LOCAL
GOVERNMENT
INFORMATION
SERIES

Council Controlled Organisations; Analysis of LTCCPs and Annual Reports

Prepared for The Department of Internal Affairs by

MWH
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Executive Summary

1. There are 85 local authorities in New Zealand that provide services to their communities.

2. The majority of services are provided within the ‘core’ council structure. However, NZ local government legislation permits councils to establish ‘arms-length’ organisations to assist them in reaching council goals and ultimately agreed community outcomes.

3. These ‘arms-length’ organisations are commonly referred to as Council Controlled Organisations (CCOs), or Council Organisations (COs).

4. This report analyses the extent and breadth of COs in the 2006/07 financial year. It looks at the financial resources they bring to bear, and how the COs contribute financially to council coffers. It also examines the breadth and extent of performance reporting by COs to the councils. Finally, the analysis gives pointers to how COs contribute to the four wellbeings (economic, environmental, cultural and social) that councils are mandated to deliver to their communities.

1. Our analysis is based on the information contained within the 2006/16 Council LTCCPs and 2006/07 Council Annual Reports.

2. We identified 257 COs in the LTCCPs or Annual Reports. 16 councils did not identify any COs. We believe some councils may not have differentiated between Council Organisations (COs), where there is lesser council control, and CCOs. The true figure of COs may, therefore, be smaller.

3. The 257 COs are mainly organised into the legal form of companies (around half), Trusts (a quarter), and Joint Ventures (one fifth).

4. COs help councils in delivering services to their community. We analysed the types of services and activities that COs deliver. These are spread over 15 activities, the principal ones being economic development, transportation, recreation and corporate functions. We were surprised at the relatively low numbers of COs delivering works and infrastructure services. We extended this analysis further to assess the relative impact of CO functions on the four wellbeings of local government. As expected, CO functions primarily impact on the economic wellbeing (66%) and relatively lightly on the three remaining wellbeings.

5. We endeavoured to assess the financial resources tied up in COs and the degree to which councils rely on them for dividend revenue. We were constrained by the lack of information in many reports, the lack of comparability of information and questionable robustness of data. We were unable to establish the total of CO financial surpluses across the sector. Nevertheless, we surmise that the value of CO assets at 30 June 2007 is $6 billion, or 8% of the value of total council assets. CO liabilities were estimated at $3 billion or 56% of council liabilities as at 30 June 2007. Around 90% of CO assets and liabilities were concentrated in 10 councils.

6. The next part of the analysis was to assess the extent and balance of performance reporting by COs to Council. We found a ‘mixed bag’ of reporting. There were 830 performance measures across the 257 COs. Two thirds of the measures were orientated toward economic wellbeing. Only 10% of measures were focussed on environmental wellbeing. This was surprising and disappointing given the mandate of local government to deliver four wellbeings.

7. The final part of the analysis looked at the above areas (types of COs, activities, wellbeings, financial resources etc) when analysed by type of council ie regional, metropolitan or rural/provincial council. The major findings were that more metropolitan councils have on average more COs than the other two categories. In all council categories the CO emphasis is in the economic development area, and contributed primarily to the economic wellbeing. Although there are numerically fewer COs of regional councils they account for a sizeable proportion of assets and liabilities of all COs. An analysis of COs of ‘high growth’ councils did not yield any discernable trends.

8. As a concluding comment, we must be mindful of the limitations of this analysis. Information was extracted purely from two public sources but, even so, we were disconcerted with variability and incompleteness of the information.
Contextual Information

Introduction

9. This report and analysis has been prepared in accordance with our tender to and the resultant contract with the Department of Internal Affairs dated 15 May 2008 regarding the analysis of Council Controlled Organisations for the 2006/07 year.

10. The definitions of Council Controlled Organisation (CCO), Council Controlled Trading Organisation and Entities not classified as CCOs as per the Local Government Act 2002 No 84 (as at 01 April 2008) is quoted below:

```
“council-controlled organisation” as defined in Part 1 section 6 (1) means a council organisation that is—

(a) a company—
(i) in which equity securities carrying 50% or more of the voting rights at a meeting of the shareholders of the company are—
   (A) held by 1 or more local authorities; or
   (B) controlled, directly or indirectly, by 1 or more local authorities; or
(ii) in which 1 or more local authorities have the right, directly or indirectly, to appoint 50% or more of the directors of the company; or
(b) an entity in respect of which 1 or more local authorities have, whether or not jointly with other local authorities or persons,—
   (i) control, directly or indirectly, of 50% or more of the votes at any meeting of the members or controlling body of the entity; or
   (ii) the right, directly or indirectly, to appoint 50% or more of the trustees, directors, or managers (however described) of the entity

2.1.2 council-controlled trading organisation as defined in Part 1 section 6 (1) means a council-controlled organisation that operates a trading undertaking for the purpose of making a profit

2.1.3 The following entities are not council-controlled organisations as defined in Part 1 section 6 (4)

(a) an electricity company or electricity trust within the meaning of the Electricity Industry Reform Act 1998; or
(b) an energy company within the meaning of the Energy Companies Act 1992; or
(c) a port company or subsidiary of a port company within the meaning of the Port Companies Act 1988; or
   (ca) a company in which a port company (within the meaning of the Port Companies Act 1988) holds or controls 50% of the shares; or
(d) [Repealed]
(e) New Zealand Local Government Association Incorporated; or
(f) New Zealand Local Government Insurance Corporation Limited and its subsidiaries; or
(g) Watercare Services Limited and any subsidiary of Watercare Services Limited; or
(h) a company or other organisation (as defined in subsection (2)) of which the New Zealand Local Government Association Incorporated has control directly or indirectly by whatever means; or
(i) an organisation exempted under section 7.
```
**Background**

11. In achieving their community outcomes, legislative purpose and objectives, councils are able to create ‘arms-length’ organisations to undertake particular functions.

12. Council Organisations (COs), Council Controlled Organisations (CCOs), and Council Controlled Trading Organisations (CCTOs) are the most frequent ‘arms-length’ organisations.

13. The Local Government Act has extensive legislative prescriptions on the establishment, governance and monitoring of these organisations.

14. This report and analysis seeks to answer the following important questions:

<table>
<thead>
<tr>
<th>Questions</th>
<th>Section of Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>How many COs are there?</td>
<td>Section 3</td>
</tr>
<tr>
<td>What organisational forms do they take (i.e. types)?</td>
<td>Section 3</td>
</tr>
<tr>
<td>What functions do they perform and how do they link to Council activities?</td>
<td>Section 4</td>
</tr>
<tr>
<td>To what wellbeings do the COs contribute?</td>
<td>Section 5</td>
</tr>
<tr>
<td>What are the financial resources employed by COs?</td>
<td>Sections 6 &amp; 7</td>
</tr>
<tr>
<td>What financial return do COs provide to Councils?</td>
<td>Sections 8 &amp; 9</td>
</tr>
<tr>
<td>What is the extent of performance measurement by COs?</td>
<td>Section 10</td>
</tr>
<tr>
<td>How do performance measures relate to the four wellbeings of local government?</td>
<td>Sections 11 - 13</td>
</tr>
</tbody>
</table>

**Methodology used in this Analysis**

15. The methodology applied has been consistent with our tender submission.

16. In each section of the report, we detail the specific methodology for each aspect of the COs reviewed.

17. The following is the general methodology:

18. The LTCCPs and Annual Reports as provided by DIA were used in the data collation stage. The information was extracted and captured in the database under the following headings:

   - Number of COs
   - Type of COs
   - Number of subsidiaries and associates
   - Related activity
   - Related wellbeing ie economic, environment, social, cultural or multiple
   - Percentage ownership of CO by Council
   - In instances where the key performance measures were not available in the Annual Report, the related information was extracted from the LTCCP
   - Financial data including assets, liabilities, net profit after tax, dividends and % of council revenue.
   - Performance measures across the four wellbeings.
   - The performance measures were also extracted from the LTCCPs in instances where they were not clear in the Annual Reports.

