



sustainable
STORMWATER

secure
WATER SUPPLY

efficient
WASTEWATER



CAPACITY INFRASTRUCTURE SERVICES is a council controlled trading organisation responsible for managing the delivery of water services for its clients.

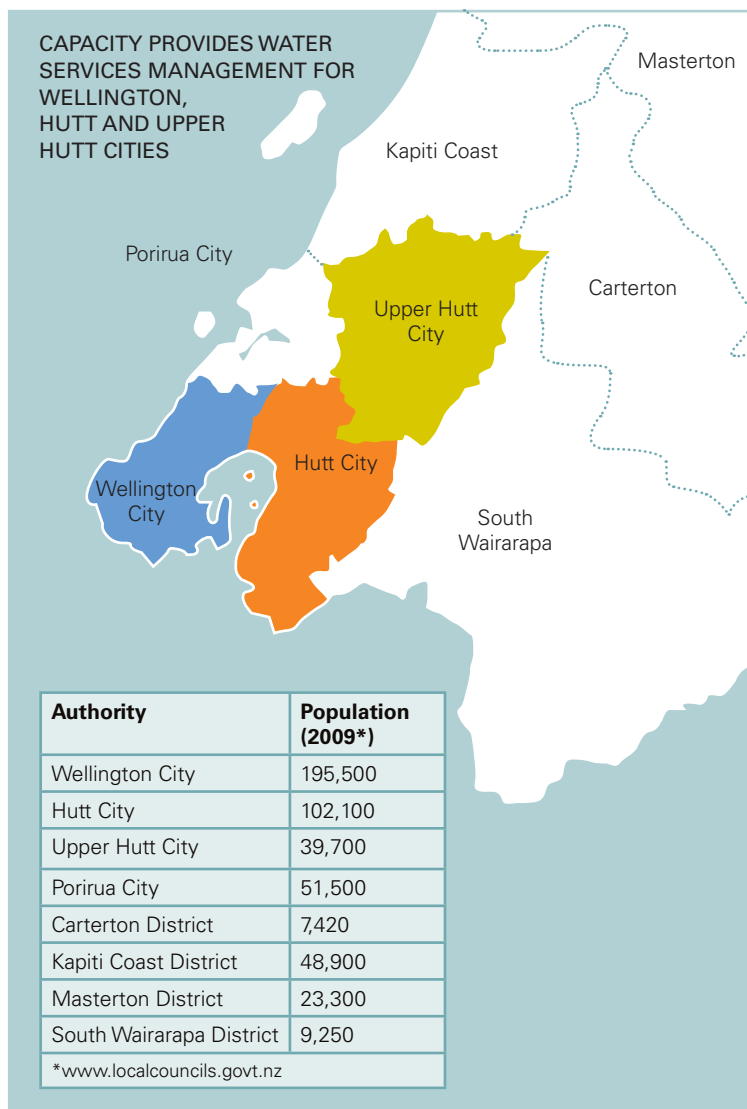
We have two shareholders: Wellington City Council and Hutt City Council, each holding 50 per cent of the voting (Class A) shares in the company.

We manage water services for three of the eight territorial authorities in the Wellington region – both our shareholding councils and, since 2008, Upper Hutt City.

Water services that we manage include the networks transporting the three waters – drinking water, stormwater and wastewater. We manage these services according to objectives set out in our Contract for Provision of Services Relating to Water Services with client councils.

Each council maintains ownership of its water services assets such as pipes, pump stations and reservoirs. They also own the treated water they supply to ratepayers, purchasing it in bulk from the Greater Wellington Regional Council, and recovering the cost through rates and water charges.

Councils also manage customer (residential and commercial user) relationships, with service requests handled through their call centres. We manage service provider relationships and provide consulting, planning, project design, management and delivery, and network monitoring services.



HOW WE PERFORMED 2010-11

All three water services are crucial to community well-being, development and the protection of life, health and property. Our role is to manage their operation, maintenance and extension, and we do this through services including asset management planning, consenting processes, financial management, project management, contractor management, information services, quality assurance and performance monitoring.

Our performance is measured in five categories as set out below. How we performed is set out in detail on pages 12, 13, 16, 19 and 22, and the statements of financial performance of this report.

SUMMARY OF ORGANISATIONAL PERFORMANCE CATEGORIES AND MEASUREMENT AREAS

| CATEGORY | MEASUREMENT AREA | PERFORMANCE | |
|---|---|--------------------------|--------------|
| | | 2010-11 | 2009-10 |
| Service quality | Supply cuts; fewer than four unplanned cuts per 1000 connections | Achieved | Achieved |
| | Fewer than 1.2 wastewater incidents per km of pipeline | Achieved | Achieved |
| Customer focus | Service response; 97% response rate within one hour | Achieved | Not achieved |
| | Plan completion: reports and plans completed to agreed time frame | Achieved | Achieved |
| Cost effectiveness | Operating cost trend | Achieved (see note pg13) | |
| Legislative, financial and technical compliance | Compliance with standards, legislation, consents | Mainly achieved | Achieved |
| Financial, project and network management | Project delivery on time, within budget | Mainly achieved | Achieved |
| | Organisation managed within budget | | Achieved |

First choice in infrastructure services

The aim of this annual report is to enable people who use and have an interest in water services to assess how well we are creating and sustaining value in that area over the short, medium and long term.

It contains:

An overview of the water network and the assets we manage on behalf of councils **p2**

Highlights of the year's activity **p3**

Chairman Peter Allport's statement of major issues and opportunities affecting the business **p4**

Chief Executive David Hill's statement in review of performance for the year **p5**

How Capacity is governed – who is on the board and board committees, constitutional rules, leadership structure, attendance and remuneration **pp 6-7**

How we add value: an overview of the business model and its value for clients (councils) and customers (water service users) **pp 8-9**

A comparison of the primary risks the business faces and the strategies we have developed to contribute to their mitigation **pp 10-11**

A summary of performance against our clients' expectations and our own **pp 12-13**

A review of activities, issues, and performance in each of the three waters **pp 14-22**

Emergency management – our role in reducing the impact of major natural disaster **pp 23-24**

Health and safety outcomes for the year **p 25**

Our statements of financial performance and financial position for the year 1 July 2010 to 30 June 2011 **pp 26-39**

And Audit New Zealand's opinion of our statements and performance information **p 40**



Capacity's mission is the sustainable delivery of water services which represent the best possible value.

Our **strategies** to achieve this are:

stakeholder intimacy – knowing and meeting the needs of our customers

staff empowerment – having the right people with the skills, knowledge and attitude they need to do their job

information integration – to support water services management on a regional basis

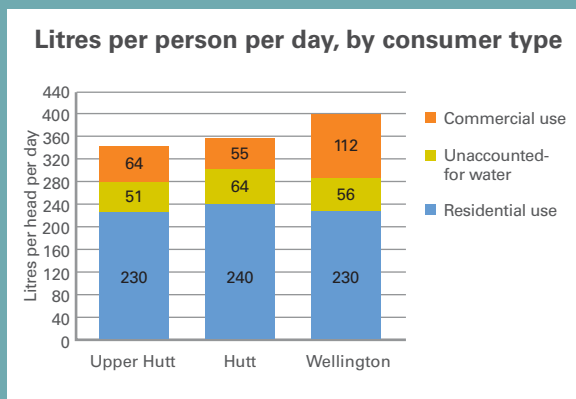
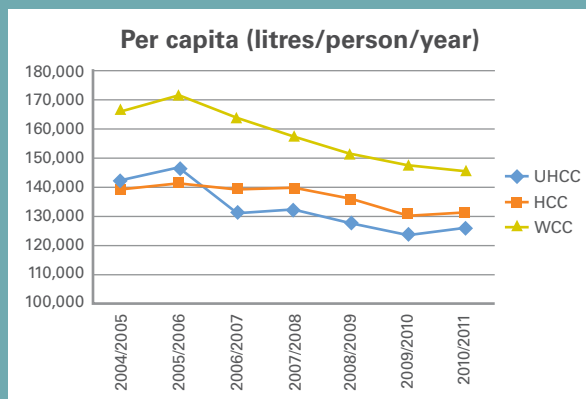
service integration – building a regional network to improve the Wellington region's competitive advantage.

Our **values** guide how we'll act as we work on our strategies to achieve our vision:

- honesty
- trust
- flexibility
- friendliness
- timeliness
- efficiency

Our **vision** – first choice in infrastructure services

HOW MUCH WATER WE USE



Per capita water consumption per year (left, above) represents total water usage of the entire city (including commercial, residential and unaccounted-for water) divided by the city's population.

Residential usage in litres per person per day (right, above) is based on the average of a small selection of properties in each city which are metered for this purpose. The accuracy is

currently about +/-30 litres per day. The **Commercial** figure is based on the commercial use in each city divided by the city's population. The **Unaccounted-for water** figure is based on the gross per capita usage per day minus residential and commercial usage. Unaccounted-for water includes leaks, council use, firefighting and meter error.

How water networks work

A water network comprises systems for collecting, treating, and distributing drinking water; collecting and discharging stormwater; and collecting, treating and discharging wastewater.

AN EFFECTIVE, WELL MANAGED NETWORK DELIVERS:

security of supply – so we have water when we need it

public health – safe, clean tap water supplies

quality of water – for all three waters

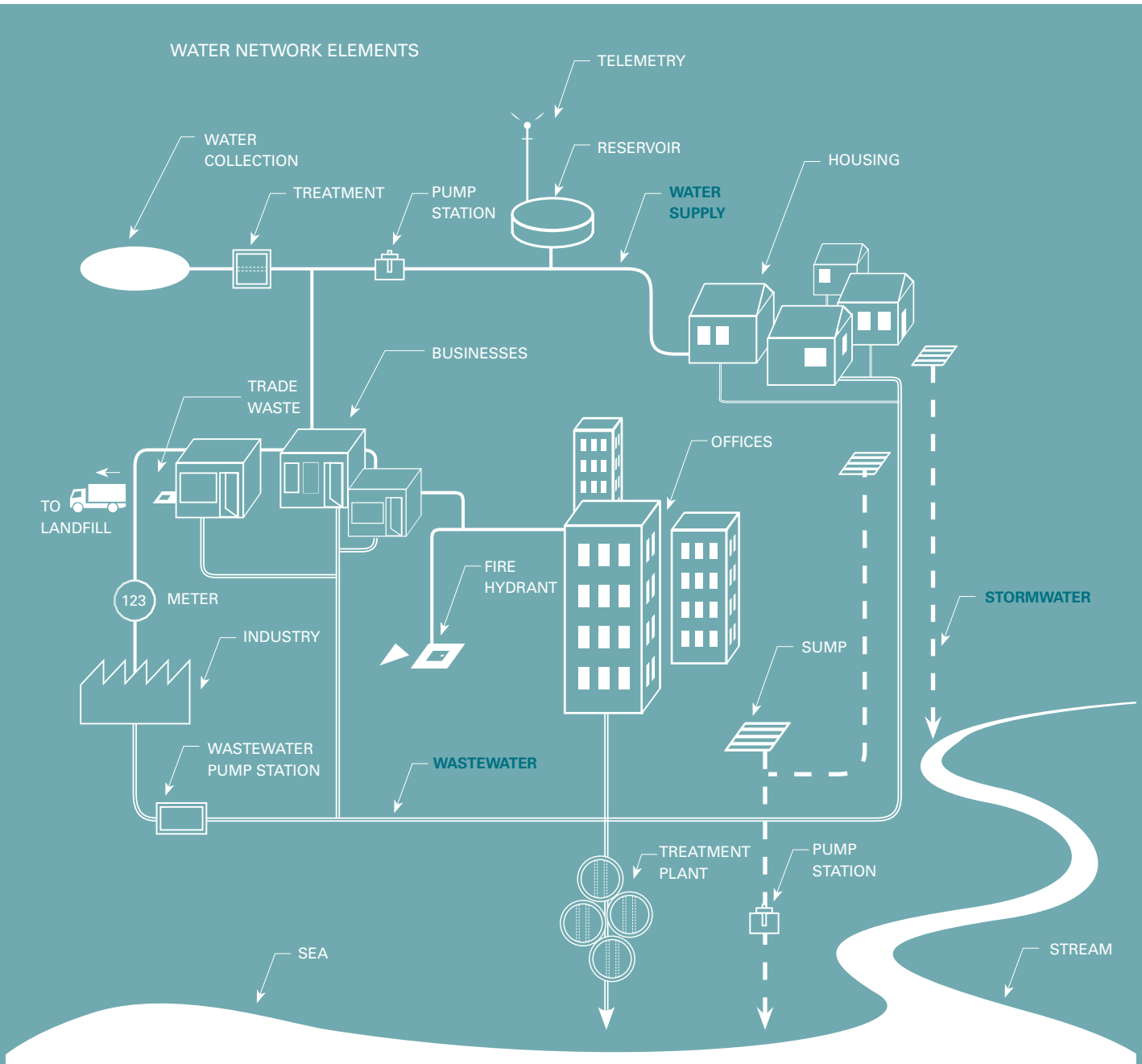
resilience – against earthquakes and other disasters

property protection – firefighting, flood management

environmental protection – safe water, and adequate warnings

efficiency – delivering savings, managing resources

sustainability – ensuring the network, the environment, contractors, clients and our business thrive.



Highlights of the year



Rob Jack (left) and Tony Jaegers are congratulated by chairman Peter Allport (right) for their award-winning work on improving the way we capture first-hand information on asset condition.

