
REPORT 2
(1215/52/IM)

REVIEW OF IMPLEMENTATION AGENCY FOR THE WATERFRONT

1. Purpose of Report

To report on the results of a review of the options for the Councils Waterfront Implementation Agency.

2. Executive Summary

This review was initiated by Council following an approach from the Wellington Waterfront Limited Board who were concerned about the viability of the Company given a potentially significantly reduced workload. Council agreed to conduct a review to determine the best implementation agency option on 15 December 2010.

The review of options began with establishing a viable work plan for the Waterfront Project. In order to recognise the upcoming Waterfront Framework review some projects were deferred or deleted to ensure that the work plan didn't pre-empt the outcome of the review. However projects already commenced or committed to have been included.

The Waterfront Project has some significant financial challenges in the next few years, in particular, the need to deliver \$20m in commercial proceeds to repay the \$15m advance, the ongoing operating deficit and the likelihood of further advances from Council in 10 years' time. Using the work plan as the basis for the Implementation Agencies workload, the review focussed on analysing 3 options, status quo, Reduced Status Quo and Business Unit of Council. WWL staff, WWL's Board and TAG were consulted through the process.

The Board and TAG do not support the business unit option but will support the reduced status quo. The staff of WWL support the status quo as being the best option to deliver on the Waterfront Framework's goals.

The analysis and consultation resulted in the recommendation of the reduced status quo option as it met all the criteria for the review including delivering some savings with the least risk of disruption to Waterfront delivery. It is also the most flexible option and when the economy picks up the company can be expanded to match the increased workload. WWL has had a successful track record of delivering for Council and there is no compelling case for change.

The Business Unit option had the sole benefit of higher savings but they are not significant enough to outweigh the risk to Waterfront delivery. Furthermore the transfer of responsibility for moving the Waterfront to WCC is a significant increase in workload for the Director involved and Management Team is likely to require some reprioritisation. The Waterfront will also lose the benefit of single purpose and focus that the current agency has.

The review had to make assumptions about the outcome of the framework review so presumed a largely similar direction for the Waterfront. Should this not be the case, the review will need to be revisited as the options and analysis could be significantly different.

If Council doesn't accept officers' advice and wishes to pursue a Business Unit then officers advise that the decision be laid on the table until the framework review is completed. This is for 3 reasons:

1. The decision is made with the full information on the future direction of the waterfront. It is the most appropriate implementation agency;
2. The implementation agency can be consulted on as part of the Framework review; and
3. To provide for maximum continuity of staff through to the completion of the Rugby World Cup 2011.

3. Recommendations

Officers recommend that the Committee:

1. *Receive the information.*
2. *Note that the review of the best option for Council's Waterfront Implementation Agency has been completed.*
3. *Agree that the reduced status quo is the best option.*
4. *Note that the Reduced Status Quo will deliver savings of \$174,422 in 2011/12 and \$198,422 for 2012/13 onwards with minimal risk to Waterfront delivery.*
5. *Note that the Wellington Waterfront Limited Board and staff have been consulted through this process.*

6. *Note that public consultation is not required.*
7. *Note that the draft annual plan will include a draft Waterfront development plan for 2011/12.*
8. *Agree to reduce the Board of WWL to 3 (Chair plus 2 Directors) and that the company's constitution be amended accordingly.*
9. *Note that officers will provide a report to Council to recommend the appropriate remuneration for Directors to appoint a Councillor to the forthcoming Director vacancy.*
10. *Agree to amend the relevant WCC/WWL documents to allow WWL to assist other TLA's in developing and/or managing their waterfronts and urban renewal programmes.*
11. *Agree to a three yearly review process for the Company, thereby avoiding any greater cost and disruptions caused by reviews undertaken on amore frequent and ad hoc basis.*

4. Background

4.1 Introduction

On Wednesday 15 December 2010, Council agreed to conduct a review of the options for the implementation of the Wellington Waterfront Project and that it was timely to review the Waterfront Framework. This report contains the outcome of the review of the options for the implementation agency and provides Council with advice on the best option. A report on the scope, approach timing and extent of the Waterfront Framework Review will be considered by Council by 31 March 2011.

4.2 Importance of Wellington's Waterfront

The importance of the Waterfront is expressed in Council's current vision for the Waterfront:

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

The Waterfront is different to other parts of Wellington. Wellingtonians care passionately about their waterfront. It attracts greater public interest than other parts of the city and this has been unwavering over the last 20 years. This passion is expressed in different ways and has been evidenced by feedback through surveys, election campaigns, district plan variations (such as the 2500 submissions against Variation 17) and is best seen by watching the significant

numbers of people, Wellingtonians and visitors alike, enjoying the variety of experiences all across the waterfront.

It is a central part of Wellington's identity as a city and a key visitor attraction. The Waterfront's development significantly adds to Wellington's 'sense of place'. It contains the highest proportion of public open space in the central city and has unique opportunities for activity and recreation arising from the areas' harbour edge location. The Waterfront is owned by the Council and therefore the Council has control over the development and management of the area as a comprehensive whole.

The current policy places prime importance on the quality of public space and design and, together with high quality implementation, has led to the Waterfront winning 35 awards and achieving consistent levels of public satisfaction in excess of 90%.

These differences have established the Waterfront as a special place and have justified managing the Waterfront differently to other parts of the city.

4.3 Policy and Rationale for Existing Waterfront Governance Arrangements

4.3.1 Wellington Waterfront Framework Principles

The Wellington Waterfront Framework is Council's policy for the Waterfront and includes a section on how the Waterfront should be managed. This section outlines the principles that should guide governance arrangements as well as outlining the roles and structure of the entities that were envisaged.

