Arcade that links the two, TSB and Shed 6 are rapidly becoming core to the City's C&E offering.

With a combined footprint of over 5,000 square metres, the offering is more than twice as large as any other venue offering in the city including proposed developments. The combined footprint of TSB, the Arcade and Shed 6 could, in a physical sense accommodate a venue of the same scale as Vector Arena in Auckland.

Its not only the scale of the overall floor space but the flexibility and functionality of the way in which the spaces are and can be configured that have created an asset for the City that is enabling us to attract business to Wellington that we have not previously been able to accommodate.

In addition, the harbour-side location is a unique point of difference for Wellington and something that should be capitalised on.

Our vision for TSB Bank Arena and Shed 6 is articulated in our "rock this town" vision – a multipurpose convention and entertainment venue that will enable Wellington to compete in the "big end of town" convention and arena show markets.

There is a huge amount of work to do to validate what the best option for a large scale performance arena and convention centre for the City would look like and how that would fit with the Government's vision for a network of larger scale national convention centres across the main centres in New Zealand. That work includes confirming the best site.

Fortunately, with Shed 6 "in play" alongside TSB we have real data that can be analysed as part of any feasibility work. We also know that the way in which arena and venue technology and construction techniques are developing means that multipurpose developments are less compromised by combining different uses that they were in the past.

In the immediate future, PWV have submitted a cost estimate for some much needed improvements to the existing TSB Bank Arena and Shed 6 complex. For at least the next three years the TSB Bank Arena and Shed 6 complex is the City's main C&E and large scale performance offering and there are some essential upgrades that are required to ensure that the offering is fit for purpose in the short and medium term.

Whether the longer-term solution for TSB and Shed 6 is a major refit or a complete rebuild needs to be assessed. It would be incredible to see a superbly designed entertainment and convention centre that bridged Wellington's stunning assets of city and sea.

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5. Commercial development that sets new standards

In order to achieve our vision for the financial and economic contribution that we can make to Wellington we will continue to scrutinise the commercial performance and development of our business.

In the early part of the 2013/14 FY we renegotiated our contract with Ticketek and before the close of the FY we will have renegotiated our agreement with Restaurant Associates as our preferred (vs. exclusive) caterer and our other catering partners. We will have also concluded a review of our merchandise partners.

In 2014/15 we will be undertaking a similar review with the provision of technical services across the venues. MultiMedia are our partners and preferred supplier and we need to extend that model across other providers.

During Q2 last year we re-engineered our sales and market development strategy and delivery model and we kicked off a new digital development strategy that will in the first instance be used to improve way-finding for people in our venues, support growth in ancillary revenue (food and beverage and merchandising), enhance the pre and post event experience and promote the connectivity between the venues in our precinct. Beyond that we will plug into the new Wellington.nz.com portal developments which will enable us to enrich people's experiences even more and in turn enrich their connection with and contribution to Wellington.

As part of our five year strategy we will also be developing strategies for:

- **asset optimisation** – commercialising the use of more of our underutilised spaces
- **revenue optimisation** – introducing dynamic pricing and yield management initiatives
- **growing ancillary spend** – this links in part to our digital strategy but in many respects digital is just another sales channel and our strategy is more about improving our F&B and merchandise offerings to drive a greater spend per head when people attend events in our venues

Conclusion

We are entering into an exciting stage in PWV and Wellington's development.

Over the past three years we have rolled out a number of new initiatives that are now delivering a measurable lift in performance. From the launch of "LIVE in Wellington" and the increase in ticket sales, to the reinvention of "Show me Wellington" as a credible and creative showcase for Wellington's MICE offering, the redevelopment and opening of Shed 6 which has enabled Wellington to win new business, our JV in Australia which has now got Wellington into the consideration set of Australian convention and event planners. There is a long list of successes.

We will continue with all of these initiatives - driving for more growth wherever we can and embedding them in our BAU approach. But, on their own these initiatives won't be enough if we are to do justice to the assets we have and the opportunities that are there to be seized.

This SOI and the core development strategies that we have outlined identify the next line up of game changers. We are ready to roll.

In addition to pursuing commercial growth and development the months and years ahead will see a far greater focus on health and safety in our venues. With the new Health and Safety Act due to come into play in April 2015, we need to undertake a top to toe review and upgrade of all of our health and safety systems and processes, building a robust safety culture across the business.

The Shed 6 Story

The Letter of Expectation (LOE) for PWV's Statement of Intent from the Chair of the Economic Growth and Arts Committee requests that we discuss "increasing venue utilisation to deliver on the financial projections anticipated in the business case for the refurbished Shed 6 space".

Shed 6 was officially opened on August 20 2013 as part of our annual "Show me Wellington" trade exhibition. We then handed to venue to WOW for 4 weeks (11 September 2013 to 9 October 2013) returning it to commercial hire commencing 10 October.

As we have outlined in various reports, although we actively promoted the refitted venue to potential hirers prior to opening, "seeing is believing" in this business. We had secured new business prior to opening but it is since opening and of the back of numerous site visits that we have seen the real pick up in business.

We outline below the nature and value of the business that we have secured as a result of having Shed 6 in the market. Obviously the new facilities were not available for the full 2013/14 financial year, and the numbers and recovery in our events revenue in 2014/15 is evidence of the results that a full year of operation and a boosted sales programme can deliver.

Some of the business has been based on hiring Shed 6 as a solus venue but much of the new business is as a consequence of the combined scale and flexibility of the Shed 6/Arcade and TSB Bank Arena offering.

