
REPORT 3
(1215/52/02IM)

**FINAL STATEMENTS OF INTENT FOR COUNCIL
CONTROLLED ORGANISATIONS FOR THE YEAR
2008/09**

1. Purpose of Report

To provide the Subcommittee with the final 2008/09 Statements of Intent received from Council Controlled Organisations (CCOs), 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 will continue to work with all CCOs to further improve the quality of the Statements of Intent over time*
3. *Note that following the last Subcommittee meeting the Chair wrote to the CCOs requesting changes to be made in their Statements of Intent and that many of these changes have been included in the final documents*
4. *Agree to recommend that the Strategy and Policy Committee approve the following Statements of Intent as outlined below*
 - a) *Basin Reserve Trust*
 - b) *Capacity - Wellington Water Management Limited*
 - c) *Positively Wellington Tourism*
 - d) *St James Theatre Trust*
 - e) *Wellington Cable Car Company*
 - f) *Wellington Museum Trust*
 - g) *Wellington Zoo Trust*
 - h) *Wellington Regional Stadium Trust*
 - i) *Karori Wildlife Sanctuary Trust*
5. *Agree to recommend that the Strategy and Policy Committee approve the Wellington Waterfront Limited Statement of Intent subject to:*

- a) *the Council decision on 27 June 2008 on the draft Waterfront Development Plan and short-term advance, and*
- b) *the report to the Strategy and Policy Committee in September, detailing the waterfront development options for inclusion in the 2009/10 LTCCP.*

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 Crown entities which are now set out in the Crown Entities Act 2004.

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 preceded this with a Letter of Expectation, sent to all CCOs in January, which outlined the Council's expectations in respect of the SOIs to be received. This process provided both the Council and the CCOs with an opportunity to fine tune respective expectations ahead of submitting the final SOI for owner approval (Council) prior to the beginning of the 2008/09 financial year.

Officers received the draft SOIs and tabled these at the CCOPS meeting on April 29. This report included issues that had been identified in each SOI that were expected to be addressed in the final SOI. The Chair of the Subcommittee wrote to each CCO, highlighting these issues and requesting the final SOI to be submitted by May 23.

These final SOIs are included in this report for referral to Strategy and Policy Committee. As the key accountability document between the Council and the Board of each entity, the approval or support of the SOI is important in confirming the strategic direction and accountability to Council of each organisation.

4. Entities covered by this report

4.1 Council Controlled Organisations

A final Statement of Intent has been received by the following CCOs:

- Basin Reserve Trust
- Capacity – Wellington Water Management Limited
- Positively Wellington Tourism
- St James Theatre Charitable Trust
- Wellington Cable Car Ltd
- Wellington Museums Trust
- Wellington Waterfront Limited

Wellington Zoo Trust
Wellington Regional Stadium Trust
Karori Wildlife Sanctuary Trust

Now that Positively Wellington Business has effectively been wound up, and has been superseded by the Regional Economic Development Agency Limited which is operating as a CCO of the Greater Wellington regional Council. Therefore it will not complete a SOI as it has transferred its functions to the above-named entity.

5. Issues for the Subcommittee to consider

5.1 *Basin Reserve Trust*

The trust's final SOI and business plan for 2008/09 provides an increase in scope and detail of information compared to the draft SOI, and has sought to address the issues raised by the Chair of the Subcommittee, in his letter to the trust on 9 May. A brief summary of these matters is given below:

- The trust has included details of a number of the risks that it has to manage, and the processes in place to manage them. However, the risks disclosed appear to be based largely on statutory compliance concerns, with less detail of the operational risks that the trust may face such as, perhaps, a loss of funding, insufficient number and type of events, adverse media commentary, emergence of rival venues, loss of staff, etc
- The trust notes that the strong relationship between its Council appointed trustees and the Council's events team enables the trust to be appropriately informed of, and involved in, a well co-ordinated city-wide events schedule
- With regard to the trust forecasting successive \$80k operating losses for the next 3 years, the trust notes that it should remain cash flow positive throughout this period. The majority of revenue received will be used to fund deferred maintenance projects, as well as ongoing annual maintenance however it is not anticipated that significant additional revenue will be achieved to provide for future asset replacement
- The trust has reviewed its KPIs, and the target number of events has increased by 15%.

