REPORT 3
(1215/52/02/IM)

DRAFT STATEMENTS OF INTENT FOR COUNCIL CONTROLLED ORGANISATIONS FOR THE YEAR 2009/10

1. Purpose of Report

To provide the Subcommittee with an analysis of the draft 2009/10 Statements of Intent received from Council Controlled Organisations (CCOs), in compliance with Local Government Act 2002 and Council reporting requirements.

2. Recommendations

It is recommended that the Subcommittee:

1. *Receive the information.*

2. *Recommend that the Strategy and Policy Committee (SPC) notes that*

   a) *the Chair will write to each organisation, on the basis of the officer assessment provided in this cover report and as detailed below, requesting changes for final 2009/10 Statements of Intent for presentation to this Subcommittee at its meeting of 19 June 2009*

Basin Reserve Trust

- *officers received the Basin's SOI five weeks after the statutory deadline and consequently have not had time to prepare an analysis*

Capacity

- *demonstrate organisational health and capability to deliver Capacity's obligations under the new Service Level Agreement.*
- *provide significantly more detail of the risks that Capacity faces, their probability and impact, and the mitigation measures that they have in place to address them in relation to, for example, the Upper Hutt contract and the delivery of Asset Management Plans.*

- *provide assurance that Capacity's financial reporting will be both timely and accurate, and that they have the necessary resources and processes in place to deliver this*
- *more explanation of how the Company intends to provide a return on investment to its shareholders*
- *more explanation of the costs and benefits of the proposed in-house engineering design team, and the expansion of the project supervision team to manage the Council's capital works programme*
- *clearly state the quantum of revised annual savings targets from 1 July 2009 onwards and formalise it as a Key Performance Indicators*
- *articulate the costs, benefits and methodology of promoting conservation benefits to ratepayers*
- *provide greater clarity over Capacity's business objectives, including effectiveness and efficiency in managing the water assets, and proactive community engagement as ways of achieving these objectives*
- *provide more context when reporting any savings or reductions in unbudgeted over-expenditure by referencing them to agreed targets and Key Performance Indicators*

Positively Wellington Tourism

- *demonstrate how the Trust will achieve its objectives with its current funding by budgeting for a break-even position, consistent with Council policy*
- *provide information on how the Trust will achieve an increase of 5% in visitor expenditure given the current economic climate*
- *provide more information about the e-marketing and online sales discrepancy in planned and delivered Key Performance Indicators*
- *define Key Performance Indicators in relation to the Karori Wildlife Sanctuary Trust and the Carter Observatory, and outline the assumptions underpinning them*
- *undertake to explore a more direct marketing relationship with both Karori Wildlife Sanctuary Trust and Carter*

St James Theatre Trust

- *detail the operating measures in place to manage the Trust's tight cash flow during the current downturn*
- *remove the clause stating that "the Settlor has committed itself to underwriting major capital risks" and replace it with more appropriate wording*
- *include forecast financial statements for 2009/10 to 2011/12 and Key Performance Indicators that measure performance against stated objectives*

Wellington Cable Car Limited

- *set out the Company's plans for effecting a legislative change to enable charging of existing utility users of the network, i.e., time frame and costs*
- *include relevant and measurable Key Performance Indicators that measure the Company's efficiency and effectiveness*
- *provide details of the Risk and Vulnerability schedule*
- *consider the implications of the funding agreement with Greater Wellington Regional Council and incorporate this into the Statement of Intent*
- *indicate how the Company will effect board evaluation and development*

Wellington Museums Trust

- *demonstrate how the Trust will achieve its objectives and its new strategy within its draft Long Term Council Community Plan funding, and outline how and when the Trust will achieve a breakeven position*
- *acknowledge that there will be no more increases in the Council operational grant before the end of the 2011/12 year*
- *include additional Key Performance Indicators to reflect the increases in operational funding*

Wellington Waterfront Limited

- *include more quantitative Key Performance Indicators to drive performance and accountability*
- *reflect the re-focusing of the company's resources towards gaining consents for the approved projects. It is acknowledged that it may not be possible to obtain all the necessary consents and that there will be project implementation work during the period. It is important, however, that the Statement of Intent reflects the commitment to prepare for improved economic conditions by obtaining the necessary consents in advance. The Statement of Intent could reflect this intention and some form of appropriate measurements*
- *provide more detailed information on the assessment, probability, impact and mitigation of risk*
- *acknowledge the review that will take place regarding the transfer of implementation functions to the Council and the currently agreed date of July 2010. The Statement of Intent should provide an explanation of how the company intends to prepare for the review and the transfer of responsibilities.*

