



Report 10.59
Date 8 February 2010
File WRS/09/01/01

Committee Wellington Regional Strategy
Author Jane Davis General Manager
Barry Turfrey Chief Financial Officer

Proposal to Establish Creative HQ Council Controlled Organisation

1. Purpose

To seek the approval of the Committee for the proposed establishment of a council controlled organisation for Creative HQ (to be a subsidiary of Grow Wellington), and to request Greater Wellington undertakes consultation on the proposal.

2. Significance of the decision

Before making any decision on the establishment of a new council controlled organisation the Council is required to follow a special consultative procedure under the Local Government Act 2002.

3. Background

In 2007, the Council (on the recommendation of the WRS Committee) established Grow Wellington Limited as a council controlled organisation (CCO) to deliver the economic development aspects of the Wellington Regional Strategy. Part of the work that Grow Wellington does is to run Creative HQ, a business incubator.

Creative HQ has evolved over the last two years and the Grow Wellington Board believes it is now in a position to expand its services rapidly throughout the Wellington region. However Creative HQ's current structure does not allow for other external partners to invest directly in it, which would enable further expansion.

4. Comment

4.1 Proposal

Creative HQ is part of Grow Wellington and is therefore partly funded through rates (the Wellington Regional Strategy targeted rate). It also attracts some

external funding. In the future some of this funding may be in the form of equity. In other words third parties may wish to invest funding in Creative HQ and receive shares in Creative HQ in return. The ability to issue new shares in Creative HQ is considered crucial by Grow Wellington to attract the funding necessary for Creative HQs future development.

In addition it is central government's preference that Creative HQ is a separate legal entity to improve the accountability in respect of public sector funding.

Various options to deal with the issues have been considered by the Grow Wellington Board and the Board has asked that a new CCO in the form of a company, which is a subsidiary of Grow Wellington Limited, be established. The new company would be the governance entity for the ownership, management and future development of Creative HQ.

The Board considers that this structure will be the most likely to attract external investment, while enabling Grow Wellington Limited to maintain ownership and responsibility for strategic direction, and ensuring that Creative HQ continues to deliver in line with the Wellington Regional Strategy.

Any CCO established would be a CCO of Greater Wellington. Greater Wellington would only establish such a company on the recommendation of the WRS Committee. Like Grow Wellington, its relationship with the CCO would be through the WRS Committee.

Law firm DLA Phillips Fox has prepared a draft Statement of Proposal, on which any consultation will be based, for Grow Wellington. A copy is in **Attachment 1**.

4.2 Appointment of Creative HQ Directors

The proposed new CCO will be a subsidiary of Grow Wellington. Grow Wellington will therefore be responsible for the appointment of directors to the Board. Grow Wellington will be bound by the requirements of the Local Government Act to appoint people with the necessary skills, knowledge and experience.

4.3 Monitoring and reporting

Grow Wellington will oversee the operation of the company. The WRS Committee, on behalf of Greater Wellington, will consider the company's annual Draft Statement of Intent, and will receive and consider annual and half-yearly reports. It is expected these documents will be submitted to the Committee alongside Grow Wellington's own documents.

4.4 Assessment of risks

In setting up a new company there are two risks which need to be considered.

The first risk relates to the directors. The directors of Creative HQ Ltd will be appointed by Grow Wellington and not the WRS Committee/Greater Wellington. Officers do not believe this is a major risk as the WRS

Committee/Greater Wellington will continue to appoint the board of Grow Wellington.

The second risk relates to the issue of new shares in Creative HQ Ltd to a third party. This risk can be mitigated by ensuring that the constitutions of both Grow Wellington and Creative HQ Ltd require the approval of the WRS Committee/Greater Wellington prior to the sale or issue of any shares in Creative HQ Ltd to a third party. The amendment to Grow Wellington's constitution will be considered by the WRS Committee once a decision is made to establish the company.

4.5 Consultation and decision process

The Local Government Act 2002 requires that a special consultative procedure be undertaken on the proposal to establish a new CCO. Subject to the approval of the committee, Greater Wellington can undertake consultation concurrently with its Draft Annual Plan 2010/11. Consultation on the Draft Annual Plan is proposed to run from 23 March to 23 April 2010.

Depending on the number of submissions, submitters could be heard by the WRS Committee at its meeting on the 29th April. At its June 16th meeting the WRS Committee could consider its final decision on the establishment of the proposed CCO, and if necessary a recommendation then forwarded to Greater Wellington.

4.6 Chief Executives' Group considerations

The Regional Chief Executives' Group considered the proposal at its meeting on 12 February 2010. The proposal was fully supported by the group.

5. Communication

If the Committee supports the Board's request communication about the proposal will be part of the special consultative process.

6. Recommendations

That the Committee:

1. ***Receives*** the report.
2. ***Notes*** the content of the report.
3. ***Recommends*** to Greater Wellington that it undertakes a special consultative procedure on the proposal to establish a council controlled organisation for Creative HQ (to be a subsidiary of Grow Wellington), as set out in Attachment 1.
4. ***Requests*** that Greater Wellington, on the Committee's behalf, initiates the special consultative procedure outlined in Section 83 of the Local Government Act 2002.

5. *Notes that if Creative HQ Ltd is established the constitutions of both Creative HQ Ltd and Grow Wellington Ltd will reflect the requirement that the WRS Committee (acting as shareholder) approves any issue or sale of shares in Creative HQ Ltd to a third party.*

Report prepared by:

Report prepared by:

Report approved by:

Jane Davis
General Manager

Barry Turfrey
Chief Financial Officer

David Benham
Chief Executive

Attachment 1: Draft Statement of Proposal