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**REPORT 2**  
*(1215/52/IM)*

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## **REVIEW OF COUNCIL CONTROLLED ORGANISATIONS**

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### **1. Purpose of Report**

This paper introduces and summarises the review of Council Controlled Organisations commissioned from PricewaterhouseCoopers, and seeks the agreement of the Committee to implement a number of changes to the CCO governance and monitoring regime.

A separate paper, to be discussed in Public Excluded, accompanies this report and discusses further recommendations contained in the CCO review.

### **2. Executive Summary**

Following a Council resolution that a review of Council Controlled Organisations (CCOs) should be undertaken, officers engaged PricewaterhouseCoopers (PWC) to undertake the review. A copy of the PWC report is attached as Appendix 1 to this paper.

The review has concluded that the current form and structure of the Council's CCO model is a valid model for the range of functions currently undertaken by the CCOs that were the focus of the review. The reasons for their establishment remain valid, and there are no alternatives that offer materially better outcomes. This includes consideration of options for mergers and differing functional separation (e.g. the separation of asset ownership). Furthermore, there were no compelling financial reasons identified that would suggest change was needed.

The review suggests that there are however several opportunities for strengthening the functioning of the model so that the CCOs make a more effective contribution to Council objectives. A range of systems improvements have been suggested and officers will seek to implement these over the next few months, as outlined in the attached implementation plan (Appendix 2), and report back on their effectiveness as they bed in.

The review also recommends that Councillors and Council Officers should not be appointed to CCO Boards. The review notes that these appointments carry an inherent conflict of interest that is best mitigated by removing this appointment practice. If the Committee agrees with this recommendation to revise Council's appointments policy, consultation would need to occur with other local authorities in respect of CCOs that have joint or multiple ownership.

Lastly, the review suggests revisiting the delegations and responsibilities between the Waterfront Development Subcommittee (WDSC), Audit and Risk Monitoring Subcommittee (ARMS), Council Controlled Organisations Performance Subcommittee (CCOPS) and SPC. Part of this review will include consideration of the suggestion to establish an advisory group to advise the Council on CCO related monitoring and performance issues. Officers recommend a report back to SPC Committee on these reporting structure issues by December 2006.

CCOs were provided with a copy of the review at the beginning of September. While there has not been a lot of time to provide feedback, CCOs have generally indicated that they look forward to engaging with officers over the coming months on implementing the recommendations of the review.

### 3. Recommendations

It is recommended that the Committee:

1. *Receive the information.*
2. *Note the recommendations contained in the report Review of Council Controlled Organisations by PricewaterhouseCoopers, attached as Appendix 1 to this paper*
3. *Agree to the implementation plan attached as Appendix 2 to this paper, which relate to system-level improvements as recommended by the Roche review*
4. *Agree to recommend to Council that Council's appointments policy for COs and CCOs is amended to preclude Councillors or Council officers being appointed to those boards, subject to consultation with those local authorities that have CCO ownership interests in common with Wellington City Council (Wellington Regional Stadium Trust, Capacity and Positively Wellington Business)*
5. *Agree that officers report back on reporting arrangements for CCOs as outlined in the table below:*

<b>Report</b>	<b>Issues</b>	<b>SPC Committee</b>
<i>Review CCO Committee reporting arrangements</i>	<ul style="list-style-type: none"> <li>• <i>Clarify delegations of CCOPS; ARMS; SPC; WDSC</i></li> <li>• <i>The provision of free and frank advice</i></li> <li>• <i>Establishment of Advisory Group</i></li> </ul>	<i>December 2006</i>

## **4. Background**

In December 2005 Council resolved to institute a broad review of the structure, monitoring and reporting mechanisms of all its Council Controlled Organisations and Council Controlled Trading Organisations.

The objectives of the review were to:

- Determine the most appropriate model(s) for carrying out the activities being undertaken by CCOs
- Identify areas where the reporting and monitoring processes could be amended and improved.

The review was undertaken by a team from PricewaterhouseCoopers (PWC), led by Brian Roche. The team undertook a series of stakeholder interviews, reviewed information, and undertook an assessment of the findings, drawing on knowledge of other practices and policies as a benchmark.

A schedule of the CCOs considered within the scope of the review is attached as Appendix 3.

## **5. Discussion**

The review considered the advantages and disadvantages of the CCO model and assessed whether it remains appropriate, whether it needs to be modified, whether it should be replaced with another model and, lastly, whether functions undertaken by CCOs should be brought back within the Council itself.

