

Wellington Cable Car Limited

Statement of Intent 2009/10

Final 5 June 2009

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INTRODUCTION

This statement of intent (SOI) has been prepared by Wellington Cable Car Limited, as required by the Local Government Act 2002, for a Council Controlled Trading Organisation (CCTO).

The purpose of the SOI is to state publicly the activities and intentions of WCCL. It also provides Wellington City Council (WCC), as the shareholder, with the opportunity to influence the direction of the company and to provide a basis for accountability of the Directors to the shareholders for the performance of the company.

The SOI sets out the objectives and performance targets for WCCL for the 12 months to 30 June 2010 and describes the nature and scope of the activities to be undertaken to achieve these objectives.

COMPANY BACKGROUND

Wellington Cable Car Ltd (WCCL) was originally established to:-

- a) Own, maintain and operate the Wellington Cable Car system from passenger fare income and,
- b) Own and maintain the Wellington trolley bus overhead wire network in order that a bus company could utilise the network to provide trolley bus services as specified in a contract between the Greater Wellington Regional Council (GWRC) and the bus company. WCCL's maintenance of the trolley bus overhead network was to be met by contract payments from GWRC.

OPERATING AND STRATEGIC ISSUES

In the period up until 2006/7 the value of the trolley bus overhead assets was reduced to zero because of the uncertainty related to the continuation of the trolley bus service. However since the continuation of the service is now assured for a period of possibly 5-10 years then it is appropriate from an accounting point of view that the asset value be restored. The assets have been valued on the basis of the Optimised Depreciated Replacement Cost (ODRC); however there are circumstances which mean that this value could be impaired.

The payments from GWRC do not provide for depreciation, certain overheads or a return on assets, therefore the potential to gain additional revenue from third parties (power and telecommunication companies) using WCCL's poles to support their networks, was explored during 2007/08. A pricing methodology was developed to determine pole user charges based on seeking to gain an appropriate return on the overhead asset network assets. This meant

that, in conjunction with the Shareholder, a decision was made for the company to transition from a Public Benefit Entity (PBE) to a Profit Orientated Entity (POE). Since it was envisaged that it would take an extended period to establish the appropriate level of revenue from pole users, it was decided that it was appropriate to value the overhead network assets on the basis of the level of revenue that could reasonably be expected to achieve, with re-valuations being carried out each year as revenue levels increase.

Therefore the company is in a position of transition while it works to establish its full revenue requirements from pole users. It is anticipated that this may take 2-3 years.

BOARD STRUCTURE AND FUNCTION

The Board of Directors comprises of three members. All are appointed by WCC for varying first terms of one to three years. According to council policy there is a maximum length of service of six years.

The Chairman is appointed by the Council.

The Board is currently meeting bi-monthly.

RESPONSIBILITIES OF THE BOARD INCLUDE:

- a) Exercising prudence and skill in their governance of the company, and to act in accordance with the requirements of the Companies Act 1993 and all other relevant legislation in the execution of their duties.
- b) Addressing policy, solvency and statutory issues of the company.
- c) Monitoring the company's activities and ensuring the company acts in accordance with its stated objectives.

SPECIFIC BOARD OBJECTIVES INCLUDE:

- a) Ensuring the ongoing safe and efficient operation of the Cable Car system.
- b) Ensuring the ongoing safe and efficient management of the Trolley Bus Overhead Network.
- c) Developing an appropriate rate of return on the trolley bus overhead network assets through revenue from the GWRC and pole user charges.
- d) Ensuring that the companies risk profile is appropriate through review of the Risk and Vulnerability schedule prepared by management. This schedule identifies risks and their impacts, and the necessary actions to mitigate or control the risks. The routine management reports to the Board of Directors will continue to identify issues which impact on the companies risk profile.
- e) External resources will be deployed to supplement the skills that are held by management and staff.

The company's management of risk will be reviewed and reported upon by the Auditor on an annual basis.

DELEGATED FUNCTIONS

The Board of Directors delegate the day to day management of the company to the Management team, who are required to act in accordance with the Boards approved delegations policy.

CONSULTATION

In order to meet their responsibilities the Board will seek independent advice and consult with the management team on matters beyond the scope of their expertise.

PROCEDURE FOR SHARE ACQUISITIONS, PURCHASE/SALE OF ASSETS

The Company will only issue shares acquire shares in other companies or become a partner with any other business with the express permission of Council.

The Company will fully investigate and report to Council any proposal to enter into partnerships or to sell any buildings or other significant assets before commitments are entered into.

