REPORT 4
(1215/52/IM)

REVIEW OF COUNCIL CONTROLLED ORGANISATIONS

1. Purpose of report

This report provides the findings of a comprehensive review of the current governance model for Council's Council Controlled Organisations (CCOs). It assesses whether the current arrangements for each of the CCOs are still "*fit for purpose*" in the context of observed good practice and identifies areas where improvements could be made.

2. Executive summary

Following a request from SPC a review of the CCOs has been undertaken. The overall review was conducted by Plimmer Consulting and three reports were generated. The first entitled "*What works*" is an analysis of observed current practices for arms-length entities and a copy of this report has been circulated to Councillors. A second report entitled "*CCOs Governance Review*" focuses on whether the current governance arrangements are "*fit for purpose*" and considers a range of alternative governance structures. The third report entitled "*Enhancing alignment and performance*" is an assessment of Council's current accountability framework and identifies areas where there are opportunities to enhance current practices in order to better align CCOs with the Council's objectives for Wellington which was a key driver of this review.

The "*CCOs Governance Review*" and "*Enhancing alignment and performance*" reports both outline proposals for Council to consider. This paper discusses these proposals and outlines officers' advice.

The review has found that for all of the CCOs they have generally performed well against their purpose and Councils expectations. After assessing each CCO against the framework for determining governance, developed as part of this work, the review has recommended that external governance structures continue to be appropriate going forward, with the exception of Wellington Waterfront Limited (WWL) where the review recommends that this activity be brought back within Council in stages such that by 30 June 2015 all of the activities of WWL are managed within Council. WWL would be retained to hold the waterfront assets in trust for Council[1].

[1] This is the current arrangement and needs to be continued as under the Marine and Coastal Area Act 2011 the Act effectively nationalises all 'foreshore and seabed', except foreshore and seabed for which there already existed a registered owner other than the Crown or a local authority. The ownership of the waterfront by WWL protects this area from the provisions of the Act.

The review considered a range of alternative governance models for the CCOs as a whole including: bringing all of the activities in-house; consolidating the CCOs within either a holding company or management company type of construct; and the existing approach with individual CCOs. The review concluded that with a range of enhancements the existing model of governance remains appropriate and most likely to deliver the best outcomes for Council. While a management company has many benefits, implementing this change would take 1-2 years at a time when reform in the Wellington Region's local governance structures is being debated and potentially rolled out. The review also found that some of the benefits of smaller entities with a single focus would be diluted under such a model.

Regardless of how the Council's CCOs are structured, the review has identified a range of opportunities for strengthening and enhancing the current governance model for Council's CCOs to achieve a stronger alignment with Council's strategic objectives and to provide a clearer understanding of respective roles and responsibilities. Significant enhancements include the development of an Owners Expectation Guide, extending the role of CCOPS to include responsibility for ensuring alignment with Council's strategic direction and a range of other suggested enhancements that have been incorporated into an implementation plan detailed in Appendix 1. These are aimed at enhancing alignment and to better enable Council to ensure its ownership interest in each of the CCOs and collectively is optimised.

The review considers the appointment of Councillors to the Boards of CCOs and recommended that Councillors should not be able to be appointed. Officers advice on this question has been consistent that there is a benefit from having a single Councillor appointment to the Boards of the CCOs and that benefits from this outweigh the inherent conflict of interest and the recommendation in this report reflects that advice. The current Council policy is that a second Councillor is able to be appointed to the Board of a CCO if they are the best applicant.

3. Recommendations

Officers recommend that the Strategy and Policy Committee:

1. *Receive the information.*

2. *Agree that the current governance structures are retained for:*

    a) *Basin Reserve Trust;*
    b) *Partnership Wellington Trust;*
    c) *Positively Wellington Venues Limited;*
    d) *Capacity Infrastructure Services Limited;*
    e) *Wellington Cable Car Limited;*
    f) *Wellington Museums Trust; and*
    g) *Wellington Zoo Trust*

Capacity Infrastructure Services Limited

3. *Instructs the Council Chief Executive to agree with the other shareholder of Capacity, the detail of the outcomes model, on the basis that the following are retained by Council:*
   - *ownership of the three waters assets;*
   - *ownership of the three waters information and asset management info system (AMS);*
   - *responsibility for policy and strategic direction;*
   - *approval of asset management plans;*
   - *approval of the service level agreement and KPI's; and*
   - *approval of budgets (and funding) for operating and capital expenditure related to Council's three water activities.*

4. *Instructs the Council Chief Executive in consultation with the Board of Capacity to review and report back on their capabilities to deliver on the objectives of a regional water management unit and the transition plan to an outcomes model, by 31 March 2013.*

Wellington Waterfront Limited

Agree to recommend to Council*:*

5. *That the management of the developed public space on the waterfront will transfer to Council from 1 July 2013 in accordance with the transition plan in recommendation 7.*

6. *That the implementation of the waterfront project as approved by Council in the annual Waterfront Development Plan relating to Public Space Development and Commercial Development continue to be managed by WWL until 30 June 2015, at which time any remaining development activities will transfer to Council and WWL be retained for the purpose of holding the waterfront assets on trust for Council.*

6. *Instruct the Chief Executive to agree a transition process with the Board and Chief Executive of WWL to give effect to the recommendations and report back to SPC on the transition plan by 31 March 2013.*

Wellington Venues Limited

7. *Instruct officers to implement the recommendations of the Review as set out in section 5.4 of this report with respect to Positively Wellington Venues as part of the 2012/13 SOI process.*

General

8. *Agree that the governance framework attached as Appendix 2 of this report and used in the individual assessment of each CCO will be maintained and*

used as an aide to decision making when assessing the appropriate governance and delivery model for new and existing services.

9. *Agree the implementation plan attached as Appendix 1 to this report which relates to process improvements informed by the review recommendations contained within the report entitled "Enhancing alignment and performance".*

10. *Agree to recommend to Council that the terms of reference for CCOPS be amended to make it explicit that CCOPS will be responsible for ensuring that the activities of the CCOs are aligned to the Council's strategic direction.*

11. *Agree to recommend to Council that Council's Policy on the Appointment and Remuneration of Directors and Trustees is amended to allow only one Councillor to be appointed to the board of a CCO, provided they have the appropriate skills and experience required and that this change in policy would not affect existing appointments and would apply for any new appointments or re-appointments.*

Waterfront Project Funding

Agree to recommend to Council that:

12. *With effect from 1 July 2013 , funding of the WWL commercial development activities be decoupled from WWL public space development and operation, so that:*
    - *Net operating cost (including depreciation) of the public space activity is funded through general rates;*
    - *Net proceeds from commercial development offset the total general rate requirement through a separate commercial activity*

13. *Instruct officers to provide advice to the Strategy and Policy Committee on the funding impact of these changes and the transition to rates funding as part of the 2013/14 Annual Plan.*

4. Background

In May 2012 SPC agreed to add to the forward programme a review of the CCOs noting that a workshop will be held to inform the scope of the review.

The CCO review workshop was held on 7 June 2012 and the scope of the review was determined. The main areas of focus for the review and subsequent report back to SPC were as follows:-

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

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

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

- Identify options, if appropriate, for improving organisational arrangements of the CCOs.

The overall review was undertaken by Plimmer Consulting. The Plimmer review is documented in three separate reports, "*What works*" (Report 1); "*CCOs Governance review*" (Report 2); and "*Enhancing alignment and performance*" (Report 3).

- Report 1
  The "*What works*" report is a general review of a range of current practice used within local and central government with respect to arms-length entities and getting the best from them. This report was previously circulated to all Councillors.

