
REPORT 4
(1215/52/02/IM)

**DRAFT STATEMENTS OF INTENT FOR COUNCIL
CONTROLLED ORGANISATIONS FOR THE YEAR
2010/11**

1. Purpose of Report

To provide the Subcommittee with an analysis of the draft 2010/11 Statements of Intent received from Council Controlled Organisations (CCOs), in compliance with 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 that:*
 - a) *the Chair will write to each organisation, on the basis of the officer assessment provided in this cover report and as detailed below, requesting changes for final 2010/11 Statements of Intent for presentation to this Subcommittee at its meeting of 24 June 2010.*
 - b) *Relevant Council Controlled Organisations:*
 - i. *Outline potential strategies for dealing with the proposed Government GST increase from 12.5% to 15%.*
 - ii. *Address the Letter of Exception request with respect to what services could be foregone if annual operating grants were reduced by 5%.*
 - iii. *Include level of Council subsidy per visitor as a Key Performance Indicator.*

c) *Basin Reserve Trust:*

- i. *Outline additional operational risks that the Trust may face such as loss of funding, insufficient number and type of events, emergence of rival venues, etc. and information about mitigation measures relating to these risks.*
- ii. *Outline how the Trust plans to achieve Council's funding at less than 35% of total income.*
- iii. *Provide some indications of the plans for the screen replacement in the future.*

d) *Capacity Infrastructure Services Limited:*

- i. *Include discussion on having achieved anticipated efficiencies from past investments and ways to achieve further efficiencies.*
- ii. *Include some further discussion on climate change and waste minimisation.*
- iii. *Set out more detail on the historic return to shareholders from Capacity's business expansion.*
- iv. *Clarify that the development of the Company's benchmarking methodology does not replicate work being undertaken elsewhere.*
- v. *Provide more detail of the risks that Capacity faces, their probability and impact, and mitigation measures that it has in place.*
- vi. *Explain how the realignment of resources will impact the Company and under what circumstances shareholders could be asked for additional funding.*
- vii. *Include the agreed wording on Key Performance Indicators reporting, incorporating Service Level Agreement Key Performance Indicators which are not being achieved and those specifically requested to be included.*

e) *Positively Wellington Tourism:*

- i. *Include all performance measures regarding the Australian marketing campaign, as agreed at the Strategy and Policy Committee meeting in June 2009.*
- ii. *Demonstrate how the Trust will achieve its objective to maintain Council funding at less than 50% of total income.*
- iii. *Include information about reasons for the stagnant trading income.*
- iv. *Provide information on how the Trust will achieve an increase of 5% in visitor expenditure as it forecasts to increase visitor numbers (except for Australia) by 2% from the previous year's levels.*
- v. *Define Key Performance Indicators in relation to Zealandia: Karori Sanctuary experience and the Carter Observatory.*

- vi. *Provide information about leveraging the key visitor attractions and the hop on–hop off bus initiative.*
- f) *St James Theatre Trust:*
 - i. *Detail its proposed activities in relation to climate change action, and waste minimisation and emissions trading legislation.*
 - ii. *Present forecast financial statements for 2009/10 to 2011/12, and work with officers to develop Key Performance Indicators that measure performance against their stated objectives.*
- g) *Wellington Cable Car Limited:*
 - i. *Include strategic discussion of the Company's plans for the Rugby World Cup, improving the visitor experience in the Kelburn precinct, increasing coordination with other Kelburn precinct stakeholders, and the progress of the overhead trolley bus network review work and funding agreement.*
 - ii. *Set out the Company's plans for achieving additional revenue through use of the existing overhead trolley bus network.*
 - iii. *Include further discussion of climate change and waste minimisation.*
 - iv. *Provide some further detail of the Risk and Vulnerability schedule.*
 - v. *Provide further detail on the Cable Car tourism new initiatives Key Performance Indicator.*
- h) *Wellington Museums Trust:*
 - i. *Provide information about the review timeline and updated financial statements for 2010/11.*
 - ii. *Include more explanation of the City Gallery's risk rating and forecast visitor numbers.*
 - iii. *Provide information about new/reviewed strategy and expected Council support relating to Capital E.*
 - iv. *Provide some further detail of how the Trust and Carter will leverage off the other visitor attractions.*
 - v. *Include commentary regarding Carter funding from fundraising activities and its future capital programme.*
- i) *Wellington Waterfront Limited:*
 - i. *Agree performance measures once the final waterfront development plan is approved.*