5.2 *Capacity – Wellington Water Management Limited*

The Capacity 2008/09 final SOI and Strategic Plan detail the Company's strategic objectives with its key focus for 08/09 being to improve stakeholder

relationships and exceed service delivery, and to actively pursue business development opportunities.

The Company has amended its SOI in response to the letter from the Subcommittee Chair on 9 May, and a brief overview of the main changes is given below:

- the Company has provided the Council with pre-draft framework and strategic summary documents to help deliver the Council's three strategic plans (water, waste water and stormwater). Further consultation and discussion with affected parties will enable Capacity to develop these plans which will ultimately feed into the asset management plans
- in recognition of the significant risk that a failure in stormwater systems, sewerage systems and good quality water presents to the Council, Capacity has supplied details of how it manages its business risks and has undertaken to develop separate activity risk management plans for these three areas
- the Company asserts that it will undertake to minimise the impact of its planned business growth on the service delivery to existing customers through utilising existing Upper Hutt staff and accommodating them in Capacity's existing premises. Officers do not consider this to be sufficient and will seek to obtain greater assurance from the Company
- the final SOI states that the Company will undertake annual Board performance reviews, commencing 30 June 2009. Council officers are working with the Company to identify a framework of appropriate Board review and development programmes
- Capacity has confirmed its intention to provide quarterly reports to the CCO Performance Subcommittee

A review of Capacity's 3-year strategic plan by officers' notes the following issues:

- Capacity asserts that it is 'meeting Council's savings expectations but further development is required in asset policy and planning to meet service delivery and relationship management expectations' and that it will 'take a concentrated focus on service delivery to exceed service level agreements'
- the Company notes that its delivery of objectives is still being hampered by a shortage of affordable and appropriately skilled resource in the labour market

- the Company will deliver appropriate business case analysis of its growth strategy to obtain buy-in from its shareholders
- the Company intends to increase its management fee for the 2008/09 year by 22% from \$5.114 million to \$6.264 million; it is not clear what consultation has occurred with stakeholders in relation to this. Also, how does this increase of over \$1 million relate to the estimated \$436k savings to the Council Capex costs, brought about by the Business Improvement Project?
- the Company intends to increase its management fee upwards with a CPI adjustment; this is not consistent with the approach taken for all the other CCOs

As the Council is the major customer of Capacity, the CCO team have sought input on Capacity's final 2008/09 SOI and Strategic Plan from the Director, Infrastructure and his feedback is given below:

The SOI

While adequate in intention, it does not outline key actions/considerations that would assist the CCO to improve current deficiencies. Some of these omissions are;

- *Giving effect to a more reliable and effective procurement plan that will ensure consistent and optimised contract services are delivered. The plan should significantly improve on the previous 4 year's failure to deliver more than 75-80% of capital works required by the AMPs.*
- *The CCO has not delivered any strategic framework for any of the three services to Council. What the company calls pre-draft documents relate simply to a section of the city for water (Low supply zone) and no other areas. Such drafts have been in this form for a significant time and Council expects the SOI to clearly commit the company to the final delivery of these plans.*
- *An action plan to secure and maintain effective relationships with key partners and stakeholders in the delivery of water based services. Such partners are the GWRC, DOC, Community Liaison Groups CLGs, Residents Associations, Ministry for the Environment. The objectives of such action plan should be to enable more effective resource consent applications and improved community trust and confidence.*
- *A validation of the statement that Capacity's staff have an "excellent" understanding of Local Government issues. The SOI should be outlining the approach proposed to validate such claim. Through Council meetings attendance, community meetings, resident management and Council's policies assimilation through the CCO's training programmes.*

In terms of risk management the SOI needs to reinforce the commitment by the CCO to adhere in its routine practice to the paper based risk plans and processes.