- Report 2
  The "*CCOs Governance review*" report is a review of each of the individual CCOs providing an overview of each including the establishment history and observations about performance. The report considers whether the existing governance structure for each individual CCO remains the most appropriate going forward. The report also considers the overall organisational framework for the CCOs and a range of alternatives, this report is attached as Appendix 3.

- Report 3
  The "*Enhancing alignment and performance*" report is a more specific review of Council's existing CCO framework, where Council practice diverges from observed current practice as identified in "*What works*" and where there are opportunities for enhancement. This report is attached as Appendix 4.

This report will consider the two substantive review reports "*CCO governance review*" and "*Enhancing alignment and performance*" separately in section 5 and section 6 respectively.

5. Discussion – "*CCO Governance review*" (Report 2)

Council has established a range of CCOs over a period of time to deliver certain services on an arms length basis on behalf of the Council, manage certain assets or implement projects. Each of the CCOs has their own identity, as a company or a trust, has their own governance structure with boards responsible for the oversight of the entity. The CCOs exist to meet the objectives of Council and these are articulated in the entities foundation documents and are confirmed, fine tuned and kept relevant annually through the Council's Statement of Intent (SOI) processes. The review has looked at each individual CCO in detail and the report high level findings are discussed below, for more detail on each CCO the report and appendices should be referenced. The review has used the "determining governance" framework in Appendix 2 of this report to assess each CCO.

5.1 Basin Reserve Trust (BRT)

The Basin Reserve is New Zealand's premiere cricket ground and the BRT have worked hard over the years to maintain this status. The fact that for the third year running the Basin was voted as the best cricket venue in New Zealand by the NZ Players Association is testimony to this. The BRT is effectively a joint venture between the Council as the owner of the Basin Reserve and Cricket Wellington and was established in 2005 primarily to maintain the Basin as New Zealand's premiere cricket ground.

The Basin is home to Cricket Wellington and first class cricket in Wellington. Since the Trust was formed the Basin has an unbroken record of hosting test matches each year. The challenge that the trust faces is maintaining an aging infrastructure that has suffered from a lack of investment over time. These issues are well known and the Trust, together with Council, is currently working to address them. The main issues are the deferred maintenance, the museum stand and lack of asset management plans. As part of the current LTP the Council agreed to increase the operating grant to BRT from $180k to $355k (the first increase since the 2004) and a capital renewals programme, these will assist the BRT in addressing the deferred maintenance issues.

While the review considered the option of bringing the management of the Basin Reserve in-house there were few tangible benefits and the risks around loss of leadership, ability to source third party funding and the passion for cricket and the Basin itself significantly outweighed any perceived benefits. The review concluded that the Basin Reserve is still most suited to arm's length governance through the joint venture with Cricket Wellington and recommends no change to the BRT governance model. Officers recommend that this recommendation is adopted and which makes no change to the BRT governance model.

5.2 Capacity Infrastructure Services Limited (Capacity)

Capacity was established in 2004 as a joint venture between Council and Hutt City Council to deliver water services for these two councils. Subsequently Upper Hutt Council has become a client of Capacity.

In 2010 Council considered whether to retain Capacity or to bring the activity back in-house. The decision was made to continue with Capacity and Officers were requested to continue to pursue mechanisms to achieve a regional water model. In April 2012 Council considered and approved a proposal to expand Capacity to include Upper Hutt and Porirua City Councils as shareholders of Capacity. This would result in Porirua City Council also becoming a client. At the same time Council agreed in principal to move to an outcomes model for the delivery of water services from Capacity to the shareholder clients.

It has been reported on a number of occasions that the cost savings envisaged of $4.175m at the outset of Capacity have not been achieved, however Capacity reports that cost savings of $3.31m have been achieved. The issues in this area were the inability to agree a cost savings model on how the savings would be measured.

Aside from the costs savings, generally the review has found that Capacity has delivered on its main performance measures. The review notes the importance of quality asset information and surety that the asset renewals programme is maintaining Council's assets to Council's expectations. These areas are an important part of the transition to an outcomes model, one of the fundamental outcomes that Council seeks is to ensure that its capital renewals programme is delivering the expected improvements in asset condition to continue to maintain the network.

The review considered alternative options and in particular the potential for the services to be delivered to the Councils through a joint committee. This has been considered previously and there would be the potential for some reduced costs estimated at between$200k - $400k per annum through lower governance and senior management costs however this needs to be considered against the generally cumbersome nature of joint committees and is a relatively small sum in relation to the expenditure of over $70m per annum. A joint committee looks very much like the Capacity model without the experience and skills an external board can provide and would require the agreement of the other shareholder and prospective shareholders who have expressed support for the Capacity CCO model.

The review has made a number of recommendations with respect to Capacity. They are that Council:

a) Continues its support for a regional water management company, and agrees to the governance structure of Capacity continuing to provide the three water services.
b) Works with the 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 agree with Capacity, the detail of the outcomes model and the associated transition plan, on the basis that the following are retained by Council:
    - ownership of the three waters assets;
    - ownership of the three waters asset management info system (AMS);
    - responsibility for policy and strategic direction;
    - approval of asset management plans;
    - approval of the service level agreement and KPI's; and
    - approval of budgets (and funding) for operating and capital expenditure related to Council's three water activities.
d) Requests the Council Chief Executive and Board of Capacity to review and jointly report back on their relative capabilities to deliver on the objectives of a regional water management unit and the transition plan to an outcomes model, by 31 March 2013.

The recommendations of the review are consistent with the recommendations agreed by Council at its meeting of 26 April 2012 through the paper entitled "Proposed Governance Changes to Capacity Infrastructure Services Limited".

Officers view is that recommendations c) and d) add value to the process, however it is noted that the agreements required are with the other shareholder. This is reflected in the officer recommendations.

5.3 Partnership Wellington Trust (PWT)

PWT was established to market Wellington and to achieve economic growth in partnership with other funders. Originally PWT's activities included the Events Fund however this was transferred back into Council in 2003 leaving PWT to focus on attracting tourists and visitors to Wellington with a focus on increasing the sustainability of Wellington's commercial sector.

PWT has consistently met its key performance indicators. The review notes that a core rationale for PWT was to partner with others and getting them to provide funding to complement Council's funding for marketing Wellington. PWT activities are funded broadly 50% by Council and 50% through non-council sources.

The review concluded that the current governance arrangements with PWT as an arm's-length CCO of Council remains the most appropriate vehicle. The review considered whether the PWT services could be delivered within Council, but concluded that the requirement to partner and source funding from those partners may be more difficult and less transparent within Council as compared to an external organisation. The review recommends that the services delivered by PWT continue to be delivered through the current arm's-length model with PWT as a CCO. Officers recommend that this recommendation is adopted and which makes no change to the PWT governance model.

5.4 Positively Wellington Venues Limited (PWV)

In 2010 Council, following public consultation, agreed to establish PWV as a CCTO to manage the Council venues: St James Theatre; Opera House; Town Hall; Michael Fowler Centre; TSB Arena; and Shed 6. PWV was established to deliver commercial oversight, increase revenue and deliver economies of scale including being a one-stop shop for users of the venues.

PWV was incorporated in January 2011 and commenced trading in February 2011 by taking over the Council's convention centre business. The business of the St James Trust was integrated in from 1 July 2011 and the St James Trust was subsequently wound up. A heads of agreement was agreed between PWV and Council that reflected the respective responsibilities of each party with respect to the management of the venues and the maintenance of the associated assets.

