20/12/01

711 **DPC018/00PT2CS** **National Wine Centre**
APPROVED AS AMENDED
Premier

Not Relevant

711

DPC 018 PT2/00CS

CABINET COVER SHEET

1.	TITLE	NATIONAL WINE CENTRE
2.	MINISTER	PREMIER
3.	PURPOSE	To seek additional funding for the National Wine Centre for the period 1 July 2001 to 31 March 2002 and to seek approval for the appointment of an external consultant, Mr Ian Kowalick, to review the NWC Business Plan without going to the market.
4.	RESOURCES REQUIRED FOR IMPLEMENTATION	2001-2002 - $1.75 million
5.	RELATIONSHIP TO GOVERNMENT POLICY	
6.	CONSULTATION	Department of Premier and Cabinet
7.	FAMILY IMPACT STATEMENT	None
8.	URGENCY	Immediate
9.	RECOMMENDATIONS	That Cabinet approve:

9.1. additional funding of $1.75 million for the National Wine Centre for the period 1 July 2001 to 31 March 2002.

9.2. the appointment of Mr Ian Kowalick to undertake an external review of the Centre's operations without going to the market, subject to the presentation of a satisfactory proposal to the Chief Executive of DPC and the Chair of the National Wine Centre.

Rob Kerin

ROB KERIN
Premier
20 / 12/2001

MINUTES forming **ENCLOSURE** to **DPC018PT2/00CS**

TO: CABINET

RE: NATIONAL WINE CENTRE

1. PROPOSAL

That Cabinet approve

1.1 additional funding of $1.75 million for the National Wine Centre for the period 1 July 2001 to 31 March 2002.

1.2 the appointment of Mr Ian Kowalick to undertake an external review of the Centre's operations without going to the market.

2. BACKGROUND

2.1. 2000-2001 Year End Position

2.1.1. The National Wine Centre (NWC) finished the 2000-2001 year with a surplus of $884,000, but an accrued loss position of $338,000 due primarily to items of deferred expenditure resulting from the delay in the opening of the Centre.

2.1.2. The items of deferred expenditure were:-

• Marketing	$33,625
• Product Development	$48,900
• Marketing Communications	$528,595
• Consultant Fees (operations)	$116,000
• Opening Wine Stock	$92,000
TOTAL	$819,120

2.1.3. Taking into account these deferred items, as stated in 2.1.1 above, NWC finished the 2000-2001 financial year with an accrued loss position of $337,628, as follows:

• Cash	$404,492
• Receivables	$299,000
• Payables	($222,000)
• Deferred expenditure	($819,120)
ACCRUED LOSS	($337,628)

2.1.4. The 2000-2001 budget for NWC was approved based on an opening date of 1 June 2001.

2.1.5. A copy of the audited accounts for NWC for the 2000-2001 financial year is attached.

2.2 2001-2002 Budget Allocation

2.2.1 NWC received an appropriation of $995,000 for the period 1 July 2001 to 30 June 2002.

2.2.2 This appropriation comprises four items which are detailed below. Also included is a financial activity summary (Item 3.7) outlining the expenditure against each of the appropriated amounts.

2.2.2.1 Ongoing Recurrent Allocation
An ongoing recurrent allocation of $253,000 per annum was included in the five year forward estimates programme until 2003-2004 for Board fees and expenses.

2.2.2.2 Provision for Delayed Opening
An additional appropriation of $415,000 to cover the period of delayed opening from 1 July 2001 to 31 August 2001.

2.2.2.3 In addition, an amount of $250,000 was appropriated for specific opening activities.

2.2.2.4 NWC also received the sum of $78,000 which was allocated to NWC in the 2000-2001 financial year as a loan against the Centenary of Federation project, but was not drawn down in that year. This sum was paid into NWC's account by Treasury and will need to be repaid in the current financial year.

2.2.3 NWC have applied to carry forward their current cash and receivable assets at 30 June 2001 of $422,000.

$138,000 of the carry-over amount was allocated for activities associated with the marketing of the start-up of the operations of the Centre. The total budget for the opening of NWC was therefore $388,000.

2.2.5 On 24 July 2000, when Cabinet approved funding for NWC for the 2000-2001 financial year, the sum of $320,000 was set aside for a number of expenditure items required for the establishment of operations of NWC which had been identified but not costed at that time.

