

Quarterly Review – Capacity Infrastructure Services Limited

Capacity has presented its report for the quarter ended 30 September 2012 for review. A summary of key findings is presented below and the full report is attached.

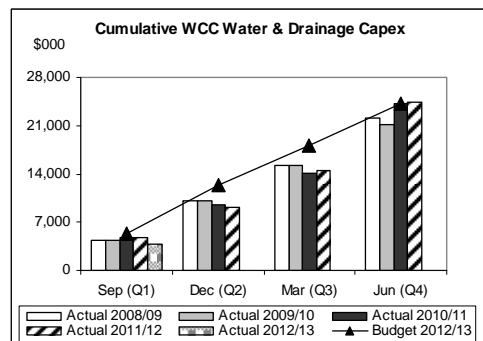
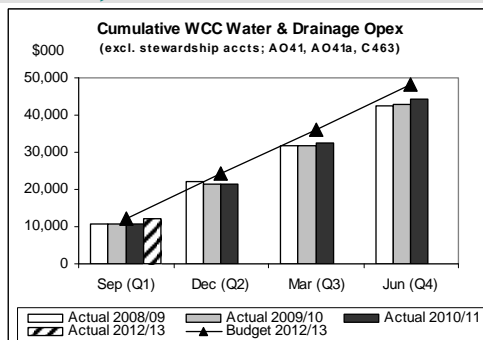
Highlights / Summary

- Q1 is overshadowed by a fatal accident that occurred to an employee of a subcontractor, Construction Contracts Ltd on 23 July 2012. Investigations into this incident by MoBIE are ongoing.
- Capacity presented a paper to the Water NZ conference in September on Emergency Water Services planning for Wellington.

Activities During the Quarter

- City Care took over responsibility for the responsiveness indicators on 1 July 2012. The poor results are largely due to teething issues of new staff operating new computer terminals. Capacity has noted no significant issues with City Care's service response this quarter.
- Participated in the PwC and GHD benchmarking survey and contributed to Treasury's review of the water sector. Info from these activities, along with WSSA (Australian), OFWT (UK) and WaterCare (Auckland) surveys will be used to improve reporting indicators for client councils.
- Continued to progress work on the Emergency Management Planning and the preparation of detailed plans for each city are now complete.
- A draft regional Wellington Emergency Sewerage Disposal Plan, following a major earthquake, was forwarded to stakeholders.

Performance (expenditure relating to WCC infrastructure)



Key Performance Indicators

Measure	Annual Target	YTD WCC Actual	YTD HCC Actual	YTD UHCC Actual
Unplanned water supply cuts/1000 connections	4 per 1000	0.14	0.49	0.33
Wastewater incidents/km of reticulated pipeline	1.2 per km	0.11	0.15	0.14
Responsiveness to service request within 1 hour				
- water supply	97%	99.2%	96.7%	97%
- stormwater	97%	59.2%*	100%	100%
- wastewater	97%	49.9%*	98.9%	100%
Capex - YTD actual \$m		3,865	1,203	360
- YTD budget \$m		5,312	1,141	360
- YTD variance \$m		1,446	-62	0
Opex - YTD actual \$m		10,019	5,408	1,404
- YTD budget \$m		9,694	4,937	1,290
- YTD variance \$m		-324	-471	-114

* See Activities discussion.

Underlying Financial Commentary

- Capacity doesn't budget to make a profit. A deficit or surplus generally reflects timing differences between operating costs & revenues. Total expenditure of \$2,007k is 3% below the YTD budget.
- Council's internal reports record a current Opex (actual \$23.1m vs budget \$22.7m) overspend of \$407k due to unplanned maintenance and water treatment costs (particularly) exceeding budgets. The forecast overspend for the year is \$965k.
- Capex for Q1 (actual \$3.9m vs budget \$5.3m) was under spent \$1.4m but no year end variance is currently expected.

Note that individual project expenditure is reported within the shareholding councils. The performance charts list the aggregate project expenditure being managed on behalf of WCC. Financial performance figures below refer to the company's income/expenditure.