The review identifies that there are differing views with respect to expectations around community access and support for strategic events and there is a tension between the requirement that PWV breaks even and provides unspecified community access. Officers understand the point being made by the review however note that community access was envisaged to be provided through the establishment of the community access fund of $245k per annum that is held and administered by Council to facilitate community access. In addition PWV has maintained support for strategic events. What is apparent is demand for community access through the fund exceeds the amount provided within the fund. This area needs further thought and Council needs to provide a clear steer of its expectations in these areas to PWV as part of the 2012/13 SOI process.

While the review has confirmed that the governance structure for PWV is the appropriate structure the review has made a number of recommendations as follows:

a) develop a statement of core purpose for this activity, supported by KPIs that will enable Council to understand the performance of PWV and the contribution to the city's outcomes, particularly economic growth;
b) agree what legacy or other sponsorship support PWV is expected to provide for community organisations or strategic partners;
c) identify any impacts to the financial position of PWV arising out of recommendation b) above and review the timeframe in which PWV is expected to breakeven and then deliver surpluses;
d) agree performance measures that link into the Council's KPIs; and
e) request the CCO incorporate results of these discussions into the 2012/13 SOI.

Officers recommend that these recommendations are addressed within the 2012/13 SOI process and the officer recommendation reflects this.

5.5 Wellington Cable Car Limited (WCCL)

WCCL was set up to run the Cable Car and maintain the trolley bus overhead wire network. The Cable Car activities of WCCL are funded through passenger fares and the trolley bus network is funded on a cost recovery basis under contract with Greater Wellington Regional Council (GWRC). The review notes that the trolley bus network contract with GWRC runs until 2017.

The company generally delivers against its core performance targets, consistently transports around 1m passengers per annum between the Kelburn and Lambton Quay and has a strong track record of delivering after tax surpluses, paying dividends to Council and making subvention payments to Council to enable Council to minimise its own tax liabilities.

The review considered an alternative structure for the WCCL, splitting the Cable Car business off and incorporating this within the Wellington Museums Trust while gifting the trolley bus network to GWRC. The review did not recommend this and officers concur with this view although for different reasons. Officers do not consider the review has given enough weight to the strategic issues associated with Council having an involvement in the trolley bus network. This includes having a say as to the future and ensuring the proper maintenance of the network is maintained, this option would also require significantly more financial analysis.

The future of the Wellington trolley bus network is uncertain in the medium term, GWRC have a review of the bus services scheduled in 2013/14, and the WCCL maintenance contract runs until 2017 at which point a decision about the future of the bus network should be known. It will be important for Council to have input into these processes and the ownership of the trolley bus overhead network provides a strong reason for Council involvement. It is recommended that the current governance arrangements for WCCL be retained. Officers recommend that this recommendation is adopted and which makes no change to the WCCL governance model.

5.6 Wellington Museums Trust (WMT)

WMT is effectively a management company that has oversight of a range of institutions delivering services in the arts and culture sector (including science). The institutions included within WMT are: The City Gallery; Capital E; Museum of Wellington City and Sea; Cable Car Museum; Carter Observatory; Colonial Cottage Museum; the NZ Cricket Museum; and Carter Observatory.

The challenge for the Trust over the past few years has been in the area of funding and has responded well to the challenge set by Council to break-even after fully funding their depreciation. Following a strategic review the trust is forecasting that they will achieve this in 2012/13, however given the nature of a number of the larger institutions that do not charge entry fees it is inevitable that funding will always be a pressure point for the Trust.

The Trust has generally delivered on its core performance targets and its annual report for 2011/12 outlines an impressive range of activities, events and exhibitions that contribute strongly to telling the Wellington story.

The review considered three options for the future governance of WMT; moving the activities within Council; splitting off each of the individual entities into their own separate CCO; and the retention of the arm's-length model. The review considered that there were some relatively minor cost reductions available from moving the activities in-house however the risks and in particular the risk to external funding outweighed the potential cost savings. The review recommends that the current governance arrangements for WMT be retained. Officers recommend that this recommendation is adopted and which makes no change to the WMT governance model.

5.7 Wellington Waterfront Limited (WWL)

WWL was established in 2001 out of Lambton Harbour Management Limited. The company was set up as Council's implementation agent for the waterfront. The waterfront land is vested in the company which it holds in trust for Council.

The company was established to implement the Council's development plans for the waterfront under the Wellington Waterfront Framework. Council approves the workplans and budgets of WWL. In addition Council also approves the design briefs and all significant leases. The role of WWL is to implement these and undertake the day to day operational management of the waterfront.

The role of WWL as an implementation agent was reviewed by Council in 2011 (the Wallace review) and recommended a reduced status quo option delivering some modest cost savings. As part of the review Council agreed to review the governance structure of WWL no more frequently than every three years to avoid incurring further costs and the disruption caused by ad-hoc reviews.

The review concluded that from an infrastructure, design and public space perspective WWL had performed well and the receipt of 35 awards, consistent public satisfaction levels (90%) and visitation (>95%) are all a testimony successful implementation and management of the waterfront by WWL and the effectiveness of the structure which includes the role of the technical advisory group (TAG). However the project was originally envisaged as a 6 year project. A range of reasons including regulatory issues and the economic climate have resulted in the project timeframes extending, these delays are not related to the governance structure and would have affected any alternative structure equally.

The review has considered four governance options as follows:

1) Retaining WWL as currently structured;
2) Retaining WWL as currently structured but amending its objectives to include longer term operational management of the waterfront;
3) Retain WWL as a development company for the short/medium term but transfer operational management of the waterfront to Council; and
4) Bring all of the WWL activities back in-house within Council.

The review favoured Option 3 and recommended a transition of the management of public space and lease management to Council from 1 July 2013 and the retention of the company with development responsibilities to enable the delivery of the currently planned development projects until 30 June 2015 when all of the activities of WWL would transfer to Council. At the end of the current waterfront development plan the commercial space development will have been substantially completed and no requirement for an implementation agent at that point. The review favoured this option over Option 4 on the basis that there were few benefits from immediately bringing the activities of WWL back in-house and there were risks to progressing the current development plan.

The review also considered the on-going funding of the waterfront project and this is covered separately in Section 7.2 of this report.

The review governance recommendations are:

1) Agree a transition process whereby management of developed public space activities of WWL begin to transfer back to Council from 1 July 2013;
2) 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 will become a shelf company for the purpose of holding the waterfront assets in trust for Council; and
3) Request the Chief Executive to initiate a transition process with the Board and Chief Executive of WWL to give effect to the recommendations and report back to Council on the transition plan by 31 March 2013.

Based on the review recommendations any savings to Council only occur once the full transition is completed. (An estimated $600k in 2015/15 rising to an estimated $800k in 2018/19). These potential savings reflect the different cost structures required to support ongoing management of the waterfront compared to the costs of maintaining development and implementation capabilities.

Essentially there are three options; all activities in-house now; all activities remain within WWL until the end of the current WDP; and a mix with the public space management transitioning into Council from 1 July 2013 and the development and implementation work transferred to Council following the end of the current WDP.

The transition risks around the public space management can be managed through a good transition plan. The primary risk that needs to be considered is the risk to the ability to successfully implement the agreed Waterfront Development Plan and as a consequence the associated commercial revenues. The areas that need to be considered are preservation of market confidence, loss of expertise and the impact of interruptions to continuity. These factors are such that only the options that retain the implementation of the development plan within WWL minimise these risks. The current LTP incorporates the commercial proceeds from the development plan.

Officers recommend that the recommendations of the review are adopted and these are reflected in the officer recommendations.

5.8 Wellington Zoo Trust (WZT)

WZT was established in 2003 to manage the Zoo on behalf of Council. The Trust was set up in response to significant concerns about the Zoo's condition at the time including around the health and safety of the animals and staff. The trust was set up to provide strong leadership, attract increased funding from third parties to reduce the requirement for rates funding and bring interested stakeholders together for the benefit of the Zoo and Wellington.

