

# CCOs governance review

A report for Wellington City Council on a review of its  
council-controlled organisations

October  
2012

This review has been conducted by:

- Rosalind Plimmer
- Andy Matthews
- Bridget Duley (Wellington City Council)

---

## DISCLAIMER

The preparation of this report has relied on and assumed the accuracy and completeness of, information available from public sources, interviewees and as furnished by the Council. The inquiry, review and analysis undertaken have not sought to verify the accuracy or completeness of any such information, and it should not be construed that an audit of the information used has been conducted. The statements and opinions in the report are given in good faith and in the belief on reasonable grounds that such statements and opinions are not false or misleading. No responsibility arising in any way for errors or omissions (including responsibility to any person for negligence) is assumed to the extent that such errors or omissions result from reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit. The right but not the obligation is reserved to revise or amend the report if any additional information exists on the date of the report, but subsequently becomes known.

## Contents

<b>Glossary</b>	<b>4</b>
<b>Executive Summary</b>	<b>5</b>
<b>Background</b>	<b>10</b>
<b>The current CCO arrangements</b>	<b>17</b>
<b>Is external governance still appropriate?</b>	<b>20</b>
Basin Reserve Trust	20
Capacity Infrastructure Service Ltd	23
Partnership Wellington Trust	26
Positively Wellington Venues Ltd	28
Wellington Cable Car Ltd	31
Wellington Museums Trust	34
Wellington Waterfront Ltd	35
Wellington Zoo Trust	40
<b>Options to rationalise CCOs or reduce costs</b>	<b>44</b>
Savings from bringing CCO activities in-house?	44
Rationalisation of the number of CCOs?	46
▪ A Holding Company	48
▪ A Management Company	50
Modified CCO model	53
Comparison of Management Company and modified status quo	55
Other recommendations	56
<b>Appendices</b>	
Appendix 1 - Terms of Reference	59
Appendix 2 - Governance framework	62
Appendix 3 - Basin Reserve Trust	63
Appendix 4 - Capacity Infrastructure Service Ltd	73
Appendix 5 - Partnership Wellington Trust	83
Appendix 6 - Positively Wellington Venues Ltd	91
Appendix 7 - Wellington Cable Car Company	105
Appendix 8 - Wellington Museums Trust	113
Appendix 9 - Wellington Waterfront Ltd	125
Appendix 10 - Wellington Zoo Trust	144
Appendix 11 - Summary information about the CCOs	156

GLOSSARY	
<b>ATEED</b>	Auckland Tourism Events and Economic Development, a CCO of Auckland Council
<b>BRT</b>	Basin Reserve Trust
<b>Capacity</b>	Capacity Infrastructure Services Ltd
<b>Capex</b>	Capital expenditure
<b>CCOPS</b>	Council-Controlled Organisations Performance Sub-Committee
<b>CCOs/CCTOs</b>	Council-controlled organisations/ Council-controlled trading organisations
<b>Framework</b>	Wellington Waterfront Framework
<b>Governance framework</b>	The framework developed to guide decisions on whether or not activities should be managed in-house or by external governance
<b>GWRC</b>	Greater Wellington Regional Council
<b>HCC</b>	Hutt City Council
<b>Kelburn Precinct</b>	The area at the top of the Cable Car, including the Carter Observatory, Cable Car Museum, Cable Car Terminal, top of the Botanical Gardens
<b>KPIs</b>	Key Performance Indicators
<b>LTP</b>	Long Term Plan (prepared by council every three years, for the following 10 years)
<b>Opex</b>	Operating expenditure
<b>PCC</b>	Porirua City Council
<b>PWT</b>	Partnership Wellington Trust / Positively Wellington Tourism
<b>RFA</b>	Regional Facilities Auckland, a CCO of the Auckland Council
<b>SOI</b>	Statement of Intent
<b>SPC</b>	Strategy and Policy Committee of Wellington City Council
<b>TA</b>	Territorial authority, a district or city council
<b>TAG</b>	Waterfront Technical Advisory Group
<b>UHCC</b>	Upper Hutt City Council
<b>Venues</b>	Wellington Venues Ltd / Positively Wellington Venues
<b>WCC</b>	Wellington City Council
<b>WCCL</b>	Wellington Cable Car Company
<b>WMT</b>	Wellington Museums Trust
<b>WWL</b>	Wellington Waterfront Ltd
<b>WZT</b>	Wellington Zoo Trust
<b>ZCP</b>	Zoo Capital Plan

## Executive Summary

---

Wellington City Council (the Council) has commissioned a review<sup>1</sup> of its Council-controlled organisations (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).

This report addresses the third aspect of this work, an overall review of the effectiveness and general efficiency of the Council's current model of CCOs. For each of the Council's eight CCOs:

- Basin Reserve Trust
- Capacity Infrastructure Services Ltd
- Partnership Wellington Trust
- Positively Wellington Venues Ltd
- Wellington Cable Car Ltd
- Wellington Museums Trust
- Wellington Waterfront Ltd
- Wellington Zoo Trust

the review has looked whether in-house or external governance would better enable the Council to meet its objectives, and whether there should be any change to the overall model that the Council currently operates (that is to maintain separate CCOs or to bring any of the CCOs together). In undertaking the review, interviews have been conducted with the Chair and the Chief Executive Officer of each CCO, as well as with the Council and some council staff; and documents such as statements of intent and annual reports have been considered.

With the exception of the remaining development of the Wellington Waterfront, which the review considers should be brought in-house by 30 June 2015, the findings are that external governance of these activities is likely to deliver better results against the Council's objectives. External governance will provide the commercial and technical expertise, and the on-going transparency and ring fencing of risk and resources.

---

<sup>1</sup> The terms of reference for the review are attached as Appendix A.

The caveat on these conclusions is that the Council should adopt the recommendations in the *Enhancing alignment and performance* Report, in order to improve the alignment of the CCOs to the Council's expectations and cross-entity alignment. The review team considers that whatever structure is in place and indeed whether or not there is any structural change, Council will have greater success in meeting its objectives if there are very clear strategic expectations agreed, these expectations are linked to the Council's own KPIs, and cross-entity alignment is actively encouraged.

### ***Wellington Waterfront***

For Wellington Waterfront Ltd, the review considers that the waterfront area is indeed a 'jewel in the crown' of Wellington. However, it is also clear that many of the original objectives set for the Wellington Waterfront Company have now been completed. The question therefore addressed by the review was what is the best way to complete the implementation of the Waterfront Framework? Given the majority of commercial development and the development of the public space has been completed, and given the Council has to approve any further development and provide ratepayer funding for the waterfront it is considered that the separate external governance of the waterfront area has run its course; and governance should transfer back to the Council from 1 July 2015.

### ***A holding company, a management company, or the status quo?***

The review also considered whether there should be a rationalisation of the CCOs. In particular, it considered if a holding company model or a management company model should be adopted, or if the status quo (with some modifications in practice) should be maintained, for the CCOs other than Wellington Waterfront Ltd.

A holding company is not considered an appropriate vehicle for the remaining entities, as this vehicle is more usually used for fully commercial companies.

A management company model would provide advantages of integration and some limited savings (possibly \$0.580m per annum) for the remaining entities and would probably present the greatest level of "future-proofing", as other entities could be added over time. However, it could also reduce the separate focus, transparency and accountability that the current model provides and risk losing some of the \$2.5m external funding currently available. In addition, such a change could take 18 months to two years to be fully implemented (including implementing new management structures and winding up former entities), and this would be at a time when wider regional governance decisions are likely to be made and which themselves may create further change for these entities.

As the entities are considered fit-for-purpose in the current environment, maintaining the entities as individual CCOs would preserve their separate focus and expertise. However, the review also considers that were there to be a single council for the metropolitan Wellington area and further activities or CCOs were to be involved, then the model could become unwieldy and rationalisation would then be appropriate.

At present, the review considers the model of separate CCOs should be maintained; a decision on the adoption of a management company should await decisions on regional governance (as it will then be clearer what other entities would be involved, and therefore the exact nature of such a company or companies). Further, the review concluded that all entities, other than Wellington Waterfront Ltd, should retain their current form.

## ***What changes, if any, should be made to the individual CCOs or to the overall governance of the CCOs?***

In addition to the recommendations that Wellington Waterfront Ltd be brought in-house by 30 June 2015 and the other activities remain under external governance, the review recommends:

- a) For the Basin Reserve Trust – the Council should work with the Trust to complete an asset management plan, and consider including the Trust in the new Events Forum.
- b) For Capacity Infrastructure Services Ltd - the Council should:
  - Continue its support for a regional water management company, and to the CCTO governance structure of Capacity continuing to provide three waters services.
  - Work with other owners and prospective owners of Capacity to develop a shareholders agreement as a mechanism to agree common direction, and adopts this agreement before the new shareholding takes effect.
  - Request that by 31 March 2013, the Council Chief Executive agrees with Capacity the detail of the 'Outcomes Model' (including the 'end-state' under which the outcomes model will be fully operational and the associated transition plan for the Council) - on the basis that the following are retained by Council:
    - ownership of three water assets;
    - ownership of the three waters asset management information system (AMIS);
    - responsibility for policy and strategic direction;
    - approval of asset management plans;
    - approval of KPIs that will provide confidence that Council's three waters assets are being maintained; and
    - approval of budgets (and funding) for operating and capital expenditure (both renewal and upgrade) related to Wellington City 'three waters' activities.
  - Request the Council Chief Executive and the Board of Capacity review and jointly report back to Council on their relative capabilities to deliver on the objectives of a regional water management unit and the transition plan to an "Outcomes Model", (together with a plan to avoid any real or perceived duplication of activity) by 31 March 2013.

- c) For Positively Wellington Venues Ltd, in Q2 of the current financial year the Council should agree with the board:
- A statement of core purpose for Venues, supported by high-level KPIs that will give the Council as owner confidence it understands that its company is improving its performance and contributing to the city's outcomes, particularly economic growth.
  - What legacy or other sponsorship support the CCO is expected to provide for community organisations or other strategic partners, within its revenue stream; also whether any amendment to the constitution is required to reflect this.
  - In light of recommendation (b) and any impacts that might have on the CCO's bottom-line, review the timeframe in which the CCO is expected to 'break-even' and then to deliver a 'surplus'.
  - Performance measures that are SMART and link to the relevant Council KPIs, and will enable Council to understand ahead of time the potential impact on its own risk profile (including when or if the line of credit may need to be activated).
  - Results of these discussions to be incorporated into the 2012/13 SOI.
- d) For Wellington Cable Car Ltd - the Council should reconsider WCCL again, once decisions about the future make-up of local government in the region and the future of the trolleybus network are clearer.
- e) For Wellington Waterfront Ltd - Council should agree:
- A transition process by which the management of developed public space (including operational and property management functions) activities of WWL begin to transfer back to the Council from 1 July 2013.
  - Public space and commercial development activities continuing to be managed by WWL until 30 June 2015, at which time any remaining development activities will transfer to Council and WWL would revert to a shelf company for the purposes of holding waterfront assets in trust for the Council.
  - Effective 1 July 2013, acknowledging the commercial developments will not meet the costs of waterfront development, the funding arrangements for waterfront private (commercial) development activities be decoupled from public space development and operation, so that:
    - The net operating cost (including depreciation) of the public space activity is funded through general rates, similar to other council activities.
    - The net proceeds of commercial development offset the total general rate requirement through a separate commercial activity.
    - The funding impact of this change is transitioned so that the rates impact does not exceed 0.9% per year.

- f) For the CCOs generally, the review recommends that the Council:
- Introduces an Owner Expectation Guide across all CCOs, and individual statements of core purpose, before 30 June 2013. This will significantly assist with enhanced alignment, when supported with the Events Forum, CCO/Council roundtable discussions and workshops. These can also cover and resolve matters such as approaches to branding and communications.
  - Works with the CCOs to ensure all 2013 SOIs consistently reflect the WCC's future expectations for the CCOs, and include KPIs and performance measures that enable Council to understand better the performance of the boards in governing the entities.
  - Should hold CCOs properly to account by consistently transferring to the CCOs responsibility for operating grants, signing contracts, asset management planning.
  - Revise appointments policy and amend constitutions/deeds accordingly, so no management CCO should have more than six directors.
  - Complete the terms of reference for the Events Forum by the end of Q2.

## Background

---

1. Wellington City Council (the Council) has commissioned a review<sup>2</sup> of its Council-controlled organisations (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).
2. This report addresses the third aspect of this review, an overall review of the effectiveness and general efficiency of the Council's current model of CCOs. The first two parts of the review were addressed in the earlier reports:
  - *What Works?* - A report for Wellington City Council on getting the best from council-controlled organisations, August 2012
  - *Enhancing alignment and performance - Wellington City Council's CCOs*, August 2012.
3. Council-controlled organisations have been variously established and modified by the Council 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.
4. 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 have also been some concerns expressed by councillors that the entities could be better aligned with the Council's objectives, and with each other.

### *Review scope and approach*

5. This review focused on the governance appropriate for the activities and whether the current governance arrangements are essentially 'fit-for-purpose'. Brief descriptions of the CCOs reviewed are set out in the following table:

---

<sup>2</sup> The terms of reference for the review are attached as Appendix A.

CCO	Establishment Date	Purpose	WCC control
Basin Reserve Trust	February 2005 (Charitable Trust)	Owns, manages and operates the Basin Reserve.	Appoint 50% of Trustees Management fee.
Capacity Infrastructure Services Ltd	April 2004 (Company – CCTO)	Manages water, wastewater and stormwater assets of Hutt City Council and Wellington City Council Manages assets of Upper Hutt City Council under a service agreement.	50% shareholding 63% Financial Interest. Management fee.
Partnership Wellington Trust	1997 (Council-settled trust)	Wellington's official tourism organisation Targets people who would like to hold their meetings in Wellington	Appoints all Trustees Operating grant (downtown levy)
Positively Wellington Venues Ltd	February 2011 (Company - CCTO)	Manages Wellington's six premiere venues spaces: Michael Fowler Centre, Town Hall, St James' Theatre, Opera House, TSB Bank Arena and Shed 6, on behalf of WCC.	100% shareholding Appoints all Directors. Management fee.
Wellington Cable Car Ltd	July 1991 (Company – CCTO)	Owns, maintains and operates cable car assets; and owns and maintains trolley bus overhead wire network.	100% shareholding Appoints all Directors.
Wellington Museums Trust	1995 (Council-settled trust)	Manages City Gallery Wellington, Capital E, Museum of Wellington City and Sea, Wellington Cable Car Museum, Colonial Cottage Museum, Plimmer's Ark Galleries, New Zealand Cricket Museum, and Carter Observatory.	Appoints all Trustees Owns land and buildings Operating grant.
Wellington Waterfront Ltd	September 1987 (CCTO)	Owns in trust for WCC 20 hectares of land and 12 hectares of seabed; Manages Lambton Harbour Development Project (a joint venture with WCC) – originally scheduled for completion 2007.	100% shareholding Appoints all Directors. Management fee.
Wellington Zoo Trust	2003 (Charitable Trust)	Manages Zoo, to bring animals in their environment and people together Focus on conservation and learning.	Ownership of land and buildings Appoints all Trustees. Operating grant.

6. In preparing this report, the review has looked at: the establishment reports and constitutions/deeds for the entities; where available to the review team, reviews that have previously been undertaken; their recent Statements of Intent (SOIs) and annual reports. The review team has also worked with the CCO team in Council, to learn from its knowledge of these entities, and drawn on interviews with the Chairs and CEOs of the CCOs. The appendices to the report include some background on each of the entities, to enable decision to be made based on similar understandings of their purpose and expectations.
7. With that information available, the review has looked at–
  - The reasons for establishing each CCO.
  - Whether in-house or external governance is likely to deliver better on the Council's expectations.

- The relative benefits and risks for the Council of maintaining the current arrangements, having regard to:
    - The expectations the Council has set for each entity.
    - As far as was possible, the extent to which the entity is meeting those expectations.
    - The cost to the ratepayers of the activity and the entity.
- 8. The review has **not**:
  - Reconsidered whether the Council should be involved in the activity nor attempted to define what the Council's strategic objectives for the activity are. Instead, the review has worked from the basis that the Council has previously determined that it should be engaged in the activity and that it is the role of Council to determine its strategic objectives. The review has noted, however, where the Council could make clearer the links between an activity and its CCO with the Council's own expectations.
  - Undertaken a full management review for each entity, nor a full performance audit. Having regard to the differing levels of information available about each entity and the differing degrees to which the Council has articulated its strategic objectives for the entities in each instance, the review has balanced the relative advantages and disadvantages of in-house compared to external governance.
- 9. As the Wellington Regional Stadium Trust and the Karori Sanctuary Trust are not actually CCOs (although they are monitored by the Council in a similar way), they have not been included in the review. There is a separate management review being conducted on the Karori Sanctuary Trust.

### *Framework for analysis*

- 10. The *What Works?* Report found that, whether in New Zealand or internationally, there is no single answer to the question of whether an activity should be governed in-house or externally; rather the individual circumstances of the activity will influence the decision. However, there are a series of factors that indicate when external governance is likely to deliver better outcomes, namely:
  - *Providing independence and legitimacy*, ie separation from political direction (this is particularly the case for some regulatory functions of local or central government; or statutory entities).
  - *Business specific objectives rather than multifaceted political objectives*. Enabling a focus of decision-making and resources on delivering effectiveness and efficiencies in a specific area through a constrained set of business objectives can enhance governance, strategy, risk management and ultimately improve outcomes; rather than having the multi-faceted and often competing objectives facing councils and central government.
  - *Professional and specifically experienced governance*. By appointing directors or trustees based on merit, decision-making in those specific areas can be enhanced.

- *Attracting new skills and innovation.* There are many people who have key skills and who are interested in being appointed to a board or working for an arm's-length entity but who would not stand for elected office nor wish to work in a 'bureaucracy'. Neither would they be attracted to a role as a third or fourth tier manager within a large and diverse organisation, but they may be attracted to a CEO or senior manager role in a smaller and focused organisation.
- *Joint or regional activities.* A separate entity can be an effective way to form partnerships with other political entities (eg Capacity between Wellington City Council and Hutt City Council, or Christchurch International Airport between Christchurch City Council and the government); or with the private sector to jointly deliver services (the alternative being a joint committee which may operate more slowly – needing to seek decisions from the individual councils and having to work through sometimes conflicting political expectations).
- *Retaining public control over natural monopolies.* With some activities such as water and wastewater services, there may be significant benefit and efficiencies through applying commercial practices; but as significant community developed assets and with no competitors, continued public ownership might be important.
- *Empowering community-based organisations.* A trust, for example, can have support from an organisation such as a council but still encourage donations, sponsorship and other support, which might not be available if the activity was delivered in-house. The Council recently had such conversations regarding ZEALANDIA, and in 2003 about the Zoo.
- *Maximising profit.* This can be important where the activity is primarily financial and generates revenue through the sale of goods and services. Councils and governments sometimes look to this revenue as a way to reduce the impact of other costs (such as rates or taxes) on their communities. A factor for councils to consider carefully here, too, is the tax implications of different models.
- *Critical mass and economies of scale.* An arm's-length entity can bring together similar activities, and thereby achieve economies of scale.
- *Ring-fencing resources,* both financial and other resources. This can reduce or remove the risk of the activity being diminished or not prioritised in the future. This can be a way to protect resourcing for an activity, for the future, especially if it has been under-resourced in the past.
- *Ring-fencing costs and risks.* The parent can ensure that the costs it faces are contained when the responsibility for delivery a service sits with a separate entity, as the entity may also have access to other sources of funding. Funding arrangements should be separated from ownership interests.

- *Increased transparency and accountability.* When the right performance measures are in place, separate reporting and scrutiny through better and more specific financial information can result in better outcomes for the community. There is often more thought put into the design of an arm's-length body than there is to a new function within an existing organisation. Purchase or output agreement can be put in place formally or informally to hold the entity to account; and elected members are able to focus on the scrutiny of overall performance and delegate the management of the risks. Elected members sometimes consider that they have the ability to scrutinise arm's-length entities better than in-house services.
11. Based on those factors, *Enhancing alignment and performance* recommended the Council adopt a framework for analysing if in-house or external governance is most appropriate for an activity. The full framework is set out in Appendix 2, and involves working through a series of questions to identify if on balance there is a greater weighting towards in-house or external governance:
- Are frequent political trade-offs 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 on-going service being provided?
  - Does the service need to be integrated with other council activities 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 measureable?
  - 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-fenced?
  - Do risks need to be ring-fenced?
12. These framework questions have also been used in this review to consider if external governance is still most appropriate for each of the activities the CCOs undertaken for the Council. The review has not started from an assumption that there should or should not be CCOs, rather it has used the framework and the analysis to guide the conclusion for these activities.

### Overall CCO model

13. The review has also looked at the efficiency and effectiveness of the overall CCO model. Council has previously looked at some aspects of the CCO delivery, and officers have considered whether the greater use of shared services or a single holding company for example might reduce costs. Where it has been possible to quantify these costs they have been factored into the analysis, however these costs have not always been able to be quantified. In those cases, some general assumptions have been identified and applied.
14. The review has also considered some of the previous reviews that the Council has commissioned on the CCO model, including the ABN Amro Craig's report of July 2005, the PriceWaterhouseCoopers report of June 2006, and the Roy Tiffen Report of December 2006; as well as relevant individual CCO reviews (eg the Wallace review of Wellington Waterfront Ltd, in 2011).

### Wellington 2040

15. Together, the CCOs deliver for Wellington - places to go and things to do which significantly contribute to Wellington being the 'coolest little capital in the world', and infrastructure to support public transport and the three waters. As identified by Wellington itself, it is a place where intellect, creativity, lifestyle, education, commerce and governance thrive alongside one another and feed each other's success.
16. Through Wellington 2040, the Council has identified Wellington is striving to be a:
  - **People-centred City** - Wellington's people-centred city will be healthy, vibrant, affordable and resilient, with a strong sense of identity and 'place'. This will be expressed through urban form, openness and accessibility for its current and future populations.
  - **Connected City** - Connections will be physical - allowing for ease of movement of people and goods; virtual - in the form of world-class ICT infrastructure; social - allowing people to connect to each other and their communities.
  - **Eco-City** - The importance of Wellington taking an environmental leadership role as the capital city of clean and green New Zealand. Wellington's many natural assets give the city a head-start and opportunities as part of a green economy.
  - **Dynamic Central City** - A place of creativity, exploration and innovation. The central city will be a vibrant and creative place offering the lifestyle, entertainment and amenities of a much bigger city. The central city will continue to drive the regional economy.
17. However, Wellington is not alone in thinking that it is a vibrant cultural, sporting and entertaining hub. Auckland is a much larger city, able to attract many events and fund new and growing infrastructure, and a recovering Christchurch will be in a similar space in another few years. Wellington will need to act smartly to retain and grow its own capacity.

18. The review has been guided by the understanding this is an expectation of the Council, balanced against an expectation of reducing the increasing costs for ratepayers (as articulated through the long-term plan (LTP) process). With this in mind, the review has looked to identify if the current institutional arrangements for the activities are achieving or are more likely to achieve the high-level outcomes the Council is seeking to deliver.

### ***Regional governance***

19. At the time the review has been conducted there are several civic conversations underway about the nature of governance for the Wellington Region going forward, including the Wellington City Council's consultation on 'Local Government Reform – What do you think?' and the Sir Geoffrey Palmer-lead Independent Review Panel on regional governance for the Greater Wellington and Porirua City Councils.
20. The outcome of these discussions is not known at the time of writing. The review has therefore not been able to consider any conclusions, but it has looked at if there are other "like" entities in the region and considered if regional governance changes might influence the conclusions about the governance of the individual or collective activities. This has been reflected in the options considered.

## The current CCO arrangements

---

21. Wellington City Council has an ownership interest in eight Council-controlled Organisations/Council-controlled Trading Organisations (CCO/CCTOs). These are:
  - 100% ownership of - the Wellington Cable Car Company, Partnership Wellington Limited, Positively Wellington Venues Limited, Wellington Museums Trust, Wellington Waterfront Ltd, Wellington Zoo Trust.
  - 50% ownership of Capacity (and 63% share of the costs and revenue).
  - 50% appointing interest in the Basin Reserve Trust.
22. Generally, the Wellington City Council has retained the ownership of all the assets related to these CCOs. Exceptions to this are the Wellington Cable Car Company (which owns the cable car – a popular tourist attraction - and the trolleybus overhead wires network), assets at the Basin Reserve that are vested in that Trust, and on the Waterfront (which is vested in trust for the Council).
23. In reality, the CCOs have been set up to manage the assets on behalf of the Council and to maximise the benefit for the Council of continuing to own the assets. With the exception of the Wellington Cable Car Company, the Council remains responsible for the maintenance and depreciation of most significant assets and ratepayers contribute significantly to the operating costs of these activities.
24. Under this model, therefore –
  - The Council generally remains responsible for the buildings and physical infrastructure, their depreciation, maintenance and renewal. This includes, for example the costs of earthquake strengthening for the Town Hall.
  - The boards of the CCOs are generally responsible for the management of the activity, ensuring the service levels agreed with the Council are achieved. Over time, they are expected to reduce the call on ratepayer funds by maximising their respective external revenues (through increasing visitor number and therefore revenue from user charges, and from increasing sponsorship levels – usually for capex or specific project contributions).
25. This model differs from some CCOs set up by other councils (for example Watercare Services Ltd in Auckland owns the three waters assets for Auckland; all the companies sitting under Christchurch City Holdings Ltd own their assets). As such, it creates several specific factors that the review has sought to include in the analysis of options:
  - The model does expect a close relationship between the Council and the CCOs to be established and maintained, and a clear sense of expectation to be articulated. The relationship is as much about the purchase of services as it is about the ownership of the entity. In doing this, the Council needs to have a single 'council' view of 'what' should be done.

- The Boards are expected to apply commercial and technical expertise to ensure the best delivery of those services; to be responsible and accountable for 'how' it is done.
  - The Boards themselves have fewer levers available to them to fund their operating activities than private companies do (the Boards generally not having significant assets against which they can borrow and fund developments across generations, for example). There is, therefore, a continued reliance on the Council's operating and capex grants. This means there will always be explicit conversations at budget time around the funding needs of the entities, and these will always be more transparent than internal business group conversations.
  - Other than the board of the Cable Car company, the CCO boards also have less risk to manage than a company where the assets it is responsible for are also vested in it.
  - Investment decisions about the assets need to be transparent by both parties –
    - The Council needs to be transparent in the decisions it makes about its investments in the related assets, as a decision of the Council not to invest or to increase its investment in the specific buildings or assets may affect the ability of the CCO to meet its expected service levels.
    - A CCO should not make decisions that force the hand of the Council to change its investment decisions, without owner/Council agreement.
26. The scale of the activities is also important. Having regard to their projected revenue streams, the expected costs to the Council of running these activities in 2012/13 (based on the 2012 CCO Annual Reports and Council's LTP), are–

2012/13	Basin Reserve Trust	Capacity Infrastructure Services Ltd	Partnership Wellington Trust	Positively Wellington Venues Ltd	Wellington Cable Car Ltd	Wellington Museums Trust	Wellington Waterfront Ltd	Wellington Zoo Trust	TOTAL
Operating surplus (deficit) *	(\$0.111m)	\$0.087m	\$0.002m	(\$1.269m)	\$0.632m	(\$0.094m)	(\$0.714m)	\$0.005m	<b>(\$1.462m)</b>
Total rates funded opex for CCO related activity **	\$0.804m	\$79.144m <sup>3</sup>	\$5.740m	\$4.598m	(\$0.156m)	\$7.168m	\$1.091m	\$4.341m	<b>\$102.732m</b>
Net Council capex for CCO related activity **	\$0.124m	\$22.701m	-	\$4.057m	-	-	\$4.460m	\$0.638m	<b>\$31.981m</b>
Percentage of total rates used to fund CCO related activity	0.34%	33.02%	2.39%	1.92%	(0.07)%	2.99%	0.46%	1.81%	<b>42.86%</b>

\*Capacity rates-funded opex includes - \$5.6m management fee to Capacity, plus \$42m maintenance contracts, \$30m depreciation and \$2m interest expense which are accounted for by the Council.

<sup>3</sup> Includes Council operating grant

27. As these figures show, the three waters activities managed by Capacity make up the majority of the draw on ratepayer funds incurred by CCO managed activities. As a core council service, these costs relate to the operation and maintenance of delivering three waters services in Wellington, not just the cost of owning a CCO. If the Capacity managed activity is removed from the equation, the total rates funded operating expenditure for CCO-related activity reduces to \$23.588m and the percentage of rates used to fund total CCO activity reduces from 42.86% to 9.84%.
28. It is important to understand the total size of activities the CCOs collectively represent in terms of the Council's delivery of services and outcomes to the wider Wellington community, but it is also important to understand the relative size.

## Is external governance still appropriate?

---

29. This section looks at each individual CCO, and draws conclusions on whether or not external governance will best suit this specific activity going forward. The next section will consider if a different external governance model may be better for Wellington. A more detailed analysis of each entity is also attached:

- Basin Reserve Trust – Appendix 3
- Capacity Infrastructure Services Ltd – Appendix 4
- Partnership Wellington Trust – Appendix 5
- Positively Wellington Venues Ltd – Appendix 6
- Wellington Cable Car Ltd – Appendix 7
- Wellington Museums Trust – Appendix 8
- Wellington Waterfront Ltd – Appendix 9
- Wellington Zoo Trust – Appendix 10

### *Basin Reserve Trust (BRT)*

#### Establishment

30. The original 1884 deed between the Crown and Wellington City Council states that the grounds must be used for the purposes of cricket and recreation. Since BRT was established in 2005, the Council has partnered with Cricket Wellington primarily to maintain the Basin Reserve as New Zealand's premiere cricket ground.

31. The original reasons for setting up the Trust were to:

- Ring-fence the risk associated with maintaining the ground's aging infrastructure.
- Reduce the cost to ratepayers by generating income from events and attracting sponsorship and capital funding, particularly through its strategic alliance with New Zealand Cricket and other sponsors.
- Ensure the Basin Reserve continues to be a high standard recreation facility for the city.

32. At the time, the ground's aging infrastructure was in need of investment. When it was under the umbrella of the Wellington Regional Stadium Trust (WRST), insufficient income was being generated to carry out the necessary maintenance and upgrades, or to cover other operating costs (in 2002/03 the net cost of operating the Basin Reserve was \$0.468m). It became clear that additional funding was required if the grounds were to continue as a premiere cricket venue. Cricket Wellington expressed a desire to have greater involvement in the management and running of the grounds. While aware of the difficulties experienced by WRST, Cricket Wellington was considered to be fully behind the Basin Reserve's status as New Zealand's home of cricket and to have access to alternative sources of funding - through its relationships and networks.

33. The Council's vision was to develop the Basin Reserve as a recreational facility for the playing of cricket, other sports and as a venue for other community-based activities. For the Council, establishing the BRT jointly with Cricket Wellington ring-fenced the risks associated with owning the aging assets into a separate entity and created potential to reduce the burden on ratepayers, if BRT sourced additional revenue. The Council estimated at the time that the costs of operating the Basin Reserve would be \$0.530m per year over the next ten years. The Council has indicated to the Trust that, as much as possible, the facility should be used more broadly as an events space, but only without sacrificing its role as a first-class cricket venue; however, the focus on cricket places limits on other uses of the grounds.
34. BRT is 100% Council owned but, as a joint venture with Cricket Wellington, half of the board members are appointed by the Council and half by Cricket Wellington. Council agreed to fund an operating grant of \$0.180m per annum from 2004; this was increased in the 2012 LTP to \$0.355m per annum.

## Comment

35. The focus on cricket has placed limits on other uses of the grounds. A new drainage system installed in September 2012 should mean the capacity of the grounds to accommodate other use will be increased, including for rugby and rugby league in the winter.
36. BRT has had success at attracting additional income and sponsorship, and maintained the Basin Reserve's status as New Zealand's premiere cricket venue. Although this has been variable over the years, the board has garnered sponsorship support that it considers would probably not have been offered directly to the Council (were the Basin managed in-house). The costs of operating and maintaining the grounds are higher than predicted in 2005 (costs have increased at a rate slightly higher than inflation). The Council agreed to increase the operating grant in this year's Long Term Plan (LTP) in recognition of these increased costs and in light of the Trust's unsustainable financial position.

	<i>Predicted in 2005</i>	<i>2012/13 forecast</i>
<b>Operating revenue</b>	<b>\$530,000</b>	<b>\$680,000</b>
<i>Non-Council revenue</i>	<i>\$350,000</i>	<i>\$325,000</i>
<i>Council grant</i>	<i>\$180,000</i>	<i>\$355,000</i>
<b>Total expenditure</b>	<b>\$530,000</b>	<b>\$729,000</b>
<b>Net cost</b>	<b>Nil</b>	<b>(\$49,000)</b>

37. The Council is also working with BRT to develop an Asset Management Plan that will highlight the cost of maintaining the grounds over ten years. An initial asset condition report was completed which will form the basis of the Asset Management Plan. That condition report highlighted \$2.942m worth of urgent (\$1.027m) and deferred (\$1.437m), maintenance and capital upgrades (\$0.478m). Work commenced addressing the historic backlog of maintenance in 2011. Currently there is \$3.75m set aside in the LTP for capital expenditure at the Basin Reserve over the next ten years.

38. Given the Council has recently adopted its Wellington 2040 strategy, there is an opportunity going forward to better articulate the benefits of premiere cricket to Wellington, and to set measures in light of these benefits. The Council will only be able to judge the value of this investment if it can assess whether it has achieved the desired results; further work on the KPIs and performance measures would support this.

### Governance

39. There is a question therefore, is the Basin Reserve significantly different to other sport and recreation facilities to warrant external governance? The point of difference is that the Basin is considered an iconic cricket ground, and that the partnership with Cricket Wellington is important in supporting that status and in accessing external funding. The original 1884 Deed vested the grounds with Council for the purposes of cricket and recreation. Within this remit, the potential uses of the grounds are somewhat limited. If the Basin's primary purpose is to continue to be for cricket, partnering with Cricket Wellington is an effective way of ensuring the grounds cater to the cricket community and muster support from that community, while not falling further into disrepair.
40. All the operations are already contracted out to Cricket Wellington, and if the governance were in-house, there is still a strong possibility that the Council would continue with that operational contract; although Council's attention to focused governance would be significantly less than the current board. If the BRT was transferred in-house, a separate advisory board for the Basin Reserve would probably have to be established to maintain the relationship with the cricket community and ensure the focus for the International Cricket Council (ICC); and there would still be costs associated with supporting such a board or committee. Additionally the current board does not incur directors' fees and the BRT has no direct staff, so there are unlikely to be any significant savings achieved from bringing the activity in-house.
41. External governance enables greater transparency and accountability for the level of investment the Council makes into the Basin Reserve, and should clarify what Wellington's residents are getting in return for that investment. The specific partnership that has been established between the Council and Cricket Wellington means that the current separate charitable trust would continue to be the best vehicle for external governance of the Basin Reserve.

### Conclusion

42. While the Basin Reserve is expected to be New Zealand's premiere cricket ground, that establishes a very specific focus for the activity that is different to other parks and reserves, and different to the management of other event venues. As such, and in order to maintain the distinct resourcing for the Basin and associated accountability, external governance is appropriate. Due to the specific partnership developed with Cricket Wellington, the existing charitable trust governance model remains the vehicle most likely to deliver this objective. A separate Trust means both partners can equally provide direction, while still enabling the Council as owner to set the overall direction and monitor performance.

43. It is recommended Council: retain the Basin Reserve Trust in partnership with Cricket Wellington; continue to work with BRT on the development and funding of an asset management plan; and work with BRT to develop KPIs and performance measures that enable the Council to understand better the performance of the Trust in governing the Basin Reserve.

### *Capacity Infrastructure Services Ltd (Capacity)*

#### **Establishment**

44. Following various investigations for rationalising water services in the Wellington metropolitan area during 1997-2001, a 2001 review proceeded to public consultation that identified both significant community support for the principle of rationalisation and some implementation concerns. A CCTO, Wellington Water Management Limited (WWML), was established in 2004 – an amalgamation of WCC and Hutt City Council (HCC) water services to deliver:
  - Anticipated savings of \$4.15m after 5 years, and \$1.6m per year thereafter.
  - Services that met or exceeded the prior standard.
  - A 'centre of excellence' for the management of water services in the region.
  - Improved long-term strategic planning for water services with a view to eventual full regional water services integration.
45. In 2008, WWML was renamed Capacity Infrastructure Services Limited (Capacity). Under this structure, each of the Wellington City and Hutt City Councils continued to own their respective water infrastructure.

#### **Comment**

46. In the absence of a robust model to measure savings on a like-for-like basis, it cannot be evidenced that Capacity has made the savings originally envisaged at the time of its establishment. However, annual reporting against SOIs indicates that gradual progress has been made towards achievement of the remaining objectives.
47. A range of recent reports on the subject all point to the CCTO governance structure as the vehicle most likely to deliver on these objectives. Bringing the three waters services back in-house would be at odds with the regional integration vision proposed and is considered unlikely to result in substantial cost savings. In recent months, two significant changes in the governance and delivery models for three waters services have received in-principle support by the region's metropolitan councils.
48. Firstly, the inclusion of Upper Hutt and Porirua City Councils (PCC) as shareholders and PCC as a client of Capacity will further strengthen the centralisation of expertise and enhance the opportunity for a region-wide planning focus. It is noted that full regional integration will continue to be limited by GWRC's decision to retain its own separate governance and service delivery model for bulk water provision.

49. Secondly, the shift to an “outcomes” based operating model means client-councils set and monitor outcomes and outputs. While Council has historically contracted Capacity to manage the operation and maintenance of its water networks but has retained responsibility for delivering water services to end users, under the proposed model this responsibility for delivery shifts to Capacity.

### Governance

50. Both of the initiatives identified above were agreed to in-principle by the Council’s Strategy and Policy Committee (SPC) in April 2012. Having particular regard to the fact there will be four territorial authority owners, the review’s assessment (in Appendix 4) has concluded that the existing CCTO governance model remains the vehicle most likely to deliver the vision and associated potential benefits of an integrated water management system for the region.

### *Implementing the Outcomes based model*

51. The proposed shift to an Outcomes based model is significant for the Council. As is the case with most of its CCOs, the Council has an ownership, as well as a client relationship with Capacity.
52. This review considers there are a number of matters related to the client relationship that need to be addressed between the Council and the Board of Capacity for the Outcomes Model to operate effectively. These factors include:
1. Clarity and agreement is required between shareholder clients and Capacity over the specific terms of the proposed Outcomes Model.
  2. Agreement is required on asset information ownership and accountability. Council officers believe it is important that council owns and controls its asset information database and provides Capacity with access to the system. Capacity believes that to get optimal benefit from the regional management of three waters, it should manage the asset information and provide access to Council to meet its broader asset planning needs.
  3. Concerns by Council officers over the quality of WCC’s asset information and Capacity’s ability to deliver on the capital renewal programme to maintain service levels.
  4. Council officers’ decision to bring data and strategic asset management activities back in-house for 2012/13. While this only accounts for 3% of the three waters operating budgets, Capacity sees these functions as its responsibility and important to the effective operation of a regional Outcomes Model.
  5. There are a number of aspects of the client relationship where the roles of the parties are inconsistent with an effective operating model and where accountability is clearly defined. For example, Council signs off on contracts and invoices and monitors individual projects when it has delegated budget and delivery accountability to Capacity.
53. Given the factors above, the effective transition to an Outcomes Model is not without some risk.

### *Changes required*

54. The recent review of the staffing structure within Council has taken some of these matters into account. However, despite agreeing in principle to move to an Outcomes Model, there is a range of issues to be resolved before this can progress.

### **Conclusion**

55. The review considers that the transition to the Outcomes Model should be completed by 30 June 2013, and to enable that the following must occur:
- a) Council confirms and agrees with Capacity details of the desirable 'end-state' under which an 'Outcomes Model' would be fully operable.
  - b) The 6-year Statement of Core Purpose (SOP), 3-year SOI and Annual Funding Agreement clearly articulate the relative accountabilities of Council and Capacity to avoid either the real or perceived duplication that currently exists.
  - c) KPI's are such that Council can have confidence Capacity is managing its three waters assets in line with Council expectations
  - d) Council and Capacity each review their relative expertise in relation to effective management of Wellington City's three waters infrastructure and agree on a plan to address any gaps or duplication.
56. Overall, it is recommended that Council:
- a) Continues its support for a regional water management company, and to the CCTO governance structure of Capacity continuing to provide three waters services.
  - b) Works with other owners and prospective owners of Capacity to develop a shareholders agreement as a mechanism to agree common direction, and adopts this agreement before the new shareholding takes effect.
  - c) Requests that by 31 March 2013, the Council Chief Executive agrees with Capacity the detail of the 'Outcomes Model' (including the 'end-state' under which the outcomes model will be fully operational and the associated transition plan for the Council) - on the basis that the following are retained by Council:
    - o ownership of three water assets;
    - o ownership of the three waters asset management information system (AMIS);
    - o responsibility for policy and strategic direction;
    - o approval of asset management plans;
    - o approval of KPIs that will provide confidence that Council's three waters assets are being maintained; and
    - o approval of budgets (and funding) for operating and capital expenditure (both renewal and upgrade) related to Wellington City 'three waters' activities.
  - d) Requests the Council Chief Executive and the Board of Capacity review and jointly report back to Council on their relative capabilities to deliver on the objectives of a regional water management unit and the transition plan to an "Outcomes Model", (together with a plan to avoid any real or perceived duplication of activity) by 31 March 2013.

## Partnership Wellington Trust (PWT)

### Establishment

57. PWT was established in 1998, with the primary objective to market and add value to Wellington to achieve sustainable economic growth for the benefit of the public of Wellington, in partnership with other funders. The original reasons for setting up PWT were to:
- Bring together three existing marketing programmes (including tourism, retail and events promotions) under the remit of one organisation in order to better co-ordinate and provide a focus across those activities.
  - Attract enhanced business acumen through trustees in order to maximise opportunities to partner with other companies and organisations.
  - Better leverage the Council's financial contributions.
58. In 2003, with the adoption of the then Events Strategy, the events fund was transferred from PWT back in-house to the Council.

### Comment

59. Anecdotally, PWT is considered a high performing regional tourism organisation in New Zealand. The Trust now generates over 50% of its funding from non-Council sources and attracts significant funds by partnering with businesses and organisations - \$1.62mm in 2011/12. The downtown levy was introduced by the Council in 1998, as a targeted rate levied on the downtown business sector to fund PWT (\$3.0m) and free weekend parking (\$0.45m). The Council's funding for PWT has increased to \$5.74m in 2012/13, and now comprises just under half of PWT's total income. Targeted marketing initiatives have resulted in a growth in guest nights over the past ten years (above the rates for New Zealand as a whole). 2001/12 has seen a:
- 18.3% increase in international visitors;
  - 17.5% increase in Australian visitors;
  - 3.2% increase in commercial guest nights.
60. PWT's skills and experience in telling Wellington's story already supports other Wellington attractions; MOUs are in place with the Zoo, ZEALANDIA and Carter Observatory. This year, the Council has agreed to expand PWT's role beyond tourism, to pursue a new Destination Wellington approach, which involves marketing Wellington to new businesses and residents.
61. Looking forward, as PWT works with other CCOs such as Venues (attracting convention business) and Grow Wellington (attracting business) and the new Destination Wellington programme develops, it will be important to avoid overlapping activity. PWT has indicated that some of the perceptions of overlap in the conventions and conference space will be reduced when it concludes a MOU with Venues, and when the term of the CE of Venues on the Board of PWT concludes in December this year.

62. The Council was satisfied that there were separate roles for PWT and Grow Wellington when it recently approved Destination Wellington funding, and requested that KPIs and performance measures be put in place to reflect this.

