

[PLANNING]

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# APPENDIX ONE

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## Executive summary

Capacity Infrastructure Services provides asset management services to the Hutt, Porirua, Upper Hutt and Wellington city councils.

This statement of intent provides an overview of the service and performance outcomes our clients expect, how Capacity will deliver on those, and wider factors affecting our operations.

It also sets out our strategy for providing our clients with better long run value from their investment in water, stormwater and wastewater assets, while ensuring we meet the three key outcomes, of safe water, respect for the environment, and resilience now and in the future.

The process of drafting and finalising the statement of intent provides an opportunity for our shareholders to finalise their investment and performance priorities as part of their annual planning processes and in the light of our common operating environment.

The current environment is one of significant change for Capacity. The recent integration of Porirua as a shareholder/client; the possible integration with Capacity of the bulk water operation currently managed by the regional council, and a new financial operating model are three of several factors that will affect our activities and our organisation in the coming year.

The 2014–15 year will be the first in which Capacity will fully operate under the outcome-based business model, which shareholders agreed to in conjunction with the change to our ownership structure last November. An increase of \$500,000 in Capacity's organisational budget, to be offset by a decrease in operations and capital expenditure, supports implementing the new business model. This will help develop Capacity's strategic asset management capability to provide better long term value across all councils, fund systems improvements and resource a fulltime health and safety advisor.

Another significant change likely in the coming year is the schedule of key performance indicators and network measures. We are seeking to standardise these, and new national requirements that take effect in 2015, with our clients in the coming year.

## 1. Introduction

Capacity Infrastructure Services is a council-controlled, shared service organisation whose purpose is to create excellence in regional water services management for healthy communities.

We are jointly owned by the Hutt, Porirua, Upper Hutt and Wellington city councils.

We provide asset management planning, network improvement and operational services for networks that supply water to 400,000 people, transport wastewater from some 150,000 homes and businesses, and carry billions of litres of rainwater via built and natural stormwater systems to the sea every year.

Our 78 staff manage approximately \$130 million a year in expenditure on behalf of the four councils on their three waters assets – water supply, wastewater and stormwater. These assets include more than 6,400km of pipes, 130 reservoirs, 230 pump stations and a wastewater treatment plant, with a combined value of over \$2.5 billion.

### 1.1 The purpose of this document

This document is intended to provide our shareholders and the public with an understanding of our business, and to record agreement between shareholders and the organisation on asset management outcomes and activities for the coming year.

Under the shared service model of three waters' management, councils are responsible for setting community outcomes and annual budgets, and Capacity is responsible for developing long term asset management plans, implementing annual prioritised work programmes, and managing the networks within those budgets.

Accordingly, councils and Capacity need to work seamlessly to ensure the model works both effectively (we do the right thing) and efficiently (what we do, we do really well).

The process of this model is:

1. Councils articulate long term outcomes for the three waters in long term plans
2. Capacity prepares long term asset management plans to outline how long term outcomes are achieved and provides councils with draft annual budgets – outlined in the draft statement of intent – and separately in individual work programmes
3. Councils consider their asset management plans, annual budgets and desired outcomes and advise Capacity of their decisions
4. Capacity updates the asset management plans based on the budget decisions of councils, updates the final statement of intent and optimises the annual programme as necessary

## **1.2 The structure of this document**

Our statement of intent follows a structure that explains what Capacity does, how we operate, the expectations of us and what we intend to do to meet those. It covers:

- an overview of who we are and what we do
- the strategic framework we are operating under to manage our business and convert investment into results the outcomes and performance indicators we are aiming to achieve
- a review of critical factors in our operating environment that may affect our organisation's activities and outcomes
- major activities, projects, and plans for the coming year
- governance and risk management issues
- the annual budget and financial forecasts

The legal requirements of a council controlled organisation's statement of intent are included as Appendix 4.

## 2. Strategic direction

### 2.1 Introduction

During the first six months of 2014 Capacity has been updating its strategy. This was necessary because the company entered into a new, outcome based business model with its four shareholders which increased Capacity's role and required us to take a regional focus.

### 2.2 Our strategy

Our strategy is simple:

1. Focus on our three desired long-run outcomes of
  - Safe to drink
  - Respectful of the environment
  - Resilient today and into the future.
2. Work with our shareholders at the regional level first, to agree what are the priorities which need to flow down to individual council asset management plans (this element helps achieve the requirement to deliver a 30 year infrastructure strategy).
3. Take account of these regional priorities as we develop and implement optimised asset management plans for each individual council.

We anticipate some progress will be made in time to influence councils' 2015-25 long term plans but full realisation of the strategy will be in 2018-2028 long term plans. At that point we expect to return to an operational excellence strategy.



## 2.3 Support systems

To support our strategy we have identified a number of key things we need to do:

- a) Build up our capability, especially in the areas of strategic asset management, asset management and modelling, and see these resources used effectively across the region.
- b) Become a trusted advisor to councils so we seamlessly interface with them. Our job is to support individual councils using the critical mass of a regional business.
- c) Improve our statement of intent process whereby we work with councils to optimise long-run investment based on clear, unambiguous advice so we all agree and consolidate our intentions in the final statement of intent document.

## 2.4 Our purpose and values

In updating our strategy we have a new purpose in place of our old vision and mission. This is because our role is to see councils as our main customers and therefore our purpose is to serve.

Our purpose is:

***Creating excellence in regional water services  
for healthy communities***

This purpose reflects:

- Our desire to achieve excellence in everything we do
- Our focus is always on best for region while serving our customers
- We come to work to deliver an essential element of human life.

Our values capture what's important to us and how we want to behave as we set about working on our strategies and our purpose.

Our values are:

1. **Diving in** *To serve our customers...*

People come first. What we do makes a big difference to other people's lives, and we strive for excellence in serving our communities and each other.

## **2. Fountain of knowledge** *we keep learning...*

We're a diverse team of skilled professionals, absorbing new knowledge to share innovative solutions that meet our customers' and clients' needs.

## **3. Riding the waves** *together.*

We know building relationships makes us stronger. We look out for each other, we trust and respect each other, and we're proud of our achievements.

## **2.5 Our strategic priorities**

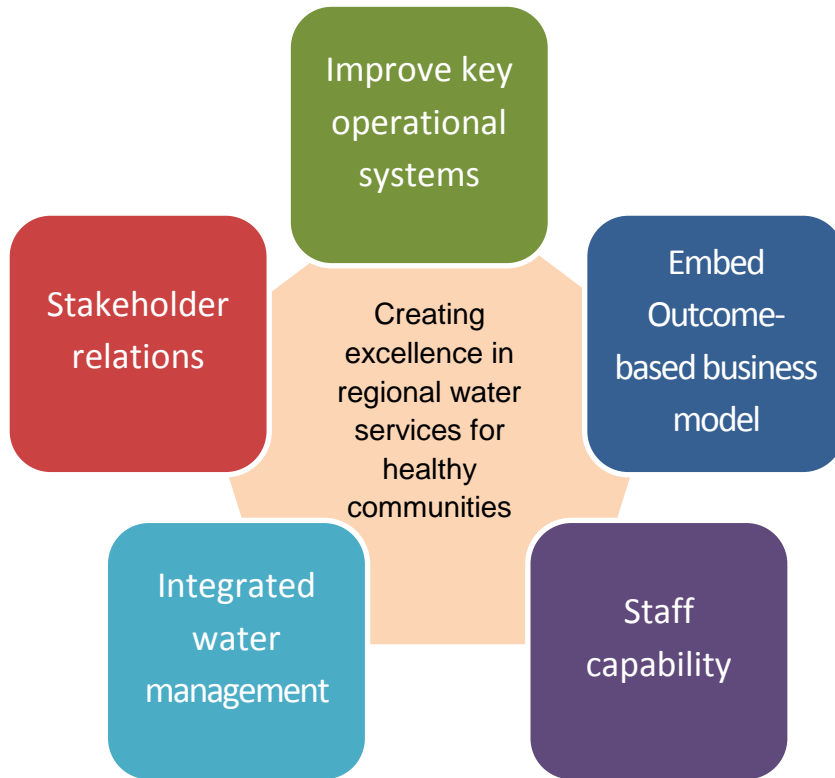
Within our strategy, strategic priorities give us a focus on areas of the business that need to be given some emphasis in the short term.

Our five priorities at present are:

- building strong relationships with our stakeholders
- building up the capability of our staff to support our strategy
- improving key operational systems including providing excellence in asset management capabilities, along with our risk and health and safety management practices
- embedding the outcome-based business model, including both internal and external adaptation to mechanisms that will deliver greater effectiveness and efficiencies for staff, clients and communities
- working to make the potential integration with the regional water services of Greater Wellington Regional Council a success.

These are represented in the framework below:

Capacity's strategic priority framework



## 2.6 Our people

### *The Management team*

**Colin Crampton, CEO.** Colin started work at Capacity in January 2014. Prior to that he was the Group Manager, Highways and Network Operations, at the New Zealand Transport Agency.

**Melly Andrew** is our high performance manager, who will work to lift the performance of the company and ready it for the potential integration with Greater Wellington Regional Council's bulk water division.

**Jetesh Bhula** manages the asset development and programme management group's activities that include developing and implementing works programmes, investigations, water quality monitoring, subdivisions, project management and water supply modelling for each client council.

**Yon Cheong's** group is responsible for the long term management of our clients' infrastructure assets. This includes preparing asset management plans and long term financial strategies, reviewing and updating processes, strategies and policies; and preparing applications for resource consents.

**Janet Dobbie** manages internal business and corporate services including human resources, finance and accounting, IT and information management, operational performance, quality assurance and administration activities.

**Gary O'Meara** manages operations and maintenance works to support operating, maintaining and upgrading our clients' water service networks. He is also responsible for our emergency management planning.

**Gunther Wild** manages delivery of strategic planning, monitoring, reporting and improvement, risk management, health and safety, and relationship management. Gunther's group provides board secretariat services and prepares the company's key accountability documents.

### 3. Our outcomes

While there are many ways to measure the performance and effectiveness of water networks, it is the outcomes or the purposes of this infrastructure that are most meaningful to people.

We summarise these outcomes as:

#### *Safe*

**Safe to drink** – water delivered to the taps of the region’s houses and businesses that satisfies consumers and meets or exceeds our client’s expectations

#### *Respectful*

**Respectful of the environment** – In all our work we are mindful of the biodiversity within our communities that depend on water quality. We work closely with stakeholders to ensure discharges into watercourses and the sea are carefully managed.

#### *Resilient*

**Resilient now and in the future** – We know how costly and how vital the infrastructure is that we work on. Our planning, design, consultation and delivery prioritise network and community resilience for day to day use and in times of emergency, now and in the future.