WZT has a strong governance framework based on a vision, long-term strategy and good execution. A key factor in the transformation of the Zoo has been the capital programme (ZCP) which is a core plank of the long term strategy of the trust. The ZCP was agreed by Council and involved a total capital investment of $21m over 10 years with the WZT required to secure 25% of this funding from third parties with Council providing the balance. The agreement of the long term ZCP and the underpinning strategy ensures that there is a strong alignment between the Council and the WZT.

WZT has generally met its performance targets over time. Two of the key measures are the visitation targets and the 25% ZCP funding target. As part of the ZCP investment a growth in visitor numbers of 2% per annum was targeted, with over 216k visitors in 2011/12 WZT has significantly exceeded this measure. With respect to the ZCP funding target WZT is right on target having funded 25% of the capital investment to date. At the same time the improvements to the Zoo itself and its contributions to conservation, sustainability and education are a credit to the changes instigated through the formation of the trust.

The review considered the option of bringing the Zoo back in-house within Council. Whilst there are some cost savings available these are not sufficient to offset the clear risks around accessing external funding for both operations (WZT raise 50% of the cost of operating the Zoo through external funding and entry fees) and their contribution to the ZCP. The focus that the trust has brought together with the ZCP upgrade has transformed the Zoo into a first class zoo facility. Previous in-house management without that focus and specific expertise resulted in a zoo in a state of decline. The review recommends that the current governance arrangements for WZT be retained. Officers recommend that this recommendation is adopted and which makes no change to the WZT governance model.

5.9 Alternative Governance Models

The review report and the overview above consider whether the individual CCOs and their activities are best governed through an arm's-length entity or the service be provided in-house. The review has also considered a range of alternative governance models which consider the overarching governance structure.

The existing CCO governance model within Council can be summarised as a range of individual arms-length CCOs that are accountable to Council through CCOPS. The review has identified the following alternative governance structures and assessed their suitability for Wellington City Council. A brief overview of the alternatives considered is set out below:

- In-house

  The review considered whether there would be savings to Council from bringing the activities of the CCOs, other than capacity, within Council.

  Assuming the same level of service then similar levels of staffing would be required. There would be opportunities for leveraging off Council in-house systems and services and in particular finance, information systems and human resources. The review notes that Council already provides a range of shared services to the CCOs. There would be savings from reduced governance and management support, however the review notes that there would also be additional costs for Council.

  Overall the review estimates there could be possible net savings to Council of up to $790k per annum (this excludes any restructuring and transition costs).

  The review identifies a range of risks that would need to be considered such as loss of focus, reduced transparency, and loss of expertise of the external board members. The main risk identified is significant which is the potential loss or reduction in external funding. The WZT, BRT and WMT all attract significant sponsorship, bequests, grants and donations and PWT receive significant partner funding. It is not clear what the impact on this level of funding would be if the activities were managed within Council.

The review concludes that the potential savings identified do not outweigh the risks that would occur if the activities were managed in-house.

- A Holding Company structure[2]

Under a holding company model, essentially all of the existing CCOs would remain with their current boards. An additional CCO would be created as a holding company and each of the existing CCOs would report to the holding company rather than CCOPS.

The holding company would be responsible for agreeing the strategic direction for the CCOs, aligning these with Council expectations and performance monitoring. The holding company structure could provide shared services across the CCOs.

The holding company structure would not result in any material savings and could potentially be a more expensive option. This option was not favoured by the review.

- A Management Company structure

Under a management company model a new CCO would be established to act as a management company across all of the CCOs. There would be a single board across all of the activities of the CCOs and the existing board structures would be dis-established. The management company would report straight to SPC rather than CCOPS.

This model is essentially a similar model to the WMT model although on a larger scale. A single board with a CEO overseeing a range of individual activities maintaining there separate identities. The management company would provide integrated strategic direction, ensure alignment with Council objectives and be in a position to provide integrated back office services across the organisation and

[2] For both the Holding Company and the Management Company structures these are envisaged to incorporate "like" activities where there is a common thread – under both of these options Capacity is seen as remaining as a stand-alone CCO.

promote a greater level of interaction across the activities.

Under a management company model there would be cost savings from removing the individual boards, however these would be offset by the new board and CEO costs. Under this model there would be further opportunities for back office services however these are available under all of the alternatives to a large extent. The report suggests savings of up to $580k may be possible.

The management company structure introduces a risk around the on-going ability of the individual entities to continue to source third party funding, this would need to be clearly understood before progressing down this route. The review found that the management company model was the most likely to deliver greatest certainty of alignment and greater potential for efficiency gains but would incur significant disruption and has risks around external funding.

Given the uncertainty around regional governance the review concluded that the timing was not right for this type of change.

- Modifications to the existing CCO model

This is essentially the retention of the existing CCO governance model with a number of modifications and improvements to practises.

The review notes that the recently established events forum is a positive step to bring the key providers together to integrate their approaches and activities better. There is an opportunity to approach the Kelburn precinct in a similar way.

There are changes that were proposed through the "*Enhancing alignment and performance*" report including: ensuring clear linkages to Council objectives; the introduction of the owners expectation guide; and continuing to encourage CCOs to work together which would be enhanced by regular roundtable discussions.

The review noted that Council was already providing a range of shared services to the CCOs and that the potential for further cost reductions in these areas was not significant[3].

Other areas identified within the review that Council should consider are: the approach to branding across the stable of CCOs and any desire to reflect a greater “family” identity; better integration of websites to showcase the “Wellington story” and make access to information easier and more consistent; and making the accountability documents for each of the CCOs easier to find on the individual websites.

The review recommended retaining the status quo enhanced by the implementation of a range of procedural improvements which were introduced through the review report “*Enhancing alignment and performance*”

Officers recommend that this recommendation is adopted and this is reflected in the officer recommendations.

5.10 Regionalisation

The discussions around future governance at a regional level are ongoing. While the outcomes are unknown the review has considered if changes might influence current decisions around the governance of individual entities or their collective activities.

The review identified a range of other CCOs within the region that could be considered for some form of consolidation with the Wellington City Council CCOs and similarly there are a range of other venues and activities across the region not currently within a CCO, such as; The Dowse Gallery, the Petone Settlers Museum, Pataka and the Te Rauparaha Arena, that could be integrated within a CCO model.

Alternatively under a governance consolidation scenario there may be services currently delivered through CCOs that could be delivered in-house rather than through an arms-length CCO as the need for a CCO to service different councils may not be required.

Depending on the outcome of the regional governance work the choice of governance model for CCOs and related activities will likely require further consideration.

5.11 Other Recommendations

The review also considered what was an appropriate number of directors and trustees on the boards of CCOs. Currently the number of directors and trustees ranges from 4 to 8 on the various entities. Given the nature of the CCOs activities the

[3] Council provides a range of financial, payroll and IT shared services to WZT, PWV, Capacity and WWL and is currently working with Zealandia to provide them with shared services.

review considered that the boards required no more than 6 members and that there could be marginal savings from implementing this as part of the Council's appointments policy.

Officers are of the view that this can be managed through the appointments group on the basis of the needs of each particular CCO at the time appointments are made and the skills requirement for each entity.

6. Discussion - "*Enhancing Alignment and Performance*" (Report 3)

A key driver for carrying out this review was a view that the CCOs could be better aligned with the Council's objectives. The review suggests there are a number of opportunities for strengthening and improving the current CCO model to achieve a stronger alignment with Council's strategic objectives and a clearer understanding of the relative roles parties play in the model.

