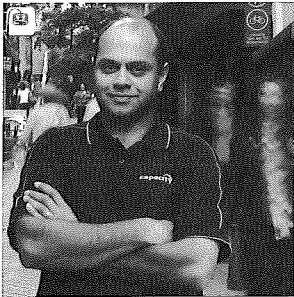
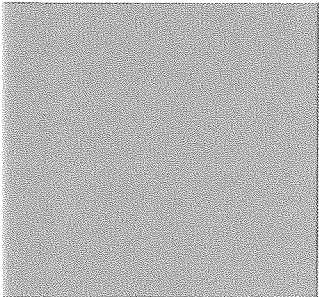


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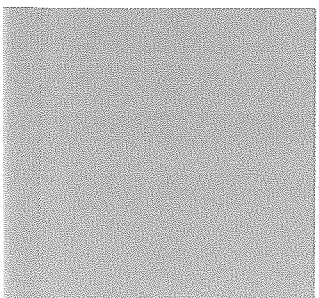
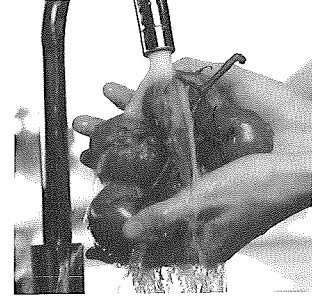
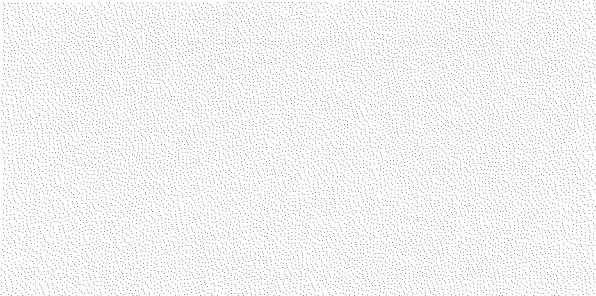
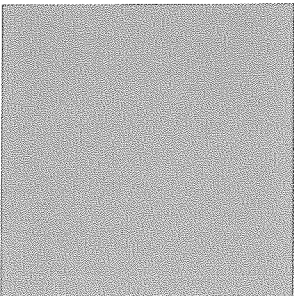
Statement of Intent

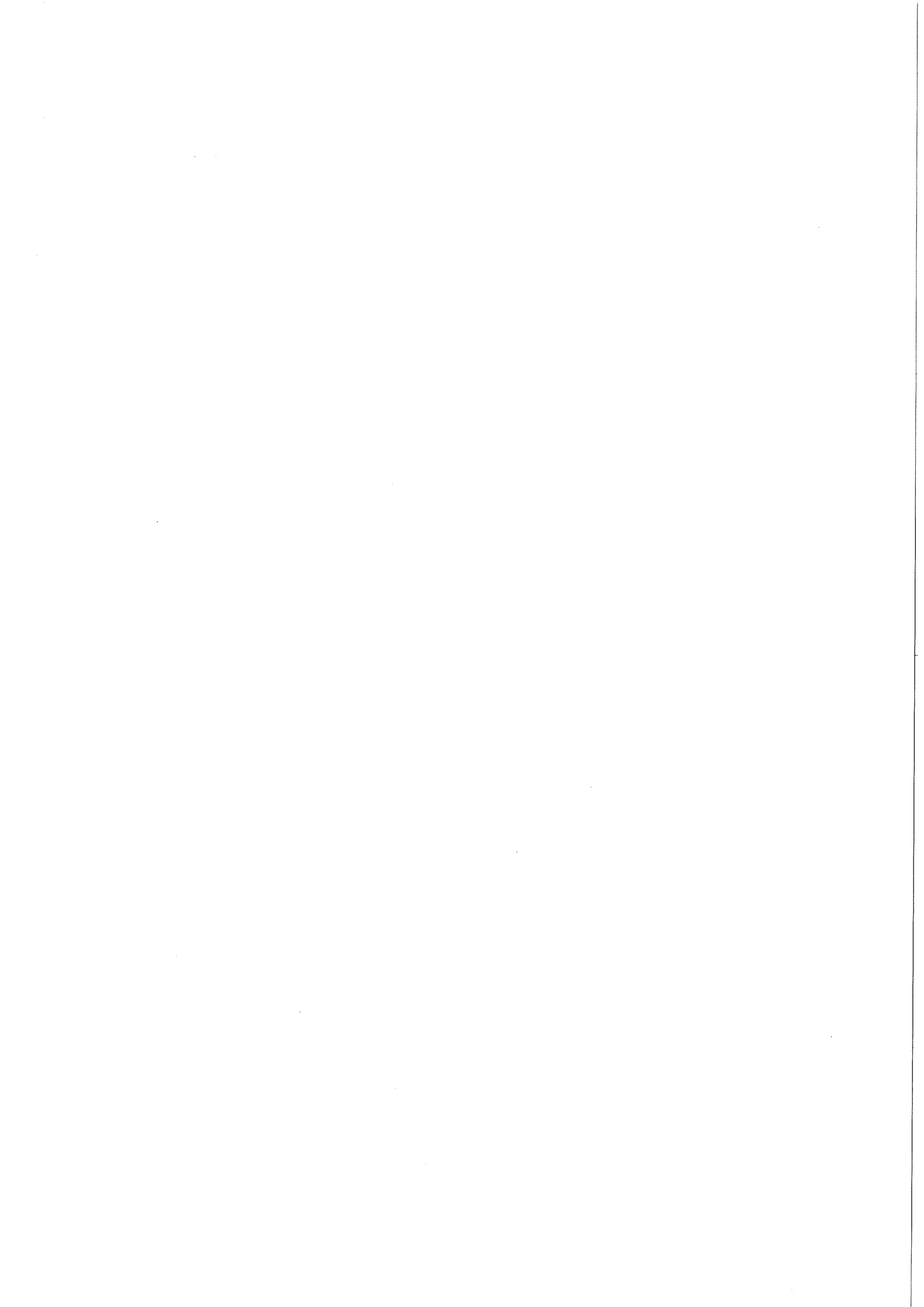
2010-2011

Capacity Infrastructure Services Limited



6 April 2010





Statement of Intent 2010/2011

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1 Purpose

The purpose of this Statement of Intent is to:

- state publicly the activities and intentions of this Council Controlled Trading Organisation for the year and the objectives to which those activities will contribute
- provide an opportunity for shareholders to influence the direction of the organisation
- provide a basis for the accountability of the Directors to their shareholders for the performance of the organisation.

This Statement of Intent covers the year 1 July 2010 to 30 June 2011, and the following two financial years.

2 Introduction

Capacity Infrastructure Services Limited (Capacity) manages the delivery of water supply, wastewater and stormwater infrastructure services. Capacity operates as a Council Controlled Trading Organisation under the Local Government Act 2002 and has two shareholders, Hutt City Council and Wellington City Council.

One of Capacity's priorities is to be mindful of the financial implications for councils and communities when undertaking the management of the three water activities.

Capacity staff are committed to finding better and more efficient ways of providing water, stormwater and wastewater management services. We look forward to delivering water services to existing clients and applying our expertise across the wider Wellington region.

3 Nature and scope of activities

Below is a summary of Capacity activities.