The 3-year SP

- *The CCO's assertion that it is meeting Council's savings expectations is simply incorrect. The most up to date savings information is that the CCO is at least \$1.7 million off target.*
- *The statement that Council is using an in-house model for Infrastructure services is simply incorrect. At least 80% of infrastructure physical services and 75% of technical management are externally procured.*
- *Page 5 of the S. Plan indicates that the CCO has "Proven Skills" in Strategic planning. Yet on Page 7 it states that the CCO is lagging behind in the delivery of strategic services.*
- *The intention to increase its Management fees to \$6.264m is a 22% increase over the current \$5.114m. However there is no clarity as to the purpose and objectives of such increase. Especially since the CCO is a monopoly provider with little Council discretion of meeting its costs. The SP must clearly set the expected improvements of this escalation and commit to deliver them before Council agrees to this escalation.*

5.3 Positively Wellington Tourism

The 2008/09 final SOI for Positively Wellington Tourism (PWT), submitted with its business plan, has not been significantly amended following receipt of the letter from the Chair of the Subcommittee, dated 9 May, though no specific changes to the SOI were requested. A brief summary of the points raised is given below:

- The trust notes that there has been a flattening of the market, which will continue for the next 18 months. This ongoing flattening, reflected in the trust's conservative KPI forecasts, will impede the significant expansion of annual tourism expenditure in the city (from \$1.2 billion on 2006 to \$2.0 billion in 2013) that the trust maintains is achievable in its SOI, and has used to promote its desire for increased funding
- during the 2008/09 year, the Council's Risk Assurance team will be invited to analyse the trust's operations; accordingly any significant recommendations arising from this will be brought to the attention of the Subcommittee.

A review of the trust's business plan notes the following key issues:

- in spite of there being little or no growth in the New Zealand tourism market, the trust expects the Australian market to remain buoyant, and for the increased potential of the cruise market to become an area of focus
- boosted by the significant increase in operational funding facilitated through the new initiatives round, PWT aims to dramatically increase the numbers of people able to access Wellington online
- a market-leading and aggressive New Zealand marketing and event programme will be critical in enabling PWT to retain and grow its share of a strong domestic market in a climate of international uncertainty
- leading the development of the Wellington Tourism Strategy will form a key part of the 2008/09 delivery
- PWT will continue to work with the Council and other stakeholders to help the City achieve its objectives in relation to sustainability and global warming.

5.4 St James Theatre Trust

The 2008/09 final SOI for the St James Theatre Trust, submitted with its Business Plan, is the same as the draft SOI tabled at CCOPS on 29 April. The letter from the Chair of the Subcommittee, dated 9 May, did not request any specific changes to the SOI, and any points raised in the letter that required action from the trust have been addressed in its draft Business Plan. The comprehensive nature of the Business Plan has enabled a thorough understanding of the trust's intended operations.

A brief summary of the key points from the business plan is given below:

- the trust highlights the complementary nature and mutual dependence of the Opera House (OH) and St James Theatre (SJT)
- Auckland, and to a lesser extent Christchurch, increasing their respective positioning in the Arts' sector brings opportunities and challenges to both Wellington and the trust
- the trust intends to increase its number of show days and occupied days, and to broaden the genre to further include community groups
- the trust will focus on increasing food and beverage revenue, whilst also looking at sponsorship and other business options

5.5 Wellington Cable Car Company Ltd

The WCCL final 2008/09 SOI does not appear to have changed significantly from the draft version tabled at the CCOPS meeting on April 29. A number of recommendations were made as a result of the meeting, and these were communicated to the company in a letter dated 9 May. Given below is a summary of the key points that have not been addressed:

- the Company has not included details of its 'Risk and Vulnerability' schedule and any mitigation strategies it has in place
- the company has not proposed a methodology for calculating dividend payments to the shareholder
- officers will continue to work with the Company to ensure that its KPIs are relevant and measurable, and effective in driving performance
- the Company has not outlined how the Board will meet best practice governance standards, through continuous review of their performance and an ongoing development programme.