Whilst the Council has agreed to review the Framework it is useful to outline the current policy and rationale for the existing arrangements before evaluating alternatives.

The principles, including the explanations quoted from the Framework (slightly abbreviated), are as follows:

- “Transparency - all the roles and structures set up to govern the Waterfront must be open to public scrutiny.
- Momentum - It is important that momentum be maintained.
- Separation of planning from implementation - The planning of the Waterfront should be done by a separate entity from the entity that implements the decisions.
- Arm Length Governance - The governance of the Waterfront should be at arm's length from the 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 with the Council - The Council must retain final accountability for both organisations because it is only the Council that is accountable to ratepayers for how the money is spent. “

4.3.2 Governance Structure

The Framework described two entities. The first was called the Waterfront Development Group, its membership was to include professional and community representatives, and its role would cover:

- Prepares development plan
- Runs public engagement process
- Prepares performance briefs for design work
- Monitors delivery of plans to brief (including sign-off of design plans)
- Monitor implementation of plans

This entity was established as a subcommittee of Council, called the Waterfront Development Subcommittee (WDSC) and comprised councillors, professional and community representatives. The committee included the Chair of the Technical Advisory Group (TAG), who undertook the detailed design monitoring role for the Committee.

By 2007 most of the design briefs had been completed and as this was the major part of the WDSC's work, Council disbanded the subcommittee and the role was duly taken over by SPC. Since then SPC has approved the draft and final waterfront development plan each year including running the public consultation processes. TAG has continued to discharge SPC's monitoring function.

The second entity, the Waterfront Implementation Agency, was to be a LATE structure and noted that its Board have commercial expertise, and its role included:

- Implements performance briefs, including engaging designers to do detailed plans based on performance briefs
- Day to day operational management of the Waterfront
- Point of contact for developers

This entity was established in 2000, by converting the existing waterfront LATE, Lambton Harbour Management Limited into Wellington Waterfront Limited with a changed constitution and overview agreement to reflect the changed role. The company has operated largely unchanged ever since. The Framework specifies that these two entities report to Council who approve waterfront policy, the annual work plan and budget and monitors both entities.

For a more comprehensive history of the Waterfront Project and its Governance refer to pages 7 to 9 of the Waterfront Framework.

4.3.3 Best Practice Governance

The rationale underlying the principles and the recommended governance structure together with roles and responsibilities was developed through the lengthy process followed by the Leadership Group. This included understanding and learning the lessons from what had gone on in the past, both positives and negatives, the level of trust and mistrust by the public, international and New Zealand experiences with waterfronts, as well as a lot of feedback through the public consultation and engagement processes.

Additional advice was sought in respect of governance and Council commissioned a separate peer review of the Leadership Group's advice to be sure that the governance arrangements were appropriate, best practice and able to be implemented.

Since 2001 Council has reconsidered whether WWL is the appropriate agency to implement the council's plans for the waterfront on a number of occasions. On most occasions, this was driven by the view of some that WWL is not the best agency as Council should have more control and accordingly WCC should run the Waterfront "in house". This is despite the fact that all decisions on the Waterfront work plan and projects are made by Council and not WWL. WWL merely implements Councils decisions.

In 2008 and 2009 the size of WWL's workload saw Council agree that consideration be given to move the Company's activities "in- house" but this was later reversed when the Company's workload increased. The current review was initiated by the Board as a result of their concerns around the impact of the economic climate on the Company's work load.

5. Discussion

5.1 Assessment of the Workload for the Waterfront Project

Before determining **how** the Council's plans for the Waterfront should be implemented, the review needed to identify "**what**" the implementation agency would be implementing - i.e. what is the workload? Whilst this can't be definitive in advance of the Framework review, all projects that are currently committed to were considered in addition to continuing to operate the Waterfront on a business as usual basis. Accordingly the work plan assumes that there will be no major changes. Sites 8 and 9 have been removed and Wardle Building deferred pending the outcome of the Framework review. The work plan reflects little new capital public space work which is appropriate given the lack of commercial revenue from the Waterfront to pay for it and assumed it was unlikely that WCC would want to advance any further money to the Waterfront Project. Again this may be revisited after the Framework review is completed.

The work plan attached as Appendix 1 reflects all the project work that can be reasonably anticipated for the next 5 years. We also considered all the likely significant projects in order to produce 10 year financial projections for the project which are required for Council's draft annual plan process.

Whilst projects attract the most attention the review team also ensured appropriate consideration was given to understanding the business as usual, or routine, components of operating the Waterfront. The workload assessment was therefore split into two parts, routine and projects.

The routine component incorporates a wide range of property and asset management tasks for the 108 leases and licences on the waterfront. Appendix 1 lists the major activity items that are required to be conducted each year.

The projects are a mix of new and infrastructure upgrade works. These projects range in duration, size and complexity. All of the significant projects have been included in the Council approved Waterfront Development Plan and all projects are consistent with that forecast and approved through the WWP budgets over the last few years. The most significant projects in terms of work required in the next two years are the OPT, Site 10 development and wharf pile refurbishment.

What is immediately evident is that despite removing three of the commercial building projects there is still a significant number of projects to be worked on and completed in the next few years.

5.2 Financial Position of WWP

In order to test the financial sustainability of this work plan, the review team produced a cash flow forecast for the next 10 years. Whilst the Framework review scope will cover examining the 10 year outlook we needed to be sure that the assumed work plan was broadly feasible.