### **Governance**

63. As a core rationale for this activity is partnering with others and getting them to provide funding for marketing Wellington and promoting economic growth, the activity automatically lends itself to external governance. The joint partnering activity means that not all the objectives PWT enters into will be furthering the Council's own objectives, although generally they should be reasonably aligned. The marketing activities engaged in will sometimes mean taking chances – both financial and reputational that the Council may be reluctant to take - and to support partner activity. The risk associated with such activity can be ring-fenced in an external governance vehicle; likewise, the investment that Council makes in this activity can be more clearly monitored and accounted for through the SOI and annual reporting processes.
64. It is unlikely private sector companies or other local authorities and public sector organisations would invest as heavily in marketing initiatives if the activities of PWT were hosted within the Council's general business. As PWT is funded via the downtown levy, delivering these activities through a separate entity reportedly also provides greater transparency and assurance to commercial ratepayers contributing to the activity that their investment is being spent as intended and is delivering results.
65. The outcome of the current regional governance discussions could mean PWT is a CCO of a larger council. Currently there are other regional tourist organisations operating in the Wairarapa and Kapiti/Horowhenua. Grow Wellington is also operating across the Wellington region and has a broader economic development remit around growing businesses and productivity. Once decisions are made about Wellington's local government structure, there will be an opportunity to review these organisations, how they relate to each other, with a view to maximising potential efficiencies, synergies and groupings. Was a single entity merging all these activities to be established in the future it would still lend itself to being a CCO.

### **Conclusion**

66. The review has concluded that external governance remains the most likely to deliver the vision and focused attention on visitor attraction for the city and potentially for the wider Wellington region - largely because PWT can partner with other companies and agencies in ways, and at a level, which the Council is unlikely to. It is also possible that private sector companies would not invest as heavily in the same marketing initiatives if they were dealing directly with the Council, as their overall investment is more transparent in an external organisation.

### ***Positively Wellington Venues Ltd (Venues)***

67. Positively Wellington Venues (PWV) was established in January 2011, commenced operations in February 2011, and became fully operational in July 2011. As such, it has

only recently completed one full year of operation and the first annual report for Venues is only just available.

### Establishment

68. The original reasons for setting up Venues<sup>4</sup> can generally be summarised as to achieve:
- Better synergies in the use of the six venues, which will result in improved revenues and utilisation.
  - Saving money through reducing duplication and economies of scale
  - Continued high levels of community access.

### Comment

69. Looking at the objective of more effective use of the facilities, Venues has identified a strategy to 'grow' and 'show' business to deliver on its the vision of 'Rocking this Town' by 2020. This involves aligning clients with appropriate venues and delivering different venues for different events, and the board expects 60% of the business to be about business and 40% to be about show business. From discussion with Venues and its first annual report, this generally seems to be on track. Venues has developed strategic partnerships with Te Papa and PWT in respect of the conventions business (including jointly employing an Australian-based marketing person). These relationships will be important, as this is clearly a growing market for Wellington.
70. The first year has been very much a transition year for Venues, however, with a focus on building a new team to lead the integrated organisation. In its first year of operations, Venues annual report posted:
- 10% growth in hire days for the venues over the previous year (with 2000 commercial hire days and 72 community or not-for-profit hire days), and 11.8% growth in show ticket sales over 2010/11.
  - A net trading loss of \$0.458m, less than the budgeted loss of \$0.507m.
  - A 4.7% growth in revenue, this was less than the budgeted 8%.
  - Y1 event revenue was \$1.023m under budget (\$14.811m compared to a budget of \$15.834).
  - An overall loss after tax of \$1.269m compared to a budgeted loss of \$0.507m (a variance of -\$0.762m).
71. Venues identified that the greater loss is largely due to "unbudgeted" costs of \$0.811m; although the Council considers these costs were identified at the beginning of the process. Although these results are less positive than budgeted for, it is understood that

---

<sup>4</sup> The Statement of Proposal for public consultation identified: *In determining the proposed governance and management structure, consideration has been given to a number of key requirements. These are as follows: alignment with Council's desired strategic outcomes; robust accountability framework; preservation of heritage buildings; continued high levels of community access; greater effectiveness of service delivery; savings through operational efficiencies; increased utilisation leading to revenue opportunities.*

the economic climate<sup>5</sup> has made significant growth difficult. Venues has advised that having the broader package of facilities is proving attractive for hirers, however; and it has also identified that it now has a full year's consolidated data on which to build better modelling for performance, therefore more effective KPIs can be agreed and Venues measured against.

72. This CCO has been engaged with Council in discussions to identify options to overcome the upcoming closure of the Town Hall for earthquake strengthening, and work to bring alternative buildings to standard has been funded by the Council in the LTP. However, had this funding not been forthcoming, Venues would have needed to operate on scenario B identified in its SOI – which projected deficits of \$1.3m and \$1.4m in 2013/14 and 2014/15 respectively. Council approved funding on 23 October 2012, but Venues has identified that it will review out-years projections to improve potential surpluses.
73. Monitoring carefully the event revenue going forward will be important in order to protect ratepayer funds, otherwise accessed through the Council's guaranteed line-of-credit. However, in spite of the less positive financial situation that was expected when Council approved the establishment of Venues, the review has not identified any reason to question integrating the venues into a single business and building collaboration with PWT and the Council's City Events team.

### Governance

74. Overcoming initial start-up challenges does not mean that the original reasons for placing the venues management under external governance - growing a business that can enhance economic development and vibrancy in Wellington - has changed, if it has a very specific focus is given and clear expectations from its owner (the Council). Given the tighter economic environment and the reduced venue space over the next two years, the activity focus needed for the new entity to build the business and the need to operate flexibly in a commercial environment support the external governance model. While focus and expertise are important, the actual filling and management of the venues and events itself does not require regular policy or political trade-offs.

### Conclusion

75. The review has concluded external governance remains appropriate for Venues. However, the process for the set-up of Venues has left several matters unclear:
  - Council established Venues without requiring a management agreement or equivalent to be in place; the subsequent heads of agreement is very general in nature.
  - Lack of resolution between Council and Venues about the expectations on community access and legacy sponsorship required for strategic events, which is being worked through at present, are augmented by the expectations of Council (through LoE) that Venues both supplies unspecified community access and also breaks even (and then generates a surplus).

---

<sup>5</sup> The National Bank survey for the June quarter showed that year-on-year growth for Wellington was at 0%, while Auckland was 3% and Christchurch 4.3%.

76. There are some on-going differences of opinion and expectation, in particular the first year's financial result and concerns expressed about community groups' access to the venues. The Council as owner and as funder should clarify these matters. Removing residual divergence will enable the focus of attention to move on to the more important aspects of economic growth for the city and supporting community activity (rather than focusing on the relationship per se).
77. The review therefore recommends that in Q2 of the current financial year the Council:
- a) Develops a statement of core purpose for this activity, supported by high-level KPIs that will give the Council as owner confidence it understands that its company is improving its performance and contributing to the city's outcomes, particularly economic growth.
  - b) Agrees with the CCO what legacy or other sponsorship support the CCO is expected to provide for community organisations or other strategic partners, within its revenue stream; also whether any amendment to the constitution is required to reflect this.
  - c) In light of recommendation (b) and any impacts that might have on the CCO's bottom-line, reviews the timeframe in which Venues is expected to 'break-even' and then to deliver a 'surplus'.
  - d) Agrees with the CCO performance measures that are SMART and link to the relevant Council KPIs, and will enable Council to understand ahead of time the potential impact on its own risk profile (including when or if the line of credit may need to be activated).
  - e) Requests the CCO incorporate results of these discussions into the 2012/13 SOI.

### **Wellington Cable Car Company (WCCL)**

#### **Establishment**

78. WCCL was established in 1991 to own, maintain and operate the Cable Car system and the trolley bus overhead wire network following government reforms prohibiting local authorities from owning or operating any transport operations.
79. The company was set up to run the Cable Car system solely using passenger fares and other retail income without any subsidies. Maintenance of the trolleybus network is met by payments from Greater Wellington Regional Council (GWRC) on a cost recovery basis. The agreed levels of service required from WCCL's trolley bus overhead network and basis for funding are set out in a contract between GWRC and WCC. The current contract expires in 2017. WCCL owns all of the assets.

### Comment

80. In 2011/12, WCCL made an after tax trading surplus of \$632,526 after payments totalling \$389,854 excluding GST (2011:\$210,740) were paid to Wellington City Council (WCC), including a \$316,900 subvention payment, a \$34,239 rental payment (for the use of the cable car land), \$28,715 in other operating payments, and a \$10,000 dividend
81. The Cable Car Company has enduring objectives and benefits from operating within a commercial environment to drive efficiencies, operate with commercial partners, and deliver improved customer service. A combination of cash reserves, built up through trading performances, and some borrowings will be used to invest in an upgrade of the Kelburn Terminus which is due to be complete in 2012/13.
82. The overhead wiring network benefits from ring-fencing the costs and risk associated with owning these assets. All maintenance work is funded by GWRC, which therefore needs to have confidence that it is investing at the right level. The rigor around setting annual statements of intent and annual reporting means the trade-offs around levels of service are more explicit. The overhead wiring business also draws some limited income from other services provided (including service charges levied on third parties utilising WCCL's poles to support telecommunications and other equipment).
83. WCCL is planning to implement a full commercial charging model going forward. As a profit-making business, WCCL automatically lends itself to external and commercially focussed governance.
84. Going forward, there are a number of considerations that would influence whether WCCL remains the best vehicle to maintain and operate these facilities as they are currently configured:
  - While a significant visitor destination in Wellington, it is generally considered that the Cable Car Precinct is lacking in co-ordination and coherence, and that more should be done to ensure the visitor experience at the top of the Cable Car is exceptional. Efforts have already been made to bring all of the relevant parties together to form a collective view. A precinct plan has been prepared and, while it remains unfunded, many improvements have been or are planned to be made to the area - including the redevelopment of the Kelburn terminal, upgrading paths, improved signage, and modifications to the Cable Car museum. While these efforts are resulting in improvements, they rely on a number of organisations collaborating more going forward.
  - In 2013/14, GWRC will be reviewing the provision of trolley bus passenger services beyond 2017. Discussions with GWRC indicate it will seriously consider transitioning to hybrid or electric buses in favour of trolleybuses (the costs of disestablishing will likely be a consideration in the economics of this decision). While Wellingtonians have historically preferred trolleybuses over others, there is no guarantee they will after 2017, particularly if a more environmentally friendly option is available. If the decision is made to transition away from trolleybuses, it is possible the poles and overhead wires will need to be disestablished at some stage.

WCCL has attempted to get greater clarity around where the liability for these costs would lie, but it remains uncertain.

- WCCL also draws income from service charges from profit-earning infrastructure activities (amounting to \$0.561m in 2011/12, down from \$2.4m in 2010/11). Furthermore, legislation may be required to enable WCCL to gather revenue from utility users and, even then, it is unknown if any income generated would be more than on a cost-recovery basis. Uncertainty also exists around the future of telecommunications infrastructure, and whether it will all go underground at some point.
85. GWRC has indicated a desire to take over ownership of the overhead wire network, as it has responsibility for funding the public transport delivered by the trolley buses. Given the uncertainty around where liability lies if these assets one day need to be dis-established, this could be a reasonable option, as the costs of dis-establishment could be higher than the value of the asset. The potential to earn income from renting the use of the poles to others could negate the need to disestablish the poles, but it is uncertain what income is feasible from the network post-2017, particularly as telecommunications infrastructure may go underground in the future.

### Governance

86. An assessment has been carried out on WCCL against the framework for deciding the best governance arrangements for Council activities. This review has concluded that external governance remains the most suitable for both the cable car and the overhead wiring network.
87. In light of the considerations above, this review identified two options:
- *Option one:* Split the services – incorporate the Cable Car into the remit of the Museums’ Trust (as it would be able to be better integrated with other activities in the Kelburn precinct) and gift the overhead trolleybus wire network to GWRC.
  - *Option two:* Status quo (preferred)
88. The benefits of option one are that the risks of owning the overhead wiring network would be transferred to GWRC which has responsibility for public transport in Wellington. The Cable Car itself is a comparatively small and discrete activity and does not necessarily need separate governance; and the Cable Car Precinct could benefit from more joined up governance amongst the entities at the top of the Cable Car, if the Cable Car itself were managed by the Museums Trust alongside its other attractions in the precinct.
89. The down sides of this option are that WCC and GWRC share the same ratepayers so, while WCC would remove its risk, Wellington’s ratepayers would still carry the risk. By ring-fencing the costs in WCCL, GWRC’s contribution is also more transparent to Wellington City’s ratepayers and there is a visible accountability for the quality of the infrastructure.
90. An additional factor is that by the time a decision is made on the future of the trolleybus passenger service in Wellington, current regional governance discussions will have

reached a conclusion. If the outcome of those discussions were to be a unitary authority, for example, the owner/funder relationship between WCCL and GWRC will be dissolved, as they will both be the responsibility of a single council. At that point, there would probably also be greater clarity about the potential of the overhead network to provide a certain income outside of the trolleybuses.

91. Given the significant time and relative cost associated with separating the businesses and the legal entity to transfer ownership of the overhead wiring network to GWRC, it seems to make more sense to wait until there is greater clarity around regional governance and/or use of the poles for other purposes. Should regional governance discussions leave this matter unattended, the conclusion of the current funding contract with GWRC will require the matter to be reconsidered anyway.

### Conclusion

92. WCCL was established to own and operate the Cable Car and the overhead wiring network associated with Wellington's trolleybuses. It has met the Council's expectations by maintaining these assets on a full cost-recovery basis, and is returning a profit to the Council. The assessment shows external governance is still the best model to deliver these services going forward.
93. In the short-to-medium term, WCCL's future is uncertain given the regional governance question in Wellington and the future of the trolleybus network. This review has concluded that any decisions about the future of the company should await decisions on regional governance, but Council should consider the matters identified as they are likely to be the subject of discussion in debates about regional governance and about future funding.

### *Wellington Museums Trust (Museums Trust)*

#### Establishment

94. The Museums Trust, established in 1995, is a management company with oversight of the: City Gallery Wellington, Capital E, Museum of Wellington City & Sea, Wellington Cable Car Museum, and Colonial Cottage Museum. The Trust also manages the New Zealand Cricket Museum jointly with the New Zealand Cricket Museum Trust and Carter Observatory since 2010 under license, on behalf of Council.
95. The original reasons for setting up the Trust were to:
  - generate more income (but not a profit) and attract more donations and bequests;
  - attract other non-Council organisations to become part of the new structure (such as the Maritime Museum Trust);
  - be more resilient to frequent political interventions;
  - draw on broader skills and expertise, particularly commercial; and
  - operate the facilities more as a network, contributing to the economic success of Wellington and telling the Wellington story.

#### Comment

96. While retaining each institution's identity and core purpose, the Museums Trust seeks to find synergies and cohesion across the family as well as apply similar expertise across a range of activities with some common objectives.
97. The Museums Trust receives an operating grant of \$6.3m, and a rental grant of \$1.8m (that is paid back to Council in lease charges for Council owned properties utilised by the Trust), together totalling \$8.1m (and comprising about two-thirds of the total income).
98. The current model has brought these institutions together and synergies between them are being found. The Trust has introduced back office efficiencies, and each entity has reviewed its core offerings and they are working to bring together the arts, science and history aspects of the business.
99. The Trust has also generated significant non-Council revenue, particularly through admissions income and venue hire. The Trust is, however, still heavily reliant on Council funding, a trend which is unlikely to reverse.

## Governance

100. By keeping the Trust at arm's-length from the Council, the city's significant investment is transparent and accountable through the development and reporting an annual SOI. Also as visitor numbers are not increasing overall and can be volatile between years (for example, due to the children's festival occurring every two years and the closure of the art gallery for redevelopment), grouping these activities together somewhat protects them from this volatility.
101. If the museums were to be brought back in-house, however, the key risks are:
  - The grants and donations (both operational and capital) currently attracted by the Trust may reduce.
  - Reduced transparency for ratepayers over their level of support for these institutions.
102. Another option for the Museums Trust is separate governance for each entity (which is not recommended). While this may enable each entity to foster its own identity and voice, it would be at the expense of the resilience, synergies and economies of scope and scale that can be found by grouping these activities together. It would also mean the number of board members (and their cost) would significantly increase.

## Conclusion

103. On balance, the analysis in Appendix 8 indicates the facilities managed by the Museums Trust are still more suited to integrated management and arm's-length governance. The facilities still need a single focus and leadership to drive improvements, synergies and efficiencies across the family of institutions and an external board will be able to apply commercial disciplines to the management of these attractions and to generate non-Council income.

## Wellington Waterfront Ltd (WWL)

### Establishment

104. In 1986, Lambton Harbour Management Limited was established. It was jointly owned by Wellington City Council and Harbour Board, but run as a separate company to manage the development of public space projects and private building developments. In 1989, all Waterfront precinct Harbour Board assets were vested in WCC. During the early 1990's, developments on the waterfront included Frank Kitts park, the lagoon, Dockside and Shed 5 restaurants, Chaffers Marina, Queens Wharf apartments, City to Sea Bridge, and the Circa Theatre re-location. In the early 2000's developments included the Shed 21 apartments, Shed 22 developments, Odilins Building, Wellington Free Ambulance Building, Kumutoto-Meridian Building, Shed 13 and the Steamship Wharf.
105. In 2000, Lambton Harbour Management Limited converted into Wellington Waterfront Limited (WWL). 100% owned by WCC, WWL's role as implementation agent for the Waterfront was set out in the Waterfront Overview Agreement. WWL's work plan was set out in accordance with the 2001 "Waterfront Framework". Under the framework development projects and were expected to be completed within six years. With that timeframe in mind, forecast public space capital expenditure of \$39.2m was expected to be offset by \$26.3m of commercial revenue and \$4.9m of cash holdings. A Council contribution of \$8m for capex plus \$7m to fund operating deficits together with an annual management fee of \$1.2m was approved.
106. It is important to note that the governance principles of the Waterfront Framework were implemented as follows:
  - a) Council retained the decision-making powers and governance relating to what development proceeded on the waterfront and when – through the consultation and approval of the Annual Waterfront Development Plan, consultation and approval of design briefs and performance briefs and approval of significant projects, leases and all District Plan policy.
  - b) WWL was appointed to implement Council's decisions and act as an advisor as Council made the decisions referred to above.
  - c) TAG (the Technical Advisory Group) was established and appointed to advise Council on urban design matters and compliance with the principles of the Framework.

### Comment

107. A comprehensive *Review of the Implementation Agency for the Waterfront* was conducted in 2011. It recommended a 'Reduced Status Quo' option that resulted in some minor efficiencies and cost savings in response to delays in development, but retained the core role of Wellington Waterfront Limited in management and development of the waterfront. The review's recommendations took into account risk

to commercial revenue streams, a desire to maintain operational consistency preceding the Rugby World Cup and the pending review of the Waterfront Framework.

108. The review specifically excluded addressing funding issues, pending the review of the Waterfront Framework scheduled for 2011. The Strategy and Policy Committee (SPC) adopted the review recommendations and also agreed to a three-yearly review process for the future of WWL as the Council's implementation agent, on the basis that this would avoid any greater cost and disruption caused by reviews taken on a more frequent or ad hoc basis.
109. This review does not attempt to re-litigate the findings of the 2011 review. It focuses on responding to new information and factors that were not addressed in the 2011 review, namely:
  - The Waterfront Framework Review, reported to SPC in September 2011.
  - The 2012 Waterfront Development Plan, including further delays in waterfront development.
  - Future funding for the waterfront.
110. The review of the Waterfront Framework was reported to and agreed by Council in September 2011. It reaffirmed the values, principles and objectives of the 2001 Waterfront Framework and noted that future development issues would be considered as part of the 2012 Waterfront Development Plan.
111. The 2012-15 Waterfront Development Plan was approved by Council in June 2012. It focuses on:
  - Re-development of the Overseas Passenger Terminal (OPT) and public space, and feasibility work on the proposed Transition Building adjacent to Te Papa.
  - Completion of the third stage of the waterfront pile repair and refurbishment programme.
  - Marketing Shed 6 ahead of its lease expiry.
  - Construction of a diving platform on Taranaki Wharf.
  - Further developing the promenade and improvements to the pedestrian/cycling interface.
  - Development planning for North Kumutoto (sites 8, 9 and 10).
112. Overall, it has taken significantly longer to achieve the objectives of the Waterfront Framework than anticipated in the Waterfront Framework, when adopted in 2001. The six-year development timeframe has extended to at least fifteen years. With more to manage and less to implement, WWL's role has gradually changed to a point where it is now more focused on property and public space management than on the development implementation originally intended by the Framework. There have also been further delays to development projects and forecast reductions in commercial returns since the

2011 review. The 2012 Waterfront Development Plan indicates that currently planned development will be completed by 2015/16.

113. WWL has expressed concern that an earlier change to the implement agent for the Waterfront could hinder completion of the OPT public space development and progress on the North Kumutoto development (sites 8, 9 and 10). It agrees that the current plan indicates a window in two to three years' time, when a governance change may be appropriate.

### Do we still need a separate implementation agency?

114. Given the specific activity that still needs to occur with a defined geographic area, the governance model for Wellington's waterfront has been and can still be an effective way of implementing development of the Waterfront. However, improved clarity around Council's objectives for WWL is required to inform a decision on the appropriate governance structure for both the short and long-term, and requires a weighting of various objectives and the answering of some key questions, including:

- Whether the existence of pending development projects provides sufficient reason to retain the current arrangement for a defined period?
- Whether the gradual shift in focus to property and public space management warrants a more immediate change?
- Whether the savings that might be made from bringing the responsibilities back in house outweigh the risks?
- Whether the desire to retain the waterfront as a 'jewel in the crown' of Wellington warrants the retention of an arms-length management and implementation agency on an enduring basis?

115. The relative weighting of these factors needs to come from the Council, it cannot come from the review team.

### Options

116. The review has identified the following alternative courses of action which may be taken dependent on the relative weighting of objectives:

1. Re-confirm Council's decision of 2011 to continue with the existing arrangement and review again in 2014. This option could be supported if WWL was likely to reach a more definitive point in its lifecycle by 2014, or if the outcome of the current regional governance review was likely to impact significantly on the decision around WWL's future.
2. Retain WWL in the medium term as the 'manager' of both waterfront public space and as Council's development implementation agency for this area; and revise the documents that underpin the entity accordingly. This option may be preferred if there is a view that on-going separate governance is required to ensure focus is maintained on the waterfront as a 'jewel in the crown' of Wellington.

3. Revert the operational and property management functions of the Waterfront to the Council, but retain the independence and expertise of WWL as a development company with focus wider than the Waterfront. This option may be preferred if there is a desire to retain specific arms-length governance and professional expertise for waterfront and/or wider city development implementation, but pass the waterfront operational functions back to the Council.
4. Transfer the development and operational responsibilities of WWL back to the Council, with WWL reverting to a shelf company for the purposes of holding Waterfront assets in trust for Council. This option would result in the greatest short-term cost savings, but potentially risks losing specific emphasis and focus on maintaining service levels and on-going development of the waterfront.

### *Funding issues*

117. In addition to the governance consideration, the 2012 Waterfront Development Plan and the associated ten-year financial information included in the 2012-22 Long-term Plan (LTP) highlight the funding issues for the waterfront going forward. These documents provide further clarity that the commercial proceeds generated from waterfront developments are not expected to be sufficient to repay the \$20m loan balance and fund the operation of the waterfront public space in the medium/long term.
118. The LTP forecasts that the "waterfront loan" balance will reduce to \$9m in 2014/15 but rise to in excess of \$30m by 2021/22 as net operating costs rise, debt servicing costs compound and proceeds from commercial development dry up.
119. The loan balance would deteriorate by a further \$4m per year if the full depreciation expense on waterfront assets were also accumulated against the loan balance.
120. Irrespective of the governance arrangements for the waterfront going forward, to achieve consistency with Council's intergenerational equity and funding principles, current ratepayers should pay their share for the benefit they enjoy, instead of simply accruing costs against a loan balance (for which an alternative funding source appears increasingly unlikely).

### *Funding options*

121. The most transparent way of reflecting the true funding requirement is to decouple the funding arrangements for any remaining private (commercial) development from the development and operation of public space. The net operating cost (including depreciation) of the public space activity could then be funded through general rates, similar to other council activities. Net commercial proceeds could be aligned to a separate commercial activity, offsetting the total general rate requirement while reducing the risk uncertain revenue flows may have on operational funding for the waterfront.
122. The specific rates impact of funding net operating costs will be dependent on when any change in funding policy is initiated, and the transitional period over which it is introduced. High-level modelling indicates a rates increase of around 0.9% per annum

through the years of the current LTP, equating to approximately \$2m of additional rates requirement in 2013/14 if a transitional rates funding programme was initiated immediately. This would enable depreciation funding to reach 50% and waterfront debt to be lowered from over \$30m to around \$10m by 2021/22. Forecasts suggest that this rates funding requirement could be lowered by \$0.3m in 2013/14 if the governance of the waterfront reverted to Council. These offsetting savings could gradually increase to \$0.8m per annum once planned development concludes in 2017/18.

## Conclusion

123. There is no doubt that under the governance of Council, with WWL as an implementation agent, Wellington's waterfront has been transformed to become a 'jewel in the crown' of the city. However, an assessment against the governance criteria developed through the initial phase of this 2012 CCO review (see Appendix 9), shows that while a case may exist for continued arm's-length implementation of projects the same cannot necessarily be said for the management of public space.
124. On balance, the case for retaining the existing board and management structure of Wellington Waterfront Limited to fulfil the implementation agency function for the waterfront is significantly weaker than it has been in the past. Combine this with a growing need to address the funding gap and it is evident that unless there is a change in the objectives of the WWL, it is simply a matter of when not if the current arrangements for the Waterfront are amended.
125. All options could potentially be initiated within a timeframe for a change to be effective from 1 July 2013. However, there are significant risks to completing the transfer of implementation functions within this timeframe – including further delays to delivery of the Framework, weakening of commercial relationships built up by WWL, loss of revenue streams resulting in higher costs for ratepayers, and loss of expertise at a time when development is nearly complete. Given these risks to progressing the Development Plan, a more prudent approach would be to retain the current implementation agency and associated governance structure until a date when it is anticipated the projects identified in the Development Plan will be largely completed – this is expected to be 2015/16. This would also align with the 2015/16 LTP and coincide with a change to the funding policy for the Waterfront activity.
126. This review proposes that Council agrees to:
  - a) A transition process by which the public space management (including operational and property management functions) activities of WWL begin to transfer back to the Council from 1 July 2013.
  - b) Public space and commercial development activities continue to be managed by WWL until 30 June 2015, at which time any remaining development activities will transfer to Council and WWL would revert to a shelf company for the purposes of holding Waterfront assets in trust for Council.

- c) Effective 1 July 2013, the funding arrangements for waterfront private (commercial) development activities be decoupled from public space development and operation, so that:
- The net operating cost (including depreciation) of the public space activity is funded through general rates, similar to other council activities.
  - The net proceeds of commercial development offset the total general rate requirement through a separate commercial activity.
  - The funding impact of this change is transitioned so that the rates impact does not exceed 0.9% per year.
- d) Request the Chief Executive to develop a transition plan with the Board and Chief Executive of WWL, to give effect to the recommendation, and report back to Council on this transition plan by 31 March 2013.

### **Wellington Zoo Trust**

#### **Establishment**

127. The Charitable Trust to manage Wellington Zoo was set up in 2003, following concerns about the condition of Wellington Zoo overall (including animal health) and a review of Wellington Zoo's governance and purpose in 2002. The original reasons for setting up the Wellington Zoo Trust were to:
- Provide stronger leadership by attracting board members with the appropriate skills and connections to the conservation and business communities.
  - Attract more funding from donors in order to reduce the burden on Wellington's ratepayers.
  - Bring the various groups and communities with an interest in Wellington Zoo together for the benefit of the zoo and Wellington.

#### **Comment**

128. The Wellington Zoo Trust has produced good results, attracting external sponsorship and improving the visitor experience. Under its leadership, Wellington Zoo and the Council agreed to a 10-year Zoo Capital Programme (ZCP), through until 2015/16. Through this Plan, the Council made it clear to the Wellington Zoo Trust that it expected Wellington Zoo to increase its sponsorship and other external funding, to a target of meeting 25% of the planned capital projects. The Plan also identified Wellington Zoo's strategic direction, the absence of which had been a weakness identified in the 2002 review.
129. The ZCP has resulted in increased costs to Wellington's ratepayers that were not clearly identified at the time the entity was created. However, there was an understanding that the establishment of the separate Trust would better identify the expenditure that would actually be required for the Council to properly maintain a Zoo for the City. It has also meant the Trust has been able to reverse a period of underinvestment in Wellington Zoo's infrastructure.

130. As part of the LTP process the Council decided that, from the conclusion of the current ZCP in 2015/16, only a relatively low level of renewal capital expenditure (averaging \$214k) per year be budgeted in the Long Term Plan – reflecting its view that further capital improvements at Wellington Zoo are not a priority at this time. It is likely the Wellington Zoo Trust will again seek some increase in that capex funding in the next LTP process.

### **Governance**

131. Wellington Zoo is a unique activity; unlike some other in-house Council activities it requires very specific knowledge and expertise, especially at the management level and as inputs to the governance decisions (directly or indirectly). However, Wellington Zoo is not an activity that particularly requires hands-on or regular political management, nor policy trade-offs.
132. The previous in-house arrangements had left Wellington Zoo without any real Council governance attention, in a state of decline, and with no real ring-fencing of its resources. Without on-going strategic leadership and the ring-fenced resourcing which occurs through the SOI and annual report processes, it is possible Wellington Zoo would slip back into a phase of decline, similar to that experienced prior to 2003 (when the Zoo was managed in-house). The introduction of the ZCP moved Wellington Zoo into a relatively dynamic phase, with a significant upgrading programme underway; however only five years of the ten-year programme are complete. The focus and leadership of the board and Wellington Zoo management have also seen both development augmented, with new sponsorship providing funding for new activities such as the Nest (hospital area), and an increased focus on animal conservation.
133. Wellington Zoo services a population greater than just the residents of Wellington City or even the wider Wellington Region (21% of visitors were from outside the city in 2009/10, now 54% of visitors comes from outside the city; while visitor numbers overall have continued to increase). So it is appropriate that the costs of upgrading the Zoo are not funded only from the Wellington City ratepayers, and the external sponsorship (alongside the charges visitors pay) assists in filling that funding gap.
134. External funding sources have increased from \$0.406m in 2003/04 to \$1.152m in 2001/11 (a 280% increase) since the Trust has been in existence. Continuing to maintain and secure new funding will require on-going leadership. The Zoo and the Trust Board have embraced the need to source external funding; including identifying this to visitors. Although not possible to prove either way, anecdotal information from the Trust chair and CEO indicated it is unlikely that the same levels of sponsorship would have been available if Wellington Zoo were managed in-house.

### **Conclusion**

135. The review considers external governance is more likely to continue to deliver a better zoo for the city, and can effectively contribute to the Council's objectives for the city.

### **Summary of findings**

136. In summary, the analysis of the entities can be summarised as follows:

	Currently Company(C) or Trust (T)	No of directors	Own assets directly	Role is as a management company	Receives Operating Grant from WCC	Infrastructure (I) OR Attractions (A) focus	RECOMMENDED In-house (I) / External (E) governance
Basin	T	4	Y	N	Y	A	E
Cable Car	C	4	Y	N	N	I/A	E
Capacity	C	6	N	Y	Y	I	E
Museums	T	7	N	Y	Y	A	E
PWT	T	7	N	Y	Y	A	E
Venues	C	8	N	Y	Y	A	E
Waterfront	C	4	N	Y	Y <sup>6</sup>	I/A	I
Zoo	T	5	N	Y	Y	A	E

137. The review is recommending that -

- With the exception of Wellington Waterfront Ltd, all the current CCOs should continue under arm's-length governance.
- Capacity should remain as a separate CCO.
- Basin Reserve Trust should remain as a separate trust, as that is the best vehicle for the partnership with Cricket Wellington.
- Wellington Waterfront Ltd should be dis-established and the activity governed in-house.

138. Having concluded that all the current CCOs other than WWL should continue under arm's-length governance, the next section considers the form that that external governance should take for these activities.

<sup>6</sup> Management fee only

## Options to rationalise CCOs or reduce costs

---

139. While, with the exception of Wellington Waterfront Ltd, the review concluded external governance will likely provide better results for the Council in respect of the activities discussed; there are different models that external governance could take.
140. The review has already concluded that Capacity should remain as a separate company, and that for the Basin Reserve the separate charitable trust should be retained. However, for the Cable Car Company, Museums Trust, PWT, Venues and the Zoo Trust it would be possible to retain the current organisational form, or to look for example at a holding company or a management company structure.
141. This section looks at the relative advantages and disadvantages of these models, and the potential costs or savings associated with them. It also looked at the potential savings that could be generated through in-house delivery, for the purposes of comparison.

### *Savings from bringing CCO activities in-house?*

142. The first question, on the basis that the recommendations that Capacity remains a separate CCO and Wellington Waterfront Ltd is taken in-house, is - what would be the savings to the Council if all the other activities (ie - Basin Reserve, Cable Car, Museums Trust, PWT, Venues, Zoo) were taken in-house?

### **Assumptions and potential savings**

143. To estimate the savings that could be achieved, a number of assumptions have been made but the actual costs and savings would only be clear after any change was completed. The assumptions drawn have been:
- The levels of service expected of the entities would not reduce; therefore, similar staffing levels would be required.
  - It would be possible to require increased use of shared services provided by the Council (in particular finance and human resources), however some entities would still have specialised requirements (such as the Cable Car Company and its inventory system). It is also likely that these saving would occur over time as systems were integrated, they would not necessarily all be immediate. (The option of adopting shared services with the current model is discussed separately.)
  - The Council can take in-house the governance and some service provision, but there would be additional costs for the Council. For example, although there would not need to be a CFO (Chief Financial Officer) for each entity as at present, there would need to be an overall 3-4 FTE increase in management accountants within the Council. Similarly, while there would not be a separate CEO for each entity, most activities would still require a Director or General Manager; and where these are specialist positions such as the head of the Zoo, there may not be a savings

there. Therefore, while some savings would occur, they are only likely to be in the order of \$0.3m.

- There would not be separate boards governing the activities, however the Wellington Zoo and the Museums Trust are always likely to require specialist advice so there would be a need for advisory boards for these entities instead. Overall, there could be savings in the order of \$0.44m here.
- There would be some reduction in the costs associated with separate reporting and auditing, but there would also be an increased audit cost for the Council along with redundancy and restructuring costs. As most of the Council's legal services are contracted in already, there is not likely to be a significant savings in this area (but this is estimated not to exceed \$0.05m).

144. Based on these assumptions, possible savings of up to \$0.79m per annum have been identified from in-house governance and management of services other than Capacity and Waterfront. However this needs to be balanced against the potential for lost income identified below.

#### Potential risks of in-house model

145. However, there are also some potentially significant risks with this approach.

- These activities were set up at arm's-length to the council for a variety of reasons outlined above (commercial expertise, ring-fencing resources or risks, generally providing a clear focussed decision-making framework). The entities are involved in developing and telling Wellington's story and thereby attracting visitors to their own attractions and to Wellington generally, therefore supporting economic development. For the most part, however, they are also focussed on delivering services to their customers and running successful value-added businesses. These are largely different to the other services that the Council provides to residents and ratepayers, and for the most part the specific governance focus (even simply at the level of much more time that the elected Council can provide) and added commercial expertise (rather than the general representation of elected members).
- If the activities were brought in-house, there would be a loss of transparency and accountability for the activity.
- There is also a risk that the entities would again struggle for resources and attention against the other priorities facing the Council.
- An important consideration is also the potential reduction in external funding that bringing the entities in-house might incur. The Wellington Zoo, the Basin and aspects of the Museums Trust all attract significant sponsorship, bequests and other donations over and above the fees and charges they levy.
- These CCOs generate just over \$16.5m from admissions and retail. It is unlikely that this income would be affected by a change in governance.
- These CCOs receive \$2.7m per annum in donations and sponsorship, and a further \$2m in external grants and other corporate income. It is possible that the level of

financial support received through sponsorship, donations and bequests would be negatively impacted.

- Generally, donations and bequests are usually made to smaller entities and with specific tags associated with them (eg to the Zoo or to the City Gallery Wellington Foundation). While the Foundation would doubtless continue to support the City Gallery, other donations and bequests are uncertain.
- In addition, while the Council itself has received sponsorship and grants from ASB and from trusts such as the New Zealand Charitable Trusts (particularly for community sporting and recreation), if the entities were merged together that may affect the total quantum that the Council would be able to receive from those grantors. The ASB Community Trust, for example, advised it does not grant fund councils as a rule but will give grants to charitable trusts and will fund CCOs if the project is outside of their core business; while NZCT advised it will fund councils but mainly for items such as artificial turf.
- If it were assured

### Conclusion

146. The \$2.7m per annum in sponsorship and other non-admission or retail external funding is significantly in excess of the \$0.79m potential annual savings. Council would need to be clear that this external funding at these levels could be maintained without the separate governance, community links, transparency and accountability that the external governance provides before making a decision to undertake these activities directly. The review was not tasked with identifying the certainty of the Council maintaining these levels of external funding in the event of a governance change. In the view of the review team, such conversation would need to be had based on a specific decision-in-principle rather than a general analysis of options.
147. However, given the uncertainty and based on the levels of savings identified, it is not considered that the potential savings identified outweigh the risks that could occur if the activities were managed in-house instead.

### *Rationalisation of the number of CCOs?*

148. It would be possible to reduce the number of entities that the Council owns, using a holding company or a single management company.
149. While the review considers several entities require separate governance (Capacity and the Basin Reserve), there are two options for rationalising the governance of some of the entities, namely –
- Cable Car
  - Museums Trust
  - PWT<sup>7</sup>
  - Venues
  - Zoo.

---

<sup>7</sup> Although like the Basin Reserve Trust, PWT is recommended as for external governance largely on the basis of its partnership arrangements, PWT differs from the BRT as PWT is 100% owned by the Council and all directors are appointed by the Council, and external funding is largely on a levy or project basis.

150. The first option is a holding company model, the second a single management company directly owning the activities.<sup>8</sup>
151. In looking at these models, key questions from the governance framework were applied to how the activities would be governed under these models – the relative strengths of some of the key factors are set out below.

	In-house	Management Company	Status Quo (Modified*)	Holding Company
Strategic alignment	✓✓✓	✓✓	✓✓	✓
Political responsiveness	✓✓✓	✓✓	✓✓	✓
Transparency and accountability	✓	✓✓	✓✓✓	✓✓
Ring-fencing risk	✓	✓✓	✓✓✓	✓✓
Potential for efficiency gains	✓	✓✓✓	✓✓	✓✓✓
Potential to attract external funding	✓	✓✓	✓✓✓	✓✓
Least disruption and cost of change	✓	✓	✓✓✓	✓✓

\* Modified status quo retains the CCOs in their current form but with enhancements in how they are managed in line with the recommendations in this report.

152. Prior to considering these options further there is a question of commonality – is there a common theme underpinning the CCOs? Capacity is different to most of the other CCOs. Capacity is about the delivery of infrastructure; the Cable Car Company is the only other infrastructure-related CCO but the Cable Car itself is a key tourist attraction. The other CCOs are all related to the linked objectives of economic development, tourism and events – generally contributing to making Wellington a good place to live in and to visit. In this context, it is possible to look at a single governance model for the Cable Car, Museums Trust, PWT, Venues and the Zoo. Having identified that, if other similar entities were brought together through regional governance changes, the most optimal group may change.

<sup>8</sup> This discussion draws in part on a paper prepared for the Council in October 2010 by DLA Phillips Fox on CCO Governance Options, and which contains some further detail on legal and tax matters useful for any implementation design of either option.

## A Holding company

153. It would be possible to transfer the ownership of these companies into the common ownership of a tourism and economic development holding company. This model would require the creation of a new company and board, and would involve the retention of the existing boards. The current boards would report to the holding company rather than to CCOPS.
154. In this model, the holding company would be responsible for the strategic direction of the companies, their alignment with Council’s expectations and their performance management. The holding company could also provide shared services to the other activities.



155. Holding company models are used by several councils, such as Christchurch and Dunedin. Both those companies have their fully commercial CCTOs sitting under the holding company, and only the holding company reports to the council. The directors of the holding company are primarily focused on ensuring that the subsidiaries are generating a return for the owner (the council).
156. Having had difficulties with the performance of its model, Dunedin made a number of changes to its CCO model in the last year to improve its overall performance and alignment with the council. These changes included changing directors to ensure that there are no directors in common across the holding company and the subsidiaries, removing any councillors from boards, and seeking directors from outside Dunedin to strengthen the director pool. Dunedin also transferred to the holding company the oversight, but not the ownership, of two CCOs related to venues ownership and management that are reliant on DCC operating grants.
157. Wellington City Council had a holding company in the 1980s and 1990s – Capital Holdings Ltd. That company owned a dairy company, a meat company, an energy company and investment company. The holding company was disbanded in the mid-1990s following the sale of the energy, meat and dairy companies, and following

changes in the definition of LATEs (the precursors to CCOs) which removed the tax benefits of having a holding company structure.

### *Benefits and disadvantages*

158. A holding company would deliver experienced governance of the Council's CCOs and CCTOs, would provide experienced focus to support improved performance and would not require existing CCOs to be dis-established. A holding company board should attract high-calibre candidates as potential board members, and would apply their commercial and specific acumen and experience to the performance of the subsidiary companies.
159. It would also be possible to transfer to the holding company oversight of the Council's interests in related council organisations, such as the Basin Reserve Trust and the Wellington Regional Stadium Trust<sup>9</sup>. As there would just be two companies reporting to council (the holding company and Capacity), a further option would be to have them report directly to the Strategy and Policy Committee rather than through CCOPS. As a board itself, it would meet more frequently and therefore be able to provide more attention to the performance and the risk management processes than Council (through CCOPS) is currently able to do through its five meetings a year.
160. However there would also be a number of disadvantages with this model:
- Usually a holding company model is used when the subsidiaries are commercially focussed and directed to generate a profit, while most of the CCOs in the Council's portfolio are actually reliant on operating grants from the Council.
  - A holding company would be an additional CCO with associated costs (including additional directors, a CEO and CFO, reporting and audit fees etc – this would be likely to incur additional costs in the order of \$0.700m). Directors and senior executives on the subsidiaries would still be incurring costs so there would not necessarily be any upfront savings (although shared services should result in savings over time).
  - It would create an additional layer of governance and management, and therefore a further separation of the activities from Council. The 2006 PriceWaterhouseCoopers' review of Wellington City Council's CCOs considered a holding company model. It concluded that establishing a holding company would add another layer of governance and distance from Council, and should only be considered if it would reduce governance costs in some other respect. At that time, it considered while there were some synergies between some of the then CCOs (eg PWT and PWB), there were no economies of scale or scope between the infrastructure entities (Capacity and WCCL for example) that warranted merging them. In December 2006, the Roy Tiffen report recommended Council may wish to reconsider the creation of a holding company structure for CCOs, noting some aspects of a holding company could be drawn together from the CCO monitoring team and CCOPS.

---

<sup>9</sup> The Karori Sanctuary Trust has not been considered as it is the subject of a separate review.

- Specific legal advice would be required, but it is expected that funding agreements and trusts deeds would need to be adjusted (including to reflect that, as subsidiaries of the holding company, the holding company would appoint the directors following consultation with the Council).

## Conclusion

161. Overall, the review considered that the holding company had more disadvantages than advantages. This analysis could be different if the subsidiaries were all profit generating companies, in which case a holding company may be able to extract an enhanced commercial performance.

## A management company

162. Under this model, there would be just one board of directors. This would involve establishing a new CCO, but also winding up the current entities; similar to the wind-up of the St James Trust when Positive Wellington Venues was set up. In some respects, it would be a larger version of the model currently used with the Museums Trust, where the Trust provides the overall leadership for the entities under it and looks to drive both better back office support for the activities and greater efficiencies from the entities to be shared between them; while maintaining separate identities. The activities, as with the Museums Trust, would retain their separate identities but would report to the CEO of the management company rather than directly to their own boards.