#### 3.1. Council outcomes, measures and targets

The outcomes our clients seek from their assets support their long term strategies and goals to promote community wellbeing.

Councils identify key community outcomes through their long term and annual planning processes. They also set specific measures and targets

for the services they provide – including the core services of water supply, stormwater and wastewater.

As a shared service, Capacity is presented with a range of outcomes and indicators expressed variously by different councils. In addition, with the expansion of Capacity to include Porirua and Upper Hutt city councils as shareholders, we prepared a new schedule of indicators that includes both network and organisational performance measures.

In the coming year, as part of our outcome based business model and council long term planning processes, we will work with councils to coordinate the many outcomes and measures presented here into a set of consistent indicators that will provide the basis for meaningful performance evaluation, trending, benchmarking and informed decision-making.

Helping to guide this process will be the guidelines published by the Department on Internal Affairs on its non-financial performance measures for water supply, wastewater and stormwater networks.

## **3.2 Council strategic outcomes**

Our clients ask that our work support their strategic outcomes, as well deliver network outcomes. Council strategic outcomes currently expressed in their long term plans are:

### **Hutt City.** *Our community goals*

1. A safe community
2. A strong and diverse economy
3. An accessible and connected city
4. Healthy people
5. A healthy natural environment
6. Actively engaged in community activities
7. Strong and inclusive communities
8. A healthy built environment
9. A well-governed city

## **Porirua.** *Porirua is*

- |  |                                 |
|--|---------------------------------|
| 1. Well connected & on the move          | 5. Learning for life            |
| 2. Multicultural & creative              | 6. Prosperous                   |
| 3. Strong families & people, young & old | 7. A safe city                  |
| 4. Active & healthy                      | 8. Sustainably designed & built |
|  | 9. A valued natural environment |

## **Upper Hutt City.** *City vision priority areas*

- |  |                                     |
|--|-------------------------------------|
| 1. We're a scenic playground             | 4. We're ready to grow              |
| 2. We're family                          | 5. We're an easy access destination |
| 3. We're a gateway to the great outdoors |                                     |

## **Wellington City.** *Four outcomes*

- |                     |                           |
|---------------------|---------------------------|
| 1. A connected city | 3. A people-centred city  |
| 2. An eco-city      | 4. A dynamic central city |

### *Three priorities*

- |  |                        |
|--|------------------------|
| 1. An inclusive place where talent wants to live | 2. Resilient city      |
|  | 3. A well managed city |

Capacity contributes to its client councils' long term visions and community outcomes through high quality, value-for-money management of water supply, stormwater and wastewater infrastructure, as well as through planning and delivering specific activities. Each of these services is essential to building communities that are resilient, healthy and sustainable.

### **3.3 Council measures and targets**

As noted, from their next long term plan, in 2015, all councils will be required to report against standardised non-financial reporting measures consistent with the “Non-financial performance measures rules 2013”, authorised by the Department of Internal Affairs in November 2013 under section 261B of the Local Government Act 2002.

Capacity will work with councils to revise long term plan measures with a view to standardising them and complying with the DIA rules. Current long term and annual plan measures in effect are set out on the next three pages.

#### ***3.3.1: Water supply***

The principal water supply outcomes communities expect are safe, reliable drinking water, delivered at sufficient pressure to their homes.



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For the water supply network, councils have set the following measures and targets:

*Safe*

<b>Long term plan measures</b>	<b>HCC targets</b>	<b>PCC targets</b>	<b>UHCC targets</b>	<b>WCC targets</b>
	Long term plan 2012-2022. Targets are for the period 2012-13 – 2021-2022.	Long term plan 2012-2022. Targets are for Years 1-3	Long term plan 2012-2022. Targets are for Year 2-3	Draft Annual Plan 2014-15.
<b>Compliance with drinking water standards</b>	Full compliance	100% of random tests throughout the city show the water supply is safe to drink		All water delivered to Wellington properties complies with Drinking Water Standards for New Zealand (2005)
<b>Resident's satisfaction</b>	95% or more of those expressing an opinion are satisfied with the city water supply	Eight or fewer maintenance requests per 1000 households relating to the water supply network	95% of respondents are satisfied or very satisfied with water supply	At least 90% of residents agree that water services provide good value for money;  95% of customers are satisfied with water quality and network service
<b>Taste and odour complaints</b>				Less than 200 per year
<b>Pressure</b>				97% of properties receive appropriate water pressure (a minimum of 250kPa)
<b>Fire hydrant testing</b>		92% or better compliance with minimum pressures for hydrants tested		95% of fire hydrants tested meet the New Zealand Fire Service Code of Practice for firefighting water supply requirements
<b>Network quality</b>	Achieve a 'b' grading from the Ministry of Health for the Hutt City water supply		Maintain A1a grading	'a' to 'b' grading from the Ministry of Health
<b>Response time</b>	97% of requests responded to within one hour of notification		97% of individual consumers who experience unplanned water disruptions have the service restored within two hour	97% of service requests relating to the water network are responded to within one hour of notification
<b>Unaccounted for water</b>		18%		No more than 14%
<b>Consumption</b>	Less than 350 litres per head per day (average unmetered consumption)			287 litres per person per day (total supplied less commercial metered); total water consumption during the year will be less than 30 billion litres.
<b>Network Reliability</b>	Fewer than four unplanned supply cuts per 1000 connections	80 or fewer major water reticulation breakage incidents per 100 kilometres per year.		

*Respectful***3.3.2: Wastewater**

Wastewater network outcomes include the safe and effective collection, transport, treatment and discharge of wastewater to meet or exceed environmental standards.

Councils have set the following wastewater measures and targets:

<b>Long term plan measures</b>	<b>HCC targets</b>	<b>PCC targets</b>	<b>UHCC targets</b>	<b>WCC targets</b>
	Long term plan 2012-2022. Targets are for the period 2012-13 – 2021-2022.	Long term plan 2012-2022. Targets are for Years 1-3	Long term plan 2012-2022. Targets are for Year 2-3	Draft Annual Plan 2014-15.
<b>Network reliability</b>	Fewer than 1.2 wastewater incidents reported per kilometre of wastewater reticulation pipeline	Five or fewer maintenance requests per 1000 households relating to the wastewater network	Less than two blockages reported per kilometre of pipeline	
<b>Response time</b>	97% of service requests responded to within one hour of notification		95% of properties connected to the wastewater system who are unable to dispose of wastewater due to unplanned interruption will have their service restored within six hours	95% of service requests responded to within one hour of notification
<b>Resident's satisfaction</b>	95% or more of those expressing an opinion are satisfied with the city wastewater service			at least 90% of customers are satisfied with the wastewater network service;  75% of residents agree that wastewater services provide good value for money
<b>Consent compliance</b>	No resource consent-related infringement notices received from GW			our sewage network complies with resource consents
<b>Water quality</b>				95% of freshwater sites are within acceptable bacteria counts (E. coli)
<b>Network integrity</b>		Reduce the amount of estimated unaccountable wastewater lost throughout the public network;  Ratio of peak wet weather flow to average dry weather flow (indicating amount of stormwater entering the wastewater network). Baseline to be set.		

**3.3.3: Stormwater**

Stormwater outcomes address protecting property from flooding and water quality in receiving environments. Council measures and targets are:

<b>Long term plan measures</b>	<b>HCC targets</b> Long term plan 2012-2022. Targets are for the period 2012-13 – 2021-2022.	<b>PCC targets</b> Long term plan 2012-2022. Targets are for Years 1-3	<b>UHCC targets</b> Long term plan 2012-2022. Targets are for Year 2-3	<b>WCC targets</b> Draft Annual Plan 2014-15.
<b>Residents' satisfaction</b>	80% or more of those expressing an opinion are satisfied with the city stormwater service			75% of residents agree that stormwater services provide good value for money;  85% of customers are satisfied with the stormwater network service
<b>Network reliability</b>	Fewer than 0.5 stormwater incidents reported per kilometre of stormwater pipeline	27 or fewer maintenance requests per 1000 households relating to the stormwater network (excludes roading culverts, sumps and sump leads)		
<b>Response time</b>	97% of requests responded to within one hour of notification			95% of all service requests relating to the stormwater network are responded to within one hour of notification
<b>Flooding incidents</b>		No residential, commercial or public buildings affected by the entry of floodwater during storm events	Zero reports of inhabited buildings being flooded	no properties (buildings) are flooded as a result of a less than 1-in-50-year rain event
<b>Beach water quality</b>	90% of sampling days when water quality at main recreational beaches meets Ministry for the Environment guidelines			95% of bathing beaches comply with the Ministry for the Environment guidelines (green status)
<b>Consent compliance</b>				stormwater networks comply with resource consents (includes the monitoring of overflows, stormwater outfall discharge monitoring and coastal water quality monitoring).

## 4. Nature and scope of activities

To improve the performance of the three waters networks of our clients, we undertake asset management planning, consultancy, work programming, project design and management, contract management, advisory and educational activities.

The overall scope of our activity is covered in the following table:

Activity	Nature	Scope
<b>Consultation</b>	<p>Capacity specialises in infrastructure-based management services including resource consent procurement.</p> <p>Consultation with our communities ranges from discussions on water conservation to formal submissions on major capital projects.</p>	<ul style="list-style-type: none"> <li>• Resource consent applications</li> <li>• Strategic planning and direction</li> <li>• Policy advice and development, including at central government level</li> <li>• Network levels of service</li> <li>• Improvement opportunities</li> <li>• Water conservation planning</li> </ul>
<b>Planning</b>	<p>Planning covers everything from asset management to catchment management plans and flood hazard maps.</p>	<ul style="list-style-type: none"> <li>• Asset management planning</li> <li>• Resource consent applications</li> <li>• Risk management plans</li> <li>• Strategic planning</li> <li>• Policy advice</li> <li>• Improvement opportunities</li> </ul>

<p><b>Managing</b></p>	<p>Managing reviews, investigations and assessments of our clients' water supply, wastewater and stormwater services and assets to ensure the best outcomes for both our clients and their residents and ratepayers. We procure and manage contracts for the operation, maintenance, upgrade and replacement of the assets.</p>	<ul style="list-style-type: none"> <li>• Programme management</li> <li>• Project management</li> <li>• Demand management</li> <li>• Maintenance and operations</li> <li>• Improvement opportunities</li> <li>• Customer service</li> </ul>
<p><b>Delivery</b></p>	<p>To ensure timely and efficient delivery of services to our clients we prepare draft capital works programmes consistent with asset management plans. We manage contracts across multiple clients which enable us to achieve efficiencies in service activities and costs that benefit our clients.</p>	<ul style="list-style-type: none"> <li>• Project management</li> <li>• Service delivery</li> <li>• Improvement opportunities</li> </ul>
<p><b>Monitoring</b></p>	<p>Monitoring our clients' assets to continuously improve network performance, identify efficiencies and ensure compliance.</p>	<ul style="list-style-type: none"> <li>• Water quality</li> <li>• Environmental effects</li> <li>• Service delivery</li> <li>• Contract performance</li> <li>• Improvement opportunities</li> </ul>
<p><b>Coordination</b></p>	<p>Support the achievement of an integrated water services network across the Wellington region to improve the region's competitive advantage through the quality of its water services.</p>	<ul style="list-style-type: none"> <li>• Emergency management and preparedness</li> <li>• Codes of practice</li> <li>• Design standards</li> <li>• Regionalisation of water services delivery</li> </ul>

Detailed programmes of work, listing projects planned for each water, for each city, for the coming three years, and the budgets required to deliver those, are derived from our asset management plans. These reference council long term plan measures and agreed performance indicators.