VALUATION OF SHAREHOLDERS' INVESTMENT

The Boards' estimate of the commercial value of the shareholders equity in the company on 1 July 2007 was \$4,239,699. The value is re-examined annually.

PRIMARY BUSINESS ACTIVITIES

The primary business activities of WCCL are now defined as

- a) Maintain and operate the Wellington Cable Car system to meet the needs of commuters and tourists from passenger fare income and any additional revenue developed from increasing tourism related activity.
- b) To maintain a trolley bus overhead wire system funded via a contract with the Greater Wellington Regional Council and pole user charges from utilities using WCCL's poles to support their networks.
- c) To undertake contracts related to network modifications and services for third parties, on a commercial basis.

COMPANY OBJECTIVES

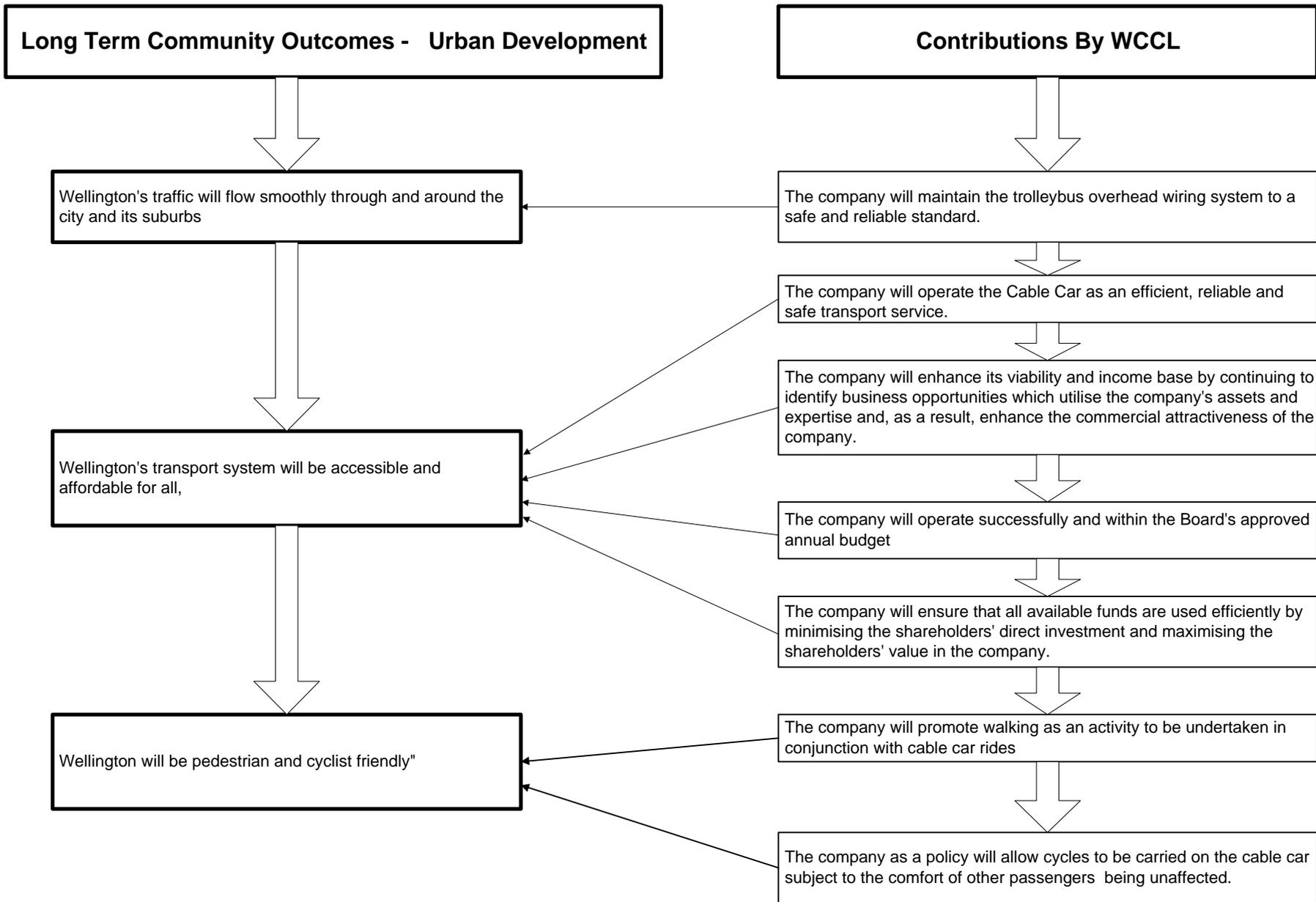
The business will be managed to meet:-

- a) General objectives set specifically by Wellington City Council in its ***“letter of expectations”*** and
- b) Objectives arising from the Wellington City Council’s desire for the company to contribute to community outcomes described in the Long Term Community Plan
- c) WCCL’s Internal Objectives related to:-
 - i) Safety in order to meet statutory requirements and to provide the appropriate levels of service reliability.
 - ii) Customer service standards such that the cable car business is enhanced and meets or exceeds standards measured through ratepayer surveys conducted by Wellington City Council.
 - iii) The requirement that the trolley bus overhead operation is not to be subsidised by cable car fares

The company will:-

<i>WCC Objectives</i>	WCCL Activities to meet WCC's Objectives
<i>i) Have a partnership approach with Council and other CCO's</i>	a) The company will communicate with the Shareholder on a regular basis particularly after Board meetings. (b) The company will co-operate with other CCO's in developing future packages and enhancements for tourism related activities.
<i>(ii) Have a regional focus where this is appropriate</i>	(a) The company will market the cable car to attract visitors from other regions.
<i>(iii) To appropriately acknowledge the contribution of Council</i>	(a) The company includes WCC logos on marketing material and communications where appropriate
<i>(iv) To achieve maximum effectiveness and efficiency of, and concentrated focus, on delivery</i>	(a) The company will manage the operation of the cable car within the timetable to maximise the throughput of passengers without detracting from the overall experience of visitors to the facility. b) The company will manage the cable car assets through its Asset Management Plan anticipating potential obsolescence and failure modes with the objective of having zero breakdowns. c) The company will train staff to ensure that breakdowns due to operator error are minimised. d) The company will manage the maintenance of the trolley bus system through its asset management plan with the objective of minimising breakdowns and facilitating an effective trolley bus service as required by the GWRC and the trolley bus operator. e) Monitoring overseas developments in equipment and techniques and adopting as appropriate.