MINDING YOUR ASSETS

| Pipelines km | Water supply | Wastewater | Stormwater |
|--------------|--------------|--------------|--------------|
| Upper Hutt | 277 | 215 | 147 |
| Hutt | 683 | 573 | 546 |
| Wellington | 1,245 | 1,058 | 725 |
| Total | 2,205 | 1,846 | 1,418 |

| | Reservoirs | Pump stations | Service connections |
|--------------|------------|---------------|---------------------|
| Upper Hutt | 16 | 26 | 12,267 |
| Hutt | 24 | 52 | 38,223 |
| Wellington | 79 | 97 | 64,581 |
| Total | 119 | 175 | 115,071 |

Asset values

(based on optimised depreciated replacement cost, or what it would cost to replace the assets to their present level of service and lifespan) in millions of dollars

| | Water | Wastewater | Stormwater |
|--------------|----------------|----------------|----------------|
| Upper Hutt | \$66.4 | \$71.3 | \$84.5 |
| Hutt | 101.6 | 232.4 | 161.1 |
| Wellington | 372.0 | 459.6 | 365.8 |
| Total | \$540.0 | \$763.3 | \$611.4 |

Wellington, Upper Hutt: 1 July 2011; Hutt: 1 July 2010.

As well as the assets above we manage three telemetry systems inherited from Wellington, Hutt and Upper Hutt city councils to monitor activity on the three water networks. The combined system is one of the country's largest system control and data acquisition (SCADA) operations. Data captured includes reservoir levels, pump operations, flow meters and rainfall. This is used to analyse system performance and provide information on assets.

The system consists of three main components: base stations, repeaters and remote terminal units. We look after:

- 348 remote telemetry sites
- 10 radio channels
- 14 repeater stations located around the region's hills
- three base stations.

Managed expenditure of \$95.3 million for three clients, including \$31.5 million (actual) in capital expenditure projects and \$63.8 million (actual) on operations and maintenance.

Scheduled annual work and maintenance programmes for clients **completed on time and to budget.**

Sustained savings for shareholders, including this year a reduction in fees of \$737,000.

Achieved all client service **key performance indicators**, with the exception of four instances of consent non-compliance.

Responding to client initiatives – Wakefield Park drainage renewal from inception to completion in 12 weeks.

Secured new **resource consents** for stormwater discharges that ensure integrated planning for improved future management.

No lost time due to health and safety incidents among Capacity staff; 140 hours lost due to contractor performance.

Initiated **organisational culture change** programme to develop greater interdependence among teams.

Record number (24) of entries in staff **innovation awards**, won by an improved water supply pipe risk assessment model. This provides for first-hand knowledge to be incorporated into planned renewal programmes – meaning more pipes are replaced before they burst, rather than after.

Comprehensive **Emergency Management Plan** for water and wastewater completed, and training carried out in conjunction with local and national emergency management partners.

Ongoing resource contribution to **Christchurch earthquake recovery effort.**



Statement of the Chairman of the board, Peter Allport

Capacity Infrastructure Services was formed with the intention of managing at the lowest possible cost the provision of the water services that communities require.

Wellington City, Hutt City and Upper Hutt City's water services are now managed by Capacity. As a council-owned organisation, Capacity passes the benefits of combined service delivery back to those communities. In fact, under the current model Capacity cannot retain any profit – so all savings translate to reduced costs to our shareholder councils.

In Capacity's 2010 annual report, I noted the current model had reached its limits in cost and service delivery improvement. Bold steps are needed in order to unlock the benefits of full network efficiency that would flow from having integrated water services management across the Wellington region.

It's pleasing to note progress on this over the past year.

Independent reports confirmed the value of Capacity's establishment and role. They also emphasised that the process is not complete. Conversations in the light of these reports and Capacity's performance have been increasingly constructive – minds are more open to the economic reality of regional water services management.

This is pleasing because from Capacity's perspective, the status quo is not an option. As things are, we can only do part of the job we were established to do. One example is the value that having common information systems and standards would provide, rather than dealing with individual platforms.

We continue to work with those responsible to support this understanding with action. For Capacity's part, we need to clearly demonstrate the benefits we offer.

The devastation experienced in Canterbury highlighted the absolutely critical nature not just of

the three water networks – drinking, sewerage and stormwater – but of their integrated management. Nine of our staff assisted with recovery work in Christchurch, as did contractors we work with in the Wellington region. Their experiences emphasised that in times of crisis, information is essential for quick and effective service repair. Our contribution to Christchurch's recovery continues.

Capacity is closely involved in the emergency planning of Wellington, Hutt and Upper Hutt cities, and this is another opportunity for us to demonstrate technical and management leadership while creating better-prepared communities.

Promoting messages of water conservation and efficiency is yet another. The Wellington region faces ongoing demand and supply issues that will be exacerbated in the next few years as storage lakes are strengthened, and infrastructure is upgraded to meet population growth needs. Once again, this is an issue that crosses council boundaries, where integrated management makes economic sense. Capacity is working closely with and across councils to promote co-ordinated activity now and into the future.

In these, and all areas of water services management in the Wellington region, Capacity looks forward to delivering leadership.

It is a stimulating and rewarding task to lead Capacity in this work. I am particularly grateful to staff, management and my fellow board members for their ongoing passion and commitment to bringing world class, fully integrated water services management to the Wellington region.

PETER ALLPORT
CHAIRMAN

Statement of the Chief Executive, David Hill

Firstly I wish to thank our staff who assisted in the days immediately after the Canterbury earthquakes – and their families. It was important, and highly valuable, for us to send people both to help and to learn. I'm also grateful to our client councils and our contractors – several of whom were also called to Christchurch – who worked with us on mitigating the impact of this event on our planned work programmes.

The earthquakes emphasised the need for resilience – a quality that applies equally to people and the infrastructure that sustains them.

The past year has been a very successful one for Capacity. We fully achieved eight of our nine client service performance targets with only a few minor instances of contractor non-compliance affecting full achievement of all targets. We also achieved savings for Wellington City Council of \$737,000. In effect we were asked by the council to continue reducing our costs – which we did. In the years since Capacity was formed, we have delivered savings for our clients of more than \$3.1 million – despite the constraints on executing the business model, which are noted by Peter in his chairman's statement.

We completed capital expenditure projects worth \$31.5 million (actual), including renewing more than 17 kilometres of water supply wastewater and stormwater pipes. We also managed operational expenditure of over \$63.8 million (actual), on repairs and maintenance projects and running costs for our clients' wastewater and pump stations.

Our operations contractor, City Care, continues to perform at or above expectations, and we have negotiated a contract that ensures their interests in service improvement, cost reduction and innovation align with ours.

We completed asset management plans for our clients, along with documents and research to help councils plan and budget for ways to meet the aspirations of their communities in the future. With natural disaster fresh on our minds, it's important to remember that resilience also means the ability to perform under the

stress of change – such as climate change and population growth.

We continued to build links with our clients and customers. Our strategic shift towards a customer focus and a regional approach is taking shape through initiatives including internal staff development and external engagement strategies.

Part of that shift has been driven by needs such as meeting resource consent requirements, such as for the largely natural event of rainwater entering the sea. Another is more proactive, such as the collaboration with our clients, Porirua City and Greater Wellington Regional councils to develop a common strategy for promoting water conservation and efficiency.

This summer one of the two storage lakes that helps cover shortfalls in our "run of river" water supply system will be decommissioned by Greater Wellington Regional Council in order to increase its capacity and provide seismic strengthening. Next summer, the other lake will be out for the same purpose.

But the upgrades are medium term fixes for a long-term issue. Rising populations and service expectations mean the people of the Wellington region need to make an informed decision for the long term. Do we want a dam? A third lake? Tougher restrictions? User pays?

These are questions the community must answer, and they must be answered from the position of being fully informed.

Whatever the people decide, Capacity will continue to deliver on their expectations, working more closely with them, their councils and others in the region, to ensure we all have the water services we need to last into the future.



DAVID HILL
CHIEF EXECUTIVE



Governance



PETER ALLPORT
CHAIRMAN



DAVID BASSETT
DIRECTOR



PETER LESLIE
DIRECTOR



ANDY FOSTER
DIRECTOR



IAN HUTCHINGS
DIRECTOR



JOHN STRAHL
DIRECTOR

Capacity is a council controlled trading organisation as defined by Section 6 of the Local Government Act 2002. Our activity is covered by the Companies Act 1993 and governed by law and accepted standards for reporting and performance.

THE BOARD OF DIRECTORS

The board of directors consists of six members. Each shareholder may separately appoint up to two directors and jointly appoint up to two independent directors. To ensure continuity of knowledge, skills and experience, the expiry dates of directors' terms vary, with each director serving a maximum of six years.

Peter Allport, chairman

Peter Allport joined the board in March 2008. Peter has a 48-year international business career in industrial process design engineering, corporate management and governance in both the private and public sectors. He remains active in the development and management of infrastructure assets in water, mobile telecommunications, commercial aviation, property and power generation. He is chairman of Magritek Ltd and a board member of Newcom LLC and Eznis Airways (Mongolia), Wellington Free Ambulance and the New Zealand Red Cross Foundation. He also chairs the Retail Advisory Group of the Electricity Authority and is the Honorary Consul of Mongolia in New Zealand.

David Bassett

David Bassett, deputy mayor of Hutt City Council, joined the board in January 2011. David has private and public sector senior management experience in finance, accounting and human resource management, with a focus on organisation development and change management. Chairman of Hutt City Council's Finance and Audit Committee, David is also a member of the Hutt Valley District Health Board.

Peter Leslie

Peter Leslie joined the board in 2007. He is a professional engineer with wide experience in the management of water and wastewater infrastructure in both the public and private sectors. He has worked in the UK, Australia and southeast Asia and is a former CEO of the facilities management firm PAE (NZ). Peter is currently deputy chairman of the Wellington Engineering Lifelines Group, a voluntary association of utility services companies.

Andy Foster

Andy Foster joined the board in November 2007. Andy is a long standing Wellington City councillor. He chairs the council's Strategy and Policy Committee and is also its Transport Portfolio leader. Andy is a Guardian of Zealandia and active in governance of community organisations. He has a background in finance and economics.

Ian Hutchings

Ian Hutchings joined the board in July 2009. Ian is a professional engineer and, prior to 2004, served for 12 years as a Wellington City councillor where he had responsibility for the Finance and the Transport and Infrastructure portfolios. Ian is employed in the Ministry of Economic Development's Energy and Communications Branch, specialising in policy advice on use of the radio frequency spectrum. He also chairs the Hutt Mana Charitable Trust, is a director of the Trust's HMCT Holdings company, and is a member of the Johnsonville Charitable Trust.

John Strahl

John Strahl joined the board as an independent director in December 2009. John is an experienced commercial lawyer and was a former chairman of DLAPhillipsFox in both Australia and New Zealand. His specialist legal experience is in local government and governance especially for council controlled trading organisations, commercial, and financial services. John also is a company director and previously a director of several public companies.

Directors' remuneration (8 meetings in year.)

| | MEETINGS ATTENDED | 2011 | 2010 |
|--------------------------------------|-------------------|------------------|------------------|
| Peter Allport (chair from Dec 09) | 7 | \$30,000 | \$23,750 |
| Bryan Jackson (chair retired Nov 09) | | 0 | 12,500 |
| Andy Foster | 6 | 15,000 | 15,000 |
| Peter Leslie | 8 | 15,000 | 15,000 |
| Ray Wallace (retired Dec 10) | | 7,500 | 15,000 |
| David Bassett (from Jan 11) | 3 | 7,500 | 0 |
| Ian Hutchings | 8 | 15,000 | 15,000 |
| John Strahl | 7 | 15,000 | 8,750 |
| TOTAL DIRECTORS' REMUNERATION | | \$105,000 | \$105,000 |

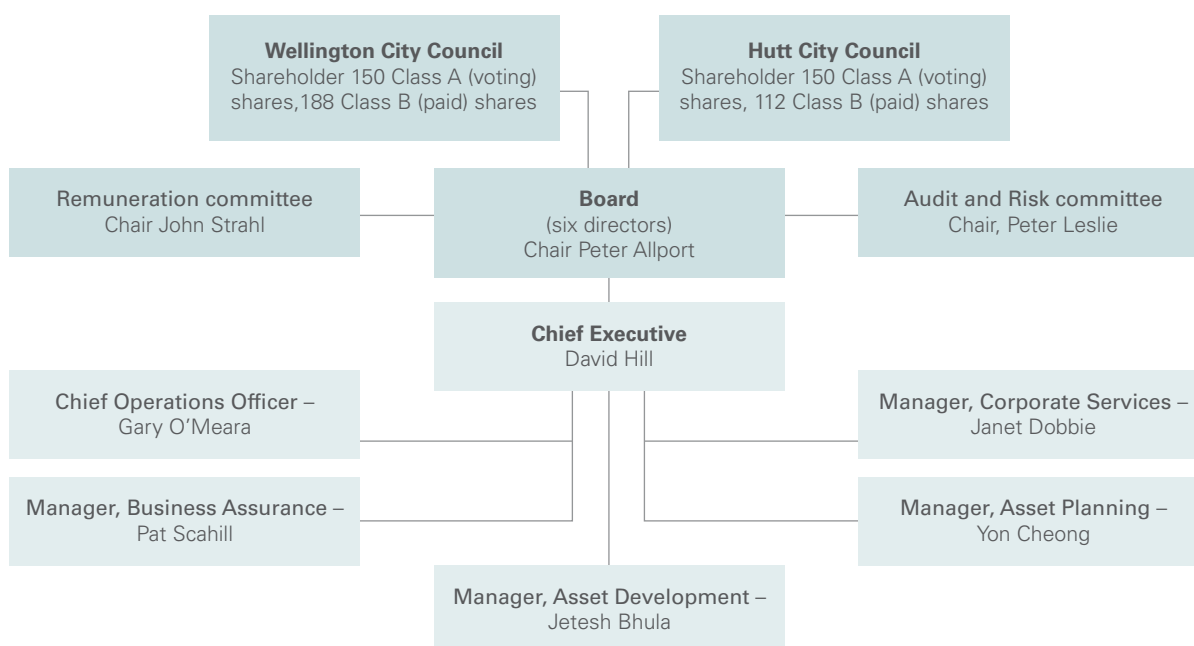
Employee remuneration

Number of employees earning over \$100,000 per annum.

| SALARY RANGE | YEAR END | |
|-----------------------|--------------|--------------|
| | 30 June 2011 | 30 June 2010 |
| \$280,000 - \$290,000 | 1 | |
| 260,000 - 270,000 | | 1 |
| 150,000 - 160,000 | 1 | |
| 130,000 - 140,000 | | 1 |
| 110,000 - 120,000 | 4 | 3 |
| \$100,000 - \$110,000 | 4 | 3 |

No other employees earn over \$100,000.

