

5 February 2009

Paul Collins
Chair
Wellington Regional Stadium Trust
PO Box 1432
Wellington

Dear Paul

Re: 2009/10 Statement of Intent and Wellington City Council Expectations

This letter sets out the Council's expectations of the Wellington Regional Stadium Trust (WRST) for 2009/10, and how this should be demonstrated in its 2009/10 Statement of Intent (SOI). The SOI should fully reflect the relationship and interest that the Council has in WRST, and this letter is intended to assist the Trust in its business planning processes.

The Trust may of course use its discretion in presenting the requested information, highlighting and / or front-loading key information, such as strategies and risks, and appendicising statutory and compliance information requirements.

As you will be aware, our Long Term Council Community Plan (LTCCP) for the next 10 years is currently being developed. This document is a vision and action plan rolled into one that will determine what the Council does over the next three years and what we want the city to be like in 10 years' time.

The biggest challenge facing the Council and the city as a whole is the current economic downturn, and the likely recession both globally and in New Zealand. The costs of running the city are increasing faster than inflation so the Council must trim spending to keep rates rises to a minimum while ensuring Wellington remains a vibrant, affordable, internationally competitive city.

The Council Controlled Organisations Performance Subcommittee (CCOPS) will require WRST's SOI to give assurance that the Trust will be able to successfully manage its operations during this difficult and uncertain period within its available budgets. WRST should outline the strategies it has or will put in place to increase efficiencies and to identify savings where possible, whilst keeping service delivery at appropriate levels.

Specific Issues

The management of the congested scheduling demands while ensuring ground quality and appropriate asset maintenance of the ground and facilities is expected to be a key element of the 2009/10 SOI and business plan.

The Subcommittee notes that three of the major issues facing the Stadium are the declining Air New Zealand Cup attendance numbers, the changing levels of demand for corporate boxes and the stadium naming rights sponsorship. The SOI should outline what strategies the Trust has in place to address these issues, and how the Trust will generate sufficient future revenue streams to operate and maintain the Stadium to the necessary standard.

As a major international event, we would expect the SOI and Business Plan to provide an indication of the preparations that the WRST intend to put in place for the 2011 Rugby World Cup.

It is also important to the Council that the Stadium, as a City and Regional facility, supports a broad range of community events and co-ordinated city-wide event management. Of particular importance will be the commitment to a broad event schedule and an explanation of how the Trust intends to work with the Council in achieving a co-ordinated approach to event scheduling within the City.

On behalf of Council, I would like to acknowledge the WRST's continued valuable contribution to Wellington's event scene, and particularly to congratulate the Trust on operating on a sound commercial basis and maintaining high levels of positive visitor experience as reflected in the Council's resident satisfaction surveys.

We look forward to receiving your draft SOI by 1 April 2009. Once we have received the draft SOIs from CCOs we will present them, along with our comments, to CCOPS at its meeting on 20 April 2009. After the meeting, any comments from the Subcommittee will be sent to you before the end of April, with final SOIs to be provided to officers by 20 May 2009 for presentation to CCOPS and subsequently to the Strategy and Policy Committee (SPC) for approval in June 2009.

Should you have any queries or comments in regard to this letter please contact Warren Ulusele in the first instance who would be happy to elaborate on the Council's strategies and the outcomes it is seeking, should you or your board wish to discuss this.

Yours sincerely

James Ogden
Chair, Council Controlled Organisations Performance Subcommittee

CC: David Gray, CEO

ANNEX 1

The Purpose Of SOIs

Under Schedule 8 of the Local Government Act 2002 (LGA) a key purpose of the SOI is “to provide an opportunity for the shareholders to influence the direction of the organisation”. Section 59 of the Local Government Act 2002 also sets out statutory objectives that the Wellington Regional Stadium Trust (WRST) must fulfil. They are:

- To achieve the objectives, both commercial and non-commercial, of its shareholders as specified in the SOI;
- To be a good employer;
- To exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so.

Council Vision and Outcomes

The Council’s vision for Wellington continues to be *Creative Wellington – Innovation Capital* and it has identified 13 outcomes that describe the city that Council wants to achieve over the next ten years. The detail of these outcome statements and 7 underpinning strategies are contained in the 2006/16 LTCCP and are still the key drivers within the 2009/19 LTCCP which is currently being drafted.

However, the global economic crisis means that additional short-term strategies need to be built into the above framework to enable Council and all CCOs to stay within their 2008/09 funding levels whilst still maintaining appropriate service levels. The draft LTCCP, which we are engaging on early with the public this year aims to strike a balance between sustainable rates increases and maintaining the vibrancy of the city by reducing aspects of some services rather than stopping them altogether.

It is vital that WRST effectively contributes to these Council outcomes to enable the city’s vision to be achieved. In relation to the provisions of clause 9 of Schedule 8 of the LGA, we expect that your SOI will set out clearly the following information.

