

**Auckland
Council**

Te Kaunihera o Tāmaki Makaurau



Shareholder Expectation Guide

for

Council Controlled Organisations

December 2011

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1. INTRODUCTION

This guide applies to Auckland Council's substantive Council Controlled Organisations (CCOs). It outlines shareholding Councillors' expectations of the board of CCOs and is designed to help boards to operate efficiently in their roles and to clarify their responsibilities. The guide outlines the minimum requirements expected by Auckland Council for CCOs, the Statement of Intent (SOI) incorporates additional obligations.

The guide is intended to complement the letters of expectation sent by the Mayor at the outset of the annual business planning round, which supports specific issues and expectations for the individual CCOs and SOIs.

The guide should be read in conjunction with relevant legislation such as the following:

- Companies Act 1993 (Companies Act)
- Local Government Act 2002 (LGA 2002)
- Local Government (Auckland Council) Act 2009 (LGA (AC) 2009)
- Local Government (Auckland Transitional Provisions) Act 2010 (LGA (ATP) 2010)
- Local Government (Auckland Council) Amendment Act 2010 No 36, Public Act ((LGA (AC) Amendment Act 2010

all of which place certain obligations on CCOs and their directors.

Documents such as the Accountability Policy and Appointment & Remuneration Policy are independent of this guide. Information documents such as the board performance framework and fee methodology are incorporated into the guide. Other appropriate documents and templates such as the SOI are also appended.

The guide will be updated periodically through a managed version control process as processes, policies and councillors' expectations change. It is available on Auckland Council's website.

2. CCO FRAMEWORK

A CCO is an organisation in which the council controls 50 per cent or more of the votes or has the right to appoint 50 per cent (or more) of directors or trustees.

A substantive CCO is a CCO that is either responsible for the delivery of a significant service or activity on behalf of Auckland Council, or owns or manages assets with a value of more than \$10 million. Auckland Council has six substantive CCOs:

- [Auckland Council Investments Limited \(ACIL\)](#)
- [Auckland Council Property Limited \(ACPL\)](#)
- [Auckland Tourism, Events and Economic Development Limited \(ATEED\)](#)
- [Auckland Transport \(AT\)](#)
- [Auckland Waterfront Development Agency Limited \(WDA\)](#)
- [Regional Facilities Auckland \(RFA\)](#)

Auckland Council also owns Watercare Services Limited (Watercare). Watercare has separate obligations under the Local Government (Auckland Council) Act 2009 and the Local Government (Auckland Transitional Provisions) Act 2010 and will become a substantive CCO from 1 July 2012. For the purpose of this guide, the term CCOs includes Watercare. The council also has a number of legacy CCOs.

CCOs deliver a large proportion of the Auckland Council’s services. The council’s success depends significantly on the effectiveness of the CCOs and their ability to implement the council’s vision and strategies. The council and CCOs are developing relationships based on mutual understanding, goodwill, and a free flow of information. The Accountability Framework is attached at Appendix A.

CCOs provide a significant contribution to the well-being of the Auckland region. Their performance is important to the Council’s overall fiscal and balance sheet position and its capacity to meet the social, economic, environmental and cultural objectives for Auckland and its communities.

CCO Governance Structure

The Auckland Council is the sole owner of seven substantive CCOs (including Watercare) who perform a vital role in helping the Council to achieve its strategic goals for the region. The Council has a collaborative and cooperative relationship with its CCOs, and views its CCOs as key to the delivery of the Council’s objectives and priorities for Auckland.

The Governing Body and Local Boards share the decision-making responsibilities of Auckland Council. The Governing Body, comprising the Mayor and twenty elected members, focuses on region-wide strategic decisions. The Local Boards represent their local communities and make decisions on local issues, activities and facilities.



Within the co-governance model, decision-making responsibility relating to CCOs is the responsibility of the Governing Body and its reporting committees.

The two committees related to CCO Governance are the Accountability & Performance Committee and the Council Controlled Organisations Strategy Review Subcommittee.

The relevant delegation of the Accountability & Performance Committee for CCOs is:

Accountability & Performance Committee

The terms of reference (delegation) for the Accountability and Performance Committee that are applicable to CCOs include:

- Monitoring, setting policies and reviewing the performance of the CCOs against organisational, CCO and SOI targets

The Committee is supported in its work by the Council Controlled Organisation Strategy Review Subcommittee.

Council Controlled Organisations (CCO) Strategy Review Subcommittee

The CCO Strategy Review Subcommittee is a subcommittee of the Accountability and Performance Committee. The terms of reference (delegations) for the CCO Strategy Review Subcommittee that are applicable to CCOs include:

- making appointments of members of the CCO Boards and overseeing and providing recommendations to Council in regard to the Council's interests in its [substantive] CCOs and any subsidiaries including:
 - To comment on, agree and require modification to CCOs accountability documents (including statements of intent)
 - Considering material transactions for CCOs and make recommendation to the Committee; and
 - Developing a policy for the appointment and remuneration of members of the CCO Boards

Relevant legislation for both the Committee and Subcommittee includes but is not limited to the

- LGA 2002
- LGA (AC) Act 2009
- LGA (ATP) 2010
- Resource Management Act 1991
- Companies Act 1987
- Port Companies Act 1988

CCO Purpose

The council has the ability to clarify the purpose of each CCO if it considers this necessary¹. For Auckland Transport and Watercare, which have their objectives and/or purpose specified by statute, the council cannot specify a purpose that would conflict with this.

¹ Any significant changes could require a review of the constitution of a CCO. The shareholder has the power to undertake such a review.

Publicly owned companies are normally established to fulfil one of the following purposes:

- Maximise returns – these entities generally operate in a competitive or a regulated environment, receiving their revenue from the sale of goods and services. Their objectives are fully commercial, to maximise financial returns over time for their shareholder. The rationale for public ownership is to gain leverage, to provide oversight of a monopoly, or to protect an interest/asset for the long-term benefit of the public.

At a central government level in New Zealand, state owned enterprises (SOEs), such as Mighty River Power, New Zealand Post and Kiwirail, have the closest fit with this model. Their principal objective is to be a successful business, as efficient and profitable as possible. As part of this, they are required to be a good employer.

- Promote strategic policy – these entities are established to achieve strategic goals. They are likely to have a mix of commercial and public good objectives and may receive their revenue from a variety of sources. The rationale for public ownership is strategic, with entities expected to perform a catalyst role where there is some form of market failure.

Crown Entity companies, such as Crown Fibre Holdings and crown research institutes, are the best examples of this type of entity at a central government level.

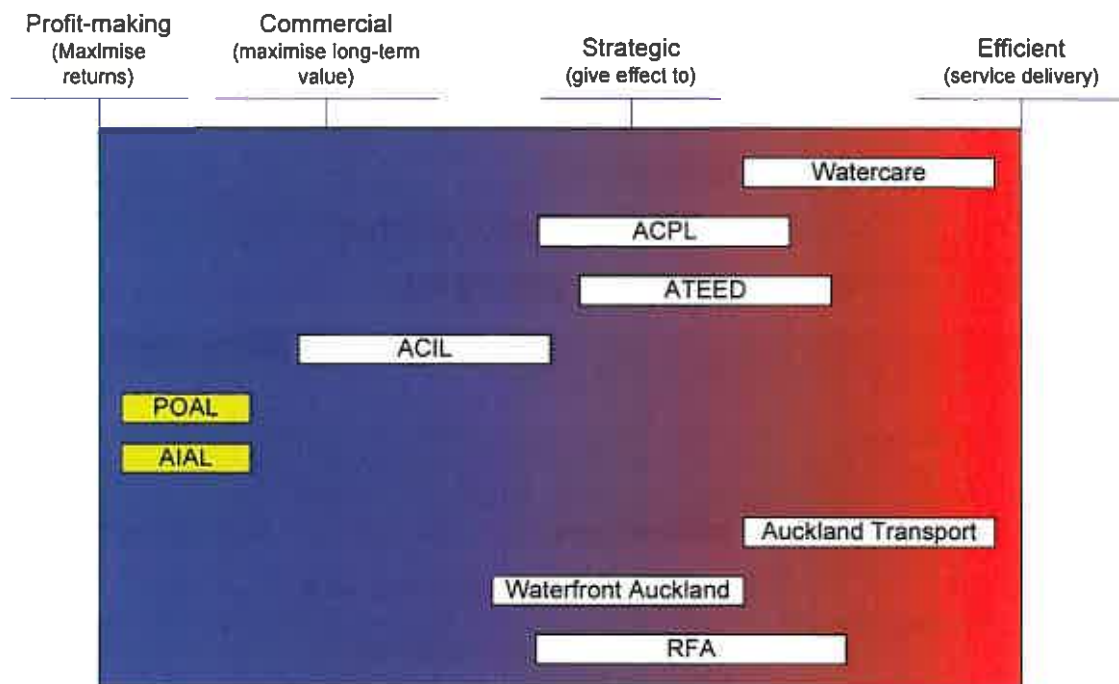
- Efficient service delivery – these entities generally deliver services funded by taxes, special purpose levies or compulsory charges. They have a strong imperative to deliver services efficiently while meeting a range of public policy objectives. Most do not operate in a competitive environment, or face limited competition for aspects of their operations. The rationale for public ownership is that they deliver core services that would not be provided, or would be underprovided by the public sector. The commercial structure achieves focus, efficiency, and the application of commercial acumen to the delivery of public sector services.

