
REPORT 2
(1215/52/02IM)

REVIEW OF THE PERFORMANCE OF ALL COUNCIL CONTROLLED ORGANISATIONS FOR THE QUARTER ENDED 31 DECEMBER 2012

1. Purpose of Report

To provide the Subcommittee with an analysis of the performance of all Council Controlled Organisations (and other selected entities) for the quarter ended 31 December 2011, in compliance with the Local Government Act 2002 and Council reporting requirements.

2. Recommendations

It is recommended that the Subcommittee:

1. *Receive the information*
2. *Recommend that the Strategy and Policy Committee notes the following matters with regard to the second quarter 2011/12 performance of Council Controlled Organisations:*
 - a) *The Basin Reserve has been engaged in a busy period of maintenance and activity in preparation for the cricket season. The Trust has continued to advance its programme of deferred maintenance work, with attention focussing this quarter on replacing parts of the roof of the R.A. Vance stand. The Trust has extended the night time closure of the Basin Reserve through to June 2012.*
 - b) *Capacity is continuing the Messines Road Reservoir upgrade, with tank 2 commissioned in December. Construction work on the Tacy St stormwater pump station is complete and commissioning of the pumps will now occur in March.*
 - c) *Positively Wellington Tourism reports that the calendar year 2011 has been a strong year for tourism numbers and businesses in Wellington. There was significant growth in arrivals from Australia to Wellington, well ahead of the national trend.*

- d) *Much of the focus for the second quarter of trading as Positively Wellington Venues was focused on setting up the business structures and operational mechanisms. Venue utilisation tracked well for the quarter with performances accounting for 35% of utilisation and convention/events business taking 65%. Forward bookings for 2012/13 are tracking at 60% of budget, but Positively Wellington Venues reports a loss to date of \$700k of business as a result of hires pulling out in response to seismic issues and concerns. As a result of transition and one-off costs, the year-to-date result is (\$556k), \$408k behind the projected deficit of (\$148k).*
- e) *Following a strong November and December, Wellington Cable Car passenger numbers for the second quarter were 289,417, which was in line with budget and 12% above the same period last year. Year to date passenger numbers are 5% below budget, but 5% above last year.*
- f) *Overall, visitor numbers for the Museums Trust in the second quarter (including Carter) were 169,163, 9.6% below the budget of 175,760. Oceania at the City Gallery did not achieve the projected audience numbers. Carter Observatory celebrated the 70th anniversary of the opening of the observatory on 20 December.*
- g) *Final preparations were made ahead of construction beginning on the Overseas Passenger Terminal redevelopment, with tenants successfully relocated to temporary site. Work continued on development and design options for Site 10, with a development agreement signed with Newcrest Group conditional on the approval of the Wellington City Council in quarter three. As at 31 December, the loan advance was \$13 million, but should commercial proceeds from the sale of the Shed 5 lease not be realised then Wellington Waterfront Limited will exceed their \$15 million loan financing by year end.*
- h) *Year to date visitation of 104,481 for the Zoo was ahead of target by 13,734 (or 15%) and ahead of last year by 7,215 (or 7%). Management continue to attribute this to favourable word of mouth and press, particularly related to the strategic Zoo Capital Plan improvements.*
- i) *The New Zealand Local Government Funding Agency was incorporated on 1 December 2011 with paid up capital of \$25m, including a \$5m ordinary shareholding by the New Zealand Government. Wellington City Council is an establishment shareholder with 8% of the paid up capital (\$2 million).*
- j) *The outstanding event for the half for the Wellington Regional Stadium Trust was the Rugby World Cup. The Stadium hosted 8 games, including 2 quarter finals, and received very positive*

feedback from both patrons and organisers. It is on track to deliver an above budget full year result.

k) Visitors for Zealandia for the second quarter were 25,829, 8.5% below the budget of 28,238. However, revenue for the quarter was only 4% below budget reflecting higher trading revenue per visitor.

3. *Note any other issues for the Chair to raise with the Strategy and Policy Committee in regard to this report.*

4. *Note any issues for the Chair to raise with the entities covered by this report.*

3. Background

It is a requirement of the Local Government Act 2002 (the Act) that where the Council is a shareholder in a council organisation it must regularly undertake performance monitoring of that organisation to evaluate its contribution to the achievement of:

- The Council's objectives for the organisation
- The desired results, as set out in the organisation's statement of intent
- The Council's overall aims and outcomes.

The Council Controlled Organisations Performance Subcommittee (CCOPS) is tasked with the assessment of the efficiency and effectiveness of each entity. Officers have included a brief overview that includes the agreed Key Performance Indicators and financial summaries. The issues that have been identified from officers' reviews are included in this covering report.

