

**DRAFT STATEMENTS OF INTENT FOR COUNCIL
 CONTROLLED ORGANISATIONS FOR THE YEAR
 2007/08**

1. Purpose of Report

To provide the Subcommittee with an analysis of the draft 2007/08 Statements of Intent received from Council Controlled Organisations, in compliance with Local Government Act 2002 and Council reporting requirements.

2. Recommendations

It is recommended that the Subcommittee:

1. *Receive the information.*
2. *Note that officers work with all CCOs to continue to improve the quality of Statements of Intent over time, as recommended by the Roche Review of CCOs in 2006*
3. *Agree that officers request that CCOs make the following changes to their Statements of Intent for presentation to this Subcommittee at its meeting of 6 June 2007:*

CCO	Recommendations
<p>Wellington Museums Trust</p>	<ul style="list-style-type: none"> ➤ produce missing 3 year forecasts ➤ provide information on how the Board will meet best practice standards and the Board development programme ➤ outline its audit and risk assurance processes, including internal audit

<p><i>Basin Reserve Trust</i></p>	<ul style="list-style-type: none"> ➤ provide an undertaking to work with the Council to achieve co-ordinated event management ➤ identify risks, and the associated mitigation strategies ➤ outline audit and risk assurance processes, including internal audit ➤ produce missing 3 year forecasts ➤ provide information on how the Board will meet best practice standards and the Board development programme
<p><i>Cable Car Company</i></p>	<ul style="list-style-type: none"> ➤ articulate future company strategies, including scenarios with/without overhead trolley network ➤ identify risks, and the associated mitigation strategies ➤ outline its audit and risk assurance processes, including internal audit ➤ produce missing 3 year forecasts ➤ provide information on how the Board will meet best practice standards and the Board development programme
<p><i>Positively Wellington Tourism</i></p>	<ul style="list-style-type: none"> ➤ include working with the Council Events team to develop a robust methodology to measure the economic impact of events ➤ include cost effectiveness and organisational health measures ➤ produce missing 3 year forecasts ➤ outline how its internal audit functions are provided for ➤ articulate its Board development programme
<p><i>St James Theatre Trust</i></p>	<ul style="list-style-type: none"> ➤ Raise the issue of an SOI or joint SOI for the St James Theatre Limited ➤ additional information about strategic direction – e.g. Trust taking greater role in productions, development of back lot ➤ include measures on organisational health and capacity ➤ produce missing 3 year forecasts ➤ provide information on how the Board will

	meet best practice standards and its Board development programme
Wellington Waterfront Limited	<ul style="list-style-type: none"> ➤ A number of the requirements for the SOI, as laid out in the Letter of Expectations are not attached to the SOI and will be received as part of the business plan ➤ In the Governance section, WWL assert that only the WWL Board can make decisions, including major capital projects and the approval of development contracts. The Companies Act 1993 says that a major transaction (greater than half the value of the company's assets) requires shareholder support for it to be approved ➤ produce missing 3 year forecasts ➤ include details of how it reviews and measures board performance, and of its board development programme ➤ a detailed assessment of all risks that might impact waterfront development and their proposed strategies for mitigation
Wellington Zoo Trust	<ul style="list-style-type: none"> ➤ ensure details of processes and controls for CAPEX development projects are included in the SOI. ➤ articulate how it reviews and measures board performance, and its board development programme. ➤ discuss all performance measures with the Trust, especially those which have decreased compared to 2006/07 and/or 2005/06.
Capacity	<p><i>(These recommendations will need to be discussed with Hutt City Council):</i></p> <ul style="list-style-type: none"> ➤ Consider requiring an explicit link to be made between the SOI and the Strategic Plan ➤ Explicitly recognise and outline how it will manage risks to the Council ➤ Agree to remove the specific performance measures and rely on the general requirement to comply with SLAs ➤ include measures on organisational health and capacity ➤ outline its audit and risk assurance processes,

	<p>included internal audit</p> <ul style="list-style-type: none"> ➤ produce missing 3 year forecasts ➤ provide information on how the Board will meet best practice standards and its Board development programme
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4. *Note that there are no issues to raise with Strategy and Policy Committee in regard to this report.*

3. Background

The requirements for Statements of Intent (SOIs) are prescribed in the Local Government Act 2002. The requirements in the Act are modelled on those for SOEs under the State Owned Enterprises Act.

Under the Local Government Act 2002, CCOs are required to submit a draft SOI to the Council by 1 March in the previous financial year. As a matter of good practice, the Council precedes this with a Letter of Expectation to CCOs, which outlines the Council's expectations in respect of the SOIs it will receive.

The draft SOI process provides both the Council and CCOs with an opportunity to fine tune respective expectations ahead of submitting a final SOI for owner approval (Council) in June each year.

4. Entities covered by this report

4.1 Council Controlled Organisations

A draft Statement of Intent was received by the following CCOs:

- Basin Reserve Trust
- Capacity
- Positively Wellington Tourism
- St James Theatre Charitable Trust
- Wellington Cable Car Ltd
- Wellington Museums Trust
- Wellington Waterfront Ltd
- Wellington Zoo Trust

Positively Wellington Business was not required to provide a draft SOI, as it is proposed that a new regional economic development agency will be in place for 2007/08.