The programmes and budgets are prepared in or around October of each year and finalised through the council's annual plan and consultation processes by the following June.

## **4.1 Asset management planning**

Two years ago, we assessed our asset management practices against current industry standards, in particular, PAS 55, published by the British Standards Institution. We have recently completed a further analysis of our practice against the requirements of the newly launched ISO 55000 series, which is based on PAS 55. While we evaluate the costs and benefits of gaining this ISO certification, we will continue to implement planned improvements to our asset management practices including:

- using a single template for preparing asset management plans
- using a consistent methodology for analysing demand projections
- improvements to key data collection methods
- launching and fine-tuning our new asset criticality framework used for prioritising capital investments.

This work will support our role in developing the 30-year infrastructure plans required by proposed amendments to the Local Government Act, as well as new requirements on financial prudence. The new Local Government (Financial Reporting) Amendment Regulations 2013 address the essential services sustainability benchmark, with the intention that council capital expenditure on roads, flood protection, wastewater, stormwater and water supply infrastructure equals or exceeds depreciation on those five services, except where the Office of the Auditor General has accepted capital expenditure for renewal of three waters infrastructure based on condition (as in Upper Hutt).

Capacity will be assisting councils by providing the information and advice they need on the condition of their three-waters' infrastructure, to ensure they are investing where they need to in order to meet agreed network outcomes.

## 5. Operating environment update

This section highlights critical factors we think are likely to specifically affect our business or the way we carry out our activities. It also addresses points raised in the letter of expectation from our Shareholders Advisory Group relating to our work and the areas of water conservation, stormwater management, inflow/infiltration and resilience planning.

### 5.1 Structural change

Capacity has in the past year undergone a change in its ownership, adding Upper Hutt and Porirua city councils as co-owners with Hutt and Wellington city councils.

This provided the opportunity to re-write our constitution and prepare new service agreement documents in collaboration with our shareholders, as well as change the composition of our Board.

These agreements and their documentation are still in the process of being standardised across our four clients. For that reason and other factors outlined below there may be significant change to our key performance indicators (Appendix 5) of this statement of intent.

We also note that John Strahl was appointed chairman late in 2013, and Colin Crampton was appointed chief executive commencing in late January 2014.

Colin is only Capacity's second chief executive since the company was established in 2004. A strategic review of the company completed since Colin took up his role led to proposals to shareholders intended to ensure Capacity is configured and resourced appropriately to provide maximum value for its clients.

### 5.2 Porirua integration

Porirua became a client of Capacity's at the same time as becoming a shareholder. Eleven staff members joined Capacity from Porirua. Four physically relocated to our offices in Petone; another seven continue to be based at the Porirua wastewater treatment station.

Staff based at Petone have been integrated into Capacity's existing work teams. The next steps are for them to begin increasingly working across all assets. At the same time, we are excited to be managing Porirua's wastewater treatment plant operation, and by the opportunities that offers to build the team there.

We will work with new staff and council officers on conforming work practices, reporting outcomes and data management as part of our programme to improve consistency across all four councils. We also look forward to providing new staff greater opportunities. This will come through training, support and development within Capacity's expanded function, and our increased emphasis on providing strategic advice to our clients.

Developing and promoting regionally focused work programmes, including initiatives such as regional technical standards and policies, will also build greater trust in the value of the Capacity model with our newest shareholder.

### **5.3 Bulk water integration**

Late in 2013, discussions began in earnest regarding integrating the bulk water management function, currently operated by Greater Wellington Regional Council, with Capacity. With the three water networks of all four major cities in the Wellington jointly managed by Capacity, incorporating bulk water would realise the vision of end-to-end integrated network management that was intended by Capacity's establishment in 2004.

If approved by all four city councils and Greater Wellington following public consultation, the proposal to integrate the bulk water operation with Capacity is likely to proceed in the 2014–15 year.

The integration would lead to further structural change, possibly including new governance mechanisms and compositions, organisational change, performance requirements and even a name change.

Greater Wellington Regional Council's bulk water management staff number approximately 65. Capacity, including those who have joined from Porirua City Council, has 78 full time equivalent employees. Given the largely complementary nature of the two operations, the integration is not seen as likely to result in major changes in overall staff numbers. The process, should it go ahead, will need careful management to ensure valuable skills are retained, productivity is not affected, and systems are developed to support creating and delivering value.

Discussion and information exchange continues to take place between Capacity and Greater Wellington staff and management as appropriate, given the political approval processes that must be completed before significant resource is invested in managing the change.

At the time of writing the change was still uncertain. Should it go ahead we expect some additional external costs will need to be funded and we have made provision for these in the financial statements.



#### **5.4 The outcome-based business model**

This model describes a change in funding methodology and practice relating to how Capacity carries out the work it does for its clients. It enables Capacity to lift its value-add to councils from an administrative, service-based delivery model to one that provides leading asset management capability and regional strategic advice to councils.

In essence, the model is that Capacity and our clients agree on the level of service that the funded work programme will provide. Capacity is then funded to deliver those results and evaluated on the achievement of the service level outcomes.

The model enables Capacity to apply the funding in the most efficient manner to achieve agreed results and report on those, rather than being evaluated and managed on individual projects.

It requires Capacity to act as a trusted provider and advisor to councils, as meaningful measures and outcomes are agreed, and a wider, strategic view is taken on the effective and efficient management of council assets to achieve long term goals.

Shareholders agreed to implement the model in conjunction with the change to our ownership structure. As such, it has yet to become fully operational, and this will be a key focus for the Board and management team in the coming year.

The 2014–15 year will be the first in which Capacity will fully operate under the outcome-based model.

The outcome-based approach requires Capacity to be both a trusted advisor and a value generator. To meet these requirements, Capacity must increase its capability in strategic planning and strategic asset management functions. We must also benchmark our performance, so we can provide evidence to councils of better long term value from their three waters assets. Better value in this sense means Capacity can optimise long-run investment in three waters assets to meet long-run council outcomes.

This draft SOI includes a \$500,000 lift in Capacity's charges that will support our ability to deliver better long term value. The funding increase will be offset by a decrease in consultancy and contractor expenditure, as agreed with each council (Appendix 3, Cost Allocations).

This funding will improve our core asset management capability and thus our strategic oversight on behalf of all councils. It will support building systems to drive efficiencies into our organisation to eliminate waste and report our performance better. It will create value by delivering a better long term programme which looks for economic value

across all councils – ensuring we're doing the right thing at the right time.

The funding will also enable us to recruit a full time health and safety adviser to maintain Capacity at the leading edge of health and safety management of its people, suppliers and affected parties.

We also propose to establish a standby loan facility for \$2 million with our bankers to ensure prompt payment of creditors at all times.

## **5.5 Local government reform**

The first stage of the Better Local Government reform programme was enacted in the Local Government Act 2002 Amendment Act 2012, which provided for a new purpose statement, new financial prudence requirements, changes to the way councils are governed, and changes to the process for reorganising local government

The second stage of reforms focuses on local government service provision efficiency, development contributions and performance monitoring. This included several components significant to Capacity:

- An expert advisory group on local government infrastructure efficiency published its report on 17 April 2013. We note in particular recommendations regarding improved clarity for national statutory and regulatory frameworks for the three waters.
- Non-financial performance measures are proposed which will require standard reporting measures (including for the three waters) for all councils starting with the 2015–2025 long term plan.
- Cabinet papers on opportunities to improve efficiency (July 2013); improving development contributions (August 2013); and improving infrastructure delivery and asset management (August 2013).
- A Cabinet paper on Local Government financial prudence regulations.

These have culminated in the Local Government Act 2002 Amendment Bill (no. 3) introduced in November 2013. The Select Committee was due to report back to Parliament in May 2014 so the Bill could be passed in June 2014.

The parts of the Bill most relevant to Capacity's role are amendments that:

- encourage more collaboration and shared services between local authorities

- reinforce the importance of asset management planning as part of a council's prudent stewardship of resources
- require councils to prepare an infrastructure strategy for at least a 30-year period, and to incorporate this into their long term plans from 2015
- require councils to disclose risk management arrangements, such as insurance, for physical assets in their annual reports
- enable more efficient and focused consultation on long-term plans and annual plans
- change development contributions provisions to make them fairer and more transparent, and to ensure they do not contribute unnecessarily to rising housing costs.

The purpose of the infrastructure strategy is to identify significant infrastructure issues for the local authority over the 30-year period, the principal options for managing those issues, and the implications of those options. This would address the lack of public information about investment needed beyond the current 10-year long term planning horizon. The infrastructure strategy would cover, as a minimum, those of the five core infrastructure categories (relating to water, wastewater, stormwater, flood protection, and roading) that the local authority provides. Certain information derived from asset management planning would be included in the strategy.

Capacity will have a significant role in contributing to these strategies for each shareholding council.

The new long term plan consultation document, infrastructure strategy, and other changes affecting long term plans will apply for the first time in 2015 (for the 2015–25 long term plans); and changes affecting annual plans will apply for the first time in 2016.

Financial prudence regulations (pursuant to legislation that was passed in 2012) were published in November 2013. Work is also under way on aspects of the reform programme that do not involve legislative change. This includes exploring options for a local government performance improvement and monitoring framework.

Capacity's purpose and approach fits closely with the overall intent of the Better Local Government programme. As a joint council-owned shared service provider, we deliver efficiencies that have already translated to savings and service improvements for councils.

## **5.6 The environment**

Respect for the environment is one of our core outcomes. All our programmed activity is carried out within the framework of compliance

with the Resource Management Act, the resource consents that we administer and other council environmental strategies. Our planning work is done with the intention of improving environmental outcomes affected by the three waters.

