

Quarterly Report to Shareholders

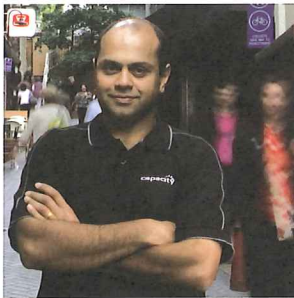
Capacity Infrastructure Services Limited

trading as Capacity

For the six month period ended 31 December 2011

2 February 2012

CONFIDENTIAL



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Introduction

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

This report outlines Capacity's financial results and progress on key performance indicators as set out in the Statement of Intent 2011-2012 for the period 1 July 2011 to 31 December 2011, with comparative quarterly breakdown.

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

Performance Targets for Capacity 2011/12

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

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

WCC	HCC	UHCC
0.7	1.38	0.23

*Performance target is less than 4 per 1000

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

WCC	HCC	UHCC
0.35	0.52	0.22

*Performance target is less than 1.2 per kilometre

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

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

Water	WCC	HCC	UHCC
Water Supply	100%	100%	97%
Stormwater	97%**	100%	100%
Wastewater	96%**	100%	100%

*Performance target is at least 97%

**CitiOperations can only report on *Response B (onsite)* at this stage

ii. Timeliness and quality of Asset Management Plans for Councils

Capacity delivered Asset Management Plans to each of our three client Councils within agreed timeframes in 2011. We are still working with Wellington City Council officers on the content and layout of the detailed plans.

Operations and Maintenance Contract – City Care Limited

The review of the 2010-11 contract performance (KPIs) was completed in November 2011. City Care's performance has resulted in a further one year contract term extension being granted with a further 1.42% reduction in contract rates and no penalty payment incurred. The combined reduction in contract roles over the past two years equates to a contract cost reduction of approximately \$1.8million. This is an excellent result for City Care, Capacity and the client councils.

Renewals/Upgrades of Assets

In the year to date Capacity has undertaken a number of key projects on behalf of our clients. Projects currently underway include:

- A variety of renewals and upgrades
- The Messines Rd reservoir renewal project
- The Tacy Street stormwater pump station installation
- The Carmichael Reservoir Upgrade
- The Moa Point inlet pump station upgrade
- Black Creek Project, Wainuiomata

Emergency Management Preparedness Project

The project team made up of staff from Capacity, the region's councils and Greater Wellington met on 29 November 2011 to review progress on the various project activities. The project team is scheduled to meet again in March 2012. Progress on the various projects commissioned by the project team and Capacity is reviewed on a regular basis by the Capacity Emergency Management Committee.

An emergency management exercise was held by Capacity on 2 December to test the Capacity Emergency Management Plan immediate response. The exercise involved reconnaissance of major infrastructure sites and communication of data from the field to the Capacity emergency management office and on to the region's Emergency Management Offices (EMO). The exercise was effective and well received by Capacity and EMO staff. A number of improvements have been identified from the exercise and programmed for implementation.

Regional Water Entity Development

During the period Capacity and PriceWaterhouseCoopers prepared reports for delivery to shareholders and clients, identifying improvements in regional water services delivery, and a business case setting out medium term cost benefits.

Work was undertaken with Porirua City Council to provide a formal offer for Capacity to undertake water services on its behalf, commencing in mid 2012.

It is proposed that existing client councils consider the new business model in March 2012, with Porirua City Council approval to be sought (subject to public consultation) in April 2012.

3. Cost Effectiveness

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

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

4. Financial, Project and Network Management:

i. Deliver capital projects within budget and timeframes

Capex (\$000)	YTD Actual	YTD Budget	YTD Variance	Annual Forecast	Annual Budget	Forecast Variance
Wellington	9,057	8,742	-315	25,891	25,891	0
Hutt City	2,596	6,189	3,593	12,508	12,508	0
Upper Hutt City	1,786	2,125	339	4,311	4,311	0
Total	13,782	17,055	3,617	42,710	42,710	0

Wellington City Council

A net overspend of \$315k for Wellington City Council is on account of various capital projects commencing ahead of schedule, which is offset by an underspend in the Carmichael Reservoir Roof project and Moa Point upgrade project.

Construction has been completed ahead of schedule on stormwater & sewer renewal projects in Tai Paku Paku Road, and Barnard & Baker & Nottingham Streets. Water main renewal projects at Hadfield Terrace & Kelburn Parade, Stewart Duff Drive, Seatoun & Northern Water main (stage 2) have been completed ahead of time.

Replacement of the Carmichael Reservoir roof has been delayed to January to allow for additional condition assessment of the existing reservoir structure. Lack of rain resulting in shortfall of overflows has delayed the Moa Point project.

Hutt City Council

There has been a delay in most of the capex projects that has resulted in a year to date favourable variance of \$3,593,000.

- In the water network, delays in design and tendering have moved physical works to start in January/March for Rata Street & Wilkie crescent projects. Lord Street is in the tendering stage.
- There have been delays in the tendering process for the Wainuiomata Catchment Sewer project and delays in the resource consent process for Trunk DBO network projects. This is expected to be on track in future months. No significant year end variance is expected at this stage.
- Stormwater projects in Major Drive, Jackson Street and Black Creek Stage 3 are behind schedule. Tendering has been delayed in the Dowse Drive project as further consultation with residents is required.

