
REPORT 2
(1215/52/02IM)

REVIEW OF THE PERFORMANCE OF ALL COUNCIL CONTROLLED ORGANISATIONS FOR THE QUARTER ENDED 31 MARCH 2008

1. Purpose of Report

To provide the Subcommittee with an analysis of the performance of all Council Controlled Organisations (and other selected entities) for the quarter ended 31 March 2008, 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 any issues for the Chair to raise with the Strategy and Policy Committee in regard to this report.*
- 3. Note any issues for the Chair to raise with the entities covered by this report.*

3. Background

It is a requirement of the Local Government Act 2002 (the Act) that where the Council is a shareholder in a council organisation it must regularly undertake performance monitoring of that organisation to evaluate its contribution to the achievement of:

- The Council's objectives for the organisation
- The desired results, as set out in the organisation's statement of intent
- The Council's overall aims and outcomes.

The Council Controlled Organisations Performance Subcommittee (CCOPS) is tasked with the assessment of the efficiency and effectiveness of each entity. Officers have included a brief overview that includes the agreed Key Performance Indicators and financial summaries. The issues that have been identified from officers' reviews are included in this covering report.

4. Entities covered by this report

4.1 Council Controlled Organisations

To comply with statutory requirements, officers will report quarterly to the Subcommittee on the performance of Council Controlled Organisations (CCOs). These are:

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

4.2 Wellington Regional Stadium Trust

A Court of Appeal ruling clarified the Trust's status and confirmed that it is not a CCO. It is included in this report because of the materiality of the Council's financial commitment to the Trust and the Trust's contribution to Council outcomes.

4.3 Council Organisations

At previous CCOP Subcommittee meetings it was recommended that a number of Council Organisations also be monitored on a quarterly basis. Accordingly, the following entities have been included within this quarter:

The Karori Wildlife Sanctuary Trust
Wellington International Airport Limited (Public Excluded)

Officers also recommended that the Marine Education Centre Project (and its provider, the Wellington Marine Conservation Trust) be monitored by this Subcommittee due to the materiality of the project and the level of financial commitment from Council. It has not been included in this report and is currently relatively simple in its operations. There is no significant risk to the Council as yet and until the Trust draws down on any Council loan funding, it is not considered necessary to report to the Subcommittee.

As noted at the previous meeting of the Subcommittee, Wellington City Council took over the Carter Observatory redevelopment project in January 2008. As a consequence, the project is now being monitored as part of the Council's quarterly reporting process, starting with the third quarter of 2007/08.

5. Issues for the Subcommittee to consider

Council Controlled Organisations:

5.1 Basin Reserve Trust

Report received on Friday 13 June, giving insufficient time for analysis.

5.2 Capacity - Wellington Water Management Ltd

Following Council officer's querying the Capacity bank balance being overdrawn at 31 March 2008, it transpired that this was in fact a bank reconciliation error in the Company's system, dating back to July 2007. The bank balance was in fact \$171k in credit at 31 March (not \$25k overdrawn as stated in the accounts), meaning a corresponding reduction in the reported salaries expenditure as detailed in the Q3 statement of financial performance. The consequence of this is that the Council, who are invoiced quarterly in arrears by Capacity for their management fee, will have paid approximately \$195k too much for the 2007/08 year to date.

Council officers further note that the Council's own Risk Assurance team are currently conducting an onsite audit of Capacity, which is planned to be reported to the Audit and Risk Management Subcommittee in October.

As the Council is the major customer of Capacity, the CCO team have sought input on Capacity's year to date performance from the Director, Infrastructure and his feedback is given below:

Under "activities during the quarter"

- Council has raised concerns with Capacity about the level of expenditure in core Operational (Opex) projects. This appears to be well under budget levels (mainly due to lower flows at the Treatment Plants) but also on responsive and proactive maintenance items. While such financial position may appear to be a positive trend, however and within the context of significant underutilisation of capital (Capex) funds, Council intends to ensure that such under spending does not raise unacceptable risks for the networks reliability.

Under "Savings"

- Capacity reported to CCOPS in December 2007 that a final assessment of the savings model status would be reported back in March 2008. Capacity has provided Council with a number of suggested input adjustments to the model around mid-March 2008. Council responded to these queries/suggestions on 7 April 2008 effectively rejecting the basis of the suggested adjustments. Council considers that the savings model evaluation carried out at the end of 2006/07 reflects the actual position against the target savings. Council does not anticipate that the target savings will be achieved. A year end (2007/08) progress report

will be prepared by Council on this matter to update the 2006/07 outcome.

5.3 *Positively Wellington Business (Wellington Regional Economic Development Trust)*

The winding up process of Positively Wellington Business (PWB) is practically complete, with the outstanding \$210k loan being paid back to the Council in full. In fact, PWB had a small surplus on winding up which was donated to Education Wellington.

Subject to the 07/08 Annual Report, this effectively brings the Council's involvement in the matter to a close given that Grow Wellington, which effectively superseded PWB, is a Council Controlled Organisation, wholly-owned by Greater Wellington Regional Council, and funded through a regional rate.

5.4 *Positively Wellington Tourism (Partnership Wellington Trust)*

The Trust's focus had been impacted in the first 6 months of the year by the need for an intensive recruitment programme, following a significant number of staff departures. Having dealt with this, the Trust now has to manage the resignation of the CEO, Tim Cossar, who recently signalled his intention to leave the trust before the end of the calendar year.

Whilst the Trust's Charities registration has been filed, though no notification of status has been received, the Trust note that 'similar' entities have had their registration declined. A decline in PWT's application, leading to the loss of the trust's charitable status would result in it becoming liable for tax. The trust needs to consider the implications of this possible outcome, and prepare accordingly.