Since the opening of Shed 6 in August 2013 we have delivered 38 C&E events in Shed 6 and the combined Shed 6/TSB Bank Arena. In our pipeline from now until the end of calendar year 2015 we have more than 160 C&E events booked in Shed 6/TSB Bank Arena.

Significant new business wins over that period that had either outgrown Wellington or not previously considered Wellington for the event (i.e. would have been lost to Wellington without the 5000 sq. metre Shed 6/TSB "combo") include:

- **Royal Australian and New Zealand College of Ophthalmologists (RANZCO) 2015** Congress (800 delegates from around New Zealand and Australia)
- **New Zealand Aged Care Associations Conference 2014** (national conference for over 350 delegates)
- **New Zealand Institute of Medical Technology and Australian Institute of Radiography Conference 2015** (a joint conference with expected delegate numbers of over 700 including a large trade component)
- **Electricity Engineers Association Conference 2015** (over 400 delegates and the opportunity to secure the conference for a further two years)

These hirers have all emphasised that the combined scale of the venue – over 5,000 square metres of space and the flexibility of the space for plenary sessions, breakout sessions, F&B/banqueting and trade displays and exhibitions makes the difference.

The Shed 6 offering will be further enhanced when the retractable seating unit is installed in early March 2014. Not only does this extend the usefulness of the venue for the conference market but the theatre style seating means that it can also be used to replace the Illot Theatre and be used for plays and performances including the National Theatre for Children.

In addition to hirers booking the entire "complex", we have been able to accommodate dual hires in the venue with different events running in Shed 6/the Arcade and TSB Bank Arena at the same time. This also drives improvements in utilisation.

Looking to the future, there are pressure points on the venue(s) and without the Town Hall it is challenging to meet the needs of both the C&E and P&E markets during periods of peak demand and when the venue(s) are not available for commercial hire.

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This situation will be corrected in the medium term once new facilities come on stream. In the meantime, as we outline elsewhere in the SOI, it is a matter of making the most of what we have got. The fact that the Webstock conference was such a great success at the St James recently is a good example of this. In that case, because the organisers are passionate about using iconic Wellington venues and not “black boxes”, the St James was their first preference when they could not access the Wellington Town Hall.

As the Chairman says in his foreword, Shed 6 has surpassed our expectations on all counts. We trust that as the majority funders and shareholder the WCC concurs.

2. Strategic Direction

2.1 Core Purpose

Since our establishment as a CCTO, PWV's core purpose combines commercial imperatives with community and City-wide outcomes:

PWV's commercial imperatives are to:

1. optimise the **commercial utilisation** and earning potential of the venue and ancillary assets under our management
2. deliver outstanding "end-to-end" **event experiences** based on best of breed business partnerships that create enduring value and set Wellington's venues offering apart from the rest
3. extend the venues offering to develop new markets, **grow new sources of revenue** and improve commercial performance
4. remove any operational subsidy from WCC (and the consequent burden on the ratepayer) and build our earnings to **attract investment** in future growth and development

PWV is also committed to contributing to some significant City and Community outcomes:

5. adding to the **cultural and business vibrancy of the City** and Wellington's competitiveness as a visitor destination, its attractiveness as a place to do business, and its vibe as a City in which people want to live
6. contributing to the **health and resilience of the Wellington economy** (growing visitor spend and export earnings and supporting new investment), addressing environmental challenges and playing our part as a Capital City in improving the good of the nation
7. building **community pride and participation** that celebrates Wellington's belief in being a place of creativity, exploration and innovation; ensuring that our venues are part of the fabric of the City and accessible to their communities
8. supporting the **development of new and emerging creative talent** in our show and grow business events and connecting that talent with new business opportunities locally and globally

2.2 Operating Environment Update

PWV's commercial operating environment has certainly improved since the business was established three years ago. However, there are changes in the wider operating environment that we need to address to ensure the ongoing viability and success of the business.

First and foremost of these changes will be the introduction of the reforms to the Health and Safety Act early in 2015.

In addition to a fundamental overhaul of the law, the establishment of WorkSafe NZ as the new regulator will see sweeping changes to health and safety practices as part of addressing the multitude of weaknesses in New Zealand's current systems that were identified by the Independent Taskforce.

While PWV is not alone in addressing the requirements that the package of change imposes and due diligence obligations at a governance level, as venue managers our workplaces involve risks that are akin to a building site and so we will need to undertake a systematic overhaul and upgrade of all of our operating procedures including those of our embedded and external contractors.

Over the past three years we have made good ground in improving our basic H&S operating systems and procedures (including the development of emergency management and evacuation plans) and the appointment of a health and safety coordinator has contributed to a stronger safety culture and improved management disciplines and reporting frameworks. In this year's SOI we have allowed for an increase in expenditure on health and safety personnel and programmes in order to drive further step change across the business.

The other key areas of business risk relate to the possibility of PWV being required to adopt the WCC's Living Wage proposal. Our analysis shows that we would be required to increase our hire rates and labour charges by 7% to recover the increase in costs that this would impose. We are concerned that this would place us at a significant disadvantage because we are competing both nationally and internationally for shows and performances and business events. In P&E we are seeing good growth in touring shows but as the costs associated with touring increase (shipping, insurance, labour costs) that market is vulnerable.

And, on the C&E side of the business while there has been good recovery in the corporate and associations meetings markets, but there is increased competition for that business both within Wellington, across New Zealand and within Australia. With new venue and conference facilities coming on stream over the next three or four years, Wellington has to be careful to keep prices in line with the market in order to retain and grow our foothold.