4.2 Wellington Regional Stadium Trust

The Wellington Regional Stadium Trust will be providing a draft SOI to Greater Wellington and Wellington City Council by 1 April 2007.

4.3 Council Organisations

A number of Council Organisations are now included in the CCOPS quarterly reporting regime (all COs also provide an annual report to the Council). These organisations are not required to provide an SOI.

5. Statements of Intent – Roche Review

In the PricewaterhouseCoopers review, led by Brian Roche, it was recommended that the Statements of Intent from CCOs needed to be improved. These are a key mechanism outlining the purchasing and ownership interests that the Council has in CCOs, and through which the CCO can express its goals and commitments to Council objectives.

A particular focus of the review findings was to make SOIs more strategic – that is, in addition to meeting the minimum statutory compliance requirements, SOIs should articulate the strategic relationship between the Council and the CCOs:

In assessing the draft 2007/08 SOIs, the subcommittee should be mindful of the key areas of weakness identified by the Roche Review, in terms of lack of information:

- describing how the CCO contributes to wider Council objectives and outcomes;
- as part of this, articulating the links between what the CCOs do and the outcomes these activities contribute to;
- a heavy focus in some SoIs on financial matters at the expense of wider considerations;
- performance and other measures;
- putting the CCO into some sort of strategic context (why they exist and matters of a strategic nature in the environment surrounding the CCO); and
- issues affecting long term sustainability and capability of the CCO and how the CCO is proposing to address these.

5.1 Quality of 2007/08 Statements of Intent

Officers were mindful of the Roche review findings when we drafted the 2007/08 Letters of Expectation, which were reviewed by CCOPS at its meeting of 27 February 2007. A particular emphasis was placed on strategic alignment, risk management and audit functions, and longer-term sustainability and capability issues, and CCOs were reminded of the Roche review findings in respect of the need to improve SOIs over time.

While the quality of the draft 2007/08 SOIs received is understandably variable, some general comments can be made:

- Several CCOs appear to have simply amended the 2006/07 SOI, rather than using the opportunity to develop the more strategically focussed SOI that we are seeking. While there are some issues to raise in respect of its draft SOI, Positively Wellington Tourism has produced a document much closer to the quality that we are looking for
- Most CCOs have addressed the specific issues that were set out in the covering letter of the Letter of Expectations. The exceptions to this are highlighted in the attached summaries
- Most CCOs have endeavoured to articulate their contribution to Council's strategic goals and the strategic direction of their organisation
- While half of the CCOs have provided forecasts for 3 years in terms of financial performance, financial position and cash flows, only the Zoo Trust have provided 3 year forecasts in respect of reconciliation of net cash flows, movement in equity or taxpayers funds or details of fixed assets by category. It might be expected that these will be produced as part of CCOs' business plans. However as the SOI, not the business plans, are the legal contract between the Council and the CCOs, it is our view that this information will need to be included in the final SOIs presented to CCOPS and SPC Committee in June 2007
- Audit and risk assurance: only three CCOs (St James Trust, Wellington Zoo Trust, and the Wellington Museums Trust) have included a specific risk management and internal audit process in their draft SOIs, as requested in the Letters of Expectation. This is an area that will need to be markedly improved on for the final SOIs that are due to be approved in June 2007.

5.2 Recommended Approach

Officers have assessed each draft SOI, with recommendations for changes to be made to these by CCOs outlined in Recommendation 3 of this paper.

We are aware of the need for a balance between the compliance burden to CCOs and the benefits that would accrue to both CCOs and the Council as owner/funder. We consider that the requests for additional information

and/or changes to the draft SOIs reflect good practice, and the efforts needed to improve SOIs as agreed to as part of the process of implementing the Roche review.

If endorsed by the subcommittee, officer's recommendations will be relayed to CCOs by the relevant Portfolio Manager.

6. Conclusion

Officers have assessed each entity's draft Statement of Intent for 2007/08. The Roche review recommended that the quality and focus of the SOIs needed to improve, and this will remain a focus of officers as they work with CCOs.

A number of changes are recommended to the subcommittee. Subject to its approval of these changes being requested, officers will communicate the subcommittee's views to CCOs in time for amended (final) SOIs to be presented to this subcommittee at its next meeting on 6 June 2007.

Contact Officers:

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Sarah Polaschek, Portfolio Manager, Council Controlled Organisations

Supporting Information

1) Strategic Fit / Strategic Outcome

These entities and projects support the achievement of a range of outcomes across most strategic areas. CCOs are required to state in their Statements of Intent how they contribute to Council's strategic goals.

2) LTCCP/Annual Plan reference and long term financial impact

Please refer to the individual covering report that prefaces each entity.

3) Treaty of Waitangi considerations

This report raises no new treaty considerations. Where appropriate the entities do consult with the Council's Treaty Relations unit, and with the Tenth's Trust, as part of normal operations.

4) Decision-Making

This is not a significant decision.

5) Consultation

a) General Consultation

A draft of each entity report will be circulated to the individual entity, with comments passed on to the sub-committee as appropriate

b) Consultation with Maori

See section 3, above.

6) Legal Implications

The Council's lawyers have been consulted during the year as part of normal operations. There are no new legal issues raised in this report.

A Statement of Intent is a legal requirement for CCOs under the Local Government Act 2002.

7) Consistency with existing policy

This report is consistent with existing WCC policy.