

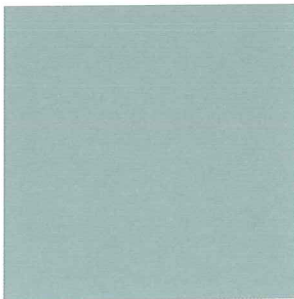
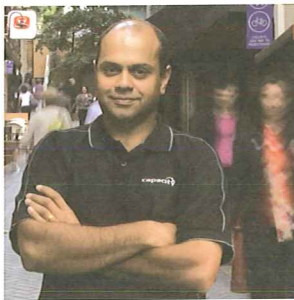
Quarterly Report to Shareholders

Capacity Infrastructure Services Limited

trading as Capacity

For the nine month period ended 31 March 2011

21 April 2011



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Introduction

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

Following are Capacity's financial results and progress on key performance indicators as set out in the Statement of Intent 2010-2011 for the period from 1 July 2010 to 31 March 2011. The financial results include income and expenditures from the Capacity operations, Upper Hutt contracted services and the joint venture design office with GHD, but excludes all holiday leave accruals.

Key Performance Indicators for Capacity 2010/2011

1. Service Quality: To provide a reliable water supply and wastewater service

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

WCC	HCC	UHCC
0.81	2.03	1.64

Performance target is less than 4 per 1000

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

WCC	HCC	UHCC
0.52	0.75	0.20

Performance target is less than 1.2 per kilometre

2. Customer Focus: To respond promptly to service requests and produce timely Asset Management Plans of a good quality.

i. Responsiveness to service requests within one hour (%)

Water	WCC	HCC	UHCC
Water Supply	99%	100%	100%
Stormwater	95%*	100%	100%
Wastewater	92%*	100%	100%

Target 97%

- It should be noted that the LTCCP target relates only to **Response A**. CitiOps can only report on **Response B (Onsite)** at this stage. While the results are not considered a 'non-achievement' for the purposes of LTCCP reporting, more work is being done to ensure that individual jobs are closed off in Confirm.*

ii. Timeliness and quality of Asset Management Plans for Councils

Capacity delivered Asset Management Plans to each of our three client Councils within agreed timeframes in 2010. In this quarter we have enhanced our planning with the following:

Emergency Management Preparedness

Following a request from Christchurch City Council and City Care Ltd, nine Capacity staff were seconded in shifts to assist with the Christchurch earthquake recovery during March. Staff were primarily involved in the restoration of the water supply managing teams of contractors from throughout New Zealand across approximately a third of the City and in the restoration of the trunk wastewater system. The experience gained by the staff in the immediate response after a major event will be of great benefit to Capacity and the Wellington region in the mitigation, preparedness, response and recovery for future emergencies. Staff from City Care Ltd and CitiOps were also seconded to assist with the Christchurch recovery.

Capacity commissioned an emergency management preparedness project in 2008 to improve the service response to the client Councils in an emergency event. A project team was convened, made up of Capacity and the Client Council's infrastructure and emergency management personnel. The project team was extended in 2010 to include representatives from Greater Wellington Regional Council and Porirua City Council. The initial focus of the project included emergency response planning, emergency stores, securing and distributing stored water in the region's reservoirs and the prioritisation of critical infrastructure for seismic upgrade to meet community needs post event.

The Canterbury Earthquake in September 2010 has provided a new emphasis to the project and highlighted the vulnerability of the region's bulk water supply and the need to procure alternative supplies of water until such time as the supply of bulk water can be resumed (up to 55 days in Wellington post event). The project team subsequently commissioned MWH to carry out a study to identify and report on the risks and options available to each city to supply water to their communities. The report identifies the risks and options available with recommendations for further investigation for the respective cities. The report will be updated as further recommendations from the February Christchurch earthquake are identified. Capacity is currently investigating options with GW and MWH to procure a combined emergency operations/storage facility in the Hutt Valley for Upper Hutt and Hutt City emergency response purposes.

3. Cost Effectiveness

Trend of the operating cost of delivering water, wastewater and storm water supply relative to a national average

This is an annual indicator and will be reported following financial year end.

