

**REPORT TO WELLINGTON CITY COUNCIL  
AND WELLINGTON REGIONAL COUNCIL ON  
THEIR INVOLVEMENT WITH NEW ZEALAND  
SESQUI 1990 FESTIVAL**

**APRIL 1990**

I     INTRODUCTION

101     When the financial details of the collapse of the New Zealand Sesqui 1990 Festival (Sesqui) became known, the Audit Office was concerned that the ratepayers of the two local authorities principally involved, the Wellington City Council (WCC) and the Wellington Regional Council (WRC), were reportedly being committed to funding and guarantees of over \$1.5 million.

102     The Controller and Auditor-General therefore decided to review the involvement of the Councils, and representatives of his Office met with the two senior elected representatives, the Mayor (WCC) and the Chairman (WRC), who declared their support for the review.

Terms of Reference

103     The Controller and Auditor-General decided that the review would examine the process by which each council came to guarantee, or commit, public funds to Sesqui, and whether the councils had information of the kind and quality that would normally have been expected when coming to their decisions to support Sesqui.

The audit investigation would be a "before the event" review, as far as the councils and Sesqui were concerned.

Authority

104 The review was conducted under the authority of section 25 Public Finance Act 1977.

Audit Scope and Limitations

105 The review was limited to the councils' involvement with Sesqui during the period 23 November 1988, the date of the first approach from the Sesqui Board, to 23 February 1990, the opening day of the Festival. The review does not include, however, an audit of any of the following organisations:

- (1) Sesqui;
- (2) The Wellington 1990 Trust;
- (3) The Wellington Show Association Inc.

106 When considering how the councils came to be financially involved in Sesqui, it was decided that the review should address the following points:

- (1) What information was made available to the councils?
- (2) What evaluation or scrutiny was carried out by the councils of this information?
- (3) In what manner were the decisions to provide financial support reached?

107 It should be noted that after the elections in November 1989, new Councils inherited the decisions of the former authorities.

II BACKGROUND

201 In 1986, following discussions with the Government over how the local authorities could celebrate 1990 in the Wellington region, there was a desire to have in place an organisation to co-ordinate regional activities. On 5 April 1988, the Wellington City Council set up a trust, incorporated under the Charitable Trusts Act 1957, known as the Wellington 1990 Trust. The Trust Deed states that the prime objective of the Trust is, throughout 1990, to establish, organise and promote culture, art, sport, trade, national and local historical commemorations and celebrations.

202 On 18 November 1988, a joint venture to promote and conduct Sesqui was established by agreement between the Wellington 1990 Trust and the Wellington Show Association Inc. The Trust and the Association were to be equal parties in the venture. The agreement would not come into force until 31 March 1989 when a decision would be made whether to continue or stop, based on the expected success or otherwise shown by the projected financial arrangements.

203 A Sesqui Board was set up to overview matters on behalf of the parties to the joint venture. The members of the initial board were:

- Representing the interests of the Wellington 1990 Trust

G Datson (Chairman)

Sir M Fowler

Lady A Weir

- Representing the interests of the Wellington Show Association Inc

K Hancox (Deputy Chairman)

P Morpeth

D Simms

M Hill

J Von Kohorn

Mr C Dundas, an original member, resigned in December 1988 to take up the position of Director of Corporate Affairs for Sesqui.

204 It was agreed that the Association would act as the manager of Sesqui, and for that purpose a Chief Executive, Mr J Gittus, was appointed.

III FINDINGS

(A) WELLINGTON CITY COUNCIL

301 On 23 November 1988, by letter signed by the Chairman and Deputy Chairman of the Sesqui Board, the Council was asked to become involved on an initial basis by underwriting the Board's set up costs. In support of this approach the Board presented a submission, prepared by the Chief Executive, containing the projected budget to 31 March 1989.