The review has concluded that the current form and structure of the Council's CCO model is a valid model for the range of functions currently undertaken by the CCOs that were the focus of the review. The reasons for their establishment remain valid, and there are no alternatives that offer materially better outcomes. This includes consideration of options for mergers and differing functional separation (e.g. the separation of asset ownership). Furthermore, there were no compelling financial reasons identified that would suggest change was needed.

The review suggests that there are however several opportunities for strengthening the functioning of the model so that the CCOs make a more effective contribution to Council objectives.

### **5.1 Issues identified**

The review found that there were a number of issues with the current model, including:

- CCOs do not necessarily have a clear view of Council's objectives. In some cases, this is a matter of communication. In others, it is a function of having multiple councils as owners and in most cases, it is a function of the fact that Council, of itself, has a complex array of objectives
- Some CCOs are operating in a manner that suggests a greater degree of autonomy than is either envisaged by the Council and/or is appropriate recognising the financial, operating and reputation risks accruing to the Council as owner. There is a balance to be struck between autonomy and accountability and the balance is not optimal in all instances
- CCOs have to deal with many parts of Council and, as a consequence, have many levels and lines of communication with Council. The potential for confusing and conflicting messages is considerable with significant potential for undermining effective accountability
- The contribution of CCOs is critically dependent on the quality of the governing boards. On the whole, the review considered that the Council is fortunate in having attracted high calibre people from outside of Council to participate on CCO Boards. However, there is scope for making more of the capability that exists through enhancing appointment and induction processes
- Effective accountability rests on a relatively limited number of formal mechanisms. The Statement of Intent (SoI) is key among these. The scope and content of CCO SoIs falls well short of the standard that is typically found across agencies of central government. The processes surrounding SoI development including the roles played by Letters of Expectation and the CCO Performance Committee can be modified to further strengthen the SoI as a key accountability tool
- Similarly, there are issues with the quality of performance reports which are another part of the formal accountability machinery. There is a need to ensure that the performance reports reflect the appropriate content, are provided according to a realistic timeframe reflecting the business cycle of the entity in question and leverage off the information used by CCO Boards to manage and hold the management of the CCO accountable
- The CCO Unit needs to play a key role on behalf as the Council as owner, but there are indications that the role is not as well developed, or understood, as it could be.

## **5.2 Recommendations of the Roche Report**

The review identified the following key recommendations:

- Council's objectives (desired strategic outcomes) need to be more clearly articulated, through changes to foundation documents (trust deeds, constitutions) and Statements of Intent. Letters of expectation, while recently introduced, can be enhanced towards this goal
- The Statements of Intent need to be improved from being a compliance document, fulfilling legislative requirements only, to being a key document that guides the organisation. In other words, the LGA requirements should be treated as the minimum standard, not the maximum. An appropriate model may be that of Crown Entities
- Consistency of messages from the Council to the CCOs is needed, particularly when there are multiple channels. Findings efficient ways to reduce the number of channels would be useful
- The balance between autonomy and accountability needs to be clarified and articulated. The CCOs are operating at an arm's length from the Council, but they are delivering a mix of social, cultural, economic and environmental objectives, with limited commercial imperatives. This places CCOs in a mid-point between being part of Council and being fully independent. This message needs to be delivered through induction processes for boards, and regularly reinforced through other mechanisms
- Councillors should not be appointed to boards due to the inherent conflicts that exist. Nor should officers, for much the same reasons
- Improved due diligence (pre-appointment) and induction/orientation (post-appointment) programmes need to be prepared for board appointees. These will include the unique features of the Local Government environment, and again clarifying Council expectations. Regular updates for boards would also be useful
- The quality of quarterly reporting from CCOs is variable and needs to be improved. The open nature of the Subcommittee may impede the free and frank transfer of information and discussion of performance. The risk is that matters do not get raised, for fear of public reaction and criticism
- Improvements to the reporting process include:
  - preliminary discussion with the CCO unit
  - pre-meeting briefings for detailed discussion
  - the establishment of an external advisory group.
- Flowing from this, either the Subcommittee should have full delegated authority for approving reports, or could be disestablished (and reports flow direct to Strategy & Policy Committee)
- The onus for audit (both internal and external) rests with the CCO board. They should establish the standards and processes, and the reasons for adopting these levels. Further, they should raise any matters stemming from audit that would be of material interest to the attention of the Council as owner (no surprises policy)

- The role of the CCO unit needs more explicit recognition, via a charter, which needs to be circulated both internally and externally. The unit needs to keep an awareness of the many parts of council that interact with CCOs, and provide a 'first contact' interface between the organisations. The role includes a mix of monitoring, advisory and advocacy functions
- Board selection criteria, especially core competency identification, should be improved
- Formal board performance assessment should be undertaken annually by the Chair, with feedback provided confidentially to the Council.

