
REPORT 2
(1215/52/02/IM)

**REVIEW OF THE PERFORMANCE OF ALL COUNCIL
CONTROLLED ORGANISATIONS FOR THE QUARTER
ENDED 31 MARCH 2009**

1. Purpose of Report

To provide the Subcommittee with an analysis of the performance of all Council Controlled Organisations (and other selected entities) for the quarter ended 31 March 2009, in compliance with the 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 the following matters with regard to the third quarter 2008/09 performance of Council Controlled Organisations:*
 - a) *The Basin Reserve Trust continues to perform strongly, exceeding targeted event revenue and successfully renewing its naming rights sponsorship*
 - b) *Council officers continue to work with Capacity to agree the nature and level of services to be purchased in the new Service Level Agreement, in view of the current agreement expiring on 30 June 2009*
 - c) *Positively Wellington Tourism is being challenged by the economic downturn but the key Australian market is responding well with a 3.5% increase in the March quarter compared to 2007/08*
 - d) *Positively Wellington Tourism is seeking an increase in funding from the Council that aims to leverage additional funding from external partners; the funding, which is sought for the key Australian market, will be considered as part of the Long Term Council Community Plan deliberations*
 - e) *The St James Theatre Charitable Trust continues to experience cash flow pressures; while it is achieving good attendances for the lesser number of shows that it is hosting, without additional external*

- f) *funding it will struggle to fill gaps in its calendar using Own Shows and Joint Ventures*
- g) *Wellington Cable Car Limited achieved a 17% increase in year to date Cable Car passenger numbers and are on track to return a dividend to the Council*
- h) *The Museums Trust has performed well against its key performance indicator's, presenting 24 new temporary exhibitions (against an annual target of 12) and 142 events (against an annual target of 80)*
- i) *Wellington Waterfront Limited has received estimates for the wharf repairs and is now going out to tender on the priority sites*
- j) *In May, the Environment Court appeal against the resource consent approval for the Overseas Passenger Terminal was heard. The appeal was unsuccessful and so the resource consent still stands*
- k) *The Stadium Trust continues to perform strongly by managing a full but well-balanced scheduled of sporting, cultural and community events*
- l) *The Karori Wildlife Sanctuary Trust is effecting the Council's preferred governance option and is amending its Trust Deed accordingly*

3. *Recommend that the Strategy and Policy Committee notes that the Council Controlled Organisation Performance Subcommittee is monitoring the Karori Sanctuary Visitor Centre project at the direction of the Strategy and Policy Committee and that, further to the original report on 2 March, the second update report is included within this report. The Subcommittee noted the following recommendations in respect of the Project:*

- a. *Dean Riddell, the independent expert appointed by the Trust at Council's request has been appointed Chair of the Project Steering Group for the duration of the Project*
- b. *On 16 April, Council approved an increase in the loan to the Trust of a further \$480k, comprising an increase to the contingency of \$420k and \$60k for Mr Riddell's fees*
- c. *The Steering Group considered that there was no material benefit in trying to bring forward the Project completion date through increased resourcing*
- d. *As at 31 May, 87% of the construction cost has been committed and there is still \$468k of contingency remaining*
- e. *The main construction contractor, Fletcher Construction, has indicated that the Project will be back on track for its estimated completion date of March 2010 when the roof of the building is closed in at the end of July*

4. *Note any other issues for the Chair to raise with the Strategy and Policy Committee in regard to this report*
5. *Note any issues for the Chair to raise with the entities covered by this report.*

3. Background

It is a requirement of the Local Government Act 2002 (the Act) that where the Council is a shareholder in a council organisation it must regularly undertake performance monitoring of that organisation to evaluate its contribution to the achievement of:

- The Council's objectives for the organisation
- The desired results, as set out in the organisation's statement of intent
- The Council's overall aims and outcomes.

The Council Controlled Organisations Performance Subcommittee (CCOPS) is tasked with the assessment of the efficiency and effectiveness of each entity. Officers have included a brief overview that includes the agreed Key Performance Indicators and financial summaries. The issues that have been identified from officers' reviews are included in this covering report.

4. Entities covered by this report

4.1 Council Controlled Organisations

To comply with statutory requirements, officers will report quarterly to the Subcommittee on the performance of Council Controlled Organisations (CCOs). These are:

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

4.2 Wellington Regional Stadium Trust

A Court of Appeal ruling clarified the Trust's status and confirmed that it is not a CCO. It is included in this report 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

At previous CCOP Subcommittee meetings it was recommended that a number of Council Organisations also be monitored on a quarterly basis. Accordingly, the following entities have been included within this quarter:

The Karori Wildlife Sanctuary Trust
Wellington International Airport Limited (Public Excluded)

4.4 Visitor Centre Project

Following the Karori Sanctuary's request for additional loan funding, and the initiation of a governance review, CCOPS has also undertaken to monitor the Visitor Centre project.

