

24/06/02

109

DIT430/009/036CS

**National Wine Centre
APPROVED AS AMENDED (NEW
RECOMMENDATIONS)**

Premier & Cabinet Minister.

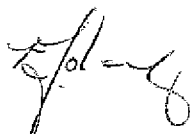
Not Relevant

CABINET COVER SHEET

- 1 **TITLE:** NATIONAL WINE CENTRE
- 2 **MINISTERS:** TREASURER
MINISTER FOR INDUSTRY, INVESTMENT
AND TRADE
- 3 **PURPOSE:** To put in place a long term arrangement concerning management and operational risk at the National Wine Centre.
- 4 **RESOURCES REQUIRED FOR IMPLEMENTATION:** Contribution to operating costs during first two years, completion of capital works and ongoing responsibility for structural and mechanical maintenance of the Centre
- COSTS** Net additional appropriations required:
- | | |
|-----------------|----------------|
| 2002/03 | \$497,000 |
| 2003/04 onwards | \$250,000 p.a. |
- 5 **RELATIONSHIP TO GOVERNMENT POLICY:** Contribute to Wine and Food Tourism, Industry Development, management of Government assets on a cost effective basis, and limit risk of open ended calls on Budget
- 6 **CONSULTATION:** DTF, Tourism SA, DPC, Crown Solicitor, Cabinet Off.ce.
- 7 **URGENCY:** Urgent as announcements on future of National Wine Centre are highly desirable prior to 30/6/02
- 8 **RECOMMENDATIONS:** That Cabinet:
- 8.1 Approve the drafting of amendments to the *National Wine Centre Act 1997*, (the Act) and their introduction to Parliament as soon as practicable to enable Government to put in place a long term arrangement concerning management and operational risk at the National Wine Centre. Such arrangements, of necessity, will include finalisation of boundary changes between the Botanic Gardens and the National Wine Centre.
- 8.2 Approve the transfer of effective control of the operation of the Centre facility from the National Wine Centre (NWC -(Minister)) to an entity 100% owned and controlled by the Winemakers' Federation of Australia Inc (WFA entity) from 1 July 2002 as an interim arrangement pending changes to the Act and formal lease documentation.
- 8.3 Subject to the successful amendment of the Act;
- 8.3.1 approve that the Treasurer be authorised to put in place a long term arrangement (lease) of the Centre facility by the NWC-(Minister) to

the WFA entity at a peppercorn rent for a period of 25 years and in accordance with terms and conditions set out in Appendix #1

- 8.3.2 Approve the allocation of \$250,000 per annum into a maintenance reserve to be administered by the NWC (Minister), commencing in the 2002-3 financial year and continuing for the term of the lease for major structural and mechanical maintenance of the Centre in accordance with retained responsibility under the lease.
- 8.3.3 Approve the Treasurer providing working capital support to the WFA entity of a grant of \$500,000 in 2002/03 and an interest-free loan of \$250,000 in 2003/04 repayable in accordance with the terms set out in Appendix #1
- 8.3.4 Approve the transfer of funds available as surplus in the Botanic Wine and Rose Development capital budget of up to \$270,000 in 2002/03 on items of capital expenditure at the Centre facility specifically approved by the Treasurer
- 8.3.5 Approve any stamp duty payable by the WFA entity on the lease and asset transfer transactions to be reimbursed by the Treasurer.
- 8.4 Authorise the Treasurer to conclude the lease, interim agreement and any other consequential arrangements necessary to give effect to the above. The necessary documentation to be prepared by the Crown Solicitor.
- 8.5 Note that additional expenditure may be incurred in finalising the trading results of the NWC to 30 June 2002 and completing the transfer of operations to the WFA entity and that if any further funds are required the Treasurer will refer the matter back to Cabinet.
- 8.6 Note that the Treasurer has approved an additional appropriation of \$730,000 for 2001/2002 for use by the NWC from the Governor's Appropriation Fund.
- 8.7 Note that the Treasurer has approved the writing off of a loan of \$175,000 from DIT to the NWC relating to e-commerce development as this obligation will not be transferred to the WFA entity



Kevin Foley MP

TREASURER

MINISTER FOR INDUSTRY, INVESTMENT AND TRADE

20/6/2002

TO: THE PREMIER FOR CABINET

RE: NATIONAL WINE CENTRE

1. PROPOSAL

That Cabinet:

- 1.1 Approve the drafting of amendments to the *National Wine Centre Act 1997*, (the Act) and their introduction to Parliament as soon as practicable to enable Government to put in place a long term arrangement concerning management and operational risk at the National Wine Centre. Such arrangements, of necessity, will include finalisation of boundary changes between the Botanic Gardens and the National Wine Centre.
- 1.2 Approve the transfer of effective control of the operation of the Centre facility from the National Wine Centre (NWC –(Minister)) to an entity 100% owned and controlled by the Winemakers' Federation of Australia Inc (WFA entity) from 1 July 2002 as an interim arrangement pending changes to the Act and formal lease documentation.
- 1.3 Subject to the successful amendment of the Act;
 - 1.3.1 approve that the Treasurer be authorised to put in place a long term arrangement (lease) of the Centre facility by the NWC-(Minister) to the WFA entity at a peppercorn rent for a period of 25 years and in accordance with terms and conditions set out in Appendix #1
 - 1.3.2 Approve the allocation of \$250,000 per annum into a maintenance reserve to be administered by the NWC (Minister), commencing in the 2002-3 financial year and continuing for the term of the lease for major structural and mechanical maintenance of the Centre in accordance with retained responsibility under the lease.
 - 1.3.3 Approve the Treasurer providing working capital support to the WFA entity of a grant of \$500,000 in 2002/03 and an interest-free loan of \$250,000 in 2003/04 repayable in accordance with the terms set out in Appendix #1
 - 1.3.4 Approve the transfer of funds available as surplus in the Botanic Wine and Rose Development capital budget of up to \$270,000 in 2002/03 on items of capital expenditure at the Centre facility specifically approved by the Treasurer