- j) *Wellington Zoo Trust:*
 - i. *Clearly articulate the strategies in place to increase visitation and in so doing, reduce the Trust's reliance on Council funding.*
 - ii. *Discuss strategies to address performance measures which are flat or declining.*

- k) *Wellington Regional Stadium Trust:*
 - i. *Note that the Trust will include in its standard reporting an update when it completes the risk management processes identified by Marsh and when it receives the outcome of the energy audit.*
 - ii. *Include discussion of the Trust's intention to remedy the current issues with the cladding and roof, regardless of the court proceedings outcome.*

- l) *Karori Sanctuary Trust:*
 - i. *Outline in more detail the mitigation measures relating to the risk of not achieving the visitor and revenue targets.*
 - ii. *Include the key mechanisms and practical implications of the Memorandum of Understanding agreement between Positively Wellington Tourism and Karori Sanctuary Trust.*
 - iii. *Outline how the Trust is going to work closely and leverage off other Council Controlled Organisations e.g. Cable Car and Carter Observatory.*
 - iv. *Include information about monthly reporting in the first year of the operation as requested by Council Controlled Organisation Performance Subcommittee.*
 - v. *Agree to finalise an Asset Management Plan.*

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 SOEs under the State Owned Enterprises Act.

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 precedes this with a Letter of Expectation (LoE) to CCOs, which outlines the Council's expectations in respect of the SOIs it will receive.

The draft SOI process provides both the Council and CCOs with an opportunity to fine-tune respective expectations ahead of submitting a final SOI for owner approval (Council) in June each year.

4. Entities covered by this report

4.1 Council Controlled Organisations

A draft Statement of Intent was received from the following organisations:

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
Wellington Regional Stadium Trust
Karori Sanctuary 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. The Trust has undertaken to provide an SOI 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

The Karori Sanctuary Trust is now included in the Council Controlled Organisations Performance Subcommittee (CCOPS) quarterly reporting regime (all COs also provide an annual report to the Council) and by virtue of Council's \$10.38 million non-recourse loan to them is now required to provide an SOI.

5. Discussion

5.1 Basin Reserve Trust

The Basin Reserve Trust (Trust) has included a number of the risks that it has to manage, and the processes in place to manage them. Officers recommend that the final SOI include additional operational risks that the Trust may face such as loss of funding, insufficient number and type of events, adverse media commentary, emergence of rival venues, etc. and information about mitigation measures relating to these risks.

The Trust notes that revenue from operation is reduced compared to 2009/10, particularly income from ground hire (winter and other events) and screen board hire. The Trust has reviewed its KPIs, and those relating to event and non event days have been slightly reduced as the Trust anticipates fewer matches than previous summers due to the Cricket World Cup taking

place in February and March 2011 (fewer international cricket matches in NZ through the summer season). The Trust's organisational measure is to achieve Council's funding at less than 35% of total income which is not reflected in the draft SOI financial statements. The Trust has deleted one KPI category- 'cultural events', and has decided to use the 'community' (or non-sport) event category. Officers agree with this change.

All grant-funded CCOs were asked to consider what services could be forgone if their annual operating grants were reduced by 5%. The Trust states that the most appropriate cost saving is likely to be found in the areas of the set-up cost with events.

The Trust notes that the strong relationship between its Council appointed trustees and the Council's events team continues and that the Trust is well positioned to identify, promote and progress any appropriate hosting and staging of events.

With regard to the Trust forecasting operating losses for the next 3 years (slightly less than previously forecasted), the Trust notes that it should remain cash flow positive throughout this period. The majority of revenue received will be used to fund capital improvements as well as ongoing annual maintenance. As the depreciation of the screen is currently not funded, officers recommend that the final SOI provide some indications of the plans for the screen replacement in the future and when this is expected to be.

Summary Recommendations

The final 2010/11 SOI should

- Outline additional operational risks that the Trust may face such as loss of funding, insufficient number and type of events, emergence of rival venues, etc. and information about mitigation measures relating to these risks;
- Outline how the Trust plans to achieve Council's funding at less than 35% of total income; and
- Provide some indications of the plans for the screen replacement in the future.

5.2 Capacity Infrastructure Services Limited

Capacity's draft Statement of Intent is well presented and generally provides a good overview of its planned operating activities for 2010/11. Detailed comments are provided below and incorporate feedback from the Council's Infrastructure Directorate, as a key client of the Company.

Council officers note that the final SOI should include more discussion of some of the specific issues requested in the Letter of Expectation: namely, evidence of having achieved anticipated efficiencies from investments such as the NOVO

project and consideration of ways to either achieve further cost efficiencies or more effective service delivery for the same cost.

