

# WELLINGTON WATER MANAGEMENT LIMITED

## TRADING AS CAPACITY

### STATEMENT OF INTENT

**2007/2008**

#### PURPOSE

The purpose of this statement of intent is to

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

This Statement of Intent covers the year 1 July 2007 to 30 June 2008 and the following two financial years.

The 2007-2010 Strategic Business Plan provides additional information as stipulated in the shareholders' letter of expectation.

#### A. OBJECTIVES OF THE COMPANY

1. Section 59 of the Local Government Act 2002 provides

##### **59 Principal objective of council-controlled organisation**

- (1) *The principal objective of a council-controlled organisation is to---*
  - (a) *achieve the objectives of its shareholders, both commercial and non-commercial, as specified in the statement of intent; and*
  - (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; and*
  - (d) *if the council-controlled organisation is a council-controlled trading organisation, conduct its affairs in accordance with sound business practice.*
- (2) *In subsection (1)(b), good employer has the same meaning as in clause 36 of Schedule 7.*

2. In addition to the statutory objective, the objectives of the company are:
  - 2.1. to operate as a successful undertaking, managed on a non-profit basis

- 2.2. long term management of the water, wastewater and stormwater assets of the shareholding councils in accordance with policy and levels of service determined by the shareholding councils
- 2.3. to pursue and promote the development of related opportunities and undertakings with other local authorities and other organisations
- 2.4. to comply with all legislative and regulatory provisions relating to its operation and performance
- 2.5. to establish and maintain appropriate communications with the community about the company's activities
- 2.6. to develop best practice Asset Management Plans to provide optimised (least cost) long term asset maintenance and renewal programmes to meet customers' defined levels of service.
- 2.7. to ensure all relevant infrastructural assets are maintained in accordance with approved asset management plans
- 2.8. to ensure all contractual obligations of any other clients are met
- 2.9. to maintain an effective business continuity plan.

These objectives will be monitored and pursued in the interests of maximising the value of the company to the shareholders.

## **B. BOARD'S APPROACH TO GOVERNANCE OF THE COMPANY**

1. This council-controlled organisation is a company registered under the Companies Act 1993 and is governed by the requirements of that Act and the Local Government Act 2002.
2. The Board will require the unanimous approval of the Board for:
  - 2.1. significant changes to the company's structure
  - 2.2. extraordinary transactions (entering into any contract or transaction except in the ordinary course of business)
  - 2.3. delegation of Directors' powers to any person
  - 2.4. any decision to diversify business into a business not forming part of or being naturally ancillary to the core business of managing water services
  - 2.5. major transactions (entering into any major transaction, see 3.5 below);
  - 2.6. disputes (commencing or settling any litigation, arbitration or other proceedings which are significant or material to the company's business)
  - 2.7. borrowings in a manner that materially alters the company's banking arrangements, advancing of credit (other than normal trade credit) exceeding \$5,000 to any person except for making deposits with bankers, or giving of guarantees or indemnities to secure any person's liabilities or obligations
  - 2.8. sale of assets (sell or dispose of fixed assets for a total price per transaction exceeding \$100,000 or a series of aggregated transactions exceeding \$200,000); and
  - 2.9. capital expenditure (other than in the ordinary course of doing business) at a total cost to the company, per transaction, exceeding \$100,000 or a series of aggregated transactions exceeding \$200,000.

3. The Board will require the agreement of the Shareholders for:
  - 3.1. any changes to the constitution
  - 3.2. any increases in capital and the issue of further securities, share buybacks and financial assistance
  - 3.3. any alteration of rights attaching to shares
  - 3.4. any arrangement, dissolution, reorganisation, liquidation, merger or amalgamation of the company
  - 3.5. any “major transactions” as that term is defined in the Companies Act 1993.

### **C. NATURE AND SCOPE OF ACTIVITIES**

1. The company’s purpose is to provide high quality, safe and environmentally sustainable services to shareholding councils and other customers with a principal focus on asset management planning and contracted service delivery for the operation, maintenance and on-going development of drinking water, stormwater and wastewater assets and services. Advice to shareholding councils will promote sustainable water usage and conservation.
2. The company is committed to ensuring all work managed on behalf of customers accords with the highest standards of health and safety for those involved in the work and for the general public. The company will continually seek opportunities to integrate water, stormwater and waste water activities within the Wellington region where such integration can deliver least cost, best practice outcomes to the benefit of shareholder councils and other entities.
3. The company will use its skills and experience in asset planning and contract management to undertake activities outside of water services on a profitable basis to reduce the cost of service to existing customers and shareholding councils. These activities will not be undertaken at the expense of achieving desired service levels or increasing unacceptable business risk to customers.

### **D. RATIO OF CONSOLIDATED SHAREHOLDERS' FUNDS TO TOTAL ASSETS**

Ownership of infrastructural assets is retained by the shareholders (or other clients). As a business that returns all benefits to shareholders a statement of the ratio of shareholders’ funds to assets is not considered appropriate.

### **E. ACCOUNTING POLICIES**

1. Financial statements will comply with the requirements of the New Zealand International Financial Reporting Standards (NZ IFRS). Financial statements will also comply with the requirements of the Local Government Act 2002.

