Enhancing alignment and performance

- Wellington City Council's CCOs
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Executive Summary

Wellington City Council has commissioned a review of its council-controlled organisations – including the way they are established, how strategic and performance expectations are set, how the Council exercises its governance and accountability roles, and how they are monitored. This has arisen following some reservations being expressed by the Council that its CCOs are not as well-aligned with the Council’s objectives as it would like.

This report is the second of three reports being prepared for the Council. The first report – What Works? A report for Wellington City Council on getting the best from CCOs – looks at current practice regarding arm’s-length entities in New Zealand and overseas. This report looks at how that good practice can be applied so the Council can enhance its alignment with and performance from its CCOs. In preparing this report, interviews were conducted with the Council’s elected members, and with the chairs and CEO of each of the eight CCOs.

The Council has in place an Appointments Policy, a Council Controlled Organisations Performance Sub-committee (CCOPS), and processes for developing letters of expectations and Statements of Intent (SOIs), and monitoring performance. It also has strategic relationships with CCOs on an individual basis, and has in place monitoring relationships with each CCO. The Council has placed a significant effort in progressively reviewing and strengthening its formal processes and these measures provide essential building blocks going forward.

There has been a greater emphasis on improving the formal and compliance relationships than on the informal and strategic relationships. Findings from the What Works? Report showed that regular informal engagement at the leadership level enables more free and frank conversations and clearer communication of the Council’s strategic objectives, and are likely to result in greater confidence in the alignment between the Council and its CCOs.

This report proposes a number of enhancements for the Council in line with the findings from What Works?. The proposals have been identified having regard to the fact that these CCOs together form 47% of the Council’s total rates requirement, but that most of the assets managed by the CCOs are still owned by the Council. Generally, the Council could enhance the alignment and performance of its CCOs by:

- adopting a framework for guiding analysis as to whether further activities will be governed in-house or at arm’s-length;
- increasing the focus the Council places on identifying and communicating its strategic objectives to the CCOs what it expects the CCOs to be contributing to (this will be assisted by the Council having adopted Wellington 2040 and a new long-term plan this year);
- working collaboratively with the CCOs to identify ‘how’ the entities will contribute to those objectives, individually and collectively, prior to the SOIs being developed;
- placing further emphasis on the informal relationships with the CCOs, including regular roundtables with all the CCO chairs;
- being clearer about the Council’s strategic, ownership and funding roles (both within council and with the CCOs) whilst still ensuring that Council speaks with one voice;
- being clear that the Council has a scrutiny role in respect of the CCOs, so elected members
involved in scrutiny should not also be members of CCO Boards;
- using its portfolio leaders to play a greater roles in monitoring the performance of the CCOs.

In addition, the review of other practice has identified some further enhancements to the formal processes, as part of an ongoing journey in getting the best from CCOs. These include:
- enhance the transparency and accountability processes, including requiring CCOPS to monitor the performance of the CCOs collectively as well as individually, and with a greater focus on future risk and mitigation and performance trends; and
- encourage the CCOs to hold an AGM every year, open to the public, when they are discussing their draft SOIs.

The diagram below summarises and links the key findings from the two reports:

There is a strong focus on building informal relationships in these proposals, as good practice identifies these relationships make the formal processes more effective.

For all owners and their arm’s-length entities, this is an on-going journey and search for continuous improvement.
Introduction

1. Wellington City Council's (the Council) Council Controlled Organisations (CCOs) have been established over the last 25 years. These organisations have been set up to deliver significant council services, manage council facilities and/or undertake developments on behalf of the Wellington community – activities as diverse as joint water supply (Capacity), the Zoo and Positively Wellington Tourism, and the management of the City Gallery and the Carter observatory.

2. They were established individually, in response to specific needs or circumstances that arose over time. They were not established within a deliberate framework, rather they were considered against individually identified factors. Many factors have altered in the period since some of these entities were established, both with the environments within which each CCO operates and the environment for the Council. There has also been some concern expressed by the Council that the entities could be better aligned with the Council's objectives, and with each other. These factors have triggered the Council to commission a review of its CCOs, including:

   - a review of current practice in New Zealand and overseas (in establishing, aligning, performance monitoring, etc) arms-length entities;
   - a comparative analysis of Council's current practice, and recommendations for a deliberate framework for future CCOs; and
   - an overall review of the effectiveness and general efficiency of the Council's current model of CCOs, and identifying options for improving the organisational model (if appropriate).

3. The terms of reference for the review are attached as Appendix A.

4. This report addresses the second aspect of this review, an analysis of the Council's current practice against New Zealand and overseas findings; and proposed enhancements to the Council's current processes and procedures. References to the What Works? Report refers to the report prepared by plimmer|consulting on the review of current practice around arm's-length entities in New Zealand and overseas (What Works? A report for Wellington City Council on getting the best from council-controlled entities, August 2012).

Lessons from What Works?

5. The What Works? report identifies when arm's-length entities are most likely to provide effective governance, and a set of key factors that should be in place for the best alignment and performance of CCOs and other arm's-length entities to be achieved:

   - The owner setting a clear purpose and strategic direction for the entity (having regard to operating in a public sector environment), to enhance overall effectiveness.
   - Clarity of the roles to be played respectively by the shareholder and the entity, and by the shareholder as owner and probably also as funder.
   - Having the right people in the right roles - on the Board of the entity, as CEO, and clearly
identified within the Council organisation.

- Building and maintaining transparency and accountability processes, including the formal arrangements and monitoring.
- Effective relationships – creating trust through informal arrangements, as it is these informal relationships that support the relationships overall.

6. Based on these general findings, this report proposes a series of enhancements to the processes and procedures the Council currently has in place around the objective setting, ownership, governance and purchase arrangements for its CCOs.

7. The Council has also requested advice on whether the individual governance model for each CCO is appropriate; this advice will be discussed separately.
Background

Wellington City Council's CCOs/CCTOs

8. Wellington City Council has eight CCOs. The overarching reason for all of the entities being created is to deliver specific services and developments on behalf of Wellington residents, and with specific objectives identified in their SOIs. The entities are a mix of trusts and companies. Four entities are council-controlled trading organisations (CCTOs). They will all be referred to as CCOs in this report.

9. The Council's CCOs are:

<table>
<thead>
<tr>
<th>CCO</th>
<th>Established</th>
<th>Purpose</th>
<th>WCC control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wellington Cable Car Ltd (CCTO)</td>
<td>1991 (Company)</td>
<td>Owns, maintains and operates cable car assets; and owns and maintains trolley bus overhead wire network.</td>
<td>100% shareholding Appoints all Directors.</td>
</tr>
<tr>
<td>Wellington Zoo Trust (CCO)</td>
<td>2003 (Charitable Trust)</td>
<td>Manages Zoo - to bring animals in their environment and people together. Focus on conservation and learning.</td>
<td>Ownership of land and building Appoints all Trustees. Operating grant.</td>
</tr>
<tr>
<td>Capacity Infrastructure Services Ltd (CCTO)</td>
<td>2004 (Company)</td>
<td>Manages water, wastewater and stormwater assets of Hutt City Council and Wellington City Council (on a non-profit basis). Manages the same assets of Upper Hutt City Council under a service agreement (on a for profit basis).</td>
<td>50% shareholding (with Hutt City) 63% Financial Interest.</td>
</tr>
<tr>
<td>Basin Reserve Trust (CCO)</td>
<td>2005 (Charitable Trust)</td>
<td>Manages and operates the Basin Reserve.</td>
<td>Ownership of assets. Appoint 50% of Trustees. Operating grant.</td>
</tr>
</tbody>
</table>

NB - Although monitored as CCO, the Wellington Regional Stadium Trust, Wellington International Airport Ltd, and Karori Sanctuary Trust are not actually CCOs and are generally outside the review.
10. Operating expenditure on activities managed by CCOs is budgeted $115 million for 2012/13 or around 30% of Council's business. This includes grants to CCOs and other costs, such as depreciation and interest that reside within Council. Of this the three waters activity managed by Capacity (including stewardship projects which currently reside in Council) comprises $91 million (or approximately 24%), and other CCOs comprise approximately 6%.

