



**WELLINGTON WATERFRONT LIMITED**  
**STATEMENT OF INTENT**  
**2009/2010**



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### Appendices

Appendix 1: Key Performance Indicators

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This Statement of Intent provides an overview of the planned objectives and activities for the Company for 2009/10. Following the Council decision to transfer the Waterfront Project to Council from 1 July 2010 (subject to further review in mid 2010) this Statement of Intent covers the one year period to 30 June 2010 only. Detailed objectives and activities are described more fully in the Company's annual Business Plan. The key performance indicators which the Company reports on quarterly to the shareholder are attached in Appendix 1.

## **1. THE WELLINGTON WATERFRONT FRAMEWORK (The Framework)**

Wellington Waterfront Limited is a Council Controlled Organisation (CCO) established to implement the Wellington Waterfront Framework. The Framework, which outlines the City's vision for the waterfront, also includes criteria for the development of each area of the waterfront and is the Company's principal guiding document.

The vision, themes, principles and objectives for the development of the waterfront, contained within the Framework are as follows:

### **Vision**

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

### **Themes, values and principles**

A number of inter-linking themes reflect areas of high public interest in the future of the waterfront. They are developed for the waterfront as a whole and for each of the individual areas:

- Expression of heritage and history
- Expression of Maori heritage and presence
- Sense of place for Wellingtonians
- Diversity of experience
- Sense of collective ownership and involvement
- Experience of space and openness
- Ease of access for all
- Areas of the waterfront

There are five distinct areas on the waterfront. Each precinct has its own character that relates to both the built form and open spaces and reflects the close proximity of the area to the central city:

- Kumutoto
- Queens Wharf
- Frank Kitts Park
- Taranaki Street Wharf
- Waitangi Park

### **Overall objective**

The Company's overall objective is to fully implement the high level concept plan articulated in the Framework. In doing this the Company will:

- Develop a waterfront that is locally and internationally recognised for its design
- Develop an attractive waterfront that is accessible, safe and caters to a wide range of activities for locals and visitors
- Celebrate waterfront heritage, maritime activity and history, and the city's cultural diversity
- Integrate the waterfront with the adjoining city and harbour
- Complete the design, consultation, funding and planning requirements of the waterfront development by 30 June 2010, within budget.

## **2. OPERATING LEGISLATION**

Wellington Waterfront Limited (the 'Company') was established as the implementation agency for the Waterfront Project and reports to the Council Controlled Organisations Performance Subcommittee (CCOPS) which monitors the ongoing operational performance of the Company against agreed targets, project milestones and performance.

Wellington Waterfront Limited has the following main legislation / authorities under which it must operate:

- Wellington Harbour Board and Wellington City Council Vesting and Empowering Act 1987
- Constitution of Lambton Harbour Management Limited (now Wellington Waterfront Limited)
- Overview Agreement between Wellington City Council and Wellington Waterfront Limited
- Board of Directors' Charter

- The Wellington Waterfront Framework (the 'Framework')

The Company is appointed by the Wellington City Council (WCC) as its implementation manager of the Lambton Harbour Development Project (the 'Project').

The Project is defined in the enabling legislation as meaning:

*"The implementation and promotion of the concept plan and includes all works and activities:*

- (a) Within the Lambton Harbour Development Area; and*
- (b) Outside the Lambton Harbour Development Area in respect of land, airspace, or subsoil used as a means of ingress or egress, plaza, terrace, podium or for other purposes associated with or incidental to the Lambton Harbour Development Area."*

#### **Foreshore & Seabed Act 2004**

Following representations from the Company and WCC the Government has included a special provision in the Foreshore & Seabed legislation to ensure that, should there be any conflict between its provisions and the 1987 legislation that established the Lambton Harbour Development Project, the 1987 legislation will still apply. This provision ensures that there is no legal impediment to the development of the Company's seabed titles in line with the Framework and the original legislation.

### **3. COMPANY ETHOS**

The Company will exhibit at all times, consistent with the conduct of a successful business, a sense of social responsibility and environmental sustainability and have regard to the interests of the community.

The Company will strive to be a good employer at all times and has adopted appropriate equal employment opportunity policies.

The Company acknowledges the valuable contribution the Council makes towards the operation of the Waterfront.

The Company adopts a no surprises policy whereby Council is informed of any significant issue thus allowing it to manage risk.

#### 4. NATURE AND SCOPE OF THE ACTIVITIES TO BE UNDERTAKEN

Over the one year timeframe of this Statement of Intent, the Company will exercise its responsibility as implementation manager of the Project for Wellington City Council.

Management services of the following types (all in relation to the Project), will be undertaken:

- Prepare an annual business plan covering implementation tasks and project operations. The business plan will support Council's Waterfront Development Plan and will be approved annually by Council and recognises the strategies and objectives outlined in this Statement of Intent.
- Complete an intensive planning phase that adopts an approach of generally completing all planning requirements. By June 2010 plans will be developed for sites 8 – 10, Shed 6, Queens Wharf, Queens Wharf outer-T and Frank Kitts Park. Resource consents will be applied for sites 8 & 9 and Frank Kitts Park. A completed master plan for Queens Wharf will inform a distinct plan variation. Due to the political environment within which we operate, it is not possible to provide any definitive timing indications around the receipt of resource consents. Our expectation is that resource consents, even if granted, will be the subject of appeal.
- Manage day-to-day operations on the waterfront, including general property management ie leasing, cleaning, maintenance, and security as well as the management of the Waitangi Park market. A detailed Asset Management Plan has been developed.
- Advise the appropriate Council committees on all aspects of waterfront development, including budgets, development phasing, technical information, costs, feasibility and commercial issues.
- Commission work on detailed designs based on approved performance briefs, followed by the selection and appointment of designers.
- Market waterfront sites and properties as appropriate to get the best return for the Council (within any constraints imposed by the development plan). The commercial return received from these properties is used to fund the public space expenditure on the waterfront. This commercial return is in addition to the agreed WCC funding.

