

## **DRAFT – FOR DISCUSSION ONLY**

1 March 2006

Bryan Jackson  
Chairperson  
Capacity  
75 The Esplanade  
Petone  
WELLINGTON

Dear Bryan

### **Re: 2006/07 Statement of Intent and Council Expectations**

Last year the Council wrote to each Council Controlled Organisation (CCO) setting out its expectations to enable the CCO to undertake its business planning and complete their Statement of Intent (SOI). We wish to build on this in the planning process for 2006/07.

Under Schedule 8 of the Local Government Act 2002 (LGA) a key purpose of the SOI is “to provide an opportunity for the shareholders to influence the direction of the organisation” and this letter sets out our expectations of the contribution of the Company in achieving the vision for our city.

Section 59 of the Local Government Act 2002 also sets out statutory objectives that a CCO must fulfil. They are:

- To achieve the objectives, both commercial and non-commercial, of its shareholders as specified in the SOI;
- To be a good employer;
- To exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so.

The Council envisages that its expectations will be reflected in your SOI and I would be happy to elaborate on the Council’s position, if you or your board wishes to discuss this.

### **Council Vision and Outcomes**

The Council's vision for Wellington continues to be - *Creative Wellington – Innovation Capital* and it has identified 13 outcomes that describe the city that Council wants to achieve over the next ten years. These are that the city will be:

- more liveable
- more compact
- more eventful
- more inclusive
- more actively engaged
- better connected
- more sustainable
- safer
- healthier
- more prosperous
- more competitive
- more entrepreneurial and innovative
- and it will have a stronger sense of place

The detail of these outcome statements, and what we plan to achieve, is contained in 7 strategies covering Urban Development, Transport, Economic Development, Environmental, Social, Cultural Well-Being, and Governance. This information can be viewed in more detail using the following link:

<http://www.wellington.govt.nz/plans/draftstrats/draftstrats.html>

A key input to the strategies has been the development of a set of community outcomes that express a wider vision for the city that many agencies including the Council will contribute to. The table below sets out possible areas of strategic alignment for the CCO:

<b>STRATEGY</b>	<b>OUTCOME</b>
<b>ENVIRONMENTAL</b>	<p><b>More sustainable</b></p> <ul style="list-style-type: none"> <li>• Wellington will reduce its environmental by making efficient use of energy, water, land and other resources; using more renewable energy resources; conserving resources; and minimising waste</li> <li>• Wellingtonians will have access to safe and reliable energy and water supplies, clean air, and waste disposal systems that protect public health and ecosystems.</li> </ul>

The Council also has general objectives for CCO's. These are that they should:

- have a partnership approach with Council and other CCO's;
- have a regional focus, where this is appropriate;
- to appropriately acknowledge the contribution of Council;
- achieve maximum effectiveness and efficiency of, and concentrated focus on service delivery;

- access alternative sources of funding and endeavour to reduce their reliance on ongoing Council funding; and,
- operate at breakeven after depreciation expense<sup>1</sup> (see Specific Results section)

### **Expected Contribution to Council Objectives**

It is vital that each CCO effectively contributes to these Council outcomes to enable the city's vision to be achieved.

We expect that your SOI and business plan will set out and clearly demonstrate how the activities of the CCO contributes to the Council's strategic direction and outline how the CCO's objectives and strategies underpin this.

The SOI must comply with the provisions of clause 9 of Schedule 8 of the LGA. Clause 9 refers to *the objectives of the CCO, the nature and scope of the activities to be undertaken by the CCO and the performance targets and other measures by which the performance of the group may be judged*. In relation to these sections of clause 9 we expect that each SOI will set out clearly the following information.

- a. The nature and scope of the CCO's functions and intended operations;
- b. The *specific* Council impacts, outcomes or objectives that the CCO seeks to achieve or contribute to through its operations;
- c. How the CCO intends to:
  - (i) perform its functions and conduct its operations to achieve those impacts, outcomes or objectives;
  - (ii) effectively manage those functions and operations within a changeable operating environment including mitigation of the risks it can identify.
- d. The main measures and standards that the CCO intends to use to assess and report on matters relating to the CCO's future performance, including, without limitation:
  - (iii) the impacts, outcomes or objectives achieved or contributed to by the CCO;
  - (iv) the cost-effectiveness of the activities and outputs that the CCO delivers or administers;
  - (v) the organisational health and capability of the CCO to perform its functions.
- e. Any other matters reasonably necessary to achieve an understanding of the CCO operating intentions and direction.