11. Capital expenditure on activities managed by CCOs comprises 23% of total Council capex in 2012/13 and 28% over the 10 years of the LTP.

12. From a rates perspective, CCO grants of $22 million in 2012/13 comprise approximately 9% of Council’s total rates requirement. However, when the three waters maintenance contract costs managed by Capacity (plus interest and depreciation cost on CCO-managed Council assets) are included, this totals 47% of total rates.

13. With the exception of the Cable Car Company, the Council owns most assets associated with these companies. It also provides operating grants, loans and depreciation. For the most part, therefore, the Council has funding and contracting arrangements in place with these entities, as well as having an ownership role.

14. This paper discusses the procedures and processes that the Council could add to existing processes in order to get the best of any CCO it has within its portfolio. These processes and procedures will be equally applicable to the Wellington Regional Stadium Trust, of which Wellington City Council has an interest (with Greater Wellington), and to the Karori Sanctuary Trust (although neither trust is actually a CCO). The Council is also a minority shareholder in Wellington International Airport Limited (WIAL); the general provisions of company law apply to that company.

15. In preparing this report, interviews have been conducted with the Mayor and councillors, the independent members of CCOPS, the chair and the CEO of each of the eight CCOs, and with the chair and CEO of the Wellington Regional Stadium Trust. The current WCC process has been discussed with the CCO Team. Document review has included the Appointments Policy, the terms of reference for CCOPS, and a selection of letters of appointment, Letters of Expectation, SOIs, some CCO quarterly and annual reports, and some examples of officer advice to CCOPS.

Previous reviews

16. Understanding that the CCOs were all established for different reasons and at different times, the Council has already been proactive in this space and reviewed the way it manages the CCOs on several occasions.

17. In 2006, WCC commissioned PriceWaterhouseCoopers to review the Council's CCO structure and processes. At that time, that report found - CCOs did not necessarily have a clear view of Council's objectives; some CCOs were operating in a manner that suggested greater autonomy than the Council envisaged; there were opportunities to enhance the appointments and induction processes; the formal documents such as SOI fell short of the documents prepared within central government, as did the reporting documents. The report recommended a number of changes to enhance the:
- Appointments process and Board inductions.
- The SOI development and reporting processes and performance measures, along the lines of the requirements applying to state-owned enterprises and Crown entities.
- CCOPS (the Council's Council Controlled Organisation Performance Subcommittee) with the introduction of an advisory committee and a clearer role for the CCO team.
- Communications from the Council, and between the Council and CCOs.

18. Influenced by the PriceWaterhouseCoopers review, and by adopting some other good practice, the Council has progressively sought to improve the formal processes it has in place to govern the relationship between the Council and its CCOs. A Risk Assurance Audit of the CCO Team in August 2011 found that the structures, systems and processes in place are adequate, and noted that there are some processes in place (such as Letters of Expectations) which exceed current statutory requirements.

19. In addition, there have been a series of individual reviews (such as the reviews in 2008, 2009 and 2011 of the Wellington Waterfront Company and the Waterfront framework). These reviews will be factored in to a separate report on the structural model that the Council has in place. The Council also reviewed the SOI process in 2010, with a view to improving their quality, and reviewed and updated the Appointments Policy in 2011.

**Current approach**

20. This section describes the current approach the Council takes to governing and monitoring its CCOs.

**Formal mechanisms in place**

21. The Council has formal and informal mechanisms for monitoring its CCOs. The formal processes generally include quarterly, half-yearly and annual reporting, and in some cases monthly operational reports (such as Capacity). These reports focus on progress against the stated objectives and performance measures in the SOI (or sometimes Service Level Agreements) as well as financial performance. These reports are considered at CCOPS, which also receives an annual presentation from each CCO. Certain performance measures are included in the Council’s quarterly and annual reports that are considered by the Strategy and Policy Committee (SPC).

**CCOPS**

22. CCOPS fulfills for Council many of its ownership interests. CCOPS is a subcommittee of, and makes recommendations to, SPC. Comprising two external members, three elected members and the Mayor. All councillors are able to attend CCOPS meetings. Its role is set out in its terms of reference and includes:
- Monitoring the Council’s interest in its CCOs, CCTOs and some Council Organisations.
- Reviewing quarterly reports, annual reports, business plans, strategic plans and statements of corporate intent, and Letter of Expectation (LoE); and making
recommendations to SPC.

- Bringing to the attention of SPC any matters that it believes are of relevance to the Committee's consideration of the financial performance or the delivery of strategic outcomes of Council's CCOs and COs.
- Monitoring the performance of Council appointed Board members on Council's CCOs.

**Monitoring the performance of CCO Board members.**

23. The day-to-day relationship with CCOs is largely managed through the CCO Team, which is responsible for maximising the achievement of the Council's objectives through close coordination with and monitoring of CCOs, and protecting and managing the Council’s investment in its CCOs. The CCO Team coordinates interactions between the Council and its CCOs, in particular it:

- Operates relationships to see both parties adhere to the 'no surprises' principle.
- Manages an appointments process that is open, fair and based on merit, in accordance with the Council's appointment policy.
- Carries out financial analysis, monitoring and reporting to Council on each CCO's performance.
- Reports to SPC and Council on specific projects and issues that arise.

**Governance**

24. The CCO Team provides advice to the appointments group, aiming to:

- Have the right competencies identified for each Board.
- Ensure chairs and directors are appointed based on their skills, knowledge and experience without political interference as set out in the Council's appointments policy (although the final decisions are made by the elected councillors).
- Encourage the performance of individual Board members to be periodically evaluated and improvements identified (this was introduced in 2011 as a requirement in each SOI and each Board must report the results of this process back to the chair of CCOPS; the first report on this is due after September 2012).
- Set out expectations of appointees, through the letters of appointment.

25. The Council's appointments policy was updated in March 2011. WCC appoints councillors to the Boards of its CCOs, other than the Wellington Cable Car Company. Positively Wellington Venues, for example, has two councillors are on the Boards.

26. The chair of each CCO Board is responsible for inducting and training all Board members. While the CCO team can recommend that certain practices be followed (eg suggesting that the Institute of Directors' model be adopted), it provides little oversight of each CCO Board's self-evaluation processes, or the induction and training programmes.
Aligning CCOs with WCC priorities and objectives

27. The primary mechanism used to align CCOs with the Council's objectives is through Statements of Intent (SOIs). CCOs are required to submit a draft SOI to the Council by 1 March each year. This is preceded by a Letter of Expectation to CCOs, which outlines the Council's expectations in respect of the SOIs it will receive. The CCO Team supports this process, drawing relevant parts of the Council in to provide input.

