

# CAPACITY

## REVIEW OF 2006/07 ANNUAL REPORT

### 1. Introduction

The directors of Capacity (Wellington Water Management Limited) have submitted their audited annual report for the year to 30 June 2007.

### 2. Key Issues

The KPI's reported have been extracted directly from the Capacity Annual Report. These targets should be regularly reviewed to ensure that they are effective in achieving and measuring Council's desired outcomes.

### 3. Performance

#### a. Financial

The company's statement of financial performance records a budgeted operational expenditure of \$4.919 million whereas the final Strategic Business Plan for 2006-09 has a budgeted 2007/08 operational expenditure of \$4.825 million. The actual operational expenditure for the year was \$4.980 million.

#### Statement of Financial Performance

\$ '000	FY Actual	FY Budget	2005/06 Actual
Income	4,981	4,825	4,613
Expenditure	4,980	4,825	4,703
Operating surplus	(1)	-	(94)

#### Statement of Financial Position

\$ '000	FY Actual	FY Budget	2005/06 Actual
Current assets	925	864	1,075
Non-current assets	72	66	92
Current liabilities	621	447	790
Non current liabilities	-	12	-
Equity	376	471	377
Current ratio	1.5 : 1	1.9 : 1	1.4 : 1
Equity ratio	38%	51%	32%

## Statement of Cash Flows

\$ '000	FY Actual	FY Budget	2005/06 Actual
Operating	(18)	13	(13)
Investing	-	-	(9)
Financing	(9)	-	(12)
Net	(27)	13	(34)
Closing balance	376	290	403

*Note: the company's financial statements have been prepared using NZ IFRS and comparatives for the previous year have been restated to NZ IFRS accordingly.*

### **b. KPI's**

The Performance targets for Capacity as set out in the 2006/2007 Annual Report are given below:

<b>Key performance target</b>	<b>Actual</b>
Achieve total overall savings of \$4.175 million to shareholding councils after five years (30 June 2009), and \$1.6 million annually thereafter.	Under the service level agreement between Capacity, Hutt City Council and Wellington City Council, a savings model has to be approved by shareholders before savings can be reported. The savings model developed by Capacity is currently under review by Wellington City Council.  Hutt City Council has approved the savings model.
Achieve targets within allocated budgets.	Achieved. Targets achieved within budgets.
Comply with financial, technical, and regulatory standards.	Achieved. All standards have been complied with.
Establish a strategic business plan by 30 June 2006.	Achieved. 2006/07 strategic plan completed by 30 June 2006.
Develop asset management plans as required that reflect best practice or meet specific requirements for approval by the appropriate council.	Achieved. Asset management plans for water, stormwater and wastewater are on target to be completed by the due date.
Ensure infrastructure asset maintenance is carried out in accordance with asset management plans and to best applicable trade standards and practice.	Achieved. Asset maintenance has been carried out in accordance with asset management plans.
Meet the performance measures set by shareholders in service contracts or service level agreements, including managing emergencies.	Twenty seven out of 31 performance measures were achieved.

#### **4. Key items from the year**

Several new resource consent applications were applied for in conjunction with WCC including Western Wastewater Treatment Plant (Karori), Moa Point Wastewater Treatment plant and Careys Gully Sludge Dewatering Plant.

A Water Loss Reduction and Leakage Management Strategy was developed to actively manage water consumption within Wellington City including managing leakage and reducing water losses. It is planned to develop a similar strategy for Hutt City.

The introduction of remote field computing means that Capacity field staff has a virtual office wherever they are, greatly improving operational efficiency.

Various projects undertaken to improve water quality, reliability and capacity including the final stage of the Wakefield Street sewer main renewal, replacing 14 km of unlined cast iron water main in Wellington City, construction of a new pumping station at Opahu Stream in Hutt City, Stage 2 of the Black Creek/Wainuiomata stormwater improvement project and construction of a stormwater pump station to improve flood protection in the Gracefield area.

#### **5. Governance**

During the year Keith Sutton resigned from the board and Richard Westlake joined the board. The current board comprises;

Bryan Jackson (Chair)  
Bryan Pepperell  
Alick Shaw  
Roger Styles  
Ray Wallace  
Richard Westlake

#### **6. Comments From Council's Infrastructure Directorate**

As Wellington City Council is Capacity's largest customer, it was considered appropriate for the relevant Council directorate to provide some feedback on the 2006/07 year. Accordingly, the comments of the Director of Infrastructure are given below:

*Wellington City Council has continued to monitor Capacity's performance under the Service Level Agreement (SLA) that governs the relationship with the CCO. To that effect regular reporting by Capacity and formal meetings between the Infrastructure Director and Capacity's CEO formed the platform for the performance monitoring of the company. The Director of Infrastructure and the Council's CEO met with the company's Board of Directors in March 2007 to outline the Council's views on the company's performance to date (first 3 years of the 5 year term of the SLA).*

*The overall period (06/07) was characterised by the following;*

- *There were no catastrophic failures on any of the three water networks.*
- *Effective response was provided to the gas network failure in August 2006.*
- *There were no prosecutions for failure to meet resource consent conditions applicable to the water networks although there were failures to meet required resource consent renewal deadlines.*
- *There was improvement to the production and submission of AMP (Asset Management Plans) although significant input from WCC was still required to address macroplanning issues.*
- *The Performance Indicators required by the SLA were not delivered by the company with WCC exercising its right under the SLA to stipulate PIs for 07/08.*
- *Strategic Plans were not finalised by Capacity to a stage that would warrant approval by WCC for any of the three water networks. In response, WCC has provided Capacity with a template covering key considerations for such macroplanning at the end of 06/07. It is expected that plans addressing these strategic considerations will be submitted to WCC for approval in 07/08.*
- *While the overall project budgets for 06/07 were adhered to, there were instances of significant project management failures that resulted in unacceptably high deviations from project estimates thus reducing the overall effectiveness of the available budgets and raising concerns about the company's project management capabilities.*

*The savings model was not finalised to the level required by the SLA as at the end of the 06/07 year. Therefore no assessment of the company's performance against this requirement was possible at the end of the year.*

## **7. Future Plans / Issues**

- Risk assessment and management of asset management plan objectives
- Finalising the resource consents for the Western Wastewater Treatment Plant, Moa Point Wastewater Treatment Plant and the Carey's Gully Sludge Dewatering Plant
- Strategic reviews of both the water supply and wastewater assets for Wellington City
- Development of a procurement strategy for contracted capital works
- Continued monitoring of all operations and maintenance contract performance measures to ensure savings for shareholding councils
- Infrastructural upgrades in response to Wellington city growth
- Capacity will be responsible for \$99 million in operational expenditure and \$38 million in capital expenditure on behalf of both councils in 2007/08.

## **8. Conclusion**

Operational improvements have been made during the year, and Council officers will continue to work with Capacity to ensure adequate long term asset management planning is undertaken.