- 1.3.5 Approve any stamp duty payable by the WFA entity on the lease and asset transfer transactions to be reimbursed by the Treasurer.
- 1.4 Authorise the Treasurer to conclude the lease, interim agreement and any other consequential arrangements necessary to give effect to the above. The necessary documentation to be prepared by the Crown Solicitor.
- 1.5 Note that additional expenditure may be incurred in finalising the trading results of the NWC to 30 June 2002 and completing the transfer of operations to the WFA entity and that if any further funds are required the Treasurer will refer the matter back to Cabinet.
- 1.6 Note that the Treasurer has approved an additional appropriation of \$730,000 for 2001/2002 for use by the NWC from the Governor's Appropriation Fund.
- 1.7 Note that the Treasurer has approved the writing off of a loan of \$175,000 from DIT to the NWC relating to e-commerce development as this obligation will not be transferred to the WFA entity

2. BACKGROUND

- 2.1 The NWC was established as a statutory authority under the *National Wine Centre Act 1997* with a range of functions and objectives associated with promotion/development of the Australian wine industry and management of a wine exhibition. This followed the execution in April 1997 of a Memorandum of Understanding between the State of South Australia and WFA concerning proposed arrangements for the Centre (see Appendix #2)
- 2.2 The Centre was substantially completed at a cost of some \$14.6m to the South Australian Government. In addition the Commonwealth Government contributed \$12m from the Federation Fund and the wine industry made various donations to wine stocks and the exhibition and made some contribution to elements of the facility.
- 2.3 The NWC was scheduled to open in June 2001 with an expectation that the majority of its activities would be self-funding from its revenues soon after opening. An annual Government contribution of \$253,000 was approved and included in forward estimates until 2003-4 on account of Board fees and expenses at that time.
- 2.4 Due to construction delays, the scheduled opening date was put back to 1 September 2001. As a result, additional operational funds of \$665,000 (above the \$253,000 annual operating contribution) were provided by the Government prior to the opening of the NWC. This funding included:

- 2.4.1 Additional appropriation of \$415,000 to cover the period of delayed opening from 1 July to 31 August 2001;
- 2.4.2 An amount of \$250,000 for specific opening activities;

In addition the sum of \$320,000, which had been previously approved for the 2001-2 financial year, for additional items such as a ticket system, IT hardware and software, post construction cleaning and gardening, the regional showcase and security and similar services;

- 2.5 Further construction delays, due to late requests for changes to the kitchens for retrofitting made by the Board of the National Wine Centre, saw the completion date put back further, with the NWC finally opening for business on 6 October 2001.
- 2.6 Prior to, and upon the opening of the NWC on 6 October 2001, a number of factors arose which have impacted negatively on the ability of the NWC to achieve its targets. These factors included:
 - 2.6.1 Additional costs resulting from the delay in the opening of the NWC from 1 September to 6 October 2001.
 - 2.6.2 Additional IT requirements and other sundry unbudgeted expenditure;
 - 2.6.3 The NWC commenced operations without any contingency reserves.
 - 2.6.4 Initial staffing was higher than advised to Government and than budgeted for, in order to guarantee the quality of the product and the continued success throughout the launch period.
 - 2.6.5 First year trading has been affected by the collapse of inbound tourism due to the events of 11 September and the Ansett collapse and a severe shortfall in Wine Discovery Journey entrants. In addition, the Ansett collapse resulted in the loss of sponsorship valued at \$108,000.
 - 2.6.6 Lower than expected attendance figures due to a lack of promotional/marketing focus on wholesale and inbound tourist operations.
- 2.7 Due to the above, cash reserves became severely depleted resulting in difficulty in meeting operational commitments. As a consequence, on 20 December 2001 Cabinet approved additional funding of \$1.75 million for the

period 1 July 2001 to 31 March 2002 subject to the Treasurer confirming that \$1.75 million was the appropriate amount. Cabinet also approved the appointment of Mr Ian Kowalick to undertake an external review of NWC operations.

- 2.8 The disbursement of the \$1.75 million occurred in two stages. On 28 December 2001 the Treasurer approved the release of \$1.313 million to the NWC based on financial information prepared by the NWC to ensure it remained in cash surplus for the first two months of 2002. The remaining \$437,000 was provided to the NWC on 4 March 2002.
- 2.9 The Kowalick Report was finalised in late January 2002. Mr Kowalick concluded that NWC was capable of achieving the broad objectives of its original business plan in the medium term but that substantial and urgent corrective action was required. He presented a number of operational recommendations and assessed additional funding requirements in the short term (ie final three months of 2001-02 financial year) as well as future years.
- 2.10 In particular the Kowalick report made an assessment that additional funding of \$700,000 would be required in 2001-02 (above that already provided by the Government) and that it would take up to three years to achieve break even operations requiring further Government contributions estimated at some \$1.8m.
- 2.11 The Treasurer subsequently approved additional appropriation funding of \$730,000 from the Governor's Appropriation Fund for the NWC to ensure that the NWC was able to meet its commitments until 30 June 2002.
- 2.12 While the Kowalick Report (figures supplied by KPMG) indicated that a move to break even operations was possible, Treasury advise that their modelling indicates that cumulative operating losses before depreciation of more than \$2m pa could be expected over the period 2002/03 to 2005/06 even under "*optimistic*" assumptions.
- 2.13 On 23/04/02 the Treasurer wrote to the NWC Chairman that unless the wine industry was prepared to underwrite future losses on a 50:50 basis, with the Government capping its contribution in any one year at \$500,000, the Government would be forced to consider closure. The NWC Chairman was unable to secure such a commitment by the industry.
- 2.14 Subsequently the Chairman of the Economic Development Board, Mr Robert Champion de Crespigny, was authorised by the Treasurer to ascertain whether some alternative arrangement could be reached with the industry, which would result in the industry playing a more direct role in the operation of the Centre and limiting the financial exposure of the Government.

