

Quarterly Report to Shareholders

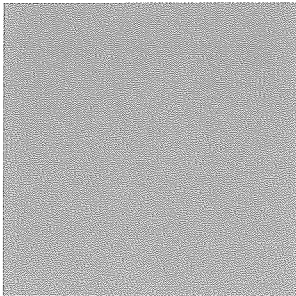
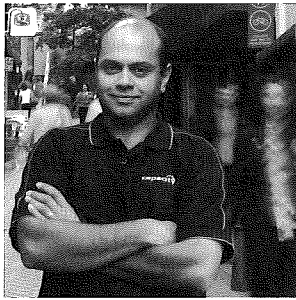
Capacity Infrastructure Services Limited

trading as Capacity

For the nine month period ended 31 March 2012

30 April 2012

CONFIDENTIAL





Contents

INTRODUCTION.....	3
PERFORMANCE TARGETS FOR CAPACITY 2011/12.....	3
1. Service Quality: To provide a reliable water supply and wastewater service.....	3
2. Customer Focus: To respond promptly to service requests and produce timely Asset Management Plans of a good quality.....	3
3. Cost Effectiveness.....	5
4. Financial, Project and Network Management:	5
5. Legislative, financial and technical compliance.....	7
FINANCIAL RESULTS.....	8
Income	8
Expenditure	8
FINANCIAL STATEMENTS	9
Statement of Comprehensive Income	9
Statement of Movements in Equity	10
Statement of Financial Position	11
Statement of Cash Flows	12

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 March 2012, 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
1.7	2.1	2.73

*Performance target is less than 4 per 1000

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

WCC	HCC	UHCC
0.5	0.716	0.36

*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%	99.5%	100%
Stormwater	94%**	100%	100%
Wastewater	95%**	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 is currently developing detailed Asset Management Plans for each of our three client Councils, with drafts due for completion mid-2012. In addition, Capacity has recently commenced a review of the standard of its asset management practices (including, but not limited to, the development of client Asset Management Plans). This broad review will identify areas for improvement that Capacity will discuss with the Capacity Board and client Councils.

Capacity is on track to deliver the Hutt and Upper Hutt City Councils' Asset Management Plans by the agreed deadlines. Capacity acknowledges that the 2011 Wellington City Council Three Waters Asset Management Plan was not delivered by the agreed deadline of 28 October 2011. The main reasons for non-delivery included resourcing issues, a late request for the preparation of a summary asset management plan, and conflicting deadlines with Wellington City FAR/LTP requirements that were given highest priority. Capacity is on track to deliver the Wellington City Council detailed Asset Management Plan as per the new agreed timeframes.

Capacity also acknowledges the Wellington City Council commissioned GHD desktop review of the Summary Three Waters Asset Management Plan. While Capacity has discussed significant concerns regarding this review directly with Wellington City Council officers, Capacity also notes that points raised by the review will be taken into account within the detailed Three Water Asset Management Plan, currently under development.

iii. Operations and Maintenance Contract – City Care Limited

A review of the contract deliverables and performance has been carried out resulting in the preparation of a Contract Improvement Plan for the 2011-12 year. The plan incorporated issues and recommendations from all parties to ensure that Capacity and City Care work cooperatively towards achieving the objective of being industry leaders in contract delivery. Progress to date includes a review of the contract KPI's (completed in February) and the implementation of a project team to review the contract Asset and Operations Maintenance Plans (work procedures).

City Care has met the majority of the contract performance measures for the year to date.

iv. Emergency Management Preparedness Project

The project team made up of staff from Capacity, the region's councils and Greater Wellington met on 27 March 2012 to review progress on the various project activities. The project team is scheduled to meet again in July 2012. Progress on the various projects commissioned by the project team and Capacity is reviewed on a monthly basis by the Capacity Emergency Management Committee including these projects due to be completed by July 2012:

- procurement of additional artesian bores
- design for the Knights Road artesian tanker filling facility
- procurement of emergency water storage tanks
- a wastewater disposal plan.

v. Regional Water Entity Development

During the period Capacity worked with shareholders and clients to prepare reports outlining improvements in regional water services delivery, and a business case setting out medium term cost benefits. The Hutt, Wellington and Upper Hutt Councils have approved the outcome focused business model, and Capacity is now working to develop the key indicators by which its performance will be measured.