6.1 Issues identified

The review found that there were a number of areas where the current model and processes could be improved or enhanced, the main areas identified include:

Shareholder expectations
There are a range of shareholder expectations of CCOs and it is important that the respective roles and responsibilities are clearly articulated and understood. There is currently no single place or guide to the range of expectations and in many cases they are not formally documented. A clear framework of shareholder expectations would give clarity to the respective roles and responsibilities, the governance umbrella, clear lines distinguishing shareholder and board decisions, communication protocols, governance processes and the accountability framework. Clarity in these areas supports the Council's "no surprises" policy and ensures a common understanding which supports the development and maintenance of trusting relationships.

The review recommends that an Owner Expectation Guide be developed and adopted to explain the roles of the owner, the funder and of the entity, and the behaviours expected (including matters such as responsibilities for public communications). The Owner Expectation Guide would also be the appropriate place to set out Council expectations around remuneration practices within CCOs to emphasise public accountability, the ethos CCOs are required to play in a public service environment and ensuring remuneration is appropriate for the role within the public sector and good employment practices are followed within the Council's overarching principle of "no surprises". Two examples were suggested as good practice guides in this area, the Crown guide for State-owned Enterprises and Crown entities and the Shareholder Expectation Guide adopted by Auckland Council. Officers view is that an Owners Expectation Guide would be a useful addition and would assist in ensuring there is a common basis for understanding respective roles and responsibilities.

Officers recommend that an Owners Expectation Guide be developed and implemented for Council.

Strengthening relationships
Council currently has a range of informal meetings that support the formal relationships. These include: periodic meetings of the Mayor/CE with the Chair/CE; the regular meetings between the Director responsible for CCOs within Council with the respective CE's of the CCOs; and the meetings between the CCO portfolio managers and the CCOs. The review identifies this as an area where there is scope to increase the range of informal meetings and for making more from the informal relationships to support the more formal structures.

To improve the value from the informal relationships, the Plimmer review has recommended that the range of informal processes be extended. This includes; providing a forum for all of the CCOs Chairs to meet together on a regular basis with the Mayor (at least twice per annum); all of the CCO CEs to meet collectively with the Council CE to canvas common issues (3/4 times per annum); the regular Mayor/CE meetings with individual CCO Chairs/CE on a monthly/bi-monthly basis; and ensuring the informal processes have a clear purpose. The review also recommended that a short monthly report from CCOs to Council identifying any key issues be required to support the "no surprises" policy and inform the regular meetings. Officers consider that there could be a risk in this area that over-emphasising or having too many informal relationships can potentially weaken or undermine clear accountabilities or provide opportunities to avoid proper channels, the informal processes must support the more formal processes and not supplant them.

Officers agree that there is value in the Mayor/CE meeting with the Chairs/CE of all of the CCOs on a collective basis but that these meetings must have a clear purpose and not simply be regular meetings, for example setting the scene for the annual planning process. To reduce the potential for multiple messages and too many channels, Officers recommend that the ELT member responsible for CCOs be included in the range of informal meetings.

Alignment
A common theme from the interviews conducted as part of the review was the need to ensure that objectives of the CCOs are clearly aligned with the Councils strategies. Through the 2011/12 SOI process CCOs did not necessarily have clear guidance from Council about how they fit within the Councils strategies and contribute to these. While there were organised workshops and reviews for the CCOs to understand the 2040 strategy, the strategy and how the various activities contribute to the strategy were still largely in development. As a consequence the letters of expectation (LOE) to the CCOs placed the onus on the CCO to identify how within their SOI they contributed to the Council strategy. The review recommends that Council plays a stronger role in identifying how it wants the CCOs to contribute to achieving Council objectives.

To improve alignment of objectives and strategic expectations, the Plimmer review recommends that Council provides strong and integrated advice to the CCOs around expectations and that these are developed through a programme of workshops and discussions between the Council and the CCOs. CCOs must have opportunities for early input into Council's strategic processes. The medium to long term strategic expectations for each CCO should be reflected in a short statement of core purpose which should be developed for each entity. The annual LOE should be developed out of these processes to clearly reflect Councils expectations having been developed in a process which has provided opportunities for the CCO to have input.

Officers support these recommendations and they are included in the implementation plan in Appendix 1. Officers also recommend that the terms of CCOPS be extended to include responsibility for ensuring alignment with Council's strategies.

Governance
A key question raised in the review is whether or not Councillors should be appointed to the boards of CCOs. The current Council appointment policy allows for one Councillor to be appointed to the Boards of all CCOs and for CCO boards of four or more, Councillors are able to be considered for other board vacancies subject to a maximum of two Councillors being on the board of any CCO. The role of a board member on a CCO is to assist the organisation to meet its objectives and any other requirements in its SOI[4], it is also clear that board members are required to act in the best interest of the entity. As an elected Councillor the clear responsibility is to act on behalf of the well-being of Wellington and to consider all matters before Council with an open mind. The nature of these responsibilities gives rise to an inherent conflict of interest which can prevent them from being able to fulfil their responsibilities. The potential for there to be two Councillors on a CCO board increases the risk. It is also noted that Councillors who are on the boards of CCOs are also able to be members of the performance monitoring subcommittee (CCOPS) and potentially the ability of members to scrutinise the performance of the CCO that they are a board member of is compromised.

The Plimmer review offers two options. The preferred option is to not allow Councillors on the boards of CCOs and enhance the role of the portfolio leader to have a key engagement role with the CCOs in their respective portfolio and for the portfolio leader to be a member of CCOPS. The alternative option put forward by the review is to allow one Councillor appointment to the board of a CCO, who must have the requisite skills and experience, cannot be the relevant portfolio leader or a member of CCOPS and favours the positions being non-remunerated.

Officers do not support these options and the issue of Councillors on the boards of CCOs is discussed further in 6.2 below.

Public accountability
Through the interviews there was comment around the transparency of the CCOs and the fact that they were perceived to effectively operate behind closed doors. This concern exists despite the fact that all CCOPS meetings are public and all Councillors are able to attend them. There were also contradictory comments from the interview process which noted that there was more transparency around the operations and monitoring of CCOs than Council's in-house activities. It is important that the activities of the CCOs are transparent and that they are accountable to the public and the review finds that there is scope to improve this perception.

[4] LGA 2002 – s.58

The Plimmer review recommends that CCOs should be required to hold an AGM which is open to the public. The suggested timing for the public AGM is when the CCO is considering its draft SOI. In addition consideration should be given to CCOPS meeting which reviews the annual financial performance of the CCOs to be undertaken in public with all of the CCOs available at the meeting to answer questions.

Officers support an annual opportunity for the CCO to hold a meeting in public and for CCOs to present their annual reports to CCOPS.

The recommendations above are the key recommendations that address the issues discussed above. These recommendations are included in the implementation plan attached as Appendix 1 together with a range of more minor recommendations identified in the review. The exception is for the issue of Councillors on the boards of CCOs which is discussed further below.

6.2 Councillors on the boards of CCOs

In March 2011 SPC considered the appointment of Councillors to CCO Boards in the review of the CCO Board Appointments and Remuneration Policy. The paper provided a comprehensive assessment of the advantages and disadvantages of elected members being appointed to the boards of CCOs and guidance around best practice. Officers recommendation at the time was no change to the existing established practice of one designated Councillor appointment.

Council passed a resolution to amend the appointment policy to allow one designated Councillor appointment and to also allow a further Councillor to be appointed to CCO boards with more than 4 directors/trustees on the basis that the Councillor applied for the vacant position as part of the appointment process and had the requisite skills and experience for the particular role.