28. While there is no set template for SOIs, they must all comply with the requirements set out in the Local Government Act 2002 and address issues raised in the LoE. In 2012, the CCO Team also arranged workshops for the CCOs to get information about the Wellington 2040 Strategy, and to better align asset management plan (AMP) processes to enable the Council to include 10 year AMP costs in the long-term plan (LTP).

Annual cycle for developing Statements of Intent and reporting performance
Informal mechanisms

29. The Council also uses some informal touch-points. These include:

- The Council’s Mayor and Chief Executive meet individually with the chairs and CEOs of most CCOs. The meetings are on different and sometimes irregular cycles. When they occur, the agenda for these meetings is usually set by the CCO, but the CCO Team generally provides a briefing note to the Council’s CE prior to these meetings. The CCOs do not meet collectively with the Mayor or the Council Chief Executive.

- Each portfolio manager within the CCO Team has regular contact with the CEOs of the group of CCOs within their portfolio. The CCO Team meets with other Council business units when required (e.g., regular meetings are held with the Infrastructure Team about Capacity). The CFO, as the director responsible for the CCOs, has meetings with most CEOs bi-monthly. Senior managers are available to CCOs to discuss specific issues.

Interview feedback

30. Overall, the approach the Council currently takes to its CCOs places most emphasis on the formal and compliance aspects of the relationship, rather than discussing and agreeing upfront the Council’s objectives and strategic direction for the CCOs collectively and individually. The 2040 Strategy and the new LTP adopted this year now provide a foundation for these discussions.

31. In addition to the findings from the What Works? Report, findings from interviews with the Council and with the CCOs indicate that there are a number of areas where the Council’s approach to owning, governing, funding, and monitoring CCOs could be enhanced. The interviews with elected members identified a mixed view on the overall benefit that the Council’s CCOs provide over in-house delivery (this will be considered in Phase 3 of this review).

32. In terms of alignment and performance, the interviews also identified a number of, sometimes contradictory, themes. Overall, a majority of the councillors identified that they did not consider the CCOs are well enough aligned with the Council’s direction, and that there is not enough focus on benefitting Wellington overall (“Wellington Inc”).

33. The following is a brief overview of some other themes that came through, they were not all raise by all councillors and are not necessarily consistent with each other, but they were each identified by several members:

- The accountability processes do not necessarily give the elected members adequate control for them to be accountable back to their constituents for the CCOs performances, and they do not always know what the CCOs are doing nor can they attend CCO meetings.

- There is significant value for the city in accessing the additional governance, commercial and technical skills and expertise of CCO board members; and the separate focus is important and enables access to funding that would not otherwise be available.
There are differences in the quality of the accountability documentation (SOI, reporting etc).

There are differences in the levels of transparency of the CCOs and in-house services and activities; the external activities are more transparent, but they also have additional opportunities to advocate directly to the Council for additional funding and other resources.

Although the Appointments Policy was recently reviewed and enhanced, some councillors still consider the appointment process is politicised and there is not enough diversity on the Boards.

Councillors on CCO Boards seem to undertake their roles differently (some as advocates for the entity, others operating independently from council when on the Board) and that further role clarity here might be helpful; also a view that the additional remuneration might create a perverse incentive for councillors to be on Boards.

The roles and responsibilities for communications from the Council or from the CCO were not clear enough.

That CCOPS has made more of an impact on the quality of the SOIs this year; although there was also some uncertainty and lack of clarity expressed about the role of CCOPS.

The interviews with CCO chairs and their CEOs indicated that most of the compliance and reporting processes were clear and their relationships with the CCO Team worked well. In addition:

Most of the CCOs consider that the relationship is clear – that the Council is the ‘owner’ without question.

Uniformly there was a view that the informal relationships with the Mayor and the CE were important and enabled free and frank conversations; apart from that, the relationships were largely at lower levels within the Council organisation and most related to the compliance relationship.

Almost all the CCOs considered that the strategic discussion with the Council was often of a pro forma nature (eg there was a Letter of Expectation advising that the Council has adopted the 2040 Strategy and asking the CCOs to identify how they can contribute to it, but there was no prior engagement about what 2040 should look like and how the skills and knowledge that the CCOs have of their sectors might usefully inform such a strategy).

The informal relationships with the Council are less structured than some of the CCOs might find most useful, for example, not all meetings between the Chair/CEO of the entity and Council were on a regular cycle.

There was not any real sense of being part of a Wellington ‘family’, for example, they identified there were no instances where all the chairs of the CCOs meet together with the Council leadership (other than an annual social gathering); although the CEOs of the CCOs have taken to meeting together approximately quarterly.

There were uneven understandings about whom within Council they should be working with.
35. The comments above are not necessarily all statements of fact, but they are concerns raised in the preparation of the report. Some matters can be overcome by more information about the existing processes being shared, but others would benefit from further enhancing the existing formal and informal processes.

**Opportunities for change**

36. There are a number of levers available to the Council, as owner, to work with its CCOs and to achieve the Council's and the wider community objectives: through appointments, SOIs, funding, expectation setting, performance and trend monitoring, changing Board appointees, etc. Like many other owners, the Council has not always used these levers to their fullest extent.

37. As noted above, the Council has a number of formal processes in place, but the balance rests on compliance monitoring and reporting, rather than on informal processes, strategic direction or alignment. There has been positive feedback about the role that CCOPS and its advisers have played in 2012, in making the SOIs more robust than previous years.

38. However, taken together, the good practice and the interviews have indicated several areas where the Council could improve its ownership, governance, funding and monitoring of its CCOs. This is particularly the case with the "soft" or informal processes, which are the glue that hold the formal process together and create the trust for performance and independence going forward. Some changes to the formal procedures would also enhance overall Council/CCO alignment and, therefore, the performance of the CCOs against expectations.
Enhancements proposed for Wellington City Council's approach to its CCOs

39. Having regard to the findings of the *What Works?* report and the interview feedback, the clarifications and improvements proposed are intended to ensure that the Council:

- As owner, sets a clear purpose and strategic direction for each CCO that aligns with and supports the Council’s own objectives.
- Makes clear its roles and expectations as the owner, and usually also as funder, of each CCO.
- Puts the right people in the right roles.
- Maintains and continues to enhance effective transparency and accountability processes, including all formal monitoring and reporting arrangements.
- Builds and maintains effective informal relationships with and between the CCOs, as it is these informal relationships that makes sure the overall relationships work and creates trust.

*Proposed changes*

*Establishing CCOs*

- Working through a consistent framework before deciding if arm’s-length governance will deliver improved performance.

40. At present the Council does not have a framework or process it consistently goes through when considering whether to use in-house or external governance. The Council has identified individual criteria for each activity, on a case-by-case basis, when considering the future governance of activities. *What Works?* identified that when considering the establishment of a CCO, the Council could work through a consistent framework of questions – to determine:

- Should the Council deliver this service or activity?
- If yes, is the activity about designing, or setting policy for citizens, about the overall place and space the community lives and works in? (in which case the activity should probably remain under the direct governance of the Council); or
- Is it about implementing those decisions or delivering activities or services to ratepayers or customers, in which case there are a set of questions about the nature of the activity going forward and the expectations that the Council has that will inform the most appropriate governance.

