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## REPORT 7

### DRAFT 2014/15 STATEMENTS OF INTENT FOR COUNCIL CONTROLLED ORGANISATIONS

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#### 1. Purpose of report

To provide the Committee with an analysis of the draft 2014/15 Statements of Intent received from Council Controlled Organisations (CCOs) and affiliated entities, in compliance with the Local Government Act 2002 and Council reporting requirements.

#### 2. Executive summary

Officers have assessed the draft Statements of Intent for 2014/15 for Capacity Infrastructure Services Ltd, Wellington Zoo Trust and Zealandia. A number of changes are recommended to the Committee. Subject to its approval of these changes, the Committee's views will be communicated to the entities in time for the final Statements of Intent to be presented to this Committee at its meeting on 12 June 2014.

#### 3. Recommendations

Officers recommend that the Environment Committee:

1. *Receive the information.*
2. *Agree that the Chair will write to each organisation requesting changes for the final 2014/15 Statement of Intent as detailed below:*
  - (i) *Wellington Zoo Trust*
    - (a) *Note that an updated asset management plan will be ready in order to fit with the Council's Long Term Plan timing.*
    - (b) *Include the volunteer hours KPI or an equivalent KPI on community engagement.*
    - (c) *Ensure that any KPIs relating to the Zoo Capital Plan align with the funding implied in the Council's Annual Plan.*
    - (d) *Suggest an alternative to the public meeting to achieve the aim of community engagement.*
  - (ii) *Zealandia*
    - (a) *Include a complete set of forecast financial statements in the same general format that was presented in the 2013/14 Statement of Intent.*
    - (b) *Include details of the Trust's plans for managing its assets.*

3. *Note that the Committee's suggested changes for the final 2014/15 Capacity Infrastructure Services Ltd Statement of Intent are:  
(a) Reflect the funding in the Shareholder Councils' Annual Plans.*
4. *Delegate to the Chair of the Environment Committee and the Chief Asset Officer the ability to agree suggested changes for the final 2014/15 Capacity Infrastructure Services Ltd Statement of Intent with the other Shareholder Councils.*
5. *Note that the final Statements of Intent will be presented to this Committee at its meeting on 12 June 2014.*

#### **4. Background**

Under the Local Government Act 2002, CCOs are required to submit a draft Statement of Intent (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 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 Council approval in June.

Draft Statements of Intent have been received from the following organisations:  
Capacity Infrastructure Services Ltd  
Wellington Zoo Trust  
Zealandia

Zealandia is not a CCO, it is a Council Organisation. The Trust has agreed 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.

#### **5. Discussion**

##### **5.1 Capacity Infrastructure Services Ltd**

Capacity Infrastructure Services Ltd's (Capacity's or the Company's) draft SOI provides a comprehensive overview of its operating activities. It should be noted that this SOI represents a period of transition; there is a new Chief Executive in place, the outcomes-based business model is being bedded down, Porirua City Council operations are being integrated, and the proposal as to whether Regional Council should join Capacity will not be resolved for some months. Officer comments in this report reflect this period of transition.

It should also be noted that, because of the timing of this report deadline, officer comments in this report have not yet been co-ordinated and agreed with the other three Shareholder Councils.

The strategic framework section of the draft Statement of Intent has been refreshed with a clear section on purpose and objectives and an updated

strategic framework model that adds the priorities of improving key operational systems and embedding the outcomes-based business model.

The draft SOI discusses a number of matters requested in the Letter of Expectation:

- Eleven Porirua City Council staff members have joined Capacity, with four physically located in Petone. These staff members have been integrated into Capacity's existing work teams, with the next steps being to increasingly have them working across all assets.
- The draft SOI discusses the proposal to integrate the bulk water management function of Greater Wellington Regional Council. Regional Council agreed to consult on a proposal to join Capacity on 6 March; public consultation by GWRC on its Draft Annual Plan (including the proposal to join Capacity) opens on 24 March and closes on 28 April 2014.
- Capacity has reiterated its focus on the end-user customer and acknowledged that the Company is likely to have a much wider communications function than it has had in the past. While there are a range of consultations with affected parties required as part of its business as usual operations, the Company has noted that a priority for it in the coming year is to better define relationship management responsibilities, including ensuring that any relevant work programmes are scheduled around the Cricket World Cup and Fifa Under-20s World Cup.
- The draft SOI includes a discussion of the Company's water conservation work and notes that this would be made more effective if Capacity was integrated with the bulk water function. It also outlines some of the work being undertaken on inflow and infiltration, emergency preparedness and resilience planning.
- The coming year will include work to develop detailed action plans for each stormwater catchment, including engaging with communities and relevant stakeholders. Capacity intends to become part of a technical support committee to support the whitua committee for the Wellington and Porirua harbour catchments, when these are established.

Officers note that the final figures reflected in the budget and appendices in the final Statement of Intent must be consistent with the Annual Plans of the Shareholder Councils. While the draft SOI suggests additional funding may be helpful in order to fully and optimally implement the outcomes-based business model, funding reflected in the final SOI must reflect the funding in the Councils' Annual Plans. Similarly, the draft SOI implies that the Company anticipates making a surplus of around \$350k in 2014/15. This reflects Capacity budgeting that it will achieve its performance-based incentive payment under the outcomes-based business model. The reality is that, should the incentive payment be realised, it is designed to be invested back into the business and will not accumulate as a surplus. If the performance-based payment is to be budgeted for, the budget in the final SOI should reflect this investment.

Capacity notes that, as discussed in last year's SOI, it has developed a new risk management framework which complies with ISO 31000:2009 and which has been peer reviewed by an external risk expert. In 2014/15 it will review its risk register and procedures based on the updated framework.

Officers acknowledge that the proposed KPIs are under development and will be reviewed and updated by the Company in time for the final SOI. Capacity is also cognisant of the proposed Government standard non-financial performance measures from 2015/16.

### Summary Recommendations

The final 2014/15 SOI should:

- Reflect the funding in the Shareholder Councils' Annual Plans.

It should be noted that officer comments in this report are subject to the feedback, and agreement, of the other Shareholder Councils.

### **5.2 Wellington Zoo Trust**

The draft SOI for Wellington Zoo Trust (WZT or the Trust) is clearly presented and outlines, at a high level, how the Zoo is aligning itself with the Council's strategies. In particular, the draft SOI includes discussion on the Zoo's alignment with the Council's Economic Development Strategy, Our Living City Programme and the Accessible Wellington Action Plan. As in previous years, much of the Trust's thinking in these areas reflects 'business as usual' for the Zoo, particularly in its work around greater financial sustainability and integration of conservation and sustainability across it as an organisation.

The Trust notes that it operates under a Contract for Services with the Council and requests that the contract be extended for a further year.

As requested in the Letter of Expectation, the draft SOI reflects an operating grant of \$2.757m, in line with the Draft Annual Plan. This reflects a 1.5% increase on 2013/14, which is still 1.5% lower than 2012/13. The Trust notes that this level of operating grant means that the Zoo will struggle to pay salary increases without increasing admission costs and requests that the Council consider restoring the grant to \$2.799m.

On the capital side, the Trust acknowledges the \$278k for its capital renewals budget and \$516k for the Zoo Capital Plan (ZCP) programme in the Draft Annual Plan for 2014/15. The key ZCP spending in 2014/15 will be on continuing the Meet the Locals project. With the Council commencing deliberations on the next Long Term Plan, officers request that the Trust note in the final SOI that an updated asset management plan will be ready in order to fit with the Council's Long Term Plan timing.

Officers are generally comfortable with the Trust's suggested KPIs, which are largely consistent with its 2013/14 targets. The Trust proposes not including the KPIs from this year on % Wellingtonians visiting the Zoo and volunteer hours. While officers understand dropping the % Wellingtonians KPI given the survey results can be unpredictable, the volunteer hours KPI does provide an interesting perspective on how engaged the community is with the Zoo on a non-visitor basis. Accordingly, officers recommend re-including the volunteer hours KPI or an equivalent KPI on community engagement with the Zoo. The final SOI should ensure that any KPIs relating to the ZCP align with the funding implied in the Council's Annual Plan.