The budget was as follows:

Total spending	\$403,000
Sponsor income	\$300,000
	_____
Anticipated shortfall	\$103,000
	=====

302 As an urgent and interim step, the Sesqui Board sought assistance on the following basis:

- (1) A loan of \$103,000 for immediate cash flow purposes; and
- (2) Underwriting a further \$300,000 if the sponsor income did not eventuate.

303 It further suggested that in the event of the project being cancelled, an appropriate course of action would be for the WCC and the WRC to accept equal responsibility for any deficit.

304 Although it was acknowledged that the financial budget had not yet been presented to the Sesqui Board, the submission further projected that a conservative result of the Sesqui Festival would be a surplus of \$1.2 million (as a result of expenditure of \$7.1 million against revenue of \$8.3 million) and a best case surplus would be \$7.1 million. No figure for the expected number of paying visitors was included.

305 Attached to support these projections were the following financial statements:

- Projected cash flow for the period 1 October 1988 to 31 March 1989; and
- Projected cash flow for the period 1 October 1988 to 31 May 1990.

306 The signatories to the submission, the Chairman and Deputy Chairman of the Sesqui Board, stated that although they had complete confidence in their ability to operate the Festival at a profit, they could not foresee the future and accordingly sought underwriting on the following basis:

- (1) The WRC to agree to underwrite the Wellington 1990 Trust as to any deficit arising from the Trust's half share in the joint venture; and
- (2) The WCC to agree to underwrite the Wellington Show Association Inc in respect of any deficit.

307 On 7 December 1988, at a meeting of the WCC Resources and Airport Committee, the Town Clerk presented a report which contained, inter alia, the following comments:

"I have received from Mr Gittus, the newly-appointed Chief Executive of Sesqui 1990, copies of the budget/cash flow position to 31 March 1990, as well as the budgets referred to in paragraph 8 of the 23 November letter, and I am satisfied that a realistic approach has been taken to the income and expenditure projections.

"I will be discussing the loan and underwriting options with the City Treasurer prior to the Resources meeting and will be able to advise the Committee verbally in this regard. However, if the Council decided to support the request from the Sesqui 1990 Board, on the basis that the Wellington Regional Council would do likewise, then Wellington City Council's commitment would be:

- (a) a loan, however arranged, in the sum of \$103,000,
- (b) short term underwriting to 31 March 1989 of a further \$100,000,
- (c) longer term underwriting to 30 November 1989 of \$400,000.

"Notwithstanding this, the realistic projections are for a profit and this looks to be achievable as long as the Sesqui Board takes a businesslike/feet on the ground approach to the project."

We have been advised that the proposed consultation between the Town Clerk and the City Treasurer did not take place.

308 The Committee resolved that:

- (1) A loan of \$103,000 should be made, to be repaid on 1 June 1990 including interest if a profit was made.
- (2) Short-term underwriting to 31 March 1989 of \$100,000 should be arranged.
- (3) Long-term underwriting to 30 November 1989 of \$400,000 should be arranged.
- (4) A nominated council officer should liaise with the Sesqui Board.

On 31 January 1989, the Council was advised that Mr Richard Mayson, Director of Public Relations, had been appointed as the liaison officer.

309 The Committee's decisions were ratified by the Council on 16 December 1988 and a loan of \$103,000 was made to the Sesqui Board on 21 December 1988.

310 On 27 April 1989, in a letter from the Chief Executive, the Mayor was advised that the Sesqui Board, at a meeting held on 29 March 1989, had resolved to continue with the project. In attendance at this meeting, by invitation of the Board, were the Deputy Mayor, Mr Terry McDavitt; and WRC Chairman, Mr Stuart MacCaskill, and General Manager, Mr Ian Carrie. Apologies were noted from the Mayor and the Town Clerk.

311 Enclosed with the letter was a copy of the minutes of the meeting which included the following financial statements:

- an income and expenditure account for the period ended 28 February 1989; and
- a revised cash flow statement for the period 1 October 1988 to 31 March 1989.

312 This letter and its attachments was provided for the information of councillors at a meeting of the Resources and Airport Committee on 7 June 1989. It was not referred to the Council.

