

# **CAPACITY INFRASTRUCTURE SERVICES LIMITED**

## **REVIEW OF 2010/11 ANNUAL REPORT**

Capacity Infrastructure Services Limited (Capacity or the Company) presents its 2010/11 Annual Report including audited financial statements and performance measures.

### **Highlights for the year**

- Capacity managed over \$90m of expenditure in 2010/11 on behalf of Wellington City Council (WCC), Hutt City Council (HCC) and Upper Hutt City Council (UHCC), including \$63m of operational and maintenance project work and \$31m of programmed capital works.
- Renewed the wastewater and stormwater network beneath Wakefield Park in conjunction with WCC's artificial turf program (from inception to completion in 12 weeks). This included replacement of an 80 year old sewer and upgrading the stormwater pipes and secondary flow paths to improve flood protection near the turf.
- Worked on the new stormwater pumping station in Tacy Street, Kilbirnie. With the new indoor sports centre, this area will have more rain entering the stormwater system (instead of falling on open ground). The new stormwater pumping station has four pumps, with a pumping capacity of 5.5 cubic metres of water per second which will pump water through existing pipes underneath Cobham Drive and into the harbour. Non-return valves mean it will remain effective even if the sea-level rises. The Tacy St station has encountered some delays; it is now due to be completed by the end of November 2011.
- Estimated unaccounted-for water in Wellington continues to decline; it is now 14% of water supplied, down from 21% three years ago.

### **Performance**

#### **1. Financial**

##### Statement of Comprehensive Income

\$ '000	2010/11 FY Actual	2010/11 FY Budget	2009/10 Actual
Income	7,340	7,607	7,196
Expenditure	7,378	7,607	7,149
Operating Surplus/(Deficit)	(38)	0	47
Net Surplus/(Deficit)	(37)	0	38

## Statement of Financial Position

\$ '000	2010/11 FY Actual	2010/11 FY Budget	2009/10 Actual
Current assets	1,197	1,144	1,266
Non current assets	96	18	93
Current liabilities	1,017	887	1,045
Non current liabilities	-	-	-
Equity	276	275	313
Current ratio	1.2 : 1	1.3 : 1	1.2 : 1
Equity ratio	21%	24%	23%

## Statement of Cash Flows

\$ '000	2010/11 FY Actual	2010/11 FY Budget	2009/10 Actual
Operating	(320)	(149)	197
Investing	(28)	(40)	(83)
Financing	-	-	-
Net	(348)	(189)	114
Closing balance	149	384	497

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

A review of the Company's financial statements shows:

- Capacity recorded a net deficit of (\$37k) for 2010/11, compared to a budgeted breakeven position. The deficit was the result of a non-cash charge related to leave accrual.
- Total revenue was \$7.3m, slightly below the budgeted level of \$7.6m. Per the Company, this reflects better than budgeted productivity levels and the shareholder councils being billed less management fees due to program expenditure being under budget.
- Total expenses were \$7.4m, also slightly below the budgeted level of \$7.6m.
- Personnel expenses increased by 3% compared to last year and were slightly under budget. Rental costs were flat on last year but were under budget by 16% due to lower than budgeted equipment leasing costs.

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

- Excluding the 'stewardship' accounts which the Company does not control, Capacity overspent the opex budget for the year by \$1.03m or 2%. The largest contributors to this were reactive maintenance projects; this budget has been increased for 2011/12. Other contributors to the variance were underestimated contract rates for the Moa Point plant and the bringing forward of some culvert cleaning work, which had the approval of WCC's Infrastructure team.
- Of the total net capex underspend of \$2.2m or 8% (including carry forwards), almost all was due to the altered timing of the Carmichael Reservoir, the delay of the Tacy St stormwater pump station, and the Moa Point UV pilot plant and inlet pump station work. There were also some project delays in the planning and design phases. \$1.7m has been carried

forward to 2011/12 for the completion of the Tacy St pump station, the Carmichael Reservoir roof work and for upgrade work to the Moa Point treatment plant. Another \$1.65m originally allocated to the Moa Point treatment plant flow pump upgrade work has not been carried forward as the need for an alternative solution to handling increased flows is still to be determined. Other projects were over-budget due to work being brought forward, such as Wakefield Park and the Kio Rd stormwater renewal.