OUR ORGANISATIONAL STRUCTURE



DUTIES AND RESPONSIBILITIES

Board performance reviews were undertaken in the 2010/11 year and are undertaken annually, using the Institute of Directors' board evaluation service.

The board is responsible for the proper direction and control of Capacity. According to the constitution, unanimous approval of the board is required for:

1. significant changes to the company's structure
2. extraordinary transactions (entering into any contract or transaction except in the ordinary course of business)
3. delegation of directors' powers to any person
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
5. major transactions including establishment and renewal of contracts for delivery of services
6. disputes (commencing or settling any litigation, arbitration or other proceedings which are significant or material to the company's business)
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
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)
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. any changes to the constitution
2. any increases in capital and the issue of further securities, share buybacks and financial assistance
3. any alteration of rights attaching to shares
4. any arrangement, dissolution, reorganisation, liquidation, merger or amalgamation of the company
5. any "major transactions" as that term is defined in the Companies Act 1993.

Reports to shareholders and the public

Capacity complies with reporting requirements under the Local Government Act 2002 and the Companies Act 1993 and regulations. These include the following:

- 1 A statement of intent. This document sets out intended activities for the coming year, and includes financial information for the next three years. It must be approved by shareholders.
- 2 Half-yearly reports on operations to enable an informed assessment of our performance, including financial statements.
- 3 An annual report which provides a comparison of our 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.

We also report monthly to clients on service performance. This fulfils requirements under the Local Government Act and our service agreements, enabling council officers to report on expenditure, service performance and project progress. Key service level agreement areas, such as response times, appear as Key Performance Indicators, which are covered in detail on pages 20-25.

How we deliver value

Our mission is to deliver the best possible value in the management of water services. We do this through consultation, planning, management, design, delivery, and monitoring.

Consultation with councils and communities guides planning for the infrastructure needed to support the service standards and future developments the community wants. Planning and monitoring produces the information we need to develop annual programmes of work. These include projects we design ourselves and others that we employ consultants for.

Organising design, approvals, funding, people, and overseeing operational work such as repairs and running costs are all part of our principal activities. In the following pages, we explain how these relate to the everyday use of water services.

ASSET MANAGEMENT PLANNING

Local authorities are legally required (under the Local Government Act 2002) to manage their assets “prudently”. That means having the financial strategies in place to maintain and develop network infrastructure that will ensure existing levels of service are at least maintained. Levels of service and performance targets are set out in councils’ long-term plans (previously known as long-term council community plans).

This legal requirement ensures councils invest in renewing and upgrading assets. To ensure this happens in a way that supports the aspirations of their communities, we work with councils to develop asset management plans for their stormwater, wastewater and water supply networks every year.

Asset management plans are comprehensive documents that review the quantity and quality of existing assets, operations, maintenance, renewal and development strategies and programmes. They also record the support processes that are in place for risk management, performance measurement, valuation and costs.

Information management is crucial to effective planning. Combined with information gathered from a range of condition and performance monitoring activities – telling us what shape the assets are in and how they’re doing – these plans guide the development of annual capital works programmes that are agreed with each client.

We update plans and summaries for each of the three waters, for each client, every year. We then manage the programmes, with responsibility for design, obtaining consents, tendering, contract administration, construction supervision and financial management.

BENCHMARKING COSTS AND PERFORMANCE

In 2008/09 Capacity developed an operating cost per property cost management performance indicator in order to benchmark its costs (those that Capacity controls) with those of other councils around New Zealand. We have developed this model over the past three years, using a survey to gather information.

Capacity supports and encourages benchmarking activities within the New Zealand water industry and in 2010 we began working with Water New Zealand to improve their annual survey. This work should help us improve our own benchmarking activities and will give us a better understanding of how our activities compare with those of our peers in the future.

Network condition modelling

To improve our renewal forecasting and asset valuation processes, we began a project in 2010 to model the condition of the buried pipe network in the Wellington region. We started with a pilot study on wastewater pipes in selected catchments.

Building a robust model requires data such as closed circuit television (CCTV) reports, condition grading information and maintenance history. The next step is to review the Wellington CCTV inspection strategy and data use, and refine the process for maintenance data capture.

Upper Hutt City’s extensive CCTV records are in the process of being linked to geographic information systems. This will enable engineers to visually inspect pipe conditions as they plan projects, instead of relying on guesswork.

The key benefit of extensive information is improved allocation of resource – spending money wisely. Upgrading infrastructure is expensive, and we work hard to balance community expectations with the limited resources available.

The Capacity business model is based on delivering improved, sustainable value to the people of the Wellington region and our shareholders through knowledgeable and experienced staff, effective relationship management, and network and scale benefits.

CAPITAL EXPENDITURE AND OPERATIONAL EXPENDITURE

Councils set budgets for capital and operational expenditure on their water networks. 'Capex' delivers a benefit into the future. It covers work such as pipe renewals and replacements, pump station upgrades, and reservoir renewals or construction. Operational expenditure keeps existing assets running. 'Opex' covers activities such as repairs and maintenance, measurement and monitoring, and water treatment costs. Each of the three waters has both capital and operational expenditure needs.

Capex projects range in size from thousands of dollars to several million dollars. For the largest projects, we use engineering consultants to develop designs, then tender out the work to contractors. An annual programme of intended capex work is published in our Statement of Intent.

Opex involves project work as well – but much of the activity in this category is attending to leaks, repairs, maintenance, measurement and monitoring. City Care Ltd provides routine maintenance for the water supply networks for Wellington, Hutt and Upper Hutt cities, and the stormwater and wastewater networks for Hutt and Upper Hutt cities. CitiOperations, a business unit of the Wellington City Council, maintains Wellington City's stormwater and wastewater systems.

Another large area of operational expenditure is in wastewater treatment. For Wellington, UWI operates plants at Moa Point and western Karori, and for Hutt and Upper Hutt, Hutt Valley Water Services operates the plant at Seaview, near Petone. We oversee the performance of these contractors to ensure they meet client expectations, while seeking continuous improvement and value for money through innovation.

We are also reviewing our pipe renewal prioritisation processes. These ensure the appropriate weighting is given to pipes that contribute to poor performance of the network. An improved process has been set up for water pipes and this will be extended to stormwater and wastewater pipes.

Our staff innovation award was won by an improved process to capture first-hand observations of pipe condition, reflecting our emphasis on having the data we need to make the best decisions for our customers.

ASSET VALUATION – OPTIMISED DEPRECIATED REPLACEMENT COST

Councils use the optimised depreciated replacement cost method to help determine the value of their assets, which in turn helps them decide how much to allocate on maintaining and upgrading the assets, and how much to insure them for.

Essentially this method values an asset at the cost of building or buying a modern equivalent, "optimised" to allow for differences in current materials, techniques and specifications, then depreciated to reflect the age, quality and expected remaining life of the existing asset.

Assets are depreciated over their expected lifetime, which for different classes of assets – pipes, pumps, reservoirs etc. – ranges from 15 –100 years.

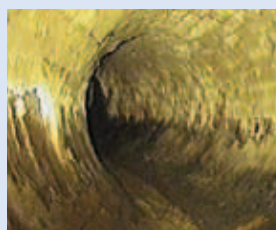
Network valuations represent the total of the optimised depreciated replacement costs of all assets in the network.

Asset values

(based on optimised depreciated replacement cost, or what it would cost to replace the assets to their present level of service and lifespan) in millions of dollars

| | Water | Wastewater | Stormwater |
|--------------|----------------|----------------|----------------|
| UHCC | \$66.4 | \$71.3 | \$84.5 |
| HCC | 101.6 | 232.4 | 161.1 |
| WCC | 372.0 | 459.6 | 365.8 |
| Total | \$540.0 | \$763.3 | \$611.4 |

Wellington, Upper Hutt: 1 July 2011; Hutt: 1 July 2010.



CCTV inspections help plan renewal programmes. The image on the left is of a brick stormwater pipe near the Basin Reserve that is probably more than 100 years old; that on the right is of a 900mm concrete pipe installed in Te Aro in the 1950s.

Risk and strategy

These pages set out the principal risks to our business and operations, alongside our long-term business strategies for sustainable growth.

We manage risk at corporate and operational activity levels. Corporate risks are identified in terms of our key business objectives, and addressed by our strategies. Activity risks are those associated with the delivery of water supply, wastewater and stormwater services, and are addressed in detail through our client asset management plans. We have also prepared activity risk management plans for Hutt and Wellington cities to cover risk at a greater level of detail than is practical in their asset management plans. This activity is itself a risk mitigation strategy identified in our corporate risk management framework.

Our corporate risk management framework was developed in 2005, and updated to comply with AS/NZS ISO 31000:2009. Internal audits are carried out in conjunction with our ISO 9001:2000 certification, and external audits are carried out six-monthly.

The risk management framework also identifies strategies for all risks which are reassessed six-monthly by the board's Audit and Risk committee.

| RISK | CONSEQUENCE | LIKELIHOOD | MITIGATION MEASURES |
|---|----------------|------------|---|
| Contamination gets into water mains | Catastrophic | Moderate | <ul style="list-style-type: none"> Approved Public Health Risk Management Plan for water supply Free available chlorine residual in reticulation Testing of water supply in reticulation Backflow prevention programme Use of approved contractors Specifications for construction and repairs include requirements for flushing and disinfection |
| Blockage of intakes | Catastrophic | Possible | <ul style="list-style-type: none"> Preventive maintenance programmes Target standards for response Inspection programme for critical assets |
| Inadequate management of risks associated with key activities (water supply, wastewater, stormwater) | Very high | Unlikely | <ul style="list-style-type: none"> Activity risk management plans Use of approved contractors Specifications for physical works Emergency management planning Health and safety management plans Contract audits |
| Excessive entry of stormwater to the wastewater system | Major | Likely | <ul style="list-style-type: none"> Infiltration/Inflow Programme Asset Renewal Programme Asset Development Programme |
| Inability to attract and retain quality staff | High/very high | Minimal | <ul style="list-style-type: none"> Have a clear vision for Capacity Define values and behaviours Provide training and development opportunities Provide competitive remuneration |
| Inability to manage efficiently due to use of different asset management software systems. | High/very high | Moderate | <ul style="list-style-type: none"> Definition of business needs/current problem Consultation with client councils Issues identification (technical and non technical) Business process analysis to preferred solution |

| STRATEGY / Measure | PERFORMANCE | COMMENT |
|--|--|--|
| Staff empowerment Staff satisfaction and engagement | Initiated 'Project Blue', an internal culture evaluation and change programme facilitated by Human Synergistics Satisfaction survey to be held in July 2011 | Project Blue focuses on developing internal responsibility and interpersonal relationships, to support our stakeholder goals. It's helping address the "silo effect" by encouraging teams to work more closely on a variety of joint activities, and is managed internally by a staff committee. |
| Training and development | Investment in training for role Health and safety training Compliments database – to capture and recognise positive feedback from internal and external customers | We are launching an internal project to develop more effective and comprehensive measures of strategic HR performance, including empowerment, knowledge sharing, and goal-setting and review processes. |
| Stakeholder intimacy Formal survey of client attitudes and satisfaction | Key areas identified for improvement included improving proactive behaviour and client relationships – however individual client-Capacity relationships and performance rated highly | We have looked to areas where we perform well for guidance on improving areas where we don't do so well. As a services management company, we are keen to improve our customer relationships and in particular our communications with the end users of water services – the general public. These areas are important to our client councils as well, and we will evaluate options to survey our client and customer satisfaction in the latter half of 2011. |
| Community engagement activity | Established new community contact channels including liaison groups and email groups for overflow notifications; completed community engagement strategy; re-focused website to enhanced public interest; hosted public meetings for Messines and Tacy projects; and held ongoing stakeholder meetings for these and other projects affecting public and commercial activity | Client councils support the benefits to be gained by removing impediments and redundancies. The principal duplication here arises from the use of clients' embedded systems, rather than having one regional application. Maintaining client records on a centralised asset management system will provide flexibility and cost efficiencies. |
| Information management Selection of regional asset management system platform | A project brief is being prepared to develop a system selection process that will deliver integration at a known cost, to an agreed time frame; this is being supported with resources and skills from Wellington City Council. | Client councils support the benefits to be gained by removing impediments and redundancies. The principal duplication here arises from the use of clients' embedded systems, rather than having one regional application. Maintaining client records on a centralised asset management system will provide flexibility and cost efficiencies. |
| Key Performance Indicator reports | Monthly reports detailing performance on client-specific indicators are prepared for Wellington and Hutt city councils, and quarterly for Upper Hutt. | |
| Regional integration Formal agreement by councils to undertake water services provision through a regional water entity. | Shareholder councils have funded reports identifying a range of potential structures for a regional water entity; Wellington, Hutt, Upper Hutt and Porirua councils have agreed to fund a report and business case for a recommended structure and operational regime. | Capacity began operations in early 2004 to provide evidence that a regional water entity would be beneficial to councils and users of water services. It is timely now to move to the final phase, and empower a publicly owned regional water services entity to manage the water networks and delivery systems, and deliver greater benefits for ratepayers. |

