
REPORT 2
(1512/52/02/IM)

REVIEW OF THE 2007/08 ANNUAL REPORTS AND AUDITED FINANCIAL STATEMENTS OF COUNCIL CONTROLLED ORGANISATIONS

1. Purpose of Report

This report provides the Subcommittee with a review of the annual reports submitted by Council Controlled Organisations (CCOs) for Council approval in compliance with the requirements of the Local Government Act 2002. Separate reports analysing each entity's performance are attached as appendices to this report.

2. Recommendations

It is recommended that the Subcommittee

1. *Receive the information.*
2. *Raise any issues for the Chair of this Subcommittee to raise with the Chairs of the entities.*
3. *Raise any issues that the Subcommittee consider should be brought to the attention of the Strategy and Policy Committee.*
4. *Agree that the St James Theatre Charitable Trust should continue to develop an Asset Management Plan and that the Trust should approach the Council annually for any major programmed maintenance in the following year that it is unable to fund itself*
5. *Note that this approach is in lieu of requiring the Trust to fund depreciation in its annual financial statements.*

3. Background

The audited annual reports received from CCOs have been reviewed by officers to assess any risks or issues from the perspective of Council's shareholder interest. Any significant issues that were identified have been discussed with the relevant entity and are included in the covering reports that are attached as appendices.

It is the Subcommittee's role to review these documents and bring matters of importance to the Strategy and Policy Committee's attention before ratification.

4. Documents for Review

Council Controlled Organisations

To comply with statutory requirements, this report reviews the performance of Council Controlled Organisations (CCOs). These are:

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

Council Organisations

At previous Subcommittee meetings it was recommended that a number of Council Organisations (and other entities) would also be monitored on a quarterly basis. These are:

- Wellington Regional Stadium Trust
- Karori Wildlife Sanctuary Trust
- Wellington International Airport Limited
- Sink F69
- Te Papa
- International Festival of the Arts
- Carter Observatory

The Wellington Regional Stadium Trust is not a CCO however it is included because of the reporting obligations included in the Funding Agreement between the Council and the Trust.

The Karori Wildlife Sanctuary Trust (KWST) has been included because of the materiality of the funding that Council has committed to, subject to the Trust receiving a significant amount of Central Government funding. In June 2007, the Government confirmed that KWST would receive \$6.5 million from the Significant Community-based Projects Fund, resulting in the Trust starting to

draw down on the Council's \$8 million interest free loan during the 2007/08 year.

Wellington International Airport Ltd (WIAL) has a March year-end, and therefore this report covers the first quarter to 30 June (as the annual report for the year to 31 March 2008 was covered in the previous Subcommittee meeting on 20 June 2008). The materiality of Council's investment in the airport is the reason for their inclusion within this report. As at previous meetings, discussions of the Airport are taken in Public Excluded.

Council originally agreed to provide an underwrite facility of \$600k to the Sink F69 Trust project resulting in the project being included within the quarterly reporting regime on account of the materiality of the underwrite. On completion of the project, Council agreed to provide a grant of up to \$169k to allow the Trust to repay funds owed to the Council. This was subject to the Trust providing audited accounts and a management plan for the dive wreck. At the time of writing this report, these are still to be provided by the Trust.

As noted at a 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.

At the time of writing, the audited accounts for 2007/08 for Te Papa and the International Festival of the Arts were not yet available.

5. Compliance with Local Government Act 2002

In accordance with the Local Government Act 2002 (LGA 2002) section 67 CCOs must within three months of the end of each financial year submit a report on the organisation's operations during that year. The LGA 2002 also states:

- Section 68 – the report must contain information that is necessary to enable an informed assessment of the operations of that organisation and its subsidiaries, including-
 - a comparison of the performance of the organisation and its subsidiaries with the statement of intent; and
 - an explanation of any material variances between that performance and the statement of intent
- Section 69 – the report must include audited consolidated financial statements for that financial year for that organisation and its subsidiaries, and an auditor's report on-
 - those financial statements; and
 - the performance targets and other measures by which performance was judged in relation to that organisation's objectives

The majority of the CCOs and other entities covered within this report have submitted documents in accordance with the legislative requirements. All the CCOs provided audited annual reports, none of which were qualified. The Karori Wildlife Sanctuary (a CO) received a qualified audit report due to its inability to accurately record donations from street appeals – this is the case for many not for profit organisations.