The draft SOI discusses the water conservation and efficiency plan and leak detection and pressure management strategies in some detail. In addition, it would be helpful if the final SOI included some discussion of the Company's initial planning and response to the issues of climate change and waste minimisation.

As in last year's SOI, the Company states that shareholders will benefit from a return on their investment as a result of Capacity's business expansion. This return is defined as a reduction in various costs to the shareholders. Officers consider that it would be helpful for the final SOI to include discussion of how Capacity measures this return to shareholders and its historic achievement; although Council officers do note that Capacity has agreed to formally report on the performance of the UHCC contract prior to 30 June 2010.

The draft SOI discusses benchmarking potential and comments that Capacity is in the process of developing a different benchmarking methodology and sourcing comparative information. Council officers commend the Company on investigating ways to improve its benchmarking against other water entities and note that this reflects the LoE request to analyse approaches to better compare Capacity against other entities going forward. However, Council officers would like assurance that the Company is not replicating work being undertaken by the New Zealand Water Association or other bodies.

The Company discusses its risk management framework (for both corporate and activity risk) in the draft SOI. However, there is little detail on the key risks faced by Capacity, making it difficult for officers to fully understand the nature of the risks that the company is exposed to or the processes being used to manage them. While officers understand that some information may be confidential and therefore not appropriate for a public document, additional information on Capacity's key risks identified and risk mitigation strategy in place would be helpful.

In terms of its strategic planning, Capacity outlines four key strategies to focus on over the next five years: stakeholder intimacy; empowering staff and partners; supporting the development and early implementation of an integrated IT system; and supporting Councils in the attainment of an integrated water services network across the Wellington region.

These key strategies are worthy goals and Capacity discusses how it is re-aligning management and staff resources to ensure that this strategy is worked on within the existing budget. However, the draft SOI then notes that if additional resources are required to progress the implementation of the strategic plan, shareholders will be requested to provide additional funds. Officers would like to better understand how this realignment has impacted the Company and under what circumstances and within what parameters shareholders could be asked for additional funding.

Capacity and Council officers have been working on the LoE request to better align the performance metrics between the SOI, Service Level Agreement (SLA) and LTCCP. This work is reflected in the KPI table reflected in the draft SOI, which includes eight KPIs and incorporates information from at least five LTCCP measures and three measures from the new SLA.

As discussed with the Company in relation to the new SLA, Council officers request that a close equivalent of the following wording be added to the final SOI: “Capacity will also include the following performance measures from the SLA in its reporting: any measures where targets are not currently being achieved and any measures specifically requested to be included and commented upon as advised by CCOPS, the CCO Monitoring Unit, or the Infrastructure Directorate on an as needed basis”.

Summary Recommendations

The final 2009/10 SOI should:

- Include discussion on having achieved anticipated efficiencies from past investments and ways to achieve further cost efficiencies or more effective service delivery;
- Include some further discussion of the issues of climate change and waste minimisation;
- Set out more detail on the historic return to shareholders from Capacity’s business expansion;
- Clarify that the development of the Company’s benchmarking methodology does not replicate work being undertaken elsewhere;
- Provide more detail of the risks that Capacity faces, their probability and impact, and mitigation measures that it has in place;
- Explain how the realignment of resources will impact the Company and under what circumstances shareholders could be asked for additional funding; and
- Include the agreed wording on KPI reporting, incorporating SLA KPIs which are not being achieved and those specifically requested to be included.

5.3 *Positively Wellington Tourism*

Positively Wellington Tourism (PWT) has provided a comprehensive Statement of Intent.

In 2009 Council approved additional funding (\$500,000 in 2009/10, and \$1,038,000 in 2010/11 and 2011/12) to PWT for the Australian marketing campaign/activities, based on a range of conditions (performance measures). The final SOI needs to include all performance measures regarding the Australian marketing, as agreed at the SPC meeting in June 2009.

However, despite this additional funding, and PWT's plans to invest in the redevelopment of the i-SITE and to increase revenue from on-line activities, the SOI shows that trading income is stagnant compared to 2009/10 levels. The final SOI should include information about reasons for the stagnant trading income. In addition, one of the PWT organisational measures is to achieve Council's finding at less than 50% of total income which is not reflected in the financial statements (currently slightly above 50%).

All grant-funded CCOs were asked to consider what services could be foregone if their annual operating grants were reduced by 5%. PWT stated that reducing core funding will put a range of outcomes at risk, particularly as other Regional Tourism Organisations increasingly compete for a bigger share of both domestic and Australian markets. PWT is committed to delivering more effective campaigns through Joint Venture activities (Local Government, Central Government and private sector).