Capacity is continuing to work with Porirua City Council officers on completing an offer to manage the city's three water activities. It is proposed that Porirua City Council will seek community approval (via public consultation) in June 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	YTD Actual	YTD Budget	YTD Variance	Annual Forecast	Annual Budget	Forecast Variance
Wellington	14,390	15,160	770	24,894	25,890	996
Hutt City	6,701	10,427	3,726	12,508	12,508	0
Upper Hutt City	2,197	2,788	590	4,216	4,311	95
Total	23,288	28,375	5,087	41,618	42,709	1,091

Wellington City Council

A net favourable YTD variance of \$770k in Wellington City Council is on account of:

- Water Supply - There have been delays in the Tasman Street upgrade project. Design works is completed and preparation of tender documents is in progress. \$746k is anticipated to be underspent at YE. Queens Drive upgrade project is on schedule. Messines Road reservoir Tank no.2 has been commissioned. Construction work is in progress for Tank no 1. Carmichael reservoir roof installation work is in progress. Although there is an YTD underspend of 204k, the budget will be fully spent at YE.
- Storm Water - Tacy Street storm water pump station has been completed ahead of schedule. There is a marginal overspend (44k) that is expected at YE. Bulk of the over spend on storm water network renewal pipework is also on account of a few projects that are ahead of schedule. The budget will be fully spent and no significant YE variance is expected at this stage.
- Waste Water - Due to a lack of data of overflows from the Moa Point Waste Water Treatment Plant this project is behind schedule. YE underspend of \$295k is forecasted at this stage.

Hutt City Council

There has been a delay in most of the Capex projects (contractors have been in Christchurch) that has resulted in a favourable variance of \$3,726k. There may be a marginal favourable variance at Year End.

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

Upper Hutt City Council

The YTD favourable variance of \$590k is on account of:

- Water main renewal projects where program is behind schedule. Physical works contract underway. No YE variance is anticipated.
- Storm water network projects at Hudson Ave, Davis Cr & Exchange St have been completed.

YE favourable variance of \$95k is forecasted.

ii. Deliver operating and maintenance projects within budget and timeframes

Opex	YTD Actual	YTD Budget	YTD Variance	Annual Forecast	Annual Budget	Forecast Variance
Wellington	28,438	28,023	-415	38,368	37,320	-1,048
Hutt City	13,406	13,919	513	18,657	18,657	0
Upper Hutt City	3,673	3,817	144	4,041	4,041	0
Total	45,517	45,759	241	61,066	60,018	-1,048

Wellington City Council

Operational projects are overspent by \$415k and an overall \$1.04 million YE overspend is forecast on account of the following:

- Water Supply - Reactive maintenance has been less than forecast over the summer period due to a very wet summer. This has resulted in a less usual expenditure. Bulk water levies is less than forecast resulting in favourable variance.
- Storm Water - The over spend in the storm water network is in the unplanned maintenance projects. Expenditure on the Waring Taylor culvert cleaning, legal fees associated with a property owner on The Esplanade, Island Bay and proposed expenditure on hydrogen sulphide monitoring is expected to result in a YE overspend of around \$100k.
- Waste Water - Most over expenditure will be for reactive and planned maintenance. An unfavourable YE variance of \$420k is expected due to underfunding of contract costs. \$481k YE overspend forecasted is on account of higher than expected UWI tariff increase in contract and management fees costs in the Sewage Treatment Plant. About \$200k of YE variance is also expected in the planning budget on account of labour/consultancy for emergency management, feasibility studies, pipe renewal funding forecasting and operational redundancy study.

Hutt City Council

Operational projects are slightly behind programme and have resulted in a favourable variance of \$513k.

- Water Operational projects are slightly behind the programme as planned maintenance works such as hydrant painting, valves marking and reservoir access road maintenance works will be completed during the next two months. The budget is expected to be fully spent.
- The storm water operational projects and planned maintenance works such as cleaning of intakes, retention dams, canals, drains and streams are in progress and will be completed during the next two months. No YE variance is anticipated at this stage.
- In the wastewater, the favourable YTD variance is due to a combination of factors including favourable DBO contract escalation rates; lower than average flows and associated treatment costs, some savings in final insurance costs and favourable utility rates. The budget allocated for operational and maintenance programmes will be spent by YE.

Upper Hutt City Council

The favourable YTD variance of \$144k in the operating projects is due to:

- Water Supply – Claims yet to be further verified.

- Storm Water - Lower contract rates in CCTV projects

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

iv. 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.

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

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 March quarter of \$1,861,000 includes \$197,000 (10.6%) contracted services from Upper Hutt City Council. As Capacity's operational costs were lower than budgeted during the first nine months of the year, lower management fees by about 5% (\$317,000) have been charged to shareholder clients.