Forecast visitor numbers for 2014/15 have increased to 230,111 (an increase of 4% over the 2014/15 target in last year's SOI). This represents an increase of 6% over this year's target of 216,890, although is less than last year's record actual attendance of 232,130. This remains considerably higher than the 2% annual visitor growth target included as part of the original approved ZCP business plan. As a result, the target Council subsidy per visitor falls to \$11.98 in 2014/15 (noting that this does not include separate Council costs such as depreciation).

As requested in the Letter of Expectation, the Trust notes that it will plan on holding an open Community Meeting in 2014/15; however, it requests that the Council reconsider this requirement as the 2013/14 meeting was only attended by two members of the public. The requirement for a public meeting for each CCO was introduced following the CCO review in 2012. In particular, the Trust notes that the format of this meeting requires staff work and time and incurs costs, and that it already interacts with its community in many other ways. Officers recommend that the Trust suggest an alternative to the public meeting to achieve the aim of community engagement in the final SOI.

As requested by the Council, the Zoo Trust has committed to analysing the impact of introducing a living wage rate for their staff and reporting back as part of the 2015 Long Term Plan.

In general, the financial forecasts included in the draft SOI for 2014/15 appear reasonable, implying a 2.9% increase in trading income, a 1.4% increase in employee costs and a 2.7% increase in other operating expenses for 2014/15 relative to the 2013/14 forecast. The Trust is forecasting a breakeven position for 2014/15 and a cash position of \$1.4m by June 2015, including restricted funds of \$0.4m.

The forecast average income per visitor is \$14.25 which is lower than the target for the past two years, but a 3% increase on the actual result for 2012/13. The Zoo Trust continues to anticipate earning more from trading income than from its Council grant.

### Summary Recommendations

The final 2014/15 SOI should:

- Note that an updated asset management plan will be ready in order to fit with the Council's Long Term Plan timing.

- Include the volunteer hours KPI or an equivalent KPI on community engagement.
- Ensure that any KPIs relating to the ZCP align with the funding implied in the Council's Annual Plan.
- Suggest an alternative to the public meeting to achieve the aim of community engagement.

### **5.3 Zealandia**

The draft SOI for Karori Sanctuary Trust (Zealandia or the Trust) is a clearly presented strategic account of the Trust's intentions. The SOI is a culmination of a lot of strategic work undertaken by its board of trustees since January 2013.

The draft SOI outlines, at a high level, how the Trust is aligning itself with the Council's strategies. In particular, the draft SOI includes discussion on the Trust's alignment with the Council's Economic Development Strategy, Our Living City Programme and the Accessible Wellington Action Plan. Like the Wellington Zoo Trust, much of Zealandia's thinking in these areas reflects 'business as usual' for Zealandia, particularly in its work around greater financial sustainability and integration of conservation and sustainability across it as an organisation.

Officers are generally comfortable with the Trust's suggested KPIs.

- Forecast visitor numbers for 2014/15 have increased to 91,400 (an increase of 2.3% on the forecast 2013/14 visitation of 89,366). The Trust is on target to achieve its 2013/14 visitation target. The Trust's 2014/15 target of 91,400 visitors represents a 10.5% increase over the actual visitation in 2012/13 (82,749) and signals a turnaround in the strategic direction of Zealandia which can be attributed, in part, to its well publicised spring re-launch in October 2013. The Trust forecasts a further 3.9% growth in 2015/16 to 95,000 visitors, some of which is attributed to a visiting attraction (Sirocco, the travelling Takahe) which causes a spike in visits. Visitation in 2016/17 is forecast to be 93,600, still 4.7% above 2013/14 and 13% higher than actual visits in 2012/13.
- Forecast memberships for 2014/15 are 5,450 which is an increase of 20% on actual memberships in 2012/13 and 10% up on the forecast memberships for 2013/14. This growth signals the confidence that the Trust has in reversing declining memberships following its spring re-launch in October 2013.
- The forecast average revenue per visit (excluding Council grants) is \$27.46 in 2014/15, slightly below the forecast for 2013/14 of \$28.40. This is a result of the entry price reduction which was launched in October 2013. By 2016/17 the average revenue target has returned to a similar level to that prior to the price reduction. The forecast average subsidy per visit (Council grant/total visits) is \$9.57 in 2014/15 declining to \$9.35 in 2016/17.
- The Trust has set a new KPI in the draft SOI to measure its performance in non-Council fund raising. The 2013/14 forecast is \$123k, increasing to