- Act as the contact point for anybody interested in a private development project on the waterfront.
- Negotiate and manage contracts for the design and construction of public space.
- Negotiate and manage contracts and leases for all building development sites and the refurbishment and re-use of existing buildings.
- Develop long term plans for the operation of the waterfront at the conclusion of the Project.
- Develop plans that include extending the scope of the Company to beyond the Lambton Harbour Development Area – eg Land Development Agency.
- Maintain and refurbish wharves and supporting infrastructure.

The Company is responsible for ensuring that:

- It complies with governing legislation.
- For its part, an open and effective basis for consultation and co-operation is maintained with Council.
- The waterfront is clean, safe and well maintained.
- Council has relevant and timely advice to inform its decision-making. This will include financial advice and will involve WWL maintaining a financial model for the waterfront.
- The management of the business and its assets within budgetary constraints
- Contracts entered into are appropriate to deliver the desired outcome and reflect Council's Policy.
- Public space development projects are delivered to plan, on time and on budget.

Specific proposals for the services to be undertaken, including the particular public space developments and commercial developments proposed, are included in the business plan for the Project.

Any proposed developments will be consistent with the principles laid down in the Wellington Waterfront Framework.

## 5. TRANSITIONAL ARRANGEMENTS TO WCC

On 1 July 2007 Council assumed responsibility for the maintenance of Waitangi Park and the events facilitation on the waterfront. The Company assisted in the smooth transfer to Council and will use this experience to plan for the final transition.

In December 2008, following an extensive internal review of Wellington Waterfront, Council passed the following recommendations regarding the implementation of the next stages of the Project:

- Implementation of the Waterfront Project is to be transferred to and undertaken by the Council from 1 July 2010;
- Prior to transferring functions the Council will review whether market conditions warrant reconsideration of the preferred implementation option; and
- The Council will review the accountability documents relating to Wellington Waterfront Limited.

The Council currently provides WWL with \$1.65 million per annum which funds the management and governance processes.

WWL has reviewed its governance and operational structure to better align with the anticipated work programme. It has reduced the size of its board and staff resulting in the management fee renegotiated to \$1.2 million per annum.

In early 2009 responsibility for the overview of the financial management of the Company was transferred to Deloitte.

During the year the Company will prepare a comprehensive transitional plan that anticipates waterfront operations moving to Council by June 2010.



Operational requirements handed over to Council will largely consist of the property management of the waterfront and the Company will endeavour to secure key personnel for transfer to Council to ensure projects are delivered to plan. Other issues to be considered during the transition include:

- The Empowering Act and other legislative undertakings
- Assessment of the need for a separate land owning company to be maintained
- Transfer of electronic and physical records (and institutional knowledge)
- Transfer of project management practices (including the Project Management Manual)
- Transfer of the Corporate Manual and Asset Management Plan
- Staff development programmes
- Provide input into the Council's Long-Term Council Community Plan (LTCCP) regarding ongoing management costs.

The Company has developed a comprehensive Asset Management Plan (AMP) outlining all major assets on the waterfront. Included within the AMP is a 10 year financial summary detailing forecast maintenance. It is proposed in the time leading up to the transition that the content of the AMP will be integrated within Council's asset management systems.

## **6. RISK MANAGEMENT**

WWL is a publicly owned company and there is a considerable degree of community interest in WWL's work – an interest that often generates controversy. The company must attempt to balance diverse community and commercial interests.

The following is a list of key risk areas that WWL must manage in order to achieve its objectives:

1. The economic environment
2. Balancing financial and community demands
3. Public opinion
4. The Wellington property market
5. The construction market
6. The resource consent process
7. Natural catastrophes and disaster recovery
8. Threats to security
9. Managing stakeholder relationships
10. The political environment

These risks are reviewed on a regular basis with regards to their likelihood of occurrence, impacts and mitigation measures. Greater detail of the risks, probability, impact and mitigation strategies are contained in the risk matrix within the Risk Management Policy – appended.

Currently any risks of a significant nature are advised to Council during regular meetings between the Company and the Council's Chief Operating Officer and at Mayoral meetings.

### **Audit and Risk Assurance Processes**

The Board's Audit and Risk committee believes the issues of segregation of duties, project management disciplines, contract / payment authorisation and banking controls, and the regular monthly reporting of financial information to the Board and to WCC are appropriate.

The Board's Audit and Risk committee provides an additional level of financial review / oversight into the internal policies and procedures operational throughout the Company. With positive follow-up audits following on from initial procurement (and project management) audits in recent years by the WCC's Risk Assurance Unit and Audit New Zealand, the development of a comprehensive Project Management Manual, Corporate Manual, and the annual interim and financial audits by Audit New Zealand, the Company believes an internal audit function is not required at this stage. If there were any causes for concerns this position may need to change.