5. Issues for the Subcommittee to consider

Council Controlled Organisations:

5.1 Basin Reserve Trust

While the Trust has struggled with some of its statutory reporting deadlines, it continues to perform strongly, recently renewing its naming rights sponsorship, securing an ongoing concession income revenue stream for the refurbished Long Room (funded by a Lion foundation grant) and generating significantly more screen hireage revenue than budgeted.

5.2 Capacity - Wellington Water Management Ltd

Capacity's operating results for the year to date suggest it has performed well, including achieving 100% of its opex targets, completing Asset Management Plans on schedule and generating a small surplus for shareholders on the Upper Hutt contract.

Capacity has also been working with Council to renew the Service Level Agreement, with the current agreement expiring on 30 June 2009 however it is unlikely that this will be finalised before the end of the 2008/09 year.

Further to concerns over the accuracy of Capacity's financial reporting, at its meeting on 20 April, CCOPS requested 'that Capacity invite the Wellington City Council audit team to do an audit to review the effectiveness of key financial controls.'

The Capacity Board has subsequently declined this request as the 'directors considered the matters were appropriately covered by Audit New Zealand in the recent commencement of the year end audit, were a responsibility of the board and were sensitive to the dual ownership structure of Capacity.'

5.3 *Positively Wellington Tourism (Partnership Wellington Trust)*

The current economic downturn continues to feature in PWT's performance and whilst they have been busy during the quarter and achieved a number of their KPIs, the critical indicators of domestic and international tourism numbers have decreased, though the increasingly targeted Australian market has rallied against the negative trends.

More recently, PWT has endorsed the Karori visitor number forecasts and also presented to SPC on the anticipated visitor numbers for the redeveloped Carter Observatory. Council has tasked the Trust with a closer, more integrated working relationship with both these entities in order to bring their undoubted marketing expertise to bear. Karori and PWT have progressed discussions and aim by 30 June to have agreed a marketing plan and the allocation of roles and responsibilities.

PWT has approached the Council with a new initiative funding request, fundamentally to channel increased resource to the Australian market which, given the current economic downturn and the likelihood of people travelling less and / or travelling closer to home, represents a logical area for increased focus. The funding request has been reviewed by officers and will be considered as part of the LTCCP deliberations.

5.4 *St James Theatre Charitable Trust*

Largely as a result of the economic downturn, the Trust has hosted a reduced number of theatre performances and in response has reduced the associated operating costs as far as possible. The current economic climate makes it difficult to attract promoters to Wellington to use the St James as a venue for hire and increasingly promoters are looking to at least share the risk with the venue. In order for the Trust to do this, it needs to have some working capital to pay its way with Joint Venture, or even small Own Show costs.

However, as previously indicated the Trust is experiencing cash flow pressures (at 31 March, the balance was \$49k with the PAF loan of \$90k) and without external sponsorship and / or funding, the Trust will most likely become solely a venue for hire for an indeterminate period, with a commensurate increase in the risk of a greater number of dark days and a corresponding loss in activity in Courtenay Place.

Officers continue to work with the Trust to develop an Asset Management Plan in order to better understand the future liabilities represented by the Trust buildings.

5.5 Wellington Cable Car Ltd

The Company continues to perform well with Cable Car passengers increasing by 17% over the previous year. The Company is well placed to return a healthy dividend to its shareholder, Wellington City Council.

Brian Brown has recently indicated his intention to resign his position as General Manager of the Company before the end of 2009. This represents a significant loss of institutional knowledge for the Company which immediately set about securing a replacement to ensure that the Company doesn't lose any momentum in its current operations.

5.6 Wellington Museums Trust

In the year to date, the Trust has performed well against its KPIs, presenting 24 new temporary exhibitions (against an annual target of 12), 142 events (against an annual target of 80) and is on track to achieve targets of 4 theatre productions and 10 nationally and internationally toured products. The Capital E National Arts Festival in March sold an estimated 35,000 tickets and thousands more enjoyed the free public festival events.

The Trust is on track to achieve its visitor number target, which has been reduced due to the closure of the City Gallery for refurbishment – the City Gallery continues to progress well, on budget and on schedule to open in September.

5.7 Wellington Waterfront Ltd

In May, the Environment Court appeal was heard against the resource consent approval for the Overseas Passenger Terminal was heard. The appeal was unsuccessful and that the resource consent still stands.

The other major issue to unfold since the end of the quarter is the finalisation of the Holmes Consulting report detailing the state of the wharves. WWL had previously budgeted for the likely costs and is now going out to tender for the first stage of priority repairs.

5.8 Wellington Zoo Trust

The construction of the Nest (the new animal hospital) continues, on budget and on track for completion in December 2009. The next major project for the Zoo, the Meet the Locals project, is still in the concept design phase and is awaiting the report back from the QS before moving on to the next stage.

The Zoo is on track to achieve its increased visitor number target, though the poor attendance during a very inclement May highlights their continued weather dependency.

Other Organisations:

5.9 Wellington Regional Stadium Trust

The Trust continues to perform strongly and record surpluses ahead of budget, in spite of the continued decline in rugby attendances, by managing a full but well-balanced schedule of sporting, cultural and community events.