Crown Agents such as the Housing Corporation, New Zealand Transport Agency and New Zealand Trade and Enterprise, are the best comparison at a central government level. Crown agents deliver services on behalf of the crown, and receive more direction from government, than state owned enterprises.

The following diagram illustrates the CCO models as a continuum, with fully profit-making entities at one end, and service delivery entities at the other. It also shows the approximate placing of each CCO.

Note that the diagram is schematic and is intended to help clarify the way that the council views the purpose of each CCO. The positioning of an entity could also change over time.

CCO Purpose



Notes to diagram

1. Ports of Auckland Limited (POAL) and Auckland International Airport Limited (AIAL) are not CCOs and have been shown for illustrative purposes only.
2. Long-term value means both financial and wider economic/social benefit.

ACIL is an investment company, which manages the council's interests in certain commercial assets. ACIL was established to bring a strong commercial focus to the ownership and governance of the Auckland Council's major investments. While the major assets owned by ACIL operate in a competitive environment, ACIL itself does not. Furthermore, it has no ability to purchase or sell investments without council approval. The assets owned by ACIL are held for the long-term benefit of the region. Under its SOI, ACIL is required to have a public benefit perspective, considering the wider contribution of its assets to the current and future economic and social wellbeing of the region. For these reasons, it has some characteristics of a strategic entity.

Waterfront Auckland, ACPL, RFA and ATEED all operate within the 'strategic entity' part of the spectrum although they also have service delivery functions². In each case, there is some room for debate about their exact positioning. For example, RFA has a role in development of facilities and in service delivery, but the degree of focus on each has implications for where it is placed. Of these three CCOs, Waterfront Auckland operates closest to the commercial end of the spectrum.

² In ACIL's case it provides a service to the council.

Auckland Transport is a core service provider, with its activities funded from rates and central government funding. This also fits with its legislative purpose, which is to contribute to an efficient and effective land transport system to support Auckland's social, economic, environmental and cultural well-being.

Watercare has also been placed at the service delivery end of the spectrum. Although it has its own revenue source and its own statutory obligations, so do crown agents such as the Accident Compensation Corporation (ACC). Watercare has been included for completeness, however; the funding discussion under Section 5 - Financial Governance of the guide, does not apply to Watercare given that it generates its own revenue.

Principles of a Good Governance Relationship

The following six principles are required for a strong governance relationship between the Governing Body of council and its CCOs.

- A. Leadership** – The council is responsible for setting strategic direction and communicating this via the letter of expectations and other mechanisms, for example inputting into the development of the SOI. While CCOs should show leadership in their areas of expertise this must be consistent with shareholder expectations.
- B. Empowerment** – CCO directors must be empowered to fulfil their statutory, constitutional and SOI responsibilities. If they are unnecessarily constrained, they cannot fulfil their obligations and are unable to 'add value'.
- C. Accountability** – Accountability must accompany empowerment. In addition to audit and annual report requirements, every three years elected members are held to account by the public for their use of ratepayer money and for their stewardship of council owned assets. This accountability needs to be 'transferred' to the CCOs.
- D. Transparency** – Accountability for public funds also requires a high level of transparency. This is particularly important for CCOs undertaking a mix of commercial and publicly funded activities. Transparency requires visibility of funding to ensure that it has been used for intended public good outcomes rather than private benefit.
- E. Public service ethos** – CCO directors must ensure they behave in a manner that is consistent the spirit of public service, openness and fairness and require the same from their executives. This requires them to exercise judgement and caution in decision-making distinct from what may be required in a commercial environment.
- F. Trust** - Productive CCO relationships also require a culture of cooperation and trust. The 'no surprises' policy is a critical part of this, and ensures that CCOs and the council keep each other informed before matters are in the public arena.

3. ROLES AND RESPONSIBILITIES

The Role of the Governing Body

The role of the council as shareholder is to set expectations and monitor the performance of its CCOs under the relevant legislation noted in Section 2 under CCO Governance Structure. Performance is monitored against the SOI and Long term plan (LTP) measures and targets. The tension between the council and its CCOs is most likely to arise when the council attempts to go beyond this role in monitoring or decision-making.

However, the council has further obligations to ensure the wise and transparent use of public money and the protection of public assets managed and owned by CCOs. The council also has a role in ensuring that CCOs do not make decisions that could have significant future funding implications for the council. These obligations can require a level of scrutiny beyond a relatively high-level SOI and retrospective performance monitoring.

Council's responsibilities

In practice, the council's responsibilities include:

- Appointing and removing CCO directors (including chairs and deputy chairs)
- Developing the short-term annual priorities through the Mayors letter of expectation (LOE)
- Setting the CCOs' medium to long-term strategic direction
- Commenting on the content of draft SOIs
- Agreeing to and, if necessary, modifying SOIs
- Receiving quarterly, annual and half-year reports
- Monitoring board performance and taking remedial steps when necessary
- Developing and communicating the council's strategies and plans
- Consulting with CCO boards as issues arise
- Making decisions as shareholder (for example, approving a major transaction under the Accountability Policy, or other transactions if such approval is required)
- Ensuring collaborative and transparent working relationships with CCOs

Support Functions

CCOGM Governance and Monitoring (CCOGM)

The council receives advice on CCOs from two main sources: CCOGM and Finance departments. This advice may be supplemented by input from other departments when necessary.

Both departments are required to develop and maintain a detailed knowledge of each CCOs operation to enable them to assess whether individual CCOs are meeting council's expectations.

CCOGM focus on:

- CCOs' commercial opportunities and risks
- The environment in which the CCOs operate
- Protecting and enhancing shareholder value
- Performance against financial and non-financial objectives

Finance focus on:

- Analysing business cases presented by CCOs where they are required to consult with, or seek the approval of, council.
- Advice relating to CCO financial performance and on whether CCOs are making an appropriate return on investment

Each department brings a different perspective to the monitoring role.

Other advisors also contribute advice on general policy that affects CCOs in consultation with other council departments, as appropriate. This advice is provided to the relevant council committee that has the responsibility to make decisions.

Decision Making Guidelines

Clear allocation of responsibility for decision-making was one of the motivations for reviewing roles and responsibilities. While most CCO boards indicated that they did not believe that prescriptive decision-making guidelines were necessary, some high-level guidance is appropriate as accordance with the following table.

Type of Decision	Shareholder or CCO board?
Setting strategic direction for Auckland	Shareholder decisions - CCO provides advice and input
Determining the CCOs contribution to council's strategic outcomes	
Major transactions by a CCO requiring shareholder approval	
Level of funding provided to each CCO	
New projects by a CCO	Board initiates but requires shareholder approval after consideration of investment proposal if over the threshold (still to be defined) (see funding section) ³
Re-allocation of funding	Board decision within funding guidelines (see funding section). Shareholder decision outside of these guidelines. ⁴
Business decisions (e.g. appointments to subsidiaries, pricing decisions)	Board ⁵ decision but must act consistently with specified plans and strategies of the council, and must keep council informed under a 'no surprises policy'. See below for discussion on pricing decisions.
Organisational and implementation strategy (giving effect to council strategy)	Board decision subject to funding provided by council. AMPs must fulfil council requirements and may be

³ Does not apply to Watercare

⁴ Does not apply to Watercare.

⁵ Except where there are legislative restrictions. For example, RFA recommends appointments to the Auckland Museum, MOTAT, and the Regional Amenities Funding Board.

Approving asset management plans and service profiles	subject to independent review.
Risk management strategy	Board/management decision but level of risk regarding ratepayer funding is set by the council
Operational decisions including detailed business plans for capital projects, and implementation of funded programmes.	Board/management decision - keep council and local boards informed under 'no surprises policy'

Decisions in the top part of the table are clearly shareholder decisions, although CCO input or advice may be appropriate. Decisions in the bottom part of the table are clearly CCO board decisions although as always, the no surprises policy applies.

Responsibility for decisions in the middle shaded area can be more contentious. The funding section of this guide deals with the first two of these - i.e. who makes decisions about undertaking new projects, and under what circumstances should CCOs be able to reprioritise their use of funding.

The third area of decision-making is business decisions of CCOs, as these can affect council policy, or have political implications for the council. Good communication, and a culture of trust, should minimise issues arising with these types of decisions. It is noted that some entities, particularly Auckland Transport and Watercare have statutory obligations, which require them to make certain decisions.

Under the Local Government (Auckland Council Act) 2009, the Council has the ability to require its CCOs to act consistently with the relevant aspects of a plan or strategy. This also applies to Watercare, although it cannot override Watercare's statutory obligations. As the council adopts various plans and strategies including the Auckland Plan, it should consider the implications of each plan or strategy for CCOs. If these are clearly specified it should reduce the likelihood that CCOs will make decisions that conflict with council policy.

One type of decision with the potential to cause debate is CCO non-commercial pricing decisions. For example, entry prices to many regional facilities are publicly subsidised. The level of funding provided to CCOs such as RFA who provide these facilities, reflects the council's expectation about prices. Pricing changes for services involving public subsidy must be negotiated with the council as part of the annual funding negotiations. RFA has indicated that it would like the council to agree to pricing policies for RFA as part of the LTP, and RFA will set its prices consistent with these policies.

Finally, CCO SOIs contain a set of criteria to guide boards as to the types of decisions that may require shareholder approval. The criteria are based on the council's Significance Policy. The intent was to ensure that decisions that would be considered 'significant' by the council, potentially requiring public consultation, cannot be made by a CCO with a lesser degree of rigour. However, these criteria more properly define decisions requiring shareholder engagement, not necessarily shareholder approval. For all decisions, as always, the 2-way no surprises policy applies.