Wellington Zoo Trust

- *detail how the Trust will ensure that at the end of the Zoo Capital Plan, the Zoo's appearance is not 'half-finished'*
- *include a revision of the targeted working capital reserve to a more realistic level*
- *plan to reduce the dollar amount of its Council operating grant, and target the year that this will happen*
- *explain the rationale behind the increased total personnel costs*

Wellington Regional Stadium Trust

- *officers received the Stadium's Statement of Intent the day before the signing-off deadline for this report and consequently have not had time to prepare an analysis*

Karori Wildlife Sanctuary Trust

- *include the implementation of the governance and project management review recommendations, as approved by Council at its meeting of 16 April 2009*
- *include a review and update (as appropriate) of the risk management register*
- *include an update of the Trust's alignment to Council's vision and outcomes in the draft 2009/10 Long Term Council Community Plan*
- *agree to prepare an Asset Management Plan.*
- *commit to the implementation of a board development program*
- *undertake to work closely with Positively Wellington Tourism in the marketing of the Visitor Centre*

b) Final Statements of Intent will be presented to Council for approval at its meeting of 24 June 2009.

3. Background

The requirements for Statements of Intent (SOIs) are prescribed in the Local Government Act 2002. The requirements in the Act are modelled on those for SOEs under the State Owned Enterprises Act.

Under the Local Government Act 2002, CCOs are required to submit a draft 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 owner approval (Council) in June each year.

4. Entities covered by this report

4.1 Council Controlled Organisations

A draft Statement of Intent was received from the following organisations:

Basin Reserve Trust
Capacity
Positively Wellington Tourism
St James Theatre Charitable Trust
Wellington Cable Car Ltd
Wellington Museums Trust
Wellington Waterfront Ltd
Wellington Zoo Trust
Karori Wildlife Sanctuary Trust

4.2 Wellington Regional Stadium Trust

A Court of Appeal ruling clarified the Trust's status and confirmed that it is not a CCO. The Trust has undertaken to provide an SOI because of the materiality of the Council's financial commitment to the Trust and the Trust's contribution to Council outcomes.

4.3 Council Organisations

The Karori Wildlife Sanctuary Trust is now included in the Council Controlled Organisations Performance Subcommittee (CCOPS) quarterly reporting regime (all COs also provide an annual report to the Council) and by virtue of Council's $9.9 million non-recourse loan to them is now required to provide an SOI.

5. Discussion

5.1 Basin Reserve Trust

Officers did not receive the Trust's draft SOI until 6 April 2009, some five weeks after the statutory deadline and consequently have not had time to prepare an analysis.

5.2 Capacity

Capacity's 2009/10 draft Statement of Intent (SOI) provides minimal detail of their planned operations, needs to be more specific in the area of KPIs and gives insufficient financial information for officers to assess their performance.

2009/10 is a particularly important year in that it will represent the first year of the new Service Level Agreement (SLA). Officers from the Infrastructure and CCO teams have been working together to ensure that all the necessary strategic and operational goals and associated performance measures are in place to drive Capacity's performance and to ensure accountability. Thereafter Council and Capacity will work together to review and reconstitute the SLA and all terms and conditions within it.

Consequently the SOI should provide assurance to Council that Capacity's current organisational health and capability is at the appropriate level to meet Council's expectations before the SLA is agreed and signed by Council.

With the Council and Capacity having agreed a position on the Savings Model, the SOI should state that Capacity and the Council will work together to conclude the related report for the period of July 2004 – June 2009, and also to establish revised financial performance targets for 1 July 2009 onwards.

The Company has furthered its regionalisation goals, initially through the provision of water services to Upper Hutt City Council through a two year contract. The SOI should clearly outline the nature of any risks to Council, especially the cost risk given that the contract has a fixed fee. Further to this, from the minimal financial information that has been made available, it can be seen that Capacity are budgeting to break even in 2009/10. Officers would anticipate that the UHCC contract should include some margin, and not be cost neutral as appears to be the case.

