
REPORT 4
(1215/52/02/IM)

**REVIEW OF THE PERFORMANCE OF ALL COUNCIL
CONTROLLED ORGANISATIONS FOR THE QUARTER
ENDED 31 DECEMBER 2008**

1. Purpose of Report

To provide the Subcommittee with an analysis of the performance of all Council Controlled Organisations (and other selected entities) for the quarter ended 31 December 2008, in compliance with the Local Government Act 2002 and Council reporting requirements.

2. Recommendations

It is recommended that the Subcommittee:

1. *Receive the information*
2. *Recommend that the Strategy and Policy Committee (SPC) notes the following matters with regard to the second quarter 2008/09 performance of Council Controlled Organisations:*
 - a) *as at 18 February, the Basin Reserve Trust and the Stadium Trust had not submitted a second quarter report*
 - b) *issues arising from the first quarter financial report of Capacity have not been completely resolved. Officers will continue to work with Capacity until we have assurance over the accuracy of the entities' financial reporting*
 - c) *Positively Wellington Tourism launched its Wellington Visitor Strategy 2015 in December to strengthen Wellington's position as a visitor destination during and after the current economic downturn. The financial performance of the i-Site improved significantly during the second quarter*
 - d) *the St James Theatre Charitable Trust has responded to the challenges presented by the economic downturn and, after briefly going overdrawn in January, is forecast to remain in credit to the end of the financial year*

- e) *Wellington Cable Car Limited had a 16% year to date increase in passengers compared to the previous year, however unbudgeted legal and financial costs associated with clarifying the company's financial and tax structure have reduced surpluses and could impact on the quantum of the 2008/09 dividend paid to the 100% shareholder, Wellington City Council*
 - f) *the Wellington Museums Trust has approached the Council for an increase in its baseline operational funding to cover a number of issues. This will be reported on to the Strategy and Policy Committee as part of the LTCCP process*
 - g) *construction of the Nest, the new animal hospital at the Zoo, progressed during the quarter and continues to track to budget.*
3. *Recommend that the Strategy and Policy Committee (SPC) notes that CCOPS is monitoring the Karori Sanctuary Visitor Centre project at the direction of SPC and that the first update report is included within this report, and that:*
- a) *without further information, officers cannot confirm that the project will be delivered on time and within budget, nor properly assess the likelihood of this outcome*
 - b) *further detailed work needs to be undertaken with the project's quantity surveyors to determine progress of variations and whether this is being administered appropriately; and Fletcher Development Corporation (the construction contractors) to confirm the state of the construction programme*
 - c) *The project contingency remains at a concerning level, following the decision by Council and New Zealand Lotteries not to fund any further contingency*
 - d) *To address these concerns, officers have approached the Chair of the Karori Wildlife Sanctuary Trust Steering Group to:*
 - i. *facilitate access to the information requested by officers*
 - ii. *convey officers' recommendation that the Steering Group implement further scope reduction initiatives to bolster the project contingency immediately*
4. *Note any other issues for the Chair to raise with the Strategy and Policy Committee in regard to this report*
5. *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. Officers have included a brief overview that includes the agreed Key Performance Indicators and financial summaries. The issues that have been identified from officers' reviews are included in this covering report.

4. Entities covered by this report

4.1 Council Controlled Organisations

To comply with statutory requirements, officers will report quarterly to the Subcommittee on the performance of Council Controlled Organisations (CCOs). These are:

Basin Reserve Trust
Capacity
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 CCOP Subcommittee meetings it was recommended that a number of Council Organisations also be monitored on a quarterly basis. Accordingly, the following entities have been included within this quarter:

The Karori Wildlife Sanctuary Trust
Wellington International Airport Limited (Public Excluded)

4.4 Visitor Centre Project

Following the Karori Sanctuary's request for additional loan funding, and the initiation of a governance review, CCOPS has also undertaken to monitor the Visitor Centre project.