The Role of the Board

Under the LGA 2002, the role of a director of a CCO is to assist the organisation to meet its objectives and any other requirements in its SOI. The principle objectives of a CCO are also specified in the Act. These are to achieve the objectives of its shareholders as

specified in the SOI, to be a good employer, and to exhibit a sense of social and environmental responsibility. CCOs that are also council controlled trading organisations (CCTOs) must also conduct their affairs in accordance with sound business practices.

In practice, CCO Board's responsibilities include:

- Providing the council with a draft SOI by 1st March and the final SOI by 30 June each year
- Providing the unaudited first, third and fourth quarter reports within six weeks after the end of each quarter
- Providing a half-yearly report to the council within two months of the first half of the financial year
- Providing the Annual Report to the council within three months after the end of the financial year
- Ensuring the Annual Report is made available to the public (preference is for the Annual Report to be publicly available on the CCOs website, with a hard copy available to any member of the public upon request)
- Acting in accordance with the CCOs constitution
- Aligning CCO activities to act consistently with the objectives outlined in the Accountability Policy
- Complying with the Companies Act obligations including acting with honesty, good faith and in the best interests of the company, and exercising care, diligence and skill
- Managing risk
- Accountable for delivery of CCO obligations
- Ensuring council is provided with all necessary information in a timely manner to ensure council planning processes can be completed

Trustees of CCOs that are charitable trusts must perform the duties that are contained in the trust deed and legislation relating to trusts (i.e. Trustee Act 1956, Trusts Act 1957 and Charities Act 2005). The primary duties of a trustee are to comply with the terms of the trust deed that created the trust, act honestly and loyally and act in the best interests of the trust. In the case of a corporate trustee these obligations rest with the company. The directors should be aware of these additional responsibilities when making such decisions.

The SOI template for CCOs is attached at Appendix B.

4. EXPECTATIONS AND KEY RELATIONSHIPS

Effective CCO governance requires that the shareholder and CCOs have a mutual understanding of the expectations of each CCO. Details of the expectations include the council's Treaty of Waitangi responsibilities, communication protocols, Branding Navigation Group, consultation, criteria for engagement, submissions and key relationships.

Treaty of Waitangi

CCOs should also make note of council responsibilities with regard to Section 4 of the Local Government Act referring to the Treaty of Waitangi. CCOs will act in accordance with relevant statutory provisions referring to the Treaty of Waitangi.

Communication Protocols

It is expected that boards will be sensitive to council interests. Boards must be mindful that council is accountable to a wider audience and the affairs of the CCOs, positive and negative, can impact on the council. It is expected that the CCOs will keep council advised of any issues that may generate public interest, this is referred to as the 'no surprises policy'. A failure to keep council informed on significant issues at appropriate times can create situations that may divert attention from the day-to-day business.

Council expects boards to:

- Understand wider council policy issues as part of their decision-making
- Be aware that the council has interests that are wider than those of individual CCOs
- Be aware of the potential implications of CCO-specific issues on the council and/or its balance sheet
- Be sensitive to the demand for accountability and transparency placed on councillors from residents and ratepayers of Auckland

Detailed information regarding objectives and processes for the escalation process are found in Appendix D.

Branding Navigation Group (BNG)

The CCO Strategy Review Subcommittee resolved that CCOs will agree to Auckland Council's brand policy and guidelines including participation in a BNG to review the Auckland Council (and its CCOs) brand strategy. The BNG will ensure all communications consistently reinforce the concept of one Auckland Council to make clear the vital importance of consistently communicating their role as an effective delivery arm of the Auckland Council. In addition the Subcommittee requires all CCOs to incorporate the Auckland Council "pohutukawa logo" in all communication, marketing and advertising. A Council Brand Policy and Guidelines is currently under development. CCOs will receive notification on completion of the policy.

Consultation expectations

The board of each CCO is required to seek the approval of, and expected to consult with or inform, council before certain transactions or strategic initiatives are entered into.

Criteria for engagement with the shareholder

The following criteria are provided as indicators for CCOs to guide what type of decisions require shareholder engagement:

Type of decisions

- Decisions potentially having a moderate adverse effect on a large number of residents and ratepayers
- Decisions potentially having a large adverse effect on a small number of residents and ratepayers
- Decisions which have a history of generating wide public interest
- Decisions which affect the CCOs ability to deliver on the current and future social, economic and cultural well-being of the region
- Decisions which will affect the CCOs ability to meet any statutory responsibility
- Decisions which will impact on any intended service levels for a CCO activity (except if the impact is minor or has been agreed by the council through the SOI process)

- Decisions which will commit the council to future provision of funding which has not already been agreed

[Forthcoming decisions in the following twelve months to be identified in the SOI]

Approval

In accordance with the Accountability Policy some decisions involving strategic assets will require shareholder approval.

Submission on areas of interest

The council is frequently called upon to make written submissions in response to discussion papers, proposals for legislative change or policy reviews released by external agencies. The guidelines require council officers to include CCO staff in the officer advisory groups on submission development where that submission deals with a matter of relevance to the remits of one or more CCOs. This will ensure that where it is appropriate CCOs will have a role in developing council submissions.

The CCOs should discuss with Council any submission they intend to make. Council can then determine whether the submission relates to an issue that it has an interest in, and if necessary, a joint submission can then be formulated. Such discussions should be with the relevant subject matter expert within Council, together with the CCOGM. For information regarding council's subject matter experts, contact CCOGM.

Key Relationships

Local Board Engagement

The council requires CCOs have a Local Board Engagement Plan outlining their activities and projects to the Local Board. CCOs should adhere to their plan and update annually. The CCOGM provide the draft SOIs to the Local Boards for comment, the Local board comments are considered by the CCO Strategy Review Subcommittee, before shareholder feedback on CCO SOIs is finalised.

CCO relationships with other CCOs

In achieving the council's objectives and priorities for Auckland, the Council requires a high level of coordination between CCOs. Each CCO should outline in its SOI how it will coordinate effectively with other relevant CCOs.

Advisory Panels

CCOs will inform and where appropriate consult the council's advisory panels, i.e. Pasifika, Ethnic, Youth, Business, Rural and Disability Panels on issues of particular interest to each panel.

Independent Maori Statutory Board (IMSB)

CCOs will take account of the Independent Maori Statutory Board's schedule of issues of significance and any statutory Treaty of Waitangi provisions that are relevant to its activities and where appropriate engage with the board on these matters. This engagement is separate from the CCO's normal business engagement with Mana Whenua and Mataawaka.

The CCOGM provide the draft SOIs to the IMSB for comment, the comments are considered by the CCO Strategy Review Subcommittee, before final shareholder feedback on CCO SOIs is finalised.

Central Government

CCOs should inform the shareholder of their particular activities they will be undertaking that will require engagement with central government.

5. FINANCIAL GOVERNANCE

Value for money

CCOs must develop benchmarks to be able to demonstrate efficiency and value for money in their service delivery.

The performance measure(s) / target(s) should be clear, specific and quantitative or qualitative rather than descriptive. Performance measures should also enable the CCO to demonstrate cost-effectiveness. Measuring cost-effectiveness, and setting cost-effective performance standards, allows CCOs to consider whether the costs of undertaking particular activities are justified by the results, allows for the tracking of whether performance over time improves, and helps decisions about allocation of resources.

The process being used to align the LTP funding and other inputs with the impacts from that funding to the outcomes from the Auckland Plan, is called the intervention logic. The result of the intervention logic should enable the CCOs to communicate clearly and simply why specific parts of the business occur, and how they contribute to specific outcomes, by linking input, output, impact, and outcome, into a causal chain. Further information on the SOI Intervention Logic is attached at Appendix E.

Managing risks

Boards are responsible for managing risks and should therefore establish processes and practices within the CCO to manage all risks associated with its operations. Boards should also keep council informed of risk management strategies through reports when necessary.

Tax planning

Auckland Council, Auckland Transport and Regional Facilities Auckland are exempt tax on most of their income. Other CCOs do not have the benefit of a tax exemption. Under income tax legislation there are opportunities for the Auckland Council group to minimise the amount of tax paid. For example, the group is able to offset taxable income and tax losses. These opportunities are to be investigated to manage the groups tax liabilities.

Optimal capital structure

The financial structure of CCOs must take into account many factors including third party funding, taxation, full cost allocation and transparency. A further factor is the requirement on the directors and trustees to confirm to auditors each balance date the CCO is able to meet its financial obligations and is in a financial sense a going concern. Consultation on these issues needs to be undertaken with each CCO to establish a capital structure that is economically efficient, meets the broader public benefit objectives of the group together with financial reporting responsibilities of the directors/trustees.

CCO borrowing

Auckland Council undertakes borrowing on behalf of CCOs (except Watercare) so as to deliver the lowest cost of borrowing to the council. All treasury activities including cashflow management, borrowing and lending are centralised so as to reduce costs and minimise operational and market related risk across the Auckland council.

Any such borrowing will be undertaken in accordance with Section 62 and 63 of the LGA 2002 and Section 55 of the LGA (AC) 2009.

CCO Funding

As a purchaser of services delivered by CCOs and guardian of public assets, the council holds CCOs accountable for the use of revenue provided directly by council, or generated from public assets owned by CCOs.