Activity	Nature	Scope
Planning	Our planning covers everything from asset management to catchment management plans and flood hazard maps.	<ul style="list-style-type: none"> • Asset management planning • Resource consent applications • Risk management plans • Level of service development • Strategic planning • Policy advice and development • Improvement opportunities
Consultation	Capacity specialises in infrastructure based management services including resource consent consultations. Consultation with our communities ranges from discussions on water conservation to formal submissions on major capital projects.	<ul style="list-style-type: none"> • Resource consent applications • Strategic planning and direction • Water conservation planning • Policy advice and development • Improvement opportunities
Managing	Managing water, wastewater and stormwater services for our clients requires reviews, investigations and assessments of the assets to ensure the	<ul style="list-style-type: none"> • Programme management • Project management • Demand management

	best outcomes for both our clients and their residents and ratepayers are achieved. We manage maintenance and operations contracts; prepare new contracts and manage the tendering processes for our clients.	<ul style="list-style-type: none"> • Maintenance and operations • Improvement opportunities
Monitoring	Monitoring our clients' assets for managing water, stormwater and wastewater services to continuously improve the networks.	<ul style="list-style-type: none"> • Water quality • Environmental effects • Service delivery • Contract performance • Improvement opportunities
Delivery	To ensure timely and efficient delivery of services to our clients we prepare draft capital works programmes consistent with asset management plans. We have collaborative management agreements with these contractors which enable us to achieve efficiencies in service activities and costs that benefit our clients.	<ul style="list-style-type: none"> • Project management • Service delivery • Improvement opportunities

For the past five years Capacity has consolidated its position and the services provided to the two shareholding Councils. Since July 2008 Capacity has also managed the three water services for Upper Hutt City Council as a client.

This coming year will again see a focus on expanding our client base by offering services to other councils in the greater Wellington region. The existing shareholders will benefit from the expansion of the business through a return on their investment.

Capacity returns all financial benefits to its shareholders through a reduction in service delivery costs. Accordingly business expansion provides returns to the company's shareholders by a reduction in overhead costs, a reduction in Capacity staff costs and a reduction of shareholder client costs through the profit contribution from contracted customers.

Capacity will continue to focus on key areas which drive us towards being the first choice in infrastructure services in the Wellington region. These include the setting up of an in-house engineering design team and the expansion of the project supervision team to manage the Wellington City Council capital works programme. It also includes the continuation of the partnership relationship with GHD for the delivery of Hutt City capital projects and other tasks.

Capacity has revised savings targets from 1 July 2010 onwards. Capacity will formally report on the performance of the Upper Hutt contract prior to the contract expiring on 30 June 2010.

Capacity remains focused on a commitment to protect the environment. In 2010 we aim to take our protection of the environment to a new level by delivering a water conservation and efficiency plan to councils. The leak detection and pressure management strategies we have introduced will be developed further to help councils conserve water and detect problems in the network more quickly. Capacity will prepare policy papers for its shareholder clients focussing on demand management for potable water. Such policy recommendations will outline methodologies and their respective costs,

benefits and potential contributions to water conservation.

Capacity actively seeks opportunities to improve services in asset planning and contract management. We continue to manage more than 5,086 km of pipes, 121 reservoirs and 175 pump stations for three councils. During 2010/2011 Capacity is responsible for managing \$54 million of operational expenditure and \$34 million of capital expenditure for our clients.

Schedule One outlines how Capacity's costs are allocated across client councils based on planned work activities for 2010/2011.

Schedule Two lists the capital projects that will be managed by Capacity on behalf of its clients during the 2010/2011 year.

Capacity is committed to ensuring all work managed on behalf of our clients accords with the highest standards of health and safety for those involved in the work and for the general public. The company will continually seek opportunities to integrate water, stormwater and waste water activities within the Wellington region where such integration can deliver least cost, best practice outcomes to the benefit of all our clients.

Capacity staff are highly skilled and experienced in water and drainage activities. Staff have extensive institutional knowledge of clients' infrastructure and a thorough understanding of working in the local government environment. We are proud of our strengths and recognise that the recruitment and retention of skilled personnel with water industry knowledge is essential to the ongoing success of our business.

4 Our business objectives

Capacity's principal objectives are:

- the long term planning management and delivery of the water, stormwater and wastewater assets of its clients and across the wider Wellington region.
- to support the development and early implementation of an integrated system for the management of information required by Capacity for the effective management of water services.
- to 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.
- to operate as a successful business, returning benefits to shareholders.
- to exhibit a sense of social and environmental responsibility by having regard to the interests of the community and to conduct its affairs in accordance with sound business practice.

Section 59 of the Local Government Act 2002 also provides that the principal objective of Council Controlled Trading Organisations is to achieve the objectives of the shareholder, be a good employer, and exhibit a sense of social and environmental responsibility by having regard to the interests of the community and to conduct its affairs in accordance with sound business

practice.

In order to meet these objectives we focus our work on asset planning and development, capital project management, operations management, risk management, strategic directions and corporate governance.

5 Activities for 2010/2011

5.1 Asset Planning and Development

Strategic Network Plan

The provision of water supply, wastewater and stormwater services is vital to the health, vibrancy and well-being of the community.

Capacity has prepared a high level strategy entitled *Three Waters Strategy* for Wellington City Council. The strategy sets the long term direction for the three water services and will ensure that the established service objectives are met through the delivery of key goals, outcomes and addressing key issues and challenges, such as climate change, demand management, changes in service levels and legislative/regulatory changes.

The *Three Waters Strategy* will ensure that Wellington City Council continues to meet its community's needs into the future, whilst operating, maintaining and developing the network in a cost effective and sustainable manner. It sets the framework for the development of a Three Waters Strategic Network Plan in 2010. The network plan will outline the activities planned to address the issues and challenges and provide a confluence for the identification and development of the three water networks future layout.

Stormwater Strategy

A draft strategy setting out the principal stormwater issues facing Hutt City and how these issues will be managed has been prepared. In 2010, we will finalise this strategy and prepare a work programme for implementing the strategy.

Water Conservation Plan

One of the key challenges in the provision of water supply services is the increasing water demand from population and urban growth. Capacity is in the process of preparing a water conservation plan for Wellington City which sets out how the Council and the community can manage the demand for potable water. This will see Capacity working with other local councils in order to establish and propose solutions; identify appropriate levels of services and undertake water conservation with focussed community engagement.

Leak detection

Leak detection programmes to reduce water wastage in Wellington and Hutt cities will continue into 2011. In addition to routine maintenance for pipe bursts, water supply zones will be proactively targeted to detect and repair hidden leakage.

Water pressure management

Water pressure management to reduce water consumption and pipe bursts in the reticulation network was instigated in Wellington in recent years. Pressure management zones have been progressively introduced and work will continue into 2011 to gauge their effectiveness.

Water restrictions during summer

Summer water restrictions are enforced in Wellington, Lower Hutt, Upper Hutt and Porirua to manage the water demand. Capacity coordinates the publicity and education of this activity for Wellington, Lower Hutt and Upper Hutt in conjunction with Greater Wellington Regional Council. This will continue in 2010/11.

Wastewater Overflow Mitigation Plan

Capacity is in the process of preparing a wastewater overflow mitigation (*or management*) plan for Wellington City Council. Wellington City Council's wastewater network performs well during dry weather and moderate rainfall. However, like other wastewater networks in New Zealand and around the world, wastewater overflows can occur when the network becomes overwhelmed during heavy rainfall events. This occurs predominantly through the entry of groundwater and stormwater into the wastewater network. This plan is expected to be completed in late 2010.