### **5.3 Next Steps**

#### **System-level Improvements**

The majority of the recommendations contained in the Roche Report would appear to offer a good opportunity to strengthen the operation of the CCO model. Subject to Committee approval, it is intended that these recommendations will be taken on board and implemented by officers, as outlined in the attached implementation plan.

#### **Appointments Policy**

The review also recommends that Council's appointments policy for CCO and CO boards is amended so that neither Councillors nor Council officers are appointed to boards, due to the inherent potential for a conflict of interest to arise between the role of Councillors as board members, representing the interests of that Board, and as Councillors, representing the ownership and funding interests of rate-payers.

There are currently 2 Council officers serving on boards – one on the Basin Reserve Trust and one on the Hannah Playhouse Trust.

Councillors are currently appointed to each of Council's CCOs (2 Councillors in the case of Capacity), and to the Wellington Regional Stadium Trust (which is not technically a CCO but is treated as such for the purposes of reporting and monitoring).

Any change to this policy of Councillor and officer appointments would require consultation with other local authorities in the case of Capacity (Lower Hutt), Positively Wellington Business (several local authorities) and the Stadium Trust (Greater Wellington), as these are jointly owned organisations.

#### **Committee Reporting Structures**

Officers recommend that further analysis be undertaken in respect of clarifying the roles and responsibilities of various committees including WDSC, ARMS, CCOPS, and SPC, and the related issue of whether to establish a new advisory group to support the monitoring of CCOs.

## **6. Conclusion**

Council instructed the Chief Executive Officer to initiate a review of Council Controlled Organisations, in response to concerns about the functioning of some aspects of the CCO model.

Officers engaged Brian Roche from PricewaterhouseCoopers to undertake the review, a copy of which is attached to this report.

The review found that the CCO model itself is sound: the rationale behind establishing the existing CCOs remains valid, and there are no alternatives that offer materially better outcomes.

The review does however highlight a number of areas where improvements can be made to support the performance of CCOs. The majority of these are proposed to be implemented over the coming months by officers, as outlined in the attached implementation plan.

The review also recommended that Council's appointments policy is amended to preclude the appointment of Councillors or Council officers to the Boards of COs or CCOs. Consultation would need to be undertaken with relevant other local authorities in the Wellington region before a final decision was made in respect of those Boards.

Finally, officers also support further analysis being undertaken to review the delegations and responsibilities between WDSC, ARMS, CCOPS and SPC, and the possible establishment of an advisory group on the monitoring of CCO performance, with a report back to SPC Committee with recommendations by December 2006.

*Contact Officers: Allan Prangnell, Manager - Council Controlled Organisations  
Wayne Maxwell, Director - Strategy and Partnerships*

## **Supporting Information**

**1) Strategic Fit / Strategic Outcome**

*CCOs contribute to a wide range of strategic outcomes, for example the Wellington Museums Trust and the St James Theatre Charitable Trust contribute to outcome 5.4 More Actively Engaged*

**2) LTCCP/Annual Plan reference and long term financial impact**

*N/A*

**3) Treaty of Waitangi considerations**

*N/A*

**4) Decision-Making**

*This is not a significant decision.*

**5) Consultation**

**a) General Consultation**

*This review was an internal business review, and thus no formal consultation has been undertaken with the public. A number of key stakeholders have been consulted through the process of the review, including CCOs.*

**b) Consultation with Maori**

*N/A*

**6) Legal Implications**

*Council's lawyers that have been involved in legal issues as they relate to CCOs were consulted during the review.*

**7) Consistency with existing policy**

*The review directly relates to Council policy on CCOs and Council's appointments policy.*

