Statement of Proposal – a separate legal entity for Creative HQ

This is a Statement of Proposal from Greater Wellington to establish a new Council-Controlled Organisation (CCO) in the form of a company which is a subsidiary of Grow Wellington Ltd, as the governance entity for the ownership, management and future development of the business incubator known as Creative HQ.

Section 56 of the Local Government Act 2002 (LGA 2002) requires that a proposal to establish a CCO must be adopted in accordance with a special consultative procedure before a local authority may establish or become a shareholder in a CCO.

Greater Wellington is requesting public feedback on this proposal prior to making a final decision on xxxxx 2010. To make a submission, see pg x.

This statement of proposal is prepared for the purposes of a special consultative procedure undertaken pursuant to sections 56, 83 and 87 of the LGA 2002, and combined with the special consultative procedure required for Greater Wellington's Annual Plan 2010/11.

This Statement of Proposal contains:

- A description of the proposal
- A discussion of the reasons for the proposal
- An analysis of the alternative options considered
- The benefits and costs of each option (in terms of the present and future social, economic, environmental and cultural wellbeing of the region)
- The extent to which community outcomes would be promoted or achieved by each option
- Details of the consultation process and how to provide feedback

The proposal

Greater Wellington proposes to establish a new CCO in the form of a company which is a subsidiary of Grow Wellington Ltd, to be the governance entity for the ownership, management and future development of the business incubator known as Creative HQ.

Grow Wellington Ltd is an existing CCO of Greater Wellington and was established to deliver the economic development aspects of the Wellington Regional Strategy (WRS). The Grow Wellington Ltd board is also required to report to the WRS Committee, a committee of Greater Wellington with responsibility for overall guidance and further development of the WRS.

As a CCO, the company and Greater Wellington will be required to comply with the requirements set out in Part 5 of the LGA 2002, which include:

- The appointment of directors who have the necessary skills, knowledge and experience to guide the company and contribute to the achievement of its objectives
- All decisions of the company must be made by the board in accordance with its constitution and a statement of intent approved by the Council
- The board must prepare, adopt and adhere to a statement of intent that is approved by the Council
- The Council will be required to regularly undertake performance monitoring of the company
- The company must provide annual and half-yearly reports to the Council
- The Auditor General will be the auditor of the company

Reasons for the proposal

Creative HQ is a business incubator, currently managed within Grow Wellington Ltd. Legally, it is part of Grow Wellington Ltd and has no separate legal personality. Creative HQ has evolved over the past two years and is now in a position to expand its services rapidly throughout the Wellington region.

There are two main reasons for the proposal to establish a new CCO for Creative HQ:

1. Grow Wellington Ltd receives some funding from New Zealand Trade Enterprise to assist with running Creative HQ. It is a condition of that funding that Creative HQ be a separate legal entity
2. Various groups have expressed interest in investing in Creative HQ but the current structure does not allow for that. A governance entity must allow for partners to invest in it to ensure it meets its objectives. This will in turn reduce the level of investment needed from Grow Wellington Ltd and ultimately ratepayers

A new CCO in the form of a company which is a subsidiary of Grow Wellington Ltd is the preferred legal form for the new governance entity. It is considered that the entity most likely to attract external investment is a company. Maintaining ownership by Grow Wellington Ltd is essential at this stage. The services delivered by Creative HQ are part of the economic development aspects of the WRS, for which Grow Wellington Ltd has responsibility.

Establishing a new CCO as a subsidiary of Grow Wellington Ltd will ensure that Creative HQ is required to continue to deliver in line with the WRS, and that the WRS Committee maintains a role in the oversight and performance monitoring of the company.

Analysis of options

The following reasonably practicable options for the governance of Creative HQ have been identified:

- Maintaining the status quo
- A new governance entity being established in the form of a:
  - CCO in the form of a company that is a subsidiary of Grow Wellington Ltd, or
  - CCO in the form of a company that is not a subsidiary of Grow Wellington Ltd, but is directly owned and controlled by Greater Wellington, or
  - Council organisation in the form of a company in which Grow Wellington Ltd has an interest but not a controlling interest

The preferred option is a new CCO in the form of a company that is a subsidiary of Grow Wellington Ltd.

The analysis of the reasonably practical options and the main benefits and disadvantages/costs of each are summarised below:

Governance options for Creative HQ	**Benefits**	**Disadvantages/costs**
Status quo (business unit of Grow Wellington Ltd)	No establishment costs	• Does not allow ongoing external funding from central government • Does not allow investment from external partners

Governance options for Creative HQ	**Benefits**	**Disadvantages/costs**
A CCO in the form of a company that is a subsidiary of Grow Wellington Ltd	• Well-recognised governance structure with clear accountability mechanisms • Control by Grow Wellington Ltd and oversight by the WRS Committee to ensure WRS objectives continue to be met • Ultimate control by Greater Wellington through its shareholding in Grow Wellington Ltd, a tailored constitution, statement of intent, and influence over the appointment and removal of directors • Flexibility in regard to addition or exit of other shareholders • Can issue share capital to fund expansion • A company provides greater flexibility in regard to activities it can be involved in than if not for profit or charitable	Initial establishment costs and administration costs

Governance options for Creative HQ	Benefits	Disadvantages/costs
A CCO that is a company but not a subsidiary of Grow Wellington Ltd (directly owned and controlled by Greater Wellington)	• Well-recognised governance structure with clear accountability mechanisms • Ultimate control by Greater Wellington through its shareholding, a tailored constitution, statement of intent, and the ability to appoint and remove directors • Flexibility in regard to addition or exit of other shareholders • Can issue share capital to fund expansion • A company provides greater flexibility in regard to activities it can be involved in than if not for profit or charitable	• No ability for Grow Wellington Ltd to influence, control or oversee the strategic direction of the company, and no direct link to WRS objectives • Additional administrative burden and cost falls on Greater Wellington
A new Council organisation that is a company in which Grow Wellington Ltd/Greater Wellington has an interest, but not a controlling interest	• Is not a CCO, so reduced establishment cost • No requirement to comply with Part 5 LGA2002 and therefore reduced requirement for monitoring by Greater Wellington	• Reduced ability for Grow Wellington Ltd and Greater Wellington (through minority shareholding) to influence, control or oversee the strategic direction of the company • No ability for the WRS Committee to influence, control or oversee the strategic direction of the company • No direct link with the WRS

Costs and benefits/community outcomes

In analysing each option, Greater Wellington is required to consider the costs and benefits of each option in terms of the present and future social, economic, environmental and cultural wellbeing of the region. Greater Wellington must also have regard to the extent to which community outcomes described in its *10-Year Plan 2009-19* (LTCCP) would be promoted or achieved in an integrated and efficient manner by each option.

It is expected that establishing a new legal entity for Creative HQ will contribute directly to the community outcome for the Wellington region for an "entrepreneurial and innovative region".

It is considered that a CCO that is a company is the most effective and efficient governance option because it strikes an appropriate balance between securing ongoing funding support and external investment, and ensuring that at this stage Grow Wellington Ltd, the WRS Committee and Greater Wellington each retain some oversight and control to ensure that the purposes and objectives of both Creative HQ and the WRS are advanced.

In comparison, the status quo is considered to be unsustainable (for the reasons outlined earlier), and a Council organisation is considered to provide an insufficient link to the WRS and the delivery of relevant community outcomes.