\$150k per annum from 2014/15. Officers note that the proposed \$27k increase between 2013/14 and 2014/15 reflects the Trust having employed a dedicated fundraiser in October 2013 to enable greater donor care and, on the face of it, this seems a modest increase. Offices will seek some more information to understand the meaningfulness of the proposed new KPI.

The draft SOI contains a high level summary Statement of Financial Performance. The Trust will furnish full financial forecasts including Statements of Cash Flows and Statements of Financial Position for the 3 years from 2014/15 to 2016/17 and a quarterly budget for 2014/15 that aligns with the summary in the draft SOI and the strategic intentions of the draft SOI itself.

In general, the financial forecasts included in the draft SOI for 2014/15 appear reasonable, implying a 2.5% increase in total revenue, a 2.0% increase in employee costs and a 2.2% overall increase in operating expenses for 2014/15 relative to the 2013/14 forecast.

The Trust is forecasting a surplus before depreciation for 2014/15 of \$161k which compares to a forecast surplus before depreciation to 30 June 2014 of \$148k.

The draft SOI does not discuss the Trust's approach to managing its assets or to an overall Asset Management Plan. The Trust's fixed assets are significant and officers recommend that the final SOI addresses the management of the Trust's assets. Officers also recommend that this is carried into the Trust's Ten Year Outlook which is referred to in the draft SOI.

The Trust has responded to the specific expectations provided in Council's Letter of Expectation and these are commented on below.

*Discuss plans to build on the market re-positioning and pricing work undertaken this year.*

The Trust's SOI is clearly focussed on a strategic framework with five identified goals and six key strategies to achieve its goals. The Trust's vision is to be widely recognised as an essential part of Wellington's identity and natural heritage.

The Trust's goals are:

1. Continue to enhance Zealandia's reputation using clear communications and messages. Zealandia will be synonymous with integrity – we will build trust, engagement and loyalty with our community.
2. Sustain and diversify Zealandia's revenue streams and ensure that resilient financial arrangements are in place.
3. Enhance engagement of volunteers, visitors and members and inspire these groups to act as advocates for Zealandia.
4. Secure further restoration investment and ensure our research work is recognised by funders and partners as leading the way in Wellington's environmentally active community.

5. Sustain and extend relationships both within New Zealand and internationally that contribute directly to our vision and mission.

Among the Trust's six key strategies, Supporter Engagement has a philanthropy and donor conversion programme that aims to encourage local business and the community to become regular financial contributors to Zealandia.

The Supporter Engagement strategy also aims to develop a stakeholder management plan that will ensure the Trust is in regular contact with its members and key stakeholders so they are well informed of events and opportunities at Zealandia.

A strategy is being developed to encourage members to become advocates for Zealandia in their communities. This strategy will build on the encouraging growth in memberships since the market re-positioning and the current focus the Trust has on growing its membership base.

Membership is one KPI by which the Trust measures its performance, and its forecasts show steady growth from 2014/15 following an initial jump in memberships following the spring re-launch in 2013.

The longer term plans for the Trust are introduced at a high level in the draft SOI as a Ten Year Outlook. Work on this began in late 2013 with the intention that a robust business plan will be developed for discussion with Council in May 2014. In addition to the 'business as usual' objectives of increasing visitation and revenues, the Ten Year Outlook identifies that developing a long term partnership with Victoria University of Wellington (VUW) is a key strategy. The Trust is not yet able to provide a clear expression of what this partnership could be but, it does indicate that the relationship could require investigating alternative accommodation options for its staff. An appropriate feasibility study and funding options will be considered during 2014.