4. Entities covered by this report

4.1 Council Controlled Organisations

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

Basin Reserve Trust
Capacity Infrastructure Services Ltd
Partnership Wellington Trust (Positively Wellington Tourism)
Wellington Venues Ltd (Positively Wellington Venues)
Wellington Cable Car Ltd
Wellington Museums Trust
Wellington Waterfront Ltd
Wellington Zoo Trust

4.2 New Zealand Local Government Funding Agency

The New Zealand Local Government Funding Agency Limited is a CCO, with eighteen territorial authorities and the Crown as shareholders. Wellington City Council's role is as an establishment shareholder with an 8% paid up capital shareholding at present. It will be included in CCOPS reports as appropriate based on the entity's shareholder reports.

4.3 Wellington Regional Stadium Trust

A Court of Appeal ruling clarified the Trust's status and confirmed that it is not a CCO. It is included in this report because of the materiality of the Council's financial commitment to the Trust and the Trust's contribution to Council outcomes.

4.4 Council Organisations

At previous CCOPS meetings it was recommended that a number of Council Organisations also be monitored on a quarterly basis. Accordingly, the following entities have been included within this quarter:

Karori Sanctuary Trust (Zealandia)
Wellington International Airport Limited (Public Excluded)

5. Issues for the Subcommittee to consider

Council Controlled Organisations:

5.1 Basin Reserve Trust

The Basin Reserve has been engaged in a busy period of maintenance and activity in preparation for the cricket season, although work was delayed by a month as a result of the venue being used as a training ground for teams as part of Rugby World Cup 2011. The Trust has continued to advance its programme of deferred maintenance work, with attention focussing this quarter on replacing parts of the roof of the R.A. Vance stand. The Trust has extended the night time closure of the Basin Reserve through to June 2012.

After allowing for depreciation, the Trust made an operating deficit of (\$97k), \$13k ahead of budget. Year to date they report a deficit of (\$36k), \$52 ahead of budget. The main reasons for this favourable result are that income was 7% above budget due to a higher than expected number of events, with administration and general maintenance costs coming in 8% under budget.

5.2 Capacity Infrastructure Services Ltd

The Messines Road Reservoir upgrade continues with tank 2 commissioned in December. Construction work on the Tacy St stormwater pump station is complete. Commissioning of the pumps will now occur in March. The final cost

on this project is expected to be above budget due to unanticipated underground services and higher than budgeted costs for traffic management, pump discharge pipes and control equipment and road reinstatement costs.

Work was undertaken on a proposal to provide a formal offer for Capacity to undertake water services for Porirua City Council. The Company proposes that Capacity's existing client councils consider a governance model change to incorporate this and Upper Hutt City Council and Porirua City Council becoming shareholders. A report will go to SPC on 22 March.

For the first half, Capacity is overspent relative to budget on capex for Wellington City Council by \$315k or 4%, due to the early commencement of a number of projects offsetting delays in Carmichael Reservoir and the Moa Point upgrade work. The Company is currently forecasting a minimal year end variance. Excluding stewardship accounts, which the Company does not control, Capacity has overspent the Council's opex budget by \$524k year to date. This reflects higher than planned costs for reactive budgets and the higher than budgeted costs incurred for the Waring Taylor culvert cleaning work.

5.3 Positively Wellington Tourism (Partnership Wellington Trust)

Highlights this quarter included hosting over 450 delegates for the week-long conference of the Society of American Travel Writers, with a number of highly positive media pieces resulting. The highlight of the Australia Marketing campaign this quarter was a second pop up restaurant delivered in Melbourne in November that involved over 25 food, beverage and wine suppliers and over 25 restaurant staff from throughout the Wellington Region. Of note during 2011 was the significant growth in arrivals from Australia to Wellington (up 16.1% and showing growth in every quarter), well ahead of the national figure excluding Wellington of 1.6%. The partnership with Air New Zealand has enabled PWT to increase awareness of Wellington and convert the interest in to actual travel. In December, PWT launched the KNOW online Advent Calendar that resulted in a 25% increase in the KNOW eNews database.

PWT reported an operating deficit of (\$473k) against a budgeted deficit of (\$938k), due in part to income being 25% ahead of budget.

5.4 Positively Wellington Venues

Much of the focus for the second quarter of trading as PWV was focused on setting up the business structures and operational mechanisms, while continuing to manage and grow the business. The new management structure was implemented with five new director-level staff being appointed. The company also spent \$180k optimising office space, consolidating most office and administrative staff in the Michael Fowler Centre. Venue utilisation tracked well for the quarter with performances accounting for 35% of utilisation and convention/events business taking 65%. Forward bookings for 2012/13 are tracking at 60% of budget, but PWV reports a loss of \$700k of business as a result of hires pulling out in response to seismic issues and concerns.

After \$563k of transition and legacy costs had been separated out of the statement of financial performance, the financial outcome for the quarter was a \$193k profit against a budgeted deficit of (\$194). This is attributed to strong cash flow from advanced booking revenues and savings in expenditure, in part as a result of the separation of transition and legacy costs.

