

APPENDIX TWO

CAPACITY INFRASTRUCTURE SERVICES LIMITED

REVIEW OF 2009/10 ANNUAL REPORT

Capacity Infrastructure Services Limited (Capacity or the Company) presents its 2009/10 Annual Report including audited financial statements and performance measures.

Highlights for the year

- Capacity successfully managed over \$100m of expenditure in 2009/10 on behalf of Wellington City Council (WCC), Hutt City Council (HCC) and Upper Hutt City Council (UHCC), including \$70m of operational and maintenance project work and \$31m of programmed capital works.
- While not all KPIs were achieved, the Company achieved 92% of the agreed performance measures with its customers and shareholders.
- Savings of \$391k were achieved for WCC for the year, compared to a target of \$432k. The Company notes that resource consent hearing and appeal costs overspent budget by \$43k.
- A new 15-year service contract with UHCC was signed.
- Wastewater overflows into the Waiwhetu Stream, Hutt City, dropped 60% during winter and 90% during summer following a private drain repair programme.
- Unaccounted for water in Wellington is now below 16% of water supplied, down from 26% five years ago.
- Sections of the Company's asset management plans for the three councils were commended by Audit NZ.
- Capacity has established an in-house design joint venture with engineering consultants GHD. This should build internal capability and save consultancy fees going forward.

Performance

1. Financial

A review of WCC's internal reports (detailing the performance of the Council's water infrastructure assets) shows:

- Excluding the 'stewardship' accounts which the Company does not control, Capacity overspent the opex budget for the year by \$406k or 1%. The largest contributor to this was under-budgeted reactive maintenance projects. This under-budgeting was identified by both Capacity and the Council at the beginning of the year and the budgets for these projects have been adjusted for 2010/11. Other contributors to the variance were unbudgeted trade waste charges and adverse weather causing increased waste treatment plant flows, which were partially offset by bulk water usage savings.

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- Of the total net capex underspend of \$3.7m or 15% (including carry forwards), almost all was due to the deferred construction of the Messines Road Reservoir, the altered timing of the Tacy St work, and delays on the Moa Point UV pilot plant and inlet pump station work. For these three projects in particular, \$4.0m has been carried forward to 2010/11. Capacity followed all appropriate procedures in requesting the carry forwards. These projects are expected to be undertaken in 2010/11.

A review of the Company's financial statements shows:

- Capacity recorded a net surplus of \$38k for 2009/10, compared to a budgeted deficit of \$16k.
- Total revenue was \$7.2m, slightly below the budgeted level of \$7.4m.
- Total expenses were \$7.1m, also slightly below the budgeted level of \$7.4m.
- Personnel expense increased by \$846k on 2009 mainly due to additional costs of \$707k incurred in commencing the in-house design team joint venture.
- The Company's operational expenses line was 24% lower than last year and \$180k (or 16%) below budget for the year. This was largely due to lower than budgeted occupancy, utilities and IT costs.

Statement of Financial Performance

\$ '000	FY Actual	FY Budget	2008/09 Actual
Income	7,196	7,364	6,520
Expenditure	7,149	7,380	6,497
Operating Surplus	47	(16)	23
Net Surplus	38	(16)	(8)

Statement of Financial Position

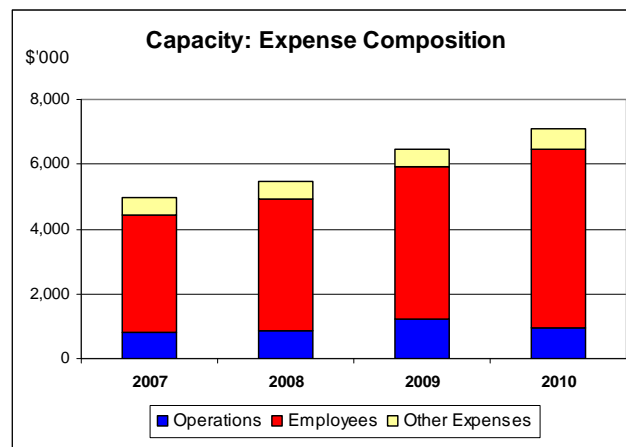
\$ '000	FY Actual	FY Budget	2008/09 Actual
Current assets	1,266	1,135	1,305
Non current assets	93	9	53
Current liabilities	1,045	768	1,083
Non current liabilities	-	-	-
Equity	313	376	275
Current ratio	1.2 : 1	1.5 : 1	1.2 : 1
Equity ratio	23%	33%	20%

Statement of Cash Flows

\$ '000	FY Actual	FY Budget	2008/09 Actual
Operating	197	130	112
Investing	(83)	-	(15)
Financing	-	-	-
Net	114	130	98
Closing balance	497	294	384

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



2. KPIs

The Company has achieved its target for the majority of its performance measures.

The following KPIs were not achieved:

- Savings target of \$432k over historical service cost levels for WCC was missed by \$41k. The Company notes that resource consent hearing and appeal preparation costs overspent budget by \$43k.
- Three performance targets from the SLAs were missed:
 - response time to service requests for WCC stormwater (target 97%, actual 87% for October to June);
 - response time to service requests for WCC wastewater (target 97%, actual 92% for October to June);
 - respond promptly to wastewater disruptions for HCC (target 97%, actual 96%).

These were due largely to difficulty in establishing consistent reporting times and criteria and the lack of real time information reporting capabilities of contractors. Capacity has worked with each of the two contractors involved to resolve these issues.

The KPIs reported by the Company for the 2009/10 year are given below.

Performance targets for Capacity as set out in the Statement of Intent 2009/10	
KEY PERFORMANCE TARGET	ACTUAL (as reported by Company)
Develop and complete asset management plans for the client councils annually	Achieved
Deliver budgeted capital expenditure projects for respective Councils	Achieved. Capex within budget. Favourable variance of \$6.2m is due to project carry forwards and some HCC costs transferred to operating projects.
Deliver budgeted operating and maintenance activities for respective councils	Achieved. WCC budget was overspent by \$406k or 1%. The HCC variance mainly relates to the Waiwhetu Stream project, which was not project managed by Capacity.

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Performance targets for Capacity as set out in the Statement of Intent 2009/10	
KEY PERFORMANCE TARGET	ACTUAL (as reported by Company)
Manage and operate Capacity within its 2009/10 budget	Achieved.
Capacity labour productivity to be 80% or more at year end	Achieved. 83.4%
Achieve total annual savings of \$432k for WCC	Not achieved. Unfavourable variance of \$41k or 9%.
Annual increases in operating costs per property benchmarks for HCC's water, stormwater and wastewater networks are at or below Auckland water industry averages	Unavailable. With the Auckland data unavailable, Capacity surveyed and analysed results from seven councils. These showed that the cost per property for HCC is below the average of the councils surveyed.
Meet performance measures as set in the service level agreements	24 out of 27 performance measures were achieved. See below table for WCC measures.
Comply with financial, technical, and regulatory standards	Achieved.
Complete a business plan by 30 June 2010	Achieved. Completed by 21 May 2010.

Performance targets for Wellington City Council 2009/10			
WATER - KEY PERFORMANCE INDICATOR	TARGET	ACTUAL	RESULT
Compliance with New Zealand drinking water standards	100%	100% 100%	2010: Achieved 2009: Achieved
Service requests relating to the water network are responded to within one hour of the request being received (response includes initial investigation and prioritisation of work)	97%	98% 97%	2010: Achieved 2009: Achieved
Residents surveyed about water network service are satisfied with work carried out	85%	94% 99%	2010: Achieved 2009: Achieved
Minimising unaccounted for water loss from the network	20%	16% 17%	2010: Achieved 2009: Achieved

STORMWATER - KEY PERFORMANCE INDICATOR	TARGET	ACTUAL	RESULT
Service requests relating to the stormwater network are responded to within one hour of the request being received (response includes initial investigation and prioritisation work)	97%	87% 99%	2010: Not achieved 2009: Achieved
Residents surveyed about stormwater network service are satisfied with work carried out	85%	88% 93%	2010: Achieved 2009: Achieved
Resource consent compliance	100%	100%	2010: Achieved 2009: Not achieved
The percentage of sampling days at monitored bathing beaches when water quality complies with Ministry for the Environment guidelines (green status)	93%	95% 98%	2010: Achieved 2009: Achieved
Percentage of monitored freshwater sites where the median annual faecal coliform bacteria counts are less than 1000 per 100ml	90%	100% 90%	2010: Achieved 2009: Achieved

WASTEWATER - KEY PERFORMANCE INDICATOR	TARGET	ACTUAL	RESULT
Service requests relating to the wastewater network are responded to within one hour of the request being received (response includes initial investigation and prioritisation work)	97%	92% 99%	2010: Not achieved 2009: Achieved
Residents surveyed about stormwater network service are satisfied with work carried out	85%	100% 93%	2010: Achieved 2009: Achieved

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3. Operational

The Company has established an in-house design joint venture with engineering consultants GHD. This design capability is currently for WCC work only and the team has completed 65% of the designs for WCC for 2010/11. Over time, this capability is expected to result in cost savings and build internal expertise.

Major pieces of work that Capacity completed during the year include the following:

- Developing a Water Conservation and Efficiency Plan for consultation in Wellington. A water conservation campaign has been developed for UHCC for implementation in 2010/11.
- Continued its extensive leak detection programmes across all its client councils. This included water pressure reduction work in part of Roseneath and Hataitai in Wellington. The programme in Wellington has resulted in unaccounted water decreasing from 26% of water supplied five years ago to 16% now.
- Completed strategies for the 'three waters' for WCC. The strategies look at a 75+ year planning horizon to identify the issues the Council will be facing over time and what can be done to address these.
- Stormwater catchment planning for WCC and prioritising future catchment management planning work. Flood hazard mapping work is being undertaken in Island Bay and in the central city.
- Revised the emergency management plan for all three client councils with the aim of ensuring we have the resources and plans in place to deal with any emergency, especially given Wellington's high risk of earthquakes. A key issue identified was the risk associated with water supply to Wellington city and the seismic assessment of the storage reservoirs. Reservoirs have been assessed for HCC and work is underway for WCC and UHCC.
- Prepared risk management plans for WCC and HCC.
- Received relevant resource and building consents for the Messines Road reservoir in Karori. Building is planned to commence in 2010/11.
- Conducted the first full client survey, providing baseline information about client satisfaction levels with Capacity.
- Capacity's asset management plans for WCC and HCC received several mentions in a report published by Audit NZ, highlighted as examples of effective asset management.
- Starting work on a regional specifications and standards project, in consultation with client councils.

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Governance

The directors during the year were:

Peter Allport (Chair from 1 December 2009)
Bryan Jackson (retired 30 November 2009)
Andy Foster (WCC Councillor)
Peter Leslie
Ray Wallace (HCC Councillor)
Ian Hutchings
John Strahl (appointed 1 December 2009)

Peter Allport's, Peter Leslie's and Ray Wallace's terms expire on 31 December 2010. Andy Foster's term expires at the end of the current triennium.

Key issues going forward

1. Information Systems

The Chairman's Report notes that Capacity has reached a plateau in cost and service delivery improvement. His view is that the company requires further structural changes, such as information systems and operational standards rationalisation, to achieve increased integration and network standardisation benefits.

As part of a process to look at continued performance improvement, the Company and its customer councils are currently looking at a potential future IT strategy.

2. Water Conservation / Environment

Water conservation and efficiency continues to be an important issue in light of the forecast growth in population, climate change and economic development. Water consumption patterns will probably need to change to delay costly solutions such as building another dam, introducing water meters or widespread water restrictions. Capacity is working on demand management alternatives, which will be presented to councils and the public over the next few years. As discussed earlier, much work has already been done on initiatives including the Water Conservation and Efficiency Plan for consultation in Wellington, the water conservation campaign developed for UHCC, ongoing leak detection work, and water pressure reduction work.

Wastewater overflow was also identified as a key issue needing to be addressed to minimise pollution of streams and Wellington Harbour. Over the coming year, plans will be developed to mitigate the effects of wastewater overflows.

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3. Work Program / Efficiency

Over the coming year, Capacity will manage \$34m in capital expenditure for its three customer councils, including: construction of the Tacy Street pumping station; building the new reservoir at Messines Road in Karori; upgrading the Moa Point Wastewater Treatment Plant inlet pump station; and completing the replacement of the water main to improve supply for Wainuiomata.

The Company is working to ensure that all planned maintenance that may impact on Rugby World Cup related events will be identified and programmed for completion before the tournament starts.

Capacity has committed to an ongoing reduction in costs of \$737k per year in relation to WCC's work program.

4. Regionalisation

Auckland's progress with integrated water services will be monitored closely. Currently some projects are undertaken at the regional level; for example, as discussed earlier, at WCC's request Capacity has started working with customer councils on a regional specifications and standards project.

Conclusion

Capacity performed well in 2009/10, meeting most of its performance targets and making significant progress on leak detection and unaccounted for water. The challenge for the Company will be to continue to deliver cost and service delivery improvements.