- a. The nature and scope of WRST’s functions and intended operations;
- b. It will identify the *specific* Council outcomes or objectives that WRST seeks to achieve or contribute to through its operations;
- c. It will set out how WRST intends to:
 - (i) operate to achieve those outcomes or objectives;
 - (ii) effectively manage those operations within its operating environment;
 - (iii) identify risks and mitigation strategies, including both strategic risks that could impact on the city and operational risks that could impact on the CCO’s business.
- d. It will include three levels of measures to assess and report on WRST’s performance, including:
 - (iv) the high level outcomes or objectives achieved or contributed to by WRST e.g. number of events and attendances, etc;

- (v) the organisational health and capability of WRST to enable it to perform its functions e.g. staff turnover, etc.
- e. Any other matters reasonably necessary to ensure that the Council understands WRST's operating intentions and direction.

The Council also has general objectives for WRST. These are that the Trust should:

- have a partnership approach with Council and other CCOs;
- have a regional focus, where this is appropriate;
- to appropriately acknowledge the contribution of Council;
- achieve maximum effectiveness and efficiency of, and concentrated focus on service delivery; and
- operate at breakeven after depreciation expense¹

Performance Reporting Expectations

We will continue to work to align reporting requirements across Council to eliminate, where possible, any reporting duplication.

Financial Information

The information we require to be provided under Sec 9. 1 (h) of Schedule 8 of the LGA is the same as set in previous years. This includes consolidated forecast financial statements covering 2009/10 and the two following years. These should be incorporated in your strategic or business plan that is provided to the Council and be attached to and form part of the SOI.

They must be prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) and should include:

- a forecast statement of financial performance
- a forecast statement of financial position
- a forecast statement of cash flows
- a reconciliation of net cash flows from operating activities to the net surplus/(deficit) in the operating statement
- a statement of movement in equity or taxpayers' funds
- details of fixed assets by category

For reporting purposes we require a budgeted statement of financial performance, statement of financial position, cashflow statement and cash flow reconciliation statement for each quarter for 2009/10.

The quarterly reports to be provided to CCOPS, as per the below timetable, should report actual results against the quarterly budget.

Capital Expenditure

As capital expenditure remains a critical aspect of the Council's financial plan, we expect that the Business Plan will contain an analysis of planned capital expenditure with an appropriate risk assessment of these projects. This will include how the expenditure is to be funded, including asset disposals and any borrowing strategy.

¹ WRST is not required to generate a surplus apart from where this is required to meet financial obligations, and neither is it required to pay a contribution or dividend to Council. It is not permitted to post a deficit after depreciation.

Performance Targets

The performance targets identified above are required for each quarter so that actual performance can be monitored on a quarterly basis. These targets should be phased to reflect any seasonal differences. Council officers will work with the Trust to ensure that performance targets are meaningful and appropriate, and sufficiently challenging to motivate performance.

Performance Reporting Timetable

A timetable for entity reports for the remainder of the 2008/09 year and for 2009/10 is given below. We expect that the board and management will work together to ensure that key documents are finalised and are submitted to Council ahead of these timelines.

Report	Date due from CCOs	CCOPS Date
2 nd Quarter Reports (08/09)	31 January 2009	2 March 2009
Draft Statement of Intent 09/10	1 March 2009	20 April 2009
CCOPS to respond with any amendments or revisions to the draft SOI before the end of April 2009		
3 rd Quarter Report (08/09)	8 May 2009	26 June 2009
Final Statement of Intent 09/10	20 May 2009	26 June 2009 (thereafter to be approved by SPC)
<u>Final Business Plan / Strategic Plan (2009/10)</u>	20 May 2009	26 June 2009
Annual Report (08/09) (4 th Quarter Report)	<i>To be confirmed</i> by WCC Finance Unit – Draft accounts will usually fall due during July and Audited Accounts usually by end of August.	23 October 2009
1 st Quarter Report (09/10)	31 October 2009	December 2009 - TBC

Other points

Risk Management

We expect that the SOI and business plan will set out the process by which the board assures itself and the Council that it is meeting its audit and risk assurance obligations, including how internal audit functions are provided for by WRST. The Council's Risk Assurance team is available to provide advice to any CCOs that require this assistance. Annex 2 discusses risk management in greater detail.

The SOI and business plan will identify the key risks that the entity faces in the planning period and the risk mitigation strategies that are in place to manage these risks. The Council is concerned with both strategic risk where the operations of a CCO might have a significant impact on the city and also operational risk within the business. As these risk strategies often impact on other business units it is important that they are identified and that the business plans of all parties concerned are aligned.