- 2.15 Mr Champion de Crespigny, in conjunction with officers from the Department of Industry and Trade (DIT), proposed to the WFA that it commit to a partnership approach to advance the mutually compatible interests of the industry and the Government.
- 2.16 In early May 2002 a broad basis for resolving the future of the Centre was put to industry representatives by Mr Champion de Crespigny /DIT. This proposed that:

2.16.1 The mutual objectives for the Centre could more effectively and efficiently be delivered through industry operation and management of the Centre;

2.16.2 The industry prepare a business plan setting out how the industry could achieve viable operations while preserving the mutual objectives for the Centre;

2.16.3 Subject to DIT acceptance of the industry's Business Plan, DIT would recommend to the Government that it

- Lease the Centre to WFA for \$1 pa;
- Retain responsibility for major structural and mechanical maintenance, with WFA being responsible for all other outgoings, and contribute to the transition costs of moving the Centre to viable operations;

- 2002/03 \$500,000 grant
- 2003/04 \$250,000 interest free loan

2.17 The industry Business Plan was put to the WFA Executive Council on 7/06/02 and subsequent approval was advised to DIT on 20/6/02. (Appendix #3).

2.18 The plan proposes an operation that will preserve the vision and mission of the National Wine Centre and meet the objectives of the MOU between the WFA and the South Australian Government. In essence the plan sets out a three year time frame to stabilise, consolidate and grow the Centre operations while limiting losses to no more than \$500,000 in 2002/03 and \$250,000 in 2003/04. The turnaround strategy is based on cost reductions, a focus on core business and a vigorous relaunch program. The assumptions behind the plan are consistent with the terms of the proposed lease arrangements as set out in Appendix #1.

3. DISCUSSION

3.1 The Centre is an important tourism and community asset, which provides a focal point for wine/food tourism and helps cement the national leadership of the industry in South Australia.

- 3.2 Given its location on Crown land and its purpose built design there are limited practical alternative uses for the Centre. There may also be difficulties in obtaining the agreement of Parliament to the use of the Centre for purposes other than those specified in the Act.
- 3.3 Should Cabinet approve this submission there should be negligible objection as there would be no further alienation of the parklands with the physical facility remaining with the NWC (Minister). There may be some criticism of the length and generous financial terms of the lease so it is important that the arrangement be promoted as a partnership approach to the future of the Centre rather than as a transfer of responsibility to the industry.
- 3.4 The proposed lease represents a partnership approach to the future of the Centre. The WFA entity would take all operational responsibility with the Government making contribution as set out in this Cabinet Submission.
- 3.5 These arrangements will require practical implementation, including a comprehensive stocktake for fixtures, fittings, stock and equipment as at 30 June 2002 and the administration of the wind-up of the 2001-2 accounts, for which Government is responsible, by Treasury officers.
- 3.6 The Government would be providing all the initial working capital for the Centre's operation through transfer of the business as a going concern and contribution of the transition funding.
- 3.7 On the termination of the lease WFA would be required to return the Centre to the Government in a suitable condition for ongoing operation as a National Wine Centre together with comparable assets to those transferred or leased to it on commencement. A dispute resolution process would be included in the lease.
- 3.8 DIT is of the view that, in the context of the Kowalick Report conclusions, the Business Plan should be achievable but will require sound management to drive the changes envisaged. DIT has been informed that Mr Brian Croser will be appointed as Chairman of the WFA entity Mr Croser has only relatively recently been appointed chairman of NWC and hence he was not Chairman during most of the initial operating period. He is a capable and respected figure in the wine industry with a passion to make the Centre a success. The plan calls for the appointment of a strong, experienced finance and admin manager and an experienced food and beverage manager. It is arguable that most aspects of the Business Plan could be implemented within the current operating structure. The success of the proposal will depend in large part on the new management team effectively capturing the perceived benefits of the broad commitment by the industry to support the Centre. The new structure is largely predicated on the notion that the same level of industry commitment and commercial contribution will not be achievable

under Government operation. While financial success is not assured DIT is of the view that the proposed arrangement has sufficient prospects of success for the Government to allow the industry the opportunity to attempt its business plan. Should the industry fail this should become evident within the first year or so and the Government will have invested up to a further \$750,000. DTF is more sceptical than DIT as to whether the WFA Business Plan is achievable under industry operation.

- 3.9 While the WFA will not formally be required to have any financial exposure under the arrangement it is anticipated that the industry will support the Centre wherever possible for functions, product launches etc. DIT believes that the operation of the Centre by a subsidiary of the WFA will give the industry much greater motivation in ensuring its viability. However it should be noted that this would be very much a moral obligation and the WFA will have no formal financial commitment.
- 3.10 Should the transition funding provided by the Government prove insufficient the WFA will be faced with either:
- 3.10.1 Providing WFA support;
 - 3.10.2 Closing the Centre; or
 - 3.10.3 Seeking a further contribution by Government.