41. A proposed framework to guide decisions on in-house or external governance is attached as Appendix B.
Constitution or deed

- When setting up a CCO, ensure that the constitution or trust deed reflects the Council's intentions for the entity as well as being the legal basis for the entity.
- Review the constitution or trust deed for each entity, every six years.

42. The constitution (of a company) or the deed (of a trust) is a key document for a CCO. It does not just have relevance to the setup phase, as the legal basis for the trust or company; it is important through the life of the entity. The directors’ and trustees’ actions are bound by and give effect to the purpose in that constitution or deed, and importantly the CCO’s SOI (the statement of intent) cannot include matters contrary to that constitution or deed.

43. Ensuring that the constitution or deed for a CCO correctly describes the intention for the entity from the beginning is important. The constitution or deed will usually be fairly general in nature, and will be supported by the SOI. However, when the wording of that purpose differs from the Council’s intention, the entity is more likely to commence a path that diverges from the Council’s expectations. It is important that the parties have a common understanding of the Council’s expectations and that this is reflected in the initial documentation and agreements. Wellington Venues Ltd is the most recently established CCO, and the alignment of the policy expectations and initial documentation will be considered as part of Phase 3 of the review.

44. These documents should also be regularly reviewed, to confirm the purpose matches the Council’s original intention; or if the Council’s expectations have significantly changed, the constitution or deed needs to be amended to reflect that. In essence, this also provides an opportunity to review if external governance is still appropriate (the Wellington Waterfront Company, for example, has always been expected to have a limited life; the question is what the appropriate term of that life is).

45. It is proposed each review be conducted on a six year cycle, with half of the CCOs in the year preceding the LTP year, and the other half three years later. Prescribing a review period will give some entities the certainty they need to provide proper leadership in their area of focus without the constant threat of being reviewed, but will avoid some entities being too frequently reviewed.

Legal status

- Ensure that the legal status matches the Council’s expectation.

46. A CCO can be a trust or have a company structure; it can have a not-for profit motive or be a trading company with the object of making a profit. It is important that the best legal form is selected for an entity, for example should an entity be a CCO or a CCTO.
The Local Government Act 2002 defines a CCTO as a CCO that operates a trading undertaking for the purpose of making a profit and is expected to return that profit to council (the Council can use that dividend to subsidise the costs of other activities). A CCTO must conduct its affairs in accordance with sound business practice. A council cannot guarantee a CCTO’s obligations and there are restrictions on councils lending to CCTOs, so that they operate on a ‘level playing field’ with private enterprises and without subsidies from shareholding councils. In contrast, non-profit CCOs can also be companies, but are more usually trusts that provide community facilities such as museums, libraries, swimming pools, theatres, and sports grounds (they are not intended to operate at a profit and are characterised as charitable trusts for tax purposes). If the Council does not want the entity to be making and returning a profit, then it should factor this in to the decision on the legal form. Phase 3 of the review will consider the implications of this for an expanded Capacity, for example.

Clarity of roles

- Understand and distinctly manage Council’s roles as owner and as funder, and build strong links with operational areas of council.
- Adopt a new Owner Expectation Guide to explain the roles of the owner, the funder and of the entity, and the behaviours expected (including matters such as CCOs are operating in the public sector environment and respective responsibilities for communications to the public).
- Where there is also an operating grant, ensure the funding or purchase agreement clearly outlines the deliverables along with the quality and quantity expected. This document can also include additional intervention mechanisms, which can be used if performance is not at the level expected.
- Adopt a process for all CCOs to understand ways to work together for the benefit of the wider Wellington area.
- Ensure there are clear communications about who within Council is responsible for the strategy, ownership and the funding relationships, especially as the Council moves into its new internal structure.
- Enhance the formal relationships with regular cycles of engagement (individual meetings and roundtables) led respectively by the Mayor and the Chief Executive.

Clarity about the direction and the respective roles of the CCO and Council are important if the CCO is to be aligned with the Council’s objectives. The Council has multiple roles in respect of each entity. For the most part the CCOs that the Council has set up are essentially operating as management agents for the Council; as the Council owns the assets, provides operating funding, funds the depreciation, will agree a capital funding programme, and may make loans to the entity (unless it is a CCTO). It also has objectives for Wellington it wants achieved, and has strategy/operational areas of council that often operate in similar spaces to the CCOS (eg the Events and Urban Design teams). It undertakes these roles as well as being the owner of the entity.
An owner needs to have regard for the health of the CCO and an interest in whether or not it has the capacity and capability to undertake its roles. There need to be effective processes in place to ensure that the best people are placed on the Boards; and the Boards need to understand their roles, the expectations on them, and have the skills and knowledge to perform to the Council’s expectations. The Council has a scrutiny role to ensure that its expectations are being met too. These roles will be discussed further below.

The Council also has roles as funder (including agreeing future funding and the mix of funding that will be provided). In light of this, there should continue to be a focus on funding or purchase agreements being place for all operating grants, loans and capital funding. The Council has some management agreements in place and some SOIs have more detailed expectations or performance measures articulated. Developing the expected service levels and performance measures is always challenging, and focus should continue to be on developing measures that relate to the Council’s short, medium and longer-term expectations and enable performance trends to be analysed and the value of the CCOs as Council assets to be measured. Advice in respect of individual CCOs is being considered in Phase 3. Associated with this, the Council’s own KPIs should be linked to the KPIs identified for the entities, so wider contributions can be assessed.

Where there are purchase or funding agreements in place, these documents could also include additional interventions that the Council may wish to exercise in the case of performance failures, such as installing management support into the CCO. These failures are usually related to the funding function. Where they relate to the governance function, the Council has the option to change some or all of the Board members. The Council could also consider including additional interventions in the deed or constitution, but the appropriateness of this should be considered in more detail. Similar interventions have already been explored for the Karori Sanctuary Trust.

The Council is aware of the importance of speaking with a single voice. For the ownership documentation, the SOIs and the funding agreement to be effective they should be ‘owned’ by an Executive Leadership Team (ELT) member (currently the CFO), and ELT should approve these documents before they are presented to council committees.

However, the Council needs to make sure the CCOs understand these respective roles of the Council too. To enhance this understanding, it is proposed that the Council adopt an Owner Expectation Guide. This would be similar to the Shareholder Expectation Guides that the Crown has adopted for the State-owned enterprises and Crown entities, and that Auckland Council has adopted for its substantive CCOs.

This Owner Expectation Guide should make it clear that the CCOs are operating in a public sector environment and they have a role to work for the wider benefit of Wellington, together. This guide should outline expected roles and behaviours, including the:

- Role of the Council as owner and how its expectations will be communicated to the CCOs.
- Formal role of CCOPS, and the informal roles of the Mayor and of the Portfolio leaders (as discussed later in this paper).
- Roles of the CCO Board, of the chair, and of the directors/trustees to act for the benefit of the CCO.
- Expectations of the Council for ‘no surprises’.
- Expectations around behaviours such as which entity will publicly communicate what matters, how or when community engagement will occur, expected interactions between CCOs, and how funding requests will be made.
- Set out the annual processes that the Council will operate, including the strategy setting, funding, reporting and scrutiny cycles.