Total revenues for this quarter also include a recovered expenditure income of \$125,000 for the share of costs by Wellington, Hutt, Upper Hutt and Porirua City Councils in relation to the regionalization of water services.

Expenditure

Total expenditure for the March quarter is \$1,963,000 and year to date expenditure of \$5,690,000 is about 3% (\$181,000) less than budget.

Remuneration and employee costs are about 5.6% (\$251,000) under budget YTD. Three staff vacancies occurring in this quarter have been filled during April 2012. Operating expenditure was 8.1% (\$100,000) higher than the budget year to date due to costs associated with the adjustment of prior-years' rent concession, telecommunications and IT, and the professional costs relating to the regionalization of water services. Year-end expenditure is forecast to be within budget.

Financial Statements

Statement of Comprehensive Income

For the six months ended 31 March 2012

	Dec 2011 Half Year \$000	March 2012 Quarter \$000	YTD Actual 31 March 2012 \$000	YTD Budget 11/12 \$000	YTD Variance \$000
REVENUE					
Operations	3,711	1,861	5,572	5,889	(317)
Recovered Expenditure Income	-	125	125	-	125
Interest	12	7	20	-	20
TOTAL REVENUE	3,723	1,994	5,717	5,889	(172)
EXPENDITURE					
Operating Expenditure	803	529	1,331	1,232	(100)
Personnel Expenditure	2,851	1,397	4,249	4,500	251
Directors' Fees	53	26	79	87	8
Depreciation	19	11	30	50	20
Interest Expense	1	0	1	2	0
Audit Fees	-	-	-	-	-
TOTAL EXPENDITURE	3,726	1,963	5,690	5,870	181
NET SURPLUS/(DEFICIT) BEFORE TAXATION	(4)	31	27	19	8
Tax Expense	-	-	-	-	-
NET SURPLUS/(DEFICIT) AFTER TAXATION	(4)	31	27	19	8

Statement of Movements in Equity

For the period ended 31 March 2012

	March 2012 \$000	June 2011 \$000
NET SURPLUS/(DEFICIT) FOR THE YEAR	27	(37)
Contribution from owners:		
Share capital paid	<u>-</u>	<u>-</u>
MOVEMENTS IN EQUITY FOR THE PERIOD	<u>27</u>	<u>(37)</u>
EQUITY AT BEGINNING OF YEAR	(324)	(287)
Adjustment		
EQUITY AT END OF YEAR	<u><u>(297)</u></u>	<u><u>(324)</u></u>

Statement of Financial Position

As at 31 March 2012

	March 2012 \$000	June 2011 \$000
CURRENT ASSETS		
Bank	625	149
Accounts Receivable	959	938
Sundry Debtors & Prepayments	61	111
	<u>1,645</u>	<u>1,198</u>
NON CURRENT ASSETS		
Work in Progress		6
Intangible Assets	97	18
Property, Plant & Equipment	78	71
	<u>176</u>	<u>94</u>
TOTAL ASSETS	<u>1,821</u>	<u>1,292</u>
CURRENT LIABILITIES		
Accounts Payable	1,249	667
Provision for Taxation	(4)	10
Annual Leave	273	339
	<u>1,517</u>	<u>1,016</u>
TOTAL LIABILITIES	<u>1,517</u>	<u>1,016</u>
NET WORKING CAPITAL	<u>303</u>	<u>276</u>
Share Capital	(600)	(600)
Retained Earnings	297	324
EQUITY	<u>(303)</u>	<u>(276)</u>

Statement of Cash Flows

As at 31 March 2012

	9 months to March 2012 \$000	FY June 2011 \$000
Cash flows from operating activities		
Cash was provided from:		
Operating Receipts	5,695	7,063
GST	(149)	54
Cash was disbursed to:		
Payments to Suppliers	(4,946)	(7,443)
Payments of Tax	(14)	6
Interest Paid		
Net cash inflow/(outflow) from operating activities	<u>586</u>	<u>(320)</u>
Cash flows from investing activities		
Cash was applied to:		
Purchase of Property, Plant & Equipment	(16)	(27)
Purchase of Intangible Assets	(94)	
Net cash outflow from investing activities	<u>(110)</u>	<u>(27)</u>
Cash flows from financing activities		
Net cash inflow from financing activities	<u>-</u>	<u>-</u>
Net Increase in Cash held	476	-
Opening Cash Balance	149	497
Closing Cash Balance	<u>625</u>	<u>149</u>
Made up of:		
Cash	625	149
Short term deposits	-	-
Closing Cash Balance	<u>625</u>	<u>149</u>