The Council's Letter of Expectations to Capacity requested that the Company clearly outline processes it has in place to ensure that monthly and quarterly reports to Council are both accurate and sufficiently informative to enable readers to have a clear understanding of the Company's operations. This appears to have been overlooked in the draft SOI, offering little in the way of assurance to officers. The CCO team will continue their discussions with the Audit and Risk team to consider appropriate measures to address this ongoing risk.

Further to this, the Company has not provided any analysis of the risks that it faces in its operations, or the mitigation processes it has in place to address them. For example, with regard to the Upper Hutt contract mentioned previously, it is unclear who will pick up the costs of the Upper Hutt employees if Capacity and Upper Hutt are unable to agree a new contract or an equity position. Another example is the risk associated with Capacity not completing the Asset Management Plans in a timely fashion, resulting in the Council making sub-optimal decisions over its capital expenditure. The Council's Audit and Risk team are reporting back to the Council's Audit and Risk Subcommittee on the results and subsequent follow up of the operational audit of Capacity that they undertook in 2008. This report may provide some assurance to Council over the Company's approach to risk.

In its SOI, the Company states that shareholders will benefit from a return on their investment as a result of Capacity's business expansion – this return on investment needs to be defined. Is this cost reduction through spreading costs over a broader base and if so, how do Capacity intend to measure it?

The SOI should also detail the costs and benefits of the proposed in-house engineering design team, and the expansion of the project supervision team to manage the Council's capital works programme.

Given that the Infrastructure Directorate is a customer of Capacity, the Director, Infrastructure was asked to comment on the Capacity SOI, and the feedback is given below:

Page 2 - "Capacity has revised savings targets from 1 July 2009 onwards"

Capacity and Wellington City Council (WCC) have not as yet concluded this item. WCC and Capacity have agreed in the interest of pragmatism to adopt model of inputs demonstrating about $2.0 million of savings. WCC has agreed to a level of management fee funding for 09/10 which is included in the budgets of the LTCCP and Capacity must ensure that they operate within these budgets as no further funding will be available. In addition, it was verbally agreed that Capacity will formally advise WCC what the annual target savings will be from 1 July 09 onwards. In the first instance these are set at around $432k pa and increasing as efficiency gains from the NOVO report are made. This target needs to be articulated as a KPI.

Page 3 - ".....focussing even more strongly on promoting the benefits of water conservation all residents and ratepayers"

Capacity will need to articulate objectives, funding required and how this promotion is going to be achieved.

Page 3 - under "Our Business Objectives"

Capacity need to incorporate in bullet point one that effectiveness and efficiency in managing the water assets is another key point. Capacity need to clarify what "successful business" means.

Page 3 last para - "In order to meet these objectives we focus our work on planning, consultation, managing, monitoring, delivery and governance"

Capacity needs to significantly improve its performance in respect to community engagement. Officers recommend that Capacity should outline measures and techniques for achieving this engagement.

Page 5 - para 4 "...as at 30 June 2008 process improvements had realised savings to shareholders in excess of $400k".
Officers acknowledge that some savings have been made but they are significantly lower than originally anticipated however focus is now being given to generating savings in the future.

<u>Summary Recommendations</u>

The final 2009/10 SOI should

- demonstrate organisational health and capability to deliver Capacity's obligations under the new SLA
- provide significantly more detail of the risks that Capacity faces, their probability and impact, and the mitigation measures that they have in place to address them in relation to, for example, the Upper Hutt contract and the delivery of AMPs
- provide assurance that Capacity's financial reporting will be both timely and accurate, and that they have the necessary resources and processes in place to deliver it
- more explanation of how the Company intends to provide a return on investment to its shareholders
- more explanation of the costs and benefits of the proposed in-house engineering design team, and the expansion of the project supervision team to manage the Council's capital works programme
- clearly state the quantum of revised annual savings targets from 1 July 2009 onwards and formalise it as a KPI
- articulate the costs, benefits and methodology of promoting conservation benefits to ratepayers
- provide greater clarity over Capacity's business objectives, including effectiveness and efficiency in managing the water assets, and proactive community engagement as ways of achieving these objectives
- provide more context when reporting any savings or reductions in unbudgeted over-expenditure by referencing them to agreed targets and KPIs

5.3 Positively Wellington Tourism

The Positively Wellington Tourism (PWT) Statement of Intent (SOI) is based on increased funding of approximately $1.7 million a year, from $4.74m in 2008/09 to $6.45m in 2009/10, to ensure that Wellington's share of the critical Australian market is not eroded through the significantly increased investment of other major New Zealand tourist centres in this area. This would be on the basis of matching Council funding with Central Government funding recently announced to support tourism during the economic downturn.