5. Issues for the Subcommittee to consider

Council Controlled Organisations:

5.1 Basin Reserve Trust

The Trust has not submitted a second quarter report at the time of officer's preparing this report.

5.2 Capacity - Wellington Water Management Ltd

At its meeting on 8 December, the Subcommittee noted officers' advice that there were some inconsistencies in the September quarter report. Capacity and Council officers worked together to try to resolve the issues and gain assurance over the accuracy of the financial statements however, while officers consider it highly unlikely that there are material errors within the financial statements, for a number of reasons it has not been possible to obtain a satisfactory level of assurance.

Capacity has invited Council officers to attend the preparation of Capacity's February month accounts, at its offices in Petone. This may enable the reporting issues to be resolved, and officers will update the Subcommittee on progress with seeking this assurance.

5.3 Positively Wellington Tourism (Partnership Wellington Trust)

The current economic downturn can be seen in PWT's quarterly performance measures, one of which shows a 10% decrease in downtown spending for the December quarter. In December, the Trust launched the Wellington Visitor Strategy 2015, a major focus of which will be to guide the city's vital tourism inflow through the coming months and to ensure that Wellington is well-placed to respond to any post-recession, and longer term opportunities.

The delays in long haul aircraft continue to impact the Trust's strategy but it is important for PWT to be ready to respond to opportunities as they arise, and keep Wellington as a destination in the minds of prospective carriers.

Officers also note the significant improvement in the financial performance of the i-Site during the quarter.

5.4 St James Theatre Charitable Trust

The Trust has responded strongly to the adverse impacts of the economic downturn and whilst it did go overdrawn in January, the Trust is back in credit and forecasting to stay in credit for the rest of the financial year. The Trust has also taken a number of operational measures, including not filling staff vacancies and deferring non-critical expenditure to help reduce costs in the current economic context.

The continued success of The Jimmy and the popularity of the Terracotta Warriors exhibition have given the Trust a vital financial stimulus. While the Trust has held fewer shows than anticipated, the shows which have been held have been well attended, minimising the impact of the show cancellations that it has experienced.

5.5 Wellington Cable Car Ltd

The Company continues to manage the overhead network maintenance issues, and is understood to be close to signing an agreement with Greater Wellington. However, in spite of a 16% increase in passenger numbers for the year to date, surpluses have been eroded through significant unbudgeted legal and financial consultancy costs associated with the Company's new financial structure. This could significantly impact the quantum of the dividend to be distributed to the shareholder for the 2008/09 year.

5.6 Wellington Museums Trust

The Trust and Council officers have worked together to assess the Trust's proposal for an increase in Council operational funding from 2009/10 onwards. Advice considered at SPC on 26 February will then be deliberated on as part of the 2009/19 LTCCP process.

5.7 Wellington Waterfront Ltd

In December 2008 Council agreed to consult on a proposal that WWL should continue to plan the various waterfront projects until June 2010, at which point the day to day operations of the waterfront, including the implementation of projects, would be undertaken by Council. Following consultation, the final outcome of the review will be determined as part of the 2009/19 LTCCP process.

The Company has reviewed its governance and operational structure and has reduced its number of directors from eight to five, and will be reducing its staffing levels. The management fee paid by the Council to the Company will decrease from \$1.65 million to \$1.20 million from the beginning of the 2009/10 year.

5.8 Wellington Zoo Trust

The construction of the Nest (the new animal hospital) continued, on budget and with a current completion date four weeks behind schedule, which is acceptable to the Zoo and officers as during contract negotiations with Naylor Love, the contractor agreed to a construction period of 15 months, instead of 12

as originally tendered in order to allow Council to manage its capital expenditure funding more easily.

Fund-raising continues for the Nest and for the next major project, Meet the Locals, which is currently undergoing developed design. While there are no concerns over the Trust's (approved but not received) funding so far, like most other organisations in the current climate the Zoo may find it difficult to achieve the remainder of its funding target, in spite of the strong momentum already gathered.

