

**COUNCIL CONTROLLED
ORGANISATIONS PERFORMANCE
SUBCOMMITTEE
8 JUNE 2012**



REPORT 2
(1215/52/02/IM)

**REVIEW OF THE PERFORMANCE OF ALL COUNCIL
CONTROLLED ORGANISATIONS FOR THE QUARTER
ENDED 31 MARCH 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 March 2012, 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 third quarter 2011/12 performance of Council Controlled Organisations:*
 - a) *The Basin Reserve has enjoyed a busy start to the year, with the ground being utilised for international, domestic and youth cricket events, including the NZ vs. South Africa test match. The Museum Stand was closed during the quarter pending further structural tests and a decision about its future. Allowing for depreciation, the Trust made an operating surplus of \$38,000 which is well ahead of budget.*
 - b) *Wellington, Hutt and Upper Hutt City Councils have now approved the proposal that Capacity's existing client councils consider a governance model change to incorporate an outcomes-based model and for Upper Hutt City Council and Porirua City Council to become shareholders. Porirua City Council is not expected to consider this issue before July. In the interim, officers continue to work with Capacity on the draft documentation supporting this structure*

This report is officer advice only. Refer to minutes of the meeting for decision.

- c) *Positively Wellington Tourism enjoyed a good quarter with several major events drawing visitors to the city. Figures for direct arrivals into Wellington from Australia continue to grow, and cruise ship numbers were up 36% compared to the same period last year. In March the company worked with commercial partners to host a mega-familiarisation of potential convention bookers that has so far netted bookings for 2 conventions of over 500 delegates. Of note during the quarter was that i-Site revenue was up 5% on the same quarter in 2011/12.*
- d) *For Positively Wellington Venues, the New Zealand International Festival of the Arts was the major event of the quarter across all venues. As a result of good ticket sales, bar revenue increased 24% over that of the previous festival. Other major activities during the period included continuing efforts to secure an alternative venue for the company when the Town Hall is decommissioned for seismic strengthening in 2013. Operational assets from the St James Theatre Charitable Trust were transferred on to the Company's balance sheet this quarter.*
- e) *Cable car passenger numbers for the quarter were 348,480, which was 2.0% under budget and 0.8% below the same period last year. Year to date passenger numbers are 4% below budget, but 3% above last year. Wellington Cable Car Limited's third quarter surplus was significantly less than the budgeted surplus. This was largely due to budgeted third party work which did not eventuate, particularly the cancellation of a major project which had been budgeted for. As a result, the Company has revised its original budgeted net surplus for 2011/12.*
- f) *Overall, visitor numbers for the Museums Trust in the third quarter (including Carter) were 173,844, 12% better than budget of 154,540. City Gallery performed significantly better than in quarter one and quarter two; Museum of Wellington, Cable Car Museum, Colonial Cottage and Cricket Museum all performed better than forecast. Capital E achieved only 50% of its visitor target; however management forecast that total visitor numbers for the full year should be close to the budgeted level. Carter Observatory welcomed more than 5,600 visitors in January, exceeding the monthly target by more than 1,200, but was below target for the quarter.*
- g) *The most significant event of the quarter for Wellington Waterfront Limited was the Environment Court hearing on the appeal of the Council's proposed District Plan variation 11. A paper will be considered by the Council's Strategy and Policy Committee in June on the impact of the court's decision on the Waterfront Development Plan and the company's loan financing. Other highlights included wrapping up a public consultation on the proposed design for the*

Newcrest development on Site 10 and further work on wharf piles on the Outer-T.

- h) Year to date visitation of 166,041 for the Zoo was ahead of target by 15,284 and ahead of last year by 15,065 (or 10% in each case). Management continue to attribute this to favourable word of mouth with the Zoo Capital Plan improvements and better visitor experience. The Q3 performance was particularly strong given the higher number of wet days this year versus last year. As a result, the Zoo exceeded its full year visitor target of 191,982 on 8 May 2012.*
 - i) The New Zealand Local Government Funding Agency Limited held its inaugural issue of debt on 15 February 2012. The first issue was for two tranches totalling \$300m. At its meeting of the 8th March 2012 the Local Government Funding Agency Shareholders' Council considered the company's inaugural draft Statement of Intent. The forecasts are in line with the shareholders expectations of asset growth and profitability.*
 - j) The Stadium Trust continues to track above its budgeted surplus year to date and is on track to achieve an estimated net surplus of \$4.2m for 2011/12, compared to the original budgeted surplus of \$3.7m and the revised forecast of \$4m.*
 - k) Visitors to ZEALANDIA for the third quarter at 24,986 were below target of 28,720. Management attributes this to wet weather and also notes that they discontinued the school holiday programme in the quarter as they focused on developing a new Junior Ranger programme to replace the old school holiday programme. Year to date international visitors were 28% above the previous year. Cash as at the end of March 2012 stood at \$1.3m, \$465k better than budget.*
 - l) Wellington International Airport Limited has presented its annual report for the year ended 31 March 2012. The company reports a strong year with 8% growth in revenue reflecting in part the Company's on-going focus on efficiency, particularly in repairs and maintenance and energy costs. In February 2012 Steve Sanderson took over from Steven Fitzgerald as the airport's Chief Executive.*
- 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