Whilst there is uncertainty over Council's approval of the requested increase in funding being, the final SOI needs to demonstrate how the Trust will achieve its objectives with its available funding while at the same time not budgeting for or achieving an operating deficit.

The requested increase in funding from PWT relates entirely to marketing initiatives in the Australian market though it should be noted that this does not result in an increase in the KPI target for this marketing area. Officers accept that the key markets for tourism during the recession will be the domestic and Australian markets however PWT needs to re-allocate its existing resources to achieve increased levels of spend in these two key areas. Whilst accepting the need to grow and develop revenue streams, and not rely too much on one or two areas, in the current economic climate where discretionary spend is reduced it might be more appropriate to focus on the proven domestic and Australian markets.

In 2008/09, PWT received an increase in baseline funding of around $420k for Online and IT initiatives to increase visitors to the WellingtonNZ.com website and to increase online sales. PWT have now reviewed their performance target in this area significantly downwards, saying that the "previous KPI was unrealistic". Officers accept this, but will continue to monitor the revised targets.

PWT have stated that their goal is "to outperform forecasted visitor expenditure growth in New Zealand by 5% each year". Given that typically PWT's forecasts seek to maintain visitor numbers at the previous year's levels, or increase it by 2-3%, officers need to better understand how this might lead to an increase of over 5% in expenditure.

PWT has a critical role to play in pro-actively lobbying for and marketing Council projects such as the Karori Wildlife Sanctuary Trust (KWST) and the Carter Observatory. Officers consider that there may be a case for a more formal contractual arrangement under which this could happen, or even for the marketing function to be effectively taken on by PWT. This would enable PWT to bring their marketing excellence to bear and there would also be very real KPIs by which their effectiveness could be measured however there would likely be a request for increased funding. Officers would like both PWT and KWST to undertake to explore this idea, and for this to be reflected in their final SOIs.

The SOI is comprehensive in addressing the risks that the Trust, and ultimately Council face, a lot of which appear to have direct consequences for the level of Council funding.

Summary Recommendations

The final 2009/10 SOI should

- demonstrate how the Trust will achieve its objectives with its current funding by budgeting for a break-even position
- provide information on how the Trust will achieve an increase of 5% in visitor expenditure given the current economic climate

- provide more information about the e-marketing and online sales discrepancy in planned and delivered KPIs
- define KPIs in relation to KWST and the Carter Observatory
- undertake to explore a more direct marketing relationship with both KWST and Carter

- *demonstrate how the Trust will achieve its objectives with its current funding by budgeting for a break-even position, consistent with Council policy*
- *provide information on how the Trust will achieve an increase of 5% in visitor expenditure given the current economic climate*
- *provide more information about the e-marketing and online sales discrepancy in planned and delivered KPIs*
- *define KPIs in relation to the KWST and the Carter Observatory, and outline the assumptions underpinning them*

5.4 St James Theatre Trust

The St James Theatre Trust Statement of Intent (SOI) outlines the Trust's high level strategies and responds to the specific issues highlighted by the Council in its Letter of Expectation.

The Trust acknowledges the difficult financial circumstances in which it finds itself, and regularly updates officers on their cash position which it has been able to keep positive since going briefly overdrawn in January. However, the SOI itself does not detail what operating measures have been and will be undertaken in order to successfully manage the Trust's cash through the 2009/10 year and officers consider that this information could usefully be included in their Final SOI.

As a further consequence of these financial difficulties the Trust has indicated that it is not in a position to fund Own Shows which it has traditionally used to fill gaps in the calendar and this could significantly increase the number of dark days at the two venues. Consequently the Chair of the Trust has approached the Council with a request for $200,000 from Council's Event Fund; greater certainty over discretionary funding will increase the ability of the Trust to work on joint ventures and possibly buy Own Shows.