4. Financial, Project and Network Management

i. Deliver capital projects within budget and timeframes

Capex \$000s	YTD Actual	YTD Budget	YTD Variance	Annual Forecast	Annual Budget	Forecast Variance
Wellington	14,138	20,622	6,484	25,079	26,435	1,356
Hutt City	3,540	4,479	938	5,254	7,046	1,792
Upper Hutt City	1,728	2,896	1,168	3,140	3,277*	137
Total	19,406	27,997	8,590	33,473	36,758	3,285

**Please note that these Annual Budget numbers are different from those presented in the first quarterly report because some budget lines in the Upper Hutt budgets which Capacity has control over, were inadvertently excluded.*

Wellington City Council

The YTD variance is primarily due to delays experienced in the wastewater and stormwater renewal/upgrade projects associated with private property access and geotechnical issue, and the design and tendering of the Messiness Road Reservoir and Tacy Street stormwater pumping station.

The YE variance comprises of two projects to be carry over to the next financial year – replacement roof for Carmichael Reservoir and grit and screening upgrade work at the Moa Point treatment plant.

Hutt City Council

The YTD variance is due to delay in the start of the culvert / bridge upgrade work at Black Creek and the deferral of a number of wastewater and stormwater projects to the 2011/12 financial year to meet Hutt City Council financial requirements. The YE variance comprises of funds carry over for these projects.

Upper Hutt City Council

The YTD variance is due to delay in the start of the wastewater and stormwater projects. The contractor, E Carsons & Sons, has been seconded to Christchurch to help in the recovery work. The wastewater projects will be completed by June but completion of the stormwater projects will be delayed to September. Carry over of funds caused by this delay can only be confirmed close to year end.

Upper Hutt City Council has a cost share agreement with Hutt City Council on the Main Outfall Pipe vortex bypass and Silverstream River Crossing projects. The YE favourable variance is due to Hutt City Council deferring these projects to 2011/12.

ii. Deliver operating and maintenance projects within budget and timeframes

Opex \$000s	YTD Actual	YTD Budget	YTD Variance	Annual Forecast	Annual Budget	Forecast Variance
Wellington	26,690	26,644	-46	35,712	35,510	-202
Hutt City	15,844	15,947	104	21,527	21,677*	150
Upper Hutt City	4,327	4,785	458	6,305	6,305*	
Total	46,861	47,377	516	63,544	63,492	-52

*Please note that these Annual Budget numbers are different from those presented in the first quarterly report because some budget lines in the Hutt and Upper Hutt budgets which Capacity has control over, were inadvertently excluded.

Wellington City Council

The YE unfavourable variance is due to WCC under-budgeting reactive works carried out by CitiOperations and unbudgeted work on urgent culvert cleaning at Waring Taylor. The culvert cleaning at Waring Taylor will prevent flooding in the CBD area, and has been approved by WCC. Tendering is in progress for this work.

Hutt City Council

The YE variance is due to the carry over of the condition inspection of the main outfall sewer. Limited contractors are available for the work because of the Christchurch earthquake recovery work.

Upper Hutt City Council

The YTD variance is due to work on Closed Circuit Television, repairs and investigation into Pinehaven Stream Flood Mitigation behind schedule.
No YE variance is anticipated.

iii. Manage Capacity within budgets and timeframes (2010/11)

Total YTD expenditure is \$5,393,000 and is about 6% lower than the three quarters' budget of \$5,764,000. Capacity forecasts to have a nil surplus at year ending 30 June 2011.

5. Legislative, financial and technical compliance

i. Full compliance with relevant standards, resource consents and legislation

Full compliance with legislative, financial and technical standards continues at year to date. To date there have been no incidents of non-compliance.

6. Meet key performance measures as set out in Service Level Agreements (SLAs)

Monthly reporting of performance measures covering the operation of the network, cost and delivery of services are presented and discussed with infrastructure management staff at WCC, HCC and UHCC, according to an established schedule. All key performance measures have been met YTD with the exception of CitiOperations reporting.

Financial Results

Income

Operations Revenue for the third quarter of 2010/2011 of \$1,761,000 includes \$194,000 (11%) contracted services from Upper Hutt. Because Capacity's operational costs were lower than budgeted during the three quarters, we have charged lower management fees to shareholder councils by about 6% (\$343,000).

A \$39,000 surplus is recorded for the nine months ending 31 March 2011.