How we performed

We prepare an annual statement of intent to publicly state our activities and intentions for the

STATEMENT OF INTENT ACTIVITY

| WHAT WE SAID WE'D DO | PROGRESS – WHAT WE DID | WHY WE DID IT |
|---|---|--|
| Strategic Network Plan Develop plan based on Three Waters Strategy for Wellington City Council to outline activities planned to address issues and challenges facing the three waters, including climate change, demand management, and changing regulations. | A stand-alone plan was not developed – instead we used the strategy work to inform planning activity for each of the three waters for each of our clients. | A strategic overview enables “big picture” issues, such as climate change and population growth, to be considered in the context of long-term planning for all three water networks – and ideally, across the whole region, rather than just part of it. The efficiency of co-ordinated planning is one of the key benefits of the Capacity model. |
| Stormwater strategy – Hutt City Finalise strategy and prepare work programme for implementation. | Strategy detailing principal issues, risks and management options completed and sent out for comment; currently defining scope for policy. In the 2011-12 year we will look to start work on a similar project for Upper Hutt City. | Stormwater issues are a priority for the low-lying Hutt River Valley, with significant expenditure already in this area. This work will help the council prioritise spending to minimise risk to safety and property. |
| Water Conservation Plan Finalise plan for Wellington City, work with other councils to identify solutions, undertake community engagement. Water restrictions during summer. Co-ordinate publicity and education. | Plan completed and formally adopted by council. We are working with Greater Wellington Regional Council and Porirua City Council to co-ordinate water conservation messages throughout the region over the next several years. We managed water conservation marketing for Upper Hutt City Council, using consumption figures and graphics to support restrictions. | Region-wide marketing makes strong economic sense. The outcome should be more effective, consistent public communications resulting in increased awareness of water storage, efficiency and use issues, and behaviour change around water use. |
| Leak detection Continue programmes in Wellington and Hutt cities. | Programmes continued, new district metering areas established in Wellington. | Leak detection is a key tool in reducing water loss. In the absence of domestic meters, zone meters help identify unusual demand – often a sign of a burst pipe. |
| Water pressure management Continue introduction and evaluate | Evaluated – programme paused for funding. | Hilly Wellington has some areas with pressure much higher than it needs to be – increasing losses through leaks. |
| Wastewater overflow mitigation plan Develop plan for Wellington City. | Managed implementation of plans for Wellington and Hutt cities. Developed a pilot project to identify investigation priorities; these will be followed up in 2011-12. Monitored overflow points and carried out CCTV programmes to identify system infiltration, followed up by pipe renewal programmes. | Monitoring overflow points will continue, with alerts to affected stakeholders. Monitoring also helps identify stormwater infiltration of the wastewater network – the key reason overflows occur. |
| Flood hazard mapping Review map for Wellington City CBD catchment. | Reviewed map. Began incorporating new predictions on sea-level rise. | With many stormwater outlets discharging just above high tide levels, any change in sea level could have major impacts. In addition, intense rain events are more likely to overload the system, increasing the risk of damaging floods. |
| Stormwater discharge consents Work with Wellington and key stakeholders on holistic approach to gain a single consent. | “Global” resource consent obtained for discharges to 2020, requiring “integrated catchment management plans”. | The consent conditions add focus and knowledge to our monitoring programmes on the effect of stormwater discharges on the harbour’s ecology. |
| Asset management plans Complete plans for each council. Improve knowledge of buried pipe conditions. Review renewal prioritisation processes. | Completed plans. Pilot study for condition model. Reviewed renewal prioritisation process for water pipes. | Planning is vital for budgeting and management, to help councils deliver on service standards to ratepayers. We are looking to benchmark this process with others in the country. |
| Benchmarking Benchmark our own operating costs with those of others in the water industry. | Have worked with councils around New Zealand to understand their costs and to benchmark our own. | The operating cost per property indicator shows us and our stakeholders how Capacity’s costs compare with the industry average. |
| Emergency preparedness Produce plan to improve performance and activity in emergency management reduction, readiness, response, recovery. | Plan revised. Risk and option report produced. Reduction and readiness activity identified with recommendations for funding. | Minimising damage and service interruptions are key outcomes of integrated and co-ordinated emergency preparedness. Public health and risk management are key functions for Capacity. |

coming year, and the organisational performance indicators agreed with our shareholder. The key activities, outcomes, objectives and performance results for 2010–11 are set out below.

| KEY PERFORMANCE INDICATORS | | | | | | |
|--|--|--|---|---|----------------|----------|
| CATEGORY | OBJECTIVE | ACHIEVEMENT | OBJECTIVE | ACHIEVEMENT | | |
| Service quality | Fewer than four unplanned supply cuts (pipe burst) per 1000 connections | Achieved WCC – 1.0 HCC – 2.61 UHCC – 2.45 | Fewer than 1.2 wastewater incidents reported per kilometre of wastewater reticulation pipeline | Achieved WCC – 0.63 HCC – 1.01 UHCC – 0.66 | | |
| Customer focus | Respond to at least 97% of all requests for service within one hour of notification | Achieved WCC – 99.3% HCC – 99.5% UHCC – 99.7% | Completion of approved asset management plan within agreed time frame | Achieved | | |
| Cost effectiveness | Trend of the operating cost of delivering water supply, wastewater and stormwater services relative to a national average | Achieved | NOTE This is the third year we have undertaken this exercise and we feel we now have a very good understanding of how our costs compare with those of our peers. We are working with Water New Zealand to improve their survey, which this should allow us to improve our own benchmarking next year. | | | |
| Legislative, financial, technical, compliance | Full compliance with relevant standards, resource consents and legislation | Mainly achieved | There were two instances of in which our contractor's discharges did not comply with regional planning rules and two instances of monitoring by contractors falling short of requirements. | | | |
| Financial, project and network management | Deliver capital projects within budget and time frames | Achieved | Capital project expenditure (\$000) | | | |
| | | | | Actual | Budget | Variance |
| | | | WCC | \$24,207 | \$26,434 | 8.42% |
| | | | HCC | 4,972 | 7,046 | 29.44% |
| | | | UHCC* | 2,342 | 3,277 | 28.53% |
| | | | Total | \$31,521 | \$36,757 | |
| | Wellington City: Variance due to a cancelled project and carry over of funds for projects in progress, as agreed with client. Hutt City: Variance due to the deferral of projects to meet Hutt City financial requirements. Upper Hutt City: Variance due to projects delayed because contractors called to Christchurch or deferred through council funding constraints. *Unaudited figures provided. | | | | | |
| | Deliver operating projects within budget and time frames | Mainly achieved | Operating and maintenance expenditure (\$000) | | | |
| | | | | Actual | Budget | Variance |
| | | | WCC | \$36,539 | \$35,510 | -2.9% |
| | | | HCC | 21,178 | 21,677 | 2.3% |
| | | | UHCC* | 6,085 | 6,305 | 3.49% |
| | | | Total | \$63,802 | \$63,492 | |
| | Wellington City: Variance due to under-budgeting for reactive work, urgent cleaning at Waring Taylor culvert, and increased contract rates for Moa Point plant. Hutt City: Variance due to reduced bulk water cost and the carry over of two wastewater projects. Upper Hutt City: Variance due to under-spend on CCTV and savings in unplanned maintenance. *Unaudited figures provided. | | | | | |
| | Manage Capacity within budget. See financial statements pages 26–40 | Mainly achieved | | Actual (\$000) | Budget (\$000) | |
| | | | Revenue | \$7,340 | \$7,607 | |
| | | | Expenditure | \$7,378 | \$7,607 | |



Secure water supply



Fresh water is the basis of human well-being. Its management is critical to social and economic development. Yet only one per cent of the world's water resources is available for sustaining human life. Careful management of this most precious commodity is therefore vital.



In the Wellington region, fresh water is captured and treated then piped to Wellington, Hutt, Upper Hutt and Porirua cities by the Greater Wellington Regional Council.



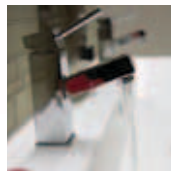
Last year's (to 30 June 2011) consumption for Wellington, Hutt and Upper Hutt was 46.9 billion litres, a slight rise from the previous year's 46.8 billion litres but still a billion litres less than two years ago, despite increases in population.



The reductions of the past five years reflect improved network performance resulting in large part from our leak detection programmes. Future consumption levels will depend much more on individual residential and commercial water users being more proactive about conservation and efficiency.

This is an issue in the Wellington region, because while there's generally plenty of water in winter, in summer, we rely on storage from the lakes at Te Marua, Upper Hutt, and the Hutt artesian aquifer, to cover any shortfall.

Capacity's performance in delivering quality water supply services to communities is measured on compliance with water quality standards, continuity of supply and response times to network incidents such as bursts or leaks.



WATER CONSERVATION AND EFFICIENCY

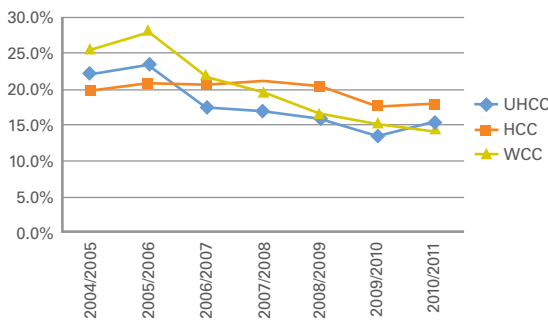
Since water was first reticulated in the Wellington region, summer time shortfalls have been an issue. The cities employ water restrictions to help manage demand, and there are a host of activities that councils, residents and we can do to minimise demand. Our ongoing leak detection and repair programme has made a significant difference to consumption. We're now working with our client councils, Porirua City Council and Greater Wellington Regional Council on a combined approach to public water conservation and efficiency messages.

The issue has extra significance over the next few years as Greater Wellington decommissions its storage lakes, one at a time, to increase their capacity and earthquake resilience. Halving our storage capability increases the risk of additional restrictions – but provides an opportunity to raise public awareness about possible long-term solutions, such as building another lake or a dam.

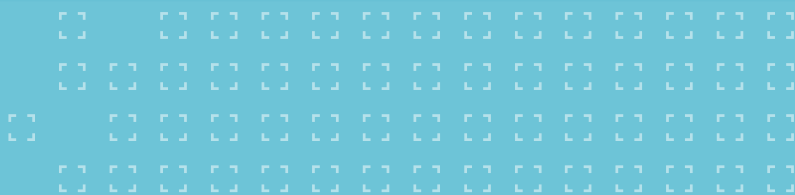
A water conservation and efficiency plan developed for Wellington City Council to reduce consumption across residential and commercial sectors will inform similar work for Lower and Upper Hutt.

Challenges include entrenched perceptions of water as free, and a right. But consumers will benefit from reduced consumption, in lower treatment and reticulation costs, and by deferring expensive capital investment in whatever long-term solution is agreed.

Unaccounted for water as a percentage of supply



Unaccounted-for water is one measure used to indicate losses in the water supply system, both private and public. Leak detection programmes have been reducing losses steadily since 2005, helping to contain cost increases.



The water conservation message is a priority across the region. We work with councils to promote conservation messages through billboards, competitions, and patrols.

LEAK DETECTION

Leak detection programmes aim to reduce water loss in the network. This includes proactive patrols to help identify private leaks, as well as prompt repairs. In the absence of widespread residential metering, establishing district metering areas is one of our most effective ways to manage system leakage. District metering areas divide the system into well-defined areas. Monitoring daily consumption or minimum night flows means significant variations from the norm – most likely to be a leak – can be picked up and investigated.

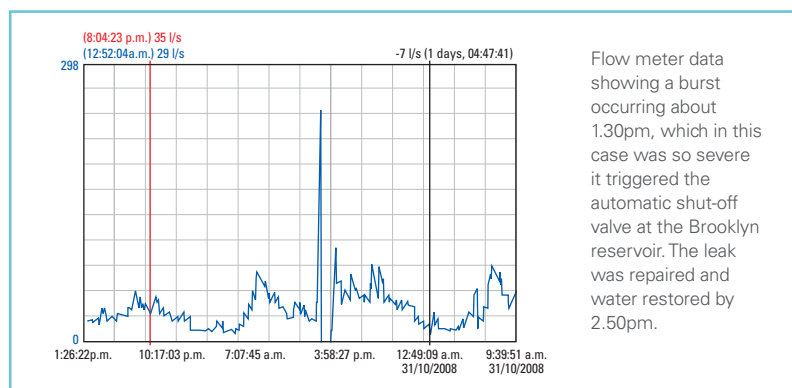
WATER PRESSURE MANAGEMENT

Water pressure management is another key tool in reducing system leaks. High water pressure is more likely to result in leaks, and lose more water, than low pressure. High pressure also puts additional strain on private plumbing systems, making leaks in and around the home more likely.

In hilly Wellington, pressures can get above 100 metres (the height water would reach in a vertical pipe), while the service standards are for pressures of 25-90 metres. Water pressure is managed using pressure reducing valves, installed into the mains below reservoirs.

A pilot pressure management project is under review for its effect on water consumption. Outcomes from that will influence decisions to extend pressure management to other zones.

Over time, the benefits for consumers and clients are reduced risk, cost and inconvenience of bursts, wear and tear on water supply systems, and leakage.



Messines Road, Wellington, reservoir renewal (above)

In the 2010/11 year contractors began work on the Messines Road reservoir renewal in Karori. This is a significant project on a busy suburban road that involves replacing facilities built in 1925 and 1932.