313 The financial arrangements agreed to by the WCC were formalised as follows:

- (1) On 30 June 1989, the Council signed a Deed with Trust Bank Wellington Limited guaranteeing the sum of \$400,000 for financial accommodation provided to the joint venture partners. The guarantee was to expire on 30 June 1990.\*
- (2) On 23 August 1989, an agreement was signed between the Council and the two parties to the joint venture evidencing:

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\* We have been advised that the guarantee expiry date of 30 November 1989 approved by the Council (see paragraph 308(3)) was extended to 30 June 1990 at the request of Trust Bank Wellington Limited, but was not referred formally to the Council for approval.

(a) The loan of \$103,000, which was to be for the period 21 December 1988 to 1 June 1990, bearing interest at 12% provided a profit eventuated.

(b) The underwriting of Sesqui by the WCC in the following manner:

- a guarantee of repayment of money advanced by Trust Bank Wellington Limited of \$400,000; and

- in consideration of the loan and this guarantee, the Wellington Show Association Inc was to give to WCC a second mortgage in the sum of \$503,000 secured on its lease of the Wellington Show and Sports Centre.

314 Our enquiries have led us to draw attention to the following information about the second mortgage obtained by the WCC:

(1) In accordance with the provisions of section 3, Wellington City Exhibition Grounds Act 1959 (the Act), the WCC is authorised, with the consent of the Minister of Lands, to grant a lease of the Exhibition Site to the Wellington Show Association Inc.

(2) Section 8 of the Act enables the Association, with the consent of the Minister of Lands, to borrow money by way of debentures or otherwise. This power to borrow is also contained in rule 32 of the Association.

(3) The Association's legal advisers have expressed the view that because the mortgage was in respect of operating costs and not development expenditure, the consent of the Minister of Lands was not required and was therefore not sought.

(4) The priority in respect of the mortgages secured on the Association's lease is as follows:

- First mortgage - Bank of New Zealand - \$500,000
- Second mortgage - Wellington City Council - \$503,000
- Third mortgage - Trust Bank Wellington Ltd - \$500,000

(5) The Exhibition Site over which the lease is held is vested in the WCC as Town Belt Reserve, and the alternative purposes for which the site can be used are restricted to those specified by section 5 of the Act.

315 On 31 January 1990, following the election of a new Council, the Town Clerk, with the assistance of Messrs Hill and Simms of the Sesqui Board, orally briefed the councillors of the projected financial cash flow situation for the Festival venture as at 31 January 1990. It is understood that there were several questions about the projections; in particular, doubt was expressed as to the reliability of the figures for expected gate attendances. The City Treasurer was requested to comment on the financial arrangements.

316 As a result of a confidential report from the Town Clerk to the councillors on 2 February 1990, an emergency meeting of the Council was held on 5 February 1990. Also presented to this meeting was a report from the City Treasurer.

317 In essence, the Town Clerk's report said that:

- (1) He was satisfied that the costs of the project were within the planned budget.
- (2) Savings of \$1,530,000 had been made in anticipated expenditure (hall hire, advertising, stand construction and security) because of cash flow problems.
- (3) \$6.4 million of income, \$5.4 million from gate sales and \$1 million from franchises, was required to achieve a break-even result.
- (4) The income from gate sales, using an average of \$8 per visit, would require 675,000 people to visit Sesqui.
- (5) Estimated visits were 1,300,000.
- (6) Cash flow problems had arisen due to the fact that advance ticket sales had not gone as planned.
- (7) A further guarantee of \$500,000 was required by the Sesqui Board.

(8) The Council should secure this guarantee by way of first charge against the gate takings, i.e. only 62,000 visits would be needed to cover the amount.

(9) He recommended that the Council underwrite the additional \$500,000.

318 Although the report of the City Treasurer agreed with the comments of the Town Clerk, the Treasurer made it clear that his opinion was formed on the basis of the information supplied by the Sesqui Board.

