

# **WELLINGTON WATERFRONT LIMITED**

## **REVIEW OF 2008/09 ANNUAL REPORT**

Wellington Waterfront Limited (WWL) presents its Annual Report including audited financial statements and audited performance measures.

### **Highlights for the year**

- During the year the Company received 13 awards recognizing the quality of the public spaces, buildings and artwork on the waterfront
- The appeal against the resource consent previously granted for the Overseas Passenger Terminal redevelopment was unsuccessful
- New tenants on the waterfront during the year include Portofino, Mojo, Wagamama, the New Zealand Portrait Gallery (Shed 11), the Wellington Free Ambulance, the Maritime Police and National Dive Unit

### **Performance**

#### **1. Financial**

A review of the financial statements of the Waterfront Project highlights the following points:

- the Project made an \$9.2m deficit after unrealised losses on revaluation of \$3.3m
- the value of net assets decreased by \$12m over the year, largely due to revaluation losses and wharf piling costs
- as at 30 June 2009 the Company had received \$4.4 million in temporary additional funding from the Council, on which the Company has been charged interest

A summary of the Waterfront Project financial statements is given below.

#### **Statement of Financial Performance**

\$ '000	FY Actual	FY Budget	2007/08 Actual
Income	4,028	3,009	4,812
Expenditure	9,924	10,114	8,583
Operating Surplus / (Deficit)	(5,872)	(7,105)	(3,771)
Revaluation Gain / (Loss)	(3,339)	-	12,630
Net surplus	(9,211)	(7,105)	8,859

#### **Statement of Financial Position**

\$ '000	FY	FY	2007/08
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	Actual	Budget	Actual
Current assets	9,040	1,025	10,849
Non current assets	161,566	154,833	172,458
Current liabilities	1,775	1,214	1,660
Non current liabilities	4,892	6,093	4,533
Equity	163,939	148,551	177,114
Current ratio	5 : 1	0.8 : 1	6.5 : 1
Equity ratio	96%	95%	97%

## Statement of Cash Flows

\$ '000	FY Actual	FY Budget	2007/08 Actual
Operating	(1,779)	(3,533)	1,168
Investing	(343)	3,375	(9,790)
Financing	547	-	9,677
Net	(1,575)	(158)	1,055
Closing balance	426	544	2,001

*Note: the Company's financial statements have been prepared using NZ IFRS.*

## 2. KPIs

### Project KPIs for the year ended 30 June 2009

As can be seen from the below KPIs, the Company has only achieved one of its targets though this is because of factors largely beyond the Company's control, including the economic downturn, Council's decision to review the waterfront work programme in December 2008 and the dependency of the Taranaki Street Wharf redevelopment on the construction of the Wharewaka.

Key Performance Indicator	Outcome
<ul style="list-style-type: none"> <li>Oversee design development, apply for resource consent and undertake construction planning for Kumutoto sites 8, 9 &amp; 10</li> </ul>	<i>Economic downturn impacting on the ability to negotiate tenants for proposed buildings resulting in the project being suspended</i>
<ul style="list-style-type: none"> <li>Complete the internal fit-out of Shed 13</li> </ul>	<i>Achieved</i>
<ul style="list-style-type: none"> <li>Oversee design development, apply for resource consent and complete construction planning for the redevelopment of Frank Kitts Park</li> </ul>	<i>Council decision in December 2008 to extend and slow down the implementation of the waterfront work programme precluded any further work on this project – with the exception of the design development of the Chinese Garden</i>
<ul style="list-style-type: none"> <li>Project manage the construction of the wharewaka at Taranaki Street Wharf</li> </ul>	<i>Wellington Tenth's Trust approved the commencement of this project in late June 2009</i>
<ul style="list-style-type: none"> <li>Oversee design development and the completion of further public space developments at Taranaki Street Wharf</li> </ul>	<i>This project to run in conjunction with the construction of the wharewaka</i>
<ul style="list-style-type: none"> <li>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</li> </ul>	<i>Council decision in December 2008 to extend and slow down the implementation of the waterfront work programme precluded any further work on this project</i>