The new, larger facility will consist of two separate tanks, fed by Greater Wellington's bulk water supply. They in turn feed six other reservoirs in the Karori area, as well as supplying thousands of Karori residents directly. As of June 30, the first tank was on track for completion by October 2011, with the reservoir scheduled to be completely reinstated by April 2013.

Pump station upgrade, Pharazyn Street, Hutt City

The Pharazyn Street pump station was built in 1973. It's a critical part of the water supply infrastructure for Hutt City, supplying water to three reservoirs that service houses in the Western Hills area – a population of around 7,000 people. The new pumps have doubled the capacity of the old ones, meaning a single pump can meet peak demand, thus providing both efficiency, and security.

Water supply

Key Performance Indicators

| KEY PERFORMANCE MEASURES | Achievement | Comment |
|---|--|---|
| WELLINGTON CITY | | |
| Response time to service requests | Target: (Response A) 97% Achieved: 99.3% | Response A requires customer contact and work prioritisation within one hour of a service request. |
| Customer satisfaction | Target: (% of satisfied customers) 85% Achieved: 94% | Measured by customer response through calling cards and direct feedback. |
| "Residential" consumption | Target 345 /litres/ person/ day Achieved: 297l/p/d | Measured as total supply less metred consumption, divided by population) |
| Estimated % of unaccounted-for water | Target: 19.5% Achieved: 14% | Unaccounted for water includes leaks on public and private networks, un-metered use by council, firefighting, and theft. |
| Complaints regarding taste and odour | Target: Less than 80 Not Achieved: 289 | The main cause of taste and odour issues is the change in supply from 'run of river' water to water from storage lakes, a factor beyond our control |
| Compliance with Drinking Water Standards for New Zealand and distribution network quality grading. | Target: 100% compliance; Graded 'a' to 'b' Achieved: 100%; 'b' | New Zealand Drinking Water Standards are set and overseen by the Ministry of Health. |
| Properties with appropriate pressure (250kpa) | Target: 98% Not Achieved: 96% | We are working on improving this figure, which is a consequence of housing development above existing reservoir levels. |
| HUTT CITY | | |
| Quality of water | Target: 'b' grading from the Ministry of Health for distribution Achieved | 'a' grade Ministry standards require drinking water to be chlorinated. Some of Hutt City's water supply is pure artesian water, and is untreated. |
| | Target: full compliance with NZ Drinking Water Standards Achieved | |
| | | |
| Customer satisfaction | Target: (% of satisfied customers) 95% Achieved: 98% | Measured by council survey of residents |
| Reliability of water supply | Target: fewer than four unplanned supply cuts per 1,000 connections Achieved: 2.61 (year end) | An unplanned supply cut is typically a result of a pipe failure (burst) or supply interruption caused without prior notice to affected parties. |
| Maintain average un-metered water consumption | Target: less than 350 litres per head per day Achieved: 308 litres per head per day (year end) | This represents total city consumption less metered use, divided by population. Average domestic use is estimated at 230 litres per person per day. |
| Respond promptly to water supply disruptions | Target: 97% within one hour Achieved: 99.5% | |
| UPPER HUTT CITY | | |
| Compliance with New Zealand Drinking Water Standards | Target: A-bulk, a-distribution Achieved | |
| Customer satisfaction | Target: (% of satisfied customers) 95% Achieved: 96% | Measured by council survey of residents |
| Continuity of supply | Target: 95% of service disruptions restored within two hours Achieved: 99.7% | |
| | Target: fewer than four supply cuts per 100 connections Achieved: 2.45 (year end) | Connections are points of supply to homes and businesses. |
| System integrity – minimum night flow | Target: flow not to exceed 65 litres per second Achieved: 59.3 (year end) | Night flow rates are used to help identify network issues, as consumption drops dramatically after midnight. |
| Consumption | Reduce residential consumption to 250m ³ per property per year Achieved: Projected usage 229m³ | |

Efficient wastewater

Wastewater is what goes down the sinks, showers and toilets of our cities' homes, restaurants, offices, and industries. It is transported by pipes and pump stations to a treatment plant, where after a series of processes – including screening, biological action, ultra-violet light disinfection, and de-watering – the solid material is removed to a landfill site, and the treated liquid is discharged to the sea.

We ensure the pipe network is maintained according to programmes agreed with each of the councils, and we manage the operational contracts for wastewater treatment plants. Wellington City's wastewater treatment plants at Moa Point and western Karori are operated by United Water International. Lower Hutt and Upper Hutt wastewater is treated at the Seaview plant in Lower Hutt, operated by Hutt Valley Water Services. Wastewater from northern Wellington suburbs is treated at a facility based in Porirua and jointly owned by Wellington and Porirua city councils.

Our role involves monitoring the performance of the network and the plants and ensuring resource consent conditions and service standards are met. We are also responsible for ensuring trade waste – the contaminated by-products of commercial processes that cannot be disposed of in the wastewater system – is collected and transferred to landfills, biodiesel processing or other appropriate disposal facilities.

Our performance in delivering quality wastewater services to communities is measured on compliance with resource consents, environmental standards, continuity of service and response to network incidents such as blockages. We report monthly on treatment plant measures including costs, odour complaints, overflows, performance, and influent and effluent characteristics.

An effective wastewater system is vital to the health and safety not only of people, but of the environment as well.

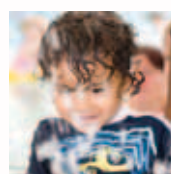
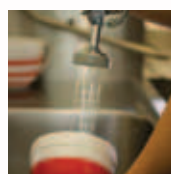
WASTEWATER OVERFLOW MITIGATION

Most wastewater networks perform well during dry weather and moderate rainfall. But during prolonged heavy rainfall, rising groundwater levels can infiltrate the system. In addition, increased inflow from cross-connections – where stormwater drains are connected to wastewater pipes – adds to the burden.

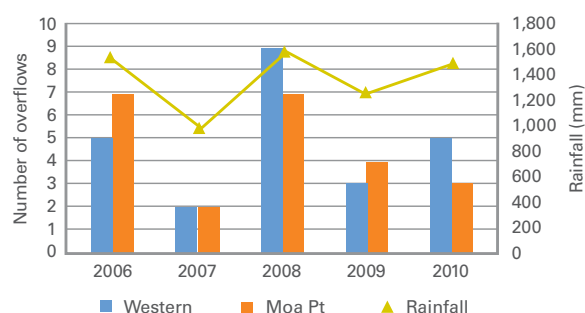
The result is that extended periods of heavy rain can lead to wastewater overflows at treatment plants. These overflows occur on average between two and eight times a year. As part of the resource consent for these overflows, we're working with interested community members and the Greater Wellington Regional Council on ways to limit the overflows and improve communication about when they happen. We've established community liaison groups as a channel to keep people informed, and we are working on raising public awareness about the issue.

In addition, we're managing ongoing programmes to identify and remedy inflow and infiltration. We also manage the implementation of wastewater overflow mitigation plans developed for Wellington, Hutt and Upper Hutt cities.

This work helps prioritise pipe repairs and renewals to maximise the benefit to both wastewater and stormwater systems.



Rainfall and overflows from Wellington wastewater treatment plants



The chart above shows the relationship between rain events and wastewater overflows. It emphasises the importance of planning for extreme weather events, which are likely to stress a system that otherwise copes with demand.



Residential sewer renewal in Upper Hutt City (above)

Nearly all of Upper Hutt's wastewater network has been recorded on CCTV. Once these video files are linked to the city's geographic information system, engineers will be able to inspect visual records by clicking on a street location. Here, contractors work in a private back yard to prepare for renewals by pipe-bursting technology. This sees earthenware pipes affected by root invasion and cracking replaced with more resilient material.

After the work is completed, the area is reinstated (below).



From frying pan to fuel tank – the story of cooking oil

There are about 960 licensed food preparation premises in Wellington City. Prior to 2005, there was little monitoring of how such businesses dealt with their cooking oil – with the result that a lot of it went down the drain and into the wastewater network.

Fat, food scraps and water are a good recipe for blocked drains, and also for affecting the performance of wastewater treatment plants. We identified this issue to Wellington City Council in 2005, obtaining their support for a new role of trade waste inspector, focusing on food premises.

The first priority was to get round and inform these businesses of their obligations under the trade waste by-law and the proper disposal of fat. For more than a few, this was the first they'd heard of the need to do anything other than tip it down the sink.

Our goal was to inspect all licensed premises in Wellington every year. The first round took two years, as businesses struggled to cope with their new responsibilities. This year, we managed the visits in 53 weeks.

The next major order of business was dealing with grease converters. Many establishments had installed these as a local treatment solution – but our research showed such systems could do more harm than good. By breaking down fat compounds, they contributed to hydrogen sulphide production, which damages the sewerage network.

The message is gradually getting through that converters are not ideal – helped by a growing demand for biodiesel. What was once a cost to businesses has become for many a nice little earner, with food companies now being paid for their used oil.

There's still some way to go until we can confirm that the impact of food waste on the wastewater system has reduced. But by focusing our attention on this area, we're raising awareness amongst a key section of the community of the importance and benefits of dealing with their waste at its source.

The result is a cleaner environment and reduced maintenance costs.



With recycling, what was once a problem has become precious. A Lower Hutt restaurant has found it necessary to padlock its oil disposal drum to prevent theft.

Wastewater Key Performance Indicators

| KEY PERFORMANCE MEASURES | Achievement | Comment |
|---|--|---|
| WELLINGTON CITY | | |
| Response time to service requests | Target: (Response A and B) 97% | Response A requires customer contact and work prioritisation within one hour of a service request. Response B means people on site equipped to make the repair. |
| | Not achieved: 91% | |
| Customer satisfaction | Target: (% of satisfied customers) 85% | Measured by customer response through calling cards and direct feedback. |
| | Achieved: 94% | |
| Resource consent compliance | Target: Meet compliance | |
| | Achieved | |
| HUTT CITY | | |
| Reliability of wastewater service | Target: fewer than 1.2 incidents reported per kilometre of pipeline | 'Incidents' are mainly blocked pipes. |
| | Achieved: 1.01 | |
| Customer satisfaction | Target: 95% | Measured by independent survey |
| | Achieved: 98% | |
| Resource consent compliance | Target: No consent-related infringement notices. | |
| | Achieved | |
| Respond promptly to wastewater disruptions | Target: 97% within one hour | |
| | Achieved: 99.9% | |
| UPPER HUTT CITY | | |
| Customer satisfaction | Target: 91% of respondents 'satisfied' or 'very satisfied' | Measured by response to specific questions in council's own ratepayer survey. |
| | Achieved: 99.1% | |
| Use of system | Target: 91% of properties connected to the system have service restored within six hours | |
| | Achieved: 100% | |
| Public health | Target: No illness reported related to system failure. | |
| | Achieved | |

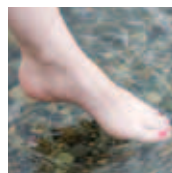
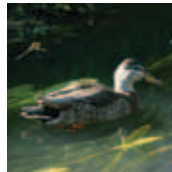
Sewer renewal, Hutt City (right)

Residential sewer pipes are renewed in Wainuiomata using cured-in-place pipe technology. This sees a resin impregnated sheath drawn through existing pipe, then formed and set using pressurised heated water. Connections are re-opened using a robotic cutting machine that travels within the newly cured pipe. The methodology is cost effective and much less inconvenient to residents that open-trench renewals.





Sustainable stormwater



As well as the network of pipes and pumps that help carry rainwater to the sea, cities often rely on the streams and rivers that flow through their environs to keep water off streets and property.

Often these streams and rivers pass through or border private property. Working with people to ensure this system remains effective is one of the key issues for stormwater management. Others issues include climate effects and the risk to the environment of contaminants entering what is a relatively open system.

Climate change has the potential to impact the stormwater systems of our clients in two main ways – the increased intensity of rain events, and a possible rise in sea levels.

Heavy or sustained downpours put more stress on a network, and are more likely to cause the blockages that lead to flooding. With most of our rainwater ultimately discharged either to the sea or rivers, rising water levels may see some outlets become partially submerged at high tides.

The entry of contaminants into the stormwater system is inevitable in a city. Road grit and dust are contaminants, as are bird and animal excrement. It would be enormously costly to keep the network free of this material. But plenty of rubbish ends up in the system that needn't be there – including litter, detergent, paint, and material from construction work.

Our role involves monitoring the performance of the network and the environmental receiving waters, ensuring resource consent conditions and service standards are met. We are also responsible for investigating and mitigating flooding and stormwater quality incidents.

Our performance in delivering quality stormwater services to communities is measured in compliance with resource consents, environmental standards, continuity of service and response to network incidents such as blockages, flooding and stormwater quality issues.

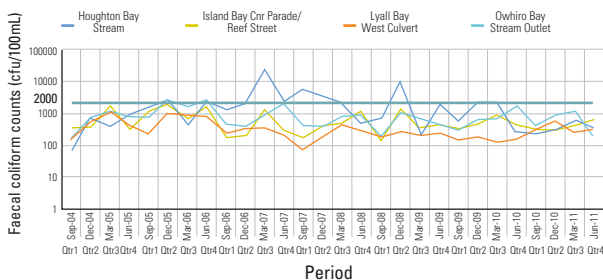
REGIONAL APPROACH TO RESOURCE CONSENTS

Cities are required under the Resource Management Act to have a consent to discharge contaminants into 'receiving environments', such as streams and the sea. From March this year four new resource consents took effect for Wellington City Council. These permit the discharge of stormwater and occasionally contaminated stormwater (from established overflow points), to coastal marine areas and Wellington Harbour. The consents require monitoring and reporting from 20 different stormwater discharge areas and at 21 separate coastal marine area locations.