319 Attached as Appendix I is a copy of the "Summary of the Financial Position of the Sesqui Carnival" based on advice received from the Sesqui Board. The Town Clerk's report was adopted by the Council, which noted that the WRC should be asked to share the additional underwriting on a 50/50 basis. The adoption resolution was passed by a majority of 16/3 of the councillors present. (See Appendix II).

320 Sharing the additional underwriting was subsequently agreed to by the WRC.

321 The Deed for the new guarantee between Trust Bank Wellington Limited and the WCC for \$500,000 was signed on 7 February 1990.

### Conclusions

322 Up to 23 February 1990, the Wellington City Council had made the following financial commitments to Sesqui:

- A loan of \$103,000 on 21 December 1988;
- A guarantee of \$400,000 on 30 June 1989; and
- A guarantee of \$500,000 on 7 February 1990, half of which the Wellington Regional Council has agreed to meet (see paragraph 334).

A second mortgage was secured against the lease of the Wellington Show and Sports Centre in consideration of the first two commitments (see paragraph 313(2)(b)).

323 At the time of agreeing to those commitments, the Wellington City councillors were relying on assurances from senior council staff and those councillors who attended meetings of the Sesqui Board that the financial projections for the project were realistic.

324 Until the opening of the Festival, councillors were being assured that budgets and projected gate attendances were on target and that therefore the Council's financial involvement would only be temporary until the cash flow commenced. However, the Town Clerk has advised that the quality of information available varied at each stage. In particular, the decision relating to the second major underwriting (see paragraphs 317-319) was taken by the Council with little reliable information available and in circumstances such that to delay making a decision was not really an option.

325 We conclude that inadequate enquiries were made to ensure the reliability of the basis upon which those assurances were being

provided. The Council clearly relied upon the expertise that was brought to the management of the Festival by the Chief Executive of the Sesqui Board, Mr Gittus. In the case of the second major underwriting, the Council allowed itself to be subject to the extra pressure of lack of time for adequate consideration.

(B) WELLINGTON REGIONAL COUNCIL

326 On 25 November 1988, at a meeting of the Mayors of the WRC's constituent authorities and the Chairman, representatives of the Sesqui Board made a presentation on behalf of the Wellington 1990 Trust seeking their support in underwriting the set up costs of the Festival of up to \$400,000 in the period to 31 March 1989.

327 It was agreed at that meeting that those present would discuss the proposal with their Councils and advise the WRC accordingly. There is no tangible evidence, however, to suggest that the attendees responded prior to the Council resolving to commit itself to the Festival.

328 In his report in support of the submission, tabled at a meeting of the Council on 13 December 1988, the Chairman summarised details of the information to hand, noting that the arrangement had been favourably considered by the WCC. The key projections, which had been drawn from a report of the Wellington Show Association of 19 September 1988, were that there would be:

-	Revenue	\$6.1 million
-	Expenditure	\$4.2 million
-	Expected gate attendances	500,000 people

329 The Council then agreed to underwrite the costs of the Festival as follows:

- (1) Up to \$200,000 for the period to 31 March 1989, when a "go/no" decision was to be made.
- (2) Longer-term underwriting to a maximum liability of \$400,000 to November 1989.

This resolution was passed by a majority of 11/5 of the councillors present. (See Appendix III).

330 On 11 April 1989, in a letter from the Chief Executive, the Chairman was advised that the Sesqui Board had resolved to continue the project. On 4 September 1989, the Council signed a Deed with Trust Bank Wellington Limited to guarantee the sum of \$400,000 for financial accommodation to the joint venture partners in the period to 30 November 1989.