5.2.1 Key elements

There are 2 elements that are key drivers for the financial position of the project

1. The Wharf Piles

As Council is aware the piles around the Waterfront are in poor condition and some immediate work is required to restore them to be able to continue to use the wharves. The current work plan is to do three pieces of work in the next 7 years, estimated to cost a total of \$8.590m. These costs have got a 25% contingency built in which should give some comfort that the budget provisions are adequate. However the accuracy of the cost estimates for the work in the later years is at some risk due to the passage of time likely to result in increased deterioration. The largest cost is in 2011/12 which will require \$4.520 m to work on the Outer T. This will allow the Outer T to continue to be used safely as it is. The work will not be sufficient to support any new development and this cost is not included in the WWP budgets. Councillors will recall that the previous

development proposal (Hilton Hotel) delivered revenue to Council as well as taking over the responsibility to restore the wharf. The failure of this proposal has left Council with the cost of wharf restoration but without the projected revenue.

This is not dissimilar to the situation with Sites 8, 9 and 10 where any developer would be expected to pay the costs of land stabilisation. The revenue for sites 8 and 9 has been removed from the budgets but the liability for stabilisation of the land remains with Council. This has not yet been estimated as it will depend on final uses of these sites.

2. Annual Operating Deficit

Each year the Waterfront has an operating deficit as the revenues from car parking, leases and licences don't cover the costs of managing and maintaining the Waterfront. This deficit varies from \$1.2 to \$1.5m per year. Over 10 years this is a cost to Council of \$ 13.5m (using an average of \$1.35m deficit).

5.2.2 Ten Year Financials for WWP

The first version of this (attached as Appendix 2) shows that the WWP can repay the \$15m advance to Council in 2013/14 as a result of \$20m in commercial revenues primarily from Site 10 and OPT. This demonstrates the importance and the impact of the key revenue streams from development sites on the Waterfront. If these revenues are delayed the Council will need to fund an additional \$1m in interest expense. Whilst the \$20m expected in 2013/14 is good news, over the following 5 years the lack of revenue and the cumulative impact of the operating cost deficit shows that a further advance would be required rising to \$10m by 2019/20. These projections contain the normal risks around lack of certainty on the quantum and timing of commercial revenue together with acknowledgement that the public space costs are estimates only. These projections have excluded all discretionary public space projects i.e. the only projects included have some element of commitment. There are no revenues from uncommitted sites eg 8, 9, there is no revenue or costs for the Queens Wharf area (Outer T etc) or for the Transition site (next to Te Papa) or Wardle Building (near OPT).

A further version (Appendix 3) was done with removing the two more significant commercial redevelopment projects (Shed 6 and Site 10). Unsurprisingly this result was much worse with the advance not repaid; the debt levels continue to rise until it reaches \$22m by 2019/20. As this wasn't considered feasible it was rejected.

It should be noted that both versions reflect the status quo management fees for WWL.

For the purposes of this review, the work plan in Appendix 1 produces a financially acceptable result for the next 5 years. It is clear that in the next 2 -3

years it is critical to the Council's debt position that the Waterfront Implementation Agency delivers the projected \$20m in commercial revenue.

There are some longer term issues with the impact of reduced commercial returns (reduced due to potential developments on hold pending the Framework review) and the annual operating deficit that will need to be considered in the Framework review. As this is outside the scope of this review it won't be discussed any further in this report.

5.3 Options to Manage the Waterfront

The review considered there were 6 possible options:

1. Status Quo - WWL as it is in its current form and size
2. Reduced Status Quo – WWL as it is with less resources
3. Increased status quo – WWL as it is with additional work to come from WCC or other TLA's
4. Business Unit of WCC - dedicated team inside WCC structure
5. Integrated into WCC - all functions transferred to varying appropriate teams within council
6. Contracted out - WCC contracts a third party to manage the Waterfront

The following criteria were developed to assess the options:

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

Each option was evaluated against these criteria. Option 5 Integrated into WCC and Option 6 Contracted out were eliminated primarily due to low scores on the transparency/control and risk criteria. Upon further examination the Increased Status Quo was merged to be considered as with the status quo as one option, Status Quo. Whilst the Option 4 doesn't meet the Framework's governance requirements, given the Framework is to be reviewed, this, on its own, wasn't considered sufficient reason to eliminate the option.

Remaining options:

1. Status Quo - WWL as it is in its current form and size
2. Reduced Status Quo – WWL as it is with less resources
3. Business Unit of WCC - dedicated team inside WCC structure

Each of the 3 options are described and evaluated in the next section in this report. Each option is based on the work plan attached as Appendix 1. As explained earlier, whilst the Framework review has not been conducted, this review required a work plan upon which to base the analysis of the workload.

5.4 Description of Options

5.4.1 Status quo

The Company currently has been operating with a Board of 5 (Chair plus 4 directors). The Board deliver governance and direction for WWL together with advice reflecting their expertise in property development, financing and urban design. As the Council is aware there are currently 2 Board vacancies. The Company has a CEO, Ian Pike who heads a team of 7.9 FTE's (total 8.9 FTE's). The staff are allocated as follows:

- Routine property management work-4.1 FTE's.
- Projects - 1.7 FTE's
- Finance – 0.9 FTE
- Admin/Support – 1.2 FTE's

The Council pay WWL a management fee of \$1,174,000 (currently rounded to \$1.2m in Councils annual plan) to cover personnel, administration and the Board's remuneration - refer to Summary of Status Quo Costs table below. Staff are located on the Waterfront in Shed 6, together with the Waterfront Project Information Centre.

