
REPORT 3
(1215/52/02/IM)

REVIEW OF THE 2008/09 ANNUAL REPORTS AND AUDITED FINANCIAL STATEMENTS OF COUNCIL CONTROLLED ORGANISATIONS

1. Purpose of Report

This report provides the Subcommittee with a review of the annual reports submitted by Council Controlled Organisations (CCOs) for Council approval in compliance with the requirements of the Local Government Act 2002. Separate reports analysing each entity's performance are attached as appendices to this report.

2. Recommendations

It is recommended that the Subcommittee:

- 1. Receive the information*
- 2. Note the key risks and issues facing the entities, outlined in the individual analyses and summarised in this covering report*
- 3. Note the 12-month forward work programme of the Council Controlled Organisation officers, drawn from some of the key challenges facing the individual entities.*

3. Background

The audited annual reports received from CCOs have been reviewed by officers to assess any risks or issues from the perspective of Council's shareholder interest. Any significant issues that were identified have been discussed with the relevant entity and are included in the covering reports that are attached as appendices.

It is the Subcommittee's role to review these documents and bring matters of importance to the Strategy and Policy Committee's attention before ratification.

4. Documents for Review

Council Controlled Organisations

To comply with statutory requirements, this report reviews the performance of Council Controlled Organisations (CCOs). These are:

- Basin Reserve Trust
- Positively Wellington Tourism
- St James Theatre Charitable Trust
- Wellington Cable Car Ltd
- Wellington Museums Trust
- Wellington Waterfront Ltd
- Wellington Zoo Trust
- Capacity (Wellington Water Management Ltd)

Council Organisations

At previous Subcommittee meetings it was recommended that a number of Council Organisations (and other entities) would also be monitored on a quarterly and annual basis. These are:

- Wellington Regional Stadium Trust
- Karori Sanctuary Trust
- Wellington International Airport Limited

The Wellington Regional Stadium Trust is not a CCO however it is included because of the reporting obligations included in the Funding Agreement between the Council and the Trust.

The Karori Sanctuary Trust (KST) has been included because of the materiality of the funding that Council has committed to the Visitor Centre project, initially an \$8 million interest free loan. Due to additional project costs, as at April 2009 the Council had increased its total loan commitment to \$10.38 million.

Wellington International Airport Ltd (WIAL) has a March year-end, and therefore this report covers the first quarter to 30 June (as the annual report for the year to 31 March 2009 was covered in the previous Subcommittee meeting on 19 June 2009). The materiality of Council's investment in the airport is the reason for its inclusion within this report. As at previous meetings, discussions of the Airport are taken in Public Excluded.

5. Compliance With Local Government Act 2002

In accordance with the Local Government Act 2002 (LGA 2002) section 67 CCOs must within three months of the end of each financial year submit a

- Section 68 – the report must contain information that is necessary to enable an informed assessment of the operations of that organisation and its subsidiaries, including:
 - a comparison of the performance of the organisation and its subsidiaries with the statement of intent; and
 - an explanation of any material variances between that performance and the statement of intent
- Section 69 – the report must include audited consolidated financial statements for that financial year for that organisation and its subsidiaries, and an auditor’s report on:
 - those financial statements; and
 - the performance targets and other measures by which performance was judged in relation to that organisation’s objectives

The majority of the CCOs and other entities covered within this report have submitted documents in accordance with the legislative requirements. All the CCOs provided audited annual reports, none of which were qualified. The Karori Sanctuary (a CO) received a qualified audit report due to its inability to accurately record donations from street appeals – this is the case for many not-for-profit organisations.

As previously noted, WIAL has a March year-end, and its audited 2008/09 accounts were tabled at the 19 June meeting.

6. Annual Plan Reference

Operating Expenditure \$’000

	Annual Plan Project	Actual Total	Annual Plan Total
Karori Sanctuary Trust	A288	639	765
Wellington Waterfront Ltd	A312	1,650	1,650
Basin Reserve Trust	C008	531	524
Wellington Zoo Trust	C046	3,621	3,656
Wellington Museums Trust	C102	6,376	6,498
Positively Wellington Tourism	C105	4,740	4,740
St James Theatre Charitable Trust	C580	181	155
Long haul aircraft attraction	C658	200	200

The Wellington Regional Stadium Trust, Wellington Cable Car Limited, Capacity and Wellington International Airport Limited do not directly receive Annual Plan funding.