The Plimmer Review considers the appointment of Councillors to the boards of CCOs in the context of getting the right people in governance roles, ensuring appointees are not conflicted in carrying out their role and the scrutiny and accountability framework of CCOs is not compromised. The review recommends that Councillors should not be appointed to the Boards of CCOs and provides an alternative option. That is, that the engagement role between CCOs and Council currently fulfilled by the Councillor appointees should be undertaken by the Portfolio leader for any CCOs within their portfolio and that the Portfolio leaders with CCO engagement roles would be members of CCOPS. Officers note that without re-alignment of portfolio responsibilities this approach would potentially see CCOPS membership increase and consideration would need to be given to removing the role of CCOPS and having the CCOs report direct to SPC.

The review puts forward an alternative to this option to allow one Councillor appointment to the board of a CCO on the basis of having the appropriate skills and experience, that the appointee should not be the portfolio leader for the portfolio which comprises the particular CCO, the Councillor appointee should not be on CCOPS and that Council should consider whether the roles should be remunerated.

Officers do not favour or recommend either of these options and have not materially changed the view as expressed in the review of the CCO Board Appointments and Remuneration Policy in March 2011 (That is, that there is one designated role on each of the CCO boards that is able to be filled by a Councillor). This is on the basis that nothing has changed between the appointments policy review that suggests a need to recommend a material change. The respective roles and responsibilities of Councillor appointees to the boards of CCOs should be clearly articulated and understood. It is recommended that these areas are addressed in an Owners Expectation Guide.

Provided the Councillor appointed has the skills and experience to make a valuable contribution to the CCO concerned, the appointment of Councillors to the boards of CCOs is not contrary to best practice. CCOs exist only to meet the objectives of the Council and it is not inappropriate that Council has representation on the boards of its CCOs. Best practice in the commercial world is very clear in this area, for 100% owned entities you would expect to have board representation. Officers view is that there is an inherent conflict of interest but the benefits of a Councillor appointment to the board of a CCO are sufficient for this to be accepted, however the additional benefits of further Councillor appointments do not outweigh the conflict of interest concerns.

There are current instances where the Councillor appointed to a CCO board is also the relevant portfolio leader. Officers view is that this is actually a strength of the process rather than a weakness. Having portfolio leaders in these positions should enhance the level of understanding of Council's related strategies and should improve alignment.

There were points raised in the interview processes around the potential dilution of the accountability function of CCOPS where members charged with the scrutiny of CCOs were also potentially on the boards of CCOs. The current practice is not seen as having materially diluting or compromising the scrutiny role of CCOPS, this issue was canvassed with the Chair of CCOPS and he does not perceive the current practice to be a material issue and has never observed an instance where having a Councillor on CCOPS that was also a CCO board member has posed an issue or diluted the scrutiny role of CCOPS.

6.3 Governance Framework

The "*What Works*" report in addition to looking at current practice generally also considered the issue of what factors should be considered when looking at the governance and service delivery models for new or even existing activities. In looking at this area Plimmer Consulting developed a framework that can be used to assist in assessing the types of specific and contextual considerations that should be worked through and which inform the decision making process.

Officers have reviewed the framework and believe that it provides a good basis for assessing a range of factors to provide a consistent and thorough assessment of options. The framework does not produce an "answer" and the assessment of factors requires a degree of subjectivity, but the framework ensures a consistent approach is adopted and clear thought is given to a full range of considerations.

This framework has continued to be developed and has been used within the review of each individual CCO form a “fit for purpose” perspective to give an indication whether “on balance” an activity is best suited to in-house service provision or through an arms-length entity.

7.1 Consultation and Engagement

A range of interested parties have been consulted during this review process including elected members, Chairs and CEOs of the Council Controlled Organisations, the Chair and Deputy Chair of CCOPS and senior staff.

The recommendations included in the report are of a procedural nature and there is no requirement for any public consultation or engagement.

7.2 Financial considerations

The review also considered the on-going funding of the waterfront project. The implications of the extended timeframes for completion of the development work are that the loan to WWL has increased and the operating costs are increasing as maintenance and renewal on the waterfront is required. This can be witnessed in the need to invest heavily in the maintenance of wharf piles which were never anticipated in the original financial forecasts.

As identified during the discussions around the current Waterfront Development Plan 2012/13 and the LTP, the current funding model for the waterfront is not sustainable and needs to be addressed. Under the current WWL financial model operating deficits and loan interest costs are all accumulated within the waterfront loan balance. In addition depreciation on the waterfront assets is not funded. On this basis the waterfront loan balance within the LTP is forecast to exceed $30m over the term of the LTP and continue to increase thereafter.

The review report considers a range of options to address the future funding issues and favours from 2013/14 funding operating deficits from rates and gradually introducing rates funding for loan interest and partial depreciation funding.

The table below provides an alternative funding scenario. It illustrates the financial projections for the waterfront loan over the term of the LTP based on the review recommendations to transition the public space management into Council from 2013/14 and for all of the WWL activities to come within Council from 2015/16. The year on year rates increase to fund the operating deficit, interest on the loan and depreciation has been phased in to illustrate the impact. Over the period of the LTP this scenario would see the waterfront loan reduce from $20.6m in 2012/13 to $8.0m in 2021/22 compared to the $30m projected in 2021/22 within the LTP and provides a balance between the increased rates impost and the overall loan position.

Based on the governance recommendations for WWL of this report being accepted, the actual funding impact and any rates funding requirements should be assessed as part of the annual plan process for 2013/14.

Impact	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
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%

This approach provides a more sustainable approach to funding the waterfront and an equitable funding approach which is consistent with principles whereby current ratepayers contribute to the benefit they receive. The current funding model effectively defers current costs for future generations by accumulating them in the loan and not funding depreciation.

The review recommendation with respect to funding of the waterfront is:

Effective 1 July 2013 , funding of the commercial development activities be decoupled from public space development and operation, so that:

- Net operating cost (including depreciation) of the public space activity is funded through general rates;
- Net proceeds from commercial development offset the total general rate requirement through a separate commercial activity; and
- The funding impact of these changes are transitioned so that the rates impact does not exceed a year on year increase of more than 0.9% through the period of the LTP.

Officers recommend that this recommendation is adopted noting that the issue of rates funding the operating deficits, loan interest and depreciation should be considered the by Strategy and Policy Committee as part of the 2013/14 annual plan process and this is reflected in the officer recommendations.

7.3 Climate change impacts and considerations

There are no direct climate change impacts and considerations.

7.4 Long-term plan considerations

The recommendations around WWL potentially impact on the LTP and in particular with respect to proposed changes in way that the funding of the operating deficits and interest of WWL are funded going forward.

8. Conclusion

Council requested the Chief Executive to initiate a review of the CCOs in response to a range of concerns about the functioning of certain aspects of the CCO model and the fact that the last comprehensive review of the CCOs was in 2006.

Officers engaged Plimmer Consulting to undertake an independent review. The Plimmer review resulted in three reports "*What works*", which has previously been circulated to Councillors, "*CCOs governance review*" and "*Enhancing alignment and performance*", which are appended to this report.

The review as set out in the report entitled "*CCO governance review*" found that the individual governance arrangements for each of the CCOs are still appropriate and "*fit for purpose*", with the exception of WWL where it is recommended that the activities of WWL be transitioned back within Council over the next three years as the development work on the waterfront is materially completed and the future activities therefore become more focused on management and upkeep.

The review found that the Council CCO model is fundamentally sound. The "*Enhancing alignment and performance*" report identifies a range of potential opportunities that could be considered to enhance the model to achieve a stronger alignment with Council objectives and resulting improvements in delivering outcomes. Officers have considered the recommendations and identified those which are proposed to be implemented as discussed in the report and outlined in the attached implementation plan.