General Expenditure

Total Expenditure for the quarter is \$1,761,000, and the YTD expenditure of \$5,393,000 is about 6% lower than the three quarters' budget of \$5,764,000. Capacity operated well within budget during the three quarters ending March 2011.

Personnel Expenditure

Personnel cost was 5.2% (\$232,000) below budget YTD. Several staff recruitments occurred in Asset Development and Asset Planning Teams during the quarter.

Financial Statements

Statement of Comprehensive Income

For the nine months ended 31 March 2011

	Half Year \$000	March Quarter \$000	YTD Actual \$000	YTD Budget \$000	Variance \$000
REVENUE					
Operations	3,659	1,761	5,420	5,763	(343)
Interest	<u>7</u>	<u>5</u>	12	<u>-</u>	<u>12</u>
TOTAL REVENUE	3,666	1,765	5,432	5,763	(331)
EXPENDITURE					
Operating Expenditure	713	377	1,090	1,226	136
Personnel Expenditure	2,847	1,351	4,198	4,430	232
Directors' Fees	53	26	79	79	-
Depreciation	19	7	26	27	1
Interest Expense	-	-	-	2	1
Audit Fees	<u>-</u>	<u>-</u>	-	<u>-</u>	<u>-</u>
TOTAL EXPENDITURE	3,631	1,761	5,393	5,764	371
NET SURPLUS/(DEFICIT) BEFORE TAXATION	<u>35</u>	<u>4</u>	39	<u>-</u>	<u>40</u>
Tax Expense	<u>-</u>	<u>-</u>	-	<u>-</u>	<u>-</u>
NET SURPLUS/(DEFICIT) AFTER TAXATION	<u>35</u>	<u>4</u>	39	<u>-</u>	<u>40</u>

Statement of Movements in Equity

For the period ended 31 March 2011

	March 2011 \$000	June 2010 \$000
NET SURPLUS/(DEFICIT) FOR THE YEAR	39	38
Contribution from owners:		
Share capital paid	-	-
MOVEMENTS IN EQUITY FOR THE PERIOD	39	38
EQUITY AT BEGINNING OF YEAR	313	275
EQUITY AT END OF YEAR	352	313

Statement of Financial Position

As at 31 March 2011

	March 2011 \$000	June 2010 \$000
CURRENT ASSETS		
Bank	168	497
Accounts Receivable	759	661
Sundry Debtors & Prepayments	<u>53</u>	<u>109</u>
	980	1,267
NON CURRENT ASSETS		
Intangible Assets	15	19
Property, Plant & Equipment	<u>68</u>	<u>74</u>
	82	93
TOTAL ASSETS	<u>1,062</u>	<u>1,360</u>
CURRENT LIABILITIES		
Accounts Payable	432	744
Provision for Taxation	(7)	6
Annual Leave	<u>285</u>	<u>297</u>
	709	1,047
NON CURRENT LIABILITIES		
TOTAL LIABILITIES	<u>709</u>	<u>1,047</u>
NET WORKING CAPITAL	<u>353</u>	<u>313</u>
Share Capital	(600)	(600)
Retained Earnings	<u>247</u>	<u>287</u>
EQUITY	<u>(353)</u>	<u>(313)</u>

Statement of Cash Flows

As at 31 March 2011

	Quarter March 2011 \$000	FY June 2010 \$000
Cash flows from operating activities		
Cash was provided from:		
Operating Receipts	5,333	7,081
GST	(32)	18
Cash was disbursed to:		
Payments to Suppliers	(5,603)	(6,873)
Payments of Tax	(13)	(28)
Interest Paid		(1)
Net cash inflow/(outflow) from operating activities	<u>(314)</u>	<u>197</u>
Cash flows from investing activities		
Cash was applied to:		
Purchase of Property, Plant & Equipment	(15)	(63)
Purchase of Intangible Assets	-	(20)
Net cash outflow from investing activities	<u>(15)</u>	<u>(83)</u>
Cash flows from financing activities		
Net cash inflow from financing activities	<u>-</u>	<u>-</u>
Net Increase in Cash held	(330)	114
Opening Cash Balance	497	383
Closing Cash Balance	<u>168</u>	<u>497</u>
Made up of:		
Cash	168	497
Short term deposits	-	-
Closing Cash Balance	<u>168</u>	<u>497</u>