### **Funding and cash flow**

As a consequence of delays in receipt of commercial proceeds WWL received approval from Council in June 2007 for temporary additional funding to fund public space development.

Approval for temporary funding was dependent on the receipt of commercial developments from the following projects:

1. Hilton hotel
2. Overseas Passenger Terminal (OPT)
3. Site 10
4. Sites 8 & 9
5. Shed 6 redevelopment
6. Sale of WWL's remaining 19 berths in Chaffers marina.

The Hilton hotel project on the Outer-T was overturned by the Environment Court in 2008. It is now likely that, rather than generating income, the development of the Outer-T will require Council funding. Funding will be necessary for the significant cost of wharf refurbishment as well as the future redevelopment of Shed 1.

The Environment Court decision regarding the redevelopment of the OPT is pending. If the decision is favourable, the Company expects commercial proceeds to flow from pre-existing contractual arrangements. It is anticipated, however, that there will be delays in the receipt of commercial proceeds, as a result of the current economic environment. The sale of Chaffers Marina berths are linked with this redevelopment project.

Tenant and developer interest in sites 8, 9 and 10 and Shed 6 are not expected to be realised within the near future.

The impacts of regulatory delays and the deteriorating economic climate have combined to have a significant impact on the Company's ability to deliver planned projects. The Company does not anticipate receiving any commercial proceeds from developments during the remaining period of its tenure and for the two years following the transfer of activities to Council.

As a consequence, development of public space has been pared back to a bare minimum. Essential infrastructural work such as wharf refurbishment will be undertaken. Additional Council funding may be required to enable this work to be completed in a timely manner.

By agreement with Council, Wellington Waterfront Limited will focus its attention on planning for both developments and public space works. This work will include consultation and design and then obtaining the necessary resource consents for as many projects as is possible within the next twelve months. By the end of June 2010 plans will be developed and resource consents applied for for all significant projects including sites 8 & 9, Queens Wharf master planning and Frank Kitts Park.

At the time of completing our Strategic and Business Plan for 2009/10 in May 2009 the following table will be completed to show the Company's forecast year end outstanding short term advance.

Year	Temporary additional funding from Council \$m	Repayment from waterfront project \$m	Net additional funding at year-end \$m
2007/08	3.90	-	3.90
2008/09	0.75	-	0.75
2009/10	4.70	-	4.70
2010/11	1.50	-	1.50
2011/12	9.75	-	9.75
Beyond	9.22	34.725	(25.505)
<b>Total</b>	<b>29.82</b>	<b>34.725</b>	<b>(4.905)</b>

As a result of the deepening economic recession (particularly as it affects the property development market), repayments previously expected to be received in 2009/10 and 2011/12 are now considered unlikely to occur within the next three years.

## 7. GOVERNANCE

Wellington Waterfront Limited is a Council Controlled Organisation (CCO) with a mandate to implement plans and projects, manage development contracts, and manage day to day operations on the waterfront. The specific roles and responsibilities of the Company are set out in section 4 above.

WWL operates independently from, although regularly consulting with, Council. The main role of the full Council in relation to the operation of the waterfront is to approve ground leases where the lease term exceeds ten years.

### Role of the Board of Directors

The Board is responsible to shareholders for the implementation of the Project by participation in the setting of objectives, strategy, and key policy areas, and the approval of key project phases and specific agreements.

The workings of the Board and its code of conduct are governed by the Company's constitution, the Company's policy manual, the Company's Overview

Agreement with Council, the Board of Director's Charter and the annual business plan. These documents clearly set out those matters on which the Board can make decisions. These include approval of annual accounts, provision of information to shareholders, major capital projects, approval of development contracts, and disposal of assets.

Each year the Company produces an annual business plan, and an operating budget which are reviewed and approved by the Board. Financial statements and individual project reports are prepared monthly and reviewed by the Board progressively through the year to monitor management's performance against the budget and, previously, the three year plan.

The Board aims to ensure that all shareholders and stakeholders are informed of all major developments affecting the project. Management meets regularly with Council Officers to plan and discuss the progress of the Project, and reports on progress regularly to various committees of the Council.

Information is communicated to shareholders and stakeholders in the annual report, the half yearly Report, and the quarterly reports to the CCO Performance Sub-Committee. The Board also facilitates input from stakeholders, and specific interest and user groups on the various projects.

### **Board Membership**

The Company's Constitution sets the size of the Board at not less than four. The Board currently comprises five directors including a Chair. Director remuneration is set by the shareholder annually.

<b>Name</b>	<b>Term Expires</b>
Michael Cashin (Chair)	December 2009
David Kernohan	December 2009
Mark Petersen	December 2010
Councillor Ray Ahipene-Mercer	October 2010
Robert Gray	December 2009

### **Board Operations**

The Board meets monthly and additionally when required. The Chief Executive Officer attends all board meetings and is accompanied by other managers as required.

## **Conflicts of Interest**

The Directors are acutely aware of their responsibility to act in the best interest of the Project and the Company. An interests' register is maintained and is addressed at each formal Board meeting.

## **Board Committees**

The Board has two formally constituted committees that focus on specific areas of the Board's responsibilities and special committees are appointed to deal with specific matters from time to time. Terms of Reference for each of the two committees have been approved by the Board.