163. Venues, PWT, Museums Trust, the Wellington Zoo and the actual Cable Car are all involved in the promotion of Wellington, telling the Wellington story to residents and visitors, and providing attractions or access to attractions for those people. Likewise, although the governance arrangements are in partnership arrangements and not 100% under Council control, the Basin Reserve and the Wellington Regional Stadium Trust are involved in similar businesses and linking these activities together better for the benefit of “Wellington Inc” is well understood. A separate approach would be appropriate for Capacity, as this company is quite different in nature and ownership.

164. As with a holding company, a single management company would provide integrated strategic direction and progressively shared services to its businesses, and could similarly support the associated BRT and WRST businesses. At the same time, the separate identities could be maintained by continuing with separate SOIs or strategic plans with their own KPIs and performance measures (as GWRC does with its bulk water business unit). The respective external partnerships could also be preserved and supported.
165. A management company model would have some similarities to Auckland Council's Regional Facilities Auckland (which provides a regional approach to running and developing Auckland's arts, culture and heritage, leisure, sport and entertainment venues – eg the Auckland Zoo, the Aotea Centre, the Convention Centre, Auckland Art Gallery, Mt Smart Stadium and the Edge). It also has a role in the oversight of other entities. RFA has identified that all the entities within its portfolio are also quite different and have very different identities they are also all working in the tourism and events space, and working together is important for Auckland:
- RFA has a single board; although all the directors of the entities report through the Chief Operating Officer who in turn report to the CEO, who reports to the board. RFA owns non-current assets of \$995m and has an income of \$135m; significantly larger than a WCC tourism and economic development company would be.
  - A WCC management company would have an income stream of \$43m, and most assets would continue to be owned by the Council.
166. Depending on regional governance decisions, it may be possible to have one or two management companies – if two, one could be focussed on managing attractions and the other on economic development and promoting Wellington.
167. As a CCO, a management company would have the usual reporting requirements under the Local Government Act 2002, costs associated with SOI and annual reports, and audits. The Council's operating grants could be pulled together into a single grant, and the CCO would be able to distribute the grant across the entities. There would be costs associated with a board of directors (probably remunerated at a higher level than the current CCOs), but there would just be one board.

### *Benefits and disadvantages*

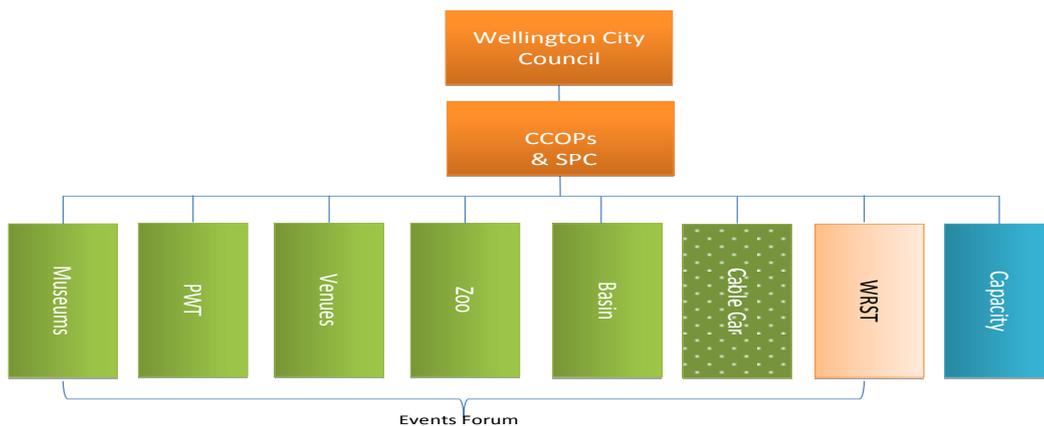
168. The Council would own 100% of the shares in the management company and would have all appointment rights. As the Council would be seeking directors for just one board, it would have a wider pool to draw on. Similarly, for a larger company, it should be able to attract a high calibre CEO.
169. While bringing together some activities with like-objectives for Wellingtonians and for people and businesses coming to Wellington, it would also maintain the transparency and accountability benefits of arm's-length governance. At arm's-length from council, it would still attract external sponsorship partners that in-house delivery might not attract (albeit at potentially reduced levels –discussed further below).

170. As with the holding company model, it would be possible for this CCO to report directly to the Strategy and Policy Committee, removing the need for CCOPs. This would remove a layer of distance between the entities and the Council.
171. Whereas the status quo model will require the integration that is being introduced through the new Events Forum, the single management company would have the responsibility for achieving the strategic alignment across those economic and tourism activities.
172. By effectively replacing five boards with one board and probably two advisory boards (for the Zoo and the Museums) and by requiring shared services where possible, it may be possible to achieve cost savings of \$0.580m per annum, but this may be offset by reduced external funding.
173. Further legal investigation would be required to establish whether for the purposes of tax and donations it would be best for the current trusts and companies to be wound up completely, or whether the charitable trusts should be retained (without separate boards) to attract and maintain endowed funds etc. This is likely to be important when the entities such as the Zoo wish to continue to apply for grants (as discussed above).
174. A key advantage of this model is that it would also be adaptable over time. For example if there was regional amalgamation and a single council covered the metropolitan Wellington region, it would be possible to extend the scope of the company (geographically) by adding in like-companies – eg add the current Grow Wellington and the Wellington Regional Stadium Trust; and possibly the Dowse, Petone Settlers' Museum and Pataka etc. This would also reduce the need to manage potential or perceived overlaps between some of the companies (eg PWT and Grow Wellington, with the new Destination Wellington initiative).
175. However, as with the holding company model, there would be some disadvantages too:
- There is a real risk that by amalgamating all the current CCOs into a single ownership and oversight structure, the benefits of the separate and specific focus, accountability and transparency that were the very reason for external governance may be reduced or lost. This is a concern that has been raised by some current CCO Chairs.
  - By being seen as a larger and conglomerated entity, it may be less able to attract external grants and sponsorship. Discussions with the ASB Community Trust have indicated that the establishment of substantive CCOs under the Auckland Council is resulting in a reconsideration of how grant applications from those entities will be considered. For example, prior to the Auckland Council reorganisation the ASB funded \$6m to the Art Gallery redevelopment, but the qualification of these smaller entities for future grants now they are under the umbrella of RFA is only now being tested.
  - This CCO would still not own the assets it manages; consequently, it would not have access to depreciation or borrowing (thereby accessing intergenerational equity) to enable it to make more strategic capital investment decisions. Those risks would still be borne by the Council.

- As the Council is aware from the recent creation of Venues and the wind-up of the St James Trust, setting up a new entity (including with new management structures in place) and disbanding existing companies and trusts will have a lag time and create disruption. Based on the Venues example and the Auckland experience with its substantive CCOs, this could take around 18 months (more or less). There are also additional direct costs associated with any change processes.

### Modified CCO model

176. As has been identified above, one key change proposed to the current structure is to bring the Wellington Waterfront Company in-house.
177. Aside from this, and the possible consequential establishment of a development company, the CCO model currently in place would be largely the same. What would be different from the status quo situation is the process changes identified through *Enhancing alignment and performance*, and the integration that should be derived from implementation of the proposed roundtables, changes to the SOI process and the new Events Forum.



178. Under this model, separate governance is maintained for these entities. The review has not identified reasons to alter the specific natures of the individual trusts or companies if they remain separate CCOs.

### Benefits and disadvantages

179. The retention of the current model would be supported and enhanced by new initiatives such as the –
- Events Forum, where the Council, Venues, Museums Trust, Waterfront, PWT, and WRST will regularly meet with other key providers including Te Papa to better integrate their approaches to event design, bids, web content, etc.

- Changes to the Council’s approach to owning, managing and monitoring its CCOs – including clearer linkages to the Council’s longer-term strategic objectives, adopting a new Owner Expectation Guide and Statement of Core Purpose to get greater alignment between the Council and the CCOs, regular roundtable discussions, and encouraging the CCOs to work more closely together.
180. CCOPS would continue to provide the liaison, strategic oversight and monitoring roles on behalf of the Council. Following from the specific changes proposed in this report and in *Enhancing governance and performance*, the review considers that this model is likely to operate more effectively than at present, and that overall it will be better aligned with the Council’s expectations.
181. Council already provides a range of back-office services<sup>10</sup> to some of its CCOs, with the expectations that this would deliver cost savings to CCOs. Wellington Zoo, Capacity, Wellington Waterfront, and Venues each utilise differing levels of the shared services offer from the Council. Council Finance officers do not consider that cash savings to the various CCOs are likely to be significant; but consider there are other less tangible benefits like business continuity (disaster recovery) and the opportunity for CCOs to leverage off Council’s business processes and practices.
182. This model will continue to require significant effort on the part of council officers to work with the CCOs to develop their SOIs and to report on their performance quarterly; and it will spread skilled directors across around 44 positions.
183. No savings are identified through the retention of the modified CCO model per se. No changes would be required to any structures or legal documentation obviously, so there are no timing or transition issues to factor in.
184. In terms of potential regional governance changes, this model is somewhat less robust than the management company model. There are various entities within the region managed at arm’s-length by other councils:
- WRST and Grow Wellington jointly between WCC and GWRC
  - Capacity jointly between WCC and HCC
  - Hutt City Council’s Seaview Marina and Urban Plus Ltd
  - Upper Hutt’s Expressions Arts and Entertainment Trust.
185. If all of these were to be individual CCOs under a single council that could be unwieldy and satisfactory alignment could be more difficult to achieve.

---

<sup>10</sup> Eg - utilisation of Council’s investment in transaction processing to automate purchasing and accounts payable and of Council’s payroll team to process pay-runs and file returns with Inland Revenue; enterprise-level technologies (with on-going support and recovery planning); proximity to emerging Oracle PeopleSoft Enterprise technology enhancements and upgrades, as these become available; accurate handling and management of payroll, taxation, superannuation and other deductions; web-based employee self-service for leave and holiday management providing one-up manager approvals and reporting.

186. If the models of governance are considered at a high level across factors identified for external governance, the review considers the relative strengths of the models are:

### *Comparison of Management Company and Modified Status Quo options*

187. While the holding company is not recommended for the reasons outlined earlier, it is appropriate to compare in a little more detail the management company and the modified status quo options:

	Management Company	Modified Status Quo / Separate CCOs
<b>Strategic Alignment</b>	The company would provide greater certainty of strategic direction and alignment across the activities. Company creates "family" view.	The implementation of the Roundtable should deliver similar strategic direction and the Events Forum should deliver greater alignment, but requires agreement. Council (CCOPS/SPC) creates "family" view.
<b>Political responsiveness</b>	The company could report directly to SPC.	The CCOs would report separately through CCOPS.
<b>Single focus/leadership</b>	The best available directors could be put on one board to better utilise their skills and experience. There would probably need to be advisory boards too for the Zoo and Museums Trust. The current activities would be a step removed from direct access to governors/decision-makers. The relative priorities of activities can be balanced before they are presented to Council, eg capital plans.	The entities have regular and direct access to governors/decision-makers. The entities can present and argue business cases directly with council, eg capital plans.
<b>Commercial expertise/ risk-taking</b>	Can operate across the group of relatively small individual activities.	Operates within each CCO.
<b>Accountability and transparency</b>	The separate accountability and transparency is likely to be greater than in-house delivery, but will lose some individual visibility.	Greatest separate accountability and transparency.
<b>Efficiency gains</b>	Application of commercial expertise across all activities.	Application of commercial expertise within each separate activity.
<b>External funding</b>	Less certain that external sponsorship and bequests etc will be maintained at similar levels.	More certain continuity of external funding being available.
<b>Regional growth potential</b>	The company would be able to absorb new entities relatively easily; subject to transition, timing and legal issues.	Additional CCOs could be added in, but there would be increased risks of reduced alignment and the cost of monitoring would increase.

### *Conclusion*

188. A management company will most likely deliver greater certainty of alignment and greater potential for efficiency gains. It will also be more "future-proofed" if regional governance changes are made, but will also incur disruption. The modified status quo should be much more closely aligned to Council's expectations than at present, and

would continue to provide the highest level of transparency and accountability to Council at an activity level. This model already has eight entities reporting to Council, and while there are risks associated with “conglomerating” too many activities together, likewise there are different risks with having too many separate silos operating at arm’s-length.

189. Given the regional governance discussions underway, the review has concluded that the modified status quo should be retained for the activities of the Zoo, the Museums Trust, PWT, Venues and the Cable Car Company until regional governance discussions have been resolved.

### **Other recommendations**

190. A series of matters regarding the current CCO model have been identified through this review, which (if addressed) could improve its overall performance.

### **‘Council’ view**

191. A factor that has come through discussions with elected members, council officers and CCOs, is that there are numerous different views about the reasons an entity was established and the expectations the Council currently has of each one. The ability of the CCOs to effectively get on and achieve the Council’s objectives, and the ability of the Council to be assured of the alignment and performance of these entities, have both been hampered by the absence of a ‘single view’ and by the absence of any articulated view (eg through the SOI being signed off) being widely adhered to. The review has identified a number of reviews of the CCO model and of individual CCOs (especially the Waterfront) that the Council has commissioned. Collectively this process of continuous review creates an uncertain environment of the entities, and cost for the ratepayers through the reviews themselves and the transaction time for all involved.
192. The review recommends that the Council: confirms the CCO model it will have for the future through this review; adopts the recommended Owner Expectations Guide to set out the owner/funder relationships and expectations of behaviours, and the individual statements of core purpose for each entity with a 6-year review period; identifies clear immediate expectations in the 2012 letters of expectation (after work-shopping these with the CCOs); and then supports and monitors the CCO performance through mechanisms such as the Events Forum and the proposed roundtables, rather again questioning their roles.

### **KPIs and SMART performance measures**

193. As the review has looked through the SOIs, funding agreements and other accountability documentation for the CCOs, it has considered the strategic direction identified for each CCO.

194. The Zoo Trust has identified a strategic direction for a zoo, through its work in developing with the Council the 10 year capital plan, for example. This proves the value of placing effort in the area.
195. It is also important that the Council identifies the contribution it wants a CCO to make to its own wider community objectives, and agrees with the CCO the key indicators and measures that will give it confidence the Council's objectives are on track and any risks are being managed.
196. The CCOs have generally identified business KPIs and performance measures for their organisations, and the vast majority are bottom-up KPIs and measures – they are mostly business measures rather than also including measures that assist the council to understand if the boards themselves are being effective in their governance roles or if the entity is achieving its core purpose.
197. An example is that a core objective in the Basin Reserve Trust's Deed states the Trust must manage, administer, plan, develop, maintain, promote and operate the Basin Reserve for recreation and leisure activities and for the playing of cricket for the benefit of the inhabitants of Wellington. In order to assess if this is being achieved, the Council needs to understand how the activities carried out on the Basin are benefiting Wellingtonians. Future measures could include the percentage of Wellingtonians attending events at the Basin (12% in 2012) with a goal of increasing this percentage year on year, and the percentage of international cricket teams touring New Zealand that play a game at the Basin. An assessment of the economic benefit of these matches would also enable the Council to better assess the value it is getting from this CCO. The Statements of Core Purpose created for each of New Zealand's crown research institutes provide a good example of these types of measures.
198. For the Council to carry out its duties as the owner of each entity, Council also needs to understand if ratepayers are getting value for their investment. This requires more than just the annual picture for each activity, but longer-term trends and impacts (projecting forwards as well as looking backwards).
199. Providing a longer-term picture highlights more than just if the CCO is meeting its targets, but also if it is making the impact it was intended to when it was set up. Annual targets are set based on what is expected over the coming year with perhaps an element of stretch. This could potentially hide longer-term trends that the Council should be aware of, partly as a way of alerting upcoming risks, but also as a way of highlighting if each CCO is achieving its objectives.
200. The Council should work with all the CCOs in the lead up to the next SOI to ensure there are well-linked KPIs to the Council's objectives, and enduring measures that will enable the Council to monitor trends in performance over time; have confidence that its boards are providing effective governance; and that the CCOs are identifying and mitigating risks to their business and to the Council as owner.
201. The Auckland Council and RFA have made progress in developing links in its SOI between the Auckland Plan, the objectives for RFA, and the expectations that the sub-entities such as Mt Smart, the Zoo and the Auckland Gallery will make towards

Auckland's development (as well as business measures on success). For example, the Auckland Plan aims to achieve social and culture wellbeing by prioritising families. The RFA has responded by including a measure for some of its venues to encourage more families to spend enjoyable social time together (percentage of visits to RFA facilities that are with families or friends and percentage of families and friends whose experiences provide positive social outcomes).

202. As it looks towards the 2013/14 SOI process, the Council should identify what it expects of its CCOs, individually and collectively, and ensure measures are in place which will enable it to robustly carry out its ownership duties.

### **Council and CCOs working together**

203. If the CCOs remain as separate entities, working together and with the Council will be important. The most obvious area is those CCOs and parts of Council that operate in the tourism, events and economic development space. The Council has already made significant moves towards this. The new internal structure for the Council has placed the operational aspect of city events, CCO relationships and economic development under a single director. The Council has also approved an events strategy, and established an Events Forum which brings all the CCOs together regularly with the Stadium Trust and other key players. The review considers that the forum is a positive initiative on the part of the Council and will work effectively alongside the proposals already made to get all the CCOs together regularly.
204. In addition, the review has identified several matters that the Council should discuss and agree with the CCOs -
  - Across the CCOs there are quite different branding approaches, and the brandings do not necessarily reflect that the entity is part of the Wellington City Council "family". A common approach to branding, if not common branding, should be discussed.
  - The review has not looked at the possibility of better integrating the website presence of the CCOs, but recommends that this be further assessed – for synergies in presenting the "Wellington story", to ensure easier access to information for users, and for technical synergies.
  - The accountability documentations for the CCOs are not always easy to find on their websites. The Zoo website is very helpful, the SOIs and annual plans are accessible (including previous years), making the Trust more overtly accountable than some of the other CCOs. This approach could be considered more widely.

### **Number of directors**

205. As discussed previously, for the most part the CCOs do not own assets nor are they expected to make a profit; therefore, the risks they manage are less than fully commercial companies. As such, there is a question as to what is the most appropriate number of directors for the boards and whether it is possible to make any savings in that area. The boards of the CCOs currently range from four to eight members.

206. *Enhancing alignment and performance* has already recommended that the Council should have a definite skills matrix for each CCO and actively recruit to get the best people for each board. If focussed governance and leadership is provided for these entities, and given the nature of the CCOs' activities, the review team is of the view that the CCOs do not need more than six members.
207. It is acknowledged, however, this change would require amending some of the constitutions and deeds, and that there would only be relatively small savings associated with this change. This could be something that is implemented as vacancies fall due.

### **Clearer accountability**

208. The review of Capacity identified a somewhat confused accountability regime. The Council has retained responsibility for the operating grants, for signing contracts, and for asset management planning. This is an unusual retention of activity when an arm's-length entity has been put in place. As a consequence, the decision-making is not fully transparent and the accountabilities are certainly muddled. Furthermore, it is actually harder for the Council to hold the CCO to account for its actions in such circumstances.
209. A consistent approach should be taken to all CCOs, and a CCO should have responsibility and accountability for its activity.

# 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

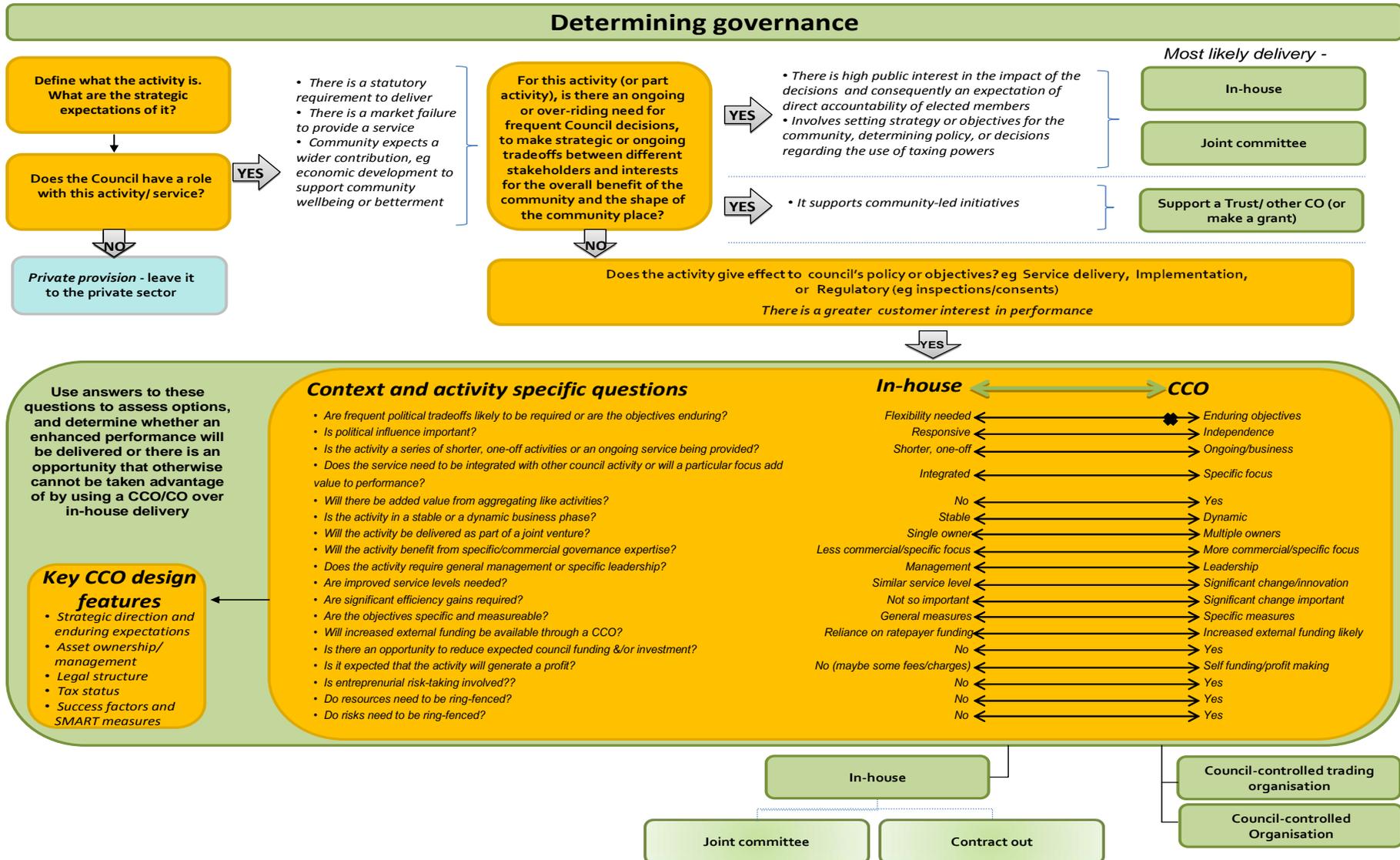
6. Councils are able to deliver activities directly, by contract through private providers, or through arms-length entities (CCO, CCTOs or COs – which may be trusts or companies etc). Wellington City Council currently has ten Council Controlled Organisations. The number and scope of activities that are 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 delivery 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.



## BASIN RESERVE TRUST (BRT)

### Context

The Basin Reserve Trust (BRT) was established in 2005 to enable Wellington City Council to partner in a joint venture with Cricket Wellington. The ground's aging infrastructure was in need of investment and the Wellington Regional Stadium Trust (WRST) was unable to generate sufficient income from activities on the grounds to carry out the necessary maintenance and upgrades. Cricket Wellington approached the Council with a request to have more control over the running of the grounds primarily to maintain the Basin Reserve as New Zealand's premiere cricket ground.

BRT has four trustees, two appointed by the Council (one councillor) and two appointed by Cricket Wellington. The trustees are not paid to carry out their duties. The Council owns the majority of the assets. BRT has no direct staff, all operations are contracted to Cricket Wellington.

### Background

1868	First game of cricket played at the Basin Reserve
1875	Wellington Cricketers Association was formed to provide a ground for the use of the clubs forming the Association.
1884	The Basin Reserve was given to WCC by way of a deed in 1884 for the purposes of cricket and recreation. WCC managed the facility in-house.
1925	The Pavilion Grandstand opened (now houses the NZ Cricket Museum)
1979-80	The present configuration of an oval shape, the R.A Vance Stand, the eastern bank and the current seating were undertaken.
1982	The Pavilion registered as Category II Historic Place.
1993	A trust was formed to manage the facility, with a view to turning it into an outdoor stadium.
1998	The entire Basin Reserve registered as a Historic Area <sup>11</sup> .
1999	Due to the new Westpac Stadium nearing completion, the Basin Reserve was no longer earmarked as an outdoor stadium for Wellington. Management of the Basin Reserve was transferred to the Wellington Regional Stadium Trust (WRST) which was tasked with maintaining the venue to an international standard.

<sup>11</sup> Follow this link for a description of the site's historical significance:  
<http://www.historic.org.nz/TheRegister/RegisterSearch/RegisterResults.aspx?RID=7441>

<p>1999 - 2003</p>	<p>The Basin Reserve's aging infrastructure was in decline and required new investment and WRST was not in a position to carry out the necessary improvements. The Basin Reserve's income and expenditure for 2002/03 was:</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 15%;">Revenue:</td> <td style="width: 15%;">\$81,525</td> <td style="width: 70%;">(ground levies, signage, events, food and beverage, functions, grants and sponsorship)</td> </tr> <tr> <td>Expenditure:</td> <td>\$549,544</td> <td>(personnel, occupancy, repairs and maintenance, consumables, ground maintenance and equipment hire)</td> </tr> <tr> <td><b>= net cost:</b></td> <td><b>\$468,019</b></td> <td></td> </tr> </table> <p>The grounds were unable to generate enough income to pay for necessary improvements and upgrades.</p>	Revenue:	\$81,525	(ground levies, signage, events, food and beverage, functions, grants and sponsorship)	Expenditure:	\$549,544	(personnel, occupancy, repairs and maintenance, consumables, ground maintenance and equipment hire)	<b>= net cost:</b>	<b>\$468,019</b>	
Revenue:	\$81,525	(ground levies, signage, events, food and beverage, functions, grants and sponsorship)								
Expenditure:	\$549,544	(personnel, occupancy, repairs and maintenance, consumables, ground maintenance and equipment hire)								
<b>= net cost:</b>	<b>\$468,019</b>									
<p>2003</p>	<p>WRST approached the Council with a proposal to exit from the management of the site. At the same time, Cricket Wellington voiced its aspiration to have greater management and control of the grounds. Cricket Wellington's primary objective was to maintain the ground as New Zealand's number one cricket test venue.</p>									
<p>Oct 2003</p>	<p>Council agreed to provide an operating grant of \$180,000 per year towards the costs of maintaining the Basin Reserve.</p>									
<p>Mar 2004</p>	<p>Council considered four governance options for the Basin Reserve including establish new Basin Reserve Charitable Trust, WCC to manage in-house, WRST to continue to manage, and Cricket Wellington to manage directly.</p> <p>The in-house option was discounted because all of the costs would be transferred in-house too, and it was felt that the Council did not have the necessary technical expertise in preparing international cricket wickets since it had not managed or maintained the ground since 1993.</p> <p>Establishing a new CCO meant that the costs and risks to Council would be ring-fenced, and Cricket Wellington would be motivated to secure capital funding and sponsorship and to provide a high level of service.</p> <p>The separate arm's-length charitable trust approach was selected because it:</p> <ul style="list-style-type: none"> <li>▪ enabled the Council to partner with Cricket Wellington which is highly motivated to deliver a high level of service.</li> <li>▪ ring-fenced the risk associated with maintaining the grounds aging infrastructure.</li> <li>▪ was considered more likely to reduce the cost to ratepayers by generating income from events and attracting sponsorship and capital funding, particularly through its strategic alliance with New Zealand Cricket and other sponsors.</li> <li>▪ ensured the Basin Reserve continues to be a high standard recreation facility for the city.</li> </ul>									
<p>[Mar 2004 cont]</p>	<p>Council at the time estimated that the annual operating cost to be \$530,000 over the next ten years (note: not adjusted for inflation). WRST agreed to continue to maintain the turf until 2014 as part of the deal (an in-kind contribution equivalent to \$190,000 per year).</p>									

	<p>The Basin Reserve's costs would be funded as follows:</p> <p>Revenue: \$160,000 (ground levies, signage, events, food and beverage, functions, grants and sponsorship)</p> <p>WCC operating grant: \$180,000 WRST contribution (in-kind): \$190,000 (ground turf maintenance)</p> <p><b>Total: \$530,000</b></p>
<p>Feb 2005</p>	<p>BRT was established, as a joint venture with Cricket Wellington. The following objects are outlined in the Trust Deed:</p> <ol style="list-style-type: none"> <li>1. to manage, administer, plan, develop, maintain, promote and operate the Basin Reserve for recreation and leisure activities and for the playing of cricket for the benefit of the inhabitants of Wellington;</li> <li>2. to establish a long term policy for the further development of the value of the Basin Reserve as a recreational facility and as a facility for the playing of cricket, other sports and as a venue for other community based activities;</li> <li>3. to enter into management agreements and other contracts that are necessary or desirable to achieve the objects of the Trust;</li> <li>4. to promote and co-ordinate the raising of funds to assist the management, administration, maintenance planning, promotion and further development of the Basin Reserve - in a manner consistent with the achievement of council objectives; and</li> <li>5. generally to do all acts, matters and things that the Trustees consider necessary or conducive to further or attain the objects of the Trust set out above for the benefit of the public of Wellington.</li> </ol> <p>The Trust's Statement of Intent also outlines the following objectives:</p> <ol style="list-style-type: none"> <li>1. to contribute to the Wellington City Council's vision of Creative Wellington – Innovative Capital - positioning Wellington as an affordable, internationally competitive city;</li> <li>2. to operate as a successful undertaking, managed on a not-for-profit basis;</li> <li>3. to preserve and enhance the significant and recognised heritage value of the Basin Reserve; and</li> <li>4. to comply with all legislative and regulatory provisions relating to its operation and performance including statutory and general Council objectives for Council-controlled organisations, and to acknowledge the Council's contribution where appropriate.</li> </ol> <p>A key issue for the Trust since its inception has been funding asset maintenance and upgrades, such as the Museum Grandstand, which also has historic value. (This has since been further compounded since the grandstand has been designated as earthquake prone.)</p>
<p>2007-2012</p>	<p><i>Capital improvements</i></p> <p>Over this period, the Council has funded \$1.44 m worth of capital upgrades and renewals, including the irrigation system, media facilities, off-field practice</p>

	<p>wicket and field drainage. The improved drainage will increase the capacity of the grounds to be used for other sports, particularly rugby and rugby league in the winter. Over this same period Council collected \$1.68m in depreciation through rates.</p>								
Feb 2011	<p><i>Asset condition report</i></p> <p>The Council commissioned an asset condition report on the Basin Reserve. The report identifies the following costs:</p> <table> <tr> <td>Urgent maintenance:</td> <td>\$1,026,852</td> </tr> <tr> <td>Deferred maintenance (necessary):</td> <td>\$1,437,299</td> </tr> <tr> <td>Renewal works (desirable):</td> <td>\$477,646</td> </tr> <tr> <td><b>Total:</b></td> <td><b>\$2,941,798</b></td> </tr> </table> <p>The Trust and Council have commenced a programme to address the deferred maintenance issues.</p>	Urgent maintenance:	\$1,026,852	Deferred maintenance (necessary):	\$1,437,299	Renewal works (desirable):	\$477,646	<b>Total:</b>	<b>\$2,941,798</b>
Urgent maintenance:	\$1,026,852								
Deferred maintenance (necessary):	\$1,437,299								
Renewal works (desirable):	\$477,646								
<b>Total:</b>	<b>\$2,941,798</b>								
Jul 2011	<p><i>Basin Reserve Flyover</i></p> <p>As part of the NZ Transport Agency's (NZTA's) consultation on a proposed flyover to ease congestion around the Basin Reserve, the BRT expressed its concerns about the proposal's impact on the ground's international and test cricket status. It requested NZTA fund a new stand to block the view of the flyover from the grounds.</p> <p>NZTA has committed to working with BRT to ensure any effects are fully mitigated and acknowledged that a new stand may have merit. NZTA has agreed to further investigate this option. If funding is secured for a new stand, this would represent a significant capital investment in the grounds as well as a further commitment to international and premier cricket at the Basin Reserve.</p>								
2012/13	<p><i>Asset Management Plan</i></p> <p>The Council is assisting BRT in creating a detailed Asset Management Plan based on the asset condition report.</p> <p>\$3.749m is set aside in the Long Term Plan for capital renewals over the next ten years. The prioritisation and sequencing of the work carried out over this period may change once the asset management plan is in place.</p>								
Jun 2012	<p><i>Increased operating grant</i></p> <p>Council's operating grant increased from \$180,000 per year (unchanged since the Trust was established in 2004) to \$355,000 per year in the Long Term Plan. BRT considered the previous funding structure as unsustainable. BRT was running at a deficit after depreciation – in 2011/12 budget this was (\$154,000); in the 2012/13 SOI it was projected to be (\$224,000). It also had minimal cash reserves. [Council rates currently cost the Trust \$57,000 annually, which is paid out of the Trust's opex grant.]</p>								
Jun 2012	<p><i>Earthquake risk mitigation</i></p> <p>In light of earthquake assessment work and planning being carried out, Council set aside \$500,000 opex funding in the first year of the Long Term Plan (2012/13) for the potential demolition of the Basin Reserve's Museum Stand which has been assessed as being earthquake prone and is in very poor state of repair. \$150,000 capex has also been budgeted for restoring the site post-demolition.</p>								

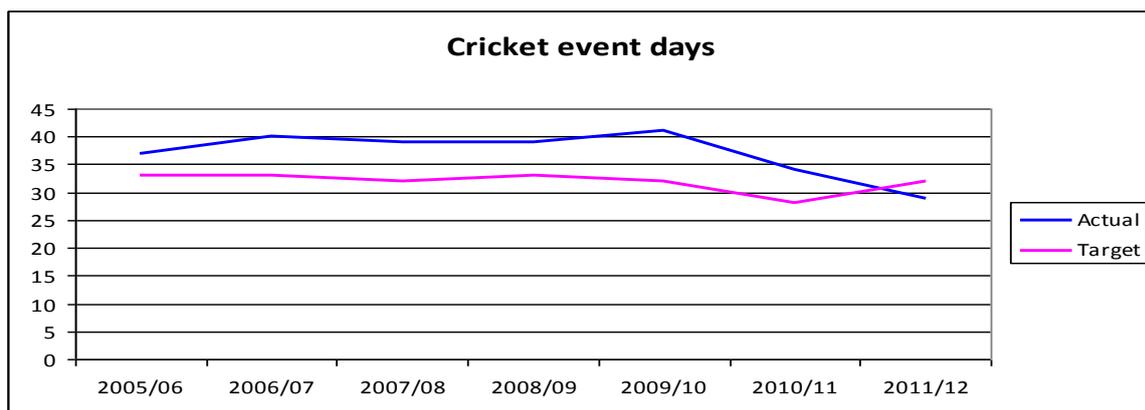
## Has the current governance structure met expectations?

BRT was tasked with sourcing extra income from the grounds via events and other sporting fixtures (but not at the expense of the grounds ability to host international cricket test matches), and to attract sponsorship and donations. All income is invested back into the venue directly for the betterment of cricket and the wider recreational use of the ground. There is no expectation the facility will generate a profit or reserves.

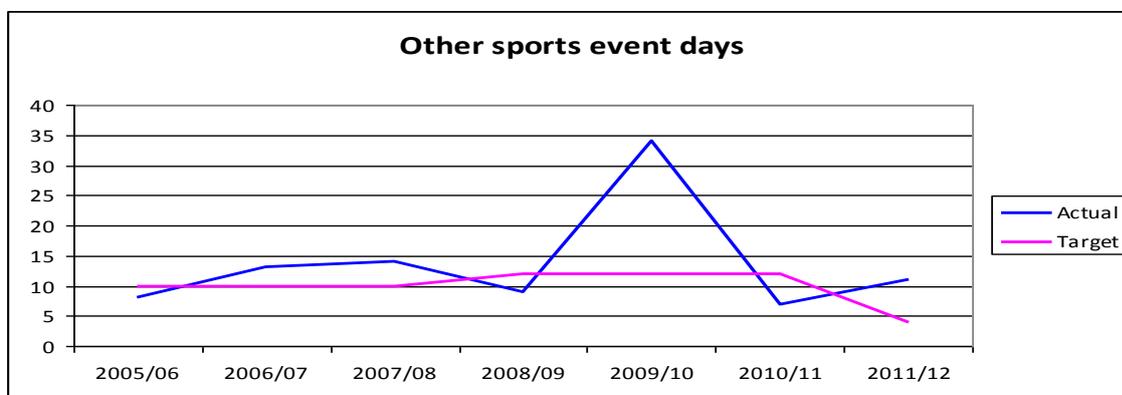
### High standard recreation facility for the city

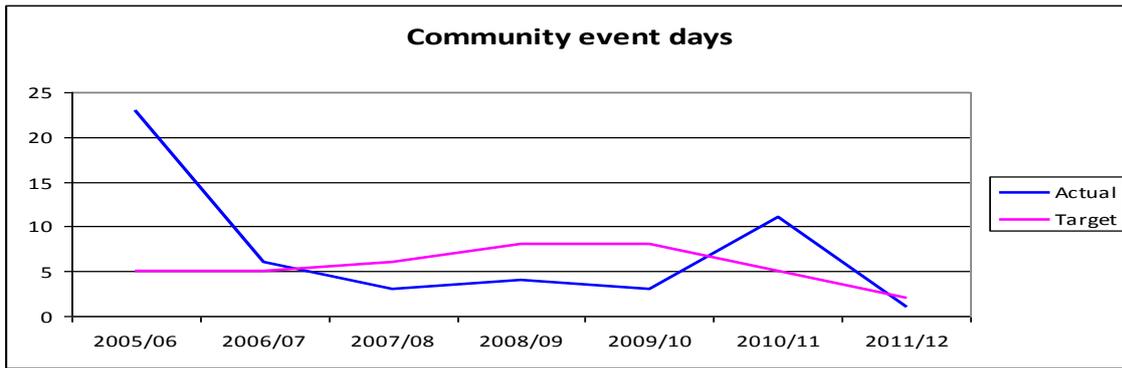
The Basin Reserve is first and foremost a cricket venue. BRT has met its primary objective of retaining the ground's status as New Zealand's number one cricket venue (the Basin has been voted the best cricket ground in New Zealand for the third year running by the New Zealand Players Association). In addition, the Trust has maintained the Basin as a test cricket venue, which means once a year Wellington benefits from attendances and exposure overseas during those days.

Over summer, the ground hosts a range of first class and club games, and is used by Cricket Wellington for practice between games. The graph below shows the number of cricket event days overall has remained relatively stable over the past six years. It also shows, apart from 2011/12, the Trust has consistently exceeded the targets set for it by the Council.



The following graphs show, however, that BRT has had mixed success in attracting other sporting and community events.

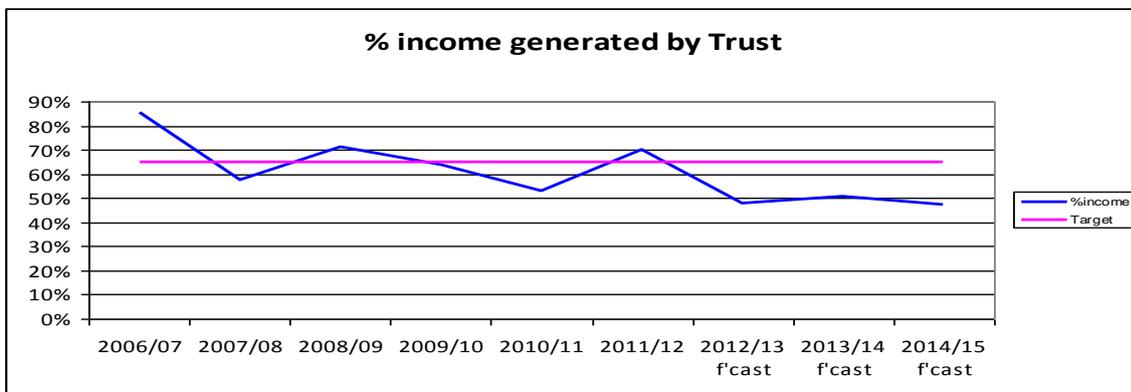




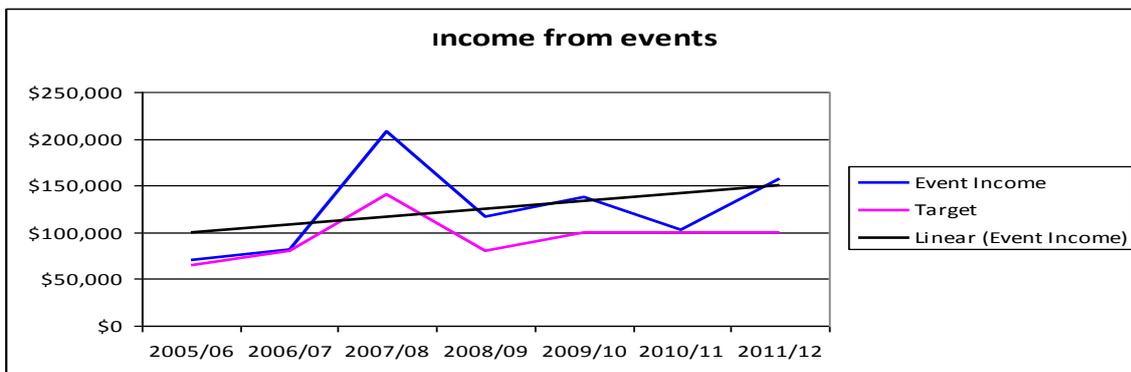
BRT is expecting to attract some high profile events in the coming years, including a role in the Cricket World Cup 2015, a test match as part of the England tour in 2013 (already secured) and another one as part of the Indian tour in 2014. BRT is also looking to opportunities, such any that might arise from Wellington being a host for the FIFA under 20s World Cup in 2015.

### Non-Council revenue

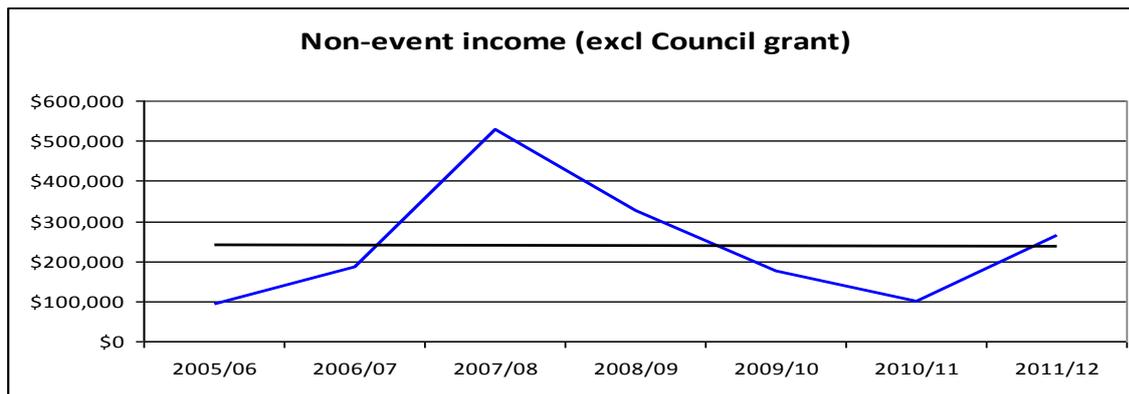
BRT has attracted approximately 65% of its income from non-Council sources in four out of the previous six years. However, with the Council's operating grant increasing from \$180,000 to \$355,000 per annum, this is forecast to fall to around 50%. As outlined in officers' advice to Council as part of the Long Term Plan deliberations, this is a more sustainable level given the increasing costs associated with operating and maintaining the Basin Reserve.