The Trust notes that one of the risks that it faces is the cost of maintaining heritage, single use buildings. By way of mitigation, the Trust states that "the Settlor has committed itself to underwriting major capital risks". Officers consider that this is an overstatement of the position adopted by CCOPS through its resolution of 28 October 2008 which stated that

"the St James Theatre Charitable Trust should continue to develop an Asset Management Plan and that the Trust should approach the Council annually for any major programmed maintenance in the following year that it is unable to fund itself."

Officers will continue to work with the Trust to develop a strategy for addressing the long term capital renewals provided that they are based on an appropriate and robust Asset Management Plan. Without removing the onus from the Trust to address its capital renewal requirements, officers will ensure that any future Council liabilities in relation to this are reflected in the Council's long term financial planning. Officers will report back to the Subcommittee on this matter at its June meeting.

One of the key components of the SOI is the 3-year financial forecast, enabling the Council to assess the financial performance of the Trust. Given the volatile nature of the sector in which they operate, the Trust traditionally undertakes its annual business planning as close to the beginning of the financial year as possible to enable greater accuracy over its forecasting. The 3-year financial forecasts will be presented to Council before the end of May; this will also allow the Trust to further develop its KPIs to measure its success in achieving its objectives, to be incorporated in its final SOI for June.

Officers note that the Trust undertook a general board evaluation in 2007 and is planning a separate Chair and individual evaluation planned for 2009. Officers consider this to be consistent with good board practice.

<u>Summary Recommendations</u>

The final 2009/10 SOI should

- detail the operating measures in place to manage the Trust's tight cash flow during the current downturn
- remove the clause stating that "the Settlor has committed itself to underwriting major capital risks" and replace it with more appropriate wording
- include forecast financial statements for 2009/10 to 2011/12 and KPIs that measure performance against stated objectives

5.5 Wellington Cable Car Limited

The Wellington Cable Car Limited (WCCL) draft Statement of Intent (SOI) outlines at a high level the key issues that the Company will address during the 2009/10 year.

Due to the renewed commitment to maintain the overhead network it has been necessary for the network to be revalued after previously written down to zero to facilitate its sale. The valuation methodology used for this by the Company was optimised depreciated replacement cost whereas officers were of the opinion that a revenue based valuation should be used. This obviously has implications for the resultant asset valuation, and hence any returns on assets that Council might expect from its investment. Officers will continue to work with the Company to ensure an appropriate methodology.

The Company finds itself in an uncertain position due to the lack of agreement with Greater Wellington Regional Council (GWRC) over network maintenance funding, especially given the huge increase in funding requirements over previous years. Officers will continue to work with the Company and GWRC to ensure that GWRC delivers an appropriate level of overhead network maintenance, and a commensurate level of funding.

WCCL has sought to capitalise on a revenue opportunity created through additional use of the existing overhead network by telecommunications and utility companies. However there are legal issues that need to be dealt with that seem likely to be both time-consuming and costly.

The Company has made the following assertions over the efficiency and effectiveness of its operations during the 09/10 year:

1. The company will manage the operation of the cable car within the timetable to maximise the throughput of passengers without detracting from the overall experience of visitors to the facility
2. The company will manage the cable car assets through its Asset Management Plan anticipating potential obsolescence and failure modes with the objective of having zero breakdowns
3. The company will train staff to ensure that breakdowns due to operator error are minimised
4. The company will manage the maintenance of the trolley bus system through its asset management plan with the objective of minimising breakdowns and facilitating an effective trolley bus service as required by the GWRC and the trolley bus operator

Officers consider that wherever feasible, these assertions should be formalised into KPIs with quantitative targets as there is currently little or nothing in the way of performance measures to assess the efficiency and effectiveness of the Company's operations.

Further to the above, the Company has not included any organisational health measures in its KPIs, such as Staff Turnover, completion of Personal Development Plans or Engagement levels. Officers consider that this is an area which might be usefully addressed in their final SOI.

The Company refers to its 'Risk and Vulnerability' schedule in the SOI, the tool for assessing and managing its risk. However, as in previous years, no details of the schedule have been given, making it difficult for officers to fully understand the nature of the risks that the company is exposed to or the processes being used to manage them.

The Company has not indicated how it will effect Director and Chair performance reviews or what, if any, board development programs it has in place.