### ***Audit and Risk Committee***

The Audit and Risk Committee oversees management's practices, policies and controls in protecting the Project's and the Company's financial position and meeting legislative requirements. In addition the Committee ensures the effectiveness of audit and risk management processes and liaises directly with external auditors on matters relating to financial reporting compliance. The purpose of the Committee is to assist the Board in discharging its responsibilities relative to financial reporting, regulatory conformance and risk management.

### ***People and Performance Committee***

The People and Performance Committee ensures that appropriate remuneration and people policies, procedures and programmes are in place. The Committee determines and assesses board performance criteria. The Committee also reviews the terms and conditions of the Chief Executive Officer's employment, and is responsible for setting the objectives and performance targets for the Chief Executive Officer.

## **Board Performance**

The Board conducts an annual self evaluation by way of a survey of each Board member. The following criteria are used as a focus for discussion:

- Board preparation and attendance
- Corporate governance
- Process of board meetings
- Knowledge of the business and industry
- Engagement with management
- Board resource
- Operational framework

The Board's performance is the sum of the contributions of the individual directors, and directors are encouraged to consider their own skill sets in light of the Board's overall needs and discuss with the Chair whether any development work is needed.

The Chair's performance is similarly reviewed at the same time.

#### **8. THE RATIO OF SHAREHOLDERS' FUNDS TO TOTAL ASSETS, AND DEFINITION OF THOSE TERMS**

During the past year the Company advised Council of a number of factors influencing the timing of our commercial proceeds including delays on all redevelopments.

As a consequence of delays in receipt of commercial proceeds WWL received approval from Council for additional funding to fund necessary public space development and planning costs.

The Company notes the Framework requirement that, where possible, commercial proceeds should be used to fund public space expenditure.

Shareholders funds are defined as equity (\$1,000) plus accumulated profits.

Total assets are defined as current assets plus non-current assets less current liabilities.

The ratio of Shareholders' Funds to Total Assets is expected to be 1:1.

#### **9. PERFORMANCE TARGETS and other measures by which the performance of the Company may be judged in relation to its objectives**

Appendix 1 sets out key performance indicators for both the Company (in respect of its own activities) and for the Project.

#### **10. THE ACCOUNTING POLICIES**

Appendix 2 sets out the accounting policies adopted by Wellington Waterfront Limited in the WWL Financial Statements for the year ended 30 June 2008.

Prior to the June 2009 year-end Management will be investigating the adoption of NZ International Financial Reporting Standards (IFRS) that have been issued

and become effective for reporting periods after 1 January 2009. These include, but are not limited to:

- NZ IAS 1 – Presentation of Financial Statements (Revised)
- NZ IFRIC 15 – Agreements for the Construction of Real Estate
- NZ IAS 19, 29, 36 (various disclosures), and
- NZ IAS 40 – Property under construction or development for future use as investment property.

Wellington Waterfront Limited adopted IFRS for external reporting purposes for the accounting period commencing 1 July 2006.

## **11. DISTRIBUTION TO SHAREHOLDERS**

The Company does not expect to make any distribution to shareholders during the three years covered by this Statement.

## **12. INFORMATION TO BE PROVIDED TO THE SHAREHOLDER DURING THE PERIOD COVERED BY THIS STATEMENT**

Reports will be provided to the shareholder in accordance with the Overview Agreement and as required by legislation. These include:

1. A copy of the monthly financial statements (including cash flows) and commentary.
2. A quarterly report in respect of all activities in regard to the waterfront, including all services being provided by the Company to Council.
3. Half yearly reports prepared in accordance with Section 66 of the Local Government Act 2002.
4. Annual reports prepared in accordance with the Section 67 of the Local Government Act 2002, and the Financial Reporting Act 1993.

The Company undertakes to provide open communications to Council, a no surprises approach, and aims to work constructively to resolve differences while acknowledging that operating environments may be different.

Regular (minuted) meetings are held between the Company and Council at a mayoral level (Mayor, WCC Chief Executive Officer and Chief Operating Officer and WWL Chair, Chair of the Audit and Risk Committee, and Chief Executive



Officer) and operational level (WCC Chief Operating Officer, CCO Unit Portfolio Manager, TAG representative, and WWL Chief Executive Officer).

The Company's Statement of Intent and Council's Waterfront Development Plan are approved by the Strategy and Policy Committee.

The following financial and operational measures will be reported on a quarterly basis:

- Statement of Financial Performance
- Statement of Financial Position
- Statement of Cash Flows
- Statement of Change in Equity
- Capital Expenditure
- Performance against key performance indicators as detailed in the Business Plan.

**13. ACQUIRING OF SHARES BY THE COMPANY IN ANY COMPANY OR OTHER ORGANISATION**

Acquiring of shares by the Company in any other organisation will only be carried out by resolution of the shareholder. There are no current plans for such acquisition.

**14. ACTIVITIES FOR WHICH THE DIRECTORATE SEEKS COMPENSATION FROM ANY LOCAL AUTHORITY**

The Company has entered into an agreement with the Wellington City Council whereby it has been appointed as implementation manager of the Project.

Compensation by way of a management fee is received for this service. This is negotiated annually by the Company with Wellington City Council.

Wellington City Council may also elect to contribute to the cost of developing public space on the Waterfront or to meet the operational costs of the Project. Any such contribution will be contained within the Business Plan and recorded in the accounts for the Project.