<p><i>(v) To access alternative sources of funding and endeavour to reduce the company's reliance on ongoing Council funding and</i></p>	<p>a) The company will continue to operate on the assumption that WCC will not be providing funding.</p>
<p><i>(vi) To operate profitably or at least at breakeven after depreciation and achieving the Shareholders required rate of return on assets.</i></p>	<p>(a) The company will continue to develop areas other sources of income arising from the ownership and management of the trolley bus overhead system:-</p> <ul style="list-style-type: none"> i) including providing third party services on a commercial basis, ii) establishing pole user charges from all parties utilising WCCL's assets <p>(b) The company will use reasonable endeavours, (working within GWRC processes and in consultation with WCC) to seek adequate contract payments from the Greater Wellington Regional Council to cover the trolley bus overhead expenditure necessary to provide adequate asset maintenance.</p> <p>(c) The company will set revenue targets for the cable car operation to cover the operation and maintenance expenditure.</p>



Long Term Community Outcomes - Transport Strategy

Wellington's transport system will be designed meet the needs of its people efficiently and sustainable

Wellington's traffic will flow smoothly through and around the city and its suburbs

Wellington's transport system will be accessible and affordable for all,

Wellington will be pedestrian and cyclist friendly"

Contributions By WCCL

The company will operate the Cable Car as an efficient, reliable and safe transport service.

The company will maintain the trolleybus overhead wiring system to a safe and reliable standard.

The company will enhance its viability and income base by continuing to identify business opportunities which utilise the company's assets and expertise and, as a result, enhance the commercial attractiveness of the company.

The company will operate successfully and within the Board's approved annual budget

The company will ensure that all available funds are used efficiently by minimising the shareholders' direct investment and maximising the shareholders' value in the company.

The company will promote walking as an activity to be undertaken in conjunction with cable car rides

The company as a policy will allow cycles to be carried on the cable car subject to the comfort of other passengers being unaffected.

Long Term Community Outcomes - Economic Development

Contributions By WCCL

Wellington will be a prime tourist and conference destination , with diverse changing attractions that fit and highlight Wellingtons best features

The company will operate the Cable Car as an efficient, reliable and safe transport service.

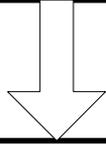
The company will enhance the Cable Car's attractiveness as a Wellington tourist icon.