However, CCOs receive their revenue from a variety of sources including from:

- the council – from rates revenue or statutory charges such as development contributions
- fees and charges from commercial activities, usually generated from publicly owned assets⁶
- charges administered by CCOs using statutory powers
- central government – from taxation or other sources
- dividends from equity investments

As a shareholder, the council holds CCOs accountable for the efficient and effective use of funding from all sources, and for the management of assets. Funding principles and guidelines reflect that the council has this ultimate accountability.

There are two high level funding principles:

1. The role of the council is to prioritise funding for competing needs and purposes across the region, and to hold CCOs accountable for the wise use of public funding.
2. Boards must be empowered with sufficient flexibility to determine the best allocation of funding to meet required levels of service.

There is an inherent tension between these two principles. This report seeks the optimal funding arrangement that will achieve both; however, the first principle must prevail where there is conflict. This optimal arrangement lies somewhere between a “bulk funding” arrangement where CCOs have the flexibility to allocate funding to meet agreed outcomes; and project-based funding⁷ of a contractual nature.

Directors are legally liable for their decisions and that director liability and reputational risk means that boards are highly accountable for their decisions. However, while these factors are strong incentives for prudent financial management, this is not the same as ensuring an optimal allocation of funding to address regional priorities and needs. The Governing Body assesses regional priorities and needs and allocates funding accordingly. In doing so, it also takes into account community expectations and willingness to pay, where those needs are to be met by revenue from rates.

The proposal is that CCOs funding is allocated to ‘sub-activities’ with flexibility for CCOs to reallocate their budgets between projects within the sub-activity within certain parameters or second-order principles⁸. The sub-activity level, which is made up of groups of outputs, achieves the appropriate balance between flexibility for CCO boards and transparency of funding for the council. Suggested principles⁹ are:

- Any reprioritisation must be transparent and reported to the council through quarterly reporting

⁶ In most cases publicly owned assets have been paid for by ratepayers and/or via development contributions

⁷ However this may vary depending on the nature of projects provided by different CCOs as explained further in the discussion of principles

⁸ This is already happening where there is an agreed strategy such as the Major Events Strategy (ATEED).

⁹ As noted earlier this section does not apply to Watercare. Officers also note that Watercare is prohibited from paying a dividend to the council.

Reprioritisation at the project level must be transparent so that councillors are aware of changes and any implications. This should be included in the CCOs' quarterly reports although it may not be required four times a year. In addition, it is important for CCOs, particularly Auckland Transport, to report to local boards on any changes that will affect local board areas.

- Reprioritisation may be undertaken between projects that have been approved as part of an asset management plan and/or the LTP

Reprioritisation of budgets may involve changes in the timing of projects but should not involve new projects outside of the asset management plan, unless approved by the council.

- New projects over a certain threshold still to be determined, require council approval following consideration of an investment proposal and detailed business case

The requirements regarding an investment proposal will depend on the size and scale of the project, and projects under the threshold will not require this. Investment proposals over \$10 million will be subject to council peer review. This principle applies regardless of revenue source - projects to be funded by external revenue will still require an investment proposal to assess the level of risk including the risk that future ratepayer funding may be required.

- Reprioritisation of funding must take place within existing overall funding envelopes

CCOs need to consider future funding implications as well as the impact on the current year's budget, and may not reprioritise if this will adversely affect their future funding requirements.

- Revenue collected for a particular end purpose must be 'ring-fenced' for that purpose

Development contributions, for example, are levied on developers to pay for the costs of growth, and must be used for the growth component of capital projects. Development contributions collected and not used for growth-related purposes must be refunded to developers by law. Similar principles apply to targeted rates. These legal obligations apply to the council rather than to CCOs and so there must be sufficient transparency of expenditure to ensure that the council can account for the use of ring-fenced funding.

- Funding earmarked for a specific project or purpose must be used accordingly

The council may specify levels of service for the delivery of specific high priority projects. In these cases, any council provided funding associated with these projects must be used for the intended purpose in order for service level targets to be met. For example, Auckland Transport will have specific performance targets associated with the delivery of the EMUs. This is consistent with the council's view that many of its CCOs are in the business of efficient delivery of core services.

Any funding received by CCOs to fund depreciation of assets, must be accounted for against asset renewals, to ensure that assets are being renewed at the rate expected by the council.

- Full transparency is required regarding cross subsidisation between commercial and public good outcomes.

Public funding is intended to pay for public good outcomes and must not be used to subsidise commercial operations. 'Market neutrality' requires that public funding is not used to compete unfairly with private operators.

Conversely, the use of commercial revenue to fund public good aspects of their business requires council approval. There are three reasons for this. Firstly, if commercial revenue is used to provide higher levels of service for publicly owned assets, this can create public expectations, which the council may not be able to meet longer term. Secondly, if the commercial revenue is not actual profit, this may create future funding shortfalls for commercial activities exposing ratepayers to future expense¹⁰. Thirdly, it is the role of council to determine the best use of CCO generated profit (see last principle). The council acknowledges that there are some established funding models where commercial returns are being successfully used to deliver public good outcomes, such as at Wynyard Quarter. Such practices may continue where endorsed by the council.

- CCOs should have regard to decisions requiring shareholder approval when reprioritising expenditure (for example, decisions with a history of generating high public interest).
- CCOs must be able to demonstrate efficiency and value for money in their service delivery.

A risk associated with funding CCOs at the 'sub-activity' level rather than on a project basis, is that it is difficult for the council to assess whether it is getting value for money from its CCOs. The funding arrangements proposed in this paper, will need to be supported by efficiency targets in SOIs. Where relevant, benchmarking will also be undertaken in order to inform targets, although this will take some time to fully develop.

- All surpluses over a threshold still to be determined, including surpluses from commercial activities must be referred to the council for allocation or re-allocation

CCOs must engage with the council regarding the use of surpluses. Surpluses generated from commercial activities associated with publicly owned assets, should be available to the council to determine their best use in the context of regional expenditure priorities. This may include reinvestment of part or all of the surplus into the CCO if the CCO establishes a compelling investment proposal.

In determining funds that are 'surplus' the council will consider the operating result including the accounting surplus, the underlying cash surplus, and surpluses generated from particular activities.

Preparation of detailed funding guidelines consistent with the funding principles, as well as guidance on how a surplus is defined are yet to be finalised by council. The guidelines will specify financial thresholds for council approval of new projects and use of surpluses, recognising the need to minimise transaction costs for CCOs. The guidelines will also recognise the need to honour contractual arrangements.

¹⁰ These are not theoretical issues as officers are aware of examples of these practices, which have occurred in other parts of New Zealand.

Note that most of these principles do not apply to ACIL which distributes a dividend each year, however if ACIL was to consider a new project the principle regarding council approval of an investment proposal would apply.

6. BOARD GOVERNANCE

Provision of official information

CCOs are subject to parts 1 to 6 of the Local Government Official Information and Meetings Act 1987. In handling requests made under this Act, CCOs are expected to respect the underlying principles of, and comply fully with the Act in terms of making information available to the public within the stated deadlines unless there is good reason for withholding information.

Public meetings

As is required under section 96 of the Local Government (Auckland Council) Act 2009, two board meetings open to the public must be held each year.

- one meeting must be held before 30 June each year for the purpose of considering comments from shareholders on the CCOs' draft SOI for the following financial year; and
- the other meeting must be held after 1 July each year for the purpose of considering the CCO's performance under its SOI in the previous financial year¹¹.

Accordingly, CCOs should nominate the two board meetings and specify how the meetings will be publicly notified.

Board and public meeting guidelines for CCOs

The council expects all CCOs to have a commitment to transparency, particularly in regard to public open meetings. The guidelines are outlined below:

1. Publicly advertise meetings in a regional paper e.g. NZ Herald and CCO/Council websites five working days prior to the meeting, giving notice of the date and venue
2. Agenda outline and open reports to be published on the CCO/Council websites two working days* prior to the meetings.

NB: Confidential agenda reports to note reasons for confidentiality and confidential minutes to be available on request once the reason for confidentiality has expired.

3. For Board meetings, public deputation is by request and is at the discretion of the Chairman, in advance of the meeting, to the Chairman for up to five minutes per item.

For the two public meetings per annum required by legislation, the Board must allocate a reasonable amount of time for members of the public to address the board in relation to the subject matter of the meeting.

4. Publish the unconfirmed minutes on the CCO/Council websites, no later than five working days* after the meeting and publish the confirmed minutes after the next meeting. NB: This incorporates the legislative requirements.

* CCOs publishing agenda and minutes through council website should allow one additional working day for technical preparation of their materials can be published online.

¹¹ Council's preferred approach from a governance and democratic perspective is for CCOs to have their post 1 July public meeting, once audited accounts are received.

Accountability Policy

The requirement to develop an accountability policy is unique to Auckland. It forms part of the Long Term Plan and substantive CCOs are required, under the 2009 Act to give effect to relevant aspects of the LTP.

Generic Policy

CCOs are required to give effect to other generic policy such as council's Significance Policy and the Board Appointment & Remuneration Policy.

Strategies and Plans

Section 92 (2) of the 2009 Act states each substantive CCO must act consistently with the relevant aspects of any other plan (including a local board plan) or strategy of the council to the extent specified in writing by the Governing Body of the Council. A Schedule on council strategies and plans specific to CCOs will be developed and distributed to CCOs on an annual and/or as-needs basis.