- Capacity followed the appropriate procedures in requesting the carry forwards. These projects are expected to be undertaken in 2011/12.

A review of the Company's capex and opex spending in 2010/11 shows:

#### Capital Project Expenditure

\$ '000	Actual	Budget	Variance	
WCC	24,207	26,434	8.42%	Variance due to a cancelled project and carry-forwards as agreed with WCC
HCC	4,972	7,046	29.44%	Variance due to deferral of projects to meet HCC's financial requirements
UHCC*	2,342	3,277	28.53%	Variance due to projects delayed because contractors called to Christchurch
<b>Total</b>	<b>31,521</b>	<b>36,757</b>		

\* unaudited figures provided

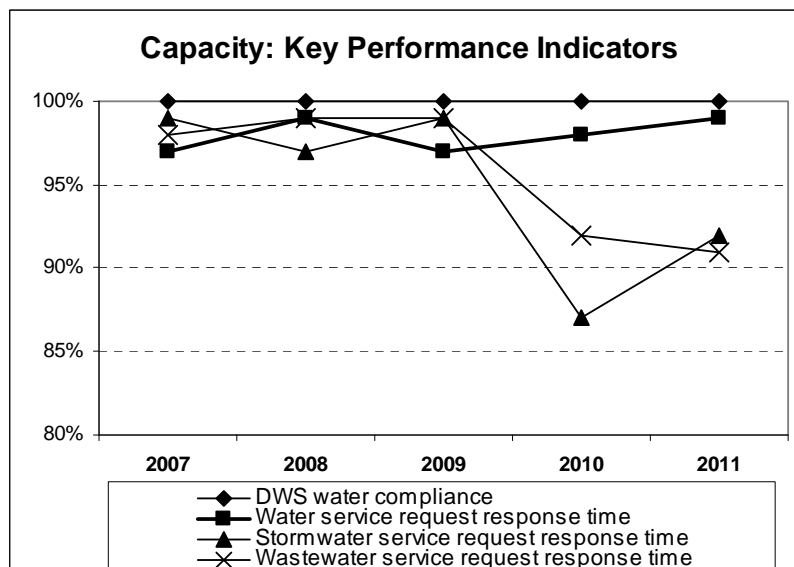
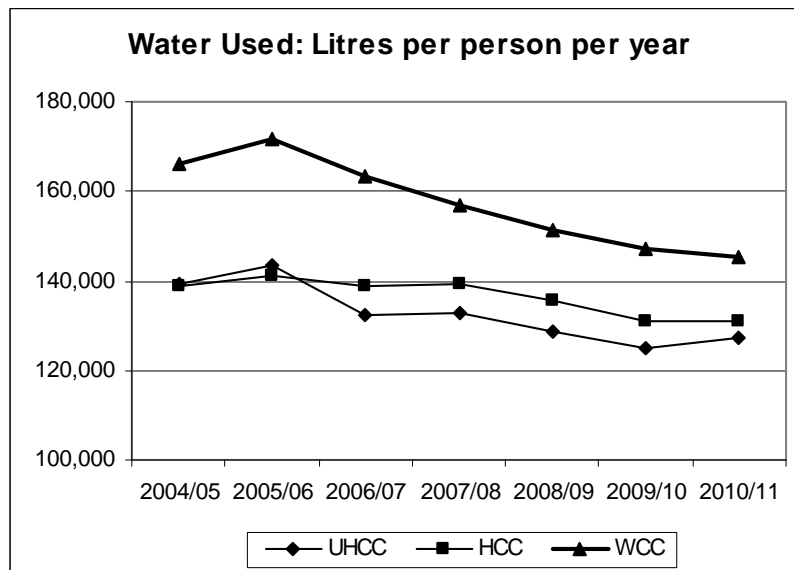
#### Operating Project Expenditure