The company will develop additional tourism related business supplementary to the normal cable car passenger service.

The company will promote walking as an activity to be undertaken in conjunction with cable car rides

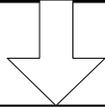
The company will promote in New Zealand and Internationally, Wellington and its attractions that can be accessed by the cable car.

Long Term Community Outcomes - Economic Development

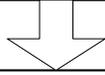


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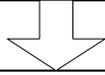
Contributions By WCCL



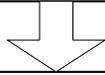
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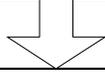
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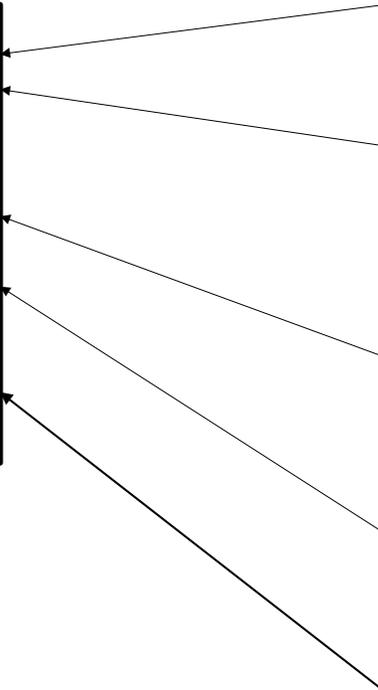
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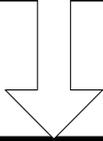
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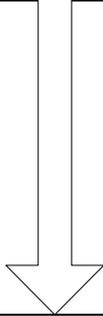


Long Term Community Outcomes - Environment



Wellington's use of non-renewable energy resources will decrease

Contributions By WCCL



The company will manage the trolley bus overhead wiring system to allow the efficient use by the bus operator.



RISK MANAGEMENT

The company's Risk Management Policy is that risk is assessed on at least an annual basis and documented in the Risk and Vulnerability schedule. However, by the nature of the business involving electrical and mechanical equipment as well as being involved in passenger transport, day to day business involves frequent assessments of the following risks:-

- a) Financial
- b) Disaster Recovery and Systems backup
- c) Assets and their Management
- d) Personnel Management
- e) Statutory Risks
- f) Commercial Risks

In each category all aspects of the business are considered and the level of risk assessed and mitigation actions determined as appropriate. The Board of Directors review the Risk and Vulnerability schedule annually. The following are examples from the Risk and Vulnerability Schedule; some aspects are commercially sensitive and are inappropriate to be included in a public available document.

Financial

RISK	LEVEL OF VULNERABILITY	FURTHER ACTION?
Loss of Control of Company funds as a result of operating multiple bank accounts	LOW	NIL
Failure to report on expenditure or to include current commitments in Financial reports	LOW	NIL
The possibility of the management committing significant expenditure that has not been examined and approved by the Board.	LOW	NIL
False invoicing or inadequate financial systems	LOW	NIL
That inappropriate stock levels develop or that stock is not controlled according to the company's requirements	LOW	NIL

That cash is internally misappropriated or not adequately accounted for	LOW	NIL
That Cable Car fares are not collected, are misappropriated by staff or third parties, or are not appropriately accounted for.	LOW	NIL
Staff misappropriate cash or fares from “en route” sales	LOW	NIL
That the company’s revenue from the Cable Car is insufficient to meet its commitments.	MEDIUM	Continue with development of “bolt-on” services to increase revenue
That the company’s revenue related to the overhead is inadequate to meet costs and to provide an appropriate return on assets	HIGH	Complete the funding agreement with GWRC and pursue the development of agreements with pole users to pay for occupying poles
That Maintenance budgets are exceeded in a material way due to cost “blowouts”	LOW	Nil
Administration budgets are exceeded in a material way due to excessive expenditure	LOW/MEDIUM	Make adequate provisions for legal and external resources in the budget

Disaster Recovery and Systems Backup

Summarised there are a number of areas where documents and records could be better protected retained	LOW/MEDIUM	The protection and storage of documents and records will be reviewed and appropriate action taken
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Assets and their Management

That overhead assets fail resulting in action under OSH and Electricity Act	LOW/MEDIUM	Implementation and continued development of the 2008/2018 AMP will proceed subject to GWRC funding.
Summarising: Cable car asset failures		Continue with current maintenance strategies

Statutory Risks

That Directors and Management fail to meet legal requirements	LOW	None
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Personnel Management

Summary: That staff losses adversely impact on the business.	LOW/MEDIUM	Strategies are being considered to reduce the dependence on key staff
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Commercial Risks

Commercial and financial risks arise because WCCL does have the resources to adequately address contractual or litigation issues with	LOW	Continue to review commercial situations and
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third parties.		contract positions to avoid reaching positions where severe financial risk is incurred.
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PERFORMANCE TARGETS AND OTHER MEASURES.