Capital Expenditure \$'000
CAPEX PROJECTS

	Annual Plan Project	Actual Total	Annual Plan Total \$,000
Wellington Zoo Trust Renewals	CX125	177	178
Wellington Waterfront Development	CX131	500	5,971
Wellington Zoo Trust Upgrades	CX340	3,867	2,094
Cable Car Precinct	CX496	6	1,300
Art Gallery	CX500	3,558	2,900
Basin Reserve	CX503	-	-

The above figures do not include unspent capex brought forward from 2007/08 and unspent capex during 2008/09 that has been approved for carry-forward to 2009/10.

CAPEX CARRY-FORWARD PROJECTS

	Annual Plan Project	Actual Total	Annual Plan Total \$,000
Zoo Upgrades	CX340_CF	429	429
KST Gateway Project	CX473_CF	18	18
Cable Car Precinct	CX496_CF	27	27
Art Gallery	CX500_CF	812	812

It should also be noted that all CCOs have adopted NZ International Financial Reporting Standards (NZ IFRS). Karori Sanctuary which is actually a CO is exempt from this requirement.

7. Discussion

The role of the CCO Unit is to provide the Subcommittee with a review of the efficiency and effectiveness of each entity. To this end performance measures as set out within the Statement of Intent have been assessed, along with the financial position of each entity. Other comments have been made where it is deemed necessary, for example there may also be specific issues of a more strategic nature that are considered significant and therefore require further explanation.

The Annual Reports provided by each entity vary in terms of the range and detail of information provided. Some of the reports may not necessarily cover key events from within the year and in addition, officers seek to provide an update on any significant issues which have occurred between year end and the time of reporting.

The reviews performed by officers have been drawn from a number of sources including the annual reports, quarterly reports, other briefing and meeting documents, face to face meetings and wider research.

The performance of each entity has been reviewed and any issues that have been identified for the Subcommittee to consider are highlighted within each of the covering reports that are attached as appendices, and summarised below:

a. Basin Reserve Trust

The key risks for the Basin Reserve are around the Trust's ability to fund its future asset maintenance and renewals. A condition assessment has been undertaken which will form the basis of a detailed Asset Management Plan. The Council owned assets at the Basin Reserve are being depreciated, but no renewals budget has been planned in the 2009-19 LTCCP and the Trust is unable to fully fund the depreciation of its own assets, notably the replay scoreboard which was funded through donations.

b. Positively Wellington Tourism

PWT believes that Australians represent the best opportunity for Wellington to grow its international visitor numbers long-term and accordingly they have continued to focus on Australian marketing. Regular discussions between the PWT Board and Executive and central government, Tourism New Zealand, airlines and the other gateway RTOs in New Zealand have progressed well and PWT's understanding is that the confirmation of additional funding to match that provided by the Council is now being considered by Cabinet.

c. Capacity

The Company continues to see potential further regionalisation of water services as an area of opportunity, particularly following the integration of the UHCC operation. Capacity is monitoring both developments in Auckland and the investigation of a potential regional water strategy by the regional council and Porirua.

The Company is currently finalising the new Service Level Agreement with Wellington City Council. As a result, performance monitoring will be more closely tied between the SLA and SOI going forward. In addition, Capacity has agreed a \$432k savings target for 2009/10 with the Council; however, there is some risk that the Company may fall short of this target given historic savings targets have not been achieved. In particular, the level of service can not be compromised to achieve a savings target.

d. St James Theatre Charitable Trust

The Trust's minimal level of cash reserves increases the likelihood that it will need to use its overdraft facility if it does not achieve its budgeted results. While venue hire is preferred over own shows and joint ventures the low cash position will continue to affect its ability to be able to take risks on shows.

The Trust is in the process of developing an Asset Management Plan and has already indicated to CCOPS that it will need significant grants from Council to remedy the current condition of assets.

At the time of writing, officers are conducting a review of Council venues to assess the effectiveness of the current operating models and to see if any improvements might be made.

e. Wellington Cable Car Limited

The Company's strong financial performance will enable them to pay a dividend to Council. Subsequent to the annual report, the Board has agreed to pay a dividend in line with its agreed policy of 60% of after tax profits in relation to the 2008/09 year (i.e. \$130k).

A significant focus for the 2009/10 year will be the continuing negotiations on a funding agreement with GWRC and the development of a policy to generate further revenue from third parties for the use of the overhead network.

The NZTA has recently changed its approach to its safety assessments and has raised a number of matters as 'non-compliance' issues with regard to cable car operations. The Company is in discussion with the NZTA as they believe there are no safety concerns in relation to the majority of the issues raised however if significant maintenance or upgrade work is required, the Company may approach the Council for funding.

f. Wellington Museums Trust

The City Gallery reopened in September 2009 with a major exhibition by internationally acclaimed artist Yayoi Kusama, scheduled to last for 5 months. In the first 3 weeks since re-opening the Gallery has achieved 35% of its total revenue target for the exhibition.