BRT has consistently met its targets for generating income from events and is showing an upward trend in the long term.



Overall BRT is attracting about \$250,000 per year on average in non-event income.



### Ring-fencing cost and risk

Over time, the costs of operating and maintaining the Basin Reserve are increasing at a rate slightly higher than inflation, from \$530,000 per year in 2004 to \$729,000 2012/13.

In recognition of these increasing costs, the Council has increased its operating grant from \$180,000 to \$355,000 in this year's Long Term Plan. Even with this increase, the Basin Reserve is forecast to return a deficit of \$49,000.

	<i>Predicted in 2005</i>	<i>2012/13 forecast</i>
<b>Operating revenue</b>	<b>\$530,000</b>	<b>\$680,000</b>
<i>Non-Council revenue</i>	<i>\$350,000</i>	<i>\$325,000</i>
<i>Council grant</i>	<i>\$180,000</i>	<i>\$355,000</i>
<b>Total expenditure</b>	<b>\$530,000</b>	<b>\$729,000</b>
<b>Net cost</b>	<b>Nil</b>	<b>(\$49,000)</b>

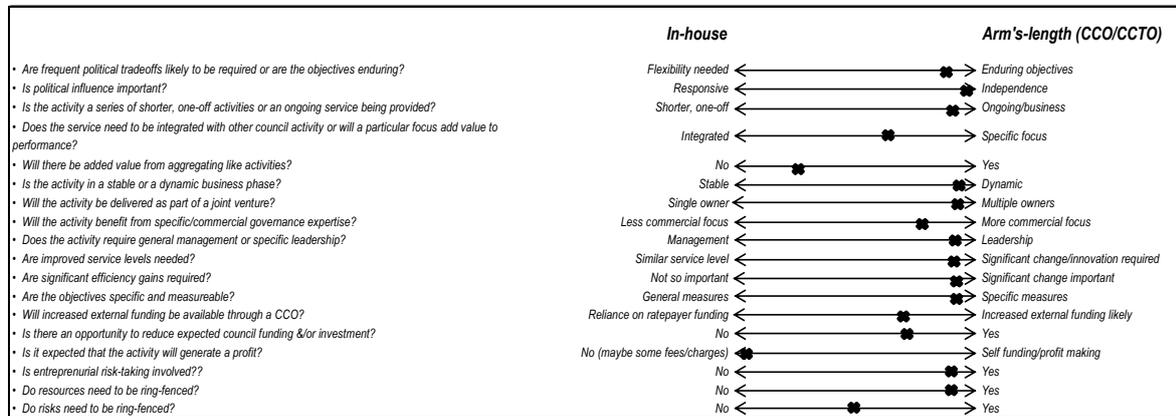
The Council is also working with the Trust to develop an Asset Management Plan that will highlight the cost of maintaining the grounds over ten years. An initial asset condition report has been completed, which will form the basis of the Asset Management Plan. It highlights \$2.942m worth of urgent (\$1.027m) and deferred (\$1.437m) maintenance, and capital upgrades (\$0.478m). Work has commenced to address the backlog of maintenance identified in the report. \$3.75m set aside in the Long Term Plan for capital expenditure at the Basin Reserve over the next ten years.

The Basin Reserve is an aging asset with significant deferred maintenance. By ring-fencing these costs into a separate entity, the Council's investment is transparent and the Trust can be held accountable for performance.

However, as the Council still owns the reserve and the risks associated with ownership still ultimately falls to the Council if BRT fails to meet its obligations.

**Is this governance model still fit for purpose?**

An assessment of BRT has been carried out against the framework for deciding the best governance arrangements for Council activities, based on the identified expectations the Council has of the Trust. The assessment has taken into account the BRT’s current performance as well as an understanding of the Council’s future expectations for the Basin Reserve (to the extent possible). Below is the assessment of the Basin Reserve.



On balance, this assessment shows that the Basin Reserve’s current governance arrangements are still the best fit. The primary reasons are:

- The charitable trust is the mechanism that enables the Council to actively partner with Cricket Wellington. If the facility were delivered directly in-house by the Council, it would not be a true partnership and Cricket Wellington’s input and direction would be filtered through Council officers. A separate Trust means both partners can equally provide direction, while still enabling the Council as owner to set the overall direction and monitor performance.
- While the Council is still committed to preserving the Basin Reserve as New Zealand’s premier cricket ground, the Basin Reserve’s objectives remain relatively enduring. Its role is to generate as much income as possible in order to minimise the contribution from ratepayers, without compromising the ground’s ability to host national and international cricket matches. Two key measures of success therefore are the number of test cricket matches it attracts, as well as the proportion of costs that are covered by income the Trust has generated. This broad remit is unlikely to change over the coming years.
- Within the broad remit set by the Council, the trustees and Cricket Wellington bring the necessary leadership and passion to achieve it. In particular, BRT has succeeded in retaining the ground’s test cricket status. Without the attention the trust has been able to create, it is highly this would not have happened. The Council would probably also have struggled with sourcing income and sponsorship; maybe to a greater extent than the Trust has, as some of the sponsorship has been attracted by the separate nature and identity if the trust.
- BRT has demonstrated a single focus, expertise, experience and access to networks, to operate in this challenging environment. Continuing to access this support will require continued leadership rather than just site management. The Basin Reserve has a passionate community of interest, who value it for many different reasons. BRT is in a good position to connect with and partner with the community and other groups with a strong interest in the grounds.

- BRT has taken responsibility for looking after the ground as a whole, including actively working to reduce vandalism and graffiti.
- The mechanism of the Trust enables greater transparency in the level of investment being made into the Basin Reserve and what Wellington's residents are getting in return for that investment. The process of agreeing SOIs and annual reporting means the level of service being funded is explicit and any trade-offs being made are more clearly articulated, and create a more robust framework for making decisions. While the trust can advocate for additional funding, it is the council's decision whether or not those requests will be met.

In comparison, the benefits of bringing the Basin Reserve in-house are relatively small:

- There would be no cost savings as the Trustees are unpaid volunteers.
- The operations are contracted out to Cricket Wellington, and if the facility were managed in-house it is quite probable the Council would continue with the same contract to ensure a collaboration continued. This would essentially incur the same cost.

If the Basin Reserve were to be brought back in-house, however, the key risks identified are:

- The grants and donations currently attracted by the Trust may reduce, meaning the cost to Wellington's ratepayers would increase to cover costs. Private sponsors and other funders like to be assured that their contributions will go to the area or activity that they have agreed to support – not to cross-subsidise other ratepayer-funded activities.
- The leadership and passion for cricket brought to the Basin Reserve via the board would be lost. Councillors do not have the time nor experience to carry out these roles with the same intensity and frequency. The alternative would probably be to establish for the entity an advisory board, and there would still be costs associated with supporting such a board or committee.
- Loss of transparency for Wellington's ratepayers in their level of support for the Basin Reserve and what they are getting in return for this investment.

In the 2005 review, two other options were considered – leaving the Basin Reserve to be managed by WRST and contracting Cricket Wellington to deliver the service directly. The original reasons for not selecting these options in 2005 are still valid, namely:

- WRST was unable to maintain the Basin Reserve to the required standard and sought to transfer responsibility back to the Council.
- Contracting the delivery directly to Cricket Wellington is not a question of governance, but is merely a different way of delivering in-house – therefore the same arguments apply as above. Furthermore, simply as a contracted party, the incentives on Wellington Cricket to motivate the cricket community and to generate additional external funding, will be less.

## Conclusion

On balance, Wellington's Basin Reserve is still more suited to arm's-length governance. It offers a mechanism for the Council to partner with Cricket Wellington, and to maintain the distinct resourcing for the Basin and associated accountability. Due to the specific partnership developed with Cricket Wellington, the existing charitable trust governance model remains the vehicle most likely to deliver this objective. A separate trust means both partners can equally provide direction, while still enabling the Council as owner to set the overall direction and monitor performance. The Council could consider including the Trust as part of the Events Forum to better link the Basin Reserve with other relevant council-controlled organisations.

Given the Council has recently adopted its Wellington 2040 strategy, there is an opportunity going forward to better articulate the benefits of premiere cricket to Wellington, and to set measures in light of these benefits. The Council will only be able to judge the value of this investment if it can assess whether it has achieved the desired results; further work on the KPIs and performance measures would support this. The Basin Reserve's infrastructure is aging and has a backlog of deferred maintenance resulting from underinvestment over a long period. By ring fencing these costs into a separate entity and with specific governance, and advocacy, it is unlikely these assets will be neglected to the same extent again due to the increased transparency that CCOs bring. Developing and agreeing funding for a long-term asset management plan will allow the Council to make better decisions about its intentions for the Basin Reserve.

It is recommended that Council:

- a) continues to provide these services through a charitable trust model in partnership with Cricket Wellington;
- b) continues to work with the Basin Reserve Trust to develop an asset management plan for the Basin Reserve;
- c) designs performance measures which enables Council to better track success in achieving its objectives; and
- d) considers including the Basin Reserve Trust in the new Events Forum.

## CAPACITY INFRASTRUCTURE SERVICES LIMITED (CAPACITY)

### Context

Capacity Infrastructure Services Limited is a Council Controlled Trading Organisation owned jointly by Wellington City Council and Hutt City Council (HCC).

### Background

1997-2001	<p>Various investigations undertaken to explore options for rationalisation of water services in the Wellington metropolitan area.</p> <p>2001 review proceeded to public consultation, which showed significant community support for the principle of rationalisation, but also a range of concerns.</p>
August 2002	<p>WCC and HCC agreed to consult on establishing a regional joint water services unit in the form of a CCO, on the basis that:</p> <ul style="list-style-type: none"> <li>- Water systems retained in Council ownership</li> <li>- Water services remain in control of elected members</li> <li>- Changes in water services management must not be a step toward privatisation</li> </ul> <p>Upper Hutt City Council (UHCC), Porirua City Council (PCC) and Greater Wellington Regional Council (GWRC) were offered to participate but chose not to.</p>
July 2003	<p>The CCTO, Wellington Water Management Limited was established, becoming operational in April 2004.</p> <p>This joint management unit represented the amalgamation of WCC and HCC water services for the purposes of:</p> <ol style="list-style-type: none"> <li>a) saving money – anticipated savings of \$4.15m after 5 years and \$1.6m per year thereafter</li> <li>b) receiving services that met or exceeded its prior standard</li> <li>c) providing a 'centre of excellence' for the management of water services in the region</li> <li>d) improving long term strategic planning for water services with a view to eventual full regional water services integration.</li> </ol>
2008	UHCC engages Capacity to manage its water services
2009	Company was renamed Capacity Infrastructure Services Limited. Under this structure, each of Wellington City and Hutt City councils continued to own their respective water infrastructure.

2010	<p>Council reconsiders governance and delivery model options for water services and confirmed support for CCO model <i>'because this was the vehicle most likely to deliver the vision and associated potential benefits of an integrated water management system for the region'</i></p> <p>Council requested officers continue to explore mechanisms to achieve a comprehensive regional model for the management of water services.</p>
Feb 2011	<p>WCC, HCC, UHCC and PCC sponsor a PWC review of history, development and future outlook for management of the three waters in the Wellington Region. It provided an assessment of the optimal model for an amalgamated water entity.</p>
April 2012	<p>A Business Case prepared by Capacity based on the February 2011 PWC Report outlining:</p> <ul style="list-style-type: none"> <li>a) A proposal for PCC and UHCC to join WCC and HCC as shareholders in and customers of Capacity.</li> <li>b) A proposal to move from the current cost recovery model to an outcomes-based business model. This would mean WCC relinquishing certain oversight responsibilities and moving to more of an arm's-length relationship, with a focus on monitoring performance in relation to outputs and outcomes achieved.</li> <li>c) PWC provided written support that the Business Case is materially consistent with the preferred model in the PWC report.</li> </ul> <p>Report prepared by PWC made recommendations on share structure, board composition and capitalisation of Capacity, if PCC and UHCC were to become shareholders.</p>
June 2012	<p>Capacity's proposal received unanimous approval from HCC and UHCC to the proposed four Council equity structure and change to the draft Outcomes Business Model.</p> <p>WCC agreed to the equity structure and gave 'in-principle' approval to the change to the Outcomes Business Model.</p> <p>WCC officers continue to work with Capacity to gain agreement around detail of the Outcomes Model.</p> <p>Porirua is considering the proposal.</p>

The 2012 amendment to the governance structure as proposed by Capacity is summarised in the table below:

<i>Aspect</i>	<i>Current structure</i>	<i>Amended structure</i>
AMPS	Council provides guidance & approves	Council provides guidance in context of outcomes only
Capacity operating costs	Council agrees budget and the allocation among customers	Council specifies outcomes and agrees outputs. Capacity determines its operating budget
Renewals	Council approves budgets & contracts and pays contractors. Capacity negotiates, manages and monitors contracts	Council specifies outcomes and agrees outputs. Capacity responsible for determining how to deliver against specified outcomes and agreed outputs
Capex	Council approves capex plan, budgets and pays contractors	Council specifies outcomes and outputs, approves capex plans and high level budgets. Capacity determines how to deliver within approved plans

## Has the current governance structure produced good results?

### Cost savings

From 2004/05 through to 2008/09, the Capacity SOI including a target of delivering overall savings of \$4.175m to shareholder councils over five years (to 30 June 2009). The Council's expected portion of this savings target was \$2.5m. Due to an inability to get agreement on the model by which savings would be measured, no comparison against this target was made between 2004/05 and 2007/08. In 2008/09, additional work was undertaken by Capacity for the Council. This additional work made comparing savings against the original model difficult – however Capacity assessed its savings against the original baseline to be \$663k. In 2009/10, an annual savings target of \$432k was set. With the exception of unbudgeted resource consent and appeal costs, Capacity reports that this was achieved.

Since 2010, Capacity's cost-related performance targets have been primarily trend based, using a comparison with a national average – which Capacity reports, has been achieved. Overall Capacity reports it has delivered \$3.31m of cumulative savings to client councils, of which (based on Capacity's information) in excess of \$1.8m would have accrued to Wellington City ratepayers.

Unfortunately, the inability during the initial 5 years to clearly measure the level of saving achieved against the original target has caused negative tension between Council and Capacity – and is perceived by some to be a 'black mark' against the governance structure. This has been partly overcome through the annual savings of \$737,000 since 2010 acknowledged through monthly and annual reporting to the Council, which Capacity propose to continue under the proposed outcomes-based model. Despite this, the review has concluded that there is an on-going challenge for Capacity to prove that it is providing "value for money" for Council – a challenge that is potentially increased under the proposed outcomes-based model, where Capacity accountabilities will relate not only to its \$5.6m management fee but also to the \$49m of annual maintenance expenditure and \$350m of capex over the 10 years of the 2012-22 LTP.

WCC three waters expenditure summary	2012/13	Ten Years	2012/13 -
			2021/22
	\$000's		\$000's
Capacity management fee	5,656		56,233
Contracts & other	49,392		502,397
Depreciation	33,069		326,330
Interest	8,201		118,106
Council overheads	2,119		25,616
<b>Total three waters opex</b>	<b>98,437</b>		<b>1,028,682</b>
<b>% of Council opex</b>	<b>26%</b>		<b>24%</b>
<b>% of Council rates</b>	<b>40%</b>		<b>37%</b>
<b>Total capex</b>	<b>22,701</b>		<b>350,829</b>
<b>% of Council capex</b>	<b>17%</b>		<b>24%</b>

### *Profit retention*

Both Capacity's Business Case report and the February 2011 PWC report on delivery of water services to the Wellington Region, advocated for Capacity being able to retain profits, to reinvest them in the business as a means of facilitating innovation and continuous improvement.

Given the challenges in ensuring value for money for the services provided and that any profits would be primarily a direct result of shareholder payments for services, the review does not support the retention of profits by Capacity at present. Rather, any additional shareholder equity requirements to support innovation or process improvement should be incorporated into the Capacity SOI and associated budgets and funding requirements. This could be reconsidered once the Outcomes Model matures, and the Council is confident that potential conflicts between profit incentives and delivery against service level KPIs can be managed.

### *Direct savings from the Outcomes Model*

The 2012 Capacity Business Case report estimates additional direct savings from a shift to the Outcomes Model of \$0.3m per annum for existing shareholders. However, these savings rely primarily on efficiencies being achieved through the integration of asset management systems. To date, Council officers have indicated a strong preference for Council to retain 'ownership' of the Wellington City asset management information system, and make this available to Capacity to utilise. Based on this position, it is doubtful that the savings proposed by Capacity will materialise as Capacity envisage a regional asset management system that the councils could access for broader asset planning purposes.

The Capacity Business Case also suggested approximately \$2m of initial savings in stranded overhead costs and a cumulative \$4.2m over 5 years could be achieved. The Council currently allocates approximately \$2.1m of overhead costs to three waters activities. While the Council may wish to reconsider how it allocates these costs over its activities, the Outcomes Model itself is unlikely to create a significant reduction in overhead costs to Council.

In summary, some cost savings and operational efficiencies against the \$5.6m management fee currently paid to Capacity are expected. However, the greater focus for Council in transitioning to, and monitoring the success of the Outcomes Model proposed will be on ensuring that Capacity delivers against the service level expectations which underline the \$43m of annual operating expenditure and \$23m of capex (\$351m over 10 years), that it will become fully responsible for delivering.

### *Service levels*

Service levels are reported by Capacity to have been maintained and in the case of water loss improved from 21% to 14% over the past five years. The current SOI provides for differentiation in service levels expressed in KPIs for each client Council. Based on performance against these targets, Capacity can be considered successful in delivering against the Council's objectives.

However, Council's officers have been concerned for some time about the quality of asset information that it holds and on which Capacity prepares asset management plans. This has limited Capacity's ability to provide surety that the asset renewal programme is maintaining Council's assets to Council's expectations. Council officers are currently working with Capacity to improve the Council's asset management information. This work also extends to ensuring the standard of reporting against appropriate asset quality-based KPI's can provide confidence that service levels and asset quality are maintained to the level agreed through asset management plans. This is fundamentally important with long-life assets, where a lack of appropriate maintenance and/or renewal may not become evident until many years into the future. This work forms a key part of Council's work in transition to the Outcomes Model.

Historically responsibility for service level performance has also been compromised by blurred accountability between the Council and Capacity. The review considers that it is essential this issue is addressed, starting with a clear understanding and agreement between shareholder clients, underpinned by a management agreement, so Council can have confidence in transitioning fully to an outcomes-based model.

### *Centre of excellence and improved strategic planning for regional water services integration*

The Council currently retains a role in asset management planning and project monitoring oversight. From Capacity's perspective, this has hindered the centre of excellence objective, because of duplicated roles between Capacity and Council staff. The review considers that the Council has not yet reached a point where officers are comfortable to reduce their oversight of planning for and monitoring the maintenance and renewal of Council assets. Again, the review considers that this matter needs to be promptly resolved, and duplication resolved.

### **The Council's current and future expectations for Capacity**

Up until 2012, Council has contracted Capacity to provide operational and management services for the potable, waste and storm water networks.

The key changes proposed in the 2012 transformation proposal are:

- Moving the Capacity business model from one where the Council contracts Capacity to manage the networks on behalf of Council, to one where the Council purchases water services outcomes from Capacity.
- Delivering water services on a regional basis, with Upper Hutt and Porirua Councils taking a shareholder stake in Capacity.

The key difference for WCC is that under the new model Council sets and monitors outcomes and outputs, rather than also focusing on the inputs of Capacity (as it has done in the past). This means that where Council has historically contracted Capacity to manage the operation and maintenance

of its water networks, but has retained responsibility for delivering water services to end users – this responsibility now shifts to Capacity.

In moving to an output and outcomes focus (as opposed to an input and budget focus), Council will need to satisfy itself that it has sufficiently robust outcome-based measures in place, and agreed with Capacity, to ensure it receives a specified and agreed service level for an agreed price.

A learning from the relationship between Capacity and the Council to date, is that common and agreed understandings and expectations are fundamental – and will be even more so under the proposed new model, which necessitates Council passing greater responsibility and accountability to Capacity.

Council officers' consider that Council's retention of 'ownership' and continued development of asset management information systems (AMIS) is crucial. This information is considered by officers' as critical for cross-council purposes and integral in Council's ability to plan and strategize how it manages, maintains and invests in Council's wider asset base. Capacity believes that to get optimal benefit and maximise economies of scale from a regional management of three waters, Capacity should manage the asset information and provide access to the Council for its needs. Capacity has stated that it is not concerned with where the AMIS is situated but considers that its management of the system on behalf of clients is essential for Porirua and potentially, at a later date for GWRC, to approve Capacity managing their respective water systems. Working with Capacity to enable Council ownership of AMIS, while avoiding any duplication of resources and/or systems between the two entities, is a key focus preceding full implementation of the Outcomes-based model.

### Is this governance model still fit for purpose?

Despite some concerns since the establishment of Capacity, particularly around the ability to accurately report savings achieved against the original objectives, the vision of a regionally integrated service provision remains robust.

The validity of this approach has been strengthened by a two factors in particular:

- The lead taken in Auckland, where Watercare provides fully integrated water services to the super-city.
- The agreement of Wellington metropolitan councils to grow the role of Capacity, to service Porirua and to include both Porirua and Upper Hutt as shareholders along with Hutt City and Wellington City.

To be an effective water services entity, Capacity needs to be able to make decisions about the efficient deployment and utilisation of its assets and resources between networks across existing Council boundaries. It has been questioned whether this remains relevant, particularly as Capacity themselves contract out a significant portion of their work. It is:

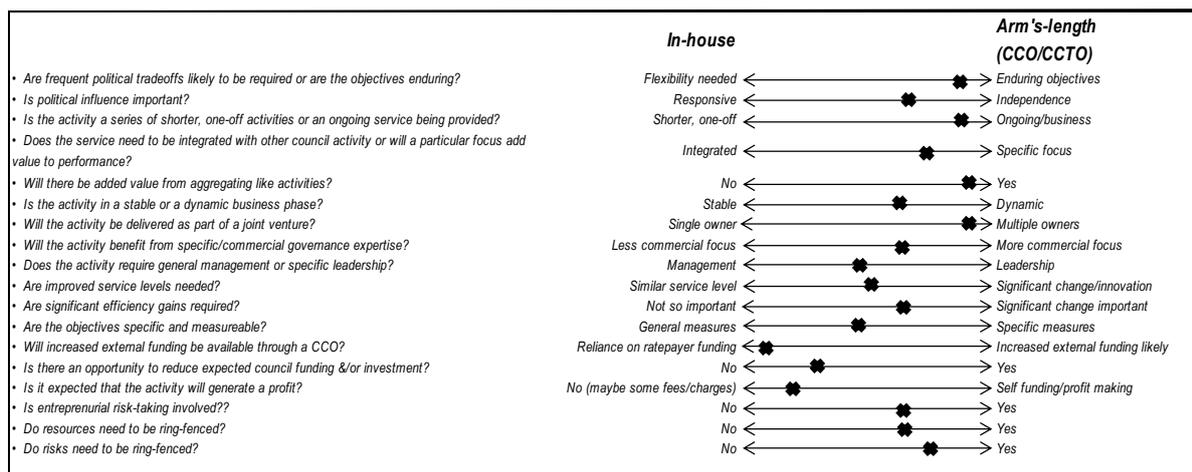
- From a strategic planning perspective.
- Through bundling of contracts.
- By being better positioned to promote development and application of supply and demand management policies for optimum water sustainability purposes.
- Through creation of a regional centre of excellence that would attract and be able to retain high quality human resources to manage the region's three waters services.

Underpinning this model is a regional approach to the delivery of services, as opposed to each Council separately contracting the same service provider. This will require changes in expectation and approach. Centralisation of expertise will be further strengthened under the outcomes-based model proposed, as Capacity becomes principally responsible for all operating and capex project contractor and customer interface, management and monitoring of budgets and accepts a greater proportion of risk. This further reduces the duplication of resources by councils.

Providing Capacity with a greater level of control over network management integrates short-term operating responsibilities (e.g. getting water to tap) and longer-term asset decisions (e.g. ensuring pipes are maintained) should also reduce the risk that Capacity adopts a short-term focus at the expense of the long-term interests of Council.

### What other options are there?

The benefits of a regional model for the provision of water services are widely recognised and have been reconfirmed by Councils' Strategy and Policy Committee as recently as April 2012. This decision is consistent with the assessment against the proposed governance framework undertaken as part of this review. On this basis, the option of bringing three waters services back in-house has been discounted.



The preference for an arm's-length structure for the management of the Councils' three waters activities is strongly influenced by multiple ownership and the benefits of aggregating like-activities.

Whether similar benefits could be achieved through a joint committee of councils has been considered at various stages preceding and since Capacity's inception. This review has estimated that a joint Committee could make some cost savings - in the region of \$200-\$400k per year for WCC, by reducing / removing governance and some senior management roles. However, this has to be weighed against the cumbersome nature of a joint committee structure and how effective it would be in managing over \$70m of WCC expenditure each year. Potential disadvantages include:

- The committee needing full delegation from each participating council to avoid each governance decision having to go back to each Council for approval.
- Cumbersome contracting procurement and administration processes, whereby one of the participating council would have to be designated as the administrative lead – to provide the staff, contract and service level management and monitoring, information ownership, etc.

- A possible difficulty in attracting quality staff and becoming a more genuine centre of excellence for three waters services.
- Risking simply creating another arms-length body but without the experience and skill set of an independent board.

This review has concluded that joint committee structures can be effective as establishment bodies, to govern shorter-term deliverables, or to monitor performance. However, for the long-term governance of the Council's three waters activities, these disadvantages out-weight any potential benefits.

### **A CCO or CCTO**

When established in 2003, Capacity (Wellington Water Management Ltd as it was known then) was set up as a Council-controlled trading organisation (CCTO). The Local Government Act 2002 states that a CCTO is set up for the purposes of making profit. Council reports prepared at the time, clearly stated that it was intended that the Company would operate on a non-profit (break-even) basis for the services it provided to its shareholders. As time has passed, this apparent contradiction has been a source of confusion for some and is worthy of clarification:

- Capacity was set up as a CCTO to provide the flexibility for the company to make a profit if the situation arose. There was no intention for it to make a profit from the services it provided to shareholders.
- The CCTO status provides the ability for Capacity to make a profit from services it may provide to non-shareholder councils or other entities. However, where anticipated, any expected profits generated from non-shareholder customers could be reflected in lower charges to shareholder councils, rather than resulting in a taxable profit for the company.

The proposed changes to the governance structure approved by the Council in May 2012 will see Upper Hutt and Porirua Councils joining WCC and Hutt City as shareholders. The 2011 PWC report, advocates for Capacity under the amended structure to be able to generate a profit, retain earning for reinvestment and pay dividends to its shareholders. Taxation considerations aside, retaining profits is seen as consistent with the shift from an input funded model to the purchase of outcomes approach that is proposed. As discussed earlier in this report, the review does not currently support the retention of profits by Capacity generated on Council funded activity.

However, the situation may arise where Capacity can generate profit from non-shareholder clients and it is therefore appropriate for Capacity to retain its CCTO status going forward. Within this context it also is important that profit and dividend distribution expectations, are clearly stated within funding agreements and understood by both Council as shareholder and Capacity.

### **Looking ahead**

#### **GWRC**

The inclusion of Porirua and Upper Hutt City Councils as shareholder clients is a significant step towards the goal of regional integration of water services. However, GWRC's role in bulk water provision accounts for approximately 39% of total water operating costs and it owns and manages around 16% of the total three waters asset base in the greater Wellington metropolitan area.

At present GWRC has decided to continue to manage the water collection and distribution network directly. Full benefit of a regionalised network management approach is only likely to be achieved with the full integration of the end-to-end water supply network.

### Regionalisation

Care has apparently been taken to ensure that proposed changes to the governance structure of Capacity to include Upper Hutt and Porirua City Councils as shareholders are "future-proofed". This will ensure that the model is flexible enough to either include the Regional Council should it decide to join later, or to respond to any change in the over-arching local governance model for the region.

### Conclusion

Water, wastewater and sewerage treatment and disposal services account for approximately 24% of Council operating expenditure. This includes the Capacity management contract of \$5.65 and stewardship costs, such as depreciation and interest that reside within Council. Capital expenditure on three waters activity accounts for \$23m or 17% of total council capex in 2013 and 24% or \$351m over the 10 years of the 2012-2022 LTP.

From a rates perspective, the Capacity management grants of \$5.65m in 2012/13 comprise around 2.5% of rates. With the addition of three waters maintenance contract costs managed by Capacity, plus interest and depreciation cost on CCO-managed Council assets, this rises to \$84m or 24% of rates.

This review has concluded that the existing CCTO governance model remains the vehicle most likely to deliver the vision and associated potential benefits of an integrated water management system for the region.

The shift to an outcomes-based model for Capacity will provide clarity around accountability between Capacity and the Council. In doing so, it places responsibility on Capacity for delivering on services on which 24% of WCC's rates are based, and for managing \$1.36 billion or 40% of the Council's 3.42 billion asset base (excluding land under roads). Transfer of this responsibility is not without risk for Council.

It is essential that the Council has sufficient confidence in the governance and management of Capacity to deliver on this accountability. The review recommends the Council works closely with Capacity over the coming months to enable the Outcomes Model to be fully operational by 1 July 2013.

The proposed inclusion of PCC and UHCC as shareholders in Capacity will also advance a water 'centre of excellence' for the region, improve and consolidate long-term strategic planning for water services and continue to move towards eventual full integration of regional water services.

Some cost savings and operational efficiencies against the \$5.6m management fee currently paid to Capacity are expected. However the greater focus for Council, in transitioning to and monitoring the success of the proposed Outcomes Model, will be on ensuring that Capacity delivers against the service level expectations which underline the \$43m of annual operating expenditure and \$23m of capex (\$351m over 10 years), that it will become fully responsible for delivering.

Overall, it is recommended that Council:

- a) Continues its support for a regional water management company, and to the CCTO governance structure of Capacity continuing to provide three waters services.
- b) Works with other owners and prospective owners of Capacity to develop a shareholders agreement as a mechanism to agree common direction, and adopts this agreement before the new shareholding takes effect.
- c) Requests that by 31 March 2013, the Council Chief Executive agrees with Capacity the detail of the 'Outcomes Model' (including the 'end-state' under which the outcomes model will be fully operational and the associated transition plan for the Council) - on the basis that the following are retained by Council:
  - o ownership of three water assets;
  - o ownership of the three waters asset management information system (AMIS);
  - o responsibility for policy and strategic direction;
  - o approval of asset management plans;
  - o approval of KPIs that will provide confidence that Council's three waters assets are being maintained; and
  - o approval of budgets (and funding) for operating and capital expenditure (both renewal and upgrade) related to Wellington City 'three waters' activities.
- d) Requests the Council Chief Executive and the Board of Capacity review and jointly report back to Council on their relative capabilities to deliver on the objectives of a regional water management unit and the transition plan to an "Outcomes Model", (together with a plan to avoid any real or perceived duplication of activity) by 31 March 2013.

**PARTNERSHIP WELLINGTON TRUST (PWT)**

**Context**

Partnership Wellington Trust is Wellington’s official tourism organisation and it markets Wellington to attract tourists, with the goal of creating economic and social benefit for the city.

The Trust has seven board members (including one councillor), who are appointed by the Council.

**Background**

1995	Tourism Wellington Trust (TWT) was established with the primary aim of 'attracting more tourists to Wellington'.
March 1997	Success of TWT led Council’s Economic Development & Promotions Committee to resolve to propose a City Development Marketing & Promotions organisation for 'co-ordination of city marketing activities'.
1998	Partnership Wellington Trust established as a Council CCO. Total council funding of \$3m: Ex- Tourism Wellington Trust budget                    \$1.0m Retail promotion board    \$0.3m Event promotion (prev. in house)                                \$1.6m Convention promotion    \$0.15m Tourism Wellington Trust wound up – incorporated into PWT. PWT referred to as "Totally Wellington". Objects in the Trust Deed are: <ul style="list-style-type: none"> <li>▪ To market and add value to Wellington to achieve sustainable economic growth for the benefit of the public of Wellington;</li> <li>▪ Maximise the City’s share of regional spending through strategic campaigns promoting the City throughout New Zealand and overseas as a destination for shopping, leisure, entertainment and events;</li> <li>▪ Enhance the profile of City businesses, promote strategic alliances and private sector partnerships;</li> <li>▪ Further enhance the recognition of Wellington and give support to the Wellington Region as a key and desirable visitor destination;</li> <li>▪ Actively facilitate the co-ordination of marketing initiatives appropriate to the objects of the Trust;</li> <li>▪ Ensure marketing initiatives are focused on increasing the sustainability of Wellington’s commercial sector;</li> <li>▪ Recognise and promote community focussed initiatives;</li> <li>▪ Enter into funding agreements and other contracts that are necessary or desirable to achieve the objects of the Trust; and</li> <li>▪ Generally do all the acts, matters and things that the Trustees consider necessary or conducive to further or attain the principal and additional objects of the Trust set out above.</li> </ul>
1998/99	Downtown levy introduced as a targeted rate levied on the downtown business sector to fund PWT (\$3.0m), and free weekend parking (\$0.45m).

1999	Some concern over the delivery of events across the city. Possibility raised of major event promotion transferring back to Council.
2000/01	PWT budget increased to \$3.6m to fund additional marketing initiatives.
Jul 2003	PWT event development fund role transferred to City, Marketing and Development department of Council, as outlined in the 2003 Events Strategy.
Dec 2008	PWT launched the Wellington Tourism Strategy 2015.
Jun 2009	<p>Council agreed to fund PWT an additional \$3m over three years to secure and grow Wellington's share of the Australian tourism market, conditional upon PWT matching this with external funding. The campaign's objective was to increase direct Australian visitor arrivals by 7,300 a year (7.2% increase) and the visitor spend in Wellington by \$27m annually (10% increase).</p> <p>PWT secured funding from the following:</p> <ul style="list-style-type: none"> <li>▪ Hutt City Council</li> <li>▪ Destination Wairarapa</li> <li>▪ Destination Marlborough</li> <li>▪ Venture Taranaki</li> <li>▪ Wellington International Airport</li> <li>▪ Te Papa</li> <li>▪ Interislander</li> <li>▪ Tourism New Zealand</li> </ul>
Dec 2011	Council adopted an Economic Development Strategy in 2011. It outlined a need to continue to deliver tourism promotions into key markets that promote Wellington's events, retail and visitor offerings. It also identified, as a high priority, the need to ensure the city's destination marketing approach is broadened to include talent, business and investment attraction.
Jun 2012	Council agreed to extend funding for the Australian marketing campaign a further three years (subject to matching investment from third parties).
Jun 2012	Council agreed to continue funding the long-haul attraction activity at \$200,000 per annum. The Council, however, chose to oversee the budget; working with both Wellington International Airport Ltd and PWT to release funding for activities as required.
Jun 2012	As part of the 2012-22 Long Term Plan, Council agreed to fund a new initiative identified through the Economic Development Strategy called Destination Wellington, to the tune of \$1.0 million in 2012/13 and \$1.9 million per year after that - which aims to attract business, talent and investment to Wellington City. PWT, Grow Wellington and the Council will deliver this initiative in partnership.
Aug 2012	Following the adoption of the Events Policy 2012, Council set up a new Events Forum bringing together key partners from across the city to collaborate on attracting and supporting events in Wellington. Terms of reference for the forum are being developed.

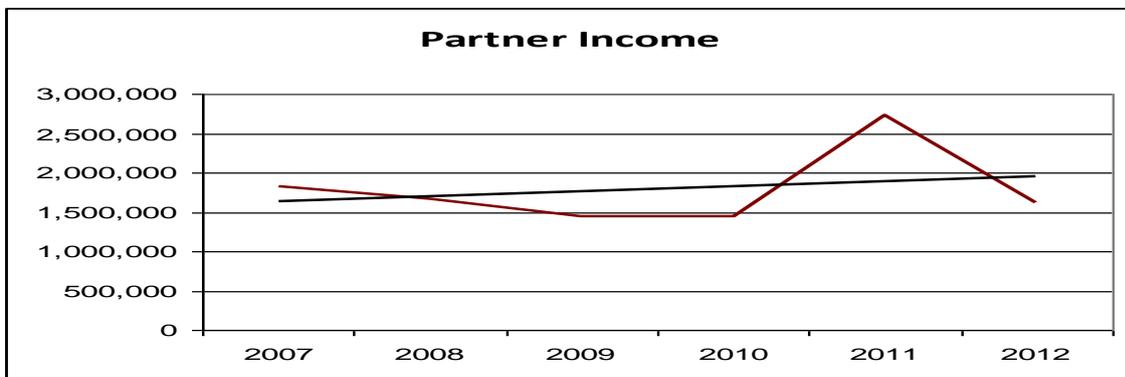
**Has the current governance structure met expectations?**

**Leveraging Council investment**

PWT receives an operating grant of \$5.74m per year, which comprises about half of its overall income. A key focus for PWT is leveraging public funds to attract private investment into marketing campaigns that ultimately grow Wellington’s economy. 100% of the Council’s contribution is funded through the downtown levy. There is no expectation that PWT generates a profit.

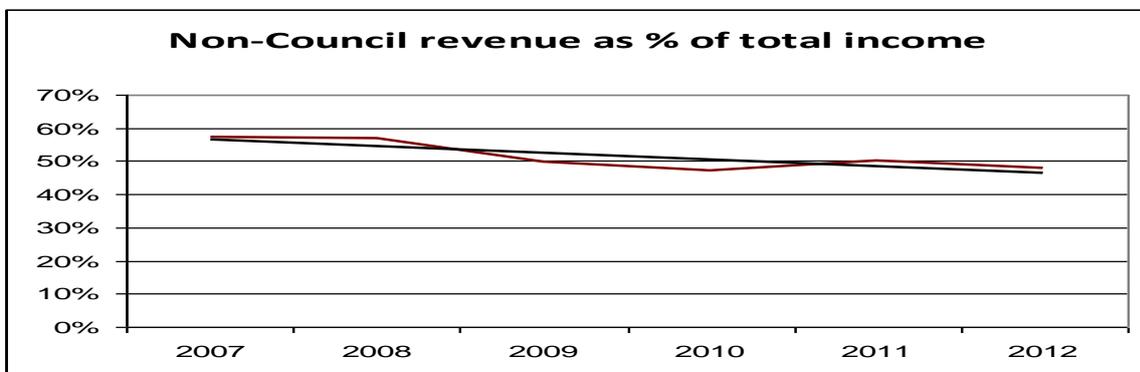
The current governance arrangements have produced positive results. Through partnering with private sector business and organisations, PWT has been able to leverage public funds to achieve far greater spend to the benefit of Wellington. While this spend is quite variable between years, an overall upward trend is emerging<sup>12</sup> (see following graph).

The partnerships PWT has entered into are wide ranging, including other local authorities, government departments, visitor attractions, and tourism businesses.



Note: in 2011/12 partner income was supported by a marketing agreement with Air New Zealand through which the airline committed to spending \$1m, marketing Wellington in Australia with PWT. This contribution is not included in these figures, but is the direct result of PWT actions.

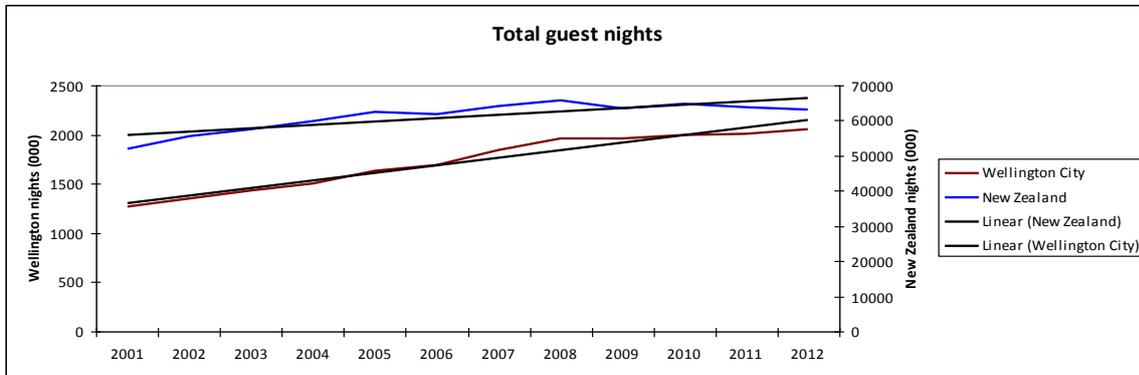
PWT generates about half of its income through non-Council sources, although a long-term downward trend is emerging. This suggests PWT will not be likely to reduce the demand on the downtown ratepayers to any significant degree going forward.



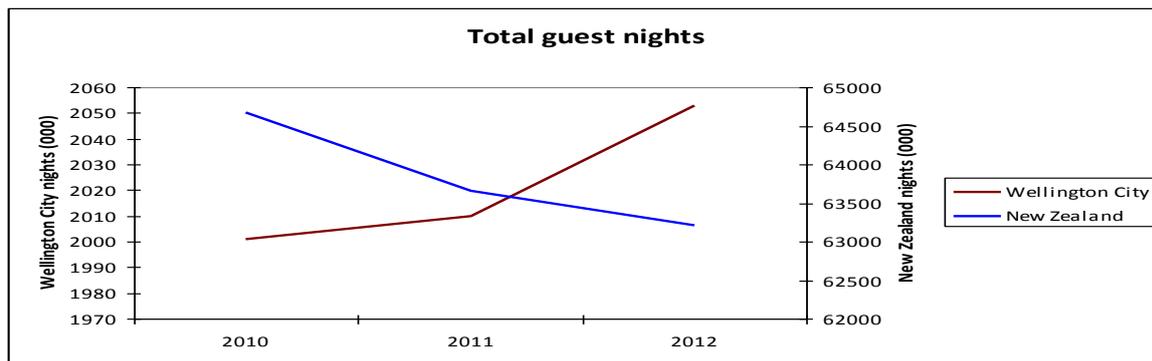
<sup>12</sup> The drop in 2012 partly reflects a change in the way the Australian marketing campaign is being funded. Air NZ match the Council’s investment, however, this funding to paid directly to the campaign, so does not appear in PWT’s income statement.

**Visitor numbers**

Through the SOI process, PWT is set targets each year on the number of visitors, both domestic and international, coming to Wellington. The following graph shows that over the past decade, the number of guest nights has steadily increased in Wellington City, at a higher rate than for New Zealand as a whole.



Over the past two years, Wellington City has continued to experience growth in the number of guest nights, bucking a national declining trend, as shown in the following graph.



This trend is significantly influenced by the 17.5% increase in the number of Australian visitor arrivals in the year to June 2012. Which indicates a continued focus on the Australian market will probably be appropriate.

**Council’s current and future expectations for PWT**

**Destination Wellington**

Council adopted an Economic Development Strategy in 2011. It outlines a need to continue to deliver tourism promotions into key markets that promote Wellington’s events, retail and visitor offerings. It also identifies as a high priority, the need to ensure the city’s destination marketing approach is broadened to include talent, business and investment attraction.

As a result, Council agreed to fund a new initiative in the 2012-22 Long Term Plan called Destination Wellington, to the tune of \$1.0 million in 2012/13 and \$1.9 million per year after that. This aims to attract business, talent and investment to Wellington City, through a collaborative approach between PWT, Grow Wellington and the Council. PWT is responsible for developing and telling the

Wellington story through destination marketing and the development and distribution of associated marketing material. This is an expansion of PWT's current role, beyond focusing solely on tourists and visitors to Wellington, to attracting potential businesses, residents and investment.

### **Partnerships**

The Events Forum had its genesis in Council's Letters of Expectation to all CCOs in 2011 that asked each CCO to outline "strategies for closer co-operation in marketing and public relations to better leverage the Council's overall investment in marketing Wellington's visitor attractions".