Board Performance Review

The CCO Strategy Review subcommittee resolved in December 2010 that:

"All Directors' performance be subject to an annual review."

Board evaluations are widely recognised as an important tool to achieving effective governance. Board reviews can be helpful for shareholders and for the boards themselves as they can be used as professional development tools to identify areas for improvement or training requirements. From the shareholder (council) perspective they are useful for informing the recruitment process, especially if skill gaps are identified.

Board reviews can be undertaken for a variety of reasons including:

- To determine whether the board has policies and procedures in place to ensure sound governance
- To inform the shareholder whether the board has the necessary mix of skills to effectively govern the board
- To assess the competencies and contributions of individual directors
- To assess the effectiveness of the board as a whole
- To address specific issues

Council approved approach

The council will undertake a review every second year and CCOs are required to commission their own review in the intervening years, however the first review, in 2011, will be undertaken by CCOs.

Board-led reviews are to be undertaken by an independent consultant, with results reported to the council and must include at a minimum

- Individual director performance
- Performance of the chair and deputy chair
- Review of board policies and procedures
- Board effectiveness and dynamics.

Shareholder-led reviews to include

- Board composition and skills
- Board effectiveness and responsiveness to shareholder expectations
- Any specific issues that have been identified by the board or the council as needed.

This approach does not constrain either the council or boards from undertaking additional reviews outside of the proposed scope or timing. The council may decide to include individual director performance in the shareholder-led review if it considers this necessary for the purposes of director re/appointments.

Board Consent for appointments

All applicants are required to complete a consent form as part of the Board appointment process, a copy of the Director Consent Form is attached at Appendix F. Incorporated into this document is the requirement to agree to performance reviews.

Board Remuneration Methodology

The CCO Strategy Review Subcommittee will approve the methodology for board remuneration in October 2011.

General obligations

Subsidiaries

In relation to subsidiaries, council expects that:

- the parent company and all of its subsidiaries will comply with any restrictions in the parent company SOI relating to the acquisition or formation of subsidiaries
- the powers and functions of each subsidiary will be treated in practice as if it is subject to the same statutory limitations of the parent company
- in establishing the governance arrangements for the subsidiary, the parent will act in accordance with any relevant provisions of its SOI
- the parent company will be accountable to the council for the subsidiary's activities and performance and will have appropriate financial controls, business planning and monitoring procedures in place
- public accountability documents for the parent company (SOIs, financial statements and annual reports) will include information on the subsidiary's activities and performance
- CCOs will not establish or disestablish any company or entity which is or would be deemed to be a CCO without the prior consent of Auckland Council.

Joint ventures

Boards of CCOs should only seek partnering solutions that allow them to retain substantive control over their business activities, and which have the principal purpose of furthering the CCO's and council's objectives. In general, council will not support joint ventures that result in council-owned assets and capabilities being transferred or diluted.

This concern about dilution of control also extends to financial and budgetary controls and taxation issues that might arise as a result of a joint venture. Council expects that any joint ventures entered into by a CCO would be subject to at least the same level of financial budgeting and monitoring control as that which applies to CCOs and their subsidiaries.

Other obligations

Local Government Act 2002

Part 5, Sections 55 to 72, of the LGA 2002 outline the requirements of council controlled organisations and council organisations. The sections include establishment, directors, SOIs, monitoring and reporting, transfer of undertakings and official information.

Companies Act 1993

Where applicable, CCOs should adhere to the duties and obligations of the board under the Companies Act (e.g. the duty to act in good faith).

Good Employer objectives

Under Section 59 of the LGA 2002 No 84 (as at 01 July 2011), Public Act, the principal objectives of CCOs outlined as below require CCOs to

- (b) be a good employer; and
- (c) 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

The good employer clause, as outlined in Schedule 7, Section 36 (2) and (3) of the Local Government Act is detailed below:

(2) For the purposes of this clause, a **good employer** means an employer who operates a personnel policy containing provisions generally accepted as necessary for the fair and proper treatment of employees in all aspects of their employment, including provisions requiring—

- o (a) good and safe working conditions; and
- o (b) an equal employment opportunities programme; and
- o (c) the impartial selection of suitably qualified persons for appointment; and
- o (d) recognition of—
 - (i) the aims and aspirations of Māori; and
 - (ii) the employment requirements of Māori; and
 - (iii) the need for greater involvement of Māori in local government employment; and
- o (e) opportunities for the enhancement of the abilities of individual employees; and
- o (f) recognition of the aims and aspirations, and the cultural differences, of ethnic or minority groups; and
- o (g) recognition of the employment requirements of women; and
- o (h) recognition of the employment requirements of persons with disabilities.

(3) In addition to the requirements specified in subclauses (1) and (2), a local authority,—

- o (a) when making an appointment, must give preference to the person who is best suited to the position; and
- o (b) must ensure that all employees maintain proper standards of integrity, conduct, and concern for the public interest.

7. APPENDICES

Appendix A : Accountability Framework

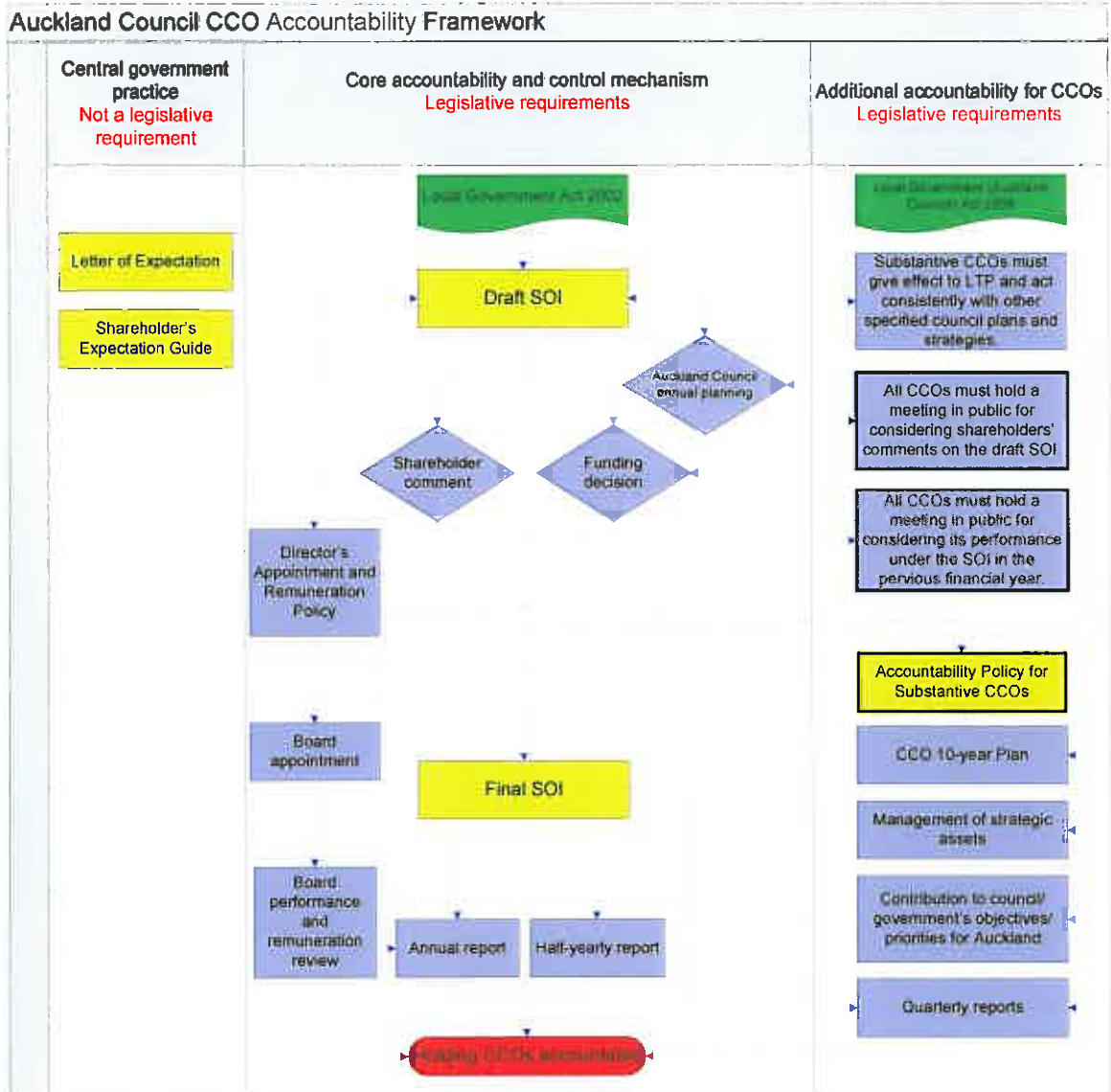
Appendix B : SOI Template

Appendix C : No Surprises Policy

Appendix D : SOI Intervention Logic

Appendix E : Director Consent Form

Appendix A – Accountability Framework



Appendix B - SOI Template

**STATEMENT OF INTENT TEMPLATE FOR
COUNCIL-CONTROLLED ORGANISATIONS**

INTRODUCTION

This statement of intent (SOI) template provides a structure for SOIs prepared by council-controlled organisations (CCOs). The purpose of this template is twofold:

1. To ensure a consistent approach to the SOI process by CCOs; and
2. To ensure the SOIs meet legislative requirements and shareholder needs.

The SOI template begins on page 3.