Flood Hazard Mapping

Flood hazard mapping for Wellington City has been carried out for a number of years. In 2010/11, a flood hazard map will be developed for Waring Taylor catchment to assess and communicate the flood risks that are present and to facilitate management of any other risks that are present.

Stormwater Discharge Consents

Wellington City holds a number of stormwater discharge consents around the city and these consents are due to expire. In 2010 we will continue working

with the Council and other key stakeholders on developing a more holistic approach to managing stormwater discharges. A single consent approach for stormwater discharges into the coastal marine environment has been adopted recommending increased and more diverse monitoring options. This will develop a knowledge base that can be used to integrate planning, solution investigation and development as well as community involvement.

Asset Management Plans

Asset management plans for Wellington, Hutt and Upper Hutt will be completed for each council during 2010/11. Client councils will receive project plans with milestones and delivery dates for these plans during the year.

Asset management improvement tasks will include

- developing a condition model for buried water services assets to assist in renewals forecasting and asset valuation processes
- conducting a review of pipe renewal prioritisation processes to ensure appropriate weighting is given to pipes which are contributing to poor performance of the network

Benchmarking

Managing our clients networks in a cost effective and sustainable manner is Capacity's priority and we benchmarked operating costs against those of the Auckland water industry in 2009. However, the creation of a single entity in Auckland responsible for provision of water services means that this comparison is no longer available. Capacity is now in the process of developing a different benchmarking methodology and will source comparative information on operating costs from other councils.

Emergency Preparedness

Capacity responds to civil emergencies in conjunction with our clients' emergency requirements. Following a Civil Defence emergency exercise last year, Capacity is producing an improvement plan which covers actions relating to emergency management (reduction, readiness, response and recovery) and the three water activities' assets. This will cover retro-fitting of facilities, network reinforcement, redundancy improvements, emergency exercises and training and providing direction for long-term recovery. The physical works will take many years to implement, but long term planning will provide the guidance to ensure works are undertaken in a structured and prioritised manner.

5.2 Capital Project Management

To ensure continued efficient delivery of services to our customers we prepare draft capital works programmes consistent with asset management plans. Capacity manages the capital works programme including design, obtaining necessary consents, tendering, contract administration, construction supervision and financial management.

In the 2010/11 year we will be constructing two large projects for Wellington City, the Messines Road reservoir project which will replace an aging undersized reservoir that has met the end of its economic life and the construction of the Tacy Street stormwater pump station, which is being constructed in association with the Kilbirnie indoor sports stadium.

Flood protection work on Black Creek in Wainuiomata will be entering the final stages in the next two years with the replacement of three bridges which restrict water flow in the stream during heavy rain.

To reduce engineering consultancy expenditure and to expand our project supervision capability Capacity has engaged in a joint venture agreement with GHD to provide engineering consultancy services. The venture has been working very well with the design programme and budget currently tracking as expected. The full benefits of the agreement will be seen in the 2010/2011 financial year.

With the Rugby World Cup event in 2011, all capital works that may impact on the fixtures will be identified and programmed to be completed either before 9 September, or not undertaken until after the tournament concludes on 23 October 2011..

5.3 Operations Management

We manage operations and maintenance activities for all our client councils. The activities are managed through formal contracts with specialised service providers to ensure that work is carried out to appropriate standards within required timeframes.

Following an extensive tendering process, Capacity entered into a formal contract with City Care Ltd on 1 July 2009 for the operation and maintenance of the water supply networks for Wellington, Hutt and Upper Hutt cities and drainage networks for Hutt and Upper Hutt cities. City Care currently carries out similar water services contracts for Manukau, Tauranga, New Plymouth and Christchurch cities and is considered to be one of the leading water services contractors in the industry. The performance based contract is for an initial five year term and has a strong emphasis on working collaboratively with Capacity to deliver world class service while seeking ongoing best value through innovation and continuous improvement.

Key performance measures are used to measure operational performance against industry accepted benchmarks and key operational procedures are

continuously reviewed as part of business system audits (ISO accreditation).

With the Rugby World Cup in 2011 Capacity will ensure that all planned maintenance that may impact on fixtures will be identified and programmed to be completed before the tournament commences in September. This will minimise reactive maintenance required on the network during the event. If reactive maintenance is required it will be designed to minimise any disruptions.

Capacity also oversees the management of wastewater treatment plant operating contracts on behalf of our clients who operate four wastewater treatment plants each with their own resource consents and operational issues. In 2010/11 at the Moa Point plant, Capacity will oversee the upgrading of the inlet pump station as well as trialling ultraviolet irradiation of wet weather flows bypassing the full treatment process.

5.4 Risk Management

Capacity manages risk at the corporate (or organisational) risk and operational activity risk levels.

Capacity has a corporate risk management framework consistent with AS/NZS 4360:2004 which was developed in 2005. This standard has recently been superseded by AS/NZS ISO 31000:2009. During 2010 Capacity will review and amend the corporate risk management framework to ensure compliance with AS/NZS ISO 31000:2009.

Corporate risks are identified in terms of Capacity's key business objectives. The risk management framework identifies risk management strategies for all risks and these are reassessed six monthly by the Capacity Board's Audit and Risk Committee.

A comprehensive internal audit programme is carried out (a programme of planned audits in addition to random spot audits) in conjunction with Capacity's ISO 9001:2000 certification. External audits are carried out six monthly as part of Capacity's quality certification (ISO 9001).

Activity risk is risk associated with the delivery of water supply, wastewater and stormwater services and is addressed in the Wellington City water services asset management plans. Capacity is developing activity risk management plans for the three waters as complementary documents to the Wellington City water services asset management plans to cover risk at a greater level of detail than is practical in the asset management plans. The preparation of activity risk management plans is a risk mitigation strategy identified in the Capacity corporate risk management framework. The activity risk management plans are expected to be completed in late 2010.

6 Strategic directions

Capacity will focus on four key strategies over the next five years as detailed

in the Capacity Strategic Plan 2010-2014.

6.1 Stakeholder Intimacy

We will ascertain stakeholder needs and be fanatical about delivery of reliable and quality services. We will be more proactive and relationship based as we manage the assets of more clients and deal directly with thousands of customers.

6.2 Empowerment of our People

Our people will be empowered to meet all stakeholder needs. We will have the right people with the right skills, knowledge and attitude. This includes staff and our business partners (contractors, consultants and other suppliers).

6.3 Integrated Management of Information

We will support the development and early implementation of an integrated system for the management of information required by Capacity for the effective management of water services. This strategy will provide information necessary to achieve stakeholder intimacy and achieve operational excellence.