These items included funding for a ticket system, IT hardware and software, post builders cleaning and gardening, the regional showcase and security and similar services.

At its meeting of 13 August 2001 Cabinet approved the allocation of $320,000 to NWC for these items.

2.2.6 In addition, funds of $725,000 were held at the Department of Administration and Information Services for the purchase of loose furniture, fittings and equipment, as part of the capital works budget.

3. DISCUSSION

3.1 Since the final 2001-2002 budget for NWC was approved a number of factors have impacted negatively on the ability of the Centre to achieve its targets. These factors, which are summarised in Item 3.7, include:

3.1.1. Delay in Opening from 1 September to 6 October 2001

NWC was scheduled to open on the 1 September 2001 at the time when the budget was submitted to DTF in March 2001. The Centre opened on 6 October, however, as the launch activities continued through until the 13 October NWC did not commence normal operations until this date.

For the period 1 September to 13 October 2001 NWC was incurring fixed operating costs which were not funded. The loss for this period is $327,351.

3.1.2. Additional IT and other sundry expenditure

As part of the sum of $320,000 for uncosted items which was allocated by Cabinet on 13 August 2001, an amount of $241,660 was identified for NWC's IT requirements.

However, the costs associated with discontinuing use of the Government system for external IT infrastructure and servicing through the Department of the Premier and Cabinet were not included in the above amount.

This has required significant additional expenditure for connectivity, hardware and support and use of consultants to commission the system. The additional expense incurred by NWC as a result of these requirements was $226,637.

An amount of $78,340 was approved for other items, such as cleaning, security, signage etc. It was, however, projected at that time that the cost of these items would be $90,800. At the time, NWC undertook to find the additional amount from within its existing budgets or through sponsorship.

3.1.3. Australian Wine & Brandy Corporation Relocation Costs

In January 2000 NWC gave an undertaking to the Australian Wine and Brandy Corporation (AWBC) that should AWBC have to relocate from their existing premises prior to the completion of the Centre, then NWC would accept responsibility for all reasonable costs associated with this additional move.

In October 2000, AWBC advised that they had been required to undertake an interim move from Wine Industry House as the facilities at the National Wine Centre were not available.

At the time the NWC budget was struck for the 2000-2001 year it was not expected that any of the industry office tenants would require relocation assistance prior to the move to the Centre in 2001 and no provision was made in the budget for such expenses.

The initial claim from the AWBC was $98,000, however, after negotiation an amount of $78,000 was agreed.

3.3 Pre-Trading Activities

In the period 1 July to 13 October 2001 the National Wine Centre incurred expenses of $1,076,000 for pre-trading activities. Attached at is a summary of these activities which have had to be funded by the Centre.

3.4 Post Opening Issues/Implications

3.4.1 A number of events occurred in the period immediately prior to the opening of NWC which have had a major impact on the trading activity of NWC and most particularly the inability of NWC to meet its revenue projections. These events were entirely outside the control of the Centre.

3.4.2 The 11 September terrorist attacks in New York and Washington have resulted in a significant decline in international travel.

The cessation of all Ansett air services to Adelaide from the 14 September to 2 November 2001 saw a significant reduction in interstate visitation to this State. In addition, NWC had negotiated a sponsorship arrangement with Ansett for the opening period and the remainder of the 2001-2002 year. This sponsorship was valued at $108,000 of which $70,000 was directly budget relieving.

In general, the world and Australian travel and tourism markets have been soft since early September and are expected to remain so for, at least, the short term.

3.4.3 In addition to the above events, the Centre also commenced operation without any contingency reserves. Therefore, the Centre did not have the resources to absorb any extraordinary issues that arose during the start-up of the operation.