**Main Assumptions**

19. In each section of the report, we detail the assumptions specific to the respective aspects of the COs reviewed.

20. The major assumptions are listed below.
• Although the LGA specifically exempts Energy Companies, Port Companies, and Watercare Limited as COs, we have included them in this analysis because of the significant contribution they make to council revenue.
• We have excluded Mayoral Relief Funds and Rural Fire Authorities from the analysis.
• Where specific asset and liability information is unavailable in the Council Annual Reports (as was mostly the case) we have made default calculations on a council-wide basis using consolidated or group asset and liability values.
• We have used 2005/06 annual reports where 2006/07 annual reports were unavailable.

**Information Shortcomings in Council Documentation**

21. In each section of the report, we detail for each studied aspect of the CO the information shortcomings in council documentation. Many of these shortcomings were significant.

22. The major shortcomings are:

- Reporting varies across Councils
- CO information is not consolidated in most instances and spreads out across the Council documents
- The lack of seven Annual Reports and not all the LTCCPs were provided.
- Lack of correlation between the LTCCP and Annual Reports in terms of COs and performance indicators for individual COs
- Dividends received from COs are not transparently reported
- There are many COs which do not have performance indicators

**Main Findings**

23. The specific analysis and commentary on each aspect of the COs reviewed is in each section of the report.

24. The major findings, when posed against the questions outlined, are as follows:

**How many COs are there?**
25. As at 30 June 2007, 257 CCOs over all 85 councils.

**What organisational forms do they take?**
26. Half of the 257 are trading companies. Trusts comprise just over a quarter. The remainder are mainly joint ventures and holding companies.

**What functions do they perform and how do they link to council activities?**
27. 21% of COs relate to council economic development activities. 17% of COs are in the transportation area, which could be loosely allied to economic development. Likewise, 12% of COs have ‘corporate’ functions.

28. Only 17% of COs relate to cultural and recreational activities.

**To what wellbeings do the CCOs contribute?**
29. Two-thirds of COs contribute primarily to the economic wellbeing of local government. 15% of COs contribute primarily to the social wellbeing, 8% to the environmental wellbeing and only 7% to the cultural wellbeing.

**What are the financial resources employed by CCOs?**
30. The total assets and liabilities of COs are approximately $6 billion and $3 billion respectively.

**What financial return do CCOs provide to Councils?**
31. The dividends as approximated are in the region of $161 million. This again cannot be taken as a true figure as most councils did not report exclusively in this area. Overall this is 3% of overall council revenue for 2006/7.

**What is the extent of performance measurement by COs?**
32. In 2006/07 there were 830 performance measures for the 257 COs.

**How do performance measures relate to the four wellbeings of Local Government?**
68% of measures relate to economic wellbeing, 22% to social/cultural measures and only 10% were environmental oriented measures.

**Conclusions**

33. The major conclusions that can be drawn from this analysis are that:

   (a) There are a large number of COs (257), an average of three per council. It is possible that councils may have blurred the distinction between COs and COs.

   (b) The COs deliver a wide range of services but are still mainly clustered around economic development, transportation and corporate activities of councils.

   (c) As a corollary to (b), the major impact of COs is to the economic wellbeing of local government.

   (d) The financial resources (assets and liabilities) employed by COs are significant. However, there are doubts on the reliability of the base data, even when it is recorded in council reports.

   (e) A small number of councils have quite a degree of reliance on the dividends they receive from COs and subsidiaries but the extent of the reliance is not as great as one might have expected. Again there are uncertainties on the reliability of base data.

   (f) Performance reporting is (as expected) skewed towards economic wellbeing measures. There are many measures, but disappointingly few in the environmental areas.

**Next Steps**

34. There has been a large degree of frustration in not being able to locate in the LTCCP or council Annual Reports, the information that could reasonably be expected.

35. If it is the intention to improve the base data for this analysis the next steps will include:

36. Obtaining 2006/07 annual reports that were not available.

   - Reviewing an agreed number of CCO annual reports and/or Statements of Intent (SoI).
   - Specific information requests from council (especially in relation to NPAT).

37. Future analysis should include a review of the SOIs and Annual Reports of all holding companies, and major subsidiaries of holding companies.

38. If it is anticipated that this analysis is used as a starting point for future similar analysis, there is the need to:

   - Agree data sets and parameters
   - Agree how often the information is to be obtained, and how it is to be obtained
   - Put in place steps to enhance performance reporting analysis.
Types of Council Organisations (COs)

Introduction and Explanation of Identified CO Types

39. In the first part of our analysis of COs, we analysed all identified COs by the nature of the CO entity. In other words, the governance model or legal entity of the CO.

40. We analysed COs into the following seven groupings.

<table>
<thead>
<tr>
<th>Grouping</th>
<th>Symbol</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading Company</td>
<td>CO</td>
<td>A company established under the Companies Act 1993 that appears to be trading goods and services for profit. These will include CCTOs (Council Controlled Trading Organisations) as defined by the LGA.</td>
</tr>
<tr>
<td>Charitable Trust</td>
<td>CT</td>
<td>These are Trusts which are described as ‘Charitable Trusts’ over which council has the power to appoint one or more Trustees.</td>
</tr>
<tr>
<td>Holding Company</td>
<td>HC</td>
<td>These are Companies established by Councils to hold shares in subsidiary companies. They act as ‘umbrella’ companies, and are commonly used by larger councils that have a number of CCOs.</td>
</tr>
<tr>
<td>Joint Venture</td>
<td>JV</td>
<td>A JV consists of two or more entities (one being Council) deciding to combine resources for a specified purpose. A JV may or may not be a separate legal entity. An example is a JV between a council and the Crown to manage an airport.</td>
</tr>
<tr>
<td>Shelf or Shell Company</td>
<td>SC</td>
<td>These CCOs represent a company that is not trading. It could be a company set up to trade at a later date (Shelf Company) or one where trading has ceased and there are no remaining assets or liabilities (Shell Company). In the latter instance, Councils often invoke Section 7 of the LGA to exempt the CCO monitoring provisions.</td>
</tr>
<tr>
<td>Unspecified Trust</td>
<td>UT</td>
<td>These are Trusts which are not described as Charitable, where the Council is the settlor, and/or has the power to appoint one or more Trustees.</td>
</tr>
<tr>
<td>Other</td>
<td>OT</td>
<td>These represent miscellaneous types of CCOs, and those CCOs which were not clearly described as to their legal status. Examples are Incorporated Societies “Authority” and “Board”.</td>
</tr>
</tbody>
</table>

Methodology

41. To identify and classify COs the following methodology was applied for all 85 councils:

Step One Review Council 2006/16 LTCCP, particularly Sections entitled “Council Controlled Organisations”.

Step Two Review Council 2006/07 Annual Report to identify CCOs which may have been established during the 2006/07 year or otherwise not mentioned in the 2006/16 LTCCP.

Step Three Review of Council “Statement of Accounting Policy” in the 2006/07 Annual Report. This requires Council to state the name of the reporting entities (i.e. Council and subsidiaries).

Assumptions

42. The assumptions used in this part of the analysis are as follows:
43. Where possible, we have identified and classified CO subsidiaries of Holding Companies.

44. Although the LGA excludes Port and Energy Companies as COs, we have treated them as such for analysis purposes, as they are often subsidiaries of ‘Holding Companies’ (which are themselves COs).

45. We have included all Trusts that are identified as COs in either the LTCCPs or Annual Reports. The LGA states that a CO includes an organisation where one or more councils have control of 50% or more of the shares, or the right to appoint 50% or more of the directors. This aspect was unclear in a number of council documents.