6.4 Wellington Regional Water Services Network Enhanced Integration Strategy

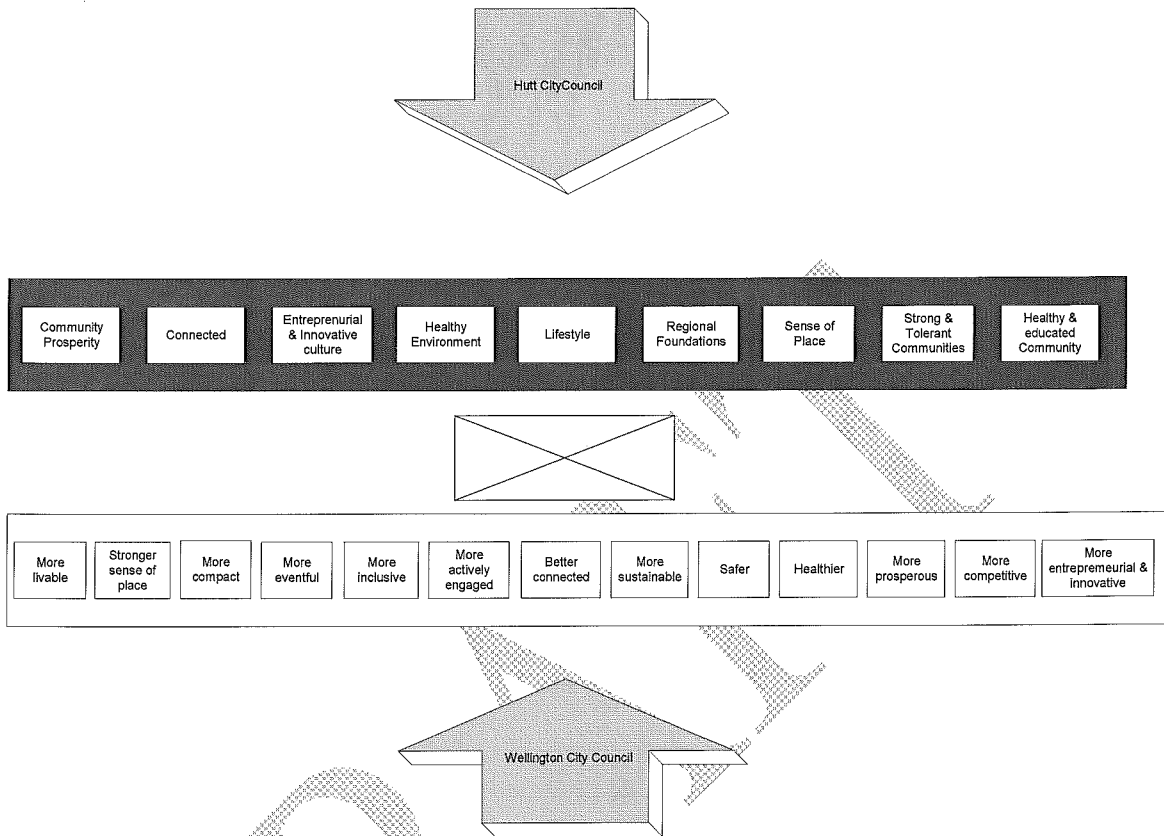
This strategy will support our shareholders in the attainment of an integrated water services network across the greater Wellington region, to improve the region's competitive advantage through the efficiency and quality of its water services.

Capacity Management and staff resources are being re-aligned during the 2010/11 year to ensure that these strategies can be worked on as well as business as usual within the current budget. If additional resources are required to progress the implementation of the Capacity Strategic Plan 2010-2014, shareholders will be requested to provide additional funds.

7 Capacity's contribution to council and community outcomes

Capacity contributes to shareholder council and community outcomes for Wellington City and Hutt City councils through the work that we do, in order to meet the vision of these cities. Council and community outcomes are the community's overall aspirations for the city.

They relate to all aspects of community living – its environment, economy, transport system, and social, economic, environmental and cultural wellbeing. The following diagram shows the similarities between both councils and the table below details our contribution towards these.



Connected – Capacity provides staff with remote access to computer networks for quicker and more accurate site based management.

Sense of place – Capacity will ensure that above ground infrastructure is designed to be compatible with its surroundings and is part of a quality built environment.

Healthy, sustainable and educated communities – Capacity will manage the provision of reliable, cost effective water services that will ensure network practices are based on long term sustainable values with a community health focus. Capacity will participate in the community events that educate on conservation techniques particularly with regard to water. Capacity will develop a sustainability policy to encourage staff to meet current and future business demands.

Community prosperity and competitiveness – Through our asset planning framework Capacity will undertake long term planning and policy development to ensure infrastructure networks will grow and perform to meet growing demand and customer expectations. Capacity will operate at an efficient level

ensuring that staff have the appropriate skills and knowledge to meet current and future business demands.

Healthy and safe environment – Capacity will ensure that drinking water and waste water disposal is maintained at a high standard and in accordance with resource consent and regional plan requirements. Public safety will be ensured by insisting on highest delivery of health and safety practice on all work sites.

Resilient living space with minimal disruption – Capacity will manage infrastructure projects to minimise or avoid disruption to event programmes. Capacity will provide quality service to protect the streams, harbour and coastline and people.

Entrepreneurial and innovative - Capacity will use best practices and continuous development to ensure innovation in network processes and practices. Capacity will use innovative practices to reduce the cost of service delivery and meet established savings targets. Capacity will seek to grow the business and thereby reduce costs to shareholders through spreading costs over a broader business base.

Regional foundations with more active engagement - Capacity will assist in the development of a regional approach to the delivery of water. Capacity will seek and welcome feedback from the community on water services.

In delivering contract based water services to Upper Hutt City, Capacity will ensure the quality and timeliness of delivery will also accord with Upper Hutt City's stated community outcomes.

8 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.

This statement provides an overview of Capacity's main corporate governance policies, practices and processes adopted by the Board.

The Board of Directors

The board of directors consists of six members, with each shareholder separately appointing up to two directors and jointly appointing up to two independent directors. To ensure that Capacity has the continuity of the relevant knowledge, skills and experience, the expiry dates of their terms of office vary for each director. Each director can serve a maximum of six years. HCC Councillor Ray Wallace completes his second term on 31 December 2010 and the first term of Board Chair Peter Allport expires on the same date. Peter Leslie and WCC Councillor Andy Foster complete their first term on 31 October 2010. The first three year terms of John Strahl and Ian Hutchings expire during

2012. Board performance reviews were completed in 2009 and will be undertaken annually by 30 June each year, using the Institute of Director's board evaluation service.

Board performance reviews have been undertaken in the 2008/09 year and will be undertaken annually by 30 June each year using the Institute of Directors Board evaluation service..

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

Unanimous approval of the Board is required for:

- 1.1. significant changes to the company's structure
- 1.2. extraordinary transactions (entering into any contract or transaction except in the ordinary course of business)
- 1.3. delegation of Directors' powers to any person
- 1.4. any decision to diversify business into a business not forming part of or being naturally ancillary to the core business of managing water services
- 1.5. major transactions including establishment and renewal of contracts for delivery of services
- 1.6. disputes (commencing or settling any litigation, arbitration or other proceedings which are significant or material to the company's business)
- 1.7. borrowings in a manner that materially alters the company's banking arrangements, advancing of credit (other than normal trade credit) exceeding \$5,000 to any person except for making deposits with bankers, or giving of guarantees or indemnities to secure any person's liabilities or obligations
- 1.8. sale of assets (sell or dispose of fixed assets for a total price per transaction exceeding \$100,000 or a series of aggregated transactions exceeding \$200,000)
- 1.9. capital expenditure (other than in the ordinary course of doing business) at a total cost to the company, per transaction, exceeding \$100,000 or a series of aggregated transactions exceeding \$200,000.

The agreement of the Shareholders is required for:

- 1.10. any changes to the constitution
- 1.11. any increases in capital and the issue of further securities, share buybacks and financial assistance
- 1.12. any alteration of rights attaching to shares
- 1.13. any arrangement, dissolution, reorganisation, liquidation, merger or amalgamation of the company
- 1.14. any "major transactions" as that term is defined in the Companies Act 1993.

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.

Accumulated profits and capital reserves

There is no intention to pay a dividend in the 2010/11 financial year or succeeding years.