Upper Hutt City Council

The favourable variance is mainly in the stormwater network as contracts are awarded to one contractor and the construction works follows in sequence until completion. The Hudson Avenue & Exchange St projects are yet to start physical works. No year end variance is anticipated.

ii. Deliver operating and maintenance projects within budget and timeframes

Opex (\$000)	YTD Actual	YTD Budget	YTD Variance	Annual Forecast	Annual Budget	Forecast Variance
Wellington	19,202	18,654	-548	37,580	37,317	-263
Hutt City	8,827	9,543	716	18,627	18,657	30
Upper Hutt City	2,452	2,508	56	3,953	3,953	-0
Total	30,481	30,705	224	60,159	59,926	-233

Wellington City Council

Operational projects are overspent by \$548,000 on account of:

- Reactive maintenance projects of the storm water network being carried out by Citiopts., The overspend is mainly due to the underfunding of services.
- The sewer reactive maintenance projects are overspent to date due to Waring Taylor culvert clearing work. However, this will be back on track within budget in future months due to lower contract costs.
- Sewage treatment plant contract costs have had a revision in tariff rates resulting in an overspend.

A marginal YE overspend is anticipated.

Hutt City Council

Operational projects are slightly behind programme which has resulted in a favourable variance of \$716,000. Planned maintenance works in the water & stormwater network such as hydrant painting, valve marking, cleaning of intakes, retention dams, canals and other network maintenance works are scheduled to begin in January. In the wastewater network, favourable DBO contract escalation costs, coupled with lower than average flows and associated savings in treatment costs have resulted in an underspend. A marginal year end favourable variance is expected at this stage.

Upper Hutt City Council

The favourable year to date variance of \$56,000 in the operating projects is due to lower operating costs with low rainfall, CCTV expenses and savings in the bulk water levy. No significant year end variance is expected at this stage.

iii. Manage Capacity within budgets and timeframes (2011/2012)

Total year to date expenditure is \$3,726,000 and is about 4.8% lower than the half year budget of \$3,914,000. Capacity forecasts a nil surplus at year ending 30 June 2012.

5. Legislative, financial and technical compliance

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

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

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

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

Financial Results

Income

Corporate revenue for the December quarter of \$1,882,000 includes \$197,000 (10%) contracted services from Upper Hutt City Council. As Capacity's operational costs were lower than budgeted during the first half of the year, lower management fees by about 5% (\$216,000) have been charged to shareholder clients.

Expenditure

Total expenditure for the December quarter is \$1,900,000 and year to date expenditure of \$3,726,000 is about 4.8% (\$187,000) under budget.

Remuneration and employee costs are about 5% (\$150,000) under budget YTD. Staff recruitment costs are high this quarter due to staff resignations during the period, including a Telemetry Engineer, HR Analyst, and Policy Analyst.

Financial Statements

Statement of Comprehensive Income

For the six months ended 31 December 2011

	Sept 2011 Quarter \$000	Dec 2011 Quarter \$000	YTD Actual 31 Dec 2011 \$000	YTD Budget 11/12 \$000	YTD Variance \$000
REVENUE					
Operations	1,828	1,882	3,711	3,927	(216)
Interest	8	4	12	-	12
TOTAL REVENUE	1,836	1,886	3,723	3,927	(204)
EXPENDITURE					
Operating Expenditure	425	378	803	821	18
Personnel Expenditure	1,366	1,485	2,851	3,001	150
Directors' Fees	26	26	53	58	5
Depreciation	8	11	19	33	14
Interest Expense	1	0	1	1	0
Audit Fees	-	-	-	-	-
TOTAL EXPENDITURE	1,826	1,900	3,726	3,914	187
NET SURPLUS/(DEFICIT) BEFORE TAXATION					
	10	(14)	(4)	13	(17)
Tax Expense	-	-	-	-	-
NET SURPLUS/ (DEFICIT) AFTER TAXATION					
	10	(14)	(4)	13	(17)

Statement of Movements in Equity

For the period ended 31 December 2011

	Dec 2011 \$000	Sept 2011 \$000
NET SURPLUS/(DEFICIT) FOR THE YEAR	(4)	38
Contribution from owners:		
Share capital paid	-	-
MOVEMENTS IN EQUITY FOR THE PERIOD	(4)	38
EQUITY AT BEGINNING OF YEAR	313	275
Adjustment		
EQUITY AT END OF YEAR	309	313

Statement of Financial Position

As at 31 December 2011

	Dec 2011 \$000	Jun 2011 \$000
CURRENT ASSETS		
Bank	1,041	149
Accounts Receivable	799	938
Sundry Debtors & Prepayments	(12)	111
	1,828	1,198
NON CURRENT ASSETS		
Work in Progress-Capitalized	-	6
Intangible Assets	66	18
Property, Plant & Equipment	78	71
	144	94
TOTAL ASSETS	1,972	1,292
CURRENT LIABILITIES		
Accounts Payable	1,349	667
Provision for Taxation	(2)	10
Annual Leave	353	339
	1,700	1,016
TOTAL LIABILITIES	1,700	1,016
NET WORKING CAPITAL	272	276
Share Capital	(600)	(600)
Retained Earnings	328	324
EQUITY	(272)	(276)

Statement of Cash Flows

As at 31 December 2011

	Quarter Dec 2011 \$000	FY Jun 2011 \$000
Cash flows from operating activities		
Cash was provided from:		
Operating Receipts	3,862	7,063
GST	(65)	54
Cash was disbursed to:		
Payments to Suppliers	(2,825)	(7,443)
Payments of Tax	(12)	6
Interest Paid		
Net cash inflow/(outflow) from operating activities	960	(320)
Cash flows from investing activities		
Cash was applied to:		
Purchase of Property, Plant & Equipment	(11)	(27)
Purchase of Intangible Assets	(57)	
Net cash outflow from investing activities	(68)	(27)
Net Increase in Cash held	892	(348)
Opening Cash Balance	149	497
Closing Cash Balance	1,041	149
Made up of:		
Cash	1,041	149
Short term deposits	-	-
Closing Cash Balance	1,041	149