Summary Recommendations

The final 2009/10 SOI should

- set out the Company's plans for effecting a legislative change to enable charging of existing utility users of the network, i.e., time frame and costs
- include relevant and measurable KPIs that measure the Company's efficiency and effectiveness
- provide details of the Risk and Vulnerability schedule
- consider the implications of the funding agreement with GWRC and incorporate into the SOI, for example, are there different reporting requirements, will it change the current operations of the company and are there KPIs within that agreement that need to be reflected in the SOI, etc.?
- indicate how the Company will effect board evaluation and development

- *set out the Company's plans for effecting a legislative change to enable charging of existing utility users of the network, i.e., time frame and costs*
- *include relevant and measurable KPIs that measure the Company's efficiency and effectiveness*
- *provide details of the Risk and Vulnerability schedule*
- *consider the implications of the funding agreement with GWRC and incorporate into this into the SOI*

5.6 Wellington Museums Trust

The Wellington Museums Trust (WMT) has provided a comprehensive and detailed draft Statement of Intent (SOI) focussing on the implementation of their new organisational strategy which aims to build the Trust's professional capacity at a strategic level. The Trust has requested additional funding from the Council and this investment would enable the Trust to improve revenue generation, principally through commercial activities such as venue hire and retail, but also through value-added visitor experience products, admissions and fundraising. In addition, the Trust's ability to generate non-Council revenue will, in the medium to long-term restore its ability to operate more independently.

The SOI was delivered after the statutory deadline, in agreement with officers, to allow the Trust to reflect the outcome of their funding request, which had been clearly signalled in the 2008/09 SOI by the incoming Chief Executive.

The Trust requested an increase in baseline funding of $1.2 million plus an annual inflation adjustment, however this amount was subsequently revised downwards with an annual increase of $350k for 2009/10, $400k in 2010/11 and $450k in 2011/12, bringing baseline funding increases to $1.2 million by 2011/12. This represents the total funding increase that SPC was prepared to provide to the Trust for the next three financial years. The Trust should ensure that their final SOI includes KPIs that have been agreed with officers, and that reflect the objectives to be achieved through the additional funding.

However, in spite of the budgeted increase in grant funding, the Trust has still budgeted to achieve an operating deficit of $358k in 2009/10 (4%) as well as deficits in the subsequent two years. Whilst budgeting for a deficit is contrary to Council policy, officers recognise that the Trust needs to build its organisational capability in order to achieve its objectives, and advise that the Trust be permitted to achieve deficits no greater than those currently budgeted. This is on the understanding that in the 2012/13 year they will at least break even which is consistent with the decision made by Council through the LTCCP deliberations.

It is important to note that SPC acknowledged that the Trust would have to carry an operating deficit for a period of time given that the actual funding included in the draft LTCCP is significantly less than they requested. The Council needs to be comfortable with regard to when the Trust expects to generate an operating surplus as there is a concern that the Trust is not paring back its growth strategies commensurately given the reduction in their anticipated grant funding.

Officers acknowledge the Trust's comments with regard to inflationary increases, particularly in relation to personnel costs. This has been commented upon by other CCOs and officers have undertaken to provide a paper to Council, recommending an appropriate mechanism to address this issue. However, SPC was very clear that for the Trust, the $1.2 million increases in funding up to 2011/12 includes increases to allow the Trust to respond to inflationary pressures.

The Trust has outlined some of the risks that it faces, and the measures it has in place to address them. Officers note that a number of their identified risks are mitigated by approaching Council to negotiate additional funding. Also, the Trust's reliance on external reviews to mitigate against legal and financial risk needs to be considered further. Officers consider that it is not sufficient to rely on an annual external audit to protect against, for example, fraudulent behaviour and it may be that here, and in other areas, Council's Risk Assurance team can add value to the Trust's financial and operating systems and processes.

Summary Recommendations

The final 2009/10 SOI should

- demonstrate how the Trust will achieve its objectives and its new strategy within its draft LTCCP funding, and outline how and when the Trust will achieve a breakeven position
- acknowledge that there will be no more increases in the Council operational grant before the end of the 2011/12 year
- include additional KPIs to reflect the increases in operational funding

5.7 Wellington Waterfront Limited

Wellington Waterfront Limited (WWL) has delivered its draft 2009/10 Statement of Intent (SOI) to Council, focussing on the specific requirements to obtain resource consent for the remainder of the proposed waterfront developments prior to the transition of implementation and operational activities to the Council, currently scheduled for 1 July 2010.