Purpose of the Statement of Intent

As provided in clause 1 of Schedule 8 of the Local Government Act 2002, the purpose of a SOI is to:

- state publicly the activities and intentions of a council-controlled organisation for the year and the objectives to which those activities will contribute;
- provide an opportunity for shareholders to influence the direction of the organisation; and
- provide a basis for the accountability of the directors to their shareholders for the performance of the organisation.

An SOI should provide a coherent and balanced picture of a CCO's performance over a three-year period. It should focus on outcomes and the results a CCO is seeking to achieve in contributing to those outcomes. SOIs should also provide logical and plausible linkages between outputs and the outcomes to which a CCO is contributing. This needs to be accompanied by meaningful and specific performance measures that enable a CCO to demonstrate clearly the impact it has made. By also including a baseline of forecast performance information, the council and the public will be able to assess the CCO's actual performance in contributing to outcomes.

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1. INTRODUCTION

The Introduction is drafted and signed by the Chair and/or the Chief Executive. The Introduction is to provide an executive summary of the SOI and a high-level indication of their expectations of the performance of their CCO.

2. STRATEGIC DIRECTION

This section is required under clause 9 (1) (a) of Schedule 8 of the Local Government Act (LGA) 2002.

This section should aim to set the high-level strategic framework within which the CCO is operating. Therefore, this section should provide an overview of how the CCO will contribute to the council's outcomes¹, indicating what impacts (difference) it is seeking to make.

The outcomes relevant to each CCO can be found in the Long-term Plan, guided by the Auckland Plan.

Reference to specific activities/projects should not be included here as more detailed information about each major outcome, objective and impact should be provided in the "Nature and Scope of Activities" section of the SOI.

This section should also include the purpose of the CCO – what the CCO is there to do and why it is within a CCO structure. The council's general purpose for CCOs is to maximise returns from council-owned commercial assets, achieve strategic goals, and efficiently deliver core council services. The commercial structure of the CCOs helps achieve focus, efficiency, and the application of commercial acumen to the delivery of public sector outcomes. The specific purpose for the CCO should reflect this general statement.

Where a CCO has a subsidiary/subsidiaries, the strategic framework should specifically include them.

¹ The term "outcome" is used throughout this document. It should be noted, however, that the Accountability Policy uses the term "objectives and priorities" in order to align with the terms in section 90 of the Local Government (Auckland Council) Act 2009. For the purposes of this document, SOI "outcomes" and the "objectives and priorities" in the Accountability Policy should be considered analogous.

3. NATURE AND SCOPE OF ACTIVITIES

This section is required by clause 9 (1) (c) of Schedule 8 of the LGA 2002.

This key section will cover how a CCO will operate in order to achieve the strategic direction covered in the previous section (i.e. what outputs/activities the CCO will deliver). The strategic projects outlined in a CCO's Letter of Expectation are considered outputs and, accordingly, should be discussed in this section.

The link between the activities undertaken by a CCO and the outcomes they are seeking to achieve, and ultimately the council's vision need to be clearly demonstrated.

This section may include a diagram/s or a table/s to show the linkages between the outputs, impacts and outcomes, where these linkages are not easily explained in the text.

4. PERFORMANCE MEASUREMENT

This section is required under clause 9(1)(d), (f), (g), (h) and (k) of Schedule 8 of the LGA 2002.

I. Non-financial Performance

The information in this section, together with the financial performance section, should tell a CCO's "performance story". Specifically, for each outcome identified in section 3 "Strategic Direction", the following information should be provided:

- what difference the CCO makes – impact(s)
- what products/services the CCO's customers receive – output(s)
- Criteria used to measure performance – performance measure(s)
- Desired level of performance for the measure – performance target(s)

Impact

This section should provide more detailed information on the impacts the CCO is seeking to achieve. The reader should be able to understand what difference the CCO is seeking to make and why it has chosen those particular impacts.

Output

This section should provide the CCO's activities/outputs, which are the end products/services its customers receive. The information should have clear linkages to the impact that this output makes, and to the outcome that this output contributes to.

The information contained in this section should cover the full three-year period covered by the SOI and should not be limited to the current year.

Performance measures

This section should include the main measures the CCO will use to assess whether the attributes that make up the levels of services are actually being delivered upon. They are specific criteria or means used to measure performance (most commonly of output production and achievement of impacts and outcomes). While the performance measures included in the LTP are generally output-oriented, CCOs are encouraged to adopt impact-oriented measures in the SOI, in addition to the LTP measures.

The performance measures should be clear, specific and quantitative or qualitative rather than descriptive. Performance measures should also enable the CCO to demonstrate cost-effectiveness. Cost-effectiveness is the relationship between the level of resources used (costs) and progress towards a predetermined outcome (effect). Measuring cost-effectiveness, and setting cost-effective performance standards, allows CCOs to consider whether the costs of undertaking particular activities are justified by the results, allows for the tracking of whether performance over time improves, and helps decisions about allocation of resources.

Performance targets

Performance standards or targets are the specific levels of performance (usually relating to outputs produced, impacts and outcomes achieved) that the CCOs aims to meet. They are desired levels of performance against the performance measures.

Additionally CCOs are requested to add a measure into the SOI, that "all council accountability requirements are met".

The Overall Performance Picture

The table below should contain the measures and targets the CCO will use to assess the contribution it makes to its outcomes and impacts, and the cost-effectiveness of what the CCO delivers. Information in the same row should follow a causal chain from outputs to outcomes (intervention logic), although one outcome may be contributed by multiple outputs.

It is critical that performance information provided is meaningful and specific. The measures/targets should be clear, specific and quantitative or qualitative rather than descriptive. The measure/targets need to demonstrate to the reader how the actions/outputs of the CCO have *directly* contributed to the impact sought.

Performance measurement
(Example provided is illustrative only and subject to change)

Performance targets over 3-year period	Performance Measures	OUTPUTS <i>What our customers receive</i>	IMPACT <i>What difference our outputs make</i>	OUTCOME <i>Why we do it</i>
Desired level of performance for the measure	Criteria used to measure performance			Auckland Plan Outcome
TBC	Operating surplus % change in net value of assets	Manage ACIL's portfolio to maximize the return on investment but also maintain or increase Auckland Council equity	The value of Auckland Council investments are maximised both in terms of short and long-term returns.	This impact will contribute to all Auckland Plan outcomes by providing the council with revenue to fund its activities and investments.
TBC	Dividend distribution	Distribute available income and other returns in a cost-effective manner (as agreed with Auckland Council)		
	ROE Crane rate Vessel rate	Require POAL to implement the long-term strategy for POAL to improve POAL's productivity and profitability	Relative to Auckland Council's level of investment, POAL, AIAL and AFSL make significant contributions to "an Auckland of prosperity and opportunity" and a "well-connected and accessible Auckland"	This impact will contribute to "an Auckland of prosperity and opportunity" by facilitating sound investment decisions by POAL, AIAL and AFSL. This impact will contribute to "a well-connected and accessible Auckland" through the sound governance of the Council's investments in POAL and AIAL and associated infrastructure.
	TBC	Provide guidance to POAL regarding the long-term interests of the region and its economy		

	<p>Auckland Council is kept fully informed and consulted in advance about proposed appointments and exercise of voting rights</p> <p>TBC</p>	<p>Appoint directors to POAL and AFSL and exercise voting rights in AIAL</p> <p>Encourage maximum occupancy of AFSL film studios for filming and TV production purchases</p>

II. Financial Performance

This section should provide the following information as required under clause 9 (1) of Schedule 8 of the LGA 2002:

- the ratio of consolidated shareholders' funds to total assets, and the definitions of those terms (clause 9(1)(d));
- an estimate of the amount or proportion of accumulated profits and capital reserves that is intended to be distributed to the council (clause 9(1)(g));
- the kind of information to be provided to the council by the group during the course of those financial years, including the information to be included in each half-yearly report (and, in particular, what prospective financial information is required and how it is to be presented) (clause 9(1)(h));
- the board's estimate of the commercial value of the council's investment in the group and the manner in which, and the times at which, that value is to be reassessed (clause 9(1)(k)); and
- any activities for which the CCO board is seeking compensation from any local authority (whether or not the local authority has agreed to provide the compensation) (clause 9(1)(j)).

The funding principles contained in the Shareholder's Expectation Guide should be noted and adhered to.

This section should also provide information on the CCO's annual budget. To that end, each of the following statements should be completed.

Prospective summary income statement
for three years ended 30 June 2014

\$000	Budget 2011/2012	Budget 2012/2013	Budget 2013/2014
Operating Income			
Opex funding from Auckland Council			
Revenue from services provided to Parent and CCOs			
Revenue from services			
Finance income			
Dividend Income			
Other gains/(losses)			
Total operating income			
Operating Expenditure			
Expenses paid to Parent and CCOs			
Total operating expenditure			
Operating surplus/(deficit) before tax			
Taxation			
Operating surplus/(deficit) after tax			
Non-operating Income			
Capex funding from Auckland Council			
Other revenue to fund capital expenditure			
Revenue from vested assets			
Total non-operating income			
Total surplus/(deficit)			

Prospective summary statement of financial position

As at 30 June 2012

\$000

Budget
2011/2012

Assets

Current assets

Current account - Parent
Debtors and other receivables
Cash and cash equivalent
Other current assets

Total current assets

Property plant and equipment
Investment property
Other non current assets

Total non- current assets

Total assets

Liabilities

Current liabilities

Current account - Parent
Creditors and other payables
Borrowings
Other current liabilities

Total current liabilities

Non-current liabilities

Borrowing from parent
Other borrowing
Other non-current liabilities

Total non-current liabilities

Total liabilities

Net assets

Equity

Contributed equity
Reserves
Retained earnings

Total equity

5. APPROACH TO GOVERNANCE

This section should outline the CCO board's approach to the governance of its CCO (including subsidiaries) as required under clause 9(1)(b) of Schedule 8 of the LGA 2002.