\$ '000	Actual	Budget	Variance	
WCC**	36,539	35,510	-2.9%	Variance due to under-budgeting for reactive work, urgent cleaning at Waring Taylor culvert and increased contract rates for Moa Point plant
HCC	21,178	21,677	2.3%	Variance due to reduced bulk water cost and carry forward of 2 wastewater projects
UHCC*	6,085	6,305	3.5%	Variance due to under-spend on CCTV and savings in unplanned maintenance
<b>Total</b>	<b>63,802</b>	<b>63,492</b>		

\* unaudited figures provided

\*\* These figures do not reconcile to the WCC figures quoted earlier as Capacity makes an additional adjustment for non-controllable costs (e.g. depreciation, insurance) at the sewage plant (C087)

## 2. KPIs



The service request response time metrics in the chart above reflect the fact that a contractor is unable to report some service request response times. The contractor became responsible for direct reporting in 2009. WCC's Confirm system has been upgraded, which will facilitate the use of real time mobile technology and hopefully resolve this issue.

As set out below, the Company has achieved its target for the majority of its performance measures for 2010/11.

<b>Performance targets for Capacity from Statement of Intent 2010/11</b>		
<b>KEY PERFORMANCE INDICATOR</b>	<b>ACTUAL</b>	<b>RESULT</b>
Service quality: Fewer than 4 unplanned water supply cuts per 1000 connections	Achieved	WCC - 1.00 HCC – 2.61 UHCC – 2.45
Service quality: Fewer than 1.2 wastewater incidents (blockages) reported per km of wastewater reticulation pipeline	Achieved	WCC – 0.63 HCC – 1.01 UHCC – 0.66
Customer focus: Respond to at least 97% of all service requests within 1 hour of notification	Achieved	WCC – 99.3% HCC – 99.5% UHCC – 99.7%
Customer focus: Completion of approved asset management plan within agreed time frame	Achieved	
Cost effectiveness: Trend of operating cost of delivering water supply, wastewater and stormwater services relative to a national average	Achieved	This is the third year Capacity has undertaken this exercise and they are working with Water NZ to improve their survey
Compliance: Full compliance with relevant standards, resource consents and legislation	Not achieved	Two instances in which contractor's discharges did not comply with regional planning rules and two instances of monitoring by contractors falling short of requirements.
Deliver capital projects within budget and time frames	Achieved	See separate table
Deliver operating projects within budget and time frames	Achieved	See separate table
Manage Capacity within budget	Mainly achieved	See Statement of Comprehensive Income table

<b>Performance targets for Wellington City Council 2010/11</b>			
<b>WATER - KEY PERFORMANCE INDICATOR</b>	<b>TARGET</b>	<b>ACTUAL</b>	<b>RESULT</b>
Compliance with New Zealand drinking water standards	100%	100% 100%	2011: Achieved 2010: Achieved
Water distribution network quality grading	Graded 'a' to 'b'	'b'	2011: Achieved 2010: Achieved
Response time to service requests (customer contact and work prioritisation within one hour of request)	97%	99% 98%	2011: Achieved 2010: Achieved
Customer satisfaction with water network	85%	94% 94%	2011: Achieved 2010: Achieved
Complaints re: taste and odour <sup>1</sup>	Less than 80	289	2011: Not Achieved 2010: Achieved
Properties with appropriate water pressure <sup>2</sup>	98%	96% 96%	2011: Not Achieved 2010: Not Achieved
Estimated % unaccounted-for water	19.5%	14% 16%	2011: Achieved 2010: Achieved
"Residential" consumption	345l per person/day	297l	2011: Achieved 2010: Achieved

<sup>1</sup> The main cause of taste and odour issues was the change in supply from 'run of river' water to water from storage lakes, a factor beyond Capacity's control.