5. Issues for the Subcommittee to Consider

Council Controlled Organisations:

5.1 Basin Reserve Trust

Quarter three is traditionally the busiest period of sports activity for the Basin Reserve with the ground being utilised for international, domestic and youth cricket events. In February, the Basin Reserve hosted the NZ v South Africa test match. Despite the first two days of play being weather-affected, over 11,000 spectators attended the match. In February, the Council took the step of closing the seating in the Museum Stand to all crowd loading pending the results of a full condition assessment of the structure. The results of the study confirm the concerns around the safety of the structure in an earthquake and as a result Council officers are working with the Trust to consider options for resolving the matter.

After allowing for depreciation, the Trust made an operating surplus of \$74k, \$22k ahead of budget. Year to date they report an operating surplus of \$38k, \$74k ahead of budget. The main reasons for this favourable result are that income was 17% above budget due to unbudgeted grant revenue and a successful 'Gold' membership campaign. However, this is off set by operating expenses that are \$21k higher than expected as a result of increased costs for turf maintenance and unbudgeted event expenses incurred during the test match.

5.2 Capacity Infrastructure Services Ltd

Wellington, Hutt and Upper Hutt City Councils have now approved the proposal that Capacity's existing client councils consider a governance model change to incorporate an outcomes-based model and for Upper Hutt City Council and Porirua City Council to become shareholders. Porirua City Council is not expected to consider this issue before July. In the interim, officers continue to work with Capacity on the draft documentation supporting this structure.

During the quarter, the roof of the Carmichael Reservoir in Newtown was removed to enable roof replacement and seismic strengthening work. Messines reservoir Tank No. 2 has been commissioned and construction work is in progress for Tank No. 1. Trials of the Tacy St stormwater pump station have been successfully completed.

The Company is currently working on the detailed AMPs for each Council. It acknowledges the desktop review undertaken by GHD for Wellington City Council on the Summary Three Waters AMP and notes that points raised in the review will be taken into account within the detailed AMP.

The Emergency Management Preparedness project team met in March to review progress; projects due to be completed by July include the procurement of additional artesian bores, procurement of emergency water storage tanks and a wastewater disposal plan.

The monitored fresh water sites (where annual faecal coliform bacteria counts are less than 1,000 per 100 mls) is tracking at 81% year to date, compared to a target of 90%. This is due to a broken sewer found in the vicinity of the Ngauranga quarry during the December quarter. Investigations were carried out immediately after the contamination was detected and the third quarter result is back at the targeted level.

Year to date, Capacity is underspent relative to budget on capex for Wellington City Council by \$770k or 5%, due to some delays with the Tasman Street water main upgrade project, the Carmichael Reservoir roof work, and the Moa Point upgrade work (where a lack of overflows at Moa Point has prevented analysis for the planned work). The Company is currently forecasting a year end variance of just under \$1m, primarily related to Tasman Street (\$745k).

Excluding stewardship accounts, which the Company does not control, the Council's opex budget is overspent by \$415k 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. The Company is currently forecasting a year end variance of \$1.05m. This largely reflects the above factors, combined with an unanticipated increase in treatment plant tariffs and greater than budgeted work on renewal forecasting, and asset management and emergency management planning.

5.3 Positively Wellington Tourism

PWT reports a busy quarter three, with visitors arriving in Wellington for several major annual events, including the Hertz Rugby Sevens and the International Festival of the Arts. Figures for direct arrivals into Wellington from Australia continue to grow (13% above the same quarter last year), bucking the trend evident in the rest of the country and the number of cruise ship passengers is up 36% on the same time last year. In response to this growth, PWT initiated a programme of having volunteers located in key points around the streets of Wellington on cruise days to help guide and advise the tourists.

This proved very successful with many of the volunteers putting their hand up already for next summer. In late March, PWT's Convention Bureau – working with commercial partners – hosted a *mega-familiarisation* of potential convention bookers. So far this has netted bookings for two conventions of over 500 delegates to the city.