Each year Council produces an annual work plan for the Waterfront, which is developed with advice from WWL. This work plan details all the projects that will be worked on for the year. This forms the basis of Council's delegations to the Company to implement projects on Council's behalf. The work plan is then reflected by WWL into their Business Plan and quarterly reports which are monitored by the CCO unit and the CCO Performance Subcommittee. The financial impact of the work plan is incorporated into Council's budgets for the Wellington Waterfront Project.

Council has delegated its Waterfront design monitoring responsibilities to a panel of 4 design experts, Technical Advisory Group (TAG), headed by Chair Graeme McIndoe. This group monitors the design quality of all work on the Waterfront to ensure that the Council and its Implementation Agency, WWL,

doesn't compromise quality. (This can be an issue when the pursuit of commercial revenue and cost minimisation leads to sacrifices in design quality). TAG discharges its duties by working collaboratively with developers, projects managers and Council and WWL staff to ensure issues are resolved to everyone's satisfaction. TAG's costs are paid by Council from a separate budget to ensure they are independent from WWL. The annual budget is currently \$98,500.

Opportunities for Additional work

Whilst the current Waterfront work plan won't produce any scope for increasing the size of WWL there are two possibilities for further work. Two TLA's in the Wellington Region who have waterfronts are currently working on waterfront development plans and use consultants and other experts to assist. Often these consultants and experts ask WWL for their input and advice. Whilst WWL is happy to do this on an informal basis, in the spirit of regional cooperation, there is an opportunity for WWL to provide assistance more directly to these TLA's.

Early positive discussions have been held but the prospect of work is still somewhat away from being crystallised. Any proposal would need to be on at least a cost recovery basis. The benefit may be to absorb a temporary lull in work for a project manager or increase the number of project managers for a period which would provide better economies of scale and a wider base of expertise for WWL to draw on. As it is beneficial for all to enhance regional cooperation this idea should be progressed and if it comes to fruition, Council will need to approve the small amendment of the relevant WCC/WWL documents. This recommendation is included in this report.

The second possibility relates to WWL taking on work that WCC may not have the expertise or capacity for. A past example of this is when WWL led the work to present a case for a Government economic development grant for a convention centre in Wellington. A possible future example could be WWL's role in the Great Harbour Way project, which is currently as a committee member but could be expanded to be the project manager. Again this is a positive idea and likely to have benefits for both WCC and WWL but is too uncertain at this time to be quantified.

Summary of Status Quo costs:

	2010/11 Budget	
Personnel(net of Recoveries from WWP)	\$885,000 (8.9FTE's)	
Admin and depreciation	\$151,000	
IT	\$21,000	
Governance- Board	\$117,000	
Total	\$1,174,000	Mgmt Fee \$1,200,000
TAG costs	\$98,500	

5.4.2. Reduced Status Quo

If the workload of the Company has reduced and/or changed in its make up then it is possible to consider a WWL with reduced resources. The review team considered the existing resources in light of the work plan above and identified three opportunities for changes.

Personnel

Council is working on the establishment of a shared services team within WCC Finance that would be able to take over the finance functions currently performed by one staff member and Deloitte. This will require an SLA to be agreed specifying the services to be provided. WCC would charge WWL an annual fee for this service. This has been estimated at \$50,000. This has assumed that the services are at the same level as those currently supplied. All other areas were reviewed and one other efficiency was identified relating the servicing of the markets. This provides a total reduction of 1.1 FTE's from a total of 8.9.

Board

The lesser commercial development workload means the need for the Board's input in this area is substantially reduced. This means it is feasible to reduce the Board to 3 (Chair plus 2 directors), that they meet less often and that their remuneration be adjusted accordingly. If the work plan changes in amount or composition in the future, the board size can be reviewed.

These changes would be reflected in reduced Chair and Directors fees estimated as \$30,000 and \$15,000 respectively (down from \$38,400 and \$19,200). The quantum of the fees will be confirmed and reported to the next meeting of Council. The WWL constitution will need to be amended to reduce the minimum number of directors to 3.

It also is recommended that current Council policy to have a councillor on all CCO Boards should be applied to this reduced Board.

TAG

Again the reduced commercial development and public space projects means there will be some drop off in proposals that TAG will need to consider. However it should be noted that TAG review many proposals that do not proceed as well as more minor changes to the Waterfront e.g. signage, so TAG's workload is larger than may be apparent. This reduced work means TAG could meet less often generally with one less member. The pool of TAG members will remain at four to ensure a full range of skills is available to be drawn upon.

Administration and IT

The costs in this category of \$172,000 include telephone, printing, postage/courier, cleaning, legal, audit, insurance and IT. These costs were reviewed and benchmarked with Council's costs. This process concluded that these costs are very low and there is little scope for anything other than immaterial reductions.

Transition Costs

In order to be sure that the year end accounts process runs smoothly the current WWL Finance staff member and the Deloitte's service would continue until 31 August. There are also some staff related change costs. The total transition costs, which effectively reduce the savings in 2011/12, are \$24,000.