As well as a comprehensive annual report (first delivered on 1 August 2011), the consents called for integrated catchment management plans, more interaction and knowledge sharing with the community on issues affecting stormwater quality and its environmental impact, and increased monitoring for the effects of stormwater on marine ecologies.

Integrated planning recognises that addressing any adverse effects of stormwater discharges on the receiving environment must be done in a co-ordinated manner throughout the region. Integrated management of water services is one of the key benefits Capacity was established to deliver.

Stormwater quality monitoring



Stormwater quality affects stream and marine environments. The graph shows quarterly medians of faecal coliform counts at four stormwater consent sites in Wellington, from September 2004 – June 2011. The target is 2,000 colony forming units (cfu) per 100 millilitres of water. Spikes may occur after heavy rainfall – or indicate a network issue.

Establishing a stormwater education programme and consultative committee is also required under the consents. The committee will bring together representatives of the Department of Conservation, the Wellington Tenth Trust, Regional Public Health, the Greater Wellington Regional Council and other community groups. One of the committee's tasks will be contributing to an education programme designed to increase public understanding of the issues of stormwater management and ways the public can minimise stormwater contamination.

Over the coming years we'll develop these plans, improving our monitoring and how we share the information we have with the public. This in turn will improve both the public's understanding of their effect on their environment, and our ability to manage it. These outcomes should be reflected in the next consent application, planned for 2020.

STORMWATER STRATEGIES

Over the past 12 months we've been working with Hutt City Council to develop a stormwater strategy for the city. The purpose of this strategy is to "set out the principal stormwater issues facing Hutt City, and outline how these issues should be managed into the future". The geography of Hutt City features steep hillsides adjacent to inhabited valley and coastal areas. The Hutt River is a key component of the stormwater network, and has flooded many times in the past. Other rivers and streams are vulnerable to debris washed down from hillsides. The constructed network met standards at the time it was built, but standards have since increased reflecting enhanced community expectations and a desire to minimise the effects of climate change.

The strategy details the city's particular stormwater issues, assesses the risks and sets out management options for action. This year we will be taking the draft strategy to interested parties for comment, before reporting back to Hutt City councillors.

This year we are also working with Upper Hutt City to prepare a draft stormwater policy for consideration by that council. The first stages are to define the scope of the policy and the most appropriate methodology for its development. The work we have done for Hutt City will help that process and, once again, we'll be looking for opportunities to integrate solutions to provide maximum benefit for our clients and customers.



Tacy Street pump station, Wellington

Roof run-off from a new indoor community sports centre built in the low-lying suburb of Kilbirnie means rain that previously fell on open ground is now entering the stormwater system.

The Tacy Street stormwater pump station will reduce the risk of flooding in the area by forcing water, rather than relying on gravity flow, through existing pipes and into the harbour.

Non-return valves mean the system will remain effective even in the event of sea-level rise. The station consists of four pumps, two primary and two reserve, with a pumping capacity of 5.5 cubic metres of water per second, sitting in a well some seven metres below ground level.



Black Creek rehabilitation (above)

Flooding in the environs of Wainuiomata's Black Creek has been an issue for the local community for decades. In 2004, Hutt City Council launched a project to resolve the problem, with Capacity managing the staged execution of the series of works involved.

In stages 1 and 2 the beds of Black Creek and its tributaries were widened, and two footbridges replaced so they no longer restricted flow. Stage 3, which began in March 2011, sees a road bridge and a third footbridge replaced, with additional work to improve flow.

In June the water main attached to the old footbridge was diverted under the widened stream bed (pictured).

New signs (left) will be placed at more than 50 locations around the Wellington coastline, to advise people of the risk of contamination following heavy rain.

Stormwater Key Performance Indicators

| KEY PERFORMANCE MEASURES | Achievement | Comment |
|---|---|--|
| WELLINGTON CITY | | |
| Response time to service requests | Target: (Response A and B) 97% | This is reported as a technical non-achievement, as our contractors are unable to report on Response A. The target for response B was achieved. |
| | Not achieved: 92% (year end) | |
| Customer satisfaction | Target (% of satisfied customers) 85% | We received only two comments on this measure and are reviewing feedback mechanisms. |
| | Achieved: 78% | |
| Resource consent compliance | Target: 100% | Resource consents are required to allow stormwater to discharge into Wellington harbour and coastal marine areas. |
| | Achieved | |
| Properties flooded as a result of a one in 50 year rain event. | Target: 0 | |
| | Achieved | |
| Compliance at monitored bathing beaches | Target: 93% | Seawater samples are collected and analysed for enterococci bacteria, in accordance with regional council, Ministry of Health and Ministry for the Environment requirements. |
| | Achieved | |
| Compliance at monitored freshwater sites | Target: 90% | This indicator measures the percentage of monitored freshwater sites where annual median faecal coliform bacteria counts are less than 1000 per 100ml |
| | Achieved | |
| HUTT CITY | | |
| Reliability of stormwater services | Target: <0.5 incidents reported per kilometre of pipeline | |
| | Achieved: 0.13 | |
| Customer satisfaction | Target: 80% | Measured by independent survey. |
| | Achieved: 87% | |
| Respond promptly to stormwater disruptions | Target: 97% within one hour | |
| | Achieved: 99.75% | |
| UPPER HUTT CITY | | |
| Resource consent requirements | Target: compliance with resource consent conditions | |
| | Achieved: 100% | |
| Customer satisfaction | Target: 87.5% of respondents 'satisfied' or 'very satisfied' | Measured by response to specific questions in council's own ratepayer survey. |
| | Achieved: 91.1% | |

Station Crescent stormwater upgrade in Upper Hutt (right)

To reduce the risk of flooding in the Upper Hutt CBD, it was necessary to duplicate existing stormwater services. This meant crossing the main trunk railway line – which was achieved by pipe-jacking. A section of pipe was driven beneath the railway using a giant jack, with rubble cleared from within the pipe as it moved through. This project will be completed in 2011.



Emergency management

planning and activity

Water supply and storage are top priorities in the event of a civil emergency. Minimising the extent of network damage and the impact on people and property of failure in the event of an earthquake is one of the key factors we consider when planning for network renewals and updates.

The Canterbury earthquakes have given extra emphasis and momentum to our focus in this area.

Our emergency planning is done in conjunction with our clients' infrastructure and emergency management personnel, and representatives from Greater Wellington Regional Council and Porirua City Council.

We fit in a web of control centres designed to co-ordinate information and response that stems from the National Crisis Management Centre, under the Ministry of Civil Defence and Emergency Management.

We meet regularly with representatives of these groups for planning, training and information sharing. We manage the regional Water Services Preparedness Group, which was established to improve preparedness among organisations involved in water supply, wastewater and stormwater network management across the region. This includes Capacity, Greater Wellington, Hutt City, HVEMO, Porirua City, Upper Hutt City, Wellington City, WEMO, and WREMO.

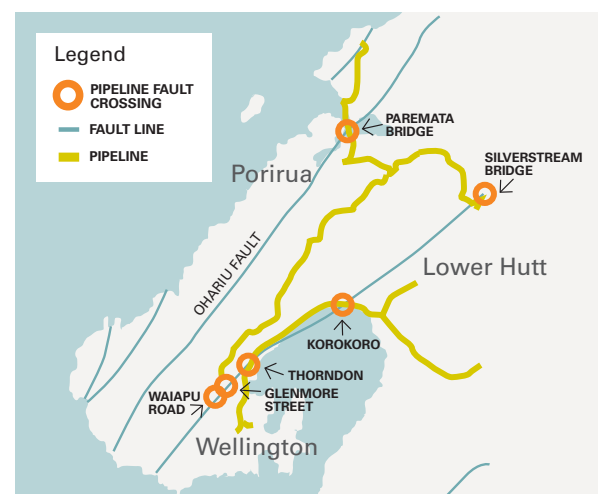
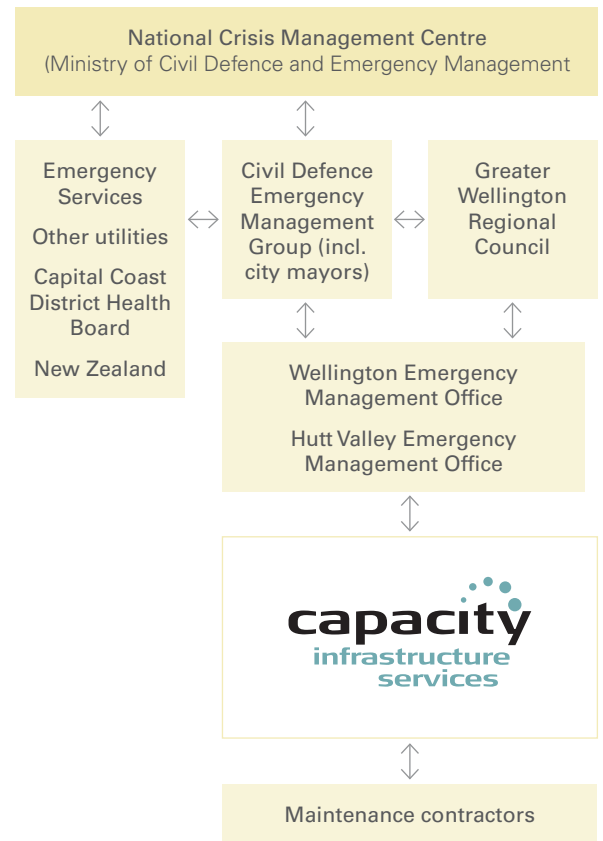
Nine Capacity staff members have been involved with the Christchurch earthquake recovery effort. They were primarily involved in water supply and wastewater restoration, managing teams of contractors from throughout New Zealand. Among the many valuable experiences they gained that will improve our planning was an appreciation of the many resources needed for the recovery of water services after a major event.

Plans for emergency management are based on the Four Rs – reduction, readiness, response and recovery – for the three waters for all client councils.

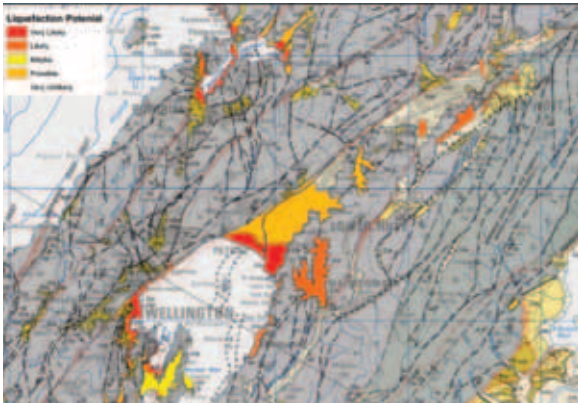
Reduction covers retrofitting facilities – such as installing auto-shut-off valves on reservoirs – network reinforcement and redundancy improvements. The objectives for developing priorities aimed at reducing the impact of an event include:

- secure and available water supply as soon as possible after an event
- water is available to key facilities critical to response events, such as hospitals, power substations, communication hubs
- potable water distribution to the public
- public health protection
- property protection and relief effort protection (wastewater/ stormwater discharges)
- planning for damage mitigation
- planning for long-term recovery.

Readiness includes taking part in emergency exercises and training, emergency response planning, establishing emergency stores at strategic sites, securing and distributing stored water in the region's reservoirs, and prioritising critical infrastructure for upgrades to meet community needs post event.



Fault lines pass beneath all bulk water supply mains to Wellington, Hutt, Upper Hutt and Porirua.



Coloured areas indicate potential for liquefaction, which can be even more destructive to buried infrastructure than fault ruptures.

Response plans are based on prioritising supply reconnection and managing alternative bulk water supplies. In the event of an emergency, our earliest activity after ensuring personal and family safety focuses on establishing and communicating the extent of damage to water assets.

Once the immediate emergency response is under control, **recovery** begins. This covers the task of full restoration of network service.

Investigations indicate Greater Wellington’s bulk supply pipes crossing known fault lines several times will likely have a major impact on the restoration of water supplies to the region.

Wellington City is the most exposed to risk of extended supply interruption – it could be as long as 55 days before normal supply to Wellington is resumed if all bulk supply lines were severely disrupted. We view this as being unacceptably long and we are working with Greater Wellington Regional Council to reduce this.

Wellington also has few options for in-catchment alternatives. Hutt and Upper Hutt cities are close to the bulk supply source and have artesian and surface water supply options available. Wellington is therefore more reliant on water storage during any supply interruptions. We are upgrading reservoir storage facilities and implementing a plan to install emergency storage tanks at more than 30 locations around Wellington City.

Planning can however only take us so far. All Wellingtonians need to be prepared for disruption to water supply in the event of a major earthquake, by ensuring they have potable water stored to provide at least three litres per person per day. Many Capacity staff members have considerably more than that. Information to help prepare for an emergency is available at www.getthru.govt.nz.



We systematically monitor city reservoirs for structural strength, and have nearly completed a programme of installing auto-shut-off valves with seismic couplings at major reservoirs. The valves ensure that a reservoir doesn’t lose all its water in the case of a sudden mains rupture in its supply zone.



Chris Appleby (left) and Rob Jack check the distribution manifold at a Hutt City reservoir. These manifolds, which comprise several taps that can be fed directly from a reservoir, are installed at key locations in the region for use in an emergency event. They were recently put to use in Christchurch to help with the earthquake recovery.

Health and safety

The safety of the community, contractors and our staff is our top priority. During the year we carried out a major review of our hazard register to ensure all foreseeable hazards have been identified, assessed and that measures were put in place to minimise risks posed by these hazards as far as practical.

The health and safety requirements of all staff are assessed with training and equipment being provided to ensure staff can carry out their work safely.

Contractors have their health and safety practices independently assessed and must achieve an acceptable standard before they are eligible to be awarded contracts by Capacity. Contractor health and safety performance is audited and taken into account when awarding new contracts.