The SOI shows an increase in targets for almost all performance measures compared to 2009/10 which is positive.

With regard to the Rugby World Cup (RWC or RWC2011), PWT already supports Council in delivering and management of marketing, media and visitor services for the RWC. The Trust will focus on planning activities in the international market and trade training in 2010/11.

In terms of climate change and environmental consideration, PWT states that it will continue to advocate for sustainable tourism practises across the tourism sector and business. i-SITE has achieved an Enviro-Silver rating within its accreditation during 2009/10.

PWT have stated that their goal is "to outperform forecasted visitor expenditure growth in New Zealand by 5% each year". Given that typically PWT's forecasts seek to increase visitor numbers by 2% at the previous year's levels (except for Australia), officers need to better understand how this might lead to an increase of over 5% in expenditure growth.

The Trust has indicated an increase in staff costs of 4%. Officers note that this is significantly higher than the current level of CPI.

PWT has a critical role to play in marketing Council projects such as Zealandia: Karori Sanctuary Experience and the Carter Observatory. During 2009/10 the MOU agreements have been signed between PWT and Karori Sanctuary Trust and PWT and Carter. Officers recommend that the final SOI include KPIs by which effectiveness of the marketing activity of these two projects could be measured.

PWT has included a diverse range of activities and initiatives in its draft SOI. Officers recommend that the final SOI also provide information about leveraging the key visitor attractions and the hop on-hop off bus initiative as this has important implications for other CCO visitor attractions.

The SOI is comprehensive in addressing the risks that the Trust, and ultimately Council face, a lot of which appear to have direct consequences for the level of Council funding.

Summary Recommendations

The final 2010/11 SOI should:

- Include all performance measures regarding the Australian marketing campaign, as agreed at the SPC meeting in June 2009;
- Demonstrate how the Trust will achieve its objective to maintain Council funding at less than 50% of total income;
- Include information about reasons for the stagnant trading income;
- Provide information on how the Trust will achieve an increase of 5% in visitor expenditure as it forecasts to increase visitor numbers (except for Australia) by 2% from the previous year's levels;
- Define KPIs in relation to Zealandia: Karori Sanctuary experience and the Carter Observatory; and
- Provide information about leveraging the key visitor attractions and the hop on–hop off bus initiative.

5.4 St James Theatre Trust

The St James Theatre Trust Statement of Intent and draft Business Plan (BP) have been updated since 2009/10 but have not changed substantially from that year's documents. This largely reflects the uncertainty of the Trust's position as a result of the proposed merger of operations between the Trust and the Wellington Convention Centre. The Francis Group report has made some initial recommendations to merge the operations of the St James Trust with those of the Wellington Convention Centre, and officers are currently working through the implications of the recommendations.

With regard to the specific issues that the Trust was asked to address in its draft SOI, the Trust has responded to the issues and noted a commitment to them in its work programme. The Trust has already worked extensively with Council officers on RWC2011 programming, and has committed to climate change action, and waste minimisation and emissions trading legislation, but without detailing its proposed actions in relation to them. Officers will ask for this to be expanded on in the final SOI.

The development of an Asset Management Plan (AMP) for the Trust was a specific issue noted in the Council's Letter of Expectation. The Trust has been working with the Council to progress this matter, and the funding of the Trust's capital renewals from 2010/11 onwards was approved for consultation in Council's 2010/11 Draft Annual Plan.

The AMP is also being considered in conjunction with the Francis Group recommendations because the management and maintenance of the combined venue assets is a key feature of a proposed merger of the Trust and the Convention Centre operations.

The Trust has a clear understanding of where its strengths lie, where its efforts should be focussed and uses its resources effectively, including aligning with strategic partners, however the financial pressures that the Trust experiences continue to impede its overall strategic objectives.

The Trust acknowledges the difficult financial circumstances in which it finds itself, and regularly updates officers on their cash position which has fluctuated in and out of overdraft since going overdrawn in January, but is still forecast to be back in credit before the end of June. The SOI notes some of the operating measures that have been undertaken in order to successfully manage the Trust's cash through the 2009/10 year and will be extended through to the 2010/11 year.

As a further consequence of these financial difficulties the Trust is not in a position to fund Own Shows which it has traditionally used to fill gaps in the calendar and this could significantly increase the number of dark days at the two venues.

The Trust notes many of the risks that it faces, and the mitigating measures it has in place. Not surprisingly, the sheer size of Auckland means it continues to grow as a threat and while the Trust uses complementary strategies, it states its small Balance Sheet as a limiting factor.