THE PERFORMANCE MEASURES FOR 2009/10 ARE:

Performance indicator	Measure	Target/Result
Cable car vehicles, Track, Tunnels, bridges, buildings and equipment are maintained to required safety standards	Approval by Land Transport NZ to be completed by February each year.	Approval granted
Cable Car service reliability	Percentage reliability	Greater than 99%
Cable Car Tourism initiatives are implemented	Revenue from additional Tourism Initiatives	Additional revenue \$20,000 by 30 June 2010
Inspection, maintenance and repair of trolley bus overhead network are carried out to provide appropriate levels of reliability	Number of network failures due to inadequate maintenance	None
Trolley Bus Overhead Network Asset Management Plan prepared	Asset Management Plan completion	Annual AMP Approved by 30 April 2010
Trolley Bus Network Poles identified as requiring urgent and critical replacement are programmed for replacement	Pole replacements completion	Completed in accordance with the programme
Overhead components	Component	Completed in

replacement or repairs.	programme completion	accordance with the programme
Trolley bus overhead pole occupants have formal contracts and appropriate pole user charges are being paid.	Number of contracts signed.	All by 30 June 2010
GWRC funding agreement completion	Contract signed	Agreement signed by 1 July 2009
The Performance requirements in the GWRC Trolley Bus Overhead funding agreement.	GWRC Contract payments received Contract Requirements met	Paid in accordance with agreed funding levels No complaints from GWRC
Compliance with appropriate regulations and statutes	Number of adverse comments from the relevant regulatory authorities.	None
Budgetary requirements approved by the WCCL Board are met	Degree of variance from budget	Within 10% or Board approved variance
Board delegations are adhered to	Board and management approvals of commitments and expenditure	All approvals of expenditure and commitments are in accordance with delegations policy
Company Risks and Vulnerabilities are maintained at an acceptable limit and identified in the Risk and Vulnerability register.	Number of Risk and Vulnerabilities not identified and where possible mitigated to an acceptable limit	None

CABLE CAR PATRONAGE

:

2009/10	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Passenger trips	260,000	330,000	380,000	260,000	1.250,000

ESTIMATED VISITOR PATRONAGE DETERMINED BY % OF CASUAL PASSENGERS

2009/10	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year Average
Estimated % Visitors against total trips	65%	70%	80%	70%	75%

WELLINGTON RESIDENTS SATISFACTION SURVEY:

Question	Target
Have you used the Cable car in the last 12 months?	30%
How do you rate the standard and operational reliability of the cable car (Good/Very good)	95%

DIVIDEND POLICY

The company will pay the shareholder a dividend payment which is 60% of Net Profit after tax subject to consultation and the agreement of the shareholder with respect to any retained earnings to meet the cost of capital development programmes.

INFORMATION PROVIDED TO THE SHAREHOLDER

Reports will be provided to the shareholder as required by legislation and as mutually agreed.

These include:

- a) Details relating to any proposal by the company to diversify the range or scope of activities beyond those described in this Statement of Intent.
- b) A quarterly report in respect of all activities of the company that will include comment on the performance of the Cable Car passenger service and the maintenance of the trolley bus overhead network.
- c) Half yearly reports prepared in accordance with Local Government Act 2002.
- d) An annual report and audited financial statement as required by the Financial Reporting Act 1993 and clause 67 of the Local Government Act 2002.
- e) Advice, as far as practicable, of any events or activities planned which are likely to arouse significant public interest upon which the shareholder may wish to respond quickly.

The information set out above will be provided at regular times as agreed with the Council's Monitoring Subcommittee.

ACTIVITIES FOR WHICH COMPENSATION IS SOUGHT

1. The company will pursue to the greatest practicable extent the funding from the GWRC needed to maintain the trolley bus overhead network.
2. The cable car operation will be funded from fares and any enhanced tourism activities. The cable operation will not subsidise the trolley bus overhead operation.

However, should the shareholder require the company to undertake obligations or services which cannot be covered by the funding from these sources the company will seek compensation to restore an adequate level of income to meet the business's requirements.