Following a fatal explosion in a water pipe in Auckland we have reviewed our quality procedure for confined space entry and increased the level of monitoring required of atmospheres in confined spaces. We will carry out a further review of our confined space entry procedure after findings into the accident in Auckland are released to ensure our procedure continues to represent industry best practice.

We have also developed a procedure to ensure entry of staff to utility sites will be monitored and alarms are raised promptly if their return is overdue.

Our Health and Safety Committee has had a busy year, completing a revision of our health and safety manual. This manual is supported by a comprehensive range of health and safety procedures which are controlled in our ISO 9001:2008 certified quality system.

LOSTTIME INCIDENTS

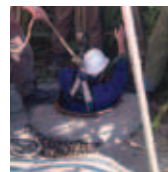
There were three lost time incidents during the year involving our contractors, including a hand injury sustained while using drain cleaning equipment and a back injury.

HEALTH AND SAFETY TRAINING

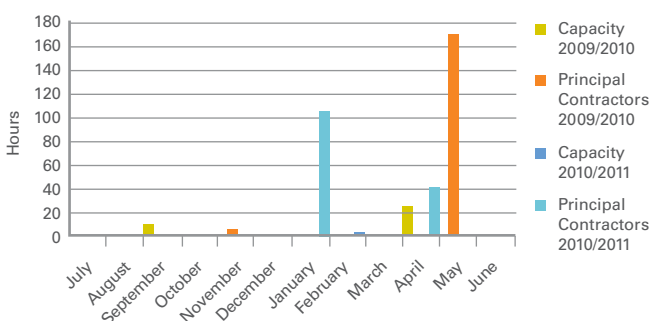
The equivalent of 31 staff days of health and safety training was carried out. This included training for members of the Health and Safety Committee and for general staff.



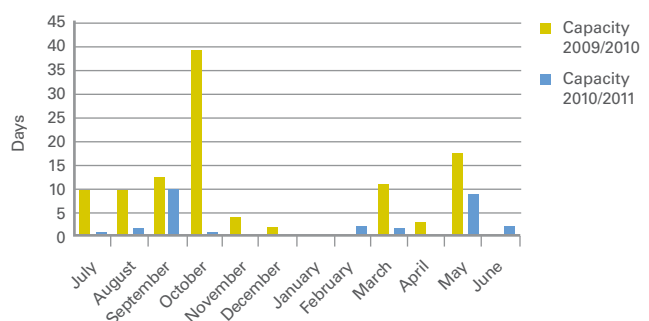
Operations engineer Sam Lister is lowered into a manhole as part of his confined spaces training.



Time lost due to incidents



Staff health and safety training



Financial statements

Statement of comprehensive income

(for the year ended 30 June 2011)

| | Note | Actual 2011 \$000 | Budget 2011 \$000 | Actual 2010 \$000 |
|--|------|-------------------------|-------------------------|-------------------------|
| INCOME | | | | |
| Operations | | 7,323 | 7,607 | 7,176 |
| Interest | | 17 | 0 | 20 |
| TOTAL INCOME | | 7,340 | 7,607 | 7,196 |
| EXPENDITURE | | | | |
| Operational expenditure | | 981 | 1,042 | 929 |
| Audit fees | | 32 | 37 | 30 |
| Directors' fees | 13 | 105 | 105 | 105 |
| Depreciation | 6 | 31 | 36 | 42 |
| Interest | | 0 | 2 | 1 |
| Rental and operating lease costs | | 509 | 606 | 500 |
| Personnel expenditure | 14 | 5,720 | 5,780 | 5,542 |
| TOTAL EXPENDITURE | | 7,378 | 7,607 | 7,149 |
| Surplus/(deficit) before tax | | (38) | 0 | 47 |
| Tax expense/(benefit) | 4 | (1) | 0 | 9 |
| SURPLUS/(DEFICIT) AFTER TAX | | (37) | 0 | 38 |
| Other comprehensive income | | 0 | 0 | 0 |
| TOTAL COMPREHENSIVE INCOME | | (37) | 0 | 38 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | | |
| Wellington City Council | | (19) | 0 | 19 |
| Hutt City Council | | (18) | 0 | 19 |
| Non-controlling interest | | 0 | 0 | 0 |
| TOTAL | | (37) | 0 | 38 |

The accompanying notes form part of and are to be read in conjunction with these financial statements.

Financial statements

Statement of changes in equity

(for the year ended 30 June 2011)

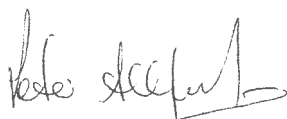
| | Actual 2011 \$000 | Budget 2011 \$000 | Actual 2010 \$000 |
|-----------------------------------|-------------------------|-------------------------|-------------------------|
| COMPREHENSIVE INCOME | | | |
| Surplus/(deficit) for the year | (37) | 0 | 38 |
| Other comprehensive income | 0 | 0 | 0 |
| TOTAL COMPREHENSIVE INCOME | (37) | 0 | 38 |
| Balance at 01 July | 313 | 313 | 275 |
| BALANCE AT 30 JUNE | 276 | 313 | 313 |

Financial statements

Statement of financial position

(as at 30 June 2011)

| | Note | Actual 2011 \$000 | Actual 2010 \$000 |
|----------------------------------|------|-------------------------|-------------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 149 | 497 |
| Trade and other receivables | 7 | 1,048 | 769 |
| TOTAL CURRENT ASSETS | | 1,197 | 1,266 |
| NON-CURRENT ASSETS | | | |
| Intangible assets | 6 | 19 | 19 |
| Property, plant and equipment | 6 | 70 | 74 |
| Work in progress | 6 | 7 | 0 |
| TOTAL NON-CURRENT ASSETS | | 96 | 93 |
| TOTAL ASSETS | | 1,293 | 1,359 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 8 | 475 | 564 |
| Provision for taxation | | 10 | 5 |
| Employee benefits | 9 | 532 | 476 |
| TOTAL CURRENT LIABILITIES | | 1,017 | 1,045 |
| TOTAL LIABILITIES | | 1,017 | 1,045 |
| NET WORKING CAPITAL | | 276 | 313 |
| EQUITY | | | |
| Share capital | 10 | 600 | 600 |
| Retained earnings | 11 | (324) | (287) |
| TOTAL EQUITY | | 276 | 313 |



Peter Allport
CHAIRMAN



Peter Leslie
CHAIR, AUDIT AND RISK COMMITTEE

Financial statements

Statement of cash flows

(for the year ended 30 June 2011)

| | Note | Actual 2011 \$000 | Actual 2010 \$000 |
|--|------|-------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash was provided from: | | | |
| Operating receipts | | 7,063 | 7,081 |
| Income tax received (net) | | 6 | |
| GST receivable | | 54 | 18 |
| Cash was disbursed to: | | | |
| Payments to suppliers and employees | | (7,443) | (6,873) |
| Income tax paid (net) | | 0 | (28) |
| Interest paid | | 0 | (1) |
| NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES | 15 | (320) | 197 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (17) | (63) |
| Purchase of intangible assets | | (11) | (20) |
| NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES | | (28) | (83) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | (348) | 114 |
| Opening cash balance | | 497 | 383 |
| CLOSING CASH BALANCE | | 149 | 497 |

* The GST (net) and income tax (net) components of cash flows from operating activities reflects the net GST paid to and received from the Inland Revenue Department. The GST and income tax components have been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes and to be consistent with the presentation basis of the other primary financial statements.

The accompanying notes form part of and are to be read in conjunction with these financial statements.

Notes to the financial statements (for the year ended 30 June 2011)

1. 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.

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. Current shareholders are Wellington City Council and Hutt City Council. Capacity was incorporated in New Zealand in 2003 as Wellington Water Management Services Limited and had changed its name in July 2009.

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 for these financial statements is the year ended 30 June 2011. The financial statements were authorised for issue by the Board of Directors on 31 August 2011.

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.

Early adopted amendments and revisions to standards

The following amendments and revision to standards have been early adopted:

NZ IFRS 7 Financial Instruments: Disclosures – The effect of early adopting these amendments is that the following information is no longer disclosed:

- the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated; and
- the maximum exposure to credit risk by class of financial instrument if the maximum credit risk exposure is best represented by its carrying amount.

NZ IAS 24 Related Party Disclosures (Revised 2009) – The early adoption of NZ IAS 24 has had no effect on related party disclosures.

NZ IFRS 9 on Financial Instruments has not been adopted. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus or deficit.

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, liabilities, income and expenses. Where it is material, information on the major assumptions is provided in the relevant accounting policy or 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. In 2010/2011 its customers were shareholder councils Wellington City Council and Hutt City Council, as well as Upper Hutt 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) Income tax

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 durations 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 any gain or loss when the liability is derecognised. Financial liabilities entered into with duration less than 12 months are recognised at their nominal value.

f) Property, plant and equipment

Recognition

Property, plant and equipment consists 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 | 10.75 per cent |
| Furniture | 7.80–18.60 per cent |
| Plant and equipment | 7.80–48.00 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 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 | five years |
|-------------------|------------|

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) 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 record 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.

The GST component of operating activities reflects the net GST paid and received with the IRD. The GST component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

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 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.

2. CHANGES IN ACCOUNTING POLICIES

There are no changes in accounting policies. All policies have been applied on a consistent basis with those used in the previous year.

3. NATURE OF THE BUSINESS

Wellington City Council and Hutt City Council incorporated Capacity to manage water services (water, stormwater and wastewater) for both cities. The two councils continue to own their respective water service assets and to separately determine the level and standard of service to be provided.

4. INCOME TAX EXPENSE

| | 2011 \$000 | 2010 \$000 |
|--|---------------|---------------|
| CURRENT TAX EXPENSE | | |
| Current year | 20 | 9 |
| Prior period adjustment | (21) | 0 |
| | (1) | 9 |
| DEFERRED TAX EXPENSE | | |
| Origination and reversal of temporary differences | (2) | (13) |
| Change in unrecognised temporary differences | 2 | 13 |
| Recognition of previously unrecognised tax losses | 0 | 0 |
| | 0 | 0 |
| RECONCILIATION OF EFFECTIVE TAX RATE | | |
| Surplus for the period excluding income tax | (38) | 47 |
| Prima facie income tax based on domestic tax rate | (12) | 14 |
| Effect of non-deductible expenses | 4 | 1 |
| Effect of tax exempt income | 0 | 0 |
| Effect of tax losses utilised | 0 | 0 |
| Current year's loss for which no deferred tax asset was recognised | 0 | 0 |
| Change in unrecognised temporary differences | 29 | (13) |
| Prior period adjustment | (22) | 7 |
| | (1) | 9 |

Income tax recognised directly in equity

The amount of current and deferred tax charged or credited to equity during the period was \$nil (2010: \$nil)

IMPUTATION CREDITS

| | | |
|---|------|----|
| Imputation credits as at 1 July | 57 | 28 |
| New Zealand tax payments | 14 | 29 |
| Imputation credits attached to dividends received | 0 | 0 |
| Other credits | 0 | 0 |
| New Zealand tax refunds received | (20) | 0 |
| Imputation credits attached to dividends paid | 0 | 0 |
| Other debits | 0 | 0 |
| | 51 | 57 |

5. DEFERRED TAX ASSETS

UNRECOGNISED DEFERRED TAX LIABILITIES

As at 30 June 2011 the company had an unrecognised deferred tax liability of \$nil (2010: \$nil).

UNRECOGNISED DEFERRED TAX ASSETS

Deferred tax assets have not been recognised in respect of the following items:

| | 2011 \$000 | 2010 \$000 |
|----------------------------------|---------------|---------------|
| Deductible temporary differences | 385 | 367 |
| Tax losses | 0 | 0 |
| | 385 | 367 |

Under current income tax legislation, the tax losses and deductible temporary differences referred to above do not expire. Deferred tax assets have not been recognised in respect of these items as it is not probable that future taxable profits will be available against which the benefit of the losses can be utilised.

6. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

During the office relocation in June 2009 and towards the completion of related tasks in September, Capacity organised the physical identification and tagging of assets resulting from the move. This consisted of identifying furniture and equipment that were swapped with the previous landlord as part of the make good arrangement at the old premises, as well as the identification of new furniture and equipment acquired during the move and the conditions of the assets in

the existing register. A subsequent stock take was organised in April 2011. In addition, the asset register is also being updated for correct classifications and depreciation rates.

Consequently, software and licences which have been identified, particularly during the review of tax liabilities, have been reclassified and correctly reflected as part of intangibles.