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 one month after the end of each quarter 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 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).
- 4 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 auditors report (in accordance with section 67, 68 and 69 of the LGA 2002).

Share acquisition

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

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.

Commercial value of the shareholders' investment

The net value of the shareholders' investment in the company is estimated to be valued at \$301,000 as at 31 December 2009. This value shall 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.

9 Forecast financial statements

Forecast Statement of Financial Performance

FOR THE FINANCIAL YEARS ENDING 30 JUNE 2011, 30 JUNE 2012, 30 JUNE 2013

Forecast Statement of Financial Performance							
FOR THE FINANCIAL YEARS ENDING 30 JUNE 2011, 30 JUNE 2012, 30 JUNE 2013							
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Budget	Budget	Budget
	1-Jul - 30 Sep	1 Oct - 31 Dec	1 Jan - 31 Mar	1 Apr - 30 Jun	2010/2011	2011/2012	2012/2013
	000's	000's	000's	000's	000's	000's	000's
REVENUE							
Operations	1,902	1,902	1,902	1,902	7,607	7,797	7,969
TOTAL REVENUE	1,902	1,902	1,902	1,902	7,607	7,797	7,969
EXPENDITURE							
General Expenditure	412	412	412	449	1,685	1,727	1,773
Personnel Expenditure	1,471	1,471	1,471	1,471	5,885	6,032	6,194
Depreciation	9	9	9	9	36	36	0
Interest on Finance Leases	1	1	1	1	2	2	2
TOTAL EXPENDITURE	1,893	1,893	1,893	1,930	7,607	7,797	7,969
NET SURPLUS/(DEFICIT) BEFORE TAXATION	9	9	9	-28	0	0	0
Tax expense/(benefit)	0	0	0	0	0	0	0
NET SURPLUS/(DEFICIT) AFTER TAXATION	9	9	9	-28	0	0	0

Forecast Statement of Financial Position

FOR THE FINANCIAL YEARS ENDING 30 JUNE 2011, 30 JUNE 2012, 30 JUNE 2013

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Budget	Budget	Budget
	1-Jul - 30 Sep	1 Oct - 31 Dec	1 Jan - 31 Mar	1 Apr - 30 Jun	2010/2011	2011/2012	2012/2013
	000's	000's	000's	000's	000's	000's	000's
CURRENT ASSETS							
Cash	324	420	248	384	384	393	404
Prepayments	13	(26)	86	48	48	49	50
Trade and other receivables	713	713	713	713	713	731	751
Current Assets	1,050	1,108	1,047	1,144	1,144	1,173	1,204
NON CURRENT ASSETS							
Property, plant and equipment	46	36	27	18	18	0	0
Non current assets	46	36	27	18	18	0	0
TOTAL ASSETS	1,096	1,144	1,074	1,163	1,163	1,173	1,204
CURRENT LIABILITIES							
Trade and other payables	557	497	426	487	487	487	508
GST payable	59	118	99	120	120	123	126
Annual leave	325	340	255	280	280	287	295
TOTAL LIABILITIES	941	955	780	887	887	898	929
NET WORKING CAPITAL	155	189	294	275	275	275	275
EQUITY							
Share Capital	600	600	600	600	600	600	600
Retained Earnings	(326)	(255)	(158)	(325)	(325)	(325)	(325)
TOTAL EQUITY	274	345	442	275	275	275	275

Forecast Statement of Cash Flows

FOR THE FINANCIAL YEARS ENDING 30 JUNE 2011, 30 JUNE 2012, 30 JUNE 2013

	1st Qtr 1-Jul - 30 Sep 000's	2nd Qtr 1 Oct - 31 Dec 000's	3rd Qtr 1 Jan - 31 Mar 000's	4th Qtr 1 Apr - 30 Jun 000's	Budget 2010/2011 000's	Budget 2011/2012 000's	Budget 2012/2013 000's
CASH FLOW FROM OPERATING ACTIVITIES:							
Cash was provided from:							
Operating receipts	1,989	2,140	2,140	2,140	8,408	8,618	8,850
GST receivable	(215)	(118)	(317)	(199)	(849)	(870)	(894)
Cash was disbursed to:							
Payment to suppliers	1,982	1,926	1,995	1,805	(7,708)	(7,738)	(7,946)
OPERATING ACTIVITIES	(208)	96	(173)	136	(149)	10	11
CASH FLOW FROM INVESTING ACTIVITIES:							
Cash was disbursed to:							
Purchase of fixed assets	(40)	0	0	0	(40)	0	0
INVESTING ACTIVITIES	(40)	0	0	0	(40)	0	0
NET CASH INFLOW / (OUTFLOW)	(248)	96	(173)	136	(189)	10	11
OPENING CASH BALANCE	573	324	420	248	573	384	393
CLOSING CASH BALANCE	324	420	248	384	384	393	404

10 Statement of accounting policies

Capacity will apply the following accounting policies consistently during the year and apply these policies to the Statement of Intent. In accordance with the New Zealand Institute of Chartered Accountants Financial Reporting Standard 42 (FRS 42), the following information is provided in respect of 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 Wellington Capacity expects to take place.

Statement of compliance with International Financial Reporting Standard

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for public benefit entities. IFRS was adopted from 1 July 2006.

Reporting entity

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. Current shareholders are Wellington City Council and Hutt 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 the purposes of financial reporting Capacity is a public benefit entity.

Reporting period

The reporting period covers the 12 months from 1 July 2009 to 30 June 2010. Comparative projected figures for the year ended 30 June 2011 and 30 June 2012 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 in conformity with NZ IFRS 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 clients. In 2009/10 its clients are Wellington City Council, Upper Hutt City Council and Hutt City Council.

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

b) Expenses

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

c) Taxation

Income tax expense is charged in the statement of financial performance in respect of the current year's earnings after allowing for permanent differences. Deferred taxation is determined on a comprehensive basis using the liability method.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

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 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, trade and other receivables.

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.

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. Fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date for loans of a similar maturity and credit risk. Trade and other receivables issued with duration of less than 12 months are recognised at their nominal value. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired.

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 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 financial performance as is any gain or loss when the liability is derecognised. Financial liabilities entered into with 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 financial performance.

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 financial performance 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 10.75 per cent

Furniture 7.80–18.60 per cent

Plant and equipment 7.80–48.0 per cent

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 financial performance 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 five years

Realised gains and losses arising from disposal of intangible assets are recognised in the statement of financial performance 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 financial performance.

h) Employee benefits

A provision for employee benefits (holiday leave) is recognised as a liability when benefits are earned but not paid. These include salaries and wages accrued up to balance date.

The long service leave liability is a contractual entitlement for a reducing number of grand-parented ex-council employees who after 20 years service are granted a one-off entitlement of extra leave. This entitlement is not offered to new Capacity employees.

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 financial performance in the period in which they are incurred. Payments made under operating leases are recognised in the statement of financial performance on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of financial performance 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) Statement of cash flows

The statement of cash flows has been prepared using the direct approach.