Income was \$578k (58%) below budget due to lower partner income with Air New Zealand now as part of the Australian Marketing programme (campaign structure changes with each organisation paying accounts up to \$1m). I-Site revenue in quarter three totalled \$1.2m, up 5% on the same quarter in 2010/11.

5.4 Positively Wellington Venues

Quarter three is typically a slower period for events, especially through January and February. This situation is reflected in PWV's report, although it notes that the NZ International Festival of the Arts was a significant event across all venues in March. Venue hire revenue from the Festival increased 9.9%. In addition, bar revenue increased 24% over 2010 levels as a result of strong audience numbers. Other major projects during the period included completing a comprehensive organisational restructure and continuing efforts to secure an alternative venue for the Town Hall when it is decommissioned for seismic re-strengthening in 2013. The company developed a business case to fund the redevelopment of the TSB Arena and Shed 6 as a temporary alternative venue during work on the Town Hall which went out for consultation as part of the draft Long Term Plan.

After \$563k of transition and legacy costs have been separated out of the statement of financial performance, the financial outcome for the quarter was a deficit of (\$391k) against a budgeted deficit of (\$447k). Total revenue was under budget by \$390k but this shortfall was more than offset by lower than budget direct costs and net savings of \$109k in overheads. Operational assets from the St James Theatre Charitable Trust were transferred onto the PWV balance sheet during the quarter. The total book value of assets transferred was \$189k.

5.5 Wellington Cable Car Ltd

Cable car passenger numbers for the quarter were 348,480, which was 2.0% under budget and 0.8% below the same period last year. Year to date passenger numbers are 4% below budget, but 3% above last year.

The Company anticipates that all planned asset replacements on the overhead trolley bus network for this year will be completed by the end of the year and is continuing to work on plans for the Kelburn cable car terminal.

The third quarter surplus of \$13k was significantly less than the budgeted surplus of \$266k. This was largely due to budgeted third party work which did not eventuate, particularly the cancellation of a major project which had been budgeted for. As a result, the Company has revised its budgeted net surplus for 2011/12.

5.6 Wellington Museums Trust (including Carter Observatory)

Overall, visitor numbers for the Trust in the third quarter (including Carter) were 173,844, 12% better than budget of 154,540. City Gallery performed significantly better than in quarter one and quarter two; Museum of Wellington, Cable Car Museum, Colonial Cottage and Cricket museum all performed better than forecast. Capital E achieved only 50% of its visitor target; however management forecast that total visitor numbers for the full year should be close to the budgeted level. Carter Observatory welcomed more than 5,600 visitors in January, exceeding the monthly target by more than 1,200, but was below target for the quarter.

Museum Wellington's exhibition Death & Diversity was selected as a finalist in the 2012 Museums Aotearoa Awards.

The Trust (excluding Carter) recorded lower than budget expenses in the third quarter, attributable mainly to reduced expenditure in operating expenses relating to the collection store, planned for the third quarter, but happening in the fourth quarter. Carter Observatory recorded an operating deficit of (\$18k) against a budgeted surplus of \$13k, due mainly to slightly lower than budgeted trading revenue.

5.7 Wellington Waterfront Ltd

The most significant event of the quarter was the Environment Court hearing on the appeal of the Council's proposed District Plan variation 11. While the hearing was in progress, WWL was working on its 2012/13 Waterfront Development Plan and Statement of Intent, both of which would be impacted by the results of the appeal. The hearing concluded on 23 March and the verdict upholding the appeal was delivered in late April. This result will have a significant impact on the work programme and commercial proceeds for WWL. Staff are working with officers to assess the situation and rework the company's strategic documents in the light of the verdict.

Aside from the DPV11 hearing, quarter three was busy for WWL with a major public consultation undertaken on Newcrest Group's preliminary design proposal for Site 10. There was strong support for the design and preparations were made on the report to the Council to approve the design and commercial terms of the lease. The major wharf pile maintenance project on the Outer-T continues to be on budget and ahead of schedule. Improvements were also undertaken in Frank Kitts Park to improve access and power distribution to the area. During the quarter, the waterfront hosted a number of major events including the NZ International Festival of the Arts, Home Grown, the annual Dragon Boat Festival and the Relay for Life.

Better than expected lease revenue during the quarter resulted in a (\$666k) deficit against a budgeted loss of (\$928k). Property costs were \$177k over budget due mainly to timing differences in projects. As at 31 March, the loan

advance was \$13.4 million. This was to be offset by commercial proceeds in June from the sale of the Shed 5 lease, but WWL has indicated that while there is strong interest in the site, there is no commercial appetite for a long-term upfront lease. Because the commercial proceeds will not now be realised, contracted capital expenditure means that WWL will exceed its \$15 million loan financing by year end. The current year-end projection for the loan balance is \$16.3 million. Officers are currently preparing a paper to present to the Council to agree a course of action to address the situation.