Another area of business risk relates to the venue development needs outlined in our five year strategy. Maintaining and where possible improving the standard of our venues and the operating assets required to ensure that our hirers enjoy venue facilities of a suitable standard is essential to our business – especially as new state of the art venues come on stream.

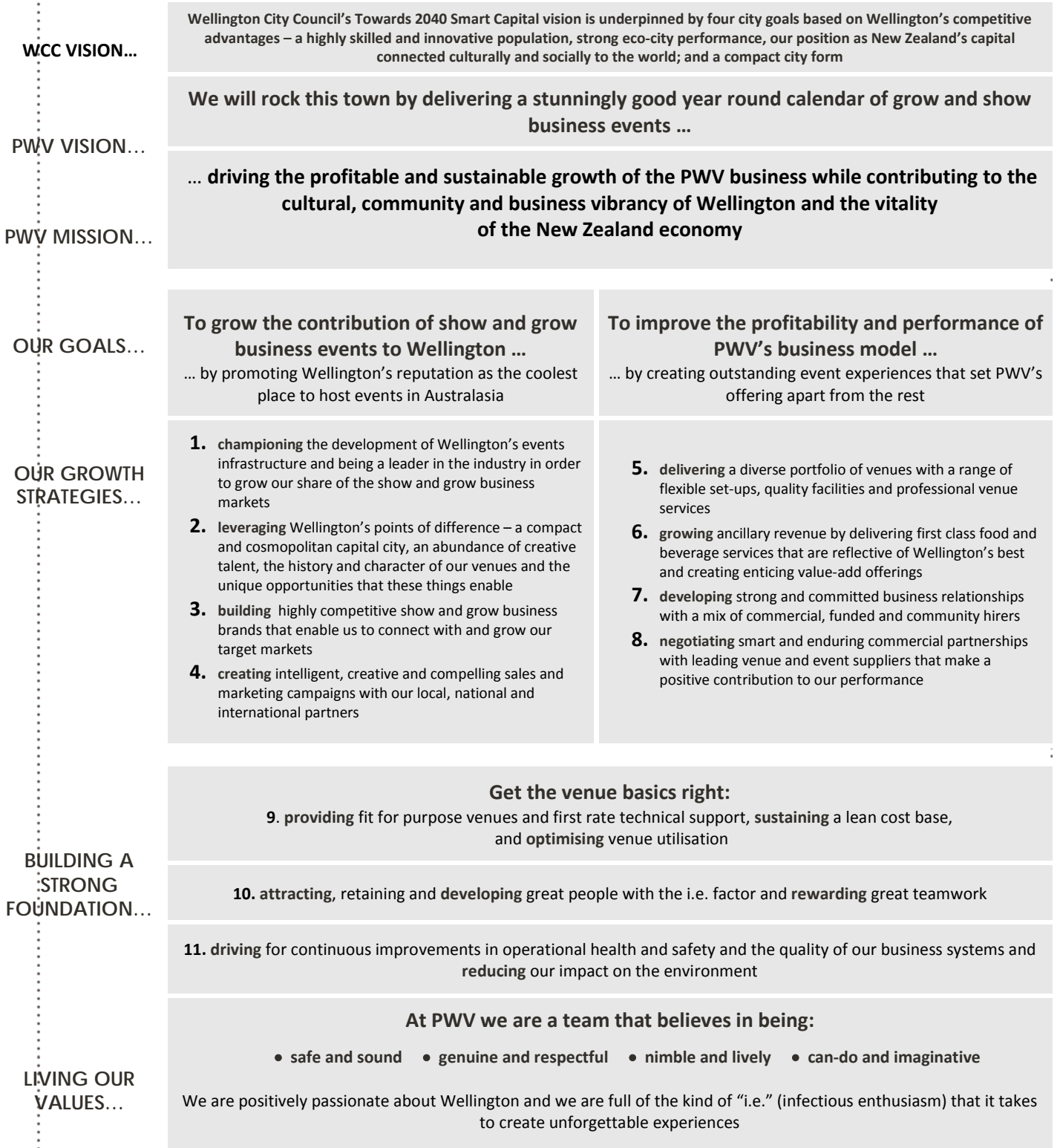
The final area of potential risk is the proposed amalgamation with PWT, Grow Wellington and City Events. While we can see significant upsides in amalgamation – and we are supportive of the benefits it will realise - as a successful trading entity we think it is important to maintain a commercial model for the venues aspect of the business. We will be upweighting the focus that we

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put on contributing to Wellington's economic growth and development – including the markets we target, the events we attract and the way in which we report on the contribution that we make. We are also committed to delivering a trading result that will enable WCC as our shareholder to invest in future growth.

In meeting the new challenges - including the heightened H&S responsibilities we will face – we will maintain our dual focus on driving revenue growth and being highly focused on managing our costs to protect and grow our margins. We have taken an ambitious view of the market in 2014/15 and that is reflected in the final budget that we are submitting. Our budget shows a significant improvement in our trading result over the draft budget and is another positive step forward over our forecast out-turn for 2013/14.