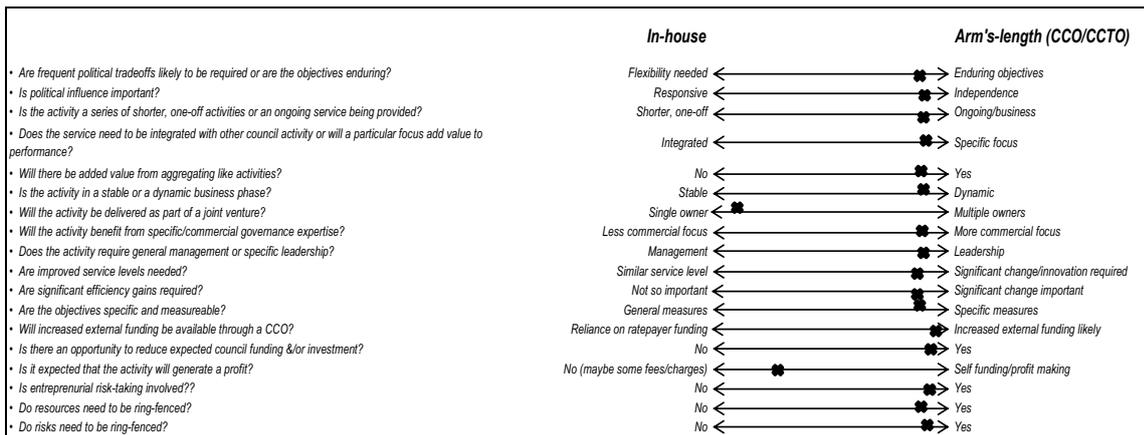
Council's Letter of Expectation for 2012/13 asked PWT to lead the development of a plan, to be developed in conjunction with Parks and Gardens, the Museums Trust and Wellington Cable Car, to better leverage marketing between the attractions in the Kelburn precinct. It also expected PWT to focus more on promotion and support to the Council's CCOs.

### **Is this governance model still fit for purpose?**

Taking a brief look at other similar RTOs across New Zealand:

- Auckland Tourism, Events and Economic Development Ltd (ATEED) is a substantive CCO of Auckland Council. The equivalent of PWT is a Tourism Unit within ATEED whose primary role is to encourage international and domestic visitors to come to Auckland, stay longer and spend more. The Herald recently reported that Auckland Council will be reviewing the substantive CCOs roles next year, and it has been publicly mooted that may include seeking advice on an option that would join ATEED and RFA (Regional Facilities Auckland) together; that would be similar to bringing together PWT, Venues and Grow Wellington. Auckland Council has yet to agree a terms of reference for the project.
- Destination Queenstown is technically a CCO of Queenstown-Lakes District Council, however the Council does not appoint its board members. It was formed as a membership organisation 26 years ago to promote Queenstown. Like PWT, it is now primarily funded by commercial ratepayers via an annual levy. Commercial ratepayers automatically become members of the organisation and others can join via a subscription fee. The membership organisations meet annually to elect a governing board of directors. There are seven directors elected in specific sectors as well as the CEO of the Queenstown-Lakes District Council.
- Visit Ruapehu delivers its services under contract to the Ruapehu District Council. Service performance agreements and bulk funding arrangements are in place.
- Venture Taranaki is an economic development agency and a CCO of the New Plymouth District Council. Like ATEED, its remit is broader, the equivalent of Grow Wellington, PWT, and events together in one entity.

An assessment of PWT's activity against the framework for deciding the best governance arrangements for Council activities has taken into account PWT's current performance as well as (to the extent possible) an understanding of the Council's future expectations.



This shows that external governance for PWT is still most appropriate:

- PWT has benefited from being focussed on attracting visitors to Wellington. PWT currently partners with about 240 businesses and organisations. Maintaining relationships with all of these partners is time consuming and requires a lot of focus and effort. If this service were delivered in-house, the focus could easily be broadened out to include other city and Council marketing, or even wider economic development activities, and its impact could be diluted. This could influence PWT’s ability to meet the Council’s expectations around leveraging private sector spend and increasing visitor numbers to Wellington.
- PWT is expected to leverage spend from other sources, for the overall benefit of Wellington. This requires PWT to partner with some of these other entities, and this joint approach lends itself to external governance.
- As a separate entity, PWT is more able to pursue opportunities that may not be completely aligned with the Council’s objectives, or are experimental in nature. This type of entrepreneurial, flexible approach means PWT will participate in activities which the Council may be reluctant to, but which should benefit the city. Ring fencing this risk means the Council can have transparency from PWT about the overall benefit gained from its investment.
- PWT partners with other local authorities, for example, Hutt City Council contributes to the Australian marketing campaign. These partnerships would be more difficult if the relationship was between two local authorities, as councils tend to be reluctant if funding other councils directly. It raises questions about governance and accountability that can be difficult and time consuming to resolve. PWT is able to avoid these challenges by being independent. As there is a regional benefit from the activities of PWT, and those activities bring more visitors to the Wellington region, it is important there is an agreed vehicle which makes it easy for these places to collaborate on achieving common goals.
- It is important downtown levy ratepayers have transparency and accountability in how their contribution to PWT’s activities is being spent. Gaining the confidence of this group is easier if the activity is delivered via a separate entity, and the annual SOI and reporting regime highlights how funds are being invested and what return they are delivering. It would be more difficult justifying the separate levy without this level of accountability. It also gives those that contribute a greater sense of ownership in PWT and what it delivers on their behalf.

- External partners of PWT, funding specific campaigns, need to have confidence that their contributions will deliver results. This is more likely if investors see the organisation they are partnering with as experts in their field with a track record of success. PWT has a track record of success and operates under a commercial model with a board and shareholders. Businesses may therefore perceive PWT to be more likely to understand what it means to operate in a commercial environment.
- Some partners may have different expectations of the Council and as a result choose not to fund a campaign to the same level. The Council collects rates to deliver a range of services. Its remit is broad and not always clear to everyone. Some potential funders may be reluctant to fund an organisation that it feels it has already funded through rates. While PWT is also funded through rates, its distance from the Council means it is also distant from where rates are paid. In addition, its core purpose is clear and success is more easily measured.
- The Council wears multiple hats with many of the partners PWT deals with. For example, all hotels and restaurants have a relationship with the Council's liquor and food licensing teams as well as an interest in wider city strategy and policy. By delivering tourism activities in a separate entity, it is less likely these businesses will blur these multiple roles. If the Council were to approach a business with a proposal to take part in a marketing campaign, the business may also be applying (for example) for a liquor license which could influence its decision on whether or not to take part. However if PWT approached a business with the same proposal, the business would likely treat each relationship separately.
- PWT's single focus has produced positive results. It generates half of its income from non-Council sources, and uses Council funds to leverage significant investment from the other sources for the benefit of Wellington. Wellington's tourist sector has also bucked the national trend of declining guest nights by reporting continued growth.
- As the global economy shifts, the visitors coming to Wellington also change. PWT will continue to need dynamic leadership in order to see opportunities in these changes and take advantage of them. Through the Economic Development Strategy, Council has recognised the need to continue funding the activities carried out by PWT over the long term. While the overall objectives of PWT are relatively enduring, the best way to achieve them will constantly be changing.

In comparison, the benefits of bringing PWT in-house are relatively small:

- The costs associated with having a separate board would be saved, amounting to about \$100,000 per year. Other cost savings would be minor.
- Council would have more control over the day-to-day PWT operations. In reality, however, the level of involvement Council is able to bring to PWT's operations would be restricted by the sheer volume of other issues they need to deal with. It would also risk losing the benefits outlined above – increased focus, ring-fenced costs, enhanced transparency and accountability, and increased potential to attract income from partners.

## Considerations going forward

### *Regional governance*

If Wellington chooses a different, regional governance model PWT could become a CCO of a larger organisation. Currently there are other regional tourist organisations operating in the Wairarapa and Kapiti/Horowhenua. Grow Wellington is also operating across the Wellington region and has a broader economic development remit around growing businesses and productivity. Once decisions are made about Wellington's local government structure, there will be an opportunity to review these organisations, how they relate to each other, potential efficiencies, synergies and groupings.

### *Sharing resources and expertise across the family of CCOs*

PWT has made progress in using its marketing expertise to benefit the Council's other CCOs - MOUs are in place with the Zoo, and Carter Observatory (and with ZEALANDIA). The Museums Trust, Zoo, ZEALANDIA, and the Cable Car all participate in partnership programmes operated by PWT, and PWT has initiated a 'Wellington City Pass' Programme which promotes visitation to ZEALANDIA, Carter, the Zoo and the Cable Car. PWT is leading a project aimed at bringing more visitors to the Kelburn precinct of the Cable Car and increasing the activities undertaken by all visitors to this area of the City. PWT is also a member of the Council's Events Forum and sees the strategic importance of this relationship.

These connections and partnerships present an opportunity for PWT to develop a more integrated story for Wellington and should continue to be encouraged.

## Conclusion

The review concluded that external governance remains the vehicle most likely to deliver the vision and focused attention on visitor attraction for the city, and potentially for the wider Wellington region largely because PWT can partner with other bodies in ways, and at a level, which the Council is unlikely or may find it difficult to. It is also possible private sector companies would not invest as heavily in marketing initiatives if they were dealing with the Council, as the overall investment would be less transparent with the Council organisation. It is recommended that Council continues to provide these activities through external governance.

---

## POSITIVELY WELLINGTON VENUES (VENUES)

---

### Context

Wellington Venues Ltd (WVL) trades as Positively Wellington Venues (Venues). A CCTO, it commenced operations in February 2011, with all responsibilities transferred to it in July 2011, when the merger between the Wellington Convention Centre and the St James Theatre Trust was completed.

Acting as an agent of Council, Venues is responsible for the management of Wellington's premiere venue spaces, including: the Michael Fowler Centre, the Wellington Town Hall, the St James Theatre, the Opera House, the TSB Arena and Shed 6. The Council is the owner of four of these buildings, and the TSB Arena and Shed 6 are managed under contract with Wellington Waterfront Limited.

This CCTO is governed by a board of eight, including two councillors.

The interim SOI (2011/12) identified Venues' core business is: *"winning and growing more business, community and show business events to improve the performance of WVL and deliver a better return to the city"*. Not just about selling venues space and seats, Venues identifies itself as being about marketing, coordinating and delivering all event activity within the venues.

### Background

1998	St James Theatre Charitable Trust established to own and manage the St James Theatre and the Opera House.
2009/19	<p>Council's long-term council community plan noted Council staff would undertake a review of the Council's venues. The Francis Group was commissioned to undertake the review and recommended -</p> <ul style="list-style-type: none"> <li>▪ there is a strong case for establishing a single management structure for the venues, and</li> <li>▪ the combined management could be achieved by either: bringing all the venues under the existing in-house unit (the Convention Centre), or the establishment of a new CCTO for the management of the venues.</li> </ul> <p>The Francis Group report made a strong recommendation that a single CCTO be established to manage the venues, subject to further consideration of the legal, financial and tax implications.</p>

June 2010	<p>Council agreed in principle that the operations of the St James Theatre Charitable Trust (the St James Theatre and the Opera House) and the Wellington Convention Centre (comprising the Town Hall and the Michael Fowler Convention Centre, and managing the TSB Arena and Shed 6 on behalf of Wellington Waterfront Ltd), be merged into a single entity. That a new CCTO be established to manage their combined operations (and consequently the St James Trust would be wound up).</p> <p>The CCTO was to be 100% owned by the Council, with the role of managing for the Council the use of its six largest venues. Ownership and on-going maintenance and renewal of the venues to reside with the Property Business Unit within Council (with opex of \$5.5m and capex of \$2.3m respectively over 10 years, identified for the St James Theatre and the opera House).</p>
July/August 2010	<p>Public consultation on a statement of proposal. The proposal identified that the CCTO model would deliver commercial oversight, generate larger revenue streams and economies of scale through combined administration and purchasing power resulting in lower operating costs. It noted the model was similar to Christchurch, Auckland and Dunedin.</p> <p>The proposal identified:</p> <ul style="list-style-type: none"> <li>▪ <i>Ownership of the St James Theatre and the Opera House will be transferred from the Trust to the Council.</i></li> <li>▪ <i>With the approval of its directors, St James Theatre Limited will be wound up.</i></li> <li>▪ <i>With the approval of its trustees, the St James Theatre Charitable Trust will be wound up.</i></li> <li>▪ <i>The Council will establish and appoint the new CCTO as the manager of the St James Theatre, the Opera House, Wellington Town Hall and the Michael Fowler Centre.</i></li> <li>▪ <i>A management contract will be agreed between the Council and the new CCTO to reflect the respective responsibilities of each with regard to the management of the venues and the maintenance of the associated assets.</i></li> <li>▪ <i>The existing management contract between Wellington Waterfront Ltd and the Convention Centre to manage TSB Bank Arena and Shed 6 will be assigned to the new CCTO.</i></li> </ul> <p>Twenty-three submissions were received. The majority (70%) of submitters supported the proposal, while a small number of submitters sounded a note of caution around the lost ability of hirers to negotiate with two different organisations.</p>
September 2010	<p>Council agreed to establish Venues as a CCTO, as set out in the statement of proposal.</p>

<p>November 2010</p>	<p>The interim board for Venues was established, chaired by the chair of the St James Trust.</p> <p>The initial tasks of this interim board were to:</p> <ul style="list-style-type: none"> <li>▪ Appoint a chief executive (this process was completed in November 2010 and the CE took office 31 January 2011)</li> <li>▪ Agree with the Council the Constitution for the new entity</li> <li>▪ Develop an interim SOI for 2011/12.</li> <li>▪ Agree with the Council a management agreement.</li> </ul>
<p>January 2011</p>	<p>WVL was incorporated.</p> <p>The Constitution of Wellington Venues Ltd specifies that the principal objectives of the Company are to:</p> <ul style="list-style-type: none"> <li>▪ Manage, promote, operate and administer the Venues, and any related Event business</li> <li>▪ Foster the holding of events and promote the use of the venues for events</li> <li>▪ Promote the acquisition, restoration, development and active use of the venues for events</li> <li>▪ Advocate for the venues and events sectors for the benefit of the residents of Wellington</li> <li>▪ Achieve the objectives of its Shareholder, both commercial and non-commercial as specified from time to time</li> <li>▪ Be a good employer</li> <li>▪ Exhibit a sense of social and environmental responsibility</li> </ul> <p>Conduct its affairs in accordance with sound good practice.</p>
<p>February 2011</p>	<p>Venues commenced operations, with the Council's directly owned assets - the Town Hall, the Michael Fowler Convention Centre, TSB Arena and Shed 6.</p> <p>The St James Theatre and Opera House transferred after 1 July (at the beginning of the new financial year).</p> <p>The interim Board and subsequently the full Board of WVL agreed with the Council to conclude a heads of agreement (HOA) rather than a detailed management agreement in February 2012. The simplified HOA sits alongside WVL's statement of intent (SOI); the two schedules outline general obligations but not detail to underpin the obligations nor the relationships necessary to achieve the objectives. (Overall this operates at a more generic level than a management agreement or a purchase agreement would operate, and anticipates that detailed service level agreements will be put in place. Draft agreements have been developed and are now ready for signing, but there are still matters from Schedule 5 of the draft management agreement to be resolved.)</p>

<p>June 2011</p>	<p>SOI 2011/12 adopted. Venues' core business was identified as: <i>"winning and growing more business, community and show business events to improve the performance of WVL and deliver a better return to the city"</i>.</p> <p>It set out that Venues will undertake to work with hirers to: provide live entertainment and performing arts experiences; host special government, education, business and industry occasions; support business and industry networking and developing experiences; providing facilities for regional, national and international sport teams to compete; enabling civic and community performances and celebrations.</p> <p>The SOI also identified two core sets of business objectives and community outcomes. (The business objectives included optimising commercial utilisation of the venue assets, and develop new markets; reducing the level of operational subsidy required from the Council; deliver dividends to Council. The community outcomes included adding to the cultural and business vibrancy of the City and Wellington's competitiveness as a visitor destination, contributing the health and resilience of the Wellington economy, building community pride and participation, and supporting creative talent.)</p>
<p>June 2012</p>	<p>The Annual Report received in September 2012 identified -</p> <ul style="list-style-type: none"> <li>▪ 10% growth in hire days for the venues over the previous year (with 2000 commercial hire days and 72 community or not-for-profit hire days, over and above community hire days funded through the Council or PAF grants), and 11.8% growth in show ticket sales over 2010/11.</li> <li>▪ A net trading loss of \$0.458m, less than the budgeted loss of \$0.507m.</li> <li>▪ A 4.7% growth in revenue, this was less than the budgeted 8% (and Venues reported it actively managed costs to protect its bottom line).</li> <li>▪ Y1 event revenue was \$1.023m under budget (\$14.811m compared to a budget of \$15.834); Venues advises \$0.700m is attributable to the Ton Hall being yellow-stickered as earthquake prone. At Q3 it was clear from Venues that revenue for the quarter was \$0.250m under budget, that the Q4 pipeline was not at budget, and legacy costs were at \$0.584m. Venues identified then it was focused on delivering an operating result as budgeted.</li> <li>▪ One-off costs identified by Venues at year end were \$0.811m, including restructuring, legacy and replacement venue-related costs.</li> <li>▪ An overall loss after tax \$1.269m compared to a budgeted loss of \$0.507m (a variance of -\$0.762m). Venues has identified that this will be absorbed by Venues from future surpluses, however as Venues costs are run through the Council's books it will show as loss in the Council's consolidated income statement. Venues considers that the need for it to use this credit facility from the Council will diminish as it moves into profitability.</li> </ul>

### Has the current governance structure produced desired results?

In 2009, as part of its overall vision of positioning Wellington as a vibrant, internationally competitive and affordable city, the Council reviewed its strategic direction on cultural and arts positioning, event programming, and the tourism and incentives business it is able to attract. This raised the issue of whether all six venues should be managed collectively, and whether there were more effective ways to manage these venues and improve revenues; while retaining the Council's desired social and cultural outcomes.

The CCTO that was established is a management company - Venues manages and promotes the venues and the Council (and Wellington Waterfront for TSB Arena and Shed 6) has ownership of the buildings and responsibility for their maintenance and depreciation.

#### *Centre of excellence*

Venues has established a vision for the company, "Rocking this Town" in 2020, which envisages a collaboration where Venues, PWT and City Events work together "to become an economic and creative powerhouse for the City by supporting a range of business, cultural, community and sporting events". Its objective (as outlined in the current SOI) is to deliver a compelling year round calendar of 'grow' and 'show' business events – growing convention and event business in Wellington, and show business.

There have been some questions raised through the review about potential overlap between the work of Venues and that of PWT. Council has been working with both entities to ensure they have separately articulated roles, and any overlap seems more a matter of perception than reality now with the two companies appearing to work closely, in complementary roles.

Venues and PWT (representing the Wellington Convention Bureau) have entered into a partnership with Te Papa to promote Wellington as a convention destination, and through their joint employment of an Australian-based person to promote the conventions and events business for Wellington. PWT is focussing on marketing Wellington overall as a destination (for leisure and business) and telling its story, while Venues is focussing on filling its venues with business from Wellington and nationally, as well as from Australia and other international destinations (in partnership with Tourism New Zealand).

Maintaining separate roles going forward could be a challenge, as both entities have responsibilities for selling Wellington and getting people to the city and its events (whether they be residents or visitors, for work or for pleasure). So there is a need for clear strategic alignment to ensure that PWT and Venues leverage rather than duplicate activities – including through opportunities such as the new "Destination Wellington" programme.

#### *Cost savings*

Since its establishment, the St James Trust operated without regular operational funding assistance from the Council (apart from some Events Development Fund grants and a grant for rigging), but it had not been able to fully fund its depreciation nor to establish a regular funding stream. Consequently, the Trust faced significant levels of deferred maintenance and struggled to fund its

renewal maintenance programme and made operating losses (although there was an operating surplus in 2010/11).

The Convention Centre was generating revenue for Council although the transparency of the full costs of the operation are limited when located within the large council operation, and the Convention Centre was providing significant in-kind support for community groups. Overall, there is not a reliable benchmark or full base-cost to compare Venues performance against, so performance is considered against the initial budgets established for the new entity; acknowledging that Venues management have emphasised the budgets were undertaken on a best-endeavours basis.

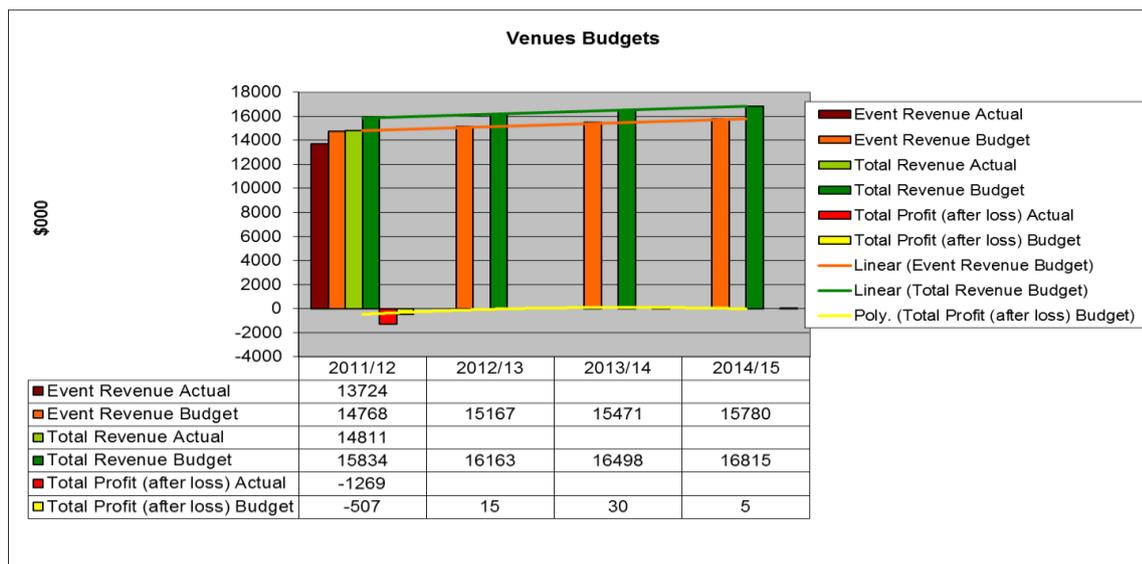
In placing the St James Theatre and the Opera House under Council ownership, and integrating the management of these venues with the Convention Centre, TSB Arena and Shed 6, the Council expected that this would allow for -

- those assets to be managed more efficiently and generate more revenue; and
- a new CCTO to focus on the core business through increasing the use of the venues space, being a single marketing point for all large Wellington venues and having the flexibility to secure events of all sizes – thereby ensuring no event opportunities were lost.

Council has made allowance for the upkeep and upgrading of the buildings, starting with initial capex for the Opera House and the St James of \$0.925k and \$0.489k in 2011/12 and 2012/13; however earthquake strengthening requirements have subsequently overtaken the requirements of the buildings as a whole. Whilst noted, the ownership and maintenance of the buildings is largely outside of the scope of this review.

The Council's Letter of Expectation for 2012/13 included a request that the SOI should specify how Venues will transition to break even (after depreciation) in the next financial year and deliver financial surpluses thereafter. Venues' SOI noted this would be a challenge. In its first year of operation, Venues has identified a saving of \$0.039m in total expenses before the inclusion of \$0.811m 'unbudgeted' one-off expenses (items Venues considers were not originally included in its budgets, such as redundancy costs and support for iconic events such as WOW, and town hall replacement costs, subvention). There are some views within Council that some of these general costs were understood to be included in the first year's budgets, but Council acknowledges these were probably budgeted at lower levels than the actual costs incurred and responsibility for some 'grandfathered' employment conditions were transferred to Venues post-establishment.

Looking ahead, Venues has identified that it aims to be self-sustaining with a \$15,000 surplus budgeted for the 2012/13 financial year which would see it in surplus ahead of projections in its original SOI (interim 2011/2012 SOI). There is a risk of variation noted. For the two out years, Venues has projected provisional surpluses of \$0.030m and \$0.005m provided an alternative venue to the Town Hall. Council confirmed funding for this 23 October 2012. Venues subsequently advised it will revisit the out-year projections, with a view to delivering improved surpluses.



Although the revenue stream was down in the first year, Venues has expressed a commitment to managing costs to deliver an agreed bottom line. Resolving disparities between Venues and its owner about exactly what 'community access' to the venues means and where it will be funded from will be important to this.

### Community access

In establishing the CCTO, the Council was deliberate that the new entity should continue to provide support for community groups and strategic partnerships to benefit Wellington culturally and economically. It is clear from the June 2010 paper proposing the establishment of Venues, that the Council was concerned to ensure that there was continued access for community events. That paper noted that in 2010, the Wellington Convention Centre provided significant support to over 70 community groups. When Venues was established, supported events at the Wellington Convention Centre (2009) included –

- Major events – WOW, NZ International Arts Festival, Jazz Festival
- NZSO
- Sports – Saints, Pulse, College Sports
- Community – Artsplash, Chinese New Year, Children on the Edge, Downtown Community ministries, art exhibitions,
- Council – council business, Tsunami relief concert, Gold awards, Wellys, Mayors concert, Sports forum
- Education – support Wellington school events, stage challenge
- Fine arts/music – Vector Orchestra, Chamber Music New Zealand, Youth Orchestra, organ recitals

Venues has advised it continues to support all the above events through discounted agreements with hirers or indirectly through what was the Community Access Fund (\$0.200m) and the Venue grants (\$0.045m) that were accessed by the former Convention Centre. Council rolled these funds together into a new Wellington Venues Subsidy for supporting community access to the six venues; the \$0.245m grant is administered by the Council. Criteria for the grants include being a Wellington-based community group, not already receiving funding from the Council for a similar purpose, and contributing to at least one of the Council's four strategic outcomes.

Council had intended that there would be provision through a management agreement between the Council and Venues for an additional \$0.250m of venue hire to be made available from Venues directly to community groups, largely through an array of in-kind support. A very detailed management agreement was drafted and discussed between the Council and Venues. That draft agreement included in Schedule 5, that:

- Venues should accept bookings from Wellington-based community groups (that are not-for-profit and have a community benefit); and
- Venues should provide \$0.250m of venue hire and services per financial year, in addition to the \$0.245m Council Venue Grant; and
- Venues was expected to support Wellington based fine arts and subscription hirers through the annual negotiation of “favourable venue hire arrangements” that would contribute to Wellington city’s aspirations to support these groups, specifically – Chamber Music NZ, Vector Wellington Orchestra, Wellington Musical Theatre, Chamber Music New Zealand, Orpheus Choir; and
- Venues was expected to allow Council to use the venues for a variety of events, and the Council would maintain a fund of \$0.100m for this purpose; and
- Venues would also be required to support a range of iconic events, namely specified space for WOW, NZ International Festival of the Arts, NZSO, Royal NZ Ballet, Artsplash, and preferential venue hire rates at the TSB Arena for sporting events.

As noted earlier, the draft management agreement was replaced in favour of a Heads of Agreement that was signed in February 2012. As a consequence of the simplified HOA, a number of the matters outlined in Schedule 5 of the draft management agreement were not concluded and have instead been dealt with on a case by case basis. Both Venues and WCC agree that with one year of trading complete, the detailed analysis that Venues has undertaken on the costs of meeting the obligations contained in some of the hirer agreements and the adoption of the new City Events Policy, it is appropriate to conclude the various arrangements.

The Council’s Letter of Expectations for the 2012/13 SOI included a request that the SOI should include detailed strategies and relevant KPIs for advancing community engagement and venue access, and requested the entity to demonstrate that it is working to reduce the level of funding it receives from the Council.

The 2012/13 SOI identifies that Venues has indicated that it will continue to provide support to iconic events such as VISA Wellington on a Plate, Handmade, NZ International Festivals of the Arts, and WOW. In addition, Venues intends re-launching a package of community support to the value of \$1.000m, through –

- Venues input into the application of the Council’s existing Wellington Venue Subsidy Fund (\$0.245m); and
- Venues sponsorship support via venue discounts to the value of \$0.400m per annum, the criteria for “sponsorship discounts” are due to be approved by the Board in November; and
- Venues will establish and promote Wellington on Stage – a community weekend, with access for community groups to the venues in June or July each year, with Venues funding the development, management and promotion of the event; and
- The Performing Arts Foundation grants package.

The SOI also notes that to achieve event revenue growth of approx. 8% above 2011/12 level, Venues will improve sales and marketing, and manage its sponsorship discounting within the \$0.4m it has ring-fenced for this. Alongside this, Venues has been developing a PWV Sponsorship strategy to guide how the \$0.4m will be allocated. The followed categories of support have been proposed: Community/NFP/Charity; Sports Events; and Corporate Events. Internally, Venues is also discussing its support for the following entities being recognised as sponsorships: WOW; NZ International Festival of the Arts; Resident hirers including venue discounts for NZSO, RNZB, Chamber Music, Orpheus Choir, NZ School of Music etc. In respect of its sponsorship, Venues is considering the following proposed criteria:

- *tangible business benefits to PWV associated with the partnership*
- *opportunity to create long-term value (vs one off events that may not survive)*
- *for use at PWV venues only*
- *opportunity to reach target audiences and build relationships*
- *positive exposure consistent with PWV brand*
- *ability create cross-promotional initiatives*
- *ability to grow event to benefit all event partners and Wellington*
- *reflective of the diversity of Wellington's population.*

Council and Venues commonly understanding the approach to be taken in this area is important.

In addition, there are potentially conflicting expectations of Venues -

- the 2011 Letter of Expectation asks Venues to identify the support it will provide for community organisations and asks Venues to identify when it will 'break-even' and generate 'a surplus'; and
- The 2012/13 SOI identifies Venues would achieve an 8% projected growth in revenue, to be achieved in part through a reduction in discounting.

The SOI was agreed to by Council, subject to CCOPS receiving a relevant suite of KPIs with baseline figures against which progress can be monitored; it is possible the revenue growth expectation will be adjusted at that point.

The SOI approved by the Council for 2012/13 outlines at a high level some proposals for community access and iconic event support, alongside an expectation of reducing discounting. The proposals are generic in their nature, and from the SOI alone, it is difficult to understand if the Council's expectations are being met or not. The Council and Venues should reach a clearer agreement on what community access to venues will deliver for the city, and by removing ambiguity in this regard also remove any concerns over potential under-performance.

### **Service levels**

Venues has been in operation for only 12 months, and that has really been a transition year. This makes it difficult to determine whether improved performance is being achieved or not, as there is not consistent baseline data available to assess performance trends.

From the recent annual report from Venues, Council identified that:

Key Performance Indicator	Reported Outcome
<b>Business Viability</b>	
<ul style="list-style-type: none"> <li>On budget (or better) financial performance across bottom line revenue and expenditure targets</li> </ul>	Achieved for expenditure targets Not achieved for revenue targets
<ul style="list-style-type: none"> <li>New Management and organisation structure in place by Q2</li> </ul>	Achieved
<ul style="list-style-type: none"> <li>Service Level Agreement in place for WCC shared services</li> </ul>	Mostly Achieved (ready for signing)
<b>Venue Utilisation</b>	
<ul style="list-style-type: none"> <li>5% increase in hired days over previous year</li> </ul>	Achieved
<ul style="list-style-type: none"> <li>Achieve budgeted number of performances and performance revenue</li> </ul>	Not achieved
<ul style="list-style-type: none"> <li>Achieve budgeted convention and event hires and revenue</li> </ul>	Not achieved
<ul style="list-style-type: none"> <li>Maintain an appropriate mix of commercial and community hires</li> </ul>	Achieved
<ul style="list-style-type: none"> <li>Uptake/use of Venues Subsidy</li> </ul>	Achieved
<ul style="list-style-type: none"> <li>New Performing Arts Foundation Trust established to support community access</li> </ul>	Achieved
<b>Duty of Care</b>	
<ul style="list-style-type: none"> <li>Pan-venue asset management plans in place for all operating assets</li> </ul>	Commenced. Now due mid 2012/13
<ul style="list-style-type: none"> <li>All health and safety requirements met</li> </ul>	Achieved
<ul style="list-style-type: none"> <li>New initiatives introduced to give greater visibility to reducing the company's environmental foot print</li> </ul>	Achieved
<b>Marketing Edge</b>	
<ul style="list-style-type: none"> <li>Successful launch of "Positively Wellington Venues" brand and market positioning</li> </ul>	Achieved
<ul style="list-style-type: none"> <li>New business pipeline shows strong forward bookings</li> </ul>	Not reported
<ul style="list-style-type: none"> <li>New business wins and value of relationship business</li> </ul>	Not reported
<b>Outstanding Experiences</b>	
<ul style="list-style-type: none"> <li>Maintain/Increase audience and hirer satisfaction relative to past trends</li> </ul>	Achieved
<b>Performance Partnerships</b>	
<ul style="list-style-type: none"> <li>At least 3 successful joint marketing ventures with PWT and other partners</li> </ul>	Achieved
<ul style="list-style-type: none"> <li>Joint ventures and 'own shows' are successfully promoted and make a positive contribution to the bottom line</li> </ul>	Achieved

Venues reported the following supporting measures to CCOPs on October 15:

- Venue utilisation – hired days - increased 10% over previous year.
- Conventions and Events revenue was \$8.1m (54% of total revenue).
- Performance and Exhibitions revenue was \$5.1m (34% of total revenue).
- Pipeline typically represented 78% of next 12 months revenue.

However, the KPIs in the SOI are not all SMART KPIs, and the SOI acknowledged this as a work in progress and a transition year. It would be beneficial for both parties if the Council and Venues identified more effective KPIs, and which are better connected to the Council's own KPIs. These would also enable the Council to monitor performance against forward projections and thereby better understand its own risk profile and overall asset performance.

## Council's current and future expectations for Venues

### *Partnerships*

Venues has also identified (SOI 2012/13) that it intends identifying and growing new funding streams and partnerships, to enable it to "support and improve the viability of community access", and to use new technology to grow audiences and community access (including access for sight and hearing impaired and wheelchair access).

A plank of establishing the CCTO was the expectation from the Council that there would be a move to shared services supplied by the Council. A SLA is being finalised, and includes accounts payable/receivable; payroll, property, and procurement services; IT support, IT equipment and access to the Vodafone network; HR support as required.

Venues SOI identifies the areas of Wellington 2040 where it expects to contribute. Venues has also identified that it has a strong relationship with PWT regarding the Convention Bureau and destination marketing for Wellington, and will be engaging more with the Zoo, Carter and Museums Trusts, Te Papa, and City Events, and with hotel and tourism bodies based in Wellington.

### **Is this governance model still fit for purpose?**

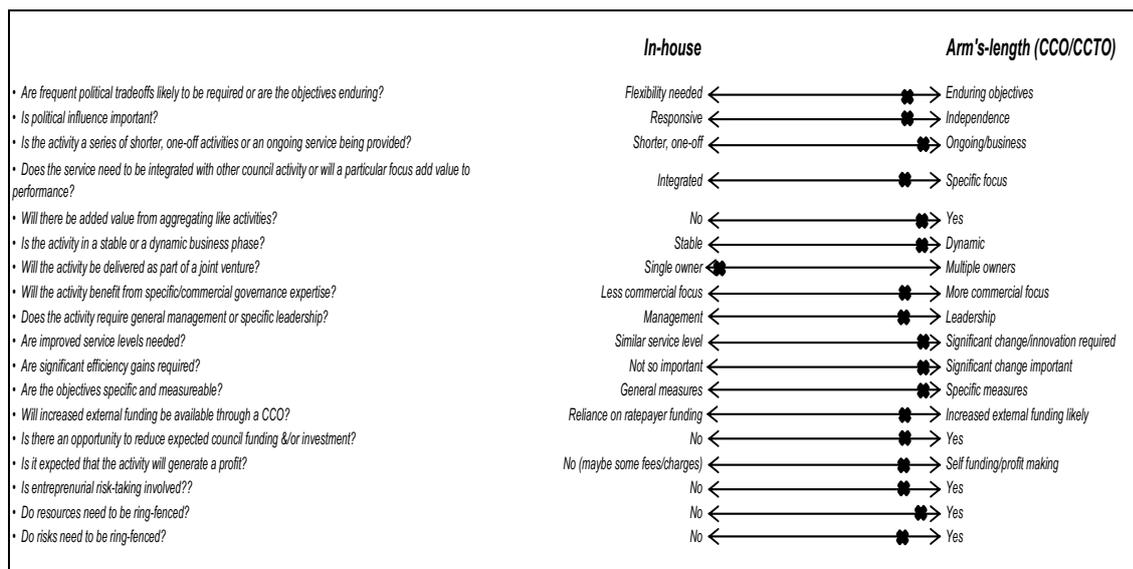
Taking a brief look at other similar venues provided by some metropolitan councils –

- Auckland Council has a substantive CCO, Regional Facilities Auckland [RFA], which oversees The Edge (including the Aotea Centre, the Town Hall and the Civic theatre) and the Zoo, Mt Smart, the Auckland Art Gallery, and Auckland Conventions. It brings together entities that showcase the performing arts, host conventions and exhibitions, and support sporting events.
- Dunedin has Dunedin Venues Management Ltd, a venues management company looking after the Dunedin Centre, the Town Hall and the Forsyth Barr Stadium; and Dunedin Venues Ltd, which owns the stadium. Following the recommendations of the Larsen Report, Dunedin City Council has transferred governance accountability of DVML and DVL to Dunedin City Holdings Ltd (the council's holding company) with the council retaining shareholding, pending a governance review of these entities. DCC has requested DCHL undertake a governance review of DVML and DVL to ascertain - the appropriate balance between public good and community use of the stadium without impinging on its commercial aspects; and the appropriate governance, operations and finance for them given their current financial constraints.

- Christchurch City Council has Vbase. A separate company, Vbase was established to own and manage the Convention Centre, Town Hall, AMI Stadium and the Canterbury Arena; and now manages the new temporary stadium. A portfolio not unlike Venues and the Wellington Regional Stadium together. Originally established as a separate company with an external board, follow earthquake damage to three of the venues, and due to tax changes (regarding the depreciation of buildings), the Vbase Company was transferred back to an in-house board in June 2011. The company still produces an SOI and annual report, the board is now comprised of the mayor, the CEO and two councillors from Christchurch City Council.

Venues is a management company, providing integrated oversight of six major council venues. As such, it is somewhat similar to some of these other entities; although RFA is more of a destinations entity (that would be similar to putting together Venues, the Zoo, ZEALANDIA, the Stadium, the Basin and the Museums Trust).

Information from the Venues Chair and CEO on an analysis of the framework was that with the exception of single/multiple ownership, it considers all the indicators to lie strongly towards Venues being governed at arm's-length. The review has considered that information and the other articulated expectations of the Council, and has made the following assessment:



Venues was only established in 2011, and the reasons for setting it – to achieve synergies and grow external revenue – have not changed:

- Although the owner is a political entity and it is important that all CCOs have regard to the 'what would this decision look like if it were reported on the front-page of the newspaper' test when making decisions about their businesses, filling and managing large venues are not activities where there are significant political trade-offs.
- It is about running a business, effectively and efficiently (while also having appropriate regard to community and cultural aspirations). Having placed a strong focus on efficiency and effectiveness, and on attracting new events and from new markets, to generate revenue will be important to avoid a further drain on ratepayer funding. An external board with

commercial expertise will assist with this. Furthermore, the objectives remain enduring (attracting events and people, and growing revenue). These do not change regularly.

- The new company is in a start-up phase and looking to attract different business, including an increased focus on the Australian market as the local market tightens somewhat; as such, it is in more of a dynamic than a stable state. Being able to have the relevant commercial and business conversations with promoters, and to be flexible with hire arrangements will be important. Venues is identifying that synergies are being achieved through having the basket of locations available to book together. The recent decision of Council not to temporarily replace the Town Hall as a venue, while earthquake strengthening is occurring, means attracting new business to Wellington will be challenging for the company, and will require focussed attention.
- There are very strong linkages with PWT and with the City Events team that need to be actively managed both to maximise opportunities and to minimise risks of overlap. Alongside the specific relationship, participation in the new Events Forum (if not an an integrated governance structure) will be important here.

Through the process of developing a statement of intent and reporting against that annually, there is greater transparency and accountability about the contribution that this business makes to Wellington. These factors all point to having these venues managed together, with the potential to add additional venues in the future. With reduced venue availability and while the business is planning a significant growth phase, having access to specific commercial expertise and accessible direct governance should improve the performance of the entity. While some of the activities were managed in-house until 2011, there is now a need to be very proactive in attracting new business.

Given the nature of the business (to fill and manage already existing venues, with the significant assets themselves owned by the Council), however, it is not clear to the review why Venues requires a board of eight directors. This is the largest of the Council's CCO boards. The entity will only be looking at turnover of around \$15m per annum; and there are clear synergies between the activities (in comparison, RFA operates under a single management board of nine; it had a trading revenue of \$42.1m which was \$5.6m ahead of budget despite reduced sponsorship). A smaller board for Venues, of around 5 to 6 members could be considered for this focussed set of activities.

Venues considers it is not so much the size of the Board as the set of competencies around the Board table that are important, and that the core competencies that a business like Venues can benefit from around the board table are: marketing and branding; business/general management; accounting; legal; social/digital media; and food and beverage. Venues also advised it supports the appointment of at least one councillor to the Board to 'ease' the transition between the commercial and political aspects of the business.

### **A CCO or a CCTO?**

As the company is trading, and as it is eventually expected to generate revenue for the Council, being designated a CCTO is appropriate in the case of Venues.

### **Conclusion**

Venues is focussed and in a dynamic phase, where clear leadership will be important. External governance will support a focus on growing a newly integrated business, while driving for efficiencies in that business.

However, there are a number of matters that the Council and Venues should reach agreement on, and move on from, and this should occur in Q2 to allow these to then be incorporated into planning for 2013/14. Venues considers that priority should be given to concluding the shared services agreement (including proposed fee structure), agreeing how the obligations and costs associated with legacy and major hirer arrangements should be met, and confirming community support and sponsorship programmes.

It is recommended that in Q2 of the current financial year, the Council discusses and agrees with Venues:

- a) A statement of core purpose for Venues, supported by high-level KPIs that will give the Council as owner confidence it understands that its company is improving its performance and contributing to the city's outcomes, particularly economic growth.
- b) What legacy or other sponsorship support the CCO is expected to provide for community organisations or other strategic partners, within its revenue stream; also whether any amendment to the constitution is required to reflect this.
- c) In light of recommendation (b) and any impacts that might have on the CCO's bottom-line, review the timeframe in which the CCO is expected to 'break-even' and then to deliver a 'surplus'.
- d) Performance measures that are SMART and link to the relevant Council KPIs, and will enable Council to understand ahead of time the potential impact on its own risk profile (including when or if the line of credit may need to be activated).
- e) Results of these discussions to be incorporated into the 2012/13 SOI.

## WELLINGTON CABLE CAR LIMITED (WCCL)

### Context

The Wellington Cable Car Company (WCCL) was established to own, maintain and operate the Cable Car system and the trolley bus overhead wire network, on behalf of Wellington City Council.

The WCCL board has three members, all externally appointed.