This section should outline the principles under which the board will govern the CCO, which are contained in the board governance section of the Shareholder's Expectation Guide.

i. Procedures for purchasing shares in other companies

This section should outline the procedures the board will follow for purchasing shares in other companies. This information is required under clause 9(1)(i) of Schedule 8 of the LGA 2002.

ii. Management of strategic assets

For network infrastructure defined as a strategic asset, the CCO should include a list of components that are integral to the functioning of the network as a whole. This is to provide further clarity for both the CCO and the council about the definition of a major transaction in relation to a strategic asset.

6. ORGANISATIONAL HEALTH AND CAPABILITY

A CCO needs to be able to assure the council and the Auckland public that it is building and maintaining an enduring and resilient organisation.

Accordingly, this section should be discussing what measures have been put in place to ensure this requirement is met (e.g. staff engagement surveys)

7. ACCOUNTING POLICIES

As required under clause 9(1)(e) of Schedule 8 of the LGA 2002, this section needs to outline the accounting policies of the CCO.

Accounting policies can be included in an appendix.

Appendix C – No Surprises Policy

Objectives

These protocols and processes are designed to ensure a common understanding and way of operating between Auckland Council and its CCOs in regards to external and internal communications.

This will decrease the risk of miscommunication and enable more efficient responses to media queries.

While it is not expected that each CCO will know the specific workings of each part of council, and vice versa, there is an expectation that Auckland Council executive leadership team will be informed early of possible or live media issues and events or communications projects of note that may impact Auckland Council and/or another CCO and vice versa.

The aim is to provide clarity around:

- Which organisation talks publicly about which topics
- Where media go to get their questions answered
- Forecasting of possible communications issues
- Responses to communications issues
- Reporting forecast and live issues internally to key stakeholders (Mayor, CEO, councillors, executive, between CCOs and council staff etc)

The purposes of the 'No Surprises Policy' are:

- To ensure that media queries are handled by the right person to get the highest likelihood that it is satisfied at the first inquiry.
- To ensure that the right kind of media issue is escalated to Auckland Council and for the right purpose and vice versa to CCOs.
- To ensure that a CCO is not surprised by a media issue from Auckland Council, and to ensure that Auckland Council is not surprised by a media issue from a CCO.
- To ensure that Councillors, CCOs, Council, and media know which entity is best placed to respond to which kind of media query.

Organisations involved

The organisations of Auckland Council covered in this policy are:

- Auckland Transport
- Watercare
- Auckland Tourism, Events and Economic Development
- Waterfront Development Agency
- Regional Facilities Auckland (RFA)
- Auckland Council Investments Ltd
- Auckland Council Property Ltd

All CCOs have dedicated communications staff except for ACIL and ACPL. Auckland Council Communications and Public Affairs (CAPA) will manage all communication requirements for these entities.

The facilities within RFA such as the Auckland Art Gallery and the Auckland Zoo have communication staff for marketing and public relations.

Governance communications such as board appointments and performance reporting that falls within the purpose of the CCO governance and monitoring unit at Auckland Council will be the responsibility of CAPA.

PROCESSES

Updating process

Auckland Council Communication and Public Affairs has primary responsibility for the relationship with CCOs communications staff. This is a two-way, 'no surprises' relationship (*Ref. Auckland Council media policy*)

While the SOI is the formal reporting schedule for Council's organisations, this process is not frequent or fast enough to work within media deadlines.

Therefore, a day-to-day relationship will need to be developed and will include the following mechanisms:

1. Daily communications issues management meeting (8.30am, CCO communications people to dial into the meeting if they cannot be present: ph TBA

Agenda:

- Media releases
- Significant media coverage that needs attention
- Media queries and responses
- Articles/responses due for publication
- Media issues management log (reds only)
- Communications representative(s) from the Mayor's office will also attend and discuss the Mayor's run-sheet for the day.

2. Monthly work in progress meeting with CAPA to discuss general communications strategies and projects in progress.
CAPA will keep a high-level work-in-progress list of key communications activities to ensure consistency, no surprises and a 'dig once' approach.
3. Ad-hoc updates to and from the CAPA team regarding urgent issues or crises.
4. CAPA will keep a media issues log of CCO issues that that may impact Auckland Council and/or another CCO.

Forecasting process

Each CCO is expected to monitor internal and external environment for possible and live media issues. CCOs are expected to have a media issues management process to help forecast, manage and report issues to relevant stakeholders (CCO CEO and chair, Councillors, Local board members, CAPA).

Escalation processes

Forecast: Inform CAPA at daily meeting or as soon as topic is forecast as a media issue or media issue is raised.

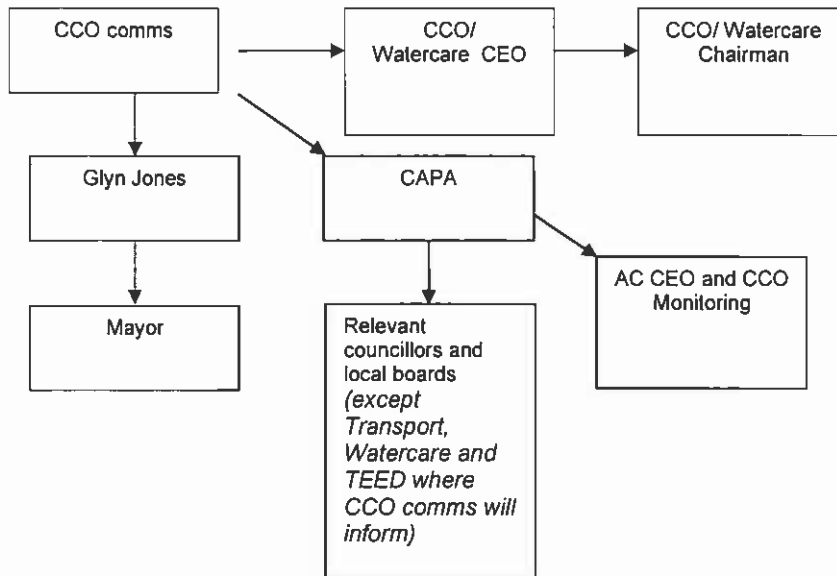
Triage: Attempt to resolve issue internally if possible.

Delegation: CCO comms to inform CAPA, CCO CEO and Mayor of issue.

CAPA to inform: AC CEO, CCO Governance and Monitoring Unit and relevant councillors, including chairs of relevant committees and local boards (except Transport and Watercare which have local board liaison)

Refer to protocols below to agree spokesperson delegations.

Media issues contact flow



Protocols

The Mayor and Councillors are elected representatives freely available for media contact. For operational efficiency however some division of media tasks is appropriate, as described below.

A principle of 'no surprises' applies, while neither should be surprised if each respond to the division of tasks below.

All public messages of all CCOs should reflect a united strategic direction with the Council, while allowing for appropriate internal debate between CCOs and Council.

CCOs, not Council, comment when inquiry relates to CCOs:

- Procurement
- Public Works Act acquisitions for CCO works
- Construction contracts or processes
- Asset management
- Service contracts and subcontracts
- Service breakdowns or failures to customers that are not civil emergencies
- Tickets and CCO event schedules
- Board meeting agenda items

- Health and safety incidents from within CCO operations
- Statutory consultation processes

Council, not CCO comments when inquiry relates to:

- Council agenda items other than those listed above
- Any legal issues arising between Council and its CCOs.
- Civil emergencies
- All Board member issues
- LGOIMA requests and consequential requests arising
- Asset delivery involving more than one CCO, or involving Kiwirail Ltd
- CCO performance evaluations including audit, Statements of Intent, Constitution and other statutory document content

If further clarification beyond this delegation is required, the default commentator is a member of the Auckland Council Executive Leadership Team (or their pre-approved nominee).

Possible issues that may be included in this 'no surprises' protocol are:

- Changes in CEOs
- Potential/actual conflicts of interest by Directors
- Potential/actual litigation by or against the company, its directors, or employees
- Fraudulent acts by the company's directors or employees
- Significant company restructuring
- Large scale redundancies
- Industrial disputes
- Significant acquisitions and divestments (noting of course the current inability to sell property other than in specific legislated circumstances)
- The release of significant information under LGOIMA

Imminent media coverage of any activities that could attract critical comment or on which relevant Committee Chairs or the Mayor could be asked to express a view.

MEDIA CONTACTS

Auckland Council

Shelley Watson
Manager Communications and Public Affairs
Ph 021 223 3420

Glyn Walters, Manager External Communications
Ph 021 278 6858

Glyn Jones, Mayor's Office Communications
Ph 021 475 897

CCO Media Contacts

Auckland Transport
Wally Thomas
Director Public Affairs
Ph 021 593 412

Sharon Hunter
Manager External Communications
Ph. 021 545 230

Watercare Services Ltd
David Hawkins
Manager Corporate Affairs,
Ph (09) 539 7300

Clive Nelson
Manager Communications
Ph 021 547 323

Rachel Hughes and Sarah Lenart,
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Appendix D – SOI Intervention Logic

There is a natural hierarchy to the Auckland Plan, LTP, and SOI that derives from their degree of prioritisation and specificity of duration. The Auckland Plan is the primary document for Auckland Council's future direction for thirty years. The LTP shows how this future direction will be funded over the first ten years. The SOI shows the impact of the first three years of the Long Term Plan relevant to the specific CCO.