One of the key components of the SOI is the 3-year financial forecast, enabling the Council to assess the financial performance of the Trust. Given the volatile nature of the sector in which they operate, the Trust traditionally undertakes its annual business planning as close to the beginning of the financial year as possible to enable greater accuracy over its forecasting. The 3-year financial forecasts will be presented to Council before the end of May; this will also allow the Trust to submit further KPIs to allow an assessment of how successful it has been in achieving its objectives.

Summary Recommendations

The final 2010/11 SOI should:

- Detail its proposed activities in relation to climate change action, and waste minimisation and emissions trading legislation; and
- Present forecast financial statements for 2009/10 to 2011/12, and work with officers to develop KPIs that measure performance against their stated objectives.

5.5 Wellington Cable Car Limited

The Wellington Cable Car Limited (WCCL) draft Statement of Intent outlines at a high level the contributions of the Company to the Council's objectives.

However, Council officers note that while they are mentioned under the Objectives of the WCCL Board, the final SOI should include more discussion of the specific issues requested in the Letter of Expectation:

1. Some discussion of WCCL's plans to build on the initial Rugby World Cup input already provided, for example how to maximise tourist enjoyment during the event and how to minimise maintenance disruptions to the overhead trolley bus network.
2. Comment on the Company's strategy for how to further improve the visitor experience in the Kelburn tourist precinct, including some discussion of the Company's plans to either repair or upgrade the Kelburn terminal.
3. Discussion of the Company's plans to increase coordination with other stakeholders in the Kelburn tourist precinct, particularly following the re-opening of Carter Observatory.
4. Some discussion of the progress of the Technical Review Group work on the overhead trolley bus network and an update on the funding agreement negotiations with Greater Wellington Regional Council. This is particularly relevant given two of the Company's KPIs refer back to this funding agreement.

Similarly, while WCCL discusses establishing pole user charges from parties utilising WCCL's pole assets, there is limited information on either the progress of this initiative or the medium term strategy of the Company in this regard.

Council officers would also like to see some discussion of initial planning and response to the issues of climate change and waste minimisation in the final SOI, whether separately or as part of the LTCCP section. For example, in the draft SOI WCCL does not address the "more sustainable" Transport outcome.

The Company refers to its 'Risk and Vulnerability' schedule in the draft SOI, the tool for assessing and managing its risk. However, as in previous years, no details of the schedule have been given, making it difficult for officers to fully understand the nature of the risks that the company is exposed to or the processes being used to manage them. While officers understand that some information may be confidential and therefore not appropriate for a public document, additional information on the risk mitigation strategy in place for the Company would be helpful.

Council officers request the Company clarify its performance measure listed as "Cable Car tourism – new initiatives" and what this may relate to (for example,

type of activities falling within this measure for 2009/10), particularly to the extent it relates to the Company's strategy on increasing coordination with other Kelburn precinct partners as discussed above.

The draft SOI patronage target has been revised from last year and now provides an additional breakdown between multi-trip tickets and cash tickets. The draft SOI total passenger forecast is 1.146 million (was 1.250 million in 2009/10); this more closely reflects management budget estimates.

As the draft business plan has not yet been provided to Council, officers can not comment on the financial plans. However, we would request that the financial plan include quarterly targets for 2010/11 when it is provided.

Summary Recommendations

The final 2010/11 SOI should:

- Include some strategic discussion of the Company's plans for the Rugby World Cup, further improving the visitor experience in the Kelburn precinct, increasing coordination with other Kelburn precinct stakeholders, and the progress of the overhead trolley bus network review work and funding agreement;
- Set out the Company's plans for achieving additional revenue through use of the existing overhead trolley bus network;
- Include further discussion on the issues of climate change and waste minimisation;
- Provide further detail of the Risk and Vulnerability schedule;
- Clarify what the Cable Car tourism new initiatives KPI relates to; and
- Include a business plan with quarterly targets for 2010/11.

5.6 Wellington Museums Trust

In the draft Statement of Intent the Wellington Museums Trust (Trust/WMT) has provided a good overview of activities planned for 2010/11. Carter Observatory will become part of the Trust and it will be separately reported on until June 2012. The draft SOI includes Carter organisational and financial reports in Appendix 6.

In 2009/10 the Trust received additional funding to implement their new organisational strategy and to meet increased operating costs including operating the extended City Gallery and the storage of collections. The Trust requested an increase in baseline funding of \$1.2 million plus an annual inflation adjustment, however this amount was subsequently revised downwards with an increase of \$350k in 2009/10, \$400k in 2010/11 and \$450k in 2011/12, bringing baseline funding increases to \$1.2 million by 2011/12.