The Trust has received an increase in its base line funding, but it will still experience budget pressures and will have to use its depreciation to fund an operating deficit. In addition, there has been some deferral of internal fit-out refurbishments, with a potential impact on visitor experiences, because of this difficulty in fully funding the depreciation of its assets (predominantly museum and gallery fit-outs).

The Trust has become increasingly reliant on Council funding as a proportion of its total funding. The Council provided 71% of revenue in 2008/09 (excluding

rental grants), from approximately 65% in 2003/04. For 2009/10 the Trust has forecast Council funding of 71% on this basis. While the Trust does have the ability to reduce its operational costs, this would be at the expense of the level of services provided.

g. Wellington Waterfront Limited

A further negative Environment Court ruling on a commercial project (like the successful appeal of the Hilton development on the Outer T) could significantly impact the overall affordability of the Waterfront Development Plan.

In December 2008, a report to SPC proposed District Plan Variation 11 which seeks to establish an appropriate regulatory framework for the assessment of future resource consents for new development in identified waterfront areas in order to provide for ongoing development of the waterfront in accordance with the Waterfront Framework.

The time-consuming nature of regulatory processes which are largely beyond the control of the Company continue to threaten the momentum of the waterfront re-development.

h. Wellington Zoo Trust

In spite of ongoing annual surpluses and a build up of its reserves, the key risk for the Zoo revolves around funding, both its ability to attract sponsorship funding for the ZCP and revenue linked to visitor numbers. If the Zoo is unable to achieve either or both of these targets, they may consider approaching the Council for additional funding or reducing their service levels and/or the scope of their planned capital projects.

i. Wellington Regional Stadium Trust

To ensure the long-term competitiveness of the Stadium, the Trust has an Asset Management Plan and has budgeted for the upgrading of some areas ahead of the Rugby World Cup. There is a risk that the Trust will not be able to repay the \$15 million Council loan as scheduled, depending on the balance required between repaying existing funding facilities and any asset improvement program.

The Stadium is continuing to work with its contractors to resolve the issues surrounding the cladding and roof, which are both covered by a 15 year warranty.

The Stadium has renewed the naming rights to the Deloitte Club through to 2014 and has recently renewed its naming rights contract with Westpac (including a rebranding agreement).

Uncertainty around the number of rugby events due to the restructuring of the Super 14 and Air New Zealand Cup competitions and the ever-changing nature

of the major concert market provide ongoing challenges for the Stadium. In addition, the Sevens tournament contract for the 2012 tournament and beyond is due for renewal during 2010.

j. Karori Sanctuary Trust

The Sanctuary is focusing on the successful completion of the Visitor Centre project, which is due to open in April 2010. There is currently a project contingency in place of approximately \$500k. Accordingly, the risk of the Trust requiring further Council funding for the project appears to be very low at this stage.

The majority of the Trust's cash reserves will be utilised in the 2009/10 financial year with KWST forecast to have a remaining cash balance at 30 June 2010 of \$332k, and \$190k at 30 June 2012. Sensitivity analysis illustrates that the Sanctuary would be able to meet expected cash obligations (excluding the repayment of the Council loan) even with a substantial drop in visitor numbers below those forecast.

The Sanctuary has been working closely with PWT on the development of its marketing strategy, which will need to be finalised soon.

The Trust is also focusing on developing the infrastructure and operational systems to support the new operations including the implementation of new systems for point of sale/tour bookings and memberships. This will improve the efficiency and effectiveness of its processes, improve customer service and management reporting.

k. Wellington International Airport Limited

As at 16 October, the Company had not provided its report for the quarter ended 30 June to officers.

8. Project Management Office (PMO) Report – Karori Sanctuary Trust Visitor Centre Project

Following the Karori Sanctuary's request for additional loan funding, and the initiation of the governance review, CCOPS has also undertaken to monitor the Visitor Centre project. The report of the Council's PMO office is given below:

There is currently a project cost contingency of around \$477,000. 97% of the construction cost has been committed with the all of the uncommitted amount being site works. The outstanding uncommitted items are currently being priced. There is some budget risk in the base build in the pricing of the these uncommitted items, however as they are relatively low risk internal activities such building mechanical services, car parks and spillway viewing platforms, the exposure is relatively minimal as the building will be water tight from around the 21st of October. There remains a standard construction risk of

design detail error and omissions causing variation to the agreed scope of work that will still provide a routine level of budget risk.