Statement of Financial Performance

For the quarter ended 30 September 2012

\$'000	Q1 Actual	Q1 Budget	YTD Actual	YTD Budget	FY Budget
Income	2,008	2,072	2,008	2,072	8,298
Expenditure	2,007	2,067	2,007	2,067	8,298
Net surplus / (loss)	1	5	1	5	0

Statement of Financial Position

As at 30 September 2012

\$'000	YTD Actual	FY Budget	FY 2011/12 Actual
Current assets	2,503	1,294	1,700
Non-current assets	173	187	165
Current liabilities	2,312	1,204	1,502
Non-current liabilities	0	0	0
Equity	364	276	363
Current ratio	1.08	1.08	1.13
Equity ratio	18.4%	18.4%	19.5%

Statement of Cash Flows

For the quarter ended 30 September 2012

\$'000	YTD Actual	FY Budget	FY 2011/12 Actual
Operating	(52)	(74)	345
Investing	(24)	(121)	(115)
Financing	0	0	0
Net	(76)	(195)	230
Closing balance	508	388	379

Note: FY Budgets are as approved in the Statement of Intent

Contact officer:

Warwick Hayes

Profile - Capacity Infrastructure Services Limited

Capacity Infrastructure Services Limited is a council controlled trading organisation established in April 2004. Its primary role is to manage the water, wastewater and stormwater assets of its shareholding councils. Currently the shareholders are Hutt City Council and Wellington City Council. Capacity also manages the water, wastewater and stormwater assets of Upper Hutt City Council under a service agreement.



Wellington City Council's total 3 Waters budget for 2012/13 is \$114.667m. Capacity is responsible for the effective and efficient management or guardianship of:

- 19 Opex projects with a total budget of \$48.226m
- 8 Capex projects with a total budget of \$22.701m
- 2 Capex Carry Forward projects with a total budget of \$1.428m

WCC is responsible for 3 Opex Stewardship projects with a total budget of \$42.445m. In addition, WCC manages a portion of the asset management function within three of the Opex projects.

In addition to the long term management of the 3 Waters assets, Capacity was established with the objective and ability to pursue the development of related opportunities with other local authorities and organisations.

Entity Data

Established	5 April 2004	
Board	Peter Allport (Chair) Peter Leslie Ian Hutchings John Strahl Cr Andy Foster (WCC) Cr David Bassett (HCC)	<i>Term expires:</i> 31 Dec 2013 31 Dec 2013 31 Dec 2012 31 Dec 2012 31 Oct 2013 31 Oct 2013
CEO	David Hill	
Balance date	30 June	
Number of FTE staff	65	
Website	www.capacity.net.nz	
Type of entity	Company	
LGA designation	CCTO	
By reason of	Board control: all trustees appointed by shareholding Councils	
Wellington City Council interest	\$210,000 (book value)	
Type of interest	50% Shareholding (class A shares); 63% Financial Interest (class B shares)	

Quarterly Report to Shareholders

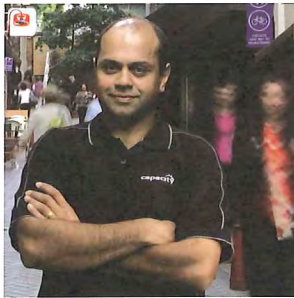
Capacity Infrastructure Services Limited
trading as Capacity

For the three month period ended 30 September 2012



31 October 2012

CONFIDENTIAL



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Introduction

Capacity is a Council Controlled Trading Organisation that manages water, stormwater and wastewater infrastructure services for Wellington City Council, Hutt City Council and Upper Hutt City Council.

This report outlines Capacity's financial results and progress on key performance indicators as set out in the Statement of Intent 2012-2013, for the period 1 July 2012 to 30 September 2012.

All items pertaining to the City Care contract management have been excluded, as this is simply an offsetting of monies received from councils and payments to City Care for services rendered.

Performance Targets for Capacity 2012/13

Service Category	Service Objective	Performance target
Service quality	To maintain a quality of service that represents a low level of risk.	Fewer than four unplanned supply cuts (pipe burst) per 1000 connections
		Fewer than 1.2 wastewater incidents reported per kilometre of wastewater reticulation pipeline
		Number of dwelling flood notifications received as a result of a 1:50 year flooding event (or less)
		Compliance with NZ drinking water quality standards.
		Deliver operating projects within budget and timeframes
		Deliver capital projects within budget and timeframes
Customer focus	To respond promptly to service requests.	To meet all Response A & B times for Priority One (P1) activities ("Onsite within one hour).
		Achievement of Council's own Customer Satisfaction Survey Targets
Cost effectiveness	To provide a cost-effective service	Trend of the operating cost of delivering water supply, wastewater and stormwater services relative to a national average.*
		Manage Capacity within budget
Environmental Performance	To minimise adverse effects on the environment	No resource consent-related infringement notices received from GWRC
Legislative Compliance	To comply with relevant legislation	Full compliance with all relevant legislation
		Full compliance with the Health and Safety in Employment Act 1992
Process	Continuous Improvement in management and delivery of water services	Achievement of key milestones in Emergency Management Planning
		Achievement of key milestones in AMP Improvement Project Planning and Production