55. The informal behaviours are very important. It is proposed that rather than the ad hoc approach which currently applies to the informal relationship, there should be regular meetings as follows:

- A “roundtable” of the Mayor with all the Chairs of the CCOs (and the Council Chief Executive) at least every 6 months; to build the sense of working together, to discuss how together they can help achieve the wider objectives for Wellington and any issues that might be arising, and issues in common (such as communications protocols or ICT).
- The Mayor and Chief Executive having individual meetings with each CCO Chair and CEO, monthly or two-monthly as appropriate, with the Council playing a key role in setting the agenda and informed by the monthly reports that will be discussed later.
- Regular meetings of all the CEOs of the CCOs with the Council Chief Executive, every 3-4 months.

56. These informal meetings will be critical supports to the formal relationships.

Strategic direction and alignment

- Provide strong and integrated advice about the Council’s strategic expectations for the entity, developed and agreed through a programme of workshops and discussions between the Council and the CCOs (individually and collectively).
- Ongoing, engage the CCOs early in review of long-term plans and the development of key strategies.
- Articulate these strategic expectations in a Statement of Core Purpose, reviewed every six years alongside a review of the continued relevance of the entity’s deed or constitution.
- Ensure that the annual letter of expectation and the SOI reflect the Council’s expectations.
- Encourage memoranda of understanding (MOUs) between CCOs, where appropriate.

57. Comments from councillors, council staff and the CCOs all indicated that there is not a strong sense of working together (including between all the CCOs) for the wider benefit of Wellington. The Council adopted this year the 2040 Strategy, where it articulates its aims of being a people-centred, connected eco-city, with a dynamic central city. To achieve those objectives, the Council will need all its assets (including the CCOs) to work together. This needs to underpin the future relationship between the Council and the CCOs, and the relationships that need to be built between the CCOs.
58. The strategic direction for the CCO needs to be a ‘top-down’ as well as a ‘bottom-up’ conversation. From the Council’s side, the conversation needs to be led from the senior level – involving the Mayor, the Chief Executive and the relevant member of the ELT. This reflects the fact that the CCO portfolio comprises some 47% of Council’s annual rates, and there should be a corresponding interest from the Council in the combined CCOs performance (which starts with the expectation setting). As noted above, as the Council owns the majority of the assets associated with the CCOs, the Council should also have its own KPIs in respect of these activities reflecting the full level of its investment and aligned with those of the CCO.

59. This report is not suggesting that there are not already a series of conversations happening between the council (largely through the CCO Team and CCOPS) on the draft SOIs, nor that Council is not signing off on the SOIs. However, there is a gap in identifying the overall strategic contribution expected from the CCOs. The following points are aimed at closing that gap.

60. The first action from the Council should be to conduct workshops with the CCOs, to discuss and agree how the CCOs can contribute to the wider goals and good of Wellington. These should ensure that the CCOs are better aligned to the Council’s expectations as well as ‘buy’ the CCOs into the Council’s objectives too. These should be followed by collective conversations between the Council and its CCO ‘family’. If these conversations are led by ELT, it will support a single Council view being expressed.

61. Ongoing, the CCOs should be engaged early in the Council’s processes to review the Long Term Plan and other strategies; most CCOs commented they had not been engaged in the development of the 2040 Strategy for example. Further, if CCOs are clear about their opportunities to input into the Long Term Plan early, there will be less need for them to lobby Council for funding when plans are out for public comment. CCOs should not be publicly submitting on long-term plans, for example; these discussions would be better had directly between the CCO and the Council. However, some CCOs have identified they are not always clear about the avenues available for them to put their views across to Council. The Council should continue to develop opportunities for input available early in the strategy development and funding processes, and ensure that the CCOs understand these opportunities. The Council has commenced work in this area by providing presentations to CCOs on the themes in the 2040 Strategy.

62. Together these discussions should form the basis of the next SOI round. However, for each entity, the expectations resulting from these discussions could also be articulated in a Statement of Core Purpose. Unlike the SOI (which is prepared annually, has a life of 1 year and a view of 3 years), the statement of core purpose should articulate the medium-to-long-term expectations that the Council has of the CCO; while the SOI is the CCO’s statement of how it will deliver on these expectations. These statements of core purpose (similar to those approved by the government for Crown Research Institutes) should be reviewed every six years (along with every second Long-term Plan). Each statement only needs to be 1-2 pages long.
63. Underpinning agreements for joint work, it may be appropriate for some CCOs to enter into MOUs with other CCOs. The Council should also consider identifying common objectives with other owners or shareholders of its CCO, where this is the case, and articulating them in a simple MOU or similar document (an example is that Partnership Wellington Ltd has MOUs in place with other CCOs regarding marketing services).

Appointments to Boards

- Have a Board skills matrix in place specific to each Board, and review regularly.
- Include in the Owner Expectation Guide that the Council has a role in inducting the Board members in the Council’s expectations, as well as the Board chair’s obligation to induct the members about the entity.
- Decide whether or not to have councillors on Boards, and if they are on boards whether or not they receive additional remuneration.

64. As noted above, the Council reviewed its Appointments Policy in March 2011. Some further changes are proposed to ensure that the best people are on the Boards. The vacancies are filled from a register of interested persons, and through shoulder-tapping and searching other databases.

65. Good practice indicates a skills matrix should be developed for each CCO, identifying the skills needs across the entity, in consultation with the chair of the Board. At present there is a discussion with the chair about the skills gaps that a vacancy may create on a Board and which skills would be good to add to it, but a more robust process would be to have an established matrix in place and to use that to structure the filling of vacancies. A matrix should have regard to good governance skills, the maturing or dynamism of the entity, and the specific nature of the business involved. These matrices should be enduring, but be regularly reviewed for relevancy. In addition to supporting the CCO to have the right skills for its core purpose, the matrices will enable a check that the expected skills will be available when matching the expectations of the Chair, of councillors, and the policy of increasing the diversity on the boards.

66. A key question is whether or not councillors should be appointed to the Boards of the CCOs. The current policy allows for councillors to be appointed in certain circumstances. There are different views on whether or not councillors should be on CCO Boards.

67. The Local Government Act 2002 (s.58) makes it clear that the role of every member of a Board of a CCO is to assist the organisation to meet its objectives and any other requirements in its statement of intent. Likewise the legislation applying to companies and to trustees makes it clear that their role as a member is to act in the best interests of that entity; the fiduciary responsibilities here are well understood. As Board members, they may also be privileged to commercial-in-confidence information that they cannot share at the Council table. The role of the Councillor, however, is to act on behalf of the well-being of Wellington and to consider all matters before Council with an open mind.
68. The main reason put forward in the interviews for councillors to be on Boards, was to represent the Council at the Board table and to advocate back to the Council on behalf of Board. Neither of these expectations can really be met by the Councillors, given the obligations outlined above. The information flow direct to the board table is important, but can be achieved in other ways. Furthermore, there is a risk of conflicts of interest requiring the Councillor to step back from a decision (certainly a reason why no more than 1 councillor should be on a Board, if at all).

69. As noted in the What Works? Report (p148) - on the whole, most guidance advocates that politicians and senior managers should not be members of governing boards. The Office of the Auditor-General noted that as trustees or governing body members, councillors owe a primary fiduciary duty to the interests of the entity, creating potential conflict with their duty as councillors; and that council representation on a governing body is not a transparent and effective way to hold that body to account and provide assurance to the council and community about its performance.