This represented the total funding increase that SPC was prepared to provide to the Trust for the next three financial years. Council agreed to approve this funding, with several conditions including that the Trust achieve a break even position after funding depreciation by 2012/13. The Trust now indicates that this condition will not be achieved based on the current financial projections.

In order to address the issue of significant operating deficits for the next three years, the Trust has decided to undertake a review of its priorities. It is anticipated that the review will impact the financial statements for 2010/11 and operational and financial performance targets from 2012/13. Officers expect that the final SOI will provide updated financial statements for 2010/11 and the review timeline.

The Trust has indicated an increase in staff costs of 4.14%. Officers note that this is significantly higher than the current level of CPI.

The draft SOI performance targets have improved in most areas, including visitor numbers (from 588k visitors to 635k) and number of temporary exhibitions (from 10 to 25). The Trust's collection relocation project, previously planned for 2010/11, has now been deferred by 12 months.

The Trust has indicated that it will work on the development strategy for Capital E and will seek Council support for the project. The final SOI should provide more information on the planned activities and potential funding issues.

The Trust has outlined some of the risks that it faces, and the measures it has in place to address them. Officers note that a number of their identified risks are mitigated by approaching Council to negotiate additional funding. Officers also note that the risk of failure to maintain momentum of City Gallery Wellington's successful re-opening is rated as probable. Officer would like to better understand this risk rating and why visitor numbers for the City Gallery Wellington are forecast to be 180,000 and not 250,000 as indicated in the 2009/10 SOI.

The Trust has very briefly responded to the Letter of Expectation request to discuss its involvement in the Rugby World Cup and how it is going to consider the impact of matters such as climate change.

5.6.1 Carter Observatory

Carter Observatory successfully opened on 27 March 2010, and 2010/11 will be its first full year of operation. From 1 July 2010 Carter will become part of the Wellington Museums Trust, but its financial and organisational performance targets are to be separately reported to Council for two years.

Carter has included a comprehensive list of KPIs and its financial statements for the next three years. Visitor numbers are predicted to grow from 48k in 2010/11 to 80k in 2012/13. Carter will achieve 2 new temporary exhibitions and

will host 3,500 students a year. It will also grow its venue hire from 52 bookings in 2010/11 to 82 bookings a year in 2012/13.

Carter has indicated that it will increase its non-Council funding from 70% in the first full year of operation to 80% in the third, and subsequently will reduce its Council subsidy per visitor from \$7 to \$4 per visit. The WMT subsidy per visitor target is \$12.

Officers recommend that the final SOI include information about leveraging off the key visitor attractions, particularly Cable Car and the Cable Car Museum, and information about marketing activities planned.

Officers note that funding from fundraising activities is not included in the budget, as well as information regarding its future capital programme. The final SOI should provide some commentary regarding this.

Summary Recommendations

The final 2010/11 SOI should:

- Provide information about the review timeline and updated financial statements for 2010/11;
- Include more explanation of the City Gallery's risk rating and forecast visitor numbers;
- Information about new/reviewed strategy and expected Council support relating to Capital E;
- Provide detail as to how the Trust and Carter will leverage off the other visitor attractions; and
- Include commentary regarding Carter funding from fundraising activities and its future capital programme.

5.7 Wellington Waterfront Limited

Wellington Waterfront Limited (WWL) has produced a comprehensive draft Statement of Intent, which addresses all the issues outlined in the Council's Letter of Expectation sent to the Company in January.

WWL's key responsibilities stem from its being the implementation agency for waterfront development. Council and WWL officers have recently prepared the draft 2010/11 Waterfront Development Plan, which the Council's Strategy and Policy Committee (SPC) has approved for consultation.

Whilst the work plan proposed for 2010/11 is covered in the Company's draft SOI, little comment of it is made here as the projects proposed have been considered in detail by SPC, as noted above.

In terms of the specific issues that WWL was asked to address, perhaps the key consideration was the ongoing financial sustainability of the Waterfront Project.

In response, WWL updated its 10-year financial forecast which shows an improved position at the end of waterfront development compared to what was anticipated last year, though officers note the exclusion of some projects from this forecast, including any major developments arising from the Queens Wharf master plan, the Waitangi Park competition winning buildings and stage two of the Taranaki Street Wharf public space.