5.10 Wellington International Airport Limited

The Airport has just finished another year of strong performance and sustained growth, helped by the introduction of Pacific Blue into the market and likely to be further stimulated by the introduction of Jetstar in June 2009.

The Company also recently refinanced its remaining bank debt with a \$100 million issue of five year bonds. Construction of 'The Rock', which will double the processing capability of international passengers, continues with a likely completion date of mid-2010.

5.11 The Karori Wildlife Sanctuary Trust

Following the Strategy and Policy Committee's (SPC) recommendation on 6 November 2008, an independent review of the Visitor Centre Project and the Sanctuary's governance was initiated. Officers subsequently advised SPC on options for the future governance of the Sanctuary Trust, which were considered by SPC and Council on 16 April 2009.

The governance option approved gives Council the right to appoint three trustees and reduces the Trust's ability to appoint trustees to a maximum of five, and Council has the right to choose the Chair. The required changes to the Trust Deed have been approved in principle by the Trust Board, and Council has named two of its three appointees, Paul Callaghan and Russell Barland, and confirmed Peter Allport as Chair. The new board is anticipated to be in position from 1 July 2009.

Given the significant financial commitment of the Council to the Sanctuary, SPC agreed it was appropriate for the Council to more actively monitor the Project. An independent officer has been appointed to monitor the project and Dean Riddell has been appointed Chair. The officer's project update to 31 May is provided below:

5.12 PMO Report - Karori Wildlife Sanctuary Trust Visitor Centre Project

The Trust agreed to the appointment of an independent expert, Dean Riddell of Davis Langdon Ltd, to provide a 'Health Check' audit on the project and assess the status of the Project compared to its baseline approved budget and programme, and its likelihood of satisfying all agreed project critical success factors. Dean would also be appointed to the Project Steering Group and would assume the role of Chair for the duration of the Project.

The review assessed whether the current project management processes and systems were of sufficient quality for a project of this magnitude and the following recommendations were made with the aim of improving the Project's probability of success:

- More budget contingency. The committed costs and budget contingency were assessed against the approved budget with a contingency shortfall of \$420k being identified. This was due primarily to the excessive cost of the bank retention behind the building. Although the project team had gained some contingency through cost savings and scope reductions, these savings were not considered sufficient to give the appropriate level of comfort that the Project would be delivered to budget while maintaining the requisite quality level to ensure that the ongoing facility operation would not be adversely affected.
- More time contingency. The progress on site was assessed against the baseline programme and it was felt that there was insufficient programme contingency to cover any possible future delays, in addition to the two weeks that the Project was behind at the time of the report. Analysis of the Project suggested that it could be put back on track with weekend work and increased resourcing once the building was weather tight. After consideration it was decided that a more prudent course of action would be to allow for a soft opening, which would provide a buffer, with the main opening date being delayed to provide some time contingency.
- Retention of the current project team. The project team was assessed as capable and committed.

In April, Council approved the allocation of the recommended additional contingency funding to the Project and for Dean Riddell to be appointed as Steering Group Chair, along with the Karori Wildlife Trust Governance changes.

There is currently a contingency of \$468,000. 87% of the construction cost has been committed with the bulk of the uncommitted amount being site works. The outstanding uncommitted items are currently being priced. There is some budget risk in the pricing of these uncommitted items as well as contract instructions relating to the bank retention and drainage works with approximately \$800k¹ still to be agreed. The Project Cost Manager states that the costs reported on these contract instructions are the claimed amount rather than the estimated amount so the risk should be minimal.

With respect to programme, the Project has been progressing well. The main construction contractor, Fletcher Construction Company Ltd, has indicated that the Project will be back on track, with an estimated completion at the end of March 2010, when the roof of the building is closed in at the end of July.

¹ This represents uncommitted costs yet to be priced and is included within the original contract; the current contingency balance of \$468k is in addition to these uncommitted, but budgeted, costs.

6. Conclusion

A short report prepared by officers is given for each entity's quarterly report which summarises the information for the quarter. The issues for the Subcommittee to consider have been determined after review of the documents by officers and discussion with the entities. After considering these reports, the Subcommittee can, if it considers it appropriate to do so, draw any matters to the attention of the Strategy and Policy Committee.

If it considers that it will help clarify the information presented or assist with its monitoring role the Subcommittee can also ask the Chair to seek responses from a Board or Trust Chair to any queries it may have. These responses will then be tabled at the next meeting of the Subcommittee.

Contact Officers:

Allan Prangnell, Manager, Council Controlled Organisations
Ian Clements, Portfolio Manager, Council Controlled Organisations
Warren Ulusele, Portfolio Manager, Council Controlled Organisations
Natasha Petkovic-Jeremic, Portfolio Manager, Council Controlled Organisations

Supporting Information

1) Strategic Fit / Strategic Outcome

These entities and projects support the achievement of a range of outcomes across most strategic areas. Where relevant, reference is made to the 2008/09 Annual Plan.

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 Tenth 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.

7) Consistency with existing policy

This report is consistent with existing WCC policy.