Officers note that the Company has been heavily focussed in recent months on trying to negotiate a significant increase in the trolleybus network maintenance costs with Greater Wellington Regional Council, as well as undertaking a detailed tender process to secure a contractor to undertake this work.

5.6 Wellington Museums Trust

Whilst the trust was not asked to significantly amend its 2008/09 SOI by the Chair of the Subcommittee, in his letter to the trust on 9 May, officers note the following points in relation to the final SOI:

- key projects for the period covered by the SOI include:
 - developing its visitor experience strategy
 - the redevelopment of the City Gallery
 - the retention of existing revenue sources and the development of further funding streams
 - Capital E building maintenance issues
 - the development of a future focussed collection strategy and new storage facility.
- the trust has increased its targeted visitor numbers for the City Gallery Wellington by adding 30,000 in each of the 2009/10 and 2010/11 years
- the trust has included increased Council operating funding in its financial forecasts for the outyears of the SOI, which appear to be

over and above the additional \$50k annual funding for the Capital E National Children's Festival that was approved for inclusion in the DAP. Officers will work with the trust to understand the basis of these increases which should not be CPI related as officers have undertaken only to consider a mechanism for CPI adjustments at this stage.

5.7 Wellington Waterfront Limited

The WWL final 2008/09 SOI has been updated following the previous Subcommittee meeting, and further discussions with Council officers. The two key points raised by the Chair of the Subcommittee, in his letter dated 9 May, were in relation to detailed financial forecasts for the next 10 years and planning for the transition of operations from the Company into the Council. In the final SOI, WWL has only addressed the first point above.

It should be noted that the content of the final SOI is significantly impacted by the following three issues still to be resolved:

- the Draft 2008/09 Waterfront Development Plan, to be debated by the Council's Strategy and Policy Committee on Wednesday 18th June and subsequently consulted on before finalisation in August 2008
- the Company requires further temporary additional funding, over and above the limits agreed by Council last year, thus requiring a change to the 2008/09 Annual Plan
- consideration of the Draft Waterfront Development Plan and the 10 year financial forecasts provided by the Company has raised some wider issues which will need to be in September and reported back to Council. This work will include consideration of transition issues.

5.8 Wellington Zoo Trust

The Zoo Trust has presented its final SOI for 2008/09 and a business plan, with its three strategic goals of animal well being, conservation and learning again underpinned by the six strategic elements of visitor experience, conservation and research, financial sustainability, community support and participation, industry leadership, and staff value.

The Zoo has also updated its SOI and business plan in response to the letter from the CCOPS Chair, dated 9 May, as noted below:

- The CCOPS Chair, in accordance with Council's conditional approval of the Zoo Capital Plan (ZCP) asked the Zoo to reduce its dependence on the Council through a planned reduction in the Council operating grant. However the Trust contends that its ZCP funding from the Council was not contingent on a reduced dollar amount of annual operational funding, rather that Council funding as a proportion of total Trust funding was expected to decline.

Council officers recommended that the Zoo should be allowed to build up its reserves to a reasonable level before any such dollar reduction is implemented. Accordingly, the Zoo's draft financials forecast an operational surplus of \$181k for the 3 years of this SOI, with the intention of eroding negative equity and building up reserves. However, the final SOI, now forecasts a \$25k surplus over the next 3 years.

The Q3 YTD operating surplus for the Zoo stands at \$376k which, if sustained through to year-end would enable the Zoo to completely remove negative equity from its balance sheet and accumulate a reasonable level of reserves.

Council officers will continue to work with the trust to understand the change in forecast surplus and the impacts of the Council reducing the dollar amount of its operating grant.