The letter of Expectation, sent to WWL in early February referred to the need for WWL to focus on obtaining resource consents for the remainder of the proposed waterfront developments over the 2008/09 and 2009/10 financial years. In contrast, WWL's comments in their SOI (notably their KPIs) are more conservative, targeting the application for, rather than the receipt of resource consent as a likely outcome. One need only look at the Hilton and OPT to understand the difference in timescales these two scenarios reflects. Council and WWL need to agree realistic KPIs that drive performance and assign accountability appropriately.

As part of the transition of waterfront operations, the Company has prepared a comprehensive Asset Management Plan (AMP). The Company should forward this to Council as soon as possible so that it can incorporate the 10 year financial forecasts contained within it into the Long term Council Community Plan (LTCCP).

The draft SOI refers to a number of key risk areas that WWL needs to manage in the course of its operations. However, the Company's risk matrix, where these risks are detailed, and their probability and impact are assessed, along with appropriate mitigation strategies has not been included in the SOI.

<u>Summary Recommendations</u>

The final 2009/10 SOI should

- include more quantitative KPIs to drive performance and accountability
- reflect the re-focusing of the company's resources towards gaining consents for the approved projects. It is acknowledged that it may not be possible to obtain all the necessary consents and that there will be project implementation work during the period. It is important, however, that the SOI reflects the commitment to prepare for improved economic conditions by obtaining the necessary consents in advance. The SOI could reflect this intention and some form of appropriate measurements
- provide more detailed information on the assessment, probability, impact and mitigation of risk
- acknowledge the review that will take place regarding the transfer of implementation functions to the Council and the currently agreed date of July 2010. The SOI should provide an explanation of how the

company intends to prepare for the review and the transfer of responsibilities.

The Company should forward the AMP to Council as soon as possible to enable high level budgets to be built into the 2009/10 LTCCP

5.8 Wellington Zoo Trust

The Wellington Zoo Trust draft 2009/10 Statement of Intent (SOI) shows in detail what the Zoo plans to do in the year, how this will align with and enhance Council's desired outcomes, and also responds to the specific issues raised in the Council's Letter of Expectation (LoE).

The Zoo continues to make good progress with the Zoo Capital Plan (ZCP), the 10 year capital development programme for which Council is providing $15.6 million, contingent on the Zoo raising $5 million in external sponsorship. The Zoo has had to amend the ZCP to reflect changing circumstances, such as its ARAZPA obligations and also the market-driven increases of some projects, notably the hospital, against its original budgets. However officers are satisfied that the Zoo project management protocols continue to be robust and effective, and that Council standards are being adhered to. The Council continues to enjoy strong lines of communication at all levels within the Zoo, which serve to reinforce the project processes and help facilitate an excellent working relationship, which is clearly beneficial to both organisations.

There is no doubt that the major new exhibits are of an excellent quality, some receiving awards, and whilst the Zoo is also undertaking a number of smaller projects, it is important to ensure that the Zoo's appearance at the end of the ZCP is uniform and comprehensive, and leaves the Zoo looking as complete as possible.

This concern is exacerbated by the current global recession which is likely to severely impede the Zoo's excellent sponsorship funding achieved to date. In the event of the Zoo being unable to meet its targeted sponsorship, the Council would need to consider its commitment carefully to ensure that its investment is maximised.

Further to previous conversations and SOIs, and in accordance with Council's original approval of the ZCP, the Council would like to see a reduction in the dollar amount of the annual operational funding that it provides to the Zoo. Both parties acknowledge that it would be prudent to allow the Zoo to build up its reserve position before any reduction takes place however there are still some issues to be resolved over what constitutes a reasonable amount of working capital reserve for the Zoo to carry, and what constitutes an appropriate reduction in the dollar amount of funding. Officers cannot agree with the Zoo's assertion that they need working capital of "at least six months operational costs".

Further to the above, the Zoo asserts that "there is still a gap between current OPEX, and the OPEX that would support the scale and level of activities / resources / people appropriate to a credible, modern facility". However, the Zoo continues to generate operating surpluses – officers note a need to do this, given their original negative equity.

The Zoo also notes that it is unable to pay some of its staff enough to retain them, hence making them vulnerable to poaching from other zoos, however officers note increased personnel costs in the Zoo's annual reports, rising from $2.090 million in 2004, to $2.923 million in 2008. Further to this, the Zoo has budgeted for employee costs of $3.486 million in the 2009/10 year.

