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**REPORT 2**

**DRAFT 2014/15 STATEMENTS OF INTENT FOR COUNCIL  
CONTROLLED ORGANISATIONS**

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**1. Purpose of report**

To provide the Subcommittee with an analysis of the draft 2014/15 Statements of Intent received from Council Controlled Organisations (CCOs) and affiliated entities, in compliance with the Local Government Act 2002 and Council reporting requirements.

**2. Executive summary**

Officers have assessed the draft Statements of Intent for 2014/15 for Wellington Cable Car Limited and Wellington Waterfront Limited. A number of changes are recommended to the Committee. Subject to its approval of these changes, the Committee's views will be communicated to the entities in time for the final Statements of Intent to be presented to the Council at its meeting on 18 June 2014.

**3. Recommendations**

Officers recommend that the Transport and Urban Development Committee:

1. *Receive the information.*
2. *Agree that the Chair will write to each organisation requesting changes for the final 2014/15 Statement of Intent as detailed below:*

*Wellington Cable Car Limited*

- (a) *Outline the Company's plans to action the relevant recommendations from the recent cable car precinct research work, which is likely to include working in partnership with the Council on potential opportunities to improve signage and improve the visitor experience in Cable Car Lane (including the canopy).*
- (b) *Discuss in more detail the recent performance of student passenger figures and plans to try to increase student patronage.*
- (c) *Reflect any update in the passenger target, with discussion of the Company's plans to improve passenger numbers.*
- (d) *Include three years' worth of performance targets.*

## *Wellington Waterfront Limited*

- (a) *Include an update on renewals and maintenance work for Shed 6 in response to issues raised by Positively Wellington Venues.*
  - (b) *Provide an update on the current status of the Frank Kitts Park playground and Waterfront Activities projects.*
  - (c) *Include quarterly phasing for the completion of milestones noted in the performance measurements summary.*
  - (d) *Include a full set of financial statements that are in line with the 2014/15 Waterfront Development Plan.*
3. *Note that the final Statements of Intent will be presented to the Council at its meeting on 18 June 2014.*

## **4. Background**

Under the Local Government Act 2002, CCOs are required to submit a draft Statement of Intent (SOI) to the Council by 1 March in the previous financial year. As a matter of good practice, the Council precedes this with a Letter of Expectation to CCOs, which outlines the Council's expectations in respect of the SOIs it will receive.

The draft SOI process provides both the Council and CCOs with an opportunity to fine-tune respective expectations ahead of submitting a final SOI for Council approval in June.

Draft Statements of Intent have been received from the following organisations:

1. Wellington Cable Car Limited
2. Wellington Waterfront Limited

At its meeting in December 2013, the Council resolved that the existing boards of Wellington Cable Car Ltd and Wellington Waterfront Ltd be disestablished on 1 April 2014 and the management of the organisations brought into the Council. However, because a company structure will remain in place for both entities, there remains a requirement for the entities to provide an annual SOI. In the case of Wellington Waterfront Ltd, the company will continue to deliver on the three-year Waterfront Development Plan as outlined in the Council's Long Term Plan (LTP).

## **5. Discussion**

### **5.1 Wellington Cable Car Limited**

Wellington Cable Car Limited's (WCCL's or the Company's) draft Statement of Intent outlines the planned contributions of the Company to the Council's strategies at a high level, particularly to the Economic Development Strategy and the Accessible Wellington Action Plan.

In relation to the cable car operation, WCCL discusses a number of activities it is planning for 2014/15, including undertaking Qualmark accreditation for the cable car (which WCCL has since achieved), replacing the Lambton Quay passenger gates