* Benchmarking and Comparative Analysis

Capacity Quarterly Report for the three months ending 30 September 2012

Capacity is committed to delivering high levels of service to its customers. To ensure our customers receive the levels of service they deserve, we participate in and monitor a number of benchmarking activities.

Each year, on behalf of Wellington and Hutt City Councils, we participate in the Water New Zealand Annual Benchmarking Survey. We also run our own operating cost per property efficiency survey.

In 2011/12, as part of our commitment to continuous improvement in benchmarking and comparative analysis, Capacity participated in the PwC and GHD benchmarking survey and contributed to Treasury's review of the water sector. Information from these activities, along with the WSSA (Australian), OFWAT (United Kingdom) and WaterCare (Auckland) surveys, will be used in developing improved reporting indicators for client councils.

Service Quality: to maintain a quality of service that represents a low level of risk.

i. Unplanned water supply cuts / 1000 connections – year to date*

WCC	HCC	UHCC
0.14	0.49	0.33

*Performance target is less than 4 per 1000 connections

ii. Wastewater incidents / kilometre of reticulated pipeline – year to date*

WCC	HCC	UHCC
0.11	0.15	0.14

*Performance target is less than 1.2 per kilometre

iii. Dwelling flood notifications*

WCC	HCC	UHCC
5 ¹	0	0

*Performance target is no dwelling flood notifications received as a result of a 1:50 year flooding event (or less).

¹ Five service requests regarding flooding in dwellings were reported after rainfall on 17 September 2012 (a 1 in 30 year event).

iv. Compliance with NZ drinking water quality standards*

WCC	HCC	UHCC
A1a	Bb	A1a

*Performance target is compliance with NZ drinking water standards

Customer Focus: to respond promptly to service requests

i. To meet all Response A and B times for Priority One (P1) activities (“Onsite within one hour”)*

Type of Water	WCC	HCC	UHCC
Water supply	99.2%	96.7%	100%
Stormwater	59.2% ¹	100%	100%
Wastewater	49.9% ¹	98.9%	100%

*Performance target is at least 97%. Result is determined by averaging Q1 2012 results.

¹ City Care took up responsibility for this indicator on 1 July 2012. The poor results reported are largely due to teething issues of new staff operating new computer terminals. Capacity has noted no significant issues with City Care’s service response this quarter.

ii. Achievement of Council’s own Customer Satisfaction Survey Targets

Type of Water	WCC	Target ¹
Water supply	84%	90%
Stormwater	69%	75%
Wastewater	69%	75%

¹ Residents (%) who agree that the activity provides good value for money. The target is 90% for water supply, 75% for stormwater and 75% for wastewater. Result is supplied from Council customer satisfaction survey reported in September 2012.

Type of Water	HCC	Target ²
Water supply	96%	95%
Stormwater	90%	80%
Wastewater	99%	95%

² Residents’ satisfaction with the city activity target is ≥95% of those expressing an opinion for water supply, ≥80% of those expressing an opinion for stormwater, and ≥95% of those expressing an opinion for wastewater. Result is supplied from Council customer satisfaction survey 2011/12.

Type of Water	UHCC	Target ³
Water supply	96.7%	95%
Stormwater	92.3%	87.5%
Wastewater	97.2%	91%

³ Residents surveyed rated the activity as satisfactory or better, target is 95% for water supply, 87.5% for stormwater and 91% for wastewater. Result is supplied from Council customer satisfaction survey published in April 2012.

Each council has a different independent survey.

Cost Effectiveness: to provide a cost-effective service

i. Trend of the operating cost of delivering water supply, wastewater and stormwater services relative to a national average.