70. Looking at other public Boards, there is no single approach taken. No ministers are on SOE, Crown entity or CRI Boards, and the Auckland Council legislation prohibits councillors from being on the Boards of the substantive CCOs. Dunedin City Council has decided not to have councillors on its CCOs at present. Christchurch City Council has councillors on its Holding Company Board (where their role is more aligned to the Council’s scrutiny committee). Private companies do often have a shareholder representative on the board (but that person does not usually also have a scrutiny responsibility). Underpinning these decisions has been the principle that it is not appropriate for those on Boards to also scrutinise the performance of the entity – ie their own performance.

71. An additional factor is the remuneration of members on CCO boards. As noted previously board members need to act for the benefit of the board, and are often remunerated for this role. In the case of Wellington City Council, the Remuneration Authority has not included trustee or board time in the pool for WCC funding, however Wellington City Councillors are paid a fulltime salary (for 40 hours per week). As the primary reason identified for councillors being appointed onto the CCO boards is to enhance the flow of information between the Council and the CCO board, an argument could be made that this is part of the councillors’ core role. Greater Wellington does have councillors on CCO Boards but does not remunerate them over and above the usual councillor remuneration (unless the Councillor is the CCO chair), nor are the Basin Reserve Trust trustees remunerated. There is therefore an argument that it is not necessary to additionally remunerate the councillors on CCO boards.

72. It is important that the Council is clear about its scrutiny role, and reflects this in the Ownership Expectation Guide. There are two linked proposals to address this.

- To use Portfolio Leaders more in the scrutiny role, including being on CCOPS. Unlike other councils, Wellington City Council has Portfolio Leader roles. This creates for the Council an opportunity to use these roles to support the scrutiny function, to enhance the information available at CCOPS. However, this would mean decoupling the Portfolio Leader roles from the board members; possibly also giving consideration to the number of Portfolios Leader roles that should be on CCOPS when allocating CCOs to Portfolio
Leaders (this may require some reallocation of CCO/Portfolio Leader alignment).

- To seek a decision on whether councillors can be on CCO Boards, by agreeing either to option 2 (preferred) or option 1:

**Option 1 – Allow Councillors on Boards** (modified status quo), but to minimise potential conflicts and clarify scrutiny roles:

- There should be no more than one councillor on a board.
- The person appointed should have the appropriate skills and experience for that board.
- A board member should not also be the relevant portfolio leader.
- As a general rule, Board members should not be on multiple Boards (to minimise conflicts of interest).
- A member of a Board should not also be on CCOPS, to separate the scrutiny role.
- Review if councillors should receive additional remuneration for being on boards, as they already receive a fulltime salary.

**Option 2 – No Councillors on Boards** (preferred), instead:

- No councillors on CCO boards.
- The identified portfolio leader assumes stronger liaison between CCO and council, and is on CCOPS.

73. Through the interviews for this project, elected members identified they have differing understandings of the role of Council and the roles of the CCOs, and the opportunities the Council has in respect of the transparency and accountability mechanisms.

74. To enhance common understanding and thereby likely performance outcomes, include in the Owner Expectations Guide –

- The induction process for councillors should always include an induction on the nature of CCOs and the Council’s roles in respect of them, as well as the Council’s objectives for them.
- The Council, as well as the CCO chair, should have roles in inducting Board members with the Council inducting all Board members on the Council’s expectations of CCOs generally and the particular CCO (similar to the approach monitoring departments take with Crown entities), and the chair continues to induct members about the specific CCO aspects.

75. Board evaluations are also important. In the 2011 SOI round, a new requirement was introduced – that all Board chairs should conduct board evaluations (reflecting the requirements of the Council’s Appointments Policy). As this was introduced because board evaluations were inconsistently undertaken, there would be benefit in reviewing the way in which boards meet this requirement to report it in their annual reports due 30 September 2012.
76. The Council already has letters of appointment in place. These could be enhanced by also appending the Statements of Core Purpose (once prepared) as these will explain the Council’s reasons for owning the CCO and its expected contribution, and also by identifying if any critical issues affect the CCO (that the Council considers may require particular attention).

Accountability and Transparency

- Enhance the Letters of Expectation by articulating the contribution that the Council expects the CCO to make to the Council’s strategic objectives.
- Develop a template for the SOIs, to enhance the quality of the information provided to the owner and drive a future-focussed approach.
- Work with the CCOs to improve financial and non-financial performance measures (including some outcomes focused performance measures), and enable performance trends to be analysed.
- Introduce short monthly report from each CCO to Council, to support the ‘no surprises’ approach and to inform the regular meetings between the Council and each CCO.
- For regular quarterly and six-monthly reporting, use a future-focused performance and risk approach, and look at ways to streamline reporting requirements.
- Revise the terms of reference for CCOPS to include a responsibility for looking at the collective interest of the Council, in addition to the individual performance of the CCOs.
- Require CCOs to hold an AGM open to the public.

77. Council already uses annual Letters of Expectation to advise CCOs of Council’s expectations for each CCO. As the strategic expectations become clearer, these vehicles should focus on those strategic matters. The Owner Expectation Guide should include an explanation of the role of the letters, and the timing of them.

78. The SOIs should outline the contribution that the CCO will make to the Council’s objectives over the medium to long-term. Whereas Council should have identified already ‘what’ the CCO should be seeking to achieve, the SOI should outline ‘how’ the CCO will achieve this, its expected relationships with the Council, other CCOs and other partners; and include the high-level performance measures and service levels that will enable the owner to assess performance over time. A template for the SOIs, to structure the information from the CCOs more consistently (while still expecting differing levels of information to be provided), and early discussions with the Council, should enhance the quality of the information included (even though the quantity will vary according to the nature and scope of the entity).

79. In addition to the quarterly and annual reporting already in place, and to support the ‘no surprises policy’, it is proposed that each CCO supplies to the Council a monthly report of key issues and any upcoming risks and mitigation. These reports would be no more than 1 page, but collectively could form the basis of regular updates to Council and individually could form the basis of the 1:1 discussions between the Council and the CCO.
80. For the quarterly and 6 monthly reporting, Council should consider the introduction of “traffic light” (or similar) reporting and requiring more future-focused/forward risk reporting and performance trends over time. At the same time there could be a review of all reporting requirements to ascertain if reporting overall can be streamlined.

81. The CCO Performance Subcommitte (CCOPS) is responsible for carrying out most of the Council’s obligations as the owner of each CCO. The Committee’s primary focus is to ensure that good governance is in place, that the Council’s investments and assets are aligned with Council strategy, are well managed and are achieving their objectives. CCOPS makes recommendations to the Strategy and Policy Committee (SPC). Asking CCOPS to consider and report on the collective contribution or the sum of the contributions of CCOs as well as the individual performances, and on future risk identification and mitigation, would enhance the Council’s understanding of how its own objectives are being achieved. There should also be an accountability identified at ELT for agreeing the collective CCO contribution. Overall, this should assist Council’s confidence that its investments and assets collectively as well as individually, are aligned with Council strategy, are well managed and are achieving the expected objectives.