3.4.4 Despite the impact of the above, NWC has commenced trading with positive results in many of the areas of the Centre. NWC advises that:

- There has been almost universal acceptance of the products of the National Wine Centre from those who have participated in the experience. The Centre has received positive feedback on all facilities of the Centre including the building, the service and the activities.
- The National Wine Centre's Business Plan projected 170,000 visitors per annum. Actual visitor numbers through the door of the Centre in the first two months of trading, not including the opening weekend, have exceeded these projections. However,it was anticipated that almost all visitors would visit the exhibition which has not eventuated.
- The Centre has received overwhelming acceptance of its banquets and functions product. Revenue has exceeded projections for November and will again in December. In the period between opening and the 31 December the Centre will hold 112 functions generating revenue of $661,000.
- De Castella's, the Centre's restaurant, has achieved or exceeded revenue projections every week since opening. It has also been full during the lunch period every day since November.
- On 23 November 2001, the National Wine Centre received three Australian Timber Design Awards.
- On 5 December 2001, the Centre received the Urban Development Institute (SA Division) President's Award. The Centre will now compete at the National Awards in March 2002.

3.4.5 Initial staffing was higher than budgeted and industry standards to guarantee the quality of the product and the continued success throughout the launch period. As a result operational losses were incurred.

3.4.5 Based on the public reactions to the Centre, the positive wine, tourism and lifestyle media reports generated at and since the opening, and the trading patterns to date, the Centre believes that it has a good opportunity to increase visitation to the exhibition. Combined with the increased operational efficiencies described below, the Centre believes net revenue can be significantly improved.

3.5 Operational Review

3.5.1 In November 2001, management commenced an operations review to assess performance against the Business Plan.

3.5.2 The operations review, which is still in progress, has identified a number of actions which have already been undertaken to reduce operating costs, increase revenue and thus reduce further losses. These actions include:-

- Staffing levels - staffing levels in all areas of the Centre were established to meet the Board's requirements that the opening and launch of the Centre were exemplary. This necessarily meant that initial staffing costs were appreciably higher than industry standards. The Centre's start-up requirements for establishing and implementing appropriate post-launch training, stocktaking, equipment familiarisation and interdepartmental co-operation have also required higher than anticipated staff levels.

  Now that the launch phase is complete, the issue of staffing levels is being addressed progressively. The effects of this have already begun to show in the Centre's performance and are expected to result in an improvement in the December figures. Staffing levels are being reduced to those more in line with industry standards, but reductions are being managed carefully to ensure that the Centre's standards of food and wine service are not compromised.

  Staff are also being encouraged to take unpaid leave in January when forward bookings are low.

- Partnering – to further reduce staff overheads, the Centre is currently investigating the option of partnering with other Government venues for the cross use of staff. The Centre has already successfully trialled this concept with the Entertainment Centre.

- Cross Training - a cross-training initiative is being implemented to cross-skill staff from Banquets, Restaurant, Tasting Gallery, Customer Service and Stores in other areas, which will increase the ability to optimise permanent and permanent part time staff and minimise the use of casual staff.

- Wine purchases - Opening wine stocks were necessarily substantial to enable the Centre to build an opening stock that would meet the Centre's opening requirements. Now that the launch phase is complete the Centre is able to utilise warehouse stock more efficiently.

  As an example, wine purchases in November for the December Regional Tasting Program were $27,000. The December purchase for January will be in the order of $7,500, as a result of being able to draw more fully on warehouse stock.

- Management costs - Savings will be evident from December in management salaries, with rationalisation in administration, marketing and wine units. Operations Management for the Centre in the pre-opening and launch phases was provided by consultants from Public Assets. This was necessary to ensure that operations performance was at an appropriate level. Now that phase is complete, the Public Assets contract has been completed, with demonstrable savings from November.

  The net effect of these management changes on salary/consultant costs will be in the vicinity of $45,000 each month, from January 2002.

- New Packages - A series of additional packages are being introduced to increase revenue opportunities, particularly in light of the change in travel behaviour resulting from recent events. These programmes include all areas of the Centre as well as a change in focus for the Centre's marketing strategy.

3.5.3 On the basis of trading patterns to date, the operations review and general market information, the National Wine Centre Board and Management are projecting an operating loss for December of $140,000. Based on bookings the loss for the next quarter could be as high as $300,000, however, with the cost minimisation actions already taken the Board and management are expecting this loss to be lower.

