

CAPACITY

REVIEW OF 2007/08 ANNUAL REPORT

The Company presents its Annual Report including audited financial statements and performance measures.

Highlights for the year

- The Company progressed its regionalisation strategy by securing the acquisition of the Upper Hutt services whilst also initiating discussions with other Councils.

Performance

1. Financial

A review of the Council's internal reports detailing the performance of Council's infrastructural assets, and their associated Opex and Capex costs, highlights the following issues:

- There were significant underspends against the Council's Opex and Capex budgets as at 30 June 2008:
 - The key contributor to the \$7.1m Opex underspend was unbudgeted vested asset income in relation to water network information capture and analysis (\$1.873m) and sewerage network stewardship (\$4.252m)
 - Of the total Capex underspends of \$4.9m, \$4.3m occurred in water network costs alone, with smaller underspends in the sewage collection and disposal network (\$0.26m) and stormwater management (\$0.26m).
 - \$5.0m of capex underspends (arising from project delays and deferrals from capex re-prioritisations) was requested to be carried forward to the 2008/09 financial year. \$3.5m of this carry forward was approved by the Director, Infrastructure and forwarded to the Finance & Treasury Committee for its consideration.

A summary of the Capacity company financial statements is given below. The key points to note are as follows:

- Actual expenditure was \$377k ahead of budget largely due to 'operational expenditure' (\$71k), 'rental and operating lease costs' (\$46k) and 'personnel expenditure' (\$235k) being higher than anticipated.
- The reasons for the adverse variances above are an accommodation rental increase of 20% from April 2008, difficult recruitment market requiring more expensive contractors to be hired in the interim and resulting recruiting fees charged for the replacements, implementation of an

electronic records management system to comply with the Public Records Act and additional vehicle running costs caused by high fuel costs.

- The process by which the shareholders approve these increases is unclear and will be an area of consideration in the review of the Service Level Agreement

Statement of Financial Performance

\$ '000	FY Actual	FY Budget	2006/07 Actual
Income	5,423	5,132	4,981
Expenditure	5,512	5,132	4,982
Operating Surplus	(89)	-	(1)

Statement of Financial Position

\$ '000	FY Actual	FY Budget	2006/07 Actual
Current assets	1,036	1,176	925
Non current assets	1,095	52	997
Current liabilities	808	851	621
Non current liabilities	-	-	-
Equity	287	376	376
Current ratio	1.3 : 1	1.4 : 1	1.5 : 1
Equity ratio	13%	31%	20%

Statement of Cash Flows

\$ '000	FY Actual	FY Budget	2006/07 Actual
Operating	(85)	(15)	(18)
Investing	(5)	-	-
Financing	-	-	(9)
Net	(90)	(15)	(27)
Closing balance	286	611	376

Note: the Company's financial statements have been prepared using NZ IFRS.

2. KPIs

The KPIs reported by the Company for the 2007/08 year are given below. The Company has achieved its target for the vast majority of its performance measures, and several results have improved on the previous year. Of the KPIs not achieved, officers note the following:

- in its 2007/08 Statement of Intent (SOI), the Company states that Asset Management Plans (AMPs) for Wellington City Council were due to be completed in October 2007 – the table below says this target was achieved and that AMPs 'are on target to be completed by the agreed date'

- agreement of the Savings Model between the Company and Council has still not been reached
- the KPI regarding the measurement of the percentage of unaccounted for water lost from the network was not achieved by 2%
- the KPI target for monitoring the presence of specific contaminants was not achieved, by 3%

Performance targets for Capacity as set out in the Statement of Intent 2007/08	
KEY PERFORMANCE TARGET	ACTUAL
Develop asset management plans 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 agreed 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 30 performance measures were achieved.
Comply with financial, technical, and regulatory standards.	Achieved. All standards have been complied with.
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.
Establish a strategic business plan by 30 June 2008.	Achieved. The 2007/08 strategic business plan was completed by 30 June 2008.
Prepare a work programme on public awareness of water consumption and report back to shareholders by 31 March 2008.	Undertook a public awareness campaign on water restrictions in Wellington and Hutt City during the 2007/2008 summer period. A Water Conservation Strategy was initiated during 2007/2008 in conjunction with Greater Wellington Regional Council and the four local councils. It is anticipated to be completed during 2008/2009.

*this is not entirely correct - the Savings Model is actually being updated by Wellington City Council for the 2007/08 results as there is currently a shortage of resources at Capacity.