**15. DIRECTORATE'S ESTIMATE OF THE COMMERCIAL VALUE OF THE SHAREHOLDERS' INVESTMENT IN THE COMPANY AND THE MANNER IN WHICH, AND THE TIMES AT WHICH, THE VALUE IS TO BE REASSESSED**

The Company's share capital is \$1,000. As no profits or losses and no additional assets or liabilities are planned, the value is assessed as \$1,000.

The shareholders' investment in the Company is reassessed each year by reference to net assets as shown in the annual audited financial statements.

**16. OTHER MATTERS AGREED BY SHAREHOLDER AND THE BOARD**

Under the terms of a Trust entered into by the Council, the Company is a bare trustee of the land forming the Lambton Harbour Development Area.

There are no other matters relevant to the Statement of Intent that have been agreed between Shareholder and the Board.

## WELLINGTON WATERFRONT LIMITED

## KEY PERFORMANCE INDICATORS

For Year ending 30<sup>th</sup> June 2010

## Key Performance Indicators for 2009/10

- Oversee design development and apply for resource consent for the development of Kumutoto sites 8 & 9 in Q2
- Oversee design development and apply for resource consent for the redevelopment of Frank Kitts Park in Q3, subject to reaching agreement with the Wellington Chinese Garden Society and Wellington Chinese sister cities
- Project manage the construction of the wharewaka at Taranaki Street Wharf with completion in Q2 2010/11
- Oversee design development and the completion of further public space developments at Taranaki St Wharf in conjunction with the wharewaka
- Develop concepts, seek approvals and oversee design development for the redevelopment of Queens Wharf, including Shed 6 and the Outer-T and prepare a master plan that will be publicly consulted upon as part of the process of adopting it as a variation to the district plan. Concepts to be agreed by Q2
- Complete Phase 1 of the wharf refurbishment programme by Q2
- Prepare transitional plans in anticipation of a transfer of responsibilities from the Company to Wellington City Council

Measure	Frequency of measure	Target 2009/10
<b>Financial</b>		
Capital expenditure (public space and commercial development expenditure)	Quarterly	\$3.428
Commercial proceeds	Quarterly	Nil

**WELLINGTON WATERFRONT LIMITED**

**ACCOUNTING POLICIES**

**For Year ending 30<sup>th</sup> June 2009**

**Nature of entity**

Wellington Waterfront Limited is 100% owned by Wellington City Council. It is a council-controlled organisation as defined by Part 1, section 6 of the Local Government Act 2002 and a company incorporated under the Companies Act 1993. Wellington Waterfront Limited manages the Wellington Waterfront Project for the Wellington City Council.

**Basis of preparation**

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with NZ International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for public benefit entities (PBE).

Wellington Waterfront Limited is a PBE for the purposes of NZ IFRS and has elected to take advantages of certain exemptions within the individual NZ IFRS. These exemptions have been taken only where practicable and necessary with the intention to efficiently and cost effectively manage the impact of the transition upon the Wellington Waterfront Limited.

**Measurement base**

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis are followed by Wellington Waterfront Limited, with the exception of certain assets which are valued in accordance with the policies stated below.

The financial statements are presented in New Zealand dollars and are rounded to the nearest thousand.

**Specific accounting policies**

The following specific accounting policies which materially affect the measurement of financial performance and the financial position have been applied.

***Cash and cash equivalents***

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings as a current liability in the statement of financial position.

***Financial instruments***

The Company is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short term deposits, receivables and payables. All financial instruments are recognised in the statement of financial position

and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

**Revenue**

Revenue is recognised when earned and is reported in the financial period to which it relates.

**Trade and Other receivables**

Receivables are stated at expected realisable value after providing for doubtful and uncollectable debts.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest method.

**Investments**

Investments are stated at the lower of cost and net realisable value. Any decreases are recognised in the statement of financial performance.

Investments in bank deposits are initially measured at fair value plus transaction costs. After initial recognition investments in bank deposits are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the statement of financial performance.

At each balance sheet date the Company assesses whether there is any objective evidence that an investment is impaired. Any impairment losses are recognised in the statement of financial performance.

**Property, Plant and Equipment**

Wellington Waterfront Limited has two classes of property, plant and equipment; motor vehicles and office equipment. All property, plant and equipment are recorded at cost.

When an item of property, plant or equipment is disposed of, any gain or loss is recognised in the statement of financial performance and is calculated as the difference between the sale proceeds and the carrying value of the item.

Depreciation is provided for on a diminishing value (DV) basis at tax rates.

Motor vehicles		31.2% DV
Office and equipment	computer	9% – 60% DV

**Impairment**

The carrying amounts of property, plant and equipment are reviewed at least annually to determine if there is any indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. The recoverable amount is the higher of an item's fair value less costs to sell and value in use. Losses resulting from impairment are

reported in the Statement of Financial Performance, unless the asset is carried at a revalued amount in which case any impairment loss is treated as a revaluation decrease.

### ***Leases***

Wellington Waterfront Limited lease certain plant and equipment. All leases are operating leases. Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the lease items, are included in the determination of the net surplus in equal instalments over the period of the lease.

### ***Goods and Services Tax***

The financial statements have been prepared exclusive of GST with the exception of receivables and payables which are stated GST inclusive.

### ***Taxation***

Income tax expense comprises both current tax and deferred tax, and is calculated using tax rates that have been enacted or substantively enacted by balance date.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Current tax and deferred tax is charged or credited to the statement of financial performance, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

***Statement of cash flows***

For the purpose of the statement of cash flows, cash includes cash on hand and deposits held with banks.