5.5 Wellington Cable Car Ltd

Following a strong November and December, cable car passenger numbers for the quarter were 289,417, which was in line with budget and 12% above the same period last year. Year to date passenger numbers are 5% below budget, but 5% above last year.

Some overhead network maintenance activities were put on hold during RWC 2011 to minimise disruption, as discussed with WCC. It is anticipated that all planned asset replacements on the overhead network for this year will be completed by the end of the year. The Company is also continuing to work on plans for the Kelburn cable car terminal.

The Q2 surplus of \$181k was greater than the budgeted surplus of \$143k. This was due to a slightly greater than budgeted third party contribution (due to timing on this work) and lower than budgeted admin expenses.

5.6 Wellington Museums Trust (including Carter Observatory)

Overall, visitor numbers for the Trust in the second quarter (including Carter) were 169,163, 9.6% below the budget of 175,760. *Oceania* at the City Gallery did not achieve the projected audience numbers and Capital E's *Give it a Try* achieved visits of 1,354 compared to a target of 2,000. *Hard on the Heels* at the Museum of Wellington City & Sea was the most successful, attracting 18,305 visitors compared to a target of 14,200. Carter Observatory celebrated the 70th anniversary of the opening of the observatory on 20 December.

The Trust (excluding Carter) recorded a \$16k deficit (against a budgeted \$24k deficit) in quarter two, largely as a result of timing variances. The Trust still expects to be on budget for 2011/12. The Carter Observatory recorded an operating deficit of \$11k against a budgeted surplus of \$14k, due mainly to slightly lower than budgeted trading revenue.

5.7 Wellington Waterfront Ltd

The quarter began with the final events of Rugby World Cup 2011 hosted in the Taranaki Wharf precinct. By popular demand, the Fanzone was extended through to the semi finals in October. Other activities on the waterfront during the quarter included the installation of a temporary ice skating rink that attracted over 30,000 skaters, and the Royal New Zealand Navy's 70th anniversary celebrations. Work continued on development and design options for Site 10, with a development agreement signed with Newcrest Group conditional on the approval of the Wellington City Council in quarter three. Final preparations were made ahead of construction beginning on the Overseas Passenger Terminal redevelopment, with tenants successfully relocated to

temporary site. WWL's review of the Porirua City Council CBD revitalisation plan was completed and work has begun on responding to a Request for Proposal to begin the next phase of this project.

Better than expected lease revenue during the quarter resulted in a \$1.67m deficit against a budgeted loss of \$1.76m. Property costs were \$59k over budget due mainly to timing differences in projects that were moved for RWC2011. As at 31 December, the loan advance was \$13 million. This is to be offset by commercial proceeds in June, but should commercial proceeds from the sale of the Shed 5 lease not be realised then WWL will exceed their \$15 million loan financing by year end.

5.8 Wellington Zoo Trust

Year to date visitation of 104,481 for the Zoo was ahead of target by 13,734 and ahead of last year by 7,215. Management continue to attribute this to favourable word of mouth and press, particularly related to the strategic Zoo Capital Plan improvements. For example, both Happy Feet and the Capuchin (Doyle) were featured in the Dominion Post's top 20 Wellington photos of 2011. This resulted in over 200,000 visitors for the calendar year 2011. Another highlight was that Dr Lisa Argilla, the Zoo's Veterinary Science Manager, won the 2011 Wellingtonian of the Year – Environment category.

The Trust's Q2 operating surplus of \$108k was higher than the budgeted \$86k. This was due to lower than budgeted employee and operating costs due to some staff vacancies and timing of marketing spend. From a Council perspective, the renewals spend is under-budget YTD, as is the ZCP capex budget. This is due to timing of spend for this year. Contract negotiations are underway with a preferred construction contractor for the Asia Precinct project. This project is now scheduled to be completed in August, which has been discussed with donors.

Other Organisations:

5.9 New Zealand Local Government Funding Agency

The New Zealand Local Government Funding Agency Limited (LGFA) was established by eighteen territorial authorities and the Crown for the purpose of aggregating the borrowings of New Zealand's territorial authorities in order to achieve lower average borrowing costs across the sector, and to provide an alternative source of debt funding for the sector.

The process of establishing the LGFA was coordinated by nine territorial authorities including Wellington City Council. The founding shareholders (excluding the Crown) undertook special consultative procedures in 2011 to facilitate their investments in, and future borrowings from, the LGFA.

The LGFA was incorporated on 1 December 2011 with paid up capital of \$25m, including a \$5m ordinary shareholding by the New Zealand Government. The Crown holds 5 million fully paid ordinary \$1 shares. Wellington City Council is an establishment shareholder in the LGFA with 4 million ordinary \$1 shares

paid-up to 50 cents per share. As such, Council's paid-up capital is \$2m with unpaid capital of \$2m, which is able to be called upon at the discretion of the LGFA's board if it is concerned for the solvency of the company.