2.3 Strategic Framework



3. Nature and Scope of Activities

To deliver on PWV's Vision, Mission and Goal we will drive and deliver the following initiatives and activities:

| STRATEGY | KEY INITIATIVES/ACTIVITIES |
|---|---|
| <p>Grow contribution to Wellington</p> | <p>Align activities with the Destination Wellington Strategy – promoting Wellington as a great place to visit, live, work, study and invest</p> <p>Increase share of out of town visitors and overall spend at both grow and show events</p> <p>Secure one NZ exclusive show and one significant new show to Wellington (i.e. a touring show that in the past may not have included Wellington)</p> <p>Secure at least two significant new Australasian Conferences with 350 plus delegates</p> |
| <p>Improve PWV profitability</p> | <p>Improved venue utilisation and dynamic pricing to grow revenue , improving margins, productivity gains (improved rostering), cost management</p> |
| <p>Champion the quality and ongoing development of Wellington's event infrastructure</p> | <p>Contribute to working group on new Conference/Entertainment centre for the City</p> <p>Support increase in air services/long haul connectivity</p> |
| <p>Leverage and build Wellington's reputation as the creative and events capital</p> | <p>Support Destination Wellington promotional strategies</p> <p>Expand partnerships with arts and business organisations to develop the strength, diversity and quality of the City's events calendar</p> <p>Extend PAF across all venues in order to provide more support to local talent and productions and develop/foster new audiences</p> |
| <p>Build competitive brands</p> | <p>Continue to publish LIVE in Wellington to promote what's on in our venues, increase ticket sales and develop new audiences</p> <p>Drive our 'Power of the Precinct' strategy to take us from becoming just another 'hall for hire' to delivering exceptional event experiences based on Wellington's competitive advantages</p> <p>Grow and develop Show me Wellington as a key promotional tool for destination Wellington's C&E offering</p> |
| <p>Create effective marketing campaigns</p> | <p>Create a strong digital presence to support our other sales and marketing activities and ensure that we are getting the right information in front of the right decision-makers to drive the business</p> <p>Collaborate with other partners to plug and promote gaps in the events calendar</p> |

| STRATEGY cont... | KEY INITIATIVES cont... |
|---|--|
| Deliver diverse choice of venues with quality facilities | <p>Ensure facilities upgrades and improvements meet the needs of our hirers and end consumers</p> <p>Improve access to our venues for people with disabilities and support the Council's accessibility plan</p> |
| Grow ancillary revenue | <p>Develop both up and cross sell opportunities to increase contribution of ancillary spend</p> <p>Review current supplier arrangements to develop improved value-add offerings and marketing opportunities</p> |
| Develop strong business relationships with hirers | <p>Complete review of legacy arrangements/obligations and resolve funding of those</p> <p>Maintain regular dialogue/updates with "major hirers"</p> <p>Work closely with events, arts and culture and grants teams to align activities to ensure that a good mix of events that are relevant to a wide range of audiences are supported</p> <p>Maintain regular communication with commercial hirers and introduce supporting partners to underpin commercial success e.g. airline or hotel partners, sponsors etc</p> |
| Negotiate performance-based commercial arrangements | <p>PWV will be tendering for and negotiating a number of significant supplier agreements in 2014/15. We will be aligning the evaluation criteria with our strategic framework and building increased performance incentives into all agreements.</p> |
| Venue basics right | <p>Complete condition assessment and asset management project and R&M schedules</p> <p>Review rostering processes and undertake cross training to improve flexibility of permanent and casual workforces</p> <p>Optimise the utilisation of the venues under our management</p> |
| Great people/teams | <p>Continue to embed PWV values and lift performance through specific programmes including:</p> <ul style="list-style-type: none"> - performance development process - Front of House training <p>Create opportunities to cross skill/up skill across teams to build a highly flexible and motivated workforce</p> <p>Benchmark levels of engagement/motivation and develop strategies to work towards preferred culture</p> |
| Continuous improvement HSEQ | <p>Maintain ongoing internal and external audits in compliance with ISO standards NZ14001 and NZ9001</p> <p>Business-wide review of all aspects of Health and Safety to ensure compliance with new legislation.</p> |

4. Performance Measurements

Our financial and non-financial success will be measured by :

| MEASURE | GOAL | KPI MEASURES | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 | Overall Result |
|--|--|--|-----------|-----------|-----------|-----------|---------------------|
| Economic Contribution | | | | | | | |
| Grow contribution to Wellington | Economic contribution of show and grow business events to Wellington (based on Covec economic footprint multipliers) | Economic benefit (\$m) - multiplier per quarter: | \$7.1 | \$9.9 | \$3.8 | \$7.8 | \$28.7 |
| | | 3.37x C&E revenue 2.46x P&E revenue | \$5.0 | \$2.8 | \$2.5 | \$3.4 | \$13.7 |
| Optimising venue utilisation & revenue | 5% improvement in venue utilisation percentage | Venue utilisation 56% (rolling average) est. FY14 53% | 70% | 66% | 57% | 56% | 56% |
| | 4% improvement in venue yield by maximising total actual revenue to potential total venue revenue | Venue yield 36% (rolling average) est. FY14 34% | 45% | 44% | 36% | 36% | 36% |
| Community Responsibility | | | | | | | |
| Community Hire Days | Ensuring our venues are open to community and funded events | Greater than 175 community hire days per annum | > 40 | > 80 | > 130 | > 175 | > 175 pa |
| | | Value of community subsidised or sponsored events | \$500k | \$1m | \$1.5m | \$2m | > \$2m pa |
| Customer Satisfaction | | | | | | | |
| Net Promoter Score | Give a voice to the customer to understand and improve their experience at our venues | Net promoter score > 70% | > 70% | > 70% | > 70% | > 70% | > 70% |
| Good Employer | | | | | | | |
| Health & Safety | Creating a culture and values that ensure a safe work environment. | Zero serious harm at our venues | | | | | Zero |
| | Lost Time Injury - no lost time due to notifiable injuries | Zero lost time due to injury | | | | | Zero |
| Staff engagement | Improvement in staff engagement survey "say, stay and strive" | 2% improvement in annual staff engagement - baseline to be measured in June 14 | | | | | 2% increase |
| Profit Contribution | | | | | | | |
| Improve PWV profitability | Deliver a EBITDA target improvements in the 2014/15 FY | Full year EBITDA >\$750k | \$513 | \$969 | \$732 | \$765 | \$765 |
| Productivity | | | | | | | |
| Gross margin | Improve the profit margin of each lines of business towards a 1% improvement on prior year at Group | Full year Gross Margin 44.7% (est. FY14 43.7%) | 48.6% | 42.4% | 43.6% | 43.4% | 44.7% |