46. Unless a Trust was clearly described as a Charitable Trust, it has been classified as an Unspecified Trust.

47. Where a Council has noted an entity has been exempted as a CO by virtue of Section 7 of the LGA, we have not normally analysed such entities.

48. Where a CO is owned by a number of Councils, but the individual council share holding is small, we have classified this as a CO. An example is a shared service company owned equally by 13 Councils in the Waikato Region. However, we have excluded as COs, Council Share Holding in Civic Assurance (in accordance with the LGA definition)

**CO Statistics: Total Number of COs per Council**
49. Summary of Types of COs:

![Summary of CO Types Pie Chart]

<table>
<thead>
<tr>
<th>Type</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Venture</td>
<td>21</td>
<td>8%</td>
</tr>
<tr>
<td>Trading Company</td>
<td>131</td>
<td>51%</td>
</tr>
<tr>
<td>Charitable Trust</td>
<td>24</td>
<td>9%</td>
</tr>
<tr>
<td>Trust</td>
<td>49</td>
<td>19%</td>
</tr>
<tr>
<td>Shelf Company</td>
<td>4</td>
<td>2%</td>
</tr>
<tr>
<td>Holding Company</td>
<td>19</td>
<td>7%</td>
</tr>
<tr>
<td>Other</td>
<td>9</td>
<td>4%</td>
</tr>
</tbody>
</table>

50. Range of COs:

![Range of COs Bar Chart]

Exempted Reporting Requirements

51. The LGA contains two processes by which organisations can be exempted from the definition of a CCO.

52. Section 7 (1) of the LGA allows an organisation to be exempted by Order in Council. An Order in Council is made by the Governor General, on the recommendation of the Minister of Local Government. The exemption means that the organisation is exempted from the Statement of Intent (SOI), reporting and official information requirements.
53. Section 7 (3) provides a power for a council to exempt any small non-trading organisations from the definition of a CCO.

54. Under either Section 7 (1) or 7 (3) an exempted entity as a CCO is still classified as a Council organisation.

55. In analysing council LTCCPs/Annual Reports we identified the following Section 7 Exemptions:-

<table>
<thead>
<tr>
<th>Council</th>
<th>Section 7 Exemptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auckland City Council</td>
<td>Arts Regional Trust</td>
</tr>
<tr>
<td></td>
<td>Mt Albert Grammar School – Swimming Pool</td>
</tr>
<tr>
<td>Rotorua District Council</td>
<td>Kauae Cemetery Trust Board</td>
</tr>
<tr>
<td>South Taranaki District Council</td>
<td>Novus Contracting Ltd</td>
</tr>
<tr>
<td>Manawatu District Council</td>
<td>Feilding Civic Centre Trust</td>
</tr>
<tr>
<td>Manukau City Council</td>
<td>Arts Regional Trust</td>
</tr>
<tr>
<td>Ruapehu District Council</td>
<td>RDC Holdings</td>
</tr>
<tr>
<td>Wanganui District Council</td>
<td>Whanganui River Enhancement Charitable Trust</td>
</tr>
<tr>
<td>Waitakere City Council</td>
<td>Auckland War Memorial Museum</td>
</tr>
<tr>
<td>Taupo District Council</td>
<td>Data Capture Systems Ltd</td>
</tr>
<tr>
<td>Papakura District Council</td>
<td>Destination Lake Taupo Ltd</td>
</tr>
</tbody>
</table>

56. We are unsure if the Department is aware that the Auditor General has reported on the Section 7 (3) exemptions in each of its last two reports to Parliament on Local Authority Audits. The Auditor General found:

- at 30 June 2006, Councils had exempted 74 entities under Section 7 (3).
- in the year to 30 June 2007, Councils had exempted a further 15 entities under Section 7 (3).

57. We identified relatively few exemptions in our LTCCP/Annual Report analysis, which suggests that councils are not, as a matter of course, referring to the exemptions in their accountability documents.

58. The Auditor General’s analysis relates to Section 7 (3) exemptions.

59. We understand the Department is still endeavouring to source Section 7 (1) exemptions which relate to exemptions approved by the Governor-General on recommendation by the Minister of Local Government.

**Commentary**

60. From the graphs and tables above the following comments are made:

**Overall numbers of COs:**

- We identified 257 COs in the analysis. With 85 councils, this is an average of three (3) per council.
- We speculate that some of the 257 entities are in fact Council Organisations (COs) rather than CCOs. The difference is that COs are entities in which one or more councils controls any proportion of the voting rights or rights to appoint directors/trustees. However, we selected the entities from the council LTCCP/Reports that referred to CCOs.

**Distribution of COs across Councils**

61. Of the 85 councils, 16 councils did not show any record of COs. The majority of councils (55) had between one and five COs. Only five councils had between 11 and 14 COs.
Type of COs

62. Half of the 257 COs are trading companies. These are usually referred to as Council Controlled Trading Organisations (CCTOs). This proportion is not unexpected as many COs are set up to trade as a successful business.

63. Trusts (both Charitable and other unspecified trusts) comprise 28% of COs. The actual number is 73. This is a rather higher figure than anticipated and could well include COs as opposed to ‘pure’ CCOs. Nevertheless, this might signal a trend toward achievement of Council activities via trust entities where the council is merely one of the parties to deliver the trust’s objectives. A trust structure may engender more community and stakeholder participation than under a strictly council banner.

64. There are 19 holding companies. These COs are typically put in place where there are a large number of COs to be monitored and managed. A holding company or ‘control’ company provides the linking governance structure between the numerous COs and the council. It might also remove inappropriate political interference with the trading COs, as the holding company acts as a filter. It may, however, impact on the performance measurement relationship between the Council and the subsidiary COs.

Council Activities Delivered by COs

Introduction and Definition

65. COs can play an important role in the achievement of Council objectives.

66. Councils deliver objectives and Councils contributions to Community outcomes via activities and groups of activities.

67. The LGA has specific requirements for Councils to demonstrate that the activities it undertakes link to agreed community outcomes, and that there is a rationale for undertaking activities.

68. Looking at Local Government as a whole, the number of activities undertaken varies greatly from Council to Council. Similarly, the description of seemingly identical activities can be differently described or differently ‘grouped’.

69. Therefore, to analyse how – on a national basis – COs contribute to Council activities, we have had to rationalise the description of activities into a ‘menu’ that provides a practicable basis for comparison.

Activity Categories

70. Following on from paragraph 4.1, we have arrived at a ‘menu’ of 15 activities that COs help deliver on a nation wide basis.

