
REPORT 3
(1215/52/02/IM)

FINAL STATEMENTS OF INTENT FOR COUNCIL CONTROLLED ORGANISATIONS FOR THE YEAR 2009/10

1. Purpose of Report

To provide the Subcommittee with the final 2009/10 Statements of Intent received from Council Controlled Organisations (CCOs), 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. *Note that following the last Subcommittee meeting the Chair wrote to the Council Controlled Organisation's requesting changes to be made in their Statements of Intent and that many of these changes have been included in the final Statement of Intent.*
3. *Note that the usual practice is for the Strategy and Policy Committee to approve Statement of Intent's however, given that there are no more SPC meetings before 30 June 2009, officers advise that the Subcommittee should make its recommendations direct to Council.*
4. *Agree to recommend that Council approve the following 2009/10 Statement of Intent's:*
 - a) *Positively Wellington Tourism*
 - b) *Wellington Cable Car Limited*
 - c) *Wellington Zoo Trust*
 - d) *Wellington Regional Stadium Trust*
5. *Agree to recommend that Council approve the St James Theatre Trust 2009/10 Statement of Intent and note that the Trust's cash flow pressures are likely to continue over the year that the Statement of Intent covers, and that officers will continue to monitor the situation.*

6. *Agree to recommend that Council approve the Wellington Museums Trust 2009/10 SOI and note that the Trust is forecasting a deficit after depreciation for the next three years and states that subsequent deficits and / or reductions in service levels are likely unless it achieves budget or better in the previous three financial years and an inflation adjustment to Council's baseline funding is approved in 2012-13 and subsequent years*
7. *Agree to recommend that Council approve the:*
 - a) *Basin Reserve Trust 2009/10 Statement of Intent subject to:*
 - i. *The revision of the Trust's financial forecasts to reflect the fact that any approved Council funding for the new practice wickets would be recorded in the Council's financial records as internal capex upgrade funding of an existing (owned) asset*
 - ii. *The Trust explaining the rationale for its forecast losses almost doubling since the previous Statement of Intent*
 - iii. *The Trust committing to preparing an Asset Management Plan as a matter of urgency*
 - b) *Capacity 2009/10 Statement of Intent subject to:*
 - i. *The final Service Level Agreement between Capacity and Council being agreed, and the Service Level Agreement and Statement of Intent being aligned in terms of strategy, outputs and performance measures*
 - ii. *The Statement of Intent being approved by Hutt City Council, Capacity's other shareholder*
 - c) *Wellington Waterfront Limited (WWL) 2009/10 Statement of Intent subject to:*
 - i. *the final Waterfront Development Plan, as approved by Strategy and Policy Committee after consultation, being accurately reflected in the final Wellington Waterfront Limited Statement of Intent*
8. *Note that Positively Wellington Tourism will report back to the Council before the end of June to update officers on the status of the Karori Wildlife Sanctuary's marketing plan for the opening of the Visitor Centre*
9. *Note that Positively Wellington Tourism is approaching the Council with a new initiative funding request to invest in the Australian market; this request will be considered as part of the Long Term Council Community Plan deliberations, and any Council commitment*

would be contingent on at least an equivalent amount of funding being received from external funding sources

10. *Agree to recommend that Council agree that, in order to give the incoming board a reasonable opportunity to engage and set strategic direction for the organisation, Strategy and Policy Committee consider the Karori Wildlife Sanctuary's 2009/10 Statement of Intent in September 2009.*

3. Background

The requirements for Statements of Intent (SOIs) are prescribed in the Local Government Act 2002. The requirements in the Act are modelled on those for Crown entities which are now set out in the Crown Entities Act 2004.

Under the Local Government Act 2002, CCOs are required to submit a draft SOI to the Council by 1 March in the previous financial year. As a matter of good practice, the Council preceded this with a Letter of Expectation, sent to all CCOs in January, which outlined the Council's expectations in respect of the SOIs to be received. This process provided both the Council and the CCOs with an opportunity to fine tune respective expectations ahead of submitting the final SOI for owner approval (Council) prior to the beginning of the 2009/10 financial year.

Officers received the draft SOIs and tabled these at the CCOPS meeting on 20 April. This report included issues that had been identified in each SOI that were expected to be addressed in the final SOI. The Chair of the Subcommittee wrote to each CCO, highlighting these issues and requesting that they be addressed in the final SOI, to be submitted to officers by 20 May.