In 2012 Capacity undertook its annual 'cost per property' benchmarking exercise. The survey includes a number of New Zealand Councils, and this year we have noted a general increase in the costs of providing the three water services. Further analysis is now required to understand this increase, and we are currently working with participants to ensure that everyone understands the reasons for the escalation.

ii. Manage Capacity within budget

Total expenditure for the September quarter of \$2,007,000 is 3% under YTD budget.

Financial, Project and Network Management

i. Deliver capital projects within budget and timeframes

Capex	YTD Actual	YTD Budget	YTD Variance	Annual Forecast	Annual Budget	Forecast Variance
Wellington	3,865	5,312	1,446	24,128	24,128	0
Hutt City	1,203	1,141	-62	11,877	11,877	0
Upper Hutt City	360	360	1	3,897	3,897	0
Total	5,428	6,813	1,385	39,902	39,902	0

Wellington City Council

A net favourable year-to-date variance of \$1446k in the Wellington City Council budget is on account of:

- Water supply – a combination of underspends and overspends has resulted in a favourable variance of \$739k. The overspend is on account of additional work completed ahead of time for Carmichael Reservoir and reactive maintenance work by City Care. The underspend is mainly due to delays in commencement of physical works in the water reticulation projects of Johnsonville and Tawa, Northern & Western Street, the Tasman Street renewal project and delay in the design works of the Hospital Prince of Wales reservoir. The budget will be fully spent at year-end.
- Stormwater – the year-to-date underspend of \$373k is due to:
 - Delays in commencement of physical works in the Rongotai Road-Ross Street storm water renewal project
 - The Davis Street culvert strengthening project being in the investigation/design stage
 - The Tasman Street renewal project being in the design stage
 - The tender evaluation being in progress on the South Karori Stream Bridge Renewal Project. The budget will be fully spent and no year-end variance is expected at this stage.
- Wastewater – the year-to-date favourable variance of 267k is due to some projects commencing later than anticipated. The budgets will be fully spent at year-end.

Hutt City Council

The marginal year-to-date variance is on account of the following:

- In the stormwater network, the unfavourable variance is due to the Awamutu Stream Project which is still in the design stage.

Capacity Quarterly Report for the three months ending 30 September 2012

- In the wastewater network the unfavourable variance is on account of minor asset renewals projects and trunk DBO network projects, where the programme is ahead of schedule.

No year-end variance is anticipated at this stage.

Upper Hutt City Council

There is no variance in the first quarter to report and no year-end variance is anticipated at this stage.

ii. Deliver operating and maintenance projects within budget and timeframes

Opex	YTD Actual	YTD Budget	YTD Variance	Annual Forecast	Annual Budget	Forecast Variance
Wellington	10,019	9,694	-324	39,741	38,776	-965
Hutt City	5,408	4,937	-471	19,233	18,503	-730
Upper Hutt City	1,404	1,290	-114	4,555	4,555	0
Total	16,831	15,921	-910	63,529	61,834	-1,695

Wellington City Council

At the end of the first quarter, operational projects are overspent by \$324k, and an overall \$965k year-end overspend is forecast on account of the following:

- Water supply – underfunding of City Care contract costs in the reactive maintenance project. A year-end unfavourable variance of \$70k is anticipated.
- Stormwater - non-accrual of City Care claims has resulted in a marginal year-to-date favourable variance. No year-end variance is anticipated.
- Wastewater - underfunding of City Care contract costs in the reactive maintenance projects. A year-end unfavourable variance of \$440k is anticipated. There is a year-to-date overspending of \$297k in the wastewater treatment plants and a year-end unfavourable variance of \$455k is anticipated. This is on account of increased flow and associated increase in BOD (biological oxygen demand) loading for Moa Point for the months of June, July and August. The flow rate and BOD load in these three months are higher than the average load in 2011/12 (on which the 2012/13 budget is prepared). Also cost share for the Porirua plant is higher in 2012/13 compared to the figure provided to Capacity during the 2012/13 budget setting process.