We contribute to the development of regional and local environment policy, guidelines and strategies relevant to the three waters, for example, Hutt City's Environmental Sustainability Strategy. We participate in research, for example, a BRANZ project on rainwater harvesting and grey water recycling. Our input is informed by our experience of regular direct monitoring of water quality and experience in mitigating wastewater network inflow and infiltration.

We are contributing to and assisting in the development of the review of Greater Wellington's Regional Plan. This document will replace the current five plans that set the objectives, policies, rules and methods for management of air quality, freshwater and the coast. This is particularly relevant to any future consent requirements for council stormwater discharges and any other activities that will require resource consent.

The Proposed Regional Plan is scheduled to be publicly notified in March 2015, at which point it starts to take legal effect. It will be relevant to our work with stormwater, wastewater and water supply networks, including work in the beds of rivers or streams.

A major area of interest in the review is our collaboration with Greater Wellington's formulation of the section 32 report under the Resource Management Act. This report will evaluate the proposed provisions and provide a cost-benefit analysis. Capacity will contribute to the quantification aspect of the analysis which is relevant to the capital and operating costs of providing the three waters services.

Regionally focused work is applied at the council level in a variety of areas. For example, we are involved in the Porirua Harbour catchment committee work, and Wellington City Council's water sensitive urban design proposal. We contribute to the dialogue and development of these programmes, while bearing in mind their potential impact on our work and performance expectations. Capacity carries out the water conservation and efficiency programmes for Wellington and Hutt City councils.

At the national level, we will continue to participate in relevant policy work. For example, we coordinated a joint submission with councils on proposed amendments to the National Policy Statement for Freshwater Management, and are participating in ongoing work on the National Infrastructure Plan organised by Treasury's National Infrastructure Unit.

Climate change is a major subset of the environmental influences we take into account in planning and design, particularly of stormwater

network assets. It also forms an ongoing part of our contribution to council planning and strategies. Climate change is a major risk management issue, and we factor in the latest guidelines on climate change impacts in planning and designing asset renewals. We are looking forward to working more closely with local authority colleagues to evaluate and develop a regional approach to climate change impacts on providing the three waters services.

As well as ensuring regulatory compliance by our contractors when carrying out their work, we are also responsible for delivering several programmes that directly affect environmental outcomes. These are detailed below.

### *5.6.1 Inflow and infiltration*

Inflow and infiltration describe two leading causes of environmental risk stemming from urban wastewater networks. Inflow is the diversion of stormwater into the wastewater network, or wastewater into the stormwater network. This occurs mainly through cross-connections. In the case of the wastewater network, excess stormwater overloads the system and can result in wastewater that has not been fully treated, albeit highly diluted, entering the environment. Wastewater cross-connections into the stormwater network result in the discharge of untreated material into the environment at stormwater discharge points. In urban areas, this can pose a health risk, as these discharge points can be near coastal recreational or food gathering areas.

Infiltration describes entry of ground water, including seawater, into the networks mainly through faults such as cracked and broken pipes. Again, the effect is to contribute to overloading and improper discharges.

Prioritising wastewater and stormwater network renewals is aided by inflow and infiltration investigation and repair programmes. In Wellington, these will be carried out in the Walmer (Hataitai), Priscilla (Berhampore) and Linden (Tawa) catchments. Seawater infiltration reduction work, by way of night flow isolation studies, will be undertaken in the catchment of Pump Station 9 (Balance Street).

In Hutt City, Wainuiomata, Naenae and Stokes Valley have significant inflow and infiltration issues, and projects based on modelling work are being developed.

Following investigations in Upper Hutt's Pinehaven and Timberlea catchments, city-wide wastewater flow monitoring will be implemented in 2014–15 to re-calibrate models that will help identify future works.

Porirua catchments prioritised for inflow and infiltration reduction in 2014–15 include Cannons Creek, Whitby and Plimmerton for source detection and Papakowhai, Paremata and Titahi Bay for pipe lining.

## **5.6.2 Stormwater management**

Stormwater quality can have a significant impact on the environment because it flows untreated (apart from some gross screening) into receiving environments such as rivers, harbours and the sea.

Capacity is developing integrated stormwater catchment management plans for the Wellington City Council. These take a holistic approach to managing the inputs and outputs of a stormwater catchment.

Stage 1 of this work involves gathering data to make high level assessments of the activity in each catchment and their effects at discharge locations. Stage 2 involves developing detailed action plans for each catchment.

In the coming year, we will begin work on Stage 2. Actions, depending on the catchments, include engaging with communities and stakeholders concerned with the major issues of each catchment. For example, in developed urban areas this includes raising awareness of the issue of cross-connections among residents, plumbers and council staff; developing information material for distribution via print and web; and using social media channels. Measurement criteria include water quality indicators and cross-connections identified and repaired. Learning gained this year from a pilot programme focused on Te Aro will also be applied to other catchments.

Our work on the ICMPs for Wellington city will help inform our advice as part of a technical support committee to the Wellington and Porirua harbour whaitua committees, when these are established.

We will complete Upper Hutt City's stormwater network model upgrade in 2014–15. This will then guide Upper Hutt's asset management and renewal programme for 2015–16

Major activities planned for the coming year include completing the Tawa stormwater model; pollution investigations in Upper Hutt and the Waiwhetu, Awamutu and William Street catchments of Hutt City; hydraulic model development as per the Regional Stormwater Hydraulic Modelling Strategy, and continuing Porirua City's 10-year stormwater renewal and upgrade programme to address flooding in low lying areas.

## **5.6.3 Water Management**

Alongside annual renewals, upgrades, water quality and water conservation programmes, in the coming year we are working on a two-year project to develop a new hydraulic model for Hutt City, and to recalibrate the existing Upper Hutt model.

For Wellington, design work for a new reservoir at Bell Rd is planned for 2014–15. Construction is planned to upgrade the 2,200,000L buried

reservoir in Melrose, and a project is under way to investigate alternative supply options for water supply zones throughout the city.

New area zones are being implemented in Upper Hutt, and area meters are being upgraded in Hutt City. A water network schematic for Hutt City will be completed, to support operational and management activity.

A major focus for Porirua in 2014–15 is reservoir upgrades, as many of the city's 18 reservoirs are approaching their 50<sup>th</sup> year of operation in the next decade.

A regional as-built specification and backflow prevention policy will be promoted among our clients, to improve regional consistency. This type of regional approach benefits planners, engineers and contractors, who then only have one set of standards, with some allowance for local variations.

#### **5.6.4 Water conservation**

Capacity has led a regional approach to water conservation activity over the past three years. In collaboration with the four city councils and Greater Wellington Regional Council, we deploy common messaging and coordinated activity on behalf of councils to support water conservation awareness.

The integration of Greater Wellington water should make this activity more effective for councils. Greater Wellington uses some of the bulk water levies it receives from councils to promote water conservation. In the past, this has focused on supply concerns; principally, reducing water use to minimise risk to supply commitments. The four cities, however, have a wider focus than supply risk. They are interested in raising public awareness across the spectrum of water conservation and efficiency. The integration of bulk water would likely improve alignment of water conservation marketing to council goals.

Capacity has formulated the wider scope of water conservation and efficiency activity into plans for both the Wellington and Hutt City councils. Where appropriate, activities are duplicated across both councils and applied in Upper Hutt and Porirua as well. Activities address:

- community engagement, education and information
- engaging with retailers and service providers
- analysis and distribution of water consumption figures
- engaging with larger users
- leak detection and repair.

We report on these activities annually.

## 5.7 Emergency preparedness and resilience planning

Work in this area includes building resilient infrastructure, such as strengthening existing network components reservoirs, pipes, valves, pumps and information management, as well as specific projects to provide additional connections, emergency water supply points, water storage and improved emergency response capabilities.

Projects in progress and to be continued include:

- critical pipeline renewals
- seismic assessments and upgrades of critical assets including pump stations and reservoirs
- installing up to 12 emergency water storage facilities at key water distribution sites (in the 2014-15 year)
- identifying and procuring additional emergency water sources from ground water (bores and streams)
- preparing an emergency water supply plan that sets out for each council its potential alternative supply sources and the programme and funding requirements to develop these
- identifying options for safe liquid waste disposal.

We will continue participating in the Wellington Lifelines Group forums. Projects for the current year include:

- Thorndon and Seaview Critical Area Management Plans
- Key Utility Sites and Dependencies Update
- Planning future WeLG projects

### *5.7.1 Seismic strengthening*

Seismic assessments of all critical reservoirs and pumping stations are being carried out to improve both the security of supply in a post-earthquake environment and reduce the length of time for network restoration.

Hutt City's Pharazyn St and Kelson water pump stations, the two largest in the network, have recently been assessed for seismic performance. Remedial works are programmed to be completed over three years. Work on other stations will be prioritised and funding secured as the assessments progress. Reservoir auto shut-off valves and seismic triggers are being installed over the next ten years.

All critical reservoirs in Upper Hutt have been assessed, with four requiring remedial work. These are programmed to be completed by 2019–20, with work starting on Pinehaven.

Remedial work on Wellington City's critical water supply has been prioritised, with one reservoir strengthening project per year planned, according to funding. Lyndhurst and Karori Park pump stations, and Linden, Maupuia and Maldive reservoir upgrades are under design.



As noted above, Porirua's water supply programme is focused on improving the seismic resilience of the reservoir network.

## **5.8 Stakeholder engagement**

We are experiencing increasing opportunities to engage with the public as a whole, and with various specific communities, over the work we do. In some cases this engagement is a client or resource consent requirement, as with stormwater and water conservation education, or wastewater treatment plant community liaison groups. In others, the desire to better promote the investment councils make in their communities is leading to a much wider communications function than Capacity has had in the past. And increasing public expectations around transparency and information offer additional points of engagement.

The strategic review of the organisation's business model and value proposition highlighted the value of improving relationships with our suppliers, clients and end-user customers

Consequently, a priority for the organisation in the coming year is to better define relationship management responsibilities internally and for all our stakeholders. This will result in a series of programmed activities targeting better outcomes for our stakeholders. In the short term, we are focusing on our shareholders, Greater Wellington Regional Council's consents team, and those groups with environmental concerns specifically linked to our activity as a priority for improved stakeholder management.

We will continue to promote social media as a channel for engaging with the public over issues such as our performance, network and service issues and emergencies.

New material in development to support the interactive water conservation and efficiency display 'Aquarius' should result in wider uptake of the teaching and demonstration opportunity it offers particularly in schools. The integration of bulk water, should it proceed, will offer greater opportunity to promote Aquarius with other water conservation activity as noted above.