### Background

1980s	Wellington City Transport (a WCC subsidiary) owned and operated Wellington's buses.
1991	Wellington Cable Car Ltd (WCCL) was established following government reforms in 1989 aimed at deregulating public transport, opening up the transport industry to competition. New provisions were inserted into the Local Government Act 1974 (part 34B) meant local authorities had to make transport operations into standalone businesses, or sell them. Regional councils were charged with deciding what public transport services were required and companies tender to provide them.  Under the legislation, the Cable Car was considered a public transport vehicle and by transferring ownership to WCCL, the Council could continue to own the Cable Car. The overhead wiring system was also included in the company to enable Greater Wellington Regional Council (GWRC) to competitively tender the trolley bus routes in the city in the same manner as diesel bus routes.
August 1998	GWRC Review of Trolleybus Policy – found strong public support for the trolleybuses. GWRC agreed to continue to fund trolleybus services until 2004, at which time the fleet would be reaching the end of its life and a decision would be required as to the future of trolleybuses in Wellington.
2003	GWRC once again considered the future of trolleybuses in Wellington, given the fleet was reaching the end of its life. It resolved that even though the trolleys are more expensive, new contracts would be entered into with WCCL and Stagecoach to replace the trolleybuses and to continue providing trolleybus services in Wellington until 2016/17.
Nov 2003	Part 34B of the Local Government Act was repealed by the Land Transport Management Act 2003. Under section 27 of the new Act, local authorities are able to own public transport infrastructure. The obligation for public transport services to be held by a CCTO remained. This means WCC (or GWRC) could now own the infrastructure, but cannot run the service directly.
May 2004	WCC considered a proposal to transfer ownership of the trolleybus overhead network from WCCL to GWRC, reflecting that the City has no need to own the assets and that transport is funded by GWRC.  [While Council agreed in principle, WCC subsequently (circa 2006) decided to

	<p>retain ownership of the overhead network, largely in support of its Broadband Strategy which required use of WCCL poles to carry fibre optic cable for telecommunications businesses, including Citilink who provided the required broadband capacity to the Weta Workshop. Also, ownership by WCCL provides another means for WCC/WCCL to have a position of influence to ensure that there is WCC input into the provision of the wider infrastructure for the operation of trolley-based public passenger transport.]</p>
Nov 2004	<p>Strategy for the Wellington Cable Car Tourism Precinct completed by a working group made up of representatives from the Carter Observatory, Skyline Restaurant, Botanic Garden, Museums Trust, WCCL, PWT and WCC (Marketing). Report identified a number of issues, including:</p> <ul style="list-style-type: none"> <li>▪ lack of co-ordination in investment in marketing activities – too many brands competing rather than working together;</li> <li>▪ dysfunctional relationship between the buildings and open spaces at the top of the cable car;</li> <li>▪ perceived security and public safety issues;</li> <li>▪ need to improve customer service standards.</li> </ul> <p>The group agreed common objectives and recognised the need to work closer together to achieve them.</p>
2004	<p>Transfund requested that GWRC consider other less expensive bus service options including hybrid buses. This prompted a campaign to save the trolleybus services in Wellington. The trolleybus operator at the time, Stagecoach, was in the process of procuring 60 new trolleybuses. Stagecoach halted this order during this period of uncertainty.</p>
March 2005	<p>Land Transport New Zealand (previously Transfund) approved a request from GWRC to fund additional costs associated with maintaining the trolleybus overhead wiring system, as part of the Wellington Transport Project. This followed a business case put forward by GWRC and other councils in the region (including WCC) arguing that the extra costs associated with providing bus services run on electricity through the overhead wiring network created more benefits (including environmental) than the money saved by changing to diesel or hybrid buses.</p> <p>LTNZ agreed to fund \$15m, equating to the ten-year cost of maintaining the overhead wires. A requirement of the decision was that GWRC prepare an Asset Management Plan for the refurbishment and operation of the overhead system.</p>
Mar 2006	<p>In recognition of the Cable Car precinct being a highly visited attraction in Wellington, Council agreed to fund improvements to the area aimed at creating a tourist attraction that is coherent, interesting and relevant to Wellington in the Long Term Plan 2006/09 to implement the strategy agreed in 2004 (see above). The work involved representatives from the Council, Cable Car Museum, Carter Observatory, Botanical Gardens, Skyline Restaurant and Cable Car. The project set aside funding for a series of small capex projects over three years totalling \$800,000.</p>

Dec 2007	Council agreed to reallocate \$500,000 of the \$800,000 Cable Car Precinct Upgrade towards the Carter Observatory Upgrade as it was a higher priority for the precinct.
Jun 2009	Also as part of the Long Term Plan, Council agreed to reallocate the remaining \$300,000 from the Cable Car Precinct project to the Carter Observatory for a digital full-dome planetarium projector.
Oct 2011	WCCL introduced new brochure mapping all of the attractions at the Cable Car Tourism Precinct. It is widely used by visitors to the area to plan and co-ordinate their visit.
Jan – Jun 2012	As part of the Long Term Plan deliberations, Council considered a proposal from its internal Parks and Gardens business unit to reinstate funding for the Cable Car Precinct Upgrade. Council decided the upgrade was not a high enough priority.
Jan – Jun 2012	In its Letter of Expectation to WCCL, Council requested WCCL participate in a plan, to be led by PWT, to better leverage marketing between attractions in the Cable Car Tourism Precinct. WCCL reflected this in its SOI agreeing to participate fully in any future collaborations.
Jun 2012	GWRC indicate in its Long Term Plan that it will review the future of the trolleybus passenger service beyond 2017 in 2013/14.

## Has the current governance structure produced good results?

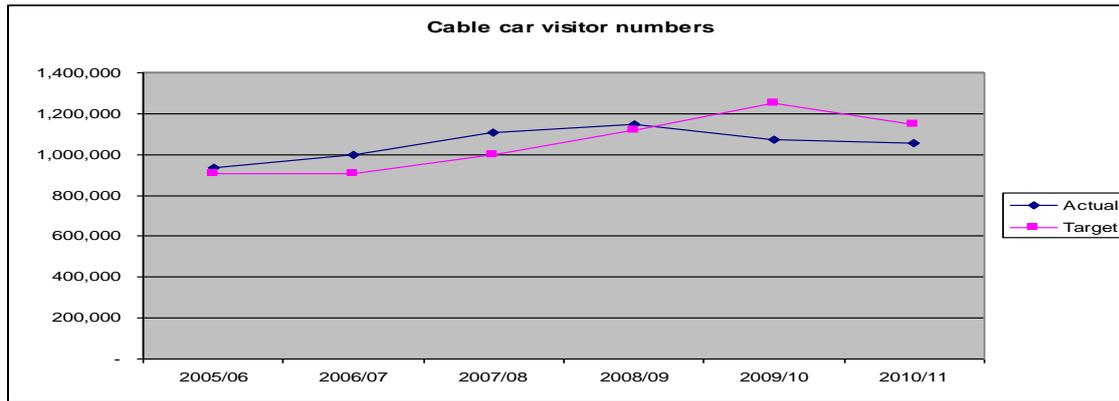
The company is required to run the Cable Car system using passenger fares and other retail income, without any subsidies. Maintenance of the trolley bus network is met by payments from Greater Wellington Regional Council (GWRC) on a cost recovery basis. In addition, revenue by way of rentals are collected from some telecommunications utilities, and further revenues are being sought from utilities that currently claim 'existing use' rights to access and use WCCL's poles without payment. The agreed levels of service required from WCCL's trolley bus overhead network and basis for funding are set out in a contract between GWRC and WCCL. The current contract expires in 2017, it currently pays to WCCL \$5.6m for the network. WCCL owns all of the assets.

In 2011/12, WCCL made an after tax trading surplus of \$632,526 after payments totalling \$389,854 excluding GST (2011:\$210,740) were paid to Wellington City Council (WCC), including a \$316,900 subvention payment, a \$34,239 rental payment (for the use of the cable car land), \$28,715 in other operating payments, and a \$10,000 dividend<sup>13</sup>.

WCCL has met its objective of running the Cable Car without any subsidies, solely using income generated from fares. The Cable Car involves managing an infrastructural asset and providing a tourist and passenger transport service. It has been maintained to a good standard, and satisfaction with its services is high.

The following graph shows that visitor numbers have remained relatively stable over the past six years.

<sup>13</sup> As previously agreed with WCC, WCCL retained \$249,800 in lieu of dividend payment towards financing of the Kelburn Terminus upgrade.



WCCL has also met its objectives of maintaining the overhead wiring network solely through grants from GWRC. The backlog of urgent and critical maintenance that existed in 2008 has been substantially reduced, but ongoing maintenance and renewals continue to be required. The amount of the annual payments by GWRC to WCCL to provide the trolley bus overhead network is driven by the Trolley Bus Overhead Network Plan (Asset Management Plan). The funding agreement provides WCCL and GWRC must consult and fully co-operate with each other regarding approval of any updates to the Asset Management Plan (Sec 6.8) and costs arising out of the Asset Management Plan must align and agree with the Annual Business Plan (Sec 6.4). This process creates a constructive tension to meet the overall requirements for a safe and reliable trolley bus overhead network. Recent efforts to improve asset management planning will enable a better understanding of future funding requirements.

**The Council's current and future expectations for these activities**

***Improved Cable Car Precinct***

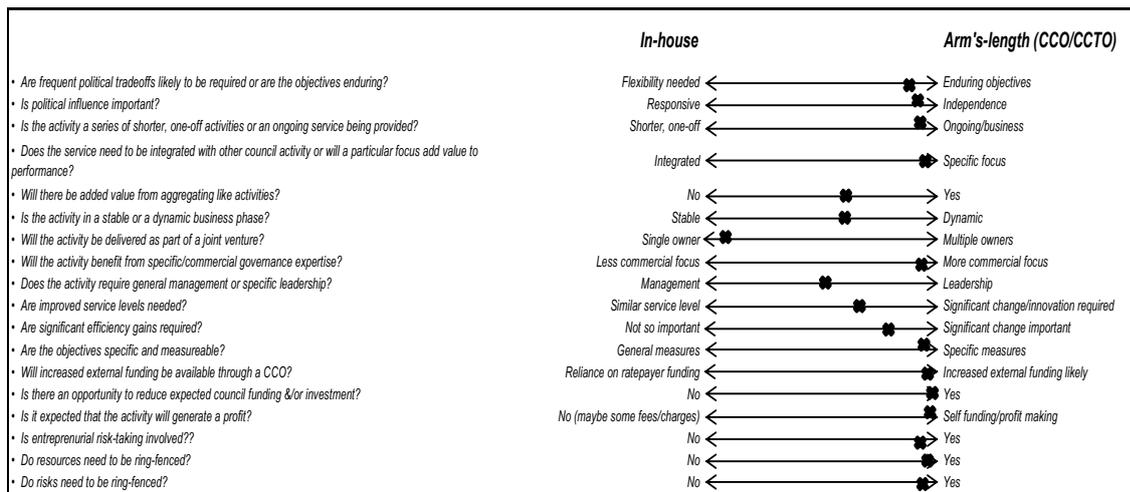
Council has indicated a desire to improve the Cable Car precinct aimed at creating a tourist attraction that is coherent, interesting and relevant to Wellington. The 2004 Strategy does not appear to have delivered to expectations, largely because funding has been directed to the Carter Observatory.

Efforts have been made to bring the various groups together to agree common objectives and actions, including the Parks and Gardens department of the Council, the Museums Trust (Cable Car Museum and Carter Observatory), the Skyline Restaurant, as well as WCCL. Positively Wellington Tourism (PWT) has increased its efforts in providing co-ordinated marketing across the various entities. A continued focus on improving coordination and development in this area is required.

## Is this governance model still fit for purpose?

An assessment has been carried out on WCCL against the framework for deciding the best governance arrangements for Council activities. Due to the very different nature of WCCL's two core functions, separate analyses have been carried out for the Cable Car and the overhead wire network parts of the business. The assessments have taken into account information supplied by the CEO of WCCL, and the analysis of current performance as well as an understanding of the Council's likely future expectations (to the extent possible).

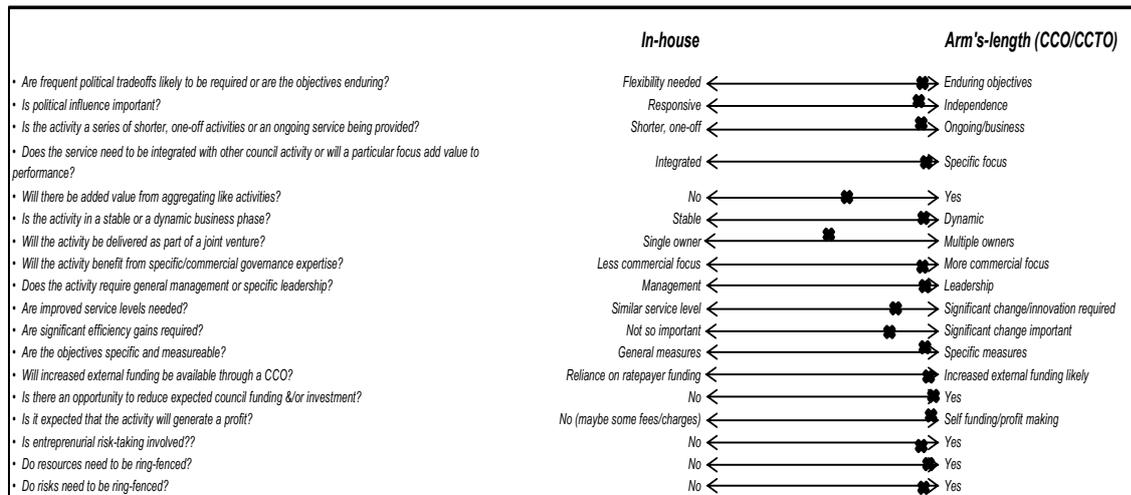
### The Cable Car



This assessment shows that the Cable Car is more suited to external governance. The primary reasons are:

- The Cable Car is a profit making business, which automatically lends itself to external governance. Its objectives are enduring, but benefits from operating within a commercial environment to drive efficiencies and improved customer service.
- A combination of cash reserves, built up through trading performances and some borrowings will be used to invest in an upgrade of the Kelburn Terminus that is due to be complete in 2012/13.

**The overhead wire network**



The overhead wire network is also more suited to external governance for the following reasons:

- In essence, while WCCL is wholly-owned by the Council, the trolleybus overhead network operates as joint venture with the GWRC.
- It is very important that the costs and risk associated with owning and maintaining the overhead wiring infrastructure are ring-fenced. This ensures an accurate picture of the costs of maintaining these facilities is known and understood in order for GWRC to have confidence that they are investing at the appropriate level. It also gives WCCL the ability to hold GWRC to account for funding the service to the appropriate level to achieve the level of service Wellington needs.
- If enhanced opportunities emerge in the future for generating income from other uses of the poles, such as broadband, the company will be in a good position to take advantage of them. WCCL is planning to implement a full commercial charging model going forward. This type of profiting making activity is also more suited to external governance.

**Considerations going forward**

Going forward, there are a number of factors that might influence whether WCCL remains the best vehicle to maintain and operate these facilities as they are currently configured, but due to the information currently available, this review has not sought to undertake a full analysis of these factors. The review team believes the Council needs to undertake further analysis on these matters, as inputs into upcoming discussions on regional governance and the GWRC post-2017 review:

1. As a visitor destination, the Cable Car Precinct is argued by many as lacking in co-ordination and coherence and, given it is a significant visitor attraction in Wellington, more should be done to ensure the visitor experience at the top of the Cable Car is exceptional. As noted above, efforts have been made to bring all of the relevant parties together to form a collective view and a precinct plan has been prepared. The plan remains unfunded, although improvements have been or are planned to be made to the area including the redevelopment of the Kelburn terminal, upgrading paths, improved signage, and modifications to the Cable Car museum. Integration of the developments would be beneficial.

2. In 2013/14, GWRC will be reviewing the provision of trolley bus passenger services beyond 2017. Discussions with GWRC indicate they will seriously consider transitioning to hybrid or electric buses in favour of trolleybuses (the costs of disestablishing will likely be a consideration in the economics of this decision). While Wellingtonians have historically preferred trolleybuses over others, there is no guarantee they will post 2017; particularly if a more environmentally friendly option is available. If the decision is made to transition away from trolleybuses, it is feasible the poles and overhead wires will need to be disestablished at some stage. WCCL has indicated there is no clarity about where the liability for these costs currently lies.
3. The potential to generate third party revenue from WCCL's overhead wiring network is uncertain. The overhead wiring business draws income from other services provided (including service charges levied on third parties utilising WCCL's poles to support telecommunications and other equipment). Legislation may be required to enable WCCL to gather revenue from utility users and, even then, it is uncertain if income generated would be more than on a cost-recovery basis. Uncertainty also exists around the future of telecommunications infrastructure and whether it will all go underground at some point.

GWRC has indicated a preference to take over ownership of the overhead wire network given its responsibility for public transport. Given the uncertainty around where liability lies if these assets one day need to be disestablished, this could be a reasonable option, as the costs of disestablishment could be higher than the value of the asset. The potential to earn income from renting the use of the poles to others could negate the need to disestablish the poles, but it is uncertain what income is feasible from the network post-2017.

In light of these considerations, this review considered two options:

- **Option one: Split the services** – incorporate the Cable Car into the remit of the Museums' Trust (which already manages facilities in the Kelburn Precinct) and gift the overhead wire network to GWRC; or
- **Option two: Status quo (preferred).**

The benefits of option one are that the risks of owning the overhead wiring network would be transferred to GWRC which has responsibility for public transport in Wellington. The Cable Car is small and whilst external governance is appropriate, that does not mean it needs its own separate governance, and the Cable Car Precinct could benefit from more joined up governance amongst the entities at the top of the Cable Car.

The down sides of this option are that WCC and GWRC share the same ratepayers, so while WCC would remove its risk, Wellington's ratepayers would still carry the risk. Also, by ring-fencing the costs into WCCL, GWRC's contribution is more transparent.

In addition, between now and when a decision is made about the future of the trolleybus passenger service in Wellington, the current regional governance discussions should have reached a conclusion. If the outcome were a unitary authority, the owner/funder relationship between WCCL and GWRC would be dissolved, as they will both be the responsibility of a single council. In that timeframe, there may also be greater clarity about the potential of the network to provide an income outside of the trolleybuses.

### **A CCO or a CCTO?**

The entity was set up as a limited company and meets the definition of a CCTO, which are CCOs that are expected to make a profit (although this is only relevant to the operation of the Cable Car).

### **Conclusion**

WCCL was established to own and operate the Cable Car and the overhead wiring network associated with Wellington's trolleybuses. It has met the Council's expectations by maintaining these assets on a full cost-recovery basis, and is returning a profit to the Council. External governance is still the best model to deliver these services going forward.

In the short-medium term, any decisions about the future of the company itself should wait until there is greater clarity about the future requirement of the overhead wiring network and the potential to garner revenue from the rental of the poles. Greater clarity should be available by the time a new funding agreement with GWRC is due for completion in 2016.

It is recommended that Council:

- a) continues to provide these services through external governance; and
- b) reconsiders WCCL's fit for purpose again once decisions have been made about the future make-up of local government in the region and the future of the trolleybus network are clearer.

**WELLINGTON MUSEUMS TRUST**

**Context**

The Wellington Museums Trust manages City Gallery Wellington, Capital E, Museum of Wellington City & Sea, and Wellington Cable Car Museum. The Trust also manages the New Zealand Cricket Museum jointly with the New Zealand Cricket Museum Trust, and since 2010 has managed Carter Observatory under license, on behalf of Council.

The Trust has six board members (including one councillor) who are all appointed by the Council. The Council owns all of the land and buildings managed by the Trust, apart from the internal fit-outs. Buildings are leased to the Trust under institution specific agreements.

**Background**

<p>June 1994</p>	<p>Dr Rodney Wilson’s report on civic museum services in Wellington recommended clustering the City’s museums and historic properties.</p>
<p>Nov 1994</p>	<p>An independent review group examining the future of museum services and the level and nature of Council support for those services, found that:</p> <ul style="list-style-type: none"> <li>▪ there was a need for an integrated networked museum service for the museums/galleries to work together more;</li> <li>▪ the services should complement national institutions such as Te Papa, and should generate significant income;</li> <li>▪ the services should contribute to the city’s economic future as well as its quality of life offer; and</li> <li>▪ there needs to be a strong link from these facilities back into the various communities of Wellington.</li> </ul> <p>The group recommended a charitable trust model to manage the new network of museum facilities and services because:</p> <ul style="list-style-type: none"> <li>▪ it will be required to generate income, but it is not intended to generate a profit;</li> <li>▪ it will more likely attract donations and bequests;</li> <li>▪ it will more likely attract other non-Council organisations to become part of the new structure (such as the Maritime Museum Trust);</li> <li>▪ it will be more resilient to frequent political interventions; and</li> <li>▪ it will be able to draw on broader skills and expertise, particularly commercial.</li> </ul>
<p>Feb 1995</p>	<p>In response to the review group’s recommendations, Council agreed to set up the Wellington Museums Trust to manage the City Art Gallery, Capital Discovery Place (now Capital E), the Maritime Museum, and the Nairn Street Cottage.</p> <p>The objectives of the Trust as stated in the Trust Deed are:</p> <ul style="list-style-type: none"> <li>▪ To manage the Trust Facilities and acquire and manage the Collections and to operate them for the benefit of the inhabitants of Wellington, and the public</li> </ul>

	<p>generally.</p> <ul style="list-style-type: none"> <li>▪ To endeavour to achieve the objectives the City Council sets for the delivery of services in respect on the Trust Facilities as negotiated and set out in the Business Plan.</li> <li>▪ To implement the City Council’s policy as revised from time to time, for the development and enhancement of the Trust Facilities with an emphasis on Wellington, and in accordance with the Business Plan.</li> <li>▪ To provide advice to the City Council on the City Councils long term policy for the development of museum and gallery services in Wellington.</li> <li>▪ To establish exhibition programmes and education policies for the Trust Facilities.</li> <li>▪ To develop acquisition, de-accession and Collection development policies for the Trust.</li> <li>▪ To provide all financial, administration, marketing, technology and other services required for the Trust Facilities.</li> <li>▪ To determine charges for viewing or using any of the Trust facilities, the collections, of the Trust assets with a view to maximising revenue from, and public utilisation of the Trust Facilities.</li> <li>▪ To conduct any other activities that the trustees determine support the objectives of the Trust.</li> <li>▪ To house and care for any art collections, antiquities or other articles acquired by, loaned to or otherwise made available to the Trust and particularly to preserve and maintain the Maritime Museum collection (subject to any de-accession policies developed by the Trustees).</li> <li>▪ To ensure so far as the Trustees determine is reasonable that the facilities provided by the Trust are complementary to those provided by the Museum of New Zealand.</li> <li>▪ To liaise with the trustees of the Tourism Wellington Trust Incorporated [now PWT] to maximise the attraction of the Trust Facilities to visitors to Wellington.</li> <li>▪ To acquire land or other assets where the Trustees determine that such land or other assets can be used in conjunction with the Trust Facilities or to promote the objectives of the Trust.</li> <li>▪ To encourage and foster liaison and co-operative activities with related facilities, particularly those in the Wellington Region.</li> <li>▪ Generally to do all acts, matters and things that the Trustees consider necessary or conducive to further or attain the other objects of the Trust set out above.</li> </ul>
Nov 1999	Museum of Wellington City and Sea opens.
2000/01	Additional services added – Cable Car Museum, Plimmer’s Ark (Inconstant) Project. The Museums Trust also manages the Cricket Museum, funded by Cricket New Zealand.
Nov 2004	Strategy for the Wellington Cable Car Tourism Precinct completed by a working group made up of representatives from the Carter Observatory, Skyline Restaurant, Botanic Garden, Museums Trust, WCCL, PWT and WCC (Marketing).

	<p>Report identified a number of issues, including:</p> <ul style="list-style-type: none"> <li>▪ lack of co-ordination in investment in marketing activities – too many brands competing rather than working together</li> <li>▪ dysfunctional relationship between the buildings and open spaces at the top of the cable car</li> <li>▪ perceived security and public safety issues</li> <li>▪ need to improve customer service standards.</li> </ul> <p>The group agreed common objectives and recognised the need to work closer together to achieve them.</p>
<p>2005</p>	<p>In preparation for the Long Term Plan 2006/09, the Council carried out a number of activity reviews, including galleries and museums. The review considered whether the current governance arrangements were still providing the best outcomes, particularly in light of new Council priorities of greater engagement with grass roots and youth-oriented arts and cultural activities. It found that the Trust had:</p> <ul style="list-style-type: none"> <li>▪ raised external revenue, sourcing 27% of its costs from sources including external grants and sponsorship, contracts for services, and retail income; and</li> <li>▪ developed the Cable Car Museum, further enhanced the Museum of Wellington City and Sea, and developed a national reputation for the City Gallery as a leading gallery in New Zealand.</li> </ul> <p>However, the following issues were identified:</p> <ul style="list-style-type: none"> <li>▪ After ten years of delivering galleries and museums at arm’s-length, the Council had lost internal capabilities around the arts, had lost its connections with the city’s artists and was out of touch with the sector and its stakeholders.</li> <li>▪ The inclusion of Capital E in the Trust’s remit was not a good fit with its focus on galleries, museums and heritage facilities.</li> </ul> <p>The review considered a number of options including:</p> <ul style="list-style-type: none"> <li>▪ Status quo: retaining the Museums Trust.</li> <li>▪ Establishing arts focused in-house business unit: in addition to the Museums’ Trust, Council would fund a separate in-house Arts business unit to focus on the new Council priority of greater engagement with grass roots artists as well as developing in-house arts expertise. The Museums’ Trust would retain its functions with the exception of Capital E, which would come in-house, along with the establishment of a new Wellington Arts Centre and management of the Public Art Fund.</li> </ul> <p>In response, Council established an in-house Arts Team. Capital E remained with the Museums Trust.</p>
<p>Mar 2006</p>	<p>In recognition of the Cable Car precinct being a significant visitor attraction in Wellington, Council agreed to fund improvements to the area aimed at creating a tourist attraction that is coherent, interesting and relevant to Wellington, within the Long Term Plan 2006/09. The work involved representatives from the Council, Cable Car Museum, Carter Observatory, Botanical Gardens, Skyline Restaurant and Cable Car.</p> <p>The project set aside funding for a series of small capex projects over three years</p>

	totalling \$800,000.
Dec 2007	Council agreed to reallocate \$500,000 of the \$800,000 Cable Car Precinct Upgrade towards the Carter Observatory Upgrade as it was a higher priority for the precinct.
Jun 2009	<p>As part of the Long Term Plan, Council agreed an additional \$1.2m operating grant over three years for the Trust after highlighting its operating model was unsustainable due to its costs going up but the grant staying the same, resulting in the Trust using depreciation to fund operating deficits (circa \$240k per annum). This funding also supported the increased operational costs (\$450k) at City Gallery following its expansion and a Trust-wide approach to funding new initiatives.</p> <p>This brought the total operating grant to \$5.1m in 2011/12 (excluding rental grant). An annual CPI adjustment to the grant requested by the Trust was declined.</p> <p>Due to the economic environment WMT was finding it increasingly difficult to generate non-Council revenue, but planned to invest in expertise to boost its external revenue sources.</p> <p>Long Term Plan consultation on whether or not to charge fees (potentially to out of town visitors) for entrance to WMT facilities did not show support for this approach. Further audience and partner charging research was commissioned by the Trust in 2011, with a similar result.</p>
Jun 2009	Also as part of the Long Term Plan Council agreed to reallocate the remaining \$300,000 from the Cable Car Precinct project to the Carter Observatory for a digital full-dome planetarium projector.
May 2009	WMT implemented an organisational review which centralised a number of management functions and facilitated the recruitment of a Commercial Manager dedicated to improving non-Council revenue generation through admissions, retail and venue hire.
Sept 2009	City Gallery reopened following seismic strengthening and the development of three new galleries and auditorium.
Sept 2009	<p>Council agreed to merge the newly acquired Carter Observatory with the Museums Trust. The primary reasons were: strong strategic alignment; potential for synergies in the areas of education, visitor attraction, and professional development; and economies of scale. In addition, Carter's more commercial business model was seen as an opportunity to strengthen and improve the capability and performance of the Museums Trust in this area.</p> <p>It was felt that managing the Carter in-house would significantly compromise fundraising efforts, and creating a standalone entity would not be cost effective.</p>
Mar 2010	Carter Observatory reopens
2010	A WCC health check found that, while the Museums Trust's immediate financial difficulties were resolved with the increased Council operating grant, WMT would likely be heavily reliant on Council for the majority of its on-going operational costs. It found there was a high likelihood Council would be approached for

	funding to support future potential capital projects such as a Plimmer Ark timber display and Capital E redevelopment.
2011	Museums Trust adopts new Strategic Plan outlining a more collaborative approach across the entities, including a review of the concepts and core offerings of each institution and its alignment with the overall vision (driven out of the SOI process). It sets out base funding for each entity and a contestable fund to resource new initiatives that will help each business better deliver its core offerings, as well as projects which have commercial potential across the board.
2011	Museum of Wellington City and Sea redevelopment planning process commences.
Oct 2011	Carter Observatory opens Pickering Gallery and Tuhura Module (\$698,000 from lotteries Grant Board).
Dec 2011	<p>Council adopted the Arts and Culture Strategy. It outlines a role/direction for all of the city's arts and culture institutions, including those managed by the Museums Trust. The strategy's vision is for Wellington to be a place for all people to experiment with, learn about and experience New Zealand's arts and culture, especially contemporary work.</p> <p>The strategy outlines three priorities:</p> <ul style="list-style-type: none"> <li>▪ Enabling the best and boldest of arts and culture</li> <li>▪ Diverse experiences by diverse communities</li> <li>▪ Thriving creative enterprise.</li> </ul>
Jul 2012	WMT implemented a re-organisation which combined some roles and functions at Museums Wellington and Carter Observatory, and released a senior employee for a cross-Trust strategic planning and project role.
Sept 2012	<p>Council approved Regional Amenities Fund project – could have future funding implications for the Museums Trust if other councils in the region sign up as well. An independent fund manager will decide which regional amenities benefit from the fund.</p> <p>A Colmar Brunton survey of residents in the Wellington region on the types of amenities that they view as important found that 33% of respondents agree that the region should financially support the Museum of City and Sea, while 49% believe most people in the region benefit from it. 25% felt that the region should financially support the City Gallery, while 30% thought that most people in the region benefit from it.</p>
Oct 2012	WMT agrees Capital E accommodation feasibility study terms of reference.

## Has the current governance structure met expectations?

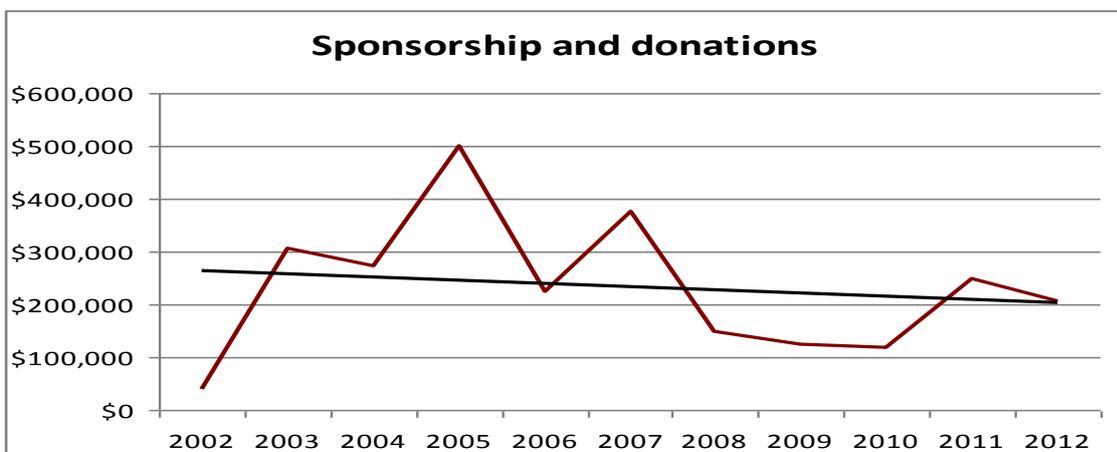
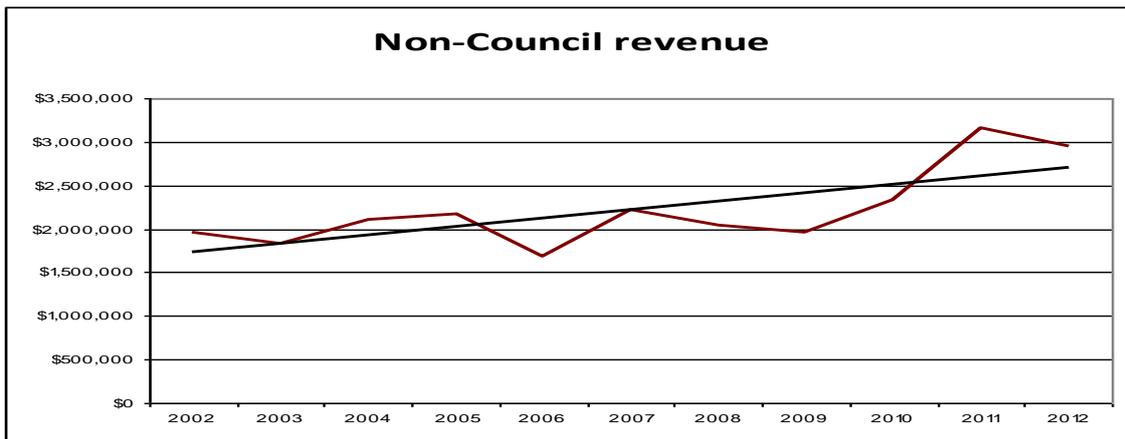
### *Increasing non-Council income*

One of the drivers for setting up the Museums Trust as a CCO was to draw in more funding from sponsorship and donations from external parties who would be unlikely to contribute to the same extent directly to the Council, and to draw on commercial expertise to generate more income from retail, food and admissions.

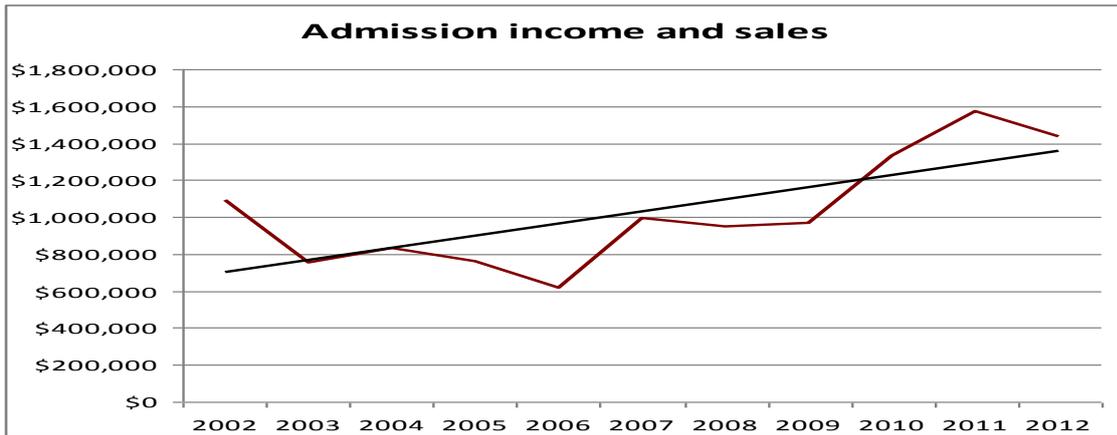
The Trust receives a grant of \$8.1m per year from the Council (\$6.3m operating grant and \$1.8m rental grant), 75% of which is funded by the general rate and 25% through the downtown levy<sup>14</sup>. The Trust has discretion in how the operating grant is distributed across the entities and services. The Trust also generates between \$2m and \$3m per year from non-Council sources – including admissions and retail, venue hire, sponsorship, donations and grants. Since 2004, Council’s grant has represented, on average, 73% of the Trust’s total income.

These institutions are a key part of Wellington’s tourist and educational infrastructure with total visitation averaging over 600,000 per year over the last 10 years. Each has a distinct core concept and offering to the city, and each has its own business model. For example, entry to exhibitions at Museum of Wellington City & Sea and Cable Car Museum is free. Carter Observatory, Cricket Museum and Colonial Cottage and Capital E charge for entry to exhibitions and programmes. City Gallery Wellington charges for some high profile exhibitions that it would otherwise be unable to bring to the city.

After a number of years of stable levels of non-Council revenue, the Museums Trust has successfully increased non-Council income since 2009, including from sponsorship and donations (although not to the levels experienced prior to the Global Financial Crisis). It has also increased admission income, retail and venue hire, as shown in the following graphs (please note the graphs do not reflect and capex contributions to projects across the Trust throughout the period).

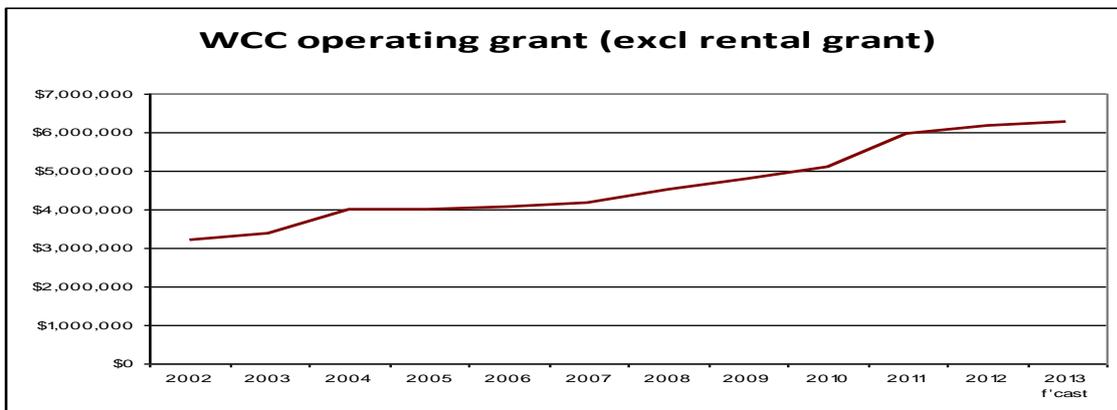


<sup>14</sup> Apart from the Carter Observatory which is funded 70% through the general rate and 30% through the downtown levy.



Unevenness in the revenue line is primarily as a result of the Children’s Art Festival which is organised and produced by Capital E biennially. It is also affected by the periodic charged exhibitions at city Gallery, for example, Yayoi Kusama: The mirrored Years, and the opening of Carter Observatory, a charged for attraction, in 2010.

The Council over the last eight years has provided an average of 73% of WMT’s operating costs. Over time, the level of funding required is increasing in nominal dollars, most recently in 2009 when the Council agreed an additional \$1.2m over three years, including a \$450k contribution to increased City Gallery operating costs. This increase came at a time when the Trust approached the Council, concerned that its operating model was unsustainable.



Note: this graph is in nominal dollars so does not allow for the impact of inflation on WMT’s costs.

The following table shows, in nominal dollars, that in 2011/12 the Council provided 73% of WMT’s revenue through grants, up from 70% 8 years ago and down from a peak of 76% four years ago.

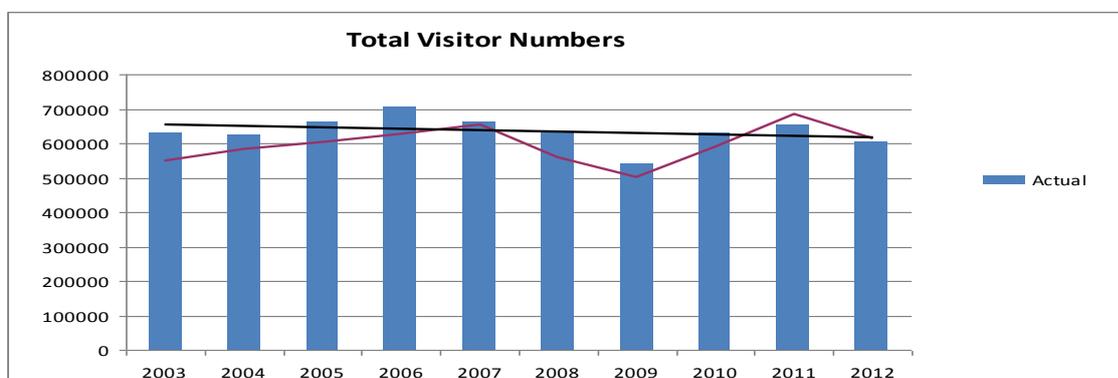
While the Trust is increasing its non-Council revenue, the corresponding increases in Council grant mean that the Trust is becoming more reliant on Council funding over time. This is a reflection of rising costs (such as insurance and power), and a general decline in sponsorship and donation income being felt across many public sector entities.

	2011/12 (\$000)	2010/11 (\$000)	2009/10 (\$000)	2008/09 (\$000)	2007/08 (\$000)	2006/07 (\$000)	2005/06 (\$000)	2004/05 (\$000)
Total Revenue	10,880	10887	9165	8,278	8,039	7,861	7,861	7,210
WCC Grants*	7,933	7731	6835	6,272	6,001	5,635	5,525	5,071
Other Grants	986	1053	696	689	736	976	832	1,824
Revenue income excluding grants	1961	2103	1634	1,317	1,302	1,250	1,504	315
WCC Grant % of Total Income	73%	71%	75%	76%	75%	72%	70%	70%

\* includes operating grant, rental grant and Carter Observatory operating grant (2010/11 \$471k, 2011/12 \$300k)

### Visitor numbers and experience

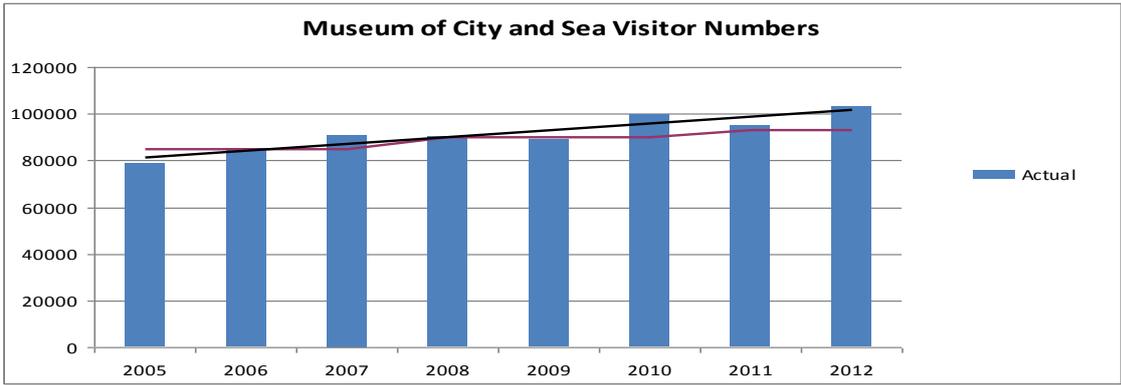
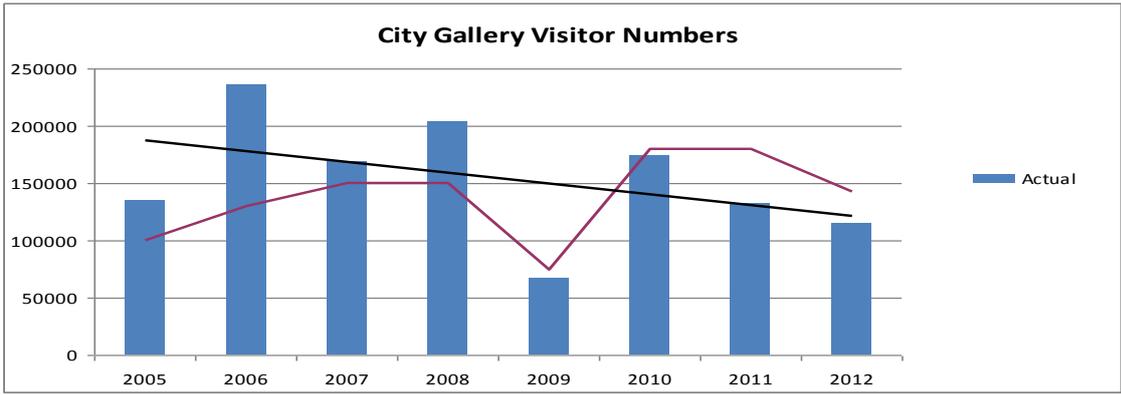
Council sets targets for the Trust each year. Success for the Museums Trust is reflected in the number of people visiting its facilities. Over the past ten years, the number of visitors has averaged in excess of 600,000 per year. Numbers have fluctuated within that period, with a sharp decline in 2009 followed by three years of improvement (due to the City Gallery being closed for redevelopment in 2009 and the events such as the bi-annual children’s festival). While numbers are showing a slight downward trend over the past ten years, the cumulative number of visitors over that period has achieved expectations. For the past two years, the Trust has not met the targets set for it by the Council.



