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**REPORT 3**  
(1215/52/02/IM)

## **REVIEW OF THE 2009/10 ANNUAL REPORTS AND AUDITED FINANCIAL STATEMENTS OF COUNCIL CONTROLLED ORGANISATIONS**

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### **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. *Recommend that the Strategy and Policy Committee notes the following matters with regard to the 2009/10 performance of Council Controlled Organisations:*
  - (a) *The Basin Reserve Trust had a good year in 2009/10 in terms of number of cricket and other sports events and event days, however revenue was below target. The new off-field practice facilities should be of major benefit to the Trust by improving the visitor experience and increasing the patronage.*
  - (b) *Capacity successfully managed over \$100m of expenditure in 2009/10 on behalf of Wellington City Council, Hutt City Council and Upper Hutt City Council. While not all KPIs were achieved, the Company achieved most of the agreed performance measures with its customers and shareholders and made significant progress on leak detection and unaccounted for water.*
  - (c) *In a challenging year, Positively Wellington Tourism performed well, achieving and exceeding most of their KPIs and incurring only a small operating loss against a breakeven budget. Wellington's first consumer marketing campaign to Australia was launched in 2010, with supporting funding received from Council and Government. The campaign will continue in 2011.*

- (d) *Despite the ongoing challenges of the economic landscape, 2009/10 was one of the most financially successful years of the St James Theatre Charitable Trust in recent history. This is largely due to a very successful last four months of the financial year, which included the popular International Festival of the Arts.*
- (e) *Wellington Cable Car Limited had a good year. While the cable car had slightly lower passenger numbers than last year, fare income was above budget. In addition, third party work on the overhead trolley bus network contributed to a better than budget financial performance despite the challenging economic conditions.*
- (f) *Wellington Museums Trust had a successful year, reporting an overall deficit of \$253k against a budgeted deficit of \$358k, and achieving strong visitation growth this year. The re-opening of the City Gallery in late September after an 11 month closure received excellent feedback, largely due to the popularity and recognition of the Yayoi Kusama: Mirrored Years exhibition. Carter Observatory was transferred to the Trust and is included in the Trust's results from 1 June 2010.*
- (g) *Wellington Waterfront Limited made good progress against its project milestones and the waterfront is developing well with attractions such as the Harbourside Market, the Frank Kitts Underground Market and the hosting of a number of significant events. The challenge will be to continue to manage its projects within existing funding from Council and generating commercial proceeds.*
- (h) *Wellington Zoo Trust performed very well in 2009/10, recording a small operating surplus, achieving the majority of its performance measures, winning a number of awards, and experiencing strong visitation numbers. The \$6m The Nest - Te Kōhanga exhibit opened in December 2009 to excellent feedback and media coverage.*
- (i) *Wellington Regional Stadium Trust recorded a record result in 2009/10 as there were a number of exceptional events during the year. The Trust does not expect future profits to continue at the same level as this year. The Trust has also negotiated a satisfactory settlement with Fletcher Construction and other parties in relation to the roof and cladding issues.*
- (j) *The Karori Sanctuary Trust performed well this year with the completion of the Visitor Centre and continued success in its conservation, research and education programmes. The state-of-the-art ZEALANDIA Visitor Centre was officially opened on 31 March by Prime Minister John Key.*

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

### **4. Entities covered by this report**

#### ***4.1 Council Controlled Organisations***

To comply with statutory requirements, officers report to the Subcommittee on the performance of Council Controlled Organisations.

These are:

Basin Reserve Trust  
Capacity Infrastructure Services Ltd  
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 CCOPS meetings it was recommended that a number of Council Organisations (COs) also be monitored on a quarterly basis. Accordingly, the following entities have been included within this report on 2009/10:

Karori Sanctuary Trust  
Wellington International Airport Limited (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 report on the organisation's operations during that year. The LGA 2002 also states:

- 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. Wellington Cable Car Limited's and St James Theatre Charitable Trust's annual report is still in draft form. The other CCOs provided audited annual reports, none of which were qualified.

## 6. Annual Plan Reference

### **Operating Expenditure \$'000**

	<b>Annual Plan Project</b>	<b>Actual Total</b>	<b>Annual Plan Total</b>
Karori Sanctuary Trust	A288	1,715	1,781
Wellington Waterfront Ltd	A312	1,200	1,222
Basin Reserve Trust	C008	563	513
Wellington Zoo Trust	C046	3,863	3,661
Wellington Museums Trust	C102	7,066	7,143
Positively Wellington Tourism	C105	5,240	5,240
Wellington Waterfront Ltd	C378	429	853
St James Theatre Charitable Trust	C580	166	155
Long haul aircraft attraction	C658	200	200
Carter Observatory	C659	385	337

The Wellington Regional Stadium Trust, Wellington Cable Car Limited and Wellington International Airport Limited do not directly receive Annual Plan funding. Capacity Infrastructure Services Limited is funded through the Infrastructure budget.