Summary of Reduced Status Quo Costs/Savings:

	Status Quo	Costs Reduced Status Quo	Savings
	2010/11 Budget	2011/12	2011/12
Personnel (net of recoveries from WWP)	\$885,000 (8.9 FTE's)	\$791,028 (7.8 FTE's)	\$93,972
Admin and depreciation	\$151,000	\$151,000	\$0
IT	\$21,000	\$21,000	\$0
Governance- Board	\$117,000	\$61,800	\$55,200
Transition costs		\$24,000	(\$24,000)
Total Mgmt Fee	\$1,174,000	\$1,048,828	\$125,172
TAG costs	\$98,500	\$49,250	\$49,250
Total Savings			\$174,422

5.4.3 Business Unit of WCC

A business unit of Council would be established headed by a business unit manager and would report to a member of the management team. The Chief Executive would determine the most appropriate area in Council for this business unit. As the workload of the implementation agency remains the same whether it is in the form of a company or a business unit, there is no difference in the number of FTE's required to deliver the work. However the personnel costs are lower for two reasons. The first is a reduction due to the reduced responsibilities and seniority of a business unit manager compared to a CEO and the second relates to other differences in the detail of personnel related costs.

The administration and IT costs are largely the same for this option as for WWL. The team would remain housed in Shed 6 to ensure that they remain close to and visible on the Waterfront. This approach to place management maximises focus and ownership of the Waterfront.

In practical terms the existing staff would be transferred to WCC on existing terms and conditions from mid April. The Finance changes would be implemented once year end is completed (end of August). It is hoped that the current CEO of WWL would accept a short term role at WCC as transitional business unit manager to ensure a smoother transition. After 3- 6 months of operation, and in light of the results of the Framework review (which should be completed by then) a more detailed review would look at what further changes would be required to make the best use of the resources of the wider council operations.

The costs for transition to a business unit includes the same costs as for the Reduced Status Quo (retention of Finance services until 31 August and some staff related costs) plus the cost of the interim business unit manager. The transition costs for this option total \$84,000.

The business unit option would not require a Board of Directors.

TAG would operate as it does currently, independent of Council, but can be reduced as for the Reduced Status Quo option. The WWL Company will be retained as a shell company to hold the land on trust for the Council which ensures that the foreshore and seabed areas of the waterfront are retained wholly as part of the project. The costs of this shell company are nominal.

Summary of Business Unit Costs/Savings

	Status Quo	Costs Business Unit of Council	Savings Business Unit of Council
	2010/11 Budget	2011/12	2011/12
Personnel (net of recoveries from WWP)	\$885,000 (8.9 FTE's)	\$696,708 (7.8 FTE's)	\$188,292
Admin and depreciation	\$151,000	\$151,000	\$0
IT	\$21,000	\$21,000	\$0
Governance-Board	\$117,000	\$0	\$117,000
Transition Costs		\$84,000	(\$84,000)
Total	\$1,174,000	\$952,708	\$221,292
TAG costs	\$98,500	\$49,250	\$49,250
Total Savings			\$270,542

5.5 Analysis of options

5.5.1 Summary of Savings

	Reduced Status Quo		Business Unit	
	2011/12	2012/13+	2011/12	2012/13
Savings				
Personnel	\$93,972	\$93,972	\$188,292	\$188,292
Governance	\$55,200	\$55,200	\$117,000	\$117,000
TAG	\$49,250	\$49,250	\$49,250	\$49,250
Transition Costs	(\$24,000)		(\$84,000)	
Total	\$174,422	\$198,422	\$270,542	\$354,542

The additional savings generated by the business unit option over and above the reduced Status Quo option are \$96,120 in 2011/12 and \$156,120 from 2012/13 onwards.

5.5.2 Status Quo

Whilst there has been a separate, single purpose vehicle implementing the waterfront development since WCC inherited the Waterfront land from the Wellington Harbour Board in 1987, the success of the entity has been variable. However, the changes made to the entity, following the adoption of the Framework, has seen the WWL version being largely successful. The model is similar to other successful Waterfronts internationally (e.g. Sydney, Toronto and Melbourne) and more recently Auckland City has implemented a very similar model to oversee the development of its Waterfront.

The status quo option meets all of the criteria outlined in 5.3 above.

1. Fit to Waterfront Framework

This option is consistent with the Framework and in particular the governance principles.

2. Fit for Purpose

WWL is a single purpose agency in that it has the sole function of implementing Wellington's Waterfront. This means the organisation has the ability to focus all its efforts on the Waterfront and it is not diverted or reprioritised.

3. Transparency and Control

One of the regular arguments for bringing WWL back into Council is to gain control. This is a misconception. As explained earlier in this report, all the Waterfront projects and budgets are approved by Council; the delegations given to WWL require decisions on leases for new sites greater than 10 years to be

made by Council. The Council produces a separate waterfront plan each year and the company and project financials are monitored by Council on a quarterly basis and published in a separate annual report each year.

4. Flexibility given changing economic environment

The reason for the Board's request to review the company in the first place arose from the concern about the company's workload. This concern was heavily influenced by uncertainty around several commercial developments on the Waterfront that have since been clarified and the work load, whilst reduced, is not as reduced as was originally anticipated. However the Company is small with a staff of 9 and relies on excellent leadership and goodwill to share the workload and pick up others tasks during busy times or when staff are absent, as is common in many small teams. The option is certainly flexible to the extent that it can be scaled up relatively easily. However, given its small size scaling down has risks and issues. This is outlined in more detail in 5.5.3 below.

5. Risk to Waterfront Delivery

This option provides the least risk of interruption to the waterfront delivery although as can be seen by the staff consultation feedback below, the very fact of another review is causing angst and uncertainty for staff.

6. Cost

This option costs \$1.2m which is currently budgeted for as WWL's management fee.