*Acknowledge the importance of non-council donations and funding and provide a measure (or measures) with the Trust's Key Performance Indicators that highlight the performance of the Trust in this area.*

The Trust responds to this expectation both in terms of its Supporter Engagement strategy discussed above and also by establishing a KPI that is explicit about the Trust's goals for non-Council donations and funding. The 2013/14 forecast is \$123k, increasing to \$150k per annum from 2014/15. Officers will seek some more information to understand the meaningfulness of the proposed new KPI.

*Report on the status of delivering on a strategic partnership with Victoria University.*

One of the Trust's six key strategies is research partnerships. The draft SOI talks about the discussions that are already underway with VUW regarding the establishment of a centre for conservation research, learning and citizen engagement at Zealandia. The Trust aims to have the first practical expressions of the partnership with VUW visible and active in 2014.



*Outline the impact of the work on visitor experience funded by the Regional Amenities fund.*

The Trust has responded to this by providing details of a pilot project called *Nature Connections*. This project is a Wellington Regional Amenities Fund pilot project aimed at identifying and improving the interpretive connections between similar eco-tourism destinations in the Wellington region. The project commenced in October 2013 and in the next 12 months the Nature Connections brand will be launched. Each partner organisation will develop interpretative tools onsite what the connections are between the partner organisations and why the region is inspirational. As a result of the project, Zealandia will also have four staff trained as 'trainers' in the professional presentation of development sessions for its own staff and volunteers – aimed at improving the presentation skills and improving the quality of the visitor experience at Zealandia.

*Reflecting the fact that 2014/15 is the final year of currently agreed Council funding in the LTP, the SOI should outline the Trust's thinking in terms of longer term Council funding that may be required.*

The Trust's response to this expectation in its draft SOI is provided in the Ten Year Outlook which is described in more detail above. At this stage of its development (of the Ten Year Outlook), the Trust's initial conclusion is that it will reach its sustainable business model based on Council funding remaining broadly at the current level.

The draft SOI notes that the board and management are focussed on completing work on the Ten Year Outlook in April 2014 so that discussions can begin with Council in May 2014 in advance of the Council's Long Term Planning process.

### Summary Recommendations

The final 2014/15 SOI should:

- Include a complete set of forecast financial statements in the same general format that was presented in the 2013/14 SOI. This includes a level of line-item detail which is required (as a minimum) for the purposes of consistent monitoring and analysis. Where the Trust sees benefits in providing more detail or refining what is, this should be discussed with Council prior to finalising the SOI.
- Include details of the Trust's plans for managing its assets.

#### **5.4 Consultation and Engagement**

The organisations in this report consult with the Council on a wide range of matters as part of our "no surprises" relationship.

#### **5.5 Financial and Long Term Plan considerations**

The CCOs work within the context of the Council's overall Long Term Plan and Annual Plan framework.

### **5.6 *Climate change impacts and considerations***

The CCOs work with the Council and other organisations in considering the environmental sustainability of their operations, including with the Council's Our Living City programme.

## **6. Conclusion**

Officers have assessed the draft Statements of Intent for 2014/15 for Capacity Infrastructure Services Ltd, Wellington Zoo Trust and Zealandia. A number of changes are recommended to the Committee. Subject to its approval of these changes, the Committee's views will be communicated to the entities in time for the final Statements of Intent to be presented to this Committee at its meeting on 12 June 2014.

Contact Officers: *Warwick Hayes, Portfolio Manager, CCOs and Maree Henwood, Portfolio Manager, CCOs*

## 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) LTP/Annual Plan reference and long term financial impact

*Please refer to the individual comments on 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

*Officers outside the CCO team are consulted as relevant and a copy of each entity report will be circulated to the individual entity. WCC feedback on Stadium Trust is discussed with Regional Council.*

#### 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 a CCO under the Local Government Act 2002.*

### 7) Consistency with existing policy

*This report is consistent with existing WCC policy.*