The Exhibition is tracking within expected cost parameters with almost all of the work committed.

In summary, it is the feedback from both the Project Steering Group and the Project Team that for the currently approved scope of work, Building & Site works and exhibition, there should be sufficient cost contingency to complete the project successfully.

The Karori Sanctuary Trust has requested that Council consider some release of remaining contingency funds for the fit out of a Café. The sum estimated for the Café fit out is \$302,700 (\$210,000 for hard fit out, \$92,700 for soft fit out). The Café has never been budgeted for in the project as it was planned that fit out costs be picked up by the operator. A tender was earlier held for the operation of the Café however the KWS were unable to obtain an operator in the current economic climate.

As the Café is fundamental to the KST offer and experience, Council Management has indicated a preference of releasing that the Café hard fit out at least (\$210k). There is however at present some doubt whether there is enough contingency remaining to cover the approved project should contingency funds be released to cover the cost of the Café. As it is accepted that there will be no more additional funds provided by Council on top of the contingency, the Trust is currently considering possible reductions in current scope and/or alternative funds to provide a fall back measure should the revised contingency less the Café be insufficient to cover the original project works. This information will be provided to Council to aid any decision.

With respect to programme, the project has been progressing well. The main construction contractor, The Fletcher Construction Company Ltd, have indicated that the project is back on track with an estimated completion, as programmed, of the end of March 2010.

9. Financial Health Checks

The Council's Financial Accounting Team has recently undertaken a financial health check of all the CCOs and some of the more significant COs. The process comprised financial review of the performance of all the nominated entities over the last five years, up to and including the year ended 30 June 2009.

A number of key risks and key actions came to light as a result of this work, and where not already mentioned they are included in the 'Key issues going forward' section of the individual analyses.

10. CCO Team Forward Work Programme

The review of the CCO's annual performance has highlighted a number of key actions for the CCO team to follow up on over the next 12 months, covering the period of the CCOs next annual performance cycle. There were a number of issues which were common to several of the entities; these items are now on the CCO team's forward work programme and are summarised below:

- a. Inflation adjusted funding – CCO grants, both opex and capex, are not adjusted for inflation and a number of CCOs have sought clarification on this issue, as they consider a lack of inflation adjusting ultimately will require them to cut their service levels and/or project scopes
- b. Working capital levels – a number of CCOs have contended that they need to build up their working capital to an appropriate level. There is no formal policy for CCOs on what constitutes a reasonable level of working capital and how this might be funded
- c. Business planning alignment – typically the CCOs deliver their annual plans 3 – 4 months before the start of the year to which the plan relates. Council's internal business planning processes start well before Christmas so this non-alignment of planning often impacts adversely on Council's overall business planning. Officers will work with the entities to better align the processes.

Given below are the entity specific action points coming out of the review of annual performance:

CCO Officers 12-month focus		
<u>CCO</u>	<u>Area of focus</u>	<u>CCO Officer Action</u>
Basin Reserve Trust	Management and funding of asset renewals and maintenance	Project manage completion of asset management plan
	Off-field practice wickets	Monitor construction against key milestones
Capacity	Regionalisation of water services	Facilitate stakeholder discussion
	Company financial structure	Review operating model to see if structure is appropriate to outcomes sought

	Service Level Agreement	Assist in finalisation where appropriate; monitor key SLA performance measures
PWT	PWT contribution to Council objectives	Monitor financial results and performance measures
St James Theatre Trust	Management and funding of asset renewals and maintenance	Project manage completion of asset management plan
	Review of Council venues	Manage review process
Wellington Cable Car Limited	GWRC funding agreement	Facilitate negotiations
Wellington Zoo Trust	Zoo Capital Plan	Ensure key drivers (H&S, animal welfare) are addressed and that capital projects are managed within available budgets
Karori Sanctuary Trust	Completion of the Visitor Centre project and opening of the new facility	Increased level of monitoring of operating performance and cash position

11. Conclusion

The review of the Annual Reports provides an opportunity for the CCO Performance Subcommittee to identify any particular issues that need to be explored with the entities, or raised with the Strategy and Policy Committee. The Subcommittee can also raise any relevant issues at the next meeting of the Strategy and Policy Committee.

Contact Officers:

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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. Where relevant, reference is made to the 2008/09 Annual Plan.

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

Please refer to section 6 of the report.

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

Where appropriate, clarification has been sought from individual entities regarding disclosure of information not contained within their annual reports.

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.