<sup>2</sup> Capacity is working on reviewing this measure. The result is due to some older water supply zones having lower pressure, which cannot be improved without significant cost (as pipe upgrades are progressively carried out this will improve). It is also a result of housing development above existing reservoir levels.

WCC also has two other targets that were reported on in its annual report:

- A target for 95% of fire hydrants tested to meet NZ Fire Service Code of Practice firefighting water supply requirements. The Fire Service did not carry out testing in Wellington during 2010/11 and it is unclear when testing will resume. Capacity's modelling indicates that it will be able to meet WCC's target for the Code's pressure and flow requirements. In the interim, since year end, CityCare has commenced inspecting hydrants; and
- A target of 90% of residents surveyed to agree that water services provide good value for money. In 2011 85% of respondents agreed (2010 85%).

<b>WASTEWATER - KEY PERFORMANCE INDICATOR</b>	<b>TARGET</b>	<b>ACTUAL</b>	<b>RESULT</b>
Response time to service requests (customer contact and work prioritisation within one hour of request for Response A; people on site equipped to make the repair for Response B) <sup>3</sup>	97%	91% 92%	2011: Not achieved 2010: Not achieved
Customer satisfaction	85%	94% 100%	2011: Achieved 2010: Achieved
Resource consent compliance	100%	100%	Achieved

<b>STORMWATER - KEY PERFORMANCE INDICATOR</b>	<b>TARGET</b>	<b>ACTUAL</b>	<b>RESULT</b>
Response time to service requests (customer contact and work prioritisation within one hour of request for Response A; people on site equipped to make the repair for Response B) <sup>3</sup>	97%	92% 87%	2011: Not achieved 2010: Not achieved
Customer satisfaction <sup>4</sup>	85%	78% 88%	2011: Not achieved 2010: Achieved
Resource consent compliance	100%	100%	Achieved
Properties flooded as a result of a 1:50 year rain event <sup>5</sup>	0	0	Achieved
Compliance at monitored bathing beaches	93%	96% 95%	2011: Achieved 2010: Achieved
Compliance at monitored freshwater sites	90%	100% 100%	2011: Achieved 2010: Achieved

<sup>3</sup> The contractors are unable to report on Response A. The target for Response B was achieved.

<sup>4</sup> Only received 2 customer comments on this measure and are reviewing feedback mechanisms.

<sup>5</sup> There were no 1:50 year rain events this year. This measure is to be reviewed.

The additional target that WCC reports on in its annual report is that 90% of residents surveyed agree that wastewater and stormwater services provide good value for money. In 2011 71% of respondents agreed with this (2010 67%).

### **3. Council Strategies**

Capacity primarily contributed to the Council's Environment strategy during 2010/11:

*Environment* – Capacity manages the provision of the core services of water supply, stormwater disposal and sewage disposal. During the year, the Company developed a Water Conservation and Efficiency Plan for WCC and continued reducing the percentage of unaccounted-for water.

## **4. Operational**

During the year Capacity:

- Began work on the renewal of the Messines Road reservoir in Karori. The new larger facility will consist of two separate tanks and, as of 30 June 2011, the first tank was due to be completed in October 2011 and the reservoir completely reinstated by April 2013.
- Revised its health and safety manual. Following a fatal explosion in a water pipe in Auckland, Capacity also reviewed its quality procedure for confined space entry and increased its level of monitoring in confined spaces. During the year, the Company had no lost time due to health and safety incidents among Capacity staff and 140 hours lost due to contractor performance.
- Obtained four 'global' resource consents for WCC stormwater discharges through to 2020, which requires "integrated catchment management plans" and improved coordination between the parties involved. As part of this requirement, Capacity is working with the community and GWRC on ways to limit the overflows and to improve communication about when they happen. Community liaison groups and email groups for overflow notifications have been established. The consents also require monitoring and reporting from 20 different discharge areas and 21 separate coastal locations.
- Managed the implementation of wastewater overflow mitigation plans for WCC and HCC and developed a pilot project to identify investigation priorities.
- Continued to develop a waste overflow management report for WCC. This is being considered by the Strategy and Policy Committee on 13 October.
- Received a record number of entries in its staff innovation awards, which were won by an improved water supply pipe risk assessment model. This provides for first-hand knowledge to be incorporated into planned renewal programmes.