5.5.3 Reduced Status Quo

Following on from the analysis above there is nothing additional to say regarding the first three criteria (Fit to Waterfront Framework, Fit for purpose, and Transparency/control). The remaining three warrant further commentary.

1. Flexibility given changing economic environment

The current staff levels at WWL are 8.9 FTE's and the reduced option sees this reduce to 7.8 FTE's. This option will require more staff cooperation and goodwill to ensure that the business of the Company can continue all week, all year with staff absences and workloads being managed carefully. This is probably the maximum reduction that is possible i.e. the critical mass point has been reached. This means there is no more flexibility left to reduce further if there are further reductions in workload. In order to minimise the risk of this eventuating it is recommended that WWL continue to pursue opportunities for more work with the other TLA's and WCC. This recommendation is also applicable to the Status Quo option.

2. Risk to Waterfront Delivery

It is quite a testament to the staff and Board of WWL that despite being subject to a number of public and political debates about their existence over the last 10 years that the Company has continued to deliver and is in surprisingly good heart. Whilst it is hoped that this will continue if this option is selected, Council needs to consider that the risk of staff loss (and therefore loss of experience, continuity and knowledge) is likely to have increased. There may be a risk that this is seen as death by 1000 cuts and staff may feel that there is a better future elsewhere.

3. Cost

This option comes at a reduced cost to the status quo and will therefore save Council \$174,422 per annum in 2011/12 and \$198,422 from 2012/13 onwards.

5.5.4 Business unit

1. Fit to Waterfront Framework

As explained earlier this option doesn't meet the governance requirements of the Framework. If this option is selected the Framework review will need to adjust this part of Council's policy.

2. Fit for purpose

Like the status quo, a business unit should be able to be a single purpose agency and have the sole function of implementing Wellington's Waterfront. However as a business unit is a part of a large organisation there is a risk of their resources being diverted or reprioritised. The current CEO and Board of WWL are able to focus 100% on the Waterfront. The business unit manager will have other calls on their time as a member of the leadership group of Council and the Director responsible for the Waterfront will have several other areas of responsibility. The CEO may need to reprioritise resources within WCC to absorb the additional work that will result from taking on managing the waterfront.

3. Transparency/control

This option provides for no more transparency or control for the reasons outlined above. The Company produces monthly board reports, quarterly reports to council and an annual report as well as the Waterfront Development Plan. It is difficult to achieve a greater level of public transparency. The level of Council control remains the same because the business unit will be required to submit the annual work plan and budgets to Council and all decisions to grant leases for 10 years or longer would be referred to Council. This would be no different to the Status Quo.

4. Flexibility given changing economic environment

This option has more flexibility in that it can draw or second resources inside Council more easily than the company can. However if the financial situation changes and there is a significant increase and changed nature (i.e. more commercial) of waterfront workload, it will be more difficult to resurrect the company option.

5. Risk to Waterfront Delivery

This option has the most risk to Waterfront delivery. As already outlined the history of successive reviews and the latest review have left staff feeling uncertain and insecure. The risk of staff loss is present in all options but the business unit of Council option has the most risk of loss of staff, and therefore valuable institutional knowledge and experience. The current WWL CEO is highly unlikely to transfer to WCC and a number of staff have already indicated that they do not wish to transfer. This risk is heightened if the CEO doesn't transfer. Whilst this paper has explained and evaluated structures that can be analysed and debated about their workability, it is people that makes structures work. Whilst it is really important to have a fit for purpose structure for the Waterfront, it is equally if not more important to have the right people. For the Waterfront Company to deliver \$20m in commercial revenue in the next 2-3 years continuity of key staff with a proven track record, institutional knowledge and relationships is critical. Whilst these risks are high in the short term they should reduce in the medium term as the new staff gain knowledge and experience.

The timing of the transition is a critical time for RWC2011. The Waterfront is the location for the Fan Zone and the Waterfront company personnel are a key part of the implementation team for RWC2011.

6. Cost

This option comes at a reduced cost to the status quo and will save Council \$270,542 in 2011/12 and \$354,542 from 2012/13 onwards. This is an additional \$96,120 to the savings made from a reduced company in 2011/12 and \$156,120 in years 2012/13 onwards. It is possible that further cost reductions could be made once the unit has been incorporated into Council. There may be further opportunities for integration and resource sharing but these won't be able to be identified or quantified until after a few months of operating. It is likely that the Unit would be reviewed within 3 to 6 months to consider and take advantage of any identified efficiencies.

5.5 Results of Staff Consultation

WWL staff have been consulted through the review process consistent with good practice legal and good employer obligations. Consultation will continue throughout the remainder of the review process. The proposals to reduce costs in the reduced status quo and business unit option have been worked through in

detail with the affected staff and some changes were made to the original proposals as a result of this process. The views below were provided by the staff for this report.

WWL works in a high profile complex environment that is very politically charged. The intermixing of complex public and private/commercial relationships and spaces with conflicting and competing demands requires skill and perseverance to make progress. There has been regular political debate regarding the future of the Waterfront Company throughout the last 10 years. Despite this, or because of this, the team are highly committed and passionate about the Waterfront; they remain resilient in the face of another review and have consistently delivered high quality public space and building projects.