331 On 10 October 1989, at the request of the Chief Executive of the Sesqui Board, the Council resolved to extend the period of the guarantee to 30 June 1990. In the information supplied to the Council, the projections provided by the Sesqui Board had now changed to:

- Revenue	\$13.9 million
- Expenditure	\$9.1 million
- Expected gate attendances	1.7 million people

332 In early January 1990, the new General Manager of the WRC, who took up his position in November 1989, questioned the economic viability and projections for Sesqui and the Council's risk under the Bank guarantee. He requested up-to-date information from the Chief Executive of the Sesqui Board. In response, a financial summary to 31 January 1990 was provided.

333 This summary contained the same projections as were made available to the Council on 10 October 1989.

334 It is evident from our appraisal of internal memoranda that the General Manager considered that the success of Sesqui would be highly dependent upon future ticket sales and the income from franchises. He therefore recommended to his financial manager that it would be prudent to make provision for the liability arising under the guarantee of \$400,000.

335 On 12 February 1990, a comprehensive dossier on events to date was provided by the Chairman to members of the newly-elected Council to:

- Inform them of the obligations entered into by predecessor authorities; and
- Ask them to consider a request from the WCC to share its further underwriting commitment of \$500,000 to the Sesqui Board on a 50/50 basis.

336 In the information supplied to the Councillors, the projections had been amended to:

- Revenue \$12.3 million
- Expenditure \$7.6 million
- Expected gate attendances 1.3 million people

337 The Chairman fully supported the views expressed by the WCC, and further noted that for one of the councils not to agree to the additional guarantee could be seen as a withdrawal of its support. This action, in his opinion, would greatly increase the likelihood of failure of the project and the possibility of the Council's previous underwriting being called up.

338 The Council resolved to increase its commitment by a further \$250,000 to \$650,000 at a meeting on 13 March 1990 (see paragraph 319). This resolution was passed by a majority of 8/5 of the councillors present. (See Appendix IV).

#### Conclusions

339 Up to 23 February 1990, the Wellington Regional Council had made the following financial commitments to Sesqui:

- A guarantee of \$400,000 on 10 October 1989; and
- A guarantee of \$250,000 (to the Wellington City Council) on 13 March 1990.

340 Despite the concerns expressed by the new General Manager, it is evident that the members of the WRC, at the time that the final financial commitment was agreed to, were motivated in no small way by the prior decisions of the WCC. This attitude was clearly expressed in the dossier provided to the new members by the Chairman.

IV OVERALL COMMENT

401 It is evident that, in agreeing to provide financial support leading up to the opening of the Festival, both Councils had been led to rely on a series of projections originating from the Sesqui Board. The projections were supported by the assurances of those elected representatives who had attended meetings of the Sesqui Board and by the Town Clerk of the Wellington City Council.

402 Because of what is acknowledged to be the variable quality of this information relied upon, the WCC eventually found itself in a situation where it had little option other than to support the Festival. The WCC's decisions were instrumental in the continued involvement of the WRC.

403 This Office must view with concern, therefore, the fact that the funds of the Councils' ratepayers were committed in such a manner.

404 If the Councils should find themselves in a similar position in future, they should ensure that proper examination and assessment of the proposal is undertaken so that they are fully informed of the likely risks and consequences of the financial commitment being sought.

5.2.90

SUMMARY OF FINANCIAL POSITIONSESQUI CARNIVAL

Nett excess Expenditure over Income (including commitments) up to 31 January 1990	\$1,900,000
Estimated Expenditure to completion and wind-up	4,500,000
Total	<u>\$6,400,000</u>
Estimated Income from 31 January 1990 (based on 1.3 million visits)	
Gate sales (\$8 per visit)	\$10,400,000
Franchise Income (\$1.50 per visit)	1,950,000
Total	<u>\$12,350,000</u>
<u>To Break-Even</u> the number of visits needs to be 673,700 yielding income as follows:	
Gate sales (\$8 per visit)	\$5,389,600
Franchise Income (\$1.50 per visit)	1,010,550
Total	<u>\$6,400,150</u>
<u>For no increase in Council's current commitment</u> the number of visits needs to be 579,000 yielding income as follows:	
Gate sales (\$8 per visit)	\$4,632,000
Franchise Income \$1.50 per visit)	868,500
Total	<u>\$5,500,500</u>

WELLINGTON CITY COUNCIL MEETING HELD ON5 FEBRUARY 1990SESQUI CELEBRATION

After further discussion, Mayor Belich moved the following resolution, seconded Councillor Lysaght.