2. General Accounting Policies - Accounting policies adopted will be consistent with the New Zealand International Financial Reporting Standards (NZ IFRSs).
3. Particular Accounting Policies -Recognition of Revenue - Revenue will be recognised when an invoice is raised after service is provided.
4. Goods and Services Tax -The financial statements will be prepared on a GST exclusive basis except for accounts receivable and accounts payable which are shown GST inclusive.
5. Accounts Receivable -Accounts receivable will be stated at net realisable value.
6. Inventories -Inventories will be stated at the lower of cost or net realisable value.
7. Investments -Investments will be stated at the lower of cost or net realisable value.
8. Consolidation – Consolidation will be in accordance with NZ IAS 27.
9. Leases -Cost of operating leases (if any) will be recognised as expenditure over the term of the lease.
10. Taxation - income tax expense is charged in the statement of financial performance in respect of the current year's surplus. Income tax expense is determined using the comprehensive basis under the liability method after allowing for permanent differences.

## **F. PERFORMANCE TARGETS AND MEASURES**

1. That the company will:
  - 1.1. achieve total overall savings of \$4.175m to shareholding councils after five years (30 June 2009), and \$1.6m annually thereafter (*refer to HCC and WCC Council resolutions of 29 and 30 April 2003 respectively*)
  - 1.2. achieve targets within allocated budgets
  - 1.3. comply with financial, technical and regulatory standards
  - 1.4. establish a strategic business plan by 30 June 2007
  - 1.5. develop asset management plans as required that reflect best practice or meet specific requirements for approval by the appropriate organisation
  - 1.6. ensure infrastructure asset maintenance is carried out in accordance with asset management plans and to best applicable trade standards and practice
  - 1.7. meet the performance measures set by shareholders in service contracts or service level agreements, including managing emergencies.
  - 1.8. start preparing a work programme on public awareness of water consumption and report back to Council by 31 March 2008 as requested in writing by respective shareholders.

2. Performance measures

Area	Measure	Frequency of measure	Target
Asset management planning	Complete Asset Management Plans	Milestone	WCC – October 2007 (or other date as advised by WCC) HCC – December 2007 (or other date advised by HCC)
Resource consent compliance	Compliance with existing resource consents	Quarterly	100%
	Consent renewals accepted by regulatory authority prior to expiry	Quarterly	100%
Customer service	Responsiveness	Quarterly	90% requests for service resolved within 15 days
	Customer satisfaction	Quarterly	90%
Contractor performance	Progress against agreed programme of capital works	Quarterly	<b>Wellington City Council</b> 90% completed on time 90% completed within budget
	Level of service	Quarterly	<b>Hutt City Council</b> 90% programmes (opex) and 90% projects (capex) delivered on time to quality
Financial performance	Actual total operating expenditure vs budget	Quarterly	<b>Wellington City Council</b> Within budget
	Net capital expenditure and operational expenditure	Quarterly	<b>Hutt City Council</b> Within budget
	Savings of \$4.175m by 30 June 2009 \$2.51m – Wellington City Council \$1.67m – Hutt City Council	Annually	Total savings in 2007/2008 of \$1,300,000 \$780,000 – Wellington City Council \$520,000 – Hutt City Council +/- 10% of forecast result

## **G. ACCUMULATED PROFITS AND CAPITAL RESERVES**

There is no intention to pay a dividend in the 2007/2008 financial year or succeeding years.

## **H. INFORMATION TO BE PROVIDED TO THE SHAREHOLDERS**

In each year the Company shall comply with the reporting requirements under the Local Government Act 2002 and the Companies Act 1993 and regulations.

1. In particular, it shall provide:
  - 1.1. a statement of intent detailing all matters required under the Local Government Act 2002
  - 1.2. an annual budget and business plan for the coming financial year, to be presented in accordance with the shareholding Councils' budgeting and planning cycles, and
  - 1.3. an annual report.
2. Within two months after the end of the first half of each financial year, the Company shall provide, in accordance with section 66 of the Local Government 2002:
  - 2.1. a report on the operations of the Company to enable an informed assessment of its performance, including financial statements and a comparison against budget and the statement of intent.
3. Within 3 months after the end of each financial year, the Company shall provide in accordance with section 67, 68 and 69 of the Local Government 2002:
  - 3.1. a comparison of the performance of the Company with the statement of intent
  - 3.2. an explanation of any material variances between that performance and the statement of intent
  - 3.3. the dividend, if any, authorised to be paid or the maximum dividend proposed to be paid on equity securities for the financial year to which the report relates
  - 3.4. audited consolidated financial statements for that financial year
  - 3.5. an auditor's report on:
    - 3.5.1. those financial statements, and
    - 3.5.2. performance targets and other measures by which performance was judged in relation to that organisation's objectives
4. The information must be presented in such a way as to enable an informed assessment of the operations of the Company.

**I. SHARE ACQUISITIONS**

There is no intention to subscribe for shares in any other company or invest in any other organisation.

**J. COMPENSATION FROM LOCAL AUTHORITY**

It is not anticipated that the company will seek compensation from any local authority otherwise than in the context of normal commercial contractual relationships.

*NB. If a council-controlled organisation has undertaken to obtain or has obtained compensation from its shareholders in respect of any activity, this undertaking or the amount of compensation obtained will be recorded in-*  
*(a) the annual report of the council-controlled organisation; and*  
*(b) the annual report of the local authority.*

**K. COMMERCIAL VALUE OF THE SHAREHOLDERS' INVESTMENT**

The net value of the Shareholder's investment in the company is estimated to be valued at \$377,000 as at 31 December 2006. This value shall be assessed by the directors on completion of the annual accounts or at any other time determined by the directors. The method of assessment will use the value of shareholders funds as determined in the annual accounts as a guide.

**L. ANY OTHER MATTERS AGREED BY THE SHAREHOLDERS AND THE BOARD.**

There are no other matters.