71. The following table describes the activities:

<table>
<thead>
<tr>
<th>Grouping</th>
<th>Symbol</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate</td>
<td>CR</td>
<td>Represents governance and investment-type CCOs including Holding Companies. The contribution from CCOs in this activity are likely to spread over all activities of Council.</td>
</tr>
<tr>
<td>Cultural</td>
<td>CU</td>
<td>CCOs contributing to cultural activities could include Arts Trusts, Museum Trusts, etc.</td>
</tr>
<tr>
<td>Economic Development</td>
<td>ED</td>
<td>CCOs contributing to the economic development activity typically includes economic development agencies, tourism promotion etc.</td>
</tr>
<tr>
<td>Category</td>
<td>Acronym</td>
<td>Description</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>---------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Education</td>
<td>ET</td>
<td>CCOs contributing to education could include Education Trusts, Scholarship</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trusts etc.</td>
</tr>
<tr>
<td>Energy</td>
<td>EY</td>
<td>Entities under this activity could include line companies, gas companies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and energy trusts. Although the LGA definition excludes energy and electricity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>companies as CCOs, for the purpose of this analysis, they have been included.</td>
</tr>
<tr>
<td>Forestry</td>
<td>FO</td>
<td>Entities contributing to the Forestry activity of Council.</td>
</tr>
<tr>
<td>Health</td>
<td>HE</td>
<td>Entities contributing to health matters eg. establishment of medical centres</td>
</tr>
<tr>
<td></td>
<td></td>
<td>to handle the operational element of health in the Council area.</td>
</tr>
<tr>
<td>Housing</td>
<td>HO</td>
<td>Entities such as trusts established to deliver contributions to the housing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and property activity.</td>
</tr>
<tr>
<td>Infrastructure Works and</td>
<td>IW</td>
<td>Entities (mainly CCTOs) delivering infrastructure services (both professional</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td>and physical works) across all infrastructure networks.</td>
</tr>
<tr>
<td>Landfill / Solid Waste</td>
<td>LF</td>
<td>Entities contributing to solid waste disposal and recycling activities.</td>
</tr>
<tr>
<td>Recreation</td>
<td>RE</td>
<td>Entities contributing to recreation activities such as sports stadiums, parks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and reserves trusts.</td>
</tr>
<tr>
<td>Shared Services</td>
<td>SS</td>
<td>Entities that have been established to deliver Shared Services across two</td>
</tr>
<tr>
<td></td>
<td></td>
<td>or more councils. Most entities in this category have not yet become fully</td>
</tr>
<tr>
<td></td>
<td></td>
<td>operational.</td>
</tr>
<tr>
<td>Transportation</td>
<td>TR</td>
<td>Entities in this activity category include airports, Port Companies (even</td>
</tr>
<tr>
<td></td>
<td></td>
<td>though they are not defined as CCOs by the LGA).</td>
</tr>
<tr>
<td>Water</td>
<td>WR</td>
<td>Entities in this activity category contributing to water, wastewater and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>stormwater categories.</td>
</tr>
<tr>
<td>Other</td>
<td>OT</td>
<td>Entities which do not comfortably fit into the above categories.</td>
</tr>
</tbody>
</table>

**Methodology**

72. The methodology used in this part of the analysis was:

- **Step One** Preparation of draft ‘menu’ of activities in tender proposal.
- **Step Two** Addition to and confirmation of, activity ‘menu’ in pilot testing of a selection of LTCCPs.
- **Step Three** Review of all 85 Council 2006/16 LTCCPs for analysis of identified COs into the confirmed ‘menu’ of activities.

**Assumptions**

- We have had to interpret the names, nature and scope of each identified CO into the ‘menu’ of activities as described in 4.2.
- As previously noted, we have included in the analysis entities which are formally recognised as COs in the LGA.
Commentary

SUMMARY: ACTIVITY PER CO

73. From the graph above, the following comments are made:

74. 55 COs (21% of the total) relate to economic development activities of councils. Most councils own, in part or in whole, economic development agencies and tourism promotion agencies.

75. 44 COs (17%) relate to transportation activities, mostly airports, ports and roading. As noted in the assumptions we have regarded ports for the purpose of this analysis, as COs.

76. 31 COs (12%) relate to what we have defined as ‘Corporate’ activities. Largely these are the Holding Companies described in section 4.4, but could also include investment COs such as commercial property developments.

77. 44 COs (17%) relate to recreation and cultural activities. These could be large COs (e.g. relating to major sports stadiums), but are more likely to be small trusts encouraging the arts and reserves beautification.

78. Only 14 COs (5%) relate to entities providing infrastructure works and services to councils. Such a low number is a surprise. Had this analysis been conducted in 1990, (just after amalgamation of Councils) it is likely this figure would be much higher. The (likely) decline reflects the trend of councils divesting themselves of engineering professional services, and construction services in the light of the funder/provider split introduced in the late 1980s.

Analysis of Wellbeings Delivered by COs

Introduction and Definition

79. The LGA defines the purpose of Local Government is to:

(a) Enable democratic local decision making and action by, and on behalf of, communities; and
(b) Promote the social, economic, environmental and cultural wellbeings of communities in the present and for the future.

80. Any CO established by Councils should not only assist in delivering (via activities) the Council contribution to community outcomes, but must also promote one or more of the wellbeings which is the purpose of local government.
Therefore, in this part of the analysis, we sought to define which wellbeings are being promoted through Council CO operations.

**Categorisation of Well Beings**

82. We have categorised wellbeings as follows:

<table>
<thead>
<tr>
<th>Wellbeing</th>
<th>Symbol</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>EC</td>
<td>Self Explanatory</td>
</tr>
<tr>
<td>Environmental</td>
<td>EN</td>
<td></td>
</tr>
<tr>
<td>Social</td>
<td>SO</td>
<td></td>
</tr>
<tr>
<td>Cultural</td>
<td>CU</td>
<td></td>
</tr>
<tr>
<td>Multiple wellbeings</td>
<td>MU</td>
<td>This category is for those COs which deliver two or more Well Beings i.e. the functions of the CO cannot be narrowed to primarily one wellbeing.</td>
</tr>
</tbody>
</table>

**Methodology**

83. The following methodology was used:

Step One            Preparation of draft categorisation of wellbeings in tender proposal.
Step Two            Confirmation of wellbeing categorisation in pilot testing a selection of LTCCPs.
Step Three          Review of all 85 Council 2006/16 LTCCPs for analysis into the wellbeing categories.

**Assumptions**

84. We have had to infer the wellbeing from the name, nature and scope of each identified CCO in the 2006/16 LTCCPs.
Commentary

Summary of Wellbeings

Economic, 170, 66%
Social, 38, 15%
Cultural, 18, 7%
Environmental, 20, 8%
Multiple, 11, 4%

85. From the graph above, the following comments are pertinent:

86. 170 COs or two thirds of all COs appear, from our analysis, to contribute primarily to the economic wellbeing of local government. This is consistent with the ‘activity’ analysis in the previous section. The economic development, transportation and corporate activities delivered by COs can, broadly speaking, be regarded as contributing to the economic wellbeing.

87. 38 COs (15% of the total) can be described as contributing primarily to the social wellbeing of local government. These would include recreation related activities.

88. 20 COs (8% of the total) were regarded as contributing primarily to the environmental wellbeing. This relatively low figure is somewhat surprising, as one would have expected that the increasing focus on sustainability would have resulted in a larger number of environmentally oriented COs.

89. 18 COs (7% of the total) were primarily related to cultural wellbeing of local government. This mirrors the analysis of CO types in section 5.4, where 19 COs were classified as a recreation activity.

90. 11 COs (4% of the total) appeared to contribute to multiple wellbeings and were classified as such.

Value of CO Assets

Introduction and Definitions

91. The objective in this part of the analysis is to establish the total value of assets employed by Council COs, and also to analyse the relative distribution of numbers of COs into asset value bands.

92. This will provide an indication of the CO asset resource and how it compares with total council asset values at 30 June 2007.
93. CO assets are defined as the sum of all current, non-current and investment assets as at 30 June 2007.

**Methodology**

94. The following methodology was used:

**Step One**
Ascertain from 2006/07 Council Annual Reports the asset values of each identified CO.

**Step Two**
Where Step One information is not available, default to the net of Group or Consolidated asset values less council assets (as detailed in the Statement of Financial Position in the Annual Report).

**Step Three**
Provide a table of the values of CO assets into appropriate dollar bands.

**Step Four**
Compare total asset values at 30 June 2007 for all COs against total forecast Council asset values at 30 June 2007 as identified from LTCCP analysis work carried out in 2007.

**Data Limitations and Shortcomings**

95. As signalled in the tender document, few Councils listed the value of assets of each of its COs in the 2006/07 Council Annual Report. Therefore, we were forced to revert to Step Two in paragraph 6.2 where we calculated the total of consolidated or group assets less total council assets. This does not provide certainty that the difference (consolidated less council assets) is entirely related to assets employed by the COs. Nor does it provide any information on specific COs – it is a Council wide assessment only.