3.5.4 Using the operations review as a base, the Centre proposes the appointment of external consultants to revisit the Business Plan to consider:-

- The current financial position (ie trading and development costs) and thence project the position at 30 June 2002;
- The likely trading position in the next three years, based upon the current business model, for each part of the business;
- The measures that need to be considered to reduce cost or increase revenue to improve the trading position;
- The level of additional financial support likely to be required from Government, and for what period support will be required, for the Centre to achieve an operating breakeven position;
- The level of market development expenditure that will be required to develop sustainable demand from Australian and international tourists;
- The likely direct and indirect economic benefits that will be generated in South Australia from existing and future investment in the Centre; and
- Options for leasing part or all of the activities of the Centre to commercial operators.

It is proposed that this review be completed by the 14 January 2002 for presentation to the next meeting of the Board on 25 January 2002.

3.5.5. Due to the restricted timelines and the need for intimate knowledge of Government processes and the structure of Statutory Authorities it is proposed to appoint Ian Kowalick to undertake the review without going to the market, subject to the presentation of a satisfactory proposal to the Chief Executive of DPC and to the Chair of the NWC Board. DPC will be responsible for the costs associated with this consultancy.

3.6 Economic Benefit

The National Wine Centre has the support and commitment of the Australian wine industry which was evidenced by the signing of a Memorandum of Understanding. The establishment of the National Wine Centre in Adelaide will achieve a number of key longer term benefits to the State of South Australia. In addition to the obvious benefits associated with a new business, creating new jobs and increasing economic activity, the National Wine Centre aims to provide the following specific benefits:

- To firmly entrench South Australia's position as Australia's 'Wine State' and Adelaide as the nation's 'Wine Capital';
- To provide South Australia with a world class tourist attraction that will act as a drawcard for increased amounts of international and domestic visitors;
- To secure the national headquarters of the Australian wine industry in Adelaide, ensuring that they remain in the State;
- To provide a tangible high profile icon for the development and marketing of South Australia's tourism strategy with the aim of increasing visitor numbers to the Centre and the State;
- To provide a platform for the promotion of South Australia's major strengths of wine, food and festivals;
- To assist the Australian wine industry to increase both domestic and international consumption of wine and in doing so promote the growth of one of South Australia's key industry sectors;
- To increase activity in rural South Australia through being the catalyst to encourage visitors to visit the wine regions.

3.7 Summary of Funding Required

The following table summarises the additional funding required for the National Wine Centre.

Ref	Description	Cost ('000)
2.1. 3.	Actual Accrued Opening Position	(338)
2.2.1.	Appropriations received, excluding opening appropriation	745

2.2.5.	Appropriation for IT and other sundry items	320
2.2.3	Repayment of $78,000 loan	(78)
3.1.1.	Actual costs for the period from 1 July to 13 October 2001 (including $327,351 due to delay in opening)	(1,076)
3.1.2.	Expenditure for IT and other sundry items	(547)
3.1.3.	AWBC Relocation cost	(78)
	NET PROFIT/(LOSS) PRE-TRADING	(1,052)
	Net loss from 14 October to 30 November 2001	(345)
	Projected Profit/(Loss) for December 2001	(140)
	Estimated Profit/(Loss) between January and March 2002	(300)
	Adjustment for amounts accounted for in pre-trading loss	103
	TOTAL PROJECTED PROFIT/(LOSS) FOR 2001-2002 YEAR	(1,734)

Note : This summary does not include the appropriation for Furniture, Fittings and Equipment as this was held by the Dept of Administration and Information Services and expended separately to the NWC operating accounts.

It is therefore suggested that an amount of $1.75M be allocated to the National Wine Centre from headroom to meet this projected operating loss to end March 2002.

4. RECOMMENDATIONS

That Cabinet approves

4.1. additional funding of $1.75 million for the period 1 July 2001 to 31 March 2002, subject to the Treasurer confirming that $1.75m is the appropriate amount.

4.2. the appointment of Mr Ian Kowalick to undertake an external review of the Centre's operations without going to the market, subject to the presentation of a satisfactory proposal to the Chief Executive of DPC and the Chair of the National Wine Centre.

4.3 ~~Cabinet~~ RK Premier to return to Cabinet with a report on ~~proposed~~ changes for Cabinet consideration by mid-February. RK.

Rob Kerin

ROB KERIN
Premier

20 / 12/2001

In Cabinet

2 0 DEC 2001

APPROVED
PREMIER