### **Capital Expenditure \$'000**

#### **CAPEX PROJECTS**

	<b>Annual Plan Project</b>	<b>Actual Total</b>	<b>Annual Plan Total \$,000</b>
Wellington Zoo Trust Renewals	CX125	234	234
Wellington Waterfront Development	CX131	0	3,709
Wellington Zoo Trust Upgrades	CX340	2,673	2,574
Cable Car Precinct*	CX496	909	600
Art Gallery	CX500	1,629	1,100
Basin Reserve	CX503	495	450

\* Funds used for Carter Observatory

The above figures do not include unspent capex brought forward from 2008/09 and unspent capex during 2009/10 that has been approved for carry-forward to 2010/11.

#### **CAPEX CARRY-FORWARD PROJECTS**

	<b>Annual Plan Project</b>	<b>Actual Total</b>	<b>Annual Plan Total \$,000</b>
Wellington Waterfront Development	CX131_CF	4,400	4,738
Cable Car Precinct*	CX496_CF	1,294	1,294

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

## **7. Issues for the Subcommittee to consider**

### **Council Controlled Organisations:**

#### **7.1 Basin Reserve Trust (appendix one)**

The Basin Reserve Trust had a good year in 2009/10 in terms of number of cricket and other sports events and event days, however revenue was below target. The new off-field practice facilities should be of major benefit to the Trust by improving the visitor experience and increasing the patronage.

A challenge for the Basin Reserve Trust is to maintain non-Council funding at around 65% by generating its own income via venue hire, rental of the replay screen, naming rights sponsorship and the food and beverage concession. The Trust had difficulty in leasing the ground out to other organisers for community and cultural events this year. The Trust may need to seek new naming rights sponsorship since Allied Nationwide Finance was recently placed in receivership.

#### **7.2 Capacity Infrastructure Services Limited (appendix two)**

Capacity successfully managed over \$100m of expenditure in 2009/10 on behalf of Wellington City Council, Hutt City Council and Upper Hutt City Council, including \$70m of operational and maintenance project work and \$31m of programmed capital works. While not all KPIs were achieved, the Company achieved most of the agreed performance measures with its customers and shareholders and made significant progress on leak detection and unaccounted for water.

The challenge for the Company will be to continue to deliver cost and service delivery improvements. As part of a process to look at continued performance improvement, the Company and its customer councils are currently looking at a potential future IT strategy. The Company is also working to ensure that all planned maintenance that may impact on Rugby World Cup related events will be identified and programmed for completion before the tournament starts.

#### **7.3 Positively Wellington Tourism (Partnership Wellington Trust) (appendix three)**

In a challenging year, Positively Wellington Tourism performed well, achieving and exceeding most of their KPIs and incurring only a small operating loss against a breakeven budget. The WellingtonNZ.com site continues to be the most popular official regional tourism site in NZ, with large growth in number of visitors.

Wellington's first consumer marketing campaign to Australia was launched in 2010, with supporting funding received from Council and Government. The campaign will continue in 2011. Positively Wellington Tourism will need to maximise opportunities presented next year by the Rugby World Cup, the new daily hop-on-hop-off bus, the Wellington On a Plate festival and first full operating years of ZEALANDIA and Carter Observatory.

#### **7.4 St James Theatre Charitable Trust (appendix four)**

St James Theatre Charitable Trust had a good year in 2009/10, with 30% growth in theatre operations income and exceeding target on the number of performances for both St James Theatre and the Opera House. Despite the ongoing challenges of the economic landscape, 2009/10 was one of the financially successful years of the Trust in recent history. This is largely due to a very successful last four months of the financial year, which included the popular International Festival of the Arts.

The proposal for the merger of the St James Theatre Charitable Trust and the Council's convention centre will go to the Council shortly.

#### **7.5 Wellington Cable Car Limited (appendix five)**

Wellington Cable Car Limited had a good year. While the cable car had slightly lower passenger numbers than last year, fare income was above budget. In addition, third party work on the overhead trolley bus network contributed to a better than budget financial performance despite the challenging economic conditions.