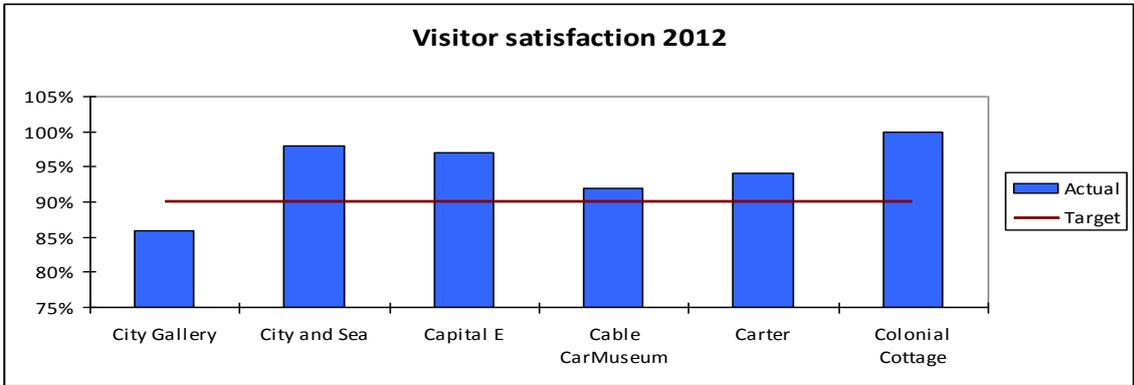
Within these figures, some entities are consistently meeting or exceeding their targets, while others fluctuate on a yearly basis – for example, the City Gallery has struggled to meet its targets over recent years due to events such as the City Gallery closing in 2009 for redevelopment, while the Museum of City and Sea is consistently exceeding its targets<sup>15</sup>.

The benefit of locating a number of entities together is that each entity is less exposed to these fluctuations – as a group of activities, they are more resilient.

<sup>15</sup> A new director at City Gallery was appointed in 2012, and the team are reviewing its concept and core offering.



Overall, 94.5% of visitors rate the quality of their experience as good or very good, exceeding the Council’s target of 90%. Once again, performance varies across the entities as shown below, but generally targets are exceeded.



**Contributing to the economic success of Wellington**

The Trust has recently created a new strategic plan, which involved reviewing, adopting and realigning the concepts and core offerings of the various institutions. As a result, the contribution each entity brings to the network of services as a whole is very clear. For example, the Museum of City and Sea plays the role of telling Wellington’s stories, while Capital E has a focus on education and aims to be New Zealand’s premier cultural arts centre for young people and their families, and the City Gallery is about offering leading edge contemporary art experiences both to Wellingtonians and visitors.

In addition, the Trust has continued to draw out areas where the various entities can better work together including education programmes, a digitisation strategy, and collaborating with Positively Wellington Tourism on marketing.

The Trust has created back office efficiencies, introduced and resourced management core functions and is progressing plans to use senior staff more strategically across the family of institutions.

## The Council's current and future expectations for the Museums Trust

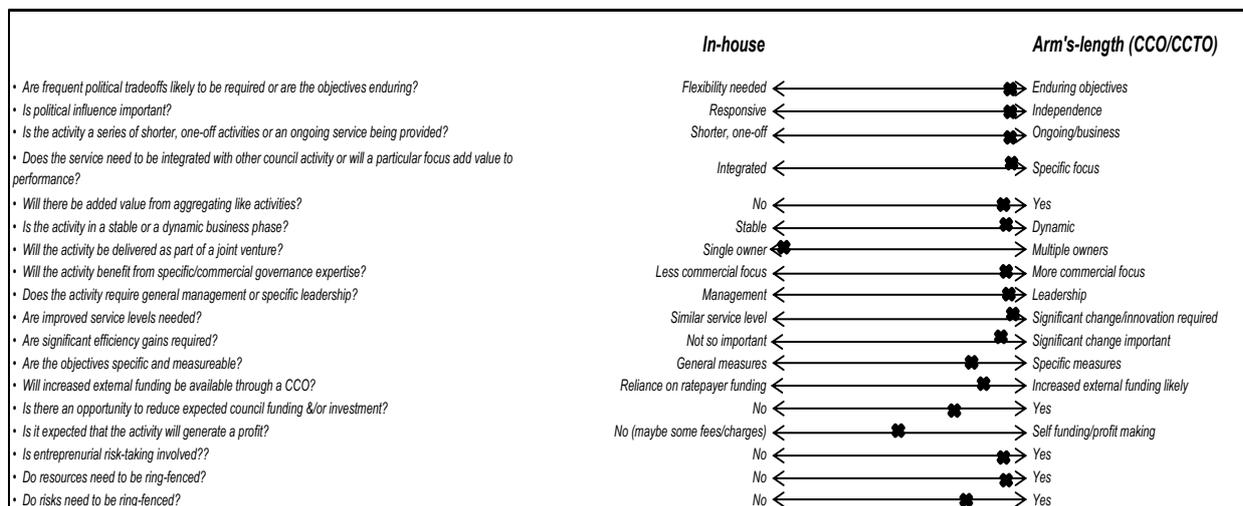
### Wellington 2040 and Arts and Culture Strategies

Wellington City Council adopted its Arts and Culture Strategy. It identifies Council's strategic priorities and activities that would contribute to the priorities being achieved. Consequently, it is a framework which the city's museums and galleries can either align their activities to, or develop new activities in response to. Key opportunities for the galleries include: increasing access to technology for creative purposes, working with communities to develop creative experiences that support their sense of identity, as well as providing education programmes (which encourage lifelong learning in the arts). It also sees a role for different institutions to be centres of excellence, and for other entities to leverage off their market reach, knowledge and expertise.

Other Council strategies also have implications for the Museums Trust, including the Wellington 2040 Strategy and the Economic Development Strategy.

### Is this governance model still fit for purpose?

An assessment of the Museums Trust against the framework for deciding the best governance arrangements for Council activities, taking account of the Trust's current performance as well as (to the extent possible) an understanding of the Council's future expectations for its museums and galleries, is:



The review considers external governance for the Museums Trust's facilities is still appropriate:

- There are relatively enduring objectives that are unlikely to change significantly over the next decade or so. This means the Council will not need to be involved in making significant decisions about the business on a regular basis – those decisions will be largely operational within a relatively unchanging strategic framework.
- Within the strategic direction agreed by the Council however, the museums and galleries will still benefit from the focussed leadership which external governance is more likely to provide.

Museums and galleries are successful if they matter to their communities. In order to continue to be relevant, and to make a positive contribution to the success of Wellington, strong leadership and community liaison at the governance level will continue to be required.

- External governance has overall met the expectations the Council has set to date. While visitor numbers and sponsorship and donations are showing a long-term marginal decline, non-Council revenue is increasing, particularly income from admissions and retail. Going forward the Trust has set in place a process to realise more benefits from these activities being together.
- Arm's-length entities are more likely to attract high calibre staff. Interviews with all of the CEOs and chairs responsible for Wellington's CCOs found that many believe people are attracted to these roles because they are given the autonomy and authority to make a difference. They have regular and direct access to the decision makers and they represent their entity as its leaders. A number of those interviewed believe this likely would not happen to the same extent for services run in-house by the Council. While it is impossible to know whether this is the case, having high calibre staff will be instrumental in enabling the Museums Trust to evolve over the coming years.
- The facilities will still benefit from ring-fenced investment. If funding is buried in wider budgets, it can be too easy to be traded off against other priorities of Council. By retaining an arm's-length model, there will be greater transparency in the level of investment being made into these facilities and what Wellington's residents are getting in return for that investment.

In comparison, the benefits of bringing the activities of the Trust in-house are relatively small:

- The costs associated with having a separate board would be saved, amounting to \$100,000 per year. Other cost savings would be minor as a Director/General Manager and additional in-house management accountant support would still be required. The Museums Trust currently employs about 68 full and part time staff, with an additional 56 casual staff; and similar staffing numbers would still be required.

If the activities of the Museums Trust were to be brought back in-house, however, the key risks are:

- The operating and capital grants and donations currently attracted by the Trust may reduce, at a time when major redevelopment projects are signalled (Museum of Wellington City and Sea, and Capital E)
- Loss of transparency for Wellington's ratepayers of their level of support.
- Loss of focus and leadership, including diverse commercial skills.
- Loss of resilience to changing political landscape.
- The opportunities to find synergies and economies of scale across the family would be more difficult without the transparency that comes from delivering these services at arm's-length.

Another option for the Museums Trust is separate governance for each entity (not recommended). While this may enable each entity to foster their own identity and voice, it would be at the expense of the resilience, synergies and economies of scope and scale that can be found by grouping these activities together. It would also mean the number of board members (and their cost) would significantly increase.

## Conclusion

On balance, the facilities managed by the Museums Trust are still more suited to arm's-length governance because it still needs the single focus and leadership from an external board to drive improvements, synergies and efficiencies across the family of institutions it manages. The current governance model has worked well overall, particularly in applying commercial disciplines to generating non-Council income.

It is recommended that Council:

- a) continues to provide these services through external governance
- b) continues its focus on generating synergies between the entities and managing costs between them.

---

## WELLINGTON WATERFRONT LIMITED

---

### Context

Wellington Waterfront Limited (WWL) was established in 2001, by converting the existing Waterfront LATE, Lambton Harbour Management Limited (LHML), into WWL. In addition to its role as an implementation agency for the waterfront, the company has vested in it the waterfront land, which it holds on trust for Council.

The company has operated largely unchanged since this date. However, its foundations stretch back as far as 1982, as outlined in the timeline below.

### Background

1982	Wellington Harbour Board and City Council sponsor conference on transforming redundant port land.
1985	Lambton Harbour Group established and produced development concept.
1986	Lambton Harbour Management Limited established, owned by City Council and Harbour Board, but run as a separate company, to manage the development of public space projects and private building developments.
1987	Legislation passed to allow Lambton Harbour Development project to proceed as a joint venture between Wellington Harbour Board and WCC. New plans for waterfront produced.
1989	Re-organisation of Local Government – the functions, duties and powers of Harbour Board under the 1987 Act were to be exercised by WCC. Land vested in the Harbour Board under 1987 Act vested in Council via Lambton Harbour Management Limited (100% WCC owned company) to be held on trust for the Council.
Early 1990's	Developments included Frank Kitts park, the lagoon, Dockside and Shed 5 restaurants, Chaffers Marina, Queens Wharf apartments, City to Sea Bridge, Circa Theatre re-location, Te Papa.
1995	Public dissatisfaction grows about the retail and events centre, the first new construction on Queens Wharf, and proposed residential and casino developments. Concerns expressed with how much land being proposed for private use.
1996	Council set up Community Consultative Committee (CCC) to review development and consult with community.
1998	Council adopts revised CCC concept plan.

1999	Statutory planning rules and design guidelines prepared, but inconsistent with CCC recommendations.
2000	<p>District Plan variation 17, withdrawn by Council following public opposition. Council requested a new process to find a way forward. Three-stage process subsequently approved in principle – (1) to develop a framework, (2) detailed plans for each area (3) implement and monitor plans.</p> <p>Waterfront Leadership Group comprising 3 councillors and 7 community representatives appointed to develop framework.</p> <p>Waterfront Development Group, comprising councillors, professional and community representatives then established as a sub-committee of Council to prepare development plan, monitor design and implementation. Technical Advisory Group (TAG) set up to oversee detailed design and monitoring role.</p> <p>Lambton Harbour Management Limited converted into to Wellington Waterfront Limited. Management Agreement entered into to appoint WWL to implementation role.</p>
2001	<p>Wellington Waterfront Framework finalised and adopted by Council. Forecast public space capital expenditure of \$39.2m offset by \$26.3m of commercial revenue and \$4.9m of cash holdings.</p> <p>Council contribution of \$8m for capex plus \$7m to fund operating deficits (in addition to management fee of \$1.2m per year).</p> <p>Framework set up governance arrangements based on <i>key principles</i>:</p> <ul style="list-style-type: none"> <li>▪ WCC approves annual work plan and budget.</li> <li>▪ WCC appoints implementation agent (WWL).</li> <li>▪ WCC approves performance briefs and design briefs.</li> <li>▪ WCC approves all significant leases.</li> <li>▪ WWL implements WCC instructions.</li> <li>▪ WWL undertakes day to day operational management over period of development implementation.</li> </ul>
2000's	Development continues under Waterfront Framework including - Shed 21 apartments, Shed 22 development, Odlins Building (Stock Exchange) and Wellington Free Ambulance Building redevelopments, Waitangi Park, Chaffers Dock, Kumutoto- Meridian Building, Shed 13 and Steamship Wharf.
2007	<p>Ground lease for Overseas Passenger Terminal (OPT) approved by Council.</p> <p>Council approves additional temporary funding (loan advances) of \$14.95m for public space projects, required because of delays to forecast commercial development proceeds. To be repaid by June 2010.</p> <p>Waterfront Development Sub-committee disbanded and role of approving annual development plan and consultation process assumed by Council's Strategy and Policy Committee. TAG to continue in monitoring role to ensure quality of design consistent with Waterfront Framework.</p>
2008	Further development delays and Environment Court rejection of Hilton Hotel consent result in spreading (deferral) of development plan to limit further increase of short-term advances (loan). In light of slowed development, Council resolved to reduce WWL management fee from \$1.65m to \$1.2m per annum.

	Council agree to transfer Waterfront project back to Council from 1 July 2010, subject to a review of market conditions at the time.
Sep 2009	<p>Because of the introduction of new projects and changes to timelines of others, officers recommended deferring transition of WWL back to Council by one year, until 1 July 2011.</p> <p>Council rescinds earlier decision and agrees that Waterfront project should continue to be managed by WWL and that this decision be reviewed in time for 2012/22 LTP.</p>
April 2011	<p>Comprehensive review of options for Council's waterfront project implementation agency (Wallace Report).</p> <p>Council agrees to retain WWL and to a three-yearly review process to avoid any greater cost and disruptions caused by reviews on a more frequent and ad hoc basis.</p>
Sept 2011	Review of Waterfront Framework - Original objectives and principles retained. Governance and management of Waterfront not reviewed.
2012	<p>Council agrees to extend loan financing for WWL up to \$20.6m, with a forecast outstanding loan balance of \$9.7m at June 2015.</p> <p>Plans forecast that the future commercial proceeds will be insufficient to meet operational expenditure, interest costs and repay the Council loan. LTP forecasts that loan balance will reach \$35m by 2021/22.</p>

## Has the implementation agency structure produced desired results?

The success of the Waterfront project is measured through the delivery of the principles and objectives outlined in the Framework to provide:

- A diversity of activities including maritime, commercial, entertainment, open space, recreation, and culture and heritage.
- Improved access along the waterfront and between the city and the harbour.
- An evolving waterfront experience that is mindful of its historic past and its future.
- Urban design worthy of the waterfront setting.
- A consultative process that encourages stakeholder participation.

The performance measures included in WWL's annual SOI reflect these objectives. However, with the exception of public satisfaction and visitation based measures (which can be compared year to year), specific expectations of WWL are reset annually through the annual Waterfront Development Plan. The absence of enduring performance measures makes it difficult to assess WWL's performance against the original expectations of the framework. However, this must be considered within the context that under the management agreement Council approves plans. Accordingly, WWL's performance is limited to how it implements what Council asks it to do and manages the waterfront while the Framework is being implemented.

Attempting to introduce performance measures retrospectively, that focus specifically on implementation and operational management of the Waterfront, would be unjust. Instead we can look to a range of broader indicators provide a view of the progress achieved by the wider waterfront development governance and management structure since it was last amended in 2001:

- From an infrastructure, design and public space perspective the development of the waterfront speaks for itself. A focus on high quality public space design and implementation has led to the Waterfront winning 35 awards, and achieving consistent levels of public satisfaction (90%) and visitation (>95%). This indicates effectiveness of the structure, incorporating the Waterfront Design Group (WDG) and Council, the Technical Advisory Group (TAG) and WWL.
- In terms of completion of the wider project, it is clear that the original six year development timeframe was over optimistic. Progress has been strongly influenced by regulatory constraints and in last few years, economic conditions that have reduced demand for commercial development. It is doubtful that an alternative implementation arrangement would have aided more rapid completion. However, in deciding to maintain momentum on public space development before securing funding through the proceeds of commercial development, the Council has become increasingly exposed to funding risk.
- The management fee paid by Council to the waterfront, which had risen to \$1.9m and staffing of 14 FTE in 2006, was reduced to \$1.2m and 9 FTE by 2011. WWL is considered to operate a cost-effective management model.
- WWL forecasts that it will require \$20m of additional loan funding from the Council to complete the planned public space development. This is in addition to Council's original \$15m investment and the annual management fee the Council pays to WWL. There are a number of factors that contribute to this:
  - Wharf repiling costs of \$7.55m through to 2014/15 were not anticipated in original forecasts.
  - The total investment in public space development to deliver on the waterfront framework is forecast to be in excess of \$80m (excluding wharf repiling), approximately double the initial estimates contained in the 2001 Waterfront Framework. Initially cash commercial proceeds kept pace with these increased costs, but in recent years market and regulatory impacts have placed significant risks around the ability of the waterfront development project to fund it self.
  - The 2001 Framework did not clarify operational or funding expectations for the waterfront beyond its intended six-year timeframe. It is now evident that commercial proceeds will not be sufficient to fund the operation of the waterfront and renewal of its assets over the medium and long term.
  - The balance of WWL's loan from Council is forecast to reduce to \$9.7m by 2015 due to the realisation of further commercial development proceeds. However, in subsequent years, commercial development tails off, operating revenues from temporary sources decrease, while operating and maintenance costs increase with inflation. When added to the accumulating interest on the loan, this means the underlying loan balance is forecast to increase to beyond \$30m by 2022 and will continue to rise further without additional ratepayer funding or further income-generating development.

In summary, the progress of time and other mitigating factors make performance against the original Framework relevant as a benchmark of the original intentions, but not as a measure of WWL's performance in its role as the implementation agency of Council's development plans. Accordingly, the "Review of Implementation Agency for the Waterfront" report considered by SPC

in February 2011 (the "2011 Report") concluded that WWL had a successful track record of delivering for Council.

## Current and future expectations for the Wellington Waterfront

### *Council Expectations*

Council's vision for the Waterfront is that *"Wellington Waterfront is a special place that welcomes all people to live work and play in beautiful and inspiring spaces and architecture that connect our city to the sea and protect our heritage for future generations."*

The governance expectations for Wellington Waterfront Limited were summarised in the original Framework, approved by Council in 2001. They were reviewed again in 2011<sup>16</sup> and were considered to remain relevant:

- Transparency – all roles and structures setup to govern the Waterfront must be open to public scrutiny
- Momentum – It is important that momentum be maintained
- Separate planning from implementation – the planning of the Waterfront should be done by a separate entity from the entity that implements the decisions
- Arm's-length governance – The governance of the Waterfront should be at arm's-length from Council. The (Leadership) Group believes that, on a day-to-day basis, better progress will be made if politics are kept out of it. The Group also believes that the entities governing and implementing Waterfront development require a different style of operation from the way the Council is required to operate
- Final accountability is with Council – The council to retain final accountability for both organisations, because it is only the Council that is accountable to ratepayers for how the money is spent.

From its inception, the role of WWL has been articulated as that of an implementation agency. Since 2007, the Council's Strategy and Policy Committee (and prior to that the Waterfront Development Sub-committee) has been responsible for approving the annual Waterfront Development Plans and running public consultation on these plans. The Council also maintains the final decision-making on design briefs, the approval of significant developments and leases and the District Plan policy framework. The Technical Advisory Group (TAG) has continued to discharge SPC's monitoring function.

The 2001 Waterfront Framework envisaged that the governance structure would be reviewed when most of the planning and implementation work was complete. Originally, this was expected to be around 2006-2008. It follows that WWL was expected to manage the waterfront during the period of development, until the role became principally focused on property and operations management of public space, as opposed to implementing the Waterfront Framework via the work programme in each annual development plan. At this point either the governance model or Council's objectives for WWL would need to be reviewed.

---

<sup>16</sup> 'Arm's-length governance' was not specifically reviewed as part of the Framework review, but a part through the "Review of Implementation Agency for the Waterfront" report.

## Is this implementation and management model still fit for purpose?

This question has been raised on a number of occasions in recent years and most recently through the “Review of Implementation Agency for the Waterfront” report (the “2011 Review”) prepared for Council’s Strategy and Policy Committee (SPC) in April 2011. This review was instigated following an approach by the WWL Board, which was concerned about the viability of the company given the potential for a significantly reduced workload.

### The 2011 Review

The 2011 Review of Implementation Agency for the Waterfront was conducted based of the existing Waterfront Framework, and the assumption that the current work plan excluded development of sites 8 and 9 and deferral of the Wardle Building project pending the outcome of a Framework review. In light of slowed commercial development and resulting proceeds the work plan reflected little new public space capital expenditure. The review considered a number of options for managing the waterfront going forward, and evaluated them on a range of criteria including:

- Fit to Waterfront Framework
- Fit for purpose
- Transparency / control
- Flexibility given changing economic environment
- Risk to waterfront delivery
- Cost.

The options considered in the 2011 Review are summarised in the table below:

Option	Features	Considerations
Status Quo	WWL in its current form and size	Council pays WWL \$1.2m management fee to implement Council’s work plan for the waterfront. The Technical Advisory Group ensures monitors design quality. Council agrees the annual work plan and monitors performance through its CCO Performance Committee. Possible opportunities of additional work on Council development projects or through other TAs.
Reduced Status Quo	WWL as it with less resources	Investigated possibility of reducing staff resources in response to slowed workload. Utilise WCC shared service for finance function and other staffing efficiencies. Total reduction of 1.1 FTE to 8.9FTE plus reduction from 503 Board members and reduced TAG workload. Cost saving of \$200k per annum compared to status quo, after transition.
Business unit of WCC	Dedicated team inside WCC structure	Similar FTE staffing levels to Reduced Status Quo, but lower costs due to CEO replaced by 3 <sup>rd</sup> tier manager and other personnel costs. No requirement for Board of Directors; Independent TAG role remains as per Reduced Status Quo. WWL shell company retained to hold assets in trust for Council. Total savings \$355k per annum after transition
Integrated into WCC	All functions transferred to varying appropriate teams within Council	Option eliminated due to low score on transparency and risk criteria
Contracted out	WCC contracts 3 <sup>rd</sup> party to manage waterfront	Option eliminated due to low score on transparency/ control and risk criteria

The 2011 review recommended the reduced *Status Quo* option. This was considered to deliver some cost savings without compromising objectives of the Waterfront Framework. Despite the *Business Unit of Council* option, delivering the greatest cost savings it did not meet the governance requirements identified in the Waterfront Framework, and was not necessarily going to offer any greater transparency or control than under either of the status quo options. It was also viewed as presenting the greatest risk to completion of the wider project through its potential for reduced focus on the project.

SPC agreed with the report recommendation and resolved to review the governance structure no more frequently than every three years, to avoid any greater cost or disruption caused by more frequent and/or ad hoc reviews.

### ***The 2011 Framework Review***

The review of the Waterfront Framework was completed and reported to SPC in September 2011. While it did not specifically review the governance arrangements for the Waterfront, it concluded that:

- Overall, people are supportive of the way the waterfront has been developed to date, although there is recognition that this development is not complete.
- The northern end of the waterfront is seen as a key location for connecting both residents and visitors to the city, and as such, warrants improvements.
- The current balance of built form and open space is seen as key to any future waterfront development, especially at the northern end of the waterfront
- The Waterfront Framework principles provide a robust framework to guide development, but there will still be site-specific responses required.
- The Waterfront Technical Advisory Group (TAG) believes that the current framework is still largely fit for purpose, although there are some concerns around the regulatory environment, particularly in relation to the public notification of resource consents.

SPC resolved to reaffirm the values, principles and objectives in the 2001 Waterfront Framework and noted that implementation issues of the framework and future Waterfront development priorities would be included in the annual Waterfront Development Plan to be considered as part of the Long-term Plan 2012-22.

### ***The 2012 Waterfront Development Plan***

Each year the council prepares, with input from WWL, a draft annual Waterfront Development Plan which sets out the projects and work programme for the coming year. In recent years the annual Waterfront Development Plan has been considered as part of the Annual Plan or LTP so that the financial implications can be considered along side Council's other priorities.

Council consults on the annual Waterfront Development Plan and has the final decision on what proceeds in any period.

The 2012 Waterfront Development Plan provided further indication of the impact of RMA decisions on both timing and the value of anticipated proceeds from commercial development. It also highlighted the additional funding requirements for wharf pile repair and refurbishment.

This cumulated in a forecast increase in the WWL loan funding requirement from Council to \$20.6m to complete the proposed work programme, maintain and operate the Waterfront precinct in line with the Waterfront Framework.

The LTP forecasts that the \$20.6m loan balance could be reduced to \$9.6m by June 2015, but that this would rise to \$35m (\$25m excluding wharf re-piling impact) by 2022 due to:

Limited forecast commercial proceeds beyond this date.

- Reduced operating revenues (e.g. lower parking income) because of the planned commercial developments - noting that if no further commercial development proceeds were received the loan balance would rise to more than \$65m by 2022.
- Interest costs accumulating against the loan balance.
- Inflationary increases in operating costs.

### ***Assessment against governance framework***

The “*What Works?*” report prepared as the first stage of this wider CCO review proposed a framework to use as a guide in determining whether an activity is more likely to be suited to in-house governance or to an arms-length arrangement such as a CCO or CCTO.

WWL has expressed a view that an integrated decision-making between public space and development is to achieve optimal outcomes.

However, this review has identified that the governance framework assessment to be materially different when based on the public space management functions compared to the development implementation functions.

The analysis for the public space management activities suggests that there is little rationale for arms-length governance of public space activities. Conversely, the assessment of the development implementation activities indicates that sufficient basis exists for retention of CCO governance.

However, some criteria tend towards in-house, simply due to the low volume of development works underway and/or uncertainty around when planned development will occur.

An aggregation of the both public space management and development activities indicate that while some criteria still tend towards arm’s-length (CCO) governance, the majority are either inconclusive or tending towards in-house provision.

This indicates that a number of factors, that initially provided a strong rationale for implementation of the Waterfront project to be managed by WWL, have become less relevant as the development phase of the waterfront has slowed and the balance of focus for WWL has tended more towards property management than development.

The table below shows an assessment of the Waterfront development implementation activities as proposed in the 2012 Development Plan.

**Assessment of Wellington Waterfront activity against governance framework**

WELLINGTON WATERFRONT LIMITED - DEVELOPMENT IMPLEMENTATION INITIATIVES			
	In-house		CCO
• Are frequent political tradeoffs likely to be required or are the objectives enduring?	Flexibility needed	← ● →	Enduring objectives
• Is political influence important?	Responsive	← ● →	Independence
• Is the activity a series of smaller, one-off activities or an ongoing service being provided?	Smaller, one-off	← ● →	Ongoing/business
• Does the service need to be integrated with other council activity or will a particular focus add value to performance?	Integrated	← ● →	Specific focus
• Will there be added value from aggregating like activities?	No	← ● →	Yes
• Is the activity in a stable or a dynamic business phase?	Stable	← ● →	Dynamic
• Will the activity be delivered as part of a joint venture?	No	← ● →	Yes
• Will the activity benefit from specific/commercial governance expertise?	Less commercial focus	← ● →	Commercial
• Does the activity require general management or specific leadership?	Management	← ● →	Leadership
• Are improved service levels needed?	Similar service level	← ● →	Significant change/innovation required
• Are significant efficiency gains required?	Not so important	← ● →	Significant change important
• Are the objectives specific and measurable?	General measures	← ● →	Specific measures
• Will increased external funding be available through a CCO?	Reliance on ratepayer funding	← ● →	Increased external funding likely
• Is there an opportunity to reduce expected council funding &/or investment?	No	← ● →	Yes
• Is entrepreneurial risk-taking involved??	No	← ● →	Yes
• Do resources need to be ring-fenced?	No	← ● →	Yes
• Is it expected that the activity will generate a profit?	No (maybe some fees/charges)	← ● →	Self funding/profit making
• Do risks need to be ring-fenced?	No	← ● →	Yes

**Refinement of the 2011 report recommendations**

There are two key factors to consider in assessing whether the recommendations of the 2011 report remain valid. The first is the funding predicament, which was specifically excluded from the 2011 review pending the framework review and the second is the impact on WWL’s role of further delays in development plans.

## Funding

When Lambton Harbour Management Limited was established in 1987, it was envisaged that the development of the waterfront would be self-funding. The general principle being that commercial development would be sufficient to fund public space.

Through the development of the 2001 Waterfront Framework, this expectation was modified on the basis that the Council would provide \$15m of capital funding to supplement returns from commercial proceeds and fund management costs. The 2001 Framework's focus was on development of the waterfront, as indicated in the six-year timeframe. It was not an operational plan, so it did not focus on longer term operational, asset management planning, or the associated funding implications.

The delays in commercial development intended to fund public space development have been such that the development phase has overlapped with the on-going operational funding requirements of the waterfront to a far greater extent than originally intended.

With the exception of Waitangi Park (which is separately managed by Council), operational and asset renewal funding requirements (including wharf piers) have been incorporated into the loan funding requirements of WWL.

The principle behind the loan balance is that this is a timing difference only and that funding will eventually be repaid through commercial development proceeds. The reality is that while commercial proceeds are already significantly greater than anticipated in the 2001 Framework, forecasts indicate that they will be insufficient to fully fund the operations and asset renewal requirements of the Waterfront into the future.

## Loan forecast

The table below shows that the loan balance is forecast to decrease from \$20.2m down to \$9m by 2014/15.

But this is temporary, as operating revenues derived from short-term and campervan parking are forecast to decrease as the Kumutoto Wharf development is advanced. There are also minimal commercial development proceeds forecast after 2016/17, so interest costs on the loan balance accumulate to a point where without some alternative funding source the loan balance will rise to more than \$30m by 2021/22, excluding depreciation funding.

*Wellington Waterfront funding requirements & 'loan' balance (based on 2012 Development Plan)*

Wellington Waterfront Project										
Funding summary - Current scenario	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
<i>Operations:</i>										
Total income	5,494	4,354	4,190	3,730	3,587	3,634	3,683	3,732	3,783	3,833
Operating expense excl. interest & dprn	6,227	4,965	4,645	4,631	4,702	4,770	4,844	4,894	4,928	4,957
Interest expense	1,075	1,022	694	722	954	1,186	1,395	1,580	1,776	1,959
Operating surplus/(deficit) excl dprn	(1,812)	(1,633)	(1,153)	(1,623)	(2,069)	(2,322)	(2,560)	(2,742)	(2,921)	(3,083)
Commercial development proceeds	0	9,000	15,075	400	5,400	400	0	0	0	0
<i>Capex:</i>										
Wharf repiling costs	1,482	0	2,035	0	0	2,035	0	0	0	0
Capex renewals	284	292	809	599	310	554	476	265	269	269
Public space improvements costs	900	850	6,540	4,100	5,100	0	0	0	0	0
Total capex	2,666	1,142	9,384	4,699	5,410	2,589	476	265	269	269
Wharf closing debt	5,720	6,074	8,567	9,140	9,754	12,542	13,413	14,349	15,354	16,413
Public space closing debt	14,569	7,712	(61)	4,660	5,825	7,019	8,651	10,454	12,426	14,275
Total Waterfront closing debt	20,289	13,786	8,505	13,799	15,579	19,561	22,064	24,802	27,780	30,688

## Funding sources

A lack of identifiable funding sources to support the on-going management and operation of the waterfront raises the question whether the Council should consider splitting the development and operational funding requirements of the waterfront to provide greater transparency around future funding requirements.

As a comparison, Auckland's waterfront is governed by a CCO, Waterfront Auckland. However, there are three key differences between it and the WWL:

- Its workload is still very much development implementation focused.
- Asset ownership resides with the CCO.
- The funding streams are clearly differentiated.

## Funding options

Despite these differences, the structure provides some insight into how such a split can work. The commercial elements are ring-fenced and Waterfront Auckland carries a level of debt that it funds in lieu of providing a return on investment back to the Auckland Council. The public component is funded by Council; with the net operating requirements and depreciation funded through rates, and new capex through borrowing. This ensures transparency about the cost of operating and funding the public space and the returns generated through commercial development. It also ring-fences risk.

In comparison the WWL model, while segregating commercial revenues, nets the funding impact of commercial and public development against the on-going operational cost of the waterfront public space, effectively operating on a net cash basis.

Operating on a cash basis has meant that funds have not been put aside to fund the waterfront into the future.

Given the uncertainty around future commercial development and associated revenue streams, and the comparative significant progress made in the development of public space, the Council could consider “unbundling” the public space component from the commercial development aspects of WWL. This would not require a change in the asset ownership structure of the Waterfront, but would provide significantly improved transparency.

### *The timing and extent of development proposed over the next 10 years*

It was originally envisaged that the development / implementation phase for the waterfront would take six to eight years. Current forecasts optimistically suggest 15-18 years. The delays have primarily occurred around commercial development, while the majority of the public space development has been completed.

The original Waterfront Framework, around which the governance model was built, clearly stated that WWL’s focus was on development implementation. The recommendations of the 2011 “Review of implementation agency for the Waterfront” were predicated on continuity leading on the Rugby World Cup and the 2011 review of the Framework.

With the Waterfront Framework generally unchanged and on-going timing risks around commercial development, the question remains whether the focus on development implementation versus public space management remains sufficient to warrant retaining the existing governance structure?

WWL has assessed that approximately 60% of the development signalled in the original Waterfront Framework has been completed. However, this needs to be considered within the context that a number of projects originally intended have not and are unlikely to eventuate.

The WWL 2012-2015 SOI has signalled further delays in development and reductions in commercial return forecasts since the 2011 review. It is noted that there continue to be projects in train that would likely be negatively impacted by an immediate change in the management and implementation agency arrangements for the Waterfront project .

This has been promoted as a significant reason for retaining the existing implementation agency and associated governance structure. The reality is that the drawn out regulatory and development processes mean that there are likely to be projects ‘in- train’ for some years to come.

The slowed pace of development means that WWL’s role has changed over time, so that it’s role is primarily property management rather than development implementation. On this basis, this review has assessed a range of alternative governance options that could potentially address this issue while maintaining focus on delivery of the Waterfront Framework.

### **Implementation Agency Options**

In light of the issues outlined earlier in this report, the options for future management of the Waterfront have been reassessed. Given the funding issues identified, a range of options for splitting out and transitioning towards rates funding of the on-going net operating costs of the waterfront activity have also been analysed.

The options for governance and funding have been outlined separately below, followed by a summary of the combined cost and rating implications. Four options have been assessed.

1. **Re-confirm Council's decision of 2011** to continue with the existing governance and implementation agency structure and review again in 2014.

This option could be supported if WWL was likely to reach a more definitive point in its lifecycle by 2014, or if the outcome of the current regional governance review was likely to impact significantly on the decision around WWL's future.

2. **Retain WWL in the medium term as the 'manager' of both waterfront public space and as Council's development implementation agency** for this area; and revise the documents that underpin the entity accordingly.

This option may be preferred if there is a view that on-going separate governance is required to ensure focus was maintained on the waterfront as a 'jewel in the crown' of Wellington.

3. **Revert the operational and property management functions of the Waterfront to council, but retain the independence and expertise of WWL as a development company until a specified point in time** and/or with focus wider than the Waterfront.

This option may be preferred if there is a desire to retain specific arms-length governance and professional expertise for waterfront and /or wider city development implementation, but pass the operational functions back to the Council.

- The key disadvantage of the 'in-house' or 'business unit' options reported in the 2011 review could be alleviated by retaining the expertise and focus around development within a CCO. The viability of this option would depend on the degree to which the reduced workload for WWL resulting from the transfer of management and operational activity back to Council could offset by a winding down of the cost structure and/or WWL contracting its expertise to Council and/or other LAs to assist with other development implementation initiatives. This option may have some increased potential if a change in regional governance meant that the expertise and resources of Capacity could be applied to a wider regional asset base.
- This option has the potential to provide a managed transition process and means the timing of transfer of operational management responsibilities of the waterfront back to Council does not hinge on completion of commercial development.

4. **Transfer the governance, development and operational responsibilities of WWL back to the Council**, with WWL reverting to a shelf company for the purposes of holding Waterfront assets in trust for Council.

This option would result in the highest short-term cost savings, but would risk losing specific emphasis and focus on maintaining service levels and on-going development waterfront.

The implementation timeframe for options 2-4 could be as short as three to six months. However, it makes sense for any change in the role of WWL to be aligned with the timing of any proposed change in funding policy.

Therefore, a date of either 1 July 2013 or 1 July 2015 to coincide with the next LTP would be advisable.

### *Governance (implementation agency) options analysis*

The table below compares the options above with the reduced Status Quo option adopted after the 2011 review using the criteria used in the 2011 Review amended slightly to allow for a comparative assessment of objectives. A rating of 1 (least fit) to 5 (best fit) has been used.

The assessment indicates that on balance option 3 provides the most pragmatic solution to a predicament where the governance structure most suited to ensuring implementation delivery of the Waterfront Framework is materially different to that which will provide effective and cost efficient management of public space into the future.

The key decision for Council is one of timing. WWL considers that while development initiatives continue it is important for management of the waterfront to remain integrated. With this in mind WWL have indicated that the company could cease to operate and all governance functions transfer back to Council on 1 July 2015 with minimal disruption to optimal delivery mechanisms.

WWL believes the outcome of the regional governance review is highly relevant to timing of the waterfront decisions. WWL believes that it has considerable experience built up over a number years, particularly considering the possibilities that exist if a change in regional governance meant it could apply its resource to a wider asset base. Reverting WWL function to Council in 2015 allows this factor to be considered.

WWL also has a view that its property management and operational functions should also transition in 2015. It argues that the public space on the waterfront is different to the public space anywhere else in the city due to the integral nature of that space to commercial, residential and recreational users as well as its pivotal place as a multi-purpose events, exhibition and design space.

This review accepts that there are aspects of uniqueness and complexity to management of the waterfront. We note that there is unlikely to be any significant financial benefit from transferring the property management and operational functions back to Council, prior to full transfer of implementation functions, because until this time the organisational management and governance costs will remain.

However, the review has concluded that to ensure an effective transitioning of these functions back to Council, this process should begin from 2013. This will ensure that the transition can be well managed, and strategically planned, to enable the focused and skilled management of the waterfront to be retained. It will enable functions to transfer, while the senior management oversight remains within the WWL.

It is proposed that a plan for when specific functions transfer within the 2013 – 2015 window, is prepared by the Council working with WWL. As WWL has emphasised this plan will also consider personnel and other contractual obligations, training and other aspects of overall implementation.

There are no significant savings to be made from bringing the management of already developed public space back under Council control earlier than the dis-establishment of the company. However, this review has concluded that beginning the process from 1 July 2013 would:

- Give a clear signal of Council's intention to assume direct responsibility for management of the waterfront in the near future

- Provide an opportunity for a managed transition of developed public space and lease management
- Retain a consistent environment to enable delivery of development projects planned for over the next two years.

Option	<i>Option 1 Reduced status quo Retain WWL as per 2011 decision. Review again in 2014</i>	<i>Option 2 Retain WWL, but amend objectives to include longer term operational management of the waterfront</i>	<i>Option 3 Retain WWL as a development company in the short/medium term but return waterfront operational management to Council</i>	<i>Option 4 Bring all WWL functions back in house. Retain shell company to hold assets in trust only</i>
<b>Fit to Waterfront Framework</b>	4	3	5	2
<b>Fit for purpose</b>	3	4	5	3
<b>Transparency / control</b>	2	2	5	3
<b>Flexibility</b>	4	2	4	5
<b>Risk to Waterfront delivery</b>	4	5	3	1
<b>Cost *</b>	3	3	2	5
<b>Total</b>	16/25	16/25	19/25	17/25

## Funding

There are two generic funding options:

1. The status quo
  - The Council continues to debt fund operational deficits on the waterfront and accumulates net operating deficits and capital expenditure requirements against the loan balance. This option delays the rates impost on current ratepayers. The Waterfront loan balance will continue to rise and this would mean that future ratepayers will need to pay for the benefits received by today's ratepayers. Not funding the net operating cost (including interest and depreciation) is inconsistent with the Council's principle of 'intergenerational equity' whereby current ratepayers pay for the benefits they receive.
2. Unbundle funding arrangements between commercial development and public space management, with a number of variations on the proportion and timing of rates funding
  - This option responds to the issue of increasing ring-fenced debt levels on the waterfront by changing the way the waterfront activity is funded. It separates out the operational funding requirements for the waterfront and adopts Council's principles of inter-generational equity and funding of depreciation. The adoption of these principles would mean an increase in the rates funding requirement for the waterfront activity.
  - This is different from the current treatment because apart from the WWL management fee, operating costs are not currently funded but accumulate against the Waterfront loan on the basis that commercial proceeds will fund these in the future – a prospect that is looking increasingly unlikely. Operational and asset renewal capex funding requirements would become more transparent as their funding is not impacted by variable or uncertain levels of commercial proceeds. The change does not result in a reduction in emphasis on maximising commercial proceeds within the boundaries of the agreed Development Plan. However, it does increase transparency.
  - Commercial development revenue budgets and actuals would remain ring-fenced with net proceeds returned to Council and reported in a Commercial activity. This option does not in itself necessitate a governance change (see below).
  - The additional rates impact of this option can be managed by gradually transitioning to fully funding of the activity through rates over a number of years. There is a precedent for this in the approach taken by Auckland Council, where their policy is to fully fund depreciation, but to manage affordability issues they are moving from a historical position to fully funding depreciation over a ten-year period.