As previously noted, WIAL has a March year-end, and its audited 2007/08 accounts were tabled at the 20 June meeting.

6. Annual Plan Reference

Operating Expenditure \$'000

	Annual Plan Project	Actual Total	Annual Plan Total
Karori Wildlife Sanctuary Trust	A288	1,464	1,670
Wellington Waterfront Ltd	A312	1,432	1,764
Basin Reserve Trust	C008	507	505
Wellington Zoo Trust	C046	3,496	3,559
Wellington Museums Trust	C102	6,245	6,320
Positively Wellington Tourism	C105	4,116	4,116
Marine Education Centre	C426	158	473
Positively Wellington Business	C434	(210)	n/a
Te Papa funding	C440	2,000	2,019
St James Theatre Charitable Trust	C580	215	155

The Stadium Trust, Cable Car, Capacity and Airport do not directly receive Annual Plan funding.

Capital Expenditure \$'000 CAPEX PROJECTS

	Annual Plan Project	Actual Total	Annual Plan Total \$,000
Wellington Zoo Trust Renewals	CX125	281	276
Wellington Waterfront Development	CX131	5,825	6,600
Wellington Zoo Trust Upgrades	CX340	1,496	1,921
Cable car Precinct	CX496	273	300
Art Gallery	CX500	-	-
Basin Reserve	CX503	370	370

The above figures do not include unspent CAPEX brought forward from 2006/07 and unspent CAPEX during 2007/08 that has been approved for carry-forward to 2008/09.

CAPEX CARRY-FORWARD PROJECTS

	Annual Plan Project	Actual Total	Annual Plan Total \$,000
Wellington Waterfront Development	CX131_CF	4,425	4,425
KWST Gateway Project	CX473_CF	117	135
Cable Car Precinct	CX496_CF	99	99
Art Gallery	CX500_CF	386	1,198

It should also be noted that all CCOs, with the exception of the Karori Wildlife Sanctuary who are exempt, have adopted NZ International Financial Reporting Standards (NZ IFRS).

7. Discussion

The role of the CCO Unit is to provide the Subcommittee with a review of the efficiency and effectiveness of each entity. To this end performance measures as set out within the Statement of Intent have been assessed, along with the financial position of each entity. Other comments have been made where it is deemed necessary, for example there may also be specific issues of a more strategic nature that are considered significant and therefore require further explanation.

The performance of each entity has been reviewed and any issues that have been identified for the subcommittee to consider are highlighted within each of the covering reports, attached as appendices.

8. St James Charitable Trust

The Subcommittee wrote to the Trust during the 2007/08 year to further highlight its concerns over the Trust's ongoing operating position, specifically its inability to fund its depreciation charge. The Trust typically makes a small surplus before depreciation, but the annual charge of over \$700k results in a significant deficit.

This situation is unlikely to change in the near future, and the risk from Council's perspective is that critical maintenance issues at the St James Theatre and the Opera House may be overlooked. Further to this, larger capital renewal items, usually provided for through the funding of depreciation, may also prove to be beyond the Trust.

Officers are working with the Trust to develop an Asset Management Plan (AMP) and once completed, this will provide a framework for the Trust's ongoing maintenance requirements. The Trust will then be in a position to approach Council each year with a request for any funding for programmed

maintenance (as per the AMP) that they are unable to meet from their own resource.

The Subcommittee is asked to endorse this approach to the funding of maintenance renewals and depreciation for the St James Trust.

9. Conclusion

The review of the Annual Reports provides an opportunity for the CCO Performance Subcommittee to identify any particular issues that need to be explored with the entities, or raised with the Strategy and Policy Committee. It is proposed that the Subcommittee identify these issues for the CCO Unit to take up with each relevant Chair. The Subcommittee can also raise any relevant issues at the next meeting of the Strategy and Policy Committee.

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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 section **Error! Reference source not found.** of the report.*

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 Trust, as part of normal operations.

4) Decision-Making

This is not a significant decision.

5) Consultation

a) General Consultation

Where appropriate, clarification has been sought from individual entities regarding disclosure of information not contained within their annual reports.

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.