82. The Auckland Council does most of its scrutiny of the CCOs performance through its equivalent of SPC, and it also has a sub-committee for LoEs and SOIs (which is consistent with some of the role of CCOPS). While this ensures that all councillors have a role in the scrutiny of the performance of CCOs, the CCOPS model makes available to the Council additional specific external governance expertise – ensuring that the right questions are asked of the CCOs. No change to the reporting committee is proposed for the Council. However, as noted above, it is proposed that the Portfolio Leaders have an enhanced role in the monitoring of the CCOs within their portfolio areas, and should form part of CCOPS when the relevant CCO reports or appears before it.

83. One of the comments that came through in the councillor interviews was that the CCOs operate behind closed doors. The Local Government (Auckland Council) Act 2009 requires that for each of Auckland Council’s four substantive CCOs, two Board meetings open to the public must be held each year. One meeting must be held before 30 June each year for the purpose of considering comments from shareholders on the CCOs’ draft SOI for the following financial year; and the other meeting must be held after 1 July each year for the purpose of considering the CCOs’ performance. Auckland Council has taken this further and requires its CCOs to have all meetings open to the public (allowing for public excluded parts of the meetings too). It is proposed that the Council works with its CCOs to have at least one meeting open to the public; this would probably be most valuable if this was the meeting at which the draft SOI for the next financial year is considered. Councillors would also be able to attend that meeting.

84. The review of the financial performance is essentially already undertaken in public, through the CCOPS meeting. If each CCO was invited to attend that annual meeting and be available to answer questions, that should achieve the same desired effect.
Council organisations and in-house activities

85. The Council also has three council organisations that are monitored by CCOPS: Wellington Regional Stadium Trust, Wellington International Airport Limited and the Karori Sanctuary Trust. If the ownership, governance, monitoring and performance frameworks that are proposed in this report are adopted, their application to other entities (as appropriate) should also be considered.

86. This report has not looked at the reporting of in-house activities by the Council, although the relative strengths of in-house and external reporting were canvassed in councillor interviews. However, the disciplines of setting objectives and ensuring alignment across the Council’s activities, together with the transparency and accountability achieved through the SOI and annual reporting processes, could also be beneficial in enhancing the in-house delivery of activities.

What to do when it goes wrong?

87. As outlined in the What Works? report, when the Council/CCO relationship or performance is not meeting expectations, the Council has a series of progressive options available:

- To go back and work again through the strategic and performance expectations, reviewing the deed or constitution, paying greater attention to the SOI process, and reassessing the service levels expected in any purchase or funding agreement. A key question here is, do the Council and CCO have the same expectations of the CCO? If not, then the expectations need to be aligned and documentation brought up-to-date if that is causing a divergence.

- To review the informal relationships – are these working effectively to achieve common understandings? To identify early, risks and mitigations?

- To provide in the funding agreements for the Council to be able to place management support into the CCO to help achieve alignment, if necessary; and also to consider if similar governance support arrangements should be included in the deed or constitution.

- If it is a matter of costs being too high, looking at options for council to supply shared services to the entity (noting that there will still be costs involved in this).

- If these actions are not effective or appropriate, the next options involve reducing or ceasing funding flows, or changing the directors or trustees on the CCO’s Board – this can be done part way through a term as well as at the conclusion of a term.

- Finally, if none of these actions are effective, the entity can be wound up and the activities brought in-house, or the entity could be sold. These are essentially options of last resort.
Summary of proposals

88. Wellington City Council already has monitoring and reporting process in place; these are largely focussed on the formal and compliance aspects of the relationships.

89. It is proposed that the Council places an increased focus on providing increased strategic direction to the CCOs informed by the Council's objectives (identified this year through Wellington Towards 2040 and the 2012/22 LTP), and achieve greater alignment by enhancing the formal reporting and monitoring processes and by significantly enhancing the informal relationships between the Council and the CCOs and between the CCOs.

90. Specific proposals to enhance the Council's current approach are:

Establishing CCOs

(a) Work through a consistent framework before deciding if arm's-length governance will deliver improved performance (see Appendix B).

Constitution or deed

(b) When setting up a CCO, ensure that the constitution or trust deed reflects the Council's intentions for the entity as well as the legal basis for the entity.

(c) Review the constitution or trust deed for each entity, every six years (half every three years, in the year preceding the LTP).

Legal status

(d) Adopt a legal status matches the Council's expectation.

Clarity of roles

(e) Understand and distinctly manage the Council's roles as owner and as funder, and build strong links wit operational areas of Council.

(f) Adopt a new Owner Expectation Guide to explain the roles of the owner, the funder and of the entity, and the behaviours expected (including matters such as CCOs are operating in a public sector environment and respective responsibilities for public communications).

(g) Where there is also an operating grant, ensure the funding or purchase agreement clearly outlines the deliverables along with the quality and quantity expected; this document can also include additional intervention mechanisms, which can be used if performance is not at the level expected.

(h) Adopt a process for CCOs to understand how they can work together for the benefit of the wider Wellington area.

(i) Ensure there are clear communications about who within Council is responsible for the strategy, ownership and the funding relationships.

(j) Enhance the formal relationships with regular cycles of engagement (individual meetings...
and roundtables), led respectively by the Mayor and the Chief Executive.

**Strategic direction and alignment**

(k) Provide strong and integrated advice about the Council’s strategic expectations for the entity, developed and agreed through a programme of workshops and discussions between the Council and the CCOs (individually and collectively).

(l) Ongoing, engage the CCOs early in review of long-term plans and the development of key strategies.

(m) Articulate these strategic expectations in a Statement of Core Purpose, reviewed every six years (alongside a wider review of the continued relevance of the entity’s deed or constitution).

(n) Ensure that the annual letter of expectation and the SOI reflect the Council’s expectations.

(o) Encourage memoranda of understanding (MOUs) between CCOs, where appropriate.

**Appointments to Boards**

(p) Develop a Board skills matrix specific to each Board, reviewed regularly.

(q) Include in the Owner Expectation Guide that the Council has a role in inducting the Board members in the Council’s expectations, as well as the Board chair’s obligation to induct the members about the entity.

(r) Decide whether or not councillors can be on CCO Boards, by agreeing either to option 2 (preferred) or option 1:

*Option 1 – Allow Councillors on Boards* (modified status quo), but to minimise potential conflicts and clarify scrutiny roles:

- There should be no more than one councillor on a board.
- The person appointed should have the appropriate skills and experience for that board.
- A board member should not also be the relevant portfolio leader.
- As a general rule, Board members should not be on multiple Boards (to minimise conflicts of interest).
- A member of a Board should not also be on CCOPS, to separate the scrutiny role.
- Review if councillors should receive additional remuneration for being on boards, as they already receive a fulltime salary.

*Option 2 – No Councillors on Boards* (preferred), instead:

- No councillors on CCO boards.
- The identified portfolio leader assumes stronger liaison between CCO and council, and is on CCOPS.

**Accountability and Transparency**

(s) Enhance the Letters of Expectation by articulating the contribution that the Council expects the CCO to make to the Council’s strategic objectives.
(t) Develop a template for the SOIs, to enhance the quality of the information provided to the owner and drive a longer-term approach.

(u) Work with the CCOs, so financial and non-financial performance measures (including some outcomes focused performance measures) enable performance trends to be analysed.

(v) Introduce short monthly reports from each CCO to Council, to support the ‘no surprises’ approach and to inform the regular meetings between the Council and each CCO.