96. We noted several councils where group or consolidated asset values were less than council assets.

97. Approximately seven councils have not finalised their 2006/07 annual reports and were therefore not available for analysis.

98. Potentially different reporting periods between COs and the Council.

99. Several councils had not prepared group or consolidated amounts because of the small dollar value of the subsidiaries.

**Assumptions Applied**

100. Default assessment of CO asset values where necessary as described in Step Two of the Methodology (paragraph 6.2).

101. Use of 2005/06 annual reports where the 2006/07 annual report was not available.

**Analysis by Value Band**

<table>
<thead>
<tr>
<th>Asset Value Band</th>
<th>Number of Councils</th>
<th>$ Value [000]</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0-$100k</td>
<td>5</td>
<td>-$186</td>
</tr>
<tr>
<td>$100k-$1m</td>
<td>8</td>
<td>$3,387</td>
</tr>
<tr>
<td>$1m-$10m</td>
<td>14</td>
<td>$55,586</td>
</tr>
<tr>
<td>$10m-$50m</td>
<td>14</td>
<td>$409,237</td>
</tr>
<tr>
<td>&gt; $50m</td>
<td>16</td>
<td>$5,719,303</td>
</tr>
<tr>
<td>Not recorded</td>
<td>28</td>
<td>$0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>85</strong></td>
<td><strong>$6,187,327</strong></td>
</tr>
</tbody>
</table>
Commentary

102. The following comments are relevant to CO assets:

103. Our best estimate of CO assets as at 30 June 2007 is $6.2 billion. We do not have asset values recorded for 28 councils, but these councils either do not have COs or their COs are very minor in relation to asset values.

104. 16 councils had CO assets in excess of $50 million. Collectively, the asset values of the COs of the 16 councils amounted to $5.7 billion, or 92% of all asset values.

105. In the 2006/16 LTCCP analysis carried out in 2007, the total forecast value of council assets at 30 June 2007 was $77 billion. Therefore, CO assets represent 8% of this forecast figure.

106. As noted in data shortcomings, there appear to be anomalies in several councils source data that produced ‘negative’ assets values.

Value of CO Liabilities

Introduction and Definitions

107. The objective in this part of the analysis is to establish the total value of liabilities owing by Council COs, and also to analyse the relative distribution of numbers of COs into liability value bands.

108. This will provide an indication of the CO liabilities and how it compares with total council liabilities as at 30 June 2007.

109. CO liabilities are defined as the sum of all current and term liabilities as at 30 June 2007.

Methodology

110. The following methodology was used:

Step One Ascertain from 2006/07 Council Annual Reports the liability values of each identified CO.
Step Two Where Step One information is not available, default to the net of Group or Consolidated liability values less council liabilities (as detailed in the Statement of Financial Position in the Annual Report).

Step Three Provide a table of the values of CO liabilities into appropriate dollar bands.

Step Four Compare total liability values at 30 June 2007 for all COs against total forecast Council liability values at 30 June 2007 as identified from LTCCP analysis work carried out in 2007.

Data Limitations and Shortcomings

111. As signalled in the tender document, few councils listed the value of liabilities of each of its COs in the 2006/07 Council Annual Report. Therefore, we were forced to revert to Step Two in paragraph 7.2 where we calculated the total of consolidated liabilities or group liabilities less total council liabilities. This does not provide certainty that the difference (consolidated less council liabilities) is entirely related to liabilities owned by the COs. Nor does it provide any information on specific COs – it is a council wide assessment only.

112. Approximately seven councils have not finalised their 2006/07 Annual Reports and were therefore not available for analysis.

113. Potentially different reporting periods between COs and the council.

114. Several councils had not prepared group or consolidated amounts because of the small dollar value of the subsidiaries.

Assumptions Applied

115. Default assessment of CO liability values where necessary as described in Step Two of the Methodology (paragraph 7.2).

116. Use of the 2005/06 Annual Reports where the 2006/07 Annual Report was not available.

Analysis by Value Band

<table>
<thead>
<tr>
<th>Liability Value Band</th>
<th>Number of Councils</th>
<th>$ Value [000]</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0-$100k</td>
<td>12</td>
<td>-$13,541</td>
</tr>
<tr>
<td>$100k-$1m</td>
<td>11</td>
<td>$5,032</td>
</tr>
<tr>
<td>$1m-$10m</td>
<td>11</td>
<td>$41,922</td>
</tr>
<tr>
<td>$10m-$50m</td>
<td>13</td>
<td>$333,789</td>
</tr>
<tr>
<td>&gt; $50m</td>
<td>9</td>
<td>$2,668,259</td>
</tr>
<tr>
<td>Not recorded</td>
<td>29</td>
<td>$0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>85</td>
<td>$3,035,461</td>
</tr>
</tbody>
</table>
Commentary

117. The following comments are relevant in relation to liabilities of CCOs:

118. Our best estimate of CO liabilities as at 30 June 2007 is $3.0 billion. We do not have liability values recorded for 29 councils, although those are likely to represent councils with either no COs or COs with minimal liabilities.

119. Nine councils had CO liabilities in excess of $50 million. Collectively, the CO liabilities of these nine councils amounted to $2.7 billion or 90% of all CO liabilities.

120. In the analysis of 2006/16 LTCCPs carried out in 2007, the total forecast value of council liabilities for 30 June 2007 was $5.4 billion. Therefore, CO liabilities represent 56% of this forecast figure. In section 6, we noted that the equivalent percentage was 8% for CO assets. The reason for the higher percentage in liabilities is that Trading Companies COs will be more highly geared (debt to equity ratio) than the councils themselves. This is consistent with the funding model of comparable private sector Trading Companies.

121. As noted in data shortcomings, there appear to be anomalies in several councils source data as regards liabilities. This resulted in 'negative' values.

Net Profit After Tax of COs

Introduction and Definitions

122. Our objective in this part of the analysis was to identify the net profit after tax (NPAT) for each CO for the year ended 30 June 2007.

123. After identifying the NPAT for each CO, the intention was to analyse the NPAT (or deficits) into appropriate bands and then compare the collective total CCO NPAT to all councils collective surplus for the year to 30 June 2007.

124. NPAT is defined as net profit (or surplus) after provision for taxation has been deducted. NPAT could include abnormal earnings or movements in investment asset values.
**Methodology**

125. The following methodology was used:

- **Step One** Ascertain from the 2006/07 council annual reports the NPAT for each of the identified CCOs.
- **Step Two** Analyse the NPAT (or deficits) into five quantum bands over all the COs.
- **Step Three** Compare total 2006/07 NPAT for all COs to the forecast collective 2006/07 council surpluses as identified from the 2006/16 LTCCP analysis carried out in 2007.

**Data Limitations and Shortcomings**

126. There were significant data limitations and shortcomings that prevented a reliable assessment of CO financial performance for the 2006/07 year.

127. The limitations are:

- Many councils did not separately disclose the NPAT (or deficit) for each of its COs in Councils annual report.
- Where the information was disclosed it was not always clear as to:
  1. the definition or description of the financial result (i.e. surplus or deficit)
  2. whether the financial result was the Councils share of the net earnings (i.e. related to the percentage ownership of the CO) or the full result of the entity.
- Approximately seven councils have not finalised their 2006/07 annual reports, and were therefore unavailable.
- Potential misalignment of reporting periods between COs and Councils.

**Assumptions**

128. 2005/06 annual reports were used where 2006/07 annual reports were unavailable.

129. Unlike sections 6 (assets) and 7 (liabilities) there were no practical default procedures to arrive at an assessment of NPAT.