5.9 Wellington Regional Stadium Trust

The final SOI for the trust, submitted with its business plan for 2008/09 and a summary of its 5-year strategic objectives, is detailed and comprehensive, allowing officers to understand the trust's operations, and the risks and opportunities that it faces.

The trust has also amended its SOI in response to the issues raised by the Chair of the Subcommittee, in his letter to the trust on 9 May. A brief summary of the issues is given below:

- the trust has included details of the key risk areas that it has to manage, and highlighted the processes in place to manage them
- in relation to declining rugby numbers, the trust is actively endeavouring to maximise its range of revenue sources whilst also asserting that annual corporate box and licence fees are far more material to the financial performance of the trust than rugby
- the trust has robust governance processes in place though officers note that whilst new trustees receive a comprehensive induction, existing trustees' Board performance is only reviewed at the expiry of their term.

A review of the trust's business plan notes the following points:

- The trust is forecasting a record cash surplus for the 07/08 year of \$3.97 million, some \$2.74 million ahead of target. However, the trust notes that it is unlikely to achieve this level of surplus in the following years with falling rugby crowds, fewer major events and the impact of some higher maintenance and interest costs.

Further to this, officers note that the trust has budgeted conservatively for the three years of this SOI, with respective forecast surpluses of \$1.59m, \$1.66m and \$1.72m. This is significantly below the \$2 million figure the trust has traditionally budgeted to meet its debt repayment obligations and facilities improvements targets

- The trust states that it doesn't expect to commence repayments of the Council's limited recourse loans before June 2025. Council officers have been having ongoing discussions with the trust with regard to the loan repayment and are still working with the trust to understand the methodology of and assumptions in their repayment model
- the trust has commenced discussions with Westpac in relation to naming rights sponsorship, with a view to negotiating a renewal when the current agreement expires at the end of 2009

5.10 Karori Wildlife Sanctuary Trust

The trust has amended its final 2008/09 SOI in response to the issues raised by the Chair of the Subcommittee, in his letter to the trust on 9 May. A brief summary of the points addressed is given below:

- The trust notes that in the 2010/11 year, its first full year of operation after the opening of the Visitor and Education Centre, that it is forecasting a loss of \$311k after depreciation. Accordingly the trust proposes to make its first repayment of its limited recourse loan from Council in the 2011/12 year, as agreed in the Funding Deed with the Council.
- Further to this it should be noted that the trust has highlighted the possibility of a further loan requirement of \$500k, as a result of the geotechnical issues recently identified. The trust aims firstly to absorb this additional cost within its project contingency budget and will also have the opportunity to investigate alternative funding opportunities. However, they have prudently brought this situation to the attention of Council officers, who recommend that a decision be deferred until all the contracts have been let, and a robust total project cost is known
- The two and a half year delay in the start of the project, arising from Government funding and geotechnical issues, has led to a shortfall in operational funding for the trust of approximately \$2 million. It should be noted that the annual operating grant of \$1.1 million that the trust has been receiving will cease at the end of the 2007/08 year, in accordance with the originally anticipated opening date of the Centre of July 2009

- The trust has reduced this shortfall by \$700k through cost reduction and better performance, leaving \$1.3 million, \$300k of which was funded by the Council in April. As part of the 2008/09 DAP deliberations, the Council will consider the trust's request for a further \$300k operational funding in 2008/09, and a final payment of \$700k in 2009/10
- as requested, the trust has provided details of its Board performance processes, outlining how governance best practice is achieved through annual reviews and identification of Board development needs.

6. Conclusion

Last year, all the CCOs were asked to give particular focus into making the SOIs more strategic, and for CCOs to do more than meet the minimum statutory compliance requirements, and to better articulate the strategic relationship between the Council and the CCOs.

The development of the CCO Statements of Intent continues to be an iterative process however the overall quality of the documents has again increased this year and will allow a stronger relationship to be built between Council and each CCO.

Contact Officers:

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Ian Clements, Portfolio Manager, Council Controlled Organisations
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. 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.