## **APPENDIX ONE**

## APPENDIX TWO: IMPLEMENTATION PLAN

Action	Activities	Timeframe
Revise Foundation Documents	<ul style="list-style-type: none"> <li>• Review all foundation documents to determine how clearly they articulate Council’s objectives</li> <li>• Draft any changes required</li> <li>• Agree draft changes with Council and CCO</li> <li>• Effect changes within foundation documents</li> </ul>	September 2006 – March 2007  (under way)
Improve Letters of Expectation	<ul style="list-style-type: none"> <li>• Review current letters of expectation</li> <li>• Assess against strategic direction and priorities</li> <li>• Liaise with relevant business units over any ownership or service level concerns (e.g. Audit, Finance, Infrastructure, Policy)</li> <li>• Emphasise any relevant issues raised through Annual Report and CCOPS</li> <li>• Request feedback from CCO’s on how useful they found the letter of expectation</li> <li>•</li> </ul>	Revise Oct 06  Consult Nov 06  Formal issuance Jan 07
Revise Statements of Intent	<ul style="list-style-type: none"> <li>• Ensure alignment between letters of expectation and SOIs</li> <li>• Review all SoIs to determine how clearly they guide the CCO to fulfil the Council’s objectives – with particular emphasis on any new strategic directions and priorities</li> <li>• Liaise with relevant business units over any ownership or service level concerns/ opportunities</li> <li>• Agree draft changes with Council and CCO</li> <li>• Effect changes within SoIs</li> </ul>	September 2006 – October 2007  Revised template Nov 06  Review Mar 07
Develop CCO Unit charter	<ul style="list-style-type: none"> <li>• Draft and publish CCO Unit Charter</li> <li>• Socialise the charter within Council and CCOs</li> </ul>	November 2006 onwards
Board Selection	<ul style="list-style-type: none"> <li>• Determine Board selection criteria, especially core competency identification</li> <li>• Circulate Board selection criteria to CCOs for comment</li> <li>• Amend, if necessary, proposed Board selection criteria</li> <li>• Publish Board selection criteria</li> </ul>	January 2007 – June 2007
Board Due Diligence / Induction	<ul style="list-style-type: none"> <li>• Develop a new induction process explicitly including a due diligence period for prospective Board members</li> <li>• Circulate draft induction process to CCOs</li> <li>• Incorporate feedback into new induction process</li> <li>• Present relevant parts of new indication process to Boards (for example, CCO Unit charter)</li> </ul>	Develop Dec 06  Operate Jan/ Feb 07  Feedback/revise

Action	Activities	Timeframe
Board Performance Review	<ul style="list-style-type: none"> <li>• Develop Board review criteria and proposed review timeframes</li> <li>• Circulate to Board Chairs for feedback</li> <li>• Amend, if necessary, review criteria</li> <li>• Circulate final review and timeframes to Board Chairs</li> <li>• Undertake Board Reviews</li> <li>• Provide Council with review feedback</li> </ul>	Dec 2006 – June 2007
Audit Standards and Processes	<ul style="list-style-type: none"> <li>• Draft a set of standards and processes for internal and external audits</li> <li>• Provide the draft audit standards and processes to Boards and request that these are reviewed, modified if necessary and adopted</li> <li>• Consider including a requirement for audit standards and processes within funding documents</li> <li>• Include requirement for audit standards and process within funding documents if necessary</li> </ul>	January 2007 – October 2007
Improve Reporting Information	<ul style="list-style-type: none"> <li>• Review current reporting information for each CCO</li> <li>• Obtain any information around best practise (e.g. Museums review by Office of Auditor General)</li> <li>• Develop new reporting requirements if necessary</li> <li>• Provide reporting requirements to CCO for comment</li> <li>• Work with CCO to agree reporting requirement</li> </ul>	November 2006 – November 2007
Improve Reporting Process	<ul style="list-style-type: none"> <li>• Develop new reporting process, specifically include a preliminary discussion with CCO Unit and Pre meeting briefings for detailed discussion</li> <li>• Circulate this process to CCO Unit for comment</li> <li>• Circulate process to CCOs for their information</li> </ul>	November 2006 – November 2007

## APPENDIX THREE

### Schedule of Council Controlled Organisations

Name	% Holding	Nature of Business
Positively Wellington Business (Wellington Regional Economic Development Trust)	67%	Promotes economic development in the greater Wellington area
Positively Wellington Tourism (Partnership Wellington Trust )	100%	Creates economic and social benefit by marketing the city with the private sector as a visitor destination
Wellington Waterfront Limited (trading as Positively Wellington Waterfront)	100%	Manages the Wellington Waterfront Project
The St James Theatre Charitable Trust	100%	Owns and operates the St James Theatre and Opera House to promote them as artistic venues and to promote the performing arts
Wellington Cable Car Limited	100%	Owns and manages the trolley bus overhead wiring system and the cable car
Wellington Museums Trust	100%	Administers the Cable Car Museum, the Cricket Museum, Capital E, the City Gallery, the Colonial Cottage Museum and the Museum of Wellington City and Sea
Wellington Zoo Trust	100%	Manages and guides the future direction of the Wellington Zoo
Basin Reserve Trust	50%	Manage, operate and maintain the Basin Reserve
Capacity (Wellington Water Management Limited)	63%	Jointly manage water services for Wellington and Lower Hutt cities
Wellington Regional Stadium Trust  (Not a CCO, but is treated similarly for the purposes of reporting, and is included within the scope of the review)	50%	Owns and manages the Westpac Stadium