(w) For regular quarterly and six-monthly reporting, use a future-focused performance and risk approach, and look at ways to streamline reporting requirements.

(x) Revise the terms of reference for CCOPS to include a responsibility for looking at the collective interest of the Council, in addition to the individual performance of the CCOs.

(y) Require CCOs to hold an AGM, open to the public.
Project Brief –
Council Controlled Organisations

Purpose of the project

1. Wellington City Council has ten Council Controlled Organisations (CCOs) that have been established over the last 25 years. These organisations have been set up to deliver significant Council services, manage Council facilities and/or undertake developments on behalf of the Wellington community. They were established in response to specific needs or circumstances that arose at that time.

2. It is timely for the Council to develop a deliberate framework within which it operates arms-length entities. This framework should give Council confidence that it understands the purposes of its various Council Organisations (COs) and how the arms-length model should work. Council should also understand what it can do to make the model work better (operationally and structurally) – for the community, for the Council and for the entities involved.

3. The project will -
   - review current practice in New Zealand and overseas (in establishing, aligning, performance monitoring, etc) arms-length entities, together with a comparative analysis of Council’s current practice, and develop recommendations for a deliberate framework to enhance Council’s current; and
   - Review overall effectiveness and general efficiency of the Council’s current model of 10 CCOs, and identify options for improving the organisational model (if appropriate).

4. This project will be informed by -
   - Wellington’s 2040 Strategy and 2012 Long Term Plan (LTP).
   - A review of current practice in the ownership, management and monitoring of arms-length entities in local and central government, through interviews with stakeholders and a literature review of international and New Zealand practice.
   - Information about the current entities Wellington City Council has – their establishment purpose, legal status, current expectations, Council funding requirements, etc.
   - Information about possible synergies or overlaps with other CCOs in the Wellington region.
   - Interviews with the Mayor and councillors, and with the Chair and CEO of each of the Council’s current entities; to understand what they consider currently works well and what does not.
A high-level review of the overall effectiveness and efficiency of the model currently used by Wellington City Council, including the number, functions, inter-relationships, etc of the entities and their alignment to Council's objectives.

Implications that the currently proposed changes to local government legislation and the current discussions about local governance in the Wellington Region may have for the model.

5. The project will provide advice to the Chief Executive on:

- Good practice lessons for Wellington City Council, for its overall CCO framework and for the establishment of any new CCOs.
- Key factors that should be taken into account when considering establishing arms-length entities, including a draft framework to inform decisions on in-house- or arms-length delivery.
- When do arms-length entities work well?
- Factors (formal and informal) that make the delivery model successful.
- The on-going relationship between the entities and the elected council, including the roles elected members should play.
- What a council can do when it is not satisfied with the performance of an entity.
- Any key lessons from the Council’s recent establishment of CCOs, eg Venues.
- An overall assessment as to whether the current CCOs are fit for purpose, including any improvements or changes that could be made to the current model to better deliver on the Council’s purpose and expectations?
- Identify any implications for in-house service delivery and monitoring consequential on the CCOs review.

Context

6. Councils are able to deliver activities directly, by contract through private providers, or through arms-length entities (CCO, CCTOs or COs – which may be trusts or companies etc). Wellington City Council currently has ten Council Controlled Organisations. The number and scope of activities that are managed in this way has increased, and there is a level of concern inside Council around the CCO model. Concerns include:

- The ability to ensure the Council’s strategic intent is appropriately articulated and implemented within CCOs – i.e. the delivery of city outcomes
- Appropriately linkages between the Council’s and CCOs communications and branding
- The reliance on the grant funding model (typically cost plus), and the sustainability of that model
- The overall cost of the current model
- The transparency to Council of the CCO operations
- The overall balance between control and independence.

7. The ways in which organisations deliver their activities are not static. It is timely to reassess the Council’s current delivery model compared with good practice.
Timeframe

A report from the Chief Executive will be submitted to the Strategy and Policy Committee on 6 September 2012 –

- Providing a summary of information about current Wellington City Council CCOs, and possible synergies or overlaps with other CCOs in the Wellington Region;

- Recommending any improvements to the Council’s current accountability model for CCOs (including establishment and appointment processes, the current monitoring and performance regime including in-house advice, support and relationship management, compliance activity, political accountability etc);

- Report on a high level review of the efficiency and effectiveness of Wellington City Council’s current organisational arrangement of CCOs (including the number, individual and collective CCO purpose/roles and functions compared to the Council’s strategic direction, inter-relationships between the entities and with other council activities, etc); and

- Identify options, if appropriate, options for improving the organisational arrangements of the CCOs.
Does the Council have a role with this activity/service?

• There is a statutory requirement to deliver
• There is a market failure to provide a service
• Community expects a wider contribution, eg economic development to support community wellbeing or betterment

Context and activity specific questions

- Are frequent political tradeoffs likely to be required or are the objectives enduring?
- Is political influence important?
- Is the activity a series of shorter, one-off activities or an ongoing service being provided?
- Does the service need to be integrated with other council activity or will a particular focus add value to performance?
- Will there be added value from aggregating like activities?
- Is the activity in a stable or a dynamic business phase?
- Will the activity be delivered as part of a joint venture?
- Will the activity benefit from specific/commercial governance expertise?
- Does the activity require general management or specific leadership?
- Are improved service levels needed?
- Are significant efficiency gains required?
- Are the objectives specific and measurable?
- Will increased external funding be available through a CCO?
- Is there an opportunity to reduce expected council funding &/or investment?
- Is it expected that the activity will generate a profit?
- Is entrepreneurial risk-taking involved??
- Do resources need to be ring-funded?
- Do risks need to be ring-fenced?
- Are improved service levels needed?
- Are significant efficiency gains required?
- Are the objectives specific and measurable?
- Will increased external funding be available through a CCO?
- Is there an opportunity to reduce expected council funding &/or investment?
- Is it expected that the activity will generate a profit?
- Is entrepreneurial risk-taking involved??
- Do resources need to be ring-funded?
- Do risks need to be ring-fenced?

Does the activity give effect to council’s policy or objectives? eg Service delivery, Implementation, or Regulatory (eg inspections/consents)

- There is high public interest in the impact of the decisions and consequently an expectation of direct accountability of elected members
- Involves setting strategy or objectives for the community, determining policy, or decisions regarding the use of taxing powers
- It supports community empowerment (usually community initiated)

Most likely delivery -

In-house
Joint committee
Support a Trust/other CO (or make a grant)

Does the CCO have a role with this activity/service?

• Flexibility needed
• Responsible
• Integration
• Appropriate governance
• Management
• Relationship with strategic objectives
• Appropriate governance
• More commercial/specific focus
• Leadership
• Significant change/innovation
• Specific measures
• Increased external funding likely
• Self funding/profit making
• No
• Yes
• No
• Yes
• No
• Yes
• No
• Yes

In-house
Council-controlled Trading Organisation
Council-controlled Organisation
Joint committee
Contract out

Private provision - leave it to the private sector

Define what the activity is. What are the strategic expectations of it?

Key CCO design features

• Strategic direction and enduring expectations
• Asset ownership/management
• Legal structure
• Tax status
• Success factors and SMART measures

Use answers to these questions to assess options, and determine whether an enhanced performance will be delivered or there is an opportunity that otherwise cannot be taken advantage of by using a CCO/CO over in-house delivery