

WELLINGTON CABLE CAR LIMITED ANNUAL REPORT 2004/05 REVIEW

1. Introduction

The directors of Wellington Cable Car Limited (WCCL) have submitted their audited annual report for the year to 30 June 2005.

2. Performance

a Financial results

(i) Against targets

Statement of Financial Performance

\$'000	FY Actual	FY Budget	2003/04 Actual
Income	2,492	2,359	2,028
Expenditure	2,127	2,258	2,637
Operating surplus	365	101	(609)
Operating margin	14.6%	4.3%	-
Return on equity	9.6%	2.9%	-

The company has posted its biggest surplus in the last ten years. The result reflects income that is above budget for both Cable Car fares and miscellaneous pole maintenance. Now that equity has been reduced (due to the write-down of the trolleybus overhead asset over the previous 5 years), the surplus represents a very satisfactory return on equity.

No dividend has been declared, to allow the company to invest in refurbishing and upgrading the Cable Car terminals over the next twelve months. This approach is consistent with the 2005/06 Statement of Intent which Council has supported.

Statement of Financial Position

\$'000	FY Actual	FY Budget	2003/04 Actual
Current assets	1,530	990	1,069
Non-current assets	2,593	2,661	2,654
Current liabilities	318	130	282
Non-current liabilities	-	-	-
Equity	3,805	3,521	3,441
Current ratio	4.8:1	7.6:1	3.8:1
Equity ratio	92%	96%	92%

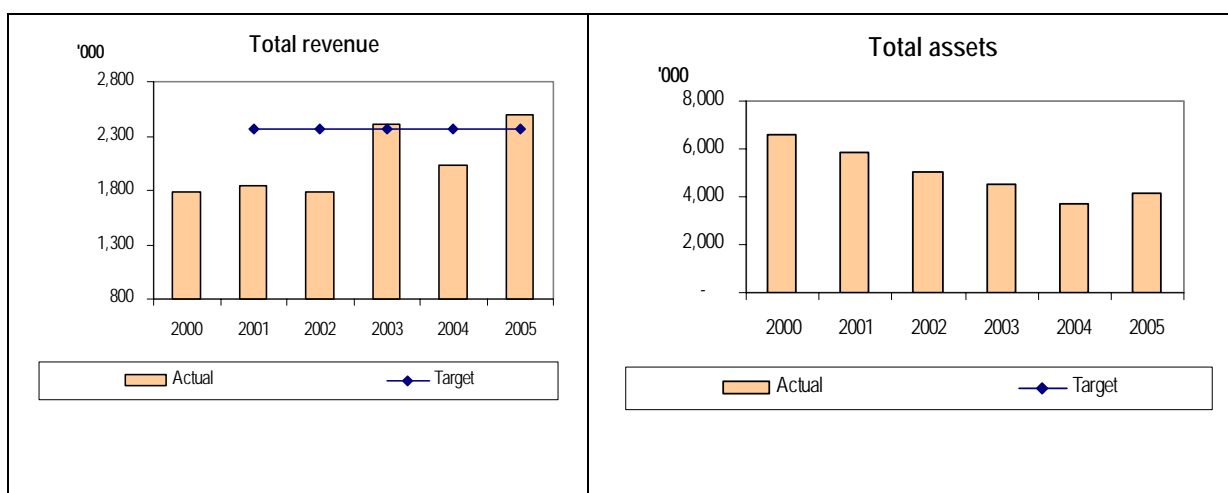
The company has an uncomplicated balance sheet, with no debt and stable, low levels of inventory and receivables. The equity position has improved this year with the healthy surplus. As a result, from a balance sheet perspective the company will be able to fund a reasonable level of capital expenditure without recourse to the Council.

Statement of Cash Flows

\$'000	FY Actual	FY Budget	2003/04 Actual
Operating	519	186	172
Investing	(33)	(107)	(39)
Financing	(24)	-	(216)
Net	462	79	(83)
Closing balance	902	480	440

The major contributor was the operating result, but capital expenditure (*investing*) was also less than budget. The last loan instalment was repaid during the year.

(ii) Trends



The fluctuations in total revenue are largely related to miscellaneous work undertaken by WCCL, primarily in re-alignment work on the trolley bus network. However the 2005 result also reflects the upturn in passenger numbers on the Cable Car during the year, particularly tourists over summer.

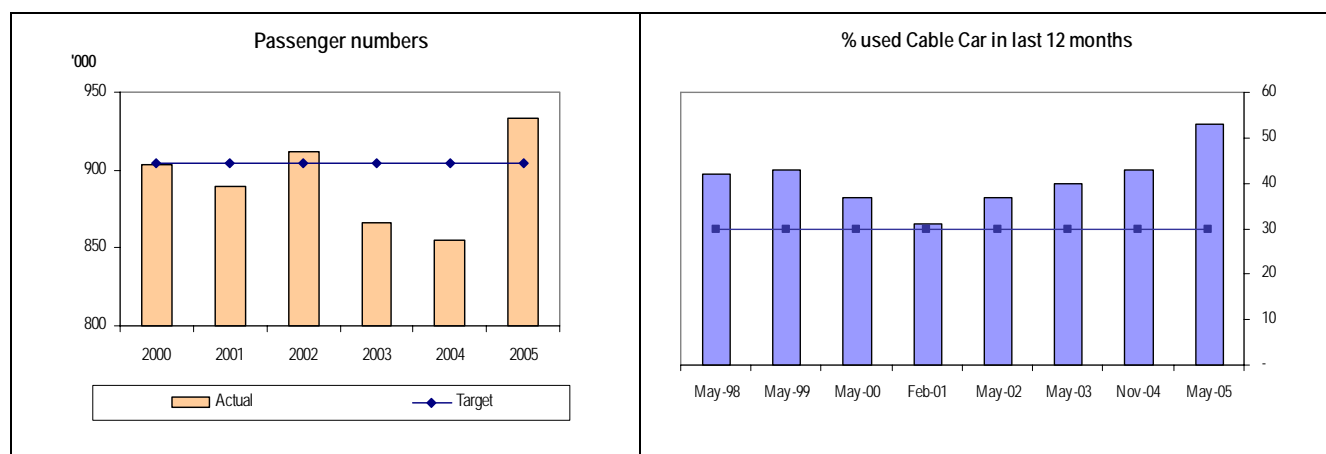
The steady reduction in total assets (*figure 2*) from 2000 to 2004 is a result of the write-down of the trolleybus overhead network, which created losses for the company. In 2005 there is no further write-down, and the profit result is reflected in the increase in assets.