The WWL staff are united in their support of the '**Status Quo Model**' not as a means of protecting their jobs but rather from a first-hand knowledge of what it takes to manage and develop the waterfront successfully. Their reasoning is set out below:

1. *The draft analysis outlines opportunities to make savings and identifies the magnitude of this at ranging from \$174 to \$354k per annum. With the exception of the Board and TAG reductions, much of the savings come from changes to outsourcing our accounting function.*

However we believe insufficient weight is given to the other side of the equation. WWL in implementing the development policies set out in the Framework document has an obligation to generate \$20m to repay advances and undertake further public space developments. This most important task should not be compromised by cutting the resource to a level that risks failure to achieve the goal.

Our view is that to achieve this we need

- a. *A focussed team, with appropriate experience and proven track record*
- b. *Excellent leadership*
- c. *Sufficient independence to deal with developers, and a degree of separation from political influence*
- d. *Adequate resourcing*

The Status Quo model provides this.

The reduced resource provided in the 'Adjusted Status Quo' model will detrimentally affect the team's ability to focus on these development tasks, and the business unit risks losing focus, take away our leader, and potentially dissipate the team.

2. *The WWL staff accept that the accounting function could be taken over by a CCO Accounting unit.*

We are however doubtful that the envisaged savings will be achieved. The model makes the assumption that the full accounting and reporting can be

undertaken by the CCO Accounting unit for \$50k per annum. We are not certain whether the level of service envisaged for this budget includes the accounting for both the company and the project, and whether they have allowed for the considerable integration of financial information with our asset management plan.

We also see other risks from lower levels of service provided by a centralised accounting function.

- 3. WWL staff note that the **Business Unit** option and consequent scrapping of the successful and proven CCO model is incongruous with other approaches to waterfront development in NZ. The Auckland Super City has chosen to adopt a CCO model to deal with the future development of its waterfront.*

It is further noted that Auckland has implemented an Auckland TAG and have appointed Graeme McIndoe to that body and ex WCC urban designer Stuart Niven to the Board of the CCO. In recent changes associated with forming the Auckland Council, Stuart Niven has also been appointed to the waterfront TAG.

This external analysis and copying of our structure is interesting, and should not be ignored.

- 4. The WWL staff believe that if the WCC 'business unit model' is to be considered it would be most unwise to implement this prior to the outcome of the Framework review as some possible outcomes of this work will require a fully resourced independent company to enable their achievement.*
- 5. Current model is a proven and successful one evidenced in many ways including multiple awards. Significant change could impact on leadership, resources, independence and focus. We cannot accept that these further cuts are necessary to an organisation that is a proven delivery model, and one that recent analysis shows is running incredibly efficiently.*
- 6. WWL staff complement in 2006 was 14. In 2011 it is half of that. Further cuts likely to tip us over in our ability to function satisfactorily on a day to day basis. We feel like we are being 'punished' for our efficiency! Our WWL non-personnel costs have been accepted as at an absolute minimum; the only place left to cut already low costs is in personnel – and with numerous reductions over the years, we think the current proposal is a step too far. An absent staff member is likely to mean basic levels of expected service such as phone and counter enquiries could only be dealt with by going higher up the chain, further reducing the organisation's capability to focus on our main projects.*

Requests for annual leave will need to be carefully coordinated so not more than one staff member is away at a time.

5.6 Board's Views

The Board initiated this review resulting from concerns about uncertainties about the company's ongoing workload. Some of the uncertainties have been resolved and the Board is satisfied that the review process has been robust and that the recommended option of Reduced Status Quo is able to be implemented. The Board have prepared a letter outlining their view and it is attached as Appendix 4.

5.7 TAG's Views

Status Quo-TAG believe that the status quo model is the most likely to produce the required design quality for the Waterfront. They believe that the achievements of WWL and the Waterfront since 2001 support this view. In particular the project has attracted a high level of popular and professional approval including

- Very high level of community support as indicated in the annual council and waterfront satisfaction surveys
- International and national design recognition indicated by the design awards; favourable critical review in professional publications; emulation of the Wellington Waterfront process in NZ and beyond
- Consistent delivery of high quality buildings and public spaces.

Reduced status quo - TAG believe they can deliver on their monitoring role for Council with a reduced budget. The only proviso's are that TAG is able to be given additional budget when special lengthy tasks are required (eg participation in environment court hearings) and that council officers ensure that TAG get early notice of, and involvement in, projects relating to the Waterfront.

Business Unit of WCC - TAG believe that this is not good option. They are concerned that the political cycle and annual budget reviews will produce greater uncertainty for projects that are implemented over an extended period. Further that private developers believe this uncertainty provides excessive risk. TAG are also concerned that this option risks losing institutional knowledge and personal expertise of long standing WWL staff.

5.8 Impact of Framework Review

As explained earlier in the report, this review has had to make assumptions about the outcome of the Framework review. The work plan produced for this review reflects some projects deleted or on hold pending the outcome of the review.

This work plan formed the basis of the determination of possible options for implementation and the analysis of these options.

However, if the Framework review produced a significantly different Framework in terms of different vision, principles, quality, public vs private space, financial plan, this could have a more fundamental impact on not just the work plan but the analysis of the most appropriate implementation agency.

Accordingly, it would have been ideal to do this review after the Framework review was completed to be sure that the implantation agency was appropriate to what is desired for the Waterfront. The two are inextricably linked.

5.9 Recommendation

Officers recommend Option 2 - Reduced Status Quo. This option provides the best balance of benefits and risks. The Company can reduce staff by 1.1 FTE's, reduce the Board and Council can reduce TAG costs. These changes deliver some savings, albeit modest, for 2011/12 of \$174,422 (2011/12) and \$198,422 (2012/13+) and the risks to Waterfront delivery are manageable. This option should ensure continuity of staff and delivery which is critical with \$20m of revenue forecast in the next 3 years (that will repay the \$15m advance). WWL has the advantage of single minded focus on the Waterfront and this will ensure that they are not diverted from delivering results for Council.