The tables below shows the rates impact of the amended funding structure combining governance and funding policy options:

Option	Impact	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	
1a	Status quo funding model. Continue to debt fund operating deficit and renewals, no funding of depreciation. No change in governance.	Cumulative borrowing under Waterfront loan (funding capex renewals but not depreciation)	\$20.3m	\$13.8m	\$8.5m	\$13.8m	\$15.6m	\$19.6m	\$22.1m	\$24.8m	\$27.8m	\$30.7m
		Operating savings	\$0.0m									
		Additional rates requirement	\$0.0m									
		Impact on annual rates increase	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
2a	Rates fund operating deficit from 2013/14. Gradually introduce funding of interest and depreciation from 2013/14. No change in governance.	Cumulative borrowing under Waterfront loan (funding capex renewals but not depreciation)	\$20.6m	\$13.4m	\$7.8m	\$11.7m	\$11.0m	\$12.4m	\$11.8m	\$10.7m	\$9.6m	\$8.0m
		Operating savings	\$0.0m									
		Additional rates requirement	\$0.0m	\$1.0m	\$1.1m	\$2.0m	\$2.5m	\$2.8m	\$3.1m	\$3.2m	\$3.4m	\$3.4m
		Impact on annual rates increase	0.0%	0.4%	0.5%	0.8%	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%
2b	Rates fund operating deficit from 2013/14. Gradually introduce funding of interest and depreciation from 13/14. Transfer governance to Council on 1 July 2013.	Cumulative borrowing under Waterfront loan (funding capex renewals but not depreciation)	\$20.6m	\$13.4m	\$7.8m	\$11.7m	\$11.0m	\$12.4m	\$11.8m	\$10.7m	\$9.6m	\$8.0m
		Operating savings	\$0.0m	\$0.3m	\$0.4m	\$0.6m	\$0.6m	\$0.7m	\$0.8m	\$0.8m	\$0.8m	\$0.8m
		Additional rates requirement	\$0.0m	\$0.6m	\$0.7m	\$1.5m	\$2.0m	\$2.2m	\$2.3m	\$2.4m	\$2.6m	\$2.7m
		Impact on annual rates increase	0.0%	0.3%	0.3%	0.6%	0.8%	0.8%	0.8%	0.8%	0.9%	0.9%
2c	Rates fund operating deficit from 2013/14. Gradually introduce funding of interest and depreciation from 13/14. Transition governance of developed public space to Council from July 2013, all functions by July 2015.	Cumulative borrowing under Waterfront loan (funding capex renewals but not depreciation)	\$20.6m	\$13.4m	\$7.8m	\$11.7m	\$11.0m	\$12.4m	\$11.8m	\$10.7m	\$9.6m	\$8.0m
		Operating savings	\$0.0m	\$0.0m	\$0.0m	\$0.6m	\$0.6m	\$0.7m	\$0.8m	\$0.8m	\$0.8m	\$0.8m
		Additional rates requirement	\$0.0m	\$1.0m	\$1.1m	\$1.5m	\$2.0m	\$2.2m	\$2.3m	\$2.4m	\$2.6m	\$2.6m
		Impact on annual rates increase	0.0%	0.4%	0.5%	0.6%	0.8%	0.8%	0.8%	0.8%	0.9%	0.9%
3a	Rates fund operating deficit and interest from 2015/16. Fund 10% of depreciation from 2015/16, increasing by 5% per year thereafter. No change in governance.	Cumulative borrowing under Waterfront loan (funding capex renewals but not depreciation)	\$20.6m	\$14.4m	\$10.0m	\$13.8m	\$13.2m	\$14.6m	\$13.9m	\$12.9m	\$11.8m	\$10.2m
		Operating savings	\$0.0m									
		Additional rates requirement	\$0.0m	\$0.0m	\$0.0m	\$2.2m	\$2.7m	\$3.0m	\$3.2m	\$3.4m	\$3.5m	\$3.6m
		Impact on annual rates increase	0.0%	0.0%	0.0%	0.9%	1.0%	1.1%	1.2%	1.2%	1.2%	1.2%
3b	Rates fund operating deficit and interest from 2015/16. Fund 10% of depreciation from 2015/16, increasing by 5% per year thereafter. Transfer governance to Council on 1 July 2015.	Cumulative borrowing under Waterfront loan (funding capex renewals but not depreciation)	\$20.6m	\$14.4m	\$10.0m	\$13.9m	\$13.4m	\$14.8m	\$14.2m	\$13.2m	\$12.0m	\$10.4m
		Operating savings	\$0.0m	\$0.0m	\$0.0m	\$0.6m	\$0.7m	\$0.8m	\$0.8m	\$0.8m	\$0.8m	\$0.8m
		Additional rates requirement	\$0.0m	\$0.0m	\$0.0m	\$1.6m	\$2.0m	\$2.2m	\$2.4m	\$2.6m	\$2.7m	\$2.8m
		Impact on annual rates increase	0.0%	0.0%	0.0%	0.6%	0.7%	0.8%	0.9%	0.9%	0.9%	0.9%

The most effective balance between minimising the rates impost and bringing waterfront debt down to a manageable level is achieved through option 2b, whereby rates funding of \$0.7m (an increase of 0.3% on total rates) to fund the operating deficit is initiated from 2013/14. This will enable the Waterfront Loan balance to be lowered to \$8.0m by 2021/22. However, this option relies on savings of \$300k being achieved by disestablishing the WWL effective 1 July 2013.

The governance assessment table above suggests that the risks involved in initiating a full governance change by 1 July 2013 outweigh the potential cost savings.

The recommended alternative is **Option 2c**. Under this option:

- The rates impact in 2013/14 would be \$1m (0.4% increase on total rates).
- Rates funding of the operating deficit would begin from 2013/14.
- Partial rates funding of the interest costs (33%) would begin in 2013/14 and be fully funded by 2015/16.
- Graduated rates funding of depreciation would begin at 5% from 2014/15, increasing to 40% by 2021/22.
- Waterfront related borrowings would be lowered to \$8.0m by 2021/22.
- Annual savings estimated at 450k from transferring the governance of the waterfront back to Council will be achieved from 2015/16, gradually increasing to \$800k in 2018/19 (as development implementation is fully completed).

## Conclusion

The 2011 SPC report concluded that WWL has had a successful track record of delivering on Council's agreed plans for the Waterfront and that there was no compelling case for change. The Council continues to own and control development of the waterfront and approves the annual Waterfront Development Plan and annual SOI for Wellington Waterfront. The Council also retains control and decision making for design briefs, the approval of significant developments and leases, and the District Plan policy framework.

There is specific expertise and focus within WWL that has been integral to the progress in the development of the Waterfront. In this regard, WWL and the wider Waterfront decision-making and monitoring framework has been a success.

The current funding regime relies on the returns from commercial development along the waterfront funding the on-going operation, maintenance and asset renewals. However, it is becoming increasingly unlikely that this will be possible in the medium term, let alone in the longer-term when asset renewal requirements increase.

By continuing to convert the funding shortfall and the accumulating interest costs to the WWL loan, ratepayers who use the waterfront today are not paying their share of the benefit they enjoy. If we were reasonably confident that this was just a timing difference and development proceeds would eventually fund this shortfall, this approach would be prudent. However, in absence of that confidence, it is likely that future ratepayers will be encumbered with meeting this cost. It is therefore reasonable that current ratepayers should begin to pay their share for the benefit they receive.

It seems sensible that the timing of decoupling of funding arrangements should be aligned with any decision concerning the future governance structure for the Waterfront. This report recommends that Council signal its intention in this regard, thus enabling a transition process to begin without compromising the delivery of the Waterfront Framework.

It is recommended that Council agree to:

- a) A transition process by which the management of developed public space (including operational and property management functions) activities of WWL begin to transfer back to the Council from 1 July 2013.
- b) Public space and commercial development activities continuing to be managed by WWL until 30 June 2015, at which time any remaining development activities will transfer to Council and WWL would revert to a shelf company for the purposes of holding Waterfront assets in trust for Council.
- c) Effective 1 July 2013, the funding arrangements for waterfront private (commercial) development activities be decoupled from public space development and operation, so that:
  - The net operating cost (including depreciation) of the public space activity is funded through general rates, similar to other council activities.
  - The net proceeds of commercial development offset the total general rate requirement through a separate commercial activity.
  - The funding impact of this change is transitioned so that the rates impact does not exceed a year on year increase of more than 0.9% per year through the period of the current LTP.
- d) Request the Chief Executive to initiate a transition process with the Board and Chief Executive of WWL to give effect to the recommendation, and reports back to Council on this transition plan by 31 March 2013.

## WELLINGTON ZOO TRUST

### Context

The Wellington Zoo Charitable Trust was established in 2003 following a review of the governance and operations of Wellington Zoo in 2002. The Council owns the land (located on the Town Belt) and all fixed assets.

Five board members (including one councillor) are all appointed by the Council (the Trust is permitted to have up to seven Trustees).

### Background

1906	Wellington Zoo established on Town Belt Land.
1996	WCC core services review found that while the Zoo could not be defined as a core service, there may be valid reasons for the Council to continue its interest in Wellington Zoo as part of the amenity of the city and to provide recreational and cultural activities for Wellingtonians. Council decided to retain Wellington Zoo, but no decisions were made about its future direction.
2002	<p>Council commissioned a review of Wellington Zoo following a period of on-going debate since the completion of the core services review. The following challenges were identified:</p> <ul style="list-style-type: none"> <li>▪ Wellington Zoo was starting to show signs of underinvestment;</li> <li>▪ The belief that private trusts and corporate organisations are reluctant to directly fund or enter into partnerships with council activities; and</li> <li>▪ Lack of strategic direction - because there was a lot of debate about whether zoos are ethically sound and/or appropriate activities for Town Belt land, discussions around the Council table were not getting beyond fundamental questions of the high-level role of zoos, and not on Zoo strategy, direction, operations and marketing. As a result, Wellington Zoo was not receiving the strategic direction and governance it needed as a 21<sup>st</sup> Century zoological organisation.</li> </ul>
2003	<p>Wellington Zoo Trust was established. The arm's-length charitable trust approach was selected because it:</p> <ul style="list-style-type: none"> <li>▪ Provided a framework that could deliver strong leadership by attracting Trustees with the appropriate skills and connections to the conservation and business communities.</li> <li>▪ Is more likely to attract funding from donors whose policies exclude local authorities, or who are more likely to support a separate entity rather than the Council.</li> <li>▪ Has the flexibility to move easily between and understand the different requirements of the public, private and voluntary/community sectors, each of which will be imposing its own demands on Wellington Zoo and expecting its governance body to understand and respond positively to those demands.</li> </ul>

	<p>The Zoo's Trust Deed specifies its principle objectives are:</p> <ul style="list-style-type: none"> <li>▪ To manage, administer, plan, develop, maintain, operate and promote Wellington Zoo as a zoological park for the benefit of the Wellington community and as an attraction for visitors to Wellington;</li> <li>▪ To educate the community by building an awareness of plant and animal species and the actions required to promote conservation;</li> <li>▪ To promote species conservation;</li> <li>▪ To support and complement the conservation and learning activities undertaken by other organisations;</li> <li>▪ To develop, manage and plan animal species management programmes;</li> <li>▪ To promote and coordinate the raising of funds to assist the management, administration, maintenance, planning, promotion and further development of Wellington Zoo;</li> <li>▪ To acquire additional plant and animal species;</li> <li>▪ Generally to do all acts, matters and things that the Trustees think necessary or conducive to further or attain the objects of the Trust set out above for the benefit of the Wellington community.</li> </ul>
<p>Apr 2004</p>	<p>Council (via the Community, Health and Recreation Committee) approved the Wellington Zoo Trust (WZT) updated Draft Strategic Plan, though it was noted that any additional funding would need to be considered in future Annual Plan and Long Term Plan decisions and consultations.</p> <p>The Trust initially sought to give practical effect to its strategic plan through the Long Range Development Plan which undertook capital works to improve Wellington Zoo layout, animal accommodation and assist in upgrading the visitor experience.</p>
<p>Oct 2005</p>	<p>SPC considered a paper outlining future development options for Wellington Zoo. The paper recognised that the Zoo was not a strategic priority for the Council at the time, but that due to the Council's decisions to retain the Zoo, consideration had to be given to upgrading and maintaining the assets and facilities at an appropriate 21<sup>st</sup> Century level given the period of underinvestment previously experienced. In it, Council agreed to fund opex of \$40,000 for the Zoo to prepare a robust business case for future development.</p> <p>Six options were identified:</p> <ol style="list-style-type: none"> <li>1. A redevelopment and refurbishment programme similar in scope to those recently implemented by other zoos in the region that puts Wellington Zoo on a par, for its size, with the best in Australasia from an animal conservation and welfare perspective, while delivering a first class visitor experience.</li> <li>2. A 10-year Zoo Capital Programme (ZCP) that deals with all health and safety and legacy issues while meeting zoo community stakeholders' expectations and delivering the type of visitor experience expected, of a "sustainable, 21<sup>st</sup> century" facility.</li> <li>3. A commitment to deliver ultimately on the 10-year ZCP, by providing for the completion of the projects scheduled in the first 5 years (dealing with the major animal welfare and health and safety concerns while at the same time securing some enhancement of the visitor experience); and then subsequently agreeing the</li> </ol>

	<p>scope, content and phasing of further work to be undertaken from year 6 onwards.</p> <ol style="list-style-type: none"> <li>4. A modified 10-year ZCP that deals with the major legacy issues impinging on animal welfare and health and safety in the first 5 years and continues, with some enhancement work, in the second 5 years to position the Zoo as a well maintained community asset that also provides a platform going forward for the development of a “sustainable, 21<sup>st</sup> century” facility.</li> <li>5. A 5-year programme that deals only with the major legacy issues impinging on animal welfare and health and safety and positions the Zoo as a well maintained community asset.</li> <li>6. A “do nothing” option based on the minimum of work needed to allow Wellington Zoo to continue operating in its present configuration and at the current level of service, that in the view of the Trust will effectively lead to the Wellington Zoo’s closure.</li> </ol> <p>The Wellington Zoo Trust recommended option two and commissioned a research report regarding the likely success of the funding strategy required if this option was chosen. As a result, the Trust set a target of \$5.5m from non-Council sources over the first five years and \$2.9 over the second five years of the ZCP.</p> <p>The Council however agreed option three because it achieved much of the Trust’s vision (but not all), but within a more affordable level of investment and a much more acceptable level of financial risk.</p>
<p>Feb 2006</p>	<p>In preparation for the 2006/09 LTP, the Council carried out a number of activity reviews, including Wellington Zoo. The review considered whether the current governance arrangements were still providing the best outcomes.</p> <p>The 2006 review identified the Wellington Zoo Trust’s focus as primarily that of developing and maintaining Wellington Zoo as a quality facility for promoting animal conservation and education to Wellington region residents, and to a lesser extent tourism (but only in the context of minimising reliance on Council funding).</p> <p>The following governance options were considered:</p> <ol style="list-style-type: none"> <li>1. Status quo: retaining the trust.</li> <li>2. Re-established the Zoo as a Wellington City Council Business Unit: key risks identified included Wellington Zoo having to compete with other larger (and core) services, not being able to independently source capital, and being constrained in its ability to win corporate sponsorship or access grant money. The review concluded that Wellington Zoo would be in a better position and be more customer focused if it were able to act more entrepreneurially.</li> <li>3. Change of the Wellington Zoo Trust’s governance structure – an in-house board of management similar to those operating at Auckland and Hamilton Zoos at the time. Key benefits identified included more control over projects and budgets, but also incentives to increase other revenue sources. Auckland Zoo however was reconsidering this option at the time as it was felt that a more arm’s-length approach was needed to maximise sponsorship from the corporate sector.</li> <li>4. A combined approach or governance structure across existing “conservation” CCOs and COs – including the Karori Wildlife Sanctuary and the Marine Education Centre. Identified potential benefits to the Council and the city in relation to conservation and education while providing a tourism visitor attraction package at minimal cost to Council, as well as cost savings in relation to overheads and marketing campaigns.</li> </ol>

	<p>The review concluded that the Wellington Zoo Trust had largely met the Council's expectations and that there were no overwhelming reasons to change the governance structure. The estimated redevelopment cost was \$21m, and Council's maximum contribution was set at \$14.9m.</p>
<p>Dec 2006</p>	<p>The Wellington Zoo Trust put forward a draft Zoo Capital Programme (ZCP) to Council to upgrade Wellington Zoo's infrastructure (which is owned by the Council), in line with option three identified above. The new plan was a scaled down version of Wellington Zoo Trust's original Long Range Development Plan and mostly focused on addressing health and safety concerns, largely due to the comprehensive nature of the business case and increased construction costs. The total cost of the new plan was \$20.8m, but the Council's contribution increased slightly from \$14.9m to \$15.611m.</p> <p>The Council signed up to and agreed to fund capex of \$15.611m over ten years; while the Wellington Zoo Trust agreed to fund \$5.2m from external fundraising. As a result, the Zoo now has a much clearer and better-articulated strategic direction and its core purpose is reinvigorated. The ZCP is due for completion in 2016/17.</p> <p>Aims core aims of ZCP are:</p> <ul style="list-style-type: none"> <li>▪ To deal with all legacy animal welfare and health and safety issues.</li> <li>▪ To deliver a safe, comfortable and enjoyable zoo experience.</li> <li>▪ To demonstrate the Council's commitment to retaining the Zoo.</li> <li>▪ To reflect professional advice regarding the target and strategy for securing non-Council funding in the first 5 years.</li> <li>▪ To reduce the overall financial risk to the Council should external funding not eventuate at anticipated levels.</li> </ul> <p>The Council is now meeting international standards for zoos.</p>
<p>Nov 2011</p>	<p>Council's Funding and Activity Review Working Party (FAR) considered the Zoo's proposed Asset Management Plan for the period 2012/13 to 2021/22, which articulates the levels of service and programmes required by the Council for the long-term management and planning of the assets owned by Council and managed by Wellington Zoo Trust. For the first time, the AMP was developed by the Wellington Zoo senior management team (with appropriate asset management software) and reviewed by officers of the CCO team and Council.</p> <p>The AMP proposed further capital expenditure beyond the current ZCP, which would cost an extra \$11.5m than currently budgeted over the next ten years; with most of the extra costs falling in the final six years of the Long Term Plan. The rationale for the additions being that the original ZCP did not address all of the legacy issues at Wellington Zoo and growing visitor numbers have put pressure on old assets, especially the front entrance. The AMP also included some assets which were not included in the original plan – thereby projecting additional costs of \$15.3m overall over the next ten years. Proposed improvements and projects included the following:</p> <ul style="list-style-type: none"> <li>▪ the main entry area to Wellington Zoo - which is not designed to deal with the growth of visitation for Wellington Zoo and is quite hazardous for visitors to navigate, particularly those with special access needs; and</li> <li>▪ the Tropical River Trail Pathway - which is too narrow;</li> <li>▪ additional toilet facilities;</li> <li>▪ redevelopment of old exhibits which detract from the Zoo's 21<sup>st</sup> Century reputation</li> </ul>

	<p>(eg, old sunbears redeveloped for snow leopards); and</p> <ul style="list-style-type: none"> <li>▪ acquisition of new animals to support conservation programmes (eg, Tasmanian Devils which are being diminished in the wild due to viral cancer tumours).</li> </ul> <p>The Zoo Trust proposed to fund 20-25% of these upgrades except the front entrance for which it would raise 15% of the cost (as it would be very difficult to fundraise for as it is a commercial area not an animal exhibit), and advised that zoos build for a 20-25 year life of assets (having regard to community expectations and improved care of animals etc).</p> <p>The FAR Working Party considered the proposed upgrades and decided against recommending to SPC they be included in the Long Term Plan. Consequently, the levels of service described in the original ZCP still represent Council's current position.</p>
Jun 2012	<p>Council sought community feedback on four options for the future governance of ZEALANDIA –two of the options involved grouping Wellington Zoo in with other environmental attractions under a common board.</p> <p>Council decided against either of these two options because the potential risks outweighed the benefits. Council decided to pursue a different direction for the future governance of ZEALANDIA, which does not involve combining with Wellington Zoo.</p>
Jun 2012	<p>Council signs off Wellington Zoo Trust's annual Statement of Intent.</p> <p>The Wellington Zoo Trust's purpose is to encourage people to find their personal connection with nature.</p> <p>Wellington Zoo Trust's vision is that Wellington Zoo is a magical place of learning and fun, leaving visitors with a sense of wonder and respect for nature and a belief in the need for a sustainable co-existence between wildlife and people.</p> <p>Wellington Zoo Trust's strategic elements and links to W2040 are:</p> <ol style="list-style-type: none"> <li>1. Create outstanding, intimate and unique visitor experiences (people centred city, connected city)</li> <li>2. Integrate conservation and sustainability across the organisation (eco city)</li> <li>3. Achieve financial sustainability (economic development)</li> <li>4. Build lasting community support and participation (people centred city)</li> <li>5. Show industry leadership (eco city, people centred city, connected city)</li> <li>6. Ensure all staff motivated and valued (people centred city)</li> </ol>
Sept 2012	<p>Council approved Regional Amenities Fund project – this could have future funding implications for Wellington Zoo if other councils in the region sign up as well. An independent fund manager will decide which regional amenities benefit from the fund.</p> <p>A Colmar Brunton survey commissioned by WCC of residents in the Wellington region on the types of amenities that they view as important found that 65% of respondents agree that the region should financially support Wellington Zoo (ranking it fourth out of 22 regional facilities), and 77% believe most people in the region benefit from the Zoo.</p>
Sept 2012	<p>Wellington Zoo Trust submitted its Annual report, which shows the Trust is meeting or exceeding most of the targets set for it by the Council. Visitor numbers are well beyond the 2% per annum agreed in the 2006 ZCP business case.</p>

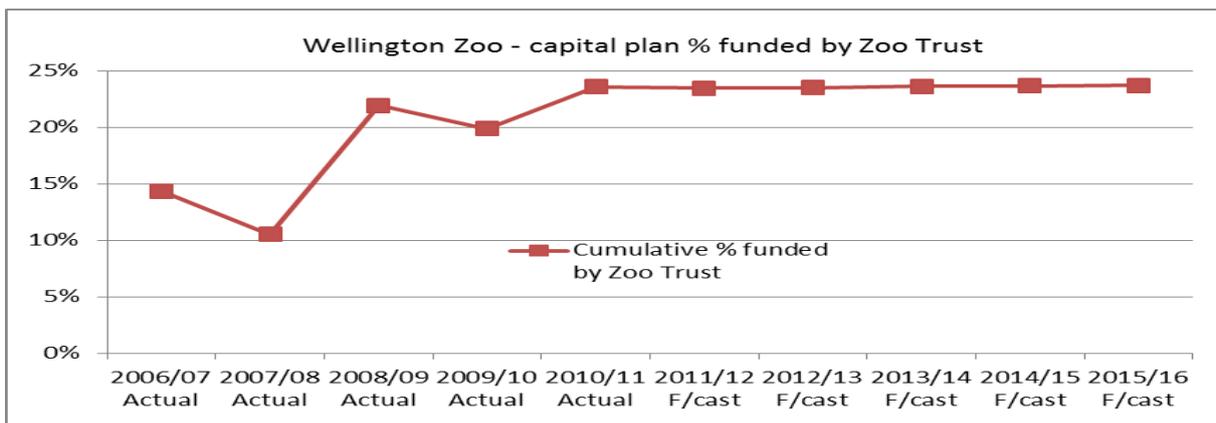
**Has the current governance structure met expectations?**

**Non-Council revenue**

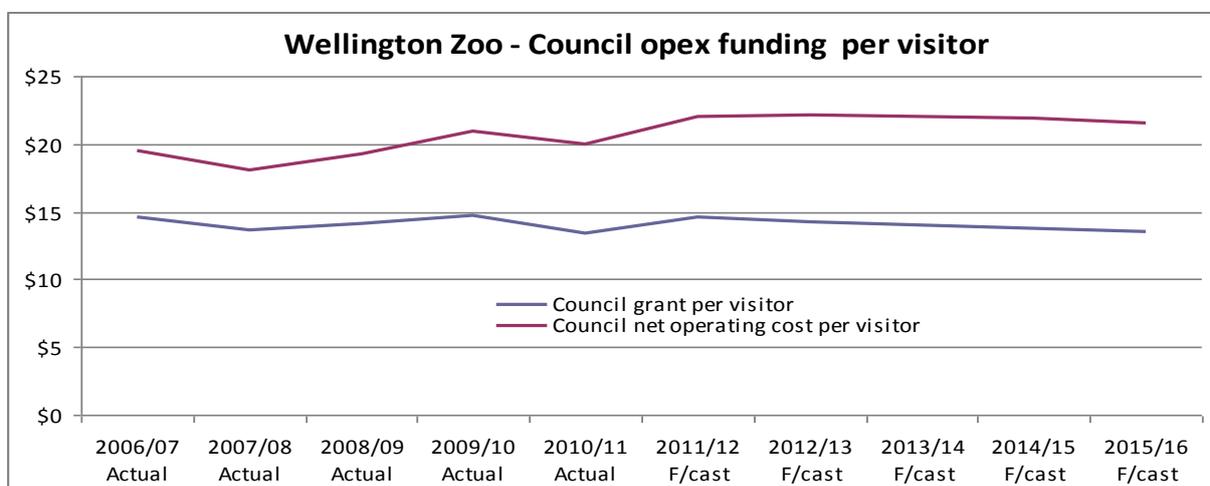
Since Wellington Zoo Trust was established, it has achieved well against the Council’s expectations. A key driver for setting up Wellington Zoo as a CCO was to draw in more funding from sponsorship and donations from external parties who would be unlikely to contribute to the same extent directly to the Council. In 2010/11, the Zoo attracted \$1.152m in grants and donations (representing 18% of total income), an increase from \$0.406m in 2003/04 (representing 11% of total income).

Since the inception of the ZCP, Wellington Zoo Trust has had a target of funding 25% of capital costs, with the balance funded by council borrowing. The following graph shows that, while the Trust had difficulty meeting this target in the early years of this capital investment programme in part due to the ZCP being agreed in the middle of a financial year, it is now meeting this target. The trust has raised over \$4m to date.

This represents a significant contribution towards the upgrade and success of Wellington Zoo, which reduces the burden on Wellington’s ratepayers.

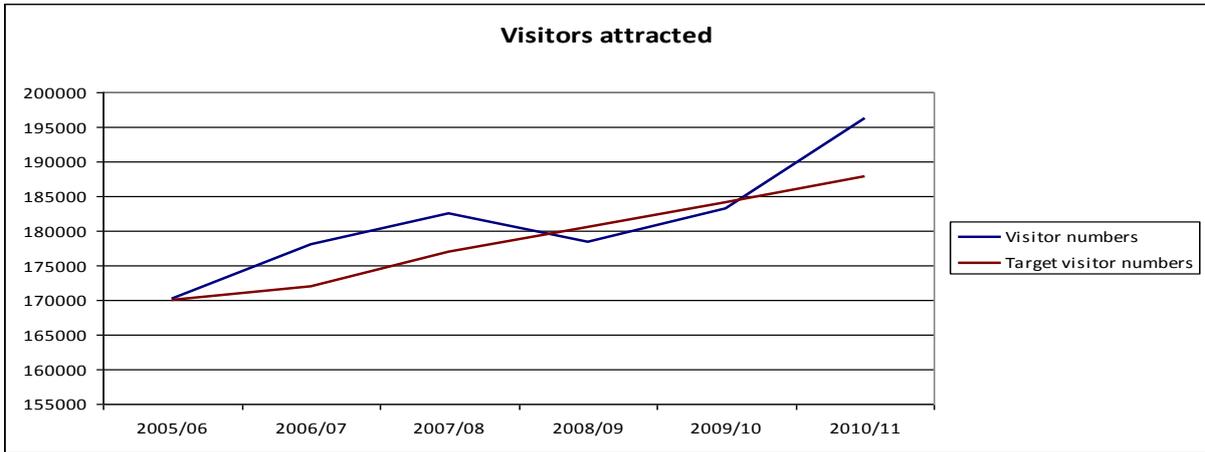


While the ZCP has meant additional costs overall for Wellington’s ratepayers, the following graph shows that these costs have not significantly increased costs to the individual ratepayer, a reflection of the number of visitors increasing and Wellington Zoo Trust’s success at attracting other sources of funding. This trend is expected to continue throughout the life of the current ZCP.

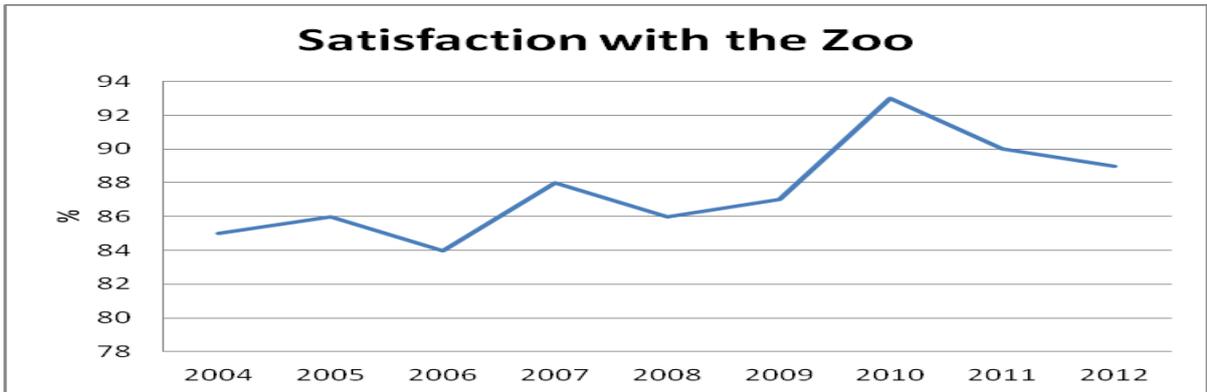


**Visitor experience**

Wellington Zoo has also created a much improved visitor experience, resulting in 216,597 visitors to the Zoo in 2011/12, an increase from the base 170,116 in 2005/06 representing a 27% improvement over this period. This achievement was a key component of the ZCP, which required a 2% increase in visitor numbers each year in order for Wellington Zoo to meet its obligation to fund 25% of the ZCP.



Satisfaction with the Zoo is also showing an improving trend as seen in the following graph.



Source: Residents Monitoring Survey

**Greater strategic direction**

Another key rationale for setting Wellington Zoo up as an arm’s-length entity was to give Wellington Zoo a greater strategic direction and much needed improvements to its management. Council considered various development options in 2006, agreeing a level of service going forward. This assessment, as well as approval of the ZCP itself, shows Council’s commitment to the future of the Zoo.

Within this broad remit, Wellington Zoo Trust has created a strong strategic direction for Wellington Zoo. The most recent SOI reiterates the zoo’s vision and strategic goals and its contributions to W2040.

## The Council's current and future expectations for the Zoo

### *Future levels of service and capital improvements*

Recent Council decisions have signalled that there is little appetite for further service level improvements at Wellington Zoo. The current ZCP addresses most of the legacy issues experienced because of previous underinvestment, however the Wellington Zoo Trust has indicated there are additional issues that are not yet in the plan. Wellington Zoo Trust has raised the need for additional funding to both maintain assets that were not included in earlier Asset Management Plans as well as upgrades to address further legacy issues. It has also proposed improvements to enhance the visitor experience beyond that planned in the ZCP<sup>17</sup>.

Currently, however, the 2012-2022 LTP includes a relatively low level of renewal capital expenditure (averaging \$0.214m) per year. Council will need to determine whether this is a sustainable expectation going forward. As the Trust does not own the assets, there is no ability for it to raise money itself through borrowing. Instead, it will still be reliant on Council investment going forward.

In any case, it is clear that the majority of Wellingtonians value their Zoo. As noted above, a recent survey<sup>18</sup> of residents in the Wellington region on the types of amenities that they view as important found that 65% of respondents agree that the region should financially support Wellington Zoo, and 77% believe most people in the region benefit from the Zoo. Council's recent decision to set up a regional amenities fund could signal a future funding stream for the Zoo.

### *Greater strategic direction from the Council*

The Council has recently adopted the Towards 2040: Smart Capital strategy for the city. The strategy has implications for all of the services funded by the Council, including Wellington Zoo. In its most recent SOI, Wellington Zoo has outlined its contribution to the strategy. In particular, the Zoo contributes to the city's identity as an eco-city where the natural environment is valued. The Zoo has a role in creating a city people want to live in, not only by providing a safe family learning environment, but also by helping people to put down roots in our place through providing the quality amenity talented, educated people expect. Research shows that the most ambitious and talented are looking for places that they can be proud of and a part of, and that are clean and green.

Wellington Zoo already contributes to all of these themes, including its conservation focus both locally and globally; although the performance measures tend to be more business focussed. KPIs could encompass providing opportunities for communities to get involved, or the contribution the Zoo makes to improving Wellington's green credentials (such as contribution to Wellington's low carbon footprint, water and waste minimisation measures, enhancing the city's bio-diversity, and inspiring citizens to minimise their own impact on the environment). The Zoo Trust already has an aspiration to become the first ever zero carbon zoo – this may be a good place to start.

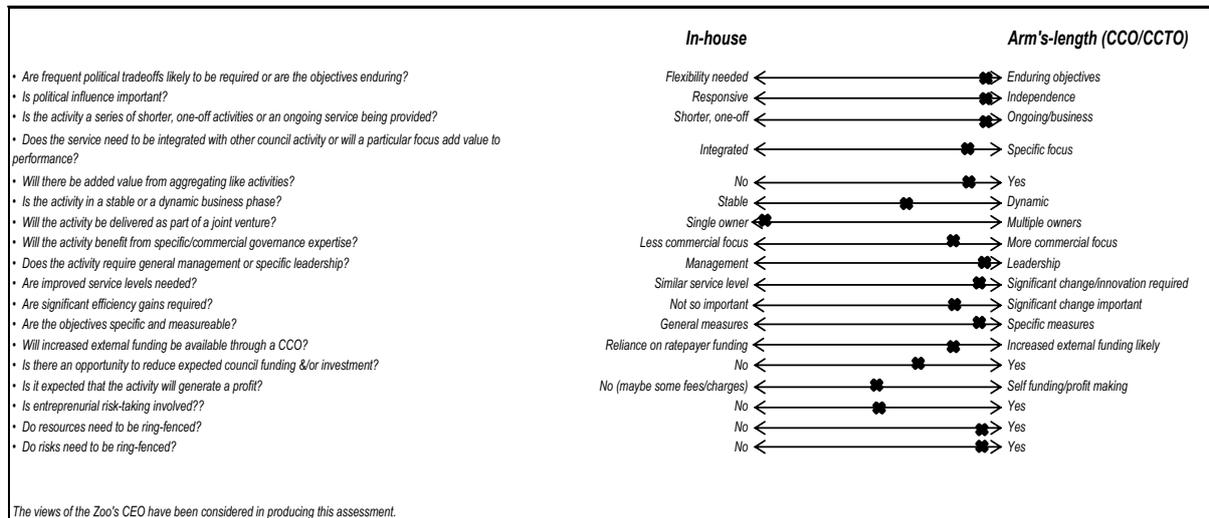
---

<sup>17</sup> The Wellington Zoo Trust has highlighted an international trend for growth in zoo visitation, including Europe, America, Australia and New Zealand (in New Zealand 2.2m people annually visit zoos) and that the expectations of communities are that zoos are managed in line with high international standards in regard to conservation, animal welfare and visitor experience. The World Zoo and Aquarium Association (WAZA) is currently preparing a global strategy and policy for WAZA members and New Zealand is reviewing its Animal Welfare Strategy. These initiatives will have implications for Wellington Zoo.

<sup>18</sup> 2011, Colmar Brunton: Regional Residents Survey on Regional Amenities

## Is this governance model still fit for purpose?

The activities of Wellington Zoo Trust have been assessed against the framework for deciding the best governance arrangements for Council activities. The assessment has taken into account the Wellington Zoo Trust’s historic and current performance as well as (to the extent possible) an understanding of the Council's future expectations for Wellington Zoo. Below is the assessment for Wellington Zoo.



On balance, this assessment shows that the Zoo’s current governance arrangements are still the best fit for the Zoo:

- Wellington Zoo now has relatively enduring objectives, which are unlikely to change significantly over the next decade or so, except for more focus on conservation outcomes, species survival initiatives and animal welfare. This means the Council will not need to be involved in making day-to-day decisions, and the Board can operate within a relatively stable strategic framework. Council will still be involved in setting overall expectations and capital expenditure.
- Within the strategic direction agreed by the Council however, Wellington Zoo will still be in a relatively dynamic phase over the coming five years while it is completing the current capital ZCP. The plan is ambitious and will require well-informed decisions to be made on a frequent basis. The expertise, single focus and passion of the Wellington Zoo’s Board and management will more likely mean the sustained effort required to ‘get things done’ will happen. Wellington Zoo’s management are currently able to work directly and frequently with the Zoo’s directors in a way that the Council cannot, given the sheer number of other tasks on Council’s work programme.
- Once the current ZCP is complete in 2016, Wellington Zoo will still benefit from the strong leadership and focus of a separate entity. Zoos generate a lot of community interest and passion and Wellington Zoo Trust plays a key role in galvanising and harnessing this energy. External governance, due to the direct focus and expertise, are well-positioned to sustain strong leadership and passion over time (as they are not distracted by other priorities), as well as connecting and partnering with the wider Zoo community, research and training institutions and other interest groups. Wellington Zoo has attracted a large number of volunteers carrying out 200 hours of work on average per week (equivalent to five full time

staff). Sustaining this level of participation requires significant effort, and volunteers need to feel they are contributing to something they believe in and support.

- Since becoming a CCO, Wellington Zoo has attracted high calibre employees who are sufficiently experienced, connected to the Zoo community, and respected in their field (for example, Wellington Zoo CEO is the president of the Zoo Aquarium Association Australasia). As noted with PWT, interviews with all of the CEOs and chairs responsible for Wellington's CCOs found that many believe people are attracted to these roles because they are given the autonomy and authority to make a difference. They have regular and direct access to relevant commercial and technical experience and to decision-makers, and the Trustees and CEOs represent the individual interests of their entities strongly in the community. Many believe this likely would not happen to the same extent for services run in-house by the Council (which needs to balance the other and sometimes competing community interests). While it is impossible to know whether this is the case, having high calibre staff continues to be instrumental in enabling Wellington Zoo to evolve over the coming years as modern Zoo practices improve and change. Wellington Zoo Trust has noticed an increasing demand for high calibre zoo professionals overseas. New Zealand zoos will be competing from the same increasingly competitive and small talent pool. Without a solid reputation as a 'good zoo', Wellington Zoo will struggle to maintain its position and so having staff which understand the principles and practices of world leading zoos is important to Wellington's Zoo's future as an organisation which delivers social profit and benefit to our city.
- The Zoo will still benefit from ring-fenced investment. The visitor experience at the Zoo has become richer since the ZCP has been rolled out. If funding is buried in wider budgets, it can be too easy to be traded off against other priorities of Council, as occurred prior to the establishment of Wellington Zoo Trust. By retaining an arm's-length model, there will be greater transparency in the level of investment being made into Wellington Zoo and what Wellington's residents are getting in return for that investment, as it will continue to operate with a separate SOI.

In comparison, the benefits of bringing the Zoo in-house are relatively small. They are:

- The costs associated with having a separate board would be saved, amounting to \$0.088m per year. Other cost savings would be minor as a Director/General Manager would still be required, as would additional in-house management accounting support. Wellington Zoo currently employs about 62 FTE, and ongoing Wellington Zoo would still require similar staff number
- Council would, in theory, have more direct control over the day-to-day Zoo operations. In reality, however, the level of attention the Council would be able to give to Wellington Zoo's operations would be restricted by the sheer volume of other issues it needs to deal with.

If the Zoo were to be brought back in-house, however, the key risks are:

- The grants and donations currently attracted by Wellington Zoo may reduce, meaning the cost to Wellington's ratepayers would increase to cover the costs of the ZCP, on-going maintenance and other improvements that are required. Private sponsors and other funders like to be assured that their contributions will go to the area or activity that they have agreed to support – not to cross-subsidise other ratepayer-funded activities.

- The skills and business acumen brought to Wellington Zoo via specific commercial and technical expertise and governance would be lost. Trustees have been selected because they have crucial experience in these areas, which they bring to their roles. This means they know what information they need to discuss with senior managers in order to make the right decisions and provide the right direction. Councillors do not have the time or necessarily the specific experience to carry out these roles with the same intensity and frequency. If Wellington Zoo did not have its own separate board, it would probably be necessary to establish a Wellington Zoo advisory board to provide this expertise, and there would still be costs associated with supporting such a board or committee.
- When operational decisions are being made, Wellington Zoo improvements may not be prioritised over other city improvements resulting once again in Wellington Zoo experiencing underinvestment and being underutilised. The 2003 review of Wellington Zoo's governance found Wellington Zoo was in need of substantial reinvestment. This was largely due to a lot of uncertainty and indecision about the future direction of the Zoo. This debate took its toll on Wellington Zoo, resulting in underinvestment and lack of purpose. While the Council was not subject to the same asset management rigour back in the 1990s, bringing Wellington Zoo back in-house now could result in Wellington Zoo's purpose being constantly re-debated and changed once again leading to a lack of investment in Wellington Zoo's infrastructure. The long-term impact of this would be detrimental to Wellington Zoo's success, which has been steadily increasing across all its areas of activity.

### *Review of other governance models*

A recent study carried out on the Toronto Zoo's governance reviewed the governance practices across a range of zoos across North America<sup>19</sup>. The most successful zoos in the study were managed and governed independently, while engaged within limited partnerships with various levels of government. The research found that these structures best enable zoos to evolve to meet their changing mandates, while engaging the private sector within robust and effective partnerships and thereby reducing the financial requirements of the public sector. The report recommended that Toronto create a more arm's-length governance model for its Zoo. This outcomes is also true for a recent governance review for Los Angeles' Zoo. In addition, Australian government zoos are managed with arms length governance, while sustaining close relationships with their government agencies.

Other models in New Zealand include:

- Since the creation of the new Auckland Council, Auckland's Zoo is part of Auckland Council's substantive CCO, Regional Facilities Auckland (RFA), along with a range of other destination entities including Mt Smart, the Auckland Art Gallery, Auckland Conventions, and The Edge, (Aotea Centre, Town Hall, Civic Theatre). It is also supported by the Auckland Zoo Charitable Trust (established in 1992 to contribute to Auckland Zoo by promoting and coordinating fundraising initiatives; administering all donations and bequests that may be put towards major capital development projects, conservation and breeding projects; and assisting with the maintenance and further development of Auckland Zoo). The Auckland Zoo Trust is comprised of volunteer Trustees who are high profile business people in Auckland

---

<sup>19</sup> Schultz and Williams, 2012: The Future of Toronto Zoo Governance.

- Hamilton’s Zoo is an internal business unit of the Hamilton City Council, but is undergoing a governance review in order to establish more independence.
- Orana Wildlife Park in Christchurch is a separately managed Trust similar to ZEALANDIA, which receives little Council support but owns its assets.

## Conclusion

On balance, the review concluded that Wellington’s Zoo is still more suited to arm’s-length governance – this has so far produced good results, attracting external sponsorship, creating a strong strategic direction and improving the visitor experience. These improvements came after a period of decline and uncertainty for the Zoo. It is still in a dynamic phase, with only half of its Capital Plan complete more improvements and upgrades are planned.

## Summary information about the CCOs

* 2012 CCO Annual Reports ** Council 2012 LTP (\$m)	Basin Reserve Trust	Capacity Infrastructure Services Ltd	Partnership Wellington Trust	Positively Wellington Venues Ltd	Wellington Cable Car Ltd	Wellington Museums Trust	Wellington Waterfront Ltd	Wellington Zoo Trust	TOTAL
Legal status	Charitable trust	Company – CCTO	Council-settled trust	Company - CCTO	Company – CCTO	Council-settled trust	Company – CCTO	Charitable trust	
Chair	Doug Catley	Peter Allport	John Milford	Chris Parkin	Roger Drummond	Quentin Hay	Robert Gray	Ross Martin	
CE	(Cricket Wellington)	David Hill	David Perks	Glenys Coughlin	Des Laughton	Pat Stuart	Ian Pike	Karen Fifield	
Number of Directors	4	6	7	8	3	7	4	5	44
Chair costs	\$0.000m	\$0.036m	\$0.030m	\$0.030m	\$0.030m	\$0.030m	\$0.038m	\$0.030m	\$0.224m
Total Directors' costs	\$0.000m	\$0.105m	\$0.095m	\$0.127m	\$0.053m	\$0.106m	\$0.077m	\$0.088m	\$0.651m
Personnel costs*	(Cricket Wellington)	\$5.749m	\$2.483m	\$5.350m	\$1.075m	\$4.757m	(not reported)	\$3.639m	\$23.053m
Operating surplus (deficit) *	(\$0.111m)	\$0.087m	\$0.002m	(\$1.269m)	\$0.632m	(\$0.094m)	(\$0.714m)	\$0.005m	(\$1.462m)
Total rates funded opex for CCO related activity **	\$0.804m	\$79.144m <sup>20</sup>	\$5.740m	\$4.598m	(\$0.156m)	\$7.168m	\$1.091m	\$4.341m	\$102.732m
Net Council capex for CCO related activity **	\$0.124m	\$22.701m	-	\$4.057m	-	-	\$4.460m	\$0.638m	\$31.981m
Percentage of total rates used to fund CCO related activity	0.34%	33.02%	2.39%	1.92%	(0.07)%	2.99%	0.46%	1.81%	42.86%
Estimated Third party income *	\$0.421m	\$2.614m	\$5.437m <sup>21</sup>	\$14.811m	\$8.414m	\$2.947m	\$9.125m <sup>22</sup>	\$3.598m <sup>23</sup>	\$47.367m
Council grant **	\$0.180m	\$5.184m	\$5.940m	-	-	\$6.164m <sup>24</sup>	\$1.089m	\$2.799m	\$21.356m

<sup>20</sup> Includes Council operating grant

<sup>21</sup> Excludes \$1m contribution from Air NZ for Australian marketing

<sup>22</sup> Includes proceeds from sale of leases

<sup>23</sup> Includes capital grant

<sup>24</sup> Excludes \$1.77m rental grant