The review considered the issue of whether Councillors should be on CCO boards and recommended two options. The first is to allow one Councillor on a CCO board. Where this occurs the review questions whether the position should be remunerated, the appointed Councillor should not be on CCOPS or a related portfolio leader and the appointee must have the appropriate skills and experience. The second alternative option, which is noted as the preferred option, is that no Councillors be on CCO boards and that the role of the Portfolio leaders be expanded to become a key liaison between CCOs and Council and be on CCOPS. Officers note that this issue has been considered by Council on a number of occasions, the most recent being in March 2011, and Council has consistently decided to allow Councillors to be on CCO boards. Officers advice on this question has consistently been that one Councillor be able to be appointed to the board of a CCO on the basis that they have the requisite skills and experience, and that the roles and responsibilities are clearly articulated.

Contact Officer: Danny McComb, Manager Treasury and CCOs

SUPPORTING INFORMATION

1) Strategic fit / Strategic outcome

The recommendations support the alignment of CCO activities to Council's 2040 strategy and aim to enhance the outcomes

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

There is no direct impact on the current annual plan, the recommendations and considerations around WWL may potentially impact on the LTP.

3) Treaty of Waitangi considerations

There are no related Treaty considerations

4) Decision-making

This is not a significant decision. The report sets out a number of options and reflects the views and preferences of those with an interest in this matter who have been consulted with.

5) Consultation
a) General consultation

A range of interested parties have been consulted which includes the Councillors, the chairs and CEOs of the CCOs, the chair and deputy chair of CCOPS and the senior executive of Council.

b) Consultation with Maori

No consultation with Maori has been undertaken on the basis that this paper is primarily about internal processes.

6) Legal implications

Council's lawyers have not been consulted during the development of this report.

7) Consistency with existing policy

Where this paper differs from existing policy it is clearly identified

APPENDIX 1

Plimmer Review recommendation	**Officers Comment**	**Implementation steps**
Work through a consistent framework before deciding if arm's-length governance will deliver improved performance	The framework developed in the Plimmer review provides a useful aide to the decision making process	The framework attached as Appendix 3 will be maintained and used as an aide to decision making when assessing the appropriate governance and delivery model for new and existing services.
When setting up a CCO, ensure constitution or trust deed reflects the Council's intentions and legal basis for the entity.	Noted	
Review constitution or trust deed for each entity, every 6 years.	Constitutions and trust deeds tend to be more of an enduring nature. Given the nature of Council's CCOs we would not expect the objects to change frequently.	A programme of review will be implemented to ensure all constitutions and trust deeds have been reviewed prior to the next LTP.
Ensure that the legal status matches the Council's expectation.	Noted	
Understand and distinctly manage Council's role as owner and funder, and build strong links with operational areas of Council.	The current organisational review and restructure will implement changes in this area designed to deliver a greater separation to the roles of owner and service delivery	As the new structure is implemented changes will be clearly communicated to CCOs and internally. Clarity around roles will be addressed within an Owners Expectation Guide to be developed.
Adopt an Owner Expectation Guide to explain the roles of the owner, funder and of the entity, and behaviours expected.	Officers agree that there is significant merit in adopting such a guide and note that Auckland has recently developed such a guide for their CCOs.	An Owners Expectation Guide will be developed and implemented clearly setting out respective roles and responsibilities.
Where there is an operating grant, ensure the funding or purchase agreement clearly outlines the deliverables expected. This document can also include additional intervention mechanisms, which can be used if performance is not as expected.	Funding and service level agreements are in place in most instances and where they are not deliverables operating grants are linked to the delivery of outcomes within the agreed SOI for each entity.	Existing funding deeds and service level agreements will be reviewed to ensure they are consistent with the deliverables expected and articulated through the entity's SOI. Whether it is appropriate for additional intervention mechanisms to be included will be considered at that time.
Adopt a process for CCOs to understand how they should work together for the benefit of the wider Wellington area.	CCOs exist to deliver on the objectives of Council. If Council requires CCOs to work together for a collective good then this needs to be clearly articulated to the CCOs via the existing processes of LOEs and SOI's then accountabilities can be clearly understood.	Through the planning processes, where Council requires CCOs to work together for the collective interest of the Council this will be set out clearly in the LOEs and accountabilities will be clearly defined and articulated through SOI's
Ensure there are clear communications about who within Council is responsible for the strategy, ownership and funding relationships.	The current organisational review and restructure will implement changes in this area designed to deliver a greater separation to the strategic, ownership and funding relationships.	As the new structure is implemented changes will be clearly communicated to CCOs and internally. Clarity around roles will be addressed within an Owners Expectation Guide to be developed.

APPENDIX 1

Plimmer Review recommendation	**Officers Comment**	**Implementation steps**
Enhance the formal relationships with regular cycles of engagement (individual meetings and roundtables), led by the Mayor and Chief Executive.	Officers agree that informal relationships can complement the formal processes and in particular around “no surprises” and communications issues. However there is a risk that too many informal channels blurs the accountabilities and increases the risks around inconsistent messaging. Officers view is that the recommendations outlined in the Plimmer review to increase the level of informal meetings go to far and risk being counter productive.	Officers recommend that the informal processes be enhanced to; include a twice a year meeting of the Mayor/CE and all of the Chairs/CE’s of the CCOs with one of these meetings being scheduled to initiate the Council planning round; and for the Mayor/CE informal 1 - 1 meetings with Chairs/CEs be regularised, based on formal agendas and include the key relationship Director for CCOs.
Provide strong and integrated advice about Council’s strategic expectations for the entity, developed through a programme of workshops and discussions between Council and CCOs	Officers concur with this view and note that while CCOs were engaged early in the recently completed LOE and SOI process through a series of workshops and reviews the connection to Council’s strategic expectations can be better integrated with a stronger strategic focus.	The content and focus for LOEs will be determined through a process of integrated planning and strategic workshops and communications to determine the Council’s expected contributions from CCOs as the basis for the next SOI round.
Ongoing, engage the CCOs early in the review of LTPs and the development of key strategies.	Officers concur with this view and note that while CCOs were engaged early in the recently completed LTP process the utility of the engagement would have been enhanced by greater engagement at an earlier stage around the Council’s key strategies.	The engagement process with CCOs for the development and communication around SOIs, LTPs and Council key strategies will be set out within the Owners Expectation Guide to be developed.
Articulate these strategic expectations in a Statement of Core Purpose, reviewed every 6 years (alongside a review of continued relevance of the entity’s constitution or trust deed.	Given the concern expressed around the alignment of the CCOs activities to Council’s strategic objectives clearly re-articulating the Statement of Core Purpose as part of the next planning process will be useful and can then be maintained thereafter.	A Statement of Core Purpose will be developed for each CCO in time for the next SOI process and will be reviewed thereafter as required or no later than whenever the entity’s constitution or trust deed is reviewed.
Ensure that the annual letter of expectation and the SOI reflect the Council’s expectations.	Council introduced LOEs to enhance the SOI process and they are now widely recognised as a part of best practice to get alignment to owner’s objectives. The LOE is simply a tool to communicate the owner’s expectations. The processes that determine the expected contribution is the area where enhancement provides gains.	The content and focus for LOEs will be determined through a process of planning and strategic workshops and communications to determine the Council’s expected contributions from CCOs as the basis for the next SOI round.
Encourage memoranda of understandings between CCOs, where appropriate.	There are already many instances where MOUs are used. PWT has a number of MOUs with CCOs with respect to marketing services.	No action required.