Another specific issue WWL was asked to address was the achievement of core status for its Asset Management Plan which WWL has targeted for the second quarter of 2010/11. WWL responded to the Council objective of maximizing RWC2011 opportunities and is planning a number of exciting initiatives as well as managing other key issues such as day to day maintenance, and the timing of redevelopments and significant maintenance projects. WWL addressed the Letter of Expectation request relating to environmental sustainability, noting its achievements to date and the range of features that it is looking to incorporate into future designs.

WWL responded to the LoE request to consider what services could be reduced or foregone if its operational funding was reduced by 5%, noting that in 2009 it restructured the Company and reduced its board numbers resulting in a 27% decrease in its management fee. Since that time, WWL notes it has also had to increase staff to appropriately manage the Motorhome Park and Harbourside Markets, as well as absorb increased compliance costs.

Officers note that the Company has sought to attach a performance measure to all the projects that it is proposing to undertake, and these measures will form the basis for WWL's accountability for its performance in 2010/11.

Summary Recommendations

The final 2010/11 SOI should:

- Agree performance measures once the final waterfront development plan is approved.

5.8 Wellington Zoo Trust

The Wellington Zoo Trust draft 2010/11 Statement of Intent sets out how the Zoo will continue to align itself with the Council's desired outcomes and build on its strong performance of the last few years.

In the Letter of Expectation sent to the Trust in January they were asked to address a number of specific issues, as well as many 'business as usual' issues which are typically addressed in all SOIs.

All grant funded CCOs were asked to consider what services could be foregone if their annual operating grants were reduced by 5%. The Zoo stated that it is a fixed cost business with 95% of its income tied to caring for the animal

collection and running the business. Specifically the Zoo stated that a reduction in operating funding would reduce the amount available to spend on increasing visitor numbers, which a pro bono financial model prepared by Deloitte concluded was the best way of reducing the Trust's dependence on Council funding.

Further to the above, the Zoo has suggested additional funding of \$90-100k, to provide for a 3% increase in staff salaries. Officers note that 3% is higher than the current level of CPI. In addition, when Council approved the Zoo Capital Plan (ZCP) in December 2006 it resolved that no additional operating funding increases be awarded to the Trust on the basis that the ZCP would deliver a net \$3 million operating contribution to the Zoo over the course of the ZCP. Accordingly, no increase in the Zoo's operating funding is recommended by officers at this time.

Clearly the Zoo's strong performance of recent times reflects an investment in staff, and officers also note the susceptibility of these staff to higher salaried offers from overseas. The continued positive feedback and increasing visitation and the awards for business practices and ZCP projects demonstrate that the investments have been effective.

The Zoo states that it intends to reduce its reliance on Council funding by increasing visitation but does not clearly articulate strategies for these two outcomes. Further to the above, the Zoo states that it is building a commercial culture, which links with the above increased visitation and reduced Council reliance strategies without explaining how this is being done.

With regard to other specific issues, the Zoo notes that effectively all ZCP projects bar the Nest have not resulted in a major increase in operating costs, and that these costs have been absorbed into their current costs. The Trust is tracking the operational changes for The Nest and will update officers in due course.

The Zoo continues to maintain a high standard of skills and experience at board and senior management level, as demonstrated by the ZCP projects being delivered on time, on budget, and to a high quality, and the Zoo's continued strong operating performance. The Zoo continues to achieve its annual fund-raising targets, with total fund-raising achieved to date of around \$3 million compared to the total ZCP target of \$5.2 million.

The Zoo has expressed a willingness to be part of the Rugby World Cup, and has already adjusted its ZCP programme to fit in with the RWC 2011 timetable. In terms of climate change and environmental considerations, the Zoo is well advanced, winning the sustainable business of the year in 2009 for the central/southern region. The Trust is the only Zoo in New Zealand to be a member of the Sustainable Business Network, and the first Wellington attraction to achieve Qualmark Enviro Gold accreditation.

The Zoo continually performs strongly with regard to its visitor number targets and officers continue to monitor the Trust's performance to ensure that there is an appropriate relationship between visitor revenue and visitor numbers. With regard to other performance measures, the Zoo achieves the majority of its KPI targets annually, but there are some measures which may be tailing off (income per visitor, ratio of Trust generated income as % of WCC grant) or even decreasing (average shop retail spend). Officers would like to better understand strategies to address the flat or declining measures.

Summary Recommendations

The final 2010/11 SOI should:

- Clearly articulate the strategies in place to increase visitation and in so doing, reduce the Trust's reliance on Council funding; and
- Discuss strategies to address performance measures which are flat or declining.