Operating activities include cash received from all income sources and records the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise capital injections by, or repayment of capital to, Wellington City Council.

***Employee entitlements***

A liability for annual leave is accrued and recognised in the statement of financial position. The annual leave liability has been calculated on an actual entitlement basis at current rates of pay.

***Commitments***

Future expenses and liabilities to be incurred on contracts that have been entered into at balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

***Contingencies***

Contingent liabilities are disclosed at the point at which the contingency is evident.

***Changes in accounting policies***

There have been no changes in accounting policies. All accounting policies have been applied on a consistent basis throughout the year.

## **RISK MANAGEMENT POLICY**

### **Risk Management definition**

Risk management is the process of measuring, or assessing, risk and developing strategies to manage it.

Strategies include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk.

Traditional risk management focuses on risks stemming from physical or legal causes (e.g. natural disasters or fires, accidents, death, and lawsuits).

Financial risk management, on the other hand, focuses on risks that can be managed using traded financial instruments.

### **Risk Management Framework (RMF)**

Key components of a RMF include:

- Identifying key strategic, operational and financial risks, and then assessing the possible effects on the organisation
- Agreeing on and implementing appropriate responses to the identified risk
- A Framework to show that risk management processes are working effectively
- Reporting on the effectiveness of the risk management system (initially report annually to the Board)
- Making it clear that the governing body, the Board, carries ultimate responsibility for the risk management system.

### **Responsibilities**

There are four parties responsible for risk management:

1. WWL Board
2. WWL CEO / Management
3. Internal Audit – given the small organisational size WWL is investigating the outsourcing of the internal audit function
4. External Auditing – Audit New Zealand is already involved in WWL completing the interim and annual financial audit. Audit New Zealand (and WCC's Risk Assurance team) have recently completed an audit on procurement procedures.



## WWL Risks

The following four pages provide a summary of the key risk areas for the Company and are an extracted, with minor modifications, from the Company's Strategic Plan.

### Managing Key Risks

WWL is a publicly owned organisation with a high degree of community interest in its work – an interest that often generates controversy. The company must attempt to balance diverse community and commercial interests.

The following is a list of key risk areas that WWL must manage in order to achieve its objectives:

1. Economic environment
2. Balancing financial and community demands
3. Public opinion
4. The Wellington property market
5. The construction market
6. The resource consent process
7. Natural catastrophes and disaster recovery
8. Threats to security
9. Managing stakeholder relationships
10. The political environment

#### 1. Economic Environment

The majority of the world's key economies remain in the midst of recession and prospects of improvement that began to emerge toward the end of the first quarter are brittle at best.

An April 2009 survey of financial analysts across Europe and US found a slim majority saying that the bottom of the current global recession, seen as the worst since the Second World War, had still not been reached. The road to recovery which is dependent on the return of financial and macro-economic stability is not expected to commence until next year.

New Zealand's most recent economic indicators continue to reflect challenges faced by rising unemployment, a likely six consecutive quarters of negative growth by mid 2009 and concerns over the government's rising level of debt which may have negative implications for NZ's credit rating.

On a more positive note, recent surveys show a slight improvement in business confidence, the depreciation in the NZ dollar will provide exporters with some respite and the Reserve Bank, unlike some of its foreign counter-parts, still has some capacity to reduce interest rates. A return to weak but positive growth in the New Zealand economy is hoped to begin to occur toward the end of 2009.

#### 2. Balancing Financial and Community Demands

Delivering a high quality waterfront with comparatively little cost to ratepayers is a challenge. WWL must obtain the best commercial outcome that provides for high quality investment in public space.

Initiatives such as joint venture agreements with developers and sharing development margins are being explored. We are also seeking to obtain high returns from some leases to subsidise uses that have high social and amenity value but may not be commercially viable.

### **3. Public Opinion**

Appropriately, there is a high level of interest in the waterfront development. Some groups are intensively organised and vocal. WWL welcomes this interest, but must balance it with the interests of the wider community to achieve the best overall outcome.

The cost of upgrading significant infrastructural assets is generally not well understood. Ageing wharf structures and promenades are in some instances in need of major repair/replacement. Major civil and/or structural work is expensive. WWL must meet these costs out of its ratepayer funding (\$15 million), supplemented by development activity. Balancing the need for development activity with the delivery of high quality public space and infrastructure requires ongoing effective communication.

WWL uses a combination of research. Informal feedback is encouraged via the WWL website, Waterfront Project Information Centre, feedback forms, face-to-face meetings and presentations. Formal feedback is sought, in conjunction with WCC, through public consultation processes.

The results of this feedback and research are incorporated into strategic and business planning, the standard, range and number of services and facilities offered on the waterfront and in designs and uses for future developments.

### **4. The Wellington Property Market**

The sentiment in the property market over the past twelve months has eased markedly in line with the slowing economy, a backdrop of finance company failures and a world-wide credit crisis.

Significant features of the market over the past year include:

- Institutional property owners and listed property companies having to sell property which, together with a general re-pricing of risk, has led to an easing of yields by 50 – 75 basis points for prime property and upward of 100 basis points for other classes of property
- Decreasing business confidence leading to lower levels of tenant demand which in turn will ultimately lead to increased levels of supply and falling rents
- A virtual collapse of the development market due in part to lack of available finance and difficulties being experienced in obtaining required levels of pre-sales or tenant pre-commitment

On a more positive note, the fundamentals of the property market are much better than they were in the last major property downturn with nowhere near the same levels of over-supply that existed in 1987 – 1992. Low deposit rates, an uncertain sharemarket, the lowest mortgage interest rates in almost a decade and a growing supply of well priced property investment opportunities are already attracting investors back to the market, mainly in the form of private syndications.