The Board has resolved to proceed with a full replacement option for the Kelburn terminal provided that satisfactory funding arrangements can be made. This work will be timed to avoid peak tourist season and the Rugby World Cup. The Company has also continued to work through the backlog of maintenance work required for the overhead trolley bus network.

#### **7.6 Wellington Museums Trust (appendix six)**

Wellington Museums Trust had a successful year, reporting an overall deficit of \$253k against a budgeted deficit of \$358k, and achieving strong visitation growth this year. The re-opening of the City Gallery in late September after an 11 month closure received excellent feedback, largely due to the popularity and recognition of the *Yayoi Kusama: Mirrored Years* exhibition. Carter Observatory was transferred to the Trust and is included in the Trust's results from 1 June 2010.

The Trust's biggest challenge in the next few years is to increase commercial revenue streams so that it can achieve its target of 30% of non Council revenue and fully fund its depreciation. As discussed in its Statement of Intent, the Trust is currently reviewing its priorities to give greater focus to financial and organisational sustainability, with the aim of achieving breakeven and fully funding depreciation by 2012/13.

### **7.7 Wellington Waterfront Ltd (appendix seven)**

Wellington Waterfront Limited (WWL) made good progress against its project milestones and the waterfront is developing well with attractions such as the Harbourside Market, the Frank Kitts Underground Market and the hosting of a number of significant events. The challenge for WWL will be to continue to manage its projects within existing funding from Council and generating commercial proceeds.

### **7.8 Wellington Zoo Trust (appendix eight)**

Wellington Zoo Trust performed very well in 2009/10, recording a small operating surplus, achieving the majority of its performance measures, winning a number of awards, and experiencing strong visitation numbers. The \$6m The Nest - Te Kōhanga exhibit opened in December 2009 to excellent feedback and media coverage. It won the Best New Large Exhibit Award at the Zoo and Aquarium Association regional conference, a first for a New Zealand zoo.

The challenge for the Trust in the future will continue to be generating non Council revenue and attracting capital donations, particularly given the difficult economic environment.

### **Other Organisations:**

### **7.9 Wellington Regional Stadium Trust (appendix nine)**

With 2010 marking the 10<sup>th</sup> anniversary of the opening of the Stadium, Wellington Regional Stadium Trust recorded a record result in 2009/10. While the event market remains a competitive one, the Trust is well placed with a forecast continuing level of profitability that allows for capital investment and repayment of debt. Nonetheless, the Trust does not expect future profits to continue at the same level as this year as there were a number of exceptional events that contributed to the record result.

The Trust has also negotiated a satisfactory settlement with Fletcher Construction and other parties in relation to the roof and cladding issues, at a financial cost that can be managed within existing budgets. The entire exterior cladding will be replaced prior to Rugby World Cup in 2011.

### **7.10 Karori Sanctuary Trust (appendix ten)**

The Trust performed well this year with the completion of the Visitor Centre and continued success in its conservation, research and education programmes. The state-of-the-art ZEALANDIA Visitor Centre was officially opened on 31 March by Prime Minister John Key.

2010/11 will be the first full year of operation for the ZEALANDIA Visitor Centre. The challenge ahead is to strive for financial sustainability by marketing and positioning ZEALANDIA to ensure its targets are met in terms of visitor numbers and revenues.



### **7.11 Wellington International Airport Limited (Public Excluded)**

The quarterly report for the quarter ended 30 June 2010 is attached in the appendix. Council officers have reviewed the report. It does not raise any material new issues for the Subcommittee to consider.

## **8. CCO Team Forward Work Programme**

The CCO team's current priorities are:

- Working through a process of addressing the potential to consolidate a range of CCO back office functions within a shared services environment;
- Considering and resolving issues arising from the transition of Carter Observatory to the Wellington Museums Trust from 1 July 2010;
- Continuing to monitor the performance of Carter Observatory once it is part of the Wellington Museums Trust;
- Working on the proposed merger of the St James Trust and the Wellington Convention Centre and establishing a CCO framework for the new entity;
- Facilitating the current review of Capacity Infrastructure Services Limited. Further action points are likely as a result of the final report once it is available; and
- Monitoring and following up on monthly reporting from Karori Sanctuary Trust management, now that the new Visitor Centre is open.

## **9. 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: *Maree Henwood, Portfolio Manager, Council Controlled Organisations, Natasha Petkovic-Jeremic, Portfolio Manager, Council Controlled Organisations and Janine Chung, Acting 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 2009/10 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.*