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<sup>1</sup> They are not required to generate a profit or surplus apart from where this is required to meet financial obligations, and neither are they required to pay a contribution or dividend to Council. They are not permitted to post a deficit (after depreciation) nor have negative equity/trust funds.

This is a more complete description of these sections of your SOI than has been previously sought and it more fully describes the contribution your CCO makes to the city. The measures included in your SOI should be specific, measurable, achievable, realistic and timely.

### **Performance Reporting Expectations**

This letter sets out the reporting standards and timeframes for the CCO unit and quarterly reporting to the CCO Performance Subcommittee. We will continue to work to align reporting requirements across Council and where possible eliminate any reporting duplication.

#### *Financial Information*

We wish to clarify the information we require to be provided to the Council under Sec 9. 1 (h) of Schedule 8 of the Local Government Act 2002 and establish the standards for this information.

Consolidated forecast financial statements covering 2006/07 and the two following years should be incorporated in the CCO's strategic or business plan that is provided to the Council. These must be attached to and form part of, the SOI. They must be prepared in accordance with Generally Accepted Accounting Practice (GAAP) and should include

- a forecast statement of financial performance
- a forecast statement of financial position
- a forecast statement of cash flows
- any other forecast financial statement required by GAAP
- a reconciliation of net cash flows from operating activities to the net surplus/(deficit) in the operating statement
- a statement of movement in equity or taxpayers' funds
- details of fixed assets by category

For reporting purposes the CCO is required to provide a budgeted statement of financial performance, statement of financial position, cashflow statement and cash flow reconciliation statement for each quarter for 2006/07. The CCO quarterly report must follow the same format and report against the budgeted quarterly information.

A template is attached that sets out the required format for providing financial budgets and quarterly reports. This template is not to be amended without the prior consent of the Director Council Controlled Organisations.

#### *Capital Expenditure*

We expect that the Business Plan will contain a summarised asset management plan and an analysis of planned capital expenditure with an appropriate risk assessment of these projects. This information will include the means by which the expenditure is to be funded. Related items that would be presented include asset disposals and borrowing strategy.

Any major capital expenditure project should be reported in quarterly reports against project measures including timeliness, cost and quality.

#### *Performance Targets*

Performance targets should be provided for each quarter so that actual performance can be monitored on a quarterly basis where possible. The quarterly targets should be phased appropriately to reflect any seasonal differences that are expected. Existing measures should be reviewed to see if they are still appropriate and meaningful and consideration given to whether or not improved measures might be used.

#### *Performance Reporting Timetable*

The following table sets out the timetable for entity reports for the balance of 2005/06 and for 2006/07. The 2006/07 dates are indicative and updates will be advised to you:

<b>Report Description</b>	<b>Due Date</b>	<b>CCOP Subcommittee Date</b>
<u>Draft</u> Statement of Intent	Wednesday, 1 March 2006	Friday, 17 <sup>th</sup> March 2006
Council to respond with any amendments or revisions to the draft SOI by the end of March 2006		
3 <sup>rd</sup> Quarter Report	Monday, 1 <sup>st</sup> May 2006	Wednesday, 7 <sup>th</sup> June 2006
Final Statement of Intent	Monday, 22 <sup>nd</sup> May 2006	Wednesday, 7 <sup>th</sup> June 2006
<u>Final</u> Business Plan / Strategic Plan (2006/07)	Monday, 22 <sup>nd</sup> May 2006	Wednesday, 7 <sup>th</sup> June 2006
Annual Report (4 <sup>th</sup> Quarter Report)	<i>To be confirmed</i> by WCC Finance Unit – Draft accounts will usually fall due during July and Audited Accounts usually by end of August.	<u>Wednesday, 4<sup>th</sup> October 2006</u>
1 <sup>st</sup> Quarter Report	Tuesday, 24 October 2006	Monday, 20 <sup>th</sup> November 2006
Draft Business Plan 07/08	Monday, 20 <sup>th</sup> November 2006	N/A
2 <sup>nd</sup> Quarter Report	Monday 19 <sup>th</sup> February 2007	Wednesday 21 <sup>st</sup> March 2007
<u>Draft</u> Statement of Intent	Thursday, 1 March 2007	Wednesday 21 <sup>st</sup> March 2007
Council to respond with any amendments or revisions to the draft SOI by the end of March 2006		
3 <sup>rd</sup> Quarter Report	Monday, 30 <sup>th</sup> April 2007	Wednesday, 16 <sup>th</sup> May 2007
Final Statement of Intent	Monday, 7 <sup>th</sup> May 2007	Wednesday, 6 <sup>th</sup> June 2007
<u>Final</u> Business Plan / Strategic Plan (2006/07)	Monday, 21 <sup>st</sup> May 2007	Wednesday, 6 <sup>th</sup> June 2007
Annual Report (4 <sup>th</sup> Quarter Report)	<i>To be confirmed</i> by WCC Finance Unit – Draft accounts will usually fall due during July and Audited Accounts usually by end of August.	<u>Wednesday, 10<sup>th</sup> October 2007</u>

#### *FTE reporting*

An HR report will also be developed to be included in quarterly reporting, including a breakdown of FTE numbers, turnover and other dimensions of staff performance.