Operating activities include cash received from all income sources of the company and a record of the cash payments made for the supply of goods and services. Investing activities relate to the acquisition and disposal of assets. Financing activities relate to activities that change the equity and debt capital structure of the company.

m) Related parties

A party is related to Capacity if:

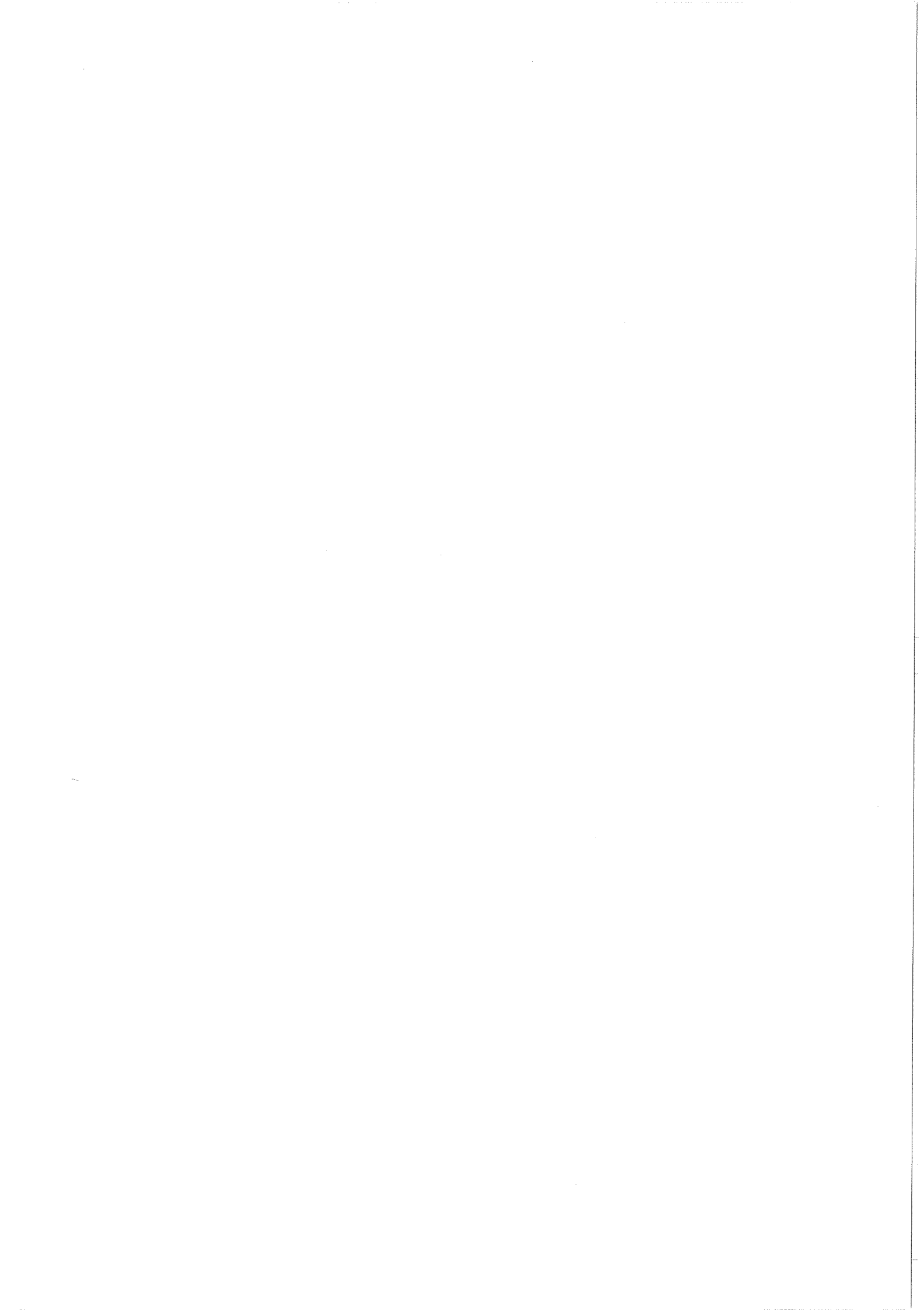
- directly or indirectly through one or more intermediaries, the party:
 - controls, is controlled by, or is under common control with Capacity
 - has an interest in Capacity that gives it significant influence over the control of the company
 - has joint control over Capacity
- the party is an associate 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 controlled 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.

11 Key performance indicators- DRAFT

Service category	Service aspect	Service objective	Performance target
Service quality	Service reliability	To provide a reliable water supply, wastewater and stormwater service	Fewer than 4 unplanned supply cut (pipe burst) per 1000 connections
Customer focus	Responsiveness to service request	To respond promptly to service request	97 per cent respond to all requests for service within one hour of notification
	Timeliness and quality of asset management plan for Councils	Timeliness and quality of asset management plan	Completion of approved asset management plan within agreed timeframe
Cost effectiveness	Operating efficiency	To provide a cost-effective service	Trend of the operating cost of delivering water supply, wastewater and stormwater services relative to a national average
Financial, Project and Network Management	Financial, Project and Network Management	To manage operating and capital projects within budgets and timeframes	Deliver operating projects within budget and timeframes
			Deliver capital projects within budget and timeframes
		To manage Capacity within budget	Manage Capacity within budget
Legislative, financial, technical, compliance	Legislative, financial, technical, compliance	To comply with relevant standards, resource consents and legislation	Full compliance with relevant standards, resource consents and legislation

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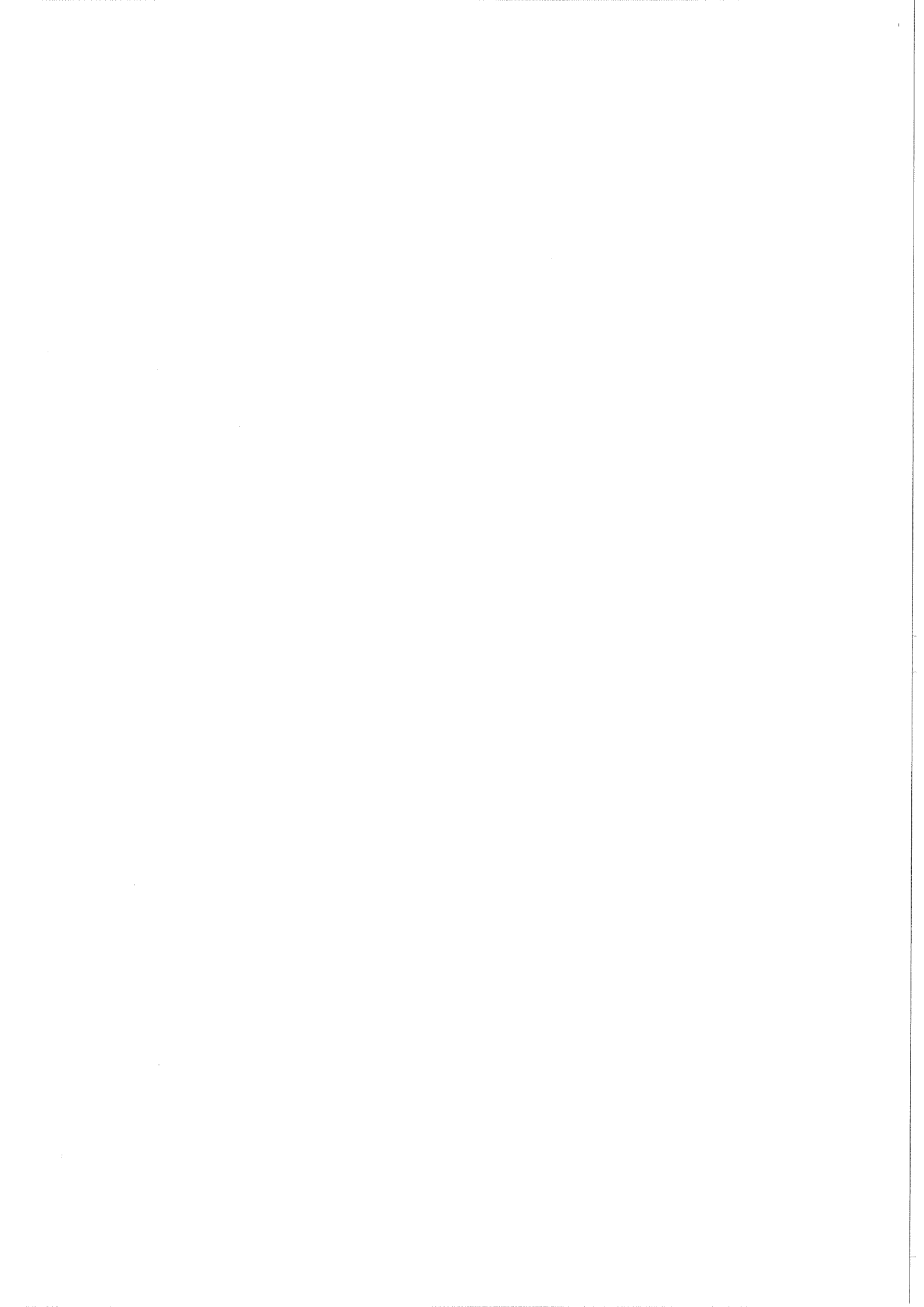
12 Schedule ONE – Capacity’s cost allocation summary