<ul style="list-style-type: none"> <li>• Call for ideas from the public for potential outcomes for the Outer-T</li> </ul>	<i>Council decision in December 2008 to extend and slow down the implementation of the waterfront work programme precluded any further work on this project</i>	
	<b>Actual</b>	<b>Target</b>
Capital expenditure (\$ million)	212K	2.075M
Commercial proceeds (\$ million)	0	0

The above KPIs are for the Company rather than the Project as they measure the success of the Company in achieving the desired outcomes of the Project.

WWL will complete a Technical Advisory Group (TAG) assessment for all projects. This is an independent assessment as to whether a project has met the objectives for the quality of design as defined in the Wellington Waterfront Framework.

The completion rate is influenced both by Wellington Waterfront Limited's responses to the property development and construction markets although some matters can be outside of Wellington Waterfront Limited's control. These are:

- the performance and capacity of property developers and construction companies;
- ability in the prevailing market to achieve satisfactory commercial terms;
- the timing of resource consent process (including appeals);
- Council planning and approval processes.

### **3. Operations**

- A review of the Company in December 2008 recommended that WWL be brought back into Council from 1 July 2010, subject to a review later in the 2009/10 year. Between the time of the review and the handover the Company was tasked to complete the planning for all waterfront projects, gain resource consent for projects currently being designed and prepare for a seamless transition into Council
- A subsequent Council decision in September 2009 determined that WWL should remain as the Council's implementation agency for the Waterfront Project. Funding has been allocated from 2010/11 onwards to reflect the Company's continuation. Council agreed to review this decision in time for the 2012/22 LTCCP
- A permanent consequence of the December 2008 review was that the number of directors be reduced from eight to five, and the number of employees were reduced from 13 to 7 and the annual management fee was reduced to \$1.2 million

### **Governance**

The directors during the year were:

Michael Cashin (Chair)  
Ray Ahipene-Mercer (Councillor)  
Robert Gray  
David Kernohan

Stephen Kos (resigned 31 January 2009)  
Mark Petersen  
Dave Pritchard (resigned December 2008)  
Alison Timms (term ended 31 December 2008)

David Kernohan, Robert Gray and Michael Cashin's terms all expire at the end of 2009; David Kernohan has served for 6 years while Robert Gray and Michael Cashin are both eligible for re-appointment.

### **Key issues going forward**

The timing of sign-off of the yearly development plan does not fit with the financial planning cycle. This has resulted in a variance between the LTCCP and the 2009/10 Waterfront Development Plan. The 2010/11 Waterfront Development Plan will be done in conjunction with Council's Draft Annual Plan and Annual Plan processes to ensure that this mis-alignment is corrected.

Waterfront project funding is intended to be ring-fenced so that commercial proceeds from leases are reinvested in the waterfront. The Waterfront project generates insufficient operating revenue to cover ongoing operating costs resulting in commercial proceeds and sometimes borrowings being used to fund operational expenses.

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. The OPT resource consent appeal to the Environment Court being overturned was a significant outcome, not just financially; a second ruling against a waterfront development proposal, so soon after the Hilton was successfully appealed would have sent a very strong message. The ability of the Company to successfully lease Sites 8, 9 and 10 is still critical to the financial viability of the project.

WWL have proposed interim use of some sites on the waterfront. One, the campervan park has been approved subject to consultation. The one-off capital cost is \$400k and the projected revenues are expected to cover the operating costs. The other two interim uses are being explored. Given that they're both likely to require significant capital investment, WWL will need to demonstrate the financial viability of the proposals.

The Commissioners' decision on District Plan Variation 11 is expected shortly. This variation 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 more certainty in the ongoing development of the waterfront in accordance with the Waterfront Framework.

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

## **Conclusion**

The issue for the Company is balancing the difficult economic environment, the regulatory uncertainty and the financial position of the Waterfront Project with the need to continue to make progress on the waterfront.