A second opening of the share register is planned for late 2012 to allow existing shareholders to sell-down to other territorial authorities. The reason for the second opening is to allow councils to consult on their planned investment in the LGFA via their LTP processes. Wellington City Council expects to participate in the sell-down when this occurs.

The LGFA has a board of six directors, chaired by Craig Stobo (independent). Other independent directors include; John Avery, Abbey Foote and Philip Cory-Wright. Paul Anderson (Christchurch City Council) and Mark Butcher (Auckland Council) represent the shareholders on the board. The skills of the board are complementary and well suited to the establishment of the LGFA. Philip Coombes, the former Treasurer at the New Zealand Debt Management Office (DMO), was recruited as its Chief Executive in November 2011.

The shareholders of the LGFA have established a Shareholders' Council comprising of ten members, including one member from the Crown. The role of the Shareholders' Council is to monitor the performance and advise shareholders on certain matters (with shareholders, not the Shareholders' Council, to make decisions with respect to those matters) and to ensure shareholders are fully informed on all matters concerning the LGFA and its governance. Wellington City Council's representative on the Shareholders' Council is a CCO team officer.

The LGFA held its inaugural issue of debt on 15 February 2012. The first issue was for two tranches totalling \$300m. The issue was oversubscribed with total bids exceeding \$1.3 billion.

The LGFA's 2012/13 Statement of Intent is expected to remain substantially unchanged from its SOI at formation. With its establishment and its inaugural debt issue behind it, the LGFA is now focussed on growing its business and meeting the outcomes contained in its SOI for the ultimate benefit of its shareholder borrowers.

5.10 Wellington Regional Stadium Trust

The outstanding event for the half was the Rugby World Cup. The Stadium hosted 8 games, including 2 quarter finals, and received very positive feedback from both patrons and organisers. In addition, the Stadium hosted the All Blacks v South Africa test, 5 ITM Cup games, 6 football games, the Italian Festival and the Home & Garden Show.

For the first half the Trust recorded a year to date surplus of \$2.3m, compared to a budgeted surplus of \$1.9m. It is on track to deliver an above budget full year result. The Trust now anticipates a surplus of \$4.0m (initially \$3.7m) for 2011/12.

5.11 Karori Sanctuary Trust

Visitors for the second quarter were 25,829, 8.5% below the budget of 28,238. However, revenue for the quarter was only 4% below budget reflecting higher trading revenue per visitor. Management attributes the below budget visitor numbers to wet weather, lower than anticipated local visitor numbers during the Rugby World Cup and the recognition of some of the October Sirocco tours in September. Management also notes that after adjusting for last year open weekend visitors, paying visitors for the quarter were 19% above last year, which is reflected in an increase in trading revenue per visitor. International visitor numbers for the six months to December 2011 were 35% more than the same period last year.

For the second quarter, the deficit before depreciation was \$8k, \$160k better than budget. The better than budget performance was due to slightly better revenue and lower expenditure (\$159k) as a result of timing difference and tight cost control and deferrals of expenditure. As at December, the Trust held cash of \$1.36m, around \$300k better than budget.

5.12 Wellington International Airport Limited (Public Excluded)

The quarterly report for the quarter ended 31 December 2011 is attached in the appendix. Council officers have reviewed the report. It does not raise any material new issues for the Subcommittee to consider. Lower than budgeted revenue continues to reflect the loss of income as a result of the sale of iSite in July 2011 to a subsidiary of Infratil. International passenger numbers remain strong (4% above budget to date). In November, Wellington International Airport was rated the best in Australasia at the 2011 World Travel awards.

6. Conclusion

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

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

Contact Officers:

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Maree Henwood, Portfolio Manager, Council Controlled Organisations
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Supporting Information

1) Strategic Fit / Strategic Outcome

These entities and projects support the achievement of a range of outcomes across most strategic areas. Where relevant, reference is made to the 2011/12 Annual Plan.

2) LTCCP/Annual Plan reference and long term financial impact

Please refer to the individual covering report that prefaces each entity.

3) Treaty of Waitangi considerations

This report raises no new treaty considerations. Where appropriate the entities do consult with the Council's Treaty Relations unit, and with the Tenth Trust, as part of normal operations.

4) Decision-Making

This is not a significant decision.

5) Consultation

a) General Consultation

A draft of each entity report will be circulated to the individual entity, with comments passed on to the sub-committee as appropriate

b) Consultation with Maori

See section 3, above.

6) Legal Implications

The Council's lawyers have been consulted during the year as part of normal operations. There are no new legal issues raised in this report.

7) Consistency with existing policy

This report is consistent with existing WCC policy.