Intervention Logic within the Statement of Intent formation process

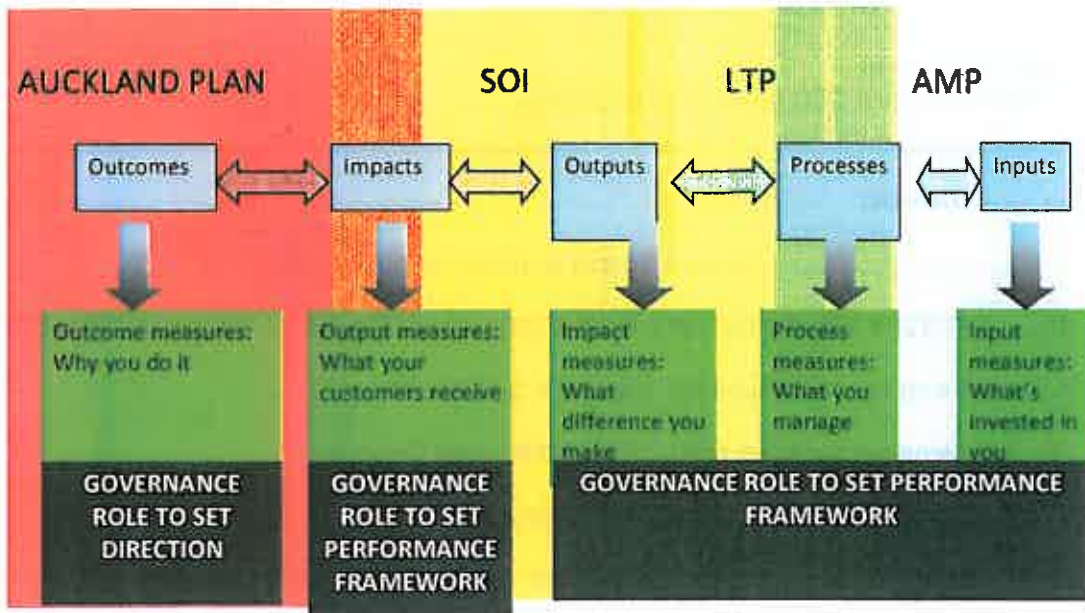
The intervention logic enables the CCOs and council to form a common understanding about how the CCOs contribute to the relevant parts of the Auckland Plan, using the resource provided for in the LTP.

Briefly defined, intervention logic is a testable theory of causation and helps to relate CCOs' organisational activities to their outcomes. An intervention logic can also inform policy formation to enable the identification of the reason any specific action is being undertaken by the entity, in this case any Auckland Council substantive CCO. As such a well reasoned SOI should be able to demonstrate the intervention logic within it by:

- showing how all parts of the entity contribute to Auckland Plan outcomes
- identifying the interventions that maximise the outcomes sought
- prioritising interventions
- helping Council monitor performance towards its outcomes
- identifying new risks to outcomes, and
- informing dialogue between Auckland Council as shareholder and the CCO.

It is not the purpose of using an intervention logic to generate new measures. Measures should account for resource applied through business processes. Some measures are provided within the LTP, others by the CCOs themselves. The goal of the intervention logic is to align the relevant parts of the LTP with the Auckland Plan outcomes, through the SOI of each CCO.

This intervention logic model seeks to take account of intersections between *how do we get there* (inputs and processes), *the difference we make* to customers and to Auckland (outputs and impacts), and *why we do it* (outcomes).



Director Consent Form

Application Form
Auckland Council CCO board Appointments

1. CONSENT

I,, consent to being appointed as a Director of

2. CERTIFY THAT YOU ARE NOT DISQUALIFIED FROM BEING A DIRECTOR

A person who is not disqualified may be a Director of

The following persons are disqualified from being Directors:

- a. A person who is an undischarged bankrupt;
- b. A person who is prohibited from being a director or promoter of, or being concerned or taking part in the management of, an incorporated or unincorporated body under the Companies Act 1993, the Securities Act 1978m the Securities Markets Act 1988, or the Takeovers Act 1993;
- c. A person who is subject to a property order under the protection of Personal and property Rights Act 1988;
- d. A person in respect of whom a person order has been made under that Act that reflects adversely on the person's:
 - i. Competence to manage his or her own affairs in relation to his or her property; or
 - ii Capacity to make or to communicate decisions relating to any particular aspect or aspects of his or her personal care and welfare
- e. A person who has been convicted of an offence punishable by imprisonment for a term of two years or more, or who has been sentenced to imprisonment for any other offence, unless that person has obtained a pardon, served the sentence, or otherwise suffered the penalty imposed on the person;
- f. A Member of Parliament;
- g. A person who is disqualified under another Act.

Certification for Question 2:

I am not disqualified from being a Director of _____ in relation to the criteria stated above.

Agree Disagree

If you disagree, please state why you think you are disqualified

.....
.....
.....
.....

3. DISCLOSURE OF INTERESTS

You are required to disclose the nature and extent (including monetary value, if quantifiable) of all interests that you have or are likely to have, in matters relating to

A "matter" is defined as :

..... performance of its functions or exercise of its powers; or

An arrangement, agreement, or contract made or entered into, or proposed to be entered into, by.....

A person is interested in a matter if he or she:

- a. May derive a financial benefit from the matter; or
- b. Is the spouse, civil union or de facto partner, child, or parent of a person who may derive a financial benefit from the matter; or
- c. May have a financial interest in a person to whom the matter relates; or
- d. Is a partner, director, officer, board member, or trustee of a person who may have a financial interest in a person to whom the matter relates; or
- e. May be interested in the matter because the entity's Act so provides; or
- f. Is otherwise directly or indirectly interested in the matter.

However a person is not interested in a matter:

- a. Only because he or she is a member of a wholly-owned subsidiary of the entity or of a subsidiary that is owned by the entity together with another company or companies/entity or entities; or
- b. Because he or she receives an indemnity, insurance cover, remuneration, or other benefits authorised under relevant legislation; or
- c. If his or her interest is so remote or insignificant that it cannot reasonably be regarded as likely to influence him or her in carrying out his or her responsibilities under the relevant legislation ; or

d. If an entity's Act provides that he or she is not interested.

Disclosure of Interest for Question 3:

I am not aware of any actual, potential or perceived interests of relevance to my Directorship of

Agree Disagree

OR

I am aware of the following actual, potential or perceived interests of relevance to my Directorship of

Please state (interests(s)). You may attach other pages if necessary.

.....
.....
.....
.....

If appointed as Director of, and during my tenure as Director, I will keep the Auckland Council informed of any changes to the interest(s) now disclosed (if any) and of any new actual, potential or perceived interests that may arise.

4. OTHER QUESTIONS

4.1 Do you have, or have you ever had, a medical condition caused by injury, illness, disability or any gradual process that may be aggravated by, or affect your ability to carry out, the tasks expected of a Director of a Council entity?

Yes No

If yes, please give details:

.....
.....
.....

.....

4.2 Do you have any criminal convictions in New Zealand or any other country?

[You are not required to disclose certain convictions if you meet the requirements of the Criminal Records (Clean Slate) Act 2004. If you are unsure, refer to the website www.justice.govt.nz/privacy/clean-slate.html]

Yes No

If yes, please give details (including any penalty imposed) and include any additional information you consider to be relevant :

.....
.....
.....
.....

4.3 Are you involved, or likely to be involved, or have you in the past been involved, in any legal action (including any criminal proceeding) that might be connected to, or have some bearing on this role?

Yes No

.....
.....
.....
.....

3. PERFORMANCE REVIEWS

The board ofand individual directors would be reviewed regularly by a third party. Please confirm that you would agree to participate in such processes if you were to be appointed as a member of theboard.

I,
(full legal name)

Confirm that I would participate in performance review processes.

4. NOMINATION CONFIRMATION

I,
(full legal name)

Confirm that the information I have given in this disclosure form is complete, true and correct.

In the event of any actual or potential conflict of interest or probity issue arising, I agree to promptly declare that conflict or probity issue to the Chair of the Board, who will consider how the conflict or probity issue can best be managed. I also agree to abide by any decisions about the management of that conflict or probity issue. I acknowledge that, in the event that a conflict or probity issue cannot be managed, the Chair will inform Auckland Council. I acknowledge that, in the event I am appointed to the Board, Auckland Council will be informed of any interests I have declared.

I authorise Auckland Council and/or its nominated agency to verify the accuracy of the information I have provided in my application for appointment. In addition, I consent for Auckland Council and /or its nominated agency:

- Obtaining a copy of any criminal records I may have, held by Policy or Ministry of Justice;
- Checking my education or other qualifications with the relevant institutions;
- Carrying out checks on my financial position, including credit and insolvency history;
- Making any other necessary enquiries with government agencies or other bodies relevant to assessing my candidacy.

Please note that whether some or all of the above checks are carried out will depend on the role you are applying for. If you have questions about these checks please contactfor further information.

Signature :

Date:

