



capacity

STRATEGIC BUSINESS PLAN
2006-2009

Capacity Values Challenge

This week, what did I do that demonstrated our values ...

Honesty *achieved openness and honesty at work*

Trust *showed I could be trusted*

Flexibility *showed a willingness to respond quickly and change direction*

Friendliness *made this a great place to work*

Timeliness *made things happen on time*

...for me, our company, our customers.

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Introduction

Capacity is a Council-Controlled Trading Organisation that manages water, stormwater and wastewater services on behalf of Wellington City Council and Hutt City Council for residents, ratepayers and visitors. The services are used for residential, industrial and recreational purposes. Capacity is financially supported by both its shareholders, Wellington City Council and Hutt City Council. Shareholders fund Capacity on the basis of work allocation. Historically, this has been based on a 20% Hutt City Council, 80% Wellington City Council split.

In 2006/2007, Capacity is responsible for managing approximately \$87 million operational expenditure and \$44 million capital expenditure on behalf of our customers – Wellington City Council and Hutt City Council. Capacity commenced operations in April 2004 and since then we have made some significant achievements as a company. In particular,

- The Petone Office was established
- Merge of staff and processes
- Risk Management policy and procedures established
- Remuneration policy developed and implemented
- Operations and maintenance contracts for Wellington City Council and Hutt City Council were merged
- Shareholder and customer reporting established and improved
- The development of a savings model to record and measure the benefits achieved by Capacity's shareholders.

Capacity's Vision and Mission

Capacity's vision is to be **The first choice in infrastructure services.**

Capacity's mission is:

- The long term management of the water, stormwater and wastewater assets of the shareholding councils
- To operate as a successful business, returning all benefits to our shareholders
- To contribute to achieving the cooperative delivery of integrated water services in the Wellington metropolitan region
- To develop a satisfying culture and work environment where empowered staff feel motivated and rewarded for excellence.

Capacity's Values

Capacity's values base is to treat others – staff, shareholders, customers – in a fair, consistent and respectful manner. Capacity staff will do this through acknowledging the following values.

Honesty

Capacity operates in an open and honest environment where all transactions and relationships with people are transparent.

Trust

Capacity staff can be trusted to act in the best interests of customers and shareholders and carry out their duties in a fair and equitable way.

Flexibility

Capacity is flexible to respond quickly to requests for service and change initiatives.

Friendliness

Capacity has a strong customer service approach where everyone deals with each other in a friendly manner.

Timeliness

Capacity ensures that all deliverables are completed on time and to the highest standard.



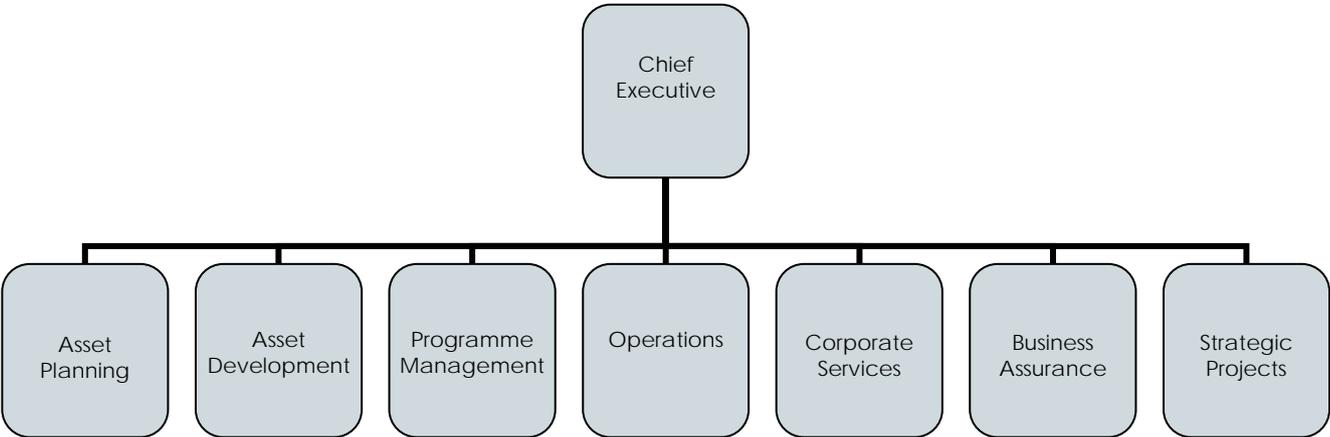
Diana Isaac, Engineer, and Yon Cheong, Asset Planning Manager, reviewing contract documents



David Hargest, Contract Administrator, and Tim Oughton, Engineer

Organisation Structure

Capacity's organisational structure is focused on the management of Wellington City Council and Hutt City Council water, stormwater and wastewater asset management, maintenance of assets, construction of assets and support services. The focus in 2006/2007 is to raise strategic capability in the organisation particularly in Asset Planning and Strategic Projects. Business Assurance will be integral to the company achieving its service excellence objective in 2006/2007.



Council Relationship Principles

Capacity will continue to enhance the relationships with shareholding councils. The key principles governing Capacity's relationships with Wellington City Council and Hutt City Council are:

- to have open and frank communication with the councils and provide the councils with access to information they request
- to operate on a 'no surprises' basis so that any significant event that may impact on shareholders is brought to their attention as soon as reasonably possible
- to operate at 'break even' and advise the councils of any major transactions that have the potential to be contentious in nature
- to work in partnership with the councils and other council controlled organisations
- to acknowledge the councils' contributions when they are directly involved in any initiative.



A view across Wellington Harbour to Lower Hutt

Alignment with Council and Community Outcomes

Hutt City Council

Outcome	Capacity's Linkage
Community Prosperity	Capacity will support a strong local economy by managing reliable, cost effective water services that meet the needs of the different sectors in the community.
Connected	Capacity will coordinate water services construction activities with those of other utility services and roading agencies where practical to minimise inconvenience to road users. Capacity will manage the effective disposal of stormwater from the Hutt City Council roading network.
Entrepreneurial and Innovative Culture	Capacity will contribute to attracting new businesses to the city by managing cost effective water services which meet the needs of the business community.
Healthy Environment	Capacity will manage water services in accordance with Resource Consents and Regional Plan requirements for discharges to the environment. Capacity will manage the wastewater system to minimise the generation of odours. Capacity will promote water conservation to minimise demands on the region's water resources. Capacity will manage energy efficient water services infrastructure. Capacity's flood protection programme will ensure that residents are able to live in low lying areas.
Lifestyle	Capacity will manage water services infrastructure and construction sites to protect the safety of the community. The cost of water services makes up part of the cost structure of community facilities. By managing cost effective water services Capacity will contribute to providing affordable access to these facilities. Capacity will manage wastewater and stormwater discharges to achieve a high standard of water quality at the City's recreational beaches. Capacity will promote Hutt City's artesian water supply as an attraction of the city.
Regional Foundations	Capacity will manage the provision of reliable, cost effective water services that meet the needs of different sectors in the community. Capacity will plan and manage upgrading of the water services infrastructure necessary to meet required standards and accommodate growth in the city. Capacity will participate in and support Hutt City Council planning for and management of emergencies.
Sense of Place	Capacity will ensure that above ground infrastructure is designed to be compatible with its surroundings and part of a quality built environment. Capacity will manage wastewater and stormwater discharges to achieve a high standard of water quality at the City's recreational beaches.
Strong and Tolerant communities	Capacity will welcome and facilitate feedback from the community on water services in Hutt City. Capacity will recognise the special cultural significance of water to Maori in the management of water services.
Healthy and Educated Community	Capacity will manage the provision of water services which support a high standard of living. Capacity recognises health authorities as a key relationship in the management of water services. Capacity will make educational material on water services available to the community.

Wellington City Council

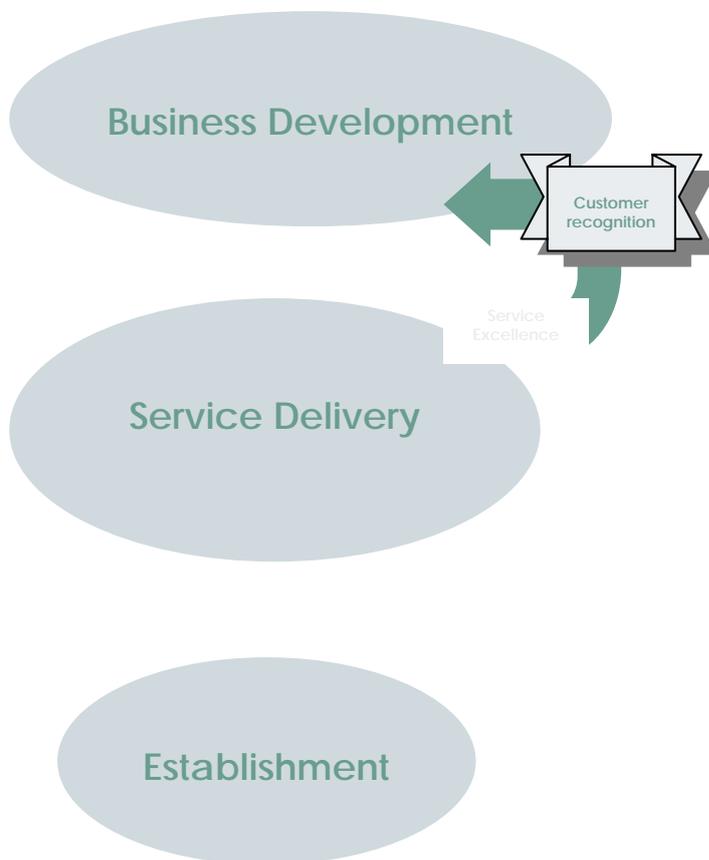
Environmental Outcome 2006-2009 Priority

The Council will increase its promotion of water and energy efficiency and conservation, energy security, and the use of renewable energy sources, and it will take a more active role in these areas.

Outcome	Capacity's Linkage
More Compact	Intensification of development in the city means more pressure is placed on the infrastructure to deliver in a confined space. Capacity will undertake long term planning ensuring infrastructure networks are able to cope with increasing demands placed on them.
Better Connected	Capacity will provide real time information to improve planning processes. Capacity will connect with other utilities so that a holistic approach is taken with planning. Capacity operations staff and contractors will use mobile field computing to improve efficiency and customer services.
More Prosperous	Through the cost effective delivery of services Capacity will provide savings to shareholders and customers.
More liveable	Capacity will ensure that the quality of the water is of an excellent standard. Capacity will ensure that beaches, streams and recreational facilities are resourced with a high quality water source. Capacity's flood protection programme will ensure that residents are able to live in the low lying areas.
More inclusive	Capacity will recognise the special cultural significance of water to Maori in the management of water services.
Safer	Capacity will ensure the water quality of streams; beaches and recreational facilities are safe for people to use. This is achieved through stringent water quality testing. Capacity will also promote excellent health and safety and ensure that contractors exemplify similar health and safety practices to protect themselves and the public around worksites.
More entrepreneurial and innovative	Capacity will contribute to attracting new businesses to the city by managing cost effective water services which meet the needs of the business community.
More eventful	Capacity undertakes planning of infrastructure to cope with "peak loading" of the systems when events take place in the city. Capacity will ensure that the timing of any major infrastructure renewals do not clash with major events.
More sustainable	Capacity's leak detection programme identifies major leaks in the network for repair or replacement. Capacity will provide educational initiatives to the public through our website, calling cards and brochures encouraging water conservation in the region.
More competitive	Capacity will operate at least cost and take a best practice approach to ensure that a quality service is delivered.
Stronger sense of place	The harbour is the heart of Wellington. Capacity will provide quality, sustainable water; wastewater and stormwater services that make Wellington an attractive place to live.
More actively engaged	Capacity will welcome and facilitate feedback from the community on water services in Wellington City.
Healthier	Capacity will manage the provision of water services which support a high standard of living. Capacity recognises health authorities as a key relationship in the management of water services.

Strategic Focus and Direction

Capacity's focus has been on establishing the business and we are now ready to take the next step. We have recognised that we are in a competitive environment with constant pressure to improve the way we deliver services to our customers.



2006-2009 Capacity will continue to improve service delivery by adopting a service excellence ethic throughout the company. In addition Capacity will investigate business development opportunities in the region with other local authorities and organisations. By providing excellent service to current customers, Capacity will gain recognition as a quality service provider.

In 2005/2006 Capacity set about improving service delivery to our customers. A new contract arrangement with Bilfinger Berger Services proved that savings could be made while improving levels of service. We also set up an asset planning team and a strategic projects role to ensure that Capacity delivered on strategic initiatives.

In 2004/2005 core processes were defined and process merge saw the beginning of a project to take the best from each councils processes and merging into one.

2003/2004 Capacity was established. The focus for that year was to establish the new office and continue to provide the same services to both shareholders.

Strategic Objectives

Capacity will focus on improving and growing the company's business capability over the next three years. Achievement of an increased business base will not be allowed to compromise service delivery while reducing costs to current shareholders.

Service Excellence

Capacity will take a concentrated focus on service delivery to exceed service level agreements so that customers are highly satisfied. Capacity recognises that through continuous development in people and processes, services will be delivered more effectively and efficiently. This will be achieved by incorporating performance excellence at every level of the organisation.

Leadership

Capacity will strive to become leaders in asset management planning and will drive policy changes at the highest levels. Capacity's management team and staff will lead development in areas of policy, planning and service delivery in of water services across the Wellington region.

Growth and External Recognition

Capacity plans to expand operations by actively pursuing business development opportunities. This will reduce costs to shareholding councils through spreading costs over a broad base. Capacity will promote achievements and pursue opportunities to be recognised in the water industry and in local government.

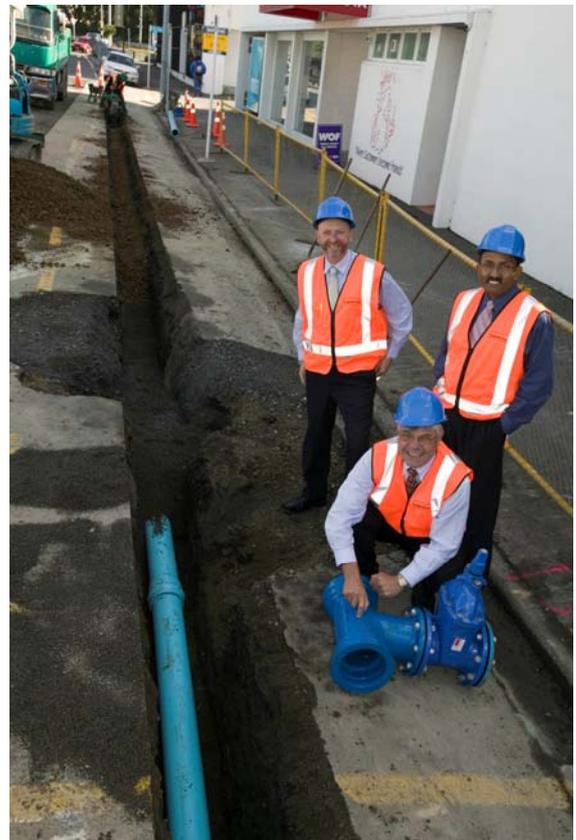
People Development

Capacity will build organisational capability through succession planning and ensure staff

have appropriate skills and knowledge to meet current and future business demands.

Strategic Pipeline

The strategic pipeline outlines how Capacity will achieve the four strategic objectives. The activities are supported by team plans which detail how activities will be achieved.



Upgrading the water assets on Jackson Street, Petone

SERVICE EXCELLENCE pipeline

Capacity will foster and deploy improvement and innovation to systems and processes to provide excellent services to customers.

Activity	Milestone	Team Responsibility
Review of the company constitution in conjunction with Wellington City Council and Hutt City Council.	Constitution updated by June 2007	Chief Executive
Review the service level agreement with Wellington City Council and Hutt City Council. Deliver the services described and specified in the Statement of Intent and the service level agreement.	Updated service level agreement in place by March 2007 Services delivered by June 2007	Corporate Services Asset Planning Asset Development Programme Management Business Assurance Strategic Projects
Complete the Capacity savings model to demonstrate to shareholders the value that is being delivered by Capacity.	Annual results reported in annual report to shareholders	Corporate Services
Deliver 2006/2007 asset management plans to Wellington City Council and Hutt City Council. Implement asset management planning improvements to achieve advanced status for asset management plans.	WCC – July 2006 (or other date as advised by WCC) HCC – June 2007 (or other date advised by HCC) Advanced asset management plan status achieved by June 2007	Asset Planning Asset Planning
Improve maintenance and operations contract requirements by working with subcontractors to increase efficiencies in their services.	Contractors meet or exceed performance targets	Operations
Implement a quality management system.	Framework established by December 2006	Business Assurance
Finalise the merge of processes between Hutt City Council and Wellington City Council including: <ul style="list-style-type: none"> • Health and Safety standards • Contract documentation. 	Health and Safety manual completed by March 2007 Contract documentation completed by June 2007	Business Assurance
Undertake an internal assessment of the business model and compile recommendations for improvement of service delivery.	Gap analysis completed by March 2007	Corporate Services

LEADERSHIP pipeline

Capacity will lead development in areas of policy, planning and service delivery of water services across the Wellington region.

Activity	Milestone	Team Responsibility
Work with the councils on a regional approach to the delivery of water services.	Participate in regional and national forums for water and wastewater developments	Strategic Projects Asset Planning
Develop policy initiatives for water services customers.	Policy framework established by March 2007	Asset Planning Business Assurance Strategic Projects

GROWTH AND EXTERNAL RECOGNITION pipeline

Capacity will investigate business development opportunities and pursue opportunities to be recognised as a leader in infrastructure services.

Activity	Milestone	Team Responsibility
Develop and implement a marketing and communications plan to raise awareness of Capacity's brand identity, place in the market and the services offered.	Plan complete by September 2006	Corporate Services
Develop a business development plan outlining target markets, products and business models.	Plan completed by December 2006	Corporate Services

PEOPLE DEVELOPMENT pipeline

Capacity will build organisational capability to meet the current and future demands of our business and industry through succession planning and by ensuring staff have appropriate skills and knowledge.

Activity	Milestone	Team Responsibility
Development programmes developed and implemented for: <ul style="list-style-type: none"> • Board of Directors • Management Team • Team Leaders. 	Programme in place by March 2007	Chief Executive Corporate Services
Initiate a career development programme that identifies opportunities for career progression in the company.	Programme developed by March 2007	Corporate Services
Initiate a competency matrix linked to training and development programmes to raise competencies across the organisation.	Competency matrix in place by June 2007 Performance development plans completed by September 2006	Corporate Services All teams
Review of Board performance including individual Board members and the chairs performance.	Board review completed by June 2007	Chief Executive

Managing the Plan

The Strategic Plan is linked to Capacity's Statement of Intent and Capacity's budget for 2006-2009.

It will be used along with detailed plans from all Capacity's teams that are linked to individual performance plans. This will align performance and ensure accountability at all levels of the company. Individual performance plans are reviewed every six months and performance measures contained in the plan will be reported quarterly.

Capital Expenditure

Capacity is not planning any major capital expenditure during 2006-2009.



A view from Wellington City to Eastbourne

RISK MANAGEMENT

Capacity's risk management vision is to be confident in taking business risks (for the appropriate rewards) in the knowledge that it has a sound and systematic appreciation of and response to these business risks.

Risks can not be eliminated from Capacity's business. Instead, Capacity will be clear about its risk appetite and will proactively seek to manage risk within these risk tolerances – where possible.

At Capacity everyone is a "risk manager".

Key actions for the 2006/2007 financial year will seek to build on the risk management policy, framework and tools.

RISK INITIATIVES

Capacity will identify and respond to risk exposures that have the potential to affect the achievement of business objectives.

Activity	Milestone	Team Responsibility
Risk Management database: The Risk Register is a database containing Capacity's material risks, ratings, objectives for management and accountabilities. As the database is "living" document, the Capacity Audit and Risk Committee will continue to meet on a twice yearly basis to monitor and review the database.	Risk register reviewed twice yearly	Business Assurance Audit and Risk Committee
Internal audit: The development of an internal audit plan and framework during the 2006/07 financial year provides a valuable opportunity for management and the Board to gain assurance around the way that Capacity's major risks are managed.	Internal audit plan completed by June 2007	Business Assurance
Incident reporting and investigation: The project to develop policies and procedures around the way that incidents are identified and reported has been completed. Phase 2 of the project involves "roll out" of this framework across the organisation.	Incident reporting and investigation process implemented December 2006	Business Assurance
ISO: A major quality management project is being embarked on by Capacity which will eventuate in ISO quality certification for the organisation.	The target date for certification is the first half of the 2007/08 financial year.	Business Assurance

RISK REGISTER

In 2005 Capacity established a corporate risk register. Risks were identified in terms of their potential to compromise the achievement of Capacity's business objectives and quantified in terms of the probability of their occurrence and their estimated impact. The process used was consistent with AS/NZS 4360:2004 Risk Management and with risk management processes set out in the International Infrastructure Management Manual.

Some strategies will be implemented as part of work in progress to achieve ISO certification of Capacity and several others will be implemented as part of the Asset Management Improvement Plan. Key risks and associated risk management strategies are summarised as follows:

RISK	STRATEGIES
Inability to meet Capacity's financial targets	<ul style="list-style-type: none"> ■ Merge Hutt City and Wellington City maintenance and operations contracts ■ Review structure and operating philosophy of Capacity with emphasis on operating efficiency ■ Develop performance indicators to monitor financial efficiency of Capacity ■ Develop revenue plan for Capacity identifying current and possible future sources of revenue
Inability to attract and retain quality staff	<ul style="list-style-type: none"> ■ Develop a clear vision for Capacity and ensure this is effectively deployed throughout the company and to stakeholders ■ Define corporate values and behaviours which describe the desirable attributes of Capacity employees ■ Prepare HR and recruitment strategies for the company ■ Develop a communications strategy for the company to promote the company's achievements
Inadequate knowledge management processes	<ul style="list-style-type: none"> ■ Define and document the business processes which support the effective functioning of Capacity as part of Capacity's quality assurance processes. ■ Establish a system for the collection, recording and retrieval of key staff data (a "knowledge base") ■ Develop a clear vision for Capacity and ensure this is effectively deployed throughout the company and to stakeholders ■ Prepare HR and recruitment strategies for the company intended to limit staff turnover to acceptable levels
Inability to meet requirements of Service Level Agreements (SLA's)	<ul style="list-style-type: none"> ■ Incorporate requirements of SLA's in Capacity's business plan including allocation of responsibilities and resources ■ Develop performance management and reporting framework for Capacity ■ Develop performance indicators to monitor achievement of SLA requirements and incorporate indicators in ongoing performance reporting ■ Develop best practice asset management plans and processes which are structured around the achievement of Community Outcomes and Council objectives and which generate required inputs into the LTCCP and other Council processes
Emergencies not managed effectively	<ul style="list-style-type: none"> ■ Review the Emergency Management Plans of Hutt City Council and Wellington City Council to determine the roles and responsibilities of Capacity in emergencies ■ Prepare emergency response plans in co-operation with the Emergency Management Offices of Hutt and Wellington City Councils. Plans to include provision for ongoing review and participation in emergency response exercises

PERFORMANCE MEASURES

Performance measures demonstrate the effectiveness and efficiency of Capacity's service delivery. Performance measures are linked to the Statement of Intent, Councils' Community Plans, Asset Management Plans, and the Service level Agreement with Hutt City Council and Wellington City Council.

STATEMENT OF INTENT PERFORMANCE MEASURES	TARGET
Asset Management	
Complete Asset Management Plans	WCC – July 2006 (or other date as advised by WCC) HCC – June 2007 (or other date advised by HCC)
Resource Consents	
Compliance with existing resource consents	100% compliance
Consent renewals accepted by regulatory authority prior to expiry	100% accepted
Customer Service	
Responsiveness	90% requests for service resolved within 15 days
Customer satisfaction	90% customer satisfaction
Contractor Performance	
Progress against agreed programme of capital works	90% completed on time 90% completed within budget
Financial Performance	
Actual total operating expenditure vs budget	Actual costs +/- 10% of budget
Actual total capital expenditure vs budget	Actual costs +/- 10% of budget
Savings of \$4.175m by 30 June 2009	Total annual savings of \$875,000
\$2.51m – Wellington City Council	\$675,000 – Wellington City Council
\$1.67m – Hutt City Council	\$200,000 – Hutt City Council
	+/- 10% of forecast result