5. Board's Approach to Governance

The entity

Wellington Venues Ltd (trading as Positively Wellington Venues) is a Council Controlled Trading Organisation established in 2011 by the Wellington City Council to manage and administer the utilisation of the following Council owned venues:

- The Michael Fowler Centre
- The Wellington Town Hall
- The St James Theatre
- The Opera House
- TSB Bank Arena
- Shed 6 and the Arcade

The role of the Board

The Board of PWV is responsible for the ongoing viability of the organisation and ensuring that WV meets its annual business plan and the goals outlined in the SOI.

The Board achieves this through monthly monitoring of KPIs and the financial results of the organisation.

The Board also guides the development of PWV's long term strategy.

Board membership

The Board has eight members all of whom are non-executive. They are:

- Chris Parkin (Chair)
- Cr Simon Woolf
- Daniel Bridges
- Linda Rieper
- Samantha Sharif
- Lorraine Witten
- Mike Egan

Council policy in appointing members is to spread the terms to ensure continuity of knowledge is retained within the Board.

The Chief Executive Officer attends all Board meetings and members of the management team attend as required.

The Board meets on a monthly rotation.

Board operations

The Board is responsible for governance and the strategic direction of the business and delegates the day-to-day operational responsibilities to the CEO (and management team), who reports monthly to the Board.

The Board has an Audit and Risk Sub-Committee that meets on a regular basis. In addition to reviewing financial performance, monitoring compliance issues and initiating reviews of business performance, the Sub-Committee plays an active role in reviewing PWV's performance in the areas of health, safety, environment and quality. The Sub-Committee will also be tasked with considering any business proposals where PWV would be involved at a higher risk level than merely a hirer of venues.

The Board will appoint other working groups from time to time.

The Board will complete an annual assessment of its performance including the overall board, individual board member and the chair before September 30 2014.

As it did in December 2013, PWV will hold an Annual General Meeting in a forum which is open to the public.

Risk management

The Board will maintain an active risk register and a current register of trustee interests.

The WCC provides PWV with a credit facility with its bank in lieu of capitalising the business. This enables PWV to manage liquidity risk.

The Chair will sign off on all CEO travel and expense claims.

PWV has well established delegated authorities (currently based on the WCC framework) and the Board will review these from time to time.

The CEO is approved to speak on behalf PWV, but where there is significant reputational risk, messaging will be agreed with the Chair and in consultation with WCC.

Council relationship principles

PWV will provide quarterly reports in a mutually agreed format to the Council's Economic Growth and Arts Committee on the agreed dates and present its Business Plan and Statement of Intent on mutually agreed dates. We will await advice on any changes to this reporting framework as a consequence of the proposed amalgamation.

PWV's annual report and audited accounts will be supplied to the Wellington City Council within 90 days of the end of the financial year.

The principles governing the relationship with the Wellington City Council will include:

- Ensuring that the Council is fully apprised of any significant deviations from the budgeted cash flows
- Providing early advice to the Council in the event of any situation that has the potential to be contentious in nature and cause reputational damage
- Disclose any significant transactions that are planned within PWV's business plan

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As part of PWV's relationship with the WCC, the Chair and CEO of PWV will meet regularly with the Mayor and CEO of the Council and, as required with the EG&A Committee. Again, we expect changes in the meetings schedule as part of the amalgamation process.

6. Organisational Health, Capability & Risk Assessment

Overall, PWV is in good organisational health. The change towards a more commercial culture continues to put pressure on individuals and teams and we continue to review every aspect of the business in order to drive improvements. It perhaps goes without saying, but sometimes these reviews and changes create a level of discomfort with employees who have become set in old ways. Our need is for a flexible and adaptable workforce that is committed to delivering services to a very high professional standard.

We remain committed to monthly “all staff” briefings and weekly internal staff communication. Our PDP – or professional development programme for staff is now well established and we continue to work on integrated training and development programmes to build organisational capability. We will continue to review our organisation capability and performance and to manage changes in both as required.

The decision to amalgamate PWV with PWT and potentially Grow Wellington and the City Events team creates an environment of uncertainty for the team. Having been through a period of significant change through the merger of the old Wellington Convention Centre Business and the St James Theatre Charitable Trust, the prospect of another round of change creates a sense of fatigue and concerns about job security. We are managing this as best we can but it is unsettling.