Performance targets for Wellington City Council 2007/08			
WATER - KEY PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL	RESULT
Compliance with New Zealand drinking water standards.	100 per cent		2008: Achieved 2007: Achieved
Response times to service requests – to respond to all requests for service within one hour of notification (response includes initial investigation and prioritisation work).	97 per cent	99 per cent 97 per cent	2008: Achieved 2007: Achieved
Percentage of customers satisfied with work carried out.	75 per cent	91 per cent 85 per cent	2008: Achieved 2007: Achieved
Water loss from the network – the percentage of unaccounted for water.	19 per cent	21 per cent	2008: Not achieved 2007: Not achieved

STORMWATER - KEY PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL	RESULT
Response times to service requests – to respond to all requests for service within one hour of notification (response includes initial investigation and prioritisation work).	96 per cent	97 per cent 99 per cent	2008: Achieved 2007: Achieved
Percentage of customers satisfied with work carried out.	75 per cent	100 per cent 80 per cent	2008: Achieved 2007: Achieved
Percentage of sampling days where the following contaminants are not seen: scums or foams, floating or suspended material, abnormal colour or clarity, fats or gross solids.	100 per cent	97 per cent	2008: Not achieved 2007: Not achieved
The percentage of sampling days at monitored bathing beaches when water quality complies with Ministry for the Environment guidelines (green status).	90 per cent	93 per cent 93 per cent	2008: Achieved 2007: Achieved
Percentage of monitored freshwater sites where the median annual faecal coliform bacteria counts are less than 1000 per 100ml.	80 per cent	89 per cent 48 per cent	2008: Achieved 2007: Not achieved

WASTEWATER - KEY PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL	RESULT
Response times to service requests – to respond to all requests for service within one hour of notification (response includes initial investigation and prioritisation work).	96 per cent	99 per cent 98 per cent	2008: Achieved 2007: Achieved
Percentage of customers satisfied with work carried out.	75 per cent	100 per cent 77 per cent	2008: Achieved 2007: Achieved
The percentage of monitored consented harbour/coastal sites where the median annual level of faecal coliform bacteria counts are less than 2000 per 100ml (lower levels of these bacteria mean the water is cleaner).	80 per cent	92 per cent 92 per cent	2008: Achieved 2007: Achieved
Resource consent compliance – the number of infringement notices received.	No infringement notices are received		2008: Achieved 2007: Achieved

3. Operational

The Company continued to progress resource consent applications for the Western Wastewater Treatment Plant, the Moa Point Wastewater Treatment Plant and renewals for the discharge of contaminated stormwater into the harbour and south Coast during heavy rainfall.

Work continued on stormwater flood risk and mitigation in the CBD and a water management proposal was developed for the central city area to improve network effectiveness.

Implementation of the Water Loss Reduction and Leak Management Strategy began during the year.

A collaborative management agreement was reached with the Company's operations and maintenance contractors, BBS and Citioperations.

A review of internal processes was undertaken during the year to try to identify further efficiencies, reduce costs and provide a greater return for shareholders.

4. Governance

The directors during the year were:

Bryan Jackson

Peter Allport (from 1 February 2008)

Andy Foster (Councillor – from 1 November 2007)

Peter Leslie (from 1 January 2008)

Bryan Pepperell (Councillor - retired 31 October 2007)

Alick Shaw (Former Councillor - retired 31 December 2007)

Roger Styles (retired 31 December 2007)

Ray Wallace

Richard Westlake

5. Key issues going forward

As agreed with Capacity,, the Savings Model will be updated by Council to reflect the 2007/08 financial results of two agreed scenarios and presented for discussion by the end of August 2008, following the release of relevant indices from Statistics New Zealand.

A final savings position as at 30 June 2008 is to be agreed thereafter and the Savings Model and the savings position is to be approved by both parties and reported against quarterly in 2008/09.

Strategic reviews of water, stormwater and wastewater assets were initiated during the year – these reviewed strategies will provide the focus for the Company to plan for the management of the assets over the next 80 years. The delay in these strategies is of concern to Council.

Design work on the Messines Road reservoir which will service the entire Karori area and replace two aged and undersized reservoirs will begin during the year.

A new reservoir is proposed for the central business district. This is to provide water for GWRC purposes, the Hospital and this Council. Discussions continue with the CCDHB regarding the funding arrangements.

Resource consents applications continue with the ongoing work and meetings regarding the disposal of sludge, the operation of the treatment plants. The consents for the discharge of stormwater to the harbour and south coast are due for renewal.

The consolidation of Upper Hutt, including integration of the water and drainage operations staff into the Capacity team, will be a significant focus for the 2008/09 year. The Company notes that it has initiated discussions with councils in the Wairarapa and the top of the South Island. However it is important that

continued regionalisation objectives are not pursued to the detriment of the current and required services for the existing shareholders.

The Service Level Agreement is due for review at the end of the 2008/09 fiscal year. This is an opportunity to review the services provided by the company over the past four years and make modifications and improvements to the existing document. There is an expectation that this will commence during the year.

Council's Audit & Risk team has recently undertaken an audit of Capacity's operations and is scheduled to report back to the Audit and Risk Management Subcommittee later on in the year.

6. Conclusion

During the year Capacity successfully grew the business by acquiring a contract for the management of Upper Hutt water, stormwater and wastewater services. However, there is concern that the continued non-resolution of the Savings Model may divert focus and resource away from the Company's key strategic objectives.

The company are endeavouring to further strengthen their ability to provide strategic level input as this is considered by Council to be an area of importance as it impacts on the long term management of the assets.