- (a) That Council agrees to the guarantee for the advance of \$500,000 to be made to the 1990 Trust on behalf of Sesqui, the agreement, copy of which was attached to the report of the City Treasurer, be approved and duly executed by Council, and that authority be given for the Seal of the Council to be affixed.
- (b) That Sesqui be required to provide to Council daily returns of ticket sales showing both number and value, so that this aspect can be monitored.
- (c) That Sesqui be required to make available to Council all financial records at any time during the period of the guarantee in order to monitor the financial position of the event.
- (d) That the Council ask the Wellington Regional Council to meet as a matter of urgency to give a guarantee to the Wellington City Council that they will take up half of this additional guarantee now extended to the 1990 Trust.

The motion was carried 16:3.

A division was requested which resulted as follows:

Ayes

Mayor Belich  
 Councillors Armitage  
 Baber  
 Barraclough  
 Blincoe  
 Boyden  
 Gilberthorpe  
 Gotlieb  
 Hutchings  
 Lysaght  
 McDavitt  
 Paske  
 Prendergast  
 Stephens  
 Watt  
 Weir

Noes

Councillors Downing  
 Driver  
 Rainbow

Councillor Bedingfield left the meeting at 1.30 p.m. and was not present for the vote.

WELLINGTON REGIONAL COUNCIL MEETING HELD ON13 DECEMBER 1988UNDERWRITING OF THE NEW ZEALAND SESQUI 1990 FESTIVALMoved

(Chairman/Cr Evans)

That the Wellington Regional Council underwrite the Sesqui 1990 Festival as follows:

- (1) Up to \$200,000 for the period to 31 March 1989 when a "go/no" decision is to be made.
- (2) Longer-term underwriting to a maximum total liability \$400,000 to November 1989.

The Motion was put and carried by 11 votes to 5 after a division as follows:

YES

Cr Abernethy  
 Cr Belich  
 Cr Boyden  
 Cr Cousins  
 Cr Evans  
 Cr Good  
 Cr Gray  
 Cr Paske  
 Cr Spry  
 Cr van Gaalen  
 Cr Macaskill

NOES

Cr Arnold  
 Cr Gibson  
 Cr Jones  
 Cr Lambert  
 Cr Moore

WELLINGTON REGIONAL COUNCIL MEETING HELD ON13 MARCH 1990UNDERWRITING OF THE NEW ZEALAND SESQUI 1990 FESTIVALMoved

(Chairperson/Cr Woodley)

That the Wellington Regional Council advise the Wellington City Council and Festival's banks that it agrees to increase its guarantee by a further \$250,000 to \$650,000.00 and that Sesqui be advised that no additional financial support will be forthcoming from Council.

The above recommendation was passed 8 votes in favour and 5 votes opposed after a division as follows:

Ayes

Cr Cody  
 Cr Gray  
 Cr Loader  
 Cr McDavitt  
 Cr Macaskill  
 Cr Paske  
 Cr van Gaalen  
 Cr Woodley

Noes

Cr Arnold  
 Cr Bull  
 Cr Christianson  
 Cr Gates  
 Cr Ritchie

Resolved

(Chairperson/Cr van Gaalen)

That if it is necessary that authority be given to affix the Common's Official Seal to any variation to the underwriting agreement.

Councillors Arnold, Ritchie and Christianson voted against the above resolution.

Resolved

(Chairperson/Cr Gray)

That Sesqui be required to provide the Wellington Regional Council's General Manager with:

- (1) daily returns of ticket sales, showing number and value;
- (2) access to all financial records at any time during the period of the guarantee; and
- (3) a business plan completed to date be made available to Council.