As a matter of course, project managers require engineers to consult with affected parties prior to investigation work, and again prior to project commencement. Work carried out in carriageways generally requires traffic management plans approved by councils. Operations staff participate in periodic meetings with representatives of other infrastructure services, to coordinate planned work as effectively as possible and to share information. In particular, we note the Cricket World Cup and Fifa Under 20 tournaments will be major events to take into account for project scheduling.

## *2015 Cricket World Cup matches at Westpac Stadium*

- Friday 20 February - England vs New Zealand
- Sunday 1 March - England vs Sri Lanka
- Thursday 12 March - South Africa vs Qualifier 4
- Quarterfinal: Saturday 21 March

## *2015 FIFA Men's Under 20 World Cup matches at Wellington Regional Stadium*

Six pool matches:

- Saturday 30 May
- Tuesday 2 June
- Friday 5 June

Two Round-of-16 matches:

- Wednesday 10 June

Quarter Final:

- Sunday 14 June

### Capacity's Board of Directors

Chairman **John Strahl** joined Capacity's Board in 2009. He is a consultant at the corporate team of lawyers DLAPhillipsFox, where he was previously a partner for 30 years.

**David Bassett** is the Deputy Mayor of Hutt City Council. David has a background in organisational development and capability improvement. He is a former CE of commercial lawyers Rudd Watts and Stone, and the NZ branch of consulting firm Cull Egan Dell.

**Nicki Crauford** has a PhD in engineering from the University of Southampton, and currently works as a senior consultant with WorleyParsons. Nicki is a director of Watercare Services, the Environmental Protection Authority and Orion Energy, and chairs the Wellington Rural Fire Authority.

**Sarah Free** has an electrical engineering degree and postgraduate qualifications in teaching and public health. She has worked for several years as a residential energy consultant, providing advice on both energy and water usage. Sarah is a Wellington City Councillor and a member of the Electricity Authority's Retail Advisory Group.

**Wayne Guppy** was first elected to the Upper Hutt City Council in 1998. He was elected Mayor in 2001 and has retained that position since then. He has a Doctor of Pharmacy degree from the University of Nebraska, lectured at the School of Pharmacy, and has owned community pharmacies in Upper Hutt.

**Ian Hutchings** is a senior analyst in the Ministry of Business, Innovation and Employment's radio spectrum group. He is chairman of Hutt Mana Charitable Trust Holdings and a member of both the Johnsonville Licensing and Hutt Mana Community trusts.

**Raveen Jaduram**, ME, BE (Hons) FIPENZ is general manager of maintenance services for Watercare Services, Auckland. He was chief executive of the private firm Murrumbidgee Irrigation between 2012 and 2013, and prior to that CE of Manukau Water. He has 25 years' experience in the New Zealand water industry.

**Nick Leggett** is the mayor of Porirua City. He has a BA in Politics from Victoria University and worked in commercial property prior to his election as mayor in 2010.

## 6. Corporate governance

Capacity is a council-controlled trading organisation as defined by Section 6 of the Local Government Act 2002. Capacity is also covered by the Companies Act 1993 and governed by law and best practice. The Shareholders' Agreement relating to Capacity Infrastructure Services Limited outlines the way they manage their shareholdings in Capacity and their respective relationships with each other.

### 6.1 The Board of Directors

The Board of Directors consists of a maximum eight members, with each shareholder separately appointing up to one director and jointly appointing up to four independent directors. To ensure we have continuity of relevant knowledge, skills and experience, the expiry dates of terms of office are different for each director. Each director can serve a maximum of two terms, or six years.

Board Chair John Strahl's second three-year term expires on 31 December 2015 and independent director Ian Hutchings completes his second term on 30 June 2015. Shareholders jointly appointed Raveen Jaduram as an independent director to 31 December 2017. Hutt City Council has re-appointed Councillor David Bassett, who completes his second term in December 2016. Wellington City Council appointed Councillor Sarah Free to 31 December 2016. Upper Hutt City Council appointed Mayor Wayne Guppy and Porirua City Council appointed Mayor Nick Leggett to complete their first terms at 31 December 2016.

Board performance reviews are undertaken annually and will be provided to shareholders on completion.

The Board is responsible for the proper direction and control of Capacity.

### 6.2 Ratio of consolidated shareholders' funds to total assets

Ownership of infrastructural assets is retained by the shareholders (or other clients). As a business that returns all benefits to shareholders, a statement of the ratio of shareholders' funds to assets is not considered appropriate.

### 6.3 Accumulated profits and capital reserves

The outcome based model where the retention of accumulated profits arising from efficiencies within the agreed fees are set out in the Contract for Provision of Management Services relating to Water Services signed with each client council. Councils will pay Capacity an Annual Performance Payment, subject to Capacity fulfilling the requirements set out in schedules of these Contracts.

## **6.4 Information to be provided to shareholders**

In each year Capacity shall comply with the reporting requirements under the Local Government Act 2002 and the Companies Act 1993 and regulations.

In particular Capacity will provide:

1. A statement of intent detailing all matters required under the Local Government Act 2002, including financial information for the next three years.
2. Within two months after the end of the first half of each financial year, the Company shall provide a report on the operations of Capacity to enable an informed assessment of its performance, including financial statements (in accordance with section 66 of the LGA 2002).
3. Within three months after the end of each financial year, Capacity will provide an annual report which provides a comparison of its performance with the statement of intent, with an explanation of any material variances, audited consolidated financial statements for that financial year, and an auditor's report (in accordance with sections 67, 68 and 69 of the LGA 2002).

Due to the extensive reporting requirements undertaken in accordance with the service level agreements with client councils, the reliance on six monthly reports fully meets the LGA's requirements and is appropriate in the circumstances.

## **6.5 Share acquisition**

There is no intention to subscribe for shares in any other company or invest in any other organisation.

## **6.6 Compensation from local authority**

It is not anticipated that the company will seek compensation from any local authority other than in the context of normal commercial contractual relationships.

## **6.7 Equity value of the shareholders' investment**

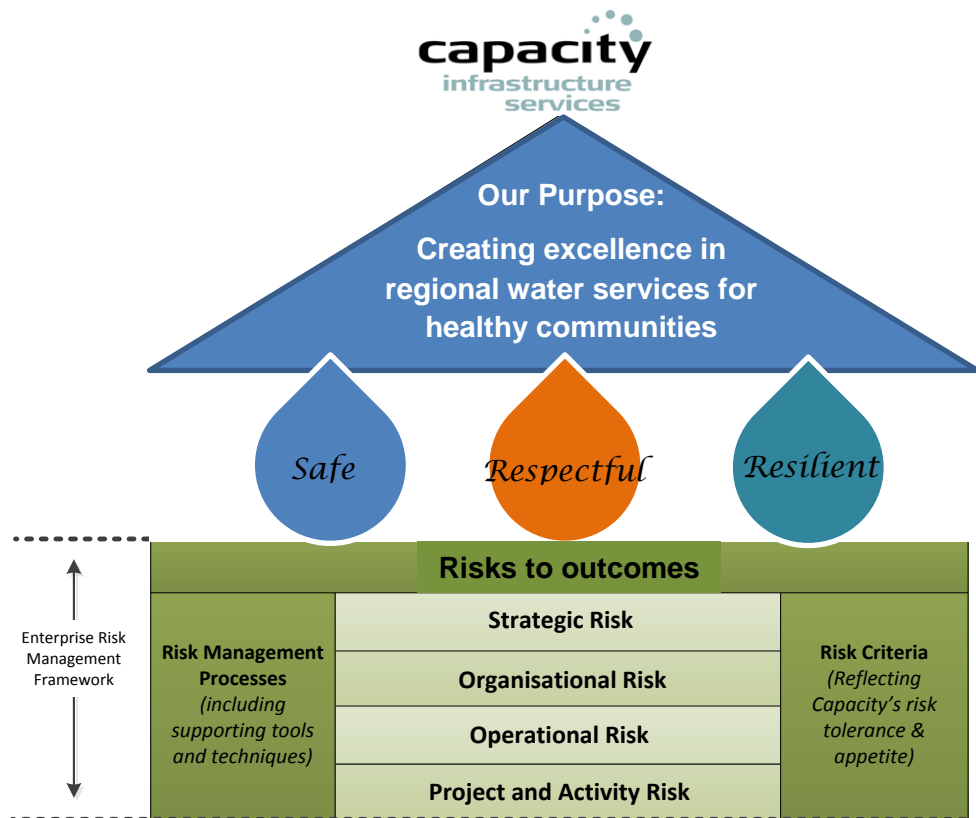
The net value of the shareholders' investment in the company is estimated to be valued at \$416,000 as at 31 December 2013. This value will be assessed by the directors on completion of the annual accounts or at any other time determined by the directors. The method of assessment will use the value of shareholders' funds as determined in the annual accounts as a guide.

## 7. Organisational risk management

### 7.1 Risk management

In 2013-14 we developed a new risk management framework and processes to ensure our governance and management teams have a better understanding of the risks facing the business and the work being done to manage them. The framework complies with AS/NZS ISO 31000:2009 and has been peer-reviewed by an external risk expert.

The purpose of the framework is to support integrating risk management within the organisation. The following diagram shows the framework and the linkages in terms of Capacity’s stated objectives:



Capacity's Risk Management Framework.

We have also developed a new bespoke risk register based on the above framework. The register will continue to be refined through into the 2014-15 year. Consistent with the Capacity risk framework, the risk register categorises risks under the following categories:

- Strategic Risk arising from the external environment and associated with the achievement of Capacity's strategic objectives.
- Organisational Risk associated with the functioning of Capacity as an organisation on a day-to-day basis.
- Organisational KPIs Risk associated with the organisational KPIs Capacity is required to achieve.
- Activity Risk associated with achieving the outcomes required from Capacity's management of the 3 waters activities.
- Operational Risk associated with activities carried out by Capacity staff and contractors, and with infrastructure managed by Capacity.
- Health and safety Risk associated with the achievement of our health and safety vision that "our people, suppliers and affected parties go home healthy and safe".
- Project Risk associated with the planning and delivery of Capacity projects.

Our new risk procedures require all groups to actively maintain their risk profiles and discuss risks, their treatment programmes and to report on them on at a leadership level at least a monthly basis.

We report risks quarterly and any newly identified extreme risk in real time with our Board and discuss the treatment programmes to mitigate those extreme risks at each Board meeting.

This approach ensures that our Board and management team have a better understanding of what work is being done across the organisation to manage the inherent uncertainties surrounding the achievement of Capacity's objectives, and the delivery of value to our shareholders.

## 7.2 Key risk areas

We have identified a number of risks impacting on Capacity's business. The following highlights the significant risks for 2014–15.