b KPIs

(i) Against targets

Measure	2004/05 Target	2004/05 Actual	Comment
Work within approved budget	-	-	Achieved
Work within strategic plan/Sol	-	-	Achieved
Cable Car passengers ('000)	904	933	Achieved
Cable Car reliability	100%	99.93%	<i>Within acceptable tolerance (<20 hours)</i>
Cable Car reliability (hrs outage)	<20	<20	Achieved
% residents used Cable Car	30%	53%	Achieved
Satisfaction with service	90%	94%	Achieved
Fare & subsidy income (\$'m)	1.9	2.5	Achieved
Overhead cost/km	\$9,700	-	No available data due to trolley bus service review as part of the transport package

(ii) Trends



In recent years there has been an upward trend in the percentage of residents who have used the Cable Car. However until 2005, this was not being reflected in total passenger numbers, which have been declining. The implication that could be derived was that it was only the casual users that were increasing, while regular commuters and tourists were declining. The 2005 evidence is that there has been a marked upturn in tourist numbers using the Cable Car.

c Significant changes

(i) In activities

There have not been any changes in the activities undertaken by WCCL, but progress is being made on the proposed transfer of the trolleybus overhead network to Greater Wellington.

(ii) Other – governance

Roy Cowley retired from the board in December 2004, and was replaced by Jeremy Ward, who was appointed from 1 January 2005. Rob Thompson was appointed Chair. Due to the trolleybus issues, and associated uncertainty, the term for all directors is only one year – to 31 December 2005.

The board has been meeting more frequently during 2005, in response to the number of key issues that they are presently working through. These are discussed more in the following section. The directors are receiving supplementary fees in recognition of this extra workload.

3. Discussion

a Key items from the year

TROLLEYBUS OVERHEAD NETWORK: The trolleybus overhead network has been the subject of much uncertainty in recent years, with the five year contract between Greater Wellington (GW) and WCCL expiring on 30th June 2004. As has been covered previously, GW has not been able to provide any certainty over the future of the trolleybus service during that time. For this reason WCCL has assumed the service will be discontinued, and has taken the conservative approach to write off the value of the network over those five years.

The service has continued through the past year, beyond the end of the contract, first on a seven-month rollover, and since then on a monthly basis. This has not been a satisfactory arrangement from the perspective of WCCL, as the company has to continue to maintain the network and to plan for the ongoing service provision, but without any contractual certainty.

However progress has been made in recent months, with probable agreement reached over funding the service for the next ten years. Greater Wellington has tabled a proposal to take ownership of the trolley bus overhead network, and both the City and WCCL agree in principle with the proposal.

CABLE CAR LEASE: WCCL is working with the Council's Property business unit to resolve the outstanding issues with regard to the lease of the Cable Car land and related assets (such as bridges, tunnels etc).

CABLE CAR TERMINAL UPGRADES: The company is developing plans for the refurbishment and upgrade of the terminals, commencing with the Lambton terminus. This will include investigating a range of options for both simplifying and enhancing the customer interaction, whether through automated ticketing, information or opportunities to generate additional spending.

b Issues for consideration

Council officers are considering two related questions that arise from the likely transfer of the trolleybus overhead network out of WCCL. Currently trolleybus network operations account for more than half of the company's income.

- Is the company a going concern/viable operation after the trolleybus operation is removed?
- What is the appropriate ownership structure (again after sale of trolleybus operation)?

This might be further influenced by planned asset upgrades.

As has been noted, the company is planning to refurbish and improve the Cable Car terminals. The company's balance sheet can sustain a reasonable level of debt funding of capital expenditure, but the proposed transfer of the trolleybus overhead network will reduce the company's revenue streams. This will reduce its ability to service debt. The company will assess this issue, and will no doubt involve officers in future discussions.

One of the options being pursued by the company is an LTNZ subsidy for the Cable Car operation. One consequence of this would be that the operation has to be held in a CCTO, which might limit some future structural options.

4. Conclusion

a Summary of analysis

WCCL has had its best year, in terms of its key indicators: passenger numbers, revenue and profits.

b Looking forward

The company expects to undertake terminal upgrades; and is participating in the “Top of the Cable Car Precinct” to enhance the visitor experience for all the entities and to leverage joint marketing efforts.

There are positive signs that the trolleybus overhead network will be transferred to Greater Wellington. This has been the area of most concern for the company in recent years. If this transaction is completed, the company will need to revisit its business plan and strategic plan, as results will change significantly.

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