PROPERTY, PLANT, EQUIPMENT AND INTANGIBLES

| | 2010 Total cost \$000 | 2010 Accu deprcn \$000 | 2010 Net book value \$000 | 2011 Current additions \$000 | 2011 Current disposals \$000 | 2011 Current deprcn \$000 | 2011 Elimination on disposal \$000 | 2011 Total cost \$000 | 2011 Accu deprcn \$000 | 2011 Net book value \$000 |
|------------------------------|--------------------------------|---------------------------------|------------------------------------|---------------------------------------|---------------------------------------|------------------------------------|---|--------------------------------|---------------------------------|------------------------------------|
| Telephone system | 34 | 25 | 9 | | | 4 | | 34 | 28 | 6 |
| Owned assets: | | | | | | | | | | |
| Furniture, plant & equipment | 132 | 67 | 65 | 17 | 0 | 17 | 0 | 149 | 84 | 64 |
| Intangibles | 32 | 13 | 19 | 11 | | 11 | | 43 | 24 | 19 |
| Work in progress | 0 | | | 7 | | | | 7 | | 7 |
| | 198 | 105 | 93 | 35 | 0 | 32 | 0 | 233 | 136 | 96 |

7. TRADE AND OTHER RECEIVABLES

| | Note | Actual 2011 \$000 | Actual 2010 \$000 |
|--------------------------------|------|-------------------------|-------------------------|
| Trade receivables | | 56 | 0 |
| Related parties' receivables | 12 | 881 | 661 |
| Prepayments and sundry debtors | | 111 | 108 |
| | | 1,048 | 769 |

8. TRADE AND OTHER PAYABLES

| | Note | Actual 2011 \$000 | Actual 2010 \$000 |
|---------------------------------------|------|-------------------------|-------------------------|
| Trade payables | | 313 | 457 |
| Related parties' payables | 12 | 4 | 3 |
| GST | | 158 | 104 |
| TOTAL TRADE AND OTHER PAYABLES | | 475 | 564 |

9. EMPLOYEE BENEFITS

Capacity provides accrual for leave benefits consisting of annual leave, long service leave and time in lieu. Benefit entitlements are as follows:

| | Note | Actual 2011 \$000 | Actual 2010 \$000 |
|-----------------------------------|------|-------------------------|-------------------------|
| Current | | | |
| Annual leave and time in lieu | | 304 | 267 |
| Long service leave | | 35 | 30 |
| Payroll accruals | | 193 | 179 |
| TOTAL EMPLOYEE ENTITLEMENT | | 532 | 476 |

10. SHARE CAPITAL

| | Actual 2011 \$000 | Actual 2010 \$000 |
|---|-------------------------|-------------------------|
| 300 FULLY PAID \$2,000 ORDINARY SHARES | 600 | 600 |

11. RETAINED EARNINGS

| | Actual 2011 \$000 | Actual 2010 \$000 |
|--------------------------------|-------------------------|-------------------------|
| Balance at beginning of year | (287) | (325) |
| Net surplus/(deficit) for year | (37) | 38 |
| BALANCE AT END OF YEAR | (324) | (287) |

12. RELATED PARTY TRANSACTIONS

| | Actual 2011 \$000 | Actual 2010 \$000 |
|---|-------------------------|-------------------------|
| Revenue for services by Capacity to: | | |
| Wellington City Council | 5,073 | 5,015 |
| Hutt City Council | 1,475 | 1,422 |
| | 6,548 | 6,437 |
| Goods and services supplied to Capacity by: | | |
| Wellington City Council | 100 | 41 |
| Hutt City Council | 48 | 0 |
| | 148 | 41 |
| Payments by Councils relating to City Care: | | |
| Wellington City Council | 3,208 | 2,671 |
| Hutt City Council | 2,615 | 2,236 |
| | 5,823 | 4,906 |
| Receivable owing to Capacity (net of City Care) from: | | |
| Wellington City Council | 621 | 507 |
| Hutt City Council | 261 | 154 |
| | 882 | 661 |
| Payable by Capacity to: | | |
| Wellington City Council | 4 | 3 |
| Hutt City Council | 0 | 0 |
| | 4 | 3 |

13. RELATED PARTY DISCLOSURES

In this section we disclose the remuneration and related party transactions of directors, key management personnel, comprised of the chief executive and the management team.

Key management personnel compensation

| | Actual 2011 \$000 | Actual 2010 \$000 |
|--|-------------------------|-------------------------|
| Salaries and other short-term benefits | 998 | 1,053 |
| Post employment benefits | 26 | 22 |
| KEY MANAGEMENT PERSONNEL COMPENSATION | 1024 | 1,075 |

Two senior managers took leave of absence during the year 2010/11; 2010 totals restated to include short term benefits.

Directors' remuneration

| | 2011 \$ | 2010 \$ |
|--------------------------------------|----------------|----------------|
| Peter Allport (chair from Dec 09) | 30,000 | 23,750 |
| Bryan Jackson (chair retired Nov 09) | 0 | 12,500 |
| Andy Foster | 15,000 | 15,000 |
| Peter Leslie | 15,000 | 15,000 |
| Ray Wallace (retired Dec 10) | 7,500 | 15,000 |
| David Bassett (from Jan 11) | 7,500 | |
| Ian Hutchings | 15,000 | 15,000 |
| John Strahl | 15,000 | 8,750 |
| TOTAL DIRECTORS' REMUNERATION | 105,000 | 105,000 |

During the year, Capacity purchased legal services from DLA Phillips Fox, a legal firm in which Capacity Director John Strahl was formerly a partner and is occasionally engaged by for ad hoc assignments. These services cost \$145.85 only for

2011 (2010: \$9,533.10) and were supplied on normal commercial terms. There is no balance outstanding (2010: \$50) for unpaid invoices at year end.

Employee remuneration

The number of employees earning over \$100,000 per annum.

| | Year ended 30 June 2011 | Year ended 30 June 2010 |
|---|----------------------------|----------------------------|
| SALARY RANGE | | |
| \$280,000 - \$290,000 | 1 | |
| \$260,000 - \$270,000 | | 1 |
| \$150,000 - \$160,000 | 1 | |
| \$130,000 - \$140,000 | | 1 |
| \$110,000 - \$120,000 | 4 | 3 |
| \$100,000 - \$110,000 | 4 | 3 |
| No other employees earn over \$100,000. | | |

14. PERSONNEL EXPENDITURE

Personnel costs consist of salaries and wages/bonus/overtime, other employee costs, and staff recruitment costs.

Personnel Costs:

| | Actual 2011 \$000 | Actual 2010 \$000 |
|-----------------------|-------------------------|-------------------------|
| Employee remuneration | 5,275 | 5,135 |
| Other employee costs | 387 | 366 |
| Recruitment costs | 58 | 41 |
| TOTAL | 5,720 | 5,542 |

The increase in employee remuneration and other employee costs include the approximate 2.5 per cent salary adjustments as well as retirement pay of about \$10,000.

15. RECONCILIATION OF NET SURPLUS BEFORE TAXATION WITH CASH INFLOW FROM OPERATING ACTIVITIES

Net surplus to operating inflow

| | Actual 2011 \$000 | Actual 2010 \$000 |
|--|-------------------------|-------------------------|
| REPORTED SURPLUS / (DEFICIT) AFTER TAXATION | (37) | 38 |
| Add non cash items: | | |
| Depreciation | 32 | 42 |
| Work in progress | (7) | |
| Gain on disposal | 0 | 2 |
| | (12) | 82 |
| Add/(less) movements in other working capital items | | |
| (Increase)/decrease in trade receivable | (277) | 114 |
| (Increase)/decrease in prepayments | (2) | 40 |
| Increase/(decrease) in trade payable | (130) | 10 |
| Increase/(decrease) in GST payable | 54 | 18 |
| Increase/(decrease) in annual leave | 42 | (47) |
| Tax provision movement | 5 | (20) |
| NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES | (320) | 197 |

16. NET DEFICIT BEFORE TAX

The net deficit before taxation for the year ended 30 June 2011 represents an increase in leave accrued by staff while working at Capacity not funded by charge out rates agreed with customers. The loss arising from an increase in accrued leave represents a non-cash item and the company's cash resources are not decreased by this loss.

17. FINANCIAL INSTRUMENTS

Capacity's financial instruments include financial assets (cash and cash equivalents, and receivables) and financial liabilities (payables that arise directly from operations).

The directors do not consider there is any material exposure to interest rate risk on its investments.

Concentrations of credit risk with respect to accounts receivable are high due to the reliance on Wellington City Council, Hutt City Council and Upper Hutt City Council for the company's revenue. However, the councils are considered by the directors to be high credit quality entities.

Capacity invests funds on deposit with The National Bank of New Zealand Limited.

Fair value

Fair value is the amount for which an item could be exchanged, or a liability settled, between knowledgeable and

willing parties in an arm's-length transaction. There were no differences between the fair value and the carrying amounts of financial instruments at 30 June 2011.

Market risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates.

There is no exposure to interest rate and currency risk as Capacity does not have borrowings and other foreign currency transactions.

Credit risk

Credit risk is the risk that a third party will default on its obligations to Capacity, therefore causing a loss. Capacity is not exposed to any material concentrations of credit risk other than its exposure within the Wellington region.

Cash is held on deposit with the ANZ National Bank under a call and a cheque account. Capacity holds no other collateral or credit enhancements that give rise to credit risk.

Receivables balances are monitored on an ongoing basis to Capacity's exposure to bad debts. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Capacity's maximum exposure to credit risk at balance date is:

| | 2011 \$000 | 2010 \$000 |
|-------------------------------|---------------|---------------|
| Financial assets | | |
| Cash and cash equivalents | 149 | 497 |
| Trade and other receivables | 1,048 | 769 |
| TOTAL FINANCIAL ASSETS | 1,197 | 1,266 |

The status of trade receivables at the reporting date is as follows:

| | 2011 \$000 | 2010 \$000 |
|--|---------------|---------------|
| Trade and other receivables | | |
| Not past due date | 1,048 | 769 |
| Past due zero to three months | 0 | 0 |
| Past due three to six months | 0 | 0 |
| Past due more than six months | 0 | 0 |
| TOTAL TRADE AND OTHER RECEIVABLES | 1,048 | 769 |

LIQUIDITY RISK

Liquidity risk is the risk arising from unmatched cash flows and maturities.

The following table sets out the contractual cash flows for all financial liabilities that are settled on a gross cash flow basis.

| | Statement of financial position \$000 | Total contractual cash flows \$000 | 0 to 12 months \$000 | One to two years \$000 | Two to five years \$000 | More than five years \$000 |
|--------------------------|--|---|----------------------------|------------------------------|-------------------------------|----------------------------------|
| 2011 | | | | | | |
| TRADE AND OTHER PAYABLES | 475 | 0 | 475 | 0 | 0 | 0 |
| 2010 | | | | | | |
| TRADE AND OTHER PAYABLES | 564 | 0 | 564 | 0 | 0 | 0 |

18. COMMITMENTS AND CONTINGENCIES

Capacity has a six-year lease commitment at 85 The Esplanade, Petone, starting 1 July 2009, with a two-month lease-free period on each year for the first three years. Lease terms will be reviewed after the end of three years.

Capacity also has a commitment in operating leases to IBM Global Financing New Zealand Limited for computer hardware, Ricoh for photocopiers, Canon for printers and FleetPartners for lease of vehicles.

| | Actual 2011 \$000 | Actual 2010 \$000 |
|--|-------------------------|-------------------------|
| Non-cancellable operating lease commitments | | |
| Not later than one year | 478 | 491 |
| Later than one and not later than two years | 397 | 438 |
| Later than two years and not later than five years | 618 | 865 |
| | 1,493 | 1,794 |

Capacity has no contingent liabilities in 2011 (2010: \$nil) and no contingent assets in 2011 (2010: \$nil).

19. BUDGET DISCLOSURE

Revenues are \$284K below the budget of \$7,607K because the shareholder councils have been billed less management fees due to expenditures being below budget.

There are no major expenditure variances against the prospective Statement of Comprehensive Income.

There are no major variances against the prospective Statement of Changes in Equity,

Statement of Financial Position

The receivables were higher than budgeted because of end of year increase in the management fee charged to the

joint venture cost centre. Likewise, June accounts that had normally been paid for by Upper Hutt before the close of year had been left out to be automatically paid on the first day of the following month.

Net working capital has been within budget, though.

Statement of Cash Flow

Because anticipated revenues were lower than budgeted and the end of year receivables have been higher as stated, operating receipts were also lower than initially projected.

20. EVENTS AFTER BALANCE DATE

Capacity had no significant events occurring after balance date.

Independent Auditor's Report

To the readers of Capacity Infrastructure Services Limited's financial statements and statement of service performance for the year ended 30 June 2011

The Auditor-General is the auditor of Capacity Infrastructure Services Limited (the company). The Auditor-General has appointed me, J.R. Smaill, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the company on her behalf.

We have audited:

the financial statements of the company on pages 26 to 39, that comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and

the statement of service performance of the company on page 13.

Opinion on the financial statements and the statement of service performance

In our opinion:

- the financial statements of the company on pages 26 to 39:
 - comply with generally accepted accounting practice in New Zealand;
 - give a true and fair view of the company's:
 - financial position as at 30 June 2011; and
 - financial performance and cash flows for the year ended on that date; and
- the statement of service performance of the company on page 13:
 - complies with generally accepted accounting practice in New Zealand; and
 - gives a true and fair view of the company's service performance achievements measured against the performance targets adopted for the year ended 30 June 2011.

Opinion on other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 7 September 2011. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement

of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the company's preparation of the financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company's financial position, financial performance and cash flows; and
- give a true and fair view of its service performance.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error.

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the company.



J.R. Smaill
 Audit New Zealand
 On behalf of the Auditor-General
 Wellington, New Zealand

Directory

DIRECTORS

Peter Allport (chairman)
David Bassett
Andy Foster
Ian Hutchings
Peter Leslie
John Strahl

CHIEF EXECUTIVE

David Hill

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AUDITOR

Audit New Zealand on behalf of the
Auditor-General

BANKERS

National Bank of New Zealand Limited
Wellington
New Zealand

SOLICITORS

DLA Phillips Fox
50-64 Customhouse Quay
Wellington
New Zealand

Matters relating to the electronic presentation of the audited financial statements and performance information

This audit report relates to the financial statements and performance information of Capacity Infrastructure Services Ltd for the year ended 30 June 2011 included on Capacity Infrastructure Services' website. Capacity Infrastructure Services' board is responsible for the maintenance and integrity of Capacity Infrastructure Services' website. We have not been engaged to report on the integrity of Capacity Infrastructure Services' website. We accept no responsibility for any changes that may have occurred to the financial statements and performance information since they were initially presented on the website.

The audit report refers only to the financial statements and performance information named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and performance information. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and performance information and the related audit report dated 7 September 2011 to confirm the information included in the audited financial statements and performance information presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