Major Transactions

Due to the nature of the operating environment we require a high level of consultation and accordingly propose that the following principles govern this:

- The business plan provided to Council should disclose any material² transactions that are likely to occur during the planning period.
- Any transaction that is potentially contentious in nature, likely to attract media attention or which could cause embarrassment for the Council should be brought to Council attention irrespective of the size of transaction. This includes notifying both the Director, Strategy and the Council's Chief Executive.

Communication and Access to Information

It is expected that 'open and frank' communication will continue to occur between the board and the Council and that the Council will be provided with access to information it requests. The relationship will operate on a 'no surprises' basis so that any significant event that may impact on either party is brought to their attention as soon as it can be reasonably done.

The Council will continue to exercise its right to access information if it is deemed necessary to ensure its interests are upheld. We would like the SOI to include an appropriate statement, as provided in previous years, confirming the principles governing the relationship between the Council and WRST.

Governance

We again expect that each Board will meet best practice governance standards and have in place a process to undertake a regular (at least annual) review of the overall board, individual board members and the chair's performance. Feedback on this would be confidential between the chair and the Council's Appointments Group.

We would expect that an appropriate board development programme will also be in place to assist in lifting board performance over time.

² A material transaction is defined in terms of both financial and operational effects.

ANNEX 2

Improved governance through effective risk management

Public service organisations face a wide range of strategic, operational and financial risks, from both internal and external factors, which may prevent them from achieving their objectives. Therefore, organisations need to establish and maintain a risk management framework outlining its systematic strategy, framework and processes for managing risk.

This framework should consider the full range of the organisation’s activities and responsibilities, and continuously check that various good management disciplines are in place. It should include mechanisms to ensure that the risk management and control process is monitored for continuing compliance and to ensure that changes in circumstances are accommodated so that the framework remains up to date.

Components of a risk management framework include:

- identifying key strategic, operational and financial risks, and then assessing the possible effects that the identified risks could have on the organisation;
- agreeing on and implementing appropriate responses to the identified risks (internal control, insure, terminate, modify, accept)
- putting in place a framework of assurance from different sources, to show that risk management processes, including responses, are working effectively
- reporting publicly (to the Council) on the effectiveness of the risk management system through, for example, an annual statement on internal control, including, where necessary, an action plan to tackle any significant issues
- making it clear that the governing body carries ultimate responsibility for the risk management system.

Roles and responsibilities

There are, broadly speaking, four parties that participate in an organisation’s governance activities and each has specific responsibilities. The roles of the parties are separate, and the responsibilities of each role are different. Effective governance is diminished if role boundaries are not respected. Good governance results from effective synergy generated among the activities of these differing roles, while maintaining their separation.

Role	Responsibilities
Board	<ul style="list-style-type: none"> • The focal point for all governance activities. • Ultimately accountable and responsible for the performance and affairs of the organisation, effective risk management practices, and establishing a risk appetite level. • Oversees all organisational activities (e.g., risk management, strategic direction setting, compliance with laws, good business, and ethical practices), but does not have direct management of any of them. • Establishes the “tone at the top” and implements best governance practices for organisational performance.

Role	Responsibilities
Management	<ul style="list-style-type: none"> • Develops and maintains the systems for identifying and evaluating all significant risks. • Provides assurance that risks are managed as part of a risk management process, operations are monitored, results are measured and evaluated, and corrective actions are implemented in a timely fashion. • Deploys strategy, enforces internal control, and provides direct supervision for areas under its control. • Accountable to the board, for implementing and monitoring the risk management process and establishing effective and appropriate internal control systems.
Internal Audit	<ul style="list-style-type: none"> • Performs assessments to provide assurance that systems, structures and processes are properly designed and operating effectively. • Provides advice on potential improvements to systems, structures and processes. • Provides assurance to Management and the Board of the organisation's compliance with all applicable statutes, regulations and relevant statements of best practice, that public funds are properly safeguarded and are used economically, efficiently and effectively, and in accordance with the statutory and other authorities that govern their use. • Note in smaller organisations, the internal audit function may need to be outsourced or co-sourced to a chartered accountancy firm or to Council's Risk Assurance team.
External Auditing	<ul style="list-style-type: none"> • Provides independent assurance on the financial statement preparation and reporting activities, in accordance with applicable regulations and accounting principles.

Benefits of effective risk management and internal control

An effective risk management framework and system of internal control (including internal audit) helps to ensure:

- strategies and policies are put into practice in all relevant parts of the organisation and ensuring that those strategies and policies are well designed and regularly reviewed;
- high quality services are delivered efficiently and effectively;
- performance is monitored regularly and rigorously, ensuring effective measures are put in place to tackle poor performance;
- laws and regulations are complied with
- information used by the organisation is relevant, accurate, up-to-date, timely and reliable;
- financial statements and other information published by the organisation are accurate and reliable;
- financial, human and other resources are managed and safeguarded efficiently and effectively.