PERFORMANCE MEASURES continued

STRATEGIC OBJECTIVES	TARGET
Service Excellence	
Response times to service requests (water, stormwater and wastewater) – to respond for service within 1 hour of notification. (Response includes initial investigation and prioritisation of work)	2006/2007 96% of occasions
Compliance to New Zealand drinking water standards	2006/2007 100% compliant
Compliance with existing resource consents – the number of infringement notices received	2006/2007 No infringement notices received
Leadership	
Achievement of milestones	2006/2007 100% of milestones achieved on time
Growth and External Recognition	
Achievement of milestones	2006/2007 100% of milestones achieved on time
People Development	
Training hours per full time equivalent (FTE)	2006/2007 40 hours per FTE
Achievement of milestones	2006/2007 100% of milestones achieved on time
Risk Management	
Achievement of milestones	2006/2007 100% of milestones achieved on time

FINANCIAL STATEMENTS

The financial statements show Capacity's draft operating budget for 2006/2007 by quarter. The budget has been adjusted for the following two years to allow for inflation changes. Refer to WCC Long Term Community and Council Plan and HCC Community Plan for details of operational and capital expenditure.

Statement of Financial Performance

	1st Qtr 1-Jul - 30 Sep 000's	2nd Qtr 1 Oct - 31 Dec 000's	3rd Qtr 1 Jan - 31 Mar 000's	4th Qtr 1 Apr - 30 Jun 000's	Full Year 2006/2007 000's	Full Year 2007/2008 000's	Full Year 2008/2009 000's
Income	1,206	1,224	1,134	1,261	4,825	5,020	5,199
General Expenditure	279	288	279	303	1,150	1,195	1,238
Personnel Expenditure	920	929	848	950	3,646	3,794	3,930
Depeciation & loss/gain on sale	6	6	6	6	24	25	26
Interest Expense	1	1	1	1	5	5	5
Total Expenditure	1,206	1,224	1,134	1,261	4,825	5,020	5,199
Operating Surplus/(Defecit)	-	-	-	-	-	-	-
Net Surplus/ (Defecit)	-	-	-	-	-	-	-

Note: Capacity has adjusted base financial projections to reflect the estimated impact of inflation. Inflation rates have been estimated using the BERL (water) price level change forecasts to calculate an inflation rate for each year. The adjustments are summarised as follows:

2005/2006	Base year
2006/2007	4.03%
2007/2008	3.72%

Statement of Financial Position

	1st Qtr 1-Jul - 30 Sep 000's	2nd Qtr 1 Oct - 31 Dec 000's	3rd Qtr 1 Jan - 31 Mar 000's	4th Qtr 1 Apr - 30 Jun 000's	Full Year 2006/2007 000's	Full Year 2007/2008 000's	Full Year 2008/2009 000's
Current Assets							
Bank	327	421	277	290	290	315	340
Prepayments and AR	495	486	466	574	574	597	618
	821	907	744	864	864	912	959
Non Current Assets	84	78	72	66	66	43	19
Current Liabilities	422	502	332	447	447	453	457
Non Current Liabilities	12	12	12	12	12	12	13
Net Working Capital	471	471	471	471	471	490	507
Equity	471	471	471	471	471	490	507

Statement of Cash Flows

	1st Qtr 1-Jul - 30 Sep 000's	2nd Qtr 1 Oct - 31 Dec 000's	3rd Qtr 1 Jan - 31 Mar 000's	4th Qtr 1 Apr - 30 Jun 000's	Full Year 2006/2007 000's	Full Year 2007/2008 000's	Full Year 2008/2009 000's
Operating	33	95	144	13	13	13	14
Net Movement in Cash Flows	33	95	144	13	13	13	14
Opening Cash Balance	293	327	421	277	277	302	326
Closing Cash Balance	327	421	277	290	290	315	340

GLOSSARY

BERL	Business and Economic Research Limited An organisation commissioned by the Society of Local Government Managers to construct forecasts for price level change adjustors for local authorities (LAs) to use in their budget processes consistent with their Long-term Council Community Plans (LTCCP).
CCO	Council Controlled Organisation An organisation set up to independently manage Council facilities, or to deliver significant services and undertake developments on behalf of communities.
HCC	Hutt City Council Capacity's shareholder and customer
ISO	International Standards Organisation An internationally recognised quality system
LTCCP	Long Term Council and Community Plan A document put together by the community and Councils' that sets the strategic direction of the cities over the next 10 years.
SLA	Service Level Agreement A contract for services between two or more parties
SOI	Statement of Intent A public document outlining the activities and intentions of the company
WCC	Wellington City Council Capacity's shareholder and customer