The Trust is currently re-forecasting a surplus of \$168k compared to a budgeted \$10k loss. This happened last year, and raises questions over their ability to deliver on their business plans objectives, and their new initiative request for further funding.

5.5 *St James Theatre Charitable Trust*

In its draft SOI, the trust signalled its intention to approach the Council for funding assistance in relation to their asset maintenance requirements. Council officers note that the trust's cash balance has declined from \$964k to \$401k in the 9 months to date, again highlighting the difficult environment in which they operate.

Following the announcement of the Deputy Mayor Ian McKinnon as the new Chair of Council Strategy and Policy Committee, Councillor McKinnon will be replaced on the Board of the trust by Councillor Cook, with effect from 24 June.

5.6 Wellington Cable Car Ltd

The Company is in negotiations with Greater Wellington Regional Council to agree the increased trolleybus maintenance funding requirement of \$4 million for the 2008/09 year, compared to the \$1.87 million budgeted by the Company for 2007/08. The Company has a rolling monthly contract with a preferred contractor for the trolleybus network maintenance, pending agreement on the ongoing funding levels.

The Company is also negotiating further payment for the difference between the amount that GWRC allocated for 2007/08 (\$1.53 million) and the amount that the Company budgeted for in its business plan (\$1.87 million). The Company must demonstrate to GWRC that its calculations are robust and that the work can be physically achieved before the end of the year.

The Company notes that, pending resolution of the above stated funding gaps, there may not be sufficient funds to pay the Council a dividend. Officers have made it clear to the Company that there is to be no cross-subsidising of operations and that payment of a dividend, which is effectively funded from surpluses derived from the cable car operations and additional pole work / leases, should not be impacted by the ongoing trolleybus maintenance funding issues.

5.7 Wellington Museums Trust

The Trust has highlighted static funding levels from the Council as well as the need for additional operational funding for the City Gallery post-redevelopment, the collection store and the continued Capital E leaks. Council officers will continue to work with the Trust to prioritise its outcomes and to re-assess its service levels, whilst developing mitigation strategies against, for example, the non-achievement of income targets.

5.8 Wellington Waterfront Ltd

At the last Subcommittee meeting in April, the Company was asked to develop financial forecasts for 10 years, up to and beyond the transition of waterfront management from the Company to the Council. The Company will present this information at the Subcommittee meeting on 20 June, and a paper will be prepared for the Strategy and Policy Committee in September, which will look at options for the waterfront from 2009/10 onwards.

The Overseas Passenger Terminal resource consent was granted by Greater Wellington Regional Council in May but an appeal lodged by Waterfront Watch means that the project will be delayed pending a hearing in the Environment Court.

5.9 Wellington Zoo Trust

Detailed design for the conservation hospital has been completed and the contract for its construction has gone out for tender, with a likely start date for construction in July 2008.

The Zoo's annual visitor number continues to increase and is on target to achieve in excess of 180,000 for the first time since 2000/01.

Since the quarter ended, Seun the new male giraffe arrived on 11 April following a long journey from Orana Wildlife Park in Christchurch and the refurbished Twilight House opened on 25 April.

Other Organisations:

5.10 Wellington Regional Stadium Trust

The Trust's excellent YTD surplus of \$3.3 million, compared to a budgeted \$0.8 million, has enabled the Trust to make a temporary repayment against its bank loan of \$1.5 million. The Trust notes in its 2008/09 final SOI that repayment of the Council's limited recourse loan is unlikely to start before 2025.

The Trust has successfully managed the busy and often competing demands for Stadium use, and has virtually caught up with all its programmed turf maintenance after delays arising from the busier than expected football season.

5.11 Wellington International Airport Limited

During the 2007/08 year, more than 5 million people travelled through the gates of Wellington Airport for the first time since 2003. The stimulus of Pacific Blue's entry into the market has led to airlines competing to attract travellers with discounted fares and better services.

Construction of The Rock is scheduled to start in July, with targeted completion in May 2010. Once finished, The Rock will enable a doubling of passenger processing capability, lounge expansion and more shopping areas, and more gates for future growth of air services.

5.12 The Karori Wildlife Sanctuary Trust

As previously noted, geotechnical work was required to be undertaken on the bank behind the proposed location of the Visitor Centre, as the bank was not as robust as previously anticipated. The investigations were completed during the quarter with final costing for the stabilisation work coming in at \$700k.

Fletcher Construction has been chosen as the preferred main contractor for the construction of the Visitor Centre and on 20 May the Prime Minister turned the first sod of soil.

Due to delays in securing the full amount of the targeted capital funding, the Trust has identified a gap in operational funding requirements for the transition period, leading into the completion of the Visitor Centre. Consequently, the trust received an additional \$300k transitional funding in April and further transitional funding of \$300k in 2008/09 and \$700k in 2009/10 has been requested through the draft 2008/09 Annual Plan new initiatives process.

6. Conclusion

A covering report prefaces each entity's quarterly report which summarises the information for the quarter. The issues for the Subcommittee to consider have been determined after review of the documents by officers and discussion with the entities. After considering these reports, the Subcommittee can, if it considers it appropriate to do so, draw any matters to the attention of the Strategy and Policy Committee.

If it considers that it will help clarify the information presented or assist with its monitoring role the Subcommittee can also ask the Chair to seek responses from a Board or Trust Chair to any queries it may have. These responses will then be tabled at the next meeting of the Subcommittee.

Contact Officers:

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Warren Ulusele, Portfolio Manager, Council Controlled Organisations
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. Where relevant, reference is made to the 2007/08 Annual Plan.

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.

7) Consistency with existing policy

This report is consistent with existing WCC policy.