		CAPACITY				
		<i>Direct Costs</i>				
		Strategic & Asset Planning	Investigation, monitoring and development	Capital Project Management	Operations Management	Total
		\$000	\$000	\$000	\$000	\$000
<u>Water</u>	WCC	148	727	881	475	2,231
	HCC	126	54	58	291	529
	UHC	111	3	24	200	338
	Total	384	785	964	965	3,098
<u>Wastewater</u>	WCC	143	353	734	510	1,740
	HCC	257	11	59	270	597
	UHC	88	0	24	74	187
	Total	488	364	818	854	2,524
<u>Stormwater</u>	WCC	195	169	505	177	1,046
	HCC	118	11	127	264	520
	UHC	62	19	24	129	235
	Total	375	198	657	570	1,801
<u>Total Network</u>	WCC	485	1,249	2,121	1,161	5,017
	HCC	501	76	244	825	1,646
	UHC	261	22	73	404	760
	Total	1,248	1,348	2,438	2,390	7,423
					% of Controllable Costs	8.76%
					WCC	
					HCC	
					UHC	
					% of Grand Total cost	4.84%

Total Network Asset Values (Optimized Replacement Cost)

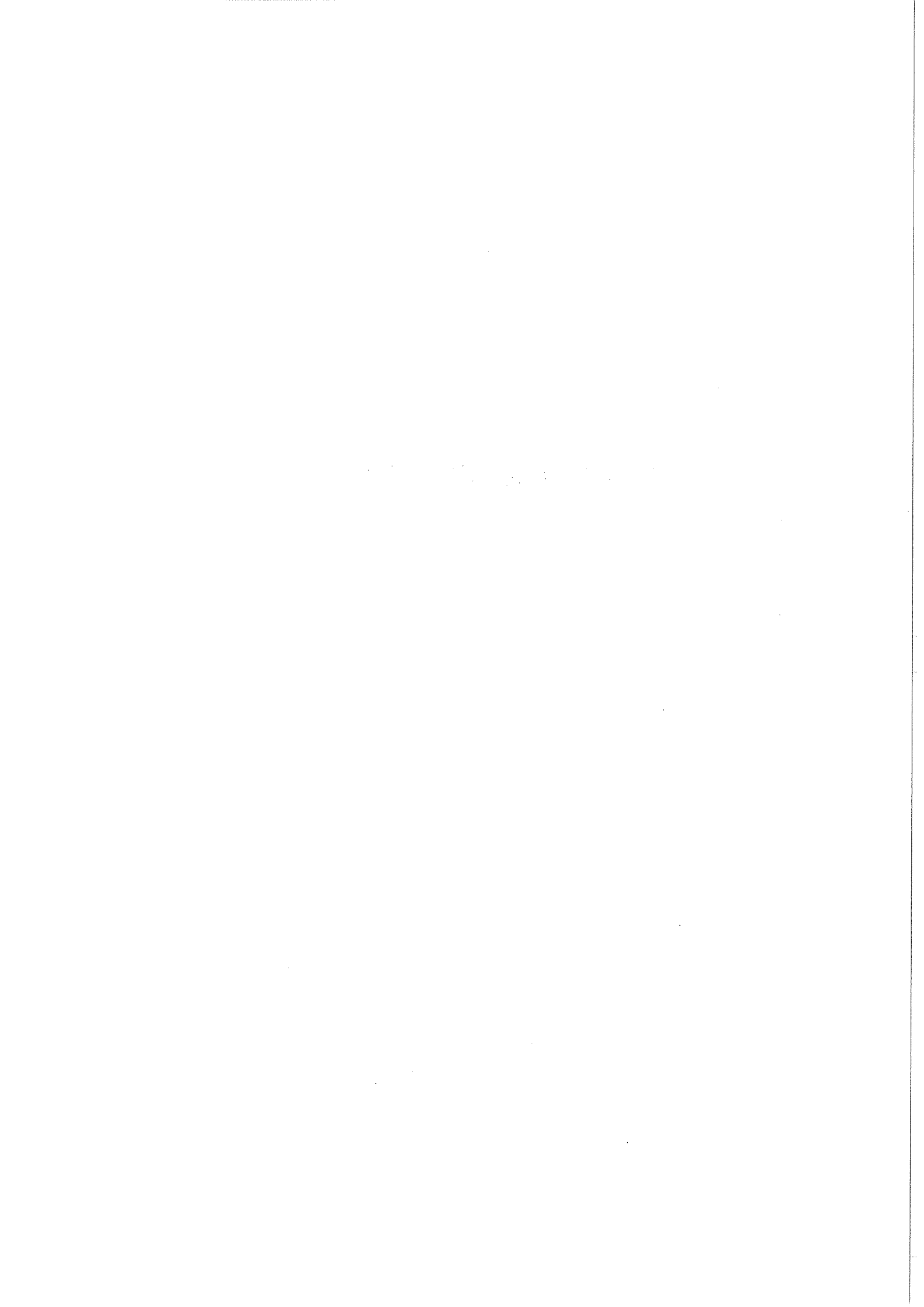
WCC	HCC	UHC	Total
\$000	\$000	\$000	\$000
2,153,702	922,701	336,903	3,413,306

Capacity Annual Costs as a % of Asset Values 0.22%



- * Excludes revenue, depreciation, interest and other council controlled costs
- ** Includes revenue, depreciation, interest, and other council controlled costs

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13 Schedule TWO – Capacity’s capital project delivery 2010/2011

These capital projects will be managed by Capacity on behalf of its clients during the 2010/2011 year. The project lists do not include Capacity management costs.

Projects denoted with an asterisk will be completed after the 2010/2011 year.