Hutt City Council

A year-to-date unfavourable variance of \$471k and YE variance of \$730k is on account of the following:

Capacity Quarterly Report for the three months ending 30 September 2012

- Water supply– A shortfall in operating revenue due to delayed billing has resulted in an unfavourable variance. This will be set rectified in the next quarter.
- Stormwater - the year-to-date shortfall in revenue is due to reduced development contribution income. A year-end unfavourable variance of \$100k is anticipated due to reduced development proposed to be undertaken in the city, resulting in lower than budgeted development contribution.
- Wastewater - there is a year-to-date favourable variance of \$64k in revenue due to increased operating subsidy revenue from Upper Hutt. At year-end an unfavourable variance of \$230k in revenue is anticipated due to reduced development contribution and trade waste income. Operating expenditure has incurred a year-to-date unfavourable variance of \$400k primarily due to the annual lump sum insurance payment. At year-end, the overspend is expected to stay at \$400k at this stage.

Upper Hutt City Council

The unfavourable year-to-date variance of \$114k in the operating projects is due to a combination of:

- Marginal year-to-date favourable variance in the water network projects
- The one-off lump sum insurance payment, higher maintenance repair costs, and the CCTV programme being ahead of schedule, which has resulted in a year-to-date unfavourable variance in the wastewater area.

No year-end variance is anticipated at this stage.

Environmental Performance: to minimize adverse effects on the environment

i. No resource consent-related infringement notices received from GWRC

Full compliance in the year to date.

Legislative Compliance: to comply with relevant legislation

i. Full compliance with all relative legislation

Full compliance in the year to date.

ii. Full compliance with the Health and Safety in Employment Act 1992

Full compliance in the year to date.

Process: continuous improvement in the management and delivery of water services

i. Achievement of key milestones in Emergency Management Planning

Work is progressing on the various activities identified in the regional project. The options identified below have also been included in the MWH regional plan for the supply of water following a major emergency event. These include:

- installation of emergency storage facilities for water distribution
- procurement of additional water sources including artesian bores
- procurement of an artesian tanker filling facility in Knights Road, Lower Hutt, supplied from the Greater Wellington collector main

The preparation of additional, detailed plans specific to each city are near completion. The plans specify the various reduction, readiness response and recovery project programmes and funding requirements specific to each city.

Capacity presented a paper to the 2012 Water NZ conference in September on 'Emergency Water Services Planning for Wellington'. The paper was co-presented with MWH, and outlines the risks and options available to supply water to the Wellington region following a large earthquake event.

A draft regional 'Wellington Emergency Sewage Disposal Plan' following a major earthquake event was forwarded to stakeholders for comment.

ii. Achievement of key milestones in AMP improvement project planning and production

Last year, Capacity carried out a review of where Capacity's asset management practices sit relative to three asset management standards and to identify and prioritise areas for improvement. The three standards include the Office of the Auditor General's Criteria for Assessing Conformity to 'Core' and 'Advanced' Levels of Asset Management; Asset Management Maturity - Index International Infrastructure Management Manual 2011 and PAS 55:2008; and Asset Management (published by the British Standards Institution in collaboration with the Institute of Asset Management (United Kingdom)).

An improvement plan consisting of 12 key projects were identified during the review:

- Document Capacity asset management strategy and planning framework
- Integrate information systems and enhance confidence in data and projections
- Build pipeline asset condition models to help forecast long term renewal expenditure
- Review the critical asset identification process and prepare a consistent management programme for these assets
- Establish an outcome focused performance measurement and refine the risk management framework
- Establish a framework for hydraulic model development and prepare the strategies

Implementation of this plan is spread over three years from 2012/13 to 2014/15 and work has begun on six of these projects. Capacity has completed a water supply pipeline asset condition model for Wellington and work on building the pipeline asset condition models for Hutt City's three water activities is well underway. These condition models will be completed by December 2012.

A detailed business case for the amalgamation of regional asset management systems outlining the benefits and the recommended approach for realising those benefits has also been prepared. Discussions with Capacity's shareholders on the approach are in progress.

Work on the remaining six projects is expected to start in the next calendar year.

Production of Asset Management Plans 2013/14

Work has started on the 2013/14 budgets and the production of asset management plans, according to the delivery timeline prescribed by individual councils.

Financial Results

Income

Corporate revenue for the September quarter of \$2,000,964 includes \$202,348 (10.11%) contracted services from Upper Hutt City Council. As Capacity's operational costs are lower than budgeted during the first quarter of the year, lower management fees by about 3% (\$71,000) have been charged to shareholder clients.

Expenditure

Total expenditure as of the September quarter of \$2,007,000 is 3% under YTD budget.