In terms of business risks, the main risks to our business are largely unchanged from 2013/14 and most relate to our ability to compete in the market:

- having sufficient venue capacity and competitive events infrastructure (vs other venue offerings in New Zealand and Australia) and that meets the changing needs of the market – e.g. growth in large format arena product that Wellington cannot accommodate
- our ability to package city “deals” and offer bid or event attraction support that are as attractive as other centres
- perceptions around seismic conditions of our buildings and the risk in Wellington
- sustaining Wellington’s points of difference (leveraging Destination Wellington)
- being “compensated” for and/or able to recover some hard costs associated with WCC legacy arrangements that impose significant costs on PWV
- the performance and effectiveness of the Wellington Convention Bureau and other related industry bodies that we work with to identify business leads – offsetting this, Tourism New Zealand’s entry into the business events market with a substantial four year market development budget is an opportunity that we are actively leveraging
- the quality and commercial value of outsourcing arrangements and key supplier agreements
- the capability, flexibility and productivity of our workforce

Our business strategies are designed to mitigate these risks as far as possible, but we operate in a highly competitive market place with external dynamics that create uncertainty. Remaining well informed and nimble is critical to performing well.

7. Additional Information

7.1 Response to other specific Letter of Expectation matters

All items raised in the LOE have been addressed within the body of the SOI.

7.2 Response to Economic Growth and Arts Committee feedback

We were asked to comment on the impact of a loving age on PWV's business and to provide quarterly KPI targets. Both requests have been met.

8. Appendix 1: Forecast Financial Statements

8.1 2013/14 Financial outcome

There have been significant disruptions to PWV's business operations with the closure of the Wellington Town Hall. We are fortunate that with the portfolio of venues that we operate we have been able to relocate the majority of performance events. However, the Conventions and Events business has been more difficult to accommodate and as a consequence has been more directly impacted upon. The opening of Shed 6 in October 2013 has helped to reduce this impact but the long-lead nature of the C&E business has meant a full recovery is not anticipated until FY15. Reduced revenue in this market meant management attention turned to improving revenue opportunities in the Performance & Exhibitions business, securing more short lead C&E events to fill the gaps and ongoing attention being given to improving margins and cost control. We are pleased to report that earnings are forecast to be significantly better than 2013/14 budget expectations as a result.

8.2 2014/15 Budget

The PWV Board has approved the provisional budget for the 2014/15 financial year which results in an EBITDA of \$765,000 and a net profit after tax of \$510,000.

Positively Wellington Venues - 2014/15 Budget

| \$'000 | Q1 2014/15 budget | Q2 2014/15 budget | Q3 2014/15 budget | Q4 2014/15 budget | 2014/15 budget |
|---|----------------------|----------------------|----------------------|----------------------|-------------------|
| Event revenue | 4,635 | 4,463 | 2,434 | 4,074 | 15,605 |
| Car parking | 80 | 72 | 66 | 63 | 280 |
| Other income | 73 | 73 | 73 | 58 | 277 |
| Interest income | 13 | 11 | 7 | 9 | 40 |
| Total revenue | 4,801 | 4,620 | 2,579 | 4,203 | 16,203 |
| Direct event costs | 1,777 | 2,057 | 904 | 1,730 | 6,467 |
| Wages | 693 | 603 | 550 | 650 | 2,495 |
| Total direct costs | 2,469 | 2,659 | 1,454 | 2,380 | 8,962 |
| Gross profit | 2,332 | 1,961 | 1,126 | 1,823 | 7,241 |
| | 49% | 42% | 44% | 43% | 45% |
| Salaries | 843 | 726 | 669 | 934 | 3,172 |
| Other employment costs | 63 | 60 | 59 | 60 | 242 |
| Occupancy costs | 264 | 214 | 207 | 215 | 899 |
| Utilities | 261 | 136 | 63 | 206 | 665 |
| Insurance | 56 | 56 | 66 | 56 | 234 |
| Marketing | 128 | 125 | 125 | 125 | 505 |
| Prof fees | 38 | 24 | 16 | 37 | 115 |
| Admin costs | 62 | 59 | 55 | 54 | 230 |
| IT and Comms | 48 | 50 | 48 | 49 | 195 |
| Directors' fees | 26 | 26 | 26 | 26 | 105 |
| Travel | 11 | 12 | 13 | 14 | 50 |
| Vehicle costs | 19 | 17 | 14 | 14 | 64 |
| Total expenses | 1,819 | 1,504 | 1,362 | 1,790 | 6,476 |
| EBITDA | 513 | 456 | (237) | 33 | 765 |
| Depreciation | 64 | 64 | 64 | 61 | 252 |
| Tax expense | 0 | 0 | 3 | 0 | 3 |
| Net profit/(loss) after depreciation and tax | 449 | 392 | (303) | (28) | 510 |

8.3 Budget commentary

Event revenue includes income from our three lines of business: Conventions & Events, Performances & Exhibitions and Food & Beverages and include venue hire, catering, technical services, café and performance bar operations. Event revenue is based on current bookings in the pipeline adjusted for anticipated growth based on our knowledge of the market place and our experience over the past three years. The budget will also benefit from a full year of sales from the refitted Shed 6 and in addition to increased utilisation mean Event revenue is anticipated to increase by over 13% on FY14 forecast.

Ancillary income is received from tenancy arrangements at our managed venues, publication revenue, car parking at the Michael Fowler Centre, and interest income.

Direct costs are event related and include catering, technical and security costs. It is anticipated these costs will increase by 10% over the FY14 forecast due to increased event revenue and the change in business mix as more Convention and Events are scheduled. A key financial focus for PWVs is on driving improved financial results through initiatives that protect and improve margins.