5.8 Wellington Zoo Trust

Year to date visitation of 166,041 for the Zoo was ahead of target by 15,284 and ahead of last year by 15,065 (or 10% in each case). Management continue to attribute this to favourable word of mouth with the Zoo Capital Plan improvements and better visitor experience. The quarter three performance was particularly strong given the higher number of wet days this year versus last year. As a result, the Zoo exceeded its full year visitor target of 191,982 on 8 May 2012.

Construction work has begun on the Asia Precinct project. This project is tracking above the original budget due to upgrades to existing infrastructure in this area and the addition of improved viewing at the tiger enclosure. Additional funding has been raised from Pub Charity and the overall Zoo Capital Plan envelope of \$20.8m remains unchanged.

The Trust's quarter three operating surplus of \$32k was lower than the budgeted \$165k. This was due to higher than budgeted employee and operating costs due to some staff vacancies filled and advertising expenses. This reflects timing variances; the year to date operating surplus is on budget. From a Council perspective, the renewals spend is under-budget year to date, as is the Zoo Capital Plan capex budget. This is due to timing of spend for the Asia Precinct.

Other Organisations:

5.9 New Zealand Local Government Funding Agency

The New Zealand Local Government Funding Agency Limited (LGFA) was incorporated on 1 December 2011. 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.

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.

At its meeting of the 8th March 2012 the Local Government Funding Agency Shareholders' Council considered the company's draft Statement of Intent (SOI) for 2012/2013. The draft SOI is almost identical to the company's first SOI

(2011/12) which came into effect upon the LGFA's establishment on 1 December 2011, except that its financial forecasts now look forward to 30 June 2015. The forecasts are in line with the shareholders expectations (based on the business case for the establishment of the LGFA) of asset growth and profitability.

5.10 Wellington Regional Stadium Trust

During the third quarter, the Stadium hosted thirteen events including two Super Rugby games, two cricket matches, and the Sevens tournament. It also hosted seven football games with an average attendance of approximately 9,300, in line with the same quarter last year. Attendance for the Super Rugby games was up on the same period last year. Total attendance for the quarter exceeded 180,000 patrons. The Trust also provided turf services to Basin Reserve Trust worth \$68,615 for the quarter.

From a broader perspective, the Trust's Statement of Intent notes that the Phoenix has just completed their season with league attendance up 7% and that Hurricanes crowds are up 20% on the previous year (at the time of publication). Having said that, the Trust notes there is a shift to a more competitive environment for the entertainment dollar.

The Stadium Trust continues to track above its budgeted surplus year to date. As noted in the Statement of Intent and Business Plan, the Stadium Trust is on track to achieve an estimated net surplus of \$4.2m for 2011/12, compared to the original budgeted surplus of \$3.7m and the revised forecast of \$4.0m.

5.11 Karori Sanctuary Trust

Visitors for the third quarter at 24,986 were below the target of 28,720. Management attributes this to wet weather and also notes that they discontinued the school holiday programme in the quarter as they focused on developing a new Junior Ranger programme to replace the old school holiday programme. This has affected school children numbers and visitor numbers by about 300. Year to date international visitors were 28% above the previous year.

ZEALANDIA had one of the most successful hihi breeding seasons since release at the sanctuary. For the quarter, the Trust's deficit before depreciation was better than budget. This was due primarily to lower expenditure as a result of deferment of expenditure and tight cost control. Cash as at the end of March 2012 stood at \$1.3m, \$465k better than budget.

5.12 Wellington International Airport Limited

Wellington International Airport Limited (WIAL or the Company) has presented its annual report for the year ended 31 March 2012. The company reports a strong year with 8% growth in revenue reflecting in part WIAL's on-going focus on efficiency, particularly in repairs and maintenance and energy costs. Increased capacity and discount fares provided by major carriers contributed to a 10% increase in international passenger numbers over the

previous year. During the year, the WIAL's advertising subsidiary, iSite Limited, was sold with a special dividend of \$40million paid out to share holders.

The Company continues to invest in capital development projects with the new hanger on the western apron and a major car park extension (doubling the number of undercover parks and adding 230 new parks on the top deck) completed during the year.

In February, Steve Sanderson took over from Steven Fitzgerald as WIAL's Chief Executive.

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:

Richard Hardie, 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. Where relevant, reference is made to the 2011/12 Annual Plan.

2) LTP/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.