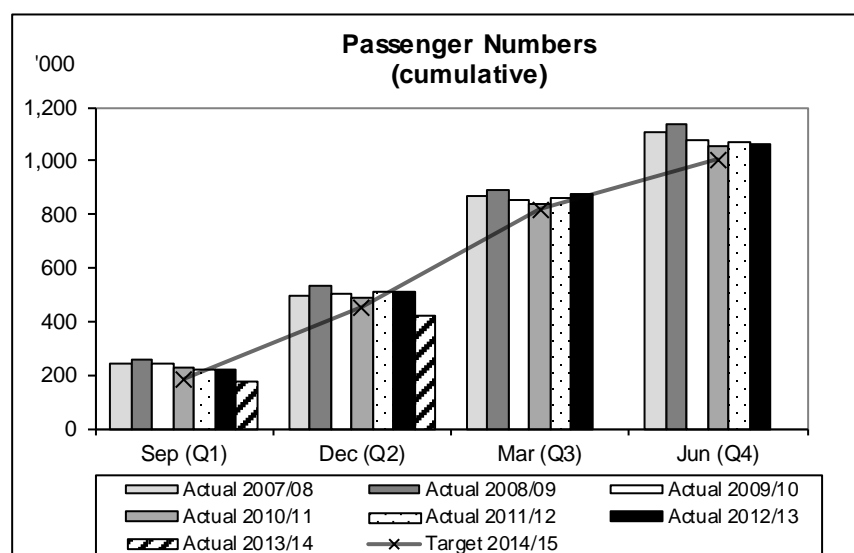
and point-of-sale system, undertaking a strategic marketing review of the cable car, and reviewing and updating the long term cable car asset management plan.

As requested in the Letter of Expectation, officers also ask the Company to outline its plans to action the relevant recommendations from the recent cable car precinct research work. In 2014/15 this is likely to include:

- working in partnership with the Council and PWT on the potential for improved signage and information near the cable car terminals;
- investigating the potential for commentary or announcements in the cable car and at stations; and
- working in partnership with the Council on possible options to solve the issue of the rundown canopy over Cable Car Lane and on the potential for improved signage and aesthetics in and near the lane.

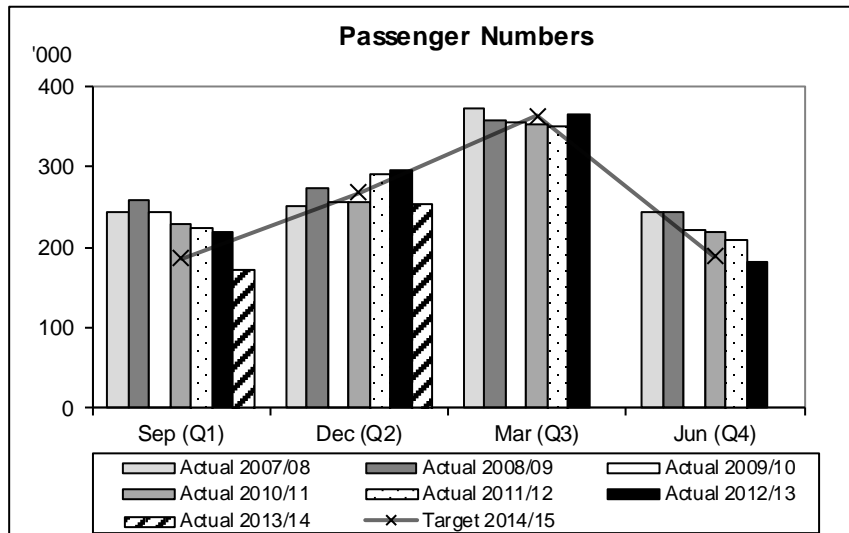
The Company notes that 2013/14 has been a difficult trading year for the cable car for reasons including the re-build of the Kelburn terminal (and associated disruption), the July and August earthquakes, and a reduction in cruise ship numbers relative to 2012/13. WCCL notes that the long term trend for international visitors (particularly cruise ship visitors) is encouraging and it is hopeful that the recent introduction of Snapper on the cable car will assist in increasing student passenger numbers. Officers request that the Company discuss in more detail the recent performance of student passenger figures and plans to try to increase student patronage in the final SOI.

As a result of the above context, the Company has reduced its 2014/15 cable car passenger target by 8.2% to 1,005,847 (from 1,095,200 for 2014/15 in this year's SOI). This represents a 7.2% decrease from the 2013/14 target.



Officers note that the Company is planning to update its passenger and 2013/14 financial forecasts at the time of the third quarter result. This may impact the passenger target included in the final SOI. At face value, the current target appears conservative, particularly in Q1 and Q4 where the passenger forecast is above the most recent results (impacted by the Kelburn terminal upgrade), but below the level

of other years. The current Q1 target is 21% below and the current Q4 target is 12% below the previous five-year average (excluding the most recent twelve months). The passenger target in the final SOI should reflect the updated forecasts of WCCL at that time, with discussion of the Company's plans to improve passenger numbers.