It is important to acknowledge the advances that the Zoo has made over the last few years, demonstrated by the successful completion of three major projects, the increasingly positive visitor feedback and a measurable increase in attendance with 2007/08 visitor numbers of 182,140 representing an increase of 10% over 2002/03 visitor numbers of 165,631 - the last year of the Zoo being operated as a Council business unit.

<u>Summary Recommendations</u>

The final 2009/10 SOI should

- detail how the Trust will ensure that at the end of the ZCP, the Zoo's appearance is not 'half-finished'
- include a revision of the targeted working capital reserve to a more realistic level
- plan to reduce the dollar amount of its Council operating grant, and target the year that this will happen
- explain the rationale behind the increased total personnel costs

5.9 Wellington Regional Stadium Trust

At the time of writing, the Trust had not submitted a draft SOI for 2009/10.

5.10 Karori Wildlife Sanctuary Trust

As part of the funding deed for its $9.9 million interest free loan from the Council, the Karori Wildlife Sanctuary Trust (KWST) has agreed to adopt the Council quarterly reporting cycle, and therefore to prepare an annual Statement of Intent (SOI).

The Trust has experienced difficulties with the new Visitor Centre project, leading to increased capital costs, and delays in the opening date of the Visitor Centre which have ultimately led to increases in operational funding requirements. The Trust has approached the Council for significant additional funding and as a consequence the governance and management of the project, and the post-opening operations and associated financial forecasts have been rigorously reviewed by officers, on several occasions.

The draft SOI indicates increased rigour in the level of project management however the assessment of risk concludes that the likelihood of major risks, such as higher capital costs and increased transitional costs occurring is ‘unlikely’. This would appear to contradict the current situation where the Council is being approached for further capital and operational funding. The SOI needs to clearly acknowledge the existence of these risks, and an accurate assessment of them to ensure that they are carefully managed.

The Trust has undertaken to implement the recommendations of a governance and project management review to be presented to SPC on 16 April. The Council’s decisions on these matters should be incorporated into the Trust’s final SOI as appropriate.

An area of concern considered in the risk assessment revolves around the Trust achieving its targeted visitor numbers. PWT has undertaken to work closely with the Trust to assist it in the marketing of the Visitor Centre however the mechanisms and practical implications of this need to be articulated by both the Trust and PWT.

The Trust has sought to align itself to Council’s vision and desired outcomes however it has used the 2006/07 Long Term Council Community Plan (LTCCP) as a guide. This needs to be updated to reflect alignment with the draft 2009/10 LTCCP which Council is currently consulting on.

The Trust has yet to implement a board development programme, something that was noted during the development of the 2008/09 SOI; the Trust has stated that it will undertake to implement this during the 2009/10 year.

The Trust also needs to develop an Asset Management Plan during the 2009/10 year, the outputs of which could have a significant bearing on its cash flow during the medium to long term, and which will therefore impact the timing and quantum of the Trust’s proposed loan repayments to Council.

<u>Summary Recommendations</u>

The final 2009/10 SOI should

- include the implementation of the governance and project management review recommendations
- include a review and update (as appropriate) of the risk management register
- include an update of the Trust’s alignment to Council’s vision and outcomes in the draft 2009/10 LTCCP
- agree to prepare an Asset Management Plan.
- commit to the implementation of a board development program
- undertake to work closely with PWT in the marketing of the Visitor Centre

6. Conclusion

Officers have assessed each entity's draft Statement of Intent for 2009/10. The quality and focus of the SOIs continues to improve, and officers will work with CCOs to ensure that this remains the case.

A number of changes are recommended to the subcommittee. Subject to its approval of these changes being requested, the subcommittee's views will be communicated to CCOs in time for amended (final) SOIs to be presented to this subcommittee at its next meeting on 19 June 2009.

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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) LTCCP/Annual Plan reference and long term financial impact

Please refer to the individual covering report that prefaces 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 Tenths Trust, as part of normal operations.

4) Decision-Making

This is not a significant decision.

5) Consultation

a)General Consultation

A draft of each entity report will be circulated to the individual entity, with comments passed on to the sub-committee as appropriate

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 CCOs under the Local Government Act 2002.

7) Consistency with existing policy

This report is consistent with existing WCC policy.