The commercial property market in Wellington is not expected to return to a point of equilibrium until 2011/12. However, the lag between tenant demand for new space and developer's ability to deliver new

space to tenants dictates the need for Wellington Waterfront Limited to continue its current strategy to use the current economic hiatus to plan and obtain resource consents for proposed future developments on the waterfront.

## **5. The Construction Market**

The last quarter of 2008 was the second busiest quarter ever (behind the September 2008 quarter) for non-residential building work in New Zealand, which underlines the lag effect between the general economy and the construction sector both in economic downturns and upswings.

The value of non-residential building work put in place rose 3.7% to \$5.22 billion in the year to December 2008.

There is growing evidence indicating that short term prospects in the construction sector have slowed but forecast to pick up again over the course of 2010 and gather pace over 2011 as economic growth accelerates and the effects of lower borrowing costs take effect.

One of the biggest challenges to the construction sector in the meantime is retention of key personnel and core competencies capable of being quickly deployed for the next upswing the construction and development cycle.

The initiation of any development construction projects by WWL in the next 1 – 2 years should result in very competitive tender prices being received.

## **6. Resource Consent Process**

All developments are subject to resource consent and are publicly notified. Applications generally attract wide interest and many submissions, so planning must be rigorous and detailed. Delay in gaining consent for any development impacts on the delivery of the whole Wellington Waterfront Framework, not just the project in question. WWL works closely with developers, consultants, WCC, and Greater Wellington Regional Council to ensure that at each stage of a project, correct processes are followed and adequate consultation is undertaken.

WCC's recently Proposed District Plan Variation 11 promoting the inclusion of more detailed policy provisions and non-notification of complying applications for future building development on the waterfront and Kumutoto (sites 8, 9 & 10) in particular, has attracted over 50 public submissions. The hearing and appeal process to the proposed variation are likely to take place in July/August 2009.

## **7. Natural Catastrophes and Disaster Recovery**

The effects of climate change, earthquake, tsunami, king tide (10/4/2012), storms, fire, gas or chemical leaks, disease pandemics or other potentially catastrophic events could have a devastating impact on the waterfront, physically and fiscally. WWL has comprehensive insurance cover that is regularly reviewed. The company is careful to ensure all construction and operational activities on the waterfront comply with statutory requirements, and consider the potential effects of hazards in design, construction and

operation. Hazard management and other health and safety issues are regularly reviewed and monitored.

## **8. Threats to Security**

WWL is part of the Port Facility Security Plan as required by the Maritime Security Act 2004. There have been significant changes to port security that have impacted on how CentrePort runs shipping in the Wellington waterfront area.

The waterfront could be vulnerable to acts of sabotage and violence. WWL assesses such risks as part of its risk management planning associated with any new project and the maintenance of safety across the waterfront in general. WWL works with the police and our own security contractor to manage incidences if they arise.

## **9. Managing Stakeholder Relationships**

WWL identifies and monitors relationships with its most influential stakeholders and, where necessary, develops formal relationship management plans. These plans aim to encourage greater involvement where the influence is positive and/or constructive, or attempt to minimise the impact of negative influencers.

WWL's key stakeholders include the Wellington City Council, members of the waterfront community – including waterfront businesses and neighbours – the general public and groups and organisations with specific interests in city development and/or promotion.

A range of communication channels are used to engage with and update stakeholders, from regular meetings, presentations, reports, open days, displays, the Waterfront Project Information Centre and website.

The objectives and approaches to relationship management for each key stakeholder are applied across all WWL work streams, ensuring every contact between WWL and its key stakeholders is constructive.

## **10. Political Environment**

As a Council Controlled Organisation, WWL operates within the political environment of Wellington's local government. Political moods can fluctuate from one elected Council to the next and have the potential to influence WCC's policy relating to the waterfront and its governance and funding structures.

In December 2008 Council approved the recommendation that the implementation of the Waterfront Project be transferred to and undertaken by the Council (subject to review) from 1 July 2010. The Company will continue planning the major projects and Council will implement the projects in accordance with its Long Term Council Community Plan.

We work transparently and endeavour to be responsive to ideas and constructive criticisms, demonstrating a willingness to effectively engage with politicians and the public and applying rigorous standards of project and financial management.

WWL has a commitment to maintaining effective communication with its shareholder, the Council. We run a no surprises policy, ensuring the Council and its senior officers are informed of issues in a timely manner. WWL regularly updates Councillors and senior Council staff via formal reporting processes, the Strategy and Policy Committee and the CCO Performance Sub-committee.