As requested in the Letter of Expectation, the Company has confirmed it will continue to provide supporting information and expertise to assist Greater Wellington Regional Council (GWRC) with its review of the Regional Public Transport Plan in relation to the trolley bus overhead network. WCCL provides infrastructure services relating to the trolley bus overhead network under contract to GWRC until June 2017.

In relation to the trolley bus overhead network, WCCL notes that GWRC and NZ Bus have informed it that bus routes 5 and 9 (Aro Valley and Hataitai) will be operated by diesel buses from 2014/15, leading to the deletion of 88 scheduled trolley bus services per working day. The Company also notes that GWRC continues to place an emphasis on passenger safety in funding the replacement of degraded sections of the network and in supporting the technical development work on the trolley bus overhead protection system.

As requested by the Council, the Company also confirmed that it is committed to undertaking an assessment of the impact of implementing the Living Wage initiative.

The draft SOI notes that the Company had an independent review of its health and safety policy, practices and procedures undertaken in 2013 by Purple Consulting. The separate health and safety plans of each division have now been merged with a single point of contact established for overall responsibility and leading and implementing working practices across the company.

Noting the earlier discussion on passenger targets, the KPIs proposed by the Company are similar to prior years and officers are generally comfortable that they are relevant and appropriate in judging its performance. WCCL has removed KPIs on recycling and participation in the GWRC review of trolley buses. It has added KPIs on:

- The review of the asset management plan for the cable car will be undertaken to feed into the WCC Long Term Plan process. This review will take into account changes in preventative maintenance procedures.
- Maintaining sufficient financial reserves to permit funding of required capital works.

The final SOI should include three years' worth of performance targets, as per the LGA.

The draft SOI includes an updated dividend policy for the Company. The reference to 60% of NPAT has been removed and replaced with "the company will pay the shareholder a dividend... subject to the Directors discharging their statutory duty in making that decision each year." The policy continues to acknowledge the Council's Long Term Plan forecasts and notes that WCCL is "endeavouring to" provide a return commensurate with this. Officers are comfortable with the updated wording of the policy and recognise the current change in the board structure.

Officers thank the Company for providing its draft business plan much earlier than prior years, which has allowed for the financial forecasts to be commented on in this report. Some points to note:

- An updated forecast for 2013/14 will be included as part of the Company's Q3 reporting.
- The average cable car fare per passenger is forecast to increase; this reflects passenger mix rather than a forecast fare increase.
- For 2014/15 the Company is forecasting cable car fare income of \$2.3m, a surplus before tax of \$259k and a net surplus after tax of \$166k.
- These figures are lower than the 2014/15 estimates from last year's business plan, which had fare income of \$2.4m, a surplus before tax of \$411k and a net surplus after tax of \$282k.
- The decline in the 2014/15 surplus before tax (relative to last year's budget) reflects lower forecast cable car fare income, lower external activities income, and higher cable car operations and maintenance costs, partially offset by lower administration costs and subvention payment.
- As a result, the forecast dividends as per the business plan are \$50k in 2014/15 (reflecting the 2013/14 result), \$99k in 2015/16, and \$135k in 2016/17.
- Capex is currently forecast at \$378k in 2014/15, \$366k in 2015/16 and \$1.8m in 2016/17. This reflects forecast spend on new cable car gates and a POS system in 2014/15 and on the drive systems in 2015/16 and 2016/17 to ensure the cars can be loaded to their maximum capacity.
- The Company's cash balance is forecast to be \$300k by June 2015.

## **Summary Recommendations**

The final 2014/15 SOI should:

- Outline the Company's plans to action the relevant recommendations from the recent cable car precinct research work, which is likely to include working in

partnership with the Council on potential opportunities to improve signage and improve the visitor experience in Cable Car Lane (including the canopy).

- Discuss in more detail the recent performance of student passenger figures and plans to try to increase student patronage.
- Reflect any update in the passenger target, with discussion of the Company's plans to improve passenger numbers.
- Include three years' worth of performance targets.

## **5.2 Wellington Waterfront Limited**

Wellington Waterfront Limited (Waterfront or the Company) has delivered a draft Statement of Intent that outlines their business objectives and strategies for 2014/15 that reflects the programme of work outlined in the Waterfront Development Plan. The SOI addresses the key points raised in the Letter of Expectation (LoE), and is in line with the requirements of the LGA.