Remuneration and employee costs are below budget with the full year Forecast being \$211,000 less than 2013/14 Budget. Operating expenditure is 3% below YTD budget due to savings in telecommunications, travel and utilities, with further savings to come.



In June 2012, Capacity received advice that Wellington City Council approved a reduction of its LTP budget in water infrastructure and operations by \$767,000 for the 2012/13 year. As a result Capacity is re-aligning the approved budget for an equivalent reduction throughout the 2012/13 year and reducing its services accordingly.

Cash Flow

Cash is high because of the large amount of funds held on behalf of councils for payables in respect of the City Care contract management. The addition of the drainage agreement for WCC (the transfer of the Citi-Operations functions to City Care) commenced on 1 July 2012. These payables were completed in October.

Financial Statements

Statement of Comprehensive Income

For the three months ended 30 September 2012

	YTD 30 Sept 2012 Actual \$000	YTD 30 Sept 2012 Budget \$000	Variance \$000
REVENUE			
Operations	2,001	2,072	71
Interest	7	-	(7)
TOTAL REVENUE	<u>2,008</u>	<u>2,072</u>	<u>65</u>
EXPENDITURE			
Operating Expenditure	352	371	19
Audit fees	-	-	-
Directors' fees	26	29	3
Depreciation	18	16	(2)
Interest expense	0	1	(0)
Rental and Operating Lease Costs	90	84	(6)
Personnel Expenditure	1,521	1,566	45
TOTAL EXPENDITURE	<u>2,007</u>	<u>2,066</u>	<u>59</u>
NET SURPLUS/(DEFICIT) BEFORE TAXATION	<u>1</u>	<u>6</u>	<u>5</u>
Tax Expense	-	-	-
NET SURPLUS/(DEFICIT) AFTER TAXATION	<u>1</u>	<u>6</u>	<u>5</u>

Statement of Movements in Equity

For the period ended 30 September 2012

	30 Sept 2012 \$000	30 June 2012 \$000
NET SURPLUS/(DEFICIT) FOR THE YEAR	1	87
TOTAL COMPREHENSIVE INCOME	<u>1</u>	<u>87</u>
EQUITY AT BEGINNING OF YEAR	363	276
EQUITY AT END OF PERIOD	<u>364</u>	<u>363</u>

Statement of Financial Position

As at 30 September 2012

	30 Sept 2012 \$000	30 June 2012 \$000
CURRENT ASSETS		
Bank	1,564	379
Accounts Receivable	865	1,184
Sundry Debtors & Prepayments	74	136
	<u>2,503</u>	<u>1,699</u>
NON CURRENT ASSETS		
Intangible Assets	91	85
Property, Plant & Equipment	82	79
	<u>173</u>	<u>164</u>
TOTAL ASSETS	<u>2,676</u>	<u>1,863</u>
CURRENT LIABILITIES		
Accounts Payable	1,718	1,050
Provision for Taxation	(4)	(2)
Payroll Liability & Annual Leave	598	452
	<u>2,312</u>	<u>1,500</u>
NON CURRENT LIABILITIES		
Finance leases	-	-
	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>2,312</u>	<u>1,500</u>
NET WORKING CAPITAL	<u>364</u>	<u>363</u>
Share Capital	600	600
Retained Earnings	(236)	(237)
EQUITY	<u>364</u>	<u>363</u>

	Q1 30 Sept 2012 \$000	FY 30 June 2012 \$000
Cash flows from operating activities		
Cash was provided from:		
Operating Receipts	2,327	7,551
GST	(97)	(52)
Cash was disbursed to:		
Payments to Suppliers	(1,017)	(7,146)
Payments of Tax	(2)	(8)
Interest Paid		(1)
Net cash inflow/(outflow) from operating activities	<u>1,211</u>	<u>345</u>
Cash flows from investing activities		
Cash was applied to:		
Purchase of Property, Plant & Equipment	(21)	(22)
Purchase of Intangible Assets & WIP	(6)	(94)
Net cash inflow (outflow) from investing activities	<u>(26)</u>	<u>(115)</u>
Net Increase (Decrease) in Cash held	1,185	-
Opening Cash Balance	379	149
Closing Cash Balance	<u>1,564</u>	<u>379</u>
Made up of:		
Cash	1,564	379
Short term deposits	-	-
Closing Cash Balance	<u>1,564</u>	<u>379</u>