It has been made clear by DIT that it does not contemplate recommending further Government working capital contributions.

3.11

Clause 10(1) Legal Professional Privilege

- 3.12 Amendments to the Act to alter the boundary of the National Wine Centre land to return approx ¼ha to the Botanic Gardens should be effected at the same time. All the necessary survey work and agreement with the Board of the Botanic Gardens has been achieved and the amendment can be made by the supply of a survey plan, which has already been prepared. The area to be leased will include the demonstration vineyard. Should the lease not proceed or be terminated and the Centre closed this would present an opportunity to address whether the demonstration vineyard land should be returned to the Botanic Gardens.
- 3.13 It is proposed that the Board will be dissolved and the Act provides that if there is no NWC Board the Minister is the governing authority of NWC and,

as such, the amendments will empower the Minister, as governing authority, to lease the physical facilities to the WFA entity.

- 3.14 The NWC (Minister) will provide a formal mechanism for holding the land and buildings for oversight of compliance with the lease terms and conditions and accountability to Parliament. The land on which the physical facility has been constructed is Crown land that has been dedicated for the purposes set out in the Act and these purposes will be mirrored in the lease. The lease will provide for the lease to be terminated by the Minister if operations are outside those provided for in the Act. It is proposed that there be a dispute resolution process should there be a divergence of opinion on this issue.
- 3.15 All stock and other assets will be itemised at 1 July 2002 and transferred or leased to the lessee at nil consideration but with the requirement that equivalent assets be returned to the NWC when the lease expires or is terminated.
- 3.16 The proposed lease conditions allow WFA to take over the operation and management of the Centre without committing any capital nor having any formal financial exposure. It is clear that many industry members of WFA believe that this is consistent with the industry undertakings set out in the 1997 MOU which led to the construction of the Centre. DIT believes that the WFA would not accept responsibility for operating the Centre under terms, which involved formal financial commitment or exposure.
- 3.17 Interim operation – It is proposed to transfer effective control of the operation of the Centre facility to the WFA entity from 1 July 2002 as an interim arrangement pending changes to the Act and formal lease documentation. During this interim period operational risk will remain with the NWC (i.e. the Government) with any losses deducted from the 2002/03 grant of \$500,000.
- 3.18 The options for the Government are:
- 3.18.1 Close the Centre now, lose a valuable tourism icon and still be faced with closure and ongoing maintenance costs and substantial redevelopment costs for a purpose-built building if it were to be used for alternate purposes and, further, be faced with criticism from the Commonwealth Government due to its grant of \$12M towards the costs of construction of the National Wine Centre
 - 3.18.2 Maintain the current structure and attempt to implement a recovery business plan, including outsourcing of catering, restaurant and tastings areas. It is likely that this would involve substantial ongoing losses and may result in less industry support in the future;

3.18.3 Lease the Centre to the industry under the terms outlined above and detailed in Appendix #1. Under this option the Government operating contributions are limited and industry "ownership" and management probably present the best prospects for viable operations with the Government still having to fund major structural and mechanical maintenance. Should the industry fail to achieve viable operations despite substantial Government support and cease operations the Government will have done all it reasonably could to operate the Centre on a reasonable cost basis

3.19 Economic, financial and budget implications.

3.19.1 \$253,000 is provided for in the forward estimates for NWC for 2002/03 and 2003/04. Therefore an additional \$247,000 appropriation will be required in 2002/03 to meet the operating cost contribution;

3.19.2 It is proposed that an additional \$250,000 pa appropriation be provided for NWC maintenance expenses and be accumulated in a maintenance reserve. The NWC (Minister) will need to consider each year the adequacy of this reserve as part of the budget process;

3.19.3 It is proposed that the Government accede to the WFA request that various capital works with an estimated total cost of \$270,000 be completed as recommended by Kowalick with the Treasurer to consider and authorise specific expenditure. Funds are available from the surplus remaining in the Botanic Wine & Rose Development Capital Budget.

3.19.4 Although the Treasurer has already authorised \$730,000 on account of losses in the 2001-2 accounts, this figure is not as yet final and further funding may be required. Any requirement for such monies will be the subject of a further Cabinet Submission;

3.20 State development, social, environmental and other impacts:

The lease to WFA presents the best option for retention of a food/wine tourism icon while limiting Government financial exposure. The partnership with the wine industry will facilitate a constructive relationship with participants in an industry of major economic and regional significance to SA.

3.21 Staffing implications:

The business plan envisages further staff reductions at the Centre to achieve efficiencies but there will be no additional Government staffing required to administer the lease. The WFA intends offering employment to the majority of existing NWC employees and nil or minimal termination issues are anticipated. Any termination costs will be included in the net costs of concluding the operations of NWC to 30/6/02.