- We are currently accommodated in a building classified as a tsunami risk and with an 80% rating for seismic strength. Our ability to act as a first line infrastructure provider is compromised because we may not be able to respond in a significant adverse event. We are considering this risk in the context of our search for alternative accommodation prompted in part by our lease expiring in June 2015.

- At an operational level Capacity has inherited risks associated with the Porirua wastewater treatment plant. The plant is nearing capacity and cannot cope with further forecast growth within its catchment. In addition the plant lacks the ability to effectively operate during severe adverse weather events. We are advising Porirua City Council on short and long term solutions and recommending budgets to the council for inclusion in its 2015-25 long term plan to address these risks.
- Across the region there are many water supply and drainage pipes located in areas of fill material. There is the potential for damage to property and at worst, loss of life, if a pipe failure contributed to a large landslide. We are addressing this risk by identifying pipelines in backfilled areas, which will then be actively monitored and replaced as required to mitigate these impacts on property and life.
- We are working on improving our confidence that all our operational activities meet the requirements of the Resource Management Act 1991 (RMA). We are focusing on improving our relationship with Greater Wellington Regional Council compliance and consenting staff and reviewing our approach to the consenting of works. There are cost implications associated with complying with the RMA and regional plan provisions. Our asset planning team is actively involved in the review of the regional plans seeking to influence plan provisions to ensure that undue costs are not borne by Capacity and its shareholders.
- The Government has a goal to lift the country's performance in the area of health and safety. We must ensure we keep pace with these developments and not rely on what we have done before. To this end, we are implementing an ambitious programme of improvements and to become an industry leader in the field of health and safety. This is covered in more detail below.

### **7.3 Health and safety**

In mid-2013, the Government announced major reform of workplace health and safety, including the establishment of a new entity, Work Safe NZ and an overhaul of the law. A new Health and Safety Reform Bill, based on the Australian Model Workplace Health and Safety Act, has been introduced to Parliament to replace the current Health and Safety in Employment Act. It is expected that the Bill will be passed into law by April 2015.

In response to the likely legislative change, the Ministry of Business Innovation and Employment and the Institute of Directors in New Zealand have issued guidelines for managing health and safety risks



We have analysed these guidelines along with the Bill, itself, and presented to our Board a number of actions to ensure Capacity is at the forefront of best practice health and safety policy and systems under the new legislative regime.

Our health and safety policy has been refreshed in a process involving staff and our Board to provide a policy that represents a “best in class” approach to health and safety and will position Capacity as an industry leader in health and safety.

We have also recently advertised to employ a full time health and safety specialist, reporting directly to the Chief Executive. This new staff member will be charged with implementing the majority of actions agreed with the Board, as well as growing our health and safety culture and improving and maintaining our health and safety systems – both internally and with our consultants and contractors.

Our existing health and safety committees for the Capacity office and separately for the Porirua wastewater treatment plant will focus on hazard mitigation in the year ahead and improving the consistency of our operating policy.

## Appendix 1. Accounting Policies

### Statement of accounting policies

Capacity will apply the following accounting policies consistently during the year and to the Statement of Intent.

### Cautionary note

The statement of intent's forecast financial information is prospective. Actual results are likely to vary from the information presented, and the variations may be material.

### Nature of prospective information

The financial information presented consists of forecasts that have been prepared on the basis of best estimates and assumptions on future events that Capacity expects to take place.

### Reporting entity

Capacity Infrastructure Services Limited, trading as Capacity, is a company registered under the Companies Act 1993 and a council-controlled trading organisation as defined by Section 6 of the Local Government Act 2002. Capacity was incorporated in New Zealand in 2003 as Wellington Water Management Services Limited and changed its name in July 2009. Current shareholders are Wellington City Council, Hutt City Council, Upper Hutt City Council and Porirua City Council.

The financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Local Government Act 2002.

For purposes of financial reporting, Capacity is a public benefit entity.

### Reporting period

The reporting period covers the 12 months from 1 July 2014 to 30 June 2015. Comparative projected figures for the year ended 30 June 2016 and 30 June 2017 are provided.

### Specific accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The measurement basis applied is historical cost.

The accrual basis of accounting has been used unless otherwise stated.

These financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless otherwise stated.

## **Judgements and estimations**

The preparation of financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Where material, information on the major assumptions is provided in the relevant accounting policy or will be provided in the relevant note to the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the relevant notes.

### **a) Revenue**

Capacity derives revenue from its customers for both management and consultancy charges. Total standard charges are calculated at the beginning of the period based on the agreed annual work programmes as well as Capacity's resource and operating budget. The customers are shareholder councils, Hutt City Council, Porirua City Council, Upper Hutt City Council and Wellington City Council.

Revenue is recognised when earned and is reported in the financial period to which it relates.

### **b) Expenses**

Expenses are recognised on an accrual basis when the goods or services have been received.

### **c) Taxation**

Income tax expense comprises both current tax and deferred tax, and is calculated using tax rates that have been enacted or substantively enacted by balance date.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Current tax and deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

#### **d) Goods and Services Tax (GST)**

All items in the financial statements are exclusive of GST, with the exception of receivables and payables, which are stated as GST inclusive. Where GST is not recoverable as an input tax, it is recognised as part of the related asset or expense.

#### **e) Financial instruments**

Capacity classifies its financial assets and financial liabilities according to the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

#### **Non-derivative financial instruments**

##### *Financial assets*

Capacity classifies its investments into the following categories: financial assets at fair value through profit and loss, and loans and receivables.

Loans and receivables comprise cash and cash equivalents and trade and other receivables.

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services

directly to a debtor with no intention of trading the receivable. Trade and other receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, and call deposits with up to three months maturity from the date of acquisition. These are recorded at their nominal value.

## **Financial liabilities**

Capacity classifies its financial liabilities into the following categories: financial liabilities at fair value through profit and loss, or other financial liabilities.

Financial liabilities comprise trade and other payables and borrowings. Financial liabilities with a duration of more than 12 months are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Amortisation is recognised in the Statement of Comprehensive Income as is any gain or loss when the liability is derecognised. Financial liabilities entered into with a duration of less than 12 months are recognised at their nominal value.

## **f) Property, plant and equipment**

### *Recognition*

Property, plant and equipment consist of operational assets. Expenditure is capitalised as property, plant and equipment when it creates a new asset or increases the economic benefits over the total life of an existing asset and can be measured reliably. Costs that do not meet the criteria for capitalisation are expensed.

### *Measurement*

Items of property, plant and equipment are initially recorded at cost.

The initial cost of property, plant and equipment includes the purchase consideration and those costs that are directly attributable to bringing the asset into the location and condition necessary for its intended purpose. Subsequent expenditure that extends or expands the asset's service potential and that can be measured reliably is capitalised.

### *Impairment*

The carrying amounts of property, plant and equipment are reviewed at least annually to determine if there is any indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. The recoverable amount is the higher of an item's fair value

less costs to sell and value in use. Losses resulting from impairment are reported in the Statement of Comprehensive Income.

### *Disposal*

Gains and losses arising from the disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income in the period in which the transaction occurs.

### *Depreciation*

Depreciation is provided on all property, plant and equipment, except for assets under construction (work in progress). Depreciation is calculated on a straight line basis, to allocate the cost or value of the asset (less any residual value) over its useful life. The depreciation rates of the major classes of property, plant and equipment are as follows:

Telephone system	9 years (10.75%)
Furniture & Office Equipment	2-14 years (7-48%)
Plant Equipment	3-10 years (10-36%)

The residual values and useful lives of assets are reviewed and adjusted if appropriate at each balance date.

### *Work in progress*

The cost of projects within work in progress is transferred to the relevant asset class when the project is completed and then depreciated.

## **g) Intangible assets**

Acquired intangible assets are initially recorded at cost.

Intangible assets with finite lives are subsequently recorded at cost, less any amortisation and impairment losses. Amortisation is charged to the Statement of Comprehensive Income on a straight-line basis over the useful life of the asset. Typically, the estimated useful lives of these assets are as follows:

Computer software	2½ -5 years (18.6-40%)
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Realised gains and losses arising from disposal of intangible assets are recognised in the Statement of Comprehensive Income in the period in which the transaction occurs. Intangible assets are reviewed at least annually to determine if there is any indication of impairment. Where an intangible asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. Losses resulting from impairment are reported in the Statement of Comprehensive Income.

**h) Employee benefits**

A provision for employee benefits (holiday leave) is recognised as a liability when benefits are earned but not paid.

Long-service leave and retirement gratuities have been calculated on an actuarial basis based on the likely future entitlements accruing to staff, after taking into account years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and other contractual entitlements information. This entitlement is not offered to new Capacity employees. The present value of the estimated future cash flows has been calculated using an inflation factor and a discount rate. The inflation rate used is the annual Consumer Price Index to 31 March prior to year end. The discount rate used represents the company's average cost of borrowing.

Holiday leave is calculated on an actual entitlement basis at the greater of the average or current hourly earnings in accordance with sections 16(2) and 16(4) of the Holidays Act 2003.

**i) Other liabilities and provisions**

Other liabilities and provisions are recorded at the best estimate of the expenditure required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at their present value.

**j) Equity**

Equity is the shareholders' interest in the entity and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into a number of components to enable clearer identification of the specified uses of equity within the entity. The components of equity are accumulated funds and retained earnings.

**k) Leases**

Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased items are classified as operating leases. Payments made under these leases are charged as expenses in the Statement of Comprehensive Income in the period in which they are incurred. Payments made under operating leases are recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Statement of Comprehensive Income as an integral part of the total lease payment. Leases which effectively transfer to the lessee substantially all the risks and benefits incident to ownership of the leased item are classified as finance leases.

## **l) Superannuation scheme**

Defined contribution schemes

Obligations for contributions to KiwiSaver and other cash accumulation schemes are recognised as an expense in the surplus or deficit as incurred.

## **m) Related parties**

A party is related to Capacity if:

- directly or indirectly through one or more intermediaries, the party:
  - controls, is controlled by, or is under common control with, Capacity
  - has an interest Capacity that gives it significant influence over the control of the company
  - has joint control over Capacity
- the party is an associate of Capacity
- the party is a member of key management personnel of Capacity
- the party is a close member of the family of any individual referred to above
- the party is an entity controlled jointly or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to above

Directors' remuneration is any money, consideration or benefit received, receivable or otherwise made available, directly or indirectly, to a director during the reporting period. Directors' remuneration does not include reimbursement of legitimate work expenses or the provision of work-related equipment such as cell phones and laptops.