## **Governance**

The directors during the year were:

Peter Allport (Chair)

Andy Foster (WCC Councillor)

Peter Leslie

Ray Wallace (HCC Councillor – retired Dec 2010)

David Bassett (HCC Councillor – from Jan 2011)

Ian Hutchings

John Strahl

Ian Hutchings's term expires on 30 June 2012.

## **Key issues going forward**

### **1. Regionalisation**

A range of potential structures for a regional water entity to improve the efficiency and effectiveness of provision of the three waters across the region are being considered. The Councils (WCC, HCC, UHCC and PCC) have agreed to jointly progress a report and business case looking at a recommended structure and operational regime.

### **2. Water Conservation / Environment**

Leak detection programmes continue, with estimated unaccounted-for water down to 14% in 2010/11. The work with businesses to recycle cooking oil in food premises and discourage them putting it into the drainage system has also continued.

Water consumption for WCC, HCC and UHCC combined for 2010/11 was 46.9 billion litres, a slight rise from a year ago but a billion litres less than two years ago, despite increases in population.

Water conservation in general is an issue for the Wellington region, because while there is plenty of water in winter, in summer the region relies on storage from the lakes at Te Marua, Upper Hutt and the Hutt artesian aquifer to cover any shortfall. This summer one of the two storage lakes will be decommissioned by GWRC in order to increase its capacity and provide seismic strengthening. This will place increased emphasis on the issues of both resilience and water conservation.

During the year Capacity developed a Water Conservation and Efficiency Plan for WCC, which was adopted in March 2011, and started working with WCC, HCC, UHCC, GWRC and PCC to co-ordinate water conservation messages over the next few years. The work done for WCC will inform similar work for HCC and UHCC. However, the annual report notes that the lake upgrades are “medium term fixes for a long-term issue” and that, at some point, a decision will need to be made on tougher restrictions versus a new dam or other options.

### **3. Community Engagement**

Capacity completed a community engagement strategy during 2010/11 and established new community contact channels. This included holding public meetings for the Messines Rd and Tacy St projects. While WCC considers this a positive step, officers have concerns that the Company has a somewhat ‘reactive’ and very project-oriented response to community engagement and encourage Capacity to proactively consider community engagement in all of its work. For example, the Company’s annual report cites customer relationships as the domain of the Councils’ because each of their call centres handles service requests. However, Capacity plays a key role in the relationship with end users as it is the ‘face’ of each Council’s water service.



#### **4. Emergency Management**

During the year nine Capacity staff members were involved with the Christchurch earthquake recovery effort, primarily in water supply and wastewater restoration work, to learn from the experiences in that city. The Company also manages the regional Water Services Preparedness Group (which is across Councils). With Wellington city being the most exposed to the risk of extended supply interruption, work is continuing on upgrading reservoir storage facilities and implementing a plan to install emergency storage tanks at over 30 locations around the city. Emergency preparedness will continue to be a key area of focus for WCC and Capacity over the next few years.

#### **Conclusion**

In general, Capacity performed well in 2010/11. It delivered most scheduled work for the year, although it was under-budget on WCC's capital programme. The Company was over-budget on WCC's opex programme. While the reasons for this variance had been well flagged during the year, it remains an area to monitor going forward. The Company met the majority of its performance targets and continued to make significant progress on unaccounted-for water.