3.22 Consultation

In developing the lease proposal DIT has consulted with DTF, Crown Law, Tourism SA, Cabinet office and DPC. Tourism SA is keen to see the Centre continue and is prepared to work closely with the Lessee on marketing and promotion. DTF is sceptical that the Business Plan can be achieved, but has expressed a view that the option proposed is the best way forward for the Government if the Business Plan has a reasonable chance of being implemented successfully. DTF agrees with DIT that an annual appropriation to a NWC maintenance reserve would be appropriate. Cabinet Office believes that Cabinet should seriously consider closure now unless Cabinet can be confident that the lease option will succeed

4. RECOMMENDATIONS

It is recommended that Cabinet

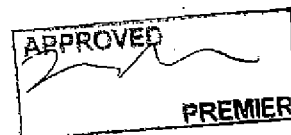
- 4.1 Approve the drafting of amendments to the *National Wine Centre Act 1997*, (the Act) and their introduction to Parliament as soon as practicable to enable Government to put in place a long term arrangement concerning management and operational risk at the National Wine Centre. Such arrangements, of necessity, will include finalisation of boundary changes between the Botanic Gardens and the National Wine Centre.
- 4.2 Approve the transfer of effective control of the operation of the Centre facility from the National Wine Centre (NWC –(Minister)) to an entity 100% owned and controlled by the Winemakers' Federation of Australia Inc (WFA entity) from 1 July 2002 as an interim arrangement pending changes to the Act and formal lease documentation.
- 4.3 Subject to the successful amendment of the Act;
 - 4.3.1 approve that the Treasurer be authorised to put in place a long term arrangement (lease) of the Centre facility by the NWC-

(Minister) to the WFA entity at a peppercorn rent for a period of 25 years and in accordance with terms and conditions set out in Appendix #1.

- 4.3.2 Approve the allocation of \$250,000 per annum into a maintenance reserve to be administered by the NWC (Minister), commencing in the 2002-3 financial year and continuing for the term of the lease for major structural and mechanical maintenance of the Centre in accordance with retained responsibility under the lease.
- 4.3.3 Approve the Treasurer providing working capital support to the WFA entity of a grant of \$500,000 in 2002/03 and an interest-free loan of \$250,000 in 2003/04 repayable in accordance with the terms set out in Appendix #1.
- 4.3.4 Approve the transfer of funds available as surplus in the Botanic Wine and Rose Development capital budget of up to \$270,000 in 2002/03 on items of capital expenditure relating to the Centre facility specifically approved by the Treasurer. Any capital expenditure should be recommended in conjunction with DPC and DAIS (who have run the capital project) to ensure that any capital expenditure is in accordance with the relevant planning approvals, and fits generally with the project.
- 4.3.5 Approve any stamp duty payable by the WFA entity on the lease and asset transfer transactions to be reimbursed by the Treasurer.
- 4.4 Authorise the Treasurer to conclude the lease, interim agreement and any other consequential arrangements necessary to give effect to the above. The necessary documentation to be prepared by the Crown Solicitor.
- 4.5 Note that additional expenditure may be incurred in finalising the trading results of the NWC to 30 June 2002 and completing the transfer of operations to the WFA entity and that if any further funds are required the Treasurer will refer the matter back to Cabinet.
- 4.6 Note that the Treasurer has approved an additional appropriation of \$730,000 for 2001/2002 for use by the NWC from the Governor's Appropriation Fund.
- 4.7 Note that the Treasurer has approved the writing off of a loan of \$175,000 from DIT to the NWC relating to e-commerce development as this obligation will not be transferred to the WFA entity.

In Cabinet

24 JUN 2002




Kevin Foley MP
TREASURER
MINISTER FOR INDUSTRY, INVESTMENT AND TRADE

APPENDIX 1: TERMS AND CONDITIONS

1. The South Australian Government will lease the NWC facility to the WFA entity for \$1 per annum for twenty-five years.
2. The Government will retain ownership of the land, buildings and certain fixtures to be identified.
3. The Government will retain responsibility for creditors and debtors as at 30 June 2002. At that time an audit will be carried out on debtors and creditors.
4. Any cash balance as at 30 June 2002 will be retained by the Government
5. Ownership of fittings, plant, equipment and stock, to be mutually agreed, to be transferred to WFA, or leased as part of the main lease. At completion, or termination of the lease, these or comparable assets will be returned to the Government free of encumbrances.
6. Any stamp duty payable on the lease or asset transfer transactions will be reimbursed to the WFA entity by Treasury.
7. The Government will be responsible during the term of the lease for appropriate major structural and mechanical maintenance and agreed capital expenditure, capped at \$250,000 per annum, on a cumulative basis.
8. The WFA entity will be responsible for all other property maintenance, capital expenditure, maintenance and/or replacement of fittings, plant and equipment and all other outgoings, including council rates reflecting the continuing Government ownership of the property and its lease to the WFA entity.
9. The WFA entity will maintain appropriate insurance policies, to the satisfaction of the Minister.
10. The WFA entity will be licensed to use, maintain and defend the NWC name, logos and other intellectual property while the lease continues.
11. On 1 July 2002 the Government will advance a grant of \$500,000. Should the lease be terminated by either party in the first year of the lease any accumulated profits (EBIT) remaining after the WFA entities have met all expenses necessary to finalise their operation of the Centre, will be returned to the Government up to a maximum of the initial grant.
12. On 1 July 2003, the Government will advance an interest free loan of \$250,000. These funds will be committed in such a way as to facilitate the WFA entity to secure a \$250,000 overdraft from 1 July 2002. This loan will be repaid to Government out of the first \$250,000 in consolidated operating profit of the WFA entity or entities as measured by EBIT, after including the \$500,000 grant as income.