### *Risk Management*

We would expect that the SOI and business plan will identify the key risks that the entity faces in the planning period and the risk mitigation strategies that are in place to manage these risks.

### *Major Transactions*

The Companies Act 1993 contains thresholds<sup>2</sup> for when shareholders support is required to approve major transactions. This is the minimum threshold for consultation which the Council applies to all CCO's (i.e. including trusts). Due to the nature of the operating environment we require a higher level of consultation and propose that the following principles govern this.

- The business plan provided to Council should disclose any material transactions<sup>3</sup> that are likely to occur during the planning period.
- Any transaction that is potentially contentious in nature, likely to attract media attention or which could cause embarrassment for the Council should be brought to Council attention irrespective of the size of transaction. This includes notifying both the Director Council Controlled Organisations and the Council Chief Executive.

### *Capacity Creation*

The city is undertaking a review of operations with an aim of creating capacity for the city to undertake key priority projects. As part of this we require within the business plan for each CCO to identify their core business, and any new initiatives which are resulting in a change in expenditure. This should include reconciling the changes in income and expenditure between the 2005/06 operating result and the 2006/07 planned operating result. Please also highlight items of expenditure which are the lowest priority for the year and how, in spite of this they are critical to maximising the service that the Company aims to provide.

### *Communication and Access to Information*

Notwithstanding any legal obligation under the Local Government Official Information and Meetings Act 1987, it is expected that 'open and frank' communication will occur and that the Council will be provided with access to information it requests. The relationship between Council and CCO's will operate on a 'no surprises' basis so that any significant event that may impact on either party is brought to their attention as soon as it can be reasonably done.

The Council may exercise its right to access information if it is deemed necessary to ensure its interests are upheld.

We would like the SOI to include a statement confirming the principles governing the relationship between the Council and the CCO; the CCO unit will work with you to provide appropriate wording.

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<sup>2</sup> A transaction that has or is likely to have the effect of the company acquiring rights or interests or incurring obligations or liabilities the value of which is more than half the value of the companies assets before the transaction. Sec 129 Part 8 Companies Act 1993

<sup>3</sup> A material transaction is defined in terms of both financial and operational effects

### *Governance*

To assist in maintaining effective board appointment processes we expect that each Board will meet best practice governance standards and have in place a process to undertake a regular (at least annual) review of the overall board, individual board member and the chairs performance. Feedback on this would be confidential between the chair and the Director Council Controlled Organisations.

We would expect that an appropriate board development programme will also be in place to assist in lifting board performance over time.

We will assist all CCO boards with implementing this.

### *Trust and Funding Deeds and Company Constitutions*

Since the creation of CCO's in their various guises there have been a number of changes made to the legal documentation supporting these structures. It is appropriate that the Trust and Funding Deeds and Company Constitutions are reviewed to achieve greater consistency between the deeds/constitutions governing the various CCO's. We would like the cooperation of all CCO boards as we work through this process which may take some time. This will require each CCO to work with the Council to review its trust deed or constitution to meet Council expectations in this area.

### **Specific Results**

Notwithstanding the need for the CCO to comply with the objects set out in its Constitution, the Council as primary stakeholder, would like Capacity when planning and undertaking its activities during 2006/07, to address the following areas of focus:-

- a. To complete the development of the savings model to demonstrate to Council the value that is being delivered by Capacity.
- b. To consult with shareholders at an early stage on any business development activities being considered
- c. To develop performance measures which demonstrate at a macro level the effectiveness and efficiency of Capacity's service delivery.

### **Timeframe**

The draft SOI is due with the Council on 1 March 2006.

### **Conclusion**

The Council has a number of specialist resources that may be able to assist CCO's where this is appropriate and the CCO does not have these services available internally. This includes the internal audit team which is available to assist in reviewing internal processes and risk management plans. Ultimately while the Council can assist by providing advice in some areas, the CCO board and management remains accountable for the CCO's performance.

Should you have any queries or comments in regard to this Letter of Expectation please contact Wayne Maxwell in the first instance.

Yours sincerely

**Garry Poole**  
**CHIEF EXECUTIVE**

CC: David Hill