Wellington City Council		Project Cost (\$000's)	
Project Name			
Water Supply			
Pipe renewal	Cast Iron water main renewal - stage 1	1,252	
	CBD water main renewal	234	
	Design funds for 2011/12 projects	220	
	Funds for urgent works	200	
	Hadfield Tce & Kelburn Pde water main renewal	200	
	Northern water main renewal - stage 1	438	
	Northern water main renewal - stage 2	727	
	Southern water main renewal	473	
	Water model project	50	
	Wellington central water main renewal	1,301	
Reservoir and pump station renewal	Forward planning – investigations/designs	155	
	Ladder and hatch upgrade programme	130	*
	Pump station renewal - Hay St	225	
	Pump station renewal - Huntingdon St	72	
	Pump station renewal - Russell Tce	225	
	Reservoir renewal - Messines Rd	3,358	*
	Roof resealing work - Carmichael reservoir	150	
	Urgent works/minor works (pump stations/reservoirs)	103	
Area water meter	Area water meter installation - Eastern suburbs	293	
Pipe upgrade	Bell Rd rezoning project	512	*
Reservoir upgrade	Reservoir pipe work - seismic coupling installation	163	
Maintenance renewal	Water network maintenance renewal	1,264	
Total		11,745	

Stormwater		
Flood protection upgrade	Construction of grit traps in CBD culverts	52 *
	Localised flooding projects	319
Pipe renewal	Allington Rd stormwater renewal	70
	Atlanta Gr stormwater renewal	170
	Barnard St & Baker St stormwater renewal	85
	BCLS related projects	150
	Boulcott St stormwater renewal	300
	Cleveland St stormwater renewal	70
	Contaminated stormwater resource consent projects	50
	Design funds for 2011/12 projects	250
	Duthie St (no 19) stormwater renewal	35
	Elizabeth St (no 139) stormwater renewal	41
	Evans Bay Pde (no.254) stormwater renewal	40
	Farm Rd stormwater renewal	105
	Funds for urgent works	129
	Hanson St (no 168 to 196) stormwater renewal	140
	Hanson St (no156) stormwater renewal	80
	Homewood Ave (no 4) stormwater renewal	50
	Karori Rd (no 294) stormwater renewal	120
	Kilbirnie grit trap construction	100
	Lochiel St stormwater renewal	120
	Luxford St (no 8a) stormwater renewal	18
	Oban St (no 76) stormwater renewal	75
	Olivia Cres stormwater renewal	44
	Queen St stormwater renewal	90
	Rixon Gr (no 51 to 53 Austin St) stormwater renewal	65
	Rixon Gr stormwater renewal	60
	Salisbury Tce stormwater renewal	250
	Stout St stormwater renewal	300
	Tasman St (no 190) stormwater renewal	75
	Upper Bourke St stormwater renewal	90
	Upper Watt St (no 24-40) stormwater renewal	85
	Waikare St stormwater renewal (with sewer)	60
	Total	

Wastewater		
Pipe and pump station renewal	Adelaide Rd sewer renewal	150
	Barnard St sewer renewal	120
	BCLS related projects	150
	Blackridge Rd sewer renewal	230
	Brooklyn Rd sewer renewal	70
	Condition assessment of pump stations	25
	Coutts St sewer renewal	130
	Delhi Cres sewer renewal	200
	Design funds for 2011/12 projects	350
	Douglas St sewer renewal	95
	Drummond St sewer renewal	105
	Elizabeth St (no.85) sewer renewal	163
	Endeavour St (no 50-74) sewer renewal	220
	Endeavour St (no 79-103) sewer renewal	221
	Funds for urgent works (pipes)	163
	Glenmore St (no 108-128) sewer renewal	155
	Glenside pump stations renewal (stations 1 to 8)	240
	Hall St sewer renewal	230
	Hanson St service lane sewer renewal	50
	Hanson St sewer renewal (with stormwater)	80
	Hobart St sewer renewal	220
	Homewood Ave (no 4) - sewer renewal	160
	Marsden Ave (7) sewer renewal	110
	Minor work/telemetry work	25
	Ngauranga Gorge pump station renewal	153
	Nottingham St (no 86-92) sewer renewal	50
	Opepu Rd-Apu Cres sewer renewal	600
	Owen St (no 28 to 48) sewer renewal (with stormwater)	110
	Owen St (no 91) sewer renewal (with stormwater)	90
	Pump station minor works/urgent works	75
	Pump stations 8, 9 and 10 rationalisation work	50 *
	Pumping station 33 rising main renewal - stage 1	500
	Pumping station 33 rising main renewal - stage 2	450
Raroa Rd sewer renewal	100	
Resource consent project - Western Treatment Plant	150	
Rixon Gr sewer renewal	120	
Rochester St sewer renewal	220	

	Rugby St Basin Reserve sewer renewal	80
	Tasman St (no 190) sewer renewal (with stormwater)	95
	Tawa pump stations renewal (stations 5 & 6)	45
	Tio Tio Rd sewer renewal	395
	Upper Watt St (no 24-40) sewer renewal	90
	Wadestown Rd sewer renewal	50
	Waitoa Rd sewer renewal	120
	Williams St sewer renewal	180
	Wilton Rd (no 155) sewer renewal	130
	Wilton Rd sewer renewal	165
Moa Point upgrade	Moa Point inlet pump station upgrade	336
	Moa Point Pilot Ultra Violent Treatment Plant	181
Total		8,197

Hutt City Council	
Project Name	Project Cost (\$000's)
Water Supply	
Korokoro pump station switchboard renewal	60
Main Rd water main renewal - phase 4	380
Miromiro Rd water main renewal - stage1	336 *
Moores Valley Rd water main renewal	170
Pharazyn St pump station renewal - stage 2	150
Pipe minor works	150
Pump station minor works	50
Reservoir hatch security programme	25
Reservoir minor work	50
SCADA renewals	25
Thirlmere St rider main renewal	140
Walker Gr water main renewal	160
Total	1,696

Stormwater	
Awamutu Stream upgrade project	750 *
Boulcott stopbank project - HCC contribution	250 *
Jackson St stormwater renewal	345
Minor works	120
Pump station renewals	75
SCADA renewals	35
Waiwhetu Stream project - HCC contribution	1,500
Total	3,075
Wastewater	
Mahina Bay pumping station flowmeter installation	18
Minor asset renewals	170
Pressure testing of sewer mains	300
Pump station renewals	80
SCADA renewals	26
Trunk non DBO minor works	10
Trunk non-DBO flow meter installation in Te Marua	18
Vista Gr sewer renewal	300
Wainuiomata catchment sewer renewal	1,420
Total	2,342

Upper Hutt City Council

Project Name	Project Cost (\$000's)
Water Supply	
Field St water main renewal - section 1	196
Field St water main renewal - section 2	103
Joseph Gr water main renewal	79
Kiln St water main renewal	63
Maclea St water main renewal	238
Marion St water main renewal	98
Poplar Gr water main renewal	84
Telemetry upgrade project	24
Unscheduled water main renewal	27
Total	914

Stormwater	
Messines St stormwater renewal	113
Park St stormwater renewal - stage 1	701 *
Pinehaven Rd stormwater renewal	73
Total	887

Wastewater	
Argyle St wastewater renewal	90
Benge Cres wastewater renewal	55
Dowling Gr wastewater renewal	85
Hikurangi St wastewater renewal	50
Holdsworth Ave wastewater renewal	22
Merton St - Ruahine St - Tararua St wastewater renewal - stage 1	156 *
Sandford St wastewater renewal	90
Speargrass Gr wastewater renewal	160
Telemetry upgrade project	5
Total	713

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14 Directory

Directors

Peter Allport (Chairman)
Andy Foster
Ian Hutchings
Peter Leslie
John Strahl
Ray Wallace

Chief Executive

David Hill

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