## **n) Other Disclosures**

- If integration with bulk water should occur during 2014–15 this will have a significant impact on both Capacity and the Regional Water Services Group within the Greater Wellington Regional Council. The change will be managed by an independent change team made up of staff from Capacity, Greater Wellington and shareholding councils. A budget of \$300,000 has been included in the estimation for the change cost.
- Options are also being explored in respect of office accommodation for the merged organisation and a decision is expected to be made in 2014–15 with budget implications from 2015–16.



## Appendix 2. Forecast financial statements

### Forecast Statement of Comprehensive Income

FOR THE FINANCIAL YEARS ENDING 30 JUNE 2015, 30 JUNE 2016, 30 JUNE 2017

	Forecast	1st Qtr 1-Jul - 30 Sep	2nd Qtr 1 Oct - 31 Dec	3rd Qtr 1 Jan - 31 Mar	4th Qtr 1 Apr - 30 Jun	Budget	Budget	Budget
	2013-14					2014-2015	2015-2016	2016-2017
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>REVENUE</b>								
Capacity and Consultancy Charge	\$16,488	\$5,358	\$5,358	\$5,208	\$5,208	\$21,132	\$21,676	\$22,050
Accommodation Option		0	0	0	0	0	1,000	0
Interest	82	30	30	30	30	120	122	124
<b>TOTAL REVENUE</b>	<b>\$16,570</b>	<b>\$5,388</b>	<b>\$5,388</b>	<b>\$5,238</b>	<b>\$5,238</b>	<b>\$21,252</b>	<b>\$22,798</b>	<b>\$22,174</b>
<b>EXPENDITURE</b>								
General Expenditure	\$2,508	\$488	\$496	\$496	\$536	\$2,017	\$2,261	\$2,300
Personnel Expenditure	7,312	1,975	1,975	1,975	1,975	7,898	8,050	8,189
Project Consultancy	6,511	2,750	2,750	2,750	2,750	11,001	11,212	11,406
Depreciation	124	52	52	52	52	207	211	215
Interest on Finance Leases	2	0	1	0	1	2	2	2
Change Mgmt Cost/Accommodation Option		150	150	0	0	300	1,000	0
<b>TOTAL EXPENDITURE</b>	<b>\$16,456</b>	<b>\$5,415</b>	<b>\$5,424</b>	<b>\$5,273</b>	<b>\$5,314</b>	<b>\$21,426</b>	<b>\$22,737</b>	<b>\$22,112</b>
<b>NET SURPLUS/(DEFICIT) BEFORE TAXATION</b>	<b>\$114</b>	<b>(\$27)</b>	<b>(\$36)</b>	<b>(\$35)</b>	<b>(\$76)</b>	<b>(\$174)</b>	<b>\$61</b>	<b>\$63</b>

Note: The projected deficit in 2014-15 is a result of the shortfall in revenue negotiated with PCC which is being resolved. This should be finalised by mid- 2014-15, resulting in the correct revenue flowing through to the next year.

**Forecast Statement of Financial Position**

FOR THE FINANCIAL YEARS ENDING 30 JUNE 2015, 30 JUNE 2016, 30 JUNE 2017

	Forecast	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Budget	Budget	Budget
	2013-14	1-Jul - 30 Sep	1 Oct - 31 Dec	1 Jan - 31 Mar	1 Apr - 30 Jun	2014-2015	2015-2016	2016-2017
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>CURRENT ASSETS</b>								
Cash	\$2,255	\$1,317	\$1,549	\$1,084	\$1,589	\$1,589	\$1,527	\$1,617
Prepayments	151	82	43	104	140	140	143	146
Trade and other receivables	309	327	322	284	254	254	258	263
<b>Current Assets</b>	<b>2,715</b>	<b>1,726</b>	<b>1,914</b>	<b>1,471</b>	<b>1,983</b>	<b>1,983</b>	<b>1,928</b>	<b>2,026</b>
<b>NON CURRENT ASSETS</b>								
Property, plant and equipment	246	495	643	751	699	699	567	452
<b>Non current assets</b>	<b>246</b>	<b>495</b>	<b>643</b>	<b>751</b>	<b>699</b>	<b>699</b>	<b>567</b>	<b>452</b>
<b>TOTAL ASSETS</b>	<b>\$2,961</b>	<b>\$2,220</b>	<b>\$2,557</b>	<b>\$2,222</b>	<b>\$2,683</b>	<b>\$2,683</b>	<b>\$2,495</b>	<b>\$2,479</b>
<b>CURRENT LIABILITIES</b>								
Trade and other payables	\$1,494	\$1,018	\$1,163	\$993	\$1,427	\$1,427	\$1,165	\$1,073
GST payable	445	197	394	324	388	388	395	402
Annual leave	291	302	333	274	311	311	317	323
<b>TOTAL LIABILITIES</b>	<b>\$2,231</b>	<b>\$1,517</b>	<b>\$1,889</b>	<b>\$1,590</b>	<b>\$2,126</b>	<b>\$2,126</b>	<b>\$1,877</b>	<b>\$1,797</b>
<b>NET WORKING CAPITAL</b>	<b>\$730</b>	<b>\$703</b>	<b>\$667</b>	<b>\$632</b>	<b>\$557</b>	<b>\$557</b>	<b>\$618</b>	<b>\$681</b>
<b>EQUITY</b>								
Share Capital	\$800	\$800	\$800	\$800	\$800	\$800	\$800	\$800
Retained Earnings	(70)	(97)	(133)	(168)	(243)	(243)	(182)	(119)
<b>TOTAL EQUITY</b>	<b>\$730</b>	<b>\$703</b>	<b>\$667</b>	<b>\$632</b>	<b>\$557</b>	<b>\$557</b>	<b>\$618</b>	<b>\$681</b>

**Forecast Statement of Cash Flows**

FOR THE FINANCIAL YEARS ENDING 30 JUNE 2015, 30 JUNE 2016, 30 JUNE 2017

	Forecast	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Budget	Budget	Budget
	2013-14	1-Jul - 30 Sep	1 Oct - 31 Dec	1 Jan - 31 Mar	1 Apr - 30 Jun	2014-2015	2015-2016	2016-2017
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>								
Cash was provided from:								
Operating receipts	\$16,162	\$6,144	\$6,167	\$6,028	\$6,019	\$24,357	\$25,018	\$25,449
GST receivable	0	0	0	0	0	0	0	0
Cash was disbursed to:								
Payment to suppliers	(14,565)	(5,972)	(5,371)	(5,321)	(4,895)	(21,560)	(21,974)	(22,353)
Payment of Tax	(335)	(840)	(394)	(1,042)	(648)	(2,923)	(2,979)	(3,031)
<b>NET CASH INFLOW/ (OUTFLOW) FROM OPERATING ACTIVITIES</b>	<b>\$1,262</b>	<b>\$(668)</b>	<b>\$402</b>	<b>\$(335)</b>	<b>\$476</b>	<b>\$(126)</b>	<b>\$65</b>	<b>\$66</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>								
Cash was disbursed to:								
Purchase of fixed assets	\$(103)	\$(300)	\$(200)	\$(160)	\$0	\$(660)	\$(250)	\$(100)
<b>NET CASH INFLOW/ (OUTFLOW) FROM INVESTING ACTIVITIES</b>	<b>\$(103)</b>	<b>\$(300)</b>	<b>\$(200)</b>	<b>\$(160)</b>	<b>\$0</b>	<b>\$(660)</b>	<b>\$(250)</b>	<b>\$(100)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>								
Cash was provided from:								
Shares Issued	\$200	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Interest Received	82	30	30	30	30	120	122	124
<b>NET CASH INFLOW/ (OUTFLOW) FROM FINANCING ACTIVITIES</b>	<b>\$282</b>	<b>\$30</b>	<b>\$30</b>	<b>\$30</b>	<b>\$30</b>	<b>\$120</b>	<b>\$122</b>	<b>\$124</b>
<b>NET CASH INFLOW / (OUTFLOW)</b>	<b>\$1,441</b>	<b>\$(938)</b>	<b>\$232</b>	<b>\$(465)</b>	<b>\$506</b>	<b>\$(666)</b>	<b>\$(63)</b>	<b>\$90</b>
<b>OPENING CASH BALANCE</b>	<b>814</b>	<b>2,255</b>	<b>1,317</b>	<b>1,549</b>	<b>1,084</b>	<b>2,255</b>	<b>1,589</b>	<b>1,527</b>
<b>CLOSING CASH BALANCE</b>	<b>\$2,255</b>	<b>\$1,317</b>	<b>\$1,549</b>	<b>\$1,084</b>	<b>\$1,589</b>	<b>\$1,589</b>	<b>\$1,527</b>	<b>\$1,617</b>

## Forecast Statement of Movement in Equity

FOR THE FINANCIAL YEARS ENDING 30 JUNE 2015, 30 JUNE 2016, 30 JUNE 2017

	Forecast	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Budget	Budget	Budget
	2013-14	1-Jul - 30 Sep	1 Oct - 31 Dec	1 Jan - 31 Mar	1 Apr - 30 Jun	2014-2015	2015-2016	2016-2017
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
NET SURPLUS/(DEFICIT) FOR THE YEAR	\$114	\$(27)	\$(36)	\$(35)	\$(76)	\$(174)	\$61	\$63
TOTAL COMPREHENSIVE INCOME	114	(27)	(36)	(35)	(76)	(174)	61	63
RETAINED EARNINGS AT BEGINNING OF YEAR	(184)	(70)	(97)	(133)	(168)	(70)	(243)	(182)
SHARE CAPITAL ***	800	800	800	800	800	800	800	800
EQUITY AT END OF PERIOD	\$730	\$703	\$667	\$632	\$556	\$557	\$618	\$681

*** Share Capital Paid	\$'000
Wellington City Council	400
Hutt City Council	200
Upper Hutt City Council	80
Porirua City Council	120
TOTAL	800

### Appendix 3. Cost allocations

This schedule outlines how Capacity's costs are allocated across client councils based on planned work activities for 2014–15