13. The existing DIT loan of \$175,000 to the NWC on account of the e-commerce initiative undertaken by the then Board of the NWC, will not be transferred to the WFA entity.
14. On the basis that legislative amendments to the Act are necessary, an interim arrangement will be necessary from 1 July 2002 until a lease can be legally executed. It is envisaged that the NWC would effectively subcontract operation of the facility to the WFA entity, with any operating losses in the period from 1 July 2002 to the commencement of the lease being drawn from the \$500,000 grant as above.
15. The South Australian Government will embrace the new and operating arrangement publicly and endorse the agreement with the wine industry.
16. The Government and its departments and agencies will in the spirit of the partnership approach to the Centre continue to consider usage of the Centre for appropriate activities.
17. The WFA on behalf of the wine industry commits to use the Centre wherever possible for industry and product events.
18. That, wherever possible and appropriate to the Centre's needs, the wine industry will offer operating support to the Centre.
19. The final Lease Agreement, or separate document, will incorporate mutually agreed objectives for operation of the NWC, essentially based on the existing MOU and National Wine Centre Act, including:
 - (a) To develop and provide for public enjoyment and education exhibits, working models, tastings, classes and other facilities and activities relating to wine, wine production and wine appreciation;
 - (b) To promote the qualities of the Australian Wine Industry and wine regions and the excellence of Australian wines;
 - (c) To encourage people to visit the wine regions of Australia and their vineyards and wineries and generally to promote national and international tourism associated with the wine industry;
 - (d) To act as a headquarters of the Australian Wine Industry by providing accommodation and administrative support and facilities for wine industry bodies;
 - (e) To establish dining and refreshment facilities for visitors to the Centre;
 - (f) The Centre is to perform its functions in accordance with best commercial practices and, so far as practicable, in co-ordination with wine industry and tourism industry programs and initiatives.
 - (g) The South Australian Government recognises that the continuance of the Australian National Wine Centre will significantly increase tourism and have subsequent economic benefit to the State of South Australia;
 - (h) The WFA recognises that the NWC will increase the national and international profile of Australia's wine industry and thereby enhance the export potential, provide a focal point for the industry, exploit tourism opportunities, increase investment potential and has the

capacity to assist in the delivery of the main objectives of the Australian wine Industry.

- (i) To create a link between food, wine and the Australian lifestyle;
- (j) To showcase the development of the wine industry and the role it has played in the development of Australia;
- (k) Reinforce industry's learning culture through research and development, environmentally sustainable practices and commitment to innovation and quality in both grape and wine production.
- (l) To emphasise and support the delivery of the Australian Wine Industry's "Vision 2025" Strategy.
- (m) Any sub-leasing, sub-contracting or outsourcing of any of the above key activities by the WFA entity will require the prior written agreement of the Minister. Such agreement will not be unreasonably withheld. In considering any request for approval, the Minister will take into account the impact, if any, on the performance of the mutual objectives and obligations under the NWC Act.
- (n) The WFA entity will not, without the prior written agreement of the Minister, operate the Centre facility in a manner materially different from the Business Plan 2002/03, which will be attached to the Lease Agreement and in particular will maintain the "wine experience" activities of the Exhibition and Tasting Gallery or their equivalent at an agreed level.

- 20. The Centre facility name will not be changed without the prior written approval of the Minister.
- 21. The structure, ownership or control of the WFA entity will not change without prior written approval of the Minister, which will not unreasonably be withheld. In considering any request for approval, the Minister will take into account the impact, if any, on the performance of the mutual objectives and obligations under the NWC Act.
- 22. The Minister will be consulted on Board appointments.
- 23. The WFA entity will comply with terms of all existing sponsorship arrangements.
- 24. The lease and NWC assets (including liquor licence, intellectual property, etc) may not be used as security for loans, or be mortgaged or encumbered without the prior written approval of the Minister.
- 25. A dispute resolution mechanism will be included in the documentation to address any disputed defaults, non-performance, or other issues associated with the above mutually agreed objectives.
- 26. A confirmed default will allow the Government, at its sole discretion and subject to giving 30 days notice to remedy the default and if the default is not remedied in that time, the Government has the right, subject to giving 30 days notice, to terminate the lease with the WFA entity and deal with the assets as it so determines.

27. The WFA entity will provide the Minister with such information as the Minister may reasonably require to enable him to monitor compliance with the undertakings and obligations under the lease and to meet his obligations under the Act. In particular this information will include:
- (a) Quarterly management financial accounts provided to the Minister within 30 days of the end of each quarter for the first 5 years of the lease term.
 - (b) Audited annual financial accounts provided to the Minister within 90 days of financial year end., and
 - (c) Such other information as the Minister may reasonable require

Note: The objectives of the above clause is for monitoring purposes only (as with, for example, standard bank requirements) and in no way is to exert any influence over the operation of the business, other than to advise of default, or non-conformance, if the information providing indicates that this is the case.

28. Confidentiality clauses will be included preventing the Minister from divulging detailed financial information, unless required by law, etc, to do so.
29. The WFA entity will use its best endeavours to formalise links between the NWC operations and the Botanic Gardens of Adelaide, via an MOU which will include, but not necessarily limited to:
- horticultural standards, landscaping, signage and general appearance
 - parking and security
 - joint meetings of the Boards
 - joint marketing of the precinct and regular sharing of information regarding the parties' marketing programs
 - communication and cooperation regarding events and functions including, where appropriate, promoting the other venue if they are unable to meet a customer's needs
 - Occupational Health Safety and Welfare and emergency procedures in the precinct
30. It is intended that the NWC will remain responsible for all matters arising prior to 30/6/02 and will remain responsible until the lease is executed. Once the lease is executed the WFA entities will be responsible for all acts or circumstances relating to the operation of the Centre from 1/7/02.
31. The Government will provide up to \$270,000 for capital works as specifically approved by the Treasurer. In considering approval the Treasurer will take into account the Business Plan and Kowalick Report recommendations together with the Crown Land / Parkland location of the Centre and the terms of the Act.
32. The NWC and WFA will use best endeavours to ensure that contracts with Nuance and SAWBIA are renegotiated to ensure they impose no unacceptable

costs or time demands on the WFA entity nor residual obligations on the NWC (Minister)

33. Other terms and conditions necessary to give effect to the spirit and intention of this proposal.

MEMORANDUM OF UNDERSTANDING

BETWEEN

THE STATE OF SOUTH AUSTRALIA

AND

THE WINEMAKER'S FEDERATION OF AUSTRALIA INC.