Area	Risk	Probability	Impact	Current Mitigation
Financial	<p>Failure to deliver on financial forecasts:</p> <ul style="list-style-type: none"> <li>• Forecasting</li> <li>• Market changes</li> <li>• Internal</li> <li>• Communications</li> </ul>	M	H	<p>All plans and strategies are reviewed by the WWL Board and WCC.</p> <p>Regular financial forecasts / reviews and monitoring ensure we minimise "non delivery".</p> <p>A short term borrowing facility from WCC was agreed by Council in June 2007 and regular monthly cash flow reporting is provided to the WWL Board and the CCO Monitoring Unit.</p>
Public Opinion	<p>Major media campaign against WWL</p> <p>Polls show loss of public support</p>	L	M	<p>Ensuring better and regular contact with media through regular meetings and communication with the media groups, especially the <i>Dominion Post</i>.</p> <p>WWL seeks to understand the interest of the wider community through a combination of informal feedback, and formal and informal research. This feedback and research is used for future strategic and business planning.</p> <p>A range of communication channels are used to engage with stakeholders.</p>
	<p>WWL targeted by special interest groups opposed to development</p>	H	M	<p>Get our story into the media with better liaison with the media.</p>
The Wellington Property Market	<p>Commercial property market downturn</p> <p>Residential property market correction</p> <p>Developers lose faith in WWL</p>	M	H	<p>Consideration is being given to intermediate uses for sites pending an upturn in the economy.</p> <p>The OPT development agreement is being progressed.</p>
The Construction Market	<p>Construction cost</p>	M	M	<p>Work with WCC to ensure WWL is seen as having the authority to negotiate and conclude contracts.</p> <p>Ensure competitive tendering procedures are followed</p>

Area	Risk	Probability	Impact	Current Mitigation
	escalation			and undertake value engineering exercises while ensuring that our quality objectives are not compromised.
<b>Resource Consent Process</b>	Regulatory delays (resource consent process, time delays and Environment Court appeals)	M	H	WWL works closely with developers, consultants, WCC and Greater Wellington Regional Council to ensure that at each stage of a project, correct processes are followed and adequate consultation is undertaken.
<b>Natural Catastrophe</b>	Major earthquake destroys real estate	L	H	Implementation of WWL's Crisis Management and Disaster Recovery Plans. Liaison with the Emergency Management Office (EMO) to ensure adequate procedures are in place in the event of a major disaster.
	Tsunami	L	H	As above
	Global warming / sea level rises	L	M	Greater Wellington Regional Council guidelines incorporated into all future developments.
	King Tide – April 2012	H	L	Advise all waterfront tenants and users prior to the event.
	Pandemic	L	H	Implementation of the Disaster Recovery Plan.
	Poor crisis management	L	M	Desktop trial exercise to heighten awareness.
<b>Health and Safety</b>	Death / injury of a member of public through poor health & safety provision: <ul style="list-style-type: none"> <li>Promenade, steps, bridges, parks etc</li> <li>Playground equipment</li> <li>Fall into water / onto rip rap / from building or structure</li> </ul>	L / M	H	Identification of hazards. Regular independent inspections undertaken. Health and Safety procedures in place with contractors / developers and WCC (for events facilitation). Internal OSH audits. Signage installed where appropriate. Traffic Management Plans implemented.

Area	Risk	Probability	Impact	Current Mitigation
	<ul style="list-style-type: none"> <li>Pedestrian struck by motor vehicle or bike</li> </ul>			
	<ul style="list-style-type: none"> <li>Personal safety compromised – provision of an unsafe environment leading to personal attack</li> </ul>	L	H	Lighting and security in place – regular monitoring.
	<ul style="list-style-type: none"> <li>Damage and injury caused by events on the waterfront:</li> <li>Damage/injury to people</li> </ul>	L	M	WCC responsible for events management – all events supported by a venue usage or hire agreement.
	<ul style="list-style-type: none"> <li>Risks created by other waterfront operators such as TSB Bank Arena, bars and restaurants etc</li> </ul>	M	M	H&S management plans in place with regular monitoring. Lease restrictions. Public Liability insurance cover.
<b>Threats to Security</b>	Terrorism	L	L	Regular liaison with tenants. WWL is part of the Port Facility Security Plan as required by the Maritime Security Act 2004.
	Bomb threat	L	L	Liaison with the EMO. Bomb threat checklist adopted by WWL.
<b>Managing Stakeholder Relationships</b>	Poor communication with external (non WCC) stakeholders	M	M	A range of communication channels are used to engage with and update stakeholders including regular meetings, presentations and reports, open days, displays and the Waterfront Project Information Centre and website.



Area	Risk	Probability	Impact	Current Mitigation
Management / Internal	IT system not operating efficiently / loss of corporate system / data	L	M	Regular monitoring by external consultant.  Hardware and software regularly reviewed and updated.
	Exposure of perceived unethical practices such as fraud and "kickbacks"	L	H	Nightly backups are removed from the office and a weekly backup is sent to Auckland for safe storage.  Conflict of interest and Gifts Register maintained.
	Loss of CEO or project manager/s	M	M	Regular internal and external reviews.  Project is being developed in accordance with the Project Management Manual - there are processes and procedures in place, especially within the project team, to ensure continuity should a staff member resign. (See Appendix 1).
	Shortage of skilled staff	H	H	As above.
	Board resignations	L	H	Manage WCC to ensure Board operations are not compromised.
	Poor contract management	L	M	Follow processes and procedures outlined in the Project Management Manual (see Appendix 1).  We ensure that our tendering processes result in the most competitive prices for all construction while ensuring that our quality objectives are not compromised.
	Breach of regulations	L	M	Checklists are maintained and reported to the Board.
	Inadequate insurance cover	L	M	WWL has comprehensive insurance cover.  Insurances reviewed annually. Insurance cover is signed off by the WWL Board.