5.9 Wellington Regional Stadium Trust

The draft SOI for the Trust is clear and thorough, with both a high level discussion of how it plans to further Council's objectives and discussion of the operational issues it is facing. The draft SOI includes detailed discussion on issues including Rugby World Cup 2011, initiatives in various sporting codes, and competition in the stadia market post 2011.

In regard to the discussion of increasing competition in the stadia market, Council officers suggest that CCOPS may wish to consider reviewing the method by which the Trust's quarterly reports are considered, in order to minimise any risk of potentially confidential information becoming widely available.

The Trust notes that it will rank in the top percentile of firms undertaking the Marsh risk management assessment when it completes the processes identified by Marsh in its 2009 assessment. Council officers request that the Trust include the achievement of this standard in its reporting once this goal is achieved. The Trust also mentions that it has commissioned an energy audit. Council officers request that the outcome of the energy audit is also included in the Trust's reporting.

Finally, Council officers ask the Trust to include some discussion of its intention to remedy the current issues with the cladding and roof, regardless of the outcome of the current court proceedings. This is flagged at a very high level in the Five Year Strategic Plan in the draft SOI.

Summary Recommendations

The final 2010/11 SOI should:

- Note that the Trust will include in its standard reporting an update when it completes the risk management processes identified by Marsh and when it receives the outcome of the energy audit; and
- Include discussion of the Trust's intention to remedy the current issues with the cladding and roof, regardless of the outcome of the court proceedings.

5.10 Karori Sanctuary Trust

As part of the funding deed for its \$10.38 million interest free loan from the Council, the Karori Sanctuary Trust (KST) agreed to adopt the Council quarterly reporting cycle and to prepare an annual Statement of Intent.

The Trust has recently completed the new Visitor Centre project. The post-opening operations and associated financial forecasts are the key focus for the Trust in 2010/11.

The draft SOI indicates a range of risks and associated mitigation measures. The Trust risk assessment revolves around the Trust achieving its visitor and revenue targets. The SOI indicates that the Trust has reviewed the business case and its assumptions (144,000 visitors and \$2.04 million entry revenue in 2010/11). It should be noted that the latest Ministry of Tourism forecasts are for lower international visitor numbers, but increased overall visitors to Wellington. Officers recommend that the final SOI outline in more detail the mitigation measures relating to the risk of not achieving the visitor and revenue targets.

The draft SOI indicates that the Trust plans to operate sustainably in the long term. As the Council operational funding ceases after the \$700k in 2010/11 and \$40k in 2011/12, officers expect that the Trust will achieve this position in two years.

During 2009/10 the MOU agreement between PWT and KST was signed. Officers recommend that the final SOI include the key mechanisms and practical implications of this agreement. In addition, the final SOI should provide information on how the Trust is going to work closely and leverage off other CCOs e.g. Cable Car and Carter Observatory.

In terms of climate change and environmental consideration, the Trust's focus is to continue to deliver on a range of Council's Long Term Environmental strategy outcomes. The Trust is accredited Qualmark Enviro Gold and is committed to sustainable practices across the organisation, including adopting environmentally sustainable design practices while developing the new Visitor Centre.

The Trust has very briefly responded to the Letter of Expectation request to discuss its involvement in the Rugby World Cup and it has not responded to the LoE request to consider what services could be foregone if its annual operating grant was reduced by 5%.

The final SOI should include information about monthly reporting in the first year of the operation as requested by CCOPS.

The Trust also needs to finalise an Asset Management Plan (currently draft) during the 2010/11 year, the outputs of which could have a significant bearing on its cash flow during the medium to long term, and which will therefore impact the timing and quantum of the Trust's proposed loan repayments to Council.

Summary Recommendations

The final 2009/10 SOI should:

- Outline in more detail the mitigation measures relating to the risk of not achieving the visitor and revenue targets;
- Include the key mechanisms and practical implications of the MOU agreement between PWT and KST;
- Outline how the Trust is going to work closely and leverage off other CCOs e.g. Cable Car and Carter Observatory;
- Include information about monthly reporting in the first year of the operation as requested by CCOPS; and
- Agree to finalise an Asset Management Plan.

6. Conclusion

Officers have assessed each entity's draft Statement of Intent for 2010/11. The quality and focus of the SOIs continues to improve, and officers will work with CCOs to ensure that this remains the case.

A number of changes are recommended to the subcommittee. Subject to its approval of these changes being requested, the subcommittee's views will be communicated to CCOs in time for amended (final) SOIs to be presented to this subcommittee at its next meeting on 24 June 2010.

Contact Officers:

Ian Clements, Portfolio Manager, Council Controlled Organisations
Maree Henwood, 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 copy 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.