**Analysis by Value Band**

![Pie chart showing COs reporting Net Profit After Tax](image-url)
Commentary

130. It was very disappointing to find that we could not arrive at a total figure representing the Net Profit After Tax (NPAT) of all COs.

131. This is because 189 COs or 74% had not recorded this figure in the annual reports.

132. Additionally, we are dubious about the reliability of the NPAT figures even where these were reported. Section 8.3 outlines our concerns.

CO Dividends and Contribution to Council Revenue

Introduction and Definitions

133. The first objective of this part of the analysis was to ascertain for each CO the quantum of the CO dividends (if any) that was returned to the council in the 2006/07 year.

134. The second objective was to assess the proportion of Council revenue for the 2006/07 year that was derived from CO or subsidiary dividends. This gives an indication of the degree of council reliance on dividends to fulfil their objectives.

135. There are two potential dividend streams we looked for:

1. The ‘normal’ dividend based on Council’s Shareholding in the CO or subsidiary.
2. Subvention payments from subsidiaries to Council. Subvention payments are a mechanism to minimise income tax liabilities for subsidiaries.

Methodology

136. The methodology and sources used to gather dividend information were as follows:

Step One Review Council annual reports for 2006/07 to identify CO dividends. Source information was obtained variously from:
   - Statement of Financial Performance (income statement)
   - Notes to the Accounts (notes on ‘other’ council revenue)
   - Statement of Cash Flows
   - Performance measures for the COs

Step Two Analyse the dividends into five quantum bands over all the COs.

Step Three Review the councils 2006/07 annual report to calculate total revenue

Step Four Compare, for each council, the percentage of 2006/07 council revenue derived from CO dividends.

Data Limitations and Shortcomings

137. There were considerable difficulties in establishing this data, and the findings are not reliable.

138. The limitations and shortcomings include:

139. Lack of dividend information in the Councils annual report about each individual CO. The problem was two-fold. Firstly, where there are Holding Companies, often the only dividend information is in relation to the Holding Companies, not the CO subsidiaries to the Holding Company. Secondly, amounts described as ‘dividends’ in the council annual reports could also include dividends from other types of investment such as shareholdings in public companies. In other words, dividends are not differentiated as to source.

140. A potential mixture of ‘accrual’ and ‘cash’ basis of dividends. Although we endeavoured to source dividends returned to council on an accrual basis (i.e. the year they are earned not paid) this was not always possible.
Approximately seven councils where the 2006/07 annual report is not finalised, and are therefore unavailable.

**Assumptions**

- 2005/06 Annual Reports used where the 2006/07 reports were unavailable.
- The hierarchy of sources used for dividends is as described in Step One of the Methodology in 9.2.
- In the absence of clear information, where it was obvious that COs had not generated a surplus, and at the same time council had received dividends, we assumed dividends were from non-CO sources.

**Analysis by Value Band**

<table>
<thead>
<tr>
<th>Dividend Value Band</th>
<th>Number of Councils</th>
<th>$ Value [000]</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0-$100k</td>
<td>16</td>
<td>$114</td>
</tr>
<tr>
<td>$100k-$500k</td>
<td>10</td>
<td>$2,853</td>
</tr>
<tr>
<td>$500k-$1m</td>
<td>3</td>
<td>$2,350</td>
</tr>
<tr>
<td>$1m-$5m</td>
<td>14</td>
<td>$31,125</td>
</tr>
<tr>
<td>&gt;$5m</td>
<td>7</td>
<td>$124,103</td>
</tr>
<tr>
<td>Not recorded</td>
<td>35</td>
<td>$0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>85</strong></td>
<td><strong>$160,545</strong></td>
</tr>
</tbody>
</table>

![Dividend Value Band Pie Chart](image)
<table>
<thead>
<tr>
<th>% Council Revenue</th>
<th>Number of Councils</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 1%</td>
<td>30</td>
</tr>
<tr>
<td>1-2%</td>
<td>6</td>
</tr>
<tr>
<td>2-5%</td>
<td>8</td>
</tr>
<tr>
<td>5-10%</td>
<td>4</td>
</tr>
<tr>
<td>&gt; 10%</td>
<td>5</td>
</tr>
<tr>
<td>Not available</td>
<td>32</td>
</tr>
<tr>
<td>TOTAL CCO's</td>
<td>85</td>
</tr>
</tbody>
</table>

### Commentary

142. The following commentary is relevant to this section of the report.

**Quantum and Distribution of Dividends**

- Our best estimate of the dividends returned by COs and subsidiaries to councils in 2006/07 is $160.5 million. However, for 35 councils, there was no information on dividends that may have been sourced from COs. Even where there was dividend information, we had to make calls as to whether we thought the dividend was related to the COs. Therefore, the figure of $160.5 million is not reliable.
- Because we were unable to source total NPAT of COs, we could not relate dividends paid to the total NPAT earned for 2006/07.
- Of the 50 councils that did, for better or worse, have dividend information, seven councils received the lion’s share of the total dividends - $124 million or 77% of the total.

**Degree of reliance on CO Dividends as a Council Revenue Source**

- We were again constrained by the lack of information in 32 councils.
- From the information for the remaining 53 councils, 30 councils received less than 1% of their 2006/07 revenue from dividends.
- In five councils, dividends received comprised more than 10% of their total 2006/07 revenue. This is not as many councils as we intuitively thought might be the case when we started the project.
Performance Reporting

Introduction
143. Councils have obligations to monitor the performance of COs both in terms of the CO itself and the Councils accountability to its communities.

144. In the LTCCP Councils must provide:
   - The name of the CO and subsidiaries of the CO
   - Significant policies and objectives the Council has for the CO
   - A description of the nature and scope of the CO activities
   - Any performance targets and other measures

145. In an Annual Report councils must disclose:
   - The extent to which significant policies and objectives about CO ownership and control have been achieved
   - A comparison of the actual nature and scope of activities against that indicated in the LTCCP
   - A statement of the key performance targets and measures by which the CO performance can be judged

146. In this part of the analysis (sections 10 – 13) we examine the extent and types of performance reporting of COs nationwide for the 2006/07 year.

147. In section 10, we provide an overview of the performance reporting by three categories. The three categories are:
   - Economic performance reporting
   - Environmental performance reporting
   - Social / Cultural performance reporting

148. The categories mirror the four well beings that are the purpose of local government. Because we anticipated few cultural measures, we have combined them with social measures.

   - Section 11 defines Economic Measures and examines the types of measures in more detail.
   - Section 12 defines Environmental Measures and examines the types of measures in more detail.
   - Section 13 defines the Social and Cultural Measures and examines the types of measures in more detail.

Methodology
149. The methodology used in sections 10 – 13 was:

   Step One Review the LTCCP for all 85 councils in relation to CO information on performance reporting.
   Step Two Allocate performance measures to the pre-assigned categories and in the analysis spreadsheet make a note of the measure.
   Step Three Review the Annual Reports of all 85 councils to ascertain any further CO performance measures that may have been added during the year.

Data Limitations and Shortcomings
150. We observed the following difficulties in extracting data:
   - In some instances a change in content or emphasis in the performance measures between the LTCCP and the annual report.
   - Difficulty in allocating some measures to our sub categories within each of the three categories (particularly for economic measures).
- Lack of availability of seven council's 2006/07 Annual Reports.
- The lack of measures or the generality of measures (particularly for smaller Trusts).

**Assumptions Applied**

151. Where the measures were different between the LTCCP and the Annual Report, we endeavoured to analyse the more complete source.

152. Where measures were multi-dimensional in nature (i.e. across more than one element) we made a ‘best fit’ to what we thought was the primary element.