TO CONSTRUCT AND OPERATE

THE AUSTRALIAN NATIONAL WINE CENTRE

IN ADELAIDE



SOUTH AUSTRALIA

14 April 1997

**ARRANGEMENTS RELATING TO THE ESTABLISHMENT
OF THE AUSTRALIAN NATIONAL WINE CENTRE IN ADELAIDE**

MEMORANDUM OF UNDERSTANDING dated the day of 1997.

BETWEEN

GRAHAM ALEXANDER INGERSON as Acting Premier for and on behalf of the State of South Australia ("the Acting Premier")

AND

THE WINEMAKER'S FEDERATION OF AUSTRALIA INC. of 555 The Parade,
MAGILL, 5072 in the State of South Australia ("the Federation")

RECITALS

- A. The South Australian Government is committed to the development of the Australian National Wine Centre in inner metropolitan Adelaide.
- B. The Australian National Wine Centre project located in Adelaide, the capital of Australia's largest wine producing State, is designed to reflect the importance and wide ranging influence of the wine industry both within Australia and internationally.

- C. The South Australian Government recognises the Winemaker's Federation of Australia Inc. as the national wine industry's peak body.
- D. The parties wish to record in this Memorandum of Understanding the scope and extent of the negotiations between them at the date of this Memorandum for the proposed establishment and operation of the Australian National Wine Centre.
- E. The Acting Premier and the Winemaker's Federation of Australia Inc. acknowledge that this Memorandum of Understanding does not constitute a legally binding contract between them but is intended to be preliminary to the parties negotiating and executing formal documentation.
- F. The South Australian Government recognises that the establishment of the Australian National Wine Centre will significantly increase tourism and have subsequent economic benefit to the State of South Australia.
- G. The Federation recognises that the Australian National Wine Centre will increase the national and international profile of Australia's wine industry and thereby enhance the export potential, provide a focal point for the industry, exploit tourism opportunities, increase investment potential and has the capacity to assist in the delivery of the main objectives of the Australian wine industry's "Vision 2025" Strategy.
- H. The parties agree that the reasons for developing the Australian National Wine Centre is to:
- (i) showcase the excellence of all Australian wine, winemakers and wine regions,
 - (ii) to become the headquarters of the Australian wine industry,
 - (iii) to act as a catalyst to encourage people to visit the wine regions of Australia to gain first hand experience of the winery, vineyard, winemakers and their wines,
 - (iv) to promote the wine industry and associated tourism opportunities nationally and internationally,
 - (v) to educate visitors to a greater understanding of wine,

- (vi) to create a link between food, wine and the Australian lifestyle,
 - (vii) to showcase the development of the wine industry and the role it has played in the development of Australia.
 - (viii) reinforce industry's learning culture through research and development, environmentally sustainable practices and commitment to innovation and quality in both grape and wine production.
 - (ix) to emphasise and support the delivery of the Australian wine industry's "Vision 2025" Strategy.
- I. The parties have identified a number of matters in respect of which the Federation may be able to assist the South Australian Government in developing the Australian National Wine Centre and achieving international recognition for the facility.

UNDERSTANDING

1. INTERPRETATION

In the construction of this Memorandum of Understanding (including the recitals) the following words and expressions shall have the meanings set opposite them respectively:-

"the Development" means the establishment of the Australian National Wine Centre as a facility to promote the international status of Australia as world class wine producer.

"national wine industry" means the following wine industry institutions; the Winemaker's Federation of Australia Inc.; the Australian Wine and Brandy Corporation; the Grape and Wine Research and Development Corporation; Australian Wine Foundation; the State Wine Industry Associations; Regional Wine Industry Associations; the national wine companies and the Australian winemakers.

"the Australian National Wine Centre Steering Committee" means the wine industry representative advisory body established to provide advice to the South Australian Government on the wine industry aspects of the Australian National Wine Centre.

"the site" refers to Section 571, Hundred of Adelaide, County of Adelaide, commonly referred to as the old Hackney Bus Depot.

2. THE ACTING PREMIER'S ACKNOWLEDGEMENTS

The Acting Premier acknowledges:

- 2.1 that the South Australian Government agrees in principle to the provision of funds for the capital construction of the Development;
- 2.2 that the Development will be representative of the whole Australian wine industry;
- 2.3 that the Development will not be aligned to or biased towards any specific wine region or regions, wine company or companies;
- 2.4 that the commitment of the South Australian Government is subject to it being satisfied as to the extent of the involvement of the national wine industry in the project and resolution of issues relating to the management and responsibility for the recurrent funding of the Development;
- 2.5 that the South Australian Government will develop a facility to include:
 - (i) administration facilities for the nominated national wine bodies,
 - (ii) interpretative functions including a wine tunnel, exhibition facilities, interactive and multimedia facilities,
 - (iii) wine appreciation facilities including wine tastings, masterclasses and education centres,
 - (iv) promotional facilities including display space for the wine regions of Australia, exhibition, event, conference and entertainment facilities for the industry, tourist booking outlet,
 - (v) a vineyard,
 - (vi) commercial functions including facilities to promote the sale of wine, retail of Development related merchandise and food and beverage outlets.
- 2.6 The Development will be designed with the best possible opportunity for the facility to achieve operational profitability.

3. THE FEDERATION'S ACKNOWLEDGEMENTS

The Federation acknowledges:

- 3.1 that it supports the proposal for the South Australian Government to establish the Australian National Wine Centre in Adelaide;
- 3.2 that to enable the South Australian Government to undertake the Development it will be necessary for the Federation to provide access and information to its members;
- 3.3 that the Federation will not give its endorsement either to any other Government in Australia, or any Association or other body to establish a wine centre of national or international status;
- 3.4 that the Federation will provide advice and assistance to the Australian National Wine Centre Steering Committee;
- 3.5 that it agrees to relocate its offices to the Australian National Wine Centre site subject to negotiation of suitable terms and conditions, resolution of issues relating to the management of the Centre, determination of responsibility of the recurrent funding of the development and undertakes to gain a similar commitment from other nominated Federal and State industry institutions: namely the Australian Wine & Brandy Corporation, South Australian Wine & Brandy Industry Association, Grape & Wine Research & Development Corporation;
- 3.6 that it will use its resources and best endeavours to secure appropriate historical, interpretative and educational information, data and memorabilia for the purposes of display at the Australian National Wine Centre.

4. MUTUAL ACKNOWLEDGEMENTS

Both parties acknowledge:

- 4.1 that the Australian National Wine Centre Steering Committee is the industry representative body that has been appointed to provide advice to the South Australian Government on matters relating to the Development and included in the membership of the Committee will be the Presidents of the South Australian Wine and Brandy Industry Association, the Victorian Wine Industry Association and the New South Wales Wine Industry Association or their nominees.

4.2 that the operational and financial responsibilities of the Australian National Wine Centre will be determined by the South Australian Government and subject to approval of the Australian National Wine Centre Steering Committee and acceptance by the Federation.

4.3 that each will keep their respective constituencies informed, on a regular basis, of the progress, policies and issues surrounding the project.

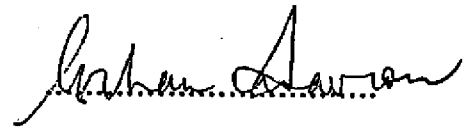
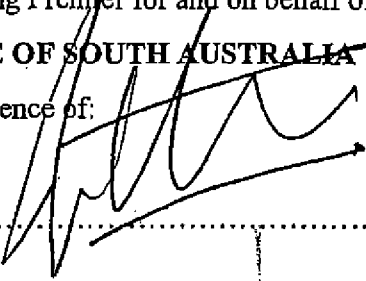
4.4 that the South Australian Government in facilitating this development is subject to relevant South Australian legislation and that to provide the facilities and services required suitable agreements may need to be negotiated with Government agencies and instrumentalities who are neither party to this Memorandum of Understanding nor subject to the control and direction of the Premier.

SIGNED by **GRAHAM ALEXANDER INGERSON**)

as Acting Premier for and on behalf of)

STATE OF SOUTH AUSTRALIA in)

the presence of:)



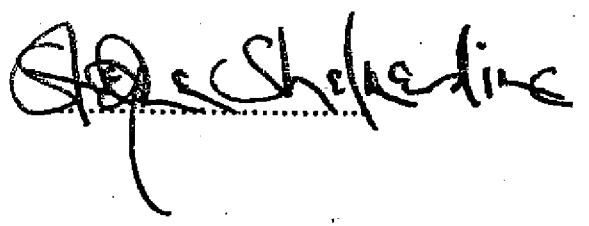
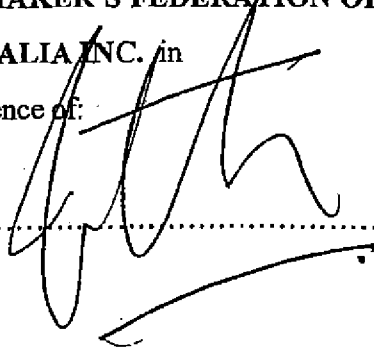
SIGNED by **STEPHEN ROSS SHELMEARDINE** as)

President of the)

WINEMAKER'S FEDERATION OF)

AUSTRALIA INC. in)

the presence of:)





National Wine Centre
Botanic Road, Adelaide SA 5000
(PO Box 2414, Kent Town SA 5071)
Telephone: 08 8222 9255
Facsimile: 08 8222 9250
Email: wfa@wfa.org.au
ABN 38 359 406 467

20 June 2002

Mr John Frogley
Executive Director
Commercial & Prudential Services
Department of Industry and Trade
Level 7, Terrace Towers
178 North Terrace
ADELAIDE SA 5000

Dear John,

I am pleased to advise you that the Winemakers' Federation of Australia Executive Council has agreed to the proposed arrangements as stated in the Governments Appendix 1: Terms and Conditions 20 June 2002 with the South Australian Government for the operations of the National Wine Centre from July 1, 2000 subject to the details of the final lease agreement.

We now look forward to an early announcement of the arrangement to reinstate the long term future of the Centre and build confidence in its future with staff creditors and the general community.

Yours sincerely,

Ian Sutton
Chief Executive
Winemakers' Federation of Australia