Wages and salaries are based on current staffing levels and rates. These have been adjusted for anticipated movements resulting from business initiatives and an allowance for a wage and salary increase. All wage rates have previously been increased to the minimum wage. No 'living wage' adjustment is reflected in the budget. An increase in Sales and Marketing personnel to grow revenue opportunities has been approved by the PWV Board as part of our business strategy.

Other employment costs include recruitment costs, ACC, Kiwisaver contributions, and training costs. Recruitment costs in FY14 are considered abnormal, normal levels result in a 16% decrease reflected in the budget.

Occupancy costs include the TSB and NZAFA management fees, cleaning and maintenance costs, rent and rates. Allowance for increases in these costs is included where anticipated. Rates on WCC owned venues are excluded from the budget in accordance with a decision made by WCC. Utility costs include electricity, gas and water with charges being based on known usage levels across the various venues. PWV benefits from rates being tagged to the WCC contract for these costs.

Insurance costs predominantly relate to premiums for the TSB Bank Arena which is part of PWVs management agreement with the Wellington Waterfront. This SOI does not include any reduction in occupancy costs as a consequence of the Wellington Waterfront being absorbed back into council.

Marketing costs are expected to fall from FY14 forecast which includes the one-off launch of Shed 6 and costs relating to the Sydney marketing joint venture which will not reoccur in FY15. Marketing spend is set at 3.2% of revenue for the budget and two outer years.

Depreciation expense is anticipated to increase over the FY14 forecast primarily due to seating at Shed 6 which will be capitalised from March 2014.

Dividend

Positively Wellington Venues will aim to distribute funds surplus to its operating and investment requirements to the Wellington City Council. The actual level of distribution is subject to a review by the Directors of Positively Wellington Venues.

In determining the level of dividend distribution, the Directors will:

- be subject to meeting the solvency requirements of the Companies Act 1993
- and follow procedures generally adopted by Directors of publicly listed companies.

and will consider:

- delivery of forecast financial performance
- delivery of the business strategy
- capital expenditure projects
- working capital requirements.

Budgets for 2015/16 and 2016/17

Positively Wellington Venues

| \$'000 | 2014/15 budget | 2015/16 budget | 2016/17 budget |
|---|-------------------|-------------------|-------------------|
| Event revenue | 15,605 | 16,821 | 18,022 |
| Car parking | 280 | 286 | 290 |
| Other income | 277 | 279 | 283 |
| Interest income | 40 | 61 | 167 |
| Total revenue | 16,203 | 17,447 | 18,762 |
| Direct event costs | 6,467 | 6,894 | 7,370 |
| Wages | 2,495 | 2,585 | 2,637 |
| Total direct costs | 8,962 | 9,479 | 10,006 |
| Gross profit | 7,241 | 7,968 | 8,755 |
| | 45% | 46% | 47% |
| Salaries | 3,172 | 3,286 | 3,352 |
| Other employment costs | 242 | 251 | 256 |
| Occupancy costs | 899 | 920 | 939 |
| Utilities | 665 | 681 | 695 |
| Insurance | 234 | 253 | 271 |
| Marketing | 505 | 544 | 583 |
| Prof fees | 115 | 118 | 120 |
| Admin costs | 230 | 235 | 240 |
| IT and Comms | 195 | 200 | 204 |
| Directors' fees | 105 | 108 | 110 |
| Travel | 50 | 52 | 53 |
| Vehicle costs | 64 | 65 | 67 |
| Total expenses | 6,476 | 6,712 | 6,887 |
| EBITDA | 765 | 1,256 | 1,868 |
| Depreciation | 252 | 246 | 238 |
| Tax expense | 3 | 5 | 5 |
| Net profit/(loss) after depreciation and tax | 510 | 1,006 | 1,625 |

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The budget for FY16 and FY17 are represented above with the improvement in performance driven by improved venue utilisation and associated revenue increases, implementation of dynamic pricing, tighter control of margins, and the implementation of other initiatives that help achieve the development strategies outlined earlier in the SOI.

8.5 Financial position

Positively Wellington Venues Budgeted Financial position (\$'000)

| | 30-Jun-14 | 30-Sep-14 | 31-Dec-14 | 31-Mar-15 | 30-Jun-15 | 30-Jun-16 | 30-Jun-17 |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Bank & cash | 1,369 | 1,775 | 1,542 | 1,608 | 1,580 | 2,711 | 4,363 |
| Debtors | 780 | 1,136 | 1,114 | 859 | 990 | 1,231 | 1,280 |
| Accrued income | 333 | 371 | 357 | 195 | 326 | 336 | 360 |
| Inventory | 44 | 60 | 40 | 65 | 55 | 55 | 55 |
| Prepayments | 66 | 70 | 90 | 60 | 50 | 50 | 50 |
| Total current assets | 2,592 | 3,411 | 3,143 | 2,787 | 3,001 | 4,383 | 6,108 |
| Fixed assets | 1,345 | 1,336 | 1,327 | 1,319 | 1,313 | 1,347 | 1,399 |
| Total assets | 3,936 | 4,747 | 4,470 | 4,106 | 4,314 | 5,731 | 7,507 |
| Creditors | 1,345 | 1,556 | 1,554 | 1,185 | 1,342 | 1,653 | 1,715 |
| Employee Entitlements | 378 | 435 | 325 | 400 | 390 | 390 | 410 |
| GST | 37 | 116 | 63 | 11 | 72 | 99 | 73 |
| Revenue in Advance | 1,469 | 1,483 | 979 | 1,263 | 1,291 | 1,374 | 1,470 |
| Provisions | 20 | 20 | 20 | 20 | 20 | 10 | 10 |
| Total current liabilities | 3,248 | 3,610 | 2,941 | 2,879 | 3,115 | 3,526 | 3,678 |
| Shareholders' funds | 477 | 688 | 688 | 688 | 688 | 1,199 | 2,204 |
| Current year result | 211 | 449 | 841 | 538 | 510 | 1,006 | 1,625 |
| Total liabilities and equity | 3,936 | 4,747 | 4,470 | 4,106 | 4,314 | 5,731 | 7,507 |