The WWL 2014/15 SOI begins by stating that the Council is bringing the activities of WWL in-house from 1 April 2014, noting that the company will still be required to deliver on the 3-year Waterfront Development Plan (WDP). As such, the WWL 2014/15 SOI sets out the work programme for the coming year.

The KPIs presented in the SOI are in line with the Waterfront Development plan and address succinctly the specific requests of the Letter of Expectation.

With respect to the aims outlined in the Waterfront Framework, the Economic Development Strategy, the Events Policy and the Accessible Wellington Action Plan, the WWL SOI gives a brief summary of the company's economic operating environment, attention to social factors on the Waterfront (binge-drinking, health and safety issues and fitness), the regulatory environment, and environmental issues.

In terms of the work programme, the SOI briefly covers the completion in 2014/15 of public space around Clyde Quay wharf and the redeveloped Overseas Passenger Terminal, noting an intention to continue looking at the feasibility of developing the Transition Site next to Te Papa. The advancement of work on Site 10 and North Kumutoto is also discussed briefly, with the expectation outlined for progress on this project in 2014/15. WWL will also continue working to deliver a long-term solution for Shed 1.

Officers note, however, that there is no reference to upgrading Shed 6 as part of renewals work in light of recent discussions with Positively Wellington Venues, and recommend that an update on this matter is referenced in the final SOI with details about the levels of work anticipated. Moreover, the final SOI should provide an update on the current status of the FKP playground and Waterfront Activities projects. Finally, the SOI should also include quarterly phasing for the completion of milestones noted in the performance measurements summary.

As a result of ongoing programme review ahead of the transition back to Council, WWL is finalising its draft financial forecasts for 2014/15 through to 2016/17 to

ensure that capex revenue and expenditure forecasts are in line with the Waterfront Development Plan.

### **Summary Recommendations**

The final 2014/15 SOI should:

- Include an update on renewals and maintenance work for Shed 6 in response to issues raised by Positively Wellington Venues.
- Provide an update on the current status of the FKP playground and Waterfront Activities projects.
- Include quarterly phasing for the completion of milestones noted in the performance measurements summary.
- Include a full set of financial statements that are in line with the 2014/15 Waterfront Development Plan.

#### **5.3 Consultation and Engagement**

The organisations in this report consult with the Council on a wide range of matters as part of our “no surprises” relationship.

#### **5.4 Financial and Long Term Plan considerations**

The CCOs work within the context of the Council’s overall Long Term Plan and Annual Plan framework. In accordance with the Wellington Waterfront Framework (2001), WWL is required to deliver a three-year Waterfront Development Plan that is included in the Long Term Plan.

#### **5.5 Climate change impacts and considerations**

The CCOs work with the Council and other organisations in considering the environmental sustainability of their operations, including with the Council’s Our Living City programme.

### **6. Conclusion**

Officers have assessed the draft Statements of Intent for 2014/15 for Wellington Cable Car Ltd and Wellington Waterfront Ltd. A number of changes are recommended to the Committee. Subject to its approval of these changes, the Committee’s views will be communicated to the entities in time for the final Statements of Intent to be presented to the Council at its meeting on 18 June 2014.

Contact Officers: *Richard Hardie, Portfolio Manager, CCOs and Maree Henwood, Portfolio Manager, CCOs*

## SUPPORTING INFORMATION

### 1) Strategic fit / Strategic outcome

*These entities and projects support the achievement of a range of outcomes across most strategic areas. CCOs are required to state in their Statements of Intent how they contribute to Council's strategic goals.*

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

*Please refer to the individual comments on each entity.*

### 3) Treaty of Waitangi considerations

*This report raises no new treaty considerations. Where appropriate the entities do consult with the Council's Treaty Relations unit, and with the Tenth Trust, as part of normal operations.*

### 4) Decision-making

*This is not a significant decision.*

### 5) Consultation

#### a) General consultation

*Officers outside the CCO team are consulted as relevant and a copy of each entity report will be circulated to the individual entity.*

#### b) Consultation with Maori

*See section 3 above.*

### 6) Legal implications

*The Council's lawyers have been consulted during the year as part of normal operations. There are no new legal issues raised in this report.*

*A Statement of Intent is a legal requirement for a CCO under the Local Government Act 2002.*

### 7) Consistency with existing policy

*This report is consistent with existing WCC policy.*