153. The sheer variety of reporting descriptions and formats made this task difficult.

**Analysis of Wellbeings**

![Pie chart showing CO's with no Performance Measures]
Commentary

154. Our observations on overall CO reporting of performance are as follows:

155. In total there are 830 performance measures for 257 COs in the 2006/07 year. This is an average of three measures per CO.

156. Two thirds (68%) of the measures relate to economic wellbeing. This degree of economic-orientated measures was expected and was signalled at the start of the project. Again it reflects that many of the COs are established to be successful trading enterprises, and this translates into the performance measurement regimes.

157. 22% of performance measures relate to social/cultural wellbeing dimensions.

158. Only 82 or 10% of measures were oriented towards the environmental wellbeing. This is somewhat surprising, given the focus on sustainability over the last 3-5 years. In the private sector, we are seeing many companies measuring their environmental impact and sustainability initiatives. However, this has apparently not yet permeated to the COs of councils, even though councils are mandated to promote all four wellbeings. This will be an area of interest for any future analysis to assess whether the proportion of environmental measures are increasing.

159. A small proportion of COs (3%) did not have any performance measures identified in a specific way in the LTCCP or Annual Report.
Performance Reporting – Economic Wellbeing

**Introduction**

160. In this section we analyse the CO Economic Wellbeing measures into sub-categories.

**Description of Subcategories of Economic Measures**

<table>
<thead>
<tr>
<th>Subcategory</th>
<th>Symbol</th>
<th>Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Management</td>
<td>AM</td>
<td>This describes measures associated with asset stewardship – asset management planning, maintenance and keeping assets fit for purpose.</td>
</tr>
<tr>
<td>Credit Rating</td>
<td>CR</td>
<td>These are measures related to credit ratings of the CO.</td>
</tr>
<tr>
<td>Dividend Return</td>
<td>DR</td>
<td>These are measures associated with the quantum or proportion of the NPAT that is expected to be returned by way of dividend to the Council.</td>
</tr>
<tr>
<td>Exceeding Budget Expectations</td>
<td>EB</td>
<td>These measures include a variety of items such as:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Actual income exceeding budget income</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Actual expenditure less the forecast expenditure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Actual surplus exceeds budget surplus.</td>
</tr>
<tr>
<td>Governance</td>
<td>GO</td>
<td>These measures include governance and oversight of the CCO at a ‘higher’ level i.e. what structures are in place to ensure good governance between the council, CCO Board and to CCO Management.</td>
</tr>
<tr>
<td>Increase Revenue or Quantity</td>
<td>IR</td>
<td>These measures relate to the quantum or volume of business. For example, for Airports it will relate to the number of passengers processed.</td>
</tr>
<tr>
<td>Shareholding Ratio Analysis</td>
<td>SR</td>
<td>This covers a myriad of measures concerned with economic or financial ratio analysis. Although there is a huge variety the more typical measures are:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• NPAT / Shareholder funds</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• NPAT / Total assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Shareholder funds / Total assets</td>
</tr>
<tr>
<td>Timeliness</td>
<td>TI</td>
<td>Measures related to timeliness of reporting or generation of economic / financial reports.</td>
</tr>
<tr>
<td>Other</td>
<td>OT</td>
<td>Measures that don’t easily fit into the above categories.</td>
</tr>
</tbody>
</table>

**Data Shortcomings and Assumptions**

161. This is noted in section 10.3 and 10.4.

**Economic Wellbeing Performance Measure Graph**
Commentary

162. The following observations are made on the Economic indicators or performance measures:

163. There were 566 economic performance measures, representing 68% of measures across all three wellbeings.

164. 102 measures (18% of the total) represented shareholding ratio analysis. There was a wide variety of measures under this sub-category, but the more common ones were to compare shareholder funds to total assets, NPAT compared to Shareholder funds.

165. 87 measures (15% of the total) referred to increasing quantity or turnover as a target. This measure often included non-dollar measures such as passenger numbers (airports), cargo throughput (ports) and numbers of tourists/visitors (economic development agencies).
166. 86 measures (15% of the total) were concerned with either dividend return to the shareholding council (3.5%) or meeting or exceeding budget expectations (12%). One may have expected this to be a higher percentage, but these two types of measures are very closely aligned to shareholding ratio analysis.

167. 80 measures (14% of the total) relate to governance measures at a ‘higher level’ i.e. the interaction between council and CO, and between CO boards and the CO management. In any future analysis it may be more advantageous to treat governance as a separate category and analyse these measures in more detail.

168. It was surprising that so few measures (34 or 6% of the total) related to asset stewardship or asset management. Many COs have significant physical asset holdings and it would have been expected that they give the attention to asset management that councils themselves devote to it.

169. There were a large number of ‘other’ economic measures (147 or 26% of the total) that could not be easily classified into the pre-assigned sub-categories. Again this might be a fruitful area for further analysis in a future project.

Performance Reporting – Environmental Wellbeing

Introduction

170. In this section we analyse the CO environmental wellbeing measures into sub-categories.

Description of Subcategories

171. There are a lesser number of sub-categories as compared to Economic

<table>
<thead>
<tr>
<th>Sub-Category</th>
<th>Symbol</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety</td>
<td>SA</td>
<td>These relate to environmental safety measures. A typical example is the airport and harbour safety audits, accident prevention.</td>
</tr>
<tr>
<td>Compliance with Environmental Standards</td>
<td>CM</td>
<td>These measures include compliance with resource consents, environmental codes of practice etc.</td>
</tr>
<tr>
<td>Other</td>
<td>OT</td>
<td>Measures which do not fit into the above two sub-categories.</td>
</tr>
</tbody>
</table>

Environmental Wellbeing Performance Measure Graph

Summary of Environmental Performance Measures

- Safety, 20, 24%
- Compliance, 54, 66%
- Others, 8, 10%
Commentary

172. The following observations are made on performance measures oriented towards environmental wellbeing.

173. There were 82 environmental oriented measures, only 10% of the measures across all wellbeings. We comment on this low percentage in section 10.6.

174. 54 performance measures (66% of the category total) relate to compliance with resource consents, environmental codes etc.

175. 20 measures (24% of the category total) refer to safety measures such as those operating at airports and ports. It is perhaps debatable whether these are environmental in nature or are more aligned with social and cultural wellbeings.

176. Very few measures appeared to be associated with environmental initiatives (as opposed to mere compliance with existing standards). This is disappointing and could be expected to increase in future years.

Performance Reporting – Social/Cultural Wellbeing

Introduction

177. In this section we analyse the CO Social / Cultural wellbeing measures into sub-categories.

Description of Sub-categories

<table>
<thead>
<tr>
<th>Sub-Category</th>
<th>Symbol</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Satisfaction</td>
<td>CS</td>
<td>These measures relate to surveys on customer and stakeholder satisfaction or other feedback on the CCO service being provided.</td>
</tr>
<tr>
<td>Governance</td>
<td>GO</td>
<td>These measures relate to governance at a ‘lower’ level) compares to Governance high level measures under Economic). This could include staff, training, turnover etc.</td>
</tr>
<tr>
<td>Quality Measures</td>
<td>QM</td>
<td>These measures are related to quality of output or service usually related to benchmark standards.</td>
</tr>
<tr>
<td>Stakeholder Liaison</td>
<td>SL</td>
<td>These measures describe the relationships, consultation and general liaison of CCOs with stakeholders.</td>
</tr>
<tr>
<td>Other</td>
<td>OT</td>
<td>Measures which do not fit easily in the above categories.</td>
</tr>
</tbody>
</table>
Commentary

178. The following observations are made on performance measures oriented towards social and cultural wellbeings:

179. In total, there were 182 performance measures in this category or 22% of measures across all wellbeings.

180. 56 of the measures (31% of the category total) relate to quality measures. These are usually quality targets against a national or pre-determined benchmark, for example, adherence to ISO9001 (quality standard certification).