Capacity's Cost Allocation Summary 2014-15  (Schedule One)		CAPACITY DIRECT COSTS		Consultants/Contractor Costs managed by Capacity on behalf of Ratepayers (includes Capacity costs)					Total Cost to Ratepayers  \$000
		Capacity Charges		Professional Services		Total Billable	Contractor Costs		
		Capex \$000	Opex \$000	Capex \$000	Opex \$000		Capex \$000	Opex \$000	
<b>Water</b>	WCC	\$1,565	\$789	\$1,892	\$303	\$4,549	\$8,836	\$18,494	\$31,879
	HCC	234	607	762	182	1,785	1,583	9,993	13,361
	PCC	124	339	247	192	902	1,080	4,035	6,016
	UHC	81	351	240	30	702	1,386	3,498	5,586
	<b>Total</b>	<b>\$2,004</b>	<b>\$2,086</b>	<b>\$3,140</b>	<b>\$707</b>	<b>\$7,937</b>	<b>\$12,885</b>	<b>\$36,019</b>	<b>\$56,842</b>
<b>Wastewater</b>	WCC	\$1,156	\$1,150	\$1,990	\$284	\$4,579	\$4,600	\$16,132	\$25,311
	HCC	164	513	566	272	1,515	4,265	5,316	11,097
	PCC	414	515	925	346	2,200	4,908	3,505	10,613
	UHC	27	234	161	4	426	2,379	3,140	5,945
	<b>Total</b>	<b>\$1,761</b>	<b>\$2,412</b>	<b>\$3,642</b>	<b>\$906</b>	<b>\$8,721</b>	<b>\$16,152</b>	<b>\$28,093</b>	<b>\$52,965</b>
<b>Stormwater</b>	WCC	\$312	\$677	\$1,511	\$263	\$2,764	\$2,431	\$2,118	\$7,313
	HCC	145	437	332	175	1,089	1,163	2,799	5,051
	PCC	56	177	103	185	521	331	291	1,143
	UHC	38	259	16	21	334	46	324	704
	<b>Total</b>	<b>\$551</b>	<b>\$1,550</b>	<b>\$1,962</b>	<b>\$644</b>	<b>\$4,708</b>	<b>\$3,972</b>	<b>\$5,532</b>	<b>\$14,212</b>
<b>Total Network</b>	WCC	\$3,033	\$2,617	\$5,393	\$849	\$11,892	\$15,867	\$36,744	\$64,503 *
	HCC	543	1,557	1,660	629	4,389	7,011	18,108	29,509 *
	PCC	594	1,031	1,274	723	3,622	6,319	7,831	17,772 *
	UHC	146	844	417	55	1,462	3,811	6,962	12,235 *
	<b>Total</b>	<b>\$4,316</b>	<b>\$6,049</b>	<b>\$8,745</b>	<b>\$2,257</b>	<b>\$21,366</b>	<b>\$33,008</b>	<b>\$69,645</b>	<b>\$124,018 **</b>

\*WCC Annual Plan budget has been signed off by Council

\* PCC,UHCC,HCC Council figures are draft , Annual Plan process not complete

\*Carry Forward Budget costs not included

\*\*Excludes revenue, depreciation, interest and other council controlled costs

## **Appendix 4. Requirements of a statement of intent of a council controlled organisation**

Under the Local Government Act (Schedule 8) a council-controlled organisation is required to deliver to shareholders every year a statement of intent that:

- states publicly the organisation's activities and intentions for the coming year, and the objectives to which those activities will contribute
- provides an opportunity for shareholders to influence the organisation's direction
- provides a basis for the accountability of the organisation's directors to its shareholders for its performance.

The Local Government Act also requires that a statement of intent should reflect the objectives of the shareholders as set out in their long term plans and the intended levels of service to be provided (s59).

As appropriate, the statement of intent should also specify:

- (a) the objectives of the organisation
- (b) a statement of the board's approach to governance of the organisation
- (c) the nature and scope of the activities to be undertaken by the organisation
- (d) the ratio of consolidated shareholders' funds to total assets, and the definitions of those terms
- (e) the accounting policies of the organisation
- (f) the performance targets and other measures by which the performance of the organisation may be judged in relation to its objectives; and
- (g) an estimate of the amount or proportion of accumulated profits and capital reserves that is intended to be distributed to the shareholders
- (h) the kind of information to be provided to the shareholders by the organisation during the course of those financial years, including the information to be included in each half-yearly report (and, in particular, what prospective financial information is required and how it is to be presented)
- (i) the procedures to be followed before the organisation subscribes for, purchases, or otherwise acquires shares in any company or other organisation

- (j) any activities for which the board seeks compensation from any local authority (whether or not the local authority has agreed to provide the compensation)
- (k) the board's estimate of the commercial value of the shareholders' investment in the group and the manner in which, and the times at which, that value is to be reassessed
- (l) any other matters that are agreed by the shareholders and the board.

## **A4.1 Requirements of a water services CCO's statement of intent**

In addition, the Act requires (Schedule 8) that where a council-controlled organisation provides services in relation to water supply, sewerage and stormwater, the organisation's statement of intent must include a statement of the intended levels of service provision in relation to each of these activities.

This statement of service provision must specify performance measures for each activity, and performance targets set by the local authority.

Accordingly, Capacity's Statement of Intent 2014–2015 consists of our purpose and objectives, intended outcomes and services, key performance indicators, the nature and scope of our activities, including topics raised in the letter of expectation from shareholders, in addition to statements of policy and procedure with regard to governance and accounting.

## Appendix 5. Capacity's key performance indicators

Our key performance indicators state our intended levels of service performance. They include network performance indicators based on council targets, as well as asset management and organisational performance measures.

As noted, network performance measures are being evaluated and defined to improve coordination among councils and compliance with national performance measures. The outcome of this work will be reflected in new long term plans, to be developed from the second half of 2014, as well as our own performance indicators.

Currently, Capacity's key performance indicators are arrayed in six categories.

### Category 1 – Service quality

**Outcome:** Residents in our cities enjoy a consistent and high-quality water, stormwater and wastewater service.

No.	Indicator	Definition
1	Maintain grading from Ministry of Health for local water supply distribution	
2	Compliance with New Zealand Drinking Water Standards	
3	Unplanned supply cuts (pipe bursts) per 1000 connections	An unplanned supply cut is an event where the water supply is disrupted unexpectedly (e.g. due to pipe burst)
4	Wastewater incidents reported per kilometre of wastewater reticulation pipeline	A wastewater incident is a dry weather disruption to wastewater disposal, wastewater overflow or damage resulting from the public wastewater reticulation.
5	Percentage of critical assets with a condition assessment completed in the last three years	
6	Percentage of non-critical assets with a condition assessment completed in the last three years	
7	Fire hydrants tested that meet NZFS Code of Practice	Testing of key hydrants as identified by NZ Fire Service Code of Practice
8	Maintain network ' <i>serviceability</i> ' indicators within agreed tolerances (Water and Wastewater)	These indicators are a mixture of national and local performance and service measures already in effect.



## Capacity's Key Performance Indicators

### Category 2 – Customer Focus

**Outcome:** Residents in our cities agree they enjoy a consistent and high-quality water, stormwater and wastewater service.

No.	Indicator	Definition
9	Achieve justified customer complaint targets relating to network performance and activity within Capacity's control	<i>Formal expressions of dissatisfaction by an external party about the way a request for service has been managed are reviewed by Capacity personnel to decide whether the complaint is justified. Note that a request for service or an expression of disagreement with a decision does not meet the definition of a complaint. Only justified complaints will be recorded for the purposes of this KPI (as agreed with each Council).</i>
10	Achieve customer service satisfaction survey targets relating to network performance and activity within Capacity's control	<i>Relates to the result received for each Council's annual satisfaction survey. Note: Capacity has requested Councils to consider moving to common survey questions.</i>
11	Meet A and B response time* targets for Priority One activities ("on-site within one hour")	<i>On site means the contractor is on site to make an assessment of the problem and the remedial action required or to commence physical works if an assessment is not required. Actual response times as recorded by CEM or Hansen.</i>

\*Response A:

- The investigation of reports/complaints and requests for service
- The prioritising of works required to return an asset to its normal operating condition
- The notification of the results of the investigation and proposed action to the requestor and other interested parties.

Response B:

- Time that City Care arrives on site with all necessary resources including equipment to carry out the work and proceeds to return an asset to its normal operating condition in the most efficient manner.

## Capacity's Key Performance Indicators

### Category 3 – Work planning and cost-effectiveness

**Outcome:** Capacity meets councils' work programme planning and delivery needs and provides a cost-effective water management service.

No.	Indicator	Definition
12	Completion of agreed Annual Work Programme within the financial year	% number of capex projects +0% / -10% tolerance and % number of opex projects +0% / -10% tolerance
13	Capex projects completed within the relevant combined budget within the financial year.	Dollar value of projects +0% / -10% tolerance
14	Operating cost per property	
15	Manage Capacity business within budget	

### Category 4 – Environmental performance

**Outcome:** Our water management services are environmentally sustainable and linked to the consideration and care of our natural environment.

No.	Indicator	Definition
16	Achieve key milestones in water conservation	<i>Milestones relate to achievement of agreed actions in Council Water Conservation and Efficiency Plan (WCEP) as included in Annual Work Programme. If Council does not have a WCEP, then milestones relates to those milestones set out in the AWP.</i>
17	Achieve key milestones in stormwater management	<i>Milestones relate to achievement of agreed actions in Council Stormwater Plan (SWP) as included in Annual Work Programme. If Council does not have a SWP, then milestones relates to those milestones set out in the AWP.</i>
18	Compliance with resource consents	<i>Does not include "please explain" letters, advisory notices, advice letters or technical non-compliance.</i>

## Capacity's Key Performance Indicators

### Category 5 – Legislative compliance

**Outcome:** Capacity complies with all relevant legislation and employees and contractors get home safely

No.	Mandatory / Non-mandatory	Indicator	Definition
19	Mandatory	Compliance with the Health and Safety in Employment Act 1992	
20		Lost Time Injury Frequency Rate (including contractors)	<i>Per million hours worked. Lost time counts from the day after the injury.</i>
21		Total Recordable Injury Frequency Rate (including contractors)	<i>Per 200,000 hours worked. Excludes first aid injury.</i>
22		ACC workplace management practices accreditation	
23		Compliance with all other relevant legislation	

## Capacity's Key Performance Indicators

### Category 6 – Organisation / Process

**Outcome:** Capacity is a centre of excellence for managing water services, with a robust policy and procedure framework and a reputation for continuous improvement.

No.	Indicator	Definition
24	Achieve key milestones in emergency management planning	<i>Milestones relate to achievement of agreed actions in Capacity 3-water Emergency Management Plans (EMP) as included in Annual Work Programme (AWP). If a council does not have an EMP, then the milestones relates to those milestones set out in the AWP.</i>
25	Meet agreed deadlines and requirements for asset management plans	<i>As provided for in the AWP or, for AMPs for which a due date or timeframe is not specified, the date agreed with Capacity as the date by which an AMP is required to be provided.</i>
26	Maintain ISO 9001 2008 accreditation	
27	Meet shareholder reporting requirements	<i>As provided for in the contract document or AWP or, for reports for which a due date or timeframe is not specified in the contract document, the date agreed with Capacity as the date by which a report is required to be provided.</i>