This option also allows for expansion at a later date should the financial and economic conditions improve. Given the opportunities to do additional work may arise; the overview agreement should be amended to allow for this possibility provided they generate revenue or reduce costs. Finally if the Framework review requires a completely different implementation agency, continuing with this option in the meantime results in less change.

Officers do not recommend the business unit option as the only benefit is an additional (over the reduced status quo option) cost saving of \$96,120 in 2011/12 and \$156,120 from 2012/13. This benefit is completely outweighed by the risks to Waterfront delivery, the most critical being the risk of failing to deliver the \$20m in commercial proceeds.

Furthermore in the short term, the successful transition of WWL into a business unit of council will require application of senior management time and effort. This will divert Council and Waterfront resources towards internal reorganisation rather than external delivery. It is possible that the CEO will need to reprioritise resources to manage the impact of taking over the management of the Waterfront. Once the unit is established it may make more savings and the impact of loss of staff will be mitigated. However the challenge for the Waterfront Business unit will be to deliver relentlessly, resisting diversion in an environment where there are competing priorities. Whilst this is the same for any business unit of Council this report is about a comparison with a current model that is successful because it is single minded and not diverted.

5.10 Other Recommendations

If the Council chooses not to accept officers' advice and decide on the business unit as being the best option, officers recommend that this decision is left to lay on the table until the Framework review is completed to be sure that the Business Unit option is appropriate (avoids the risk of implementing the wrong option), to allow consultation on it as part of the Framework review and to ensure staff continuity through RWC2011.

TAG

Whilst TAG discharges the Council's Waterfront monitoring role on SPC's behalf, it doesn't formally report to SPC. This can be simply rectified by requiring TAG to provide a report of its activities to SPC each year.

Frequency of Reviews

This review, initiated by the Company has identified some opportunities for savings as a result of the changes in the Company's workload. The Company's workload will continue to change and it is appropriate that the Company continues to monitor this and advise Council if a further review is warranted. However the nature and timing of past reviews has been very unsettling for the WWL staff and others who work with them. In order to provide some certainty, but recognising that future change may be needed, this review recommends that WWL be reviewed once every 3 years, excepting any extraordinary circumstances. This should be initiated by the Company and can be monitored by the CCO Performance Subcommittee.

WWL Governance Document

As explained earlier it would be useful to amend the relevant WWL/WCC documents (including overview agreement, constitution etc) to allow WWL to provide assistance to other TLA's in developing and or managing their waterfronts/urban renewal projects on at least a cost recovery basis. Accordingly this report includes a recommendation to amend the Overview Agreement.

5.11 Consultation

The report to Council in December noted that this report would include a revised draft 2010/11 and 2011/12 Wellington Waterfront Development Plan including the recommended implementation agency to form the basis of consultation with Wellingtonians.

This is now not required as:

1. The 2010/11 WDP changes are so minor that they don't warrant production of a revised document for consultation;
2. The draft 2011/12 WDP can be included in the draft annual plan and will therefore be consulted on as part of that projects; and

3. The recommended option for implementation agency is a minor change from status quo and therefore doesn't require consultation.

6. Conclusion

Wellington Waterfront Limited is the best implementation agency for Council's Waterfront Project. It has a successful track record in delivering on Councils Waterfront and there is every reason to expect this to continue. There are some cost savings that can be made to provide some relief to Councils budget that do not compromise the Waterfront delivery. The Business Unit option has the sole benefit of extra savings but with potential for serious risks to Waterfront delivery. These savings in the context of the Waterfront Project are not significant enough to support this option.

Contact Officer: *Peter Garty, Chief Financial Officer*
Karen Wallace, CCO Unit Contractor

Supporting Information

1) Strategic Fit / Strategic Outcome

*The Waterfront contributes to the following Council outcomes:
More Liveable – Wellington will be a great place to be, offering a variety of places to live, work and play within a high quality environment.*

Stronger sense of place – Wellington will have a strong local identity that celebrates and protects its sense of place, capital-city status, distinctive landform and landmarks, defining features, history, heritage buildings, places and spaces.

More eventful – Wellington will maximise the economic value from promoting and hosting high-profile events.

More Prosperous – Wellington's urban form, and flexible approach to land use planning in the central city, will contribute to economic growth and prosperity.

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

C378 Wellington Waterfront Project

A312 Wellington Waterfront operations

CX131 Wellington Waterfront development.

The savings identified in this report will impact A312. The changes made to the 2010/11 and 2011/12 WDP will be reflected in C378 and CX 131.

3) Treaty of Waitangi considerations

Maori have had a long connection with the harbour and waterfront that continues today. There are several sites of significance for iwi around the waterfront including Waitangi Lagoon and Te Aro Pa.

4) Decision-Making

This is not a significant decision. The report deals with a strategic asset, but does not propose any changes to the asset.

5) Consultation

a) General Consultation

Consultation has been undertaken with the Board and staff of WWL and TAG. This report reflects their feedback.

b) Consultation with Maori

Representatives from Council's mana whenua Treaty partners – Wellington Tenth's Trust and Te Rūnanga o Toa Rangatira were involved in the development of the Wellington Waterfront Framework.

6) Legal Implications

Legal advice was sought in the preparation of this report and the advice reflected where required.

7) Consistency with existing policy

This report is consistent with existing WCC policy on the waterfront.