181. 88 of the measures (48% of the category total) are evenly spread between customer and stakeholder satisfaction targets, and the measures to liaise and consult with stakeholders and customers. Some of the latter measures are wordy and ‘fluffy’ in nature.

182. 32 measures (18% of the category total) were related to governance measures pitched at a lower level compared to the governance measures noted under economic performance reporting. These can include staff turnover, staff training and investment in the CO workforce.

Analysis of COs by Council Category

Introduction

183. In this section we analyse the COs by Council categories. The categories are:

- Regional Councils
- Territorial Councils - Metropolitan Councils
- Rural/Provincial Councils
Number of COs per Council Category

Regional, 32, 12%
Metropolitan, 101, 39%
Rural/Provincial, 124, 49%

Types of Activities Delivered by each Council Category

Regional Council: CO Activities

<table>
<thead>
<tr>
<th>Infrastructure Works</th>
<th>Forestry</th>
<th>Landfill</th>
<th>Water</th>
<th>Recreation</th>
<th>Economic Development</th>
<th>Cultural</th>
<th>Transportation</th>
<th>Corporal</th>
<th>Shared Services</th>
<th>Communication</th>
<th>Energy</th>
<th>Health</th>
<th>Education</th>
<th>Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>8</td>
<td>1</td>
<td>13</td>
<td>8</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
Wellbeings Delivered, as Analysed by Council Category

Regional: CO Wellbeings
- Economic: 28
- Social: 1
- Environmental: 2
- Cultural: 1
- Multiple: 0

Metropolitan: CO Wellbeings
- Economic: 60
- Social: 13
- Cultural: 12
- Environmental: 7
- Multiple: 9
Rural/provincial: CO Wellbeings

- Economic, 82%
- Social, 24%
- Cultural, 5%
- Environmental, 11%
- Multiple, 2%

CO Financial Resources by Council Category

- Assets
  - Metropolitan, 52%
  - Regional, 38%
  - Rural/Provincial, 10%
  - Multiple, 2%

- Financial Resources:
  - $3.19b
  - $2.35b
  - $639m
**Liabilities**

- Metropolitan, 49%
  - $1.47b
- Rural/Provincial, 18%
  - $560m
- Regional, 33%
  - $16m

---

**CO Dividends by Council Category**

<table>
<thead>
<tr>
<th>Dividends as a % of Council Revenue (2006/2007)</th>
<th>Regional Council Average</th>
<th>Metropolitan Average</th>
<th>Rural/Provincial Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>8.32%</td>
<td>0.82%</td>
<td>0.60%</td>
</tr>
</tbody>
</table>

---

Prepared for The Department of Internal Affairs by MWH Consultants
**Extent and forms of CO performance measurement analysed by council category**

![Performance Measures Chart]

**Commentary**

184. Numbers of COs per Council category (reference section 14.2)

185. The metropolitan territorial councils have 101 COs or 39% of the total. Therefore there is a relatively higher average number of COs per metropolitan council (10) as compared to regional councils (average of 2.7 per council) or provincial/rural councils (average of 2 per council).

**Types of activities delivered by each council activity**

186. The theme that emerges here is that economic development activity is a significant factor in all council categories. For metropolitan councils 25% of COs is economic development related. The equivalent percentage for rural/provincial councils is 18% and regional councils 8%.

187. Recreation type activities feature highly for metropolitan councils (17% of all COs) but not so much for rural/provincial (6%) and do not feature at all for regional councils.

188. Transportation type activities feature for regional council COs at 34% of the 32 COs in this category. This reflects Port ownership. The equivalent percentage for rural/provincial councils is 17% (mainly airports) and 12% for metropolitan councils.

**Wellbeings delivered by COs as analysed by council category**
189. Surprisingly the COs of regional councils appear to primarily contribute to the economic wellbeing (28 out of 32, or 88%). The same theme, though slightly less predominant, is evident for metropolitan councils (60%) and rural/provincial (66%).

190. In metropolitan councils the remaining wellbeing s delivered (40%) are relatively evenly spread among the environmental, social and cultural wellbeings.

191. In rural/provincial councils, the non-economic wellbeings delivered were social (19%) and environmental (9%). There appeared to be very few COs oriented toward the cultural wellbeing.

Financial resources applied by COs as analysed by Council Category

192. The relatively few number of regional COs accounted for about a third of all CO assets and liabilities. This is not unexpected, as Port and transportation assets (a feature of regional COs) are physical asset intensive.

193. Metro COs account for about half of the value of all COs assets and liabilities.

194. Although rural/provincial council COs comprise half of the number of all COs, the value of their assets and liabilities are minor (10% and 18% respectively) when compared to metropolitan and regional councils. The big CCTOs are largely owned by the big councils.

CO dividends to parent councils analysed by council category

195. The remarkable feature here is that regional councils, on average, derive a significant proportion of their total 2006/07 income from subsidiaries (8.3%).

196. By contrast the other council categories do not on average derive a significant proportion of their income from subsidiaries.

Extent and forms of CO performance measurement analysed by council category

197. The performance measures of all council categories were dominated by economic wellbeing measures (metropolitan 72%, rural/provincial 69% and regional councils 53%).

198. Environmental wellbeing measures were conspicuous by their relative rarity, hovering around one measure in ten (10%) for all council categories.

199. Social/cultural measures fared somewhat better at around one third of regional CO performance measures, and one in five (20%) for the other two council categories.

200. The average number of performance measures per council category, regional councils and metropolitan councils were level pegging (average of 3.7 measures per CO) with a drop to the rural/provincial average of 2.8 measures per CO.

COs of Councils with fastest growing populations

Introduction

201. We identified the ten fastest growing territorial Councils in terms of population growth between the 2001 Census and the 2006 Census.

202. The Councils are:
Relative Numbers of COs

203. We then looked at the relative numbers of COs for these fast growing Councils to the total COs.

<table>
<thead>
<tr>
<th>Council</th>
<th>North Shore</th>
<th>Manukau</th>
<th>Tauranga</th>
<th>Kapiti</th>
<th>Waimakariri</th>
<th>Selwyn</th>
<th>QLDC</th>
<th>Rodney</th>
<th>Papakura</th>
<th>Hamilton</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population 2006</td>
<td>200,091</td>
<td>310,335</td>
<td>100,488</td>
<td>44,640</td>
<td>41,769</td>
<td>32,832</td>
<td>21,426</td>
<td>85,845</td>
<td>42,879</td>
<td>123,281</td>
</tr>
<tr>
<td>Population 2001</td>
<td>184,821</td>
<td>283,200</td>
<td>90,906</td>
<td>42,447</td>
<td>36,900</td>
<td>27,312</td>
<td>17,043</td>
<td>76,182</td>
<td>40,668</td>
<td>114,921</td>
</tr>
<tr>
<td>% movement</td>
<td>8.3%</td>
<td>9.6%</td>
<td>10.5%</td>
<td>5.2%</td>
<td>13.2%</td>
<td>20.2%</td>
<td>25.7%</td>
<td>12.7%</td>
<td>5.4%</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

Comparison of Number of COs for Fastest Growing Territorial Councils Against Total Number of COs

10 Fastest growing Territorial Councils, 43, 17%

Other 63 Territorial Councils, 214, 83%

Type of Activity

204. We further analysed the COs of fastest growing Councils by the type of activity they contribute to when compared to the activity contribution by all COs of all Councils.
Commentary

205. There appears to be little additional information that can be deduced from the analysis of growth councils to the total council CO profile.

206. From the graphs in 15.3 above the only major difference is the 17% of COs that are transportation related for the total council profile, but barely feature for growth councils. This is explained by the fact that growth councils do not include regional councils, which have numerous transport related activity COs.