These final SOIs are included in this report for referral to Council for its approval. As the key accountability document between the Council and the Board of each entity, the approval or support of the SOI is important in confirming the strategic direction and accountability to Council of each organisation.

4. Entities covered by this report

A final Statement of Intent has been received by the following CCOs:

- Basin Reserve Trust
- Capacity
- Positively Wellington Tourism
- St James Theatre Charitable Trust
- Wellington Cable Car Ltd
- Wellington Museums Trust
- Wellington Waterfront Limited

- Wellington Zoo Trust

A final SOI has been received by the following entity that the Council monitors under the CCO reporting regime:

- Wellington Regional Stadium Trust

5. Issues for the Subcommittee to consider

5.1 *Basin Reserve Trust*

The Trust's final SOI for 2009/10 is very similar to that produced for 2008/09 and consequently our comments are also similar to last year. The draft was not provided in sufficient time for a full analysis to be provided for the CCOP Subcommittee meeting on 20 April 2009.

Officers do however make the following observations, specifically in relation to the forecast financial statements:

- The Trust has budgeted for \$450k from the Council to help pay for the new practice wicket; Council is considering this funding request in the LTCCP deliberations however, if the funding is approved it will be internal Council funding (capex) and not an opex grant to the Trust, as the Council owns the Trust's land and buildings, consequently it should not be budgeting for the income as Council would pay any costs directly. The significance of this would be to minimise the impact to ratepayers through funding the interest and depreciation on Council capex over the life of the asset, as opposed to funding a grant to the Trust, most likely over one year
- After removing the proposed new practice wickets from the Trust's forecast financials, it is still budgeting for operating deficits of \$113k, \$200k and \$175k in 2009/10, 2010/1 and 2011/12 respectively. It should also be noted that these losses are higher than forecast in the previous year's SOI which were approximately \$80,000 per annum
- The single biggest expense in the forecast financials is depreciation of leasehold improvements and, of this, annual depreciation for the new screen of \$174k represents around 25% of total expenses. Whilst this raises the question of how the Trust will replace its assets in the future, it should be noted that from the information available the Trust appears to have budgeted for reasonable annual maintenance costs, a significant amount of which must necessarily relate to the Council owned land and buildings
- Whilst there is insufficient information to fully understand the Trust's forecast operations, some of the levels of budgeted

expenditure appear quite high in relation to the budgeted levels of income to which they may be considered to directly relate. Officers will follow this up with the Trust as soon as possible and report back to the Subcommittee in October.

The Trust has finished the first step of an Asset Management Plan (AMP), with an Asset Condition Survey completed in November 2008. It proposes to discuss the next step of the AMP with officers. The Subcommittee may wish to draw the Council's attention to the fact that the \$370k funding that it gave the Trust in 2007/08 to install a new irrigation system was contingent on the Trust preparing an AMP.

The Trust has included details of a number of the risks that it has to manage, and the processes in place to manage them. However, the risks disclosed appear to be based largely on statutory compliance concerns, with less detail of the operational risks that the Trust may face such as, perhaps, a loss of funding, insufficient number and type of events, adverse media commentary, emergence of rival venues, loss of staff, etc.

While the Trust, due to its small size, struggles with its monitoring requirements, officers acknowledge the Trust's current strong performance, its continued generation of external funding and its achieving surpluses against budgeted deficits.

Officers recommend that Council approve the Trust's 2009/10 SOI, subject to the Trust satisfactorily addressing the above issues.

5.2 Capacity – Wellington Water Management Limited

The Capacity 2009/10 final SOI outlines its intended activities for the year. These include planning, consultation, managing, monitoring, delivery and growing its own business.

In a letter dated 30 April, the Chair of the Subcommittee asked for extensive changes to the draft SOI. A brief overview of the main changes made by the Company in its final SOI is given below:

- Social and environmental responsibility has been added to the principal objectives, as requested
- Capacity has responded to the request to provide assurance over its financial reporting by stating that “monthly and quarterly financial reports have been timely and accurate since the rectification required to the Quarter 1 Report 2008/09”
- The Council's Audit & Risk team undertook an internal audit and review of Capacity's operations. While the audit concluded that many of the operational processes are performed to a reasonable standard, there were also a number of recommendations for improving processes. The Audit &

Risk team will perform a follow up audit to ensure that these recommendations are implemented. The initial audit, and the follow up work are reported through the Council's Audit and Risk Management Subcommittee, thus giving officers more detailed information on the Company's management of risk, more so than could be gained through the SOI

- Capacity has declined the request that it invite the Wellington City Council audit team to do an audit to review the effectiveness of key financial controls, as it considers its annual Audit New Zealand clearance provides sufficient comfort in this respect.

The Council and Capacity are in the process of negotiating a new Service Level Agreement (SLA) for 2009/10 onwards, pending the expiry of the original 5 year SLA on 30 June 2009. The new SLA will detail the types and levels of services that the Council will purchase from the Company. This information naturally dictates the nature and quantum of any performance measures for the Company to report against. Officers agree that the SOI and SLA should contain aligned performance measures to ensure consistency in respect of the Company's accountability.

Accordingly, officers advise that the SOI should be approved subject to the agreement of the new SLA, and that the two documents should be aligned in terms of strategies, outputs and performance measures.

We note that the final SOI needs to be agreed between the two shareholders, Wellington City Council and Hutt City Council (HCC).

5.3 *Positively Wellington Tourism*

In a letter dated 30 April, the Chair of the Subcommittee requested that the Trust define Key Performance Indicators (KPI) in relation to visitor numbers to the Karori Wildlife Sanctuary and the Carter Observatory, and outline the assumptions underpinning them. Officers note that PWT and Karori are working closely to develop a marketing plan to support the opening of the Visitor Centre and beyond. Officers recommend that the SOI be approved, noting that PWT and Karori are close to agreeing a marketing contract to formalise PWT's accountability in this key area of Council investment.

A brief summary of other points raised is given below:

- PWT intends to attract visitors that currently do not incorporate Wellington into their itinerary. To help achieve this it will aim to find a way to support the development of the best urban campervan park in NZ
- PWT highlight the significant risk for 2009 as the erosion of Australian tourist market share. PWT have asked the Council to

increase its funding to allow the Trust to market Wellington more aggressively in key Australian urban areas.

Further to the above, officers are finalising a new initiative from the Trust which requests this additional operating funding for consideration in the LTCCP deliberations.

5.4 St James Theatre Trust

The Trust has responded to all the points raised by CCOPS in its letter of 30 April, and the three issues relating to the liability for capex renewals, operating measures to manage a tight cash position and full financial forecasts and KPIs are discussed below.

The Trust has amended all comments implying that Council accepts liability for the Trust's capex renewals, which will be detailed in the Asset Management Plan that the Trust is currently preparing. In October 2008, CCOPS recommended to SPC that "the Trust should approach the Council annually for any major programmed maintenance in the following year that it is unable to fund itself"

In its business plan, the Trust has outlined the measures it has taken, and will continue to take during the worsening economic conditions in order to manage its cash. For example, the Trust has deferred all non-critical capex, is not replacing vacant positions unless it has to and will not buy shows (after Slava in July 2009) unless sufficient external funding becomes available.

As requested, the Trust has included financial forecasts for the next three years, and KPIs for 2009/10. The Trust's 2009/10 and 2010/11 financial forecasts include \$200k opex grant funding from Council which it has requested through the LTCCP. Officers note that should the requested funding not be forthcoming in either or both of the years that it is requested, the Trust will experience a negative operating cashflow in the corresponding years.

The forecast financials need to be considered against the backdrop of the Trust's 31 March cash balance of \$49k, demonstrating that it has little room to manoeuvre. Whilst the Trust's cash balance improved significantly in April and May, its lack of cash will continue to be an issue for the foreseeable future, potentially leading to the Trust being unable to participate in Joint Ventures and Own Shows, subsequently increasing the risk of a greater number of dark days.

The Trust has improved its KPIs by modifying one of the existing measures, and adding new measures which are both appropriate and measurable and will enable better assessment of the Trust's performance.

Officers recommend that the Subcommittee approve the Trust's SOI, noting the continued vulnerability of the Trust in the economic downturn and that

officers continue to monitor the Trust's cash flow, and will update the Subcommittee again at its next meeting.

5.5 Wellington Cable Car Company Ltd

The Company has responded to all the points contained in the letter from the Chair of the Subcommittee in relation to its draft SOI. Consequently officers advise that the Company's SOI should be approved. A brief discussion of the main changes is given below:

- The Company has expanded on its approach to risk – how it is assessed, and what mitigating strategies are in place. Examples are given from the Company's risk and vulnerability schedule, with deference to commercially sensitive information and as a consequence officers are better able to satisfy themselves that the necessary rigour is applied in this critical area
- The Company acknowledges the need for ongoing board evaluation and development, and will seek to address this internally as far as resources permit and would welcome any assistance that Council might be able to provide
- The Company acknowledges the difficulties in pursuing legislative changes to impose more reasonable pole access charges and are officers are satisfied that the potential benefits currently outweigh the risks

A review of the Company's financial forecasts highlights the following two points:

- Due to the revaluation of the overhead network, there is now an associated depreciation charge which means that this area of the business will now run a small deficit
- The Company is budgeting for tax expenses of around \$450k over the three years of the SOI which will inevitably affect the quantum of the Council dividend. Officers understand that the tax expense will most likely take the form of a subvention payment to the Council, in order to make use of its tax credits, rather than an actual payment to the IRD.

5.6 Wellington Museums Trust

The Trust and Council officers worked together to deliver a revised increased funding request to the Council, which was ultimately approved for deliberation in the LTCCP. The Trust wants to use the funding to implement its new organisational strategy which addresses the immediate needs of the Trust, enabling it to make realistic plans for the future, particularly in respect of

operating the expanded City Gallery, the relocation of heritage collections, exhibition refreshment and revenue generation.

The Trust has made most of the amendments to its 2009/10 SOI requested by the Chair of the Subcommittee in his letter to the Trust on 30 April, and officers recommend that the Subcommittee approves its SOI. The letter from the Chair of the Subcommittee asked the Trust to outline how and when the Trust will achieve a break-even position. The Trust has responded by including the following comment in its SOI:

“Achieving break-even in 2012/13 will depend on the Trust’s ability to achieve budget or better in the previous three financial years and a catch-up inflation adjustment of Council’s baseline funding in 2012/13.”

This is consistent with the approach agreed by SPC in February 2009, although any inflation adjustment in 2012/13 would be for that year only, and not a 3-year ‘catch-up’.

This has also been reflected in other parts of the SOI:

- The draft SOI stated that the exhibition refreshment programme would commence in 2011/12; this has now been delayed until at least 2012/13
- A key strategy risk outlined in the SOI is the failure to meet funding needs required to deliver agreed service levels. The likelihood of this risk is rated probable and the impact includes impairment of the quality of experience

The expectation of the Council when it provided the funding increase to the Trust was that while deficits may occur in the following three years, break-even would be achieved thereafter. It is important to note that the Trust is not committing to achieving a break-even position in 2012/13 unless an inflation adjustment is provided in that year. Officers recommend that this is noted by the Council and they will work with the Trust to understand any impacts on service levels that the Trust believes may be necessary to achieve a break-even position in 2012/13.

Another point to note is that the Trust has identified refreshing Capital E as a priority. This requires both refurbishment of the building and development of the Capital E concept. It has been made clear to the Trust that it cannot expect any funding for this in the next three years. Consequently the Trust has changed its draft SOI to now state that it plans to have sought Council approval for the changes rather than achieved funding for them itself.

5.7 Wellington Waterfront Limited

Wellington Waterfront Limited (WWL) has provided a comprehensive Statement of Intent and Strategic Plan to inform the Subcommittee of the key outcomes it is intending to deliver in 2009/10. In addition, WWL has responded to all the issues raised by the Chair of the Subcommittee in his letter of 30 April.

The Company aims to complete an intensive period of planning for both commercial developments and public space works during the year. This work will include consultation and design for as many projects as possible, lodging resource consents for Sites 8 & 9 and Frank Kitts Park, and completing a master plan for Queens Wharf.

The Company acknowledges the recommendations for the Waterfront Project arising from the Council review in 2008. The Company intends to prepare a comprehensive transitional plan that anticipates waterfront operations moving to Council over an approximate six month period between 1 January and 30 June 2010, allowing the implementation of the Waterfront Project to be undertaken by the Council from 1 July of that year.

The SOI notes that the operational requirements handed over to Council will largely consist of the property management of the waterfront. This is a significant aspect of the Company's operations however equally as important is the project planning that the Company has committed to undertake during the period which must be smoothly and efficiently transitioned to the appropriate Council business units to ensure minimal disruption to the projects.

As is the usual practice, Council officers will soon be preparing a draft Waterfront Development Plan which will outline the projects and operations that the Council expects WWL to deliver during the year. Once a draft plan is approved, it will be consulted upon publicly before a final version is approved by SPC.

Subject to its accurately reflecting the Council's intentions for the waterfront in the 2009/10 year, as recorded in the final Waterfront Development Plan, officers recommend that the 2009/10 WWL SOI be approved.

5.8 Wellington Zoo Trust

The Zoo's draft SOI and business plan were fairly comprehensive and gave a good overview of the Zoo's operations, the strategies it is implementing and the challenges that it continues to face. The Subcommittee highlighted some issues, which the Trust has addressed in its final SOI, and this is discussed below.

The Trust responded to officer concerns that the Zoo may appear 'half-finished' at the end of the Zoo Capital Plan, noting that careful attention to low key changes around building materials, landscaping and interpretation, in addition to the obvious big-ticket items such as the Wild Theatre and the

Nest, will help to address this potential issue. That said, the Trust also noted that a realistic life span for Zoo exhibits is generally considered to be 20 – 25 years and that this requires a robust maintenance and renewal regime.

The Zoo responded to concerns over its level of operating grant funding by forecasting that it can continue operating for the next three years at the same dollar amount of funding. The Zoo has achieved significant surpluses in the last two years to help restore its balance sheet reserves and states that it should continue to build these reserves to help mitigate its vulnerability to bad weather and an economic downturn.

In response to concerns over a steady increase in personnel costs, the Zoo contends that this is primarily to address inconsistent staff relativities, ensure modest pay increases for lower paid staff and to invest in its people.

Officers accept the Zoo's responses to the letter from the Chair of the Subcommittee and recommend that it approves the Zoo's final SOI.

5.9 Wellington Regional Stadium Trust

The final SOI for the Trust, submitted with its business plan for 2009/10 and a summary of its 5-year strategic objectives, is detailed and comprehensive, allowing officers to understand the Trust's operations, and the risks and opportunities that it faces. Consequently officers recommend that the Subcommittee approves the Trust's SOI.

The Chair of the Subcommittee did not send the Trust a letter asking for amendments to the draft SOI. The only changes made to the draft SOI are the addition of an executive summary and small changes to the ratios of Trust Funds to Total Assets and Total Liabilities for the 3 years of the SOI.

A review of the Trust's business plan notes the following points:

- There are significant changes taking place to the major rugby and cricket competitions which will be positive for the Stadium
- Forecast surpluses for the next 3 years are between \$1.58m and \$2.53m. The highest amount is forecast for the 2011/12 year which includes the 2011 Rugby World Cup
- Commercial loan repayments are ahead of schedule but there is no expectation to repay the debts owed to the settlors over the period of the SOI
- The Trust is continuing discussions with Westpac in relation to naming rights sponsorship, with a view to negotiating a renewal when the current agreement expires at the end of 2009. Deloitte

has renewed the naming rights sponsorship of the Members Club until December 2014.

5.10 Karori Wildlife Sanctuary Trust

In April 2009, in return for an increase in loan funding, the Council requested that the Trust make a number of changes to its governance arrangements, including increasing the number of Council appointees from two to three, reducing the total number of trustees to a maximum of eight and giving the Council the right to approve the Chair of the Trust.

These governance changes are currently being given effect to, with two new Council appointed trustees appointed at the Council meeting on 27 May. In light of there being a new board for the Trust, officers advise that the Trust should be given more time to finalise its SOI, and suggest that the new board delivers its final SOI by September 2009.

6. Conclusion

The overall quality of the final SOIs still varies significantly across the CCOs, and this year a further complication arose with at least two of the CCOs submitting draft and final SOIs well beyond the acceptable deadline. As a consequence of this and other factors (for example, the governance changes at the Karori Sanctuary) officers have not been able to recommend to the Subcommittee that it approve all the SOIs. In addition, a number of the SOIs are recommended for approval subject to their incorporating additional information and / or amendments in their final SOIs.

Officers will continue to work with the CCOs to ensure that all the SOIs continually improve and drive the performance of this important group of entities that provide a range of critical and popular services to the City.

Contact Officers:

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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. CCOs are required to state in their Statements of Intent how they contribute to Council's strategic goals.

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.

A Statement of Intent is a legal requirement for CCOs under the Local Government Act 2002.

7) Consistency with existing policy

This report is consistent with existing WCC policy.