Other Organisations:

5.9 Wellington Regional Stadium Trust

The Trust has not submitted a second quarter report at the time of officer's preparing this report.

5.10 Wellington International Airport Limited

The Airport continues to perform strongly, and the stimulus of another low cost airline into domestic and / or trans-Tasman routes will likely be of benefit to the Company.

5.11 The Karori Wildlife Sanctuary Trust

Following Strategy and Policy Committee's (SPC) recommendation on 6 November 2008, an independent review of the Visitor Centre Project and the Sanctuary's governance was initiated. Officers are now working to develop appropriate options for the future governance of the Sanctuary Trust, with a view to presenting the options to SPC in April 2009.

Given the significant financial commitment of the Council to the Sanctuary, SPC agreed it was appropriate for the Council to become actively involved in the monitoring of the Project. An independent officer has been appointed to monitor the project. The officer's project update is provided below:

5.12 PMO Report - Karori Wildlife Sanctuary Trust Visitor Centre Project

The Council has commenced independent monitoring of the visitor centre project, and to date has focussed on the review of regular project reports compiled by the Trust's project managers and information obtained through the monthly meeting of the Trust's delegated project Steering Committee.

Information to date has not been of the highest quality and much of our effort has been on obtaining accurate information and a more detailed understanding of the project. However the following can be concluded and actions have been undertaken to aid us in our ability to report more accurately and fully, and to gain assurance on the project's progress:

Risks exist within the programme should more than "normal" rainfall occur, particularly while the foundations are completed and the building exterior is closed in. To better understand the effect of weather, information on the number of "normal" days of rainfall allowed by the

contractor has been requested, as have re-sequencing of activities in an attempt to remove weather dependent tasks from the critical path (the ability to do this is limited without causing increased costs), a regularly marked up programme, and more detailed assessment of programme from the design professionals. The contractor is entitled to recover administrative and overhead costs for any extensions of time awarded due to weather delays beyond the “normal” allowance included within the contract.

Further programme risk exists should design documentation, design queries and related consents not be provided in a timely fashion. The master programme has not been monitored by the Trust’s Steering Committee since officers were introduced to the project and this tool should be used to aid in management of this risk. Ongoing monitoring of this has been requested.

The most significant risk relates to expenditure of contingency, as this is less than should be expected for a project of this size. The most urgent priority is to obtain price certainty as all sub-trade tender packages have not been let with 20% by value still outstanding (these have been estimated and are included in the project budget) and a significant number of variations exist to the value of \$1,400,000 which have not been agreed (again these have been estimated and are included in the project budget). To assist further in increasing the contingency, the Trust may look to reduce scope and direct these savings from the budget towards the contingency.

To address officer concerns about the quality of available information and the risks surrounding the low project contingency, officers have approached the Chair of the Karori Wildlife Sanctuary Trust Steering Group to facilitate access to the information requested by officers, and to convey officers’ recommendation that the Steering Group implement further scope reduction initiatives to bolster the project contingency immediately.

6. Conclusion

A short report prepared by officers prefaces each entity’s quarterly report which summarises the information for the quarter. The issues for the Subcommittee to consider have been determined after review of the documents by officers and discussion with the entities. After considering these reports, the Subcommittee can, if it considers it appropriate to do so, draw any matters to the attention of the Strategy and Policy Committee.

If it considers that it will help clarify the information presented or assist with its monitoring role, the Subcommittee can also ask the Chair to seek responses from a Board or Trust Chair to any queries it may have. These responses will then be tabled at the next meeting of the Subcommittee.

Contact Officers:

Allan Prangnell, Manager, Council Controlled Organisations

Ian Clements, Portfolio Manager, Council Controlled Organisations

Warren Ulusele, Portfolio Manager, Council Controlled Organisations

Natasha Petkovic-Jeremic, 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 2008/09 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's 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.