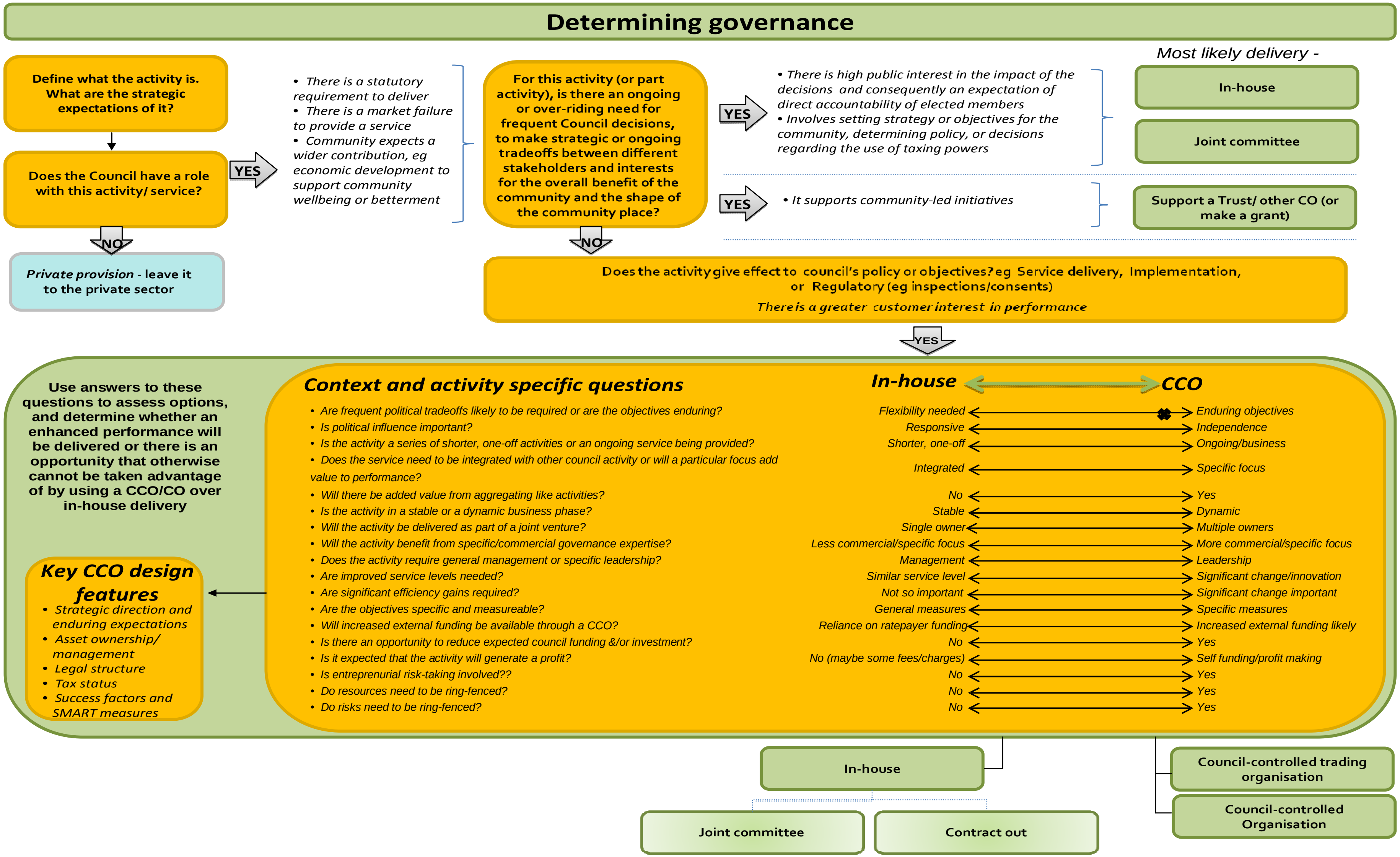
APPENDIX 1

Plimmer Review recommendation	Officers Comment	Implementation steps
Ensure there is a board skills matrix specific to each board and it is reviewed regularly.	The board skills required for each specific board is specifically assessed at each appointment round to identify any skills gap on the board and informs the appointment process.	The importance of having robust assessments of the skills requirement on Boards is noted and will continue to be an area of focus.
Include in the Owners Expectation Guide that the Council has a role in inducting Board members in the Council's expectations, as well as the Chair's obligation to induct the members about the entity.	There is already lot of work done in the area of induction for Councillors and new board members. However, Officers agree greater clarity of responsibilities in this area would be beneficial.	Owners Expectation Guide to be developed and implemented.
Decide whether or not Councillors can be on CCO Boards, two options recommended.	This is covered specifically in the body of the report.	Recommendation in the main report.
Enhance the LOE, making them tools for alignment with the Council and specific to each entity, by articulating the contribution Council expects the CCO to make to the Council's strategic objectives.	Council introduced LOEs to enhance the SOI process and they are now widely recognised as a part of best practice to get alignment to owner's objectives. The LOE is simply a tool to communicate the owners expectations. The processes that determine the expected contribution is the area where enhancement provides gains.	The content and focus for LOEs will be determined through a process of planning and strategic workshops and communications to determine the Council's expected contributions from CCOs as the basis for the next SOI round.
Develop a template for SOI's, to enhance the quality of the information provided to the owner and drive a longer term approach.	The focus of the SOI process has been on raising the quality of the SOI's rather than standardising them. Given the progress made in raising the quality of the SOIs and the other changes contemplated from this review there are merits in now looking at a standard SOI template	A standardised SOI template will be developed and utilised for the 2013/14 SOI process.
Introduce short monthly reports from each CCO to Council, to support the "no surprises" approach and to inform regular meetings between the Council and each CCO.	The "no surprises" approach should not be influenced by the presence or absence of a short monthly report. The purpose of the informal meetings is to get a regular update on material issues if this process is working then monthly reports are not required. Requiring formal monthly reports risks adds an additional reporting requirement and risks blurring accountability between the board and Council.	Review the need for this following the implementation of the enhanced informal meetings and the regularisation of communication channels and respective expectations. This would include the role of the Council appointed board members on CCOs.
For regular quarterly and six-monthly reporting, use a future focused performance and risk approach, and look at ways to streamline reporting requirements.	Currently all CCOs are required to prepare a report (quarterly or six-monthly) to CCOPS. The CCO team prepares a covering report identifying key activities and performance issues. The reports tend to be historic and the CCOPS meeting is updated for any current issues at the time of the meeting.	Reporting requirements will be set out in the Owners Expectation Guide and will be reviewed to ensure they are streamlined and are meeting the requirements of CCOPS and Council.

APPENDIX 1

Plimmer Review recommendation	Officers Comment	Implementation steps
Revise the terms of reference for CCOPS to include responsibility for looking at the collective interest of the Council, in addition to the individual performance of the CCOs.	CCOs exist to deliver on the objectives of Council. If Council requires CCOs to work together for a collective good then this needs to be clearly articulated to the CCOs via the existing processes of LOEs and SOIs then accountabilities can be clearly understood. This already falls within CCOPS terms of reference	Through the planning processes where Council requires CCOs to work together for the collective interest of the Council this will be set out clearly in the LOEs and accountabilities will be clearly defined and articulated through SOIs
Require CCOs to hold an AGM, open to the public.	Officers note that all CCOPS meetings are open to the public and agendas and papers are publicly available in advance of scheduled meetings. At least once per annum each CCO is required to present to CCOPS. The CCOPS meetings are also open for all Councillors to attend.	Officers will work with the CCOs and CCOPS to ensure that at least once each year there is an AGM held in public for each CCO. In addition Officers will work with CCOPS to hold a CCOPS meeting where each CCO presents their annual report.

APPENDIX 2



This report is officer advice only. Refer to minutes of the meeting for decision.