a. Statements of cash flows

Positively Wellington Venues Statement of Cash Flows (\$'000)

| | Q1 2014/15 | Q2 2014/15 | Q3 2014/15 | Q4 2014/15 | Cashflow 2014/15 | Cashflow 2015/16 | Cashflow 2016/17 |
|---|---------------|---------------|---------------|---------------|---------------------|---------------------|---------------------|
| Cash flows from operating activities | | | | | | | |
| Receipts from venue management | 4,255 | 3,995 | 3,136 | 3,839 | 15,224 | 16,497 | 17,878 |
| Receipts from other operating activities | 152 | 145 | 139 | 120 | 557 | 566 | 573 |
| Interest income | 13 | 11 | 7 | 9 | 40 | 61 | 167 |
| Payments to suppliers and employees | (4,041) | (4,276) | (3,107) | (4,004) | (15,428) | (15,679) | (16,695) |
| Good and services tax (net) | 80 | (54) | (52) | 62 | 36 | (27) | 27 |
| Net cash flow from operating activities | 460 | (178) | 122 | 26 | 430 | 1,417 | 1,950 |
| Cash flows from investing activities | | | | | | | |
| Purchase of property, plant and equipment | (55) | (55) | (55) | (55) | (220) | (286) | (297) |
| Net cash flow from investing activities | (55) | (55) | (55) | (55) | (220) | (286) | (297) |
| Net increase/(decrease) in cash and cash equivalents | 405 | (233) | 67 | (29) | 211 | 1,131 | 1,652 |
| Cash and cash equivalents at the beginning of the period | 1,369 | 1,775 | 1,542 | 1,608 | 1,369 | 1,580 | 2,711 |
| Cash and cash equivalents at the end of the period | 1,774 | 1,542 | 1,608 | 1,580 | 1,580 | 2,711 | 4,363 |

Capital expenditure of \$220,000 has been included in the 2014/15 submission details of which are mentioned below. PWV does not anticipate the need to use the overdraft facility available from WCC in the upcoming budget year and expects the cash position to strengthen through the outer years. No provision has been included in this submission for a dividend distribution. Cashflows represented above reconcile to the statement of financial performance and financial position.

8.7 Capital expenditure

Capital expenditure included in the 2014/15 submission of the budget includes the following:

- Refurbishment of the Opera House and/or
- Redevelopment of the Jimmy Café that was deferred from the 2013/14 FY
- Multipurpose van to carry food and beverages between venues and ticketing/merchandise truck
- Floor protection system for Shed 6

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8.8 Major transactions

There are no major transactions planned to occur in the 2014/15 financial year other than capital purchases mentioned above.

Appendix 2: PWV will rock this town vision

The rocking this town vision that we established in 2011 was built on a number of “game changers” that we continue to work toward:

- the creation of TEAM Wellington which brings together PWT, PWV and City Events under a single collaborative umbrella to make sure that Wellington has a compelling year round calendar of business, cultural and sporting events. TEAM Wellington is a “creative and economic powerhouse for the city” that contributes to Wellington’s thriving business and cultural sectors
- the integration of tertiary training programmes/teaching facilities and “mini” business incubator centres into the venues – helping to attract, grow and retain talent and inward investment
- new scoring and recording facilities at the Wellington Town Hall (with links into the film and recording industries)
- improved partnerships to grow “cornerstone events” like Webstock and the BIG expo (Business Innovation Growth) that are aligned with the City’s economic growth agenda - including growth in the number of international delegates and business leaders attending these events to open up new business opportunities and drive export earnings
- significant advances in energy and waste management including pioneering new “home grown” technologies
- the opening of “WCEC”(working title only) – the Wellington Convention and Entertainment Centre – developed as a PPP this multipurpose venue includes a 10,000 seat grand arena that is attracting more rock concerts and live performances and cultural events to the city, enabling the growth of events like WOW and transforming Wellington’s convention centre offering
- the redevelopment of other venues in PWV’s portfolio – the Opera House includes exhibition spaces for ballet, opera and theatre costumes and displays, the St James has become “Cabaret on Courtenay” – making the most of the valuable real estate and creating a true performance hub
- commercial partnerships with other venues like Te Papa and the Stadium – creating a venue offering that cannot be rivalled anywhere else in New Zealand and; commercial partnerships with our resident hirers to build emerging talent and audiences
- significant growth in culture and entertainment events that were once second tier to WOW and the Sevens e.g. the Comedy Festival, VISA Wellington on a Plate and the VWOAP Master Class, and Handmade. And, securing new events to populate gaps in our calendar – e.g. Laneway
- the development of new national events in association with the city’s tertiary institutions and creative sector and Grow Wellington and MBIE’s Major Events unit
- growth in trans Tasman air capacity and connectivity and direct links with Asia – all supporting growth in Wellington’s share of business events and leisure visitation

10. Appendix 3: WCC's 2040 Goals

